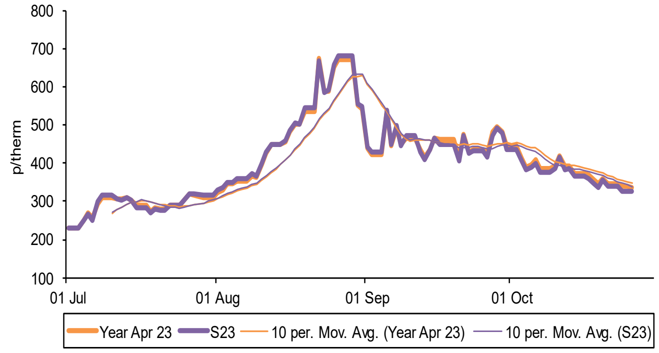
Catalyst
Digital Energy

Digital Energy Element

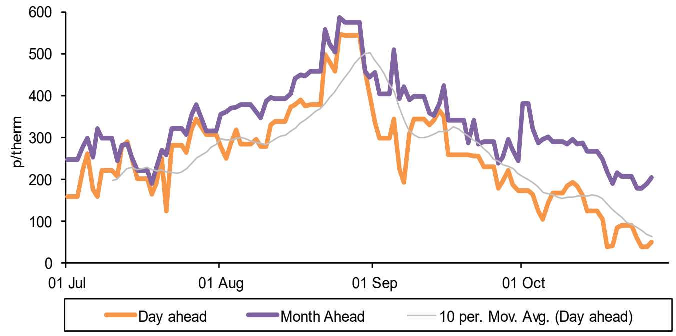
November 2022

Is the bull run in the Energy Market over for the moment

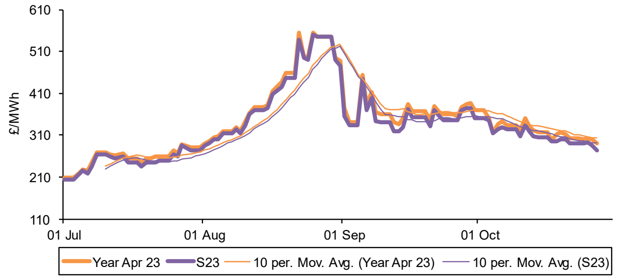
Annual gas prices



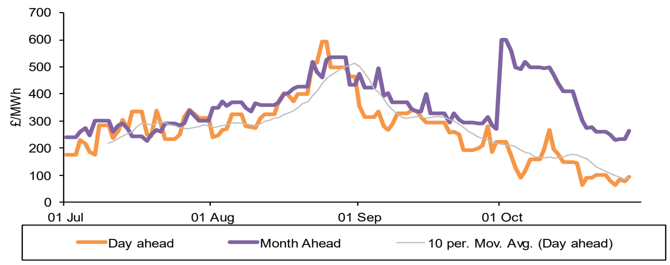
Spot gas prices



Annual power prices



Spot power prices



In October, we observed bearish movements across all tracked GB wholesale gas contracts, representing a second consecutive month of average price decline. However, contracts further along the forward curve remain at significantly elevated levels with continued risked baked into forward prices, resulting in a notable spread between day-ahead prices and longer dated contracts.

On average, seasonal gas contracts from summer 23 to winter 24 were 10.2% lower in October compared with the previous month. The winter 23 gas contract represented the highest average contract price in October at 381.07p/th.

Losses month-on-month for gas contracts were relatively consistent throughout October, influenced by more prevalent bearish market drivers overall. The month outturned as one of the mildest on record, with the first ten months of 2022 trending as the UK's warmest year since 2014. Warmer temperatures have eased demand for gas and fossil fuel fired assets to meet demand, which are typically more expensive forms of generation, which has allowed prices to soften in the near-term. From a supply point of view, the UK and Europe continue to receive consistent LNG cargo deliveries and high levels of volume, helping to soften the supply/demand balance in the short term entering the winter season. EU gas storage reserves are also closing in on 100% fullness, easing some concerns of Russian gas dependency entering the highest demand period of the year.

As a result of the aforementioned bearish drivers for gas prices, we saw day-ahead gas drop notably, down 59.4% to average 109.53p/th, including a ~five month low of 40.00p/th on 18 October. Front-month contracts were also down 36.2% on average from September, with November 22 averaging 252.52p/th and December 22 at 397.70p/th.

October saw day-ahead power prices follow their gas counterpart lower – down 52.9% on average to sit at £130.55/MWh. Prices now down 31.3% on average from 2021.

