

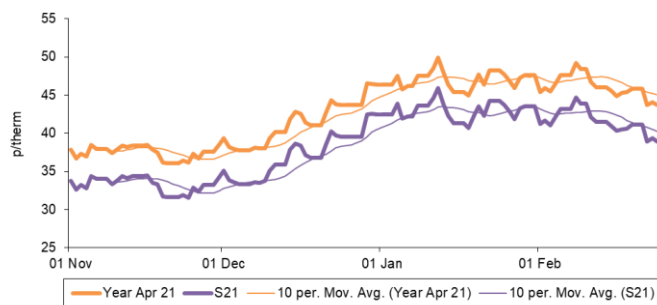


Digital Energy Element

Mixed Drivers for Wholesale
Energy Prices as Prices
Experience Mixed Price
Movements



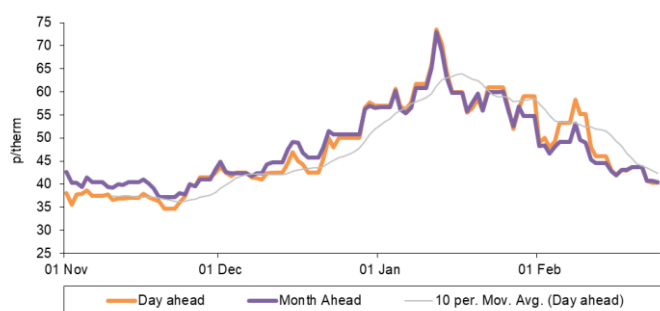
Annual gas prices



In February 2021 gas prices, particularly for near-term delivery but also some longer-dated contracts, fell from the highs observed in January. However, gas prices remained above their levels from the same time last year.

On average, seasonal gas contracts from summer 21 to summer 23 were 0.4% higher in February than in January; however, prices broadly ended the month lower than they were at the month's start. Winter 21 rose 0.8% to average 50.58p/th, while the summer 21 contract fell 3.6% to 41.44p/th. As the month progressed, falling LNG prices, continued lockdowns across the UK and much of Europe, and warmer weather weighed on prices.

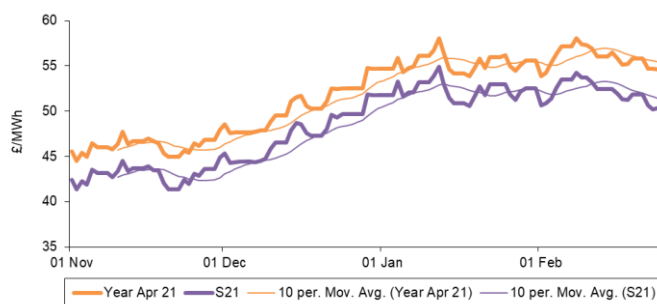
Spot gas prices



The day-ahead gas contract lost 21.3% to average 47.13p/th in February, owing to warmer weather as the month progressed and notable falls in LNG prices. LNG imports remain an important source of gas for GB, meaning these losses have fed straight into GB gas contracts.

Looking to March, the gas market may see mixed drivers. Colder weather is forecast for the start of the month, which will be buoyant for demand levels and near-term prices; however, reduced LNG prices will continue to weigh on the market alongside the movement towards spring. Longer-dated gas contracts will also be weighed on by lower LNG prices, but the gradual lifting of lockdown restriction and the global vaccination roll-out may provide some bullish sentiment.

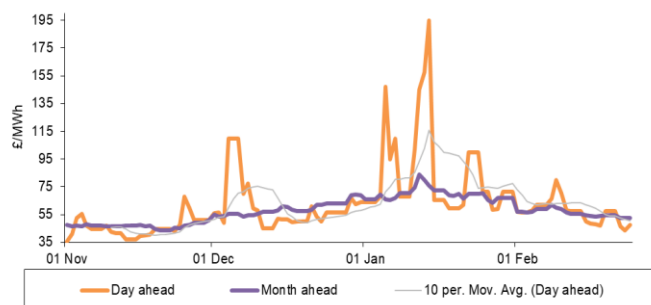
Annual power prices



Power contracts experienced mixed price movements in February, with losses in near-term contracts but gains in longer-dated contracts. However, as with the gas market, power contracts dropped towards the month's end.

