CENTURY ALUMINUM COMPANY: 2nd Quarter 2022 Earnings Call

August 9, 2022/4:00 p.m. CDT

SPEAKERS

Jesse Gary, President, Chief Executive Officer & Director
Peter Trpkovski, Vice President, Head of Investor Relations & Director of Financial Planning and Analysis
Shelly Harrison, Senior Vice President, Finance and Treasurer

ANALYSTS

David Gagliano, Analyst
John Tumazos, Analyst
Lucas Pipes, Analyst
Timna Tanners, Analyst

PRESENTATION

Operator

Good afternoon, my name is Samantha and I will be your conference operator today. At this time, I would like to welcome everyone to the Century Aluminum Company Second Quarter 2022 Earnings Conference Call. Today's conference is being recorded. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions).

I would now like to turn the call over to your host, Peter Trpkovski. Sir, you may begin your conference.

Peter Trpkovski

Thank you, Samantha.

Good afternoon everyone and welcome to the conference call. I'm joined here today by Jesse Gary, Century's President and Chief Executive Officer; and Shelly Harrison, Senior Vice President of Finance and Treasurer.

After our prepared comments, we will gladly 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 FD.

Turning to Slide 1 of today's presentation, 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.

And I will now turn the call over to Jesse.

Jesse Gary

Thank you, Pete, and thanks to everyone for joining. I'd like to start today by following up on our announcement from last Monday and welcoming Jerry Bialek to Century as our new Chief Financial Officer. Jerry was most recently CFO at Cooper Tire and before that had a long career with Ford and Amkor. Jerry will officially join us later this month, and you can expect to hear from him directly on our Q3 earnings call. He will be a great addition to the team.

Turning to Page 3, I'll start by talking about the current macro environment and our operations and then Shelly will take you through our Q2 results and Q3 outlook before I wrap up. The second quarter proved to be quite dynamic with market conditions changing significantly over the course of the quarter. Second quarter adjusted EBITDA was $87 million with net sales and shipments of 14% and 1% respectively. LME pricing averaged $2,900 in Q2 versus spot prices of around $2500. We took a number of actions in the quarter to solidify our balance sheet, including the extension in capacity increase of our revolving credit facility. The term of the facility is now extended through 2027 with a total borrowing capacity of $250 million. We think this is a good level for the business and allowed us the flexibility to fully utilize our borrowing base to finance our liquidity needs as they arise.

We also used cash from operations to repay $20 million in outstanding borrowings under the facility giving us a strong total liquidity as of quarter end of $226 million. Earlier this month, we entered into a binding sales agreement to sell the remaining portion of the real property located in the Mount Holly Commerce Park for a total consideration of $30 million.

As a reminder, we formed the Commerce Park in the mid-'90s in order to develop excess land at the Mount Holly site and to assist the local community to bring additional business to the area. Over the years, we have sold our individual lots of the site for development. This transaction enabled us to dispose of all other remaining lots while achieving an excellent sales price for the land. The transaction remains subject to ordinary course conditions and is expected to close in the fourth quarter. The sale did not have any effect on the main 5,000 acre Mt. Holly site of which we remain the sole owner and operate the Mount Holly smelter.

Turning to the aluminum markets. You can see from the balances on Slide 4, aluminum fundamentals remain strong. We expect the global supply and demand will remain in price deficit over the balance of the year but will continue to drive already short inventories of aluminum lower and support regional premiums. While demand in LME pricing will likely remain volatile in the short term, longer-term macro trends towards electrification, sustainable packaging, and renewable energy will continue to drive strong demand growth. We expect these trends to remain especially strong in value-added market, where spot billet prices

remain favorable in both the US and Europe in Q2.

We are well placed to meet increased demand for aluminum extrusions and sheets from our two US value-added tax assets and once complete, the new Grundartangi casthouse. In fact, once Grundartangi casthouse and the US casthouse debottlenecking projects are complete, we expect that over 70% of our production will be sold at a premium to a repeat of '20 in 2024 and beyond.

Okay, turning to Page 5, you can see that the Russian war in Ukraine, paired with Russian curtailments of natural gas flows to Mainland Europe continue to cause turmoil in European energy markets. The Russian gas to Western Europe are now approximately only 20% of their historical average. This has resulted in Mainland European power prices spiking to over EUR300 per megawatt hour in Germany, France and in other regions. High European energy prices have in turn put upward pressure on pricing in the Nord Pool energy market, albeit at significantly lower price levels.

