Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

WIND HELPS BLOW PRICES DOWN

UK power prices have been creeping lower in recent days – after spiking, receding, then rising again – with EU market reforms, surging renewable generation and falling exports all helping to pull values lower. October '22 Annual Baseload ended September at £442.5/MWh – coming down from a high above £518/MWh last week as the market panicked following talk of more Russian gas supply cuts; this is more than 40% lower than the price peaks seen in late August but still more than double the value prior to Russia's invasion of Ukraine.

All eyes are now on April '23 Annual Baseload – the front annual as of today – which was just shy of £332/MWh at the time of writing, shedding 11% over the last two weeks and coming down from nearly £400/MWh last Wednesday. Losses have been partially driven by UK power exports falling to an average of 2.4 GW – a third lower than the prior fortnight due to maintenance on several cables – while at the same time renewable output spiked as conditions turned windy. UK wind farms have accounted for 27% of power generation since September 16th – up from 19% in the preceding 15 days – while the share of gas units dipped from 50% to 46%, tempering the influence of gas on electricity prices.

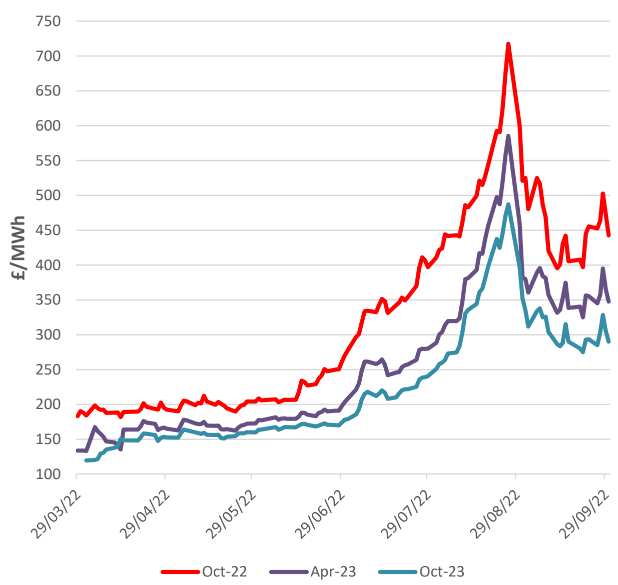
The lift in renewables and drop in exports have also helped to heap pressure on the short-term market with the Day-ahead Baseload averaging £243/MWh, a drop of 27% compared to values in the opening half of September. The Day-ahead hit a low of £186/MWh prior to a massive surge in renewable output, moved as high as £295/MWh late last week as wind production stalled, but has fallen below £168/MWh today as windy conditions returned.

Front month October '22 Baseload tracked a similar trajectory to the annuals, rising to a peak above £320/MWh but then expiring at £275/MWh on the last day of September. This was £120/MWh lower than the front month value at the end of August – normally the opposite relationship is seen because demand tends to rise during October – an indication of how much heat has been pulled from the market over the past couple of weeks.

Falling coal values also helped to provide some pressure on the power market with Q1 '23 coal edging down 5% across the second half of September amid signs supply shortages are starting to ease. Australian production – primarily serving markets in Asia – is starting to revive after flooding curtailed operations earlier in the summer, while stocks in China, as well as Europe, have been on the rise.

Elsewhere German Q4 '22 Baseload crumbled 25% last month to expire at just over EUR 466/MWh last Friday, partially due to a 10% drop in EU emissions allowances as carbon has been crushed by recessionary fears. Rising renewable generation in Germany – wind has accounted for 45% of the country's power since the start of October – and a 48% drop in exports to France across the last two weeks in September have also weighed on German prices.

UK Annual power prices (six-month view)



ELECTRICITY: OUTLOOK

From October 14th 1 GW will become available again on the IFA1 interconnector with France, which is likely to lead to higher exports from the UK as the French October '22 Baseload ended September at EUR 455/MWh. This was the equivalent to £396/MWh, more than £100/MWh above the same UK period. The full 2 GW capacity on the IFA is expected to be available from mid-December.

PRICES DIP

UK power prices dip in the past week, though still double prior to the war

PRICE CAP

UK gov announces an energy price cap for business, though full detail awaited

The EU may reintroduce the option of providing a bank guarantee for financial power trading this autumn – according to the Nordic Association of Electricity Traders – possibly within weeks. This move would be aimed at improving liquidity in electricity markets after the rising costs of margin calls – a form of collateral for trades – has pushed participants from the market. EU financial regulator ESMA is also looking into possible changes to collateral rules in an attempt to revive traded volumes.

UK wind farms are forecast to produce more than 9 GW on average each day across the first 17 days of October – according to Elexon – up from 6 GW during September.

A 468 MW unit at the 1.4 GW gas-fired Grain plant will be back online by the end of the year – according to operator Uniper – following its closure in February due to storm damage. Uniper plans to use hydrogen blends for up to 40% of supply to these units in the coming years.

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
442.50	12.25	347.50	-5.25	346.58	0.00	304.54	0.00	463.00	-48.50	555.00	-28.50
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
284.00	-24.00	88.13	-6.77	74.51	-4.74	66.20	-6.34	69.08	-6.23	74.80	-4.96

All changes (chg) are compared to last report

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GAS

MILD WINTER START SOFTENS OUTLOOK EASES PRICES

Gas prices have been falling for several days – after briefly roaring higher last week – with signals of a mild start to the winter, rising imports from Norway and buoyant wind farm generation all helping October '22 Annual gas end September at 437 p/th, a 14% dip across the latter half of the month and down from a peak of 777 p/th just over a month earlier. April '23 Annual gas is currently hovering around the 400 p/th mark – 16% lower than a fortnight earlier – a level the period was last trading at in early August.

