Final Transcript

CENTURY ALUMINUM COMPANY: 3rd Quarter 2018 Earnings

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SPEAKERS

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Craig Conti – Executive Vice President and Chief Financial Officer

ANALYSTS

Jeremy Kliewer – Deutsche Bank
Lucas Pipes – B. Riley FBR
David Gagliano – BMO Capital Markets
Paretosh Misra – Berenberg

PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Third Quarter 2018 Earnings call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. Instructions will be given at that time. [Operator instructions]. As a reminder, the conference is being recorded.

I'll now turn the meeting over to our host, Mr. Peter Trpkovski. Please go ahead, sir.

P. Trpkovski Thank you very much, Lori. Good afternoon everyone, and welcome to the conference call. I'm joined today here by Mike Bless, Century's President and Chief Executive Officer; Craig Conti, Executive Vice President and Chief Financial Officer; and Shelly Harrison, Senior Vice President of Finance and Treasurer. After our prepared comments, we'll take your questions.

As a reminder, today's presentation is available on our website, www.centuryaluminum.com. We use our website as a means of disclosing material information about the company and for complying with regulation FDE.

Turning to slide 1, please take a moment to review the cautionary statement shown here with respect to forward-looking statements and non-GAAP financial measures contained in today's discussion.

With that, I'll hand the call to Mike.

M. Bless — Thanks very much, Pete, and thanks as always to all of you for joining us this afternoon. If we could turn to slide 3, please, I'll give you a quick rundown of the last couple of months.

Before we start, you probably noted that we recently announced the passing of our non-executive chairman, Terence Wilkinson. It was a couple weeks ago. Terence joined us in that capacity in mid-2011. He had a really relevant background in the metals and mining industry, plus a lot of experience as a CEO in his own right.

He was a great guide in helping us focus on the long-term value and sustainability of our operations, and he was a really excellent director. He was always there to provide consistent balance and calm counsel. Lastly, Terence was a true and supportive friend to a lot of us. We'll miss him greatly. We've obviously passed along our sincere best wishes to his family.

As you saw, the board acted quickly in this regard. Several months ago, we had welcomed Andrew Michelmore back onto the board. Andrew had served for us for several years earlier in the decade on our board. He had substantial experience as CEO of a major metals and mining company, the latest from which he retired recently, was as CEO of MMG.

For those of you who know, it’s the Hong Kong listed diversified commodity company that’s majority owned by China Minmetals Company. In that respect, Andrew has deep knowledge of our industry in markets, and we’re really, really pleased to have someone of his caliber in this important role.

With that, let’s get started. We think we had a really good quarter here. The results, as expected, and as you’ve seen were impacted by the extraordinary conditions during most of the quarter in the aluminum market. Cash flow was also impacted per our expectations by several factors that are now largely behind us.

It was a panoply of things. Let me just tick them off quickly here, and then Craig will give you some more detail about many of them. The point here is that most of this is largely now behind us and trending the other way, of course. First, you had a rising aluminum price. Of course, you’ve seen that’s not going the other way. I’ll cover that in more detail in just a moment.

You had an increase in the quantity of our alumina inventories, and that was a decided decision to ensure the stability of our supply. You just don't want to be in the position of needing to chase high-price cargos in a market like this, and that severe risk, as you've seen, seems to have dissipated.

We had first fills of raw materials for the restart to the line at Sebree, and the first line and then the second line at Hawesville. That's ongoing now. Again, I'll get to that in a moment. You had a good chunk of the remaining restart spending in Hawesville. Again, we'll give you more detail on that.

At Sebree, you had the missing cash flow from the line 3 outage and then the restart spending itself to get line 3 back into full production, which we now have, and we'll now receive in the coming quarters the full amount of insurance proceeds. Again, Craig will detail that. So you had a bunch of trends here that impacted cash during the quarter. Again, most of those now going in the other direction.

Moving along, Pete will give you some detail on the industry environment in just couple of minutes but let me just make a couple of quick comments to put the rest of my words into perspective. Most importantly, our key end markets remain strong. We're seeing good growth in the US and also in the European countries.

