Final Transcript

CENTURY ALUMINUM COMPANY: 3rd Quarter 2013 Earnings

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SPEAKERS

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Peter Trpkovski – Senior Corporate Financial Analyst

ANALYSTS

Brett Levy – Jefferies & Company
Sal Tharani – Goldman Sachs Group
Bruce Klein – Credit Suisse
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PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Third Quarter 2013 Earnings conference. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions will be given at that time. (Operator instructions.) As a reminder, today's conference is being recorded.

I'd now like to turn the conference over to our host, Peter Trpkovski.

P. Trpkovski Thank you very much, Gwenn. Good afternoon, everyone, and welcome to today's conference call. Before we begin, I'd like to remind you that today's discussion will contain forward-looking statements related to future events and expectations, including our expected future financial performance, results of operations and financial conditions. These forward-looking statements involve important known and unknown risks and uncertainties, which could cause our actual results to differ materially from those expressed in our forward-looking statements.

Please review the forward-looking statements disclosure in today's slides and press release for a full discussion of these risks and uncertainties. In addition, we've included some non-GAAP financial measures in our discussion. Reconciliations to the most comparable GAAP financial measures can be found in the appendix to today's presentation and on our website at www.centuryaluminum.com.

With that, I'd now like to introduce Mike Bless, Century's President and Chief Executive Officer.

M. Bless Thanks, Pete, and thanks to all of you for joining us this afternoon. If we could just switch over to slide four please, to give you a quick overview of the things we've been working on over the last couple of months, the quarter that just ended, and then we'll move on to talk about the industry and the operations. I'll talk in the next slide in more detail about the industry environment, but suffice it to say, we're finding it hard to call a trend at this point on many of the key issues that impact our industry. In that respect we're managing the company in the near-term in this context with an eye towards the near-term downside.

That having been said, I'll talk in a few minutes about the demand and supply trends we're seeing. Given these we're become increasingly confident that we've got more attractive industry conditions on the horizon here in the next year or two.

Moving along, we had a really good quarter in the operations. We're very proud of it and I'll give you some more details in a few moments. Most importantly safety was good was good across the business generally. Sebree had a difficult to start to the summer in the safety area and in the production in key metrics area and I'll detail this in a minute. The plant has come back very nicely over the last couple of months.

Very importantly, operating costs are down at Hawesville, down at Mt. Holly and down at Grundartangi. Before we go forward, I think it might be useful if we take a step back and look at the company's cost structure here and how it's evolved over the last couple of years. I think it's important to isolate Hawesville, because there we've had a dramatic improvement. So let me just give you a little bit of data here.

If you put power aside, I'll come back and pick up power in a moment, obviously it being our most important cost. But if you put power aside and just look at the rest of the operating costs and you compare the third quarter at Hawesville to the same quarter two years ago, operating costs were down $260 a tonne. If you look at September in isolation as the plant continues to make improvement, Hawesville's costs are down $300 a tonne versus two years ago.

Now picking up power, if you look at quarter to two years ago third quarter, Hawesville's operating costs were down $325 a tonne. And last to add it all up, if you look at the September run rate obviously that's a useful and relevant benchmark, because September, as you know, is the first month during which Hawesville operated under its new power arrangement for a full month. If you compare September to two years ago, Hawesville's operating costs are down just shy of $500 a tonne and obviously on a production base of 250,000 tonnes. That's a significant, significant improvement in the plant's cash flow. We're extraordinarily pleased with the improvement that the team at Hawesville has made.

Grundartangi and Mt. Holly have also continued their consistent improvement. Now let me just bring a bottom line on a consolidated basis to give you a sense of how we've lowered the company's cost structure and break even.

If you look at the quarter we just ended, Q3, and compare it to the same quarter last year, so Q3 over Q3, and you look at the adjusted operating income you'll see the details in the back of the slides. Basically we define our adjusted operating income as equivalent, in effect to EBITDA. You'll see that the two quarters had virtually identical results within a million dollars or two.

But of course this year the LME average during the quarter was $140 lower than last year. So you see the improvement we've made in the cost structure. We've obviously got more improvement to come as this quarter will have a full quarter of Hawesville's new power arrangement and then Sebree beginning in February of next year.

