



# Energy Wholesale Market Review

Week Ending 9<sup>th</sup> February 2018



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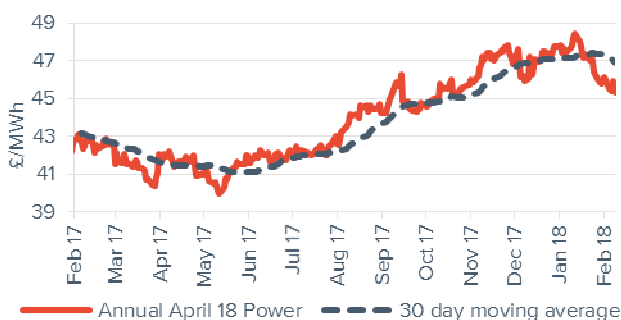
## Headlines 09/02/2018

The majority of power and gas contracts decreased this week, with some seasonal contracts hitting multi-month lows. Commodity prices also declined throughout the week. Day-ahead baseload power fell 6.3% to £48.0/MWh. The contract followed its gas counterpart relatively closely, seeing higher prices in the first half of the week before easing back down. Week-on-week, day-ahead gas fell 3.1% to 50.4p/th, with warmer temperatures forecast for Monday. Day-ahead prices experienced growth in the first half of the week amid colder than average temperatures and an unexpected outage on the Forties oil and gas pipeline, before retreating towards the end of the week as temperatures rose and the outage swiftly came to an end. Brent crude oil prices lost 4.4% to average \$66.4/bl throughout the week. On Friday, Brent crude fell to a six-week low of \$64.5/bl. Continued concerns over record high US oil output, an unexpected increase in US crude stockpiles and a drop in global equities conspired to weigh on prices. API 2 coal prices continued to fall this week, dropping 6.5% to average \$80.0/t. Coal prices were pushed lower by rising Russian coal exports as well as plentiful supply from Colombia and the US. EU ETS carbon prices slipped 0.1% to average €8.9/t this week. Prices picked up towards the end of the week and rose above the €9.0/t mark on Friday, following strong auction results.

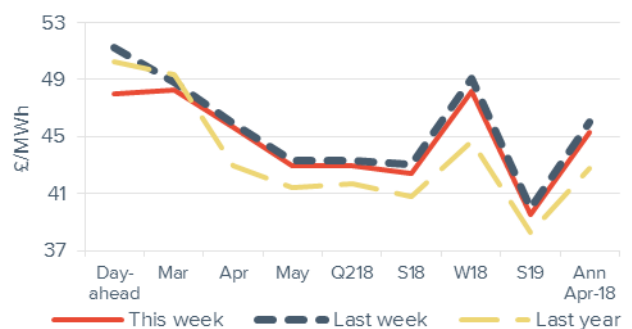
### Baseload electricity

- All near-term baseload power contracts decreased this week.
- Day-ahead power fell 6.3% to £48.0/MWh, with the contract following its gas counterpart relatively closely.
- The month-ahead (March) contract lost 1.1% to £48.3/MWh. The contract is now 6.7% below its level a month ago (£51.7/MWh).
- The annual April 18 power contract lost 1.5% to £45.3/MWh.

#### Annual April contract



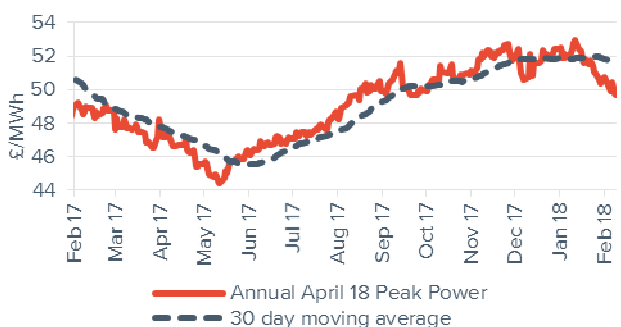
#### Forward curve comparison



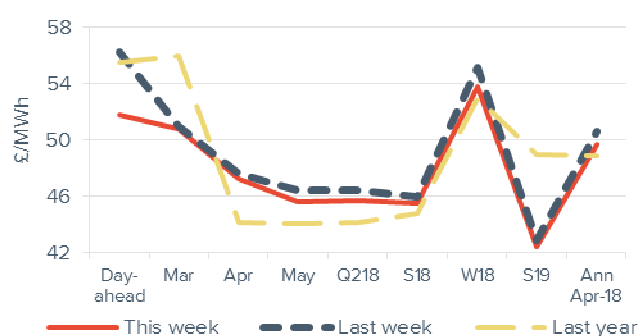
### Peak electricity

- All near-term peak power contracts moved lower this week, mirroring their baseload counterparts.
- Day-ahead peak power fell 8.0% to £51.8/MWh. The contract ended the week £3.8/MWh higher than its baseload counterpart.
- The month-ahead (March) contract slipped 0.5% to £50.8/MWh. The contract finished the week £2.5/MWh higher than its baseload counterpart.
- Annual April 18 peak power fell 1.8% to £49.7/MWh. The contract was £4.3/MWh above its baseload power counterpart.

