ADVANTAGE UTILITIES
YOUR COMPETITIVE ADVANTAGE

QUARTER 2 - 2021

ENERGY BUDGET OPTIMISATION REPORT

HELPING YOUR BUSINESS ACHIEVE COMPETITIVE ADVANTAGE

GAS & POWER
How has winter affected prices?

CARBON PRICES
What does the future hold for carbon?

SURGE IN DEMAND
Will demand or supply distribution cause problems?

FUTURE NET ZERO
What can your business do to reduce carbon emissions?

OIL: OPEC+ OUTPUT CUTS
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SUMMARY
What does this mean for your business?

ENERGY BUDGET OPTIMISATION Q2 2021

Welcome to the Advantage Utilities Energy Budget Optimisation Report Q2, 2021

Here we take a detailed look at the current International and UK market drivers. These are the factors that will dictate the trading opportunities in 2021 and ultimately the cost of energy over the next 12 months.

Uncertainty and volatility are always present in the energy market. This means it is important to be informed about what could affect your energy budget as we like to think that more information drives smarter decisions.

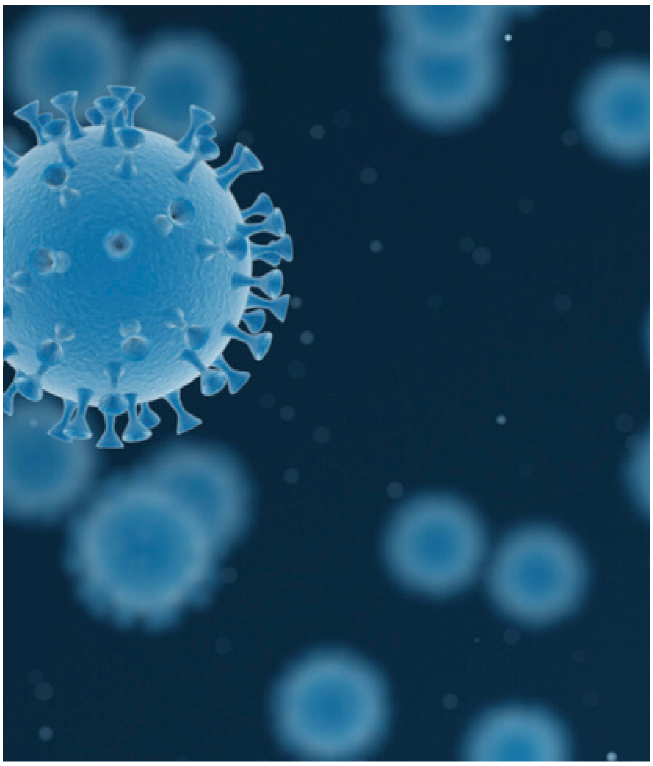
ISSUES COVERED IN THIS REPORT:

1. **Coronavirus Update**
2. **Recent Spike**
3. **Wider Commodities**
4. **Carbon Net Zero**
5. **Summary**

