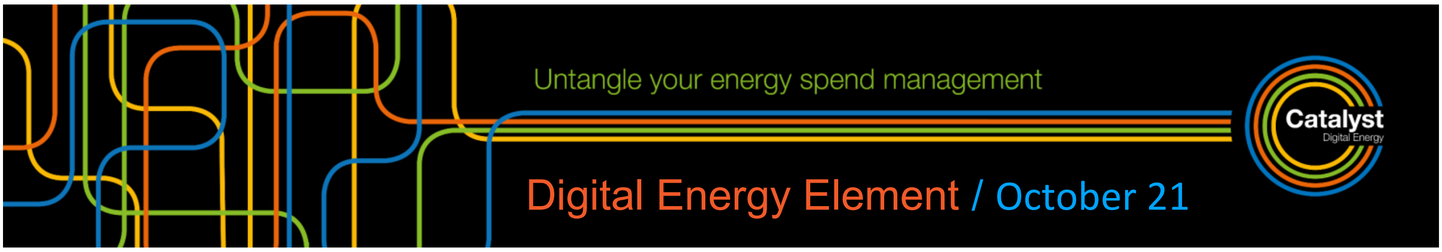
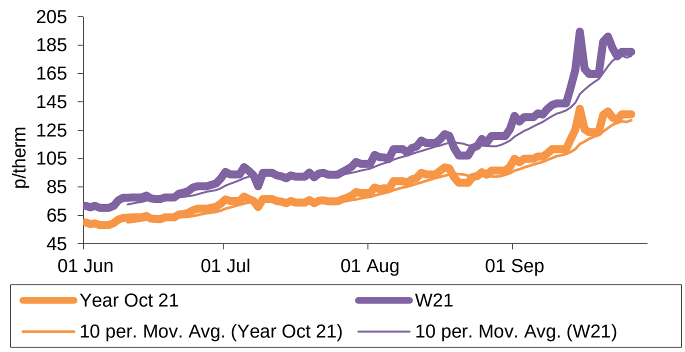
Digital Energy Element

October 2021

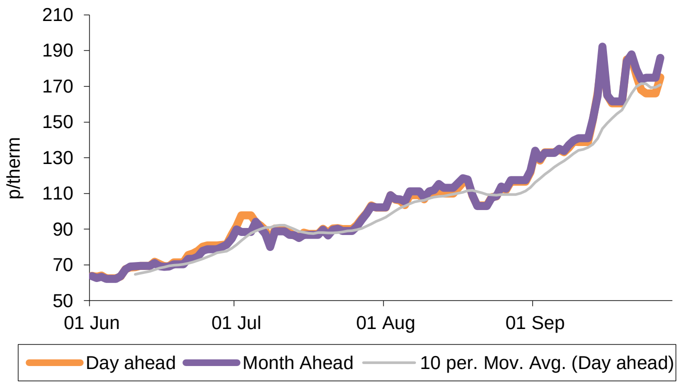
Gas & Power Prices Break New Records



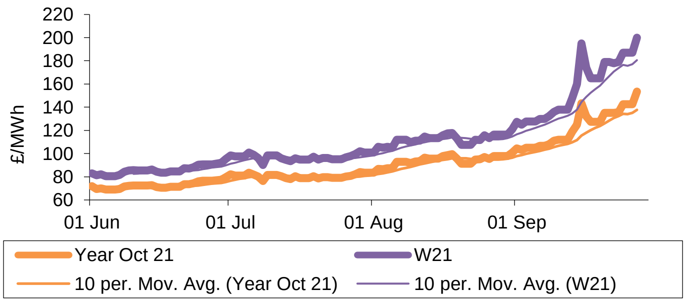
Annual gas prices



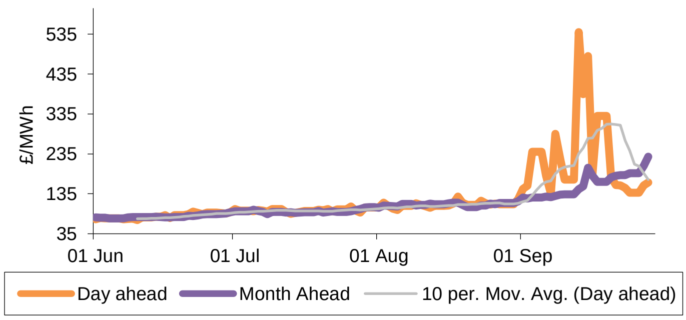
Spot gas prices



Annual power prices



Spot power prices



In September, 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, in what transpired as another record breaking month for GB gas prices, with consistent drivers of low European storage, higher gas-for-power demand and strong commodities underpinning this growth across September.

