Wholesale Markets

briar

Energy Management

apollo energy

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Analysis of wholesale markets

February 2022

Downward price driver ↓

Upward price driver ↑

Gas 12% ↑

Power 7% ↑

Short Term: Volatile

Wholesale prices are as volatile as ever at present, and this is expected to remain while there are many uncertainties at play.

Long Term: Slightly Bearish

Prices are far removed from their historical averages. Long term it is expected for them to begin to move back towards these however, this could be a gradual process, with elevated prices remaining for a while.

Bitesize Snapshot

- Russia invades Ukraine ↑
- European gas storage levels below 30% ↑
- Nord stream 2 suspended ↑
- Reduction in Russian gas flows to Europe ↑
- Threat of further sanctions on Russian energy exports ↑
- Oil breaks $100/barrel ↑
- Delay in IFA interconnector repairs ↑
- All covid restrictions in UK end ↑

- UK gas storage levels at 88% ↓
- High wind generation levels in February ↓
- Higher than average temperatures ↓
- OPEC+ easing production cuts ↓
- Sanctions on Iran oil exports could be lifted ↓

Price change from other commodities

Commodity	Value 01/02	Value 28/02	Value change
Brent Oil	$91.21	$101	+ 10.7%
UK ETS Carbon DEC 22	£84.72	£82.21	- 2.9%
Coal 2021	$116	$151	+30.2%
Pound/Euro Cross rate	£1.20	£1.20	0%

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Monthly Review and outlook of the wholesale markets for Gas and Power

February 2022

Review of market movements over February

February was a very volatile month, but thanks to a sell off on the last day of the month, wholesale prices are only moderately up, when we were looking at substantial rises. Gas rose 12%, while Power around half that at 7% in the month of February.

Key Drivers

Russia invades Ukraine

The conflict between Russia and Ukraine escalated quicker than many would have thought possible in February, and now a full out invasion of the nation is taking place. Wholesale prices had already priced in much of this risk, but the markets too were taken by surprise by just how quickly and seriously events escalated, causing the largest one day spike in gas prices since 2005.

Over the months, Russia had been building forces around the Ukrainian border from Belarus in the North, to Crimea in the South. While a threat of an invasion was very possible, all month Russia had insisted it had no intention to invade Ukraine, and it was widely believed to be an act to give Russia more leverage in negotiations between the EU/ NATO.

Then events quickly developed. On 22 February, Putin announced that Russia recognised the two Pro-Russian breakaway regions in East Ukraine. Wholesale prices moved up about 10% in response but this was little in comparison to what would follow.

Two days later, a pre-recorded broadcast ordered a "special military operation" and minutes later, missile strikes were launched, and Russian troops began moving into Ukraine from almost every direction. The following day, UK gas prices rose over 40% with power prices not far behind.

Nord Stream 2 suspended by Germany

A fallout consequence of the conflict in Europe has been the suspension of Nord Stream 2, with German Chancellor Olaf Scholz pulling the plug on the 9.5 billion euro project in light of Russia's actions. Nord Stream 2 would double Russian gas flows into Germany, and was seen by many as the key to ending the energy crisis in Europe.

This was by far the most significant sanction to date to affect energy prices, causing next winter's prices to rise substantially. Nord Stream 2 is not dead in the water, but its chances of being allowed to operate anytime soon has been curtailed.

Oil breaks $100 mark

Brent Crude goes from strength to strength for another month, and has broken through the $100/barrel, supported by the conflict. It is now at its highest level since 2014. Russia is a major exporter of oil as well as gas, and there are concerns for future supply, along with other factors such as high demand and supply constraints pushing oil higher in price.

