



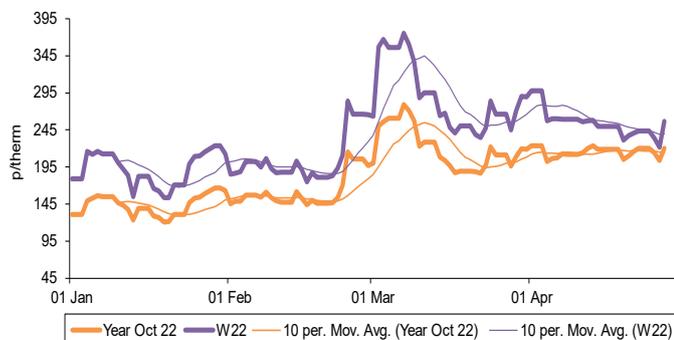
Digital Energy Element

May 2022

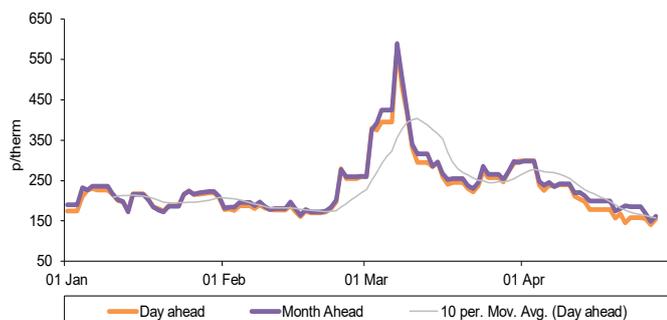
Volatility remains in place



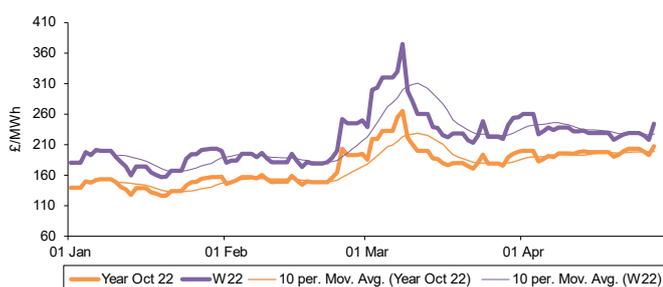
Annual gas prices



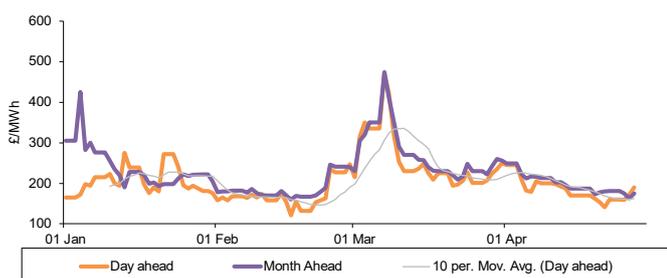
Spot gas prices



Annual power prices



Spot power prices



In April, near-term wholesale gas prices declined – most evident across the day-ahead and front-month contracts. Further out on the forward curve seasonal contracts from summer 23 to winter 24 saw an increase, a likely response to the continuation of risk premiums being baked into future gas delivery, with on-going uncertainty surrounding the future of Russian gas supply.

On average, seasonal gas contracts from winter 22 to winter 24 were 21.3% higher in April than in the previous month. The majority of these seasonal contracts continued to climb as the month matured.

Looking closer at near-term gas prices across April, there were some evident bearish factors which brought down pricing levels. Firstly, April represented a relatively mild month against seasonal temperature averages, softening gas demand, coupled with elevated wider commodity markets such as LNG, continuing to drive the cost of wholesale gas prices higher (with LNG being the marginal price setter for gas in GB).

Elsewhere, the immediacy of gas supply disruption amid conflict between Russia and Ukraine softened as the month matured, although reports on 27 April that Russia has cut gas supplies with Poland and Bulgaria for not paying for contracts in Roubles could reignite supply concerns into Europe again in the coming days. In support, day-ahead gas prices fell 36.8% from the previous month to average 196.72p/th and were 48% lower at the month's end than the month's start, indicative of the gradual easing of prices as the month matured.

Gas price losses also impacted the power market too, with most counterpart contracts mirroring gas price movements.

Elsewhere, day-ahead power prices eased 29.8% in April, to average just under £183/MWh, but remained ~165% higher than the same period of 2021. Seasonal power contracts like their gas counterparts largely declined, with winter 22 being the notable outlier. Nevertheless, seasonal power contracts from winter 22 to winter 24 lifted 19.1% on average compared with March.

