



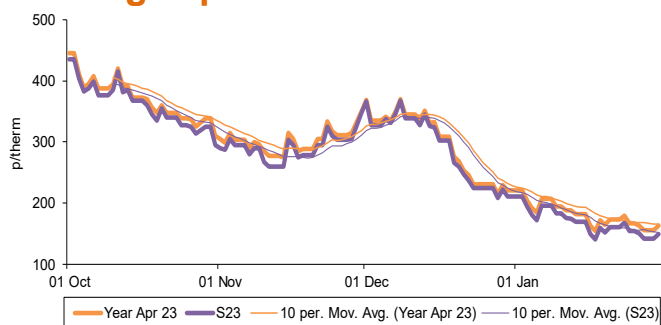
Digital Energy Element

February 2023

energy and gas
trend downwards



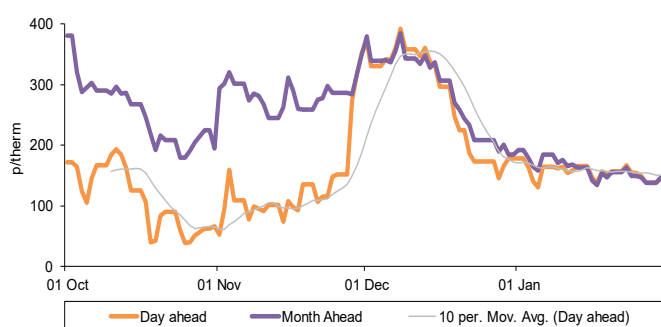
Annual gas prices



In January, we observed notable losses across all tracked NBP gas contracts in the month. Losses across these contracts were relatively consistent both in the shorter-term as well as further out on the forward curve. However, we do highlight that seasonal contracts from winter 23 into summer 23 registered less pronounced price reductions compared with near-term contracts closer to their point of delivery.

Furthermore, seasonal gas contracts from summer 23 to winter 24 were 34.1% lower in January compared with the previous month. This represents a third consecutive month of average monthly losses for seasonal gas contracts. Winter 23 remains the premium contract against other seasons, averaging 190.10p/th.

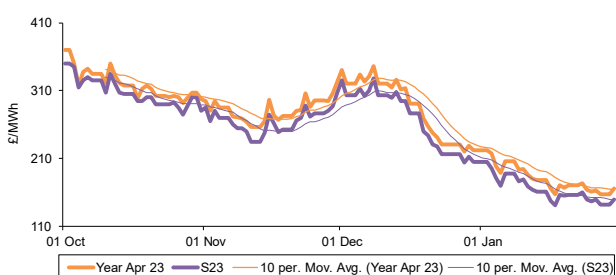
Spot gas prices



The start of the new year has continued the bearish price sentiment set in the Christmas period into the latter stages of 2022. More broadly, January has brought with it warmer weather trends, particularly in comparison to seasonal averages – acting to reduce demand from more expensive forms of generation, which are typically represented by gas and other fossil fuel fired assets. January has also registered increased levels of wind generation. Daily wind generation averages were up 7% on the previous month, further contributing to less demand subsequently placed on gas generating plant.

Elsewhere, the UK continues to receive significant volumes of Liquefied Natural Gas (LNG) into its deep-water ports – helping to satisfy the country's demand needs over the higher demand winter months and acts as a 'supply side balancer' to the market. To date, EU gas storage levels have also remained strong, with lowering European gas market prices on average – a bearish price signal for the UK wholesale gas market in turn.

Annual power prices

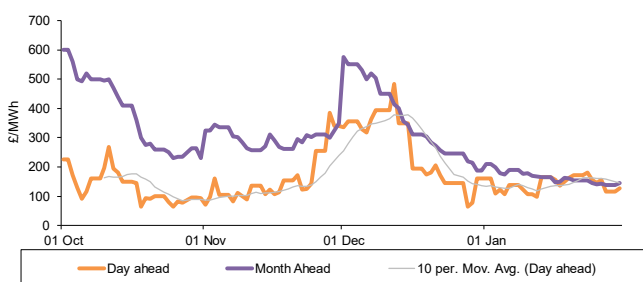


As a result, we saw day-ahead gas fall, down 46.4% to average 153.25p/th. Similarly, front-month contracts were down 45.0% on average from January, with February 23 averaging 157.84p/th and March 23 at 158.73p/th.

