

In this issue...

- 1 Power prices follow commodity markets to new lows
- 2 Wholesale market snapshot
- 3 Key market indicators
- 4 Government eases cuts to renewables support
- 5 Rudd welcomes historic climate change agreement
- 6 Capacity market auction secures Britain's power supplies for 2019-20

Power prices follow commodity markets to new lows

Gas and power contracts continued to decline in December as record low commodity prices fed directly into the GB energy market.

Seasonal gas contracts were driven lower by a sharp fall in oil prices, which hit 11-year lows in the month. Annual April 16 gas slipped 5.1% to average 35.0p/th, hitting a new low of 32.8p/th on 24 December. A strong supply outlook also pressured prices with global LNG capacity forecast to grow rapidly in the coming years. This was despite Ukraine planning to import more European gas in 2016 and production cuts at Groningen gas field tightening the supply outlook in the medium term. Seasonal power contracts followed gas and coal prices down, with annual April 16 power slipping 3.2% to average £37.8/MWh. Annual power and gas contracts are now at their lowest levels since March 2010.

Spot gas and power contracts also fell in December, slipping to multi-year lows as above-average winter temperatures decreased weather-driven demand levels; forecast temperatures averaged 38.7% above the seasonal norm while regional gas demand averaged 24.6% lower than December last year. Consequently, day-ahead gas trimmed 5.3% to average 34.1p/th, reaching a five-and-a-half-year low of 30.6p/th on 24 December. Day-ahead power followed its gas counterpart, slipping 10.0% to average £34.3/MWh and hitting £26.6/MWh on 24 December, the lowest price since 2007.

Oil prices hit 11-year lows, coal prices fall on sliding demand

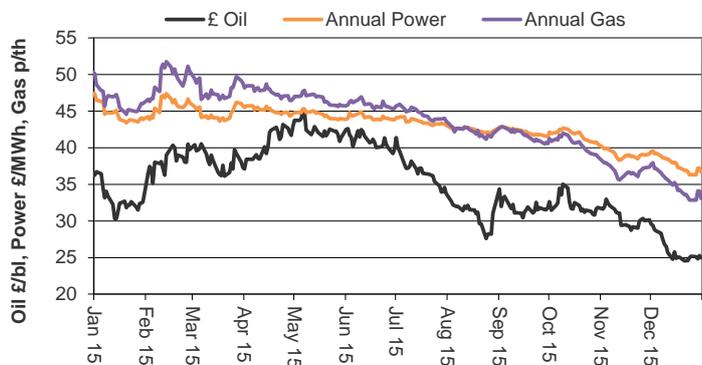
Brent crude oil tumbled 15.8% to average \$39.1/bl in December, hitting an 11-year low of \$36.4/bl on 22

December. Prices were

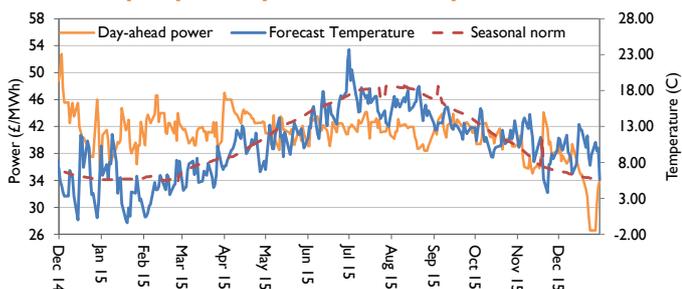
sent plummeting following an OPEC meeting on 4 December, where disagreements led the group to abandon its previous output ceiling and effectively drop any production limits. Prices were also impacted by the prospect of more oil entering the market in 2016 from Iran, through the lifting of export sanctions, and the US confirming it would end a 40-year long oil export ban.

API 2 coal declined 5.1% to average \$44.6/t. It hit a fresh low of \$43.7/t on 21 December, as global over-capacity continued to depress prices. The International Energy Agency reported a stall in global coal demand growth, owing in to factors including economic restructuring in China and the successful outcome of the Paris climate talks seeing. Stalling demand growth combined with strong Indian and Indonesian production levels has exacerbated oversupply and caused prices to decline.

Crude oil and annual wholesale gas and power prices



Spot power prices and temperatures



EU ETS carbon slid 2.7% to average €8.3/t, the first monthly fall in nine months. Despite a recent price drop, an overall upward trend is expected to continue in 2016.

