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December 20, 2013

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BY HAND DELIVERY

Mr. Jeff R. Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

**RE: Joint Application of Kenergy Corp. and Big Rivers Electric Corporation for
Approval of Contracts
Case No. 2013-00413**

Dear Mr. Derouen:

Enclosed for filing in the above matter are an original and ten copies of the Direct
Testimony of Michael Early and Jason Young on behalf of Century Aluminum Sebree LLC.

Very truly yours,


David C. Brown

DCB:msp
Enclosures

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**PUBLIC SERVICE
COMMISSION**

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

In the Matter of:

Joint Application of Kenergy Corp.)
and Big Rivers Electric Corporation)
for Approval of Contracts and for) Case No. 2013-00413
A Declaratory Order)

DIRECT TESTIMONY

OF

**MICHAEL EARLY
CORPORATE ENERGY DIRECTOR**

ON BEHALF OF

CENTURY ALUMINUM SEBREE LLC

FILED: December 20, 2013

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**DIRECT TESTIMONY
OF
MICHAEL EARLY**

Q. Please state your name, business address, and position.

A. My name is Michael Early. I am employed by Century Aluminum Company, the parent of Century Aluminum Sebree LLC (“Century”), as Corporate Energy Director. My responsibilities include power management for the Sebree Smelter. My business address is: One South Wacker Drive, Suite 1000, Chicago, Illinois 60606. I have held this position since July 2011. Prior to that, I was Executive Director of the Industrial Customers of Northwest Utilities for six years after having represented the aluminum companies in the Northwest for over 20 years.

Q. Did you testify in Case No. 2013-00221, concerning approval of comparable transactions for Century's Hawesville Smelter?

A. Yes, I did. The contracts for power supply to the Hawesville Smelter in that case are similar to the contracts in this case.

Q. What is the purpose of your testimony in this case?

A. My testimony provides the context for the proposed contracts among Big Rivers, Kenergy, and Century and addresses some of the critical terms of these contracts and the importance of timely approval of these contracts.

1 **Q. Were you involved in negotiating the proposed contracts?**

2 A. Yes. I participated in the contract negotiations.

3 **Q. Please briefly identify and discuss the contracts.**

4 A. There are eight contracts:

5 Electric Service Agreement between Kenergy and Century. This
6 is the retail electric service agreement. Kenergy sells to Century the
7 energy acquired under Kenergy's wholesale electric service agreement
8 with Big Rivers at the cost to Kenergy plus a small fee. This includes
9 as an attachment the service contract for non-smelting load if the
10 Sebree Smelter is closed.

11 Arrangement and Procurement Agreement between Big Rivers
12 and Kenergy. This is the wholesale electric service agreement. Big
13 Rivers, acting as the MISO "market participant", acquires energy,
14 capacity, transmission, and ancillary services from the market at
15 MISO prices and resells to Kenergy at a pass-through rate.

16 Direct Agreement between Big Rivers and Century. This
17 provides for direct payment by Century of other costs incurred by Big
18 Rivers if Big Rivers is no longer the market participant and these costs
19 are not paid by Century under the Electric Service Agreement.

20 Protective Relays Agreement among Big Rivers, Kenergy, and
21 Century. This addresses the protective relay systems that may be

1 installed to allow Century to operate at full capacity when operation of
2 the Wilson generating station ("Wilson") is suspended.

3 Load Curtailment Agreement ("LCA") between Century and Big
4 Rivers. Under the LCA, Century agrees that Big Rivers may curtail
5 load at the Sebree Smelter when required by MISO or upon
6 determination by Big Rivers, consistent with applicable law and rules,
7 that such curtailment will prevent or reduce a curtailment that would
8 otherwise occur on its system.

9 Tax Indemnity Agreement between Kenergy, Century, and
10 Century Parent. Century and Century Parent indemnify Kenergy for
11 any costs if Kenergy loses its tax exempt status due to implementation
12 of the proposed contracts.

13 Guarantee among Big Rivers, Kenergy, and Century Parent and
14 Security and Lock Box Agreement among Big Rivers, Kenergy,
15 Century, and Old National Bank. Each of these agreements assures
16 Kenergy and/or Big Rivers that required payments by Century will be
17 made and received.