In Q2, Nord Pool energy prices averaged about EUR120 per megawatt hour, up about EUR10 over Q1. Fortunately, we have Nord Pool prices reduced so far in Q3 with normal averaging around EUR90 per megawatt hour in July. Region officials yesterday announced that they will limit energy exports for the rest of Europe when necessary to maintain normal reservoir levels in the Nord Pool system. This should help to reduce volatility in Nord Pool and keep prices at more moderate levels. We are also exploring steps to reduce volatility in our own remaining Nord post-exposure.

As a reminder, only about one-third of our Icelandic energy contracts are pegged to the Nord Pool price, with the remaining two-thirds provided under long-term LME-linked power contracts. We have hedged a little over 60% of our remaining 2022 Nord Pool exposure at an average price of EUR24. For 2023, we have hedged 80% of our Nord Pool exposure at an average price of EUR30. From 2024 onward, we do not have any Nord Pool exposure.

Fortunately, the physical energy markets in Iceland are much better supplied in the rest of Europe with reservoirs at or above average bill levels across the Icelandic metric system. In addition, Iceland's 100% renewable system avoids the significant fuel cost pressures seen in the coal and natural gas systems in the rest of Europe.

Turning to the US, domestic energy market has been affected by increased energy export to Europe and low domestic coal production. The combination of these factors has led to significant natural gas volatility and higher energy prices which averaged nearly $80 from Q2 and around $90 quarter-to-date. These tight energy markets have also impacted the power provider to our Mount Holly facility, where a force majeure event from their largest coal supplier has left the utility to cover shortages in the coal generation with market power purchases.

Under our Mount Holly Energy contract, they are allowed to pass a portion of these increased generation costs to us, which will increase our Q3 energy costs in Mount Holly by approximately $10 per megawatt hour over Q2. We expect this will have a negative EBITDA

impact in Q3 of 5 to 10 million. Elevated energy prices also resulted in an unfortunate decision to curtail our Hawesville operation. While this decision was difficult, it necessary given relatively higher energy consumption of the Hawesville smelting technology and lack of value-added casthouse which made the financial economics of continuing to run the smelter untenable at these energy prices. The curtailment was conducted in a manner that will allow for the restart of the smelter if and when market conditions return to more normal accommodating levels. Shelly will walk you through the impact on our Q2 results going forward.

It goes without saying that we are working with federal, state, and local resources to help our affected employees find new employment, including offering jobs at our other US locations where possible.

Turning to our other facilities, Sebree has operated commendably through the hot summer weather. Our North American operations have been executing well in our casthouse debottlenecking initiatives. We expect these initiatives to increase 2023 billet production by approximately 10,000 metric tonnes. Operations at Grundartangi were excellent with the new smelter now operating at full production. Progress on new build casthouse remains on schedule and on budget. We expect the construction will be completed in Q4 2023, which will allow Grundartangi low carbon billet to be marketed and sold in 2024.

Finally, moving to our other cost inputs, API alumina prices averaged $370 per tonne in Q2 and are bond to a spot price of $330 per tonne today. These prices leave a significant portion of alumina producers underwater and we have recently seen small supply curtailments in Europe and elsewhere.

Given the risk to further alumina curtailment combined with the price volatility we've seen in the aluminum price, we made the decision to derisk the majority of our remaining second half '22 aluminum purchases by transitioning to LME percentage contract where possible. Given the lower aluminum price relative to the aluminum price, we were able to achieve percentages that were well below historical levels. This will reduce our exposure to API in the back half of the year and lower our risk of dislocation between alumina and aluminum prices during the high volatility period.

Turning to our other raw materials, we are finally starting to see coke prices decline this month after increasing for the first seven months of the year. We now expect, we have seen the peak pricing for both coke and pitch and expect to see a further decline as we head into the end of the year.

And with that, I'll turn it over to Shelly to walk you through the financials.

Shelly Harrison

Thanks, Jesse. Let's turn to Slide 6, and I'll take you through the results for the quarter. On a consolidated basis, Q2 shipments were up about 1% quarter-over-quarter, primarily driven by additional volume at Mount Holly.

