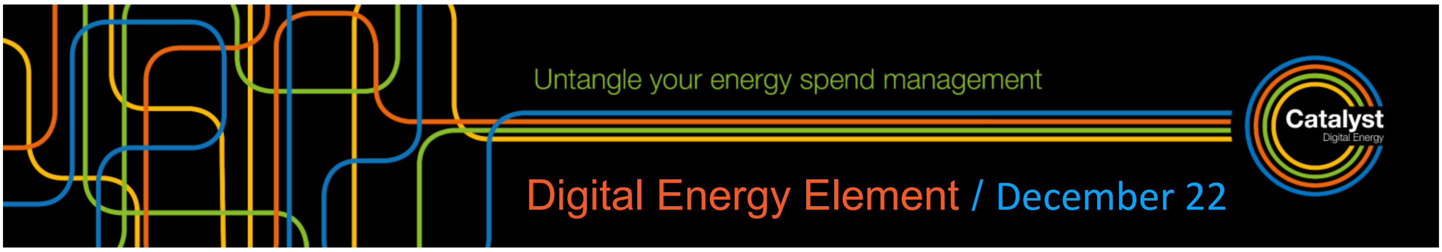
Catalyst
Digital Energy

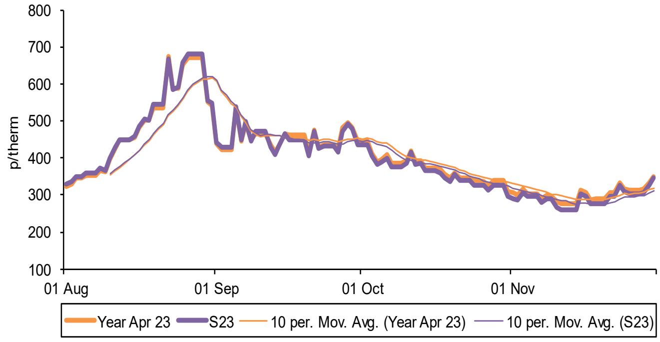
Digital Energy Element

December 2022

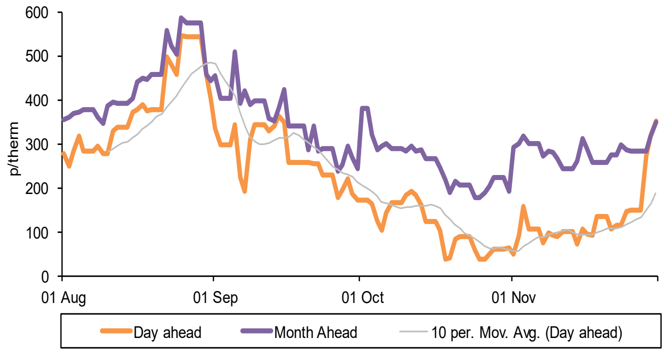
Prices are beginning to curve back up



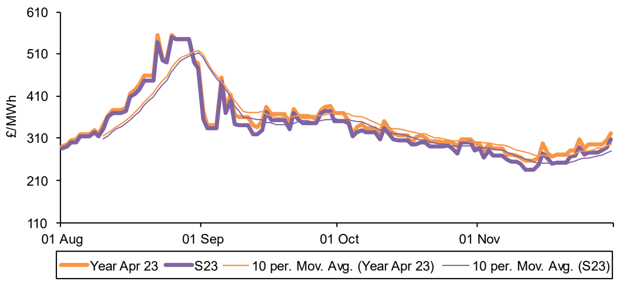
Annual gas prices



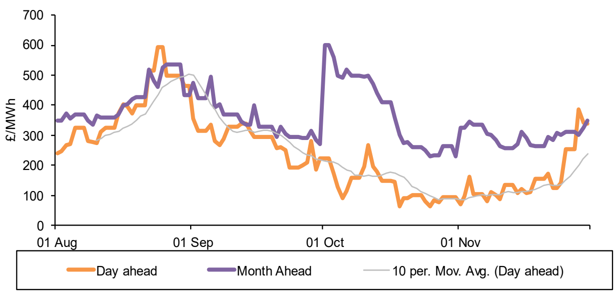
Spot gas prices



Annual power prices



Spot power prices



In November, we observed near-term pricing (particularly on the day-ahead contract) return to bullish growth, after recorded losses observed in October. We continue to observe a marked divergence between day-ahead contract prices and those further out on the forward curve, which continue to trade at a comfortable premium, particularly into Q123. A higher level of price risk remains baked into longer-dated contracts as we approach the heart of the winter season without the significant and equally historic contribution of Russian natural gas.

