

DECEMBER 07

# ENERGY UPDATE

## Opec rule out production increase.

OPEC announced on the 5th December that it would not increase production and would re-assess winter demand and supply again at its meeting on February 1st 2008 in Vienna.

OPEC is concerned about the escalating crude oil prices and the impact this could potentially have on the global economy and demand for oil.

OPEC maintains that the recent surge in oil prices, up to highs of nearly \$100/bbl, is not due to tight fundamental drivers but is instead due to increasing geopolitical tensions and speculation within financial markets.

## Bali update.

As the UN Climate Change conference in Bali drew to a conclusion, the foundations for a new climate change deal were laid despite much controversy and a distinct absence of absolute emission targets. The 'Bali Roadmap' will now pave the way for a two year negotiation in Copenhagen in 2009, which will agree new emissions targets and supersede the Kyoto protocol, which is due to expire in 2012.

The EU was keen to secure commitment from all developed countries to cut emissions by between 25-40% by 2020. However, the US was reluctant to include such targets in the final compromise, citing that 'to do so would prejudice the outcome of the negotiations'. The final agreement does not include any agreed targets, but 'recognises that deep cuts in global emissions will be required to address climate change'.

## The Outlook

Going into 2008, nothing is clear. Volatility looks to remain in the market. The increasing dependency on imports as existing UKCS fields decline and the linkage to oil are strong upside levers for the market.

At the start of 2007 the market was said to be 'easy money', but a turbulent year did not bear this out.

The market could be determined early in 2008 with persistent rumours suggesting major banks may enter the market as LNG becomes more of a global market, but others disagree with many struggling this year and losing money.



### BRIGHT IDEAS

"Lighting an office overnight wastes enough energy to heat water for 1,000 cups of tea."

## power



Day-ahead prices rose rapidly and remained steady throughout the month supported by a firm gas market. Cold weather increased demand for electricity and tightened capacity margins. Traders argued that the demand for gas was in question over the course of the month due to the variance from the seasonal norms of the weather forecasts. Contracts along the curve strengthened across the weeks driven by rising gas prices and sentiment from the prompt. The January 08 contract firmed to close at £63.60/MWh.

## gas



Prompt gas strengthened across the month due to colder temperatures increasing demand and supply problems. Gas demand rose to the highest levels seen across the winter to date climbing to a high of 394Mcm/d. The gas interconnector remained on import mode for some of the month and withdrawals from the Rough storage facility remain high.