

ADVANTAGE UTILITIES

YOUR COMPETITIVE ADVANTAGE

QUARTER 2 - 2022

ENERGY BUDGET OPTIMISATION REPORT



THE WAR RAGES ON...

What are the impacts?



CLIMATE CHANGE COMMITMENT

Compromised or Accelerated?



ENERGY MARKET SUMMARY

What are the main market drivers?



NEW TECHNOLOGIES & ENERGY AUDITS

Making your business more efficient







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WELCOME TO THE ADVANTAGE UTILITIES ENERGY BUDGET OPTIMISATION REPORT Q2 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...

ISSUES COVERED IN THIS REPORT:

-  THE WAR RAGES ON...
-  CLIMATE CHANGE COMMITMENT
-  ENERGY MARKET SUMMARY
-  NEW TECHNOLOGIES & ENERGY AUDITS

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.





THE WAR RAGES ON... WHAT IMPACT ON THE UK ENERGY MARKET?

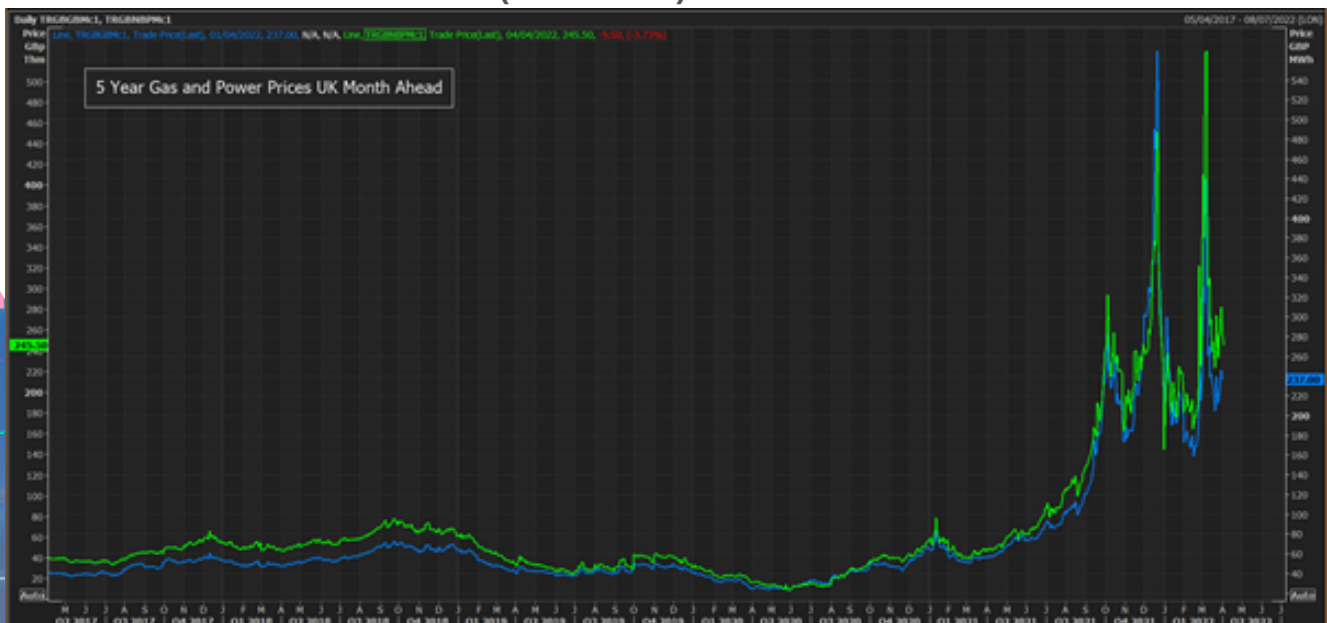


We are fast approaching 40 days since Russia decided to invade Ukraine and cause added volatility to what was already an extremely challenging market. So, what impact has this had on UK energy prices?

In our previous report, we highlighted that any invasion could see wholesale markets spike beyond the December high that had seen prices increase to unprecedented levels and well beyond prior expectations.

The subsequent spike saw wholesale gas hit an historic and astonishing high of over 600p/therm for month ahead delivery.

5 Year UK Gas and Power Prices (2017 - 2022)



Source: Reuters

Prices have since quelled but do naturally remain significantly elevated relative to previously accepted norms. Despite increasingly wide ranging and severe sanctions being imposed by the UK, U.S. and Europe against both Russian companies and oligarchs, sadly, the atrocities continue despite inconsistent and vague information on possible progress during peace talks.