Day-ahead power prices followed their gas counterpart lower – down 49.2% on average to sit at £136.98/MWh. Much of the aforementioned bearish price drivers for gas translated into losses for the wholesale cost of power; namely being milder temperatures and higher levels of wind and renewable output.

Seasonal power prices decreased on average by 32.1% month-on-month. Front-month contracts were also down 48.7% on average for February 23 and March 23.

Spot power prices



Brent crude price rose 3.5% higher to 84.31/bbl on average and extended those gains as the month matured – with prices at the end of January 2% higher than the month's start. A primary driver for higher prices in the month stems from the easing of COVID-19 restrictions in China, which is expected to increase demand, recognising China is one of the largest consumers of Brent crude oil globally.

Elsewhere, both UK and EU carbon markets registered losses from the previous month. The EU ETS slipped 5.8% lower to €82.18/t while the UK ETS fell 8.4% to £68.29/t.

In terms of wider market developments in the month, the ESO issued a notification to the market that they had instructed the warming of winter contingency coal units on 26 January, amid forecasts of tight margins over the afternoon. Later that day however, the ESO confirmed that the coal units instructed were told to stand down, as system conditions improved.

Key market indicators: 30/01/2023

	Gas (p/th)		Electricity (£/MWh)		Coal (\$/t)	EUA Carbon (€/t)	UKA Carbon (£/t)	Brent crude (\$/bl)
	Day-ahead	Year-ahead	Day-ahead	Year-ahead				
This month 30 Jan 23	146.00	162.50	128.00	166.25	152.00	88.70	72.50	86.20
Last month 3 Jan 23	164.00	204.50	108.50	217.50	178.00	83.06	72.80	84.88
Last year 31 Jan 22	207.00	118.02	176.00	122.50	114.00	88.46	84.50	91.41
Year-on-year % change	(29%)	38%	(27%)	36%	33%	0%	-14%	(6%)
Year high	580.00	674.50	595.00	555.00	340.00	97.61	97.00	126.84
Year low	28.00	109.38	63.00	114.00	105.00	64.05	64.75	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.

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Government announces new EBDS from April

Following a HM Treasury-led review of the current Energy Bill Relief Scheme (EBRS), on 9 January the government announced a new Energy Bills Discount Scheme (EBDS) that will apply to eligible non-domestic customers from 1 April 2023 to 31 March 2024 once the EBRS comes to an end on 31 March 2023.

Eligibility under the scheme will be as per the EBRS, with a discount provided on gas and electricity unit prices up to a maximum amount. This will be applied if wholesale prices go above a certain wholesale price threshold and will be calculated as the difference between the wholesale price associated with a contract and the wholesale price threshold.

The discount will be automatically applied and phased in until the maximum discount is reached. The maximum discounts and wholesale price thresholds for most non-domestic energy users in GB and Northern Ireland will be set at £19.61/MWh with a price threshold of £302/MWh for electricity and at £6.97/MWh with a price threshold of £107/MWh for gas. Energy and Trade Intensive Industries (ETII) will receive a higher level of support, with maximum discounts and price thresholds set at £89/MWh with a price threshold of £185/MWh for electricity and at £40/MWh with a price threshold of £99/MWh for gas. ETII customers will have to apply for the higher level of support, with further details to be published in due course. The government said that the EBDS “strikes a balance between supporting businesses over the next 12 months and limiting taxpayer’s exposure to volatile energy markets, with a cap set at £5.5bn based on estimated volumes”.

On the same day, the government published guidance on the EBRS for non-standard non-domestic customers.

