Mid April 2022

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

PRICES BOOSTED BY RUSSIAN COAL BAN

UK power prices were pulled up in the opening two weeks of April as EU sanctions on Russian coal, low renewable generation and exports to France helped to lift periods – while strong gas prices also continued to feed upside into the electricity market. Russia's invasion of Ukraine remained an underlying factor propping up energy markets with talks aimed at ending the conflict producing little progress.

October '22 Annual Baseload power was heading towards the £200/MWh mark over the past couple of days – a level the period has not closed above since March 9th – after starting April closer to £180/MWh. At the time of writing the front Annual had ticked down to £195/MWh, still up 6% since the start of the month and 13% higher than prior to the Russian invasion. April '23 Baseload power followed a similar trajectory, rising 26% from just under £133/MWh at the start of the month to close just over £167/MWh a couple of weeks later – a new record closing value for the period.

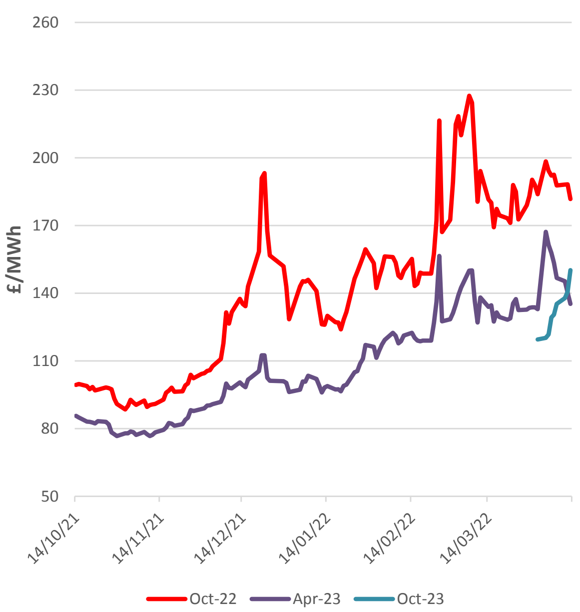
On the policy side the UK government finally unveiled its energy security strategy – mainly focused on generation – with the key feature a commitment to the development of up to 24 GW of new nuclear capacity across eight plants. The strategy also included a target of 50 GW of offshore wind capacity by 2030 – up from the original goal of 40 GW – that the government hopes will be achieved by speeding up the approval process from four years currently to one. Demand reduction measures were absent from proposals and it will be several years – or even decades – before there is much impact on the overall supply balance.

On the short-term market prices were buoyed early on by limited renewable output with wind accounting for less than 15% of UK generation over the first three days in April – helping to lift the Day-ahead Baseload power index to more than £240/MWh – after which more unsettled conditions helped to pull it down to a low of £178/MWh after a couple of days when wind farms accounted for about 40% of overall production. Higher wind speeds did not last long though with thermal generation rising in the second week of the month, lifting Day-ahead Baseload electricity prices back up to around £190/MWh.

For two days in early April the UK exported just over 2 GW of power to France each day as the French system was strained by low wind and hydro output, while another 1.8 GW of nuclear capacity was taken offline in the country for planned maintenance. Across the first two weeks of the month the UK was a net exporter to France with nearly 1 GW of power delivered on average each day, compared to average daily imports of 34 MW across March. Through the remainder of April just under 6.3 GW of French nuclear capacity is set to come offline for planned work lasting at least a month.

Elsewhere UK carbon prices have started to correlate more strongly with the rest of the energy market, with UKAs edging up by around 4% across the fortnight to around £78/TCO2e.

UK Annual power prices (six-month view)



ELECTRICITY: OUTLOOK

From April 29th 425 MW will be taken offline at the gas-fired Grain power plant for work expected to last until May 22nd, according to operator Uniper.

In July the 965 MW Hinkley Point B nuclear reactor is due to close, having been operational since 1976.

MARKETS

Markets remain high, though short of the levels seen in the previous 2 months

Shell and Uniper have teamed up to develop a 720 MW blue hydrogen facility – using reformed natural gas and carbon capture and storage to produce the fuel – at the UK-based Killingholme power plant. A final investment decision on the project is expected in 2024 with the potential for production to commence at the site in 2027, according to the companies.

A new body will be created to oversee the energy network with a key focus on the transition towards net zero, it was announced in early April. The 'future systems operator' will be publicly owned and will take on the main responsibilities for manging the electricity network that are currently carried out by National Grid, as well as some of the gas oversight functions.

WHOLESALE

The fallout from the war in Ukraine continues to be the main driver in wholesale markets

A £375m fund was launched to support the UK energy transition – including £100m to cover the difference between hydrogen production costs and the sale price as part of a £240m hydrogen package – in combination with the release of the energy security strategy. Other technologies that will be supported include carbon capture and storage (CCS).

