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Continued losses in commodity and power markets

During May, prices continued to fall in the gas and power markets, with all gas contracts experiencing losses and nearly all power contracts following downwards. Brent crude oil, API 2 coal and EU ETS carbon prices also reduced.

In May, day-ahead gas extended losses, down 1.9% to 39.2p/th, the lowest monthly average in eight months.

Seasonal gas prices decreased by an average of 2.5%, following the oil market downwards. Winter 17 gas moved 1.8% lower to 45.7p/th. Summer 18 gas dropped 2.2% to 39.4p/th.

Day-ahead baseload power lost 1.1% to average £41.1/MWh. The month-ahead contract declined 1.8% to £38.4/MWh.

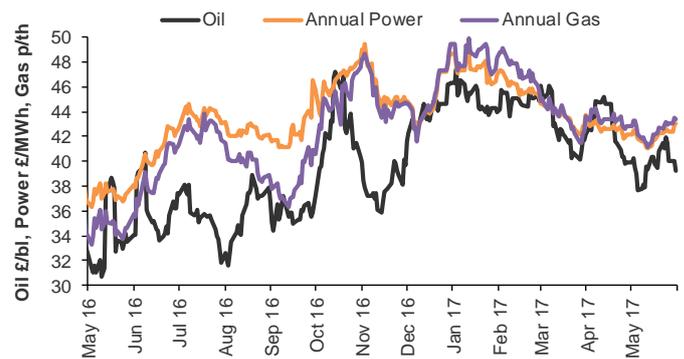
Nearly all seasonal baseload power contracts moved lower and on average decreased by 1.3%. The only exception was summer 20 power which gained 0.2% to £39.3/MWh.

Oil prices drop amid disappointment over extension to OPEC-led cuts

Brent crude oil prices dropped 4.8% to average \$51.5/bl in May.

On 25 May, OPEC and non-OPEC members met to decide whether to extend current output cuts beyond

Crude oil and annual wholesale gas and power prices

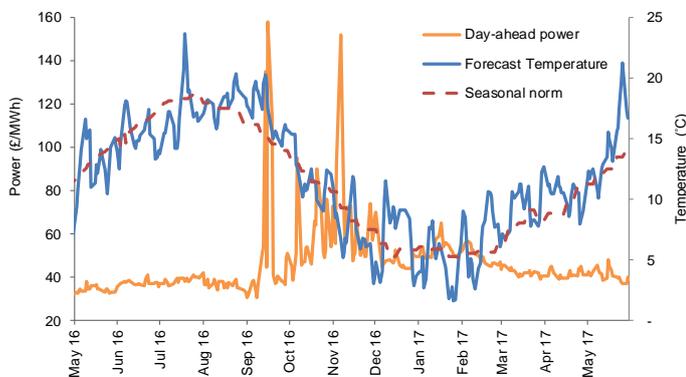


June 2017. Prices fluctuated in the lead up to the meeting. Near the start of the month, prices slipped below the \$50.0/bl mark, reaching a five-month low of \$48.8/bl on 5 May, amid concerns that OPEC-led output cuts would fail to reduce global oversupply. As the meeting approached, prices rose with increasing market confidence that OPEC and non-OPEC members would come to an effective agreement. On the morning of the meeting, prices jumped to a five-week high of \$54.4/bl. However, on 26 May, prices dropped to \$51.8/bl, amid disappointment that deeper and longer production cuts were not implemented.

On average, API 2 coal prices slipped 0.9% to \$65.5/t during the month. Prices remain well above the levels last year when the price averaged \$46.9/t. EU ETS carbon prices lowered 2.8% to average €4.7/t. Although EU ETS carbon

decreased on average, prices began to rise towards the end of the month and reached a near twelve-week high of €5.2/t on 30 May.

