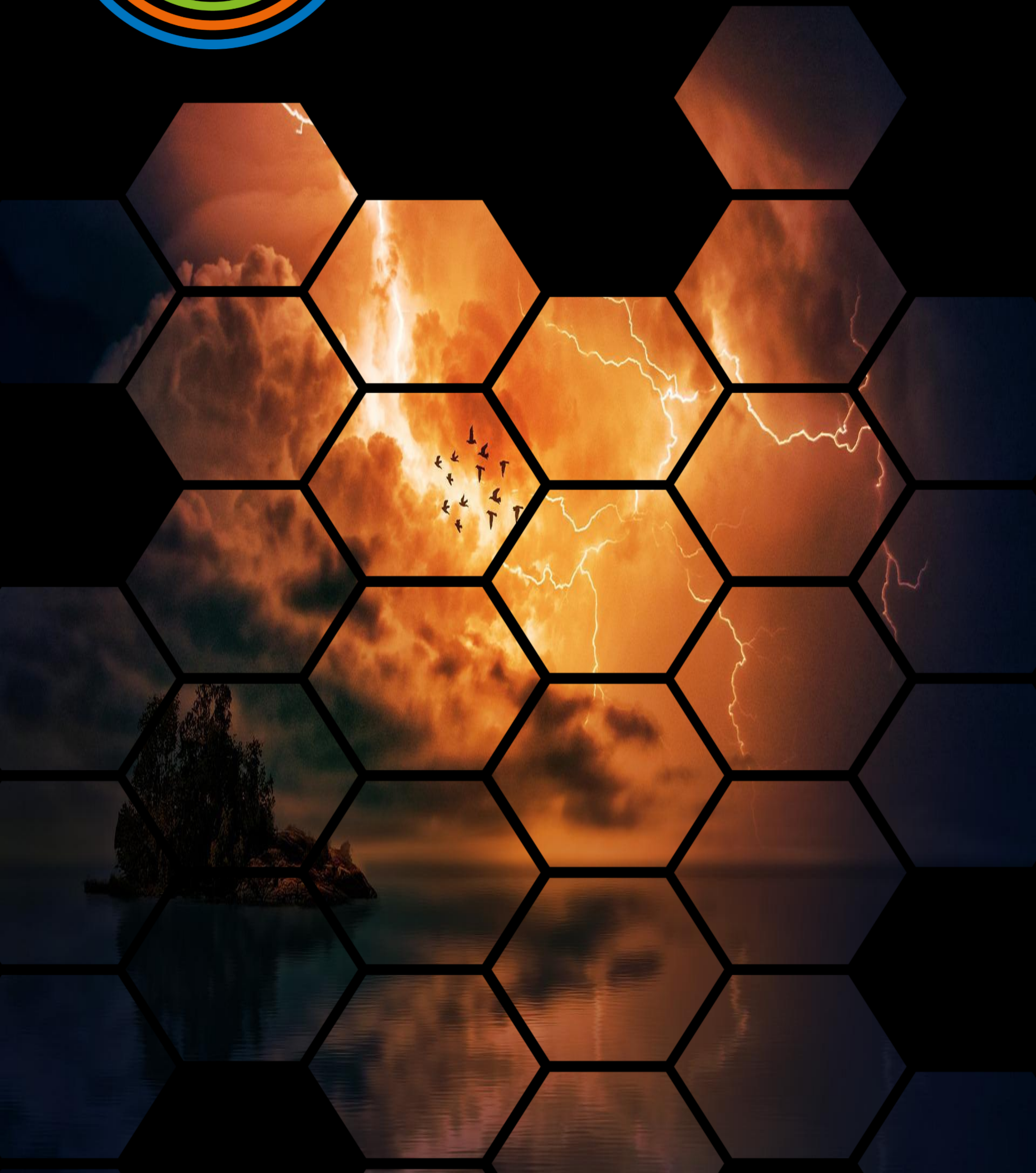
Catalyst Digital Energy

Digital Energy Element

August 2022

Power and Gas Prices hit all-time highs



Untangle your energy spend management

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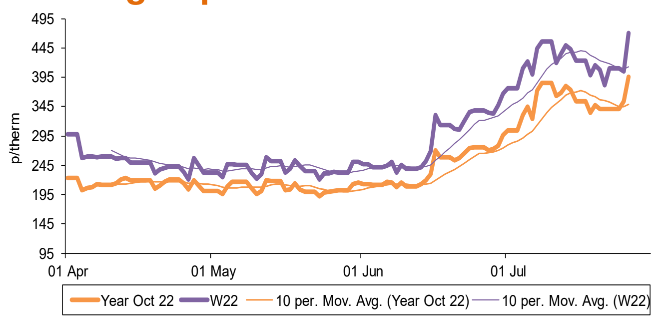
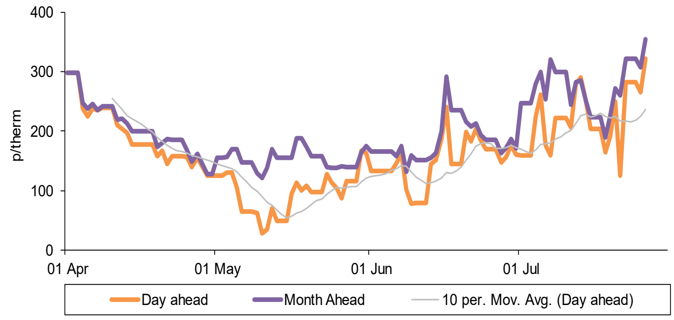
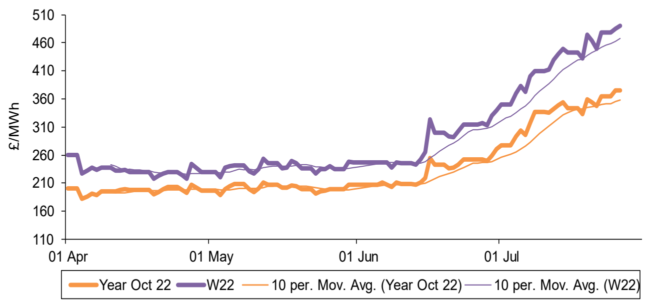
Annual gas prices



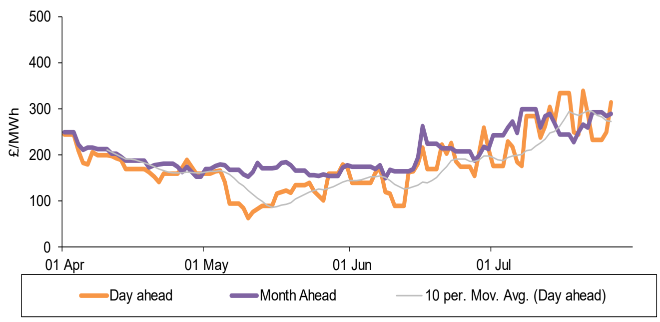
Spot gas prices



Annual power prices



Spot power prices



In July, we saw collective gains across all tracked GB gas contracts over the month on average. Volatility across the wholesale gas market remains evident, but we observed more consistent rises across contracts further out on the forward curve.

On average, seasonal gas contracts from winter 22 to summer 24 were 37.8% higher in July compared with the previous month. The most significant average price rises concentrated across winter 22 and winter 23 (up 44.0% on average across the three seasons).

The influence of bullish near-term market fundamentals set a strong upward price direction for the forward curve to follow. The sensitive political landscape surrounding the technical outage period on Nord Stream 1 unsettled the market and traders, causing future supply concerns which ultimately fed through in the form of risk premiums being baked into longer-dated contracts. Similarly, we saw the price of Spot Asian LNG reach multi-year highs (376.44p/th) as of 11 July, its highest price on our records dating back to 2011. This provided strong price support, with LNG being the marginal price setter for gas in GB.

As a result of the aforementioned bullish drivers for gas prices, we saw day-ahead gas climb strongly, up 44.4% on average from June to sit at 224.42p/th. Front-seasonal contracts also shared collective average price growth, with August 22 up 24.3% to 273.48p/th and September 22 rising 41.5% to average 339.26p/th.

