

OCTOBER 07

# ENERGY UPDATE

## Benn targets 4 million tonne carbon reduction from UK industry

Environment Secretary Hilary Benn has announced that he is targeting a 4 million tonne carbon reduction from the UK's Industrial and Commercial sector. Speaking at the launch of the new Climate Change Bill, Mr Benn confirmed the launch of Defra's Carbon Reduction Commitment - a scheme that would introduce carbon trading for all UK organisations consuming more than 6GWh / year, who are not already covered by existing schemes.


The policy would require all participants to purchase carbon credits to cover their emissions. The scheme, is not due to begin until 2010, but the original plans published in March 2007, suggested that the scheme's assessment period would begin on the 1 January 2008. The number of credits available will then be lowered; year on year leading to an overall CO2 reduction of 4 million tonnes by 2020.

## Power

A supply crunch as a raft of nuclear and coal-fired capacity remained offline in October led to the first system warning over tight margins from network operator National Grid since summer of 2006 and a spike in short-term power prices. The hike in power prices came against a backdrop of climbing NBP prices which in turn were driven by field maintenance concerns. Coal reached new record highs in October ending the month at almost double the level at which it began 2007. In addition gas prices strengthened in response to both

short-term supply problems and record oil markets. As a result the market went into the winter on a bullish note with Met Office predictions that this winter will be colder than the last winter, adding to nerves.

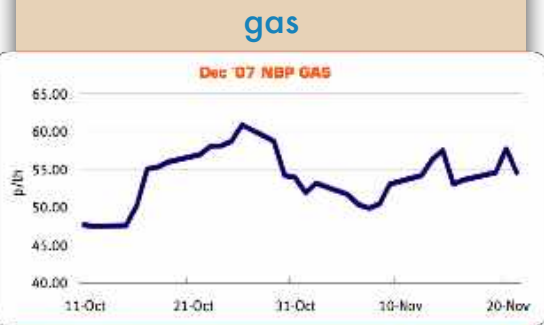
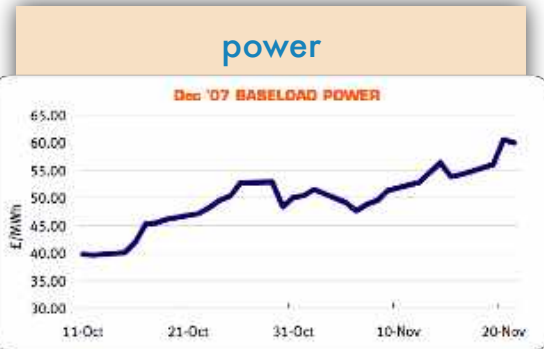
### BRIGHT IDEAS



"Leaving a computer on 24/7 costs 4 times more than if you switch it off at night and weekends."

## Gas

Despite the commercial start-up of the Norwegian Ormen Lange gas field in October, NBP prices firmed across nearly all contracts on the back of renewed bullish sentiment brought on by surging oil markets and supply concerns. Traders had generally been bearish coming into the winter, but this sentiment changed as the weather turned colder than expected for much of October. Langed flows remained volatile intra-day but averaged around 60 Mm<sup>3</sup>/day. Strong demand on the back of colder weather and buying from storage players added support. This pushed the November contract up from 41p/th to over 54p/th



## The Outlook

The focus of the market continues to be on the prompt markets and the coming weeks are likely to be more of the same volatility over prices.

With electricity supply margins remained extremely tight the prospect of prompt prices moving around sharply looks to continue.

The gas prompt market has similar concerns over Imports from Norway, which have continued to fluctuate.

The forecasts for colder weather arriving in the UK could lead to prices leaping upwards as demand increases.

The gas and power forward curves will continue to look to the oil market for direction, which remains strong. This bullish pressure may lead to firmer seasons contracts, whilst the front months may feel the ripple of prompt direction.