

INTERIM - QUARTER 2 2021

ENERGY BUDGET OPTIMISATION REPORT



HELPING YOUR BUSINESS ACHIEVE COMPETITIVE ADVANTAGE

GAS & POWER

Market update: Post Covid - 10 year high

FLEXIBLE PROCUREMENT

Benefits of a flexible framework?

OUTLOOK

Will recent price hikes start to return to stability?

ENERGY MANAGEMENT

How can energy management and energy services help?



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. Gas & Power**
- 2. Outlook**
- 3. Available Options**

1. MARKET AND PRICE UPDATE

POST COVID – 10 YEAR HIGH

As the UK and Europe has slowly come out of lockdown and restrictions, we have seen the energy market react much faster, with increases and spikes seen over the last few weeks and months.

Even before the COVID-19 Pandemic hit the market, we were monitoring the market closely and tracking down the bearish outlook that was coming from reasonable price levels for carbon and oil, as well as healthy supply/demand outlook from competitive LNG prices, and plenty of LNG ships being attracted to the UK and Europe combined.

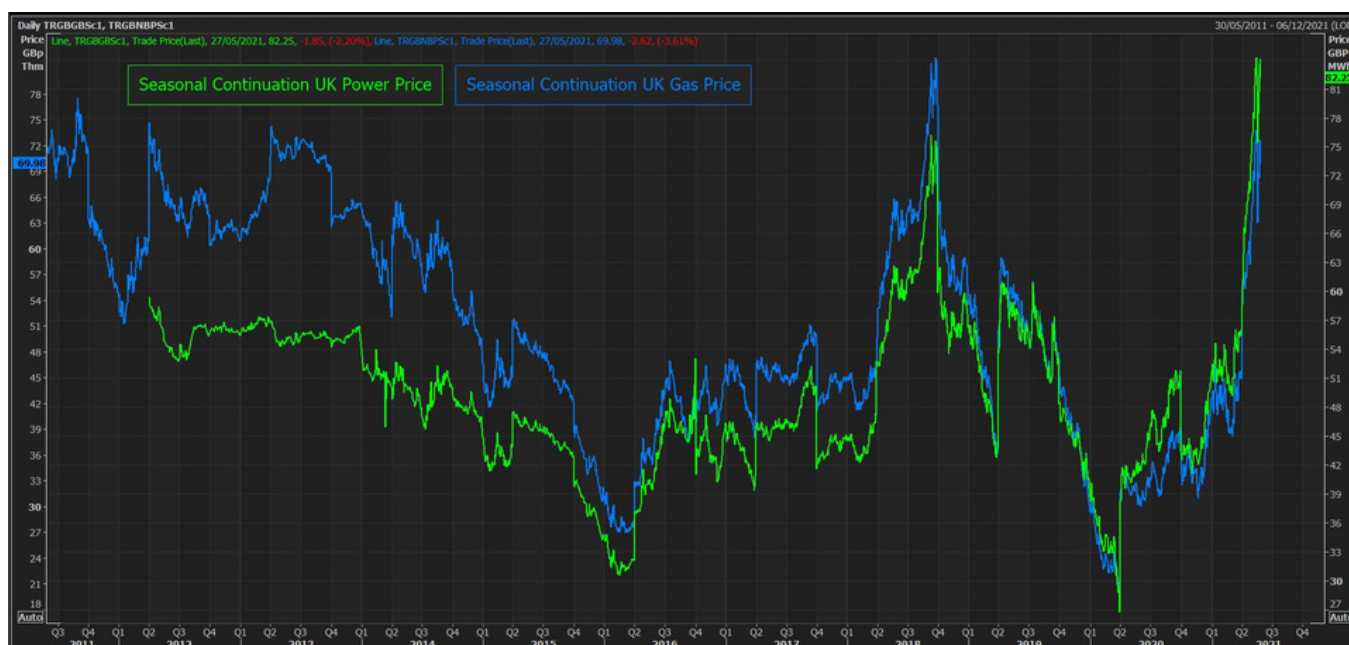




However, as we started to return to ‘normal’ the energy complex turned on its head at the same time, which caused a rapid and sharp increase to both gas and power prices from their lows seen after the covid market crash.

As we can see from the wholesale graph, power prices have increased significantly since the downturn and bottom of the market.

UK Wholesale Gas & Power prices June 2011 - June 2021



Source: Reuters

Much of this has been rapid and unexpected based on several factors.

After months of doom and gloom around COVID-19, vaccine hopes were given a major boost ahead of schedule as we saw three different vaccines approved which gave the market's optimism of a return to recovery faster than was anticipated.