Seasonal power contracts up to and including summer 23 rose 1.4% on average in February, supported by bullish commodity markets, particularly carbon prices. Winter 21 rose 2.2% to £59.66/MWh while summer 21 lost 0.6% to £52.02/MWh. The annual April 21 power contract rose 0.8% to average £55.84/MWh. Prices found indirect support from an 11.7% rise in Brent crude oil prices, which averaged \$61.45/bl in February, buoyed by ongoing OPEC+ supply cuts, demand recovery optimism and supply disruption in the US. EU ETS carbon also enjoyed month-on-month growth, lifting 12.4% to average an all-time high of €37.71/t in January.

Spot power prices



Day-ahead power fell 37.51% in February to average £56.23/MWh. Strong wind generation saw the GB grid well supplied, as wind took a 29% share of the generation mix, reducing the requirement for more expensive plant to run such as coal and gas-fired power stations. Day-ahead power prices were also weighed on by a reduction in its gas counterpart.



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NIC calls for roadmap for EV charging roll out

The National Infrastructure Commission (NIC) has called on the government to produce a delivery roadmap for electric vehicle (EV) charging infrastructure to meet the 2030 end to new diesel and petrol car and vans sales. The government should also ensure that future price controls facilitate the necessary investment in the electricity grid to accommodate EVs. The NIC provides the government with advice on major long-term infrastructure challenges.

The NIC puts forward several priorities for 2021 in its latest *Annual Market Monitoring Report*, published on 17 February. In addition to the EV roadmap, the NIC would like to see the publication of a comprehensive cross-modal freight strategy in 2021, with a firm commitment to phase out diesel HGVs by 2040. Detailed decarbonisation plans should be arrived at after consultation with the road haulage and logistics industry. The government should set out proposals for continuous five-year local transport budgets for mayoral authorities in England to continue beyond 2027. There should be a pathway to major urban transport investment in the 2030s.

The NIC also says the government should set out the next steps on heat decarbonisation and the development of a hydrogen industry. It is crucial that government takes steps to establish a better evidence base for heat pumps and hydrogen boilers before making “challenging and contentious” decisions on the future of heat in the mid to late-2020s. It is essential that current targets for the hydrogen economy are met or exceeded, as large-scale infrastructure is needed in a short timescale.

The energy efficiency of the building stock must be improved; the NIC says this should be a priority for 2021. The government will need to provide clarity to the energy efficiency sector and give supply chains the certainty they need to rapidly scale up. The NIC accepts the government’s approach of measuring performance improvements rather than number of energy efficiency installations, rebuffing the NIC’s original recommendation of targeting 21,000 installed measures per week. But the NIC says the government still must set a clear target, commensurate with the NIC’s ambition.

The government should set out the details of the revenue mechanisms that will be required to encourage private sector capital into deploying the technologies needed to meet the net zero target. The model of economic regulation framework must also evolve to facilitate the investment required for net zero. The establishment of the new infrastructure bank has the potential to accelerate the development of new technologies needed to achieve net zero. It should provide early-stage risk capital and act as a catalyst for additional private sector investment.

NIC

Government provides funding for business EV charging

Small businesses and those in leasehold and rented accommodation are set to benefit from up to £50mn to install electric vehicle charge points, as part of a new scheme by the Department for Transport (DfT). Announced on 13 February, the Electric Vehicle Homecharge Scheme (EVHS), will provide up to £350 towards a chargepoint, and will be expanded to target people in rented and leasehold accommodation. At the same time, the Workplace Charging Scheme (WCS) will target SMEs and the charity sector, so that small accommodation businesses can also benefit from funding, boosting rural areas, and tackling ‘range anxiety’ associated with long journeys.

In response to the news, Energy UK Chief Executive Emma Pinchbeck said: “[The] announcement from Government is a welcome step, enabling more consumers to make the change to electric vehicles.”

The Renewable Energy Association (REA) welcomed the extension to the EVHS and the Workplace Charging Scheme “as they are critical programs for supporting homes and businesses wanting to go electric”.

Government Energy UK REA



Key market indicators: 24/02/2021

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	(\$/t)	(€/t)	(\$/bl)
This month	24 Feb 21	40.30	43.74	47.75	54.63	67.60	38.57	65.69
Last month	27 Jan 21	52.00	45.94	58.50	54.48	67.20	32.90	56.32
Last year	26 Feb 20	24.40	36.01	34.65	41.88	56.90	23.88	54.10
Year-on-year % change		65%	21%	38%	30%	19%	62%	21%
Year high		73.50	49.91	195.00	58.04	73.10	40.21	65.76
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.

