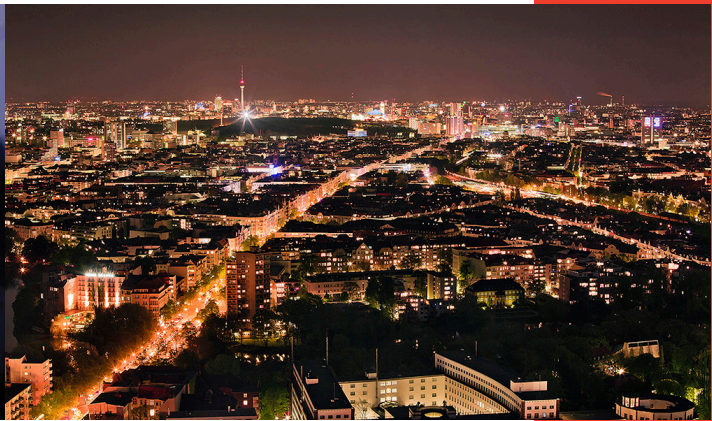




e-on

Monthly Market Report

March 2018



Market summary for February 2018

Gas

Cold weather forecasts push up gas prices

Power

Power prices rise amid strength in the gas market

Oil

Oil retreats from recent highs amid mixed market signals

Carbon

Carbon price continues its upward momentum

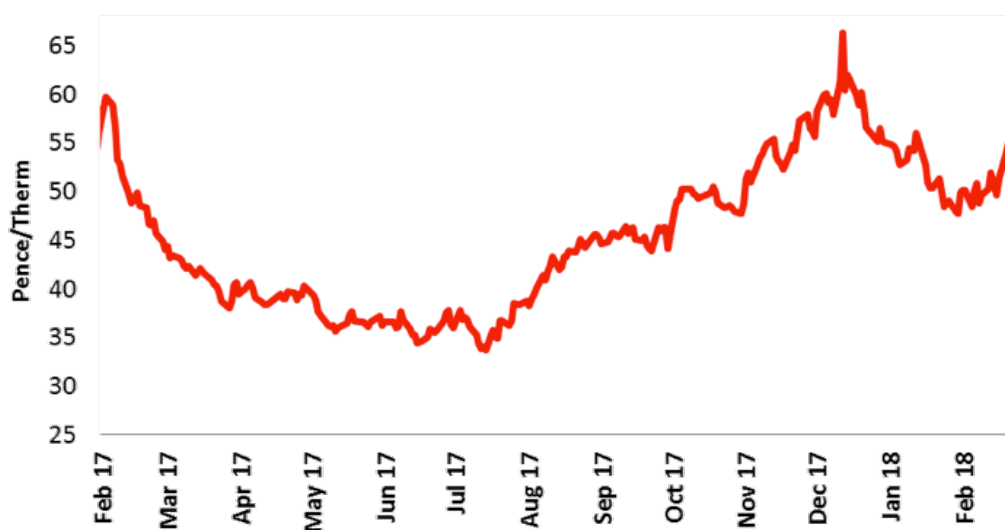
Direction of commodity prices (January 2018 to February 2018 & February 2017 to February 2018)

	Monthly Movement	Yearly Movement
Gas price	↑	↑
Power price	↑	↑
Oil price	↓	↑
Carbon price	↑	↑

