

Exhibit No.:
Issue: Rate LTS, Impact
Witness: George Swogger
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Sponsoring Party: Noranda
Case Number: EA-2005-0180
Date Testimony Prepared: February 14, 2005

AmerenUE

Case No. EA-2005-0180

Prepared Surrebuttal Testimony of

George Swogger

On behalf of

Noranda Aluminum, Inc.

February 2005

BEFORE THE

PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the 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, as Defined in Section 386.020(14),)
RSMo, to Provide Electric Service in a Portion of)
New Madrid County, Missouri, as an Extension)
of Its Existing Certificated Area.)

Case No. EA-2005-0180

Affidavit of George Swogger

State of Missouri)
County of New Madrid) ss

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
George Swogger

Subscribed and sworn before me this 10th day of February, 2005

Jane Ann Bennett
Notary Public

[SEAL] Notary Public Seal
JANE ANN BENNETT
New Madrid County
My Commission Expires
April 27, 2008
My Commission expires: 4-27-08

Before the
Missouri Public Service Commission

AmerenUE

Case No. EA-2005-0180

Prepared Surrebuttal Testimony of George Swogger

1 **INTRODUCTION**

2 Q PLEASE STATE YOUR NAME AND ADDRESS.

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

4 Q ARE YOU THE SAME GEORGE SWOGGER THAT PREVIOUSLY SUBMITTED
5 DIRECT TESTIMONY IN THIS PROCEEDING?

6 A Yes I am. A summary of my education and experience is included in my direct
7 testimony.

8 Q WHAT ARE THE PURPOSES OF YOUR TESTIMONY?

9 A First, I continue to support the Union Electric Company d/b/a AmerenUE
10 application to extend its service territory to include the Noranda Smelter and

1 approval of the rate for Large Transmission Service (LTS) as proposed by
2 AmerenUE.

3 At this time I want to address some of the points raised in the rebuttal
4 testimonies. My silence on any rebuttal point should not be construed as my
5 agreement.

6 **LARGE TRANSMISSION SERVICE VERSUS LARGE PRIMARY SERVICE**

7 **Q WHAT IS THE POSITION TAKEN BY MR. WATKINS ON BEHALF OF THE STAFF**
8 **OF THE COMMISSION?**

9 **A** Mr. Watkins apparently opposes the creation of a Large Transmission Service
10 (LTS) rate schedule and suggests instead that Noranda be placed on the Large
11 Primary Service (LPS) rate schedule, a rate that applies to larger customers
12 that receive distribution services.

13 **Q WHY DO YOU THINK THERE SHOULD BE A NEW RATE?**

14 **A** First, let me say that I am not a rate expert so my comments are simply as the
15 customer that will be spending about \$11 million per month on electricity.
16 From my perspective Noranda's size and load factor have always immediately
17 come to mind when discussing rates. For example, Mr. Grotzinger states that
18 Noranda has a load as large as the cities of Independence and Columbia
19 together. But unlike a city that resells power to a whole variety of customers,
20 Noranda uses power continuously. That is also unlike other retail customers of
21 AmerenUE. Day in and day out, hour after hour, the average Noranda load is

1 470 MW, which is just one percent less than the peak load of 475 MW. In fact,
2 even though AmerenUE is a large utility, I understand that Noranda will
3 consume more electricity than AmerenUE's entire Large Primary Service (LPS)
4 customer class. In my mind that in itself is enough reason to put Noranda on
5 the LTS rate, but there is another reason.

6 Distribution services are another big difference. Noranda has always
7 bought power delivered at AECI's New Madrid transmission substation, not at
8 its plant. And Noranda has always owned and maintained the 161,000 volt (161
9 kV) power lines that bring the electricity into the plant from the transmission
10 substation and to Noranda's own distribution transformers. All costs associated
11 with the AECI New Madrid substation, whether they are called transmission,
12 distribution, or something else are also paid by Noranda, but to AECI, not
13 AmerenUE. We will also buy transmission service from AECI.

14 The AmerenUE service will only provide power through the AmerenUE
15 transmission system to the AECI transmission system so the AmerenUE
16 transmission lines will not even connect directly to Noranda distribution lines.
17 In short, it will be impossible for AmerenUE to provide anything but
18 transmission level service.

19 Noranda's large size, high load factor, AmerenUE delivery to AECI
20 through its transmission interconnections with AECI, Noranda's separate
21 provision of AECI transmission, and Noranda's ownership of the 161 kV lines
22 that bring the power into the plant, all should result in a lower cost per kWh

1 for the AmerenUE part of the service. These considerations also make the
2 service characteristics of Noranda unique.

