



ADVANTAGE UTILITIES  
YOUR COMPETITIVE ADVANTAGE

# QUARTER 4 - 2023 ENERGY BUDGET OPTIMISATION REPORT



CONTINUED MARKET UNCERTAINTY



CHEVRON STRIKE ACTION



WINTER WEATHER



SUMMER MAINTENANCE



UKRAINIAN STORAGE USAGE









DYNAMIC INFLATIONARY  
MARKET MOVEMENT



# WELCOME TO THE ADVANTAGE UTILITIES ENERGY BUDGET OPTIMISATION REPORT Q4, 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:

-  Continued Market Uncertainty
-  Chevron Strike Action
-  Winter Weather
-  Summer Maintenance
-  Ukrainian Storage Usage
-  Dynamic Inflationary Market Movement

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





## CONTINUED MARKET UNCERTAINTY

Last quarter we looked at three main topic areas that hadn't fully played out.

The Russia/Ukraine conflict still sits there bubbling under the surface, unresolved, with the volcanic-like expectation of further escalation that could see it erupt at any moment. Then we have El Nino which has begun, whilst its true effects are yet to be felt, perhaps not for a few more months. Finally, we have the potential increase in Asian demand, again, not yet materialising as some have suggested. All three of these could still play a significant role in how wholesale prices trade. Uncertainty is never a good thing for the markets!



## CHEVRON STRIKE ACTION

News of potential strike action at Chevron Australia's Woodside, Wheatstone and Gorgon LNG sites broke in the second week of August. This lifted wholesale gas prices, in turn having a knock-on effect on other markets. So why has this impacted global gas prices? As news spread of three plants (Woodside, Gorgon & Wheatstone) threatening to strike, it hit the markets due to the combined output making up 10% of global LNG. LNG from these plants mostly goes to Asia, in particular Japan. If strikes were to be severe and prolonged, then Asian buyers would be competing against Europe for the replacement cargoes, which in turn would push up prices.

Short-term strikes, or strikes that only reduced output rather than stopping it completely, would be less impactful, also helped by good storage levels in Europe and Asia at present.

Woodside struck an agreement in principle towards the end of August with its workers. Markets rescinded somewhat off the back of this news, however strike action at the other sites have left volatility whilst the uncertainty around the overall situation was resolved.

Two facilities, Gorgon and Wheatstone, have not agreed to postpone industrial action, although initial strike action had been 'paused' on a couple of occasions for 24 hours, this hasn't prevented the 'full scale' strikes from taking place. These would be over a two-week duration. Chevron are now applying to the Fair Work Commission, for an "intractable bargaining" declaration, which if granted, would end strikes and allow the Australian industrial umpire to dictate an agreement.



