

Exhibit No.:
Issue: Noranda Impact
Witness: Steve McPheeters
Type of Exhibit: Direct Testimony
Sponsoring Party: Noranda
Case Number: EA-2005-0180
Date Testimony Prepared: Dec. 21, 2004

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Case No. EA-2005-0180

Prepared Direct Testimony of

Steve McPheeters

On behalf of

Noranda Aluminum, Inc.

December 2004

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Application of Union Electric Company)
for a Certificate of Public Convenience and)
Necessity authorizing it to construct, install,)
own, operate, control, manage and maintain)
electric plant to provide electric)
service in New Madrid, County, Missouri, as an)
extension of its existing certificated area)

EA-2005-0180
Case No. CP-2005-_____

Affidavit of Steve McPheeters

State of Missouri)
County of New Madrid) ss

Steve McPheeters, of lawful age, on his oath states: that he has reviewed the attached written testimony in question and answer form, all to be presented in the above case, that the interest in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; that such matters are true to the best of his knowledge, information and belief.

Steve McPheeters
Steve McPheeters

Subscribed and sworn before me this 14th day of December, 2004

Jane Ann Bennett
Notary Public JANE ANN BENNETT
New Madrid County
My Commission Expires
April 27, 2008

[SEAL]

My Commission expires: 4-27-08

Before the
Missouri Public Service Commission

AmerenUE

Case No. EA-2005-0180

Prepared Direct Testimony Of Steve McPheeters

1 **Q PLEASE STATE YOUR NAME.**

2 A Steve McPheeters.

3 **Q AND MR. MCPHEETERS, BY WHOM ARE YOU EMPLOYED?**

4 A Noranda Aluminum Incorporated, at the “Smelter” located in the St. Jude Industrial
5 Park, near New Madrid, Missouri.

6 **Q CAN YOU TELL ME ABOUT YOUR BACKGROUND?**

7 A Sure. I've spent the last seven years with Noranda at the Smelter as the
8 Superintendent of Communications, Training and Development, and Manager of the
9 Continuous Improvement Process. I also currently have the title of Manager, St. Jude
10 Industrial Park, and I serve as Chairman of the Southeast Missouri Economic
11 Development Alliance, a cooperative 6 county economic development committee of
12 the Bootheel Regional Planning Commission.

1 The St. Jude Industrial Park houses Noranda, Associated Electric Cooperative,
2 Inc., Riceland Foods, and the New Madrid County Court. It is about a 4,300-acre
3 industrial park.

4 **Q AND YOU ARE PROVIDING TESTIMONY TO THE COMMISSION ON BEHALF OF**
5 **NORANDA?**

6 **A Correct.**

7 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY, MR. MCPHEETERS?**

8 **A**The purpose of my testimony is to give the Commission an idea of the economic
9 impact that the Smelter has on the southeastern Missouri region. I define the region
10 as the ten-county area that goes from Cape Girardeau County on the north, Butler
11 County on the west, New Madrid County and Mississippi County on the east and all the
12 way down to the Missouri/Arkansas state line.

13 **Q MR. MCPHEETERS, CAN YOU TELL US A LITTLE BIT ABOUT HOW THE SMELTER**
14 **ECONOMIC IMPACT PLAYS OUT.**

15 **A**The Smelter employs 1,120 people; 881 of those folks are represented by the United
16 Steelworkers Local 7686, and the rest are the support personnel that come in the form
17 of supervisors, human resources, administrative support, sales, accounting and so
18 forth. Most of these jobs are in southeast Missouri, with roughly 20 employees coming
19 to work from Tennessee, Kentucky, Illinois and Arkansas.

20 Noranda, we say, is the premier manufacturer of southeast Missouri, because
21 there are so many good jobs that Noranda has provided over the years. There are a
22 lot of factors that come into play, but Noranda supplies a great number of people with

1 jobs in an area that includes some of the poorest counties in the State when you look
2 at the economic statistics of counties like Dunklin, Mississippi, New Madrid, Pemiscot,
3 Scott, and Stoddard.

