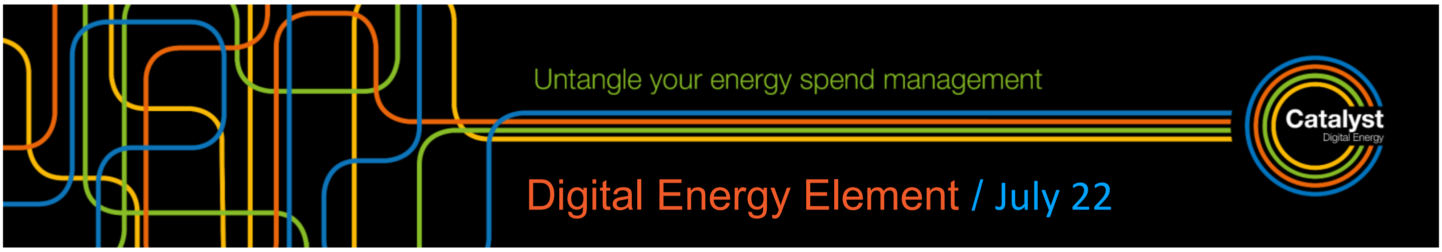
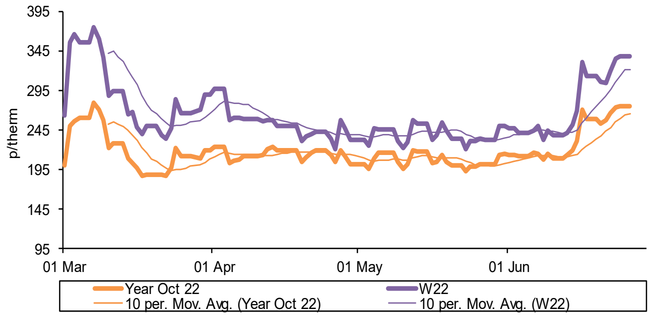
Digital Energy Element

July 2022

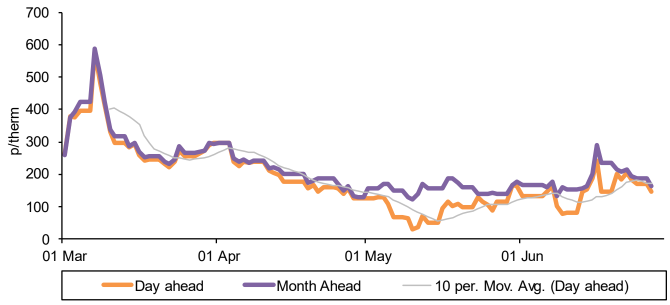
Relentless energy prices don't give up momentum



Annual gas prices



Spot gas prices



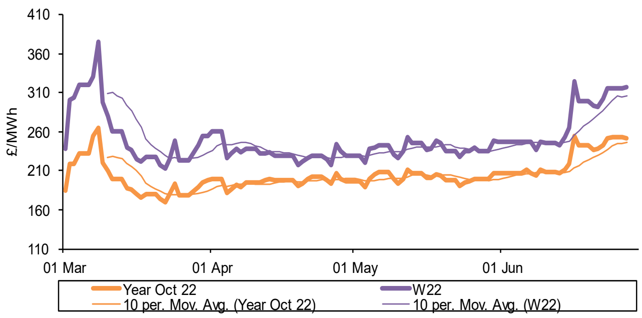
In June, we saw collective gains across all tracked GB gas contracts over the month on average. Volatility across the wholesale gas market remains evident, with varying upward movements across both near-term and longer dated contracts further out on the forward curve.

On average, seasonal gas contracts from winter 22 to winter 24 were 10.8% higher in June compared with the previous month (3.7% average rise in May), with the most significant average price rises concentrated across winter 22 and summer 23 (up 20.8% and 13.8% respectively).

