

Digital Energy Element

April 2021 Winter 21 rose 7.1% to £63.21/MWh while summer 21 rose 3.1% to £53.72/MWh



Annual gas prices



Spot gas prices



Annual power prices



Spot power prices



In March 2021, the majority of wholesale gas contracts rose with the only exception being day-ahead prices. However, in all cases gas prices remained comfortably above their levels seen at the same time last year.

On average, seasonal gas contracts from summer 21 to summer 23 were 2.7% higher in March than in February, with prices broadly ending the month higher than they were at the month's start. Winter 21 rose 3.4% to average 52.43p/th, while summer 21 gas lifted 0.9% to 42.48p/th.

Prices were supported by a variety of drivers. These included the continued vaccination roll-out, low European gas storage levels and a backdrop of rising international commodity prices including oil and carbon markets. Low European storage levels will act to increase gas demand for injections, while gas prices also remain correlated to both EU ETS carbon and oil markets—both of which reached fresh highs in March. Price rises were still capped by rising COVID-19 cases in Europe and as commodity price growth slowed towards the month's end.

In contrast, the day-ahead gas contract lost 15.8% to average 44.85p/th in March, owing to warmer seasonal temperatures and higher levels of LNG imports, both acting to improve the near-term supply-demand balance.

Power contracts also experienced mixed price movements in March, with losses in day-ahead contracts but gains in longer-dated contracts.

Seasonal power contracts up to and including summer 23 rose 4.4% on average in March. Winter 21 rose 7.1% to \pounds 63.21/MWh while summer 21 rose 3.1% to \pounds 53.72/MWh. The annual April 21 power contract rose 5.2% to average \pounds 58.46/MWh.

Forwards power contracts were supported by bullish gas and international commodity markets, particularly EU ETS carbon prices. EU ETS carbon prices reached an all-time high of \notin 43.63/t on 18 March, and whilst gas-fired generators remain the marginal source of electricity in the GB power mix, the cost of carbon remains a significant driver of GB power prices. Although GB is no longer part of the EU ETS, auctions for the new UK ETS are set to commence in May and could result in similar price levels.

Day-ahead power fell 18.8% in March to average £60.07/MWh. Day-ahead power prices were weighed on by a reduction in its gas counterpart, seasonally warmer temperatures and associated lower demand levels, and higher levels of wind output for much of the month. Whilst still maintaining some volatility, short-term power prices have benefited from more comfortable electricity supply margins, with lower demand and some returning generation capacity following numerous outages.

1 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: 29/03/2021

| | Gas (p/th) | | Electricity (£/MWh) | | Coal | Carbon | Brent crude |
|--|--|--|--|--|---|---|--|
| | Day-ahead | Year-ahead | Day-ahead | Year-ahead | (\$/t) | (€/t) | (\$/bl) |
| Month end 29 Mar 21 | 45.60 | 49.25 | 53.50 | 59.80 | 72.30 | 41.20 | 64.65 |
| Month start 1 Mar 21 | 42.60 | 44.13 | 74.00 | 54.95 | 69.20 | 37.65 | 65.20 |
| Last year 30 Mar 20 | 19.25 | 33.61 | 29.00 | 38.70 | 55.75 | 16.35 | 22.74 |
| Year-on-year % change | 137% | 47% | 84% | 55% | 30% | 152% | 184% |
| Year high | 73.50 | 50.60 | 195.00 | 61.43 | 73.10 | 43.63 | 69.80 |
| Year low | 6.85 | 32.75 | 10.00 | 38.16 | 51.50 | 16.35 | 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. | $\begin{array}{cccccccccccccccccccccccccccccccccccc$ | $55 - \\ 50 - \\ 45 - \\ 40 - \\ 35 - \\ 30 - \\ 30 - \\ $ | $ \begin{array}{c ccccccccccccccccccccccccccccccccccc$ | $\begin{array}{c} 65 \\ 60 \\ - \\ 55 \\ - \\ 50 \\ - \\ 45 \\ - \\ 40 \\ - \\ 35 \end{array}$ | $ \begin{array}{cccccccccccccccccccccccccccccccccccc$ | $ \begin{array}{c} 46 \\ - \\ 42 \\ - \\ 38 \\ - \\ 34 \\ - \\ 30 \\ - \\ 26 \\ - \\ 22 \\ - \\ 18 \\ - \\ 14 \\ - \\ \end{array} $ | 75 - 65 - 55 - 45 - 35 - 25 - 15 - |

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 confirms new levy on gas use

The government confirmed on 17 March its intention to bring in a new levy on gas use this autumn to support a scheme to increase the amount of green gas on the system.

The Green Gas Support Scheme (GGSS) is expected to launch in autumn this year and will be open for applications until autumn 2025. The key aims of the GGSS is to encourage deployment of new anaerobic digestion biomethane plants to increase the proportion of green gas in the gas grid, create jobs and attract investment. The GGSS will support biomethane injection into the gas grid through a 15-year tariff. The government said this strikes the right balance between achieving the key scheme objective of delivering carbon savings, while also ensuring value for money.

