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Witness: Steve McPheeters  
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Case Number: ER-2008-0318  
Date Testimony Prepared: August 28, 2008

AmerenUE

Case No. ER-2008-0318

Prepared Direct Testimony of  
**Steve McPheeters**

On behalf of

Noranda Aluminum, Inc.

August 2008

Noranda Exhibit No. 758  
Case No(s). ER-2008-0318  
Date 12-01-08 Rptr KF

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. )

ER-2008-0318

AFFIDAVIT OF STEVE MCPHEETERS

STATE OF MISSOURI )  
COUNTY OF New Madrid ) ss

Steve McPheeters, 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 answers 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.

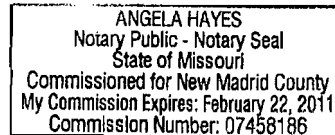
Steve McPheeters  
Steve McPheeters

Subscribed and sworn to before me this 28<sup>th</sup> day of August, 2008.

Angela Hayes  
Notary Public

[SEAL]

My Commission expires: 2/22/2011



Before the  
Missouri Public Service Commission

AmerenUE

Case No. ER-2008-0318

**Prepared Direct Testimony Of Steve McPheeters**

1 Q PLEASE STATE YOUR NAME.

2 A Steve McPheeters.

3 Q MR. MCPHEETERS, BY WHOM ARE YOU EMPLOYED?

4 A Noranda Aluminum Incorporated, at the "Smelter" located in the St. Jude  
5 Industrial Park, near New Madrid, Missouri.

6 Q PLEASE PROVIDE A BRIEF SUMMARY OF YOUR BACKGROUND?

7 A I've spent the last ten years with Noranda at the Smelter as the Superintendent  
8 of Communications, Training and Development. I also currently have the title  
9 of Manager, St. Jude Industrial Park, and I serve as Chairman of the Southeast  
10 Missouri Economic Development Alliance, a cooperative 6 county economic  
11 development organization serving Scott, New Madrid, Mississippi, Pemiscot,  
12 Dunklin and Stoddard counties.

1           The St. Jude Industrial Park houses Noranda, Associated Electric  
2 Cooperative, Inc., Riceland Foods, the New Madrid County Port, and most  
3 recently the new Archer Daniels Midland (ADM) grain buying facility that is  
4 currently under construction. St. Jude Industrial park is comprised of some  
5 4,000 acres.

6   **Q   WHAT IS THE PURPOSE OF YOUR TESTIMONY, MR. MCPHEETERS?**

7   **A   The purpose of my testimony is to provide the Commission with information**  
8 **about the economic and security impacts that the Smelter has on the**  
9 **Southeastern Missouri region, the State of Missouri, and Nation. Noranda's**  
10 **objective is to maintain sustainable production at our facility that, in turn, has**  
11 **a substantial positive impact on our employees, our communities and the State**  
12 **of Missouri. The United States aluminum industry has been declining and this**  
13 **decline has been primarily driven by energy costs. As the premier employer in**  
14 **Southeastern Missouri, it is important that we stay globally competitive. We**  
15 **need to work together to ensure that we have electricity rates that contribute**  
16 **to the globally competitive and sustainable operation of the Smelter.**

17

1 Q PLEASE SUMMARIZE YOUR TESTIMONY.

2 A

- 3 • The Smelter makes an important economic contribution to the Southeastern  
4 region and the State of Missouri.
- 5 • The Smelter employs 1,120 people, 98% who reside in the State of Missouri, and  
6 is the premier employer in Southeastern Missouri.
- 7 • The Smelter has a Missouri payroll of \$65 million, buys \$185 million of goods  
8 and services in Missouri and pays \$9 million of Missouri State taxes for a total  
9 economic impact of over \$250 million.
- 10 • The contributions of Noranda and its employees to the region go far beyond the  
11 direct economic impact to include community involvement, charitable work,  
12 charitable contributions, education, and economic development.
- 13 • Rewarding work along with above-average wages and benefits are part of what  
14 contributes to far more job applications at Noranda than there are jobs to be  
15 filled.
- 16 • To ensure a supply of workers with needed skills, the Smelter established full  
17 scholarship programs with educational institutions.
- 18 • Continuing education is important and the Smelter works to ensure that it is  
19 available and utilized to maintain its skilled workforce.
- 20 • Primary aluminum is a highly functional metal due to its metallurgical  
21 properties and environmentally friendly attributes such as its light weight and  
22 its recyclability.
- 23 • Primary aluminum is a global commodity; its price is set on the London Metal  
24 Exchange.
- 25 • United States Smelters have closed due in large part to high energy costs. Of  
26 33 Smelters that existed 30 years ago, 14 survive today.
- 27 • A bedrock objective of the Smelter is to achieve a sustainable operation and  
28 Noranda is working very hard in every aspect of its business to achieve this  
29 objective. Its strategic location is a plus.
- 30 • A reliable, economical, and stable electrical supply from AmerenUE is critical  
31 to the continued success of the Smelter.

