Market Knowhow

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IndigoSwan

> 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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01 Overview

As of the 11th June, Gas and Electricity Year Ahead Wholesale costs have decreased when compared to last month's report, although there has been considerable volatility within the month.

Oil is down slightly at $76, from last month's $77. However, recently Oil reached $80, adding pressure to Gas and Electricity Wholesale costs. Several factors are responsible for this, including, an increase in demand from Asia and the reduction in production from the Organisation of the Petroleum Exporting Countries (OPEC) and Russia. The US decision to withdraw from the Joint Comprehensive Plan of Action (JCPOA) has also added a degree of nervousness, with the potential to restrict Oil exports from Iran. Venezuela has also significantly reduced exports. OPEC has hinted it may increase production to replace lost supplies, easing market pressure, as have increases from the US.

Disruption to Coal supplies from Australia and a high demand from India and South Korea, have pushed prices higher. This is an expensive form of generation, contributing just 1% in May. Further potential supply restrictions ahead, cast doubt on any short-term reductions.

Due to contractual links, Gas has been closely following Oil. Storage levels are still low after the cold spells. Warmer, windier conditions, should reduce the Gas demand for generation and ease prices, as will the resumption of LNG deliveries, which were heading to Asia during the winter.

As 44% of generation came from Gas in May, Electricity was heavily influenced by Gas prices. However, despite the modest Renewables in May, the National Grid have commented, that this summer, we may have surplus supplies of Electricity, due to periods of excessive Wind and Solar.

What does this mean for me…

Favourable conditions for Renewables, should see a reduction in Gas used for generation, lowering Electricity costs and also reducing Gas demand. The lower Oil price is factoring in the potential increase in production from OPEC, to alleviate supply concerns. They meet on the 22nd June. If they fail to deliver, Oil, Gas and Electricity are likely to be volatile.

There is little evidence of considerable reductions in the short term, so these contracts should be reviewed now. For those further out in 2018, we would advise being ready and monitoring closely.

The impact of higher third-party costs is increasingly noticeable in Electricity contracts. These include, Transportation, Distribution and government policy levies. 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 11th June, the Gas Year Ahead Wholesale cost was 56.82 (p/th), from 57.82 (p/th) in last month's report and 33% higher than 2017. This peaked at 62 (p/th) during the last month.

Gas prices closely follow Oil and the US decision to withdraw from the Joint Comprehensive Plan of Action (JCPOA) has added pressure to Oil, as have the supply issues from Venezuela. However, the US is increasing Oil production and OPEC may increase supplies. With low Gas Storage levels both here and across Europe and a number of unplanned disruptions, Gas prices are very sensitive to global and domestic events.

So far this year, Renewables have not substantially reduced the need for Gas generation, although the expectation is, they will this summer. With less demand for domestic heating and LNG deliveries being made, this should allow the opportunity to increase Storage levels and remove an upward price pressure. Wholesale costs are currently lower for 2019 and 2020, illustrating both the premium built into 2018 and a more positive outlook.

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

03 Electricity Market

On the 11th June, the Electricity Year Ahead Wholesale cost was 55.70 (£/MWh), from 56.18 (£/MWh) in last month's report and 29% higher than 2017. This peaked at 59 (£/MWh) during the last month.

Electricity prices have followed Gas higher and then lower, over the last month. Gas contributed 44% to generation in May and is heavily influenced by the cost of Oil.

There should be record amounts of Renewables this summer, contributing a greater % of cheaper generation. With large amounts of Solar feeding into users directly, this will also reduce demand. The National Grid have commented, that this summer, we may have surplus supplies of Electricity, due to periods of excessive Wind and Solar, potentially easing prices.

Wholesale costs are currently lower for 2019 and 2020, illustrating both the premium built into 2018 and a more positive outlook.

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. These charges pay for the mechanisms which secure generation at peak periods.

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

04 Water Market

Since the 1st April 2017, it is estimated that 1.4 million sites have had the freedom to choose the Retailer for their Water and Wastewater retail services.

This means, you can contract your Water services in a similar way to how you already negotiate your Gas and Electricity costs. The local Wholesaler, who provides the Water and takes away your Wastewater, will remain the same, but the key difference is that you will be able to choose which Retailer will handle your meter reading, billing and customer services.

A further significant change, is that a range of new licensed Retailers have joined the market and these new-entrants are competing against the existing, established Wholesalers, some of which have also set up as Retailers.

There has been some consolidation amongst Wholesalers to form larger Retailers and indeed Thames and Southern sold their customers, not wishing to enter the market. The largest Retailer, Water Plus, consists of the former United Utilities and Severn Trent. Wave, being Anglian and Northumbrian. Castle Water, includes Thames and Portsmouth.

