May 2015 - Market Summary

Review of Market Trends

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Contents

Macro Economics.......................................................................................................................... 2
Oil Market: Brent $62.01/bbl, WTI $58.33/bbl........................................................................... 3
European Gas Market NBP Price: 1.434 pence/kWh................................................................. 4
UK Electricity Market Average Buy Price: £41.00/MW.............................................................. 5
Coal Buy Price: £27.49/tonne .................................................................................................... 6
Carbon Buy Price: €7.46/tonne .................................................................................................. 7
News ............................................................................................................................................. 7
Macro Economics

<table>
<thead>
<tr>
<th>Currency</th>
<th>Closing Rate</th>
<th>% Change</th>
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<tbody>
<tr>
<td>EUR</td>
<td>1.4099</td>
<td>1.97%</td>
</tr>
<tr>
<td>USD</td>
<td>1.5555</td>
<td>0.33%</td>
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United States Dollar

GBP/USD has been fairly steady over the last 24 hours. It recovered in line with EUR/USD and reached a high of 1.5780. This recovery was party supported by FX intervention by the Swiss National Bank who sought to prevent the CHF from appreciating too much on the back of safe haven demand. The Greek headlines are set to continue rolling today with midnight tonight being the deadline for Greece to repay €1.6 billion in debt to the IMF. In other news today, UK Current Account and Final GDP data is due this month, followed by consumer confidence data from the US. GBP/USD opened July at 1.5705.

Blizzard anticipates a range of 1.5650 to 1.5760

Euro

EUR/USD recovered as profit taking kicked in during the session and on the back of SNB intervention. There may also be a feeling permeating markets that the Eurozone may actually be better without Greece, although the reaction in stock markets hardly suggests this. The pull back in the euro was impressive though and it holds firm at 1.1170 vs. the USD. It’s a touch stronger vs. the pound too and GBP/EUR trades at 1.4055. Expect more volatility over the next few days – even weeks – as the Greek situation continues to play out.

Blizzard anticipates a range of 1.4000 to 1.4130
Oil Market: Brent $62.01/bbl, WTI $58.33/bbl

<table>
<thead>
<tr>
<th>Index</th>
<th>Price</th>
<th>Change</th>
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<tbody>
<tr>
<td>Brent ICE (USD/b)</td>
<td>62.01</td>
<td>↓</td>
</tr>
<tr>
<td>Gasoil ICE (USD/t)</td>
<td>573.00</td>
<td>↓</td>
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<tr>
<td>Fuel 1% Fob cg (USD/t)</td>
<td>323.71</td>
<td>↓</td>
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Close to close: UP at $ 63.59/bbl for Brent ICE AUG15

Why?
Oil prices rebounded strongly with +$1.58/b gain on Brent and +$1.14/b on WTI. Then, prices softened overnight after Greece became the first developed economy to default on a loan with the International Monetary Fund... Besides darkening growth forecasts, the EU member default pushed up the dollar versus the Euro, with the stronger greenback pressuring crude prices. Meanwhile, OPEC and US production both reached new records, weighing negatively on crude prices.

Main events:
As expected, Greece was not able yesterday to repay 1.6 billion Euros it owed to the IMF; in what was the largest missed payment in the Fund’s history. Although this was largely awaited by markets, the next events are real concerns for global economy and especially for EU and the euro zone (see daily eco). According to REUTERS figures, the overall OPEC supply rose to a three-year high of 31.6 Mbd in June, up from 31.3 Mbd in May (+300 kbd). The group has raised output by more than +1.3 Mbd since it decided in November 2014 to defend market share rather than prices. Main increase are due to Iraq (jumped to 3 Mbd after Iraq split the crude stream into two grades, Basra Heavy and Basra Light, to resolve quality issues), Nigeria (+60 kbd) and Saudi Arabia whose output is at near records above 10.3 Mbd in the US, crude production rose +9 kbd to 9.701 Mbd in April, the highest since May 1971, according to the Energy Information Administration. The agency, in monthly data released yesterday, showed production almost stable but +100 kbd above the weekly data it...
provides. Both sets of data nevertheless suggest that a production plateau is approaching, which could deal a blow to US crude prices.

**Outlook:**
About Iranian talks, the sentiment is mixed: Iran and world powers gave themselves an extra week to reach a nuclear accord, extending a deadline due to expire yesterday but mixed messages were sent from Vienna. While Zarif came back from Tehran where he met the Supreme Leader Ayatollah Ali Khamenei saying "I am here to get a final deal, and I think we can", the American president warned the Iranians that there would be no deal if all pathways to an Iranian nuclear weapon were not cut off... the mood is mostly bearish for crude markets today and we should see prices soften with a first support at $61.9/b.

