Energy Element / August 2017

Commodities hit multi-month highs, power follows

The majority of power contracts along the forward curve increased in July, supported by an underlying rise in commodity prices. In contrast, gas contracts experienced mixed movements.

In July, day-ahead gas gained 3.4% to average 36.2p/th, halting a five-month downward trend as maintenance at a major gas processing plant in Norway and on the UK Continental Shelf limited supplies. Month-ahead gas fell 2.2% to average 36.3p/th.

Seasonal gas prices lifted 0.4% on average. Winter 17 gas slipped 1.0% to 44.9p/th, and summer 18 gas moved 1.0% lower to 38.9p/th. All gas contracts beyond summer 18 rose.

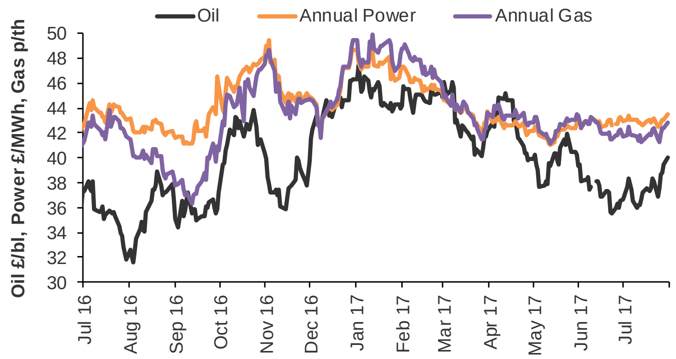
Day-ahead baseload power gained 8.1% to average £42.9/MWh, its highest monthly average in five months, owing to outages at a number of nuclear plants and higher spot gas prices. The month-ahead contract rose 0.7% to £39.3/MWh.

Most seasonal baseload power contracts moved higher and on average increased by 0.9%. Winter 17 power was unchanged, but summer 18 power lifted 0.5% to £39.7/MWh.

Oil reaches two-month high, coal hits eight-month high

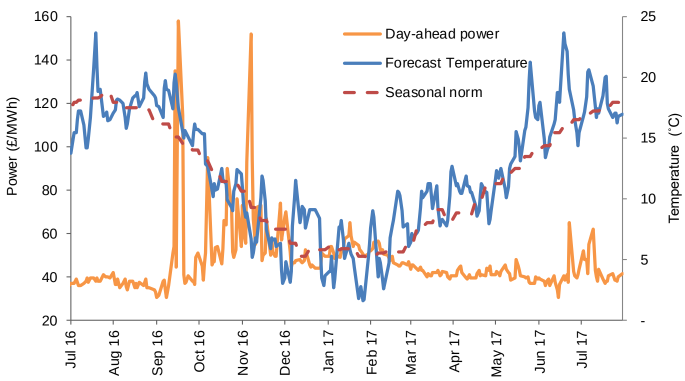
Brent crude oil prices climbed 2.4% to average $48.9/bl in July. Prices ended the month at a two-month high of $52.5/bl.

Crude oil and annual wholesale gas and power prices



Prices were supported by falling US crude inventories, which decreased every week last month, and high demand forecasts for China and the US. Furthermore, Saudi Arabia pledged to cap crude exports at 6.6mn bl/d during August and Nigeria said it would cap oil production once it stabilises at 1.8mn bl/d. Prices did face some downward pressure in the month. OPEC crude production hit at 2017 high in July, as Libyan output continued to recover. Production from Iraq, UAE, Gabon and Ecuador also increased. These increases in supply meant OPEC only met 84% of its production cut target in July.

Spot power prices and temperatures



On average, API 2 coal prices jumped 5.8% to $72.5/t during the month. On 31 July, prices reached an eight-month high of $75.8/t. Coal prices were supported by high demand from China and supply disruptions in Australia, Indonesia, South Africa and Colombia. EU ETS carbon prices gained 5.2% to average €5.2/t, following a series of strong auctions. On 10 July prices hit a four-month high of €5.5/t.

The month-ahead: Low demand set for August, but tighter margins forecast for September

National Grid's Summer Outlook report, published in April 2017, expects low demand levels in August with comfortable levels of available generation. In contrast, parts of September are forecast to see tighter power supply margins owing to power plant maintenance, including a 1GW reduction in interconnector availability, and rising demand levels.

Therefore, power prices in August are likely to be relatively stable, but volatility could pick up in September.

