# Energy Element / July 2016

## In this issue…



## Power and gas contracts mixed following Brexit

Gains in commodity markets created a general bullish trend in the GB energy market in June, with most gas and power contracts experiencing gains. In addition, the UK's vote to leave the EU impacted commodity and power markets towards the month's end.

Seasonal gas prices gained 0.2% on average, as higher oil prices fed through to the GB gas market. Winter 16 gas increased by 12.2% to average 40.6p/th, while summer 17 gas was up 12.0% to 37.5p/th. An outage at Rough gas storage facility has prevented injections until 3 August, which could impact winter supplies.

Day-ahead gas moved 13.2% higher to average 34.3p/th. Following the referendum vote, spot gas contracts gained due to increased trading and a weaker pound, making UK gas less expensive to investors, and leading to a rise in demand.

Seasonal power contracts also climbed in June, following their gas counterparts higher. Winter 16 power lifted 9.2% to a seven-month high of £43.8/MWh. Summer 17 power rose 9.1% to £37.7/MWh. Day-ahead power also followed its gas counterpart, up 8.8% to £37.3/MWh, the highest average in seven months.

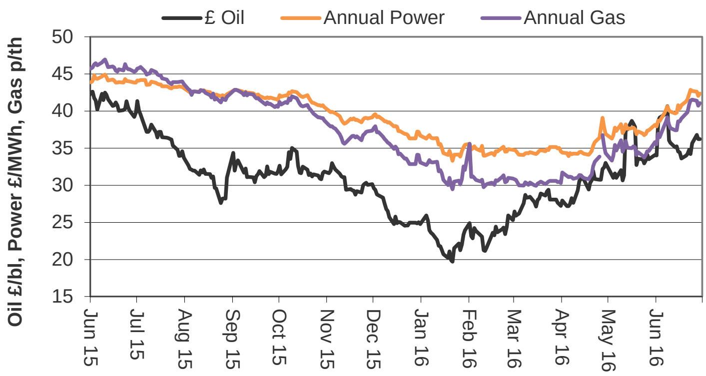
### Oil prices reach a nine-month high

Brent crude oil prices rose 4.9% to average $49.9/bl in June.

At the start of the month, prices rose leading up to the OPEC meeting. Militant attacks on oil infrastructure in Nigeria caused supply disruptions, with demand pressured further by stronger Chinese demand.

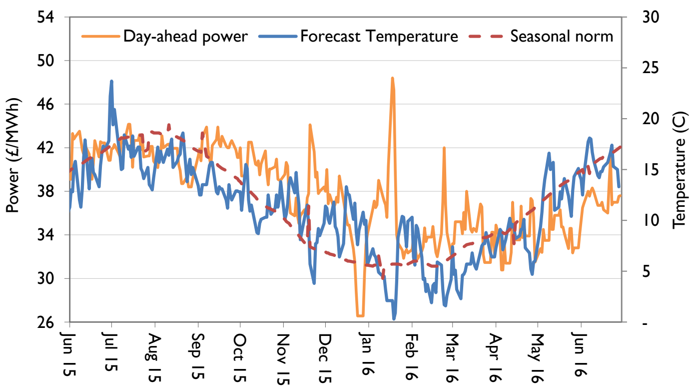
Towards the end of the month, prices were impacted by market uncertainty before the UK's EU referendum. The referendum result caused prices to drop $2.1/bl to $48.6/bl. There are further fears of economic slowdown that could reduce demand for oil.

**Crude oil and annual wholesale gas and power prices**




Mid-way through the month, the International Energy Agency released its *Oil Market Report* for June. Outages in OPEC and non-OPEC countries cut global oil supply by nearly 0.8 mb/d in May.

**Spot power prices and temperatures**




API 2 coal boosted 14.9% to average $53.9/t. On Monday 20 June prices reached $58.9/t, the highest level since July 2015. Rugeley coal-fired power station was scheduled to close at the end of June, but its link to the National Grid was cut earlier than scheduled.

EU ETS carbon dropped 5.4% to average €5.6/t. The UK's vote for Brexit is expected to further depress carbon prices.

