Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

FRONT ANNUAL HITS THREE-MONTH HIGH

UK power prices were yanked up this week after the EU finally agreed on a deal to reduce oil imports from Russia and several gas buyers were cut off by Gazprom for refusing to pay for volumes in roubles. Periods had been easing prior to the latest surge with falling demand, rising renewable output and lower carbon values helping to apply some pressure. In late May UK chancellor Rishi Sunak announced a windfall tax on the profits of oil and gas companies – with the proceeds planned to be used to ease the pain of rising consumer bills – although this provoked little reaction in wholesale markets as power generators were not targeted in the new levy, but the door remains open for future charges.

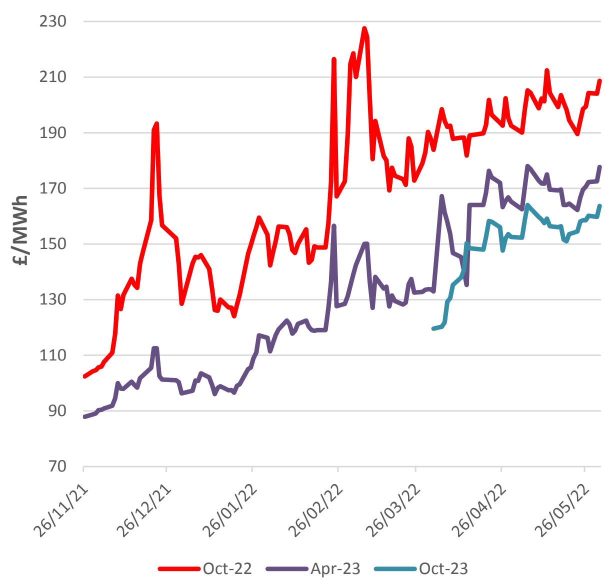
October '22 Baseload electricity initially shifted from just over £200/MWh down to £189.5/MWh as confidence increased that there would be no disruption to Russia gas supply – after the European Commission announced companies would not be penalised for paying for volumes in roubles – before swelling back above £210/MWh as companies that refused the currency request were cut off.

Renewable generation has picked up over the last fortnight, with wind farms accounting for about 25% of UK supply – up from 20% in the first half of May – providing relief to the short-term market at times, although strong exports prevented too much downside. The UK Day-ahead Baseload power index hit £138/MWh on a day when wind farms accounted for less than 10% of power supply – then slumped to a low just under £100/MWh as renewable output started to ramp up – but roared back to £173/MWh at the end of the month as wind speeds plummeted and exports pushed above 3 GW.

Last week commercial flows became available on the 1 GW ElecLink cable between the UK and France (expanding current capacity to France by around a third) with an auction for day-ahead capacity taking place on May 24th. Since then the UK has delivered 360 MW on average through the interconnector – with peaks above 750 MW on a number of occasions – although total exports to France dipped by around 3.5% as French wind output picked up, and exports through other interconnectors fell. Commissioning of the ElecLink – albeit at around 80% of the full capacity – could not have come at a more opportune time for France as a couple of week ago EdF revised nuclear production expectations this year to 280-300 TWh, down from 300-315 TWh originally. This followed the discovery of more corrosion issues on welds at some of the company's nuclear fleet.

It has been a quiet couple of weeks for UK carbon with prices shifting from around £85/TCO2e in the middle of May towards £82/TCO2e by the start of June. Losses were partially driven by EUAs crashing following a proposal from the European Commission to raise €20bn via the sale of allowances from the market stability mechanism, with proceeds from this used to support the bloc's ambition to end imports of Russian gas. Following this announcement EUAs dipped from EUR 92/TCO2e – the highest value since late February – to below EUR 85/TCO2e at the time of writing.

UK Annual power prices (six-month view)



Scandinavian hydro stocks remain at multi-year lows with the latest indications showing reservoirs in Norway – the largest hydroelectric producer in Europe – are currently around a quarter full, compared to 42% a year earlier and 38% on average at this point over the last five years.

UKRAINE

Ukraine and the fallout from the war continues to be the primary driver in markets

PRICE SPIKE

Power prices spike on news the EU is reducing oil imports from Russia

RUSSIA

Russia cuts gas supplies to several countries, boosting prices

Commissioning of SSE's 893 MW gas-fired Keadby power plant is expected by October 1st – bringing additional baseload generation capacity online – although a report from Catalyst Commodities suggested the facility may be up and running from late August. The plant is currently producing power intermittently as part of the testing process.

A report from National Grid ESO has called for reforms to the UK electricity market to deliver net zero power supply without prohibitive costs to consumers. The study identified four issues with the current market design; constraint costs are rising, balancing the network is becoming more challenging as renewable capacity rises, national pricing is sometimes providing irrational incentives to flexible assets, and current design does not optimise flexibility.

From June 14th the full 1.4 GW capacity is expected to be available on the North Sea Link – an interconnector between the UK and Norway – after maintenance slashed the cable's capability by half in late March. Relatively low-cost gas-fired power generation in the UK has meant the country was a net exporter to Norway during May – with 200 MW delivered on average each day – although UK imports are likely to be more common during the winter.

