Significant price climbs in the southern Nordic region

Spot prices climbed again last week in certain parts of the Nordic region and southern Sweden experienced the most expensive week ever in the spot market.

Here and now

The Nordic energy market did not stop climbing last week. Prices soared further in the German energy market as a result of increasing fears for the energy supply in the country over the coming months and over winter in particular. This is also affecting the Nordic region, especially the southern price areas that are closely linked to Germany. In the forward market, this meant that the Nordic system contracts for Q4-22 and 2023 once more reached record-high levels. They closed on Monday at EUR 182.00/MWh and EUR 110.25/MWh respectively.

Sky-high spot prices across large parts of Nordic region

The area prices climbed significantly again last week in parts of the Nordic region. The average Nordic system price ended up at EUR 126/MWh for week 26, which was largely unchanged compared to the previous week, but there were significant increases to report in certain price areas. A combination of low levels of wind power production and extremely high prices in Germany meant that both Denmark and southern Sweden experienced significant price jumps. In the southernmost part of Sweden, the SE4 price area ended up experiencing its most expensive week ever when the average price for the week reached EUR 265.21/MWh. Price levels also increased in Denmark, although the level here has yet to beat the record set in week 9, when the prices were even higher in the wake of the uncertainty following the outbreak of war in Ukraine. July is normally characterised by low spot prices compared to the rest of the year, but if wind power production and precipitation volumes remain low, we could be heading for an expensive month. In this connection, the situation surrounding Russian gas supplies to Europe will naturally also have an important role to play.

Our recommendation

The European energy markets are currently in the midst of an extremely nervous period, which is reminiscent of the time immediately following the outbreak of war in Ukraine. If there is no positive news about gas supplies to Europe, further price climbs could very well become reality next week. The weather forecasts could change the situation, but we believe that climbing forward prices will also be most likely in week 27.

Forward	Wk 26 (EUR/MWh)	Wk 27 (EUR/MWh)	Expectation (wk 28)
ENOMAUG-22	118.00	133.00	↗
ENOQ4-22	162.50	182.00	↗
ENOYR-23	99.90	110.25	↗
SYHELYR-23	21.75	27.40	↗
SYOSLYR-23	36.65	35.90	→

Norway forced to ration hydro-power

Norway may be forced to limit hydro-power production over the summer to ensure sufficient resources for the coming winter.

Southern Norway is currently experiencing a highly pressurised hydrological situation. At the start of the summer, the water reservoir level in the southern part of the country was the lowest ever recorded. This was the result of a cold and dry spring, which delayed snow-melting and caused the Nordic hydro-balance to drop to a very substantial deficit. At the same time, the high levels of exports running through the new transmission cables between southern Norway and more expensive countries, such as the UK, helped drain the reservoirs.

Even though the snow-melting in the Norwegian mountains is now fully under way, hydro-power resources remain low compared to normal for the time of year and the Energy Quantified analysis bureau now believes that Norway may be forced to reduce production levels over the summer in order to ensure adequate resources for the coming winter. There are widespread fears in the European energy markets concerning the supply situation, fears that have only accelerated following the sharp decline in Russian gas exports to Europe in June.

Energy Quantified estimates that, in the event of a dry summer with high levels of exports to neighbouring countries, Norway could be facing water reservoir levels of only around 60% by late September, which would be well below normal and could contribute to extremely high prices this winter. This would be the case in particular if gas supplies from Russia were to disappear completely, as the export of electricity from Norway to other countries would increase significantly.

The Norwegian TSO, Statnett, is also expressing concerns over the situation and warns that there might be very limited hydro-power resources later this year. Prices in Norway have already exploded compared to previous years and, with high levels of Norwegian exports, this situation could easily also affect other Nordic countries.

Forecasts

The weather: The Nordic hydro-balance deficit looks set to remain in place in the coming weeks, although it is dwindling. Increasing precipitation volumes in July mean that the balance deficit is expected to be around -3 TWh by the middle of the month.

Spot: Following several weeks of extremely high spot prices, we could be facing a price fall in week 27. Increasing levels of wind power production and falling temperatures will lead to falling prices and we anticipate an average Nordic system price of around EUR 90/MWh for the week.

EPADs

The enormous price climbs in the Finnish EPADs continued last week due to significant concerns surrounding the Olkiluoto 3 nuclear reactor in particular. There were no notable fluctuations in the Norwegian NO1 EPAD for 2023.

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