### The month ahead: Brexit uncertainty

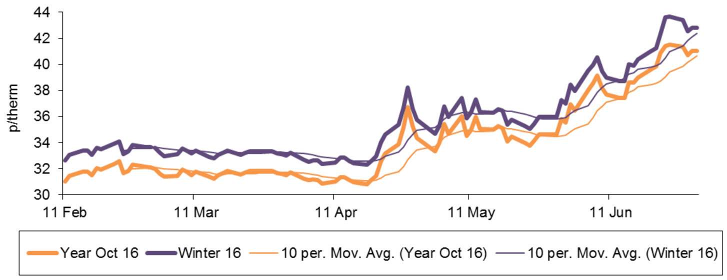
The markets are expected to remain uncertain until more is known about the UK's political landscape following the referendum result.

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.

CATALYST ENERGY SOLUTIONS

# Energy Element / July 2016

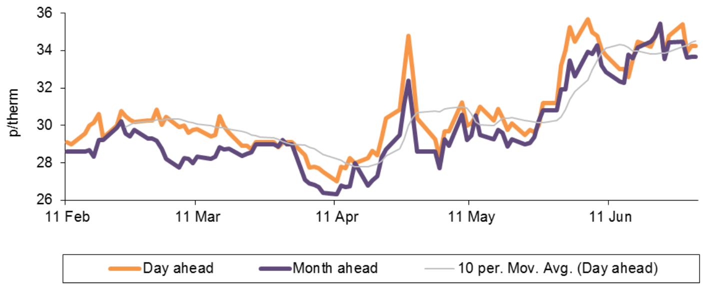
## Annual gas prices




All seasonal gas prices increased in June, as higher oil prices fed into the GB gas market. The annual October 16 gas contract rose 12.4% to 39.1p/th, the highest average in eight-months.

Winter 16 gas experienced the largest increase of 12.2% to average 40.6p/th, while summer 17 gas was up 12.0% to 37.5p/th. Following the referendum vote, gas contracts gained due to increased trading and a weaker pound, which made UK gas less expensive to investors.

## Spot gas prices

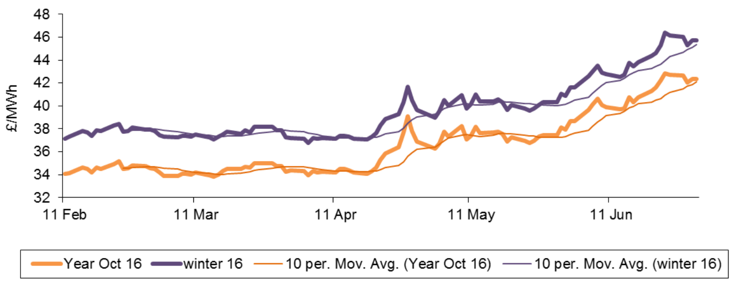



Spot gas prices also rose in June, with day-ahead gas lifting 13.2% to average 34.3p/th.

The month-ahead contract gained 12.9% to average 33.7p/th.

Gas-fired generation provided 47.6% of GB's electricity mix during the month, while coal only produced 5.5%, as cheaper gas prices have made it the dominant fuel.

## Annual power prices

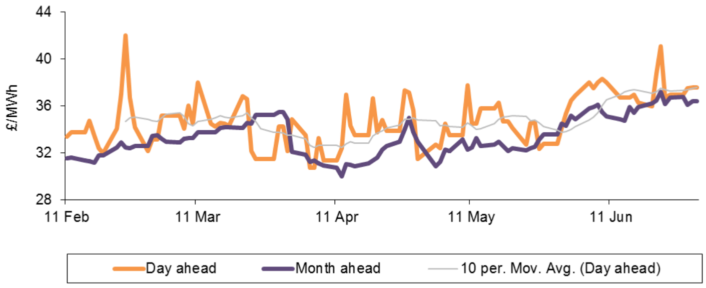



The annual October 16 baseload power contract improved 9.1% to average £40.8/MWh, following both gas and commodity markets higher.

