BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Noranda Aluminum, Inc., et al., Complainants, vs. Union Electric Company doing business as Ameren Missouri, Respondent.	))))))))))	**Case No. EC-2014-0224**

STAFF'S STATEMENT OF POSITIONS

COMES NOW the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Statement of Positions,* states:

1. Is Noranda experiencing a liquidity crisis such that it is likely to cease operations at its New Madrid smelter if it cannot obtain relief of the sort sought here?

Staff's Position: **Noranda's representatives have consistently indicated that the smelter is facing financial difficulties for some time now.**[1] **However, Staff has not independently investigated Noranda's financial circumstances.**

a. If so, would the closure of the New Madrid smelter represent a significant detriment to the economy of Southeast Missouri, to local tax revenues, and to state tax revenues?

Staff's Position: **Staff has not independently investigated this issue and notes that none of the parties has presented a thorough economic impact study for the Commission's consideration.**

b. If so, can the Commission lawfully grant the requested relief?

Staff's Position: **The Commission can lawfully grant the requested relief if, upon consideration of all relevant factors, the Commission determines that the requested relief is in the public interest and is neither unduly preferential nor unduly discriminatory. The fact is that Noranda is the**

[1] See, e.g., the Direct Testimony of Kip Smith filed in Case No. ER-2012-0166.

NP

largest single customer on Ameren Missouri's system and has unique characteristics; it constitutes a customer class of one. The Commission may, therefore, properly determine the treatment to be accorded this customer class. However, it is Staff's position that all relevant factors have *not* been presented in this docket. As a practical matter, the Commission can grant the requested relief if all of the parties consent.

c. If so, should the Commission grant the requested relief?

Staff's Position: No. Staff's analysis of Noranda's proposal does not support it and all relevant factors have *not* been presented in this docket. For example, there has been no consideration as to whether revenue requirement has changed since Case No. ER-2012-0166.

2. Would rates for Ameren Missouri's ratepayers other than Noranda be lower if Noranda remains on Ameren Missouri's system at the reduced rate?

Staff's Position: No. Staff estimates other customers would experience a rate impact in the range of a $12.3 to $21.6 million increase if Noranda leaves the Ameren Missouri system. (Kliethermes Surrebuttal, page 5, lines 14 – 16). Staff estimates that Noranda's requested $30/MWh rate is approximately ** _____ ** to ** _____ ** per MWh *below* Ameren Missouri's variable cost of providing service to Noranda. Staff estimates that providing service to Noranda at $30/MWh would result in an additional cost to other customers of approximately $6.2 to $15.5 million per year, using this year's estimated wholesale power costs. Together, the difference between what other customers would pay if Noranda leaves Ameren Missouri's system and what other customers would pay if Noranda receives service at $30/MWh is approximately $27,760,000 annually. (Kliethermes Surrebuttal, page 6, lines 1 – 3).

3. Would it be more beneficial to Ameren Missouri's ratepayers other than Noranda for Noranda to remain on Ameren Missouri's system at the requested reduced rate than for Noranda to leave Ameren Missouri's system entirely?

Staff's Position: As described in its answer to Issue 2, above, Staff has determined that it would *not* be more beneficial from a rate perspective.

4. Is it appropriate to redesign Ameren Missouri's tariffs and rates on the basis of Noranda's proposal, as described in its Direct Testimony and updated in its Surrebuttal Testimony?

<u>Staff's Position</u>: See Staff's position on Issue 1.b, above. If the Commission determines, after consideration of all relevant factors, that the public interest would be best served by according the unique customer class that is Noranda the requested rate treatment, then the Commission can require Ameren Missouri to make corresponding changes to its rates and tariffs.

a. If so, should Noranda be exempted from the FAC?

<u>Staff's Position</u>: Noranda should *not* be exempted from the FAC (Scheperle Rebuttal).

b. If so, should Noranda's rate increases be capped in any manner?

