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## Prices remain low on comfortable supplies

Power and gas prices continued to fall through April as result of warmer weather affecting demand. Below average demand combined with high LNG supplies to suppress power prices. But tensions in Ukraine underpinned the market, with a 9.1% surge in day-ahead gas in the middle of the month.

Demand for gas hit an eight-month low of 185mcm on 24 April, 24% below demand levels a year earlier.

In commodity markets, monthly average Brent crude oil edged up 0.3% to \$108.1/bl with the threat of US sanctions on Russia prompting security of supply fears. These rises were slightly offset by news of US crude stocks reaching record highs.

Carbon prices fell 16% to average €5.2/t as the contract tumbled at the start of the month, following the release of low EU emissions data. But coal prices climbed 0.5% to average \$81.4/t with recovering Chinese demand.

### LNG and nuclear power pull prices lower

Gas prices in April continued their downward trends, with below average demand complemented by high LNG supply. The annual October 2014 marker dropped 3.7% to average 60.3p/th over the month, falling to a record low of 57.3p/th on 4 April.

Power contracts followed falls in gas, pulled lower by falling carbon prices. Annual October 2014 power dropped by 2.8% to a monthly average of £50.7/MWh. Winter contracts also tumbled, reaching a record low early in the month.

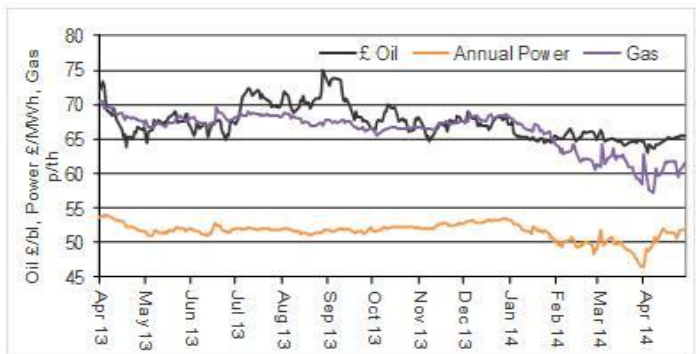
### Looking ahead: "reverse flows" on gas and investment

Russia's recent threat to cut off gas to Ukraine over outstanding debts has led to so called "reverse flows" from Europe back to Ukraine. If this trend continues it could lead to less European gas for the coming winter, potentially pushing up prices.

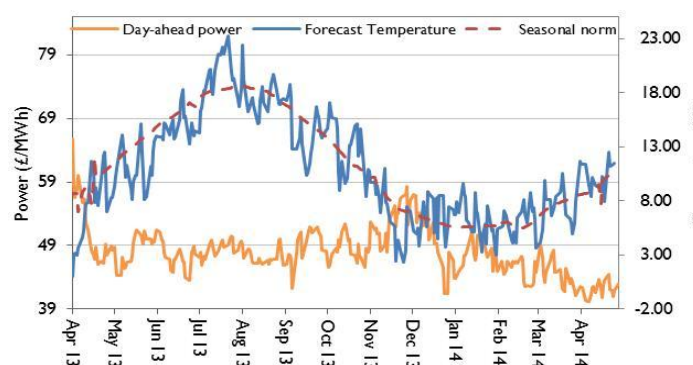
The proposal to subject the UK energy markets to a CMA investigation is likely to stifle investment in new capacity according to some analysts. The investigation could therefore add pressure to tightening capacity margins from 2016.

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.

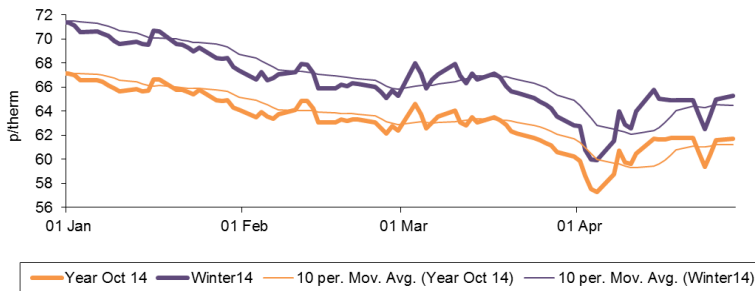
Crude oil and annual wholesale gas and power prices



