



# Informed

April '2011

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## The Nuclear Debate

There are many positive factors to nuclear power; long term reliability, low cost electricity, and low emissions. Nuclear power generation is one of the more inexpensive forms of generation in the mix, and any reductions in nuclear often increase dependency on the more costly gas and coal fuels. Pro-nuclear supporters have often pointed out the green credentials of nuclear power versus coal-fired power generation. However, it can also be associated with the aftermath of the Chernobyl disaster, fears of radiation leaks, and deep rooted concerns over radiation-caused cancers.

Following the Japanese earthquake and tsunami which took over 4.7 GW of nuclear power offline, there has been a global review of nuclear policy and development. There have been improvements in safety requirements for nuclear power plants, including protecting plants against possible terrorist attacks and more extreme natural disasters. However, this in itself pushed Continental and UK power prices higher during April; as it is unlikely all of Europe's 143 ageing nuclear fleet will pass these more strenuous tests, increasing demand for other power generation fuels.

The strongest backlash against nuclear power came from Germany, with Chancellor Angela Merkel announcing immediate three-month closures at seven of Germany's oldest nuclear plants commissioned before 1980. This caused German power prices to increase over 10% in the following days, as suddenly the market had to import power from France and Czech during peak demand hours. Since then the key victory of the German Green Party in Baden-Wuerttemberg has made it even more likely that these seven plants will remain permanently offline due to the party's anti-nuclear policies. This is expected to lead to an accelerated phase-out of nuclear energy in Germany, to be replaced by renewable energy and supported by gas fired power generation. Nuclear power currently accounts for around 23% of Germany's electricity, which at least in the short term, would have to be replaced by higher coal-fired generation or higher power imports, increasing both carbon emissions and prices across the commodity market.

Other countries halted current nuclear plans for a period of evaluation, but it appears that many countries are likely to continue down the nuclear route with increased regulation, where no other economically viable option is available. Asian countries have stated there will still be strong growth in the nuclear sector

as they desperately need the power and they have no indigenous sources of gas (although there is high potential for unconventional gas such as Shale gas). China, for example, is expected to surpass the US as the world's biggest nuclear user, which could lead to a further energy policy debate in the future.

## Energy Events

### May

4th /5th May Energy Show Exhibition

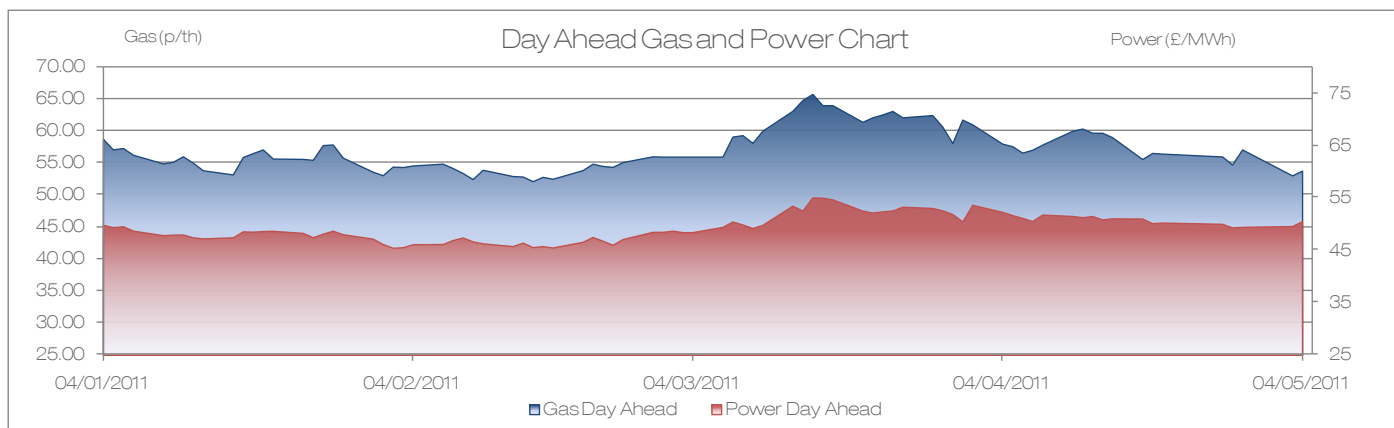
18th May Navigating Energy Risk Seminar  
Durham



Reported by Debbie Bentley



# Gas and Power Prompt Market



\* These prices are based on closing prices and therefore are not an accurate reflection of the daily fluctuations in the market.

