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June 8, 2005

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JUN 08 2005
PUBLIC SERVICE COMMISSION

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard, P.O. Box 615
Frankfort, Kentucky 40602-0165

RE: In the Matter of: An Assessment of Kentucky's Electric Generation, Transmission and Distribution Needs, PSC Administrative Case NO. 2005-00090

Dear Ms. O'Donnell:

Attached are an original and ten (10) copies of the Comments of Alcan Primary Products Corporation and Century Aluminum of Kentucky, LLC in accordance with the directive of the Commission contained in its Order in this matter dated May 11, 2005. I certify that a copy of this filing has been served this day by mail upon the persons identified on the attached service list.

Very truly yours,

David C. Brown

DCB:rdh

Enclosure

cc: Service List

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RECEIVED
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PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ASSESSMENT OF KENTUCKY'S ELECTRIC GENERATION, TRANSMISSION AND DISTRIBUTION NEEDS	))))	**ADMINISTRATIVE CASE NO. 2005-00090**

COMMENTS OF ALCAN PRIMARY PRODUCTS CORPORATION AND CENTURY ALUMINUM OF KENTUCKY, LLC

Alcan Primary Products Corporation ("Alcan") and Century Aluminum of Kentucky, LLC ("Century") (the "Smelters") submit these Comments to the Kentucky Public Service Commission (the "Commission") for consideration in the above captioned proceeding.

INTRODUCTION

This Administrative Case is intended to gather information that will form the backbone of a Strategic Blueprint to be developed by the Commission, the Commerce Cabinet and the Environmental and Public Protection Cabinet for the development of adequate electric capacity for the Commonwealth. In the Commission's words, the Strategic Blueprint will be designed ". . . to promote future investment in electric infrastructure for the Commonwealth of Kentucky, to protect Kentucky's low-cost electric advantage, to maintain affordable rates for all Kentuckians and to preserve Kentucky's commitment to environmental protection."

Century and Alcan own and operate primary aluminum smelters located in Hawesville and Sebree, respectively. The manufacturing facilities are the two largest consumers of electric energy in Kentucky. The Smelters have intervened to bring to the Commission's attention that by the end of 2010

(Century) and 2011 (Alcan), the electric service contracts that now govern the aggregate smelter load of 860 megawatts will terminate and unless plans are made for the continuation of affordable rates that keep the smelters economically viable, they may be forced to discontinue operations. No doubt such an eventuality would damage the businesses of Century and Alcan, but from a public interest standpoint it would be disastrous for the economy of Western Kentucky and for the citizens and businesses that depend on Smelter operations.

The responses filed in this docket indicate quite plainly that no utility with generating resources has planned or considered planning how the 860 MW Smelter load will be provided. This is to be expected from those utilities having no historical ties with the Smelters. However, the two utilities that do have historical ties, Kenergy Corp. ("Kenergy") and Big Rivers Electric Corporation ("Big Rivers"), did not address the extent to which their planning will take this large future load into account. As a consequence, this docket, which is intended to gauge the future need for low-cost energy for "all Kentuckians", omits from the assessment the loads of the Commonwealth's two largest users. To correct this obvious oversight, the Smelters requested Kenergy, the Smelters' retail provider, to set forth its plan for providing for the Smelter load. This motion was not directed toward Big Rivers, but the Commission has seen fit to request the same information from it. Accordingly, this Comment will include Big Rivers in the discussion.

As of the date of this filing, neither Kenergy nor Big Rivers has filed its supplemental response.[1]

HISTORICAL BACKGROUND

In general, electric distribution cooperatives in Kentucky obtain their power supplies from a single wholesale electric supplier pursuant to an "all-requirements" contract. The distribution

[1] Because the filing deadline for Kenergy and Big Rivers has, by agreement, been extended to June 10, 2005, the Smelters have reserved the right to file a response to the Kenergy and/or Big Rivers filings so that the record will be complete.

cooperatives then re-sell the wholesale power as the major cost component of their electric service to their retail electric customers. The distribution cooperatives that obtain "all-requirements" wholesale power from Big Rivers and East Kentucky Power Cooperative ("EKPC") are subject to the regulatory jurisdiction of the Commission. Big Rivers and EKPC, both of which are electric generating and transmission cooperative utilities, are similarly subject to the jurisdiction of the Commission.

