

Vanalco shuts production at aluminum smelter-traders

NEW YORK, Sept 21 (Reuters) - U.S. aluminum market sources said Thursday that primary producer Vanalco Inc. closed the last of five potlines at its 115,000 tonne-per-year smelter in Vancouver, Wash., while it negotiates cheaper electricity rates, but the company would not confirm or deny the reports.

"We understand that they are shutting it down and selling their energy," said one East Coast metals broker, who added that traders who deal with Vanalco had confirmed widespread talk of the latest shutdown.

Vanalco, which did not return calls for comment on the latest closure, shut the first four production lines in early June, laying off roughly 450 employees, when power costs began to spike higher due to hot weather in the western United States.

Vanalco had a contracted power agreement with the Bonneville Power Administration for about five percent of its load, according to a Bonneville spokesman. The rest of its power was thought to be supplied at spot electricity prices from the open market.

Prices for power in the Pacific Northwest this week were as high as \$210 per megawatt hour from about \$30 per megawatt hour in May.

Historically, contract prices equalled \$23 per megawatt hour, compared to a world average for the aluminum industry of about \$18.50 per megawatt hour.

"We have seen a lot of those smelter shutdowns in the Northwest U.S. due to energy costs and electricity in particular," said William O'Neill, head of futures research at Merrill Lynch.

"That is the flip side of the (supply/demand) coin as compared to the potential for lower consumption on a global basis because of higher energy prices," he added.

Over the summer months, other U.S. producers including Kaiser Aluminum Corp., Alcoa, and Ormet Corp. announced plans for curtailed output at operations in Washington, Oregon, Ohio and West Virginia for the same reason.

Initially, Vanalco said in June it would explore other sources of power with Bonneville and other Northwest electricity producers and power marketers.

This week on the London Metal Exchange, the aluminum market came

under pressure as talk circulated that production may resume when Vanalco obtained a new power contract.

“The reason aluminum came off was because (Vanalco) was trying to negotiate a new energy package so that they could turn those potlines back on,” said one broker from a New York trade house.