

Exhibit No.:
Issue: Rate Design
Witness/ George E. Swogger
Type of Exhibits: Direct
Sponsoring Party: Noranda Aluminum, Inc.
Company: Associated Natural Gas
Co.
Case No.: GR-97-272

NORANDA ALUMINUM, INC.

INTERVENOR

TESTIMONY OF

GEORGE E. SWIGGER

FILED
JUL 3 1997
MISSOURI
PUBLIC SERVICE COMMISSION

BEFORE THE

MISSOURI PUBLIC SERVICE COMMISSION

Docket No. GR-97-272

PREPARED TESTIMONY OF GEORGE E. SWOGGER
ADMINISTRATIVE MANAGER OF NORANDA ALUMINUM, INC.
IN NEW MADRID, MISSOURI
ON ASSOCIATED NATURAL GAS COMPANY
APPLICATION FOR RATE INCREASE
IN CASE NUMBER GR-97-272

Q. State your name.

A. George E. Swogger

Q. Where do you reside?

A. Sikeston, Missouri.

Q. By whom are you employed?

A. Noranda Aluminum, Inc.

Q. In what capacity?

A. Administrative Manager.

Q. Please state your employment background.

A. After my graduation from West Virginia University where I obtained a Bachelor of Science in Industrial Engineering in 1974, I was employed by Alcoa as a Senior Industrial Engineer in Davenport, Iowa from 1974 to 1978. In 1978, I then was employed by Nichols Homeshield, Inc. in Davenport, Iowa, where I was the Manager of Industrial Engineering and Rod Mill Superintendent in 1978 and the Coil Coating Superintendent from 1978 through 1980. In 1980 I became employed by Noranda Aluminum, Inc. in New Madrid, Missouri first as a Chief Industrial Engineer from 1980 to 1984, and I have been in my present position as Administrative Manager since 1984 through and including the present date.

Q. Do you, on behalf of Noranda Aluminum, Inc. have any objections to the \$3.7 million rate

increase being requested by Associated Natural Gas.

A. Yes.

Q. What are the nature of those objections?

A. At the current time, Noranda is being charged a flat monthly customer charge of \$12,500.00 plus a transportation charge per MCF and a charge for the use of Arkansas Western Gas Company's gathering and transmission facilities. It is my understanding that the \$12,500.00 customer charge is not based on cost of providing Service to Noranda by Associated Natural Gas (ANG). In fact, I note that in all the other ANG transportation tariffs, the monthly customer charge is considerably less. In the small industrial interruptible, for example, the proposed customer charge is \$220.00, an increase from \$75.00, while the commercial interruptible is \$65.00, as is the industrial firm charge. We believe that it is appropriate for this commission to determine the cost-based level and reduce the charge accordingly.

As far as the proposed decrease of the transportation charge per MCF, Noranda has no objection to a decrease. However, it is our information that included in the lower rate are charges for use of the distribution system, when Noranda receives its gas directly from the transmission system. The distribution system is not used to provide service to Noranda. Thus this rate should be much lower than proposed by ANG.

I understand from discussing this matter with our experts, Brubaker and Associates, that the monthly customer charge and the transportation charge should be considerably less. Brubaker and Associates will be filing additional testimony in regards to this point.

Finally, Noranda does not understand how the proposed change for the Arkansas Western Gas Company's gathering and transmission facilities charge is appropriate. We note

that the company has proposed a continuation of the previous tariff and that the proposed increased charge will only be applicable when delivery is accomplished by the use of Arkansas Western Gas Company Gathering and Transmission Facilities. Inasmuch as Noranda purchases natural gas from entities other than ANG, that charge should not be made by Associated. If anything, such a charge should be made by the supplier of the gas and not the transportation service provider. This cost should be determined by the marketplace and not by a regulated tariff. If the charge is not regulated, Noranda can then negotiate such cost with the supplier of natural gas. Thus this charge should be eliminated entirely.

Q. Do you have any other objections?

A. Yes, the service being provided by Associated Natural Gas to Noranda Aluminum is in the nature of a common carrier in that Associated simply delivers the gas to Noranda. In several other areas, common carriers are now being deregulated. In light of the deregulation spirit that is ongoing, competitive market forces should be considered. I would note that the aluminum smelting industry that my company is involved with is highly competitive and relies on market forces to determine the price of the product. None of the companies can, by themselves, set the price without taking into consideration what the market price is. Accordingly, the profit of Noranda is adversely affected whenever any costs are increased or are greater than what they should be. This, in turn, puts Noranda at a competitive disadvantage when it comes to turning a profit in the marketplace.

