

Market Intelligence

September 2021

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GAS REVIEW



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Gas Review

News regarding the UK's energy market has been unavoidable this month, with many experts and media outlets reporting a national energy crisis following the fire at a major interconnector.

The IFA1 interconnector in Kent which brings in supply from France suffered a fire which will reduce capacity at the site by 50% until March 2021. The pipeline was already undergoing maintenance which also limited available supply to 50% but this has now been concluded.

The strain this will put on gas-fired power generation will be significant and led to a surge in prices this month which has resulted in record-highs. Day-Ahead Gas reached an all-time high of 187.50p/th on the 15th of September.

This unprecedented increase is likely to impact multiple industries across the country, with concerns that the food and drink industry may even suffer a shortage.



ELECTRICITY REVIEW



Electricity Review

Power prices also rocketed on the back of the bleak supply situation, with a number of suppliers going out of business due to unmanageable pricing – leaving many customers in limbo.

The consumer will of course feel the impact of the current situation and businesses are advised to speak to their consultants if their contract is coming to an end in the next 12 months.

The short-term outlook for power prices relies entirely on the gas market, with low storage levels already pushing the market higher prior to the blaze at IFA1.



OIL REVIEW



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Oil Review

Brent Crude nears \$80/b due to supply constraints which has supported the oil market. The investment bank, Goldman Sachs expects the commodity to reach \$90/b by the year's end, while WTI has climbed to its highest level since July.

The easing of COVID-19 restrictions has led to a rise in global demand, while US production was severely impacted by Hurricane Ida. The storm led to the shut-down of 88% of oil production facilities on the US Gulf Coast and around 350 oil spills were reported.

It is still unknown when production in the area will return to full capacity.



MARKET INFO



Market Info

In other news, Nord Stream 2 continues to hit the headlines as the CEO of Ukrainian-owned Naftogaz accused Gazprom of using the nation's current economical plight as an excuse to bring the pipeline into operation.

The pipeline would bypass Ukraine and Poland in bringing flows to Europe, costing each nation billions of Euros. This has led to officials labelling Nord Stream 2 as a geopolitical weapon to strengthen Russia's influence on the region.

German officials have also voiced concerns over Russia's intentions and have warned that sanctions may be imposed if it is determined that underhand tactics are being used.

Critics also believe that the pipeline is not compatible with Europe's climate targets, placing too much reliance on Russian imports rather than renewable power. The project is expected to be fully operational within the next 4 months.



Energy Matters – TP5



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Energy Crisis Explained

With colder weather now arriving it's easy to think that the energy crisis will get worse before it gets any better. The demand for more heating in homes and offices will only put supply under more pressure and continue to push prices in an upward trajectory.

Gas prices in the UK have more than quadrupled over the last year to highs of 180 pence per therm, from around 40p/therm this time last year. In the last month alone, prices have climbed by 70 per cent.

But how did we get into this position in the first place? Low storage volumes, disappointing Russian flows, North Sea glitches and limited LNG deliveries in the face of still-rising Asian prices alongside tightening coal markets, have all been contributory factors.

Rough decision

The decision to permanently close the U.K's largest offshore storage facility, Rough, in the summer of 2017 deprived the country of 70 per cent of its total gas storage capacity and increased the dependence on imported gas by pipeline from Norway and Russia, or by LNG from the US and Qatar.

The slow boat to China

With China's economy bouncing back as the country emerges from the after-effects of COVID-19, there has been record demand for gas to keep machinery running and the lights on.

To satisfy this, China's imports of gas via super-chilled tankers were expected to surge by almost a fifth, meaning fewer shipments travelling to Europe from countries such as Qatar.

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Russian gas roulette

Russia's state-backed gas company, Gazprom, has refused to increase its exports to Europe, to help meet the high demand – despite record-high prices across the continent – in what is seen as a strategic move by Vladimir Putin.

Adding fuel to the fire

A large fire at the interconnector site, near Ashford in Kent, has severely impacted on electricity imports from the sub-sea cable that runs between France and Britain. The IFA1 interconnector has been used to import electricity from France, to support the UK grid, since 1986. It was only operating at half capacity at the time of the fire because of planned maintenance work and is expected to continue to run at reduced capacity until the end of March due to this latest incident.

The energy mix

A more diversified energy mix mitigates against supply issues because there are more options to get around the problem. Countries that have prioritised domestic low-carbon energy are less prone to risk and able to ride out the storm easier.

But low wind output and a lack of investment in other forms of renewable energy, as some see it, means there isn't enough green energy being produced in the U.K to meet demand without firing up environmentally damaging, fossil fuel-burning power stations or importing energy from abroad.

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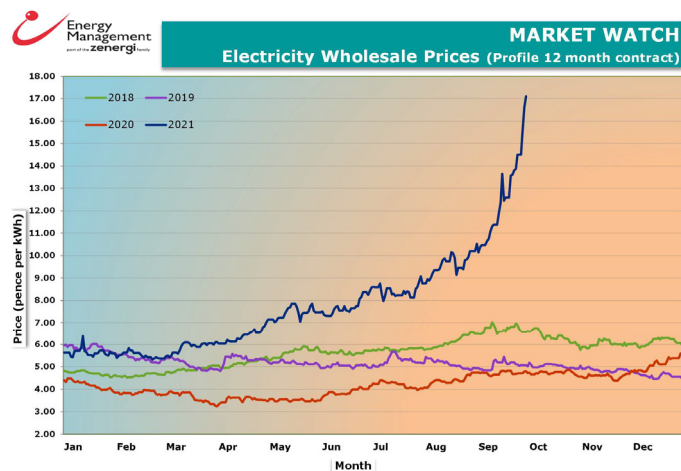
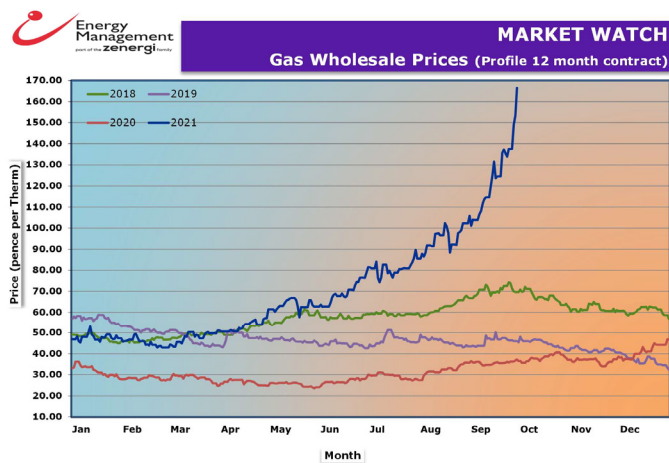
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... but it's not all bad news.

On Friday 1 October, commercial electricity will start to flow on the 450-mile North Sea Link, the world's longest sub-sea power cable, connecting British and Nordic power markets for the first time.

Supply will initially be limited to about half of its 1,400-megawatt capacity, with plans to gradually increase to full output by the start of next year.

If you would like to chat to one of our consultants about energy prices and energy procurement at this volatile time, please feel free to get in touch on 01225-867722



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