Prices: where next

Wholesale Market Strategy

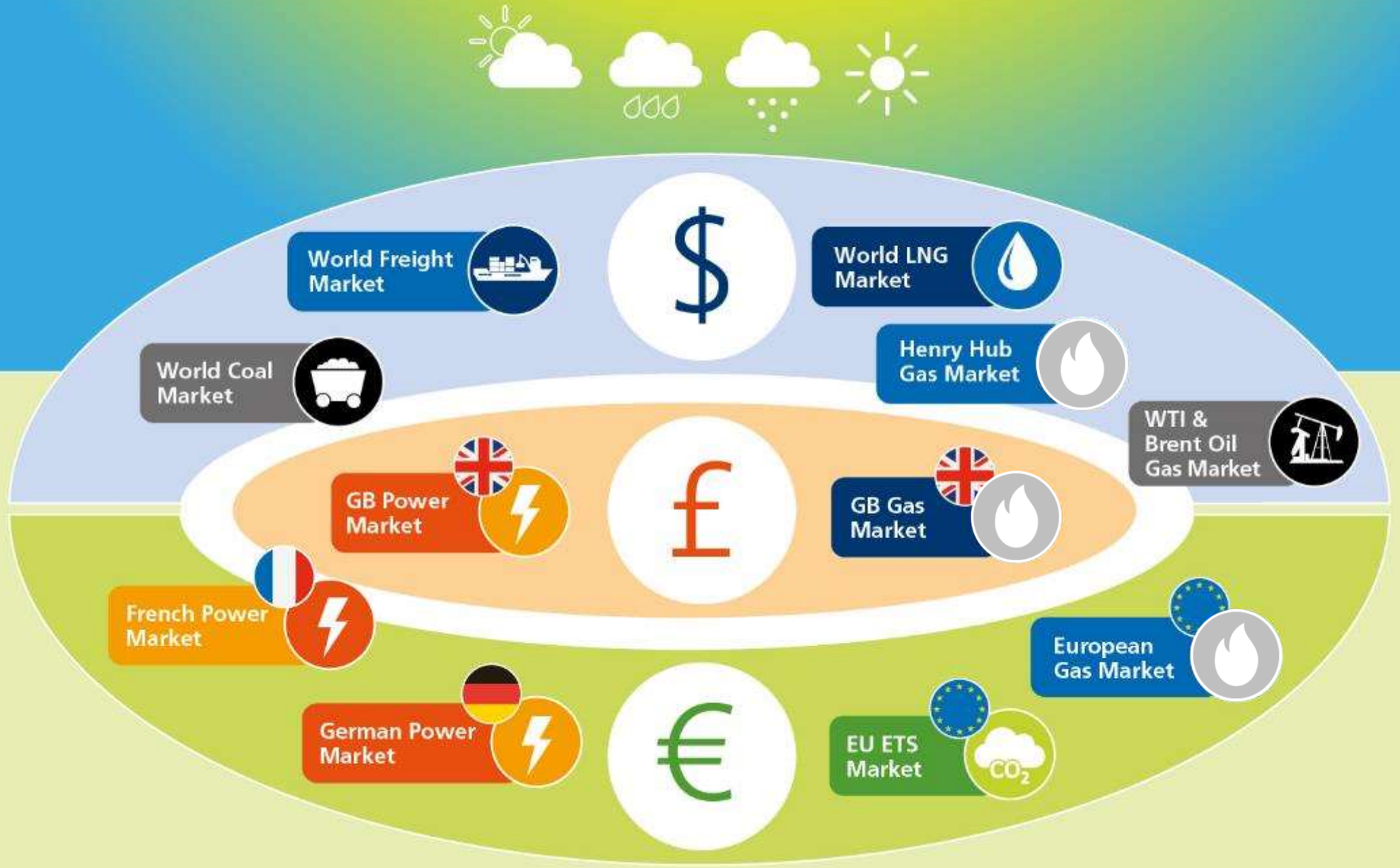
James Chaplin

Energy Trader

Agenda

1. **What influences the wholesale energy price?**
2. **Power supply stack**
3. **Yearly price movements**
4. **Gas**
   - Supply stack
   - Key supply risks
   - European gas storage
   - Global LNG
5. **Additional factors**
   - Cost of carbon
   - Capacity changes
   - Renewables impact on price
   - Summary
6. **Cost stack** including non-energy costs

What influences the wholesale energy price?



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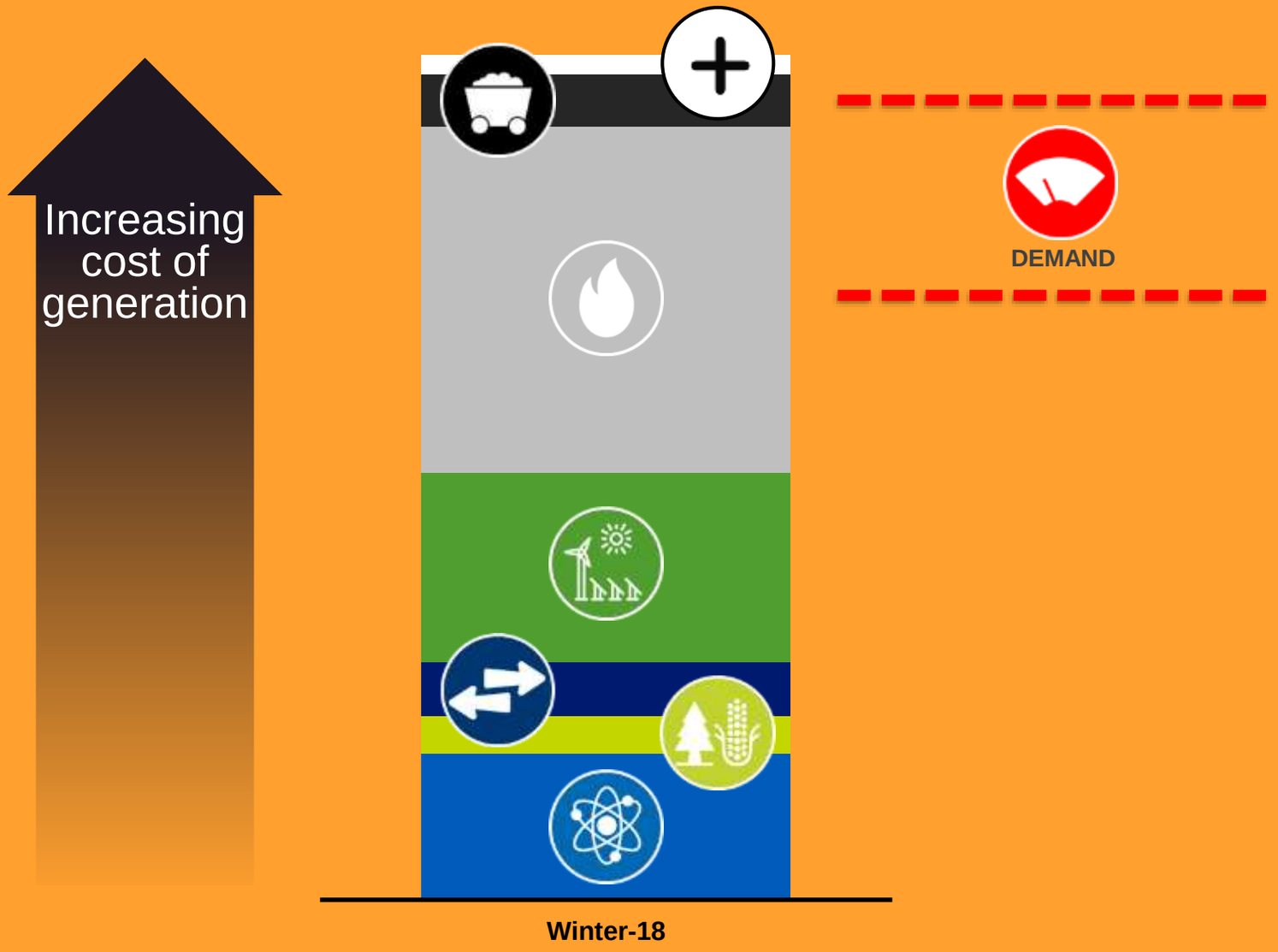
UK Power supply stack



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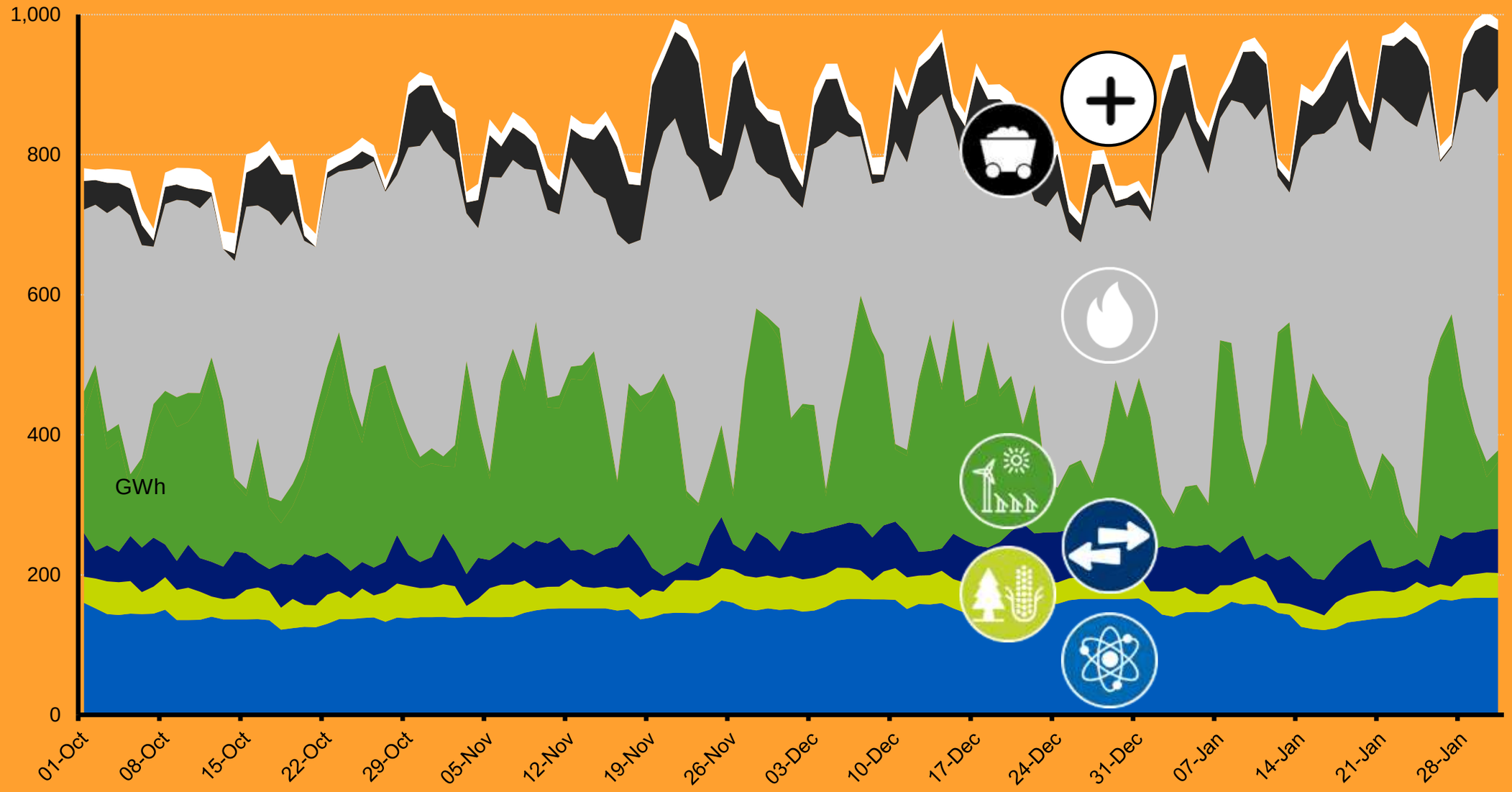
UK Power supply

