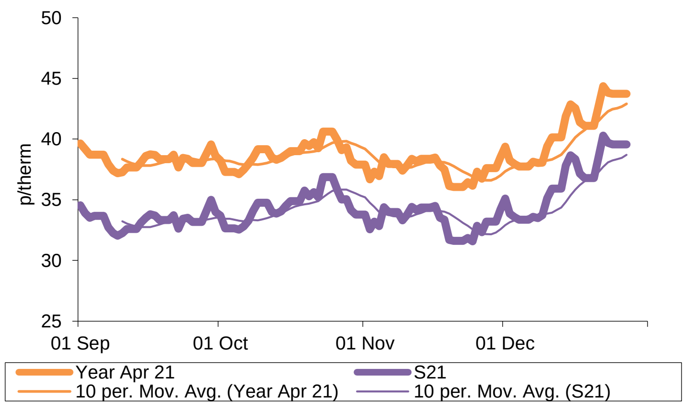
Untangle your energy spend management

Digital Energy Element / January-21

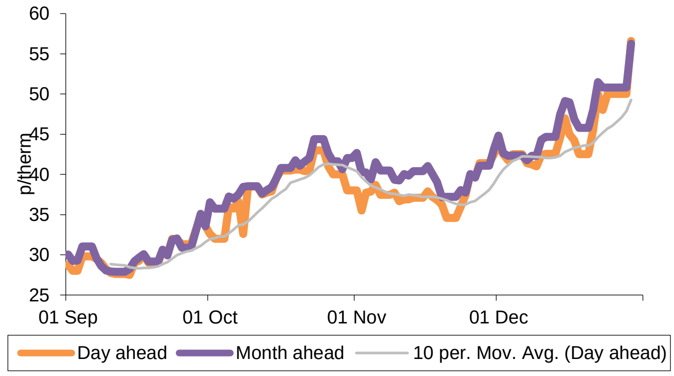
Annual gas prices



Seasonal gas contracts rose in December. Prices were supported by periods of colder weather spread across the month, acting to lift demand higher. Offsetting further gains were restrictions imposed across much of the UK in December, to combat the spread of the Coronavirus as cases rose significantly, reducing demand.

Seasonal contracts from summer 21 to summer 23 rose 7.3% on average. Winter 21 gained 9.6% to average 45.69p/th, with the summer 21 contract up 12.0% to 37.24p/th. Gas prices may find some support in the coming months with notably cold weather for the UK and Continental Europe on the horizon. This could be offset by the UK entering a fresh six-week lockdown announced 4 January, which could act to dampen demand with much of the population told to stay at home.

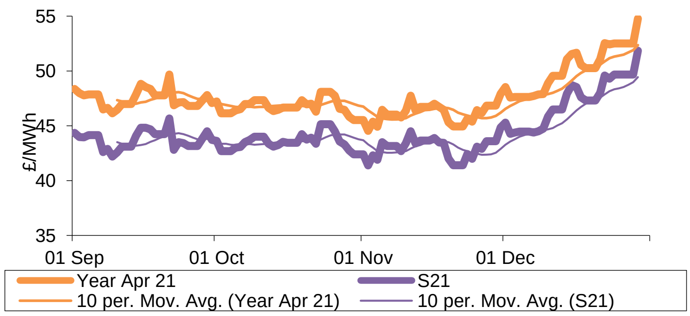
Spot gas prices



Short-term gas contracts also rose in December, with the day-ahead jumping 22.1% to average 46.06p/th. Prices were pushed higher by the colder climate across much of the UK and Continental Europe in recent weeks. Gas prices also found support from bullish Asian LNG prices, peaking at a seven-year high as of the end of December.

Gas demand will likely follow recent trends and continue to climb with cold weather forecast to persist in the coming weeks. New lockdown restrictions may offset some of the rises, however. We observed gas demand fall in the first nationwide lockdown last spring by nearly 18%. Colder weather among other factors such as less efficient homes are likely to offset reduced demand in comparison to the first lockdown.

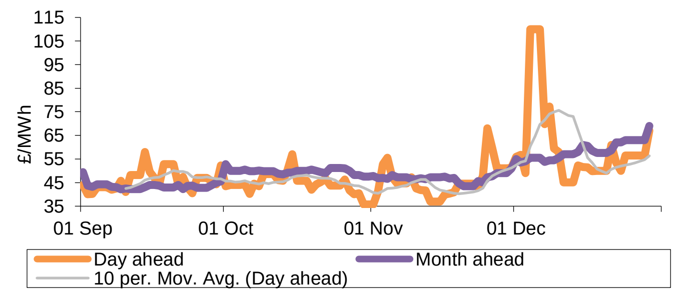
Annual power prices



Most near-term and long-term power contracts experienced growth, acting to follow gas prices higher. Power prices also found support from periods of reduced wind generation and warnings of tight supply margins towards the month-end, similar to what has been observed in prior months, continuing recent trends.