Government

Government publishes final report on net zero review

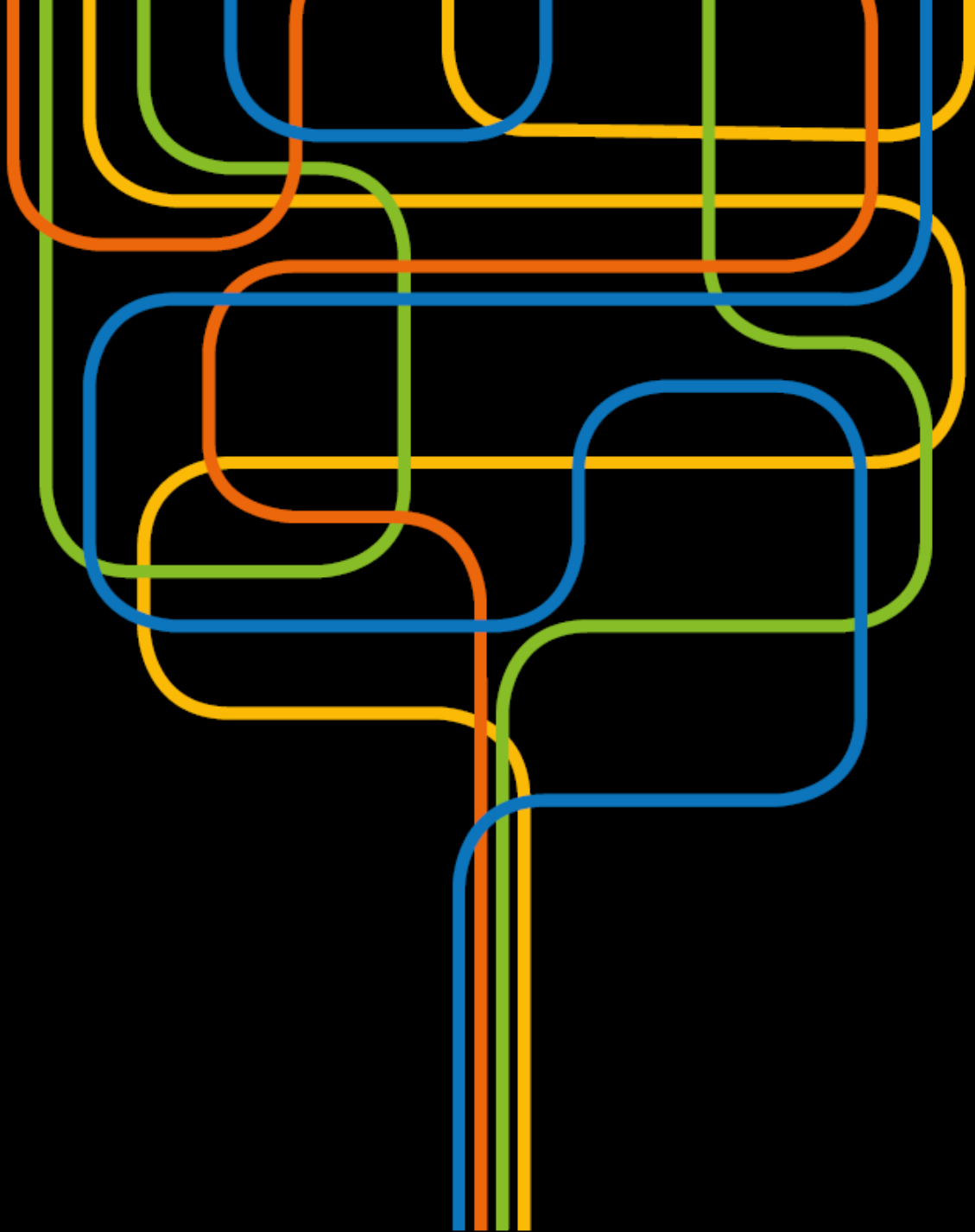
On 13 January, the government announced that it has published its final report on its independent review of the government’s approach to delivering its net zero target, to ensure that it is pro-business and pro-growth.

This follows extensive engagement, through several roundtables and its September 2022 call for evidence, which highlighted a clear message that “net zero is creating a new era of opportunity, but government, industry, and individuals need to act to make the most of the opportunities, reduce costs, and ensure we deliver successfully”.

