

# ADVANTAGE UTILITIES

YOUR COMPETITIVE ADVANTAGE

## QUARTER 2 - 2023 ENERGY BUDGET OPTIMISATION REPORT



### ARE WE OUT OF THE WOODS YET?



Market sensitivities explored

### INFLATION TO 3% BY THE END OF '23\*



Does this indicate further falls in energy prices?

### YOUR 2023 ENERGY PRICE DISCUSSED



Likely market movers and shakers to contend with

### GOVERNMENT HELP




\*Source: Office of Budget responsibility

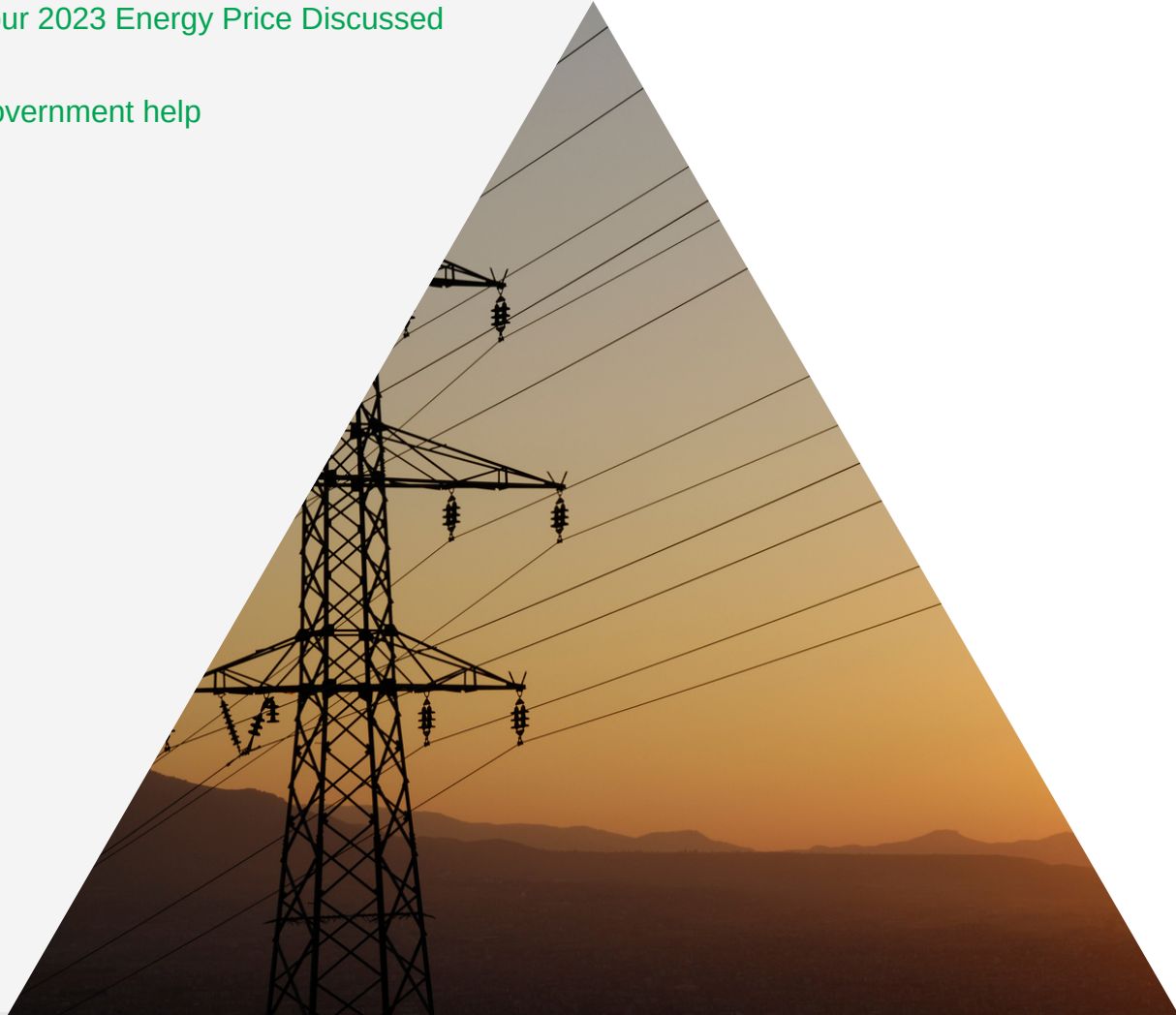
# WELCOME TO THE ADVANTAGE UTILITIES ENERGY BUDGET OPTIMISATION REPORT Q2, 2023

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 2023 and ultimately the cost of energy over the next 12 months.

## ISSUES COVERED IN THIS REPORT:

-  Market sensitivities explored
-  Inflation to 3% by the end of '23
-  Your 2023 Energy Price Discussed
-  Government help

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.





## ARE WE OUT OF THE WOODS YET?

### Current Market Synopsis

Our previous buying report touched on what the 'New Normal' might look like in terms of wholesale gas and power levels. Subsequently, we have seen further softening in both commodities, as supply/demand fundamentals and key drivers largely continued along a favourable trajectory as we head out of the winter season and into summer.

UK and European gas storages remain healthy and are well positioned ahead of next winter. This will help by offering some stability in the event of any further issues around gas supplies, for instance, if global geo-political issues were to escalate or issues arise with regard to LNG infrastructure and supply.

