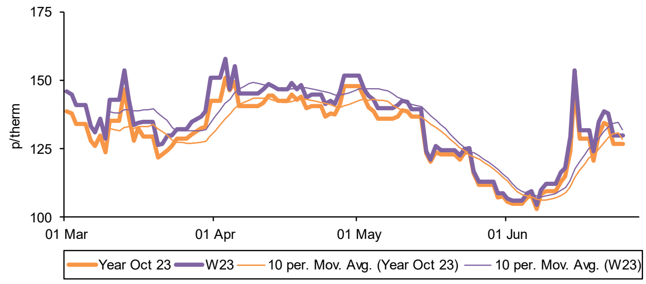
Digital Energy Element

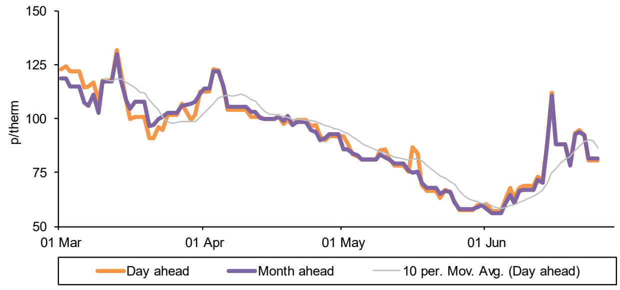
July 2023

Pre-Winter Market Jitters

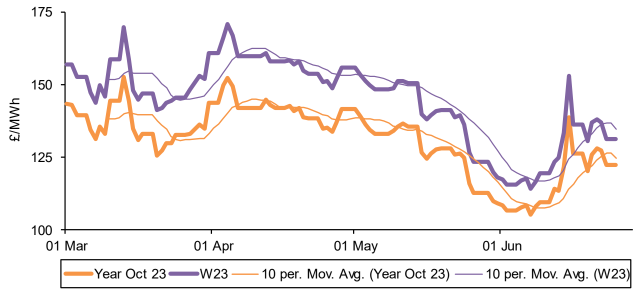
Annual gas prices



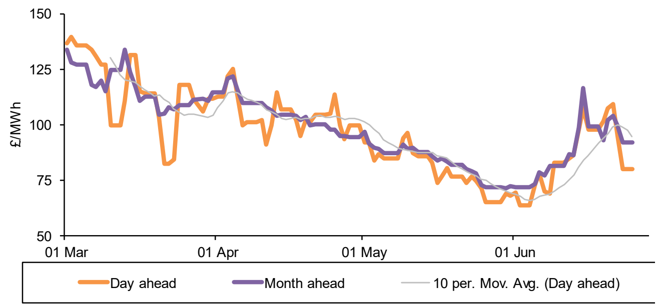
Spot gas prices



Annual power prices



Spot power prices



Despite registering an overall increase to prices across shorter-dated contracts, we continue to observe an environment in which prices are lower than those observed at the tail-end of 2022 – which saw gas, power, and wider international commodity markets rise to prominent highs.

It is pertinent to highlight that prices have decreased significantly from the record highs experienced across 2022. However, following restricted gas supply from the Norwegian Continental Shelf acting to tighten system conditions, and as a result of continued outages across several large Norwegian gas fields, shorter-dated gas contracts registered gains. This bullish sentiment was further supported by bolstered GB demand levels following significantly above-average temperatures, and reduced wind outturn during periods of increased demand for cooling appliances.

Across the month, we saw day-ahead gas register a 4.6% gain month-on-month to average 78.57p/th. Similarly, front-month contracts registered price increases, up on average by 5.6% when compared to May, with July 23 seeing a 6.1% rise to 77.63p/th, and August 23 growing 5.1% to 80.05p/th.

Conversely, seasonal gas contracts from winter 23 to summer 25 were, on average 6.9% lower in June when compared to May – with some risk removed from these contracts as European gas storage levels remain well stocked. More notable price gains across front-month contracts were offset by the notable stockpiles of European gas, which currently sit at 76% at the time of writing – much greater than the 58% fullness registered during the same period last year – boosting gas supply amid reduced Norwegian output. This trend is anticipated to continue as the summer months progress and temperatures remain elevated – acting to lower gas-for-heating demand.

Rising front-month contracts in gas provided a bullish price direction for power to follow– with day-ahead power prices registering a 9.0% gain month-on-month to average £87.86/MWh. Additionally, these gains can also be attributed to tightened system margins following decreased gas supply and lower wind generation.

Similarly, both front-month power contracts registered gains, as July 23 rose 1.6% to £89.30/MWh, and August 23 grew 3.9% to £87.91/MWh. However, much like its gas counterpart, seasonal power prices saw a collective downward movement - dropping 7.9% on average. Winter 23 continues to trade as the premium market, despite seeing a 9.7% drop to average £127.43/MWh.

