



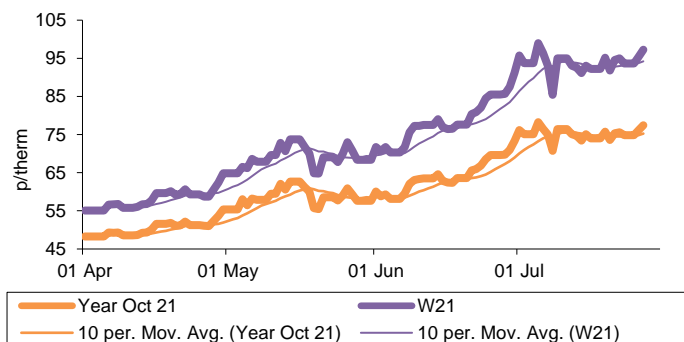
Digital Energy Element

August 2021

Energy and Gas Prices Sky Rocket



Annual gas prices



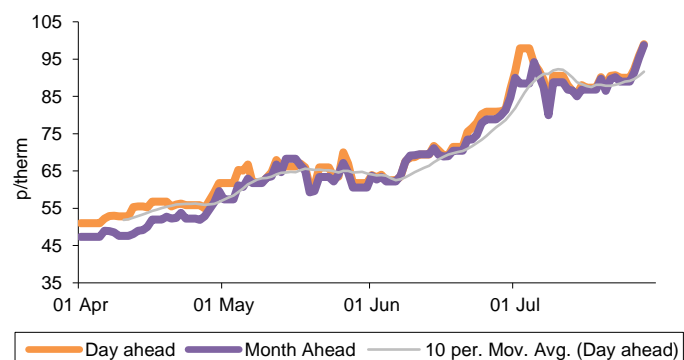
In July 2021, all tracked wholesale GB gas contracts rose, with the most pronounced rises observed across near-term contracts, continuing recent trends. Gas prices across the board remained comfortably above their levels seen at the same time last year, underpinned by high underlying commodity markets and tight supply-demand fundamentals. Notably, low European gas storage levels and high gas-for-power demand supported GB gas prices.

On average, seasonal gas contracts from winter 21 to winter 23 were 9.9% higher in July than in June, with prices collectively ending the month higher than they were at the month's start. Winter 21 rose 20.4% to average 94.53p/th, while winter 22 gas lifted 8.0% to 62.66p/th.

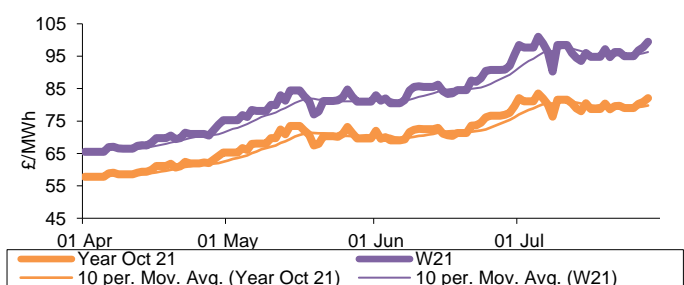
Gas prices were supported by multiple drivers. Sustained low European gas storage levels and a backdrop of rising international commodity prices including carbon and LNG markets. It was a generally prosperous month for carbon and Asian LNG markets, sustaining recent highs observed in previous months. Asian LNG in particular hit a six-month high on 23 July, buoyed by strong summer electricity demand in Asia and part of North-West Europe.

Gas flows also continued to be hampered by maintenance works across the NCS, reducing flows into GB for most of the month. Day-ahead gas prices as of 29 July hit a fresh three-year high of 103.25p/th, unseasonably high for summer delivery. Consequently, day-ahead gas prices rose 26.4% on average in July to 91.04p/th.

Spot gas prices



Annual power prices

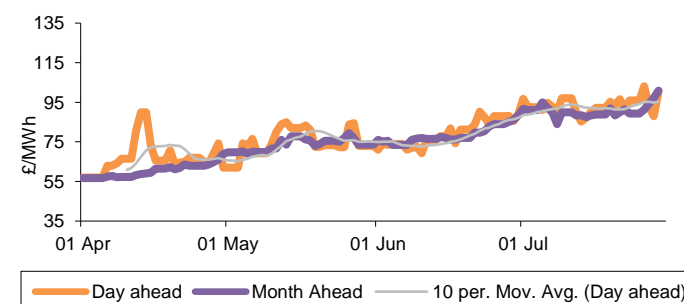


Wholesale power contracts largely shared the bullish trends observed in gas markets, with some exceptions in longer-dated seasonal contracts.

