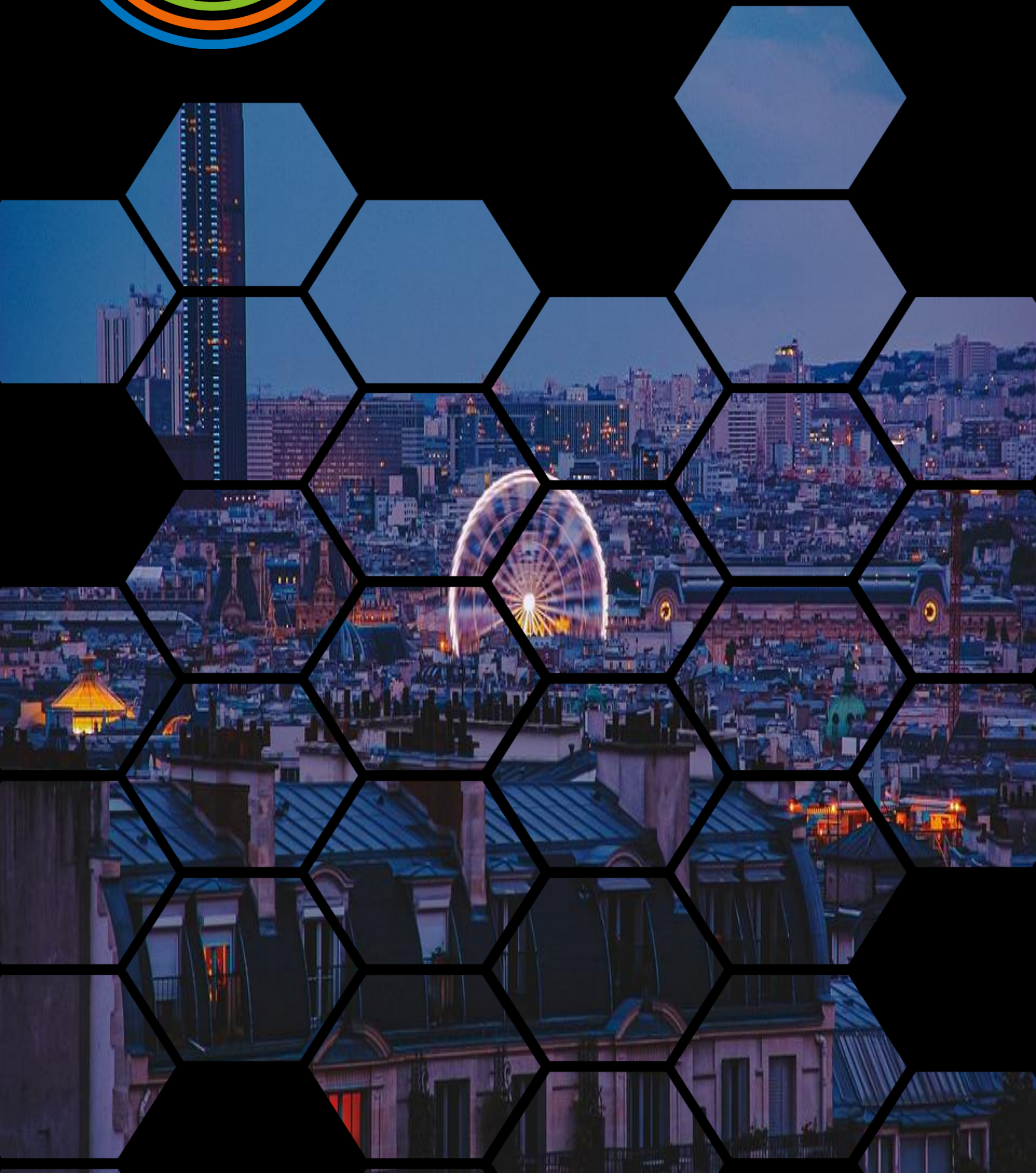
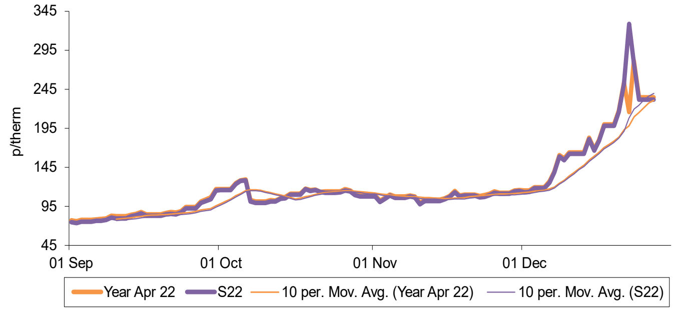
Digital Energy Element

