

MONTHLY MARKET UPDATE: DECEMBER

OVERVIEW

- Gas and electricity prices have risen over the last month, mainly as a result of ongoing supply concerns for the remainder of winter
- Higher oil and coal prices have contributed to increases in gas and electricity prices for summer 2018 and beyond
- Oil prices have risen close to their highest levels since November 2015, taking support from OPEC members complying with agreed production cuts
- LNG flows remain relatively low with a scarcity of incoming shipments

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
Jan-18	56.73	0.93	55.86	60.45	53.45		Jan-18	60.22	2.85	58.12	66.31	53.68	
Feb-18	56.78	2.13	55.61	59.98	53.35		Feb-18	60.58	3.12	58.27	65.32	54.03	
Mar-18	52.93	0.42	52.61	55.85	50.40		Mar-18	56.50	1.50	55.46	60.26	52.11	
Winter 18-19	50.33	0.60	49.74	50.40	48.58	21.85%	Winter 18-19	53.16	1.13	52.25	53.16	50.90	18.26%
Winter 19-20	47.28	0.20	47.13	47.65	46.23	21.31%	Winter 19-20	50.50	0.57	50.07	50.95	48.78	12.10%

	LAST NIGHT'S	MONTHLY	30 DAY	30 DAY	30 DAY	Annual
	CLOSE	CHANGE	MEAN	HIGH	LOW	Change
Brent oil	\$64.56	\$1.45	\$63.10	\$64.69	\$61.22	17.51%

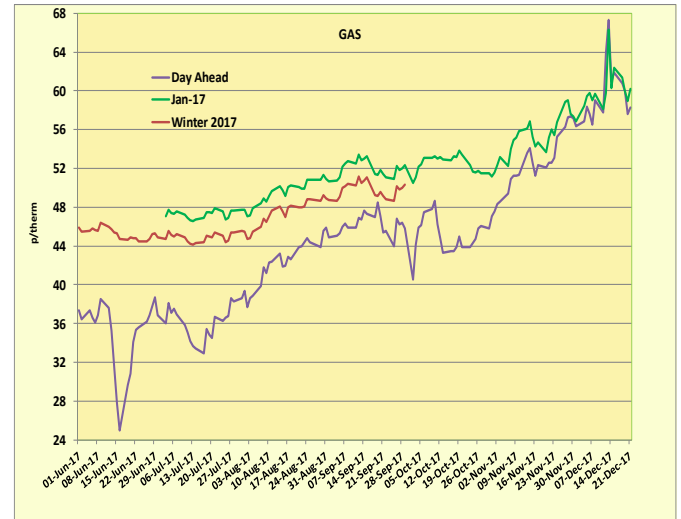
LOOKING AHEAD PRICES WILL BE INFLUENCED BY:

- Ongoing maintenance to a key North Sea pipeline
- Weather forecasts for early 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

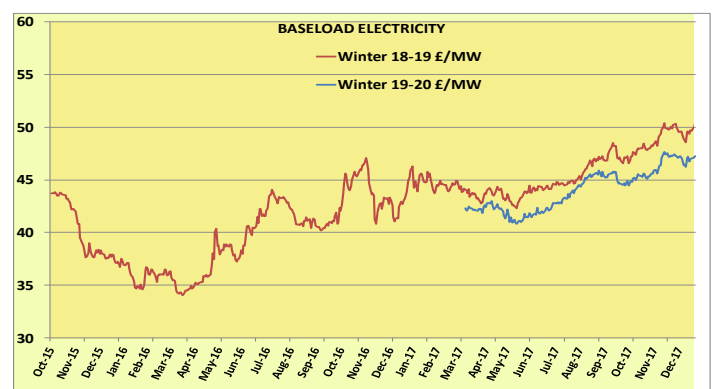
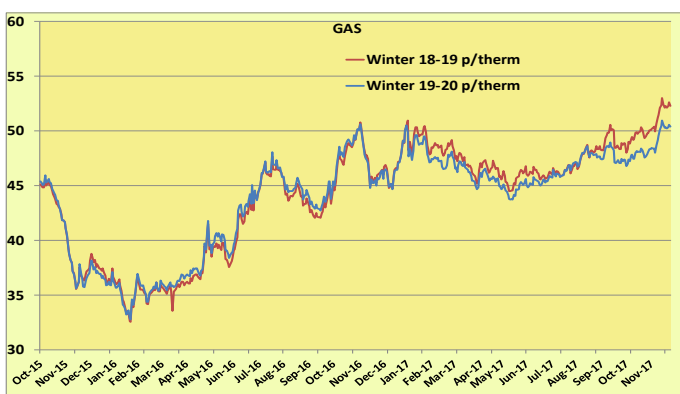
Gas and electricity prices for the winter months have continued on their recent upward trend over the last month, driven by a combination of ongoing supply concerns and disruption to two key elements of the gas infrastructure.

As can be seen from the graph on the right, Day Ahead gas prices have risen steadily since mid-July, which has resulted in higher prices for the winter months. The main driver for these increases has been concerns regarding availability of supply to meet demand in the absence of storage gas from the Rough storage site. In addition to these ongoing issues, an announcement on the 11th December that the North Sea Forties pipeline was to be closed with immediate effect following the discovery of a fault resulted in a sharp rise in Day Ahead gas prices. This is a key pipeline, capable of providing approximately 10% of UK supply.



The following day there was news of an explosion at the Baumgarten gas network point, which is a key entry point into Europe for Russian gas. Combined with the previous day's news, this resulted in a sharp spike in gas and electricity prices, with Day ahead gas prices trading intraday at 99p per therm, and January gas prices up by 11p. The issue at Baumgarten was rectified relatively quickly which saw prices fall back from their high points and largely reverse the increases on the following day. The fault with the Forties pipeline is scheduled to be repaired by early January but will continue to impact on prices until flows through the pipeline recommence.

Gas and electricity prices for winter 18 and beyond have also risen over the last month and are now at historic high levels as we can see from the graphs below. Increasing oil and coal prices combined with the volatility in the markets in recent weeks can be seen as the main drivers for these increases. As a result of this continuation in the upward trend in prices we have increased our hedged positions for 2018/19, and taken further cover for 2019/20.



SUMMARY

Low demand over the Christmas period combined with warmer temperatures are likely to cap any increases in gas and electricity prices in the short term. Further news regarding the Forties pipeline return to operation is likely to impact on the markets along with revised weather forecasts.