CENTURY ALUMINUM COMPANY: 3rd Quarter 2022 Earnings Call

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SPEAKERS

Jesse Gary, President, Chief Executive Officer & Director
Peter Trpkovski, Vice President, Head of Investor Relations & Director of Financial Planning and Analysis
Gerald Bialek, Executive Vice President and Chief Financial Officer

ANALYSTS

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

PRESENTATION

Operator

Good afternoon. Thank you for attending today's Century Aluminum Company's Third Quarter 2022 Earnings Conference Call. My name is Timna, and I will be your moderator for today. All lines will be muted during the presentation portion of the call with an opportunity for questions-and-answers at the end. (Operator Instructions)

It is now my now my pleasure to pass the conference over to your host, Peter Trpkovski. Please proceed.

Peter Trpkovski

Thank you, Timna. Good afternoon, everyone, and welcome to the conference call. I'm joined here today by Jesse Gary, Century's President and Chief Executive Officer; Jerry Bialek, 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 at 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. 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 with that, I'll hand the call to Jesse.

Jesse Gary

Thank you, Pete, and thanks to everyone for joining. I'll start off today by discussing the current macro environment and our operational performance. And then Jerry will take you through our Q3 results and Q4 outlook, before I wrap-up.

Market conditions remain quite complex in Q3 with the war in Ukraine, and Russia's curtailment of natural gas flows to Europe, causing significant turmoil across commodity markets. The resulting high energy prices and lower aluminum prices significantly impacted our results in Q3, driving a third quarter adjusted EBITDA loss of $36 million.

In this challenging environment, our team continues to take prudent measures to guide Century through the short-term macro headwinds, while remaining focused on the stability of our operations and our long-term strategies. We made substantial progress during the quarter to lower our cost structure, reduce our exposure to spot energy prices and increase our sources of liquidity. I'll provide additional details on each of these measures in a bit.

Despite current headwinds, the long-term demand fundamentals for aluminum remain excellent. And we continue to execute on our existing project to expand our value-added product lines with our Grundartangi casthouse project and U.S. casthouse debottlenecking programs all progressing on plan and on budget.

As a reminder, we expect the first phase of our debottlenecking program to be completed by year-end, enabling an additional 10,000 metric tonnes of billet to be sold into the 2023 market. We will also enter the U.S. slab market for the first time next year and expect to sell around 10,000 metric tonnes of slab. This is an excellent area of long-term growth for Century, as U.S. rolling mill demand continues to expand. Our Grundartangi casthouse project also remains on scheduled to be completed by year-end 2023.

Turning to Slide 4, you can see that despite near-term turbulence, global aluminum supply and demand remains roughly balanced. While high energy costs have reduced European demand this winter, this has been offset by the significant contraction of Europe's aluminum supply base. High energy prices have now caused more than 50% of Europe smelters to curtail with additional closures expected at year-end.

In fact, as you can see in the chart on the upper right-hand corner of the slide, the loss of aluminum production caused by Russia's actions have created the largest deficit for aluminum in the history of the European market. Ironically, this European deficit is now being increasingly filled by Russian produced aluminum, creating a situation where Russia is benefiting from the very problem that is created. Increased Russian imports will make it difficult for the European smelter base to ever fully recover. For this reason, we believe it's critical that Europe, the U.S. and our allies take urgent action including sanctions to address these unfair Russian actions and protect this critical industry. While aluminum pricing will likely remain volatile in the short-term.

Longer-term macro trends towards electric vehicles, renewable energy and sustainable packaging continue to support strong value-added premiums.

While we've seen some softness in the building and construction markets. Automotive demand has continued to improve and we anticipate continued strong renewable energy demand, especially as the effects of the recent inflation reduction act, further incentivize renewable energy and electrical vehicle build out in the U.S. All told, we expect to sell out our value-added product portfolio in 2023. Including the increased volumes from debottlenecking projects with pricing levels roughly unchanged from 2022.

