Contents

Macro Economics ........................................................................................................................................... 2
Oil Market: Brent $53.31/bbl, WTI $48.52/bbl ......................................................................................... 3
European Gas Market NBP Price: 1.462 pence/kWh ................................................................................ 4
UK Electricity Market Average Buy Price: £41.90/MW ........................................................................... 5
Coal Buy Price: £27.53/tonne ...................................................................................................................... 6
Carbon Buy Price: €7.98/tonne .................................................................................................................... 7
News .......................................................................................................................................................... 7
What a new government means for the UK energy markets ................................................................. 7
United States Dollar

July saw the release of Advance GDP for the 2nd quarter from America. The first estimate of the data available showed the US economy expanded at an annualised 2.3% between April and June, slightly lower than the 2.6% forecast but a solid rebound after Q1. The dollar rose across the board on the release as the print increased the odds (slightly) that the Fed will start to raise interest rates in September. Accompanying GDP was another strong Unemployment Claims print which came in at 267k. Cable which had traded as high as 1.5640 fell away throughout the rest of the month and currently sits at 1.5560...

Blizzard anticipates a range of 1.5500 to 1.5640

Euro

There have been more comments from the IMF about the unsustainability of Greece’s debt mountain this month. An unnamed IMF official again stated that the IMF would only contribute money to bailout fund if there was some sort of debt relief for the Greek government. The comments cast doubt on whether the lender of last resort will be willing to contribute to the latest bailout, at least in the initial stages. Month end sees the latest Flash CPI data from the Eurozone with both the core and overall reading expected remain at 0.8% and 0.2% respectively. EUR/USD currently trades 1.0930 after making a break for 1.10 but falling short. GBP/EUR sits at 1.4230.

Blizzard anticipates a range of 1.4200 to 1.4310
Oil Market: Brent $53.31/bbl, WTI $48.52/bbl

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>53.31</td>
<td>↓</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>487.25</td>
<td>↓</td>
</tr>
<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>263.60</td>
<td>↓</td>
</tr>
</tbody>
</table>

Close to close at $53.31/bbl for Brent ICE AUG15

Why?
Oil prices were rather stable yesterday close to close, around $53.3/b for the Brent 1st-nearby and $48.5/b for the WTI. Prices went down after a tentative recovery, once US GDP data contributed to reinforce the USD. Oil is heading for its worst month this year, as many commodities: Brent prices have more or less lost $10/b, plumbed by prospects of tighter Fed policy as well as fears linked to the Chinese stock market crisis.

Main events:
US GDP data for Q2 confirmed the rebound in US activity and showed that activity was finally a bit on the rise in Q1. This was enough to support Fed rate hike expectations even if the US recovery is everything but impressive. So the USD rebounded, which weighed negatively on oil prices that made an attempt on the rise in the morning, boosted by the surprising drop in US crude inventories. According to Oil Movement, OPEC shipments should rise by 300kb/d in the 4-weeks to mid-August.

Outlook:
Very calm in perspective, as there is no key market mover on the agenda. Chinese equities were down again, but not to a big extent (-1.1%) and we do not expect strong moves in the USD. Markets will probably now wait for key US economic reports released in August: the manufacturing ISM and the job report as well as Chinese PMI during the week end. Technically, we still think the $52.5/b support will hold for Brent 1st-nearby prices before these key reports.
European Gas Market NBP Price: 1.462 pence/kWh

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Day Ahead (p/therm)</td>
<td>42.85</td>
<td>↓</td>
</tr>
<tr>
<td>September 2015 (p/therm)</td>
<td>42.35</td>
<td>↓</td>
</tr>
<tr>
<td>Winter 2015 (p/therm)</td>
<td>45.81</td>
<td>↓</td>
</tr>
</tbody>
</table>

Close to close at 20.90EUR /MWh for TTF CAL 16

**Why?**
European prices rebounded as buying interest re-emerged after previous month’s downward correction. Higher gas demand supported the prompt while a further drop of the euro against the pound lifted longer-dated maturities quoted in euros.