I understand that most other gas transportation services tariffs do not have a monthly charge of \$12,500.00. I note that the Associated Natural Gas is generally proposing a decrease in the transportation rates to be charged on the large industrial interruptible. To the

extent that there is a decrease, I applaud Associated Natural Gas for moving towards recognizing the actual cost of providing the services to Noranda. However, I do believe that all of the charges in the proposed tariff for Natural Gas Transportation Service, Industrial Interruptible large are still excessive and should be modified downward.

Q. To the extent that this commission would approve any increases in rates, and order Noranda Aluminum Company to pay a rate increase, would that have an economic impact upon your company and/or the residents in the New Madrid Area?

A. Yes. As I remarked earlier, the Aluminum industry is a highly competitive industry. The price for Aluminum is determined by the marketplace over which Noranda has little, if any, control. Accordingly, Noranda's profit margin, if any, is determined solely by deducting the market price from the actual cost of producing the item. An increase in any cost can have an undue impact upon the profit margin. If that impact is serious enough, it can result in losing money in selling aluminum. If that is the case, then Noranda Aluminum has no option but to lay off employees until the market becomes better or the profit margins can be reinstated.

It is my understanding that Noranda pays over 36% of the property taxes for the local school district and over 26% of the total property taxes of New Madrid County. For example, in 1996, the total property taxes paid by Noranda was \$2.294 million including both real and personal taxes. Of that amount, over \$1.5 million went directly to the school district.

Noranda has 1,165 employees with a total payroll of over \$43 million per year. While most of our employees come from the immediate New Madrid area, they are scattered

throughout the entire bootheel area and up into Southeast Missouri. Obviously, any decrease in employment as a result of an inability to turn a profit could result in excessive economic calamity to our employees, to the company and to the local governments.

Q. What has Noranda done to reduce its operating costs?

A. Noranda is constantly reviewing all bills for services, materials and payroll. We are constantly negotiating with all of our suppliers to obtain the least possible cost on all items in order to have a bare bones budget.

Q. Do you have any further comments on the rate increase proposed by Associated Natural Gas.

A. Yes. It is a basic underlying principal that in exchange for granting a utility exclusive territorial rights to an area, that the utility must serve the people of that area with just, reasonable and competitive rates. Associated Natural Gas Company, in its application for this rate increase, makes no assertions that the proposed rates are either just and reasonable or that they are competitive. Instead, Associated says that these are increased costs and we want the Missouri ratepayers to pay them.

I have been privileged to read the opinion of Judge Summerville in the case of State v. Public Service Commission, 515 S.W.2d 845 wherein he states,

"The argument advanced by the company, traced to a logical conclusion, would exclude from the commissions rate making process in consideration as to whether a rate was just and reasonable from a standpoint of utility customers. Such an extreme result would defile the basic concept of utility rate regulation."

Those knowledgeable words of Judge Summerville in that case seem to fit the factual situation existing in this case and further should be determined of the issues involved in this case.

In those instances where those utilities serving the area cannot afford to charge just and

reasonable competitive rates, then who shall prevail in the rate making process, the company or the public?

Again, I am advised that in the United States Supreme Court case of Covington & L. Turnp. Road Co .v. Stanford, 164 U.S. 578, specifically answers that question when it stated:

1. "The public cannot properly be subjected to unreasonable rates in order simply that the shareholders may earn dividends" (p. 597).
2. "If a corporation cannot maintain such a highway and earn dividends for stockholders, it is a misfortune for it and them, which the Constitution does not require to be remedied by imposing unjust burdens upon the public" (p. 597).

In effect, the Supreme Court has ruled that the interest of both the public and the utility should be considered, but it is not always possible to do full justice to both, and where this is the case, the rights of the public must prevail.

I have further been advised that this case has never been overruled by any other decision of the United States Supreme Court, and remains the law of the land.

Q. Do you have any comments on Associated's attitude towards Missouri ratepayers.

A. Insofar as Noranda is concerned, Associated has been very cooperative in dealing with Noranda in trying to explain the billing process, the nature of the bills, etc. To that extent, I applaud them. Its attempt to work with Noranda and attempt to base its rates upon the actual cost of providing service as reflected by its decrease in the transportation per MCF rate is applaudable. However, Noranda Aluminum believes the commission should investigate as to whether or not it is in fact a reasonable rate and is in fact based on the cost of service. Noranda also believes that the proposed monthly customer charge of \$12,500.00 per month and the proposed transportation charges are excessive. Noranda believes the

Arkansas Western gathering and transmission facility charge should be eliminated entirely.

Q. Does that conclude your testimony at this time?

A. Yes.