## Gas Prompt

Day-Ahead prices started the month pegged around 62p/th before softening to around 55p/th at the end of the month. Prompt prices were heavily supported by strong gas exports to the Continent, and high UK storage injections. Injections into storage were particularly strong at the start of the month, following concerns over supply disruption and uncertainty that LNG cargoes could be diverted away from the UK to Japan. The UK sent almost the full capacity of the gas Interconnector to the Belgian gas market in the second week of the month. As such the UK began withdrawing from storage to cover the additional demand. Furthermore, supply was also hampered by erratic Norwegian flows throughout the month following two unplanned outages at the Ormen Lange gas plant in the North Sea, and a shutdown of the Norwegian Visund gas field, which both led to reductions in Norwegian flows to the UK. As such flows from the Langed pipeline remained around 22 McM throughout most of the month, around 11 McM lower than average for summer months.

Nevertheless, a healthy supply of Liquefied Natural Gas flows supported the UK gas system throughout April, as an abundance of LNG tankers provided over a third of the UK's total gas supply. This included the first Q-Max tanker arriving at the Isle of Grain LNG terminal. Even with the extra pressure, demand out-turned almost 5% below seasonal norms on average throughout April due to the warmer temperatures. In the last week of the month, trading was limited by the run of Bank Holidays and reduced industrial demand, and warmer weather forecasts, with many market participants away from their desks. As such, Day-Ahead shed nearly 2p/th at the end of the month.

## Power Prompt

Prompt prices softened throughout April, as warmer weather and comfortably wide surplus supply margins pressured prices lower. Demand averaged around 41.17 GW in the working days throughout April, which is over 1 GW lower than demand this time last year. Supply margins were on average 16.66 GW in April '11, nearly 7 GW higher than this time last year, suggesting a significantly more comfortable power system.

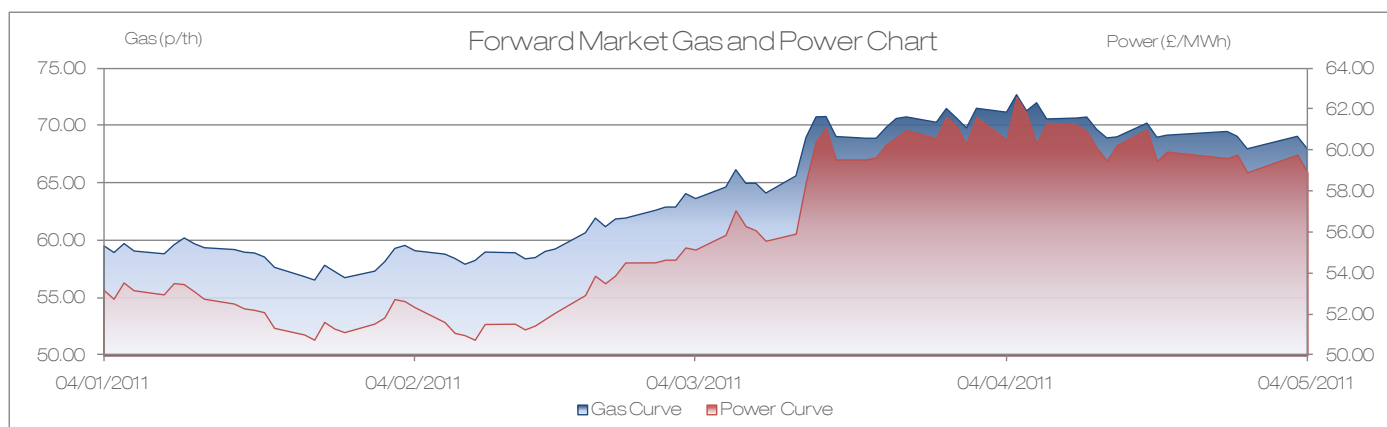
There were several planned and unplanned nuclear outages during the month, including the Hinkley point and Heysham 1-2 nuclear plants. These nuclear outages took the number of nuclear plants offline to five, a potential loss of over 2720MW. As such, the system had to rely on the more expensive fuels of generation including gas-fired and coal-fired power generation. Gas-fired power generation moved to account for 50% of the generation stack over the month, increasing the correlation between the power and gas markets.

