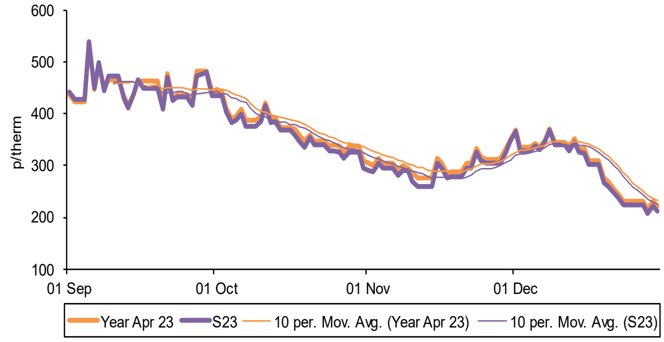
Digital Energy Element

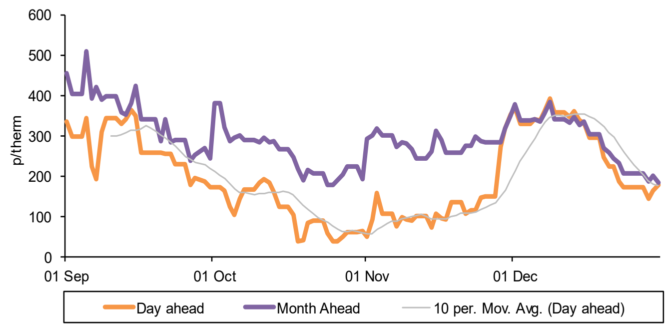
January 2023

Prices soften over the seasonal break

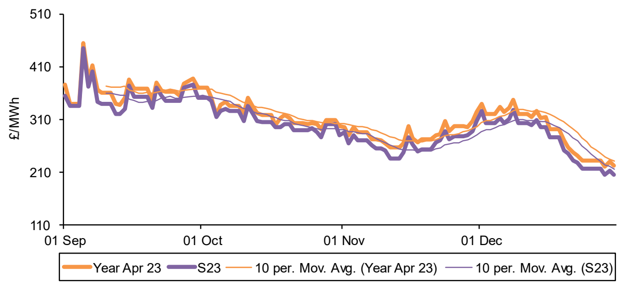
Annual gas prices



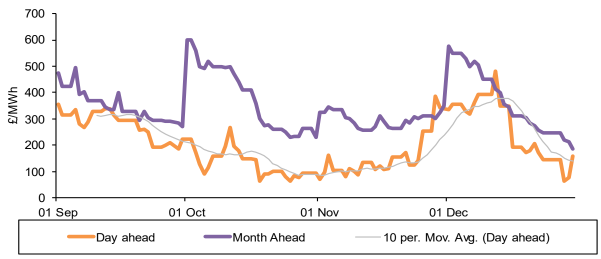
Spot gas prices



Annual power prices



Spot power prices



In December, we observed near-term pricing for NBP gas (particularly on the day-ahead contract) continue its bullish sentiment from November. We are also now observing the price differential between near-term wholesale gas pricing and contracts further out on the forward curve narrowing – as we sit firmly in the heart of the winter season. More broadly gas contracts further along the curve saw monthly losses.

This saw seasonal gas contracts from summer 23 to winter 24 lower on average by 1.6% in December compared with the previous month. Representing a second consecutive month of average monthly losses for seasonal gas contracts. Winter 23 remains the premium contract against other seasons, averaging 308.89p/th.

Fluctuation in gas prices was evident across the month. Much of the driving force for the jump in day-ahead gas prices was due to the extremely cold start to the month, where we entered a multi-day 'cold-snap' – which saw a rise in domestic heating demand and consumption. However, as the month matured, the introduction of unseasonably warmer weather and high wind outturn saw prices drop. In support, the day-ahead gas price at the end of December was 52.0% lower than that of the month's start. Some sentiment-based decline for contracts further out on the curve has also been present, with some traders pricing in the view that a supply crisis in the near term has been averted, albeit via expensive refilling of EU storage over the previous summer. However, reservations for summer 23 storage refill remain, providing support to contracts across winter 23-24. European storage levels are 30.0% higher as of December 30 this year than last and 12.0% higher than the equivalent five-year average.

