Catalyst
Digital Energy

Digital Energy Element

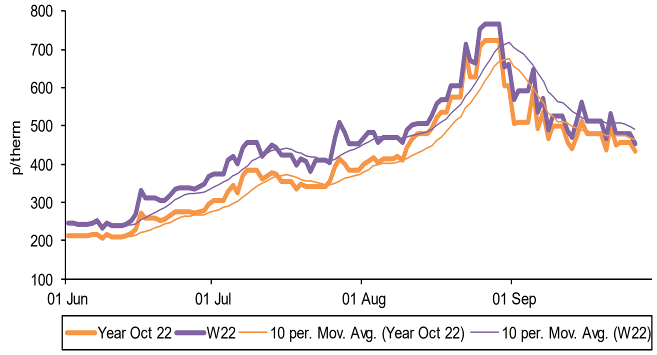
October 2022

Collectively bearish movements across all tracked contracts

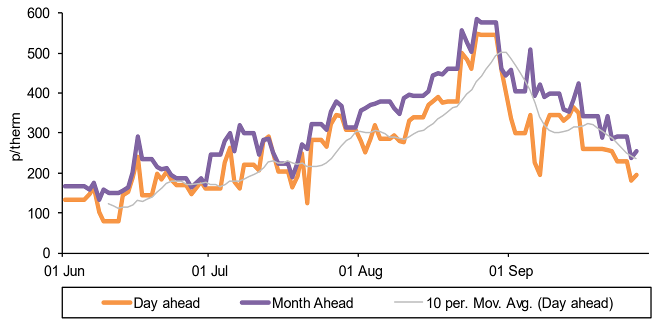
Untangle your energy spend management

Digital Energy Element / October 22

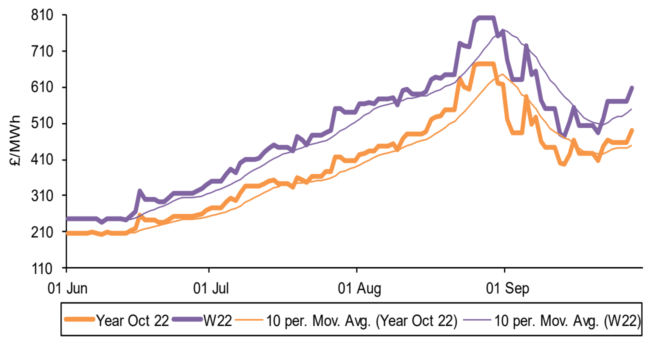
Annual gas prices



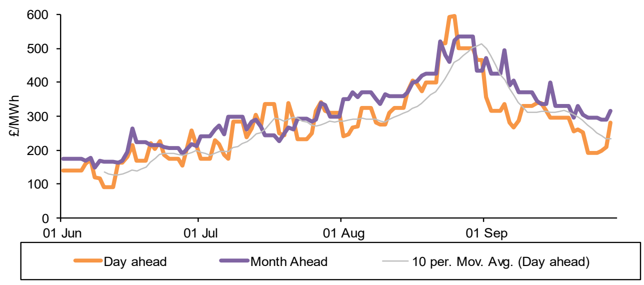
Spot gas prices



Annual power prices



Spot power prices



In September, we observed collectively bearish movements across all tracked GB wholesale gas contracts. Shorter dated contracts such as the day-ahead and front-months observed the most prominent losses month-on-month, with slightly softer price decline further out on the forward curve.

On average, seasonal gas contracts from winter 22 to summer 24 were 7.4% lower in September compared with the previous month. Despite losses, the winter 22 gas price still remains the highest priced seasonal contract averaging 521.64p/th in September and 480.0% higher than September 2021.

Factors influencing the bearish movements of GB wholesale gas contracts in September were varied. Starting with physical gas supplies, we observed relatively uninterrupted flows from Norway in the month, coupled with a steady outturn of UKCS domestic production and higher trending LNG cargo deliveries to UK terminals from multiple regions. These include Spain, USA, Algeria, Peru, Qatar and America. Based on booked volumes, we also expect to see the continuation of steady levels of LNG cargo deliveries into early October. We can also attribute lowering gas prices in September to some sentiment based decline, attributed to EU responses to the current energy crisis, with emergency plans being proposed by EU energy ministers to mitigate high prices through levies on windfall profits, mandated electricity consumption reductions during peak hours by 5% and other wider support packages for businesses and consumers.

