Energy Market Report

27th July 2022

Gas

Prices continue to surge upwards dominated by news surrounding Nord Stream 1. A prolonged reduction in capacity flowing through the pipeline is continuing to elevate concerns for the gas supply to Europe this winter. Unplanned outages in Norway and the extreme heat limiting nuclear production has exacerbated the situation over the last month.

July saw the beginning and end of the planned 10-day maintenance period for Nord Stream 1. The market was extremely concerned that the pipeline may not become operational again after the work was completed and high prices reflected this. The pipeline did begin to flow gas again, returning briefly to a reduced flow rate of c.40% seen prior to the maintenance period.

Despite news that the turbine previously held in Canada under sanctions was released, numerous logistical and bureaucratic issues have prevented it from making it back to Europe and allowing an increased flow rate through the pipeline. On top of this, it has been indicated that a further 6 turbines require maintenance – with one set to go offline on 27th July. This would bring the flow rate down to c.20%.

It is difficult to understand how much of the ongoing Nord Stream 1 saga is genuinely maintenance related or politically motivated. What remains clear is that any attempts Russia may have made in past years to alleviate pressure caused by a reduction in Nord Stream flows, by increasing flows through alternative pipelines, is not forthcoming.

Why is Nord Stream 1 so important?

Nord Stream 1 provided more than a third of Russia's total gas exports to Europe last year and roughly 40% of the EUs total gas supply. This is why it is such an important factor in Europe's ability to achieve storage targets set before the start of Winter.

Less than 5% of the UK's gas comes from Russia but the pressure on supply across Europe elevates prices of gas and LNG from all sources. The UK also has extremely limited storage capacity in relation to Europe creating more exposure during the winter months.

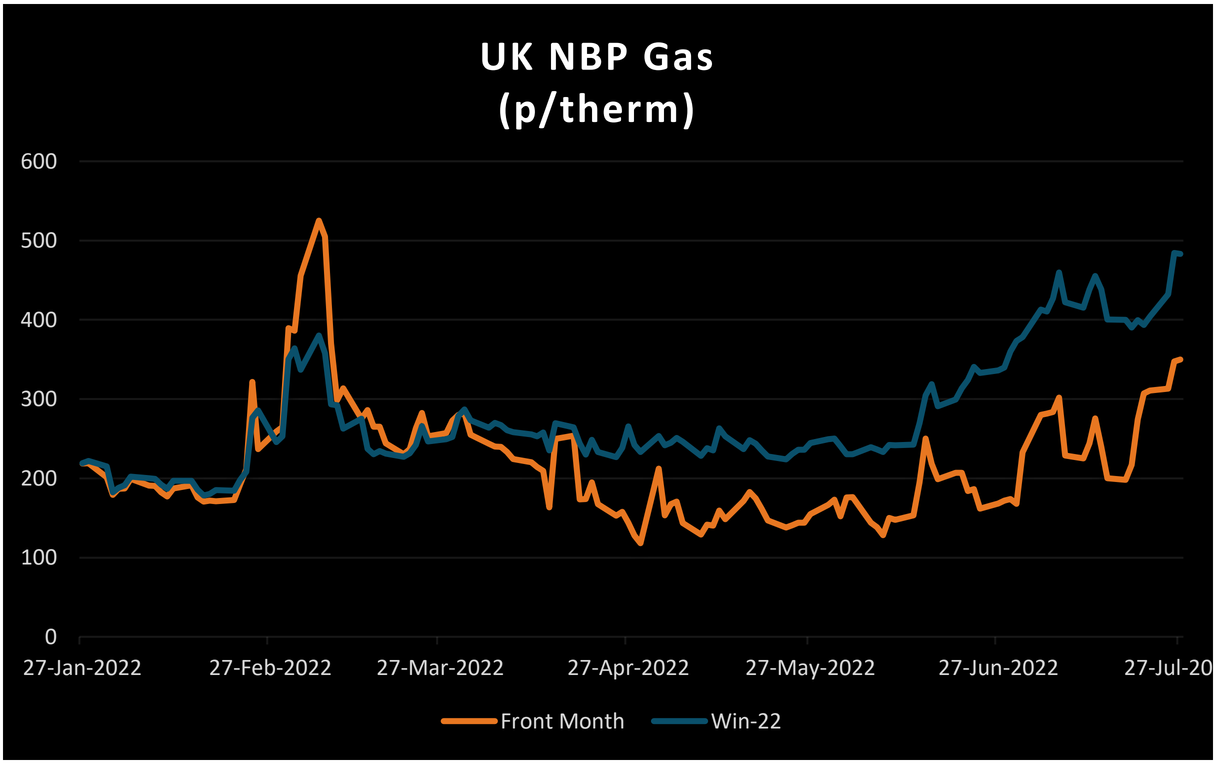
The outlook contains mixed signals but Nord Stream 1 will likely continue to be the main driver of price direction.