All seasonal power contracts up to and including summer 23 rose, following seasonal gas prices higher. Demand has increased through periods of colder weather but capped by lockdown restrictions imposed later in the month. Summer 21 lifted 10.4% to £47.45p/MWh with Winter 22 also rising, climbing 5.8% to £52.88/MWh.

Spot power prices



Nearer-term power prices showed similar trends to their seasonal counterparts, up 16.6% on average. Day-ahead power also followed these upwards trends and as a result, rose 28.7% higher in December to average £59.57/MWh.

Global commodities markets continued to rally from news of global vaccination progress in December. Carbon markets reached and all time high 29 December at €33.30/t. Brent crude markets also found support from supply cuts, keeping prices comfortably above $50/bl, particularly towards the month-end.

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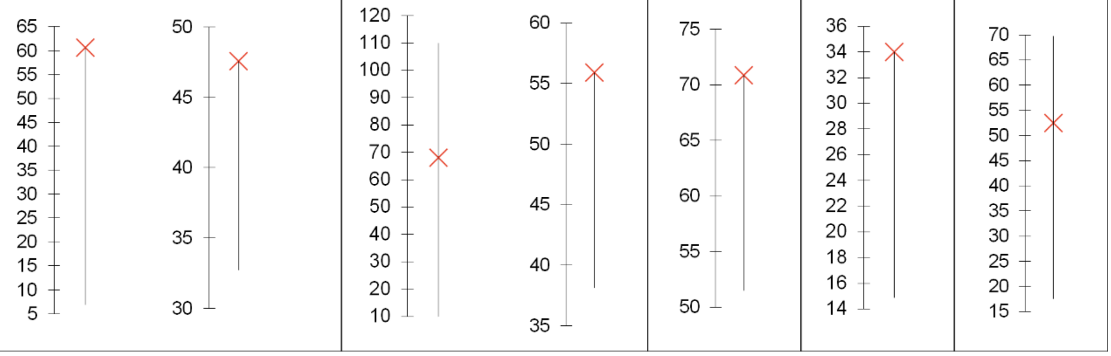
Key market indicators: 04/01/2021

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	($/t)	(€/t)	($/bl)
This month	4 Jan 21	60.63	47.57	68.00	55.89	70.85	34.02	52.52
Last month	7 Dec 20	41.40	38.15	69.75	47.73	63.20	29.60	48.85
Last year	6 Jan 20	29.40	44.63	36.40	48.35	57.50	24.88	69.75
Year-on-year % change		106%	7%	87%	16%	23%	37%	(25%)
Year high		60.63	47.57	110.00	55.89	70.85	34.02	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.

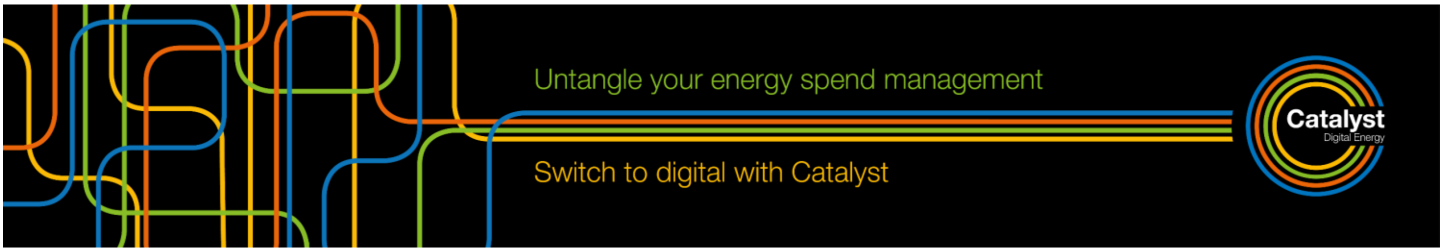
Margin: The indicated UK imbalance of a given settlement period. It is the difference between the sum of the indicated generation available, and the national demand forecast made by National Grid.

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

 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.



Energy White Paper measures cover third party regulation

The Energy White Paper (EWP) was published on 14 December, setting out new measures for the sector including autoswitching and establishing a UK Emissions Trading Scheme (ETS), as well as plans for third party regulation.

The government announced it will be consulting by spring 2021 on regulating third parties, such as energy brokers and price comparison websites. It is also consulting on reforms to ensure customers are provided with more transparent and accurate information on carbon content when choosing energy services.

The government will consult by March 2021 on creating the framework to introduce opt-in switching by 2024, considering reforms to the current roll-over tariff arrangements. The government will also consider how the current auto-renewal and roll-over tariff arrangements could be reformed It will also consult by March 2021 on how opt-out switching could be tested as part of any future reforms, including looking at how the new tariff should be determined and what safeguards should be in place.