Spot power prices and temperatures

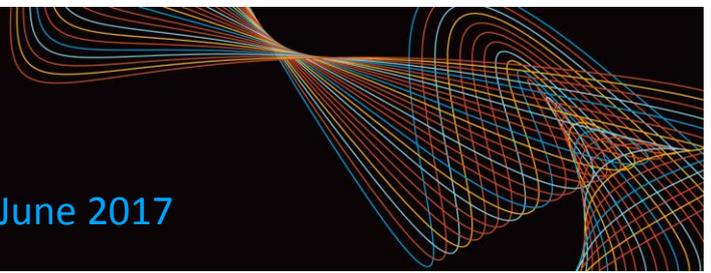


The month-ahead: Higher temperature forecasts and the general election

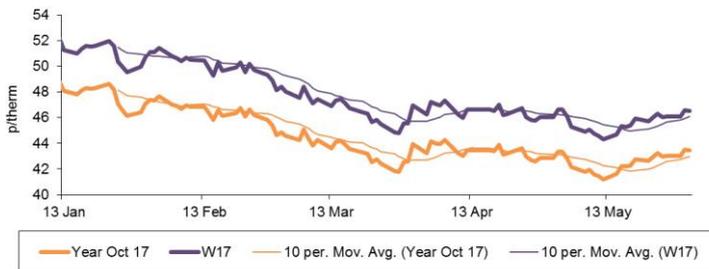
The latest Met Office forecasts for the UK in June suggest temperatures around the seasonal normal. The south-east, however, is likely to experience “very warm” temperatures throughout the month. This may lead to a reduction in gas and power demand.

On 8 June, the UK’s general election will take place, which could influence investment in renewables and future energy policy.

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.



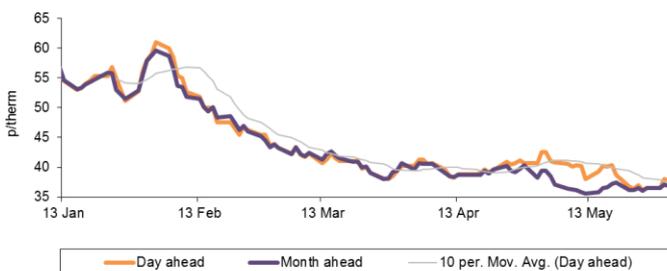
Annual gas prices



The majority of seasonal gas contracts decreased during May, falling 2.5% on average, following oil prices downwards. Seasonal gas prices remained higher than their levels last year. Winter 17 gas declined 1.8% to 45.7p/th, compared to 38.3p/th in May 2016. Summer 18 gas fell 2.2% to 39.4p/th, compared to 34.9p/th the same time last year.

Centrica confirmed in May that the Rough gas storage facility cannot safely re-commence injection operations in the 2017-18 storage year (May 2017 to April 2018). Winter prices are likely to rise due to lower gas supply available for withdrawal during the winter.

Spot gas prices



In May, day-ahead gas slipped 1.9% to 39.2p/th, the lowest monthly average in eight months. On 25 May, day-ahead gas fell to 36.2p/th, a seven-month low, as higher temperatures weakened demand.

Lower spot gas prices can be expected during spring and summer, with reduced demand amid higher temperatures and increased solar output reducing the need for gas-fired power generation.

The month-ahead contract moved 2.9% lower to average 36.9p/th.

Annual power prices

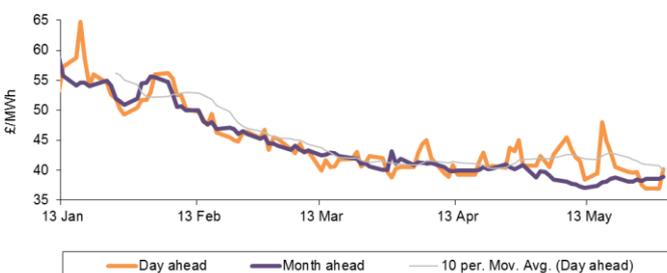


The annual October 17 baseload power contract lost 1.3% to average £42.1/MWh.

Seasonal baseload power contracts experienced mixed movements, with an average decrease of 1.3%.

Winter 17 power was down 1.1% to £45.5/MWh. In contrast, summer 20 power went up 0.2% to £39.3/MWh.

Spot power prices



Day-ahead baseload power lost 1.1% to average £41.1/MWh. The contract jumped to a three-month high of £54.0/MWh, on 16 May, with an unplanned shutdown at the Heysham 2-7 nuclear unit, as well as higher demand and a sharp decline in forecast wind generation forecast for the following day. In contrast, on 26 May, the contract dropped to £36.9/MWh, a near eight-month low, with lower demand forecast for the following day and a reduction in gas prices. Also, the contract was driven down by record high levels of solar PV output, which hit 8.7GW on 26 May.

The month-ahead contract also experienced a loss, down 1.8% to average £38.4/MWh.

