

Exhibit No.:
Issue: Noranda Impact
Witness: Steve McPheeters
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Sponsoring Party: Noranda
Case Number: ER-2007-0002
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AmerenUE

Case No. ER-2007-0002

Prepared Direct Testimony of

Steve McPheeters

On behalf of

Noranda Aluminum, Inc.

December 2006

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.)

Case No. ER-2007-0002

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 interest 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.

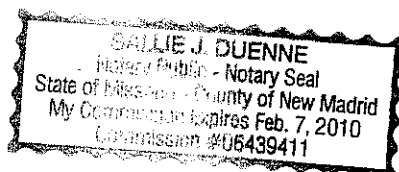
Steve McPheeters
Steve McPheeters

Subscribed and sworn before me this 5th day of December, 2006

Sallie J. Duenne
Notary Public

[SEAL]

My Commission expires: 2/7/2010



Before the
Missouri Public Service Commission

AmerenUE

Case No. ER-2007-0002

Prepared Direct Testimony Of Steve McPheeters

1 **Q PLEASE STATE YOUR NAME.**

2 A Steve McPheeters.

3 **Q AND 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 CAN YOU TELL ME ABOUT YOUR BACKGROUND?**

7 A Sure. I've spent the last nine years with Noranda at the Smelter as the
8 Superintendent of Communications, Training and Development, and Manager of
9 the Continuous Improvement Process. I also currently have the title of
10 Manager, St. Jude Industrial Park, and I serve as Chairman of the Southeast
11 Missouri Economic Development Alliance, a cooperative 6 county economic

1 development organization serving Scott, New Madrid, Mississippi, Pemiscot,
2 Dunklin and Stoddard counties.

3 The St. Jude Industrial Park houses Noranda, Associated Electric
4 Cooperative, Inc., Riceland Foods, and the New Madrid County Port. It is about
5 a 4,300-acre industrial park.

6 **Q AND YOU ARE PROVIDING TESTIMONY TO THE COMMISSION ON BEHALF OF**
7 **NORANDA?**

8 **A** Correct.

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

10 **A** The purpose of my testimony is to give the Commission an idea of the economic
11 impact that the Smelter has on the southeastern Missouri region. I define the
12 region as the ten-county area that goes from Cape Girardeau County on the
13 north, Butler County on the west, New Madrid County and Mississippi County on
14 the east and all the way down to the Missouri/Arkansas state line.

15 **Q MR. MCPHEETERS, CAN YOU TELL US A LITTLE BIT ABOUT HOW THE SMELTER**
16 **ECONOMIC IMPACT PLAYS OUT.**

17 **A** The Smelter employs 1,100 people; 870 of those folks are represented by the
18 United Steelworkers Local 7686, and the rest are the support personnel that
19 come in the form of supervisors, human resources, administrative support,
20 sales, accounting and so forth. Most of these jobs are in southeast Missouri,

1 with roughly 20 employees coming to work from Tennessee, Kentucky, Illinois
2 and Arkansas.

3 Noranda, we say, is the premier manufacturer of southeast Missouri,
4 because there are so many good jobs that Noranda has provided over the years.
5 There are a lot of factors that come into play, but Noranda supplies a great
6 number of people with jobs in an area that includes some of the poorest
7 counties in the State when you look at the economic statistics of counties like
8 Dunklin, Mississippi, New Madrid, Pemiscot, Scott, and Stoddard.

9 The Noranda annual payroll is \$57 million to workers that reside almost
10 entirely in the ten-county region. It is \$17 million in payroll in New Madrid
11 County, \$10 million in payroll in Scott County, and you have up to \$4 to \$5
12 million in each of the other counties of the surrounding six-county area. Some
13 employees also commute from other neighboring areas. For example we even
14 have 50+ employees that live in Cape Girardeau County who drive back and
15 forth.

16 In addition to the \$57 million payroll, you add to that \$22 million in
17 procurement services. The \$22 million is goods and services that we purchase
18 in that region not including electricity. So you add that together; a \$79 million
19 impact on that part of the state is huge economically to all the businesses, the
20 schools, and the community as a whole. For example, Noranda pays a full one-
21 third of the cost of operating New Madrid County Schools. In addition there are

1 taxes paid by Noranda, its suppliers, and its employees that all have a positive
2 impact.

