Energy Element / May 2015

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Strong supply levels hold down prices

Temperatures were above the seasonal norm for much of April, reducing demand for gas. This fed through into lower prices, with the day-ahead contract decreasing 1.0% month-on-month to average 46.9p/th in April. The month-ahead contract declined 3.0% to average 45.6p/th, with further LNG deliveries in May expected to top up already high LNG stocks.

These drops extended into the long term contracts, with a decrease in the annual October 15 contract of 0.5% to average 47.7p/th in the month.

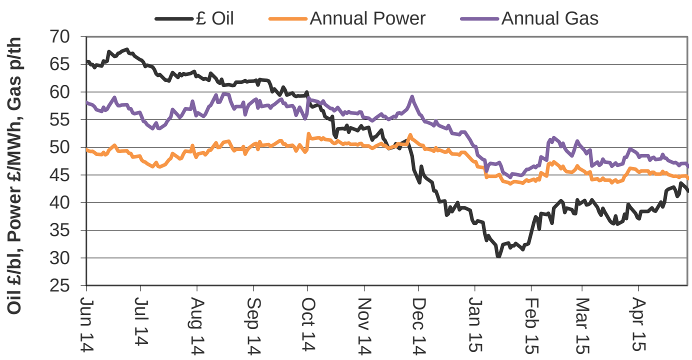
Wind generation was low in April, with daily average output 44% lower than in March. This led to an increase in day-ahead power prices, which were up 7.4% to average £44.0/MWh over the month.

Increases in gas and coal prices did not follow through into long-term power contracts in April. The winter 15 contract was unchanged at £46.8/MWh. The annual October 15 contract climbed 0.5% to average £45.1//MWh over the month.

Mixed trends in commodities

Oil prices recovered slightly this month and averaged $60.4/bl across April, a 5.5% increase from March. Prices were boosted by an International Energy Agency report that raised the organisation’s global oil demand forecast, conflict in the Middle East increasing security of supply concerns, and an economic intervention by the Chinese central bank to boost growth in China.

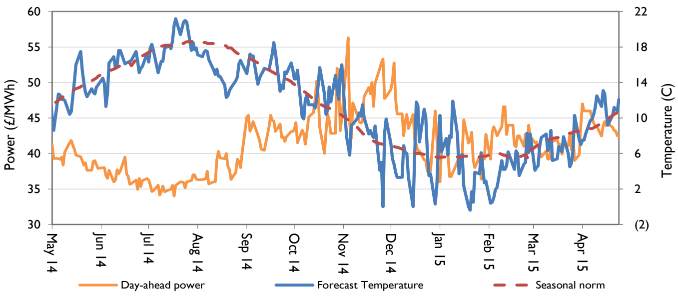
Crude oil and annual wholesale gas and power prices



Coal prices continued their decline as the market remains oversupplied following a drop in demand from China and the US. Prices hit a five-year low of $55.4/t on 8 April.

Carbon prices increased 4.1% in April, averaging €7.1/t over the month, as market reform negotiations between the European Parliament and Council continue. Prices were also boosted at the end of the month by last-minute compliance buying ahead of the annual 30 April allowance submission deadline.

Spot power prices and temperatures

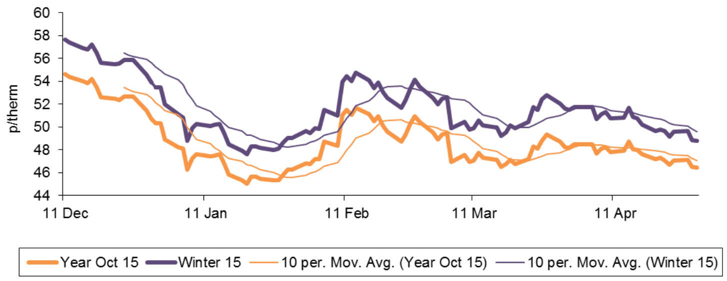


The month ahead: Comfortable generation margins

In April, National Grid published its *2015 Summer Outlook* in which it forecast generation margins to be at a comfortable level. The peak weather-corrected high summer period demand is the lowest ever, at 37.5GW. The company has attributed this to the increase in embedded solar PV installations. Low demand, as solar power ramps up towards the summer, is likely to weigh on power prices.

