Early October 2023

Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

PRICES SLIDE COMING INTO OCTOBER

UK power and gas markets started October with prices slipping lower across the board, continuing a general slump that accelerated towards the end of September as winter supply fears dissipated.

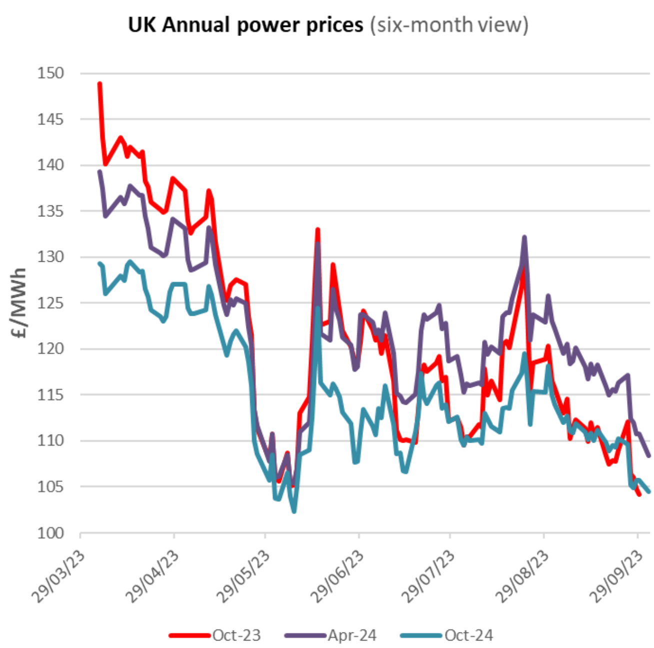
October '23 Annual power ended September at £104/MWh – a long way off the peaks above £400/MWh reached in August last year – and a 6% drop from values seen a fortnight ago, as it handed the bearish baton onto the new front annual, April '24 Annual, which has continued to slide over the last couple of days. At the time of writing April '24 Annual was valued at £105.5/MWh – its lowest level since early June, having fallen 11% since mid-September.

UK Prime Minister Rishi Sunak has announced plans to soften numerous measures aimed at reducing emissions, which – depending on the commentator – has been seen as either a cynical ploy to win over right-leaning voters ahead of the next election or a pragmatic attempt to protect consumers from rampant inflation. The proposed changes have mainly been focussed on slowing the transition to electric vehicles and prolonging the use of gas and oil for heating – with clean energy targets not mentioned – although the government has emphasised continuing commitment to reaching net zero by the 2050. The news has led UK emissions values to plumb new depths, crashing below £35/TCO2e – for the first time – in the days following the announcement. At the time of writing carbon allowances had ticked back up towards £40/TCO2, fractionally above levels seen in mid-September. In contrast EUAs have resisted dipping below EUR 80/TCO2e and remain almost a third more expensive than carbon prices in the UK market.

Conditions have been unsettled in the UK and wind farm generation has been almost three times higher than during the opening fortnight in September - at an average of more than 8.5 GW, leading to power periods covering the low demand hours turning negative on a few occasions. During the second half of September the UK wind fleet accounted for nearly a third of all power supply – the highest proportion over a two-week stretch since January – pushing the Day-ahead Baseload index down to nearly £50/MWh at one point, the lowest mark this year. Since then Day-ahead values have swung above £90/MWh and below £70/MWh a couple of times amid changing renewables output and interconnector flows, particularly to France, which has experienced several nuclear plant maintenance extensions.

Month-ahead UK power prices have meanwhile fallen sharply over the last week. November baseload, having rallied briefly to over £108/MWh last Monday, has since tumbled almost 20%, trading as low as £88.25/MWh. At this time last year November ('22) was trading above £500/MWh.

On mainland European markets, 2024 French and German power prices have reached their lowest level since March 2022 – of EUR 121/MWh and EUR 116/MWh respectively.



EDF has extended planned maintenance at the 905 MW Chinon reactor by 42 days, as well as increasing the expected during of work at the 910 MW Gravelines 1 by another 25 days.

LNG

LNG inflows to European terminals ramping up to five-month high

SOLAR POWER

The UK government set to fast-track approval for a new 10.4GW solar power interconnector with Morocco

EDF

EDF have announced new plans to invest £4.5B in Low Carbon Electricity generation across the UK

Utility RWE has received approval to build a 500 MW offshore wind farm off the southwest coast of the UK. The Awel y Mor plant is expected to start producing by 2030.

The Scottish government has said it wants to halve the planning process for new onshore wind farms that do not require a public enquiry to one year, as part of a plan to more than double installed capacity to 20 GW by 2030.

The construction of a power interconnector between the UK and Morocco has been declared a project of "national significance" by the UK government, meaning its planning process will be accelerated. The cable, which will be the world's longest sub-sea power cable if completed, will import renewable energy from 10.4 GW of solar and wind farms in southern Morocco, with the overall cost of the project, called Xlinks – including the cable and other infrastructure – estimated to be up to £22 billion. It could supply around 8% of the UK's electricity needs, according to reports.

The North Sea Transition Authority (NSTA) has awarded 21 carbon storage licences to 14 companies through the first ever licensing round. The NSTA said the sites – comprising depleted oil and gas fields – could potentially store up to 30 million tonnes of CO_2 annually by 2030, around 10% of the UK's carbon emissions. Shell, Perenco and Eni are the among the companies to receive licences.

The UK government has started a process to secure private investment in the planned 3.2 GW Sizewell C nuclear power plant through the regulated asset base (RAB) financing mechanism. The RAB is designed to ensure that a significant proportion of the capital required for the plant – expected to cost £20 billion – will be secured before the facility is operational. The state has invested £700 million in the project.

