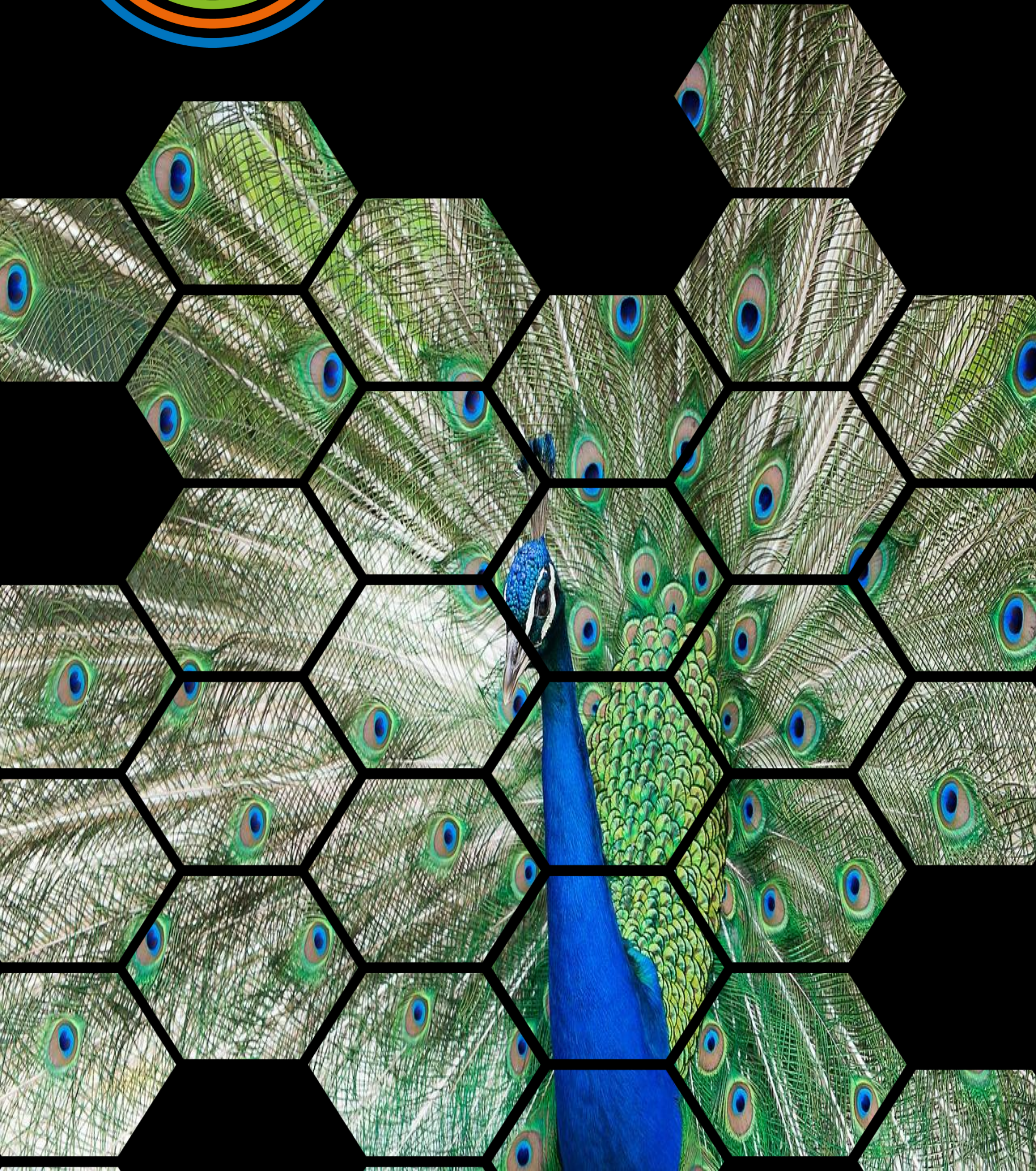
Digital Energy Element

April 2023

Prices continue to slide



Untangle your energy spend management

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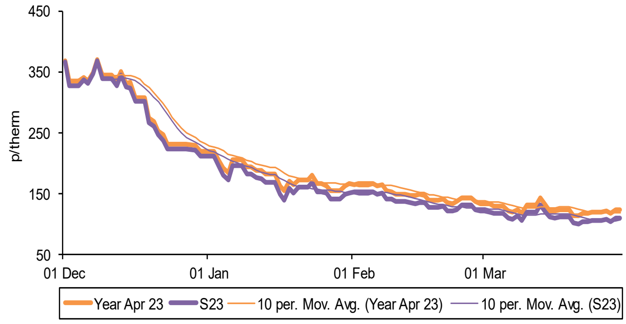
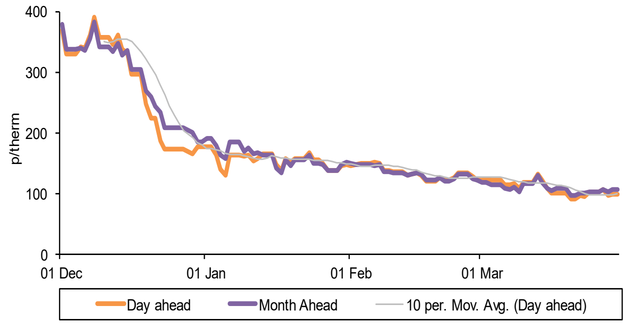
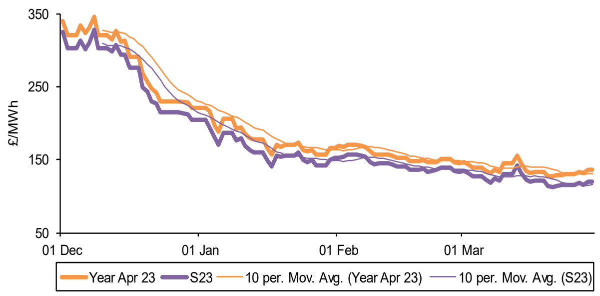
Annual gas prices



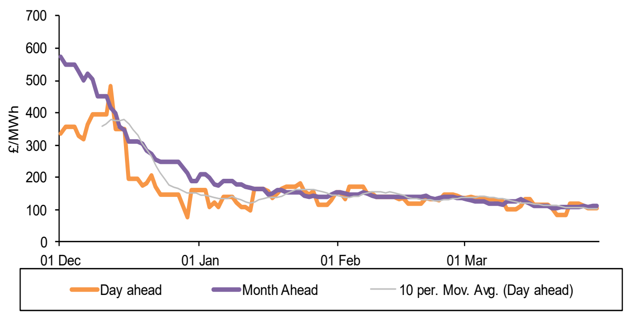
Spot gas prices



Annual power prices



Spot power prices



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

Furthermore, seasonal gas contracts from summer 23 to winter 24 were 15.5% lower in March compared with the previous month. This represents a fifth consecutive month of average losses for seasonal gas contracts. Winter 23 narrowly remained the premium seasonal gas contract, averaging 135.84p/th.

The first three months of 2023 have continued to see lowering wholesale prices. The remanence of a milder 22-23 winter season across the UK and much of north-west Europe has been a primary driver of softening prices in recent months. We are now entering the traditionally warmer spring season too, bringing with it warmer temperatures and easing demand from gas and other fossil-fuel fired emitters called upon to meet demand, which typically represent themselves as more expensive forms of generation.

Acknowledging natural gas is a global commodity, the UK is not insulated to wider price movements – particularly on the continent. However, the UK of late has benefitted from lowering Dutch TTF prices (European gas benchmark price). This has brought with it bearish price signals for GB gas prices, but also meant physical trades via piped interconnection with Belgium and the Netherlands has started to become steadily cheaper. Elsewhere, the healthy supply of LNG reaching UK terminals continues to soften the near-term supply/demand balance.

We saw day-ahead gas fall, down 18.9% to average 108.80p/th. Similarly, front-month contracts were down 16.9% on average from February, with April 23 averaging 108.59p/th and May 23 at 109.85p/th.