Winter 16 power rose 9.2% to average £43.8/MWh, while summer 17 increased 9.1% to £37.7/MWh.

The price rise occurred amid tighter supply margins for the forthcoming winter, following a series of coal-fired plant closures. The Rugeley coal-fired power station was scheduled to close at the end of June, but was shut down earlier than scheduled.

## Spot power prices




Spot power prices jumped by 8.8% to average £37.3/MWh. The contract followed its gas counterpart higher.

The month-ahead contract grew 8.6% to average £35.8/MWh during May. At the end of the month the contract was 21.4% higher than the low experienced of £29.7/MWh on 18 April.

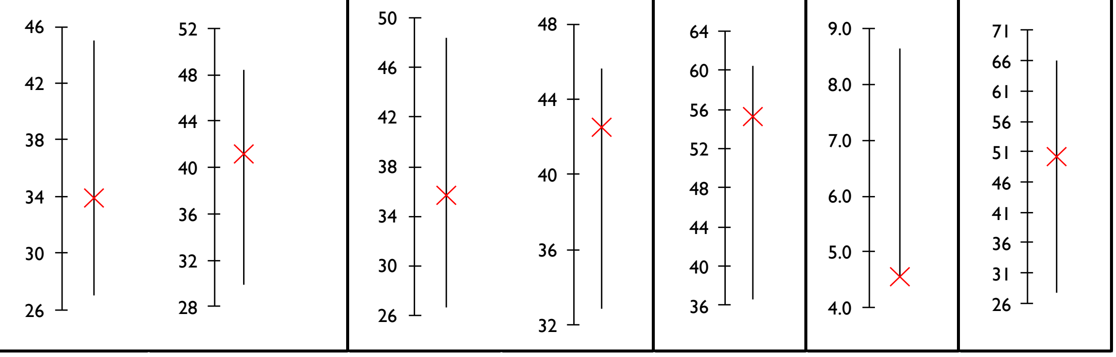
CATALYST
ENERGY SOLUTIONS

# Energy Element / July 2016

## Key market indicators: 30/06/2016

| | | Gas (p/th) | | Electricity (£/MWh) | | Coal | Carbon | Brent crude |
|---|---|---|---|---|---|---|---|---|
| | | Day-ahead | Year-ahead | Day-ahead | Year-ahead | ($/t) | (€/t) | ($/bl) |
| This month | 30 Jun 16 | 33.90 | 41.13 | 35.70 | 42.53 | 55.25 | 4.55 | 50.24 |
| Last month | 31 May 16 | 33.20 | 35.81 | 34.15 | 38.15 | 49.60 | 6.10 | 49.60 |
| Last year | 30 Jun 15 | 42.10 | 47.07 | 40.85 | 44.63 | 59.80 | 7.46 | 62.56 |
| Year-on-year % change | | (19%) | (13%) | (13%) | (5%) | (8%) | (39%) | (20%) |
| Year high | | 45.00 | 48.38 | 48.40 | 45.65 | 60.50 | 8.64 | 66.01 |
| Year low | | 27.00 | 29.88 | 26.56 | 32.84 | 36.55 | 4.69 | 27.83 |

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.

