

Report issued: 23rd March 2022

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



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

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
52.4	50.19	44.08	34.48	43.85	48.83	49.29	38.75	60.94	258.52

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

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
68.84	62.99	47.17	30.3	43.82	48.73	44.86	30.1	50.34	297.74

Week commencing 14th March 2022

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
Start	\$111.00	297.74	£258.52	\$387.00	100.2
End	\$106.95	247.88	£223.42	\$285.00	80.0

Last week saw gas markets fall further amidst little in the way of extremely bullish news flow from the Russian invasion of Ukraine. This helped markets to fall back towards more fundamental views with gas storage looking healthier, LNG headed towards Europe and cold weather premiums being shed on temperate forecasts. Front month gas ended the week down 65p/therm with Summer 22 and Winter 22 dropping 66.30p/therm and 43.40p/therm. However, with markets remaining headline-driven, bullish headlines such as Zelensky refusing an 'Austrian-type' deal and lower flow into Germany helped to provide some within-day strength. Power markets tracked gas with front month, Summer 22, and Winter 22 dropping £48.35/MWh, £40.79/MWh, and £32.11/MWh on the week. Carbon markets were stronger last week with Dec 22 EUAs gaining just over £2/tonne whilst their UK counterparts gained close to £5/tonne. Whilst the week shows strength, it's worth noting that Dec 22 EUAs struggled to convincingly break through €80/tonne several times over the week with sellers hitting the level hard. Dec 22 UKAs rose in a week without auction, but this week's auction should help to bring some liquidity and sellers to market to temper pricing. Oil markets gave up gains on the week with May 22 dropping \$4.74/barrel as the market began to price in improved sentiment around Ukrainian-Russian peace talks, perhaps too soon, as well as a spike in COVID-19 cases in China leading to travel bans and reminding traders of the downside case to oil once again.

Week commencing 7th March 2022

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
Start	\$113.88	377.72	£310.39	\$467.00	127.5
End	\$111.00	297.74	£258.52	\$387.00	100.2

Last week saw prices return to some sense of recent normality after a blockbuster move higher on Monday saw front month gas hit 800p/therm by 8am. The market had gone from discussing how high 200p/therm had been in recent months to only go and see front month gas trade in a near 300p/therm range within day. The move was sparked by fears over whether Russian gas supply to Europe would remain and set a volatile tone for the week. Tuesday saw a 200p/therm trading range on the Apr 22 NBP contract, with prices truly erratic and often headline driven although some moves had traders and analysts scratching their heads. Apr 22 NBP finished the week 149.21p/therm lower, likely helped by news of Russian flows actually increasing to Europe towards the end of the week. Power prices largely moved in line with gas. Apr 22, Summer 22, and Winter 22 baseload dropped by £99.74/MWh, £89.95/MWh and £26.93/MWh, respectively. Oil prices were also hindered by bearishness entering the market as gas and power prices began to trade back to recent pre-war levels. May 22 Brent dropped \$5.44/barrel over the course of the week, sinking away from highs of \$130/barrel at times during the week. Carbon was the outlier last week with buyers emphatically stepping back into the contract on Tuesday as Dec 22 EUAs traded in a €13/tonne range and gained €10.21/tonne from the prior day, a strong reversal from the recent trend. The contract gained €11.66/tonne by the end of the week and helped to see Dec 22 UKAs jump £4.19/tonne higher too.

Week commencing 28th February 2022

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
Start	\$92.64	179.89	£174.54	\$197.00	54.6
End	\$97.17	227.35	£205.92	\$247.00	71.4

Last week saw further unprecedented volatility of commodity markets. Front month UK gas saw over a 100% move upwards on the week, equating to 235.66p/therm. Bullish factors included UK ports shutting their doors to Russian vessels, including LNG carriers; margin rate hikes on exchanges; increased pressure on NATO to enforce a 'No Fly Zone' over Ukraine, which would constitute a severe escalation; the exit of large European trading houses and utilities from exposures to Gazprom and other Russian entities, such as Rosneft; increased fears of Russia halting gas flow to Europe; and the Russian capture, and resulting fire, at Zaporizhzhia, Europe's largest nuclear power plant. This not to say price action was one way, there were periods of severe downwards movements in price action too with close to 70p/therm downward moves in single hours not uncommon with bearish factors including Germany's public opposition to sanctioning Russian energy firms and the idea of mandated EU gas storage levels being brought into legislation to temper markets in the medium-term. Seasonal contracts also moved higher but not in the same way as Summer 22 gained 211.20p/therm whilst Winter 22 gained 'just' 88.27p/therm. Power markets moved up with gas as front month, Summer 22 and Winter 22 UK base gained £170.43/MWh, £152.21/MWh, and £70.33/MWh. Carbon markets were negatively correlated to gas last week with Dec 22 EUAs dropping just over €23/tonne on the week, whilst their UK counterparts dropped £12.05/tonne. Losses looked linked to speculative money fleeing the asset with portfolio rebalancing occurring across the investment community along with stressed balance sheets due to exchange margin movements causing the selling of EUAs in size at times, helping to spook the market. Oil markets have also seen meteoric rises with the May 22 Brent contract gaining \$20.18/barrel with Russian oil struggling to get to an already tight market.

Week commencing 21st February 2022

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
Start	\$92.64	179.89	£174.54	\$197.00	54.6
End	\$97.17	227.35	£205.92	\$247.00	71.4

Last week saw gas, power and oil swing violently from Thursday morning after news broke that Russia launched an attack on Ukraine. Mar 22 NBP hit a high print of 285p/therm that morning as the market digested the reality of Russia declaring war on a sovereign state. All eyes focussed on what sanctions would be levied against Russia and the energy market grew fearful that gas flow from Russia into Europe could end. Sanctions looked to cripple the Russian economy whilst Germany pledged to send directly to Ukraine to assist their defence against Russia. Alongside this, companies such as BP looked to divest from Russian state-oil company Rosneft. One thing was certain following Russia's move against Ukraine, volatility would ensue but ultimately the expectation is that prices are likely to increase. Whilst down from the highs, Summer 22 and Winter 22 NBP rose over 45p/therm over the course of the week whilst baseload power saw gains above £28/MWh from Mar 22 through to Winter 22. Oil swung around 7-year highs, often lifting above \$100/barrel but ultimately failed to sustain this level come settlement Friday. Worries persist over supply, linked to Russia/Ukraine, and helped the Apr 22 Brent contract finish \$4.39/barrel higher over the week. Contrastingly, carbon dipped last week with Dec 22 EUAs down €1.33/tonne whilst the comparative UKA contract fell £4.14/tonne.

Disclaimer: The above information is based on current market data available at the time of producing this document and is subject to change.

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