# Energy Market Insights

Twice Monthly Independent Market Analysis

## ELECTRICITY

### DAY-AHEAD BELOW £100, FEB HITS £900

**UK power prices have crept lower over the opening half of October – although there have been several flashes upwards – as rising renewable generation, moves to decouple low carbon generation prices from gas-fired output and a reduction in exports have helped to pull April '23 Annual Baseload down 11% to £308/MWh at the time of writing. The difference between the low and high closing values on the front annual has been £18/MWh – compared to a £70/MWh swing in the prior fortnight – with the intense volatility of the past few months showing signs of easing, although directional shifts have become much more rapid, with up or down trends being very short-lived. After losses over the past couple of days the front annual is now in line with closing values last seen in early August, while the October '23 and April '24 annuals have been more resilient – with the former shedding less than 2% while the latter has ticked about 3% higher.**

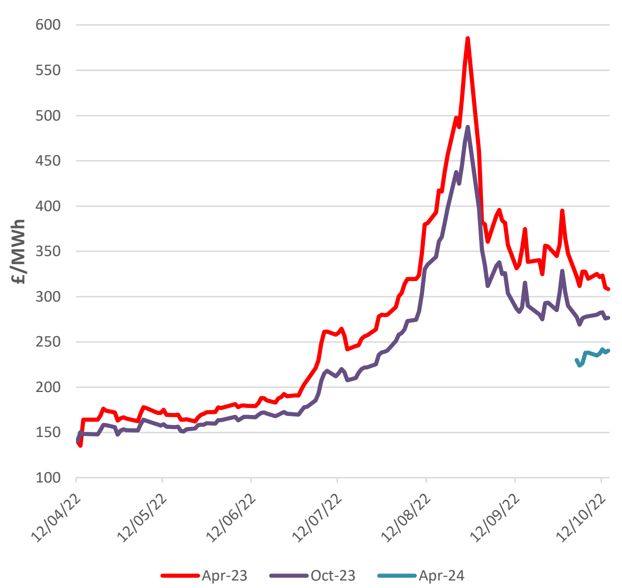
A mild and windy start to October has weighed strongly on the short-term market, with November '22 Baseload tumbling almost 30%, to around £376/MWh. Wind farms have produced about 9 GW daily over the month to date – up from 6 GW in September – while exports have collapsed by more than 50% due to maintenance on several interconnectors. The Day-ahead Baseload power index hit a low of £90/MWh – the first value in double figures since May – a day before UK wind farms produced nearly 13 GW (a volume that has been exceeded twice since). At the time of writing Day-ahead Baseload was closer to £130/MWh – about half the value seen at the end of September – while over the last fortnight prices have averaged some 39% lower than the preceding fortnight.

However supply-side risk on periods for delivery later this winter has intensified and January '23 Baseload has been estimated around £1,000/MWh on several occasions. The period is currently just shy of £900/MWh – more than double the front month – while February '23 has also been strong with trades as high as £900/MWh this week, although it is currently valued nearer to £800/MWh.

On the continent French nuclear units remain a big risk with production from reactors around 31% lower than the five-year average – in line with the latter half of September – as maintenance and several strikes affected capacity across the fleet. French hydro output also remains limited with production down 10% compared to the 2017-21 average, while wind farm generation has also been lower than normal. Fortunately for the French wind was booming in Germany, with generation output leaping 35% compared to the previous two weeks – allowing exports to France to surge 75% – helping to alleviate the supply shortfall.

Meanwhile coal prices have been given a lift as industrial action from rail workers in South Africa fed supply concerns this week, while expectations of rising demand from Chinese buyers also added impetus to the upside. Front month European coal values are currently around $260/tonne – gaining 4% since Monday – although this is about 17% lower than at the start of the month.

**UK Annual power prices** (six-month view)



# ELECTRICITY: OUTLOOK

The UK government has proposed changes to the designation of agricultural land that could cut the area available to develop solar farms in England by 41%, to 58% of agricultural territory. Environment secretary Ranil Jayawardena has reportedly asked officials to redefine the 'best and most versatile' (BMV) land that is earmarked for farming to cover more categories. An industry expert has warned the move could threaten 30 GW of new solar capacity.

