

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

IN THE MATTER OF: THE APPLICATION OF BIG :  
RIVERS ELECTRIC CORPORATION FOR AN :  
ADJUSTMENT OF RATES :

Case No. 2013-00199

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**DIRECT TESTIMONY**  
**OF**  
**KELLY THOMAS**

**ON BEHALF OF THE**  
**KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.**

**October 2013**

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ON BEHALF OF ALERIS INTERNATIONAL, INC.  
AS A MEMBER OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.**

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**I. INTRODUCTION AND QUALIFICATIONS**

1  
2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Kelly Thomas. I am the Senior Vice President and General Manager, Rolled  
4 Products North America of Aleris International, Inc. My business address is 25825  
5 Science Park Drive, Beachwood, OH 44122.

6  
7 **Q. Please describe your educational and professional background.**

8 A. I joined Aleris in 2010 and currently serve as Senior Vice President and General Manager  
9 for the company's Rolled Products North America business, responsible for all business  
10 and operational activities. I served as Vice President, Risk Management from 2010  
11 through July 2011 before taking over as Vice President and Treasurer from July 2011  
12 through July 2012. Prior to that, I held a variety of roles with increasing responsibility at  
13 Alcoa from 2000 – 2010, including Vice President, Alcoa Materials Management Europe

1 from 2007 - 2010, responsible for all commercial activities for Alcoa's Primary Europe  
2 business. Prior to this role, I was Director, Risk Management for Alcoa, responsible for  
3 the global aluminum hedging function from 2004 - 2007. Prior to joining Alcoa, I held a  
4 variety of financial and commercial leadership roles with Reynolds Metals, Louis  
5 Dreyfus Energy and IBM. I graduated from the University of Virginia, McIntire School  
6 of Commerce with a concentration in Finance in 1991.

7  
8 **Q. On whose behalf are you appearing in this proceeding?**

9 **A.** I am appearing on behalf of Aleris International, which is a member of the Kentucky  
10 Industrial Utilities Customers, Inc. ("KIUC"). Aleris is a privately-held, global leader in  
11 aluminum rolled and extruded products, and recycling, with global headquarters in  
12 Cleveland, Ohio. The company's annual sales are approximately \$4.4 billion with  
13 business locations in 17 countries, employing approximately 7,200 people worldwide.

14 Aleris owns and operates an aluminum rolling mill in Lewisport, Kentucky. The  
15 Lewisport Rolling Mill has been in operation since 1964, and provides rolled aluminum  
16 sheet to key industries in Kentucky and the United States including Distribution,  
17 Transportation, Automotive, Building and Construction and Specialty Products. The Mill  
18 employs approximately 820 people. These are high-paying, family supporting jobs.  
19 Aleris is served under the Large Industrial rate by Big Rivers Electric Corporation ("Big  
20 Rivers") through our distribution cooperative, Kenergy Corp.

21  
22 **Q. Would you please summarize your testimony?**

23 **A.** Yes. I discuss the adverse impacts of the proposed rate increases on Aleris' Lewisport,

1 Kentucky facility. If approved, the magnitude of those increases could discourage  
2 additional investment by Aleris in the Lewisport facility, harming the economy in  
3 Western Kentucky. As I explain, Aleris would be unable to significantly offset the level  
4 of the proposed increase through energy efficiency efforts.

5 I recommend that the Commission adopt KIUC's Rate Plan, as set forth in the  
6 testimony of witness Lane Kollen. I also explain why I think it is important for the  
7 Commission to allow Large Industrial customers to have access to market-based rates for  
8 at least a portion of their load. Aleris has experience with such rates elsewhere and could  
9 significantly benefit from those rates in terms of its competitiveness in the global market.  
10 While I strongly prefer that the Commission adopt this approach to mitigate the impacts  
11 of the proposed rate increases on Large Industrial customers, if the Commission does not,  
12 it should at least alter the terms of the Rural Economic Reserve fund so that it can be used  
13 to protect both Rural and Large Industrial customers from the proposed rate increases.

14  
15 **Q. Have you testified in any other proceeding(s) before the Commission?**

16 **A. Yes. I testified in the last Big Rivers rate case, Case No. 2012-00535.**

17  
18 **Q. Please summarize your testimony in Big Rivers' last rate case.**

19 **A. I testified regarding what Aleris expects and values from its electric utilities. This**  
20 **includes safe and reliable service as well as low-cost, stable electric rates, which are both**  
21 **critical to Aleris' continued viability and prosperity. Because Aleris competes in an**  
22 **increasingly global market, we require cost-competitive and predictable electricity rates**  
23 **that reflect the true cost of service in order to succeed.**

1 I explained that we cannot absorb inefficiencies in our suppliers' systems or  
2 subsidize other industries. We cannot pay for excess capacity that is not providing  
3 service to us. Moreover, if prices are not competitive or lack predictability, it severely  
4 impedes our ability to justify the capital improvements that are required for our facility to  
5 remain both technologically and commercially competitive.

6 I provided an assessment of the strength of the aluminum industry, stating that the  
7 long-term projections for the industry are strong due to the material's ideal characteristics  
8 for light-weight applications and its recyclability. Aluminum is increasingly being  
9 considered as an attractive alternative to other more traditional materials, such as steel,  
10 which creates opportunities for new and exciting products and applications for aluminum.  
11 As a result of this positive outlook, however, competition in the U.S. flat-rolled  
12 aluminum industry has grown significantly.