Increase in renewable capacity adding volatility to prompt prices



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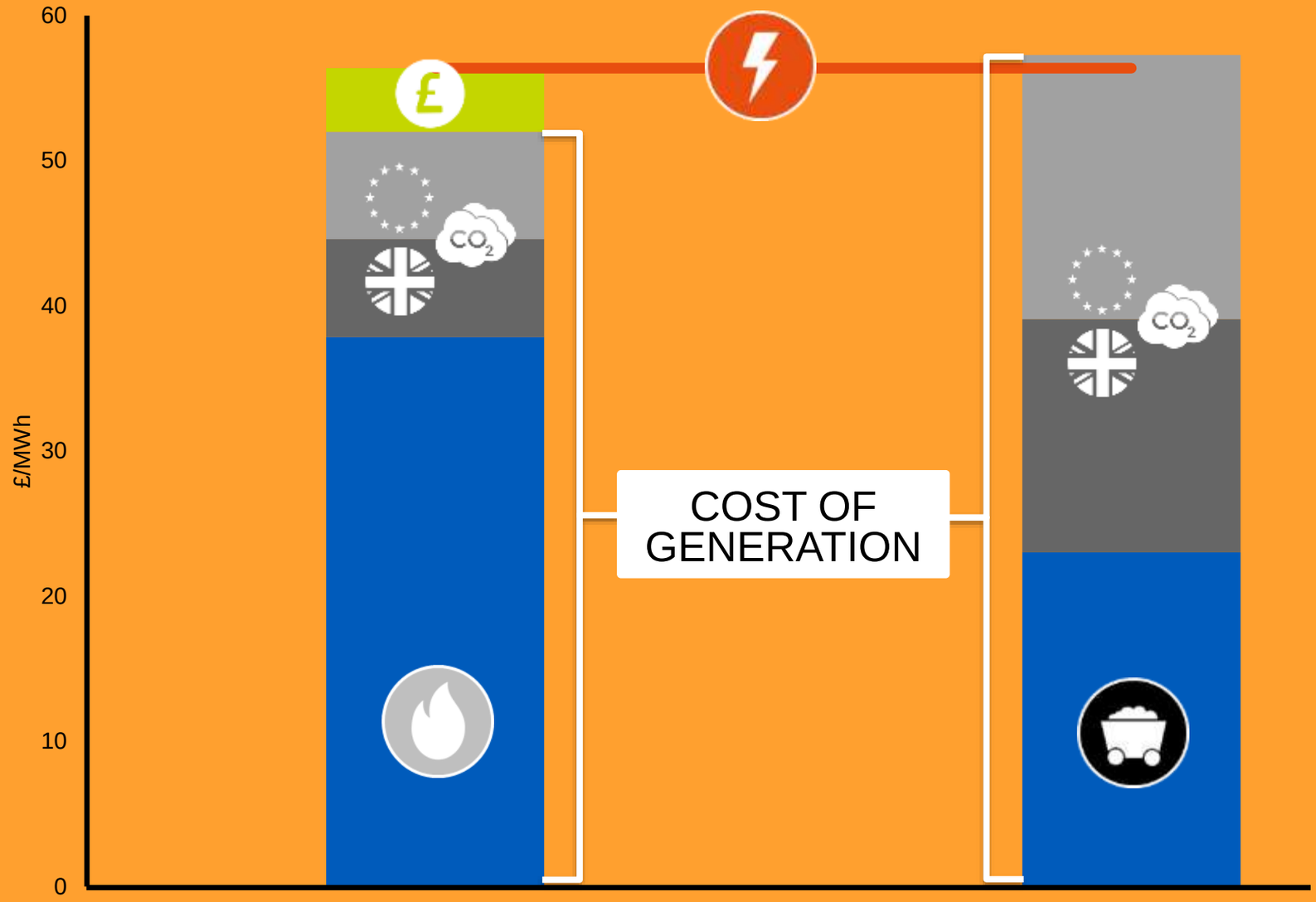
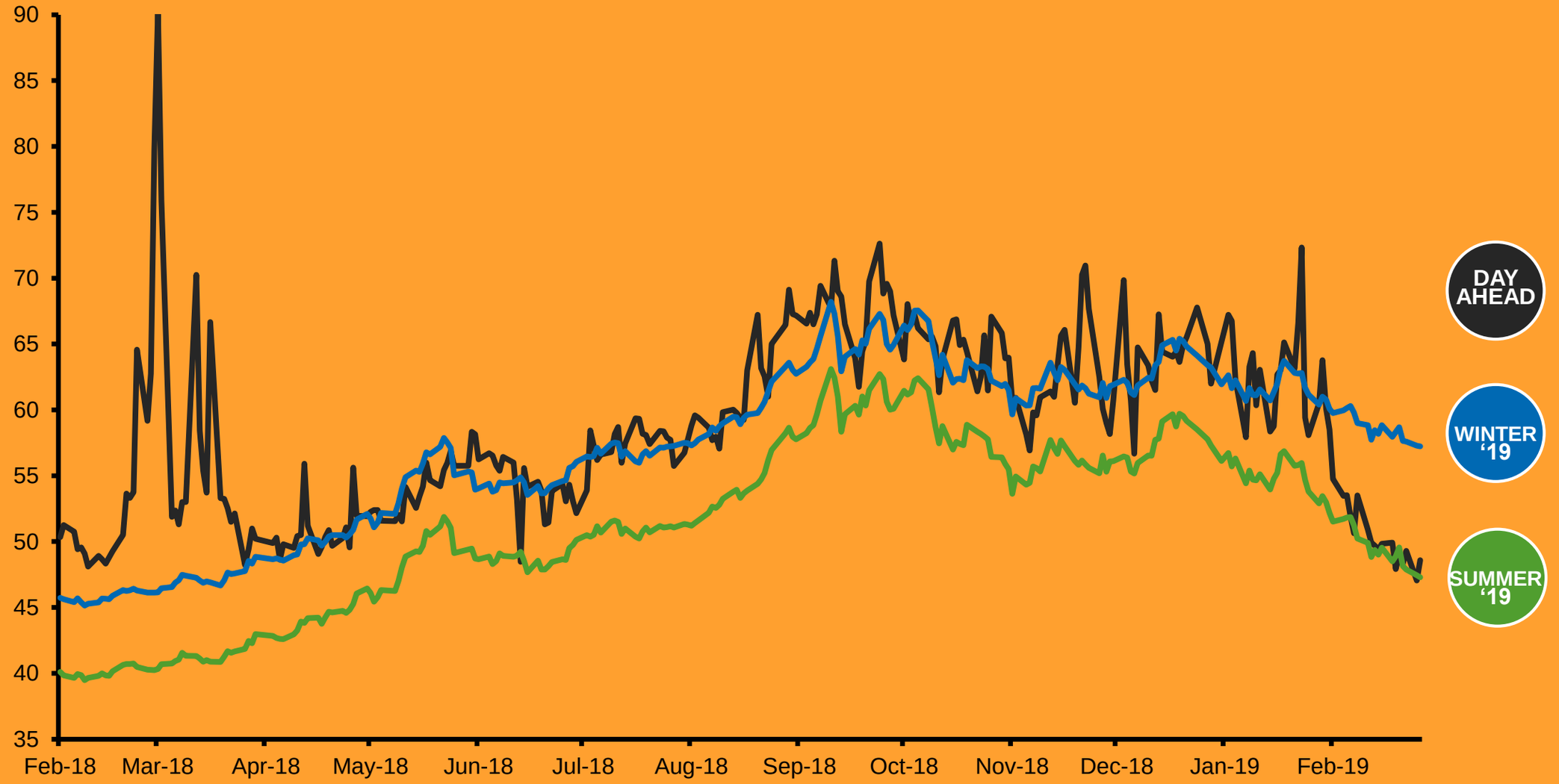
Winter ’19: Cost of Generation

Gas & Carbon pricing are key drivers of UK power



UK Power: Yearly price movements



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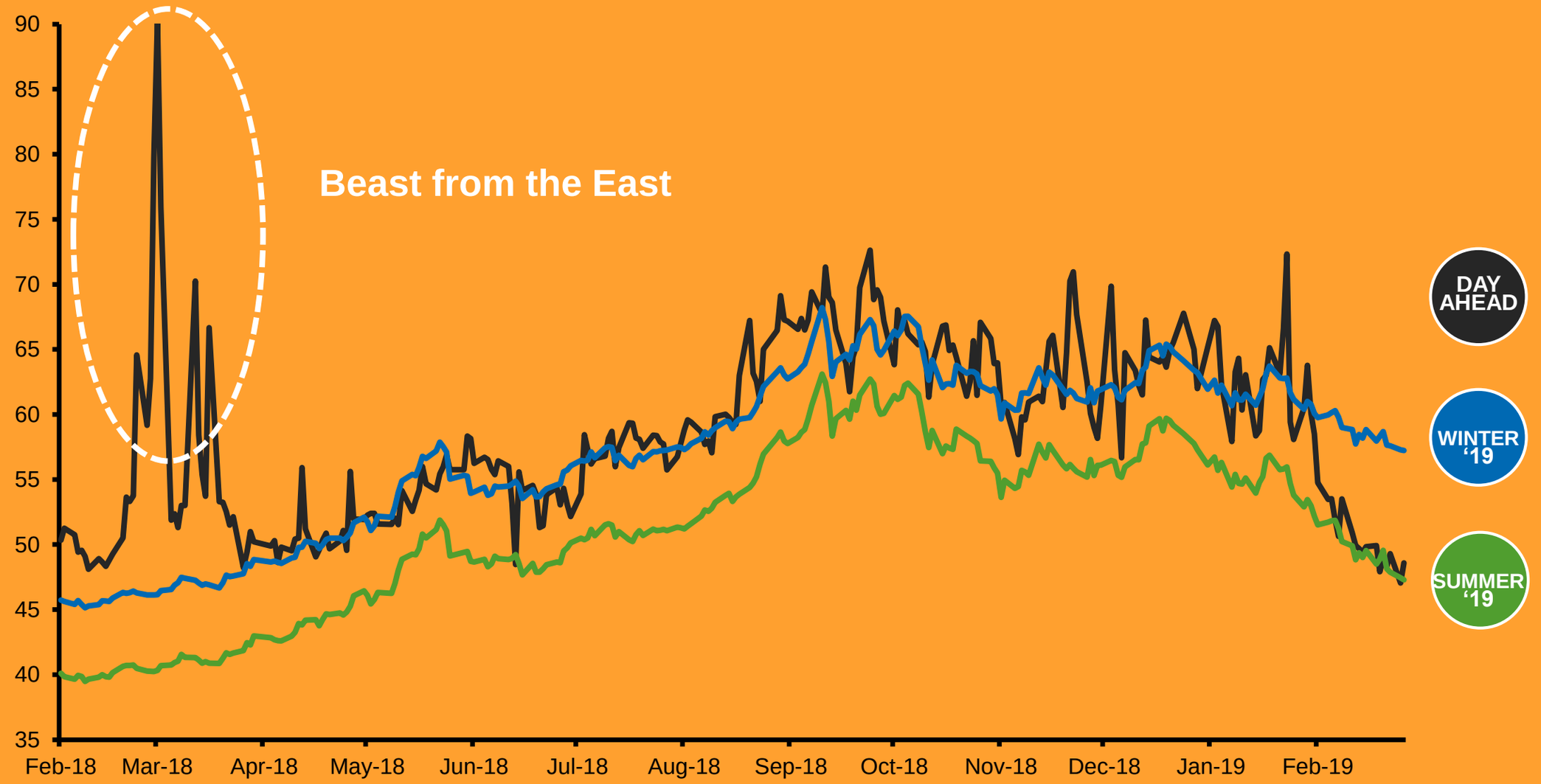
UK Power: Yearly price movements



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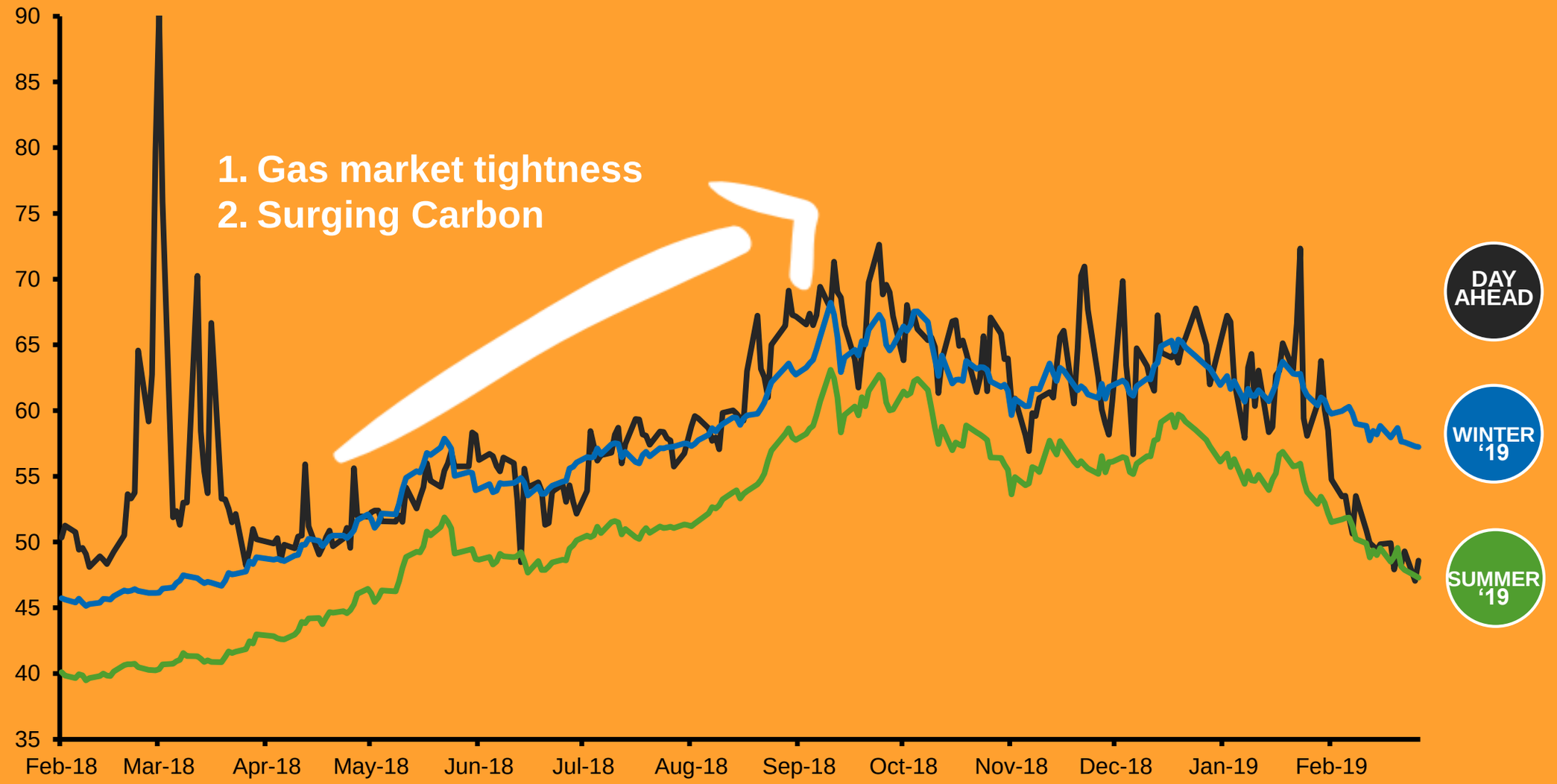
UK Power: Yearly price movements



