ADVANTAGE UTILITIES

YOUR COMPETITIVE ADVANTAGE

Quarter 3 - 2022
ENERGY BUDGET OPTIMISATION REPORT

Hyper Volatility

Continued Record-Breaking Energy Prices

The War won't be over by Christmas

Inflation to 15%?

There are solutions to rising costs

Date published: 11th July 2022

Welcome to the Advantage Utilities Energy Budget Optimisation Report Q3 2022

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 2022 and ultimately the cost of energy over the next 12 months...

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.

Issues covered in this report:

- Hyper Volatility
- Continued Record-Breaking Energy Prices
- The War won't be over by Christmas
- Inflation to 15%?
- There are solutions to rising costs

If it can go wrong, it will...

The crisis in Ukraine rumbles on and unfortunately, on the surface at least, a swift resolution appears unlikely.

The increasingly prolonged nature of the conflict is in turn continuing to have a knock-on effect to global prices for oil, gas, and power.

To further compound matters, Russian gas flows being squeezed and a fire at the U.S. Freeport LNG terminal couldn’t have come at a worse time.

Europe and the UK are now more heavily reliant on LNG imports from the U.S. and elsewhere with this having been the case even before Russia’s invasion of Ukraine. Therefore, with Freeport accounting for around 15% of the total U.S. exports, it was enough to cause another knee jerk reaction in EU and UK markets.

The opposite was seen for U.S Henry Hub prices as more gas was available for domestic usage. The initial 3-week repair estimate was quickly revised to circa 90 days.

Outages to Norwegian flows and French nuclear finding further faults and maintenance issues supported the markets further.

Take Control

The Cheapest Unit of Energy is the one we do not consume

As a business, it is perhaps more important than ever for us to explore what energy savings can be targeted outside of the traditional energy supply agreement.

Timing and/or the way we purchase energy - such as flexible contracts - can help mitigate cost increases; however, a wider, **more robust energy plan**, possibly intertwined with a net zero target will likely prove key to controlling long term costs.

The geopolitical climate as well as the prevailing warm weather of late are perhaps a timely reminder of the need for Europe and the UK to expedite the implementation of more home-grown renewable, cleaner energy generation such as solar and wind, whilst moving away from the reliance on Russian gas and LNG imports.

As we've previously emphasised, the cheapest unit of energy is the unit we do not consume. This perhaps resonates now more than ever given prices have hit astonishing levels, such as 50p to 60p per kwh for power on business invoices. In the current climate, it would only take a very small percentage reduction in energy usage to yield healthy financial savings.

Energy technology is typically becoming increasingly more affordable, with a variety of funding options available and return on investment times being reduced. Options we can produce feasibility studies on would include the likes of onsite solar, wind, battery storage, CHP, Voltage Optimisation to name just a few.

It is also perhaps worth noting that larger scale projects may qualify for **Power Purchase Agreement (PPA)** funding which in turn allows organisations to benefit from the technology without any capital outlay, risk or ongoing maintenance responsibility.

We can help you start your journey towards becoming greener and assist you along the path every step of the way. Starting from desktop audits, various energy management products and services are now an option for most businesses, regardless of your size and level of energy consumption.

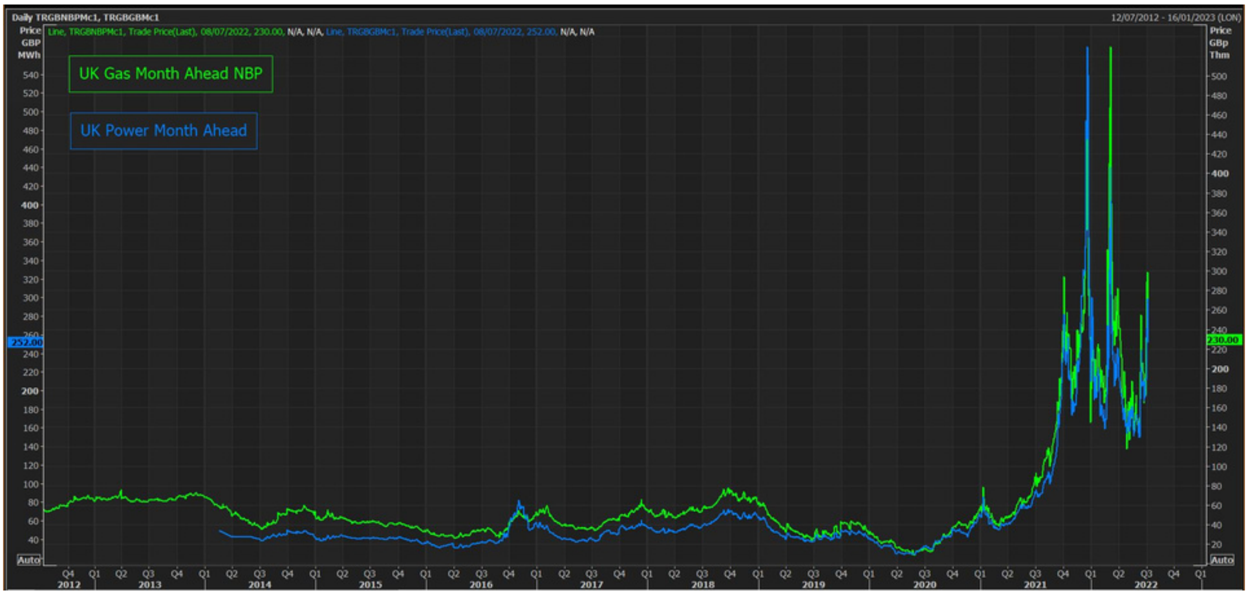
Ask your Account Manager today to see how we can help you and your business to start on the road to net zero.

