Digital Energy Element

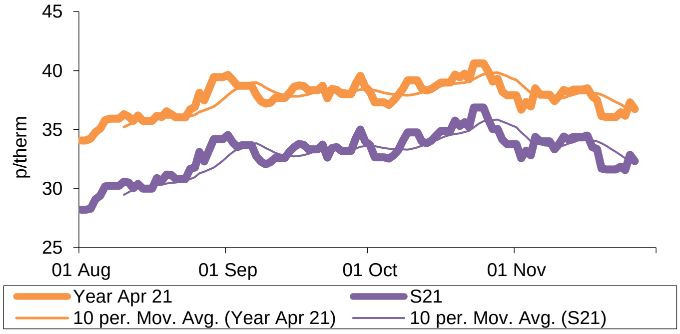
December 2020

10 point plan sets out raft of green policies

Untangle your energy spend management

Digital Energy Element / Dec-20

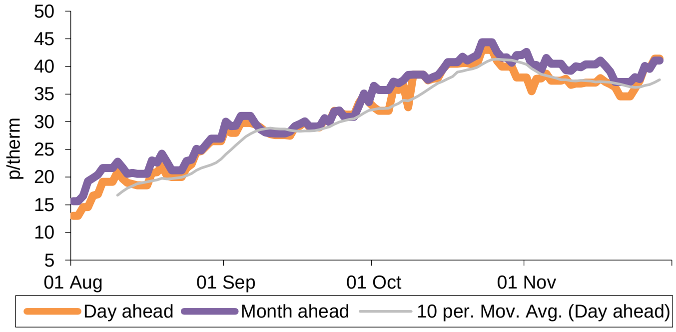
Annual gas prices



Seasonal gas contracts fell in November. Prices were dampened by milder temperatures, which were higher than expected for this time of year. Additionally, reduced demand with the introduction of a four-week nationwide lockdown in England acted to drive prices lower.

Seasonal contracts from summer 21 to summer 23 fell 3.9% on average. Summer 21 fell 3.6% to average 33.25p/th, with the winter 21 contract down 3.1% to 41.68p/th. Gas prices may find some support in the coming months with notably cold weather for the UK and Continental Europe on the Horizon. However, this could be offset by generally lower demand over the Christmas period with many businesses and industry closing down.

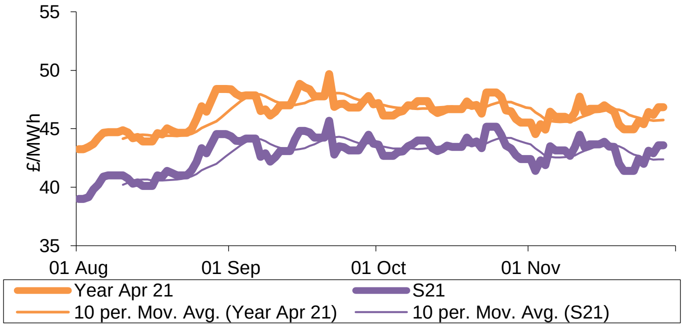
Spot gas prices



Short-term gas contracts also fell in November, with day-ahead dropping 1.3% to average 37.74p/th. Prices were pushed lower by a recent increase in LNG deliveries to GB, and wavering LNG prices. In November, the LNG price peaked at 51.03p/th, slightly below the previous month with prices at their lowest at month end.

Gas demand will likely rise as we progress further into December, with reports of temperatures due to drop in the coming weeks. However, offsetting such rises in demand will likely be fresh tiered restrictions across the UK which continue to stifle economic activity.

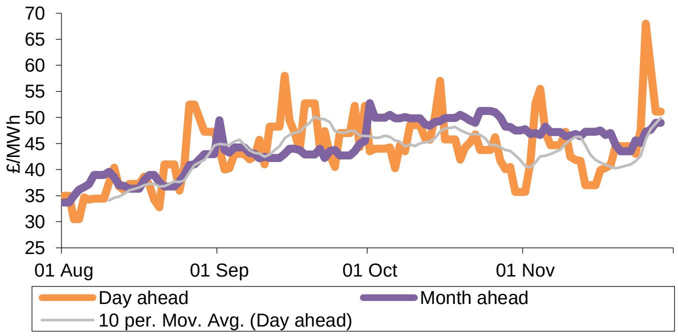
Annual power prices



Most near-term and long-term power contracts experienced declines, with the exception of the day-ahead contract. The day-ahead contract in November benefitted from periods of notably low supply margins, causing significant spikes in power prices.

