



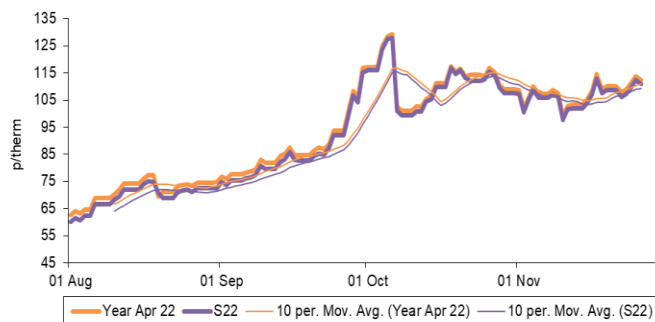
Digital Energy Element

December 2021

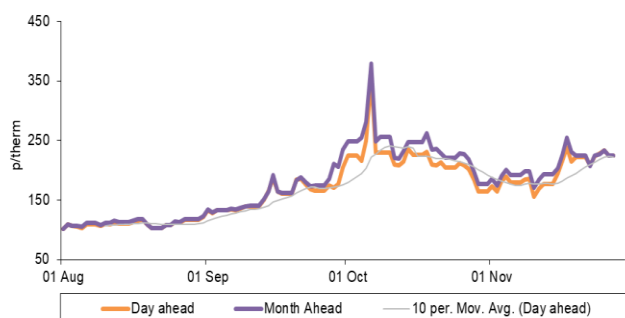
Energy Prices Remain
Significantly Elevated



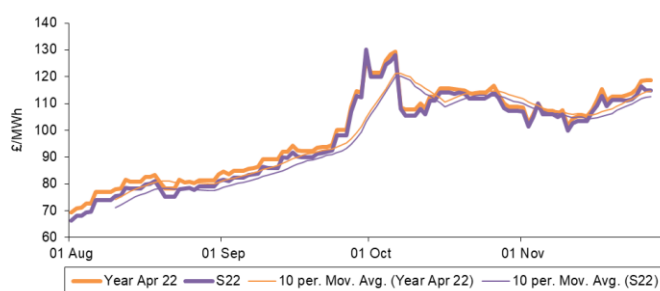
Annual gas prices



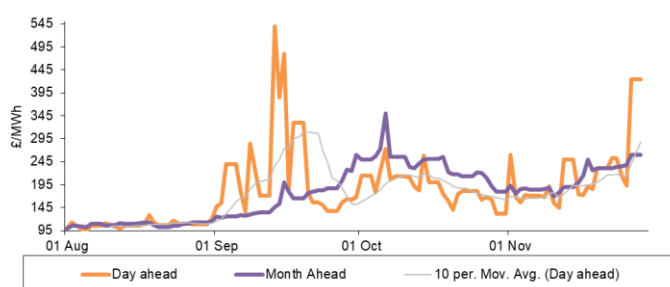
Spot gas prices



Annual power prices



Spot power prices



In November, all tracked wholesale GB gas contracts saw prices decline, with the most pronounced losses observed in front-month contracts. Despite consistent losses across the board, gas prices remain significantly above their levels seen at the same time a year prior. However, varied fundamentals had a bearish impact on prices overall – namely increased Russian gas flows into Europe early in the month, coupled with strong wind generation and warmer temperatures mid-month.

On average, seasonal gas contracts from summer 22 to summer 24 were 4.4% lower in November than in the previous month. Despite losses on average in the month, seasonal gas contracts were 7% higher at the end of the month, compared with the start.

Fundamentally, gas prices continue to draw on consistent bullish market dynamics, with European gas storage levels remaining significantly below last year's volumes, anywhere between 15-20% lower based on recent trends. The marginal source of gas supply into GB in LNG has continued to support higher gas prices, with spot LNG prices 402% higher this November, than November 2020, including all-time highs of 272.22p/th on 19 November.

Day-ahead gas fell 9.5% from October to average 200.17p/th but is still over 430% higher than the average monthly price a year prior. Gas prices did however climb strongly into the month's end, up 37%, with a strong cold-weather front reaching the UK and Russian gas supply concerns heading into December and early 2022.

Wholesale power contracts remain at significantly elevated year-on-year, with day-ahead power prices enjoying growth in November, whereas prices further along the forward curve declined more broadly.

Seasonal power contracts up to and including summer 24 moved lower, down 6.2% on average in November. Summer 22 fell 4.2% to £108.58/MWh, while summer 24 dropped 13.1% to £62.28/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.

The direction of longer dated power contracts will continue to take guidance from recent market fundamentals as well as gas and underlying commodity markets, which have mixed outlooks at present. While strong backwardation can be seen in the forward curve for future seasons from 2022, the power market is continuing to adjust to declining levels of baseload power generation amid rising intermittent output, with volatility expected to remain.

