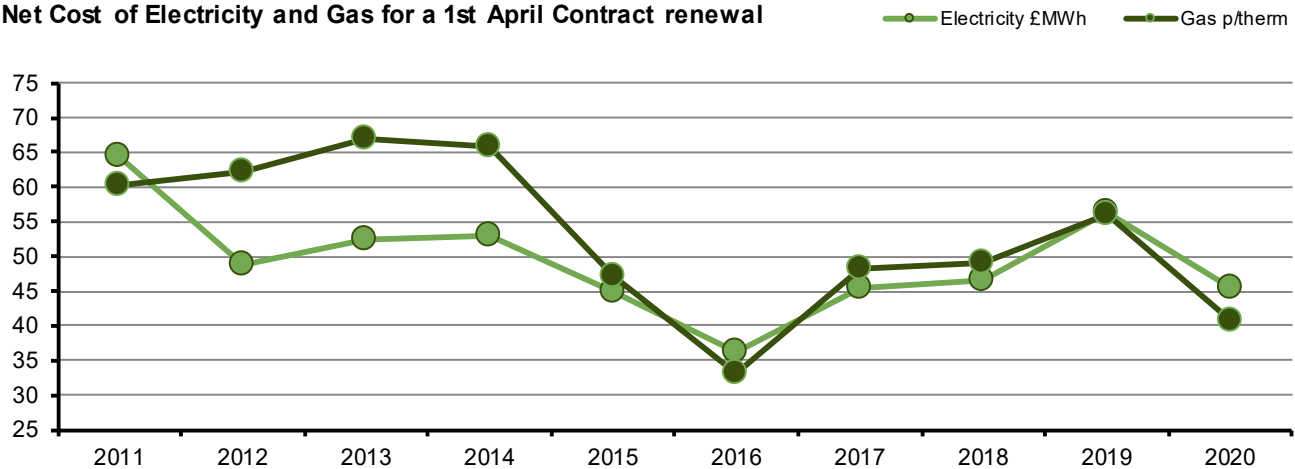


Report issued: 22nd January 2020

## Net Cost of Electricity and Gas for a 1st April Contract renewal



### Electricity: base load cost - excludes distribution, taxation and supplier margin and costs

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
64.40	48.65	52.50	52.98	44.85	36.23	45.38	46.53	56.35	45.50

### Gas: core gas cost - excludes distribution, taxation and supplier margin and costs

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
60.17	62.15	67.03	65.75	47.08	33.23	48.20	48.93	55.93	40.75

### Week commencing 13<sup>th</sup> January 2020

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
<b>Start</b>	\$65.50	33.56	£41.64	\$52.75	-13.7
<b>End</b>	\$64.87	30.99	£40.32	\$48.30	-13.1

Bearish fundamentals continued to drive the UK gas market last week, as contracts shed value due to the strong supply and mild temperatures. Although cold temperatures are expected to start this week, much milder weather is forecast across Continental Europe for the last week of January and into February. There seems to be little supporting prices with storage levels remaining very high and LNG still flowing freely. Lower wind generation and higher demand expected to start this week helped lift the day-ahead power contract near the end of the week. Curve contracts were mainly driven down by the heavily supplied gas market as the sell-off endured. Despite colder temperatures for this week, LNG and medium range storage (MRS) remain flexible to ramp up gas flows. Losses were curtailed however due to strength in the carbon market.

### Week commencing 6<sup>th</sup> January 2019

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
<b>Start</b>	\$68.65	36.12	£43.59	\$52.80	-12.7
<b>End</b>	\$65.50	33.56	£41.64	\$52.75	-13.7

Prices continued to drop overall as mild weather, losses in the crude market and an increase to Russian gas flows via Ukraine placed downward pressure on curves across the continent. The activation of the new gas transit deal between the two countries saw volumes reduce drastically at the Velke Kapusany terminal as new flows of Russian gas from the Turk stream pipeline reduced the necessity to flow through Ukraine. Flows at Velke Kapusany slowly picked up throughout the week which helped to offset weak continental wind generation. Bearish sentiment from across the energy complex saw prices drop across the front month to the far-curve week-on-week. A rise in Russian gas flows eased market concerns over weak renewable output and was compounded by the continuation of mild weather forecasts and the return of carbon auctions after a three week break. Far curve contracts were assisted by an easing of tensions in the middle-east and the subsequent fall in the risk premium in the Brent market.

### Week commencing 30<sup>th</sup> December 2019

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
<b>Start</b>	\$68.06	34.58	£43.86	\$53.30	-11.8
<b>End</b>	\$68.65	36.12	£43.59	\$53.80	-12.7

Bearish fundamentals drove price movements early last week, with mild temperatures and the continued influx of LNG supply heaping pressure across the curve. LNG imports broke records again in December, with the UK receiving 29 vessels. The bearish trend was reversed in the first few trading days of the new year, as prices were led higher by supply disruption through the Velke Kapusany pipeline from Russia and by a surging crude oil market. Balance of winter contracts closed slightly lower, however the rise in the oil market amid Middle East tensions led seasonal contracts higher. Heavy losses in both European carbon and NBP gas heaped pressure on UK power contracts through much of last week. Gas was initially weighed down by mild weather, strong supply and the signing of the new Russia-Ukraine gas transit agreement, whilst carbon shed value due to the impending return of auction volume. News of a U.S. air strike which killed a top Iranian general and supply disruptions through the Velke Kapusany pipeline from Russia helped lift prices on Friday, however were not enough to erase previous losses.

### Week commencing 23<sup>rd</sup> December 2019

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
<b>Start</b>	\$66.08	37.47	£45.75	\$51.50	-10.3
<b>End</b>	\$68.06	34.58	£43.86	\$53.30	-11.8

Prices across continental Europe took a heavy downward shift at the signing of the new 5-year Russia-Ukraine gas transit deal last week. With the current deal expiring at the end of this month, the market questioned whether a deal could be reached by both parties as 2020 should see the opening of both the NordStream 2 & TurkStream pipelines, both of which supplying Russian gas to Europe and bypass transit through Ukraine. With the short-term risk associated with the signing of the deal removed, gas prices within-season plummeted with Q1'20 shedding 3.45p/therm. Strong LNG flows together with renewables dominating immediate generation saw the UK power prompt market drop with the week-ahead contract falling £1.10/MWh last week. This together with the signing of the Russia-Ukraine gas transit deal saw the bearish fundamentals take hold of the market pushing down prices across the curve. The rally in Brent crude offered partial support to far-term contracts however this alone could not stop the follow-on from the downward facing continental gas market with Summer'20 itself falling £2.14/MWh.

Disclaimer: The above information is based on current market data available at the time of producing this document and is subject to change. ECA cannot be held responsible for movement in the commodity market.