

# Energy Market Insights

Twice Monthly Independent Market Analysis

## ELECTRICITY

### HEATWAVE RENEWS BULLISH IMPETUS



UK power prices have been shattering record highs over the past couple of weeks with extreme heat causing havoc for electricity generators, flooding in Australia boosting coal values and maintenance on the Nord Stream gas pipeline all helping to lift periods. October '22 Annual Baseload power closed as high as £352/MWh – a new record – but had edged down to £336/MWh at the time of writing, an increase of 24% across the opening half of July. The next two annual Baseload values have also been roaring upwards with April '23 rising 26% over the fortnight and October '23 21%.

Climate aspirations have taken a backseat to security with coal very much back in fashion for European policymakers eager to prevent the energy crisis from escalating further. In the UK Drax announced that it would keep open its two remaining 645 MW coal-fired units – at the request of the government – until March 2023, a six-month extension from the original closure date. Elsewhere France published a draft decree aimed at allowing GazelEnergie to reopen the 595 MW Emile Huchet coal plant, while also mulling plans for the state to take over operations at gas-fired facilities to prevent blackouts this winter. Meanwhile Germany's lower house has approved measures to provide financial support for gas importers – as well as to return mothballed coal- and oil-fired capacity – due to high wholesale prices and potential supply disruptions from Russia.

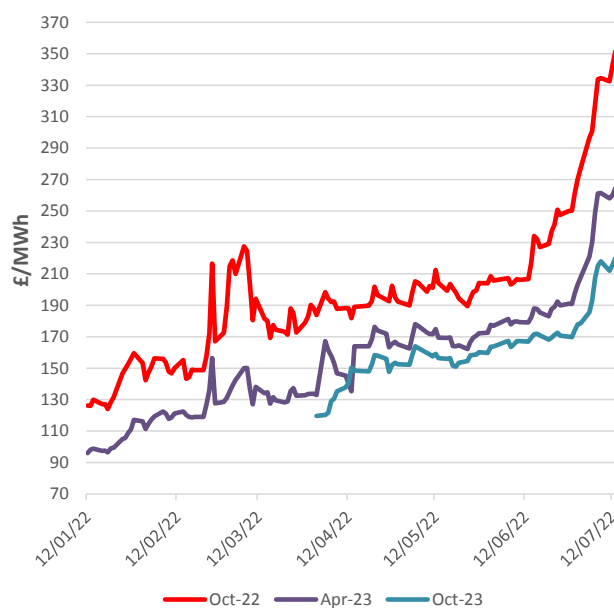
This comes against the backdrop of an impending EU ban on Russian coal imports – due to start in August – while the UK will also cease buying the fuel from Russia by the end of this year. Month-ahead coal values spiked to nearly \$387/tonne at one point – up 10% from the start of the month – but had dropped back towards \$367/tonne by the middle of July. August '22 Baseload power mirrored these moves, reaching a high of £300/MWh at one stage before easing down towards £242/MWh at the time of writing – up 3% over the fortnight – while the next two months out have gained 2.5% and 9%, respectively.

On the short-term market wind farm generation was down slightly to an average of about 5.1 GW – accounting for nearly 19% of UK electricity production – while exports


dipped by 12% to around 2.2 GW each day. The Day-ahead Baseload index peaked at £291/MWh due to falling renewable output – wind generation dropped 45% the day after the index reached that value – after dipping as low as £118/MWh when wind production spiked to 9 GW, the highest volume so far this month.

Elsewhere carbon bucked the trend of rising energy-related commodities with UKAs falling from around £85/TCO2e at the start of the month to just over £82/TCO2e by the midpoint. Recessionary fears have helped to pull carbon values lower although the current heatwave across Europe – likely to boost power offtake and stimulate demand for emissions allowances – as well as rising coal-fired activity, have acted as a counterbalance to the influence of global economics.

UK Annual power prices (six-month view)




# ELECTRICITY: OUTLOOK

 Above average temperatures are expected throughout Europe until at least August 21st – according to the EU Copernicus Service – while dry conditions are also forecast across much of the continent. French nuclear capacity has already been curtailed due to rising river temperatures, while falling flow volumes on the Rhine river in Germany threaten to disrupt the transportation of coal in the country.



## UK POWER


**UK power priors hit record highs**

 UK energy regulator Ofgem has proposed to reform the wholesale power market so that the highest-cost electricity – normally gas-fired generation – no longer sets the market-wide price. An alternative approached suggested by the watchdog would be to establish a split wholesale market, with one section for intermittent renewable generation and another for firm power from conventional thermal plants.



## COAL

**Europe looks to coal generation as gas concerns rise**

 Just under 11 GW of renewable energy projects secured Contracts for Difference (CfDs) through the latest auction round – more than double the capacity awarded through the previous round – with offshore wind comprising almost 7 GW of the total, according to BEIS. The price per unit for offshore wind was around 70% lower than during the first allocation round in 2015. Tidal and floating offshore wind schemes secured CfDs for the first time. CfDs are 15-year agreements that provide renewable energy generators with a fixed return over this period.



