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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2014-0258

SURREBUTTAL TESTIMONY

OF

STEVEN M. WILLS

ON

BEHALF OF

UNION ELECTRIC COMPANY

d/b/a Ameren Missouri

**St. Louis, Missouri
February 2015**

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1 Noranda for the test year given the recommendations contained in the rebuttal testimony
2 of Staff witness John Cassidy to deny the Company recovery of the amounts associated
3 with the Accounting Authority Order (“AAO”) and with the Noranda load reduction that
4 occurred in the 2009-2010 timeframe.

5 **II. NORANDA RATE DESIGN TESTIMONY - FACTOR N**

6 **Q. Can you please provide some background on the issue raised by**
7 **Ms. Kliethermes that you are addressing?**

8 A. Office of the Public Council (“OPC”) witness Lena Mantle has proposed
9 that Factor N should be removed from the FAC tariff, or in the alternative, that it should
10 be modified so that the operation of the tariff term should only provide for incremental
11 net off-system sales revenue to be used to offset lost fixed cost recovery rather than lost
12 revenues, should the load of Noranda drop significantly or cease operating entirely.

13 While not weighing in on the merits of Ms. Mantle’s proposal, Ms. Kliethermes,
14 in that part of her rebuttal testimony addressing Noranda's rate proposal, attempted to
15 calculate what the contribution to fixed cost recovery would be if Ms. Mantle’s proposal
16 were adopted.

17 **Q. Is it necessary to establish that value in this proceeding?**

18 A. No. The FAC tariff already has a formula for calculating this value in the
19 event it becomes necessary to use Factor N. There is no need to establish the amount of
20 fixed cost recovery that the formula would provide in advance. In fact, any calculation in
21 advance could not be accurate but only illustrative, as the actual market price of energy
22 and volume of Noranda load reductions associated with the time period when such
23 reductions happen must be known to accurately calculate the value.

1 **Q. Viewing Ms. Kliethermes' calculation as an illustrative example of**
2 **how Noranda's contribution to fixed costs would be determined using the Factor N**
3 **formula, do you agree with her approach and result?**

4 A. No. As detailed in the rebuttal testimony of Ameren Missouri witness
5 Lynn Barnes, the existing Factor N already accomplishes exactly what Ms. Mantle has
6 proposed; that is, to keep the Company whole with respect to the revenues it uses to
7 cover its fixed costs if Noranda experiences a load reduction, no more and no less¹.
8 Ms. Kliethermes' described approach fails to do this.

9 **Q. How does Ms. Kliethermes' calculation fail to achieve the purpose of**
10 **Factor N?**

11 A. Ms. Kliethermes has not calculated Noranda's full contribution to fixed
12 costs. Her calculated "but for" costs only calculate the incremental contribution to fixed
13 costs above that which would be provided by the increase in net off-system sales revenue
14 that would be obtained by purchasing less energy in the MISO market to serve Noranda.
15 While this type of analysis is useful in assessing Noranda's proposal for rate relief, in that
16 it shows the *additional* fixed cost contribution Noranda makes beyond what could be
17 achieved in Noranda's absence, it is not appropriate for determining the *total* fixed cost
18 contribution of Noranda. What Ms. Kliethermes' example misses is the fact that the
19 Company's net off-system sales revenues also make a contribution to the Company's
20 fixed cost recovery. Fortunately, the method prescribed by the FAC tariff embodied by
21 Factor N and described in Ms. Barnes rebuttal testimony already takes this reality into
22 consideration.

¹ If the market price of power is lower than Noranda's retail rate, the N Factor can actually provide less revenue than Noranda's retail bills and the Company is at risk for any resulting shortfall.

