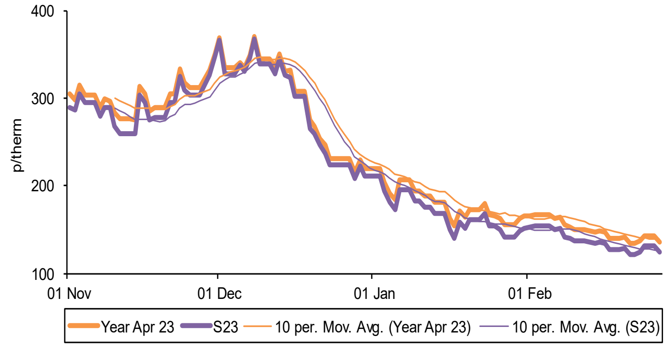
Digital Energy Element

March 2023

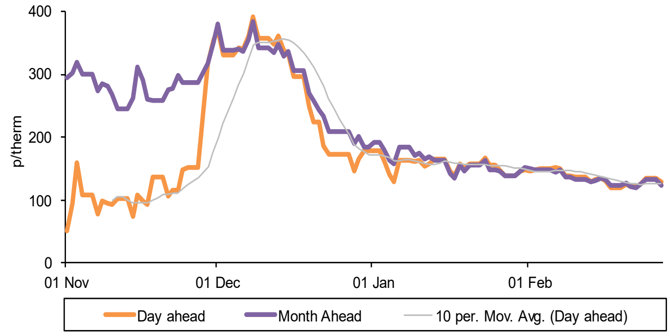
Prices fall with continued confidence

Digital Energy Element / March 23

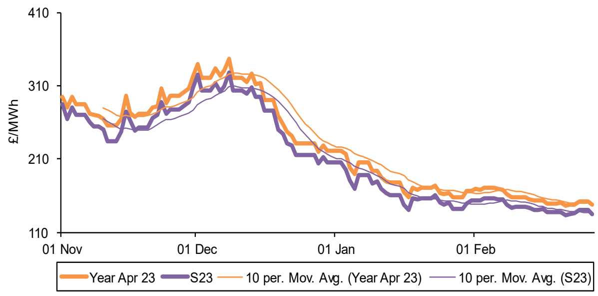
Annual gas prices



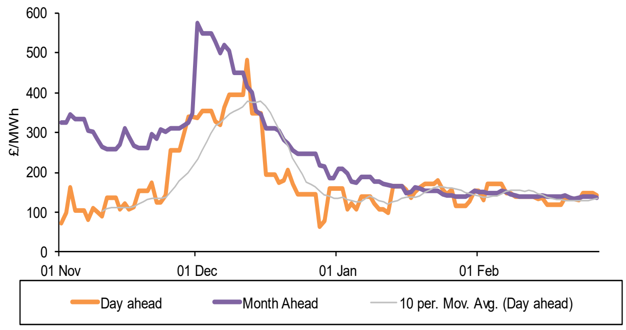
Spot gas prices



Annual power prices



Spot power prices



In February, we observed notable losses across all tracked NBP gas contracts in the month, extending the largely bearish wholesale pricing sentiment that has transpired in 2023 to date.

Furthermore, seasonal gas contracts from summer 23 to winter 24 were 12.6% lower in February compared with the previous month. This represents a fourth consecutive month of average losses for seasonal gas contracts. Winter 23 remains the premium contract against other seasons, averaging 161.55p/th.

The start of 2023 has continued its broadly downward pricing trajectory, consistent with the tail end of 2022. The UK and Europe remain particularly fortunate that for much of this winter, temperatures have remained mild, compared with seasonal averages, which has reduced dependence on gas and other fossil fuel fired assets to meet demand. Similarly, flows from the Norwegian Continental Shelf and the UK Continental Shelf have been able to run relatively uninterrupted, with minimal reported outages – allowing unimpeded gas volumes to reach the UK.

Elsewhere, the UK continues to receive significant volumes of Liquified 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. Spot LNG prices continue to trickle lower whilst Chinese demand remains subdued, allowing the European gas market to acquire significant volumes to meet winter demand. In support, in their recently published LNG outlook 2023, Shell note that LNG imports to Europe in 2022 were ~60% higher than that of 2021.

We saw day-ahead gas fall, down 12.3% to average 134.21p/th. Similarly, front-month contracts were down 17.4% on average from January, with March 23 averaging 133.27p/th and April 23 at 133.53p/th.

