Catalyst
Digital Energy

Digital Energy Element

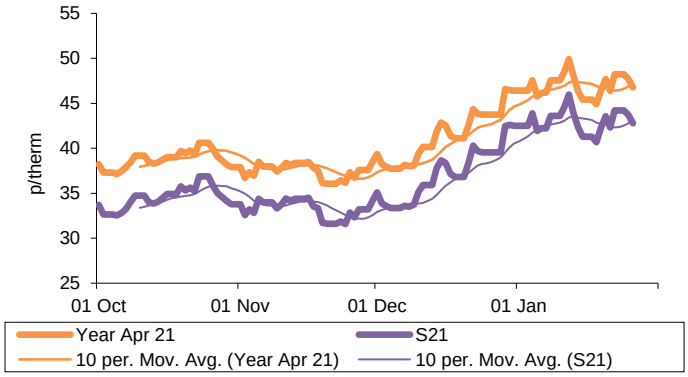
All near-term and long-term power contracts experienced growth in January, following higher gas prices


Catalyst
Digital Energy
As an Award-Winning Digital Energy Consultant our job is to put you back in control of your utilities
Our Energy Spend Management platform powered by Robotic Process Automation - EaaSi® sits at the heart of our journey to transform how you manage, reduce, contract and report on your utilities.
Visit www.EaaSi.co.uk
EaaSi
EaaSi® is a registered trade marked product of Catalyst Digital Energy
www.catalyst-commercial.co.uk

Untangle your energy spend management

Digital Energy Element / February-21

Annual gas prices

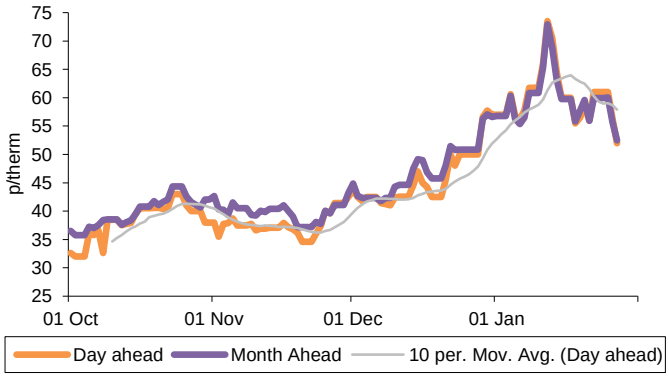


Gas prices, both for near-term delivery and longer-dated contracts, saw notable gains across January.

Prices have been supported by below average temperatures, acting to lift heating demand, alongside rising oil and LNG prices amid positive COVID-19 vaccination developments. Offsetting further gains were continued nationwide lockdown restrictions across England and much of Europe.

Seasonal contracts from summer 21 to summer 23 rose 8.1% on average. Winter 21 gained 11.6% to average 50.98p/th, with the summer 21 contract up 15.3% to 42.96p/th. The day-ahead contract jumped 30.8% to average 60.25p/th in January, with particular support coming from the colder weather, declining EU gas storage stocks and surges in Asian LNG prices. LNG imports remain an important source of gas for GB, meaning these rises have fed straight into GB gas contracts.

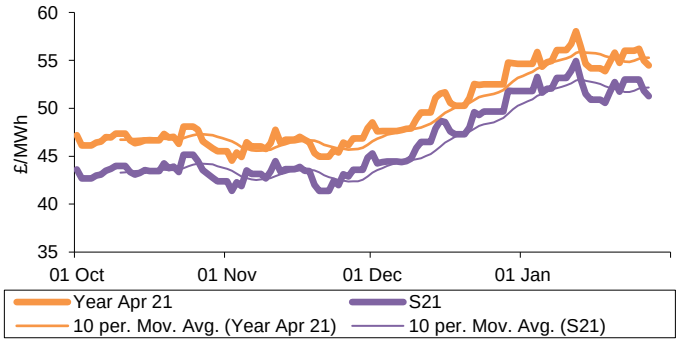
Spot gas prices



Looking ahead, seasonal gas prices may find some continued support in the coming months from higher underlying commodity prices amid the COVID-19 vaccine roll-out; however, this could be offset by continued lockdown restrictions and any downward movement in LNG prices.

Shorter-term contracts will also be impacted by the ongoing lockdown and movements in the LNG market, but cold weather forecasts will keep gas demand relatively high and result in storage stocks falling further.