3 Since the service arrangements and usage characteristics are unique to
4 Noranda it seems to me that the most straightforward approach is to set up a
5 rate such as the proposed large transmission rate. "Large" fits because it is for
6 service to the largest customer, larger than all other LPS customers put
7 together. "Transmission" fits because the power goes out from AmerenUE over
8 transmission interconnections and no distribution services will be provided by
9 AmerenUE. With a separate LTS rate schedule, when costs and rates are
10 reviewed in future cases the analyses would be more straightforward as
11 Noranda would in all likelihood be alone on the LTS rate.

12 **Q MR. WATKINS SUGGESTS THAT NORANDA SHOULD BE SERVED UNDER THE LPS**
13 **RATE SCHEDULE, NOT RATE LTS. DO YOU AGREE?**

14 **A** No. The problem I see is that the current LPS rate does not account for the
15 unique characteristics of service to Noranda. In addition, I do not like the idea
16 of starting with a rate for an altogether different service and then developing
17 credit adjustments. It is easier to understand and work with a rate that
18 addresses the Noranda service characteristics straightaway. In my mind it just
19 makes a lot more sense to establish a rate that is appropriate for Noranda in
20 the first place.

1 Q ARE THERE ANY OTHER REASONS WHY YOU WOULD LIKE TO SEE THE LARGE
2 TRANSMISSION SERVICE RATE ESTABLISHED AT THIS TIME?

3 A Yes. While I would like to see a commitment to a specific rate level, I
4 understand that part of accepting regulated service is accepting that rate
5 levels may change as the overall costs for the utility change. Therefore,
6 Noranda has not requested assurance of a particular rate. However, Noranda is
7 very concerned that a cost based approach will be followed and would take
8 establishment of the LTS rate schedule as a positive step in that direction.

9 Q MR. WATKINS COMMENTED ON THE ANNUAL CONTRIBUTION FACTOR. CAN
10 YOU EXPLAIN WHY THERE IS AN ANNUAL CONTRIBUTION FACTOR IN THE LTS
11 RATE SCHEDULE?

12 A Yes. The Annual Contribution Factor is simply a result of negotiations between
13 Noranda and AmerenUE. Both sides agreed that the unique service
14 characteristics of Noranda were not adequately addressed in the LPS rate and
15 that led to the creation of the LTS rate. In particular, the costs of the
16 distribution system needed to be removed from the rate for the purposes of
17 serving Noranda. Another consideration was the initial price. \$32.50 was
18 simply the initial price that both parties, for their own reasons, could accept.

19 A third point of agreement was that the Commission would determine
20 rates in future rate proceedings. The way that we could put the separate
21 agreements together was in the proposed LTS rate. The purpose of the Annual
22 Contribution Factor is to reconcile the price to this agreed level until there is a

1 proceeding where the Commission reviews and sets rates. Since we know
2 AmerenUE will be filing a class cost-of-service study before rates are changed,
3 the cost study results will be available for the consideration by the parties and
4 the Commission at that time. I can see no use for the Annual Contribution
5 Factor once the costs have been defined and the Commission has made its
6 decision. I would be surprised to see it continue, but I understand the primary
7 constraint is that the results be just and reasonable, so there is no restriction
8 on the form of the rates.

9 **Q DR. PROCTOR SEEMS CONCERNED THAT NORANDA UNDERSTAND THAT THE**
10 **RATE FOR NORANDA WILL BE SUBJECT TO CHANGE. CAN YOU PROVIDE ANY**
11 **ASSURANCE?**

12 **A** Yes, I understand that AmerenUE's costs will be reviewed in future rate cases
13 as will the costs for each of the rates, including the rate paid by Noranda.
14 Simply stated, when time comes to change the rates, I want the rate for
15 Noranda to reflect costs on a basis that is consistent with the approach used for
16 other customers.

17 **OFFICE OF PUBLIC COUNSEL PRICING**

18 **Q HAVE YOU REVIEWED THE PRICING SUGGESTION OF MR. KIND FOR THE**
19 **OFFICE OF PUBLIC COUNSEL?**

20 **A** Yes. Mr. Kind describes his pricing proposal as follows:

1 Noranda's rates should be set at level that covers (1) the fully
2 allocated embedded costs associated with providing service to
3 Noranda plus (2) any forgone margins on off-system sales
4 associated with providing service to Noranda that are not offset
5 by Noranda's contribution to the recovery of fixed production
6 costs.

