

MAY 08

ENERGY UPDATE

Scotlands first tidal device connects to National Grid.

A pioneering tidal scheme has taken a significant step forward this week when it begins generating electricity on to the National Grid. OpenHydro's tidal device has become Scotland's first grid-connected tidal device to produce electricity from the tides. The device has been installed at the European Marine Energy Centre's test site at The Fall of Warness, off the island of Eday in Orkney. The open-centre turbine is designed to be deployed directly on the seabed- silent and invisible from the surface and presenting no navigational hazard.

Tidal barrage moves a Step closer.

Plans for a £14bn barrage that would harness the tidal energy of the Severn estuary have taken a step forward. Uk Trade Secretary Alistair Darling said tidal power was "in its infancy" but the government wanted to encourage its development.

Stretching from south of Cardiff to Weston-super-Mare in Somerset the barrage could supply 5% of the UK's electricity, according to supporters. But some environmentalists fear its impact on wildlife and their habitats. Mr Darling said that the government needed to weigh-up the impact a barrage might have on the environment with the impact further carbon emissions would have on that environment.

National Grid issues three system warnings.

On Tuesday 27th May National Grid three system warnings, two steps up from the standard NISM, the third warning was a DCI (Demand Control Imminent) eventually leading to a "Brown Out". Prompt prices were volatile as a result and peaked to £95/MWh.

Saudi agrees to increase production.

Saudi Arabia's decision to increase its oil production after intense US pressure threatens to deepen the rift that has emerged inside OPEC between the moderate Arab Gulf countries and hawkish Iran and Venezuela.

Analysts said the move was linked to George W Bush's personal plea for more oil-the second this year-and threats from leading US senators that they would try to stop a \$1.4bn (£717m) arms sale to Saudi Arabia.

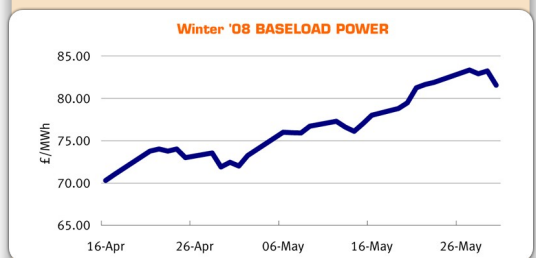
They also highlighted the deteriorating relations between Saudi Arabia and Iran after Hizbollah, the Iranian-backed Lebanese opposition movement, seized control of western parts of Beirut and fought loyalists of the pro-western government, triggering the worst violence in Lebanon since the civil war.



The Outlook

Continental demand is not expected to increase unless there is a significant drop in the UK price. With no new fundamentals the gas and power prices are expected to continue to track oil market developments. National Grid has predicted another tight system with the power surplus to range between 5,000 and 7,000 MW.

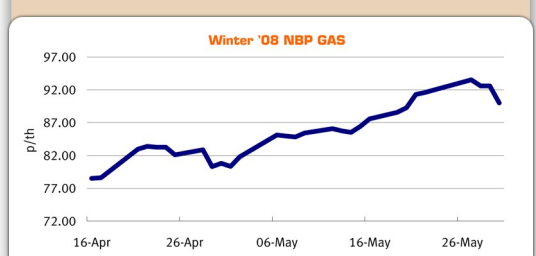
Power



Forward curve prices continued to track bullish oil, coal and carbon market movements with the winter -08 and 09 contracts reaching a record high.

Soaring demand and constrained supply has rocketed the price of oil to over \$135/b and carbon trading at €26.10/tonne.

Gas



The forward curve for gas was volatile over the month again, with oil prices riding to new highs over \$135/bl. Investors are increasingly concerned about falling oil production in Russia and Mexico which are both major oil producers.

The winter-08 contract continued to break records and closed on week ending 16th may at over 87p/th. The November-08 contract gained over 5p/th as nervousness over the injection rates into Rough storage was reduced. The speculation as to whether it will be completely full before October has eased and the Q-08 contract was more restrained as a result.