For as long as the Smelters have been operating in Kentucky, each Smelter has received its entire energy supply as a franchised retail customer of Kenergy or one of its predecessors. Prior to the effective date of the 1998 Big Rivers reorganization, Kenergy purchased wholesale energy for resale to the Smelters under an "all requirements" contract with Big Rivers. From a historical perspective, when Big Rivers was the wholesale "all-requirements" energy supplier to Kenergy, Big Rivers included the Smelter loads in its planning and generation expansion processes. The historical obligation of Big Rivers to serve the Smelter loads was a major factor in Big Rivers' decisions to build both the Coleman Plant (located contiguous to Century's smelter in Hawesville) and the Green Plant (located contiguous to Alcan's smelter in Sebree). Correspondingly, the revenues that Big Rivers expected to derive from the sale of wholesale energy to Kenergy for resale to the smelters was a major factor in Big Rivers' ability to obtain federal funding from the Rural Utilities Service ("RUS") for construction of the Coleman and Green Plants.

In September 1996, Big Rivers filed for protection under federal bankruptcy statutes in order to effect a restructuring that would allow Big Rivers to satisfy its debt obligations. The preponderance of those debt obligations was incurred in conjunction with Big Rivers' construction of the Wilson Plant, a facility that became commercial in 1984, years after the Smelters had begun operations. The centerpiece of Big Rivers' restructuring involved a lease of its generating resources to unregulated subsidiaries of LG&E Energy, LLC ("LG&E"). In conjunction with this restructuring, the responsibility for providing wholesale electric service to Kenergy for resale to the Smelters was transferred from Big Rivers to LG&E Energy Marketing Inc. ("LEM"), one of the unregulated subsidiaries of LG&E, effective as of July 16, 1998. This transfer of responsibility for the smelter loads from Big Rivers to LEM was necessary and undertaken to allow the restructuring to move forward, specifically to address the Commission's concern that continued service by Big Rivers would pose an undue financial risk to Kenergy's other retail customers. Notwithstanding this shift of wholesale service responsibility away from Big Rivers, it was an integral part of the transaction that LEM would pay to Big Rivers monthly an amount equal to the estimated margins that Big Rivers would have earned from the Smelter load had the transfer not taken place. Under this arrangement, Big Rivers retained and still retains the economic benefit that it would have realized by selling 572 MW directly to the smelters through Kenergy.

Upon completion of the Big Rivers' reorganization in July of 1998, Big Rivers' Members and the Members' customers all realized a substantial decrease in rates. This substantial rate decrease also extended to the Smelters, even though wholesale electric service responsibility for the Smelters had transferred from Big Rivers to LEM. As a result of this decrease in rates, the aluminum production and energy consumption of both Smelters increased in three respects: production from existing pot lines increased, Century added a fifth line in 1999 and Alcan restarted its third line in 2000. These changes have increased the Smelters' aggregate peak load from approximately 701 MW prior to 1998 to approximately 854 MW today, an increase of 153 MW or 22% over the amount of the Smelter loads prior to the rate reductions that resulted from Big Rivers' bankruptcy.

KENERGY'S OBLIGATION TO PROVIDE RETAIL SERVICE TO THE SMELTERS

Kenergy has no generating resources. Notwithstanding this fact, absent a change in the regulatory scheme in Kentucky, upon the expiration of the Smelter contracts in 2010-11 Kenergy will continue to have both the exclusive right and the obligation to build or otherwise obtain at wholesale generating resources in an amount adequate to serve the Smelters at rates that are fair, just, reasonable and non-discriminatory. KRS 278.030.

THE ECONOMIC IMPORTANCE OF THE KENTUCKY ALUMINUM INDUSTRY

It is well established that the health of the Western Kentucky economy relies on the Smelters for employment and vital tax dollars. In contrast to other regions within the United States where the primary aluminum industry has substantially collapsed due to rising energy costs, the Kentucky Smelters have been able to maintain and expand operations in large part because of Kentucky's low power costs. As a result, the Smelters and other aluminum industry participants provide thousands of jobs at an average salary greatly in excess of salaries found in other regional industries. The loss of those jobs and the other economic repercussions from smelter closure would be a major blow to the economy of Western Kentucky, as confirmed by a professional third party study commissioned by the Smelters.

ISSUES TO BE WEIGHED BY THE COMMISSION

The complex issue of assuring the continuation of predictably priced and cost-effective electric service to the Smelters for the periods following expiration of their existing contracts is a public interest matter that needs to be addressed before the problem is upon us. Because the Smelter contracts do not expire until the end of 2010 (for Century) and 2011 (for Alcan), there is adequate time for the Commission to assess whether Kenergy has taken all measures within its capabilities to provide this energy or to plan for alternative sources of energy.