Brent crude oil continued to fall month-on-month, averaging $74.96/bl – down 1.2%. This came despite OPEC+ announcements that supply would be cut by one million barrels per day enacted from July, tightening global markets - in tandem with unexpected gains in US crude inventories and expectations of further interest rate hikes from the US Federal Reserve. Overall price gains were limited by poor Chinese economic performance, a declining number of operating oil and gas rigs in the US, and a higher-than-expected rate hike from the Bank of England.

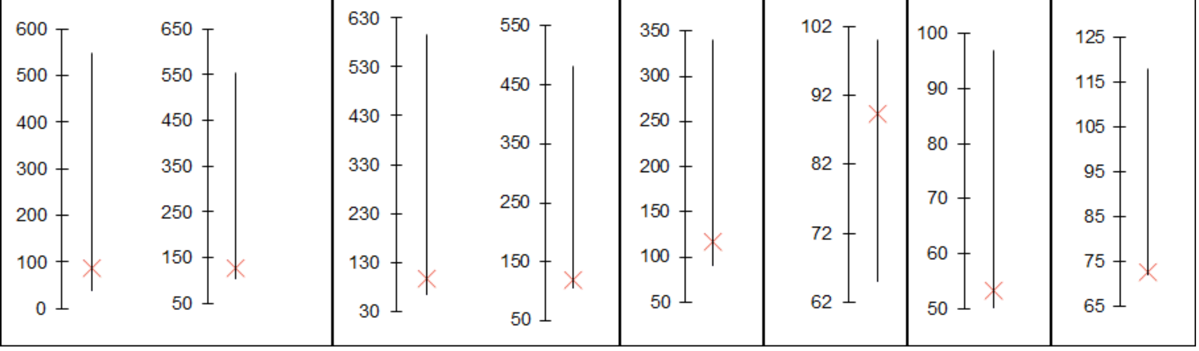
LNG prices reversed previous trends seen last month and recorded an 11.8% gain as competition between Europe and China for the procurement of LNG has been reignited as Asian buyers return to the market, prompted by this year's lower prices, in tandem with Europe needing to ensure sufficient cargoes are arriving to continue storage injections.

The disparity between the EU and UK ETS schemes continues to increase. The EU ETS recorded a 1% gain from May, averaging €87.21/t, whereas the UK ETS dropped 5.6% to average £54.73/t.

Untangle your energy spend management

Digital Energy Element / July 23

Key market indicators: 28/06/2023

		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 Jun 23	86.00	128.75	95.50	119.50	117.25	89.40	53.20	72.65
Last month	31 May 23	60.00	107.75	68.00	109.13	95.50	80.90	50.30	72.65
Last year	29 Jun 22	177.00	179.27	259.00	171.00	250.00	88.85	83.00	118.09
Year-on-year % change		(51%)	(28%)	(63%)	(30%)	(53%)	1%	-36%	(38%)
Year high		548.00	554.50	595.00	482.50	340.00	100.00	97.00	118.09
Year low		38.75	103.15	63.50	105.10	91.50	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.

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Decarbonisation hindered by lack of overarching delivery plan, says PAC

The Public Accounts Committee (PAC) announced on 21 June that it has published a report on *Decarbonising the power sector*, highlighting that the government's ambitions for power sector decarbonisation by 2035 are jeopardised by the lack of an overarching delivery plan. It states that while the Department currently has many separate decarbonisation projects and programmes, it recommends that these should be consolidated to form an integrated, coherent delivery plan as soon as possible. Further conclusions and recommendations are summarised below.

- The Committee expressed scepticism with the current plans for expanding nuclear, solar, and wind and their potential credibility and recommends that the Department should provide annual updates to Parliament to demonstrate milestones of progress and identify how risks are being mitigated.
- The Committee is not convinced that the government is providing enough clarity to the private sector to attract the investment that is necessary to build new generating capacity. It recommends that the Department should set out in its delivery plan how it will provide greater clarity to the private sector to encourage necessary investment.
- The Committee does not think it is clear the Department has the support it needs from other departments to achieve the power sector decarbonisation ambition and recommends that the Department sets out in its Treasury Minute response how it will collaborate with other departments and prioritise decarbonisation.
- The Department has not yet set out how it expects decarbonising the power sector will impact energy bill payers and taxpayers and the PAC recommends publishing information on this in its delivery plan, to be updated regularly.
- The Committee said it is not yet clear what the Department's plans are in respect of energy efficiency and consumer behaviour. The report recommends that alongside its Treasury Minute response, the Department should write to the Committee setting out its modelling demand assumptions and how this is reflective of policies and plans to promote energy efficiency in customers and influence consumer behaviour.

