

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

DOWNTREND EXTENDS THEN SNAGS



Power prices have been creeping higher over the past couple of days – after seeing further sharp falls since the start of the month – with market participants seemingly underwhelmed by energy market reforms announced by the EU and proposed in the UK. Most periods had continued to fall – both in the UK and continental Europe – as proposals to decouple the price of electricity generated by renewables and nuclear plants from gas-fired output started to take shape.

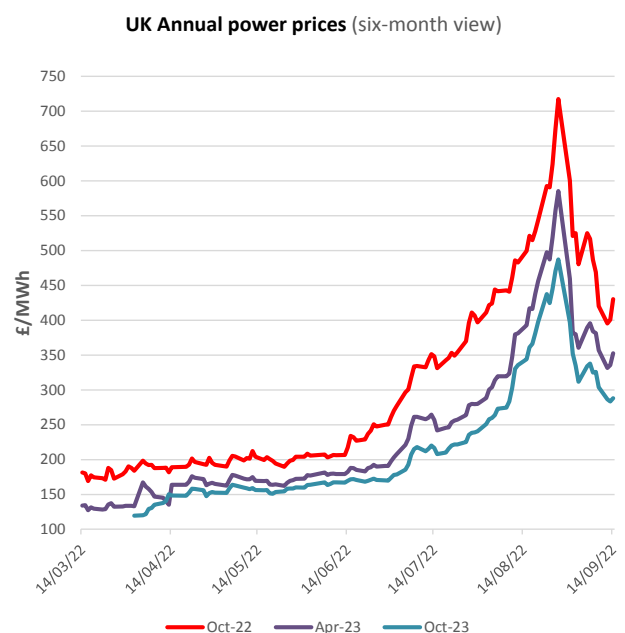
October '22 Annual Baseload power is currently around £445/MWh – down 15% since the start of the month – having closed as low as £395/MWh a couple of days ago, from a high of £525/MWh in early September. The next two annuals out have made similar moves, with April '23 Annual shedding 5% over the first half of the month – to £361/MWh at the time of writing, while October '23 Annual has dropped 12% to £294/MWh. In contrast the same periods on the gas market are at comparable levels to a fortnight earlier.

Policymakers in Westminster and Brussels look set to cap revenue from non-gas generators, although the timeline for any changes is unclear. This is most likely to be achieved by moving renewable and nuclear projects onto a mechanism such as the contracts-for-difference (CfD) scheme, under which operators are guaranteed a certain price for output as part of a long-term agreement, with returns on volumes sold below that level topped up and income from sales above that threshold returned. The EU has proposed a temporary EUR 180/MWh limit for low-cost generators, whereas the UK government is yet to name a figure.


In the meantime UK power exports have ramped up again, with a massive 3.7 GW sent to mainland Europe on average each day over the last fortnight, almost three times the average seen during August. France has been the main beneficiary, soaking up 2.5 GW of UK generation each day – two thirds more than last month – as the country continues to struggle to repair its nuclear fleet, with the occasional strike adding to capacity woes. France has vowed to get all its nuclear reactors online over the winter in a bid to shore up European supply, but safety remains paramount and, for now, French winter electricity prices are dwarfing

the same UK periods (as well as the likes of Germany and Italy), indicating the market is yet to be convinced. French Q4 '22 and Q1 '23 Baseload power last closed at EUR 950/MWh and EUR 957/MWh, respectively – down from valuations above EUR 1,000/MWh at the start of the month – against EUR 520/MWh and EUR 665/MWh for the same German periods. For comparison UK Winter '22 Baseload was just under EUR 600/MWh at the time of writing.

Elsewhere short-term UK prices have felt some pressure from booming renewable generation, as wind farms delivered more than 5 GW on average during the first two weeks in September – accounting for 18% of the country's electricity supply – almost 40% higher than daily output in August. The UK Day-ahead Baseload power index is currently just shy of £304/MWh – having dipped as low as £266/MWh – about 27% lower than at the start of the month.



ELECTRICITY: OUTLOOK

 UK wind output in the latter half of September is forecast to average 4.3 GW – 16% lower than the opening fortnight – meaning more expensive thermal generation will be required to make up the shortfall.

From September 19th 640 MW will be unavailable at the Torness nuclear power plant for work set to last until early October.




UK WIND

UK wind output set to average 4.3 GW in the latter half of September fortnight




REDUCTION

EU looking to reduce collateral requirements on electricity trades to improve wholesale market liquidity

 The EU will look to reduce collateral requirements on electricity trades in an effort to improve wholesale market liquidity. Many companies have been forced to cease trading as the cost of margin calls – the collateral required by firms to guarantee trades – has soared as a result of price spikes this summer.

The German government may be set to take a majority stake in utility Uniper – after acquiring 30% of the company as part of a bailout in July – with the firm continuing to struggle as it has been forced to buy gas at elevated prices to offset falling deliveries from Russian producer Gazprom.

 Newly-appointed UK Prime Minister Liz Truss has established a taskforce to negotiate with operators of renewable and nuclear plants that came online before 2015 – the year CfDs were introduced – to move onto the CfD system. This may prove a tough sell given the attractive returns available on the market and legislation may be required for the policy to garner sufficient take-up to reduce wholesale prices.



