Utility Asset Strategies in a High Price Environment

Description: The European wholesale gas and power markets have become increasingly volatile with prices rising to ever greater levels in recent times. This volatility and high price environment has increased the risk of exposure for utility companies. This brief aims to assess the wholesale strategies utilities can undertake to minimise exposure or to gain an advantage in these difficult times.

Scope

- An understanding of the principles and industry terms relating to price and commodity exposure at an accessible level
- Insight into the dynamics of wholesale gas and power markets including analysis of the conditions that have led to increased risk of exposure
- A detailed breakdown of the various asset related strategic options available to utilities, and The assessment of each of these
- Examples of how these strategies are used to benefit utilities throughout Europe, and an assessment of utilities current levels of exposure

Highlights of this title

In a volatile and changing market it is not always the best course of action to hedge heavily, as this can result in severe price exposure should the market fall. Key strategies can however mitigate this risk, which in turn can deliver significant competitive advantage.

Following the recent round of mergers and acquisitions, Datamonitor has reviewed the levels of exposure of the major utility companies operating in Europe, giving a breakdown of their projected exposures.

Datamonitor has collected details of the most significant upstream strategies that can be used to mitigate against the risks inherent in a high price environment and assessed these against standard criteria, delivering detailed insight into the possible benefits of these.

Key reasons to purchase this title

- Assess the best strategy that gas or electricity providing utilities can adopt to maximise their position in the wholesale market.
- Understand market fundamentals such as WACOG and exposure, and explore the potential costs and benefits inherent in these.
- Gain an appreciation of the conditions that have led to the increased risks of exposure in the wholesale gas and electricity utility supply markets.

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CATALYST

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To avoid commodity exposure, a utility company must ensure that it has purchased sufficient energy to cover its position 4
The WACOG and WACOE for a utility are dependant on prices arranged for power to cover its position 5
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EDF is constructing new plants and regenerating much of its existing asset portfolio, thus reducing wholesale market exposure.

E.ON recently established a pan-European subsidiary to focus exclusively on increasing storage capacity.

Smaller utilities such as Statkraft have used PPAs and GPAs to expand, minimizing exposure and investment.

Centrica’s deal with Drax demonstrates the benefits that a Tolling Agreement strategy can bring to both parties.

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Ask the analyst
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