Realized prices were up 11% compared to prior quarter as a result of higher lagged LME prices and regional premiums. The combination of higher shipments and realized selling prices drove a 14% increase in sequential net sales.

Looking at operating results, adjusted EBITDA was $87 million in Q2, and adjusting items this quarter included a $53 million add-backs for lower cost or net realizable value charges and removal of a $6 million credit for share-based compensation.

During Q2, we also adjusted for two one-off charges related to the Hawesville curtailment, which included a $159 million asset impairment charge and an $8 million accrual for estimated labor associated with the war noted. Okay. So let me provide a little more color here on the impairment charge. Under US GAAP, the curtailment of the Hawesville facility was a triggering event. They were part of evaluating that asset group for recoverability. As a result of historically high forward power costs, it was determined that the carrying value of the Hawesville asset group was not recoverable and we recorded a charge to write down the asset group to its estimated fair value.

Moving on to liquidity. At 6/30, we have liquidity from available cash and credit facilities of $226 million. This represents a $71 million increase from prior quarter, in part driven by EBITDA generated during Q2 that allowed us to reduce our borrowings under our revolving credit facilities. We also had lower collateral requirements under our hedging agreements and those volumes continue to roll off and based on lower aluminum prices at quarter end. Lastly, as Jesse mentioned, we upsized our US revolving credit facility in Q2, which provided for additional borrowing availability.

Turning to slide 7, here we'll go through the $19 million sequential decrease in adjusted EBITDA. The Q2 realized LME of $3,050 per tonne, was up $300 versus prior quarter while realized Midwest and European delivery premiums were both up about $130 a tonne. Indy power prices in Q2, averaged $78 per megawatt hour, which is up almost 60%, that's 60% versus Q1. Our normal price average $129 megawatt hour or up another 6% versus prior quarter.

Taking a look at alumina, the lagged alumina index price was relatively flat versus prior quarter, while LME-linked alumina was higher on a lagged basis. Coke and pitch prices continued the upward trend in Q2, with realized prices increase in a little over 20% for each. As we mentioned last quarter, we had deferred maintenance and potlining activities in Q1 that we caught up on in Q2, which drove a $30 million swing in operating expense from quarter to quarter.

Let's turn to Slide 8, and we'll take a quick look at cash flow. Our cash position remained relatively flat going from $27 million at 331 to $30 million at 630, as we use excess cash to pay down the revolving credit facilities. CapEx spending was $26 million in Q2 with about $5 million of that related to the final spending on the restart

at Mount Holly and $11 million related to the Grundartangi casthouse. Cash paid for hedge settlements was $15 million per quarter, we'll take about $11 million interest in Q2 as we made our semi-annual bond payments. Lastly, we had a modest working capital build, which is primarily related to higher inventory based on increase in raw material prices and additional days on hand. With the curtailment costs, we expect to see a reduction of working capital in the back half of the year, which should turn into cash.

Okay. Let's turn to Slide 9, I'll give you some insight on our expectations for the third quarter. For Q3, the realized LME price is expected to be down to $2,660 per tonne on a lag basis. The Q3 lagged Midwest premium is forecast to be $660 a tonne and the European delivery premium is forecast to be $600 a tonne. Realized alumina is expected to be $470 a tonne, and as we've discussed in the past, our income statement reflects a three to four- month lag in alumina prices so we expect to see the benefit of lower alumina prices in our Q4 P&L.

On a cash basis, we're already realized from the benefit of lower aluminum prices. Taken together, the LME, alumina and delivery premium pricing are expected to decrease Q3 EBITDA by about $97 million versus Q2 levels.

From a power perspective, we're assuming a base price of $90 per megawatt hour for both Indiana hub and Nord Pool, which is in line with what we saw for July actuals. The net impact of energy costs would equate to a $5 million decrease in EBITDA versus Q2. Coke and pitch prices continue to rise throughout Q2 and we expect this to impact Q3 results by about 5% for coke and 17% for pitch versus the second quarter. These price increases are expected to drive a $10 million EBITDA decrease versus prior quarter. However, we are seeing signs of softening in the coke market now in Q3 and expect to see the P&L benefit from that in Q4.