7 **Q DO YOU THINK THE OPC PRICING SUGGESTION IS A GOOD IDEA?**

8 **A** No. I understand the suggestion to be both costs that are incurred and costs
9 that are not incurred. Noranda needs a stable basis on which to make business
10 plans. I do not feel like I would have the stable and predictable rates that the
11 plant needs if the rate is always subject to change based on off system sales
12 that are not being made. I have no idea how the Commission would determine
13 and administer his suggestions and that is a concern for me.

14 Also, I sense that stability is an issue for AmerenUE and its other
15 customers as well as for Noranda. That is something that I can understand.
16 However, the pricing suggested by Mr. Kind is potentially counter productive
17 because it seems to have the potential to artificially create a high price
18 environment without the benefit of the lows that ought to go with the highs.
19 Such a one sided approach could shut the plant down, to the detriment of
20 stability for all concerned.

21 **Q DID YOUR DIRECT TESTIMONY EXPRESS CONCERN WITH THE POSSIBILITY OF A**
22 **RATE DECISION THAT WAS NOT BASED ON THE COST OF SERVICE?**

23 **A** Yes. I stated:

1 A downside concern is the possibility of a future rate decision that
2 would increase the cost to the Smelter in a manner that was not
3 related to the cost of providing the service. While this risk
4 remains troublesome, the Smelter is depending on decisions that
5 will not discriminate against Noranda.

6 Mr. Kind's proposal is an example of my concern. I respect his thoughts, but I
7 strongly disagree with the approach and I will advise Noranda to continue to
8 participate in proceedings before the Commission to defend the cost based
9 approach to rates from suggestions such as Mr. Kind's.

10 **MR. KIND'S SUGGESTION FOR AN EXIT FEE OR A RISK PREMIUM**

11 Q PLEASE SUMMARIZE THE SUGGESTION OF MR. KIND FOR AN EXIT FEE OR A
12 RISK PREMIUM.

13 A Mr. Kind summarizes these suggestions at page 16, line 23 of his rebuttal
14 testimony:

15 Noranda should either be (1) subject to exit fees that would
16 recover any stranded costs that result from Noranda's choice to
17 use a supplier other than AmerenUE for some or all of the power
18 supply needs at its aluminum smelting facilities near New Madrid,
19 Missouri or (2) paying some reasonable amount over and above the
20 costs described in the above bullet which would represent a risk
21 premium to compensate AmerenUE's existing customers for
22 bearing the risk that they may be required to pay increased rates
23 in the future due to stranded costs associated with Noranda's
24 choice to use a supplier other than AmerenUE after the end of the
25 15-year term of its contract with AmerenUE.

26 His suggestions are, in my opinion, neither reasonable nor appropriate.

1 **Q PLEASE EXPLAIN.**

2 **A**His concerns seem to start with the assumption that Noranda will create
3 stranded costs by purchasing electricity from suppliers other than AmerenUE.
4 However, Noranda has agreed that it will not assert its right to make such
5 purchases during the term of the contract and the term will be a minimum of
6 fifteen years. After the first fifteen years the contract term will automatically
7 extend one year at a time. But in addition, a five year notice is always
8 required to terminate the contract, even when it continues beyond the first 15
9 years.

10 In fact, the decision to give up the flexibility to change suppliers was a
11 difficult one for me. However, I came to believe that an equitable provision
12 that would allow early or abrupt departure from AmerenUE service would need
13 to be tied directly to AmerenUE's costs or capacity requirements in ways that
14 would be extraordinarily complex and difficult to write down in a contract.
15 Further, the rationale for a cost based rate might be undermined. Therefore
16 Noranda ultimately agreed to the long term and notice provisions.

17 Mr. Kind has not offered a workable definition for stranded costs, which
18 may or may not exist. Likewise, there is no workable basis for the computation
19 of a risk premium. His suggestions, while unreasonable and inappropriate in
20 the context of the agreements and rate LTS, are, in my opinion, also
21 practically unworkable.

1 Q PLEASE SUMMARIZE YOUR THOUGHTS REGARDING STRANDED COSTS, EXIT
2 FEES, AND ANY RELATED RISK PREMIUMS.

3 A In the course of our negotiations with AmerenUE, Noranda agreed to give up
4 the right to leave AmerenUE on short notice as a part of the agreement.
5 Noranda also gave up the right to leave AmerenUE in less than fifteen years. In
6 this context it makes no sense to me to try to quantify either an exit fee or a
7 risk premium. While his words address these issues, in my opinion Mr. Kind has
8 offered very little that could constructively be a part of any power contract or
9 rate schedule.