Turning to Page 5. You can see that Russian curtailments natural gas flows to Europe, have continued to drive record high energy prices in Germany, France and other regions. With winter forwards over EUR700 per megawatt-hour. High Mainland European energy prices have been turn put upward pressure on pricing in Nord Pool.

In Q3, Nord Pool energy prices average about EUR175 per megawatt-hour up about EUR50 versus Q2. Unfortunately, most market prognosticators now expect the European energy crisis to persist for several years. While Europe has successfully filled gas storage near capacity this year. Russian energy flows to Europe have continued to decline, and the recent destruction of the Nord Stream natural gas pipeline has created a situation that means Europe will likely remain significantly short energy for at least the next couple of years. Considering the expected continuation of this crisis, we decided to take action in Q3 to eliminate the remaining unhedged Nord Pool market exposure from our Icelandic Energy contracts.

If you turn to Slide 6, I'll walk you through the details. Prior to taking this action, about 30% of our Icelandic energy contracts were pegged to the Nord Pool price. With the remaining energy provided under long-term LME linked power contracts. Due to the extreme volatility on the Nord Pool market, we worked with our energy supplier to convert the majority of our remaining unhedged Nord Pool exposure to a fixed price more in line with pre-COVID Nord Pool pricing levels.

Following this amendment to our power contract, we entered into additional financial hedging transactions to balance the remainder of our Nord Pool exposure. Including unwinding excess 2023 financial Nord Pool hedges at a net gain of approximately EUR16 million. The benefit from the unwound hedges will settle in cash evenly over 2023.

Finally, as is our normal practice when we enter into fixed price energy contracts, we also sold forward a small amount of LME creating an effective LME linked price for the energy. You will see those hedges reflected on our hedging side in the appendix. All told, we were pleased to be able to eliminate our remaining unhedged exposure to Nord Pool and remove this volatility from Grundartangi's bottom line results.

Turning to the U.S., Domestic energy markets remained elevated over the summer, resulting in average Indiana Hub energy prices around $90 per megawatt-hour in Q3. As we enter Q4, strong domestic renewable energy and natural gas production, paired with recovering coal

production led October Indiana Hub to fall and average about $60 per megawatt hour for the month. We are cautiously hopeful that these trends will continue with forward Indiana Hub prices now averaging around $65 for the remainder of Q4.

As expected, tight energy markets also continue to impact the power provider to our Mt. Holly facility, where a force majeure event from their largest coal supplier has left the utility to cover shortages in their coal generation with market power purchases. We've started to see Mt. Holly energy prices decline in Q4, as U.S. energy market conditions have improved.

Moving to our other cost inputs. API alumina prices averaged $340 per tonne in Q3 and a fall into spot price of $310 per tonne today. On the other hand, carbon prices remain historical highs as we enter Q4. While we did see the first signs of declining coal prices in Q3, the commodity remains stubbornly high and pitch prices have yet to abate. Stepping back, when you combine the effects of the global energy crisis with historic high carbon prices and other inflationary pressures, we estimate that about half of global aluminum production is loss making at current market pricing. Judging from past cycles, loss making this decent of the cost curve has typically not been sustainable for an extended length of time. Over the long run, LME prices have instead averaged around the 90% of the global cost curve, which would require a significant improvement in current conditions, either on the cost side or price side in order to reach a stable equilibrium.

Turning to operations, all of our sites are operating well and in full production. I'd like to commence the teams at each site for achieving this result, while also executing on the capital and cost reduction programs we discussed in our last call. As a reminder, in response to market conditions our teams have implemented programs to reduce planned CapEx and OpEx in 2022 by over $40 million, including headcount reductions and other efficiencies.

We remain on track to achieve these savings, which are reflected in our outlook on page 10 in the appendix. Most importantly, we have remained focused on improving our health and safety, and our ultimate goal to achieve an injury free workplace. These efforts span a wide range of programs from leadership to behaviors, to technology. And I'm pleased to say that we are seeing the benefits from these efforts with workplace injuries across Century decreasing by nearly 15% year-to-date. As we remain focused on consistent and cost discipline operations, we finished the quarter with liquidity of $215 million, and remain well-situated to continue to operate our facilities at full production through this portion of the aluminum cycle.

