

Energy Market Update

Quarterly Update | ISSUE 105

Welcome to our new quarterly newsletter, Energy Market Update.

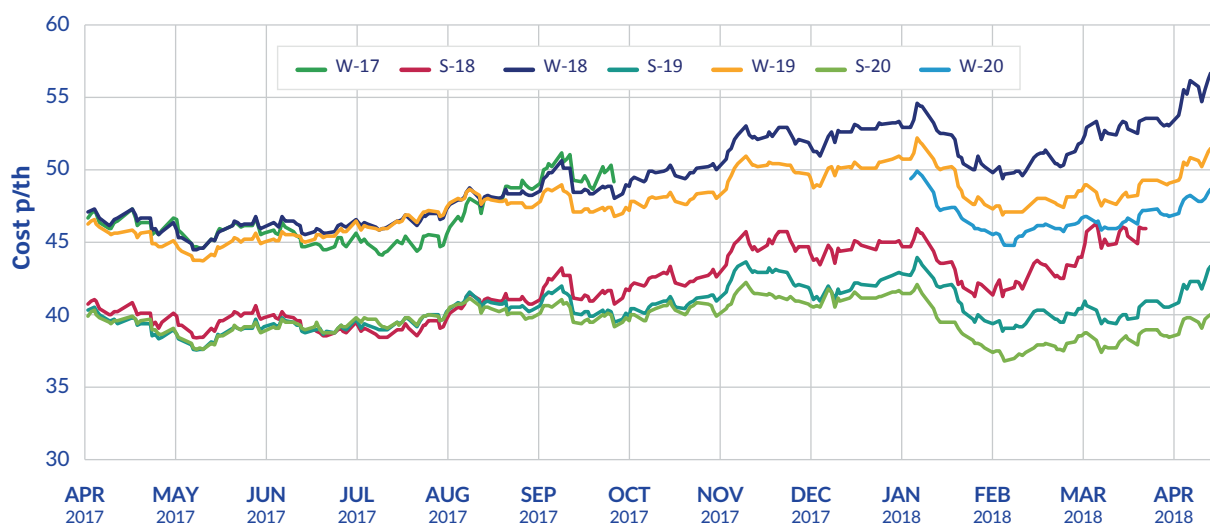
Throughout this issue you will find recent news concerning the energy sector and information beneficial in understanding your energy prices and market changes.

CURRENT FOCUS

- ◆ We have entered the North Sea maintenance period, which is expected to affect the highest volume of gas flows to the UK to date.
- ◆ Volatile weather has been impacting gas and electricity demand and subsequently their wholesale prices; temperatures have climbed from 8 degrees below seasonal norms in March to 10 degrees over normal levels within the space of 1 month.
- ◆ Higher oil, carbon and coal prices have driven price increases in the gas and electricity wholesale markets. Brent Crude oil is currently at 3-year high levels of \$74/barrel, while higher carbon and coal prices are making coal-fired power generation less profitable in future period.

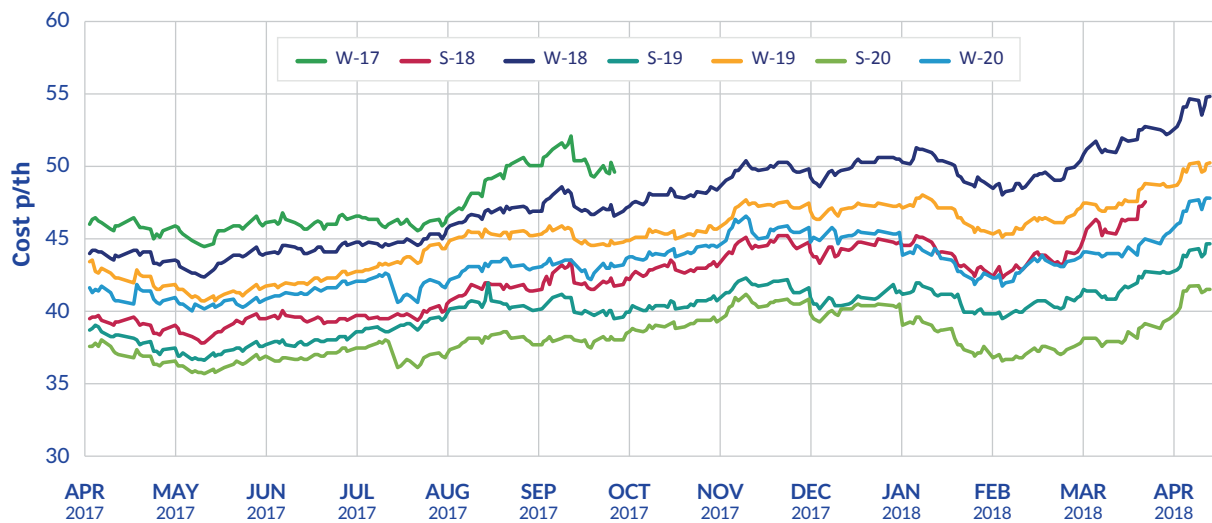
GAS prices over the last 12 months (Apr 2017-Apr 2018)

Source: Bloomberg



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

Source: Bloomberg



MEDIUM TERM FOCUS

- ◆ The signals coming from the oil market are that OPEC are looking to extend their current supply cut arrangement with Russia. This has been the main bullish driver of oil prices over the last 2 years.
- ◆ Geopolitical tensions between the West and Russia are raising concerns over Europe's reliance on Russian gas exports.
- ◆ Brexit negotiations are edging closer to the March 2019 deadlines, although limited clarity has been provided over the security of the UK's energy supplies once we leave the single market.

