Energy Wholesale Market Review

Week Ending 18th September 2015

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Headlines 18/09/2015

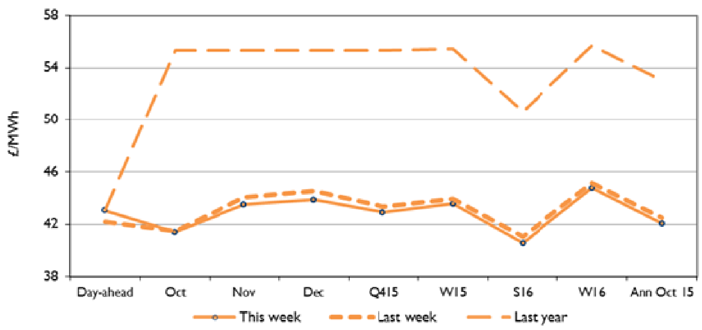
A subdued commodity environment continued to apply downwards pressure to power and gas prices this week. Long-term gas contracts were weighed on by lower oil prices, with winter 15 gas dropping 1.9% to 43.4p/th. Meanwhile, day-ahead gas slipped 1.2% to 41.0p/th as higher Norwegian and UKCS supplies (+19.5%) offset greater demand. Long-term power contracts followed gas and coal prices down, with winter 15 power trimming 0.9% to £43.6/MWh. In contrast, day-ahead power rose 2.0% to £43.1/MWh, as higher demand (+3.4%) and decreased wind generation at the end of the week boosted prices. Brent crude oil fell 0.7% to average $48.3/bl amid weakening Asian stock markets and OPEC members backing the group's decision to maintain high production levels to protect market share. API 2 coal dropped 1.4% to $51.0/t as reducing global demand caused prices to slide further. EU ETS carbon prices were relatively stable, decreasing 0.1% to €8.2/t.

Baseload electricity

- Annual October 15 power dropped 1.1% to £42.1/MWh this week.
- The contract fell following declines in the annual gas contract (-1.9%) and lower coal prices (-1.4%).
- Prices are expected to remain low unless there's a significant improvement in the commodity background.
- Most power contracts along the forward curve moved lower this week, except for the day-ahead contract.
- Day-ahead power lifted 2.0% to £43.1/MWh, as higher demand (+3.4%) and decreased wind generation at the end of the week boosted prices.

Annual October contract

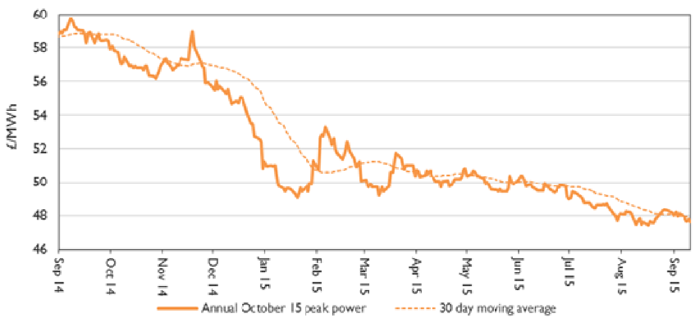
Forward curve comparison



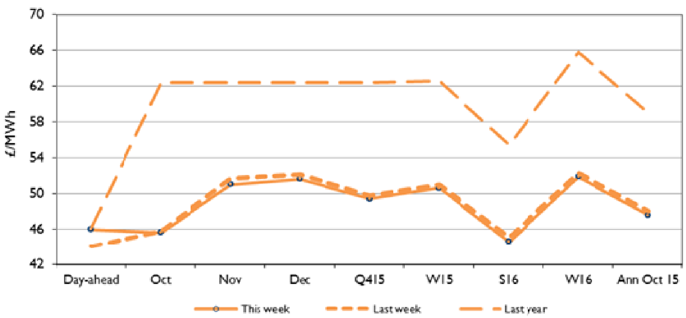
Peak electricity

- The annual October 15 peak power contract dropped 1.0% this week to £47.6/MWh.
- The contract followed its corresponding baseload power contract down, and was also weighed on by lower gas prices.
- The contract is now 19.3% under its value last year (£59.0/MWh).
- Most peak power contracts decreased further this week.
- Winter 15 peak power was down 0.8% to £50.7/MWh.
- In contrast, the day-ahead peak power contract rose 4.3%, following its baseload counterpart higher. In addition, average peak power demand lifted 4.2% to 38.4GW.