April '11	Power (£/MWh)	Gas (p/therm)
Average Price	50.86	57.28
Change from previous month	-1.17%	-5.22%
12 Month High	79.65	65.65
12 Month Low	38.69	32.78

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# Gas and Power Curve Market



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## Gas Curve

Curve prices opened stronger at the start of April, with Winter '11 trading around 74p/th. There was still a lot of uncertainty over LNG demand in Japan. During April, Qatar agreed to deliver 60 cargoes of LNG to Japan throughout 2011. While this may reduce the number of spot cargoes coming to the UK, curve prices eased as this announcement reduced concerns.

Winter '11 prices peaked above 76p/th in the first week tracking the oil market, which hit two and a half year highs of \$127/bbl. A strong oil market supported longer dated gas contracts as there were fears that oil and gas supply disruptions to Europe from the Middle East could be prolonged. A weaker dollar falling to three year lows against the euro supported the stronger oil market.

However, gas prices fell by over 4% in the last week, as a combination of poor economic figures from the UK, Europe and the US led to a large sell-off in the commodity market, especially the oil market. As such, Brent oil prices shed almost 10% on Thursday, which pulled Winter '11 gas contracts lower. Winter '11 prices and Summer '12 dipped below 69p/th and 64p/th respectively.

## Power Curve

Power curve prices fell around 3.4% throughout April as tension over German nuclear policy and the introduction of the carbon floor price from 2013 gave way to the weaker over-supplied prompt fundamentals. Winter '11 prices peaked at £62.33/MWh at the start of the month, before ending in a more sombre mood around £59/MWh, with trading limited by the string of Bank Holidays.

Coal prices remained a firm driver of longer dated contracts, and with demand increasing for the commodity over April, losses were limited. Further to this, increases in the carbon market, supported by the new legislation, was an important price driver in the UK curve power market.

Mid-month, curve prices were also supported by a statement from German Chancellor Angela Merkel, which suggested that Germany would want to "exit from nuclear power generation as soon as possible" to be replaced by higher renewable generation. This supported gas, coal and UK power prices as it suggested higher power exports to the Continent and higher continental demand for gas and coal during the transition.

April '11	Power (£/MWh)	Gas (p/therm)
Average Price	60.37	69.97
Change from previous month	3.53%	3.45%
12 Month High	62.62	72.72
12 Month Low	45.05	45.93

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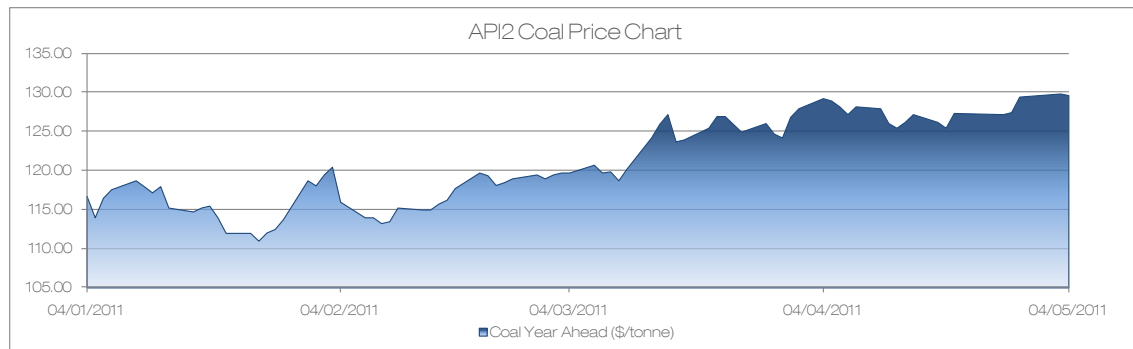
# Coal and Carbon Index

## Coal

Coal prices peaked at \$134/tonne during April, as European coal stocks continued to decline, hitting the lowest levels in three years, and coal-fired power generation increased in the UK and Europe. Germany remained a net importer of power during April, during periods when wind and solar generation were subdued. As such, the demand for coal increased and prices were supported above \$130/tonne.