3 Noranda has been and is a good corporate citizen. We have our second
4 consecutive labor contract in effect with United Steelworkers and there hasn't
5 been a work stoppage since 1989. We've tried very hard to maintain and
6 improve our relations with the Steelworkers and we believe the outcome of
7 that is the second consecutive five-year agreement. The current one goes to
8 August 31, 2007. So we feel like Noranda's impact on that region is very
9 positive and the impact on the region, the jobs, and the people, and the
10 communities is very important.

11 **Q YOU MENTIONED THAT THIS WAS A POOR AREA OF THE STATE. WHAT IS THE**
12 **BASIS FOR THIS?**

13 **A** Well, if you look at that region. It was predominantly agricultural until the late
14 1960s. Then, when agricultural equipment went to large mechanized
15 equipment and they could do a lot more, it left a lot of people behind. There
16 have been 3 or 4 generations in that region that have had a hard time finding
17 good, steady employment -- especially good paying jobs.

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

1 **Q WHEN YOU SAY NORANDA PAYS WELL, COULD YOU GIVE ME A BALLPARK**
2 **IDEA OF THE SCALE?**

3 A Sure. An entry-level production worker is going to make on average over
4 \$17.50 an hour coming in. And that goes up to a skilled maintenance person
5 who is going to make \$20.40 an hour. There are also the benefits including
6 health insurance and a retirement plan. In addition, variable compensation
7 incentives come into play. In contrast, the average wage in that part of
8 Missouri these days is more like between \$9.00 and \$11.00 an hour. A lot of
9 times you don't get benefits with that. You don't get the other things that
10 come with that, so we get a lot of applications from people hoping they can
11 land a job at Noranda so they can stay in the area. It's important to them and
12 to the area.

13 **Q YOU TALK ABOUT TYPICAL BENEFITS; DOES NORANDA PROVIDE RETIREMENT**
14 **AND HEALTHCARE BENEFITS?**

15 A Yes.

16 **Q PLEASE TELL A LITTLE BIT ABOUT HEALTHCARE. IS IT AN IMPORTANT**
17 **FACTOR FOR PEOPLE?**

18 A Yes. What the employees have to pay for themselves and their families is
19 really a bargain these days. (The healthcare benefits are in the contract with
20 the steelworkers.) As you may know, the health costs have been going up on
21 an average of about 18 percent a year for the past 3 - 5 years. The workers

1 have a couple of options including a family plan where they're not paying more
2 than \$65.00 a month out-of-pocket and they're getting some excellent
3 coverage.

4 The retirement benefits include a 401k plan and a defined benefit
5 pension. These are two examples of the kinds of things that we're providing in
6 the benefits area. That's one thing other employers need to do; to keep people
7 with you, you must offer the benefits as well as a livable wage. Noranda
8 exceeds that and always has. And that is another reason why people like to
9 keep their jobs at Noranda.

10 **Q PLEASE DESCRIBE SOME WORKFORCE CONSIDERATIONS?**

11 **A** Of the 1,100 employees at the beginning of 2006, approximately 10 percent are
12 minority. A lot of emphasis is placed on training people. We have scholarship
13 programs with Southeast Missouri State University and Three Rivers Community
14 College.

15 There is a shortage of electricians and mechanics because there are a lot
16 of people that do not want their kids necessarily to go to a trade school and
17 pick up a special skill like that, but those kinds of jobs pay well and can be
18 very rewarding. We are constantly developing training programs to entice
19 people either to get what they need so they are qualified to work for us. After
20 they come to work for us we continue to provide regular and frequent training,
21 to make sure that our employees are the best they can be at their jobs.

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

3 A Yes.

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

5 A Oh sure, that's easy to do. Our United Steelworkers have been the lead donor
6 for many years for the Kenny Rogers Children's Center in Sikeston. The center
7 serves over 300 kids in a ten-county region of Southeast Missouri with therapy
8 services at no out-of-pocket costs to the parents. Noranda and the
9 Steelworkers have a program where they match dollar-for-dollar and give to
10 the Kenny Rogers Center. Together we are by far the largest donors in that
11 whole region.

12 Another thing we're very proud of and just wrapping up here in
13 December is the United Way Campaign. On an average over the past few
14 years, the employees and the company have donated more than \$20,000 a year
15 to that cause. The goal for the entire United Was is usually in the \$75,000 to
16 \$80,000 range. So Noranda employees are good about giving.

