



# Energy Wholesale Market Review

Week Ending 26<sup>th</sup> January 2018



**edw** technology

**EDW House, Radian Court, Knowlhill, Milton Keynes, MK5 8PJ.**

**Phone:** +44 (0)8448 802 489  
**Email:** [info@edwtech.com](mailto:info@edwtech.com)  
**Website:** [edwtech.com](http://edwtech.com)



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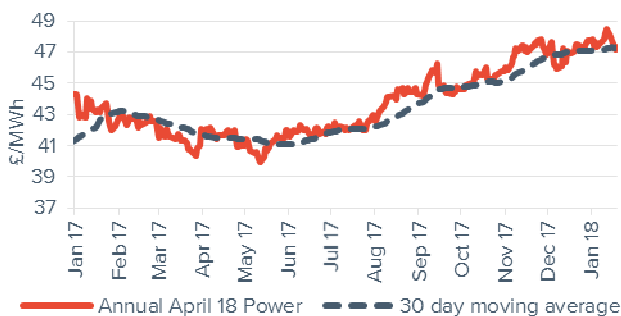
## Headlines 26/01/2018

This week saw continued bearish movement across all gas and power contracts. Day-ahead power slipped 1.8% to £48.1/MWh, driven lower by weakening demand across the week. All near-term peak power contracts declined this week. Day-ahead peak power dropped 1.9% to £52.0/MWh. Bearish movement was observed across all near-term gas contracts. Downwards movement stemmed from above average temperatures throughout the week, which eased demand. Seasonal gas, baseload power and peak power contracts all experienced losses, like the previous week. EU ETS carbon prices grew 12.9% to average €9.2/t, and on 25 January prices reached €9.4/t, a six-year high. It has been suggested that the driver behind this is due to new speculators in the market forward trading buying allowances, and assuming tighter supplies in the future. Brent crude oil prices grew 1.0% to average \$70.1/bl throughout the week. On 25 January, prices reached a three-year high (\$70.9/bl). Comments by the Russian and Saudi Arabian Energy Ministers suggesting an extension to production cuts beyond 2018 supported prices. Baseload power contracts experienced bearish activity last week. API 2 coal prices continued to fall, lowering 3.7% to average \$87.6/t. Prices have been influenced by a continued decline in European demand across the week, amid high carbon prices.

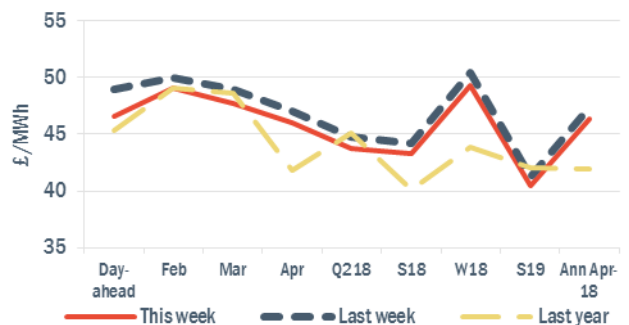
### Baseload electricity

- Baseload power experienced bearish activity this week.
- Day-ahead power slipped 1.8% to £48.1/MWh. Prices were driven lower by weakening demand across the week.
- The month-ahead (February) contract lowered 1.8% to £49.1/MWh. The contract is now 9.7% below its level a month ago (£54.4/MWh).
- The annual April 18 power contract fell 2.2% to £46.3/MWh.