4 The Noranda annual payroll is \$57 million to workers that reside almost entirely
5 in the ten-county region. It is \$17 million in payroll in New Madrid County, \$10 million
6 in payroll in Scott County, and you have up to \$4 to \$5 million in each of the other
7 counties of the surrounding six-county area. Some employees also commute from
8 other neighboring areas. For example we even have 50 employees that live in Cape
9 Girardeau County who drive back and forth.

10 In addition to the \$57 million payroll, you add to that \$22 million in
11 procurement services. The \$22 million is goods and services that we purchase in that
12 region not including electricity. So you add that together; a \$79 million impact on
13 that part of the state is huge economically to all the businesses, the schools, and the
14 community as a whole. For example, Noranda pays a full one-third of the cost of
15 operating New Madrid County Schools. In addition there are taxes paid by Noranda, its
16 suppliers, and its employees that all have a positive impact.

17 Noranda has been and is a good corporate citizen. We have our second
18 consecutive labor contract in effect with United Steelworkers and there hasn't been a
19 work stoppage since 1989. We've tried very hard to maintain and improve our
20 relations with the Steelworkers and we believe the outcome of that is the second
21 consecutive five-year agreement. The current one goes to 2007. So we feel like
22 Noranda's impact on that region is very positive and the impact on the region, the
23 jobs, and the people, and the communities is very important.

1 **Q YOU MENTIONED THAT THIS WAS A POOR AREA OF THE STATE. WHAT IS THE**
2 **BASIS FOR THIS?**

3 A Well, if you look at that region. It was predominantly agricultural until the late 1960s.
4 Then, when agricultural equipment went to large mechanized equipment and they
5 could do a lot more, it left a lot of people behind. There have been 3 or 4 generations
6 in that region that have had a hard time finding good, steady employment -- especially
7 good paying jobs.

8 And so if you look at Scott County and Cape County; Cape County has grown
9 some, Scott County has held its own. In the other counties the population over the
10 last 30 years has slowly declined because people have a hard time finding the jobs at a
11 livable wage. In contrast, Noranda pays very well. It pays better than anyone in that
12 area for the jobs that are performed.

13 **Q WHEN YOU SAY NORANDA PAYS WELL, COULD YOU GIVE ME A BALLPARK**
14 **IDEA OF THE SCALE?**

15 A Sure. An entry-level production worker is going to make over \$15.88 an hour coming
16 in. And that goes up to a skilled maintenance person who is going to make around
17 \$19.61 an hour. There are also the benefits including health insurance and a
18 retirement plan. In addition, variable compensation incentives come into play. In
19 contrast, the average wage in that part of Missouri these days is more like between
20 \$8.00 and \$10.00 an hour. A lot of times you don't get benefits with that. You don't
21 get the other things that come with that so we get a lot of applications from people
22 hoping they can land a job at Noranda so they can stay in the area. It's important to
23 them and to the area.

1 **Q YOU TALK ABOUT TYPICAL BENEFITS; DOES NORANDA PROVIDE RETIREMENT**
2 **AND HEALTHCARE BENEFITS?**

3 A Yes.

4 **Q PLEASE TELL A LITTLE BIT ABOUT HEALTHCARE. IS IT AN IMPORTANT**
5 **FACTOR FOR PEOPLE?**

6 A Yes. What the employees have to pay for themselves and their families is really a
7 bargain these days. (The healthcare benefits are in the contract with the
8 steelworkers.) As you may know, the health costs have been going up on an average
9 of about 18 percent a year for the past 3 - 5 years. The workers have a couple of
10 options including a family plan where they're not paying more than \$65.00 a month
11 out-of-pocket and they're getting some excellent coverage.

12 The retirement benefits include a 401k plan and a defined benefit pension.
13 These are two examples of the kinds of things that we're providing in the benefits
14 area. That's one thing other employers need to do; to keep people with you, you must
15 offer the benefits as well as a livable wage. Noranda exceeds that and always has.
16 And that is another reason why people like to keep their jobs at Noranda.