Despite the large number of customers who can access competition, only 138,000 Water and Sewerage supply points had switched Retailer up until the end of April 2018. That's less than 5% of the market in the first year. Market research shows a lack of interest by customers and brokers, after the initial enthusiasm. The monthly rate of switches remains steady, in the region of just 10,000.

Just 10% of the Water bill is for the Retailer services, so they have very little scope to offer significant reductions, as the other 90% are fixed. Industry feedback so far has been that through switching, the benefit is potentially just 1% to 2%. As an example, if you spend £150,000 each year, you may save between £1,500 & £3,000 per annum. We have seen examples of misleading headline claims of savings, which when you look at the details, clarify the reduction is purely a % off the 10% retail element and far less attractive. There are also large numbers of complaints directed at Retailers.

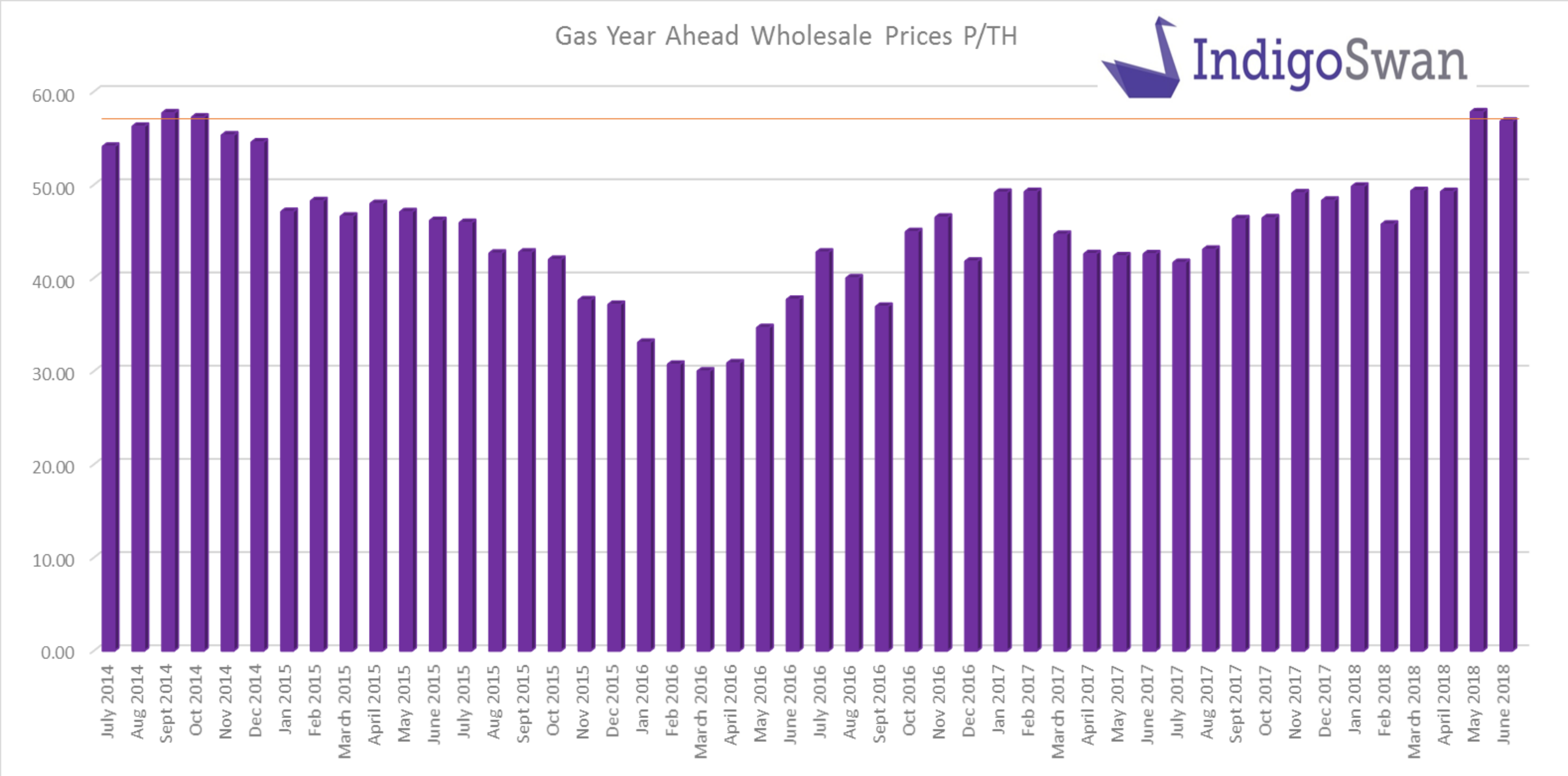
The rewards at this stage for carrying out a full tender exercise are limited, but it is hoped that in time, as happened in Scotland, the % saving opportunities will increase.