Just to bottom line it all for you, after Sebree is also on market power, so beginning in essence in February of 2014, the company's consolidated cash flow break-even will be below the current cash metal price. When we use that figure or that term, consolidated cash flow break even, we're talking about cash flow after everything, in essence; after SG&A, after interest expense, after maintenance cap ex, after everything other than the discretionary capital that we choose to invest in our business, some meaningful improvement here over the last couple of years.

Moving on during the quarter we made great progress as you saw mid quarter on Hawesville's power arrangement. You saw that the Kentucky Public Service Commission approved the new contract in the middle of August, exactly as it was submitted back in the spring. We've been successfully purchasing power from the MISO market since the 20th of August.

Thus far the delivery cost to power the plant has been exactly as we forecasted and this includes, as you may remember, the net costs of Big Rivers power station that sits adjacent to Hawesville. Per the contract, we pick up those net costs in the short-term. I'll quantify the financial impact of that short come obligation here in a few moments.

Now we're working to complete the arrangements with the grid regulators to allow for sustainable operations, assuming that Big Rivers curtailed this power station as they filed to do. Again, I'll give you some more detail on that in just a couple of minutes.

Lastly, over the last ten days the delivered price to the plant has been a bit higher than normal due to some local transmission issues and we're watching this development closely. We think it's just a short-term issue.

Moving along, we're making good progress on the integration of Sebree. As you would suspect, we need to transition from the various Alcan operating and finance systems per our agreement with them. We're setting up the infrastructure required to access the new markets that came with this plant. That was one of the real benefits we saw in this business and we're making some very modest investments to do so. And we're finding really good ways for the two plants to work together.

Just moving along as a multi-year expansion project at Grundartangi is on track. As you know, this is a complex, multi-year project with many areas of plant requiring major upgrade in modernization. Project's on budget thus far and importantly the estimate to complete the project is below budget. As we normally do in February, we'll update you on all of this and give you all of our financial goals and objectives and metrics for the year.

Importantly the expansion is ahead of plan. As you'll see, Grundartangi produced in the third quarter at an annualized rate of 295,000 tonnes, so continued terrific performance there. Lastly, the project to restart the Vlissingen anode plant is nearing its successful conclusion. Again, I'll provide some comments on that at the end of my comments.

If we can move along to slide five, as I said, some comments on the industry environment. First, the average cash metal price during the quarter was $1,781 a tonne. That's down 3% from Q2 when it was $1,835 a tonne. As you know, that's the lowest average price we've seen since the second quarter of 2009.

LME inventories remain around their all-time high, about 5.4 million tonnes. I'll talk about the fundamentals in a moment, but given increasing demand in the industry, the days of inventories have been falling. As you know, the LME recently announced that they've taken a decision on the proposed changes in the warehousing rules, but we've yet to see any details of their plan yet. Obviously the future of both on and off exchange inventories will depend heavily on the specifics of any plan that they make permanent.

Regional premiums, as expected, fell through most of the quarter after the original announcement that the LME made, though they've recently stabilized and even firmed up a little bit in certain regions of the world. The U.S. Midwest premium had a low of $0.098 during the quarter, but it now stands at $0.10. As you'll recall, that's down from a high of a $0.118 before the LME made its original announcement.

The EU duty paid premium has been stable over the last couple of months at about $245 a metric tonne. Obviously the future of premiums depends heavily on a number of factors, including expectations for interest rates, but for now the contango remains wide and favorable for financing.

Turning to fundamentals just for a few moments, demand has remained reasonably good. Global consumption is up about 5% during the third quarter of this year. Excluding China, that's about 2% increase. The EU is starting to see some stability in its demand and even some low growth, and China had a decent quarter after a period of relative weakness earlier in the year. That said, key developing markets continue to be pretty weak; Brazil, India, South Korea, Indonesia and others. Bottom line, we expect demand to continue to grow at least a 6% annual pace here over the next couple of years.