17 **Q PLEASE DESCRIBE SOME WORKFORCE CONSIDERATIONS?**

18 A Of the 1,120 employees at the beginning of 2004, 9 percent are minority. A lot of
19 emphasis is placed on training people. We have scholarship programs with Southeast
20 Missouri State University and Three Rivers Community College.

21 There is a shortage of electricians and mechanics because there are a lot of
22 people that do not want their kids necessarily to go to a trade school and pick up a

1 special skill like that, but those kinds of jobs pay well and can be very rewarding. We
2 are constantly developing training programs to entice people either to get what they
3 need so they are qualified to work for us. After they come to work for us we continue
4 to provide regular and frequent training, to make sure that our employees are the best
5 they can be at their jobs.

6 **Q ANOTHER THING YOU MENTIONED IS THE IDEA OF BEING A GOOD CORPORATE**
7 **CITIZEN BY BEING INVOLVED IN MANY ASPECTS OF THE COMMUNITY.**

8 **A** Yes.

9 **Q PLEASE DISCUSS FURTHER NORANDA'S ROLE IN THAT AREA.**

10 **A** Oh sure, that's easy to do. Our United Steelworkers have been the lead donor for
11 many years for the Kenny Rogers Children's Center in Sikeston. The center serves over
12 300 kids in a ten-county region of Southeast Missouri with therapy services at no out-
13 of-pocket costs to the parents. Noranda and the Steelworkers have a program where
14 they match dollar-for-dollar and give to the Kenny Rogers Center. Together we are by
15 far the largest donors in that whole region.

16 Another thing we're very proud of and just wrapping up here in December is the
17 United Way Campaign. On an average over the past few years, the employees and the
18 company have donated more than \$30,000 a year to that cause. The goal for the
19 entire United Was is usually in the \$75,000 to \$80,000 range. So Noranda employees
20 are good about giving.

21 To facilitate the giving we offer payroll deductions for both of those charities.
22 And then we also have a separate donations committee that gives to civic groups,
23 schools, and not-for-profit type entities in the region. Noranda is known very well for

1 being a giving-type company and their employees are known for that and we're very
2 glad that they are.

3 **Q NOW, ANOTHER THING THAT YOU MENTIONED, MR. MCPHEETERS, WAS THAT**
4 **NORANDA PAID ABOUT A THIRD OF THE SCHOOL TAXES IN NEW MADRID**
5 **COUNTY.**

6 **A** Yes, that is correct.

7 **Q AS FAR AS YOU KNOW, HOW DO THE SCHOOLS IN THE COUNTY STACK UP IN**
8 **THE STATE?**

9 **A** Well, you might be surprised at how well they do. The New Madrid County school
10 system is very highly rated and they have a good report card from the Missouri Board
11 of Education. They're putting a lot more emphasis on school performance in the New
12 Madrid County Schools. We support the entire countywide school system through the
13 tax assessment process, and that ends up being about one third of their total
14 operating costs. Also, as you might imagine, you can't go to any school building
15 location in New Madrid County without finding children whose dad, mom, or uncle and
16 aunt don't work at Noranda.

17 **Q IN THE VARIOUS COUNTIES WHERE YOUR EMPLOYEES LIVE, HAVE YOU EVER**
18 **DONE ANY ESTIMATES FOR NORANDA OR DO YOU HAVE ANY SENSE OF THE**
19 **ECONOMIC ACTIVITY AS A RESULT OF NORANDA AND ITS PAYROLL?**

20 **A** It is hard to define exactly in dollars and cents but I can give you a breakdown. If we
21 had a map in front of us, you could clearly see the impact. Let's take the largest

