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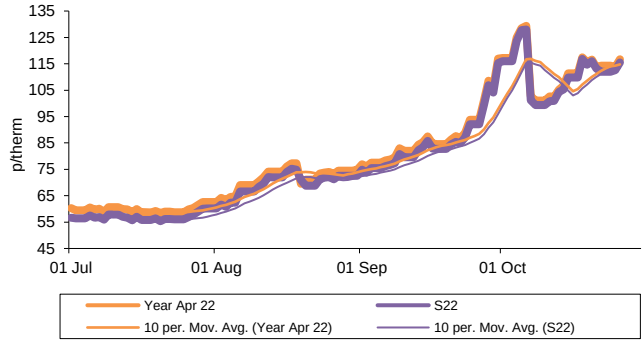
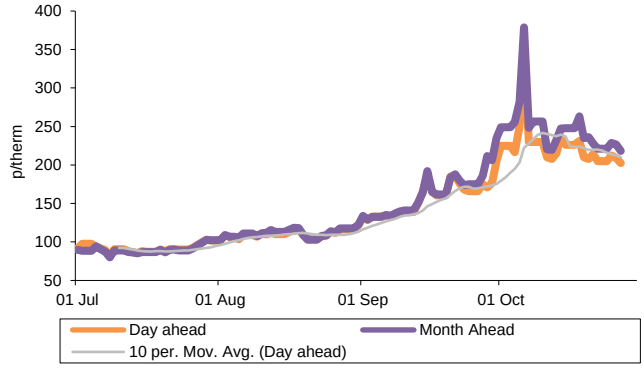
November 2021

Brutal Month for Energy Prices

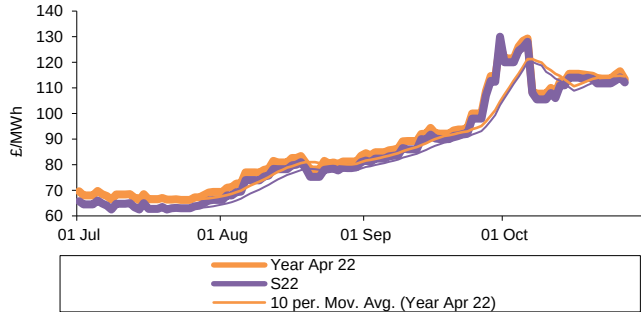
Annual gas prices



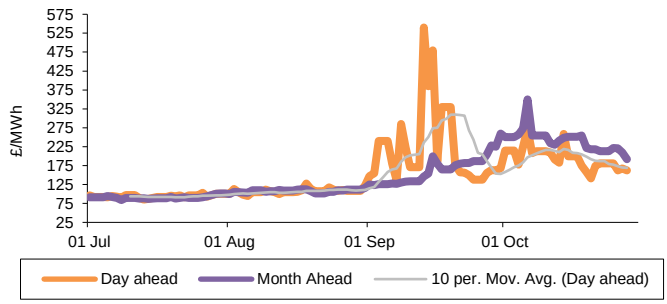
Spot gas prices



Annual power prices



Spot power prices



In October, all tracked wholesale GB gas contracts saw strong gains, with the most pronounced growth observed across near-term contracts. Gas prices across the board remained comfortably above their levels seen at the same time last year, with consistent drivers of low European storage, periods of high gas-for-power demand and strong commodities underpinning this growth in the first half of the month. On average, seasonal gas contracts from winter 21 to winter 23 were 17.88% higher in October than in the previous month, with prices ending the month 33.0% higher than the start of the month. Summer 22 rose 30.4% to average 112.08p/th, reaching an all-time high on 6 October at 127.99p/th.

The underpinning bullish drivers have remained a constant over the last few months, namely on a back-drop of extremely low European gas in storage, continuing between 15-20% lower than the same time a year prior on average. Spot Asian LNG prices have also built on last month's highs to reach a fresh all-time high on 15 October at 281.40p/th, amid high strong procurement competition between European and Asian markets.

