ADVANTAGE UTILITIES

YOUR COMPETITIVE ADVANTAGE

QUARTER 1 - 2022
ENERGY BUDGET OPTIMISATION REPORT

RUSSIA/UKRAINE CONFLICT
What are the implications?

GAS SUPPLIES
How will they be maintained?

US LNG & NORDSTREAM
Price volatility

ENERGY MARKET SUMMARY
What are the contributing factors?

MITIGATING RISK
Could an energy audit help?

HELPING YOUR BUSINESS ACHIEVE COMPETITIVE ADVANTAGE

Welcome to the Advantage Utilities Energy Budget Optimisation Report Q1 2022

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 2022 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:

The Russian Bear Growling or Biting? Implications on energy prices of an invasion of The Ukraine

The conflict playing out between Russia and Ukraine is one marked by land borders and shaped by strategic influence.

Europe relies on Russia for around 35% of its natural gas requirements. Escalating tensions give rise to fears that Russia could effectively 'weaponise' gas by restricting supplies to Western Europe in the event that threats to impose economic sanctions are carried out in response to any Russian invasion of Ukraine.

Unfortunately, a scenario involving militant action looks increasingly likely with the US withdrawing staff from its Ukrainian embassy and the UK government acknowledging that there is a "significant risk" that Russia will mount an invasion.

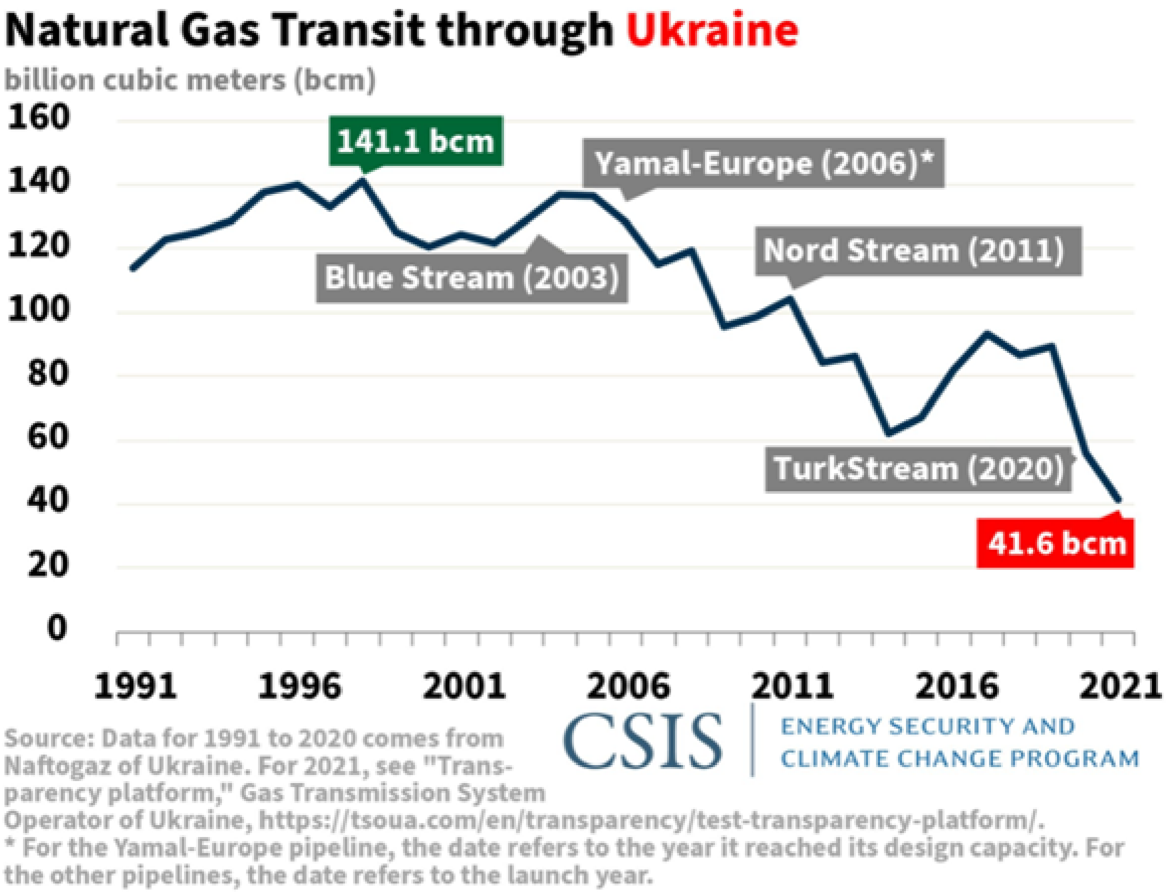
Whilst the UK hardly imports any Russian gas, we are certainly not immune to wholesale market increases, and should this course of action unfold, the likely impact would be a surge in LNG prices as well as a potential spike in crude oil.