Spot power prices and temperatures



## Annual gas prices

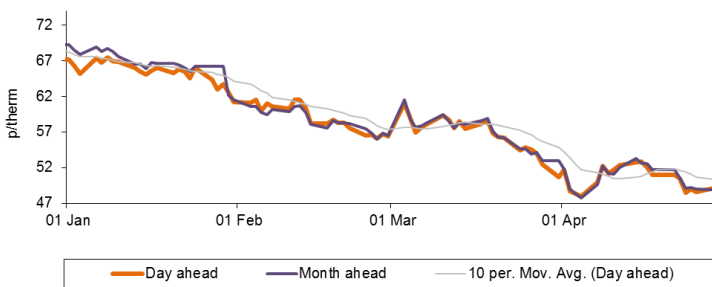


Annual prices fell 3.9% during April despite a resurgence towards the end of the month.

The annual October 2014 marker dropped 3.7% to average 60.3p/th over the month, falling to a record low of 57.3p/th on 4 April.

The Winter 2014 contract decreased 3.9% to a monthly average of 63.5p/th.

## Spot gas prices

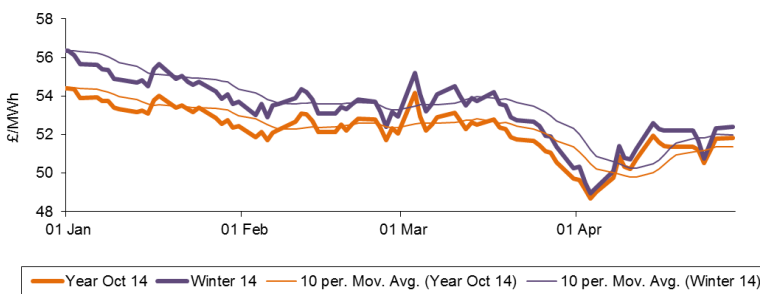


Spot gas prices declined in April as low demand and high LNG and continental supplies offset continuing supply concerns in Ukraine.

Day-ahead gas prices fell to a near three-year low of 47.7p/th on 4 April and averaged 50.5/th over the month, a 10.9% fall on March levels.

Month-ahead gas fell 11% to average 50.7p/th.

## Annual power prices

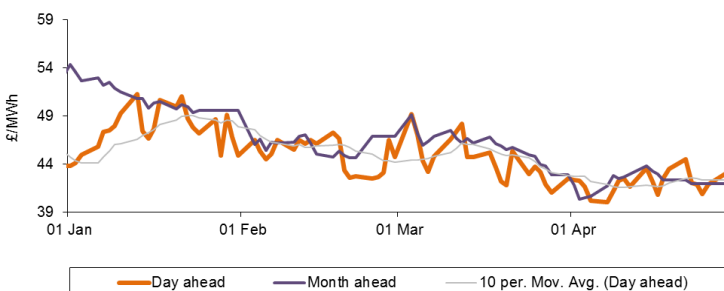


Annual electricity prices followed falls seen in gas.

Annual October 2014 power dropped by 2.8% to a monthly average of £50.7/MWh.

The winter 2014 contract also fell 3.7%, tumbling to a record-low of £49.0/MWh on 3 April.

## Spot power prices



Day-ahead power prices dropped month-on-month as high nuclear and coal output pushed relatively more expensive gas off the system, offsetting falls in wind output.

Day-ahead electricity prices fell 5.4% to an average of £42.1/MWh. The contract reached an 18-month low of £40.1/MWh on 7 April.

Month-ahead power prices dropped 7% to average £42.0/MWh.



