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**MISSOURI PUBLIC SERVICE COMMISSION**

**File No. EC-2014-0224**

**SURREBUTTAL TESTIMONY**

**OF**

**WILLIAM R. DAVIS**

**ON**

**BEHALF OF**

**UNION ELECTRIC COMPANY**

**d/b/a Ameren Missouri**

**St. Louis, Missouri  
May, 2014**

UE Exhibit No. 101  
Date 6-16-14 Reporter KF  
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**SURREBUTTAL TESTIMONY**

**OF**

**WILLIAM R. DAVIS**

**FILE NO. EC-2014-0224**

**Q. Please state your name and business address.**

A. My name is William R. Davis. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

**Q. By whom and in what capacity are you employed?**

A. I am an Economic Analysis and Pricing Manager for Ameren Missouri.

**Q. Are you the same William R. Davis who filed rebuttal testimony in this case?**

A. Yes, I am.

**Q. What is the purpose of your surrebuttal testimony?**

A. First, I will address the Missouri Public Service Commission ("Commission") Staff's ("Staff") rebuttal testimony, which concludes that the Commission should reject Noranda Aluminum, Inc.'s ("Noranda") rate shift and rate design proposals. Next, I will address the rebuttal testimony filed by Continental Cement Company ("Continental Cement" or "Continental") witness J. Scott. Conroy, which states in part that, "[i]f the Commission is inclined to reduce Ameren's rate for service to Noranda, the Commission should reduce the rate for Continental as well." I will discuss why this testimony suggests that a decision approving a rate subsidy for Noranda would move the Commission down the slippery slope of deviating significantly from cost-based ratemaking and likely would result in many more requests for rate subsidies – among and within the Company's rate classes. Finally, I will address rebuttal

testimony filed in support of Noranda's request for a rate subsidy by Steve Chriss on behalf of Wal-Mart Stores East, LP, and Sam's East, Inc. (collectively "Walmart").

**Q. Please summarize your surrebuttal testimony.**

A. I reiterate my recommendation that the Commission reject Noranda's rate subsidy request, which is consistent with the recommendation from the Staff. Although I also recommend the Commission reject Continental Cement's special rate request, it is important to recognize that an order approving a subsidy for Noranda would likely open the floodgates to many more requests for rate subsidies. Finally, I recommend the Commission be skeptical of Mr. Chriss' testimony, since he has not provided an independent analysis of Noranda's claims, and, also, because only about one-third of Walmart's Missouri retail stores, and about one-third of Walmart's retail stores in the immediate vicinity of the smelter<sup>1</sup>, would experience an increased electric bill caused by the cost shift from Noranda to other Ameren Missouri customers<sup>2</sup>.

**I. RESPONSE TO STAFF**

**Q. Does the Staff support Noranda's request in this case?**

A. No<sup>3</sup>. The Staff's rebuttal testimony specifically recommends the Commission reject the proposed subsidized rate, the proposed exemption from the Company's fuel adjustment clause, the proposed 10-year term, the proposed 2% cap on future rate increases, and Noranda's proposed method for allocating the revenue shortfall to Ameren Missouri's other customers.

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<sup>1</sup> Within a 50 mile radius of the smelter, located in Missouri, Kentucky or Tennessee.

<sup>2</sup> This is because, as the Company has previously pointed out, only Ameren Missouri's customers are being asked to provide a subsidy to Noranda while all of the other customers of other investor-owned utilities and even customers of cooperatives and municipal utilities in Southeast Missouri are being asked to pay nothing.

<sup>3</sup> Michael Scheperle Rebuttal, p. 3, l. 14.

**Q. Staff witness Michael Scheperle's Table 1<sup>4</sup> shows how Noranda's rates relate to its cost-of-service. Can you please comment on that table?**

A. The table in Mr. Scheperle's rebuttal testimony indicates Noranda's rate is 4.43% above its cost-of-service, as calculated by the Staff's class cost-of-service study in the Company's last rate case. However, that table was created before the Commission approved a rate increase of approximately 10.05% and allocated that rate increase in a manner consistent with the rate design stipulation in Ameren Missouri's most recent electric rate case. As stated in my rebuttal testimony at page 5, Noranda's current rate is less than 2% higher than its cost-of-service<sup>5</sup>, and I believe if Mr. Scheperle had updated his table with the most recent rate case outcome, his numbers would be more aligned with mine.

**Q. Do you have any concerns about Staff witness Sarah Kliethermes' testimony?**

A. Yes. First, Ameren Missouri witness Matt Michels is addressing concerns related to some of Ms. Kliethermes' quantitative analysis in his surrebuttal testimony. While I understand Ms. Kliethermes is not providing any recommendations, I am concerned that, as opposed to traditional cost-based ratemaking, her analysis could suggest that it is feasible to embark upon an approach to set rates based on giving a material weight to an individual customer's purported dire economic situation. It would be inequitable and unfair to throw cost-based ratemaking out the window in search of a new way to set rates because an individual customer is seeking a material variance from a cost-based rate, resulting in favorable rate treatment. Material rate differences among customers ought to be based on differences in the character of the service the utility provides (which in turn drives differences in the cost to serve).