#### Annual April contract



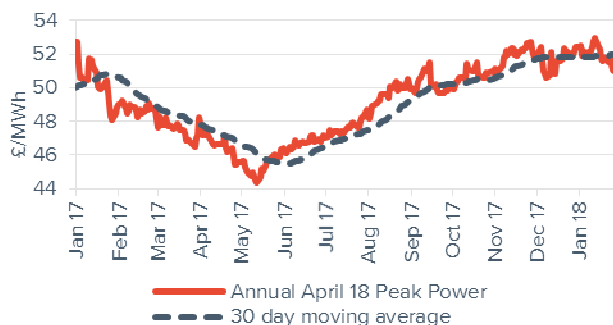
#### Forward curve comparison



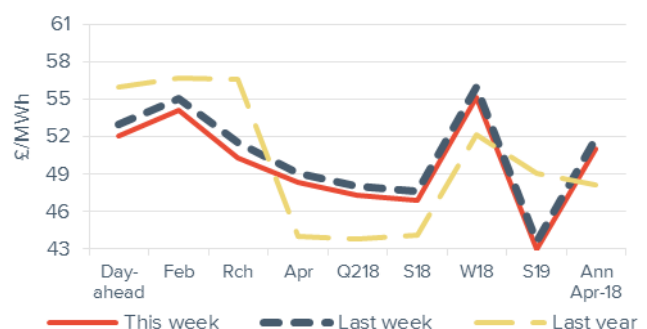
### Peak electricity

- All near-term peak power contracts declined this week.
- Day-ahead peak power dropped 1.9% to £52.0/MWh. The contract ended the week £3.9/MWh higher than its baseload counterpart.
- The month-ahead (February) contract lost 1.6% to £54.1/MWh. The contract finished the week £5.0/MWh higher than its baseload counterpart.
- Annual April 18 peak power dropped 1.5% to £51.0/MWh. The contract was £4.7/MWh above its baseload power counterpart.

#### Annual April contract



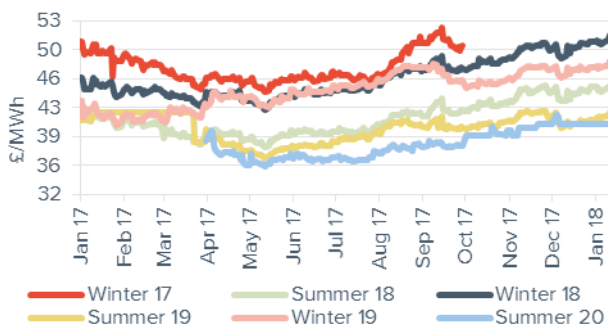
#### Forward curve comparison



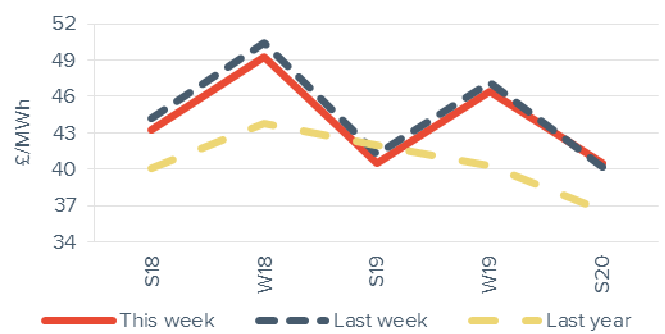


## Seasonal power prices

### Seasonal baseload power contracts



### Seasonal baseload power curve



- Seasonal power contracts experienced losses across the week.
- Summer 18 baseload power decreased 2.0% to £43.3/MWh. The winter 18 contract dropped 2.3% to £49.3/MWh.
- Seasonal peak power contracts subsided this week
- Summer 18 and winter 18 contracts declined 1.5% and 1.6% to £46.9/MWh and £55.1/MWh.

## Supplier hedging strategies

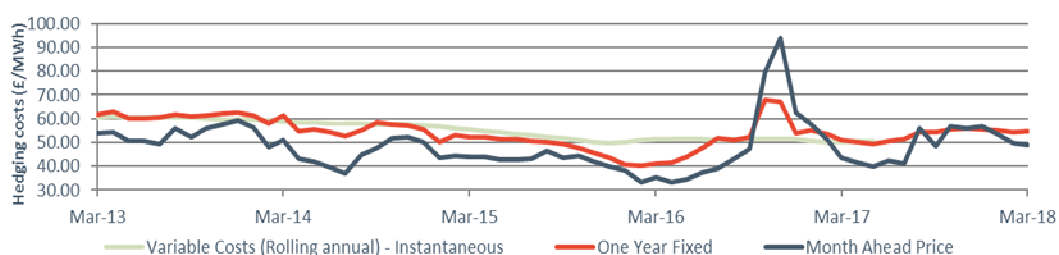
Throughout December near-term power and gas contracts experienced gains, with day-ahead gas reaching a four-year high, while its power equivalent hit a six-month high. Brent crude oil, API 2 coal and EU ETS carbon prices all reached multi-year highs.

The annual April 18 gas rose 0.4% to 53.4p/th throughout December. Meanwhile, the annual April 18 power contract dipped 0.2% to £46.9/MWh. Brent crude oil prices lifted 1.5% to average \$63.7/bl throughout the month, while API 2 coal prices lifted 3.6% to average \$88.2/t. After six bullish months of growth EU ETS carbon prices declined 2.2% to average €7.4/t.