Lastly, we expect to see a net EBITDA benefit of $20 million to $30 million related to savings from our curtailment at the Hawesville plant as well as anticipated savings from our global cost reduction initiatives and the catch-up maintenance and pot lining that I mentioned from Q2 is not expected to recur in Q3, as we should now be back to more normalized level. In total, we expect all these items taken together will equate to an EBITDA decrease of approximately $80 million to $90 million from Q2 levels for Q3 results in a range of negative $5 million to positive $5 million. From a hedge standpoint, we expect to realize about zero to 5 million in the third quarter and we expect tax expenses to be around $10 million.

As a result, both of these impacts -- as a reminder both of these impacts will be below EBITDA geographically and will impact adjusted net income. Going forward, we expect to spend less than $5 million per quarter at Hawesville for ongoing costs necessary to maintain that plant, and the state that will allow it ready for restart when markets permit.

And with that I will hand it back over to Jesse.

Jesse Gary

Thanks, Shelly. Across our assets, we remain focused on consistent and cost disciplined operations. While the market environment has turned more challenging in the short term, we remain convinced that Century is well-positioned to benefit from the long-term macro trends that make aluminum a vital component of a sustainable future.

To this end, we have begun implementing a number of second half cost savings actions to ensure that Century is in a good position to weather this high-priced energy environment. These include actions to cut or defer approximately $15 million in capital projects over the balance of the year. If necessary, we have identified further measures that may be taken in the future to reduce spending should market conditions weaken from here. Combined with our strong liquidity position, these actions should leave us well placed to continue to execute on our long-term strategies.

Finally, I'd like to take a moment to commend our operations across our assets for an excellent safety performance over the quarter. Safety is a core value for Century and we work hard to improve each and every day. All of our employees should feel proud of their efforts. And with that, we'll turn it over to questions.

Questions and Answers

Operator

(Operator Instructions) Your first question comes from the line of David Gagliano with BMO Capital Markets.

David Gagliano

Hi, great, thanks for taking my questions.

Jesse Gary

Hi.

David Gagliano

Hi, thank you for taking my questions. I just wanted to ask about the current landscape, obviously, the Hawesville idling was an aggressive action considering the environment and the question comes of other assets Sebree, et cetera. Can you speak a little bit, if the environment stays where it is, are there other actions to be taken, and alternatively, what type of environment, roughly would do we need to see before we see additional actions? Similar to Hawesville, my first question.

Jesse Gary

Sure, David. Thanks. Yeah, I think as I said at the end of my remarks, we think we've taken the actions necessary to permit us to continue to operate in this footprint to continue to execute on our long-term strategy and we don't provide guidance on individual assets, of course, but when you look at the remaining assets, they continue to operate at or near 100% production. We've got an excellent workforce, more efficient operating technology, value-added casthouse, or building value-added casthouses, they've got track record of consistent performance and profitability, and then as a company, we've got strong liquidity and we continue to firmly believe in the macro for the long-term macro backdrop for aluminum.

So we think we're actually in quite a good position but that said and we recognize, it's a very dynamic environment and we started to implement some of these cost savings today and that's in the capital deferral or decreases and then we've got some additional items that we can take as necessary, some additional levers to pull, if necessary, but right now we feel pretty good with where we're at.

David Gagliano

Okay, thanks, that's helpful. And then just one clarification, I know you mentioned and I see here on the slides here on Slide 16. I think the shift in alumina to more percentage LME versus API for the second half of the year, just so we have our model heightened up, is there any API-based alumina pricing last for 2022 or is it all percentage LME?

Jesse Gary

No, there as it's about 60% LME linked, 25% API linked and 15% fixed in the back half.

David Gagliano

Okay.

Jesse Gary

So, at the back half. And just as I said, we made that decision looking at it, but with a relatively good relationship at the time. So, a relatively good relationship, but given the volatility on both sides potential impact, especially on the alumina production side, and it made sense to just take a lot of risk off the table, lock in when it was a good relationship, historically, when compared to historical levels, and derisk the alumina supply chain, a little bit for ourselves.

David Gagliano

Okay. And is that a similar plan for 2023, should we assume a similar type of dynamic in '25 et cetera?

Jesse Gary

Yeah, some of those contracts are long-term contracts. You're always going to have some API built into there and some of the LME-linked contracts are out long-term contracts will go out there as well as the fixed price. So, there is just a little bit on the margin that could move either way and that will enter into as we sort of get into the beginning of Q4 price to lock that down. So, we'll have better guidance for you on the next call.

