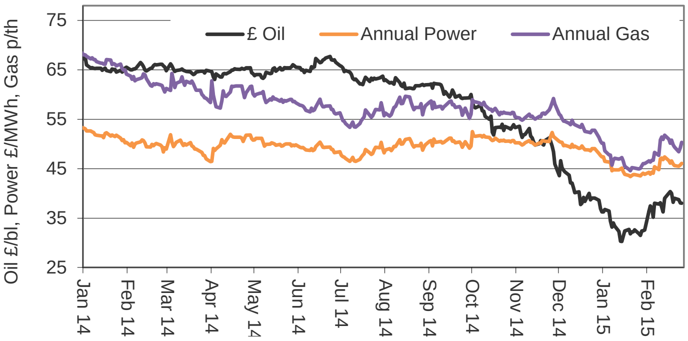
In this issue…

Oil reverses recent trends

Brent crude oil saw its first month-on-month increases in eight months in February as a number of US oil rigs were taken offline, and prices hovered around the production costs of US shale oil.

Crude oil and annual wholesale gas and power prices



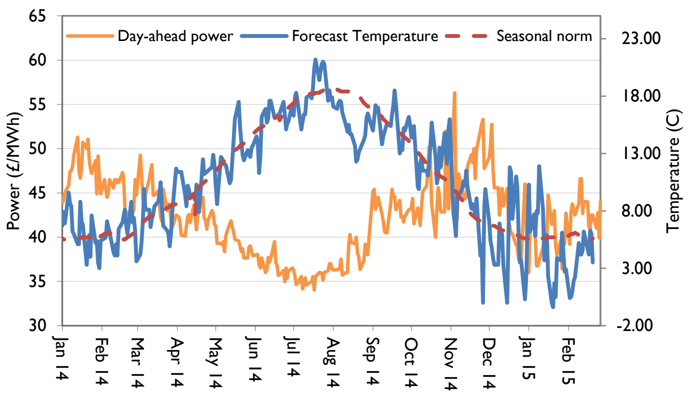
New commercial crude reserve regulations were introduced in China, which boosted short-term import demand. The gains throughout February sent long-term UK gas and power prices higher.

Production caps and climbing commodities influence long-term contracts

An announcement by the Dutch government in February that it would cap output at the Groningen gas field, Europe's largest field, sent long-term contracts higher across the board. Summer 15 gas climbed 6.8% to average 46.2p/th. Power prices followed their gas counterparts higher, with the summer 2015 baseload power contract gaining 2.1% month-on-month to average £43.6/MWh. Annual April 2015 power was up 2.5% to average £45.8/MWh.

In similar fashion to long-term contracts, UK spot prices were bullish over the month as outages in Norway increased supply concerns. Day-ahead gas increased 9.5%, to average 50.7p/th over the month. Day-ahead power rose 8.1% to average £42.8/MWh as the gains in gas fed through and the French interconnector switched between importing and exporting due to temperatures below normal seasonal levels in France.

Spot power prices and temperatures



The month ahead: Geopolitical tensions may increase gas and commodity prices

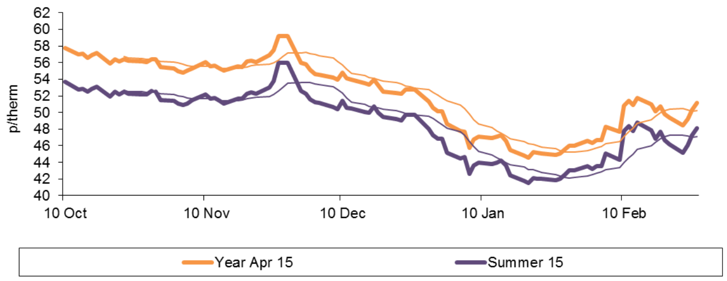
Some analysts believe the ongoing dispute between Ukraine and Russia may push gas prices up over March. Despite a ceasefire, Ukraine's prepayment term for Russian gas is coming to an end, with the Russians suggesting they may stop gas supply if another payment is not received. These concerns may feed through into the UK gas market.