## PRICE DROP

**UK energy prices drop, reaching levels last seen in August**

## BLACKOUTS

**National Grid warns of blackouts under their worst-case scenario**

The UK power market has a de-rated capacity margin – a measure of surplus generation potential against peak demand – of 3.7 GW (6.3%) for the winter, a similar level to last year, according to National Grid's winter outlook. The base case scenario shows a sufficient operational surplus for each week of the winter, although if imports from continental Europe are restricted (with gas supply to power plants and French nuclear worries the likely drivers here) the grid operator may need to call upon 2 GW of continency coal contracts or to utilise demand management options.

Low carbon UK power generators may have their revenue capped from next year after the government failed to move them onto long-term, fixed-price contracts. The original plan was to shift renewable and nuclear plants onto the contracts-for-difference (CfD) scheme – in a bid to reduce the influence of gas on wholesale power prices – with the government reportedly targeting a £50-60/MWh strike price. Under CfDs when power is sold below the strike price returns are topped up and when volumes are sold above the threshold the excess is given back. However operators did not agree to the switch and the government is now reportedly looking to limit returns through other methods. In the EU a revenue cap of EUR 180/MWh has been set.

## REDUCTION

**Strong renewables generation and high gas storage reduces shorter term prices**

**KEY POWER INDICATORS:**

| Long-term UK (£/MWh) | | | | Short-term UK (£/MWh) | | | | European power (£/MWh) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Apr'23 Annual | chg | Oct'23 Annual | chg | Month-ahead index: | chg | Day-ahead index: | chg | Germany Cal '23 | chg | France Cal '23 | chg |
| 308.25 | -39.25 | 276.75 | -13.25 | 375.00 | 28.42 | 130.00 | -174.54 | 419.88 | -43.13 | 552.75 | -2.25 |

**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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 254.00 | -30.00 | 91.98 | 3.85 | 71.60 | -2.91 | 68.03 | 1.83 | 70.69 | 1.61 | 75.10 | 0.30 |

All changes (chg) are compared to last report

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## GAS

### FRONT-END JUDDERS LOWER

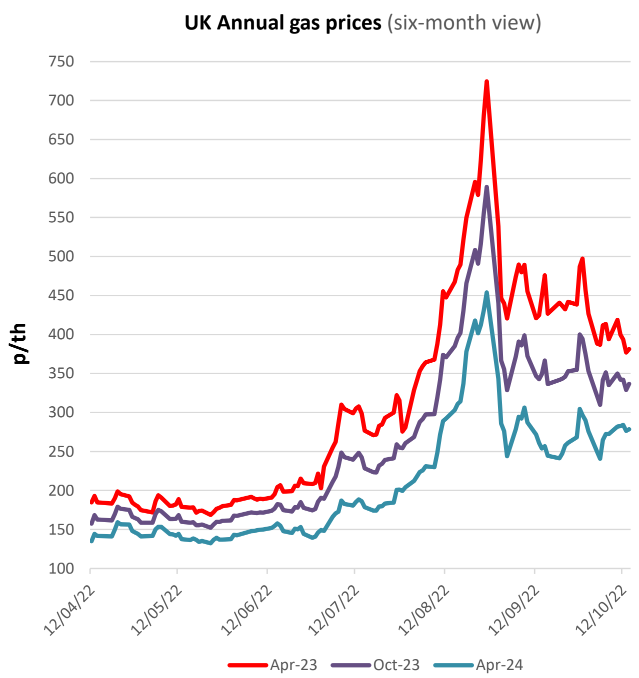
**UK gas prices have jagged higher and lower over the last two weeks with above average temperatures and strong winds – alongside talk of EU market intervention – leading to brief downside spells that have been rapidly halted as rhetoric from the Kremlin served as a reminder of the supply-side tightness. For now weak demand seems to be the dominant factor with April '23 Annual gas dipping to around 380 p/th at the time of writing – a drop of 11% across the month to date – after hitting highs of 419 p/th at the start of this week. If the period ends today close to this level it will be the lowest closing value in about two months. Although choppy the price swings have been far less extreme than at any point since prior to Russia's invasion of Ukraine. Losses on the next two annuals have been slightly more restrained, at 10% for October '23 Annual and 1.5% on April '24 Annual.**

Political will for intervention into wholesale gas markets remains strong but – certainly within EU circles – the form this will take remains far from certain. In the UK the focus has been more squarely on how to decouple the price of gas-fired power generation from renewables and nuclear, but talk of wholesale price caps across the channel have led to some downswings on the UK market.