David Gagliano

Okay, thanks very much.

Jesse Gary

Thanks.

Operator

Your next question comes from the line of Lucas Pipes with B. Riley Securities.

Lucas Pipes

Hey, good afternoon, everyone. I also want to ask about Sebree because it also like also has Midwest power. So I wondered if you could maybe hone in on what makes this asset different. Thank you very much.

Jesse Gary

Sure, Lucas. This will be a little bit of a repeat from what I just mentioned to David, but specifically, you've had one of the big aspects of the smelter technology is the amount of energy that they consume per aluminum produced, and Hawesville unfortunately was the highest of the assets and the amount of energy necessary to produce a tonne of aluminum. Sebree on the other hand is quite a bit better, which provides a big difference in high energy price environments today. When you combine that with a value-added casthouse and especially in a period where we have a record value-added premium on the bill that side especially, you've got another income stream additional source of margin for Sebree that you don't have at Hawesville type assets. And then I think this the third piece to touch on is when you look at Sebree's history, it's been a very well-known smelter very consistently run and very profitable and over a lot of different conditions and so as we look forward, we can be quite confident that it will return to profitability and we'll continue to get returns on the investments that we make there. So high level, that's the difference.

Lucas Pipes

Very helpful. In terms of the power intensity at Sebree, is there a way to quantify that vis- a-vis Hawesville?

Jesse Gary

No, we don't really disclose individual asset breakdowns in terms and detail, but you can just judge based on our actions and that it's relevant material.

Lucas Pipes

I appreciate the three points you highlighted. Very helpful, thank you. And then staying on the power side, with Mount Holly, could you remind us where power prices stand there today and to what extent power prices at Mount Holly might move with -- within a higher- priced power environment? Thank you.

Jesse Gary

Sure, thanks Lucas. So this is a reminder of the Mount Holly power contract is different than the Kentucky power contract and that it's a cost-of-service-based energy contract. So the three-year contract through 2023, so a portion of the energy is fixed and a portion is subject to our energy providers fuel costs. Due to the force majeure experience, there are still parts then higher and they've had to source the market energy to make up for the coal lost in the force majeure of their supplier. Overall, the blended rate is still lower than the prices we're seeing in Kentucky and really elsewhere today.

So, and then this gives you a little sense more, Lucas, it's about a $10-megawatt increase from Q2. We don't disclose the actual power prices because of some confidentiality provisions but even look to other types $10 million EBITDA impact in Q3 over Q2.

Lucas Pipes

Superb. Really appreciate the detail. And then, I'll try to squeeze in a last one, the Inflation Reduction Act, I believe includes some measures to support domestic manufacturing including aluminum. So if you had a chance to look at that and what might be the benefits to Century. Thank you very much for your perspective.

Jesse Gary

Sure, Lucas. Great question. That's a 750-page Bill, I think so, I haven't been through every detail, of course, and the Bill, it's still not passed as far as I'm aware and it is still subject to changes but based off our early understanding we do think the bill will have a positive impact both directly and indirectly and so as we understand that the Bill continue renewable energy subsidies, which should drive primary aluminum demand as wind and solar generation assets as well as the transmission lines to connect them are aluminum- intensive. Renewable energy also tends to drive down energy prices as a whole. They tend to be the lowest cost source of generation in today's market. So that's another positive. Second, the Bill provides for further electric vehicle subsidies, which as we discussed is 400 pounds of more primary aluminum value-added products and internal combustion vehicles. So that's another measure that should

help demand, which is already, it has been and continues to be strong and the growth potential, that we see as a real positive to continue to drive that growth.

And then finally, the Bill provides dollars for further supply chain resilience and critical minerals of which primary aluminum is defined as one. So there may be further opportunities there that will continue to look at and discuss once the Bill is passed.

Lucas Pipes

Super helpful. I appreciate the color and best of luck. Thank you.

Jesse Gary

Great, Lucas. Appreciate it.

Operator

Your next question comes from the line of John Tumazos with Very Independent Research.

John Tumazos

Hi.

Jesse Gary

Hi, John.