On average, seasonal gas contracts from winter 21 to winter 23 were 23.1% higher in September than in August, with prices collectively ending the month 33.0% higher than the start of the month. Winter 21 rose 46.0% to average 166.46p/th, also reaching an all-time high on 28 September at 219.26p/th.

The underpinning bullish drivers have remained a constant over the last 2-3 months, namely on a back-drop of extremely low European gas in storage, at levels between 15-20% lower on average than the same time a year prior. Spot Asian LNG prices have also skyrocketed in September, reaching a fresh eight-month high of 194.59p/th on 24 September.

Gas flows also continued to be squeezed by maintenance works across the North Sea, which are expected to continue into early October. This showed signs of easing slightly as September progressed, with select gas field sites returning to operation. Day-ahead gas contracts reached another record breaking milestone in September, meeting its highest ever price point of 187.50p/th.

Wholesale power contracts reached unprecedented levels in September, with all-time highs breaking the previous £195.00/MWh record set in January 2021 on seven occasions in the month.

Seasonal power contracts up to and including winter 23 moved higher, rising 23.0% on average in September. Winter 21 rose 46.7% to £164.47/MWh, while summer 22 rose 20.0% to £91.29/MWh. The annual October 21 power contract rose 35.9% to average £127.88/MWh.

Landmark highs set the benchmark for power prices to follow suit in September. Similarly, strong performing carbon markets, particularly the UK ETS, and notably low wind output allowed near-term power to climb significantly.

Day-ahead power rose 106.4% in September to average £224.64/MWh, with baseload power continuing to rise in parallel to gas markets. In support, day-ahead power prices reached an all-time high on 15 September at £540.00/MWh. Periods of low wind outturn and higher demand - with generally increasing economic activity in GB - for much of September led to tighter margins. For context, wind generation has been approximately 61% below the 2020 yearly average this summer.

Untangle your energy spend management

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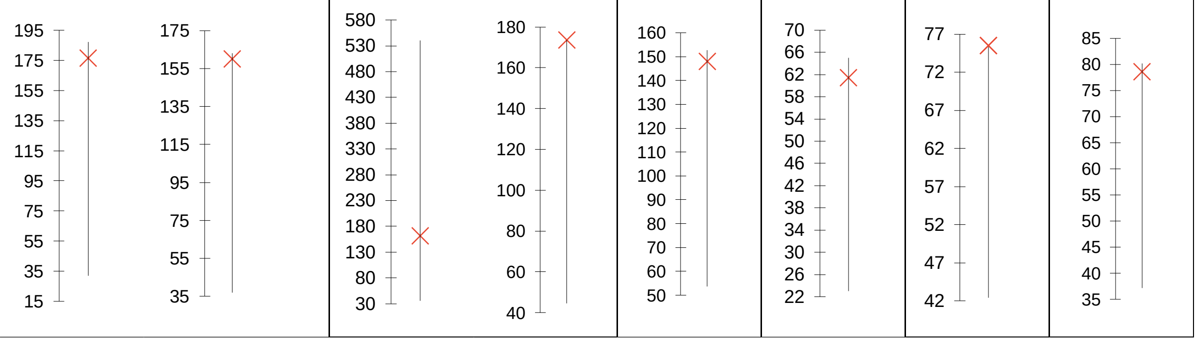
Key market indicators: 29/09/2021

		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	29 Sep 21	176.50	160.13	162.00	173.70	148.00	61.45	75.50	78.63
Last month	1 Sep 21	133.00	104.94	147.00	104.44	118.50	61.40	52.50	71.75
Last year	30 Sep 20	33.55	39.50	52.25	47.35	60.00	26.72	N/A	40.40
Year-on-year % change		426%	305%	210%	267%	147%	130%	N/A	95%
Year high		187.50	163.06	540.00	173.70	152.75	65.00	75.50	80.17
Year low		32.00	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.

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Government and regulator seek to calm consumer fears

Secretary of State Kwasi Kwarteng made a statement to Parliament on 20 September, which prompted considerable engagement from ministers and Ofgem on the security of energy supplies and rising costs for consumers. The Secretary of State made his statement after meetings with Ofgem and energy companies.