Key US downstream sectors are reporting record results and continuing positive outlooks. Global primary aluminum demand looks set to come in up about 4% to 5% in 2018, and at most we're seeing supply growth during the year at about 2%. So, this produces a deficit of almost two million tons in 2018 of primary alumina, of course, and you're now seeing forecasts beginning to call for a similarly large deficit in 2019.

Predictably, you're seeing decreasing inventories throughout the supply chain, not just in the warehouses. Given all the issues that have been swirling around the industry this year, we think a lot of people may simply just not be focusing adequately on the strong fundamentals. The LME price itself has obviously been somewhat range bound. As we all know, it's subject to a lot of macro factors, interest rates, global trade discussions, other geopolitical issues, etc.

Of course, the aluminum market has been extraordinarily volatile. That's perhaps an understatement. We remain absolutely convinced that the fair value of alumina in this kind of LME pricing environment is in the low to mid-$300 per ton, and we're pretty confident that others feel similarly, that's both buyers and sellers of alumina.

As you know, we're more than halfway back to this level before the recent couple days of panic when it looked like the Alunorte refinery might shut down entirely. We're obviously now past that, and since that time it's traded down more than $100, and we believe it'll continue to fall.

So, obviously two issues that remain to be finalized in order to get the price down to where we believe the fair value is. The first, of course, is Alunorte needs to receive permission to bring the refinery back to full production. The operator has consistently said this could be done in a matter of months once the full permissions are received.

Then, second of course, we need resolution of the sanctions relating to Rusal. During this period of disruptions and uncertainty, the physical market importantly has successfully rebalanced, and that just gives us further confidence that once these issues are cleared up the market should be very well balanced and likely in a surplus for some period of time.

We're also setting up the company for its alumina requirements over the coming years. You may have seen we made good progress through a multiyear contract that we recently executed and announced, and this is for a good portion of our US requirements for the five-year period 2020 to 2024. So, really excellent counterparty, plus the material will largely be sourced from the refinery in Louisiana from which we traditionally bought.

The quality of that material is good, and obviously the logistics are favorable for our Kentucky plants. The contract pricing itself we believe is innovative and spreads the risk. It's partly based on a fixed price, partly based on a percentage LME, and partly based on the index.

Last, we're finally seeing some steadiness in the price of other key commodity inputs. Coke is obviously the most important to our process in our economics, and as we've been expecting that market looks like it peaked earlier in the year, we're seeing pricing now easing. You'll see this when I make some comments on the individual plants' costs structures and results in the third quarter in just a few minutes.

Okay, moving along the restart processes is on track at Hawesville. As reminder, we announced back in March our intent to restart the three potlines that were curtailed in late 2015. As we expected, the first of these lines was fully operational during September. As you've seen if you had a chance to poke through the numbers, it produced just shy of 7,000 metric tons during the third quarter, and as a reminder when producing for a full quarter, each line at Hawesville is good for 12,500 tons approximately per quarter. So, this line, in and of itself, will have growth Q4 over Q3.

We just began the restart a few weeks ago and the second potline a little bit ahead of schedule, and we continue to expect that line to be fully operational before year end, and we continue to expect the last line to be fully operational during the first quarter. So, none of those assumptions have changed, consistent since we announced the project back in March.

The project also remains on budget. As you've seen, again if you've had a chance to quickly poke through the press release through September we've spent $40 million of the $75 million budget, and Craig will give you some more data on the timing on the remaining spending.

As a reminder, this is the first phase of the project. The next phase comes with the rebuild of the two existing lines as we've been saying. That'll happen sometime between in 2019 and 2020. That's an aggregate of $45 million, and then the second phase is a technology upgrade. That's a variety of projects that aggregate to about $30 million in spending.

Moving along, Sebree as you've seen, also returned to full production towards the end of the quarter, again a little bit ahead of our expectation. As you'll recall, we lost that potline due to an extraordinary equipment failure at the end of May. The restart process was really well done with excellent, excellent attention to safety. Craig will give you some more detail about the lost production and the restart spending during the third quarter, and again, that plan is now back to full capacity.