During December, the price changes seen to fixed domestic dual-fuel tariffs were predominantly gains. 26 of the price changes were increases, whereas eight were decreases. The highest price increase was Scottish Power's "Help Beat Cancer Fixed Price Energy Jan20v2 Online" tariff which grew 20.3% to £946/year. In contrast, the largest price decrease was also Scottish Power's, their "Online Fixed Saver January 2019" tariff, which fell by 4.8% to £1,022/year.

The one-year fixed price shown below (red line) provides a fixed hedging cost for one year from the month after the month in question, based on the forward curve. This measure is used to create a benchmark for fixed tariff offers put into the market by suppliers. The instantaneous price (green line) is representative of the hedging strategies of large suppliers, which typically purchase energy little and often to be consumed in a future period. Therefore, the instantaneous price shows a 'longer-hedged' strategy of buying power up to the current date, whereas the red line shows a 'shorter-hedged' strategy for a 12-month period looking forwards.

Between the start of 2015 and July 2016, it was cheaper to use the shorter-hedged strategy as wholesale power prices have steadily declined. Since July 2016, the longer-hedged strategy has been cheaper, however both strategies are converging and close to overlapping again, which can be seen in the graph.

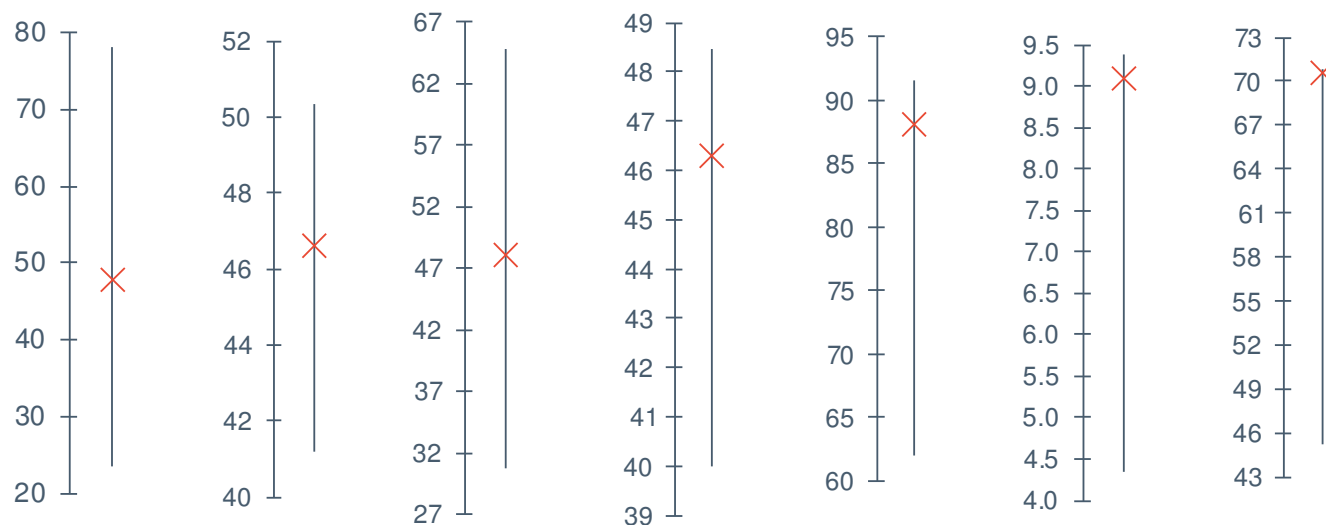




## Wholesale price snapshot

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	(\$/t)	(€/t)	(\$/bl)
This week	26 Jan 18	48.00	46.60	48.05	46.30	88.00	9.09	70.56
Last week	19 Jan 18	50.00	48.18	48.95	47.33	91.00	8.62	69.73
Four weeks ago	29 Dec 17	55.00	49.08	53.55	47.75	89.50	8.20	66.43
Last year	27 Jan 17	51.10	45.33	49.25	41.95	64.50	5.07	55.60
Year-on-year % change		-6.1%	2.8%	-2.4%	10.4%	36.4%	79.3%	26.9%
Year high		78.00	50.32	64.75	48.45	91.50	9.37	70.79
Year low		23.50	41.17	30.75	39.98	62.00	4.34	45.15

This table shows the prices this week compared with prices from the last week, month and year. The graphs show the position of last 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 17 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.

### EDW Technology Limited

EDW House

Radian Court

Knowlhill

Milton Keynes

MK5 8PJ

UK

Tel: +44 (0) 8448 802 489

Fax: +44 (0) 8448 802 487

Website: [www.edwtech.com](http://www.edwtech.com)

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