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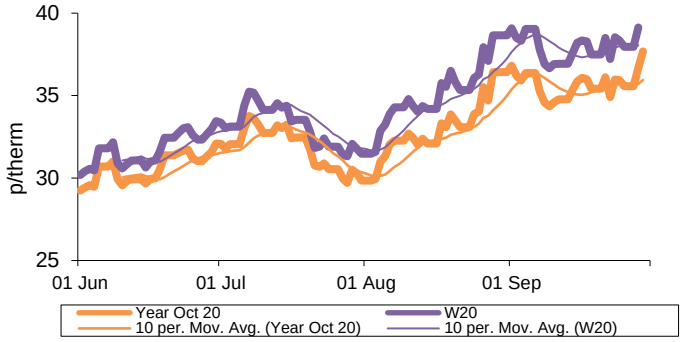
October 2020

Untangle your energy spend management

Digital Energy Element / Oct-20

Annual gas prices

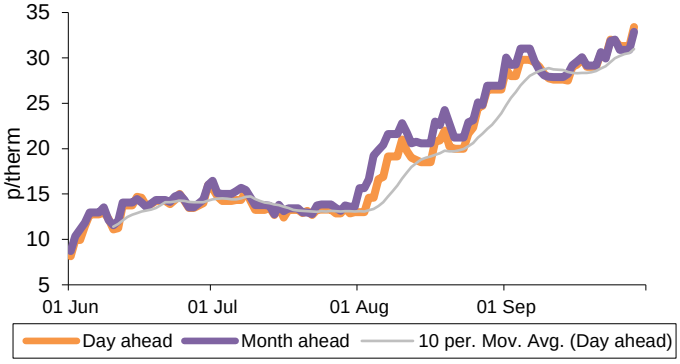


All gas contracts rose in September, as prices found support from rising demand levels in GB and globally, alongside nine-month high LNG prices. Although, price growth was slower compared to previous months with continued uncertainty surrounding COVID-19.

Seasonal contracts from winter 20 to winter 22 rose 5.1% on average. The contract for delivery in winter 20 lifted 9.1% to average 38.14p/th, with the summer 21 contract rising comparatively, up 8.8% to 33.40p/th. The annual October 20 contracts increased 9.0% to 35.77p/th.

With the gas market remaining well supplied, healthy storage levels and stagnant oil prices, seasonal prices are not expected to see further significant gains.

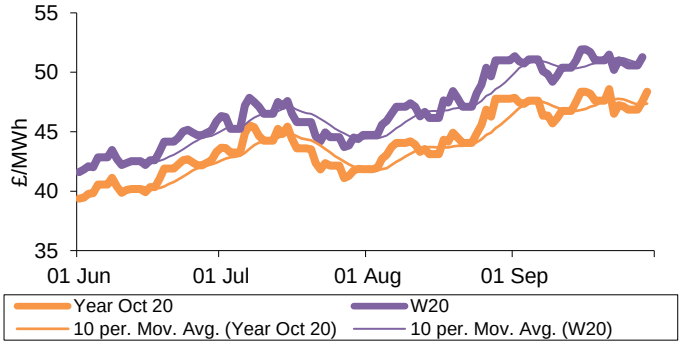
Spot gas prices



Short-term contracts also rose. Day-ahead gas jumped 51.4% in September, averaging 29.95p/th, due to fewer LNG deliveries and continual rising demand as we enter periods of prolonged colder weather and some economic resurgence compared to the month prior. The contract hit a nine-month high of 34.85p/th at the month's end.

Gas demand will be higher amid declining temperatures as we progress further into Autumn months. However, renewed fears and the reality in some cases of tougher UK lockdown restrictions may weigh on prices in the coming month.

Annual power prices

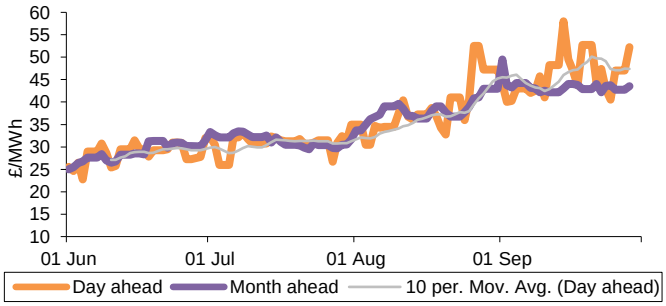


Near-term and long-term power contracts experienced growth in parallel to their gas counterparts.

