Early May 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

OCTOBER '23 ANNUAL DROPS 4%

UK power prices have moved down sharply today – after a brief uptick late last week – continuing a downtrend that established itself over the latter half of April. Energy values traditionally move lower at this time of year as spring weather erases demand, although this year weak renewable generation, disruption to gas supply and cold spells had limited the losses during April – before the decisive turn lower over the past few hours, which means all periods out to August are now firmly beneath £100/MWh.

At the time of writing October '23 Annual Baseload power was just under £137/MWh, a 2% decline today and a 4% drop overall over the last two weeks. It has been a similar story on April '24 and October '24 annuals, which have shed 4% and 3%, respectively, over the fortnight. May '23 (month-ahead) ended April at £93/MWh – a 9% dip over the second half of April – while the new front month June '23 has slumped 16%, to just over £90/MWh currently.

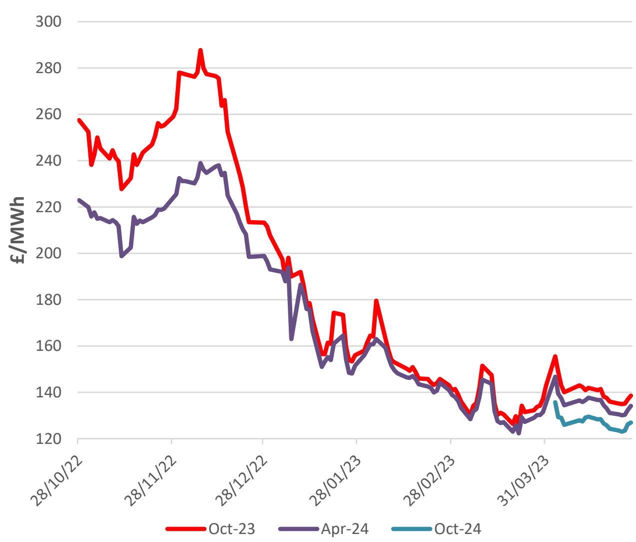
Wind farm generation has been averaging just over 5 GW throughout the past fortnight – with forecasts pointing towards even lower production in the opening half of May – down more than 20% against the opening half of April. Gas-fired generation stepped in to fill the gap with production increasing around 10%, while demand has been relatively flat. Despite increasing thermal generation and reduced renewable production the UK Day-ahead Baseload index has averaged just under £100/MWh – a drop of 9% – and had moved all the way down to £92/MWh at the time of writing.

Falling short-term power values have partially been a result of less intense French industrial action – although unions in the country remain determined to battle government pension reforms – but the knock-on effect of maintenance extensions has meant French nuclear output has only risen 3% compared to the opening half of April. EdF has increased the expected duration of outages at multiple reactors but has also maintained its target of 300-330 TWh of nuclear generation this year.

Over 2023 to date nuclear production in France has been 15% below the five-year average – although the proportion dropped to 10% in April – while year-ahead French Baseload has shed 10% over the past fortnight to move below EUR 200/MWh. Elsewhere on the continent Germany closed its remaining nuclear reactors in mid-April and the country has been a net importer of power since, after net exports throughout Q1. German front year power – a key benchmark for European electricity markets – has also fallen 10% in the last two weeks to around EUR 147/MWh currently. Forecasts of higher rainfall on the continent this summer have also helped to ease EU power prices on expectations of better hydro availability.

Meanwhile UK carbon has plunged some 12% – compared to a 5% drop in the EU market that UKAs tend to follow – with falling demand (particularly from industrial users), lower buying interest from speculative traders and fuel switching from coal to gas across the continent helping drag values lower. In contrast coal values have bounced higher with the front quarter gaining 11% on signs of tightening Russian exports.

UK Annual power prices (six-month view)



Another round of industrial action is expected in France on June 6th as unions have called for a further 24-hour strike in protest against reforms to the pension system.

DOWNTREND

Downtrend continues over latter half of April

UK PLANS

UK government announces plans to build a new interconnector with the Netherlands

The UK government has announced plans to build a 1.8 GW power interconnector with the Netherlands – potentially the world's largest – that will start operations in the early 2030s. The LionLink project will also connect to offshore wind farms in the Dutch North Sea. The UK has imported around 81 GW in the year to date through the existing BritNed interconnector.

The EU is stepping up North Sea security following the sabotage of the Nord Stream pipeline from Russia to Germany last year, European Commission (EC) President Ursula von der Leyen has said. The EC is working on a stress test for EU infrastructure to identify weaknesses and improve resilience, after nine countries – including the UK – committed to building 130 GW of offshore wind within the North Sea by the end of the decade at a recent summit.

The European Commission has approved the extension of a cap on the price of natural gas for power generation in Spain and Portugal until the end of this year, pushed back from the original expiration date of May 31st. The price gas-fired generators pay for volumes will increase from EUR 56.1/MWh currently to EUR 65/MWh by the ed of the year.