Oil prices rebounded over February. They could continue to increase over March, according to some analysts, if production cutbacks and geopolitical tensions, especially in Libya, continue.

However, the last time output cuts were announced at Groningen, the market responded in a similar way and prices soon softened after the initial shock as the market assessed other supply sources across Europe. This may happen again, reversing the gains seen over February.

Catalyst Commercial Services' independent approach enables clients to manage their exposure to energy price risk, while at the same time benefiting from a first class service from a range of major and independent suppliers. Catalyst Commercial Services' procurement solutions make it simple, so contact a member of the team to discuss requirements.

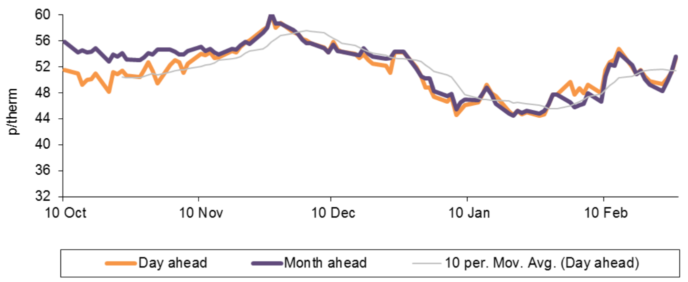
Annual gas prices



Long-term gas contracts were impacted by the announcement from the Dutch government that it is to cap output at the Groningen gas field, Europe's largest field. Despite major outages in Norway, the system was well supplied over February.

Summer 15 gas gained 6.8% to average 46.2p/th. The annual April contract rose 7.0% to average 49.5p/th.

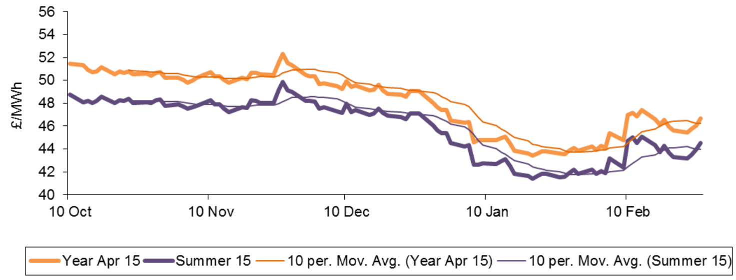
Spot gas prices



The spot gas market also climbed in February as short-term supply issues in Norway and a boost in the oil market influenced near-term gas contracts.

Day-ahead gas increased 9.5%, to average 50.7p/th over the month.

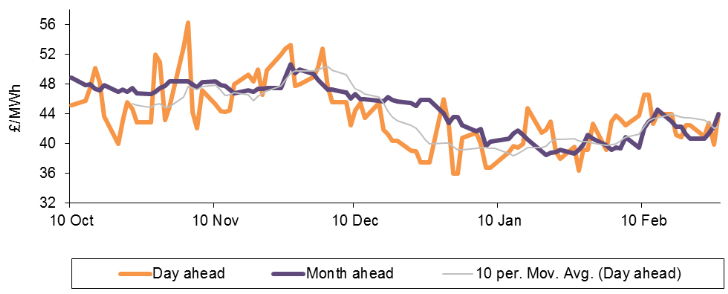
Annual power prices



In February long-term power prices followed their gas counterparts higher. Increases in coal and carbon prices also influenced.

Summer 2015 power gained 2.1% month-on-month to average £43.6/MWh. Annual April 2015 power was up 2.5% to average £45.8/MWh.

Spot power prices



Spot power prices also climbed over February as France switched between importing and exporting its electricity over the month, due to lower than average temperatures. The supply concern pushed day-ahead power up.

Day-ahead power rose 8.1% to average £42.8/MWh over February.