**Main Events:**
An increase in exports to Belgium through the IUK pipeline and in CCGT demand gave a boost to total gas demand which was 7 mm cm higher than the beginning of the month. A downward revision in temperature forecasts for the next few days provided additional support to the NBP prompt as residential demand is expected to remain above seasonal norms. Short-covering ahead of the expiry of the front-month contract may have also fueled the bullish sentiment. For their last day of trading, NBP ICE August 2015 prices gained 0.21 p/therm at the close (+0.49%), to 42.84 p/th.

**Outlook:**
A drop in Langeled flows despite no unplanned outage published by Gassco and lower gas demand dragged the UK system into undersupply at the end of July. This could support NBP spot and near-curve prices ahead of maintenance work on the Forties Pipeline System in the North Sea. Continental prompt prices could follow the bullish trend at the NBP. Brent prices are trading lower, although technical supports could limit the bearish move ahead of the release of key economic figures next
This could exert some bearish pressure on longer-dated maturities and slightly erode any previous gains.

**UK Electricity Market Average Buy Price: £41.90/MW**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Day Ahead (p/kWh)</td>
<td>4.076</td>
<td>⇣</td>
</tr>
<tr>
<td>August 15 (p/kWh)</td>
<td>4.130</td>
<td>⇣</td>
</tr>
<tr>
<td>Q4 2015 (p/kWh)</td>
<td>4.420</td>
<td>⇣</td>
</tr>
<tr>
<td>Winter 2015 (p/kWh)</td>
<td>4.500</td>
<td>⇣</td>
</tr>
<tr>
<td>Summer 2016 (p/kWh)</td>
<td>4.115</td>
<td>⇣</td>
</tr>
<tr>
<td>Winter 2016 (p/kWh)</td>
<td>4.535</td>
<td>⇣</td>
</tr>
<tr>
<td>Summer 2017 (p/kWh)</td>
<td>4.070</td>
<td>⇣</td>
</tr>
<tr>
<td>Winter 2017 (p/kWh)</td>
<td>4.500</td>
<td>⇣</td>
</tr>
</tbody>
</table>

Close to close at £40.76/ MWh for CAL 16

**Why?**
On the prompt, spot prices were supported a bit as wind output is set to come down sharply and more moderately in neighboring countries. Week- and month-ahead contracts were also supported as warmer weather was confirmed by latest weather runs. It was even revised a bit higher. On the supply side, there are few thermal outages; nuclear availability is still very comfortable; no supply incidents have been reported. If weather patterns remain unchanged during the course of the next few days, we believe short-term maturities will remain supported for now as the market is likely awaiting the real impact of warmer weather next week on generation and finally spot prices.

**Main Events:**
Carbon moved with a sudden (still moderate) drop of €0.1/ton on the EUA dec15 maturity. Earlier in the month, prices have been supported by positive sentiments on political reforms and high bids at this
month’s auctions. As market conditions were calmer and prices rather high, profit-taking was probably the major trigger for yesterday’s drop. The level at which CO2 prices stabilized is interesting: it failed to break below €7.9/ton. This level is the highest price level for this contract since Q12013. We believe this shows that for now market conditions are not ready yet for stronger profit-taking moves. This might come at a later stage when auctioned volumes will have been reduced and maybe bids are not so high like this week.

Outlook:-
The market seems now set for a correction. Carbon dropped a bit, oil is back to lower levels; coal might be set for a downward correction. We would be rather bearish on power prices for today.

Coal Buy Price: £27.53/tonne
UK Energy Markets Report

Carbon Buy Price: €7.98/tonne

News

What a new government means for the UK energy markets

On 7 May, the UK elected its first majority Conservative government for almost two decades. The shock result – all pre-election polls had pointed towards a far closer race and a hung parliament – quashed much of the uncertainty that had clouded the future direction of the energy markets and energy policy in the months leading up to the election. In light of the result, this White Paper looks into the following questions:

- Where to from here? How will the new government interact with the traded energy markets? Will it favour intervention or market forces?
- How should companies position themselves to benefit from the market’s future direction, and how should established participants limit exposure to the market’s new risks?
- How has the political risk associated with energy market entry been affected by the general election result?
- How does the ongoing Competition and Markets Authority inquiry into the UK energy market interact with government energy policy pledges?
- How will the EU referendum impact the energy markets?

