



Volatile spot prices in the power market and low spark spreads are making it increasingly difficult for German gas-fired generators to come to the market.

Average year-to-date Day-ahead Baseload volatility day on day for 2012 is at 1.06% compared with 0.18% for the same period in 2011. It was suggested that market coupling between France and Germany from late 2010 would ensure prices in both countries would be more stable, but added renewable generation in 2012 has made spot prices more volatile.

Lower French nuclear availability and increased hydropower generation in the grid have also changed the profiles between France and Germany, and added to spot volatility.

Exports from France have decreased by an average of 803GWh/month since the beginning of the year until August, compared with the same period last year, according to data from the European Network of Transmission System Operators for Electricity, while exports from Germany to France have increased marginally.

Some sources have warned that as more renewable generation is added to the grid in 2013, spot prices could become even more volatile and push the gas-fired generation completely out of the market.

“Fuel switch is essentially dead in Germany,” one market participant commented. Another added that it is unlikely demand for the gas in Germany will recover. “Supply side is easy to recover, but to increase demand is much more difficult. I don’t think anyone expects to see the return of the gas [generation] to the market any time soon,” another source noted.

He pointed out that even in the UK, gas demand is at remarkably low levels: “I have never seen such a low gas demand in UK as we’ve seen this summer.”

Renewable impact

The increase of solar and wind power generation in Germany has not only depressed power prices in delivery, but also it made the spot prices sensitive to any fluctuations in renewable power generation.

For example, on 26 June, the Day-ahead Baseload contract jumped by €10.90/MWh day on day to €49.00/MWh as wind generation levels fell to an hourly average of 2.1GW from 8.5GW on 25 June. Solar production levels were also revised down. With clean spark spreads deep in negative territory, gas-fired generators have been keeping a close eye on the German spot in the hope that sudden fall in renewable generation might lift Peak prices to profitable levels.

Plants struggle to cover margin costs

The break-even margin for German gas-fired power plants is estimated roughly at €60.00/MWh. Because of low power prices on the spot, gas generators are finding it increasingly harder to come to the market. According to ICIS data, Peak prices in Germany were above €60.00/MWh on only 15 occasions this year out of 172 trading days to date.

A cold snap in February supported prices in France and Germany for 10 consecutive days. Low wind levels coupled with lower-than-expected French nuclear availability boosted the Peak prices at the end of August, which enabled gas generators to fire up for a short period.

But the prices have been significantly lower year on year. Peak prices closed above €60.00/MWh on 160 trading days out of 251 days in 2011. Comparatively high gas prices have also eroded the margins for gas-fired generation. The Q4 ‘12 clean spark spread, which should be one of the more profitable quarters for gas generation because of the weather-related risk premium, was assessed at -€6.97 on Tuesday compared with €2.88/MWh on the same date last year.

“Even the gas-fired plants with very high efficiency, at around 50%, have been struggling this year to cover their marginal costs, not to mention the costs of CAPEX [capital expenditure]. There really is no demand for flexible gas-generation,” one German gas trader commented.

According to ICIS data, the gas-fired electricity generation in Germany has decreased by 4.76TWh for the 2012 first half compared with 2011. At the same time spot volumes traded on the German over-the-counter market have increased by 3.66TWh for the period of May-August year on year.

Without any clear initiative from the German government to ensure higher prices for gas-fired generators, it is likely that many plants will soon go enter bankruptcy.

“Renewables have provided a long-term shift. I would expect to see quite a few plants in Germany mothballed next year,” a source commented. “The energy market is ruled by the ‘survival of the fittest’ principal. Inefficient plants will run as long as they do not have a cheaper replacement.”

By Selene Rebane



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