Despite this, on average, seasonal gas contracts from summer 23 to winter 24 were 14.9% lower in November compared with the previous month. Winter 23 gas prices represented the highest average contract price in November at 315.18p/th.

Competing market fundamentals were reflected in price movements in November. We attribute the predominant bullish price movements at the day-ahead level particularly in the latter half of the month. We observed tight system margins across 28 and 29 November where wind outturn was notably low, placing higher reliance on more expensive gas-fired generation plant called upon to meet demand, with the last three days of November seeing day-ahead prices average 315p/th, ~133% higher than the month average. Bearish market drivers remained consistent in November overall, capping price rises, with a strong influx of LNG continuing to reach UK landing terminals and supporting the immediate supply/demand picture.

Consequently, we saw day-ahead gas rise, up 23.4% to average 135.17p/th, including a ~two month high of 353p/th on 30 November. Front-month contracts were also down 24.1% on average from October, with December 22 averaging 287.62p/th and January 23 at 323.87p/th. Like the day-ahead, contract prices were elevated at the end of month, with front-month contracts ending November at 19% and 8% higher than the start of the month, respectively.

Day-ahead power prices follow their gas counterpart higher – up 19.9% on average to sit at £156.52/MWh. Despite this, prices were still ~24% lower than the same reporting period of 2021. Elsewhere, seasonal power prices were also down 11.3% on average from summer 23 to winter 24.

The strong upward momentum on near-term domestic gas prices set a bullish direction for power prices to follow. The continuation of higher levels of exports via our interconnectors to Europe remained prevalent in November, as interconnected markets such continue to observe higher power prices compared with GB on average. Much like gas, the tail-end of November represented significantly elevated prices to the monthly average. On Tuesday 29 November, National Grid ESO issued a Capacity Market Notice (CMN), amid expectations that demand would outstrip supply by 177MW from 7pm. This saw N2EX day-ahead hourly prices of £1,000/MWh expected for the evening. The CMN was subsequently cancelled later that day.

Brent crude price slipped 1.6% lower to 91.98/bl, including a near one-year low of $81.00/bl on 28 November. Concerns over demand levels in China, amid heightened COVID-19 lockdown measures, curbed prices in the month – particularly as China is one of the largest importers of crude oil globally. Elsewhere, carbon markets in both the UK and Europe registered mixed movements. The EU ETS climbed 8.3% higher to €75.61/t whereas the UK ETS fell 3.0% to £70.75/t.

 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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As an Award-Winning Digital Energy Consultant our job is to put you back in control of your utilities

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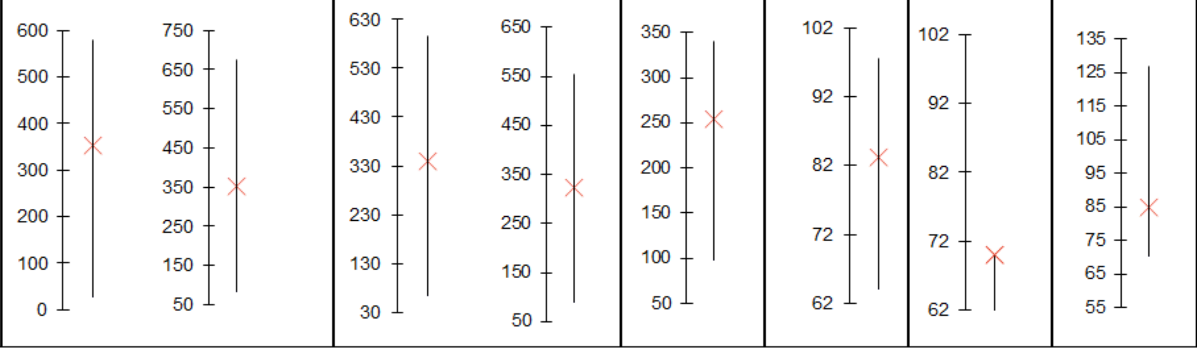
Key market indicators: 30/11/2022