Bearish signals

- Any increase in Nord Stream 1 flows would ease supply concerns.
- Return of Rough gas storage facility due mid-autumn - the UKs largest gas storage facility has been offline since 2017 but is due to be up and running again to help manage the current energy crisis.
- Potential for lower demand due to extreme high prices - consumers may chose or be forced to curb consumption due to limited supply.

Bullish signals

- Continuation of Nord Stream 1 reduced capacity.
- A slowdown in LNG arrivals and send-out.
- UK Continental shelf maintenance – if concurrent with any unplanned outages would provide upside risk.



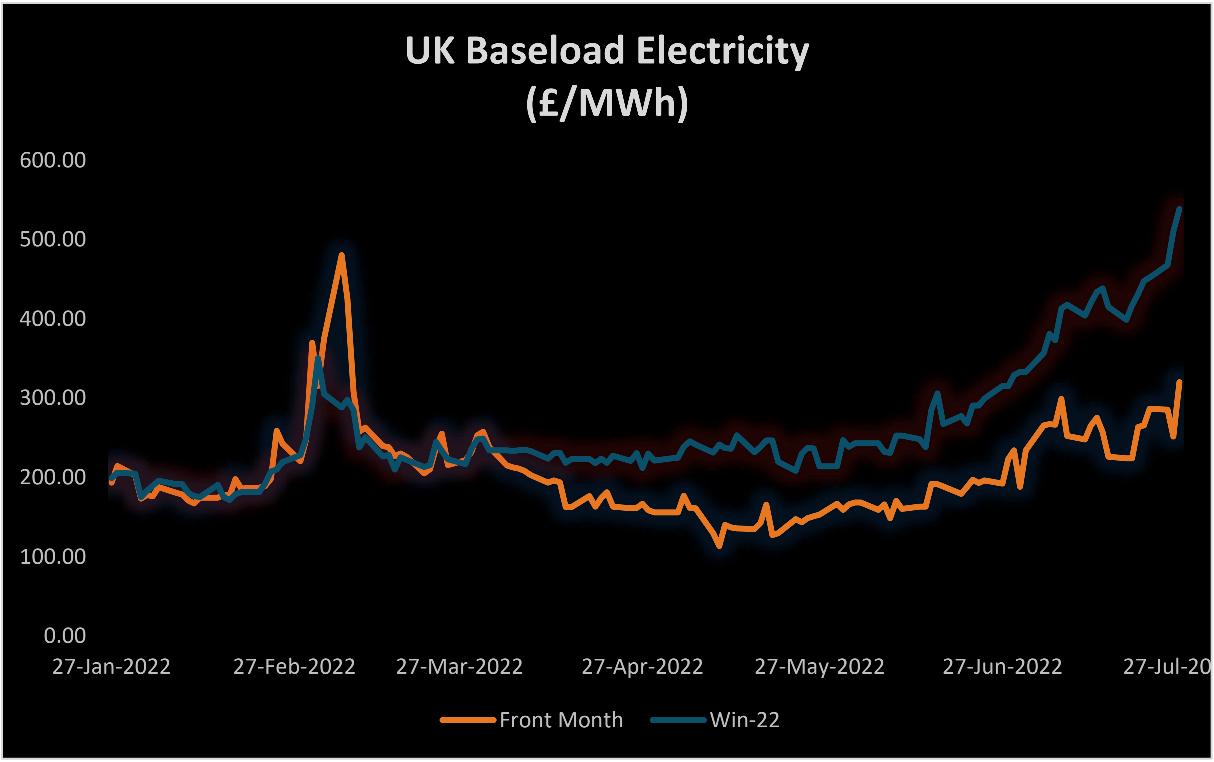
All data courtesy of Reuters

Electricity

Electricity contracts once again shared the upward momentum of its gas counterpart. Reduced nuclear supply, in part due to the extreme heat, making it difficult for cooling processes to take place, added pressure to the already tight supply position.

The precarious supply/demand position was demonstrated on 18th July when National Grid issued two Capacity Market notices as power demand was expected to surge during the heatwave. Both notices were subsequently dismissed prior to the demand period.

A Capacity Market notice is issued when it is predicted that demand will outstrip supply and therefore additional electricity generation is required.



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