Digital Energy Element

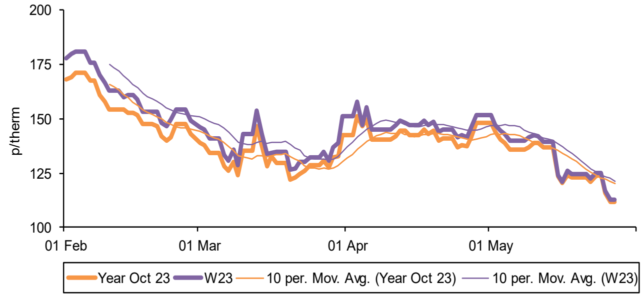
June 2023

Energy Market Consolidates

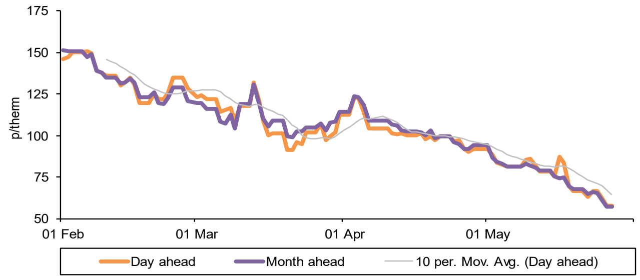
Untangle your energy spend management

Digital Energy Element / June 23

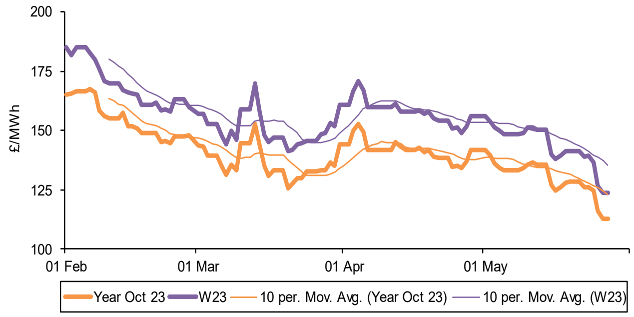
Annual gas prices



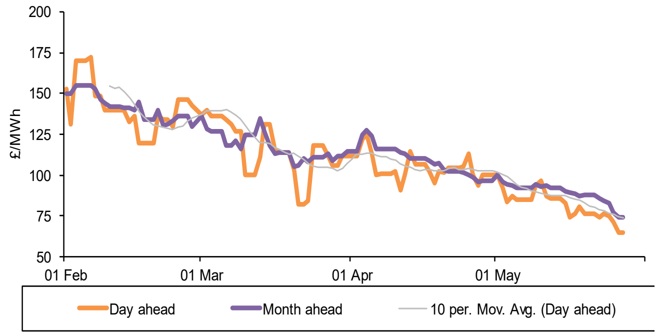
Spot gas prices



Annual power prices



Spot power prices



We are continuing to see a suppressed pricing environment compared with the end of 2022, where we saw significant price highs for gas, power, and wider international commodity markets.

May saw yet another notable overall decrease in wholesale price movements across all tracked commodities – with the expectation that this trend could continue further into the summer months, which typically represents the lowest demand period of the year.

Subsequently, seasonal gas contracts from winter 23 to summer 25 were, on average, 7.8% lower in May when compared to the previous month – despite periods of extensive maintenance across the Norwegian Continental shelf in the latter half of May, strongly disrupting flows into GB and consequently tightening system margins as a result.

The drop seen in Norwegian flows was offset, by strong gas storage levels across Europe – which currently sit at approximately 69% full at the time of writing. This is much higher than the 47% fullness recorded at the end of May 2022. Gas demand eased during periods of above-average temperature in the month, allowing for net injections - further boosting gas supply security, while reducing the demand for more traditionally expensive forms of generation.

Across the month, we saw the day-ahead gas price fall 27.1% to average 74.25p/th which also represents a near 26% reduction compared with the same period of 2022. Similarly, front-month contracts were down 28.1% on average when compared to April, with June 23 seeing a 29.8% drop to 73.01p/th, and July 23 falling 26.3% to 72.48p/th.

Due to the intrinsic link between gas and power prices, this bearish trend was extended to equivalent GB baseload power contracts - with day-ahead power prices averaging £80.06/MWh, down 23.5% when compared to April. This loss is strongly attributed to the drop seen in its gas counterpart, although it is prudent to highlight that losses were limited by decreased wind generation production when compared to April levels.

