

# Energy Wholesale Market Review

Week Ending 6<sup>th</sup> June 2014



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## Contents

Baseload electricity .....	3
Peak electricity.....	3
Seasonal power prices.....	4
Supplier hedging strategies .....	4
Wholesale price snapshot .....	5



## Headlines

Recent trends of below average demand and high supplies continued to suppress power and gas prices this week. Day-ahead gas suffered the largest falls, as further LNG and continental deliveries saw the contract shed 12.2% week-on-week to 37.1p/th, a new four-year low. The reductions resulted in coal becoming the marginal fuel on the system. Along the curve, winter 14 gas dropped 3.1% to a four-year low of 58.9p/th, helping falls in both annual October 14 gas and power. Power contracts followed falls in gas and were also influenced by historic lows for coal prices, day-ahead power hit a new four-year low of £37.7/MWh. In spreads, the annual October 14 clean spark spread was unchanged at £4.6/MWh as gas and power prices both fell at near equal rates, while the annual October 14 clean dark spread lost 4.1% to £16.8/MWh as power prices fell faster than coal. Falls in oil and coal added to bearish trends in power markets, with API 2 coal dropping to a four-year low of \$79.8/t as cheaper US imports continued to enter the European market.

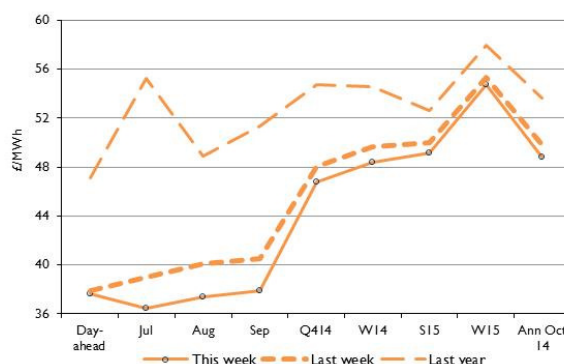
## Baseload electricity

- Below average demand forecasts and large falls in gas contracts influenced long-term power this week.
- Annual October 14 baseload power dropped 2.1% to £48.8/MWh, a record low.
- Day-ahead power fell 0.7% over the week, hitting a new four-year low of £37.7/MWh as falling for gas and coal prices fed into the power market.

### Annual October contract



### Forward curve comparison



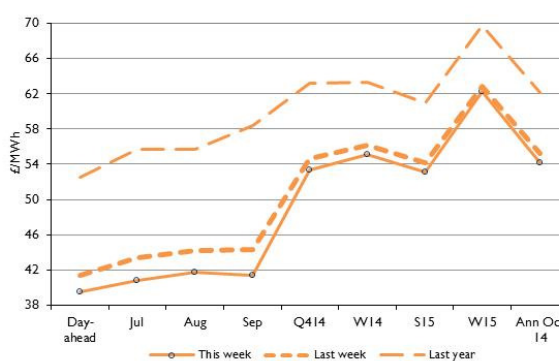
## Peak electricity

- Peak contracts fell to four-year lows this week following falls in baseload contracts and below average demand levels.
- The annual October 2014 peak power contract dropped 1.9% to settle at £54.1/MWh.
- Day-ahead peak electricity fell 4.6% week-on-week to £39.5/MWh, a new four-year low.
- The contract is now 4.6% below last month and 25% lower than last year's value.