Day-ahead gas gained 40.2% to average 223.95p/th. After soaring to an all-time high of £355.00p/th on 6 October, day-ahead gas contracts eased slightly towards the end of the month amid stronger North Sea production and lower demand. Both near-curve and longer dated contracts also found some price relief from the announcement Gazprom could start pumping more gas into European storage sites.

Wholesale power contracts remain significantly elevated year-on-year, with seasonal contracts building further on last month's unprecedented highs, while day-ahead power eased slightly.

Seasonal power contracts up to and including winter 23 moved higher, rising 17.02% on average in October. Summer 22 rose 22.2% to £117.12/MWh, while winter 23 gained 20.0% to £88.80/MWh. The annual October 21 power contract went up 21.4% to average £115.41/MWh.

Longer-dated power contracts continue to be supported by their gas counterparts, along with expectations of tight margins throughout the winter season, as forecasted by National Grid ESO in their latest Winter Outlook report.

Day-ahead power eased 13.1% in October to average £192.87/MWh. Consistently strong wind generation during the latter half of the month has weighed on prices amid a return to more comfortable supply margins. Wind generation has averaged 10.5GW across October, almost double the average wind output in the previous month of 5.9GW, and above the winter 2020 average of 10.2GW.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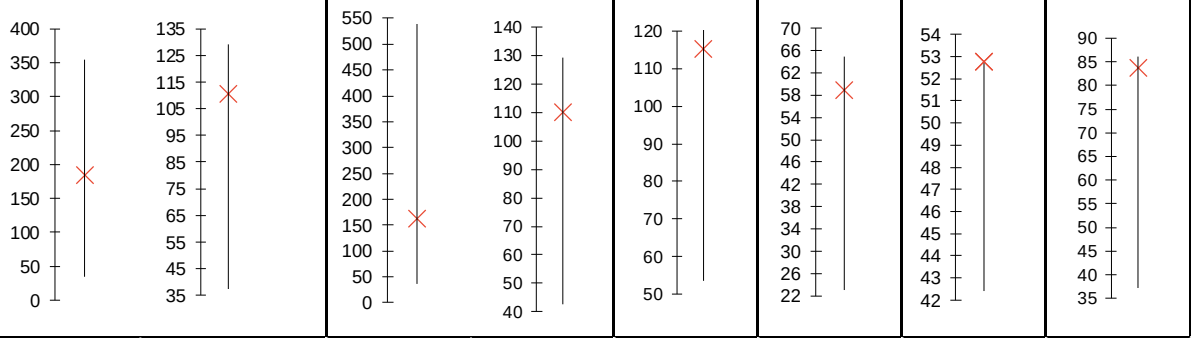
Key market indicators: 28/10/2021

		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	28 Oct 21	185.00	110.61	162.50	110.11	115.00	58.93	52.75	83.73
Last month	30 Sep 21	205.00	116.90	168.00	126.50	153.00	61.45	74.70	78.75
Last year	29 Oct 20	40.00	37.92	40.50	45.43	57.00	23.20	N/A	38.30
Year-on-year % change		363%	192%	301%	142%	102%	154%	N/A	119%
Year high		355.00	129.39	540.00	129.29	185.00	65.00	75.50	86.13
Year low		34.60	37.23	35.75	42.65	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 publishes Net Zero Strategy

On 19 October, BEIS published the UK's Net Zero Strategy – detailing policies and proposals for decarbonising all sectors of the UK economy to meet its net zero target by 2050 including provisions for power, fuel supply & hydrogen, industry, heat and buildings, transport, natural resources, and greenhouse gas removals.

