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HEREN@ UK INDICES	€/MWh
August	£41.352/MWh
Day Ahead	£38.385/MWh Volume: 2262 MW
Day Ahead Peaks	£41.356/MWh Volume: 3420 MW

HEREN@ GERMAN INDICES	€/MWh
August	€29.530/MWh
Day Ahead	€32.289/MWh Volume: 5075 MW
Day Ahead Peaks	€36.636/MWh Volume: 11725 MW

HEREN@ FRENCH INDICES	€/MWh
August	€29.139/MWh
Day Ahead	€37.127/MWh Volume: 1200 MW
Day Ahead Peaks	€42.049/MWh Volume: 2325 MW

ACROSS THE MARKET: EUROPEAN DAY-AHEAD POWER PRICES

	D+1 price	Diff D-1
Heren @ UK D + 1 INDEX	52.20	-0.47
EPEX Germany/Austria	30.89	+1.58
EPEX France	35.69	+3.40
APX Netherlands	37.49	-0.64
Nord Pool Nordic	16.03	-2.28
OMEL Spain	51.28	-3.67
EXAA Austria	32.36	+1.82
PolPX Poland	38.80	-2.10
IPEX Italy	49.00	-2.66
OPCOM Romania	45.61	-7.80
OTE Czech Republic	32.67	+2.25
Belpex Belgium	44.59	-0.01
HTSO Greece	50.06	+0.55
HUPX Hungary	45.66	-7.75
BSP Southpool Slovenia	45.82	-4.45
OKTE Slovakia	32.67	+2.25

Hungary premium to Germany will grow – traders

Available on the ICIS Dashboard at 05:00

The premium of the Hungarian Calendar Year 2016 over the equivalent German product could widen more because of fundamental factors and seasonal buying trends, said most traders contacted by ICIS.

From the beginning of July up to 24 August, the spread between the two front-year products averaged €9.07/MWh, compared to €8.22/MWh during the same period last year.

Hungarian contracts are usually at a premium to their German equivalents due to the comparative lack of domestic production in Hungary compared with consumption – Hungary has installed generation capacity of 8.2GW compared to Germany's 197GW, and is typically a net importer from the Balkans.

The typical premium of Hungarian prod-

ucts often offers traders arbitrage opportunities, creating a close correlation between the movement of German and Hungarian curve contracts.

Seasonal effect

Analysis of the spread between the German and Hungarian front-year products during August 2014 shows that the current increase in the Hungarian contract's premium is in part a seasonal trend.

Market participants said one of the reasons for this was the strategy of Hungary's large industrial consumers and their suppliers, which have been less active over the summer holiday season.

"At €40/MWh suppliers of end customers are interested to buy. They will be [Page 16](#)

Irish regulators defy calls for pool price calculation reform

Available on the ICIS Dashboard at 13:35

The all-island Irish power regulatory authorities have decided to leave part of the calculation of the market's pool price unchanged for 2016 even though it is now less reflective of demand than it used to be, a document published on Wednesday said.

The all-island market operates as a gross mandatory pool or spot market. All generators must bid their short-run marginal costs into the market and all suppliers buying electricity pay the same system marginal price (SMP), which is calculated on an hourly basis.

To calculate the SMP, the regulators also include a factor called uplift, which is supposed to take into account the start-up and no-load costs that generators incur, but do not bid into the market.

The calculation of uplift includes three parameters that were changed by the regulators at the start of this year. In a consultation

earlier in the year, the regulators said their analysis showed the correlation between the SMP and the demand profile was lower than it had been before the change in the calculation.

Two market participants responded to the consultation, both expressing disappointment that the parameters had been changed in the first place.

Utility SSE said "from a supplier, generator and interconnector perspective, the profile objective has been negatively impacted. Price less closely reflects fundamentals."

Power NI's power procurement business (PPB) said "we are concerned that the analysis has shown that the correlation between SMP and system demand has reduced by 16%".

Both responses suggested that further analysis would need to be carried out before the regulators decided on what the parameters would be used for the calculations in 2016. [Page 16](#)

Lignite capacity on German market to drop to 17GW

Available on the ICIS Dashboard at 15:45

The German government expects the country's lignite-fired capacity that participates in the power market to fall by about 19% in the next few years to total 17GW in 2020.

This figure takes into account the government's plan to put 2.7GW of lignite-fired plants into a capacity reserve, which would not participate on the market and would be used only when power supply falls short of demand on the short-term market unexpectedly (see *EDEM 2 July 2015*).

The country's lignite-fired capacity that participates on the market totalled about 21GW as of 1 June this year, according to data from the German regulator Bundesnetzagentur.

Hard-coal fired capacity participating on the market will be 25GW, natural gas fired capacity 20GW and renewables capacity 120GW in 2020, according to the government's answers to questions by some parliament members published on Tuesday.

