

ADVANTAGE UTILITIES

YOUR **COMPETITIVE** ADVANTAGE

QUARTER 3 - 2023

ENERGY BUDGET OPTIMISATION REPORT



WHOLESALE PRICES – ARE WE AT THE LOWS?



Price volatility over historically minor events?

EL NINO



Its effects into '24

EU GAS STORAGE LEVELS AND LNG/ASIA



China demand

RUSSIA/UKRAINE



What next and what impact?

WELCOME TO THE ADVANTAGE UTILITIES ENERGY BUDGET OPTIMISATION REPORT Q3, 2023

Here we take a detailed look at the current International and UK market drivers. These are the factors that will dictate the trading opportunities in 2023 and ultimately the cost of energy over the next 12 months.

ISSUES COVERED IN THIS REPORT:



Wholesale Energy Price Movement -
Volatility



El Nino



European Gas Storage



Ukraine/Russia Situation

Uncertainty and volatility are always present in the energy market. This means it is important to be informed about what could affect your energy budget as we like to think that more information drives smarter decisions.





WHOLESALE ENERGY PRICE MOVEMENT – VOLATILITY

Are we at the lows?

Over recent months we have seen wholesale prices drop from the highs of last year. However, they are still not as low as pre-2021 levels. By the end of the first week of Jun-23, we saw wholesale prices at levels previously seen just before the Russian invasion of Ukraine.

Since then, we have experienced a slight rebound. This has been down to a few factors. Low levels of LNG cargoes reaching our shores; low levels of wind meaning a greater reliance upon gas for gas-fired power generation; extended unplanned outages impacting gas supplies; closing of Groningen gas field. It seems that we are in a holding pattern, exhibiting rangebound effects, seeing increases then drops.

Since early June we have seen market prices tick up, which was driven by unplanned outages at various gas fields. These are occurrences that can't necessarily be foreseen yet impact our supply of gas. What exacerbates this, is that during the summer months, yearly maintenance takes place, which limits the output anyway. So, when an unplanned event happens, we don't have the backup of another field to hand that could instantaneously help to increase flows. This is why unplanned outages are a significant upwards driver of energy prices, especially during the summer months.





EL NINO

& Its effects into '24

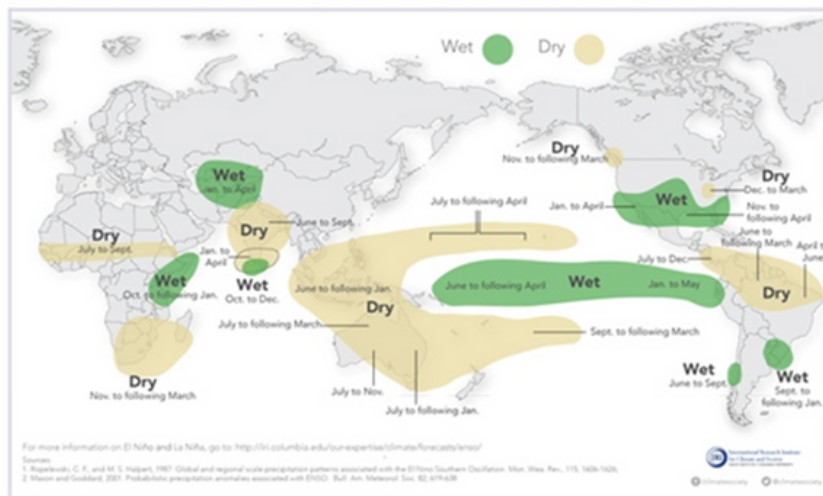
Weather plays a big part in world events, be it the impact on farming and food production, or the effects on the demand for energy. In February 2018 we saw this in action with the “Beast from the East” and the effect that such a severely cold snap had on the wholesale energy prices. Last year, we headed into winter still wearing our summer clothes, as the mild weather helped ease the fear of high prices and low supplies.

El Nino is a climatic pattern in the Pacific Ocean and a new phase of this has just begun. Usually, Pacific ‘trade winds’ blow from east to west, pushing warm water away from South America towards Asia. Cold water rises in its place, regulating temperatures and drawing up nutrients from the ocean’s depths for marine life in the process. However, during El Nino, these winds weaken or even reverse, pushing warm water back towards South America, where it stays close to the surface – creating warmer and wetter air. This causes higher overall temperatures, triggering irregular weather patterns such as storms and floods in the southern US and the Gulf of Mexico, as well as droughts in Asia, Australia and central Africa.