Annual power prices

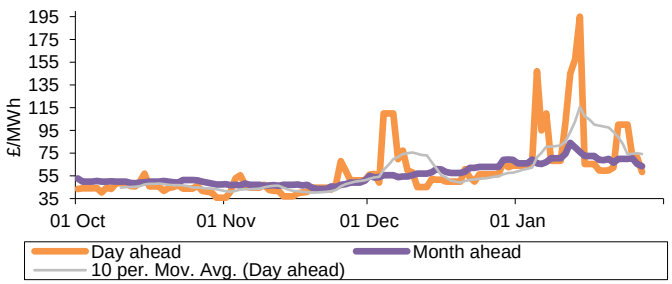


All near-term and long-term power contracts experienced growth in January, following gas prices higher.

Power prices continued to find support from tight supply margins, prompted by several power plant outages, high demand levels and low wind output. This even led to National Grid ESO issuing three Electricity Margin Notices (EMN) in the month. An EMN is issued when plant capacity is forecast to fall below National Grid's margin threshold. As a result, recent power prices at the day-ahead level have been very volatile, leaving suppliers more exposed to unexpected price spikes, exceeding £1,000/MWh in some hourly periods.

Day-ahead power rose 58.1% in January to average £94.20/MWh. Seasonal power contracts up to and including summer 23 rose £5.65/MWh on average, following seasonal gas prices higher.

Spot power prices

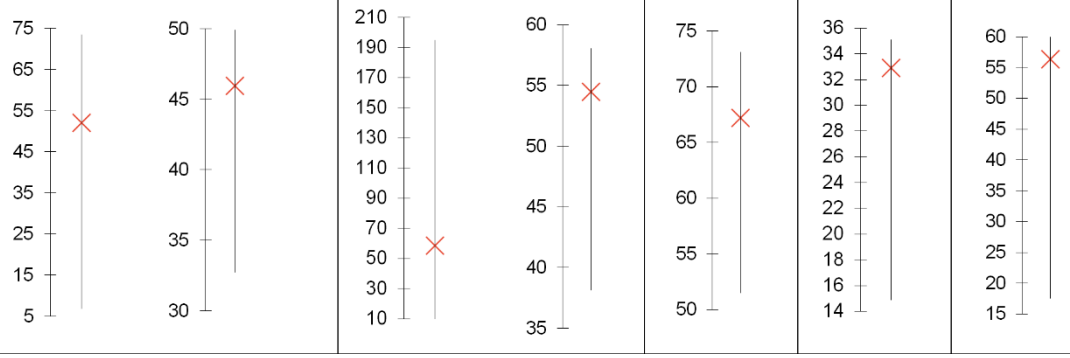


Power prices also found support from rising global commodity markets as previously mentioned. The Brent crude oil price rose 10.2% in January, averaging $55.15/bl. EU ETS carbon also enjoyed month-on-month growth, lifting 9.2% to average and all-time high of €33.60/t in January.

Key market indicators: 27/01/2021

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	($/t)	(€/t)	($/bl)
This month	27 Jan 21	52.00	45.94	58.50	54.48	67.20	32.90	56.32
Last month	30 Dec 20	57.75	46.46	62.50	54.70	69.75	33.14	51.42
Last year	29 Jan 20	27.00	38.14	34.00	42.89	61.35	24.10	60.00
Year-on-year % change		93%	20%	72%	27%	10%	37%	(6%)
Year high		73.50	49.91	195.00	58.04	73.10	35.10	60.00
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

Energy White Paper faces scrutiny

The Energy White Paper (EWP) was scrutinised by the Commons Business, Energy and Industrial Strategy (BEIS) Committee over two sessions. The EWP is a landmark report from the government, detailing its plans and priorities for decarbonising the energy system to achieve net zero emissions by 2050.

In the first session, Climate Change Committee Chief Executive Chris Stark praised the Energy White Paper (EWP) for being framed as a strategy for net zero and climate change, which he said would have been unlikely to be the case had it been released a few years ago.

Energy UK Chief Executive Emma Pinchbeck welcomed the breadth of the EWP, concurring with Stark's point about how energy now includes areas such as transport. She also agreed that there was too little detail in the EWP regarding how the public would be engaged with as part of the transition to net zero, how they would be incentivised to participate in the changes proposed and how to support people through those changes while encouraging positive behaviours.

Asked if the government has been doing enough to engage with the public on the energy transition, Pinchbeck said the public did not generally understand the changes to come from net zero. She added that industry fully understood the challenge. It is one of the biggest challenges, she said, to ensure positive behavioural change can be achieved.

