

Beond



PRICE RISK REPORT

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**Pushing the
boundaries in
energy design**

Last Month Summary

Despite significant volatility, UK energy prices fell overall during April as milder weather forecasts for summer reduced expected heating demand. At the same time, strong gas pipeline flows, LNG imports and gas storage withdrawals also boosted available supplies. In the power market, strong wind speeds and solar power production reduced the need for fossil fuel production. As a result, Britain recorded its first coal-free day since the 1880s. An extended injection ban at Rough storage meant that the UK gas system is expected to be oversupplied until the end of the year. As a result, gas prices declined 1.2% to 1.46 p/kWh with forward electricity prices down 1.3% to 4.26 p/kWh.

Oil prices were volatile throughout April with bearish sentiment winning in the short-term. Brent closed the month at \$51.52/bbl after a drop of 2.1%. Libya announced the restart of two key oilfields after protests blocking pipelines ended. The oilfields have a capacity of up to 400,000 bpd.

Coal prices lifted 0.1% to \$66.40/tonne, while the cost of European carbon permits fell 2.6% to €4.57/tonne.

Energy Price Outlook

Bearish price drivers (↓)

- Ban on injections into Rough until 1 May 2018 is likely to leave the UK gas system oversupplied during Summer 2017
- A stronger Pound versus the US dollar and euro should continue to make pipeline gas and LNG imports (priced in \$) cheaper for UK buyers
- Negative EU-rhetoric from major political candidates in France, the Netherlands and Germany could weaken the euro, making gas imports cheaper for Britain

Bullish price drivers (↑)

- In contrast, Rough's injection ban until May 2018 could result in difficulties for the UK balancing the gas system during colder winter months. A short system during times of high demand could push prices higher.
- Extension to oil production cuts across OPEC and non-OPEC countries (incl. Russia) could aid the reduction in oil's global oversupply
- Increased demand for coal imports from China and India could be a bullish medium-term driver for European coal and power prices

What to watch out for: Current mild temperatures and strong gas supplies from Norway and the UK Continental Shelf into Britain mean that the UK system remains well supplied. If sufficient LNG cargoes do not arrive in April as expected, gas storage could be called upon to balance the system adding pressure to prices. The extension to Rough's injection outage until May 2018 this should mean lower prices in the short term, but could contribute to a significant price risk during the peak Winter demand period.

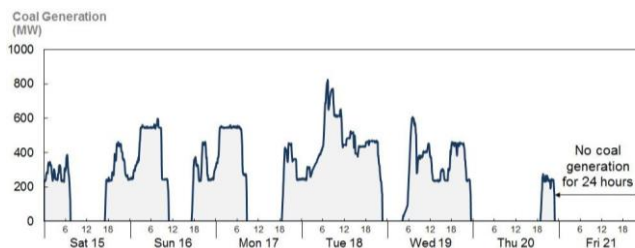
Recommendations: UK electricity and gas prices have both fallen significantly over the last couple of months. Higher solar PV generating capacity compared to previous years is likely to be a bearish factor for summer months. However, further out uncertainty surrounding Britain's storage and generation outages is likely to create significant price risk. Energy consumers may well benefit from locking out contracts for up to three years to avoid the risk of unexpected price shocks later in the summer.

Beond Rolling Annual Energy Indices since Jan-07



UK power generation achieves first coal-free day since 1880s

On 21st April, the UK recorded the country's first ever day without coal generation contributing to the fuel mix since the Industrial Revolution. National Grid announced the milestone for coal-fired generation, which has seen a significant reduction in recent years. In 2016, it constituted 9% of the UK's generation mix, down from 26% in 2015. The current UK Government has committed to close all coal power stations by 2025 as part of its plan to meet EU climate change commitments.



Oil prices fall after restart of key Libyan oilfields and weaker global demand

Despite volatile trading, crude oil prices were lower overall during April as the restart of two key Libyan oilfields returned to production after protests blocking pipelines ended. Libya's Sharara and El Feel oilfields, can produce nearly 400,000 bpd.

Concerns remained over whether major oil producers can alleviate the glut of global inventories. April's oil demand is down 1.8% from last year. Global crude oil inventories have remained high, in part because of increased production from the United States – at 9.27 million bpd US crude production is at its highest since August 2015.

Theresa May calls shock snap election

Theresa May unexpectedly called a general election scheduled for 8th June 2017. In reaction to this, some commentators, such as RenewableUK's Emma Pinchbeck, have called for "parties [to] support a vibrant renewable energy sector".

Others have called for energy affordability to be addressed. Business and Energy Secretary Greg Clark said that the Government's reaction "will be muscular and strong, and it will apply to all the companies that are disadvantaging consumers". Meanwhile, the government has announced that a strategy for meeting carbon budgets may not be published in time for the general election in June.

US economy grew 0.7% in Q1-2017, slowest rate in three years

The US economy expanded at the slowest pace in three years as weak auto sales and lower home-heating bills dragged down consumer spending, offsetting a pickup in investment led by housing and oil drilling. Though the first-quarter figure isn't a verdict on President Donald Trump's policies, economists are generally skeptical that growth will reach his goal of 3% to 4% on a sustained basis. Bloomberg analysts estimate just 2.2% to 2.3% annual growth should be expected through 2019, a tad above the average pace during the almost eight-year expansion.

Gas industry prepares for "Project Nexus" go-live in June

Gas suppliers have started briefing customers on Project Nexus - the replacement of the gas industry settlement system. Go-live will be on 1 June. The transition will take place between 23 May and 6 June during which time it may be trickier to get quotes from suppliers and get sites to change supplier quickly.

The changes will largely be behind-the-scenes and should not impact most customers. However, the allocation of unidentified gas (AUG) charge has been removed and replaced with the similarly named Unidentified Gas (UIG) charge. The reason for the subtle name change is due to a fundamental change in the calculation of unidentified gas once all of the meter points are individually settled. This gives a more accurate view of unidentified gas.

Beond Risk Services

Beond risk service and online risk tools include a broad range of innovative hedging strategies which can deliver considerable cost savings at no additional risk, by harnessing market uncertainty and price volatility. Also our tender service uses an online reverse auction which creates an intensely competitive environment to produce best prices and full transparency.

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