Annual October contract

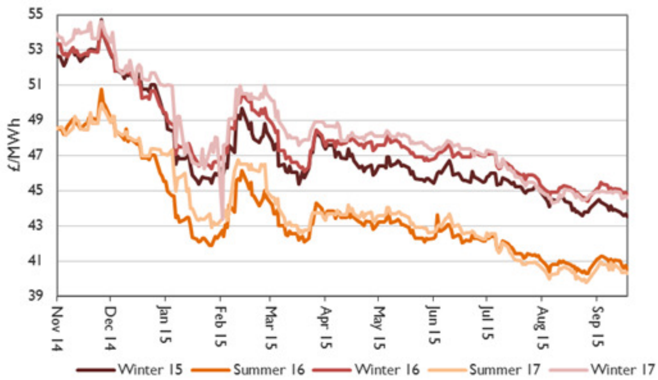


Forward curve comparison

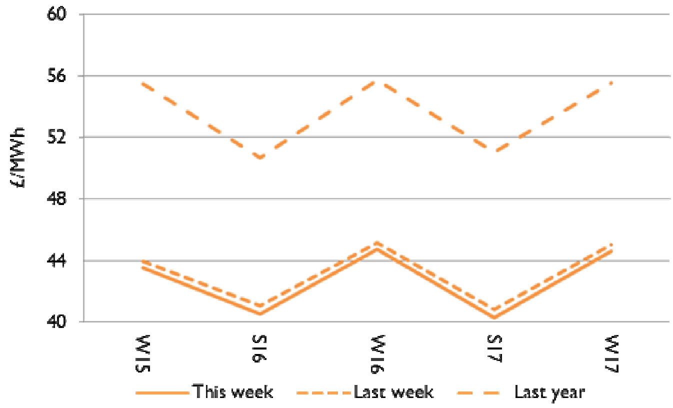


Seasonal power prices

Seasonal power contracts



Seasonal power curve



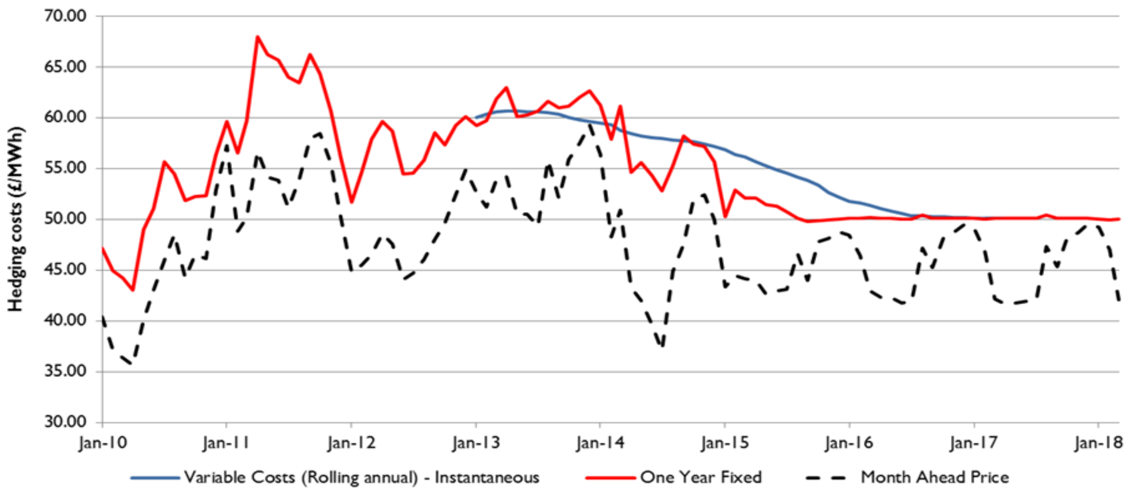
- All seasonal power contracts decreased this week, weighed on by a fall in gas and coal prices.
- Winter 15 power slipped 0.9% to £43.6/MWh, and is now 21.5% under its value last year (£55.5/MWh).
- Power contracts are likely to remain low unless there are significant improvements in the commodity background.
- Summer 16 power fell 1.2% to £40.6/MWh, and is now 19.9% below its value last year £50.7/MWh.
- Drops in seasonal contracts averaged 1%.
- Some backwardation can be seen in the market, with the winter 17 contract now lower than the winter 16 contract, and the summer 17 contract less than the summer 16 contract.

Supplier hedging strategies

The annual October 15 power contract averaged £42.4/MWh in August, down 2.6% from the July average of £43.5/MWh. Decreasing prices were driven by a decline in its correspond in gas contract and continued falls in coal prices. Annual October 15 gas fell 5.4% to 42.2p/th in August, while coal prices decreased 7.0% to average $53.8/t.

There were 31 price changes to fixed domestic dual-fuel tariffs in August. Of these, 20 were reductions and 11 were increases. Some notable tariff rises were seen at npower (+5.9%), First Utility (+1.3%, +2.7% and +8.9%) and Scottish Power (+2.1%). Notable decreases were in tariffs belonging to npower (-2.2%), Peterborough Energy (-3.4%), Southend Energy (-3.4%), Extra Energy (-4.6%), First Utility (-4.2%) and British Gas (-2.4%).

