



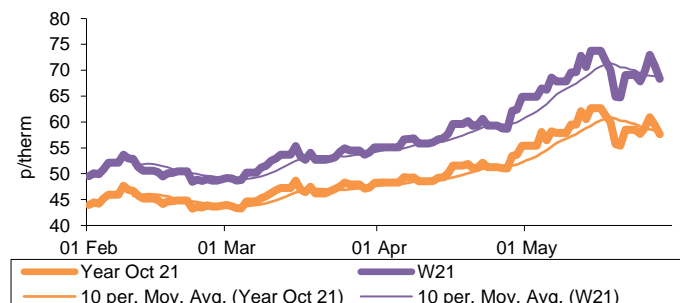
# Digital Energy Element

June 2021

Energy and Gas Prices Continue  
an Upward Trend



## Annual gas prices



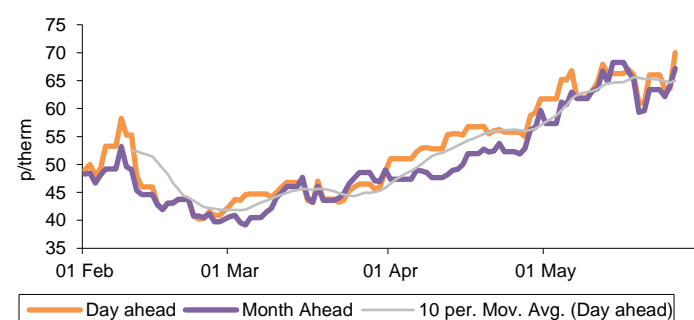
In May 2021, all tracked wholesale GB gas contracts rose, with the most pronounced rises observed across near-term contracts. Gas prices across the board remained comfortably above their levels seen at the same time last year, amid a consistently bullish commodity market and EU gas storage levels remaining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

On average, seasonal gas contracts from winter 21 to winter 23 were 10.8% higher in May than in April, with prices collectively ending the month higher than they were at the month's start. Winter 21 rose 18.0% to average 69.23p/th, while summer 22 gas lifted 10.4% to 56.74p/th.

Prices were supported by multiple 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 gas storage levels, which are only half as full as the same time last year at around 30%, will act to increase gas demand for injections this summer. While, gas prices also remained correlated with EU ETS carbon and Asian LNG prices, both of which reached fresh highs in May.

Unseasonably cooler weather throughout May also supported prices, with higher-than-expected demand leading the day-ahead gas contract to gain 17.0% to average 65.03p/th across the month.

## Spot gas prices



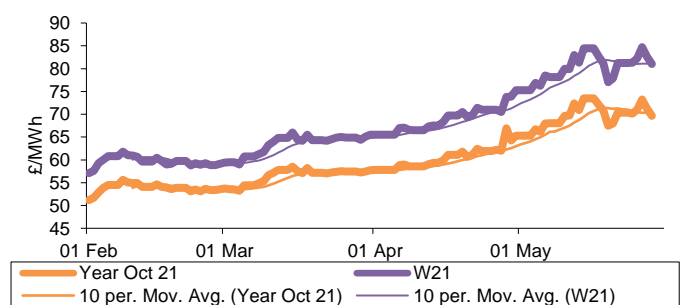
Wholesale power contracts also shared the upward price trends seen in the gas market, with collective rises across all tracked power contracts in May.

Seasonal power contracts up to and including winter 23 rose 13.1% on average in May. Winter 21 rose 15.7% to £80.38/MWh, while summer 22 rose 13.1% to £59.39/MWh. The annual October 21 power contract rose 14.2% to average £69.66/MWh.

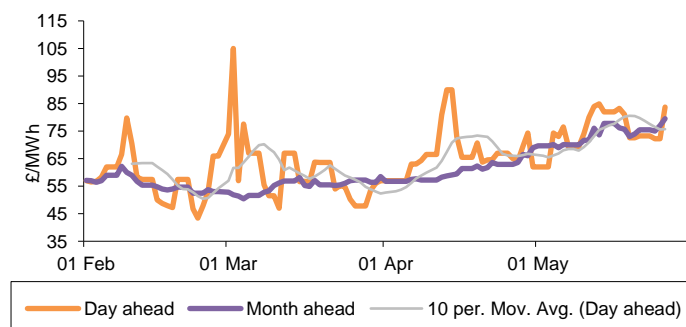
Forwards power contracts were supported by bullish gas and international commodity markets, particularly EU ETS and now UK ETS carbon prices. EU ETS carbon prices continued their unprecedented bullish momentum in May, reaching another all-time high of €55.71/t on 17 May. Power prices also benefitted from a strong opening to the first UK ETS auctions and futures contracts on 19 May. The first auction cleared at £43.99/t, whilst prices have since traded closer to £50/t.

