

# Digital Energy Element February 2022

Contracts fall, retracing most of the gains seen in December



**Digital Energy Element / February 22** 

#### Annual gas prices



#### **Spot gas prices**



#### Annual power prices



#### Spot power prices



January represented a relatively volatile period for GB gas prices. We observed pronounced losses month-on-month, particularly for near-term contracts such as the dayahead, month(s) ahead and front seasonal contracts, despite the continuation of prevalent bullish factors remaining in the market at present.

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On average, seasonal gas contracts from summer 22 to summer 24 were 11.1% higher in January than in the previous month. These price rises were particularly weighted towards contracts further along the forward curve from winter 23 into summer 24.

We have regularly reported on the bullish fundamentals in the market which continue to provide a strong foundation of price support such as low renewables output, higher performing commodity markets (LNG and carbon) and low European gas in storage squeezing supply, all of which remain prevalent. However, downward pressure on prices was driven over the Christmas period into January, where we saw milder weather and higher renewables output, which reduced gas-fired power demand.

Furthermore, day-ahead gas dropped 26.0% from December to average 206.23p/th and finished the month 1% lower than the start. It is prudent to highlight though, that prices during January 2022 were still ~245% higher than the same recorded period in 2021, continuing to demonstrate the significantly elevated levels of gas prices we are currently observing, despite the recorded monthon-month losses we have described.

A similar set of events also transpired in the GB power market, with many of the shorter-term power contracts such as the day-ahead and front month contracts achieving strong downward movements on average in the month.

Despite this, seasonal power contracts up to and including summer 24 moved higher, up 2.6% on average in January. Summer 22 rose 0.6% to £172.74MWh, while summer 24 lifted 3.9% to £74.80/MWh.

Generally speaking, near-term power prices followed the bearish price signal set by their gas counterparts, combined with increasing wind and renewable generation as the month matured, softening previously tightened supply margins at the start of the month as well as a milder month more broadly, reducing power demand in turn. As a result, we saw a 22.8% drop in day-ahead power prices from December to average £205.04/MWh this month, but is still nearly 130.0% higher than the same recorded period a year prior.

The UK ETS carbon market recorded landmark gains too, including a record set on 28 January at £87.00/t.



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## Digital Energy Element / February 22

#### Key market indicators: 31/01/2022

	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 Jan 22	207.00	208.50	176.00	195.25	114.00	88.46	84.50	91.41
Last month 31 Dec 21	174.25	175.20	165.00	172.50	100.00	79.81	75.00	79.15
Last year 1 Feb 21	49.00	42.52	57.00	49.93	68.50	32.79	N/A	55.43
Year-on-year % change	322%	390%	209%	291%	66%	170%	N/A	65%
Year high	415.00	281.63	540.00	279.13	185.00	89.50	87.00	91.41
Year low	40.25	42.33	43.40	49.93	64.00	32.79	42.40	55.43
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.	440 - 390 - 340 - 290 - 240 - 190 - 140 - 90 - 40 -	290 240 190 140 90 40	580 - 530 - 480 - 430 - 380 - 330 - 280 - 230 - 180 - 130 - 80 - 30 -	290 - 240 - 190 - 140 - 90 - 40 -	190 170 - 150 - 130 - 110 - × 90 - 70 - 50 -	94 - 88 - 76 - 70 - 64 - 58 - 52 - 46 - 40 - 34 - 28 - 22 -	$\begin{array}{cccccccccccccccccccccccccccccccccccc$	95 - X 85 - 75 - 65 - 75 - 75 - 75 - 75 - 75 - 7

#### 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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# **BEIS consultation on heat network regulation cost recovery**

On 29 December, BEIS published a consultation seeking views on its proposed approach to recovering the costs of heat networks regulation. The consultation also seeks views on the design and operation of the proposed approach to cost recovery, which will be administered by Ofgem.

Heat networks are seen as an important part of the UK's transition to net zero and, as the integration of heat networks grows within the energy system, it is recognised that greater regulation is required to enforce consumer protections. In its consultation, BEIS announced the appointment of Ofgem as the heat network regulator, recognising its comprehensive experience regulating the energy market. Citizens Advice has also been appointed as the consumer advocacy body for heat networks in England and Wales.