All seasonal power contracts up to and including summer 23 fell, following seasonal gas prices lower. Similar to gas prices, demand has wavered amid continued tiered restrictions nationwide, with this also suppressing the longer-term outlook. The summer 21 contract fell 1.4% to average £42.97/MWh.

Spot power prices



Nearer-term power prices showed similar trends to their seasonal counterparts, down 4.7% on average. Day-ahead power was the exception, rising 3.0% to average £46.29/MWh following periods of low supply margins.

Global commodities markets benefitted from the announcements of ~90% effective COVID-19 vaccinations discovered in November, acting to lift prices higher across Carbon and Brent crude markets. This trend has so far not pushed GB gas and power prices up accordingly but may do so in the coming weeks.

 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.

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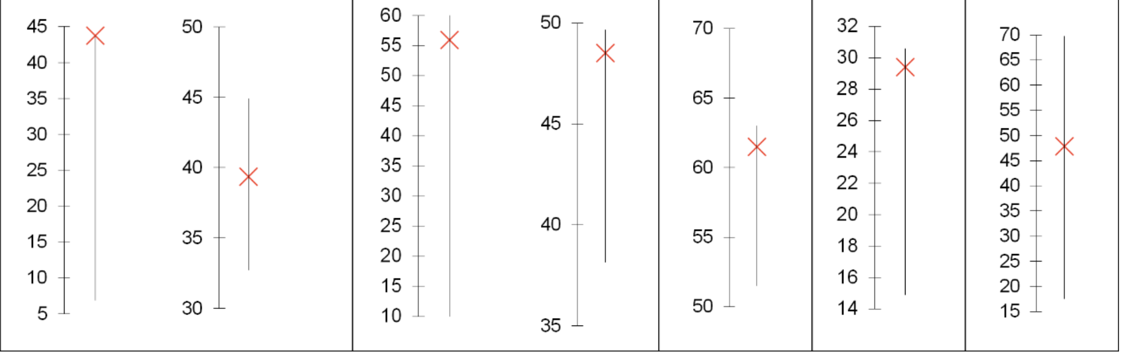
Key market indicators: 01/12/2020

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	($/t)	(€/t)	($/bl)
This month	1 Dec 20	43.75	39.37	56.00	48.53	61.50	29.40	47.85
Last month	3 Nov 20	37.75	37.33	52.75	45.39	54.40	24.28	40.24
Last year	2 Dec 19	39.80	44.58	47.75	47.42	63.00	24.71	61.84
Year-on-year % change		10%	(12%)	17%	2%	(2%)	19%	(23%)
Year high		43.75	44.92	68.00	49.67	63.00	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.

Disclaimer

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10 point plan sets out raft of green policies

Prime Minister Boris Johnson launched the government's much-trailed 10 point plan late on 17 November, with the full plan published on 18 November, setting out a series of new funding and ambition announcements covering transport, hydrogen, energy efficiency, carbon capture, offshore wind, nuclear and green finance.

The PM reiterated the previously announced 40GW by 2030 offshore wind target stating in the 10 point plan document,: "we will aim to deliver up to double the amount of renewables we procure through our next Contract for Difference (CfD) auction." Allocation round three had a capacity cap of 6GW so this would suggest 12GW for the fourth allocation round. The government will invest £160mn into modern ports and manufacturing infrastructure. It will also enable the delivery of 60% UK content in offshore wind projects, as set out by the industry, through more stringent requirements for supply chains in the CfD auctions.

The government is pursuing large-scale new nuclear projects, "subject to value-for-money". To support this, it will provide development funding.

The PM announced a target to remove 10MT of carbon dioxide a year by 2030. This will be achieved by an extra £200mn in funding for carbon capture, usage and storage (CCUS) projects being added to the £800mn previously announced by the government. This extra funding will create two carbon capture clusters by the mid-2020s, with another two set to be created by 2030, with clusters likely to focus on areas such as the Humber, Teesside, Merseyside, Grangemouth and Port Talbot.

The PM said the UK would aim to generate 5GW of low carbon hydrogen production capacity by 2030 for industry, transport, power and homes. This will be supported by a range of measures, including a £240mn Net Zero Hydrogen Fund, and setting out next year, hydrogen business models and a revenue mechanism for them to bring through private sector investment.

To decarbonise building emissions, the government is targeting 600,000 heat pump installations every year by 2028. The recently launched Green Homes Grant is being extended by a year and the ECO scheme, which had been due to end in 2022, is being extended to 2026. Additionally, the government will seek to implement the Future Home Standard in the "shortest possible timeline" and will consult "shortly" on higher standards for non-domestic buildings.

