Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

MARKET TUMBLES AFTER BRIEF SPIKE

UK power prices have moved down over the last two weeks – despite briefly flashing higher – as the end of severe temperature spikes on the continent, weakness in the gas market and steady renewable supply have helped to pull values lower. October '23 Annual Baseload has slipped below £114/MWh – after peaking above £130/MWh about a week earlier – shedding 6% since the middle of August. April '24 and October '24 made more modest declines of 3-4% to £119/MWh and £111/MWh, respectively, at the time of writing.

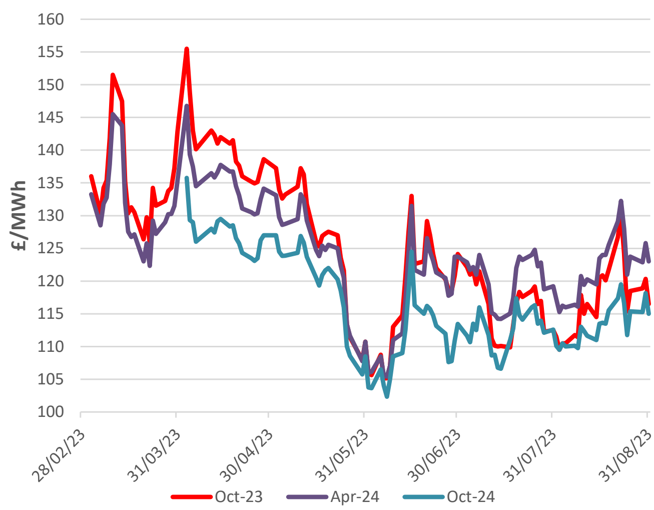
Wind generation has been fairly decent at an average of just under 5 GW – around a fifth of overall production – although output has trailed off as August progressed and, overall, production in the latter half of the month dropped almost 20%. In addition, net imports collapsed nearly 85%, with inflows from France particularly strained as more French power has been sent to Germany and Italy. This meant that in the UK gas-fired power plants had to step in with generation from these units leaping 24%, which has led gas to account for the lion's share (about 44%) of electricity supply, one of the largest proportions over a fortnight this year.

For a few days UK wind output dropped close to an average of 2 GW, leading the Day-ahead electricity index to peak at £113/MWh, but since then next-day power has dropped below £85/MWh, almost 6% down from levels seen a couple of weeks ago. September '23 ended August at £85/MWh – dipping 8% across the second half of August – while the new front month October '23 has shed 14% to around £86/MWh at the time of writing, with weakness on the corresponding gas period a key driver here.

On the continent French nuclear generation has improved with production from the country's fleet rising 11% to an average of nearly 34 GW, but this was partially offset by cratering renewable generation as onshore wind output has been cut in half to an average of just under 2.5 GW. Rising French nuclear output and the subsidence of heatwaves on mainland Europe have helped to pressure electricity values with French September '23 power expiring at EUR 91/MWh – 5% lower than two weeks ago – while the October '23 has been changing hands more than 13% lower than in mid-August at EUR 87/MWh today. Front year German power – a key benchmark – is currently a shade under EUR 135/MWh, a 6% dip.

On the policy side the UK has appointed Claire Coutinho as the new energy secretary – the sixth politician to hold the position in the last three years – while the Prime Minister is reportedly reviewing the government's green agenda. Recent signals that there will be a reduction in the volume of emissions allowances available to the UK market next year – a U-turn from indications just a couple of weeks ago – has helped UKAs to surge 15% towards the £47/TCO2e mark. However, UKAs are still about a third cheaper than EU carbon prices, which reflects the perception that commitment to decarbonisation is much stronger in Brussels than in Westminster.

UK Annual power prices (six-month view)



Across the opening fortnight in September UK wind production is currently forecast to average 2.5 GW, around half the expected average output during August.

MARKETS

Markets dip over the past fortnight

DEMAND

Falling temperatures help reduce demand

UK energy regulator Ofgen is planning to introduce new rules this winter that will stop electricity operators from reducing generation during peak hours and offering capacity through the balancing mechanism. The Inflexible Offers Licencing Condition is planned to come into effect from October 26th and will ban the practice that has seen some producers charging up to £6,000/MWh for balancing volumes. Balancing costs trebled during the 2021-22 winter, according to Ofgem.

The 1.4 GW Viking power interconnector linking the UK to Denmark has been cleared to begin operations by the end of this year following successful testing, according to National Grid.

The EU has adopted reporting rules for the carbon border adjustment mechanism (CBAM) for some imported goods – a system designed to prevent companies relocating outside the bloc to avoid environmental restrictions – with the guidelines set to govern the CBAM transition phase from October 1st until the end of 2025. During this period businesses will only have to report emissions on imported products without paying any financial adjustment. Companies importing products in the aluminium, cement, electricity, fertiliser, hydrogen, iron and steel sectors will be affected initially. EU producers in these sectors will see free carbon allowances phased out by 2034.

