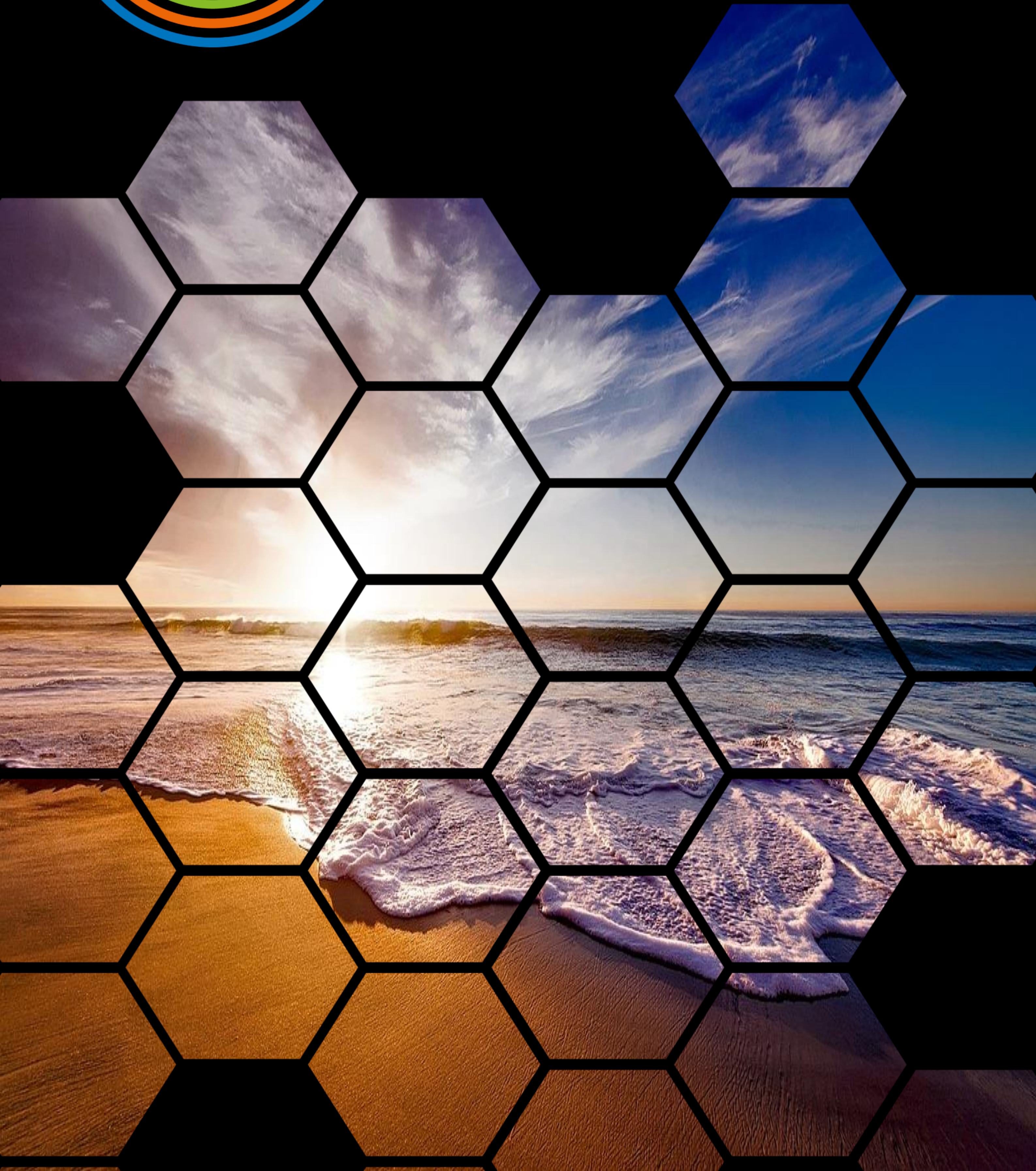
Digital Energy Element

August 2023

Prices Still Remain Sensitive To Fluctuation



Untangle your energy spend management

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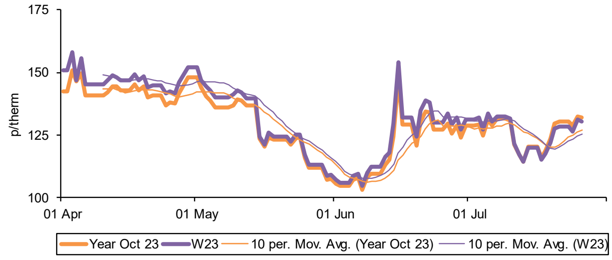
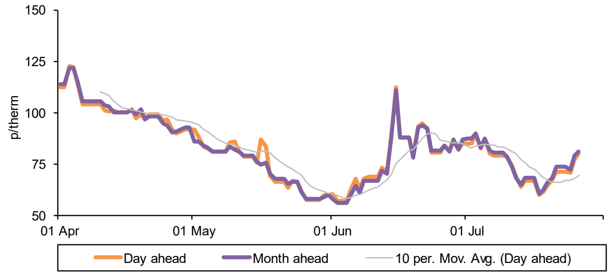
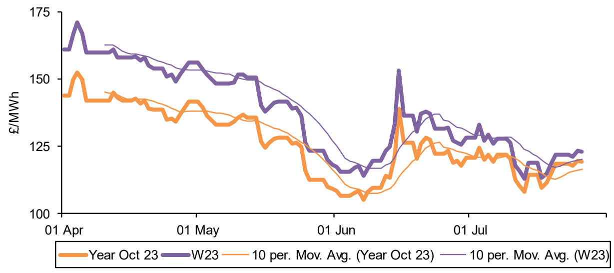
Annual gas prices



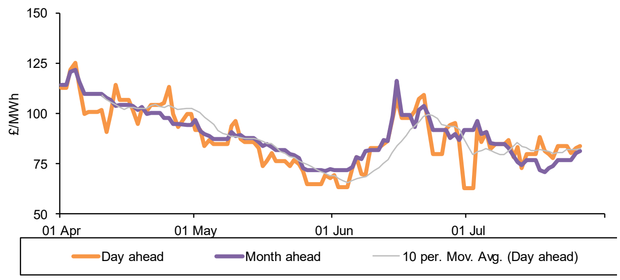
Spot gas prices



Annual power prices



Spot power prices



Opposing the trend experienced across the previous reporting period, shorter-dated contracts registered month-on-month losses. This further emphasises the overall price decrease registered across wholesale prices in 2023 when compared to the significant highs of 2022.

While it is important to highlight how far wholesale prices have fallen from the peaks across 2022, it is important to acknowledge that prices still remain sensitive to fluctuations, particularly as we move closer to the second winter without Russian energy exports. Elsewhere, prices in the latter half of the month registered an increase – finding support from reduced supply from the UK Continental Shelf, in tandem with reduced LNG flows to GB shores.

Across July, day-ahead gas registered a 8.3% loss month-on-month to average 72.45p/th. Similarly, front-month contracts registered price drops, down on average by 9.2% when compared to June, with August 2023 seeing a 8.8% loss to 73.39p/th, and September 2023 shrinking 9.7% to 77.74p/th.

