

Energy Market Update

Quarterly Update | ISSUE 102

Welcome to the summer issue of Energy Market Update.

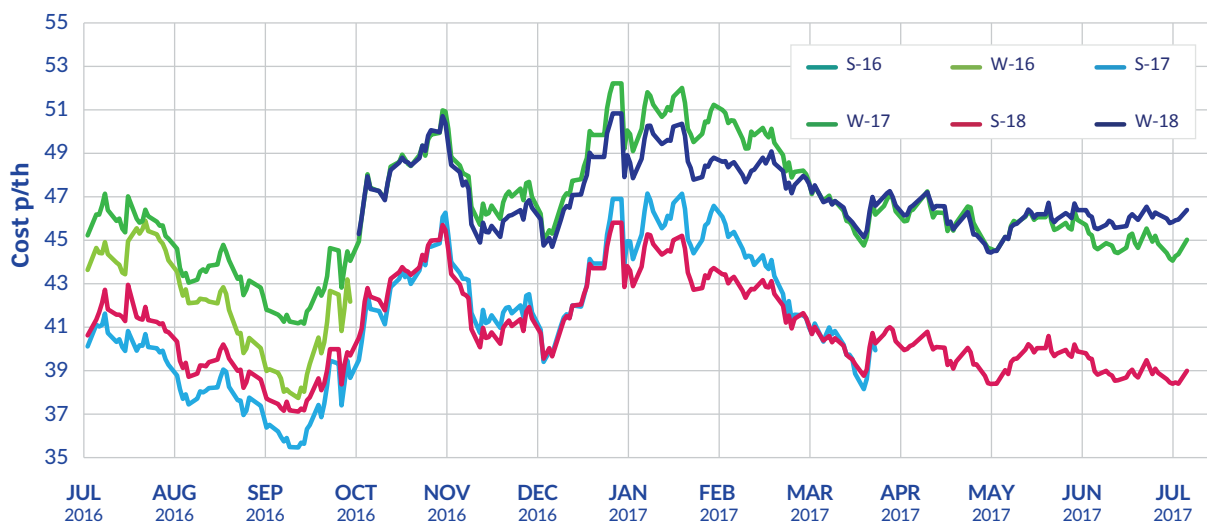
Throughout this issue you will find the latest news in the energy sector and how medium and long term factors will impact energy prices. Please contact us to find out more on 0808 168 5688.

CURRENT FOCUS

- ◆ Centrica have announced the permanent closure of the Rough gas storage facility in the North Sea. This facility has been responsible for 70% of the UK's gas storage. Winter 2017 will be the first winter without this facility in 30 years.
- ◆ National Grid has announced improved margins resulting in greater grid stability, as predicted power output has improved slightly from last year's very poor levels.

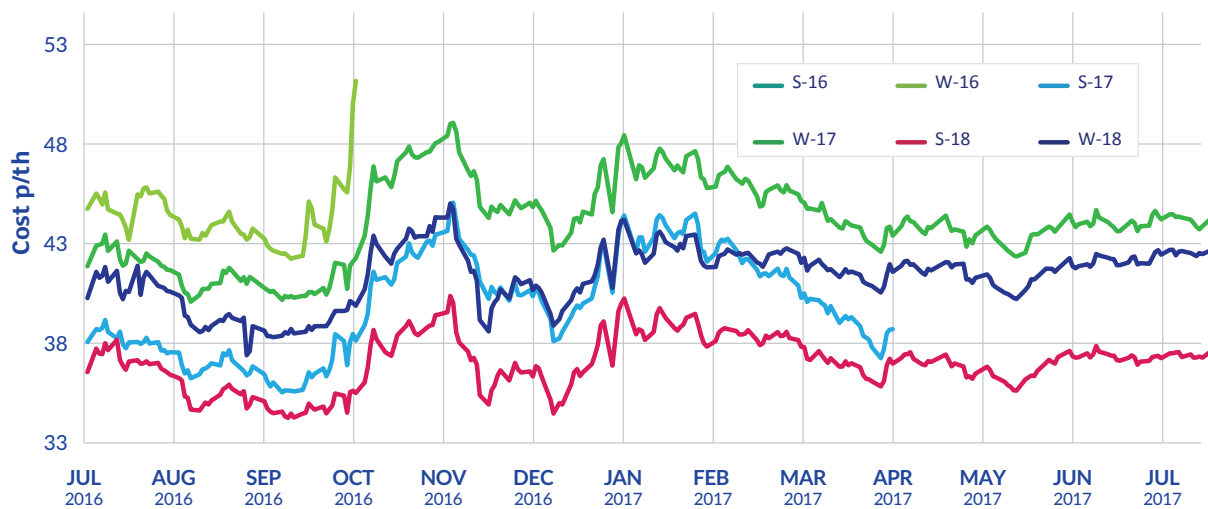
GAS prices over the last 12 months

Source: Bloomberg



POWER prices over the last 12 months

Source: Bloomberg



MEDIUM TERM FOCUS

- ◆ OPEC (Organisation of Petroleum Exporting Countries) have extended their oil production cut by a further 9 months in an effort to increase the current price of oil.
- ◆ 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 further subsidy required from the consumer for renewable energy and also the installation of smart meters.
- ◆ Following the recent election and coalition between Conservative and DUP parties, the energy market in particular remains volatile with no clear direction on "Brexit".
- ◆ The GBP is currently the worst performing currency of any major economy, increasing the cost of gas imports (The UK imports approximately 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.
- ◆ With the announcement that a second Scottish referendum will be postponed until after the final Brexit deal becomes clear, we are unsure at this stage of the eventual impact for the energy markets.
- ◆ System strain should ease over the next few years as a new supply comes online, which could alleviate potential increases in commodity costs (however, non-commodity charge increases will remain and are more accurately forecasted).
- ◆ 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.