10 **TRANSMISSION ISSUES RAISED BY MR. GROTZINGER FOR THE MJMEUC**

11 Q WHAT IS THE SUGGESTION OFFERED BY MR. GROTZINGER?

12 A He wants AmerenUE to provide assurances and priorities for transmission
13 projects he perceives to be important to the MJMEUC. In the course of his
14 discussion he addresses some of the same issues I faced on behalf of Noranda
15 and so I will offer some perspectives as a lay person that has devoted a lot of
16 time to buying power.

17 Q WAS IT POSSIBLE FOR NORANDA TO SHOP FOR THE LOWEST COST POWER
18 WITHOUT REGARD TO TRANSMISSION CONSIDERATIONS?

19 A No. While I have always understood that AECl had the ability to deliver power
20 if I could get it to them, that was the extent of my assurance. As I understand
21 the system everyone would like to get the power from the cheapest source at

1 any moment (regardless of the locations of the production and consumption),
2 but that is simply not possible. It never occurred to me to ask someone else to
3 address and pay for the transmission that would give Noranda improved access
4 to cheaper sources, but yet that in some respects seems to be just what Mr.
5 Grotzinger is suggesting for the MJMEUC in his testimony.

6 **Q DO YOU BELIEVE THAT THE CUSTOMERS OF AMERENUE, INCLUDING**
7 **NORANDA, SHOULD PAY TO SOLVE PROBLEMS THAT HAVE BEEN FACED BY**
8 **MJMEUC IN THE PAST OR ANY FUTURE PROBLEMS?**

9 **A** The simple answer is no. I understand that AmerenUE as a transmission owner
10 has obligations including the MISO agreements. I expect they will live up to
11 those obligations. If Mr. Grotzinger defines his future needs he can pursue
12 them in a proper context just like any other transmission customer. That said,
13 I do not see how any MJMEUC interference with the proposed service to
14 Noranda can be a proper context. In fact, I am disappointed to see MJMEUC
15 professing support for (or at least non-opposition to) the proposed service for
16 Noranda while at the same time apparently attempting to create obligations
17 and more costs for Noranda and other customers of AmerenUE.

18 I am a novice in regulatory matters, but as I am beginning to understand
19 the regulatory system, it seems the concerns raised by Mr. Grotzinger are
20 matters for MISO and the FERC to sort out. I do not fully understand how
21 regulation works, but I assume MISO and FERC, as the responsible agencies, will

1 follow a proper process for addressing and resolving any request for service,
2 and will determine an equitable cost recovery mechanism.

3 **Q DOES MR. GROTZINGER SPEAK FOR ALL MEMBERS OF MJMEUC IN THIS**
4 **MATTER?**

5 **A** To my knowledge he does not. First, in contrast to the position laid out by Mr.
6 Grotzinger, I note the important public interest testimony provided by the City
7 of New Madrid, one of the MJMEUC members. Second, I sit on the Board of the
8 Sikeston Board of Municipal Utilities (BMU), another of the MJMEUC members,
9 and I can state from firsthand knowledge that MJMEUC did not reflect the
10 BMU's interest in this matter. The BMU was not aware of the intervention of
11 MJMEUC until after it was filed. Nor was the MJMEUC testimony made
12 available for review by the BMU. I find it disappointing that MJMEUC did not at
13 a minimum check with members that have a direct interest in this matter. I do
14 not know which of the MJMEUC members Mr. Grotzinger may or may not be
15 speaking for, but it is certainly not all of his members.

16 **THE SUGGESTION OF DELAY FROM MEG WITNESS LACONTE**

17 **Q WHAT IS THE SUGGESTION OFFERED BY MS. LACONTE FOR THE MISSOURI**
18 **ENERGY GROUP?**

19 **A** The essence of her suggestion is delay. Obviously we would all like to have the
20 luxury of more time. I appreciate the work of the parties that have dug in and
21 done their analyses and come up with their suggestions, even if I might not

1 agree. In so doing it seems to me that the important questions have been
2 addressed. My concern with MEG is that only questions are offered -- and a
3 proposal for delay. The one unique aspect of the MEG interests as I understand
4 Ms. LaConte is an interest in interruptible power. Hopefully the MEG concerns
5 can be addressed elsewhere in a proper proceeding, but in any event I do not
6 see it as appropriate to hold up approval of the Noranda transaction to
7 facilitate an investigation of interruptible power, a question that is unique to
8 MEG.

9 **Q IS DELAY A PROBLEM FOR NORANDA?**

10 **A** Yes, it is a serious and potentially very expensive and detrimental problem for
11 Noranda. I am opposed to any delay of the current schedule for this
12 proceeding.

13 **Q DOES THIS COMPLETE YOUR TESTIMONY?**

14 **A** Yes it does.