Exhibit No.:	
Issue:	Rate Design
Witness:	Layle (Kip) Smith
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Noranda Aluminum, Inc.
Case No.:	EC-2014-0224
Date Testimony Prepared:	May 30, 2014

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Noranda Aluminum, Inc.'s Request for Revisions to Union Electric Company d/b/a Ameren Missouri's Large Transmission Service Tariff to Decrease its Rate for Electric Service	**Case No. EC-2014-0224**

Surrebuttal Testimony of

Kip Smith
(NON PROPRIETARY (NP) VERSION)

On behalf of

Noranda Aluminum, Inc.

May 30, 2014

Noranda Exhibit No. 4
Date 6-16-14 Reporter KF
File No EC-2014-0224

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STATE OF TENNESSEE)
) **SS**
COUNTY OF WILLIAMSON)

Affidavit of Kip Smith

Layle (Kip) Smith, being first duly sworn, on his oath states:

1. My name is Layle K. (Kip) Smith. I am the President and CEO of Noranda Aluminum, Inc., having its principal place of business at Suite 600, 801 Crescent Centre Drive, Franklin, Tennessee 37067.

2. Attached hereto, and made a part hereof for all purposes, is my surrebuttal testimony, which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. EC-2014-0224.

3. I hereby swear and affirm that the testimony is true and correct.

Layle K. (Kip) Smith

PAM MCCULLOUGH NOTARY PUBLIC STATE OF TENNESSEE WILLIAMSON COUNTY My Commission Expires 02-28-2016

Subscribed and sworn to before me this 30th day of May, 2014.

Notary Public

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Surrebuttal Testimony of Kip Smith

Q **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A Kip Smith. My business address is Suite 600, 801 Crescent Centre Drive, Franklin, Tennessee 37067.

Q **WHAT IS YOUR OCCUPATION?**

A I am the President and CEO of Noranda Aluminum, Inc. ("Noranda"). I am familiar with, and am responsible for, all aspects of Noranda's business.

Q **DID YOU PROVIDE DIRECT TESTIMONY IN THIS CASE?**

A Yes.

Q **WHAT IS THE PURPOSE OF THIS SURREBUTTAL TESTIMONY?**

A The purpose of this testimony is to address, respond to and counter some of the matters raised by Ameren in its rebuttal testimony, particularly the testimony of Robert S. Mudge. This testimony also responds to two issues raised by Staff

witnesses Kliethermes and Scheperle. Through this surrebuttal testimony, I hope to set the record straight on: (i) the significant liquidity issues Noranda faces if its cost of electricity is not immediately addressed; (ii) Noranda's provision of information to Moody's and the meaning of that information on this case; (iii) Noranda's disclosures to the public regarding its current financial information; (iv) the role of Apollo Management[1] in Noranda's history; (v) the necessity of Noranda's request of a $30 MWh rate with up to 2% escalation per rate case for a ten-year term; and (vi) the necessity of Noranda's request that this rate not be subject to Ameren's fuel adjustment surcharge (FAC). The fact that I do not address every point raised by these witnesses should not be interpreted as agreement with those points or those witnesses.

Q BEFORE BEGINNING YOUR RESPONSE TO THESE WITNESSES, PLEASE SUMMARIZE YOUR DIRECT TESTIMONY OF FEBRUARY 12.

A In my direct testimony, I explained that Noranda is experiencing a significant liquidity crisis that threatens the existence of the New Madrid Smelter[2]. In that testimony, as well as my Affidavit[3] in this case, I explained that without the rate relief requested, obtained on a timely basis, there is a substantial likelihood of imminent closure of the New Madrid Smelter. I explained that, in spite of many efficiency measures taken by Noranda management, our liquidity crisis is a function of a long term depressed price for aluminum, coupled with significant

[1] Apollo Global Management, LLC
[2] Direct Testimony of Kip Smith dated February 12, 2014.
[3] Affidavit of Kip Smith dated April 3.

electricity costs that are beyond Noranda's control. We ran multiple scenarios, including current business conditions, of our financial model to determine what electricity rate we would require over the long term to maintain our liquidity and to weather the LME price cycle. Our model confirmed that $30 per MWh (not subject to FAC) is the highest rate Noranda could incur if the smelter in New Madrid Smelter is to survive and to remain viable.