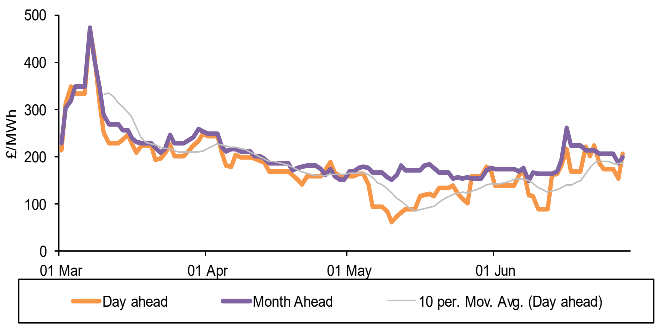
Some of the bullish sentiment for near-term gas contracts can be attributed to periods of higher demand over the gas network, particularly at the months start where temperatures were slightly below seasonal norms. Elsewhere, we also observed periods of heightened outages throughout select plant and gas fields across the Norwegian Continental Shelf (NCS), restricting flows into GB and tightening supply on the gas network as a result.

In support of the aforementioned bullish levers for gas prices, we saw day-ahead gas climb strongly, up 57.5% on average from May to sit at 155.42p/th. Front-seasonal contracts also shared collective average price growth, with July 22 up 2.5% to 183.27p/th and August 22 up 15.1% to average 219.98p/th.

Annual power prices



Spot power prices



Increases over gas contracts further out on the forward curve into winter 24 were ultimately influenced in part by the strong upward movement of near-term prices.

Moving to power, the month saw day-ahead power prices follow their gas counterpart upwards – 42.4% higher on average to sit at £173.43/MWh. Comparing this with the same period in 2021, that is a 119.0% rise.

Primarily, the strong upward momentum on near-term domestic gas prices set a price direction for power prices to follow, with the highest price rises concentrated towards the end of June, where wind levels dropped too.

Front-month power contracts (July and August 22) shared the ascending price direction of their gas counterpart contracts and day-ahead power prices, subsequently rising 7.3% on average to sit at £193.09/MWh and £207.05/MWh, respectively.

Commodity markets saw mixed price movements, a consequence of the on-going unpredictability of many international markets in recent months, with the Russia-Ukraine war continuing and recession concerns rising. For carbon, the EU ETS fell 2.7% to average €83.72/t, whilst the UK ETS followed suit, down 1.9% to average £81.94/t. Brent crude prices saw price growth last month, up 5.0% to average $117.59, primarily driven by on-going market tightness and continued EU-wide discussions concerning an embargo on Russian oil.

 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.

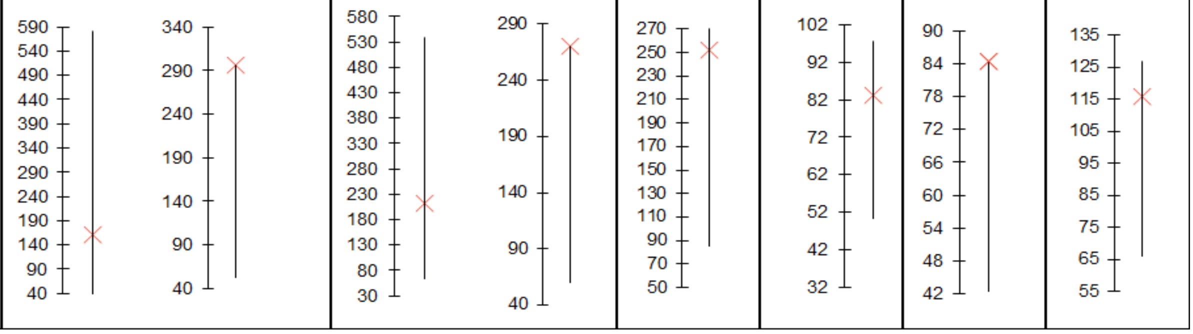
Untangle your energy spend management

Digital Energy Element / July 22

Key market indicators: 30/06/2022

		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	30 Jun 22	161.00	295.85	212.00	270.35	252.00	83.35	84.40	115.95
Last month	2 Jun 22	133.00	213.38	140.00	207.50	235.00	84.80	83.25	117.55
Last year	1 Jul 21	91.75	54.54	96.75	64.08	88.40	58.01	47.75	75.46
Year-on-year % change		75%	442%	119%	322%	185%	44%	77%	54%
Year high		580.00	295.85	540.00	270.35	270.00	97.61	88.00	126.84
Year low		28.00	52.78	63.00	60.25	85.50	50.23	42.40	66.31

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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NAO report published on energy supply market

On 22 June, the National Audit Office (NAO) published a report on the energy supplier market, which aims to set out the facts regarding the recent energy supplier exits and to evaluate the role of Ofgem and BEIS in the events leading to the exits and how well they handled them.

