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January 9, 2014

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JAN 09 2014

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COMMISSION

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HAND DELIVERY

Mr. Jeff R. Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

**Re: Joint Application of Kenergy Corp. and Big Rivers Electric Corporation for
Approval of Contracts
Case No. 2013-00413**

Dear Mr. Derouen:

Enclosed for filing in the above matter are an original and ten copies of the Response to On-The-Record Data Request from Hearing on January 6, 2014 on behalf of Century Aluminum Sebree LLC.

Very truly yours,

David C. Brown
David C. Brown

DCB:msp
Enclosures

**JOINT APPLICATION OF KENERGY CORP. AND
BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL OF CONTRACTS AND FOR A DECLARATORY ORDER
CASE NO. 2013-00413**

**Response to On-The-Record Data Request From
Hearing on January 6, 2014**

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JAN 09 2014

Dated: January 9, 2014

**PUBLIC SERVICE
COMMISSION**

Request:

Please provide available updates or clarifications to the Sebree Smelter financial information that has been presented for 2012 and year-to-date 2013.

Caveat:

Century Aluminum Sebree, LLC ("Century") maintains its position that the relative profitability or unprofitability of the Sebree Smelter is irrelevant to the Commission's consideration of whether the Transaction Documents should be approved as filed. The following response is not intended to be, and shall not be construed as, a waiver of Century's position.

Response:

1. KIUC Witness Lane Kollen's Testimony Regarding Sebree's 2012 EBITDA.

Based on a statement in a Rio Tinto Alcan employee newsletter, KIUC witness Lane Kollen asserts that the Sebree Smelter's Earnings Before Interest, Tax, Depreciation, and Amortization ("EBITDA") for 2012 was \$29 million. As a threshold matter, it is important to understand that EBITDA is not the metric that Century will use when evaluating whether or not to continue to operate the Sebree plant. EBITDA does not reflect a number of actual cash costs necessary to run the plant, including capital expenditures required to maintain the equipment at the plant. These capital expenditures must be deducted from EBITDA to calculate the true cash loss (or profit) of a smelter.

Notwithstanding the foregoing, Mr. Kollen's assertion that Sebree's EBITDA for 2012 was \$29 million is misplaced. Table 1 below shows that, under United States Generally Accepted Accounting Principles ("GAAP"), Sebree's 2012 financial results

are properly accounted for as a \$12.5 million loss. The table also shows how the \$29.7 million claimed by Rio Tinto Alcan under International Financial Reporting Standards ("IFRS") applicable to Rio Tinto Alcan should be reconciled to a \$12.5 million loss under GAAP. As a U.S. public company, GAAP is the appropriate and required accounting method to apply to Century's results.

The most significant difference between Rio Tinto Alcan's accounting policy (under IFRS) and that of Century (under GAAP) relates to the cost of pot relining (approximately \$16 million in 2012 for the Sebree plant). Irrespective of the accounting treatment employed, potlining costs are a consistent, recurring cash cost of any smelter and must be incurred in order to maintain the plant's operations. Under Rio Tinto Alcan's IFRS reporting, however, this cost was treated as capital spending and did not impact EBITDA, even though the cash cost of such pot relining was still incurred by Sebree. In addition, the 2012 EBITDA calculated by Rio Tinto Alcan includes the impact of a non-recurring credit of \$10 million from escrow funds established by EON U.S. LLC at the time of the Unwind transaction in 2009. These funds were fully depleted during 2012 and will not be available going forward.

Table 1

Reconciliation of GAAP results to EBITDA under Rio Tinto IFRS standard:

Net income/(loss) before tax - operating result (GAAP)	-12.5
<i>Remove negative impacts of:</i>	
Depreciation	15.9
Pot relining costs	15.9
Accretion of spent potlining liability	0.5
EON fuel reserve credit	10.0
EBITDA as defined by Rio Tinto	29.7

Amounts may not add exactly due to the impact of rounding

Rio Tinto Alcan did not publish stand-alone financial statements for Sebree for 2012. The data above are sourced from Sebree's internal financial accounting system as provided to Century by Rio Tinto Alcan.

2. Financial Information For Sebree Smelter Under Century Ownership.

Century Aluminum Company's Third Quarter 2013 10-Q was included in the record as KIUC Exhibit LK-6. The Notes to the Consolidated Financial Statement, at page

13 of 91, show a net loss at Sebree of \$2.044 million for the period from the time Century assumed ownership (June 1, 2013) through September 30, 2013. In reality, Century's actual cash losses were much greater. The \$2.044 million loss shown in the Notes is the result of several required GAAP adjustments that have the effect of showing a smaller accounting loss than the cash loss that Century incurred. These adjustments include an add-back for a "Gain on Bargain Purchase" of \$5.253 million, which is based on the fair market value of the acquisition and is prescribed by GAAP. This Gain on Bargain Purchase is recognized for accounting purposes only, and provides no financial benefit to Century. In reality, Century has incurred only losses on its purchase of the Sebree plant. Century's accounting loss is also reduced under GAAP by an add back of Century's cost of assuming an unfavorable (above market price) power agreement. Under GAAP, the power contract liability is amortized over the remaining term of the Sebree power agreement (through January 31, 2014). As a result, Sebree's financial statements contain a one-off non-cash adjustment related to the acquisition that significantly reduces the accounting losses shown by the Sebree plant until the power agreement terminates on January 31, 2014. This GAAP treatment gives Sebree the appearance of operating under a "hypothetical" market-priced power agreement (at least until the current agreement terminates) while its actual power costs are much higher than reflected in the GAAP financial statements. Table 2 below shows that, excluding these favorable adjustments and for the period June 1, 2013 through September 30, 2013, Sebree would have had an actual net loss of \$21.8 million.