Throughout the 90's Ukraine was the main artery for Russian gas into Europe. However, this scenario is no longer applicable as volumes transiting through Ukraine have in fact decreased by as much as 70 percent with only 42 billion cubic meters crossing Ukraine in 2021.

Ukraine itself relies on transit to meet its needs. According to the Ukrainian gas system operator, 89 percent of Ukraine's 2021 imports came through virtual backhaul.

A stop in transit flows would hit Ukraine's access to gas imports and potentially lead to gas shortages across swathes of Eastern Europe.

Gas Routes From Russia Via Ukraine

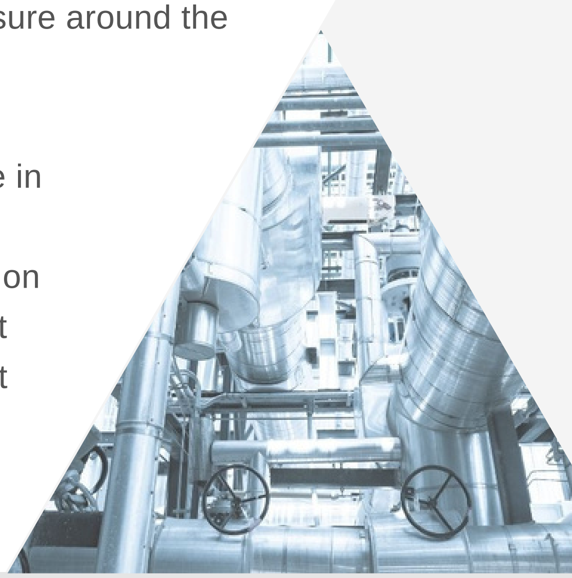


Source: Centre for Strategic and International Studies

Russia has been known for politicising gas supplies in the past. In 2006 gas to Ukraine was cut off for one day and in the winter of 2008-2009, supply to the Ukraine was again disrupted owing to contractual disputes and disagreements regarding debts.

Most recently, gas supplied by Russia into Western Europe for the period August – December 2021 was down by as much as 38% relative to the same period in 2018, with some analysts suggesting this was to apply pressure around the terms of Nordstream 2, covered later in this report.

The extent of any impact remains to be seen as there is little in the way of previous precedence. Anecdotal evidence dating back to 2014 when Russian military forces annexed Crimea on the Black Sea suggests that further bullish wholesale market would be probable, however this is on an altogether different scale against a backdrop of greater global uncertainty.



CAVALRY COMING IN THE SHAPE OF INCREASED GAS SUPPLY?