Furthermore, we saw day-ahead gas rise, up 111.4% to average 285.80p/th. However, front-month contracts were down 6.9% on average from November, with January 23 averaging 296.20p/th and February 23 at 300.93p/th.

Day-ahead power prices followed their gas counterpart higher – up 72.2% on average to sit at £269.55/MWh, but like gas, recorded strong losses as the month matured with day-ahead prices at the months end down ~52.0% compared with the month's start. Wind generation across December has generally been high, which has eased strain on the system. National Grid ESO tweeted on 30 December that for the third time in 2022, the daily wind generation record had been broken – which exceeded 20.9GW of generation. Similarly, the same day also saw the highest ever percentage of zero carbon electricity generated onto the grid at 87.2%.

Seasonal power prices increased on average by 3.0% month-on-month. Like gas, winter 23 represented the premium contract, sitting at £306.55/MWh. However, these seasonal contracts fell by ~26% on average by the end of December, reflective of the volatility in price seen last month.

Brent crude price slipped 5.0% lower to 81.50/bl, including a near one-year low of $75.35/bl on 12 December. Concerns over demand levels in China, amid heightened COVID-19 lockdown measures, curbed prices in the month – a trend consistent with much of November. Elsewhere, carbon markets in both the UK and Europe registered notable gains from the previous month. The EU ETS climbed 14.6% higher to €87.21/t while the UK ETS rose 5.6% to £74.55/t.


Catalyst
Digital Energy
As an Award-Winning Digital Energy Consultant our job is to put you back in control of your utilities
Our Energy Spend Management platform powered by Robotic Process Automation - EaaSi® sits at the heart of our journey to transform how you manage, reduce, contract and report on your utilities.
Visit www.EaaSi.co.uk
EaaSi
EaaSi® is a registered trade marked product of Catalyst Digital Energy
www.catalyst-commercial.co.uk

Untangle your energy spend management

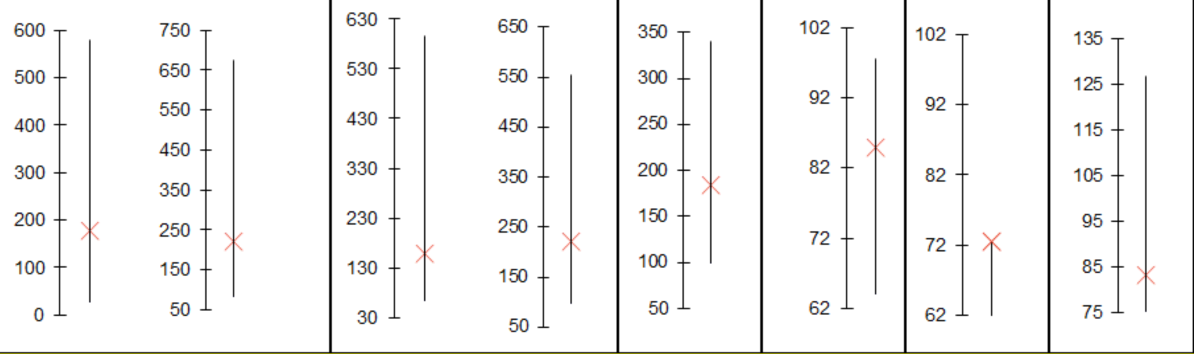
Catalyst Digital Energy

Digital Energy Element / January 23

Key market indicators: 30/12/2022

		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 Dec 22	178.00	220.38	160.00	221.75	184.00	84.95	72.50	83.50
Last month	30 Nov 22	353.00	350.50	340.00	323.00	254.00	83.17	70.00	84.98
Last year	31 Dec 21	174.25	86.00	165.00	102.00	100.00	79.81	75.00	79.15
Year-on-year % change		2%	156%	(3%)	117%	84%	6%	-3%	5%
Year high		580.00	674.50	595.00	555.00	340.00	97.61	97.00	126.84
Year low		28.00	83.04	63.00	97.00	100.00	64.05	67.25	75.35

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.