Similarly, both front-month power contracts recorded losses, as June 23 fell 24.3% to £83.08/MWh, and July 23 curtailed 18.0% to £87.93/MWh. Likewise, seasonal power prices saw collective downwards price movements, falling 8.2% on average. Winter 23 continues to trade as the premium market, although prices dropped 10.7% month-on-month to average £141.2/MWh.

Brent crude prices saw a 9.5% decline month-on-month to average $75.74/bl following a surprise increase to US crude inventories, in tandem with mild Chinese demand. Losses were capped, due to uncertainty surrounding another potential supply cut ahead of the next OPEC+ policy meeting.

Elsewhere, LNG prices are continuing to fall to multi-year lows, averaging 80.28p/th across May amid soft European demand, coupled with strong global supply levels – leading to prices being low enough to stimulate continued procurement interest without drastically raising market competition. Both crude oil and LNG prices are heavily dependent on increased Chinese growth, and could see uplift as the country returns to pre-COVID-19 growth levels.

Both ETS schemes registered losses month-on-month with the EU ETS falling 7.0% to average €86.40/t, down from €92.94/t in the month previous. The UK ETS saw a more notable decrease, curtailing 16.3% to average £58.0/t, £11.0/t lower than April – experiencing the lowest price seen since August 2021 at £50.30/t on 31 May.

 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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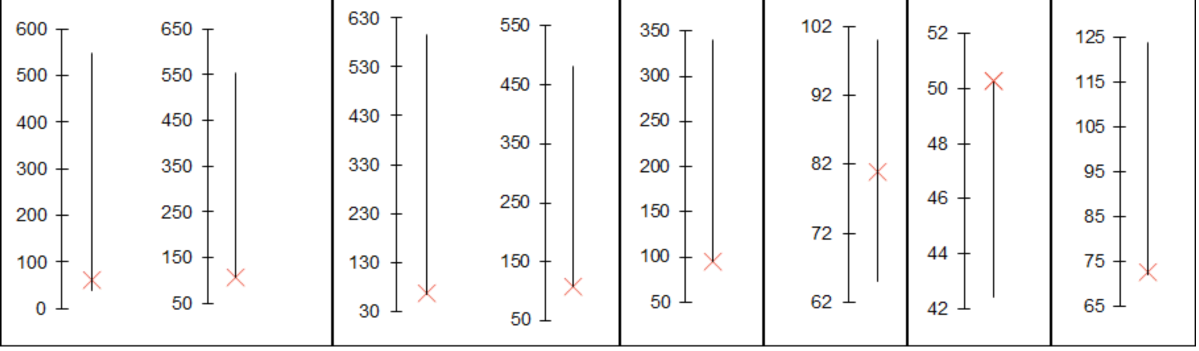
Untangle your energy spend management

Digital Energy Element / June 23

Key market indicators: 31/05/2023

		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	31 May 23	60.00	107.75	68.00	109.13	95.50	80.90	50.30	72.65
Last month	28 Apr 23	92.00	148.00	100.00	141.75	138.00	86.80	61.85	78.35
Last year	1 Jun 22	133.00	165.94	140.00	165.18	235.00	84.80	83.25	117.55
Year-on-year % change		(55%)	(35%)	(51%)	(34%)	(59%)	(5%)	-40%	(38%)
Year high		548.00	554.50	595.00	482.50	340.00	100.00	97.00	123.80
Year low		38.75	107.20	64.00	109.13	95.50	65.09	50.30	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.

