

## COMMENTARY

“The Ukrainian NPP reactors are of Russian [Soviet] design. They were designed for the fuel that Russia makes in the town of Elektrostal. The use of fuel assemblies of the US production does not fit under the Russian project,” he said.

Meanwhile, Rosatom CEO Sergey Kiriyenko said: “commercial conditions are secondary. Political aspects should not interfere in this. If a decision is made for political reasons, then it poses a serious threat.”

Understandably, the US response to the Westinghouse deal is the exact opposite. Ukraine, which is the third largest nuclear power civilian operator in Europe, is a big market for Westinghouse.

CEO Danny Roderick said: “The signing of this contract for Westinghouse VVER fuel design testifies to the quality of our fuel design and demonstrates that it has, in fact, operated without issue at the South Ukraine nuclear power plant, as confirmed by recent joint Energoatom and Westinghouse inspections.”

Mike Kirst, Westinghouse vice president, said the group intended to provide “roughly 20-25% of Ukrainian nuclear fuel supply through 2020”.

### Corruption fears

Despite Russia’s insistence on the contrary, there are indications that elsewhere in Europe it is not all one way traffic for Russia’s civil nuclear power industry. There are critics in Hungary about the deal with Rosatom, who say that it was never put out to tender, despite an earlier expression of interest from the French energy company Areva.

The Hungarian prime minister has already been forced to retract an earlier statement he made claiming that the European Commission had approved the deal, amending it to say that the regulatory body has made no objections to the pact.

Meanwhile, although specific allegations of corruption have yet to be levelled at the Rosatom deal in Hungary, the online US news company GlobalPost reported a spokesman for anti-corruption watchdog Transparency International’s office in Hungary as saying that corruption was a generalised concern in both countries. According to the watchdog’s Corruption Perception Index, Hungary ranks a mediocre 47 out of 176 countries while Russia ranks 130, which puts it in the same league as Nigeria and Pakistan.

Elsewhere, in 2012 allegations of

corruption surrounded the Russian bid to expand the Czech Republic’s Temelin NPP. Earlier in April, Czech utility CEZ postponed the Temelin tender again, saying that it was not economically feasible without government support.

Similarly, a Russian project to build a 2,000-MW NPP in Belene, Bulgaria, was accused of being “corrupt and completely illegitimate.” The Bulgarian parliament voted to scrap plans for the reactor in February 2013 following a protracted debate over its environmental impact projected costs.

### Gas price

Russia already enjoys a near-monopoly over Central European gas supplies and provides three quarters of the gas used by Hungary and the Czech Republic and two thirds in Ukraine.

As Jonathan Stern, an oil and gas expert at the Oxford Institute for Energy Studies, pointed out: “What Putin said, as far as I can see, was not ‘we’ll turn off the gas,’ but, ‘if you want to align yourself to the EU, then you will be paying the price that the EU pays’.”

Russia looks likely to make sure that nuclear power does not change that simple equation. ■

## COMPANY PROFILE

# Alpiq banks on Czechs

Mid-sized utility Alpiq Holding has weathered the storms of the recent weak market in CEE, and is maintaining its presence in the Czech Republic

By David Flanagan

- Alpiq Energy SE recently failed to sell its generating assets in the Czech Republic
- CEE has suffered from weak wholesale power prices, lower liquidity and some volatility
- Alpiq can benefit from cheap coal supplies and the ability to widen its offering in a liberalised market

Alpiq Energy SE is a subsidiary of Alpiq Holding that operates in the Czech power market. It owns two power plants at Kladno and Zlin and its operations in the Czech Republic are part of a wide array of power market activities, which also

include interests in Spain, Italy, France and Hungary.

2013 was a volatile year for the Alpiq Group, and indeed for Alpiq Energy SE. A very weak European power market affected earnings for virtually all power

generators, and Alpiq Energy SE’s Czech power assets were offered for sale as Alpiq Holding sought to rationalise. Yet a sale was not concluded, and the Czech interests of the group are now once again part of the business. ►►

## COMPANY PROFILE

### Alpiq's Czech operations

Alpiq Energy SE owns two power plants in the Czech Republic, at Kladno near Prague and at Zlin, in the southeast of the country.

