

Mark Bailey

From: Bill Blackburn
Sent: Wednesday, August 24, 2011 5:46 PM
To: Mark Bailey
Subject: FW: S&P Question

Mark,
I will discuss possible responses tomorrow
Bill

From: Bodek, David [mailto:david_bodek@standardandpoors.com]
Sent: Wednesday, August 24, 2011 5:34 PM
To: Bill Blackburn
Subject: S&P Question

Bill,

A number of press reports assert that the smelters' are complaining that Big Rivers Electric's rate request could lead to closure of the smelters. For example, see the attached article. Did the smelters receive financial incentives as part of the E.ON lease termination to supporting ongoing operations? How real are the closure threats? Didn't the smelters recently ramp up capacity?

Sincerley,

David Bodek

News Stories; Aluminum

Rising power rates may jeopardize Kentucky smelters' future

Staff

468 words

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English

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Louisville, Kentucky—Warning a proposed [Big Rivers Electric](#) power rate increase could threaten the future of western Kentucky aluminum smelters owned by [Rio Tinto Alcan](#) and [Century Aluminum](#), an industrial consultant is calling for a "statewide solution" to address the thorny issue.

Alcan's 180,000 mt/year smelter in Sebree and Century's 244,000 mt/year smelter in Hawesville have seen their power costs rise in the past couple of years. Electricity is one of a smelter's biggest expenses, accounting for about a third of total operating costs.

In 2009, prior to Big Rivers' "unwind" of a long-term power plant lease with a former [E.ON](#) US subsidiary, the Sebree smelter was paying \$32.40/MWh. Following the unwind, its average price of power shot to \$43.60/MWh.

Under the co-op's pending rate case, the price would climb to \$47.85/MWh, according to Henry Fayne, a former [American Electric Power](#) executive who now works as a private consultant. Fayne is serving as an expert witness for the Kentucky Industrial Utility Customers, a trade organization, in the Big Rivers case before the state Public Service Commission.

In testimony filed with the PSC, Fayne said the Sebree smelter "had negative margins from operations" in 2009 when aluminum prices on the London Metal Exchange hovered just over \$1,300/mt. Aluminum prices are currently around \$2,500/mt on the LME and forecast to average between \$2,400/mt and \$2,600/mt in 2012.

According to Fayne's testimony, several aluminum smelters in the US have shut in the past decade primarily due to high power costs. "It's possible Sebree and Hawesville could join them," he said, unless something is done to rein in rising power costs.

In the Big Rivers case, he said, those costs most likely will continue to increase. That is because the Henderson, Kentucky-based co-op relies almost totally on coal-fired generation and faces a plethora of new and proposed US Environmental Protection Agency rules in the next few years that could drive up electricity prices for its about 120,000 customers, including its two biggest — Sebree and Hawesville.

"That is why a statewide solution is being sought," Fayne said. Although it is not currently possible to determine what legal authority would be required to implement such a scenario "since that solution has not yet been determined, KIUC believes that it is likely that such a solution will require legislative involvement," he said.

KIUC wants the PSC to become "an active participant in and advocate for the development of a statewide solution," although it added that the agency would not be able to unilaterally develop and implement such a solution.—Bob Matyi

Staff

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