Last week Vladimir Putin stated that Russia would only accept payment in roubles for its gas exports to “unfriendly” countries in an attempt to try and retaliate against sanctions by the West and help lift their currency from its recent lows. The implication being that non-compliance in this regard could lead to a disconnection of gas supplies.

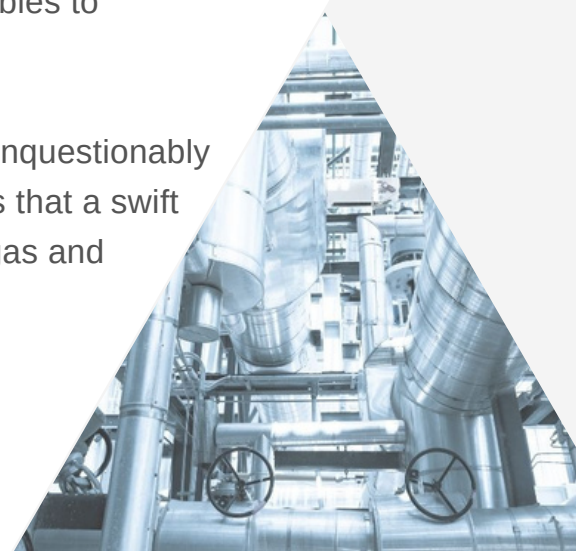
Thus far the market seems oblivious to this news with it possibly having already been factored in or there being too much doubt as to whether this will actually come to fruition.

The market will unquestionably remain on edge whilst this scenario plays out. Should this happen the impact could be catastrophic even in a Summer season owing to gas requirements for power generation being high, due to renewable generation being low and against a backdrop of strict targets to get UK and EU’s already depleted gas storage facilities 80% full by 1st November.

Economists suggest the war is costing Russia upwards of \$10 billion per day, it would therefore seem counterproductive for Russia to cut off an existing revenue stream worth around \$1 billion dollars per day. This is not something that can be guaranteed of course with Putin already proving extremely erratic and unfathomable.

It’s worth noting that the Russian central bank had already ordered Russian exporters, including Gazprom, to convert 80% of their foreign-currency receipts into roubles; the Kremlin’s recent request only increases the proportion to 100% and shifts responsibility for buying roubles to energy buyers.

Any action taken by Russia to stifle EU gas supplies will unquestionably cause further volatility in the market. However, the hope is that a swift de-escalation will be accompanied by a significant fall in gas and power prices.





IS CLIMATE CHANGE COMMITMENT NOW COMPROMISED OR ACCELERATED?

IMPACT OF REDUCING EUROPEAN RELIANCE ON RUSSIAN FOSSIL FUELS.

Despite the UK itself having little direct reliance, circa 40% of Europe's gas is currently sourced from Russia via either pipelines or LNG exports. When factoring in associated timescales and cost, replacing this will be no easy task.

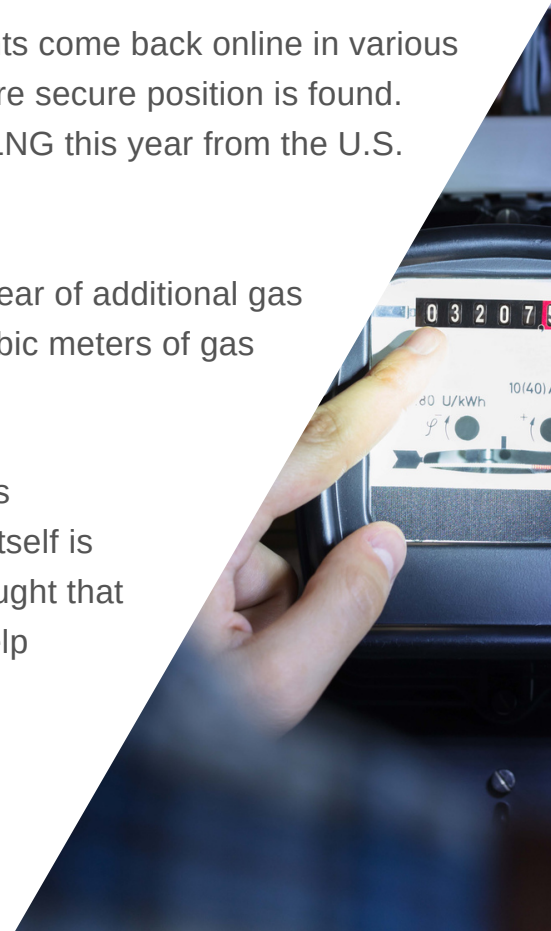
This has prompted both Europe and the UK to accelerate their requirement to source supplies from alternative locations, as well as invest in self-generation and cleaner energy.