Those companies that do wish to engage, may at this stage be better advised to contact their Retailer and look for short term price reductions and added value services, such as better billing.

There seems to be a trend where the larger Retailers are losing business to the smaller. Notably, Everflow have had the greatest success in terms of the number of supply points, whereas Business Stream, the most volume of Water. Neither of these currently have a significant share of the market.

Thoughts and observations as to why there is a shift, suggest, where Retailers have expanded too fast, their service levels have dropped, providing an incentive for customers to look at other options.

Please do not hesitate to contact us to discuss further or if you want us to test the market for you.



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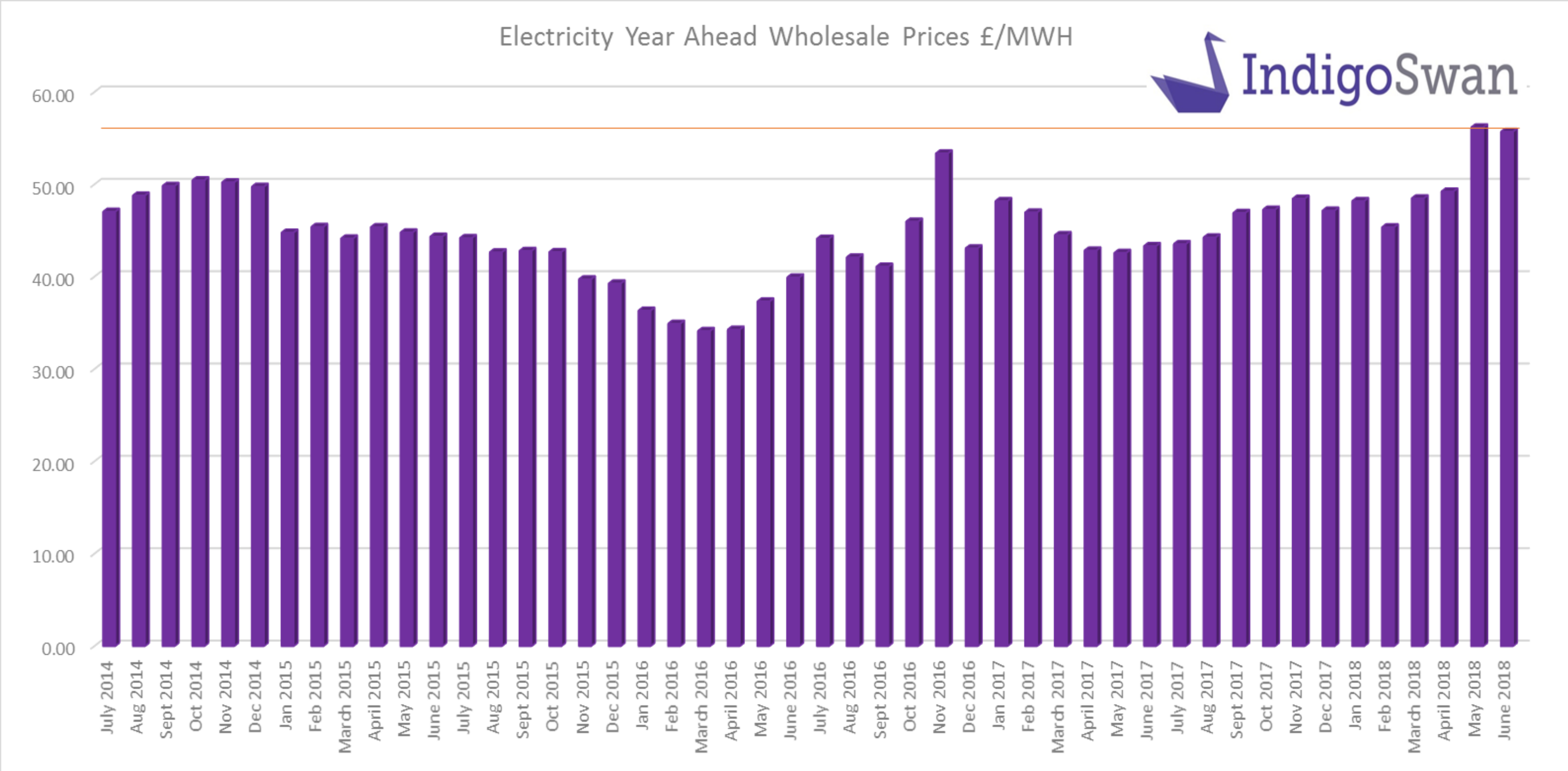

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