As you saw a couple weeks ago, we announced that we signed an agreement to extend Mt. Holly's power contract for two years. It's essentially the same contract as the one that expires in December of this year, and we're now in the process of finalizing the third-party power. As you know that's 150 megawatts we buy from third-party sources. That's versus the 50 megawatts that we're still required to buy from the in-state power supplier, but the economics will look pretty much similar to what we've had for the last three years.

You have 75% of the power to remind you at a very competitive price definitely in the second quartile on the power cost curve, and then you have 25% in the third or maybe even the fourth quartile. So, the weighted average there, regrettably, remains the third quartile power price.

Countering that, as you know, the plant has a competitive cost structure and a really good and high value product mix, and most importantly we have a really, really good team of employees here, and we're pleased that they've stuck with us through these uncertain times. It's been a long year for the folks there, in the plant, their families, and in the community.

We really do value the talent there because we're absolutely convinced that this plant is going to run for a long, long time. That two-year extension is important because it does give us time to find a solution to support getting the production back to full capacity.

The situation is difficult now. Those of you who follow the situation know that the in-state power provider is undergoing a period of reasonably significant uncertainty. We do believe and continue to believe there's a path that makes sense for all parties once the data are simply assessed logically. That path is for us to be able to buy all the power for both potlines from the third-party market, and we intend to continue to pursue this objective vigorously.

Bottom line given the status of our operations and the market dynamics as we see them developing over the next couple quarters, we think the company is really well set up for 2019 and I'll give you a quick preview of what that might look like before taking your questions in just a couple minutes, but before we do that I'll give you to Pete for some comments on the industry.

P. Trpkovski Thanks, Mike. If we can move to slide 4 please, I'll take you through the current state of the global aluminum market. The cash LME price averaged $2,056 per ton in Q3 which reflects a 9% decrease from Q2. Aluminum prices have averaged $2,050 per ton, five-zero per ton, for the month of October and are currently sitting just shy of $2,000 per ton.

In the third quarter, regional premiums averaged approximately 20.6 cents per pound in the US down 5% quarter-over-quarter and $156 per ton in Europe, a 23% decrease from prior quarter. Spot premiums are around 19.65 cents per pound in the US and $130 per ton in Europe. In the third quarter of 2018, global aluminum demand grew at a rate of 4% as compared to the year-ago quarter. We saw approximately 5% year-over-year demand growth from China and approximately 3% growth in Europe and approximately 2% in North America.

Global production growth was up a modest 2% in Q3 versus the same period last year. China production was up only about 2%, and the world ex-China was up about 2% as well. As a result, in Q3 the global aluminum market recorded a deficit of approximately 333,000 tons, and we continue to see a drawdown of inventories globally. For the full-year 2018, we expect to see a global supply deficit of nearly two million tons and forecasts are predicting a similar global deficit in 2019 which should result in continued destocking of inventories and support LME prices over the long term.

With that I'll hand it back to Mike.

M. Bless

Thanks Pete. Okay, if we could just move along to slide 5, please couple quick comments on the operations. Again, we had a really nice quarter in all the plants. Most importantly was a really nice quarter in safety performance. We had less than a handful of recordable injuries in all the plants combined, and also very importantly, fewer of what we term near misses of any serious injuries.

Especially noteworthy is the performance at Hawesville and Sebree. At each of those plants you had really complex environment as you had all that restart activity coexisting right next to the normal operations, and we’re really proud at the folks at both of those plants.

Production came in as you would expect. You see the incremental tons at Hawesville from the restart of line 5 that I referenced before just shy of 7,000 tons and this trend will continue during the next several quarters. So, look for the next several quarters to see similar growth or even increased growth rates at Hawesville.

At Sebree, that equipment failure happened at the very end of May, so the impact on Q3 was worse than the impact on Q2. That’s what you’re seeing there. As I said, the plant is now at full capacity so you'll see it swing nicely the other way for Q4.

Moving down to production metrics at Hawesville and Sebree, what you're seeing there is entirely the result of inefficiencies of bringing the production back on. That's to be expected and that should go away as we move forward and you see nice stability at each of Mt. Holly and Grundartangi.

