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**VIA OVERNIGHT MAIL**

October 13, 2008

Stephanie Stumbo Executive Director,
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

**Re:** **Case No. 2007-00455**

Dear Ms. Stumbo:

Please find enclosed the original and twelve (12) copies each of the SUPPLEMENTAL TESTIMONY OF HENRY FAYNE filed on behalf of ALCAN PRIMARY PRODUCTS CORPORATION AND CENTURY ALUMINUM OF KENTUCKY GENERAL PARTNERSHIP in the above-referenced matter.

By copy of this letter, all parties listed on the attached Certificate of Service been served. Please place these documents of file.

Very Truly Yours,

Michael L. Kurtz, Esq.
**BOEHM, KURTZ & LOWRY**

MLKkew
Attachment
cc: David C. Brown, Esq.
Certificate of Service

## CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy, by regular U.S. mail (unless otherwise noted) to all parties on the 13th day of October, 2008.

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 2007-00455

SUPPLEMENTAL TESTIMONY OF HENRY W. FAYNE
ON BEHALF OF ALCAN PRIMARY PRODUCTS CORPORATION
AND CENTURY ALUMINUM OF KENTUCKY GENERAL PARTNERSHIP

Q: Please state your name and business address.

A: My name is Henry W. Fayne. My business address is 1980 Hillside Drive, Columbus, Ohio 43221.

Q: Have you previously testified in this proceeding?

A: Yes. I have previously filed direct and rebuttal testimony in this proceeding.

Q: What is the purpose of your supplemental testimony?

A: The purpose of my supplemental testimony is to confirm that the Smelters continue to support the proposed transaction and continue to believe that it provides a reasonable opportunity for operation over the long term.

Q: Have you reviewed the October 2008 Financial Model prepared by Big Rivers?

A: Yes I have. The October 2008 Financial Model reflects an average increase in the cost to the Smelters of $1.51/mWh (3.0% or $150 million over the term of the contract) compared to the model filed in June, and an average increase of $3.61/mWh (7.5% or $395 million over the term of the contract) compared to the model originally filed in December 2007.

Q: In view of these cost increases, do the Smelters continue to support the proposed transaction?

A: Yes. Certainly, the Smelters are concerned about the continual escalation in cost that has been projected each time a new financial model has been prepared. It is also clear that Big Rivers and the non-smelter Members are concerned and committed to taking all reasonable action to keep costs as low as possible, consistent with system reliability. As I have previously explained, the parties have agreed to establish a Coordinating Committee comprised of representatives from the Smelters, the non-smelter Members and Big Rivers management for the purpose of analyzing and discussing information relating to Big Rivers' operational and financial performance. Our expectation is that these regular meetings will foster an open discussion among the respective managements and a dialogue with the Board of Directors through which all parties will contribute to optimize operating and financial plans for the benefit of non-smelter Members and the Smelters alike.

Q: Please explain the basis for the Smelters' decision to continue to support this transaction.

A: The Smelters would prefer an alternative that results in a lower cost supply of electricity. Despite the cost increases now projected, the Smelters continue to believe this transaction provides the best alternative for their continued operation.

Q: Would you please elaborate?

A: First, this transaction preserves the values of the current contracts that the Smelters have in place with Kenergy and WKE (Century through 2010 and Alcan through 2011). Based on the October 2008 Financial Model projected results, offset by the payments that E.ON has agreed to make to the Smelters, the cost to each Smelter is projected to be no higher than it expects to pay through the term of its current contract.

Second, and more importantly, the proposed transaction is the Smelters' best option for operation beyond the terms of their current contracts; it is expected to provide a reliable electric supply at rates lower than the market and at rates lower than the alternatives the Smelters would likely face absent this transaction. Moreover, as I explained in my earlier testimony, by reaching agreement now for a cost-based supply of energy, the Smelters will be able to make the financial commitments to optimize their operations and plan for an extended period of operation.

Q: Even if the proposed transaction will provide a reliable electric supply at rates lower than the market and at rates lower than the alternatives the Smelters might experience, will rates be low enough to ensure the continued operation of the Smelters?

A: The Smelters continue to be cautiously optimistic that the rates will be affordable for the long term and, combined with the rates paid by the non-smelter Members, will be sufficient to maintain the financial integrity of Big Rivers without unduly burdening any customer.

Q: Please explain the basis for your conclusion.

A: Although the costs are projected to increase significantly more than the Smelters would like, the long term LME price outlook (as least beyond the current economic turmoil) should be stronger as well. On that basis, the Smelters believe that there is a reasonable opportunity to sustain operations for the long term.

But the reality is that the LME price of aluminum is cyclical and we now face an uncertain global economy that may have significant impacts on the LME price as well as the cost profile of both Big Rivers and the Smelters. The Smelters believe that there is a direct correlation between the cost of producing aluminum and its long term price and are optimistic that a cost-based rate structure will enable them to survive for the long term. But that result is ultimately a function of the LME aluminum prices and the Big Rivers' cost-of-service rates to the Smelters.

Moreover, as I previously explained, there are several provisions in the Retail Agreement that provide the Smelters some limited opportunity to mitigate their costs during periods of low cyclical pricing by having Big Rivers sell some of their energy in the wholesale market; these sales are not intended to be a profit center for the Smelters, but rather a mechanism to enhance the likelihood of survival.

Q: Do you have anything else to add?

A: Yes. It has taken a long time to negotiate and renegotiate this transaction to accommodate the external changes and to satisfy the needs of all parties. And the Smelters appreciate that we have achieved a delicate balance. But we all recognize that one of the major objectives of this transaction is to develop a framework that provides a reasonable opportunity for the Smelters to survive, or more importantly to protect more than 5000 jobs, an annual payroll of $193 million, $16.7 million in state and local taxes and the economic viability of western Kentucky.

The Smelters strongly believe that this transaction provides the best hope of achieving that objective. We believe that the projected Smelter rates, coupled with the mitigation options, will allow the Smelters to continue to operate and support their workforces for the long term. But we also expect that all parties will work in good faith and take all reasonable actions to maintain Smelter operations and their substantial contributions to the economic welfare of their western Kentucky community..

Q: Does this complete your supplemental testimony?

A: Yes, it does.