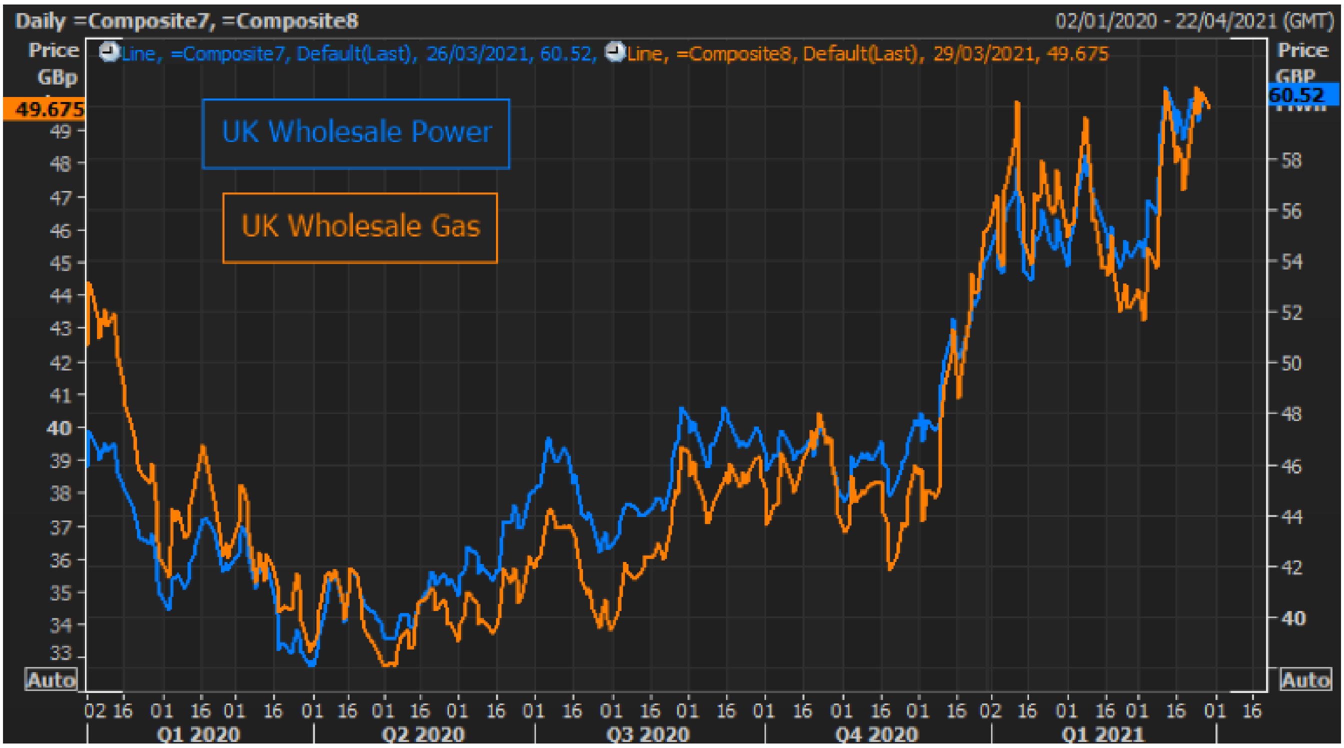
1. Gas & Power: A Winter of Higher Prices

What has this meant for markets?

The winter period has now come to an end and spring brings new optimism, through a successful vaccination campaign and plans to end all Covid-19 restrictions by the end of June. Reflecting on the winter months for energy markets, it has been a period with market volatility, where we have seen energy prices gain some decent ground. Although there were some bearish fundamentals, unpredictable demand spikes and supply disruptions have driven gas and power prices higher and increases in the wider commodity complex have further provided upward pressure.



UK Wholesale Gas & Power prices from Q1 2020 – 15 April 2021



Source: Reuters

Late last year, we had the Asian LNG crisis, where cold temperatures in China, Japan and South Korea caused record high gas prices. The JKM Asian gas index inflated around 1000% compared to May 2020 and drew LNG shipments away from Europe and the UK, in search of higher prices.

Although Asian prices are now back to more accustomed levels, the UK and Europe are still feeling the effects of this event. During the winter season, the West is reliant on LNG shipments arriving to make sure gas supply meets demand, however, as a result of fewer ships arriving, gas storage sites in both the UK and the continent have hit record lows, meaning gas storage sites were used to make up the shortfall of less LNG. Medium range storage levels hit as low as 11% in the UK at the start of March. This has forced energy prices higher, and makes filling up gas storage sites during the coming months crucially important.

There have also been many other contributing factors driving prices higher during winter, but it has felt more like a lot of small shocks and disruptions, rather than any large long-term bullish fundamentals. Cold temperatures at the start of this year in the UK increased demand, as the population's energy consumption was higher due to heating demand. This coupled with some of the supply disruptions we have experienced gave strength to gas and power prices.

Winter storms in Texas during the middle of February led to massive power cuts and caused oil and gas production to shut down, which had a knock-on effect for global supply and prices. More recently, the Ever Given container ship blocking the Suez Canal caused some short term upside for oil and energy markets. Qatari LNG ships heading for the UK and Europe use the Suez Canal to avoid an extra 12 day journey around Africa, so this has caused a lag in ships arriving from the Middle East.

