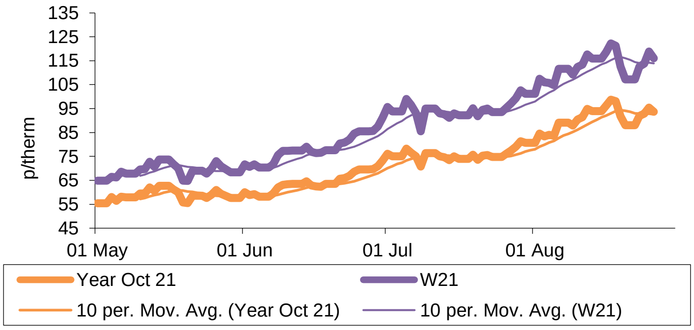
Digital Energy Element

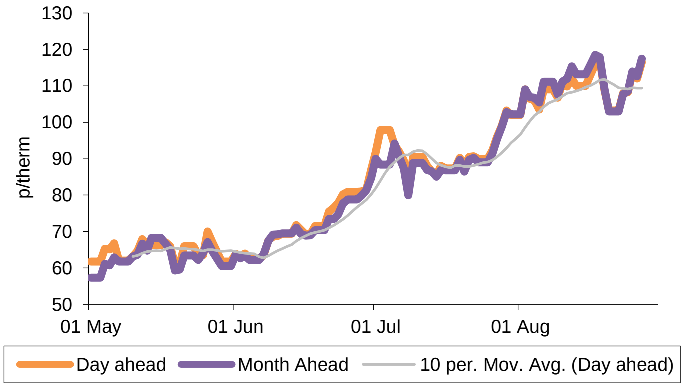
September 2021

Energy and Gas Prices Go Stratospheric

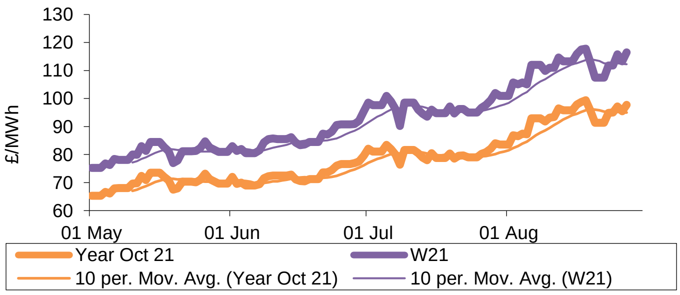
Annual gas prices



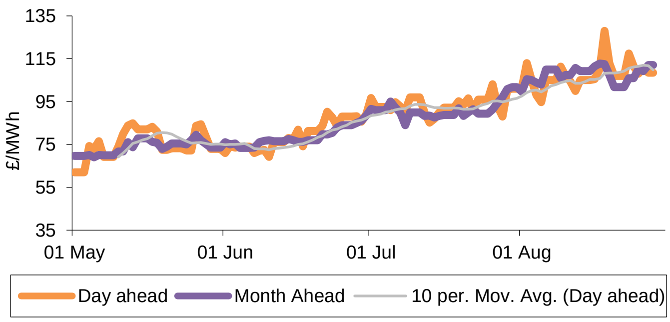
Spot gas prices



Annual power prices



Spot power prices



In August, all tracked wholesale GB gas contracts rose, with the most pronounced gains 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 tighter 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 15.8% higher in August than in July, with prices collectively ending the month 16.0% higher than they were at the start. Winter 21 rose 20.2% to average 114.00p/th, while winter 22 gas lifted 17.1% to 73.50p/th.

Gas drivers in recent months have remained consistent. Supported by 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 an eight-month high on 31 August at 125.11p/th, supported by strong demand for the upcoming winter.

Gas flows also continued to be squeezed by maintenance works across the North Sea, this is expected to continue into September. Day-ahead gas prices hit an all-time high on the morning of 1 September at 133p/th. Consequently, day-ahead gas prices rose 20.8% on average in August to 110.56p/t, ending the month 12.0% higher than the month's start.

Wholesale power contracts continued to take direction from the significant gains made in gas markets, will all power contracts collectively rising in August.

