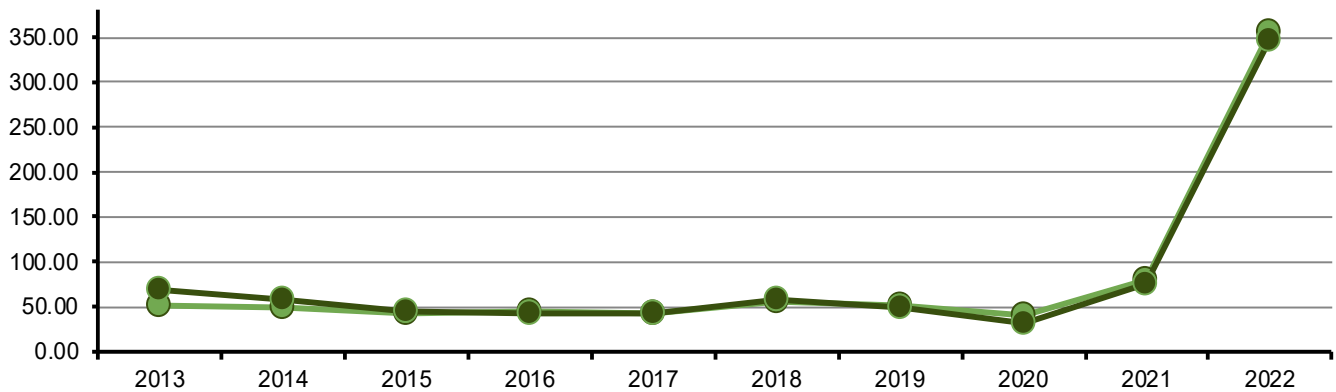


Report issued: 3rd August 2022

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

Electricity £MWh Gas p/therm



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

| 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022   |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| 51.34 | 49.55 | 43.25 | 43.76 | 43.19 | 56.48 | 52.23 | 41.03 | 78.70 | 356.65 |

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

| 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022   |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| 68.49 | 58.30 | 44.03 | 42.77 | 42.67 | 57.98 | 48.48 | 30.49 | 75.54 | 346.68 |

#### Week commencing 25<sup>th</sup> July 2022

|       | Oil (bbl) | Gas (ppt) | Power (MWh) | Coal (MT) |
|-------|-----------|-----------|-------------|-----------|
| Start | \$104.46  | 356.27    | £366.48     | \$380.50  |
| End   | \$110.43  | 392.14    | £405.85     | \$408.00  |

Last week saw volatility as the markets remained nervous amid a poor outlook for winter supply. Gazprom announced that flows via Nord Stream 1 were going to be cut further, down to 20% of its capacity. The ongoing arguments around the return of the famous Siemens turbine continued with rows over paperwork and sanctions. Many western commentators blamed the latest moves by Gazprom as retaliation to sanctions imposed by the EU and UK. Tuesday saw the market rally hard, NBP up 17% on front month and 15% for Winter-22 contracts. Wednesday then saw confirmation that gas flow nominations had dropped down to just 20% of capacity. The EU commission responded to this by finally agreeing to voluntary 15% cuts in gas demand, the first signs of demand destruction seen in preparation for this winter. The market then dropped on Thursday on little new news, front month NBP contracts shedding 145% of value as we move closer to delivery month. The market then edged lower on Friday as traders looked to reassess the market after a hectic week.

#### Week commencing 18<sup>th</sup> July 2022

|       | Oil (bbl) | Gas (ppt) | Power (MWh) | Coal (MT) |
|-------|-----------|-----------|-------------|-----------|
| Start | \$100.94  | 338.93    | £339.53     | \$374.50  |
| End   | \$104.46  | 356.27    | £366.48     | \$380.50  |

Last week saw the continuation of high market volatility as Nord Stream 1 maintenance came to an end. The market spent the first few days of last week anticipating the outcome of the 10-day Nord Stream 1 annual maintenance, however news broke that gas flows were going to remain but only at 40% capacity. The gas turbine that needed maintenance was sent over to Canada but remains in Europe and has not been returned to Gazprom as of yet. The outlook for winter continues to look very tough, as reduced levels of French nuclear capacity look to add pressure to an already tight European power grid. This has now been reflected in pricing as winter contracts continue to trade at a significant premium to front month contracts. Friday brought strength in the market with prices rising 16p/therm on Aug-22 contracts and 8p/therm on Winter-22 contracts. NBP front month finished the up 48.27p/therm and Winter-22 down 2.49p/therm. Brent gained \$2.04/barrel, as the market continues to monitor demand and supply worries. Wind generation did pick up over the weekend, contributing over 47% of electricity supply on Sunday morning.

#### Week commencing 11<sup>th</sup> July 2022

|       | Oil (bbl) | Gas (ppt) | Power (MWh) | Coal (MT) |
|-------|-----------|-----------|-------------|-----------|
| Start | \$106.49  | 376.15    | £341.93     | \$397.00  |
| End   | \$100.94  | 338.93    | £339.53     | \$374.50  |

The energy markets continued their volatility last week with a change to the shape of pricing curves. Front month Aug-22 contracts sold off on Friday afternoon as the risk premium was shed as it gets closer to delivery. Traders battled all week with balancing fears of Nord Stream 1 coming back online. The start of the week saw value selling off on news that Canada was to return Siemens gas turbines. Tuesday then saw the market rally on news that one of Equinor's gas platforms was out of action due to gas leaks, reversing the sell off seen on Monday. Brent saw a large sell off with combined impact of a strong US dollar, fears of an economic slowdown and covid-19 growth in China. Pricing then rallied further on Wednesday as Norwegian flows were still out of action, with NBP Winter-22 pricing hitting 450p/therm. The back end of the week saw a strong sell off despite there being little change in fundamentals, with the possible reasoning for this profit taking and traders de-risking ahead of the weekend.

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

|       | Oil (bbl) | Gas (ppt) | Power (MWh) | Coal (MT) |
|-------|-----------|-----------|-------------|-----------|
| Start | \$110.33  | 317.84    | £289.35     | \$373.00  |
| End   | \$106.49  | 376.15    | £341.93     | \$397.00  |

Last week saw the market become increasingly nervous as the political tensions over gas supply to Europe ramped up. Market liquidity remains low as traders remained nervous of being caught out by large spikes in the market. Electricity continued to follow the moves in gas closely, something that seems unlikely to change in the short term. Monday saw the market rally hard, with Winter-22 hitting a new high of 416p/therm. Moves seemed to be driven around the fears of Norwegian gas and oil workers going on strike on Wednesday. Tuesday saw a similar rally with Winter-22 NBP again hitting a new high of 434p/therm, although a Tuesday afternoon sell-off saw value shed as the Norwegian government stepped in and ended workers strike. Later stages of the week saw the market rally once again due to the nervousness around the Nordstream 1 maintenance. With the new highs in the market we would expect to see demand destruction across consumers which may provide a slight relief this winter. The end of the week saw Aug-22 NBP drop 23% as Canada hinted it may return gas turbines to get Nordstream1 back up to 100% capacity. Aug-22 NBP settled the week down 26.72p/therm, with Winter-22 up 24.78p/therm and Summer-23 up 50.57p/therm. Power followed closely, Aug-22 down £14.16/MWh, Winter-22 up £36.78/MWh and Summer-23 up £33.09/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.