

Energy Wholesale Market Review

Week Ending 19th September 2014



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Headlines

Once again short and long-term power and gas contracts showed diverging trends this week, as a tight spot gas market and a strong supply picture influenced. Spot contracts surged higher week-on-week, as a tight gas system, following ongoing Norwegian maintenance and higher Belgian exports, pushed prices higher. Day-ahead gas rose 9.7% to 49.3p/th and, as gas fuel returned to dominate power generation, day-ahead power followed higher. The contract climbed 6.6% to £43.1/MWh. In contrast, longer-term contracts were down this week as the lack of development in Russia/ Ukraine tensions switched market focus to the high gas supply picture. Winter 14 power was down 1% to £50.8/MWh. The annual October 14 clean dark spread gained 1.6% to reach £18.5/MWh, a new five-month high, as coal prices fell faster than power. Commodity prices were bearish. Brent crude oil prices remained below \$100/bl this week, dropping 1.2% to average \$97.8/bl, while carbon prices were down 4.4% to average \$5.9/t. API 2 coal prices dropped to a new four-year low of \$76.5/t as global oversupply concerns increased following China's import ban on low grade coal.

Baseload electricity

- Annual October 14 power shed 0.6% to £50.2/MWh and followed falls in long-term coal and gas prices. The contract is now 1.2% above its level a month ago.
- As gas fuel returned to dominate electricity generation once more this week, spot power prices followed the rises in gas. Day-ahead power climbed 6.6% to £43.1/MWh.

Annual October contract



Forward curve comparison



Peak electricity

- The annual October 14 peak contract lost 0.5% to £55.6/MWh on lower demand forecasts. The contract is now 0.7% higher than last month, but 11% below last year's level of £62.3/MWh.
- Rising spot gas prices fed into baseload and peak electricity markets and day-ahead peak power rose 8.2% to £46.3/MWh.