Seasonal power contracts up to and including winter 23 moved higher, rising 12.9% on average in August. Winter 21 rose 17.3% to £112.38/MWh, while summer 22 rose 18.6% to £76.06/MWh. The annual October 21 power contract rose 16.9% to average £94.11/MWh.

Forward power contracts were supported by bullish gas and international commodity prices. EU and UK ETS prices remained high in August, supported by continued tighter European gas markets and lower EUA auction volumes throughout August.

Day-ahead power rose 16.3% in August to average £108.82/MWh, with baseload power continuing to rise in parallel to gas markets. In support, day-ahead power prices reached an eight-month high on 1 September at £147.00/MWh. Periods of low wind outturn for much of August helped power prices to climb further from already notable highs in July. Akin to gas prices, power prices continue to take direction from wider commodity markets, with UK ETS, EU ETS and LNG markets undergoing strong gains across the month.

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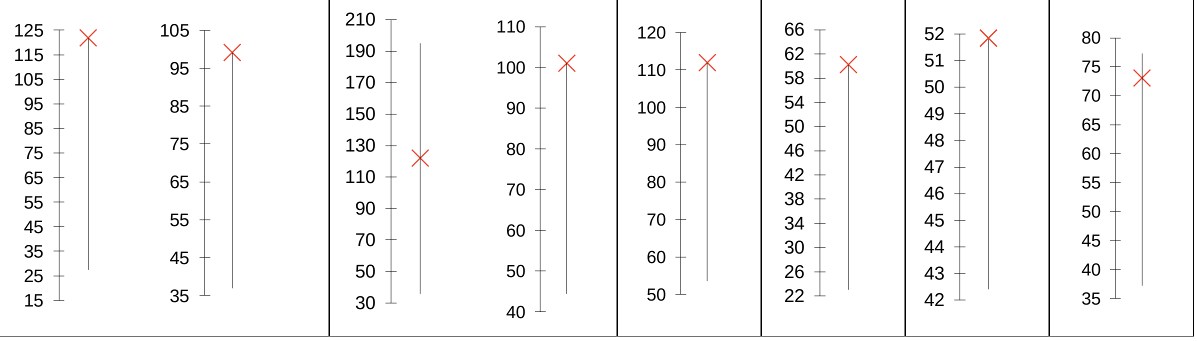
Key market indicators: 31/08/2021

		Gas (p/th)		Electricity (£/MWh)		Coal	EUA Carbon	UKA Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	($/t)	(€/t)	(£/t)	($/bl)
This month	31 Aug 21	121.75	99.17	122.00	101.00	112.00	60.25	51.85	73.06
Last month	3 Aug 21	106.50	83.39	105.00	86.50	95.25	54.54	45.75	73.43
Last year	1 Sep 20	28.75	40.90	44.00	49.08	58.00	28.56	N/A	45.73
Year-on-year % change		323%	142%	177%	106%	93%	111%	N/A	60%
Year high		121.75	99.17	195.00	101.00	112.00	60.25	51.85	77.32
Year low		27.50	36.85	35.75	44.45	53.60	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.



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.

Disclaimer

Government looking into TPI operation in retail market

The government is investigating third party intermediary (TPI) operation in the retail energy market. Launched on 16 August, the call for evidence is seeking views on: information transparency; contracting and sales arrangements; customer service arrangements and wider customer protections; out-of-court dispute resolution; and energy system risks.

The government is also seeking views to inform the design of any future regulatory intervention if required. It is focused on both domestic and business customers. The call for evidence focuses on the following types of TPIs: Price Comparison Website; auto-switching and auto-recommendation services; bill-splitters; brokers and consultants; and load controllers who can control or impact customer energy usage using communication networks. Ofgem estimates that more than 1,000 TPIs operate in the non-domestic retail market, with TPIs the most common way that customers decide to engage in the market. Around 49% of domestic customers used a price comparison website in 2019 and 67% of small (fewer than 50 employees) or microbusiness customers used a broker in 2018.

