

# Energy Wholesale Market Review

Week Ending 4<sup>th</sup> December 2015



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## Contents

<b>Baseload electricity.....</b>	<b>3</b>
<b>Peak electricity.....</b>	<b>3</b>
<b>Seasonal power prices.....</b>	<b>4</b>
<b>Supplier hedging strategies .....</b>	<b>4</b>
<b>Wholesale price snapshot .....</b>	<b>5</b>
<b>About EDW Technology Limited .....</b>	<b>6</b>



## Headlines 04/12/2015

Annual power and gas contracts were relatively stable this week. Annual April 16 gas fell 0.3% to 37.2p/th as pressure from lower oil prices outweighed the prospect of tighter supply margins in 2016. In contrast, annual April 16 power lifted 0.7% to £39.3/MWh despite falls in commodity prices. Spot power and gas prices showed diverging movements. Day-ahead gas rose 1.6% to 37.4p/th as reduced supplies to the UK (-11.5%) outweighed lower demand. Day-ahead power declined 0.8% to £37.7MWh as higher wind generation (+25.8%), rising temperatures (+40.8%) and lower power demand (-3.5%) weighed on prices. Brent crude oil slid 2.4% to average \$44.0/bl, reaching a fresh six-year low of \$43.23/bl on Friday. OPEC met on 4 December, with sources saying the oil cartel will maintain their high output strategy, potentially keeping prices low. API 2 coal fell 0.7% this week to average \$45.9/t, hitting a new low of \$45.3/t on Thursday, as global oversupply continued.

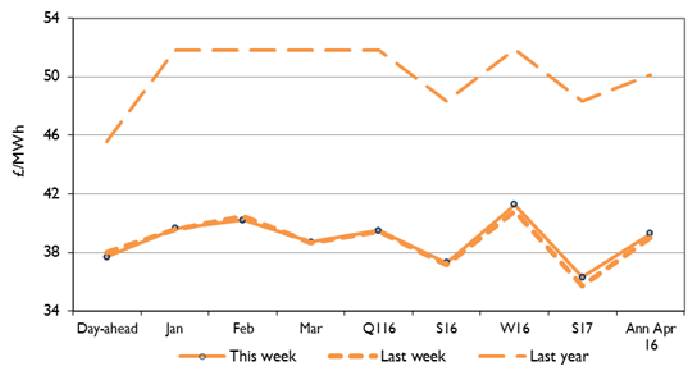
### Baseload electricity

- Annual April 16 power lifted 0.7% to £39.3/MWh.
- The contract climbed despite falls in commodity prices, with both coal and gas experiencing losses this week.
- However, prices are expected to remain low. DECC have recently revised their power price forecast down, with prices to 2020 now forecast 10% lower than previously.
- Contracts in the front quarter showed mixed movements this week.
- Day-ahead power declined 0.8% to £37.7MWh as higher wind generation (+25.8%), rising temperatures (+40.8%) and lower power demand (-3.5%) weighed on prices. However, a rise in spot gas prices limited falls.
- The month-ahead contract rose to £39.7/MWh.

#### Annual April contract



#### Forward curve comparison



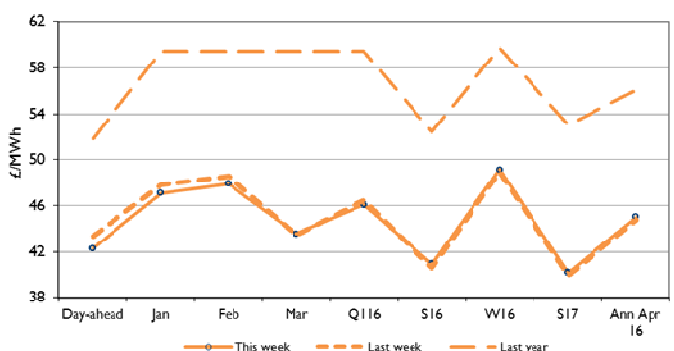
### Peak electricity

- Annual April 16 peak power edged up 0.6% this week to £45.0/MWh. The contract is now 19.7% under its level last year (£56.1/MWh).
- Summer 16 peak power was up £0.7% to £40.9/MWh and the winter 16 contract climbed 0.4% to £49.2/MWh.
- Most peak power contracts in the front quarter decreased this week. The day-ahead contract was down 2.4% to £42.3/MWh as average daily peak demand dropped 2.5% from last week.
- In addition, forecast temperatures climbed (+40.8%) and wind generation increased (+25.8%).