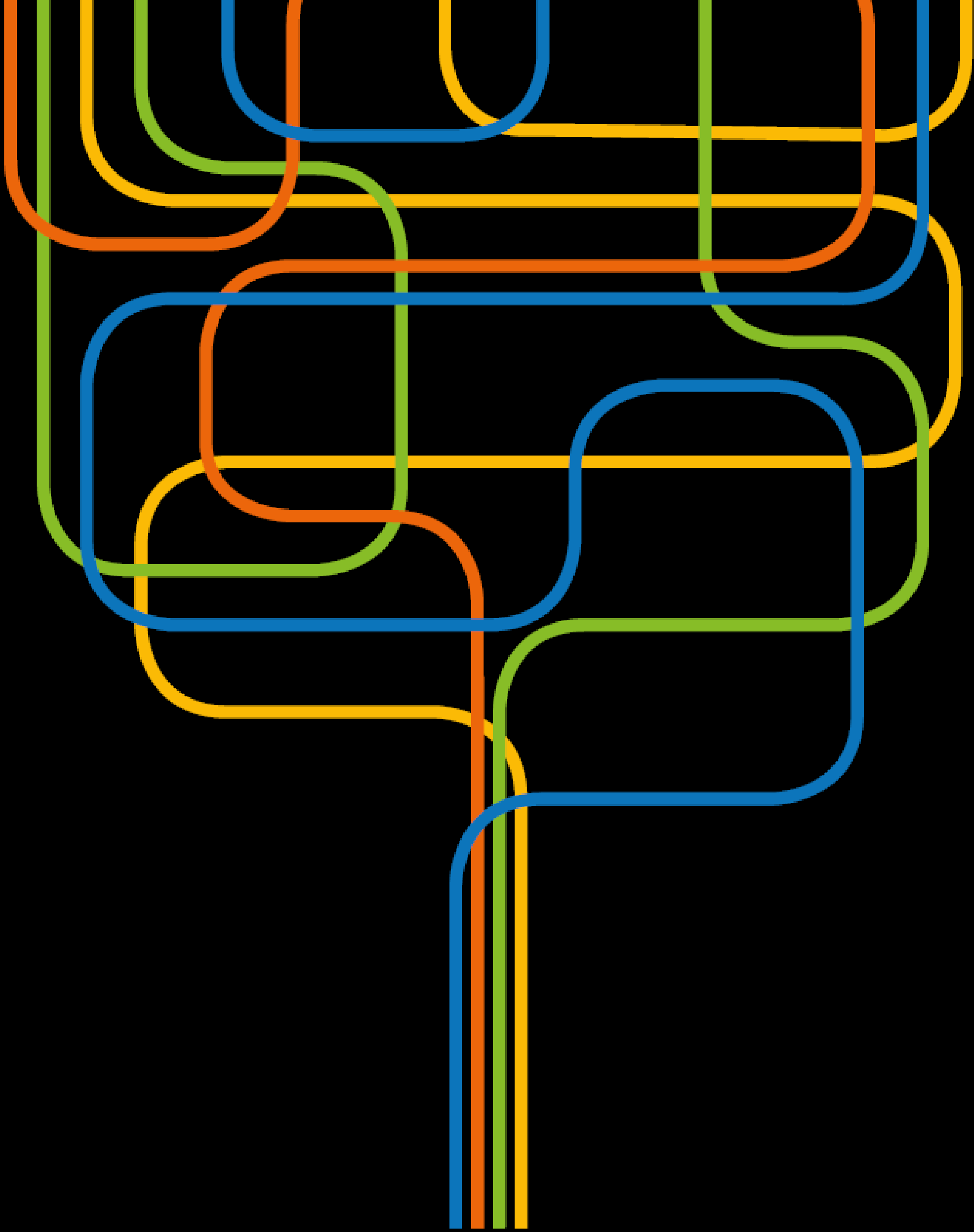
Curve: A graph of forward prices over a future time period.

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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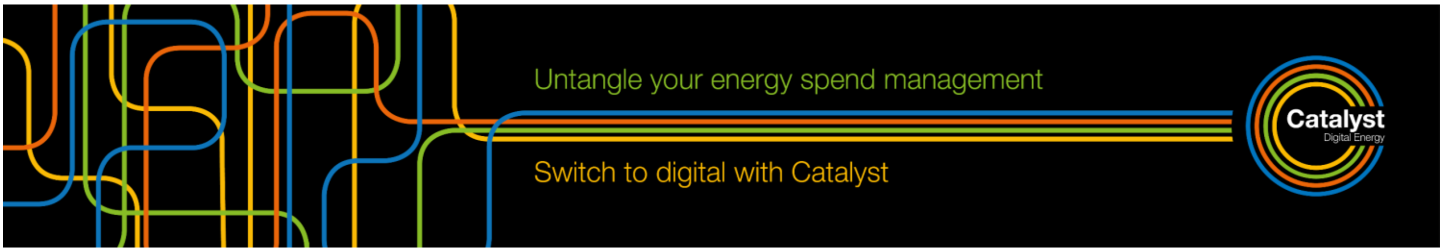


Minsters hold first Net Zero Council with business and finance firms

DESNZ announced on 9 May that ministers have convened the first Net Zero Council with business and finance firms to drive forward industry's transition to net zero.