The US has declared a complete ban on Russian oil, gas and coal imports whilst the EU is reducing its Russian gas imports by two-thirds. The UK is to phase out Russian oil by the end of the year with the government citing that this allows enough time to source alternative supplies.

Additionally, we are seeing some aging nuclear and coal plants come back online in various EU countries or extending their expected longevity until a more secure position is found. The EU has secured an additional 15 billion cubic metres of LNG this year from the U.S. with the hope of more to come as they upscale production.

The aim is for the U.S. to supply 50 billion cubic metres per year of additional gas until at least 2030, which will partially offset the 150 billion cubic meters of gas currently sourced from Russia.

Canada also has the ability to ramp up shale production but is reluctant due to carbon commitments at present and the UK itself is now exploring this option once more. Amongst others, its thought that Nigeria, Qatar, UAE and Saudi Arabia may also be able to help bridge the gap.



The U.S has also agreed to release circa 180 million barrels of oil from their Strategi Petroleum Reserve (SPR) at a rate of 1 million barrels per day in an attempt to ease oil prices which have increased since Russia’s invasion.

Ironically, we could also see extra supplies freed up should Russia halt supplies to Europe. In this event, Russia would no doubt look to re-route their gas elsewhere to potentially the likes of China, India or other Asian nations. In turn, this may perhaps enable LNG supplies that would normally go to these destinations to be availed for Europe to bid for and ultimately take ashore. This is of course dependent on demand and various geo-political factors.

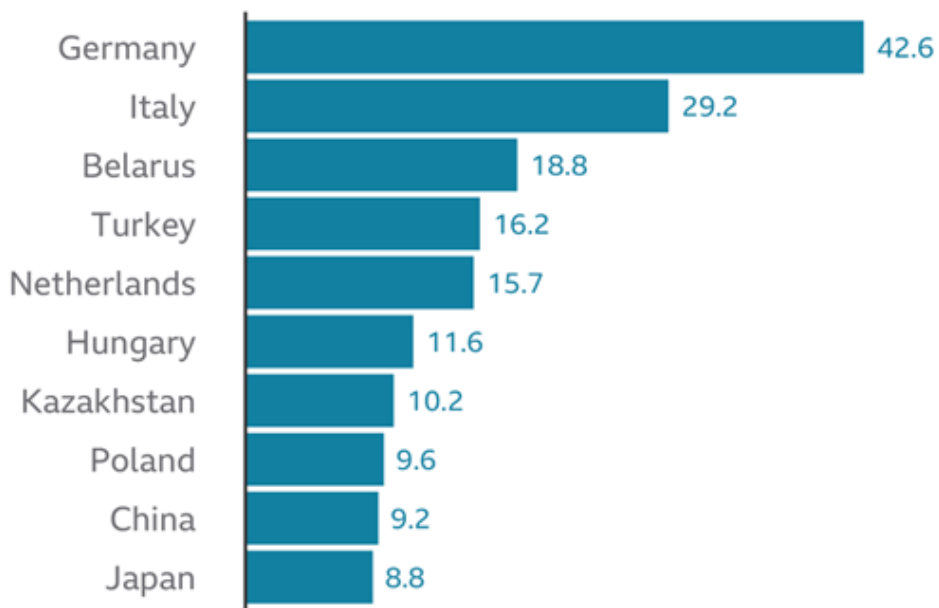
Russia’s domestic storage capacity is limited — less than half what it exports to Europe annually. It is estimated that it would take around 4 months for Russia to fill their own storage units should they decide to cut Europe off.

Therefore, that is a relatively short time frame before they would be forced to halt production completely if alternative viable export routes were not found.

Relaxation of U.S. sanction on Venezuelan and Iranian oil could also help shape the market as major changes seem certain to unfold.