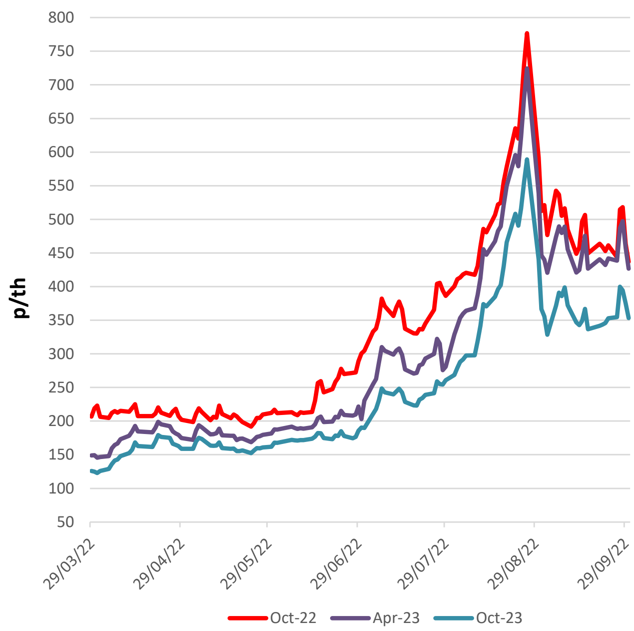
By the end of September EU gas storage fullness was approaching 90% – smashing the 80% target the bloc put in place earlier this year – providing some supply assurance coming into the winter period. Indications of falling industrial offtake has led to some relief on the demand side. A report in Germany showed industrial gas demand in August was 22% lower than the same month in 2021 as companies either turned down production or switched to alternative fuels – particularly oil – in a bid to contain input costs.

Assessing industrial gas demand in the UK is not as clear-cut given that some users take volumes directly from the national transmission system (NTS) and others from local distribution zones (LDZ), the part of the network that also includes offtake from buildings (residential, commercial, religious etc). National Grid data shows a 25% reduction in industrial demand from the NTS this summer (Q2/Q3) compared to the same period in 2021.

With storage filling, demand waning and signs of above average temperatures through most of October, UK Winter '22 gas closed for the final time at 441.525 p/th last Friday, shedding 18% in a couple of weeks and down from a peak of 827 p/th in late August during a wave of panic ahead of the closure of the Nord Stream pipeline. Winter '22 closed at 224 p/th the day before Russia officially invaded Ukraine. Summer '23 gas – the front season as of today – was trading just below 400 p/th at the time of writing, the lowest value the period has reached in about two months.

Last week gas leaks and a sudden drop in pressure were reported on the Nord Stream pipelines linking Russia to Germany on the same day that the Baltic Pipe – connecting Norway to Poland by way of Denmark – was officially commissioned. The suspicious timing led to a flurry of conspiracies with the EU and US saying the Nord Stream damage was deliberate, although both fell short of directly pointing the finger at Russia. Given Nord Stream 1 has not delivered anything since early September – while Nord Stream 2 has never supplied any volumes and has effectively been cancelled by Germany – there has been little market impact despite the EU planning to up security at key oil and gas installations. A more pressing worry was a warning from Gazprom that supply into Europe via Ukraine could also be halted following a transit fee dispute with the Ukrainian grid operator. This led to a brief surge across periods, although the gains have since been wiped away.

UK Annual gas prices (six-month view)



GAS: OUTLOOK

Russia's Gazprom has threatened to cut off all gas supply into Europe via Ukraine due to a fee dispute with the Ukrainian grid operator. The transit route has been supplying around 37 mcm per day into European markets.

Above average temperatures are expected in the UK throughout October and into the first week of November, according to the EU's Copernicus service.

Minimum production from the Groningen gas field in the Netherlands will be fixed at 2.8 BCM for a year from October 1st – in line with the previously set level – the Dutch government confirmed last week. This is the volume required to maintain operations at the field, which was slated for closure this year but has had its lifetime extended due to the gas supply crisis

Norwegian gas producer Equinor has agreed to supply 2.4 BCM annually to Poland's PGNiG for a decade from January 1st next year. Poland has an 8.7 BCM supply contract with Russia's Gazprom that expires next year, however deliveries under this deal ceased in late April after PGNiG refused to pay for volumes in rubles.

EU energy ministers from 15 countries have called for a cap on wholesale natural gas prices in a letter to the bloc's Energy Commissioner. If another country supports the plan this would provide the majority necessary to approve an EU legal proposal.

SHORTAGE

Ofgem warms of potential UK gas supply shortage in winter

NORD STREAM

Suspected Sabotage of Nord Stream has minimal market impact

RUSSIA

Russia threatens to cut off all gas supply into Europe via Ukraine

WHOLESALE

15 EU countries call for a wholesale gas cap

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
437.00	-59.63	426.63	-22.20	241.00	-144.22	180.18	-199.84	182.67	-22.39	88.13	-6.77

All changes (chg) are compared to last report

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