In order to further solidify our position, we have also added a new $90 million credit facility secured by our Vlissingen assets. This new facility will be incremental to our existing U.S. and Icelandic credit facilities, and additive to our quarter end liquidity position. Combined with our cost cutting measures and already strong liquidity, this new facility should leave us well placed to continue to execute on our long-term strategies.

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

Gerald “Jerry” Bialek

Thanks, Jesse. Let's turn to Slide 7, I'll walk you through the results for the quarter. On a consolidated basis Q3 shipments were down about 19% sequentially, primarily driven by the curtailment of our Hawesville facility. Realized prices were down 14% compared to prior quarter as a result of lower lagged LME prices and lower regional premiums. The combination of lower shipments and lower realized selling prices drove over 26% decrease in sequential net sales. Looking at operating results, adjusted EBITDA was at $36 million loss for the quarter. Adjusting items include the removal of $5 million for Hawesville curtailment costs and the removal of $6 million for lower cost or NRV impact on inventory.

Moving on to liquidity. As of September 30, we have liquidity from available cash and credit facilities of just over $250 million. We took actions to strengthen liquidity during the quarter including initiating a new EUR14 million term facility secured by the Nord Pool in-the-money hedge unwound. This facility remained unwound as of quarter-end and is included in our total liquidity of $215 million. Additionally, in November we agreed to a new $90 million credit facility secured by our Vlissingen assets. This credit facility will be available beginning in December 2022, and we'll further increase liquidity by $90 million beyond the $215 million we had at end of quarter.

Turning the Slide 8, to discuss adjusted EBITDA. Again, for the third quarter adjusted EBITDA was at $36 million loss, a decrease of $123 million from the prior quarter. This change was driven by lower LME and regional premiums as well as higher energy and other raw material costs, which were partially offset by the curtailment of our Hawesville facility. The quarter three realized LME of $3,636 per tonne was down $425 versus the prior quarter. While realized Midwest premium of $643 per tonne was down $201. Lagged European delivery premiums were up $117 at $578 per tonne. Indiana Hub power prices in Q3 average $90 per megawatt hour, which is up to 15% versus Q2. While Nord Pool prices averaged $177 per megawatt-hour, up more than 37% versus prior quarter. As Jesse noted, Indiana Hub energy prices have decreased significantly since the end of Q3, averaging around $55 per megawatt-hour quarter four to date. Excuse me, the realized price of alumina was up $57 per tonne verses prior quarter.

While we saw signs of spot price softening, our realized Coke and Pitch prices increased about 10% and 19% respectively. Finally, as discussed during our last call, we realized a combined $20 million incremental benefit from curtailing our Hawesville facility and our global cost reduction initiatives, along with more normalized maintenance and pot relining spend levels.

Okay. Let's turn to Slide 9, we'll take a quick look at cash flow. Cash position increased going from $30 million at June 30th, to $65 million at September 30th. As we offset the negative impact from adjusted EBITDA and the use of cash for capital expenditures with borrowing on our revolving credit facilities, working capital improvements and gains in hedge settlements. Total capital expenditures were $18

million in quarter three with about $12 million related to the Grundartangi casthouse and $6 million in other capital expenditures. Cash gains for hedge settlements were $5 million for the quarter, primarily due to our in-the-money Nord Pool hedges.

Now, let's turn to Slide 10 for some insight into our expectations for the fourth quarter. For Q4, the lagged LME is expected to be down to a realized price of $2,275 per tonne. The Q4 lagged Midwest premium is forecast to be $475 per tonne, and the lagged European delivery premium is expected to be $485 per tonne. Realized alumina is expected to be $400 per tonne, which as discussed in the past reflects a three-to-four-month lag in the alumina prices running through our income statement. Taken together, the moves in LME, delivery premium and aluminum pricing are expected to decrease quarter four EBITDA by about $60 million compared to Q3 levels.