Key market indicators: 31/05/2017

	Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
	Day-ahead	Year-ahead	Day-ahead	Year-ahead	(\$/t)	(€/t)	(\$/bl)
This month 31 May 17	37.80	43.45	38.80	43.03	67.50	5.12	50.86
Last month 28 Apr 17	40.75	42.85	40.75	42.13	66.50	4.58	51.58
Last year 31 May 16	33.20	36.86	34.15	36.65	49.60	6.10	49.60
Year-on-year % change	14%	18%	14%	17%	36%	(16%)	3%
Year high	61.00	49.91	157.73	49.45	78.00	6.52	58.04
Year low	21.50	36.23	30.28	37.00	49.50	3.98	42.11
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.	65	50	160	50	80	7.0	60
	60	48	140	48	75	6.5	55
	55	46	120	46	70	6.0	50
	50	44	100	44	65	5.5	45
	45	42	80	42	60	5.0	40
	40	40	60	40	55	4.5	
	35	38	40	38	50	4.0	
30	36	20	36	45	3.5		
25							
20							

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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Parties set energy agendas ahead of general election

With the June 8 general election drawing closer, the political parties have released their manifestos providing insight into what energy policy could look like under the next UK government.

The Conservatives claimed they wanted the UK to have the lowest energy costs in Europe for both businesses and households. The party would consider how to extend a proposed household price cap to micro-business consumers. This safeguard tariff cap would “protect customers who do not switch against abusive price increases.”

The possibility of extending the price cap to micro-businesses will be welcomed by the Federation of Small Businesses (FSB), who had called for the government to do just this in its election manifesto, arguing small businesses can struggle to find the best deal like domestic consumers and should not have to foot the bill of a domestic price cap.

The ends justify the means

The Conservative party said it would commission an independent review into the cost of energy, to ensure costs are as low as possible while ensuring reliable supply and a greener economy. It placed a focus on the goals of energy policy, such as reliable and affordable energy, rather than how it is generated. However the party also said it did not think more large-scale onshore wind is “right for England”, instead maintaining the UK’s position as a “global leader in offshore wind”, supporting the development of wind projects in the remote islands of Scotland. The party also reiterated its commitment to the smart meter rollout, wishing for every home and business to be offered one by 2020.

In reaction to the Conservative manifesto, Roz Bulleid, Head of Climate and Environment Policy at manufacturer’s organisation, EEF, said: “We are delighted to see manufacturers’ long-running concerns over the competitiveness of UK electricity costs addressed through the commitment to achieving the lowest energy costs in Europe for businesses and consumers.”

Elsewhere, the Renewable Energy Association (REA) called the Conservative manifesto a “solid building block” for the low-carbon transition. The manifesto backed “a diverse energy mix”, and said once out of the European Union, energy policy would focus on “not the way energy is generated but on the ends we desire”. The manifesto pledged to ensure the UK’s position as a “global leader in offshore wind” is maintained, and while it does not believe in more large-scale onshore wind power in England, the Conservatives would support the development of wind projects in the remote islands of Scotland. The Conservatives would also establish an industrial energy efficiency scheme to help large companies install measures to cut energy use and bills.

A Labour shake-up

In contrast, Labour would look at taking energy back into public ownership. This would see Labour support the creation of locally accountable public energy companies and co-operatives to compete with private suppliers. Such companies would be able to buy regional grid infrastructure, with Labour passing laws to facilitate this.

The party would give its backing to a strong low-carbon economy and explicitly supported specific technologies including “further nuclear projects” and the development of tidal lagoons. Labour would ensure 60% of the UK’s energy comes from zero-carbon or renewable sources by 2030 and ban fracking. The party also pledged to prioritise maintaining access to the internal energy market during Brexit negotiations, explaining the UK buys and sells energy tariff free from Europe which saves businesses and families money, while balancing the power grid.

In response, David Smith, Chief Executive of the Energy Networks Association (ENA), highlighted how the current market has reduced costs for customers 17% since privatisation and delivered significant levels of investment in that time, arguing the current market was performing well. Smith added: “A further £45bn is already forecasted to be invested in the next six years to deliver the kind of energy infrastructure that will help ensure our economy is fit for the future.”

The party won praise for its low-carbon commitments, however, as Friends of the Earth Campaigner Dave Timms said: “Labour’s manifesto offers a compelling and practical vision for a sustainable energy system which bans fracking, keeps our homes warm and powers them with clean electricity.”

There is notable energy policy crossover, with both parties recognising the need for the low-carbon transition and to take action on energy price hikes. However, neither party has drawn a link between the two or outlined the cost impacts their low carbon policies will have on energy consumer bills.