It is important for the Commission to recognize that electric power represents approximately one-third of the cost of producing primary aluminum. In light of the worldwide market in which primary aluminum smelters compete, the only chance for the continuing viability of the Smelters in the post-contract period will be for the Smelters to be able to purchase electric energy at predictable regulated rates for generating and transmission facilities that will then exist under Commission jurisdiction. If Kenergy's strategy to supply energy to the Smelters in the post-contract period were to be focused on acquiring energy in the wholesale power market, the Smelters would be unable to continue operations if required to pay anticipated market-based wholesale prices.

In the seven years that have passed since the 1998 reorganization of Big Rivers and the lease of generating facilities to the LG&E entities, the wholesale power markets have changed in a manner that neither the Smelters, Big Rivers, LG&E nor the Commission contemplated. In 1998, after closing of the Big Rivers/LG&E transaction, LG&E announced its withdrawal from merchant trading. As a result, LEM was transformed from a broad based wholesale energy trading operation to solely a marketer of LG&E's excess generating resources. The intervening years have also seen the bankruptcies of Enron, PG&E Energy, and Mirant, the California debacle, as well as the significant business contractions of companies like Dynegy, Allegheny and Reliant Energy that were previously dominant entities in wholesale power markets. In short, the widely expected movement in the direction of deregulated energy markets has failed to materialize, and the decrease in wholesale market prices that was expected as an outgrowth of deregulation has similarly failed to occur.

The Commission should note that the regulatory agencies in two neighboring states, Missouri and West Virginia, both have undertaken specific actions in order to preserve the continuing viability of aluminum smelters in their states. In West Virginia, the Ravenswood smelter owned by Century was previously served by Ohio Power Company. However, fixed-rate retail tariff service to the Ravenswood smelter recently has been assumed by Appalachian Power Company, a public utility subject to rate regulation in West Virginia. Similarly, in Missouri, the New Madrid aluminum smelter owned by Noranda Aluminum previously had been granted retail open access under special purpose Missouri legislation. However, within the past month, the Missouri Public Service Commission has approved a new fifteen-year contract under which the New Madrid Smelter will be served at tariff regulated retail rates by Ameren-UE.

On the other hand, on December 31, 2004, the Ormet smelter's contract for electric service from Buckeye Power Cooperative expired. Upon expiration, the only electric energy available to Ormet was market-priced and thus cost-prohibitive for continuing operations. Consequently, the Ormet smelter terminated operations on or about January 1, 2005.

If the Smelters are to remain economically viable in the post-contract period, the Commission will likely be required to address and resolve the public interest issue of whether Big Rivers will have an obligation to use its available generating resources to provide rate regulated electric service to Kenergy for resale to the Smelters. The Smelters recognize that the amount of excess regulated generating resources that will then be available to Big Rivers from LEM will not be adequate to serve the entire Smelter loads.

In addition to the acquisition of excess generating resources from Big Rivers, Kenergy would have other options to serve the Smelters. Kentucky law allows two retail electric suppliers to contract with each other for the purposes of allocating territories and consumers between such suppliers and designating which territories and customers are to be served by each of the retail suppliers. KRS 278.018(6). Accordingly, with the agreement of Kenergy, all or part of the electric service to the Smelters could be transferred to another Kentucky electric supplier.

Moreover, upon a showing that Kenergy is unable to provide adequate electric service to the Smelters, the Commission may authorize another retail electric supplier to furnish retail electric service to the Smelters. KRS 278.018(3).

Another option available to Kenergy would be to follow the statutory mandate allowing it, as a cooperative, to purchase electric power from other utilities located in Kentucky, at the same rates those utilities would charge similar customers, and resell the power to the Smelters. KRS 279.150.

An additional option for Kenergy to serve the Smelter loads in 2011 and 2012 would be to build new generation capacity. Obviously, obtaining Commission approval and construction of such generating facilities is a lengthy process which would need to be begun in earnest in order to serve the Smelter loads in 2011 and 2012.

CONCLUSION

Alcan and Century appreciate the opportunity to bring the importance of this issue to the Commission's attention. The Smelters have intervened in this proceeding not to create confrontation or controversy but to underscore the economic reality that if their only access to power after 2010-11 is through the wholesale markets, and if those wholesale markets are priced as forecasted, the Smelters are unlikely to remain viable.

Respectfully submitted,

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