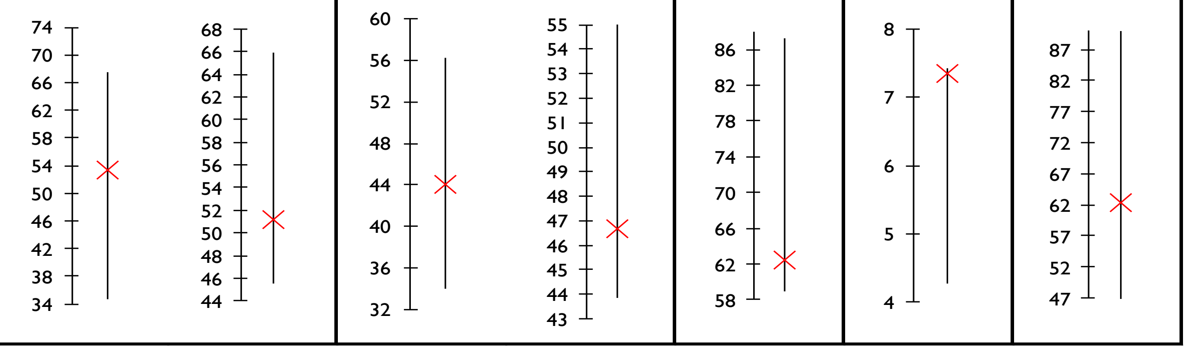
CATALYST ENERGY SOLUTIONS

Energy Element / March 2015

Key market indicators: 26/02/2015

	Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
	Day-ahead	Year-ahead	Day-ahead	Year-ahead	($/t)	(€/t)	($/bl)
This month 26 Feb 15	53.40	51.14	44.00	46.68	62.50	7.35	62.42
Last month 27 Jan 15	44.75	45.08	36.40	43.53	58.50	6.93	47.89
Last year 27 Feb 14	56.75	63.28	46.50	54.40	80.00	6.65	109.35
Year-on-year % change	(6%)	(19%)	(5%)	(14%)	(22%)	11%	(43%)
Year high	67.50	65.98	56.30	55.95	87.30	7.42	115.20
Year low	34.70	45.48	34.00	43.88	59.00	4.27	45.98

This table shows the price at the end of this month compared with prices from the previous month and year. The graphs show the position of this month's prices with a red X and the range of prices over the year is represented by the black line.



Commodities

Carbon: EU Emissions Trading Scheme carbon is quoted as over-the-counter (OTC) latest opening prices. All carbon prices are in euros per tonne (€/EUA).

Coal: Coal is quoted as OTC latest opening prices. All coal prices are in US dollars per tonne ($/t).

Electricity: UK power base-load and peak-load are quoted as OTC latest opening prices. All UK electricity prices are in pounds per megawatt hour (£/MWh).

Gas: UK National Balancing Point (NBP) gas is quoted as OTC latest opening prices. All UK gas prices are in pence per therm (p/th).

Oil: Brent crude oil is quoted as OTC latest opening prices. All Brent crude oil prices are in US dollars per barrel ($/bl).

Language/ terms

Bearish: A bearish market shows a general decline in prices over a period of time.

Bullish: A bullish market shows a general increase in prices over a period of time.

Curve: A graph of forward prices over a future time period.

Margin: The indicated UK imbalance of a given settlement period. It is the difference between the sum of the indicated generation available, and the national demand forecast made by National Grid.

Over-the-counter (OTC): The trade of a commodity directly between two parties, often on standardised terms.

Spark/ Dark spread: The theoretical net income of a gas-/ coal-fired power plant from selling electricity having purchased the necessary fuel. The clean spark/ dark spread is this net income adjusted for the cost of carbon.

