



# Energy Wholesale Market Review

Week Ending 2<sup>nd</sup> February 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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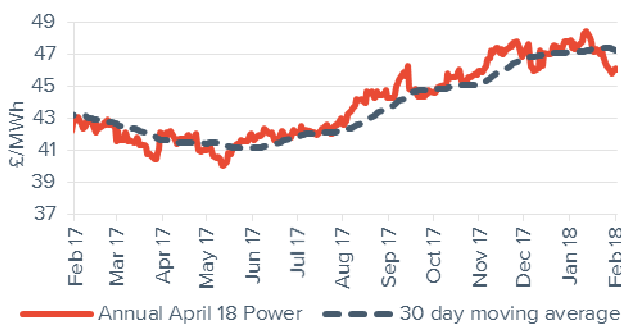
## Headlines 02/02/2018

Most near-term gas and power contracts experienced gains this week, while seasonal contracts declined. Commodity prices also subsided throughout the week. Day-ahead power rose 6.7% to £51.3/MWh, driven higher by a rise in its gas counterpart. Nuclear plants were also at reduced capacity amid planned maintenance, adding upwards pressure to prices. Near-term gas contracts experienced growth after a period of sustained losses. Day-ahead gas rose 8.3% to 52.0p/th. Prices were bullish with gains occurring mid-week amid forecasts of colder weather. Prices also experienced gains amid National Grid increasing their near-term gas demand forecasts. Seasonal gas, baseload power and peak power contracts all experienced losses, similar to the previous week. Brent crude oil prices lost 1.0% to average \$69.4/bl throughout the week. OPEC efforts to cut production have been undermined across the week amid strong output from the US and Canada. API 2 coal prices continued to fall this week, lowering 2.3% to average \$85.6/t. Despite strong demand for coal in northern-China, weakening demand across the country weighed on prices. EU ETS carbon prices declined 1.4% to average €9.0/t. Prices lowered amid weak auction results and weakening coal demand across Europe. Prices may have additionally become bearish as speculators start selling their positions to lock in profits after recent highs.

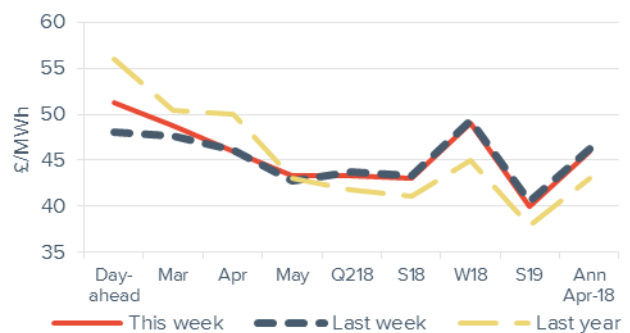
### Baseload electricity

- Near-term baseload power contracts experienced bullish activity this week.
- Day-ahead power rose 6.7% to £51.3/MWh. Prices were driven higher, taking direction from gas prices.
- The month-ahead (March) contract gained 2.4% to £48.8/MWh. The contract is now 2.0% below its level a month ago (£49.8/MWh).
- The annual April 18 power contract lost 0.6% to £46.0/MWh.

#### Annual April contract



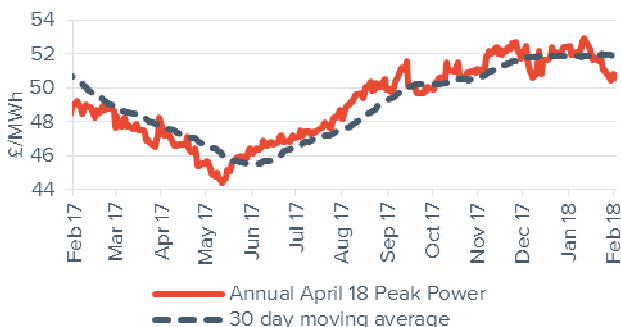
#### Forward curve comparison



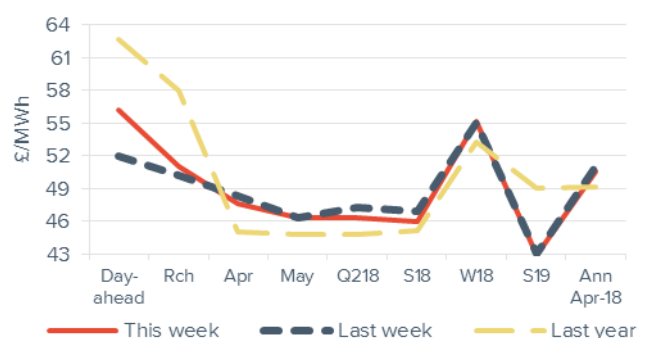
### Peak electricity

- The majority of near-term peak power contracts grew this week.
- Day-ahead peak power increased 8.2% to £56.3/MWh. The contract ended the week £5.0/MWh higher than its baseload counterpart.
- The month-ahead (March) contract lifted 1.5% to £51.0/MWh. The contract finished the week £2.2/MWh higher than its baseload counterpart.
- Annual April 18 peak power fell 0.8% to £50.6/MWh. The contract was £4.6/MWh above its baseload power counterpart.