Kwarteng wanted to “make two points extremely clear”, adding that: “Firstly … protecting consumers is our no.1, our primary focus – and will shape our entire approach to this important issue. Secondly, … while the UK – like other countries in Europe – has been affected by global prices, Britain benefits from having a diverse range of gas supply sources. We have sufficient capacity and more than sufficient capacity to meet demand, and we do not expect supply emergencies to occur this winter”.

The Secretary of State argued that the “UK gas system has delivered securely to date and is expected to continue to function effectively, with a diverse range of supply sources and sufficient delivery capacity to more than meet demand. The National Grid Electricity System Operator has the tools within itself to operate the electricity system reliably, to balance that system and we remain confident that electricity security can be maintained under a very wide range of scenarios”.

On the exits of suppliers from the market, Kwarteng commented that: “It is not unusual for smaller energy suppliers to exit the market – particularly, I may add, when wholesale global prices are rising … the current global situation may see more suppliers than usual exiting the market, but this is not something that should be cause for alarm or panic”. The Secretary of State set out “three further principles, which are guiding my and the government’s approach” to the current situation:

- “Firstly, the government will not be bailing out failed companies. There will be no rewards for failure or mismanagement. The taxpayer should not be expected to prop-up companies who have poor business models and are not resilient to fluctuations in price.
- Secondly, customers, especially and most particularly vulnerable customers, must be protected from price spikes.
- And thirdly, Mr. Speaker, we must ensure that the energy market does not pay the price for the poor practices of a minority of companies, and that the market still maintains the competition that is a feature of today’s current system. We must not see a return to, I quote, the “cosy oligopoly” of years past, where a few large suppliers simply dictated to customers conditions and pricing.”