On the supply side, we're finally starting to see some momentum, with curtailments in closures announced in Russia and the EU and in the U.S. These are beginning to add up slowly. We've also seen some announcements of delayed projects in Russia and Canada. In China the central government again is trying to get control over this industry through some new rules regarding new projects and regional power subsidies. But time will tell whether the central government again is able to get control over the regional development in this industry.

Bottom line, global supply growth is also up about 5% this year. It's up about 1.5% excluding China. As you see, the industry is largely in balance. There have been slight deficit thus far this year and we expect this trend to continue, but obviously these deficits need to grow in order to start eating into those inventory balances.

Just a couple of comments on alumina before we move on here, the current index price stands just a little bit above $320 a tonne. That represents just shy of 18% of the current three month metal price. We've heard about recent deals on an LME index basis, short-term deals, a year or less, done at about the same price. This trend is obviously a concern for us; we're watching it closely, given our short alumina position.

If we can move along to slide six, to just round up the industry discussion, I won't spend a lot of time on this slide. We've shown you this cost curve before; we've just updated it here. So you know the basis of it and as you can see upwards of 40%, maybe a little bit more of it at the current metal price at global capacity; it's currently operating at a cash loss.

If we can move along to slide seven please, some comments as I promised on the operations this quarter. As I said, we're really pleased with the performance at all the plants this quarter. We're very convinced we've got the right teams in place, and you can see that now through the tangible progress that they've been making. We'll obviously add Sebree to this chart next quarter when we have a Q-over-Q comparison to make, but I'll make a couple of comments here on Sebree as we move forward as appropriate.

First and foremost, safety. We're continuing the really good performance we've had after the reasonably rough start we had for the year as we have briefed to you before. Hawesville, especially, has had great improvement through this year. Sebree, as I said, had a really difficult June/July. The plant came into the hot summer weather unprepared. Obviously, this kind of hot weather can lead to difficult times in the plant from a health and safety standpoint.

Obviously there was some anxiety amongst the employee population about the transfer of ownership as we took control of the plant on the first of June, and early July we had a full stop of all discretionary activity at the plant. We focused on getting the safety performance back to where we need it to be. I'm pleased to say the performance has been good since about the middle of the summer.

Moving down to production volumes, as you can see really good across the board. As I said before, Grundartangi producing at an annualized rate of 295,000 tonnes. It's important for you to note that in these charts, these data measured just hot metal production and therefore it ignores some other key statistics, for example, Hawesville has been producing record amounts of high purity metal over the last couple of months. And Sebree also has gone two months now of record weekly billet production. These, as you know, are premium products. This kind of performance is key to these plants' profitability.

Production metrics, as you can see, have been good. Good efficiencies across the plants with Sebree exhibiting the same trend here as on safety. A poor beginning to the summer, but then the plant has come back strong since then.

Production costs, I gave you some details before over the longer term. This is just quarter-to-quarter Q3 over Q2. You see the good performance across the plants, let me just give you a little bit of detail behind each of these.

At Hawesville all the improvement rather this quarter was from power as the plant spent half of the quarter on its new power contract. At Mt. Holly the quarter-to-quarter improvement came primarily from better power and carbon prices. At Grundartangi the improvement came from all areas of the plant, as the management team here continuous to turn in great performance. They're obviously leveraging their higher production volumes to absorb fixed costs better and they're attacking successfully costs on a department by department basis. We really couldn't be more proud of the team at Nordural.

With that, I'll turn it over to Shelly to go through the financials.

S. Harrison

Thanks, Mike. If you could turn to slide eight, please, I'll take you through the company's financial performance for the quarter. Shipments were up 21% in Q3 and this was largely due to the Sebree acquisition in June. We also had a 15% increase in shipments at Hawesville as we reduced the surplus finished goods inventory that we built up in Q2 prior to receiving our approval to move the plant to market based power.

Quarter-over-quarter the shipments were down about 5% at Mt. Holly were results of finished goods inventory.

In Iceland, we had direct shipments of approximately 1,200 tonnes and total volume for Iceland was up just slightly as a result of the additional volume for the ongoing capacity creek project. On a one month lag basis, the average cash LME price was down about 3.5% from Q2 to Q3. When you look at our realized unit prices, they were down approximately 2% in the U.S and 4% in Iceland. So both pretty much in line with the change in LME. We have seen some decline in the regional premiums, in reaction to the announcement of potential changes in the LME warehouse rule, but on a one month lag basis, the impact on realized prices was minimal for Q3.