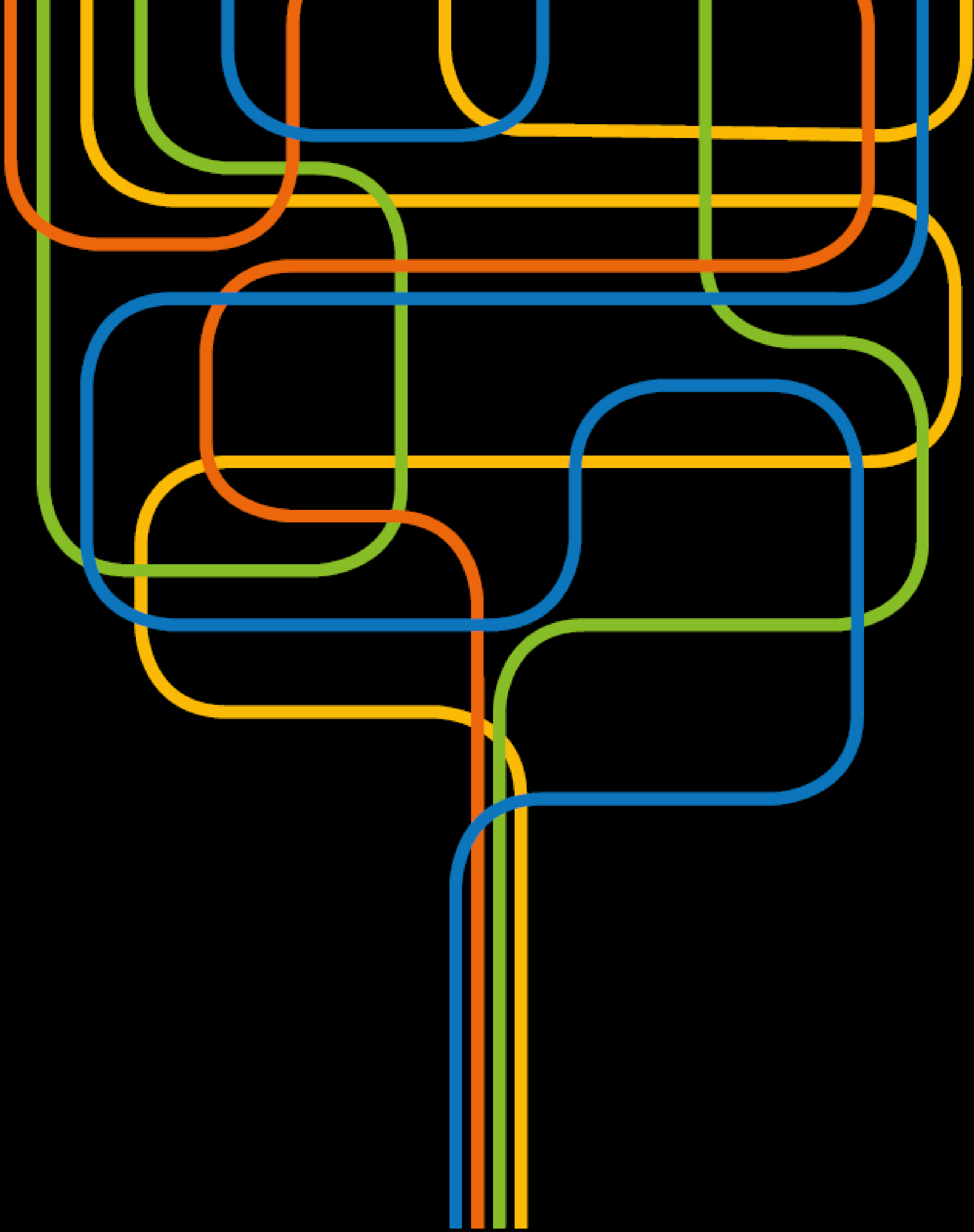
We also observed record highs on the front-seasonal gas contract (winter 22), which hit 469.90p/th on 26 July.

July saw day-ahead power prices follow their gas counterpart upwards – 47.5% higher on average to sit at £255.78/MWh. This represents a 173% rise compared to prices from the same period in 2021.

