

## In this issue...

- 1 Gas contracts tumble to six-month lows
- 2 Wholesale market snapshot
- 3 Key market indicators
- 4 Low-carbon policies to push up firms' operating costs
- 5 New cost controls to be introduced for green levies
- 6 Boosting power capacity "expensive and potentially unnecessary"

## Gas contracts tumble to six-month lows

During March, prices continued to fall across power and gas markets. Brent crude oil, API 2 coal and EU ETS carbon prices also decreased.

In March, day-ahead gas dropped 20.5% to 41.1p/th, the lowest monthly average in six months, amid lower demand owing to milder temperatures.

Seasonal gas prices moved an average of 5.5% lower. Summer 17 gas went down 9.7% to average 40.4p/th. Winter 17 gas declined 6.8% to average 46.8p/th.

Day-ahead baseload power lost 15.1% to average £42.0/MWh. The month-ahead contract also experienced a loss, down 10.3% to average £42.5/MWh.

Most seasonal baseload power contracts decreased, following the gas market downwards, with an average fall of 3.2%. Summer 17 power went down 6.5% to average £41.2/MWh.

## Oil prices drop to lowest monthly average since output cut agreement

Brent crude oil prices declined 6.1% to average \$52.7/bl in March, the lowest monthly average in four months, since prior to the OPEC output cut agreement. Prices continued to remain above the \$50.0/bl mark for the entire month, and

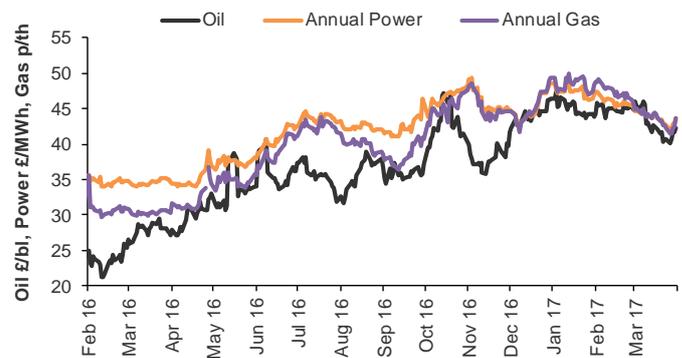
well above the level in March 2016, when prices averaged \$39.6/bl.

Reports showed that OPEC-led crude oil output cuts will have to be extended beyond June to successfully support the market. It remains uncertain as to whether countries will be willing to comply with the proposed extended duration of production cuts, which has pushed prices downwards.

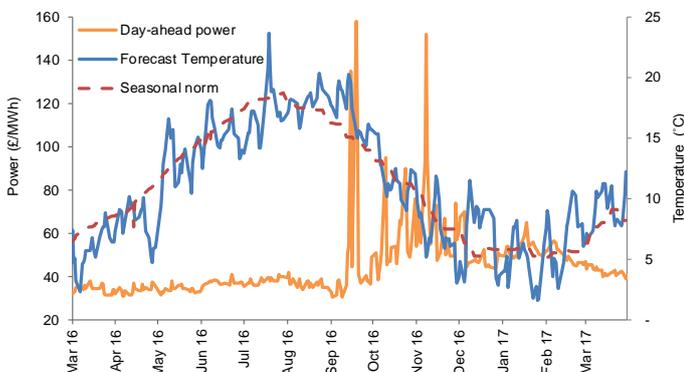
API 2 coal prices fluctuated throughout the month, but on average went down 3.2% to \$64.9/t. Prices remain well above levels last year when the price averaged \$40.8/t in March 2016.

EU ETS carbon prices varied between €4.7/t and €5.7/t, and on average slipped by 1.2% to €5.1/t. On 28 March, prices fell to a new fifteen-week low of €4.7/t. The market is well supplied at present, with the Polish government selling allowances for the first time since last summer. This is holding prices down.