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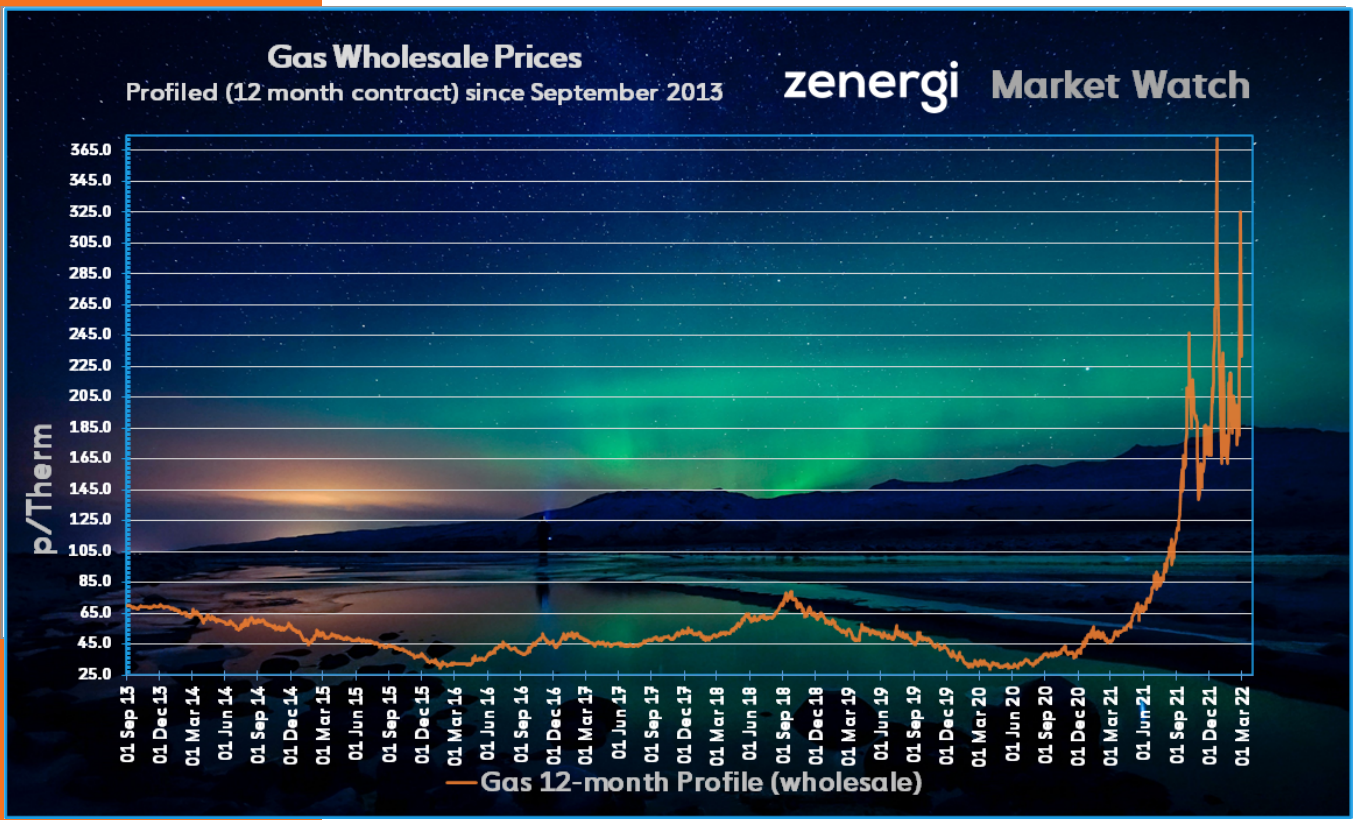
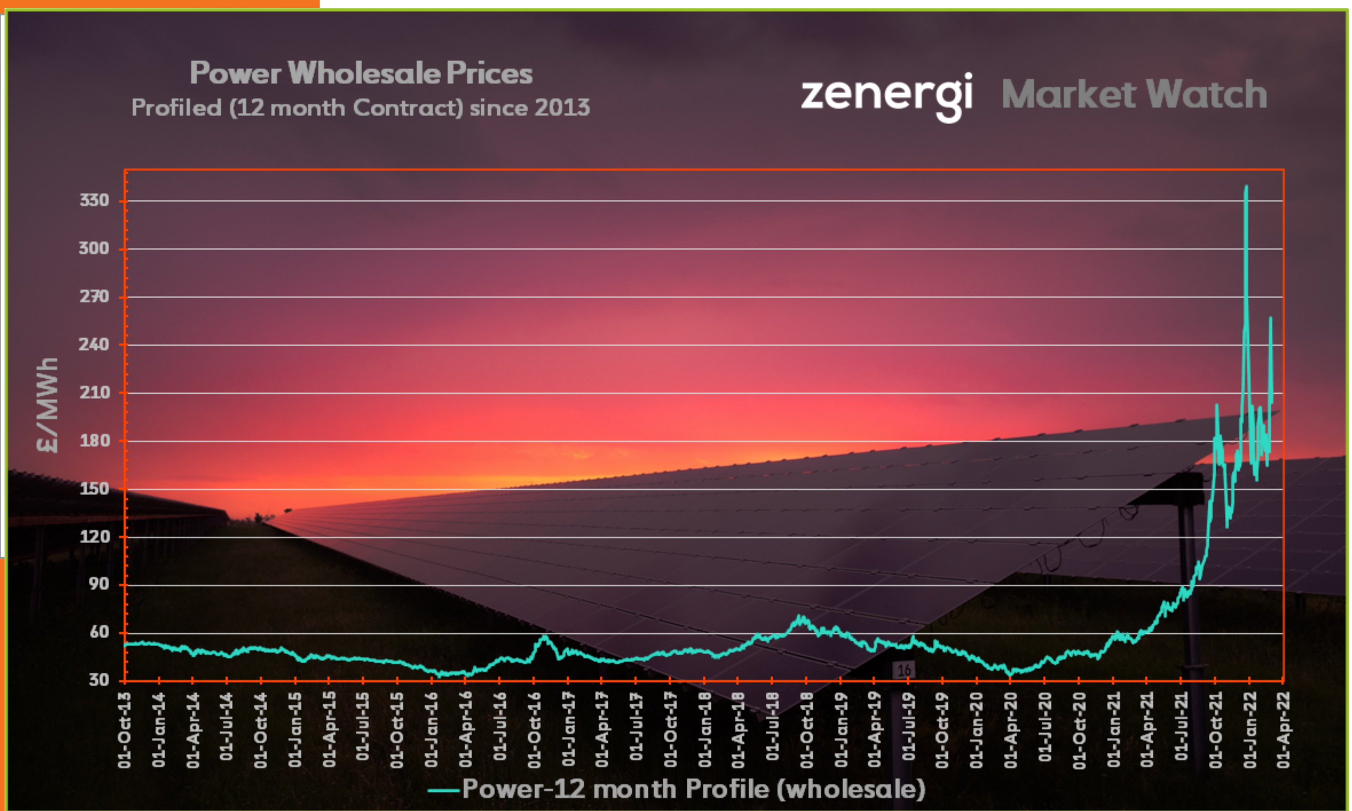
Long term Graphs