The scope of the report covers the nature and regulation of the energy supply market, how Ofgem and BEIS have handled supplier exits and their cost, and how Ofgem's regulation of the energy supply market has contributed to the exits. It notes that 29 suppliers failed between July 2021 and May 2022, with Ofgem currently estimating that the final costs to consumers will be £2.7bn through the Supplier of Last Resort (SoLR) process.

The report concludes that while Ofgem could not have prevented the increase in wholesale prices in 2021 from affecting consumers, it did not do enough in the preceding years it to ensure the energy supplier sector was resilient to external shocks. As such, the NAO states that Ofgem and BEIS must ensure the supply market recovers from its current state, facilitating a longer-term transition of the supplier market to one that truly works for consumers and supports the achievement of net zero.

It sets out several recommendations for BEIS and Ofgem, including that they should establish a process for considering how new interventions in the retail market, like the cap, would react in a range of scenarios; set a date by which they will review the changes needed to retail market regulation so that the supply market aligns with net zero; and review and update the SoLR process.

In addition, it sets out that Ofgem should define a set of objectives for its regulation of the retail market, reviewing and reporting on its performance at least annually; build regular review points into its current round of changes to supplier regulation, including the new financial responsibility principles; and consider whether it is able to adequately monitor compliance with its new rules around financial responsibility, as part of regular reviews.

NAO

Proposals to improve Capacity Market auction liquidity

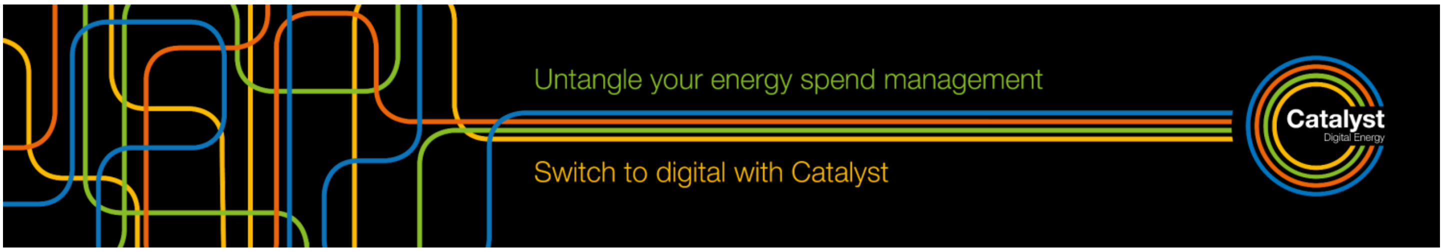
The government published a consultation on 8 June seeking views on its proposals to improve liquidity in the 2023 Capacity Market (CM) auctions, which is the government's main mechanism for ensuring security of electricity supply.

The two time-limited proposals are to: postpone the introduction of the statutory requirement for independent verification of fossil fuel emissions and to temporarily allow plant that have been mothballed to apply to pre-qualify for CM auctions. It states the first proposal "which effectively rolls over arrangements from previous years, is necessary to mitigate the risk of applicants failing to prequalify for the 2023 CM auctions as a result of potential inability to access emissions verification services". The second proposal "is necessary to remove a barrier to prequalification for mothballed plants that would otherwise prevent their prequalification for the 2023 CM auctions".

The government considers that the amendments will remove barriers to pre-qualification for the 2023 round of CM auctions, therefore improving security of electricity supplies in the winter of 2023-24 and beyond.

Responses were requested by 22 June. If the decision is made to proceed with the proposed changes, they will be implemented before the Prequalification Window for the 2023 auction round opens in July 2022.

Government



BEIS asks ESO to explore options for bolstering energy security

A letter from the BEIS Secretary of State to National Grid Electricity System Operator (ESO), regarding the security of electricity supplies for winter 2022-23, was published on 27 May. The letter was sent in the context of Russia's invasion of Ukraine and the possibility of disruption to Russian gas supplies to Europe.