## Crude oil and annual wholesale gas and power prices



## Spot power prices and temperatures



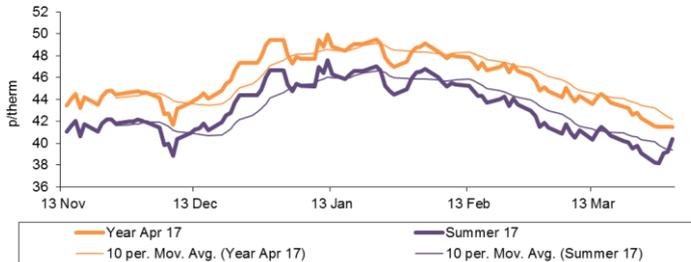
## The month-ahead: Mixed weather forecasts and potential rebound of commodity prices

If the OPEC-led oil output cuts are extended beyond June, oil prices may rebound. China may reinstate production limits on coal output, which may lift coal prices, pushing other energy markets higher also.

The latest Met Office forecasts for April show a slow transition to colder and changeable weather over the month, with temperatures returning to average (or above the average) towards the end of the month.

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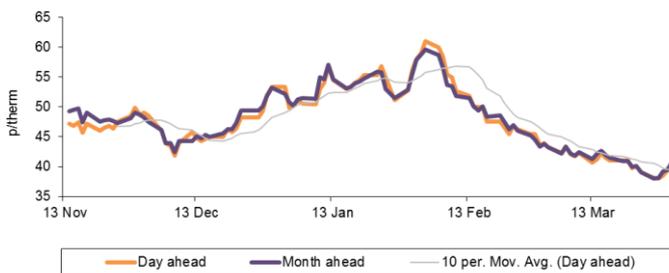
## Annual gas prices



All seasonal gas prices lost during March, falling 5.5% on average. Seasonal gas prices remained higher than their levels last year. Summer 17 gas dropped 9.7% to average 40.4p/th, which was higher than the contract price at the same time last year (30.1p/th). Winter 17 gas went down 6.8% to average 46.8p/th, also higher than at the same time last year (34.9p/th).

Last month it was announced that GB's largest gas storage facility, Rough, will be unable to inject with gas until July this year. This will lower injection demand during this period and has weighed on gas contracts out to summer 17.

## Spot gas prices

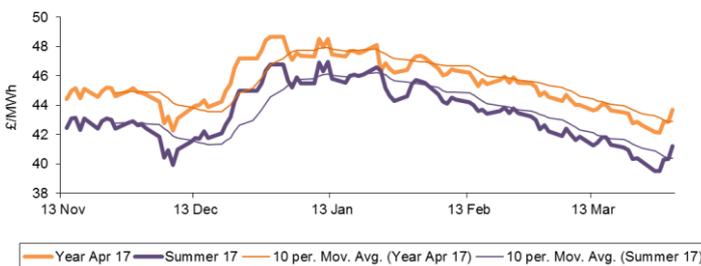


In March, day-ahead gas plummeted 20.5% to average 41.1p/th.

On 28 March, day-ahead gas decreased to a new five-month low of 38.0p/th, amid lower than seasonal normal demand owing to warmer temperatures. Lower spot gas prices can be expected as we move into spring, with lower demand amid higher temperatures and increased solar output reducing the need for gas-fired power generation.

The month-ahead contract moved 13.9% lower to average 41.2p/th.

## Annual power prices

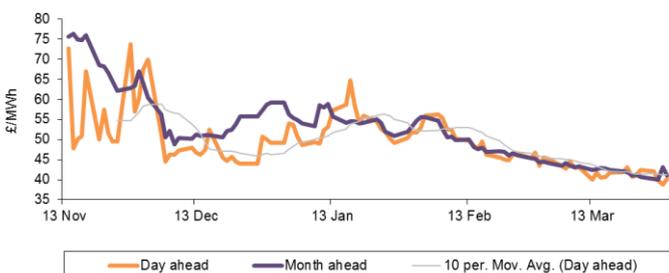


The annual April 17 baseload power contract decreased 5.3% to average £43.6/MWh.

Most seasonal baseload power contracts moved lower, with an average decrease of 3.2%.

Summer 17 power was down 6.5% to £41.2/MWh. Winter 17 power slipped 4.1% to £46.0/MWh.

## Spot power prices



Day-ahead baseload power decreased by 15.1% to average £42.0/MWh in March, extending losses experienced in February.

On 29 March, the day-ahead contract dropped to £38.8/MWh, a five-month low, with weakening power demand amid milder than normal temperatures and higher wind generation forecast for the following day.

The month-ahead contract went down 10.3% to £42.5/MWh.