Elsewhere, there were some bearish power specific drivers in the month. Select periods of April observed higher wind outturn, easing supply margins coupled with periods of lower demand across the Easter bank holiday period.

Front-month power contracts shared the descending price direction of its gas counterpart contracts and day-ahead power prices, subsequently falling 22.9% on average to sit at £196.57/MWh and £212.03/MWh, respectively.

Elsewhere, the UK carbon market enjoyed some marginal growth, up 2% to average £77.39/t.



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Key market indicators: 27/04/2022

	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 27 Apr 22	155.00	220.01	190.00	207.25	224.00	81.45	81.45	105.39
Last month 29 Mar 22	272.00	208.97	224.50	189.00	187.50	79.00	72.50	112.87
Last year 28 Apr 21	58.75	46.67	69.50	56.72	75.25	48.12	N/A	66.32
Year-on-year % change	164%	371%	173%	265%	198%	69%	N/A	59%
Year high	580.00	279.07	540.00	265.00	253.00	97.61	87.75	126.84
Year low	58.75	46.67	62.00	56.63	75.25	47.42	42.40	65.86

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 publishes Energy Security Strategy

The UK Government published its Energy Security Strategy on 7 April, responding to energy price hikes and Russia's illegal invasion of Ukraine. It reaffirms its commitments to offshore wind and solar power set out in the Net Zero Strategy and Prime Minister's Ten Point Plan for a green industrial revolution. It also details the government's intentions to further develop nuclear power as gas is phased out.

The strategy sets out new commitments and ambitions in the following areas: immediate support on energy bills for families and industry, energy efficiency measures, oil and gas, offshore wind, solar and other renewables, nuclear power, hydrogen, networks, storage and flexibility and international delivery.

This includes doubling the innovation funding for green finance projects to £20mn and running a Heat Pump Investment Accelerator competition in 2022 worth up to £30mn, to develop heat pumps. It also set out its ambition to deliver up to 24GW of nuclear by 2050, 50GW of offshore wind by 2030 (of which it is hoped 5GW will be floating wind), up to 10GW of low carbon hydrogen production capacity by 2030 and increase in the deployment of solar five-fold by 2035.

To support its nuclear ambitions a new government body, Great British Nuclear, will be immediately set up to bring forward new projects along with the launch of a £120mn Future Nuclear Enabling Fund in April.

Government

New packages for hydrogen, CCUS and nuclear

On 8 April, the government opened a consultation on its proposed approach to allocating Hydrogen Business Model (HBM) and Net Zero Hydrogen Fund (NZHF) support through a joint allocation process for electrolytic hydrogen projects. This would fully integrate the application process for revenue support through the HBM and CAPEX support through the NZHF.