Day-ahead power prices narrowly rose from January, despite the upward movements of its equivalent gas contract and all other tracked power contracts. Nevertheless, day-ahead baseload power prices rose 2.0% on average to sit at £140.45/MWh. Supporting drivers of these gains on can be attributed to lowering wind outturn compared with the month previous (outturn down 22% month-on-month) and a significant reduction in available capacity from the UK nuclear fleet, which at the time of writing, is operating at ~50% of its total generating capabilities.

Whilst day-ahead power did register marginal price rises, general pricing sentiment in the month was bearish. In support of this, day-ahead power prices were 11% lower at the end of February versus the start of the month.

Seasonal power prices decreased on average by 11.7% month-on-month. Front-month contracts were also down 11.1% on average for March 23 and April 23.

Brent crude prices dropped 10.9% lower to 83.62/bl on average and extended those losses as the month matured – with prices at the end of February 3% lower than the month's start. A primary driver for lower prices in the month stems from rising US crude inventory stocks, easing concerns over the potential tightened supply market which could emerge from the Russian oil supply cuts set to come into effect from March.

Elsewhere, both UK and EU carbon markets registered gains from the previous month. The EU ETS lifted 15.7% higher to €95.44/t while the UK ETS rose 20.7% to £82.70/t. EU ETS prices all reached an all-time high of €101.00/t on 21 February.

 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.


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

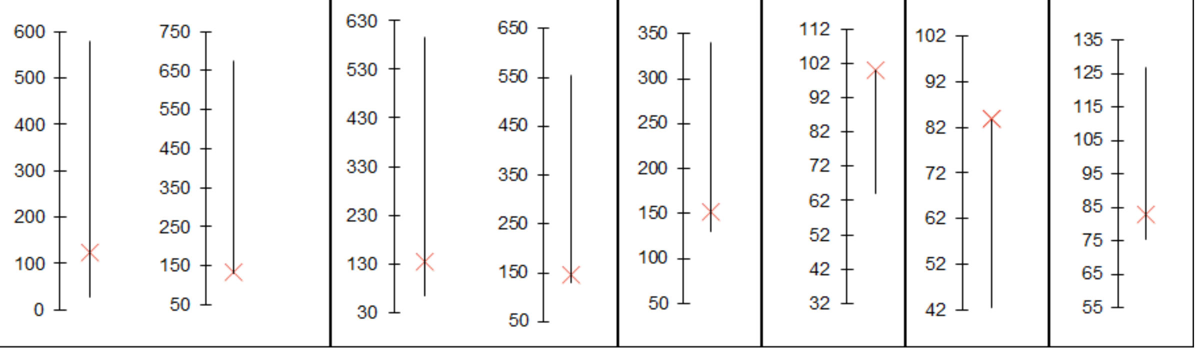
Untangle your energy spend management

Digital Energy Element / March 23

Key market indicators: 28/02/2023

		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 Feb 23	122.50	133.58	135.50	145.50	152.00	100.00	84.00	83.05
Last month	1 Feb 23	146.00	165.25	152.75	169.00	152.50	95.45	78.83	85.30
Last year	28 Feb 22	260.00	132.95	247.00	141.75	142.00	81.77	79.50	102.89
Year-on-year % change		(53%)	0%	(45%)	3%	7%	22%	6%	(19%)
Year high		580.00	674.50	595.00	555.00	340.00	100.00	97.00	126.84
Year low		28.00	128.58	63.00	130.25	131.00	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.