Volatility Persists and Here to Stay?

Tell me how volatile energy prices are without using words...

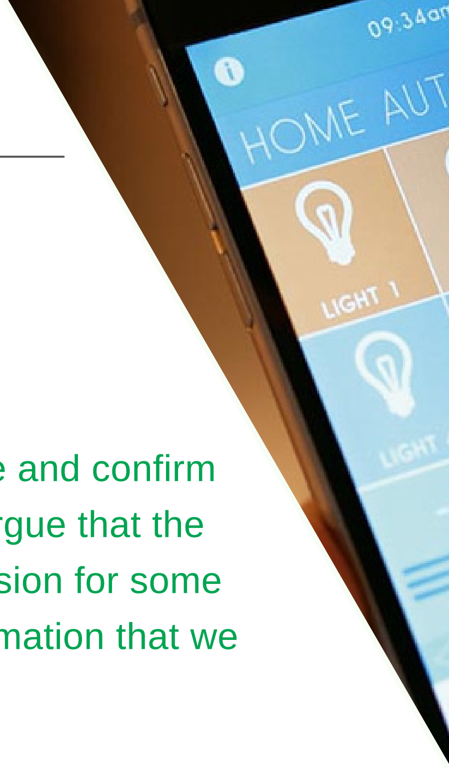
Well, the following graph certainly illustrates just this! Volatility has been prevalent throughout the energy markets over the last 25 years; however, it mostly pales into insignificance when looking at this chart of UK gas and power prices over the last decade.

Monthly UK Gas Prices – 10 Year



Source: Reuters

Any previous spikes prior to Oct21, which would have previously stood out, are now barely visible against the backdrop of the market reactions from late 2021 to present. With the Russia/Ukraine conflict, Asian demand, economic turmoil, rapid shift in supply/demand post Covid all contributing to the unprecedented spikes and increases seen over the last 9 months.



Broken Britain
Recession Looming?

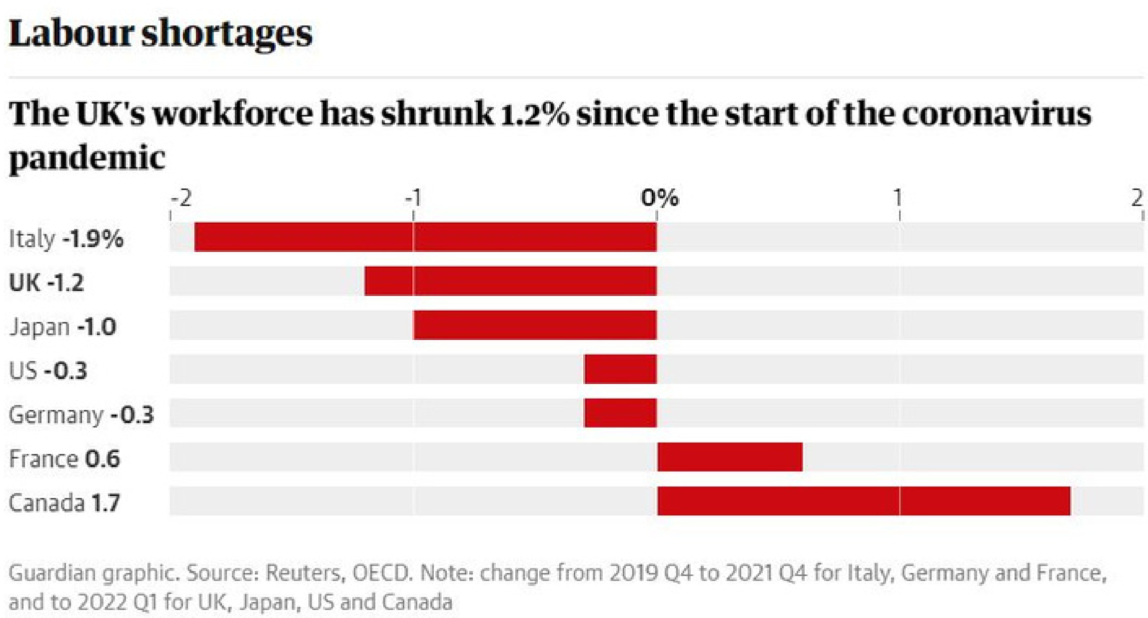
Whilst the official formulas used by Governments to calculate and confirm recessions are yet to be triggered, it would be very hard to argue that the UK has not been exhibiting many of the hallmarks of a recession for some time now. How long will it be before we receive official confirmation that we are in fact recession bound?