AUSTRALIA

Concerns around Australian strikes subside

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
116.50	2.00	123.00	3.50	85.00	0.25	90.67	4.67	134.18	-1.47	146.00	-10.75

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
125.60	0.30	86.86	0.44	47.40	7.25	86.03	-1.92	90.21	-1.84	94.00	-1.63

All changes (chg) are compared to last report

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GAS

FULL STORAGE HELPS FRONT ANNUAL DIP 10%

Full gas EU storage and weak demand have helped to pull UK prices downwards over the past couple of weeks, although there have been upward spikes caused by concerns around industrial action from Australian LNG workers. Although some strikes are still planned the market has largely shrugged off the potential impact on supply into Asia with the overall impact of shutdowns likely to be far more limited than many had feared. October '23 Annual gas had roared up to 145 p/th amid the panic – the highest level since April – but has since dipped back down to 126 p/th, a slide of nearly 10% since mid-August.

A major storage milestone has now been reached with EU stocks rising above the 90% fullness target a full two months ahead of schedule. Facilities on the continent are currently 93% full – according to Gas Infrastructure Europe – meaning low injection demand over the next couple of months and a handy buffer heading into Q4 (although all bets are off if temperatures plummet in November/December). This has meant the torrent of UK gas exports over most of the summer has been reduced to a trickle with deliveries to mainland Europe dropping to a rate of just 20 mcm during the latter half of August – and below 10 mcm over the last few days – falling from 33 mcm during the previous fortnight and down from a peak of 69 mcm a day during April. Overall UK gas demand has slumped 10% below the seasonal average as a result – despite a higher pull from the power sector – but rather than meandering downwards short-term prices have been highly volatile.

Day-ahead gas peaked at 108 p/th at one stage, partly a result of maintenance on the Norwegian continental shelf – UK imports from Norway have been almost 50% lower over the latter half of August – although the panic generated by the threat of strikes in Australia has arguably been the bigger culprit. Since then, Day-ahead gas has come all the way down to 80 p/th, a decrease of 11% overall.

Full gas storage on the continent has heaped pressure onto the front couple of months with September '23 ending August just above 80 p/th – a slide of nearly 20% – while the current front month October '23 has been changing hands around 86 p/th, a 23% drop. This reflects the relative comfort around gas supply in the near term - but there has been far more resilience on periods that will deliver later in the winter. UK Q1 '24 gas for instance is hovering around the 139 p/th mark, a 5% decline since mid-August but up from close to 130 p/th a month earlier.

Elsewhere October '23 Dutch gas is just below EUR 35 p/th – slipping 20% – while December '23 to February '24 values are all above EUR 50/MWh. Prices for the next few Full storage helps front annual dip 10%

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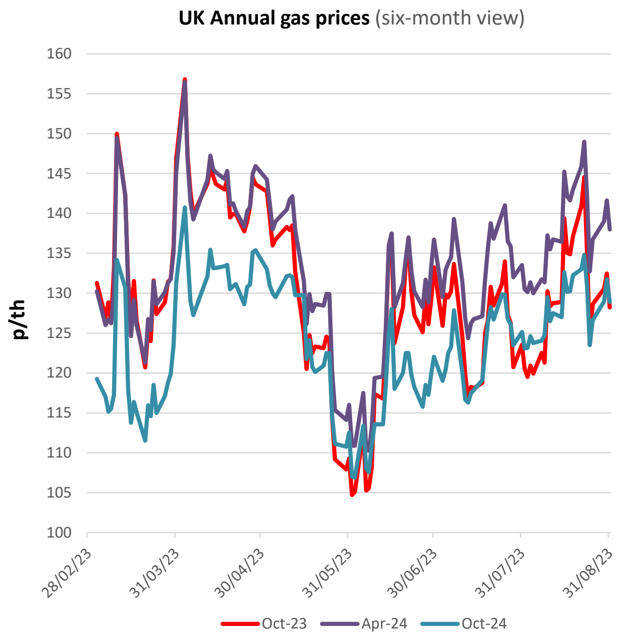

Australian LNG workers have rejected a pay offer from Chevron and industrial action at the Gorgon and Wheatstone export plants is likely to take place from September 7th. The two facilities account for around 6% of global LNG supply capacity.

GAS

UK gas demand 10% below seasonal average

EL NINO

Current winter predictions are for colder temperatures due to El Niño

Dutch gas grid operator Gasunie and storage company Vopak have made a final investment decision to increase regasification capacity at the Gate LNG import terminal – the Netherland's largest – by 4 billion cubic metres (bcm), bringing total capability to 20 bcm. Construction on a fourth storage tank will begin shortly with operations for the expanded capacity slated to begin in 2026. BP and PetroChina have already signed agreements to use 2 bcm each of the new capacity.

Maintenance on the BBL gas pipeline – linking the UK to the Netherlands – will take place over six days from September 5th, which will be followed by cleaning and inspections that will last until September 29th. During the inspection period 17 mcm per day will be available towards mainland Europe, while no capacity into the UK will be possible. With flows on this link currently negligible the maintenance may not have too much of an impact on either countries' supply balance.

The European Commission will hold an auction to subsidise renewable-based hydrogen production in late November with up to EUR 800 million available for producers within the European Economic Area (EEA). A ceiling price of EUR 4.5 per kilogram of hydrogen will be in place, although this will be subject to review. If participation rates are high additional auctions will take place on an annual basis.

OFGEM

Ofgem plans new rules around system balancing, potentially reducing costs

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
128.89	5.36	136.45	2.93	87.00	21.12	80.46	15.72	51.80	0.67	86.42	0.91

All changes (chg) are compared to last report

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