

Energy Wholesale Market Review

Week Ending 5th September 2014



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Headlines

Power and gas prices remained volatile this week as contracts reacted to positive sentiment surrounding Russia/ Ukraine ceasefire talks and also to the bullish impact of extended nuclear outages. Overall, most contracts rose week-on-week. Annual October 14 power gained 1% to £50.3/MWh as nuclear outages sparked fears for the winter-ahead. Gas contracts also responded, with CCGT plant expected to meet the nuclear shortfall. Day-ahead gas was up 7.5% week-on-week, reaching a four-month high of 49.5p/th on Thursday. Day-ahead power followed higher, and was also affected by three-month lows for wind output. The contract hit a five-month high of £45.4/MWh Tuesday. In spreads, the annual October 14 clean dark spread gained 4.3% to reach £18.2/MWh, its highest level in five-months. Commodities continued to steer clear of volatility. Brent crude oil was down 0.5%, reaching a 15-month low of £101.8/bl as supply factors continued to outweigh global geopolitical tensions. Carbon prices dropped 0.8% to average €6.2/t, and permits fell to a four-week low of €6.1/ on Friday as a lack of news surrounding market reforms caused bearish sentiment.

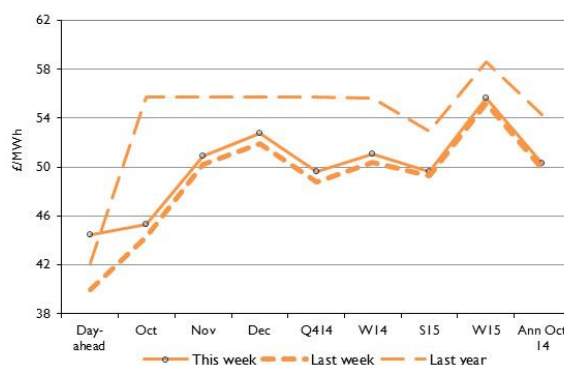
Baseload electricity

- As seasonal power contracts continued to react to Russia/ Ukraine developments and the extension of nuclear outages, annual October 14 power climbed 1% to £50.3/MWh.
- Three-month lows for wind output, as well as rising spot gas prices, helped day-ahead power climb 11.3% week-on-week to £44.5/MWh. The contract hit a five-month high of £45.4/MWh on Tuesday.

Annual October contract



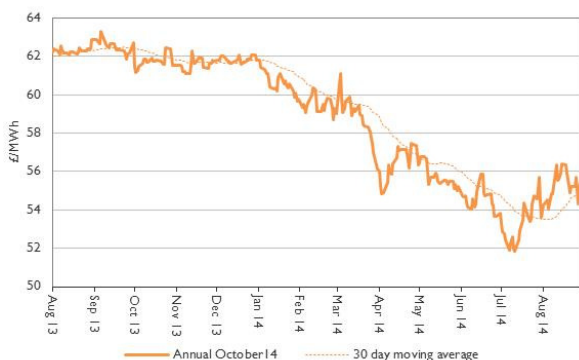
Forward curve comparison



Peak electricity

- Falling capacity margin forecasts for the winter ahead helped boost peak power prices this week. Annual October 14 power climbed 0.6% to £55.8/MWh.
- Low wind output and a tight gas system helped push day-ahead peak power up 12.3% to £48.9/MWh, its highest level since 18 March.