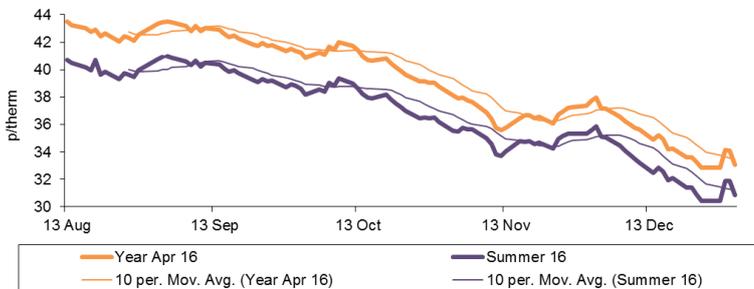
The month ahead: Iranian oil production

Iran could ramp up oil production levels significantly within a week of export sanctions being lifted, according to the official news service for oil and gas in Iran. Sanctions could be lifted as early as mid-January, and oil prices could potentially slip even further.

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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

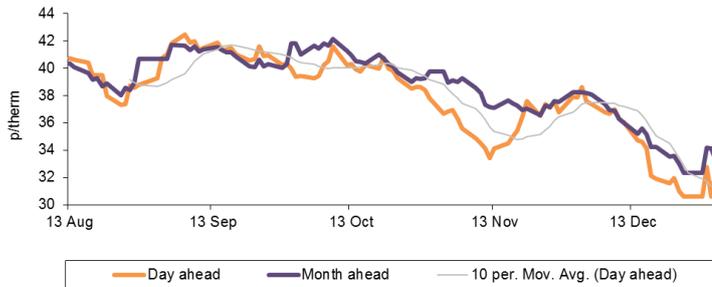


Lower oil prices continued to drive seasonal gas contracts down throughout December, causing prices to slip to record low levels. This was despite upward pressure from planned rises in Ukrainian demand and production cuts in Holland.

The annual April 16 contract declined 5.2% to average 35.0p/th, reaching a record low of 32.8p/th on 24 December. Summer 16 gas dropped 6.3% to average 32.7p/th.

Seasonal gas contracts are now at their lowest levels since March 2010.

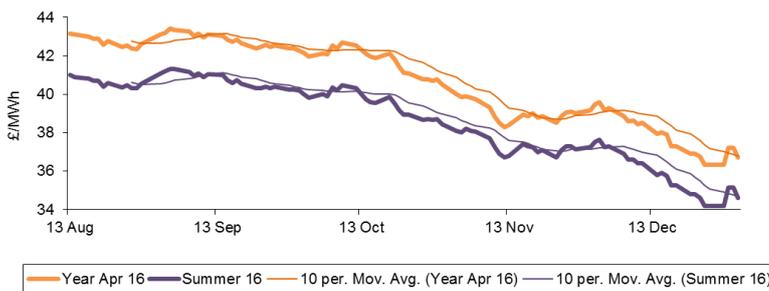
Spot gas prices



Day-ahead gas prices slid 5.3% to average 34.1p/th in December, hitting a five-and-a-half-year low of 30.6p/th on 24 December. Prices were pressured by unseasonably mild weather; forecast temperatures averaged 38.7% above the seasonal norm while regional gas demand averaged 24.6% lower than December last year.

Comfortable supplies and mild temperatures meant that gas storage withdrawals were 65.4% lower than December 2014. The month-ahead contract slipped 8.1% to average 35.3p/th, finishing the month at 33.3p/th.

Annual power prices



The annual April 16 power contract also fell to record lows in December as falling commodity markets continued to drive prices down.

Annual April 16 power reduced 3.3% to average £37.8/MWh. The summer 16 contract fell 4.3% to £35.8/MWh, while the winter 16 contract trimmed 2.3% to £39.9/MWh. Seasonal power contracts, like their gas counterparts, are also at their lowest levels since March 2010.

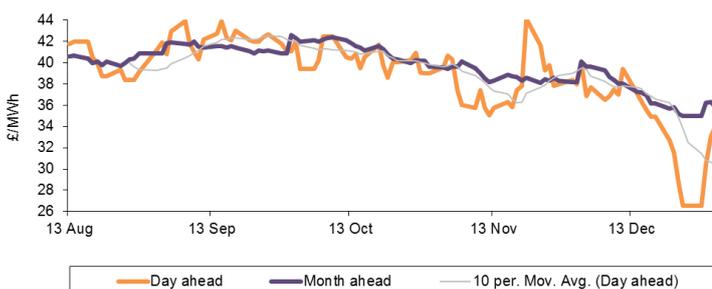
Backwardation continued in the power market in December, meaning further-out contracts were lower than those in the nearer-term.

Spot power prices also dropped in December.

