



Informed

March '2011

Contents



Headlines	1
Prompt Market	2
Forward Market	3
Coal Index	4
Carbon Index	4
Crude Oil Index	5
Carbon Update	6
Renewable Update	7
Inenco Information	8
Contact Information	9



Summer '11 Outlook

Natural disasters and geopolitical tensions were the main drivers in the energy markets during March.

Violent unrest continued to spread around the Middle East and North Africa region after President Hosni Mubarak stepped down after growing public pressure. Protestors in Libya followed suit, calling for new leadership and democratic elections. As the uprising gathered momentum Colonel Muammar Gaddafi responded with military force and blocking of communications. The situation then escalated into armed conflict, pressuring the crude oil market higher.

Libya produces around 2% of the world's total oil supply, so in terms of volumes it is minimal compared to Saudi Arabia, who produce 12%. However, because of its proximity to Europe, Libya exports a significant amount to European countries including the UK. As such, Brent crude oil prices, a benchmark for the European oil market, moved to post-recession highs as Libya's oil outputs decrease by around 75%.

UK gas curve contracts moved higher in March as the Japanese earthquake damaged nuclear power plants, crucial in power generation. The prospect of increased gas and oil powered generators coming online to meet the electricity demand of the country signalled a possible increase in Japanese gas imports, more specifically Liquefied Natural Gas.

Demand from Japan, already the world's largest LNG importer, is set to increase in the coming months driving the price up, meaning the price of gas entering the UK gas system could be higher, as the UK is heavily dependent on LNG for gas supply.

Around 30% of the UK's daily gas usage during winter, came from LNG imported from Qatar, Nigeria and other exporting countries. Also, should the cargo generate greater revenue going to Japan, the UK may experience a shortage of gas in the coming months as tankers choose to offload in the East. On the back of this, wholesale gas for Summer '11 delivery gained as much as 17% in the four trading sessions following the disaster. To date, we have not witnessed any cargoes being diverted away from the UK.

