Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

FRONT THREE ANNUALS EYE £140

The UK power market has been relatively calm over the latter half of February with volatility starting to wane as attention begins to shift towards the coming summer and next winter. Over the last fortnight the difference between high and low closing values on April '23 Annual Baseload has been around £13/MWh, down from more than £16/MWh over the previous two weeks and a £50/MWh swing in January. A cold snap this week has not caused too many worries with an abundance of gas supply, no major outages and lower electricity use all preventing the frigid conditions from leading to another spike, and allowing the downtrend to continue.

Just after mid-February all three front annuals fell below the £150/MWh mark – down from more than £450/MWh when the market peaked in August last year – with these periods now eyeing £140/MWh. April '23 Annual Baseload was just below £144/MWh at the time of writing – a 7% drop in two weeks – while October '23 and April '24 Annuals have both shed 5%. March '23 (Month-ahead) ended February valued at £127/MWh – a dip of 11% – while the new front month April '23 is currently just under £127MWh, also falling 11% over the second half of February.

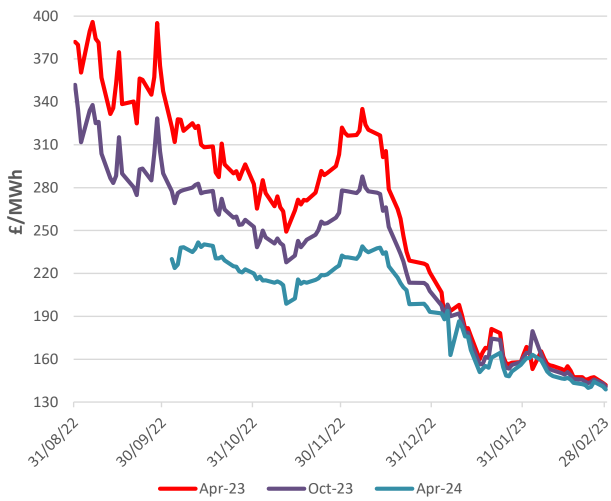
On the supply side, wind generation has been consistent with the opening half of the month at an average of about 8.5 GW – almost a fifth lower than production in January – although waning demand and stronger imports allowed (more expensive) thermal generators to reduce activity. There were three days when UK coal-fired plants produced no electricity at all – the first time coal has delivered nothing since early November – with output from these facilities falling 75% against the opening half of February.

The Day-ahead Baseload index has moved in a relatively tight range of £120-142/MWh – compared to a £41/MWh difference between high and low values over the previous fortnight – as there have been few jolts to the short-term market after French industrial action led to spikes earlier in February.

Despite union activity calming French nuclear generation output fell 8%, as maintenance was extended while new scheduled work took more capacity offline – with reactors in the country producing around 41 GW on average (about 12% below the five-year average). This was compounded by a 39% drop in hydro production, although the dearth of supply was offset by a 10% fall in consumption and UK generation has not been required to bolster the French system. UK imports from France actually leapt more than 40% to a daily average just shy of 1.5 GW. French month-ahead Baseload is currently valued around EUR 129/MWh, from EUR 153/MWh in the middle of February.

Meanwhile EU carbon allowances (EUAs) broke through the EUR 100/MWh mark on several occasions (for the first time since August) with compliance-related buying a key driver, as were rumours that the sale of additional carbon permits through the European Commission's REpowerEU initiative could be delayed. At the time of writing the EUA benchmark had slipped back towards EUR 97/tCO2e. UKAs – which remain closely correlated to the EU market – are currently hovering around £84/tCO2e, the highest value since December last year.

UK Annual power prices (six-month view)



ELECTRICITY: OUTLOOK

The UK could miss out on £62 billion of renewable investment by the end of the decade – leading to a 54 GW shortfall in new wind and solar capacity – without government intervention, according to trade body Energy UK. The organisation said that inflation, rising interest rates, supply chain issues and foreign competition could dampen private sector appetite for UK-based clean energy projects. It added that the proposed Electricity Generator Levy – a 45% tax on 'extraordinary returns' from renewable generation – has also caused concerns around the viability of new projects.

MARKETS

Markets continue to drop over February

DOWN 62%

Markets down 62% on August

The latest UK capacity market auction for 2026-27 cleared at a record price of £63/kW/year – around three times the price reached at previous auctions – with winning bids dominated by gas-fired power plants, the yet-to-be-built Viking interconnector with Denmark and demand side response projects. Capacity market participants are paid to ensure they are available to respond when there is a high risk of a system stress event occurring.

This summer the first 1.2 GW segment is set to come online at the Dogger Bank offshore wind farm – developer SSE Renewables has said – with full operations at the 3.6 GW project expected in 2027. The first phase has been awarded a clearing price through the contract-for-difference (CfD) price guarantee scheme of £39.65/MWh, while the second two phases have secured £41.61/MWh. UK front summer Baseload is currently valued around £121/MWh. SSE Renewables and project partner Equinor are considering adding a fourth 1.32 GW section to Dogger Bank, which will be the world's largest offshore wind plant once operational.

