Mid September 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

FRONT ANNUAL LOSES 6% AS MARKET CALMS

Long-term power prices have been meandering downwards during the opening half of September – although there have been a couple of upward flashes driven by LNG supply concerns – as less intense temperatures on the continent, as well as falling carbon and gas, have helped values edge lower.

The swings have been far less fierce than during the previous two weeks as the market has lacked the stimulus that multiple heatwaves and the initial news of Australian industrial disputes provided late last month. The difference in high and low closing values on October '23 Annual Baseload has been about £7/MWh, compared to almost £15/MWh during the latter half of August. The front Annual is currently around £110/MWh – in line with levels last seen in early August – having shed nearly 6% over the last two weeks. April '24 Annual is slightly higher at around £117/MWh, a dip of 4.5% since the end of last month.

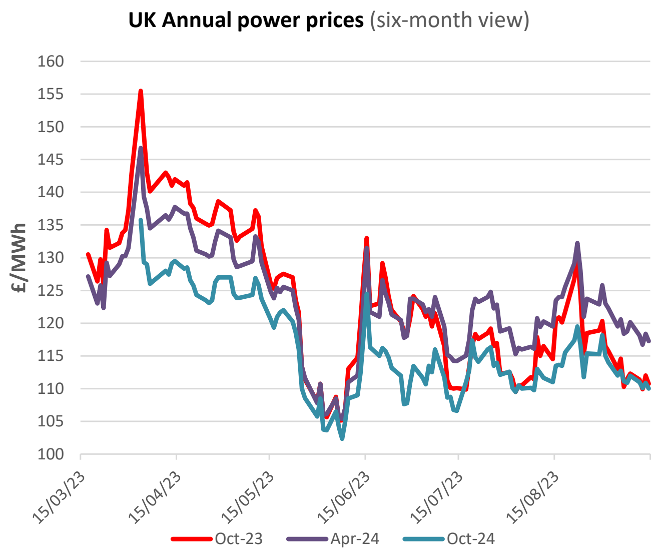
Renewable generation has been fairly limited with wind output averaging just 3 GW – about a third lower than during the second half of August – leading gas-fired units to jump in and make up the shortfall. The UK's limited coal fleet has also been generating on a daily basis, but with few units remaining operational the share they have contributed to the country's electricity supply has only been about 1%. Overall fossil fuels (mostly gas) have accounted for nearly half of UK power generation this month, up from 45% during the preceding two weeks.

But with short-term gas prices relatively weak – while carbon has slumped – the dearth of renewables has not been a big upside driver at the front end, even with a switch to net power exports this week. Day-ahead prices did push above £96/MWh at one point as LNG workers in Australia started limited industrial action, but since then values have come down towards £77/MWh on signals that UK wind generation is set to leap over the second half of September.

Farther out, the front month October '23 is currently around £84/MWh – about 3% lower than two weeks ago – while the other winter months are all in triple digits, reflecting the perceived risk built into the coldest times of the year.

Elsewhere UK carbon appears to have run out of momentum – after ticking upwards in late August – with allowance values currently around £39/TCO2e, tumbling from more than £47/TCO2e at the end of last month. It has been the same story on the EU market with weak industrial activity, limited power demand, as well as strong low carbon generation – French nuclear output has jumped 12% while German renewables have delivered 6% more power – helping to reduce demand for carbon and pull values down.

The aforementioned ramp-up in French nuclear generation has helped to pressure power prices across the Channel, with the front month slipping 10% to move below EUR 90/MWh in six weeks.



WIND

Above average wind forecasted in remainder of 2023

There have been no bids for offshore wind contracts-for-difference (CfD) in the latest UK tender, with industry figures citing inflation and the rising cost of finance as key barriers. Overall, 3.7 GW of renewable projects secured contracts – including just under 1.5 GW of onshore wind – but the government's plan to have 50 GW of offshore wind operational by the end of the decade now looks unlikely. CfDs provide a fixed return for generation with producers topped up when wholesale power prices are below the agreed threshold, while operators pay back any excess returns when market prices are above the CfD level.

The European Parliament has approved rules to increase the proportion of renewables in final EU energy demand to 42.5% – up from the original target of 32% – by the end of the decade. According to the European Environment Agency 22% of EU energy demand was met by renewables in 2021.

The UK has amended legislation aimed at speeding up the planning process for onshore wind projects, including broadening the criteria for identifying suitable locations. The changes are aimed at ensuring a project cannot be blocked by a small minority – as has been the case for more than a decade when new powers were introduced to give local communities a greater say.

MARKET

Market continues on a downward curve

Wind farm generation is expected to average 8.5 GW through the remainder of the month – according to a forecast from Elexon – up from just 3 GW during the opening fortnight.

Italy has announced plans for new nuclear reactors with a view to starting generation within the next decade for the first time since 1990.