PAC

£14bn of investment committed to the UK in Atlantic Declaration

On 8 June, Prime Minster Rishi Sunak and US President Joe Biden met and announced *The Atlantic Declaration: A framework for a twenty-first century US-UK Economic Partnership*. The announcements highlighted that the US-UK bilateral investment relationship is the largest in the world, with over $1.5trn in stock (£1.2trn) supporting more than 2.7mn jobs in both countries. It added that together the UK and US have a "new form of economic partnership that advances economic growth and competitiveness".

There will be five pillars to the partnership, including: ensuring US-UK leadership in critical and emerging technologies; advancing ever-closer cooperation on our economic security and technology protection toolkits and supply chains; and building the clean energy economy of the future.

Speaking on the announcement, Sunak said: "This week alone, £14bn of new American investment has been committed into the UK, creating thousands of jobs. It means stronger supply chains, with a new action plan on clean energy. And it means reducing trade barriers in the technologies of the future. With a new, secure UK-US Data Bridge – helping tens of thousands of small businesses."

Government

NGESO consults on proposed options for connections reform

On 14 June, National Grid Electricity System Operator (NGESO) published a consultation on connections reform, seeking views on the proposed Target Model Options (TOMs) for connections reform and its preferred option. The consultation is also seeking views on technology type adjustments that would be required to facilitate the proposed amendments. Responses to the consultation are requested by the 28 July 2023, with NGESO expecting to publish its final recommendations and implementation plan by November 2023.

NGESO

ESC explores how SMEs are dealing with rising inflation and energy bills

On 8 June, Energy Systems Catapult (ESC) published a new report, *Back from the Brink: How SMEs (small and medium enterprises) are taking control of their energy management and why extra support is needed.* As part of the report, ESC reached out to SMEs who it outlines are facing financial hardship due to rising inflation rates and unprecedented energy bills. It aimed to understand how difficult it has become to operate under current energy prices; what support has been made available; what actions are businesses taking to mitigate high energy bills and climate change; and what extra support is required.

ESC's research involved speaking to seven SMEs in the West Midlands from a range of manufacturing subsectors. The businesses reported that their energy bills were now +167-500% greater than before the energy crisis, with 52% stating that high energy bills have negatively impacted their profit margins. It also found that 71% of businesses are concerned about the government's Energy Bills Discount Scheme (EBDS), which came into effect in April 2023.

The report also set out several key messages for policymakers, including that additional mechanisms may be needed to support businesses with high energy costs; that improving access to energy data could be a key focus area when providing support to businesses; and that cost is a barrier to decarbonisation.

