

ELECTRICITY

Siberian winds blow prices higher

Short-term UK gas and power prices have been blown to their highest level in 22 months by the blast of Siberian weather that has hit the UK since the end of November.

With temperatures plummeting to record lows for this time of year in many parts of the country (and as low as -30°C) gas and electricity heating demand ramped higher, pushing Day-ahead UK Power prices as high as £74/MWh as a result, up almost 65% on where they were a fortnight ago. Reduced output from nuclear stations, due to a combination of planned and unscheduled outages has also contributed. Exceptional snowfall may have reduced demand in some areas by closing schools, businesses and train lines but this has been offset by increases in consumption elsewhere.

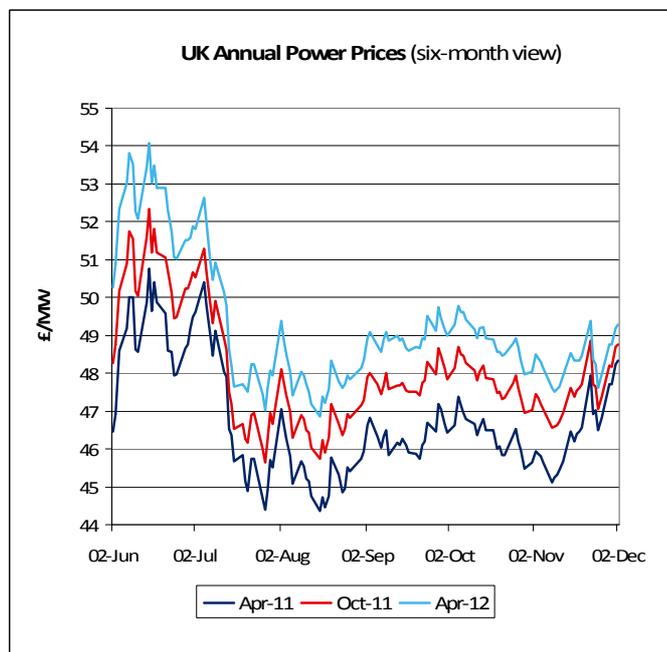
Forecasts of continued cold weather well into December have meant that prices for the remainder of the winter have also been boosted, with December delivery going off the board at £48/MWh and January rising above £50/MWh.

Prices further forward have also been bullish – April '11 Annual and October '11 Annual breaking above £48/MWh – their highest level since mid-July. However they have not risen by as much or as consistently as short-term values, and in fact dropped briefly in the fourth week of November just as the cold weather started intensifying, as the longer term gas market corrected downwards amid returning talk of LNG oversupply.

Prices have started moving up again in recent days helped by fresh two year highs on the coal market. The unexpectedly icy start to the winter has affected many other countries in northern Europe, fuelling concerns about coal and gas stocks for the remainder of the winter, which has driven 2011 coal prices up above \$111/tonne.

At the same time oil prices have hit a new 25-month high, bolstered by a weaker dollar and positive economic data from the US and China – North Sea oil nudging \$91/barrel. Although oil has not been a major driver of power prices for some time such long-term highs are difficult to ignore.

The market for EUAs (emissions allowances that generators factor into costs) meanwhile has changed little, locked in limbo by the start of the UN's global climate change conference in Cancun, while fears about tightening regulation reducing the number of UN allowances have been counterbalanced by the UN actually issuing its largest ever quota of allowances in recent days.



Source: Spectron

Outlook:

↑ The more the big freeze continues the more nervous the market will become over energy supplies this winter and the higher prices could go.

→ The UN's global climate change conference in Cancun is unlikely to lead to any significant accord. It is therefore seen as market neutral for emissions and market neutral in turn for UK power.

The Government is set to outline plans for the reform of the UK electricity market over the next couple of weeks. Various measures touted include the introduction of a carbon floor price and requirements for suppliers to source a proportion of their portfolio from nuclear power plants. Any plan will take some time to implement.

↓ Commissioning has been completed at the new 1,650 MW Staythorpe power station in Nottinghamshire, the latest in a line of new gas-fired plants that are due onstream over the winter, which should improve the supply outlook and help quash concerns over ageing UK power infrastructure and its reliability. The operators of the plant claim it is "the largest and most efficient plant of its kind in Europe".

Key Power indicators:

Long-term UK (£/MWh)

Apr '11 Annual	chg	Oct '11 Annual	chg
48.33	2.13	48.78	1.40

Short-term UK (£/MWh)

Month-ahead ind	chg	Day-ahead index	chg
50.25	5.10	60.81	15.46

European power (€/MWh)

Germany Cal '11	chg	France Cal '11	chg
50.10	1.60	52.15	2.00

Key Other indicators:

Coal (\$/MT) '11	chg	Oil (Brent) \$/bbl	chg
111.50	5.75	89.08	3.98

EUA '10 (€/TCO2)	chg	EUA '11 (€/TCO2)	chg	EUA '12 (€/TCO2)	chg
14.66	0.02	14.93	-0.01	15.37	-0.07

All changes (chg) are compared to last report.