The government is calling for evidence on the issue of harm to consumers and there are several areas it is requesting information on:

- A lack of information transparency about market coverage and commercial arrangements with suppliers or other relevant market participants.
- Issues arising during the contracting process or from sales practices, including a lack of transparency, mis-selling or misrepresentation, and where customers sign up to a service inappropriate to their needs.
- Adequacy of customer service arrangements and wider protections offered to customers, including customers in vulnerable situations and who may require additional support.
- The ability for customers to resolve disputes where they are dissatisfied or experiencing issues with the contracted product or service, including the need to access alternative out-of-court dispute resolution.

The government also highlights aspects that a future regulatory framework would need to be flexible, to accommodate both existing and future TPI business models. It should also be proportionate to the harm or risk of harm identified, and not act as a barrier to innovation or distorting competition. It should also seek to achieve a coherent approach to regulation of TPIs across sectors where possible, as well as be reflective of the significant number and variety of TPIs operating in the market, including where differences exist across or within each type of TPI.

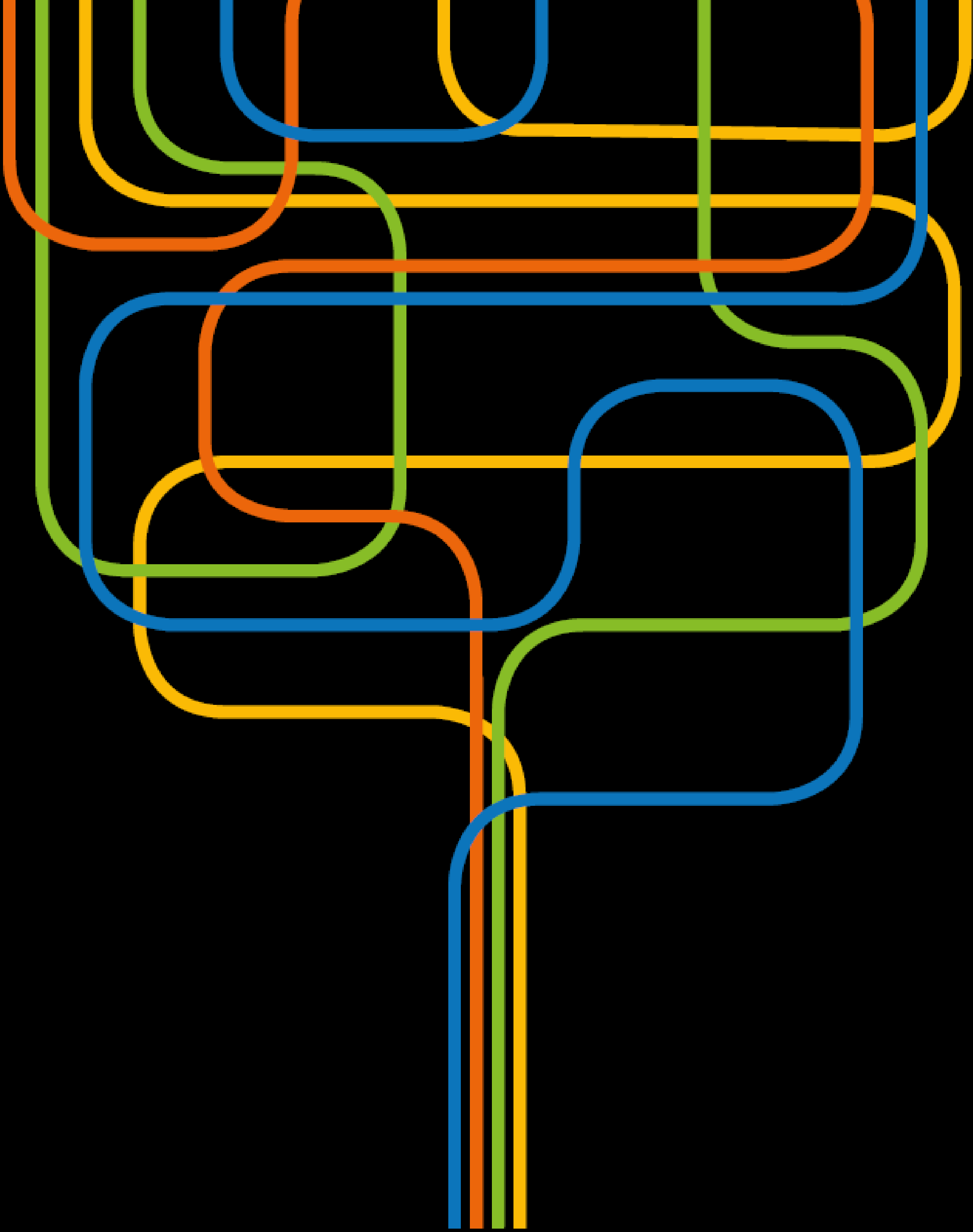
Government

Survey finds only one in 10 businesses measuring carbon footprint

Published on 9 August, joint research by the British Chambers of Commerce and telecommunications company O2 found that, of over 1,000 businesses surveyed in the UK, only 11% are measuring their carbon footprint. This figure falls to 9% for small businesses and 5% for microbusinesses, with fewer than 10 employees. In contrast, 26% of larger firms, with over 50 employees are measuring their footprint.

One-third of respondents have yet to seek advice or information to help improve their environmental sustainability, with 22% admitting they do not fully understand the term ‘net zero’. The research also found that smaller firms were more likely to be behind on climate action, with only 9% of microbusinesses having set carbon reduction targets compared to 27% of larger firms. The survey cited high upfront adaptation costs (34%) and a lack of available finance (30%) as the main barriers preventing respondents from making their businesses more sustainable. In response to the findings, the British Chambers of Commerce and O2 have launched a free online hub to help businesses find out how to set targets, develop an overall net zero strategy and measure their carbon footprints.

British Chamber of Commerce   Online hub



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Government launches review on “greenwashing” of electricity tariffs

The government launched a consultation on 16 August to explore the extent of ‘greenwashing’ in the retail energy sector. This comes amid concerns that energy suppliers could be overstating the environmental benefits of their green electricity tariffs.