Primarily, the strong upward momentum on near-term domestic gas prices set a price direction for power prices to follow. Prices were further supported by consistently low wind outturn and the continuation of higher levels of exports via our interconnectors to Europe, as neighbouring markets continue to observe higher power prices compared with GB.

Front-month power contracts (July and August 22) shared the price direction of their gas counterparts and day-ahead power prices, subsequently rising 34.7% on average to sit at £269.02/MWh and £335.22/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 1.3% to average €82.61/t, whilst the UK ETS remained virtually unchanged to average £81.91/t. Elsewhere, Brent crude prices saw a decline last month, down 11.1% to average $104.54, with fears of a global recession ultimately outweighing ongoing tight supply.



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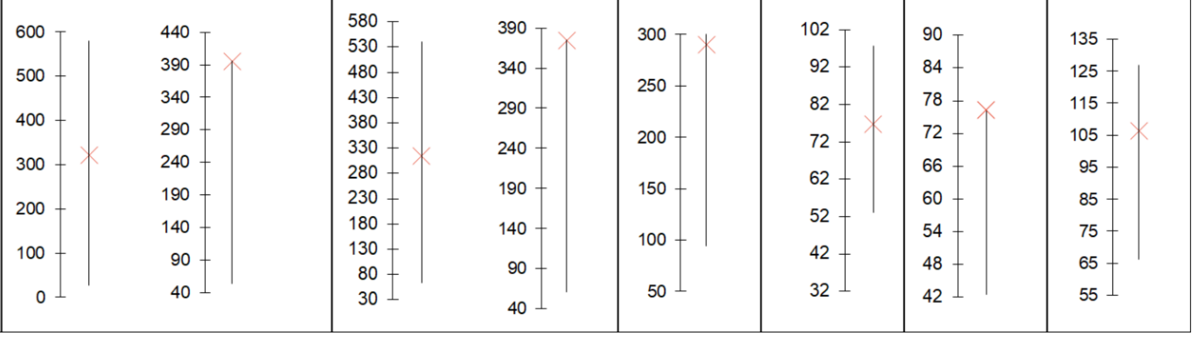
Key market indicators: 26/07/2022

		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	26 Jul 22	322.00	395.24	315.00	375.00	290.00	76.80	76.25	106.48
Last month	28 Jun 22	157.00	273.17	206.50	249.25	246.00	85.40	81.45	117.01
Last year	27 Jul 21	95.95	54.38	93.00	60.75	94.20	53.54	43.25	74.74
Year-on-year % change		236%	627%	239%	517%	208%	43%	76%	42%
Year high		580.00	395.24	540.00	375.00	300.00	97.61	88.00	126.84
Year low		28.00	54.38	63.00	60.75	94.20	53.00	43.25	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.

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 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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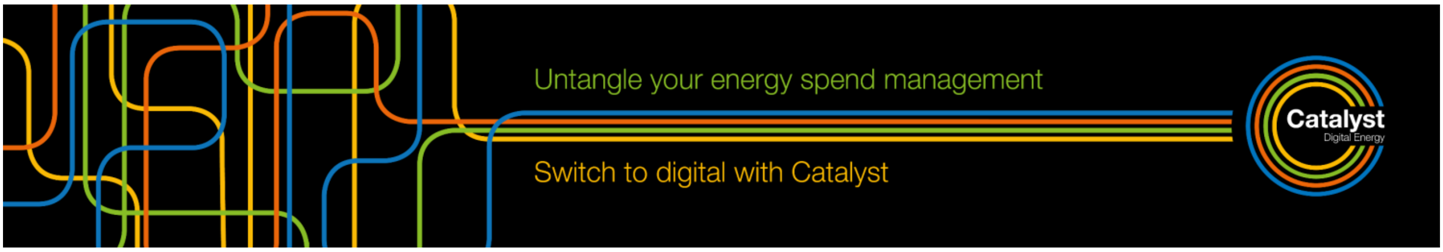


BEIS consults on Review of Electricity Market Arrangements

Following the commitment set out in its Energy Security Strategy, on 18 June the government published a consultation on the Review of Electricity Market Arrangements (REMA). This aims to ensure that the electricity market design is fit for the purpose of maintaining energy security and affordability for consumers as the electricity sector decarbonises.