2. SURGE IN DEMAND: IMPACT ON PRICES

Will demand shocks or supply disruption cause problems?

As previously mentioned, worries over gas storage site stock levels have driven energy prices higher, which makes the coming summer pivotal for gas supply to ensure reserves are ready for next winter and the extra demand it brings. Now that the winter period has come to an end, injection demand for gas storage sites have increased and plentiful LNG arrivals, along with minimal supply disruption, will be needed. Early indications suggest that LNG arrivals should be decent this summer and North-West European storage injections are forecast to be above the 5 year average. So for the moment, it is looking like we should be able to cope with the low gas storage levels and build inventories over the coming months, however, as always, any unpredictable demand shocks or supply disruptions can cause problems, delaying storage injections and bringing about energy price increases.

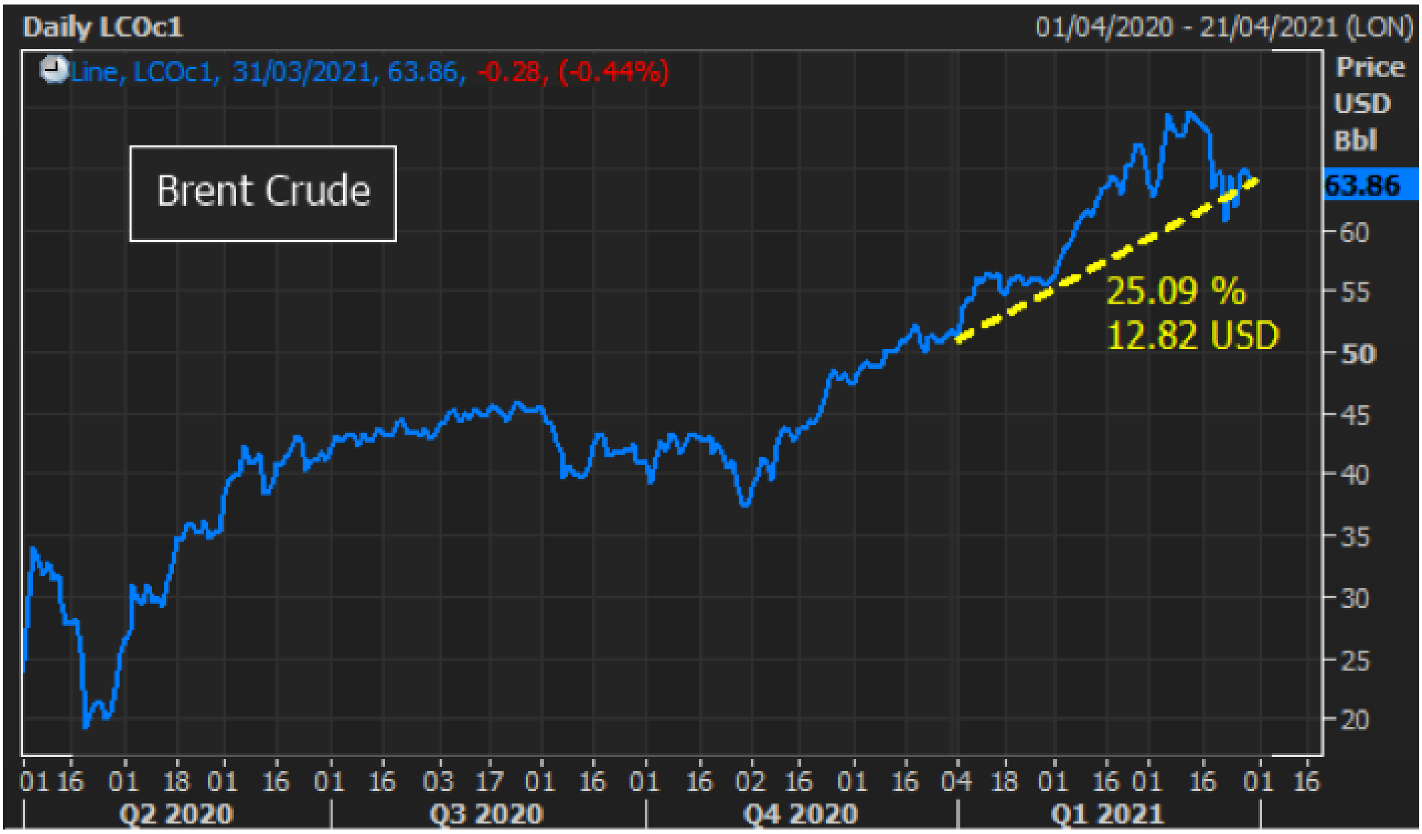
Another factor to consider going forward, is maintenance work being carried out on gas and power systems. At the moment, the Brit-Ned power interconnector is offline until the end of April, undergoing repairs. There are more maintenance projects planned for this summer than last year, as much of the work from last year was postponed due to Covid-19, so we are likely to see higher outages this year. For example, the Forties Pipeline gas and oil System is going to be offline from the end of May and Norway also have maintenance planned on a lot of gas fields, which of course export heavily to the UK. Compared to last summer, almost double the amount of Norwegian production capacity will be cut due to maintenance. So, gas supply disruptions is something to look out for going forward, but with LNG arrivals expected to be decent, we should see some of these maintenance issues having a diminished effect.

