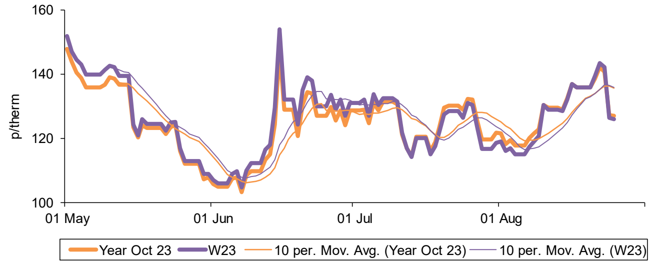
Digital Energy Element

September 2023
Volatility Returns to the Market

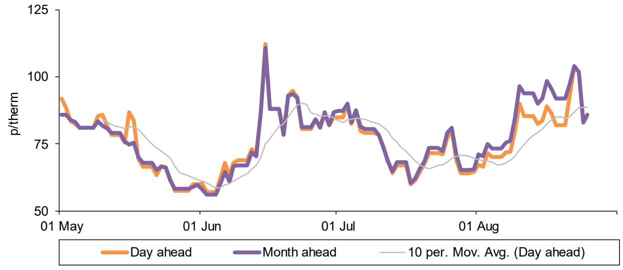
Untangle your energy spend management

Digital Energy Element / September 23

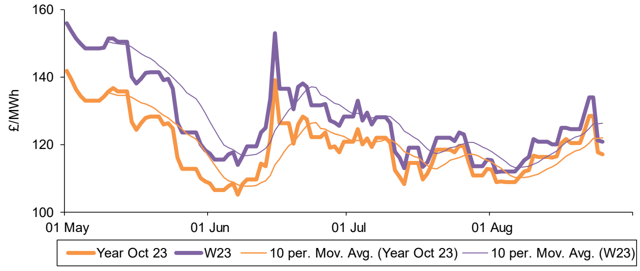
Annual gas prices



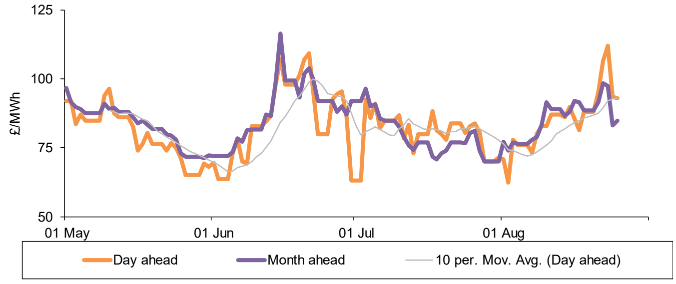
Spot gas prices



Annual power prices



Spot power prices



Contrary to the pattern observed in the preceding reporting period, contracts with shorter durations recorded gains month-to-month.

Despite the apparent price rises, it is important to acknowledge that prices remain sensitive to change, especially as we approach the second winter with reduced Russian energy exports. This was particularly apparent during August where potential strike action across Australian LNG terminals exacerbated supply fears for the west. Similarly, reduced gas supply from the Norwegian and UK Continental Shelf further solidified the bullish sentiment experienced across August.

As a result, day-ahead gas registered a 15.2% rise month-on-month to average 83.47p/th. Similarly, front-month contracts registered price gains, rising by 13.2% when compared to July, with September 2023 seeing a 12.5% gain to 87.48p/th, and October 23 growing 13.8% to 97.15p/th.

Similar to the front-month contracts, most seasonal gas contracts out to summer 2025 showed increases, but we note an outlier in the winter 2025 contract which saw a loss of 20.1%, as risk was removed further along the curve. This led to an overall decrease of 1.1% across seasonal gas contracts. However, an element of risk remains across the medium-term from traders, as the present gas supply environment remains relatively uncertain despite elevated levels of EU gas in storage.

Elsewhere, demand profiles in Europe and South-East Asia across the winter period could play a key role in shaping future price movements for gas, particularly if we see competition between the two geographies rise for the procurement of natural gas and liquified natural gas.

Following the bullish pricing sentiment experienced across its day-ahead gas counterpart, day-ahead power prices rose 5.4% to average £86.28/MWh in August, with periods of decreased wind generation tightening system margins throughout the month. This was compounded by periods of reduced French interconnector flows due to nuclear outages.