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

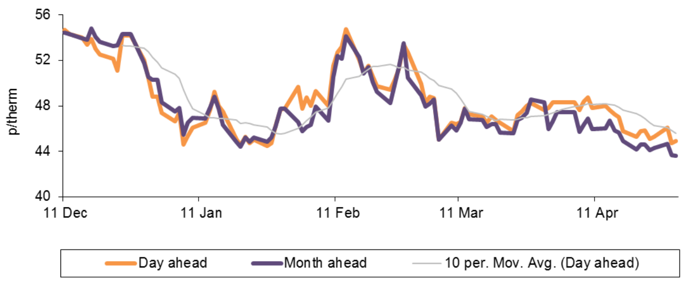


Long-term gas contracts lowered in April, following price signals from short-term contracts.

Winter 15 gas dropped 1.0% to average 50.5p/th across April. It ended the month at 48.8p/th.

The annual October 15 contract slipped 0.5% to an average in April of 47.7p/th and ended the month at a six-week low of 46.5p/th.

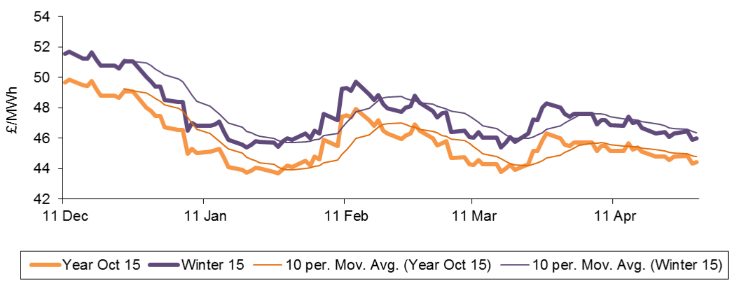
Spot gas prices



Short-term gas contracts also dropped in April. Above seasonal-norm temperatures reduced demand and pulled down day-ahead prices. The supply outlook is healthy, with more LNG deliveries expected next month.

Day-ahead gas decreased 1.0% to average 46.9p/th over the month. The month-ahead contract declined 3.0%, averaging 45.6p/th.

Annual power prices

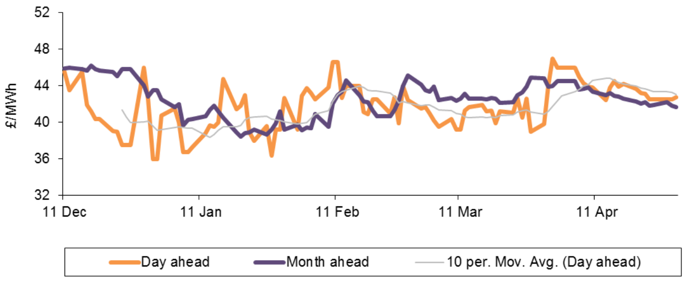


Long-term power contracts increased in April despite declines in coal and gas prices over the month.

The annual October 15 climbed 0.5%, averaging £45.1/MWh over the month. The contract ended the month at £44.4/MWh.

Winter 15 power remained unchanged this month at £46.8/MWh. The contract ended the month at £46.0/MWh.

Spot power prices



Spot power prices increased in April with a drop in average daily wind generation.

Day-ahead power increased 7.4% to average £44.0/MWh. Prices ended the month at £42.8/MWh.

The month-ahead contract declined 0.4% and averaged £43.0/MWh. Prices ended the month at 41.7/MWh, a two-month low.

CATALYST ENERGY SOLUTIONS

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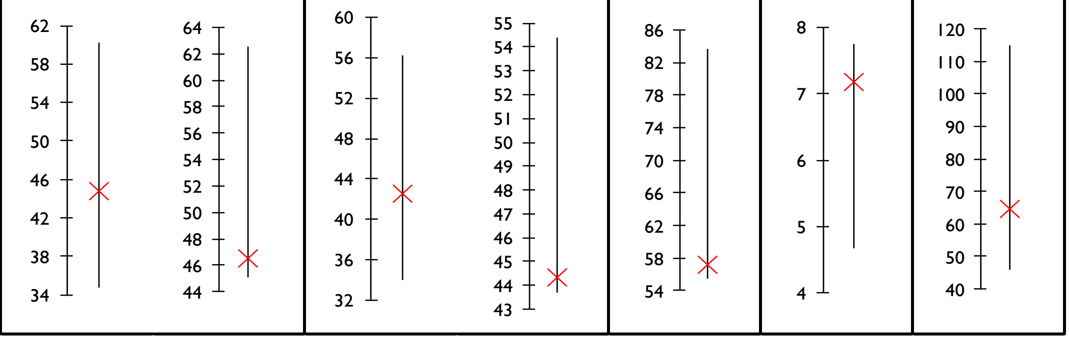
Key market indicators: 28/04/2015

	Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
	Day-ahead	Year-ahead	Day-ahead	Year-ahead	($/t)	(€/t)	($/bl)
This month 28 Apr 15	44.75	46.49	42.55	44.35	57.15	7.18	64.50
Last month 27 Mar 15	48.25	49.35	39.00	46.30	58.40	7.01	58.35
Last year 28 Apr 14	49.10	62.48	43.00	54.26	83.35	5.26	109.90
Year-on-year % change	(9%)	(26%)	(1%)	(18%)	(31%)	37%	(41%)
Year high	60.20	62.55	56.30	54.42	83.70	7.75	115.20
Year low	34.70	45.04	34.00	43.68	55.40	4.68	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.

Parties set out energy priorities for next Parliament

The UK's political parties have detailed the energy policies that they would seek to implement if in government after the next General Election.

The parties have, over the past few weeks, published their manifestos, with each providing a distinct vision for the future of the energy sector.

Labour pledges interventions

Published on 13 April, Labour's manifesto said that the party would implement a 20-month energy price freeze, and would give the energy regulator Ofgem the power to force suppliers to cut their prices from this winter. This is intended to combat a perceived lack of competition and transparency in the market, which Labour argues has "allowed the large energy companies to get away with increasing bills when wholesale prices rise, but not cutting them when they fall". Labour also unveiled plans to support small businesses through the ending of "unfair contracts" and automatic roll-overs onto more expensive tariffs.

At the same time, the party would set about implementing long-term structural reforms; it would force the separation of the generation and retail arms of the Big Six, while companies would also be required to buy and sell all their power through an open exchange or "pool".

Ofgem would be abolished, with Labour's reforms enforced by a "tough" new regulator empowered to remove suppliers' licences "if they repeatedly harm the interests of consumers".

The party said that it would establish a "robust" environmental and regulatory regime before shale gas development could take place in the UK. Meanwhile, for the North Sea industry it would publish a long-term strategy, including more certainty on tax rates and "making the most of the potential for carbon storage". Labour's industrial strategy would set a clear timetable for the Green Investment Bank to be given additional borrowing powers, and an Energy Security Board would be created in order "to plan and deliver the energy mix we need".

Conservatives emphasise competition

The Conservatives' manifesto, released on 14 April, provided little detail on the party's energy policies, and the sector has not been a priority during its election campaign. It pledged to promote competition as a means to keeping energy bills as low as possible, and is the only party to say it would implement in full the recommendations made by the Competition and Markets Authority (CMA), following its investigation into the energy industry. The party also confirmed it would complete the smart meter roll-out to homes and businesses by the end of the decade.

The Conservatives confirmed their intention, first outlined last year, to "halt the spread of onshore windfarms". These, it said, made a meaningful contribution to the GB energy mix but had failed to win public support and "are unable by themselves to provide the firm capacity that a stable energy system requires". The Conservatives would end any new public subsidies for onshore wind and change the law so local people had more of a say on planning applications.

Smaller parties

The smaller parties set out very diverse plans for the sector's future. The Liberal Democrats have pledged to implement "Five Green Laws" that would include decarbonisation targets and a commitment to taking all coal-fired power stations off the grid by 2025. The party wants to see renewables holding a 60% share of the power mix by 2030. The Scottish National Party confirmed its agreement with Labour's proposals for giving new powers to the regulator, and said it would seek reforms to the transmission charging system. It will also call for the UK to raise its ambition on carbon reduction to match Scotland's.

Energy has not been a prominent part of the election campaign, but the outcome will be significant for the industry with a choice between a Labour-led interventionist government and a Conservative-led administration that would promote competition.

