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BY HAND DELIVERY

January 31, 2005

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
Governor Office Building
200 Madison Street
Jefferson City, Missouri 65101

Re: Case No. EA-2005-0180

Dear Mr. Roberts:

Attached for filing in the above-referenced case are an original and eight (8) copies each of the Highly Confidential Version and the Public Version of the *Rebuttal Testimony of Michael Gorman* on behalf of the Missouri Industrial Energy Consumers. The additional copy is to be file-stamped.

Thank you for your assistance in bringing this filing to the attention of the Commission, and please call me if you have any questions.

Very truly yours,

Diana M. Vuylsteke
DMV:rms

Enclosures (9)
cc: All Parties (Electronic Mail)

FILED²
JAN 31 2005
Missouri Public
Service Commission

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And Bryan Cave,
A Multinational Partnership,
London

PUBLIC VERSION

Exhibit No.

Witness:

Type of Exhibit:

Sponsoring Party:

Subjects:

Date:

Michael Gorman

Rebuttal Testimony and Schedule

Missouri Industrial Energy Consumers

Impact of Serving Noranda

January 31, 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

FILED²
JAN 31 2005
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Service Commission

Rebuttal Testimony and Schedule of

Michael Gorman

On behalf of

Missouri Industrial Energy Consumers

January 31, 2005

Project 8326



BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

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,
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Case No. EA-2005-0180

STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

Affidavit of Michael Gorman

Michael Gorman, being first duly sworn, on his oath states:

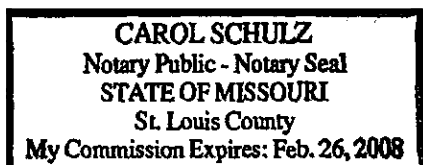
1. My name is Michael Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, MO 63141-2000. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.


2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony and Schedule MPG-1 which was prepared in written form for introduction into evidence in this proceeding on behalf of Missouri Industrial Energy Consumers.

3. I hereby swear and affirm that the testimony is true and correct and shows the matters and things it purports to show.


Michael Gorman

Subscribed and sworn before this 31st day of January 2005




Notary Public

My Commission Expires February 26, 2008.

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
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County, Missouri, as an Extension of Its
Existing Certificated Area**

Case No. EA-2005-0180

Rebuttal Testimony of Michael Gorman

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

2 **A Michael Gorman; 1215 Fern Ridge Parkway, Suite 208; St. Louis, MO 63141-2000.**

3 **Q WHAT IS YOUR OCCUPATION?**

4 **A I am a consultant in the field of public utility regulation and a principal in the firm of**
5 **Brubaker & Associates, Inc., energy, economic and regulatory consultants.**

6 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
7 **EXPERIENCE.**

8 **A These are set forth in Appendix A to my testimony.**

9 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

10 **A I am appearing on behalf of the Missouri Industrial Energy Consumers (MIEC).**

Michael Gorman
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1 **Q WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A I will comment on AmerenUE's application and motion for expedited treatment to
4 expand its service area and provide regulated retail service to an aluminum smelter
5 owned by Noranda Aluminum, Inc. (Noranda) and located in New Madrid, Missouri.
6 AmerenUE proposes to be Noranda's exclusive provider of electric power and energy
7 needs for a minimum term of 15 years commencing June 1, 2005 under a proposed
8 new Missouri Large Transmission Service (LTS) tariff.

9 AmerenUE's proposal for serving Noranda is conditioned on the Missouri
10 Public Service Commission approving the transfer of AmerenUE's Metro East service
11 territory to Ameren CIPS under conditions that AmerenUE, in its sole discretion, finds
12 appropriate. The Metro East transfer is the subject of another docket, and I will not in
13 this testimony comment on the merits of AmerenUE's proposal to transfer its Metro
14 East service territory. Rather, my testimony assumes that the MPSC will only
15 approve the transfer of the Metro East service territory under conditions that do not
16 detrimentally impact existing AmerenUE retail Missouri customers.

17 **Q PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.**

18 A Based on my review of the Company's economic projections, and a review of the
19 proposed LTS tariff and Service Agreement with Noranda, I have reached the
20 following conclusions.

- 21 • The Company's economic projections, adjusted to reflect the impact on
22 AmerenUE's existing native load customers, indicate that existing Missouri retail
23 electric customers will neither benefit nor be harmed by granting AmerenUE's
24 request to expand its service area and serve Noranda under the proposed LTS
25 rate. Importantly, this conclusion is based on Noranda remaining a customer of
26 AmerenUE during the entire 15-year minimum term of the LTS rate.