17 To facilitate the giving we offer payroll deductions for both of those
18 charities. And then we also have a separate donations committee that gives to
19 civic groups, schools, and not-for-profit type entities in the region. Noranda is
20 known very well for being a giving-type company and their employees are
21 known for that and we're very glad that they are. In fact, the YMCA of Sikeston

1 is a recipient of a \$100,000 pledge from Noranda to help expand and upgrade
2 its current facility.

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

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

7 **Q AS FAR AS YOU KNOW, HOW DO THE SCHOOLS IN THE COUNTY STACK UP IN**
8 **THE STATE?**

9 **A** Well, you might be surprised at how well they do. The New Madrid County
10 school system is very good school system. They're putting a lot more emphasis
11 on school performance in the New Madrid County Schools. We support the
12 entire countywide school system through the tax assessment process, and that
13 ends up being about one third of their total operating costs. Also, as you might
14 imagine, you can't go to any school building location in New Madrid County
15 without finding children whose dad, mom, or uncle and aunt don't work at
16 Noranda.

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

1 A It is hard to define exactly in dollars and cents but I can give you a breakdown.
2 If we had a map in front of us, you could clearly see the impact. Let's take the
3 largest community in the area, Cape Girardeau. We actually have in Cape
4 County about 50 employees there and when you go south the significance
5 increases. Sikeston, for example, has 220 people that live in Sikeston and work
6 at Noranda. New Madrid has 130. Portageville has 140. Then you go to the
7 west to a community like Dexter. There are over 60 in the community of
8 Dexter. And then if you really pare it down, you look at Kennett,
9 Caruthersville, Haiti; all those towns have anywhere from 30 to 70 employees.
10 East Prairie has 80. Malden has 80. Malden has 5,000 people. East Prairie has
11 3,000 people. And then when you really break it down, look at a little
12 community of 434 on the map called Risco. There are actually 30 people that
13 live in Risco that work at Noranda. From Parma, population 995, 40 people
14 work at Noranda. Now, if you take that into the local grocery stores and into
15 the gas stations, into the local retailers and you start talking to them, they can
16 tell when Noranda's had a good year and we've issued out variable
17 compensation because the employees spend that money at the local level. But
18 there's no doubt that if you were to take 140 people out of New Madrid,
19 population 3,350; 140 people out of Portageville, population 3401; if you were
20 to start taking those employees out of those communities, you just can't
21 replace that. It would take a monumental effort and many, many years to
22 even come close to replacing those good paying jobs.

1 Although an obvious overstatement, I can remember one of the area
2 legislators said if Noranda went out of business it would be like an atomic bomb
3 going off in southeast Missouri. It is by far the largest, most productive plant in
4 the region and it just means a lot to everyone.

5 **Q NOW NORANDA ALSO HAS A PROCUREMENT FUNCTION. WHAT ARE SOME OF**
6 **THE COMPANIES THAT YOU HAVE IDENTIFIED THAT HAVE SOME BUSINESS**
7 **WITH NORANDA AND WHICH YOU'D LIKE TO BRING TO THE COMMISSION'S**
8 **ATTENTION?**

9 **A**As examples, consider three area businesses. One is in New Madrid County,
10 one is in Scott County and then the other is a workshop in Sikeston that serves
11 the region. Steward Steel is located in Sikeston. They have two divisions: a
12 structural steel division and a door and frame division. The structural steel
13 division supplies us with the stubs that go on the anode rods that go into the
14 pots, where you turn on the electricity to make the molten aluminum. The
15 Smelter is Steward Steel's largest customer.

16 **Q HOW MANY EMPLOYEES DOES STEWART STEEL HAVE?**

17 **A**About 100.

18 **Q WHAT IS YOUR SECOND EXAMPLE?**

19 **A**Now let's go to Santie Oil located in New Madrid County. Santie Oil is a large
20 Amoco wholesale distributor and of course we have 300 pieces of maintenance

1 equipment that we run in our plant. Santie Oil supplies us with oil for the
2 mobile equipment and other applications. The mobile equipment includes high
3 loaders, bobcats, you name the piece of mobile equipment and we have it.
4 But then, that takes a lot of oil, hydraulics in general and also special kinds of
5 lubricants. Noranda is Santie Oil's largest customer. They have employed over
6 60 people in Sikeston and in New Madrid County.