January 2022

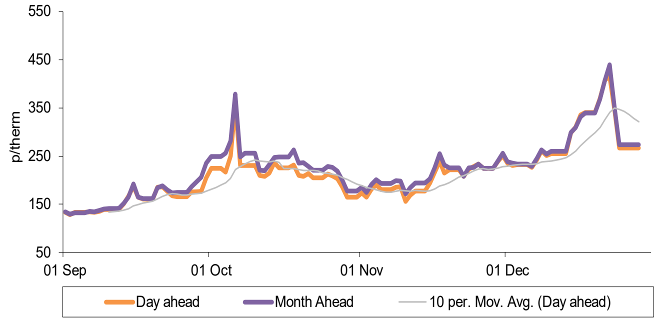
Energy prices remain high and in a long term upwards trend



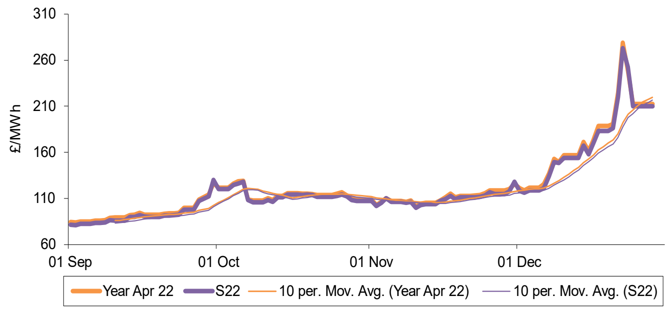
Annual gas prices



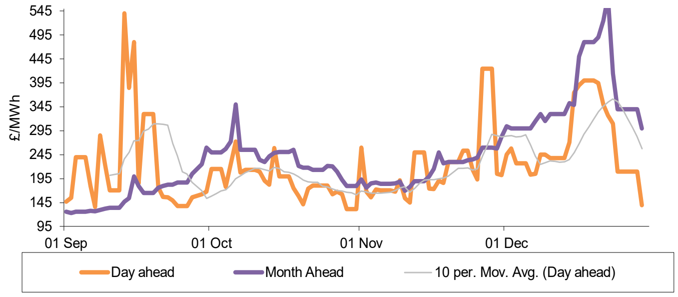
Spot gas prices



Annual power prices



Spot power prices



In December, all tracked wholesale GB gas contracts saw prices rise, with the most pronounced increases observed on front-month and front-seasonal contracts. Gas prices remain significantly above their levels seen at the same time a year prior. Despite strong gains seen across gas contracts over the month, notable bearish price movements were observed at the latter stages of 2021.

On average, seasonal gas contracts from summer 22 to summer 24 were 33.7% higher in December than in the previous month. Seasonal gas contracts were 28% higher at the end of the month, compared with the start, despite lowering front-month prices at the month's end.

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. Spot Asian LNG prices remain high also, with latest prices sitting above 250p/th, over 200% higher than the same time a year prior. Despite these bullish trends for much of the month, milder weather and a healthier gas supply picture over the winter period weighed on prices significantly to close out 2021.

Day-ahead gas grew 37.7% from November to average 278.74p/th but finished the month 26% lower than the start at 174.00p/th. The milder weather dampening gas prices over the Christmas break has recently subsided, with expectations of colder weather in mid-January, so we could expect to see near-term gas prices climb as a result.

Wholesale power contracts remain at significantly elevated levels year-on-year too, with day-ahead power prices enjoying growth in December, with prices further along the forward curve following suit.

