

ADVANTAGE UTILITIES
YOUR COMPETITIVE ADVANTAGE

QUARTER 2 - 2024 ENERGY BUDGET OPTIMISATION REPORT



SPRING IS IN THE AIR
Have Wholesale Energy Prices
“sprung” from their lows?



REPORT OF LOW 2024
GAS PRICES
What next for market prices?



OIL TO SEE PRICE
INCREASE IN 2024



WORLD EVENTS








WINTER DIAL DOWN



WELCOME TO THE ADVANTAGE UTILITIES ENERGY BUDGET OPTIMISATION REPORT Q2, 2024

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 2024 and ultimately the cost of energy over the next 12 months.

ISSUES COVERED IN THIS REPORT:

-  Spring is in the air
-  Report of low 2024 gas prices
-  Oil to see price increase in 2024
-  World events
-  Winter Dial Down

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





SPRING IS IN THE AIR

HAVE WHOLESALE ENERGY PRICES “SPRUNG” FROM THEIR LOWS?

This winter was very mild and wet. We saw higher temperatures as well as above-average wind speeds, which in turn has led to a reduction in heating demand, whilst the increased wind generation has meant a drop in gas consumption from gas-fired power plants. This was a welcome factor that’s helped ease overall prices.

We are now seeing gas and power prices return to pre-Russian invasion levels. That’s the second winter running since the Russian invasion of Ukraine that prices have declined. Not many would have forecast the price reduction of Win-23 that we have experienced, given several respected commentators speculated that pricing would remain at higher levels in the long term.

When looking at the future prices, until the start of 2024 we were seeing ‘backwardation’, where the future seasons were priced lower than the near-term seasons. However, this has somewhat changed with the front season dropping below the subsequent four seasons, although this reversed again in the middle of March. That said, looking at the summer and winter seasons, the front five seasons are all priced very closely, and their prices have slowly converged since the extreme highs we experienced during the summer of 2022.

We have seen similar trends for both summer and winter seasons. 2026-2028 season projections have been relatively rangebound since late 2022, whereas 2024-2025 seasons have experienced more prominent drops.

Long-Term Gas Trend

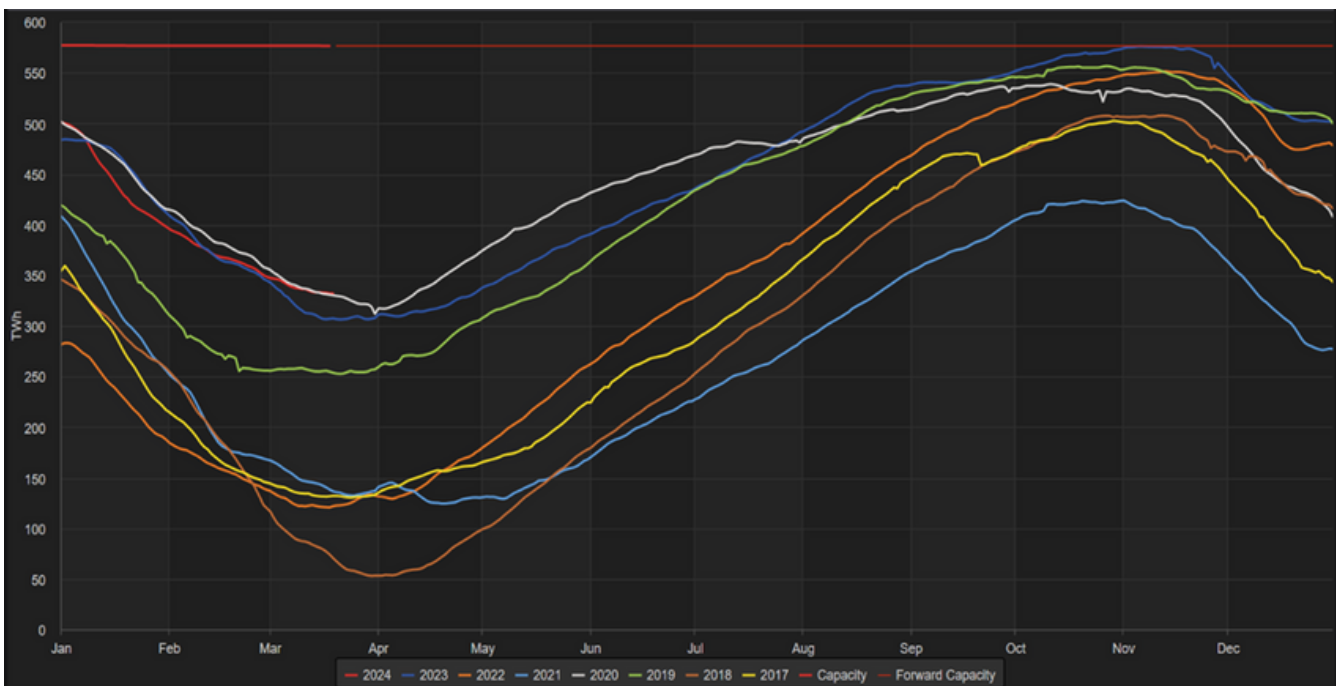


Short-Term Gas Trend



With only a few more weeks of the heating season left, Europe is on course to end the winter with a record amount of gas storage, helping to send prices lower, whilst removing doubts about energy security.

From the current European storage levels (shown below), we can observe that stock levels are very healthy - especially when compared to previous years at the same point in time - at around 58% of capacity.





REPORT OF LOW 2024 GAS PRICES WHAT NEXT FOR MARKET PRICES?

