Catalyst
Digital Energy

Digital Energy Element

September 2020

Catalyst
Digital Energy

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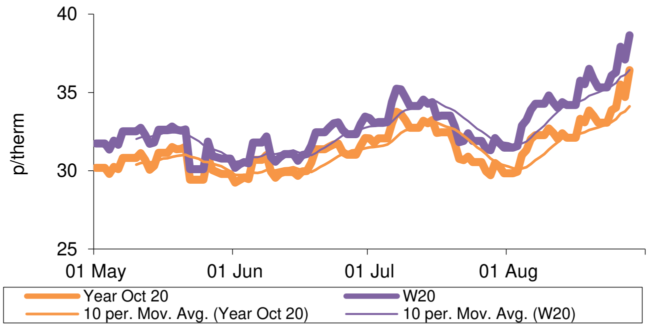
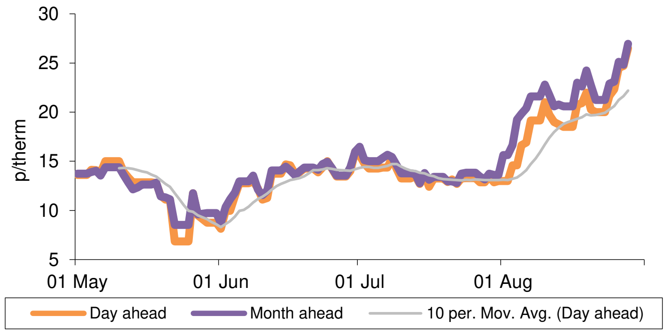
Untangle your energy spend management

Digital Energy Element / Sep-20

Annual gas prices



Spot gas prices



Most gas contracts rose in August, as prices were supported by resurging demand and higher commodity prices, including seven-month high LNG prices and a near five-month high oil price.

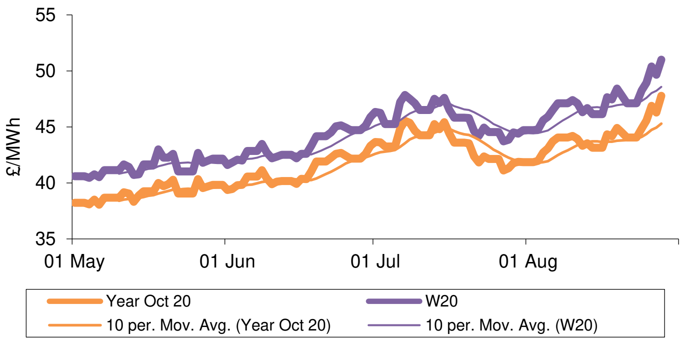
Seasonal contracts from winter 20 to winter 22 rose 1.1% on average. The contract for delivery in winter 20 lifted 6.0% to average 35.13p/th, while the summer 21 contracts rose comparatively less, up 1.2% to 30.83p/th. The annual October 20 contracts increased 3.7% to 32.98p/th.

Seasonal gas prices will struggle to find much support in the next month, as gas markets remain well supplied with gas storage levels looking healthy as we enter Autumn.

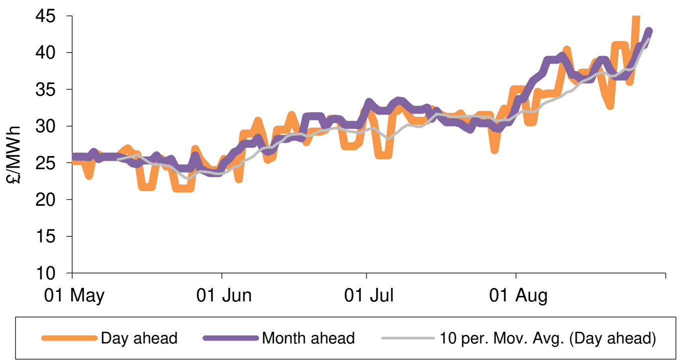
Day-ahead gas jumped 48.4% in August, averaging 20.12p/th, due to fewer LNG deliveries, maintenance at several North Sea and Norwegian productions facilities and rising demand during periods of colder weather. The contract hit a seven-month high of 26.50p/th at the month's end.