LIZ TRUSS

Newly-appointed UK Prime Minister Liz Truss establishes taskforce to negotiate with operators of pre 2015 renewable and nuclear plants

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
430.25	-90.70	352.75	-29.18	346.58	-48.67	304.54	-111.63	511.50	-62.00	583.50	-69.00

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
308.00	2.00	94.90	-1.80	79.25	-17.84	72.54	-7.49	75.31	-7.80	79.76	-8.35

All changes (chg) are compared to last report



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GAS

NORD STREAM CLOSURE IMPACT MUTED



UK gas prices have started to tick higher this week, with concerns over winter supply, extremely strong demand from the power sector and forecasts of falling temperatures wiping out losses that had accrued since the start of September as political rhetoric on market intervention started to heat up. October '22 Annual gas is currently around 518 p/th – practically unchanged since the start of the month but substantially below peaks of nearly 800 p/th in late August – having closed as low as 448 p/th a couple of days ago.

In early September Russian producer Gazprom announced what many had speculated, feared and warned could happen – the indefinite closure of the Nord Stream pipeline to Germany – although the market reacted with little more than a shrug, with prices actually coming down since the link was shut. Nord Stream had been offline for a few days of maintenance that started at the end of August – with the lead up to this outage catalysing huge gains late last month – although prices had been tumbling as Europe has learned to live with lower imports from Russia. Since April Russian gas has reportedly accounted for less than 10% of European supply, down from 40% over the same period in 2021.

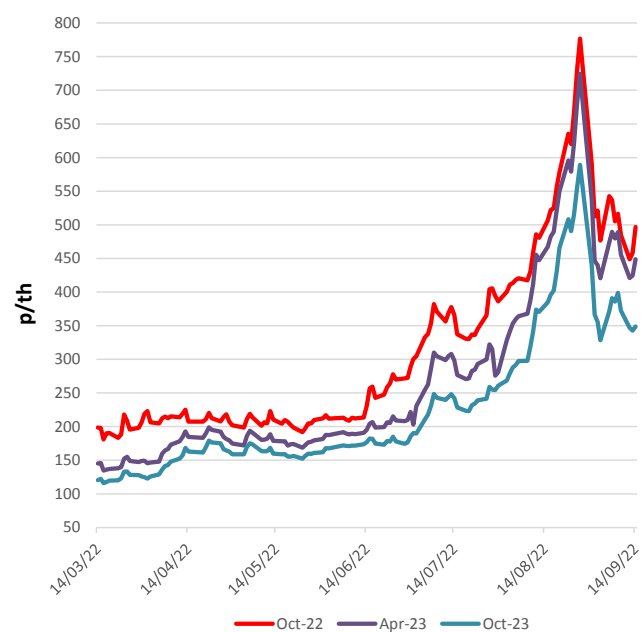
Since the closure of Nord Stream EU storage injections have averaged a healthy 328 mcm per day – about 12% lower than during August but more than double the five-year average – pushing site fullness across the bloc up towards 85%, compared to 74% a year earlier. Relatively full stocks, the signing of new LNG import deals and the crushing of industrial demand due to spiralling prices has led to a tentative belief Europe might survive the winter without severe shortages. A recent research note from Goldman Sachs suggested EU gas prices could be cut in half by Q1 next year – assuming average winter temperatures – although this looks a fairly bold claim this far out. UK Winter '22 gas was around 564 p/th at the time of writing – dipping around 5% during the opening half of September – while the same period at the Dutch TTF is around EUR 234/MWh (roughly 596 p/th), shedding just under 4% since the start of the month.

UK gas demand has remained elevated by exports and a huge pull from the electricity sector, with much of the


output from additional gas generation this summer bound for markets in mainland Europe. During Q3 to date gas-fired power plants have accounted for 58 mcm of daily demand – about 28% – an 18% increase compared to the same period in 2021. Gas exports have also been extremely high, with more than 5 BCM delivered into continental Europe during this quarter alone, a huge increase on the 244 mcm over the same timeframe last year.

Over the last couple of weeks supply from UK LNG terminals has been about two thirds higher than during August. This has helped to ease prices on the short-term market with the Day-ahead closing at an average price of 276 p/th during the opening half of September – down from 360 p/th on average last month – although the period remains volatile with end of day values in a 157-340 p/th range.

UK Annual gas prices (six-month view)




GAS: OUTLOOK

 Global oil demand is forecast to grow by 2 million barrels per day this year (an increase of just of 2% from current consumption) – despite the impact of lockdowns in China – and another 2.1 million barrels in 2023, according to a report from the International Energy Agency. Russian oil production is forecast to decline by 17% by February next year due to the EU ban on crude imports from the country.



OIL DEMAND

Global oil demand is forecast to grow by 2 million barrels per day this year


 Norway's Prime Minister Jonas Gahr Store has invited gas producers based in the country to discuss the possibility of providing more long-term supply contracts to reduce price volatility.

NORWAY



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Centrica is expected to run tests for injections into the Rough gas storage facility this week after securing preliminary approval to reopen the site from regulator Ofgem. Rough accounted for around 70% of UK storage capacity prior to its closure in 2017 and is capable of injecting around 18 mcm per day and withdrawing 44 mcm/day.

 The first LNG tanker arrived at the EemsEnergyTerminal in the Netherlands with volumes from this cargo expected to be delivered into the grid from mid-September. The facility – comprised of two floating storage and regasification units (FSRUs) – has an 8 BCM annual capacity that operator Gasunie said could be expanded by 25% in an emergency.



LNG

The first LNG tanker arrives at the EemsEnergyTerminal in the Netherlands with volumes from this cargo expected to be delivered into the grid from mid-September

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
496.63	-15.83	448.83	2.32	385.22	-37.53	380.02	-0.60	205.05	11.28	94.90	-1.80

All changes (chg) are compared to last report

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