

JANUARY 08

# ENERGY UPDATE

## The EC releases its climate action package

On 23rd January the European Commission (EC) released its much talked about new energy and climate package, including the EU ETS Review and the Renewable energy package, to tackle climate change. The energy package details how the EC proposes to meet the targets to reduce greenhouse gases by 20% from 1990 levels by 2020 and that 20% of energy comes from renewable generation by 2020. The proposal will have to be approved by the Member States and EU parliament. The time period covered runs from 2013-2020.

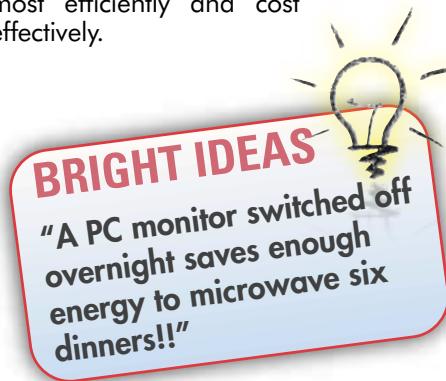
The EC gave some country details on how they would contribute to meeting the 20% reductions by 2020. The UK would have to reduce emissions by 16% from 2005 levels. Other countries include Germany to reduce by 14%, France to reduce by 14%, Italy to reduce by 13%, Spain to reduce by 10%. Denmark, Ireland and Luxembourg are the only countries set to cut their emissions by the full 20% while Eastern European countries can increase their emissions between 4-20%.

## Geopressure get ROCs

The Department for Business, Enterprise and Regulatory Reform (DBERR) announced that geopressure technology will be supported through the Renewables Obligation and eligible to receive ROCs. Geopressure is pressure naturally occurring through geological activity, and can be harnessed to generate electricity by using the pressure in the gas network. The technology uses this pressure like a water wheel and doesn't actually consume any gas in the process.

## Offshore renewables to benefit from grid investment

Ofgem announced on 22nd January that there is to be investment of up to £2 billion to upgrade the national grid. These upgrades are necessary to connect the 8GW of planned offshore wind generation to the grid. The government will run a competitive tender to appoint companies to connect the offshore generation projects most efficiently and cost effectively.



## Crude oil hits peak

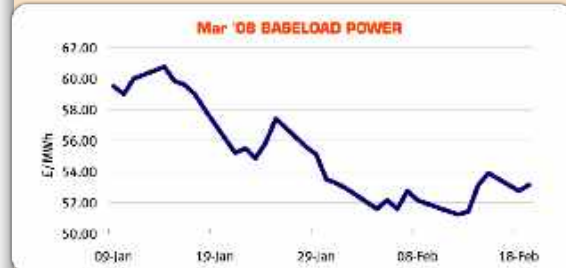
On the 3rd January crude oil hit a peak of \$100/bbl. There are growing fears within the market that an economic slowdown could erode crude oil demand. OPECs indication that they will maintain production targets as the market is adequately supplied and demand is easing.

## The Outlook

Colder weather forecasts for the next few weeks and uncertainty over supplies could provide support for prompt prices going forward.

With National Grid forecasting tighter plant margins for the coming weeks and a possible recovery of oil prices supporting the gas market, many players cited the possibility of gains over the coming weeks. This coinciding with the forecasted cold snap there is potential for bullish activity.

### Power



On the UK power prompt the month was generally bearish with some declines in day ahead prices this was mainly due to lower electricity demand and milder temperature across the UK and Europe. However, baseload remained steady, trading around the £55.00/MWh. The front winter seasons fell more readily than summer 08, implying that the market continues to price a risk premium associated with the possibility of tight margins during hot spells. Most curve contracts shed value on the back of weaker coal, gas and carbon prices.

### Gas



A similar sentiment prevailed in the gas market, healthy supplies and mild temperatures combined to ease prices on the curve. Norwegian flows through Langeled pipeline increased to 64Mcm/d following the return of Statoil's Kvitebjorn and Visund gas fields. Storage at rough was around 61% full with a total of 47 days of maximum withdrawals still available. Seasons further out along the curve remained stable.