Michael Gorman
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- 1 • In the event, Noranda does not remain a customer of AmerenUE under the LTS
2 rate during the entire 15-year minimum LTS term, and Noranda does not give at
3 least a five-year notice of its intent to terminate service from AmerenUE within this
4 initial term, existing Missouri retail customers could be detrimentally impacted as
5 a result of AmerenUE serving Noranda.

6 **Q PLEASE EXPLAIN HOW YOU ARRIVED AT YOUR CONCLUSION THAT**
7 **EXISTING RETAIL CUSTOMERS WILL NOT BENEFIT NOR BE HARMED IF**
8 **AMERENUE'S REQUEST TO EXPAND ITS SERVICE TERRITORY AND SERVE**
9 **NORANDA FOR A TERM OF 15 YEARS IS GRANTED.**

10 **A AmerenUE has made economic projections for two scenarios: (1) serve Noranda,**
11 **and (2) do not serve Noranda.**

12 I started with AmerenUE witness Richard A. Voitas's economic evaluation in
13 his native load comparison. I extended Mr. Voitas's analysis of AmerenUE's average
14 cost in the "serve Noranda" scenario, by separating AmerenUE's cost of serving its
15 existing native load customers from Noranda. My analysis is shown on my
16 Schedule MPG-1.

17 AmerenUE's native load projections in the "do not serve Noranda" scenario
18 are summarized on lines 1-7 of this Schedule. On lines 8-14, I have summarized
19 AmerenUE's cost in "serve Noranda" scenario. On lines 15-21, I estimate the
20 incremental impact Noranda has caused on AmerenUE's total native load cost of
21 serve. This was estimated by subtracting AmerenUE's total native load energy and
22 cost components on lines 8-14 (serve Noranda) from the total native load energy and
23 cost components on lines 1-7 (do not serve Noranda).

24 Line 21 shows the cost per MWh of the incremental cost Ameren incurs to
25 serve Noranda. On lines 22 and 23 I show the estimated amount of revenue
26 Noranda would produce under the proposed LTS tariff. On lines 24 and 25, I show

Michael Gorman
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1 whether or not the revenues Noranda is expected to provide under the proposed LTS
2 tariff appears to cover AmerenUE's projected incremental cost of serving Noranda.
3 As shown on line 25, Noranda's revenue under the LTS rate will not fully recover
4 AmerenUE's projected incremental cost of serving Noranda in all years of the forecast
5 period with the exception of calendar year 2006.

6 Based on this analysis, I have concluded the following. First, there is no
7 benefit to existing native load customers from serving Noranda. Second, if Noranda's
8 LTS rate in the future is set to fully recover AmerenUE's incremental cost to serve
9 Noranda, there will be no harm to existing native load customers by serving Noranda.

10 **Q HOW COULD EXISTING MISSOURI RETAIL CUSTOMERS BE HARMED IF**
11 **NORANDA TERMINATES SERVICE PRIOR TO THE END OF THE 15-YEAR**
12 **INITIAL TERM OF THE LTS RATE?**

13 **A** AmerenUE projects that it will need to invest in ****HIGHLY SENSITIVE**** of additional
14 generating capacity in 2006 to serve Noranda.¹ AmerenUE's projections indicate that
15 its generating capacity costs will increase by ****HIGHLY SENSITIVE**** per year over
16 the forecast period to serve Noranda. If Noranda terminates service from AmerenUE
17 either by closing its Missouri facility or for other reasons, the generating costs
18 incurred to serve Noranda may be borne by existing AmerenUE customers. Existing
19 AmerenUE customers will be harmed if their rates were increased to cover generating
20 capacity costs incurred to serve Noranda that are not needed by existing Missouri
21 retail customers.

¹AmerenUE witness, Richard Voitas, at 7-8

1 **Q IF AMERENUE MAKES THE INCREMENTAL GENERATION INVESTMENT TO**
2 **SERVE NORANDA, BUT NORANDA CEASES TO TAKE SERVICE BEFORE THE**
3 **END OF THE INITIAL CONTRACT TERM, DO EXISTING MISSOURI RETAIL**
4 **CUSTOMERS POTENTIALLY FACE HIGHER COSTS THAN IF NORANDA HAD**
5 **NEVER BEEN SERVED BY AMERENUE?**

6 **A Yes.**

7 **Q DOES THE PROPOSED LTS RATE OR SERVICE AGREEMENT BETWEEN**
8 **AMERENUE AND NORANDA DESCRIBE HOW AMERENUE'S COST TO SERVE**
9 **NORANDA, IN THE EVENT NORANDA DOES NOT TAKE SERVICE THROUGH**
10 **THE MINIMUM 15-YEAR SERVICE TERM, WILL BE RECOVERED?**

11 **A No.** The Agreement and LTS rate require a five-year notice of intent to terminate
12 service at or after the end of the minimum 15-year contract term. However, there is
13 no provision to cover Noranda's obligations if it terminates service during the initial
14 15-year period.

