Early February 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

JUMP THIS WEEK ERASES PREVIOUS DROP

Long-term UK power prices have flashed higher over the past few days – recovering after a collapse last week – as industrial action in France, North Sea gas outages and rising wholesale gas prices have helped to drive renewed strength into the electricity market. Baseload prices remain substantially lower than at the start of the year but the spike this week is a reminder that winter worries have not completely subsided and there is still a lot of risk around.

There have also been signs of tightness in physical supply, with National Grid ESO ordering three coal-fired units to be readied for production on a day of very low temperatures and limited winds early last week. Operators were told to stand down that day, although the grid manager did reportedly pay some customers to use less electricity during the peak evening demand window on two occasions. More than 1 million households and businesses have signed up to the Demand Flexibility Service, which rewards consumers for turning off appliances such as dishwashers or ovens when demand spikes.

A few days later National Grid ESO made another order for coal-fired capacity to be readied – this time on a warmer day with stronger winds but also much higher exports – only to tell operators to cool the units again. Prices had ticked higher ahead of the emergency orders with April '23 Annual Baseload peaking above £181/MWh. The period has since dropped towards £163/MWh on more benign weather conditions, 2% higher than in mid-January but 21% lower than at the start of the year.

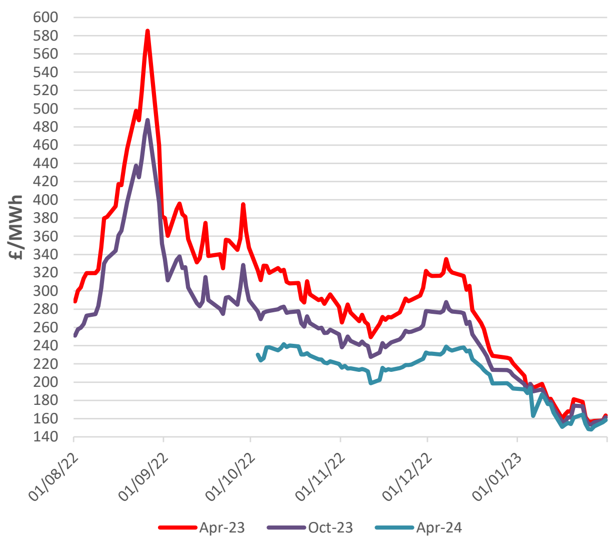
October '23 and April '24 Annual Baseload movements have been closely aligned with April '23 with those periods gaining 4% and 7%, respectively, over the past fortnight. Values on the front three annuals have converged with the £40/MWh (or more) gaps between the periods seen just a couple months ago now closed.

On the supply side the full 2 GW of capacity became available on the IFA 1 interconnector linking the UK to France last week, for the first time since September 2021. Full access to the link has been enabled the UK to export 440 MW to France on average, after being a net importer through most of January. The direction of power flow between the UK and France has reversed due to a series of French strikes over pension reform plans curtailing generation capacity, with more disruption expected in the coming weeks.

Despite the shift to exports short-term power values have come under pressure from a surge in renewable generation with the Day-ahead Baseload index crumbling from a peak of £182/MWh – during a period when wind farms had been producing less than 5 GW – to around £130/MWh currently. February '23 Baseload ended January just under £150/MWh, 3% higher than a fortnight earlier but more than a fifth below values at the start of the year.

Elsewhere carbon has come roaring back up as compliance-related buying has lifted demand for allowances, with both EUAs and the UK equivalent moving independently of the wider energy complex. UKAs were just shy of £79/tCO2e at the time of writing, jumping 20% over the last couple of weeks.

UK Annual power prices (six-month view)



German Chancellor Olaf Sholz has said he will not extend the lifetime of Germany's remaining nuclear reactors beyond April 15th, following calls from coalition partners to keep the last 4 GW online. The three reactors still running were slated for closure at the end of last year but have been kept operating to ensure security of supply this winter. Since the start of October last year German nuclear plants have accounted for around 6% of power supply, although the proportion has dropped to under 4% so far this year.

PRICES

Prices rise in the past week, though still 50% of December levels

The French senate has approved a nuclear draft bill aimed at supporting the construction of six new reactors by 2050. The bill now goes to the lower house and is expected to be examined by policymakers next month. It envisages the six new units will all be next generation European Pressurised Reactors (EPR), a technology deployed at the Flamanville facility in France that is now a decade behind schedule and more than four times over budget. Fuel loading at Flamanville – originally expected to be operational in 2013 – is currently expected in early 2024, having been pushed back from the second quarter this year.

OUTAGES

Rises fuelled by outages in North Sea supply and rising demand

UK wind farm output is expected to average nearly 11 GW across the opening two weeks in February – an Elexon forecast showed – which should limit the influence of gas prices on the wholesale power market.

RENEWABLES

Renewables generation remains strong

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
163.53	-12.73	161.60	-9.90	147.50	-14.50	126.24	8.28	176.13	6.13	191.00	14.00

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
152.50	-14.00	84.67	-0.61	76.75	9.65	93.43	13.83	97.51	14.00	102.15	14.10

All changes (chg) are compared to last report

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GAS

PRICES TICK UP BUT REMAIN DOWN THIS YEAR

Natural gas prices have been rebounding this week – despite a cold snap in late January coming to an end – with signs of rising continental demand, falling EU storage levels and curtailments to North Sea supply all helping to provide a lift. April '23 Annual gas is currently just over 166 p/th, about 5% higher than a fortnight ago but 17% lower than at the start of the year. February '23 ended January at 150 p/th – up from lows of 136 p/th but 12% down since the year turned – while the new front month, March '23, is currently around 149 p/th, gaining 8% in a fortnight.