Movements based on Front Month

Cold weather forecasts
push up gas prices

Gas Front Month Price



Note: Graph shows 4:30pm close prices as seen on Trayport

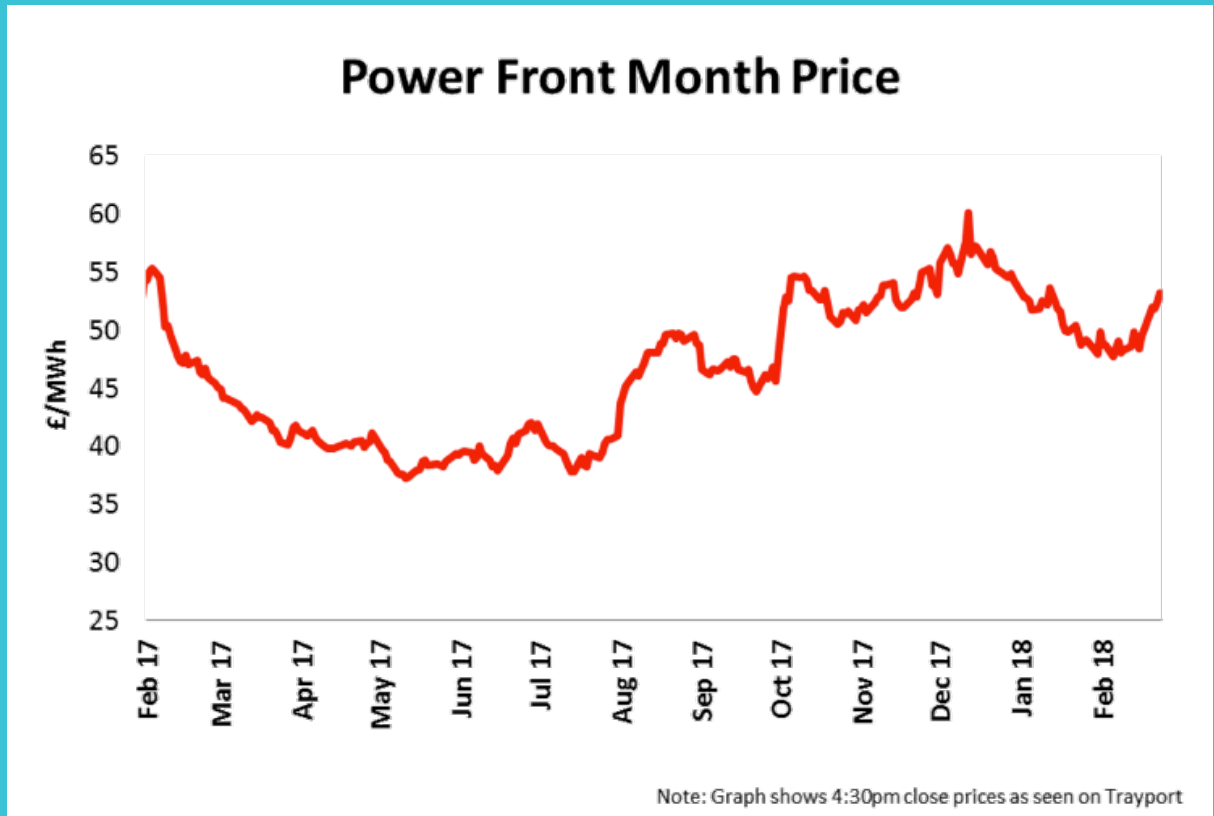
The UK gas market experienced increased volatility in February. At the start of the month, contracts were pressured downwards by healthy supply and outlooks for mild weather. However, as the month progressed, the probability of a cold spell hitting the UK and most parts of Europe started to increase until all weather models confirmed the view that temperatures would drop well below seasonal average during the second half of February. Gas prices, especially for products delivering intra-month and in March, jumped in response to the cold spell as the UK gas system would require

strong withdrawals from medium-range storage sites and imports from the continent in order to cope with the increased demand. Day-ahead prices rallied sharply as expected within these tight fundamentals and closed above 90p/th at the end of the month.

Products delivering further out have registered small losses compared to January's price levels. Weakness in oil and coal markets has filtered through to the far end of the gas curve but gains in the value of the pound against the euro offset some of the bearish impact.

Power

Power prices rise amid strength in the gas market



UK power prices along the curve rose in February. As the forecasted cold spell started to materialise towards the second half of the month, gas prices increased and power prices tracked this upward movement. With the continent also experiencing temperatures below seasonal average, French power prices also rose, and this provided additional support to the UK power curve.

Strong wind generation during February and healthy hydro stocks across Europe

helped to reduce tightness in the power system keeping the increase in power prompt prices more moderate compared to the increase in equivalent gas prices.

Lastly, a drop in oil and coal prices, which would normally put pressure on power prices for delivery further out, may have limited the price upside but the effect was not strong enough to offset the bullish sentiment in the market.