## TEMPERATURES

**High temperatures boost electrical demand**

### 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
348.25	77.95	256.88	53.65	255.00	49.75	272.17	63.33	355.03	61.53	476.88	111.88

### 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
277.25	48.25	96.93	-17.55	81.40	-3.59	83.71	-5.70	86.48	-5.71	92.18	-6.07

All changes (chg) are compared to last report

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## GAS

### WINTER RISK BOOSTS FRONT ANNUAL 18%



The relentless upward momentum in UK gas prices has shown no signs of abating with the October '22, April '23 and October '23 annuals all ballooning to new highs with supply – especially pipeline exports from Russia – the main driver heaving up periods. Front Annual gas has risen by more than 18% over the opening fortnight in July – peaking at 382 p/th and currently around 354 p/th – while the next two annuals were yanked up by 26% and 25% to 290 p/th and 238 p/th, respectively. Risk continues to mount for the winter with November '22 to February '23 all pushing clear of 450 p/th with not much room before values on the coldest months break through 500 p/th.

This week the Nord Stream pipeline linking Russia to Germany closed for maintenance currently expected to last until July 21st – amid warnings from German energy market participants that flows may not resume after the work is completed – reducing daily supply into the country by 64 mcm. At the same time the Canadian government has agreed a temporary exemption on Russian sanctions that will allow Siemens to return a repaired turbine needed to pump gas through Nord Stream. Several days later Russian producer Gazprom – which said in June that it had reduced deliveries via Nord Stream because the Siemens unit was not returned – said that it had not received official confirmation from the Canadian side, while some analysts warned the Nord Stream restart could be delayed by a month.

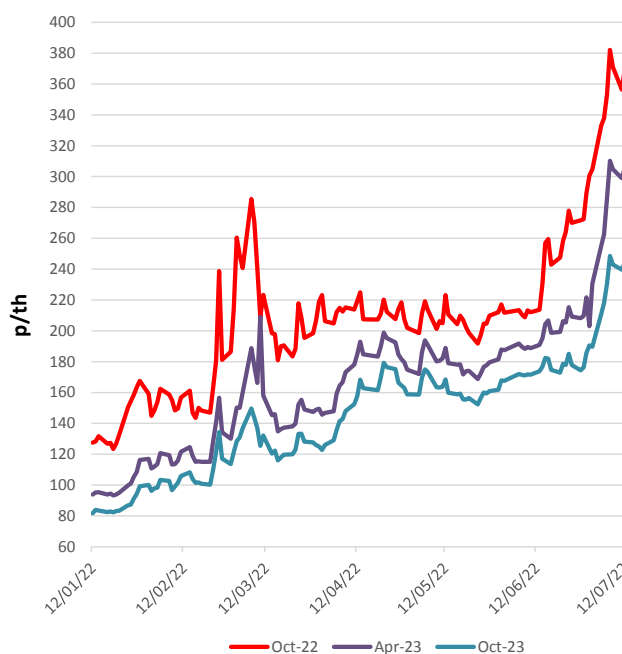
As if this wasn't enough, major Norwegian outages have stifled exports and lifted the short-term market as volumes delivered to the UK plummeted by more than 50% this week compared to last. UK Day-ahead gas was up to almost 276 p/th – a massive 72% gain since the start of the month – but has since come down a touch as restrictions in Norway have started to wane. Lower LNG supply also helped to shore up near term pricing with sendout from terminals at a daily average of 32 mcm – down from 42 mcm during June.

European storage injections have declined by around 38% since the maintenance on Nord Stream started – while the unplanned Norwegian outages also reduced volumes available to replenish stocks – with sites now around 62%

full, compared to 51% a year earlier and 64% on average at this point between 2017-21. Slowing injection rates and speculation around future Nord Stream flows have catalysed fears that reserves will not be sufficient to last the winter. This concern has led to another boost on front season gas, which has gained 15% to just under 437 p/th.

Elsewhere North Sea oil has been succumbing to pressure from expectations of a global economic slowdown, which for now is offsetting supply-side issues following Russia's invasion of Ukraine and looming EU and UK bans on Russian crude. Month-ahead North Sea oil crashed from nearly \$112/bbl at the start of July to around \$99/bbl currently – touching lows last seen in April – with oil movements disconnecting from the trajectory of UK and European gas and power.

UK Annual gas prices (six-month view)



## GAS: OUTLOOK

 The resumption of exports from the US Freeport LNG plant is now expected in October – about a month later than originally planned – with full operations at the facility still anticipated by the end of the year. Freeport represents around 15% of US LNG export capacity and has been closed since June due to a fire. Overall US LNG exports through the second half of the year are expected to be around 6% lower than during the opening six months due to the issues at Freeport, according to a recent report from the Energy Information Association (EIA).



## NORD STREAM


**Nord Stream pipeline closed until 21 July**



## NORWAY

**Major outages in Norway constrain gas supplies**

 Spain is planning to construct new gas interconnectors with France, Portugal and Italy – after TSO Enagas announced plans to invest EUR 2bn in the infrastructure – with the first two links potentially flowing from 2025 with the Italian connection theoretically online three years later. The pipelines to France and Portugal are planned to be modified to transport hydrogen from 2030, while the link to Italy will be converted to shift hydrogen from 2039.

 North Sea gas supply could improve from 2024 after US energy major ConocoPhillips secured approval for the development of Tommeliten A – located on the UK-Norway offshore border – from Norwegian and UK authorities. The company said up to 12 production wells could be supported with the gas condensate field thought to hold 1.2-2.8 BCM.



## WINTER

**Concerns rise over gas storage levels for winter**

KEY GAS INDICATORS:											
Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Oct '22 Annual	chg	Apr '23 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2023:	chg	Oil (Brent) \$/bbl:	chg
366.09	65.45	298.61	95.55	236.83	64.86	223.61	63.47	141.20	34.60	96.93	-17.55

**All changes (chg) are compared to last report**

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