Subsequently, the day-ahead power price lifted 8.6% higher to average 206.34p/th in November, drawing gains from continued high gas prices and periods of low wind.

Key market indicators: 30/11/2021

	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 30 Nov 21	251.00	115.84	202.00	125.81	101.50	74.66	70.25	71.47
Last month 2 Nov 21	165.00	102.00	168.00	102.50	97.60	58.10	52.00	84.30
Last year 1 Dec 20	43.75	39.35	56.00	47.76	61.50	29.40	N/A	47.85
Year-on-year % change	474%	194%	261%	163%	65%	154%	N/A	49%
Year high	355.00	129.39	540.00	129.29	185.00	74.68	75.50	86.13
Year low	40.25	38.64	43.40	47.73	61.10	28.71	42.40	47.62

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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Autumn Budget includes further £4bn for net zero

Chancellor of the Exchequer, Rishi Sunak, delivered his Autumn Budget and Spending Review (SR) on 27 October. There was further confirmation of £3.9bn to decarbonise buildings, including £1.8bn to support low-income households to make the transition to net zero. Also cited was the establishment of a new £1.4bn Global Britain Investment Fund, designed to support investment in the UK's life sciences, offshore wind, and automotive manufacturing sectors. The fund is set to include £817mn for the electrification of UK vehicles and their supply chains, to support investment in zero emission vehicle manufacturing, gigafactories, the electric vehicle supply chain, and up to £230mn for the offshore wind sector.

The government said that it will increase public investment in UK R&D to £20bn by 2024-25 and will also support private R&D investment by increasing funding for core Innovate UK programmes. It noted new investment incentives in England totalling almost £750mn, including tax relief for eligible green investments and a new 'business rates improvement relief'. This will include the introduction from 1 April 2023 until 31 March 2035 of targeted business rate exemptions for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible heat networks.

The Budget and SR included additional funding to support the government's commitment to end the sale of new petrol and diesel cars and vans in 2030 and all new diesel vehicles by 2040. This will see an additional £620mn for public charging in residential areas and targeted plug-in vehicle grants, building on the £1.9bn committed at SR20, and an increase in capital support to £817mn over the SR21 period for the electrification of UK vehicles and their supply chains. The Budget confirmed £1bn for Carbon Capture, Usage and Storage (CCUS), selecting Hynet and East Coast as the first CCUS clusters and £240mn for the Net Zero Hydrogen Fund.

Government

RAB model to finance future nuclear projects

On 26 October, BEIS announced that it will introduce The Nuclear Energy (Financing) Bill to approve the Regulated Asset Base (RAB) model as an option to fund future nuclear projects. The RAB model is a "tried and tested method", typically used in the UK, to finance large scale infrastructure assets in the water and energy sectors.

Having consulted on the use of RAB financing for nuclear during 2019, the government has positioned it as a credible model for large-scale nuclear projects. The announcement to introduce enabling legislation follows the publication of the government's Net Zero Strategy that sets out £120mn towards the development of nuclear projects through the Future Nuclear Enabling Fund.

It also confirmed that the Budget and Spending Review will provide up to £1.7bn of new direct government funding to enable a final investment decision in a large-scale nuclear project this Parliament, with negotiations over the Sizewell C project ongoing.

Owing to its ability to provide continuous, low carbon electricity, BEIS envisages nuclear as having an important role in reducing the UK's dependency on fossil fuels and exposure to volatile global gas prices. Furthermore, the lower cost of financing nuclear power is expected to lead to savings for consumers of between £30bn and £80bn per project. According to BEIS, this implies a saving of more than £10 per year for an average domestic dual fuel bill throughout the ~60 years operational life of a nuclear power station, as opposed to funding through a Contracts for Difference (CfD).

Government



Ofgem consults on price cap methodology amendments

Ofgem issued five consultations on 19 November proposing changes to the Default Tariff Cap (DTC) in response to recent increases in gas and electricity prices putting severe strain on energy markets. Ofgem considers that the existing DTC methodology is unlikely to account for the additional costs and uncertainties facing suppliers. When the DTC was implemented in 2018, Ofgem outlined that in instances of significant and unanticipated changes in the costs associated with supplying energy to DTC consumers it would look into amending the methodology.

Ofgem five consultations have proposals to amend the DTC to ensure it reflects the costs, risks and uncertainties facing supply companies. The regulator is consulting on the potential impact of increased wholesale volatility on the DTC. Its minded to position is to implement an upward revision of the wholesale additional risk allowance from April 2022.

Ofgem considers that in making its decision it may have regard to, among other things: any material and systematic changes in the costs facing suppliers that are not accounted for in the current methodology, as informed by detailed evidence; any surplus against the current 1% wholesale risk allowance that has accumulated over previous DTC periods; and the likelihood that revising the wholesale risk allowance may offset some of the costs that may currently be faced.

