Mid February 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

POWER PRICES SLIDE AS DEMAND WANES

UK power prices have moved down across the opening fortnight in February – despite a brief flash upwards at the start of the month – as falling demand, rising imports and milder conditions helped to push electricity values lower. April '23 Annual Baseload is currently just below £155/MWh – down 5% in two weeks – after ending yesterday at a new low of £152/MWh. The next two annuals are valued below April '23 – unlike in the gas market – reflecting expected increases in renewable capacity. At the time of writing October '23 Annual Baseload was around £153/MWh while April '24 was at £150/MWh, both falling 5% in a fortnight.

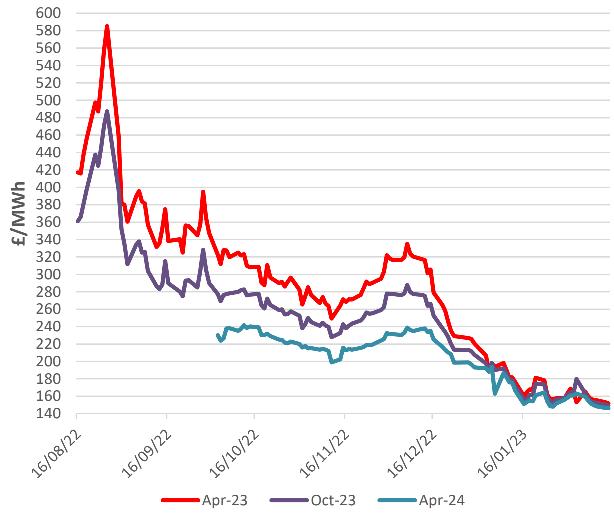
The UK has been a net importer of power every day during February so far – even with industrial action in France meaning UK production has had to plug some gaps – with net inflows from all interconnectors up to an average of 3.2 GW, a 45% leap from the second half of January. This increase – combined with indications domestic demand has dropped 10% – allowed for a 28% reduction in gas and coal-fired generation and reduced the influence of more expensive thermal assets on wholesale values. This has helped to push March '23 Baseload 5% lower to just under £140/MWh currently, while the front quarter has fallen nearly 6% to £139/MWh.

Despite strikes on a couple of days French nuclear generation has picked to an average of nearly 45 GW during February to date – 7% more than in January and the highest production over a two-week stretch in a year – creating some optimism for continental supply. Germany is set to close its remaining 4 GW of nuclear capacity in April, although the country has already installed more than 2 GW of onshore wind this year – according to ENTSOE – beating 2022 additions in less than two months, as well as 4.5 GW of new solar. At the time of writing German front year Baseload – a major benchmark for mainland Europe – had been trading around EUR 160/MWh, about 9% lower than at the end of January.

In the UK wind farm generation has been fairly similar to the latter half of January at an average of just under 9 GW, with output ranging from 3 to 15 GW. The Day-ahead Baseload index plateaued at £173/MWh a day before wind output troughed to 3 GW, after hitting lows around the £131/MWh mark over a couple of days when wind production spiked to 15 GW.

Elsewhere EU and UK carbon values have been edging lower over the past couple of days after the European Parliament ratified the REpowerEU legislation, which includes – among over measures – plans to raise EUR 20 Billion through the sale of emissions allowances (EUAs). EUA auctions that were planned for the second half of the decade will be brought forward, leading to downside on carbon values due to the expectation more allowances will hit the market than originally anticipated. Even with the drop this week carbon has moved up since the end of January on stronger demand expectations and compliance-related buying. UKAs – which still closely track the EU market – were trading just under £82/TCO2e at the time of writing, up 7% from the end of last month.

UK Annual power prices (six-month view)



Industrial action will take place in France tomorrow as unions continue to protest government pension reform plans. Last week French generation capacity was cut by 7.5 GW during the third day of strikes against the proposed changes. Another round of action is planned on March 7th.

WEATHER

Milder weather conditions help push gas and electricity prices down

10% DROP

Domestic (UK) demand for electricity has dropped 10%

EU power generators will have to cut emissions by 62% on 2005 levels by 2030 – up from the current target of 43% – under draft carbon reform plans approved by EU ambassadors and the parliament's environment committee. This will partially be achieved by cutting 90 million EU allowances in 2024 and 27 million in 2026. The next step will be for the legislation to be formally adopted by the EU parliament in a vote expected in April.

On February 20th 585 MW is set to be restored at the Heysham gas-fired power plant following a one-month outage for maintenance.

NUCLEAR

Nuclear output in France is up 7% over January, despite several days of strike action

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
151.85	-11.68	149.30	-12.30	137.20	-10.30	132.90	6.66	160.13	-16.00	180.50	-10.50

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
141.00	-11.50	85.46	0.79	81.25	4.50	91.39	-2.04	95.69	-1.82	100.06	-2.09

All changes (chg) are compared to last report

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GAS

FRONT ANNUAL FALLS 12% AS COLD ENDS

Rising temperatures, falling gas-fired power generation and news that exports have resumed from the US Freeport LNG terminal have all helped to pull UK natural gas prices lower. Overall conditions have been mild through Q1 so far – despite a couple of brief freezes – and there is now strong confidence that Europe will see out the remainder of the winter without too much trouble even with the dearth of Russian supply. This has helped long-term prices move downwards with April '23 Annual gas falling below 149 p/th, down 12% over the last couple of weeks. October '23 and April '24 gas annuals are valued slightly higher than April '23 at 155 p/th and 153 p/th, respectively, as supply side risk has shifted towards longer-term periods.