### Annual October contract



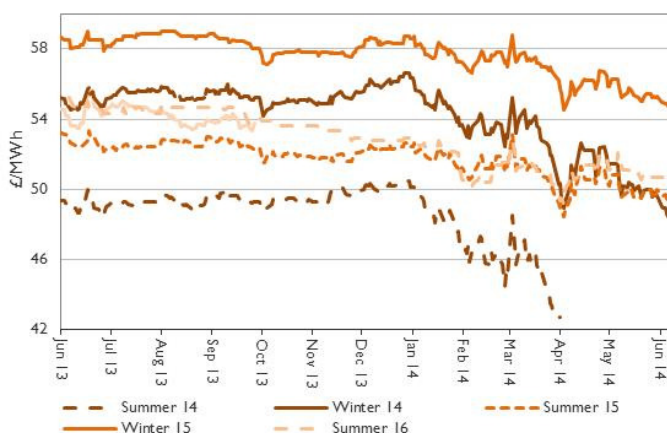
### Forward curve comparison



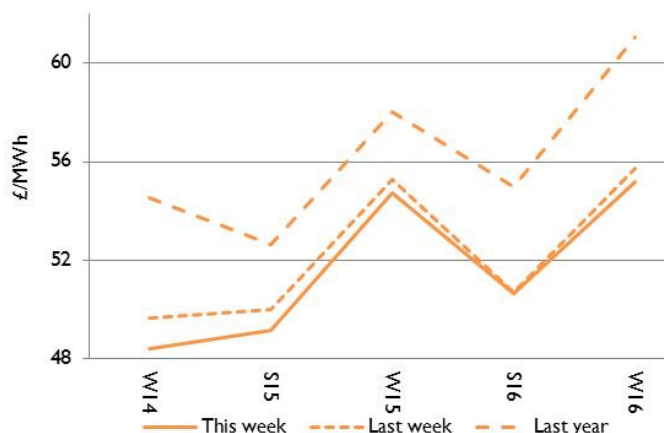


## Seasonal power prices

### Seasonal power contracts



### Seasonal power curve



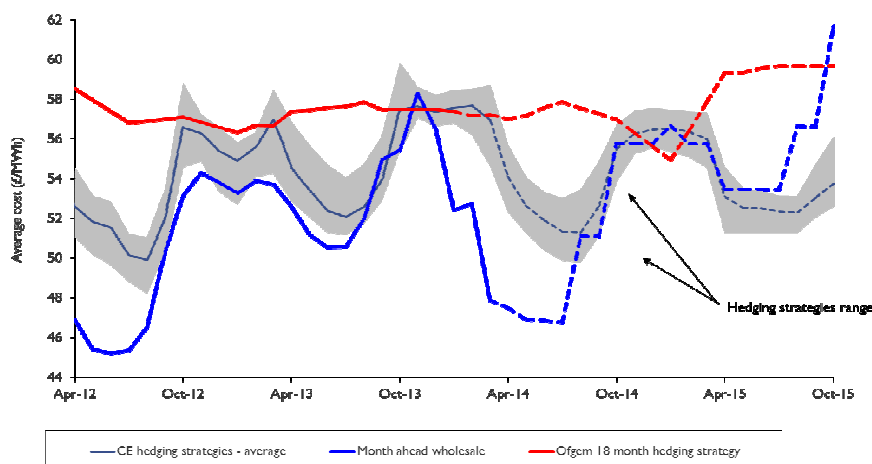
- Falling annual demand figures and record lows for gas created bearish trends for seasonal power contracts this week. Contracts fell 1.3% on average.
- Winter 14 power fell 2.5% to £48.4/MWh, falling below a previous record low set in April.
- Summer 15 power dropped 1.7% to £49.2/MWh. The contract is now 0.9% below last month and 6.1% lower than last year's level.
- The winter 14 contract remains lower than its summer 15 counterpart as high gas supplies and low demand forecasts continue to weigh.

## Supplier hedging strategies

Since the announcement that Ofgem would refer the energy market to the Competition Markets Authority (CMA), a number of companies have expressed concern about the investor sentiment created. Many companies have stated they will stall investment decisions until after the investigation finishes in 2016.

In the shorter-term, falling wholesale prices, resulting from a mild winter reducing demand and keeping gas supplies well above average levels, have led to price falls from many suppliers on a number of domestic tariffs. Month-ahead prices for February, March and April this year averaged £47.7/MWh, 6% below last year's figure of £50.6/MWh.

However, more recently OVO Energy announced on 15 May that the cost of its fixed tariff would increase by 3%. The company said it had finally been forced to raise prices after an increase in both wholesale commodity costs and the cost of supplying energy. OVO's strategy of buying shorter dated contracts has been affected by the recent price spike following conflict in the Ukraine.





## Wholesale price snapshot

Key market indicators:

06/06/2014

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	(\$/t)	(€/t)	(\$/bl)
This week	6 Jun 14	37.10	56.83	37.65	48.78	80.00	5.53	108.98
Last week	30 May 14	42.25	58.53	37.90	49.83	82.45	5.19	109.95
Last month	9 May 14	46.75	59.10	40.20	49.90	82.10	5.21	108.64
Last year	7 Jun 13	60.00	66.31	47.10	53.60	89.30	4.07	103.65
Year-on-year % change		(38%)	(14%)	(20%)	(9%)	(10%)	36%	5%
Year high		71.95	67.90	58.30	54.63	89.30	7.22	116.17
Year low		37.10	56.83	36.50	48.70	80.00	4.00	100.05

This table shows the price this week compared with prices from the previous week, month and year. The graphs show the position of this week's prices with a red X and the range of prices over the year is represented by the black line.



## About EDW Technology Limited

EDW has an extensive history of developing, implementing and supporting its 'best of breed' retail electricity software solutions.

In 2000, EDW began building a revolutionary new electricity software platform to support the rigorous demands of the UK's deregulated electricity supply market – a market characterised by rapidly changing government regulation, business processes, market rules, industry dataflows and customer demands. EDW were founded as a provider of high quality, end-to-end IT services and we have remained true to that aim ever since, servicing a range of companies in the energy industry.

For over 13 years, our software product ERS has empowered business electricity suppliers to transform customer experience, improve business efficiency, reduce costs to serve and improve profitability.

EDW has a UK based team of 85 employees working from the EDW offices in Milton Keynes.

## Industrial and commercial billing specialists

The industrial and commercial electricity supply market has unique business requirements that need to be serviced with a specialised set of IT system capabilities. Sophisticated business customers are willing to actively engage in the management of their energy accounts and solutions need to provide tools that support enhanced service interaction. EDW has gathered an extensive knowledge of the industrial and commercial market sector that enables the delivery of a powerful set of system capabilities essential to your requirements to service this complex and demanding market sector.

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