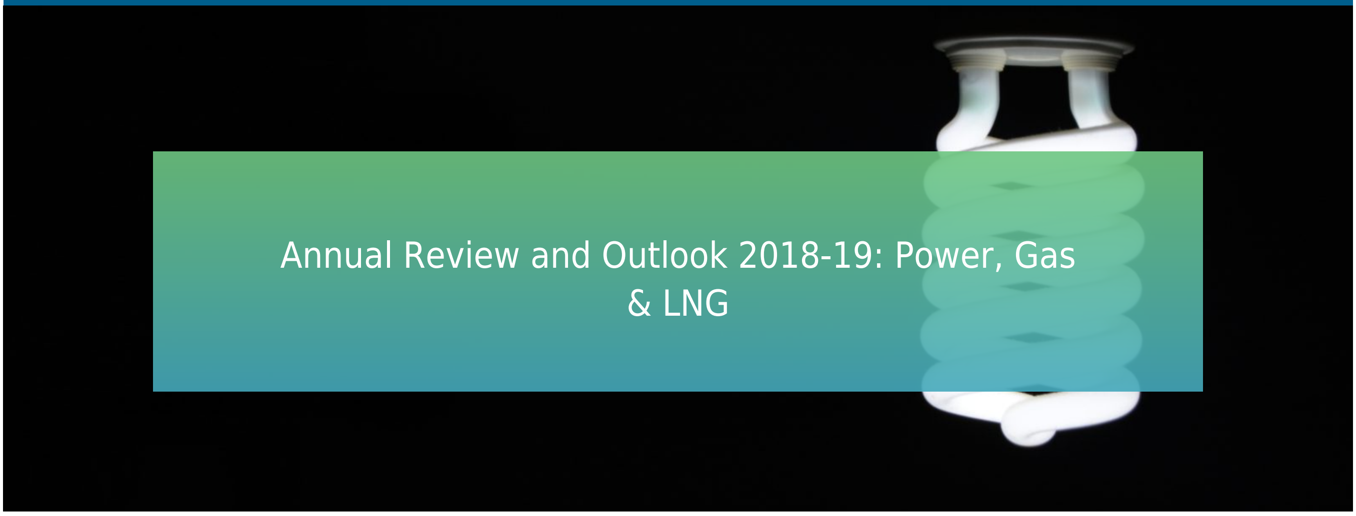
GAS, POWER AND RENEWABLES



Annual Review and Outlook 2018-19: Power, Gas & LNG

30 JANUARY 2019

Recruitment activity was high in 2018, led by the continuing development of the LNG market and reorganisation in the gas and power space

The generation product area – comprising gas, power and renewables – was particularly busy in 2018. Increased LNG activity at the levels of spot trade, export projects and spreading import infrastructure combined with busy power markets to drive increased hiring activity. The continuing development of the renewable generation market and the steady reduction of government support for green projects drove demand for commercial talent, setting the stage for a busy period of corporate reorganisation.

LNG

The key growth area in 2018 was LNG, with the sector confirming itself as a liquid spot market after many years of edging away from being the exclusive province of term deals. This increased liquidity and the new revenue stream it produces for market participants drove hiring for front-office talent, with activity in the space hitting a 10-year high. As higher spot liquidity is a recent phenomenon, the talent pool for traders is still relatively shallow and many of the year's hires were made from oil-trading operations. Companies with demand for LNG traders have largely attracted talent from the oil sector by offering high remuneration packages for those ready to move into an evolving – and therefore higher-risk – sector. We expect demand for front-office talent to remain high in 2019.

The growth of spot liquidity has driven demand for risk-and middle-office managers, as financial hedging and derivatives trade are now included in LNG strategies. Hiring activity has been particularly high in Singapore, with companies including European utilities, Chinese state-owned firms and new market entrants setting up desks in anticipation of further growth. Demand is likely to outstrip supply in this space in the medium term, as the Singapore government is making it difficult for companies to hire outside talent. LNG operators and chartering staff have also been in demand, with companies looking for candidates with backgrounds in commercial logistics.

The concentration of so much new activity in Singapore reflects the fact that China is gearing up to be the world’s leading importer of LNG. China’s LNG imports rose by 50pc year on year to 24mn mt in the first half of 2018, and this growth is expected to continue over the next five years as new import terminals are brought online. Commitment to the improvement of air quality is a key driver behind China’s desire to become a bigger gas consumer, and in 2018 private companies were given permission to develop and operate LNG import terminals, increasing the speed at which this market is expected to develop.