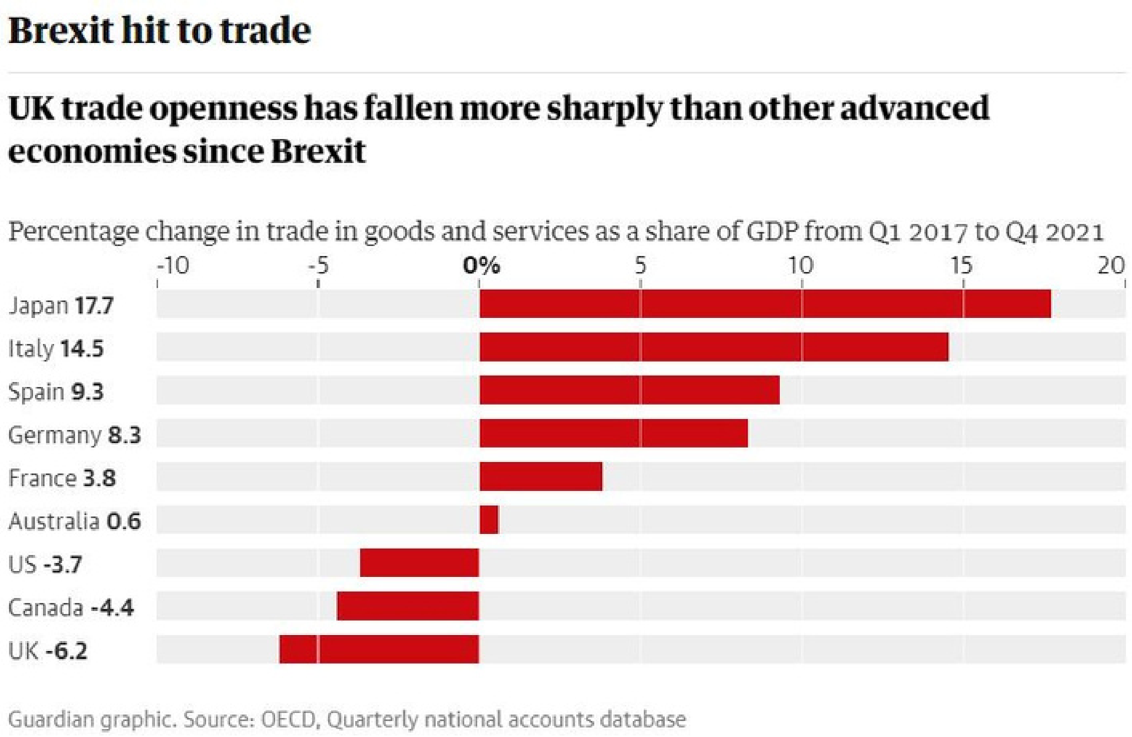
Inflation is at a 40 year high in the UK and energy prices often correlate closely to inflation. The Bank of England has hinted however that perhaps a gradual approach to interest rate increases will be required to counter inflation.

This has helped see the pound head for its biggest six-month drop against the US dollar since 2016, the year of the Brexit referendum.

Only 6 months ago it was expected that the UK would fare OK; indeed, a strong economic recovery was predicted.

