

Power Rate Talks Stall Between Utility, Smelter

Bruce Schreiner, Associated Press

LOUISVILLE, Ky. (AP) — An aluminum company warned Monday that its nearly 800-employee Hawesville smelter in western Kentucky is being put at risk as a result of stalled negotiations to achieve concessions in its power costs to help offset sluggish global aluminum prices.

Century Aluminum executives updated plant employees Monday about a halt in negotiations with Big Rivers Electric Corp.

The California-based company said its contract rate for electricity is much higher than open-market prices. The Hawesville smelter, which supplies aluminum for U.S. military equipment and civilian uses, consumes vast amounts of power. The negotiations have broader implications because concessions for the Century plant and another smelter in Henderson County owned by another company could result in higher rates for other consumers who rely on power supplied by the not-for-profit Big Rivers.

"Century is poised and willing to do everything we can to save the Hawesville smelter, we're just waiting for Big Rivers to come back to the negotiating table," said John Hoerner, the company's vice president of North American Operations.

Henderson-based Big Rivers offered nearly \$50 million in concessions to Century and the Sebree smelter near Robards, said Big Rivers President and CEO Mark Bailey. He said the two smelters were asking for about \$110 million in yearly rate relief.

Big Rivers supplies power to three electric cooperatives that serve more than 112,000 customers in more than 20 western Kentucky counties. To offset the smelters' request, residential customers of power supplied by Big Rivers would face a rate increase of nearly 37 percent, Bailey said. The rate increase would be even higher for other industrial customers, he said.

"We understand the importance of the smelters to our local economy, but we can't hurt others to help others," Bailey said. "I'm not going to pick winners or losers, so to speak. If you gave that kind of relief, we'd probably be putting other industrials at risk."

The two smelters account for about 70 percent of the power generated by Big Rivers.

Bailey said Big Rivers' rates already are among the lowest in the country.

Century went public with its frustration Monday that the recent negotiations failed to yield what it considers needed rate concessions.

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The stakes are high.

The plant employs 771 workers who receive nearly \$68.2 million in wages and benefits, Century said. It spins off hundreds of other jobs, \$2.3 million in local tax revenue and \$71.4 million in consumer spending in Hancock County, upriver from Owensboro along the Ohio River.

Hancock County Judge-Executive Jack McCaslin said it is his understanding that the local smelter is losing money due to the cost of power and the low price of aluminum. He said he's worried how much longer Century can sustain those losses.

"Those type jobs are nearly impossible to replace," he said.

If Big Rivers lost the Hawesville smelter as a customer, it would have to find other sources to buy the vast amounts of power the plant consumed. Area customers would face rate increases if Big Rivers could not find buyers for that power, McCaslin said.

And if the smelters get concessions, other ratepayers will pick up the tab through higher rates, he predicted.

"Either way we go, it's going to be a rate increase," he said. "I'd just as soon keep the jobs and take the rate increase."

Century officials said any larger rate increase due to any concessions would be eased by tapping into a fund created three years ago to help delay some Big Rivers rate increases. The fund was financed by another power company, E.ON U.S., as part of an agreement that ended the lease under which that company operated generating plants owned or controlled by Big Rivers.

Century officials said the smelter currently pays slightly more than \$49 per megawatt hour under its contract with Big Rivers that's supposed to run through 2023. However, the company said it could get electricity for about \$30 per megawatt hour on the open market.

"There is a better alternative than the status quo," Hoerner said, warning that the status quo "will end in closure of our plant, significant revenue losses for Big Rivers and a much larger burden passed on to ratepayers."

Century executives said aluminum prices have dropped from about \$2,600 per metric ton a year ago to about \$1,900 a metric ton now.

Bailey said the price of aluminum is up from 2009, when Century signed the current contract. When that deal was signed, the electric rate was projected to be about \$52 per megawatt hour by now, but instead it's about \$3 per megawatt lower than that, he said.

Last November, the Kentucky Public Service Commission gave Big Rivers the go-

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ahead to adjust wholesale rates and approved rate increases for the three electric cooperatives that purchase power from Big Rivers.

The changes will allow Big Rivers to increase annual revenue by approximately \$26.75 million, or about 6 percent.

The PSC also ordered changes that reduce the extent that large industrial customers, including the two aluminum smelters, subsidize service to residential and small commercial customers.

Besides the Hawesville smelter, Century owns and operates a plant at Ravenswood, W.Va., and a plant in Iceland. It also owns nearly half interest in a plant in South Carolina.

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