All seasonal power contracts up to and including winter 22 increased, following gas and carbon prices upwards. Similar to gas prices, growth stagnated alongside commodity market and economic uncertainty surrounding COVID-19.

The winter 20 contract gained 7.9% to average £50.90/MWh, with the summer 21 contract enjoyed similar upwards growth at 6.6% to average £43.78MW/h. The winter 22 experienced fewer gains but climbed 1.3% to average £50.98MW/h in September.

Spot power prices



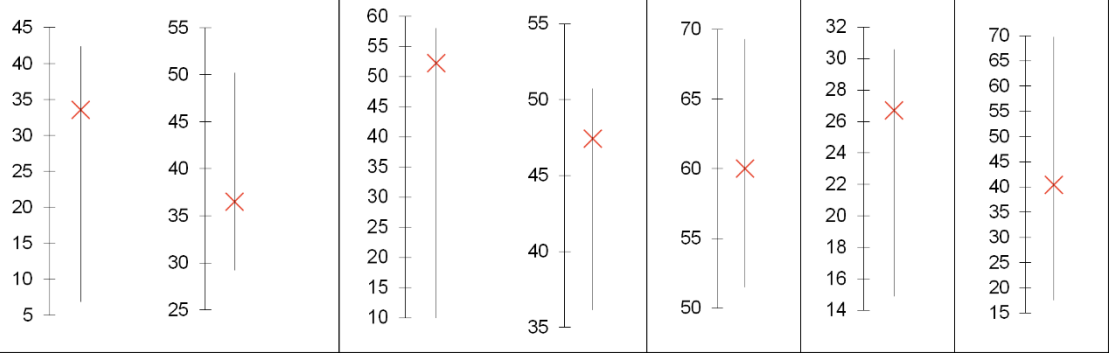
Near-term power prices saw more pronounced gains in September, with demand increasing as we enter colder months. Day-ahead power gained 20.4% to average £45.85/MWh.

In October, near-term power prices should remain above the low levels seen in summer months and may see further growth as we head deeper into winter. However, increased wind output, continued market uncertainty as COVID-19 cases resurge, and stagnated commodity prices may prevent act against further growth.

Key market indicators: 30/09/2020

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	($/t)	(€/t)	($/bl)
This month	30 Sep 20	33.55	36.51	52.25	47.44	60.00	26.72	40.40
Last month	2 Sep 20	28.00	36.21	40.00	47.45	57.60	27.83	45.96
Last year	1 Oct 19	24.65	49.33	36.75	50.72	69.30	24.43	59.87
Year-on-year % change		36%	(26%)	42%	(6%)	(13%)	9%	(33%)
Year high		42.40	50.18	58.00	50.72	69.30	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.