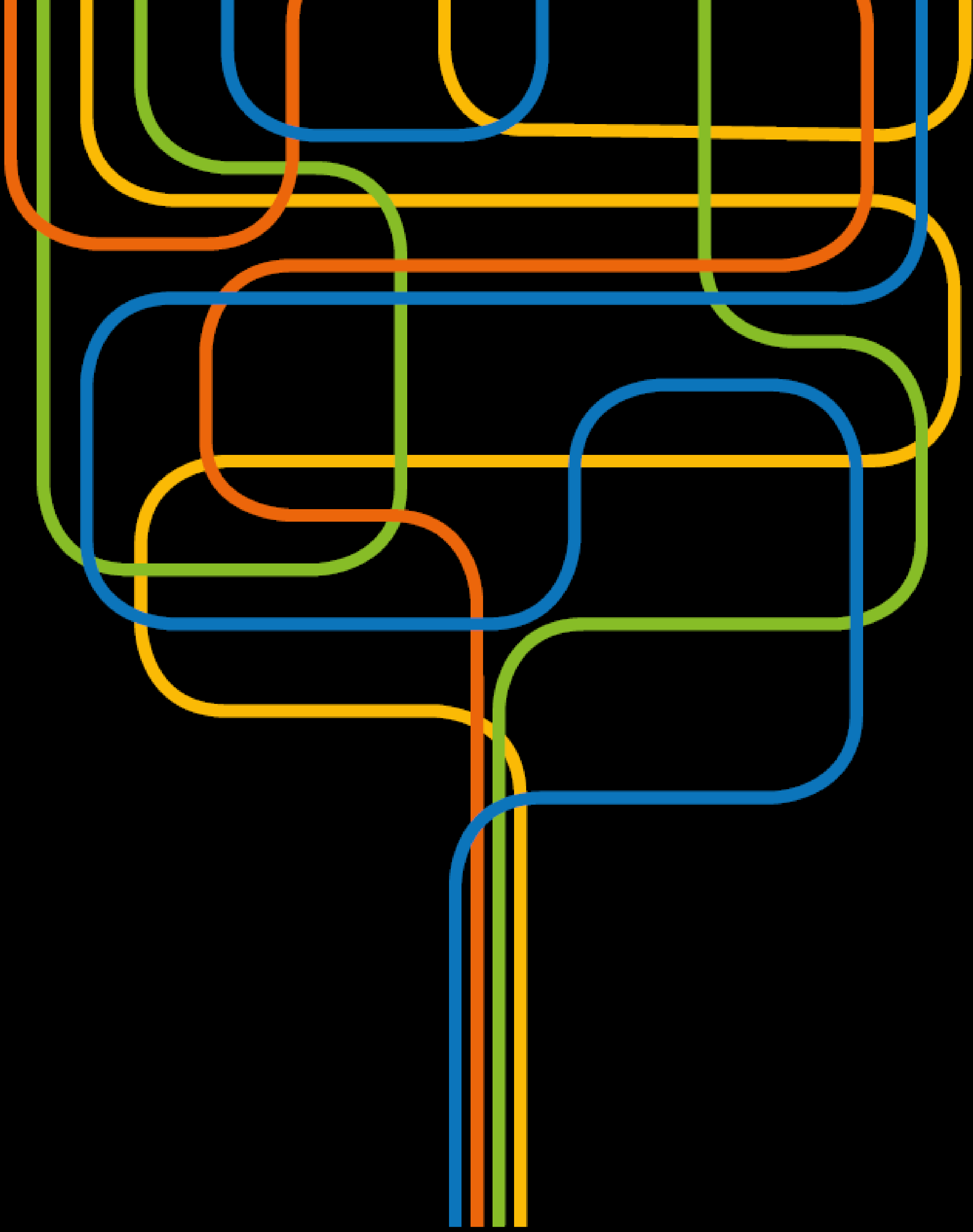
Government

£10bn raised for green projects by UK’s first Green Gilt

On 21 September, HM Treasury announced that the UK’s first Green Gilt had raised £10bn for green projects which it says will help create jobs and drive net zero progress. HM Treasury states that this is the largest inaugural green issuance by any sovereign and will be followed by a second issuance later this year. Green Gilts will raise a minimum of £15bn in this financial year for green government projects. The UK’s inaugural Green Gilt is a 12-year bond, maturing on 31 July 2033.

HM Treasury says money from the Green Gilt will be used to finance expenditures in energy efficiency, clean transportation, living and natural resources, pollution control and prevention, renewable energy, and climate change adaption. Later this year, the first standalone retail Green Savings Bond in the world – issued by NS&I – will follow the Green Gilt, according to HM Treasury.

Government



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CMA publishes Greens Claims Code

The CMA has published its Green Claims Code to help businesses comply with consumer law and has warned that companies must ensure their environmental claims comply by New Year. Released on 20 September, the Green Claims Code – part of a wider CMA awareness campaign launched the same day ahead of COP26 – focuses on six principles based on existing consumer law.

Firms making green claims “must consider the full life cycle of the product” and “must not omit or hide important information”. The CMA will carry out a full review of both on and offline misleading green claims – following an initial bedding-in period – at the start of 2022. The CMA says it will prioritise which sectors to review in the coming months based on where consumers are most concerned. Areas highlighted that could fall under this are textiles and fashion, travel and transport, and fast-moving consumer goods (food and beverages, beauty products and cleaning products).

The CMA may also act ahead of formal review where there is clear evidence of consumer law breaches. The CMA says businesses should check their green claims against the Code and seek legal advice if unsure whether their claims comply with the law.

Andrea Coscelli, Chief Executive of the CMA, said: “More people than ever are considering the environmental impact of a product before parting with their hard-earned money. We’re concerned that too many businesses are falsely taking credit for being green, while genuinely eco-friendly firms don’t get the recognition they deserve. The Green Claims Code has been written for all businesses – from fashion giants and supermarket chains to local shops. Any business that fails to comply with the law risks damaging its reputation with customers and could face action from the CMA.”

Government

Green Gas Support Scheme to begin on 30 November

Draft legislation for the Green Gas Support Scheme was laid before Parliament on 9 September. The legislation will put in place the arrangements for the scheme, which aims to support the production of biomethane by anaerobic digestion for injection into the gas grid. Tariffs for producers will be funded by gas suppliers through the Green Gas Levy.

The regulations commit to launching the scheme on 30 November. From 1 April 2022 suppliers will need to make quarterly levy payments backdated to the start of the scheme. The draft legislation confirms intended requirements for the first Green Gas Levy rates to be published by BEIS ahead of the November launch date. BEIS’s impact assessment suggests that the initial levy will be around £1.40 per gas meter point.

Ofgem will be required to publish an administrative scheme schedule for the first scheme year by 1 February 2022, which will confirm dates for suppliers to be notified of their quarterly levy payments. The notices, to be provided by Ofgem, will include the payment due from the supplier, as well as the date by which, and details on how, payments must be made. Ofgem will also notify suppliers of the credit cover requirements for each quarter, with suppliers able to provide a letter of credit in respect of all or part of their credit cover requirement.

Once the draft legislation has been considered by the Joint Committee on Statutory Instruments, it will be subject to debate by a Delegated Legislation Committee before final approval by the Commons.

Government

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