BEIS currently estimates that the total ongoing costs to cover Ofgem and Citizen Advice's regulatory activities would be £6.5mn per year and is seeking views on several proposals in its consultation for the recovery of these costs from consumers.

BEIS outlines four approaches to the recovery of heat network regulation costs. The default approach would be to spread the costs across heat network consumer bills which is expected to add £10 or more to bills per year. BEIS recognises that this increase could create risks to the market's competitiveness against other higher carbon alternatives and result in barriers to the growth of the decarbonisation of the heat networks market.

BEIS's preferred cost recovery regime for heat network regulation is therefore to spread the total costs of heat networks, gas and electricity regulation evenly across heat network, gas, and electricity consumers. By spreading these costs across roughly 55mn gas and electricity consumers, rather than just ~475,300 heat network consumers, these costs are expected to be reduced to approximately £1.40 on average per heat network customer per year in BEIS' central case. An additional £0.10 would be added to gas and electricity consumers per year for what they currently pay for Ofgem's gas and electricity regulation and Citizens Advice's consumer advocacy functions.

#### Government

## 37% unable to afford to heat homes to comfortable levels

On 26 January, YouGov published the results of a recent survey, which found that 37% of UK residents reported not being able to afford to heat their home to comfortable levels during very cold weather. The data from the survey showed that only 28% said they could heat their house to a level that was warm but not as much as they would like. In addition, 49% of people from very low-income households (with a combined income of less than £15,000 a year), responded that they cannot afford to heat their home to a comfortable temperature when it is very cold outside. The survey also found that 25% of those with a household making more than £50,000 a year still say they cannot afford to heat their home to a temperature where they are comfortably warm.

32% of those in low-income households said they can heat their homes to a level where they are warm, but not as warm as they would like, 11% who can reduce the impact of the worst of the cold and 6% who cannot afford to heat their homes at all.

The report also looked at the reason people have for not putting on their heating as a first response to feeling cold. The data showed that the majority of the respondents are either trying to save money (51%) or cannot afford to keep their homes warm (24%).

#### YouGov



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# Ofgem approves £20/MWh cap on BSUoS until April

On 14 December Ofgem approved WACM4 for CMP381 Defer Exceptionally High Winter 2021/22 BSUoS Costs to 2022/2023. The modification caps Balancing Service Use of System (BSUoS) costs at £20/MWh from 17 January to 31 March 2022, up to a limit of £200mn.

The proposal was raised after BSUoS costs showed marked increases due to notably high gas prices driving up Balancing Mechanism offers from gas generators and tight margins. BSUoS prices have been significantly higher than National Grid Electricity System Operator forecasts, with the proposer highlighting a £625mn discrepancy between August and November 2021.

Any deferred costs will be spread equally across the 2022-23 financial year, starting on 1 April 2022, with the costs volume weighted across the day through each settlement period. If the actual costs of the total deferral are not known by 1 April 2022, i.e. the £200mn cap has not been reached prior to this, the recovery will initially be based on a forecast.

Ofgem considered that approving a £20/MWh cap appropriately reflects the higher end of recent BSUoS costs, and potentially reflects a level that users may not have foreseen. The regulator also noted that WACMs with a lower £/MWh cap may have caused the scheme to close early and are less likely to perform well. The modification was implemented on 17 January.

#### Ofgem

# Transport Scotland draft vision for public EV charging

Transport Scotland has published on 26 January its Draft Vision for Scotland's Public Electric Vehicle Charging Network report which explores the key areas relevant to the development of a Scottish public electric vehicle (EV) charging network. The report highlights that a key part of Scotland meeting its climate goals is to encourage the increased use of public transport and other forms of active travel. A shift to electric vehicles (EVs) is also required while meeting the ambition to reduce annual kilometres driven by 20% by 2030. In addition, the report outlines the main aspects for the draft vision for Scotland's public electric vehicle charging network:

- 1. People have access to a well-designed and comprehensive public network of charge points.
- 2. The public electric vehicle network works for everyone regardless of age, health, income or other needs.
- 3. Scotland has attracted private sector investment to grow the public electric charging network.
- 4. The public charging network is powered by clean, renewable energy and drivers benefit from advancements in energy storage, smart tariffs and network design.
- 5. People's first choice wherever possible is active and public transport with the location of electric vehicle charging points supporting those choices.