From a power perspective, we are assuming a base price of approximately -- $60 per megawatt hour for Indiana Hub and approximately $105 per megawatt hour for Nord Pool, which are in line with current spot and market forward prices. The net impact of energy costs would equate to an improvement of about $50 million in EBITDA, which reflects the changes to our power contracts as Jesse described earlier. As a reminder, hedges are recorded below EBITDA, so you will continue to see the market price impact running through EBITDA but the net hedged impact reflected in the bottom line.

Realized Coke and Pitch prices are expected to be down slightly in Q4, expected to yield a $5 million EBITDA improvement versus the third quarter. Finally, we expect to see a net EBITDA benefit in the quarter of $5 million to $15 million related to volume and anticipated savings from our global cost reduction initiatives. In total, we expect these items taken together will equate to slightly improved EBITDA compared with Q3 levels. For our Q4 result in the range of negative $25 million to negative $35 million.

From a hedged standpoint, using the assumptions on the slide, we expect a realize gain of approximately $5 million in the fourth quarter and we expect tax expense of approximately $5 million. Again, recall the impact of both of these will be below EBITDA geographically and will be reflected in adjusted net income.

With that, I'll turn the call back over to Jesse.

Jesse Gary

Thanks, Jerry. In closing, while the market environment has become more challenging in the short-term, we continue to make progress on both our short and long-term initiatives. During the quarter, Century lowered our cost structure through our OpEx and CapEx reduction programs, and derisked our energy supply by converting our remaining Nord Pool exposure to a fixed price. These actions help us finish the quarter of strong liquidity, which we have further enhanced through our new $90 million Vlissingen credit facility.

Our operations remain at full production and our longer-term projects to expand our value-added product lines remain on budget and on schedule. Ultimately, we remain confident that Century is well positioned to benefit from the long-term macro trends and make aluminum vital to the world's future. We look forward to taking your questions.

Questions and Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question comes from David Gagliano with BMO Capital. You may proceed.

David Gagliano

Hi. Thanks for taking my questions. I'm just sure, and I'm trying to make sure I have the changes in the hedges straight. So I'm looking at the last quarter slide deck versus this quarter slide deck, just two side-by-side. So you flagged one. On the revenue side, you locked -- you hedged an incremental 20,000 tonnes at an average price of like $0.96 a pound in terms of the revenue. So, I just want to confirm that's correct, that's my first question. And then related to that is, on a go-forward basis are you going to continue to hedge LME prices or LME volumes I should say?

Jesse Gary

Hey, David, thanks. Yeah, just turning, if you look at Slide 17, you can see the totality of our fiscal '23 and fiscal '24 hedge books. And so you're right on the incremental volume. I don't have a calculator in front of me to do the cents per pound, but if you'd be able to back into what you -- what you're looking further.

Going forward, as we said, we intend to remain and offer our shareholders exposure to the aluminum price. The one exception for that is, when we are entering into large fixed price commodity contracts, cost inputs, and here talking about the change from the Nord Pool energy price to a fixed price. And so, the LME that we sold forward was just to match that energy -- fixed energy price and to convert that to the familiars for LME linked power price that you're used to seeing from us in Iceland.

David Gagliano

Okay. And that's -- okay, thanks for clarifying that. And that's my other part of the question. On the hedges for the Nord Pool piece, last quarter for 2023 there was roughly 1.1 million megawatt hours, I guess is -- as said on 1.1 million megawatt hours are hedged at EUR30 on average. And now it's 990,000 hedged at EUR30. So I'm assuming that that decline went into locking in now the fixed price component. So my question there is, first of all, can you confirm that that's correct? I'm assuming it is. And then the second part of that, and I think the more relevant question is, what did you lock in? What's the price? The average megawatt hour price now that's locked in for Nord Pool?