Gas demand will be higher amid declining temperatures as we head into Autumn months, which will support prices for near-term delivery in the month to come.

Annual power prices



Spot power prices



Near-term and long-term power contracts experienced diverging trends in August.

Seasonal power contracts up to and including summer 21 increased, following gas prices upwards and amid bullish sentiment for energy prices this winter. In contrast, contracts thereafter declined, following a drop in EU ETS carbon prices and a comfortable supply picture as more renewables generation capacity commissions.

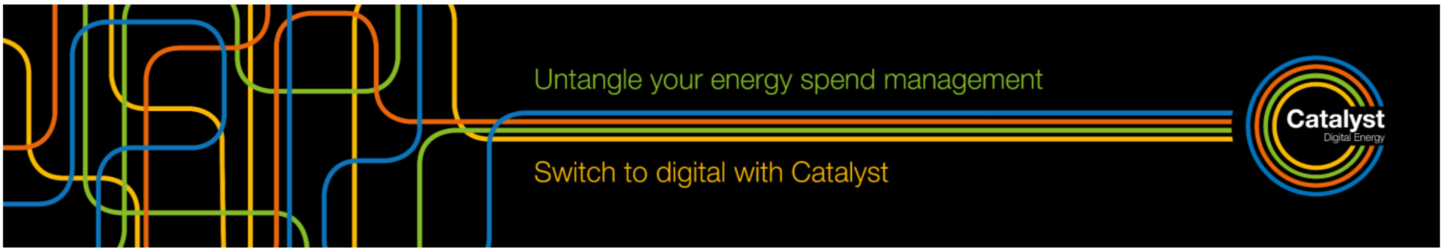
The winter 20 contract gained 3.7% to average £47.51/MWh, while the summer 21 contract went up 0.3% to average £41.18/MWh. Winter 21 power dipped 1.6% to average £48.71/MWh.

Near-term power prices followed their gas counterparts upwards in August, with contracts finding additional support from resurging demand levels as lockdown measured eased and business activity increased.

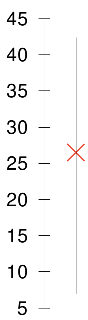
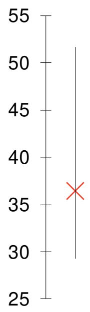
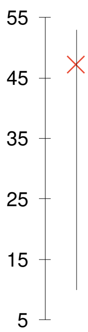
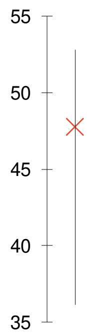
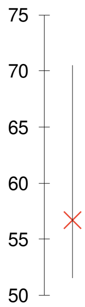
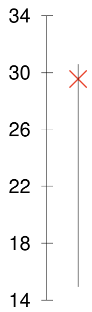
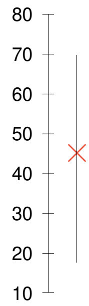
Day-ahead power gained 22.4% to average £38.24/MWh, while the month-ahead power contract (for delivery in September) boosted 11.6% to average £38.21/MWh.

In September, near-term power prices should remain above the low levels seen in summer months but will see conflicting drivers between rising demand and increased wind output.

 Catalyst Commercial Services' independent approach enables clients to manage their exposure to energy price risk, while at the same time benefiting from a first-class service from a range of major and independent suppliers. Catalyst Commercial Services' procurement solutions make it simple, so contact a member of the team to discuss requirements.



Key market indicators: 28/08/2020

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	($/t)	(€/t)	($/bl)
This month	28 Aug 20	26.50	36.43	47.25	47.78	56.75	29.55	45.10
Last month	3 Aug 20	14.60	29.94	30.50	41.96	59.80	26.15	43.07
Last year	29 Aug 19	27.25	48.09	36.70	50.19	63.40	26.01	60.42
Year-on-year % change		(3%)	(24%)	29%	(5%)	(10%)	14%	(25%)
Year high		42.40	51.72	53.00	52.81	70.55	30.57	69.75
Year low		6.85	29.24	10.00	36.15	51.50	14.90	17.53
This table shows the price at the end of this month compared with prices from the previous month and year. The graphs show the position of this month's prices with a red X and the range of prices over the year is represented by the black line.								