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

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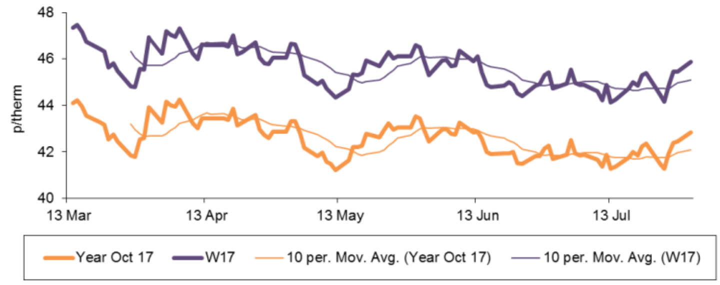
Annual gas prices

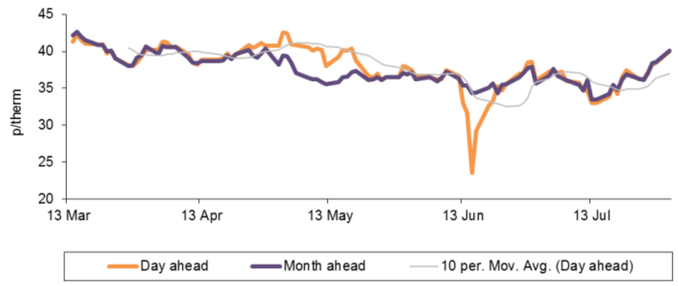


Seasonal gas prices experienced mixed movements in July, rising 0.4% on average.

Winter 17 gas slipped 1.0% to 44.9p/th, slightly lower than its value of 46.0p/th in July 2016. Summer 18 gas trimmed 1.0% to 38.9p/th. All gas contracts beyond summer 18 rose, with winter 19 seeing the largest rise of 2.2% to 39.4p/th.

The annual October 17 gas contract lost 1.0% to 41.9p/th.

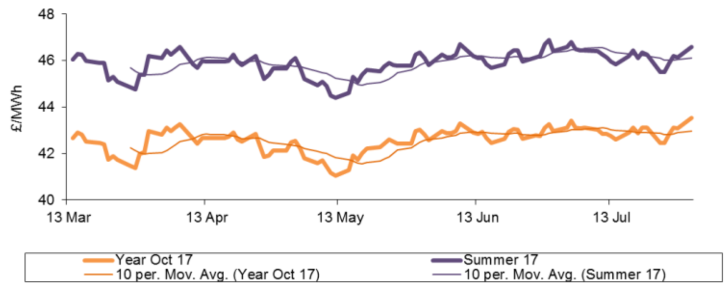
Spot gas prices



In July, day-ahead gas rose 3.4% to average 36.2p/th, halting a five-month downward trend. Ongoing maintenance at the Kollsnes gas processing plant in Norway and on the UK Continental Shelf limited gas supplies, lifting the day-ahead contract. On 31 July, day-ahead gas reached a two-month high of 40.0p/th.

Lower spot gas prices can be expected during summer, with reduced demand amid higher temperatures and increased solar output reducing the need for gas-fired power generation. The month-ahead contract moved 2.2% lower to average 36.3p/th.

Annual power prices

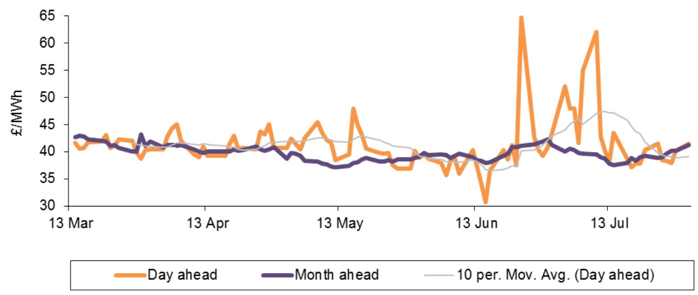


The annual October 17 baseload power contract gained 0.2% to average £43.0/MWh.

Most seasonal baseload power contracts moved higher, with an average increase of 0.9%.

Summer 18 power went up 0.5% to £39.7/MWh. In contrast, the winter 17 contract was unchanged at £46.2/MWh.

