

7 September 2017

## WHOLESALE ENERGY PRICES: JULY – AUGUST 2017:

*In this article, Dominic Whittome covers recent changes to wholesale energy prices.*

### Crude Oil

Forward and spot markets across energy commodities increased over the summer. This was led by crude, which rose over 7% with the futures market buoyed by reports of progress in quota compliance amongst OPEC and OPEC-Alliance producing countries. The geo-political concerns highlighted in July's issue are also taking hold. Although Latin American tensions have eased, those in the Korean Peninsula remain foremost in peoples' minds. Indeed, the oil market may be driven higher if more investors view hard commodities as a safe haven.

The refined products markets rose ahead of crude prices amid reports of increased military stocking (chiefly jet-kerosene). Meanwhile, US storms and emergency draws on the Strategic Petroleum Reserve, and also served to drive crude and petroleum products prices up.

Long term hopes for shale took a knock in confidence with an announcement from BHP Billiton that it was selling investments in the US to stem losses on its fracking venture. This news was compounded by comments by the CEO of Total, perhaps the one energy major with the most significant shale involvement, asserting that oil prices will need to stabilise well over \$80/bl before any significant new investments can be justified.

### Natural Gas

Gas finished the period up more than 3p per therm.

The spectre of North American refiners converging on the Rotterdam spot market drove up European prices for all petroleum products, notably middle distillates. This had a knock-on effect on gas, which is often contractually-indexed to heating oil. It is also a naturally interchangeable refinery product which is frequently blended with kerosene at refineries, hence the strong price correlation notwithstanding the supply basis. This factor and the rise in energy prices across the board perhaps best explains the recent run in gas prices, a market which is otherwise very well supplied, with talk of some LNG cargoes hitherto destined for South Asia now being diverted to European terminals.

Petroleum markets aside, the effects of the weakness of Sterling vs. the Euro, with the determining €/MWh price converting into p/therm, needs to be considered too. The North European gas market is essentially a single, inter-connected supply pool, with the UK price at the National Balancing Point (NBP) essentially 'set' by trans-European deliveries cleared in and out of the Title Transfer Facility (TTF) in Holland. A sustained or further weakening in Sterling could put upwards pressure on prices in the UK therefore, especially if regional European spot markets start to tighten once winter takes a hold or we see outages at key power stations requiring an uptake in gas or coal.

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](mailto:info@prospectlaw.co.uk)  
[www.prospectlaw.co.uk](http://www.prospectlaw.co.uk)

7 September 2017

## Electricity

Wholesale power prices saw the strongest gains of all, with the annual 2017 base-load contract and the spark spread rising 6% and 11% respectively.

Nuclear power stations in France and Benelux, which represent the backbone of the Continent's supply, had come under increasing safety/decommissioning authority scrutiny, with considerable uncertainty and lack of information on the long-term future of key generators unnerving the forward market.

Industrial electricity prices in the United Kingdom, meanwhile, increased further, partly in unison with steep rises in domestic tariffs and rising input wholesale costs. The impending Energy Intensive Industry (EII) exemption surcharge will soon be affecting end-users on both new and existing long-term contracts from next April. There is some consternation amongst buyers, not just in relation to the justice of the tax itself (which exists chiefly to pay for a tax exemption for larger energy-intensive buyers) but to the uncertainty it is causing as well. Whilst the surcharge will apply from April 2018, buyers still remain in the dark as to what the actual tax rate will be - a case of Whitehall 'delaying' bad news, perhaps. Some suppliers have been offering premium-rated 'insured tariffs' in response to these end-user concerns.

But perhaps the real 'elephant in the room' is inflation. Not so much headline RPI or CPI, but leading-indicator of Producer/Factory Gate prices, with some industry trade associations telling us that such indices are already heading into double figures. Were this to be the case, there are contractual clauses and statutory measures in place to trigger automatic rises across wholesale, industrial and commercial prices. The same inflation-related factors affect the gas market, and in both cases, EUA carbon prices (up by more than 15% over the two month period according to Gazprom Research) could also chase industrial energy costs higher, unless such inflation can be kept in check.

---

*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 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](mailto: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](mailto:info@prospectlaw.co.uk)  
[www.prospectlaw.co.uk](http://www.prospectlaw.co.uk)