Will they continue to decline, level out or rise?

It has been reported that European gas and power prices are forecast to fall this summer, with inventories starting the season at over half-full due to mild Win-23 temperatures. We also expect a higher drop in gas-fired generation this summer, easing pressure on the gas price.

Although demand is lower over the summer months, allowing for planned outages during which maintenance works take place, we still need to keep an eye on negative market drivers. In early Jun-23, there was an unplanned outage in Norway which saw gas prices rocket. The effect led to a summer of rangebound prices, not really breaking out of this until late Sep-23. This highlights the often-precarious nature of the markets and how certain events can adversely affect market prices where they can remain high, rather than quickly re-tracing the gains.

Given the significant downsides, the outlook for this summer has been described by some as bearish, however, it is evident that serious geo-political risks remain.



GLOBAL OIL

Global oil prices have remained relatively rangebound at between \$75 and \$86.5/bbl. This is despite the war in Eastern Europe and the conflict in the Middle East. "A remarkable thing is the (price) stability, given the geopolitical turmoil," said Daniel Yergin, vice chairman of conference organizer S&P Global and a Pulitzer Prize-winning author on global energy.

At the annual CERAWEEK conference, unlike past conferences where conversations were dominated by market-share battles between U.S. shale oil producers and the Organization of the Petroleum Exporting Countries, talk of price wars has been supplanted by energy security issues, Yergin said.

"When demand was down and prices were down, it was very easy to see a way towards energy transition, but with Russia/Ukraine (war) and price shocks, energy security is back on the table," Yergin added.

Additionally, and related to oil prices, strikes on Russian refineries added a risk premium to crude along with further strikes and extended OPEC+ output cuts. This led Morgan Stanley to raise its Brent oil price forecasts by \$10/bbl to \$90/bbl for the third quarter of 2024.





WORLD EVENTS

It would be remiss of us to ignore the continuing geopolitical events in the world. They still loom large, with the ever-present concern that one significant incident in these conflicts would see global markets climb. The attacks in the Red Sea by the Houthis continue, targeting international commercial shipping, which has been occurring since mid-November, disrupting global shipping. This has forced firms to take longer and more expensive journeys around southern Africa.

Even with these events, markets have fallen, given the healthy state of the fundamentals. However, we should also exercise caution and an awareness of what could happen at any moment which may adversely impact wholesale market prices. If other fringe players were to join the fray, it could further heighten or inflame tensions, which would be seen as detrimental.

We would reiterate our previous cautionary advice. Whilst market fundamentals such as healthy storage levels, the upcoming end of the heating season, warmer weather and healthy imports are all providing bearish sentiment, the continuing proactivity around our customer energy procurement is still key.

Many of our blue-chip clients with substantive energy spends have continued to opt to fix out for a further 24-36 months in recent times or have been utilising the flexible procurement product and taking advantage of those volumes to purchase when the market drops, even locking in some of the future low prices, up to 36 months out.

Would you be happy to lock in a long-term contract now at these comparative lows, taking advantage of the attractive prices before markets potentially tick back upwards?

Additionally, would you be happy to look at flexible procurement, allowing Advantage Utilities to purchase your wholesale energy as the market falls, taking advantage of these ever-dropping prices we are seeing that are impacting the next few years? Should markets continue to drop, we will continue to purchase additional volumes, which will lower your overall p/kWh monthly prices.





WINTER DIAL DOWN

Advantage Utilities was delighted to once again help facilitate the recent national Winter Dial Down scheme. The initiative, aimed at alleviating pressure on the grid during periods of high demand and/or low generation, helps to reduce reliance on fossil fuels whilst financially incentivising consumers to reduce their energy usage. Any eligible and pre-registered clients can expect to be contacted regarding payments due to them later this month. There is talk that the success of the project has led to a similar scheme being considered in the gas market ahead of Winter-24. Naturally, we will keep clients informed and flag up any opportunities as and when they may arise.

HOW CAN ADVANTAGE HELP?

Our sustainability department continues to offer an ever-increasing range of products and technology aimed at reducing energy consumption and associated costs as well as driving down carbon emissions. We will of course continue to keep you updated about these initiatives, but please do reach out to your designated point of contact should you wish to explore your options in this regard.

In terms of procurement, we will continue to monitor markets with a view to helping customers navigate the unprecedented circumstances and ascertain when constitutes the best time to seek a contract extension.

Our popular flexible procurement options continue to be an option for an increasing number of clients on either a standalone basis or as part of a grouped basket. This often facilitates access to day/month ahead trading markets which have proved to be particularly beneficial to many clients over the winter period.

LET'S WORK TOGETHER!

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

 info@advantageutilities.com



BULLISH

- POLITICAL & ECONOMIC INSTABILITY AND UNCERTAINTY
- UKRAINE WAR - RUSSIA SABOTAGE
- ISRAEL/HAMAS CONFLICT
- POTENTIAL CHINA/TAIWAN CONFLICT
- INCREASE IN ASIAN ENERGY DEMAND
- EL NINO EFFECTS



RANGEBOUND

- VOLATILITY & UNCERTAINTY
- OIL PRICES
- CARBON
- HEALTHY RENEWABLES GENERATION





BEARISH

- HEALTHY EU GAS STORAGE LEVELS
- PLENTY OF LNG CARGOES UK BOUND
- WARMER SUMMER MONTHS
- HIGH NORWEGIAN GAS FLOWS
- HIGH WINDS FOR POWER GENERATION
- GLOBAL RECESSION



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