32

1 Q WHAT IS THE SOUTHEASTERN MISSOURI REGION THAT YOU MENTIONED?

2 A I define the Southeastern Missouri region as the ten-county area that goes from  
3 Cape Girardeau County on the north, Butler County on the west, New Madrid  
4 County and Mississippi County on the east and all the way down to the  
5 Missouri/Arkansas state line.

6 Q MR. MCPHEETERS, PLEASE DESCRIBE THE ECONOMIC IMPACT OF THE  
7 SMELTER AT THE GRASS ROOTS LEVEL.

8 A The Smelter employs 1,120 people, 880 are represented by the United  
9 Steelworkers Local 7686, and the rest are the support personnel such as  
10 supervisors, human resources, administrative support, sales, accounting and so  
11 forth. Most of these employees live in Southeast Missouri, with roughly 20  
12 employees coming to work from Tennessee, Kentucky, Illinois and Arkansas.

13 Noranda is the premier manufacturer in Southeast Missouri and supplies  
14 a great number of people with high-paying, sustainable jobs in an area that  
15 includes some of the most economically challenged counties in the State. As a  
16 matter of fact, Noranda is located in the 20<sup>th</sup> most economically challenged  
17 Congressional District in the United States. We take great pride in our  
18 sustainability and that is reflected in our average employee tenure exceeding  
19 17 years. We have 40 families with two generations currently working in our  
20 Smelter.

1           Noranda's annual employee compensation is \$67 million and as  
2 mentioned, 98% of these employees reside in the ten-county region of  
3 Southeastern Missouri. Total employee compensation by county is \$24 million  
4 in New Madrid County, \$16 million in Scott County, \$9 million in Butler County  
5 and approximately \$17 million in the other 7 counties. Some employees also  
6 commute from other neighboring areas. For example we have 53 employees  
7 that live in Cape Girardeau County who drive over 120 miles back and forth to  
8 work each day.

9           In addition, to our direct employees, we estimate Noranda supports at  
10 least another 2,500 jobs in the State of Missouri. These jobs include those that  
11 are created by our outside procurement of goods and services. In addition to  
12 employee compensation, during 2007 we purchased \$185 million of goods and  
13 services in the State of Missouri. Examples of these items include raw  
14 materials, freight, maintenance parts and services, equipment, energy,  
15 vehicles, and office supplies

16           So you add that together; a \$250 million impact on Missouri is huge  
17 economically to all the businesses, the schools, and the community as a whole.  
18 For example, Noranda pays \$2.6 million per year or one-third of the cost of  
19 operating New Madrid County Schools. In addition there are significant taxes  
20 generated and paid by Noranda. Total 2008 estimated taxes to be paid to  
21 Missouri by Noranda are \$9.3 million. Missouri taxes include sales tax of \$0.4  
22 million, property and real estate taxes of \$3.3 million, payroll tax of \$0.1

1 million and state income and franchise tax of \$5.5 million. This tax base has a  
2 positive impact on the area.

3 When you add up all of these impacts and add in electricity purchases at  
4 roughly \$140 million, the total money Noranda injects into the Missouri  
5 economy - to individuals, governments, and businesses amounts to \$259  
6 million.

7 Noranda's economic impact on the State and region is very positive as we  
8 support our State, employees and communities.

9 **Q YOU MENTIONED THAT THE SOUTHEASTERN REGION IS AN ECONOMICALLY**  
10 **CHALLENGED AREA OF THE STATE. PLEASE EXPLAIN FURTHER.**

11 **A** Well, if you look at that region, it was predominantly agricultural until the late  
12 1960s. Then, when the agricultural sector went to large mechanized  
13 equipment it left a lot of people behind. There have been 3 or 4 generations in  
14 the region that have had a hard time finding good, steady employment --  
15 especially employment with good pay.