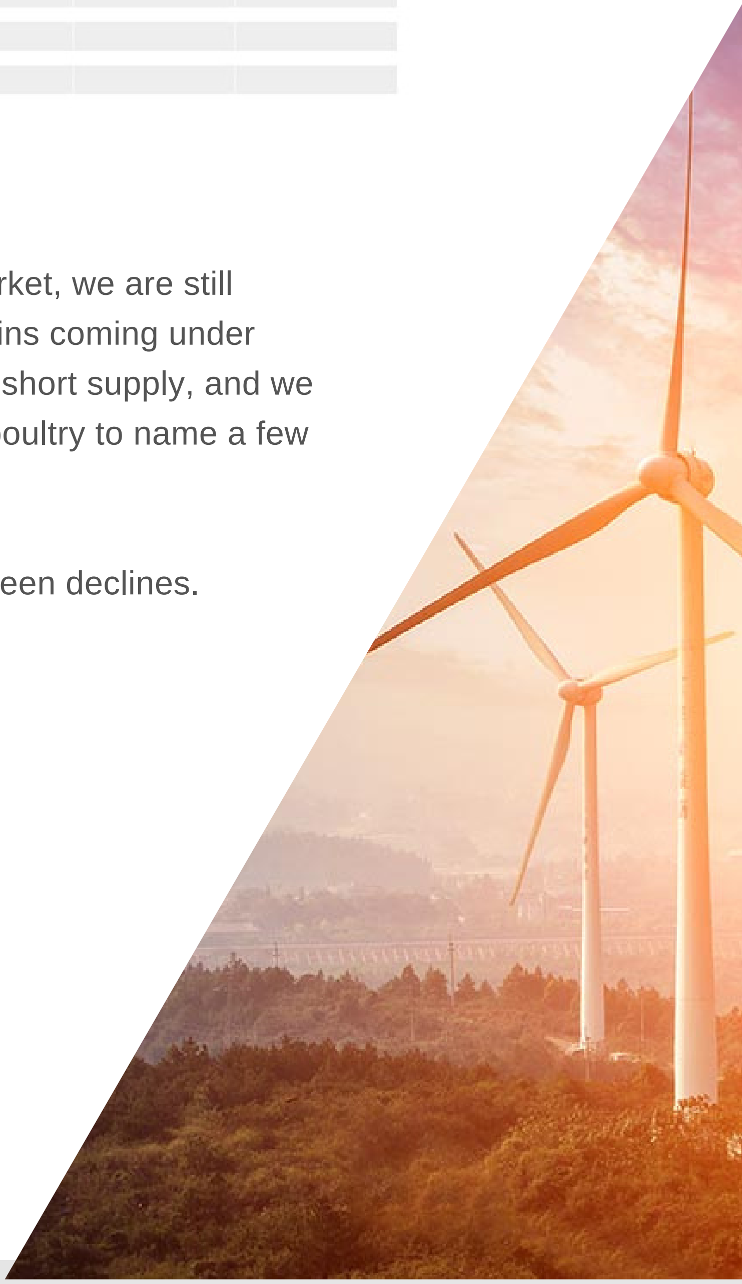
However, in addition to soaring inflation, we are seeing the damage from the covid pandemic, slow return to pre-covid work patterns, and the fallout from Brexit, which has seen extra costs and restrictions on exporters to the EU and limited the supply of skilled labour.





18 months on from the UK leaving the single market, we are still experiencing various challenges with supply chains coming under pressure. There are still certain items that are in short supply, and we have seen problems with cooking oil, toys, and poultry to name a few over the course of the fallout.

Growth, funding, and cultural activities have all seen declines.



DRIVERS

BULLISH

- Oil
- Carbon
- Lower £ Sterling - $ Strength
- Coal
- Russia/Ukraine crisis

RANGEBOUND

- Wind generation
- Norwegian Gas Flows

BEARISH

- Warm Weather
- LNG Arrivals
- Russia/Ukraine Peace
- New PM - Lower Green Taxes

Outlook

It is inevitably going to continue to be very hard to predict the future course of energy prices amidst the backdrop of the ongoing geopolitical issues, uncertainty and volatility.

However, as we have highlighted in this report, a more robust energy plan including changing the way we procure energy can significantly help mitigate cost increases and effectively control energy expenditure as well as helping achieve any net zero aspirations.

Contact us now to ascertain which additional products, services, and suites we can potentially offer your business to try and help during these difficult and volatile times.

CONTACT US

0207 371 5360

info@advantageutilities.com

www.advantageutilities.com

Coda Studios, 189 Munster Rd, SW6 6AW