The review is split into two parts, with the first exploring the opportunity and benefits to individuals and the economy and the second part setting out how to achieve this opportunity across six pillars. It makes a total of 129 recommendations covering areas including electricity markets, renewable energy, nuclear, flexibility, hydrogen, and energy efficiency. This includes:

- Removing the planning permission needed for solar installations on domestic or commercial buildings across the UK and reforming planning permission to achieve rapid deployment of onshore wind.
- Speeding up the development of nuclear and setting targets for 2035, alongside those established for 2050.
- Legislating for the Future Homes Standard so that no new homes will be built with a gas boiler from 2025.
- Legislating by 2025 for the minimum energy efficiency rating for all non-domestic buildings, both rented and owned, to be Energy Performance Certificate (EPC) B by 2030.
- Delivering the Review of Electricity Market Arrangements (REMA) as a priority.

Government

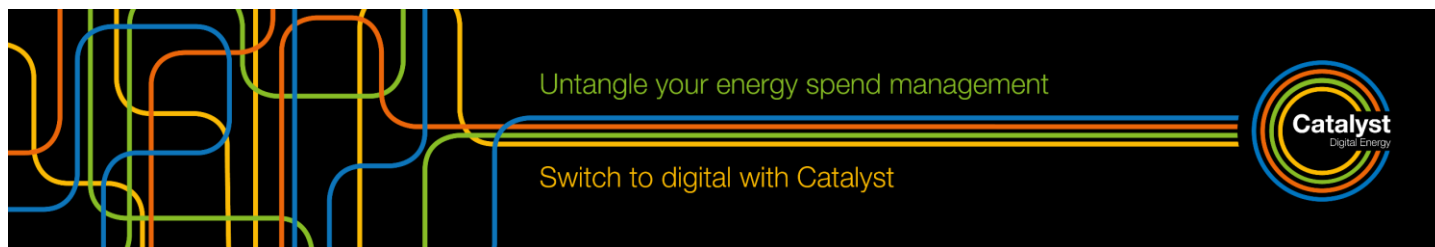


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BEIS opens Capacity Market consultation

On 9 January, BEIS opened a consultation on reforms to the Capacity Market (CM) to align the scheme with net zero and improve security of supply. The consultation follows on from its July 2021 call for evidence and represents the next step in the evolution of the CM considering the Review of Electricity Market Arrangements (REMA) programme.

The policy proposals from the consultation form three categories: strengthening security of supply, aligning the CM with net zero and other improvements to the CM. Proposals to improve security of supply include changing the rules of evidence provision of Previous Settlement Performance of Existing Capacity Market Units (CMUs) in order to remove barriers to mothballed plant from prequalifying for CM auctions; reorganising the Satisfactory Performance Day process to ensure regular checks on the availability and capability of CMUs; and strengthening the non-delivery penalty regime to send a clear signal to Capacity Providers about the importance of delivery during a System Stress Event.

To better align the CM with net zero, BEIS is proposing to end the inconsistency between decarbonisation commitments and the availability of 15-year CM agreements to unabated fossil fuel generation. It intends to achieve this by significantly reducing the emissions intensity limits applicable to new build plants from 1 October 2034. In addition, BEIS intends to incentivise increased participation from low-carbon capacity by enabling such capacity with low capital expenditure to access three-year agreements without the requirement to meet capital expenditure thresholds.

Additional improvements proposed include clarifying auction clearing mechanics. The consultation is inviting responses until 3 March, with the government aiming to publish a response in the spring of 2023.

Government

Regen paper calls for shorter EGL, among other changes

A new paper issued by not-for-profit Regen on 6 January examines the government's Energy Generator Levy (EGL) which places a tax on exceptional electricity generation receipts of qualifying generating undertakings from 1 January 2023 to 31 March 2028. Regen argues that, in its current form, the EGL will "deter investment in the renewable and low carbon technologies needed to meet the UK's net zero targets".

To address this concern, the paper makes several recommendations including reducing the term of the EGL to 18 months, excluding new projects commissioned after 1 January 2023, and including capital tax allowances to encourage investment in low carbon technologies.