LONG TERM FOCUS

- ◆ The closure of coal plants in the UK is set to continue, with Eggborough coal plant due to close its doors by September 2018. Continuing to phase out coal-fired generation without suitable back up is driving volatility in later dated electricity contracts.
- ◆ The Dutch government has announced that output at the Groningen gas fields, a key provider of gas across Europe, will be cut by 2/3rds by 2022 before being terminated all together by 2030.
- ◆ The closure of Rough continues to drive uncertainty in the UK energy sector. Questions remain over the UK's ability to adequately cover periods of sustained high gas demand.

**PASS
THROUGH
COSTS**

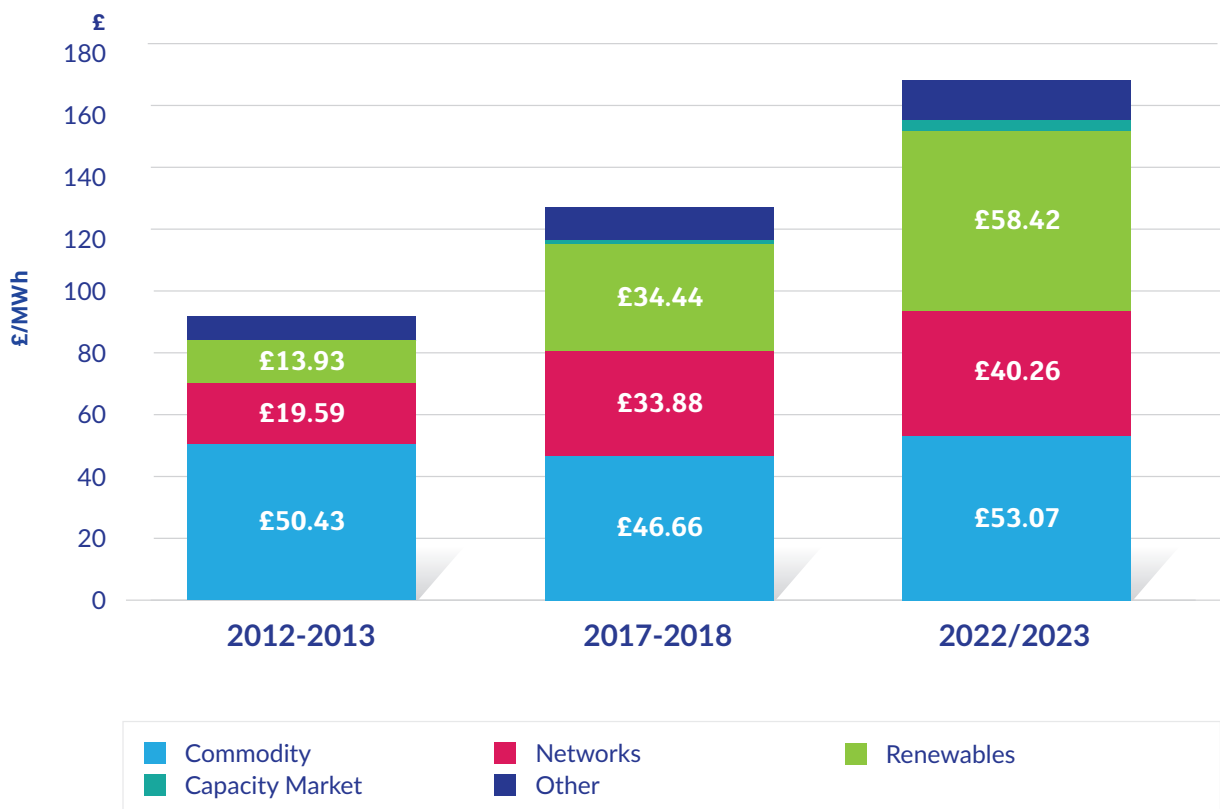
What are they?

- ◆ 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: 1st May 2018

Element	Next Three Months	Winter 17 Summer 18	Winter 18 Onwards	Current Value	Last Weeks Value	Last Years Value
Oil Price	↑	↑	↑	\$74.73	\$73.73	\$51.60
Power Margin	↓	→	→	10.6 GW	11.17 GW	9.55 GW
Gas Balance	→	↑	→	5.77 MCM	4.5 MCM	0.9 MCM
Gas Demand	↑	↑	↑	211.44 MCM	184.91 MCM	280.82 MCM
Gas Supply	→	↓	↓	205.58 MCM	180.41 MCM	281.33 MCM
Storage	↑	↑	↑	37.17%	26.09%	-
LNG Deliveries	→	→	↓	1,717 MCM	1,428 MCM	2,992 MCM
Weather	→	→	→	10.88	10.12	11.15
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 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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