Spot power prices



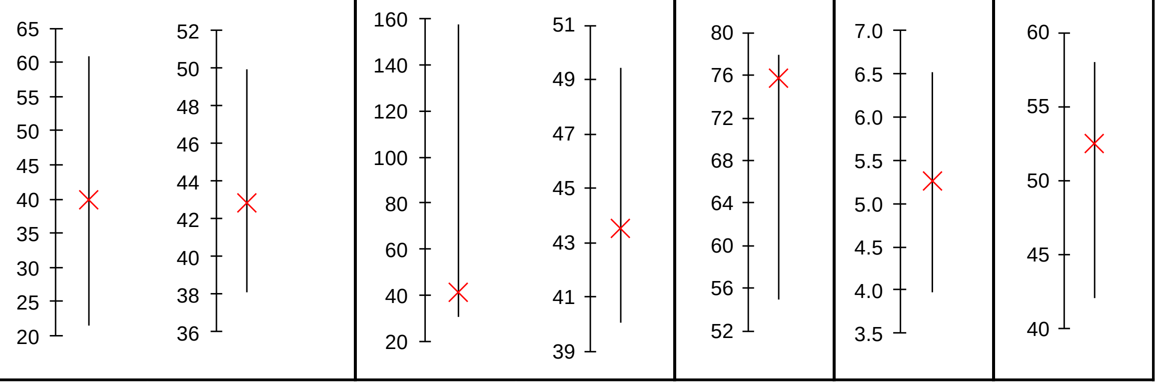
Day-ahead baseload power gained 8.1% to average £42.9/MWh, its highest monthly average in five months. Outages at a number of nuclear plants, including Hartlepool 2 and Hinkley Point B and higher gas prices pushed the day-ahead contract higher.

The month-ahead contract rose 0.7% to average £39.3/MWh.

Key market indicators: 31/07/2017

	Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
	Day-ahead	Year-ahead	Day-ahead	Year-ahead	($/t)	(€/t)	($/bl)
This month 31 Jul 17	40.00	42.84	41.50	43.53	75.75	5.26	52.54
Last month 30 Jun 17	36.00	41.68	43.50	42.97	69.80	4.95	47.66
Last year 29 Jul 16	35.75	43.02	39.40	41.13	61.00	4.41	42.26
Year-on-year % change	12%	(0%)	5%	6%	24%	19%	24%
Year high	61.00	49.91	157.73	49.45	78.00	6.52	58.04
Year low	21.50	38.14	30.28	40.08	55.00	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.



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

Government rebalances renewable costs onto smaller consumers

Energy intensive industries (EIIs) are to be made exempt from the indirect costs of the Renewables Obligation (RO) scheme, lowering electricity costs for some of the country's biggest energy users.

While EIIs, such as major manufacturers and the steel industry will benefit, other bill payers are set to see their energy costs increase.

A shifting burden

EIIs had previously been provided retrospective compensation for these costs, funded through general taxation. With the shift to an exemption, costs will instead be recouped from other electricity consumers.

The government estimated non-exempt businesses face increases to their electricity bills of between 0.2% - 0.6% over 2017-18 to 2027-28. With the exemption included, costs are set to be around £18.20/MWh (2016 prices), compared to around £17.40/MWh without the exemption.

Estimated annual increase on average bills by affected users in Great Britain, 2016 prices, non-discounted, over 2017-18 – 2027-28

Business Size	Low estimate	Best estimate	High estimate
Small business energy user	£60	£160 (+0.2%)	£270
Medium-sized energy user	£2,500	£6,700 (+0.4%)	£11,500
Large sized energy user	£23,400	£62,900 (+0.6%)	£107,400

Source: Government

The government accepted that businesses outside the exemption face added costs, however it felt the benefits on offer for EIIs justified proceeding.

Increased certainty

The exemption focuses on businesses operating in sectors considered to be "at risk" of losing out to international competition, and for whom electricity is a sizeable part of their gross value added. The government explained that by making these EIIs exempt, they benefit from increased certainty when compared to a compensation scheme, and real-time support. It further suggested there could be wider positive impacts on output, investment and employment decisions. The risks of investment and carbon leakage – where businesses relocate abroad for lower energy prices – were also considered to be reduced as a result of the exemption.

The government assured it was still looking to "bear down" on broader business energy costs and what more can be done in the business energy area, referencing ongoing work on the Industrial Strategy and Clean Growth Plan.

The exemption is subject to Parliamentary approval, having secured European Commission State Aid approval, and is intended for implementation from 1 January 2018. If Parliamentary approval is not secured in time this could be delayed.

Government walks a tightrope in redistributing energy costs from large businesses to households, but the news highlights competing pressures across both the economy and energy transition.