15 **Q SHOULD THE SERVICE AGREEMENT AND LTS RATE BE MODIFIED TO**
16 **ENSURE EXISTING MISSOURI RETAIL CUSTOMERS ARE NOT HARMED IF**
17 **NORANDA CEASES TO TAKE SERVICE BEFORE THE END OF THE INITIAL**
18 **CONTRACT TERM?**

19 **A Yes.** The five-year notice of intent to terminate service at the end of the initial 15-year
20 minimum period should also apply to service termination within the initial term. Also,
21 if early termination notice is given, Noranda's billing demand should be based on its
22 load prior to termination notice, and not the minimum LTS billing demand. If Noranda
23 ceases to take service from AmerenUE prior to the end of the termination notice

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1 period, then Noranda's obligations during the remaining termination notice period
2 should be off-set by AmerenUE's ability to make wholesale market sales with capacity
3 previously used to serve Noranda, and/or to use part or all of the capacity previously
4 serving Noranda to meet growing retail customer demand. The objective during this
5 five-year termination notice period, is to ensure that AmerenUE fully recovers the cost
6 of the capacity obligations made to serve Noranda, without increasing retail Missouri
7 customers' rates for capacity that is in excess of their needs.

8 **Q IS THIS TYPE OF SERVICE TERMINATION NOTICE NORMALLY INCLUDED IN**
9 **AMERENUE'S MISSOURI RETAIL RATES?**

10 **A** No. But AmerenUE's proposal to serve Noranda is an extraordinary service request
11 that justifies a five-year notice period for several reasons. First, the size of Noranda's
12 load is a material percentage of AmerenUE's total retail demand, and many times the
13 size of any existing Missouri retail customer of AmerenUE.

14 Second, AmerenUE's projections include ****HIGHLY SENSITIVE**** of
15 additional capacity cost each year as a result of serving Noranda. This is a
16 substantial financial obligation that justifies greater assurance that AmerenUE will
17 recover this cost from Noranda.

18 Third, AmerenUE does not currently have an obligation to serve Noranda, and
19 Noranda also is unique in that it can choose among alternative power suppliers for its
20 Missouri operations. Therefore, if AmerenUE's request is denied, Noranda can still
21 solicit service from other suppliers. This is unique because no existing AmerenUE
22 retail customer can chose an alternative supplier in Missouri.

23 These reasons set Noranda apart from all of AmerenUE's customers and
24 justify a different tariff term to protect AmerenUE's existing native customers.

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1 **Q WHY IS A FIVE-YEAR SERVICE TERMINATION NOTICE REASONABLE?**

2 A AmerenUE witness, Craig Nelson, states that a five-year cancellation notice will
3 permit the synchronization of its system capacity and system needs. That is, it is
4 expected that the investment in capacity made to serve Noranda will be needed by
5 other native load customers after five years of native load demand growth.² Thus a
6 five-year service termination notice period during the initial term will help to protect
7 current customers from paying for the capacity costs made to serve Noranda until that
8 capacity is needed by existing Missouri retail customers.

9 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

10 A Yes, it does.

²Nelson at 9.

Appendix A

Qualifications of Michael Gorman

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

2 A Michael P. Gorman. My business address is 1215 Fern Ridge Parkway, Suite 208,
3 St. Louis, Missouri 63141.

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am a consultant in the field of public utility regulation with Brubaker & Associates,
6 Inc. (BAI), energy, economic and regulatory consultants.

7 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK
8 EXPERIENCE.**

9 A In 1983 I received a Bachelors of Science Degree in Electrical Engineering from
10 Southern Illinois University, and in 1986, I received a Masters Degree in Business
11 Administration with a concentration in Finance from the University of Illinois at
12 Springfield. I have also completed several graduate level economics courses.

13 In August of 1983, I accepted an analyst position with the Illinois Commerce
14 Commission (ICC). In this position, I performed a variety of analyses for both formal
15 and informal investigations before the ICC, including: marginal cost of energy, central
16 dispatch, avoided cost of energy, annual system production costs, and working
17 capital. In October of 1986, I was promoted to the position of Senior Analyst. In this
18 position, I assumed the additional responsibilities of technical leader on projects, and
19 my areas of responsibility were expanded to include utility financial modeling and
20 financial analyses.

