

# Energy Market Insights

Twice Monthly Independent Market Analysis

## ELECTRICITY

### HEATWAVE DRIVES FRONT ANNUAL UP 24%



UK power prices have continued to break new ground across the opening half of August as a fresh bout of heatwaves throughout Europe boosted demand and hampered generation, while carbon and coal strength – as well as contagion from a bullish gas market – have helped to push multiple Baseload values to new records. October '22 Baseload power had ballooned to almost £510/MWh at the time of writing – a 24% increase since the start of the month – bouncing up 2% from the record closing value the previous day.

A resurgence in carbon – after a dip in late July on recessionary fears – has pushed UKA December '22 above £90/CO<sub>2</sub>e, more than 13% higher than at the start of the month. UK emissions values have been largely tracking the more established European market, which has been lifted by falling auction volumes and the expectation demand will be boosted by rising thermal generation – especially from high-emitting coal plants – with low traded volumes due to the holiday period also cited as a factor providing support. The strength on carbon has been another driver helping to push up long-term periods with the UK April '23 and October '23 Annual Baseload prices yanked up 22% and 41%, respectively, across the first half of August.

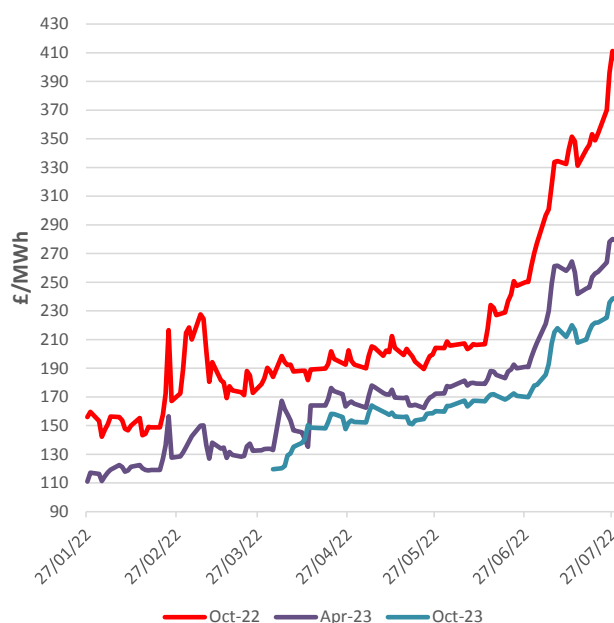
Coal has also been buoyant with German supply disrupted by Rhine river levels hitting new lows thanks to the droughts wreaking havoc on European water supply. This has led to a surge in coal values over the past week – bringing prices back in line with the start of the month – with more disruption to supply likely. Barge operators on the Rhine typically reduce deliveries when water levels reach 80cm – with expectations of 31-33cm this week – and there are currently no signs of a significant hike in rainfall.

German front year Baseload values have increased an astonishing 115% over the past couple of weeks, with the same French period making an even steeper rise of 126%. As the crisis deepens German utility RWE has announced that it will restart three lignite-fired plants with a combined capacity of 900 MW from October 1st at the request of the government.


On the short-term UK market falling exports have provided some relief with net outflows through cables linking the UK to the continent and Ireland crashing 41% compared to July – even after the Eleclink to France returned to action following an outage – to a daily average of around 1.2 GW. This was largely driven by lower deliveries to France as French wind generation picked up by about a third compared to output in July.

On the other hand, UK wind farm output has fallen to a paltry 3.6 GW in August so far – 1 GW lower than wind production last month – helping to lift Day-ahead values as more expensive thermal plants have stepped up to close the generation gap. The UK Day-ahead Baseload index reached more than £365/MWh at the start of the week – up 52% in a fortnight – having touched a low of £240/MWh a day before UK wind farms churned out almost 12 GW.

UK Annual power prices (six-month view)



## ELECTRICITY: OUTLOOK

 EdF has extended maintenance at the 915 MW Tricastin 3 nuclear reactor in France by 55 days to October 24th, with the expected duration of several other planned outages increased by one to eight days.




## BLACKOUTS


**UK gov draws up worst case scenario plans for winter blackouts design**

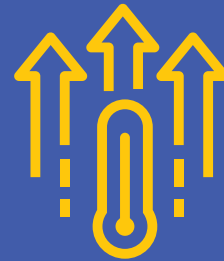


## PRICES

**Gas and Power prices continue to hit new highs**

 The UK could face blackouts this winter if load-shedding measures are implemented in the event of power and gas supply running low. Cuts for three-to-five-hour periods could be implemented from December and last several months if there are further curtailments to Russian gas exports to Europe, according to multiple reports.

 French nuclear regulator ASN extended waivers that allow five nuclear power plants to run even if river temperatures reach certain levels, with exemptions now in place until September 11th after being implemented in mid-July. Normally activity at some reactors is turned down when river temperatures are too high due to the impact on wildlife from the heat of wastewater discharge by the plants. Nuclear generation in France this month has been about 30% below the five-year average, compared to 32% during July.