Government

Ofgem to assess case for mandatory half hourly settlement for smaller consumers

Launching its significant code review (SCR) on electricity settlement reform, Ofgem has said it will assess the case for a mandatory half hourly settlement (HHS) process for domestic and smaller non-domestic customers.

Through use of smart and advanced meters, customers' half-hourly consumption can be recorded and remotely read. Previously, the settlement process was based on half hourly estimates. HHS means that customers are settled based on their usage in each half hour, as recorded, improving the accuracy and timeliness of the settlement process.

Ofgem regarded such a move as key in enabling innovation in smart tariffs and a necessary step in achieving potential benefits from demand-side response.

Ofgem

Government outlines plans to tackle smart energy barriers

The government and Ofgem have set out their approach for supporting a smart and flexible future energy system, with the release of the *Upgrading Our Energy System: Smart Systems and Flexibility Plan* paper on 24 July.

The plan outlined a range of actions to be taken to improve access to energy markets for new technologies and business models. It also looks to remove barriers for smart technologies, such as storage and demand-side response (DSR), thus enabling smart businesses and homes.

Business and Energy Secretary, Greg Clark said: "Upgrading our energy system to make sure it is fit for the future is a key part of our Industrial Strategy to deliver a smarter, more flexible energy system. A smarter energy system will create new businesses and high-skilled jobs, while making sure our infrastructure is able to cope with demand."

Championing storage

A large part of the document was devoted to enabling storage as an active market participant, accepting it needs a "level playing field" to be able to compete. The plan looked to deliver clarity on licensing, planning, connections and charging for storage, as well as enabling storage to locate on the same site as renewable generation like windfarms and solar parks.

Specifically, the government said it will amend the *Electricity Act 1989* to include a definition of storage. Through a review, it will also strive to simplify the planning regime for storage facilities. With regards to co-locating storage and renewables, the government will clarify the impact on support policies such as the Contracts for Difference and Renewables Obligation. The plan looked at further enabling demand-side response (DSR), where organisations are handed incentives to turn down their energy demand. Work will involve encouraging large non-domestic consumers to participate in DSR through National Grid's Power Responsive workstream, with a goal of total participation reaching between 30%-50% of balancing capacity by 2030.

It was stressed that the actions are designed to minimise costs to consumers, while in turn improving access to smart markets for smart businesses. The government also announced the launch of the £246mn Faraday Challenge Fund, intended to support world-leading research and development in batteries.

Widespread support

Reaction to the plan has been broadly positive, with Lord Adonis, Chairman of the National Infrastructure Commission (NIC), hailing it as a "clear step forward" and "one of the 12 key infrastructure decisions" that the NIC said needed to be made. Meanwhile, Energy UK said the plans created a "level playing field" for all technologies, driving innovation and providing an appropriate regulatory framework for battery storage and development.

While welcoming the announcement, the Solar Trade Association (STA) said more work still had to be done, including a clearer timetable. The Renewable Energy Association (REA) said the government should implement policies that promote smart technologies to improve the functioning of renewable technologies.

RenewableUK praised the announcement, calling it a "starting gun" for the UK to become a world-leader in innovative battery storage technologies, while techUK said the plan demonstrated how government, regulators and industry can work together cooperatively to deliver a cost-effective, flexible and low-carbon energy system that benefits its users.

Whilst an important first step, these plans are considered by many to be long overdue, with the policy and regulatory landscape playing catch-up to an energy industry that is already in transition.

Government NIC Energy UK STA REA RenewableUK techUK

Ofgem warns network companies of tougher future price controls

Energy network companies have been told to brace themselves for a "tougher" round of price controls from 2021 by the energy regulator.

Ofgem explained it had seen "clear evidence" the cost of investment required in networks was "significantly lower" than previously assumed, and warned the new "RIIO-2" price control would reflect this. The warning followed research from Citizens Advice that found consumers had been overpaying for energy networks by around £7.5bn over the current eight-year price control.

Unprecedented pace

Ofgem noted that its current price controls will have enabled £80bn of investment in transmission and distribution infrastructure between privatisation and 2020, while lowering network costs by 17% over the same period.

With Britain's energy system evolving at an "unprecedented pace", Ofgem explained that the new price controls would be adaptable to ensure a wide range of energy futures are considered and allow companies to meet customer needs. The changing energy system presents a significant investment challenge, with over 1mn kilometres of pipes and wires needing to be both updated and maintained to deliver reliable energy supplies for consumers. Furthermore, the regulator stressed greater coordination across traditional network boundaries will be required, calling on companies to adapt and "play their part" in tackling the challenges presented by the evolution of the country's energy system.

