



Europe's Power Market Outlook

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29th June 2022, Andy Sommer, Head Fundamental Analysis & Modelling, Axpo Solutions AG



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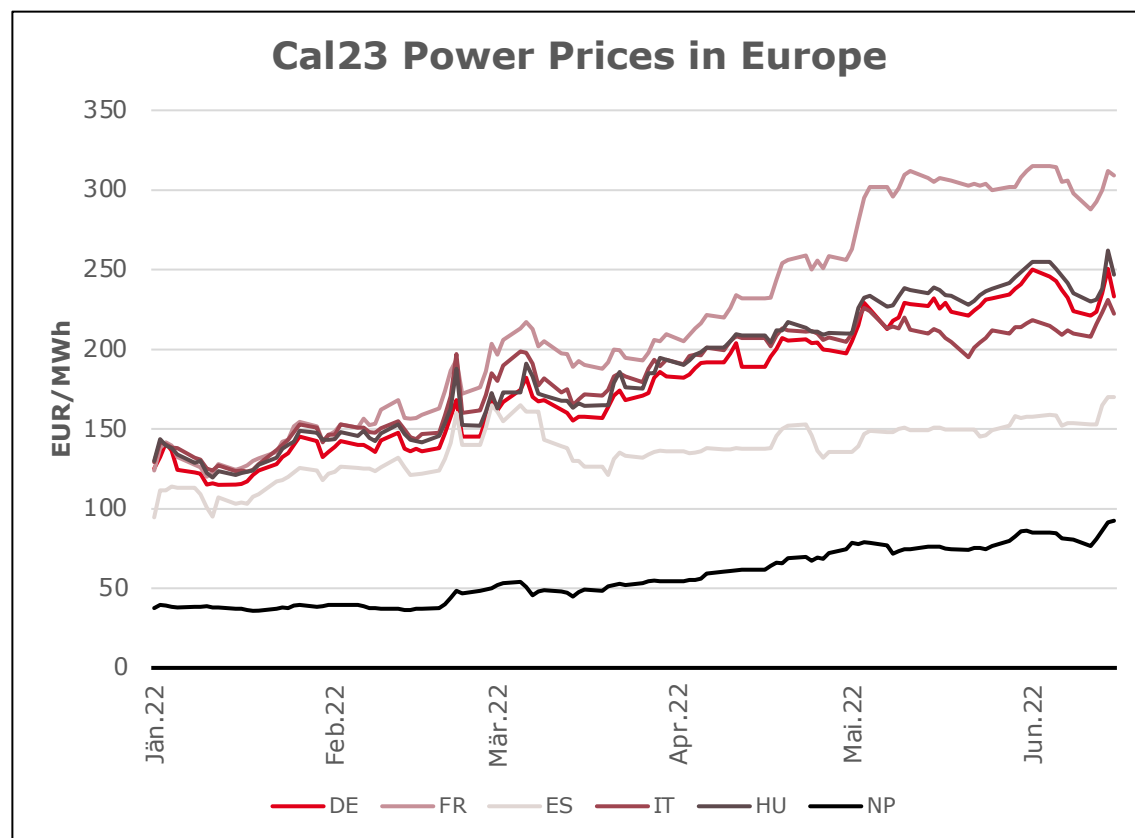
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Authors: Nicholas Boyes, Elyas Kazmi, Alex Pashley, Mathias Schumacher, Andy Sommer, Jessica Taylor, Stefan Wieler

Baden, 20 June 2022

Strong increase of spot and forward power prices since start of 2022



Source: Bloomberg

- Very dry conditions in the Alps and in Spain
- Record-low power generation of French nuclear fleet
- Already tight gas and coal markets tightened further by measures resulting from the Ukraine war.
- Risk premium built due to risks on supply from Ukraine war