Moving to production cost a few comments that pervade the plants. First, we had power costs up a little bit at all the US plants. As you'll remember, there were some really hot stretches during the summer, and in other raw materials, as I said principally carbon products, we're finally seeing some easing in the market pricing.

A couple comments on the specific plants. First at Hawesville, we had an impact of the incremental volume coming in. That was offset by continuing restart costs and a higher power price. At Sebree, a higher power price was completely offset by really good performance and controllable costs. Really nice job there.

At Mt. Holly, of that increase two-thirds is represented by the power price increase alone, and at Grundartangi you had really nice performance across the board on controllable costs with labor costs down very nicely and again for the first time in several quarters a lower carbon cost, so very good performance at Grundartangi.

With that I will give you to Craig.

C. Conti Thanks Mike. Let's turn to slide 6, and I'll take you through the high-level results for the third quarter. On a consolidated basis, global shipments were up about 2% quarter-over-quarter, and realized prices were up 1% as a result of slightly higher lagged LME prices and regional premiums.

Looking at operating results, adjusted EBITDA was $29 million this quarter, and we had an adjusted net income of 2 million or $0.02 per share. In Q3, the primary adjusting items were $16.9 million related to the Sebree equipment failure, $9.2 million for net realizable inventory adjustments, and $4.5 million of non-cash gains related to the extinguishment of legacy contractual obligations at the curtailed Helguvik project.

Let me give you a little bit more detail on the Sebree adjustment. For Sebree, we expensed about $7.5 million in Q3 for cost to prepare the line for restart. We've also had reduced production of approximately 9,000 tons in the quarter which translates to slightly over $9 million of lost profit and fixed cost. As Mike mentioned, we're currently back to full capacity in Q4.

As a reminder, we expect to fully recover these losses and those we mentioned last quarter from our insurance policies net of our $7 million deductible. We're still in the process of finalizing our estimate of the total loss and will continue to call out any impact from recovery in the future as our cash receipts and associated P&L benefits will lag the losses.

Turning to liquidity, our cash balance decreased by $51 million primarily as a result of the build in inventory and increased spending on Hawesville restart, which I'll talk about in a couple slides. Availability under our revolving credit facilities was impacted at the end of Q3 by $16 million primarily as a result of some borrowing due to the timing of customer payments. Specifically, we have one large customer with extended quarter-end terms that remitted approximately $20 million in early

October. Our credit facility was fully repaid on October 1st, and is currently undrawn.

Okay, let's go to slide 7, and I can walk you through our quarter-to-quarter bridge of adjusted EBITDA. During Q3 we generated $29 million of EBITDA as compared to $54 million in Q2. The $26 million decrease was largely driven by higher alumina prices, as we forecasted on our last call, and was slightly offset by higher LME prices and regional premiums. On a lag basis alumina was up about $100 a ton which drove approximately $35 million of decreased EBITDA. Conversely, the LME was up $40 a ton, and the US Midwest premium was up $75 a ton, which was accretive to EBITDA by about $8 million.

Looking ahead into Q4, the lag LME is down about $160 a ton, and the lag US Midwest premium is down about $20 a ton. These two items translate to a decrease of about $30 million to $35 million in EBITDA. In addition, we expect higher realized alumina and power prices to decrease EBITDA by $15 million to $20 million. So, as a result of lower realized selling prices, higher alumina costs, and higher power prices, we expect to see a net decrease in Q4 EBITDA of $45 million to $55 million.

Let's turn to slide 8, and we'll take a quick look at cash flow. We started the quarter at $124 million in cash, and end of September was $73 million. During the quarter, we had $31 million of spending associated with the Hawesville restart, and we spent $6 million for all other company-wide capex.

Also, as I mentioned earlier, customer payment timing drove a $14 million temporary draw on a revolving credit facility, which has been fully repaid as of October 1st. We also made a significant investment in working capital during the third quarter primarily as a result of increased inventories, the majority of the increase related to alumina inventories driven by higher prices and volumes on hand.

