CATALYST ENERGY SOLUTIONS

Energy Element / October 2015

Gas and power contracts ease lower

After a minor price surge at the beginning of the month, seasonal gas and power contracts declined steadily throughout September, some reaching record lows. A boost in oil prices provided initial support for gas contracts, however, an increasingly comfortable supply outlook weighed on contracts for the remainder of the month. Power contracts largely followed trends in gas, but were additionally weighed on by tumbling coal prices.

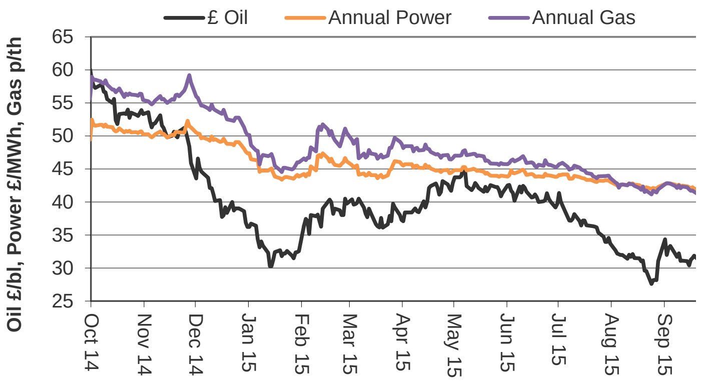
Annual October 15 gas fell 1.0% to average 41.8p/th, ending the month at 40.6p/th. Anticipated strong LNG supplies in both the near-term and long-term have pulled seasonal contracts lower, with five LNG cargoes expected to reach the UK in late September and early October. Annual October 15 power followed down, slipping 0.4% to average £42.2/MWh, ending the month at £41.5/MWh. Unless there are significant changes in the currently subdued commodity environment, seasonal power prices are expected to remain low.

In contrast, spot power and gas contracts increased in September. Rising gas prices were owed to higher-than-normal demand, as forecast temperatures were 15.5% below the seasonal norm. Day-ahead gas lifted 2.6% to average 41.1p/th. The day-ahead power contract followed its gas counterpart, rising 3.7% to average £42.1/MWh, ending the month at £41.1/MWh. Outages at several coal and nuclear plants also supported spot power prices.

Oil prices remain turbulent while coal prices tumble to record lows

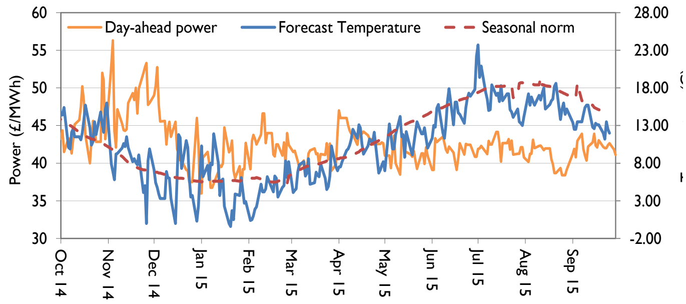
Brent crude oil rose 1.7% to $48.8/bl in September, the first monthly gain since May, after a turbulent month of price fluctuations. Prices were supported as non-OPEC production growth was forecast to slow significantly toward the end of 2015 and even decline in 2016, according to the International Energy Agency. However, prices gains were capped by falling Chinese demand, as their economy weakened further.

Crude oil and annual wholesale gas and power prices



API 2 coal tumbled 5.3% this month to average $51.0/t. Sluggish growth in the Chinese economy has meant that the country's thermal coal demand in August fell 24.4% on year, dragging down prices in its wake. The US investment bank, Goldman Sachs, said that the commodity will never again gain enough traction to lift out of its current slump, and that global coal consumption will peak before 2020. Prices ended the month at $48.6/t. In addition, climate change incentives are continuing to cause major coal consumers to switch to cleaner sources.