Natural gas-fired capacity will drop by 14%

and hard coal capacity by 1.2% compared to current levels. Meanwhile, renewables capacity will increase by about 32%.

Southern Germany is expected to have a smaller amount of generating capacity in the future because the country plans to shut down all nuclear power plants by the end of 2022 and wind power expansion is concentrated in the northern coastal areas, where weather conditions are more favourable for it.

The government is ready to set up a special power reserve for southern Germany from 2021 if needed. This need might arise if the expansion of transmission capacity between northern and southern Germany continues to lag behind schedule (see *EDEM 25 March 2015*).

The reserve would consist of 2GW of power plants that can be ramped up quickly in case of supply shortages. There would be a tender to determine which power plants could participate in this reserve, said the government in its answers. laura.raus@icis.com

Irish regulators defy calls for pool price calculation reform

Continued from page 1

SSE said that interconnector flows were likely to be less optimal as a result of the changes. "We believe that the regulatory authorities should carry out an additional analysis on interconnector flows over two periods before deciding on the uplift parameters for 2016."

PPB suggested the parameters should be changed back to the values used before the start of this year.

But the regulators said on Wednesday that the final decision had been made and the parameters will be unchanged for 2016. This means that the SMP is likely to continue to be less correlated to demand in the all-island market than it was in 2014.

The document also announced that the SMP price cap and price floor will stay the same, at €1000/MWh and -€100MWh. abt@all.beall@icis.com



Hungary premium to Germany will grow – traders

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buying more in the next two to three weeks ahead of the heating season," said one trader.

Aleksandar Katancevic, head portfolio manager of AB Energo and Stratega East, an energy trading company and energy consultancy, also said the purchase strategy of industrial consumers was one of the fundamental reasons for a seasonal increase in the premium of the Hungarian front-year product during August and September.

"Many un-hedged companies are procuring baseload for Year 2016 consumption at the same time," he said.

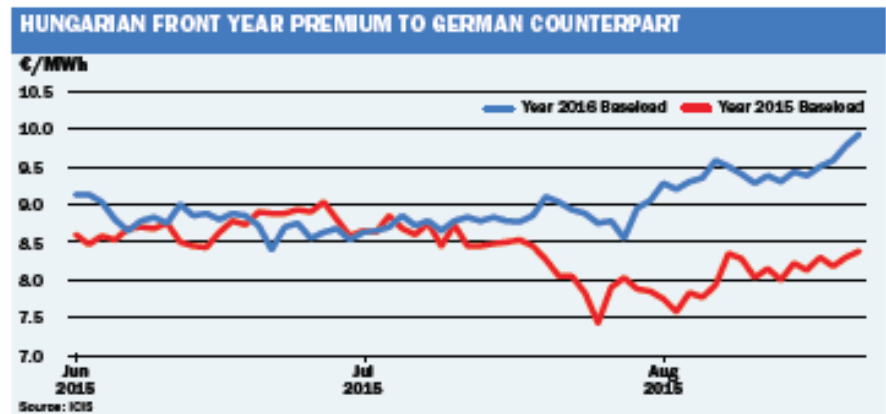
Another reason for the seasonal effect is the relative liquidity of each of the markets – while the German electricity market is the most liquid in the region, Hungary is less liquid by comparison.

This means there is less interest in trading the Hungarian front-year contract earlier on in the year, making significant price movements on that product less frequent.

Poor Balkan supply

But comparison of the spread between the two front-year contracts at the same time in 2014 shows the premium of the Hungarian equivalent is much greater this year, suggesting the trend cannot entirely be put down to seasonality.

The German 2016 contract has dropped with a speed that the Hungarian equivalent has not replicated, with the lack of gen-



eration capacity in Hungary providing a floor. Although Hungary imports a great deal of electricity from the Balkans, which is usually well-supplied with hydropower, reservoir stocks this year have been well below those of the last couple of years, whereas German renewable capacity continues to grow.

Hungary and the surrounding markets also rely on less efficient lignite generation rather than the hard coal primarily used by Germany. "In addition, cross-border capacity from Austria to Hungary is limited and therefore if the German contract keeps falling, Hungary will stop at some point," said Katancevic.

Looking forward

On 24 August the Hungarian Year 2016 contract fell below €40.00/MWh for the first time since

27 May. But trades the next day priced the contract above €40.00/MWh again, the contract resisting downward pressure from the German counterpart. "In the mind of many traders there is a bottom line for the Hungarian 2016 at €40.00/MWh but it doesn't mean anything, it's not fundamental," said one market participant.

"If we see September falling a lot maybe it [the bottom line] will be reconsidered again. This is a temporary support level," he added.

The spread between the two products shows no sign of shrinking - in contrast to the Hungarian contract, the German Year 2016 hit record lows on 24 August due to weakness in fuels. ellie.chambers@ids.com and lrna.peltegova@ids.com

Click here for more detailed analysis of the German power market.