Early November 2022

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

SMALL UPTICK AFTER PROLONGED DOWNTREND

UK power prices have generally crept higher over the past few days, after having drifted lower for most of the second half of October amid strong renewable output and unseasonably mild conditions. April '23 Annual Baseload, at £296/MWh currently, is up slightly from a low of £286/MWh earlier this week, but still 4% down on mid-month levels. The front annual – alongside most UK periods – is at values last seen in early August, with the spikes of late September now wiped away as a warm start to the winter has helped ease gas supply concerns. October '23 Annual meanwhile is 6% down over the last fortnight – at just shy of £258/MWh – while April '24 Annual has shed 7%, reaching £223/MWh.

The appointment this week of the third Prime Minister this year has thrown further uncertainty into the UK's energy policy, including amendments being considered to the Energy Prices Bill – which includes provisions to limit revenue from low carbon generators – legislation many industry bodies have railed against due to concerns over the potential impact on investment into new renewable capacity. Although major policy announcements have yet to be made, Rishi Sunak has signalled less willingness to relax planning laws for onshore wind projects than his predecessor Liz Truss, casting doubt on a potential renaissance for one of the cheapest forms of generation.

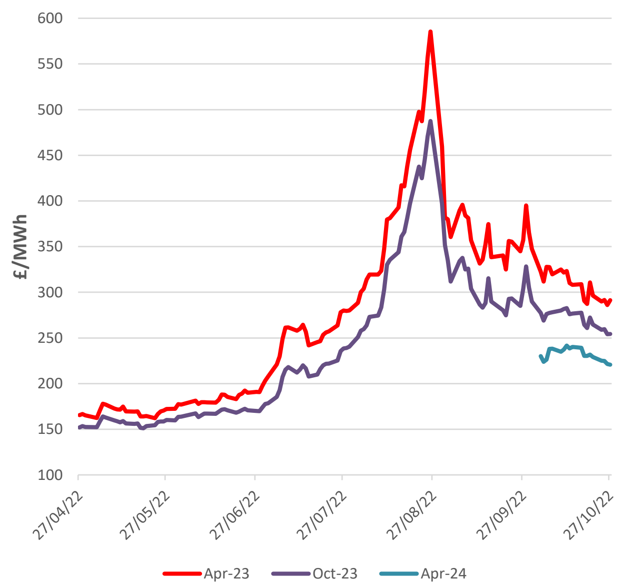
Losses have been particularly heavy for shorter-dated periods and November '22 Baseload has dropped 32% since the middle of the month – reaching lows of £223/MWh at one stage – to £255/MWh at the time of writing. There have been similar losses on December '22 Baseload – more than 30% across the two weeks to around £373/MWh currently – although Q1 '23 has been slightly more resilient – the potential for a cold snap, a dip in renewables and further cuts to Russian gas exports is still priced into the period – falling 20%, to change hands at £580/MWh today.

Wind farms have been producing significant volumes on a consistent basis with average daily production at about 9.5 GW – with generation only falling below 6.5 GW on one occasion in the last two weeks – more than 6% higher than in the opening half of the month and 50% above September.

The Day-ahead Baseload index has averaged £90/MWh – down from £150/MWh in the two weeks prior; it hit a low of £64/MWh the day before wind plants delivered 12 GW, bounced back above £100/MWh as exports roared higher before falling below £80/MWh over the past few days.

Although renewables have been buoyant UK gas-fired generation has still shot up 24% as net power exports more than doubled to 3 GW – largely because of the return onstream of the IFA cable to France after a shutdown – with the French market accounting for 72% of deliveries from the UK as the country's struggles to fix aging nuclear reactors continued, with multiple strikes forcing maintenance overruns. Although French nuclear output ticked up slightly compared to the previous fortnight – to an average of 27 GW – generation has been more than 12 GW short of the five-year average.

UK Annual power prices (six-month view)



On November 6th 640 MW of nuclear capacity will be taken offline at the Torness plant for work set to last until November 25th.

PRICES

Prices drop to June levels

WARM WEATHER

Warmer weather eases supply concerns

From November 17th another 500 MW will become available on the IFA cable to France – bringing total capacity up to 1.5 GW – with the full 2 GW expected from December 15th. The UK has been a net exporter of power to France since March as French nuclear generation has been limited by maintenance and strikes. Forward prices currently suggest UK exports to France will continue for the foreseeable future.

Renewable generation is expected to remain high over the coming weeks, with UK wind farms forecast to produce nearly 11 GW/day from October 31st to November 11th – according to Elexon – reducing the need for more expensive thermal production and potentially pulling short-term values even lower.

