

Exhibit No.:
Issue: Noranda Rate
Witness: Thomas N. Harris
Type of Exhibit: Direct Testimony
Sponsoring Party: Noranda Aluminum, Inc.
Case No.: ER-2014-0258
Date Testimony Prepared: December 19, 2014

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

_____)
In the Matter of Union Electric)
Company d/b/a Ameren Missouri's) **Case No. ER-2014-0258**
Tariff to Increase its Revenues for)
Electric Service)
_____)

Direct Testimony of

Thomas N. Harris

On behalf of

Noranda Aluminum, Inc.

December 19, 2014

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

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)
)
) **Case No. ER-2014-0258**
)
)
)

STATE OF CALIFORNIA)
)
COUNTY OF SAN MATEO) **SS**

Affidavit of Thomas N. Harris

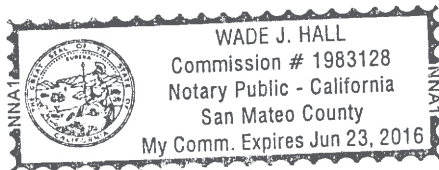
Thomas N. Harris, being first duly sworn, on his oath states:

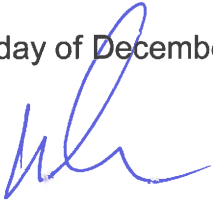
1. My name is Thomas N. Harris.
2. Attached hereto, and made a part hereof for all purposes, is my direct testimony, which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2014-0258.
3. I hereby swear and affirm that the testimony is true and correct.



Thomas N. Harris

Subscribed and sworn to before me this 19th day of December, 2014.





Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Union Electric)	
Company d/b/a Ameren Missouri's)	Case No. ER-2014-0258
Tariff to Increase its Revenues for)	
Electric Service)	

Direct Testimony of Thomas N. Harris

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

2 A Thomas N. Harris. My address is 10 Woodhill Drive, Redwood City, CA
3 94061.

5 **Q WHAT IS YOUR OCCUPATION AND BACKGROUND?**

6 A I am a banker with a specialty in leveraged finance for corporations across a
7 variety of industries, including Technology, Commodities, Industrials and
8 Energy. I am, and have been since July 2013, a Director at Silicon Valley
9 Bank in Palo Alto, California, where I provide financing advice and loan
10 syndication services to technology companies and private equity firms that
11 issue corporate loans. I formerly worked in investment banking, from March
12 2006 to May 2009, and from July 2010 to October 2012, at Merrill Lynch &
13 Co. and its successor firm Bank of America Merrill Lynch, specializing first
14 in leveraged finance and later in software industry coverage. While at
15 Merrill Lynch, I advised clients on raising over \$13 billion of capital in the

1 leveraged finance markets. Prior to that time, I was at TD Securities, the
2 investment banking unit of TD Bank, from 1997 to 2006, specializing in
3 Leveraged Finance, including high yield bonds and leveraged loans. I hold
4 a Bachelor of Science from NYU Stern School of Business and an MBA with
5 honors (Beta Gamma Sigma) from Columbia Business School.

6

7 **Q HOW ARE YOU FAMILIAR WITH NORANDA?**

8 A While working in the Leveraged Finance group at Merrill Lynch in New York,
9 NY, I participated in the financing of the acquisition of Noranda by Apollo
10 Group. A few years after the acquisition, I worked for 14 months, from June
11 2009 through July 2010, for Noranda. In addition, while at Merrill Lynch and
12 later at Noranda, I became intimately familiar with the forward curve for
13 price of primary aluminum on the London Metals Exchange, or LME.

14

15 **Q WHAT WERE YOUR DUTIES WHILE EMPLOYED BY NORANDA?**

16 A I was first Director and then Vice President of Strategic Development,
17 where my duties included running the financial modeling, capital markets
18 activities and mergers and acquisitions in conjunction with senior
19 management.

20

21 **Q WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
22 **CASE?**

23 A The purpose of my testimony is to demonstrate that without Noranda's
24 requested rate relief, Noranda will be unable to obtain access to capital

1 necessary to operate the New Madrid Smelter and as a result will be
2 required to close the smelter.

