

The logo for eEnergy, featuring a stylized 'e' with three dots above it, followed by the word 'Energy' in a sans-serif font.

eEnergy

# WHOLESALE MARKETS

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27<sup>th</sup> January 2022

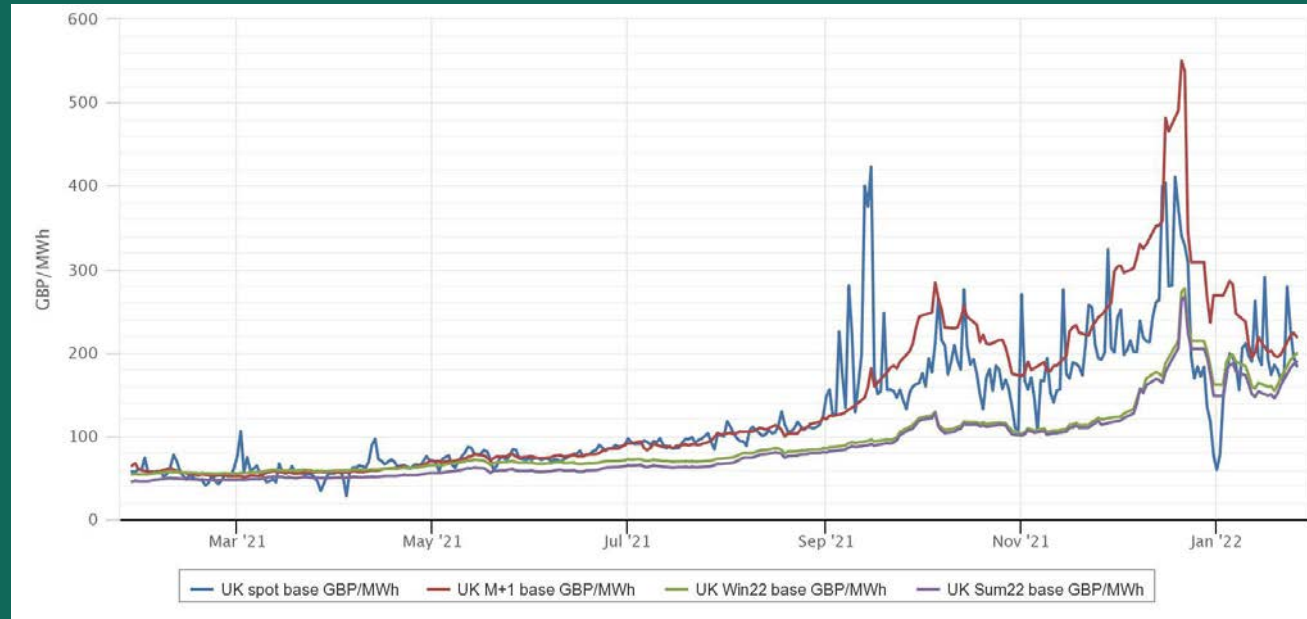
Unleashing Net Zero

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An aerial view of a green roof with solar panels and vegetation. The roof is covered with a grid of solar panels, and various green plants and shrubs are growing between and around the panels. The background is a bright, hazy sky.

## 1.0 UK Energy Market Review

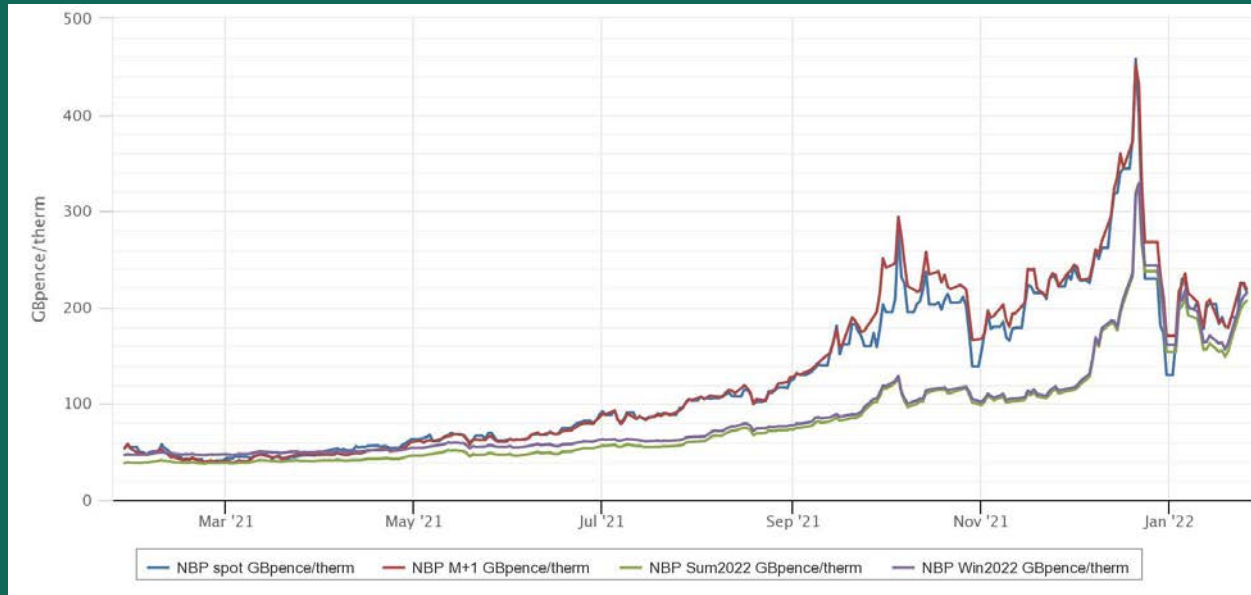
# 1.0 Wholesale - Elec



## Overview:

- Wholesale prices are at the highest levels seen in the markets since deregulation due to low wind speeds, reduced EU gas storage (relative to trend) and limited Russian gas flows into Europe. Tensions between Russia and the Ukraine continue to exacerbate the situation alongside fears over a materially colder winter.
- Situation was exacerbated by a fire at one of the UK's biggest electricity interconnectors to Europe (15<sup>th</sup> September). This has supported prices due to the fear over gas supplies this winter and has culminated in the worst wholesale conditions ever.
- Low wind speeds have increased the amount of gas-fired generation required to support demand.

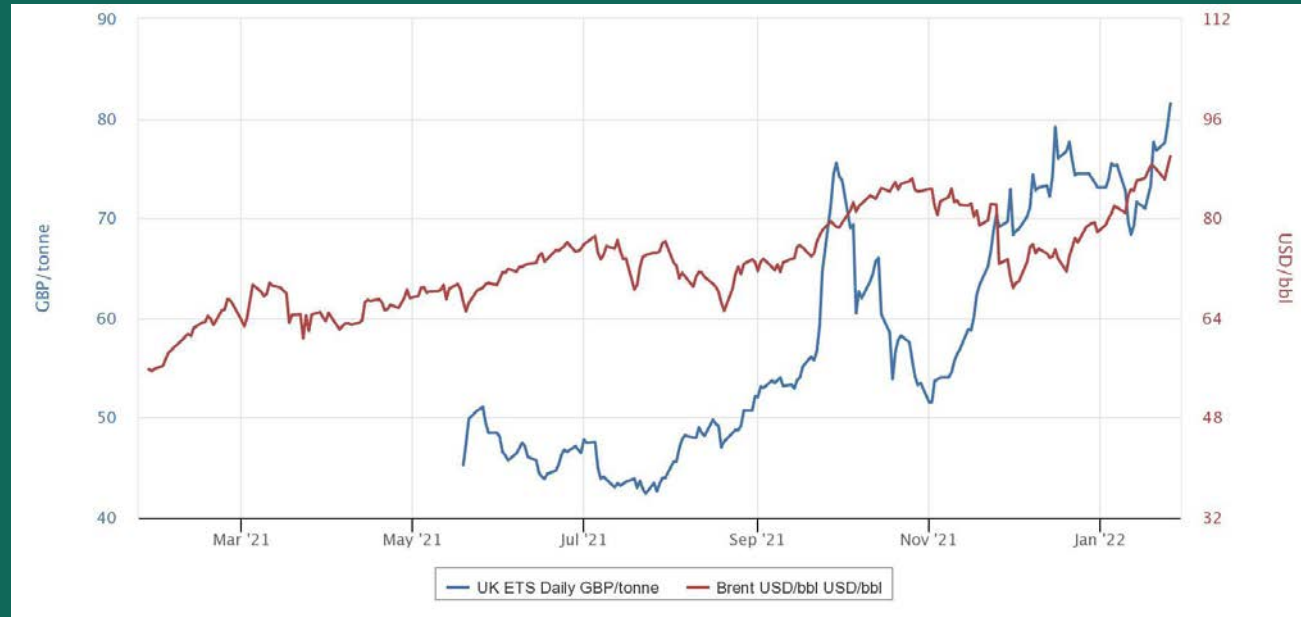
# 1.0 Wholesale - Gas



## Overview:

- Wholesale prices have followed a similar trend to electricity, driven by the same factors and influenced by the fear over winter supplies as we move into the season.
- Prices are beginning to decrease post Christmas and the pace of this will be highly dependent on levels of European gas storage stocks plus the influence of Russian gas and whether it increases significantly.
- The markets remain highly dependent on the weather, Russia and the levels of gas storage.

# 1.0 Wholesale – Supporting Fuels / Markets



## Overview:

- Oil continues to rise (albeit there has been a slight correction which may subdue further rises) due to stock / demand influences and the recovery from Covid in major economies. Increased manipulation of the markets between China, USA and the OPEC Nations will continue to influence oil pricing as we move into 2022.
- UK-ETS levels (the replacement for the European Emissions Trading Scheme) increased significantly due to higher levels of electricity generated from gas (low wind speeds) in the UK coupled with coal generation being required in larger quantities than planned. Prices unlikely to stabilise until we see recovery of market conditions into 2022.

# 1.0 Energy Market Notes

## Overview:

- Continued risk in the UK of further supplier failures due to wholesale price exposure. Smaller and less capable domestic suppliers will continue to fail if prices remain due to domestic price cap being below the market (31 suppliers have failed this year so far).
- Potential risk of non-domestic supplier insolvency if suppliers are not fully hedged on their positions through this winter where the price does not return to seasonal norms. All clients should do due diligence on their current suppliers.
- Prices will continue to be influenced by the gas sector until such a time as the markets feel confident in storage levels meeting demand (NB: colder weather forecast demand). We are currently at circa 42% - around 15% lower than “typical”.
- Wholesale prices have gone beyond any reasonable or rational level and will remain unforecastable until such a time as the pathway through this winter is more certain. Where we have a milder winter (temperatures below or on seasonal norm) then we are likely to see a softening in price but any further tensions between Russia and the Ukraine, further disruptions to gas flows, a materially greater reduction in gas storage or much colder weather will cause prices to increase.
- Prices have softened in Q1-22 due to milder weather and no further adverse market conditions. We are yet to return to normalised market levels and the risk remains in Q1-22 but prices are significantly lower than periods in Q4-21.

# 1.0 Energy Market Notes

## Overview:

- Credit risk has tightened with many suppliers refusing to quote new business in Q4-21 and likely to continue to do so as we move through January due to market risk. Increased wholesale prices and exposure (£) has tightened suppliers views over clients with less than perfect credit and this has discouraged suppliers from competing for clients where they feel credit risk is a concern or where the client sits within a covid risk industry such as hospitality.
- Whilst prices have softened in Q1-22 we remain cautious over the next 2 months due to the impact of adverse weather conditions but at the time of writing this document we believe prices will return to more normalised levels as we move through Summer of this year where there are no further adverse events and where the gas levels remain sufficient for the remainder of this winter.
- Given that the bulk of the issue is down to the inaction and instability of Russian gas flows into Europe we anticipate that the market may not return fully to normalised levels until 2023 subject to how gas storage levels react for this forthcoming winter.