For transport, the PM announced plans to end the sale of new petrol and diesel cars and vans in 2030, earlier than the previous target of 2040. Hybrid cars and vans that can drive a significant distance with "no carbon coming out of the tailpipe" can be sold until 2035.

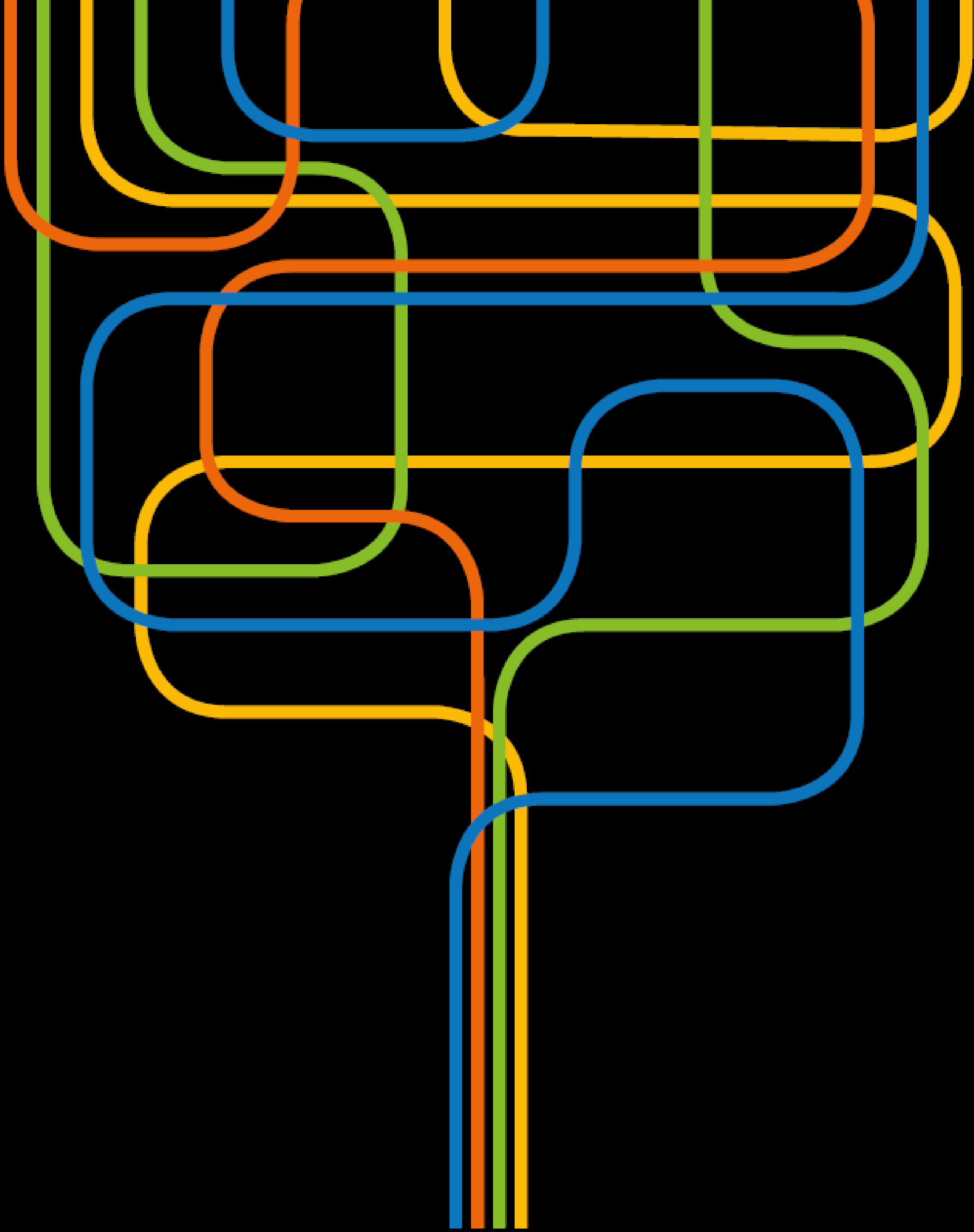
Government

Businesses urge PM to revise emissions target for 2030

More than 70 businesses organised by the Corporate Leaders Group wrote a letter to Boris Johnson on 1 December urging the need for his government to set out a more ambitious emissions target for 2030. The target is known as a Nationally Determined Contribution (NDC). The call is supported by new modelling that indicates the 10 point plan for a green recovery is not sufficient to deliver net zero by 2050. Signatories include Tesco, BT, ScottishPower, Sky, EDF and Coca-Cola.