Demand from Japan was still subdued through the month, due to the damaged refineries and ports. However, Chinese demand began to increase ahead of the peak summer months. Traditionally, China tends to suffer from pronounced power shortages in the summer, which can lead to power rationing across the nation. This year, the Chinese Government has warned this could be worse than previous years and the nation's rationing has come two months earlier than normal this year. In addition, China has recently held off buying the fuel from Australia and Indonesia due to the high premium in prices, which could compound the shortages. Furthermore, increased coal freight and transportation prices put pressure on the coal market.

However, at the start of May, Coal API2012 prices softened following a stronger dollar, a string of poor global economic results, and a bearish overall energy complex. Coal prices softened over \$5.5/tonne in one day, causing the market to dip below \$129/tonne. These losses were short-lived, however, with many market participants expecting the market to remain buoyant.

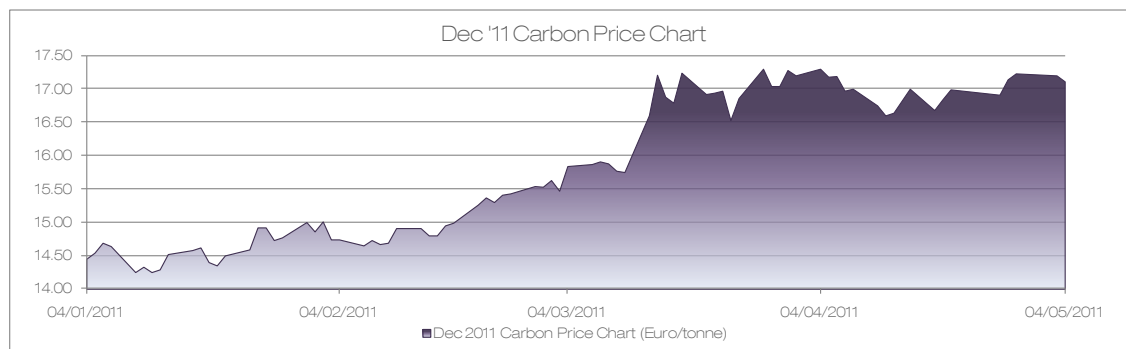


## Carbon

Carbon prices fluctuated strongly during April. At the start of the month, December '11 carbon prices opened higher around €17.38, due to a stronger German power market and an overall bullish energy complex.

However, prices softened mid-month as European interest rates increased from 1% to 1.25%, causing concerns that this could dampen industrial activity and this caused prices to soften below €16.80. The market became relatively illiquid during the Bank Holidays, with trading volumes reducing by around 50%.

The carbon market largely shrugged off the steep falls and gains in the oil market, but the market did move back above €17 as increased demand in coal from China and Europe led to stronger demand for allowances



March '11	Coal (API2)	Carbon (Euro/tonne)
Average Price	127.63	16.99
Change	3.54%	3.74%
12 Month High	129.50	17.30
12 Month Low	85.25	13.82

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# Crude Oil Index

## Oil

Brent Oil prices broke through \$120/bbl at the start of April, over concerns that prolonged supply disruptions to Europe from Libya could damage economic recovery. This followed news from the Iran Oil Minister that OPEC would not need to meet to address the high oil market. In addition, violence continued in Yemen and Bahrain.

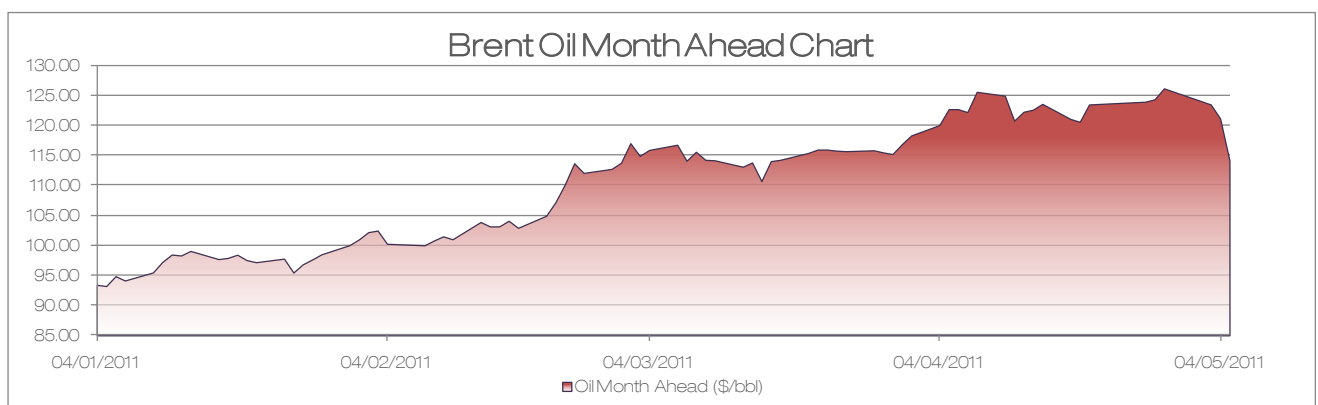
On the 8th May 2011, oil prices rallied to \$127/bbl, after reports of damage to a Libyan oil field as fighting continued between rebels and Gaddafi's troops. It was reported that Gaddafi's troops set a fire at the Sarir Field, which is considered to be the largest oil field in Libya. This caused oil prices to rise despite supply still being reduced from the country (some say by around 75%) as it could lead to permanent reductions in oil supplies.