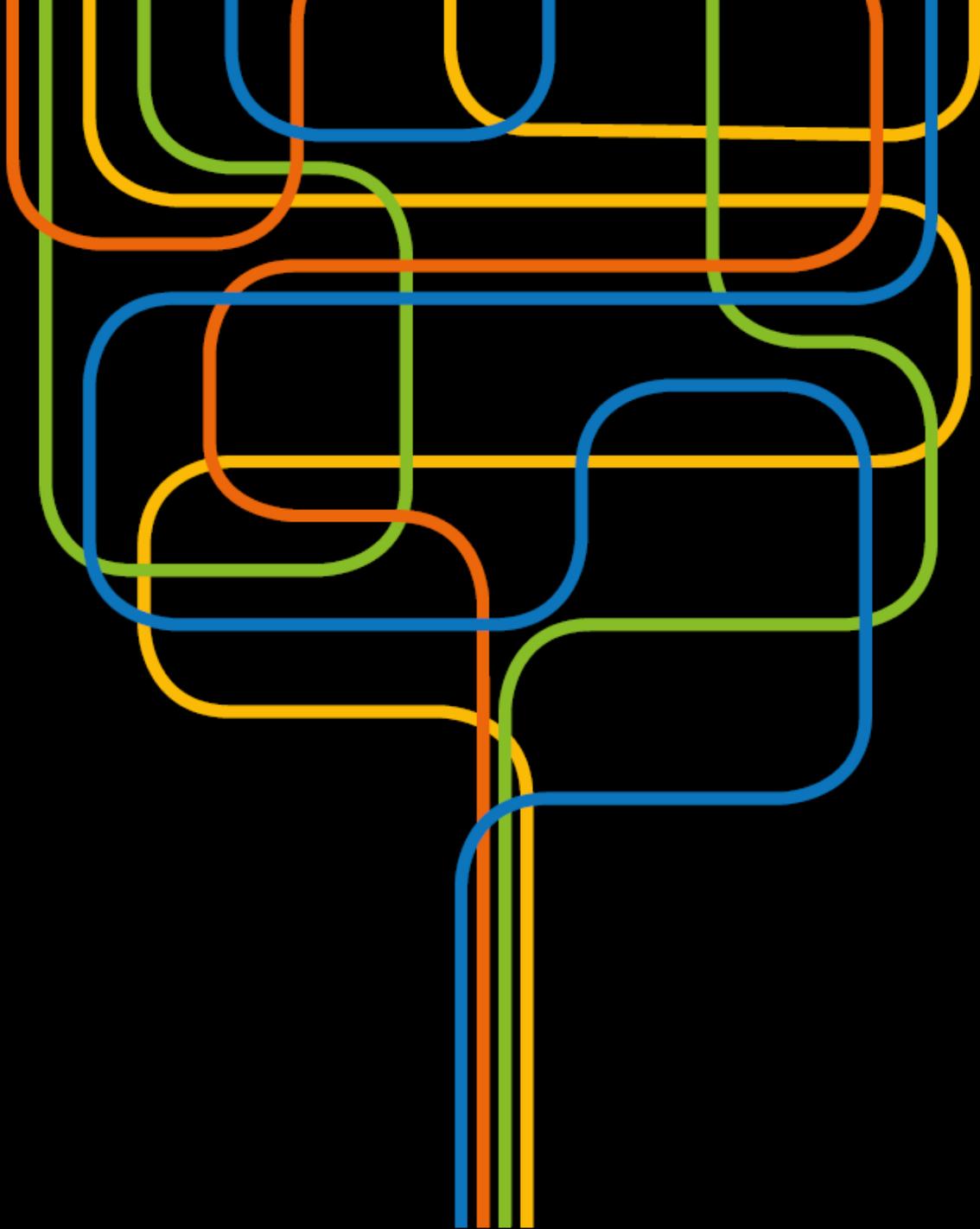
In addition, having consulted in July 2019 on potential new business models for carbon capture usage and storage (CCUS), on 12 April the government issued two further consultations. These are seeking views on its proposed business model for industrial facilities with carbon capture (ICC) and the associated draft Dispatchable Power Agreement contract. Responses to both consultations are requested by 10 June.

Funding for hydrogen, nuclear and CCUS were launched as part of the governments Energy Security Strategy, with a £375mn package for innovative technologies that will power GB homes and businesses. This includes the £240mn Net Zero Hydrogen Fund for low carbon hydrogen production projects; £2.5mn to develop nuclear technology; and £5mn towards CCUS research.

The government also published a statement on 11 April on the procedure and criteria for designating a nuclear company under the nuclear regulatory asset base (RAB) model. A nuclear company should first notify BEIS of its intention to submit a designation application and then make an application to the Secretary of State detailing its proposals for a nuclear project.

Following this, the application will be assessed by BEIS and consulted on before a decision is made. It also outlines the designation criteria, based around the maturity of the project and its value for money. Subject to meeting these criteria, the nuclear company's electricity generation licence would be amended to allow it to receive a regulated revenue for activities associated with its nuclear project.

Government

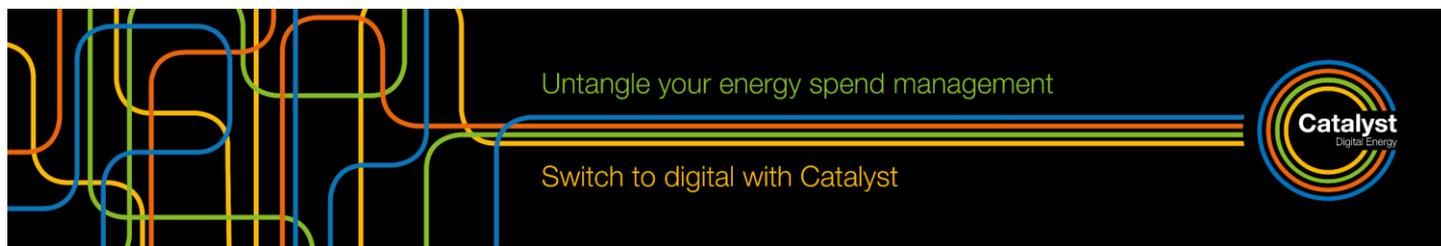


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Ofgem consults on market stabilisation charge changes

On 31 March, Ofgem issued a consultation on changes to the Market Stabilisation Charge (MSC) parameters and calculation. Given recent geopolitical events, Ofgem considers it necessary to review the arrangements to ensure they remain fit for purpose.