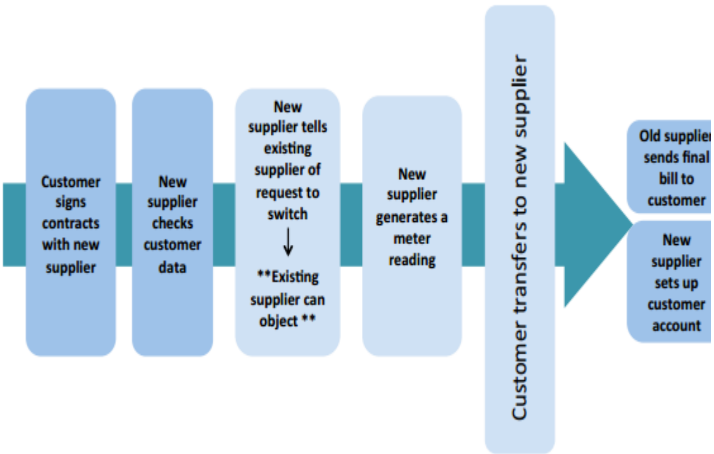
Next day switching planned by 2018

The energy regulator Ofgem is planning to implement a one-day switching process in both the domestic and non-domestic energy markets by 2018.

Improving consumer engagement

Ofgem believes that the roll-out of smart meter technology over the next few years will provide an ideal opportunity to deliver a switching process that is both faster and more reliable for consumers. It argues that such improvements are critical to strengthening competition in the energy markets, after finding last year that many consumers were opting not to seek a better deal despite the potential for substantial cost savings.

The "change of supplier" process



Source: Ofgem

The regulator's proposals, unveiled on 11 February, follow a period of consultation, during which Ofgem sought stakeholder views on the benefits and challenges of delivering a more rapid switching process.

Having taken this feedback on board, Ofgem is confident that an improved process would reduce the perceived costs of moving between suppliers and increase consumer engagement. The regulator plans to deliver the change by replacing the existing switching services with a new centralised registration service; this would be managed by the Data and Communications Company, which is responsible for key elements of the smart meter rollout.

Ofgem says that even a small, sustained increase in switching numbers would see the cost of implementing the reforms outweighed by the benefits.

Early steps

The development of the proposals will be progressed over the next few years. In the first instance, Ofgem has put together a five-stage for delivering the necessary work programme, with industry workgroups beginning later in 2015. These groups will establish the high-level, "blueprint" design for next-day switching. Ofgem will also continue to explore, during the initial stages of development, whether two-day switching might offer better value for money for energy users.

Ofgem recognises that implementing such an ambitious programme will be a real challenge and will require industry-wide leadership. There are particular risks inherent in developing the required IT systems, but Ofgem is confident that these can be managed.

Ofgem

First demand reduction auction results unveiled

Organisations across the UK have secured £1.28mn in government funding to cut electricity demand at peak times.

The funding was offered through a pilot auction held to test whether organisations could provide lasting electricity savings at times of peak demand. It is hoped that, in the long term, such projects can compete in the government's capacity market – serving to reduce the need to procure extra electricity generation to strengthen the UK's supply security.

Payments have been offered to 18 organisations with 22 individual projects across the UK. Overall, these projects account for 5589kW of winter peak capacity (1 November to 29 February 2016 from 4-8 on business days), with successful applicants including Network Rail, BAE Systems, Cheshire West and Chester Council and Tata Steel.

Energy and climate change secretary Ed Davey said: "We want to see if reducing demand on the electricity grid can be a cost-effective solution that will work alongside building new power stations – guaranteeing our energy security."

Government

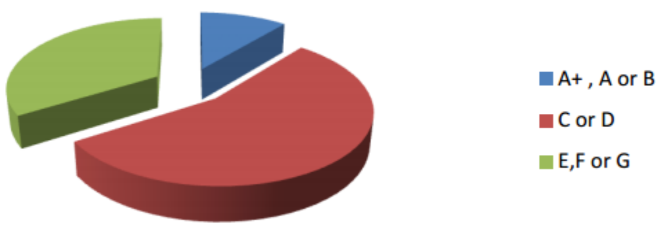
Government implements energy efficiency overhaul

The government has introduced new legislation aimed at improving energy efficiency in the domestic and non-domestic rented sectors, it was confirmed on 5 February.