Prices softened in the following days as there were concerns over the long term impact of such a high oil price. For example, Societe General quoted that "Oil prices are high enough to create demand destruction". The International Energy Agency, IEA, suggested if prices remained at these levels it could trigger a recession similar to 2008. In addition, there were reports that Gaddafi has accepted a peace plan with South African President Jacob Zuma.

Mid-month, oil prices softened to \$123/bbl, following an announcement from Goldman Sachs, which advised customers to take profit before sentiment in the market changes. This report had an immediate dampening effect on the market. Brent oil prices posted \$3/bbl losses, but did not retrace the steep rally in prices, and remained above \$120/bbl.

Currency was another major price driver of the oil market throughout April. The dollar lost value throughout the month, hitting three year lows against a basket of foreign currencies, as there were concerns that the US, one of world's largest economies, could be downgraded. Further to this US crude oil inventories continued to show strong builds, except the third week of the month, where there was a surprise drop in crude oil stockpiles reported by the Energy Information Agency (EIA). Crude oil stockpiles fell 2.32 million barrels, which caused Brent Oil and WTI (West Texas Intermediate) prices to firm to \$124.41/bbl and \$112/bbl respectively.

Oil prices dipped at the end of the month following the death of Osama Bin Laden, which many market participants hoped would improve concerns over global security. In addition, a series of poor economic data from the UK, Europe and US also triggered a large sell-off in the oil market at the start of May. Brent oil prices lost over 10% as the market corrected from the steep gains seen in March and April.



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March '11	Oil (\$/bbl)
Average Price	122.25
Change from previous month	6.28%
12 Month High	126.22
12 Month Low	69.05

# Carbon Update

## CRC – Latest Developments

There are no new developments to report this month albeit just a reminder that 29th July is fast approaching and all your Carbon Footprint Reports, Evidence Packs, and Annual Reports should be completed by this day and ready for inspection just in case your company is selected for audit. Sources have reported that fines will be issued after this date and they are already looking at 800 companies with the possibility that 1200 will be fined before the end of the reporting year.

## CCA & EU – ETS Latest News

The new PP10's and PP11's will be available on or after the 1st of April, not forgetting that the discount will be lowered from 20% to 35%. The current CCA scheme ends in March 2013, and the Government has announced that the CCA Scheme will be extended to 2023. The 54 participating sectors will continue to be eligible for the scheme. A consultation on options to simplify the scheme will be published by DECC by Summer 2011. Legislation will be introduced through the Finance Bill 2012 to amend the reduced rate of Climate Change Levy (CCL) on electricity only from 35% to 20% from the 1st of April 2013.

## Inenco's Carbon View

The last few years has seen a period of intense political, organisational and industrial innovation associated with Carbon Management. Much more is known about the causes of carbon emissions, the levels actually taking place, and how to reduce it. The lack of political consensus concerning how best to manage carbon emissions, revealed at Copenhagen, has not seriously damaged Carbon Management globally, and instead has had the productive effect of causing many of the parties to examine whether the approach that they are using is the best.

As the world economy recovers from a recession that has affected primarily the developed world, the "business as usual" level of carbon emissions is expected to rise quickly. The investment in capacity building and in innovation will start to pay off seriously, as countries strive to meet the commitments they have made, whether legally binding or voluntary.