John Tumazos

Thank you for filing the full 10-Q and the more detailed disclosure that might be more than we can read in 45 minutes but it's better, and thank you very much Shelly for the explanation of the accounting for Hawesville, which I think was very clear. Now, that the aluminum price has fallen and the Midwest premium has fallen and you've had this big hedge cost reversal or credit income, is this a good time to close out hedges, so that you don't have as many assets committed to collateral, maybe six months ago, the hedges felt like a big headache, maybe it's a good time to get rid of them.

Jesse Gary

Yes, good question, John. So if you just look at the hedge book on Page 16, you can see that the majority of the hedges, vast majority of the hedges are going to roll off at year-end in any event. So you'll see the Midwest position and its entirety will be gone at the end of the year, and you'll be down to sort of very low levels of LME hedging. So I think naturally that hedge position is almost finished now, and we'll be back to a position where the only hedging is happening sort of material size really is on the energy side, and especially on the Nord Pool side.

John Tumazos

Great. It's profitable.

Jesse Gary

Yes. Yes, sir.

John Tumazos

Back in December when Alcoa idled in Spain, they locked up some renewable energy, for two years out to restart in 2024, and clearly, the Indiana Harbor electricity price is very volatile as is natural gas. My clients that share their energy view with me would probably expect $25 or higher Henry Hub gas or much higher spot electricity prices, I don't think I'd know any investor who thinks we're going to go back to historical prices for gas spot, electricity given that we're exporting 10% to 12% of the gas output now. Some people believe that shale gas fields are maturing and could decline and our President has promised so much gas to Europe because of their bind. So, why not log in a renewable power contract for one or both Kentucky smelters, I don't want to say regardless of price, but I can't imagine a bad price for renewable power.

Jesse Gary

Yeah, we do think the renewal pricing is going to be very attractive over the long term here, and I think we've talked about in the past. That is something we're looking at and considering and continue to look at and consider and could very well see us still in the future.

I would just say to some of the other commentary, I agree with you, I mean, we've obviously seen very volatile energy prices over the past year, coming out of a very long period, a very stable, both Indy hub and natural gas prices and I think we do see some signs of relief and if you look at gas generation in the US, over the past several weeks, they have been hitting sort of record production levels, which is great to see and forward prices continue to back gradate at pretty significantly into 2023, but back to your core point, I think we agree, we're very big fans of wind and solar and as Lucas mentioned, I think the Inflation Reduction Act will help to continue to foster additional renewable resources in the US, which should provide us good opportunities to take advantage of that in the future whether Kentucky, South Carolina, or Iceland.

John Tumazos

Thank you.

Operator

Your next question comes from the line of Timna Tanners with Wolfe Research.

Timna Tanners

Yeah. Hey, good afternoon, everyone.

Jesse Gary

Hey, Timna.

Timna Tanners

Thank you. I wanted to ask a little bit more on power prices but I had to join late, maybe I missed it, but from, when you announced the closure of Hawesville if anything the MISO has been a lot less, Gary than we had seen in the forward curve at that time. And actually, the Nord Pool forward price, if we get into first quarter is actually December to February is above 300. So I guess, I was just wondering if we've talked enough about Nord Pool and about how you're thinking about managing through that and how you make decisions to set as it is, it just looking at an extended period of time, or how much confidence do you have in these forward curves given the volatility.

Jesse Gary

Yeah, it's really interesting Timna because I think you're right, actually on both Indy hub and Nord Pool when you look at the forwards and then you look with the spot prices that have actually occurred. In other words, if you look at our realized energy prices again both Indy Hub and Nord Pool you've actually seen levels significantly below the forward curve. So, what that tells me is there is certainly a huge risk premium being bid into the forward and provides some hope that we'll continue to see that occur. With Nord Pool specifically, we've seen pretty strange pricing outcomes over the course of Q2 and into Q3 where you have some very high price days and you have some days that are less than $10 per megawatt hour and what we think is going on there is we have a lot of wind generation in Nord Pool, which is on high wind generation days, it's sort of creating a situation where you're not seeing sort of the Contagion from the Mainland entering into the Nord Pool market and that's significantly lowered our realized Nord Pool prices.