3

4 **Q HAVE YOU REVIEWED MR. BOYLE'S TESTIMONY IN THIS CASE?**

5 A Yes.

6

7 **Q PLEASE STATE YOUR UNDERSTANDING OF MR. BOYLE'S**
8 **TESTIMONY?**

9 A Mr. Boyles presents what he calls financial curves for primary aluminum
10 prices and corresponding financial models for the company's projected
11 results, as he supports his conclusion that Noranda will be required to close
12 the New Madrid Smelter due to an inability to obtain debt financing unless it
13 obtains electric rate relief. He explains that increases in Noranda's cost of
14 electricity have caused Noranda to be unable to obtain financing for its
15 proposed rod mill ** _____

16

17 _____ **. Mr. Boyles points out that lenders, debt
18 investors and the credit rating agencies look at both historical and projected
19 financial results when analyzing a company's credit-worthiness and, thus,
20 2015 to 2021 are critical time periods for Noranda to exhibit stronger cash
21 flow and a healthy financial profile to support a refinancing of the ABL, given
22 the planned undertaking of refinancing activities in early 2016 and 2018.
23 He also explains the measures management has taken and will continue to

1 take to increase efficiency, which are vital, in addition to the requested rate
2 relief, for Noranda to remain financially viable. He states that without the
3 requested rate relief, Noranda will be required to cease operation of the
4 New Madrid Smelter.

5
6 **Q HAVE YOU REVIEWED THE FINANCIAL MODEL ATTACHED AS**
7 **EXHIBIT A TO MR. BOYLE'S TESTIMONY?**

8 A Yes, both the hard copy and in native electronic form.

9
10 **Q DO YOU AGREE WITH MR. BOYLE'S CONCLUSION THAT NORANDA**
11 **WILL PROBABLY BE UNABLE TO OBTAIN DEBT FINANCING**
12 **NECESSARY TO KEEP THE NEW MADRID SMELTER OPEN WITHOUT**
13 **RATE RELIEF?**

14 A Yes. Based upon my review of the financial model, I come to the same
15 conclusion that Mr. Boyles does, namely that Noranda will be unable to
16 secure financing to maintain operations without a sustainable power rate
17 such as that in Noranda's Proposed Rate Structure. Dr. Schwartz's
18 multi-scenario analysis also supports this conclusion. Even with the
19 savings under Noranda's proposed rate and with the continued efficiency
20 measures that will be undertaken by Noranda's management, ** _____

21 _____ **.

22 However, the new power rate and long-term stability provided by the 7-year
23 proposed term will have a meaningful positive impact on the cost structure

1 of Noranda, making it significantly more likely that Noranda will be able to
2 obtain credit and maintain operations at the smelter.

3

4 **Q CAN NORANDA MERELY RAISE ADDITIONAL CAPITAL THROUGH**
5 **ISSUANCE OF DEBT OR EQUITY WITHOUT FIRST CHANGING ITS**
6 **ECONOMIC METRICS?**

7 A No. Based upon my experience as a banker and leveraged financier,
8 Noranda will be unable to raise capital without first fundamentally improving
9 its cash flow and thereby demonstrating its long-term viability. Lenders loan
10 money that they have a reasonable expectation will be repaid, with interest,
11 and equity owners invest money for a return, but typically will not invest in a
12 company with Noranda's financial metrics, particularly where they perceive
13 a meaningful risk of financial distress and impairment in long-term viability
14 that could completely wipe out their equity investment.

15

16 Noranda's leverage ratio is at nearly 7x its last twelve-months' earnings
17 before income, taxes, depreciation and amortization, as adjusted for
18 various non-recurring and non-cash items, or EBITDA. EBITDA is a
19 primary measure used by bankers and investors as a proxy for cash flow
20 generated by a firm and leverage is a key measure of credit worthiness and
21 financial health.

22

1 Other balance sheet and market value based leverage ratios are also
2 extremely high, including Noranda's ratio of total liabilities to book
3 capitalization, which is 90% and its Net Debt to Enterprise Value, which is
4 70%. Net Debt just means debt less cash on the balance sheet and
5 Enterprise Value is a firm's public equity market value plus Net Debt.

6

7

** _____

8

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_____ **.