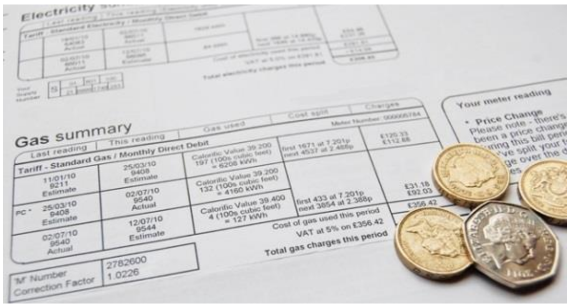
**Disclaimer**

This monthly news and pricing bulletin is produced by Cornwall Energy in conjunction with Catalyst Commercial Services exclusively for the customers of Catalyst Commercial Services and provides general information and commentary on energy market trends. The opinions contained in this bulletin constitute the current opinions of Cornwall Energy and/or Catalyst Commercial Services and are produced for informational purposes only. This bulletin should not be construed as an offer, recommendation or solicitation to buy, sell or deal in any commodity, product or security or to enter in to any trading or investment activity whatsoever. Any use by you or any third party of any information or other material contained in or associated with this document signifies agreement by you or them to these conditions. The report makes use of information gathered from a variety of sources that have not been subject to independent verification. Neither Cornwall Energy nor Catalyst Commercial Services gives any representation or warranty as to the accuracy or completeness of the information collected from market participants or from sources in the public domain. Neither Cornwall Energy nor Catalyst Commercial Services make any warranties, whether express, implied or statutory regarding or relating to the contents of this report and specifically disclaim all implied warranties, including, but not limited to, the implied warranties of satisfactory quality and fitness for a particular purpose. While Cornwall Energy and Catalyst Commercial Services consider that the information and opinions given in this bulletin and all other documentation are sound, all parties must rely on their own skill and judgment when making use of it. While every effort is made to ensure the accuracy of any information or material contained in or associated with this document, neither Cornwall Energy nor Catalyst Commercial Services, their affiliates and employees, either individually or collectively accept any responsibility for any loss, damage, cost or expense of whatever kind arising directly or indirectly from or in connection with the use by any person whomsoever of any such information or material; neither do they make any representation or warranty as to the accuracy or completeness of the data, information or statements contained herein.

# Competition authority confirms business energy reforms

**Business groups have welcomed the announcement of reforms to the energy market, following an investigation by the UK's competition watchdog.**

### Consumers disengaged




On 24 June the Competition and Markets Authority (CMA) published the final report of its investigation into the energy industry. The investigation was launched two years ago, after the sector's regulator, Ofgem, expressed concern that competition was not functioning as should be the case. Since then, the CMA has gathered both oral and written evidence from a wide range of stakeholders. It had been due to report its final findings by the end of last year, but said an extra six months was necessary to assimilate all of the evidence submitted.

The analysis underpinning the authority's remedies suggested that there remained high levels of consumer disengagement in the microbusiness energy market. It said that, in 2013, approaching half (45%) of these firms were on their suppliers' "default tariffs", and could overall be paying over £220mn/year more than they would in a fully competitive market.

### Key remedies

The CMA confirmed a number of remedies would be implemented in order to address this concern, and that these remedies would focus on improving price transparency in the market.

Suppliers will now be required to publish all the prices they offer to microbusinesses so that firms can better understand whether they are receiving a good deal. At present, most tariffs for microbusinesses are not published as they are negotiated directly between customers and suppliers.

Energy companies will also be prevented from inserting termination fees and no-exit clauses into roll-over contract periods. This has, in the past, made switching away from these contracts expensive and unnecessarily complicated, the CMA said. With the announced reforms, microbusinesses will no longer be penalised if they want to switch to a better deal when the initial contract period has lapsed, and they will received greater notice periods about when their contracts are coming to an end.

The CMA also confirmed the establishment of a new system for "prompting" disengaged customers to look for better deals. Microbusinesses that have been on their suppliers' "default" tariffs for more than three years will be entered into a database accessible by other suppliers, who will then be able to write to the firms to tell them how much they could save by switching. The CMA explained that this new system would be subject to close controls: microbusinesses would be able to opt out, and suppliers would only be able to contact them by post – not by phone, text, or email.

The CMA will set out further details of the implementation schedule for these measures over the next few months. Implementation itself will then be taken forward by the government and Ofgem.

Responding to the announcements, the Federation of Small Businesses said: "Today's CMA decision is a big win for FSB and for small businesses up and down the country. Transparency and fairness should be at the heart of a functioning energy market for small firms."

National chairman Mike Cherry added: "Energy tariffs, published in a clear and comparable way, will make it much easier for small firms to secure a decent energy deal and empower them to make decisions that are right for them. Removing unfair terms and conditions from auto-rollovers will also ensure business owners are not caught off-guard when their contract expires."

