

Report issued: 10th August 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
68.65	56.30	43.60	41.73	43.23	58.12	48.15	28.69	95.91	388.23

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

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
68.65	56.30	43.60	41.73	43.23	58.12	48.15	28.69	95.91	388.23

### Week commencing 1<sup>st</sup> August 2022

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)
<b>Start</b>	\$110.43	392.14	£405.85	\$408.00
<b>End</b>	\$96.16	424.90	£433.35	\$295.00

Last week saw volatility cause the front end of the curve to bounce about. Typically, gas and power have moved similarly in line with each other, although recently we've seen power remain high on days that gas has traded lower. Power is strong as fundamentals continue to look tight over winter. European power pricing remains incredibly strong helping to provide strength to UK pricing. Low hydro levels across Norway and continental Europe may result in reduced electricity export levels this winter, which will cause tightness in the UK grid. The pricing curve continued to evolve last week, as the back of the curve shifted higher, reducing the level of backwardation seen in recent months. Summer-23 contracts settled the week 36.75p/therm and £30.39/MWh for NBP and UBL respectively. Carbon had a strong week, EUAs and UKAs both gaining on increased emphasis across Europe on fossil fuel generation going into winter months. EUAs settled the week up €4.18/tonne and UKAs up £2.53/tonne. Brent remained very weak, with its biggest weekly drop in months on weak economic data concerns that demand would plummet. Wind speeds were high at the start of the week, generating over 17GW during the middle of the day on Tuesday. Wind continued to remain weak throughout the week with solar generation and gas for power generation strong during yet more warm weather.

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

	Oil (bbl)	Gas (ppt)	Power (MWh)	Coal (MT)
<b>Start</b>	\$104.46	356.27	£366.48	\$380.50
<b>End</b>	\$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)
<b>Start</b>	\$100.94	338.93	£339.53	\$374.50
<b>End</b>	\$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)
<b>Start</b>	\$106.49	376.15	£341.93	\$397.00
<b>End</b>	\$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.

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.