Day-ahead power rose 11.6% in May to average £76.97/MWh, supported by higher gas prices, unseasonably cold temperatures and strong performing carbon markets. Prices in May were approximately two-three times higher than the same time a year ago across near-term contracts, due to the backdrop of significantly higher commodity prices. Power demand has also returned closer to seasonal normal levels in May, albeit still slightly behind pre-covid levels.

## Annual power prices



## Spot power prices



Key market indicators: 26/05/2021

	Gas (p/th)		Electricity (£/MWh)		Coal (\$/t)	EUA Carbon (€/t)	UKA Carbon (£/t)	Brent crude (\$/bl)
	Day-ahead	Year-ahead	Day-ahead	Year-ahead				
This month 26 May 21	70.00	60.92	83.75	73.23	81.55	54.40	51.75	68.74
Last month 28 Apr 21	58.75	53.42	69.50	66.90	75.25	48.12	0.00	66.32
Last year 27 May 20	9.50	36.73	25.50	43.09	52.35	21.34	0.00	35.68
Year-on-year % change	637%	66%	228%	70%	56%	155%	N/A	93%
Year high	73.50	62.68	195.00	73.48	81.55	55.71	51.75	70.06
Year low	8.15	36.11	22.75	42.73	51.50	21.02	46.40	34.35

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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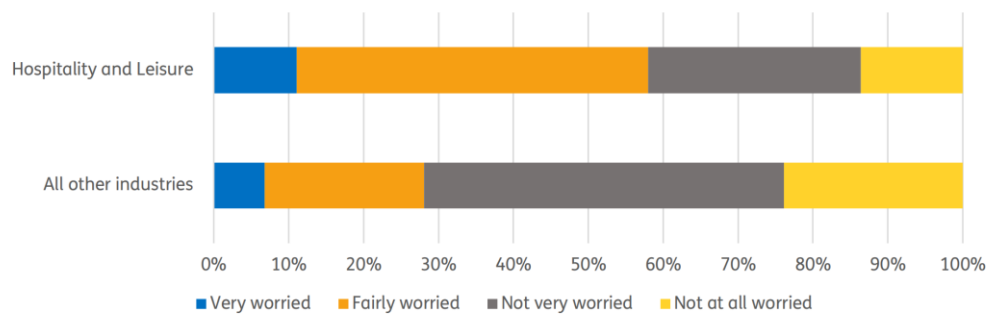
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## One in three SMEs are concerned about rising energy prices

Citizens Advice Scotland (CAS) has warned that nearly one in three (29%) small and medium-sized enterprises (SMEs) in the UK are concerned about energy prices rising. This rose to more than half (58%) for hospitality and leisure businesses.

Figure 1: How worried, if it all, are you about the possibility of your business' energy costs increasing?



A new report published by CAS on 19 May examined field research carried out by YouGov in September 2020 on 1,062 SME decision makers across GB to gather opinions on the energy market, tariffs and impacts of COVID-19.

When asked whether respondents were content with their energy contracts

Source: CAS

it was found that 45% of those surveyed were confident that their business was getting a good deal. A quarter of businesses felt that the question was not applicable to their circumstances because they worked from home or shared a space, while 15% were not confident they had secured a good deal. The results were very similar to when SMEs were asked if they were happy with how their energy deal had been sold to them, with 45% satisfied, 25% feeling the question was not applicable and 9% not satisfied.

Meanwhile, just over a quarter (28%) of SMEs agreed with the statement “SMEs are generally treated fairly by energy suppliers,” with 25% disagreeing. Almost a third (29%) agreed that there was a good range of tariffs and services available, with 17% disagreeing.

CAS recommended that more research should be undertaken into the ongoing effects of the pandemic on SMEs to provide information for policy makers and regulators, as this is likely to affect SME attitudes towards the energy market and decarbonisation.