DOWNTURN

Strong supply and storage keeps downturn continuing

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Apr'23 Annual	chg	Oct'23 Annual	chg	Month-ahead	chg	Day-ahead index:	chg	Germany Cal '23	chg	France Cal '23	chg
141.95	-9.90	140.85	-8.45	126.71	-10.49	135.94	3.03	149.25	-10.88	168.00	-12.50

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
155.50	14.50	83.85	-1.61	84.68	3.43	99.54	8.15	104.29	8.60	109.22	9.16

All changes (chg) are compared to last report

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GAS

APRIL '23 ANNUAL SHEDS ANOTHER 10%

UK gas prices have been meandering downwards as (mostly) mild conditions, plentiful LNG and robust storage have helped to push periods lower. The conflict in Ukraine, lack of Russian pipeline supply and the need to maintain competitive prices with Asian markets have prevented values from approaching anything like pre-invasion levels, although all periods are a fraction of the peaks seen during Q3 last year. April '23 gas has slid below 134 p/th – having lost 10% since mid-February – while October '23 and April '24 Annuals have both fallen 9-10% over the last two weeks to 139 p/th and 138 p/th, respectively.

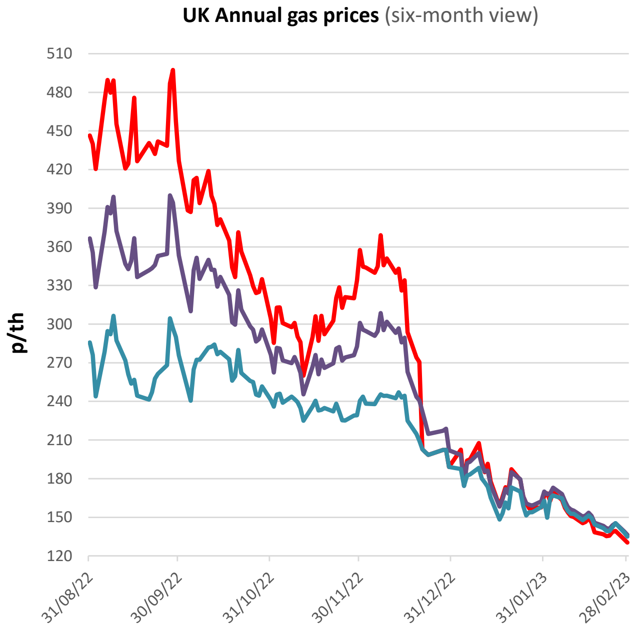
The gap between April '23 Annual gas – set to expire at the end of this month – and the October '23 Annual has started to widen, reflecting a tentative sense of security for the 12 months from April 1st coupled with a fear of the unknown farther out. This is a reversal of pricing dynamics seen at the start of the invasion when periods for delivery from 2023 onwards were trading at a massive discount to those covering 2022 due to the expectation – or hope – that the conflict would be short-lived. A year on and the war shows no signs of abating, but relatively benign weather this winter – in Asia as well as Europe – has prevented shortages.

EU storage withdrawals have collapsed by around 50% compared to the opening half of February and sites are currently above 60% full, more than 20 percentage points higher than the five-year average. Front summer gas on the Dutch market – the main benchmark for mainland Europe – has been trading just under EUR 49/MWh, after falling 12% in the last fortnight. Warm weather has played a role in limiting continental demand and reducing the strain on storage, but the overwhelming factor has been economic as high gas prices have forced companies to find alternatives to gas or reduce operations. German gas demand for industrial uses and power generation – these categories are lumped together by the market operator – is down 12% this year versus the same period in 2021, Italy's industrial sector has used 17% less gas while in the Netherlands industry-based gas demand has plummeted more than 50%.

On the other side of the channel a drop in temperatures this week has pushed UK gas demand expectations across working days above the seasonal average for the first time since late January. There had been a small uptick in anticipation of the cold snap with the Day-ahead peaking above 131 p/th but, given the time of year – similar conditions triggered far greater upside in January – the reaction has been muted as the winter makes way for spring. Day-ahead gas is currently around 110 p/th, almost a fifth lower than values seen a couple of weeks earlier.

March '23 shed 14% to end February at 117 p/th, while April '23 is currently slightly below 119 p/th, a dip of 8%.

Meanwhile the oil market still can't quite decide whether the Chinese economy opening up or global recession fears are more important for the direction of crude values. At the time of writing North Sea oil had slid below $83/bbl, about 2% lower than a fortnight earlier.



German utility RWE has said construction issues have delayed the commercial launch of the Brunsbettel LNG terminal by one month until the end of March. The floating storage and regasification unit (FSRU) received its first cargo in February but is not expected to deliver any gas into the German grid until the middle of this month. It will be the third FSRU to come online in the country.

The EU could face a 40 BCM gas supply gap this year if Russian pipeline exports cease, Chinese LNG demand recovers to 2021 levels and temperatures are low in Q4, according to a report from the International Energy Agency (IEA). The IEA expects global gas demand to be broadly flat this year with growth mostly concentrated in the Middle East and Asia Pacific regions, whereas EU gas use is expected to decline by 3% to 350 BCM.

PRICES

Higher retail prices reducing demand

The EU has banned Russian companies and citizens from booking storage capacity located within the bloc. Contracts concluded before February 27th that breach the ban must now be terminated by the end of March. Russian producer Gazprom – through subsidiaries mostly under the Gazprom Germania brand – used to own around 10% of EU storage capacity. Low injections into Gazprom-owned storage during the 2021 summer drove surging wholesale prices long before Ukraine was invaded.

UKRAINE

War in Ukraine keeps a floor on prices

EU gas storage is likely to end Q1 more than half full, according to EU energy commissioner Kadri Simson. Last November the European Commission urged member states to ensure sites were at least 45% full by the end of February – a non-binding target – a level that has been exceeded by a considerable margin.

STORAGE

Gas storage remains at strong levels, reducing restock demand

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
130.38	-16.18	136.38	-15.00	120.46	-11.54	120.70	-10.56	53.68	-5.09	83.85	-1.61

All changes (chg) are compared to last report

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