

# Energy Market Update

Quarterly Update | ISSUE 103

**Welcome to our new quarterly newsletter, Energy Market Update.**

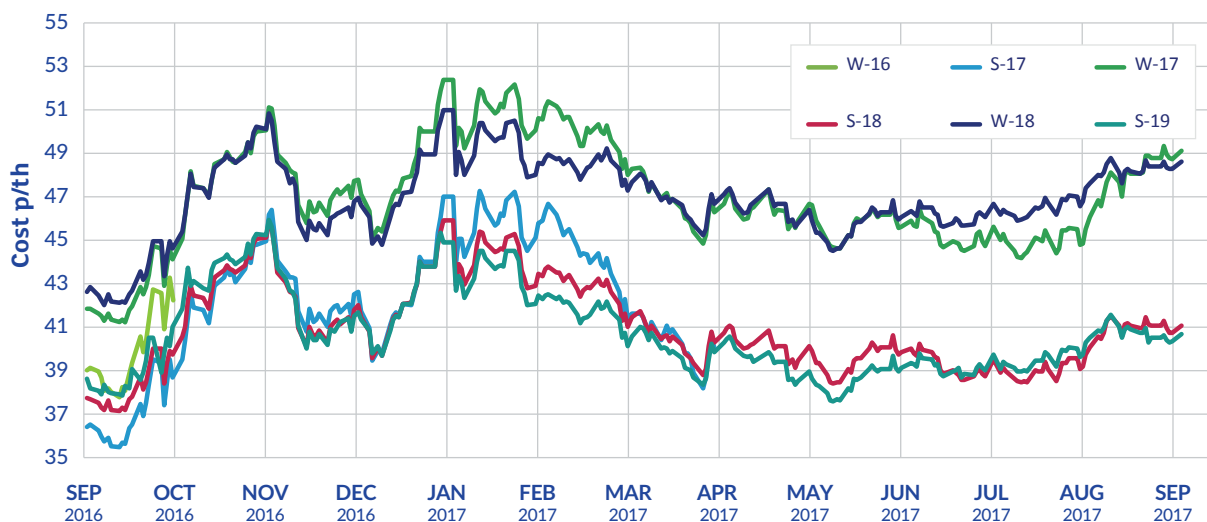
Throughout this issue you will find recent news concerning the energy sector and information beneficial in understanding your energy prices and market changes.

**CURRENT  
FOCUS**

- ◆ There have been several unplanned maintenance events in the North Sea combining with scheduled maintenance plans over recent months.
- ◆ Very high temperatures across southern Europe have increased power demand and therefore prices.
- ◆ Gas exports from the UK to Europe have been growing due to the current weak status of the pound; this is an increasing strain on the UK grid.
- ◆ Moving into winter, weather is going to have a massive impact on prices.

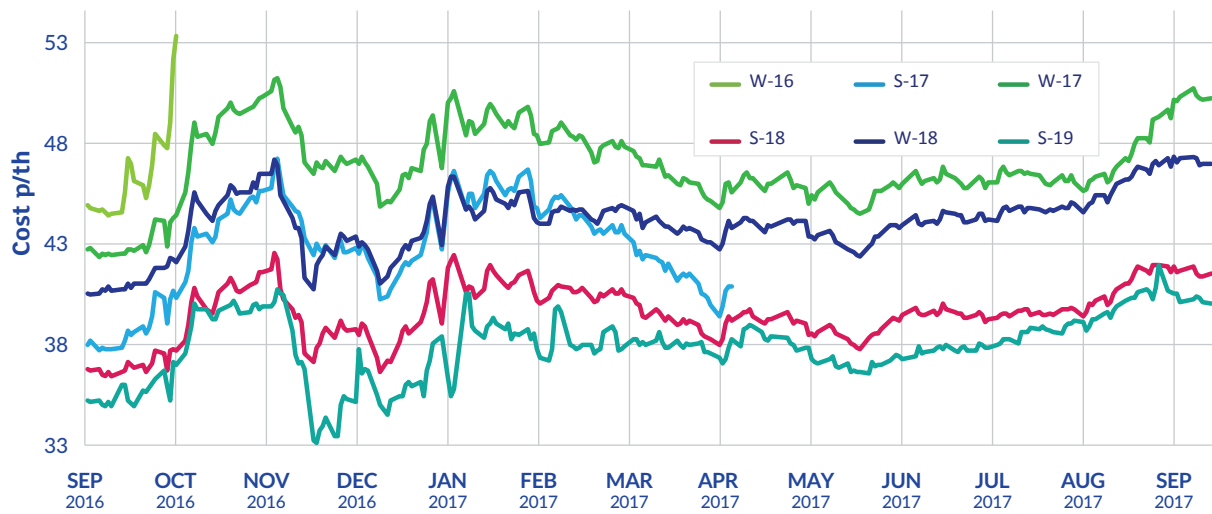
## GAS prices over the last 12 months

Source: Bloomberg



## POWER prices over the last 12 months

Source: Bloomberg



### MEDIUM TERM FOCUS

- ◆ German Election; the length of time needed to form and composition the new German coalition will impact the direction of Brexit talks, as well as potentially delaying any agreement.
- ◆ During the winter months, the market becomes more volatile. Only then will we know what impact the closure of the UK's only long range storage facility 'Rough' will have.
- ◆ OPEC; the Oil market is beginning to balance following the attempted halt in production but is taking longer than initially expected. Prices recently spiked on news of the Kurdish independence referendum.