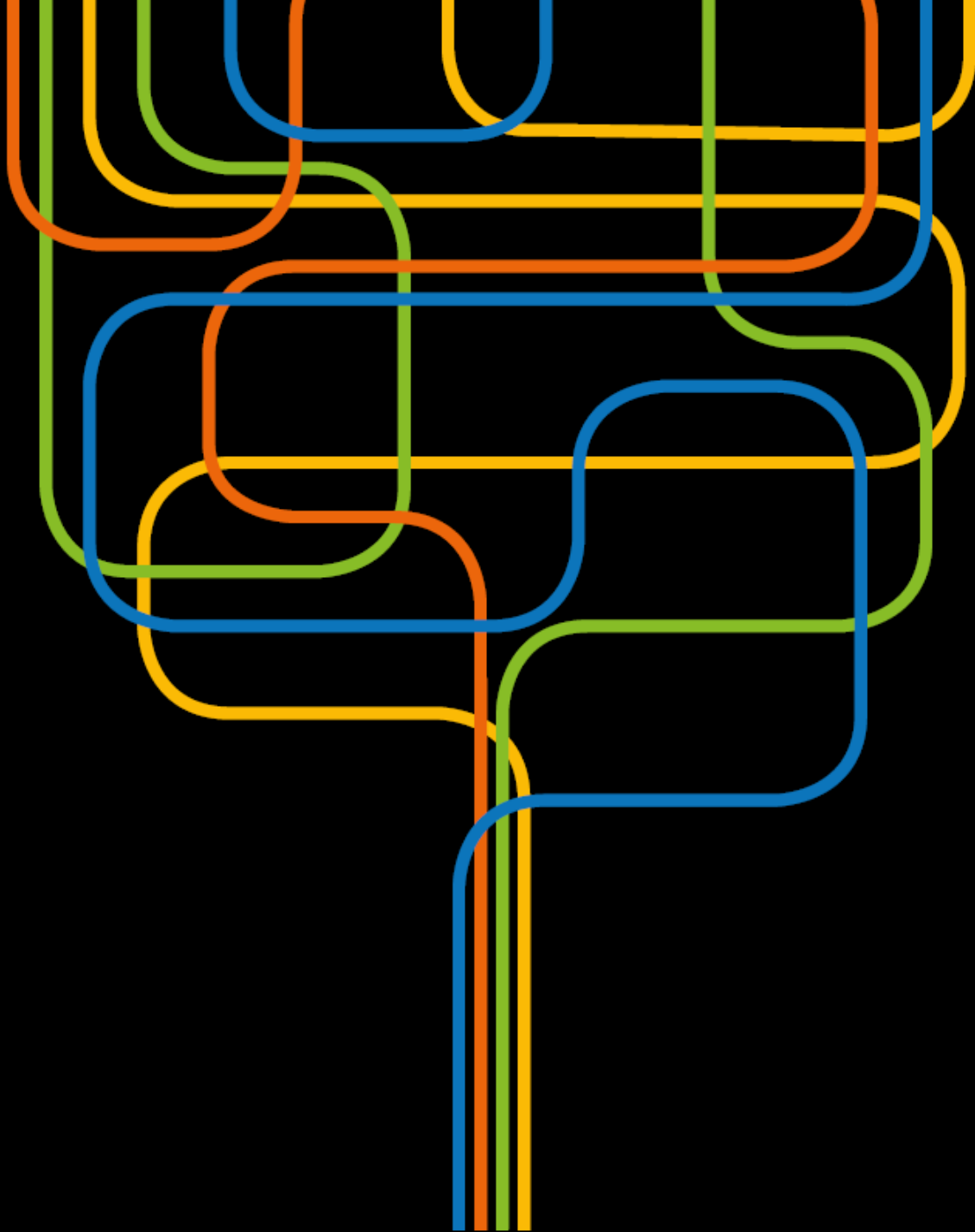
Margin: The indicated UK imbalance of a given settlement period. It is the difference between the sum of the indicated generation available, and the national demand forecast made by National Grid.

