

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

PRICES TICK UP AFTER BUMPY FORTNIGHT



The overall trajectory of UK power prices has been upward over the past couple of weeks – although values have spiked higher and come down a couple of times as the market sought a clear direction – with buoyant exports, falling wind and gas strength helping to provide a lift. But despite gains over the last fortnight prices are still lower than at the start of July.

At the time of writing October '23 Annual Baseload had been hovering just over £114/MWh, nearly 4% higher than two weeks ago. Front Annual power had been pushing towards the £120/MWh mark – rising about £10/MWh over seven days from mid-July – on gains mainly catalysed by rising gas prices, although this run has been short-lived and values have since edged lower. April '24 and October '24 Annuals are currently around £121/MWh and £114/MWh, respectively, with both rising 6-7%. Risk associated with gas supply has been pushed onto periods farther out with a degree of confidence creeping into the front winter.

Over the second two weeks of July UK wind farm generation slipped by around a fifth compared to the opening half of the month to an average of about 5.5 GW – still robust compared to averages in May (4.4 GW) and June (4.2 GW) – a decline offset by an increase in gas-fired generation. Despite the rise in fossil fuel usage, short-term prices have been sliding on signs of falling demand with the UK Day-ahead index slipping from £88/MWh to below £72/MWh currently.

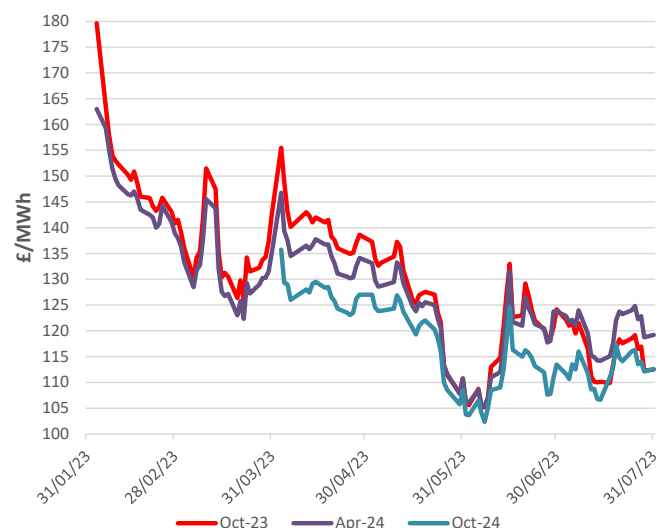
Looking at July as a whole though, the share of wind production in UK generation has been above 26% – the highest since March – leading many near-term electricity periods to ease lower over the entire month (despite some upside during the latter half). August '23 expired at £70/MWh – having shed 23% across July – while the new front month (September '23) has been changing hands just below £78/MWh, which is in line with values seen two weeks ago but down 20% compared to the start of July.

The UK has remained a net power exporter over the last two weeks with 1.8 GW exiting the country to Ireland and the continent on average each day, slightly lower than deliveries during the opening half of July as renewable output has waned. France has been the main recipient


of UK exports after wind farm generation in the country collapsed by nearly 90% and high southern European temperatures propped up demand. French year-ahead Baseload meanwhile has fallen nearly 3% over the latter half of July to around EUR 163/MWh currently.

Elsewhere, UK carbon has moved down by nearly 10% in the past couple of weeks to just over £44/TCO_{2e}, after the government quietly announced that it would increase the allocation of free allowances to help shield industrials and power producers from the impact of high input costs. The move has been criticised by environmental lobby groups and, with a tight general election expected next year, there is potential for the government to u-turn if there is sufficient backlash.

UK Annual power prices (six-month view)



ELECTRICITY: OUTLOOK


 Swedish utility Vattenfall has abandoned plans to develop the 1.8 GW Norfolk Boreas offshore wind project in the UK North Sea due to rising costs. The company said the cost of building offshore wind farms has increased by 40% due to inflation and increasing interest on capital.

The Local Government Association (LGA) has warned there are 1,150 clean energy projects that have obtained planning permission in the UK but cannot proceed to construction due to grid connection issues.



SPIKES & DIPS

Markets remain volatile with several spikes and dips over the past 4 week


 The UK government has committed £170 million to speed construction of the 3.2 GW Sizewell C nuclear reactor. In total £700 million of state funds have been approved to support the project.

Drax has received consent to build a 600 MW pumped hydropower storage plant in the UK, which will be located at the site of a 440 MW hydro plant owned by the company in Scotland.



MARKETS

Markets rise marginally over July, though still down significantly on early 2023

 The European Parliament's energy committee has backed contracts-for-difference (CfD) – a system that guarantees a certain price to generators per unit of electricity delivered – to support the development of nuclear and renewable capacity. France and Germany have been at odds over French proposals to use CfDs to extend the lifetime of nuclear power plants, which has delayed a formal EU negotiated position for months.

UK energy secretary Grant Shapps is set to launch a £157 million fund to support the deployment of nuclear capacity with a particular focus on small modular reactor (SMR) projects. Companies can register interest to participate in a competition for funding with newly-formed body Great British Nuclear (GBN).



