Mid June 2022

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

NEW SUPPLY FEARS HEAVE PRICES HIGHER

UK power prices have been pulled up by gas supply fears over the past few days after a fire and outage at the key US Freeport LNG export plant, with the initial estimated timeline for repairs of three weeks being extended yesterday to the end of the year. This – combined with a falling gas exports from Russia, concerns over French nuclear generation, falling renewable output and strength on coal and oil – helped to push October '22 Annual Baseload up to around £224/MWh at the time of writing – a level the period has not closed at since March 8th – gaining about 13% from lows just under £199/MWh at the start of the month.

Supply fears for the coming winter remain front and centre on the policy side with the UK government reportedly set to finalise a deal to keep the 2 GW West Burton A coal-fired plant – operated by EdF – open through the colder months. The facility was set to be closed in September, while National Grid is rumoured to be in talks with other generators to keep additional capacity online beyond current decommissioning dates. Coal has provided less than 2% of UK power supply this year but in the current tight environment the focus is squarely on keeping plants online where possible.

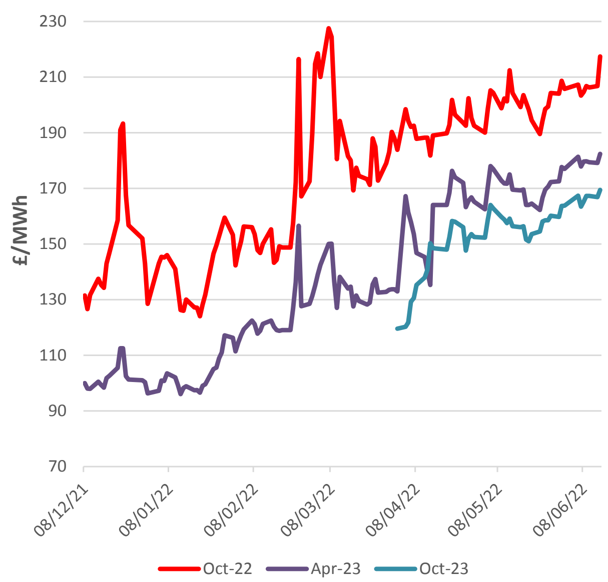
Winter '22 Baseload power is currently around £267/MWh – up more than 9% since the start of the month – a level the period has not closed above since March 9th. Elsewhere front winter values in France have consistently exceeded £400/MWh as supply risk due to the nuclear picture provides support, suggesting the UK is likely to remain a net exporter to the country across Q4 this year and Q1 2023.

UK power exports to the continent remained strong in the opening two weeks of June at an average of 2.5 GW – roughly in line with deliveries during May – with France accounting for around 80% of the total. This weekend another 910 MW of French nuclear capacity will come offline at the Blayais 1 reactor for work set to last into December, with another 1.8 GW set to be shuttered at two facilities in the first week of July – although 910 MW should be restored at Craus 1 next week – suggesting France is likely to remain hungry for UK power supply.

On the short-term market a 16% decrease in wind generation compared to the previous fortnight – with output averaging just under 5 GW – provided a lift. The UK Day-ahead Baseload index touched lows around £120/MWh last week but has since surged above £180/MWh – a threshold last breached in mid-April – with gains in the gas market, limited renewable output and the previously-mentioned strong exports all helping to push up near term pricing.

Unlike the power market UK carbon values have been fairly static over the past couple of weeks with values hovering around £82/TCO2e – down 8% since the last spike in early May – with volatility in EU emissions not carried through to UKAs. Many economists are currently predicting an imminent inflation-driven recession, which could pull carbon values lower.

UK Annual power prices (six-month view)



Continuing above average temperatures across most of Europe into the second week of July at least are forecast by the EU Copernicus Service, which is likely to pull up power demand throughout the continent and maintain strong demand for UK exports. Hot conditions are expected in France, raising the prospect of further nuclear curtailments if river temperatures reach sufficient levels to force more nuclear capacity offline. Relatively low precipitation also looks set to continue – limiting the potential for already-depleted hydro stocks to improve – although Norway could be an outlier with above average rainfall predicted at times over the next month. This week French utility EdF announced that due to low flow forecasts on the Rhone river production at the St Alban nuclear plant was likely to be curtailed from June 14th to the 19th.

OUTAGES

Nuclear generation outages in France cause concerns over supply

A new funding model for nuclear capacity reportedly took a step forward with the proposed 3.2 GW Sizewell C project potentially set to secure finance under the Regulated Asset Base (RAB) regime. This model differs from the Contracts for Difference (CfD) scheme as it provides the developer of a project with more upfront capital, rather than waiting for generation to commence before receiving any remuneration.

COAL

UK Government agrees to keep coal generation online over winter

LNG FIRE

Prices spike following a fire at an LNG export plant

In early July 340 MW of offshore wind capacity is expected to be brought back online at the East Anglia complex, a development that is planned to eventually have a total capacity of 2.9 GW.