Opposing the front-month contracts, seasonal gas contracts registered gains, up on average by 5.2% - amid uncertainty towards future procurement. Currently, EU gas storage levels sit at approximately 85% at the time of writing - leading to the winter 2023 contract experiencing weaker growth than the other contracts at 0.5% month-on-month.

While on track to exceed the 90% storage target for November, the extent of supply certainty during, and post, winter 2023 will be dependent on winter demand profiles in Europe and South-East Asia, the extent of which will remain uncertain for months to come.

Following the bearish pricing sentiment experienced across their day-ahead gas counterpart, day-ahead power prices fell 5.5% to average £81.90/MWh in July. However, this reduction was weakened following periods of decreased wind generation seen during the latter half of the month – tightening system margins.

Overall, seasonal power prices registered mixed movements, with winter 2023 and summer 2025 falling, and summer 2024 and winter 2024 growing. Coincidentally, both movements averaged 2.6%, leading to no net movement across seasonal baseload contracts as a whole. Winter 2024 overtook winter 2023 as the premium market, averaging £129.14/MWh, amid future supply uncertainty.

Brent crude registered an upwards price movement across July averaging $79.81, up 6.6%. This follows restricted global supply resulting from OPEC+ output cuts, increased investor optimism, and brightening outlooks surrounding Chinese demand. Bolstered Chinese demand projections were the result of the announcements from the Chinese Government pledging to boost economic growth.