PASS THROUGH COSTS

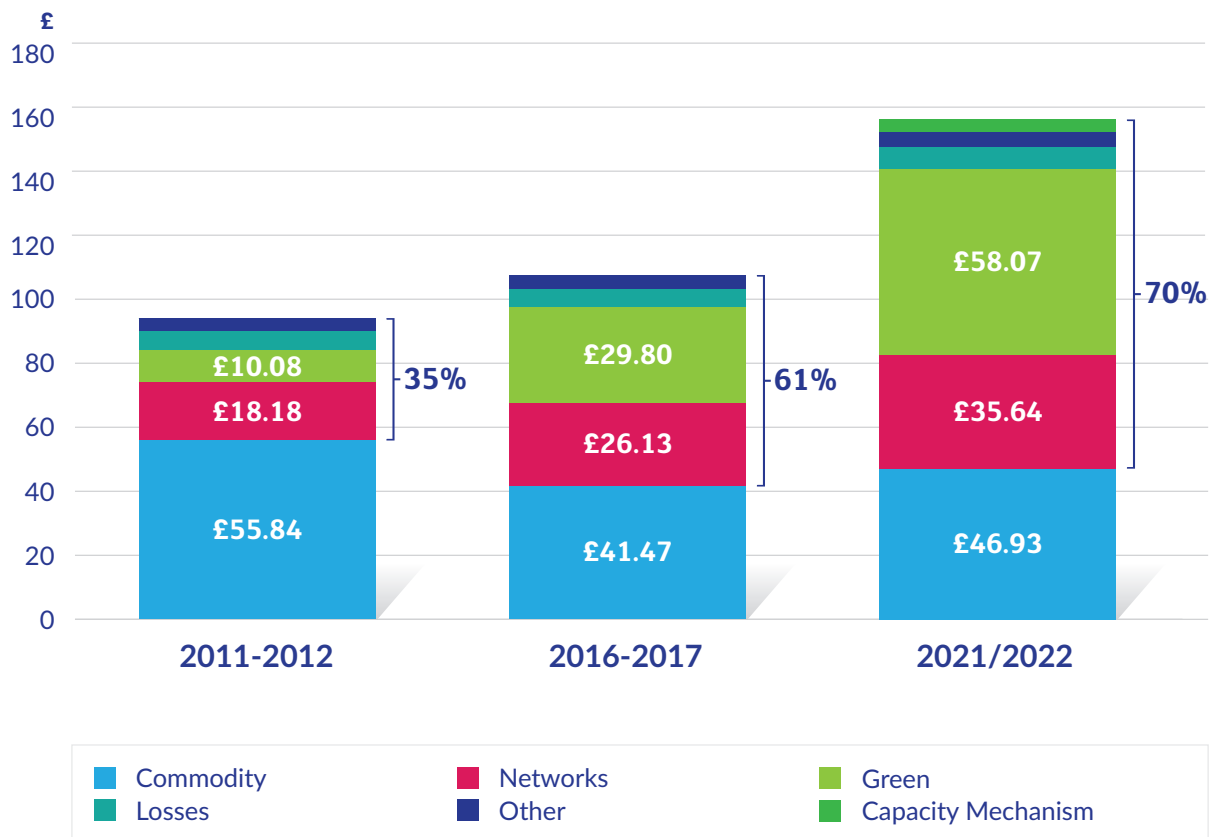
What are they?

- ◆ 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 elements that make up an electricity price. The pass through increases show that by 2021 the commodity element of an average 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 and 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.

Market Outlook

Source: 18th July 2017

Element	Next Three Months	Summer 17 Winter 17	Summer 18 Onwards	Current Value	Last Weeks Value	Last Years Value
Oil Price	→	→	→	\$48.39	\$46.63	\$46.61
Power Margin	↑	→	→	5.99 GW	3.97 GW	8 GW
Gas Balance	→	→	→	0.84 MCM	4.23 MCM	1.65 MCM
Gas Demand	→	→	↑	195.94 MCM	194.16 MCM	192.94 MCM
Gas Supply	→	↓	→	2-1.91 MCM	200.76 MCM	183.98 MCM
Storage	↑	↑	↑	27%	23%	41%
LNG Deliveries	→	→	↓	5,005 MCM	4,589 MCM	7,152 MCM
Weather	↓	→	→	17.04	17.72	18.15
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 over 20 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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