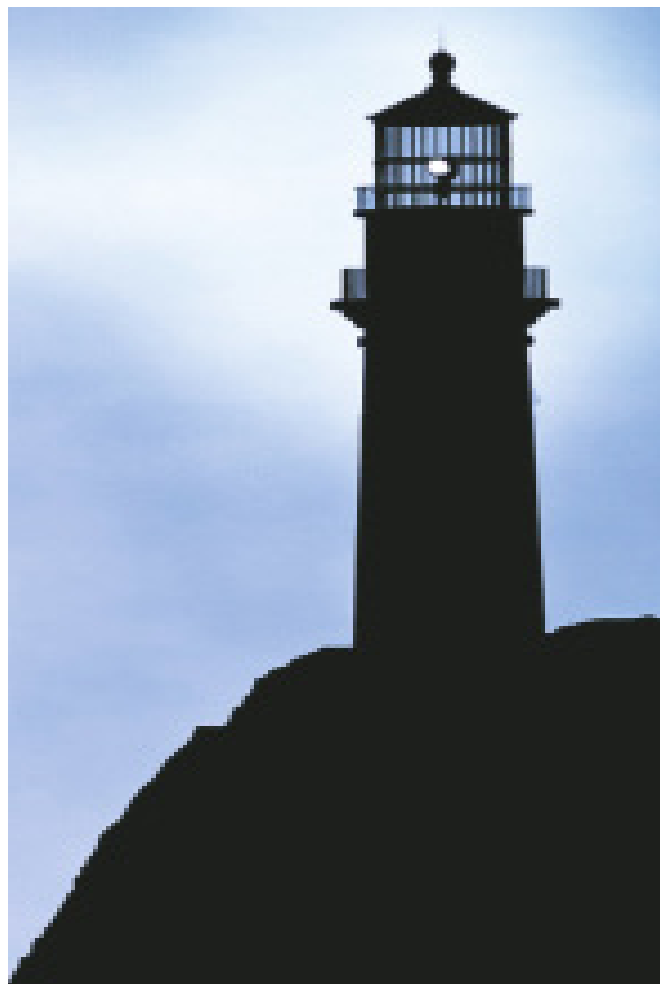
Energy Events

April

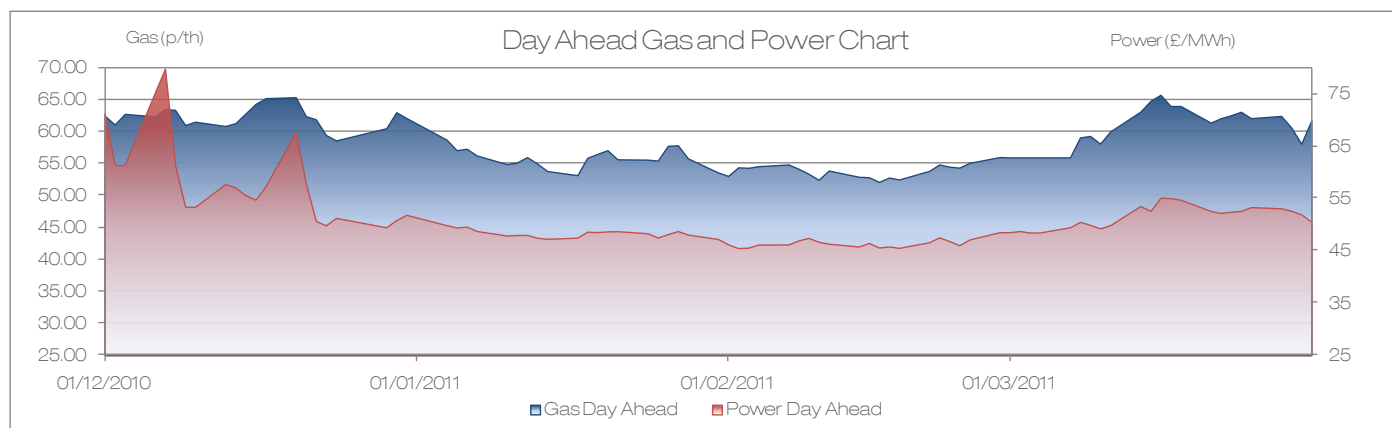
- | | |
|-----------|--|
| 6th April | Punch Event
Birmingham |
| 7th April | Navigating Energy Risk Seminar
Peterborough |



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 around 55.88p/th, before trading higher throughout the month to finish around 62p/th.

Colder weather pushed prompt prices higher in the first week of the month, due to an unexpected increase in demand. This rise in demand caused the system to call upon UK storage facilities to cover the supply shortage. The volatile Continental gas markets also supported UK prompt prices, with the Interconnector gas pipeline often exporting to the Continent throughout March. The high UK prompt prices reflected the level of uncertainty in the marketplace following the aftermath of the Japanese earthquake.

Overall, gas demand out-turned around 309 McM on average; this is 27 McM below what is expected for this time of year. Despite the low demand, erratic Norwegian flows supported prices as both the Kollsnes processing plant and the Ormen Lange power station reduced capacity.

Power Prompt

Power prompt prices peaked mid-month around £56.50/MWh, gaining almost £8.05/MWh from the start of the month. Prices reached £56.50/MWh, following the announcement that Germany would shut-down seven of its oldest nuclear reactors for at least three months, to carry out extensive safety checks. The closure of the nuclear plants in Germany came as a surprise to the market, causing European power and gas prices to rise, as demand rose for other fuels, to cover the nuclear shortfall.

