

ELECTRICITY

April Annual slumps to 12-month low

April '12 Annual UK power, the key benchmark price for many end-users, has slumped beneath £49/MWh for the first time since last November. The Annual, which reached a high of almost £61/MWh in April after the Fukushima disaster and launch of UK carbon tax plans, has been trailing steadily lower since then – but it has seen an accelerated drop in recent days, shedding nearly 5% in value over the last fortnight.

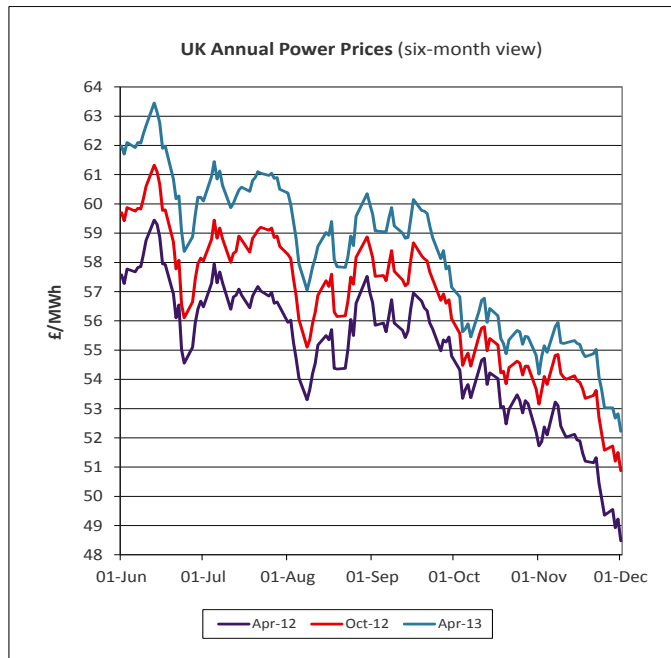
A tumble in gas prices on the back of weak demand forecasts has been a major driver, while a crash-off in the price of EUAs (EU CO2 emissions allowances that power generators factor into costs) has also applied pressure.

EUAs plummeted to EUR 7/TCO2 – their lowest level for five years and down 30% on mid-November discussion – amid Eurozone recession fears and analyst reports that prices could hit EUR 3/TCO2 next year because of swelling oversupply (that they say could last until 2025).

Oil prices are currently only having a marginal influence, as although they did slip beneath \$107/barrel at one stage – in the wake of economic concerns, the failed German bond sale and larger than expected US inventory figures – they have since bounced back towards \$110/barrel following the concerted move by central banks to stimulate lending in the global financial system and an intensifying diplomatic dispute between the West and Iran.

The price of coal – which is set to be the fuel of choice for UK generators this winter (because of its relative cheapness to gas, further helped by the fact the cost of offsetting emissions from burning it have tumbled due to the collapse in EUA prices) – has also been a contributor. 2012 coal prices have slipped below \$113/tonne, their lowest level this year – persistently high global stockpiles and a government cap on Chinese coal prices being cited as fuelling the bearishness.

Meanwhile short-term power prices have also weakened, with Day-ahead values easing back beneath £45/MWh – helped by unseasonably mild weather returning and reducing demand. As this is in stark contrast to the freezing weather that gripped the UK last November, it has encouraged expectations that the rest of the winter may be milder and well-supplied – meaning that prices across January, February and March have been pounded lower, all slipping under £48/MWh, and down as much as 9% over the last two weeks.



Source: Marex Spectron

Outlook:

↑ The market may be due an upwards correction following recent price falls, particularly if there is a cold weather or supply side shock.

If the lack of rainfall seen across much of western Europe this Autumn continues it could impact hydro power and nuclear output. (One nuclear reactor in France has already been forced to stop operating because low river levels mean it is not allowed to take in the river water it usually uses in its cooling systems).

→ In its Autumn Statement, the Government has outlined a £250 million package designed to help energy-intensive businesses from 2013. This includes financial compensation to mitigate the effects of the Carbon Tax and European Emissions Trading Scheme and greater Climate Change Levy discounts. The Government said it will also explore ways to reduce the impact of the electricity market reforms (EMR) on energy-intensive companies.

"It is as though we are setting off on a long journey without a map, without a driver, and without anyone to fix the car if things go wrong," said Lord Krebs, chairman of the Lords Science and Technology Committee, commenting on the UK's lack of a strategy to develop new nuclear energy technologies.

↓ "We expect the mildest winter in Europe since the 2007-08 winter," say forecasters Weather Services International.

The UK's biggest biomass plant – the 750 MW wood pellet-fired Tilbury station – is set to start commercial operations shortly.

UK quarterly power consumption fell to its lowest level in at least 10 years during the July-September period, Bloomberg reports, citing DECC data.

Key Power indicators:				Short-term UK (£/MWh)				European power (€/MWh)			
Long-term UK (£/MWh)		Oct '12 Annual		Month-ahead index		Day-ahead index		Germany Cal '12		France Cal '12	
Apr '12 Annual	chg	50.88	chg	47.13	-2.98	44.90	-2.80	52.80	-2.80	51.95	chg
48.48	-3.43										-2.50
Key Other indicators:				EUA '11 (€/TCO2)				EUA '12 (€/TCO2)			
Coal (\$/MT) '12	chg	Oil (Brent) \$/bb	chg	7.98	-1.88	8.10	-2.20	8.70	-2.22		
115.90	-1.55	108.40	-3.40								

All changes (chg) are compared to last report.

