



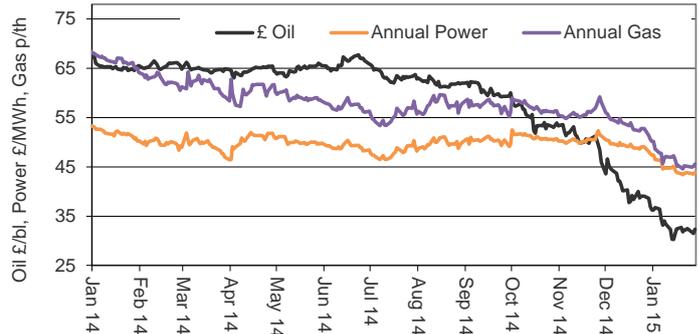
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Falling commodities weigh on prices

Brent crude oil continued its slide throughout January as Saudi Arabia said it was willing to hold out for \$40/bl – impacting nearly all producing countries who have higher costs. As a result, Brent crude fell 21.3% over the month to average \$50.0/bl, its lowest level in over five-and-a-half years. Brent crude seemed to have bottomed out towards the end of the month. The falls throughout January sent long-term UK gas and power prices lower.

Crude oil and annual wholesale gas and power prices

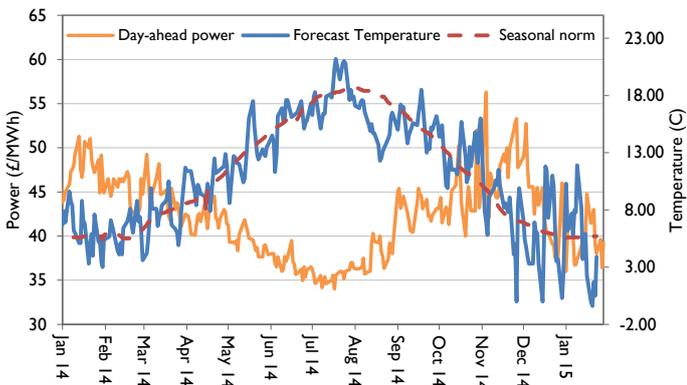


Healthy storage and falling commodities influence long-term contracts

Sharp falls in oil, as well as a continued slide in coal prices, tied in with a healthy storage picture to pull long-term contracts down over January. Summer 15 gas dropped 13.6% to average 43.3p/th. Power prices followed their gas counterparts, with the summer 2015 baseload power contract dropping 1.6% month-on-month to average £47.1/MWh. Annual April 2015 power was down 9.3% to average £44.7/MWh.

In similar fashion to long-term contracts, UK spot prices were bearish over the month as an increase in LNG deliveries and high wind generation reduced pressure on the system. Day-ahead gas dropped 14.2%, averaging 46.3p/th, as high storage levels outweighed supply disruptions at Norwegian gas fields. Day-ahead power lost 8.3% to average £39.5/MWh, as a result of the consistently high wind generation throughout the month.

Spot power prices and temperatures



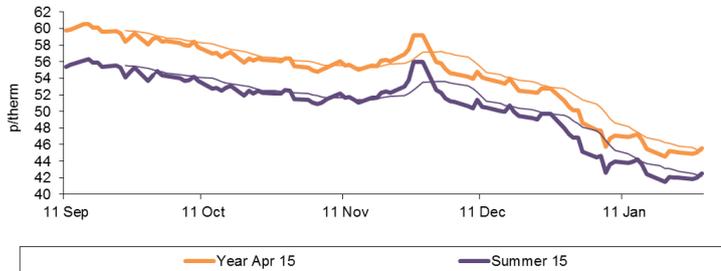
The month ahead: Cold weather may increase price volatility

The Bank of America Merrill Lynch has suggested the outlook for oil will continue to be bearish, forecasting prices may drop as low as \$31/bl by the end of March. Several analysts have said that \$40/bl may be the level at which US oil shale producers are forced to cut back production, and could see some go out of business.

Colder weather is forecast to increase and linger over February, with predictions of snow in the coming weeks. This will support a demand boost and increase sensitivity to any supply issues that may occur, potentially driving short-term prices higher.

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.