Moving on to the income statement data, net sales were up 20% Q3 over Q2 due to higher shipments from Sebree and Hawesville, but that volume benefit was partially offset by weaker metal prices in the quarter. Continuing down to the operating loss line, this quarter we had just our normal adjustments for depreciation and amortization and lower cost of market inventory adjustments. After backing out these non-cash items, we had an operating loss of $4.5 million in Q3, which is down $6 million from Q2.

Lower LME prices in Q3 reduced revenues by about $10 million, but lower cost of sales associated with our LME linked alumina and power contracts partially offset this impact by $4 million.

We saw power costs at Hawesville improve by $7 million in Q3 as a result of the new market based power arrangement that began in late August. The power costs at Sebree went up by almost $4 million due to the pending rate increase that was imposed when Hawesville left the system. Just this last week, the Public Service Commission filed their ruling on the rate case approving about 75% of what was requested by the power provider.

As a result, we expect to receive a credit on Sebree's next power invoice of about $900,000 for excess amounts charged in Q3. The remaining decrease in operating income relates primarily to the additional two months of ownership at Sebree in Q3 as well as the reduction of finished goods inventory at Sebree in Q2 that did not recur in the third quarter.

Moving on to the EPS data, for Q3 we had an adjusted loss of $27 million or $0.28 per share. In calculating adjusted earnings we had only two adjustments this quarter. First, we backed out the lower cost in market inventory adjustments and then we also eliminated the $11.7 million credit related to the amortization of the Sebree power contract liability. Just as a reminder, that liability was reported as part of the Sebree purchase accounting and will be amortized in full by the end of January 2014 when that power contract terminates.

Continuing down to the balance sheet info, you can see here we had a modest increase in cash quarter-over-quarter. As I mentioned on our last call, it was a $22 million customer payment that was inadvertently paid late on the first business day after quarter end since month end fell on a weekend in Q2. So our Q3 ending cash reflected the benefit of this payment coming in.

At the end of September we had $17 million outstanding on our revolving credit facility. This balance was repaid subsequent to year-end, but we'll likely draw on the facility again in Q4 as our U.S. working capital requirements fluctuate throughout the quarter. As a result of this borrowing, our funded debt was up $17 million from Q2, but ending net debt was relatively flat at $136 million.

Moving on to slide nine, so here we show our normal cash flow waterfall bridging Q2 to Q3. Capital spending picked up this past quarter with $5 million spent on the restart of our anode plants in the Netherlands. We also had $16 million in cap ex at our smelter facilities and this includes the investment in the capacity creek project at Grundartangi as well as a full quarter for Sebree.

During Q3, we also paid about $10 million of withholding taxes in Iceland. As we mentioned previously, these are temporary taxes and will be refunded to us in November of next year.

Moving on to the right, you can see the $17 million revolver borrowing I mentioned, as well as a $31 million cash inflow from Working Capital. The main drivers of the inflow from working capital are the late customer payment we received in Q3 as well as the reduction in Hawesville's finished goods inventory. Quarter-over-quarter cash was up $30 million and we ended September with a $141 million on the balance sheet.

While we're discussing cash flow, just a couple of items I want to mention to keep an eye out for in Q4. Just last Friday we received a refund of about $22 million for temporary withholding taxes we paid in Iceland. At this point the remaining balance in withholding taxes is just the $10 million we paid last quarter that's due to be refunded at the end of next year.

We also have our first semiannual interest payment on our new 7.5% senior notes in December and that will be just over $9 million. The last thing I wanted to point out for Q4 is that this will be the heaviest capital spending quarter of the year. We expect to spend another roughly $20 million to complete the first phase of the anode plant startup and most of that will go out in Q4 with a small amount carrying over to early 2014. We also plan to spend about $15 million at our smelters in Q4, as we continue to progress the Grundartangi expansion project.

With that, I'll hand it back to, Mike.