## Key market indicators: 31/03/2017

	Gas (p/th)		Electricity (£/MWh)		Coal (\$/t)	Carbon (€/t)	Brent crude (\$/bl)
	Day-ahead	Year-ahead	Day-ahead	Year-ahead			
This month 31 Mar 17	40.20	43.67	40.50	43.70	66.25	4.93	52.77
Last month 28 Feb 17	45.50	45.68	46.75	45.25	67.20	5.19	55.81
Last year 31 Mar 16	29.10	32.45	32.20	33.45	42.00	5.11	39.14
Year-on-year % change	38%	35%	26%	31%	58%	(4%)	35%
Year high	61.00	49.91	157.73	49.45	78.00	6.89	58.04
Year low	21.50	32.11	30.28	33.35	40.85	3.98	38.43

	Gas (p/th)		Electricity (£/MWh)		Coal (\$/t)	Carbon (€/t)	Brent crude (\$/bl)
	Day-ahead	Year-ahead	Day-ahead	Year-ahead			
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.

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## Low-carbon policies to push up firms' operating costs

The UK's climate watchdog – the Committee on Climate Change (CCC) – has said that the government's low-carbon policies will put a significant upward pressure on businesses' costs in the years ahead.

The finding came in an assessment of the impact of green policies on business energy bills, released by the CCC on 16 March.

### Rising costs

The CCC found that energy costs, at present, accounted for around 0.9% of operating costs across the commercial sector, 2.0% across manufacturing and 3.8% for more energy-intensive sectors.

The costs from low-carbon policies specifically were 0.2% of operating costs for the commercial sector, 0.4% for manufacturing and 0.7% for the more energy-intensive sectors. The CCC's central projection suggests that, to 2020, these figures could increase to 0.3%, 0.6% and 1.0% respectively.

By 2030, these proportions would then rise to 0.5%, 1.0% and 1.6%. While still relatively small, this would represent a marked increase on the current levels.

### Industry competitiveness

In order to ensure that low-carbon policies did not undermine the competitiveness of the UK manufacturing sector, the report said the government would need to ensure that its package of compensation and policy exemptions for firms in the sector remained "predictable and reliable". Measures that would exempt energy intensives from some of the costs of the government's green levies are currently being progressed through Parliament.

The report also emphasised that much of the pressure placed on bills by low-carbon policies could be offset by investments in energy efficiency technologies. These would help businesses to reduce their demand for energy and therefore lower their overall costs.

**These figures underline the increasing impact that low-carbon policies will have on business energy bills in the years ahead.**

### CCC

## Retail water market set to open

The retail water and wastewater market opened on 1 April.

This means that more than 1.2mn businesses, charities and public sector organisations in England stand potentially to benefit from competition between suppliers.

Eligible organisations will be free to choose their water retailer, rather than restricted to buying services from their regional water company. The reforms will also allow new entrant companies to enter the market.

It also means that incumbent companies can stop providing retail services to customers and exit the non-household retail market if they wish.

The reforms originate from the Water Act 2014, which first set out the government's plans for driving competition in the market.

### Parliament

### Energy and low-carbon policy costs as a proportion of operating costs for the commercial, manufacturing and energy-intensive sectors (£2016)

	Commercial sector (58% of UK GVA)		Manufacturing sector (10% of UK GVA)		Energy-intensive sectors (2% of UK GVA)	
	Energy	Low-carbon policies	Energy	Low-carbon policies	Energy	Low-carbon policies
2004	0.5% (0.6%)	0.1% (0.1%)	1.2% (3.2%)	0.1% (0.2%)	2.4% (8.5%)	0.2% (0.6%)
2016	0.9% (1.1%)	0.2% (0.3%)	2.0% (5.4%)	0.4% (1.1%)	3.8% (14.4%)	0.7% (2.6%)
2020	1.0% (1.2%)	0.3% (0.4%)	2.3% (6.2%)	0.6% (1.6%)	4.2% (16.5%)	1.0% (3.8%)
2030	1.3% (1.7%)	0.5% (0.6%)	3.3% (9.0%)	1.0% (2.7%)	5.9% (25.2%)	1.6% (6.7%)

Source: The CCC



## New cost controls to be introduced for green levies

**The government's Spring Budget failed to deliver the major announcements on the future of the energy sector that had been expected, but still gave industry stakeholders plenty to think about in the months ahead.**

The industry had been expecting to learn more about the government's plans for supporting investment in low-carbon power infrastructure into the 2020s, while there were also rumours about further interventions into the retail energy market following another round of price increases from the big energy firms.

