Digital Energy Element

May 2021

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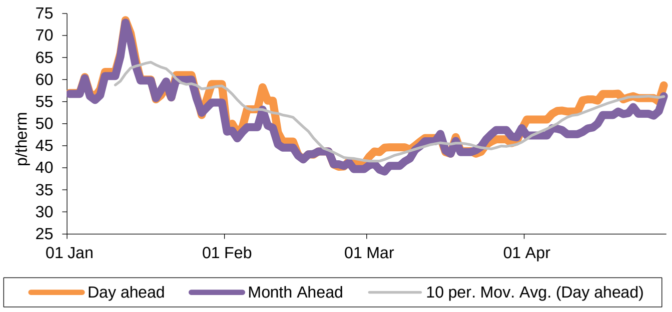
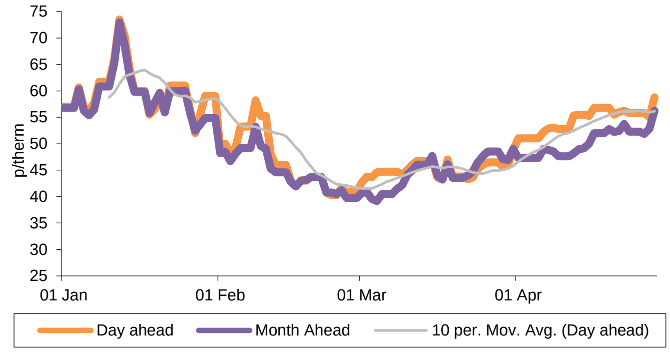
Digital Energy Element / May-21

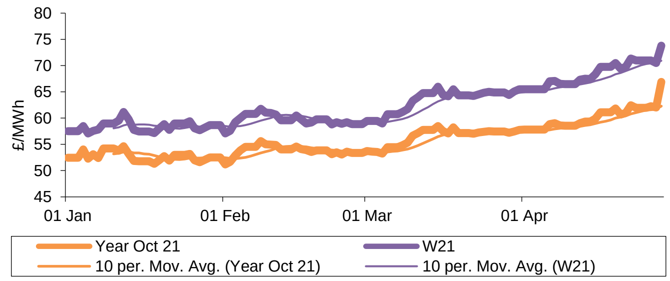
Annual gas prices



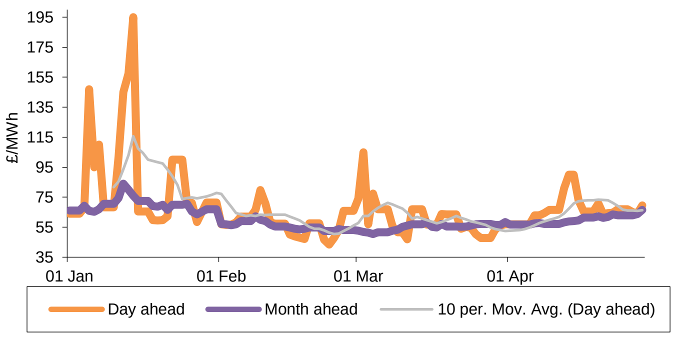
Spot gas prices



Annual power prices



Spot power prices



In April 2021, all tracked wholesale GB gas contracts rose, with the most pronounced rises observed across near-term contracts. Gas prices across the board remained comfortably above their levels seen at the same time last year, amid a recently bullish commodity market and as EU storage levels are at multi-year lows.

On average, seasonal gas contracts from winter 21 to winter 23 were 5.7% higher in April than in March, with prices also collectively ending the month higher than they were at the month's start. Winter 21 rose 11.1% to average 58.36p/th, while summer 22 gas lifted 6.4% to 42.73p/th.