M. Bless Thanks, Shelly. If we could turn to slide ten please, as normal I'd like to end here before we take your questions, just to give you a sense of some of the major items that we're working on now and will be during the next couple of months.

First and foremost at Hawesville, we need, as I briefed earlier, to finish the discussions with the regulators that are required to ensure the stability of the grid and our ability to import energy reliably and cost effectively. These are technical procedures governing the mitigation of risk when transmission lines are down for maintenance, either on a scheduled or unscheduled basis. We believe this process should be in place and completed by the early part of 2014. As I said, I've quantified this before, just a bit under 10% of the current delivered power price we're paying at Hawesville that we've been paying since mid-August will go away once this process is completed and Big Rivers is able to shut its generation station.

Moving on to Sebree; we need to finalize the power contract with Big Rivers and Kenergy and file that with the Kentucky Public Service Commission. As we said before, this will essentially be the same arrangement as we have as Hawesville. In addition, it shouldn't have the complicating factor of the transmission issues of that which I just spoke. We believe this will be approved before the termination of the existing contract on the 31st of January.

At Mt. Holly, just to remind you, the current power arrangement with the off-system resource expires at the end of December, 2015. This is the deal, as you may remember, that we put in place in the middle of last year. Under the terms of this deal we need to provide notice by the end of this December, i.e., next month if we wish to terminate the master agreement with Santee Cooper for post 2015 service.

The various parties have been working on this for the better part of the year. We've already mutually extended that notice date a few times. We're working really hard with all the applicable parties here, including the State Government of South Carolina at its very highest levels. As you know, this is a terrific plant, but thus far the long-term power costs the utility has been showing us don't support the operations of any smelter, and thus we have more work to do here.

As I said, the yearlong restart project at Vlissingen is coming to an end as scheduled. We'll be restarting half of the plant's $150,000 tonne per year capacity here soon. At Greenville we'll be restarting very soon and we expect to have anodes in the baking ovens in December for shipment up to Grundartangi in January. Project is on time, and is likely to come in nicely under budget. And next we'll need to decide when we spend the additional $13 million that's required to restart the second half of this plant.

Moving along, we're finalizing the replacements for some major commercial contracts that are expiring at the end of this year, there are two in particular. First, the original total contract at Grundartangi comes up at the end of this year. As you know, that's for a 130,000 tonnes per year of metal and obviously the related amount of alumina, it's a totaling contract that's coming up. The second one is the multi-metal contract with Southwire at Hawesville; both of these processes are right where they should be at this time in November.

We continue to work very hard on the situation in West Virginia. We've had recent discussions with the state and the power company. In fact, those discussions are continuing this week. We are quite appreciative of the commitment of Governor Tomblin of West Virginia and the other key state leaders in helping us try to get this plant restarted.

We're trying to find a way to get an appropriate power price with enough longevity to justify the investment required to restart this plant. We remain absolutely committed to getting Ravenswood back going again.

There's absolutely no reason this plant shouldn't run with the right power arrangement.

And lastly at Helguvik, we continue to work to reach agreement with HS and OR and continue to do so. As you know, those are the two power companies with whom we have existing contracts. Given the state of those two companies, we've recently made a request to the National Power Company, that's the third major power company in Iceland. We believe their involvement is necessary to get this project going in the near term.

In addition, we understand that the Government of Iceland is reviewing its Energy Development Program over the next six months or so. We believe they're committed to take the steps required to get this project resumed, and thus realize the significant benefits it will bring.

With that, Pete, Shelly, I think we can move to questions.

P. Trpkovski Gwenn, if you could please take the first question on line.

Moderator (Operator instructions.) Our first question comes from Brett Levy with Jefferies.

B. Levy Can you give us a little bit more color around, like the steps that are going to happen for Helguvik; if you bring the National Power Company in, sort of what have they said? Will the other two guys potentially stand aside? I know it's sort of a sensitive point in the negotiations, but, obviously, having a second plant in Iceland is a key part of your long-term strategic plans. I just want to get a sense as to sort of how optimistic you are that maybe someone can come in and restart these conversations in a constructive way because they've been stalled for so long.