Russia's gas exports

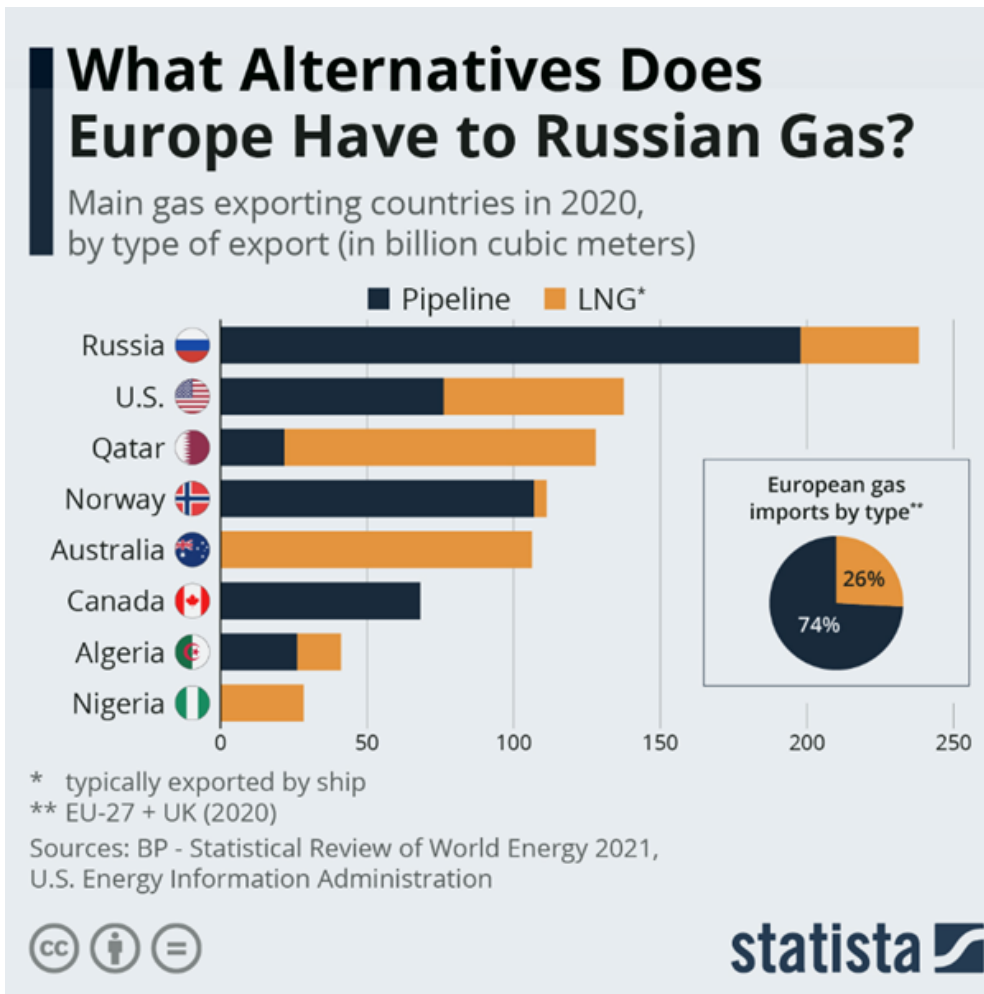
Countries by billion of cubic metres imported from Russia



Source: IEA, Data for 2020



Source: BBC



ENERGY MARKET SUMMARY

WHAT ARE THE MAIN MARKET DRIVERS?

BULLISH

- Russian/Ukraine Crisis
- OPEC oil curbs
- Possible Russian Gas Restrictions



RANGEBOUND

- Coal
- Carbon



BEARISH

- U.S LNG supplies to Europe
- Covid lockdowns
- Mild weather
- Economic downturns



NEW TECHNOLOGIES AND ENERGY AUDITS HOW CAN THEY MAKE YOUR BUSINESS MORE EFFICIENT?

We have mentioned before that ‘the cheapest unit of energy is the one you do not consume’...

This statement has never been more relevant than during these unprecedented times where energy costs have spiralled. Energy Management is an area where you can try and retain control of expenditure by exploring how and when you are using energy.

We have many clients whom have recently successfully implemented their own on-site renewable energy for the first time, with solar solutions proving particularly popular.

This has been aided and abetted by faster returns on investment, a wide variety of funding mechanisms being increasingly available and the added benefit of helping to realise net zero targets.

The process of exploring the viability of on-site renewable energy starts with a simple desktop audit, that may then lead to an actual site audit, to ascertain what products and services you may be able to explore such as EV charging, solar panels, Combined Heat & Power, battery storage, voltage optimisation, and load shifting amongst others. Often, these products and services can be implemented at little or no cost, or for larger projects it can be achieved capex free.

Something to remember also is that the cost of technology, materials, and energy saving measures typically reduce over time. So, an audit or assessment that perhaps did not have a pay back period that was attractive last time around, may now produce different and more appealing results.

Couple this with other Advantage products and solutions such as; flexible procurement, bureau service, invoice validation, online consumption reporting portal and you can really garner a 360 degree energy service approach.

Please do not hesitate to contact us and we can start the process to see your business on the path to becoming a more energy efficient and carbon neutral business.

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