		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 Nov 22	353.00	350.50	340.00	323.00	254.00	83.17	70.00	84.98
Last month	2 Nov 22	95.00	298.75	99.00	280.00	222.00	77.30	74.00	94.85
Last year	1 Dec 21	235.00	83.00	245.00	90.75	100.00	76.30	72.50	72.32
Year-on-year % change		50%	322%	39%	256%	154%	9%	-3%	18%
Year high		580.00	674.50	595.00	555.00	340.00	97.61	97.00	126.84
Year low		28.00	83.00	63.00	90.50	97.80	64.05	67.25	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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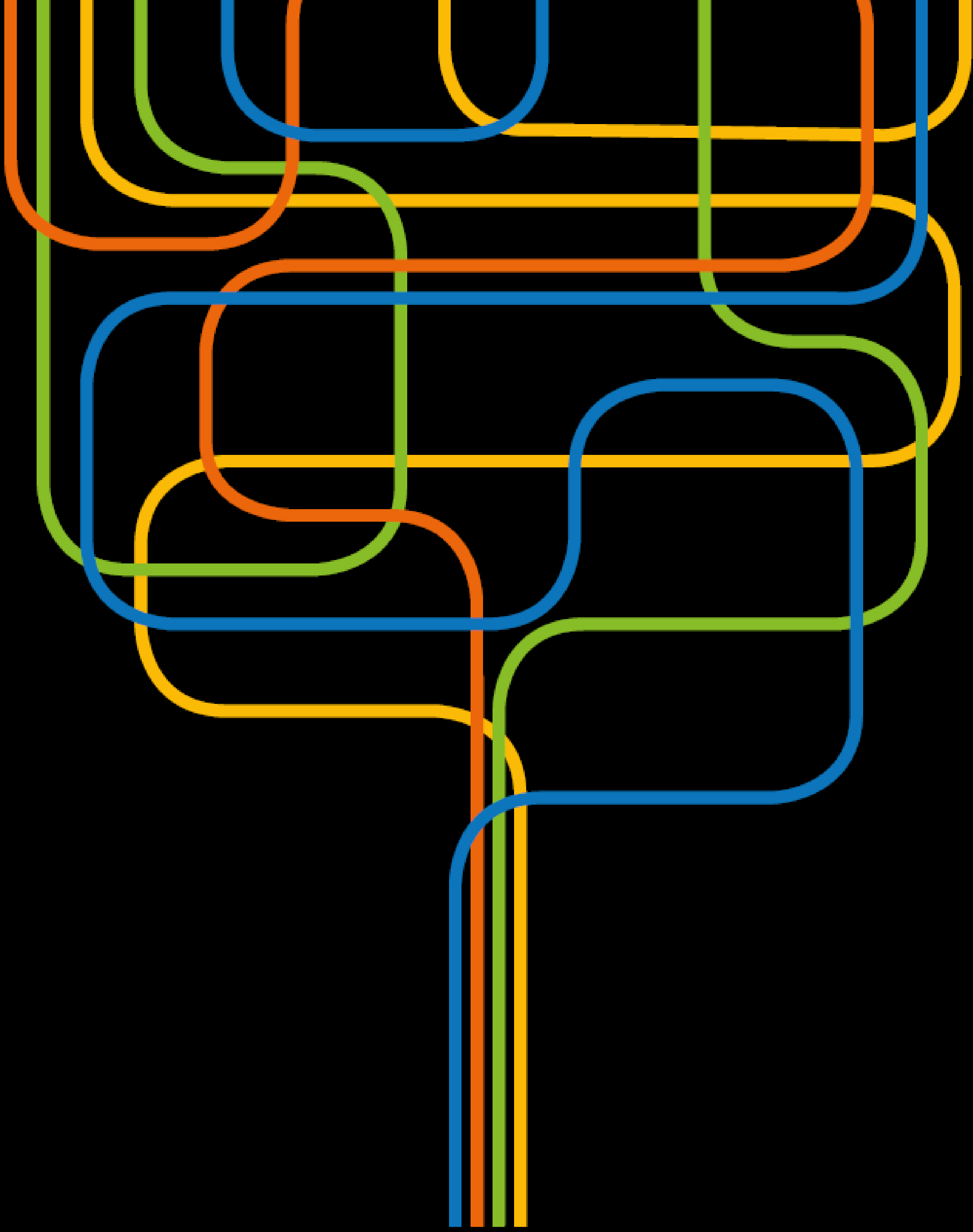