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 October, as interconnected markets such as France, the Netherlands and Belgium continue to observe higher power prices compared with GB on average. Total wind generation was also up ~51% on September, softening near-term supply margins in October.

November 22 and December 22 power contracts shared the price direction of their gas counterparts and day ahead power prices, subsequently falling 26.5% on average to sit at £382.14/MWh and £537.47/MWh, respectively. Additionally, seasonal power contracts also lowered 11.9% on average against September.

Elsewhere, both the UK and EU ETS carbon markets fell, with the UK ETS down 8.7% to average £72.93/t, while the EU ETS dropped 0.6% month-on-month to average €69.74/t. October largely saw periods of reduced auction demand as warmer weather suppressed demand for gas and fossil fuel fired assets. However, volatility in carbon markets remains prevalent. Brent crude prices rose 1.7% to average $92.95/bl, helped by the introduction of 2mn bpd production cuts introduced by OPEC+.

 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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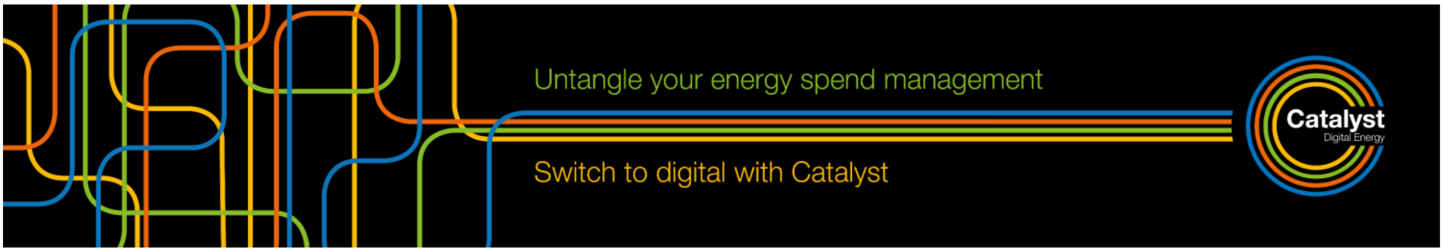


Government introduces new Energy Prices Bill

On 11 October, BEIS announced that the UK Government would introduce the Energy Prices Bill on Wednesday 12 October, putting into law support designed to help households, businesses, and others with energy costs this winter, while reducing inflation and supporting economic growth.

From the introduction of the bill, British consumers are expected to pay 'fairer' electricity prices resulting from the government's new emergency intervention, which will see a typical household pay around £2,500 a year, while businesses will pay less than half of predicted wholesale costs this winter.

A new temporary Cost-Plus Revenue Limit in England and Wales was also introduced in the bill, with the aim of reducing the link between high global gas prices and the cost of low-carbon electricity. This new scheme is expected to mitigate the impact of unprecedented wholesale prices on consumers and taxpayers by introducing a revenue limit on the amount generators can make, however the precise mechanisms of the scheme are to be subject to consultation to be launched shortly.

It is expected the Cost-Plus Revenue Limit will come into effect from the beginning of 2023. The bill will also legislate for a voluntary Contracts for Difference process for existing generators to take place in 2023. A voluntary contract would grant generators longer-term revenue certainty and safeguard consumers from further price rises.

Following agreement by both the House of Commons and the House of Lords on the text of the bill, it received Royal Assent on 25 October and is now an Act of Parliament (law).

Government

Government launches review of net zero

On 26 September, the BEIS Secretary of State announced that an independent review has been commissioned of the government's approach to delivering its net zero target. The government stated the review will consider how its approach to net zero can deliver economic growth and investment, and provide energy security and affordability to consumers, while minimising costs faced by businesses and consumers.