### CAS

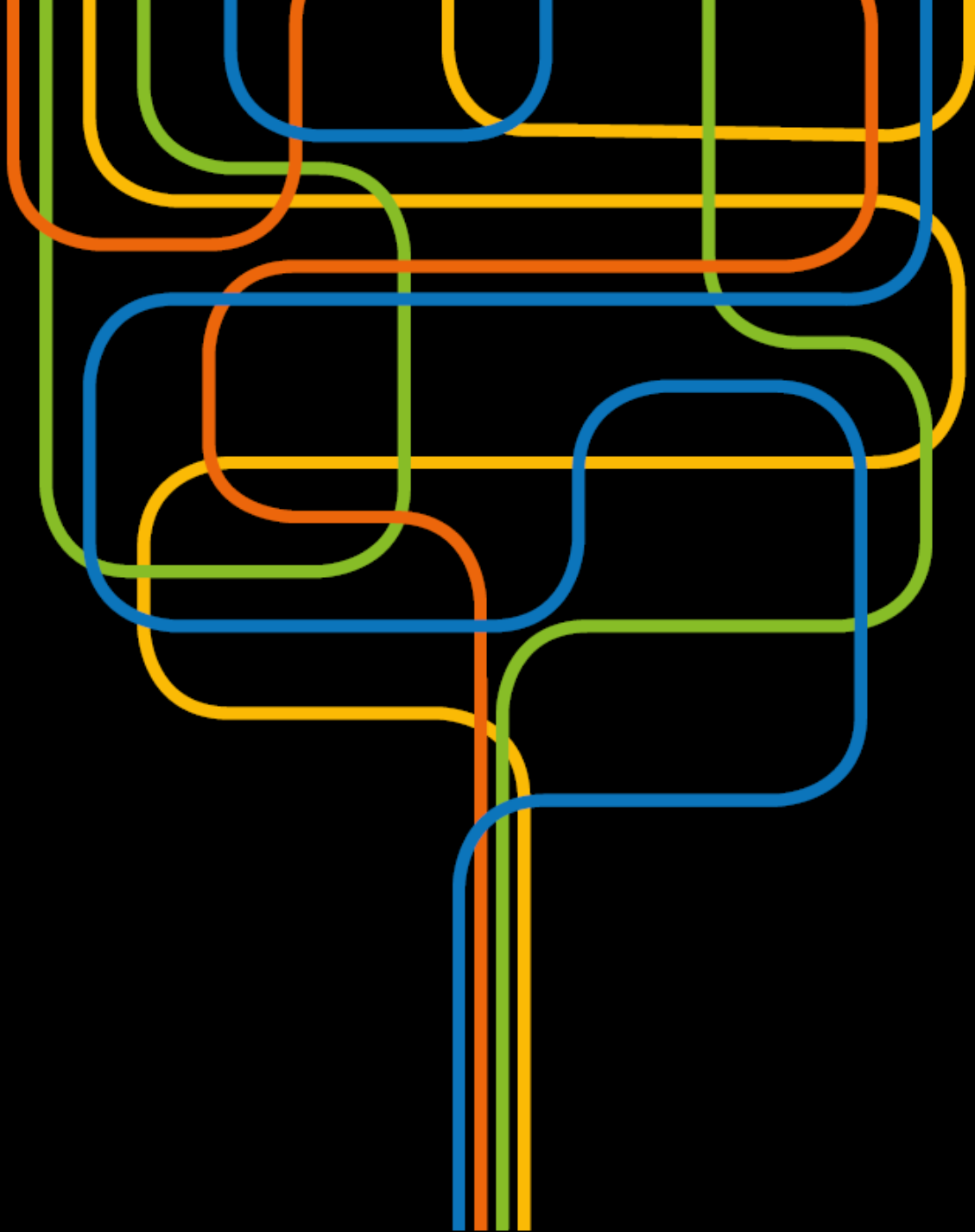
## Study shows lack of female representation at top of UK energy sector

A new study from POWERful Women, a professional initiative to advance gender diversity within the energy sector and PwC has highlighted that the UK energy sector has an under-representation of women at the top.

Published on 19 May, the state of the nation on gender balance argues that the lack of diversity and talent lowers companies’ abilities to innovate and meet the challenges of the net zero transition. The study focused on the top 80 largest energy employers, finding that only 18 out of 80 companies have female executive directors and women hold just 24% of all board seats and 14% of executive director positions. 28% of top UK energy companies have no women on the board and 78% have no women in executive director positions.

