

QUARTER 3 - 2020

ENERGY BUDGET OPTIMISATION REPORT



CORONAVIRUS UPDATE

Are things returning to normal?

ENERGY PRICES

Power & Gas market - low gas prices

OIL MARKET

Prices starting to recover..

ENERGY MANAGEMENT

Opportunity to save on long term energy costs



WELCOME TO THE ADVANTAGE UTILITIES ENERGY BUDGET OPTIMISATION REPORT Q3, 2020

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 2020 and ultimately the cost of energy over the next 12 months.

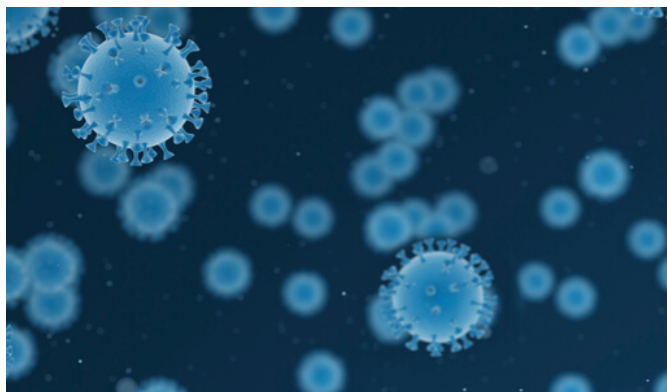
Uncertainty and volatility are always present in the energy market. This means it is important to be informed about what could affect your energy budget as we like to think that more information drives smarter decisions.

ISSUES COVERED IN THIS REPORT:

- 1. Coronavirus Update**
- 2. Oil Market**
- 3. Energy Prices**
- 4. Energy Management**
- 5. Summary**

1. CORONAVIRUS UPDATE

Since the last quarterly report, Covid-19 has developed into a global pandemic with confirmed global cases of the virus surpassing 10 million, accompanied by over half a million deaths. It has also heavily impacted the economy and global markets with many businesses around the country having to close their doors.



In recent weeks there have been promising reports of things returning to normal with the number of cases falling, fewer deaths and the relaxation of lockdown measures, seeing the hospitality sector reopen from 4th July.

We have also seen some recovery in global markets since March based on hopes that governments are easing restrictions and demand returning to normal. However, we are not out of the woods yet. There are fears over a second wave of the virus spreading with some countries including China, USA, South Korea and Germany having to re-introduce lockdown measures. Furthermore, we will see an inevitable recession; with the UK economy shrinking 20.4% in April alone, which is likely to slow recovery. The Bank of England has already warned that unemployment could increase steeply after government funded support packages come to an end.



2. OIL MARKET

Perhaps the most talked about and well documented consequence coronavirus has had on energy markets has been the effect on the oil markets. Both the WTI and Brent Crude benchmarks have shrunk nigh on two-thirds since January as a result of social distancing measures introduced by governments around the world to combat the spread of the virus. WTI also saw negative prices as storage sites filled up and demand was crushed.



However, we have seen oil prices find some support, with the highest oil prices since early March and prices gaining 7 out of the latest 8 weeks. This is on the back of production cuts from the OPEC+ group who finally came to an agreement and ended the oil price war that had ensued.

Prices have found stability around the \$40/bbl mark in recent weeks. Perhaps this recovery in price is based more on speculation and news rather than market fundamentals as demand is still yet to return, but we are slowly seeing a steady increase in global consumption with countries like China gradually returning back to normal in terms of production. Despite this, fears of spikes in new coronavirus cases are weighing on prices; with reports Beijing are reintroducing lockdown measures and the US recording a 25% rise in new cases during the week ending 21st June 2020.

The speed at which global demand returns as well as the OPEC+ group response in terms of determining output is likely to dictate oil prices in the near future, with the US-Chinese trade deal and how that turns out likely to play a bigger role in affecting price in the coming months, as it did before the new year.

Oil Price: June 2000 - June 2020



*Source: Reuters



3. ENERGY PRICES – POWER AND GAS

The UK and Europe have experienced record low gas and power price levels as discussed in the previous report. This was due to a very mild winter that meant gas storage sites remained near capacity, aided by cheap Asian LNG flooding the European market with large numbers of cargoes docking on European shores. Covid-19 being thrown into the mix has then wiped out consumption and further exacerbated the gap between supply and demand.

During this pandemic, power demand in the UK was 20% lower compared to this same time period during the previous 5 years. The story was the same for other European countries such as Italy and Spain who, despite the recent relaxation of lockdown rules, has yet to see demand return to normal levels. As a result of this, gas and power prices have been very suppressed, we even saw gas prices in Britain become the cheapest in the world falling below the U.S Henry Hub.

Power & Gas Prices: April 2014 - June 2020



*Source: Reuters

However, in the last couple of weeks there has been more hope about demand returning to normal in the coming months and power prices have strengthened as a result (as shown in the graph above). Gas prices on the other hand, have started uncoupling from power prices and have remained low despite power and other commodities such as oil recovering as seen on the graph above. LNG imports have fallen with less cargoes arriving in Europe and the UK, which should help lift prices somewhat, but the overriding bearish sentiment still remains with Europe's gas storage expected to be full by the end of the summer and renewables showing strength with the sunniest May on record, meaning less demand for CCGT burn to generate power.