Seasonal power contracts up to and including winter 23 moved higher, rising 4.3% on average in July. Winter 21 rose 12.4% to £96.73/MWh, while summer 22 rose 7.2% to £64.03/MWh. The annual October 21 power contract rose 10.3% to average £80.38/MWh.

Forwards power contracts were supported by bullish gas and international commodity markets. EU and UK ETS prices remained high in July, supported by continued tighter European gas markets, delays in free EUA allocation and expectations of ~50% reductions in EU and UK ETS auction volumes for August.

Spot power prices



Day-ahead power rose 17.6% in July to average £93.2/MWh. Baseload power continues to rise, holding on to the almost unprecedented highs for summer delivery, already shown in the previous month. Bullish signals from gas markets and low wind output in the month bolstered prices. Day-ahead power prices in July exceeded £100.00/MWh on two separate occasions (26 and 30 July), highs not seen since the period of numerous system warnings over Christmas and January due to low wind output and correlated high demand.



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Key market indicators: 29/07/2021

		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	29 Jul 21	103.25	81.38	100.50	84.00	96.40	54.00	43.70	75.15
Last month	1 Jul 21	91.75	76.17	96.75	82.10	88.40	58.01	47.75	75.46
Last year	30 Jul 20	12.85	37.45	31.45	45.79	59.30	25.73	N/A	43.35
Year-on-year % change		704%	117%	220%	83%	63%	110%	N/A	73%
Year high		103.25	81.38	195.00	84.00	96.40	58.16	51.75	77.32
Year low		12.85	36.85	30.50	44.45	53.50	23.02	42.40	37.19
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.		105	85	210	85	100	62	52	80
		95	80	190	80	95	58	51	75
		85	75	170	75	90	54	50	70
		75	70	150	70	85	50	49	65
		65	65	130	65	80	46	48	60
		55	60	110	60	75	42	47	55
		45	55	90	55	70	38	46	50
		35	50	70	50	65	34	45	45
		25	45	50	45	60	30	44	40
		15	40	30	40	55	26	43	35
		5	35			50	22	42	

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.

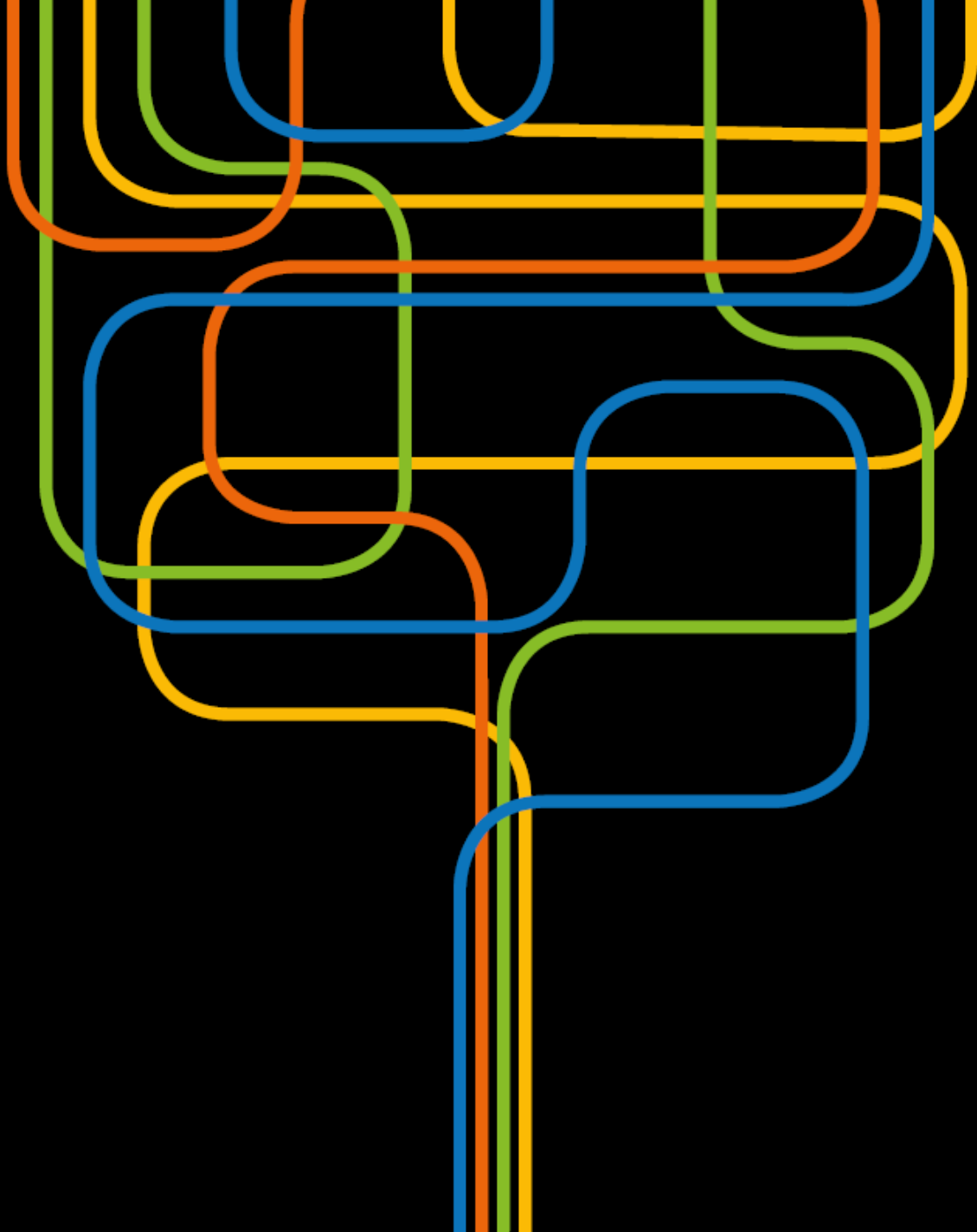
Margin: The indicated UK imbalance of a given settlement period. It is the difference between the sum of the indicated generation available, and the national demand forecast made by National Grid.

