BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Union Electric Company,	)	
d/b/a AmerenUE's Tariffs to Increase Its	)	Case No. ER-2010-0036
Annual Revenues for Electric Service	)	

MEUA STATEMENT OF POSITION

Attached is MEUA's Statement of Position on the following Class Cost of Service issues.

14. **Class Cost of Service**

a. **Class Cost of Service**: How should class revenue responsibility be determined?

i. If there is a new AmerenUE customer class composed of low-income residential customers, how should the change in revenue responsibility of the members of that new class be shifted to the other customer classes?

ii. What allocation methodology should be used for determining the production capacity allocator?

iii. What allocation methodology should be used for determining the production cost allocator?

a) If the Commission relies on the Average & Peak 4 CP allocation method for determining the production cost allocator what peak demand data should it use?

iv. What allocation methodology should be used for determining the transmission cost allocator?

v. What allocation methodology should be used for determining the fuel cost allocator?

vi. What allocation methodology should be used to allocate net margins from off-system sales to the customer classes?

vii. Should the revenue responsibility of the various customer classes be based in part on the class cost-of-service study results?

viii. Should there be an increase or decrease in the revenue responsibility of the various customer classes?

ix. If the answer to "viii" above is "yes," what basis should be used to increase or decrease the revenue responsibility of the various classes?

POSITION: Class cost of service studies have been presented in this case by AmerenUE, MIEC, Staff and the Office of the Public Counsel. While the studies may differ on the magnitude, the studies unanimously agree that the Large General Service / Small Primary class is currently paying rates that are significantly above its cost of service. As MEUA witness Chriss indicates, the results of the various cost studies are as follows:

STUDY	**CURRENT LGS / SP RATE PAYMENTS ABOVE COST OF SERVICE**
MIEC	$84,603,000
Staff (4 CP Methodology)	$73,663,785
Staff (Capacity Utilization Method)	$72,306,820
AmerenUE	$64,791,000
OPC (Avg. & 4CP Production)	$28,001,742
OPC (TOU Production)	$22,896,370

Source: Chriss Rebuttal at Exhibit SWC-3

MEUA takes no position on the appropriateness of any of the particular studies presented to the Commission. Nevertheless, MEUA asserts, given the unanimous agreement that LGS / SP rates are above cost of service, that "significant movement towards cost of service should be a revenue allocation goal in this docket regardless of the approved model."[1] With this in mind, MEUA believes that the Commission should make class cost of service adjustments which move the LGS / SP class 20% towards their class cost of service under any approved study.[2]

MEUA's position is consistent with past Commission cases which rely upon class cost of service studies to allocate costs and revenues. This position would treat all customers in a consistent and equitable fashion. On the other hand, Noranda proposes

[1] Chriss Rebuttal, page 7.
[2] Chriss Rebuttal, page 4.

that it be treated in a discriminatory manner. Noranda claims that, while all other customer classes should receive a rate increase resulting from this case, it should actually be granted a rate decrease. In order to effectuate this movement, Noranda proposes that all other rate classes be given a greater rate increase than is otherwise justified. Noranda makes this request despite the fact that the LGS / SP class is currently as much as $84.6 million above its cost of service.

It is important to remember that under most class cost of service studies, Noranda is already paying rates that are **below** its class cost of service. For instance, AmerenUE's class cost of service study indicates that Noranda is currently paying rates that are $2.2 million below its cost of service.[3] Similarly, Staff's study indicates that Noranda is currently paying rates that are approximately $5 million below its actual cost of service.[4] OPC's study shows a much higher inequity and estimates that Noranda's current rates are between $8.1 and $19.4 million below its cost of service.[5]

Noranda bases its inequitable request primarily upon the mistaken notion that it needs a reduced electric rate in order to compete against other domestic aluminum smelters.[6] Reference to Noranda's recent SEC filings indicates that this claim is patently wrong. While Noranda claims that other aluminum smelters have a cheaper electric rate, it is apparent that this is entirely a result of the sudden drop in the price of aluminum in 2008 / 2009. In data requests and its S1 filing, Noranda admits that other domestic aluminum smelters have electric rates that are indexed to the LME price of aluminum. Therefore, when the price of aluminum suddenly decreased by 67% in 2008 / 2009, the

