

ELECTRICITY

Snow flurries; few worries

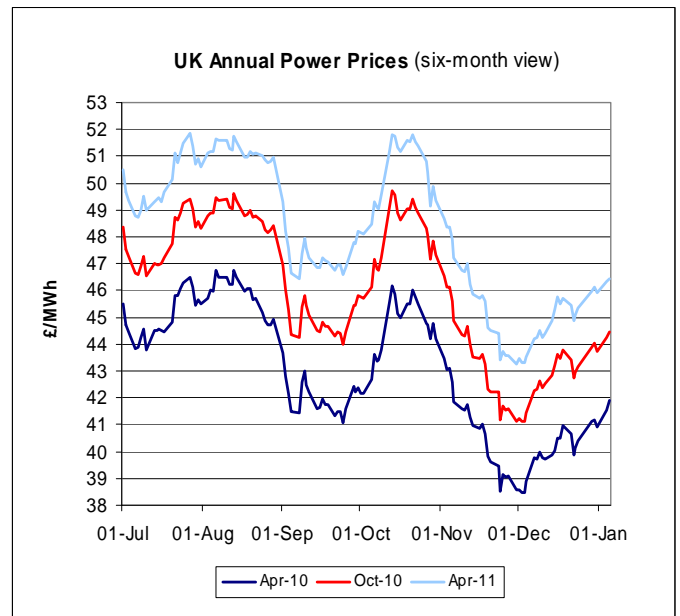
The further drop in temperatures and exceptional snowfall that the New Year has brought with it has unsurprisingly boosted UK power and gas prices. But the gains have been smaller than might have been expected under similar conditions in previous years.

Short-term (Day-ahead) UK power prices broke above £45/MWh, their highest level since last February, while Month-ahead prices hit £39/MWh. April '10 Annual, meanwhile, has risen to almost £42/MWh, a two-month high. (These compare favourably to prices elsewhere in Europe: French week-ahead prices have surged above €100/MWh and Norwegian short-term prices have touched an eye-watering €1,400/MWh.)

A continuing healthy cushion of supply has helped keep any bullishness – most of which is coming from the gas market – in check. Even a fire at the Kingsnorth coal-fired plant, which forced it offline, failed to impact the market much. The return of the Hartlepool and Hinkley Point nuclear plants from outage in late December has at the same time helped shore up the supply side.

While general prices across global energy markets have been rising, stoked largely by an increase in oil prices and world equity markets, there has been one area of weakness – the EU emissions allowance (EUA) market, which has seen a sharp u-turn in sentiment following the end of the Copenhagen climate change summit. Prices for EUAs, which generators factor into power costs, have tumbled 13% since mid-December – as disappointment at the summit's failure to reach a binding agreement has taken its toll, fears of a new wave of selling from industrials have emerged and the UK and Germany have launched auctions to sell 5.5 million of allowances.

This has helped marginally offset the effect of gas gains in forward periods, with April '10 Annual electricity witnessing an increase of 3.5% since mid-December, compared to an increase of 6.5% in April '10 Annual gas.



Source: SPECTRON

Outlook:

↑ While forecasts are that the extreme weather will last for around 10 days, it may last for longer than this, in which case it will continue to exert upwards price pressure and further erode supply confidence.

→ High gas prices have caused some generators to switch to burning coal – this should give coal-fired plants the opportunity to reduce coal stocks, which have recently hit their highest level in more than 20 years, although it is also helping to support/lift coal prices.

↓ Commissioning at the new Langage and Immingham gas-fired plants (with a combined capacity of 1,335 MW) has just been completed, helping improve the power production outlook for the rest of the Winter. Meanwhile, a further 3,500-4,500 MW of new gas-fired capacity is due to be commissioned in 2010, further improving the supply outlook.

Key Power indicators:

Long-term UK (£/MWh)

Apr '10 Annual **41.93** chg 2.22

Oct '10 Annual **44.48** chg 1.95

Short-term UK (£/MWh)

Month-ahead index **38.43** chg 3.43

Day-ahead index **44.38** chg 8.91

European power (€/MWh)

Germany Cal '11 **52.55** chg 1.15

France Cal '11 **54.00** chg 1.35

Key Other indicators:

Coal (\$/MT) '10 **103.38** chg 7.63

Oil (Brent) \$/bbl **80.23** chg 9.03

EUA '10 (€/TCO2) **12.71** chg -1.88

EUA '11 (€/TCO2) **13.29** chg -1.91

EUA '12 (€/TCO2) **14.08** chg -1.85

All changes (chg) are compared to last report.