The US, with its impressive pipeline of LNG export projects, could be a key beneficiary of China’s move to becoming a leading importer. There are more than 12 proposed US LNG plants that need offtake commitments from buyers in order for final investment decisions to be made and it is likely that some of these projects will find commitments from the operators of Chinese import terminals. US firm Cheniere Energy signed a 25-year supply deal with Chinese state-owned CNPC in early 2018, marking the first long-term LNG supply deal between the two countries. Trade flow on the route could rise rapidly in line with export and import capacity, driving demand for commercial talent on both sides of the business. The trade war that has been rumbling on between the US and China since early 2018 has been seen as a potential barrier to the further development of this flow, with China proposing a 10pc tariff on imports of US LNG. But comments made by US president Trump and president Xi of China around the recent G20 summit have offered hope of improved trade relations.

The marked growth in demand for LNG talent in 2018 led us to launch HC Vault in the product area. HC Vault is a talent-matching database that uses learning algorithms and allows candidates to store resumes on our database so that they can be matched with roles. Its ability to match on a concept basis rather than through word recognition means that candidates who work in other sectors but have matching skills can rise to the top of the pile. A unique aspect of the LNG talent community is its diversity in terms of skill sets and career histories, with many sector leaders having come to the product relatively recently. HC Vault has been equipped with our 15 years of experience in placing LNG talent and we expect it to become an invaluable tool as we meet the sector’s growing demand.

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Gas and power

Gas and power trading desks were more profitable than in preceding years in 2018, lifting bonuses and driving demand for front-office talent. We have seen particularly high demand in both products for technical talent with a background in short-term trade plays, as market volatility has increased opportunity for experienced traders. Demand for front-office analysts exceeded supply in 2018, with the uptick in price volatility encouraging those in analyst roles to seek trading opportunities. We expect demand for front-office talent to remain firm in 2019 as increased regulation in some markets and the growing share of renewable generation drive reorganisation at utilities, trading houses and banks.

Companies in the EMEA region are preparing for the UK's departure from the European Union (EU). European companies active in UK gas and power markets are preparing for the possibility of being forced to move back to continental Europe to avoid regulatory risk and British expat talent could be faced with the need to repatriate. The UK's impending exit from the EU is likely to cause reshuffles across areas of the sector in 2019, driving talent moves as the picture develops.

The continued digitalisation of power markets became more prominent in 2018, with one notable example being RWE's deployment early in the year of five algorithmic systems programmed to book trades. This growing trend is driving demand for data scientists, algorithmic traders and talent with a background in AI coding. We expect this to continue in 2019, as recent activity suggests that the big utilities are on a learning curve when it comes to hiring staff with the right skill sets. Competition for talent within the digital sector, as well as the sharing of a common regulator in the US, has caused an increase in demand for compliance and regulatory talent, which is expected to continue in 2019.

Clean energy transition

Power price volatility in Europe has partly increased in response to the rapid deployment of clean energy projects. This shift in the price environment has increased profit opportunity in spot markets, but it has also driven a sharp increase in M&A and the creation of new divisions at big energy firms. Key examples of this trend include BP’s merger with solar developer Lightsource, Shell driving its New Energies division forward and Gunvor hiring renewable energy talent. We expect to see more M&A activity and a push toward corporate PPAs in 2019, with the UK and Scandinavian countries taking the lead.

Government support for green generation projects is in decline in the EU and the US and will continue to ramp down over the coming years. Companies have been responding to this situation by reorganising for change, and we saw increased demand for commercial talent on both sides of the Atlantic in 2018. In the US, project developers have been keen to lock in green tax incentives while they are still available, raising demand for commercial, industrial and institutional buyers as project pipelines are built out. European developers have been responding to the reduction of government support by creating internal PPA structures in an effort to limit price-risk exposure. We expect demand for commercial talent to remain firm in 2019 as the industry readies itself for a changed fiscal environment.

Australia’s power generation mix is set to change, with firm indications of a move away from coal toward LNG and renewables. The country’s coalition government has committed to raising renewables’ share of the generation mix to 50% by 2030, setting the stage for a reduced use of fossil fuels. A precise outlook for Australia’s generation mix can only follow the federal and state elections to be held in May 2019, but the desire to move away from fossil fuel use in power generation should be taken into account.

The transition to cleaner-burning generation fuels can be seen in the increasing use of LNG in Asia-Pacific. A fleet of new import and export terminals are being developed in Australia, and China is set to greatly increase its import capacity. While China still burns more coal than the rest of the world combined, increased LNG use over the coming years should establish it on the path of energy transition.