GAS

Big freeze squeezes prices higher

Record temperature lows and snowfall for the time of year in many parts of the UK and Europe, national gas consumption roaring almost 30% above the seasonal norm, and storage levels 20% down on where they were last year – gas prices inevitably have risen, with the short-term market taking the brunt of the upsurge.

Short-term prices had already been rising steadily through the second half of November as the weather was already unseasonably cold but the latest Arctic blast has given it an extra push, forcing Day-ahead prices up to 64 p/th – its highest level since February 2009 – and Within-day gas up to 72 p/th (helped by a temporary glitch at a main storage site).

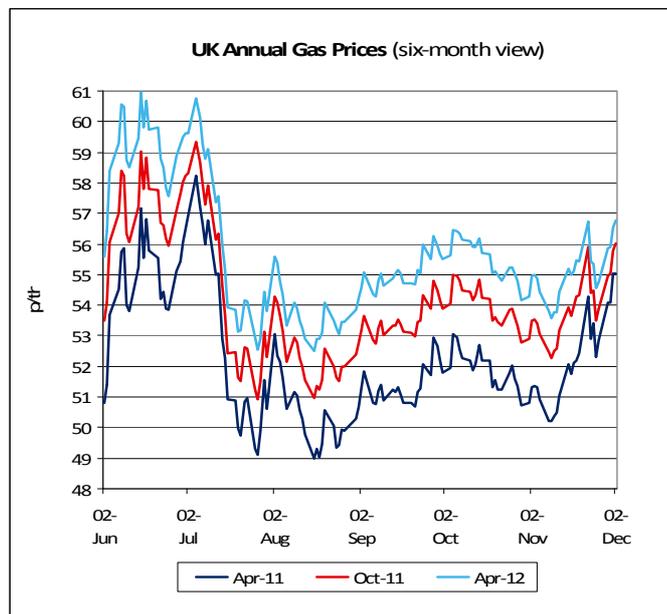
Gas consumption in Britain has been propelled above the psychologically important threshold of 450 mcm/day – considered by many as the benchmark of extremely heavy demand – for the first time since January,

The closure of the Rough storage site – by far the UK’s biggest and most important storage facility – for two days following a gas leak on the 18th November had almost no market impact, even though significant quantities of gas were being withdrawn from Rough at the time to help meet demand. Improved LNG flows helped make up for any potential shortfall, and have been instrumental in stopping prices spiking even higher in recent days, as have imports through the UK-Belgium interconnector.

Prices across the remainder of the winter have also been pushed higher, although forecasts of milder weather in the second half of December have limited the gains.

Annuals have also risen to a four-and-a-half month high on the back of the general buying flurry with April '11 Annual rallying above 55 p/th. Progressively smaller increases have been seen further forward, with the influence of the cold snap lessening, but also the return of “backwardation” (prices stepping lower into the future) on the oil market – for the first time since 2008 – may be exerting some influence.

Longer term levels also temporarily defied the cold and short-term market gains at the end of November as the commercial start-up of another LNG (liquefied natural gas) production and export facility in Qatar – Qatargas Train 6 – was confirmed, improving the outlook for more LNG to come to the UK.



Source: Spectron

Outlook:

↑ The Transitgas pipeline, which acts as a main artery for gas between northern and southern Europe is due to reopen this month after reinforcement work. Its reopening could boost demand for exports through the UK-Belgium interconnector.

“Estimates for Norway’s undiscovered gas resources are likely to be revised downwards in January,” a senior Norwegian energy official is reported as telling Reuters.

➔ Iran is “ready to sell gas to Europe” President Ahmadinejad has said. However it is unclear how Iran, which has the second largest gas reserves in the world (after Russia), would get the gas to Europe, as the builders of the Nabucco pipeline which is being constructed to connect the Caspian area to Europe said in August they were suspending plans to link the pipe to Iran.

↓ While there has been a recent increase in LNG deliveries to the UK, there has also been an increase in deliveries to other parts of northwest Europe, and particularly Zeebrugge, at the other end of the main interconnector between the UK and mainland Europe. This may suppress demand for exports through the interconnector.

Meanwhile the third phase expansion of the Isle of Grain LNG terminal in Kent has finished commissioning and started commercial operations. The expansion doubles capacity at the facility and means the terminal could supply up to 20% of UK demand, if fully utilised.

Key Gas indicators:

Long-term UK (p/th)

Apr '11 Annual chg
55.05 3.30

Oct '11 Annual chg
56.03 2.38

Short-term UK (p/th)

Month-ahead ind chg
56.54 7.77

Day-ahead index chg
62.08 12.80

European gas (€/MWh)

TTF 2011 chg
22.10 1.90

Crude Oil

Oil (Brent) \$/bbl chg
89.08 3.98

All changes (chg) are compared to last report.

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