**The business community has responded very positively to the CMA's plans for more price transparency, and the reforms in this area should help to promote a more competitive market. But, as in the household sector, there are some concerns about the implications of the new marketing database, around which tight privacy safeguards will need to be placed.**

Government

# UK energy plans unchanged by Brexit vote

**The government has assured that the key goals of UK energy policy will not be impacted by the UK's vote to leave the European Union on 23 June.**

Energy and climate change secretary Amber Rudd, who had campaigned for a "Remain" decision in the referendum, responded to the vote at the Business and Climate Summit in London. Her colleague at the Department of Energy and Climate Change, Andrea Leadsom, supported the "Leave" campaign.

## Environmental goals

Rudd told the conference that, in the wake of the vote, the government remained fully committed to tackling the energy trilemma: ensuring energy security, keeping bills low, and decarbonising the gas and electricity supply. While, she said, the decision to leave the EU was "undoubtedly significant", the country's energy challenges remained the same.

The minister was particularly keen to emphasise that the UK's commitment to tackling climate change was unaffected. She said: "Climate change has not been downgraded as a threat. It remains one of the most serious long-term risks to our economic and national security.

"I was lucky enough to lead the world-class team of British diplomats at last year's Paris climate talks. Our efforts were central to delivering that historic deal. And the UK will not step back from that international leadership. We must not turn our back on Europe or the world."

Rudd explained that *Climate Change Act 2008*, which underpins the UK's environmental policy-making, had not been imposed by the EU, and had ensured "remarkable investment" in the low-carbon economy over the past five years.

Investment in renewables has increased by 42% since 2010. In 2014, 30% of all of Europe's renewable energy investment took place in the UK, and annual support for renewables is expected to double during this Parliament to more than £10bn.

## Energy security

But Rudd stressed that security of supply would remain the government's energy-policy priority. This, she said, was being delivered through the government's capacity market scheme, and significant investment was anticipated following the next auction being held later this year.

The government also remained committed to the development of new nuclear power in the UK, Rudd said. The groundwork has been undertaken for a fleet of new nuclear power stations; three consortia have proposals to develop 18GW of new power stations at six new sites across the UK. It is estimated that these will support 30,000 jobs across the nuclear supply chain.

## Expert concerns

In a report issued on 28 June, analyst PwC warned that the investment needed in UK energy infrastructure could be undermined by the vote and the uncertainty that it had caused. It said: "The market movements since the Leave vote have already shown how our uncertain future has undermined investor confidence. This will hamper the ability of Britain to attract investment at the levels required to renew our energy infrastructure."

PwC said that the gains made in recent years through the implementation of EU directives and regulations were now at risk. It said: "Many will applaud the opportunity to remove European "red tape". But, this is likely to take considerable effort at a time when the industry has other pressing issues to address."

Stakeholders in the renewables sector have also expressed concern. Nina Skorupska, chief executive of the Renewable Energy Association, said: "The vast majority of our members had fears of Brexit, and we will be consulting with them and government in the coming weeks to set out a plan for continued low-carbon energy investment, deployment and assurance of the 117,000 jobs in this sector."

**Last week's vote came as a major surprise to observers, and it is going to take some time before the implications for the energy sector are fully understood.**

Government

# Coal power phase-out should be brought forward, says think tank

**The UK can close all of its remaining coal-fired power stations sooner than planned without jeopardising energy security, the Bright Blue think tank has said.**

On 7 June the researchers published a report, *Keeping the Lights On: Security of Supply After Coal.* It sought to examine the impact on the UK's energy security of the government's plans to close all of the UK's coal plants by 2025 in order to help decarbonise the energy system.

## Bill savings

The report found that, even in a scenario in which a high level of stress was placed on the system, sufficient gas capacity would be commissioned to ensure that the lights stayed on.

Bright Blue said that among the most "striking" findings of its report was the pace with which renewables deployment would continue through falling costs and economies of scale. It suggested that solar deployment could increase from around 9GW at present to 17GW by 2025, while onshore wind could grow to 16GW over the same period.

## More ambition

In light of the report's findings, Bright Blue made a series of recommendations for policy-makers. It argued that, not only should the government progress its plans to close old coal plants, but that the deadline for the phase-out should be brought forward to 2023. This would, it said, provide investors in new gas projects with more certainty.