Spot power prices and temperatures



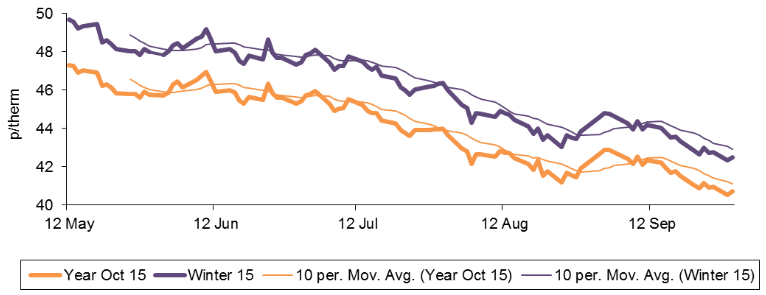
EU ETS carbon prices rose 0.4% to €8.13/t, as EU environment ministers gave the final approval required for the Market Stability Reserve (MSR) to become law. This rising trend is expected to continue in the run up to market reform implementation in 2019.

The month ahead: Russia and Ukraine strike a deal

Russia and Ukraine have struck a deal to guarantee gas shipments to Ukraine over a three month period starting in December. The move could pull European gas prices down as lower volumes should be exported to Ukraine.

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

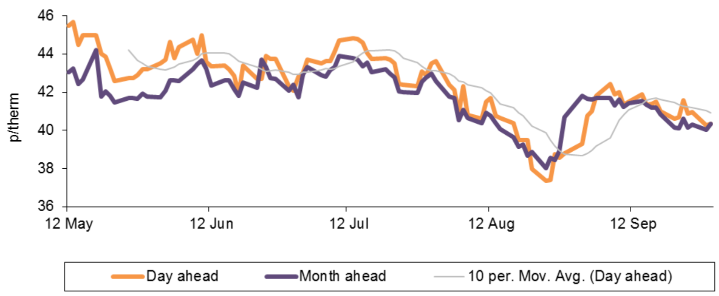


Seasonal gas contracts fell further in September, as a healthy supply outlook, particularly for LNG, continued to weigh on prices. This was despite a small gain in oil prices.

The annual October 15 contract slipped 1.0% to average 41.8p/th, reaching a record low of 40.5p/th toward the end of the month.

Winter 15 gas dropped 1.4% to average 43.6p/th, and the summer 16 contract decreased 0.7% to average 39.9p/th.

Spot gas prices

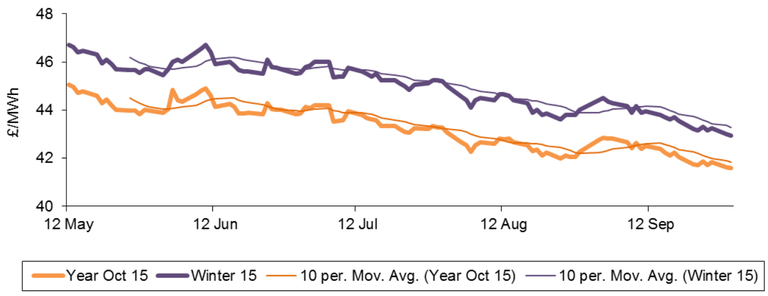


In contrast, day-ahead gas prices increased in September, lifting from the prior month's one-year lows. Tighter supply margins resulted from several Norwegian outages and demand being well above the seasonal norm.

Day-ahead gas gained 2.6% to average 41.1p/th, and ended the month at 40.0p/th. However, the month-ahead contract fell 0.4% to average 41.1p/th, finishing the month at 41.8p/th.

Five LNG tankers are expected to arrive in late September and early October, potentially weighing on spot prices at the beginning of the month.

Annual power prices

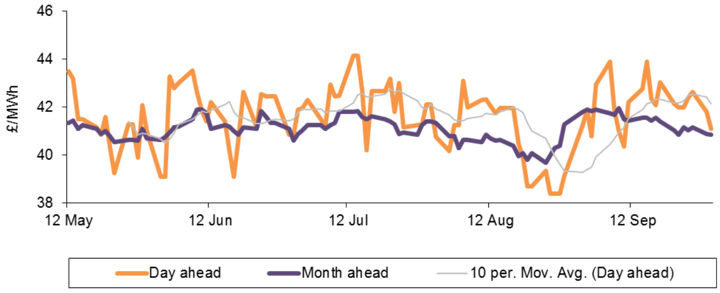


The annual power contract continued to fall in September, following its gas counterpart down. In addition, falling coal prices provided further pressure, pushing the contract to a record low.

Annual October 15 power reduced 0.5% to average £42.2/MWh.