It outlined that the Council, co-chaired by Energy Minister Graham Stuart and Co-op Group Chief Executive Shirine Khoury-Haq, will seek to support industry to help cut emissions in the sector and develop greener practices. It will also aim to support the government's priority to grow the economy by finding ways to ensure GB businesses can benefit from the UK's position in renewable technologies to achieve net zero and export their expertise globally.

The key objectives of the Council are:

- Working to ensure sectors and companies have a pathway to net zero.
- Leading a systematic review of the financing challenges and the respective roles of government, industry, and the financial sector in addressing them.
- Identifying key challenges facing small and medium businesses in reducing their carbon footprint and supporting their transition with new information and advice.

As part of the first meeting, the Council discussed the UK's position on net zero and the importance of building a singular coherent voice across government, finance, and business to support the UK's key sectors in the net zero transition. The Council identified construction, manufacturing, retail, and water and waste as priority sectors to support and focus on. It also discussed the potential of the UK's university and R&D sectors, which it highlights will help to drive innovation in the future in areas such as green aviation, hydrogen, and batteries.

Going forward, the Council will meet on a quarterly basis to ensure businesses are a key part of achieving net zero.

DESNZ

UK currently set to miss power sector target, says BEIS Committee

On 28 April, the BEIS Committee published its *Eleventh Report - Decarbonisation of the power sector*, highlighting that "at the current pace of change, the UK is set to fail to hit its target of decarbonising the power sector by 2035." It added that this, in turn, will undermine the ability to reach net zero by 2050, reduce dependence on imported fossil fuels and harness renewables, and that while a secure, decarbonised and cost-effective electricity system can be delivered by 2035, there needs to be the political will to do it.

To address gaps and risks in the government's strategy to decarbonise the power sector, it set out several recommendations. This includes overturning the ban on onshore wind in England; ensuring that the UK's ports have capacity to support offshore wind; prioritising work to support long-duration energy storage; deciding on the use of hydrogen across the economy; and clarifying where private finance for nuclear energy projects will come from. It also noted that demand reduction and flexibility must be treated as an equal partner to supply, with customers "placed front and centre of the transition" and that the government should bring forward its additional £6bn funding for energy efficiency measures for 2025–2028 to now.

BEIS Committee

BSI reports on how SMEs are navigating net zero transition

The UK National Standards Body, BSI, announced on 3 May that it has published its third annual Net Zero Barometer report, which presents findings on how UK businesses are navigating the transition to net zero.

This follows a survey with over 1,000 senior decision-makers at UK small and medium-sized businesses (SMEs) and over 1,000 consumers, which found that awareness of the importance of achieving net zero targets has almost tripled to 82% in two years.

However, cost was still found to be the main obstacle towards action on net zero, with 63% of SMEs citing the cost-of-living crisis as the biggest inhibiting factor, followed by the energy crisis (50%). The research also identified a need for more clarity, given that only a third of SMEs said they were extremely confident as to how to reach net zero.

BSI

NGESO confirms successful delivery of Demand Flexibility Service

Following verification of market data, on 9 May National Grid Electricity System Operator (NGESO) confirmed the successful delivery of the Demand Flexibility Service (DFS) across winter 2022-23.

NGESO reported that a total of 1.6mn households and businesses participated in the DFS, delivering 3,300MWh in electricity demand reduction across 22 events over the winter. The 22 sessions covered both live events to balance GB's electricity network and monthly tests to deliver savings for consumers. It also confirmed that consumers and businesses in Southern England, East of England and East Midlands led the way in participating in the DFS by each saving over 370MWh across the 22 events.

NGESO stated that the test events have successfully demonstrated that the DFS can deliver flexibility at scale. It added that it is currently undertaking a holistic review of the DFS, the outcomes of which will be published later this summer and will inform decision making around the future evolution of the DFS.

