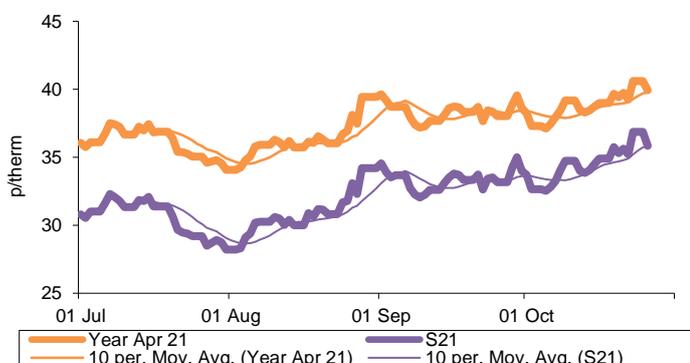


## Annual gas prices

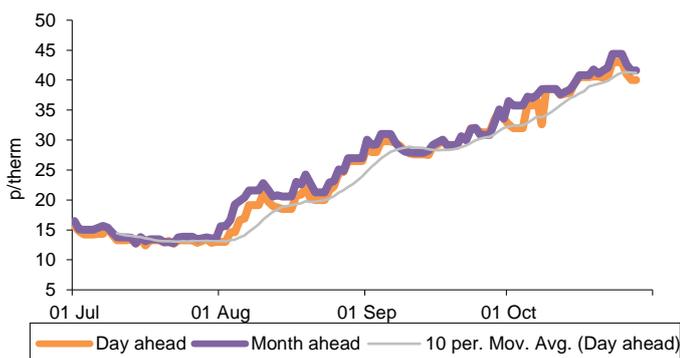


Near-term gas contracts rose in October, as prices found support from a general decline in temperatures as we progress into winter, alongside 20-month high LNG prices. However, price growth was dampened with the implementation of fresh lockdown restrictions, weighing on demand.

Seasonal contracts from winter 21 to summer 23 fell 1.0% on average. The contract for delivery in winter 21 fell 0.7% to average 43.08p/th, with the summer 22 contract down 0.5% to 35.62p/th. The annual April 20 contract increased lifting 1.0% to 38.78p/th.

Gas prices will struggle to find much support in the near future, as gas markets remain well supplied and fears of oversupply remain in the linked oil market alongside demand uncertainty.

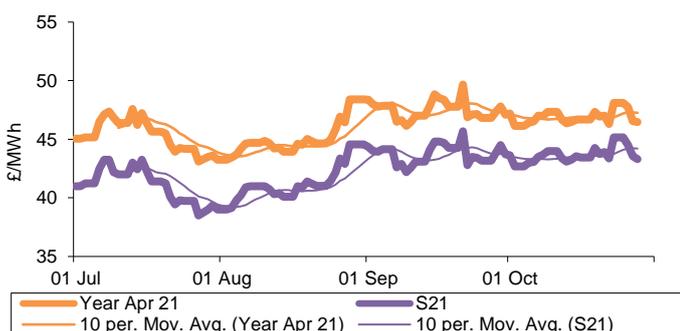
## Spot gas prices



Short-term gas contracts rose in October, countering the sentiment in seasonal contracts. Day-ahead gas jumped 27.4% in October, averaging 38.17p/th. A recent decline in LNG deliveries to GB, and higher LNG prices, could give some contracts a boost. However, reports of increasing global LNG supply could counteract this and start to weigh on LNG prices. In October, the LNG price peaked at 52.69p/th.

Gas demand will be higher amid declining temperatures as we progress further into the Winter months. Renewed fears and the reality of tougher lockdown restrictions throughout the UK could adversely affect demand, with cases rising and the number of regional lockdowns increasing in parallel.

## Annual power prices

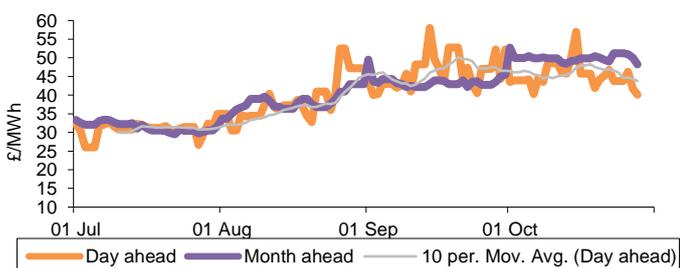


All near-term and long-term power contracts experienced declines, indicative of an uncertain demand picture ahead.

All seasonal power contracts up to and including summer 23 fell, following seasonal gas prices lower. Similar to gas prices, growth stagnated alongside commodity markets and economic uncertainty surrounding COVID-19.

The summer 21 contract fell 0.4% to average £43.60/MWh, with the winter 21 contract slipping 2.4% to £50.09/MWh. The summer 22 similarly declined following other seasonal contracts lower, reducing 2.7% to £43.64/MWh.