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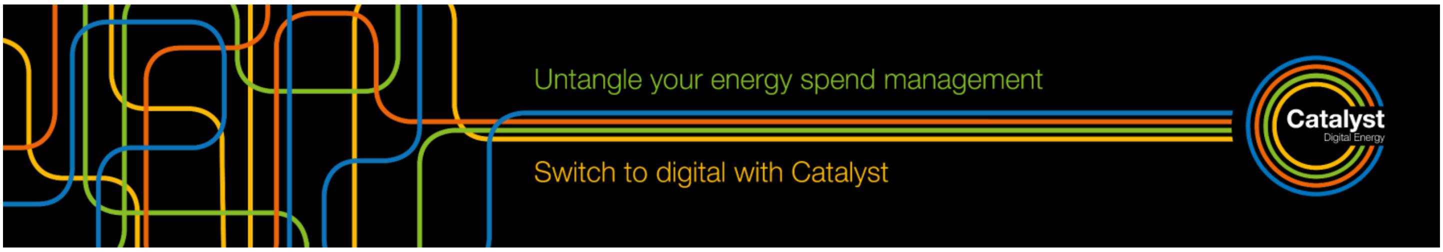


Government delivers Autumn Statement 2022

On 17 November, Chancellor Jeremy Hunt delivered the government’s Autumn Statement.

Chief among the announcements was that the government will increase the Energy Profits Levy from 25% to 35%, during the period of 1 January 2023 – 31 March 2028, while also introducing the Electricity Generator Levy – a temporary 45% tax that will be levied on extraordinary returns from low-carbon UK electricity generation, to be implemented from 1 January 2023 to 31 March 2028.

The Energy Price Guarantee will continue for 12 months from April 2023, with the typical household bill rising from £2,500 to £3,000. On the Energy Bill Relief Scheme, a Treasury-led review will be conducted to determine support for non-domestic energy consumers, excluding public sector organisations, beyond 31 March 2023. Under the Terms of Reference, published on the same day, the review will aim to significantly reduce the overall burden on the taxpayer/public finances, while ensuring support is targeted at those most in need and unable to adjust or absorb to recent energy price rises, and that any support provided is consistent with businesses being incentivised to increase the efficiency of their energy consumption. The findings of the review will be published by 31 December 2022.

Further announcements in the budget include a national ambition to reduce the UK’s final energy consumption from buildings and industry by 15% by 2030 against 2021 levels, the provision of an extra £6bn in funding from 2025-28 to improve energy efficiency, a commitment to deliver the Sizewell C nuclear project, and changes to tax on electric vehicles.

On 22 November, HM Treasury published the Autumn Finance Bill 2022, legislating for key tax changes announced as part of the Autumn Statement. The legislation includes raising and extending the Energy Profits Levy. The treasury stated that the measures introduced in the Bill will see “those with the broadest shoulders carry the heaviest burden”, aiming to reduce inflation and restore economic stability to the UK. The extension of the Energy Profits Levy aims to help fund cost of living support and ensure oil and gas companies pay a fair share of tax.