Jesse Gary

Yeah. Thanks, David. Yeah, so maybe if you just turn to Slide 6. That's a good slide for understanding exactly what we did on the Icelandic Power contract. So, you're correct that the -- if you maybe toggle between Slide 6 and Slide 17. The amount of Nord Pool hedges that we unwound and again if you referenced my comments, we've unwound those for a gain of about EUR16 million, which we'll settle equally spread over 2023. That matches the -- about the volume that we fixed with our energy supplier. So we converted contractually a portion of the Nord Pool exposure with our energy supplier to a fixed price, which put us in an overhead position in fiscal year '23. And so, rather than sit over hedge, we unwound those hedges for a gain. Does that make sense?

David Gagliano

Not really, but I don't really profess to understand this hedge stuff anyway. So I'm just -- I'm really trying to figure out the math for what's the fix -- what's the average price that's -- the cost per megawatt hour locked in for the Nord Pool now for 2023. You had this 105, you had 1.1 million megawatt hours locked in at EUR30 per megawatt hour. Now it's 990,000 locked in at EUR30. So I'm just trying to figure out what's the fixed price that you've locked in, what is that price cost per megawatt hour?

Jesse Gary

Yeah. Let me try on the volume.

David Gagliano

--One more time with you.

Jesse Gary

Yeah, yeah, let me try one more time. No, no, I follow you. And let me try one more time on the volume and then we'll get around to the price at the end if that works.

So, if you go back to last quarter and you looked at our financial hedge book, the equivalent of the Slide 17, you would have seen that we're about 80% hedged on our 2023 Nord Pool exposure. What we did this quarter was, we worked with our energy supplier to convert a portion of the contract with them, from a Nord Pool exposure to a fixed price. When you take those megawatts and you take the megawatt hours you're seeing on that hedge slide from last quarter, that would have been more megawatts than we'll actually consume. So that put us in a bit of an over-hedged position.

And rather than sit with an over-hedged position, we unwound a portion of those for that EUR16 million gain. So that's what happened on the volume side. Same amount of megawatts we're going to consume, but because we fixed a portion of the megawatts contractually with

our energy supplier, we needed less financial hedges, and so we unwound a portion of them.

To your question on price. So, there will be two sort of portions of this you need to think about going forward. There's one portion that will run through EBITDA, which is just the raw Nord Pool exposure that you see, that will continue to fluctuate based on Nord Pool prices. Of that, part of that will be totally exposed to Nord Pool. And if you look at Slide 6, that's about 20% of our energy that we're consuming at Grundartangi in fiscal year '23 and about 10% will be fixed.

Now, because of our confidentiality provisions in our energy contract, we can't disclose what that price is fixed at. But if you go back and you look at my prepared remarks, I think a good way to think about where we may have been able to fix that is to go back and look at where Nord Pool prices were pre-COVID. And so as we saw to eliminate the volatility that's been caused by COVID and the events subsequent to COVID in Nord Pool, you might use that as a good way to approximate where we would have been able to fit to reach agreement with our power supplier at. So then, if you use that for the fixed portion and then if you continue to use the fixed price of -- in the hedge book for the rest of the exposure, that'll give you a good sense of where you need to be on the energy side.

David Gagliano

Okay. Thanks very much. I'll let somebody else ask the questions.

Jesse Gary

Okay.

Operator

Thank you. The next question comes from Timna Tanners with Wolfe Research. Your line is open.

Timna Tanners

Hey, good afternoon. Thanks for all the detail. I'm not going to profess to have that all figured out either. So maybe offline we can drill down a little further, but it's good to see the exposure off the books if I understand correctly. If -- just wanted to take a step back and ask a little bit more about what further levers you can pull. I certainly appreciate that this all seems quite unsustainable, but in your queue, you point out that you have cash and cash equivalents for the next 12 months if conditions continue. And I'm just wondering if they do, if this terrible environment continues, what other levers can you pull? How are you thinking about managing the business?