#### Annual April contract



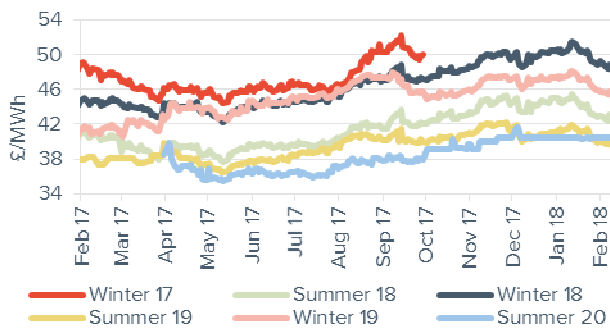
#### Forward curve comparison



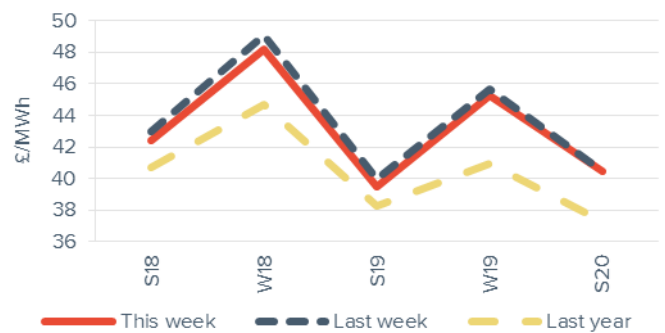
## Seasonal power prices



### Seasonal baseload power contracts



### Seasonal baseload power curve



- Most seasonal baseload power prices moved lower this week.
- Summer 18 power declined 1.3% to £42.5/MWh and dropped to a four-month low of £42.4/MWh on Tuesday. The winter 18 contract fell 1.7% to £48.2/MWh, a three-month low.
- The majority of seasonal peak power contracts declined this week.
- The summer 18 contract lost 1.1% to £45.5/MWh. Winter 18 peak power fell 2.4% to a four-month low of £53.8/MWh.

## Supplier hedging strategies

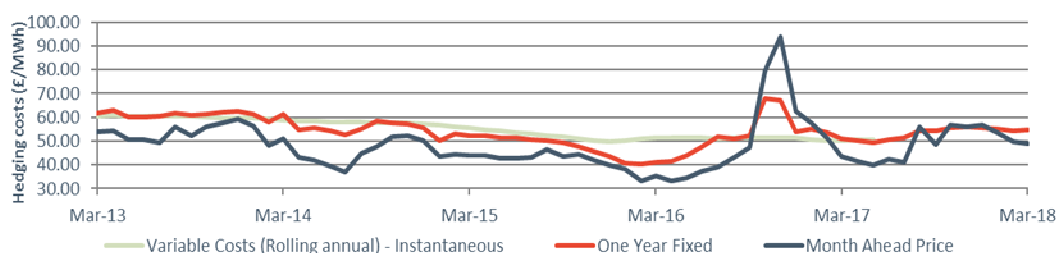
Throughout December near-term power and gas contracts experienced gains, with day-ahead gas reaching a four-year high, while its power equivalent hit a six-month high. Brent crude oil, API 2 coal and EU ETS carbon prices all reached multi-year highs.

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.

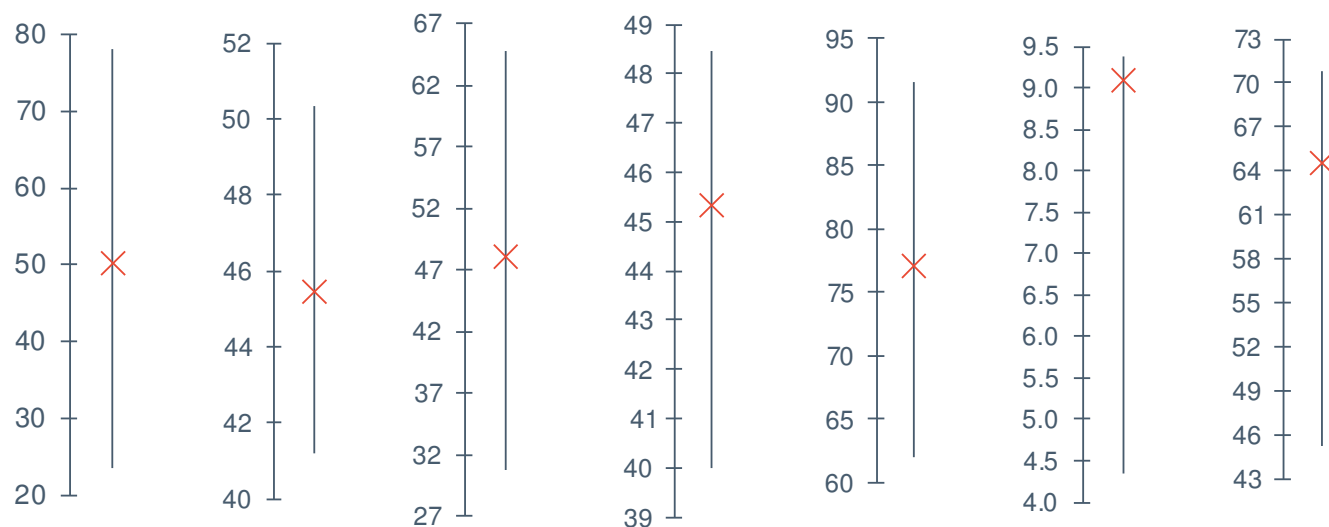




## Wholesale price snapshot

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	(\$/t)	(€/t)	(\$/bl)
This week	9 Feb 18	50.40	45.45	48.00	45.33	77.00	9.09	64.48
Last week	2 Feb 18	52.00	46.26	51.25	46.03	82.25	9.02	69.55
Four weeks ago	12 Jan 18	54.50	50.32	51.35	48.45	91.50	7.83	69.19
Last year	10 Feb 17	52.70	45.85	50.25	42.73	66.50	5.30	56.29
Year-on-year %change		-4.4%	-0.9%	-4.5%	6.1%	15.8%	71.5%	14.5%
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.

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