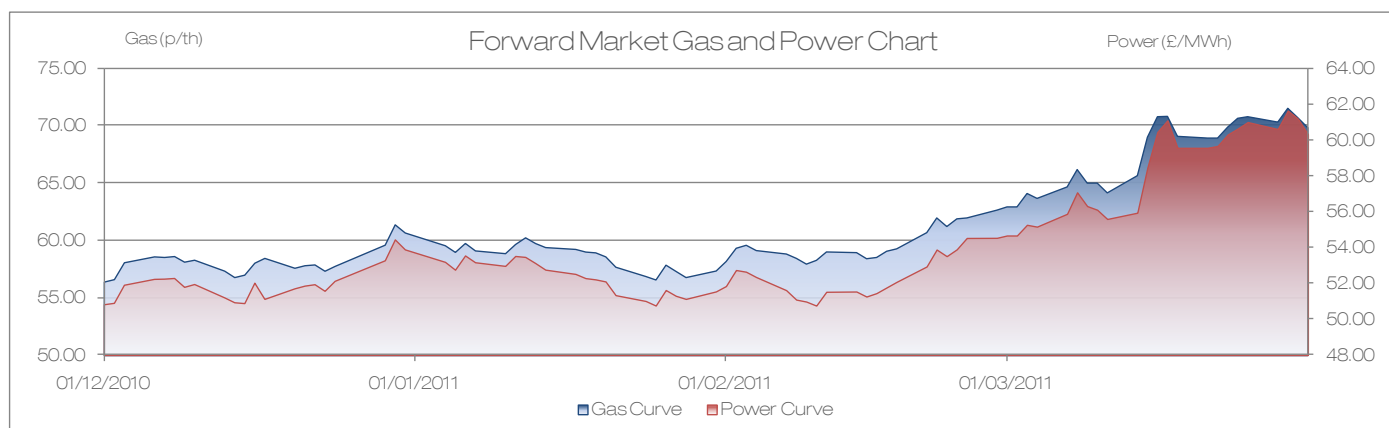
Nevertheless, supply and demand fundamentals in the UK were very comfortable throughout the month, surplus supply margins averaged around 15.10 GW, while demand averaged around 48.39 GW. Supply margins were barely affected by several unplanned and planned outages, including British Energy's Dungeness B22 plant, which has a capacity of 550 MW. The new gas-fired plants which came online this winter have boosted supply margins, which at this time last year were around 11G W. Any disruptions in supply were also offset by a steep fall in demand. Demand started the month at 52.30 GW and ending the month around 42.80 GW, which is almost a 10 GW decrease in demand.

March '11	Power (£/MWh)	Gas (p/therm)
Average Price	51.46	60.44
Change from previous month	10.98%	12.39%
12 Month High	79.65	65.65
12 Month Low	34.56	27.78

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



Gas and Power Curve Market



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

Gas Curve

Summer '11 gas prices started around 55.35p/th and traded as high as 66.75p/th before finishing the month trading around 63.75p/th. The gas curve traded slightly in backwardation during March, with Winter '11 trading higher than Winter '12, as the Japanese disaster and the political tension in the Middle East is expected to have more of an impact in the near term than further out.

Gas prices showed steep gains mid-month following the Japanese earthquake and tsunami, which took 13 GW of nuclear power offline. There were fears that Japan would need to increase LNG (Liquefied Natural Gas), oil and coal imports to make up for the shortfall in power generation. This increase in demand for LNG could attract cargoes destined for the UK to Japan, as price is a major factor indicating the final destination of cargoes. This lifted gas curve prices, especially Summer '11 prices as a healthy supply of LNG was one of the main bearish price factors for the season. In addition, the continued political tension in the Middle East kept oil prices above \$115/bbl, applying further pressure to gas prices. The unrest intensified in Yemen, Syria and Bahrain during the month. As the UN approved military action in Libya, there were increased fears over the security of oil supply in the Middle East.

Power Curve

Summer '11 prices started the month relatively flat around £48.60/MWh before firming to £56.50/MWh mid-month. Summer '11 prices settled back to around £55/MWh at the end of the month; however this was still a 13% increase in prices intra-month.

The Japanese disaster called into question the future and safety of nuclear power. Continental power prices spiked to two year highs as Germany temporarily shut-down seven of its nuclear power plants that went into operation before 1980 in order to carry out detailed safety checks. France also announced that they would be carrying out safety checks on all of their nuclear plants. This decrease in Continental nuclear power lifted UK power prices as it suggests the UK could be exporting up to 3GW of power during summer, when the new BritNed Power Interconnector commences, along with the UK-France Interconnector. The uncertainties over nuclear power also led to the UK putting plans to build 16 GW of new nuclear plants by 2025 on hold. If just one of these nuclear power plants is not built as planned, that would be a 2% increase in gas demand.