7 **Q ARE THERE MORE EXAMPLES?**

8 **A** Yes. There are too many to list individually. The list of suppliers is long when
9 it comes to Noranda purchasing goods and services. It includes goods ranging
10 from office supplies to lawn mowers to industrial equipment. The services we
11 buy are also diverse. All told, we buy lots of parts, supplies, and services from
12 people in New Madrid, Sikeston down to Caruthersville, and just the whole
13 region.

14 **Q IS THERE ONE MORE SUPPLIER YOU WOULD LIKE TO TELL US ABOUT?**

15 **A** There is one particular supplier that has a compelling story. The Community
16 Sheltered Workshop serves the needs of mentally and physically challenged
17 people in Scott, New Madrid, Stoddard and Mississippi Counties. Mr. Harvey
18 Cooper, director of the workshop is submitting testimony also. They employ
19 117 physically and mentally impaired people from our region. They go pick
20 them up; they bring them to work; they help them work; they feed them lunch;
21 they take them home; they pay them. Noranda is their largest customer

1 because we contracted with them many years ago to help fill our need and an
2 area need. These folks make the pallets that we use that go inside the trucks
3 to hold and brace our value-added aluminum products, which in this case is
4 aluminum rod. It comes in 5,000-pound coils. And when you're shipping that
5 by truck or by rail, there's a special way that you have to fit that in the truck
6 so it's safe and so it'll ride. So we buy all our pallets from them. The people at
7 the Community Sheltered Workshop provide a great product that we need. I
8 would hate to think what their lives would be like without Noranda.

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

10 **A** Yes, that's one thing that you'll find at Noranda, whether it be the United Way
11 or the Kenny Rogers Center or the Shelter Workshop Board, we have a lot of
12 people that serve on boards and help in that way too. This is a regular practice
13 for Noranda because we measure everything according to our responsibilities --
14 to our customers, to our community, which includes being a good community
15 citizen, to the environment, how well we maintain the environmental controls,
16 and to our employees who are vital to our success. We measure these things on
17 a regular basis to make sure that we are being a good corporate citizen. When
18 you look at Noranda's involvement, there is a long-standing record of an
19 approach that encourages community participation.

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

3 A Sure. First, we make the primary aluminum; our Customers make and shape
4 aluminum into things that people use. We are well positioned as an aluminum
5 smelter. If you look at the smelters that are still left in the U.S.A., aluminum
6 production has declined in the last year because there are fewer smelters
7 operating. But we are the southernmost smelter in the country and we find
8 that to be a benefit. We sell the base commodity on the London Metals
9 Exchange based on the world price. Then, we have a whole host of customers
10 that buy value-added products, mainly extrusion billet, aluminum rod, and
11 foundry alloy products. The products are used in a variety of applications in
12 the housing, transportation and construction industries. We ship our products
13 on time to when the customer wants it so they can plan their production
14 accordingly. To encourage good performance we give a "carrier of the year"
15 year award for flat bed and covered carriers who do the best job of delivering
16 our products on time to our customers when they need it, so they can plan
17 their production. About 1,000 trucks are used each month, using mainly
18 regional carriers. We also use rail, but mainly for shipments to the West Coast.

19 Our number one state for shipping products, surprisingly enough, I think
20 it is because we're southern, is Texas. Then, it is Tennessee because we have a
21 sister aluminum foil plant that makes heavy-gauge foil in Huntington,
22 Tennessee, which is only about two hours from New Madrid. We supply them

1 and they employ about 450 people. We also supply a lot to Customers right
2 across the river in Western Kentucky and in Illinois. Two that come to mind are
3 Penn Aluminum in Murphysboro in Illinois and General Cables in Duquoin,
4 Illinois. We also supply a rod customer in Haiti, Missouri. All told, we are
5 definitely an aluminum smelter that serves a region that is more than Missouri.