16 And so if you look at Scott County and Cape County; Cape County has  
17 grown some, Scott County has held its own. In the other counties the  
18 population over the last 30 years has slowly declined because people have a  
19 hard time finding the jobs at a livable wage. Noranda pays better than anyone  
20 in the area.



1 Q WHEN YOU SAY NORANDA PAYS WELL; CAN YOU GIVE ME A BALLPARK IDEA  
2 OF THE SCALE?

3 A Sure. Noranda's total negotiated compensation package is made up of base  
4 pay, benefits and incentive compensation. In base pay, an entry-level  
5 production worker is going to make an average of \$18.63 per hour (excluding  
6 benefits). The wage scale increases with the skill level required to perform the  
7 job tasks currently topping out at \$21.92 per hour. Noranda's wages are above  
8 average for the State and the region. In total, an average full-time employee  
9 at Noranda in New Madrid is making \$56,000 per year. There are also the  
10 benefits including health insurance and a retirement plan. In addition, variable  
11 compensation incentives are paid annually based on performance of the  
12 company including safety and production. Our variable compensation payment  
13 to employees for 2007 totaled \$3.0 million. Many comparative job  
14 opportunities in the region don't have medical benefits and very few have  
15 incentive compensation packages. We receive in excess of 10,000 applications  
16 per year from people hoping they can land a job at Noranda so they can stay in  
17 the area and become part of our team. Employment at Noranda is very  
18 rewarding both economically as well as personally as evidenced by our low  
19 turnover rate of 4%.

20 Q YOU TALK ABOUT TYPICAL BENEFITS; DOES NORANDA PROVIDE RETIREMENT  
21 AND HEALTHCARE BENEFITS?

22 A Yes.

1 Q PLEASE TELL A LITTLE BIT ABOUT HEALTHCARE. IS IT AN IMPORTANT  
2 FACTOR FOR PEOPLE?

3 A Yes. Healthcare is an important part of compensation for our employees.  
4 Healthcare benefits are part of the compensation package in our labor contract  
5 with the steelworkers. As you may know, health costs have been going up on  
6 average by roughly 15 percent a year in recent years. Noranda offers one of  
7 the most comprehensive healthcare plans in the country. The employees  
8 have a couple of options including a family plan where their monthly benefit  
9 contribution ranges from \$30-\$190 per month depending on plan choice and  
10 wellness participation for full medical, dental and eye care. Coverage is  
11 excellent and employees are very happy with services.

12 The retirement benefits include a 401k plan and a defined benefit  
13 pension.

14 Q PLEASE DESCRIBE SOME WORKFORCE CONSIDERATIONS?

15 A The current hourly workforce consists of approximately 21 percent skilled  
16 craftsmen. We have difficulty finding skilled craftsmen to replace those  
17 employees leaving our company primarily due to retirement. In order to  
18 maintain a sufficient level of skilled craftsmen, we established full scholarship  
19 programs with Southeast Missouri State University and Three Rivers Community  
20 College for high school graduates to obtain a four-year Industrial Technology  
21 degree. After graduating from college, those people come to Noranda as either  
22 a mechanic or electrician. We have also established our own apprenticeship

1 program to develop mechanics and electricians. We use the Sikeston Higher  
2 Education Center for training purposes for this program. We are constantly  
3 developing training programs to entice people either to get what they need so  
4 they are qualified to work for us or after they come to work for us, we  
5 continue to provide regular and frequent training, to make sure that our  
6 employees are the best they can be at their jobs.

7 **Q DO ANY OF YOUR EMPLOYEES BELONG TO A UNION?**

8 **A** Yes. We strive to maintain a good relationship with the Steelworkers and  
9 believe the outcome of our efforts is evidenced by the third consecutive five-  
10 year labor agreement signed in 2007. The current contract goes to August 31,  
11 2012.

12 **Q ANOTHER THING YOU MENTIONED IS THE IDEA OF BEING A GOOD CORPORATE**  
13 **CITIZEN BY BEING INVOLVED IN MANY ASPECTS OF THE COMMUNITY.**

14 **A** Yes.

