BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of The Company.	))))))	Case No. GR-2014-0152

INITIAL BRIEF OF NORANDA ALUMINUM, INC.

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I. INTRODUCTION

This brief addresses the sole issue of concern to Noranda Aluminum, Inc. ("Noranda"), namely the rate that it is to be charged for gas service. Noranda is Liberty's largest customer and receives only transmission service from Liberty; it buys its natural gas directly from a producer. Noranda is an interruptible customer that Liberty serves solely through a tap (line/main) directly from its transmission main. Liberty does not use its distribution system to serve Noranda. For over ten years, Liberty has charged Noranda rates set under a contract between Liberty and Noranda. The Commission approved the contract rates in Liberty's last two consolidated rate cases, but no tariff was proposed or adopted specifically for the Noranda rate. The contract approved in Liberty's last rate case expired, but Liberty and Noranda entered into a new contract. The new contract sets Noranda's rate at **_________**, which is the last rate in effect under the old contract.[1]

As the evidence in this case clearly shows, the new contract rate is substantially above the cost to serve Noranda, which is either $0.03/Mcf or $0.11/Mcf, depending upon whether Noranda's status as an interruptible customer is honored. The new contract rate is a just and

[1] Brubaker Rebuttal, Ex. 46, p. 2, ll. 7-26; Tr. p. 468, l. 10 – p. 470, l. 19.

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reasonable rate because it is far above Liberty's cost to serve Noranda and because Noranda agreed to it.

This Commission should either approve the new contract rate for Noranda, with no imputation of revenue to Liberty, as it did in the prior rate case (with no separate tariff) or set the new contract rate as the rate for a new customer class including customers meeting Noranda's attributes, key among them taking service directly from Liberty's transmission system.

II. ARGUMENT

A. The New Contract Rate is the Same as the Existing Rate that This Commission Found was Just and Reasonable

The new contract rate is the same as the current rate charged to Noranda under the old contract.[2] The last two rate cases (involving Liberty's predecessor Atmos Energy) were consolidated and resolved by a Unanimous Stipulation and Agreement of which Staff, OPC, Noranda and Liberty's predecessor were all parties.[3] Therein, the signatories agreed that:

> [R]evenue associated with special contracts shall not be imputed in this case. Atmos shall offer to extend the special contracts of Noranda and General Mills to expire on the effective date of rates approved in Atmos's next general rate case. The rates for such extended period shall be those in effect at the end of the respective contract's original term. This paragraph shall not be construed to limit the ability of Atmos and Special Contract customers: i) to accept alternative mutually agreeable contract provisions, or ii) to enter into alternative mutually agreeable contracts for service.[4]

In approving the Stipulation on August 18, 2010, this Commission acknowledged that "the Agreement's terms include … treatment of special contracts[.]"[5] It then stated:

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[2] Brubaker Rebuttal, Ex. 46, p. 4, ll. 18-19.

[3] Cox Surrebuttal, Ex. 23, Schedule KC-1.

[4] Id., KC-1-3.

[5] Id., KC-1-34.

> In this order, the Commission grants the parties' request to enter all pre-filed testimony and affidavits prepared by the parties into the record. The record thus contains substantial and competent evidence. The Commission has compared the substantial and competent evidence on the whole record with the Agreement as to both rate adjustment and rate design. The Commission independently finds and concludes that Atmos has met its burden of proof that the rates proposed in the Agreement are just and reasonable rates.[6]

The evidence that this Commission considered in that case included the testimony of Noranda witnesses George Swogger and Don Johnstone.[7] In Mr. Johnstone's Rebuttal he stated that "[t]he large volume rate is unjust and unreasonable for application to the Smelter because it is so extraordinarily above any reasonably determined cost of service provided."[8] Mr. Johnstone calculated a cost to serve Noranda that was substantially less than the then contract rate and well below the new contract rate.[9]

In short, the Commission has already determined on "substantial and competent evidence" that, as of August 18, 2010, the then contract rate was "just and reasonable." Indeed, Staff agreed to that contract rate when it, and every other party, executed the unanimous stipulation. Now, four years later, Staff challenges the same "just and reasonable" rate claiming that it is a "discounted" rate.

B. The New Contract Rate Is Not a Discounted Rate

Noranda is the largest customer on Liberty's system and purchases interruptible transportation service. Noranda separately arranges for transportation on the interstate pipeline system and separately arranges for its own gas supply. Liberty serves Noranda directly from its transmission network through a dedicated tap and does not use any part of Liberty's distribution

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6 Id., KC-1-38.

7 Mr. Swogger's Direct testimony in that case is Exhibit 57 and Mr. Johnstone's Direct and Rebuttal testimonies in that case are Exhibits 58 and 59.

