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### **Catalyst Commercial Services Energy Market Report: May 2008**

Any views and recommendations are offered for your consideration, but may be wrong as the market is highly uncertain, with additional risks which are unknown until they arise. Statements in this press release regarding Catalyst's business that are not historical facts are "forward-looking statements" that involve risks and uncertainties. © 2001 - 2008 Catalyst Commercial Services Limited. - All Rights Reserved.

#### **Short -Term Risk Drivers**

Gas and electricity prices have continued to trend higher over the last month, mainly driven by increased oil prices, but also influenced by increased prices for coal and carbon permits. Since the beginning of the year gas has increased 41% and electricity has increased 27%. Prices continued trending higher during April setting new all-time high prices on most days of the month with gas prices rising 11% to 2.49p/kWh and electricity prices rising 12% to 7.46p/kWh. 2008 carbon credits closed 8% higher at €23.90/tonne. Oil prices rose 8% to \$112/barrel after almost touching \$120. Coal prices rose 6% to \$136/tonne. 2009 and 2010 gas prices also rose about 11% and the corresponding electricity prices rose by about 9%. OPEC announced that they would not be increasing supply in the short-term as they are concerned about the sustainability of current levels of demand. Saudi Arabia has also announced that they are unwilling to invest in new capacity or to encourage foreign investment. And Russia announced that they have passed peak oil production in 2007 and future production levels will be lower and Nigeria troubles could result in a loss of two-thirds of their annual supply. Only a slowing US economy could feed through to slower growth in the rest of the world and lower demand for oil and LNG. However, contrary to initial expectations, oil prices have responded to this news by moving higher. This trend may reverse dramatically if evidence emerges showing that the world economy is quickly slowing.

#### **Long-Term Risk Drivers**

Economic fundamentals continue to suggest that market price risk is on the upside. World energy demand forecasts are increasing, despite forecasts that predicted a levelling off. This is been driven by continued economic growth of China, India and other developing countries and western consumers are still increasing demand, despite continued higher prices. Coal prices have increased due to increased demand from developing countries who continue to invest in coal-fired generation plants as a cheap source of electricity. Gas price increases of 41% this year are out of kilter with other energy price increases. This may be due to Norwegian gas supply being held back to support these prices. Also, European suppliers have been retaining full gas storage levels rather than selling down taking advantage of high prices as we move through the winter period. Global LNG supplies were diverted to Japan who are paying a 40% premium above UK levels as their nuclear electricity plants are experiencing outages due to some minor earthquakes. UK has spare gas supply capacity due to investing in LNG re-gasification terminals, but LNG is becoming very expensive. UK's next generation of nuclear plants will need to be funded, and suppliers may be aiming to contribute through price increases over and above the fuel price increases.

## Guidance through... VISION



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### Transition To Renewable Fuels

Over several years, we estimate that energy costs will need to increase about 30-40% from current levels to reach an equilibrium level with renewable sources, sufficient to meet climate change targets.

### Views and Recommendations

The UK market remains extremely volatile at the moment, with surging oil prices and the global energy markets are continuing their long-term upward trend due to falling oil reserves, investment in new nuclear plants and transition to renewable energy technologies. However, we believe that the UK gas and electricity market prices may be running ahead of the long-term upward trend which may correct back to the trend. Based on this uncertain outlook, we recommend waiting for a potential correction as long as possible, that is up until 8-10 weeks before your contract renewal date. This strategy involves risking being caught by a continuation of the current strong trend. If the market corrects, this would signal a good buying opportunity for up to 36-months. The alternate is to hedge your risks in this uncertain market by locking away prices for some of your electricity or gas contract. Our independent approach enables clients to manage their exposure to energy price risk, whilst at the same time benefiting from a first class service from a range of major suppliers. Our procurement solutions make it simple, so contact a member of our team to discuss your requirements.