Labour   Conservatives   Liberal Democrats

National Grid confirms “adequate” supplies for summer

The UK’s system operator National Grid has confirmed that the UK’s electricity and gas supplies look secure for the summer, but has warned of mounting system complexity and challenges.

System challenges

Released on 13 April, the company’s *2015 Summer Outlook Report* confirmed that the UK’s supplies of gas and electricity appeared to be “adequate” for the months ahead, and that the networks were in “good shape” to meet operational challenges.

But the company also warned that the system was facing increasing operability challenges. While the diversity of supplies available to the UK helps to support system security throughout the year, uncertainty over precisely which sources will be utilised on a given day leads to increased unpredictability. The issue is further exacerbated by the growing level of intermittent renewables on the system. This makes all aspects of system operability more challenging, and requires greater network flexibility during the summer period. National Grid said that, in the future, addressing this challenge was likely to require higher levels of intervention from the system operator.

Diverse gas supplies

The report confirmed that demand for gas this summer would be met from a range of sources, with total supply capacity “well in excess” of expected summer demand. North Sea supplies are expected to be at similar levels to 2014, but LNG supplies are far harder to predict owing to uncertainty about demand in East Asia.

Generation mix

National Grid said that forward prices suggested that coal would remain the favoured fuel for power generation, despite the increase on 1 April of the UK’s carbon price support rates. However, the company noted that the effective price for power from gas and coal was “very marginal”, and that only a small shift in prices could spark increased competition between the two.

Peaks and troughs

Peak weather corrected summer demand for the high summer period was the lowest ever projected, at 37.5GW. This reflects the increase in embedded solar photovoltaic installations, and the fact that the peaks in generation capacity from these installations coincide with periods of peak demand. Embedded solar PV units are connected directly to the distribution system, and their capacity has nearly doubled from 2.4GW in February 2014 to 4.4GW a year later. National Grid has invited stakeholders to provide feedback on the report.

The report overall paints a picture of a UK energy supply that is secure for the near future, but does face mounting challenges acknowledged by National Grid.

National Grid

Energy regulator rejects delay to half-hourly settlement for large energy users

The energy regulator Ofgem has rejected a proposal to delay the implementation of a half-hourly settlement process for large energy users. The code modification “P272” is currently due to be implemented in April 2016, and Ofgem believes that it will significantly improve competition in the energy market by placing stronger incentives on suppliers to encourage demand-side response among their customers.

The regulator said that, while it shared some of the concerns raised about the current implementation timetable by the BSC Panel—the industry body that scrutinises these changes—, it was concerned that, on its own, an extension to the deadline would not address these risks. It also feared that changing the schedule for implementation could reduce incentives for suppliers to start moving their customers to half-hourly settlement as soon as possible.

Ofgem said it remained open to considering alternative solutions for addressing the risks highlighted by the BSC Panel.

Ofgem

Businesses committed to improving energy efficiency: survey

A research agency has completed an in-depth study into energy management and the measures that businesses are implementing to reduce their energy consumption.

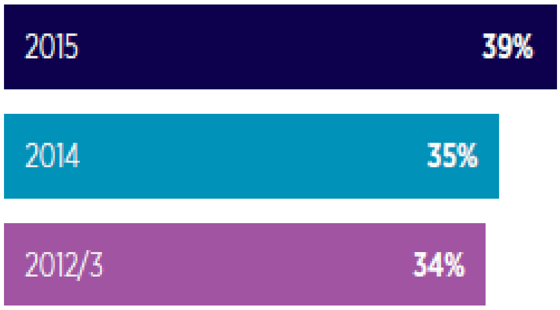
Behaviour shift

The report by Accent found that behaviour change and technology upgrades were the two top areas that organisations were prioritising to achieve better energy efficiency, with on-site renewables proving of less interest.

Accent highlighted a shift in emphasis this year away from cost reduction and towards consumption reduction, which it suggested was driven in part by the fall in oil and gas prices.

The report found that private companies were more likely to be making changes to lighting or driving efficiency through behaviour change. Public sector respondents were more likely to be looking at “plug-and-play” solutions that could be simply installed by a contractor, and that called for little in the way of behavioural change from employees.

Business commitment towards energy management goals



Barriers to action

The study’s respondents regarded resourcing as by far the most significant barrier to implementing energy efficiency changes, with nearly two thirds (62%) regarding it as a problem. Engaging employees, choosing technologies and verifying savings were also regarded as major challenges.