Key policy commitments relevant to each sector are presented, some having previously been announced. Requirements within the sector to meet the overall 2050 target as well as greater detail on the opportunities and priorities identified are also outlined. Key policy commitments that contribute to the strategy for power include:

- Ensuring all UK electricity comes from low carbon sources by 2035, subject to security of supply.
- Undertaking a review of the frequency of Contracts for Difference (CfD) auctions to accelerate generation deployment through the scheme.
- Delivering 40GW of offshore wind including 1GW of floating offshore wind by 2030.
- Implementing the Dispatchable Power Agreement (DPA) approach to supporting Carbon Capture Utilisation and Storage (CCUS) plant deployment.
- Securing a final investment decision on large-scale nuclear by the end of the current Parliament session, while taking measures to inform future investment decisions. It reiterated commitments to establish the Regulated Asset Base model, which would see upfront costs recovered from energy suppliers.
- A new integrated regime for onshore and offshore electricity networks proposed in BEIS's Offshore Transmission Network Review in addition to providing £380mn of investment for the offshore wind sector.
- Reforming whole-system governance in line with net zero ambitions and ensuring consumers pay fair, affordable prices for their energy and engage in an energy market which offers them choices that support net zero.
- Introducing fixed minimum annual smart meter installation targets for suppliers from 1 January 2022.
- Exploring the system needs case for long duration storage and hydrogen in electricity.

Key policy commitments contributing to the strategy for fuel and hydrogen include:

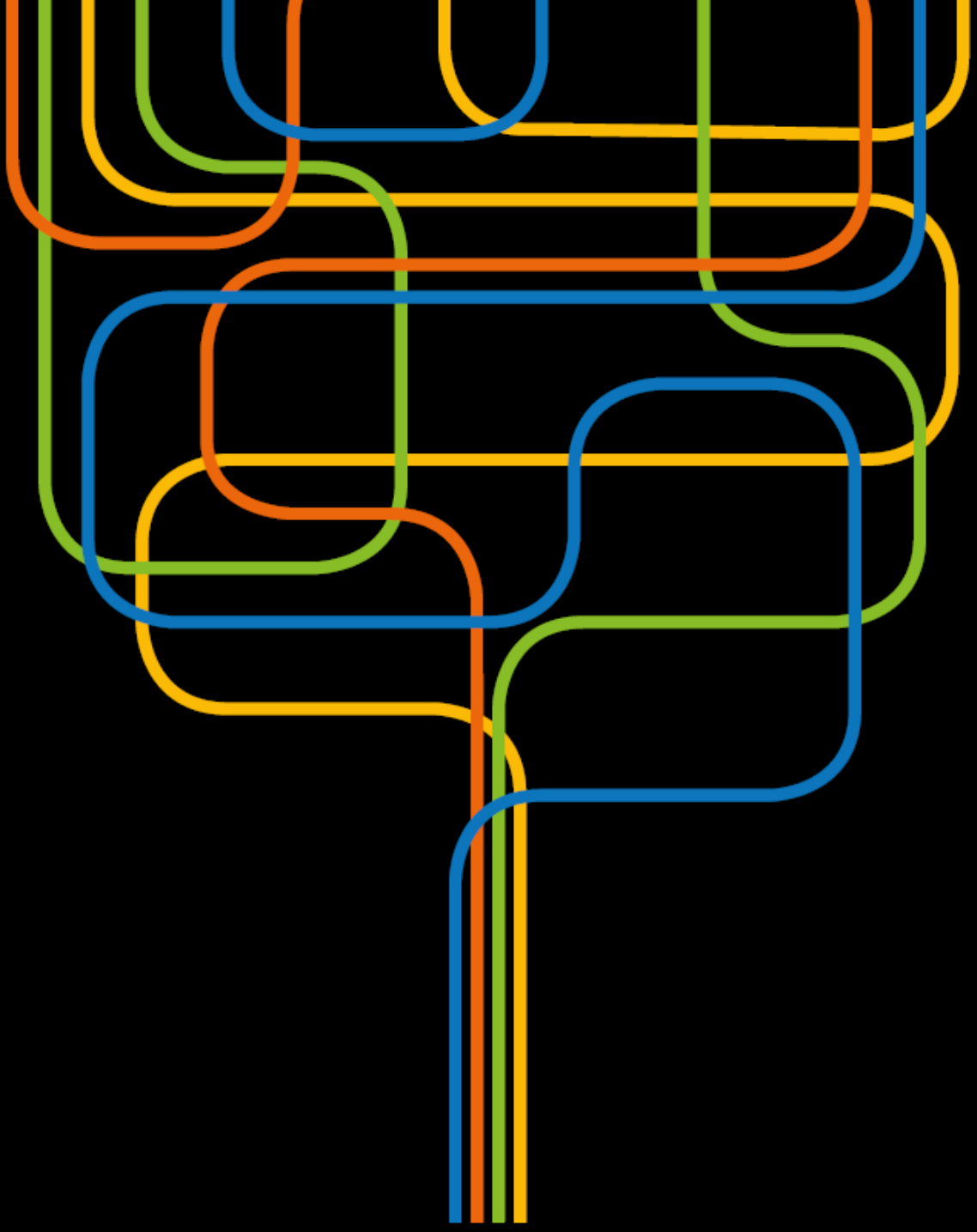
- An ambition for 5GW UK low carbon hydrogen production capacity by 2030.
- Providing up to £140mn to establish the Industrial Decarbonisation and Hydrogen Revenue Support (IDHRS) scheme to fund new hydrogen and carbon capture business models.
- Implementing the £240mn Net Zero Hydrogen Fund and finalising the Hydrogen Business Model and the Low Carbon Hydrogen Standard in 2022.
- Empowering the Oil and Gas Authority to assess operators' plans to reduce their emissions levels against a net zero test and establish a climate compatibility checkpoint for future licensing.