**Michael Gorman
Appendix A
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1 In 1987, I was promoted to Director of the Financial Analysis Department. In
2 this position, I was responsible for all financial analyses conducted by the staff.
3 Among other things, I conducted analyses and sponsored testimony before the ICC
4 on rate of return, financial integrity, financial modeling and related issues. I also
5 supervised the development of all Staff analyses and testimony on these same
6 issues. In addition, I supervised the Staff's review and recommendations to the
7 Commission concerning utility plans to issue debt and equity securities.

8 In August of 1989, I accepted a position with Merrill-Lynch as a financial
9 consultant. After receiving all required securities licenses, I worked with individual
10 investors and small businesses in evaluating and selecting investments suitable to
11 their requirements.

12 In September of 1990, I accepted a position with Drazen-Brubaker &
13 Associates, Inc. In April 1995 the firm of Brubaker & Associates, Inc. (BAI) was
14 formed. It includes most of the former DBA principals and Staff. Since 1990, I have
15 performed various analyses and sponsored testimony on cost of capital, cost/benefits
16 of utility mergers and acquisitions, utility reorganizations, level of operating expenses
17 and rate base, cost of service studies, and analyses relating industrial jobs and
18 economic development. I also participated in a study used to revise the financial
19 policy for the municipal utility in Kansas City, Kansas.

20 At BAI, I also have extensive experience working with large energy users to
21 distribute and critically evaluate responses to requests for proposals (RFPs) for
22 electric, steam, and gas energy supply from competitive energy suppliers. These
23 analyses include the evaluation of gas supply and delivery charges, cogeneration
24 and/or combined cycle unit feasibility studies, and the evaluation of third-party
25 asset/supply management agreements. I have also analyzed commodity pricing

Michael Gorman
Appendix A
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1 indices and forward pricing methods for third party supply agreements. Continuing, I
2 have also conducted regional electric market price forecasts.

3 In addition to our main office in St. Louis, the firm also has branch offices in
4 Phoenix, Arizona; Chicago, Illinois; Corpus Christi, Texas; and Plano, Texas.

5 **Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?**

6 **A** Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of
7 service and other issues before the regulatory commissions in Arizona, Delaware,
8 Georgia, Illinois, Indiana, Michigan, Missouri, New Mexico, Oklahoma, Tennessee,
9 Texas, Utah, Vermont, West Virginia, Wisconsin and Wyoming. I have also spon-
10 sored testimony before the Board of Public Utilities in Kansas City, Kansas;
11 presented rate setting position reports to the regulatory board of the municipal utility
12 in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial customers;
13 and negotiated rate disputes for industrial customers of the Municipal Electric
14 Authority of Georgia in the LaGrange, Georgia district.

15 **Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR ORGANIZA-**
16 **TIONS TO WHICH YOU BELONG.**

17 **A** I earned the designation of Chartered Financial Analyst (CFA) from the Association
18 for Investment Management and Research (AIMR). The CFA charter was awarded
19 after successfully completing three examinations which covered the subject areas of
20 financial accounting, economics, fixed income and equity valuation and professional
21 and ethical conduct. I am a member of AIMR's Financial Analyst Society.

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Michael Gorman
Appendix A
Page 3

AmerenUE

Net Benefit(Cost) of Adding Noranda

<u>Line</u>			<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
1	Native Load Cost "Do Not Serve Noranda" ¹											
2		Total Energy	GWh									
3		Production	\$mm									
4		Embedded	\$mm									
5		Capacity	\$mm									
6		Total Cost	\$mm									
7		Total Cost	\$/MWH									
8	Native Load Cost "Serve Noranda" ²											
9		Total Energy	GWh									
10		Production	\$mm									
11		Embedded	\$mm									
12		Capacity	\$mm									
13		Total Cost	\$mm									
14		Total Cost	\$/MWH									
15	Noranda Cost Component ³											
16		Total Energy	GWh									
17		Production	\$mm									
18		Embedded	\$mm									
19		Capacity	\$mm									
20		Total Cost	\$mm									
21		Total Cost	\$/MWH									
22	Noranda Revenue ⁴	Total Noranda Revenue	\$mm									
23		Total Noranda Revenue	\$/MWH									
24	Net Benefit/(Cost) to Existing Native Load ⁵		\$mm									
25			\$/MWH									

¹ Direct testimony of Richard A. Voytas (Schedule RAV-6, Appendix B, Noranda Workpapers - 16)

² Direct testimony of Richard A. Voytas (Schedule RAV-6, Appendix B, Noranda Workpapers - 16)

³ Line 20 = Line 13 - Line 6; Line 21 = Line 20 / Line 16

⁴ Proposed LTS Rate - Annual Contribution Factor

⁵ Line 24 = Line 22 - Line 20; Line 25 = Line 24 / Line 2