Oil retreats from recent highs amid mixed market signals

Brent Crude Front Month Price

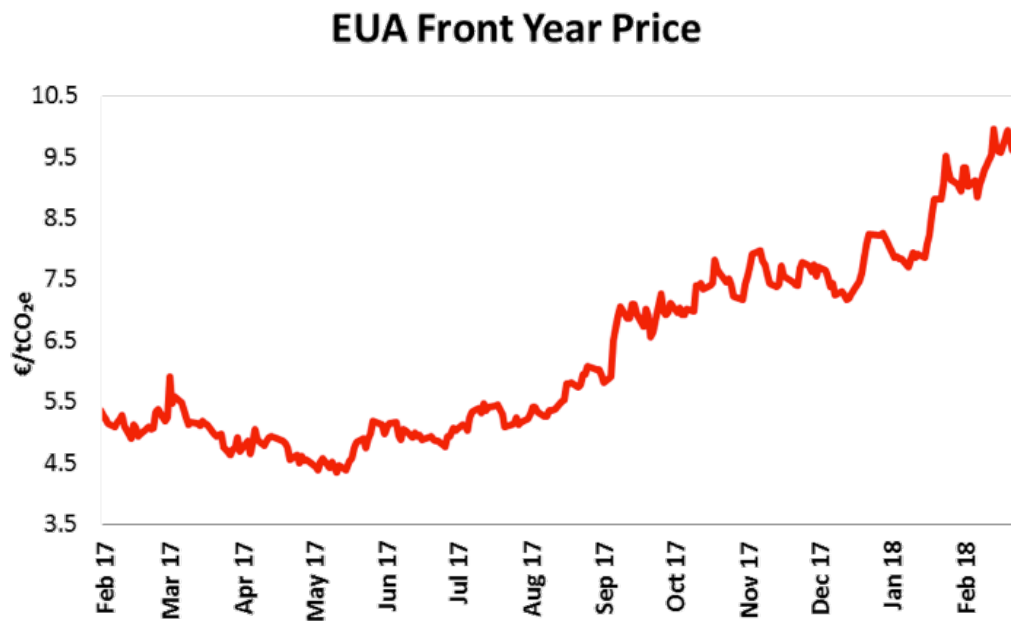


Oil prices started this month on a bearish note giving back some of the gains registered within January. After breaching the \$70/bbl price level towards the end of January, crude oil prices started to drop pressured by a record high U.S. production, which exceeded 10 million bpd for the first time since 1970. In addition, a strong decline in global equities markets filtered through into commodities and added further downward pressure to the oil price.

Since mid-February prices have started to recover finding support in tensions in the Middle East. Major oil producers repeated their willingness to continue the OPEC-led production cuts until the end of this year as the market has now started showing signs of rebalancing. Late in the month, supply disruptions in a large Libyan oil field gave another lift to the oil price.

Carbon

Carbon price continues its upward momentum



Carbon prices continued their upward trend and settled above €10/tCO₂e for the first time in six years. Strong coal and German power prices have provided support to carbon. The cold spell that is currently affecting a large part of Europe has lifted the wider energy complex and the effect has filtered through into the carbon market.

In regards to policy developments, the European Parliament passed the EU ETS reform package at the beginning of February. As this was in line with expectations, it had no impact on prices. The last week of February sees the start of the trilogue meetings on the EU Energy Efficiency bill and Renewable Sources

Things to watch out for in March

The critical factor that moved the markets within February was once again weather and its significance will continue through March. As we are approaching the end of the winter season and going through a very cold spell for this time of the year, the level of storage stocks will need to be closely monitored. If the current cold spell lasts for longer than previously expected, then storage withdrawals will increase leaving mid-range storage facilities in the UK and elsewhere in Europe quite empty at the end of the month and this will have an impact on summer gas prices.

February was another “disappointing” month for LNG availability with only one vessel arriving in the UK. As of the time of writing this report, there are no cargoes expected or confirmed to arrive in the UK in March. As the peak LNG demand season for Asia is now over, LNG availability for North West Europe, and consequently the UK, should increase. Hence, LNG prices and their competitiveness with Asian prices is a key factor to watch in March.

Finally, as mentioned in our last report, within March, we expect an official decision on a possible production cut in the Groningen field. Any decision that deviates from market’s expectations will have an impact on gas prices.

Jargon buster

CCGT:	Combined Cycle Gas Turbine
LDZ:	Local Distribution Zones
LNG:	Liquefied Natural Gas
MCM:	Million Cubic Meters
MEP:	Member of the European Parliament
NBP:	National Balancing Point
NTS:	National Transmission System
OFGEM:	Office of Gas and Electricity Markets
OPEC:	Organization of the Petroleum Exporting Countries
EIA:	Energy Information Administration
RO:	Renewables Obligation
CPI:	Consumer Price Index
ILO:	International Labour Organisation
UKCS:	UK Continental Shelf
IMF:	International Monetary Fund
IEA:	International Energy Agency
IUK:	Interconnector UK
EUA:	European Union Allowance
EU ETS	European Union Emissions Trading System
BoE:	Bank of England

Legal disclaimer

All rights (including, without limitation, copyright and other intellectual property rights) in and to this report and its contents (the report) are owned by us or are licensed to us by the owner of the rights. You may not copy, adapt, modify, sell, license, distribute, transmit, display, publish or create works derived from this report or any part thereof without our prior written consent (except as permitted under applicable law). Unauthorised use of this report may give rise to a claim for damages and/or be a criminal offence.

This report has been prepared in good faith for general information and interest only and may be subject to change without notice. Although we have taken all reasonable steps to ensure the accuracy of this report, we are not responsible for any inaccuracies and make no representation and give no warranty as to the report's accuracy.

Nothing in this report purports or is to be construed as purporting to provide any financial, investment or professional advice or other advice or recommendation and nothing shall be taken to constitute the provision of financial, investment or other professional advice in any way. If you are unsure of any contents of the report, you should seek independent financial advice.

This report is provided to you at your own risk and we do not accept liability whether in contract, negligence, tort or otherwise for any damage or loss (including direct, indirect or consequential loss, pure economic loss, loss of profits, loss of business, depletion of goodwill and like loss) howsoever caused.

E.ON UK plc.

Registered office: Westwood Way, Westwood Business Park, Coventry CV4 8LG
Registered in England and Wales No. 2366970