

Beond



PRICE RISK REPORT

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**Pushing the
boundaries in
energy design**

Last Month Summary

UK gas and electricity prices fell during June, as the UK's main gas export pipeline has been offline for an unplanned 2-week maintenance outage. The IUK pipeline is typically used to export gas to the Continent at this time of year, meaning the outage is creating an oversupply by retaining excess gas within the UK gas system. Gas prices ended the month 3.0% lower at 2.01 p/kWh, with electricity prices 1.1% down at 5.70 p/kWh.

However, gas storage remains below historic levels in Northwest Europe, highlighting ongoing supply risks heading into the colder winter months.

Brent crude oil prices rose 0.4% to \$77.85/bbl, pushed up by new supply disruptions in Libya and Canada. Forward prices were also tight as the U.S. Trump administration stepped up efforts to disrupt Iran's oil exports, raising concerns of a possibly supply shortage. However, the decision by OPEC and its partners to increase crude oil output by 1 million bpd limited prices from rising further.

Energy Price Outlook

Bearish price drivers (↓)

- Prices may decline this week after OPEC and its partners announced a 1 million bpd increase in crude oil output, equivalent to around 1% of global supply.
- Stronger storage injections across Northwest Europe over the coming summer months could alleviate supply concerns for winter.
- A recent drop in global coal prices may drag down European power prices if China, India, Japan or South Korea report a decline in coal imports

Bullish price drivers (↑)

- Unexpected pipeline gas or nuclear outages, could both harm Britain's ability to meet power demand during times of peak UK gas and power consumption.
- Lower gas inventories across Northwest Europe mean demand from injections into storage facilities during summer months is forecast to be higher than during previous years.

What to watch out for: There is a very real risk that crude oil and carbon prices will continue to rise, boosting European and UK energy prices. With UK and Continental European gas storage lower than normal, prices will be even more sensitive to unplanned pipeline and nuclear outages than in previous years.

Recommendations: Current supply and demand risks are more unpredictable than in previous years. As a result, energy users may want to consider securing their contracts within the next month or two. While it is possible that prices could dip in August, any unscheduled supply disruptions could create significant price volatility before the October 2018 contract starts, potentially making energy more expensive.

Beond Rolling Annual Energy Indices since Jan-07



£1.3bn Swansea Bay tidal lagoon project thrown out by UK government

Plans to build the world's first tidal power lagoon at Swansea Bay have been thrown out by the UK government, after it was decided the project would not provide adequate value to British electricity consumers. The tidal developers had previously asked for a 90-year contract with the UK government with an average strike price - a guaranteed price for the electricity generated - of £89.90/MWh.

However, it seems ultimately that UK ministers do not have confidence that the lagoon developers are able to deliver the project at the price they now think is reasonable for consumers to pay. Especially as other options such as wind energy come in at a much lower cost.

Oil gains 0.4% as U.S. steps up pressure on Iranian oil export sanctions

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However, prices may decline this week after OPEC and its partners announced a 1 million bpd increase in crude oil output, equivalent to around 1% of global supply, to counter longer-term disruptions in Venezuela and Angola. Top consumers such as the United States, China and India have been calling for OPEC to stabilise oil prices and support the world economy by producing more crude.

Pound weakens over June despite late upgrade to UK economic growth

The Pound Sterling declined in value against both the U.S. dollar and euro over the course of June after disappointing economic data showed manufacturing output in April was at a 5-year low, while construction output was also weaker than expected.

However, UK's economic growth has been revised up for Q1-2018 after construction data was found to be stronger than earlier estimates. The news could see a stronger Pound on the increasing possibility of an interest rate rise later this year.

German coalition crisis approaches crunch point

Germany's interior minister has rejected the migration deal Angela Merkel negotiated at last week's Brussels summit, deepening the political crisis that has rocked the country and thrown the future of the EU's longest-serving leader in doubt. German political risks are centred around the future of Angela Merkel's current government with coalition partner the CSU not happy over current immigration policies. Trade tensions and political uncertainty in Germany are seen as potential risks to the eurozone economy and euro currency.

Ofgem wins case to cut embedded benefit payments in Triad avoidance scheme

Ofgem has officially seen off a legal challenge over its decision to cut triad avoidance payments. Generators have led a challenge to Ofgem's decision to drastically reduce so-called embedded benefits, which have been a significant source of income for distributed generators. The main element, the TNUoS residual (or Triad payment), has been cut from £45/kW to around £3/kW over three years to 2020, which Ofgem says could potentially save consumers up to £7bn by 2034.

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. Beond also uses an online reverse auction in Beond's tender service, creating an intensely competitive environment to produce best prices and full transparency.

Disclaimer: These views and recommendations are offered for your consideration and Beond makes every effort to ensure that the data and information in this report is accurate. However, due to the volatile and unpredictable nature of the energy markets, Beond cannot guarantee the accuracy of both the information and the recommendations provided. Beond does not accept any responsibility for errors or misstatements, or for any direct, indirect, consequential or other loss arising from any use of this information and/or further communication in relation to this information.