Conservatives Labour FSB REA ENA FoE



Firms fear cyber-attacks on new energy technology

Two-thirds (65%) of UK businesses are concerned over the cyber risks associated with new energy technology, according to a new survey conducted by professional services firm PwC.

The research, from the latest *PwC B2B Energy Survey*, was issued on 8 May and found that half (51%) of businesses were worried that their client data was not being handled securely enough by their energy supplier. Furthermore, three in five (57%) said that they would switch should their current energy supplier fall victim to a cyber-attack.

Increasing risks

PwC outlined how these ongoing concerns were coming at a time where energy suppliers were increasingly “delving ever deeper” into smart energy technology for both corporate and domestic markets. At the same time, businesses are actively considering the benefits of technological innovations to reduce both energy costs and carbon emissions.

The research detailed how cyber security and data privacy were increasingly being recognised as risks to systems, from power stations to smart meters. Moreover, the same can be said for batteries, electric vehicles and others which face threats from external attackers as well.

To demonstrate “the enormity” of the risks, PwC said that along with BAE Systems, it had recently uncovered a global hacking group (APT10) which was targeting providers of managed outsourced IT services.

Gaining trust

Steve Jennings, Power and Utilities Leader at PwC said that it was “vital” energy suppliers gain confidence of their customers. Jennings explained this would be done through “clearly demonstrating their ability to not only identify innovative technologies but critically to enhance their cybersecurity capabilities to respond to a range of sector specific events that could increase vulnerability.”

Niko Kalfigkopulos, PwC Cyber Specialist explained there were a number of steps smart energy suppliers can take to make sure they are operating at a “high level of cyber security maturity” while giving customers the “much needed reassurance” their data and security of supply is protected.

To this end, the report recommended that suppliers should only consider partnering with “trusted” third parties, that customer privacy should be prioritised, while suppliers should look to push for a form of industry standard product assurance. It explained this would enable them to label their devices as “approved”. This would reduce their exposure to being left at fault if a customer were to add “unapproved” devices into their network.

Kalfigkopoulous said: “With around a third of industrials and over a fifth of commercial organisations planning to spend more than £1mn on smart energy technology, the need for utilities - and smart technology suppliers in general - to get their cyber house in order is vital. Those organisations that react now with effective and transparent strategies will be the winners in the long run.

To fully bring consumers on board with the energy system transformation, it is paramount that smart energy suppliers take steps to reassure their customers that new energy technology is safe.

PwC

Solar group hail new solar generation record

Solar PV set a new record for electricity generation on 26 May, providing enough power to meet almost a quarter of demand at its peak.

Electricity system operator National Grid said solar produced 8.7GW at midday on Friday, equal to 24.3% of the electricity being used at the time. Solar Trade Association (STA) CEO Paul Barwell said the day marked the first time solar had generated more than nuclear power. It was second only to gas.

Barwell added: “Currently, 12.1GW of solar has been installed throughout the UK from Scotland to Cornwall, enough to power 3.8 million homes. This is a colossal achievement in just 5 years, and sends a very positive message to the UK that solar has a strong place in the decarbonisation of the UK energy sector.”

STA



Citizens Advice calls for new approach to small business smart rollout

Citizens Advice has found that only six in 10 (63%) microbusinesses are aware that businesses will be getting a smart meter as well as domestic consumers.

Citizens Advice's *Smart Choices* report, published on 28 April, analysed interest in and understanding of smart meters in the microbusiness segment of the market.

Interest and understanding

It found that nine in 10 (90%) small businesses had heard of smart meters but only 28% knew "a fair amount" about them. Of those currently without a smart meter, two-thirds (66%) expressed an interest in obtaining one, with interest levels linked to energy usage. Businesses that had a smart meter installed were more likely to report falls in energy consumption (23%) than increases (14%). The majority (58%) said that consumption stayed at the same level.

Consumers who already have a smart meter rated accurate bills and avoided meter readings as the chief potential benefits, as well as real time information and visibility of data. 26% of businesses without a smart meter cited the costs of obtaining a smart meter as the chief potential drawback. One in five (21%) businesses said they were concerned a smart meter would be too much hassle and expected cost savings would not materialise.

To promote the uptake and knowledge of smart meters among the small business community, half of non-smart meter businesses said the most useful advice would be on how the meter could help their business save money (48%). 44% said smart meter information should include a general list of benefits the smart meter could bring, while 41% said advice on the features of the meter and how best to make use of them was important.

