

Market Knowhow

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IndigoSwan



INVESTORS
IN PEOPLE

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We believe if you give people the right tools & knowhow, then everyone no matter how big or small, will have the opportunity to make better business decisions.

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Prepared by Lee Hart

01 Overview

On the 8th December, there were small decreases to the Gas and Electricity Year Ahead Wholesale costs, when compared to last month's report.

Oil is holding at \$63 a barrel despite the confirmation that the Organisation of the Petroleum Exporting Countries (OPEC), are extending their production cap for another nine months, until the end of 2018, which was followed by the same commitment from Russia. This news had been anticipated and factored into prices, so there was no impact. The US is increasing production and we would expect this to continue with the stable higher price.

There has been an anticipation of higher prices through the winter as demand increases, due to Gas and Electricity supply issues. We have seen peaks over the last month, however, they have been followed with the realisation that conditions remain relatively comfortable and resilient.

Gas demand is expected to be lower this winter. Our largest Gas storage facility is emptying before its closure, which is providing some additional supplies. With deliveries from the continent and LNG shipments, we have so far had little need for concern.

The ongoing issue of French Nuclear shutdowns, with the resulting reduced Imports to us and the need to Export to them, has most likely added some additional cost to Electricity prices. We had our own Nuclear downtime and reduced Wind contributions in November. Measures are in place to utilise more expensive Coal generation through the Capacity Market (CM) to compensate for these shortfalls. Although these measures protect us from shortages and a more volatile Wholesale market, we do pay for these in the form of additional costs, which suppliers have to include within Electricity contracts.

The £ has gained some strength over the last month with more positive news on Brexit negotiations. Its value effects our Import costs.

What does this mean for me...

The Year Ahead Wholesale price graphs (see end of report) show a small decrease, despite the current cold spell, which may be a positive sign that prices already contain the negative sentiment of potential supply issues. However, these are still early days, so should there be additional concerns, these could easily translate into price volatility.

It has been increasingly noticeable what impact higher third-party costs are having on Electricity contracts. These include, Transportation, Distribution and government policy levies. See our DCP 228 and 161 Guides for changes to Distribution charges from April 2018. It is estimated that the Wholesale element makes up just 42% of the Electricity bill and that is excluding the supplier margin, metering and VAT.

We would be happy to research your options for 12, 24 and 36 month contracts.

Please contact us on 0333 320 0475 to discuss options.

02 Gas Market

On the 8th December, the Gas Year Ahead Wholesale cost was 48.33 (p/th), from 49.13 (p/th) in last month's report and 16% higher than December 2016.

Colder spells did trigger higher prices during the last month, which have since settled. Supplies have been comfortable with deliveries piped in from the continent, being taken out of storage and LNG delivered. Despite the global increase in demand for LNG and a higher price being paid in Asia, we are still receiving these valuable supplies.

There are links between Oil and Gas prices, so the stability of Oil and the lack of reaction to OPEC and Russia's extension to their production cap, until the end of 2018, has been significant.

As we have seen generation fall from other sources, more of the demand has been met by Gas, adding another price pressure. Should there be supply issues, then both Gas and Electricity costs will be impacted

Let us know if you would like us to research your options for 12, 24 and 36 month contracts.

03 Electricity Market

On the 8th December, the Electricity Year Ahead Wholesale cost was 47.17 (£/MWh), from 48.46 (£/MWh) in last month's report and 9% higher than December 2016.

