

Energy Market Update

Quarterly Update | ISSUE 101

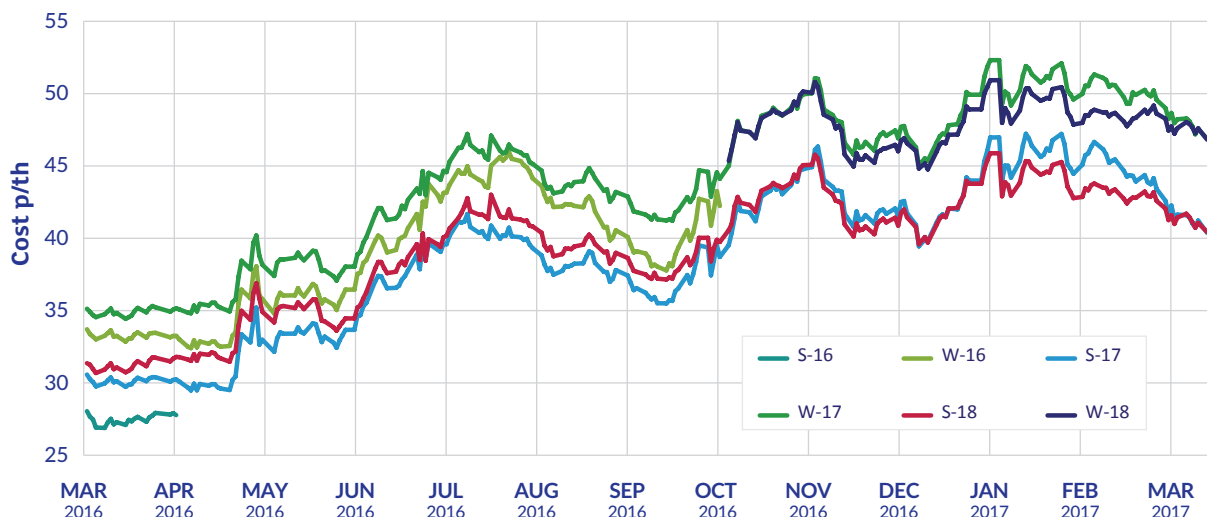
Welcome to our new quarterly newsletter, Energy Market Update. Throughout this issue you will find recent news concerning the energy sector and information beneficial in understanding your energy prices and market changes.

**CURRENT
FOCUS**

- ◆ Energy suppliers have announced price increases since the turn of the year. This has been blamed on a combination of increased commodity costs and government levies, resulting in the sharpest price increases from any of the big six suppliers since 2013.
- ◆ Recent government policies have meant there is a further subsidy required from the consumer for renewable energy and also the installation of smart meters.