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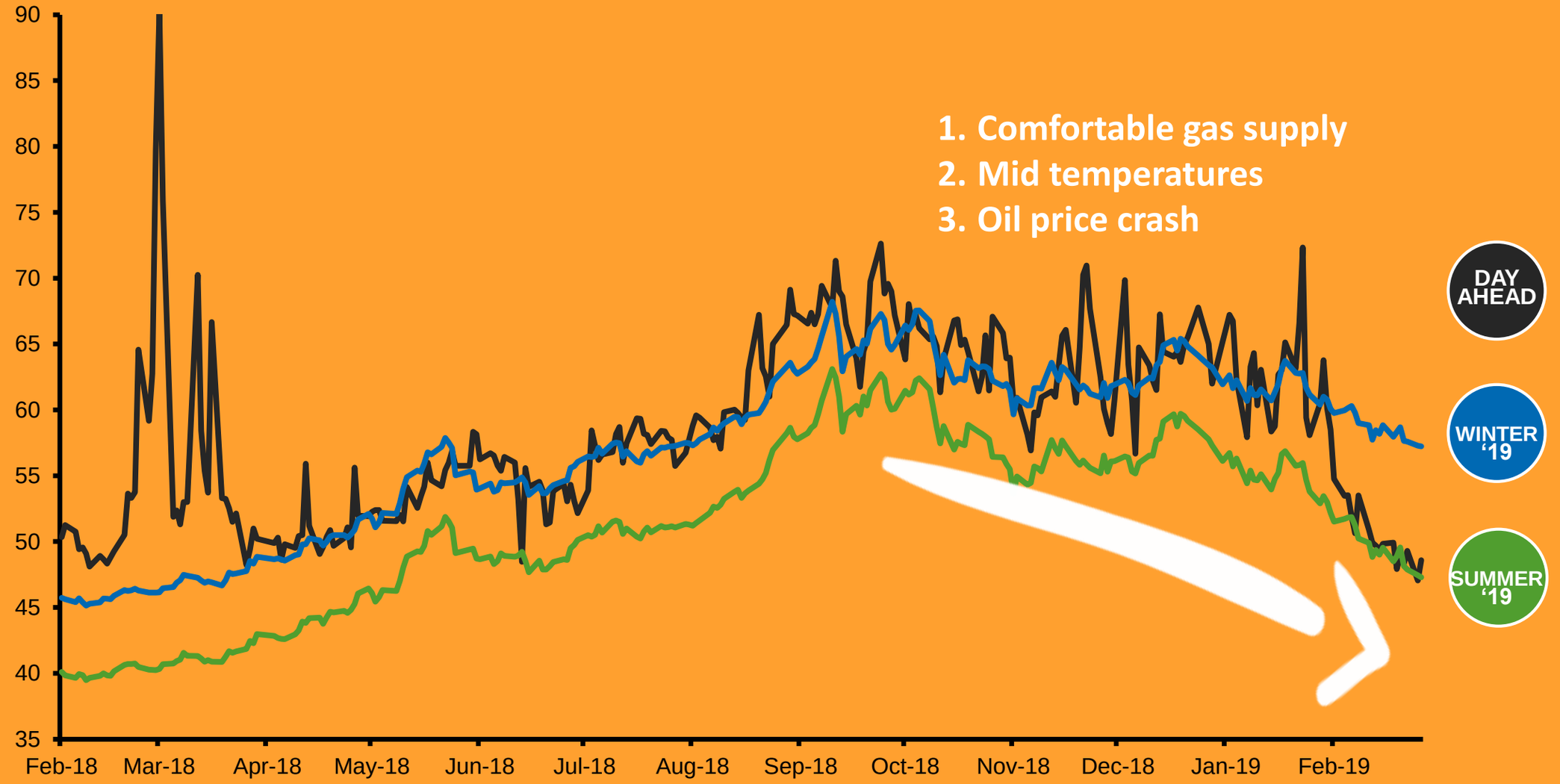
UK Power: Yearly price movements



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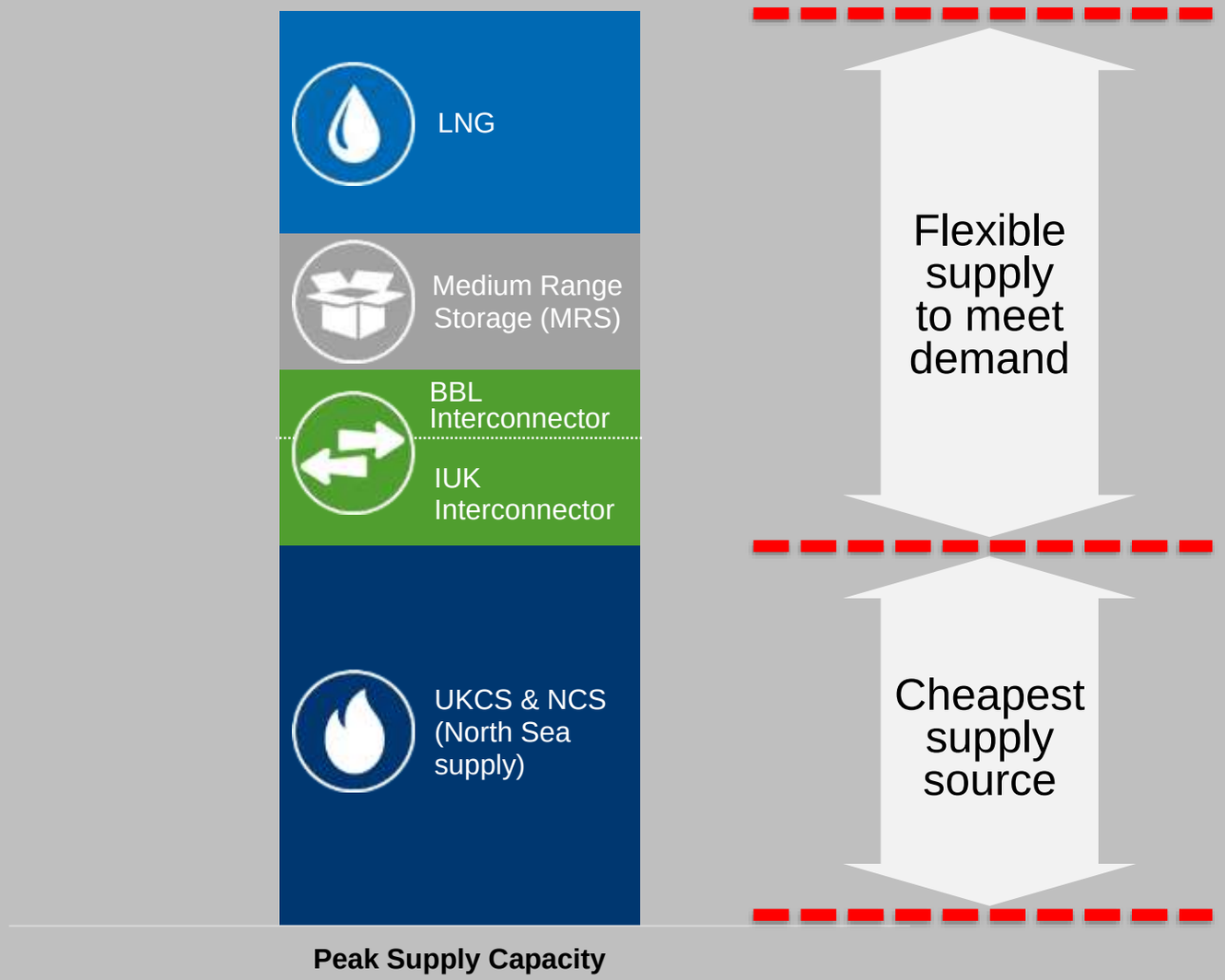
UK Gas supply stack

Britain relying more heavily on flexible sources of supply, with aging domestic sources



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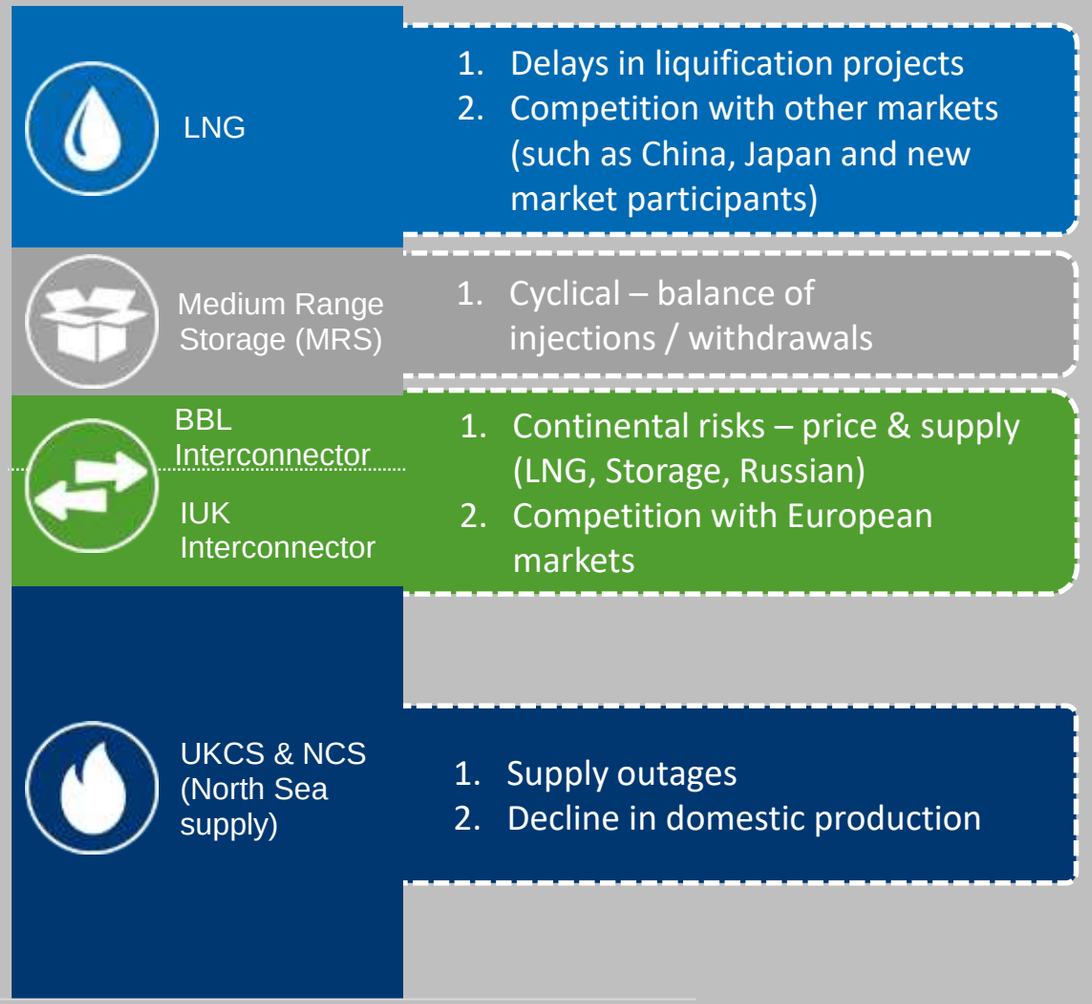
Gas supply risks

Greater price volatility could stem from more reliance on flexible supply



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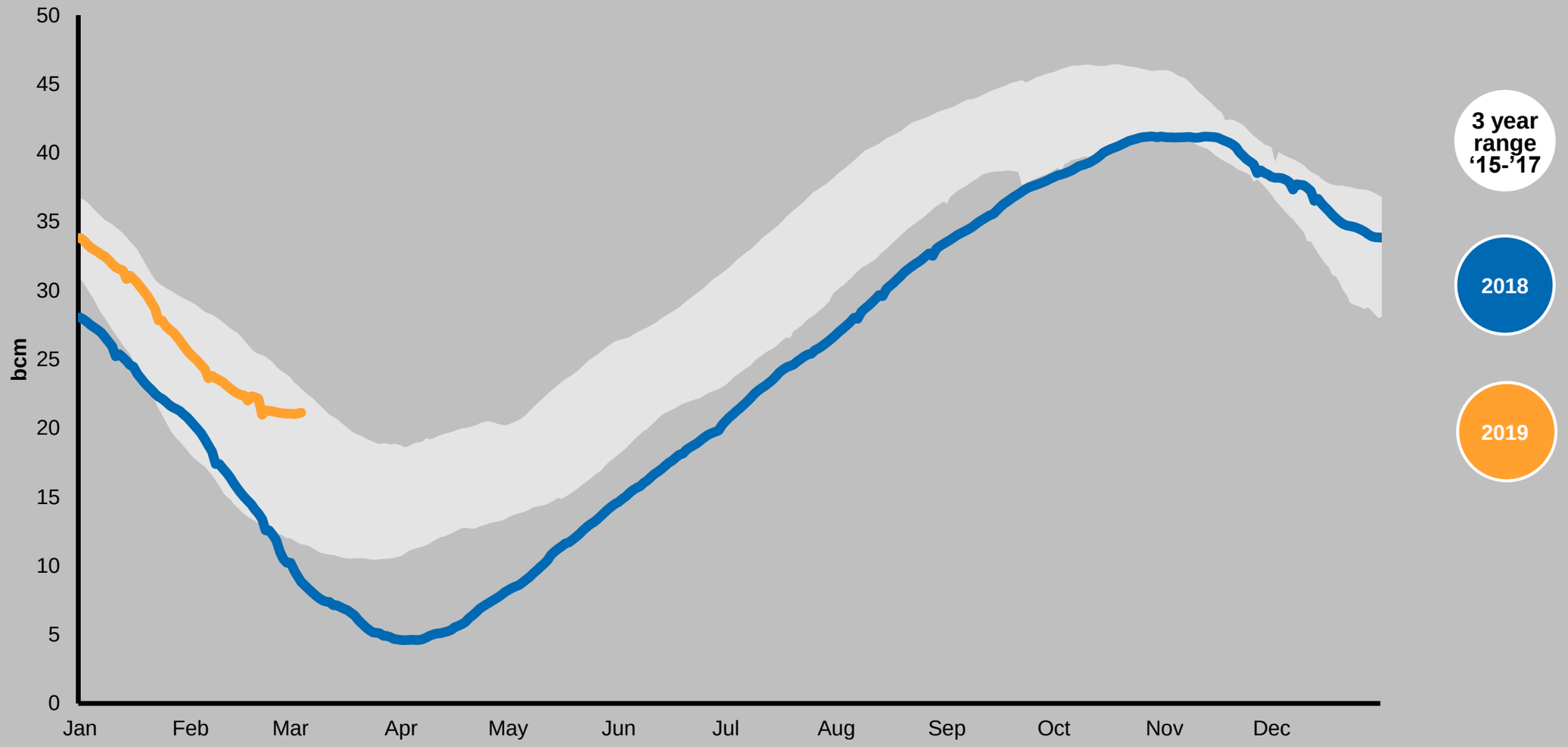
Northwest European Storage Levels