The second session saw Business Secretary Kwasi Kwarteng taking questions. He was asked why the government is aiming for power sector decarbonisation by 2050 and not earlier. He said this is because the government wants to make sure costs do not become too high for consumers and that other technologies will emerge which will enable cheaper decarbonisation.

The Business Secretary was asked what the total cost of the Energy White Paper (EWP) would be. He said bills are affected by wholesale prices, so it is hard to estimate. He added that that the government has made "huge commitments" to protect the most vulnerable, including £9.2bn for fuel poverty policies in the 2019 Conservative manifesto. He also highlighted the significant fall in cost of some renewables, such as offshore wind generation, in talking about the difficulties in estimating the costs of the EWP. On funding and development difficulties around new nuclear projects, Kwarteng said that Hinkley Point C had, "for all the noise", broadly found itself on time and was optimistic any other plant would be as well. He continued, saying nuclear power was of paramount importance, as renewable energies were less reliable.

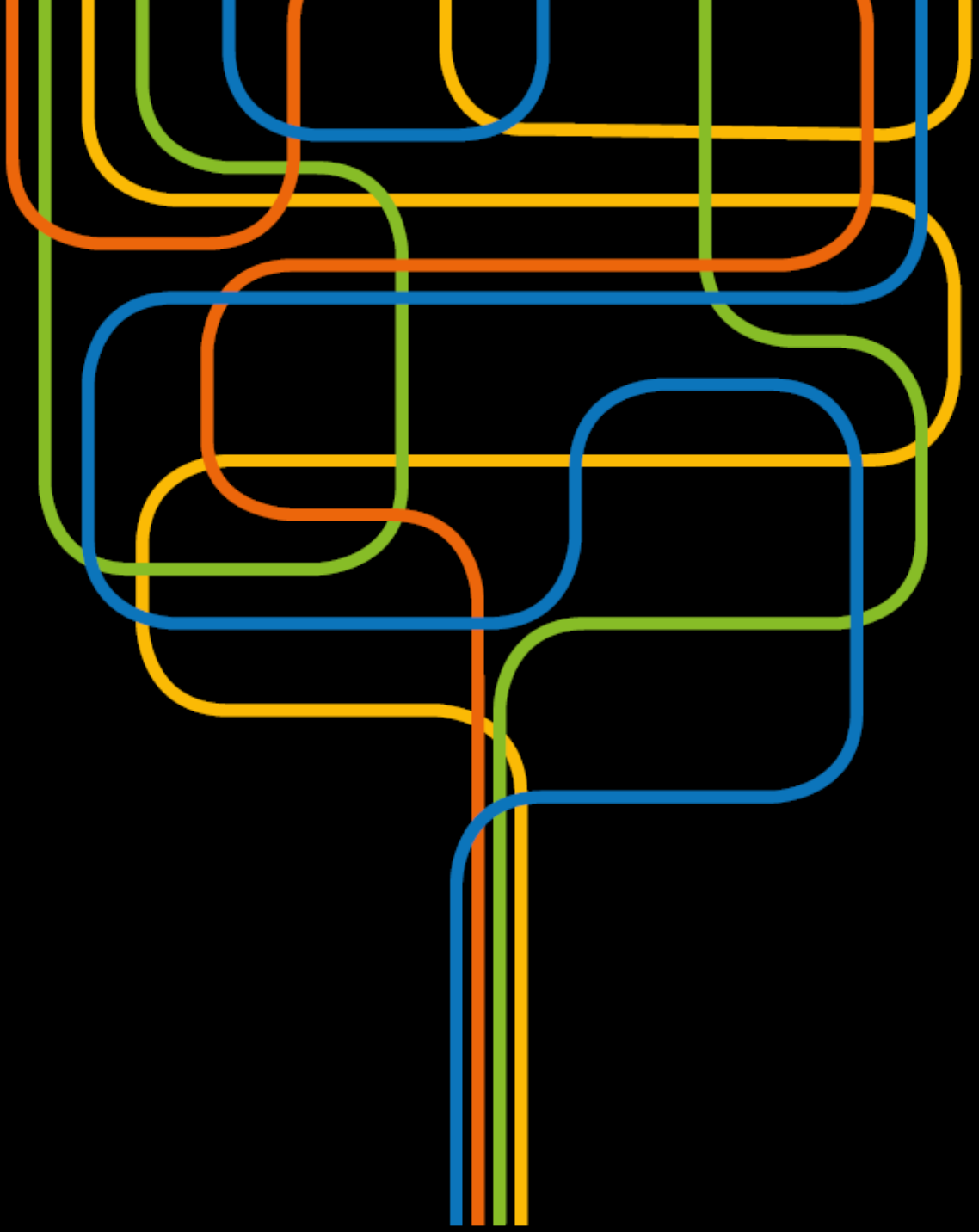
EWP First session Second session

Business renewable heat scheme to close 31 March

The government confirmed on 14 January that the Non-Domestic Renewable Heat Incentive (NDRHI) will close to new applicants on 31 March this year. The news was announced as part of the government's official response to the 'Non-domestic Renewable Heat Incentive: ensuring a sustainable scheme' consultation. The NDRHI was originally launched in November 2011, offering financial support to businesses for the installation of eligible renewable heating systems. The closure date means that a plant must meet the eligibility criteria, be commissioned, and submit a properly made application by midnight on 31 March 2021. The payment period for the NDRHI will end on 31 March 2041.

BEIS says it is closing the scheme because it is "transitioning to future support schemes that most strategically target tax-payers money". Other measures it has confirmed it will be going ahead with serve to ensure a smooth transition between the NDRHI and the future support schemes, including the Green Gas Support Scheme, Public Sector Decarbonisation Scheme and Green Heat Network Fund. Similarly, the extension of the Domestic RHI by a year to 31 March 2022 will aid the transition to the Clean Heat Grant, which is expected to begin in April 2022 with funding committed for two years.

Government



Simplify your energy
spend management

Switch to digital with Catalyst

Catalyst
Digital Energy

www.Catalyst-Commercial.co.uk

Ofgem recommends sweeping system changes to cut bills for net zero

Ofgem has recommended the creation of an independent body to help lead the path to net zero at the lowest cost to consumers, while fulfilling the system operator role. The regulator estimates this new Independent System Operator (ISO) could save consumers £0.4-4.8bn between 2022 and 2050.