Meeting the grade

Energy Performance Certificates (EPCs) were introduced by the Labour government in 2008 and show the energy efficiency rating, related to running costs, of a property. The more energy efficient a property, the higher its rating on a scale of A to G.

Non-domestic buildings energy performance asset rating based on CO2 emissions (Q414)



Source: Government

The new legislation, which will be enforced by local authorities, will establish a minimum energy efficiency standard in the private rented sector. This will be set at the Band "E" EPC rating for leases to both existing and new tenants. From April 2018, landlords will be required by law to ensure that their properties achieve this rating, and failure to do so will ordinarily prohibit the landlord from renting out the property, However, landlords will only be required to undertake upgrades that can be covered through the government's Green Deal energy efficiency scheme. If upgrades beyond this were required to bring the property up to the minimum standard, the landlord would not be required to implement them.

The government has also determined that, from April 2016, landlords will not be allowed to "unreasonably" refuse requests from their tenants for energy eficiency upgrades.

DEC regime streamlined

The following week, on 11 February, the government also confirmed plans to reform the Display Energy Certificates (DECs) regime. DECs were implemented in 2008, and require all public sector buildings with a floor space of over 500m2 to prominently display an assessment of their energy efficiency performance.

In a consultation, the government announced reforms that could see the requirement for DECs removed from around 54,000 buildings. The government said it was considering removing the legal requirement for DECs on the basis that they may have "gold-plated" obligations placed on the UK by EU regulations: effectively imposing on public sector buildings a more stringent energy efficiency regime than is necessary.

But John Alker, acting chief executive of the UK Green Building Council, said that any suggestion of scrapping DECs for public buildings "simply beggars belief". He argued that the government's proposals failed to take into account the economic benefits of exceeding the minimum requirements.

The government's bid to raise energy efficiency in the private rented sector has been widely welcomed, but there are concerns that the particular design of the policy might result in an underwhelming outcome.

Government

Infrastructure Act becomes law

The government's *Infrastructure Act* became law on 12 February.

The Act stimulated much political and media debate during its passage through Parliament, owing to provisions that will streamline the UK's regulatory regime for shale gas development - commonly known as "fracking". The government made these reforms as part of its broader efforts to support the establishment of a new shale gas industry in the UK. The legislation delivers a new right for onshore oil and gas developers to explore for the resource without first seeking the landowner's consent. Previously, exploring for the resource first required the landowner's agreement.

Transport secretary Patrick McLoughlin said: "Cost efficient infrastructure development is all part of the government's long term economic plan, boosting competitiveness, jobs and growth."

Parliament

Businesses guaranteed essential services during rescues

Utility supplies to failing but viable businesses will continue while they are being rescued, the government has announced.

Respite during rescue

At present, when a company running a business enters an insolvency procedure, some suppliers may have contractual rights entitling them to terminate the supply contract on account of the insolvency. Where those supplies are essential to the business, termination could have an adverse impact on the prospects of a successful rescue.

Under the proposals, announced on 9 February, suppliers of essential services - gas, electricity, IT, water and communications services - will be prevented from cutting off supplies or charging premium rates while insolvency practitioners seek viable solutions to rescue businesses.

The government believes that these measures will deliver a 7% shift in favour of businesses entering the administration procedure instead of liquidation. It says that the overall benefits could amount to around £668mn through the avoidance of job losses and the need to pay employees statutory redundancy pay.

Better for business

Rescuing struggling but viable businesses out of formal insolvency as well as helping to save jobs will, the government argues, improve the prospects of creditors recovering some of what they are owed.

The suppliers of services during the rescue period will be guaranteed payment ahead of others owed money, and can secure assurance of payment from the insolvency practitioner.

Guidance will be issued to insolvency practitioners to urge them to make contact with essential suppliers as soon as possible in order to discuss their needs in relation and to ensure that undue costs are not incurred.