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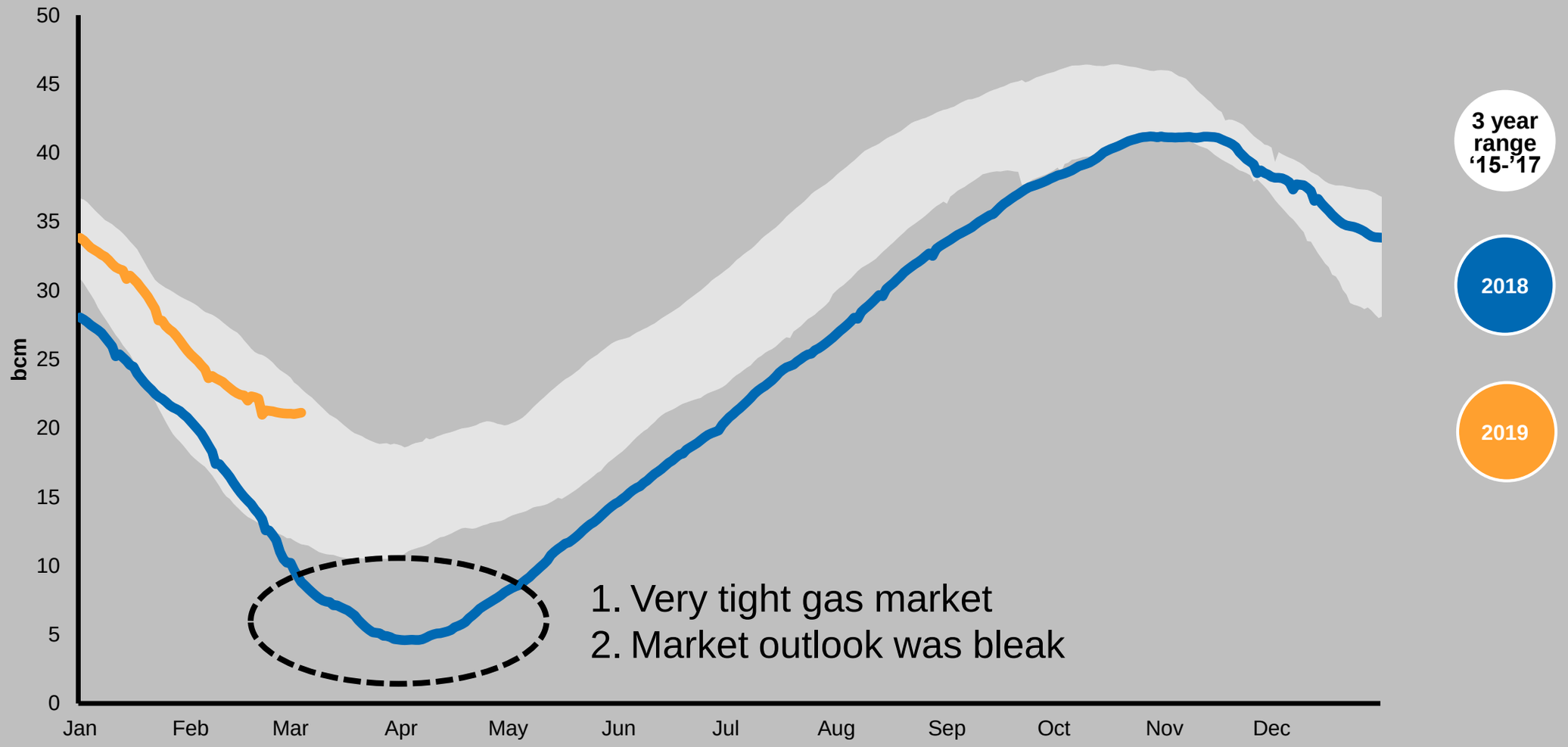
Northwest European Storage Levels



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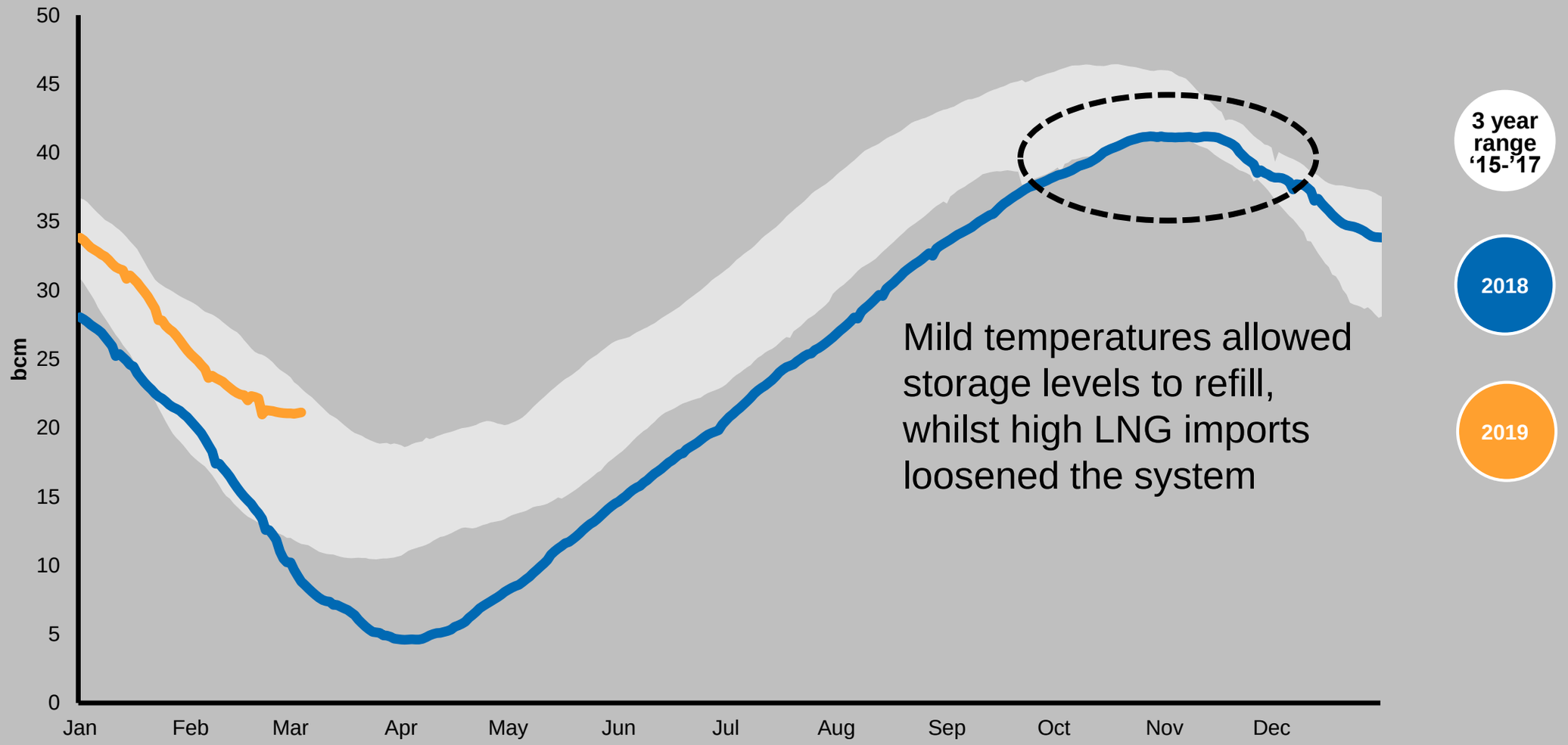

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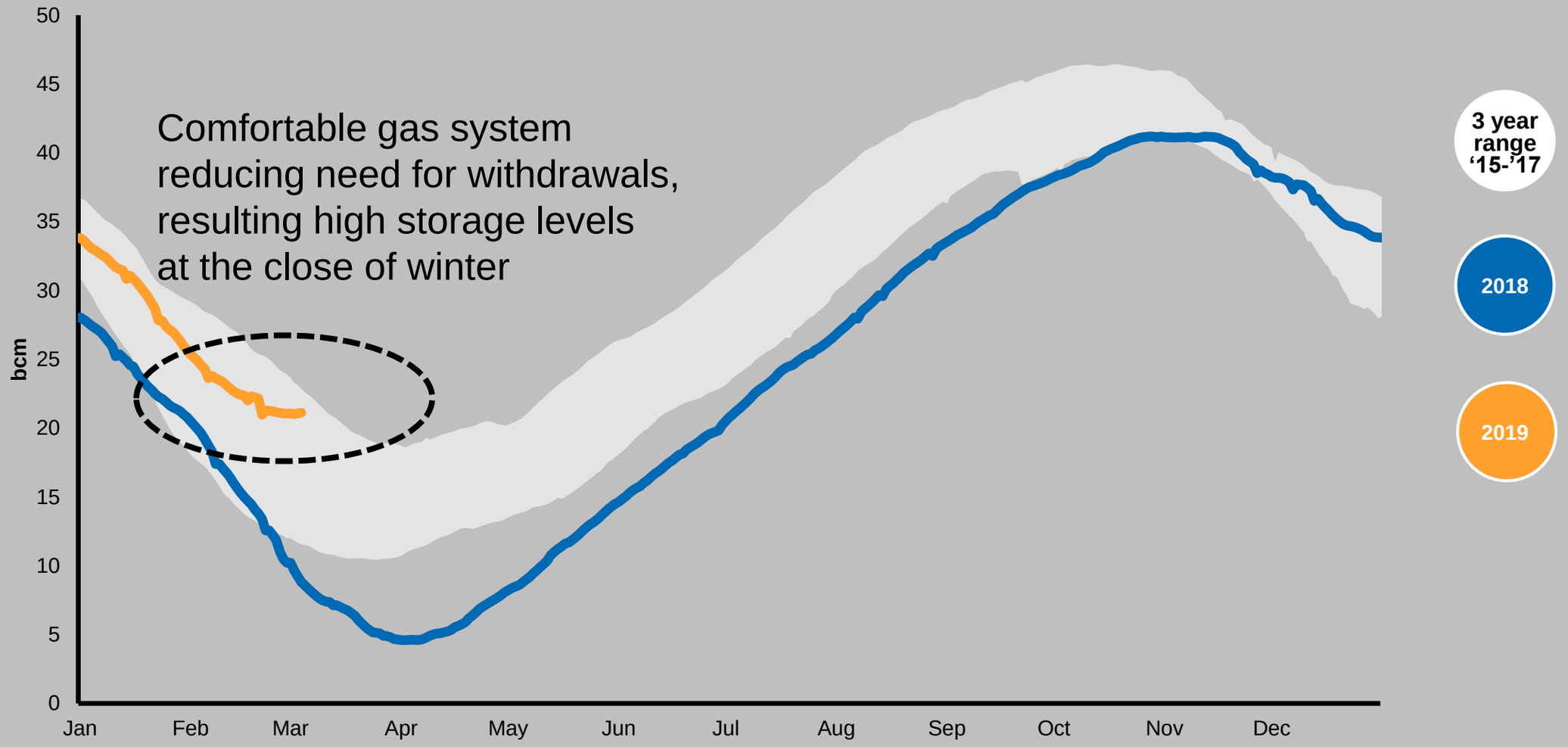

