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WHOLESALE ENERGY PRICES: SEPTEMBER – NOVEMBER 2016: PART II: ELECTRICITY

In this series of articles, Dominic Whittome covers recent changes to wholesale energy prices.

Electricity

Across Europe's power exchanges, prices surged as officials ordered a third of France's nuclear plants be shut temporarily for safety checks, sweeping over 6 GW off the market and throwing the UK into export mode to the Continent across both the IFA and BritNed cables. Recent outages at UK nuclear and coal power stations added to shortfall concerns.

The French reactors concerned should come online again early next year. However, this case serves to illustrate how the UK's reliance on inter-connectors is a two-way sword, with equal propensity to drive prices higher. This effect has been reinforced by the weakness in Sterling; peak-load volumes traded in €/MWh looking comparatively cheap to Continental buyers.

Six further nuclear plants in France, believed to account for 4.5 GW, have also been placed 'under watch' by France's Nuclear Safety Authority, though they do remain open. One perhaps unreported concern is that of the Benelux countries, whose reactors are similar in age and some identical in design to those under investigation.

Over the period, forward year prices increased by 18%, ending just under £50/MWh. But this 'modest' price rise belies the price gyrations in the balancing market and sharp rises in forward month prices. Such factors will affect I&C prices as the April round approaches, as power purchase agreements add in a forward market risk-premium, which rises with volatility.

The doubling of coal prices this year to \$75/tonne has heaped further pressure on power prices. The forward market did not over-react however and forward curve is still in backwardation; calendar 2019 volumes trading at a significant £5/MWh discount to 2017.

That said, the market is not liquid. It is becoming even less liquid today as energy merchants depart due to uncertainties, higher trading compliance costs and, until recently, very low energy prices. Although prices have stabilised recently, the market could turn on a sixpence if outages enforced at nuclear plants look they could be prolonged and renewable supplies struggle to make up the shortfall amid the colder weather reported to be on the way soon.

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