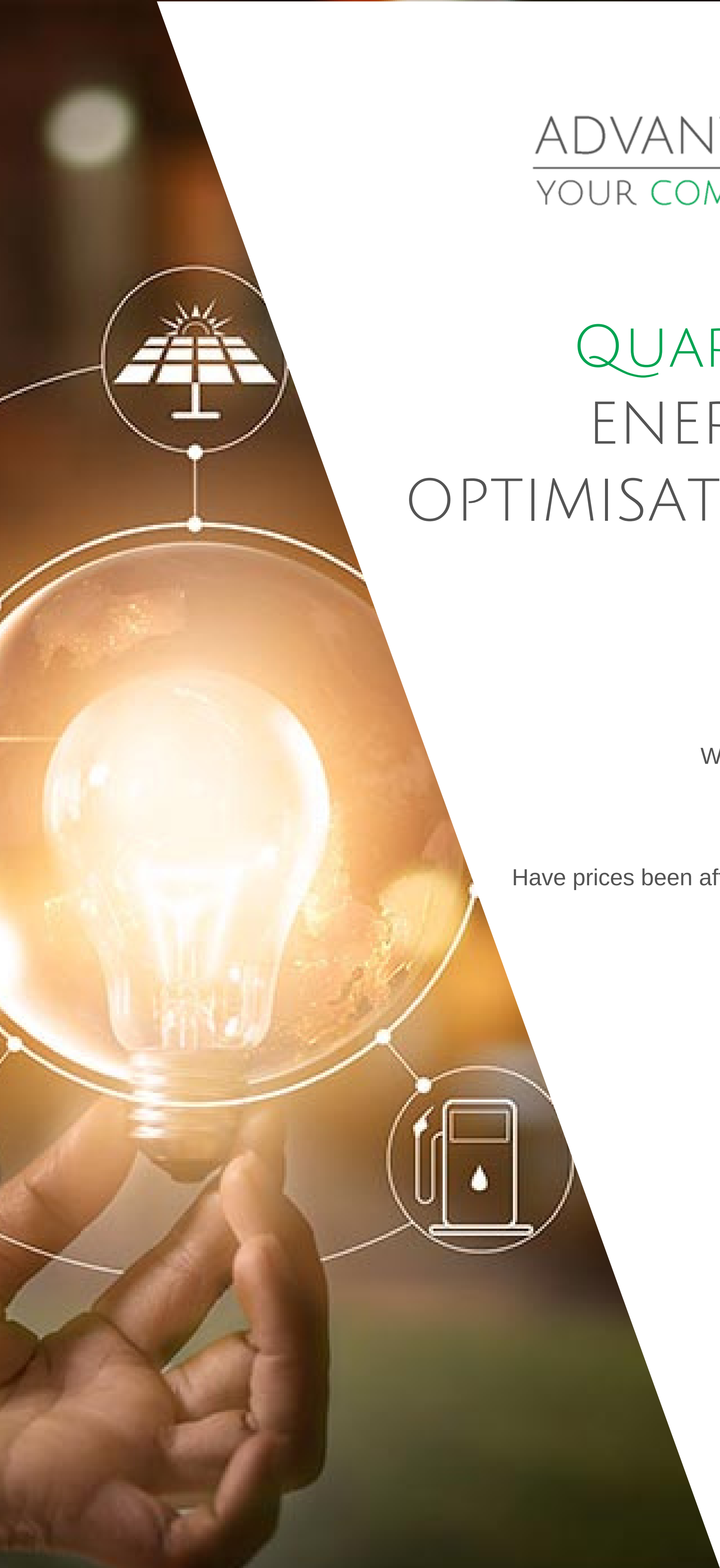


ADVANTAGE UTILITIES

YOUR COMPETITIVE ADVANTAGE

QUARTER 3 - 2021 ENERGY BUDGET OPTIMISATION REPORT

PRICE VOLATILITY
Will the market remain volatile?

OIL AND CARBON
Have prices been affected by increased demand?

MITIGATING RISK
Can flexible purchasing help?

HELPING YOUR BUSINESS ACHIEVE COMPETITIVE ADVANTAGE

Welcome to the Advantage Utilities Energy Budget Optimisation Report Q3, 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:

- Price Volatility
- Oil and Carbon
- Mitigating Risk

Price Volatility - Relentless Run Continues

Since we produced our last quarterly report which was followed up by an interim report in June, the market continues to remain volatile and sensitive to the supply/demand picture at present.