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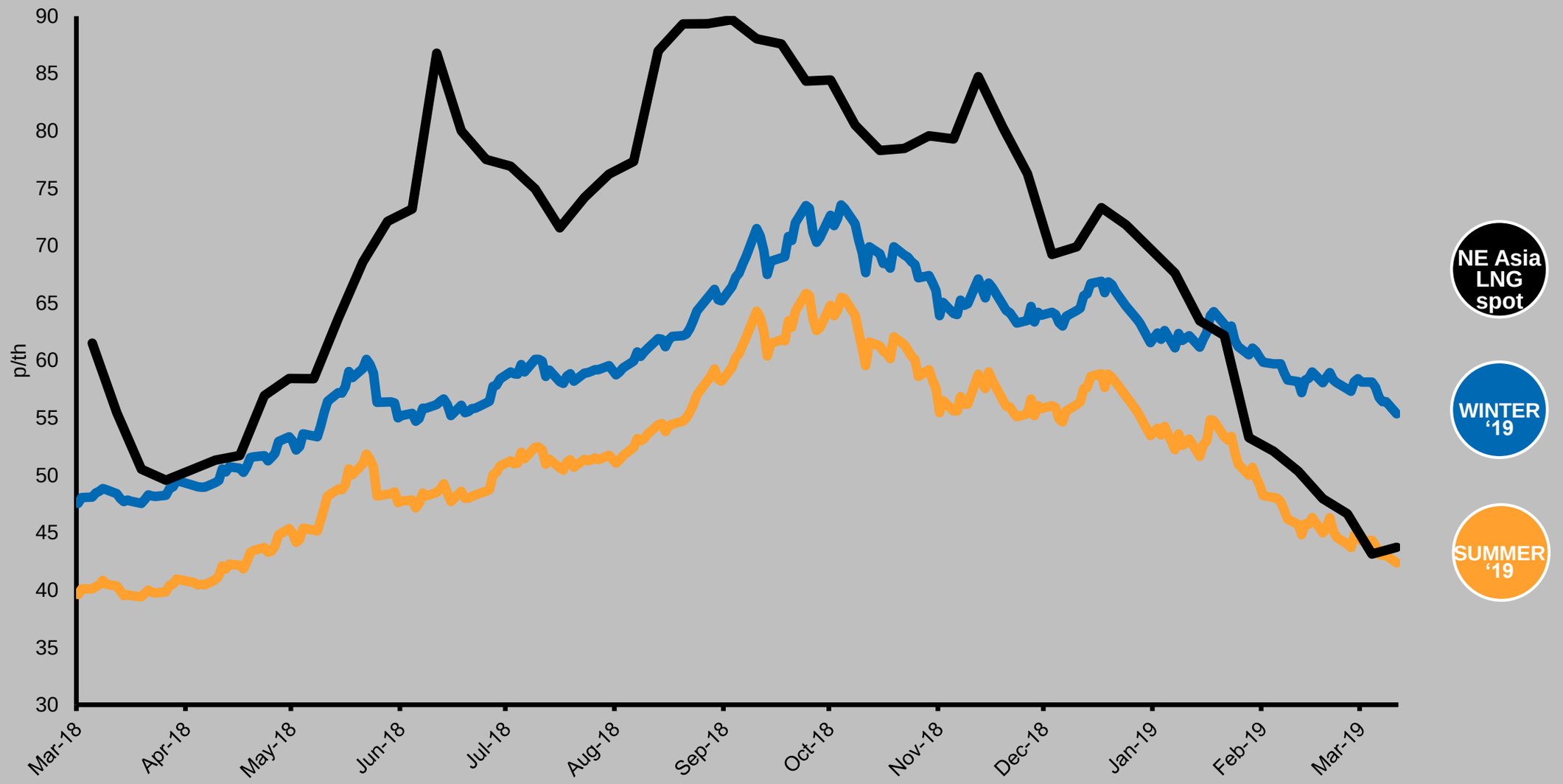
UK Gas vs. NE Asian Spot Price



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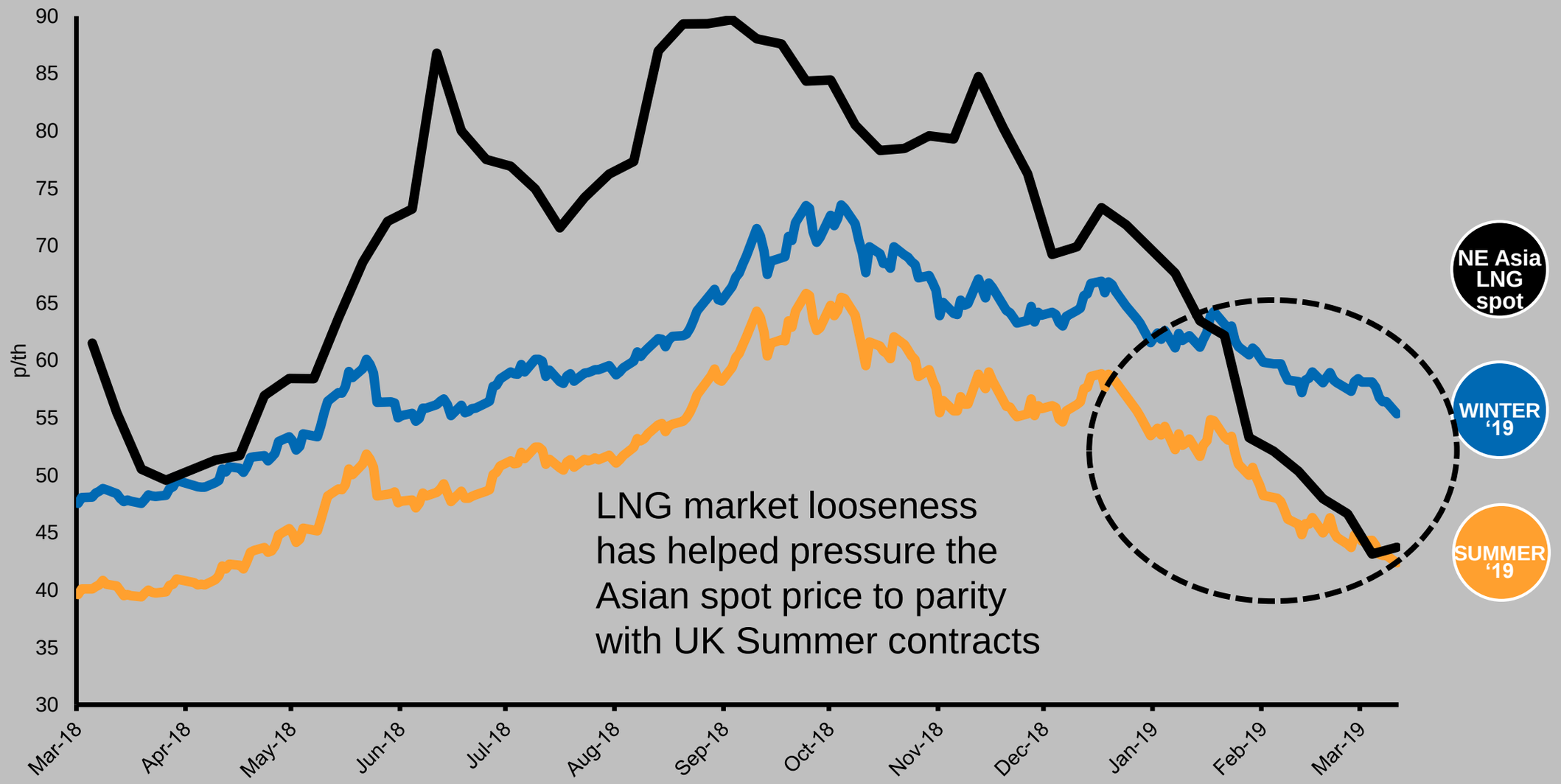
UK Gas vs. NE Asian Spot Price



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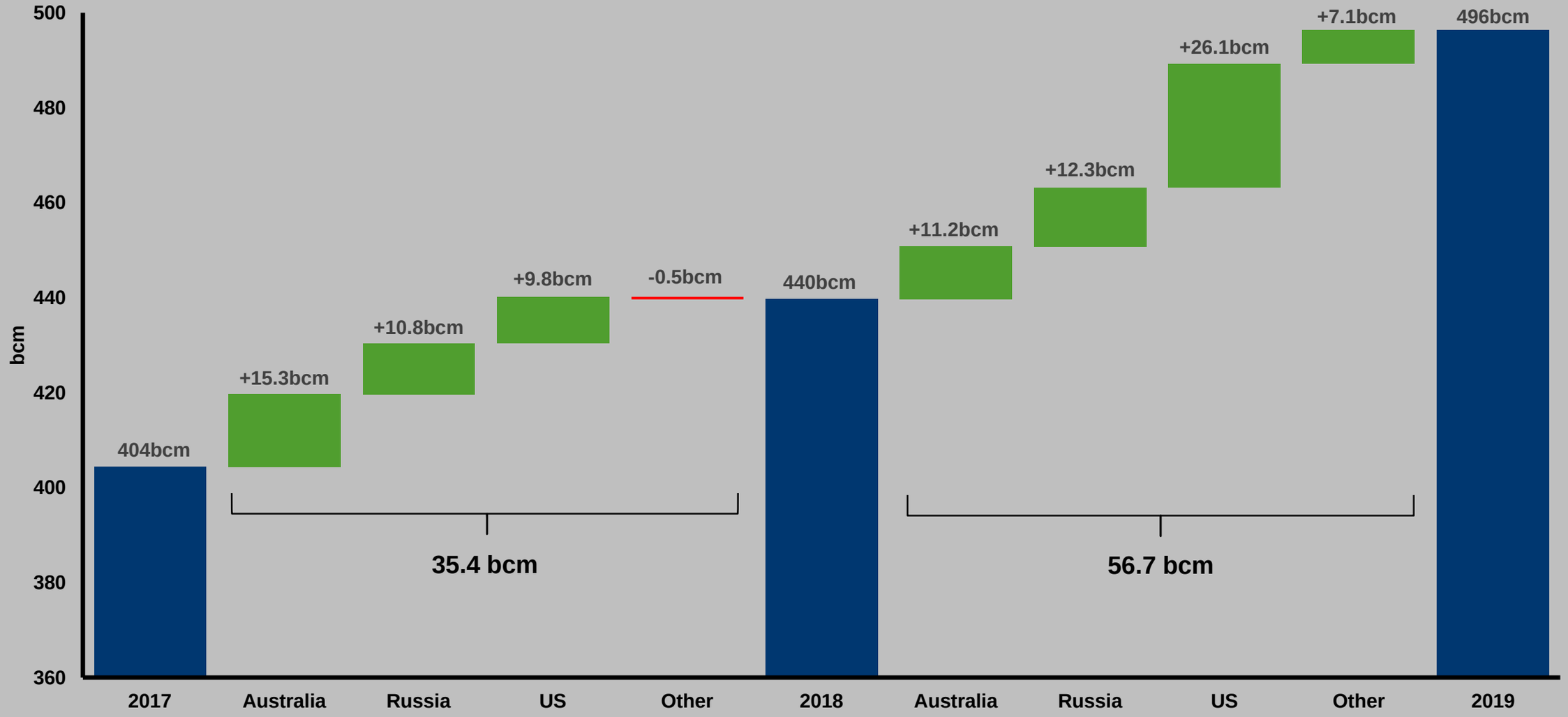
Global LNG supply

Global supply has boomed, with the commissioning of projects in the U.S., Australia & Russia