Government

Call for evidence issued on possible TNUoS review

On 1 October, Ofgem published a call for evidence on the Transmission Network Use of System (TNUoS) charges regime. The document covers issues previously highlighted by stakeholders and outlines the regulator's current thinking on potential areas for reform.

The regulator has compiled views presented in related stakeholder engagements, including the Targeted Charging Review and Forward-Looking Charges Significant Code Review, to form general trends in the issues and areas of concern being brought to its attention. It considers there may be sufficient need for a holistic review of the TNUoS charging regime, as at this stage there has been no opportunity for specific formal discussion on solutions to such issues.



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In support of the call for evidence, Ofgem has outlined its thinking on the issues highlighted by engagements and its initial suggestions for potential solutions. The regulator contends that although the current model for the TNUoS locational charge fulfils the requirements in the Connection and Use of Service Code (CUSC) there may be need for change to the purpose and design of TNUoS charges in light of trends including increased flexibility and proliferation of renewables as well as future market and consumer behaviour changes.

Cost-reflectivity is another area of interest, with the regulator suggesting there may be opportunities to improve how commercial decisions reflect on charges paid by users and thereby improve market competition. Additionally, complexity of the charging methodology has been perceived as a source of unpredictability in charges experienced by some users. According to Ofgem, reforms that reduce this could ease volatility in the market and reduce barriers to investment.

Ofgem

£3.9bn of funding announced in Heat and Buildings Strategy

On 18 October, the government outlined its new Heat and Buildings Strategy in which it targets for all new heating systems installed in UK homes by 2035 to be either using low carbon technologies, such as electric heat pumps, or supporting new technologies like hydrogen-ready boilers.

The Heat and Buildings Strategy forms a key part of BEIS's Clean Growth Strategy and Ten Point Plan. While the overarching aim of the strategy is to help achieve net zero by 2050, other benefits of decarbonising buildings include growth of the economy, new green jobs and "greener, smarter, healthier homes and workplaces with lower bills". It is acknowledged that the necessary changes are dependent on building type, the property owner or occupier, local and regional circumstances, and wider energy system considerations.