Kladno is a three-block thermal power plant (TPP), with 516 MW of power and 852 MW of heat capacity. It is primarily a coal-fired power plant, but also runs up to 10% of capacity on biomass.

It has consumer and industrial customers for heat and power in Kladno. A new facility has been in operation since January 2014, named K7, which required investment of 260 million euros (US\$359 million) over three years to complete.

Coal-fired Zlin TPP is much smaller at 69 MW of power and 220 MW of thermal capacity. The plants are owned and operated by Alpiq Generation, a subsidiary of Alpiq Energy SE.

At group level, Alpiq was formed through the merger of two Swiss power groups in 2009, EOS and Atel. Atel formerly owned the Kladno and Zlin power plants, and hence the new group inherited the Czech power activities. It has activities in Spain, France, Hungary, Bulgaria and the Czech Republic, although its main area of power market activity is in Switzerland. It is a major player in the Swiss hydropower generation market.

During 2012, Alpiq put its Czech power generation interests up for sale. After much negotiation with potential bidders, the group disclosed in November 2013 that the sale was closed and that Alpiq Energy assets would remain part of the Alpiq group.

It has not been disclosed why Alpiq wanted to sell the Czech business, but a buyer was not found.

It is possible that the problem from the point of view of buyers was how to value the work-in-progress which the new power plant at Kladno, K7, represented.

K7 was under construction throughout the whole of this period, and some disagreement about the final value of the plant may have existed.

Additionally, Central and East European (CEE) power markets have had

a hard time in 2012/2013, with weak wholesale power prices and lower liquidity. This has led to some volatility in the CEE region in terms of structure, especially in markets such as Bulgaria.

Hence it has perhaps not been the easiest time to sell power generation assets in the region.

Moving ahead, Alpiq now has the task of operating K7 as part of its Czech power activities, and making a success of the new plant.

However, at the same time as Alpiq's Czech power assets were up for sale, Alpiq Group has been engaged in a strategic review of its operations. This was partly because of the weak market seen in 2012/2013. A more commercial attitude is now being planned, with emphasis on service-oriented activities. So this coincides with the revitalisation of the Czech business, as it is now reconfirmed as part of the group, and has the new K7 unit to bring into the market.

The Czech power market is closely influenced by the German market, and high renewable output from Germany has coincided with the process of EU power market coupling to present big challenges for operators in the Czech market.

Being primarily coal-fired, Alpiq's Czech power generation assets may benefit from the fact that coal is very cheap in the European market now, and the Czech Republic is a significant producer of coal.

As well as commercial benefits, Alpiq can enjoy security of supply of coal. Alpiq's power generation plants have practically no exposure to the Russian gas market, which may be regarded as somewhat more volatile in the current climate in terms of security of supply.

### Alpiq Energy financial performance

Alpiq does not publicly release full financial statements for its Czech operations. However, its financial performance in the Czech market is documented in the Alpiq Group's annual report.

2013 disclosures show that Alpiq's Czech operations earned revenues of 304

million Swiss francs (US\$344 million) during the year, down from 338 million francs (US\$382 million) in 2012.

Tangible assets, reflecting of course the power plants, were disclosed at a valuation of 734 million francs (US\$829 million) at the 2013 year-end, up from 10 million francs (US\$11.3 million) at the 2012 year-end.

The low valuation in the prior year is not very comparable, as it reflects the fact that these plants were assets held for resale by Alpiq. Hence the valuations at the 2013 year-end reflect the valuation of these plants as part of Alpiq as a going concern, rather than a valuation of assets held for sale.

Based on the profitability rate and scale of investment, Alpiq's Czech operation is probably worth around 300-500 million euros (US\$414-690 million).

No profit figure was disclosed for Alpiq's Czech operations. However, Alpiq group stated that its profits were affected by conditions in the Czech power market. It stated that lower power prices and the reduction in CO2 emissions rights drove down the results for power generating facilities at Kladno and Zlin. This was also the case in Italy, based on Alpiq's annual report commentary.