GAS

Q1 prices fall 10%

Q1 2012 prices down 10%, Day-ahead down by 8%, and Annuals down 5% – it has been a weak fortnight across all periods, as low demand and a healthy supply outlook have weighed on sentiment.

Prices across the remainder of this winter have again taken the brunt of the down-talk, as revised weather forecasts – now indicating a milder than normal winter – have been published. Demand at the end of November was just half of what it was a year earlier – the sharp difference largely explained by the fact this November has been the second warmest on record, while at this time last year temperatures were hitting record seasonal lows.

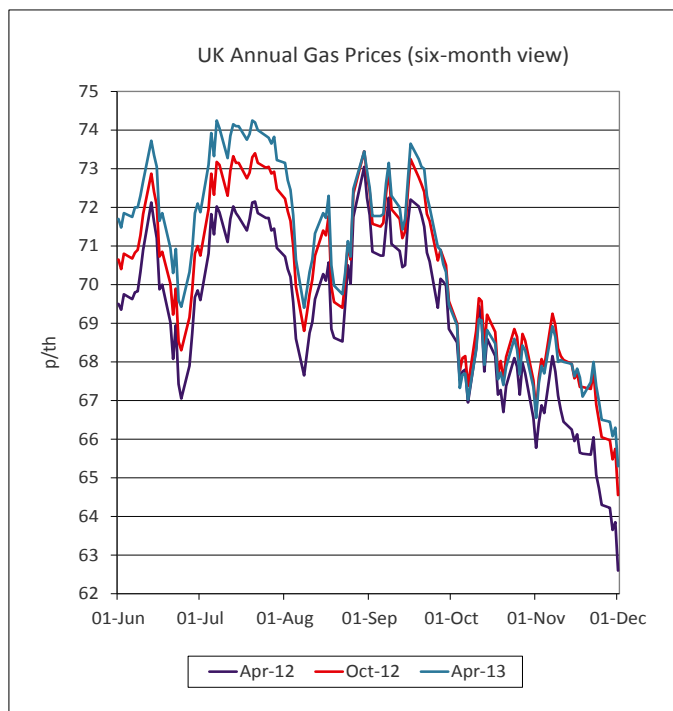
But it's not just demand for gas for heating that has been subdued – demand from power generators is also lower than it has been in recent years, as producing electricity from coal and other sources remains more economical, and this looks set to continue over the coming months.

Short-term (Day-ahead) prices have been supported by reports of several infrastructure glitches – storm-related shutdowns and power cuts at Norwegian fields and apparent problems at one UK terminal. Sizeable export volumes have also been seen down the main UK-Europe interconnector, which has been flowing at two-thirds of capacity for much of the second half of November. However a tail-off in export flows at the start of December and the resolution of the offshore issues has since helped push prices lower.

November also saw LNG cargo deliveries into the UK drop to a 16-month low, partly because of an LNG outage in Qatar, although healthy stocks of LNG at storage sites have been more than sufficient to boost supply when needed, while the arrival of several cargoes in recent days has shored up optimism about LNG supplies for the rest of the winter.

At the same time there have been limited withdrawals of gas from the largest gas storage site, Rough, meaning the facility is still 98% full.

The winter weakness has once more filtered forward into Summer '12, which has eased by around 6% in value since mid-November. This has applied pressure to the April '12 Annual, which has pulled further below the other Annuals, as future seasons have come under relatively less pressure. The differential between April '13 Annual and April '12 Annual, for example, has widened to 2.7 p/th, its widest value in 13 months.



Source: Marex Spectron

Outlook:

↑ There have been reports that extensive maintenance is being planned at three Qatari LNG facilities next spring, with the outage of one unit – RasGas train 5 – in March/April seen as particularly sensitive, as most of its output comes to Europe. This may support or boost Summer prices, as it could mean reduced LNG deliveries to the UK.

→ Spanish gas company Gas Natural has signed a 20-year deal to buy shale gas being exported from the US's first planned mainland LNG export terminal. The deal, which follows BG Group's signing of a similar deal in October, increases the likelihood of the terminal proceeding and the US becoming a major supplier of gas to the UK and Europe, although the LNG is not due for delivery until 2017.

↓ Norwegian oil and gas producer Statoil has signed a 10-year deal to supply Centrica with 5 BCM of gas per year – around 5% of current UK demand, as well as selling it a number of North Sea assets which will boost the UK company's gas production capabilities. The deal should help improve the UK's security of gas supply.

At this time last year Q1 '11 prices were around 56 p/th, as some of the coldest temperatures ever recorded for the time of year were registered. Q1 '12 prices are almost 3 p/th above this now – following near record mild weather, so there may be scope for further downside, some commentators suggest.

Key Gas indicators:				Short-term UK (p/th)				European gas (€/MWh) Crude Oil			
Long-term UK (p/th)				Month-ahead index chg				TTF 2012 chg Oil (Brent) \$/bb chg			
Apr '12 Annual	chg	Oct '12 Annual	chg	Month-ahead	chg	Day-ahead	chg	TTF 2012	chg	Oil (Brent)	chg
62.60	-3.53	64.55	-3.15	59.06	-3.43	56.32	-2.93	24.00	-1.59	108.40	-3.40
All changes (chg) are compared to last report.											