#### Annual April contract



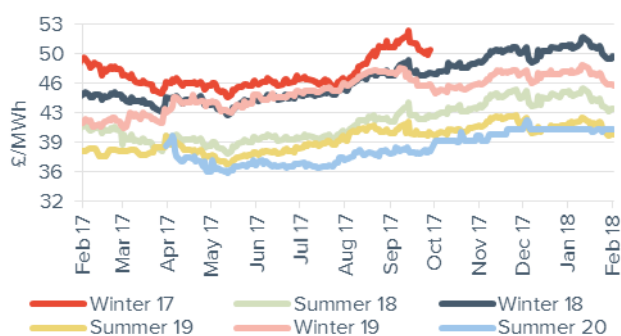
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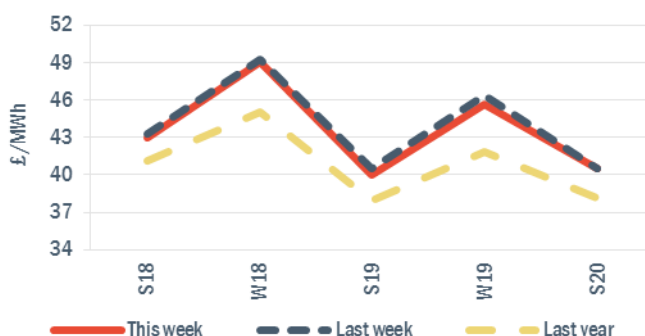


## Seasonal power prices

### Seasonal baseload power contracts



### Seasonal baseload power curve



- Seasonal power contracts experienced losses across the week, with the largest losses experienced on the far-curve.
- Summer 18 baseload power decreased 0.7% to £43.0/MWh. The winter 19 contract declined 1.5% to £45.7/MWh.
- Most seasonal peak power contracts subsided this week.
- Summer 18 and winter 19 contracts declined 1.9% and 1.7% to £46.0/MWh and £52.3/MWh, respectively.

## Supplier hedging strategies

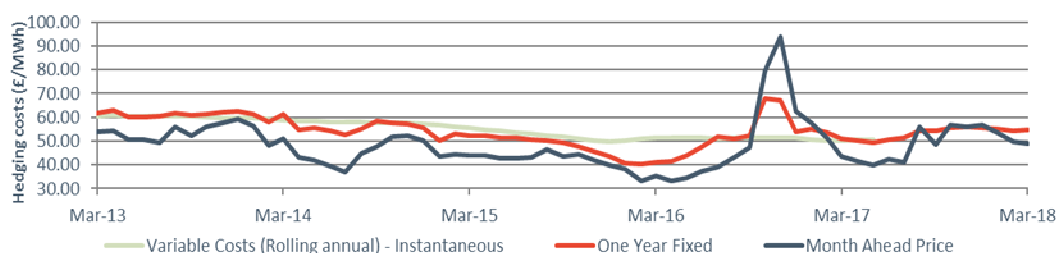
Throughout December near-term power and gas contracts experienced gains, with day-ahead gas reaching a four-year high, while its power equivalent hit a six-month high. Brent crude oil, API 2 coal and EU ETS carbon prices all reached multi-year highs.

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.

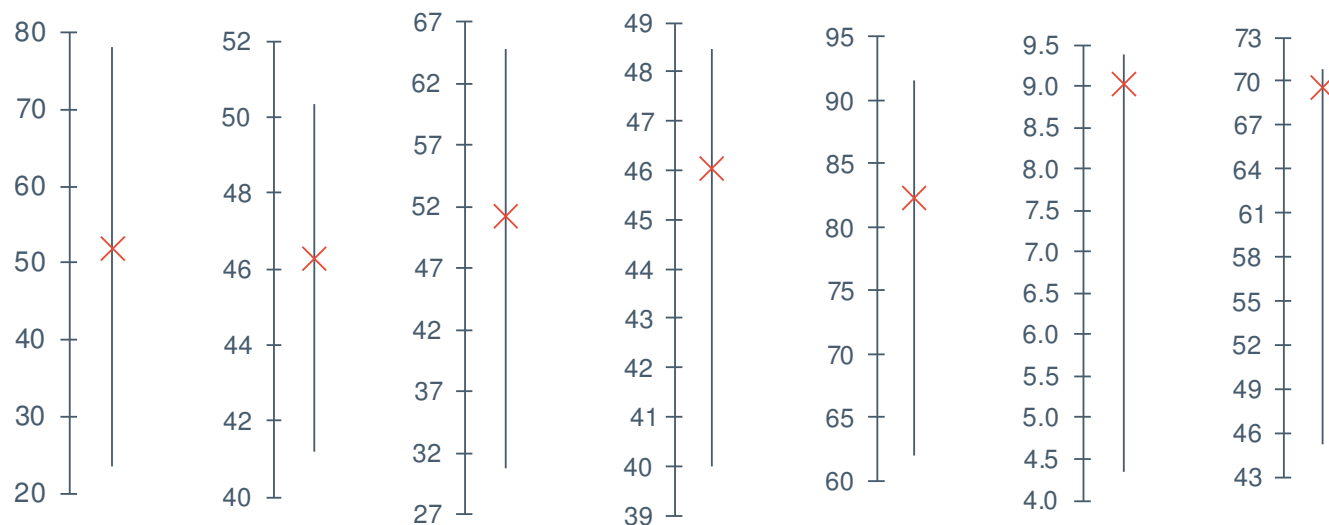




## Wholesale price snapshot

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	(\$/t)	(€/t)	(\$/bl)
This week	2 Feb 18	52.00	46.26	51.25	46.03	82.25	9.02	69.55
Last week	26 Jan 18	48.00	46.60	48.05	46.30	88.00	9.09	70.56
Four weeks ago	5 Jan 18	52.75	48.91	53.80	47.33	90.75	7.76	67.54
Last year	3 Feb 17	61.00	46.47	56.00	43.08	68.00	5.24	56.90
Year-on-year % change		-14.8%	-0.5%	-8.5%	6.8%	21.0%	72.1%	22.2%
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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