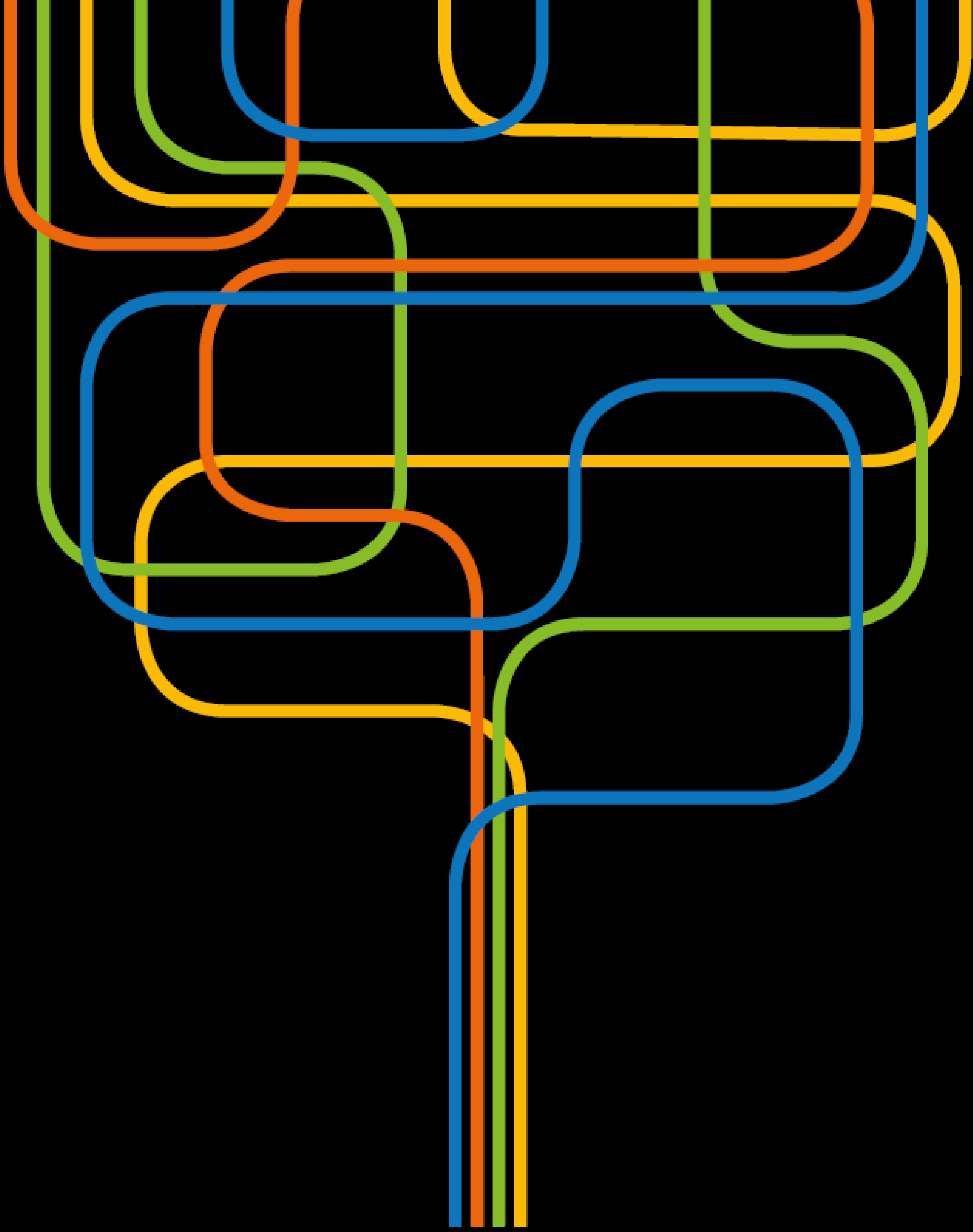
In the terms of reference, it states the commitment to become net zero by 2050 remains in place but that the changed economic outlook has led to the review. It will consider how the government can:

- Deliver maximum economic growth and investment, driving opportunities for private investment, jobs, innovation, exports, and growth right across the UK.
- Support UK energy security and affordability for consumers and business and the need to rapidly increase and strengthen UK energy production and supply.
- Minimise costs borne by businesses and consumers, particularly in the short-term.

During the review, the appointed chair, Chris Skidmore MP, is expected to consider a range of evidence and consult with a diverse range of stakeholders. A resulting report is scheduled for submission to the government by the end of December 2022.

Then on 29 September BEIS posted the call for evidence to engage in a range of themed roundtables with businesses, industry, communities, local government, and non-governmental groups. In addition, it will be issuing a broad call for evidence, open to the public.

Government



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Rishi Sunak becomes new Prime Minister and appoints cabinet

Following his appointment as the new Prime Minister, on 25 October, it was announced that Rishi Sunak appointed Grant Shapps as Secretary of State for Business, Energy and Industrial Strategy, replacing Jacob Rees-Mogg, and Thérèse Coffey as Secretary of State for Environment, Food and Rural Affairs, replacing Ranil Jayawardena.

Notable early actions included the decision to change the expected fiscal statement to a full Budget. The date of the event was delayed from the previously scheduled 31 October to 17 November. In addition, during Prime Minister's Questions on 26 October, the PM said that he stood by the Conservative Party's 2019 manifesto commitment to maintain the moratorium on fracking. The commitment rules out the activity unless it can be proved that it is categorically safe to be carried out.

