

November 2011

**teamTALK**

Your monthly energy news bulletin



**The Monthly Energy News Bulletin for Customers of energyTEAM**

**Brent Crude \$108/Barrel | Carbon: EUA '11 €10/T CO2 | Coal \$116/Tonne**

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## COMMENT: Brian Rickerby: Joint Managing Director

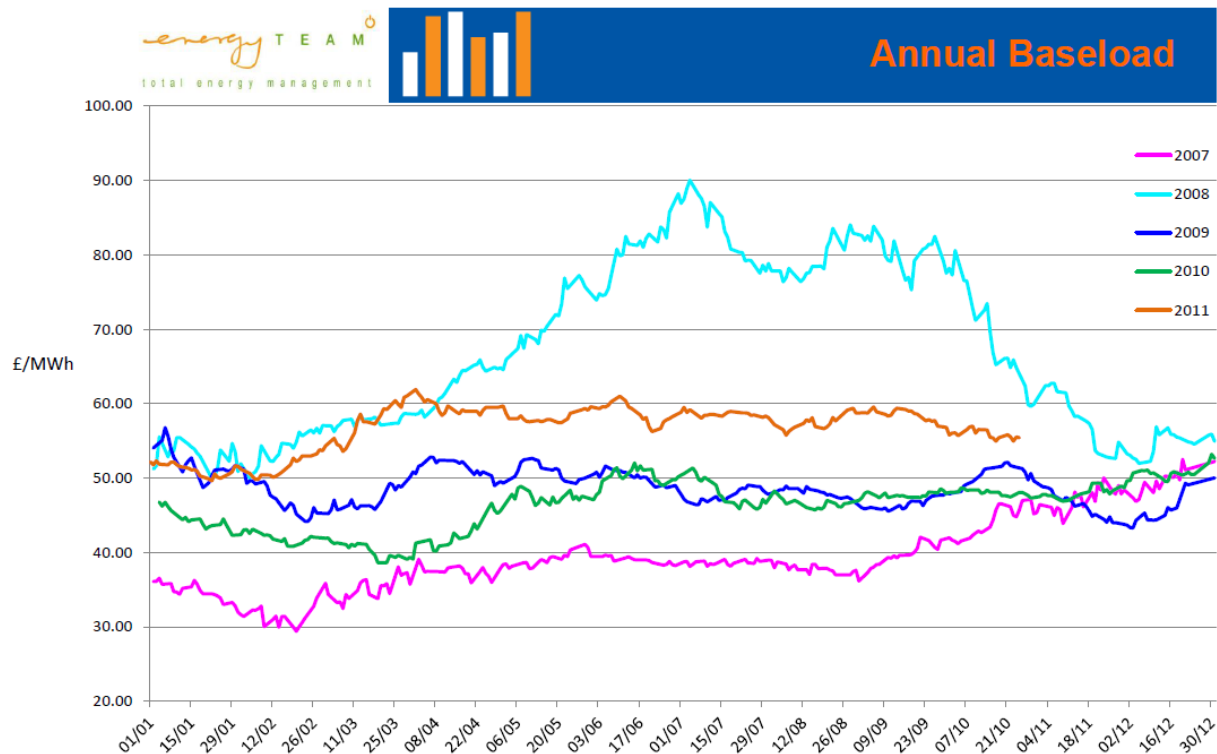
We are speaking to a number of clients and prospects who have seen an increase in this year's energy contract. It is surprising how quickly these increases have been accepted. Typically companies set an energy budget by basing the coming year's figures on the assumption that usage will be the same as the previous year. They then factor in the increase in cost and try to absorb the cost increase into their projections.

Why not set a budget that factors in energy reduction, not just energy price?

Budgeting for a reduction in energy usage will force the board – it needs to be a board issue – to look at ways to reduce energy.

Negotiating the lowest possible energy contract price is just part of managing energy expenditure. It is a cliché but nevertheless true, the cheapest energy is the energy that you do not use.

## Historical Baseload Wholesale Electricity Prices



The graph above is a weighted average of wholesale electricity prices over the last five years.

### Power Plants to Close

Britain's 230MW Oldbury nuclear power plant will close in February 2012. The facility operator Magnox said "further operation of one of the world's oldest nuclear reactors is no longer economically viable."

Centrica is likely to close 2 of its gas fired electricity plants by June 2012, as high gas prices and an electricity surplus have hit profitability.

Meanwhile the Scottish government has given Scottish Power permission to build a 1000MW gas fired power plant in Cockerzie.

### **Ofgem Fines Suppliers for Poor Complaint Handling**

Energy regulator Ofgem has fined Npower £2m for failing to handle complaints properly. They are also investigating the way EDF Energy handles complaints. Ofgem fined British Gas £2.5m in July 2011 for the same offence.