ESC

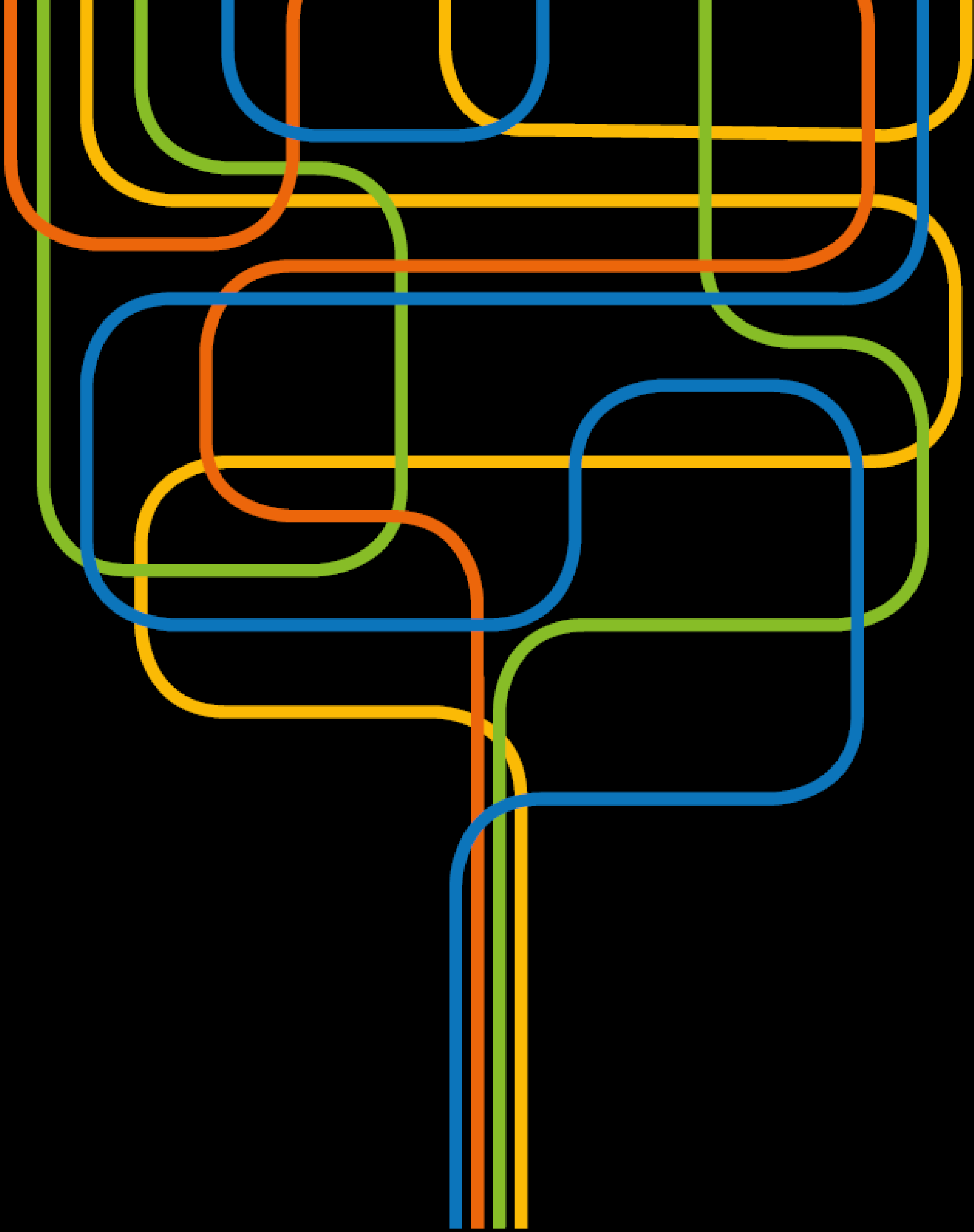
NAO issues smart meter progress report

On 14 June, the National Audit Office (NAO) reported on the progress of DESNZ and its predecessor department in delivering the smart meter rollout. It evaluated how well DESNZ is prepared for the remaining rollout and the transition to industry-led governance after the rollout is completed.

The NAO states that DESNZ and its partners have made "significant progress" since its previous report in 2018 in enabling smart meters to function in almost all homes and small businesses. It is highlighted that smart meters had been installed in 57% of homes and small businesses by the end of March 2023 – representing 32.4mn smart meters out of a total of 57.1mn meters. Installations are approaching 60% coverage, which DESNZ estimated in 2019 would be necessary for electricity networks to start securing benefits from smart meters.

However, it has been found that the smart meter rollout has been "slower than government's ambitions", with only one out of 13 large suppliers having achieved both their 2022 electricity and gas smart meter installation targets. The NAO makes several recommendations aimed at maximising the value for money of the remaining rollout.

NAO



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Energy bill support took too long to get to those most in need, says PAC

The Public Accounts Committee (PAC) announced on 16 June that it has published its *Energy bills support* report, stating that while the government's energy bill support schemes were introduced quickly, approximately 1.7mn people were left waiting for months for help due to the government's 'lack of bandwidth'. This includes those eligible for Energy Bills Support Scheme (EBSS) Alternative Funding, who received support five months after consumers began receiving discounts on the main scheme, and households in Northern Ireland who began receiving EBSS support three months later than in GB.

The report also highlights that as of February 2023, a quarter of the EBSS vouchers issued for households on traditional prepayments meters had still not yet been redeemed and notes that the government should set out what it will do to improve this uptake.

It adds that while the government drew on lessons learnt through COVID-19 support schemes to reduce the risk of fraud and error, DESNZ does not yet know how successful this has been. With the total cost of the support estimated at £69mn, the PAC states that even relatively low rates of fraud and error would lead to significant taxpayer losses and that the government should provide estimates of these fraud and error rates, with accompanying mitigations, within six months.

Through the report, the PAC also notes that DESNZ does not have a clear understanding of the pressures non-domestic consumers will face from April 2023 when support will reduce significantly under the Energy Bills Discount Scheme, compared to that under the Energy Bill Relief Scheme. It states that this risks undermining the government's objectives for the schemes to achieve wider economic benefits.

While DESNZ is planning changes to both the domestic and non-domestic schemes and reforms to the energy market, the PAC raised concern over the lack of urgency and calls for an update on plans to ensure affordable energy for this winter.

PAC

Smaller scale assets invited to enter trial to participate in BM

Power Responsive, a working group established by National Grid Electricity System Operator (NGESO), announced on 20 June that it is inviting smaller scale (<100kW) aggregated assets to enter its trial to participate in the Balancing Mechanism (BM), through a period of relaxed operational metering.

This follows feedback from market participants that the current framework is a barrier to entry, leading to additional flexibility from smaller-scale assets being unavailable. The trial will therefore capture all domestic and some small B2B flexibility.

It noted that the trial period will be volume capped and time limited to reduce impacts on system security, resourcing commitments and strain on existing control systems.

NGESO

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