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
217.38	8.75	182.35	4.72	168.40	-6.92	163.28	-9.72	222.50	-16.25	293.00	-11.00

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
217.00	-22.00	124.87	1.41	82.11	-0.48	84.03	0.02	87.12	0.21	91.89	0.73

All changes (chg) are compared to last report

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GAS

MARKET ROARS HIGHER ON US LNG FIRE

This week UK October '22 Annual gas pushed above 230 p/th for the first time since early March – up 14% from sub-209 p/th at the start of the month – in response to an explosion and subsequent long-term outage at the Freeport LNG facility in the US. Freeport accounts for around a fifth of US LNG export capacity and has reportedly delivered almost 70% of its output to the UK and EU over the past three months, with one analyst suggesting the outage could remove 1-1.3 BCM from the European market over its duration. The plant operator initially announced that it expected operations to resume within three weeks but is now signalling that full capacity is unlikely to be available until the tail end of this year, although restricted activity is expected within three months.

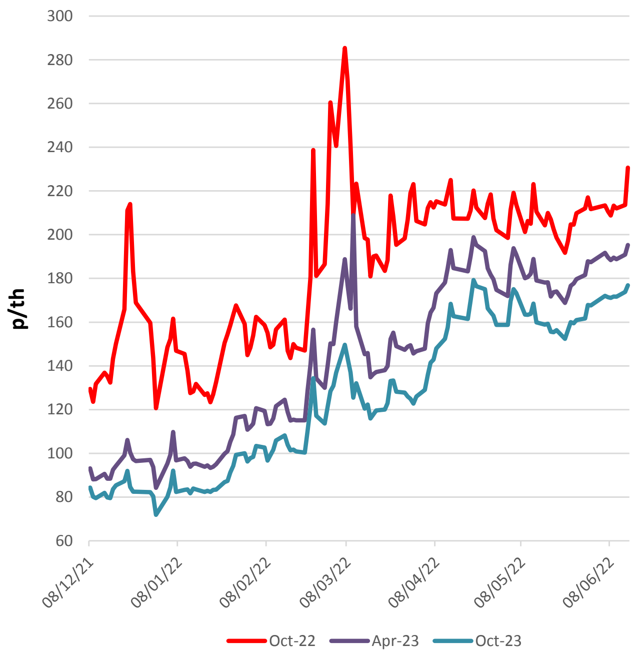
At the time the news hit long-term UK gas prices were already pushing upwards following a 20% week-on-week cut in Russian exports into Germany through the Nord Stream pipeline. Russia's Gazprom has reported technical issues at compressor stations limiting its ability to export – news met with some scepticism within European energy circles – and said there were delays in receiving components from German company Siemens that are required to restore operations, a company that exited Russia following the invasion of Ukraine.

Buoyant oil was another factor lifting prices – despite mounting inflation and recession fears – with supply side risk including the EU and UK bans on Russian crude pushing North Sea values towards the $125/bbl mark this week, a threshold not consistently breached in a decade. Winter '22 UK gas gained 12% in the opening fortnight of June to reach 271 p/th – a closing value last hit at the end of Q1 – but had edged down slightly at the time of writing.

Gas demand has been around 28% above the seasonal average in the opening half of June with strong exports continuing to push up offtake due to a wide difference between short-term UK prices and values on the continent. Norwegian maintenance has hampered UK supply with flows on the Langeled pipeline – the largest connection between the countries – falling by around 17% compared to the previous two weeks. The Russian flow drop and Freeport outage have helped to push up the short-term market too with Day-ahead UK gas roaring above 185 p/th at the time of writing – more than 80% up from the start of June – while Day-ahead values at the Dutch TTF are closer to 250 p/th, as mainland Europe is more sensitive to Russian disruptions than the UK.

The recent surge in Day-ahead values was in sharp contrast to last week when an outage curtailed UK exports to Belgium through the Interconnector pipeline and a glut of gas caused the Day-ahead to lose an astonishing 87% of its value in a single day with the period closing at just 10 p/th. This followed a 50% drop in exports through the Interconnector as operator Fluxys reported debris in the exit point system, problems that have since been resolved.

UK Annual gas prices (six-month view)



GAS: OUTLOOK

German gas-fired power generation could leap by 40% compared to last year in Q4 – according to analysis from Refinitiv – as the country will only have 4 GW of nuclear capacity online, half the availability in the final three months of 2021. This could offer support to mainland European gas and have a knock-on effect in the UK market as prices will need to be sufficiently high to ensure net imports over the high-demand winter months.

EXPORTS

Falling gas exports from Russia boost prices

DEMAND

Gas demand in June is 28% above the seasonal average

Centrica has applied to reopen Rough – a storage site that accounted for around 70% of UK capacity before its closure in 2017 – with wholesale prices now thought to be sufficiently high to justify the work needed to bring the facility back online. Given previously issues reported by Centrica it seems unlikely Rough will be able to be brought back into operations any time soon.

Norwegian summer maintenance is set to wind down from the end of this month with daily restrictions of just 9 mcm expected until the next round of work kicks in from August 13th, according to the latest data from Gassco, the Norwegian pipeline network operator.

OIL

Oil prices rise, further boosting wholesale gas and power

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
230.68	13.64	195.30	25.80	196.55	28.10	161.07	12.54	83.75	2.25	124.87	1.41

All changes (chg) are compared to last report

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