As a result of the aforementioned bearish drivers for gas prices, we saw day-ahead gas drop notably, down 25.5% on average from August to sit at 279.11p/th. Front-seasonal contracts also shared collective average price decline, with October 22 down 26.7% to 359.69p/th and November 22 slipping 15.4% to average 480.61p/th.

August saw day-ahead power prices follow their gas counterpart lower – down 25.6% on average to sit at £284.57/MWh. Prices remain higher year-on-year, with prices up 28.1%.

The strong downward momentum on near-term domestic gas prices set a bearish direction for power prices to follow. The continuation of higher levels of exports via our interconnectors to Europe remained prevalent in September, as interconnected markets such as France, Germany Norway and Belgium continue to observe higher power prices compared with GB on average, both in the shorter-term and contracts further out on the forward curve.

Front-month power contracts (October and November 22) shared the price direction of their gas counterparts and day ahead power prices, subsequently falling 19.8% on average to sit at £357.63/MWh and £646.79/MWh, respectively.

Like gas and power contracts, tracked international commodity markets also recorded losses in September. Both the UK and EU ETS carbon markets fell, with the UK ETS down 8.8% to average £80.43/t, while the EU ETS dropped 17.9% month-on-month to average €70.57/t. September largely saw periods of heightened auction activity, softening demand for EUA's as a result, coupled with reports of surplus EUA's in the market. In terms of Brent crude prices, we observed a 6.1% decline in prices month-on-month, to average $91.58/bl, weighed by future demand concerns on the backdrop of an impending global recession and rising inflation rates.

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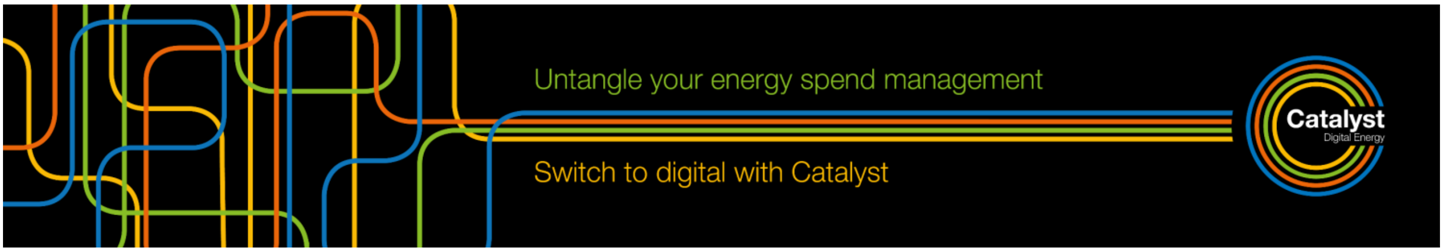
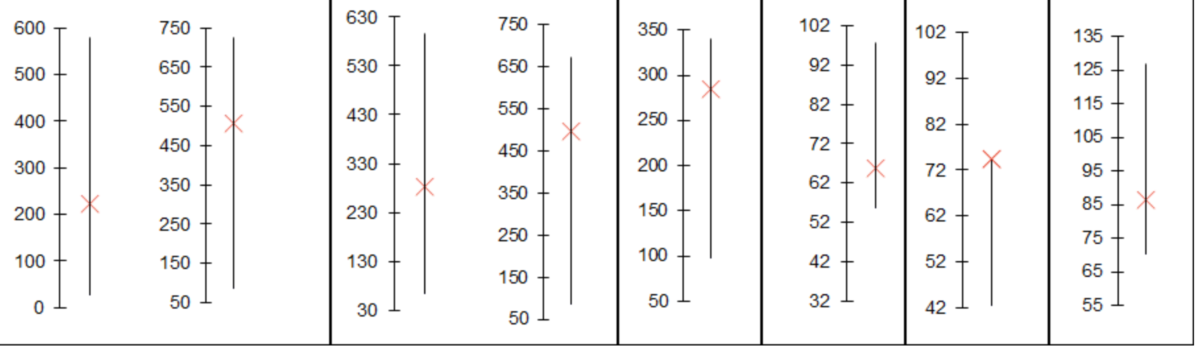


Key market indicators: 28/09/2022

		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	28 Sep 22	223.00	507.84	282.00	497.50	285.00	65.65	74.51	86.38
Last month	31 Aug 22	405.00	604.23	465.00	617.50	302.00	80.53	92.65	96.02
Last year	29 Sep 21	176.50	88.82	162.00	99.75	148.00	61.45	75.50	78.63
Year-on-year % change		26%	472%	74%	399%	93%	7%	(1%)	10%
Year high		580.00	724.49	595.00	672.50	340.00	97.61	97.00	126.84
Year low		28.00	85.27	63.00	89.00	97.60	55.85	51.75	70.50

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.