To mitigate these risks and bolster energy security, BEIS has requested that the ESO works with industry to explore and seek to deliver frameworks to support the operations of additional non-gas-fired capacity over the coming winter. BEIS added that in support of this, certain coal plants have been identified that could be considered as part of any potential solution under the frameworks agreed, where appropriate. It noted that any frameworks agreed will need to ensure system stability and encouraged that these be put in place swiftly.

The letter stated: "I [the Secretary of State for BEIS] remain committed to the government's coal generation closure deadline of September 2024, and the government's deadline for phasing out imports of Russian coal by the end of the year."

Government

Ofgem consults on protection for CCBs and RO payments

On 20 June, Ofgem published a policy consultation seeking views on proposals to strengthen the financial resilience of suppliers by implementing new protection mechanisms for customer credit balances (CCBs) and Renewables Obligation (RO) payments.

The proposals centre around ringfencing customer credit balances and RO payments, ensuring they are available to a customer's new supplier should their current supplier fail, reducing mutualisation costs. Ofgem also provided initial thinking on options for preserving the value of an insolvent supplier's hedges and allowing customers to access the benefits of these. Additionally, early thoughts are set out on capital adequacy, specifically around requirements for suppliers to maintain sufficient minimum levels of capital to contend with volatile markets and encourage improved risk management.

Responses are required by 19 July. Alongside the consultation Ofgem has published a report from NERA which assesses the impacts of the credit balance and RO interventions.