Q. CAN YOU EXPLAIN WHERE THE $30 PER MWH RATE CAME FROM AND WHAT IT REPRESENTS?

A. Yes, the $30 per MWh rate (not subject to FAC) is the sustainable rate at which we estimate, in conjunction with our experts, that Noranda can continue operations at the New Madrid Smelter if that rate is maintained for the long-term and not just for a brief period of time. We believe that this is the highest rate Noranda could bear that allows the New Madrid Smelter to be viable. The impact of the $30 rate (not subject to FAC) is highlighted in the financial model included as Exhibit A to my direct testimony ("Financial Model"). Without the $30 per MWh rate, our ability to secure additional capital and meet our financial commitments will be severely harmed. To be clear though, to be at break-even cash flow in 2014 with pricing as of May 27th, Noranda would require an electrical rate of **___** per MWh (not subject to FAC) based on our analysis, with the current economics of the aluminum market.

Q MR. MUDGE IMPLIES THAT NORANDA INTENTIONALLY FABRICATED ITS POSITION FOR THE SOLE PURPOSE OF THIS CASE. DO YOU AGREE WITH MR. MUDGE'S ASSESSMENT?

A. Absolutely not. Mr. Mudge's assessment is totally incorrect and misleading.

Q. IS THE LIQUIDITY ISSUE YOU CLAIM EXISTS IN YOUR DIRECT TESTIMONY REAL?

A. Yes, the liquidity issue is real and is imminent if not addressed. In fact, through the date of this testimony, we have **_____.**

The simple fact is that Noranda faces dire liquidity issues if the electric rate to the New Madrid Smelter is not immediately reduced. **_____.**

As explained in my direct testimony, we ran multiple scenarios, including current business conditions, of our financial model to determine what electricity rate we would require over the long term to maintain our liquidity and to weather the LME price cycle. Our model confirmed that $30 per MWh (not subject to FAC) rate is the highest rate Noranda could incur if the smelter in New Madrid is to survive and to remain viable through the current aluminum pricing cycle, which typically lasts ten years. As indicated above, though, to be cash flow breakeven today in

2014, Noranda estimates that it would require a rate of **___** per MWh (without FAC).

Q: MR. MUDGE CLAIMS THAT NORANDA CONCOCTED FINANCIAL EVIDENCE FOR THE COMMISSION THAT IS INCONSISTENT WITH ITS PRESENTATION TO MOODY'S AND ITS PUBLIC DISCLOSURES. HAS NORANDA MISREPRESENTED ITS FINANCIAL CONDITION?

Absolutely not. Mr. Mudge's impression is incorrect. Noranda has always been honest and transparent with the Commission, Moody's and the public.

Q. WHAT IS MR. MUDGE'S CRITICISM OF NORANDA REGARDING THE INFORMATION IT PROVIDED TO MOODY'S ON JANUARY 31, 2014 IN CONNECTION WITH MOODY'S REVIEW OF NORANDA'S CREDIT RATINGS?

Mr. Mudge appears to take issue with two different areas of information Noranda provided to Moody's: (i) estimates of future aluminum prices; and (ii) information regarding Noranda's future company-wide capital expenditures[4].

Q: PLEASE EXPLAIN THE MAJOR DIFFERENCES BETWEEN THE FINANCIAL MODEL PRESENTED IN THIS PROCEEDING AND THE FINANCIAL INFORMATION PROVIDED TO MOODY'S.

[4] Rebuttal Testimony of Robert Mudge dated May 9, 2014, pages 16-19.

A: As noted by Mr. Mudge, there are two major differences between the two models: (a) the LME aluminum prices used to determine revenues[5] and (b) capital expenditures.[6]

Q: WHAT WAS THE BASIS FOR THE REVENUE PROJECTIONS IN THE FINANCIAL MODEL PRESENTED IN YOUR DIRECT TESTIMONY?