Day-ahead power prices followed the bearish pricing sentiment set from its gas equivalent contract. As a result, day-ahead power prices in March averaged £115.65/MWh. Supporting drivers of these notable losses can be attributed to the lowering of gas prices in the UK, coupled with relatively consistent levels of wind generation observed throughout the month, albeit acknowledging wind generation was slightly lower than that of February. Warmer temperatures also discouraged gas-for-power demand in the month.

The lowering sentiment of GB wholesale power prices was observed across all tracked contracts in March. Day-ahead power prices were 17.6% lower than February at £115.65. Similarly, front-month contracts were also down 16.2% on average (April 23, £116.61/MWh, May 23, £117.62/MWh).

Seasonal power prices decreased on average by 12.5% month-on-month, with winter 23 observed as the premium market.

Brent crude prices dropped 5.5% lower to $79.02/bl on average and extended those losses as the month matured – with prices at the end of March 5.0% lower than the month's start. Brent crude prices also fell to a 15-month low of $72.05/bl on 20 March. Global commodity markets like Brent crude continue to be sensitive to developments in financial and economic sectors, emphasised by the collapse of the Silicon Valley Bank.

Elsewhere, both UK and EU carbon markets registered losses from the previous month. The EU ETS declined 3.0% lower to €92.62/t while the UK ETS dropped 5.9% to £77.80/t. UK ETS prices reached their lowest levels since mid-January on Monday 20 March at £72.50/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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Untangle your energy spend management

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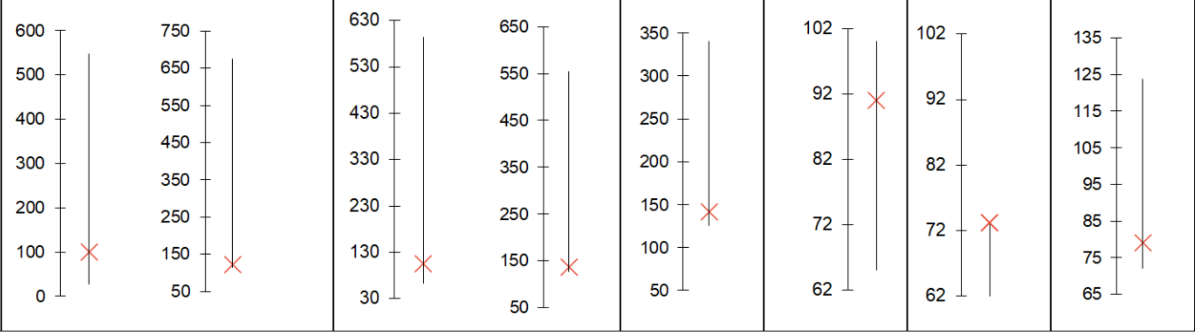
Key market indicators: 29/03/2023

		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	29 Mar 23	99.50	123.18	106.00	136.25	141.50	91.00	73.25	79.10
Last month	27 Feb 23	128.50	136.50	142.50	147.43	160.00	98.40	84.50	83.25
Last year	30 Mar 22	291.00	149.28	235.00	141.75	178.00	77.30	76.75	112.22
Year-on-year % change		(66%)	(17%)	(55%)	(4%)	(21%)	18%	-5%	(30%)
Year high		548.00	674.50	595.00	555.00	340.00	100.00	97.00	123.80
Year low		28.00	114.00	63.00	127.00	126.00	65.09	64.75	72.05

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.