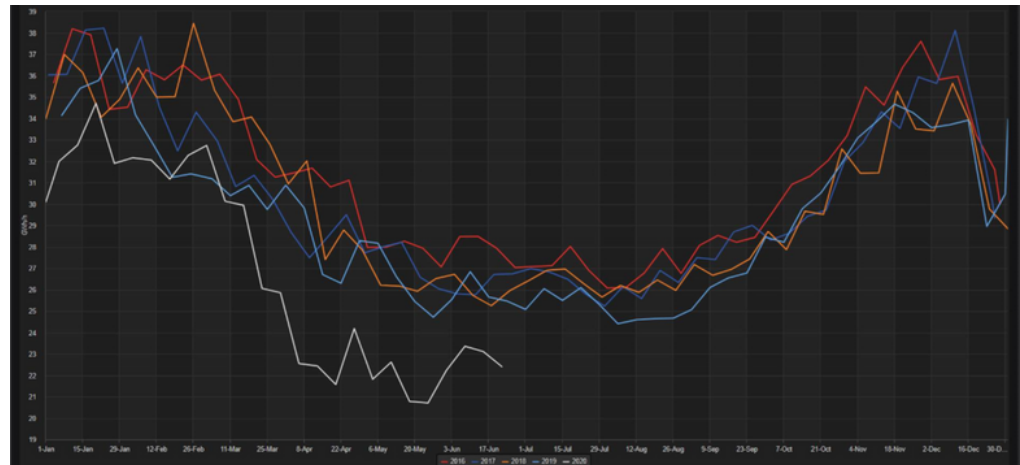


Low prices still remain in the gas and power markets, with demand not fully recovered in the UK and Europe (still around 12-13% lower than this same time period during previous years).

It continues to be a favourable time to renew and secure your business energy contracts

Energy Consumption: 2016 - 2020

**demand for gas and power is still yet to recover.*



*Source: Reuters

4. ENERGY MANAGEMENT

One positive to come out of the coronavirus pandemic is that the UK was coal-free for almost 68 days as the country produced electricity without the fossil fuel for the longest time period since the industrial revolution. Coal has played less of a role in power generation with its UK generation share falling to 2% last year and it is expected to be phased out altogether by 2024. This has paved the way for renewables to be much more prominent as they have remained largely unaffected by the coronavirus.

In the last 3 months, renewables have made up almost 36% of the power generation mix, more than CCGT burn, which stood at roughly 33%. Evidently this is a very tough and uncertain time for businesses up and down the country, but there are many different energy management options that can be beneficial for firms to reduce long term overheads and costs thus providing security.

As solar and wind become more eminent in the UK, it provides an opportunity for businesses especially after this tough period, to get involved in solar power generation to deliver long term savings with good returns on investment, as well as sourcing green and sustainable energy for your business.



With gas prices remaining at the low levels they are at and power recovering slightly, it would also make sense to consider generating power through Combined Heat and Power (CHP) units, which not only improve energy efficiency, but also save on costs and reduce reliance on the grid giving you more protection from outages.



In addition to this, the EV charging sector has been growing rapidly and with National Grid predicting that there will be up to 36 million electric vehicles on our roads by 2040, it could be an appropriate time to install EV charging to generate extra revenue, as well as attracting more customers in and future proofing the business.

5. SUMMARY

BULLISH

- Weak Pound
- Oil Prices
- Carbon Price



RANGEBOUND

- Coal Prices
- US/China Trade War Resolution
- Brexit



BEARISH

- UK/European Gas Storages and LNG Glut
- Global Economy & Demand
- Coronavirus



As demand continues to recover and prices start to increase, now would be a favourable time to look into securing energy contracts, before demand fully recovers and energy prices rise back to pre Covid-19 levels. This will prevent against rising prices and provide security for your business in this arduous time.



As the renewables sector keeps on growing and fuels like coal are phased out, it is also a good opportunity to look into our solar energy options for your business to become more sustainable, as well as looking into the other energy management avenues such as CHP units, which can save a vast amount on your energy costs in the long term.

Should you have any questions or queries regarding energy contracts, products, energy management, water, waste, 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.

ADVANTAGE UTILITIES

YOUR **COMPETITIVE** ADVANTAGE

Advantage Utilities was formed over 15 years ago with the desire to become the leading boutique energy consultancy. We know first-hand how vital it is for businesses to achieve cost savings wherever possible.

As an all-inclusive energy consultancy we obtain, implement and manage bespoke utility solutions that help you cut your costs, reduce your usage and help to achieve green energy ambitions.

Making service our priority, we go the extra step for our customers. From our onboarding client services team, to our dedicated account managers, we have a drop everything attitude to make sure we facilitate your business requirements.

We want to give UK businesses a competitive advantage when they are in the market for reviewing their utilities.

*The information contained in our market reports are for information purposes only and are not to be used or relied upon for any trading position. Advantage Utilities Ltd does not represent or endorse the accuracy or reliability of any of the content. Advantage Utilities Ltd. will have no liability for loss or damage caused by reliance on any information contained herein.

CONTACT US:

 0207 371 5360

 info@advantageutilities.com

www.advantageutilities.com

Coda Studios, 189 Munster Rd, SW6 6AW