M. Bless Yes, thanks Brett. It's a good question. I would start by agreeing absolutely with your last comment about the importance of the project. Two, I'll take yours in reverse order if it's okay. Two, absolutely not on the other two guys stepping aside; they continue to tell us that they want to participate in some way. We continue to wish them to participate in a pragmatic and sensible way. The real point here is that we want to get this project going in the near term, and we think in order to do that we need the national power company; it's called Landsvirkjun of course to come in here.

In answer to your first question, it's really too early to tell and as you would expect and hopefully appreciate, Brett, this isn’t something that we want to negotiate in the public domain like this. But we have had some very constructive discussions here over the last month or two and we’ll see where those take us.

B. Levy — Then the second question is, I mean you guys have given clear metrics that at current prices at least the U.S. production is going to struggle after all of the cap ex and everything else to be breaking even. What is your level of hedging, and I ask this every quarter, what is your level of hedging for the current quarter and any future quarters to sort of stabilize cash flow to neutral for the U.S. operations?

M. Bless — There is no hedges in place right now. There are some very minor premium hedges that are on the books, but they’re de minimis, but there were no LME hedges, Brett, on the books right now.

B. Levy — Any plans to put some on?

M. Bless Something that we look at all the time; I know that you'd probably prefer a more precise answer. It's a complex analysis, as you would expect, and tough in this environment to consider putting on hedges with metal kind of bouncing around 1,800. But it's something that we do look at all the time and I might add just to expand a little bit, you didn't ask the question but perhaps it might be the next one that you ask. We're also looking to doing a quite a bit of analysis, as you would hope, on alternatives to hedge our power exposure as we move here to become a major market purchaser of power. That's something that we'll be focusing on here over the next couple of months.

Moderator Our next question comes from Sal Tharani with Goldman Sachs.

S. Tharani Mike, you had mentioned in the past also about your short position of alumina and that the contract, the index contracts certainly have gone up a lot, 18% you mentioned. I was wondering if you are looking at the Ormet, Louisiana facility for any reason that you think it may fit in your portfolio.

M. Bless Yes, it's a good question, Sal. As you know, we look at everything, and as you would hope, we would take a look at this one. Based on our analysis of the cash cost of that facility even basis current natural gas prices as you know alumina refineries are sensitive to the value of natural gas. It's not an economic facility, even if you look at current index prices of alumina, if you look at current LME reference prices, even if you use that metric, 18%, which we do, in fact, expect to go down here over the next year or two. Long winded way of saying, it just doesn't dollar out.

S. Tharani But you have done your math on this thing?

M. Bless Most certainly.

S. Tharani Just quickly, you mentioned something about you're facing some higher transmission costs over the last ten days; can you just elaborate a little bit more on that, what's going on with it?

M. Bless Again, we do think it's just a short-term issue. What happens is that the owners of the transmission apparatus in the region, or in any region, it happens to be Big Rivers as you would expect, they do most of their heavy maintenance in the so called shoulder seasons. They don't, they try to leave maintenance undone, if you will, during the summer when power usage is at a high and take the lines down to maintain them in the fall as they call it the shoulder season, and we've seen some congestion in the area as they've done that.

It's come at a time, unfortunately, where a generating unit or two went down in that plant, so you had kind of a double whammy there and that's what lead to a spike here for a couple of days over the last ten days in prices. I don't want to overplay it here, it's top of mind for us right now and so it's something that we're watching. But again, we think it's a temporary situation.

S. Tharani — How much of asset and transmission cost is of the total cost?

M. Bless — What this really is, is that transmission, let me make sure I explain this; transmission itself is fixed, that's regulated tariff regulated by the FERC. This is simply the loss of some of that transmission, that's a bit of a hysterical term, but the fact that the lines were down for maintenance driving up actual energy prices in the region. I use transmission as a euphemism. What we're really talking about here it's just an increase in the market energy prices caused by some of the regional transmission being down.

Moderator Our next question comes from Bruce Klein with Credit Suisse.

B. Klein I wanted just some color on spot power, sort of what you're sort of seeing out there now? That would be helpful.