The regulator set out how it will set new controls capable of attracting global investment and ensuring consumers get value for money. The regulator also noted "strong evidence" investors are willing to accept lower returns for investing in very stable regulatory framework. The tougher controls, to take effect from 2021 for most networks, will look to learn lessons from the current RIIO-1 framework.

Views are invited on the initial plans until 4 September, with plans to consult on the framework structure following in 2018.

Good news for consumers

Citizens Advice had criticised Ofgem when releasing its research, stating the regulator had made three key decisions favourable to network companies' interests that had led to the bumper consumer costs. These included overestimating the business risk for investors in energy networks, costing consumers £3bn.

While the charity welcomed the promise of "tougher" price controls, it reiterated its call for energy networks to provide a rebate to consumers to account for the unjustified profits, and for government to intervene should this not happen.

Ofgem's review is comprehensive and appears well placed to appropriately build on the current price control.

Ofgem   Citizens Advice

British Gas pays £1.1mn for Guaranteed Standards failures

British Gas has paid £1.1mn to some of its microbusiness and domestic customers, following its third-party agents missing appointments, or failing to keep them on time, and then not providing compensation as required by Ofgem.

British Gas self-reported the Guaranteed Standards breach, a specific set of customer service standards, to Ofgem. The regulator agreed to its redress package, meaning the supplier did not face formal enforcement action. The compensation package has seen British Gas pay £30 for the initial failed appointment, £30 for not paying customers within the required 10 days and an extra £30 for each affected customer as an "additional goodwill payment".

Ofgem Senior Partner for Improving Regulation, Martin Crouch, said British Gas had done the right thing in coming forward and had since improved processes to make sure, should appointments be missed or not kept on time, all customers receive the compensation they are entitled to.

Ofgem

Green business group reaches 100 members

The Climate Group's RE100 initiative has reached its milestone of 100 members three years earlier than expected.

AkzoNobel, AXA, Burberry and Carlsberg have become the latest additions to the group, all committing to sourcing 100% of their electricity from renewable sources. AkzoNobel are now the second biggest electricity user to sign up to the initiative, consuming 16TWh annually. It is targeting carbon neutral status and 100% renewable energy by 2050.

Helen Clarkson, Chief Executive Officer of The Climate Group, said: "We are now calling on companies to go one step further, and inspire their suppliers and peers to follow their lead so that together, we can speed the transition from fossil fuels to renewables to keep warming well under two degrees Celsius."

The Climate Group

Small businesses consider more than price in energy supply proposition: Gazprom

Small businesses are starting to look at the entirety of what a supplier offers, rather than just the price tag, new research carried out by Gazprom Energy has found.

While over nine in 10 (95%) of the 200 surveyed businesses admitted price competitiveness was key when deciding supplier, over eight in 10 (81%) said third party advice could sway their decision as well. Customer service was valued by two-thirds (64%), who said their provider had to show a good understanding of their businesses and needed to "win the deal".

Furthermore, providers must look to become more innovative in how they deliver services. Seven in 10 (70%) said they would use an online portal to engage with their provider, meaning contracts could be managed more independently.

No link

Carbon Trust to run initiative aimed at lowering business energy costs

The Carbon Trust is to run the government's Industrial Energy Efficiency Accelerator (IEEA), which aims to bolster the global competitiveness of British industry and lower energy costs.

The £9.2mn IEEA was launched in January to increase the number of available energy efficient technologies for a variety of industrial sectors. It does this by demonstration of near to market innovations. The funding is expected to unlock a further £11mn of investment from the private sector to support demonstrations.

Minister of State for Climate Change and Industry, Claire Perry said the programme was a "great example" of how reducing emissions and growing the economy could "go hand-in-hand".

The Carbon Trust

Aldi UK makes solar pledge

Aldi UK has announced that it is aiming to install another 11,000 solar panels across over 50 of its stores by the end of 2017.

The supermarket has already installed over 85,000 solar panels on all nine of its regional distribution centres and around 275 stores, generating more than 17,500MWh of electricity per year. The planned extension will take the total store investment in solar to around £17mn and save over 8,100 tonnes of Co2 in the process.

Communications Director at Aldi UK, Mary Dunn said the use of solar marked a "significant step" in its journey to reduce greenhouse gas emissions by 30% by 2020.

No link