1 A. Yes. The AAO that the Commission granted in order to cover the fixed
2 costs that Noranda's revenues did not cover because of the ice storm-related outage at
3 Noranda in 2009-2010 recognizes that the event in question was extraordinary and is
4 deserving of the unique treatment afforded by AAOs. However, if recovery of the AAO
5 balance as an amortization in rates is denied, then it actually provides no relief to the
6 Company for the impacts of that event. The load decline at Noranda in 2014, that I
7 described in my rebuttal testimony, is now the second time that the Company has
8 experienced a significant financial impact due to load variations at Noranda. This 2014
9 decline, while material in terms of the financial consequences to the Company, was not
10 big enough to trigger the use of Factor N in the FAC to make the Company whole.
11 Again, if the AAO recovery is denied, there will then be multiple cases where Noranda
12 load declines have affected the Company financially and where the regulatory tools have
13 been insufficient to make it whole. Given such history, it would then be even more
14 appropriate to normalize the level of sales made to Noranda in the trued-up test year.
15 Typically, in past cases, Noranda has been considered such a stable load that no
16 adjustment to test year volumes is made. However, the assumption of stability has been
17 tested and now failed twice in just the past six years. Since we now have a history that
18 demonstrates occasional material levels of variation in Noranda's load, normalizing that
19 load may well be warranted.

20 **Q. Do you still recommend annualizing the load at a level consistent with**
21 **437 MW per hour of usage at Noranda?**

22 A. Yes, I believe that it is the appropriate level to reflect for purposes of
23 setting rates based on the load at the time of the true-up. However, should the

1 Commission choose not to utilize that methodology, a long-term average load factor
2 approach to normalizing Noranda's load could be used as an alternative.

3 **Q. Please describe this approach.**

4 **A.** Many adjustments made to rate case test year data for cost or revenue
5 categories that exhibit variability over time are made based on multi-year averages in
6 order to capture a realistic level of that item that can be expected to be observed over any
7 time period where rates may be in effect. As described above, we now recognize that
8 Noranda's load for various reasons does exhibit some variability over time. To normalize
9 for that variability, I have calculated the annual load factor of Noranda for each year
10 since they came onto Ameren Missouri's system in 2005. Those historical load factors
11 are shown in Table SMW-1 below:

12 **Table SMW-1**

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	10 Yr Avg	3 Yr Avg	Updated Test Year
Noranda Load Factor	97.0%	98.4%	98.6%	98.2%	58.0%	95.7%	98.1%	97.3%	98.4%	95.4%	93.5%	97.0%	98.2%

13 Clearly shown in this data is the fact that Noranda's load factor has varied from
14 year to year. The most obvious case is the 2009 timeframe that was impacted by the ice
15 storm when the load factor was all the way down to 58%. The most recent year, 2014,
16 shows the lowest load factor of any other year at 95.4% due to the issue with smelting pot
17 failures discussed in my rebuttal testimony. But, even years with no notable reasons for
18 variation that I am aware of for reduced consumption, such as 2005 and 2012, can show
19 load factors a full percent lower than the 98.2% observed in the test year. While a 1%

1 change in load factor might not sound like much for a customer as large as Noranda, such
2 a fluctuation can cause over a million dollars of revenue impact to the Company.

3 **Q. What do you recommend based on this analysis?**

4 A. As mentioned above, my primary recommendation is still to annualize the
5 load at the level observed as of the true-up date. But should the Commission decline to
6 accept that adjustment, there should be a normalization adjustment to account for the
7 observed variability in Noranda's load over time. If the Commission accepts the
8 Company's proposal to amortize the Noranda AAO in rates, it would be inappropriate to
9 also include the time period associated with that AAO in the normalization. In that case,
10 I would recommend normalizing the updated test year loads to a 97% load factor based
11 on a three-year average of observations. However, if amortization of the sums deferred
12 under the AAO is rejected and the 2009-2010 time period ultimately does not get carved
13 out for treatment as an extraordinary event, then it would be appropriate to utilize a
14 longer time period to capture the more extreme variations that can impact Noranda's
15 operations. In that case, the ten-year average load factor of 93.5% should be used to
16 normalize Noranda's load.

17 **Q. What are the updated test year sales to Noranda for each scenario you**
18 **have outlined that would be used for setting rates?**

19 A. The adjusted test year load factors and sales I recommend are shown in
20 Table SMW-2 below:

1

Table SMW-2

	Load Factor	Annual MWh	Adjustment to Test Year MWh
Updated Test Year	98.2%	4,191,014	
Annualization to 437 MW/hour	98.2%	3,828,667	-362,347
3 Year Average Load Factor	97.0%	4,139,345	-51,669
10 Year Average Load Factor	93.5%	3,989,934	-201,079

2

Q. Does this conclude your surrebuttal testimony?

3

A. Yes, it does.