Announced on 25 January, the body would be fully separated from National Grid. It would have a more active role in designing and planning new grid infrastructure and providing independent advice to the UK government. Ofgem is recommending full separation to “help ensure future decisions on how to manage the energy system are taken in the interests of consumers, helping to keep costs as low as possible”. Ofgem sets out its findings from the review, its reasoning for an ISO, the options available, the recommendations and the benefits. Ofgem presents the findings from its review to create a basis for the wide-ranging recommendations it is putting forward:

- Finding 1: net zero requires a step-change in whole system coordination and planning.
- Finding 2: the system operators are uniquely positioned to play a critical role in achieving net zero.
- Finding 3: an ISO with enhanced functions will be required to enable an integrated, flexible energy system.
- Finding 4: it believes there are several alternatives to the current model that would be better suited to delivering net zero at least cost for consumers.

Ofgem said the ISO option has the potential to:

- Increase the transparency, credibility and adaptability of GB system operation with the ISO free, and perceived to be free, of distortive commercial interests related to asset ownership.
- Deliver greater efficiencies in network planning, with scenario modelling estimating a net benefit of between £0.4-£4.8bn in electricity transmission network savings alone.
- Create system-wide benefits from the SO taking on greater leadership in whole system coordination and collaboration, with the SO having better incentives to drive forward change that is in consumers’ interests.

Business Secretary Kwasi Kwarteng said: “Meeting our far-reaching targets will mean changes to how we turn the lights on, travel to work and even cook our meals. Which is why we must ensure that the energy system is designed to provide the very best for consumers and allows energy companies to keep innovating as we build back greener. I welcome Ofgem’s contribution to the debate over the future structure of our energy system and will consider its recommendations thoroughly.”

Ofgem

2020 was GB’s greenest year

Great Britain’s electricity system was greener in 2020 than any previous year, with National Grid Electricity System Operator (ESO) data calculating an average carbon intensity of 181gCO_2/kWh for the year. Releasing data on 11 January, National Grid ESO revealed May 2020 was the greenest month on record (average of 143gCO_2/kWh) and also registered the lowest carbon intensity ever seen on the system, at 46gCO_2/kWh on 24 May. The ESO said this was a result of significant periods of coal-free electricity generation and record-breaking levels of power from zero carbon sources, with periods of record low electricity demand during national lockdown also contributing.

The record for the highest ever level of wind generation was broken several times during the year, with wind contributing its highest ever share to the electricity mix at 59.9% on 26 August. Solar power also set new records for its highest ever level of generation (9.7GW) and its highest share in the mix, providing a third of total electricity on several occasions in May.

National Grid ESO

Award Winning
Business Energy Consultants