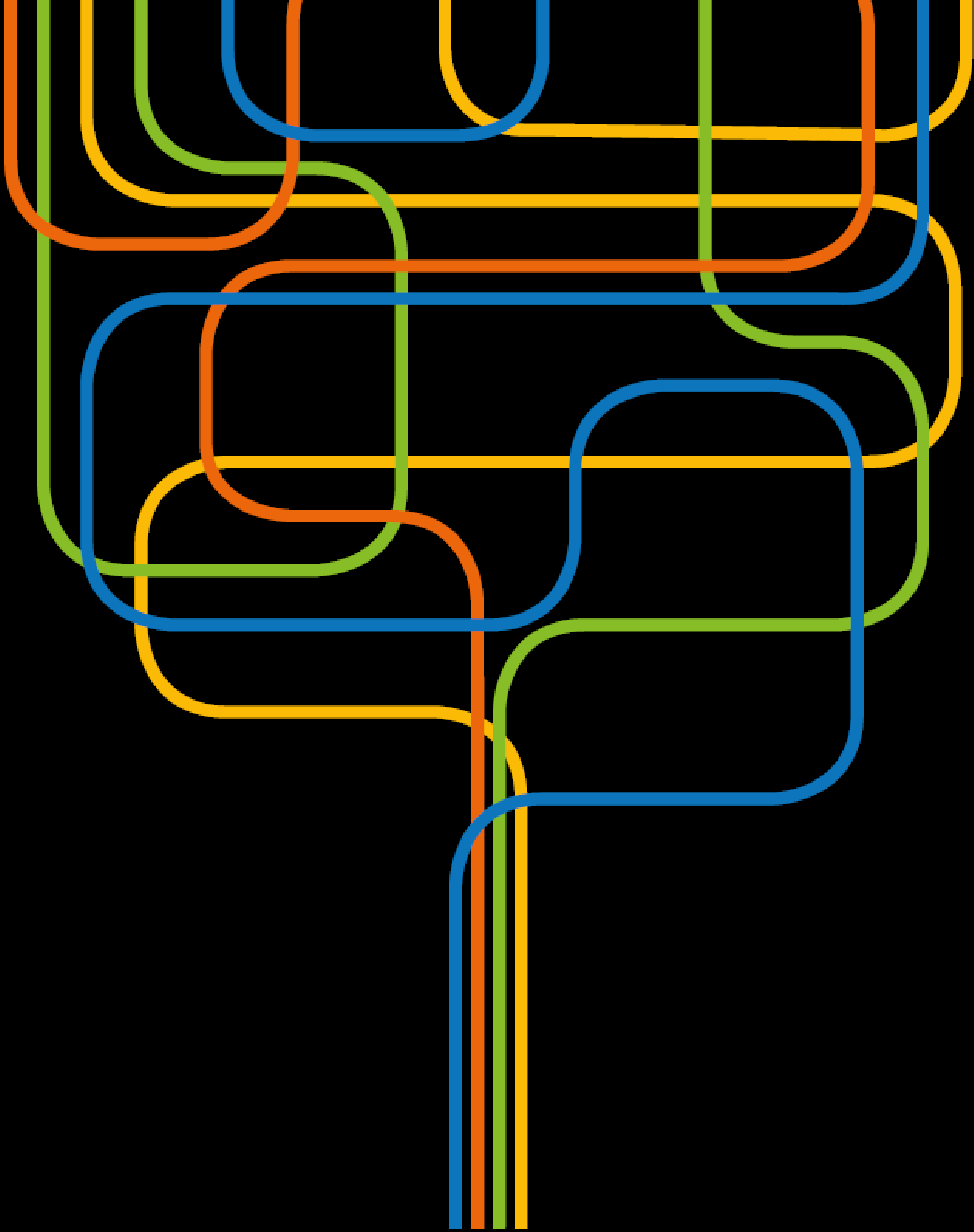
Curve: A graph of forward prices over a future time period.