Commodities

Carbon: EU Emissions Trading Scheme carbon is quoted as over-the-counter (OTC) latest opening prices. All carbon prices are in euros per tonne (€/EUA).

Coal: Coal is quoted as OTC latest opening prices. All coal prices are in US dollars per tonne ($/t).

Electricity: UK power base-load and peak-load are quoted as OTC latest opening prices. All UK electricity prices are in pounds per megawatt hour (£/MWh).

Gas: UK National Balancing Point (NBP) gas is quoted as OTC latest opening prices. All UK gas prices are in pence per therm (p/th).

Oil: Brent crude oil is quoted as OTC latest opening prices. All Brent crude oil prices are in US dollars per barrel ($/bl).

Language/ terms

Bearish: A bearish market shows a general decline in prices over a period of time.

Bullish: A bullish market shows a general increase in prices over a period of time.

Curve: A graph of forward prices over a future time period.

Margin: The indicated UK imbalance of a given settlement period. It is the difference between the sum of the indicated generation available, and the national demand forecast made by National Grid.

Over-the-counter (OTC): The trade of a commodity directly between two parties, often on standardised terms.

Spark/ Dark spread: The theoretical net income of a gas/ coal-fired power plant from selling electricity having purchased the necessary fuel. The clean spark/ dark spread is this net income adjusted for the cost of carbon.

Disclaimer

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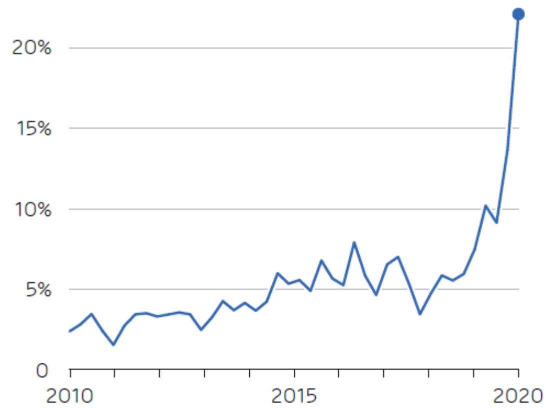
Award Winning
Business Energy Consultants

Electricity “cheaper, cleaner and harder to control over lockdown”

Under lockdown, electricity was “cheaper, cleaner, but harder to control”, power company Drax found in its most recent Electric Insights report. Published on 31 August, it found that the share of renewables’ was up 32% year-on-year as biomass, wind and solar set new generation records in Q220. Wholesale power prices declined by 42% from the same quarter last year as demand plummeted during lockdown.

Power prices fell to their lowest in nearly two decades, with prices down two-thirds over the last two years hitting a low of £22/month over May. The total cost of generation (based on wholesale prices plus balancing charges) fell from £3.0bn to £1.7bn over the three months. Prices were driven lower by the fall in oil and gas prices over the last year, as well as by falling demand due to the COVID-19 lockdown. COVID has resulted in demand being around 4GW lower across this quarter than Drax would have expected without lockdown.

Figure 1: The quarterly-average cost of balancing the power system, expressed as a percentage of the cost of generation



Source: Drax Electric Insights

On carbon emissions reductions over this period, Drax found that coal saw a period of 67 days (10 April to 16 June) straight without generating – May saw no coal generation in the entire month. Solar supplied an average of 2.7GW of power during May, surpassing 10% of the month’s electricity demand – Drax pointed to high levels of sunshine over the period as a factor. Renewables’ share in the power system rose from 30% in Q219 to 40% in Q220, Drax found. Carbon emissions from electricity generation were found to have fallen below 10mn tonnes – 75% lower than the same period a decade ago. Carbon intensity hit a new low of just 18 g/kWh in the middle of the Spring Bank Holiday. Drax said that clear skies with a strong breeze meant wind and solar power dominated the generation mix.