14

15 No bank, to my knowledge, having spent over 15 years in the leveraged
16 finance markets, will lend to such a highly leveraged company, absent an
17 immediate expectation for a fundamental improvement in financial metrics
18 and a belief in the medium to long-term viability of the company. Similarly,
19 no other debt investor is likely to lend and no equity investor is likely to
20 invest new capital in such a company. The current drain on cash flow
21 caused by Noranda's unsustainable power rate will not allow the company
22 to be considered an attractive borrower to banks or debt investors or an
23 attractive investment for equity investors. This is further demonstrated by

1 Dr. Schwartz's multi-scenario analysis, which shows Noranda's
2 performance under various aluminum price scenarios. This analysis
3 includes both scenarios that assume no change to Noranda's current power
4 rate, and scenarios that assume the reduced power rate proposed by
5 Noranda. Similar to the financial ratios I mentioned earlier, which are based
6 on historical cash flow and current and book values of liabilities and equity,

7 ** _____
8 _____
9 _____
10 _____
11 _____
12 _____
13 _____ **.

14
15 **Q IF NORANDA IS ABLE TO SAVE APPROXIMATELY \$40 MILLION PER**
16 **YEAR FROM A LOWER POWER RATE, COUPLED WITH OTHER**
17 **SAVINGS IT HAS PROPOSED UNDER ITS EFFICIENCY PROGRAM,**
18 **WILL ITS ABILITY TO RAISE CAPITAL IMPROVE?**

19 **A** Absolutely. Its ability to raise needed capital and maintain ongoing access
20 to the capital markets for financing, refinancing and letters of credit, will be
21 significantly enhanced upon securing the proposed power rate. From the
22 change in the proposed power rate alone, which for the last twelve months
23 would have represented a savings of \$34 million, leverage drops from

1 almost 7x to less than 5x on a pro forma basis. Pro forma, in this case,
2 simply means looking at Noranda's financial performance over the last
3 twelve-month period and adjusting it higher as if the new proposed power
4 rate were in effect during the entire period. While leverage approaching
5 5.0x is still generally considered high, the new power rate represents a step
6 change in the health and sustainability of the firm and Noranda will
7 immediately become a more attractive borrower once it has a sustainable
8 power rate. With the proposed decrease in power rate, yielding
9 approximately \$40 million or more of savings per year, together with the
10 efficiency initiatives being undertaken at Noranda, I would expect Noranda
11 would likely be able to refinance its ABL and other indebtedness as well as
12 obtain financing for its important projects in the future. Looking at the same
13 financial model and forward curve that Mr. Boyles references in his
14 testimony, I can conclude that the business, once benefiting from a
15 sustainable power rate, should be able to reduce Net Debt each year,
16 ultimately produce free cash flow and reduce leverage considerably, from
17 its pro forma ratio of under 5.0x to a ratio ** _____
18 _____ **. While financially, at the lower power rate, Noranda's
19 future viability and ability to thrive is still not guaranteed, the model suggests
20 that Noranda will have a solid chance to survive and grow.

21
22

1 **Q WHY DOES THE RATE NEED TO BE THE PROPOSED \$32.50/MWh**
2 **RATE AND NOT SOME HIGHER RATE, SUCH AS \$35/MWh?**

3 A In the event that the proposed power rate is not obtained, and a higher rate
4 is granted, each \$1 of higher power rate results in a hit to EBITDA of \$4.2
5 million. So, as an example, with a \$35 rate, Noranda would lose \$10.5
6 million per year from its model every year and this would have a strong
7 detrimental effect on its ability to reduce debt and produce free cash flow.
8 Another illustration of this fact is exemplified in Dr. Schwartz's testimony
9 and analysis, which suggests that the proposed \$32.50 rate under various
10 scenarios for volatility in aluminum prices, ** _____
11 _____, ** does allow Noranda to reduce
12 leverage over time through 2021, as shown in its debt/equity ratio. Absent
13 the lower power rate, leverage steadily increases and Noranda loses its
14 viability as it is unable to refinance and continue to fund its operations.
15 Therefore, at higher rates, Noranda is unlikely to be able to access the
16 capital markets.

17
18 **Q PLEASE SUMMARIZE YOUR TESTIMONY.**

19 A Without the requested rate relief, Noranda lacks access to capital
20 necessary to sustain the operations of the New Madrid smelter. Without a
21 sustainable power rate, Noranda has questionable long-term viability and
22 will be unable to attract debt or equity capital. With the efficiency savings
23 proposed by Noranda, coupled with the proposed savings in power costs, I

1 do, however, believe that Noranda can raise capital by issuing debt or
2 equity, as its model suggests an ability to ultimately return to a creditworthy
3 and healthy financial state.

4

5 **Q DOES THIS CONCLUDE YOUR TESTIMONY.**

6 A. Yes.