## HEATWAVE

**Record heatwaves boost demand and hinder generation**

### 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
499.50	102.50	393.00	113.00	365.77	73.97	300.00	0.00	477.00	115.21	624.00	126.50

### 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
276.50	-1.75	94.01	-16.42	89.94	11.61	90.71	12.04	93.21	12.31	97.55	13.10

All changes (chg) are compared to last report

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## GAS

### OCTOBER '22 ANNUAL BREAKS 500 P/TH



Nerves around winter gas supply have been continuing to push periods higher with the October '22 Annual breaking 500 p/th for the first time and most winter months now substantially above this threshold. Last week Russia poured further cold water on the prospect that the Nord Stream pipeline to Germany would be running at full capacity any time soon with Gazprom saying that issues with documentation for a repaired turbine – as well as sanctions imposed by the EU and UK – have been preventing maintenance at a compressor station from being completed. The company said that only one of six turbines at the compressor were currently in operation – reducing capacity available to 20% – with three of the other units requiring repairs and the remaining two only used as back-up. At the time of writing October '22 Annual gas was at almost 528 p/th – gaining 32% since the start of the month – while the April '23 and October '23 annuals have swelled nearly 50% across the opening fortnight in August.

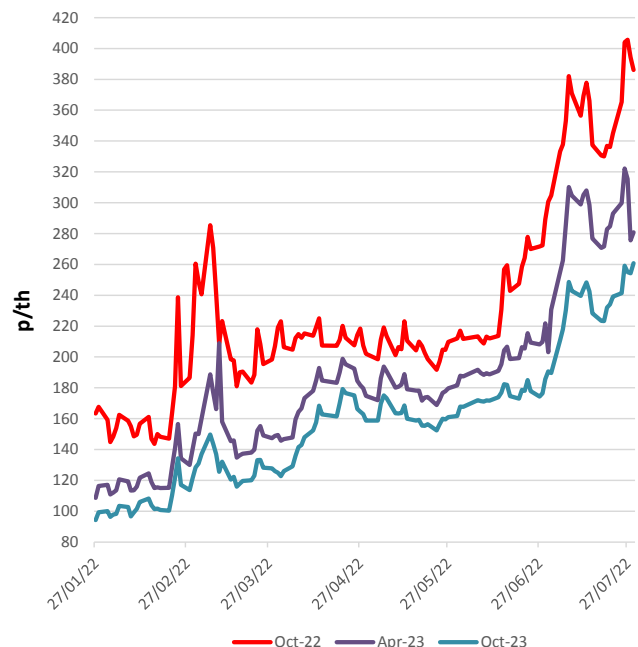
The Gazprom announcement catalysed the latest price surge – October '22 Annual gas leapt 6% on the day of the news – after a period of relative calm with strong storage injections pulling some risk from the market on the supply side. EU storage is now around three quarters full – in line with the five-year average and up from 61% a year earlier – with stock-building continuing at a remarkable pace given the reduction in Russian supply. The bloc is aiming for sites to be at 80% of capacity by October 1st and at least seven countries have already reached this mark.

However, the cut in Nord Stream volumes and a busy Norwegian maintenance schedule in the coming months suggest the rate of injections is likely to slow, while contingency plans continue to be drawn up in the event of a supply crunch this winter. Germany has taken the most drastic action by introducing an EUR 24.19/MWh charge on gas bills in an effort to curb demand. Funds from the levy will be used to help struggling suppliers – including giant Uniper – from making further losses. Companies such as steelmaker ThyssenKrupp and chemical manufacturer BASF have warned they are likely to reduce output due to the levy, while analysts have suggested some firms could go out of business altogether.

Elsewhere on the short-term UK market demand remained stubbornly above average with strong exports and gas-fired power generation pushing up the total and shoring up near-term prices. Across the fortnight gas use from these sectors averaged 89 mcm per day – an increase of 71% compared to the same period in 2021 – helping to lift Day-ahead gas up to 369 p/th, the highest closing value since prices erupted in early March following the Russian invasion of Ukraine.

Meanwhile month-ahead North Sea oil had dipped below \$95/bbl at the time of writing – down 5% during August – as weak economic data from China outweighed concern over supply with the EU embargo on Russian crude set to kick in from December.

UK Annual gas prices (six-month view)




## GAS: OUTLOOK

 This week capacity was reduced by 20 mcm at the largest Norwegian gas field Troll for work set to last the entire month. This was in addition to restrictions already in place at the St Fergus and SEGAL terminals – both UK receiving points for supply from Norway – that will curtail imports until early September.



### NORDSTREAM


Gas flows through NordStream remain low at 20%

 The price cap on domestic UK energy bills will be updated quarterly – rather than every six months – regulator Ofgem has confirmed. The move is intended to prevent more suppliers from going out of businesses due to rising wholesale costs not being reflected in prices they can charge consumers. Several large suppliers have also called on the government to reduce additional charges on consumer bills such as the green levy and support for poorer households.



### STORAGE

Europe continues to rapidly built gas storage

 European temperatures could be mild this winter with heating demand for gas around average, according to a forecast from the Commodity Weather Group.

UK energy supplier Centrica signed a 15-year deal for US LNG with Delfin Midstream, with 1m tonnes of the fuel set to be delivered from 2026. Volumes will be exported from a planned floating export plant off the Louisiana coast.



### COAL

Coal prices surge following generation demand and supply issues

#### KEY GAS INDICATORS:

Long-term UK (p/th):		Apr '23 Annual		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
506.74	120.65	467.43	186.60	422.75	103.69	376.00	97.18	201.78	52.28	94.01	-16.42

All changes (chg) are compared to last report

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