Table 2

Sebree plant financial result	\$millions
Four month period June 1-Sept. 30, 2013	
Net income/(loss) before tax - Sebree internal accounting system	-2.0
<u>Remove one-off favorable effects of purchase accounting:</u>	
Gain on purchase of Sebree plant	-5.3
Amortization of power contract fair value	-14.5
 Net income/(loss) before tax - operating result	 -21.8

3. KIUC's Characterization of Exhibit KIUC-7.

The cross-examination exhibit marked as KIUC-7 was not appropriately described during the hearing. The exhibit, at page 6, actually shows the following:

Column #1--Century Aluminum Company lost \$2.1 million during Third Quarter 2012 in adjusted operating income defined as EBITDA per Century's quarterly earnings release, at an average LME of \$1,865/tonne. This is a consolidated picture of Century, with the Icelandic business operations making a profit and the U.S. business operations incurring a significant loss.

Column #2--During the same quarter in 2013, Century as a whole (which in Third Quarter 2013 includes the Sebree plant) lost \$4.5 million in adjusted operating income, at a lower LME of \$1,798/tonne. Again, this is a consolidated picture of Century, with the Icelandic business operations making a profit and the U.S. business operations incurring a significant loss.

Column #3--The Hawesville smelter purchased power under the Big Rivers contract for approximately half the quarter (to mid-August) and market-priced power for the remainder. Hypothetically, taking into consideration access to market-priced power at the Hawesville Smelter for the entire quarter, the plant would have lost \$8.2 million less than it actually did. This does not mean that the Hawesville Smelter had a net profit of \$8.2 million, only that the loss would have been reduced by this amount.

Column #4--Applying the same hypothetical approach to Sebree as was applied to Hawesville in Column #3, and if the same market-priced power had been available to Sebree for the entire quarter, Sebree would have lost \$16.6 million less for Third Quarter 2013 than it actually did. Again, this does not mean that the Sebree Smelter would have produced a net profit of \$16.6 million in the quarter, only that Sebree's loss would have been reduced by \$16.6 million. If this change attributable to market-priced power is compared to the \$21.8 million loss for the four-month period (ending September 30, 2013), the data show that Sebree would have been in an approximately "break-even" position under a market-priced power arrangement.

It is important to note, relative to Columns #3 and #4, that these profit improvements assume reductions in power price of \$15/MWh for Hawesville and \$23/MWh for Sebree. The price of electric power on the market is highly variable and Century Aluminum Company bears the entire risk of this price volatility. Since August 2013, due to circumstances beyond Century's control, the actual price of delivered power has been much higher than projected and Century did not actually experience the hypothetical reductions shown in the exhibit. So, the loss reduction has not actually occurred to the extent stated for the Hawesville plant (and would not have occurred to that extent for the Sebree plant). Again, Century Aluminum Company accepts this risk of market-priced power.

Column #5--At the same LME of \$1,798/tonne and assuming both Hawesville and Sebree are purchasing market-priced power, Century Aluminum Company would gain pro forma adjusted operating income of \$20.2 million for the quarter. Most of this profit is represented by the Icelandic business, with the unsustainable losses in the U.S. operations greatly reduced.

Witness: Michael Early

**JOINT APPLICATION OF KENERGY CORP. AND BIG RIVERS
ELECTRIC CORPORATION FOR APPROVAL OF CONTRACTS AND
FOR A DECLARATORY ORDER
CASE NO. 2013-00413**


VERIFICATION

I, Michael Early, verify, state, and affirm that I prepared or supervised the preparation of the response that is being filed with this Verification, and that such response is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.


Michael Early

STATE OF SOUTH CAROLINA)
COUNTY OF CHARLESTON)

SUBSCRIBED AND SWORN TO before me by Michael Early on this the
8th day of January 2014.


Notary Public
My Commission Expires 2/8/20

URA MICHOlland
NOTARY PUBLIC
SOUTH CAROLINA
MY COMMISSION EXPIRES 2-8-20

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was served via United States Postal Service, First Class Mail, postage prepaid, upon:

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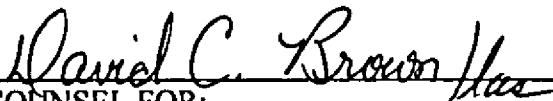
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on this the 9th day of January, 2014.


COUNSEL FOR:
CENTURY ALUMINUM SEBREE, LLC