M. Bless Yes, sure. The most liquid hub near Hawesville is the Indiana Hub, and that's where, for example, if we were to hedge that's where one would hedge. And the price of energy in the day ahead market, we always buy day ahead per our procedures with Big Rivers and MISO, you never want to buy at the real time market because prices there can be much more variable both up and down, but right now the day ahead prices are in the high 20s between $28 and $30 per megawatt hour. And if you look out over five years there's quite a liquid forward market, it's reasonably flat. Last time I looked at it, it was last week, it was up in five years maybe $2.50 to $3.00 in five years. So it's reasonably flat forward curve at this point.

S. Harrison Sorry, to make sure we're comparing apples-to-apples. The numbers Mike is referring to are undelivered numbers, so on top of that you would need to add transmission cost.

M. Bless Yes.

B. Klein I thought mid 30s was—or mid to high—

M. Bless That's exactly right. Shelly has got it right. To that energy price, Bruce, you would add about five bucks of a combination of the FERC regulated transmission tariff, which I referred to a couple of minutes ago, and then as we've detailed in our arrangement with Big Rivers we pay a compendium of other fees; their fees for servicing us, a fee to Kenergy for actually providing the service and so the aggregate of the transmission and those other fees add roughly about another five bucks or so per megawatt hour. So that's how you get into the mid 30s.

B. Klein Then the premium, the store with the LME, any sort of bigger picture or thoughts you have on how that sort of gets resolved or what that means to the premium?

M. Bless No, I mean to be honest, no. We're waiting like the rest of the industry to see. As you may have seen, the LME somewhat tantalizingly made an announcement; I think it was, Shelly, two Fridays ago they came out with this?

S. Harrison Yes, ….

M. Bless Yes, I think it was a week and half ago now saying that their Board had made a decision but they put out nothing since then. You've seen a lot of our peers in the industry have commented publicly, sent letters into the LME. Some of the various people who look at the industry, some of your peers, Bruce, to your firm have made public comments, but so far the LME is being reasonably tight lipped. We don't have any—there's been lots of speculation about why they haven't, if they've made a decision, just gotten on with it and announced it, but it's a long-winded way of saying we don't know anything more than anybody else knows at this point.

Moderator Our next question comes from Tony Rizzuto, Cowen and Company.

A. Rizzuto I just wanted to follow up a little bit because the comments such that you made in the press release about diminished volatility associated with the LME warehousing proposal. I was wondering, I was intrigued by that and I was wondering why those comments and if you could elaborate a little bit on what you meant there?

M. Bless Yes, I mean, I think just picking up of the last comment I made, we're not sure what the proposal is going to do. We have seen diminished volatility here over the last probably month and half, two months. As you remember, right after the LME made their original announcement there was quite a bit of volatility, kind of the forward markets in all these various premium disappeared almost overnight. The spot prices, the cash prices on both came down pretty consistently, for example, the Midwest premium was at 11.8 and it came down to 9.8. I don't know if it was linearly, Shelly, but pretty consistently over maybe eight to ten weeks, give or take.

S. Harrison Yes.

M. Bless And then it's firmed up since then, Tony. As you know, it ticked back up to ten and it's kind of just stabilized, same thing in Europe with the duty paid premium. So, it's hard to tell whether that's people sort of beginning to re-price these premiums under what they expect in the regime is going to be, or just a lack of sort of direction causing people to freeze. But all we were trying to do there is make an observation that that kind of volatility seemed to have come out of it, at least right now.

A. Rizzuto — Just a question on, you indicated that your fourth quarter cap ex will be a big quarter. I was wondering if you could give us any guidance at this point for ’14 and do you talk about sustaining and growth in that year?

M. Bless — Sure. We’ll just think, do it at a high level at this point, Tony, and then—

A. Rizzuto — That's fine.

M. Bless — —yes, and then we’ll give you all the details we usually do in February, but we’ll continue along with the Grundartangi program. It won't be as big and not as it was in 2013, but it will be a hefty amount, I could see $15 million to $20 million easily. Shelly is nodding her head up and down here. Vlissingen, the big decision there will be when, it won't be if, but when we decide to spend the fund, to start up the second baked oven there, and that will be it's $10 million for the oven and another $3 million for a bunch of ancillary related stuff. So that will be $13 million at Vlissingen that either it will happen, just we haven't taken the decision yet, Tony, as to whether we’ll do it in 2014 or towards the beginning of the year back after the year 2015; that one’s kind of up in the air at this point. Other than that, Shelly, you want to go through, I mean maintenance is yes, go ahead.