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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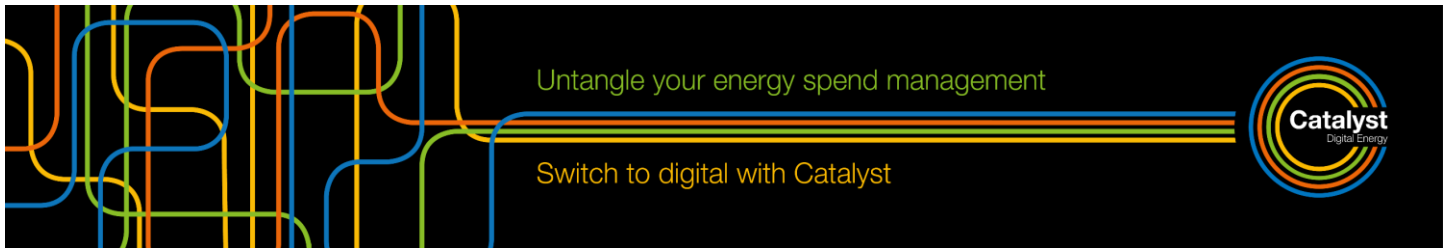


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Government’s environmental progress “disappointing”

The Public Accounts Committee has released a new report assessing the government’s long-term environmental goals. Published on 3 February, the report states that since the government first set its ambitions to improve the natural environment within a generation back in 2011, progress has since been “disappointing.”

The Public Accounts Committee stated that the 25 Year Environmental Plan, which was published in 2018, did not have a set of clear objectives or interim milestones to track progress. It also added that the range of indicators needed to track performance were inadequate with only 38 of the 66 indicators in place. The government had also taken a “piecemeal” approach to funding and the Treasury did not understand the cost needed to reach long-term goals. The Climate Change Committee (CCC) highlighted in 2020 that the government is behind on its progress to reduce emissions (see Figure 1).

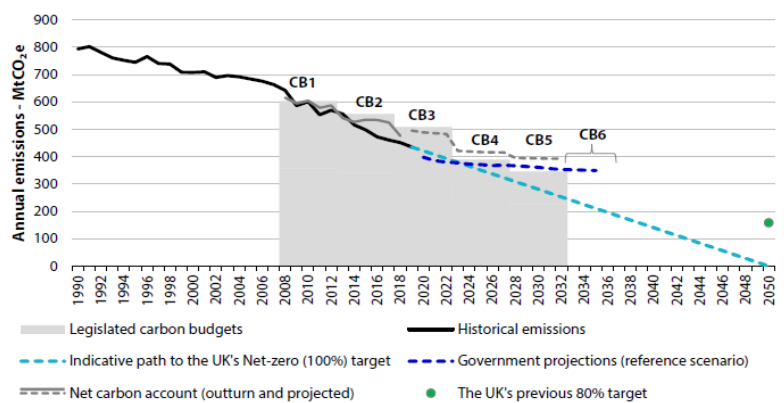
The report also highlights that the Environment Bill, which is expected to get Royal Assent in 2021, will only provide the statutory framework for five of the goals in the plan, while the remaining five have not. With the government having already missed its air quality target and likely to miss several biodiversity goals, the Committee provides a number of recommendations to occur within a month of the bill passing. These include:

- The Committee is provided with the timetable for setting long-term objectives for those areas of the plan that will not be put on a statutory footing by the Environment Bill, setting interim milestones for all its environmental goals, developing and reporting on a complete set of environmental outcome indicators framework. The government should also provide an annual update against this timetable, as part of its environmental progress reports.
- The Department should write to the Committee to set out what steps it is taking to minimise the delay between the passing of the Environment Bill and the establishment of the Office for Environmental Protection. As is the case with the Climate Change Committee, the Office for Environmental Protection should have a mandate to report directly to Parliament.

Public Accounts Committee

CCC

Figure 1: Emissions pathways to carbon budgets and the net zero target



Source: CCC

Survey finds public support for wind and solar power expansion

A new survey carried out on 3,000 members of the public has found high support for several measures in the Prime Minister’s 10 Point Plan. Published on 23 February by Royal Holloway University, the research finds 64% of the public supports a programme which would include, among other measures: a fourfold increase in wind power, a sixfold increase in hydrogen power, £787.5mn investment in nuclear power, £1.5bn funding for insulating homes and public buildings, banning internal combustion engine vehicles by 2035 and grants for buying electric vehicles.

In comparison, the baseline policy of no environmental action or investment is widely opposed. Only 20% of the public were found to support taking no environmental action, with 41% of the public opposing and 40% being indifferent.

Royal Holloway



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