Moving forward, much is expected from Alpiq's Czech assets in terms of financial performance, especially from new assets. Alpiq group stated that the new K7 plant at Kladno which came into operation at the start of 2014 was expected by the group to make a "sizeable contribution to the results."

The 260 million euro (US\$359 million) investment is one of the largest in the CEE region in recent years. Hence now that K7 remains part of the group, Alpiq will expect to see a return on this investment.

### Conclusions and projections

Now that Alpiq's Czech interests are "back in the fold," it is likely that Alpiq group will expect it to contribute significantly to group financial results. ►►

## COMPANY PROFILE

Revenues fell in 2013. Since the company was formerly expected to be sold, it may be that it now makes greater strides to improve results and hereafter stay as an integral part of the Alpiq group. The new plant at Kladno is viewed as the key component of a recovery in its performance.

Alpiq is a good example of a middle-scale power generation group with investments in the CEE region in the weak conditions of the last two years.

It wanted to sell its Czech assets, but did not find the precise terms it wanted to secure a sale. But rather than close the plants, for example, it has shown the flexibility which a larger group might not have shown, and elected to stick with the Czech market, and indeed, continue with expansion through K7.

Certain trends may also work in Alpiq's favour in the Czech market.

Given that it is predominantly a coal-fired power generator, there are some financial conditions right now which are favourable to its operations. It can offset the phenomenon of weaker wholesale power prices in the CEE region through lower costs. Coal is cheap in the EU, and is likely to remain cheap.

This is of some benefit to Alpiq's Czech business, since coal is an integral fuel input, and the weaker coal price means lower operating costs.

There are some power generation market trends which are currently favourable to coal and unfavourable to gas that are potentially advantageous to Alpiq's Czech operations.

Security of supply of coal, since the Czech Republic is a large coal producer, also helps. Most of the Czech Republic's gas-fired power generation capacity relies on Russian gas imports, and there are now potentially higher risks attached to Russian gas supply owing to the situation in Ukraine.

### Permanent presence

Alpiq obviously now considers that its presence in the Czech market is once again a permanent feature of the group,

*Alpiq is a good example of a middle-scale power generation group with investments in the CEE region in weak condition*

and this will require a commitment to the Czech market by the group.

The first signs of this will be seen once Alpiq discloses operating data or information about the new plant at Kladno. Its successful start-up will be important as a foundation for the market's renewed confidence in Alpiq's Czech power market operations.

Thereafter, Alpiq can build its ambitions in the Czech market in parallel with its ambitions as a power services company, which is the chief element of its new group-wide strategic plan. This will mean that it will focus on offering wider power market services, for example related to power trading.

Alpiq will have to do this against the background of market coupling, which will progress towards unified power markets of the CEE region during 2014.

As the long-term owner and operator of a portfolio of assets across various power markets, Alpiq already has a high level of experience to manage a range of power sector interests amid rapidly changing market conditions. It must now put that experience to work once again. ■

## MARKET COMMENTARY

# Weakness and caution for CEE and Russian markets

Few signs of recovering prices exist in CEE, although prices jumped in Russia's Zone 1

By David Flanagan

- In CEE markets prices were stable, but approaching mild weather suggests fresh weakness
- In Russia, higher Zone 1 prices and low volume reflect cautious atmosphere
- The Ukrainian crisis continues to have less impact than feared in CEE and Russia

### CEE markets

Central and East European power prices remained under pressure as low coal and European Union Allowance (EUA) prices continued.

Weak input costs are still dragging back the region's power prices, and the

ongoing high output of CEE and German renewable generation is adding weight on the supply side. Virtually no market signals can be seen which point to higher power prices, except, perhaps, the volatile situation in Ukraine.

Yet the CEE region's power markets

have still not reacted. Some may have expected the potential for EU sanctions against Russia in the gas market would send power prices higher as fears over security of supply emerged. There are no such signs yet. ►►