Day-ahead power followed its gas counterpart, slipping 10.0% to average £34.3/MWh, hitting £26.6/MWh on 24 December, the lowest price since 2007. Mild temperatures meant power demand in the month averaged 9.8% lower than December last year.

The month-ahead contract declined 7.3% to average £37.2/MWh, and is now 19.2% below the equivalent contract last year (£46.0/MWh).

Spot power prices





Energy Element / January 2016

Key market indicators: 31/12/2015

		Gas (p/th)		Electricity (£/MWh)		Coal (\$/t)	Carbon (€/t)	Brent crude (\$/bl)
		Day-ahead	Year-ahead	Day-ahead	Year-ahead			
This month	31 Dec 15	32.55	33.08	34.00	36.70	44.30	8.30	36.71
Last month	30 Nov 15	37.90	37.37	38.40	39.15	46.50	8.59	45.38
Last year	31 Dec 14	48.80	50.57	36.00	47.50	66.00	7.35	56.40
Year-on-year % change		(33%)	(35%)	(6%)	(23%)	(33%)	13%	(35%)
Year high		54.75	52.22	47.00	48.33	66.00	8.64	68.94
Year low		30.60	32.84	26.56	36.33	43.70	6.33	36.44

<p>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.</p>	58	56	48	50	68	9.0	70
	54	52	44	48	64	8.5	65
	50	48	40	46	60	8.0	60
	46	44	36	44	56	7.5	55
	42	40	32	42	52	7.0	50
	38	36	28	40	48	6.5	45
	34	32	24	38	44	6.0	40
30			36	40			35

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 eases cuts to renewables support

Planned cuts to a key subsidy scheme for small-scale renewable technologies will be less severe than was originally proposed.

On 17 December the government detailed its plans for the future of the feed-in tariff (FIT) scheme. Implemented in 2010, the FIT is a programme that promotes the uptake of small-scale renewable generation technologies in the UK, and is available both to households and businesses.

Fast deployment

The scheme requires energy suppliers to make tariff payments to accredited FIT projects on both the generation and export of renewable and low-carbon electricity. But the scheme's success in recent years has seen the government grow increasingly concerned about its costs, which are recovered by suppliers through consumers' energy bills. The pace of deployment under the FIT contributed to last year's projection, by the Office for Budget Responsibility (OBR), that the UK was set to overspend on low-carbon subsidies by £1.5bn by the end of the decade.

But, during the consultation period, the government heard concerns that its planned subsidy cuts were too severe and would result in substantial job losses in renewables sectors. It has consequently decided to implement reductions that are less drastic than those initially outlined. For example, solar PV installations smaller than 10kW will, from January 2016, receive a generation tariff of 4.39p/kWh - up from the 1.63p/kWh on which the government consulted. The government has also decided, from February, to impose caps on the total amount of solar that can be installed in each quarter.

Impact on industry

Industry group the Solar Trade Association (STA) raised concerns about the impact the changes would have on jobs and investment in the sector. Paul Barwell, the organisation's CEO, said: "Commercial rooftop solar has been a small but growing part of the solar rooftop market. However, even with these lower tariffs, the nature of high electricity self-consumption and a maturing commercial market should ensure solar is still a good choice for many power-hungry businesses across the UK looking to reduce their bills and use the empty space on their roofs."

The cuts remain severe but the solar industry has proved highly resilient to such changes in the past.

Government STA

Advanced meter policy extended

Energy suppliers will continue to be allowed to count advanced meters towards their targets for installing smart meters in business premises into 2017.

The government is aiming to deliver a roll-out of smart meters to every household and non-domestic property in the UK by the end of the decade. At present, suppliers are allowed to count advanced meters (which can store half-hourly data and transmit this to the supplier like a smart meter, but lack other "smart" features) towards the total of smart meters they have installed. But the government consulted in May last year on ending this allowance in April 2016.

However, on 17 December, it announced that it would not proceed with this plan. It said it had been convinced, by a majority of responses to the consultation, that not extending the end-date would in fact cause disruption to the roll-out, delaying benefits to customers.

Government

New generation tariffs

Tariffs (p/kWh)	Installed capacity	Consultation tariffs	New tariffs (Jan 2016)
PV	<10kW	1.63	4.39
	10 - 50kW	3.69	4.59
	50 - 250kW	2.64	2.70
	250-1000kW	2.28	2.27
	> 1000kW	1.03	0.87
	Stand alone	1.03	0.87
Wind	<50kW	8.61	8.54
	50-100kW	4.52	8.54
	100-1500kW	4.52	5.46
	>1500kW	0.00	0.86
Hydro	<100kW	10.66	8.54
	100-500 kW	9.78	6.14
	500-2000kW	6.56	6.14
	>2000kW	2.18	4.43

Source: STA



Rudd welcomes historic climate change agreement

Energy and climate change secretary Amber Rudd has called the Paris climate agreement “an important step” forward in the battle against rising emissions.