The regulator notes that it could make adjustments to the headroom, or EBIT allowances, or introduce a bespoke adjustment, but is currently not minded-to do this.

Ofgem

ZEVTC sets priority areas to support the transition to ZEVs

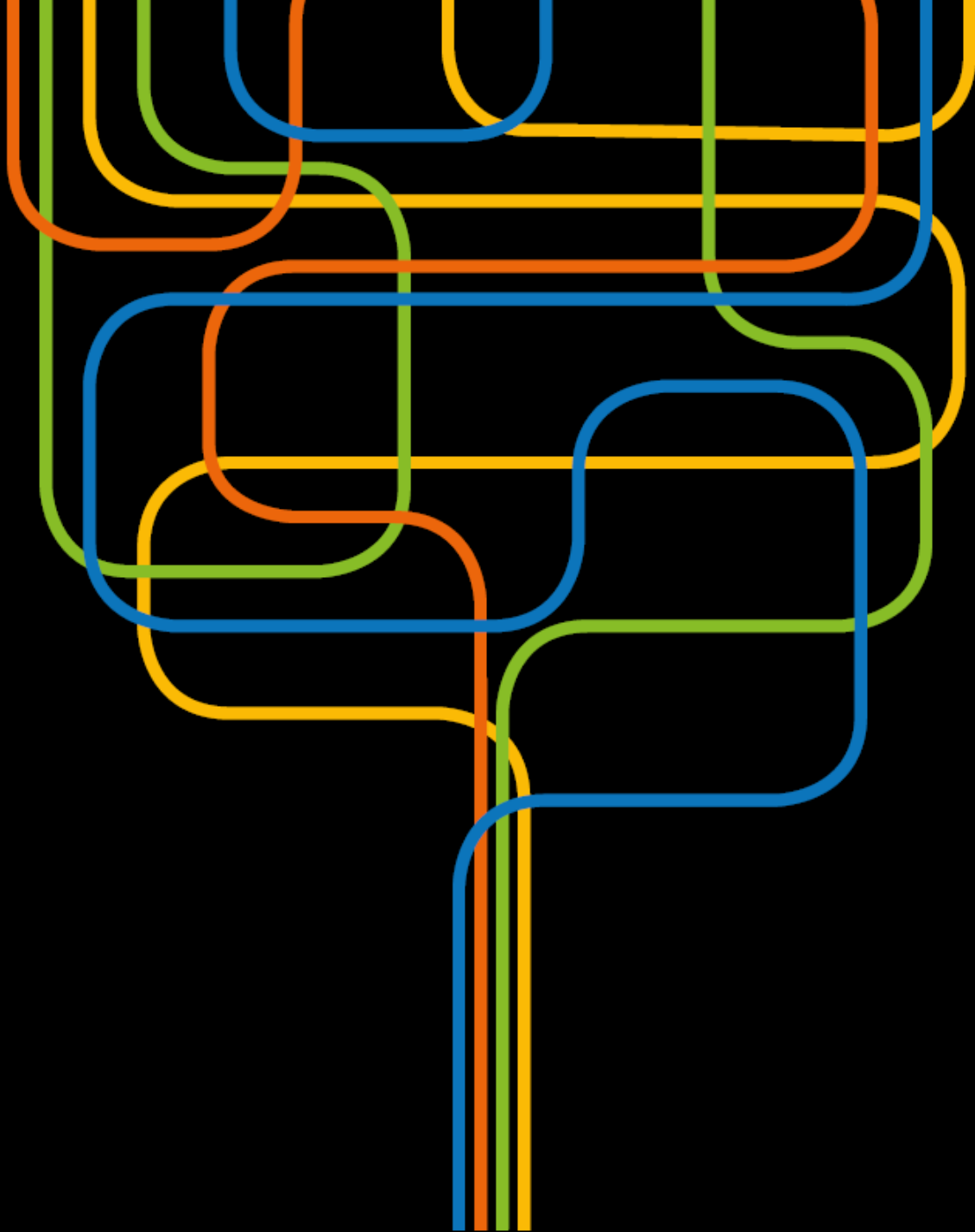
On 10 November, the Zero Emission Vehicles Transition Council (ZEVTC) published its 2022 action plan, detailing how it will collaborate to accelerate the transition to zero emission vehicles (ZEVs). ZEVTC detailed the importance of ensuring the transition to ZEVs is just and sustainable, highlighting the need for skilled workers for new jobs in the transport and energy sectors. Additionally, the council agrees that its shared aim is “to make zero emission vehicles the new normal by making them accessible, affordable, and sustainable in all regions by 2030”.