Jesse Gary

Yeah, it's a great question, Timna. Yeah. So, as we sit here today between the $215 million of

liquidity we saw at quarter end, plus the new Vlissingen credit facility that we put in place. We feel quite comfortable with our liquidity levels as we look forward at the current environment, even if that environment were to continue.

That said, I think you've seen Century in the past and certainly, from this cycle, there are a number of levers in a business of this size and capital-intensive of the sides that we can pull both to lower costs, whether that's on the CapEx side or the OpEx side and/or generate cash. And we continue to have a number of those going forward on both cost savings but also cash generation opportunities that we can exercise. Not going to go into those at this point, they are somewhat hypothetical. We feel really good about the liquidity that we have today and being sufficient for as long as this cycle continues.

Timna Tanners

Okay, fair. And then, if I look at Slide 10, I was kind of trying to get a sense of it, if this is the bottom in terms of market conditions, we have yet to see the full flowthrough of lower regional premiums. It looks like for the fourth quarter and perhaps a little better alumina outlook for your consumption of it. But anything you can share with us in terms of what you're seeing in coke and pitch, those are a little more opaque for us. And how to think about if this is the bottom, what the delta is going forward, given those lagging factors?

Jesse Gary

Sure. Yeah. I think on coke and pitch, those are much smaller markets than we see generally. We have started to see what we believe to be the top in the coke cycle. We saw a little bit of a decrease over the past quarter, we expect that to continue.

Pitch is a little bit, maybe a little bit more sticky. There's a number of drivers and reasons behind that. And so probably less near-term relief on that side. And again, but kind of going back to my comments, when you start to add it all up coke, pitch, alumina, and given the global nature of this energy crisis that we're seeing, one difference from this cycle versus previous cycles is the same cost driver seem to be driving a lot of the world's supply.

And so, when you take that back to the cost curve and you look at how deep into the cost curve, the loss-making is occurring. It gives you some sense of an equilibrium that's probably not going to be stable for the long term and that change can come in one or two ways. It can come on the cost side, again, alumina, coke, pitch. Energy eventually, we are seeing in the U.S. at least energy prices come off quite a bit over the past few months. Or -- but it can also come on the price side, right? And we know we've seen the curtailments in Europe. We started to see some curtailments in certain provinces in China, whether those are short, medium, or long term. And so you're starting to see some relax-- some reaction on the price on the -- excuse me, the supply side. So one way or the other, the market will balance and we don't see this continuing for the long term and feel pretty good about where we stand.

Timna Tanners

Okay. And if I could slip in one more. Just wondering back to Hawesville. Given that power costs have been a little less bad than it appeared at the time of the closure, any updated thinking on how long that could be out? Or how to think about that operation going forward?

Jesse Gary

No. So the curtailment in Hawesville went very orderly and the asset remains in good shape. And so, from here on out, we'll continue to look at it. I think given where we are in the cycle today, I think you'll see us be quite disciplined and make sure that we have a good sense of where the market is going before we start to undertake the costs for restarting that facility. But the asset is ready, the option is available for us and it's just a matter of watching the overall commodity cycle and both on the price and cost side to figure out when it will make sense to restart that facility.

Timna Tanners

Okay, understood. Thanks very much.

Jesse Gary

Thanks.

Operator

Thank you. Our next question comes from John Tumazos with Very Independent Research.

John Tumazos

Thank you. Congratulations on three straight quarters with a book profit.

Jesse Gary

Thank you, John.

John Tumazos

I (inaudible) believing in miracles. Is it reasonable for your shareholders to assume that the policy of the company is to have long-term long term electricity supply contracts for its smelters, preferably renewable if it's available? Moving away from the past strategy of buying spot power, at least for Kentucky, because the energy markets have changed and are tighter and it's harder to buy the spot power?

Jesse Gary

Yeah. I think there's a lot of things going on in the energy side. It maybe isn't harder to buy the spot power, but we certainly have seen increased volatility in the spot power over the past

18 months, really since COVID, both up and down. And I think you hit on a couple of things that are for sure in our long-term plans. And one is to find a way to take some of that volatility out of our primary cost input, which of course is energy. And you've seen us do a little bit of that this past quarter in Iceland. But also more broadly is to move to increasing renewable energy mix.