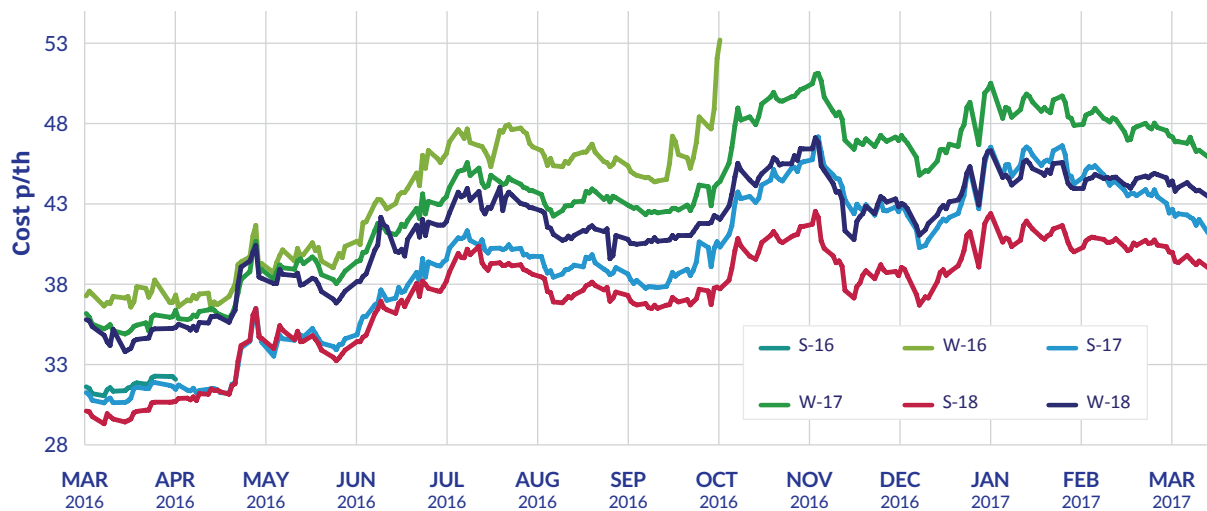
GAS prices over the last 12 months

Source: Bloomberg



POWER prices over the last 12 months

Source: Bloomberg



MEDIUM TERM FOCUS

- ◆ Since the closure of older coal plants gas is currently the only grid level alternative in place, leading to increased gas use.
- ◆ Particular volatility within Winter 17 due to electricity capacity concerns and ongoing gas storage problems.
- ◆ The Pound is currently the worst performing currency of any major economy, increasing the cost of gas imports (the UK imports around 60% of its gas).

LONG TERM FOCUS

- ◆ The UK is rapidly shutting baseload coal plants without reliable replacement and as a result, the power system is under pressure to provide a reliable supply.
- ◆ Government efforts to incentivise new renewable generation to replace coal is significantly increasing non-commodity costs.
- ◆ Brexit is leading to further uncertainty in all industries.
- ◆ System strain should ease over the next few years as a new supply comes online, potentially alleviating continuous increases in commodity costs (however, non-commodity charges will remain and are more accurately forecast).
- ◆ Whilst there is Winter 17 volatility, there is a “backwardation” effect as the market considers the risk to be lower in Winter 18 and Winter 19.
- ◆ Scottish Referendum – what can this mean for the energy market?

**PASS
THROUGH
COSTS**

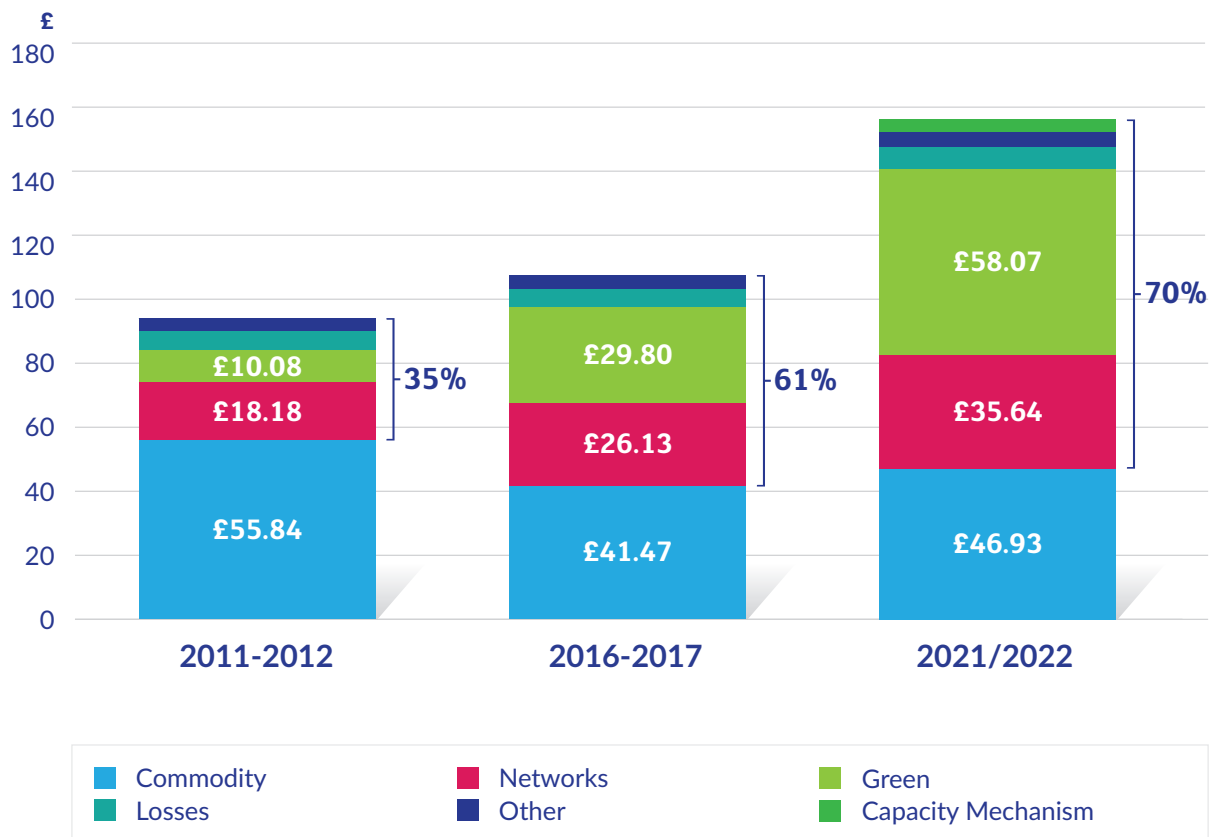
What are they?