18 **Q. Does Century support the Commission's approval of those**
19 **contracts subject to its jurisdiction?**

20 A. Yes. The contracts are the product of extensive negotiations among
21 the parties. The contract structure achieves the common goal that any
22 net incremental costs incurred by Big Rivers or Kenergy in providing

1 service under the contracts will be borne by Century. I want to
2 emphasize that the contracts impose significant new supply risks on
3 Century that are not borne by any other Kenergy customer. The
4 contract terms are acceptable to Century only as a package and any
5 modification of the terms will make the entire arrangement
6 unacceptable. I note that Big Rivers and Kenergy have not taken a
7 definitive position on whether the Commission must approve the Load
8 Curtailment Agreement. This jurisdictional issue will be addressed in
9 in Century's Brief. Century's view is that Commission approval of the
10 Load Curtailment Agreement is required.

11 **Q. Please comment on the critical importance of timely
12 Commission approval of these contracts?**

13 A. As discussed in some detail in Mr. Young's Direct Testimony,
14 continued operation of the Sebree Smelter depends upon the
15 Commission's approval of the proposed contracts, without modification,
16 sufficiently in advance of the January 31, 2014 termination date of the
17 current contract. To enable time for review of the Commission's order,
18 final internal approvals, and the actual exchange and execution of the
19 contracts, Commission approval on or before January 24, 2014 would
20 be ideal. I understand that Big Rivers is seeking approval from the
21 Rural Utilities Service on a comparable time frame.

22 **Q. Are there specific issues you want to address?**

1 A. Yes. I want to address issues related to the suspension of Wilson.
2 Based on the MISO study for the closure of Wilson, Sebree may
3 operate at full capacity when the transmission system is intact or even
4 when there is a single contingency event during shoulder months. For
5 this reason, unlike the Coleman/Hawesville situation, Wilson will not
6 be designated as a "must run" or System Support Resource ("SSR"),
7 and no SSR contract will be needed on February 1, 2014 when Wilson
8 closes. However, the occurrence of certain critical transmission line
9 outages could lead to a transformer overload if a second critical line
10 outage were to occur during periods of peak loading. In such events,
11 MISO could require a load reduction. A protective relay, like the
12 Special Protection Scheme ("SPS") that is being put in place to address
13 the Coleman/Hawesville situation, would avoid a "pre-conditional" load
14 reduction in the event of a single critical contingency during peak
15 loading periods. For this reason, Big Rivers and Century have
16 proposed a Protective Relays Agreement in this case. Century intends
17 to pursue and to have an appropriate SPS in place before the peak
18 loading period.

19 **Q. Is "live line" maintenance an issue in this case?**

20 A. Yes. The testimony of Mr. Morrow from Case No. 2013-00221 has
21 been incorporated into the record of this proceeding. As noted above,
22 transmission line outages—either forced outages or planned outages—

1 could cause a load reduction at Sebree. "Live line" maintenance would
2 reduce this risk. Century requests that the Commission find here, as
3 it did in Case No. 2013-00221, that "live line" transmission
4 maintenance is consistent with good and reasonable utility practice.

5 **Q. Could an SSR be required in the future?**

6 A. The agreements anticipate that possibility. If an SSR or other
7 Reliability Cost is incurred by Big Rivers due to service to Sebree, then
8 recovery of these costs from Sebree is authorized in the Direct
9 Agreement. However, Sebree can avoid such costs by limiting its load
10 at or below the Base plus Curtailable Load amount.

11 **Q. Has Century installed additional capacitors?**

12 A. No. Based on the MISO study, no additional capacitors are needed for
13 Sebree to operate at full capacity with Wilson closed.

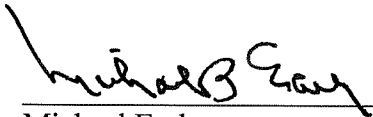
14 **Q. Does this conclude your testimony?**

15 A. Yes.

APPLICATION OF KENERGY CORP. AND BIG RIVERS ELECTRIC
CORPORATION FOR APPROVAL OF CONTRACTS
AND FOR A DECLARATORY ORDER
Kpsc CASE NO. 2013-00413

VERIFICATION OF MICHAEL EARLY

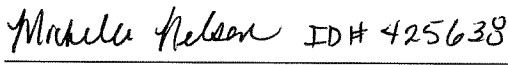
I, Michael Early, verify and affirm that I prepared or supervised the preparation of my Direct Testimony filed with this Verification, and that the testimony is true and accurate to the best of my knowledge, information and belief.



Michael Early

COMMONWEALTH OF KENTUCKY
COUNTY OF FAYETTE

SUBSCRIBED AND SWORN TO before me by Michael Early this the 18th day
of December, 2013.