8 Johnstone Rebuttal, Ex. 59, p. 2, l. 20 – p. 3, l. 1, Schedule 1 (cost of service of $0.075/Mcf).

9 Tr. 407, l. 13 – 408, l. 2.

system. In addition, because Noranda is an interruptible customer, the cost of service analysis for plant that is used to serve it (here, the transmission main and the tap) is typically figured differently than for firm service customers. That is because Noranda can only take service when the system capacity is not already needed to serve higher priority customers.[10] Therefore, the only true revenue requirement to serve Noranda is the revenue requirement of the tap from the Liberty transmission system to the Noranda plant (which is assigned solely to Noranda) and Noranda's share of Liberty's Administrative and General costs. That revenue requirement, or cost to serve, is $0.03/Mcf. However, if this Commission were to ignore the interruptible nature of the service Liberty provides to Noranda, and attribute a proportionate share of the transmission system revenue requirement to Noranda, in addition to the full revenue requirement of the tap and Noranda's share of Administrative and General costs, the cost to serve Noranda would still be only $0.11/Mcf.[11] These cost calculations were performed by Maurice Brubaker, and he relied on Staff's Accounting Schedules for the calculation inputs, with one exception. That exception was that he conservatively relied on the testimony of Don Johnstone for the original cost of the tap, which is higher than the now net plant value of the tap.[12] Either way one calculates the cost to serve Noranda, the cost is well below the proposed new contract rate of **__________**. Significantly, Mr. Brubaker's cost of service analysis is the only cost of service analysis offered by any witness in this case.

One reason the cost to serve Noranda is lower than the cost to serve other customers is that Liberty does not use its distribution plant to serve Noranda.[13] Rather, Noranda obtains

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[10] Tr. 461, ll. 8-17; Brubaker Rebuttal, Ex. 46, p. 5, l. 7 – p. 6, l. 12.

[11] Brubaker Rebuttal, Ex. 46, p. 2, ll. 7-26, p. 10, ll. 1-5; Tr. p. 468, l. 10 – p. 470, l. 19.

[12] Brubaker Rebuttal, Ex. 46, p. 8, ll. 7-10; Brubaker workpaper, Ex. 61.

[13] Tr. p. 467, ll. 17–19; p. 468, ll. 13-20; Tr. 468, l. 21- p. 469, l. 8.

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natural gas directly from the Liberty transmission main via a tap.[14] Thus, none of the substantial cost of the distribution system should be assigned to Noranda, whether or not its status as an interruptible customer is honored.[15] As Mr. Brubaker explained, the annual revenue requirement of the SEMO transmission plant is roughly $1 million, but the annual revenue requirement of the distribution plant is around $12-13 million.[16] The annual revenue requirement of the tap is only $33,000.[17] In short, assigning to Noranda the full revenue requirement of the tap, Noranda's fair share of Administrative and General costs and Liberty's transmission plant, the maximum revenue requirement to serve Noranda is $0.11/Mcf, well below the new contract rate. Even though the cost to serve Noranda is substantially below the new contract rate, that rate can be adopted by this Commission since Noranda agreed to it.

C. The Commission Should Either Approve the New Noranda Contract Rate Without a Separate Tariff for the Same, or Adopt a Tariff for a New Customer Class Including Noranda's Customer Attributes

Regardless of the mechanism it uses to set the rate for Noranda, the Commission should set the rate at the new contract rate. If the Commission seeks to set Noranda's rate in a tariff rather than simply approve the new contract with Noranda, it can easily define a customer class that contains Noranda's attributes: large volume customer, interruptible customer, and taking service directly from the transmission system. Like the Large Transmission class for Ameren Missouri, Noranda would be in a class of one. This is exactly what Don Johnstone suggested in the last rate case.[18] On the other hand, Mr. Brubaker advocates approval of the contract rather

[14] Tr. p. 445, ll. 2-6; Brubaker Rebuttal, Ex. 46, p. 5, ll. 10-12.

[15] Tr. p. 468, l. 21 – p. 469, l. 8.

[16] Tr. p. 470, l. 20 – p. 471, l. 14.

[17] Tr. p. 471, ll. 15-17.

[18] Ex. 58, p. 8, l. 7 – p. 9, l. 20.

than adoption of a tariff for a customer class of one.[19] So long as the Commission adopts the new contract rate for Noranda, either by approving the contract or by setting that rate by tariff for a class consisting only of Noranda, it will have adopted the correct rate for Noranda.

D. The Commission Should Use a Test Year Revenue Figure That Reflects the Charges That it Approves In This Case

At the conclusion of the trial, Commissioner Hall asked two questions.[20] First, he inquired what the Commission should do if it determined that the rates charged during the test year for Noranda and General Mills were appropriate. The Commission should accept the revenues used during the test period and not impute revenue to Liberty, because Liberty charged the correct Commission-approved rates. Second, Commissioner Hall inquired whether the Commission is bound by the reported revenues in the test year. The Commission is not bound by such revenues and has authority to adjust revenues to reflect the forward rates to be charged if they differ from current rates that the Commission sets in this matter.

Respectfully submitted,

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[19] Brubaker Rebuttal, Ex. 46, p. 11, ll. 1-11.

[20] Tr. p. 619, l. 17 – p. 620, l. 21.

ATTORNEYS FOR NORANDA

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been emailed this 10th day of October, 2014, to all counsel of record.

/s/ Edward F. Downey