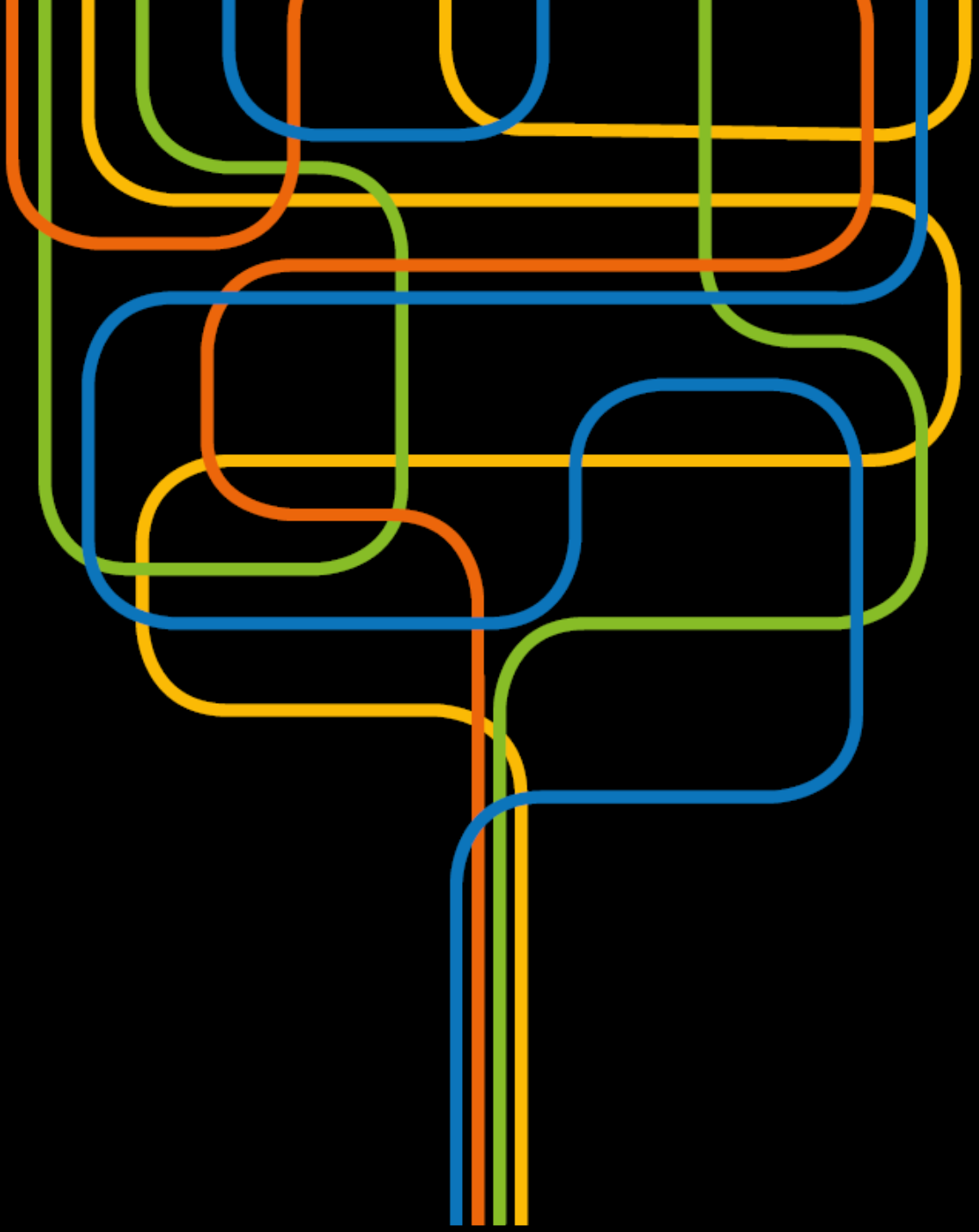
Curve: A graph of forward prices over a future time period.

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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Government proposes new levy for gas decarbonisation scheme

The Department for Business, Energy and Industrial Strategy (BEIS) detailed the design of the Green Gas Levy to support the Green Gas Support Scheme (GGSS) in a new consultation published on 22 September. The levy will fund support for biomethane injection into the gas grid. Proposals for the GGSS were set out in an April 2020 consultation *Future support for low carbon heat*.

The government has opted for a flat rate approach to the levy, initially. This means that all gas customers, whether they are households, SMEs or large factories, will pay the same amount extra per year for the levy.

The government has calculated that the impact on annual gas bills will "peak at around £6.90". Government analysis suggests all gas users would expect to see their bills increase by around £1.40 at the start of the levy in 2021, increasing to roughly £6.90 at the peak of the levy in 2028. This is about 1% of the expected average household gas bill in 2028. For a SME, this equates to an increase from the levy of less than 0.5% of its total annual gas bill, with this percentage falling further for larger consumers.

This flat rate will be the case until 2024, when the government hopes to change the system to a volumetric one – this means the size of the levy will then depend on the amount of gas a customer consumes. Government analysis has estimated that this would result in a SME seeing its bill increase by around £50 per annum by 2028. A larger business consumer would pay an increase of around £500 per annum, compared to paying no levy.

The government is still consulting on this approach, so it is not yet certain as to whether it will go ahead with this change to a volumetric system. So, depending on this, by 2028, a SME could see its bill increasing by £6.90 under the flat rate approach, or by £50 under the volumetric approach. Suppliers will be required to make quarterly levy payments to Ofgem by certain due dates. A forecast of the first levy rate will need to be factored into any potential October 2021 Price Cap level announcements, BEIS said.

The deadline for responses is 2 November.

Government

"Comprehensive plan" required to build a net zero economy

The Aldersgate Group thinktank published a new report on 5 October, setting out key policy decisions required within the current parliamentary term to put the UK on a credible pathway to building a competitive, net zero emissions economy.