A new direction in an uncertain environment

Pre-election polls were very close for weeks leading up to the UK 2015 general election, so much so, that no one could realistically call a likely winner. With energy a key electoral battleground, the post-7 May shape of the energy markets was impossible to predict.

Key policies pledged by UK opposition parties that we now know, in light of the result, will not be enacted in the next five years, include:
A freeze on retail gas and electricity tariffs until 2017
The break-up of generation and retail arms of the UK’s ‘big six’ utilities – EDF, RWE, SSE ScottishPower, E.ON and Centrica
A 2030 power sector decarbonisation target, which has been opposed previously by Conservative MPs
A move away from investing in new nuclear power generation
An electricity market pool system, where all traded power is bought and sold at one exchange
The disbanding of British energy market regulator Ofgem

So what is going to happen?

Intervention or market forces?

Pre-election Conservative energy pledges and what they mean in practice:
1. Keep your bills as low as possible and promote competition in the energy market
   Conservative ideology is based on free-market economics and driving down costs through competition. Despite this, a degree of regulatory intervention – much of which is inevitable in today’s post-2008 financial crisis economy – can be expected, with the goal, in essence, of lowering barriers to energy market entry. But this will stop well short of breaking up the big utilities into separate generation and supply businesses, as had been debated pre-election.

2. Ensure your homes and businesses have energy supplies they can rely on
   this means pursuing the new status quo of UK energy policy: electricity market reform (EMR). Two of the four main pillars, contracts for difference (CfDs) for low-carbon power generation, and the capacity market, which is primarily for fossil-fueled power production, are based around competitive auction systems, and are designed to centrally secure electricity supplies.

3. Help you insulate your home
   this means steadily eating into domestic power demand through a policy called the green deal which aims to insulate the UK’s aging housing stock.

4. Halt the spread of subsidised onshore wind farms
   this means what it says on the tin, although it comes with a very big caveat: The government will not immediately derail progress in onshore wind. The Conservative party stated last year that it planned to apply its new subsidy rules to onshore projects that are yet to receive planning permission. According to the government’s planning database, onshore wind farms with a total output of 5.6GW have already received consent to build and are in the pipeline.

5. Meet our climate change commitments, cutting carbon emissions as cheaply as possible to save you money
   Again; this is a reference to the competitive structure of the UK’s new subsidy systems. The CfD model works around two pots of money: one for established technologies, the other for developing technologies, as opposed to technology-specific pools. This substantially intensifies the competitive element of the auction, and is purposefully designed to achieve capacity targets at lowest cost.

Business as usual?
The government will pursue its EMR agenda, the foundations of which were put in place by the last parliament through the Energy Act. Below is an overview of the four pillars of the programme.

1. **Contracts for difference (CfDs)** and the levy control framework (LCF): The government will be torn between fiscal prudence by spending within the constraints of the LCF, a Treasury model that caps the amount the Department of Energy and Climate Change (DECC) can spend on subsidies, and pursuing a green agenda that helps it achieve legally binding EU targets by 2020. Following criticism from the National Audit Office last summer and clear parliamentary recommendations for adjusting the EMR programme to reduce costs, the returning Conservative government is unlikely to seek to expand existing budget boundaries in the pursuit of more renewables. What this means for business: Companies need to work to drive down costs to generate and deliver energy as cheaply as possible, because fiercely competitive auctions, ones that may even lead some companies to overpromise and subsequently under-deliver, are certain to be the way forward.

2. **Capacity mechanism**: This is an auction based system that pays out a steady stream of income to generators that have capacity ready to ramp up. It is designed to iron out price spikes when
variable renewable power production falls away at short notice. What this means for business: Up to 5GW of coal-fired plants missed out on contracts in December’s auction for capacity delivery from winter 2018. Another 2.5GW of existing combined-cycle gas turbine (CCGT) plant that missed out on capacity contracts has yet to declare future intentions. This casts a shadow over their involvement in the wholesale market, so prospective new entrants should keep a close eye on these plants. Whether or not they remain in operation will have a strong bearing on the evolution of power supply margins and the profitability of different generation technologies.

