

Exhibit No.:
Issue: Rate Design
Witness: Thomas N. Harris
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) **Case No. EC-2014-0224**
Revisions to Union Electric)
Company d/b/a Ameren)
Missouri's Large Transmission)
Service Tariff to Decrease its)
Rate for Electric Service)
_____)

Surrebuttal Testimony of
Thomas N. Harris
(NON PROPRIETARY (NP) VERSION)

On behalf of
Noranda Aluminum, Inc.

May 30, 2014

May 30, 2014

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

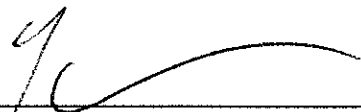
In the Matter of Noranda)	
Aluminum, Inc.'s Request for)	Case No. EC-2014-0224
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STATE OF CALIFORNIA)	
)	SS
COUNTY OF SAN MATEO)	

Affidavit of Thomas N. Harris

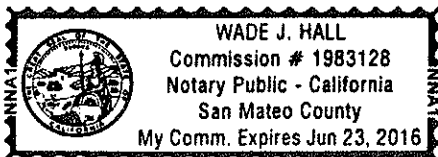
Thomas N. Harris, being first duly sworn, on his oath states:

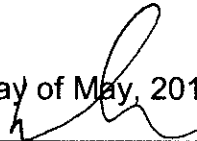
1. My name is Thomas N. Harris.
2. Attached hereto, and made a part hereof for all purposes, is my surrebuttal testimony, which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. EC-2014-0224.
3. I hereby swear and affirm that the testimony is true and correct.



 Thomas N. Harris

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





 Notary Public

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

In the Matter of Noranda)
Aluminum, Inc.'s Request for)
Revisions to Union Electric)
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Service Tariff to Decrease its)
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Case No. EC-2014-0224

Surrebuttal 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 94061.

3

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

5 A I am a banker with a specialty in leveraged finance for corporations across a
6 variety of industries, including Technology, Commodities, Industrials and Energy.

7 I am, and have been since July 2013, a Director at Silicon Valley Bank in Palo Alto

8 California, where I provide financing advice and loan syndication services to

9 technology companies and private equity firms that issue corporate loans. I

10 formerly worked in investment banking, from March 2006 to May 2009 and from

11 July 2010 to October 2012 at Merrill Lynch & Co. and its successor firm Bank of

12 America Merrill Lynch, specializing first in leveraged finance and later in software

13 industry coverage. While at Merrill Lynch, I advised clients on raising over \$13

14 billion of capital in the leveraged finance markets. Prior to that time, I was at TD

15 Securities, the investment banking unit of TD Bank, from 1997 to 2006,

1 specializing in Leveraged Finance, including high yield bonds and leveraged
2 loans. I hold a Bachelor of Science from NYU Stern School of Business and an
3 MBA with honors (Beta Gamma Sigma) from Columbia Business School.

4
5 **Q DID YOU PROVIDE DIRECT TESTIMONY IN THIS CASE?**

6 A No I did not.

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

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

16
17 **Q WHAT WERE YOUR DUTIES WHILE EMPLOYED BY NORANDA?**

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

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

24 A I have been retained by Noranda Aluminum to review and address the testimony of
25 Robert S. Mudge, particularly his claim that Kip Smith overstated "any liquidity

1 issues Noranda may face” and “how additional liquidity needs, if they did exist,
2 could be addressed. See Mudge Rebuttal, pages 7 through 40.

3

4 **Q HAVE YOU REVIEWED MR. SMITH’S TESTIMONY IN THIS CASE?**

5 A Yes.

6

7 **Q PLEASE STATE YOUR UNDERSTANDING OF MR. SMITH’S TESTIMONY?**

8 A Mr. Smith presents what he calls forward financial curves for primary aluminum
9 prices and corresponding financial models for the company’s projected results, as
10 he supports his assertion that Noranda is experiencing a liquidity crisis. He gives
11 reasons for Noranda’s liquidity crisis, including the two chief drivers, a prolonged
12 depressed price for Noranda’s product, aluminum, and Noranda’s substantial cost
13 for electricity. He also explains the measures management has taken and is taking
14 to increase efficiency to remain financially viable. He states that without a power
15 rate of \$30 per MWh Noranda will not remain viable and will have a substantial
16 likelihood of imminent closure of its aluminum smelter in New Madrid, Missouri.

17

18 **Q HAVE YOU REVIEWED THE FINANCIAL MODEL ATTACHED AS EXHIBIT A**
19 **TO MR. SMITH’S TESTIMONY?**

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

21

22 **Q HAVE YOU REVIEWED MR. MUDGE’S TESTIMONY IN THIS CASE?**

23 A Yes.

1 **Q PLEASE STATE YOUR UNDERSTANDING OF MR. MUDGE'S TESTIMONY?**

2 A Mr. Mudge questions whether Noranda is experiencing a liquidity crisis and opines
3 that if Noranda is experiencing a liquidity crisis it can raise capital through
4 additional debt or equity even under its existing power rate, which is approximately
5 \$48 million per year higher than the requested electric rate.

6

7 **Q DO YOU AGREE WITH MR. MUDGE'S ASSERTION THAT NORANDA HAS NO**
8 **LIQUIDITY CRISIS AND WHY?**

9 A No. Based upon my review of the financial model, I come to the same conclusion
10 that Mr. Smith does, namely that Noranda is in the midst of a serious liquidity crisis.
11 Even with the \$48 million per year energy savings under the proposed rate and
12 with the continued efficiency measures that will be taken by Noranda's
13 management, Noranda will need recovery of the price of its aluminum products to
14 completely solve its liquidity crisis. But the new power rate will have a meaningful
15 positive impact on the cost structure of Noranda, thus helping to mitigate its
16 liquidity problems until aluminum prices recover.

