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WHOLESALE ENERGY PRICES: NOVEMBER - DECEMBER 2017:

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

Oil

The petroleum market continued to charge upwards. Dated Brent prices closed the two month period 19% higher. In the last two years, since the January 2016 Edition of Energy Highlights, world oil prices have risen over 80%. Whilst the so-far successful accord between OPEC and non-OPEC producers has certainly had an impact, shale has yet to have the dampening effect which some in the market had asserted it would.

No one knows how far oil prices may have to run before marginal supplies (i.e. not covered by the Accord, US shale being just one option available) arrive en masse. Whilst prices will not necessarily reach this level, E&P studies suggest that only once oil prices are sustained over $75/bl will significant new developments come online.

The Brent market spiked higher in December amid outages at Statoil's Troll platform and Forties pipeline, which shut-in over 70 North Sea platforms in total at one stage, including the ETAP, Armada and Buzzard fields along with Forties itself, removing 45% of UK winter supply. While the pipeline is back online now, attention at the turn of the New Year turned towards troubles in Iran, which buoyed Dated Brent cargoes above $65 /bl into the New Year.

Natural Gas

Natural gas prices, on the other hand, took most of last month's events in their stride, despite much of the upheaval relating to the gas market itself. Day-ahead spot leapt to a 4 year high of 80 p/th at one point amid concern over supply, as the UK entered its first winter with no principal (long duration) gas storage facility following the closure of Rough combined with a major explosion at the sensitive Russian import thoroughfare at Baumgarten in Austria. Yet, this barely affected the forward curve in the end. The Annual Contract rose just 2% over the two periods and gas prices actually fell 4% over the year. This relaxed market might symbolize the abundance of global gas supplies relative to oil, and also national aversion to building new gas power stations, efficiency and de-carbonisation globally.

However, gas prices, through oil-indexed contracts and (to an extent still) fuel substitution, will at some point respond to rising energy commodity prices if that trend continues, even if the indexation-lag is pronged (which it often can be). It remains to be seen whether gas prices will remain so calm, even though the forward supply picture remains robust.

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Electricity

Forward power prices rose 5% between November and January to finish the year unchanged at roughly £48/MWh. The spark spread has been rising, although whether this will trigger some of the stalled UK gas generation projects remains unclear, with government policy the most likely determinate there. As regards the wholesale market, the outlook for significant price rises in base-load electricity looks muted still. However, for commercial & industrial markets, the outlook is significantly more bullish, with a cocktail of transmission, distribution tariff, existing surcharge and new energy tax rises in the pipeline. These could increase the annual bills for commercial customers by 30% inside three years, notwithstanding changes to wholesale prices.

Despite rising commodity prices elsewhere, forward curve and prompt market prices were also subdued by sentiment on wind generation. A '£57.50/kWh' headline figure made the news in October (although it doesn't imply many new wind projects will be commercial at such a price) and high winds across Europe in late December also suppressed the day-ahead market. That said, the take-up of renewables combined with certainly lower costs have surpassed expectations, serving to soften forward prices. A cursory look at the 'speedometers' on www.gridwatch.templar.co.uk in recent weeks demonstrates just how significant wind output was, amid several Triad warnings in December itself, frequently testing the 9 GW level. This, together with robust nuclear output, compensated for the sudden and unexpected closure of Drax, the UK's largest power station, despite the outage continuing into the New Year.

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.

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