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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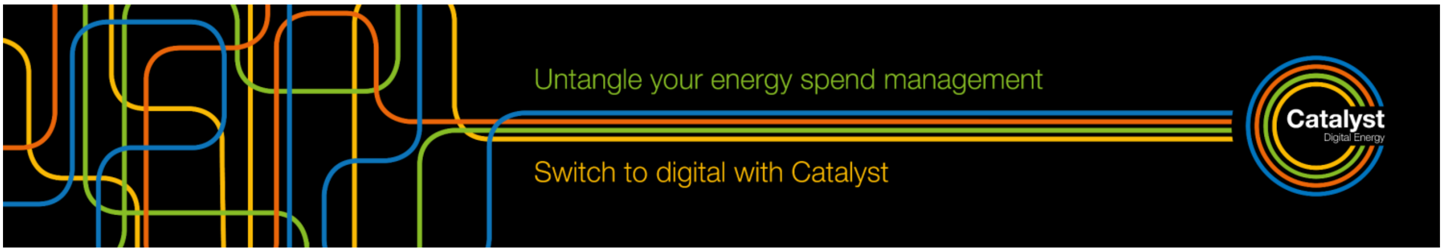

Prime Minister announces ‘Energy Price Guarantee’

Prime Minister Liz Truss announced a new ‘Energy Price Guarantee’ to support households and businesses with their energy bills on 8 September. This will take effect from 1 October 2022 and means that a typical UK household will pay no more than an average £2,500 per year on their energy bill for the next two years. This takes account of temporarily removing green levies, worth around £150, from household bills and will supersede the existing Default Tariff Cap. The ‘Energy Price Guarantee’ is in addition to the £400 energy bills discount and will apply to all households, saving a typical household an average of £1,000 per year.

A new scheme is also being introduced for businesses and other non-domestic energy users to protect them, to be initially in place for six months, after which the government will provide ongoing focused support for vulnerable industries. The government said that it will provide energy suppliers with the difference between this new lower price, and what they would charge their customers were this not in place and confirmed that schemes previously funded by green levies will continue to be funded by the government during the two-year period. Further details were set out in the government’s policy paper. The government added that it is also taking action to accelerate domestic energy supply, including launching a new oil and gas licensing round and lifting the moratorium on UK shale gas production. Following this, the government announced on 22 September that it has lifted the moratorium on shale gas production in England and will consider future applications for Hydraulic Fracturing Consent. It also confirmed its support for a new oil and gas licensing round, expected to be launched by the North Sea Transition Authority (NSTA) in early October and lead to over 100 new licences.

Government

Details of Energy Bill Relief Scheme for businesses published

On 21 September, the UK Government published the details of its Energy Bill Relief Scheme (EBRS) for non-domestic customers in GB initially through the period 1 October 2022 to 31 March 2023, with a review of the scheme planned after the first three months to examine other options for further support post-March 2023. The discount being applied will be based on the difference between the estimated value of the wholesale element of the unit prices that non-domestic consumers would have otherwise been paying over the next six months, and a ‘government supported price’. In the guidance, BEIS outlines that the expected price would have been £600/MWh for electricity and £180/MWh for gas, whereas the government supported price has been set at £211/MWh for electricity and £75/MWh for gas. Where discounts are applied, the government will compensate suppliers for the reduction in unit price that they will be offering their customers. The key points in the scheme include:

- It will be available to those on non-domestic contracts that are on existing fixed price contracts that were agreed on or after 1 April 2022, signing new fixed price contracts, on deemed/out of contract or variable tariffs, or on flexible purchase or similar contracts.
- There will be limited exclusions to the EBRS, such as businesses that use gas or electricity for the purpose of generating power they are selling back into the grid.
- Recipients will receive a discount on their gas and electricity unit prices, calculated by comparing the estimated wholesale portion of the unit price that would be paid this winter against a baseline ‘government supported price’.
- The price reduction for those on a flexible purchase contract will depend on the difference between their monthly weighted average baseload price and the government supported price.
- The support will be automatically applied to all eligible bills.

Government

Energy price relief schemes to cost £60bn

On 23 September, the Chancellor of the Exchequer released The Growth Plan 2022. It re-iterated a number of announcements but provided costings for the interventions.

The plan confirmed that the Energy Price Guarantee (EPG) and Energy Bills Support Scheme (EBSS) will cost the government £31bn in 2022-23. The Energy Bill Relief Scheme (EBRS) will cost the government £29bn in 2022-23.

The government also confirmed it is bringing forward legislation to implement new obligations on energy suppliers to help customers take action to reduce their energy bills. It also stated that it would be bringing onshore wind planning policy in line with other infrastructure to allow it to be deployed more easily in England. It also contained details on the £40bn Energy Markets Financing Scheme to help address “extraordinary liquidity requirements faced by energy firms from high and volatile energy prices”, which will open to applications from 17 October.