Seasonal power contracts up to and including summer 24 moved higher, up 35.8% on average in December. Summer 22 rose 57.9% to £370.44/MWh, while summer 24 lifted 15.6% to £71.97/MWh.

The direction of longer dated power contracts will continue to take guidance from recent market developments as well as gas and underlying commodity markets, which have mixed outlooks at present. Like gas contracts, bearish fundamentals towards the end of December brought near-term prices lower, namely day-ahead power, which fell 33% by the month's end with January 22 mirroring this trend, down 23% at the end of December.

However, a bullish month overall for baseload power markets allowed day-ahead power prices to rise in the month, up 28.9% on November to average 265.73p/th.

 Catalyst Commercial Services' independent approach enables clients to manage their exposure to energy price risk, while at the same time benefiting from a first-class service from a range of major and independent suppliers. Catalyst Commercial Services' procurement solutions make it simple, so contact a member of the team to discuss requirements.

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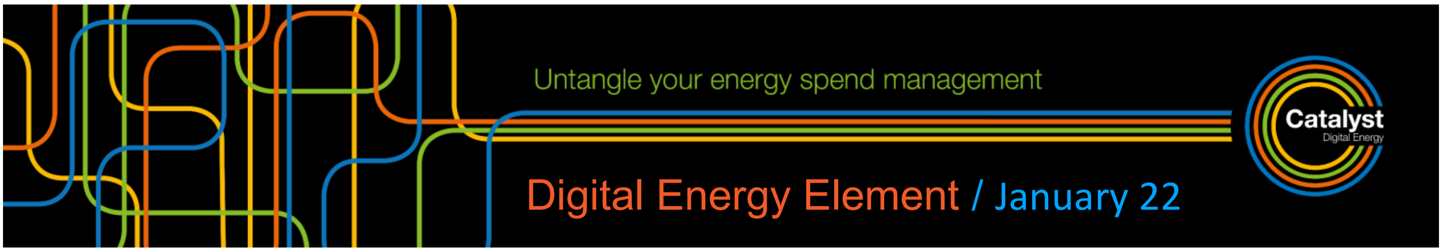
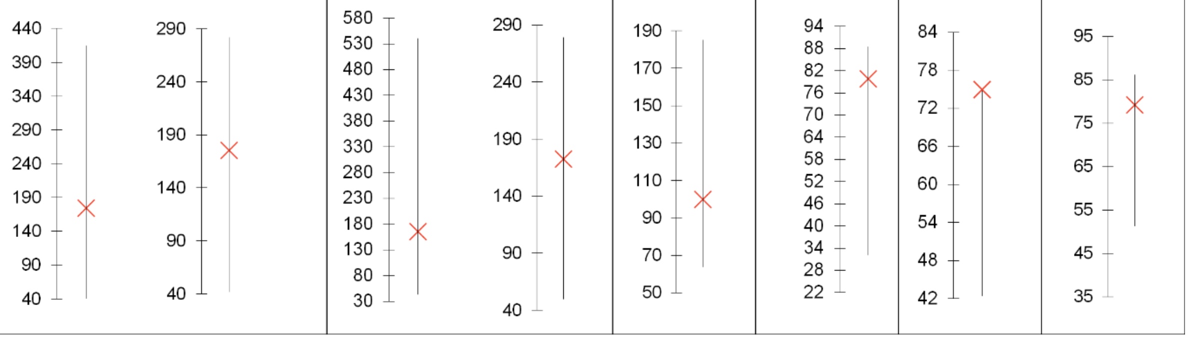


Key market indicators: 31/12/2021

		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 Dec 21	174.25	175.20	165.00	172.50	100.00	79.81	75.00	79.15
Last month	1 Dec 21	235.00	115.06	245.00	121.13	100.00	76.30	72.50	72.32
Last year	31 Dec 20	57.00	42.76	64.00	51.18	69.25	32.87	N/A	51.43
Year-on-year % change		206%	310%	158%	237%	44%	143%	N/A	54%
Year high		415.00	281.63	540.00	279.13	185.00	88.50	78.70	86.13
Year low		40.25	41.89	43.40	49.93	64.00	32.09	42.40	51.38

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.