But in the Budget statement, delivered on 8 March, chancellor Phillip Hammond confirmed that many of these policy details would not be revealed until later in the year.

### Low-carbon budget

The renewables industry had been expecting to learn more in the Budget about the subsidies that would be available to it during the next decade. The government puts a cap on the overall level of consumer-funded subsidies that are available to green electricity projects in the UK through a mechanism known as the Levy Control Framework (LCF).

The cap has been set at £7.6bn, in 2012 prices, through to 2020-21, but analysts have repeatedly warned over the past few years that the government is set to over-spend on this budget. Hammond therefore announced that the LCF would be scrapped in favour of a new mechanism to control renewables subsidies, which will be introduced in the second Budget to be held later this year.

### Carbon tax

Details of how the UK will tax carbon into the 2020s were also delayed until later in the year. Currently, these prices are determined through a combination of the EU's carbon trading scheme – the EU Emissions Trading Scheme (EU ETS) – as well as the UK's unilateral carbon price support policy.

However, with the UK to leave the European Union, it is widely expected to also exit the EU ETS, meaning that the government will need to clarify how it plans to price carbon into the next decade.

At the Budget, the government said that, starting in 2021-22, it would target a total carbon price and would set the specific tax rate for each year at a later date. This would be intended to provide businesses with greater clarity on the total price that they pay.

### Solar industry disappointed

The solar industry was also left disappointed by Hammond's Budget. In the lead-up to the event, the government had been lobbied to intervene on prospective business rate hikes of up to 800% on rooftop solar panels, with the industry warning that these increases could lead to a marked slowdown in the deployment of the technology. However, their calls were ignored and the changes are set to be introduced in April.

Paul Barwell, chief executive of the Solar Trade Association (STA), said: "The chancellor says he wants the UK at the "cutting edge of the global economy" – his tax policies for energy risk the opposite."

**The Budget has left uncertainty hanging over the sector in key areas.**

### Treasury

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## Businesses paid to turn down energy demand

Businesses have been awarded subsidies to help balance Britain's power system by turning off their equipment when demand is high.

The contracts were awarded as part of the so-called Transitional Arrangements auction, which the government has implemented in order to help promote the development of new technologies in meeting Britain's security of supply challenge over the next few years.

Industrial and local businesses across the UK will earn just over £14mn in revenue through the auction by turning down or shifting non-critical processes.

### EMR Delivery Body



## Boosting power capacity “expensive and potentially unnecessary”

**Paying to keep ageing power stations available to the system over the last three years has cost £180mn even though the service was never used, according to a new report.**

The Energy and Climate Intelligence Unit (ECIU) published its report, *Overpowered: has the UK paid over the odds for energy security?*, on 13 March. It said that, despite rising fears of blackouts in the UK, the gap between supply and demand had remained comfortable over the past couple of years, and that the system operator National Grid had found it increasingly unnecessary to call on back-up power capacity.

### Electricity supplies

Last winter (2016/17) saw a prolonged spell of cold weather, a busy power station maintenance schedule and the availability of imports from France was relatively low.

But the report said that, despite these factors, National Grid did not need to call on any contingency measures to keep the electricity system stable. This suggested that spending on insurance policies to ensure energy security had been excessive.

ECIU analyst Jonathan Marshall said: “The clear message from this report is that paying to boost spare capacity in Britain’s electricity system can be very expensive, and potentially unnecessary [...] In an era of smarter technology, balancing supply and demand is becoming easier and cheaper.”

### Flexibility the way forward

ECIU raised questions about a report, recently published by a committee in the House of Lords, which suggested that the UK should continue investing in power capacity in order to ensure supplies. If, for example, the UK aimed to increase its capacity margin to 10%, it would need to spend more than £12bn on new nuclear power plants.

While gas-fired power stations would be considerably cheaper, ECIU said they would still cost up to £2.1bn.

The report said the development of flexible, market-based measures would be a cheaper way to increase capacity margins, if this were deemed necessary. The government’s capacity market scheme, in place for the next four winters, should also bolster power supplies.