Asian demand increased rapidly due to unexpected cold spells and polar vortex causing parts of China to reach sub-zero temperatures, in turn diverting Europe bound LNG vessels to be able to cope with the unusual ramp-up in demand.

The U.S had many unexpected cold and warm spells that went against seasonal normal expectations, and this caused a lot of LNG to become landlocked to cope with increased demand from either heating or air conditioning that would normally be exported to the UK and Europe.



In addition, more recently the UK and Europe experienced below seasonal normal temperatures for much of March, April, and May resulting in depleted gas storages at a time when we would typically start to inject ahead of the Winter season. The impact of this can be seen in the graph below for both UK and Europe.

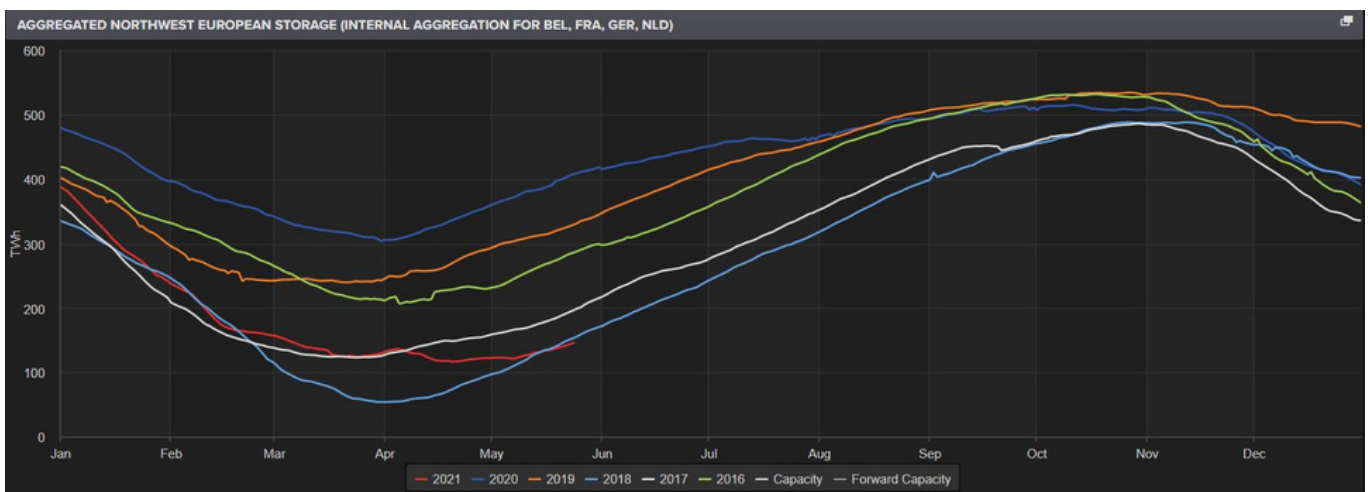
Due to the UK and Europe relying on imports of gas and LNG from the continent, the U.S., and Asia, this had a ripple effect on UK gas and power prices.

UK Gas Storage



Source: Reuters

European Gas Storage



Source: Reuters



Another contributor to recent price increases has been the rally in carbon prices, and the new UK emission scheme being introduced.

The UK's carbon price hit £50 as the nation's post-Brexit emissions trading scheme (ETS) opened for the first time on 19th May.

The price is almost £5 higher than that currently trading in the EU's ETS – the world's largest ETS, which the UK left in December 2020 as part of the Brexit process.

It is also above the threshold that the UK Government had determined to implement as an intervention; if prices trade above £44.74 for more than a few weeks, this price will be implemented to avoid potential problems internationally and complaints from high-emitting sectors such as building materials, mining, oil, and gas.



The UK Government's reserve price was notably £22 per tonne, which green groups have stated seemed low, considering that EU prices have been steadily rising since 2018.

Under the UK ETS, power plants and other high emitting corporates will be charged for every tonne of CO₂e they emit beyond a certain limit. They will also be able to sell excess reductions for profit to other companies that have failed to remain below their specific limits. The ETS is set to cover 155 megatonnes of CO₂e in its first year.



2. OUTLOOK

WILL RECENT HIKES RETURN TO STABILITY?