DRIVERS

In the short term, markets are being driven by outages, high temperatures and resulting high demand

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
112.50	2.50	119.23	4.97	69.35	-4.56	71.96	-0.70	135.50	4.15	162.25	-3.25

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
118.84	17.64	85.51	5.09	45.58	-4.67	86.76	0.87	91.17	0.85	94.60	0.20

All changes (chg) are compared to last report



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GAS

GAS SPIKES, RETREATS, EDGES UP AGAIN



UK gas prices have edged higher over the past couple of weeks – despite bearish signals such as full storage and falling demand – although the gains have been limited and values are below peaks seen a week ago. October '23 gas is now around 121 p/th, about 2.5% up on mid-July but down from a high of 134 p/th that occurred during yet another short-lived winter supply panic last week. April '24 Annual gas is just over 131 p/th – rising 2.5% across the fortnight – after spiking to 141 p/th, while the October '24 Annual has risen nearly 5% to just under 124 p/th.

Norwegian exports to the continent have been rising throughout July as planned maintenance restrictions have wound down – while UK deliveries to Belgium and the Netherlands have also leapt – allowing EU storage injections last month to increase by more than 10% compared to June. Gas Infrastructure Europe has indicated EU storage fullness has now moved above 85% – compared to 70% on average at this point over the last five years – providing a sense of security for Q4 at least. The UK's limited storage fleet is at just under 60% of capacity – little changed over the last two weeks – although the remaining space can be filled fairly rapidly.

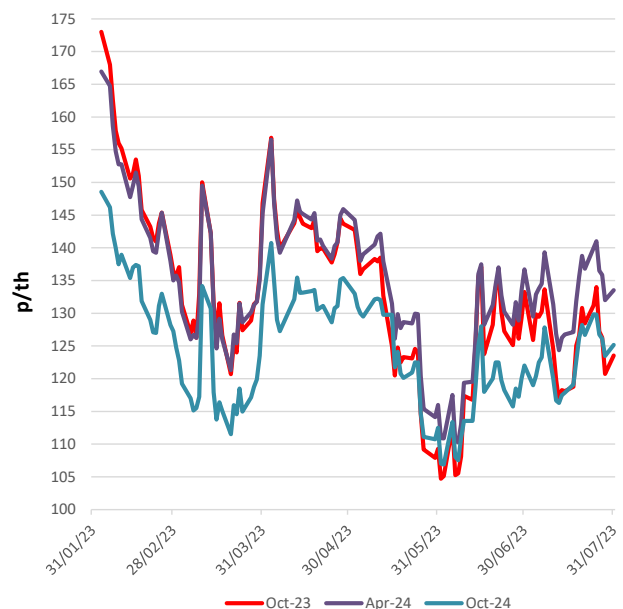
Gas exports from the UK have been the single largest source of demand over the latter half of July, accounting for more than a third of overall gas use. This has pushed gas demand about 15% higher than the seasonal average, helping Day-ahead to gain 11% to 67 p/th. August '23 gas had risen 8% over the second half of July before expiring at 68 p/th – driven by expectations of falling Norwegian supply as maintenance picks up later this month – but this is still down nearly 18% over July as a whole. The current month-ahead – September '23 – has been trading just over 71 p/th, about 4% higher than values seen two weeks ago.

Looking ahead to the winter, the head of German chemicals manufacturer BASF has signalled further cuts – chemical production in Germany is reportedly down another 17% this year – are likely as the industry continues to struggle with elevated energy costs. This suggests another winter of weak demand from commercial gas users is likely, although if the weather is cold the impact of factory closures or slowdowns on the overall balance could be negligible. German Q4 '23 gas has been changing hands around EUR


44/MWh, edging up 2% in the last two weeks. Summer '24 remains above Winter '23 at all key European markets – including the UK, Netherlands and Germany – a reflection of concerns over LNG supply next year and competition with Asia in particular.

North Sea oil has climbed more than 7% over the fortnight to more than \$85/bbl now on signs of supply side tightness, although there have been indications the momentum may be running out of steam. Those yearning for stronger oil values have been watching policymakers in China in anticipation of a stimulus package. Chinese officials have indicated plans inject new life into the country's economy, but so far details on how this will be achieved have been scant.

UK Annual gas prices (six-month view)




GAS: OUTLOOK

 The next round of heavy restrictions on Norwegian production and export capacity will kick in towards the end of this month – according to the schedule from the country’s offshore operator Gassco – with at least 153 mcm offline from August 26th until September 7th.



UK GOV

Recent UK Government moves around new oil and gas and energy security will likely be a key driver on future prices in the months to come

 The UK government and North Sea Transit Authority (NSTA) have committed to new offshore oil and gas licensing rounds as part of efforts to improve energy security. The most-recent round – the first since 2019 – concluded in January with the NSTA expected to issue around 100 licences later this year. A separate NSTA report has claimed that gas produced in the UK North Sea is on average four times cleaner in terms of carbon emissions than imported volumes.



NORTH SEA

Vattenfall abandons plans for offshore wind in the North Sea, potentially putting upward pressure on future prices



US-based NextDecade has reached a positive final investment decision on the Rio Grande LNG export plant, located in Texas. The planned facility will be capable of exporting 27 million tonnes per annum (MPTA) – total US export capacity is currently just over 100 MPTA – with commercial operations potentially starting in 2026. The facility will also include carbon capture and storage technology that NextDecade says should reduce emissions by 90% compared to a typical LNG export plant.



WINTER

Winter temperatures and the fallout from the impact on storage levels will be a significant driver over the next 12 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
123.53	5.28	133.53	7.29	65.88	1.00	64.74	1.24	51.13	3.13	85.51	5.09

All changes (chg) are compared to last report

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