Drax also considered the cost for National Grid ESO to balance the system, both during lockdown and over a longer period. Drax said that the costs of balancing usually amount to 5% of generation costs , but this share has quadrupled over the last two years (see Figure 1). In the first half of 2020, the cost of these actions averaged £100mn per month. At the start of the 2010s, balancing added about £1/MWh to the cost of electricity, but last quarter it surpassed £5/MWh for the first time. Balancing prices have risen in step with the share of variable renewables, Drax said.

Government

Government issues amendments to RHI schemes

The government released details of an extension to the domestic Renewable Heat Incentive (RHI) and a new flexible allocation of tariff guarantees under the non-domestic RHI scheme (NDRHI) on 17 August. The NDRHI provides financial incentives to increase the uptake of renewable heat by businesses. Proposals were outlined that were designed in response to the impact that COVID-19 is having on NDRHI projects’ ability to meet predetermined commissioning deadlines. These projects will be afforded an additional six months after scheme closure (on or before 30 September 2021) to submit a full application for accreditation, providing that they submit an ‘extension application’ to the scheme during a window opening in March 2021. Evidence to support an extension application must be provided no later than 31 March 2021 and should be as complete as possible.

Chief Executive at the Renewable Energy Association (REA), Dr Nina Skorupska welcomed the move.

Government   REA

Ofgem announces review of high balancing costs

On 17 August, Ofgem set out that it is to undertake a review of the high balancing costs that were experienced during the spring and summer period, with the aim of identifying areas that need to be explored in order to reduce costs for consumers.

Balancing is carried out by National Grid Electricity System Operator (ESO) to keep the electricity system working – the balancing costs are filtered down into all types of consumer electricity bill. This period saw the onset of COVID-19, as well as record high renewable output and saw the ESO incur balancing costs of £718mn between March and July, 39% higher than the normal expected costs for this period. Over the spring and summer, the ESO introduced three changes to the existing GB balancing arrangements to enable it to better manage the system:

- Contracting with Sizewell B nuclear power station to reduce its output by 50%.
- Designing and introducing a new Optional Downward Flexibility Management service to turn down distributed generators which do not normally provide balancing services.
- Clarifying the emergency arrangements for the disconnection of distributed generation if necessary.

These extra actions resulted in an increase in costs for balancing the system and as such Ofgem will assess how well the market responded to the challenges faced during this period and any lessons that might be learnt. Specifically, the review will focus on three areas: the extent to which the challenges faced were foreseeable and how much of a cause COVID-19 was to these increased costs; an assessment of the crisis management and response, focusing in particular on how well the ESO met its expected standard and how it engaged with the market; and the identification of any lessons that can be learnt for the future, including any further amendments to the system that might need to be made.

Ofgem intends to hold industry roundtables in early September to gather stakeholder views on these three areas. It is the regulator's intention to finish the review by the end of October, which will coincide with the ESO Performance Panel's mid-year review of the ESO.