GAS

Limited gains despite extreme cold

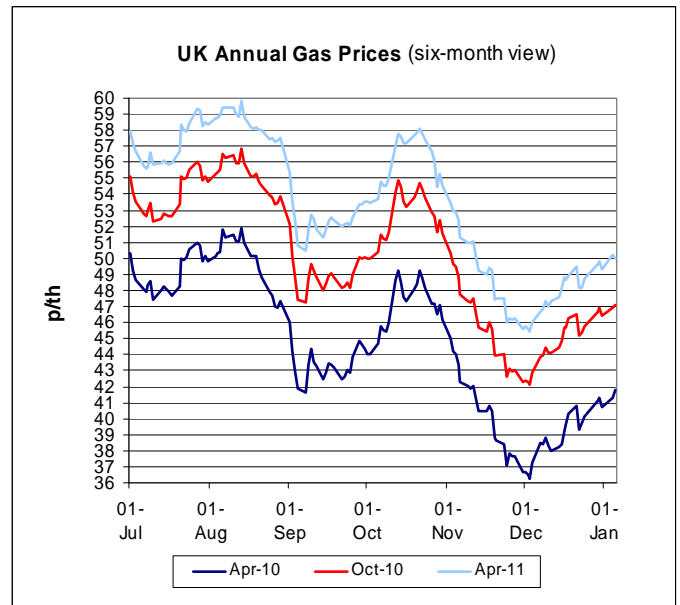
While last month turned out to be the coldest December in 15 years, January started with temperatures dropping further – leading to a surge in demand and several production issues which forced National Grid to issue an emergency gas balancing alert for the first time since 2006. Short-term (Within-day) gas prices hit a high of 62 p/th, before retracing as increased imports and LNG (liquefied natural gas) flows boosted supplies into the UK network.

Longer term prices have also risen as a result, helped higher by a bounce in oil prices, even though the gas and oil markets have been moving in independent and very different directions in recent weeks. Oil has been partially driven higher by extremely cold weather hitting the energy intensive eastern seaboard of the US (LNG imports into the US have also increased at the same time). A new year has also meant a new Russian energy dispute, this time regarding oil exports to and through Belarus, with both countries failing to agree the terms of a new contract covering the oil flows - which has also been a factor in pushing oil prices above \$80/barrel and to a 14-month high.

Gas Annuals are now back at mid-November levels, and up around 15% from the price trough seen in early December - April '10 Annual discussion focused on 42 p/th and April '11 Annual on 50 p/th.

National UK gas demand broke above 446 mcm/d (million cubic metres per day) at the start of January - 25% above normal levels for this time of year - as a result of the plunging temperatures, while flows from Norway, which has been witnessing even more extreme weather (temperatures as much as 15°C below normal), were affected, as the key Kollsnes gas processing terminal in the North Sea was forced to close down and a gas leak at the giant Troll field led to it being shut-in. Both outages were short-lived and have since ended, helping to bring Within-day and Day-ahead prices back towards 45 p/th.

Reported issues at several UK fields, including one of the largest - Elgin-Franklin, have continued to stir some supply jitters, although a ramp-up in Norwegian flows, strong withdrawals from storage sites and the continuing arrival of LNG tankers – against a background of solid and steady interconnector imports from mainland Europe - has made up for any shortfall.



Source: SPECTRON

Outlook:

↑ An extended cold snap will shore up demand, lead to the depletion of gas volumes in storage and could contribute to further production issues in the North Sea, squeezing supply and driving prices higher. Gas demand is also likely to hit a new record in the coming days, National Grid forecasts indicate (the record is 449 mcm/d, set in January 2003).

→ Broadly constant import flows have been seen through both the Belgium-UK and Holland-UK interconnectors since early to mid-December, despite cold weather in mainland Europe too. If such a consistent supply rate continues, it could provide a steadying influence on prices.

↓ The prospects for both gas and power demand recovery in 2010 look fairly limited, according to analysts. “Even leaving the state of the economy aside, energy efficiency measures look set to offset what limited demand growth there may be,” said one.

Key Gas indicators:

Long-term UK (p/th)		Short-term UK (p/th)			European gas (€/MWh)		Crude Oil				
Apr '10 Annual	chg	Oct '10 Annual	chg	Month-ahead index	chg	TTF 2011	chg	Oil (Brent) \$/bbl	chg		
41.80	3.83	47.10	3.00	37.46	6.89	46.77	15.78	18.95	1.40	80.23	9.03

All changes (chg) are compared to last report.

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