

ADVANTAGE UTILITIES
YOUR COMPETITIVE ADVANTAGE

QUARTER 1 - 2023 ENERGY BUDGET OPTIMISATION REPORT



THE ENERGY PRICE ROLLERCOASTER

"Prices then, now, and tomorrow"



TRANSITION AWAY FROM RUSSIAN GAS

"The great escape"



GOVERNMENT SUPPORT




"Respite and relief"



WELCOME TO THE ADVANTAGE UTILITIES ENERGY BUDGET OPTIMISATION REPORT Q1, 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:

-  Energy price rollercoaster
-  Transition away from Russian gas
-  Government support - respite and relief

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.





THE ENERGY PRICE ROLLERCOASTER

It has been nearly 12 months since Russia first invaded Ukraine, the key contributory factor in sending European and UK energy prices on a roller coaster ride, the likes of which has never been seen before.

At certain points throughout 2022, seasonal prices reached over 15 times higher than the lows we saw during covid for instance. This resulted in some businesses seeing increases in excess of 1200% depending on renewal and market conditions at point of contracting. However, it is important to remember that events during covid which caused a dramatic downturn in consumption, and in turn prices, was perhaps a one off and these low levels may never be seen again.

For context, gas and power prices are now around 150% - 200% higher than pre-pandemic levels, which is probably a better benchmark to compare against historically. And considering the eye watering prices that have been witnessed over the last 18 months, then these figures perhaps become more palatable for businesses and consumers.

With markets now largely bearish as hoped, the question for many buyers and analysts is what is the new 'normal'?

It could be that if markets continue to come off, figures of £100/MWh and 100p/Therm may become the new 'normal', especially considering that pre pandemic levels often traded between the 50-70 marks by comparison.

We are seeing some seasonal prices further out on the curve hovering around these levels at present which is very encouraging.

UK GAS AND POWER SEASONAL PRICES



Source: Reuters



THE GREAT ESCAPE

Europe can be credited with an accelerated transition away from Russian gas reliance over the last 12 months. We have seen more LNG imports into Europe and new terminals come online, including Germany's first ever LNG terminal, increased natural gas exploration, increased nuclear output, temporary restarted coal production, as well as expediting growth in greener options such as solar, wind, and hydro.

However, we must also thank mother nature somewhat as Europe in the main saw one of the mildest winters in quite some time which helped keep gas storages at near capacity along with an influx of LNG arrivals, that helped keep storage levels well away from potential panic.

Some analysts maintain that even a harsh winter would not have caused as much concern as was first feared when Russian gas started to be choked into Europe. That said, we also need to be mindful that it was also coupled with lower LNG imports and demand in Asia, especially from China who were still under very strict covid measures.