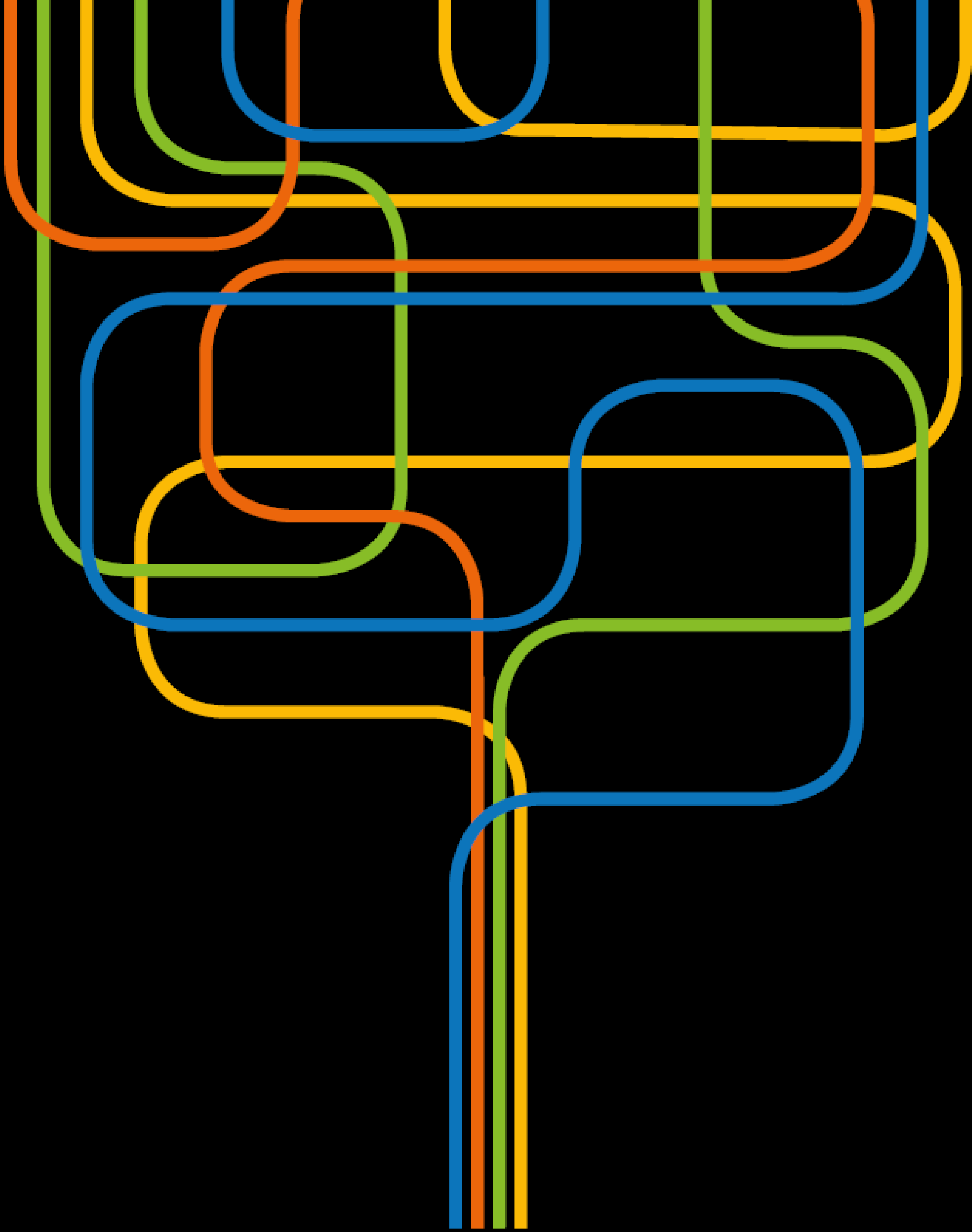
Ofgem

£22bn to be invested in climate change and energy security

On 23 June, the UK Infrastructure Bank launched its first Strategic Plan, setting out its ambitions to invest £22bn in clean energy, including transport, digital, water and waste. The Plan aims to tackle climate change, boost regional growth, improve security and supply and tackle economic inequality.

Chris Grigg CBE, Chair of the UK Infrastructure Bank said: "Over the last year I am proud to say that the Bank has grown hugely in capability and maturity. We have also made significant progress both in terms of transactions, closing seven deals worth £610mn, and in terms of defining our role. It is already clear that we can have a real impact on infrastructure across the UK."

Government



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Changes to maximise non-domestic smart meter data offer

On 1 June, BEIS published the outcome of its July 2021 consultation on maximising non-domestic smart meter consumer benefits.

Currently suppliers are not required to provide non-domestic customers or a third party with their energy consumption data, and despite expectations that innovation would have brought forward a range of services for non-domestic customers, BEIS said that this is not happening at the pace needed to maximise smart metering benefits for non-domestic customers. As a result, BEIS issued plans to require suppliers to establish a baseline data offer that non-domestic smart meter customers (covering SMETS and advanced meters customers) would be entitled to receive. BEIS plans to proceed with policy changes to improve the smart meter data offer for non-domestic customers, but several changes have been made following stakeholder feedback.

The new requirements consist of "on-request data offer", which will enable non-domestic customers to request free access to their historic smart meter energy use data, and a requirement for energy suppliers to raise customer awareness of the routes by which they can access their smart meter energy use data for free under "awareness raising requirements with respect to data". Both requirements will come into effect from 1 December 2022. Energy suppliers will also need to provide free, user-accessible energy use information to smaller non-domestic customers with smart meters under the "default data offer" and will have until 1 October 2024 to implement this.

Government

BEIS responds to consultation on heat network regulation

On 16 June, BEIS published the response to its consultation which sought views on the design and operation of the proposed approach to recovering the costs of heat network regulation, which will be administered by Ofgem as future heat networks regulator.

Having outlined four approaches to the recovery of heat network regulation costs, BEIS has decided to proceed with its preferred solution in forthcoming heat network legislation. This will see Ofgem's and Citizens Advice's total ongoing costs of regulating the heat networks, gas, and electricity markets spread evenly across heat network, gas and electricity consumer bills. It is estimated that this approach would result in heat network, gas and electricity consumers paying an additional £0.10 per year, compared to forecasts of £10 or more per heat network consumer bill per year if costs were solely to be recovered through heat network consumers.

The consultation also sought views on the affordability of the cost recovery proposals, with the majority of respondents in agreement that the preferred approach would be affordable for consumers and businesses. Under the government's preferred approach to cost recovery, it is suggested that the regulatory fee paid by a heat network regulated entity should be based on the number of heat network consumers it supplies. While this proposal received mixed reviews, BEIS continues to envisage regulatory fees to be calculated and collected based on number of consumers served by a heat network.

A de minimis threshold was also suggested within the consultation which would exclude smaller heat networks from paying regulatory fees to reduce the administrative complexity of cost recovery. This also received mixed responses and BEIS said that further consideration and engagement with industry will be taken to assess the merits and drawbacks of a threshold. BEIS also stated that a threshold would only be introduced if the cost of regulation for larger heat networks and their consumers remained affordable.

Government

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