We also had some build up of materials in anticipation of the ongoing restart at Hawesville as well as some higher safety stocks in response to the dislocated aluminum market, as Mike mentioned previously.

As Mike mentioned, we expect to spend around $75 million for the restart of the three curtailed lines in Hawesville, the majority of which will be spent in 2018. This includes the approximately $40 million we have spent through the third quarter taking into account both capitalized and expense amounts.

As I've spent my first several months with the company traveling to our facilities and meeting with our employees and investors, a few things have become clear to me, and I'd like to share them with you today. The first is that we're in the time of transition both in the market and within the company. The market, while volatile by nature, is currently pricing inputs, most notably alumina, at a historically elevated level, we fundamentally believe that the price will regress in the short and medium term to more normalized levels.

Within the company, we continue to invest in our capacity to bring more products into short markets where we have a demonstrated track record of success. All of our internal transition work is driven and enabled by our world class employees across the organization who share a genuine desire to see Century, our customers, and our investors succeed.

The second half of 2018 financially represents the leading edge of this transition as we continue to invest in our company in the midst of the current high price environment. We are undeterred. As our additional capacity comes online and inflow prices regress to historical market norms, we are excited about the performance potential we will be able to unlock.

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

M. Bless Thanks very much, Craig. As Craig detailed, Q4 reported results are still going to be impacted by those alumina prices which, at this point, will be dated as they will reflect themselves in our Q4 financial statements. Just to give you a sense, the price that's assumed behind the EBITDA changes that Craig gave you, the price that's assumed there for the realized alumina cost in Q4 will be nicely above the current market price and well, well above the forward price.

So, importantly, as Craig just said, looking out beyond the end of 2018, we really do believe the Company is set up well to produce strong financial results. Given that Hawesville completely restarted, again subject to the need at some point over the next couple of years to rebuild the existing potlines, thus you'll have significant decrease in spending, there will be the absence of that restart spending, and you'll have meaningful incremental profitability from the increased production. I'll get to that in a moment.

You'll have Sebree, of course, at full capacity where it is today, and we really do believe a normalized alumina pricing environment is just around the corner.

We recently did an analysis of what the pro forma profitability could look like. We talked about it at High Yield Conference, in which we recently participated, and the materials you may have had a chance to look already are on the website. You can check them out if you haven't already had a chance.

The math hasn't changed since then, so let me just walk you through it in the last minute or two here of my comments, and then we get right to your questions. So, if you start with the quarter that we just reported and you just annualize it, you get annualized EBITDA of about $115 million. Then, we would simply make two adjustments to that based on the current state of the company.

First, you'd just adjust for approximately today's LME and Midwest premium. Today, the spot prices are below what the average was in the third quarter, and then again just adjust for what we believe to be the fair value of alumina at this LME level. We think that's in the mid-$300 per ton at around a $2,000 LME.

You can do that math yourself with the sensitivity that we've long provided you, and you'll see it works out to an annualized EBITDA of around $250 million, and that's with Hawesville at essentially only two lines.

Then, to this you need add the contribution of the three lines we're bring on from Hawesville. Again, we're about halfway through that process. You start with the estimates that we previously provided to you in terms of the contribution of the Hawesville restart. Again, adjust to the current LME in Midwest and again to alumina at about $360 a ton, and this works out to an incremental EBITDA of over $90 million a ton. Of course, that's incremental to the $250 million a ton.

So, you can see the company really is set up to produce meaningful cash flow we believe once the alumina environment normalizes, and very importantly, the plants are all operating very well to support these kind of financial results.

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

P. Trpkovski — Thanks, Mike. Lori, if you could please facilitate the Q&A session now.

Moderator — [Operator Instructions]. Our first question comes from the line of Jeremy Kliewer with Deutsche Bank. Your line is open.

J. Kliewer — Good afternoon.

M. Bless — Hi, Jeremy.

J. Kliewer — You gave some good color there on the alumina inventory adjustments and everything going to happen. I don't know, would there be any, I guess, working capital drawdown or any reduction in inventories following the opening of the Olmstead Lock and Dam project this month, or do you anticipate those inventories not needing to be as emergency ready?