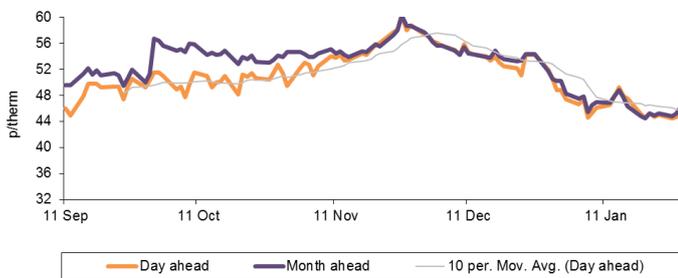
Annual gas prices



Long-term gas contracts were impacted by continued sharp falls in Brent crude oil prices, as analysts cut their price forecasts throughout January. Despite major outages in Norway, the system was well supplied over the month.

Summer 15 gas dropped 13.6% to average 43.3p/th. The annual April contract fell 13.0% to average 46.4p/th.

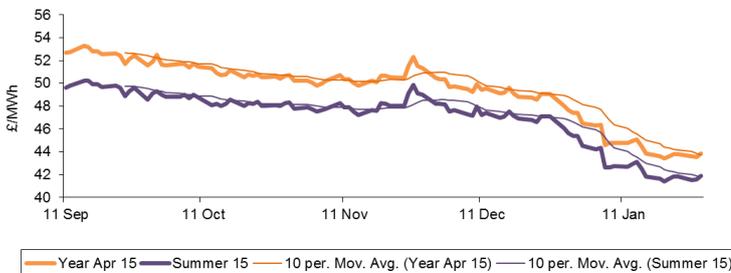
Spot gas prices



The spot gas market also dropped in January above seasonal norm temperatures reduced gas demand. Consistently high wind generation helped reduce demand for the fuel in power generation over the month. A healthy GB gas supply picture also influenced.

Day-ahead gas dropped 14.2%, to average 46.3p/th over the month.

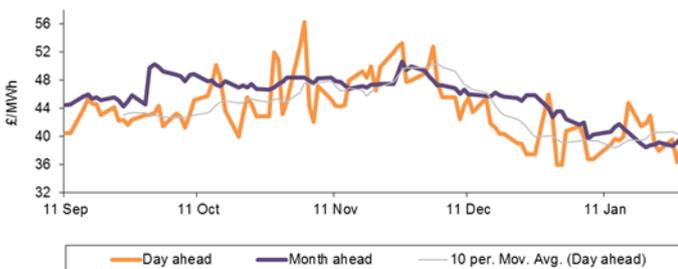
Annual power prices



In January long-term power prices followed the continued falls in oil, coal and gas.

Summer 2015 power dropped 9.5% month-on-month to average £42.7/MWh. Annual April 2015 power was down 9.3% to average £44.7/MWh.

Spot power prices



Like their gas counterparts, spot power prices dropped as consistently high wind output and a continued weak outlook for commodities weighed on contracts.

Day-ahead power lost 8.3% to average £39.5/MWh over January.



Energy Element / February 2015

Key market indicators: 28/01/2015

	Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
	Day-ahead	Year-ahead	Day-ahead	Year-ahead	(\$/t)	(€/t)	(\$/bl)
This month 28 Jan 15	46.25	45.56	39.20	43.85	59.00	6.90	49.17
Last month 29 Dec 14	52.00	51.31	46.00	48.05	66.30	7.30	59.93
Last year 29 Jan 14	63.70	64.43	49.15	54.35	84.25	5.63	107.44
Year-on-year % change	(27%)	(29%)	(20%)	(19%)	(30%)	23%	(54%)
Year high	67.50	65.98	56.30	55.95	87.30	7.42	115.20
Year low	34.70	45.48	34.00	43.88	59.00	4.27	45.98

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

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Energy-intensives get relief from green levies

The government has detailed its plans for providing electricity-intensive industries (EIs) with relief from the indirect costs of green policies.

Relief for industry

Between July-October 2014, the government consulted on how it intended to compensate EIs for costs associated with the Renewables Obligation (RO), micro generation Feed-in Tariffs (FiTs) and the Contracts for Difference (CfDs) scheme. These programmes provide subsidies that aim to incentivise the development of low-carbon generation; however, in the 2014 Budget, chancellor George Osborne announced the government's intention to alleviate the cost burden that they placed on EIs.