IMPORT BAN

The European Parliament votes to ban the import of Russian oil, gas, coal and nuclear fuel, though not binding

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Oct'22 Annual	chg	Apr'23 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	Germany Cal '23	chg	France Cal '23	chg
181.75	-2.13	135.25	2.35	192.20	-46.80	189.00	-54.00	202.63	17.63	232.05	25.05

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
237.00	42.75	106.61	1.96	76.90	1.57	77.90	-0.51	79.87	-0.35	82.31	-0.14

All changes (chg) are compared to last report

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GAS

COLD AND COAL LIFT UK MARKET

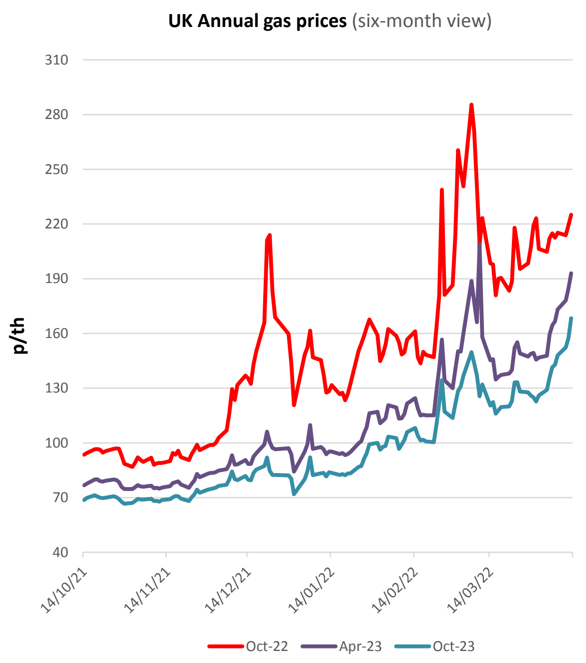
UK gas prices were boosted by cold weather, coal strength and Norwegian outages across the opening two weeks of April, while the ever-present threat that Russia will cut supply to Europe continued to loom over the market. Coal prices were yanked up by talk of an EU embargo on Russian exports with front quarter values shifting from $250/tonne in early April up to $322/tonne at the time of writing. On April 9th a fifth round of EU sanctions on Russia was implemented with a ban on coal and solid fossil fuel imports from the country to be implemented from August 10th. The UK had previously committed to ending imports of Russian coal and oil by the end of this year.

The gains on coal helped to lift October '22 Annual gas by 6% from around 206 p/th in early April to nearly 220 p/th at the time of writing, while April '23 Annual gas was yanked up by 29% over the fortnight to around 190 p/th – a level not reached since early March – as prospects of an imminent end to the conflict in Ukraine dimmed. Winter '22 gas moves were muted with the period closing around the 260 p/th mark fairly consistently over the first week in April – hitting a low of 250.7 p/th the week after – and then shifting back up to the high 250s, while Summer '23 gas roared up by almost 30% to 191 p/th, which provided the impetus for gains on the front two annuals.

Members of the European Parliament (MEPs) voted to ban the import of Russian oil, gas, coal and nuclear fuel with immediate effect – although this was largely symbolic as ratification would require unanimity from all member states – while the Baltic states took the plunge and announced a cessation of pipeline imports from Russia. Control of Gazprom Germania – a subsidiary of the Russian producer that owns or co-owns more than 11bcm of gas storage capacity in Germany, the Netherlands, Austria and Serbia – was handed over to the German energy regulator, improving prospects for EU storage ahead of next winter.

On the short-term market a cold snap hit the UK through most of the fortnight – while wind output was mostly on the low side – pushing gas demand around 74mcm above the seasonal average. LNG supply remained strong with terminals delivering almost 36% of UK gas – up from 26% during March – partially mitigating the impact of low temperatures and elevated consumption. UK Day-ahead gas hit a high closing value of 249 p/th in early April – closed around 230 p/th across the first week – before sliding towards 180 p/th in recent days as the cold weather started to subside.

Elsewhere month-ahead North Sea oil bounced between $100-110/bbl with slightly less volatility in the market compared to March. There was some pressure on crude prices as volumes were released from US and IEA member strategic reserves – with new lockdowns in China also applying some weight – although an OPEC warning over difficulties in replacing Russian supply counterbalanced these factors. At the time of writing China was easing lockdown measures as Covid case numbers declined, potentially paving the way for fresh oil gains.



GAS: OUTLOOK

Summer gas demand is expected to be around 6.5% higher than last year – according to a forecast from TSO National Grid – due to expectations of higher exports to help fill EU storage sites.

Norwegian summer maintenance is set to step up from April 20th with 40-60mcm of daily capacity unavailable from that date to the end of the month. Restrictions are set to ease slightly in May with 9-25mcm offline. Curtailments in Norway tend to have a greater impact on supply to the UK than elsewhere in Europe due to buyers in the country holding few long-term supply contracts with Norwegian producer Equinor.

BOOST

Cold weather, low renewables output and high coal prices boosted market

A new study into the safety of fracking was ordered by the UK government, potentially paving the way for the removal of a moratorium on the practice that was imposed in 2019 following opposition from climate groups and concerns over earth tremors associated with the extraction process. The British Geological Survey is expected to produce a report within three months. Shortly after energy company INEOS wrote to the government with a request for it to be allowed to build test site to prove the extraction process can be performed safely.

STRATEGY

UK government unveils its energy security strategy, including new domestic oil production

The energy security strategy released by the government in early April included a new licensing round for oil and gas field development on the UK continental shelf that is set to take place in the autumn – the first of its kind since 2020 – with a renewed commitment to domestic production following the Russian invasion of Ukraine. Given the current price environment for both oil and gas there is likely to be strong interest in the round.

DEMAND

Gas demand is expected to be higher over summer as countries refill storage

KEY GAS INDICATORS:

Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Oct '22 Annual	chg	Apr '22 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2023:	chg	Oil (Brent) $/bbl:	chg
225.02	18.72	192.94	46.20	213.10	-44.16	200.00	-82.66	83.40	15.22	106.61	1.96

All changes (chg) are compared to last report

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