

## Contact Beond

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## Last Month Summary

- UK gas prices jumped significantly during December. Gas prices soared 28.3% to 6.72 p/kWh, while Electricity prices also posted gains of 13.7% to 19.78 p/kWh. Increases in prices were a response to Russia's Yamal pipeline switching to flowing gas east after westward flows into Germany had been falling. Moscow denied that the flow switch was political amid increasing tensions over the build-up of Russian forces on the Ukraine border.
- Colder weather and French nuclear outages also supported prices. Average UK temperatures fell to 1.6°C below season normal. Meanwhile, traders were preferring to take gas from stockpiles to supply European buyers and avoid paying near record-high prices. The political issue of whether Germany and the European Commission will approve Russia's Nord Stream 2 gas pipeline remains a major risk.
- Carbon recorded a 26.4% increase in European prices to €74.21/tCO<sub>2</sub>, as bullish gas signals and lower wind output have increased the demand for coal-fired generation. Brent crude oil prices moved 13.0% lower to \$73.44/bbl, as another wave of lockdowns could result in up to 3 million bpd of oil demand lost in Q1-22 as the Omicron variant of Covid-19 has governments worried.

## Wholesale Energy Prices

| Contract                     | 29 Nov 21 | 30 Dec 21 | Δ | Change      |
|------------------------------|-----------|-----------|---|-------------|
| Gas (p/kWh)*                 | 5.24      | 6.72      | ▲ | 1.48 +28.3% |
| Electricity (p/kWh)*         | 17.40     | 19.78     | ▲ | 2.38 +13.7% |
| Oil (\$/bbl)                 | 73.44     | 79.32     | ▲ | 5.88 +8.0%  |
| Coal (\$/t)                  | 97.17     | 88.40     | ▼ | -8.77 -9.0% |
| Carbon (€/tCO <sub>2</sub> ) | 74.54     | 80.16     | ▲ | 5.62 +7.5%  |
| £/\$                         | 1.33      | 1.35      | ▲ | 0.02 +1.3%  |
| £/€                          | 1.18      | 1.19      | ▲ | 0.01 +0.8%  |

\* (12 month Rolling Contracts)

## Beond Rolling Annual Energy Indices



## Wider Market

**UK concern over high prices:** As global gas prices continue to rise leaving markets in trading turmoil, nearly one-third of Britons are afraid they will not be able to pay their bills this year.

That's according to a YouGov survey published in The Times which suggests 33% of people expected their fuel bills to become "unaffordable".

The poll of 1,744 people also shows that almost 86% anticipated their cost of living to increase in 2022 and two-thirds said they were worried about rising prices.

## Bearish Price Drivers



- There's little pressure to drive lower prices during the coldest months of January and February, but prices could slide once temperatures pick up in March.

## Bullish Price Drivers



- A strong drop in temperatures across Europe means we could see even higher volatile prices continue during January and February.
- European gas storage levels are at just 57% of maximum capacity, significantly lower than last year when facilities were 68% full.
- Germany has paused approval for the Nord Stream 2 pipeline, meaning Russian supply to Europe remains a significant concern.

## Recommendations

- With prices still high, clients with volume to buy during 2022 should engage with their account managers as soon as possible to setup a schedule so that your tender can be completed as quickly as possible once temperatures rise.
- Even once temperatures start to rise, we don't expect the issues around Asian and Russian gas, and European storage levels, to disappear anytime soon. As a result, prices are likely to remain severely elevated throughout 2022 and Q1-23.

**Long-duration power storage lacks support mechanism:** Essential electricity storage infrastructure that can cut energy bills by stabilising the power grid and enable more renewable power to come online isn't being built because there isn't an appropriate investment mechanism, according to a new report by KPMG. The report, commissioned by Drax Group, looked at different revenue stabilisation mechanisms that could be deployed to unlock private investment in storage technologies.

No new long duration storage infrastructure, such as pumped hydro storage power stations, has been built in the UK for more than 30 years, the report said.