1 community in the area, Cape Girardeau. We actually have in Cape County about 50
2 employees there and when you go south the significance increases. Sikeston, for
3 example, has 220 people that live in Sikeston and work at Noranda. New Madrid has
4 130. Portageville has 140. Then you go to the west to a community like Dexter.
5 There are over 60 in the community of Dexter. And then if you really pare it down,
6 you look at Kennett, Caruthersville, Haiti; all those towns have anywhere from 30 to
7 70 employees. East Prairie has 80. Malden has 80. Malden is 5,000 people. East
8 Prairie has 3,000 people. And then when you really break it down, look at a little
9 community of 434 on the map called Risco. There are actually 30 people that live in
10 Risco that work at Noranda. From Parma, population 995, 40 people work at Noranda.
11 Now, if you take that into the local grocery stores and into the gas stations, into the
12 local retailers and you start talking to them, they can tell when Noranda's had a good
13 year and we've issued out profit sharing because the employees spend that money at
14 the local level. But there's no doubt that if you were to take 140 people out of New
15 Madrid, population 3,350; 140 people out of Portageville, population 3401; if you were
16 to start taking those employees out of those communities, you just can't replace that.
17 It would take a monumental effort and many, many years to even come close to
18 replacing those good paying jobs.

19 Although an obvious overstatement, I can remember one of the area legislators
20 said if Noranda went out of business it would be like an atomic bomb going off in
21 southeast Missouri. It is by far the largest, most productive plant in the region and it
22 just means a lot to everyone.

1 **Q NOW NORANDA ALSO HAS A PROCUREMENT FUNCTION. WHAT ARE SOME OF**
2 **THE COMPANIES THAT YOU HAVE IDENTIFIED THAT HAVE SOME BUSINESS**
3 **WITH NORANDA AND WHICH YOU'D LIKE TO BRING TO THE COMMISSION'S**
4 **ATTENTION?**

5 **A As examples, consider three area businesses. One is in New Madrid County, one is in**
6 **Scott County and then the other is a workshop in Sikeston that serves the region.**
7 **Steward Steel is located in Sikeston. They have two divisions: a structural steel**
8 **division and a door and frame division. The structural steel division supplies us with**
9 **the stubs that go on the anode rods that go into the pots, where you turn on the**
10 **electricity to make the molten aluminum. The Smelter is Steward Steel's largest**
11 **customer.**

12 **Q HOW MANY EMPLOYEES DOES STEWART STEEL HAVE?**

13 **A About 100.**

14 **Q WHAT IS YOUR SECOND EXAMPLE?**

15 **A Now let's go to Santie Oil located in New Madrid County. Santie Oil is a large Amoco**
16 **wholesale distributor and of course we have 300 pieces of maintenance equipment**
17 **that we run in our plant. Santie Oil supplies us with oil for the mobile equipment and**
18 **other applications. The mobile equipment includes high loaders, bobcats, you name**
19 **the piece of mobile equipment and we have it. But then, that takes a lot of oil,**
20 **hydraulics in general, and also special kinds of lubricants. Noranda is Santie Oil's**
21 **largest customer. They have employed over 60 people in Sikeston and in New Madrid**
22 **County.**

1 **Q ARE THERE MORE EXAMPLES?**

2 A Yes. There are too many to list individually. The list of suppliers is long when it
3 comes to Noranda purchasing goods and services. It includes goods ranging from office
4 supplies to lawn mowers to industrial equipment. The services we buy are also
5 diverse. All told, we buy lots of parts, supplies, and services from people in New
6 Madrid, Sikeston down to Caruthersville, and just the whole region.

7 **Q IS THERE ONE MORE SUPPLIER YOU WOULD LIKE TO TELL US ABOUT?**

8 A There is one particular supplier that has a compelling story. The Community Sheltered
9 Workshop serves the needs of mentally and physically challenged people in Scott, New
10 Madrid, Stoddard and Mississippi Counties. Mr. Harvey Cooper, director of the
11 workshop is submitting testimony also. They employ 140 physically and mentally
12 impaired people from our region. They go pick them up; they bring them to work;
13 they help them work; they feed them lunch; they take them home; they pay them.
14 Noranda is their largest customer because we contracted with them many years ago to
15 help fill our need and an area need. These folks make the pallets that we use that go
16 inside the trucks to hold and brace our value-added aluminum products, which in this
17 case is aluminum rod. It comes in 5,000-pound coils. And when you're shipping that
18 by truck or by rail, there's a special way that you have to fit that in the truck so it's
19 safe and so it'll ride. So we buy all our pallets from them. The people at the
20 Community Sheltered Workshop provide a great product that we need. I would hate to
21 think what their lives would be like without Noranda.