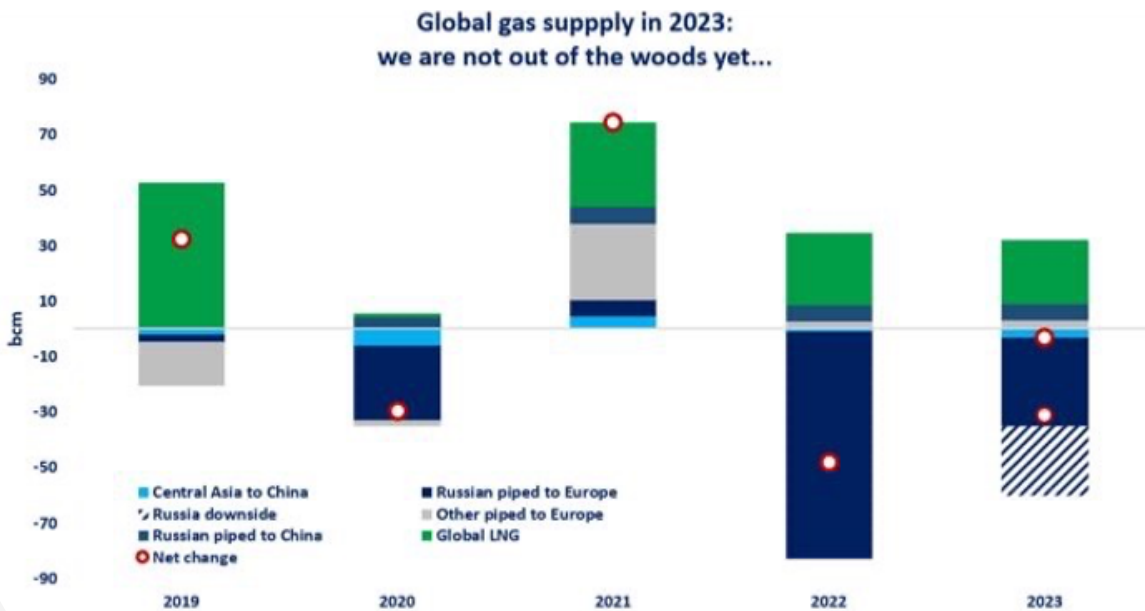
Regardless, it can only be viewed in a positive context that with backs to the wall, Europe found itself able to navigate the precarious situation. This, in turn should provide confidence that Europe and the UK can cope into a second winter and beyond, on the assumption that we never see a return to Russian gas and oil.



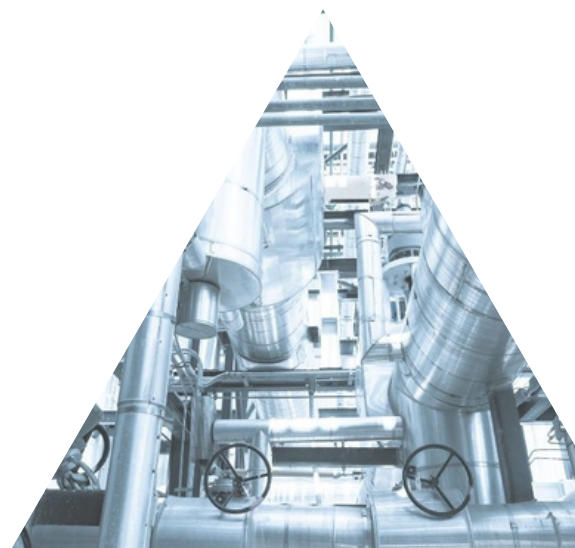
NOT OUT OF THE WOODS YET

It is certainly no time for the UK and Europe to sit on their laurels. Instead, the requirement will be to continue providing much needed funding for exploration into renewables, nuclear and hydrogen. In order to entice new players to the market, it is conceivable that in time we could see a reflection of this included in taxes and levies added to future energy bills.

The graphic below suggests that there will be further reduction in Russian gas exports to Europe in 2023, and whilst we see new LNG projects come online, as well as hopefully the return of U.S. Freeports facility, it is forecast that there could be a shortfall between the two of 10 BCM



Source: <https://globallnghub.com/>



Asian demand remains lacklustre and there is currently no indication of colder spells expected, which will see LNG cargoes continue to buzz around Europe's shores. Around 70% of recent U.S. LNG is docking to Europe. And with Chinese covid cases and policies still in question, we may yet still see further dampening of Asian demand before it gets stronger.

Current UK gas storage levels below show how ample these currently are as we head into the final parts of Winter with no real cold snaps suggested and a further mild weather predicted at present for February.

UK GAS STORAGE LEVELS



Source: Reuters



GOVERNMENT SUPPORT

Some respite and relief for UK businesses arrived in the form of the Energy Bill Relief Scheme (EBRS) which provided a cap on gas and power prices for the duration from October 2022 to March 2023 inclusive.