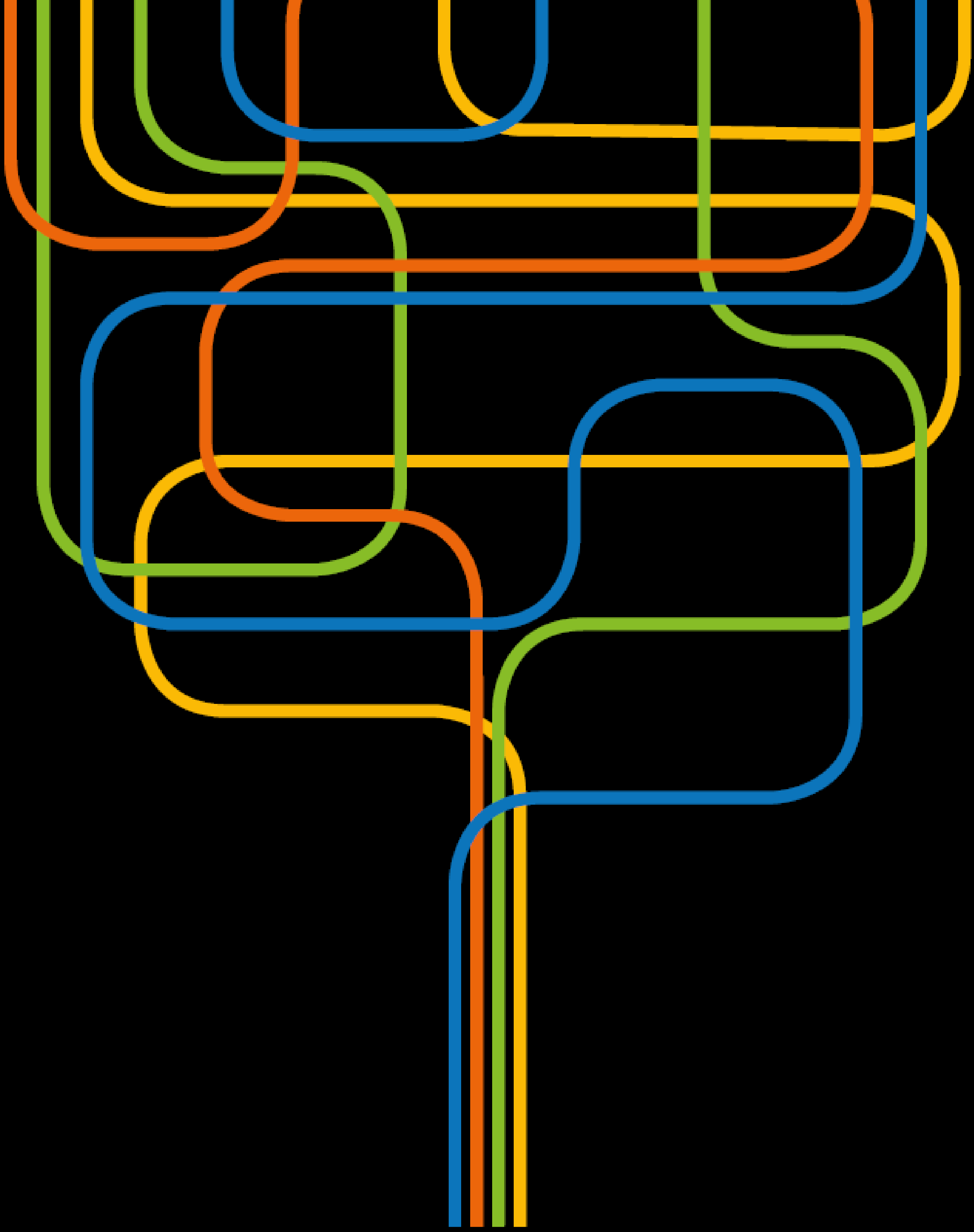
Curve: A graph of forward prices over a future time period.