The consultation sets out a range of options for reform for all (non-retail) electricity markets, including the wholesale market, balancing mechanism and ancillary services, as well as policies that impact these, such as the evolution of and alternatives to the Contracts for Difference (CfD) scheme and the Capacity Market.

The document includes a number of chapters that explore areas up for discussion including its overall approach to market reform and options for delivering a net zero wholesale market, capacity adequacy, and flexibility.

The consultation closes on 10 October 2022 and is the first step in the REMA programme, with the government setting out its case for change of current electricity market arrangements. Following this, BEIS will seek to determine and develop what reforms are needed through engagement with the energy sector, and then establish a full delivery plan and oversee implementation.

BEIS

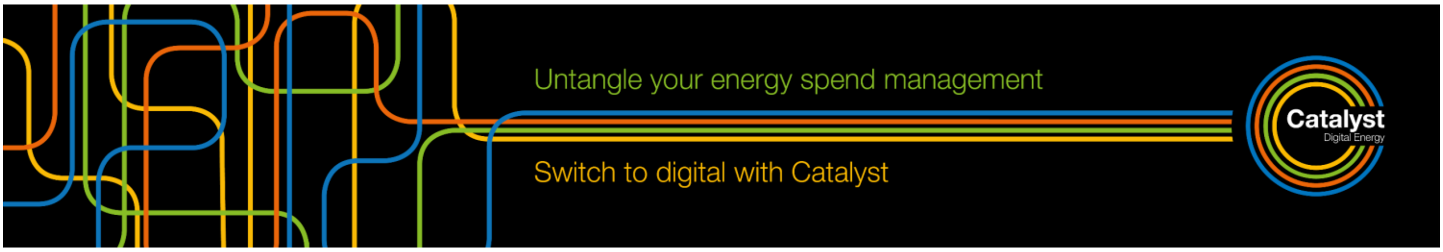
Energy Security Bill introduced into Parliament

Following the announcement as part of the Queen's Speech in May, the government announced the introduction of the Energy Security Bill into Parliament on 6 July. It said that it is the most 'significant' piece of energy legislation in a decade, setting out a range of measures to be introduced. These are aimed at reforming the energy system to protect customers from unfair pricing, leveraging private investment in clean technologies, and ensuring the safety and resilience of the UK energy system.

- Enabling the extension of the energy price cap beyond 2023.
- Establishing a new independent Future System Operator, which will take a whole-system approach to coordinating and planning GB's energy system.
- Establishing a buy-out mechanism under the Energy Company Obligation (ECO) scheme for suppliers.
- Driving industry progress on the smart meter rollout.
- Supporting the deployment of carbon, capture, usage and storage (CCUS) and hydrogen.
- Establishing a market-based mechanism for the low-carbon heat industry.
- Enabling the delivery of a large village hydrogen heating trial by 2025.
- Ensuring that the UK's oil and gas and carbon storage infrastructure remains in the hands of companies with the best ability to operate it.

The government said the bill will help drive an unprecedented £100bn of private sector investment by 2030 into new British industries that are built to last and help diversify our domestic energy supply.

BEIS



CfD AR4 procures largest amount of renewable capacity to date

BEIS published the results of Allocation Round 4 (AR4) of the Contracts for Difference (CfD) scheme on 7 July. 93 projects, totalling 10.8GW of capacity, were successful in winning contracts, with Delivery Years ranging between 2023-24 and 2026-27.

Overall, a budget of £295mn (in 2011-12 money) was allocated to the round, £210mn of which was allocated to offshore wind. £75mn was allocated to Pot 2 technologies, with this including minimums of £24mn for floating offshore wind and £20mn for tidal stream. The remaining £10mn was allocated to Pot 1 technologies. Offshore wind represented the majority of successful capacity with 7.0GW, up from the 5.5GW procured in AR3.

Contracts were due to be issued to successful projects between 12 and 19 July with generators then having 10 working days to return a signed copy to the Low Carbon Contracts Company (LCCC) to formally accept the contract.

BEIS

BEIS and Ofgem consult on future ownership of Elexon

On 14 July, BEIS and Ofgem issued a joint consultation on the future ownership of Elexon once the Future System Operator (FSO) has been established.

