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# WHOLESALE ENERGY PRICES: SEPTEMBER - OCTOBER 2017:

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

**Oil**

Crude prices rallied as OPEC and non-OPEC countries continued to show strong quota compliance, with just two cartel producers, Libya and Nigeria, bucking the trend. However, 0in oil trading circles, OPEC's 1.2 million barrel per day curtailment in export volumes is still remaining on track. Refining inventories have been reported healthy amid a warm start to winter which has suppressed demand for heating oil and related petroleum products. Over the two month period, the Dated Brent contract price closed up by 20%. This spot price has almost doubled in the last two years although it is still just below half the peak it reached barely two years before that.

Traders will be looking for evidence that the ongoing 'shuttle diplomacy' in the run up to the cartel's key 30th November meeting in Vienna is paying off. Given high compliance rates, notably amongst non OPEC countries, there is no reason to expect oil prices to soften with the wind now in the market's sales.

**Natural Gas**

The forward calendar year NBP contact finished the period 6% up, with good supply availability and subdued demand both outweighing the effect of steadily strengthening oil prices over the year.

The UK gas market is now into its first winter without any high space (long-duration) storage cover to fall back on. This follows the closure of the Rough gas facility in the Southern Gas Basin. A sustained cold snap could put the market to the test if the UK then has to import (effectively accessing surplus storage overseas) through inter-connectors with Scandinavia and the Continent. Although such pipeline capacity may usually (though not always) be guaranteed on the day, the gas itself is not. Even if so, it will possibly be supplied at higher distress clearing prices than before.

Centrica's application to withdraw 0.9 billion cubic meters from the 3.2 bcm Rough facility - for site integrity and pressure reduction reasons - has been approved by the UK Oil and Gas Authority and this could keep the market well supplied in the interim. However, the volume is still quite modest and the withdrawals will be phased over time. The impact on the market will be limited, if not discounted already.

With crude prices back above $50/bl for some six months now, the oil markets could soon be nudging gas prices up through long-term contract indexation, especially with increasing reliance on inter-connector supplies given contractual indexation to petroleum product prices is generally more dominant on the Continent than it is in the UK.

**Electricity**

The annual base-load power price headed back up towards £45/MWh, rising 4% over the period. Although, electricity trading is increasingly becoming 'a tale of two markets'. Whilst wholesale prices are increasing and may perhaps continue to increase gradually, industrial and commercial tariffs are



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continuing to climb quite steeply, amid higher transmission, distribution and balancing charges, as well as higher taxes and subsidy-related surcharges applied to industrial and commercial users.

Transit costs and taxes aside, a third factor driving industrial and commercial prices is the increase in renewables generation.

Transmission and distribution networks are known to be struggling to offset the intermittent export supply, current-harmonic and voltage-stability problems which renewable exports onto the system induce. The significant infrastructure investment needed to manage this will be passed on to the end user and increases in producer price inflation will also be an influencing factor. The consensus of recent market research suggests that in less than three year's time, commodity electricity will account for less than 30% of a typical I&C user's bill. Five taxes and subsidy surcharges and three grid-system fees will make up the remainder, bar a trace profit for the supplier. Therefore, the rising cost of mains electricity alone could well incentivise more end users to self generate where this is feasible. Fundamental changes to the power market and its subsidy framework to facilitate this trend have been tabled and concrete proposals may be available to report on in the New Year.

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