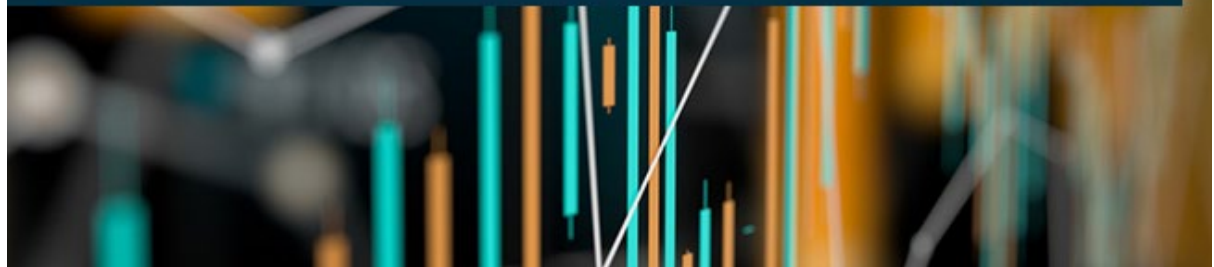




28 January 2023 – 07.00

Watt's the story?

Alpiq's monthly update on the current market flows



Market update | Liquidity status | Importance of asset-backed trading

Dear Reader,

Welcome to the first “**Watt's the story**” of 2023. In the year ahead, we look forward to continuing to provide you in this newsletter with a short market update, a transparent view of our liquidity and a deep-dive into an interesting topic from the world of energy.

In this edition, we'll talk about the importance of **asset-backed trading**. Why is it that important for a Swiss-based company such as Alpiq, how does it work and what do asset trader contribute to the security of supply? Read on to find out more!

Market update

Following the extreme volatility of 2022, 2023 has got off to a **smoother start**. **Prices** have continued to **fall**, and **more sharply in the near term**. The baseload contracts for Germany and Switzerland for Cal-24 are **down by approx. 20 percent** in January 23 against December 22, which is a **significant drop** month-on-month. The **gas prices** indicate that the **decline has been less pronounced**, however prices for Cal-24 are still down approx. 15 percent during the same period.

Why are prices moving in this way? Except for recent days, the **weather** has been **rather mild and windy**, which has **reduced the demand** for gas and power. More importantly, **demand has also been structurally reduced** a lot for both energy sources compared to one year ago. The high **prices have taken their toll on industry and households**. Industrial demand for gas is particularly weak. **Consumption** in Central Western Europe (CWE) is **down by 22 percent from December 21 to December 22**. Coupled with the fact that gas has not experienced any additional supply disruptions, the gas **storages** are now **unseasonably full** (~80 percent full in CWE). As a result, **concerns about the security of supply have eased**.

On the power supply side, the **French nuclear availability** continues to be **extremely low** in historical comparison, but it is nevertheless much **better than feared**. Currently, 44 of the 58 reactors are in operation and availability seems to be at an **acceptable level for the rest** of the current winter. However, strike action has resumed in France, impacting the availability of some reactors and **potentially delaying** the ongoing **maintenance schedules**.

In line with the improved supply and demand situation in gas and power, **price volatility has also decreased but remains extremely elevated in historical comparison**. With the Swiss hydro reservoirs and the gas storages in CWE full and consumption down, the **supply-demand balance in the market has been restored**. Hence, **risk premiums are down** significantly. The need to attract sufficient gas supply in the future to replace the missing Russian volumes means that European gas prices will need to stay high relative to Asian gas prices, even if this is not needed in the near future. The **short-term price moves have now become a “weather game”**.

Liquidity status

The **operative liquidity** of approx. **CHF 1.2 billion** per 31 December 2022 (approx. CHF 0.6 billion per 30 November 2022) was strongly driven by price moves in December that led to a **significant inflow from collaterals**, and the **return of cash** deposited for the yearly auctions in November. This enabled a decreased usage of committed credit lines, whilst at the same time existing credit lines were prolonged and new ones contracted. As such, our **headroom amounted to approx. CHF 2.0 billion** per 31 December 2022 (approx. CHF 1.2 billion per 30 November 2022). This is **more than double** the Headroom at year-end 2021.

How do the nuclear funds impact Alpiq's financials?