Changes include reducing the threshold at which the MSC arrangements are triggered from 30% below the wholesale prices used to set the current price cap to 10-20%. It also proposed an increase in the derating factor, used to determine the percentage of hedging losses covered by the MSC, from 75% to within the range of 80-90%.

Responses were requested by 14 April, which is the same date that the MSC took effect. It was expected that any changes arising from this consultation would take effect from 27 April.

Ofgem

Ofgem approves reforms to support microbusinesses

On 28 March, Ofgem published its decision to implement several policy reforms in order to provide more support to microbusinesses. The Microbusiness Strategic Review was launched in 2019, and Ofgem said that disruption caused by the COVID-19 pandemic and current energy wholesale market volatility means that greater access to important information and a more secure protections framework is more important than ever.

The changes include strengthening the provision of principal contractual terms, including more transparency on third party costs; banning termination notification requirements with the exception of evergreen contracts; and requiring suppliers to only work with brokers signed up to an alternative dispute resolution scheme.

Ofgem is also working with Citizens Advice to provide improved materials to increase awareness about the market and consumer rights. Changes will take effect from 1 October 2022, except for the change regarding broker dispute resolution, which will take effect from 1 December 2022.

Ofgem

Government responds to WHD consultation

On 1 April, the government published its response to its consultation on proposals to extend, expand, and reform the Warm Home Discount (WHD) scheme, which provides support to fuel poor households with the costs of heating their homes.

The government set out its plan to implement its main proposals including an expansion of the overall spending of the scheme to £475mn (in 2020 prices) each year (from £350mn) for GB, while also increasing the value of the rebates to £150. The government will maintain the current Core Group (renamed Core Group 1), which provides rebates to around 1mn low-income pensioners, and will introduce a new Core Group 2 to provide rebates to around 1.9mn households on low incomes and with high energy costs. In addition, the supplier participation thresholds will be reduced in 2022 to 2023, and again in 2023 to 2024.

Regulations will be laid for the changes in England and Wales, with the reforms to take place from the 2022-23 onwards. It also plans to consult on introducing a separate scheme in Scotland.

BEIS



Government to create FSO to oversee UK energy system

On 6 April, the government and Ofgem announced their commitment to proceed with the creation of a new Future System Operator (FSO) to oversee and strengthen the resilience of the UK energy system.

The FSO will be a new public body, funded by consumers through price control arrangements regulated by Ofgem. It will take on all the main existing roles and responsibilities of National Grid Electricity System Operator and the longer-term planning elements of the gas system. The FSO will also have a duty to provide advice, upon request, to Ofgem and the government.

The primary objectives of the FSO will be to facilitate the transition to net zero; maintain security of supply; and ensure an efficient, coordinated, and economical electricity and gas system. It will also have obligations around facilitating innovation and competition; having regard for consumer impacts; and looking at the GB energy system as a whole, integrating existing networks with emerging technologies such as hydrogen. BEIS and Ofgem consider that the creation of the FSO will strengthen the security and resilience of UK energy supplies and support the transition to net zero.

The FSO could be established by, or in, 2024, dependent on several factors. This includes the timings of legislation, as both primary and secondary legislation will be required to create the FSO and its associated duties and powers, as well as new and updated licensing arrangements and amendments to industry codes.

On the same day, the government and Ofgem published their decision to proceed with their preferred option for energy code reform. As a result, Ofgem will be given new strategic code functions, including the ability to establish and regulate one or more code managers. It is anticipated that Ofgem's new strategic functions could be established around 2023.

Government and Ofgem

BEIS seeks views on removal of use of Guarantee of Origins in GB

On 29 March, BEIS published a consultation on the proposed removal of Feed in Tariff (FIT) and Contracts for Difference (CfD) scheme cost exemptions for green imported electricity and the recognition of EU Guarantees of Origin (GoO) altogether.

Electricity suppliers are currently able to seek exemption for payments to electricity generators supported by the CfD and FIT schemes through the presentation of EU GoOs. These green import exemptions (GIEs) are not included in a supplier's market share for the purpose of calculating their payment obligations under the CfD and FIT and can therefore be used to reduce their liability to contribute towards the costs of these schemes.

Following the UK's exit from the EU, the government is consulting on the withdrawal of these exemptions and has outlined three potential options. The first option, to do nothing and retain current arrangements, is not favoured by the government. The second option, to extend GIEs to all international trading partners to develop a fairer approach to trade, this is also not favoured due to its complexity. The third option is to repeal the exemptions, which the government considers offers the most straightforward approach and would ensure fair opportunity for all trading partners. Two implementation dates for the removal of GIEs have been proposed - 1 October 2022 and 1 April 2023.

A final decision on the preferred option and timing will be released following industry responses to the consultation, which closes on 10 May 2022.

Government



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