CLG used modelling from Cambridge Econometrics, indicating the 10 point pan is predicted to grow GDP by up to an additional 1.8% (£43bn) by 2030, while achieving a reduction in emissions of nearly 60% on 1990 levels. This would rise to nearly 70% by 2035. This trajectory puts the UK on track to meet its existing 2030 target but it is not in line with the 2050 net zero target, and the UK will need to go further and faster to achieve net zero emissions by 2050.

Corporate Leaders Group



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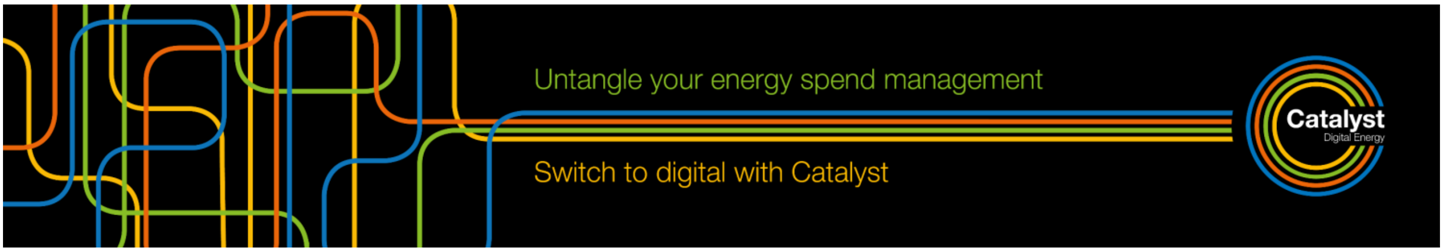

NIS and Spending Review points way forward for green investment

The Treasury published its Spending Review 2020 alongside the National Infrastructure Strategy (NIS).

It built on the commitments made in the 10 Point Plan and in the National Infrastructure Strategy, confirming some of the key thinking on policy which will shape in the coming years the energy and many other sectors.

The National Infrastructure Strategy confirms the government's adoption of many recommendations from the National Infrastructure Commission (NIC). In his foreword to the document the Prime Minster referenced the NIC's "outstanding work". The PM also claimed that the Strategy "fully reflected" the 10 Point Plan and referencing the private investment needed in energy, water and telecoms, committed to "reduce policy uncertainty that holds back investment and create a new national infrastructure bank to co-invest with private-sector partners".

The most significant announcement was the National Infrastructure Bank:

- It will co-invest alongside the private sector in infrastructure projects.
- The bank will operate UK-wide, be based in the north of England, and support the government's ambitions on levelling up and net zero.
- The bank will also be able to lend to local and mayoral authorities for key infrastructure projects and provide them with advice on developing and financing infrastructure.
- At Budget 2021, the Chancellor will set out comprehensive details regarding the operations, mandate and scale of the bank. The government intends for the bank to be operational in an interim form, from spring 2021, so it can play a role in supporting the UK's economic recovery from the COVID-19 pandemic.

Other announcements in the NIS include:

- The adoption of the NIC's recommendation that the next auction round for Contracts for Difference (CfD) in 2021 to include onshore wind and solar PV. The CfD is the government's main low carbon generation support scheme.
- The government will review the long-term role and organisational structure for National Grid Electricity System Operator.
- Two-year CfD auctions where "the government will ensure that total system costs are considered … as far as possible and will publish a call for evidence on the evolution of the CfD regime".
- On large-scale new nuclear: "alongside considering the Regulated Asset Base model the government will also continue to consider the potential role of government finance during construction, provided there is clear value for money for consumers and taxpayers".
- "The Energy White Paper will set out the government's approach on the overall governance of the [energy] system".

Spending Review NIS

Energy UK launches new Vulnerability Commitment

Trade association Energy UK launched a new Vulnerability Commitment on 1 December, announcing that 15 suppliers have signed up to the series of commitments which go above and beyond their licence obligations, including for microbusinesses. Energy UK said all signatories have been working to make sure they can meet the commitments from the start of next year.

One commitment is that signatories should never knowingly disconnect non-domestic supply for reasons outside the domestic household's control, if it is determined that a member of a domestic household, which takes its energy through a non-domestic supply, is vulnerable.

Energy UK

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