While Elexon is an independent entity, it is wholly owned by National Grid Energy System Operator (NGESO) and the future purchase of NGESO to create the FSO necessitates consideration Elexon’s ownership. The two leading options proposed are public ownership, as a subsidiary of the FSO, and the preferred option of industry ownership. If industry ownership were to be implemented, there is a risk that the process could cut across or even delay the wider changes proposed to ownership of the FSO. In this case, it is suggested that the risk of disruption is mitigated by deploying the public ownership option as a temporary fallback option.

Responses to the consultation are requested by 22 September, with a webinar outlining the proposals planned in the next few weeks.

BEIS and Ofgem

BEIS proposals for a smart and secure electricity system

On 6 July, BEIS opened a consultation titled *Delivering a smart and secure electricity system: the interoperability and cyber security of energy smart appliances and remote load control.* It proposes to require all organisations capable of remotely controlling large electrical loads (over 300MW in aggregate) to comply with Network and Information System Regulations, using the Cyber Assessment Framework, and to require energy suppliers to make time-of-use-tariff data openly available in a common format.

Additionally, it proposes to ensure larger domestic-scale energy smart appliances (ESAs) are interoperable with response service providers, using ESA standards. It also proposes to require smart heating appliances and batteries to meet cyber security and grid stability requirements, to require electric heating appliances with the greatest flexibility potential to have smart functionality, and to establish a proportionate and flexible licensing framework for organisations providing demand side response (DSR) to domestic and small non-domestic consumers.

The consultation closes on 28 September 2022.

BEIS

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Award Winning
Business Energy Consultants

Government urged to accelerate pace of decarbonisation

RenewableUK published its report, *Roadmap to net zero: a manifesto for a fully decarbonised power system by 2035*. This sets out a framework to guide the transformation needed to fully decarbonise the power sector by 2035, urging the government to accelerate the pace and scale of decarbonisation.

The report covers a series of topics, from market reforms to support low carbon investment, to creating a net zero network, accelerating renewable deployment, the involvement of green hydrogen and maximising the economic opportunity. Each area of focus is supported with short-term and long-term actions for government.

The short-term actions include: developing proposals for Contracts for Difference (CfD) allocation reforms which enhance investment in resilience and sustainability, particularly in supply chains; designing the new onshore communities scheme in a way that enables maximum deployment in parts of England where there is local support; and defining a zero-carbon hydrogen standard and tailoring the Hydrogen Business Model to support green hydrogen production at different scales including exemption from levies.

The long-term actions include: using the existing Offshore Transmission Network Review to establish a long-term solution for planning integrated offshore grid infrastructure post-2030; maximising the potential for a wider range of flexible energy sources; and building upon the detail in the Net Zero Strategy, developing an overarching ‘2035 plan’ for addressing the strategic barriers to deploying the necessary low-carbon capacity, such as crosscutting planning issues and network delivery challenges.

RenewableUK

Ofgem issues RIIO-ED2 draft determinations

On 29 June, Ofgem published a consultation on the draft determinations for Distribution Network Operators (DNOs) RIIO-ED2 price control which will run from April 2023 to March 2028.

Having assessed the DNOs’ business plans, submitted in December 2021, Ofgem has proposed to allow almost £20.9bn total expenditure (totex) overall for RIIO-ED2, a 17% reduction from that requested in the business plans. Ofgem notes that it has set stretching efficiency targets and totex allowances based on well justified costs, as well as proposing uncertainty mechanisms to ensure flexibility to meet future investment needs when justification for the work is more certain.

In terms of the finance package for RIIO-ED2, Ofgem is proposing to set a return on equity of 4.75%, to better align with current market conditions, and a weighted average cost of capital (WACC) of 3.26%. Ofgem has also developed several common quality of service incentives for RIIO-ED2, including a new a distribution system operator (DSO) financial output delivery incentive.

Ofgem believes these proposals will ensure that additional investment can be made to deliver net zero at the lowest cost to consumers, with responses requested by 25 August. The final determinations will be published by the end of December 2022 and will include any costs driven by the recent Access and Forward-looking Charges Significant Code Review decision, which have not been included in the draft determination.

Ofgem