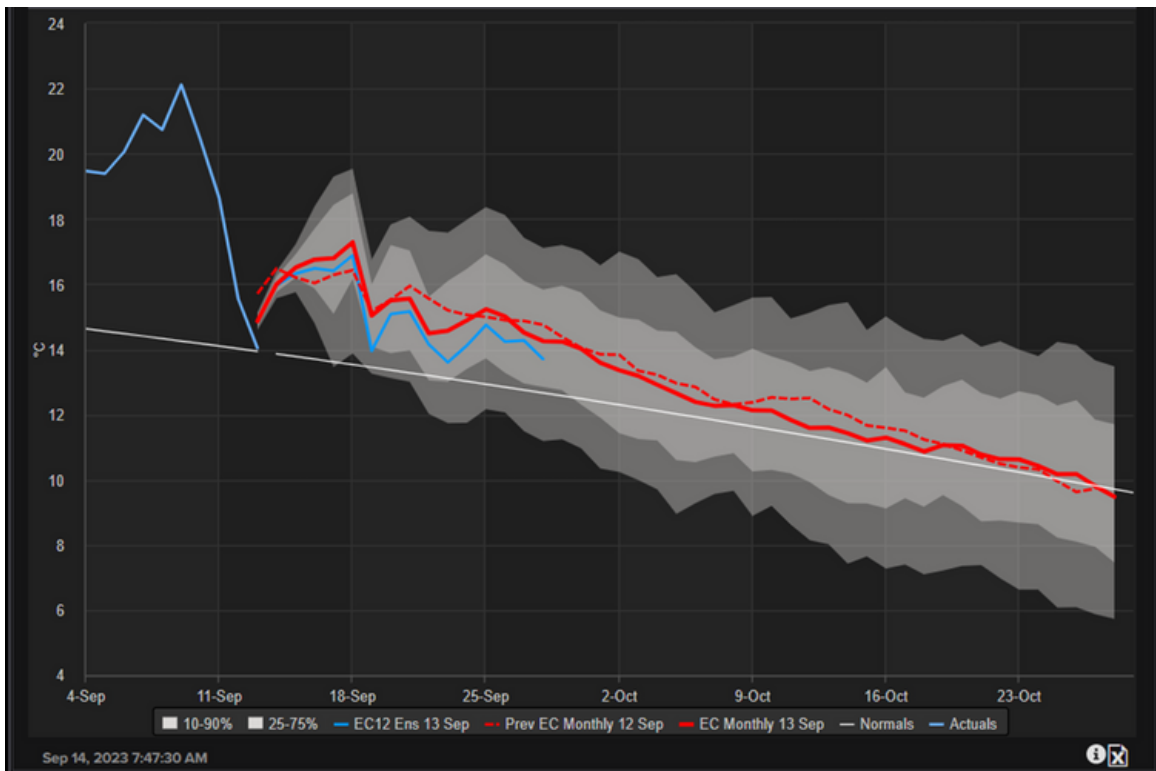
## WINTER WEATHER

Recently we have been experiencing a sustained period of warmer weather as we head towards Winter 2023. Long may this continue! Whilst we would like to have a mild winter, from an energy industry perspective colder weather means a greater reliance upon our main source of fuel for heating – gas.

If it's warmer than expected, this leads to a reduced customer demand and consequently a lower amount of gas required to meet that demand. If the weather is colder, then we rely more on our storage and the regular replenishment of this throughout the winter. Thankfully, the European storage target of 90% by 1st November has already been met, as it currently sits just above 94%.

Last year, we had a very mild autumn which helped to replenish gas storage levels given reduced demand. Had it been cold, we would have expected gas storage levels to have been more heavily relied upon. Winter 2022 was also generally mild, which meant that storage levels were not rapidly depleted, so there was no need for increased LNG supplies from Norway. This was especially beneficial given the Russia/Ukraine conflict and the impact on gas supplies across Europe.

The latest forecasts indicate that the chances of a warm autumn and early winter across Europe are growing. The most recent 46-day forecast shows temperatures sitting around 1-2 °C above the seasonal normal, through until early October, then moving slightly lower to sit just above the seasonal.





## SUMMER MAINTENANCE

During the summer months, we saw a lot of maintenance occurring for both gas fields and associated facilities, as well as power generation sites, i.e. power stations. The main reason for it happening during this time of the year is due to the lower demand for these fuels. Maintenance is planned months and years ahead so appropriate contingencies can be arranged.

Now despite lower demand during this time of year, any 'unplanned outages' of gas fields/power stations that are not on maintenance will lead to wholesale price increases, often by quite a significant amount! The reason for this is that as supply is already reduced, any further reduction of the previously available supply sources can potentially hamper things should demand increase.

In early June we saw a Norwegian gas field of a significant size experience an unplanned outage. This had a sizeable and immediate impact on the wholesale gas prices, as they rose that afternoon following the announcement.

These instances are an example of why regular hedging over a period of time makes strategic sense, so as to mitigate against sudden price surges.