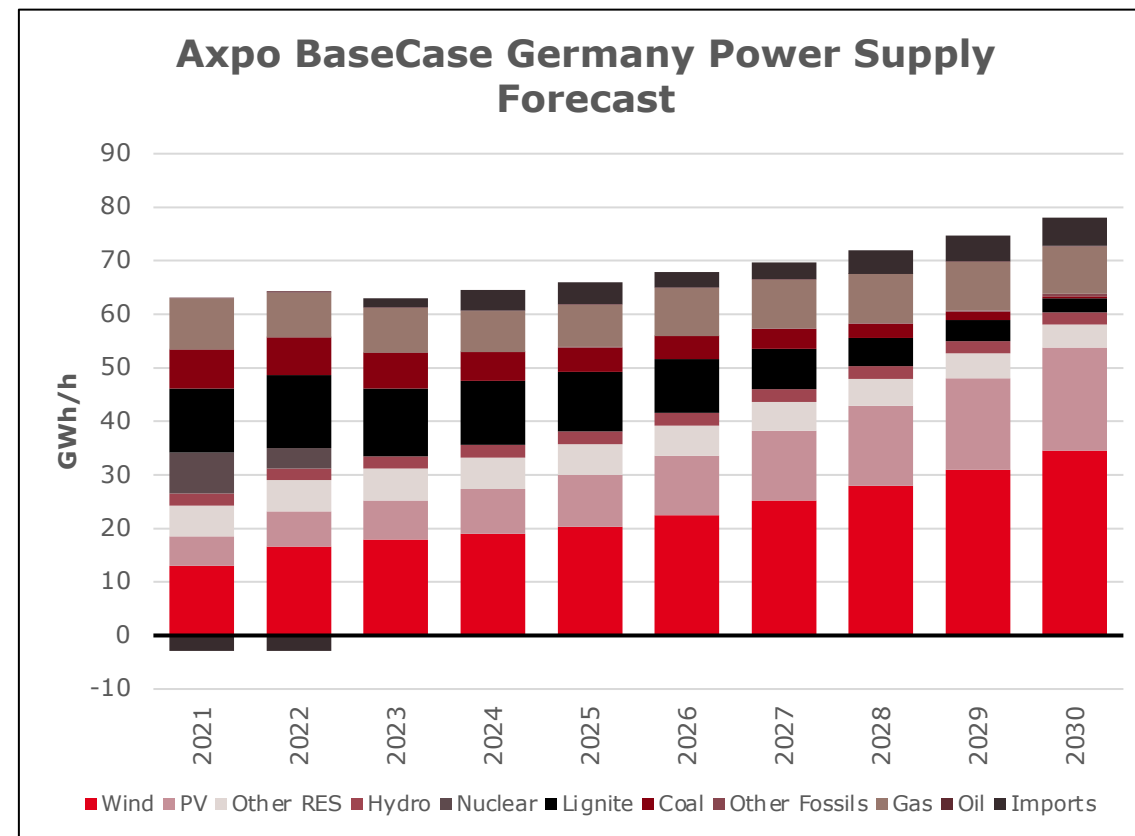
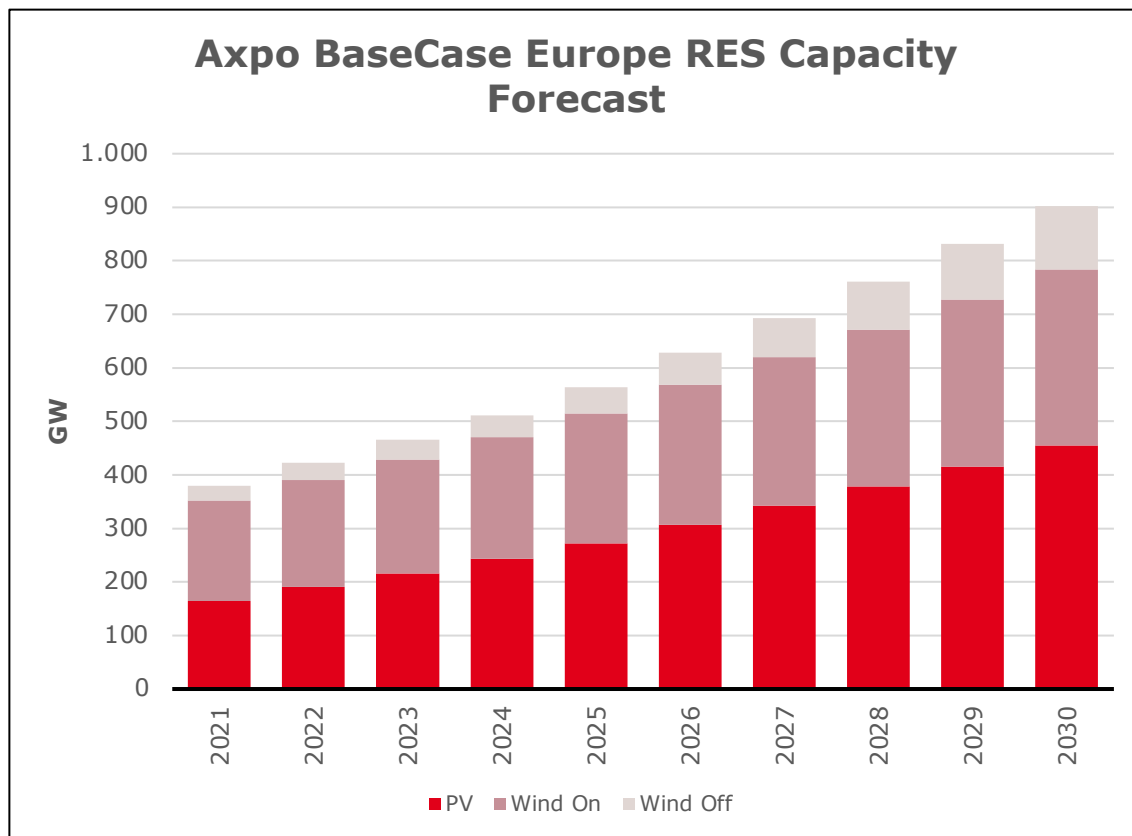
A long list of reactions to the political tensions from both sides...