17

18 **Q DO YOU AGREE WITH MR. MUDGE'S ASSERTION THAT NORANDA CAN**
19 **MERELY RAISE ADDITIONAL CAPITAL THROUGH ISSUANCE OF DEBT OR**
20 **EQUITY WITHOUT FIRST CHANGING ITS ECONOMIC METRICS?**

21 A Absolutely not. Based upon my experience as an investment banker and
22 leveraged financier, Noranda will be unable to raise capital in either way without
23 first fundamentally improving its cash flow and profitability. Bankers loan money
24 that they have a reasonable expectation will be repaid, with interest, and equity
25 owners invest money for a return, but typically will not invest in a company in the

1 midst of a liquidity crisis, particularly where they perceive a meaningful risk of
2 financial distress that could wipe out their equity value. Noranda, according to Mr.
3 Mudge, already has an “extremely high” “ratio of long term liabilities to book
4 capitalization” (87%). However, Mr. Mudge contends that Noranda can merely
5 raise additional capital. I find this contention to be troubling and contradictory,
6 particularly with the Company’s leverage ratio at almost 10x its earnings before
7 income, taxes, depreciation and amortization, or EBITDA. EBITDA is a primary
8 measure used by bankers and investors as a proxy for cash flow generated by a
9 firm and leverage is a key measure of credit worthiness and financial health. Other
10 measures, including Free Cash Flow (“FCF”) before debt service, which is
11 negative, and interest and fixed charge coverage ratios, two measures of how well
12 cash flow covers interest charges and the required cash outflows of a firm, also
13 point to the liquidity crisis that Mr. Smith claims exists. No bank, to my knowledge,
14 having spent over 15 years in the leveraged finance markets, will lend to such a
15 highly leveraged company in the midst of a pending liquidity crisis. Similarly, no
16 equity investor is likely to invest new capital in such a company. The current drain
17 on liquidity and cash flow caused by Noranda’s unsustainable power rate, coupled
18 with the depressed price of its product, will not allow the company to be considered
19 an attractive borrower to banks or debt investors or an attractive investment for
20 equity investors. ** _____

21 _____
22 _____.**

1 **Q IF NORANDA IS ABLE TO SAVE APPROXIMATELY \$48 MILLION PER YEAR**
2 **FROM A LOWER POWER RATE, COUPLED WITH OTHER SAVINGS IT HAS**
3 **PROPOSED UNDER ITS EFFICIENCY PROGRAM, WILL ITS ABILITY TO**
4 **RAISE CAPITAL IMPROVE?**

5 A Absolutely. Its ability to raise needed capital and maintain ongoing access to the
6 capital markets for financing, refinancing and letters of credit, will be significantly
7 enhanced upon securing the proposed power rate. Leverage will drop from almost
8 10x to less than 6x on a pro forma basis. Pro forma, in this case, simply means
9 looking at Noranda's financial performance over a twelve month period and
10 adjusting it higher as if the new proposed power rate were in effect during the
11 entire period. While leverage approaching 6.0x is still generally considered high,
12 the new power rate represents a step change in the health and sustainability of the
13 firm and Noranda will immediately become a more attractive borrower once it has a
14 sustainable power rate. With a decrease in costs of \$48 million per year, together
15 with the efficiency initiatives being undertaken at Noranda, I would expect Noranda
16 to obtain financing for its important projects in the future. Looking at the same
17 financial model and forward curve that Mr. Smith references in his testimony, I can
18 conclude that the business, once benefiting from a sustainable power rate, should
19 be able to reduce debt each year, ultimately produce free cash flow (albeit several
20 years out), and reduce leverage considerably, ** _____
21 _____.** While financially, at the
22 lower power rate, the Company's future viability and ability to thrive is still not
23 guaranteed, the model suggests that Noranda will have a solid chance to survive
24 and grow.

25

1 **Q WHY DOES THE RATE NEED TO BE THE PROPOSED \$30/MWh RATE AND**
2 **NOT SOME HIGHER RATE, SUCH AS \$32/MWh?**

3 A In the event that the proposed power rate is not obtained, and a higher rate is
4 granted, each \$1 of higher power rate results in a hit to EBITDA of \$4.2 million. So,
5 as an example, with a \$32 rate, Noranda would lose \$8.4 million per year from its
6 model and this would have a strong detrimental effect on its ability to reduce debt
7 and produce free cash flow. Therefore, at higher rates, the Company's ability to
8 access the capital markets becomes less and less assured.

9

10 **Q PLEASE SUMMARIZE YOUR TESTIMONY.**

11 A I disagree with Mr. Mudge that there is no liquidity crisis at Noranda and that
12 Noranda can simply borrow its way out of, or issue equity to escape, this crisis. In
13 its current liquidity crisis, without a sustainable power rate, the Company's ability to
14 attract debt or equity capital is highly suspect. With the efficiency savings
15 proposed by Noranda, coupled with a \$48 million per year saving in power costs, I
16 do, however, believe that Noranda can raise capital by issuing debt or equity, as its
17 model suggests an ability to ultimately return to a creditworthy and healthy
18 financial state.

19

20 **Q DOES THIS CONCLUDE YOUR TESTIMONY?**

21 A Yes.