In order to pay for this, the government will launch the Green Gas Levy (GGL) at the same time. The GGL is being launched with a per meter point design that would see levy costs distributed amongst gas suppliers according to the number of gas meters that they supply. The government intends to transition to a volumetric levy design as soon as possible, subject to feasibility issues being overcome. The main factor behind the initial flat levy design, which BEIS says is simpler to implement, is to ensure the GGL is in place ready for the start of the GGSS.

The GGL will apply to "designated fossil fuel suppliers" of gas. Gas suppliers who can evidence that they have serviced 95% to 100% of their gas portfolio with green gas for the entirety of a levy scheme year (i.e. 1 April to 31 March) will be excluded from paying the levy for that year. The original government proposal was to only exempt suppliers of 100% green gas, but it decided that a threshold of 95% rather than 100% provides a buffer that is necessary to mitigate the risk of 100% green gas suppliers being inadvertently charged. This threshold, the government reasoned, also reduces the administrative and financial burdens on both suppliers and the administrator associated with charging backdated levy payments where a green gas supplier drops slightly below 100% green gas supplied.

In terms of bill payer impact, the government said it recognises the concerns raised by respondents regarding the effect that a flat rate levy could have on low income and vulnerable households. It says this would be "in a wider context of a range of policies to tackle fuel poverty", including the Warm Home Discount (WHD). Also announced in the consultation, the government will "likely" consult "later this year" on proposals to increase the WHD rebate to £150 off energy bills each winter.

Government

Renewables provided 42.9% of the UK's electricity generation in 2020

The government published statistics on 25 March showing that renewable electricity generation outperformed fossil fuels for the first year ever in 2020, at 42.9% and 38.5% respectively. Onshore and offshore wind provided more than half of the UK's renewable power in 2020, generating 24.2% of the UK's electricity demand.

RenewableUK's Deputy Chief Executive Melanie Onn said: "[These] record-breaking figures, set despite the pandemic, show that renewables are keeping this country reliably powered up during the most challenging period any of us have faced for many decades."

The government also published its provisional 2020 UK greenhouse gas emissions figures on 25 March, detailing how COVID-19 and resulting restrictions across the UK have had a major impact on greenhouse gas emissions in the UK. CO₂ emissions in the UK are provisionally estimated to have fallen by 10.7% in 2020 from 2019, to 326.1Mt, and total greenhouse gas emissions by 8.9% to 414.1mn tonnes carbon dioxide equivalent (MtCO₂e).

Generation Greenhouse gas emissions



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CBI outlines how government can "green" the UK tax system

In a report published on 11 March, the Confederation of British Industry (CBI) urged the government to review how the UK tax system could be harnessed in 'greening' the tax system and called for long-term certainty of environmental tax policies to underpin investment decisions by consumers and businesses.

To accelerate electric vehicle (EV) uptake via the tax regime, the CBI said long-term certainty is needed on company car tax (BiK) rates for zero emission vehicles. It said it is "disappointing" to see that the 0% BiK rate was not extended in Budget 2021. To lengthen the application of the 1% BiK rate for zero emission vehicles, the CBI says, could increase car fleets' changes as businesses gradually recover from COVID-19 and begin to make investment decisions again.

While it welcomed the Budget 2021 announcement of a 130% super-deduction tax incentive for two years, the CBI said more targeted, 'green' investment-focused capital allowances mechanisms for both incorporated and unincorporated businesses should also be maximised to drive the right behaviour.

Vehicle Excise Duty (VED) could play a role and the CBI welcomed the government's call for evidence on VED, supporting the need for it to be reformed to aid the transmission to low emission road transport. However, it says, simply increasing first year VED rates is "not an effective response to solving the challenge of changing behaviours and purchasing decisions".

VAT could also be used to encourage EV uptake:

- Bringing the public charging VAT rates down to 5% to match domestic charging would support those without access to domestic charging.
- Reduce the VAT rate applicable to the sale of zero emission vehicles. There currently is no difference between buying an electric, hybrid or traditional fuel car when it comes to VAT.
- Review the VAT rate on Personal Contract Hire for zero emission vehicles.
- Allow VAT recovery on company cars that are battery EVs where they are in private use.

To support more energy efficiency, low carbon heat and use of renewables in buildings, the CBI says business rates should be reformed. The "high burden of business rates (a tax rate of close to 50%)" often means that the costs associated with improving the property outweigh the benefits and can make the investment commercially unviable. Additionally, it says a reform of the reduced rate VAT provisions for energy saving materials, including heat pumps, could help to incentivise the adoption of such materials.

CBI

CMA grants permission for RIIO-2 appeals

On 1 April, the Competition and Markets Authority (CMA) announced that it had granted permission for nine network companies to appeal Ofgem's RIIO-2 price control determinations. RIIO-2 is the name of the next price control period for energy networks, covering April 2021 to March 2026. It determines the rate of return for network companies.

All of GB's electricity and gas transmission and gas distribution network companies appealed the RIIO-2 price controls, the CMA announced on 5 March.

The deadline for applications for permission to intervene in the CMA decision and for Ofgem's reply is 23 April, while the deadline for the CMA's determination is 30 September.

CMA



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