

Exhibit No.:
Witness: Henry Fayne
Type of Exhibit: Surrebuttal Testimony
Issues: Rate Design
Sponsoring: Noranda Aluminum, Inc.
Party: EC-2014-0224
Case No.: May 30, 2014
Date Prepared:

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June 23, 2014
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Missouri Public
Service Commission

**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) Case No. EC-2014-0224
Missouri's Large Transmission)
Service Tariff to Decrease its Rate)
for Electric Service)

Surrebuttal Testimony of Henry Fayne

On behalf of

Noranda Aluminum, Inc.

Noranda Exhibit No. 9
Date 6-16-14 Reporter KF
File No. EC-2014-0224

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

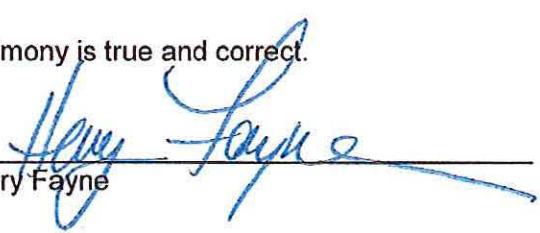
STATE OF NEW YORK
COUNTY OF NEW YORK

SS

Affidavit of Henry Fayne

Henry Fayne, being first duly sworn, on his oath states:

1. My name is Henry Fayne. I am a consultant. My address is 140 East 83rd Street, New York, New York 10028.
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.


Henry Fayne

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


Notary Public

MARCUS DAMIAN FIDDLE
Notary Public, State of New York
No. 01F16276883
Qualified in New York County
Commission Expires February 25, 2017

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

2 A: My name is Henry W. Fayne. My business address is 140 East 83rd Street, New
3 York, New York 10028

4 **Q: HAVE YOU FILED DIRECT TESTIMONY IN THIS PROCEEDING?**

5 A: Yes, I have

6 **Q: WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

7 A: The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of
8 Ameren Missouri witness Robert Mudge.

9 **Q: PLEASE DESCRIBE THE ISSUES RAISED IN MR. MUDGE'S**
10 **TESTIMONY THAT YOU INTEND TO ADDRESS.**

11 A: Mr. Mudge criticizes the electricity cost data provided in my testimony. That
12 criticism is incorrect, misleading and irrelevant to the evaluation of Noranda's
13 proposal in this proceeding. Moreover, the conclusions he draws from the
14 comparative analysis of overall cost of production are both irrelevant and
15 incorrect.

16 **Q: MR. MUDGE ASSERTS THAT THE ELECTRICITY COST DATA**
17 **REFLECTED IN YOUR DIRECT TESTIMONY IS MISLEADING. DO**
18 **YOU AGREE WITH HIM?**

19 A: Absolutely not. Mr. Mudge misunderstands how Noranda's request for a
20 \$30/MWh electricity rate was determined and what the comparative electricity
21 cost data was intended to show. Contrary to the impression that Mr. Mudge
22 attempts to convey, the determination of the \$30/MWh was not based on a
23 comparison of the cost of other smelters. As described in the testimony of Mr.

1 Smith, the proposed rate was determined based on an evaluation of the financial
2 requirements of Noranda. The introduction of comparative electricity costs
3 among smelters as shown on Exhibit HWF-1 included in my direct testimony was
4 not to be determinative, but rather was intended to show that the \$30/MWh
5 proposed rate was reasonable in the context of the industry. And that is exactly
6 what it shows; at \$30/MWh, the cost of electricity to New Madrid would be
7 reasonably within the range of the electricity cost to other smelters in the U.S. and
8 equivalent to the average rate smelters receive globally.

