Exhibit No.:	
Issue:	Rate Design
Witness:	Layle (Kip) Smith
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Noranda Aluminum, Inc.
Case No.:	EC-2014-____
Date Testimony Prepared:	February 10, 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-____**

Direct Testimony of

Kip Smith
(NP VERSION)

On behalf of

Noranda Aluminum, Inc.

February 10, 2014

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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 direct testimony, which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. EC-2014-____.

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

Layle K. (Kip) Smith

Subscribed and sworn to before me this 10th day of February, 2014.

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

Notary Public

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Direct 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 PLEASE DESCRIBE THE BUSINESS OF NORANDA.

A Noranda is an integrated aluminum manufacturer. Aluminum is a commodity business. Its manufacturing is energy-intensive and capital-intensive. Noranda is a U.S. based, publically traded (NYSE) company focused on U.S. markets.

In addition to its smelter near New Madrid, Missouri, Noranda owns and operates a bauxite mine in Jamaica and an alumina refinery in

Gramercy, Louisiana, and rolling mills in Arkansas, North Carolina and Tennessee. The New Madrid Smelter produces molten aluminum and converts molten aluminum to aluminum products such as billet, rod, foundry products and primary ingots. The smelter has been operating in Southeast Missouri since February 25, 1971. Its primary product inputs are electricity and alumina. The alumina is delivered via barge over the Mississippi River. Alumina, also known as aluminum oxide, is produced from bauxite ore. The New Madrid Smelter processes the alumina through three production lines that electrolytically convert aluminum oxide into molten aluminum. The process requires an unusually large amount of electricity. On an annual basis, the New Madrid Smelter purchases about the same amount of electricity as the entire city of Springfield, MO. Electricity must be constantly available to the production lines at the New Madrid Smelter, otherwise the lines will be damaged from liquid metal solidifying in the lines. When at full production, the New Madrid Smelter produces more than 260,000 metric tons of aluminum per year. The aluminum is sold primarily in North America. Noranda is one of the largest foil producers in North America and a major producer of light gauge sheet products.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A The purpose of my testimony is to explain why our request for a rate reduction is critical for the New Madrid Smelter to continue to operate and sustain its business in Missouri. I will also explain why Commission approval of our request is in the public interest. The decision in this case is vitally important to the New Madrid Smelter's near-term and long-term operations. The New Madrid Smelter's sustainability in Southeast Missouri is inextricably linked to the employment and well-being of the approximately 888 Noranda employees and their families as well as dozens of other businesses in Southeast Missouri and the employees and families that they support.

Q WHAT IS NORANDA'S RATE REQUEST IN THIS CASE?

A Noranda requests a rate of $30/MWh for the New Madrid Smelter for a fixed term of ten years, subject to a rate increase of up to two percent at the time of each general rate increase granted to Ameren Missouri by the Commission during this period. Noranda is also requesting expedited Commission approval for this rate change.

Q WHY IS A RATE REDUCTION FOR NORANDA IN THE PUBLIC INTEREST?

A The New Madrid Smelter has been an integral part of the economic landscape of Southeast Missouri for more than 40 years. The New Madrid Smelter is the largest direct and indirect manufacturing employer in

Southeast Missouri. Hundreds of Southeast Missouri families would be placed in financial peril if the New Madrid Smelter was forced to shut its doors. Millions of dollars flow into the homes and businesses of Southeast Missourians as a result of the revenues from Noranda products, which are sold mostly outside of the state. The New Madrid Smelter's economic benefit to the state of Missouri is estimated to be in excess of $300 million annually.

Moreover, the New Madrid Smelter provides hundreds of skilled jobs that pay good, stable wages and provides its employees medical and retirement benefits. The New Madrid Smelter's 2013 estimated annual payroll was $95 million. In addition, the New Madrid Smelter pays 17.9% of the total taxes collected in New Madrid County and 28.7% of the taxes paid for the New Madrid County R-1 Schools. Taxes paid by the New Madrid Smelter help keep the school systems viable and help to maintain the infrastructure and needed government institutions in Southeast Missouri. It is vital to our employees, to their families, to the community, to the merchants that our employees frequent, to our vendors (including Ameren Missouri), and to their families, that the New Madrid Smelter remain viable. Noranda's proposed rate would allow the smelter to stay in business for the near term, ensure the continuing viability of the smelter and sustain its numerous benefits to the community and the state of Missouri.

Finally, the rate proposed by Noranda will provide ongoing benefits for all of Ameren's retail customers as Noranda will continue to be Ameren's largest electric customer with a very high load factor. As explained by Maurice Brubaker, Noranda's proposed rate is greater than the incremental cost to serve the Noranda load, thus creating a direct benefit to other customers. This direct benefit would be lost if Noranda ceased taking power from Ameren.

Q WHY DOES THE NEW MADRID SMELTER NEED EXPEDITED APPROVAL OF ITS REQUEST FOR A RATE REDUCTION?

A Market conditions are creating short-term liquidity challenges throughout the aluminum industry. Unfortunately, if the New Madrid Smelter is not granted the rate relief requested and in an expedited manner, based on current market conditions, I expect that the New Madrid Smelter will be required to reduce its workforce by 150-200 employees before the end of 2014. Although this work force reduction will not provide savings equal to Noranda's proposed electrical rate reduction, it would allow the smelter to survive for a period of time, and it is the maximum headcount reduction we believe that we could attempt without affecting our ability to meet our commitments to the New Madrid Smelter's external customers.

Noranda has and continues to make efforts to reduce other costs and remain as efficient as possible. Noranda's culture of annual productivity improvements has positioned us well to accelerate cost

reductions (except for electricity). Noranda will do its part; we expect to improve our Noranda-wide operational efficiency (excluding electricity) by $177 million over the next three years.

But if Noranda is forced to reduce the work force at the New Madrid Smelter by 150-200 employees, even when coupled with Noranda's other cost savings measures, this will not be sufficient as a long-term sustainable strategy. Without the requested rate reduction, even with our planned reductions in other costs, the New Madrid Smelter would have insufficient liquidity and be subject to closure **_____**, resulting in the loss of all jobs at the smelter. Thus, I believe the rate relief requested is necessary to preserve jobs at the New Madrid Smelter not only in the short-term, but in the long-term as well. A closure of the New Madrid Smelter would be a tragedy for the 888 families who are supported by the stable and dependable employment offered by Noranda, and also a tragedy for the families whose livelihoods depend on the businesses supported by Noranda.

In contrast, if Noranda's rate request is granted, the New Madrid Smelter will preserve 150-200 jobs in the near term and continue to operate effectively over the proposed contract term. Granting Noranda's rate request will enable the New Madrid Smelter to weather the current crisis, retain these 150-200 jobs, and continue to upgrade and invest for long-term growth, which is expected to preserve all of the jobs associated with the smelter in the long-run.

Q PLEASE DEFINE WHAT YOU MEAN WHEN YOU USE THE TERM LIQUIDITY AND EXPLAIN ITS IMPORTANCE TO NORANDA.

A Liquidity is defined as cash on hand plus available borrowings. Every company, including Noranda, needs cash in order to run its business.

Q WHAT LEVEL OF LIQUIDITY IS NECESSARY FOR NORANDA TO REMAIN A COMPETITIVE SMELTER IN THE U.S.?

A **_____
_____
_____
_____**

Q WHY DOES NORANDA NEED A LONG-TERM CONTRACT?

A As discussed in Henry Fayne's testimony, it is a well established competitive practice within the US aluminum industry for power contracts to be long-term in nature. Power contracts in the US range from a few years to thirty years. Currently five of the remaining eight smelters that purchase their power have power contracts of ten years or longer.

Noranda needs a contract term of ten years to be competitive and to provide the raw material stability to run its business sustainably.

Q WHY ARE ELECTRIC RATES SO IMPORTANT TO THE NEW MADRID SMELTER?

A The viability of an aluminum smelter is largely dictated by its cost to produce aluminum. Electricity is our leading single cost, representing approximately one-third of the New Madrid Smelter's cost to produce. If a smelter's cost of electricity is uncompetitive, that is, if its cost of electricity is significantly higher than the cost to other smelters, the viability of the smelter is jeopardized. It is not possible to offset an uncompetitive cost of electricity with cost reductions and productivity improvements. The cost of electricity can make or break Noranda's ability to survive in the short-term and maintain the viability of the smelter in the long-term.

The aluminum production industry is a globally competitive commodity industry. The aluminum produced by the New Madrid Smelter is essentially identical to that produced by other aluminum smelters. The price for aluminum is established on the London Metal Exchange (LME), and a producer such as Noranda has little or no influence on the LME price. Because the product is largely undifferentiated and its price is outside of Noranda's control, Noranda must compete on the basis of production cost. Because electricity constitutes such a large percentage of production cost, affordable electricity is essential to the New Madrid Smelter's survival and prosperity.

Q IS NORANDA'S POWER RATE COMPETITIVE WITHIN THE U.S. ALUMINUM INDUSTRY?

A No. The competitive landscape for electricity provided to aluminum smelters in the U.S. has, and is, changing dramatically. As discussed in the testimony of Noranda witness Henry Fayne, in 2014, we expect Noranda's power rate to be second highest among the eight remaining US smelters that buy their power. Specifically, the cost to Noranda, assuming no change in Ameren rates, is expected to be approximately $5/MWh higher than the average rate for smelters located in the United States in 2014. That means the New Madrid Smelter is paying $20 million each and every year more than the average domestic smelter. Compared to the global average, excluding the U.S. and China, Noranda would be paying more than $11/MWh higher, or $49 million per year. Compared to the three domestic smelters with the lowest cost of electricity, the New Madrid Smelter would be paying a staggering $17.5/MWh, or $73 million, more per year. We have worked hard to reduce costs, but it's virtually impossible to offset such differences.

Q EARLIER YOU DESCRIBED NORANDA AS AN ENERGY-INTENSIVE BUSINESS. WHAT DOES THAT MEAN?

A The New Madrid Smelter uses approximately 480 MW of power, 24 hours per day, 7 days per week, 52 weeks per year, with a 98% load factor. The New Madrid Smelter is Ameren Missouri's largest customer, and is the largest consumer of electricity in Missouri. As a result of the particular physical supply arrangements, none of the Ameren Missouri distribution

facilities are used in providing service to the New Madrid Smelter, leading to lower losses and lower assignment of costs. All of these considerations lead to a lower unit cost for the service provided to the New Madrid Smelter as compared to other customers.

As I noted above, electricity is the single largest operational cost of the New Madrid Smelter, representing about one-third of its overall cost of producing primary aluminum. When the New Madrid Smelter is at full production, at current electric rates, it pays Ameren Missouri approximately $160 million in base rates for electricity each year plus charges under the fuel adjustment clause.[1] Since 2008, as a result of rate increases and changes in the fuel adjustment clause, Noranda's annual cost of electricity has increased by about 32 percent, or an increase of about $44 million.

Q YOU ALSO DESCRIBED NORANDA AS A CAPITAL-INTENSIVE BUSINESS. PLEASE EXPLAIN NORANDA'S CAPITAL INVESTMENT REQUIREMENTS.

A Noranda requires significant capital investment annually to support daily operations of its plants. This is referred to as "Sustaining Capital." Noranda also requires significant capital to grow to support Noranda's customers and maintain Noranda's competitive position which we refer to as "Growth Capital." Noranda, on a companywide basis, expects to spend

[1] In addition, we directly pay Associated Electric Cooperative, Inc. approximately $6.6 million per year, or about $1.50 per MWh, for the use of its transmission system to deliver power to us.

on average approximately $65-75 million annually for Sustaining Capital and $20-25 million annually for Growth Capital. The majority of our capital spending has been at New Madrid and that trend is expected to continue. We expect to spend $28 million in Sustaining Capital and $38 million in Growth Capital at New Madrid in 2014.