While industry has broadly welcomed the government's proposals, some stakeholders have suggested that further products and sectors should be considered eligible for the relief than is currently planned. The government said it would consider these cases and will fully respond in advance of the scheme's implementation. A report will be published later in 2015 detailing in full those sectors eligible for relief through the scheme.

Third party charges

The news comes as independent research has outlined the continuing challenge presented to business energy consumers, including smaller firms, by third party charges.

Indicative forecasts, unveiled by energy consultants Cornwall Energy, suggested that, from 2014-15 to 2015-16, transmission costs on the electricity bill of small businesses would increase by 0.10p/kWh to 0.81p/kWh. Over the same period, distribution charges were expected to fall from 2.33p/kWh to 1.94p/kWh, though these charges are variable across different regions.

The costs of renewables policies were also expected to rise. Over the year, the cost of the FiT scheme was predicted to grow from 0.33p/kWh to 0.42p/kWh and the Renewables Obligation (RO) to increase from 1.06p/kWh to 1.26p/kWh. The cost impact of the government's CfD regime will also be felt for the first time from April 2015; though it will initially add only 0.01p/kWh.

The picture for gas is expected to be more stable with minimal cost increases anticipated: transmission charges in 2015-16 were expected to stand at 0.07p/kWh, with distribution charges at 0.54p/kWh.

Government

SMEs could be underestimating energy efficiency potential

The uptake of energy efficiency measures in small and medium-sized enterprises (SMEs) is in danger of being undermined by the difficulty of estimating the benefits, a government report has said.

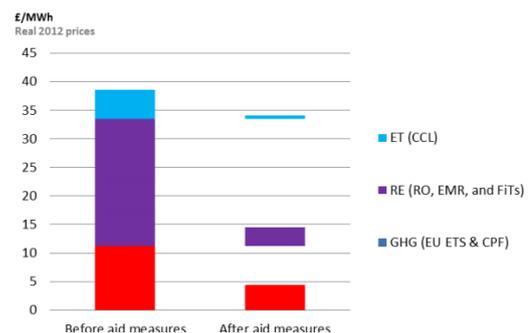
On Friday 16 January, the government published a report on *Research to Assess the Barriers and Drivers to Energy Efficiency in Small and Medium Sized Enterprises*. It said that businesses faced a challenge in quantifying, understanding and integrating energy efficiency savings into normal business information flows, and that it was therefore difficult for the value of any potential or actual improvement to be accurately analysed. This issue could mean that energy efficiency improvements were "undervalued" by SMEs, the report said. Proposed solutions included improving businesses' access to metering and monitoring technology.

The government said that its research demonstrated that businesses did not operate on simple "calculation-decision-implementation" models based on financial factors alone, but were also influenced by wider considerations.

Government

Illustrative example of UK aid measures in 2020

Source: Government





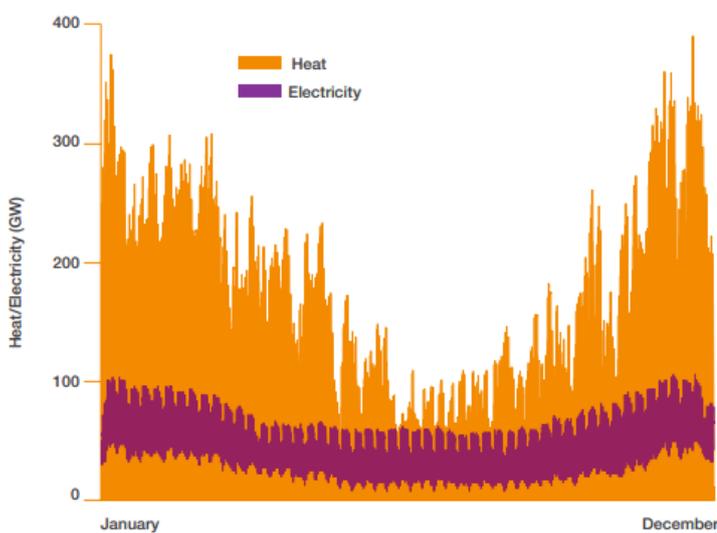
Government sets out network investment needs

The government has said that around £34bn of investment into the electricity networks will be needed before the end of the decade in order to ensure stable power supplies.