- Generally: Sanctions of finance providers, shipping insurances, technology exports
Preparation of emergency measures
Strong increase of volatility and decline of market liquidity
- Hard coal: Ban of imports to EU (from 10.08.22), UK and Japan (later in 2022)
- Gas: Stop of Nord Stream 2 approval process
Gas storage regulation (Minimum levels & certification requirements)
Announcement to not renew expiring gas offtake contracts
EU Commission proposes «RePowerEU»: Energy independence from Russia by 2027
Delivery stops to BG, PL, FI, NL due to EUR/RUB payment dispute
Russia sanctioned former EU subsidiaries, e.g. Yamal operator
- Petroleum: EU bans all seaborne imports
- Electricity: Ukraine synchronises grid with Continental European grid
Finland stops 1/3 of imports, and Russia stops remaining exports
Belgium extends lifetime of some nukes, other countries check for longer use of lignite
Spain/Portugal cap gas price for power generation for 12 months

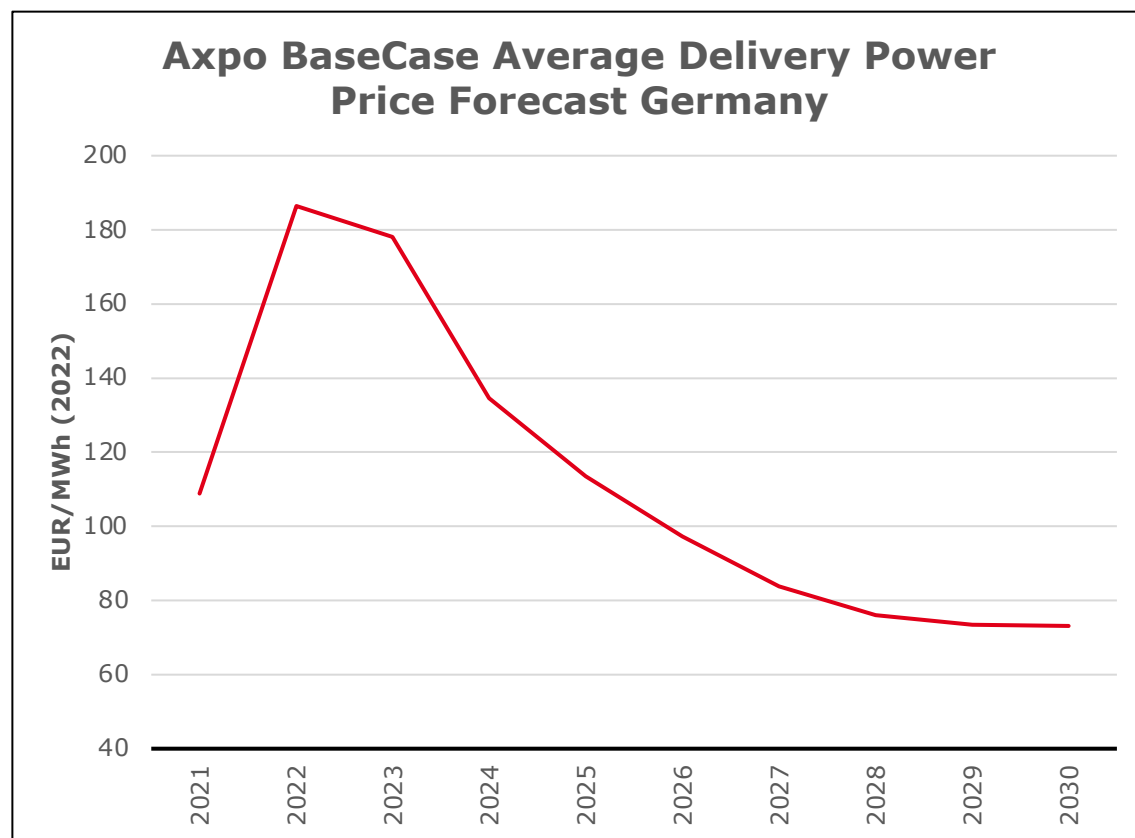
...changes the dynamics of Europe's power market outlook

- Generally: Sanctions of finance providers, shipping insurances, technology exports
Preparation of emergency measures
Strong increase of volatility and decline of market liquidity
 - Ban of Russian coal and oil in 2022, and gradual reduction of gas imports until 2027
- Hard coal: Ban of imports to EU (from 10.08.22), UK and Japan (later in 2022)
- Gas: Stop of Nord Stream 2 approval process
Gas storage regulation (Minimum levels & certification requirements)
Announcement to not renew expiring gas offtake contracts
EU Commission proposes «RePowerEU»: Energy independence from Russia by 2027
Delivery stops to BG, PL, FI, NL due to EUR/RUB payment dispute
Russia sanctions for EU gas deliveries
 - Further increase of already ambitious EU targets on energy efficiency and renewable energy resources
- Petroleum: EU bans all seaborne imports ("RePowerEU")
- Electricity: Ukraine synchronises grid with Continental European grid
Finland stops 1/3 of imports, and Russia stops remaining exports
Belgium extends lifetime of some nukes, other countries check for longer use of lignite
Spain/Portugal cap gas price for power generation for 12 months

Axpo BaseCase: Strong RES growth... ...but gas plants are still often needed



Axpo BaseCase: Declining prices over time ...but risks around it are high



- Significantly more RES means more low-cost hours
- More LNG and less gas consumption in Europe should decrease costs of CCGTs
- However, prices also depend on
 - => the availability of gas supply (dependency on weather in Asia and other factors)
 - => the speed of RES expansion in Europe (dependency on supply chain, finances etc.)
 - => The sustainability of the current marginal costs driven market design.

Thank you!

Andy Sommer
andy.sommer@axpo.com
Axpo Solutions AG
Parkstrasse 23, 5401 Baden
www.axpo.com