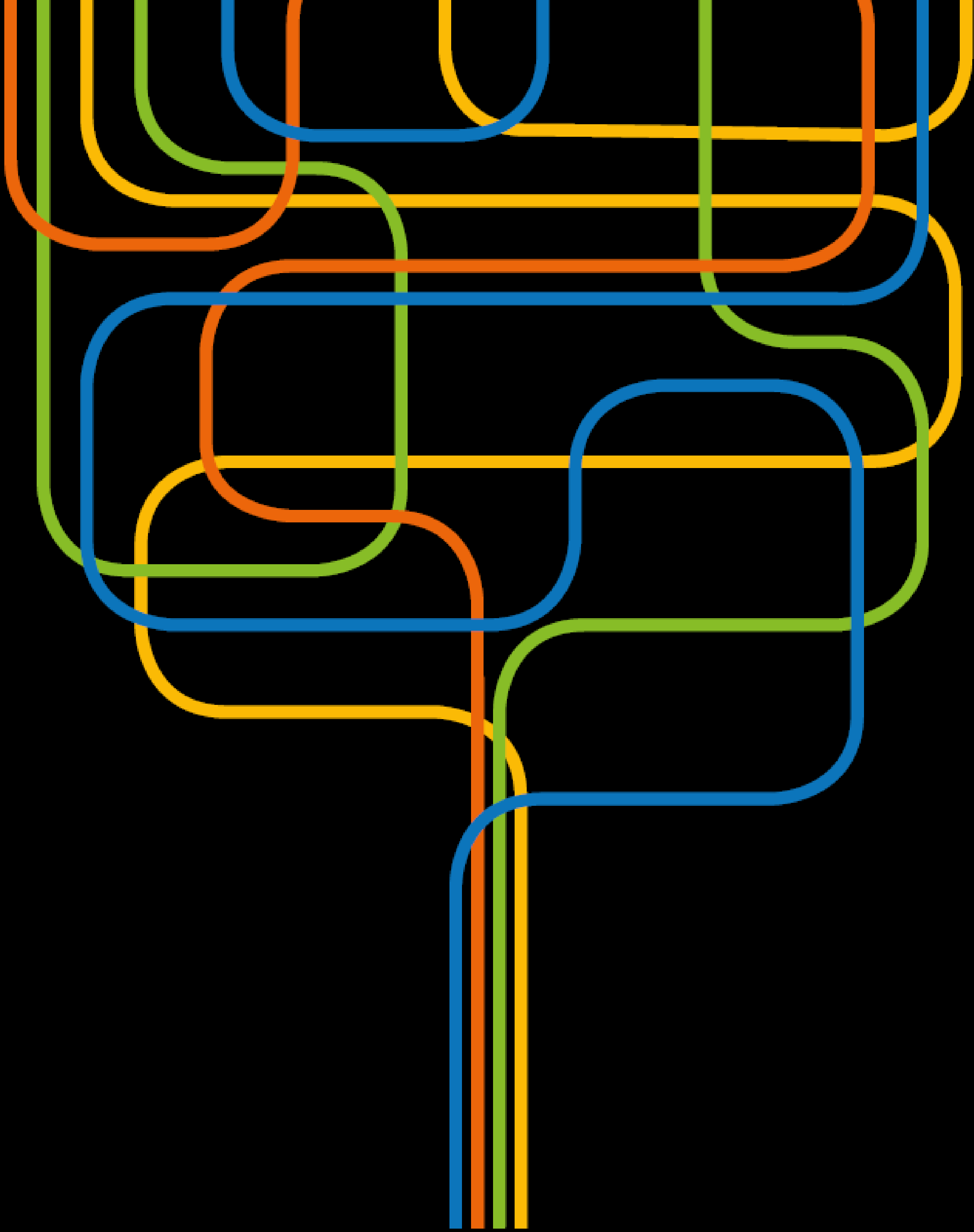
Margin: The indicated UK imbalance of a given settlement period. It is the difference between the sum of the indicated generation available, and the national demand forecast made by National Grid.

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

 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.