<u>Staff's Position</u>: Noranda's rate increases should *not* be capped in any manner (Scheperle Rebuttal).

c. If so, can the Commission change the terms of Noranda's service obligation to Ameren Missouri and of Ameren Missouri's service obligation to Noranda?

<u>Staff's Position</u>: See Staff's position on Issues 1.b and 4, above. If the Commission determines, after consideration of all relevant factors, that the public interest would be best served by according the unique customer class that is Noranda the requested rate treatment, then the Commission can effectively change the terms of Noranda's service obligation to Ameren Missouri and of Ameren Missouri's service obligation to Noranda by requiring Ameren Missouri to make corresponding changes to its rates and tariffs.

d. If so, should the resulting revenue deficiency be made up by other rate payers in whole or in part?

<u>Staff's Position</u>: See Staff's position on Issues 1.b, above. The Commission may, after consideration of all relevant factors and the public interest, determine the contribution that each customer class will make to revenue requirement.

e. If so, how should the amount of the resulting revenue deficiency be calculated?

<u>Staff's Position</u>: Staff takes no position on this issue.

f. If so, can the resulting revenue deficiency lawfully be allocated between ratepayers and Ameren Missouri's shareholders?

Staff's Position: It may constitute an unconstitutional taking to allocate any part of a revenue deficiency to Ameren Missouri's shareholders.

i. How should the revenue deficiency allocated to other ratepayers be allocated on an interclass basis?

Staff's Position: Staff recommends that, if the Commission grants Noranda relief, that the revenue deficiency be allocated as a revenue-neutral adjustment to each customer class[2] (except the Large Transmission Service ("LTS") Class[3]) on their retail revenue requirement percentage basis to the total retail revenue requirement less the LTS class. This would also include the Lighting Classes and the Metropolitan St. Louis Sewer District ("MSD") Class. This allocation is outlined in Schedule MSS-R3 (attached below). Staff's recommendation is that only the retail portion be used to allocate any revenue-neutral adjustment. The Pre-MEEIA and MEEIA revenue requirement portion would not be used to allocate any revenue-neutral adjustment. (Scheperle Rebuttal).

Missouri Public Service Commission
Case No. EC-2014-0224

(1) Line	(2) Class	(3) Retail Revenue Requirement	(4) Staff Revenue Neutral Adjustment
1	RES	$ 1,242,406,832	$ 15,922,614
2	SGS	$ 309,885,557	$ 3,971,475
3	LGS	$ 572,217,635	$ 7,333,508
4	SPS	$ 219,049,323	$ 2,807,324
5	LPS	$ 200,484,019	$ 2,569,392
6	LTS	$ 158,163,699	$ (33,100,000)
7	Lighting	$ 38,604,323	$ 494,751
8	MSD	$ 73,024	$ 936
9	Total	$ 2,740,884,412	$ (0)

ii. How should the revenue deficiency allocated to other ratepayers be allocated on an intra-class basis?

[2] Customer classes include Residential Service 1(M); Small General Service 2(M); Large General Service 3(M); Small Primary Service 4(M); Large Primary Service 11(M); Large Transmission Service 12(M); Lighting classes consisting of 5 (M), 6(M), and 7(M); and the Metropolitan St. Louis Sewer District (MSD).

[3] The Large Transmission class consists of one customer - Noranda

<u>Staff's Position</u>: Staff recommends that, if the Commission grants relief, that the intra-class portion be increased as follows:

In the limited circumstances of this case, [4] **without a class-cost-of-service study, Staff recommends that only the volumetric energy charges be increased proportionally for the Residential Service ("RES") Class and the Small General Service ("SGS") Class. No increase should be made to the customer charge in these classes. No increase should be made to Pre-MEEIA and MEEIA charges in these classes.**