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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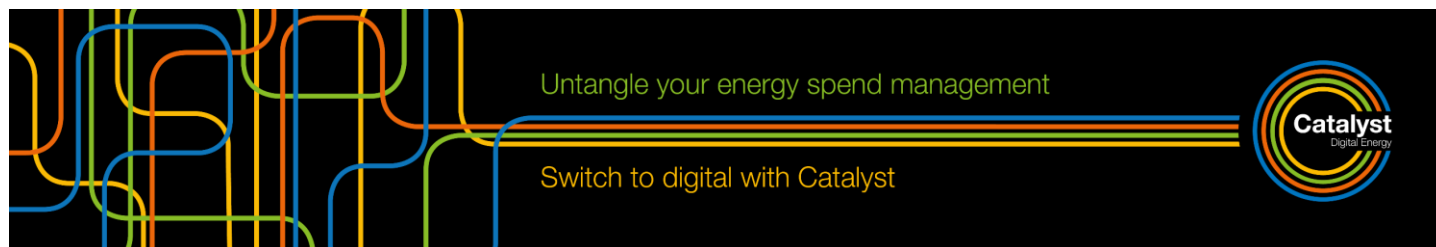


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DfT sets out transport decarbonisation plan

The Department for Transport (DfT) published the long-awaited Transport Decarbonisation Plan on 14 July, setting out new targets such as the phase-out of new petrol and diesel HGVs by 2040, as well as publishing other significant documents alongside it.

DfT published a zero emissions vehicle (ZEV) transition delivery plan:

- In 2021 – Infrastructure schemes expanded: Workplace Charging Scheme opened to charities and SMEs; and on-street residential scheme opened for larger projects.
- 2022 – Local EV Infrastructure Fund launched; further consultation on the CO₂ regulatory regime expected; and EV Homecharge Scheme to focus on renters, leaseholders and those living in flats.
- 2024 – Potential date for introduction of a new road vehicle emissions regulatory regime.
- 2025 – Existing company car tax rates for zero emission cars currently set to end in March 2025.
- 2027 – Full progress review undertaken; government and van fleet to be 100% zero emission by 2027.

DfT also published the Green Paper on a New Road Vehicle CO₂ Emissions Regulatory Framework for the United Kingdom, saying it will seek to define the 'significant zero emission capability' that all new cars and vans will be required to deliver between 2030 and 2035. Other significant documents concerning car and van decarbonisation published alongside the plan include:

- In the Green Paper on a New Road Vehicle CO₂ Emissions Regulatory Framework for the United Kingdom, DfT will seek to define the 'significant zero emission capability' that all new cars and vans will be required to deliver between 2030 and 2035.
- The government published its response to the electric vehicle (EV) smart charging consultation, committing to laying legislation later this year to ensure that all new private EV chargepoints meet smart charging standards. Its intention is to mandate a minimum set of requirements in 2021 that supports the early smart charging market.
- Other actions in the Transport Decarbonisation Plan include consulting on phase out dates for the sale of all new non-zero emission HGVs, with the government's proposed date to be 2040; and deliver a net zero railway network by 2050, with sustained carbon reductions in rail along the way, and remove all diesel-only trains (passenger and freight) from the network by 2040.