A. The revenue projections provided in the Financial Model are derived from the forward curve data for the price of aluminum ("LME Forward Curve") as of the date of my direct testimony.[7] The LME Forward Curve information is actual market information that reflects the price of entering into spot and future transactions involving aluminum as of the day cited. It is not an estimate or forecast; rather it reflects the price at which a transaction could actually be made on that day.

Q. PLEASE EXPLAIN WHY NORANDA DID NOT PRESENT THE FORWARD CURVE DATA TO MOODY'S.

A. On January 31, 2014, Noranda provided Moody's with a presentation ("Moody's Presentation") that included a forecast of future London Metal Exchange (LME) aluminum prices generated by CRU[8] ("CRU LME Forecast"). Noranda understands that Moody's already had the LME Forward Curve information, and

[5] Rebuttal Testimony of Robert Mudge, pages 16-19.
[6] Id. at 19-33.
[7] Exhibit A, Smith Direct.
[8] CRU Group is an industry consultant group, based in London that focuses on market analysis.

that Moody's also derived its own proprietary forecasts of aluminum pricing that Moody's used in its analysis of Noranda's credit rating. The CRU LME Forecast, therefore, was intended to be supplemental to, not a substitute for, information already available to Moody's.

Q: BUT ISN'T IT TRUE THAT THE CRU LME FORECAST PRODUCED A MORE OPTIMISTIC OUTLOOK FOR NORANDA?

A: Yes. The CRU LME Forecast included in the Moody's Presentation shows a higher LME price than the LME Forward Curve. But the data was provided to Moody's as a sensitivity forecast, not as Noranda's view of the future. It represents one possible scenario among many that could occur. Moody's has the data and expertise to test the sensitivity of both the forward curve and the forecast. It is noteworthy that Moody's downgraded Noranda's credit rating after its analysis of a large array of data, including the uncertainty concerning Noranda's electricity rate, in addition to the LME forward curve and forecasts. Moody's downgrade of Noranda is entirely consistent with and provides further support for our position in this case.

Q. DO YOU BELIEVE IT WAS MISLEADING FOR NORANDA NOT TO INCLUDE THE CRU LME FORECAST IN ITS FINANCIAL MODEL IN THIS CASE?

A: No. The LME Forward Curve market data, not the CRU LME Forecast, is the correct information to use in the financial model Noranda prepared for the Commission. The LME Forward Curve used in Noranda's Financial Model in this

case is what Noranda provides to its board of directors and is used in Noranda's long-term business decisions. The LME Forward Curve shows the actual price that aluminum can be bought and sold forward. In contrast, the CRU LME Forecast is merely a description of a possible outcome and history confirms that no one has the ability to accurately forecast the future price of commodities. The CRU LME Forecast, like other forecasts, is just one among many possible scenarios. In contrast, the LME Forward Curve is real market data at a specific point in time and is the most reasonable and appropriate information to use in establishing an electric rate.

Noranda's evidence in this case, based on valid market data, shows the Commission the aluminum price appropriate for use in establishing an electric rate that allows the New Madrid Smelter to avoid a liquidity crisis and to be viable based on its operations.

Q. CAN YOU EXPLAIN WHERE THE $30 PER MWH RATE CAME FROM AND WHAT IT REPRESENTS?

A. Yes, the $30 per MWh rate (not subject to FAC) is the sustainable rate at which we estimate, in conjunction with our experts, that Noranda can continue operations at the New Madrid Smelter if that rate is maintained for the long-term and not just for a brief period of time. We believe that this is the highest rate Noranda could bear that allows the New Madrid Smelter to be viable. The $30 per MWh rate (not subject to FAC) is derived from the Noranda financial model

that was included as Exhibit A to my direct testimony[9]. As already indicated, based on our analysis, with the current economics of the aluminum market, to be at break-even cash flow in 2014 with our current capital structure and pricing as of May 27th, Noranda would require an electrical rate of **___** per MWh (not subject to FAC).