Prices were supported by multiple bullish drivers. These included the continued vaccination roll-out, sustained low European gas storage levels and a backdrop of rising international commodity prices including carbon and LNG markets. Low European storage levels will act to increase gas demand for injections this summer, while gas prices also remain correlated with EU ETS carbon and Asian LNG, both of which reached fresh highs in April. Generally colder weather throughout the month and reduced LNG send-out also lent support to gas prices.

The day-ahead gas contract gained 22.7% to average 55.23p/th in April, owing to colder seasonal temperatures and lower LNG imports.

Wholesale power contracts also shared the upward price trends seen in gas markets, with collective rises across all tracked power contracts in April.

Seasonal power contracts up to and including winter 23 rose 5.7% on average in April. Winter 21 rose 9.3% to £69.17/MWh while summer 22 rose 5.7% to £52.39/MWh. The annual October 21 power contract rose 7.7% to average £60.78/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 €48.12/t on 28 April, and were 10% higher on average in April compared with the month prior. April was generally a particularly weak period for wind generation, which also lent support to prices in the month.

Day-ahead power rose 15.6% in April to average £69.31/MWh, supported by higher gas prices, unseasonably cold temperatures and associated higher demand levels, and lower levels of wind output for much of the month. Whilst still maintaining some volatility, short-term power prices benefited from more comfortable electricity supply margins, with lower demand and some returning generation capacity following numerous outages.

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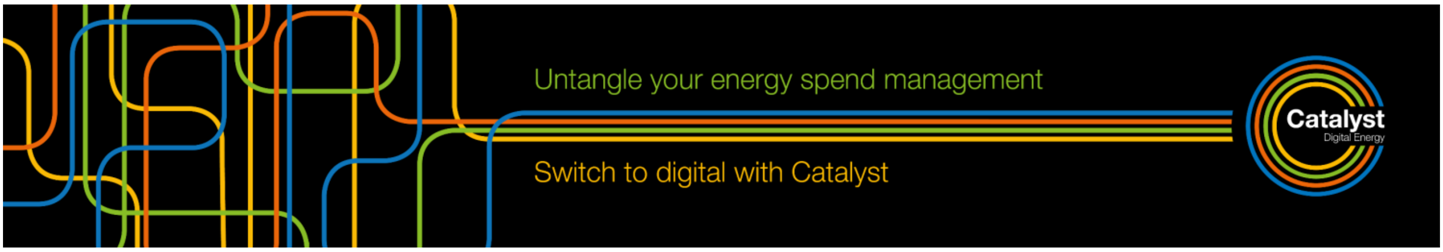
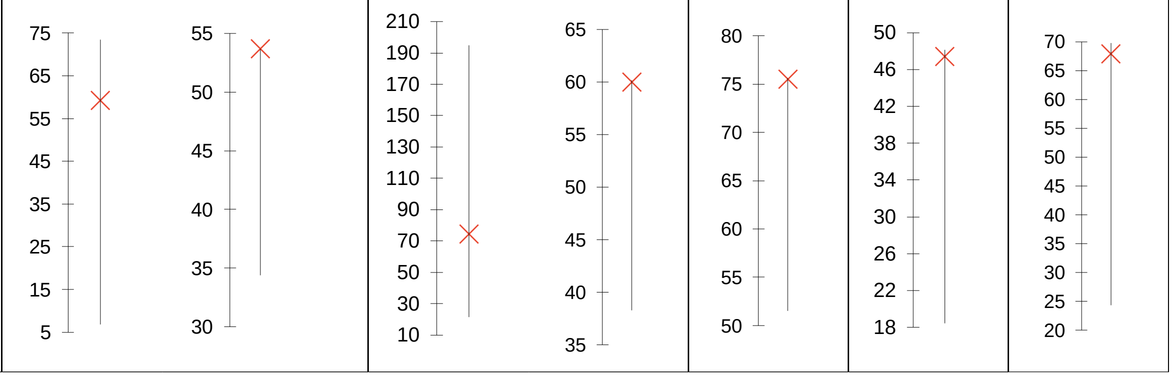