Driving investment

Signed by all 195 UN members, the agreement signalled the establishment of an international consensus on the need to keep global temperature increases to below 2°C – thereby avoiding the worst effects of climate change.

Claiming a clear signal had been sent to investors, businesses and governments on the clean energy transition, Rudd said that the Paris agreement was “vital for our long-term economic and global security”. Moreover, she claimed that the UK was well-positioned to reap the economic benefits of climate action.

The trilemma

Speaking to Parliament on 14 December, Rudd explained that the UK’s main focus at the conference had been to persuade other nations to join the agreement – this was important as the UK’s own emissions were relatively small in global terms (at 1.2% of overall emissions).

Rudd reaffirmed the government’s commitment to the UK’s own *Climate Change Act 2008*, but she defended the recent decisions to cut support for renewables and carbon capture and storage. These decisions were, she said, taken because the UK could not sacrifice security of supply and value for money as part of the low-carbon transition.



Next steps

Business groups welcomed this global show of commitment to action on climate change, but also called on the UK government to back up its rhetoric with meaningful action. Confederation of British Industry (CBI) director-general Carolyn Fairbairn said the deal represented “an exciting opportunity” for businesses, and that it was now necessary to provide a stable environment that facilitated green investment.

In particular, the CBI said it would like to see investment in affordable, secure generation such as renewables and new gas power stations. But Fairbairn cautioned that the UK needed to establish a “level playing field” on carbon costs in order to ensure that its energy intensive industries were not losing their competitiveness on the global stage.

The government will now be expected to address concerns that the current policy framework in the UK is insufficient to meet legislated carbon targets. Further policy announcements in areas such as energy efficiency are expected soon.

DECC

CBI

Energy experts unveil code of practice for business brokers

The Energy Managers’ Association (EMA) has launched a code of practice for third-party intermediaries (TPIs) operating in the non-domestic energy market. Published in draft form on 14 December, the code of practice is based on a similar document that energy regulator Ofgem has been developing, but has delayed releasing. It aims to address concerns identified by the Competition and Markets Authority about the lack of transparency in the small business energy market.

Signatories will have to provide staff training on their legal obligations to customers, avoid aggressive sales techniques, and make all charges and commission clear to consumers. They must also communicate the terms of contracts honestly and have a robust system for complaints handling and dispute settlement.

Should a signatory be found to have breached these rules, they will lose their accreditation with the EMA. The code is expected to be finalised in March.

Energy Managers Association



Capacity market auction secures Britain's power supplies for 2019-20

The government has welcomed the outcome of its second capacity market auction, saying it will help ensure Britain's power supplies remain secure in winter 2019-20 at a low cost to the consumer.

Supply security

Capacity market auctions see generators bid to win contracts that commit them to delivering power onto the system when it is needed.

Generators who are successful in the auctions benefit from a steady, predictable revenue stream that encourages them to invest in new generation or to keep existing generation available on the system.

The capacity obligation means they must be available to deliver energy when needed or face penalties. At the same time households and businesses will benefit from greater security of supply.

In this year's auction, the government secured 46.35GW of capacity overall. 21.8GW (47%) of this was gas power, followed by nuclear power at 7.6GW (16%), and 4.7GW (10%) of coal/biomass.

A total of 57.7GW of capacity was entered into the auction, meaning just over four fifths (80.3%) was successful in securing payments. Of the capacity that was unsuccessful, new build generation represented the largest share at 45.1% (5.1GW). Only 1.9GW of submitted new build capacity was successful.

Keeping the lights on

Last year's auction procured 49.26GW for 2018-19 for a total cost of around £1.05bn in 2015 prices. The clearing price was £19.4/kW, higher than the £18/kW clearing price this year.

Energy minister Andrea Leadsom hailed the results, saying that "fierce competition in the capacity market has driven down costs, meaning future capacity has been secured the lowest price possible."

Again the government welcomed the relatively low cost of this additional security; however there continues to be concern about the capacity market's failure to incentivise the development of new gas plants.

Government

Distribution companies investing and improving reliability, finds Ofgem

The UK's electricity distribution network operators (DNOs) improved their reliability and increased consumer satisfaction between 2010-15, according to research by Ofgem.