1 **Q ARE THERE ANY NORANDA EMPLOYEES ON THEIR BOARD?**

2 A Yes, that's one thing that you'll find at Noranda, whether it be the United Way or the
3 Kenny Rogers Center or the Shelter Workshop Board, we have a lot of people that
4 serve on boards and help in that way too. This is a regular practice for Noranda
5 because we measure everything according to our responsibilities -- to our customers,
6 to our community, which includes being a good community citizen, to the
7 environment, how well we maintain the environmental controls, and to our employees
8 who are vital to our success. We measure these things on a regular basis to make sure
9 that we are being a good corporate citizen. When you look at Noranda's involvement,
10 there is a long-standing record of an approach that encourages community
11 participation.

12 **Q TO CHANGE THE TOPIC NOW, TELL US A LITTLE MORE ABOUT THE INDUSTRY**
13 **AND SOME OF YOUR CUSTOMERS.**

14 A Sure. First, we make the primary aluminum; our Customers make and shape aluminum
15 into things that people use. We are well positioned as an aluminum smelter. If you
16 look at the smelters that are still left in the U.S.A., aluminum production has declined
17 in the last year because there are fewer smelters operating. But we are the
18 southernmost smelter in the country and we find that to be a benefit. We sell the
19 base commodity on the London Metals Exchange based on the world price. Then, we
20 have a whole host of customers that buy value-added products, mainly extrusion
21 billet, aluminum rod, and foundry alloy products. The products are used in a variety
22 of applications in the housing, transportation and construction industries. We ship our
23 products on time to when the customer wants it so they can plan their production

1 accordingly. To encourage good performance we give a "carrier of the year" year
2 award for flat bed and covered carriers who do the best job of delivering our products
3 on time to our customers when they need it, so they can plan their production. About
4 1,000 trucks are used each month, using mainly regional carriers. We also use rail, but
5 mainly for shipments to the West Coast.

6 Our number one state for shipping products, surprisingly enough, I think it is
7 because we're southern, is Texas. Then, it is Tennessee because we have a sister
8 aluminum foil plant that makes heavy-gauge foil in Huntington, Tennessee, which is
9 only about two hours from New Madrid. We supply them and they employ about 450
10 people. We also supply a lot to Customers right across the river in Western Kentucky
11 and in Illinois. Two that come to mind are Penn Aluminum in Murphysboro in Illinois
12 and General Cables in Duquoin, Illinois. We also supply a rod customer in Haiti,
13 Missouri. All told, we are definitely an aluminum smelter that serves a region that is
14 more than Missouri.

15 **Q SO YOU'RE SHIPPING PRODUCT OUT OF THE STATE OF MISSOURI AND THEY**
16 **SEND MONEY BACK TO THE STATE OF MISSOURI, WHICH GETS SPENT ON**
17 **EMPLOYEES, SUPPLIES, AND ETCETERA?**

18 **A** Absolutely. Missouri is probably sixth or seventh in rank of the number of customers
19 that we have. These other states -- Texas, Tennessee, Illinois, Indiana and Georgia
20 are where we are selling and shipping our products, but the money is coming back to
21 Missouri. We are located on Interstate 55 halfway between Memphis and St. Louis. If
22 you draw lines eight hours in any direction, we are in a great location for distribution.
23 We're selling to these people and that money is getting paid back to Noranda in the

1 form of payroll to employees and money paid to suppliers who employ people in the
2 region. The State of Missouri is obviously getting the benefit.

3 **Q DO YOU CONSIDER THE NORANDA SMELTER TO BE AN EXPORT INDUSTRY FOR**
4 **THE STATE OF MISSOURI?**

5 **A** Yes. And that is a very good thing for the State.