Key market indicators: 29/04/2021

		Gas (p/th)		Electricity (£/MWh)		Coal	Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	($/t)	(€/t)	($/bl)
This month	29 Apr 21	59.25	53.70	74.25	60.00	75.50	47.42	67.93
Last month	1 Apr 21	51.00	48.28	57.00	57.73	72.50	42.42	63.83
Last year	30 Apr 20	13.00	34.76	24.50	38.36	52.65	20.11	24.27
Year-on-year % change		356%	55%	203%	56%	43%	136%	180%
Year high		73.50	53.70	195.00	60.12	75.65	48.12	69.80
Year low		6.85	34.37	21.50	38.31	51.50	18.40	24.27

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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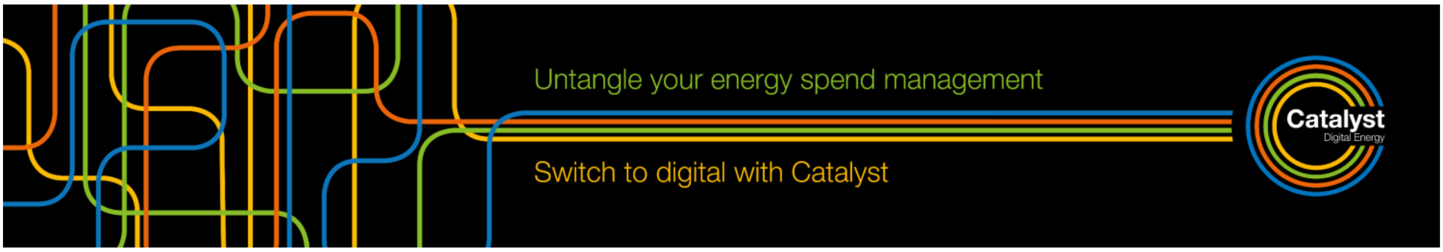


Government sets new emissions reduction target for 2035

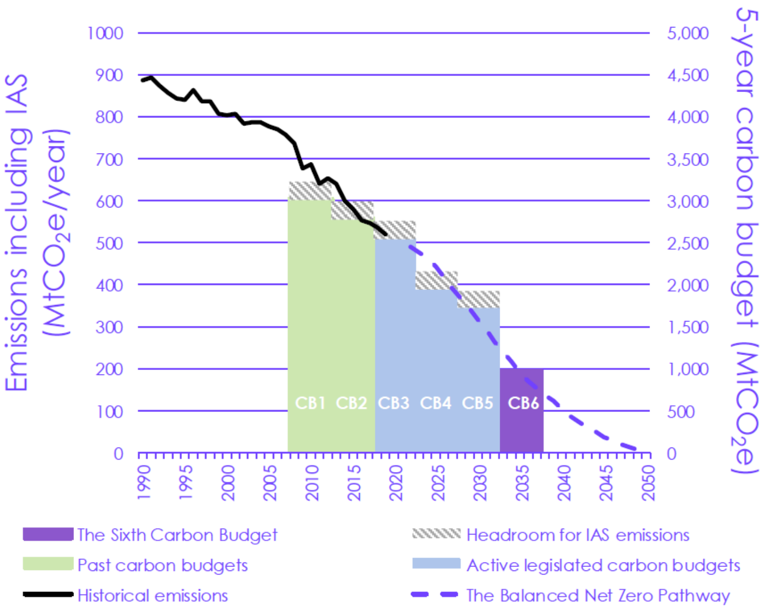
The government confirmed that it will be enshrining a new target into law to cut emissions by 78% (based on 1990 levels) by 2035.

Announced on 20 April, the target is in line with the recommendation from the independent Climate Change Committee (CCC) for the Sixth Carbon Budget (covering the period 2033-37) and will take into account emissions from international shipping and aviation (IAS), in line with CCC recommendations. The new target will become enshrined in law by the end of June 2021, with legislation laid in Parliament on 21 April.