Asian demand for LNG has remained relatively subdued, buoyed further by strong EU gas storage stocks resulting in a 3.7% drop month-on-month. It is important to acknowledge that there has been limited new production capacity brought to the market since the loss of Russian gas flows to Europe, with major increases to LNG liquefaction set for 2026-27. Although full storage sites may prevent any major price hikes, there is still the potential for a much tighter market across the winter and into 2024.

The price difference between the UK and EU ETS schemes was exacerbated by the announcement of a package of reforms from the UK government, considered the least ambitious option by market analysts, leading to a 7.5% drop m-o-m to average £50.53/t. EU ETS carbon grew 1.1% to average €88.24/t ahead of the annual drop in auction supply in August, and increased demand for cooling appliances during the heatwave across Europe.

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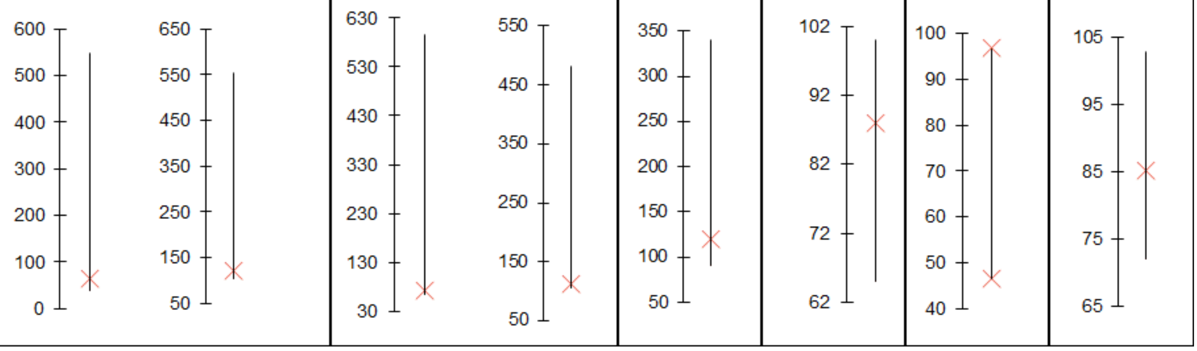
Key market indicators: 31/07/2023

		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 Jul 23	64.50	121.75	71.60	112.75	120.00	87.96	46.65	85.34
Last month	3 Jul 23	90.00	129.00	92.50	124.50	121.00	88.82	60.00	76.15
Last year	1 Aug 22	280.00	261.91	240.00	251.25	275.00	78.35	78.50	102.56
Year-on-year % change		(77%)	(54%)	(70%)	(55%)	(56%)	12%	-41%	(17%)
Year high		548.00	554.50	595.00	482.50	340.00	100.00	97.00	102.96
Year low		38.75	103.15	63.00	105.10	91.50	65.09	46.65	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.

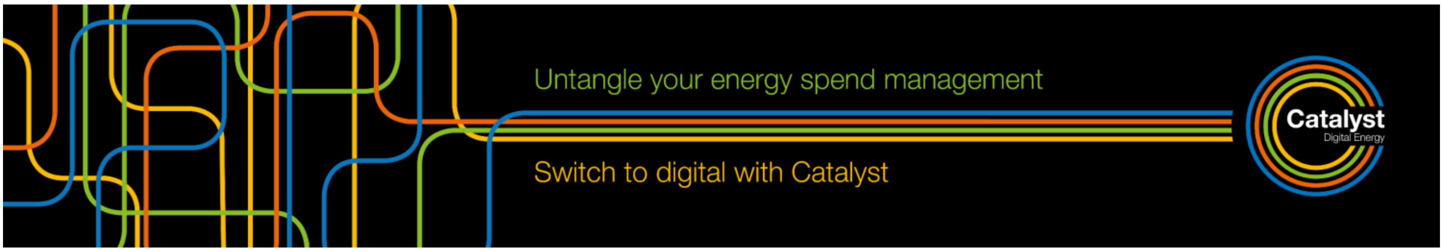
Curve: A graph of forward prices over a future time period.

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



Government publishes plans to strengthen retail energy market

On 24 July, the government published a number of documents under its wider plans to boost competition and innovation in the energy market. Outlining its overall vision in its *Delivering a better energy retail market policy paper*, the government seeks to provide consumers with a wider choice in ways to use energy – such as tariffs offering lower prices at certain times of the day and opportunities to buy shares in renewable energy in return for electricity bill discounts.