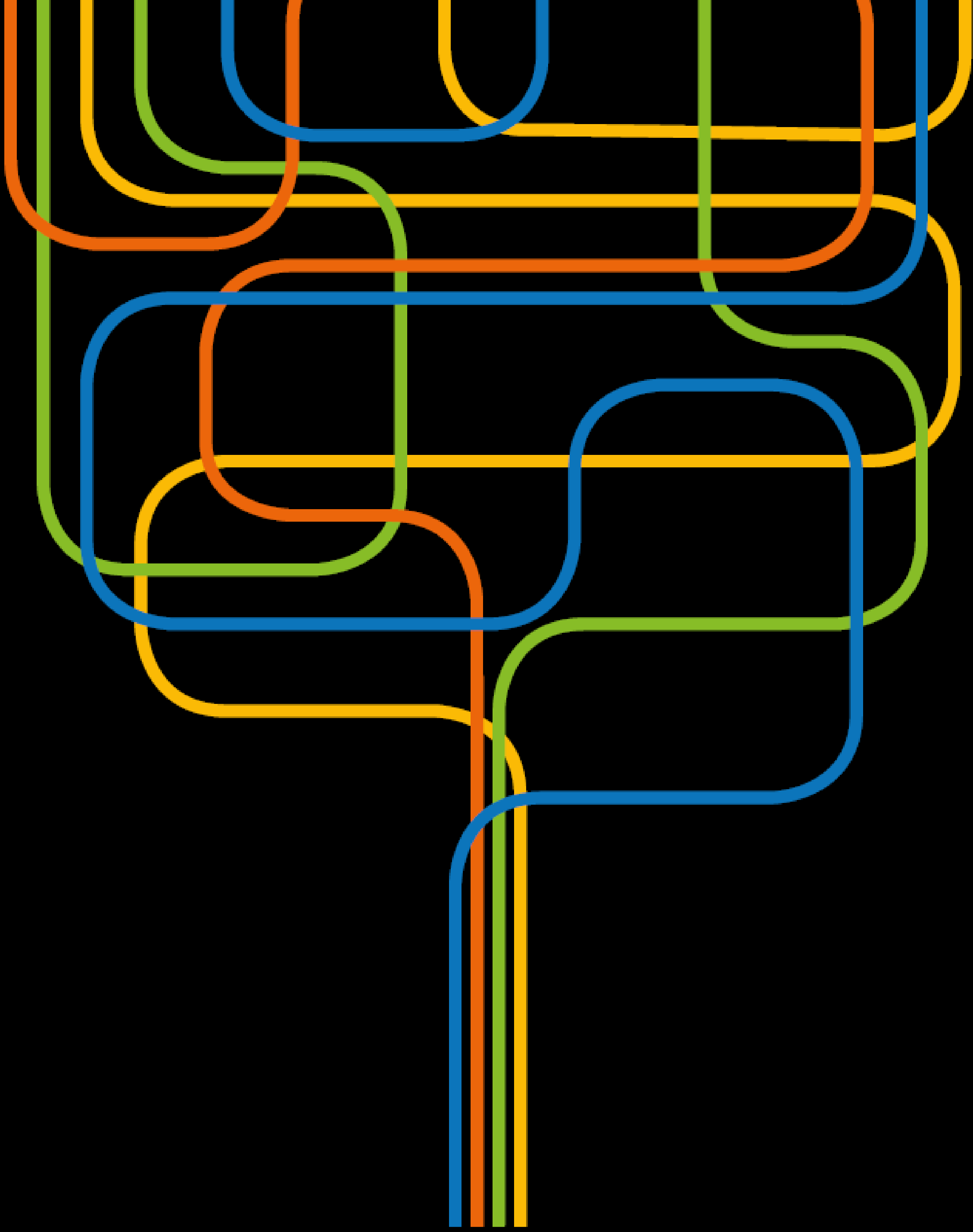
Curve: A graph of forward prices over a future time period.

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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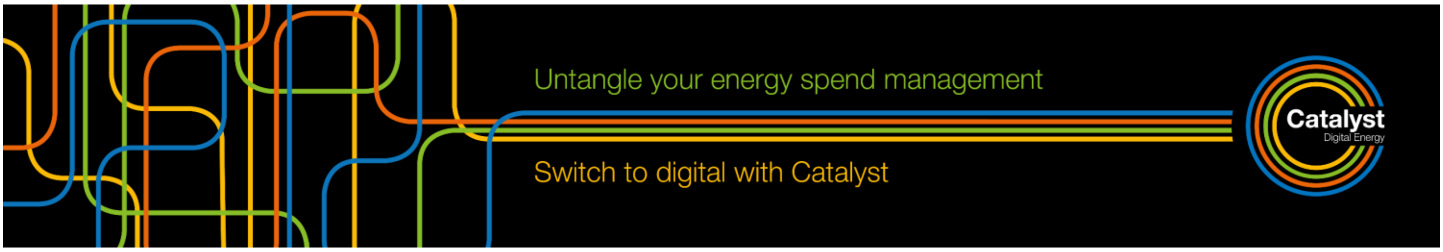