15 **Q PLEASE DISCUSS FURTHER NORANDA'S ROLE IN THAT AREA.**

16 **A** Our employees have been the lead donor for many years for the Kenny Rogers  
17 Children's Center in Sikeston. The center serves over 300 kids in a ten-county  
18 region of Southeast Missouri with therapy services at no out-of-pocket costs to  
19 the parents. Noranda matches its employees' donations dollar-for-dollar given

1 to the Kenny Rogers Center. Together, we are by far the largest donor in the  
2 region.

3 Another thing we're very proud of is our involvement in the area wide  
4 United Way Campaign. On an average, the employees and the company donate  
5 more than \$22,000 a year to that cause. The goal for the entire regional  
6 United Way is usually in the \$75,000 to \$80,000 range, so Noranda and  
7 employees regularly contribute almost 30% of what is required to keep the  
8 program vibrant. Noranda is also contributing to the YMCA expansion at the  
9 Sikeston location which serves families throughout the region. Noranda pledged  
10 \$20,000 a year for five years to the YMCA to help with the expansion and  
11 program offerings.

12 In 2007, Noranda contributed \$100,000 to local charities. To facilitate  
13 the giving from our employee base, we offer payroll deductions for many of the  
14 local charities. And then we also have a separate donations committee that  
15 gives to civic groups, schools, and not-for-profit type entities in the region.  
16 Noranda is known very well for being a giving-type company and their  
17 employees are known for that and we're very proud they are.

18 **Q NOW, ANOTHER THING THAT YOU MENTIONED, MR. MCPHEETERS, WAS THAT**  
19 **NORANDA PAID ABOUT A THIRD OF THE SCHOOL TAXES IN NEW MADRID**  
20 **COUNTY.**

21 **A Yes, that is correct.**

1 Q HOW DO THE SCHOOLS IN THE COUNTY COMPARE TO OTHERS IN THE STATE?

2 A The New Madrid County school system is a very good school system. They place  
3 a lot of emphasis on school performance. We support the New Madrid County  
4 school system through taxes that are roughly \$2.6 million per year or one third  
5 of their total operating costs. Also, as you might imagine, if you go to any  
6 school building located in New Madrid County you'll find children whose dad,  
7 mom, or uncle and aunt work at Noranda.

8 Q IN THE VARIOUS COUNTIES WHERE YOUR EMPLOYEES LIVE, HAVE YOU EVER  
9 DONE ANY ESTIMATES FOR NORANDA OR DO YOU HAVE ANY SENSE OF THE  
10 ECONOMIC ACTIVITY AS A RESULT OF NORANDA AND ITS PAYROLL?

11 A It is hard to define exactly in dollars and cents but I can give you a breakdown.  
12 Let me start with the largest community in the area, Cape Girardeau. We have  
13 about 50 employees that reside in Cape Girardeau County and when you go  
14 south the significance increases. Sikeston, for example, has 220 people that  
15 live in Sikeston and work at Noranda, New Madrid has 130 and Portageville has  
16 140. Then to the west there are over 60 in the community of Dexter. And then  
17 if you really pare it down, you look at Kennett, Caruthersville, Haiti; all those  
18 towns have anywhere from 30 to 70 employees. East Prairie has 80. Malden  
19 has 80. Malden has 5,000 people. East Prairie has 3,000 people. There is a  
20 little community of 450 on the map called Risco and 30 people that live in  
21 Risco work at Noranda. From Parma, population 995, 40 people work at  
22 Noranda.

1           Now, if you look into the economic impact of these employees in the  
2 local grocery stores, in the gas stations, and in the local retailers and you start  
3 talking to them, they can tell when Noranda's had a good year and we've issued  
4 out variable compensation because the employees spend that money at the  
5 local level. There is no doubt that if you were to start taking Noranda  
6 employees and their families out of the many communities in the region, their  
7 economic activity can't be replaced. It would take a monumental effort and  
8 many, many years to even come close to replacing those good paying jobs.

9           Although an obvious overstatement, I can remember one of the area  
10 legislators said if Noranda went out of business it would be like an atomic bomb  
11 going off in Southeast Missouri. It is by far the largest employer in the region  
12 and it just means a lot to everyone.