Q. MR. MUDGE ALSO ASSERTS THAT NORANDA'S PUBLIC DISCLOSURES PAINT A DIFFERENT PICTURE OF NORANDA'S FINANCIAL CONDITION THAN THE PRESENTATION TO THE COMMISSION IN YOUR TESTIMONY. HOW DO YOU REACT TO THAT CLAIM?

A. Noranda has been transparent both with the Commission and the investing public. It has correctly and fairly disclosed its financial condition to the investing public in its filing with the Securities and Exchange Commission. Noranda also has disclosed this case in those filings, and has discussed this case at length in our earnings calls. Our disclosures regarding the significance of this case to our financial condition are included in Exhibit A attached hereto.

Q. HAS NORANDA PREPARED A FINANCIAL MODEL USING THE CRU LME FORECAST TO EVALUATE THE ELECTRICITY RATE IT WOULD REQUIRE TO MEET ITS LIQUIDITY REQUIREMENTS?

A. Yes. In order to respond to Mr. Mudge's assertions, Noranda substituted the CRU LME Forecast for the LME Forward Curve in its financial model. This sensitivity run shows that even if the CRU LME Forecast is used, at the

[9] Exhibit A, Smith Direct.

requested $30 per MWh rate (not subject to FAC), cash flow would only be approximately **___** million over the five year period contained in the forecast.

Q. MR. MUDGE CLAIMS THAT NORANDA FAILS TO STATE IN THE MOODY'S PRESENTATION THAT POWER COSTS ARE MATERIAL. DID NORANDA IN FACT CONVEY TO MOODY'S THE IMPORTANCE OF THE SMELTER'S POWER RATE?

A. Yes. The Moody's Presentation was part of a series of extensive discussions Noranda had with Moody's, including discussions of power. The Moody's Presentation itself twice refers to power as a "key component" and it also uses the word "cornerstone" in referencing power, thus showing the importance of power costs. In addition, the impact of power costs on aluminum manufacturers is well known in the aluminum industry and to Moody's. This is also discussed in the surrebuttal testimony of Mr. Henry Fayne.[10]

Q. YOU INDICATED EARLIER THAT THERE WAS ALSO A DIFFERENCE IN THE LEVEL OF CAPITAL EXPENDITURES BETWEEN THE FINANCIAL MODEL REFLECTED IN THIS PROCEEDING AND THE FINANCIAL INFORMATION PROVIDED TO MOODY'S. WOULD YOU PLEASE EXPLAIN WHY THE TWO PROJECTIONS DIFFER?

A. Yes. As we have done consistently in all of our presentations to Moody's, we provided information only with respect to capital projects that have been approved by our board of directors. Moody's knows Noranda, knows the aluminum industry and made its own determination regarding the additional level

[10] Surrebuttal Testimony of Henry Fayne dated May 30, 2014 p. 4, ll.15-8; p. 5, l.22 – p.6, l.2.

of capital necessary for the business. Moreover, as indicated, the end result was that Moody's downgraded Noranda.

For purposes of this proceeding, we reflected an annual level of $100 million in capital expenditures, which is the amount we believe is necessary to maintain our operations and meet the growing needs of our customers.

Q. IS $100 MILLION IN CAPITAL OUTLAYS PER YEAR REASONABLE FOR NORANDA?

A. Yes, absolutely.

Q. CAN YOU EXPLAIN WHY $100 MILLION PER YEAR IS A REASONABLE AMOUNT OF CAPITAL EXPENDITURES FOR NORANDA?

A. Yes. First of all it is important to note that Noranda expects, and is on track, to spend $100 million in 2014.

Noranda is responding to market demand that we haven't seen historically that requires more capital to maintain market share (i.e. the rod mill project). Also, the assets are aging and therefore require more capital with each given year (as well as overall inflation of expenses). Although Noranda is still rationing certain capital expenditures, Noranda spent $88 million in capital expenditures in the year 2012. This amount was curbed in 2013 due to the impact of significantly lower aluminum prices. Many capital expenditures can no longer be rationed. Noranda has essential capital projects that must be completed in the near term that far exceed $100 million. For example, at the smelter itself, Noranda needs