Building a net zero emissions economy puts forth several recommendations:

- Advance policy and regulatory measures to cut emissions in buildings, surface transport, power and waste.
- Focus on innovation efforts to support large scale trials of technologies and business models to cut emissions in 'hard to treat' sectors to grow the potential for negative emissions by creating a market for nature-based solutions and support scalable trials of negative emissions technologies (NETs).
- Strengthen the government's Green Finance Strategy by creating a National Investment Bank.
- Tackle the 'levelling up' challenge by managing a just transition towards a net zero emissions economy.
- To put in place a diplomatic and trade policy that is consistent with the UK's net zero and Environment Bill targets.

Nick Molho, Executive Director, Aldersgate Group said: 'Securing a durable recovery from COVID-19 and putting the UK economy on track for net zero emissions are mutually reinforcing goals that are strongly supported by businesses and the public.

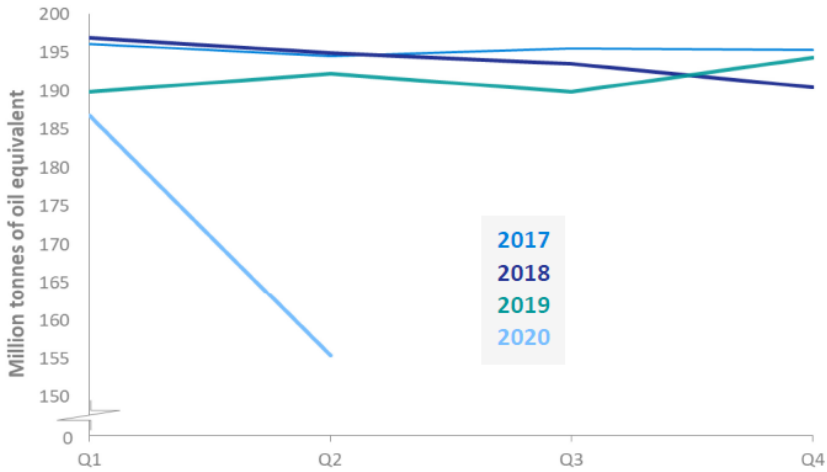
Aldersgate Group

Final energy consumption in Q220 down 30% year on year

On 24 September, BEIS released its *Energy Trends and Energy Prices* publications covering data on energy production and consumption and prices for domestic and industrial consumers for the April to June period of 2020.

Total primary energy consumption was shown to have fallen by 24% compared to the same quarter of 2019, or 19% when taking weather differences into account. Final energy consumption was 30% lower than the same period in 2019, or 22% lower on a temperature adjusted basis (see Figure 1). A significant drop in all fuels across all sectors was observed.

Figure 1: Total Energy – consumption



Source: Government

Renewables' share of electricity generation was up on last year's levels, increasing to 44.6% compared to 35.6% in 2019. This was partly due to increased renewable electricity capacity, which increased 5.4% on last year to 48.5GW, with 80% of this from offshore wind. Total renewables generation for the quarter was 30.1TWh, up 12% on 2019. Low carbon's share of electricity generation also increased to 62.1% in Q220 compared to 52.8% in the same period last year.

Energy prices also saw some large changes in Q220. The Office of National Statistics price indices for the quarter showed a decrease of 18% in the real term price of gas for both domestic and industrial users compared to the same quarter in 2019. Ofgem data also indicated a decrease in domestic customers switching suppliers compared to the second quarter of 2019 and were 16.0% lower for electricity and 8.3% lower for gas.

Government

bp Energy Outlook: "the world is on an unsustainable path"

bp's latest Energy Outlook report has concluded that "the world is on an unsustainable path" and that decarbonisation is "likely to require a series of policy measures". Published on 14 September, the report said policies would likely include a "significant increase" in carbon prices. Delaying these policies measures and societal shifts "may lead to significant economic costs and disruption", it said.

bp put forward three scenarios for the path to 2050. The Business-as-usual Scenario assumes that government policies, technologies and social preferences continue to evolve in a manner and speed seen over the recent past. Primary energy demand increases by 25%. bp said a continuation of that progress, albeit relatively slow, would see carbon emissions peaking in the mid-2020s. The Rapid Transition Scenario would see a series of policy measures, led by a significant increase in carbon prices and supported by more-targeted sector specific measures. Primary energy demand increases by 10%. This would result in carbon emissions from energy use falling by around 70% by 2050. The Net Zero Scenario assumes that the policy measures embodied in Rapid are both added to and reinforced by "significant shifts in societal behaviour and preferences".

bp

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