Of course, we couldn't get away with leaving coronavirus unmentioned, but things this time are looking more positive. Cases and death figures in the UK are significantly lower at the moment and it looks like we are on track to ending almost all restrictions in June. Vaccines are being rolled out at a strong pace compared to other countries, including our European Union counterparts, with almost half of the UK population now having antibodies through either the vaccine or previous infection. The signs are generally pointing towards things getting back to normal during the summer months. However, as we all know, there can be unforeseen circumstances and many countries around the world are still seeing record case numbers, so we are cautiously optimistic, but expect to see some more certainty in markets in the coming months, as demand around the world starts returning to pre-pandemic levels.

3. Oil: OPEC+ Output Cuts Continue

What will this mean for oil prices?

Brent Crude price from Q2 2020 – 15 April 2021



Source: Reuters

ENERGY BUDGET OPTIMISATION Q2 2021

Oil prices have recovered significantly since the record lows we saw back in April 2020, when the pandemic was gaining traction across the globe. Clearly, global demand is heavily linked to the price of oil and with stringent coronavirus restrictions being in place on and off since then, demand has struggled to recover to pre-pandemic levels. The main driver of price has been the Organization of the Petroleum Exporting Countries, better known as OPEC+, continuing with their output cuts into this year. As outlined in the previous report, OPEC+ unexpectedly increased output curbs at the start of this year with Saudi Arabia voluntarily taking the biggest hit of an additional 1 million barrels per day. Fast forward to April 2021, and output cuts have been extended and kept the same at just over 8 million barrels per day, as demand worries linger in the market. This has seen the price of Brent Crude jump over 25% during the last quarter. Going forwards, OPEC+ production is expected to start gradually increasing from May, with 350,000 barrels per day being allowed back into the market, as demand around the world starts increasing. This should help ensure steadiness for crude prices going forward.

Although the price of oil has risen pretty steadily as seen on the graph above, there has been more volatility of late and downward pressure has started to creep in from demand concerns. Many European countries including Germany, France and several Eastern European countries are experiencing record high coronavirus cases and slow vaccine rollouts, which is casting doubts over quick demand recoveries. India, the world's third biggest crude importer is also seeing rising case numbers, and these demand worries have been providing a squeeze on oil prices recently, following steady gains from the start of this year. The U.S. Dollar has also been strengthening, which reduces the appeal of commodities priced in the currency. This has capped gains in the last month or so for oil, but should not be anything too significant and the market will look much more towards global demand news and OPEC+ production changes.

4. Carbon: Prices in Unchartered Territory

WHAT DOES THE FUTURE HOLD FOR CARBON?