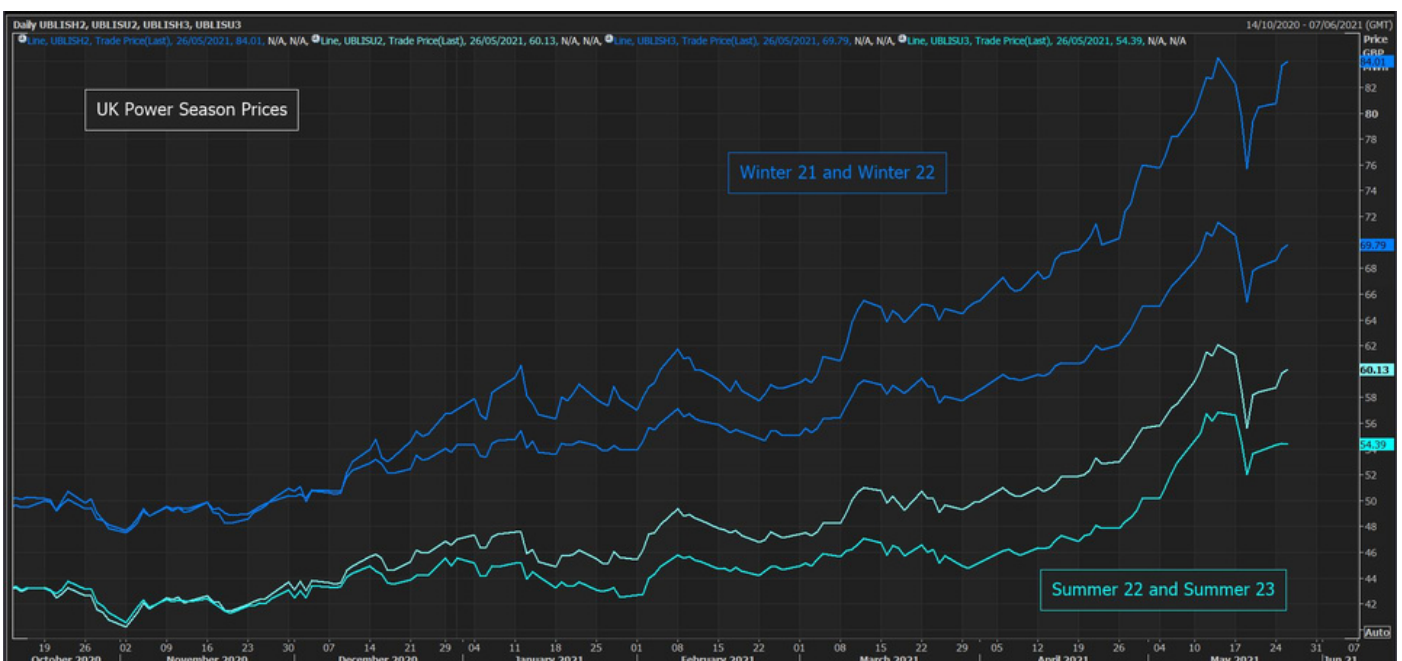
We believe many of these drivers 'should' be short term regarding price volatility. Our expectation is that as the UK and Europe start to return to normal seasonal temperatures and sunnier spells (forecasted from end-May onwards), we should then start to see some of the margin removed from the recent hikes.

A return to a more stable supply/demand outlook will allow for greater renewable generation, less reliance on CCGT gas for power burn, more arrivals of LNG ships, and an opportunity to start injecting into gas storages ahead of Winter 21, and for the new UK carbon market to find its feet and trade more in line with fundamentals.

There is also potential softening in the oil price if Iran sanctions are lifted by the U.S. as well as increased production by OPEC against their current curbs.

Another factor to take into account is that the price which has seen the most volatility and increases has been the Winter 21 period for both gas and power. Whereas Summer 22, Winter 22, and Summer 23 are trading at less of a premium and have not had quite the same steep climb as seen with the front season.