And again, you've seen us do that both in Iceland and in the U.S. over the past couple of years. So, I would look for both those trends to continue over the short, medium, and certainly long term.

John Tumazos

Jesse, if I could ask another question, and you might not be able to answer this, but I'd like to ask the question, just so that the big shareholder at Glencore, maybe some other advisors or attorneys, just -- could hear that the question was asked. Is it reasonable to assume that the 42.9% shareholder would lend its balance sheet to support or guarantee a 20-plus year renewable power contract and a bridge power contract for the one or two or so years it takes to build one farms or solar farms? And a fair consideration for such a financial guarantee on Glencore's behalf might be first preserving the value of their 42.9% equity stake, and then continuing their aluminum metal sales contracts for a fee, continuing the alumina purchase contracts they have for a fee, and continuing the hedge futures trading representations, which would cease if you had less aluminum output, or something happened to rip up contracts, so like a reorganization. Big brother might help?

Jesse Gary

Well, of course, any contract with Glencore will continue to be done on market term -- market and arm's length terms, I can maybe start there. But more broadly to your point of getting done long-term renewable energy contracts and to your point maybe about credit support for doing those. There are a number of ways that we've identified to get those done. I don't think those will be a limiting item to our ability to enter into long-term renewable energy contracts whether in Europe or the United States.

And in fact, I think some of the recent legislation we've seen out of the -- on the U.S. side in the Inflation Reduction Act has a lot of really great provisions that will help both build out more renewable energy in the United States for facilities like our smelters in Kentucky and South Carolina, but also help support other programs within those smelters, including increasing energy efficiency and other capital projects that will help the U.S. smelter base have a longer life. So, I think there's a lot of really good opportunities there, both to greener energy supply but also extend the term and reduce the volatility where energy supply is -- as you -- I think you're hinting.

John Tumazos

So, you're saying that the Inflation Reduction Act is so generous that you think -- you might be able to get long-term renewable power without a credit support from the shareholder?

Jesse Gary

Well, I think there's just a number of ways to get the types of energy contracts done that you're talking about. And it's certainly something that we're working on a lot of different pathways.

Operator

Thank you. Our next question comes from Lucas Pipes with B Riley Securities. You may proceed.

Lucas Pipes

Thank you very much, operator, and good afternoon, everyone. I want to circle back on the Icelandic power arrangement. And I'm curious, if we just look at the contract side, I know you can't tell us where you hedged or rather locked in the fixed-price component, but if we look at the formula LME linked Nord Pool and fixed. At today's LME prices, at today's Nord Pool prices, what would be roughly the weighted average cost of your power in Iceland? Thank you very much for your perspective.

Jesse Gary

Yeah. Thanks, Lucas. It's a good question and of course, we don't break down the individual cost structures of any of our assets. But just to give you a sense, I mean, you've seen how -- maybe just makes good sense to start back on Slide 6 and let's just look at the breakdown of the energy pricing going forward. So, the LME linked portion is not changed. And so that's the same 70% that you've seen for Grundartangi over the past several years, and you should have a good sense of how that performs through various cycles, no changes there.

On the Nord Pool side, of course, you can continue to model that. You can see the Nord Pool market prices run through. That will be 20% of our exposure. And of that 20% of exposure, substantially all of that is hedged at EUR30. So, you'll see it continue to run through on the EBITDA side, but on the cash side, that's all hedged at about EUR30. And the remaining 10% is the 10% that we fixed contractually with our energy supplier and that's obviously subject to confidentiality, but a small piece of the overall puzzle there and I think you guys will have a good sense of where that may be or be able to approximate that.

Lucas Pipes

That's helpful. Thank you. Then, as a follow-up question, the LME linked component intuitively makes sense, you pay more for power when LME prices go up. But now we've had an environment where LME has gone up, and so as a number of your input factors, not just energy. Does it make sense to rethink that, that construct and linked to LME pricing, given what happened to the global cost curve? Thank you very much for your color on that.