Gas demand across opening half of February has been about 8% below the seasonal average – after being 6% higher than normal over the previous fortnight – with rising temperatures leading to household consumption collapsing almost 18%. Power sector demand for gas plummeted 27% as the UK was importing much more electricity while using less. This freed up gas for export with volumes delivered to the continent stepping up by more than a third to around 31 mcm per day.

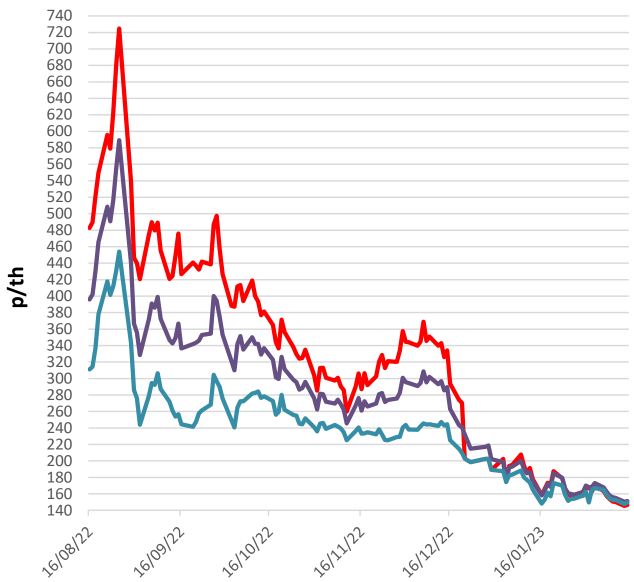
Lower consumption has also helped to pressure short-term values with Day-ahead UK gas trading under 135 p/th at the time of writing – declining 9% in the month to date – from a peak of 153 p/th in early February. March '23 has traced a similar pattern, losing 10% of its value to just under 135 p/th currently. Month-ahead Dutch gas – the EU benchmark – has been changing hands just under EUR 54/MWh, sinking 6% through February so far.

On mainland Europe demand has also declined compared to late January, leading to a 15% drop in EU storage withdrawals. Sites on the continent are currently around two thirds full – compared to 46% on average at this point over the previous five years – and with no signs of a cold snap on the horizon the risk of a sudden demand lift and drop in stocks is diminishing rapidly.

Based on withdrawal rates over the first half of February EU storage could be 45% full by the start of Q2 – the beginning of the traditional injection period – although sites are likely to be even fuller given withdrawals tend to fall in March as demand wanes. In any event storage levels should enter the summer relatively high and the need to secure supplies for injection will be far less acute than in 2022, which should bring some relief to wholesale prices. In Germany, which has the largest gas storage capacity in Europe, sites are even fuller than the average at just over 70% of capacity, while the German Summer '23 is down 29% since the start of this year at EUR 55/MWh.

Meanwhile North Sea oil has crept towards the $85/bbl mark over the past few days on higher-than-expected US inflation and rising North American crude inventories. This comes after North Sea values fell below $80/bbl at the start of the month amid the latest panic over economic growth prospects.

UK Annual gas prices (six-month view)



Declining LNG prices in Asia could bring price-sensitive importers – such as Bangladesh – back into the spot market, potentially leading to price competition with Europe. Asian LNG imports reached their highest level in a year last month, while cargoes delivered to European terminals fell 9% compared to December. April '23 Dutch gas is currently slightly above the same period at the Japan/Korea Marker (JKM) and will need to retain a sufficient premium to attract the LNG required for storage injections over the summer.

LNG

Liquified gas exports have resumed from the US Freeport LNG terminal increasing supply

UK DEMAND

Increased imports of electricity reduced gas demand for power generation in the UK

The EU has appointed gas capacity booking platform PRISMA to help manage joint gas purchases across member states. PRISMA has been tasked with calculating collective demand and seeking offers from suppliers to match this. The EU hopes this approach will lead to lower prices by utilising the collective buying power of the trading bloc, although some large energy companies have reportedly been reluctant to join the system as they prefer to negotiate their own deals.

German utility RWE received its first LNG cargo at the Hoegh Gannet floating storage and regasification unit (FSRU) this week. The FSRU arrived at the Brunsbuettel port in January but had to move temporarily to allow for other vessels, with work now taking place to avoid a repeat in future. FSRUs at the German ports of Wilhelmshaven and Lubmin have been operating since last month. Since the start of the year these terminals have supplied around 11 mcm per day, according to ENTSOG data.

ASIA

Declining LNG prices in Asia could create more demand from poorer countries leading to supply constraints and hikes in 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
146.55	-20.28	151.38	-18.66	132.00	-15.42	131.27	-14.74	58.77	-4.81	85.46	0.79

All changes (chg) are compared to last report

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