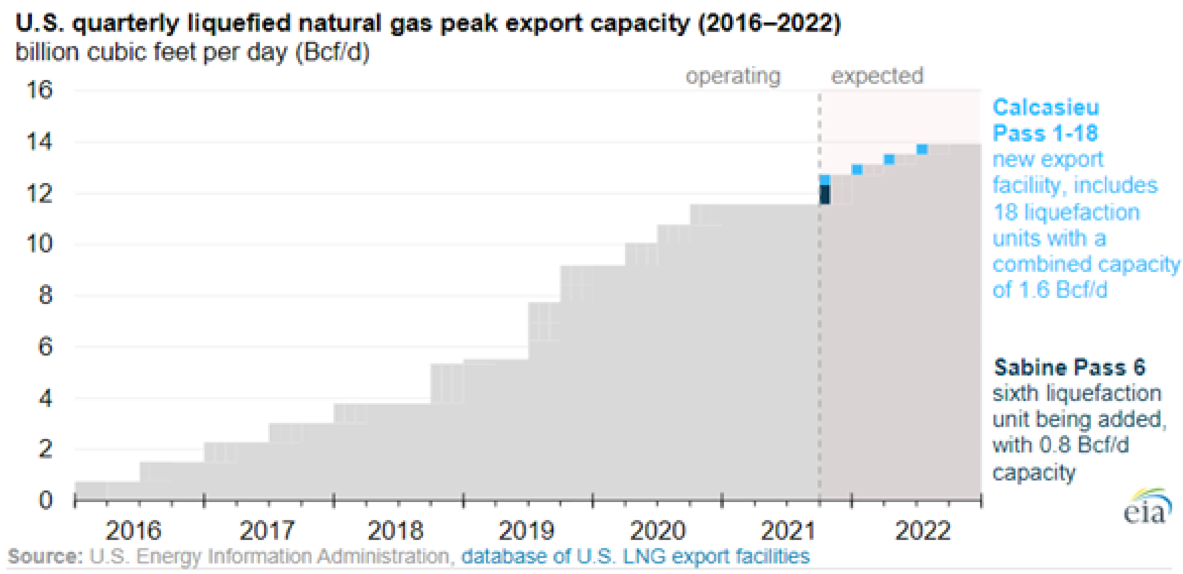
Previous versions of this report have alluded to how the U.S could yet play a key role in maintaining European gas provisions in the form of LNG exports.

The U.S. are something of a sleeping giant when it comes to shale gas production, and we are finally starting to see this come to the fore, with the prospect of more to come.

Ironically, the UK banned its own fracking and shale gas production amid safety concerns, however, we are evidently happy to import the same product from overseas.

In fact, the U.S. is expected to become the largest LNG gas exporter by the end of 2022 and should the present trajectory of supply volume continue, they can become a major contributor to European supplies.

U.S. LNG Exports



Source: Energy Information Administration (EIA)

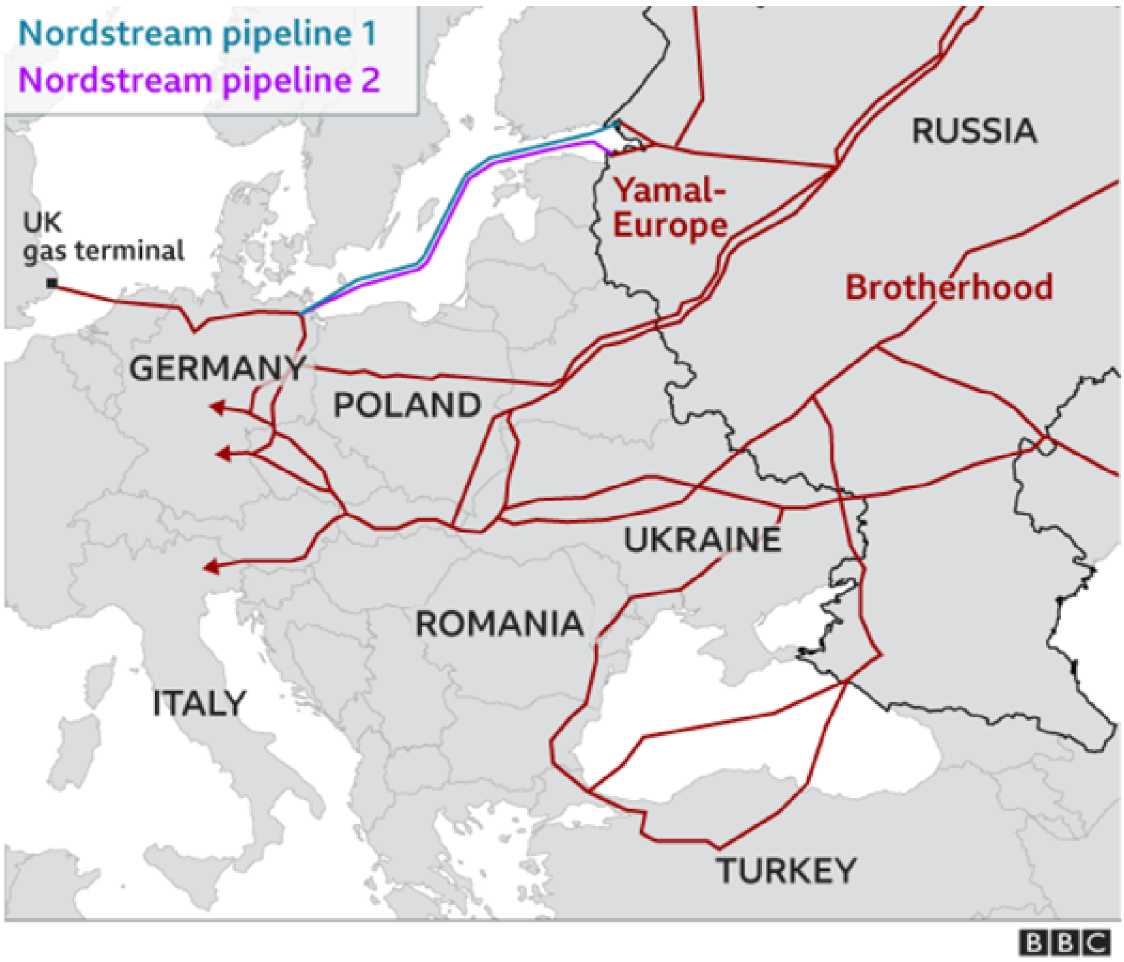
Elswhere, Nordstream 2 is a pipeline running from the Leningrad region of Russia through to Lubmin, a German town to the North East of the country. This pipeline has the potential to facilitate an increase in gas volumes flowing from Russia into Europe.