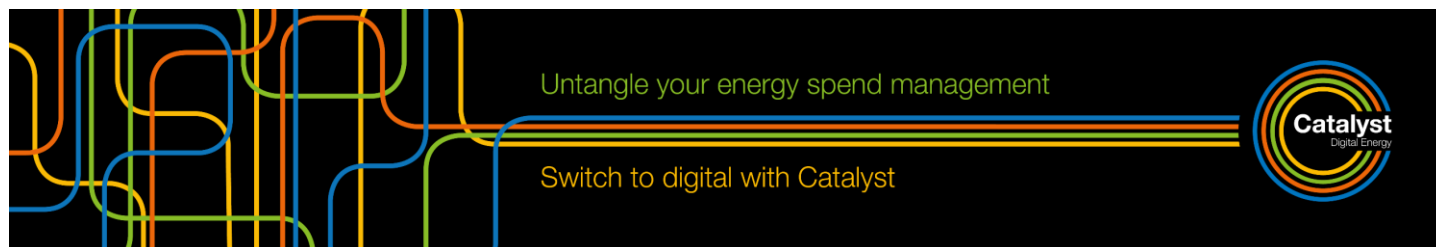
DfT

Ofgem warns of rising energy bills

In a blog issued on 27 July, Ofgem Chief Executive Johnathan Brearley alerted customers that the global increase in fossil fuel prices will have a knock-on effect for energy bills in the UK. The increase in wholesale costs will feed through to the price cap and initial analysis suggests an additional £150 per household. Every February and August, Ofgem announces the new level of the price cap based on the latest estimated costs of supplying energy. This sets the maximum price suppliers can charge their customers on their default tariff.

This is set come into effect on 1 October, affecting 15mn households on variable or default rates and prepayment meters covered by the cap. An official update will be released on 6 August.

Ofgem



Government proposes independent Future System Operator

Citing potential conflict of interest issues, the Department for Business, Energy and Industrial Strategy (BEIS) and Ofgem are consulting on proposals for a Future System Operator (FSO) fully independent from National Grid. The proposals follow on from the regulator's Review of GB Energy System Operation which was published in January this year and concluded that there is a strong case for a fully independent system operator.

In the FSO consultation, published on 20 July, BEIS highlights the gas and electricity operator roles are currently part of National Grid plc, which itself has significant commercial interests in the energy system. BEIS also stresses that there is no evidence that this potential conflict of interest has been acted on. Rather than deliberate acts, BEIS/Ofgem see the following as potential consequences of this perceived conflict of interest:

- The system operators may choose not to engage in a topic, because they do not consider it would be appropriate for them to opine on area where they may be conflicted.
- The government, Ofgem or industry may replicate work undertaken by the system operators to verify that the information or advice they received was correct rather than potentially based on conflicts of interest.
- Industry parties may change their behaviour towards the system operators based on a perception of conflict of interests, for example not engaging in commercial negotiations to provide an investment due to a belief that the system operators will make decisions based on their own commercial interest rather than in a free and transparent manner.

The government and regulator are proposing for all current National Grid Electricity System Operator (ESO) functions to be carried out by this new FSO because of the synergies between balancing the electricity system and analysing its future needs. They consider the synergy on the gas side to be weaker, with the potential cost and risk of separating real time operation from gas asset ownership to greater. As such, the government is proposing that the FSO only take over responsibility for strategic network planning, long-term forecasting and market strategy, not real-time system operation. An alternative option where the FSO also takes over real-time operation functions is also put forward for comparison.

BEIS also puts forward two different ownership models for the FSO:

- A standalone privately owned model, independent of energy sector interests.
- A highly independent corporate body model classified within the public sector, but with operational independence from government.

BEIS identifies incentives as the main area where these models will differ. A privately owned FSO, if it is profit-making, would be incentivised through its profit to drive performance. The non-private FSO would not be driven by shareholder or profit interest.

Government

Government must engage with public and businesses on net zero

On 8 July, the Commons BEIS Select Committee published a report on its inquiry into the findings of the Climate Assembly UK (CAUK) and its September 2020 report. The BEIS Committee's report argues that the most important principle of the net zero transition is public engagement, with 'fairness' the second most important. As a result, the BEIS Select Committee urges the government to publish a Net Zero Engagement Strategy and the agreed Net Zero Treasury Review, as soon as possible. Public engagement, fairness, and clarity in explaining the net zero transition strategies are highlighted as key by the report. Moreover, the report further suggests their importance through encouragement of positive behavioural changes by citizens and businesses. The effectiveness of deliberative engagement is suggested by the report through data from the CAUK assembly; behavioural changes were reported by 83% of assembly members.

BEIS Committee



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