The report further said that, alongside gas, the government must act to incentivise the development of new technologies that can further ease stress on the future energy system. These might include storage, demand-side response and energy efficiency measures. The report further backed the development of higher levels of interconnection between Britain and other European countries.

Report author Ben Caldecott said: "Despite what some exaggerated claims suggest, coal phase out even under a 'high stress' scenario, will not result in the lights going out. Our analysis shows the significant benefits for pollution and system security of further encouraging renewables, interconnection, storage, demand-side response and energy efficiency."

**The government has, following the Brexit vote, reaffirmed its commitment to the coal closure programme, and this report suggests that an even more ambitious approach might be feasible.**

Bright Blue

# Government sets new carbon target

The government has confirmed the level of emissions reduction that the UK will aim to achieve by the early 2030s.

On 30 June the Fifth Carbon Budget, covering the period 2028-32, was laid before Parliament. It will commit the UK to cutting its emissions by 57% by 2032, relative to the position in 1990. This was the level of emissions reduction that the government's climate adviser, the Committee on Climate Change, said would be necessary to keep the UK on course towards its longer-term environmental goals.

Trade association EEF, which represents manufacturers, welcomed the news. The organisation's head of energy and environment policy Claire Jakobsson said the referendum result had brought "unprecedented uncertainty", so the government needed to deliver stability and certainty where this was possible. "Government must now work closely with industry to develop the detail that will underpin this target, ensuring a framework that helps our most energy intensive industries decarbonise competitively", Jakobsson said.

The legislation will be progressed through Parliament shortly.

Government

## Onshore wind vital to UK energy future, says business group

Onshore wind plays a "pivotal" role in ensuring that low-carbon investment is affordable for households and businesses, the CBI has said.

Speaking at an industry conference on 29 June, Rhian Kelly, the organisation's business environment director, warned the government against opposing the technology; she noted that it was already the cheapest form of low-carbon generation and that it could, by 2020, be the cheapest form of energy overall. She said: "By removing it entirely from the capacity we need to build, we risk taking a more expensive route to meeting our targets – in short, we will be getting less bang for our buck."

Kelly said that the sector would only realise its potential if the energy policy framework was stable and investors were given confidence for the long term. In particular, she said that the government needed to clarify the level of funding that it intended to make available for low-carbon generation into the 2020s through the so-called Levy Control Framework.

CBI

---

## Business smart meter roll-out slows

Government statistics have revealed that the rate of smart meter installations in business premises has slowed.

The figures, issued on 30 June, showed that in the first quarter of 2016, 18,900 smart and advanced meters were installed in smaller non-domestic sites by large suppliers, representing a 26% decrease in overall installations compared to the previous quarter.

Advanced meters still comprise the majority of electricity meter installations in the non-domestic sector; over twice as many advanced electricity meters than smart meters were installed in the first quarter of the year.

Overall there are now more than 3.6mn smart and advanced meters operating in homes and businesses in GB, operated by both small and large suppliers.

Government

---

## MPs back overhaul of energy system

The parliamentary energy and climate change select committee has called for National Grid to be stripped of its responsibility for operating the energy system.

In a report issued on 17 June, the committee said that an independent system operator should be established at the national level, with distribution system operators deployed regionally. This would, the report said, serve to address concerns about National Grid's conflicts of interest.

Policy-makers were also urged to reform market rules to support the development of new energy technologies, such as storage and demand-side response.

Parliament

---

## Global solar power to surge

A new report has suggested that around 60GW of solar power capacity could be installed around the world this year – significantly higher than the 50GW deployed in 2015.

Solar Power Europe's *Global Market Outlook*, issued on 21 June, said that China, Japan and the US had led the world market last year, but that growth in Europe had also been substantial, with 8.2GW of solar capacity added. The UK was the fourth largest market globally, one of three European countries in the top 10.

James Watson, CEO of Solar Power Europe, said: "While this is the first upward trend since 2011, it is likely that demand on the European continent will slow down, primarily due to the termination of support for utility-scale solar in the UK. What European solar needs now is the right electricity market design."

Solar Power Europe

---