

Report issued: 22nd December 2021

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



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

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
51.83	52.39	50.86	38.94	45.20	47.90	58.35	49.18	44.80	111.43

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

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
66.57	67.17	56.07	36.42	44.10	49.38	59.30	44.26	35.13	109.30

### Week commencing 13<sup>th</sup> December 2021

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
<b>Start</b>	\$74.88	197.99	£198.06	\$144.00	58.3
<b>End</b>	\$73.06	237.71	£249.20	\$162.00	74.1

Last week began with much of the energy complex ripping higher, led initially by a strong start for gas with the German Foreign Minister reiterating over the weekend that Nord Stream 2 will not be consented until it complies with EU law. As the week continued the front of the gas curve was well supported by a growing number of Russian forces amassing on the Ukrainian border. However, the real talking point of the week came on Thursday with intense volatility across gas, power, and carbon markets. Front month gas began the day with weakness dropping before buyers stepped into the contract and pushed pricing higher over the course of the day. Support was lent by power pricing screaming higher as well as an apparent lack of day-ahead capacity booking by Gazprom at Mallnow, although this proved to be mind games with the firm booking the capacity in the early morning just a few hours ahead of the new gas day. Power pricing stole the spotlight for many traders with Jan 22 UK baseload gaining. This was prompted by news that two EDF French nuclear plants were found to have cracks in casings that would see them taken offline for maintenance through to Jan22. With further low marginal cost generation being taken offline, already strong French power pricing is expected to move higher still into delivery, which the UK picks up exposure to via the interconnectors.

### Week commencing 6<sup>th</sup> December 2021

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
<b>Start</b>	\$71.20	146.63	£160.44	\$124.50	38.9
<b>End</b>	\$74.88	197.99	£198.06	\$144.00	58.3

Last week saw large gains in gas and power markets with front month, Summer 22, and Winter 22 gaining. The gains in the seasonal contracts vastly outstripped gains in the very front of the curve, which market participants have linked to a few factors over the course of last week. Factors included trading houses and hedge funds attempting to front-run hedging of large domestic portfolios. Expectation of reduced LNG capacity by Summer 22, and Nord Stream 2 looking ever less likely to be delivering gas in time to help to allay further storage depletion to critical levels by the end of Winter, leaving us in a similar situation, relying on Russian flow and LNG to refill gas storage for Winter 22. Power markets moved in line with gains in gas with strength across the curve as front month, Summer 22, and Winter 22 gained on the week. Prompt power markets were kept largely in check by higher wind output with Thursday looking tight until wind output was forecast to double at the day-ahead stage helping to keep generators in check and pricing in the recent range. Carbon market also posted gains last week. Dec 21 EUAs reaching new highs once again last week pushing to levels above €90/tonne that had market participants discussing the €100/tonne level with more belief than ever. However, a sell off on Thursday that saw the contract drop. Brent crude saw gains over the first half of the week as news coming out of South Africa on the severity of Omicron symptoms looked positive as well as roadblocks on US-Iran talks, helping to push potential supply increases further in into the future.

### Week commencing 29<sup>th</sup> November 2021

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
<b>Start</b>	\$75.58	148.39	£162.57	\$152.00	41.3
<b>End</b>	\$71.20	146.63	£160.44	\$124.50	38.9

Last week saw carbon hit lofty new heights with seasonal gas and power contracts posting strong gains, however front month contracts struggled more so. Jan 22 NBP became the new front-month gas contract, gapping higher on Monday before spending most days sinking lower to settle. Summer 22 and Winter 22 NBP showcased more established gains, moving higher come the end of the week. Gas prices generally felt support from storage worries in Europe remaining and being further compounded by colder forecasts being announced. Moves higher front TTF and even US gas at times helped to prop gas up and provide direction. Whilst mostly following gas, power from even more guidance from carbon which saw Dec 22 EUAs reach a new high above €80/tonne towards the end of the week. Jan 22 baseload gained virtually in line with its seasonal contracts, whilst Summer 22 and Winter 22 baseload rose. Providing bearish pressure to gas and power last week was strong wind output helping to ease pressure on gas burn generation and Gazprom booking day ahead capacity late on Thursday sparked a sell-off in the last hour of trading. Dec 22 EUAs increased by the end of the week, lifting above €80/tonne at times but ultimately settling just below this point on Friday. UKAs on the other hand struggled to follow, often disassociating from EUAs which led to the contract ending the week flat. Oil was the main outlier last week with Feb 22 Brent shedding \$1.71/barrel of value, giving up the \$70/barrel level by the end of the week, a level the contract grappled with all week.

### Week commencing 22<sup>nd</sup> November 2021

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
<b>Start</b>	\$79.14	144.97	£149.99	\$145.00	37.5
<b>End</b>	\$75.58	148.39	£162.57	\$152.00	41.3

Last week saw gas prices push higher overall, with days of strength in the middle of the week helping contracts to post gains although capped either side by losses with ensured price increases were kept in check. Dropping wind output and colder temperatures putting strain on gas was outweighed by nervousness around resurgent COVID-19 cases in Europe as Austria entered lockdown and Germany reports sharp rises in cases. With so much of the attention this winter on Nord Stream 2, another beast from the east type of scenario in Europe and general European storage levels, COVID-19 has once again reared its head and could force prices lower if restrictions and lockdowns are re-imposed. Dec 21 NBP ended the week higher, with a weak day on Friday helping to keep gains for the week quite modest. Power, on the other hand, found support from carbon hitting lofty new heights. Dec 21 EUAs hit a new high, although the contract eventually settled off this level by the end of the week. Dec 21 baseload rose by the end of the week. The front season power contracts were tamer, although still stronger than gas, with Summer 22 and Winter 22 baseload gaining. Brent slipped lower last week. Jan 22 Brent dropped \$6.17/barrel on the week, finding some support from the amount of oil released in the Strategic Reserves being called into question along with OPEC+ looking to match their supply cuts in line with this level.

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.