M. Bless That's a very good question, and you're remembering correctly that in prior quarters there were some severe disruptions from the lock and dam situation on the river, principally with lock, if I recall is 52 or 53. Maybe I'm one or two off there, and in that respect we did have some—I wouldn't say purposeful build but some irregular timing of receipts of barges on the river.

The answer is no. All of the increased inventory that's in the silos at the plants at this point in time, Jeremy, is as I said specifically to mitigate any risk of any dislocations in the physical market due to any kind of new risks in the Alunorte or other situations that you just—we've seen it before. We haven't been one of those guys, but we've seen a couple of guys get stuck having to really bid up for cargos coming from some far-flung places when some of these announcements have come out unsuspected. So, we just have a bit more alumina in the silos than we would normally have.

Another detail is that—and, this is just based on the vagaries of when ships literally dock, we had an alumina ship show up near the end of the quarter at Mt. Holly. Of course, those aren't barged on the river; those are ocean-going vessels, so they come in larger quantities. So, we had, I would say, an abnormal amount of alumina at Mt. Holly at the end of the quarter to just based on the vagaries of when that ship loaded at its load point and arrived in Charleston.

J. Kliewer Okay, then further on the alumina point, you had mentioned that your new contract with Gramercy, that's going to be kind of priced differently either fixed or partly based on the LME, partly based on the API. So, what should we anticipate for your sensitivities moving forward?

M. Bless That's a great question. We will provide you all of that as we normally do in February when we give you all of our metrics for the New Year, all of our cost metrics and capex and SG&A and all the rest. So, in addition to that, the cost of the alumina will be embedded in the cost estimates that we give you, and then we'll provide you the specific sensitivity as well.

I would note that, thank you, Shelley, that this contract begins in 2020. Now, we do have some alumina in 2019 that will be priced also on an LME basis, so that will be in that sensitivity as well, but it's smaller quantities than we'll start with this contract in 2020.

J. Kliewer That one's out of Grundartangi correct?

M. Bless No, no, that's just, actually that could deliver just thinking about—you're talking about the 2019. So, the 2020 to 2024 will be almost certainly US because the principal source there is the Gramercy refinery in Louisiana. So, obviously you'd have very definite freight advantages to barging the material up the Ohio River to our Kentucky plant. The contracts to which I'm referring in 2019 could, depending upon the source, could go to any of the four plants.

J. Kliewer Okay. Thank you for the color. I'll jump back in queue.

M. Bless Thanks, Jeremy

Moderator Our next question from the line of Lucas Pipes with B. Riley FBR. Please go ahead.

L. Pipes Thank you very much for taking my question, and I wanted to follow up on that 2019 contract. I appreciate you want to share more of the details in the new year, but could you maybe elaborate on roughly what percentage of your alumina needs for 2019 would be covered under this agreement?

M. Bless It's a small amount. Just adding it up, its 10% or less, give or take. I'd say give or take 10%.

L. Pipes So, about 10% of your alumina requirements.

M. Bless That's across the system, so for the global requirements, and that's assuming Hawesville at full capacity reasonably and all the plants, obviously, except for the one line at Mt. Holly.

L. Pipes Got it. My impression is that, obviously, alumina prices have been understatement, very volatile recently, but I'm sure you can appreciate that investors are maybe a little bit skeptical of the timing of a contract for 2019 during this very volatile period. So, can you maybe share your thoughts as to what roughly the pricing range could be? I think investors would really appreciate kind of a vote of confidence that you've been locking in prices closer to historical averages. Thank you.

M. Bless No. No one can lock in prices next to historical averages, no one with the market at 490. Pete, where are we today, 480? So, 480 X is going to sell to you at 330, unless they have a definite view. The forward price, for what it's worth, for both December and calendar '19 is at 410. That's not a particularly liquid market, but it's a traded option on CME, so it's real financial contract that's being traded. So, you can use that price there. It does not allow, as I said liquidity, if you really wanted to buy financially, of course, at that price.