The winter 15 contract fell 1.1% to average £43.7/MWh, while the summer 16 contract lifted 0.2% to average £40.7/MWh.

Spot power prices



Spot power prices increased in September, owing to rises in spot gas prices and tighter supply margins caused by a number of outages at coal, gas and nuclear plants. Lower wind output in the month also contributed to higher prices.

Day-ahead power increased 3.7% to average £42.1/MWh, and is now 2.4% under its level last year (£43.1/MWh).

In contrast, the month-ahead contract declined 0.3% to average £41.4/MWh, and is now 8.4% below the equivalent contract last year (£45.2/MWh).

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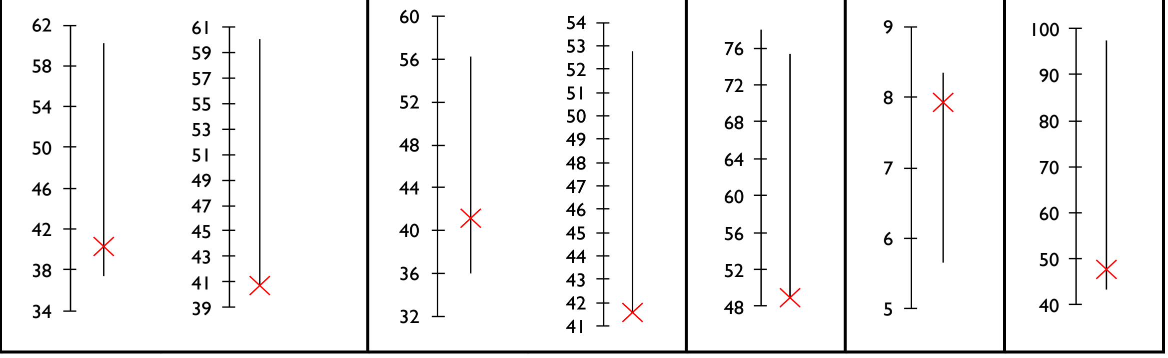
Key market indicators: 29/09/2015

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	($/t)	(€/t)	($/bl)
This month	29 Sep 15	40.35	40.73	41.10	41.60	48.95	7.93	47.74
Last month	28 Aug 15	38.80	41.91	39.13	42.28	53.15	8.09	47.66
Last year	30 Sep 14	50.30	59.73	43.10	52.35	74.00	5.69	97.32
Year-on-year % change		(20%)	(32%)	(5%)	(21%)	(34%)	39%	(51%)
Year high		60.20	60.09	56.30	52.75	75.35	8.36	97.32
Year low		37.35	40.88	36.00	41.73	49.75	5.66	43.33

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.

Government to reform business energy efficiency taxes

The government is planning major changes to the energy efficiency tax landscape for businesses.

In a consultation published on 28 September, the Treasury said that it wanted to "streamline taxes in a way that reduces variations in tax rates faced by different users, simplifies the tax system and strengthens the price signal".

Scrapping the CRC

Specifically, the government plans to replace the existing Carbon Reduction Commitment (CRC) and Climate Change Levy (CCL) schemes with a single new energy consumption tax based on the CCL.

The CCL is a tax on energy delivered to non-domestic users in the UK. Its aim is to provide an incentive to increase energy efficiency and to reduce carbon emissions. Currently, organisations pay the main rates of CCL if they are in the industrial, commercial, agricultural, or public service sectors.

The consultation sets out plans to develop a single reporting framework for energy efficiency. This would incorporate "the most effective elements from the range of reporting schemes and delivers a significant net reduction in compliance costs associated with reporting schemes".

This is intended to mark an improvement on the current arrangements, in which many businesses are required to submit multiple reports.

New incentives

The government noted that the new framework would need to be established through the prism of the existing Energy Savings Opportunity Scheme (ESOS), which the UK has implemented in response to the requirements of the EU Energy Efficiency Directive.

The government further confirmed that it was open to considering options for new incentives for business energy efficiency. It is concerned that the benefits from potential savings might not alone act as a sufficient driver, and so considers that new incentives might be necessary, albeit under strict value for money considerations.

Responses to the consultation are invited by 9 November.

Businesses will welcome plans to simplify the complex system of energy efficiency taxes, but the devil will be in the detail.