Accompanying this, the government launched two new consultations, both seeking views until 18 September. The first call for evidence aims to consider barriers to innovation in the energy retail market, with a commitment to follow up with policy proposals for consultation later in 2023. The second call for evidence is seeking information on domestic consumers with non-domestic energy supply contracts, with aims to determine the reasons for those arrangements, what prices they face, and whether these consumers require any longer-term protections.

The government also published the summaries of responses to its consultations on *Designing a framework for transparency of carbon content in energy products*, *Exemptions from the requirement for an electricity licence*, and *Third-party intermediaries (TPIs) in the retail energy market*.

With regards to the latter, the government sets out the responses received to its 16 August 2021 call for evidence, which aimed to understand the extent to which consumers experience detriment from the activities of TPIs. The government noted that since this, work to address load controllers has been taken forward as part of the Energy Bill. It also highlighted that under Ofgem's Microbusiness Strategic Review, a new Alternative Dispute Resolution scheme has been introduced for microbusinesses and changes made to licence conditions that strengthen the provision of principal contractual terms to ensure consumers receive key information. The government said that as well as the work that has already taken place, it will take into consideration the responses and any additional information to determine if a consultation needs to be undertaken later in the year.

Government

Ofgem's non-domestic market review findings and consultation

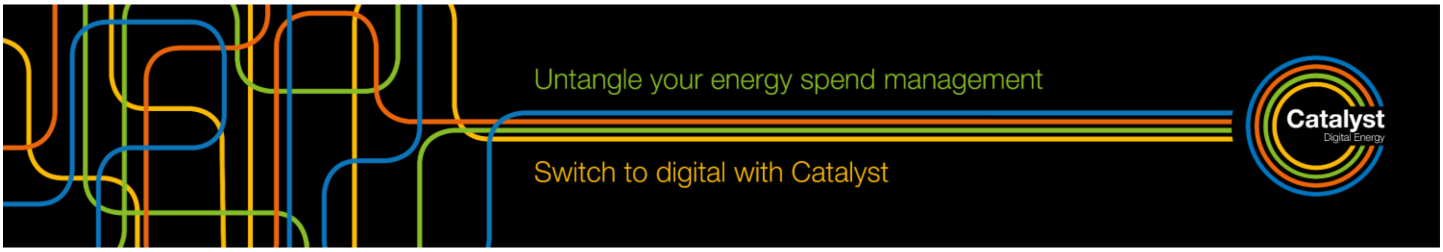
On 26 July, Ofgem published its findings and policy consultation for its non-domestic market review which sought views on supplier pricing and contract prices, market competition and customer service, and opportunities for targeted support to specific customer groups.

In the consultation, Ofgem outlined its current actions, including addressing deemed contract rates and the Energy Bill Relief Scheme (EBRS), security deposits, fixed price contracts, and tenant/occupier transfers. Additionally, it proposed changes to customer complaint regulations, conduct standards, transparency, deemed tariffs, and third-party intermediary (TPI) dispute resolution. Furthermore, Ofgem recommended government actions such as enhancing TPI regulation, expanding Energy Ombudsman access, and ensuring domestic consumers on non-domestic contracts are protected.

The actions outlined by Ofgem are a result of the findings from its February 2023 call for input, and provide insight into the strategy it will take forward for creating a non-domestic energy market that offers consumers greater service, fair pricing, and access to resources required for the transition to net zero.

Ofgem is seeking feedback on its proposed policy changes until 6 September 2023. After reviewing the feedback, the regulator plans to publish its decision in autumn 2023.

Ofgem



Electricity Networks Commissioner independent report published

On 4 August, DESNZ published the independent recommendations from the UK's Electricity Networks Commissioner, Nick Winser, which outline how to accelerate the deployment of electricity transmission infrastructure. This follows his appointment by the government to investigate and report on how to reduce the timescale for building strategic transmission from the current 12-14 years by three years and ultimately by a half. Within his report, supported by Energy Systems Catapult, Winser says he believes that we must hit the more ambitious end of this and reduce the overall timescale to seven years and sets out several findings and 18 recommendations. This includes that the Future System Operator (FSO) should be established quickly and be responsible for producing a Strategic Spatial Energy Plan (SSEP); that the National Policy Statements (NPS) should be urgently updated and regularly thereafter; and that a major review of engineering and technician skills in the UK needs to be undertaken. The report concludes that the required changes to improve delivery of GB infrastructure are profound and urgent but are both possible and achievable if there is sufficient commitment and a sense of urgency.

