

# Extremely low water reservoir levels in Norway

Low temperatures and low levels of precipitation, combined with high levels of exports to other countries, mean that the water reservoir levels in Norway are currently unusually low.



## Here and now

Last week, spot prices in the Nordic region fell slightly again, in no small part as a result of days with high levels of wind power production. However, the pressure is mounting in the spot market in line with continued cold weather in the Nordic region, the delayed snow-melting in the Nordic mountains and increasing prices in the fuel market due to the continued fears of further escalation of the conflict with Russia. The average Nordic system price for week 16 was EUR 111.68/MWh, approximately 25% lower than the previous week, with particularly low prices across the weekend.

## Further price climbs across forward market

The system contracts for the coming months, quarters and years continued the now prolonged uptrend last week, and several of the most frequently traded contracts have reached record-high price levels again. There is still a combination of factors causing forward prices to climb. There are no prospects of mild spring weather just yet, and the weather forecasts indicate temperatures some way below normal for at least the next ten days, with the hydro-balance deficit remaining high. Germany also experienced further price climbs last week, which caused the Nordic market to climb further.

This was due, among other things, to sudden price jumps in the carbon market, where interest in buying has soared ahead of the buying deadline for allowances to cover last year's consumption. The foundations were therefore laid for Nordic prices to climb further, and the 2023 Nordic system contract has now climbed on no fewer than 11 of the last 12 days of trading. It now costs EUR 69.55/MWh, which is nearly double the level observed when war broke out in February.

## Our recommendation

Despite several weeks of virtually uninterrupted price climbs, we consider it highly likely, that the forward market will climb further next week. Volatility remains high due to the war in Ukraine, and the Russian decision to halt gas exports to Poland and Bulgaria causes further uncertainty and high risk premium.

Forward	Wk 16 (EUR/MWh)	Wk 17 (EUR/MWh)	Expectation (w 18)
ENOMMAY-22	107,00	116,75	↗
ENOQ3-22	87,20	89,85	↗
ENOYR-23	61,50	69,55	↗
SYHELYR-23	1,90	0,90	→
SYOSLYR-23	30,28	31,40	→

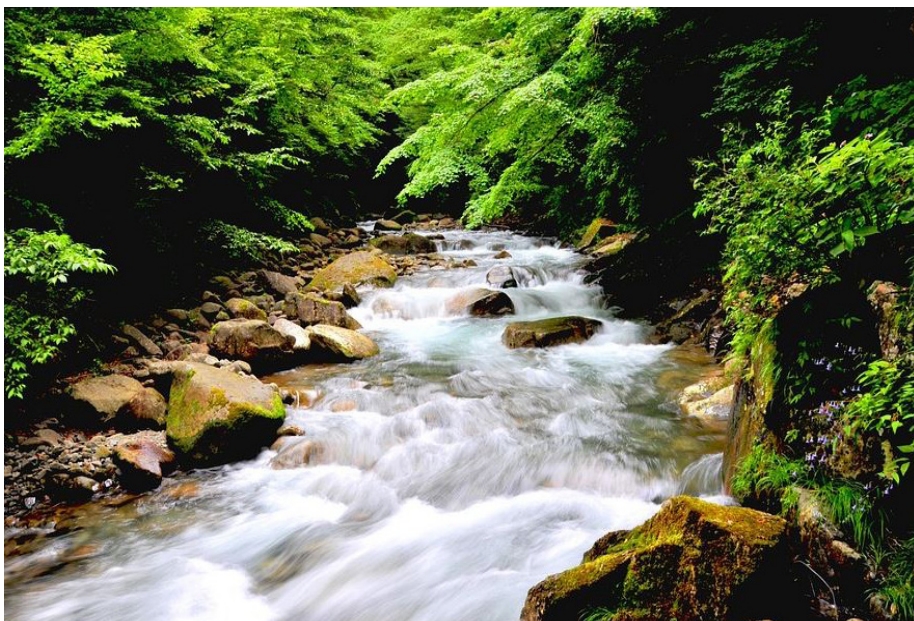
## Record-low water reservoir levels in parts of Norway

Southern Norway is currently experiencing extremely low water reservoir levels. The average water level in Norwegian reservoirs was around 22% in week 15. This is well below normal for the time of year, and the situation is particularly bad in the southern parts of the country. According to figures from the Volve analysis bureau, the water reservoir level in the south-west of Norway (Vestlandet) is at just around 12%, which is the lowest level ever recorded. In the south-east (Østlandet), the level has dropped as low as 8%.

It is completely normal for the water reservoir levels to be low at this time of year, when the snow-melting in the mountains is about to start and we have been through six months of high consumption levels in the Nordic region. However, several factors have led to an unusually extreme situation this year. Firstly, the new cables from southern Norway to Germany and England now mean that more electricity is exported out of the Nordic region to other parts of Europe, where prices are higher. Precipitation volumes have also been low in recent weeks, and the cold spring weather means that the snow remains in the mountains rather than melting to cause water to flow into the reservoirs.

These factors mean that hydro-resources are being depleted and, due to inadequate internal cable connections, it is not possible to move the substantial volumes of water available in northern Norway to the south, where both consumption and price levels remain high. The water reservoir level is now so low that it will leave its mark on the situation for the rest of this year at least. Volve estimates that the water reservoir level in southern Norway will peak at no more than 70% this autumn, after the reservoirs have been replenished following a summer of melting snow.

Naturally, the hydrological situation continues to affect electricity prices across the entire Nordic region. The major deficit in the water reservoirs is also occurring at a time when developments in the fuel market and the war in Ukraine are already pushing the market upwards.



## Forecasts

**The weather:** The next ten days look set to remain cold in the Nordic region, but the forecasts indicate that we could be heading for wetter and milder weather as we get into May. The hydro-balance deficit remains high.

**Spot** We anticipate that spot prices will climb again this week, as both the hydrological situation and lower wind power production indicate that this is on the cards. We anticipate an average Nordic system price of around EUR 150/MWh.

## EPADs

In Norway, the EPADs continue to climb, and the 2023 EPAD now costs EUR 31.40/MWh in the NO1 area (Oslo). However, in Finland, the 2023 EPAD has fallen again and is now at EUR 0.90/MWh.

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