Staff recommends that the customer charge, demand charge and energy charge be proportionately increased for the Large General Service ("LGS"), Small Primary Service ("SPS"), Large Primary Service ("LPS"), and LTS Classes.[5] **No increase should be made to Pre-MEEIA and MEEIA charges in these classes. Staff also recommends that certain uniform interrelationships among the non-residential rate schedules be maintained as outlined in the Revised Non-Unanimous Stipulation and Agreement in Case No. ER-2012-0166. The following features are uniform and will remain uniform:**

> **1. The value of the customer charge will be uniform across rate schedules, with the customer charge on the SPS, LPS, and LTS rate schedules being the same. Noranda has proposed a new class titled "Large Transmission Service for Aluminum Smelters."**
>
> **2. The rates for Rider B voltage credits will be the same under all applicable rate schedules.**
>
> **3. The rate for the Reactive Charge will be the same for all applicable rate schedules.**
>
> **4. The rate associated with Time-of-Day meter charge will be the same for all applicable non-residential rate schedules (LGS, SPS, LPS, and LTS).**

Staff recommends that each component of the lighting classes and MSD be increased proportionately.

g. If so, what, if any, conditions or commitments should the Commission require of Noranda?

[4] On March 21, 2014, Ameren Missouri filed a sixty-day notice of a general rate case. This notice was assigned Case No. ER-2014-0258. Ameren Missouri has reiterated its commitment to filing that case on or before July 15, 2014.

[5] Noranda proposed a new service class titled Large Transmission Service Rate Applicable to Aluminum Smelters.

<u>Staff's Position</u>: Staff takes no position on this issue.

5. What is Ameren Missouri's variable cost of service to Noranda?

<u>Staff's Position</u>: Considering only energy costs, Ameren Missouri's variable cost of providing retail service to Noranda is Ameren Missouri's wholesale cost of energy for sale to Noranda at retail, plus an allowance for other costs assessed to load-serving entities based on load or demand, and any other cost directly assignable to Noranda, adjusted to reflect losses to Noranda's meter. (Kliethermes Rebuttal page 7, lines 4 – 8). The range of estimates established by the experts providing testimony in this case is $27.91/MWh on the low end (Dauphinais Surrebuttal, page 3, lines 11-12), to Mr. Michels' correction of Mr. Dauphinais' calculation, which results in $38.26 (Michels Surrebuttal, page 7). Mr. Michels also provides a forecasted rate of approximately $48.24, although he cautions against reliance on either of his calculations for purposes of setting rates.

Mr. Dauphinais adjusted his estimate to remove the prices experienced in 2014, which causes his number to be understated. As discussed in the rebuttal testimony of Ms. Kliethermes, it is reasonable to assume some level of the increase in those months is attributable to weather, which is not likely to directly impact market prices going forward, and some level is attributable to market changes, which may impact market prices going forward. In particular, the MISO South region was integrated into the MISO in mid-December 2013. (Kliethermes Rebuttal, page 5, lines 16-19). Staff's estimate of ** _____ ** to ** _____ ** per MWh, at Noranda's meter, or about $130,700,000 - $140,000,000 per year is within this range. (Kliethermes Surrebuttal, page 2, lines 2-4), although Staff's calculations are not intended as a basis for setting a rate in this case nor as a recommendation on any policy considerations or legal issues that may be implicated by Noranda's complaint (Kliethermes Rebuttal, page 2, line 23 – page 3, line 3).

a. Should this quantification of variable cost be offset by an allowance for Off-System Sales Margin Revenue?

<u>Staff's Position</u>: No. For purposes of determining variable cost to provide service, only the wholesale energy cost should be considered, and offsetting revenues should not be considered. (Kliethermes Rebuttal, page 8, lines 8 – 10).