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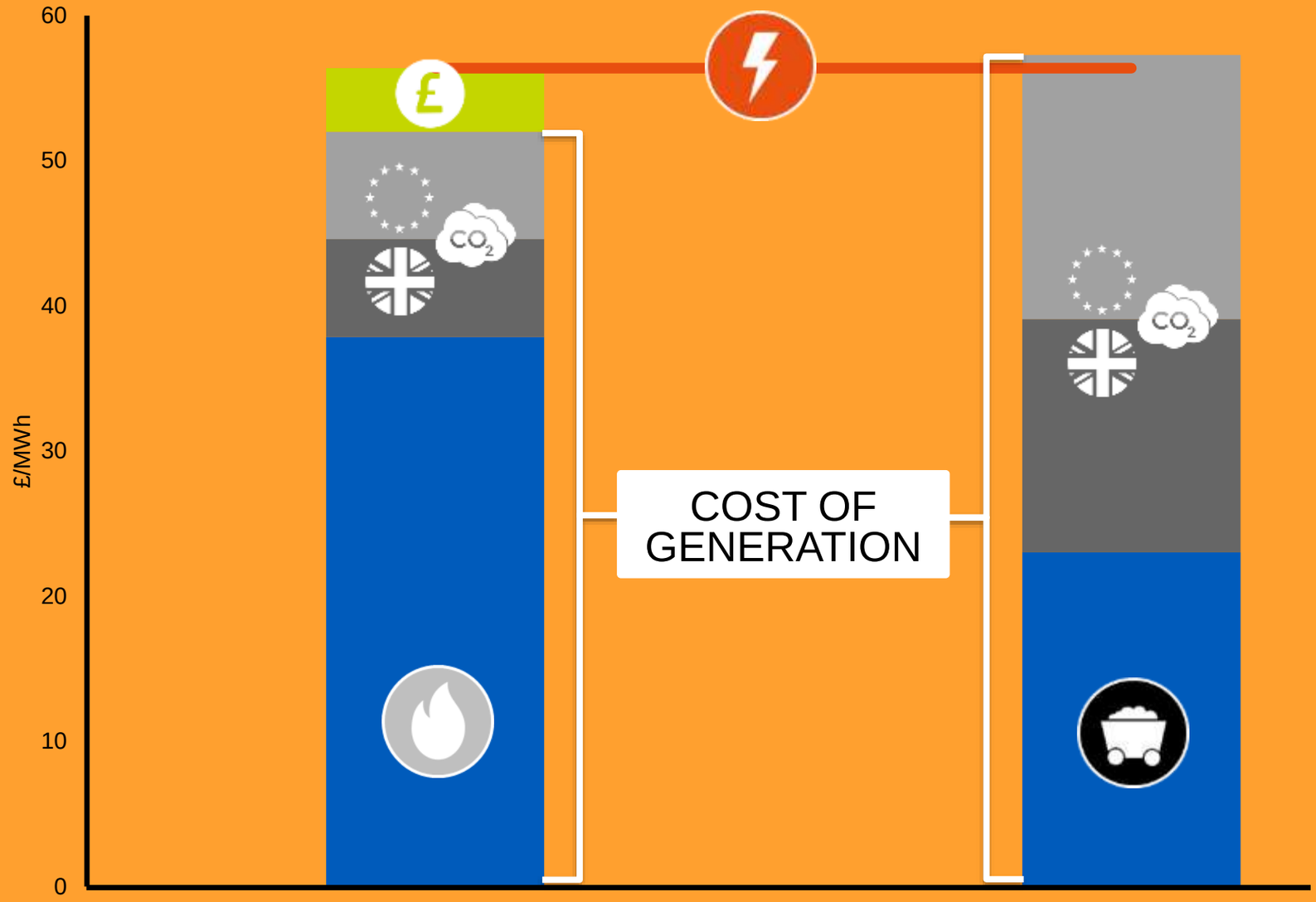
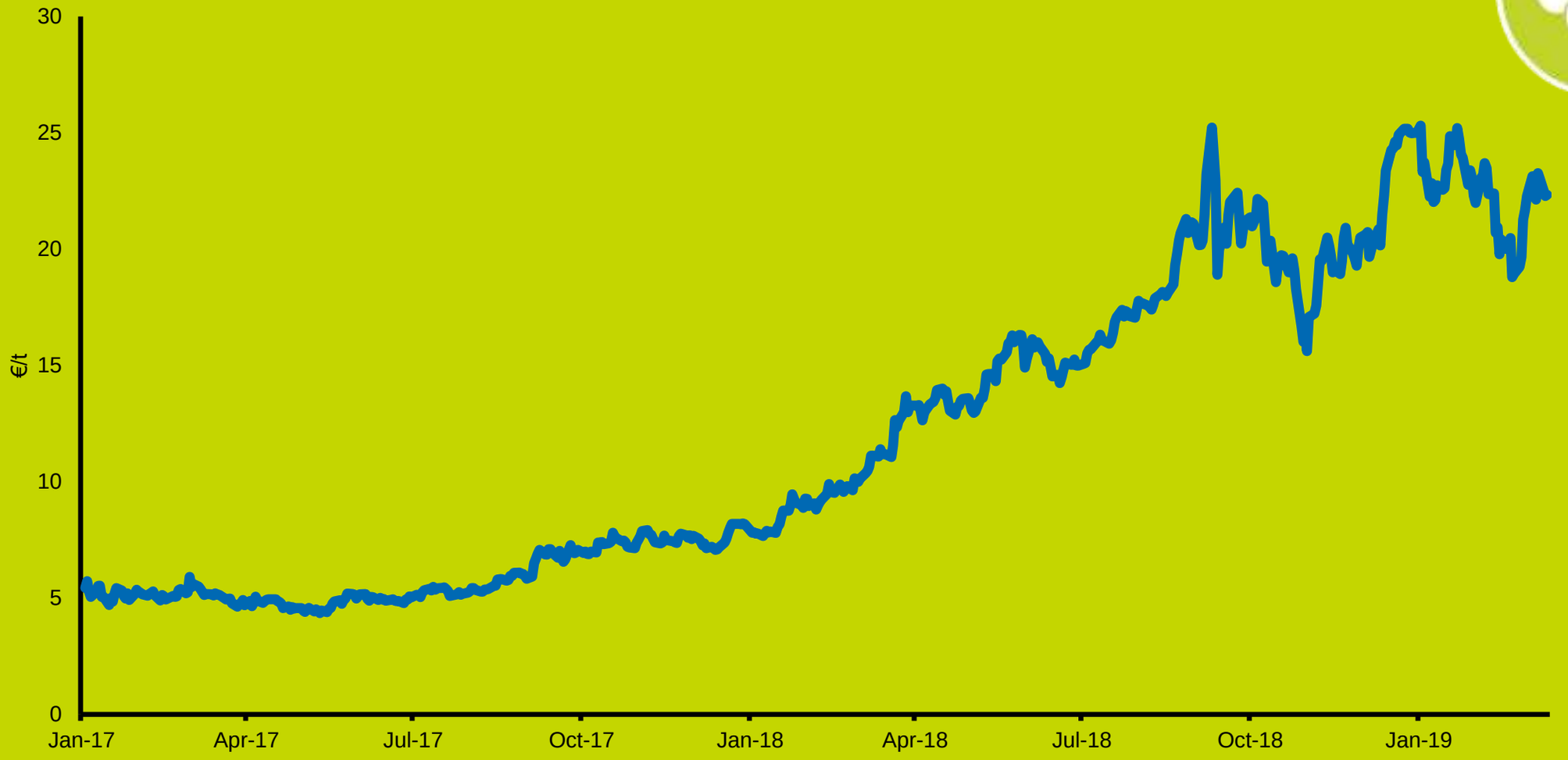
Winter ’19: Cost of Generation

Gas & Carbon pricing are key drivers of UK power



Front-year European Carbon



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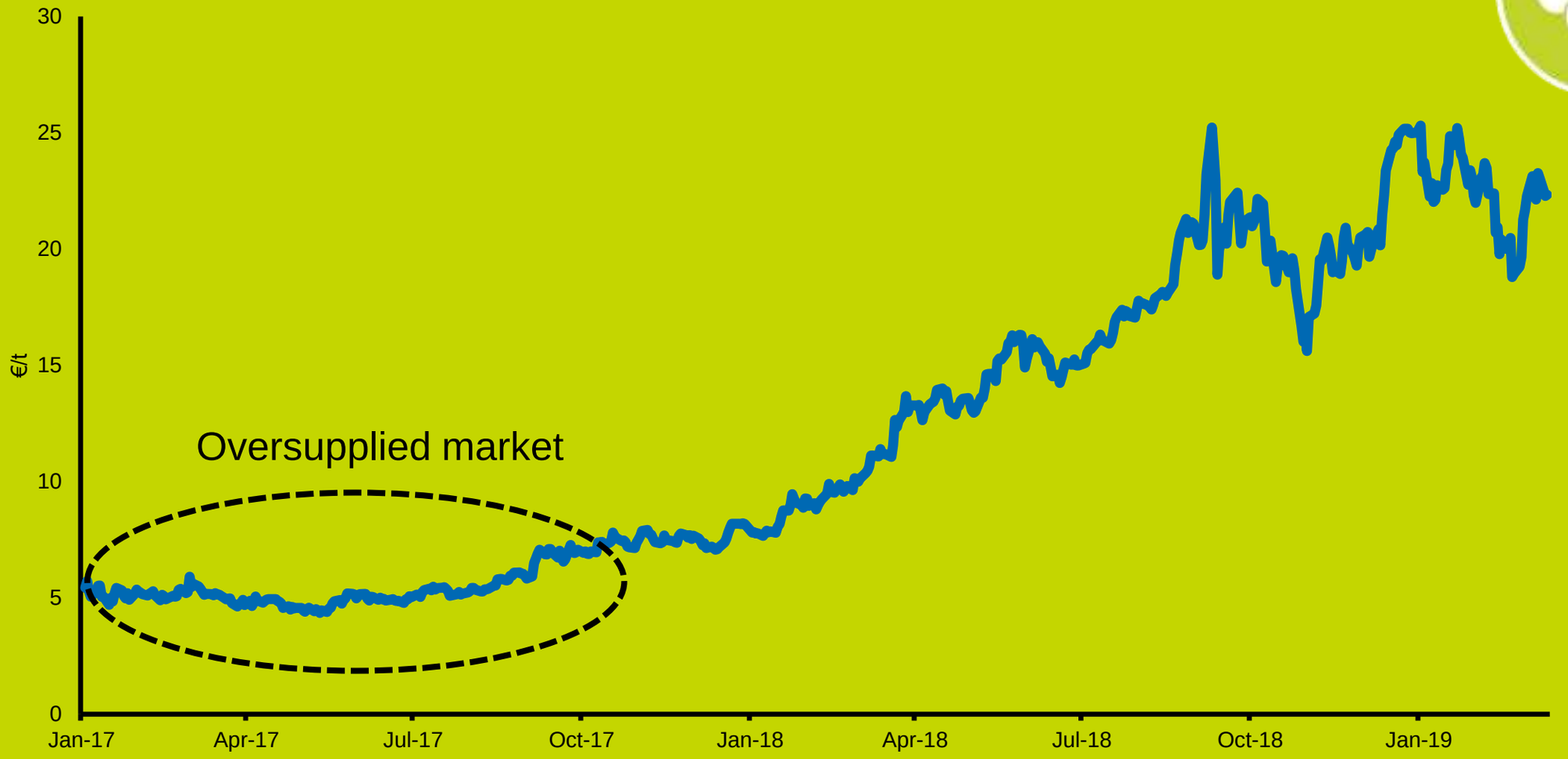
Front-year European Carbon



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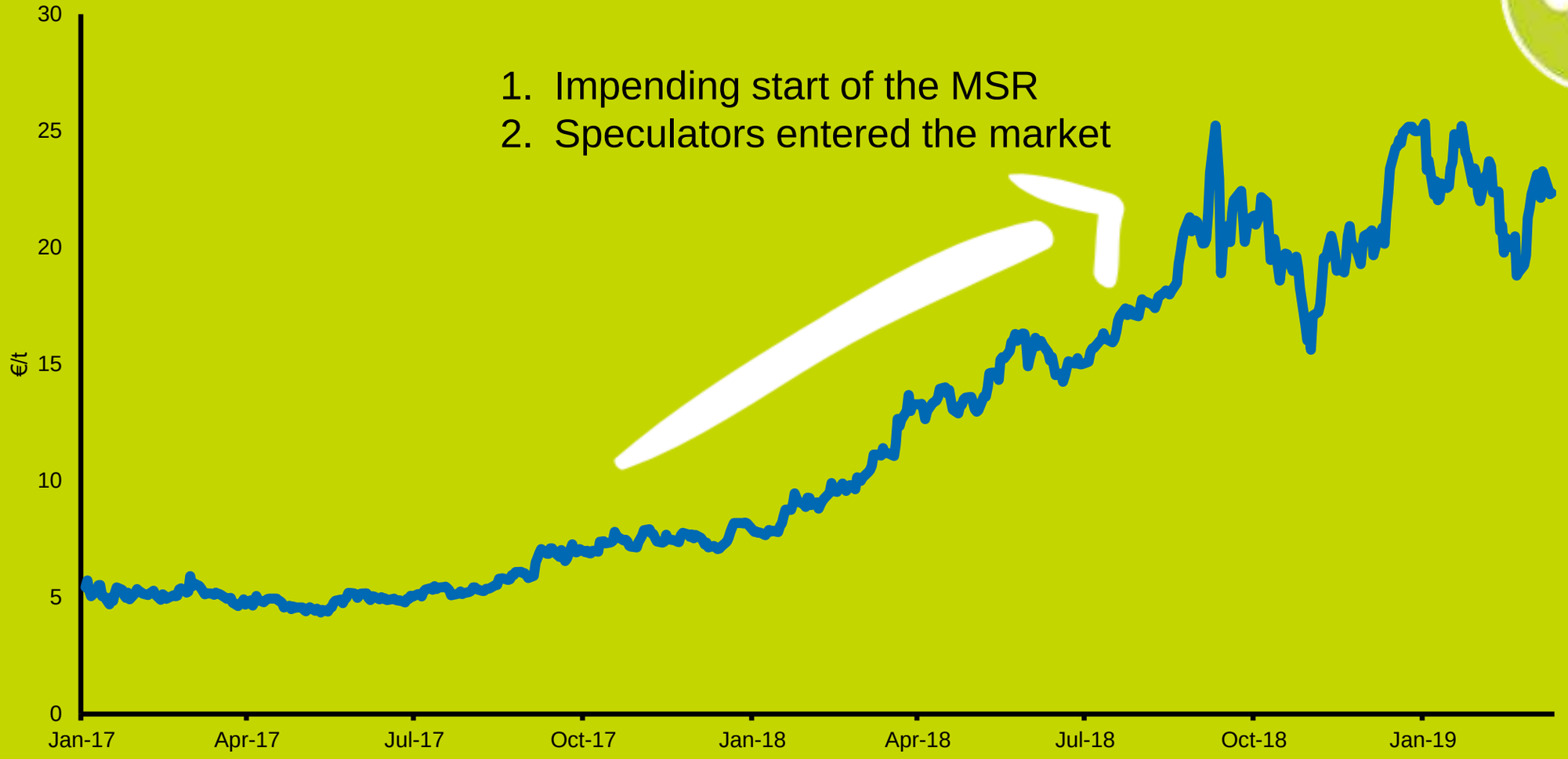
Front-year European Carbon

