



28 February 2023 – 07.00

Watt's the story?

Alpiq's monthly update on the current market flows

Market update | Liquidity status | Risk management 2.0

Dear Reader,

Our **annual report**, which we published last Thursday, showed strong operational results. The **adjusted EBITDA surged to CHF 473 million**, CHF 161 million more than the previous year. These results were only possible thanks to a joint effort, as our chairman Johannes Teyssen and our CEO Antje Kanngiesser mentioned in their foreword to the report: “Our **operating performance is strong**. Alpiq **employees** across all divisions and business lines delivered an **outstanding performance**”.

In this fifth edition of **Watt's the story**, we'll talk about the **role of risk management** at Alpiq, how it relates to liquidity, and what has changed in the last 18 months. Read on to find out more!

Market update

During February, **power and gas prices continued to fall**. The bellwether front-year (2024) German base-load power contract was last seen trading at around EUR 152/MWh, down EUR 22/MWh since the end of January.

The **weather** has continued to lend a helping hand to energy balances, with relatively mild and windy conditions prevailing for most of the month of February.

On the power side, other **supply and demand side factors** have continued to **contribute to the lowering prices**. Nuclear availability in France has fared better than feared, albeit strikes have reduced the availability from time to time. The **available capacity is currently around 41/42 GW** out of a total of 63 GW and is **expected to stay relatively constant** until the end of the

current winter. Importantly, **power demand remains much reduced** as well, with the French transmission system operator RTE reporting that power **demand is about 9% lower compared to one year ago**, corrected for temperature effects.

On the **gas side, the supply situation remains comfortable**: EU gas **storage levels were at 60% fill level** by the **end of February**, about **twice as high as last year** when the fill level stood at 29%. Gas **demand remains much lower structurally**, with industrial gas demand 20% lower than one year ago. **Demand is expected to pick up again as prices fall**, but so far, the **effect has not been significant**.

LNG deliveries to Europe continue to be high in **historical comparison**, with the **lion's share coming from the US**. This is expected to continue as the second biggest export facility in the US, Freeport LNG, restarted liquefaction in mid-February following a fire in June last year and expects to return to full production in the coming weeks.

European LNG capacity is also further expanding, with the **first cargos** arriving at the **Brunsbüttel floating terminal**, Germany's third LNG import facility. The high gas storage levels and increasing LNG capacity in Europe significantly **decrease the risk of supply shortages** for next winter.

Changes on the regulatory front continue to unfold, triggered by the extreme increases in energy prices.

The **"Market Correction Mechanism"** (gas price cap) entered into force on 15 February 2023 for a period of one year after a month-long debate last year. It is triggered if:

- the monthly/yearly Title Transfer Facility (TTF, delivery at the Dutch gas hub) contract exceeds EUR 180/MWh for three consecutive days, and
- the TTF month-ahead exceeds the LNG reference price by at least EUR 35/MWh.

Given the current supply and demand situation, it seems **unlikely** that the "Market Correction Mechanism" will be **triggered** any time soon.

The **revision** of the EU's electricity **market design** will potentially have a **more fundamental impact**. The EU Commission is currently holding **consultations** about the revision. The Commission's proposal is **expected in mid-March**; however, it is still **unclear if** the revision will be **'evolutionary' or 'revolutionary'**. Evolutionary would mean that price signals are preserved, with an increased use of hedging; revolutionary would mean a move towards splitting the markets and a deviation from the merit order principle.

Liquidity status

As we have just published our annual figures for the past year, we will only provide a very brief update here on the key figures for liquidity at the end of January 2023.

The **operative liquidity** amounted to approx. **CHF 0.8 billion** per 31 January 2023 (approx. CHF 1.2 billion per 31 December 2022). The **reduction** in liquidity was **anticipated** and a **result of two**

main effects.

- The margined **portfolio optimization** in summer 22: To **reduce liquidity risks** Alpiq rebalanced its margined portfolio and shifted volume from exchange to OTC. This measure released initial margin and reduced the liquidity VaR on the margined portfolio significantly. The large settlement amounts represent the high price levels during summer.
- **Watershift:** Due to the warm winter Alpiq did not turbine much water and **shifted the production into the following months**, which **affected liquidity** in January.

The **headroom** amounted to approx. **CHF 1.6 billion** per 31 January 2023 (approx. CHF 2.0 billion per 31 December 2022).

Those of you who were unable to participate in the **annual media conference** or the **banking presentation** will find all the necessary **information online**. Click [here](#) to access the document presented to the finance community on 23 February.

Deep-dive: Risk management@alpiq

Electricity used to be sold two to three years **in advance**. While this was a **good option** for mitigating market risks in a relatively **stable environment**, it became a **significant liquidity risk** when the **market** turned **volatile** 18 months ago. In this interview with our **Head Risk Management Manuel Bertschy**, we discuss what effect the current market environment is having on hedging strategies in the energy sector and how this relates to risk management.



Head Risk Management, Manuel Bertschy

[Read the interview](#)

In the next edition of **Watt's the story**, we'll talk about "**de-risking**". What does that actually mean and how have we implemented it at Alpiq? Find out next month!

Best regards,

Your Investor Relations Team @Alpiq

PS: Next month's **Watt's the story** will appear at the **end of March**. As the market conditions are easing, we will reduce the frequency of the newsletter to a two-monthly or quarterly basis – as befits the latest situation. The next issue will always be announced at the end of the newsletter so that you know when to look out for the next one.

Please feel free to forward this newsletter to other interested parties, who can also sign up to receive it directly [HERE](#). All previous editions, including our deep dives, are also 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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