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<sup>4</sup>*Id.* p. 11, l. 4.

<sup>5</sup> Using Ameren Missouri's class cost-of-service study and the base rate revenue requirement resulting from Ameren Missouri's most recent rate case (ER-2012-0166).

Nothing in Noranda's request for a subsidized rate that is below cost-of-service has anything to do with any difference in the character of the Company's service to Noranda. In fact, those differences have already been accounted for in the cost-based rate Noranda pays today.

**Q. Ms. Kliethermes seems to be providing evidence that could represent a “compromise.” Should the Commission be looking for ways to provide some relief to Noranda?**

A. No. Even though searching for some type of short-term compromise may seem appealing (assuming one were to believe the dire financial circumstances Noranda seeks to portray), such a result would be unjust and nothing more than a Band-Aid solution for Noranda's purported dire financial situation. Ameren Missouri witness Terry Jarrett's rebuttal testimony outlined several policy reasons why such an approach, which would amount to picking winners and losers by in effect taxing Ameren Missouri's other customers and shifting those tax dollars to Noranda, would be poor policy. In addition, Mr. Mudge's rebuttal testimony raised numerous red flags about the financial data presented by Noranda and about Noranda's overall competitiveness, which seriously call into question the need for any rate subsidy. Regardless, the fact remains there is no cost justification to support granting Noranda a subsidized rate.

**Q. Is there any question that cost-based ratemaking is the most appropriate way to set customer rates?**

A. No. In fact, many of the parties in this case have already explicitly stated so. Moreover, many parties in this case, and the Commission itself, have a long history of supporting cost-based ratemaking principles. In Ameren Missouri's past several rate cases, the rate design stipulations and Commission actions have been moving rates closer to the results of the cost-of-

service studies prepared for those cases. Noranda's request represents a direct departure from those efforts.

## II. RESPONSE TO CONTINENTAL CEMENT

**Q. Could you please summarize Mr. Conroy's testimony on behalf of Continental Cement?**

A. Mr. Conroy explains Continental Cement's contribution to the local economy in the area where it operates, and describes how sensitive its operations are to changes in the price of electricity, similar to the arguments made by Noranda. Mr. Conroy goes further and recommends that the approval of a rate subsidy for Noranda should be predicated on a reduced rate for Continental Cement.

**Q. Is Mr. Conroy's request for a reduced rate a harbinger of additional requests?**

A. I believe it certainly could be. The fact that Continental Cement has asked for a rate reduction before the conclusion of this case should be an indicator of how customers who are sensitive to the rising costs of electricity could react if Noranda is granted a subsidy while other customers are not. In fact, not only will Ameren Missouri's other customers have to continue to pay rates approved in the Company's last rate case, but those other customers will see those rates increased further – both now and in the future – to make up for the subsidy provided to Noranda. Mr. Jarrett's rebuttal testimony described his concern about the risk of other customers seeking subsidized rates, and Continental Cement's rebuttal testimony demonstrates that his concern was well-founded.

**Q. Should Continental Cement's request for a subsidized rate be granted if the Commission decides to grant Noranda's request in this case?**

A. No. Nor should the Commission approve a special rate for beer producers, automobile manufacturing companies, hospitals, airline manufacturing companies, universities, or agricultural biotechnology companies. Even so, Continental Cement's request sharply illustrates the fact that if the Commission grants Noranda's request for a special rate, the Commission could be inundated with similar requests from Ameren Missouri's other customers. After all, if the financial impact of energy costs justifies a subsidized rate for one customer, why wouldn't other customers be entitled to the same special treatment?

### III. RESPONSE TO WALMART

**Q. Could you please summarize Mr. Chriss' testimony on behalf of Walmart?**

A. Mr. Chriss explains that Walmart does not oppose Noranda's rate subsidy, but recommends that the Commission effectuate the increased cost of the subsidy to the other customer classes in a more transparent way and with a demand charge instead of an energy charge.

**Q. Does Mr. Chriss support cost-based ratemaking?**

A. Yes, Mr. Chriss explains that "Walmart advocates that rates be set based on the utility's cost-of-service. This produces equitable rates that reflect cost causation, sends proper price signals, and minimizes price distortions."

**Q. Does Mr. Chriss agree that there is no cost basis for Noranda's proposed rate?**

A. Yes<sup>6</sup>.

**Q. If Mr. Chriss is in favor of cost-based ratemaking, then why doesn't he oppose Noranda's rate subsidy request in this case?**

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<sup>6</sup> Steve Chriss Rebuttal, p. 5, l. 89-91.

A. Mr. Chriss' position in this case seems to be predicated on his trust in Noranda's statement that it would cost other ratepayers more if Noranda were to cease operations than it would to provide the requested rate subsidy. Mr. Chriss also expresses concerns about how the potential loss of jobs from closure of the New Madrid smelter will impact the local economy, including the Walmart stores operating within 50 miles of the smelter.