Notary Public, Ky. County of Fayette
My Commission Expires August 9, 2014

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by United States First Class Mail, postage prepaid, on this 20th day of December, 2013 upon:

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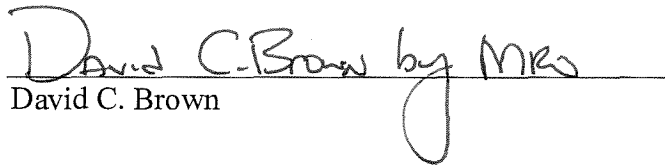
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David C. Brown

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In the Matter of:

Joint Application of Kenergy Corp.)
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A Declaratory Order)

DIRECT TESTIMONY

OF

**JASON YOUNG
PLANT MANAGER – SEBREE SMELTER**

ON BEHALF OF

CENTURY ALUMINUM SEBREE LLC

FILED: December 20, 2013

**DIRECT TESTIMONY
OF
JASON YOUNG**

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5 **Q. Please state your name, business address, and position.**

6 A. My name is Jason Young. I am employed by Century Aluminum
7 Sebree LLC (“Century”) as Plant Manager for the Sebree Smelter in
8 Robards, Kentucky (“Sebree Smelter”). My business address is: 9404
9 State Route 2096, Robards, KY 42348. I have held this position since
10 June 2013. Prior to that, I was the Continuous Improvement manager
11 at the Hawesville Smelter. Prior to coming to work for Century, I was
12 employed by Aleris for 18 months and before that for 14 years at Alcoa,
13 with the last two in Lafayette, IN.

14 **Q. What is the purpose of your testimony?**

15 A. The purpose of my testimony is to provide an overview of the Sebree
16 Smelter; discuss the economic impact of the Sebree Smelter on the
17 region and the Commonwealth; explain the importance to the Sebree
18 Smelter of the power procurement and supply transactions at issue in
19 this case (the “Century Transaction”); and explain the critical
20 importance of Commission approval of the Century Transaction,
21 without material changes, on or before January 31, 2014.

22 **Q. Please provide a brief overview of the Sebree Smelter.**

23 A. The Sebree Smelter began producing metal in 1973 and has a current
24 capacity of 205,000 metric tonnes. The facility is 100-percent owned

1 and operated through Century Aluminum and is located in Henderson
2 County. The plant consists of three potlines within the Reduction
3 department; a Casting department that currently freezes all the metal
4 into two product forms: billet and low-profile sow; and the Electrode
5 department, which creates carbon anodes for potlines in a new, state-
6 of-the-art bake furnace, a \$37 million project that was commissioned in
7 2012. Casting has the ability to change its product mix based on
8 market conditions. While sow is shipped to various customers who
9 remelt it for blending and casting into various shapes, billet is alloyed
10 to customer specifications and then shipped to extruders who apply
11 pressure and heat to re-shape the billet into such items as air
12 conditioning coils and window frames. The plant's billet is also used in
13 the automotive industry. The production areas are supported by a
14 highly skilled Maintenance team.

15 **Q. What are the economic benefits provided by continued**
16 **operation of the Sebree Smelter?**

17 A. The Sebree Smelter provides significant economic benefits. Century
18 has 506 employees at the smelter. The average wages and benefits for
19 our employees is over \$90,000/year. The Sebree Smelter pays
20 approximately \$3 million/year in state income, sales, and other taxes,
21 and in local property taxes. The total economic impact of the Sebree
22 Smelter's operations is approximately \$200 million/year. The two

1 aluminum smelters in Kentucky – the Sebree Smelter and Century's
2 Hawesville Smelter - together make Kentucky the #1 state in the
3 country in terms of aluminum production. Aluminum is important to
4 Kentucky manufacturing and, in particular, to the auto industry.

5 **Q. How important are electricity costs to the operation of the**
6 **Sebree Smelter?**

7 A. Electricity costs are the largest production cost at the Sebree Smelter,
8 representing approximately 35% of the cost to manufacture aluminum.
9 The Sebree Smelter uses about 269 million kWh per month, or more
10 power than consumed by 200,000 homes. The Sebree Smelter's
11 electricity bill is approximately \$15 million a month at the current
12 power rate.

