Early April 2022

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

BRIEF RETREAT FOLLOWED BY FRESH SURGE

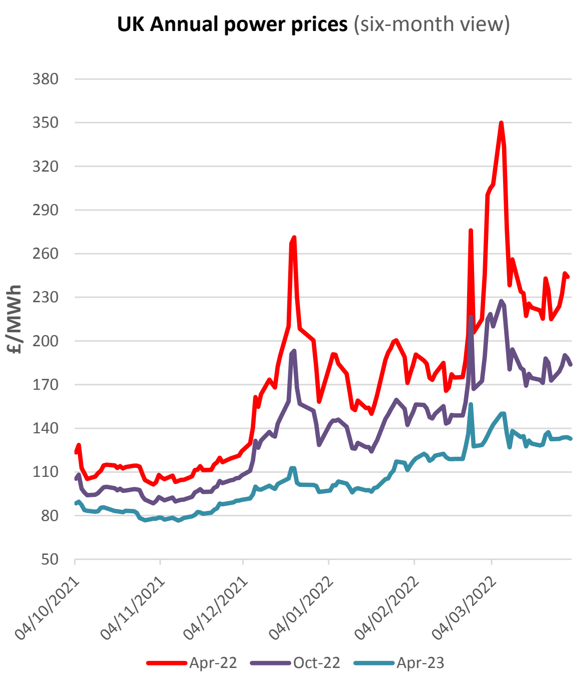
UK power prices were easing lower as the second half of March got underway as strong wind output, weak demand and falling exports to France helped to pressure the market – before a sharp rebound across periods driven by renewed concerns over Russian gas exports, a steep decline in renewable generation and an unplanned outage on the interconnector with Norway.

At the start of the third week of March wind farm generation was relatively robust and imports from Norway were rising after the full 1.4 GW capacity became available on the North Sea Link, with the Day-ahead UK power index crashing from more than £300/MWh to £197/MWh. But on March 22nd an outage was reported on the North South Link bringing 706 MW offline – while wind generation declined to the lowest levels this year – pushing the Day-ahead index back towards £240/MWh.

Across the second half of March wind farms accounted for about 14% of UK power production, down from 26% in the opening 15 days and 35% during February. Gas-fired plants delivered about half of the country's power supply – up from a third in the preceding two weeks – with high wholesale gas prices feeding strength into the short-term power market. Planned French nuclear maintenance – as well as several unplanned outages – remained another key driver on the short term, with almost 9 GW of reactor capacity taken offline in France for at least a month. Overall the UK was a net importer of French power with 29 MW coming in on average each day – down from 98 MW in the first two weeks of March.

Longer-term periods traced a similar trajectory to the Day-ahead – albeit with less volatile swings – as Annual April '22 Baseload power edged down from £233/MWh to a low of £215/MWh – before roaring back to £244/MWh at the end of March. Around the middle of the month October '22 Annual Baseload power closed at £169/MWh – below the pre-invasion value – due the anticipation that the situation in Ukraine would not be a threat to European energy supply by Q4 this year. However rhetoric since then – including a request from Russia that buyers pay for gas volumes in roubles – caused the October '22 Annual to fire back up towards £190/MWh.

Elsewhere year-ahead coal values ballooned from just over $174/tonne to a peak of $198/tonne, before falling back to around $188/tonne by early April with EU inventories at key ports reportedly at the highest levels since February. UK carbon prices have largely disconnected from the wider energy market with the global economic outlook exerting a greater influence on emissions allowances, while moves ahead of the compliance deadline in April were also factored in. At the time of writing UKAs had dipped below £74/TCO2e – shedding 11% from the £83/TCO2 peak just after mid-March – as economists predicted an imminent recession driven, at least in part, by the extremely high energy price environment.



ELECTRICITY: OUTLOOK

An outage on the 1.4 GW North Sea Link connecting the UK to Norway has been extended to June 14th, with 706 MW expected to be offline until that date. Full capacity on the cable only became available on March 15th, but seven days later an issue forced operators to cut availability by half. The outage was originally expected to be resolved by the end of March.

VOLATILITY

Markets remain volatile due to the ongoing war in Ukraine

UNCERTAINTY

Uncertainty over gas supplies from Russia continue to impact pricing

Plans to construct two subsea cables with a 4 GW capacity linking Scotland to England moved a step forward in late March as regulator Ofgem opened a consultation on the 'Final Needs Case' for the project. The England Green Links development is aimed at transporting power generated through offshore wind farms off the coast of Scotland. It is part of a wider 16-project, £10bn planned investment from National Grid to support the government target of 40 GW of offshore wind capacity by 2030.

On April 8th 645 MW of biomass capacity is expected to come back online at the Drax plant after an unplanned outage struck at the site on March 5th. The increase in baseload capacity should help to mitigate the impact of rising exports to France as more nuclear capacity comes offline for planned maintenance.