13 **Q   WHAT ARE SOME OF THE COMPANIES THAT YOU HAVE IDENTIFIED THAT DO**  
14 **SOME BUSINESS WITH NORANDA AND WHICH YOU'D LIKE TO BRING TO THE**  
15 **COMMISSION'S ATTENTION?**

16 **A**   As examples, consider three area businesses. One is in New Madrid County,  
17 one is in Scott County and the other is a workshop in Sikeston that serves the  
18 region. Steward Steel is located in Sikeston. Steward Steel supplies Noranda  
19 with the stubs that go on the anode rods that go into the pots, where you turn  
20 on the electricity to make the molten aluminum. Noranda is Steward Steel's  
21 largest customer; we do approximately \$1.5 million per year with Steward.

1 Q HOW MANY EMPLOYEES DOES STEWARD STEEL HAVE?

2 A About 100.

3 Q WHAT IS YOUR SECOND EXAMPLE?

4 A It is Santie Oil located in Sikeston. Santie Oil is a large Amoco wholesale  
5 distributor who supplies us with oil, gasoline and lubricants necessary to  
6 operate our equipment. To give you an idea of the volume, we have 300 pieces  
7 of mobile equipment which we operate, plus we have a multitude of other  
8 equipment requiring products supplied by Santie Oil. Santie Oil employs over  
9 60 people and Noranda is their largest customer. We purchase approximately  
10 \$1.4 million of goods from Santie per year.

11 Q ARE THERE MORE EXAMPLES?

12 A Yes. There are too many to list individually. The list of suppliers is long when  
13 it comes to Noranda purchasing goods and services. It includes goods ranging  
14 from office supplies to lawn mowers to industrial equipment. The services we  
15 buy are also diverse. All told, we buy lots of parts, supplies, and services from  
16 120 different suppliers located in Southeastern Missouri.

17 Q WHO IS THE THIRD SUPPLIER YOU WOULD LIKE TO BRING TO THE  
18 COMMISSION'S ATTENTION?

19 A There is one supplier in particular that has a compelling story. The Community  
20 Sheltered Workshop located in Sikeston serves the needs of mentally and

1 physically challenged people in Scott, New Madrid, Stoddard and Mississippi  
2 Counties. Mr. Harvey Cooper, director of the workshop is submitting testimony  
3 as well. Noranda is their largest customer. They employ some 140 physically  
4 and mentally impaired people from our region. They go pick them up; they  
5 bring them to work; they help them work; they feed them lunch; they take  
6 them home; they pay them. These folks make the pallets that we use to ship  
7 our aluminum rod. We buy all of our pallets from the Community Sheltered  
8 Workshop and they do an excellent job of providing us a high quality product  
9 and our dollars in-turn provides them continual employment. I would hate to  
10 think what their lives would be like without Noranda.

11 **Q ARE THERE ANY NORANDA EMPLOYEES ON THEIR BOARD?**

12 **A** At this time we are in a period of transition. The late George Swogger of  
13 Noranda Aluminum served on the sheltered workshop board for many years.  
14 Another Noranda employee's name has been submitted for consideration.  
15 That's one thing that you'll find at Noranda, whether it be the United Way,  
16 YMCA or the Kenny Rogers Center or the Shelter Workshop Board, we have a lot  
17 of people that serve on boards and help in that way too.

18 **Q PLEASE SUMMARIZE NORANDA'S APPROACH TO ITS SOCIAL RESPONSIBILITIES.**

19 **A** We measure everything according to our responsibilities -- to our customers, to  
20 our community, which includes being a good community citizen, to the  
21 environment, how well we maintain the environmental controls, and to our



1 employees who are vital to our success. We measure these things on a regular  
2 basis to make sure that we are being a good corporate citizen. When you look  
3 at Noranda's involvement, there is a long-standing record of an approach that  
4 encourages community participation.

5 **Q TO CHANGE THE TOPIC NOW, TELL US A LITTLE MORE ABOUT THE INDUSTRY**  
6 **AND SOME OF YOUR CUSTOMERS.**

7 Primary aluminum is a highly functional metal because of its metallurgical  
8 properties and environmentally friendly attributes such as its light weight and  
9 its ability to be recycled. It is a global commodity and the price is set on the  
10 London Metal Exchange.