Simplify your energy
spend management

Switch to digital with Catalyst

Catalyst
Digital Energy

www.Catalyst-Commercial.co.uk

APPG ESG publishes UK Green Taxonomy report

On 1 December, the All-Party Parliamentary Group (APPG) on Environmental, Social, and Governance (ESG) published *The UK Green Taxonomy* to improve ESG reporting in business, support sustainable investing and root out "greenwashing". It sets out the direction for the UK's Taxonomy and explores difficulties the government may encounter in its development.

According to the APPG, the EU's Green Taxonomy (EU's GT) offered the primary reference point for the publication. However, despite providing a blueprint for others to copy, in the APPG's view, the EU's GT contains shortfalls that the UK can learn from in developing its own Green Taxonomy, particularly by including natural gas as a transition fuel.

To avoid these shortfalls, in developing the UK's Green Taxonomy, it recommends that:

- It must be launched as soon as possible to avoid losing second-mover advantage and the chance to claim leadership status in the global net zero transition.
- The Taxonomy must be credible, usable, and interoperable.
- The Treasury must begin consultation imminently, initially planned for earlier in 2022.
- The Taxonomy must be science-based to be credible.
- The government must consult during its development and after publication.
- The government must develop guidance in consultation with a range of working groups, businesses (especially SMEs) and other stakeholders to make the Taxonomy as usable as possible.
- The UK must take full advantage of its assets available, when devising its Green Taxonomy.

APPG ESG

Offshore wind to compete in Pot 1 in CfD AR5

On 14 December, the government published key documents relating to the Contracts for Difference (CfD) Allocation Round 5 (AR5), including the AR5 Core Parameters; Draft Allocation Framework; Administrative Strike Price Methodology Note; and a Consultation on the future of the CfD.

According to the AR5 Core Parameters, AR5 will move from three auction pots as in AR4 to two auction pots. The separate Pot 3 that previously was solely for Offshore Wind has been removed for AR5, with Offshore Wind now being included in Pot 1, competing alongside other established technologies. Additionally, Remote Island Wind will now compete in Pot 1, having previously competed in Pot 2.

Also included in the AR5 publications were the technology-specific Administered Strike Prices (ASP)— the maximum strike price that a project of a particular technology can achieve. Compared to AR4, these remain unchanged for Landfill Gas, Solar PV and Onshore Wind. The ASP for Anaerobic Digestion has increased, while all other ASPs have decreased for AR5, most markedly Remote Island Wind, down £9/MWh, Geothermal, down £14/MWh and Wave, down £13/MWh. Despite rising financing and manufacturing costs, the ASP for Offshore Wind has also lowered for AR5.

Additionally, the government has published a consultation on the future of the CfD for AR6 and beyond. Within this, BEIS acknowledges that "wider and longer-term changes to the market are out of scope of this consultation but are being considered by government holistically as part of the Review of Electricity Market Arrangements". The consultation closes on 7 February 2023. The government confirmed that final budgets and further auction details will be published in the Budget Notice in March 2023.

Government

UK Government confirms that it will back Sizewell C nuclear plant

On 29 November, Business and Energy Secretary Grant Shapps announced further measures to "help secure Britain's energy independence", including confirmation that the government will proceed with Sizewell C nuclear power station, following the intentions set out in the Autumn Statement.

The announcement stated that the £700mn stake in Sizewell C is set to provide clean electricity for 6mn UK homes and comes alongside the government's continued commitment to develop a pipeline of new nuclear projects, beyond Sizewell C, with this long-term plan to be driven forward by the Energy Bill. The government will become a 50% shareholder in Sizewell C alongside EDF. Shapps added that this comes as the UK sets a new ambition to reduce energy demand by 15% by 2030 - backed by a new £1bn Energy Company Obligation Plus (ECO+) scheme and expansion to the government's public awareness campaign backed by £18mn of funding.

On the same day, BEIS published an updated contract for Hinkley Point C nuclear power station to reflect the outcome of its negotiations with China General Nuclear on the Sizewell C nuclear project.

Government

Draft Determinations published for ESO's RIIO-2 BP2

On 30 November, Ofgem issued a consultation on its Draft Determinations for the Electricity System Operator's (ESO's) second business plan (BP2) to commence in April 2023. The Draft Determinations come following the publication of the ESO's RIIO-2 Business Plan 2023-2025 on 31 August, which outlines the ESO's goals for its BP2 period. They build on the Final Determinations for the five-year RIIO-2 period published in December 2020, noting that there have been several changes since in the wider energy policy space which have required the ESO to take on increasing roles in offshore coordination, early competition, and enhanced network planning which need to be incorporated into the BP2 period.

