

Energy Market Update

Quarterly Update | ISSUE 104

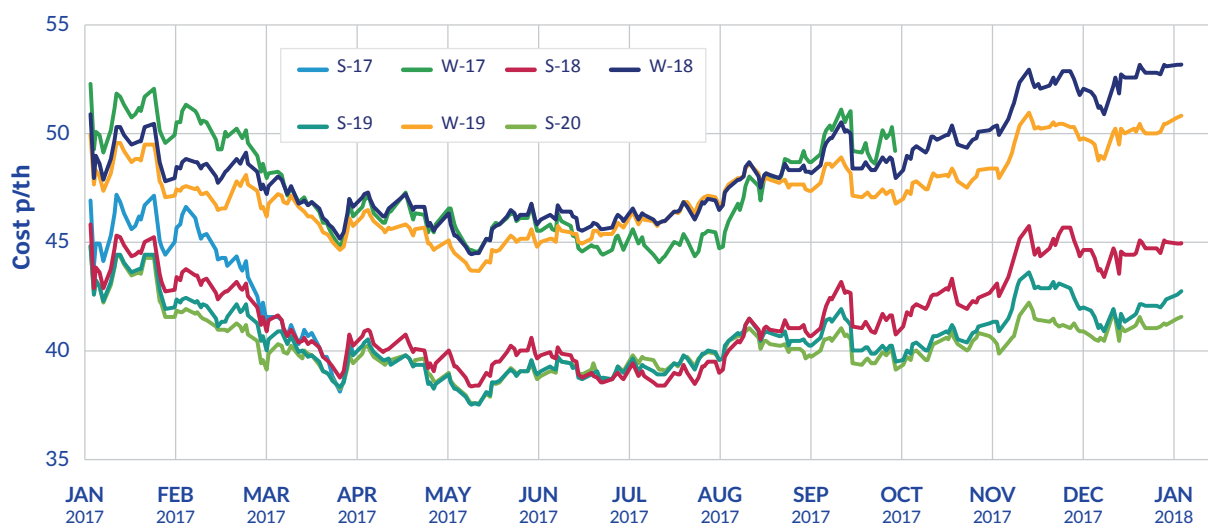
Welcome to our new quarterly newsletter, Energy Market Update. Throughout this issue you will find recent news concerning the energy sector and information beneficial in understanding your energy prices and market changes.

CURRENT FOCUS

- ◆ There have been several supply interruptions affecting UK energy prices, including the Forties pipeline maintenance and Baumgarten Gas Hub explosion in Austria in December.
- ◆ Despite this, mild winter weather throughout December and into the New Year has led to reduced energy demand and subsequently a healthy system supply.
- ◆ Brent Crude Oil traded at over \$70 per barrel for the first time since 2014, largely as a result of OPEC extending their production cuts and falling US stockpiles.
- ◆ LNG imports to the UK have been extremely poor, with European markets unable to compete with higher spot market prices in North East Asia and Indian markets.

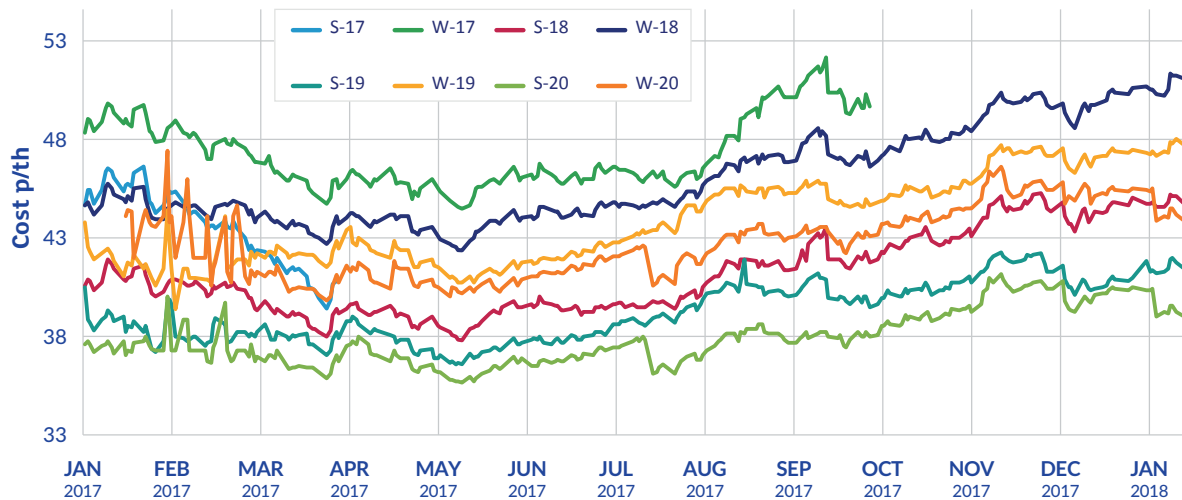
GAS prices over the last 12 months (Jan 2017-Jan 2018)