The UK has a series of carbon budgets up to 2050 that it has a statutory obligation to meet. The UK has met the First and Second and is on track to meet the Third, but it is currently off track on the Fourth and Fifth.

The government, in the more detailed notes at the bottom of the press release, stressed that while it has accepted the recommendations on the budget level and the inclusion of IAS, this does not mean it is accepting all the specific policy recommendations of the CCC's Sixth Carbon Budget advice.

Figure 1: The CCC's recommended Sixth Carbon Budget



Source: CCC

Government

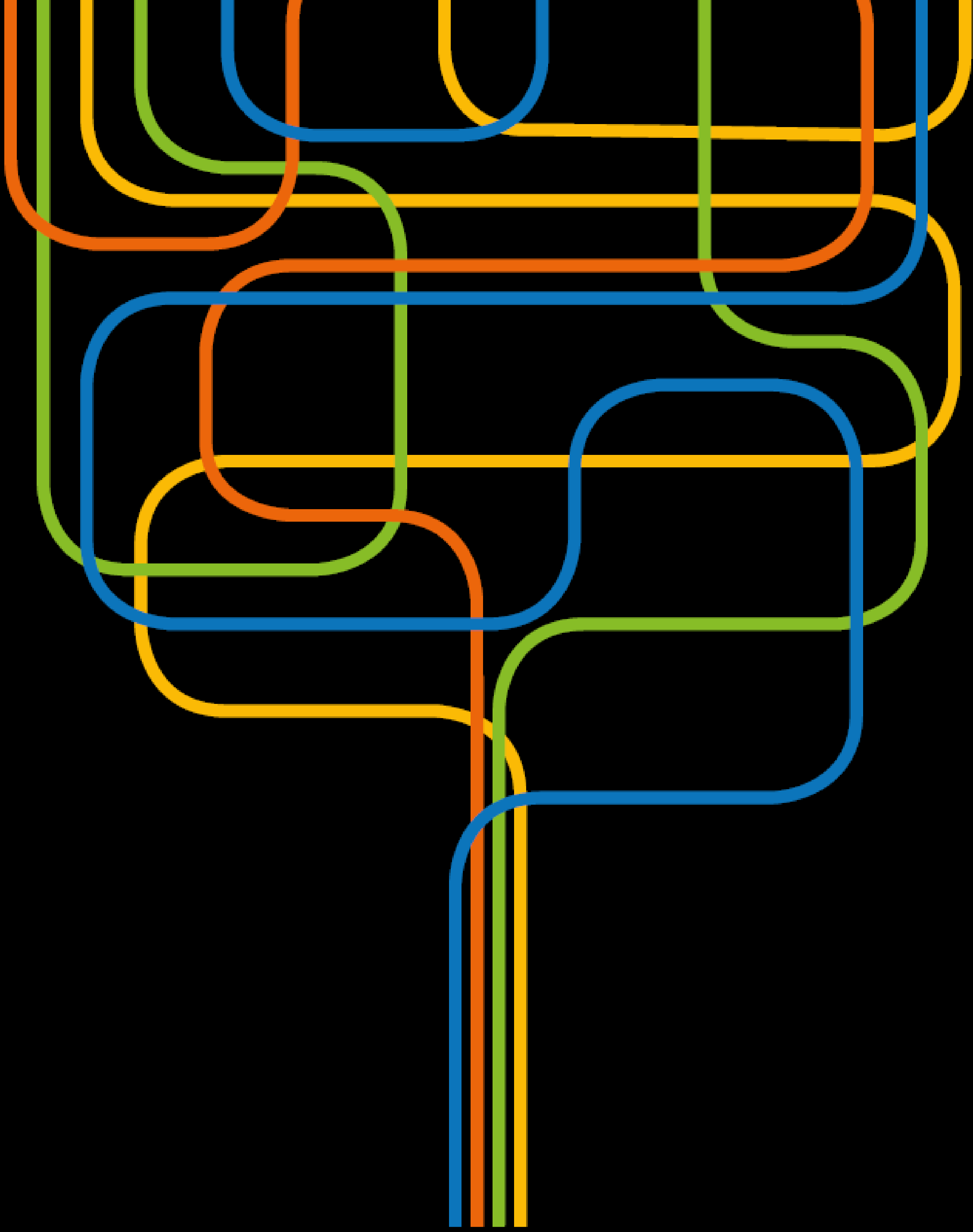
Government proposes mandatory climate-related financial disclosures