Published on 8 January, an official study, *Delivering UK: Energy Investment: Networks*, said that network investment would be essential during the low-carbon transition, as the UK's ageing electricity infrastructure would become "unable to cope with changing generation and needs".

Approximately £7.6bn of investment was said to be required in the gas networks over the same period.

Difference between heat and electricity demand



Progress made

The report set out the progress that has been made in recent years: between 2010-14, there was over £16bn of investment in electricity networks, plus around £3.8bn in the gas networks. The government has also, over the last five years, increased interconnector capacity to other countries and delivered £500mn in support for the testing and trialling of new smart grid technologies.

The report argued that the UK's regulatory regime for the networks was "world leading" and was helping to stimulate investment.

The government said that it was continuing to work with the European Commission to reduce Europe's dependence on foreign gas supplies.

Heat Networks

The report further argued that the development of heat networks had "vast potential". The technology sees heat generated centrally and distributed to local businesses and homes through water pipes, but its roll-out has been slower in the UK than in other countries. The government's modelling suggests that there is the technical potential for heat networks to supply as much as 43% of demand for buildings by 2050. In order to promote the technology, the government is supporting 122 projects in 91 Local Authorities with almost £7mn in grant funding to support development studies over the coming year.

Future challenges

The government emphasised that the energy networks of the future would need to accommodate far more diverse sources of generation than in the past. To make the networks fit for this challenge, the report said they would need to be reconfigured so as to make them smarter and more integrated – bringing together the use of electricity, heat and gas to maximise efficiency and reduce costs.

Government

Businesses not ready for ESOS: survey

Nearly half (49%) of UK manufacturers say they are unaware of the Energy Saving Opportunity Scheme (ESOS), a survey by npower has revealed.

ESOS is a compulsory energy assessment scheme for organisations in the UK that meet certain qualification criteria, largely based on the size of the company. The survey released on Wednesday 21 January also found that seven out of ten (69%) decision-makers at manufacturing firms felt "uninformed" about the requirements for carrying out an ESOS assessment. In response to the findings, npower is pushing for both the government and energy suppliers to make a better business case for manufacturers to improve their energy efficiency.

RWE npower



Demand side delivers substantial savings

Primary energy demand in the non-domestic sector has stayed flat despite UK GDP doubling since 1980, a new report has claimed.

Fewer power stations

The report, *Invisible Energy: Hidden Benefits of the Demand Side*, was published on 19 January by industry group The Association for Decentralised Heat (ADE). It analysed the economic benefits delivered by demand reduction since 1980.

The research found that the UK needed 14 fewer power stations now than it otherwise would have done because of the positive effects of demand side measures. The construction of fewer power stations had, the paper said, resulted in less operating and capital costs being passed onto UK businesses.

Demand side measures have also positively impacted energy security, the study said. ADE estimated that, since 1980, liquefied natural gas imports would have been twice as high without the demand-side actions taken by commercial, industry and public sector users.

Benefits for business

The analysis suggested that if, in 2012, as much energy was used in the industrial and services sector per unit of GDP as was used in 1980, business and public sector consumers would be spending an additional £37.2bn on their energy every year. In addition, development of the demand-side sector meant that 136,000 people were employed in the professional energy management service and building technology industries.

2020 potential

The report called on the government to place further emphasis on demand-side policies. ADE recommended that the government's assessments of policies to reduce emissions should test decentralised and demand side options against traditional centralised solutions. The group said that, at present, the government was focused only on the 16% of energy that reached the end user rather than the 84% that was lost in transition. All new policies must be "clear, simple and integrated" to enable users to make the right decisions to cut energy waste, the report said. ADE projected the potential for a saving of £5.6bn in fuel and power costs by 2020, as well as an extra £25bn in sales.

ADE

Business leaders call for carbon trading reform

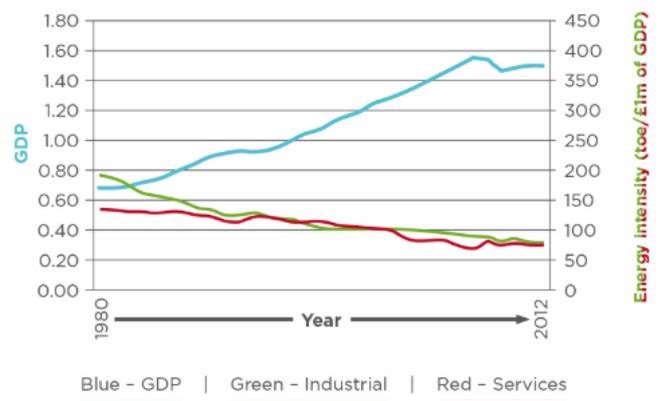
The EU Emissions Trading Scheme (EU ETS) is in urgent need of a Market Stability Reserve (MSR) that will keep Europe on target for meeting its climate and green energy goals, The Prince of Wales's Corporate Leaders Group (CLG) has argued.