And just speaking about going forward and decisions and focusing on Nord Pool, this is a reminder we're 60% hedged for the balance of the year and that 60% hedged on only one-third of our energy that's exposed to Nord Pool. So, it's really a very small portion of our overall energy mix within the time you that's exposed to Nord Pool and once you hit 2023, which is when you start to see those really high forward Nord Pool prices. The hedge actually goes up to 80% of exposure. So now you're down to very few megawatts that are actually exported to Nord Pool going forward. So, yeah, it's difficult to imagine a situation for Grundartangi, where that type of exposure would be put in the smelter.

Timna Tanners

Okay. So if I'm reading between the lines as I'm trying to do, I don't want to put words in

your mouth, but if you have this, if the situation prevails where the price does, more than double from recent levels, then it would really just be the period of time until 2023 kicks off at which point you're more hedged and you feel comfortable that you could manage through that given what we know today. Is that a fair summary of what you were saying?

Jesse Gary

Yeah. And even for the balance of 22% or 60% hedged for our exposure, which is only again one-third of the total energy for the contract. So even for the balance of 2022, that's not a huge exposure but I'll just say and finish with we are looking at ways to certainly decrease that volatility if we can for the balance of the year and then the balance of '23. If we get a chance to do that.

Shelly Harrison

And then Timna, just beyond.

Jesse Gary

And Shelly, is going to just remind us after, beginning in 2024, we have no Nord pool exposure, it goes to a fixed price energy contract, that portion of the energy goes through a fixed price energy contract for the next three years, so, starting in 24, you'll have two-thirds of the energy at LME percentage which has long-term contracts that have always been for Grundartangi and the remainder will be fixed price.

Timna Tanners

Okay, excellent. Thanks for that clarification. It seems like Europe is going to be heading into a challenging period of for electricity prices, broadly speaking, I mean have you any insights from your customers there on, rationing of power and any impact thoughts or impact into the back half of the year from that.

Jesse Gary

It's a great question, I think everyone obviously is paying attention but we haven't seen the demand deteriorate in our actual orders yet. So, and yeah, maybe, I will just leave it at that, I think people recognize there is a risk and people are quite uncertain as to what that rationing may look like. That's really interesting when you look at storage levels of natural gas in Europe today, they're actually above five-year averages but obviously, the concern is that remaining gas flow from Russia is shut off and LNG imports that are coming in is not enough to replace it. So right now, if nothing else is going on, look at the storage levels you say there in a different spot and but we all recognize there's further risk in the future.

Timna Tanners

Got it. Definitely challenging things for you to navigate not trying to take it lightly and

appreciate all your candor on the comments. So, best of luck. Thanks.

Jesse Gary

Thanks, Timna.

Operator

You have a follow-up question from David Gagliano with BMO Capital Markets.

David Gagliano

All right, great, thanks for taking my questions. I'm going to preface it with the admitting that this is a bit of a nitpicky question. So, thank you for what it's worth, but I am curious about the answer. So, when I look at the Slide 16 the financial hedge landscape and compare it to the prior year quarter, there's a couple of things, I wanted to ask about. Number one is the percentage hedge, you take the volumes by percentage hedge and it has implied volumes in '23 and '24, kind of like 700,000 or 750,000 tonnes. That's down from prior quarter of 900,000 tonnes implied volumes. Is there anything going on, other than assuming Hawesville is out for that entire period or is that the reason for the decline? That's my first question.

Jesse Gary

Yes, that's the reason, David.

David Gagliano

Okay. And then the second question not a lot, obviously, but the volumes hedged did go up a little bit in '24 for the LME from 29,000 35,000 tonnes. I just heard your commentary about not hedging. So, I'm just curious, what is the reason for that? Admittedly, a small increase in hedges, and how should we expect that to change on a go-forward basis for the LME volumes hedged in 2024?

Jesse Gary

Yeah, great question, David. Yeah, great catch. All that is, that small I think it's 6,000 metric tonnes that you're mentioning is the difference. That's just some LME that we hedged against the fixed price power contract that's replacing the Nord Pool power contract. So, when we saw some of that really high LME levels and we saw the opportunity to sell just a small portion of the metal against that fixed-price power contract from '24, '25, and '26, which creates a synthetic LME percentage that looks like the remaining power contracts.

So, we'll give some more guidance as we get closer there, but you can start to think about that fixed-price exposure even if that is being derisked further and creating a nice LME linkage similar to the other Grundartangi power contracts period.