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
110.75	-5.75	117.25	-5.75	84.66	-0.34	90.95	0.28	129.00	-5.18	134.00	-12.00

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
129.80	4.20	93.44	6.58	38.88	-8.52	82.95	-3.08	87.18	-3.03	91.25	-2.75

All changes (chg) are compared to last report

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GAS

NERVES SETTLE DESPITE WINTER LOOMING

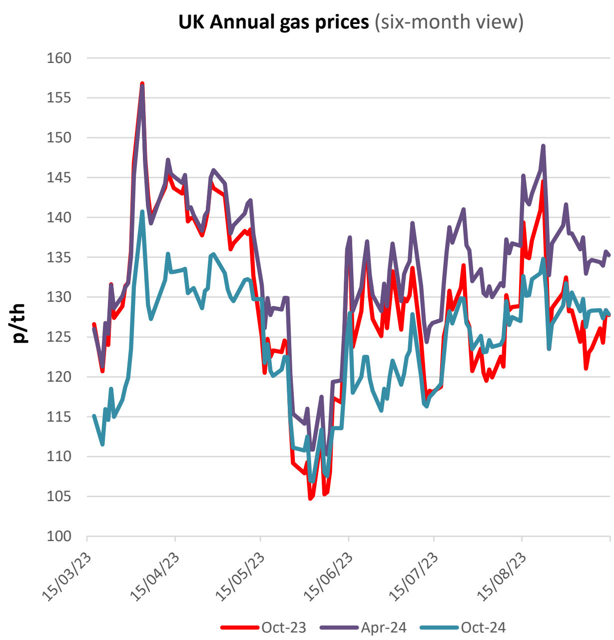
Gas market nerves have started to settle with volatility waning as Q4 – which marks the start of the gas winter – approaches. There have been some upticks due to ongoing industrial unrest in the Australian LNG sector – while disruption to Norwegian gas production has also helped to provide a lift at the front end – but weak demand and full storage have overridden supply concerns and pulled most long-term gas values lower. October '23 Annual gas is currently just below 125 p/th – up slightly from lows around 121 p/th earlier this month – having shed about 3%. April '24 Annual gas remains around 10 p/th higher – and is currently at 135 p/th – retaining the premium that has been in place since mid-July.

In early September limited industrial action started at two Australian LNG plants operated by Chevron after talks with unions collapsed, and the scope of the strikes at the Gorgon and Wheatstone plants – which account for about 6% of global supply – has intensified this week. Chevron requested that employment regulator the Fair Work Commission (FWC) intervene using untested legislation – based on laws approved in June – that allows the FWC to order the end of a strike and determine a settlement to an industrial dispute. The FWC then asked Chevron to resume talks with unions ahead of a hearing later this month. The fallout from the back and forth has fed into price swings at the front end of the market – although the peaks and troughs have been relatively contained compared to the latter half of August – with October '23 gas spiking above 94 p/th (having moved as low as 76 p/th); it is around 90 p/th currently, up fractionally from a fortnight earlier.

Norwegian maintenance extensions and a couple of unplanned outages have also added some instability at the near end. Gas flows from Norway into the UK have been 60% lower than in the previous two weeks – accounting for just 11% of UK gas supply – but the impact of this has been partly subdued by continuing below average gas demand. Day-ahead gas has ticked 1% higher during September to date to 87 p/th currently, down from a peak of about 94 p/th a few days ago.

On the continent gas storage is now 94% full and the torrential injections that characterised the start of the summer have now eased to a trickle, but some analysts suggest all the risk that can be pulled from the winter has already been extracted. Month-ahead TTF Dutch gas – one of the key European benchmarks – has been hovering around EUR 34-36/MWh over the past fortnight, while Winter '23 TTF has eased down fractionally (less than 1%) since the end of August to just under EUR 48/MWh now. The front season in Germany has slid nearly 3% and is currently valued just below the same period in the Netherlands.

Meanwhile North Sea oil is currently at the highest level in about a year - $94/bbl at the time of writing – after a report from the International Energy Agency (IEA) indicated that rising demand in the second half of the year is not expected to be matched by any additional supply.



GAS: OUTLOOK

Asian LNG prices (on the Japan-Korea Marker (JKM)) for the coming few months remain above the same periods at the UK and Dutch markets, suggesting low imports are likely to continue in the near term.

NSTA

The North Sea Transition Authority (NSTA) has awarded 21 carbon storage with potential of 10% UK's carbon emission capacity

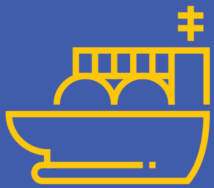
ICE VEHICLES

Government potentially weakening position on ICE vehicles

Norwegian summer maintenance will wind down from next week – according to the schedule from offshore operator Gassco – with total restrictions falling to 62 mcm on Monday (from 108 mcm today).

The European Commission has proposed making the EU joint gas purchasing scheme permanent after demand exceeded expectations during the first two tenders. The system is run by the PRISMA capacity booking platform and has secured orders for more than 27 bcm of gas, double the volume Brussels had envisaged. It is not clear at this stage how much of this has translated into actual supply deals. Through the PRISMA tender process would-be buyers and sellers are matched, but it is up to them to come to commercial terms.

Emissions from oil and gas production in the UK North Sea declined by 3% last year – the third year of consecutive drops – according to a report from the North Sea Transition Authority (NSTA). Overall emissions have reportedly fallen by 23% since 2018 with 59% of the reduction a result of active measures such as reduced flaring or improved efficiency, while the rest has come from lower production. The NSTA has mandated a 25% reduction in North Sea emissions by 2027 – using 2018 as a baseline – rising to 50% by 2023.



AUSTRALIA

Australia strikes have had less impact as expected on LNG export

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
127.76	-0.45	135.28	-2.72	90.63	8.07	89.71	4.25	51.78	-0.77	93.44	6.58

All changes (chg) are compared to last report

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