These patterns happen every 2-7 years, lasting about 9-12 months, but they don’t always alternate. The world has just seen a ‘triple-dip’ La Nina which suppressed global temperatures. Despite this, 2022 still ties as the 5th warmest year on record. Scientists say that this El Nino episode could be particularly extreme. During the last El Nino in 2016, the world had its hottest year on record. This time, due to global warming, the heat could be greater still. Consequently, the global economic loss could amount to \$3 trillion, as extreme weather impedes agriculture and manufacturing as well as enables the spread of disease. In Europe, El Nino usually means drier and colder winters in northern Europe and wetter winters in southern Europe. El Nino summers can be hotter and drier.

El Niño and Rainfall

El Niño conditions in the tropical Pacific are known to shift rainfall patterns in many different parts of the world. Although they vary somewhat from one El Niño to the next, the strongest shifts remain fairly consistent in the regions and seasons shown on the map below.



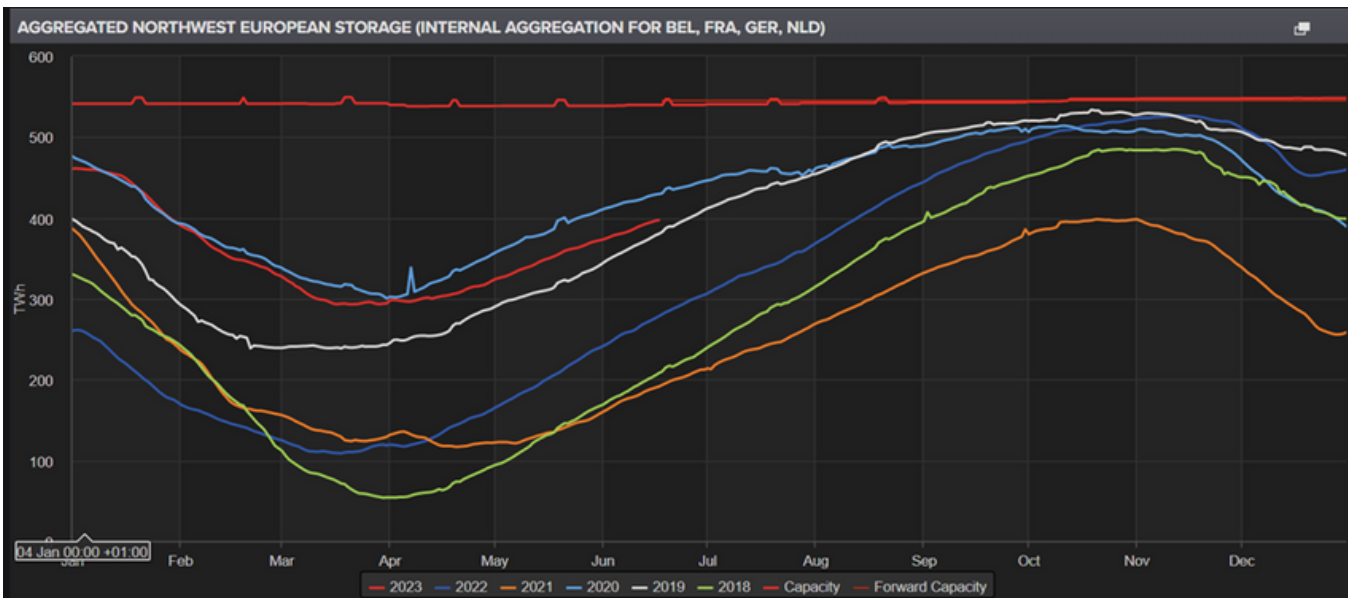
Typical rainfall patterns during El Niño events. Such teleconnections are likely during El Niño events, but not certain.

Map from [IRI Data Library Maprooms](#).