Whilst the controversial pipeline has been completed, it is yet to gain regulatory approval from the German authorities.

It was widely expected to receive certification this year, however delays have been ongoing and the impact of any attack on Ukraine remains to be seen.

The utopia for European gas markets would be a de-escalation of tensions in Russia, combined with Nordstream 2 being activated as summer approaches and demand lowers, representing an opportunity to replenish storage and allow more certainty of supply to prevail.

Russian Gas Flows Via Europe



Source: BBC

US LNG AND NORDSTREAM

In truth the market has been precariously volatile for some time now, with the volatility seemingly underpinned by European storage levels remaining below historic levels, and Gazprom controlled facilities remaining depleted.

The UK has minimal storage availability largely owing to the decision to abolish our Rough storage facility taken in 2017.

This has been partially offset by stronger than anticipated flows from Norway and thankfully mild weather has generally prevailed for much of the winter. It is also important to note that the market is already well oversubscribed relative to key fundamentals such as crude oil and coal.

Further uncertainty remains over a potential conflict between China and Taiwan with global geo- political uncertainty the overriding and imponderable factor, meaning the word used more than ever in recent times, “unprecedented”, is more apt than ever.

UK Annual Gas and Power Price

Source: Reuters

Energy Market Summary

Bullish

- Russia/Ukraine conflict
- Yamal gas pipeline in reverse flows
- EU and UK gas storage levels
- Carbon
- Any potential cold snaps
- Ageing nuclear generation going offline

Rangebound

- Coal
- Oil

Bearish

- U.S LNG production
- LNG projects coming on line
- Current mild weather
- U.S equities and rate hikes
- Nordstream2 commissioning
- Global economic downturn in 2022

WHAT CAN BE DONE TO MITIGATE THE RISK?

There is an array of procurement options which can be facilitated ranging from traditional fixed-term contracts, through to ‘blend and extend’ agreements, quarterly purchasing and variations of flexible procurement strategies. The suitability of each approach will be dependent on a number of factors including an organisations energy profile, appetite for risk and the importance of budgetary certainty.

Regardless of procurement strategy, higher wholesale and corresponding grid prices, also mean that the financial incentive for on-site generation is greater than ever, with the likes of solar and wind solutions having the additional benefit of reducing an organisations carbon footprint. With various funding options available, it may be realistic to implement a solution which drives savings without any capital outlay or ongoing risk.

Equally in a year when ESOS III (Energy Savings Opportunity Scheme) audits are mandatory for qualifying organisations, now may be an excellent time to consider having a professional energy audit, with the aim of driving improvements in efficiency, engaging with staff and ultimately reducing overall energy spend.

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

CONTACT US

0207 371 5360

info@advantageutilities.com

www.advantageutilities.com

Coda Studios, 189 Munster Rd, SW6 6AW