## Spot power prices



Near-term power prices did not fare much better in comparison to their seasonal counterparts, down 2.8% on average. Day-ahead power retracted 1.5% to average £45.17/MWh.

Commodity price movements and gas supplies have pointed towards similar and stable prices for power over October. Compared to gas which has a more comfortable supply picture, any periods of tight margins for GB power could lead to price spikes as seen back in mid-September.

Key market indicators: 28/10/2020

		Gas (p/th)		Electricity (£/MWh)		Coal (\$/t)	Carbon (€/t)	Brent crude (\$/bl)
		Day-ahead	Year-ahead	Day-ahead	Year-ahead			
This month	28 Oct 20	40.00	39.33	40.10	46.48	58.00	23.03	39.89
Last month	30 Sep 20	33.55	38.63	52.25	47.09	60.00	26.72	40.40
Last year	29 Oct 19	26.25	46.68	40.25	48.36	68.35	25.35	60.91
Year-on-year % change		52%	(16%)	(0%)	(4%)	(15%)	(9%)	(35%)
Year high		43.00	47.03	58.00	49.67	68.35	30.57	69.75
Year low		6.85	32.75	10.00	38.16	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.

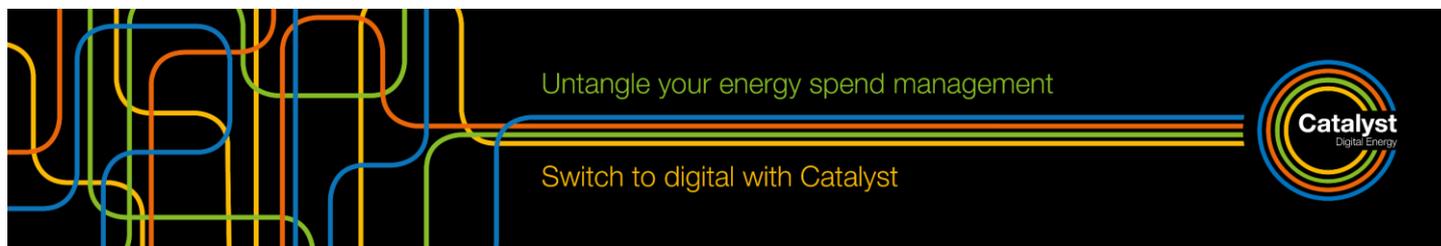
Margin: The indicated UK imbalance of a given settlement period. It is the difference between the sum of the indicated generation available, and the national demand forecast made by National Grid.

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.

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## Government announces Net Zero Strategy due out in run up to COP26

The government set out its energy policy plans for the rest of the year and beyond, including a Net Zero Strategy, in its *Response to the Committee on Climate Change's 2020 Progress Report to Parliament*, published on 15 October.

The Treasury's Net Zero Review report will be published in spring 2021. In the meantime, the Treasury will publish an interim report this autumn. It said any decisions on future spending are for the upcoming one-year Spending Review. The National Infrastructure Strategy, due out this year, will set out further details on the government's long-term ambitions, including on decarbonisation and levelling up, in the autumn.

On the Future Homes Standard, the Treasury will respond to the consultation in the autumn, where it will set out a "meaningful and achievable increase to the energy efficiency standard for new homes, as a first step towards the full standard". It also intends to review the roadmap to the Future Homes Standard to ensure that implementation takes place to the shortest possible timeline.

Concerning the CCC's recommendations for BEIS, the government announced its intention to publish a "comprehensive Net Zero Strategy, setting out the Government's vision for transitioning to a net zero economy" in the lead up to COP26.

The Heat and Buildings Strategy, which BEIS aims to publish later this year, will establish a strategic direction. BEIS will publish a consultation on the Small Business Energy Efficiency Scheme next year. Later this year it will consult on its approach to decarbonising the largest commercial and industrial buildings responsible for over half the emissions from non-domestic buildings. The consultation will set out proposals to introduce a new mandatory rating scheme for the largest buildings with ratings obtained and publicly disclosed annually, enabling comparison between similar buildings, and showing progress towards net zero.

It will also respond to last year's consultation on the Private Rented Sector Regulations for commercial and industrial buildings where it set out the government's preferred trajectory of all buildings in scope achieving an EPC B where the package of measures is cost effective.

Additionally, the Treasury announced that the three-year Comprehensive Spending Review, due out this year, has been replaced by a one-year Spending Review, in order to prioritise the response to COVID-19. Announced by the Treasury on 21 October, the Spending Review will be concluded in "late November" and will set departments' resource and capital budgets for 2021-22, and Devolved Administration's block grants for the same period.

