

9 May 2017

WHOLESALE ENERGY PRICES: MARCH – APRIL 2017:

In this series of articles, Dominic Whittome covers recent changes to wholesale energy prices.

Crude Oil

Brent fell 10% amid lingering concern about over-supplied oil markets and US output climbing to 9.25 million a day, its highest level since August 2015. Meanwhile, last year's production accord struck between OPEC, Russia and other non-OPEC nations, which had initially intended to eliminate a 300 million barrel stockpile over a global five-year average (three days of worldwide production), has succeeded in lifting prices and keeping them above \$50/bl. However, the price impact has been muted otherwise.

The inventories picture is mixed and reports are also contradictory. Refinery supplies are still rising although offshore inventories are reported to be falling; a sign perhaps that the production cuts agreed last year are taking longer to feed through than ministers bargained. If OPEC and non-OPEC ministers, meeting behind-the-scenes now, do agree to significant further cuts in time for the next Vienna meeting on May 25th then crude could break out of its current \$45 to \$55/bl price range and head back above \$60 or \$70/bl. However, the market will first want to see evidence of agreed cuts showing up in refinery inventories before any new price range is established.

Natural Gas

The forward year OTC gas contract fell back 15% over the two month period in the absence of any significant supply issues. However, gas prices will be sensitive to any further heightening of tension in the Korean Peninsula. Although Geo-political risks affect all energy commodities, gas stands to be affected most, perhaps, in light of threats to shipping and the disruption of diverted spot and contracted LNG cargoes destined for European terminals, as well as its link to the Rotterdam oil market.

For the time being, gas prices are also being held back by the declining price of coal, which recently traded below \$65/tonne. The falling carbon price has also taken its toll with the EU-ETS contract trading below €4.50/tonne at one stage in April, its lowest level since last summer. Traders have commented on a 'loss of direction' in the market, drifting away from supply-specific fundamentals. If so, this could signify gas prices shadowing the crude and petroleum products markets in weeks ahead.

Electricity

Last month saw the first day in which UK coal plants producing zero electricity; a timely reminder of the increasing reliance on renewables, new-build nuclear and interconnector projects in order to

Prospect Law Ltd
23 Berkeley Square, London W1J 6HE
T +44 (0)20 7947 5354

Regus House, Pegasus Business Park, Castle
Donington, Derbyshire DE74 2TZ
T +44 (0)1332 818 785

 @prospectupdate
E info@prospectlaw.co.uk
www.prospectlaw.co.uk

9 May 2017

fill the impending generation gap as the last of the coal and ageing Advanced Gas-cooled Reactors are taken offline.

Each of these alternatives carry uncertainties in respect of capacity available on the day and construction timescale. Further, the trend towards decentralised grids and the 'off shoring' of capacity (i.e. interconnectors) could increase burdens on the balancing system and, as a consequence, the suppliers' average risk-premium added within long-term power contracts as more producers and traders become adverse to contracting forward. Conceivably this will worsen the current liquidity problems further, with reports of senior traders and trading directors now retreating from forward trading altogether and contenting themselves with the prompt markets only. This would leave industrial prices ever more prone to sudden price corrections, if we assume that forward prices then become more likely to take their cue from the prompt market as a result of little activity in the relevant forward market.

While the election date has sapped chances of any early energy policy announcement, there was little in the market to console fossil-fuel generator or storage investors either, with spark spreads drifting below 4% and weakening intra-day/Red Zone spreads compromising commercial cases for battery storage. However, relevant policy announcements are believed possible a few months after the summer recess, potentially in October or sooner.

Prospect Law and Prospect Advisory provide legal and business consultancy services for clients involved in the infrastructure, energy and financial sectors.

Prices quoted are indicative and may be based on approximate or readjusted prices, indices or mean levels discussed in the market. No warranty is given to the accuracy of any view, statement or price information made here which readers must verify.

Dominic Whittome is an economist with 25 years of commercial experience in oil & gas exploration, power generation, business development and supply & trading. Dominic has served as an analyst, contract negotiator and Head of Trading with four energy majors (Statoil, Mobil, ENI and EDF). As a consultant, Dominic has also advised government clients (including the UK Treasury, Met Office and Consumer Focus) and various private entities on a range of energy origination, strategy and trading issues.

For more information please contact us on 020 7947 5354 or by email on: info@prospectlaw.co.uk.

Prospect Law Ltd
23 Berkeley Square, London W1J 6HE
T +44 (0)20 7947 5354

Regus House, Pegasus Business Park, Castle
Donington, Derbyshire DE74 2TZ
T +44 (0)1332 818 785

 @prospectupdate
E info@prospectlaw.co.uk
www.prospectlaw.co.uk