Gas demand across the latter half of January has been about 12% higher than the seasonal average due to cold conditions sweeping the country. Day-ahead values spiked from around 140 p/th to 172 p/th in a matter of days in anticipation of the drop in temperatures, but the key short-term period has since collapsed back towards 140 p/th as LNG supply came roaring back and exports dipped (more on this later).

The UK's limited storage capacity means LNG tanks are an important bulwark shoring up supply in case of consumption surges, and terminals fulfilled this function admirably as gas use shot up. Over the second half of January send-out from LNG facilities more than doubled to an average of 112 mcm/day, accounting for a third of UK supply (up from a fifth in the opening two weeks of the year).

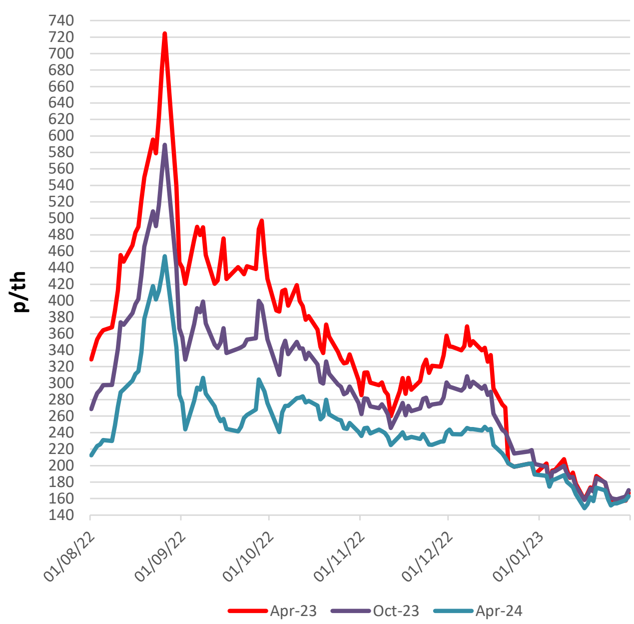
As conditions turned colder the gap between short-term prices in the UK and continental Europe narrowed – reflecting the lack of UK storage capacity – leading to a drop in British export volumes to the mainland. UK Day-ahead gas closed at an average price of 154 p/th in January, compared to 161 p/th at the Dutch TTF. During December the UK Day-ahead closed 30 p/th below the Dutch market on average.

With short-term prices across markets converging UK gas exports via the Interconnector with Belgium and BBL to the Netherlands averaged 31 mcm/day in January – down from 38.5 mcm/day the month before – with volumes dwindling to 23 mcm/day over the past fortnight. At this time of the year the UK is normally a net importer from the continent and continuing exports in January – albeit at reduced rates – point towards the robustness of UK LNG supply in recent weeks. Windier conditions and more renewable capacity have also played a role as gas demand from the power sector has declined more than 35% compared to January 2022, freeing up volumes for export.

Elsewhere withdrawals from EU storage almost tripled compared to the opening fortnight in January to a daily average of more than 600 mcm, reducing site fullness across the bloc to just over 70% currently (from 81% two weeks earlier). But storage facilities remain far better stocked than usual with average fullness of 52% at this point in the year between 2018-22.

Summer '23 Dutch gas – covering the storage injection period – is currently around EUR 59/MWh, fractionally higher than a couple of weeks ago but 17% down on the start of the year. It has been a similar story on the Dutch front winter – changing hands at EUR 69/MWh – which has dipped 14% since early January.

UK Annual gas prices (six-month view)



GAS: OUTLOOK

From February 5th the EU will ban imports of Russian oil products, which are likely to be much harder to reroute than crude oil and could lead to surging prices for refined products such as diesel. This could have a knock-on effect for other markets – crude the most obvious candidate – if a global squeeze materialises following the latest sanctions.

EU OIL BAN

EU Ban on Russian crude takes effect from 5th February

WARM WEATHER

Warm weather expected to continue through February, providing downward pressure on prices

Above average temperatures are expected through most of Europe until at least early March, according to the EU Copernicus Service.

FRANCE

France working to approve new nuclear generation

The ICE exchange has said it will update its trading rules for the Dutch TTF gas hub ahead of the implementation of the EU's market correction mechanism on February 15th, including the establishment of a parallel TTF venue based in London to allow participants that cannot trade when the mechanism is activated to still manage positions. The mechanism will be triggered if the TTF month-ahead trades above EUR 210/MWh on ICE for three days – or EUR 35/MWh above recently-launched LNG indices from the Agency for the Cooperation of Energy Regulators (ACER) – by limiting the value of bids possible on the period. At the time of writing front month Dutch gas was trading around EUR 58/MWh.

Operators of the Trans Adriatic Pipeline (TAP) – a supplier of gas from Azerbaijan to Europe via Turkey – will add 1.2 BCM of additional capacity for use from 2026 as part of the company's aim to double the link's capability to 20 BCM by 2027. Since deliveries on pipeline, which currently has a 10 BCM capacity, started into Italy in late 2020 Italian imports have averaged 21 mcm per day through the link.

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
166.83	-11.03	170.04	-5.09	147.42	-14.44	146.00	-22.00	63.58	-10.75	84.67	-0.61

All changes (chg) are compared to last report

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