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| Issue: | Noranda Operations |
| Witness: | George Swogger |
| Type of Exhibit: | Direct Testimony |
| Sponsoring Party: | Noranda |
| Case Number: | ER-2007-0002 |
| Date Testimony Prepared: | Dec. 29, 2006 |

AmerenUE

Case No. ER-2007-0002

Prepared Direct Testimony of

**George Swogger**

On behalf of

Noranda Aluminum, Inc.

December 2006

BEFORE THE

PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

| | | |
|---|---|---|
| In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area. | ) ) ) ) | Case No. ER-2007-0002 |

**Affidavit of George Swogger**

State of Missouri )
) ss
County of New Madrid )

George Swogger, 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.

George Swogger

Subscribed and sworn before me this 5th day of December, 2006

Notary Public

[SEAL]

My Commission expires: 2/7/2010

SALLIE J. DUENNE
Notary Public - Notary Seal
State of Missouri - County of New Madrid
My Commission Expires Feb. 7, 2010
Commission #06439411

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**Before the**

**Missouri Public Service Commission**

AmerenUE

Case No. ER-2007-0002

# Prepared Direct Testimony of George Swogger

## INTRODUCTION

**Q PLEASE STATE YOUR NAME AND ADDRESS.**

A George Swogger. My address is 110 Holmes Drive, Sikeston, Missouri 63801.

**Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A I am employed by Noranda Aluminum, Inc. as Manager – Energy Procurement for the aluminum Smelter located in the St. Jude Industrial Park near the City of New Madrid, Missouri. I will refer to this facility as the "Smelter."

**Q PLEASE SUMMARIZE YOUR EDUCATION AND EXPERIENCE.**

A In 1974 I received a Bachelor of Science degree in industrial engineering from West Virginia University. I worked as an industrial engineer for other aluminum companies from 1974 through 1980. In 1980 I began my employment with

Noranda as the Chief Industrial Engineer. In 1984 I was promoted to the position of Administrative Manager. My responsibilities included cost accounting, payroll, and management of the St. Jude Industrial Park. I also assisted corporate staff in the administration of Noranda's power contracts. In 1990 my title remained the same, but my responsibilities changed. My previous responsibilities were replaced with responsibilities including all purchasing, warehousing, and traffic. I also assumed responsibility for administration of Noranda's power contracts. From 1980 thru 2002 I was also responsible for industrial engineering for the plant. In 2002 my responsibilities changed to Manager of the Rod Mill and Manager of Energy Procurement. From late 2003 through the present my entire responsibility has been energy procurement. In that role my title is Manager -- Energy Procurement.

**Q WHAT ARE THE PURPOSES OF YOUR TESTIMONY?**

A There are two. First, I want to explain the service requirements of the Smelter. These include the need for a cost based rate. Second, while I am not an attorney and do not intend to offer a legal opinion, I want to explain from my own perspective why a cost based rate for Noranda is in the public interest. With these purposes in mind I hope to obtain approval of a cost-based rate for Noranda under the Large Transmission Service ("LTS") rate schedule.

**Q WILL OTHER WITNESSES ALSO APPEAR IN SUPPORT OF NORANDA?**

A Yes. Mr. Donald Johnstone, President of Competitive Energy Dynamics, L. L. C. supports a cost-based rate for Noranda. Mr. Steve McPheeters will also provide testimony. His position with Noranda is Superintendent of Communication, Training - Development, and Continuous Improvement. Mr. McPheeters is also Chairman of the Southeast Missouri Economic Development Alliance (SMEDA). Mr. McPheeters will describe the importance of the Smelter as a member of the community, including the economic importance of the Smelter to the State of Missouri generally and to the southeastern region of Missouri. Additional witnesses include: New Madrid County Commissioner Mark Baker and Mr. Harvey Cooper, Executive Director of the Community Sheltered Workshop. These witnesses will offer testimony related to some of the broad public interests in the continuing viability of the Smelter.

## SMELTER PRODUCTS AND ELECTRICITY REQUIREMENTS

**Q PLEASE DESCRIBE THE PRODUCT PRODUCED AT THE NORANDA SMELTER AND THE MARKET INTO WHICH THE PRODUCT IS SOLD.**

A The plant produces four products: billet, rod, foundry products and primary ingots. The products are sold into a market that in most respects is a world market. Of course, the Smelter tries to exploit both its abilities to serve niches and its mid-continent location to sell to regional customers within the market.

With respect to the State of Missouri, the Smelter is an export industry. This means that revenue from products sold mostly outside of Missouri flows into the State. Again, Mr. McPheeters will address this topic.

**Q PLEASE DESCRIBE THE PROCESS USED TO SMELT ALUMINUM.**

A The plant receives alumina via barge over the Mississippi river. The alumina is offloaded from the barges and moved to the Smelter by conveyer. There it is processed in one of the three production lines (pot lines) where electricity is used to break the bond between aluminum and oxygen in the alumina. Generally the finished products are shipped via truck and some by rail.