6 **Q SO YOU'RE SHIPPING PRODUCT OUT OF THE STATE OF MISSOURI AND THEY**
7 **SEND MONEY BACK TO THE STATE OF MISSOURI, WHICH GETS SPENT ON**
8 **EMPLOYEES, SUPPLIES, AND ETCETERA?**

9 **A** Absolutely. Missouri is probably sixth or seventh in rank of the number of
10 customers that we have. These other states -- Texas, Tennessee, Illinois,
11 Indiana and Georgia are where we are selling and shipping our products, but
12 the money is coming back to Missouri. We are located on Interstate 55 halfway
13 between Memphis and St. Louis. If you draw lines eight hours in any direction,
14 we are in a great location for distribution. We're selling to these people and
15 that money is getting paid back to Noranda in the form of payroll to employees
16 and money paid to suppliers who employ people in the region. The State of
17 Missouri is obviously getting the benefit.

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

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

1 **Q CAN YOU TALK SOME ABOUT ONE OF YOUR SPECIAL ALLOY FOUNDRY**
2 **PRODUCTS AS AN EXAMPLE?**

3 A Yes. For example there is a special alloy that goes primarily to the automotive
4 industry. A Kentucky based Customer comes to mind called Gibbs Dye Casting.
5 Even though there are two aluminum smelters in Kentucky, they buy from us
6 because it's a special patented alloy product called Silafont that we make. We
7 have very good relations with Gibbs.

8 **Q DO YOU HAVE OTHER SPECIALIZED PRODUCTS?**

9 A We are continually working on some of the new special alloys in our efforts to
10 attract new Customers and to develop new and innovative applications. We
11 have regional sales managers and a Vice President of Sales/Marketing who are
12 continually providing excellent service to our Customer base. Noranda is
13 known for excellent Customer service and on time delivery. When we're
14 producing 1.5 million pounds of aluminum a day, employing over 1100, selling
15 558 million pounds a year, and shipping 1,000 truck loads a month, we are
16 making a positive impact on our region and certainly our state. We are an
17 exporter of very good quality, primary aluminum products and an importer of
18 money for our effort.

19 **Q IS THERE A DECLINE IN THE NUMBER OF SMELTERS IN THE UNITED STATES?**

20 A Yes. As a nation we have become more dependent on foreign sources and we
21 will continue with that trend if we don't maintain what we have. If you look at

1 a 5.5 percent decline in U.S. aluminum output last year when you have a high
2 demand for product you see evidence of a problem.

3 **Q WHAT IS YOUR UNDERSTANDING OF THE PROBLEM?**

4 **A** What happened in the U.S. Northwest is that all the smelters went out of
5 business due to high energy costs. That was the reason. They did not go out of
6 business because they did not have customers. They went out of business
7 because of high energy costs and they could not sustain operations.

8 Our markets are strong because we deliver customer service at a price.
9 You can ask people about Noranda. Noranda is a company with good customer
10 service and because of that we have had some other people spring up around
11 us in the region to buy and use our product.

12 Now, back to the original question. Are we concerned about the decline
13 in aluminum production and in the number of aluminum smelters? China was
14 the fear two to three years ago. Some thought China was going to take over
15 the aluminum production business because they could provide cheap labor,
16 cheap energy, and the ability to produce aluminum much cheaper than
17 Western Smelters. In reality what's happened is they had an energy shortage of
18 their own, they're growing and consuming so fast that they cannot keep up with
19 demand. Well, that has kept the price up on the worldwide market, but I do
20 not believe China is ready to take over the worldwide aluminum market. In
21 fact, we need to keep the smelters we have operating and producing or we
22 may be dependent on foreign suppliers more and more.

1 The remaining smelters of the U.S. can still out-perform foreign
2 competitors with timely delivery and the kind of quality Customers need. For
3 example, if you are sitting over in Monett, Missouri and you are trying to plan
4 your extrusion press production so you can schedule your crews and get them in
5 there and run them through the dye presses and the extrusion presses, and
6 you're waiting on it to arrive from China, you're in trouble. When it comes
7 from Noranda, you know it's going to be there on time and in conformance with
8 Customer expectations. That is the real difference -- not only on time, but on
9 time delivery with high quality at the right price.

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

11 **A**Oh, sure. There have been cycles up and down. And no doubt there will
12 continue to be business cycles.

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

15 **A**That is the plan. We have 30 years plus in the smelter and a good customer
16 base. With a stable source of electricity -- one not hostage to volatile energy
17 markets -- we can plan ahead and remain viable and even vibrant for Southeast
18 Missouri and this whole region.

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

2 A Yes it does at this time. I thank the Commission for receiving my comments on
3 this important matter.