The EU ETS works as a "cap and trade" scheme, placing a cap on the total amount of greenhouse gases that can be emitted by public and private sector organisations in the EU. Those that emit more carbon than their cap allows need to purchase extra EUAs, whilst those that manage to reduce their carbon emissions below their cap can sell on their excess allowances. But over the past few years there has, partly as a consequence of the recession, been a growing excess of EUAs in the system, with the carbon price dropping to a level at which it is unable to incentivise low-carbon investment. The EU has proposed setting up an MSR by 2021, which would help to remove excess EUAs from the system.

However, in a letter to EU policy-makers, the CLG called for the MSR to be implemented by 2017 at the latest, a position backed by the UK and German governments. Philippe Joubert, chair of the CLG, said: "The EU ETS is the cornerstone of EU climate policy, so we have to get it right – it must be reformed to drive forward green growth sooner rather than later."

CLG

Energy intensity compared to GDP





Political uncertainty tops energy executives' concerns

Nearly two-thirds (62%) of energy leaders regard political risk as the biggest worry for their business in 2015, according to a special report from The Economist Intelligence Unit (EIU).

In a report, *Industries in 2015*, published on Wednesday 14 January, the EIU found that the second and third biggest concerns facing leaders in the sector were economic and market risk (52%) and cyber-attacks (9%). But there was also indications of growing optimism in the sector, with fewer than one in 10 (9%) respondents to the survey saying that their expectations of business in 2015 were "worse" or "much worse" than last year.

EIU

Wind power could increase UK's energy resilience

Wind power makes a significant contribution to the UK's energy resilience by cutting "costly" fossil fuel imports, a report commissioned by trade association Renewable UK has claimed.

Published on Friday 16 January, the study, prepared by Cambridge Econometrics, said that in 2013 wind had reduced the UK's need to import coal by an estimated 4.6mn tonnes, and had cut the need for imported gas by 1.4bn cm. Focusing on gas rather than wind within the energy mix would, the report said, cost £3.1bn by 2020, rising to £7.4bn in 2030. Furthermore, the study claimed that if the cost of gas increased in line with DECC's high price forecast, the cost of generating electricity would increase by 8%--as opposed to less than 4% if the UK focused on wind development.

Renewable UK

North Sea industry calls for support

The continuing fall in the price of oil has prompted the UK oil and gas industry to call for reforms to ensure that production and jobs are safeguarded.

Industry association Oil and Gas UK has appealed for the abolition of the 30% supplementary charge that is levied on oil and gas companies in addition to corporation tax. The organisation also said that the reforms promised in the 2014 Autumn Statement such an allowance to boost exploration would need to be implemented by the next Budget in March, if they were to have any impact.

In comments reported on 2 January, industry expert Sir Ian Wood argued for a 10% cut to the supplementary charge in order to safeguard jobs and investment in the industry. A day earlier, the government had launched an urgent commission into the industry's current plight; its initial report will be published in early February.

Oil and Gas UK

Companies aim to hit 100% renewables

The internal rate of return for renewable power investment is as high as 18% for businesses and there are other significant benefits, campaign group RE100 has claimed.

The group's report, *The Journey to 100%*, described global trends in corporate demand and investment in renewable power. It found that renewables accounted for 41.3% of the new generating capacity installed globally in 2013, and held an increasing market share in new power generation investment.

The most financially attractive direct investments were said to be biomass projects, providing power and heat for industrial processes. However other technologies were also found to be increasingly popular, such as windfarms and solar photovoltaics.

Power purchase agreements were also growing in popularity, the report said, especially for companies with a power footprint spread across multiple large factories. To increase the number of companies working toward 100% renewables, RE100 said it would aim to "increase awareness of the business case for renewable power and encourage others to commit to the journey".

RE100