Annual October contract



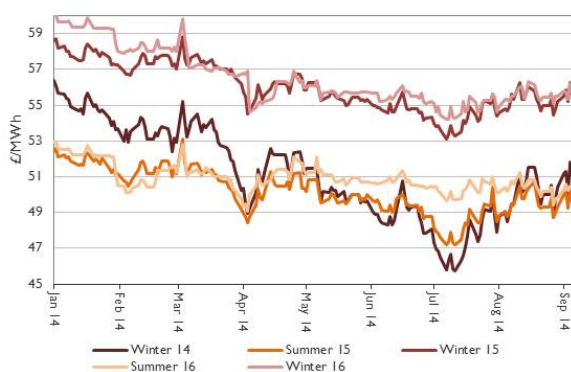
Forward curve comparison



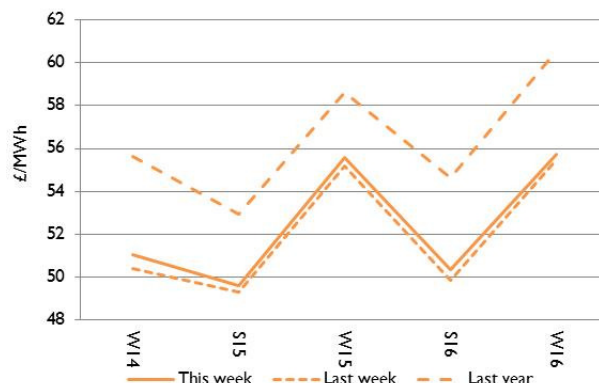


Seasonal power prices

Seasonal power contracts



Seasonal power curve

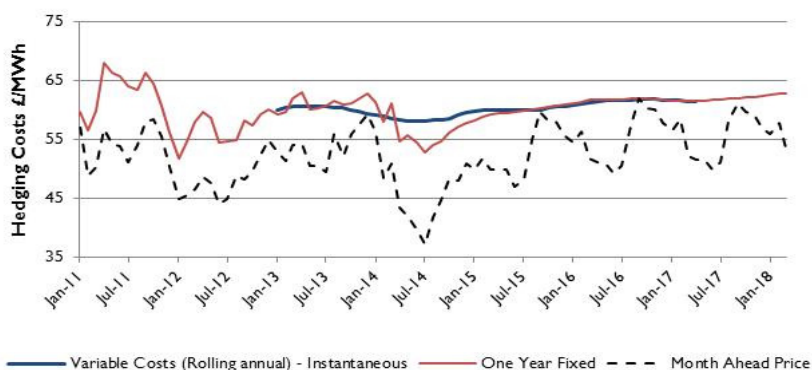


- Seasonal power contracts were influenced by EDF's announcement of extended outages for four of its nuclear reactors. Heysham-1 unit 1 and Hartlepool reactor 1 are now expected back online by November 30.
- Winter 14 power rose 1.3% week-on-week to £51.1/MWh. The contract is now 8.3% below its level last year.
- Summer 15 power gained 0.8% to reach £49.6/MWh.
- Following nuclear outages and fires at Ferrybridge and Ironbridge power stations, National Grid has tendered for winter reserve capacity through the Supplemental Balancing Reserve (SBR).
- National Grid said this was a "precautionary" step, but the move highlights the tightening capacity margins for the winter ahead, which could raise power prices significantly

Supplier hedging strategies

Shorter dated contracts continued to fall through July and into August, however the market was characterised by high levels of volatility. Gas prices gained over 7% from 17 July onwards, as geopolitical tensions reached new levels following the downing of a Malaysian airline and the subsequent sanctions imposed on Russia. On a monthly average basis, power prices in July followed the falls in their gas counterparts, as a well-supplied UK gas system managed to offset Russian supply risks over the month. Month-ahead prices for June, July and 2 weeks of August averaged £36.9/MWh, 21% below last year's figure of £47.0/MWh.

Further out, for long-term prices a number of political and regulatory interventions have been factored into wholesale power prices over the last few months, with the result being a fall in prices. The first policy, the freezing of the carbon price support from 2016, is expected to reduce wholesale prices through lowering costs levied on fossil fuels. It may also allow older coal-fired station to stay on the system longer, benefitting capacity. Secondly, the introduction of contracts for difference (CfD) arrangements from 2016 will facilitate more low carbon generation onto the grid, and with these technologies lower fixed costs is likely to reduce wholesale prices. Also, the introduction of a capacity market, with the first auction set for December this year, is having a downward impact further out, with generators expected to recover less fixed costs through wholesale power prices.





Wholesale price snapshot

Key market indicators:

05/09/2014

	Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
	Day-ahead	Year-ahead	Day-ahead	Year-ahead	(\$/t)	(€/t)	(\$/bl)
This week 5 Sep 14	48.10	57.40	44.50	50.33	77.85	6.10	102.00
Last week 29 Aug 14	44.75	57.71	40.00	49.85	78.75	6.43	102.84
Last month 8 Aug 14	37.50	57.58	35.70	49.48	80.20	5.98	106.49
Last year 6 Sep 13	64.80	66.70	42.20	54.30	83.00	4.94	115.40
Year-on-year % change	(26%)	(14%)	5%	(7%)	(6%)	23%	(12%)
Year high	71.95	67.53	58.30	54.63	87.30	7.22	115.68
Year low	34.70	53.38	34.00	46.48	77.30	4.27	100.83

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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