Ofgem

6mn fall behind on bills due to COVID-19 and could affect businesses

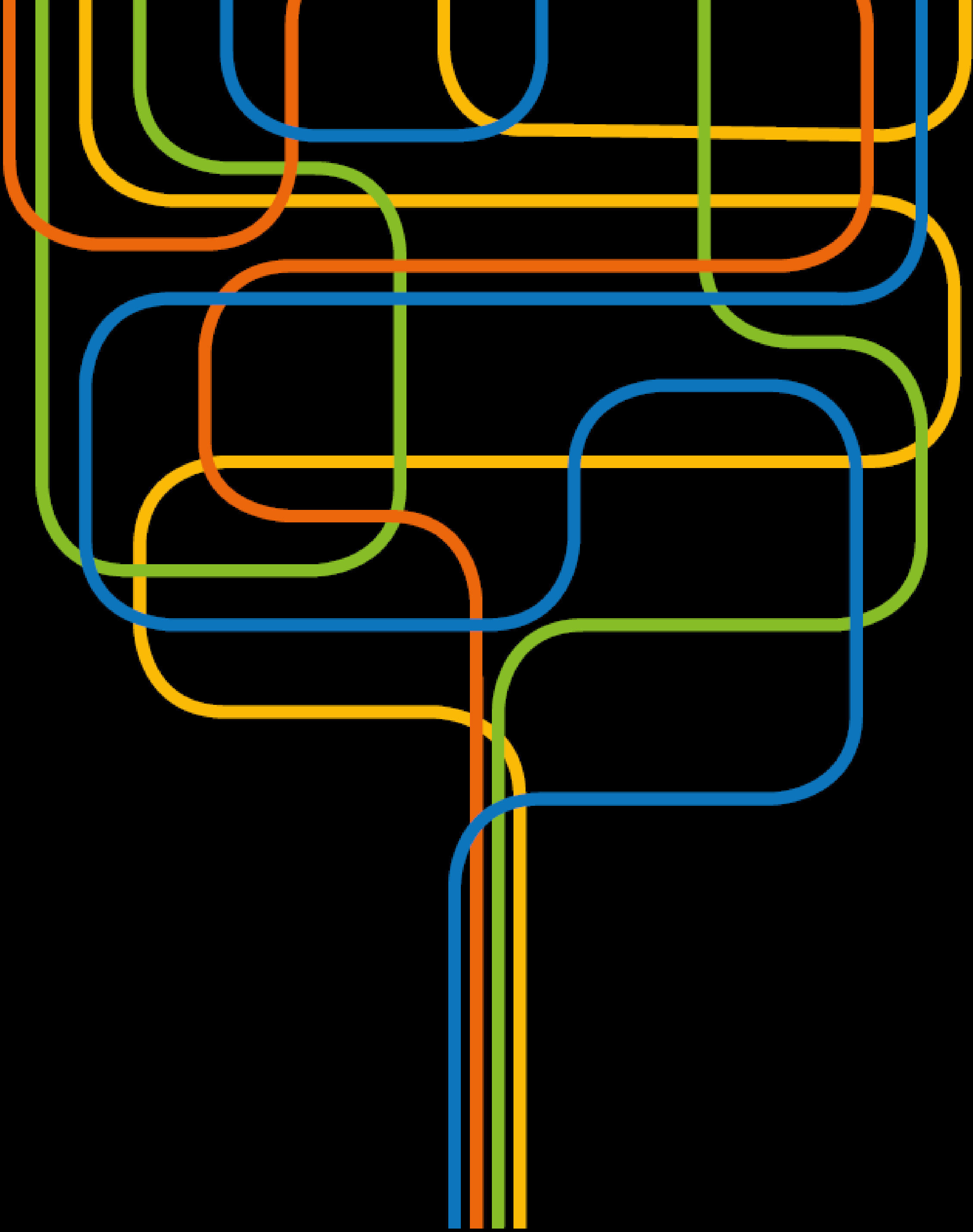
Citizens Advice research, published on 21 August, has found that one in nine people, equivalent to 6mn in the UK, have reported falling behind on household bills due to the impact of COVID-19. The charity warns that many of those struggling may face "harsh enforcement".

Citizens Advice "fears that many of those now in debt may never escape it". People who sought help with debt since March this year will need, on average, two and half years to pay back their current priority debts, which include household bills, Citizens Advice said.

The charity said it also fears that businesses, landlords and councils might face the prospect of "being saddled with a mountain of unrecoverable debts that could affect their own viability". This, along with reduced consumer spending as people pay down debt, could hamper the wider economic recovery, it warned.

People in debt because of COVID-19 need "urgent financial support" to deliver on the Prime Minister's pledge to 'build back better'. Citizens Advice is calling for one-off or time-limited financial support for arrears built up because of COVID-19, with the cost of relief shared fairly between government, creditors and individuals. This would be tailored to each sector but could include grants, payment matching or government-backed loans, it said.

Citizens Advice



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