11 Our Smelter is strategically located on the Mississippi River in close  
12 proximity to our major target customers which are located in the Mid-Western  
13 United States and Mexico. We account for approximately 10% of the primary  
14 aluminum production in the United States. Thirty years ago, there were 33  
15 smelters in the U.S. Today there are 14. This decline is primarily due to the  
16 increasing cost of electrical power as electrical power accounts for 1/3 of the  
17 production cost of molten aluminum. Over the years, Noranda has worked hard  
18 to survive in the face of a declining domestic aluminum industry.

19 In reference to our customers, they purchase aluminum to be used in  
20 products in the housing, transportation and construction industries. We ship our  
21 products mainly by truck at a rate of roughly 1,000 trucks per month, using

1 mainly regional carriers. We also use rail, mostly for shipments to the West  
2 Coast.

3 Our number one state for shipping products is Texas. Then it is  
4 Tennessee as we have a sister aluminum foil plant in Huntingdon, Tennessee,  
5 which is only about two hours from New Madrid. They employ about 450  
6 people. We are also a major supplier to companies in Illinois and another  
7 company in Tennessee. Two that come to mind in Illinois are Penn Aluminum  
8 in Murphysboro and General Cable in Duquoin. In Tennessee, we supply all of  
9 the aluminum required to produce Kohler shower doors in Union City. All told,  
10 we are definitely an aluminum smelter that serves a region that is more than  
11 Missouri.

12 **Q DO YOU CONSIDER THE NORANDA SMELTER TO BE AN EXPORT INDUSTRY FOR**  
13 **THE STATE OF MISSOURI?**

14 **A** Yes. And that is a very good thing for the State.

15 **Q SO YOU'RE SHIPPING PRODUCT OUT OF THE STATE OF MISSOURI AND YOUR**  
16 **CUSTOMERS IN TURN SEND MONEY BACK TO THE STATE OF MISSOURI, WHICH**  
17 **GETS SPENT ON EMPLOYEES, SUPPLIES, AND ETCETERA?**

18 **A** Absolutely. We shipped more product to Mexico, Canada and 17 States other  
19 than to Missouri. We are located on Interstate 55 halfway between Memphis  
20 and St. Louis. If you draw lines eight hours in any direction, it will illustrate  
21 that we are in a great location for distribution. We're selling to customers in

1 surrounding areas and that money is getting paid out to Missourians in the form  
2 of payroll to employees and money paid to suppliers who employ people in the  
3 region. The State of Missouri is obviously getting an important benefit.

4 **Q YOU MENTIONED THAT THERE HAS BEEN A DECLINE IN THE NUMBER OF**  
5 **SMELTERS IN THE UNITED STATES. PLEASE EXPAND ON THIS COMMENT.**

6 **A** In the last 30 years, the number of smelters in the United States has declined  
7 from 33 to 14. The last greenfield aluminum plant built in the United States  
8 was 28 years ago. This decline is in stark contrast to global aluminum demand.  
9 Over the last five years alone, global aluminum production has increased by  
10 36%, while during this same period, production in the U.S. has declined by 5%.

11 **Q WHAT ARE THE CAUSES OF THE DECLINE OF THE UNITED STATES SMELTING**  
12 **OUTPUT?**

13 **A** United States smelters are having a difficult time being cost competitive with  
14 the rest of the world. Aluminum production has some unique aspects including  
15 a high reliance on electricity. Although labor, freight and other raw material  
16 costs are critically important to aluminum production, electricity represents  
17 the largest single cost item, approximately one-third of the cost to produce  
18 aluminum. Smelters continue to be shut down due to uncompetitive electricity  
19 costs in the United States. New smelters continue to be built in regions of the  
20 world with low-cost energy including Canada, Russia, the Middle East and

1 Iceland. Many of these new smelters are using very inexpensive energy sources  
2 including hydroelectric, geothermal, and low-cost natural gas.

3 Examples of United States aluminum smelter failure is best represented  
4 in the Northwest where 7 smelters went out of business due to high energy  
5 costs. They did not go out of business because they did not have customers.  
6 They went out of business because of high energy costs and they could not  
7 sustain operations.