Data from the report showed that since 2013, £50mn has been invested in the ChargePlace Scotland network of publicly available EV charge points. The network contains over 2,100 charge points, which delivered 783,000 charging sessions in 2020. In addition, the report stated that according to the Society of Motor Manufacturers and Traders, on a rolling 12-month average EVs made up 12.7% of new car sales at December 2021. This is a 24% increase on the rolling average at December 2020. In December 2021, sales of EVs made up over 21% of all new car sales in Scotland. The report concludes that the vision outlined leads the way to the next phase in growth of Scotland's public charging network. It sates that along with its associated outcomes and priorities, over the next 12 months it will be reviewed and refined through engagement with stakeholders.

#### Government



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# **Procurement target for T-1 CM auction sees significant uplift**

The updated procurement targets for the upcoming Capacity Market (CM) auctions have been published, with the T-1 target increasing to 5.361GW and the T-4 target reducing to 42.1GW.

The T-1 (one-year ahead) auction (for delivery in 2022-23) had a provisional procurement target of 4.5GW set in summer 2021. In its updated analysis, National Grid Electricity System Operator (ESO) set out the factors that have changed in its underlying assumptions since then, which included: A -400MW adjustment to account for long-term Short Term Operating Reserve (STOR) capacity that has opted out of the CM but is expected to remain operational in 2022-23 and A 600MW adjustment due to additional non-delivery that has been assumed since the original procurement target was set.

This led to the ESO recommending a 200MW increase on the original target, taking it to 4.7GW. However, in his response to the recommendations, Secretary of State for BEIS Kwasi Kwarteng said he was increasing the procurement target to 5.361GW. He explained that while he agreed with the ESO's analysis, the higher target reflected "the broader uncertainties within the power sector".

#### Government

## Zap-Map survey shows improving EV driver confidence

On 30 December, Zap-Map released the results of a new survey of electric vehicle (EV) drivers, showing that they are increasingly confident about driving long distances. The poll revealed that more than 90% of drivers are extremely happy with their EV and would not want to replace it with a petrol or diesel car. The data highlights the positive impact of EVs on drivers who have benefited from a great driving experience, low running costs and low emissions. Less than 1% wanted a return to a petrol or diesel vehicle.

Driver satisfaction was notably higher for both battery-electric and plug-in hybrid vehicles, with EV drivers reporting a satisfaction score of 91 out of 100 (battery-electric 92, plug-in hybrid 84), compared with only 74 for petrol or diesel vehicle ownership. For the first time, drivers were also asked about the furthest distance they have travelled in an EV in a single journey. 53% said they have driven more than 200 miles in their EV in a single trip with 24% saying they have driven more than 300 miles in one trip. Over 7% have driven more than 500 miles in a single journey. For around 31%, between 101 and 200 miles was their longest trip in an EV, while for 15% it was less than 100 miles.

#### PWC

### Switching rates hit the lowest level on record

ElectraLink published the December switching rates on 17 January, which showed levels dropping to the lowest on record. ElectraLink stated that a combination of voluntary transfers and Supplier of Last Resort (SoLR) transfers increased the market share of the former 'Big Six' for the first time in a decade.

Large legacy brands held accounts with 56% of customers in GB at the end of August 2021, with this rising to a market share of 59% of customers at the end of December 2021. December 2021 saw changes of supplier (CoS) hit a record low with 112,000 switches completed – a 77% drop on the levels in December 2020. The data showed that were 4.984mn successful switches in 2021 overall, 18% less than 2020. The CoS process was used over 11.2mn times – a 36% increase on 2020 due to supplier mergers and SoLRs

#### ElectraLink



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