Fairness and affordability are at the heart of the approach with support for low-income households to pay for improvements, £5,000 Boiler Upgrade Scheme grants and a reduction in the costs of heat pumps by at least 25-50% by 2025. Cost parity for heat pumps is also fundamental. The government has opted for a gradual move away from fossil fuels for heating with the phasing out of new gas boilers from 2035. This is to allow time for the costs of low carbon alternatives to fall. No decisions have been made yet on the role of hydrogen for heat. Instead, the government will base its decision on research, development, planning and innovation over the coming year. However, BEIS plans to set out its strategic decision on the role of hydrogen in 2026.

BEIS announced investment of £338mn over 2022-23 to 2024-25 in a broader Heat Network Transformation Programme to scale up low carbon heat network deployment. The strategy also notes the importance of a "fabric-first" approach where energy efficiency improvements, including the use of smarter, more efficient products and systems, should be delivered ahead of changes to the heating system.

Government

Government unveils goal to decarbonise power system by 2035

On 7 October, the government unveiled plans to decarbonise UK power system by 2035 with aims to focus on home-grown, green technologies such as offshore wind and nuclear energy which will support the UK to transition away from its reliance on fossil fuels.

The announcement followed widely briefed reports during the Conservative Party Conference which took place over 3-6 October. Early in the conference the Prime Minister Boris Johnson speaking to reporters said: "We can get to complete clean energy production by 2035. We can do for our entire energy production by 2035 what we're doing with internal

combustion engine vehicles by 2030" – referencing the government's incoming ban in 2030 of the sale of new petrol and diesel-powered cars. The PM argued that the move would reduce the UK's dependence on energy from overseas "with all the vagaries in hydrocarbon prices and the risks that poses for people's pockets".

Following the close of the Conservative Party Conference, BEIS officially confirmed the plans to decarbonise UK power system by 2035. The new target brings forward by 15 years the government's commitment to a fully decarbonised power system by 2050 set out in the Energy White Paper and builds on the Prime Minister's 10 Point Plan for a Green Industrial Revolution to secure a future clean electricity supply.

Government

Solar PV most popular technology in first year of SEG

Ofgem published the first Smart Export Guarantee (SEG) annual report, on 29 September, which covers scheme activity from its opening in January 2020 to March 2021 (SEG Y1). The report presents statistics on the range of tariffs offered by licensees, payments made to generators, a breakdown of electricity exports by technology type and details on instances of licensee non-compliance in order to present a clear picture of the SEG export tariff market development since the launch of the scheme.

The SEG ensures that homes and businesses with small-scale electricity generation can receive payment for the surplus low-carbon electricity they export to the grid. In SEG Y1, 14 electricity suppliers offered a total of 21 tariffs, with tariff rates ranging from 0.001 p/kWh to 5.5 p/kWh, although the highest tariff required customers to meet additional conditions.

A total of 4,593 generators took a SEG tariff in the first 15 months of the scheme, collectively receiving payments of £114,480.37 and exporting 2,568,810kWh low-carbon electricity. Solar PVs made up over 99% of installations and capacity installed under the SEG, exporting 2,567,211kWh of low carbon electricity to the grid. The only non-solar PV installation was a combined heat and power installation with a capacity of 0.75kW. Nearly 99% of installations had a capacity of less than or equal to 10kW with ~92% of the £114,480.37 in payments made during SEG Y1 going to solar PV installations.

Ofgem

Energy UK: Less than 400,000 customers switched in August

Energy UK published its August electricity switching statistics on 29 September, reporting that in total 397,827 customers switched supplier during August. This represents a 12% decrease on July 2021 and 16% decrease when compared to August 2020. Of these switches, 46% were between larger suppliers, 24% were from larger to small and mid-tier suppliers (SaMS), 16% were from SaMS to larger suppliers and 14% were between SaMS.

The net gain by SaMS (the number of switches from larger to SaMS minus the number of switches from SaMS to larger suppliers) was 8% of all domestic switches. Nearly 3.8mn customers have changed supplier this year, a 3% decrease compared to the equivalent period in 2020.

Energy UK

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