### LONG TERM FOCUS

- ◆ The UK is rapidly shutting base load 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 are significantly increasing non commodity costs.
- ◆ System strain should ease over the next few years as a new supply becomes available, potentially alleviating continuous increase 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.

**PASS THROUGH COSTS**

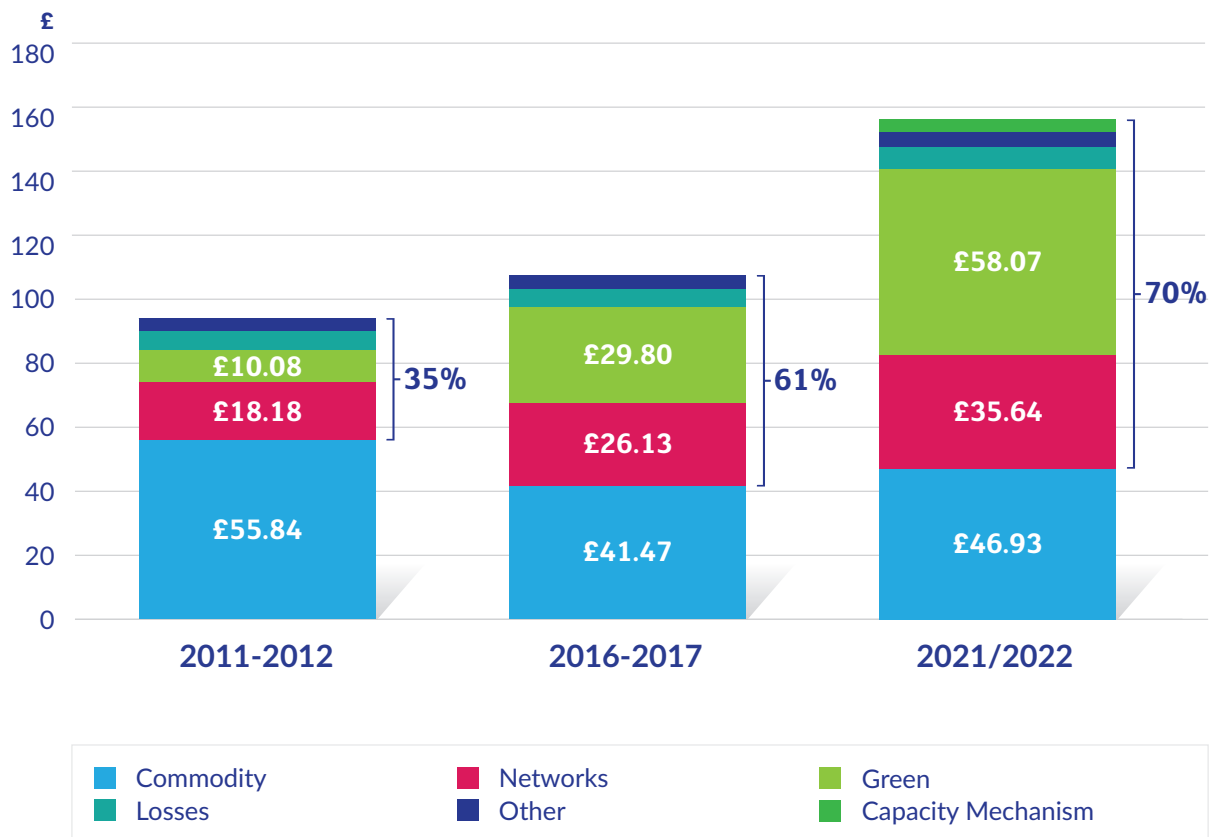
**What are they?**

- ◆ 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: 17th October 2017

Element	Next Three Months	Winter 17 Summer 18	Winter 18 Onwards	Current Value	Last Weeks Value	Last Years Value
Oil Price	→	→	→	\$58.09	\$56.09	\$51.99
Power Margin	→	↑	→	8.57 GW	9.63 GW	1.8 GW
Gas Balance	↑	↑	→	0.05 MCM	5.06 MCM	3.73 MCM
Gas Demand	↑	↑	↑	211.28 MCM	211.29 MCM	234.04 MCM
Gas Supply	→	↓	↓	210.17 MCM	216.27 MCM	238.66 MCM
Storage	↑	↑	↑	40%	40%	46%
LNG Deliveries	↑	→	↓	6,387 MCM	6,228 MCM	9,652 MCM
Weather	→	→	→	12.09	14.05	10.72
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 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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