

PUBLIC VERSION

Exhibit No.
Witness: Michael Gorman
Type of Exhibit: Revised Rebuttal Testimony and Schedule
Sponsoring Party: Missouri Industrial Energy Consumers
Subjects: Impact of Serving Noranda
Date: February 22, 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

FILED

MAR 02 2005

Revised Rebuttal Testimony and Schedule of

Michael Gorman

Missouri Public
Service Commission

On behalf of

Missouri Industrial Energy Consumers

February 22, 2005
Project 8326

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

Exhibit No. 500 NP
Case No(s) EA-2005-0180
Date 2-22-05 Rptr KF



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Public Service Commission of the State of Missouri

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

Affidavit of Michael Gorman

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

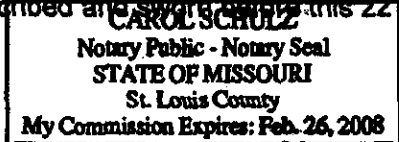
1. My name is Michael Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, MO 63141-2000. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my revised 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 22nd day of February, 2005.




Notary Public

My Commission Expires February 26, 2008.

Before the
Public Service Commission of the State of Missouri

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Case No. EA-2005-0180

Revised 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 DID YOU SUBMIT REBUTTAL TESTIMONY IN THIS MATTER ON JANUARY 31,**
2 **2005?**

3 **A Yes.**

4 **Q WHAT IS THE REASON FOR REVISING YOUR REBUTTAL TESTIMONY AT THIS**
5 **TIME?**

6 **A In my January 31 testimony I raised a concern about the possible impact on existing**
7 **customers if Noranda drastically reduced its load with little or no advance notice**
8 **during the 15-year term of its agreement. I suggested some factors to consider and a**
9 **possible rate mechanism.**

10 Since submitting that testimony, I have had further opportunity to consider the
11 issue and to look more closely at the relevant economic factors. Based on that
12 review, I am reasonably satisfied that the potential adverse impact on other
13 customers is minimal.

14 This revised testimony simply removes that issue.

15 **Q WHAT IS ADDRESSED IN YOUR REVISED REBUTTAL TESTIMONY IN THIS**
16 **PROCEEDING?**

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

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1 AmerenUE's proposal for serving Noranda is conditioned on the Missouri
2 Public Service Commission approving the transfer of AmerenUE's Metro East service
3 territory to Ameren CIPS under conditions that AmerenUE, in its sole discretion, finds
4 appropriate. The Metro East transfer is the subject of another docket, and I will not in
5 this testimony comment on the merits of AmerenUE's proposal to transfer its Metro
6 East service territory. Rather, my testimony assumes that the MPSC will only
7 approve the transfer of the Metro East service territory under conditions that do not
8 detrimentally impact existing AmerenUE retail Missouri customers.

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

10 **A** Based on my review of the Company's economic projections, and a review of the
11 proposed LTS tariff and Service Agreement with Noranda, I have reached the
12 following conclusion.

- 13 • The Company's economic projections, adjusted to reflect the impact on
14 AmerenUE's existing native load customers, indicate that existing Missouri retail
15 electric customers will neither benefit nor be harmed by granting AmerenUE's
16 request to expand its service area and serve Noranda under the proposed LTS
17 rate.

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

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

24 I started with AmerenUE witness Richard A. Voytas's economic evaluation in
25 his native load comparison. I extended Mr. Voytas's analysis of AmerenUE's average

1 cost in the "serve Noranda" scenario, by separating AmerenUE's cost of serving its
2 existing native load customers from Noranda. My analysis is shown on my
3 Schedule MPG-1.

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

11 Line 21 shows the cost per MWh of the incremental cost Ameren incurs to
12 serve Noranda. On lines 22 and 23 I show the estimated amount of revenue
13 Noranda would produce under the proposed LTS tariff. On lines 24 and 25, I show
14 whether or not the revenues Noranda is expected to provide under the proposed LTS
15 tariff appears to cover AmerenUE's projected incremental cost of serving Noranda.
16 As shown on line 25, Noranda's revenue under the LTS rate will not fully recover
17 AmerenUE's projected incremental cost of serving Noranda in all years of the forecast
18 period with the exception of calendar year 2006.

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

23 **Q DOES THIS CONCLUDE YOUR TESTIMONY?**

24 **A** Yes, it does.

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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.**

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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

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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.

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