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



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BEIS issues consultation response to offshore energy SEA

As part of its Strategic Environmental Assessment (SEA) of its draft plan/programme for offshore energy (OESEA4), on 22 November the government published its response to its Scoping for Environmental Report consultation which ran from March 2021 to May 2021. The purpose of the scoping report was to set out sufficient information to enable stakeholders to give feedback on the scope and level of detail of information to be included in its SEA report. Respondents were asked to highlight additional initiatives and datasets they considered relevant to the draft programme, and whether they agreed with the choice of Regional Seas used to help describe the environmental baseline in the report.

Several information gaps related to marine planning, site selection and the understanding of impacts on populations were identified. Also highlighted was a lack of environmental baseline data on some prospective regions for floating offshore wind, such as data on marine mammals in the Celtic Sea. Another comment was that the evidence base to support the development of tidal lagoons has not increased significantly since the Severn Tidal Feasibility Study in 2010. The government's response confirmed that all the suggested additional information sources have been reviewed and will be incorporated into the SEA, where appropriate. It added that recommendations from previous SEAs continue to be addressed through the OESEA research programme.

There were several responses, unrelated to any of the questions posed, including that downstream emissions from oil and gas production should be assessed in the SEA. Another respondent commented that the Climate Compatibility Checkpoint design for future seaward licensing rounds should be part of the SEA process. On this, the government said that while the checkpoint's design is a separate process from the SEA, if a final design is available during the drafting of OESEA4, its relationship with the draft plan/programme will be considered.

A consultation on the OESEA4 Environmental Report and the draft plan/programme is due in early 2022.

Government

UK ETS Authority to not intervene following triggering of CCM

The UK ETS Authority – made up of HMG, the Scottish government, Welsh government and Northern Ireland Executive – announced on 14 December that it will not redistribute or release additional supply into the UK Emissions Trading Scheme's (ETS's) market at this time, following the triggering of the Cost Containment Mechanism (CCM) at the start of December.

The CCM allows the UK ETS Authority to intervene, if deemed appropriate, if prices are elevated for a sustained period. A statement from authority ministers read: "The authority has confidence that this decision will uphold the objectives of the UK ETS as a market-based approach to reducing emissions and incentivising participants to find the most cost-effective solutions to decarbonise".

"The authority took into account the factors that may have affected UK ETS allowance prices, and the context of recent developments in energy markets. The UK ETS authority will continue to monitor the market closely and remains prepared to take timely and proportionate action, within the rules of the scheme, to support its effective functioning should the CCM be triggered again."

The authority will release a steady supply of allowances to the market ahead of the 2021 compliance deadline of 30 April 2022 as planned.

Government

Transmission companies awarded £1.33mn

On 25 November, Ofgem issued its decision to award Scottish Power (SP) Transmission, Scottish Hydro Electric (SHE) Transmission, and National Grid Electricity Transmission (NGET) £1.33mn each under RIIO-T1 Environmental Discretionary Reward (EDR) scheme for 2020-21. With an annual value of £4mn, the EDR scheme is a reputational and financial incentive that aims to sharpen the focus of the electricity transmission owners on strategic environmental considerations and organisational and cultural changes to facilitate growth in low carbon energy while providing value for money to consumers.

The financial reward is only available to companies that have a satisfactory executive level annual statement (ELAS) and have achieved the “Leadership” performance band for scoring more than >70% on the scorecard for the scheme. SP Transmission, SHE Transmission and NGET each scored more than 95%. Ofgem made special note of the Transmission Owners’ responses to external drivers in calling for a faster pace of decarbonisation, despite challenges resulting from the pandemic, evident in the regulator’s proactive engagement with wider stakeholders on strategic issues for the net zero transition.

Ofgem therefore issued the awards on the basis that the companies went beyond conventional approaches by taking a whole system perspective and collaborating with a range of stakeholders to implement new thinking.