**Q. Did Mr. Chriss perform an independent analysis of the financial impact to other Ameren Missouri customers if Noranda were to cease operations?**

A. No. Again, Mr. Chriss relied on the direct testimony of Noranda's witnesses.

**Q. Do any other witnesses agree with Noranda's direct testimony regarding the cost of the requested rate subsidy to other Ameren Missouri customers?**

A. No. The rebuttal testimonies of both Staff witness Sarah Kliethermes and Ameren Missouri witness Matt Michels included independent analyses that concluded Noranda's rate subsidy proposal would result in additional costs to other Ameren Missouri customers as compared to if Noranda left Ameren Missouri's service territory altogether. Although Ms. Kliethermes analyzed the immediate impact to other Ameren Missouri customers, Mr. Michels' analysis went further, and he is the only witness to analyze the impacts of the proposed 10-year rate subsidy term, concluding that the proposed rate subsidy could cost customers in excess of \$600 million.

**Q. Did Mr. Chriss perform an independent analysis to verify Noranda's claims about its financial situation and whether a rate subsidy was necessary to prevent the closure of the New Madrid smelter?**

A. No. Again, Mr. Chriss relied only on the direct testimony of Noranda's witnesses.



**Q. Do any other witnesses agree with Noranda's direct testimony regarding the financial situation of the New Madrid smelter?**

A. The rebuttal testimony of Mr. Mudge is the only independent analysis of Noranda's financial situation. Mr. Mudge's testimony identified several critical red flags regarding the financial data that Noranda presented to support its rate subsidy request. In addition, Mr. Mudge concludes that using more realistic financial assumptions shows Noranda does not need a rate subsidy and that Noranda operates competitively when considering all relevant costs (not just the price of electricity).

**Q. Mr. Michels' rebuttal testimony shows that Noranda's analysis of the impact to other ratepayers associated with ceasing operations at the New Madrid smelter was incorrect. Would you expect that evidence to impact Mr. Chriss' conclusions and recommendations in this case?**

A. I cannot speak for Mr. Chriss, but I would expect Mr. Michels' revelations to be of serious concern to him. Assuming Mr. Michels is correct, the only remaining rationale for Mr. Chriss to not oppose Noranda's request would be related to his concerns about the impacts to the local economy.

**Q. Has Noranda provided any guarantees that it will not cease operations at the New Madrid smelter if its requested rate subsidy is approved?**

A. No.

**Q. Has Noranda provided any guarantees that it will maintain full employment at the New Madrid smelter if the rate subsidy is approved?**

A. No.

**Q. If Noranda has not provided any guarantees that it will continue to operate at full employment levels, couldn't the economic effects that Mr. Chriss is concerned about materialize even if the rate subsidy is approved?**

A. Absolutely. Noranda has complete discretion in its future actions with regard to the New Madrid smelter. Consequently, even if the Commission approves a subsidized rate, it is possible that Noranda will lay off some or all of the smelter's employees, which will produce the very impact to the local economy that concerns Mr. Chriss while at the same time shifting higher electricity costs not just to Walmart, but to all of Ameren Missouri's other customers.

**Q. Wouldn't Walmart be impacted by the rate subsidy as an Ameren Missouri customer?**

A. While it is true that electricity rates would rise for the approximately 48 stores identified by Mr. Chriss as being served by Ameren Missouri, it is also true that rates would not increase by a single penny for the approximately 93 Walmart facilities in the State of Missouri that are not served by Ameren Missouri. Moreover, of the eleven<sup>7</sup> retail stores within 50 miles of the New Madrid smelter, four are not even in the state of Missouri<sup>8</sup>. In short, only one-third of the Walmart stores in Missouri would be impacted by Noranda's rate subsidy and only about one-third<sup>9</sup> of the stores within a 50 mile radius would be impacted by the rate subsidy.

This is yet another illustration of the unfairness of Noranda's proposal, which places the yoke of providing a significant and unprecedented subsidy to a single customer squarely on the backs of Ameren Missouri's - and only Ameren Missouri's - other customers without regard to who benefits from that single customer's continued operation.

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<sup>7</sup> Includes 10 Walmart stores and one Sam's Club.

<sup>8</sup> Three of the retail stores are in Tennessee and one is in Kentucky.

<sup>9</sup> Only four of the eleven stores within a 50 mile radius are Ameren Missouri customers.

Surrebuttal Testimony of  
William R. Davis

**Q. Does this conclude your surrebuttal testimony?**

A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Noranda Aluminum, Inc.'s Request )  
For Revisions to Union Electric Company d/b/a ) **File No. EC-2014-0224**  
Ameren Missouri's Large Transmission Service )  
Tariff to Decrease its Rate for Electric Service. )

**AFFIDAVIT OF WILLIAM R. DAVIS**

STATE OF MISSOURI )  
 ) ss  
CITY OF ST. LOUIS )

William Davis, being first duly sworn on his oath, states:

1. My name is William R. Davis. I am employed by Ameren Missouri as Economic Analysis and Pricing Manager in the Missouri Regulatory Services Department.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Union Electric Company, d/b/a Ameren Missouri, consisting of 11 pages and Schedule(s) none, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

William R Davis  
William R. Davis

Subscribed and sworn to before me this 29<sup>th</sup> day of May, 2014.

Julie Irby  
Notary Public

My commission expires: 1/15/2017