Public sector organisations were significantly more likely than those in the private sector to consider institutional inertia as a barrier (34%, compared with 20% of private sector organisations).

Call for resourcing

The report recorded an increase in ISO 50001 certifications, which indicates that organisations are putting an increasing level of resources into energy management. Sarah Beacock, skills and capability director at the Energy Institute, said: “The increasing sophistication of techniques used by energy managers responding to this survey can also be seen through their organisations' current focus of activity. In particular, by making more effective use of data and changing and developing their processes they can effectively build on the savings already seen”.

This research emphasises the increasing importance of energy management in the non-domestic sphere, as well as highlighting the divide between the public and private sectors on how to achieve savings.

Accent

Think tank warns against energy price controls

Free-market think tank the Institute of Economic Affairs (IEA) has warned that the implementation of price controls in the energy markets would be detrimental to competition, and could ultimately result in higher costs for consumers.

In a report published on 22 April, the IEA said that, while price caps could be justified where clear evidence existed that a company was exploiting market power, removing barriers to entry for independent suppliers would offer a better long-term solution to the problems with competition.

The IEA said that an effective price cap would, in all likely circumstances, result in increased demand and reduced supply at the controlled price level. This would result in excess demand, creating a situation in which prices “try to rise but are prevented from doing so by government or regulatory action”.

The report recommended the creation of a “genuinely” independent regulator to foster more competition in the energy market.

IEA

Scottish nationalists want “community of interest” to support North Sea industry

Former Scottish National Party (SNP) leader Alex Salmond has said the party remains committed the oil and gas sector.

Speaking at an industry event in Aberdeen on 22 April, Salmond backed plans for a “community of interest” that would see the fostering of co-operation between industry, governments and academia in supporting North Sea firms. He said this increased cooperation would be important in unlocking more exploration and investment in light of the challenges presented by low oil and gas prices.

The former Scottish first minister said the Scottish government’s £1bn investment programme for North Sea infrastructure would be essential to securing the future of indigenous production.

Salmond added: “While the SNP in government is investing in this region in infrastructure and skills development, fiscal predictability is vital to ensure exploration, development and innovation thrive for many years to come.”

SNP

Business interest in renewable heat scheme falls

The government’s mechanism for supporting the installation of renewable heating technologies for businesses saw a significant fall in the fourth quarter of 2015, according to government statistics.

The Renewable Heat Incentive (RHI) is intended to contribute towards the UK’s 2020 ambition of 12% of heating coming from renewable sources, by providing cash payments to support the installation of technologies like ground source heat pumps and solar thermal panels. But quarterly figures for the scheme, which were published on 24 April, showed a 39% fall in business applications compared to the fourth quarter of last year.

The government attributed this fall to a lower number of applications being received for small biomass boilers in March than in the previous three months.

Government

Lancashire fracking decision pushed back

Lancashire Council has announced a further delay in its decision over planning applications for shale gas development in the county.

The government believes that shale gas could significantly boost the UK’s indigenous supply and help boost its energy security over the coming decade.

Cuadrilla is seeking permission to drill, frack and test gas flows at the sites at Preston New Road at Little Plumpton, and Roseacre Wood at Roseacre. The delay follows a request from the exploration firm for the council to consider additional information about the applications, on which the council has subsequently consulted.

Planning officers must now review the feedback from the consultation period, and the details supplied by the company, before preparing reports for a further meeting of the council’s development control committee.

Lancashire County Council

EU ETS hits emissions target early

Emissions under the EU Emissions Trading Scheme (EU ETS) have fallen to 1,814mn tonnes - below the EU’s 2020 1,816mn tonne target six years ahead of schedule – according to analysis by campaign group Sandbag.

The EU ETS is a cornerstone of the EU’s work towards tackling climate change. It is a “cap and trade” scheme that sets a limit on the amount of greenhouse gases that can be emitted from factories, power plants and other installations. This limit is steadily reduced over time, with the intention of raising the price of carbon and promoting low-carbon investment.

The statistics, released on 1 April, suggested Europe’s economy-wide target to cut emissions 20% below 1990 levels by 2020 would be met, with two-thirds of the reduction needed coming from facilities participating in the EU ETS.

Sandbag