A new approach

The report recommended a comprehensive and simple campaign to inform small businesses about the smart meter roll out. It suggested lines as simple as "you can get a smart meter for your business" for the marketing push. It recommended this messaging be "well underway" by mid-2018, when meters for businesses are likely to be rolled out.

It also called for the more detailed information campaign already being carried out by Smart Energy GB with bodies such as the Federation of Small Businesses to be accelerated. In doing so, this would push the current passive interest in smart metering to an active interest, the report said.

Citizens Advice further said communications efforts should focus on the potential for reducing demand, as this is the main driver in reducing businesses' energy costs. The consumer advocacy also stated that suppliers need to undertake proactive customer focussed installations that do not revolve around installing as quickly as possible, thus missing the chance to promote demand reduction.

Government has mandated energy suppliers to ensure there around 53mn smart meters installed in over 30mn premises, including businesses, across Wales, Scotland and England by the end of 2020.

With the majority of smart meter communications focussing on the domestic market, small businesses are a small

Citizens Advice

IEA warns more progress needed on green technology

New research from the International Energy Agency (IEA) has revealed only three of 26 tracked clean energy technologies are currently on track towards contributing to an interim 2°C scenario target in 2025.

Tracking Clean Energy Progress 2017, published on 17 May, found electric vehicles (EVs), energy storage plus solar PV and onshore wind were on track. The IEA outlined how a "new historic record" had been set with over 750,000 (EVs) sold in 2016, while, storage technologies continued "rapid scale-up" in deployment, reaching almost 1GW in 2016 due to favourable policy environments and reductions in battery prices.

The IEA warned though that the "on track" status of these three technologies depends on all other technologies also playing their part in the transition, which is not currently the case.

IEA



Scottish government announces low-carbon infrastructure investment

The Scottish government has announced that it will invest £43mn in low-carbon infrastructure, shared across 13 projects across Scotland.

The funding, which was revealed on 10 May, comes from the Low Carbon Infrastructure Transition Programme (LCITP) and will be matched by a minimum of £43mn from both private and public sector partners. The projects include an energy storage project in Shetland and low-carbon heat networks in Dundee, Stirling, Clydebank and Glenrothes. The LCITP strives to stimulate commercial interest and investment, and maximise Scotland's potential in the low-carbon sector. It also wishes to contribute to the positive progress of the Scottish government in reducing the country's greenhouse gas emissions.

Speaking at the All Energy Conference in Glasgow, First Minister Nicola Sturgeon said: "These projects have great potential to help us tackle climate change, and remain at the forefront of low carbon and renewable innovation. They will also bring economic benefits – in terms of savings and jobs – to local areas across the country."

Scottish government

University offers up to £75k of low-carbon funding to SMEs

Businesses situated in the East of England are now able to apply for between £25,000 to £75,000 of investment in the second funding round of the University of East Anglia's (UEA) Low Carbon Innovation Fund (LCIF).

The LCIF offers small and medium sized enterprises (SMEs) the opportunity to cut their carbon usage and emissions, either through the products and services they sell or as a result of their own operations. Businesses can secure between £25,000 and £75,000 in return for a stake in their firm, with the LCIF able to invest up to 50% of the required capital that firms seek.

Companies will also receive support in developing business plans, reducing their carbon footprint and maximising energy savings.

UEA

LEGO Group reaches 100% renewable target ahead of schedule

The LEGO Group has achieved its ambition to balance 100% of its energy use with energy from renewable sources three years ahead of schedule.

The group made the announcement on 17 May, outlining how since 2012 it has supported the development of over 160MW of renewable energy – with the most recent investment being a 25% stake in the Burbo Bank Extension windfarm off the coast of Liverpool. In 2016, over 360GWh of energy was used by LEGO to produce more than 75bn LEGO bricks sold worldwide. The group added that the total output of investments in renewables now exceeds the energy consumed at all LEGO factories, stores and offices globally.

LEGO Group

UK rises in EY renewables rankings

The UK rose to 10th in EY's latest Renewable Energy Country Attractiveness Index (RECAI), released on 16 May.

The index identified how the UK environment for renewables is now more settled than it has been in recent years. However, EY warned that there is "little clarity" in energy policy post-Brexit and issues such as renewable energy targets, subsidies and connections with mainland power markets are "unlikely" to be resolved before the UK exits the European Union.

Ben Warren, EY Head of Energy Corporate Finance, said: "The UK continues to underwhelm investors who are waiting to see if future UK policy will encourage the renewable energy industry towards a subsidy-free environment where customers can benefit from the UK's excellent natural resources for renewable energy."

EY