The China/Taiwan situation escalates to a skirmish or conflict would lead to hyper volatility in all markets and Lord knows what else. Frankly no one would want to be the wrong side of that trade.

### UK GAS STORAGE

A relatively small spike has been experienced in the last week or so as the market has found some support on the back of French nuclear outages, French strikes at some LNG terminals, and a spike in oil prices due to an unexpected output cut by OPEC.



We have since seen some pullback in prices to this small spike, which should hopefully be temporary, but it certainly shows how the market is still very sensitive to any sudden changes.

The updated graph below from our previous report portrays market movement since our Quarter 1 publication.

### UK GAS AND POWER YEAR AHEAD PRICE



Source: Reuters



## INFLATION TO 3% BY THE END OF '23

**Are revised and improved inflation predictions indicative of expected further decreases?**

With seemingly no end to the Ukraine conflict in sight, albeit Ukraine has valiantly recovered their heavily targeted energy infrastructure to the extent that they are now able to export power, it remains too early to confidently determine whether the market floor and the 'new normal' has been reached. There are certainly bearish factors still in play that could well see the market continue to decrease.

Revised 2023 UK inflation forecasts and a target as low as 3% perhaps point to a general expectation that energy prices, a key factor in driving inflation, should continue to become increasingly favourable, certainly relative to the highs seen in mid-late 2022.

Conversely, gains in coal and oil prices since last week have also provided a higher support level for the gas market as we see producers' and consumers' fuel switch to gas.

Competition between the fuels intensified after gas prices slid to the lowest levels since July 2021 earlier this month. This makes gas more attractive again compared with coal and oil products for some power plants and industrial users. More appetite for LNG in Asia is also weighing on the market.

Some widely respected industry observers, including Goldman Sachs Group Inc. and Vitol Group, have warned that gas prices may increase if demand recovery comes into play. However, although we are unlikely to see rises anywhere near the levels experienced in 2022, significant volatility could remain prevalent in the market over the long term.

All things considered, now more than ever, organisations should ensure they are in a position to react quickly and close positions and renewals whilst keeping a close eye on the market.



## YOUR 2023 ENERGY PRICE DISCUSSED

**Winter 2023 still a risk?**

If the last couple of years have represented something of a perfect storm in the energy industry, if viewed in isolation, Winter 2022 was something of an idiom.

Disaster was averted and muted potential shortages in Europe never came to fruition owing to a combination of lower LNG demand globally (aided by China still operating lockdowns), comparatively few unexpected supply issues and temperatures above seasonal norms.





There is still a risk that Winter 2023 won't benefit from the same circumstances so again, this is another reason to ensure that businesses are prepared to respond quickly to any market changes.

## WILL WE SEE PRICES AT PRE-PANDEMIC LEVELS EVER AGAIN?

It is challenging to answer this with any certainty! It does seem that whilst this is plausible, it is unlikely for the foreseeable future owing to an increased reliance on LNG.

Analysts' views are that if we are to ever see prices this low again, then it will not be for another 3 to 4 years. Cited reasons are that the UK and Europe are now more heavily reliant on LNG arrivals due to moving away from Russian piped and LNG gas, as well as oil.

This prediction is based on the cost and time it takes for new LNG terminals to come online to plug the gap and is not easily fixed in the near term.

We may also see European and UK prices now being more sensitive to the price of Asian LNG, due to being more reliant on LNG since the Russian invasion of Ukraine and competing with Asia amid their recovery from demand due to covid.

Now more than ever, we need the Government to back and incentivise exploration and production of new nuclear opportunities, onshore and offshore wind projects, and hydrogen, and to look closer at tidal opportunities that would be perfect for the UK as an island.

Equally, as a business, it is now critical to be looking at how you use energy, where you can reduce grid reliance, overall usage and particularly wastage, whilst coupling all this with a risk-managed approach to procuring your energy contract.

## GOVERNMENT HELP



Government financial support to commercial organisations in relation to energy prices was significantly scaled back from 01/04/23, with the vast majority of commercial organisations no longer standing to benefit.

A new campaign to help businesses, charities and public sector bodies increase their energy efficiency and drive down bills by making simple changes at low-to-no cost has been launched.

The campaign will offer guidance on how organisations can make significant savings while cutting emissions, from installing light and heating timers, to turning down boiler flow temperature and changing light bulbs.

<https://www.gov.uk/government/news/government-launches-campaign-to-help-businesses-drive-down-energy-bills>

## HOW CAN WE HELP?

At Advantage Utilities we remain both committed and very well equipped to help commercial organisations minimise energy costs as well as realise any existing net zero ambitions.

We are proud that industry lobbying has successfully availed flexible purchasing solutions, which have generally proved favourable in recent times, to more businesses than ever and have now successfully implemented energy efficiency/ on-site generation technology for hundreds of organisations, in the process of fulfilling our mantra. Which is 'The cheapest unit of energy is the one you do not consume'

## LET'S WORK TOGETHER!

**Regardless of whether you are an existing client or have recently come across us, please do reach out and discuss how we may be able to help.**



## BEARISH

- LNG abundance
- Mild Weather
- Recession
- End of Russia/Ukraine Crisis
- EU/UK Gas Storage
- Renewable Acceleration in Europe



## RANGEBOUND

- Coal
- Carbon Price



## BULLISH

- OPEC Oil Cuts
- Inflation
- Poor £ Sterling
- Further cuts to Russian Gas
- Oil Price
- Increase to Asian Demand
- China and Taiwan skirmish/conflict



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