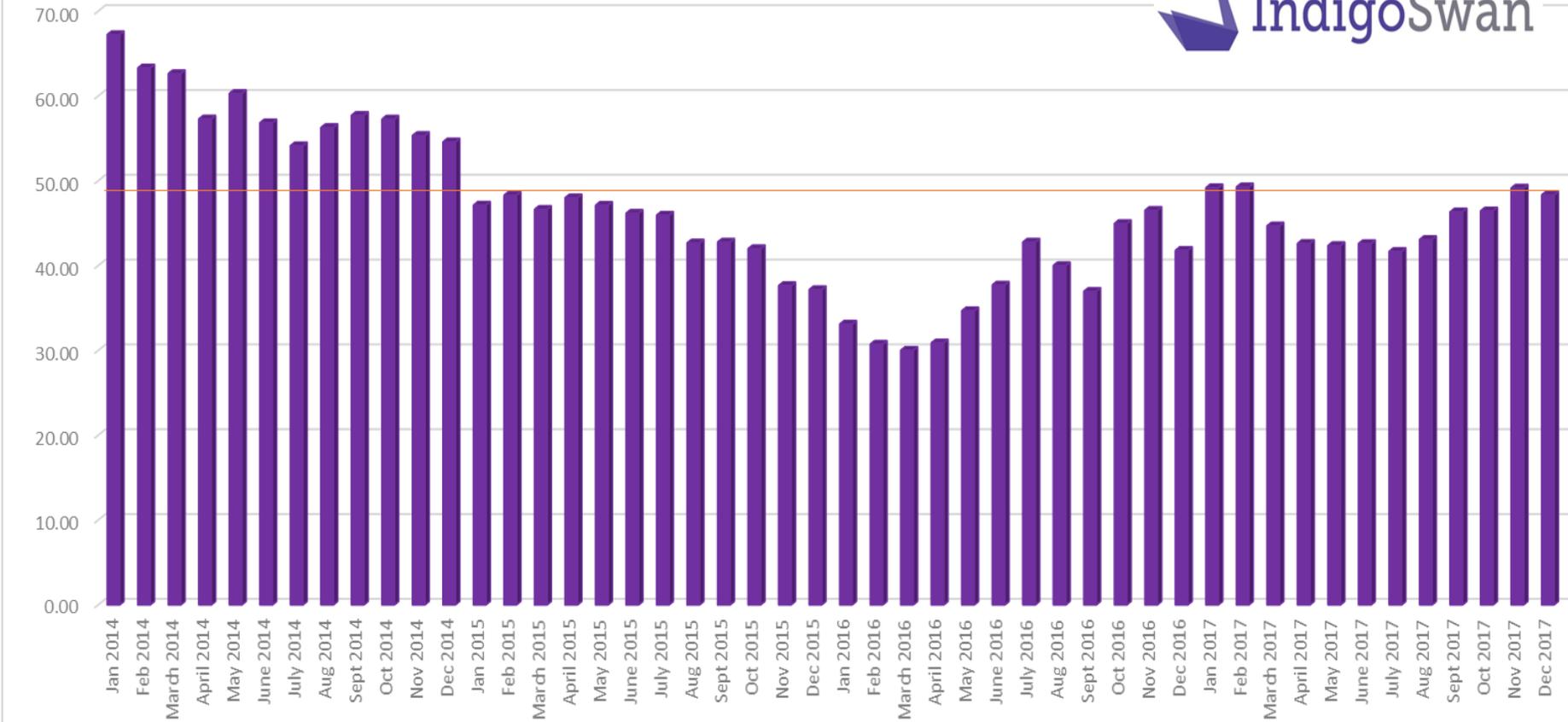
This decrease was despite continued Import restrictions from France, as they still have Nuclear generation closures due to safety concerns. At times we Export to them. Imports were down to 3% of supplies in November, when earlier in the year these reached 9%. We also had our own Nuclear issues with a 19% contribution, from 24% the previous month and a drop in Wind to 14% from 17%.

With these reduced contributions, we are more reliant on Gas generation (44%) at a time when we could see price volatility due to additional winter heating demand. Coal, which is a more expensive source of supply, rose to 12% from 4%. The fact we do have these issues but there are alternate sources available, does mean that government policy seems to be working for now, but at a price to the consumer in the form of additional costs built into invoices.