6 **Q CAN YOU TALK SOME ABOUT ONE OF YOUR SPECIAL ALLOY FOUNDRY**
7 **PRODUCTS AS AN EXAMPLE?**

8 **A** Yes. For example there is a special alloy that goes primarily to the automotive
9 industry. A Kentucky based Customer comes to mind called Gibbs Dye Casting. Even
10 though there are two aluminum smelters in Kentucky, they buy from us because it's a
11 special patented alloy product called Silafont that we make. We have very good
12 relations with Gibbs.

13 **Q DO YOU HAVE OTHER SPECIALIZED PRODUCTS?**

14 **A** We are continually working on some of the new special alloys in our efforts to attract
15 new Customers and to develop new and innovative applications. We have regional
16 sales managers and a Vice President of Sales/Marketing who are continually providing
17 excellent service to our Customer base. Noranda is known for excellent Customer
18 service and on time delivery. When we're producing 1.5 million pounds of aluminum a
19 day, employing over 1100, selling 546 million pounds a year, and shipping 1,000 truck
20 loads a month, we are making a positive impact on our region and certainly our state.
21 We are an exporter of very good quality, primary aluminum products and an importer
22 of money for our effort.

1 **Q IS THERE A DECLINE IN THE NUMBER OF SMELTERS IN THE UNITED STATES?**

2 A Yes. As a nation we have become more dependent on foreign sources and we will
3 continue with that trend if we don't maintain what we have. If you look at a 5.5
4 percent decline in U.S. aluminum output last year when you have a high demand for
5 product you see evidence of a problem.

6 **Q WHAT IS YOUR UNDERSTANDING OF THE PROBLEM?**

7 A What happened in the U.S. Northwest is that all the smelters went out of business due
8 to high energy costs. That was the reason. They did not go out of business because
9 they did not have customers. They went out of business because of high energy costs
10 and they could not sustain operations.

11 Our markets are strong because we deliver customer service at a price. You
12 can ask people about Noranda. Noranda is a company with good customer service and
13 because of that we have had some other people spring up around us in the region to
14 buy and use our product.

15 Now, back to the original question. Are we concerned about the decline in
16 aluminum production and in the number of aluminum smelters? China was the fear
17 two to three years ago. Some thought China was going to take over the aluminum
18 production business because they could provide cheap labor, cheap energy, and the
19 ability to produce aluminum much cheaper than Western Smelters. In reality what's
20 happened is they had an energy shortage of their own, they're growing and consuming
21 so fast that they cannot keep up with demand. Well, that has kept the price up on the
22 worldwide market, but I do not believe China is ready to take over the worldwide

1 aluminum market. In fact, we need to keep the smelters we have operating and
2 producing or we may be dependent on foreign suppliers more and more.

3 The remaining smelters of the U.S. can still out-perform foreign competitors
4 with timely delivery and the kind of quality Customers need. For example, if you are
5 sitting over in Monett, Missouri and you are trying to plan your extrusion press
6 production so you can schedule your crews and get them in there and run them
7 through the dye presses and the extrusion presses, and you're waiting on it to arrive
8 from China, you're in trouble. When it comes from Noranda, you know it's going to be
9 there on time and in conformance with Customer expectations. That is the real
10 difference -- not only on time, but on time delivery with high quality at the right
11 price.

12 **Q ARE THERE BUSINESS CYCLES IN ALUMINUM INDUSTRY?**

13 **A** Oh, sure. There have been cycles up and down. And no doubt there will continue to
14 be business cycles.

15 **Q ALL THINGS CONSIDERED, DOES NORANDA EXPECT TO PERSEVERE FOR THE**
16 **LONG TERM IN THE STATE OF MISSOURI?**

17 **A** That is the plan. We have 30 years plus in the smelter and a good customer base.
18 With a stable source of electricity -- one not hostage to volatile energy markets -- we
19 can plan ahead and remain viable and even vibrant for Southeast Missouri and this
20 whole region.

1 **Q MR. MCPHEETERS, DOES THAT COMPLETE YOUR TESTIMONY?**

2 **A Yes it does at this time. I thank the Commission for receiving my comments on this**
3 **important matter.**