As stated by Mr. Dauphinais:

> **As a participant in the MISO Regional Transmission Organization ("RTO"), Ameren Missouri must clear all of its generation and all of its load in the MISO market. Ameren Missouri's generation clears in the MISO market based on the offer price Ameren Missouri submits for each of its generators to produce energy (or provide capacity) and the market prices set by MISO. Those market prices are set by MISO based on: (i) the generation offers of Ameren Missouri and all other MISO market participants; and (ii) the total load within the MISO market that needs to be served. As a result, the clearing of Ameren Missouri's generation facilities in the MISO market (including the commitment and dispatch of those generation facilities) would not be affected by Ameren Missouri's loss of retail sales to Noranda unless MISO market prices changed enough to influence that clearing as a result of the loss of those retail sales by Ameren Missouri. Because the loss of Ameren Missouri's retail sales to Noranda would negligibly affect MISO market clearing prices in most hours of the year and act to lower those prices when there is more than a negligible effect, it can be reasonably and conservatively assumed that Ameren Missouri's market settlements for its generation facilities are unaffected by the loss of those retail sales. *Thus, the reduction in Ameren Missouri's ANEC can be reasonably and conservatively estimated as the cost avoided by Ameren Missouri by not having to clear the Noranda retail sales in its MISO market and transmission settlements for its load.* This can be calculated using recent historical MISO market prices and current forecasted regional transmission rates for 2014 under the MISO Tariff.**

(Dauphinais Direct, page 4, line 18 – page 5, line 16, emphasis added).

Because Off-System Sales Margin ("OSSM") Revenues are the difference between the money Ameren Missouri receives for generating energy, and the money Ameren Missouri pays to buy energy to serve its load, OSSM Revenues do not reduce Ameren Missouri's variable cost to serve Noranda. In fact, as established by Mr. Dauphinais, Ameren Missouri's OSSM Revenues are inversely related to Ameren Missouri's service of Noranda (or any other customer).

b. What revenue benefit or detriment does the Ameren Missouri system receive from provision of service to Noranda at a rate of $30/MWh?

Staff's Position: Using Mr. Dauphinais's estimate of $27.91/MWh (Dauphinais Surrebuttal, page 3, lines 11-12), and Mr. Michels's correction of Mr. Dauphinais's calculation of $38.26/MWh, (Michels Surrebuttal, page 7), and Noranda's metered load of 4,169,000 MWh, the experts in this case project a range from a benefit of about $8.8 million to a detriment of about $34.5 million. Staff calculates the difference between what other customers would pay if Noranda quit receiving Ameren Missouri retail service and what customers would pay if Noranda receives service at $30/MWh to be approximately $27,760,000 annually. (Kliethermes Surrebuttal, page 6, lines 1 – 3). Accordingly, Staff estimates that having Noranda remain on the system at a rate of $30/MWh would result in an approximate $27,760,000 detriment annually to Ameren Missouri's other customers compared to if Noranda left the system.

6. Should Noranda be served at rate materially different than Ameren Missouri's fully distributed cost to serve them? If so, at what rate?

Staff's Position: See Staff's position on Issues 1.b, above. The Commission may, after consideration of all relevant factors and the public interest, determine the contribution that each customer class, including the unique customer class that is Noranda, will make to revenue requirement. However, Staff believes that all relevant factors have not been presented in this docket. Should the Commission grant rate relief to Noranda, the rate should not be lower than ** _____ ** to ** _____ ** per MWh, plus the FAC (Kliethermes Surrebuttal, Scheperle Rebuttal).

WHEREFORE, Staff prays that the Commission will accept its *Statement of Positions*.

Respectfully submitted,

/s/ Kevin A. Thompson
Kevin A. Thompson
Missouri Bar Number 36288
Chief Staff Counsel

Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102
573-751-6514 (Voice)
573-526-6969 (Fax)
kevin.thompson@psc.mo.gov

Attorney for the Staff of the
Missouri Public Service Commission

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served, either electronically or by hand delivery or by First Class United States Mail, postage prepaid, on this **6th day of June, 2014,** on the parties of record as set out on the official Service List maintained by the Data Center of the Missouri Public Service Commission for this case.

/s/ Kevin A. Thompson