Government

Smart meter programme gathers pace

The roll-out of smart meters to non-domestic energy users has continued to gather momentum.

Smart meters allow customers to clearly see their energy use, and to transmit and receive information from suppliers. They will end the need for estimated readings, giving customers more control over their usage.

In a report published on 10 September, the government announced that 18,700 smart and advanced meters had been installed in small non-domestic sites in the second quarter of the year; a 21% increase over the first quarter.

Around 621,400 smart and advanced meters had been installed to 30 June 2015 in smaller non-domestic sites by the larger energy suppliers. 538,400 smart and advanced meters are now operating in smaller non-domestic sites across Great Britain. This represents 19.8% of all smaller non-domestic site meters operated by the larger energy suppliers.

Government

Regulator sees improvements in business energy market

A new report by the energy regulator Ofgem has found that switching rates and competition in the non-domestic market are improving.

Retail Energy Markets in 2015 was published on 9 September. It said that independent suppliers were continuing to grow their market share, and that new firms continued to enter the sector to compete with the established players.

Suppliers such as Total, Gazprom and Corona now make up a significant share of the market. The increasing proliferation of suppliers was welcomed as a driver of increased competition, which would help to keep bills lower for consumers.

Surge in switching

Approximately 300,000 non-Half Hourly (HH) and 21,000 Half Hourly meter points switched electricity supplier between July 2014 and June 2015, and 141,000 switched gas supplier. This represents an annual switching rate of 13% for nHH electricity, 15% for HH electricity and 19% for gas.

Over the year, the level of switches was on an upward trend. Ofgem also reported big spikes in the number of electricity switches in April and October: months that coincide with the typical renewal periods for business contracts.

Price snapshot

While consumption fell among non-domestic consumers on average in 2014, average prices rose for all sizes of business customer apart from the largest gas consumers.

Consumers on deemed or out-of-contract rates were paying the highest rates in the non-domestic sector. Micro-businesses on these contracts paid on average twice as much for each unit of energy they consumed (over 20 p/kWh of electricity on average) as those on negotiated tariffs.

Supply security

In a separate report, Ofgem also evaluated the outlook for the security of the UK's energy supplies. It said that existing gas supply capacity would be capable of "meeting demand well into the future". In electricity, Ofgem reported that retired or mothballed coal, oil and older gas-fired capacity was being replaced by renewables, interconnectors and new gas-fired capacity. The regulator warned that "The fast pace of conventional generation closures and the intermittent nature of renewables meant tightening capacity in the near term".

The reports paint a mixed picture, but competition is clearly improving and suggests some cause for optimism for business consumers.

Ofgem

Manufacturers push for change in UK green policies

EEF, the organisation that represents UK manufacturers, has called on the government to move from a tax-based approach to the use of incentives for encouraging reductions in carbon emissions.

On 14 September, EEF published a report on *The Low Carbon Economy – From Stick to Carrot*. The report, which formed the industry association's response to the government's Summer Budget, pressed for reduced bureaucracy and lower energy costs.

EEF argued that advances in technology and market forces had driven efficiency increases from 1980-2000, faster than the cost-raising policy framework. This framework was said to be hurting UK firms' international competitiveness, with their electricity price burden double that of France or Germany by 2020. The report also suggested a review of "exported" emissions, investigating the possibility that green taxes might cut CO_2 emissions in Britain but raise them abroad. Director of policy at EEF Paul Raynes said: "Government should use the energy taxation review as an opportunity to step back, and make some bold decisions".

EEF

Labour sets out energy market priorities

Labour leader Jeremy Corbyn has created a new shadow energy team and provided the first indications of the priority issues for the party in opposition over the next five years.

New opposition

Labour announced on 14 September that Lisa Nandy would succeed Caroline Flint as shadow energy and climate change secretary. The MP for Wigan, Nandy has twice previously served as a shadow minister: for children (2012-13), and for civil society (2013-15).

In a speech delivered on 29 September to the Labour Party conference, Nandy said that rather than nationalising the energy system, she wanted to do something "far more radical" by "democratising" it.

Nandy said this meant encouraging decentralisation so that communities and business had their own generation assets such as solar panels and windfarms. These would stop businesses being "ripped off because of energy decisions beyond their control".