### **Name Change for Scottish and Southern Energy**

Scottish and Southern Energy PLC officially changed its name to SSE plc in October. A communication from the company advised the following:  
"Please be advised that as of 1<sup>st</sup> October 2011, Scottish and Southern Energy plc changed its name to SSE plc. The change is essentially administrative and does not affect the structure or status of the company. All existing contracts and similar arrangements are unaffected by the change of name."

### **SSE to Auction All of its Electricity Supply**

SSE has announced that it will be trading all its generation capacity on the day-ahead market. Currently the British day-ahead electricity market trades volumes of around 40GWh a day - with a further 200GWh through brokered markets. SSE's generation and supply director, Alistair Phillips-Davies, said: "This commitment from SSE will significantly improve the liquidity in the wholesale electricity market and help to address one of the perceived barriers to entry into the electricity supply market. If other energy companies adopt a similar approach, this commitment could lead to a transformation in the wholesale electricity market in Great Britain. We believe this commitment represents the most significant change to the GB electricity market since the market arrangements were amended in 2005, to form the current market arrangements known as BETTA. Customers have demanded greater transparency around how we operate in the wholesale market. As well as improving liquidity, this approach will also improve the transparency of SSE's activity in the wholesale market."

Critics say this will make little difference to prices across the big suppliers in the short-term, as they purchase most of their energy well in advance.

### **MPs Back European 'Supergrid'**

A report by the Energy and Climate Change Select Committee says that connecting the UK's electricity system with neighbouring countries in Europe would allow the National Grid to balance supply and demand more effectively. According to the report, current arrangements, where single connections for offshore wind farms have to be made, are prohibiting the construction of between

80 and 280 new wind farms over the next twenty years. MPs say the cost of building the grid could be very high, but would then save 25% compared to connecting each site individually, and would contribute to the UK becoming a net exporter of energy

## Hinckley Point Protest

About 100 protesters blockaded a power station as part of an on-going campaign against plans to build a new nuclear station on the site. The protest started with a march outside EDF Energy regional headquarters in Bridgewater in response to plans by the energy giant to build the proposed Hinckley Point C power station, which would be the largest ever planned in Britain.

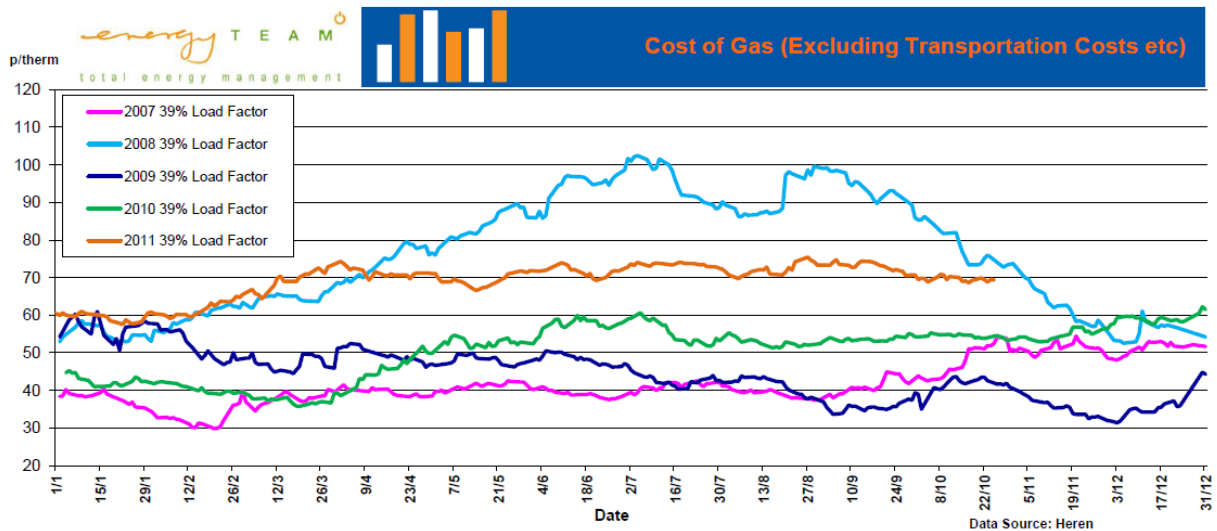
Stop Hinckley spokesman, Crispin Aubrey, said: "This region deserves decent jobs that are safe and sustainable; nuclear power cannot meet this requirement. EDF Energy is offering jobs that come from the bottom of the barrel. The construction work will only be temporary and will cause great inconvenience to the local community - particularly in terms of traffic congestion. Most of the longer-term jobs at the reactor will be specialised and will require people to come in from further afield, so it's a bad deal for Somerset and Bristol."

In response, Hinckley Point B station director, Mike Harrison, said: "The safety of the public, our people and our plant is always our top priority. We believe strongly that low-carbon nuclear has a vital role in maintaining UK electricity supplies in the future. As the government has said, the UK continues to need new nuclear power; we also appreciate greatly the support of the large majority of local residents who recognise the contribution we make to the area and the benefits that a new power station would bring to Somerset."