Jesse Gary

Yeah. So, it's a good question, Lucas. It's a structure that has worked very well for us over long periods of time through many different cycles. Obviously, it creates a smelter like Grundartangi, which has made money through the depths of the financial crisis to the more recent higher LME prices and back down to where we are today. So, it's a nice way to minimize the impact of a cost that can vary quite significantly.

So, I think from our perspective, of course, we'll always be looking at what makes the most sense long-term on the energy side, given the large portion of our cost base, energy will always be. But it's not something that we're going to discard easily, given how successfully it's been over decades now at Grundartangi. Of course, where Century as a whole when you pair Grundartangi, which has that large LME linked price exposure with the U.S. smelters, which have either market-based power prices and/or some fixed price power. For instance, at Mt. Holly, you get a nice mix of all three different types of pricing mechanisms across Century as a whole, which serves you well, both in higher LME environments but also lower LME environments, and conservative balance each other a little bit. So we overall -- we like that that sort of mix of energy pricing and think we're well situated to sort of make it through various different pricing environments.

Lucas Pipes

And when would this be up for renegotiation? If you could remind me, I would appreciate that. Is it may be possible to set the base higher, for example, on LME pricing? Or is that automatic?

Jesse Gary

Yeah. So, there's the Grundartangi power contracts run through 2026 to 2036. So, there is a variety of contracts there that are spread over that time period and will come up for renewal during that period.

Lucas Pipes

Thank you very much for the color. And then switching topics to the alumina side. Could you remind us what percent -- and what percent of LME, the alumina pricing is fixed here in the coming year? Would very much appreciate your color on that. Thank you.

Jesse Gary

Yeah. So, we have a mix of aluminum pricing in 2023. The mix is -- a portion which is LME linked portion, which is continued to linked to API and a portion that is fixed. So, we're about 60% LME linked for 2023, 25% API, and about 15% fixed.

Lucas Pipes

And the LME linked portion, at what percent of LME would that be on average?

Jesse Gary

Yeah, we don't break that out specifically, as you might imagine, that’s pretty commercially sensitive information. But that's -- and just to clarify, that's our mix for 2022 and for 2023 probably see something approximating that similar mix to that in 2023. But we don't disclose the specific percentage given its commercial nature.

Lucas Pipes

All right. I appreciate it and best of luck.

Jesse Gary

Yeah. Then Lucas may be just what we have said before is that percentage tends to be between 15% and 17% of the aluminum price, with some periods outside of that range depending on the general relationship between API and LME whenever those contracts were struck.

Operator

Thank you. It appears we have a follow-up from David Gagliano with BMO Capital. Please, proceed.

David Gagliano

Hi. You've addressed a lot of the questions already. I just wanted to come back to try and ask the same question again in a different way. So, for example, if you look at Slide 10, the Q4 outlook slide, power prices, Nord Pool assumptions $105 per megawatt hour, and the Indiana Hub power price $60 per megawatt hour and that's a $50 -- $50 million tailwind. So, when we go to Q1, 2023, we see the same slide and we assume those same prices Nord Pool, $105; Indiana Hub, $60, what will be the change in the power quarter-over-quarter? Now that the hedge is flowing through and everything like that in Q1 2023?

Jesse Gary

The power pricing should be pretty much unchanged under that scenario, David, other than obviously there's LME dependency for 70% of the Grundartangi power pricing.

David Gagliano

Okay, okay. All right. That's helpful. Thanks very much.

Operator

Thank you. There are no further questions at this time. So I will now pass it back to the management team for any closing remarks.

Jesse Gary

Thank you, everybody, for joining the call today. We look forward to speaking with you again in the new year. Thanks.

Operator

This concludes the Century Aluminum Company third quarter 2022 earnings conference call. Thank you for your participation. You may now disconnect your line.