

# Energy Market Update

Quarterly Update | ISSUE 106

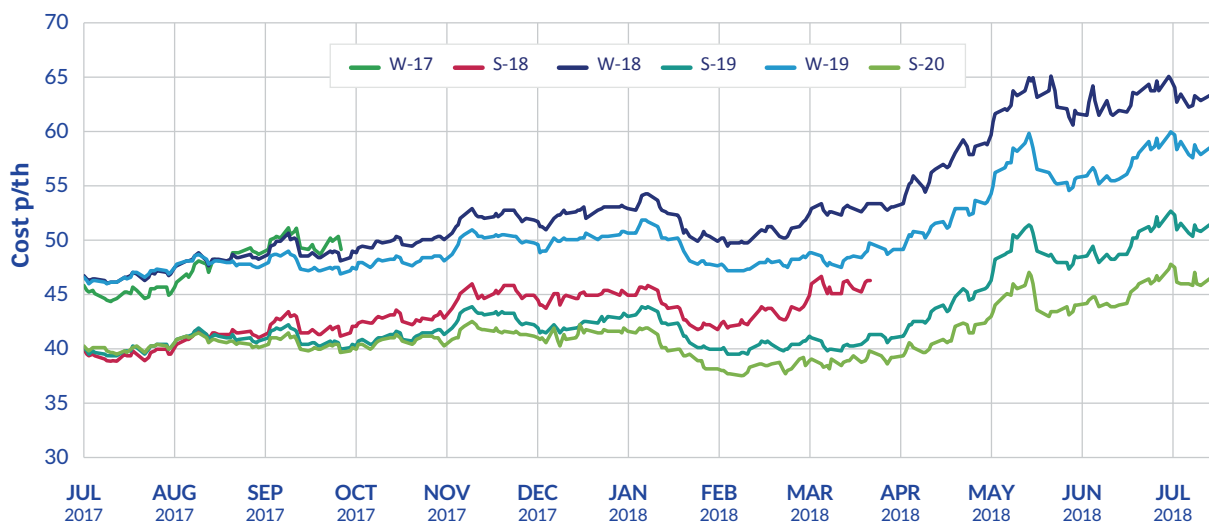
**Welcome to our new quarterly newsletter, Energy Market Update.** Throughout this issue you will find recent news concerning the energy sector and information beneficial in understanding your energy prices and market changes.

**CURRENT FOCUS**

- ◆ Oil prices continue to drive volatility in the UK energy markets on a day-to-day basis. Brent Crude futures hit \$80/barrel for the first time in 3 years in May due to a combination of high OPEC supply cut compliance and the US pulling out of the Iran Nuclear Accord. Prices have settled around the \$74/barrel mark as a result of increased global oil output and trade war tensions between the US and China.
- ◆ These volatile movements have been supported by the wider fuels mix. Carbon allowances are currently trading at 7 year highs of 17.16 €/TCO<sub>2</sub>, while coal traded at 5 year highs of 93.45 \$/tonne in early July.
- ◆ Extremely hot weather caused by an area of high atmospheric pressure over the UK has lifted cooling demand, causing power prices to increase. Wind output has also tailed off as a result, placing added pressure on gas prices as the need for gas-fired power generation increases.

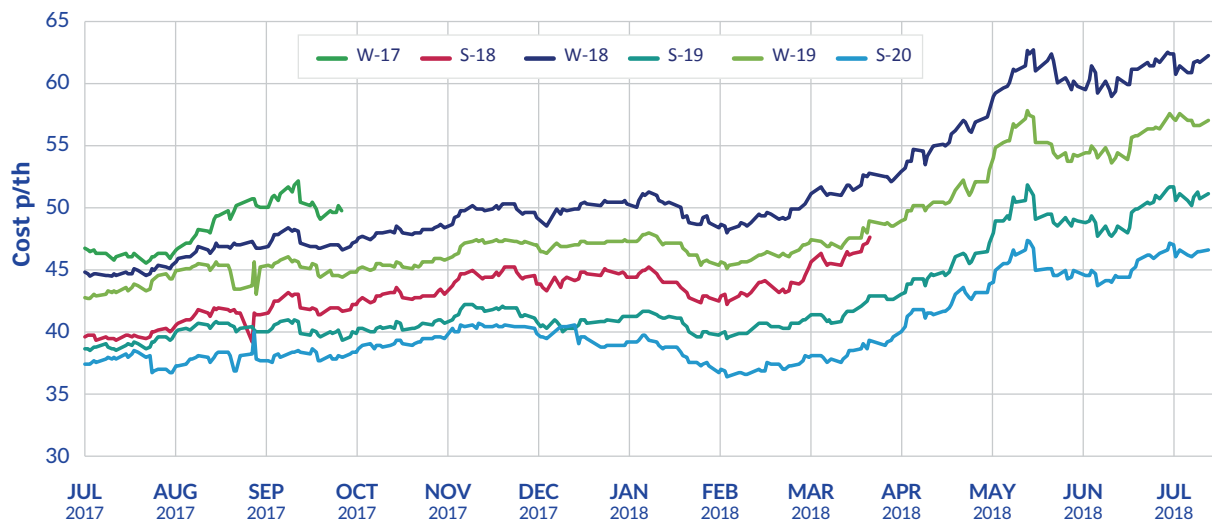
**GAS prices over the last 12 months (Jul 2017-Jul 2018)**

Source: Bloomberg



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

Source: Bloomberg



### MEDIUM TERM FOCUS

- ◆ The closure of Rough, which accounted for 70% of the UK's gas storage capacity, continues to drive uncertainty in future periods with winter 2018 fast approaching. Questions remain over the UK's ability to adequately cover periods of sustained high gas demand.
- ◆ The value of the pound has tumbled to its lowest level since March due to a lack of progress being made during Brexit negotiations and lower than expected inflation figures. This has incentivised continental buyers to take up positions in UK gas contracts.
- ◆ LNG arrivals to the UK remain well below the average level from previous years due to high demand for cargoes in Asian markets. The LNG outlook remains poor ahead of the coming winter period.