Additionally, for the 31 companies that responded, an average of 32% of their executive pipeline is female, which POWERful Women described as “very positive”.

### POWERful Women

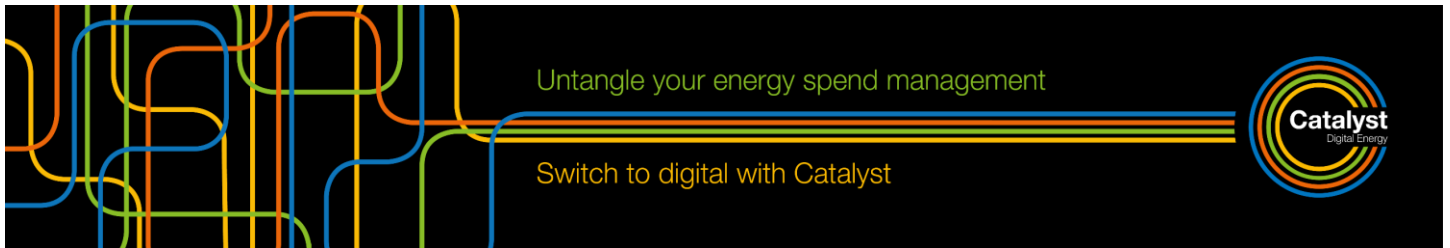


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## Government considering how energy policy costs fall on bills

**The government will “shortly publish” a call for evidence on affordability and fairness concerning how energy policy costs are paid for. This was announced on 13 May in the government’s response to the Environmental Audit Committee’s (EAC) report on energy efficiency of existing homes.**

The government said current price signals present a barrier to uptake of key technologies, such as heat pumps, including how the costs of decarbonising energy are apportioned between gas and electricity bills. It hopes this call for evidence will begin a strategic dialogue between government, consumers and industry on affordability and fairness and will set out further details through the Treasury’s Net Zero Review. This was in response to the EAC recommendation to consult on the balance of levies on electricity versus gas/other fossil fuel heating sources, to encourage heat pump uptake.

In the original report, EAC had criticised the Green Homes Grant Voucher Scheme as being “rushed in conception and poorly implemented”, arguing that the government had not adequately consulted with industry on its delivery. In response, the government conceded that the scheme had “not been delivering at the rate and scale we had originally hoped”. It said that with over 52,000 vouchers issued, worth over £221mn, the scheme has made encouraging progress, “but it was important to take stock and consider our approach to upgrading the energy efficiency of homes”, after which it decided to close it to new applications on 31 March.

The government said the Green Homes Grant Voucher Scheme was “designed to provide a short-term economic stimulus while tackling our contribution to climate change”, arguing that it was important to roll out the scheme quickly to help stimulate the economy.

There have been calls from various organisations to rebalance energy policy costs. A report from research consultancy Public First modelled various ways of rebalancing the costs of gas and electricity consumption in the UK, to see how the government could increase uptake of heat pumps to meet its 2028 target of 600,000 a year. *Options for Energy Bill Reform*, published on 29 April, models four scenarios for rebalancing energy bills.

In all scenarios, the costs of the Energy Company Obligation are moved from both electricity and gas bills onto gas bills alone, because “these are more closely linked to heating”. Public First’s view is that scenario 2, which moves the policy costs onto government expenditure and then introduces a carbon tax, is the best balance in terms of incentivising heat decarbonisation. It says this would see “proper” pricing emissions on gas, with the fuel poor and average consumers not being penalised and would limit the impact on the Treasury. It concludes that, regardless of the approach taken by the government, it is essential that the government shields the poorest from substantive rises on their energy bills.

EAC Public First

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## New initiative to support small businesses to reduce emissions

Prime Minister Boris Johnson and Business and Energy Secretary Kwasi Kwarteng on 28 May called on small businesses in the UK to take small, practical steps to cut their emissions.

The Together for our Planet ‘Business Climate Leaders’ campaign has been launched to encourage small and microbusinesses to commit to cutting their emissions in half by 2030 and to net zero by 2050 or sooner through the new UK Business Climate Hub. The hub will provide practical tools, resources and advice to understand their emissions and develop a plan to reduce them. The UK has 6mn small businesses, employing 60% of the UK workforce and generating £2.2trn of revenue to the economy.

Government



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