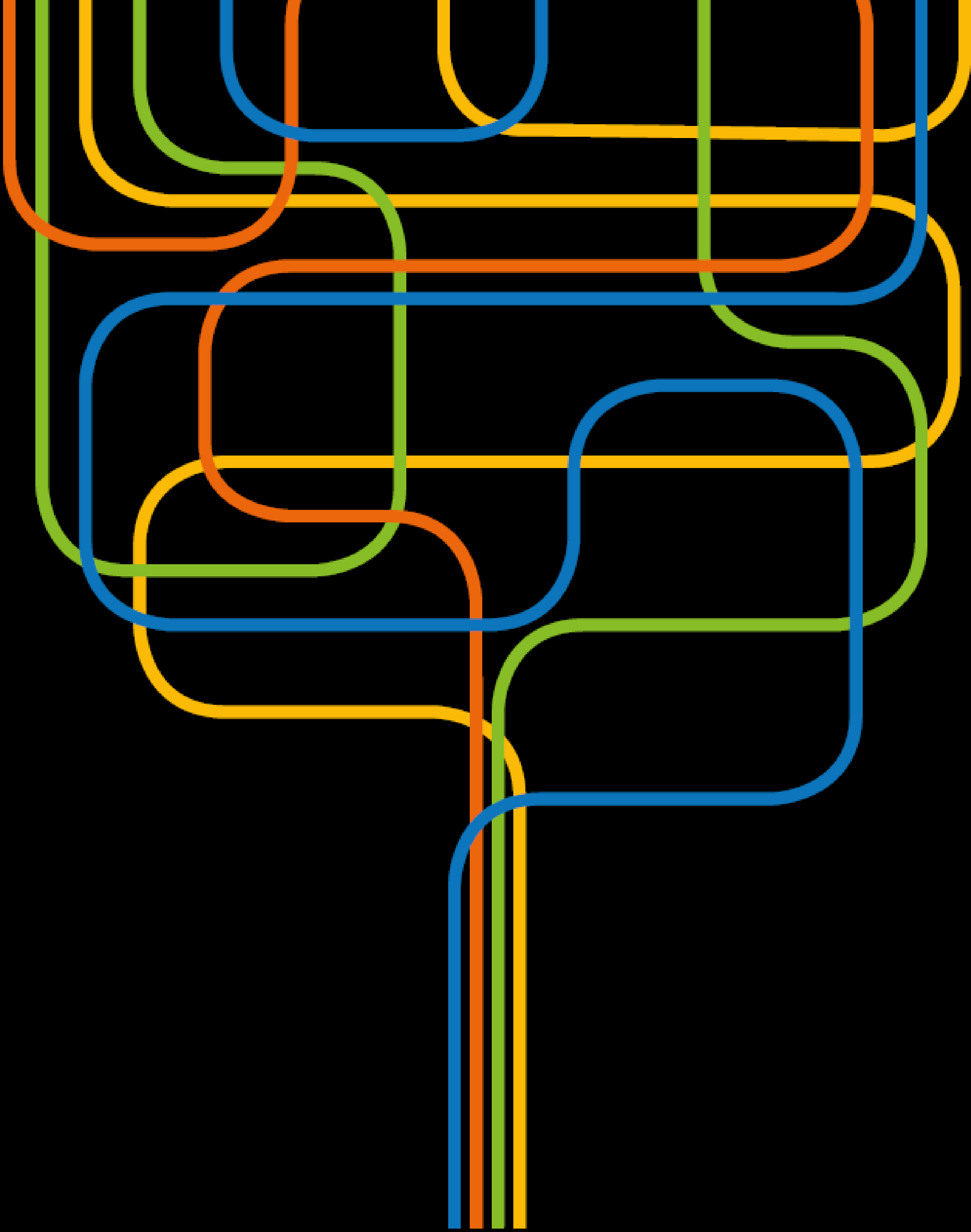
Curve: A graph of forward prices over a future time period.

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.

Disclaimer



Simplify your energy
spend management

Switch to digital with Catalyst

Catalyst
Digital Energy

www.Catalyst-Commercial.co.uk

NAO reviews government support schemes

On 7 February, the National Audit Office (NAO) released a report on the design and implementation of government policy aiming to support consumers with the rising cost of energy bills since Autumn 2021. The report sought to provide a basis for early scrutiny of how BEIS developed and implemented the initiatives. Schemes covered under the review include the Energy Price Guarantee (EPG), the Energy Bill Relief Scheme (EBRS), the Alternative Fuel Payment, the Non-Domestic Alternative Fuel Payment, and the Energy Bill Support Scheme (EBSS), amounting to an estimated cost of £69bn.