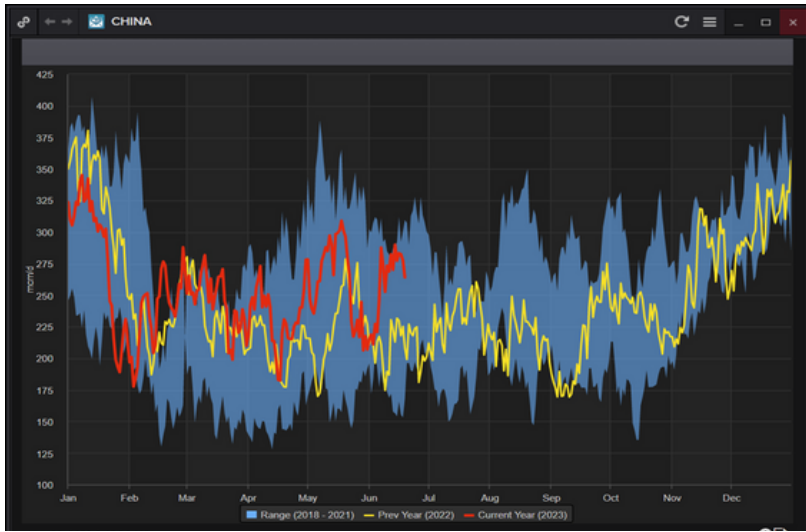


EUROPEAN GAS STORAGE & LNG – CHINA DEMAND

Current European storage levels sit around 73% full for 2023. This is the 2nd highest level over the past 5 years, just behind 2020 levels, which sat at 79% full on the equivalent date. This can be explained by the effects of lockdown around the world which dramatically reduced demand for energy consumption. In 2021, storage was at a low of just 35% full, whilst 2018 was slightly higher at 38%! These two years also had major factors affecting them. In 2018, we experienced the ‘Beast from the East’ where storage was being used later into winter than normal, when in fact we should have been replenishing stock levels. In 2021, we saw lockdown restrictions eased and with it demand increased alongside the cold start to spring, whereby storage was once again used later into the season than normal.

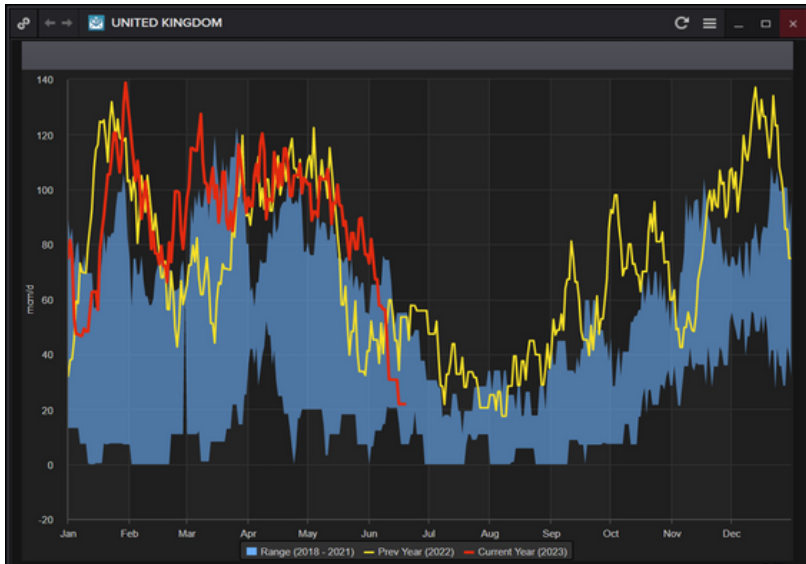


The possible growth in the Chinese economy and the subsequent increase in energy demand is a further concern for Europe. Should their demand increase, we would see a price war between Europe and China over LNG supplies. Ships turning around to dock at the highest bidder have in the past messed with the supply requirements of the UK for example. Recent news reports state that Qatar is set to sign its second largest gas supply deal with a Chinese state-controlled company in less than a year. The 27-year deal outlines China’s commitment to procuring LNG from Qatar on an annual basis.