- ◆ Distribution charges also referred to as Distribution Use of System (DUoS), this covers the cost of transporting electricity through the network directly to your home or business.
- ◆ Transmission charges also known as Transmission Use of System charges (TUoS), cover the cost of transporting electricity from the generating station to the network and are charged by the Systems Operators.

What does this mean?

The graph below shows the typical costs that make up an electricity price. The pass through increases show that by 2021 the commodity part on an electricity price will only account for approximately 30% of what you pay. The rest will be made up of non commodity costs which include the maintenance of the network, transportation costs, government taxes to fund renewable energy amongst other charges.

Electricity Cost Stack in £/MWh: Five Year Intervals



These are illustrative costs for an average electricity price in each period.

Energy usage summary

Source: 14th March 2017

| Element | Next Three Months | Summer 17 Winter 17 | Summer 18 Onwards | Current Value | Last Weeks Value | Last Years Value |
|----------------|-------------------|---------------------|-------------------|---------------|------------------|------------------|
| Oil Price | → | → | ↑ | \$51.44 | \$56.05 | \$37.53 |
| Power Margin | → | → | ↑ | 8.91 GW | 7.74 GW | 2.44 GW |
| Gas Balance | ↓ | ↓ | → | 3.54 MCM | 8.24 MCM | 2.95 MCM |
| Gas Demand | ↓ | ↓ | ↑ | 279.38 MCM | 302.52 MCM | 311.36 MCM |
| Gas Supply | ↓ | ↓ | → | 280.80 MCM | 303.84 MCM | 312.63 MCM |
| Storage | → | → | ↑ | 22% | 20% | 24% |
| LNG Deliveries | ↓ | ↓ | ↓ | 1,314 MCM | 1,024 MCM | 2,605 MCM |
| Weather | → | ↓ | → | 8.84 | 7.37 | 7.39 |
| Geopolitical | ↑ | ↑ | ↑ | | | |
| Overall | ↓ | ↓ | ↑ | | | |

About
Lumina
Energy



Established in 2012, we are wholly owned by Kent County Council (KCC) allowing us to benefit from the industry knowledge and 25 year's expertise KCC has in energy procurement. Over the years, KCC has helped more than 200 public bodies manage their energy and currently procures over £450 million of gas and electricity each year.

We are based in Kent and help all small, medium and large businesses across the UK manage their energy consumption and minimise energy costs. We offer a free to use service with no obligation. To our customers, we are a trustworthy and ethical partner as we pride ourselves on being honest and impartial at all times. We work with 17 trusted suppliers from "the Big 6" to smaller independent energy companies to find your business the best deal on either your electricity, gas or both.

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