Government

UCL proposes aggregation of CfDs into Green Power Pools

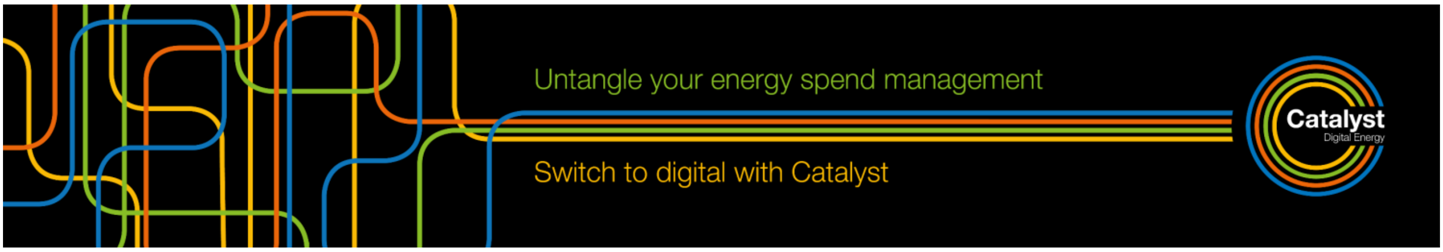
On 16 November, the Aldersgate Group released a new paper from University College London (UCL) titled *Separating electricity from gas prices through Green Power Pools: Design options and evolution.*

The paper demonstrates how gas prices currently dictate the cost of electricity in the UK and outlines how the introduction of a Green Power Pool could ‘significantly’ reduce the cost of electricity for vulnerable consumers and lower the burden on public finances by harnessing the rapidly falling costs of renewables.

Under the Green Power Pool, it is proposed the lower cost power generated by renewables under the Contracts for Difference (CfD) scheme would be sold in priority to vulnerable consumers, protecting them from the higher cost of electricity on the wholesale market.

The Aldersgate Group states that the option should be considered in the government’s Review of Electricity Market Arrangements (REMA) consultation.

Aldersgate Group



NatWest reports that 40,000 new SMEs are needed to meet net zero

On 8 November, NatWest Group announced that it has published a report titled *A Springboard to Sustainable Recovery*, highlighting the important role of small and medium enterprises (SMEs) in the UK's decarbonisation.

The report has found that 40,000 new SMEs in key sectors are needed between now and 2030 if the UK is to meet its net zero ambitions and achieve a £175bn economy boost.

It adds that with the right support, SMEs could contribute up to 50% of the UK's 2030 emissions reduction targets through decarbonisation and highlights some of the areas where new businesses will be required to help drive the transition. This includes fitting insulation in homes across the UK, deploying electric vehicle chargers, and building renewable infrastructure.

It states that in the context of the ongoing energy crisis, the business cases for decarbonisation for many SMEs are stronger than ever, as decarbonisation investments could make more financial sense for SMEs this year compared to last year.

NatWest

BCC reports 47% of SMEs worried about energy bills in April

On 13 November, the British Chambers of Commerce (BCC) announced that its newest survey has found that almost half of UK small and medium-sized enterprises (SMEs) say they will find it difficult to pay their energy bills once the government's Energy Bill Relief Scheme ends on 31 March 2023.

A further 4% claim they will not be able to pay their energy bills at all, while 37% say they will find it hard to pay even with the government's support. The survey also found that 41% of SMEs disagreed that tariffs available the last time they renewed contracts were affordable. 60% of SME's that renewed their tariffs in April 2022 said they will face difficulties after March 2023, with 7% saying they would not be able to pay at all.