Carbon EUA price from Q2 2020 – 15 April 2021

Source: Reuters

As with the oil markets, carbon has been on a big bull-run since late last year and gains in carbon have really filtered through to longer-term power and gas contracts. The price of carbon EUA's has been hitting record highs and is very much in unchartered territory at the moment. The European Union announced tough carbon emission targets last year, which will see the price of carbon rise, in order to disincentivise sectors from emitting. Sectors covered in the EU carbon market are now expected to reduce their emissions by 63% before 2030, so it seems carbon pricing is working to reduce carbon emissions, but the current price hike does seem a bit unjustified and many were expecting a smoother, longer rise in the carbon price. Last year, the EU commission released a report on climate impact, which stated the €44 mark was the "mid-level ambition" value assumed for 2030 and we are just below this price level at the moment in 2021, so things are moving fast. Despite being unjustified, the majority of analysts do not expect the price of carbon to dip below €40 and instead anticipate prices to carry on soaring.

This will continue to help reduce coal power generation and the switch to renewable power sources, but question marks about natural gas projects are also starting to surface. Although natural gas power generation produces 50% less emissions than coal, it is not emissions free and it will have to be phased out as well eventually. Also, with natural gas being the UK's largest fuel in the energy mix, large-scale changes will be required in the coming years.

5. Future Net Zero: reducing carbon emissions

WHAT CAN YOUR BUSINESS DO TO GET AHEAD?

Reducing carbon emissions is not limited to the power generation sector and large corporations, everyone is going to have to do their bit to reach the national carbon net zero by 2050 target. It is an issue that is not going away and the sooner small to medium sized businesses start to look into and get to grips with it, the better position they will be in for the future when they inevitably are forced to report on carbon emissions. There is even talk of major banks looking into the carbon emissions of a business when offering loans, so big changes are around the corner, and it is crucial to stay ahead and prepare for these changes to future proof your business.

Here is where Advantage can help. We have partnered with the Future Net Zero standard programme, which will allow small and medium sized businesses to measure, track and report carbon emissions on one easy-to-use platform. Alongside this, Advantage will be able to help in a variety of ways to actually reduce costs, become more efficient and ultimately reduce your carbon emissions. Whether it is green energy contracts, on-site generation through solar panels or other technologies, LED lighting, EV charging ports or carbon offsetting, we can help businesses switch to greener alternatives and improve efficiency on the road to net zero. Not only is it good for the planet, but it will also provide the opportunity to market at a time when customers are becoming increasingly conscious of buying from green and sustainable businesses.

6. SUMMARY

WHAT COULD THIS MEAN FOR YOUR BUSINESS?

In summary, it has been a winter consisting of disruptions and higher demand, which has seen energy prices rise. Extreme cold temperatures around the world have caused supply issues at a time when energy consumption is at its highest. These disruptions have tended to have fairly short-term impacts on markets, but when there are several disruptions after each other, they build up and have longer lasting repercussions, which is what we've seen in the last quarter. As the coronavirus crisis comes to an end in the UK, problems still remain in several key economies including Brazil, India and several European countries. These uncertainties still hang over the market and keep a lid on price gains and shows we have some way to go to get completely back to normal. Going forward, gas supply will be crucial to filling up UK and European gas storage sites from record low levels. LNG arrivals and pipeline flows will be important to look out for and could be a big driver of price in the next quarter. At the moment, it does seem like supply will be healthy and we could see gas and power prices come off as a result, so our outlook going into summer is bearish.

BULLISH

- Vaccine Rollout
- Carbon
- Coal
- Increased Gas and Power Supply Maintenance

RANGEBOUND

- Oil
- Weather
- Gradual OPEC output increases

BEARISH

- COVID-19 cases
- Continuing Lockdown Restrictions
- Healthy LNG arrivals

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Should you have any questions or queries regarding energy contracts, renewable energy products and services, energy management or water, waste and telecoms then please do not hesitate to contact your account manager or a member of our team on 0207 371 5360.

We wish all of our clients and prospects a healthy and speedy return to normality during this difficult time, and rest assured we are here to serve your accounts with business as usual.

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ABOUT US:

Advantage Utilities is the consultative partner that considers every technology and finance option to help its clients achieve their goals. Backed by our simple motto – Procure, Reduce, Manage – Advantage Utilities is a one-stop shop that helps businesses to achieve their sustainable energy ambitions while adding value, reducing costs and meeting legislative compliance.

Advantage Utilities champions a consultative, customer-centric approach. We get to know our clients inside out - their needs, priorities and goals, so that we can develop, implement and manage a tailored solution to match.

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