Government

Draft 2023-24 TNUoS tariffs published

The August Forecast Transmission Network Use of System (TNUoS) tariffs for 2023-24 were published by National Grid ESO on 31 August. The total revenue to be recovered is ~£4.08bn, an increase of ~£133.62mn from the April five-year forecast. The average generation tariff is forecast at £11.91/kW, a decrease of 71p/kW from the five-year forecast, due to a decrease in generation revenue and increase in charging base. The average Half Hourly demand tariff is £5.28/kW, an increase of £0.51/kW. The average Non Half Hourly demand tariff is 0.25p/kWh, an increase of 0.02p/kWh since the five-year view. The ESO said that the impact on consumers is expected to be £40.09 per household.

The 2023-24 charging year is the first that will apply the Transmission Demand Residual (TDR) banded charges methodology. From April 2023, demand residual banded charges will make up majority of the TNUoS demand charge, which will see a fixed annual/daily charge applied to each site across the banding categories and thresholds. Charges for 2023-24 will be updated in November and finalised by the end of January 2023.

National Grid ESO

Proposed three-point plan to support businesses with energy costs

On 24 August, the CBI published new survey data exploring the extent to which businesses, like households, are concerned about soaring energy costs. It found that more than two-thirds of firms expect their energy costs to increase over the next quarter, and a third of firms expect energy price rises to act as a barrier to growth.

The CBI proposed a three-point plan for the UK Government to support vulnerable consumers and businesses by targeting help where it is needed most, cutting costs, and kick-starting an energy efficiency drive that reduces demand and boosts the UK’s energy security. Some areas highlighted were an expansion to the Industrial Energy Transformation Fund, and to freeze business rates now for 2023-24.

Matthew Fell, CBI Chief Policy Director, said: “While helping struggling consumers remains the number one priority, we can’t afford to lose sight of the fact that many viable businesses are under pressure and could easily tip into distress without action. The guiding principles for any intervention must be to act at speed, and to target help at those households and firms that need it most.”

CBI

Energy UK backs UKERC plan to reduce power costs

On 1 September, Energy UK indicated its support for a plan – first outlined by the UK Energy Research Centre – that it expects could reduce bills for households and non-domestic customers by reducing the costs paid to low carbon electricity generators.

Energy UK states the proposals could reduce energy bills by between an estimated £10.8-£18bn per annum from next year, equating to a £150-£250 saving for a typical household, in addition to a £6.7-£11.1bn reduction for non-domestic users. Furthermore, the scheme could decouple up to 40% of GB's generation from volatile and expensive gas prices, stabilise energy prices over the longer-term and avoid the need for "damaging intervention" in the market.

The voluntary scheme would work by offering nuclear plants and renewable generators with existing Renewables Obligation (RO) contracts the opportunity to secure a longer-term agreement with lower returns in place of selling electricity at wholesale market prices, with two possible versions of the scheme.

Option One would be a straight power-for-power swap, through which generators would trade their ability to sell power at the wholesale market price for longer-term stability through a Contract for Difference (CfD). The RO payment would continue to be paid in addition to the CfD. In Option Two, the CfD would cover both the power-for-power swap and RO payment. In this instance the Strike Price would be higher to reflect the foregone RO revenue. The inclusion of ROs within the CfD would spread RO payments over a longer time period. While this would reduce the 'green levy' amount on bills from the next RO scheme year (2023- 24), it would not necessarily lead to additional savings on customer bills. Energy UK notes that while Option Two would be more complex, it would lead to greater bill reductions in the short-term.

Energy UK

Decision on data access requirements to enable MHHS transition

On 7 September, Ofgem published its decision on changes to Standard Licence Condition (SLC) 47 of the electricity supply licence, which will introduce the necessary data access requirements for the Market-wide Half-Hourly Settlement (MHHS) programme.

The MHHS programme aims to provide accurate signalling to suppliers regarding costs in supplying their customers each day. In order to deliver MHHS's energy consumer and environmental £1.6-£4.5bn benefits by 2045, suppliers require access to customer smart meter data for settlement, forecasting, and business readiness purposes.

Ofgem will therefore be modifying SLC 47 (Smart Metering – Matters Relating to Obtaining and Using Consumption Data) of the electricity supply licence to introduce a new framework for sharing customers' consumption data under MHHS. Amendments to the licence will focus specifically on the obtaining and using consumption data from smart metering.

Having considered the responses to its May 2022 consultation, the decision confirms that Ofgem will go ahead with its proposed changes - most significantly that the sharing of half-hourly data will move from opt-in to opt-out for domestic customers and become mandatory for microbusiness customers. Only minor changes have been made to the draft licence conditions since. The changes will come into effect on 3 November 2022.

Ofgem

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