Energy sector

Electricity and gas prices in UK and Europe hit records

Squeeze compounded by lower-than-expected power generation from wind

High voltage towers in San Sebastian de los Reyes, close to Madrid © Oscar Del Pozo/AFP/Getty

David Sheppard and **Tom Wilson** in London YESTERDAY

Consumers in the UK and continental Europe are facing a growing price crunch for energy as wholesale electricity costs surpassed their highest ever level on Monday, boosted by low wind generation and the rally in natural gas to record heights.

Benchmark wholesale electricity prices in Germany for delivery next year reached more than €90 per megawatt hour, or roughly double the level at which they started the year, surpassing the previous record hit in summer 2008 when oil prices were approaching $150 a barrel.

Gas prices in the UK and continental Europe, which have hit a series of record highs in recent weeks, also rose with day-ahead prices at the UK National Balancing Point, a virtual trading venue for natural gas, reaching £1.31 per therm, more than four times higher than this time last year.

Carlos Torres-Diaz, head of power and gas markets at consultancy Rystad Energy, said lower gas supplies from Russia this year had led to lower inventories in storage across Europe, while greater competition with Asia for liquefied natural gas (LNG) shipments had also forced prices higher.

Gas levels in European storage are “way below the five-year average”, he said, warning of tight supplies this winter. These have in turn pushed up the price of electricity, as gas is used in power generation as well as for heating and industrial uses.

The squeeze has been compounded by lower-than-expected power generation from wind. “It is normal to see some seasonality in the wind generation but this summer the generation is even lower than previous years — it’s all related to the summer we have been having across Europe where it has been warm and dry and less windy,” he said.

“Electricity demand has not been that high in the past couple of months, so it is not really demand that is driving the prices high, it is the fuel mix,” he added.

In the UK, there was strain in electricity supplies due to the number of power stations closed for maintenance, after many delayed work last year due to the pandemic.

Prices paid in the capacity market to encourage power stations to add short-term supply jumped to record levels on Monday, with some plants being paid more than £4,000 per MWh for generation.

In the UK, wind was only providing 4.9 per cent of electricity generation on Monday afternoon, compared to an average of 18 per cent over the past year, according to data from National Grid. Coal-fired plants were producing a similar amount — more than double the norm over the past 12 months.

Rob Lalor, a director at energy consultancy EnAppSys, said that so-called shoulder months like March and September were often the times when the system becomes stretched even though demand is not as strong as in winter, as the weather tends to be less predictable.

“There are not many power plants available to come on today so we’ve seen the prices for peaking power jump,” Lalor said. “When the market is this finely balanced a very small difference in availability can make a very big difference in price.”

Lalor said five power plant units in the UK had been paid prices between £3,750 and £4,950 per MWh to run and help balance the market, including coal units at Drax’s power station in Yorkshire and EDF’s West Burton facility. Both of these plants plan to close their coal units entirely by September 2022.

The jump in prices is likely to feed through to household bills in the coming months, with the UK energy regulator Ofgem widely anticipated to make a further increase to the so-called price cap for consumers.

Octopus Energy said that energy providers were now often selling fuel below cost, “subsidising our customers to the tune of over £5m a month”.

“We’ve absorbed as much of the cost as possible, for as long as possible,” a spokesman for Octopus said.