

MONTHLY MARKET UPDATE: JANUARY

OVERVIEW

- Gas and electricity prices have fallen sharply over the last month
- The main driver for these falls has been an increase in confidence in the availability of supplies to cope with demand
- Electricity prices have also benefited from high levels of wind generation throughout January which has reduced the need for higher cost gas generation
- Oil prices have continued to rise over the last month and are now trading just below \$70 per barrel
- High levels of imports of gas from Belgium and Holland during January offset the limited flows of LNG with only one incoming shipment arriving into the UK during the month

| MONTHLY PRICE MOVES | | | | | | | | | | | | | |
|-------------------------------------|--------------|---------|--------|--------|--------|--------|--------------------|--------------|---------|--------|--------|--------|--------|
| ELECTRICITY PRICES (BASELOAD) €/MWh | | | | | | | GAS PRICES p/therm | | | | | | |
| | LAST NIGHT'S | MONTHLY | 30 DAY | 30 DAY | 30 DAY | Annual | | LAST NIGHT'S | MONTHLY | 30 DAY | 30 DAY | 30 DAY | Annual |
| | CLOSE | CHANGE | MEAN | HIGH | LOW | Change | | CLOSE | CHANGE | MEAN | HIGH | LOW | Change |
| Mar-18 | 48.65 | -4.28 | 49.63 | 52.93 | 46.50 | | Mar-18 | 50.03 | -6.47 | 51.25 | 56.50 | 46.75 | |
| Apr-18 | 45.73 | -3.48 | 47.39 | 49.35 | 44.80 | | Apr-18 | 45.48 | -4.74 | 47.53 | 50.22 | 44.08 | |
| May-18 | 42.85 | -3.40 | 44.38 | 45.80 | 42.50 | | May-18 | 42.58 | -3.54 | 44.66 | 46.62 | 41.77 | |
| Winter 18-19 | 48.83 | -1.51 | 50.11 | 51.20 | 48.65 | 8.74% | Winter 18-19 | 50.19 | -2.97 | 52.45 | 54.62 | 49.97 | 2.70% |
| Winter 19-20 | 45.63 | -1.66 | 46.95 | 47.90 | 45.38 | 9.02% | Winter 19-20 | 47.64 | -2.86 | 49.99 | 52.19 | 47.57 | 0.04% |

| | LAST NIGHT'S | MONTHLY | 30 DAY | 30 DAY | 30 DAY | Annual |
|------------------|--------------|---------|---------|---------|---------|--------|
| | CLOSE | CHANGE | MEAN | HIGH | LOW | Change |
| Brent oil | \$68.58 | \$4.02 | \$68.51 | \$70.53 | \$64.90 | 20.72% |

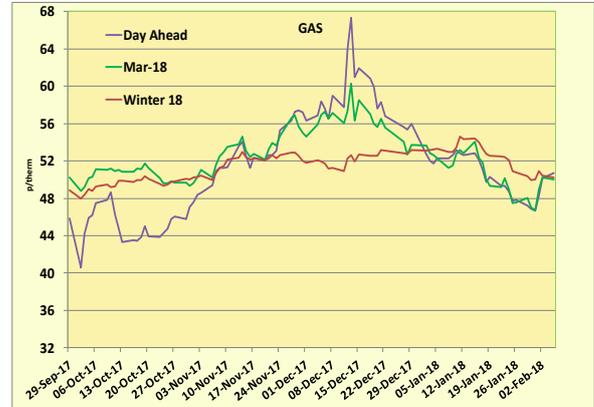
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- Weather forecasts for the remainder of winter
- Day Ahead gas prices
- Gas storage levels
- The level of gas imports from Norway, Belgium and Holland
- The volume and frequency of LNG shipments into the UK
- Currency exchange rate fluctuations
- Coal prices
- Oil prices
- European gas prices
- Domestic and global economic indicators

IN DETAIL

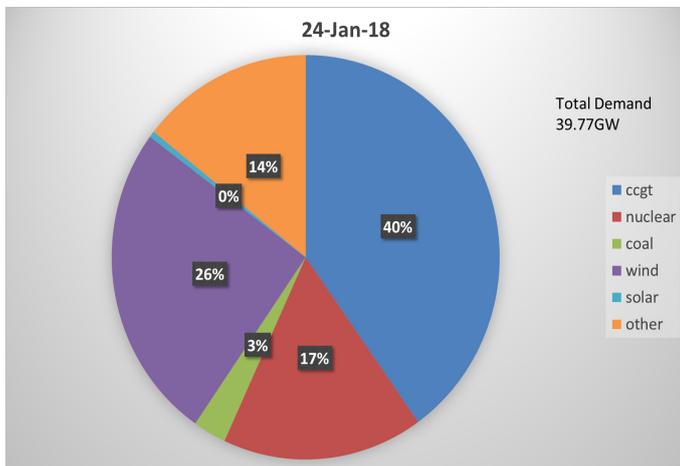
Gas and electricity prices have fallen in the last month from the highs that we saw prior to Christmas. Partly as a result of low demand due to relatively mild, windy weather during January, gas and electricity supplies coped comfortably with demand giving the markets increased confidence for the rest of the winter period.

As can be seen from the graph on the right, Day Ahead gas prices have fallen steadily from mid-December, reflecting the relative comfort with which the gas system has coped with demand. Robust levels of imports from Norway combined with an increase in imports from Holland and Belgium more than offset reduced LNG flows and the limitations in gas storage capacity.