During the same session, it was indicated that the government would also retain the Conservative Party manifesto's commitment ruling out the construction of new onshore wind projects in England – reversing the decision made by the previous government in its Treasury growth plan.

Government

Ofgem issues guidance on TPIs for microbusinesses

In the week commencing 10 October, Ofgem issued guidance for microbusinesses on Third Party Intermediaries (TPIs). This came following the outcome of its Microbusiness Strategic Review, which concluded in March 2022 with a refined package of reforms to improve how microbusinesses are treated in the energy market. It introduced a requirement under Standard Licence Condition (SLC) 20 for suppliers to only work with brokers signed up to a qualifying Alternative Dispute Resolution (ADR) scheme, due to come into effect from 1 December 2022, as well as modifying SLC 7A which took effect on 1 October and aims to ensure there is more clarity around microbusiness contracts and transparency of brokerage costs.

On 12 October, Ofgem issued guidance for microbusinesses on the ADR scheme for TPIs and on 14 October, Ofgem published guidance for microbusinesses on what they need to know about TPIs.

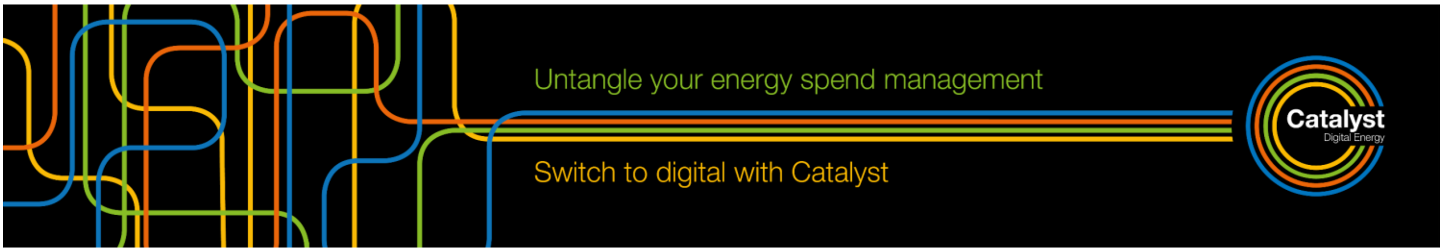
Ofgem

CCC calls for stricter regulation of VCMs and offsetting

On 13 October, Climate Change Committee (CCC) published a report titled Voluntary Carbon Markets and Offsetting in which it highlights that businesses are turning increasingly to offsetting to reach net zero. The organisation states that offsets can mask insufficient efforts from firms to cut their own emissions, often delivering less than claimed, and they may push out other environmental objectives in the rush to capture carbon.

The CCC derived that the current shortcomings of voluntary carbon markets and offsetting can be overcome with stronger governance to ensure high-intensity carbon credits and suggest that clearer guidance for businesses is needed to encourage them to cut their own emissions, before turning to offsets.

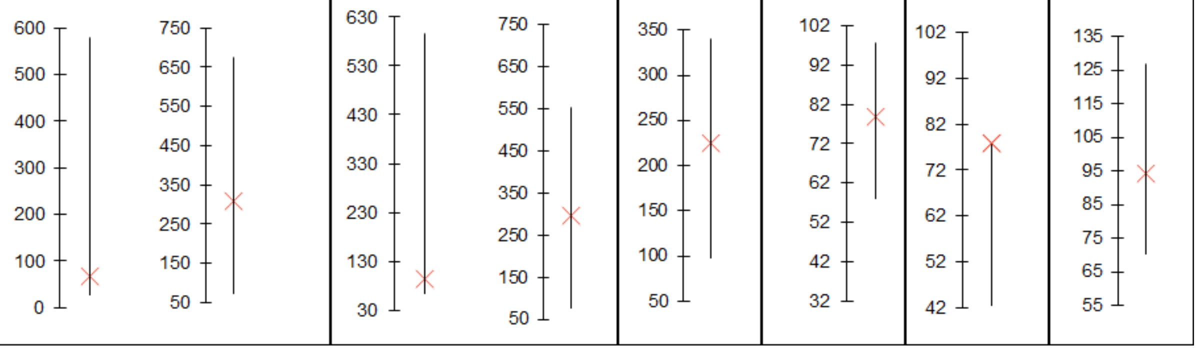
CCC



Key market indicators: 31/10/2022

		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	31 Oct 22	66.00	310.00	94.00	297.50	225.00	78.85	77.90	94.51
Last month	3 Oct 22	164.00	411.95	172.00	350.00	275.00	65.09	74.60	88.63
Last year	1 Nov 21	173.25	76.04	260.00	79.50	104.00	59.91	51.75	84.50
Year-on-year % change		-62%	308%	-64%	274%	116%	32%	51%	12%
Year high		580.00	674.50	595.00	555.00	340.00	97.61	97.00	126.84
Year low		28.00	72.01	63.00	77.50	97.60	58.10	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.