DESNZ

Businesses call for faster climate action from government

On 19 July, the Aldersgate Group published an open letter issued by over 100 businesses from across the economy to the Prime Minister, outlining their support for the UK's climate commitments and the net zero transition. In the letter, the participating companies highlight the potential for billions of pounds of investment in the net zero transition, but state that "without a renewed focus and commitment to delivery from the government, the UK will be left behind". It added: "We have consensus across the economy on the need for faster action, and the policy environment should reflect this consensus. We have the solutions to tackling climate change; our businesses are built around new technologies, skilled jobs, and the massive innovation capabilities of the UK. Capitalising on these opportunities will generate growth and prosperity across the country."

The Aldersgate Group

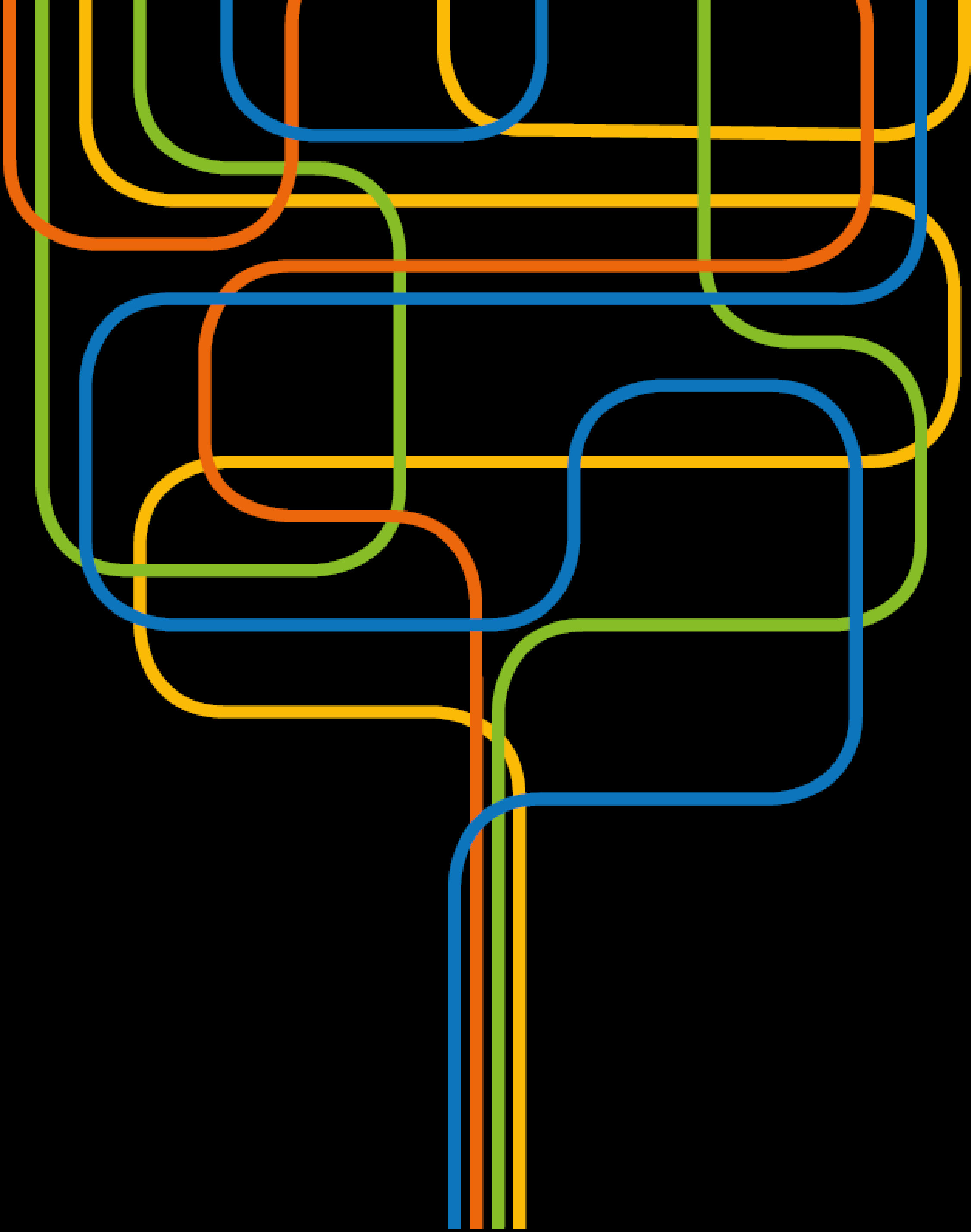
FES 2023 released by NGESO

On 10 July, National Grid Electricity System Operator (NGESO) published its latest Future Energy Scenarios (FES), setting out credible pathways for the UK to achieve net zero by 2050 and a decarbonised electricity system by 2035. The scenario framework is the same as that in FES 2022, with Falling Short missing the 2050 target; Leading the Way meeting the net zero by 2046; and Consumer Transformation and System Transformation both hitting net zero by 2050.

The report states that due to the unprecedented changes seen in the UK and globally, it has become clearer that the transition to an energy system predominantly supplied by weather, with a reformed market to support it, would deliver significant benefit. NGESO is confident that it is possible and credible to achieve a net zero energy system by 2050 but urgent action and funding is required.

It sets out several recommendations, including the need for a clear plan from the government for the funding and development of hydrogen and carbon capture, utilisation and storage projects; the need to accelerate the decision on the use of hydrogen for heating; the need for a market-wide strategy to facilitate growth in distributed flexibility; and the need for connections reform to facilitate quicker, more coordinated and efficient connection to the GB electricity system.

NGESO



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DESNZ publishes Year 3 and 4 smart meter installation requirements

Following its February 2023 consultation, DESNZ published its smart meter installation requirements for Year 3 (2024) and Year 4 (2025) of the rollout on 6 July. For domestic suppliers, the target coverage is 80.8% for Year 3 with a tolerance level of 11.7%, and 100% for Year 4 with a tolerance level of 25.5%. The minimum smart coverage levels are 69.1% for Year 3, and 74.5% for Year 4. For non-domestic suppliers, the target coverage is 78.5% for Year 3 with a tolerance of 14.9%, and 100% for Year 4 with a tolerance level of 31.3%. The minimum smart coverage levels are 63.6% for Year 3, and 68.7% for Year 4.

