

Report issued: 13th April 2022

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



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

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
52.34	42.88	45.90	35.30	43.15	48.13	43.59	32.98	60.53	214.93

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

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
71.19	58.15	49.30	30.79	43.09	48.60	43.78	25.93	49.68	243.01

### Week commencing 4<sup>th</sup> April 2022

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
<b>Start</b>	\$104.65	255.33	£233.28	\$275.00	83.7
<b>End</b>	\$100.27	243.94	£227.43	\$0.00	80.3

Last week saw weakness at the front of the curve for gas and power markets with strength at the backend. The market vied last week with the uncovering of supposed Russian war crimes that had some struggling to see how sanctions couldn't be extended to Russian energy products, especially gas, against a speech highlighting the reliance on Russian gas by the German Chancellor in his joint speech with Boris Johnson on Friday. Traders seem to be discounting the likelihood of interrupted flow, at least in the near-term, despite a resolution from the European Parliament to ban EU imports of Russian energy products. Front month closed the week down almost 29p/therm although traders also seemingly priced in a longer tail to the Russian invasion and the post-war fallout with Summer 23 gaining almost 25p/therm. Last week has produced an interesting shape to the NBP curve with front month now at a 30p/therm discount to Winter 22, but with the Winter 22/Summer 23 spread narrowing a little as the backend moved higher. Power markets took gas as the main signal, shrugging off movements in carbon markets, with front month and Winter 22 dropping £19.41/MWh and £10.68/MWh whilst Summer 23 rallied £19.49/MWh. Wednesday saw relatively heavy selling over the course of the afternoon to push the contract back down to £77/tonne and early weakness on Thursday dragged the contract down closer to the €76/tonne level. UK carbon also saw gains on the week, finishing £2.42/tonne higher. Brent markets began the week with strength as traders bet on EU sanctions extending to oil, however of the course of the week pressure built significantly. The end of the week was spent trying to push higher with analysts warning that the market remains tight despite strategic reserve releases. Jun 22 Brent dropped \$1.61/barrel on the week.

### Week commencing 28<sup>th</sup> March 2022

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
<b>Start</b>	\$119.88	243.01	£214.93	\$283.00	79.6
<b>End</b>	\$104.65	255.33	£233.28	\$275.00	83.7

The market struggled last week to decide whether or not to believe the progress made in peace talks between Ukraine and Russia. Russia committed to a pull-back of its troops, although had said this previously, along with promising to allow humanitarian corridors out of major cities, before doing precisely the opposite. The market also vied with whether gas flow to Europe would stop at the start of April with Putin decreeing that this was the start date for payment in Rubles despite earlier signals of a phased approach. The decree was also followed by the threat that Russia would not ship gas for free and any deviation from the payment rules would lead to a stop of gas flow. This certainly provided support into Friday, although as Friday came around the flows into Germany looked stable if not a little higher, risk premium was shed from the curve over the course of the day. Front month NBP gained 16.21p/therm on the week whilst Winter 22 gained 23.75p/therm and Summer 23 managed to drop a little. Power markets tracked gas with front month, Winter 22, and Summer 23 gaining £10.93/MWh, £26.93/MWh, and £2.87/MWh. Carbon markets continued to bounce around in the current trading range with Dec 22 EUAs seeing rallies above €80/tonne being sold and dips below €76/tonne being bought. Auction weakness last week also helped to cement losses late in the week with record discounts to the secondary markets. Oil markets were especially bearish last week with the Jun22 contract falling \$12.98/barrel on the week. Weakness looked linked to Russian/Ukrainian peace talks along with EU sanctions on oil looking less likely. Further pressure came from Biden announcing a release of 1 million barrels-per-day from US strategic reserves over the next six months.

### Week commencing 21<sup>st</sup> March 2022

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
<b>Start</b>	\$106.95	247.88	£223.42	\$285.00	80.0
<b>End</b>	\$119.88	243.01	£214.93	\$283.00	79.6

Last week saw energy prices move in tumultuous fashion, something that's becoming all too familiar for market participants and speculators alike. Despite this, gas began the week timidly, generally easing lower as levels stuck around the pre-Ukraine war trading range. Putin then stated any "hostile states" will have to pay in Russian Rubles for any gas bought from Russia. Prices spiked at the news, seeing front month lift above 300p/therm once again before settling back below this level. The week ended with extreme volatility in gas markets with front month NBP showing strength through the first half of the day to push back above 300p/therm briefly before failing to hold the level and being sold over the course of the afternoon. Strength looked linked to fears of chemical weapon use in Ukraine and some desire to test the 300p/therm level, whilst weakness came from a lacklustre set of EU/G8 meetings that failed to see much more in the way of sanctions that may increase the chance of reduced gas flow. Despite highs above 300p/therm, Apr 22 NBP dropped 9.39p/therm on the week with losses consistent across gas and power. Carbon continued to grapple with apparent willingness to test €80/tonne as Dec 22 EUAs eventually lost €0.29/tonne on the week with losses slightly more pronounced for Dec 22 UKAs. Most losses for EUAs occurred on Wednesday with the expiry of the March options contract which brought sellers to the fore. Oil, on the other hand, increased over \$12 on the week to settle just above \$120/barrel, a level its recently found itself above on the May 22 Brent contract but struggled to consistently stay above.

### Week commencing 14<sup>th</sup> March 2022

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)	Market Index
<b>Start</b>	\$111.00	297.74	£258.52	\$387.00	100.2
<b>End</b>	\$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 56.30p/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.

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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