Third Party Charges continue to increase regardless of how the Wholesale element changes, which has been very evident as we look to secure contracts for customers.

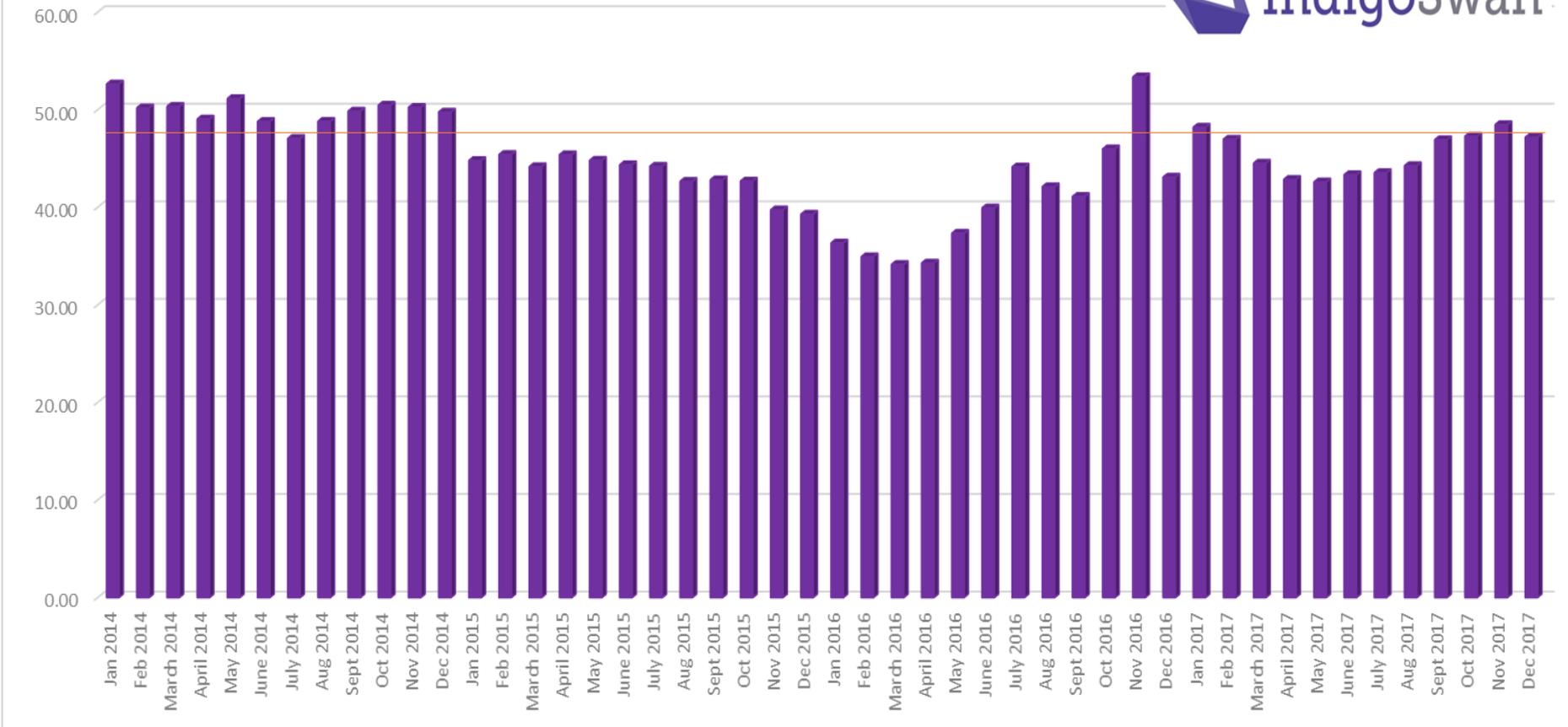
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Gas Year Ahead Wholesale Prices P/TH



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Electricity Year Ahead Wholesale Prices £/MWH



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