13 **Q. How do the Sebree Smelter's current electricity costs compare**
14 **to electricity costs for other smelters against which the Sebree**
15 **Smelter competes?**

16 A. At the outset, I must make clear that the Sebree Smelter faces
17 significant and persistent global competition. Our product —
18 aluminum — is a commodity that is traded in world-wide markets.
19 Therefore, the Sebree Smelter has no ability to raise the price for its
20 product. To be competitive, the Sebree Smelter must manage its
21 production costs. The primary raw material — alumina — is also a
22 commodity traded on world-wide markets. Even after reducing all

1 other non-power costs, the Sebree Smelter cannot survive at the
2 current power prices. The Sebree Smelter's current average rate is
3 about \$56/MWh and, even before Century gave its notice of
4 termination, was projected to increase in the near-term to
5 approximately \$60/MWh. A \$60/MWh power rate is substantially
6 higher than the world average power rate to aluminum smelters and
7 the rate paid by other aluminum smelters in the United States. After
8 exhausting other efforts at rate relief, the Sebree Smelter had no
9 choice but to give notice on January 31, 2013 to terminate its power
10 contract effective February 1, 2014 due to high power costs. Since
11 providing its notice of termination, the Sebree Smelter has continued
12 to pursue options in an effort to continue production at the Sebree
13 Smelter beyond January 31, 2014. Fortunately, those additional
14 efforts resulted in the Century Transaction. This electric service
15 arrangement will provide the Sebree Smelter an opportunity to
16 purchase power at prices that, at current levels, will be capable of
17 sustaining operations at the Sebree Smelter, provided Century is
18 allowed to deliver sufficient power to serve its entire load. Current
19 prices for electricity in the competitive market are about 40% lower
20 than the power rates that the Sebree Smelter pays today.

1 **Q. What will happen if the Commission either materially modifies**
2 **the Century Transaction adversely, or rejects the Century**
3 **Transaction?**

4 A. I would prefer not to have to be this direct, but operating under the
5 Century Transaction as it has been submitted to the Commission or
6 closing the Sebree Smelter are the only two options remaining for
7 Century. To be absolutely clear, I want to emphasize that there will be
8 no second chance for the Sebree Smelter. If the Century Transaction is
9 not approved as it was filed, the Sebree Smelter will cease operations
10 on January 31, 2014 and, once operations cease, the Sebree Smelter
11 will, very likely, never reopen. Century's employees will lose their jobs
12 causing an immediate impact on their families, the communities in
13 which they live, and the economy in western Kentucky. The United
14 Steelworkers ("USW"), which represents more than 387 employees at
15 the Sebree Smelter understands the critical need for timely
16 Commission approval of the Century Transaction.

17 **Q. Can you explain why the January 31, 2014 deadline for**
18 **Commission approval is so critical?**

19 A. While aluminum smelters can sustain limited-duration curtailments,
20 any shut-down lasting more than 3 hours would cause the molten
21 aluminum to harden in the smelter's potlines. Once the aluminum
22 hardens or "freezes," a substantial capital investment must occur to

1 return the potlines to full operation. Century estimates that, if the
2 Sebree Smelter ceases operations, an investment of approximately \$40
3 to \$60 Million would be required to restart the plant. In a globally
4 competitive industry where margins are extremely thin, a capital
5 investment of this magnitude is not recoverable. Therefore, the
6 practical economic reality is that, if operations cease at the Sebree
7 Smelter, the Smelter will, very likely, never reopen.

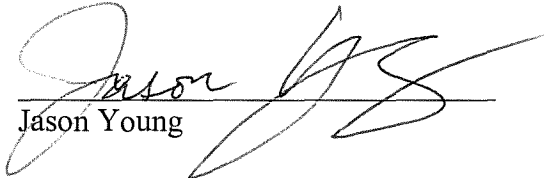
8 **Q. Does this conclude your testimony?**

9 A. Yes.

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KPSC CASE NO. 2013-00413


VERIFICATION OF JASON YOUNG

I, Jason Young, verify and affirm that I prepared or supervised the preparation of my Direct Testimony filed with this Verification, and that the testimony is true and accurate to the best of my knowledge, information and belief.


Jason Young

COMMONWEALTH OF KENTUCKY
COUNTY OF HENDERSON

SUBSCRIBED AND SWORN TO before me by Jason Young this the 17th day
of December, 2013.


Notary Public, Ky. County of Henderson
My Commission Expires 4/30/2015

CERTIFICATE OF SERVICE

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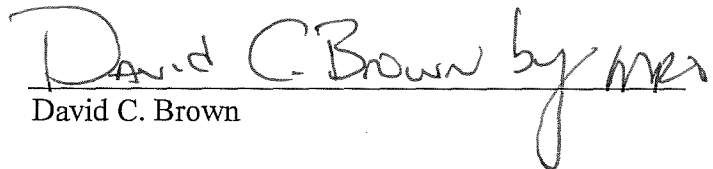
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