It's reasonably difficult, I would say, verging on impossible to just "buy" at historical averages. It would be like saying when the LME price was at $1,800, I don't want to sell it but its historical average of $2,100. Unless the forwards are there, and you can take advantage of them and you wish to take advantage of them, it's pretty hard to do that in a commodity market right.

L. Pipes — Absolutely, but the 10% that you've locked in for 2019 would have a mechanism that you're not paying.

M. Bless — That's correct. That's on an LME percentage basis.

L. Pipes — Got it, and that percentage would be more reflective of historical averages.

M. Bless — More reflective of the historical LME percentage, the percentage average of an LME percentage contract, correct.

L. Pipes

Got it. No, now that makes all sense. That's very helpful. Thank you. I wanted to follow up on this very powerful chart that you referenced at the end of your prepared remarks. I saw it in the slide deck from one of your recent investor road trips. If I added everything up correctly it shakes out at about $340 million of EBITDA, and I wanted to make sure I'm not missing something like power, for example. You mentioned our prices have increased.

So, could you maybe elaborate on that figure and if there any other moving pieces that we should keep in mind as we think about that potential EBITDA in a more normalized alumina price environment and obviously when Hawesville has fully restarted.

M. Bless

Thank you that's an excellent point and that you were getting at which I should have said, and you've already discerned, Lucas, and that chart in the master which I went assumes "all else equal," and we know of nothing else right now that shouldn't be the same. The power price I would be careful; that was a seasonal thing.

As you recall, those of us who live in the US East, Northeast, Midwest will remember there were some scorching weeks this summer where the power price—and, the problem, of course, just with the averages you have a couple real outlier days, and it can raise the weighted-average price by a couple percent which is all it was this quarter. I wouldn't want to make too much of it. It was a couple million dollars and that's it, and we would see that you know reverting to "norms" now that we're in the fall and winter season. So, the answer is to your question nothing else.

L. Pipes — Very helpful. Alright, well I appreciate that, and best of luck. Thank you.

M. Bless — Thank you so much for the questions.

Moderator — Our next question from the line of David Gagliano with BMO Capital Markets. Please go ahead.

D. Gagliano — Hi, there. Thanks for taking my questions. Just once again on the Alumina contract, I wanted to just ask couple more questions on it. You said it's 10% of the volumes for 2019. Does that increase in 2020 and beyond, or is it still around that same percentage?

M. Bless Well, the new contract to which we referred is for more than 10%; it's for like a third, but we haven't yet disclosed what portion of that volume, David, beginning in '20 is LME priced, what portion is index priced, and what portion is fixed priced, but we'll be doing that going forward.

D. Gagliano Okay, LME, API, and fixed is the mix. Okay, so you're going to disclose that when? In the year-ahead guidance, is that correct?

M. Bless Yes, correct. I mean you can roughly assume it's about evenly spaced, so of that volume, it's about evenly spaced between those three pricing mechanisms.

D. Gagliano Okay, and is it reasonable to assume that the LME percentage is similar to the commentary that you mentioned a minute ago?

M. Bless A percentage in line with historical sort of market LME base contracts, yes.

D. Gagliano Okay, and then on the fixed part, a similar question to earlier given the volatility and pricing. Can you give us a bit of a zone as to where that fixed price may have been locked in for the—?

M. Bless — I can't, David. We have, as you would expect, the seller it's reasonably strict confidentiality provisions, plus it's competitive. So, I fully realize for your question and for Lucas's comment why investors are interested here, we get it entirely. I don't want to sound unsympathetic to that, but from a competitive standpoint, and just we don't want to get sued. It is really a good counterparty here, and it's a new counterparty for us. We just don't want to go there.

D. Gagliano — Completely understand. I actually appreciate the additional color on the numbers beyond 2020 or into 2020. Thanks.

M. Bless — Sure. You bet. Thanks, David.

Moderator — [Operator Instructions]. We'll go to Paretosh Misra with Berenberg. Please go ahead.

P. Misra — Thanks. Hi, everyone. I had actually another follow up on the Alumina contract, but about not this one but the old Alumina contract to which actually expired in 2017, have you negotiated a new agreement, or you still operating under that contract?