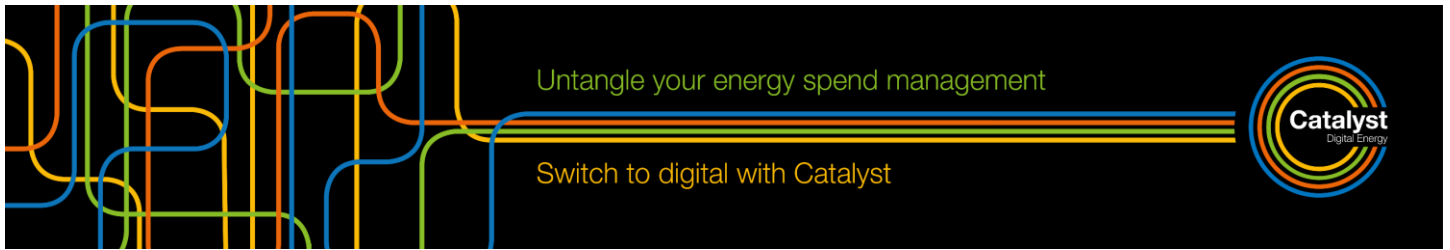
Regen

Report published on role of banks in helping SMEs reach net zero

On 17 January, the Cambridge Institute for Sustainability Leadership (CISL), Business for Social Responsibility (BSR), the We Mean Business Coalition and the SME Climate Hub published a new report, highlighting the role of commercial banks and multi-national corporations in helping small and medium sized businesses (SMEs) reach net zero.

The report identifies the obstacles that can hinder SME decarbonisation, from a lack of knowledge and limited time to a lack of standardised guidance on emissions reporting. It lays out how banks and corporates, those that finance and buy the products and services of SMEs, are well equipped to support net zero action.

CISL



Electric Vehicle Smart Charging Action Plan published

On 17 January, the government announced that, together with Ofgem, it has published *The Electric Vehicle Smart Charging Action Plan*, setting out steps to unlock the potential of smart electric vehicle (EV) charging.

It noted that smart charging harnesses the potential of energy use data and the latest energy innovations to deliver significant benefits for consumers, including allowing motorists to charge EVs when electricity is cheaper or cleaner and allowing customers to power their homes using electricity stored in their EV or sell it back to the grid for profit. It is expected that smarter charging could save an average driver up to £200 and high mileage drivers up to £1,000 per year.

The report outlined the visions and challenges, as well as a series of key commitments. One of the visions outlined is for it to be straightforward and convenient to use smart charging at home, the workplace or in public settings. Going forward it states that the vision will be for EV drivers to export energy from their EVs to the grid using Vehicle-to-X technology.

When looking at challenges to the vision, the report stated that “consumers who are considering EVs are not always aware of the benefits of smart charging, or consumers are concerned about whether the vehicle will be ready when they need it and how to select the most suitable goods and services.” Another challenge highlighted is that “the electricity demand, and flexibility capacity from EV public charging is not clear for energy system and network operators.”

The report also outlined the key commitments for BEIS and Ofgem. These include working with industry to improve smart charging information provision to customers from 2023 and supporting industry to implement voluntary EV energy consumer service code of best practice in 2024 and monitoring its take-up by 2025.

The government said that delivering the steps in the action plan will help make smart charging the norm at home and work by 2025 and aims for smart charging to become more commonplace at long-duration public charging in the late 2020s.

Government

Views sought on Scotland’s Draft Energy Strategy and Just Transition Plan

On 10 January, the Scottish Government published its Draft Energy Strategy and Just Transition Plan for consultation. This sets out its vision for Scotland’s energy system to 2045 and a route map of the actions the government will take to develop a net zero energy system that supplies affordable, resilient and clean energy to Scotland’s workers, households, communities and businesses.

Through the consultation, the government is seeking views on its visions and the actions that it plans to take and is looking to understand how it can secure the maximum social and economic benefits from Scotland’s energy transition. It states that it is already investing £5bn in the net zero economy during the current parliamentary term and sets out several ambitions for Scotland’s energy future, including more than 20GW of additional renewable electricity on- and offshore by 2030; for hydrogen to meet 15% of Scotland’s current energy needs by 2030; and the establishment of a national public energy agency – Heat and Energy Efficiency Scotland.

Responses are requested by 4 April 2023 and will help to inform the final version of the plan.

Scottish Government



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