### Expenditure needed to increase de-rated capacity margin to 10%

Technology	CapEx per GW capacity	Required increase in actual capacity*	Cost of sufficient capacity to boost de-rated margin to 10%	Marginal emission intensity**
Gas (CCGT)	£800 million - £1 billion	2.08 GW	£1.7-2.1bn	350 g/kWh
Gas (OCGT)	£400 - 600 million	1.95 GW	£780m-1.2bn	500 g/kWh
Nuclear (Hinkley)	£6 billion	2.06 GW	£12.4bn	0
DSR (via aggregator)	£200-500k	2.13 GW	£426k-1.1m	0
Interconnector	£700m - 1 billion	2.34 GW	£1.6-2.3bn	0 (emissions not counted toward UK total)

Source: ECIU

**This report makes the point that seizing on the potential of new technologies could help the UK to meet its energy system objectives in a more cost-effective way than investing in power stations.**

### ECIU

## Energy efficiency suppliers wary of government policies, survey reveals

A new survey has found that suppliers of energy efficiency technologies in the business sector are increasingly sceptical of government action to support the industry.

The quarterly report, which is issued by Bloomberg New Energy Finance (BNEF), said that by the fourth quarter of 2016 fewer than 10% of suppliers believed that the steps being taken by the government were supporting the sector. Furthermore, confidence in the government’s management of the wider UK economy had continued to slide.

Consumers in the sector said that spending on energy efficiency projects had remained strong during the quarter, though this spending decreased slightly - mainly through a reduction in projects worth over £500,000 in value.

### EEVS



## SMEs can save millions by cutting energy demand, says analyst

Small and medium sized businesses have been told that implementing measures to reduce their demand could collectively save them nearly £400mn/year.

A recent YouGov/Scottish power survey revealed that over 60% of SME owners regarded energy efficiency in the workplace as a key priority.

In an article in The Telegraph on 15 March, Richard Rugg, Managing Director of Programmes at the Carbon Trust, said: "Energy saving is an easy win. Cutting money off the bottom line is a great way to increase profitability. But although there is often a considerable opportunity to reduce overheads, in most companies this often gets overlooked."

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## Businesses still failing to comply with energy efficiency scheme

Around 3,000 of the 10,000 organisations that must participate in a government energy efficiency scheme have yet to meet the compliance requirements and are at risk of enforcement action, the Environment Agency has confirmed.

The Energy Savings Opportunity Scheme (ESOS) is a mandatory energy assessment programme for UK organisations that meet the qualification criteria. These include having over 250 employees or an annual turnover of more than €50mn. Businesses must undertake audits of the energy used by their buildings, industrial processes and transport to identify cost-effective energy savings.

Failing to undertake an energy audit ahead of the ESOS compliance deadline could see organisations facing the maximum penalty of up to £50,000, and up to £500 for each working day that it fails to address this for a maximum of 80 working days.

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## European Parliament and Council reach deal on appliance standards

Negotiators from the European Parliament and Council have agreed on the introduction of a more stringent scale for measuring the energy efficiency of household appliances.

Under the plans, the new, simplified labelling structure would be introduced by the end of 2019, and future rescaling would be triggered when 30% of products sold on the EU market fell into the A bracket, or 50% fell into A and B. The labels would accompany the products in printed format and their online versions and product information would be searchable and downloadable.

The agreement further said that, in the event of updates that would influence the energy efficiency of a product that had already been purchased, the supplier should inform the customer.

European Parliament

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## NHS cuts £300mn from energy bills

Sustainability experts Vital Energi have delivered energy solutions over the last three years to 14 NHS hospitals that have cut costs by £300mn.

Energy conservation measures and the latest generating technology, such as combined heat and power and biomass, have been installed. They are underpinned by an energy performance contract, which sees minimum financial savings and carbon reductions guaranteed for the duration of the contracts. The projects were procured through the Carbon and Energy Fund, which funds and project manages infrastructure upgrades for the NHS and public sector.

Project Development Director Ashley Malin said: "The NHS is under a lot of pressure to cut costs, but most hospitals need to update their infrastructure and address serious maintenance backlogs. The technologies we use generate such strong financial savings that not only do they cover the cost of the new energy systems and upgrades, but there is money left over to be invested in front-line clinical services."

ADE