WINTER '22

Market expectation is currently that disruption will continue until at least Winter 2022

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Apr '22 Annual	chg	Oct '22 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	Germany Cal '23	chg	France Cal '23	chg
244.00	26.75	183.88	3.78	239.00	8.61	243.00	13.00	185.00	22.75	207.00	8.75
KEY OTHER INDICATORS:											
Coal ($/MT) '23	chg	Oil (Brent) $/bbl	chg	UKA '22 (£/TCO2)	chg	EUA '22 (€/TCO2	chg	EUA '23 (€/TCO2)	chg	EUA '24 (€/TCO2)	chg
194.25	34.25	104.65	5.30	75.33	-6.52	78.41	-0.39	80.22	0.12	82.45	0.24

All changes (chg) are compared to last report

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GAS

RENEWED RUSSIA CONCERNS LIFT PRICES

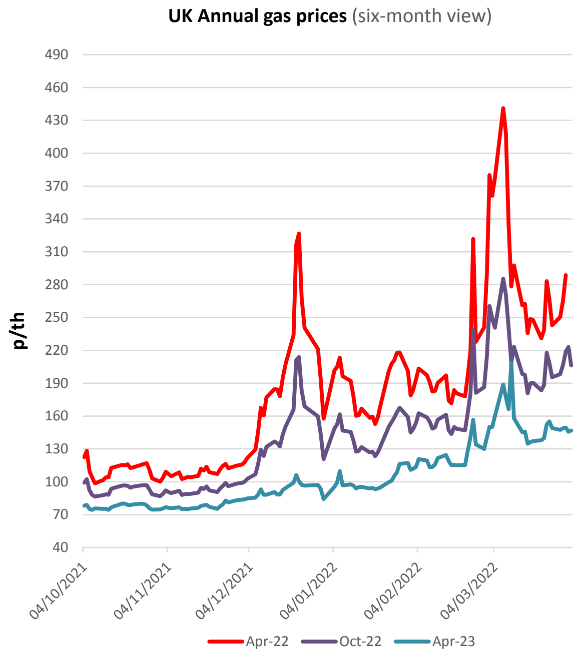
Gas prices remained volatile in the latter two weeks of March as Western responses to the Russian invasion of Ukraine – or often just rumoured responses – drove wild swings across 2022 periods. Vladimir Putin insisted that 'unfriendly countries' – or states that have enacted sanctions against Russia – will have to pay for volumes in roubles, a request the EU rejected. A decree signed by the Russian president stated buyers must open rouble accounts at Gazprombank from April 1st, warning existing contracts will be stopped if companies resist paying for volumes in the currency. According to some payments for gas delivered in April will not be required until mid-May, meaning in the short-term supplies are unlikely to be affected.

UK April '22 Annual gas had dropped to 230 p/th as falling carbon prices, buoyant LNG imports and news that Germany had signed an LNG deal with Qatar – despite not having an import terminal – helped to pressure the period. The front Annual then surged above 280 p/th ahead of a meeting between the US President and EU leaders that was surrounded by speculation that Russian energy exports would be the next target of European sanctions, before rolling back when those actions did not materialise. The front Annual ended March at 232 p/th, up by 14% since the start of the invasion.

North Sea oil was buoyant after the IEA released a report suggesting sanctions targeting Russia could reduce global supply by 3m barrels per day from April, with month-ahead prices pushing above $120/bbl on several occasions while remaining short of the $128/bbl reached on March 8th, which was the highest level since 2012. Gains were tempered slightly by China introducing new lockdowns as coronavirus case numbers spiked. At the end of March crude was pulled down towards $100/bbl after Joe Biden ordered the release of 180m barrels over six months from US strategic reserves. OPEC and allied producers – including Russia – agreed to increase output by 432,000 barrels per day, but neither measure is likely to offset the impact of lower Russian exports.

On the short-term gas market Day-ahead gas fell from 269 p/th to close at a low of 202 p/th as mild conditions limited demand, before very low wind output and plummeting temperatures pushed prices back up to 285 p/th. LNG supply helped keep gains in check with terminals accounting for about 30% of UK gas – up from 22% during the opening fortnight – as cargoes continued to arrive at a high rate.

Moves on the short-term market were mirrored farther out with Summer '22 gas edging down from 274 p/th to 231 p/th before roaring back up and closing at 290 p/th on its last day of trading – down from a peak of 510 p/th on March 7th – with massive European storage injections and the prospect of Russian disruption looming. The Russian request for payment in roubles yanked Winter '22 up to parity with Summer '22 as the market squared up to the possibility of pipeline supply cuts over the coming months.



GAS: OUTLOOK

Oil and gas production from the UK continental shelf is set to decline by 15% annually – according to a report from Offshore Energies UK (OEUK) – unless there is significant investment in new infrastructure. The OEUK report argued that without support for the sector the UK will be reliant on imports for 80% of gas and 70% of oil by 2030. Investment in the UK oil and gas sector is expected to be £4bn this year, down from £16bn in 2014.

LIMITS

Many retail suppliers are still limiting who they are pricing contracts for

RECORD HIGHS

Longer term pricing is lower than near term, but still at record highs

National Grid sold 60% of its UK gas transmission and metering business – valued just shy of £10bn – to Macquarie Asset Management and the British Columbia Investment Management Corporation (BCI). The remaining stake will be managed by a new holding company called GasT TopCo. Macquarie and BCI will have the option to purchase the remaining 40% between January 1st and June 30th next year.

Initial production from the recently-commissioned Elgood and Blythe fields – managed by operator IOG – was at a rate of 27mcm/day during the testing phase in the last week of March. IOG is still analysing the performance of the fields ahead of providing guidance on long-term output expectations.

From April 11th maintenance on Norwegian gas fields that feed the SEGAL pipeline network will come to an end, restoring 13mcm of daily capacity that has been offline since March 18th.

OIL PRICES

Oil prices remain high, consistently over $100 per barrel

KEY GAS INDICATORS:

Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Apr '22 Annual	chg	Oct '22 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2023:	chg	Oil (Brent) $/bbl:	chg
288.59	52.90	206.30	25.35	257.26	17.26	282.66	30.44	68.19	7.66	104.65	5.30

All changes (chg) are compared to last report

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