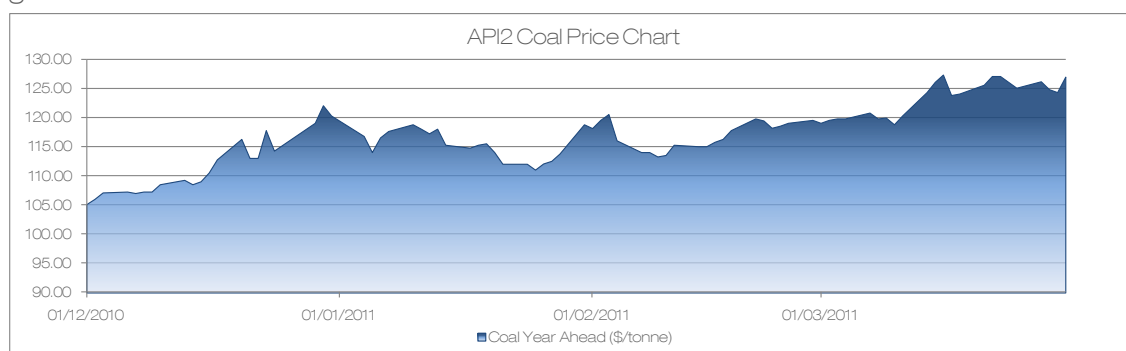
March '11	Power (£/MWh)	Gas (p/therm)
Average Price	58.31	67.64
Change from previous month	11.38%	13.33%
12 Month High	61.64	71.52
12 Month Low	39.45	37.80

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

Coal and Carbon Index

Coal

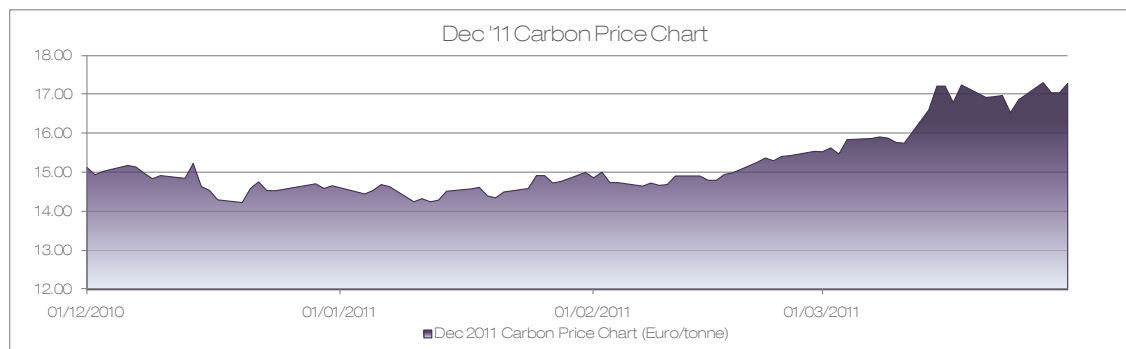
Coal prices have been supported throughout March by increases in demand following the Japanese earthquake and tsunami, along with the shutdown of seven German nuclear power plants. Sentiment towards nuclear power changed as the world watched the ongoing crisis in Japan, as they struggled to control radiation levels at nuclear power plant, Fukushima. This change in sentiment led to speculations that demand for alternative power generation fuels, including coal, gas and oil would increase. Demand from China and India remained subdued throughout March, as the high coal prices discouraged end users from buying the fuel. There were hopes that these reductions in demand could limit prices, however, this was offset by the ongoing turbulence in the overall energy complex. In the last week of the month, the German Green Party won an important victory in the Baden-Wuerttemberg state. As such, the Green Party are expected to form a coalition government with the socialist party. Due to the Green Party's anti-nuclear policies, many market participants believed that this victory could lead to the permanent shutdown of some of Germany's nuclear capacity, increasing demand for coal-fired generation.



Carbon

Carbon prices remained in a tight range throughout March, failing to close below €16.90, and above €17.50. The German power market and UK gas market remained prominent drivers of the carbon market. The closure of several of the German nuclear plants caused German power prices to increase by over 10% due to the reduction in supply. With the closure of the German nuclear plants and the increase in fossil fuels from Japan, the demand for carbon is expected to increase, as coal and gas both require carbon allowances.

In addition, the Chancellor's budget on the 23rd March, announced that Britain will be the first country in the world to introduce a carbon price floor. A set carbon price is due to start in 2013, which would increase the basic production cost of generating electricity. The carbon floor will begin at £16/tonne in 2013, and rise to £30/tonne by 2020 according to the UK Treasury. This could lead to higher demand for gas fired power generation and also could put pressure on the UK economy to invest further in renewable technology.