9 **Q: DO YOU DISAGREE WITH OTHER ISSUES MR. MUDGE HAS RAISED**
10 **REGARDING THE COST OF ELECTRICITY DATA YOU PROVIDED?**

11 **A:** Yes. In his testimony, Mr. Mudge criticizes the cost data because it does not
12 describe the risks and costs embedded in the various power supply arrangements.
13 Although he then proceeds to describe various items such as investment
14 commitment (which Noranda has indicated it would be willing to provide),
15 employment commitment (which Noranda has indicated it would be willing to
16 provide) and market risk, he conveniently fails to describe the risk exposure that
17 Noranda currently has with Ameren Missouri service. In 2012, the cost of
18 electricity to Noranda was \$39.06/MWh. In 2013, the cost was \$43.50/MWh, an
19 increase of more than 11% in just one year. Indeed, the cost of electricity to
20 Noranda in 2013 was more than 31% higher than the cost in 2008. Mr. Mudge's
21 suggestion that Noranda's power supply has minimal risk is unfounded.

22 **Q: YOU STATED EARLIER THAT THE CONCLUSIONS MR. MUDGE**
23 **DRAWS FROM HIS ANALYSIS OF OVERALL COST ARE INCORRECT**

1 **AND IRRELEVANT. PLEASE EXPLAIN THE BASIS OF THAT**
2 **STATEMENT.**

3 A: First, and most importantly, as I already explained, the determination that
4 Noranda needs a rate of \$30/MWh to remain viable is based on its financial
5 model, which includes Noranda's overall cost of production. How Noranda
6 compares to others is not relevant to that determination. As Mr. Smith explains,
7 despite the significant cost reductions Noranda has made and proposes to
8 implement, the \$30/MWh rate is necessary to provide the required liquidity to
9 sustain the smelter.

10 Second, Mr. Mudge presents comparative overall cost data in an attempt to
11 demonstrate that non-electricity factors are more consequential in determining the
12 viability of a smelter. He reaches that erroneous conclusion by comparing the
13 cost profiles of various smelters that have shut down within the last six years.
14 Although it is true that the actual performance and success of a smelter depends
15 on the price of aluminum and its overall cost of production, as I explained in my
16 direct testimony, it is the cost of electricity that most significantly determines the
17 ongoing success and viability of an aluminum smelter, particularly in the
18 depressed aluminum market that we have recently been experiencing.

19 **Q: PLEASE EXPLAIN THE BASIS FOR YOUR CONCLUSION THAT IT IS**
20 **THE COST OF ELECTRICITY, NOT THE OVERALL COST, THAT IS**
21 **THE MOST SIGNIFICANT DETERMINANT OF A SMELTER'S LONG**
22 **TERM VIABILITY.**

1 A: I have been working directly with a variety of smelters for the past ten years. In
2 every instance, the smelter has focused on improving efficiency and reducing all
3 of its costs to remain competitive; but it has been the power arrangement that has
4 been the primary concern and the cost of electricity that determines whether the
5 smelter operates or not.

6 My recent experience supports my conclusion. Ormet shut down its Hannibal
7 smelter in October 2013 when the Public Utilities Commission denied its request
8 for a lower power rate. Ormet had already negotiated significant reductions in its
9 other costs, but securing a new power deal was the final hurdle, which it failed to
10 meet. Similarly, when the West Virginia Public Service Commission approved a
11 special rate for Century's Ravenswood smelter in 2013, the Company decided not
12 to reopen the smelter because the power rate was not as low as they had requested
13 and, therefore, would not be sufficient to allow the smelter to weather the LME
14 price cycles. And finally, Century decided to keep operating the Hawesville and
15 Sebree smelters in Kentucky only because the Kentucky PSC allowed them to
16 terminate their long term contract with Big Rivers, despite the adverse
17 consequences to Big River's other customers; simply put, it was the lower power
18 rate that supported Century's decision to keep the smelters in operation.

19 **Q: PLEASE SUMMARIZE YOUR CONCLUSIONS.**

20 A: The proposed \$30/MWh rate proposed is based on Noranda's financial model,
21 which reflects all costs. With a \$30/MWh rate, Noranda would have a reasonable
22 cost of electricity compared to other smelters in the U.S and globally. The
23 experience in the aluminum industry confirms that the viability of a smelter

1 depends primarily on the cost of electricity reflected in the smelter's power supply
2 arrangement.

3 **Q: DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

4 **A: Yes.**