The report observed that BEIS had to set up the schemes on accelerated timelines, aiming for most homes and businesses to receive support in time for the winter. However, it also found that developing and implementing schemes at speed heightened risks to value for money and overspending. The NAO identified that most of the schemes carry a high risk of 'deadweight', which is where the government provides financial support to households and businesses which do not need it. This risk was accepted by BEIS, who did not have access to datasets that would have allowed targeted support to be delivered in a short timeframe. Fraud and error were identified as risks that the government needs to manage as it considers altering, ending, or replacing the current schemes. Detailed assessment of the potential for fraud and error could not be completed to the usual standard owing to the accelerated timescale for implementation. That means much of the assessment is being done on an ongoing basis. For the EPG and EBRS schemes, which were delivered in the shortest timeframe, BEIS delivered funds to suppliers they identified at "high risk of not being prepared to deliver the scheme". Risks were identified to be the highest in the non-domestic schemes, since the non-domestic market includes a greater number of energy suppliers and significant variation in energy usage and intensity between customers. Plans to mitigate these risks were built into the scheme delivery, such as a requirement for suppliers to provide detailed reconciliations to underpin their payment claims retrospectively.

The NAO concluded that BEIS "deserves credit for working quickly to introduce the schemes so that most households and businesses received support in time for winter". But by moving at speed, it had to make compromises. The most significant was a need to provide nearly universal support to guarantee that those who needed help received it. Until more data is available, it is not possible to tell how much support went to households and businesses that did not need it and so the question of how effective these schemes were in terms of value for money remains largely unanswered.

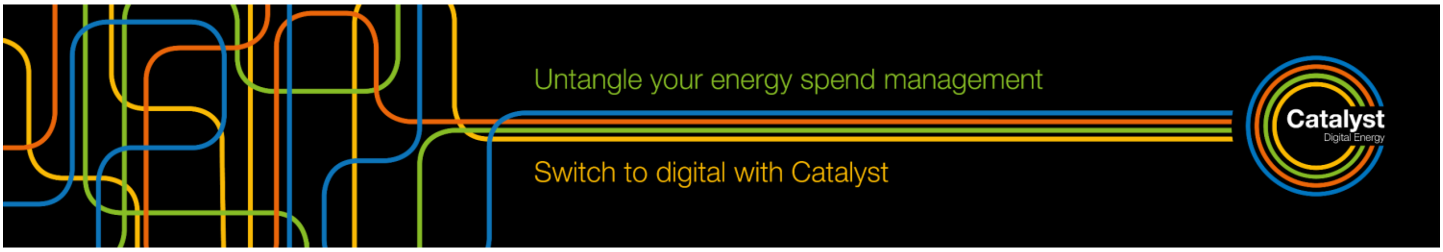
NAO

Capacity Market Auction results announced

On 14 February, National Grid ESO (NGESO) announced the results of the T-1 Capacity Market Auction for delivery year 2023-24. The Final Auction Report stated that 5,782.777MW was procured across 269 Capacity Market Units (CMUs) at a clearing price of £60.00. The target capacity for the auction had been 5,800MW. Of the CMUs that were awarded capacity, 4,634.03MW was from existing generation and 744.13MW was from new build generation. Gas fired generation was awarded the largest capacity at 2,619.18MW, with nuclear 1,411.75MW and battery storage 621.01MW.

On 21 February, NGESO announced that the T-4 Capacity Market Auction for delivery in 2026-27 has cleared in Round 3 with a clearing price of £63/kW/year – the highest rate for a T-4 auction to date. The Final Auction Report stated that 43,000.955MW has been procured across 542 CMUs. The target capacity for the auction had been 43,044MW. Of the CMUs that were awarded capacity, 31,770.96MW was from existing generation and 3,450.62MW was from new build generation, while the remainder came from a mixture of new and existing interconnector capacity and demand side response. Gas fired generation was awarded the largest capacity at 29,038.83MW, followed by interconnector capacity at 6,854.36MW, and pumped storage at 1,789.92MW.

NGESO



Government action plan to improve planning system for NSIPs

On 23 February, the government published its action plan to deliver reforms across government to improve the planning system for Nationally Significant Infrastructure Projects (NSIPs). This includes ensuring that the system can support future infrastructure needs by making the system better, faster, greener, fairer, and more resilient.

The action plan sets out the issues with the current system and the evidence base for reform, as well as detailing five reform areas. This includes setting a clear strategic direction for infrastructure planning; operational reform to support a faster consenting process; realising better outcomes for the natural environment; recognising the role of local communities and strengthening engagement; and building a more diverse and resilient resourcing model. With regards to the reform around better outcomes for the natural environment, the government noted its plans to implement a new Offshore Wind Environmental Improvement Package to accelerate the delivery of new offshore wind infrastructure while ensuring appropriate consideration of environmental impacts.