8 We continue to be concerned with the decline in domestic U.S.  
9 aluminum production and in the number of domestic aluminum smelters. China  
10 was the fear two to three years ago. Some thought China was going to take  
11 over the aluminum production business because they could provide cheap  
12 labor, cheap energy, and the ability to produce aluminum much cheaper than  
13 Western smelters. In reality what has happened is they have had an energy  
14 shortage of their own. They are growing and consuming so fast that they  
15 cannot keep up with demand. Well, besides the impact on international energy  
16 markets, this has kept the price of aluminum up on the worldwide market, but  
17 I do not believe China is ready to take over the worldwide aluminum market.

18 **Q IS IT POSSIBLE FOR NORANDA TO CONTINUE WITH A SUSTAINABLE**  
19 **OPERATION?**

20 **A** Yes. Despite the challenges, we believe that by continuing to drive  
21 productivity in our operations by being more efficient, we can sustain  
22 production in New Madrid. As mentioned previously, sustainable production at

1 our New Madrid Smelter supports our work force, our community, Southeastern  
2 Missouri and the State of Missouri. An example of our commitment to stay  
3 globally competitive is our recently announced expansion of our Smelter. We  
4 are investing \$50 million to reduce our cost per unit by approximately 8%. This  
5 is a necessary step in staying globally competitive and offsetting cost increases  
6 for our facility.

7 Cost reduction is our only option since we have little influence over the  
8 price of aluminum. The market is a true commodity where supply and demand  
9 balance is the only driver of pricing. As our costs go up, we have little or no  
10 influence on increasing our price of aluminum. Unlike other industries, where  
11 pricing mechanisms exist to pass cost increases through to the customer base,  
12 we do not have those options. We are part of a global market where the cost  
13 structure in China or the Middle East will influence our pricing, not our United  
14 States cost basis.

15 We plan for Noranda to be one of the remaining smelters in the U.S. that  
16 can still out-perform foreign competitors. We must first achieve a sustainable  
17 cost structure and then coupled with timely delivery and the kind of quality  
18 customers need the Smelter will be sustainable.

19 For example, if you are located in Monett, Missouri and you are trying to  
20 plan your aluminum extrusion production schedule and your equipment is down  
21 waiting on aluminum to arrive from China or the Middle East, you're in trouble.  
22 When it comes from Noranda, you know it's going to be there on time and in

1 conformance with Customer expectations. That is the real difference -- not  
2 only on time, but on time delivery with high quality at the right price.

3 Our markets are strong because we deliver customer service. You can  
4 ask our customers about Noranda's performance and you will find we are the  
5 supplier of choice in our product lines.

6 **Q ARE THERE BUSINESS CYCLES IN ALUMINUM INDUSTRY?**

7 **A** Yes. There have been cycles up and down. And no doubt there will continue  
8 to be business cycles. This is a cyclical business, some years are good, and  
9 some are not so good. In the first half of the year, the market was good. In  
10 the last month we have seen pricing fall by 14% as the global economy  
11 continues to slow.

12 **Q ALL THINGS CONSIDERED, DOES NORANDA EXPECT TO PERSEVERE FOR THE**  
13 **LONG TERM IN THE STATE OF MISSOURI?**

14 **A** Yes. That is the plan. We have 35 years plus in the Smelter and a good  
15 customer base. We need to continue to serve our customers, our employees  
16 and our communities. We take great pride in our operation and our importance  
17 to the State of Missouri and in particular Southeastern Missouri. However, the  
18 key variable is energy costs. We believe an increase in energy rates will  
19 materially impact our competitiveness. With a reliable, stable source of  
20 electricity - one that allows us to remain globally competitive - we know we

1 can continue to be successful and will remain viable and even vibrant for  
2 Southeast Missouri and all concerned.

3 **Q ARE THERE FACTORS BESIDES THE LOCAL, REGIONAL, AND STATE OF**  
4 **MISSOURI IMPACTS THAT ARE IMPORTANT TO CONSIDER?**

5 **A** Yes. In fact, we need to keep the smelters we have operating and producing or  
6 we, as a country, will be dependent on foreign suppliers more and more. A  
7 vitally important point is that aluminum has been defined as a strategic metal  
8 for national security. The fact that Noranda produces about 10% of the US  
9 aluminum supply means our company is vital to the national security of our  
10 nation.

11 **Q MR. MCPHEETERS, DOES THAT COMPLETE YOUR TESTIMONY?**

12 **A** Yes it does at this time. I thank the Commission for receiving my comments on  
13 this important matter.