Only days after taking up her new post, Nandy called on a parliamentary committee to launch an inquiry into the costs of government support for EDF Energy's planned Hinkley Point C nuclear power station.

Green focus

Energy issues also featured in Jeremy Corbyn's speech to the party's conference; specifically, he called for a "Green New Deal" that would invest in renewable energy and energy conservation. Speaking on 29 September, Corbyn criticised the government's decision to sell the Green Investment Bank (GIB), saying that such investment was "the only way to a strong economic future for Britain".

Corbyn also commended former party leader Ed Miliband for the work he had undertaken on "vital issues such as the environment and climate change", and said Labour wanted to be part of an international movement to cut emissions.

Labour's new-found focus on supporting the efforts of local councils to intervene in the market is welcome, as is the withdrawal of any costly plans for renationalisation.

Labour

Thousands of companies risking ESOS penalties

The Environment Agency has issued a warning that thousands of UK businesses are failing to take advantage of a new energy savings scheme and may face penalties as a result.

The Energy Saving Opportunity Scheme (ESOS) is a mandatory programme of self-assessment for all businesses that employ over 250 people or have a turnover of £38.9mn. Firms are required to calculate their energy consumption, identify their main sources of energy use and submit this information to the Environment Agency by 5 December or face fines of up to £50,000. However, as of 17 September, a freedom of information request by Veolia showed that only 150 of an estimated 10,000 eligible companies were compliant.

The government believes that ESOS could bring around £250mn of savings to UK businesses, while also increasing energy security and saving on carbon emissions. The Environment Agency will publish further details on how it will address non-compliance in the scheme later this month.

Veolia

Morgan Stanley expects lower price in capacity market

A government scheme intended to bolster the UK's power supply security is likely to prove less costly this year than last, according to analysts at Morgan Stanley.

The 2014 capacity market auction cleared at £19.40/kW, representing a total cost to energy users of £0.96bn. But the 2015 auction will be different in two ways. It will aim to secure a lower capacity of 45.4GW (compared to 48.6GW in 2014); and interconnectors – providing up to 2.9GW of capacity - will be allowed to bid for the first time. More parties bidding for less capacity would be expected to depress prices.

The energy regulator Ofgem has estimated that, had interconnectors been involved in the last auction, prices would have been 17% lower. Morgan Stanley concluded that "unless bidder behavior changes meaningfully, it seems likely that the capacity auction will disappoint" for generators – but result in lower costs to consumers.

No link

MPs launch key energy investigations

A parliamentary committee has announced that it will hold a series of energy-focused inquiries over the coming months. In a statement on 16 September, the energy and climate change select committee said its first investigations of the new Parliament would focus on investor confidence, low-carbon infrastructure and home energy efficiency.

The committee consulted with stakeholders over the summer to gather views on the most important policy areas for discussion. Stakeholders were concerned that confidence in the UK energy sector was slipping and wanted to see greater transparency, consistency and use of evidence in government decisions.

They also noted that the UK's electricity network possessed critical limitations that would need to be addressed to fully deliver policy priorities.

Energy and climate change select committee

Government urged to reconsider green cuts

A group of 51 organisations has told the government to rethink its plans to reduce significantly the financial support available to renewable energy projects.

The coalition - which includes businesses like Panasonic and IKEA, NGOs such as Greenpeace, and community energy groups - published an open letter to the government on 17 September. It followed confirmation of a series of reforms to renewables subsidies, intended to reduce their costs to consumers.

The letter recognised that subsidies for renewable technologies must ultimately be withdrawn, but said that it was "absolutely essential" that such decisions should only be made after consultation with stakeholders, in order to maintain investor confidence.

Friends of the Earth

Major businesses sign up to decarbonisation targets

Commitments to cutting 80%-100% of greenhouse gas emissions or procuring 100% of power from renewable sources have been made by 172 major businesses, states, regions, and cities, according to a new report.

Released on 28 September, the research by the non-profit organisations Carbon Disclosure Project and The Climate Group said that competitiveness, efficiency and values had served as the three primary drivers of these pledges. The targets were common across a range of different sectors and companies, with Nike, IKEA Group and UBS all targeting 100% renewable electricity by 2020.

Overall, the report found that businesses were not having to "choose between being socially responsible and being profitable" as the two formed a symbiotic relationship.

The Climate Group