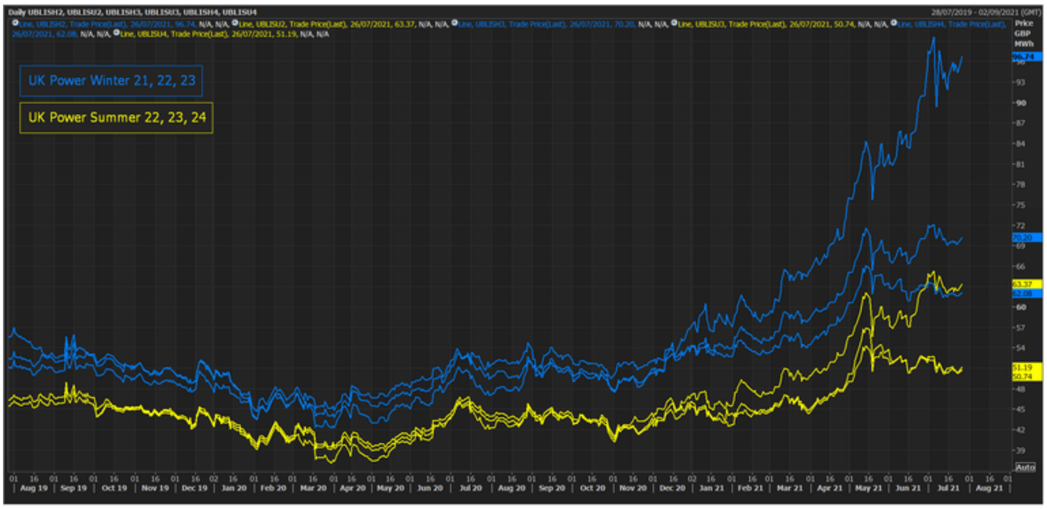
Our last report was leaning towards a view that the market is/was perhaps overcooked and frothy, and that we should see some softening from the price rallies seen over the last six months.

Gas and power prices have moved to the downside but certainly not by the margin we had hoped for just yet. However, it remains only the front season (Winter 2021) that is seeing the most impact and volatility. Further out for Summer and Winter 2022 onwards, we see far less volatility and less price premium/impact.

The main protagonist continues to be the lack of LNG arrivals to fill up depleted UK gas storages ahead of the winter season, after the levels were pulled upon heavily back in March and April due to the UK experiencing periods of lasting cold snaps that were far below seasonal normal. Carbon has also played its part in supporting gas and power prices with price momentum continuing North as demand recovers from the Covid pandemic.

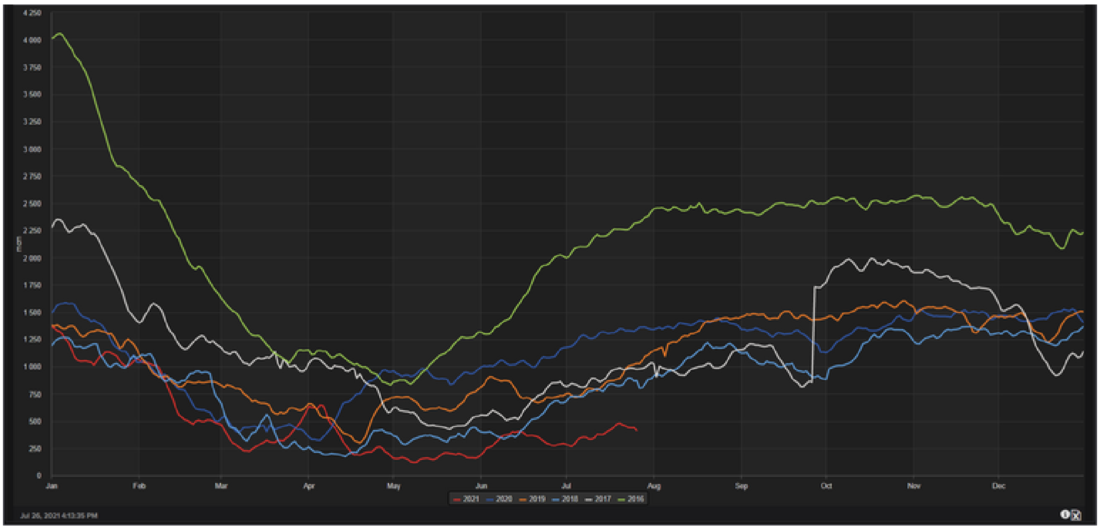
It has been a case of trying to play catch up ever since with matters made worse with the likes of the U.S. experiencing extreme high temperatures, resulting in a slowdown in U.S. LNG exports to the UK and Europe, as well as Asian demand ramping up and seeing LNG cargoes diverted at a premium to fulfil demand.