Ofgem

CMA responds to future of transport regulatory review

On 1 December, the Competition and Markets Authority (CMA) published its response to the *future of transport regulatory review: zero emission vehicles (ZEVs) consultation*. The response recommends that local authorities (LAs) take a more active role in managing and planning on-street charging roll-out, and that governments take action to ensure LAs are properly equipped and incentivised. The CMA also says it would support and welcome the proposals for a statutory obligation for LAs to plan for and provide charging infrastructure, and that it supports the government’s proposal to introduce a new power enabling it to require landowners to install chargepoints in non-residential areas if needed. The CMA has several recommendations to improve driver experience:

- It is easy to find working chargepoints e.g., people can access data on live availability and working status and expect and depend on minimum reliability standards.
- It is simple and quick to pay e.g., no sign-ups needed, contactless bank account payment is widely available, and charging networks keep up with new payment technology.
- The cost of charging is clear and easily comparable e.g., prices are presented in a simple, standardised p/kWh format.
- Charging is accessible and interoperable e.g., chargepoints can be used by all drivers, are not limited to a single brand of car, and follow inclusive design principles so they are accessible to and usable by as many people as possible.

CMA

SEA report on industry response to HUG scheme delivery

On 25 November the Sustainable Energy Association (SEA) published a report – commissioned by BEIS – setting out recommendations for delivering a successful Home Upgrades Grant (HUG) scheme. It outlines the industry’s take on the government’s current thinking for the local-authority-led scheme ahead of its early 2022 launch, before exploring potential future HUG schemes where funding is directly provided to the installer or consumer. The HUG is one of the funding commitments set in the government's Heat and Buildings Strategy which includes the target of achieving, as far as possible, Energy Performance Certificate (EPC) Band C by 2030 for fuel poor homes and by 2035 for all homes. The scheme promotes a fabric first principle and initial focus on fabric specific measures (e.g. insultation) followed by heating system considerations, and technologies such as solar PV thereafter.

Phase 1 HUG funding is included in the Local Authority Delivery (LAD) scheme phase 3 funding as part of the £350mn Sustainable Warmth Competition, with respective bids currently being analysed by the government to understand trends and identify any regional disparities, for example. The former phase 1 provides financial support of up to £25,000 for energy efficiency and low carbon heat measures to eligible households. Eligibility is subject to the property not being connected to the gas grid for heating purposes, having EPC rating of D to G and an annual household income of £30,000 or less.

Eligibility for fuel poverty schemes relies on benefits proxies and results in the exclusion of low-income households that do not claim means tested benefits. The report details the government's thoughts on the use of new [additional] metrics such as Indices of Multiple Deprivation (IMD) – which measures the relative deprivation of different neighbourhoods across the UK – alongside the English Housing Survey data. Use of the IMD metric to provide a list of eligible postcodes for area-based targeting and delivery of the HUG could expand the eligible pool of homes.

SEA

EVs cost to be on equal footing to diesel and petrol by 2024

On 9 December, PwC announced that – according to its report Fleets ahead! Emerging pathways to decarbonise UK fleets – companies have up to three years to substantially transition their fleet operations to low carbon or risk reputational damage. PwC states the cost of commercial electric vehicles (EVs) will be on equal footing with petrol and diesel counterparts by 2024. It is suggested that while companies that act too quickly may miss out on cost savings, there is greater risk is for those who act too slowly in an increasingly emissions-conscious market.

The report outlines five focus areas that PwC says could define the future market, including improving public charging provisions, developing alliances to accelerate the decarbonisation pathway, addressing capacity and choice, establishing complex decarbonisation pathway for fleet managers, and tackling difficulties in decarbonising heavy transport.

PWC

Fourth CfD round largest yet, with £285mn allocated annually

On 13 December, the government opened the fourth and largest round of the Contracts for Difference (CfD) scheme to date, which is aiming to secure 12GW of electricity capacity. The fourth round is open to an expanded number of renewable energy technologies, with offshore wind, onshore wind, solar, tidal, and floating offshore wind projects, amongst others, all eligible to bid for funding in the scheme's auction process. BEIS detailed that a total budget of £285mn a year has been allocated to the round, with £200mn of this to be made available for offshore wind.

Business and Energy Secretary Kwasi Kwarteng said: "Our biggest ever renewables auction opening today will solidify the UK's role as a world-leader in renewable electricity, while backing new, future-proof industries across the country to create new jobs. By generating more renewable energy in the UK, we can ensure greater energy independence by moving away from volatile global fossil fuel prices, all while driving down the cost of new energy."

Government

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