### LONG TERM FOCUS

- ◆ The scaling back of production at the Groningen gas fields in the Netherlands has taken place quicker than expected. Output at the Groningen fields, a key provider of gas across Europe, will be cut by at least two-thirds by 2022.
- ◆ The switch from coal to renewables continues at pace, with the target of phasing coal-fired power generation out within the next 7 years. However, government efforts to incentivise new renewable generation have significantly increased non commodity costs.
- ◆ Uncertainty surrounding the impact of Brexit on the UK energy markets remains. The 'White Paper' released in July outlined the UK's options ahead of leaving the EU although actual details of on-going negotiations remain scarce.

**PASS  
THROUGH  
COSTS**

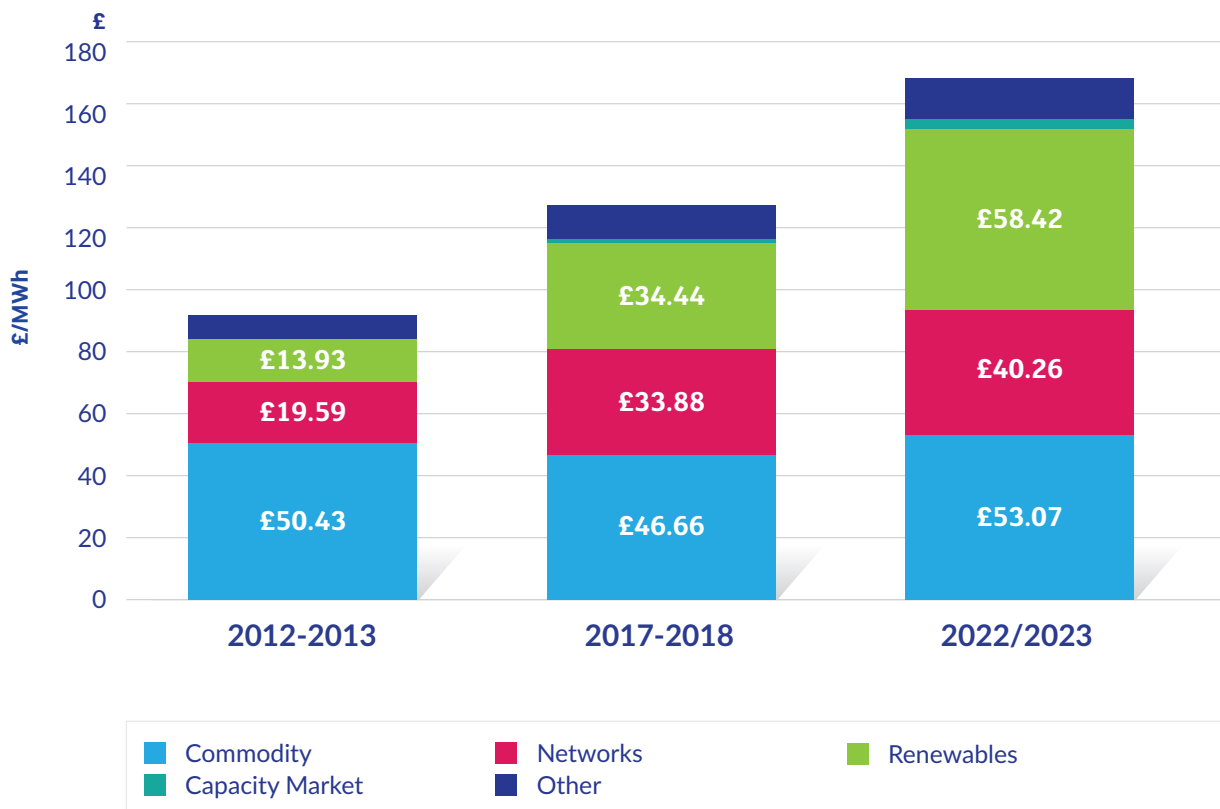
### What are they?

- ◆ 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: 31st July 2018

Element	Next Three Months	Winter 17 Summer 18	Winter 18 Onwards	Current Value	Last Weeks Value	Last Years Value
Oil Price	↗	↗	↗	\$73.06	\$71.81	\$48.82
Power Margin	↘	↘	→	13.3 GW	10.8 GW	6.03 GW
Gas Balance	→	→	→	2.77 MCM	3.95 MCM	3.2 MCM
Gas Demand	↗	→	→	191 MCM	190 MCM	190.3 MCM
Gas Supply	↗	→	→	182 MCM	194 MCM	187.19 MCM
Storage	↗	↗	↗	61.53%	58.61%	69.62%
LNG Deliveries	→	↗	↗	3,210 MCM	2,859 MCM	5,005 MCM
Weather	↗	→	→	23.65	19.63	16.47
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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