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[3] Cooper Direct, Schedule WLC-E-6.
[4] Scheperle Direct, page 4.
[5] Kind Direct, Attachment A.
[6] Smith Direct, page 6; Fayne Direct, pages 8-9 and Exhibit HWF-1.

price of electricity for these competing smelters also decreased dramatically. In its S1, Noranda specifically references this fact:

> According to CRU, the global business operating production cost curve for aluminum has fallen significantly from year-end 2008 to December 31, 2009 by approximately 30%. This is related to the following:
>
> - decreased power costs, due to changes in power tariffs by regulatory authorities around the world and, in some cases, indexing of power prices to the LME price of aluminum.[7]

Since that point in time, however, the price of aluminum has doubled. Therefore, Noranda's claim is no longer accurate. Instead, with the rebound of aluminum prices, the price of electricity for these competing smelters has also rebounded. Ultimately, Noranda claims in its S1, that the fact that its electric rates are not tied to the LME price of aluminum, is a competitive advantage versus other domestic aluminum smelters.

> Our New Madrid smelter has entered into a long-term power supply contract through May 2020, ensuring the secure supply of power. We believe this contract gives Noranda an advantage over aluminum smelters facing frequent power shortages or disruptions. In addition, our power costs are not linked to LME aluminum prices, unlike the power costs of some of our competitors, particularly in North America.[8]

Noranda's claims that its electric rates are greater than those of its competitors are patently false. As demonstrated, Noranda based its claim on a single point in time and conveniently ignored any subsequent increase in its competitors' price of electricity associated with the recent upturn in the price of aluminum.

Furthermore, Noranda's claim that an increase in its price of electricity threatens the viability of the New Madrid smelter is similarly erroneous. Again, Noranda's claim is based solely on an inaccurate representation of competitors' price of electricity. That price of electricity has been shown to be inaccurate. Furthermore, such a focus

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[7] Form S1, Amendment 4, filed March 2, 2010, at page 8.
[8] *Id.* at page 5.

conveniently ignores other aspects of Noranda's business operations in which it claims an advantage over its competitors. For instance, Noranda claims advantages in the following crucial aspects of the aluminum smelter industry:

►Reliability of Electric Supply: "Our New Madrid smelter has entered into a long-term power supply contract through May 2020, ensuring the secure supply of power. This contract gives Noranda an advantage over aluminum smelters facing frequent power shortages or disruptions."[9]

►Supply of Bauxite and Alumina: "We believe that this cost advantage in rising markets and the security of our bauxite and alumina supply provide us with a competitive advantage versus aluminum producers that are dependent on LME price indexed alumina supplies."[10]

►Geographic Proximity: "New Madrid is strategically located as the closest Midwest facility to the supply of alumina. It is also located in an area with abundant sources of electrical power."[11]

►Freight Costs: "We believe New Madrid has a freight cost advantage relative to other smelters because of the proximity of Gramercy to St. Ann and New Madrid to Gramercy. We believe our location allows New Madrid to internally source its alumina from Gramercy at a lower freight cost than other U.S. based smelters."[12]

Ultimately, it should be recognized that Noranda's claims are misplaced. Noticeably, Noranda's S1 fails to provide any warning that the viability or long-term existence of the New Madrid shelter is threatened by this rate case. The lack of such a

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[9] *Id.*at page 85.
[10] *Id.* at page 88.
[11] *Id.* at page 92.
[12] *Id.* at page 94.

warning stands in stark contrast to the doom and gloom ever present in Noranda's direct testimony. This is not the first time the Commission was confronted with such tales or pending gloom. Given the rosy picture contained in Noranda's SEC filing, the Commission should patently dismiss Noranda's claim as well as its self-serving recommendation.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing pleading by email, facsimile or First Class United States Mail to all parties by their attorneys of record as provided by the Secretary of the Commission.

David L. Woodsmall

Dated: March 10, 2010