13 I also discussed how Big Rivers' proposed rate increase would adversely affect  
14 Aleris' business plans for its Lewisport, Kentucky facility. As one of Aleris' most  
15 important U.S. manufacturing facilities, we have already invested significantly in the  
16 Lewisport facility. Though we are considering further investment options to take  
17 advantage of the new opportunities for aluminum, the substantial rate increase proposed  
18 by Big Rivers would significantly discourage any additional investment in that facility.

19  
20 **Q. How would a 112% rate increase impact Aleris' Lewisport facility?**

21 A 112% rate increase would be a major impediment to future investment in the Lewisport  
22 facility.<sup>1</sup> That facility already absorbed an approximately 5% increase recently as a result

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<sup>1</sup> This 112% increase accounts for changes in base rates, the FAC, ECR, Smelter surcredits and the MSRM. See

1 of Big Rivers' last rate case, Case No. 2010-00037. Such a significant additional change  
2 in the cost structure of the Lewisport facility will force us to consider alternative  
3 investment opportunities elsewhere.

4 Such an outcome would be very unfortunate since additional investment in the  
5 Lewisport facility would help to secure a prosperous and long-term future for the facility  
6 and would greatly benefit the Lewisport workforce, our customers, and the  
7 Commonwealth of Kentucky. However, as I explained previously, Aleris competes on a  
8 global basis. When we suffer the burden of increased electricity costs, our competitors in  
9 other parts of the U.S. and around the world do not. We will not be able to pass those  
10 increased costs on to our customers, as Big Rivers is attempting to do. In today's market,  
11 our customers expect and demand that we increase productivity and eliminate waste and  
12 inefficiencies from our operations. Importantly, they expect to share in the benefit of  
13 these process improvements. It now appears that the benefit achieved by any increases in  
14 productivity will be greatly reduced, or completely offset, by higher power bills.

15  
16 **Q. Would approving the proposed rate increases be detrimental to the Kentucky**  
17 **economy?**

18 **A.** I believe so. Kentucky has traditionally benefited from its ability to attract industry with  
19 competitive power rates, which allow local businesses to maintain a competitive position  
20 in a global business environment. This has brought great economic value to the region in  
21 the form of jobs, tax revenues, and a highly-skilled labor force. But approving such

1 substantial rate increases to business customers in Western Kentucky would risk losing  
2 some of those significant benefits.

3  
4 **Q. How does Aleris view Big Rivers' proposal?**

5 A. Aleris believes that it is entirely unreasonable for Big Rivers to force its remaining  
6 customers to pay for 100% of the cost burden associated with the loss of the smelter load.

7  
8 **Q. Has Aleris continued its effort to educate the public concerning Big Rivers' proposal?**

9  
10 A. Yes. Along with Domtar and Kimberly-Clark, Aleris founded Fair Rates Kentucky in  
11 order to get the word out to the public that the rate increases proposed by Big Rivers in  
12 the Century and Alcan rate cases were going to be much higher than Big Rivers claimed.  
13 Aleris has continued these efforts, which we believe are very important given the  
14 magnitude of the rate increases that could ultimately result from Big Rivers' proposals.

15  
16 **Q. Can Aleris engage in energy efficiency efforts to reduce the impact of the proposed increases on their Lewisport facility?**

17  
18 A. Aleris already undertakes significant energy efficiency efforts to protect our bottom line  
19 and will continue to do so. There are practical limits, however, to how much energy  
20 efficiency our Lewisport facility can engage in. Given the magnitude of the increases  
21 proposed by Big Rivers, Aleris will not be able to reduce its load requirements anywhere  
22 near the amount needed to offset a significant portion of the rate increase.

1 **Q. What do you recommend that the Commission do with respect to Big Rivers'**  
2 **proposal?**

3 A. In addition to adopting the Rate Plan proposed by KIUC witness Kollen, I strongly  
4 recommend that the Commission allow Large Industrial customers to have access to  
5 market-based rates for a portion of their load. I have been advised by counsel that such a  
6 decision would be legal. And one smelter has already received Commission approval to  
7 do so.<sup>2</sup> Since the Commission now allows certain customers to benefit from market-  
8 based rates, it should expand that policy to include Large Industrial customers. Large  
9 Industrial customers should not be completely precluded from the benefits of market-  
10 based rates while other customers receive those benefits.

11  
12 **Q. Does Aleris have access to market-based rates in any other states?**

13 A. Yes. Aleris has experience with market-based rates in Ohio and has significantly  
14 benefitted from the availability of those rates. Such rates help maintain the viability and  
15 prosperity of large industrial customers who must compete on a global basis, like Aleris.

16  
17 **Q. If the Commission does not grant Large Industrial customers access to market-**  
18 **based rates, what should the Commission do?**

19 A. Though I would greatly prefer that the Commission allow Large Industrial customers to  
20 access market-based rates for a portion of their load, in the event the Commission does  
21 not wish to do so, it should at least alter the terms of the Rural Economic Reserve fund to  
22 protect both Rural and Large Industrial customers, as proposed by KIUC witness Baron.

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<sup>2</sup> See Case No. 2013-00221.



1            This would provide some additional mitigation for Large Industrial customers from the  
2            substantial rate increases proposed by Big Rivers.

3

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

5    **A.    Yes.**