UK GOV

UK gov turmoil fuels market uncertainty

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
291.25	-17.00	254.25	-22.50	234.60	-140.40	79.00	-51.00	387.25	-32.63	496.00	-56.75

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
232.00	-22.00	97.00	5.02	78.45	6.85	80.43	12.40	83.30	12.61	87.75	12.65

All changes (chg) are compared to last report

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GAS

WEAK DEMAND DRAINS HEAT FROM MARKET

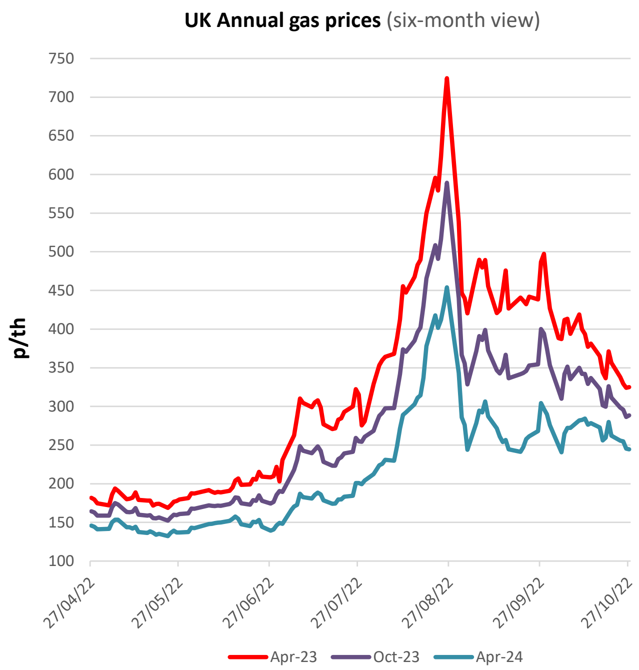
Much of the risk has been pulled from the UK gas market over the latter half of October – despite a small uptick over the past few days – with above average temperatures, plentiful LNG supply and indications that huge drops in demand are possible throughout Europe this winter heaping pressure across periods. April '23 Annual gas has lost about 12% to 335 /th – having dipped as low as 324 p/th this week – while October '23 and April '24 annuals have dropped 12% and 10% respectively.

Gas demand has been about 15% below the seasonal average across the past fortnight – despite exports close to maximum capacity at 82 mcm/day – with mild conditions limiting household offtake. It is also likely that a significant portion of consumers are holding off turning up the thermostat due to the increase in the retail price cap that went into effect at the start of this month. Low demand in October to date has cut prices in the short-term market with the Day-ahead falling from more than 100 p/th in mid-October down to 18 p/th in a matter of days, before briefly roaring back up to 95 p/th, and then falling to 63p/th at the time of writing.

Signals the mild spell will continue across the UK and mainland Europe deep into next month have also helped to pull down November '22, which has shed 13% in the last two weeks to around 228 p/th today, after moving down to 174 p/th at its lowest point. But there is still risk – both of a cold snap and further cuts to Russian supply – for later on this winter and a large discrepancy between near-term prices and values for early next year has been maintained. Q1 '23 UK gas has been more than 200 p/th above November '22 through most of October – the difference to the Day-ahead has been nearly double at times – although Q1 '23 has traced a similar trajectory to the front month with a 12% drop to 377 p/th currently (150 p/th higher than November '22). This has been mirrored on the continent – despite the greater sensitivity to Russian supply cuts – as the Dutch front quarter has shed nearly 11% over the past fortnight.

On the supply side LNG terminals continue to provide a hefty chunk of UK gas – amid reports from the International Energy Agency (IEA) that European LNG imports could rise by 50 BCM this year compared to 2022 and indications that vessels are queuing up outside ports from Rotterdam to Barcelona – with UK terminals delivering 59 mcm/day over the past two weeks (more than a fifth of overall supply), an increase of 7% on the opening half of October.

Elsewhere planned cuts to oil production and the impending EU ban on Russian crude have outweighed negative economic sentiment and helped to lift North Sea values about 4% to \$96/bbl. The carbon market has also been showing signs of life as the value of UKAs increased some 10% to just shy of £78/TCO2e – EU allowances have been even more robust with a 17% gain – partially as a result of increased demand with talk of market reforms to include more industrials in the EU Emissions Trading System (ETS) also playing a role.



Strong exports look set to continue over the next couple of months with prices on mainland European markets such as the Dutch TTF and German THE still at a substantial premium to the UK. This means any supply side issues or jump in demand are likely to lead to massive increases in short-term UK prices to incentivise a switch in flow direction on the BBL and Interconnector pipelines.

STORAGE

EU gas storage levels pass 90%

SPIKE RISK

Risk remains of price spikes later in winter

The European Federation of Energy Traders (EFET) has urged the EU not to impose a cap on wholesale natural gas prices – arguing such a move could reduce LNG supply during a period when it is most needed – an option policymakers are considering in an attempt to contain end user costs. EFET said the current crisis stems from a lack of gas and power, suggesting that any policy changes should be focused on encouraging new supply into the market and reducing demand.

European gas demand could be 17% below the 2016-2020 average this winter, according to an outlook from Bloomberg. Falling industrial use due to high wholesale prices, power suppliers using coal instead of gas and lower domestic offtake could all contribute to potential declines. In July the EU asked member states to cut gas demand by 15% from October 2022 to the end of March next year to avoid shortages, although member state commitments to this goal are voluntary.

DEMAND

Gas demand 15% lower than seasonal average

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
325.00	-56.38	288.50	-48.25	204.00	-62.00	59.16	-30.84	139.48	-15.75	97.00	5.02

All changes (chg) are compared to last report

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