Mid November 2022

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

COLD RISK LIFTS ANNUALS FROM 4-MONTH LOW

UK power prices have been jolted up over the past couple of days following signals that the mild weather that has characterised the winter so far may be coming to an end, after multiple periods hit lows last seen in July as mild and windy conditions heaped pressure on the market last week. Movements have been less volatile, with the wild swings of the past couple of months tempered somewhat as the market seeks to establish a new directional trend. The front Annual, April '23 Annual Baseload, is currently around £271/MWh – after hitting a high of £285/MWh at the start of the month, and a near four-month low of £249/MWh last week. (The £36/MWh difference between low and high values on the front annual is down from a difference of £45/MWh during October).

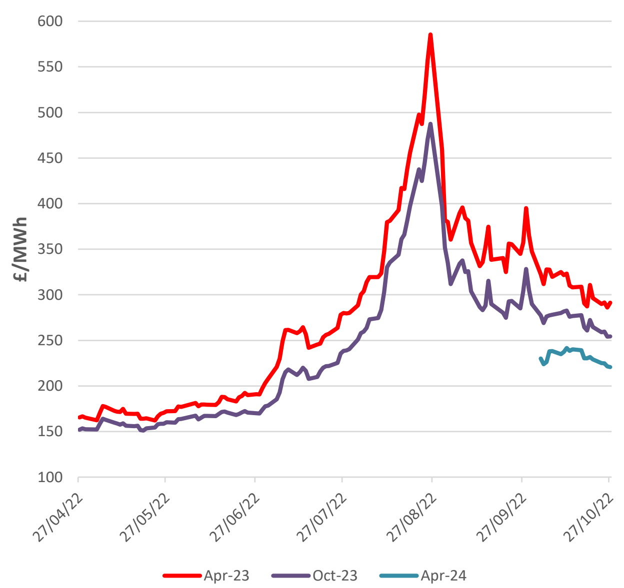
December '22 Baseload started the month at £275/MWh, quickly bounced up to £330/MWh before being dragged back down to £252/MWh at the end of last week in the midst of the downward slide. This week there have been indications of a possible cold snap next month, pulling December '22 back towards £295/MWh at the time of writing, still about 4% lower than at the end of last month.

Last week intra-day and balancing power prices turned negative for a couple of hours due to strong renewable output and weak demand, highlighting the current disconnect between short and long-term periods. Wind generation in the UK has been buoyant with output of more than 10.5 GW per day on average over the past couple of weeks – accounting for 35% of supply compared to 33% for fossil fuel-based generation – while net exports dropped nearly 80% to around 0.6 GW, as the direction of power flow to every country bar France (Norway, the Netherlands, Belgium and Ireland) switched towards the UK, as daily prices at these markets tumbled to an even greater extent.

Windy conditions and shifting export profiles played havoc with the Day-ahead Baseload index, which hit a low of £70/MWh at the start of the month – on a day when wind output reached 12.5 GW and the UK imported almost 2.3 GW, bounced up to £170/MWh a few days after – when wind production was the lowest in November to date, at 5.5 GW, before easing back down to around £123/MWh currently.

Elsewhere higher precipitation has provided a boost to hydro generation and reservoir levels with stocks in Norway reportedly nearly 80% full by the end of October – the most recent date for which data is available – up from 72% a year earlier but still slightly below the long-term average. Generation from French hydro assets increased 23% compared to the previous two weeks to an average of 3.7 GW – fractionally higher than the same period last year but 26% below the five-year average – while nuclear plants in the country delivered 28.5 GW, up 6% against the prior fortnight but 31% down compared to the same period between 2017-21. There remains a huge risk associated with supply in France and French Q1 '23 Baseload is currently trading around EUR 640/MWh (£562/MWh), almost double the value of the same period in Germany and 40% higher than in the UK.

UK Annual power prices (six-month view)



ELECTRICITY: OUTLOOK

EdF has revised down its French nuclear output expectation for this year to 275-285 TWh – compared to the previous estimate of 280-300 TWh – after making long-term extensions to outages at four reactors. French nuclear safety authority ASN recently rejected an EdF request to restart the 1.3 GW Cattenom 1 reactor until the supplier replaces cracked welds, with the expected duration of work at the facility extended by three and a half months to February 26th. Estimates for French nuclear generation in 2023 and 2024 remain unchanged at 300-330 TWh and 315-345 TWh, respectively.

DOWNWARD TREND

Downward trend continues, with markets reaching levels last seen in July

NUCLEAR

French nuclear outages extended

UK company Highview Power has announced plans to build the world's first commercial-scale liquid air storage plant, which could store 30 MW of electricity. The company is looking to raise £400 million to develop the facility.

The European Commission has proposed emergency rules to speed up the deployment of new renewable capacity – it said last week – to reduce permitting times for heat pumps, building-based solar panels and repowering existing renewable plants. The EU is expected to install 50 GW of renewables this year – according to energy commissioner Kadri Simson – a new record. However lengthy delays to permitting are preventing many projects from coming online, with the association WindEurope suggesting in France alone 10 GW of capacity is currently stuck in the administrative process.