Annual October contract



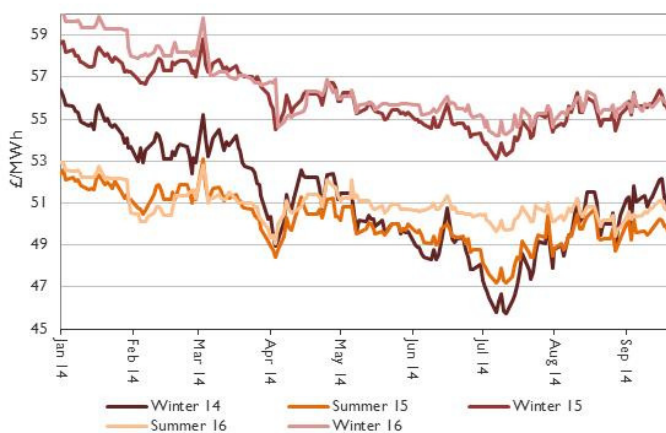
Forward curve comparison



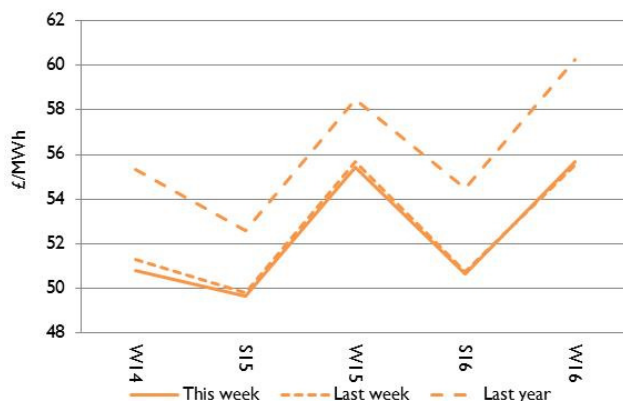


Seasonal power prices

Seasonal power contracts



Seasonal power curve

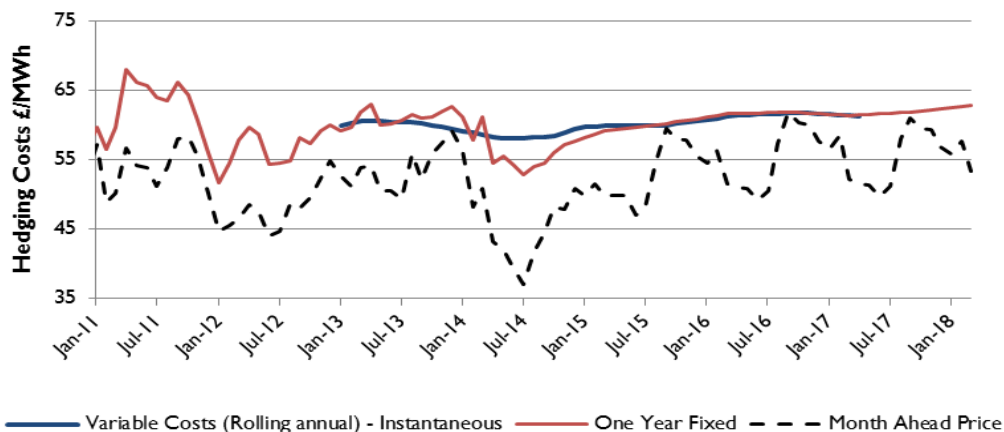


- Seasonal power contracts followed the falls in gas and were also impacted upon by new four-year lows for coal prices.
- Winter contracts were down 0.4% on average, with winter 14 power falling 1% week-on-week to £50.8/MWh. The contract is now 8.2% below its level last year (£55.3/MWh).
- Summer 15 power lost 0.3% to £49.7/MWh and the contract is now 5.6% below last year's level of £52.6/MWh.
- With the announcement that Scotland had voted to stay in the United Kingdom, an element of political risk has been taken out of the market. Wholesale prices may edge lower as a result.

Supplier hedging strategies

August and the start of September set new trends in the market, as contracts saw month-on-month rises for the first time since February. Security of supply fears have captured market focus over the past six-weeks, with continuing fears over Russian gas supplies and extensions to outages for 3GW of GB nuclear capacity influencing recent rises. Winter 14 power hit £52.2/MWh on 16 September, a five-month high. Despite the rises, month-ahead power prices for August and September have averaged 13% below last year's figure of £47.9/MWh, at £41.7/MWh.

Winter 14 contracts, as expected, have been the most reactive to recent market changes. Further out along the curve, prices continue to factor in a number of political and regulatory interventions. The freezing of the carbon price support from 2016 continues to dampen wholesale prices along the curve, with it expected to reduce prices through lowering costs levied on fossil fuels. It may also allow older coal-fired station to stay on the system longer. Secondly, with Scotland voting to remain part of the UK, a factor in recent higher levels of political risk in the market has been reduced. Wholesale prices may factor this in. However, key risks of political change through the 2015 election and outcomes of the CMA investigation remain.





Wholesale price snapshot

Key market indicators:

19/09/2014

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	(\$/t)	(€/t)	(\$/bl)
This week	19 Sep 14	49.25	57.40	43.10	50.23	76.50	5.99	97.45
Last week	12 Sep 14	44.90	57.75	40.45	50.55	77.75	6.10	98.37
Last month	22 Aug 14	41.80	57.38	36.35	49.65	79.20	6.39	102.37
Last year	20 Sep 13	65.85	65.78	51.00	53.97	84.60	5.37	108.94
Year-on-year % change		(25%)	(13%)	(15%)	(7%)	(10%)	12%	(11%)
Year high		71.95	67.53	58.30	54.63	87.30	7.22	115.20
Year low		34.70	53.38	34.00	46.48	76.50	4.27	96.49
<p>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.</p>		74	68	60	56	88	8	116
		70	64	56	54	86	7	112
		66	60	52	52	84	6	108
		62	56	48	50	82	5	104
		58	52	44	48	80	4	100
		54	48	40	46	78		96
		50	44	36	44	76		
		46	40	32	42			
		42	36		40			
		38	32		38			
		34	28		36			



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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