#### Annual April contract



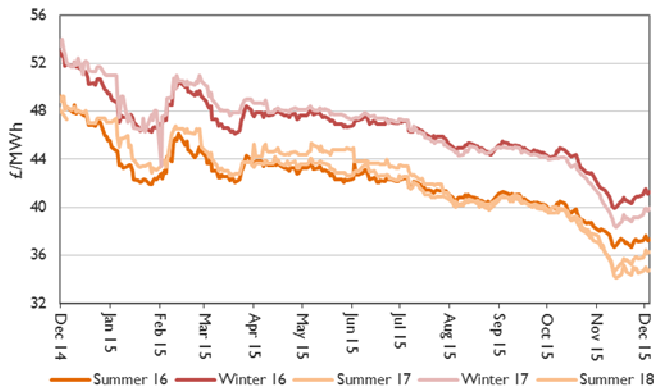
#### Forward curve comparison



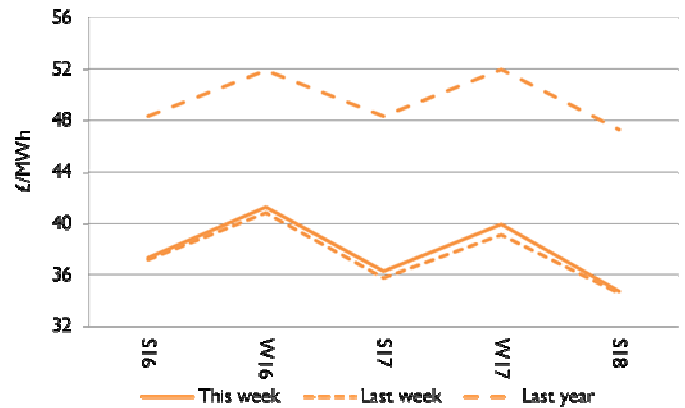


## Seasonal power prices

### Seasonal power contracts



### Seasonal power curve



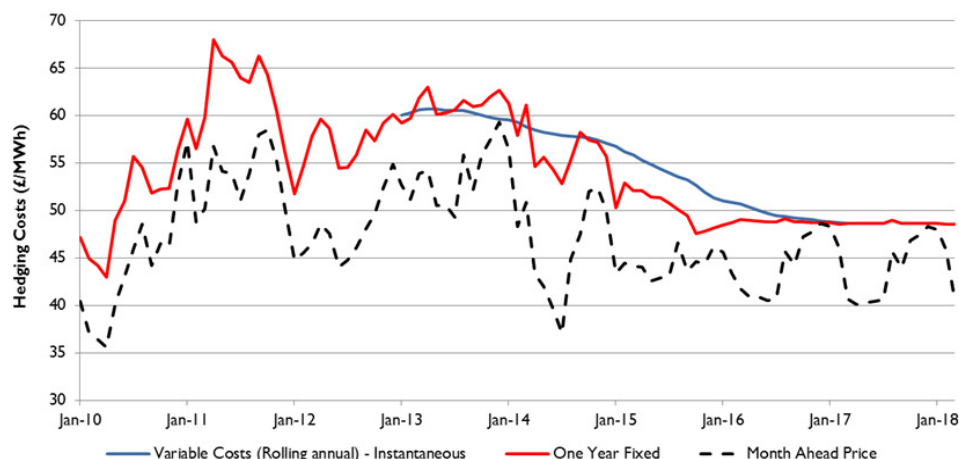
- All seasonal power contracts rose this week.
- Summer 16 power gained 0.4% to £37.3/MWh, 22.9% lower than the value last year.
- The winter 16 contract increased 1.0% to £41.3/MWh and the summer 17 contract climbed 1.5% to £36.3/MWh.
- Commodity prices have remained the principle driver of power contracts, which were mostly supported by seasonal gas prices this week.
- Backwardation remains in the power market at present, with longer-term contracts lower than those in the shorter term.
- The summer 18 contract (£34.8/MWh) is lower than summer 17 and summer 16 contracts (£36.3/MWh and £37.3/MWh respectively).
- DECC have recently revised their power price forecast down, with prices to 2020 now forecast 10% lower than the 2014 estimate.

## Supplier hedging strategies

The annual April 16 power contract averaged £41.7/MWh in October, down 2.6% from the September average of £42.8/MWh. The contract reached a record low of £40.5/MWh at the end of the month. Price movements were largely driven by its correspond gas contract and continued falls in coal prices. Annual April 16 gas fell 4.7% to 40.5p/th in October. Coal prices slid 5.2% in October to average \$48.3/t, and hit a low of \$47.2/t on 22 October.

There were 44 price changes to fixed domestic dual-fuel tariffs in October. Of these, 35 were reductions and 9 were increases. Some notable tariff decreases were seen at Zog Energy (-4.1% and -6.7%), npower (-4.2% and -9.1%), First Utility (-3.2% and -1.3%), Go Effortless Energy (-5.2%), Southend Energy (-3.0% and -2.9%) and Ovo Energy (-1.5%, -1.6%, -2.1% and -2.2%). Notable rises were in tariffs belonging to Peterborough Energy (+5.5%), First Utility (+4.4%) and Sainsbury's Energy (+9.0%).

Sustained low annual power and gas contracts have continued to allow 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:

04/12/2015

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	(\$/t)	(€/t)	(\$/bl)
This week	4 Dec 15	37.40	37.16	37.70	39.28	45.65	8.54	43.23
Last week	27 Nov 15	36.80	37.25	38.00	39.00	46.65	8.64	45.22
Last month	4 Nov 15	36.95	37.94	40.32	39.90	49.05	8.44	50.72
Last year	5 Dec 14	55.60	55.21	45.55	50.12	70.90	6.74	69.18
Year-on-year % change		(33%)	(33%)	(17%)	(22%)	(36%)	27%	(38%)
Year high		55.85	55.69	47.00	50.28	70.90	8.64	69.18
Year low		33.40	35.59	35.04	38.30	45.30	6.33	43.23

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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