January 2018 Newsletter

energy services
BUSINESS POWER LTD

Dear Customer

In December, energy markets reacted to the news that the Forties oil pipeline (also carrying gas) was shut down due to the discovery of a small hairline crack in the pipe. At the same time, an explosion at Austria's main gas terminal halted supplies to several destinations in Eastern and Southern Europe causing gas and electricity prices to spike instantly, although only temporarily.

Main Drivers

- Power & Gas Supply / Demand Balance
- LNG Supply Deliveries
- Financial Speculation & Trading Activity
- Norwegian Plant Maintenance & Outages
- Fluctuating Wind Power Generation
- UK Distribution & Transportation Network Upgrade
- UK Government Environmental Levies (RO/FiT/EMR/CfD & CM)
- UK & European Carbon Prices
- Brexit Negotiations
- UK Gas Winter Storage Levels
- French Nuclear Power Problems

General Comments

Gas prices climbed significantly with the closure of the Forties pipeline, Austrian explosion and forecasts of colder weather as Christmas approached. The most affected prices were the prompt (within day) for this winter with traders already nervous with the closure of the Rough storage facility and the apparent lack of LNG cargoes heading to Europe. The facility was quickly repaired and gas flows resumed however it highlighted the fragility of European prices which returned to near the pre-situation levels.

Electricity prices followed the gas market, due to the reliance on gas fired generation however settled back down to somewhere near the December opening levels. Prompt winter prices were the biggest movers with a colder spell of weather including snow for the UK as the Christmas holidays approached.

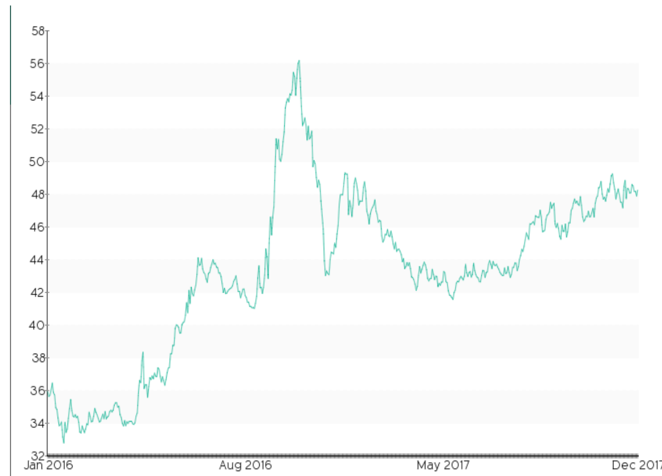
Non-energy costs are still rising which are being reflected in the 2018 renewal prices. Distribution companies are changing their charging methodology which will see a small increase in most customers distribution costs. There are incoming changes as well for KVA (Availability / ASC / Capacity) charges with distributors being able to penalise customers who exceed their demand levels from April 2018. However, the main bulk of rises are again the government renewable levies/taxes which account for approximately 30% of delivered/billed costs. Overall the raw energy part is only estimated at 40% of the bill.

Oil prices looked to be falling at the beginning of December with increasing Shale production in the US and rising doubts about OPECs cuts however following the unexpected shutdown of the North Sea's Forties pipeline, global oil prices found renewed momentum and combined with ongoing geopolitical unrest, including demonstrations in Iran against the regime, rose well above $65.

With coal prices already high, benchmark EU Carbon prices have increased to over 8 Euros per tonne in recent days from a 2017 low of 4.39 Euros, a near 90% increase.

Electricity

Annual Forward Baseload Price (Flat Cost)

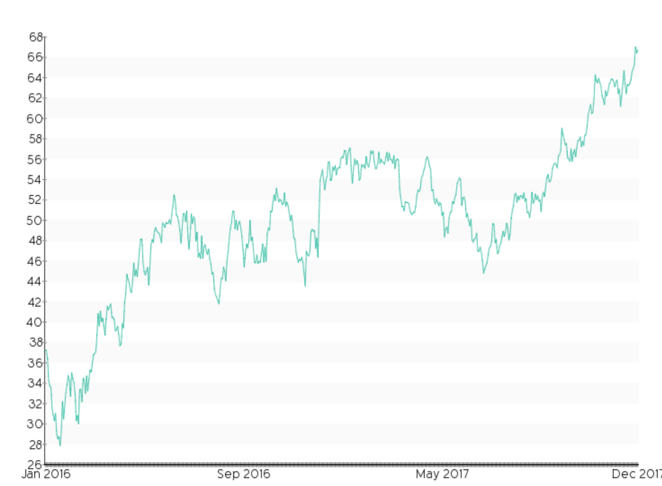


Gas

UK October Gas Year Price (Flat Cost)

Oil

Front Month Price (Brent Crude)



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