ZEVTC says it will work together on several high priority areas in 2022 to support the transition to ZEVs by overcoming shared challenges, with charging infrastructure noted as the first challenge. The ZEVTC will set out its vision for global charging infrastructure for light and heavy-duty vehicles – working closely with the private sector – and will launch a taskforce of automotive manufacturers, chargepoint operators and network companies to consider actions required to facilitate deployment. It also states it will discuss how to ensure electricity grids are prepared to support increased demand for electric vehicle (EV) charging and explore how increased EV uptake can support balancing grids with greater levels of green power.

ZEVTC

National Grid launches free tools to tell customers cleanest time to plug in

On 28 October, National Grid launched an app for mobile devices and a voice assistant skill across Google Assistant and Amazon Alexa which it says will help consumers use cleaner electricity. National Grid states the new free-to-use tools tell customers the cleanest time to plug in and provide a full breakdown of the energy sources powering electricity in their region.

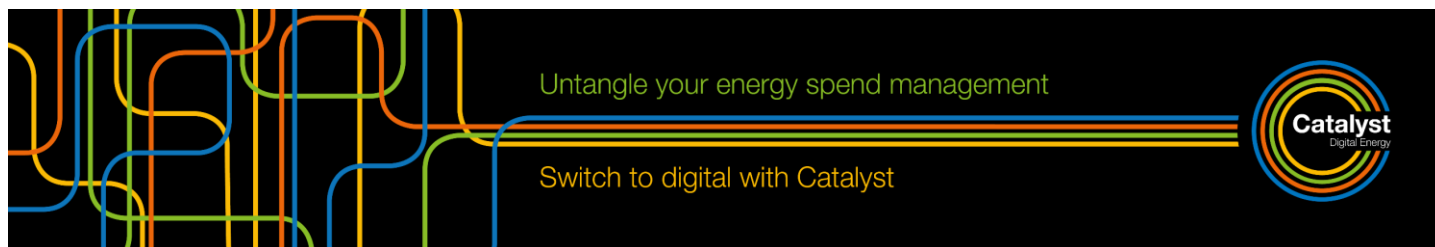


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National Grid has also released figures showing how many tonnes of carbon can be saved if 1mn consumers plugged in the most common household items when their electricity was cleanest. John Pettigrew, CEO of National Grid, says: “Overall Great Britain’s energy system is becoming greener - in the last seven years we have cut carbon emissions from the electricity system by 66 per cent with clean energy like wind, solar and nuclear accounting for an average of 55 per cent of Britain’s electricity mix. By arming consumers with the facts about when their electricity is cleanest, we can show how every small action makes a difference to our planet.”

National Grid

Survey finds consumers aged 16-24 more likely to purchase an EV

Ofgem published the results from its Consumer survey 2021 - Young energy consumers (aged 16-24) on 5 November. One of the key findings of the report was that 16-24 year old energy consumers are more likely to be worried about climate change and are more actively engaged in their day to day energy use. In addition, 42% of 16-24 year olds said they have at least one of the following in their home - an electric vehicle (EV), Solar PV, smart appliances / heating controls or a heat pump, compared to 24% of those aged 25+. The report also found that 16-24 year old energy consumers were more to have EV in their household – 9% had a fully EV, compared to 2% of those aged 25+. They also have more intention of purchasing an EV (33%) compared to those of 25+ (24%).

Ofgem

New CfD pot for tidal and amendments made to CfD T&Cs

Announced as part of the final budget on 24 November, the UK government will ensure that £20mn per year will be ringfenced for Tidal Stream projects as part of the fourth allocation round of the Contracts for Difference (CfD) Scheme due to open next month. BEIS has also published its response to a consultation for further changes to the CfD ahead of allocation round 4. A range of definitions were updated to reflect Brexit and align with the UK subsidy control regime. The changes align the contract terms with the UK subsidy control regime announced in June 2021 and the government’s international obligations on subsidies, including the UK-EU Trade and Cooperation Agreement. The contract has been amended to allow generators who are awarded contracts in AR4 up to 20 business days (formerly 10) to fulfil their Initial Conditions Precedent following contract signature, reflecting the larger number of applicants expected to participate in the upcoming allocation round. The changes also follow the recent industry review of BSUoS charges, where Ofgem agreed with a taskforce decision to remove BSUoS charges from generators and suggested April 2023 as an appropriate point to do this. The regulator’s final decision is expected late 2021 or early 2022.

Government

Supplier exits lead to lowest switching starts on record

ElectraLink published its October switching stats on 16 November with the data showing the lowest levels of started switches in a month since its records began in 2012. The high number of supplier exits meant that only 232,000 switches started in October, 67% lower than last year. ElectraLink adds that it believes next month will be the lowest month ever for completed switches. Looking at completed switches this was 435,000, 31% less than October 2020 and the lowest October since 2015. Historically October has been one of the highest months for switching due to annual contract cycles. As was the case in September switching away from the larger suppliers has slowed with large legacy suppliers gaining more voluntary switching customers than they lost for the first time in nearly a decade.

Electralink



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