On building standards, the government will be consulting shortly on increased standards for non-domestic buildings so that new buildings have high levels of energy efficiency and low carbon heating. All rented non-domestic buildings will be EPC Band B by 2030, where cost effective. It is also taking action on introducing new building regulations to require electric vehicle chargepoints in all new homes and in non-residential buildings.

The government is aiming to bring “at least one” large-scale nuclear project to the point of Final Investment Decision by the end of this Parliament, “subject to clear value for money”.

In April 2020, the government launched its proposal for a Clean Heat Grant, due to launch in 2022, as a successor scheme to the domestic Renewable Heat Incentive. It will publish a government response in 2021. The Clean Heat Grant will be targeted at households and small, non-domestic buildings to support the installation of heat pumps and in certain circumstances, biomass.

The UK will be replacing the EU ETS with a standalone UK ETS from 1 January 2021 – the end of the Brexit transition period. The government claims it will be “world’s first net zero carbon cap and trade market”. The government says the scheme is more ambitious than the EU ETS, with the cap on allowed emissions reduced by 5%, and says it will consult “in due course” on how to align with net zero. The government says it is open to linking the UK ETS internationally in principle and is considering a range of options, but no decision on its preferred linking partners has yet been made.

Government

Government advised to cut emissions 78% by 2035

The Climate Change Committee (CCC) published its advice for the sixth carbon budget on 9 December which requires a 78% reduction in UK emissions between 1990 and 2035. This is part of the CCC’s statutory role as the official advisor to the government under the Climate Change Act 2008. The Sixth Carbon Budget covers the period 2033-2037.

The CCC estimates up to £50bn/yr investment needed, but costs are estimated at below 1% of GDP. It said there will be a ‘critical moment’ in early 2030s, as sales of most high-carbon goods are phased out altogether – UK emissions should then fall sharply over the 2030s. The CCC stressed that the 2030s will see more of a need for individuals to take action saying that to date policy has enabled emission reductions that has not required mass engagement.

Additionally, the UK set a new interim emissions reduction target on 12 December for 2030, targeting a 68% reduction on 1990 levels.

CCC

Brexit deal sees UK leaving EU energy organisations

The UK and the EU agreed a post-Brexit Free Trade Agreement (FTA) on 24 December, outlining how energy markets will be affected. Along with agreeing to respect 2015 Paris Climate Agreement, both parties have agreed:

- To maintain their own energy and climate policies but commit to working together where it is mutually beneficial.
- Shared principles for energy market regulation which includes fair competition and non-discrimination, and commitment to operating separate independent regulatory authorities.
- Continued cooperation on nuclear power, including the safe movement of materials, equipment and waste. As well as the UK remaining part of nuclear research programs.
- The new arrangements and areas of cooperation will be overseen by the Specialised Committee on Energy, this will help coordinate cooperation on network regulation, development, security of supply and addressing market abuse.
- Enhance cooperation on renewable energy, especially around the offshore wind in the North Sea. Helping facilitate the development of hybrid projects that combine interconnectors, offshore windfarms, and potential for a North Sea grid.
- They shall not weaken or reduce, in a manner affecting trade or investment between parties, their environmental or climate levels of protection (a non-regression clause) below that at the end of the transition period.
- If one party believes the other has made changes to its environmental and climate standards that would lead to an unfair competitive advantage, there are provisions for parties to take countermeasures (such as imposing duties).

The arrangements in the FTA are stated to last until 30 June 2026, after which there will be annual negotiations on the continuation of applying the energy chapter of the agreement.

In response, Energy UK Chief Executive Emma Pinchbeck said it is “great news” and they now “await further details on important issues on climate and energy, including new cross-border trading arrangements and the cooperation on carbon pricing.”

Ed Birkett, Senior Research Fellow at the Policy Exchange thinktank, said: “What’s good to see in this deal is the intention to develop a new trading system for electricity between the two sides. That will hopefully return some of the market efficiency that we’ll lose in the short term because we’ll no longer have the automatic ‘market coupling’ system.”

Government

First deep coal mine in 30 years to progress

The UK’s first deep coal mine in 30 years is able to progress after the government decided not to intervene in the local council’s plans to develop it, the BBC reported on 6 January.

Cumbria County Council approved the £165mn West Cumbria Mining plan in Whitehaven in October. The mine will remove coking coal from beneath the Irish Sea steel production in the UK and Europe. The government could have called in the plans for an inquiry, but has chosen not to do so, the council said.

A council spokesman told the *BBC*: "We have been informed that the [government] has decided not to call in the decision on the planning application for West Cumbria Mine.”

Friends of the Earth spokesman, Tony Bosworth, said the refusal to call in the decision was “climate-wrecking”. He added: “Allowing coal to be extracted from this proposed mine for over a quarter of a century completely undermines the government's credibility on the climate crisis.”

BBC