The government is consulting on requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs). Published on 23 March, the consultation concerns proposals which aim to increase the quantity and quality of climate-related financial disclosures "in a proportionate manner". The government said it wants the following entities to be come under the measures:

- All UK companies that are currently required to produce a non-financial information statement, being UK companies that have more than 500 employees and have transferable securities admitted to trading on a UK regulated market banking companies or insurance companies.
- UK registered companies with securities admitted to AIM with more than 500 employees.
- UK registered companies which are not included in the categories above, which have more than 500 employees and a turnover of more than £500mn.
- LLPs which have more than 500 employees and a turnover of more than £500mn.

This consultation closes on 5 May 2021

Government



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Report: SMEs lack support or advice on how to transition to net zero

Small businesses want to play a key role in the UK's journey to net zero, but do not know where to turn when it comes to cutting carbon emissions, according to a new report from a coalition of business groups, energy networks and expert bodies.

Commissioned by a new coalition, the Zero Carbon Business Partnership and published on 14 April, *Small businesses advice on net zero: discovery phase* finds that SMEs, despite caring about cutting carbon, are unsure where to start. The coalition includes, amongst others, the Federation of Small Businesses, the British Chambers of Commerce, CBI, Electricity North West, Northern Powergrid and Western Power Distribution. The findings were made as part of a series of workshops, interviews (with 42 businesses) and surveys (with 254 businesses), as well as reviews of literature and analysis of online search trends. The study highlighted several key needs for SMEs:

- Clear information. The language of net zero is not well understood by SMEs, the study found. They are getting environmental messaging from multiple sources and angles and are unclear about what policy changes will affect their businesses. Also, in many cases, the information they need is not reaching them.
- Staying in business. Remaining financially viable is generally the strongest lever in the net zero conversation with SMEs, the study found. Financial viability should be at the heart of messages about carbon reduction.
- Financial and digital literacy support. The research showed that those making faster progress towards net zero, and experiencing business benefits as a result, all had better financial skills and digital literacy.
- Trust. SMEs generally view trade bodies and business groups as trusted sources of information, but existing support frameworks are seen as complex. The report says trade bodies and business groups could enhance trust by providing feedback about the net zero transition experience of SMEs.
- Peer-to-peer relationships. Enabling peer-to-peer support structures, particularly at local and regional levels, will enhance trust, capacity and confidence to act, particularly within as-yet immature low carbon supply chains.
- Meeting the challenge of COVID-19. The initial focus of any services must be on "penetrating the overwhelming noise to offer uncomplicated, rapidly understandable guidance".
- A joined-up narrative. The study found that SMEs sometimes need a joined-up narrative to cut through confusing language around net zero.

Zero Carbon Business Partnership

UK carbon emissions were down 10% in 2020

The government published its provisional 2020 UK greenhouse gas emissions figures on 25 March, showing the significant impact of COVID-19 and the resulting lockdowns in the UK on carbon emissions last year. Carbon 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. This is larger than the 8.6% fall seen in 2009 during the recession.

Emissions dropped particularly during Q220, from April to June, when carbon emissions fell 24.6% from the same point the year before. This was the period that followed the 23 March nationwide lockdown, when transport emissions dropped 43.9%.

Government

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