Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

COLD RISK HELPS CURB DOWNSIDE

Strong renewable generation, rising imports and falling demand have all pressured UK power prices, particularly in the short-term, over the past couple of weeks, although rising tensions in the Red Sea – leading to oil and gas supply concerns – as well as indications of another cold snap in late February have limited the downside further forward. April '24 Annual Baseload – after dipping under £72/MWh a couple of times over the last fortnight – is now just below £75/MWh, less than 1% since mid-January. October '24 and April '25 Annuals are meanwhile hovering fractionally over £75/MWh, shedding 1-2%.

Nuclear power generation has plummeted 20% after unplanned shutdowns struck at the Heysham 1 and Hartlepool plants – taking more than 2 GW offline – while planned work restricted operations at Torness and Heysham 2. The impact of these outages has been offset by a surge in wind production of almost 40% – to an average of more than 11 GW, while a 5% drop in demand as daylight hours increased and temperatures rose also helped to lessen the impact of the nuclear issues. Strong renewable generation and falling power consumption also reduced the burden on the UK gas fleet, where production slid by about a quarter compared to the opening half of January.

The wind generation boost and reduction in the use of thermal plants has helped to weigh on the short-term UK power market. The Day-ahead index has averaged £65/MWh – down 18% compared to the first two weeks of the year – and next-day power is currently trading around £62/MWh, diving 27% since mid-January. February '24 electricity made more modest loses of 4%, to end January at £69/MWh.

On the Continent industrial action in France has caused minor disruptions – particularly to the restart of a couple of nuclear reactors that had been closed for maintenance – although there has seemingly been limited appetite for strikes from workers in the energy sector, in contrast to headline-grabbing demonstrations from French farmers, who have been blocking major roads around Paris in protest over fuel taxes and regulations. The largest union at EDF has said it plans to end proposed strikes due to low turnout from workers during 24 hours of action in late January. Overall French nuclear generation has ticked up nearly 2% since mid-January, while wind production in Germany has increased by more than 20%. German front year power – a key benchmark for the continent – has slipped 6% lower over the past fortnight to just over EUR 80/MWh.

Elsewhere UK carbon has been testing new lows with the benchmark moving towards £31/TCO2e at one point amid a perceived oversupply of allowances – although it has since ticked up to £34/TCO2e. It has been a similar story on the Continent, with EUAs briefly touching EUR 61/TCO2e – about a fifth lower than levels seen at the start of the year and down 9% compared to mid-January – following the resumption of trans-national auctions for EU carbon permits.

Meanwhile weak demand and relatively full European stocks have pushed down coal prices. Month-ahead coal for delivery into northwest Europe is currently around $97/tonne, dipping 2% in the last two weeks and down substantially from the triple digit values seen in late 2023.

UK Annual power prices (six-month view)

EDF has said the UK-based 3.2 GW Hinkley Point C nuclear plant will be delayed again to 2031 at the latest – pushed back from 2027 – with the cost of the project rising to £31-34 billion (in 2015 values), up from the latest production £25-26 billion. The company said that operations would start in 2029 at the earliest. When first mooted Hinkley Point C was expected to cost £18 billion and to enter operations in 2025. The five remaining UK nuclear plants are currently slated for closure between 2026 and 2028, although EDF – which operates all sites – has recently announced plans to extend the lifetime of some units.

EU/UK CARBON PRICES

EU/UK carbon prices remain lower amid a perceived oversupply of allowances

Operations are expected to be restored at the 1.2 GW Hartlepool nuclear plant by February 22nd – according to EDF – with one reactor set to resume production next week. The 1.16 GW Heysham 1 facility is expected to start generating again by the end of February.

OIL PRICES

Oil prices increased this week based on growing unease in the middle east

Drax – operator of the UK's largest biomass-fired power plant – has secured a Development Consent Order to convert two of its four generating units to 'carbon removal technology bioenergy with carbon capture and storage (BECCS)'. Analysis from Baringa suggests this could remove 8 million metric tonnes of carbon dioxide annually. Last year biomass generation – the vast majority of which comes from the Drax plant – accounted for just over 5% of UK power supply.

LNG CARGOS

6 LNG cargos due to dock in the UK over February

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
75.00	-0.13	75.25	-1.38	69.00	-3.59	66.93	-17.76	81.88	-3.05	79.95	-0.50

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
96.25	-6.25	81.87	4.46	34.78	-0.82	64.37	-2.53	66.51	-2.74	68.77	-3.03