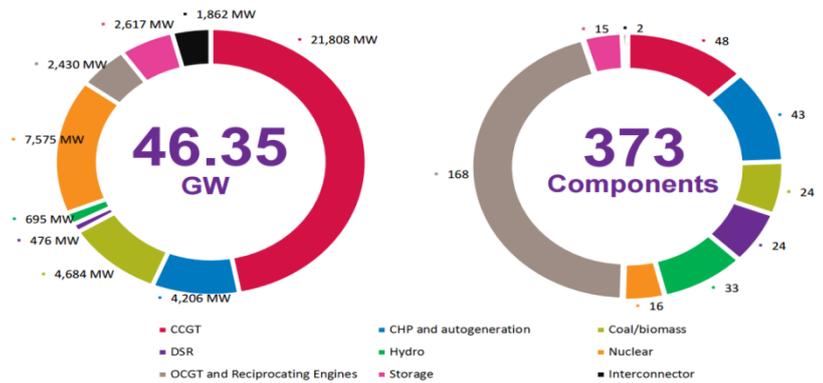
Over the period, DNOs have had to adapt to lower demand than expected due to the recession, the rapid growth of small-scale generation such as wind and solar power, and the challenges of new technologies. Cumulatively, £15.1bn was spent by the companies on improvements to the electricity network between 2010-15, more than a quarter of which went on replacing and refurbishing equipment.

The DNOs also reduced their total carbon emissions by 5%, but performance varied considerably between companies. Nine of the DNOs cut their emissions, but the other five all saw increases.

Furthermore, overall customer satisfaction is up, and the number of complaints that cannot be resolved in one day has fallen. The number of interruptions has also been reduced by 21%, and the duration of the average interruptions dropped by 36%.

Ofgem

Capacity awarded by technology type



Source: EMR Delivery Body



Northern Ireland aims to cut energy costs for manufacturers

The Northern Ireland Executive has established an Advisory Group to investigate ways to reduce energy costs for manufacturers.

Enterprise minister Jonathan Bell announced the formation of the group on 15 December, saying it would aim to keep a strong, flourishing manufacturing sector at the centre of Northern Ireland's economy.

Bell highlighted how recent job losses had made it clear that there was "no room for complacency" in manufacturing and that all cost savings had to be realised. He said: "Energy remains a significant challenge for manufacturing. While costs have fallen over the last 12 to 18 months and are now at a six-year low in Northern Ireland, they have also fallen for our competitors so there is more to be done."

DETI

GIB announces energy efficiency funding

The UK's Green Investment Bank (GIB) has financed two major business energy efficiency programmes.

On 8 December, the GIB announced that it had provided Santander with £8.4mn as part of a package to fit 90,000 LED lights across premises in the UK. The project will run to the end of the year and should halve the bank's lighting energy use. The GIB's head of investment banking Ed Northam said: "The relatively simple action of installing LED lighting can have a big impact on efforts to reduce the cost of electricity and cut energy demand."

The GIB further announced on 9 December that NHS Tayside would be provided with £15.4mn for energy and efficiency, split between the Bank and Aviva.

Perth Royal Infirmary and Stracathro Hospital will both benefit from new energy-saving measures including insulation and LED lighting, and a new energy centre will be built at Ninewells Hospital. This will provide 90% of the electricity and 100% of the heat for the hospital and Dundee Medical School.

GIB

Task force says government should back fracking

A UK shale gas industry could enhance energy security and create thousands of jobs but testing must aim to allay fears over its environmental impacts, an industry task force has concluded.

In its final report delivered on 15 December, the Task Force on Shale Gas said it did not expect a UK industry would be able to lower gas prices by the same magnitude as had occurred in the US, owing to its relatively low output.

In order to make definitive decisions on shale gas, the report argued that more information was needed, which could only be obtained by drilling test wells. The government will need to make planned tax arrangements clear, with the report suggesting incentives should only be used for initial exploration. Finally, operators will have to outline just how they intend to give benefits back to communities.

Task force on Shale Gas

Government aims to improve energy efficient products guide

The government has launched a consultation on how to improve its long-running Energy Technology List (ETL) to better support energy efficiency.

Since 2001 the ETL has encouraged organisations to acquire energy-efficient equipment and has grown to include 16,000 products and become a significant procurement tool for major UK companies. It aims to simplify investment decisions and help in overcoming information barriers, as well as reducing transaction costs for buyers and sellers.

In a call for evidence on released on 11 December, it requested responses on how effective the ETL is and how it can be overhauled as part of its wider investigation of the business energy efficiency tax landscape.

Government