Ofgem is also consulting on detailed changes to the ESO Roles Guidance and ESO Reporting and Incentives (ESORI) Arrangements Guidance document alongside the Draft Determinations. Responses are requested by 17 January 2023 for all consultations, with Ofgem due to publish its Final Determinations by March 2023.

Ofgem

Ofgem shares concerns around non-domestic consumer harm

On 16 November, Ofgem published a letter to non-domestic suppliers, reporting on several issues raised by both small and large business consumers. Some of the issues highlighted include a lack of offers to contract, excessive security deposit requirements, excessive risk premia, customers being unable to contact their suppliers or having delayed responses and suppliers applying excessive charges for deemed rates. Ofgem also noted that the latter may be in contravention of Standard Licence Condition (SLC) 7.3, which concerns fair treatment and supply of microbusinesses.

Additionally, Ofgem addressed the increases in standing or management charges, and reports of unacceptable practices during debt and disconnection activities, including unreasonable demands and poor conduct towards customers. The regulator said it will consider introducing additional regulations to address the issues and protect non-domestic customers. Suppliers were expected to respond by 23 November.

Ofgem

Consultation opened on local support for onshore wind

The Department for Levelling Up, Housing and Communities announced on 6 December its plans to consult on proposed changes to national planning policy on onshore wind development to examine how local communities can get involved.

The announcement stated that this will be a technical consultation to “explore how local authorities demonstrate local support and respond to views of their communities when considering onshore wind development in England”. It added that decisions will continue to be made at the local level given that local representation would understand the area.

It said that proposals in the upcoming consultation would see planning permission for projects be dependent on the demonstration of local support. It also stated that local authorities would also have to demonstrate their support for certain areas as being suitable for onshore wind, moving away from requirements for sites to be designated in local plans.

It stated that the consultation would also seek views on developing local partnerships for supportive communities, allowing those that build new onshore wind infrastructure to benefit from doing so, such as through lower energy bills. It added that changes in 2016 “that made local councils responsible for onshore wind applications, instead of the Nationally Significant Infrastructure Project regime, will remain in place”.

On 22 December, a consultation on Levelling-up and Regeneration Bill: reforms to national planning policy was opened, including proposed changes to planning policy for onshore wind to deliver a more localist approach. Responses are requested by 2 March 2023.

Government

Ofgem publishes RIIO-ED2 Final Determinations

On 30 November, Ofgem published the Final Determinations for the next electricity distribution price control, RIIO-ED2, for the 2023-2028 period. This follows consideration of stakeholder feedback on its Draft Determinations published in June 2022 and outlines its decisions for areas common to all Distribution Network Operators (DNOs), as well as company specific elements for RIIO-ED2.

The final totex has been set at £21.4bn which is a 17% increase on the latest forecast for total spending under RIIO-ED1. This is also an increase from the £20.9bn totex set out in the Draft Determinations, although still noticeably below the £25.2bn which was requested by DNOs in their submitted business plans.

To encourage greater efficiency, Ofgem has set two types of efficiency challenges for the DNOs – a catch-up challenge for less efficient companies to reduce their unit costs in comparison to the most efficient companies, and also an ongoing efficiency challenge reflecting overall productivity improvement. Ofgem has also introduced 44 Uncertainty Mechanisms which will enable changes in allowances mid-period.

Ofgem considers that the totex allowances and other measures will ensure DNOs have the funding needed to sufficiently increase network capacity to meet the needs of rapidly increasing low carbon generation; support a more flexible and digitally enabled energy system; deliver high-quality services to customers; and maintain network reliability. It states that this is essential to support the net zero transition at least cost to consumers.

RIIO-ED2 will start on 1 April 2023, with a statutory consultation on licence modifications, including the Price Control Financial Instruments, published on 14 December.

Ofgem

Catalyst
Digital Energy

Award Winning
Business Energy Consultants