Government publishes Powering Up Britain

On 30 March, Energy Security Secretary Grant Shapps set out plans to strengthen GB's long-term energy security and meet the UK's net zero target through the publication of Powering Up Britain, which brings together the Energy Security Plan and the Net Zero Growth Plan. This builds on the government's ambitions outlined out in its 2021 *Net Zero Strategy* and 2022 *British Energy Security Strategy*, setting out how the government will enhance the UK's energy security, seize the economic opportunities of the transition and meet the net zero target. Some of the actions set out also respond to the recommendations set out *Mission Zero: Independent Review of Net Zero* published in January 2023.

Measures announced include:

- The announcement of the eight Track-1 projects to progressing to negotiations to rollout the first two carbon capture usage and storage (CCUS) clusters and launching the process for confirming the next two clusters for deployment in Track-2.
- Confirmation of the first winning projects under the £240mn Net Zero Hydrogen Fund and the publication of shortlist of projects for the first electrolytic hydrogen allocation round.
- The launch of £160mn of funding for the Floating Offshore Wind Manufacturing Investment Scheme.
- The introduction of the new Energy Company Obligation scheme, now referred to as the Great British Insulation Scheme, delivering £1bn investment from spring 2023 to March 2026.
- The launch of a new £30mn Heat Pump Investment Accelerator and a three- year extension to the Boiler Upgrade Scheme.
- The launch of the Local Electric Vehicle Infrastructure Fund.
- The publication of the government's updated 2023 Green Finance Strategy.
- The opening of a consultation on a revised set of energy national policy statements, as part of plans to speed up planning and networks.
- The opening of a consultation on measures to address future carbon leakage risk.

Government

Consultation responses to REMA published

Following its Review of Electricity Market Arrangements (REMA) consultation, that ran from 18 July 2022 to 10 October 2022, on 7 March the government published a summary of the consultation responses and its updated policy position with regards to the options set out.

225 responses to the consultation were received from a range of participants across the electricity market, including wider stakeholders. For the most part, responses were from electricity generators and developers, however, representative organisations, energy infrastructure, academia, suppliers, and private individuals were also well-represented.

Based on the feedback received, the government has decided not to take forward six options into the next round of assessment in the REMA programme. It has also discounted a further three as standalone options, but which are being considered in conjunction with other reforms. It considers that this an important step in the process to provide clarity for investors.

The government plans to publish a second consultation this year, with decisions on shorter-term reforms to be taken forward where it is feasible to do so. An "end-user forum" has also been instigated to ensure that consumer impacts are sufficiently reflected as part of REMA.

Government

Chancellor delivers Spring Budget 2023

On 15 March, the Chancellor of the Exchequer Jeremy Hunt announced the Spring Budget 2023, detailing the government's intentions within the energy industry. The headline announcements made include:

- The Energy Price Guarantee (EPG) will remain at £2,500 per year for a typical household for an additional three months, until the end of June 2023, saving the average household a further £160.
- The premium paid by households using prepayment meters (PPMs) will be removed by bringing their charges in line with consumers paying their bills through direct debit until April 2024, when the EPG ends. Beyond the EPG, the government will ensure that the PPM premium is ended permanently.
- There will be £20bn of investment for early deployment of Carbon Capture Use and Storage (CCUS).
- The government will launch Great British Nuclear to address constraints in the nuclear market and run the competition for the UK's first Small Modular Reactor. The government has also classified nuclear as a sustainable investment under the green taxonomy, subject to consultation.
- The Climate Change Agreement (CCA) will be extended for a further two years.
- A new capital allowance scheme, which allows investment in green technology to continue.