S. Harrison — Yes, at Sebree now we're at about $15 million to $20 million annually for maintenance cap ex. I think you hit the big ones, Mike.

M. Bless — Yes.

Moderator — Next we have a question from Timna Tanners, Bank of America.

T. Tanners — I'm sorry if I missed it, but there was a WARN notice on Friday for Sebree. Was that just standard procedure then in terms of the process for getting your power contracts?

M. Bless — Yes. Sorry, I never want to call one of those standard, because they're very impactful when you do them, but as you may remember we did something similar at Hawesville. We were required to do it just because as the WARN notice itself said, Timna, if for whatever reason we weren't able to have a new power contract approved before the 31st of January we would be forced that we wouldn't have a choice. We would have no power. We would be forced to curtail the plant.

That said, nothing is changed, you may have read, I should say, the order that the Kentucky PSC issued in August. It even talked about Sebree as their expectation that it would be coming even though the order itself pertained only to Hawesville. The contract is virtually identical and, frankly, it's less complex, A) because we've already done it; and, B) because it doesn't have the issues of the generation station right next to Hawesville, there's no analogue at Sebree. We expect it to be approved in due course likely sometime in the month, during the month of January.

T. Tanners Your confidence kind of answers that question I think. I think I was just a little confused, I'm sorry if you already talked to this, but I just want to make sure I understand it; what's the timeframe under which we should be expecting kind of the full benefits to flow through for both Hawesville and Sebree, if you could?

M. Bless Sure, no problem. So, for Hawesville the answer is this quarter—and then I'll come back to this in a moment—Q4 this year. For Sebree, the full benefit won't be, I suppose, until the second quarter. I guess bottom line that's the answer to your question, it won't be until the second quarter of 2014 until both plants have a full quarter on market power.

As Shelly detailed, you may remember we talked about the potential or our expected benefit to Hawesville. As you may have heard, she detailed that power costs were down at Hawesville $7 million this quarter and the plant was on market power for just about half a quarter. So that kind of annual run rate, it's something in the sort of mid $50 million improvement we're right on that estimate that we've been making for the year-to-date.

Moderator Next we have a question from David Gagliano, Barclays.

D. Gagliano My question is about the 2014 cash flow. I want to ask a question that, I think it require some assumptions, but I'm hoping we can hone in a bit on the cash flow situation for '14. Given the changes in the power cost at Hawesville, assuming you're successful with renegotiating the power contract at Sebree and based on what you know about 2014 capital spending needs, can you give us a rough sense as to what realized aluminum price and I when I say realized aluminum price I mean including premiums. What realized aluminum price you think you need to be essentially cash flow breakeven in 2014?

S. Harrison If we assume that both the Hawesville and the Sebree power contracts are on that market based power and power prices are around where they're trending right now, our all-in breakeven with everything other than investment type cap ex would be in the high 1,700s, around 1,775.

D. Gagliano — And that's for next year too, correct? And that is .…

S. Harrison — And again, no investment cap ex …

M. Bless — That's everything we know right now. So in essence, the answer is yes to the question. Other than as Shelly said, the discretionary or investment cap ex that we just detailed a couple of minutes ago.

Moderator — We just got a question from Tony Rizzuto, Cohen & Company.

A. Rizzuto — I just want to follow up on David's question around 1,775; that's just LME, now what kind of assumption would you guys be making there in terms of the premium over LME?

M. Bless — Yes.

S. Harrison — That's truly LME comparable. So that takes into account that benefit is at the premiums into our cost structure. As you may recall, Tony, when we present cash cost, we present net cash cost and they're reduced by premiums above the LME. When we talk LME it's truly a comparable number.

Moderator There are no questions at this time.

M. Bless Thanks, everybody, for participating this afternoon, and we'll look forward to talking with you in, suppose it will be February, if not before.

Moderator Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Executive TeleConference. You may now disconnect.