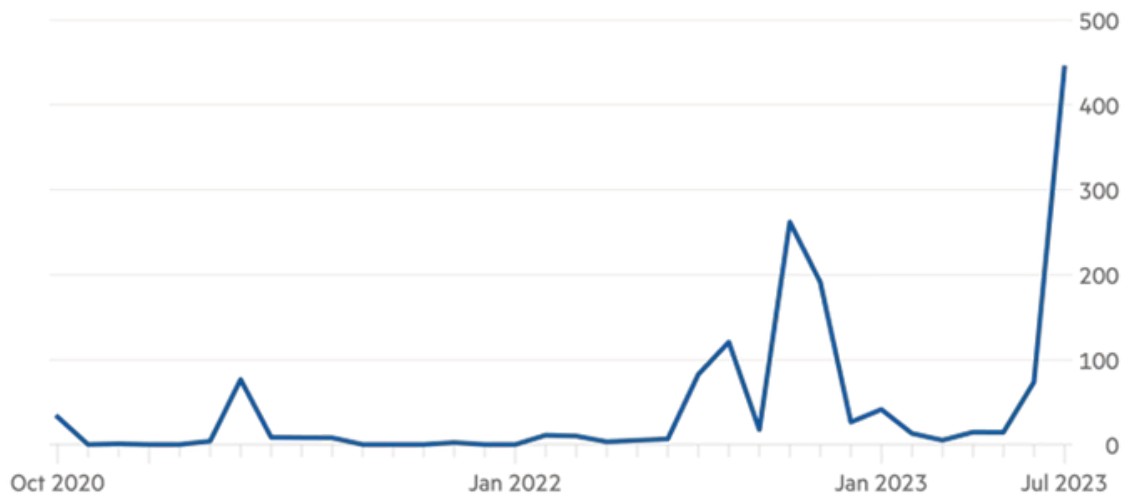


## UKRAINIAN STORAGE USAGE

Europe’s energy industry has started to ship large volumes of gas into Ukrainian storage, despite the ongoing conflict with Russia. Ukraine has more gas storage capacity than any country in the EU. Currently, more countries are injecting into Ukrainian storage - up from 2021.

### In July, the capacity booked on gas pipelines into Ukraine from the EU hit the highest level since September 2020

Volume (mn m<sup>3</sup>)



\* Sept 2020 = 1.83 bn m<sup>3</sup>

Source: Gas Transmission System Operator of Ukraine

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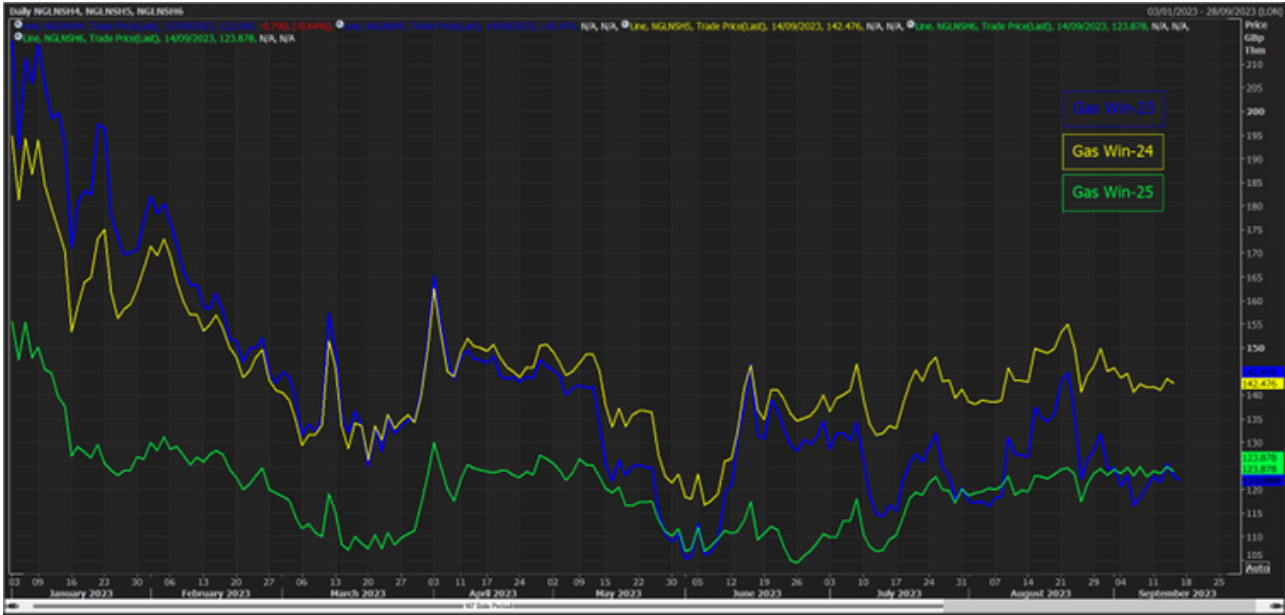
The region uses three times more gas during the winter months compared to the height of summer.