The slowing (some say halting) of global warming that is claimed by some to have been evident since 1998 may cast doubt on the wisdom of some approaches to Carbon Management. However, for the time being, it seems that the global consensus is that Carbon Management as a practice should continue and improve its efficiency.



Reported by David Radford



## Solar companies take legal action over FIT review

A group of solar companies have joined forces to challenge the recent Government announcement to drastically reduce subsidies available for solar installations over 50kW. A fast-track review of Feed-in Tariffs (FITs) was announced in February, with the likely outcome being dramatic cuts (up to 70%) in the FITs available and therefore income for developers.

A claim has been filed in the High Court against Secretary of State for Energy and Climate Change, Chris Huhne, in reaction to the early review of the FITs

Low Carbon UK instigated the action, with the backing of many key players in the sector. CEO of Low Carbon UK and acting representative of the group, Mark Shorrocks said:

“We hope the Secretary of State for Energy and Climate Change will abandon this fast-track review and work with us to find a more appropriate solution for the future of the Feed-in Tariff.”

The proposed cuts have been cited as unlawful due to a lack of communication from the Government on an early review. The FITs were initially due to be reviewed in 2012 with any changes to be implemented in 2013. It is feared changes to the tariffs could have a major impact on the security of thousands of jobs and investment. Further to this the Government have cancelled many of their own solar projects - mainly on hospitals and council buildings - as they will no longer be viable due to their own policy change.

## Investment risk slowing low-carbon infrastructure

The Confederation of Business Industry (CBI) has published a report warning that policy uncertainty is impacting on the investment required to build low-carbon infrastructure. In the last year alone we have seen major policy shifts in legislation such as the Carbon Reduction Commitment and FITs. Such shifts in policy instil uncertainty, which then make investment decisions fraught with risk. The CBI has urged the Government to make firm policies in key areas such as –

- Planning system
- Electricity market
- Green Investment bank
- Green deal

Nobuo Tanaka, Executive Director of the International Energy Agency also urged national governments to develop “clear and consistent policies, regulations and plans” for electricity networks to provide investment certainty. If investor confidence can be boosted then low-carbon spending should follow, ultimately helping the UK achieve emission reduction targets, secure energy supplies and economic growth.

## Energy crop potential

The UK Energy Research Centre (UKERC), has conducted a study that suggests approximately 4% of the UK's electricity needs could be sustainably sourced from short rotation coppice biomass, without having a negative effect on food production or the environment.

There have been recent questions raised over the viability of growing crops to produce electricity, due to food shortages worldwide. However the UKERC study indicates that up to 4% of the UK energy demand could be met utilising biomass harvested in England, providing land is used efficiently.

This study follows the recent announcement that Drax has created the first farm in the UK dedicated to the testing and development of energy crops. It is located on marginal land that has required drainage and preparation to make it suitable for growing crops. This was a deliberate measure by Drax and its partners to promote sustainability in land use for energy crops.



Reported by Bruce Aspden

# Inenco Information

Inenco is a market leading consultancy specialising in energy management, sustainability and environmental services.

At Inenco we have an impressive record of using our expertise to create opportunities for our customers to reduce both procurement costs and carbon emissions within today's rapidly changing energy and carbon markets.

Together with our sister company, Saturn Energy; we employ around 200 highly skilled staff. Every year we manage nearly £1 billion worth of gas and electricity for high profile clients in every major sector across the UK and Europe such as Sainsbury's, Marks & Spencer, JP Morgan Chase, Mencap and Gala Coral.

The services we offer fall under four main categories:

- ✓ Smart Procurement - bureau services and procurement solutions delivered by our skilled consultants and FSA accredited Energy Traders.
- ✓ Energy Consultancy - energy surveys and carbon management programmes, dealing with environmental legislation.
- ✓ Inenco Online - monitoring and control services that enable you to take control of your energy consumption.
- ✓ Renewable Generation - a fully managed solution for the implementation of renewable generation at your site.

## Energy Indices

Inenco tracks all aspects of the energy markets and further information on other indices is available upon request e.g. longer term (2011 and beyond), individual components, alternative seasons and prompt prices (~3 months to day ahead) by contacting [informed@inenco.com](mailto:informed@inenco.com). Remember, these indices track wholesale energy rates, which account for around 70% of delivered costs.



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