It was mainly concerns regarding the availability of storage which drove the increase in prices prior to Christmas and these concerns are now much reduced. In the absence of the Rough storage gas site the UK relies on a number of smaller storage sites which used to contribute 30% of total storage. These sites are more flexible than the Rough storage site, able to switch between injection and withdrawals on a daily basis.

Currently these sites are approximately 85% full and have only been called on this winter during spells of particularly cold weather. There is sufficient storage levels to comfortably meet any further spells of cold weather unless there is a prolonged

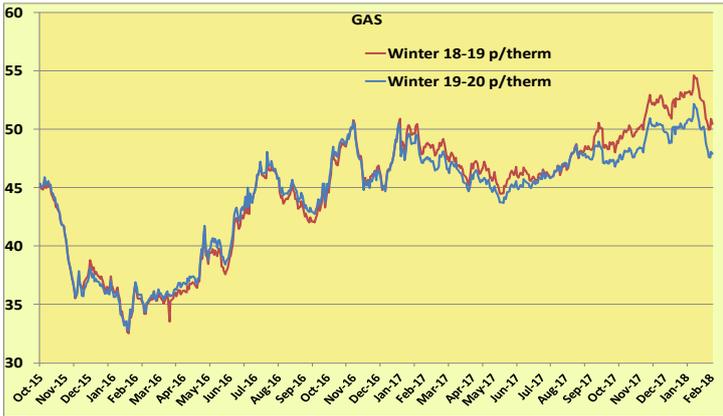


Electricity prices have fallen in line with gas prices during January, partly as a result of comfortable generation margins due to high levels of cheap wind generation. The chart on the left illustrates the generation mix for the 24th January, which was typical for the latter part of January, and demonstrates the significant contribution that wind made to the overall mix, accounting for 26% of total generation. This reduced the requirement for gas fired generation thereby contributing to a reduction in demand for gas and to the falls in gas prices. In addition to contributing to electricity generation, high levels of wind also helps to reduce overall demand for electricity from the grid due to the effects of on-site generation.

Gas and electricity prices for summer 2018 and beyond have also fallen over the last month after initially resisting the influence of the falls in the Day Ahead gas price. Instead prices were driven by the steady increases that we have seen in oil prices. Rising oil prices can often lead to increases in UK gas prices due to the prevalence of oil indexation in some long-term supply deals which are fairly common in Europe - any movement in European gas prices tends to impact on UK energy prices.

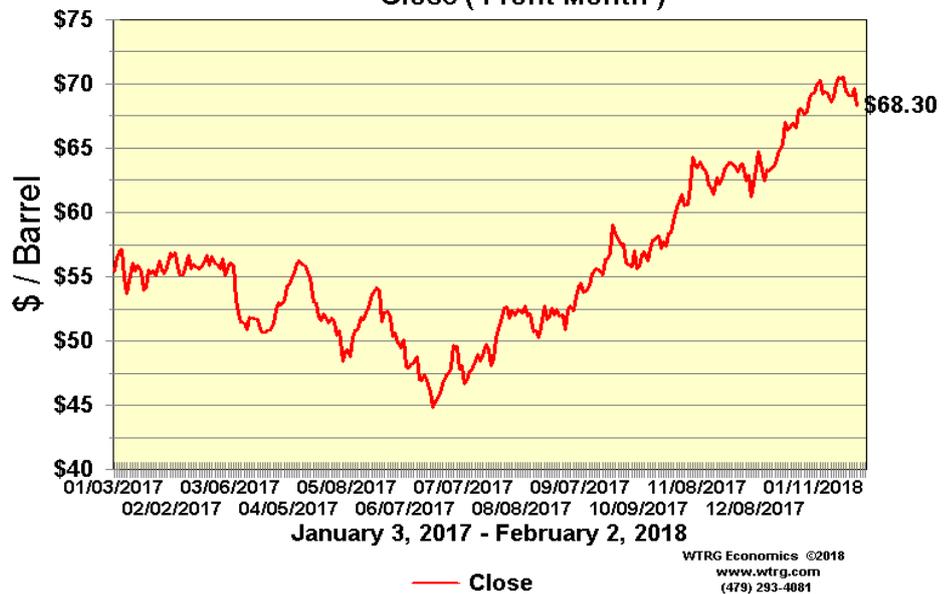


Despite oil prices consolidating their gains over the last week, threatening to break above \$70 per barrel, gas and electricity for summer 2018 and beyond have lost value from their relatively high levels, taking direction instead from the increase in confidence that the future limitations on available gas storage levels will not have the impact that was feared prior to the start of this winter. In that sense the markets have gained confidence in the manner in which gas imports from Europe increased to meet demand during this winter. Despite these recent falls, prices for winter 18 and 19 for both gas and electricity remain close to the recent highs as demonstrated by the graphs below.



As alluded to above, oil prices have continued on their recent upward trend over the last month as production cuts by OPEC and non-OPEC members continue to hold firm without any significant indication that oil production in the US would increase which would be expected as oil prices increase. We have seen prices lose some value in recent days which has been attributed to strength in the dollar.

**Brent Crude Oil Futures
Close (Front Month)**



SUMMARY

In the short term the markets are likely to focus on weather forecasts for the remainder of the winter, and the ability of supply to meet higher demand. Currently forecasts are indicating colder than average temperatures during the first half of February, which could provide some support to prices in the short-term. The healthy levels of gas storage, however, are likely to cap any increases in prices and while imports from Europe remain robust there is the likelihood that gas and electricity prices for late winter and early spring will continue to fall.