3. **Carbon price support (CPS):** A unilateral tax on fossil-fueled power generation. It was put in place because the EU emissions trading system (ETS) price was too low to encourage investment in clean power. The CPS rate was frozen by the Treasury at £18.00 per tonne CO2 equivalent (tCO2e) from April 2016 until April 2020. Until April 2016 it is £18.08/tCO2e. This has maintained a large premium on wholesale electricity prices compared to those in most continental European markets, and is a key driver of imports of power into Britain from France and the Netherlands via interconnectors.

What this means for business: CPS is certain to remain in place and is highly unlikely to change. This is because a premium held by CPS over the EU ETS rate has lessened due to structural reform of the carbon market at EU level since George Osborne put the freeze in place. This allows for more stability on the forward power market out to 2020, which in turn allows businesses to plan with a higher degree of surety. However, the smart advice is to watch this space. Any future adjustments to CPS will be announced at the UK’s annual budget.

4. **Emissions performance standard (EPS):** A closure programme for the coal industry, intended to cap levels of pollution from power plants. In essence the EPS prevents new coal-fired plants from being built in the UK without technology such as carbon capture and storage. This often neglected fourth pillar of EMR last hit the headlines in 2013 when politicians rejected an amendment to what was then the energy bill, which could have forced the closure of 15GW of coal-fired electricity plants earlier than initially thought. What this means for business: Even in 2013, environmental concerns were taking a back seat to security of supply and cost issues, and this will remain the case. Coal plant will stay on the system, part-subsidised by the capacity mechanism, as it is considered key to supply security. Prospective market entrants should consider this when looking into forward supply margins and projections of plant profitability.

But a break with continuity will occur in other areas: primarily, onshore wind subsidies The Conservative party stated last year that it planned to apply its new subsidy rules to onshore projects that are yet to receive planning permission. To an extent this represents the emerging political risk.
Through this policy, the Conservatives appeal to middle England voters – their Traditional support base. However, the government will not immediately derail progress in onshore wind. The Conservative Party stated last year that it planned to apply its new subsidy rules to onshore projects that are yet to receive planning permission. But the UK has 5.6GW of onshore wind that has received consent to build. This is comfortably more than enough capacity to take the industry through the five-year parliamentary term and beyond.

**What this means for business:** For developers looking to build out projects that have not yet achieved planning consent, the subsidy door is now closed, so again we come back to the importance of driving down costs. But in this case an even more extreme picture emerges, as onshore wind that has NOT gained consent will need to generate free of subsidy, which means generating at ‘grid parity’ – less than or equal to the wholesale electricity price.

**With a new government** comes a new energy secretary Amber Rudd will be broadly welcomed as energy secretary across the industry. She has previously been supportive of the EU ETS. “Once we have the market stability reserve in place, we [the UK government] will continue to be ambitious,” she told a UK parliament committee in November last year, in reference to the country’s championing of emissions cuts at EU level.

This means Rudd is likely to remain broadly supportive of low-carbon technologies and the UK’s commitments to cut emissions under the EU renewable energy directive, as well as driving Conservative policy in the thermal generation sectors.

**The Competition and Markets Authority (CMA) inquiry** The CMA launched its inquiry into the UK energy market in 2014. In February 2015, the authority published an updated issues statement giving detailed insight into the direction of its ongoing probe. In reference to UK wholesale electricity market liquidity, it declared the big six utilities “are not gaining a competitive advantage in terms of product availability”.

The Conservative Party 2015 manifesto stated: “We will implement the recommendations of the Competition and Markets Authority investigation that we triggered.”

What this means for business: The forced break-up of any vertically integrated company, which although extreme, had been considered a realistic prospect by some in the industry, is now highly unlikely to be recommended when the CMA publishes its final report at the end of this year.