Government

Total budget of £205mn confirmed for CfD AR5

On 16 March, the government announced a total budget of £205mn for the fifth allocation round (AR5) of the Contracts for Difference (CfD) scheme. This includes £170mn to Pot 1 for established technologies and £35mn to Pot 2 which covers emerging technologies. Of the £35mn, £10mn will be ringfenced for tidal stream technologies. It also confirmed that no maxima will be applied to the auction.

On the same day, the government also published other key documents for AR5 and its response to the consultation on AR5 contract changes. This confirms that flexibility to delay contract start dates should not be used by generators to benefit from higher prices on the wholesale market.

Government

New report on energy security challenges faced by UK businesses

On 6 March, Vattenfall announced it has published its newest report titled *Energy security in an increasingly electrical world*, which highlights that significant reinforcements and upgrades will be required if the UK's electricity networks are to meet the increased demands for electric fleets, heat pumps and net zero industrial processes.

The report sets out five challenges affecting energy security for UK businesses. This includes that electric vehicles and heat pumps will cause electricity demand to soar; the UK's total electricity demand is likely to triple by 2050; changes to the process and pricing for grid reinforcement may cause bottlenecks for grid connections; the required upgrades to the UK grid are creating an investment gap; and on-site private wire networks will require significant upgrades.

Vattenfall

Ofgem's review of non-domestic market

On 28 February, Ofgem published a call for input regarding its concerns for the current state of the non-domestic gas and electricity markets. The volatile market conditions of the last 18 months have left many consumers across both domestic and non-domestic markets with a lot of uncertainty. The regulator identified many of the consumer harms that it was alerted to in a letter to non-domestic suppliers in November 2022, and has since engaged with suppliers, outlining areas of good practice that could help to address these harms. Ofgem now considers a call for input as necessary to explore these issues in greater detail and is seeking views on three key themes, with responses requested by 31 March.

The first theme is around pricing and contract behaviour, specifically looking at how suppliers have spread cost of risks fairly across their customer base, and how they may use strategies to manage them in a way that is proportionate. Ofgem is also looking for evidence to provide a view of competition in market. It has found that many consumers are still struggling to find deals to contract and has suggested that a lack of 'meaningful competition' and less competitive pressure has led to a drop in standards and less innovation across the market. The third area of interest is the potential for greater regulatory support across different consumer groups. While much of Ofgem's focus has been on microbusinesses over recent years, it is considering extending the kind of support offered to microbusinesses out further. The regulator noted that small and medium enterprises (SMEs), who just fall outside of the regulator's definition of a microbusiness, can find it difficult to actively engage in the energy market. Ofgem has suggested the potential expansion of the microbusiness definition, or to even introduce a new category altogether. While in its early stages now, the evidence gathered through this call for input will help to inform how Ofgem moves forward, with the regulator indicating that this review may result in wide-scale regulatory changes.

On 14 March, Ofgem published a letter sent to the Chancellor of the Exchequer, providing an update on the evidence gathered so far in its review of the non-domestic market. The update outlines some initial findings, such as some deemed contract rates being higher than can be explained by market conditions, assessing the proportionality of higher security deposits, as well as concerns around compliance with the Energy Bill Relief Scheme (EBRS), with some suppliers found to be acting against its intent.

The full report on findings will be published in summer 2023 with further steps to be consulted on in due course.

Ofgem

UK on edge of falling out of global green race, claims IPPR

On 14 March, the Institute for Public Policy Research (IPPR) announced the publication of its newest report titled *Winning the Global Green Race: Lessons for the UK from the US' Inflation Reduction Act (IRA)*, which suggests that the UK Government is at risk of being left behind in the global green race due to their lack of willingness to invest and use industrial strategy to deliver net zero. Within the report, the IPPR highlights the range of different challenges the UK faces which together, threaten to undermine the country's path to net zero.

The paper concludes with a list of lessons for the UK, including the acknowledgement that the UK is starting to become an outlier in the growing international consensus on green investment, as well as indicating the UK is to learn from the unprecedented certainty and policy stability that the IRA provides. The IPPR also recommends place-based industrial policies which can deliver for climate, prosperity and levelling up and that the UK must increase funding and spend to at least £30bn per year until 2030 to meet net zero.

IPPR

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