Decreased annual power and gas contracts have allowed suppliers to offer a greater number of lower fixed term deals. Those now offering lower prices, are more likely to be shorter-hedged, and therefore able to pass on any contract price reductions through their tariffs. Other supplier tariffs are likely to be hedged in the longer-term.

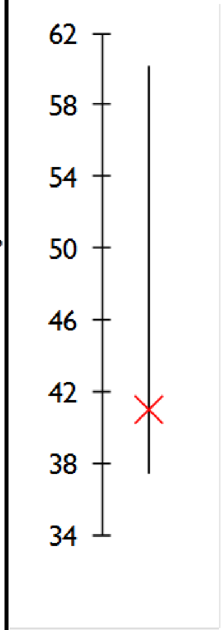


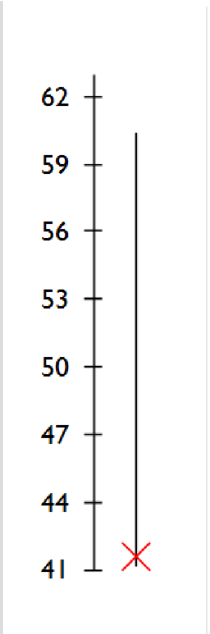
Wholesale price snapshot

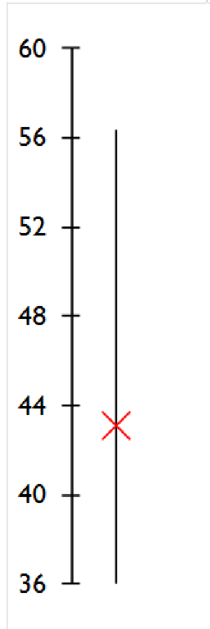
Key market indicators: 18/09/2015

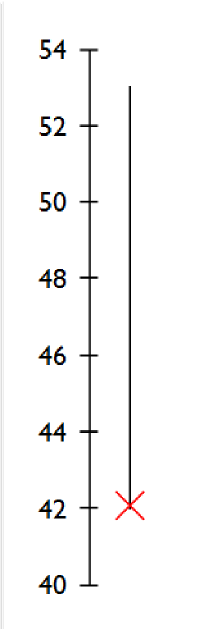
		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	($/t)	(€/t)	($/bl)
This week	18 Sep 15	41.00	41.55	43.05	42.05	51.00	8.21	49.71
Last week	11 Sep 15	41.50	42.34	42.20	42.50	52.00	8.27	47.94
Last month	21 Aug 15	38.00	41.75	38.70	42.23	52.60	8.36	46.37
Last year	19 Sep 14	49.25	60.22	43.10	53.05	76.50	5.99	97.45
Year-on-year % change		(17%)	(31%)	(0%)	(21%)	(33%)	37%	(49%)
Year high		60.20	60.34	56.30	53.05	76.50	8.36	97.72
Year low		37.35	41.18	36.00	41.98	50.70	5.66	43.33

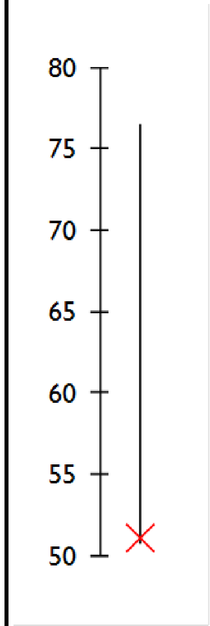
This table shows the price this week compared with prices from the previous week, month and year. The graphs show the position of this week's prices with a red X and the range of prices over the year is represented by the black line.

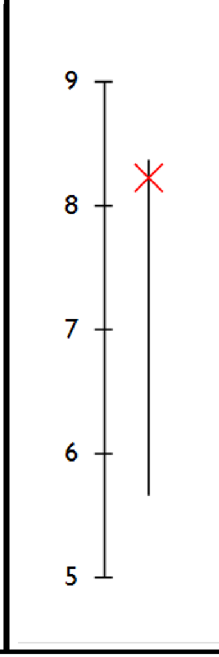


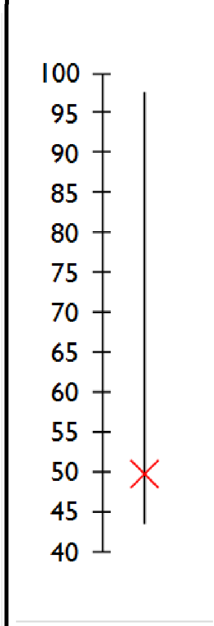












About EDW Technology Limited

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 14 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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