The government intends to consult in spring 2023 on some of the key aspects of the reforms.

Government

Government establishes DESNZ

On 7 February, the government announced it will establish a number of new departments, with some designed to replace aspects of the Department for Business, Energy & Industrial Strategy (BEIS). To cover BEIS' energy remit, the government has announced a new Department for Energy Security and Net Zero (DESNZ), which will be responsible for securing the UK's long-term energy supply and reducing energy bills.

As part of the accompanying cabinet reshuffle, Rt Hon Grant Shapps MP was appointed as Secretary of State for Energy Security and Net Zero, Rt Hon Graham Stuart MP as a Minister of State in the Department for Energy Security and Net Zero, and Andrew Bowie MP as a Parliamentary Under Secretary of State in the Department for Energy Security and Net Zero.

Government

Ofgem announces Default Tariff Cap level at £3,280

On 27 February, Ofgem confirmed the Default Tariff Cap for the next cap period (1 April – 30 June 2023) will be set at £3,280 for a dual fuel household paying by direct debit based on typical consumption. This is a reduction of 23%, nearly £1,000 from the current cap period, which is set at £4,279. The most significant cause of the decrease is the reduction in wholesale costs, as a result of lower demand over winter and high gas storage levels. However, customers will still be protected by the Energy Price Guarantee (EPG), meaning from 1 April, a typical dual fuel direct debit domestic consumer will pay around £3,000. For those on standard credit payment, the cap has been reduced by £1,051 to £3,482 for typical dual fuel consumption, and for those on prepayment meters, the cap has been reduced by £1,034 to £3,325.

Ofgem also confirmed an allowance for the new Energy Company Obligation Plus (ECO+) scheme under the cap, from 1 April 2023.

Ofgem

CCC: investment priorities for climate change adaptation

On 1 February, the Climate Change Committee (CCC) published a new report titled *Investment for a well-adapted UK*, through which it argues that 'a lack of leadership is preventing essential investment to prepare the UK for climate change.' It highlights that, in common with work towards net zero, a major programme of investment is needed to meet the UK's climate adaptation needs, but unlike net zero the government has not defined its priorities. The report, therefore, sets out new analysis of the UK's adaptation investment priorities and several recommendations, including:

- The refresh of the Green Finance Strategy in 2023, together with Third National Adaptation Plan (NAP3), should clarify where the government expects adaptation actions to be funded through public sources and where private investment is expected.
- The update to the Green Finance Strategy in 2023 and NAP3 should set out steps to ensure that the UK Sustainability Disclosure Requirements initiatives (including the Green Taxonomy) are effective in improving the understanding of adaptation investment needs, directing finance towards adaptation, and ensuring that regulators and auditors have the necessary expertise to monitor the quality of reporting and provide incentives for organisations to report on their adaptation actions.
- The need for investment in adapting to climate change should be included within mandates/strategic priorities for all relevant industry regulators and implementing agencies through resilience standards aligned to national-level objectives.
- The Office for Budget Responsibility should undertake a full review of how the impacts of climate change in the UK will affect the UK's macroeconomic performance and public finances, building on the analysis in their 2021 Fiscal Risks Report.
- The UK should build on the work of the Transition Plan Taskforce to define common standards for what high-quality adaptation plans should look like.
- Financial regulators should provide directional guidance for financial institutions to measure physical climate risk and their contribution to climate adaptation (and maladaptation) outcomes across portfolios and loan books.
- UK Public financial institutions (such as the UK Infrastructure Bank, British Business Bank, UK Export Finance, and British International Investment) should create adaptation finance strategies and launch new sustainability-linked instruments tied to adaptation outcomes.

CCC

Natwest Group reports challenges faced by SMEs in climate action

On 19 January, Natwest Group published data showing that two-thirds of UK small and medium enterprises (SMEs) indicated that the rising cost of doing business will hold back their climate action in 2023. The second biggest challenge, for 29% of SMEs, was difficulty in measuring their carbon footprint. These challenges were also the second biggest issue cited by large businesses (28% of respondents).

In addition, 68% of SMEs stated that increased operating expenses may prove an obstacle to becoming more sustainable in business activities in 2023. Increases in energy and material prices were found to be particularly pertinent factors for SME manufacturers, with 76% highlighting higher costs.

Natwest Group

Catalyst
Digital Energy

Award Winning
Business Energy Consultants