1. Impending start of the MSR
2. Speculators entered the market



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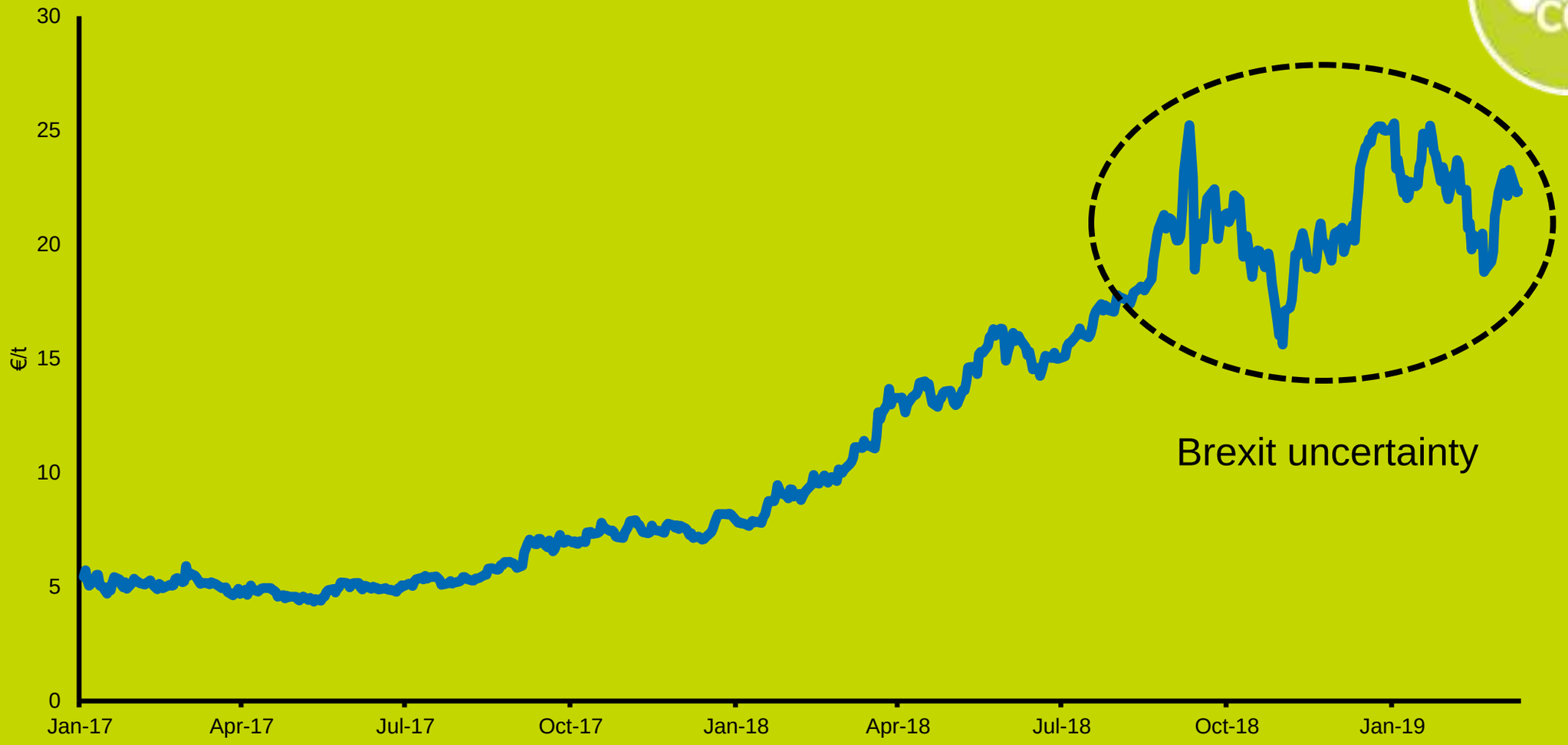
Front-year European Carbon



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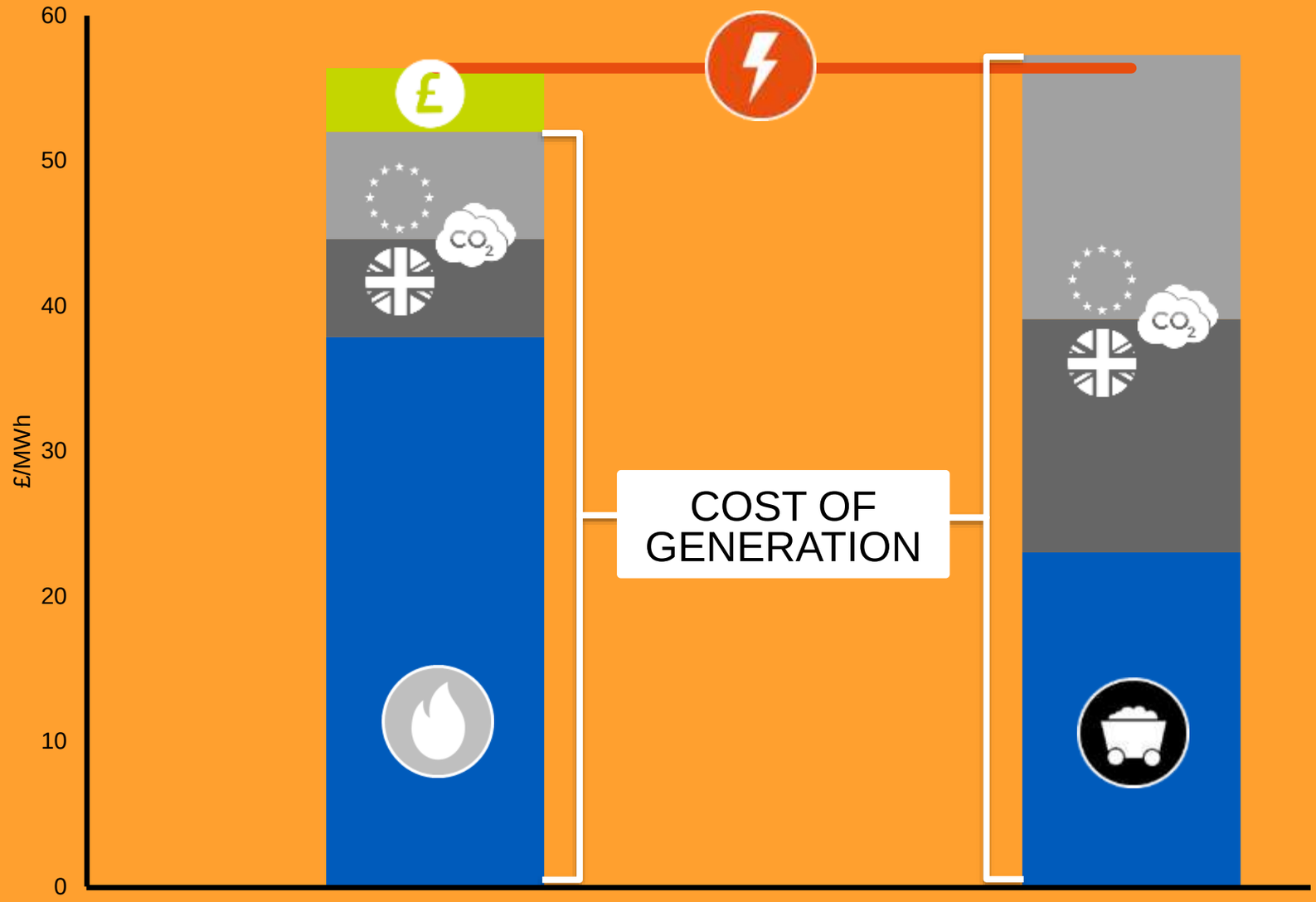
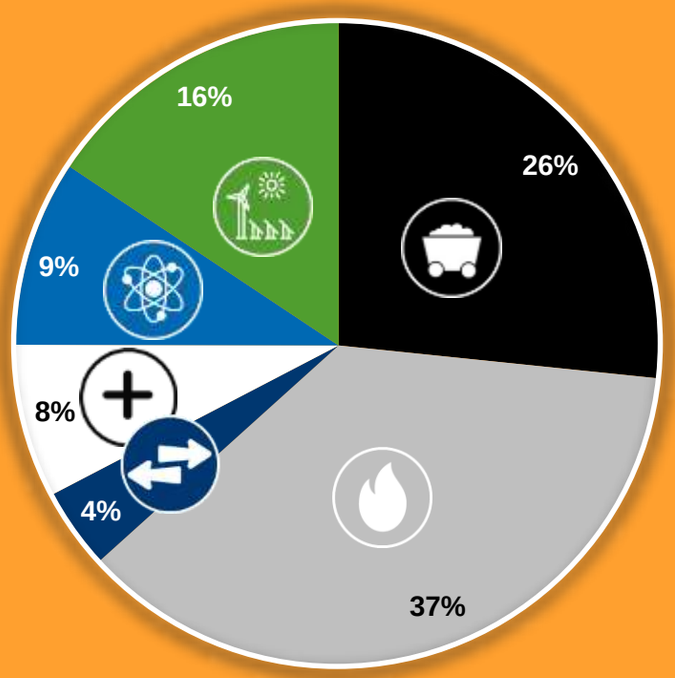


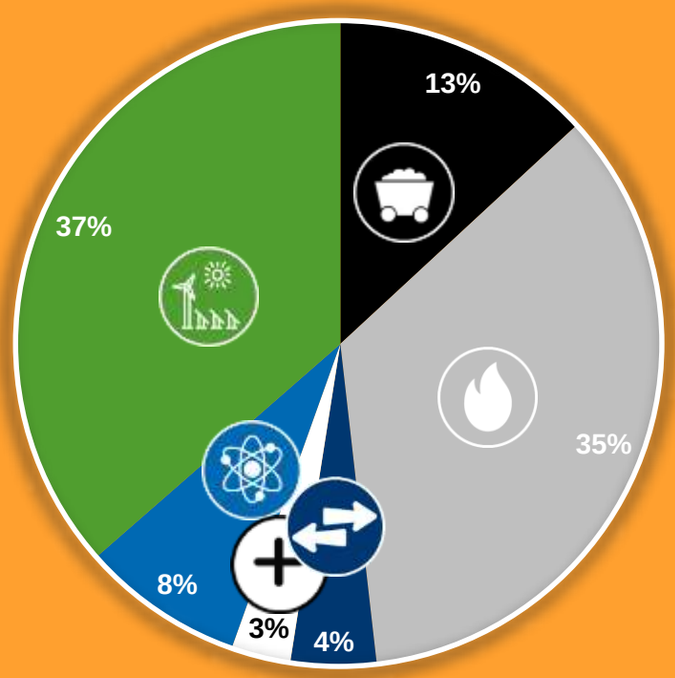
Evolution of Installed Capacity Mix

UK supply mix moving towards more intermittent and continental supply

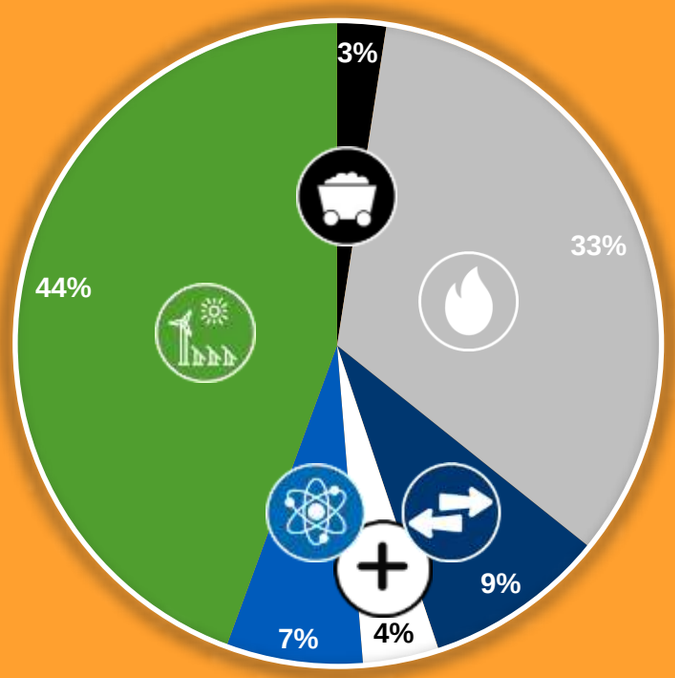
2012
99GW



2017
110GW



2022
115GW



Oil / GT / Pumped storage / Engines

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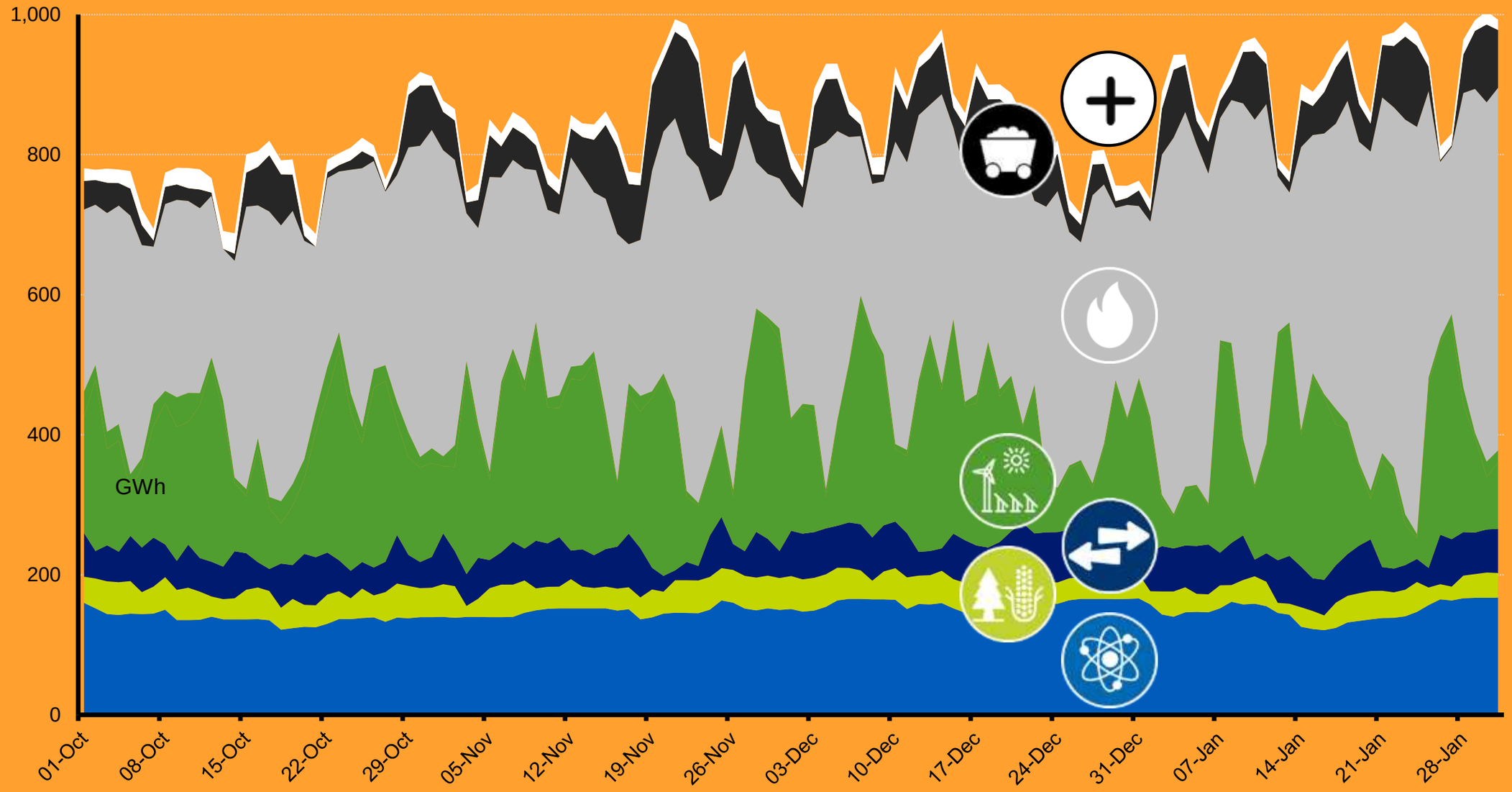
UK Power supply