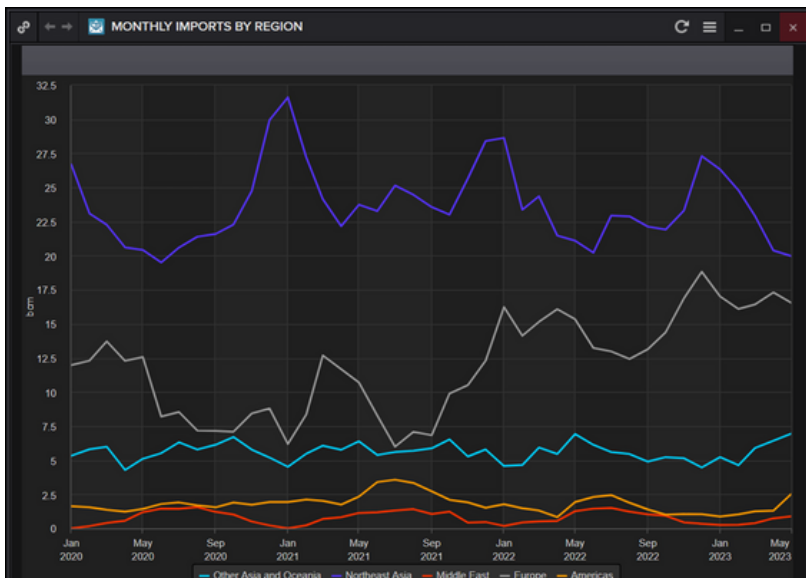


LNG Supply Outlook:

Global LNG supply could rise by about 10 bcm – or 3.7% – which represents a significant slowdown from the 6.4% growth seen the previous summer. Once more, the U.S. is the largest single contributor with the restart of the 20.4-bcm/yr Freeport LNG.



China LNG currently imports towards the top-end of the 5-year moving average, whilst UK imports have slowed down somewhat.





UKRAINE/RUSSIA THE STATUS QUO AND WHAT'S NEXT!

As the conflict between Russia and Ukraine continues, and the counter offensive is underway, we then read about The Wagner Group's forces pulling out of Ukraine and marching on Moscow. One might ask "what the hell is going on?" Apart from the appalling effect on the people of Ukraine, the impact of this disastrous war on energy prices led to historic increases in prices and world inflation. However, of late, we have seen energy prices fall, underlining the point that gas exports from Russia are currently so low that any threat of a cut in supply would not significantly alter market prices.

That said, there is still cause for concern over the "what happens next?" scenario. Should we be worried about Russia's next play? After all, we have already witnessed sabotage to the Nord Stream pipeline at their hands (allegedly). Could they look to further disrupt the West? Could they further damage underwater networks, such as power lines or IT infrastructure? This would have a significant impact on businesses and the global economy.

We're not saying that these events 'will' occur, but we at Advantage Utilities must always be aware of the impact and consequences that potential events could have on energy markets. Before going to print, this past weekend we saw the Wagner mercenary group's actions, paired with the resulting uncertainty in Russia, seemingly impact the resulting opening to the energy markets on Monday morning. Prices increased by 14% which fell back to approximately a 1% increase by the close of the day. This type of event is what's leading to today's jittery markets.



HOW CAN WE HELP?

Our sustainability department continues to offer an ever-increasing range of products and technology aimed at reducing energy consumption and associated costs as well as driving down carbon emissions. We will of course continue to keep you updated around these initiatives, but please do reach out to your designated point of contact should you wish to explore your options in this regard.

In terms of procurement, we will continue to monitor markets with a view to helping customers navigate the unprecedented circumstances and ascertain when constitutes the best time to seek a contract extension.

Our popular flexible procurement options continue to be an option for an increasing number of clients on either a standalone basis or as part of a grouped basket. This often facilitates access to day/month ahead trading markets which have proved to be particularly beneficial to many clients over the winter period.

LET'S WORK TOGETHER!

Regardless of whether you are an existing client or have recently come across us, please do reach out and discuss how we may be able to help.



BULLISH

- INCREASE IN ASIAN ENERGY DEMAND
- INFLATION
- LNG INFREQUENCY
- EL NINO EFFECTS in '24
- UKRAINE WAR - RUSSIA SABOTAGE



RANGEBOUND

- VOLATILITY
- OIL
- CARBON
- STEADY GAS IMPORTS
- HEALTHY RENEWABLES GENERATION





BEARISH

- EU GAS STORAGE STRENGTH
- WARMER WEATHER IN WINTER
- CONTINUED LOW ASIAN DEMAND
- GLOBAL RECESSION
- ROUGH STORAGE CAPACITY DOUBLED



CONTACT US

 0207 371 5360

 info@advantageutilities.com

www.advantageutilities.com

Coda Studios, 189 Munster Rd, SW6 6AW