David Gagliano

Okay. So then on a go-forward basis. Will we see more of that flowing into the hedge book in 2024, or is that kind of?

Jesse Gary

I mean it's a pretty small amount that you need to hedge because it's not that much power. So we've done. I would say the majority of what we've done there, if anything, it's going to be a few thousand tonnes here or there just to offset the remaining expected further.

David Gagliano

Got it, okay. Thank you.

Jesse Gary

Yes.

Operator

(Operator Instructions) You have a follow-up question from the line of John Tumazos with Very Independent Research.

Jesse Gary

Hey, John.

John Tumazos

Hey, Jesse. So I know you don't really want to talk about business by asset, but if someone is worried $9 or $11 or $13 spot gas if that balance is that high, that you could slow down at Sebree, is there any comfort that you could give us or guidance regarding how high a gas price or spot power price is too much for Sebree to swallow.

Jesse Gary

Yeah, I'm not going to go to the individual asset guidance, John but what I will say is, I think you can tell by our purchase to date and also sort of our track record over time. We've been very cost disciplined and when it's been necessary to take action we've taken that action and we've also managed to keep our production running through some very difficult commodity price environment, and so what we've tried to do is to act early rather than late. So that we put in ourselves in a position where we don't have to curtail production. Obviously, this recent action at Hawesville and unfortunately we are unable to do that, but when you look at our track record over time I think we've done that, and then we've been cost disciplined where necessary. So maybe I'll just leave it at that, but hopefully that gives you a sense of how

intend to continue to operate the business to ensure that we get to what we continue to believe is a very positive future given the macro setup for aluminum.

John Tumazos

Jesse, in terms of marketing, there are certain customers like Tesla, their cars have to be aluminum because the batteries are so heavy and you've got customers like Bolder building two different can flaps and I'm sure Bush doesn't want to switch back to steel cans. Why not go to important customers with long-term cost-plus contracts like you've given the power utility in South Carolina. Clearly, those customers, may have aluminum and don't have anywhere else to go domestically, I hope scrap recovery increases, but that's awful slow.

Jesse Gary

Yeah, I think you're right about the long-term trends, right. We see some key industries that our focus is for the US, but the government and industry itself and that are going to increase aluminum penetration over the next year, two years, five years, 10 years. We know these trends are out there, whether it’s EVs, lightweight, sustainable hedging, renewable energy, all of these things. So, we think that continues to support the need for domestic industry here and you can just see it when you look at the balances there.

Our own earlier slides in the deck that the US remains the storage market for aluminum in the world. And so as we see things like we see in the Inflation Reduction Act that recognizes critical minerals and speak to rebuilding domestic supply chains. It's clear that aluminum will be a part of this and as we sort of start to build that out, I think that raises, some of the commercial opportunities like the one you talked about. And so, without sort of commenting on any specific negotiations, and I think we are always trying to be creative in the way that we sell our alumina and certainly we're committed to servicing the domestic industry and then are well situated to with the value-added casthouse that we have to produce the extrusion and sheet that are necessary for the very applications, you're talking about. So, we think that commercially, should be a very valuable proposition and intend to pursue it.

John Tumazos

Jesse, if I could ask one more and thank you for your patience with me. I don't know anything about this Inflation Reduction Act except it's got a goofy name. I try not to read a lot of the crap from Washington. What in the fine print or any print is so good to give optimism?

Jesse Gary

Well, I think if you just look and again, I haven't been through the full thing, it's still hasn't passed for the full Congress and still hasn't been signed in the law and we're also looking at it, but if you look at the broad strokes of the Bill, and the focus there are some very positive things for aluminum including renewable energy subsidies, which I think can help produce some of the renewable energy contracts and developments that we talked about earlier, including the EV subsidies, which again should produce additional demand for EV, which as

I said in the past for much more aluminum intensive than internal combustion engine vehicles and specifically increases demand for sheet and extrusions and which demand the billet and slab that we produce in our US value-added casthouses and finally, it may provide some direct support to critical mineral industries like aluminum, aluminum is specifically defined as a critical mineral in the Act so and we'll have to see, but we think as a whole and obviously focusing on the aluminum aspects of it, the Bill should be a positive for us.

John Tumazos

Thank you.

Jesse Gary

Okay. With that, thanks everybody for joining the call and we look forward to talking to you after Q3.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.