UK Power Seasonal Prices



Source: Reuters

UK GAS STORAGE LEVELS



Source: Reuters

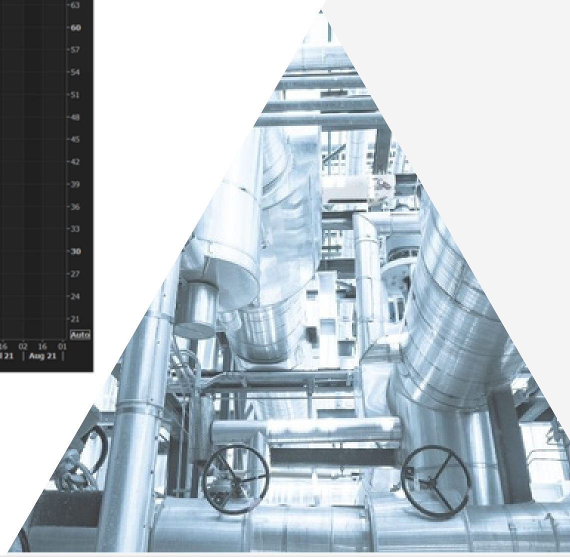
OIL AND CARBON CONTINUE TO RALLY

Oil prices have also steadily been finding their feet over the last six months as demand starts to pick up across travel, refining, and manufacturing.

And whilst crude stocks have been continuing to dwindle, production has not increased despite the higher oil price being more attractive for refiners to start the pumps again, all of which has continued to help support oil prices, and in turn gas and power.

OIL PRICE

Source: Reuters



US Crude Oil Stocks and Production

Source: Reuters

Carbon prices have continued their upward trajectory and were only marginally derailed by the coronavirus outbreak.

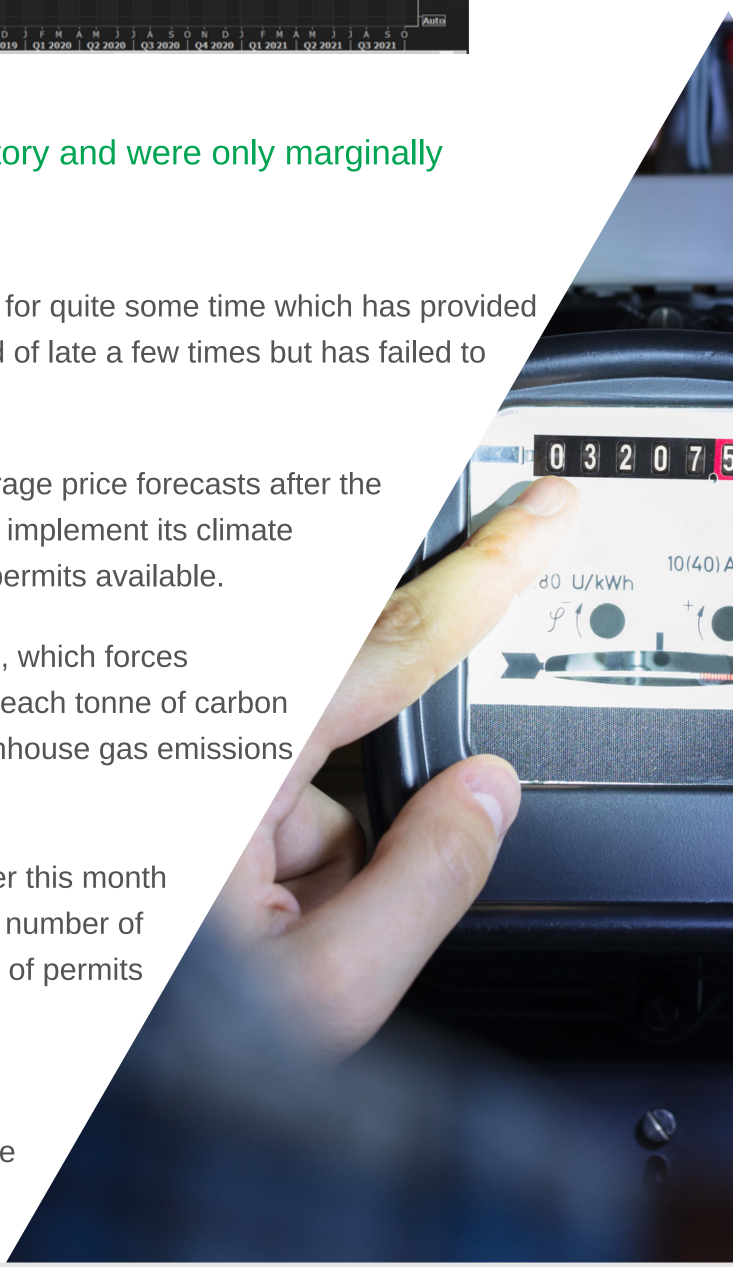
The price has been hugging the 50-day moving average for quite some time which has provided plenty of support. This technical support has been tested of late a few times but has failed to properly break and become resistant.