# Energy Element / May 2014

## Key market indicators: 28/04/2014

|                       |           | Gas (p/th) |            | Electricity (£/MWh) |            | Coal (\$/t) | Carbon (€/t) | Brent crude (\$/bl) |
|-----------------------|-----------|------------|------------|---------------------|------------|-------------|--------------|---------------------|
|                       |           | Day-ahead  | Year-ahead | Day-ahead           | Year-ahead |             |              |                     |
| March                 | 28 Apr 14 | 49.10      | 61.70      | 43.00               | 51.82      | 83.35       | 5.26         | 109.90              |
| February              | 28 Mar 14 | 52.50      | 60.61      | 41.10               | 50.55      | 80.50       | 4.39         | 108.00              |
| Last year             | 29 Apr 13 | 65.65      | 66.38      | 48.90               | 54.26      | 93.80       | 3.10         | 102.75              |
| Year-on-year % change |           | (25%)      | (7%)       | (12%)               | (4%)       | (11%)       | 70%          | 7%                  |
| Year high             |           | 71.95      | 68.93      | 58.30               | 52.66      | 93.80       | 7.22         | 116.17              |
| Year low              |           | 48.00      | 58.38      | 40.10               | 46.45      | 80.00       | 2.95         | 100.01              |

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.

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## Government to re-focus solar ambition

The government has set out plans to transform government buildings, factories, supermarkets and car parks into “solar hubs”.

### Grand plans

Seeking to shift emphasis for growth in the sector away from solar farms and instead to the UK’s 250,000 hectares of south-facing commercial rooftops, the government’s *Solar Photovoltaic (PV) Strategy* proposes to roll out panels across commercial premises and community buildings.



Issued on 4 April, the Strategy sets out the government’s ambition for solar PV capacity to reach as much as 20GW by 2020 – up from the current level of 2.7GW. It also reasserts the government’s plan to double the number of domestic rooftop solar arrays in the UK to one million homes by 2015.

Further initiatives from the Department for Education will also encourage deployment of solar PV on school buildings, alongside energy efficiency improvements.

### Cutting red tape

To encourage businesses to invest in the technology, the Strategy confirmed the government’s commitment to “cut red tape and sweep away barriers to making use of empty industrial spaces to provide the electricity we rely on every day”.

The government said it is working to extend permitted development rights (where building amendments can be made without planning permission) to cover building-mounted solar PV installations with up to 1MW capacity – up from the current level of 50kW. The government will consult on the changes later this year.

A review will also assess whether the feed-in tariff application process for installations of over 50kW can be streamlined. The government also said that it is “considering changes to subsidies” that will encourage further deployment.

**Cutting the red tape for businesses looking to invest in such technologies is a welcome step. But have we properly considered the impact of high solar penetration on the wider power system?**

### Government

## Government must convince public of infrastructure needs

The public needs to be convinced that “tough choices” on national infrastructure are necessary, the CBI has said.

*Building Trust: Making the Public Case for Infrastructure* was issued by the business lobbyist on 14 April. It suggested that the public underestimated the scale of the challenge of updating infrastructure. Despite government and industry warnings, the report claimed that the public were unconvinced that “the lights will go out” if we do not act to update our national energy infrastructure. It also suggested that there was a “disconnect” between the need for long-term infrastructure investment and general public perceptions, with around two thirds (65%) of people happy to see projects delayed so that their views could be properly heard.

The report also suggested that the public was more concerned by the inconvenience and the potential disruption of upgrade work than the risk of failing to act. It said that infrastructure needs should therefore be “sold” based upon local benefits offered, rather than the national economic imperative.

### CBI



## Doubling GB interconnector capacity to save £1bn per year

Britain could deliver £1bn of benefits to energy consumers every year by doubling the number of connections it has to other countries' electricity networks, according to the electricity system operator National Grid.

### Strong links

Interconnectors are transmission cables that allow electricity to flow between countries, and can be used to import or export power as required. When GB prices are higher than in neighbouring countries, electricity is imported, lowering GB wholesale power prices to the benefit of consumers.

GB currently has four interconnectors. These link the country to France, Ireland, the Netherlands and Northern Ireland, and can supply 4GW of power. Between 2008 and 2012, GB imported nearly four times more electricity than it exported, with imports eight times greater than exports in 2012.

