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ENERGY

Energy Market Report

7th September 2022

Gas

Through August contracts traded at new highs with Nord Stream 1 once again being the catalyst for the upward surges as Russia seemingly continue to use the pipeline as a political weapon. The pipeline has stopped flowing gas completely with no indication of when it might return to any level of operation.

On 22nd August, Gazprom announced that the one remaining gas compressor of the pipeline would shut for three days for servicing and maintenance from August 31st. Flows were expected to return following the maintenance to the 20% capacity previously observed. Late Friday 2nd September, news that NS1 would remain shut following an issue discovered during the planned maintenance was released. Gazprom announced that an oil leak had been found that would require specialist repair and therefore flows would have to be completely stopped until it was fixed and no indication of when this might be was provided.

The strong European storage picture (Overall EU storage is at 74%, in line with the 5-year average) provided a small bit of good news for the market. Although there are concerns in Germany that the next targets of 85% by 1st October and 95% by 1st November could be much harder to achieve. With the current NS1 situation it is possible that storage will be called upon much more regularly than previous years.

Also during August, BEIS issued warnings about potential enforced blackouts this Winter to manage demand. Freeport, the US LNG terminal which is out of action due to a fire, announced a delay to its return. Much of France's Nuclear assets have been offline, partly due to the extreme heat throughout the month, but also down to the age of the facilities causing safety concerns. All of these factors have created more pressure on the market as it struggles to replace Russian sources of gas.

This week the new PM announced her plan to manage the energy crises. Typical UK households will pay no more than £2,500 a year on their energy bill for the next two years. "Equivalent support" will be available to businesses for at least the next 6-months, with regular reviews from then on with a focus on "vulnerable industries". The details of how this support will be provided has not yet been established and will likely be announced in the coming weeks. It is difficult to try and predict what this might do to the market as capping consumer prices in an uncapped wholesale market brings with it a raft of complexities and unknowns. However, it is of course welcome news that businesses will be getting support and we will look to share more on the detail as soon as we have it.

At the end of August, Winter 22 gas prices exceeded 800p/th which represented an increase of over 1,000% from the same time last year and 1,700% from 2 years ago. Although prices have retreated slightly from that extreme peak, they are still 6x more than last year. There has also been a significant rise in prices beyond the front winter season with the market seemingly anticipating that the energy crisis will not be fixed in the short to medium term.

Nord Stream 1 will, once again, continue to be the main driver of price direction with good news on the matter feeling increasingly unlikely.

Bearish signals

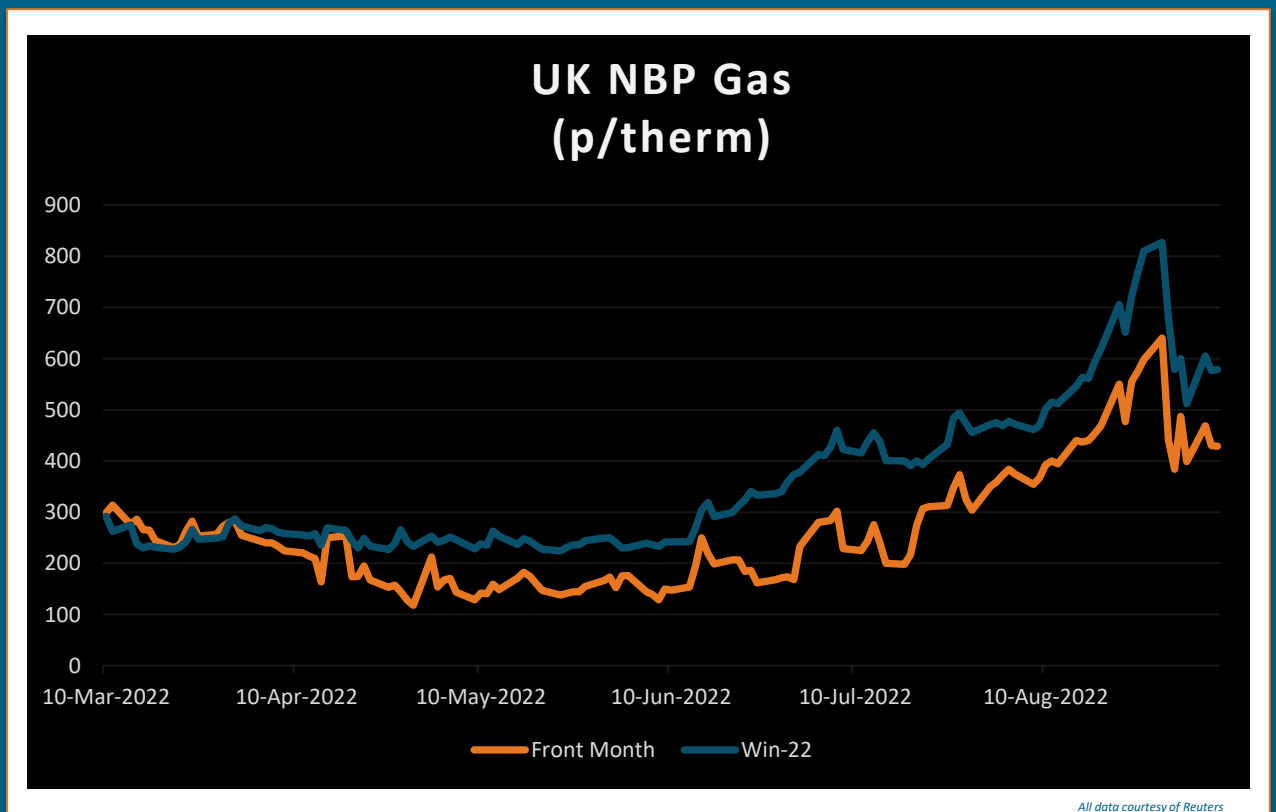


- Any positive Nord Stream 1 news would ease supply concerns.
- Return of Rough gas storage facility.
- Potential for lower demand due to extreme high prices and concerted efforts from European countries to curb usage.
- New PM to announce energy strategy for UK which could provide some relief.

Bullish signals



- Continuation of Nord Stream 1 outage.
- Heavy Norwegian maintenance schedule lowering flows to UK.
- Lower wind and Nuclear output.
- New PM to announce energy strategy for UK which could focus on domestic market and leave businesses even more exposed to high prices.



All data courtesy of Reuters

Electricity

Electricity contracts continue to trend in line with its gas counterpart. Limited Nuclear output across Europe and low Hydro supply supported the upward momentum.

Electricity Market Reform

The current situation where wholesale electricity prices are inextricably linked to the price of gas may soon become a thing of the past. The UK government have launched a review to the electricity market to seek a wide range of options to address the combined challenges of responding to higher global energy costs, the need to boost energy security, and move to a cleaner energy system. One of the main focuses will be de-coupling costly global fossil fuel prices from electricity produced by cheaper renewables.

Similar discussions are being had throughout the EU.

UK Baseload Electricity (£/MWh)



All data courtesy of Reuters



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