RENEWABLES

Greater reductions held back by weaker renewables generation

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Oct'23 Annual	chg	Apr'24 Annual	chg	Month-ahead	chg	Day-ahead index:	chg	Germany Cal '24	chg	France Cal '24	chg
138.63	-3.38	134.13	-3.63	94.25	-6.90	100.17	-0.63	147.95	1.20	197.00	-19.00

KEY OTHER INDICATORS:

Coal ($/MT) '24	chg	Oil (Brent) $/bbl	chg	UKA '23 (£/TCO2)	chg	EUA '23 (€/TCO2	chg	EUA '24 (€/TCO2)	chg	EUA '25 (€/TCO2)	chg
138.00	13.00	79.47	-6.46	61.24	-9.41	87.60	-6.50	91.80	-6.90	95.58	-7.27

All changes (chg) are compared to last report

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GAS

NORTH SEA CUTS KEEP LOSSES IN CHECK

Most UK gas values have moved tentatively downwards over the last two weeks although strong demand, North Sea supply curtailments and a paucity of wind generation have conspired to limit the descent. October '23 Annual gas had moved just below 142 p/th at the time of writing – after touching a low of 138 p/th early last week – down about 1% from where the period stood two weeks ago. April '24 Annual gas has been discussed practically flat to prices seen a fortnight ago— at a little below 145 p/th – while the October '24 Annual has crept fractionally higher (less than 1%) to just over 134 p/th. An uptick late last week has erased most of the losses seen during the latter half of April.

Demand has been around 10% lower than during the previous two weeks as spring has progressed, although cold spells and weak renewables have meant gas use has still been around 13% above the seasonal average across this period. The other key driver elevating demand above the norm has been exports – as was the case last summer – with the UK delivering just under 65 mcm to the continent on average these past couple of weeks, or 26% of total gas use. Over the same period in April 2021 – back when Russian pipeline supply was much higher – UK exports were a fraction of volumes seen the last two years at a daily average of just 11 mcm.

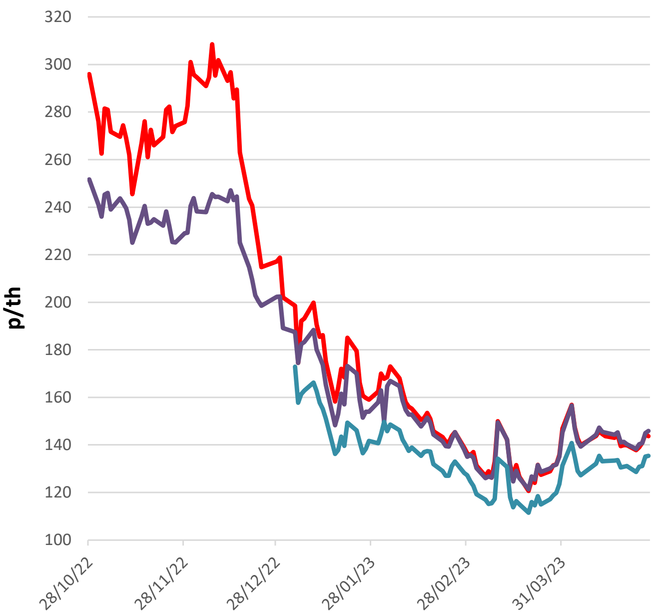
On the supply side, Norwegian summer maintenance has started to bite and flows into the UK via the Langeled pipeline – the largest connection between the countries – has been more than 60% lower than during the opening half of April. LNG has come to the rescue and short-term UK gas values have been largely immune to the disruption to volumes from Norway. Even when Langeled flow volumes dropped to single digits – or less than 10% of the link's capacity – Day-ahead UK gas only peaked at 112 p/th, down from spikes above 120 p/th in early April. At the time of writing Day-ahead had been changing hands just under 88 p/th, about 10% down from values seen in mid-April. June '23 gas – the front month as of today – has been trading just shy of 87 p/th, dipping 13%.

On the continent storage fullness has increased to more than 60% – according to data from Gas Infrastructure Europe – more than double the five-year average despite heavy Norwegian maintenance in the early part of the injection season.

In Germany – which has the largest storage capacity in the EU – sites are even better stocked with facilities in the country nearly 70% full. Q3 '23 German gas has dived about 9% to just over EUR 40/MWh currently. But front season German gas values have actually ticked up slightly over the period to nearly EUR 58/MWh, showing there is still a lot of risk priced into the winter period despite relatively full storage.

Elsewhere North Sea oil is currently just below $79/bbl – shedding 8% in a fortnight – as signals of weak global demand have offset the impact of lower production targets from members of the OPEC cartel.

UK Annual gas prices (six-month view)



On May 24th most of the UK import capacity (87%) from Norway at the St Fergus terminal will be taken offline for maintenance that will last until mid-August, after which the site will be closed entirely until the end of September, according to the schedule from Norwegian offshore operator Gassco.

IMPORTS

Strong LNG imports expected over the coming months

STORAGE

EU gas storage more than double the seasonal average

EU gas demand between August 2022 and the end of Q1 this year was 18% lower than the five-year average – according to Eurostat – beating the voluntary target of 15%. Mild weather has been a key factor reducing gas consumption, as has lower industrial activity due to high wholesale energy prices. The target to reduce EU gas demand by 15% was extended to March 2024 earlier this year.

The North Sea Transition Authority has awarded a ten-year gas storage licence to dCarbonX for the depleted Bains field in the Irish Sea, with the company saying injections could start in 2028. It is not clear at this stage what the capacity of the new facility could be, although dCarbonX has said it could be the equivalent of three to four days of UK supply. Based on average daily supply in the year to March 31st capacity at the site therefore could be around 760-1,000 mcm.

The first tender for joint EU natural gas buying took place on the PRISMA capacity booking platform in late April. The aim of the procurement system is to reduce prices by pooling demand across multiple member states or companies. The process of aggregating collective demand and matching this to supply offers is expected to take two weeks.

WINTER

Winter weather projections will play a greater role in the coming months

KEY GAS INDICATORS:

Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Oct'23 Annual	chg	Apr'24 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2024:	chg	Oil (Brent) $/bbl:	chg
143.68	-0.02	145.93	0.75	89.72	-9.91	88.83	-10.17	56.40	0.55	79.47	-6.46

All changes (chg) are compared to last report

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