Source: Bloomberg



POWER prices over the last 12 months (Jan 2017-Jan 2018)

Source: Bloomberg



MEDIUM TERM FOCUS

- ◆ Although the gas system has remained balanced over the winter so far, the closure of Rough long-range gas storage facility has greatly reduced the UK's capacity to cover demand spikes and supply interruptions going forward
- ◆ Brexit negotiations continue to cause concern over the UK's security of energy supply and uncertainty in the financial markets.
- ◆ Electricity generation capacity levels have been relatively comfortable this quarter, with the UK setting a new wind generation record of 10GW in January 2018, but margins are likely to be tested at times where conditions for renewable generation are poor.
- ◆ Bearish factors influencing the current Crude Oil price such as increased US shale production are likely to offset the recent bullish run in oil prices, with forecasts predicting that Brent is likely to fall \$5-\$10 per barrel in the coming months.

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**

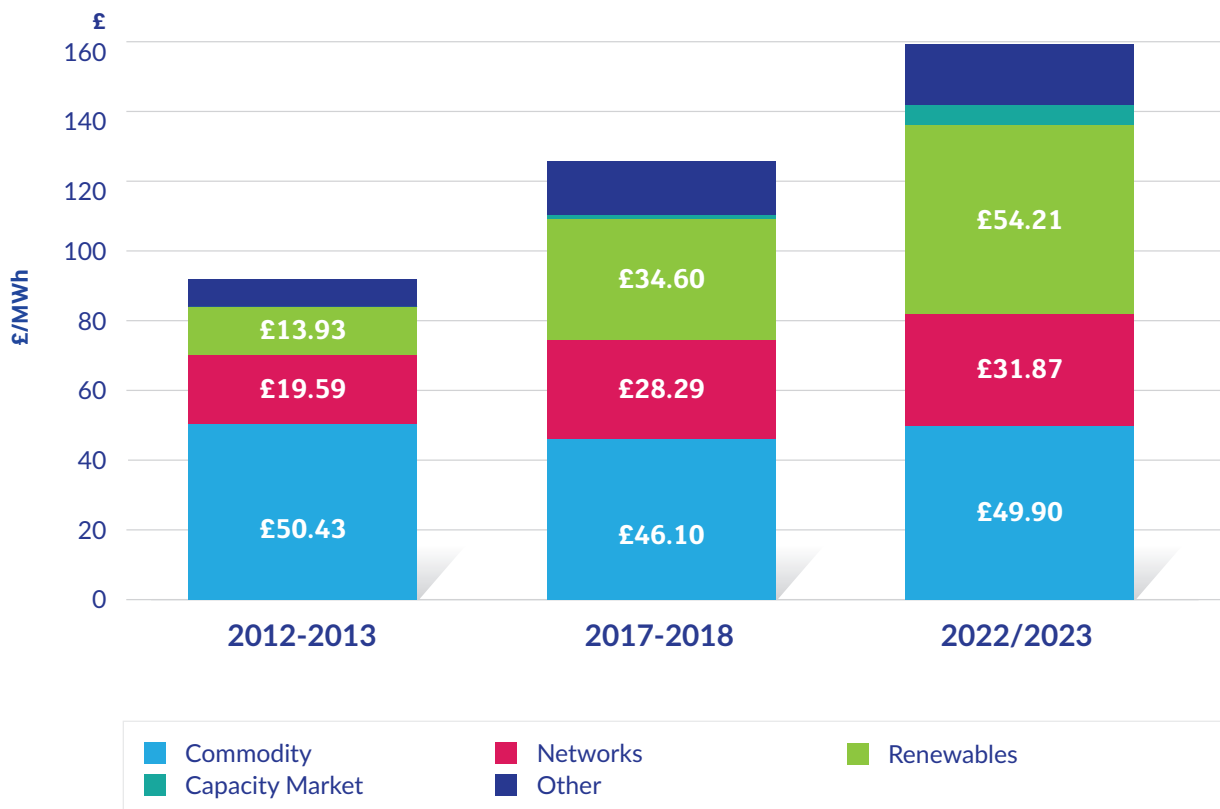
What are they?

- ◆ 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: 30th January 2018

Element	Next Three Months	Winter 17 Summer 18	Winter 18 Onwards	Current Value	Last Weeks Value	Last Years Value
Oil Price	↑	→	→	\$69.17	\$69.45	\$54.99
Power Margin	→	↑	→	9.6 GW	8.7 GW	7.59 GW
Gas Balance	→	↑	→	1.73 MCM	2.44 MCM	9.65 MCM
Gas Demand	↑	↑	↑	302.12 MCM	337.65 MCM	351.44 MCM
Gas Supply	→	↓	↓	303.85 MCM	340.09 MCM	339.23 MCM
Storage	↑	↑	↑	24%	24%	29%
LNG Deliveries	↑	→	↓	104 MCM	104 MCM	321 MCM
Weather	→	→	→	4.78	6.66	2.95
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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