Early February 2024

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GAS

COMPETING PRICE DRIVERS DRAIN VOLATILITY

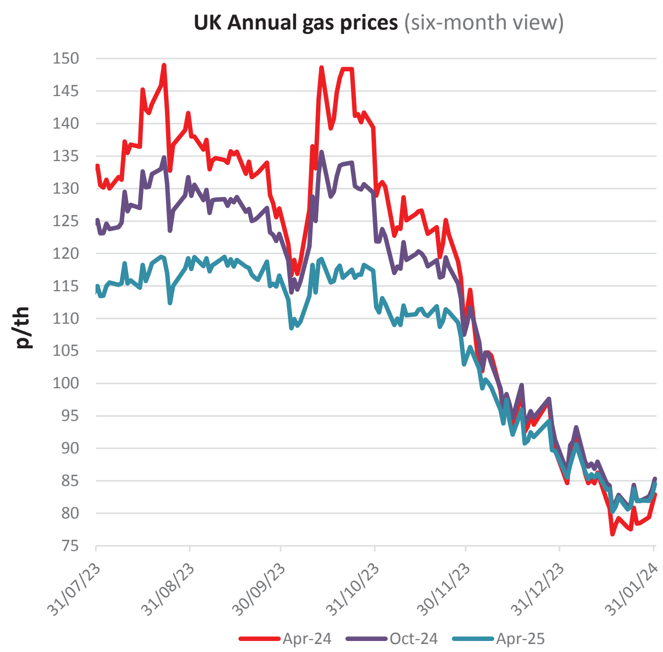
Gas prices have been oscillating in a tight range with the market seemingly unable to find a clear direction. On the one hand weak demand, buoyant wind generation and comfort on the supply side have been applying pressure to the downside, but nerves around the potential for a wider Middle East conflict – as well as forecasts indicating temperatures could drop in late February – have acted as a counterbalance.

The volatility that characterised gas prices in late 2023 and early this year has been absent over the latter half of January. The difference between the high and low closing values on the front Annual for instance has been about 6 p/th, compared to more than 10 p/th through the previous fortnight and 24p/th during December. April '24 Annual gas is currently just under 82 p/th – less than 1% lower than in mid-January – while October '24 and April '25 Annuals are both around 84 p/th, also virtually flat to a couple of weeks ago.

So far, the main impact of the spiralling tensions in the Red Sea has been the decision by Qatar to reroute LNG cargoes heading to Europe away from the Suez Canal, adding 10 to 12 days to shipping times. However, the UK has been awash with LNG – particularly from the US but also from Latin America and Africa – which has helped to offset any delays to Qatari deliveries. Supply from UK LNG terminals into the network has dipped by about 8% compared to the first couple of weeks in January, although this is more a function of falling demand than a slowdown in arrivals. In volume terms, output from UK LNG facilities has fallen by about 9 million cubic metres (mcm) per day, while gas consumption has dropped by more than 20 mcm/day over the same timeframe – slipping about 5% below the seasonal average – meaning the market has generally been well-supplied.

Collapsing UK gas demand has been driven by rising temperatures as well as stronger wind generation, alleviating the need for gas-fired plants. A similar scenario has been playing out on the Continent – residential gas demand has dropped 9% in the Netherlands and 5% in Germany – allowing storage withdrawals to ease after a heavy reliance on stocks earlier this year. EU sites are currently just over 70% full, lower than year ago but substantially above the five-year average (57%). While this has provided some supply assurance for the remainder of Q1, signals of another cold snap later this month pushed UK February '24 gas to end January above 75 p/th, edging up 1%. The new front month – March '24 – is currently just over 72 p/th, down 2% in the past two weeks.

Elsewhere the situation in the Middle East has injected some strength into oil markets and North Sea crude pushed above $84/bbl at one point – the first time this threshold has been breached since November last year – before edging down to $81/bbl currently (still up 4% over the last fortnight). In addition, the global economic growth forecast from the International Monetary Fund has improved slightly – including an upgraded outlook for major consumers the US and China – which has also helped to prop up oil values.



The Copernicus weather service has shifted its forecast to indicate below average temperatures are now expected in the UK for three weeks starting from Monday February 19th, although mild conditions are predicted in the lead-up.

The US Department of Energy has halted approvals for 17 LNG export projects currently in the application process due to concerns over their environmental impact. Stalled developments include the massive Calcasieu Pass 2, which has a planned nameplate export capacity of 20 million tonnes per annum (MTPA) – overall US LNG export capability is around 94 MPTA currently – and was expected to start commercial operations from 2026.

UK NUCLEAR

UK nuclear generation expected to increase over February as two reactors come back online

Restrictions on the Norwegian section of the St Fergus pipeline system – which delivers gas into the UK grid – are set to end on February 16th, restoring 6 mcm of capacity that has been offline since the start of the year.

ENERGY PRICES

Energy prices inch higher on less favourable weather forecasts for February

Norwegian oil and gas major Equinor has been awarded 39 production licences by the country's Ministry of Energy through this year's Awards in Predefined Areas (APA) round. Around 80% of the company's exploration will be near to existing infrastructure and based around known geological formations.

GAS SUPPLY

Supply of gas into the EU remains strong, with storage 13% higher than the 5-year average for January

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
82.91	0.81	85.31	0.66	74.82	-0.88	73.50	-3.32	33.33	0.23	81.87	4.46

All changes (chg) are compared to last report

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