M. Bless It's a new agreement. It's your basic requirement-type contract. So, as you know, right now just to maybe—no great surprise people are interested in alumina, we're interested in it as well as you might expect.

We're currently, as you know, buying under a three-year contract directly from the Gramercy refinery. That's about again, when we're back to full capacity, it's a little bit more right now from a percentage basis, but when we're back to—and again, I'm going to define full capacity here as being regrettably, for now, excluding the second potline at Mt. Holly. It's roughly a third.

So, we're buying that direct from Gramercy and the rest is under that—most of the rest, most of the rest is under that requirements based contract to which you just referred, which is an index-based contract.

Now, given the vagaries of the market this year, we have picked off other cargos as they become available from other folks, and so opportunistically, but generally that's the majority of it.

P. Misra | Is it possible that some of those volumes could also become LME-linked going forward, like in the next couple of years or so?

M. Bless | That's speculation. I don't—I mean, I'm going to answer that the truth is I don't know. Just to give investors a further flavor of what we're thinking about here, as we all know, there's a way to turn a fixed-price contract to the extent you have a fixed price. Of course, if you have a floating index base price it's a bit of a challenge, but there's a way synthetically, fancy word, to convert a fixed alumina price into an LME based price. It's pretty easy. You just sell forward a pro rata amount of the metal of the LME, and you have yourself synthetically an LME based contract.

That's something that we have been looking at, as you would expect, very closely, and I think investors shouldn't be surprised if we do seek to lock in some quantities over the next couple of years using that kind of mechanism.

P. Misra | Understood, and last one from me. The share premium, I believe you sell them on long-term contracts or annual contracts. Now, do they renew in January or sometime in the fourth quarter?

M. Bless — You’re talking about product premiums, right?

P. Misra — Yes, product premiums. Yes.

M. Bless — Yes, those are generally done an annual basis. So, we’ve been negotiating those. In fact, just thinking where we are, we’re probably a half to three-quarters priced for 2018, and generally, as you know, the industry likes to call it the mating season. It’s a bit of a hokey term, but the commercial negotiations, the sweet spot of that is October and November.

So, it kind of kicks off in a conference in September and then LME week in October, and then by Thanksgiving going into December you’re pretty much done, and so we’re doing that right now.

Premiums, we see—you didn’t ask, but I’ll answer the question—premiums look good, billet premiums, foundry premium, in slab premiums in both the US and in Europe right now. So we haven’t been, and we didn’t in the summer, rush to conclude any negotiations because we don’t think it suits us to rush. We’re a long supplier in two very short markets.

P. Misra — Okay, thanks, Mike.

M. Bless — Thank you very much, Paretosh.

Moderator — We'll go back to Jeremy Kliewer with Deutsche Bank. Your line is open.

J. Kliewer — Sorry for the follow-up here, but on your renegotiation with Santee Cooper and Mt. Holly, you guys doubled your notification if you were to ever shut that in. Is that more of a negotiation tactic on your part saying hey look, will give you four months now instead of two months, but can you give us the cheaper power, or is it more of them kind of holding your feet over the fire and they just needed more time?

M. Bless — The latter. Great question, very easy answer. It's the latter. I wish we could tell you that as a trade for that we got a better power price. We don't even negotiate power price with them. We're subject to as all large industrial users in their system in South Carolina are, we're subject to their large industrial user. You can go on their website and look through their "Rate Filings," and even though they don't really make [indiscernible], they're not subject to a regulator, as we've discussed many times.

But, there’s really no, regrettably I wish I could tell you otherwise, there’s no negotiation there. We pay that large user rate. So, we agreed to that four months which we did not believe was a significant accommodation just to get an extension.

J. Kliewer Cool. Thank you for the color.

M. Bless Thank you.

Moderator We have no additional questions, and I’ll turn it back to our speakers.

M. Bless We appreciate, as always, the questions, the interest, and we’ll look forward to talking with you in the new year, of course, updating you on any meaningful developments before then. Take care.

Moderator Ladies and gentlemen, this will conclude our teleconference for today. We thank you for your participation and for using AT&T Executive TeleConference service. You may now disconnect.