NGESO

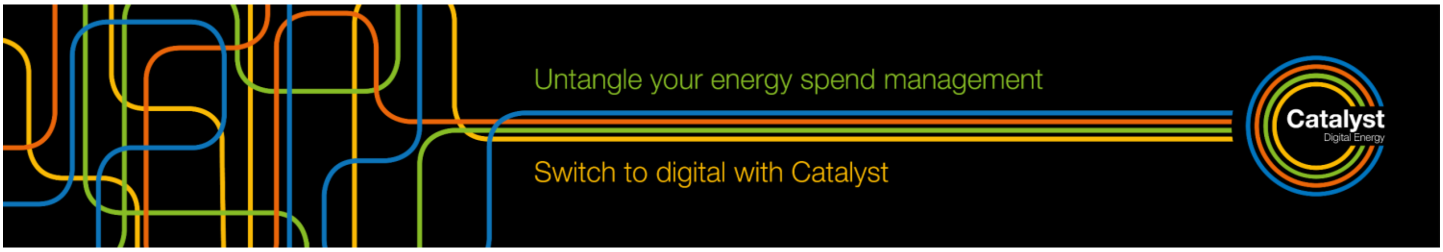
Ofgem announces Default Tariff Cap decrease to £2,074

On 25 May, Ofgem announced that Default Tariff Cap level will be set at £2,074 for cap period 10b (1 July to 30 September 2023) for a dual fuel household paying by direct debit based on typical consumption.

This is a reduction of 37% since the last update and will also be a decrease of £426 (17%) compared to the current level of the Energy Price Guarantee (EPG) at £2,500. As the cap will fall below the level of the EPG, Ofgem noted that this means that the cap, rather than the EPG, will once again set the maximum price for domestic customers. The main factor in reducing the cap level has been the steady decline in wholesale costs over the past few months, with the wholesale allowance more than halving. For those on standard credit payment, the cap has been reduced by £1,270 to £2,211 for typical dual fuel consumption and for those on prepayment meters, the cap has been reduced by £1,247 to £2,077.

On the same day, Ofgem published a consultation seeking views on its proposals to change the parameters and methodology of the Earnings Before Interest and Tax (EBIT) allowance under the Default Tariff Cap, with responses requested by 28 June 2023.

Ofgem



Consultation on Strategy and Policy Statement for GB Energy Policy

On 10 May, DESNZ published a consultation on its proposed Strategy and Policy Statement for energy policy in GB. This gives a high-level outline of the development of its Strategy and Policy Statement (SPS), which aims to set out the governments strategic priorities and main considerations of its energy policy including the intended policy outcomes and the roles and responsibilities of the parties involved in the implementation of the policy. This is the first time that the power to designate an SPS has been deployed since it was introduced by the Energy Act 2013. The SPS builds on previous white papers, plans, and strategy documents published over recent years and aims to provide guidance to the energy sector on the actions and decisions required to deliver the government's policy goals. It is also expected to place an emphasis on where it expects likely shifts in the energy industry's strategic direction.

Section one details the government's priorities on clean energy and development of net zero infrastructure. This includes increasing the diversity of energy supply, developing net zero alternatives to unabated natural gas, network capacity infrastructure development in line with increasing electrification, and regulation that facilitates the anticipatory investment required in developing new clean technology and infrastructure.

Section two covers its responsibilities on energy security and protecting consumers, such as insulating the market from supply shocks or external geopolitical events and ensuring energy wholesale markets are competitive and liquid.

Section three discusses the government's goals on developing an energy system that is 'fit for the future', covering market design and future infrastructural goals to meet the governments environmental targets. It lists supporting the governments ambition to have the lowest wholesale electricity prices in Europe by 2035, coordinating national and local electricity markets which are open to all technologies, unlocking the full benefits of low carbon flexibility, and effective governance during the transition to net zero.

It also outlines roles and responsibilities, with Ofgem and the Future System Operator (once established) required to have regard to the strategic priorities proposed when carrying out their functions.

Views are sought on the strategic priorities and policy outcomes and on the roles and responsibilities of those involved in delivering these outcomes, with responses requested by 2 August 2023.

DESNZ

DESNZ publishes response to EII consultation

Following its August 2022 consultation on a review of the energy intensive industries (EIIs) exemption scheme, on 18 May DESNZ published its response, as part of its new British Industry Supercharger (BIS) Capacity Market consultation.

The response concluded that there continues to be a risk of carbon leakage for EIIs due to higher costs incurred to support renewable energy policies within the UK. As such, the government confirmed that it is increasing the subsidy under the existing EII Exemption scheme from 85% to 100%, as proposed in its August 2022 consultation.

The new BIS consultation is seeking feedback on the delivery of an exemption from Capacity Market charges for EIIs, with responses requested by 29 June 2023. It also noted that the EII Network Charging Cost Compensation Scheme, which is the third measure (out of three) announced as part of the BIS, will be the subject of a future consultation which will be published in June 2023.

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