March '11	Coal (API2)	Carbon (Euro/tonne)
Average Price	123.27	16.37
Change	5.44%	9.25%
12 Month High	127.25	17.30
12 Month Low	85.25	13.30

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



Crude Oil Index

Oil

Oil prices retained their strength throughout March, supported by geopolitical tensions and fears over security of supply. China and the US also posted positive economic data at the end of March which suggested a recovery in the economy and an improvement in demand. Naturally, rises in demand, and shortages in supply, supported oil prices throughout March.

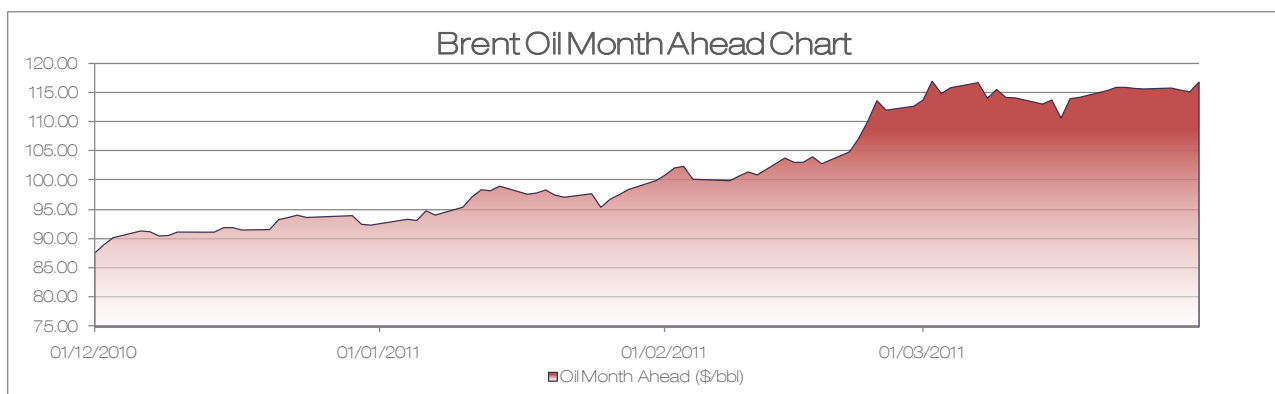
Brent crude front month oil prices, which are the European benchmark for oil, started the month around \$115/bbl. There were concerns the supply from Libya, a member of the Organisation of Petroleum Exporting Countries (OPEC) would ground to a halt as violence spread through the country towards key oil producing regions. Brent crude oil traded at post-recession highs during March as the output of crude oil from Libya fell, with some estimates showing a 75% decline in flows.

Libyan crude, a sweet blend of oil, which is considered a higher grade than Saudi oil, accounted for 1.6 million barrels of a total 30 million barrels per day output from OPEC. Although Saudi Arabia announced they would be able to increase their flows to cover the Libyan cut, due to the different qualities between Libyan and Saudi Arabian crude oil, it is not possible to make a straight comparison.

Europe, especially Italy, felt the full force of the shutdowns in Libya, which put further pressure on the Brent oil prices, rather than the American WTI (West Texas Intermediate) market. Italy received one third of its oil from Libya and there is also a natural gas pipeline between the two countries. On the other side, the WTI market was protected from cuts in Libyan supply, due to a surplus in oil stockpiles. As such, OPEC countered arguments throughout March that there was no need to raise production, as there was still a surplus of oil supply, despite the loss of Libyan crude oil.

Steep fluctuations in prices led to JP Morgan revising their oil price forecasts higher for the second quarter. A Libyan oil official even warned that oil prices could reach \$130/bbl if there is no resolution to the violence and threat to supply. Nevertheless, front month oil prices dipped mid-month following the Japanese earthquake and tsunami as the market focus moved away from the tension in the Middle East and instead focused on the immediate decrease in oil demand.

However, the political turbulence continued supporting prices in the background and within a week prices were back to \$114-115/bbl. Prices rose as the United Nations Security Council (UNSC) authorised a no fly zone over Libya, led by the US, Britain and France. In the last week of the month, oil prices closed above \$117/bbl, which was the highest close in two and a half years following a fall in US jobless claims and strong Chinese economic data.