**Q OVER THE PERIOD OF A YEAR WHAT WILL BE THE APPROXIMATE QUANTITIES OF ALUMINUM PRODUCED AND ELECTRICITY CONSUMED?**

A On an annual basis the plant will produce 253,000 metric tons of aluminum and consume about 4 million MWh (475 MW at 98% load factor). At the $32.50 per MWh price under the present LTS tariff the annual amount paid to AmerenUE is over $130 million. Over the current 15 year term of the contract this amounts to $2 billion at the current price under the LTS rate.

**Q PLEASE DESCRIBE SOME OF THE IMPORTANT CHARACTERISTICS OF THE ELECTRICITY REQUIREMENTS OF THE SMELTER.**

A First and foremost the supply must be reliable. The smelting process is continuous and cannot be cycled on and off. Any unmanaged interruption of

the supply beyond an hour is very serious and would be likely to cause extensive damage to the process and create a major capital expense to repair and rebuild. I cannot predict with any certainty the future economic and operational impact should a major interruption occur in spite of our efforts to secure a reliable supply of power, but I know the consequences could be so severe as to result in a permanent closure of the plant. Consequently, AmerenUE's ability to provide reliable service is extremely important.

Equally important is the impact of the cost of electricity on the economic viability of the plant. Electricity costs are important because electricity represents approximately 1/3 of the Smelter's operating cost and is historically the single largest operating cost. The Smelter's ability to remain viable depends on maintaining our ability to deliver a competitively priced product. Electricity has a large part to play in that. Of course, the prevailing market prices we receive for the products we produce and other costs are all also important considerations. Although the Smelter is large, we are not a market maker so we must accept the market prices. Therefore, it is critical that all costs, and electricity in particular as our largest cost, remain economical and under control to the extent possible.

**Q ARE THERE ANY LOAD MANAGEMENT POSSIBILITIES WITH THE NORANDA LOAD?**

A First and foremost the power supply must be firm power. With that understanding I can identify approximately a 10% load management potential

for a limited number of hours per event, a limited number of events per year, and with the provision of adequate recovery time between events. Of course, Noranda would cooperate in any way possible in the development of any load management/rate product that would be consistent with the operational and reliability parameters of the Smelter. To date we have not developed any arrangements along these lines.

## PUBLIC INTEREST CONSIDERATIONS

**Q WHAT ARE THE PUBLIC INTEREST CONSIDERATIONS RELATED TO ELECTRIC UTILITY SERVICE FOR NORANDA?**

A First, the Smelter resides in Missouri and is a part of the public in the State. I believe there is a positive public interest in reliable and economical cost-based service for the Smelter simply because of this fact. I believe the interest in reliable and economical service is shared by all customers.

On another level, the Smelter makes many contributions to the public interest in both economic and social terms. Those contributions include jobs, payroll, purchases from local suppliers, taxes, and leadership contributions to the communities surrounding the Smelter. Also, to state the obvious, the Smelter is making a very large purchase from another Missouri company, AmerenUE. Noranda witnesses Commissioner Mark Baker, Mr. Harvey Cooper, and Mr. Steve McPheeters also address the importance of the Smelter to Missouri in their testimonies.

## NORANDA RECOMMENDATION

**Q IN YOUR TESTIMONY BEFORE THIS COMMISSION IN DOCKET EA-2005-0180 YOU EXPRESSED CONCERNS WITH REGULATED SERVICE. DO YOU CONTINUE TO HAVE CONCERNS?**

A Yes. In my direct testimony at page 7 I stated:

> A downside concern is the possibility of a future rate decision that would increase the cost to the Smelter in a manner that was not related to the cost of providing the service. While this is troublesome, the Smelter is depending on decisions by the Commission that will not discriminate against Noranda.

I continue to have those concerns and Noranda continues to rely on the Commission for a nondiscriminatory decision. Unfortunately, in this case AmerenUE has proposed a blatant discriminatory shift of costs attributable to the residential class under its class cost-of-service study to the Smelter and other customers. My concerns are only amplified by the size of the increase proposed by AmerenUE.

However, in contrast to AmerenUE's request for $361 million, the Staff of the Commission has identified the need for a rate decrease estimated at $157 million. The AG has identified the need for a decrease of $53 million. Other parties have addressed specific issues with the apparent intent to avoid any unnecessary increase. At this time Noranda is not asserting any position on the appropriate amount of any increase or decrease, but may assert a position later in the case. In consideration of the range of possibilities, Mr. Johnstone at this time will support the principle of a cost based rate for Noranda and we

plan a rebuttal that will present any changes Noranda may find appropriate in the class cost-of-service studies and rate recommendations of the parties.

I expect the record to fully support a cost-based rate for the Smelter and Noranda will vigorously pursue that objective. I would ask the Commission to consider carefully the testimony and evidence on these subjects and to set a rate for Noranda that is equal to the cost of the service provided – no more and no less.

**Q DOES THIS COMPLETE YOUR TESTIMONY?**

A Yes it does.