MILD START

Mild start to winter depresses demand and 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
264.00	-27.25	232.50	-21.75	281.67	47.07	107.00	28.00	302.00	-85.25	399.08	-96.93

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
186.00	-46.00	94.92	-2.08	69.70	-8.75	75.03	-5.40	78.18	-5.12	82.01	-5.74

All changes (chg) are compared to last report

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GAS

PRICES TICK HIGHER FOLLOWING DOWNTREND

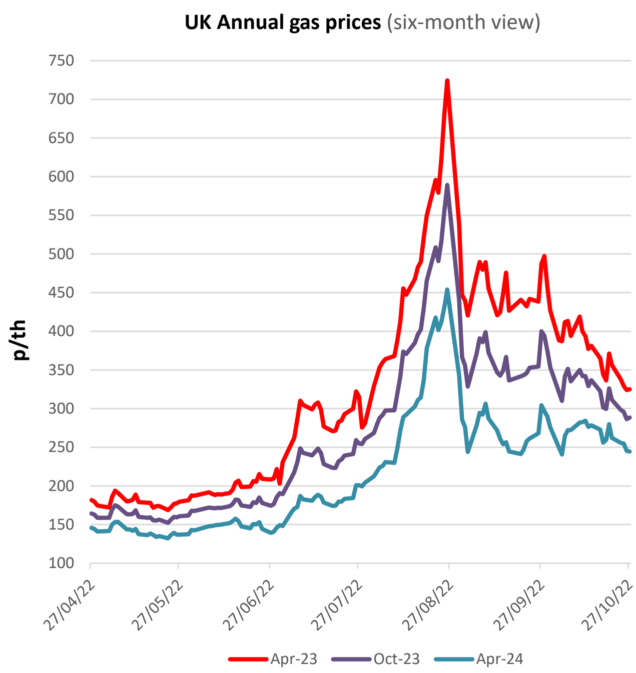
Mild weather across the opening half of November coupled with buoyant renewable output and strong LNG supply had been pulling UK gas prices downwards – with April '23 Annual falling from a high of 313 p/th to a near four-and-a-half-month low of 260 p/th at the end of last week – before a reversal since Monday lifted the front annual back up to 308 p/th at the time of writing – 1% higher than a fortnight earlier – as expectations of dropping temperatures and unreliable supplies from Norway sparked a new uptrend.

Daily gas demand has averaged just 250 mcm – 20% below normal for the period – with households using just 113 mcm/day – compared to an average of 163 mcm over the same timeframe between 2018-21 – as balmy conditions allowed boilers to be turned down across the country and high prices also curbed consumption. Declining power exports and windy conditions also reduced gas-fired electricity generation, with output from the UK's gas fleet falling about 20% to an average of just over 10 GW. The soft conditions helped drag the front month from a high of 325 p/th a few days into November all the way down to 230 p/th, although the period has now roared back up to 308 p/th (4% higher than at the end of last month) as traders panicked that the benign weather will not last. On the short-term market Day-ahead gas values were below 50 p/th at the start of November, quickly shot up to 125 p/th and have hovered between 88-100 p/th since then.

It is not just the UK that has experienced a mild start to the winter with above-average temperatures across the continent limiting gas demand and allowing storage injections to continue. Over the opening half of November around 1 BCM has been added to stocks – bringing EU fullness up to 95%, compared to 87% on average at this point between 2017-21 – while around 1.2 BCM was removed from storage over the same weeks in 2021. On the supply side LNG continues to do much of the heavy lifting in the face of minimal deliveries of Russian pipeline gas with terminals across the EU providing a solid 364 mcm/day through November, a whopping 59% higher than at the same time last year. Continuing stock-building at EU storage sites has failed to significantly pull risk for the remainder of the winter – the war in Ukraine remains a sizeable backstop whenever periods come down too much – and Q1 '23 at Europe's largest market, the Dutch TTF, is currently trading around EUR 132/MWh, virtually flat with prices at the end of October.

On the policy front the EU push for a wholesale gas price cap for power generators appears to have stalled with stakeholders starting to accept such a move would threaten supply security and increase demand, the opposite of what is trying to be achieved. In the UK the Autumn Statement is expected on November 17th and an increase to the windfall on gas production looks likely, while additional taxes on power generators are also on the cards.

Elsewhere North Sea oil has dipped from close to $100/bbl towards the end of October down to just shy of $93/bbl currently as the global economic outlook continues to worsen.



GAS: OUTLOOK

The forecast for US LNG exports this year has been revised down 1.5% by the country's Energy Information Administration (EIA) due to expectations cold weather will hamper production. It said exports are likely to total 307 mcm per day – down from last month's forecast of 335 mcm – although this is still an increase of 11% compared to 2021. The EIA also forecast prices at the benchmark Henry Hub to average $6.09/MMbtu between November and March, the highest since the same period in 2009-2010.

UKRAINE

Ongoing war in Ukraine looms over markets

Today the Interconnector pipeline connecting the UK to Belgium closed for annual maintenance set to last until the end of the month. The UK has been exporting around 54 mcm/day through this link on average during November to date – accounting for 21% of demand – and closure of the Interconnector could help to push down prices on the short-term market. National Grid has forecast UK power demand between November 15th-19th to average 257 mcm, 18% below normal for the time of year.

LNG

LNG replaces Russian gas for Europe

Global gas demand is expected to increase by just 0.4% annually from now until 2030 – down from growth of 2.3% between 2010-2019 – according to the latest World Energy Outlook from the International Energy Agency.

Germany's plan to nationalise Gazprom Germania – a subsidiary of the Russian producer – has been approved by the European Commission.

PRICE CAP

EU move to cap gas prices stalls

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
290.00	-35.00	267.06	-21.44	286.48	82.48	286.48	227.31	120.33	-19.15	94.92	-2.08

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