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
208.63	4.38	177.63	8.13	175.32	5.72	173.00	77.41	238.75	10.13	304.00	-7.50

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
239.00	6.75	123.46	12.65	82.59	-1.51	84.01	-4.40	86.91	-4.40	91.16	-4.11

All changes (chg) are compared to last report

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GAS

RUSSIAN SUPPLY WOES PROVIDE LIFT

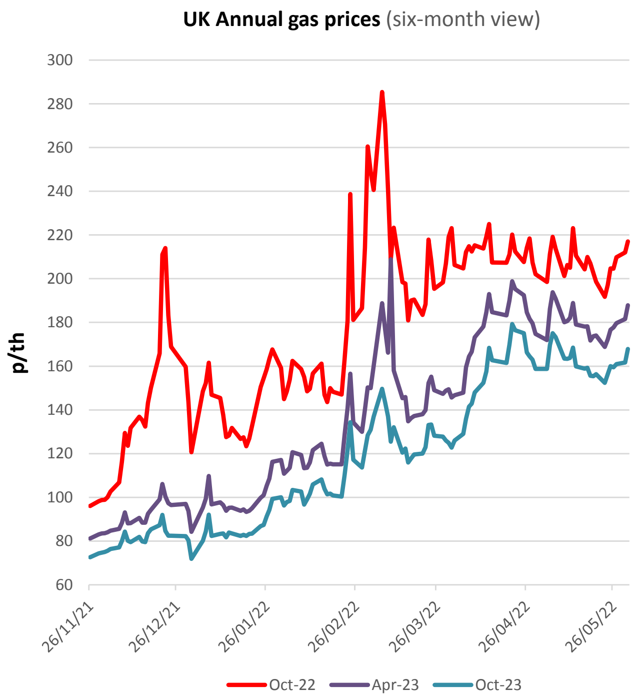
While the second half of May started with UK gas prices falling amid waning demand, buoyant LNG supply and rising storage fullness across the EU, prices jolted higher again in the fourth week as the EU announced a ban on some Russian crude oil imports and Gazprom cut off gas supply to more buyers. Dutch company GasTerra announced it will not receive 2 BCM of gas from Gazprom between May 31st and the end of September after it refused to pay for volumes in roubles. A day later Gazprom said it would stop delivering to Danish utility Orsted – which received just under 2cm of Russian gas last year – and halt 1.2 BCM of annual exports to Germany for Shell Energy Europe after those companies rejected the rouble request, all a week after Finland was cut off for the same reason. The overall impact of the Russian supply cut is thought to be around 20 BCM annually, about 13% of the volume the EU imported from Russia last year.

The contract cancellations and crude ban pushed October '21 Annual gas to close above 217 p/th on the last day of May – the second-highest level this month – after closing below 192 p/th last week, which was the lowest price since late March. The front Annual was also boosted by North Sea oil pushing above $120/bbl for the first time this year after the EU agreed the Russian oil ban, while easing lockdowns in China provided some confidence on the demand side. April '23 and October '23 Annual gas periods gained 5-6% over the latter half of the month with most of the upside occurring on May 31st following the Orsted and Shell Energy Europe announcements. At the time of writing all three Annuals were edging lower, however.

On the short-term market gas demand has been more than a third higher than the seasonal average over the last two weeks, with offtake driven up by massive exports to mainland Europe, as the UK delivered more than 2 BCM to the continent during May. LNG supply started to tail off – especially from the Isle of Grain terminal – with volumes falling by around 27% compared to the opening half of May and 50% against averages during April. This was driven by a huge discrepancy between short- and near-term pricing, with the UK gas Day-ahead closing more than 100 p/th below the front month at times, creating an incentive to keep volumes in LNG tanks and wait for higher prices in June, although the gap has since started to narrow.

Volatility has been concentrated on the short-term market with Day-ahead UK gas closing at a low just under 83 p/th shortly after mid-May, then roaring up to 126 p/th before dropping towards the 90 p/th mark as demand forecasts were revised down. A day later the period had been yanked above 140 p/th and the gains continued to mount as demand rose by almost a third in a couple of days.

Elsewhere US gas prices were nearing $9/MMbtu for the first time since 2008 – before fracking revolutionised gas and oil production in the country – showing the wholesale market in North America is not immune to the global spike in prices triggered by Russia's invasion of Ukraine.



GAS: OUTLOOK

Gas supply to Germany may be squeezed after Russia sanctioned multiple companies – including former subsidiaries of state-owned producer Gazprom – earlier this month. Businesses on the sanction list include Wingas, which is thought to have a 20 BCM annual import contract with Gazprom. If the Russian supplier is not able to deliver volumes to Wingas this could create a significant shortfall when demand starts to pick up in the winter.

REDUCTION

Strong renewable generation and LNG shipments reduce prices in the near term

TAXES

The UK governments announcement of new taxes has had no impact on wholesale markets

The UK has stepped up its energy efficiency drive with the launch of a £450m fund to support the installation of residential electric heat pumps to replace gas and oil-fired boilers. A separate £553m fund has also been announced to upgrade the efficiency of public buildings and to add low carbon heating. In the long run these measures should reduce gas demand although it will take years before the impact starts to be felt on the market.

Japan's prime minister has said the country will restart idled nuclear power plants to stabilise energy prices and supply, with the conflict in Ukraine highlighting Japanese reliance on imports of oil and gas. Currently only 10 of the country's 36 nuclear plants are operational although it is unclear if the government will look to restart all remaining facilities. Any additional Japanese nuclear capacity coming online should reduce the need for LNG imports.

PLANNING

Governments are contingency planning for worst case scenarios around supply in winter

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**
217.04	6.45	169.50	-9.51	168.45	18.45	148.53	88.48	81.50	2.90	123.46	12.65

All changes (chg) are compared to last report

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