Analysts have raised their European carbon market average price forecasts after the European Commission unveiled a package of policies to implement its climate targets, including reforms to limit the number of carbon permits available.

The European Union's Emissions Trading System (ETS), which forces manufacturers, power companies and airlines to pay for each tonne of carbon dioxide they emit, is central to EU efforts to cut net greenhouse gas emissions by 55% from 1990 levels by 2030.

To help meet the target the European Commission earlier this month proposed to widen the ETS to include shipping, curb the number of permits given to industry for free and reduce the number of permits in circulation each year at a faster rate than currently.

The proposal would also strengthen the ETS "market stability reserve," which removes excess permits from the market to try to prevent them depressing prices.



MITIGATING RISK - WHAT ARE YOUR OPTIONS DURING THE CURRENT CLIMATE?

FLEXIBLE PURCHASING.

Flexible purchasing can be used for as little as a 12-month period.

However, to fully see the benefits of flexible procurement it is recommended to opt for 3-5 year durations to really be able to take advantage of various factors in the market such as backwardation, where far seasons may be trading much lower than near term due to risk margin affecting the front delivery and we may therefore suggest to start picking off and securing blocks of energy for the back end of the contract and/or middle, well before the near term.

Or the opposite whereby near term are trading very bearish based on current fundamentals and farther out are trading at a premium due to various factors - we may then suggest concentrating on near term purchasing only.

Longer-term also allows for smearing of budgets over the full framework duration, and should a certain period be very volatile and require the need to purchase energy at higher/possible top of the market periods, allows for future lower purchases to balance out.

In addition, it will allow you to take advantage of peaks and troughs in the market by unlocking and relocking purchases (not available for all supplies and is volume dependent). For example, we may make a purchase for Winter 2022 as it seemed attractive at present, but certain drivers and fundamentals take over that so we see this period start to become bearish and can then act on this by selling our purchase back to the market and then locking it back in at a lower point in the market (this does become limited with a short term 12-month framework).

And of course, if the market were to start taking an uptrend with forecasts seemingly suggesting it could continue for some time, we can then revert to locking out the whole contract and effectively changing to a fixed term contract. But we may have at least been able to cherry-pick off some blocks beforehand at below-market rates meaning the flex agreement will still have worked out a more competitive option than a fixed price from the outset.

The other benefits of flexible procurement are due to transparency and reduced supplier risk margin. Because we are purchasing from the wholesale market and normally within delivery, suppliers will have less risk exposure and will therefore typically charge a lower management/risk fee for the flex framework, as opposed to a built-in higher risk margin that would be set within a fixed price contract.

And with the option of non-energy costs passed through on a flexible contract and billed at the prevailing market rate each month, suppliers do not need to add in the extra margin to cover these elements in case there are unanticipated increases set by Ofgem, National Grid, and Government set policies, which would then see the supplier out of pocket upon reconciliation and the main reason for such a large forecasted margin at the start of a fixed offering. This is very relevant at present due to the uncertainty around TCR.

This type of contract and pass-through element also complements our wider 'Advantage 360' service by adding to your procurement with energy consumption monitoring reports via our bespoke portal, Advantage Analytics.

Coupled with an onsite energy audit, we can start to highlight areas of consumption reduction possibilities and/or onsite energy generation products and services (Energy audit report and finance/ROI options will be provided) to tackle certain non-energy costs that makeup 60% of the total cost of your energy bill.

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