Demand during October – the first month of the gas winter period – has been some 10% below the seasonal average as mild temperatures have reduced domestic offtake. A reduction in gas use from the industrial sector – as well as from households struggling with high bills – has also cut consumption while exports at close to maximum capacity have prevented the difference to the seasonal average from being even larger. Gas used by the power sector has been almost 40% lower than last month as renewable output has soared – falling electricity exports have also reduced the need for gas-fired generation – helping to pull short-term prices lower. Day-ahead gas has closed at an average price of 145 p/th so far this month – crumbling 31% compared to the previous two weeks – and has just dropped to around 85 p/th, more than 50% below values seen at the end of September, with talk of oversupply applying pressure at the front end.

With gas use also limited on the continent, net injections into EU storage continued throughout the period with sites across the bloc now at more than 91% of capacity, providing a little more assurance ahead of the colder months. The mild conditions and rising storage inventory have helped the front month to trace a similar trajectory to the Day-ahead, with November '22 losing more than 20% across the period, to around 262 p/th today.

Elsewhere oil values continued to be jockeyed between supply-side tightness and demand-side weakness, although a pledge from the OPEC+ group of crude producing nations to reduce output has led to a jolt upwards over the last couple of days. OPEC has revised down its expectations for oil demand growth this year and next as the economic climate continues to deteriorate. At the time of writing front month North Sea oil was around the $93/bbl mark – having edged up to nearly $98/bbl a week earlier – gaining around 9% since the end of September.



# GAS: OUTLOOK

There is a 90% chance the La Niña weather phenomenon will continue into the northern hemisphere this winter – according to Japan's weather bureau – potentially lifting weather-related gas demand in the world's second-largest importer of LNG (Japan). La Niña normally brings low ocean temperatures to the equatorial Pacific region and can also be linked to floods and droughts. It also brings increased risk of high precipitation to the southern hemisphere, which could disrupt coal production in Australia and Indonesia.

## DEMAND DROPS

**Continental gas demand drops, providing downward pressure on prices**

On October 18th the EU is expected to propose measures to contain spiralling wholesale gas prices. Most countries are said to favour a form of cap, although there is disagreement as to whether this should apply to all gas, pipeline volumes, or gas used for power generation. Spain and Portugal introduced a limit on the cost of gas used for electricity production in June, which helped to curb power prices but led to increased gas demand.

A leasing round for offshore oil and gas exploration and production was launched by the North Sea Transition Authority (NSTA) – the first since 2019 – with a focus on four priority clusters close to existing infrastructure. NSTA analysis suggests the average time between discovery and first production at similar locations is around five years. There are 898 blocks and part-blocks being offered with the NSTA saying more than 100 licences could be awarded. The application period will run until January 12th next year.

## NUCLEAR

**French nuclear output remains significantly below average**

## EU MEASURES

**The EU continues to discuss measures to curtail gas prices**

**KEY GAS INDICATORS:**

| Long-term UK (p/th): | | | | Short-term UK (p/th): | | | | European gas (€/MWh): | | Crude Oil: | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Apr '23 Annual | chg | Oct'23 Annual | chg | Month-ahead index: | chg | Day-ahead index: | chg | TTF 2023: | chg | Oil (Brent) $/bbl: | chg |
| 381.38 | -45.25 | 336.75 | -16.50 | 266.00 | 25.00 | 90.00 | -90.18 | 155.23 | -27.44 | 91.98 | 3.85 |

All changes (chg) are compared to last report

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