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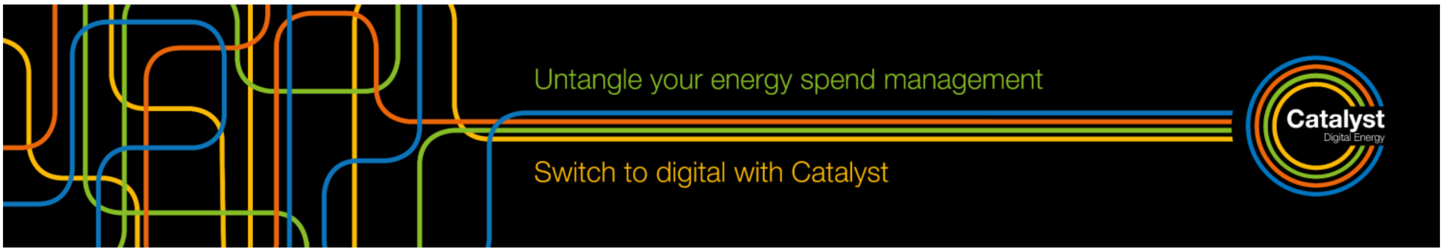

Adjustments to energy bill support schemes announced

In October, the government announced a number of adjustments to the Energy Bill Relief Scheme (EBRS) for non-domestic consumers. On 1 October, it confirmed the maximum discount for non-domestic customers on default, variable, and flexible purchasing arrangements. The maximum discounts to be applied this winter are £345/MWh for electricity and £91/MWh for gas. For consumers with flexible purchase contracts, the reduction will be between the monthly weighted average baseload price and the Government Supported Price. Warnings have been issued about adjusting position to benefit from the scheme. The Government Supported Price for all contracts under the EBRS are £211/MWh for electricity and £75/MWh for gas. The government subsequently announced on 10 October that it was extending the scope of support for non-domestic customers on fixed contracts agreed on or after 1 December 2021, as opposed to the previously announced 1 April 2022 cut-off.

On 17 October, the Chancellor of The Exchequer announced that support under the Energy Price Guarantee would be reviewed after six months, with a HM Treasury-led review launched to consider how it may support households and businesses with energy bills after April 2023.

On 1 November, rules, guidance, and scheme documents relating to the EBRS were published.

Government

CCC highlights climate risks to energy supply chains and actions to increase resilience

On 20 October, the Climate Change Committee (CCC) published a briefing note titled *Resilient Supply Chains*, setting out evidence on climate-related risks to supply chains and actions for government and businesses to increase supply chain resilience.

In examining the current risks to UK supply chains from weather-related disruption, a specific focus on energy supply chains is set out, given that they are exposed to climate risks in many ways. This includes risks to domestic energy generation and distribution, and international energy dependencies, from floods, low water availability, high temperatures, and other extreme weather in the UK and abroad. Recent examples are provided, which demonstrate the impacts that extreme weather and climate can have on energy supply across the world. This includes the strong winds experienced in the UK during Storm Arwen in November 2021, which impacted energy networks across a section of the east coast. The loss of power combined with the loss of telecoms and water supply, as well as transport disruptions 'significantly' affected businesses' ability to operate. In addition, the report notes that imports of gas and oil in the UK and trade of electricity via interconnectors increase the country's exposure to weather and climate risks outside of the UK, including flooding, low water availability, extreme heat and storms – all of which can impact the energy supply chain.

The report concludes that not only are risks to supply chains rising, but they are also increasingly complex, with the potential for cascading and interacting risks. It also notes that some supply chains may be at a higher risk due to being geographically concentrated and that supply chain disruptions arise not only through direct trade links but also indirectly through energy and commodity markets and changes in the price of key inputs. It highlights, however, that businesses can take a range of actions to adapt their supply chains to climate change, including collaborative planning and control with suppliers and infrastructure operators and diversifying the geographic location of suppliers. It also notes that there is a need for clear frameworks from the government to support businesses in building climate resilient supply chains.

CCC

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