Over half of all new electricity tariffs are badged as ‘green’ or ‘100% renewable’ and 9mn households are now on green tariffs. Currently, energy suppliers can market tariffs as ‘green’ if they have purchased enough Renewable Energy Guarantees of Origin (REGOs) to cover the electricity consumed by customers on that tariff. Some critics state this is a form of ‘greenwashing’, as the electricity from the wholesale market will be a mixture of fossil fuels, low carbon, and renewable energy. 62% of customers say their purchasing decisions are influenced by how ‘eco-friendly’ a tariff is, but 75% think suppliers should be transparent and open about their tariffs, including how much of their renewable energy is purchased from other suppliers.

In the December 2020 Energy White Paper, the government committed to working with the industry to “ensure customers are provided with more transparent and accurate information on carbon content when they are choosing their energy services and products”.

This call for evidence, which closes on 6 December, marks its first step to understand the challenges in this area, and seeks views on:

- The extent to which annualised retrospective renewable energy matching under the current framework acts as a barrier to transparency.
- How the best framework could be adapted to enable a customer’s choice to drive additional investment in low carbon electricity generation.
- The types of interventions which may help to achieve greater transparency in the framework.
- The role of other forms of low carbon power in future framework developments.
- Opportunities for innovation that can accommodate flexibility technologies in the future framework.

Government

Government calls for greater global ambition following IPCC warning

The government responded to the latest report published by the Intergovernmental Panel on Climate Change (IPCC) by calling for urgent global action. In a statement on 9 August, Prime Minister Boris Johnson said: “Today’s report makes for sobering reading, and it is clear that the next decade is going to be pivotal to securing the future of our planet. […] The UK is leading the way, decarbonising our economy faster than any country in the G20 over the last two decades. I hope today’s IPCC report will be a wake-up call for the world to take action now, before we meet in Glasgow in November for the critical COP26 summit.”

The IPCC report provides new estimates of the chances of crossing the warming level of 1.5°C in the next decades, and finds that unless there are immediate, rapid and large-scale reductions in GHG emissions, limiting warming to close to 1.5°C or even 2°C will be “beyond reach”. The IPCC says emissions of GHG from human activity are responsible for approximately 1.1°C of warming since 1850-1900, and averaged over the next 20 years, global temperature is expected to reach or exceed 1.5°C of warming.

IPCC   Government

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