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

March '11	Oil (\$/bbl)
Average Price	115.02
Change from previous month	9.94%
12 Month High	122.22
12 Month Low	69.05



CRC – Latest Developments

The recent feedback on the CRC consultation indicated that there will not be any more major changes to Phase 1. Therefore, it is advised that organisations now prepare how they will manage their obligations before the July reporting deadline. This applies not just to Half-Hourly Electricity reporting, it also affects Non-Half-Hourly Electricity and Gas reporting.

Please note: Fines will be issued after July 2011.

The overall message has remained very clear; REDUCING CONSUMPTION means REDUCED COSTS and REDUCED LIABILITY (Carbon Tax).

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



Renewable Heat Incentive scheme confirmed

On the 10th March DECC announced the introduction of Renewable Heat Incentives (RHI). The scheme is the first of its kind in the world and has been designed to encourage the development and deployment of technologies that generate heat from renewable sources.

£860 million will be made available to fund the tariff-based scheme, which is due to commence July 2011 for non-domestic installations. The following technologies are included in the scheme:

- Biomass boilers (including CHP biomass boilers)
- Solar thermal
- Ground source heat pumps
- Water source heat pumps
- On-site biogas combustion
- Deep geothermal
- Energy from municipal solid waste
- Injection of biomethane into the grid

The subsidies have been designed to offer approximately 12% rate of return on the additional costs of using renewable heat as opposed to fossil fuels. For solar thermal technologies a rate of around 5% is in place. Payments will commence in July 2011 and will be made on a quarterly basis by Ofgem, who will also be dealing with applications, accreditation and compliance. Installations commissioned from 15th July 2009 will be eligible for the tariffs providing they meet the stated criteria.

A two-phased approach has been devised for domestic scale installations, with 'premium payments' being made available to cover part of the installation costs, from July 2011. Domestic tariff payments will be introduced in October 2012, coinciding with the introduction of the Green Deal.

New Feed-in Tariffs levels proposed For Solar PV and AD

DECC have proposed new tariff levels for solar photovoltaic (PV) and anaerobic digestion (AD) in a fast-track review consultation. The objective outlined is to enable sustainable growth in the sector rather than boom and bust. The number of large-scale projects proposed was seen to threaten funding intended for more small-scale business and domestic use. Evidence suggested that 169MW of large-scale solar PV was in the planning system, which is equivalent to 50,000 domestic units. Changes to tariffs will be made in July 2011 and take effect from 1st August.

The proposed tariffs for Solar PV are: >50kW – ≤ 150kW - 19.0p/kWh, >150kW – ≤ 250kW - 15.0p/kWh, >250kW – ≤ 5MW and stand-alone installations: 8.5p/kWh. The proposed tariffs for on-farm AD are: ≤ 250kW - 14.0p/kWh, >250kW – ≤ 500 kW - 13.0p/kWh. The uplift for AD installations has been regarded in the industry as disappointing and not enough to stimulate the growth potential in the sector and there has been no increase for projects over 500kW. In the announcement of the consultation, DECC said: "Government policy is specifically to deliver an increase in energy from waste through anaerobic digestion, not to promote energy crops, particularly where these are grown to the exclusion of food producing crops. DECC is talking to Defra and others about the best way to implement controls to make sure this does not happen."

UK Budget news

The Green Investment Bank (GIB) has seen funds treble and the implementation brought forward to 2012. On the day of the budget, Energy and Climate Change Secretary, Chris Huhne said: "There is a clear, long-term signal to energy investors in today's Budget. A Green Investment Bank with substantially more capital and borrowing capacity and a stronger, more stable carbon price put investment in green energy technologies at the heart of the coalition's strategy for sustainable, balanced economic growth."



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. Remember, these indices track wholesale energy rates, which account for around 70% of delivered costs.



INVESTOR IN PEOPLE

Inenco Energy Trading Limited is accredited by the Financial Services Authority



WINNER

Inenco Group

Energy Consultant of the Year 2010

www.energyexcellenceawards.com



Contact Us

For further information on strategies for longer term purchasing, please contact your Inenco Representative.



01253 785000



enquiries@inenco.com



www.inenco.com



Or write to:

Inenco Group Ltd
Petros House
St Andrews Road North
Lytham St Annes
Lancashire
FY8 2NF

Our clients include:

