

EU considering intervening in markets

The European Commission and several member states are considering intervening in the electricity and gas markets to stop the extremely high prices. How such an intervention would play out remains uncertain.



Here and now

Last week, the Nordic spot prices once again reached record highs, with an average system price for the week of 317.69 EUR/MWh. This is the fifth week in a row, where prices are climbing, although area prices fell in both Denmark, Southern Sweden and Finland. We have been through another week with a worsening hydrologic situation in the Nordic area, wind power production has been relatively low, and prices on the continent remain sky high. In the forward market, we have however seen falling prices throughout the week.

Nord Stream 1 fails to restart following shutdown

On Friday, Russia announced that the Nord Stream 1 pipeline, which is crucial to Europe, will not return to service as intended. The Russians initially attributed the shutdown to technical issues, but the EU has never believed this explanation and is accusing Russia of intentionally halting gas exports to Europe as part of the battle over energy that has been ongoing between the EU and Russia since war broke out in Ukraine. On Monday, Russia finally put its cards on the table and admitted this link, with a spokesperson from the Russian government also announcing that the Nord Stream 1 pipeline will

not return to service again before the West revokes its sanctions against Russia. The markets had, to some extent, expected and already priced in the fact that Nord Stream 1 would not return to service, but the news still led to a significant price jump in the gas market on Monday morning, which also had immediate effects on Nordic electricity prices. With the prospect of Europe going without Russian gas, the scene is set for continued high levels of volatility across the markets in the coming week while the EU works on its emergency plans for the winter.

Our recommendation

Following another week of extreme movements in the markets, the focus now is on whether there will be any political interventions to create some stability. The markets appear to consider this likely, but there are plenty of decisions to be made at the EU crisis meeting this Friday. We believe that falling prices are most likely this week, but the uncertainty remains substantial now that Russia has decided to shut off gas supplies via Nord Stream 1.

Forward	Wk 34 (EUR/MWh)	Wk 35 (EUR/MWh)	Expectation (w 36)
ENOMOCT-22	275.00	225.00	↘
ENOQ4-22	347.00	282.00	↘
ENOYR-23	240.00	183.50	↘
SYHELYR-23	30.00	13.00	→
SYOSLYR-23	82.00	82.00	→

EU working on energy market interventions

Both the European Commission and several member states are set to intervene in the mechanisms in the European energy markets to prevent the extremely high prices we are currently experiencing.

The most recent period has seen strong signals both from the European Commission and several EU member states that there may be an intervention on the way in the electricity and gas markets to slow down the extreme price climbs we have experienced in recent months. Speculation has started to affect the markets, especially after a tweet sent by the Chair, Ursula von der Leyen, last week:

“The sky-rocketing electricity prices are now exposing the limitations of our current market design. It was developed for different circumstances. That’s why we are now working on an emergency intervention and a structural reform of the electricity market,” von der Leyen tweeted and elaborated to say that she no longer wants European electricity prices to be defined by the price of gas.

The German Minister of Finance, Robert Habeck, has also announced market reforms, and an EU crisis meeting has been convened for Friday 9 September for EU heads of state to discuss the topic of interventions.

How the European Commission would seek to reform the market remains shrouded in uncertainty, but according to a leaked document, it will, among other things, look at introducing models to reduce profits for electricity producers with low operating costs, instead channelling the money to consumers. How this will be realised in practice remains to be seen.

The news of a potential upcoming intervention in the market by the EU caused both gas prices and electricity prices to drop sharply last week. In the German energy market, the 2023 year contract, which had climbed to nearly EUR 1,000/MWh the week before, nearly halved, costing EUR 508/MWh at the end of last week, while the 2023 gas contract fell by around 60% during the same period. Naturally, this development also affected the forward market in the Nordic region, with sharp price falls for both the upcoming quarter and year contracts.



Forecasts

The weather: There does not appear to be any notable precipitation on its way to the Nordic water reservoirs this coming week. The hydro-balance deficit looks set to grow to no less than -20 TWh over the next couple of weeks.

Spot: Nordic delivery prices look set to fall slightly in week 36 compared to the levels experienced in recent weeks, but the prices will remain close to the record levels observed this summer. We anticipate an average Nordic system price of around EUR 310-315/MWh this week.

EPADs

The price of the Finnish 2023 EPAD fell sharply last week and it now costs EUR 13/MWh. In Norway, the EPADs in the southern part of the country remain at a steady but high level, with the NO1 EPAD for 2023 now costing EUR 82/MWh.

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