The response also confirmed that the structure of installation requirements in the second half of the Smart Meter Targets Framework will be amended, so that mixed portfolio suppliers will be set separate domestic and non-domestic installation requirements. It also noted that a ‘churn adjustment’ will be applied to non-domestic targets only in Year 3 (2024) to mitigate the impact of customer switching and that two adjustments are being made to licence conditions to mitigate the impact of the additional complexities associated with some gas smart meter installations.

It noted that in summer 2023, it intends to consult on a new requirement for recipients of the Energy Company Obligation Scheme (phase 4) and the Great British Insulation Scheme (formerly ECO+) to request a smart meter installation. It will also “shortly consult” on new guidance alongside the Future Homes Standard building regulations to ensure that new homes are built “smart meter ready” from the outset. In addition, it is launching a call for evidence on a potential requirement to install smart meters in cases of energy theft in domestic and non-domestic properties. Furthermore, it encouraged energy suppliers to levy a “cost-reflective charge” if a consumer (domestic or non-domestic) refuses a smart meter at the point of end-of-life replacement.

DESNZ

CCC criticises slow paced net zero deployment plans

On 28 June, the Climate Change Committee (CCC) called on the government to commit to more ambitious net zero delivery, following the Carbon Budget Delivery Plan (CBDP) being published. It stated that its confidence in the UK meeting its goals from 2030 onwards is now markedly less than it was in its previous assessment a year ago.

The CCC argued that the government is relying on technological solutions that have not been deployed at scale, rather than encouraging people to reduce high-carbon activities. It stated that a policy programme that does not rapidly plant more trees and roll-out heat pumps is a risk.

It made several comments, including that the UK has sent confusing signals on its climate priorities to the global community; that support is lacking for decarbonised industry in a new era of global competition; and that rapid reform to planning is necessary. The CCC also noted that the government does not expect to make a strategic decision on the role of hydrogen in heating until 2026 and that it must overcome this uncertainty by accelerating deployment of electric heating and pressing ahead with low-regret energy infrastructure decisions.

CCC

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