Business minister Jo Swinson said: “Rescuing struggling but viable businesses out of insolvency helps save jobs and improves the likelihood of payment to those owed money. Continued IT and energy supplies are needed for businesses to continue trading while options are sought about their future”.

The changes should come into effect in October.

The government has implemented a series of safeguards for suppliers, but overall the reforms clearly represent a positive development for businesses.

Government

Business leaders call for emissions reduction target

A campaign organisation comprised of the leaders of some of the world’s largest companies has said the world should aim for net-zero greenhouse-gas emissions by 2050.

Recent research by the Intergovernmental Panel on Climate Change (IPCC) has suggested that achieving net-zero greenhouse-gas emissions by the end of the century would provide only a two in three (66%) chance of limiting global temperature increases to 2°C.

In a statement on 5 February, the so-called “B Team” said that this 1-in-3 chance of failure represented an unreasonable risk scenario to businesses, carrying significant cost implications. The group has also argued for businesses and governments to implement effective carbon pricing, and for an end to all subsidies for fossil fuel.

Members of the B Team include Virgin Boss Sir Richard Branson.

B Team

Green scheme loophole driving up subsidy costs, warns think tank

A loophole in one of the government's renewables support schemes could some windfarms receiving excessive subsidies, according to the IPPR think tank.

Research by the organisation, published on 10 February, warns that some wind developers are "derating" their projects' turbines in order to produce less power and to therefore receive a higher subsidy under the feed-in tariff (FiT) scheme. At present, the FiT band for wind turbines that generate 100–500kW of electricity currently pays 13.34/kWh of power generated. If a turbine produces 500–1,500kW, then it is placed in the less generous tariff band of 7.24p/kWh. IPPR said £175mn in excess subsidy payments had already been committed to derated turbines, and this could rise to £400mn.

IPPR

Early coal shutdown could be managed by UK

The UK's supply security would not be threatened by an early phase out of the nation's coal plant, according to non-profit campaign group E3G.

The group published a report on *Assessing the balance of risks associated with coal plant closure* on 11 February. Modelling an "extreme" hypothetical model, in which all UK coal-fired stations closed early, it found that the likely response from organisations in the market, plus the tools available to National Grid, would give rise to replacement capacity "vastly greater" than the deficits created. These responses would "comfortably secure" the system until such time as new replacement power capacity was brought onto the system, the report said.

E3G

Energy regulator to review non-domestic gas metering market

Ofgem is to review the market for gas metering products and services in respect of non-domestic gas customers. In an open letter on 10 February, the energy regulator said that non-domestic gas meters had been open to competition for over a decade, but that the current weakness of this competition might lead to higher metering charges to gas suppliers or poorer service to consumers. Specific elements of the market being reviewed are meter asset provision and management and advanced meter reading. Submissions are invited by the end of March.

Ofgem

Councils lack data to optimise energy efficiency: report

Council housing managers often lack the data required to successfully bid for government energy efficiency programmes such as the Green Deal, a study by the Energy Saving Trust has found.

The study, unveiled on 4 February, was undertaken because of the lead role that local councils often undertake in helping households that struggle with poorly insulated and energy inefficient homes. Funding pots often become available at short notice, meaning councils need to be able to plan a scheme at short notice. David Weatherall, policy adviser at EST, said: "Meaningful data and insight can remove barriers to finding the homes and communities that we should target with energy efficiency programmes. There is a real opportunity for councils to develop cost-effective strategies".

EST

Sizewell B nuclear power plant safe to operate for 10 more years

EDF Energy's Sizewell B nuclear power station has been approved as safe to operate for a further 10 years, the company announced on 2 February.

A Periodic Safety Review (PSR) is carried out every 10 years at all nuclear power stations in the UK. The PSR both looks back at the operation of the station over the last 10 years and forward at processes to manage future safety. The station is currently due to operate until 2035, but EDF Energy has confirmed its aim to extend the plant's lifespan to 2055.

EDF Energy