**EU referendum** The UK will hold a referendum before the end of 2017 to decide whether it remains a member of the EU and it could take place as early as 2016. The nation is expected to choose to remain within the Union, but this is far from certain. The effect of a UK exit from the EU on
the country’s energy policy is unknown. Hindsight of the skeletal framework that was put in place as a contingency in the event of Scotland voting for independence in September 2014 shows that the landscape of the energy sector with the UK outside of the EU would be unclear and unpredictable. Plans are too big and too costly to be made because they are unlikely to be put into action. Some aspects of the industry that could be affected include:

- Three of the UK’s ‘big six’ utilities, RWE, EDF and EON, are foreign-owned and headquartered in mainland Europe. There could be doubts over their continued appetite to remain involved and invest in the UK’s gas and electricity markets
- UK emissions reduction targets are prescribed by the EU. Targets for 2020 have kept the cash pouring in because the EU renewable energy directive lent that certainty. But investment in the renewables sector could be affected, as 2020 EU targets for renewable
electricity generation would no longer necessarily apply to the UK. What this means for business: If there’s one thing the investment community does not like, its uncertainty, and one thing it looks for above all else – stability.

In summary
DECC has long framed its electoral mandate within a policy triangle: affordability, security of supply, and cutting carbon emissions. If a low-carbon transition is to be achieved – and this remains the long-term goal for the government – it must be in a sustainable manner: environmentally, economically and politically. Therefore, affordability = economic sustainability; energy security = political sustainability; and low carbon = environmental sustainability.

The Conservatives made a palpable effort to align energy and business during their time heading the coalition government from 2010-2015, even appointing Michael Fallon as both Minister of State at the Department for Business, Innovation and Skills, and DECC, simultaneously. Once the EU referendum is out the way, the industry should expect more of the same. We will see an energy market striving to achieve cuts in its emissions spearheaded by competition as a means of driving down costs while securing supply. The third leg of the DECC policy triangle – emissions reduction – will remain in place at least until 2020, but the market should not expect any clear, stable indicators of direction beyond this date. No 2030 power sector target will be set. And besides, by 2020, we will have just elected our next government. And who knows what colour that will be, and what direction energy policy will move in during the 2020s.

Terminology

- All oil prices: in US dollar
- Oil product: Brent crude or West Texas Intermediary (WTI)
- Mb/d – Million Barrels per day.
- Freight rates: US dollar per tonne.
- Natural gas prices quoted as pence per therm.
- Power prices quoted as Pounds Sterling per MWh.
- CO2 market: EURO

Information & Data Sources

1. Total Gas & Power
2. GDF Suez
3. Haven Power
4. Coal spot.com
5. FT
6. ICIS
Disclaimer
This material is intended for information purposes only. It does not constitute an independent investment research, a personal recommendation or other general recommendation relating to transactions in financial instruments or an investment advice.

This material is intended for general distribution, it does not take into account any specific investment objectives, financial situation or particular needs of any recipient. It cannot be transmitted to any other person without the prior written consent of Blizzard Utilities Limited.

The information contained herein, including any expression of opinion, is not intended to constitute an offer or a solicitation to buy or sell any financial instruments, products or services, an investment research or an investment recommendation or other financial, investment, legal, tax or accounting advice or any other advice.

Further, all information contained herein has been obtained from and/or is based upon sources believed to be reliable is deemed to be clear, fair and not misleading but cannot be guaranteed as to accuracy or completeness. The views and opinions, forecasts, assumptions, estimates and target prices reflected in this material are as of the date indicated and are subject to change at any time without prior notice. The figures that may refer to past performance herein are in no instance an indication of future valuations or future performance. Blizzard Utilities Limited is under no obligation to disclose or to take account of this document when advising or dealing with or for its customers. Blizzard Utilities Limited nor any of its affiliates, directors, employees, agents or advisers nor any other person accept any liability to anyone for any direct, indirect, special, incidental, consequential, punitive or exemplary damages (including, but not limited to, lost profits) arising from the use and dissemination of this material or the information contained herein.