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Apr '24 Annual	chg	Oct '24 Annual	chg	Month-ahead	chg	Day-ahead index:	chg	Germany Cal '24	chg	France Cal '24	chg
108.38	-8.88	104.50	-5.50	93.24	8.58	60.75	-30.20	118.45	-10.55	124.83	-9.18
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
124.75	-5.05	90.72	-2.72	40.20	1.32	80.73	-2.23	84.70	-2.48	88.60	-2.65

All changes (chg) are compared to last report

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GAS

NOV LEADS TUMBLE WITH 20% DROP

While October gas prices spearheaded a rally in the third week of September - on a flare-up in early winter supply fears amid a rash of unscheduled outages as planned Norwegian maintenance programmes were also extended - Month-ahead prices have since also led a charge lower as these fears have unravelled. November prices, which were nudging 117 p/th last Monday, have since tumbled by 20% - trading as low as 90 p/th.

An improved LNG outlook and limited physical demand in the face of unseasonably mild and windy weather, against a backdrop of full European storage sites, have also weighed on talk.

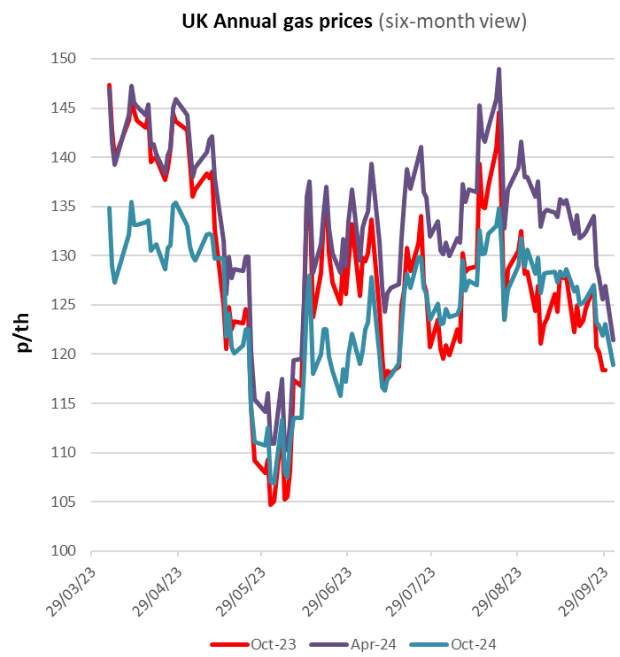
Further forward, October '24 Annual went off the board at 118.5 p/th as September ended, its lowest value since mid-July, while the new front annual, April '24 Annual, has continued to lose altitude since. At the time of writing it was being discussed around 116.5 p/th – its lowest level since early June (and down 13% since last Monday).

Multiple setbacks to the restart of operations at the Troll field in the Norwegian North Sea – the country's largest – have been particularly watched by the market. Troll was originally expected to start producing at full capacity in early September following summer maintenance. A series of unplanned outages – as well as hastily scheduled planned stoppages – were then announced by offshore operator Gassco, reducing production and fuelling supply uncertainty and price rises. Although full operations at Troll are yet to be restored, they are now expected to resume on October 9th, and with other unscheduled glitches now resolved, Norwegian exports rising to a five-and-a-half week high, and Gassco indicating all current maintenance should be finished by October 17th, supply concerns have faded.

The long-running industrial dispute between Chevron and Australian LNG workers has also now been concluded, with the market breathing a sigh of relief as strikes ended at the Gorgon and Wheatstone plants. Given full shutdowns at these facilities never materialised the overall impact on the global balance – Australia is a key supplier to the Asian market – is likely to have been negligible despite considerable hype as the conflict escalated. LNG inflows into Europe meanwhile are expected to ramp higher this week – hitting a four-and-a-half-month high, having reached a 21-month low in September.

Temperamental imports from Norway pushed UK Day-ahead gas into triple figures for the first time in about three weeks with the period spiking up to more than 111 p/th at one stage. The gains have come off now though with Day-ahead trading beneath 70 p/th at the time of writing, a two-month low. Consistently below average demand – gas use has been almost a fifth below the seasonal average over the last fortnight – has also helped offset any supply-side concerns.

Meanwhile North Sea oil has traded at its highest level in about a year - $94/bbl – 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. Global economic fears have since kicked it back beneath $90/bbl.



GAS: OUTLOOK

Restrictions at Norway's Troll field are expected to be in place until October 9th – according to offshore operator Gassco – after multiple extensions to maintenance at the site that had originally been expected to come back online on September 15th. Any further extension could rattle the market again.

ECONOMY

High inflation and interest rates are starting to dampen the UK and EU economic outlook

EU STORAGE

European gas storage levels have exceeded 96% of capacity in advance of winter 23

European temperatures are currently expected to be above average throughout October – according to the EU Copernicus Service – meaning there is little chance of a heating-related demand lift during the early part of the winter. EU gas storage – already above 95% full – could well be close to capacity heading towards the end of the year.

Operators of the UK Isle of Grain LNG terminal have launched an auction for 12 bcm of regasification capacity – as well as access to storage – for use from 2029. This will be split into three lots each with 4 bcm/year of regasification capacity, 42 delivery slots and storage.

HEATING

October temperatures across the EU are expected to be above average, suppressing early winter demand for heating

KEY GAS INDICATORS:

Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Apr '24 Annual	chg	Oct '24 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2024:	chg	Oil (Brent) $/bbl:	chg
121.45	-13.83	118.95	-8.93	97.15	6.53	84.38	-5.34	47.95	-3.83	90.72	-2.72

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