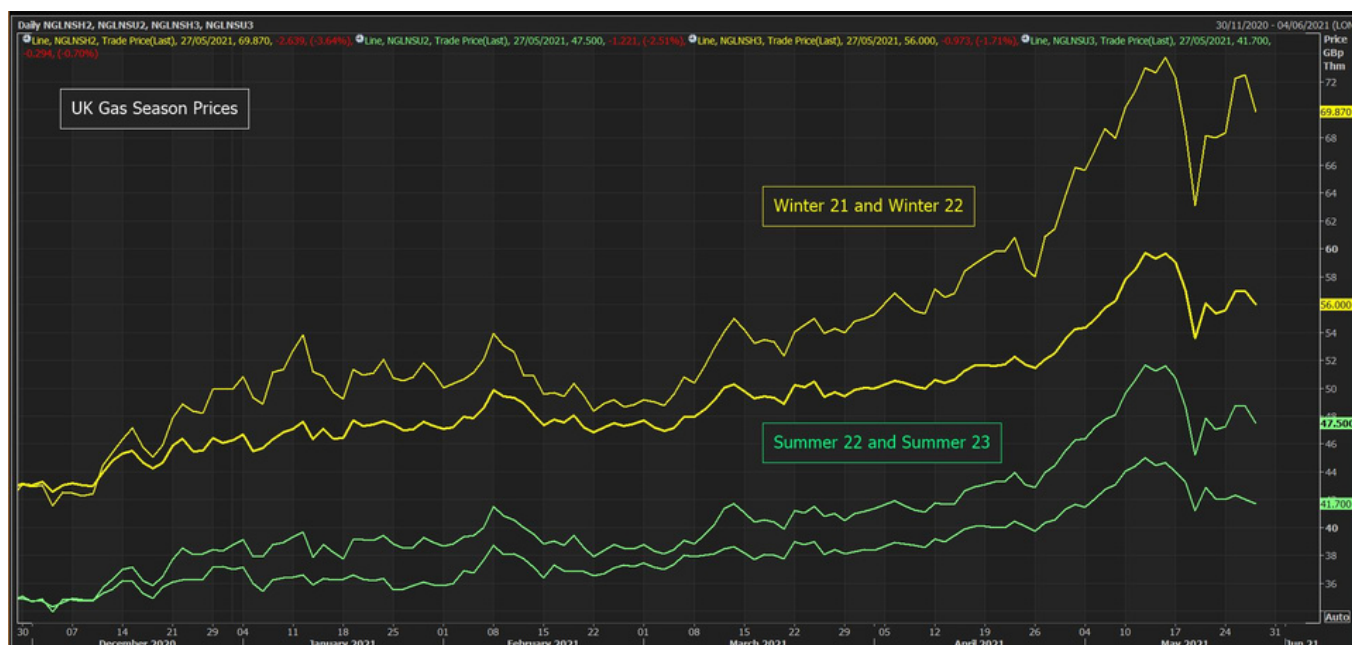
Power Seasons



Source: Reuters



Gas Seasons



Source: Reuters

2. WHAT OPTIONS ARE AVAILABLE?

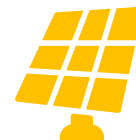
FLEXIBLE PROCUREMENT

This volatility is one of the benefits of a flexible framework. As it doesn't just allow us to take advantage of longer duration purchases during beneficial market price points, but also allows us to be able to ride out volatile times and spikes/peaks in the market by making short term purchases if required (1-month clips) nearer delivery, which will help smooth out the overall price paid during the course of a 12-month period.

In addition, it helps to avoid having to make a decision on purchasing your whole energy consumption/spend on one single given day out of the whole year in the hope that it becomes favourable against future market movements. And provides the opportunity to take a step back and monitor movements more closely.

By not putting all your eggs into one basket opens up more opportunity and less risk exposure to increases and volatility in the market.

We are able to purchase energy in portions from 1 month, Quarters, Seasons, to full 12- and 24-month durations depending on how the wholesale market trades.



ENERGY MANAGEMENT AND PRODUCTS

The news is awash with government stats around reducing carbon emissions by 2030 and becoming net zero. Which is welcome news not just for the environment but also for the energy industry and business energy costs.

We are here to help guide and recommend the best way forward for your business to help you achieve and contribute to this target.

By offering desktop and bespoke site audits coupled with our inhouse energy consumption monitoring portal, we can identify how much energy you use, when you use it, patterns, and opportunities to make changes that will help you reduce energy, save money, and become an early adopter towards net zero.



Options could be from as little as simple staff behavioural changes and shifting consumption to more beneficial charging periods if coupled with a passthrough contract. Typically, by opting to pass through your non-energy costs will attract fewer supplier margins within your contract price. Greater possibilities that our audits hope to find will be products and services we can implement such as capacity reduction, on-site energy production like solar panels, CHP units (use more gas and less power at a lower p/kwh cost) battery storage, voltage optimisation, EV car charging ports.

The green energy revolution and products that are available are ever-changing by the day, and in tandem, the cost to implement these is becoming cheaper and more accessible. In fact, we can offer Capex free and other options to help finance these ventures, which can often mean little or no upfront cost.

Please do not hesitate to speak to your Account Manager or give us a call to discuss any of these options, or for any other energy-related help we can assist you with.

ADVANTAGE UTILITIES

YOUR **COMPETITIVE** ADVANTAGE

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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