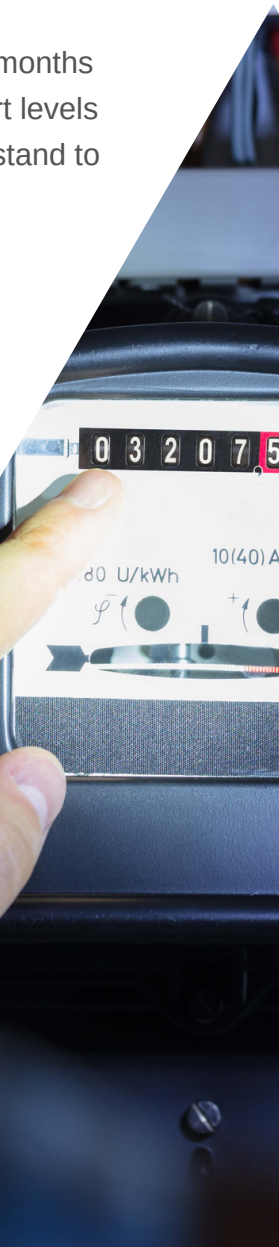
These caps and discounts have helped support many organisations although some clients benefiting from a flexible procurement strategy have been able to garner lower prices than the support level during some of these periods owing to strategic day/month ahead purchases, whilst riding the volatility, Initially the Government and BEIS intimated that there would be no extension to this scheme.

However, a new scheme has subsequently been created which will come into place for 12 months from April 2023, called Energy Bill Discount Scheme (EBDS). This involves reduced support levels and with current wholesale prices well below the cap in question, most businesses will not stand to benefit moving forwards.

There is an extension to this scheme applicable to a minority of businesses that are deemed energy intensive users under the Energy and Trade Intensive Industries scheme (ETIIs), where financial support is more favourable, albeit, only applicable to 70% of energy consumption.

A recent email publication was sent by us with more detail around this, so please refer to that or speak to your point of contact if you require any guidance around this. Alternatively, details can also be found on the government website as follows:

Energy Bills Discount Scheme - GOV.UK (www.gov.uk)



HOW CAN ADVANTAGE HELP?

Our sustainability department continue 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 of course 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.

N2EX DAY AHEAD POWER WHOLESALE PRICES

GBP/MWH	2022	GBP/MWH	JAN-23
JAN	182,80	01	93,40
FEB	161.94	02	163,45
MAR	250,41	03	142.37
APR	176,78	04	107.07
MAY	124,81	05	127,73
JUN	159.55	06	107.89
JUL	242,72	07	105,00
AUG	370.28	08	78,12
SEP	270,71	09	120.61
OCT	119.25	10	122,42
NOV	137,91	11	98.54
DEC	248,34	12	99,10
		13	99,67
		14	94.26
		15	95.37
		16	151.75
		17	156.58
		18	137,64

GAS DAY AHEAD SMP BUY PRICES FOR FLEX

DAY AHEAD SMP BUY PRICE	P/KWH
JAN-23	5.81
DEC-22	9.66
NOV-22	4.75
OCT-22	4.13
SEP-22	9.45
AUG-22	13.20
JUL-22	8.02
JUN-22	5.01
MAY-22	3.69
APR-22	6.33
MAR-22	10.21
FEB-22	6.59

As per below graphic, it highlights where some of our flexible contract customers at certain times were able to benefit from month ahead price divergence from seasonal, and in turn, day ahead pricing (where applicable for certain products)



BEARISH

- LNG abundance
- Mild Weather
- Low Asian Demand
- Recession
- End of Russia/Ukraine Crisis
- EU/UK Gas Storage
- Renewable Acceleration in Europe



RANGEBOUND

- Oil
- Coal
- Carbon



BULLISH

- Further Escalation by Russia in Ukraine**
- Increase in Asian Demand
- Any unforeseen cold spells
- Inflation
- Poor £ Sterling
- Russian Gas Exports Reduced Further



**We would envisage this causing a knee jerk reaction as opposed to a long term trend upwards, with potentially most of Russian exports heading towards zero, already priced into the market

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