Graph 1: Wholesale gas prices 2013 to date



Graph 2: Wholesale power prices 2013 to date



Outlook

Prediction and key events for the month ahead

Will the conflict between Russia and Ukraine continue to intensify?
The only main market driver in March to focus on is the conflict between Russia and Ukraine. it is the sole focus of the markets and the world right now.

A number of scenarios can currently play out which would have far reaching impacts on energy prices. If peace and a diplomatic solution can be agreed, we could see prices fall. At the same time, if Russia continues an aggressive military approach, targeted sanctions on Russia's energy industry could be applied, that thus far has avoided sanctions. This would no doubt make commodities climb higher in value. So too would escalating conflict and a dragged out war in the region.

No one can truly know at this moment in time which way we are heading, even Putin may be unsure how the next moves will play out, but I am sure we are all hoping for peace to return and the conflict to end on agreed terms.

Progress of the IFA1 Interconnector repairs
One of the first spikes we saw in the price run up was a major fire at the convertor station in Sellindge in September 2021. It halved the capacity from 2GW to 1GW, with the other half originally planned to come back online in March 2022, this month.
This is no longer the case. National grid have pushed back the timeline to bring 500MW back from October 2022, and the other 500MW not until October 2023. This news has now been priced into the market, but any further delays would only add to price rises. If repairs can be completed ahead of schedule, it would be very positive and likely see prices come down.

Weather outlook for March
Weather for March looks on the mild side, with more settled conditions expected than we have seen in February. While that will mean wind levels at more moderate levels, which could lower wind generation output, temperatures are expected to be around seasonal average or higher for most parts of the country, which could keep gas demand lower.

Recommendation

We find ourselves at a point in time in the markets where prices are near record high valuations again and the outlook has never been more unclear what to expect next.

This months edition is possibly to most difficult yet to make a recommendation. But given how high prices currently are and due to the volatility in the market, customers who are yet to renew their contracts ending in March, we advise you renew with your current supplier for a 12-month period via your Zenergi Relationship Manager. They will support you with a plan for your next renewal when market conditions improve.

The one thing we can say with more confidence, is that prices are set to be even more volatile than normal and fluctuate much more day to day into March.

The report is based on our educated opinion taken from publicly available data.