to invest approximately an additional $29 million in four rectifiers. Rectifiers are critical to the operation of the smelter because they convert alternating current, which is the form of power purchased from Ameren Missouri, into direct current, which is the form of power needed to make aluminum. The New Madrid Smelter is currently operating with an inadequate number of rectifiers. As a result, production is at risk, particularly during the summer months. The loss of more than one rectifier would have the effect of unexpectedly shutting down a pot line at the smelter, and would have the same effect as a power failure for the particular pot line.

Additionally, Noranda must spend approximately $45 million, mostly this year, on the rod mill next to the New Madrid Smelter[11]. If this capital is not invested in the rod mill, Noranda will lose a large customer for whom this investment is made. Additionally, as explained in response to the next question, the impact will extend beyond the loss of one customer.

These two projects, in addition to our capital projects listed in Exhibit B, would exceed the Financial Model's $100 million capital project forecast for 2015 – 2018. Exhibit B identifies a backlog of projects that are evaluated and scheduled based on a variety of attributes, including available liquidity.

[11] Noranda 2014 Capital Budget, page 2.

Q IS MR. MUDGE CORRECT IN HIS OBSERVATION THAT THE CAPITAL REFERRED TO AS "GROWTH CAPITAL" CLEARLY DOES NOT NEED TO BE SPENT TO MAINTAIN AND SUSTAIN NORANDA'S OPERATIONS?

A. Mr. Mudge is grossly incorrect in this observation. For Noranda, "growth capital," includes spending that is necessary in order to maintain existing customers as they grow. We have long-term relationships with a blue chip customer base. For example, our top ten rod customers have been with us on average for over 20 years. For over two decades we have successfully met their supply needs and adapted our business to their growth needs and must continue to do so. If we do not, we face not only losing our customers to other suppliers, but losing our entire position in key markets as well.

The rod mill expenditure described above demonstrates our compelling need to for capital expenditures designed to retain customers and preserve our position. Noranda's largest rod customer approached us to help it meet its current supply needs and its future growth requirements through the construction of a new rod mill. A contract for the mill's construction was completed to this end, which demonstrates how critical this project is to our customer and to Noranda. When successful, Noranda will have new capacity and will be able to supply all of our largest customer's growth needs. If Noranda does not complete the rod mill, it will lose this customer's business and will be unable to compete in the North American rod market. Exiting the rod market would result in the loss of approximately **_____.**

Q. MR. MUDGE CRITICIZES NORANDA FOR HAVING "UNIDENTIFIED GROWTH PROJECTS" AS PART OF NORANDA'S FINANCIAL MODELING. DO YOU DISAGREE WITH MR. MUDGE'S CRITICISM IN THIS REGARD?

A. I very much disagree with Mr. Mudge Exhibit B identifies a backlog of projects that are evaluated and scheduled based on a variety of attributes, including available liquidity These projects will be accomplished as necessary or as possible, according to our business considerations. Simply because we do not have specific documentation on each project does not mean that the capital needs do not exist. Given the amount of capital projects that exist on the attached list, I believe that $100 million per year over the next five years is a conservative estimate.

Contrary to the assertions of Mr. Mudge, Noranda's $25 million of "unidentified growth projects" was not plucked out of the air. We looked at what capital spending will be in the next several years, and particularly for the rectifiers, and we have several years of fairly heavy capital expenditures. Exhibit B to my testimony shows projects in critical risk areas to address equipment well past its useful life. ** [12] _____.**

[12] ** _____ **

Q. WHY DO YOU BELIEVE $100 MILLION PER YEAR IS THE MINIMUM CAPITAL REQUIRED? CAN'T YOU DEFER SOME OF THAT SPENDING

A. We rationed capital expenditures for so long that there are some inevitable projects that just have to be done. We have reduced capital spending, but at some point, as determined by our business judgment, the spending must be made to avoid irreparable harm to our business. These growth projects are designed primarily to retain customers rather than to expand our business to increase profits.

Q. MR. MUDGE TAKES ISSUE WITH THE FINANCIAL MODEL ON THE BASIS THAT IT DOES NOT INCLUDE ANY POSITIVE RETURNS THAT WOULD RESULT FROM INVESTMENT IN CAPITAL GROWTH PROJECTS. DO YOU AGREE WITH THIS CRITICISM?

A. No. At least $65 million to $75 million of the capital spending projected in the financial model is simply required to keep the Noranda facilities, such as the New Madrid Smelter, operational. The remainder of the spending, which is described as "growth projects", is designed primarily to retain customers rather than to expand our business to increase profits. For these reasons, Mr. Mudge's criticism is not material to Noranda's rate request.

Q. COULD NORANDA SIMPLY MEET ITS CAPITAL AND LIQUIDITY NEEDS BY BORROWING MORE MONEY OR RAISING ADDITIONAL CAPITAL AS MR. MUDGE SUGGESTS?

A. No. Contrary to Mr. Mudge's assertion, other than the asset-backed lending facility, Noranda currently has no additional borrowing sources. **_____ _____.**

Although Mr. Mudge also speculates, without explanation, that Noranda could somehow raise additional equity capital,[13] I do not agree that such an option is viable given the current power arrangement at the smelter. Mr. Mudge's testimony in this regard is incongruous. On the one hand, Mr. Mudge notes that Noranda's ratio of long-term liabilities to book capitalization is 87%, a ratio he considers to be "extremely high"[14]. On the other hand, Mr. Mudge claims that Noranda should be able to go into the debt market to raise additional debt[15]. Of course, that would only serve to further increase the already "extremely high" debt to equity ratio. More specifically, the fallacy of Mr. Mudge's opinion in this regard is that he points to Noranda's efforts to attempt to arrange for third-party project financing of the rod mill expansion project described earlier in this testimony[16]. **_____ _____.**

[13] Id.
[14] Mudge Rebuttal, page 37.
[15] Id., page 33-34.

Q. WOULD NORANDA BE IN THE FINANCIAL POSITION THAT IT FINDS ITSELF IF IT WERE NOT FOR APOLLO MANAGEMENT GROUP FINANCING THE COMPANY AND TAKING DIVIDENDS OUT OF THE COMPANY AT THE LEVEL IT DID?

A. As in prior cases before this Commission in which Noranda has been a party, Ameren attempts to divert attention from the real issues in the case by improperly attacking Apollo Management. Ameren attempts to continue the chase after the red herring of Apollo Management in this case through the testimony of Mr. Mudge[17]. In my opinion, if not for Apollo Management, the New Madrid Smelter would not be open today. Although Apollo Management received high returns for its investment in Noranda, the benefits Apollo Management has provided to the company fully justify every dollar it has earned on its investment.

Q. CAN YOU EXPLAIN FURTHER THE BASIS FOR YOUR OPINION?

A. Certainly. In 2007, Apollo Management was responsible for the acquisition of Noranda from Xstrata. Apollo was the only viable bidder; if not for Apollo, the New Madrid Smelter would likely be closed today

Mr. Mudge correctly notes that Apollo Management acquired the Noranda assets as part of leveraged buy-out in 2007.[18] The first "dividend" Mr. Mudge identifies in his testimony, $214 million,[19] was actually a return of capital and part of a

[17] Id., pages 35-40
[18] Mudge testimony, page 34.
[19] Id., pg. 36.

financial restructuring that had no significant impact on the company's cash position at the time. This and the other dividends must be viewed in the appropriate context and not solely with the benefit of perfect hindsight. In all cases, the dividends were subject to a prudency review reflecting the business and market circumstances at the time prior to approval.

Mr. Mudge fails to take into account two key considerations regarding dividends and Apollo Management. First, Mr. Mudge fails to address the importance of paying dividends as a practice to support a company's access to the financial markets.

Second, while, along with other investors, Apollo received dividends, nowhere does Mr. Mudge acknowledge any value Apollo Management brought to Noranda. Because of Apollo Management's effectiveness in their advisory role, Noranda benefited greatly. One specific example is Apollo Management's work with hedging of aluminum production of Noranda. As a result of Apollo Management's knowledge and advice in this area, Noranda was able to reduce its debt by approximately $285 million and recognize a comparable amount in gains. This massive debt reduction and cash in-flow resulted in large part from Apollo's advice and support

Also, due to Apollo Management's financial strength, broad business experience and effective advisory skills, Noranda has been able to survive some very difficult times. It is my opinion that without Apollo Management's investment and involvement in Noranda, including both its purchase of the smelter in New Madrid

and its support to the smelter after the devastating ice storm of 2009, the New Madrid Smelter would have closed at that time and good Missouri jobs would have been lost. Indeed, I understand from Mr. Brubaker's surrebuttal testimony that Ameren Missouri ratepayers have received over $100 million in net rate benefits since the smelter reopened after the ice storm versus shuttering the New Madrid Smelter[20].

Ameren and Mr. Mudge are misguided in their arguments that the actions of Apollo Management have been detrimental to the New Madrid Smelter. It is essential to consider Apollo Management's role in saving the smelter from closure and allowing the smelter to survive through the natural disaster of the ice storm as well as the greatest economic crisis since the great recession. Apollo was the only viable bidder; if not for Apollo, the New Madrid Smelter would likely be closed today. Apollo's involvement saved the New Madrid Smelter and has thus benefitted the employees of the company, the local communities, and Missouri's economy, as well as other Ameren ratepayers.

Q. STAFF WITNESS KLIETHERMES TAKES ISSUE WITH NORANDA'S REQUEST FOR A TEN YEAR POWER RATE, SUBJECT TO TWO PERCENT INCREASES. WHY DO YOU NEED STABILITY IN YOUR ELECTRIC RATE FOR TEN YEARS?

A. Noranda is in a capital intensive industry where a sustainable power rate is critical because power is our largest cost. In our industry, a ten year runway is

[20] Surrebuttal Testimony of Maurice Brubaker filed May 30, p. 6, ll. 15-7.

not long given the length of time necessary to plan, execute, and generate a recovery and return on investment A typical LME cycle lasts about ten years. Noranda's rate request is necessary for the smelter to be sustainable over the course of this cycle. An affordable, predictable, reliable source of power is essential to attract equity capital, keep Noranda's credit ratings and manage through a cyclical commodity price. There will be some good years and some bad years, and a rate of $30 per MWh (not subject to FAC) for ten years allows Noranda to weather the LME cycle. The rate and the term are interdependent and necessary for Noranda to be sustainable during this cycle. Noranda's rate request of $30 MWh for a ten-year term is essential for Noranda to stop rationing necessary capital projects and to have sufficient liquidity to be viable.

Q. STAFF WITNESS SCHEPERLE TAKES ISSUE WITH NORANDA'S REQUESTED EXCLUSION FROM OPERATION OF THE FAC. WHAT IS YOUR RESPONSE?

A. Because electricity is one-third of the New Madrid Smelter's cost, the volatility inherent in the FAC creates a material business risk to Noranda and is especially harmful to the viability of the New Madrid Smelter. If Noranda is subject to the FAC, then even with a base rate of $30 per MWh, the New Madrid Smelter would not be sustainable for the reasons stated elsewhere in my testimony.

Q. IF THE COMMISSION DOES NOT GRANT NORANDA'S RATE REQUEST, WHAT ARE NORANDA'S ALTERNATIVES?

A. As CEO of Noranda, it is my job to act in the best interests of the shareholders and other stakeholders of the company. But if Noranda is unable to obtain its requested rate relief, it is very difficult to foresee an alternative that does not ultimately lead to a substantial likelihood of imminent closure of the New Madrid Smelter.

Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A Yes, it does.

Investor communications. Communications showing that:

1. Noranda assumed the requested power rate of $30.

    a. "Now, turning to our integrated net cash cost, we expect 2014 to range between $0.75 to $0.78 per pound reflecting a new power rate"—February 19, 2014 transcript
    b. "We have talked about power and what we built into our guidance there for the year—April 23, 2014 transcript

2. Disclosed the Commission case.

    a. "Page seven of this morning's conference call material summarizes the key elements of our proposal." —April 23, 2014 transcript
    b. "On slide 8 we have summarized a few points we believe are helpful in understanding the status of our rate design petition filed with the Public Service Commission, or PSC, in the state of Missouri."—April 23, 2014 transcript

3. Disclosed the importance of the power rate.

    a. "To be sustainable, New Madrid must have competitive power rates." —April 23, 2014 transcript
    b. "This case is extremely important for the New Madrid smelter and for our Company. We appreciate the support we have received from consumer groups as we seek to achieve a reduced power rate. So, it is important to remember that the ultimate outcome is up to the Public Service Commission. Although the Public Service Commission has established a schedule that allows for a timely decision in this case, this is no indication regarding how the PSC might view the merits of our rate request."—April 23, 2014 transcript
    c. Discussions about power occupied 73% of the Q&A portion of the February 19, 2014 earnings call, and 38% of the April 23, 2014 earnings call. It is clear that investors are aware of the rate case and its importance to Noranda.

4. Referenced liquidity issues.

    a. Discussions about liquidity occupied 73% of the Q&A portion of the July 24, 2013 earnings call, and 100% of Q&A in the October 30, 2013 earnings call. It is clear that investors are focused on our liquidity and our ability to survive.
    b. "A significant part [...] is to preserve liquidity by tightly managing our working capital and cutting back on discretionary spending."—July 24, 2013 transcript
    c. "We opportunistically accessed credit markets during the quarter to improve our liquidity. We increased our Term B loan facility by $50 million and added $15 million to our existing asset-based revolving credit agreement in May. These transactions supplement ongoing operational actions to give incremental -- to drive incremental efficiencies and cost savings as we manage our liquidity and preserve our financial flexibility"—July 24, 2013 transcript
    d. We are very focused on our liquidity, but when we get into this part of the cycle our playbook really focuses on three very important outcomes. First, preservation of liquidity; second, accelerating our productivity; and third, continuing to grow our

business because growth gives us -- done properly growth also helps us drive our productivity and positions us for when we come out. So obviously, of those three, if you ask which one of those children do we love the most right now it is liquidity preservation."—July 24, 2013 transcript

e. "As a part of taking the actions to improve our operating results and liquidity, we have performed a strategic review of our capital allocation. As a result of this review, we decided to retain more of our cash to make accretive investments in our business [...]. Accordingly, we have decided to reduce our quarterly dividend, while remaining committed to the prudent return of capital to shareholders."—October 30 transcript

f. "The actions we have taken in response to market conditions demonstrate our commitment to taking prudent actions to preserve our liquidity."—October 30 transcript

5. Referenced possibility of smelter closure and related communications.

a. "Any time we talk privately or publicly about the reduction in our workforce, it's something that impacts us deeply. This for us is a family here, and for us to have to do that, or even talk about it, pains us greatly. [...] We are going to take the actions that are necessary for our survival. History tells that power is essential cost to be managed, and it must be competitive when you look at the progress of the smelter situation in the US. 20 or 30 years ago there were 32 smelters in the US. When I started with Noranda there were 15, and now there are nine. We've been unable to find the smelter closure announcement that did not include power as either the sole or primary cause for the closure of that smelter. We're not any different than any other smelter out there." —February 19, 2014 transcript

b. "To be sustainable, New Madrid must have competitive power rates."—April 23, 2014 transcript

c. "Having a competitive power rate is as vitally important for New Madrid as it is for any smelter. If you just look at the history, we all know from experience that there were 32 smelters about 25 years ago, there were 15 smelters six years ago and there are nine today. And as we have looked at those shutdowns, we haven't seen one that did not cite uncompetitive power as the primary cause or a primary cause of the closure." —April 23, 2014 transcript

EXHIBIT B

IS

HIGHLY CONFIDENTIAL