Increase in renewable capacity adding volatility to prompt prices



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Summary

Gas & carbon pricing will continue to be key in setting the power price, however an increase in renewables is likely to add prompt volatility

A surge in global LNG supply has caused gas market looseness, with a glut expected over the near term

Brexit uncertainty is mostly impacting the power market through European carbon pricing

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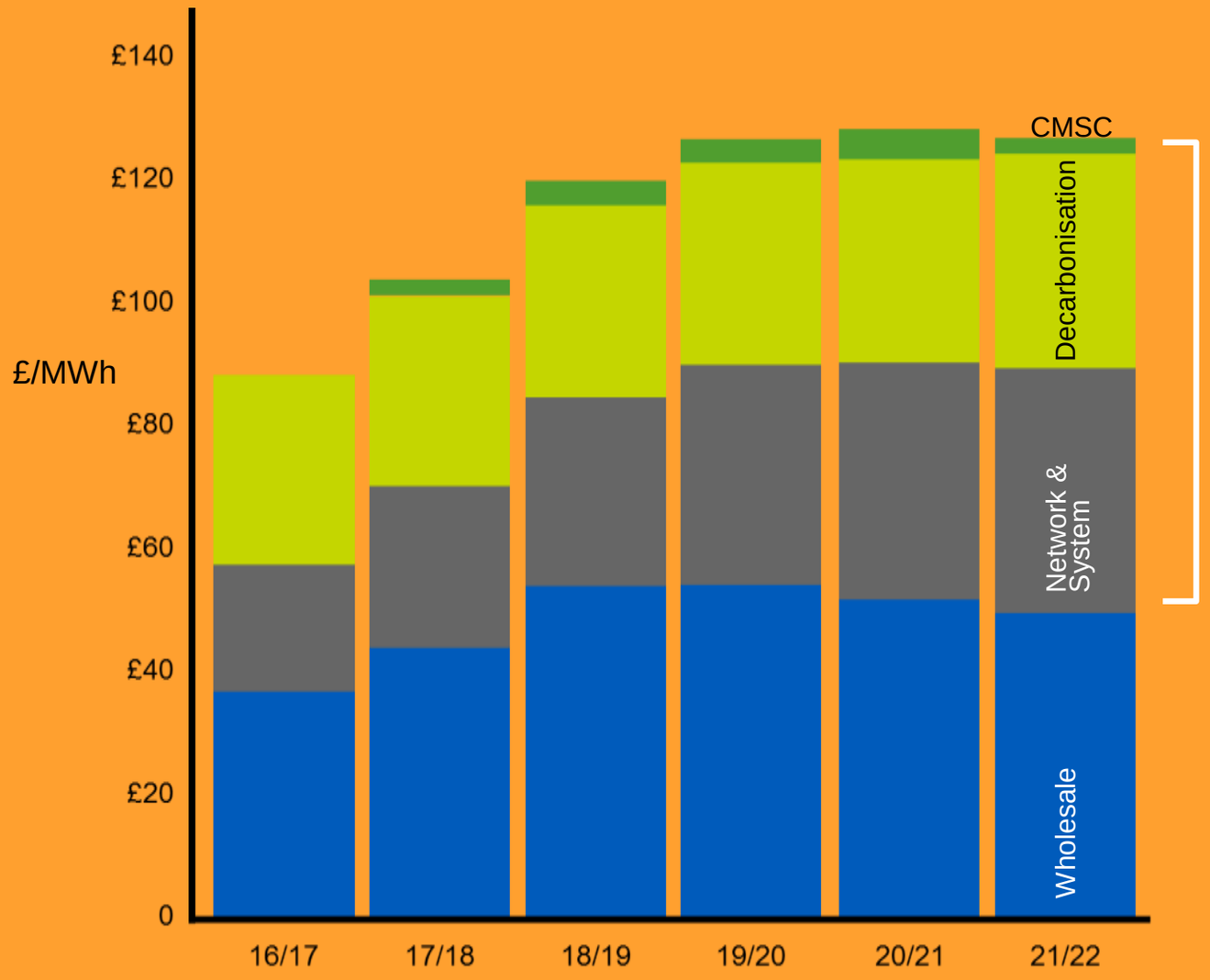
Non Energy Costs



Capacity Market Supplier Charge

1. Generally increasing until 20/21 due to higher auction clearing prices

Decarbonisation

1. CfD increasing as new capacity accredits to the scheme
2. Old schemes RO and FiT are closed/closing to new entrants, but costs will continue to rise broadly in line with inflation in the near future

Network and System

1. Policy costs in general going up on £/MWh basis as more exemptions are introduced (EIIs for FiT, EII widening eligibility (possibly) and 10% GoOs cap increase)
2. Network costs going up, particularly TNUoS for demand customers as Generation Revenue remains capped under current formula (until end of 2020/21 at least)
3. Targeted Charging Review expected to lead to significant changes to charging methodologies in later years

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Wholesale energy costs made simple video

Watch our Video on how to track the Power Market

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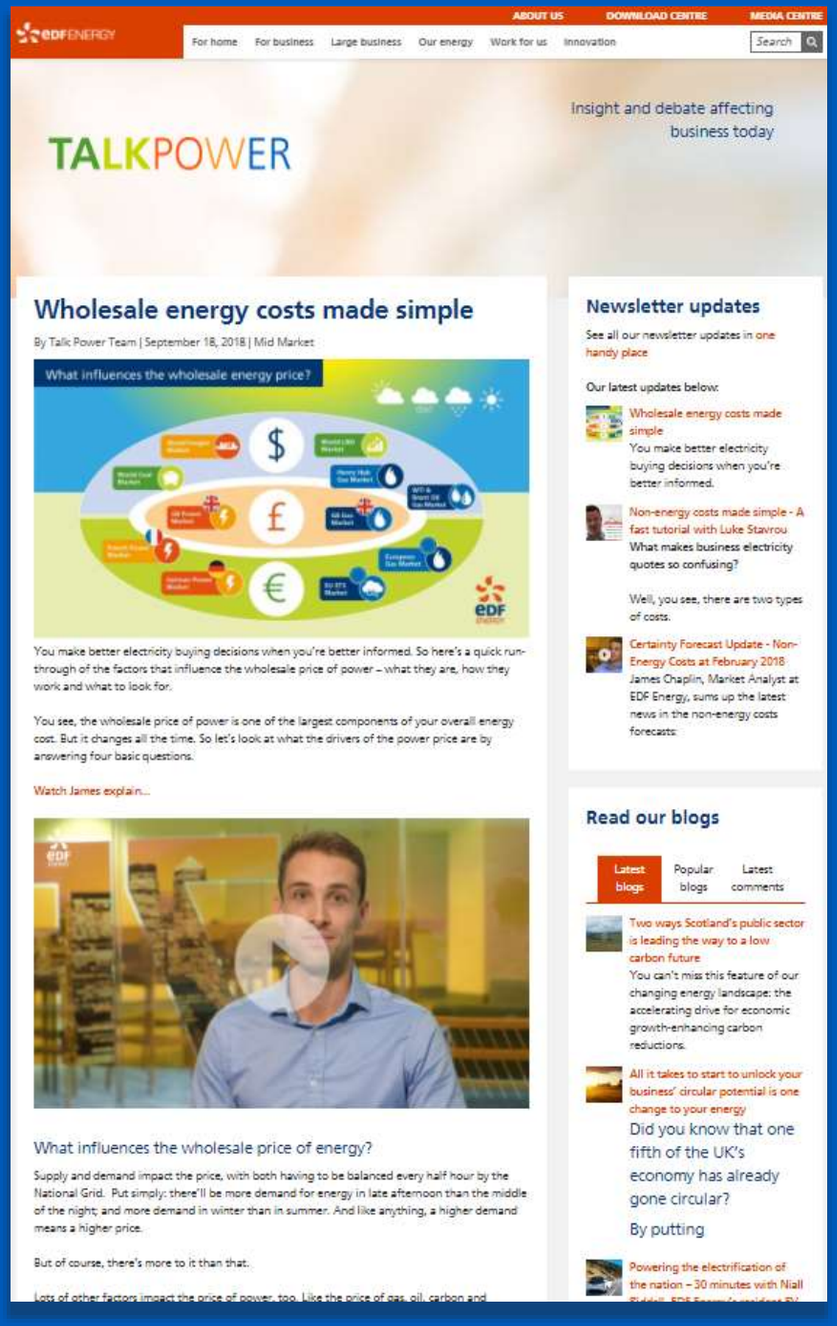

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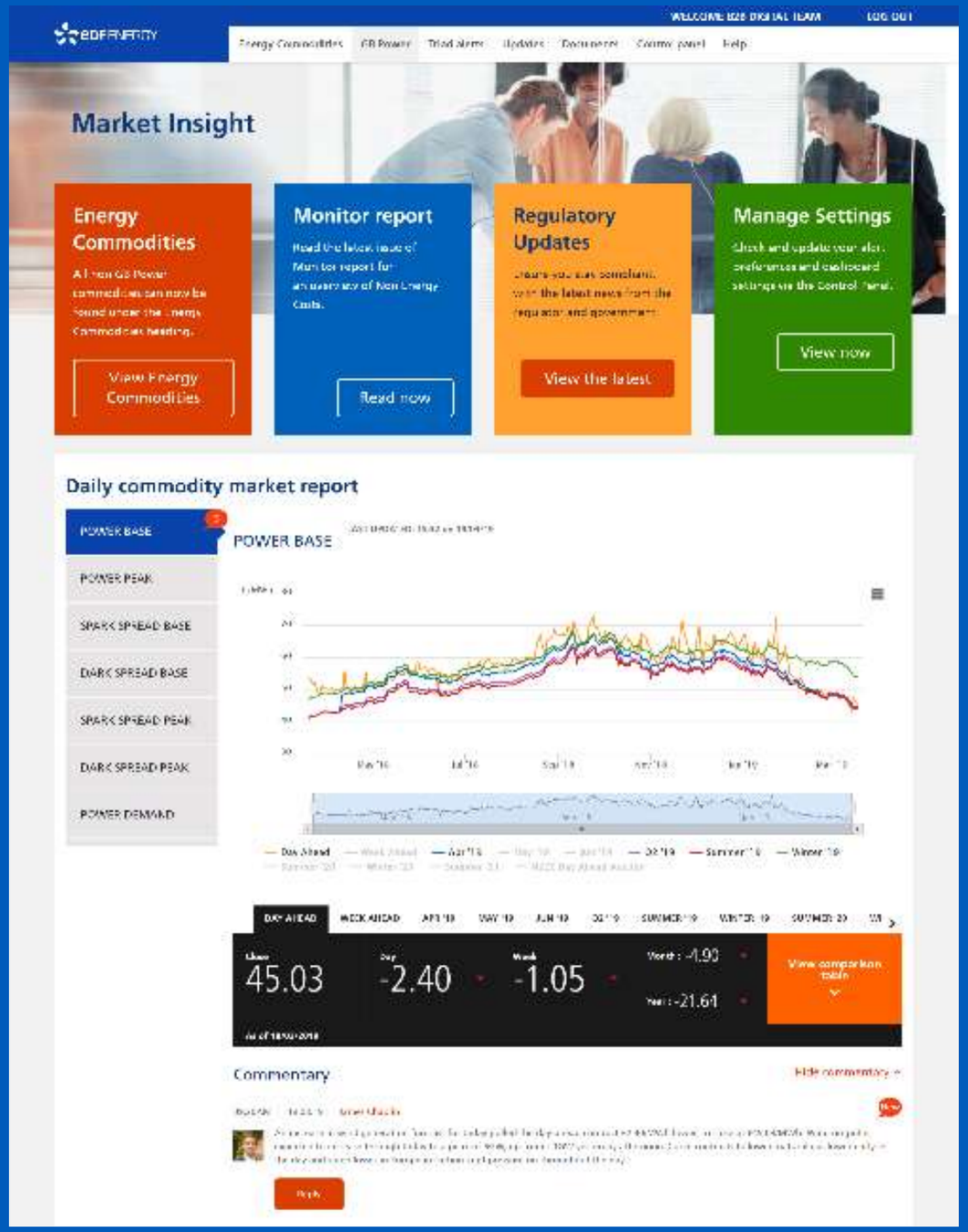

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