BCC

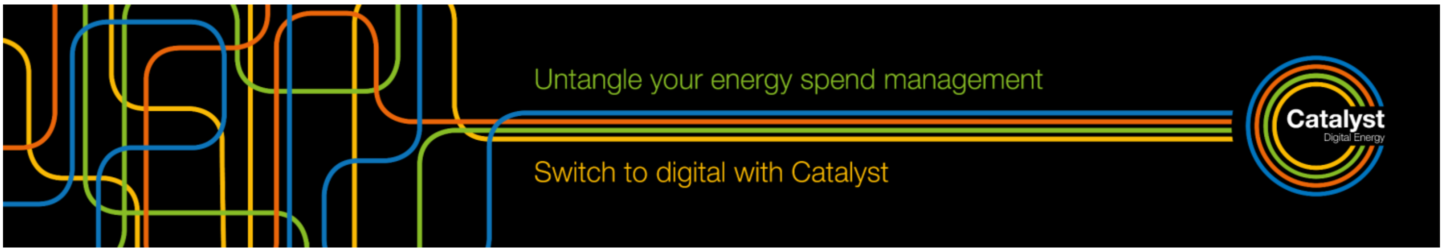
Demand Flexibility Service goes live

On 4 November, Ofgem approved National Grid Electricity System Operator's (NGESO's) proposal to go-live with the Demand Flexibility Service (DFS), which is now set to run through the winter until 31 March 2023. The DFS will allow businesses and the public to be paid for the first time to reduce/move their electricity use out of peak hours following a signal from NGESO.

NGESO has said that it will run a maximum of 12 demonstration tests between November and March 2023. These demonstration tests will have a guaranteed minimum price of £3kWh, meaning that a typical household could save ~£100 across the maximum 12 demonstration tests.

It has also noted that the DFS is open to as many participants as possible, who meet a number of requirements. This includes that all assets need to have a smart meter to send meter readings in 30-minute increments and that all assets need to be able to respond for a minimum of 30 minutes.

NGESO



Ofgem announces price cap increase to £4,279/year

On 24 November, Ofgem announced that the Default Tariff Cap level will be set at £4,279/year for cap period 9b (1 January – 31 March 2023). This level is the amount a typical customer on a dual fuel direct debit tariff would expect to pay prior to the launch of the Energy Price Guarantee (EPG). As a result, the increase in cap level will not directly affect consumers, due to the protection afforded by the EPG, meaning the typical dual fuel direct debit bill will remain at £2,500/year. Ofgem confirmed increases for alternative payment types, with the standard credit cap level increasing to £4,533/year, and prepayment meter cap level to £4,358/year. The main factor in raising the cap level has been the increase in wholesale costs by an average of £669/year since the last cap update.

The regulator said bill-payers will remain protected by the EPG until the end of March 2024. In a letter from BEIS to Ofgem, the government noted the cap level is a key part of delivering the EPG as it enables the calculation of the discount required for consumers. The letter also stated that the Energy Prices Act 2022 has updated Ofgem's duties, including the obligation to take account of the impact on public spending when considering modifications to the tariff cap conditions.

Ofgem

Key outcomes of COP27 published

On 21 November, the government published COP26 President Alok Sharma's speech at the COP27 closing plenary. He said: "We have had to battle to build on one of the key achievements of Glasgow. The call on all Parties to revisit and strengthen their Nationally Determined Contributions. We have ultimately reiterated that call here", adding: "We joined with many Parties to propose a number of measures that would have contributed to this. Emissions peaking before 2025, as the science tells us is necessary. Clear follow-through on the phase down of coal. A clear commitment to phase out all fossil fuels. […] Friends, I said in Glasgow that the pulse of 1.5 degrees was weak. Unfortunately, it remains on life support."

The developments at COP27 and the outcomes were also published in the House of Lords Library. This included the first high-level ministerial roundtable on 'pre-2030 ambition', with a call to urgently ramp up climate action and support; a draft decision document published by the UN reaffirming the Paris Agreement's temperature goals; and the COP27: Sharm el-Sheikh implementation plan.

Speaking on 20 November at the conclusion of COP27, the First Minister Nicola Sturgeon said: "COP27 has finally seen an acknowledgement by developed countries that the people least responsible for global warming are the ones suffering its worst consequences and that we have an obligation to support those experiencing the impacts of the climate crisis in the here and now. […] It is deeply disappointing that the recognition of loss and damage has not been matched by greater action to prevent a worsening of the climate crisis. Keeping 1.5 alive and delivering the fastest possible transition away from fossil fuels is key to preventing greater loss and damage in the future. Alongside loss and damage, we needed to see progress on adaptation and mitigation, on the submission of new national contributions, a pathway to 2030 and a strengthening of the language of the Glasgow Pact."

Following the conclusion of COP27, Aldersgate Group issued a release urging international governments to do more to close the gap with the emissions reductions required to hit the 1.5˚C warming limit in the Paris Agreement, on behalf of other businesses across a number of industries.

Government

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