### New capacity; reduced prices

In its *Getting More Connected* study, which was unveiled on 31 March, National Grid estimated that the development of each 1GW of new interconnector capacity could decrease Britain's wholesale power prices by 1%-2%. The system operator said that, if 4GW-5GW of new links were built to mainland Europe by 2020, up to £1bn of benefits per year for GB consumers could be realised.

The system operator further suggested that a fully interconnected EU-wide energy market would reduce prices for businesses and households throughout the continent, and could deliver benefits of €35bn per year by 2015 across the continent.

**This analysis makes a compelling case for the UK to press ahead with more interconnection.**

### National Grid

## Government gives green light to renewable energy projects

The government has announced that it will offer investment contracts to eight renewable energy projects.

On 23 April, the government published the outcome of its Final Investment Decision Enabling for Renewables programme. This sought to provide certainty to renewables investors ahead of the government's enduring contracts for difference (CfD) regime - which will be implemented later this year - by providing them with an early form of CfD.

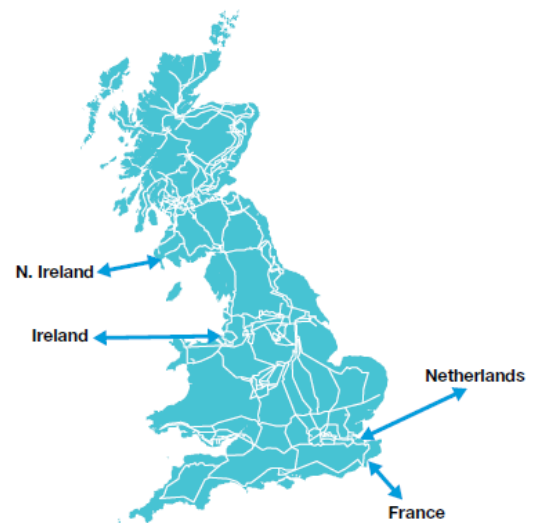
Under CfDs, low-carbon generators will receive a fixed strike price for the electricity they produce for 15 years. The first of these CfDs will be made available in the autumn.

The government said that its chosen eight projects would, by the end of the decade, support up to £12bn of private sector investment and add a further 4.5GW of electricity generating capacity to the system. The selected projects include five offshore wind developments, two biomass conversions and one dedicated biomass station with combined heat and power. The contracts will be laid in Parliament in May.

Energy and climate change secretary Ed Davey said the confirmation of the contracts marked a new stage in Britain's "green investment boom". He added that "record levels of energy investment" were at the "forefront" of the government's infrastructure programme and would help to "keep the lights on".

### Government

### Existing GB electricity interconnectors



Source: National Grid



## Government unveils £500mn green vehicle incentive

Businesses and local authorities will receive extra incentives to support the uptake of ultra-low emission vehicles.

### Investment and incentives

Under the plans, unveiled by deputy prime minister Nick Clegg on 28 April, local authorities will be able to bid for a share of £35mn of government funding to create “ultra-low city status” if they come up with plans to encourage green travel. The government said such plans could include free parking for electric vehicle drivers and the freedom for them to drive in bus lanes. A further £50mn will be offered to buy cleaner taxis and buses.

To encourage more people to purchase ultra-low emission vehicles, grants of £5,000 off the upfront cost will be extended to at least 2017 or until at least 50,000 grants have been claimed. The government estimates that this subsidy scheme could be worth at least £200mn.



The government will also provide £32mn of funding for the installation of electric vehicle charging infrastructure. This funding will allow the installation of “rapid charge points”, where a car can be charged in as little as 20 minutes, across the motorway and A-road network.

A further £100mn will be invested in research and development to “cement the UK’s position as a leader in the development of these technologies”.

### Leading the way

The £500mn scheme, which covers the period 2015-20, is intended to boost sales of the ultra-low emission vehicles and make drivers “feel confident” about buying electric vehicles. Full details of each scheme will be published by autumn 2014, with some of the schemes opening for applications shortly after.

Clegg said: “Ultra-low emission vehicles bring together our most successful manufacturing sectors with our biggest long-term challenge – climate change.” “Britain can be the leading country in the world in developing, manufacturing and using ultra-low emission vehicles. This half billion pound government investment will help to ensure we rise to the challenge,” he concluded.