The continent is running out of options to store any gas supply surplus whilst consumption stagnates. Additionally, it has been said that Ukrainian storage could help stabilise the market and ensure the security of supply during the winter when demand peaks.

Thankfully these storage sites are on the opposite side of the country from where most of the conflict has taken place.

We have also noticed the backwardation of certain products. Looking at winter gas & power for Win-23, Win-24 & Win-25, we can see that Win-25 prices are level with Win-23 prices. This could be seen to align with the view by many commentators, that energy prices may remain at current levels for a good few years.

### Gas: Win-23/Win-24/Win-25



### Power: Win-23/Win-24/Win-25





## DYNAMIC INFLATIONARY MARKET MOVEMENT

Recent events over the past two months have highlighted the precarious 'knife-edge' situation the market finds itself in, with summer maintenance and industrial disputes at several Chevron LNG facilities in Australia. For much of 2023, we have seen wholesale energy prices drop, however, since early June we have seen a somewhat saw-tooth movement. On the announcement of negative news, despite strong bearish fundamentals, the market has moved upwards. We have then seen it gradually fall back. Further negative news has seen the market again tick up again! It highlights that volatile pattern that we appear to find ourselves in, with no, seemingly stable ground.

As previously mentioned, summer maintenance is the norm at major gas fields/facilities, however when we then have unplanned outages at the same time, we witness an often sizeable and rapid upward market price movement. This takes time for it to fall back to previous lows, if indeed it does at all. We can't plan for this, although we may anticipate them more so, given the time of year. One such occurrence happened on 13th June this year, seeing prices jump over 10p/Thm for Winter 2023, quite a significant rise. The Chevron situation is one that wasn't expected by those in the wider reaches of the industry. What it does and has highlighted is how globally interconnected the energy markets are.

On top of these examples, as we have previously highlighted, the ongoing Russia/Ukraine conflict and the potential Asian market increase in demand. These are continuing to bubble under the surface and could well do so for some time to come! This means that the current volatile price movement might remain for the foreseeable future. To try and mitigate a client's exposure to high prices due to the saw-toothing behaviour, signing up to longer-term flex contracts, allows traders to hedge the volume in small tranches further out, thereby covering some volume whilst continuing to further monitor the market. If prices do then increase and further trades are made, the overall weighted average price would not be as high as the new price.





## HOW CAN WE HELP?


Our sustainability department continues to offer an ever-increasing range of products and technologies aimed at reducing energy consumption, and associated costs and driving down carbon emissions. We will of course continue to keep you updated about 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 to help customers navigate 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 on 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 to discuss how we may be able to help.**

 [info@advantageutilities.com](mailto:info@advantageutilities.com)




## BULLISH

- INCREASE IN ASIAN ENERGY DEMAND
- POLITICAL & ECONOMIC INSTABILITY AND UNCERTAINTY 
- LNG INFREQUENCY
- EL NINO EFFECTS FROM LATE 2023
- UKRAINE WAR - RUSSIA SABOTAGE
- INDUSTRIAL STRIKE ACTIONS
- EXTENDED MAINTENANCE & UNPLANNED OUTAGES
- HIGH OIL PRICES


## RANGEBOUND


- VOLATILITY & UNCERTAINTY 
- CARBON
- STEADY GAS IMPORTS
- HEALTHY RENEWABLES GENERATION

## BEARISH

- HEALTHY EU GAS STORAGE LEVELS 
- WARM WEATHER AUTUMN
- GLOBAL RECESSION

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