## Warning Over Cuts in Energy Subsidies

Drax, the UK's biggest coal-fired generator, and Centrica, the owners of British Gas, have said they will have to review the costs of proposed green energy plans in the wake of the government's shake-up of renewable energy subsidies. Drax said some of the new bio-mass subsidy rates made the case for three new bio-mass power plants "highly challenging", while Centrica said, "we need to re-examine the economics of the projects we have in our planning pipeline, including our next two, off-shore wind projects."

## Historical Wholesale Gas Prices (Graph)



The graph above is a weighted average of wholesale gas prices over the last five years.

### Norwegian Supplier Threatens to Sell To Other Markets

Statoil, a major Norwegian gas supplier to Britain, has threatened to sell its gas to other parts of Europe if Britain continues to concentrate on gaining new renewables and nuclear power capacity, at the expense of gas-fired generation. Rune Bjornson, Statoil's executive vice-president for natural gas said, "There are other places we can export the gas apart from the UK. We have the gas you need if you want it." However it could be argued that the real problem is the lack of clarity coming from the UK government with regard to future energy policy, as Mr Bjornson went on to say "We are getting different signals from different parts of government, we don't know which opinion will prevail. This introduces uncertainty for investors." He added that Britain was "embarking on a huge experiment with its energy future."

### Dong Energy Acquires Shell Gas Direct

Denmark's DONG Energy has announced they will acquire Shell Gas Direct from Shell UK for £30m. The deal will be completed in the coming months. Shell Gas Direct is one of the UK's largest gas sales and marketing companies, with a business-to-business market share of 11%. DONG Energy's Executive Vice President Lars Clausen said, "The acquisition of Shell Gas Direct will provide us

with a unique opportunity to enter the UK natural gas sales market. The company has a considerable customer portfolio and an experienced sales force that I look forward to welcoming to DONG Energy". DONG Energy is already an established player in the UK with offshore wind farms, a gas-fired power station and oil and natural gas exploration. With the acquisition of Shell Gas Direct, DONG Energy will gain a fully integrated market position in UK. Completion of the transaction is subject to final approval by the EU competition authorities.

## MPs Call For More Gas Storage

A report by the Commons Energy and Climate Change Committee has warned that the UK needs to double the level of gas storage capacity by 2020 to reduce the impact of energy price spikes and to secure supplies. Gas storage in the UK covers just 14 days of average winter supply, compared with 87 days in France and 69 days in Germany. Liquefied Natural Gas (LNG) accounted for more than two times the gas delivered from Norwegian supplies during summer 11.

## Green Energy

**The Greater Gabbard project**, potentially the world's largest offshore electricity wind farm, is under threat from a legal wrangle between utilities Scottish & Southern and RWE and the principal contractor Fluor.

**Scottish Power and DECC** both insist that negotiations to set up a carbon capture and storage (CCS) demonstration facility are still on course, despite media suggestions that the project was about to collapse.

**Thames Water** has launched a new sewage to energy initiative which could reduce carbon emissions by 500 tonnes a year and save up to £300,000. The water company's £1.5m sewage sludge dryer in Slough turns the sludge into woodchip-like flakes which can be burnt to produce energy. Thames Water claims this is the first facility in the UK to produce fuel from sewage, rather than just reducing the volume of waste.

**The European Investment Bank** has granted Iberdola, the parent company of Scottish Power, a €200 million (£175 million) loan to fund its R&D and innovation programme. A third of this money is to be spent in the UK.

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**The UK is set to meet its first three carbon targets**, according to the latest analysis from the Department of Energy and Climate Change (DECC).

**The Scottish Government** has increased funding on its “Energy Assistance Package” by an extra £5 million. The scheme is designed to improve energy efficiency and reduce fuel poverty.

**The world’s largest tidal turbine power scheme** is being developed off the Hebredean island of Islay. The £40million project will use ten underwater turbines to produce ten megawatts of power, enough to power 5,000 homes, twice the number of homes on the island.

**Domestic solar subsidy is to be cut** from 43p per kWh to 21p per kWh under an announcement from the Government which affects installations completed after 12<sup>th</sup> December 2011. This is likely to prompt a panicked rush to install domestic solar panels before the current subsidies expire.

## **New Legislation**

Not only do companies have to comply with rising energy prices, as part of the government's drive to reduce emissions, they also have to comply with a plethora of new legislation designed to reduce energy levels across the UK.

This new legislation introduces additional costs, but also identifies where energy savings can be made (which is the whole point of it).

*energyTEAM's* highly experienced and accredited engineers assist our clients in complying with the new legislation that affects them.

To see how legislation could affect your organisation please click on the following links:

[\*\*Air Conditioning Inspections \(ACI\)\*\*](#)

[\*\*Energy Performance Certificates \(EPC\)\*\*](#)

[\*\*Display Energy Certificates \(DEC\)\*\*](#)

[\*\*CRC Energy Efficiency Scheme\*\*](#)