Q HAVE YOU PREPARED AN EXHIBIT WHICH SUPPORTS THE NEED FOR NORANDA'S REQUESTED RATE REDUCTION?

A Yes. Financial data supporting Noranda's request is included in my testimony as Exhibit A, which is a highly confidential document.

Q PLEASE DESCRIBE THE EXHIBIT.

A This exhibit shows Noranda's liquidity position each year, as well as cash flows, under three different scenarios. The first scenario, called the "No Liquidity Actions," contemplates Noranda taking no action to increase liquidity. The second scenario, called "With Liquidity Actions, But No Power Rate Reduction," contemplates all reasonable and sustainable liquidity actions that Noranda expects to take, but includes no electric rate relief. The third scenario, called "With Liquidity Actions and $30 Power Rate," contemplates the liquidity actions under the second scenario, plus includes the electric rate relief requested herein.

Q PLEASE EXPLAIN THE CONCLUSIONS THAT THE EXHIBIT SUPPORTS.

A There are five conclusions from this exhibit.

1. Noranda is facing short-term liquidity and long-term reinvestment challenges.

2. Without the short-term actions Noranda has taken and plans to take ("No Liquidity Actions") to accelerate its productivity and improve its liquidity position, current market conditions would cause Noranda to consume all of its available liquidity by the end of 2015.

3. Noranda will accelerate its productivity programs ("With Liquidity Actions, but No Power Rate Reduction") but that will not be enough to sustainably navigate through current market conditions and sustainably run the business. Productivity improvements and cost reductions expected to improve pre-tax cash flow by over $220 million over the five-year forecast period would not be sufficient to overcome the impact of uncompetitive power.

4. Noranda must have competitive power to survive these short-term market conditions and to sustainably reinvest in the business.

5. Noranda has a sustainable future with this requested rate ("With Liquidity Actions and $30 Power Rate").

(Note: Exhibit A shows Noranda's liquidity position under various scenarios. In all cases, we have assumed LME aluminum prices based on a recent forward curve; on that basis, the LME price is expected to increase by 17% over the period. Inflation was limited to 2% per year, but the cost of electricity under the first two scenarios was held constant at current levels. Capital requirements were held to $100 million per year for the entire company, the average annual amount required to cover both sustaining and growth capital.)

Q WHAT HAS THE NEW MADRID SMELTER ALREADY DONE TO REDUCE COSTS?

A A lot. We have a passionate focus on productivity supported by annual and three-year cost control and productivity goals. This corporate operating strategy supports the short-term performance and long-term viability of the New Madrid Smelter. Since 2009, Noranda has had an aggressive program to reduce its costs and increase productivity, achieving over $295 million in productivity savings to date.

Every year, the New Madrid Smelter invests the best efforts of its employees and significant financial resources to reduce its costs to sustain its Missouri operations. Since 2008, the smelter's annual costs have been reduced by over $100 million through our Comprehensive Cost-Out, Reliability and Effectiveness ("CORE") productivity program. If the cost of electricity were held constant, the New Madrid Smelter would now be able to make a pound of aluminum more efficiently and for less cost than in 2008. However, since 2008, our annual cost of electricity has gone up approximately $44 million, wiping out all of our other net savings combined.

The New Madrid Smelter has attacked every operating cost that it can, and will continue to do so. But this represents only two-thirds of our costs, and that is unfortunately not enough. We must find an immediate and long-term solution to reduce our cost of electricity.

These savings are crucial to the viability and ongoing reinvestment in the New Madrid Smelter. Since 2007, Noranda has invested over $205 million to preserve, improve and grow the capability of the facility.

The New Madrid Smelter also plays a key role in our value-added growth strategy. We manufacture at the New Madrid Smelter high purity grades of aluminum as well as fabricated products – aluminum billet and aluminum rod. A key foundation of this strategy is the capability to manufacture cost competitive aluminum. To that end, Noranda has authorized $38 million in capital to improve the New Madrid Smelter's electrical efficiency, yielding an additional 25 million pounds of aluminum. This project is currently on hold until the viability of the smelter is solidified, and the cost of this project is on top of the planned $38 million in Growth Capital expenditures that are contemplated as I discuss above.

Q WHY IS THE COMMISSION PROCESS SO IMPORTANT TO NORANDA?

A Electricity is approximately one-third of the New Madrid Smelter's cost, and while Noranda can bring market competition to bear on the cost of every other supply line of the New Madrid Smelter, electricity is the one cost we cannot directly control. Noranda greatly appreciates the Commission's decisions in Ameren Missouri's last several rate cases to move Noranda's rate toward cost of service. The New Madrid Smelter has continued to operate because of these decisions, the support of the

stakeholders, reliable operations, effective productivity programs and the strength of the Commission's process. Noranda respects the Commission process and seeks to strengthen this process by contributing evidence and engaging in constructive dialogue with all stakeholders.

Q ARE OTHER WITNESSES TESTIFYING ON BEHALF OF NORANDA'S REQUEST?

A Yes. In addition to my testimony, Noranda is sponsoring testimony of other witnesses. I have listed the other witnesses and provided a brief description of their testimonies.

- Mr. Henry Fayne: Mr. Fayne's testimony addresses the competitive disadvantage Noranda faces as a result of the lower electric rates its competitors have secured.
- Dr. Joseph H. Haslag: Dr. Haslag's testimony addresses the financial impact to the State of Missouri's economy were the Noranda Smelter to close.
- Mr. Maurice Brubaker: Mr. Brubaker's testimony analyzes Ameren Missouri's rates with and without the Noranda smelter as an Ameren Missouri customer. He states that all Ameren Missouri consumers will ultimately benefit from keeping the Noranda Smelter in operation.
- Mr. James R. Dauphinais: Mr. Dauphinais' testimony addresses actual net energy costs should the Noranda smelter be subject to closure. Mr. Brubaker relies on this testimony.

- Congressman Jason Smith: Congressman's Smith's testimony addresses the economic benefits the continued operation of the Noranda smelter brings to Southeast Missouri.
- Senator Wayne Wallingford: Senator Wallingford's testimony addresses the economic benefits the continued operation of the Noranda smelter brings to Southeast Missouri.
- Senator Doug Libla: Senator Libla's testimony addresses the economic benefits the continued operation of the Noranda smelter brings to Southeast Missouri.
- Senator Gary Romine: Senator Romine's testimony addresses the economic benefits the continued operation of the Noranda smelter brings to Southeast Missouri.
- Representative Kent Hampton: Representative Hampton's testimony addresses the economic benefits the continued operation of the Noranda smelter brings to Southeast Missouri.
- Representative Steve Hodges: Representative Hodges' testimony addresses the economic benefits the continued operation of the Noranda smelter brings to Southeast Missouri.
- Representative Todd Richardson: Representative Richardson's testimony addresses the economic benefits the continued operation of the Noranda smelter brings to Southeast Missouri.

- Representative Shelley Keeney: Representative Keeney's' testimony addresses the economic benefits the continued operation of the Noranda smelter brings to Southeast Missouri.
- Michelle Fayette: Ms. Fayette's testimony addresses Noranda's impact on the community in Southeast Missouri and to the Kenny Rogers Children's Center.
- Glenna Shy: Ms. Shy's testimony addresses Noranda's impact on the community in Southeast Missouri and to the Sikeston/Bootheel Area United Way.
- Emil Ramirez: Mr. Ramirez' testimony addresses the impact of Noranda as an employer to workers in New Madrid County.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Kip Smith's Exhibit A
is
HIGHLY CONFIDENTIAL
in its entirety