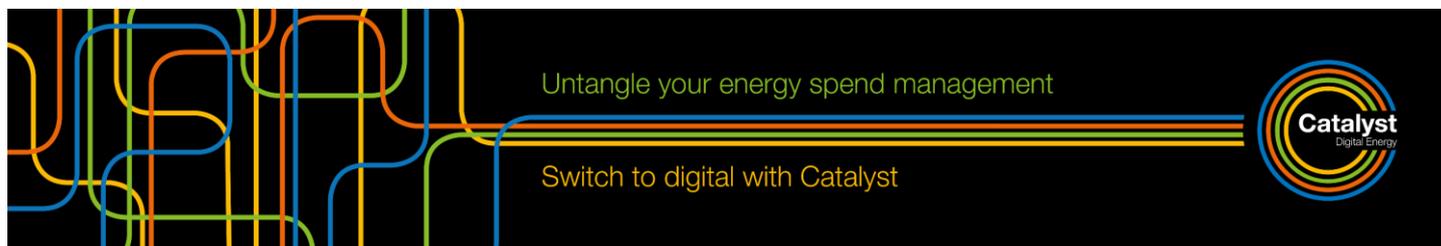
Government Treasury

## Public sees all of society as responsible for reaching net zero

Thinktank Bright Blue examined the attitudes towards the behavioural changes and policies for delivering net zero in its report *Going Greener?*, published on 12 October. The report shows that the UK public sees all agents – individuals, the government and businesses – as "highly responsible" for taking action to achieve net zero. The report presents the results of polling undertaken by Opinium that was conducted between 12-17 June 2020 and consisted of 3,002 UK adults.

82% assign the government a high degree of responsibility for achieving the target. People marginally prefer policies that use financial incentives to encourage behavioural changes over punitive measures. Strong majorities also think businesses (82%), local governments (78%) and members of the public (74%) have a high degree of responsibility. There is a high level of support for specific actions by businesses to help achieve net zero emissions. This includes investing profits into sustainable technologies and practices, offsetting greenhouse gas emissions, and creating internal emissions reduction targets.

Bright Blue



## Energy UK: “fairer” to shift policy costs onto taxpayer

A new report from Energy UK has said that moving energy policy costs, especially those relating to energy efficiency, off bills and onto general taxation “would offer a fairer approach”. Published on 13 October, *Energy in the UK* considers the past year in the sector, including the impact of COVID-19 and sets out recommendations for the energy transition. The trade association said policy costs from schemes such as the Feed-in Tariff and the Contracts for Difference are creating a financial burden for low income households and that shifting costs onto taxpayers would be fairer.

Energy UK said the sector invested £12.6bn in power and gas in 2019, a slight decrease from 2018. This covers capital expenditure in new generation capacity and the upgrade and upscaling of the power and gas network infrastructure. A share of this investment translated into 3.2GW of new build in 2019. On decarbonisation and the road to net zero, Energy UK said most of this new build generation was renewable, delivered largely through the Contracts for Difference scheme. However, the trade association highlighted that “this is below an average build rate of 5.2GW of the previous five years, and below the estimated net zero level build rates of 9-12GW per year needed to 2050”.

Energy UK put forward five broad recommendations for a successful clean energy transition:

- A retail sector where competition and innovation flourish whilst vulnerable customers are protected.
- An increase in private investment in net zero businesses and innovation.
- A well-funded and centralised retrofit programme for buildings covering energy efficiency, heat and microgeneration.
- A rapid decarbonisation of transport, with new incentives for EV use (by fleets and individuals).
- A smart, flexible energy system, fit for future energy sources and user needs.

Additionally, Energy UK held its first ever virtual annual conference on 15 October, with several keynote speakers from sector stakeholders such as the Committee on Climate Change, Citizens Advice and the BEIS Committee. The trade association’s Chief Executive, Emma Pinchbeck, opened the conference. In her keynote speech, she said that the COVID-19 recovery and the net zero transition is a “classic opportunity for fiscal stimulus” in areas such as energy efficiency.

### Energy UK

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## PM makes clean energy commitments in major speech

Prime Minister Boris Johnson set out a series of new green energy policy commitments in a speech at the Conservative Party Conference on 6 October. Johnson set out new plans to ‘Build Back Greener’, confirming the 2019 Conservative election manifesto commitment to increase the installed offshore wind capacity target to 40GW by 2030 – up from 30GW previously. Additionally, he announced a new target of 1GW of floating offshore wind by 2030. This newer technology mounts offshore wind turbines on floating structures that allows the turbine to generate electricity in water depths where normal turbines are not feasible and take advantage of more consistent wind speeds.

The PM also announced the setting of a target to “support up to double the capacity of renewable energy” in the next Contracts for Difference auction “which will open in late 2021 – providing enough clean, low cost energy to power up to 10 million homes”. The Contracts for Difference is the government’s scheme which supports the growth of low carbon generation capacity (low carbon is renewables and nuclear). The outcome of the auctions will define costs for consumers as this is a scheme which is paid for through levies on consumer bills.

The government said these commitments represent the first stage the PM’s “ten-point plan for a green industrial revolution, which will be set out fully later this year”.

### Government

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