**The moves come amid continuing signs that drivers are resistant to alternative fuel vehicles. The incentives announced will help raise awareness of the technologies and boost uptake.**

### Government

## Conservatives to pledge end to onshore wind subsidies

The Conservative Party has pledged that - if elected in 2015 - it would end subsidies for new onshore windfarms.

Speaking on 24 April, energy minister Michael Fallon said the Party was confident there was already enough bill payer-funded onshore wind in the pipeline for the UK to meet its 2020 renewable energy commitments, and that there was therefore no need for any more. The Party would also reform planning arrangements so that all onshore windfarm applications would be handled by local planning authorities.

In response, Liberal Democrat energy and climate change secretary Ed Davey said: “Putting the brakes on onshore wind would be disastrous for business and jobs in our growing green economy.” It could also lead to higher bills.

But research issued by the government on 29 April revealed that seven in 10 members of the public supported the use of onshore wind. The latest wave of DECC's *Public Attitudes Tracking Survey* showed that support for the technology had increased by six percentage points since the last wave of the research, undertaken in December. Just over one in 10 said they opposed deploying the technology.

### Liberal Democrats



## British Gas Business fined over switching fails

Ofgem confirmed on 10 April its intention to impose a penalty on British Gas Business for incorrectly blocking business from switching and failing to give them notice that fixed-term contracts were coming to an end.

The regulator determined that the company breached licence conditions that prohibited customer transfer blocking and the extension of micro-business contracts where the licensee had been contacted in writing to prevent this.

British Gas Business will pay £3.45mn into the company's Energy Efficiency Fund, which will provide energy saving measures costing up to £6,000 to around 500 micro-business customers. A further £1.3mn has already paid to affected customers, and Ofgem will impose an additional £800,000 fine on the company.

[Ofgem](#)

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## Energy efficiency could save NHS £150mn

The NHS could cut its energy costs by 20% if it increases energy efficiency, the Green Investment Bank (GIB) has said.

Published on 3 April, the report *A Healthy Saving: Energy Efficiency and the NHS* suggested investment in energy efficiency could provide the NHS with more reliable and resilient systems that could reduce costs by 20% – or £150mn. The report recommends using a mix of combined heat and power systems, LED lighting, heating, ventilation and control systems and biogas boilers to achieve the savings. In addition to cutting costs, the measures could help the NHS cut its emissions by 25%.

The same day, the GIB announced it would provide £1.1mn to finance a £3.1mn energy efficiency project at Cheltenham General Hospital in Gloucestershire. This has mobilised an additional £1.1mn of private sector investment and a £900,000 grant from the Department of Health.

[Green Investment Bank](#)

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## Energy storage investment “crucial”

Energy consumers will continue to pay millions of pounds in constraint payments to windfarm operators unless the UK invests in energy storage, a new study has claimed.

In its report, *Energy Storage: The Missing Link in the UK's Energy Commitments*, the Institute of Mechanical Engineers (IMechE) said that building back-up power generation to address intermittency problems caused by a ramp-up in renewables generation is “a step in the wrong direction”.

Published on 10 April, the study instead called on the government to create a road-map for the development, deployment and demonstration of electricity storage technologies.

[IMechE](#)

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## Energy costs a “major threat” to business

Businesses consider energy costs as a major risk to their operations and are taking action to reduce energy spend, according to a new paper by Edie and Sustainable Business.

Published on 31 March, *Energy Managers: Procurement, Planning and Purchasing Priorities 2014-15* found that in 2013 price rises were considered to be the greatest energy-related risk to organisations. To mitigate this, 40% of the 406 organisations surveyed had made investments in on-site renewables electricity generation. Half of these organisations now generate between 1% and 10% of their energy on-site.

Energy efficiency was also found to be a key area for businesses. But funding was considered a significant barrier to initiating energy saving programmes within organisations.

The survey also found that a minority of companies remained unaware of their organisation's energy spend, although this fell from 29% in 2012 to 16% in 2013.

[Edie](#)

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