**European Gas Market NBP Price: 1.434 pence/kWh**

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<table>
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<tbody>
<tr>
<td>Day Ahead (p/therm)</td>
<td>42.04</td>
</tr>
<tr>
<td>August 2015 (p/therm)</td>
<td>42.13</td>
</tr>
<tr>
<td>Winter 2015 (p/therm)</td>
<td>47.49</td>
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**Close to close: 14.34 /MWh for TTF CAL 16**

**Why?**
Short-covering ahead of a new quarter which could lead to a significant change in supply flows especially from Russian oil-indexed contracts and Dutch production supported European spot prices on Tuesday. In the UK, strong storage injections and robust exports to Belgium kept gas demand well above seasonal norms but the system remained balanced due to an increase in Norwegian imports. Nevertheless, NBP spot prices traded higher, taking direction from bullish TTF prices on the back of low Groningen production forecasts and rising demand for imports.
Main Events:
Uncertainty over the outcome of gas talks in Vienna between Ukraine, Russia and the EU provided support to the curve. Parties finally failed to reach an agreement and remain “far apart” according to EU energy commissioner Maros Sefcovic. Consequently Ukraine will stop buying Russian gas from 1 July until new supply conditions are agreed. NBP ICE August 2015 prices, the new front-month contract, gained 0.28 p/therm at the close (+0.67%), to 42.13 p/th. TTF ICE August 2015 prices were also higher at the close: +14 euro cents (+0.7%), to €20.454/MWh. Further out on the curve, TTF ICE Cal 2016 prices were assessed 7 euro cents higher at the close (+0.31%), to €21.501/MWh.

Outlook:
With NBP spot prices at a discount to European hubs, nominations for exports to Belgium through the IUK pipeline are close to their maximum level so far this summer. Strong demand for storage injections in the UK could also support NBP spot prices today. On the continent, Russian flows and Dutch production are rather stable and nominations for exports from Slovakia to Ukraine dropped to 13 mm cm/day compared to 23 mm cm/day yesterday despite the halt in Russian gas imports to Ukraine, which should be bearish for European spot prices. Nevertheless, the lack of a gas supply agreement between Ukraine and Russia could support curve contracts today and spread to spot prices.

UK Electricity Market Average Buy Price: £41.90/MW

<table>
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<tr>
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<th>Day Ahead (p/kWh)</th>
<th>August 15 (p/kWh)</th>
<th>Q4 2015 (p/kWh)</th>
<th>Winter 2015 (p/kWh)</th>
<th>Summer 2016 (p/kWh)</th>
<th>Winter 2016 (p/kWh)</th>
<th>Summer 2017 (p/kWh)</th>
<th>Winter 2017 (p/kWh)</th>
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<tr>
<td>UK OTC POWER PRICE MOVEMENTS</td>
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Close to close: £ 41.90 MWh CAL 16

Why?
The prompt continued to be quite challenging yesterday. Both on the supply and on the demand side, the system is struggling. On the supply side, some outages at thermal facilities occurred, probably due to cooling requirements. On the demand side, the grid was also under pressure too; some western cities of France were cut from the grid overnight and power is brought back gradually. In the afternoon, major utility EDF announced according to some sources that it may have to cut production at different facilities in France due to the level of temperatures. The extent of the cut is however unknown so far. In terms of spot prices, prices were clearly higher than expected in Belgium. While OTC levels were traded in the morning around €46.0/MWh, the settlement on Belpex was at €57.6/MWh. In other countries, exchange prices were close to OTC levels.

Outlook:-
Overall, the current heat wave and the Russian dispute are quite supportive for market prices. So we would favour a bullish outlook.

Note that the German chancellor and Energy Minister are expected to unveil the final deal on the carbon tax today, related to emissions for old coal-fired power stations. This may impact power prices at the back end of the curve if the deal reached is finally tougher for power plants than expected.

Coal Buy Price: £27.49/tonne
Carbon Buy Price: €7.46/tonne

News

CLIMATE CHANGE LEVY EXEMPTION FOR RENEWABLE SOURCE ELECTRICITY SCRAPPED

Climate Change Levy (CCL) rules currently state that all supplies of renewable source electricity (RSE) is exempt from paying CCL. However, from the 1st August 2015, RSE exemption will be scrapped meaning businesses using RSE will be required to pay a further 0.554p/kWh for the rest of 2015/16 and 0.559p/kWh in financial year 16/17. This means that a business using 100,000,000 kWh/year of RSE in 16/17 will be required to pay a further £559,000 that year. Clearly this has huge implications for those businesses that have chosen to source their electricity from RSE suppliers such as Haven (Drax). Shares in Drax fell yesterday by 28% on the back of the news!

There will be a ‘transitional period’ from 1st August that will allow exemption for any RSE generated before that date should suppliers hold sufficient levy exemption certificates (LECs). The length of this period has yet to be decided and HMRC have stated that they will be discussing this with “affected businesses over the summer and autumn”.

![EU Carbon Price Chart](chart.png)
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. Utility Week

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