Movements in the **capital markets** also have a **significant impact** on **Alpiq's results**. This is due to our share in two Swiss nuclear power plants. To diversify our production portfolio, we not only own hydropower plants, RES assets and a few gas-fired power plants, but we are also shareholder of Kernkraftwerk Gösgen-Däniken AG (KKG, 40%) and Kernkraftwerk Leibstadt AG (KKL, 27.4 %). Both **nuclear power plants are run as ‘partner power plants’**, which means that their entire energy production is transferred to the shareholders and, in return, the **shareholders reimburse the power plant's annual costs** proportionate to their shareholding. **KKG and KKL are required to make payments** into the nuclear power decommissioning fund and the nuclear waste disposal fund ([STENFO](#)) managed by an independent body and supervised by the Swiss government to ensure that the total costs of the nuclear power plants are covered early on.

Financial value of the funds are valued at market and are therefore **exposed to market fluctuations**. In accordance with accounting standards, the annual fund **performance is reflected in the annual costs** of KKG and KKL, which are then charged to all shareholders and consequently also to Alpiq, thus impacting the annual result as part of the sourcing costs (i.e., electricity purchased from partner power plants). In other words, a **lower than expected fund performance leads to higher annual costs to be paid and vice versa**. Due to the size of the funds (more than CHF 4 billion fund value for KKG and KKL in total), the **annual development of the fund values can have a significant impact** depending on market volatility. **The more money** is deposited in the funds, **the bigger the swings** become. Our half-year results 2022, for instance, were negatively impacted by CHF 222 million. As the **financial markets did not recover** in the second half of 2022, **the negative impact remains in the year**.

Conceptually, the **funds are set up to be fully financed** until the nuclear power plants reach the **end of their life**. These funds, which are re-evaluated every five years, thus **cover all the costs that arise after the final shutdown** of the plant. If the fund performs poorly in the financial markets for two years, additional contributions may be required. **For more than 20 years now, the average performance of the fund remains above expectations**, despite the negative result of 2022.

Deep-dive: Importance of asset backed trading

For a producer like Alpiq to meet the day-to-day demand for electricity, we need to have a **sophisticated asset trading capability**. It's a 24/7 business: the demand and the non-controllable production from renewable energy sources changes constantly. Some factors, such as regulatory developments or the phase-out of coal and nuclear, influence demand and market prices several years ahead. Other factors, like temperature, windspeed and sunshine hours, drive demand over a much shorter timeframe, even real-time. **With our extremely powerful and flexible hydropower plants in Switzerland, Alpiq can be seen as a key enabler of renewable energy sources** to be well and efficiently integrated in the energy market.

To enable electricity **surpluses or shortages to be balanced** ahead of delivery, the market is split into different trading platforms by timeframe, e.g.:

- **Forward market:** where transactions are made from weeks to years ahead of delivery
- **Spot market:** where trades are made in a day-ahead timeframe
- **Intraday markets:** where transactions take place in close to real-time

Transactions are made either on energy exchanges, via bilateral (over-the-counter) contracts with other market participants or with a grid operator such as Swissgrid or Terna.

Connecting Alpiq's production assets to the energy markets by **anticipating the risks, prices and opportunities on these different markets is the mission of Alpiq's Asset Trading unit**. The unit is organised into different teams according to the process, the type of asset (e.g. hydro, thermal) and the time horizon.



We spoke to the **Head Asset Trading, Christoph Bellin**, to find out more about asset-backed trading.

[Read the interview](#)

In the next edition of **Watt's the story**, we'll talk about **Risk Management**. Electricity used to be sold two to three years in advance. While this was a good option to mitigate market risks in a relatively stable situation, it became a significant liquidity risk when the market turned volatile in the past 18 months. What effects is the current market environment having on hedging strategies in the energy sector and how is it linked to risk management? Find out next month!

In the meantime, enjoy the winter weather!

Best regards,

Your Investor Relations Team @Alpiq

PS: Next month's **Watt's the story** will appear at the end of February around the time of Alpiq's annual press conference. Please feel free to forward this newsletter to other interested parties, who can also sign up to receive it directly [HERE](#). All previous editions will also be available [HERE](#).

PPS: Please send us your feedback, thoughts and requests for future deep-dive topics to investors@alpiq.com. Thank you.

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