Similarly, both front-month power contracts registered gains, as September 23 rose 0.7% to £86.11/MWh, and October 2023 grew 8.4% to £93.70/MWh. Seasonal power prices saw an overall upward movement – rising 0.6% on average despite winter 2023 remaining static at £121.00/MWh and summer 2025 falling 0.2% to £97.65/MWh. Winter 2024 overtook winter 2023 as the premium market this report, averaging £130.38/MWh across August.

Brent crude oil continued to grow month-on-month, averaging $85.09/bl – up 6.6%. Saudi Arabia pledged to cut output by one million barrels per day in July, with the pledge extended twice to include August and September, and it is likely that the cuts will be extended to include October according to present market commentary.

Spot Asian LNG recorded a notably bullish month following supply-side concerns arising from potential strike action across Australian LNG terminals. This resulted in a 16.0% increase month-on-month, with Asian LNG averaging 101.44p/th in August – experiencing a five-month high of 110.92p/th on 18 August.

The price difference between the UK and EU ETS schemes reached an all-time high in August, as UK ETS carbon dropped 14.0% to average £43.48/t – reaching a record low of £39.90/t on 11 August, as industrial demand continues to trend below average, paired with a decrease in carbon-intensive power generation. EU ETS carbon averaged €86.37/t, remaining elevated following the annual drop in auction supply in August, growth across gas contracts, and low trading during the peak of the summer break.

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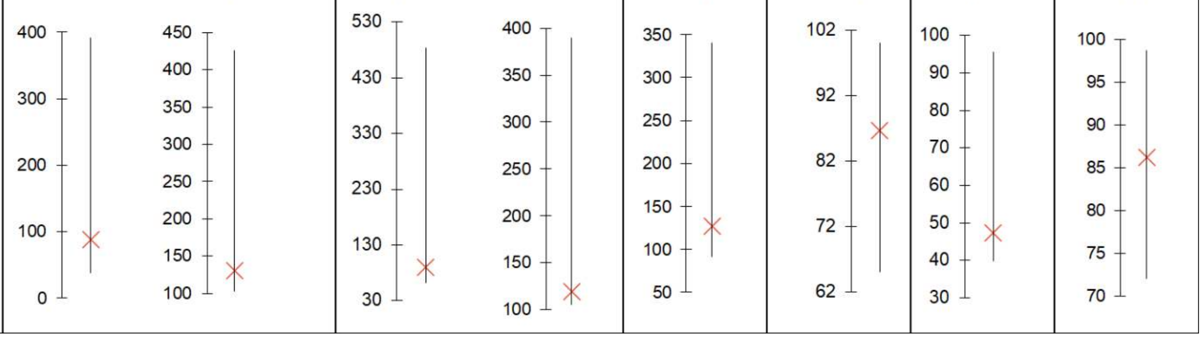
Key market indicators: 31/08/2023

		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 Aug 23	88.50	130.50	90.00	119.25	127.50	86.65	47.30	86.24
Last month	31 Jul 23	64.50	121.75	71.60	112.75	120.00	87.96	46.65	85.34
Last year	1 Sep 22	336.00	362.24	355.00	347.50	310.00	78.30	95.70	94.15
Year-on-year % change		(74%)	(64%)	(75%)	(66%)	(59%)	11%	-51%	(8%)
Year high		392.00	426.50	483.00	390.00	340.00	100.00	95.70	98.70
Year low		38.75	103.15	62.50	105.10	91.50	65.09	39.90	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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Report urges government to help businesses achieve net zero

On 9 August, the British Chambers of Commerce and Lloyds Bank published a report setting out three key recommendations to help businesses reach net zero, including that the government should review its support and advice to small and medium sized businesses (SMEs) on moving to net zero; large businesses and institutions must continue to drive behaviour change in their supply chains; and the government should demonstrate commitment and consistency in its net zero plans.

The recommendations are the result of a six-month in-depth survey of over 1,000 UK businesses (96% of which were SMEs) into the reasons firms are being held back from reaching net zero. Key findings from the survey included:

- In general, there are very low levels of understanding among SMEs about how the 2050 net zero target may impact their organisation, with only 8% saying they comprehensively understood what the net zero target means for them and 30% saying they know some of the details. In addition, 49% were aware of the target but knew no details and 14% were not aware of the target at all.
- In terms of where they are in their net zero journeys, 61% of SMEs were “non-starters”, 31% were at an “early stage” and 9% were at a “later stage”.
- The main challenges for SMEs on their net zero journey include the costs of energy, the impact of inflation and government uncertainty, as well as lack of information, lack of demand from stakeholders and a lack of skilled staff.

British Chambers of Commerce

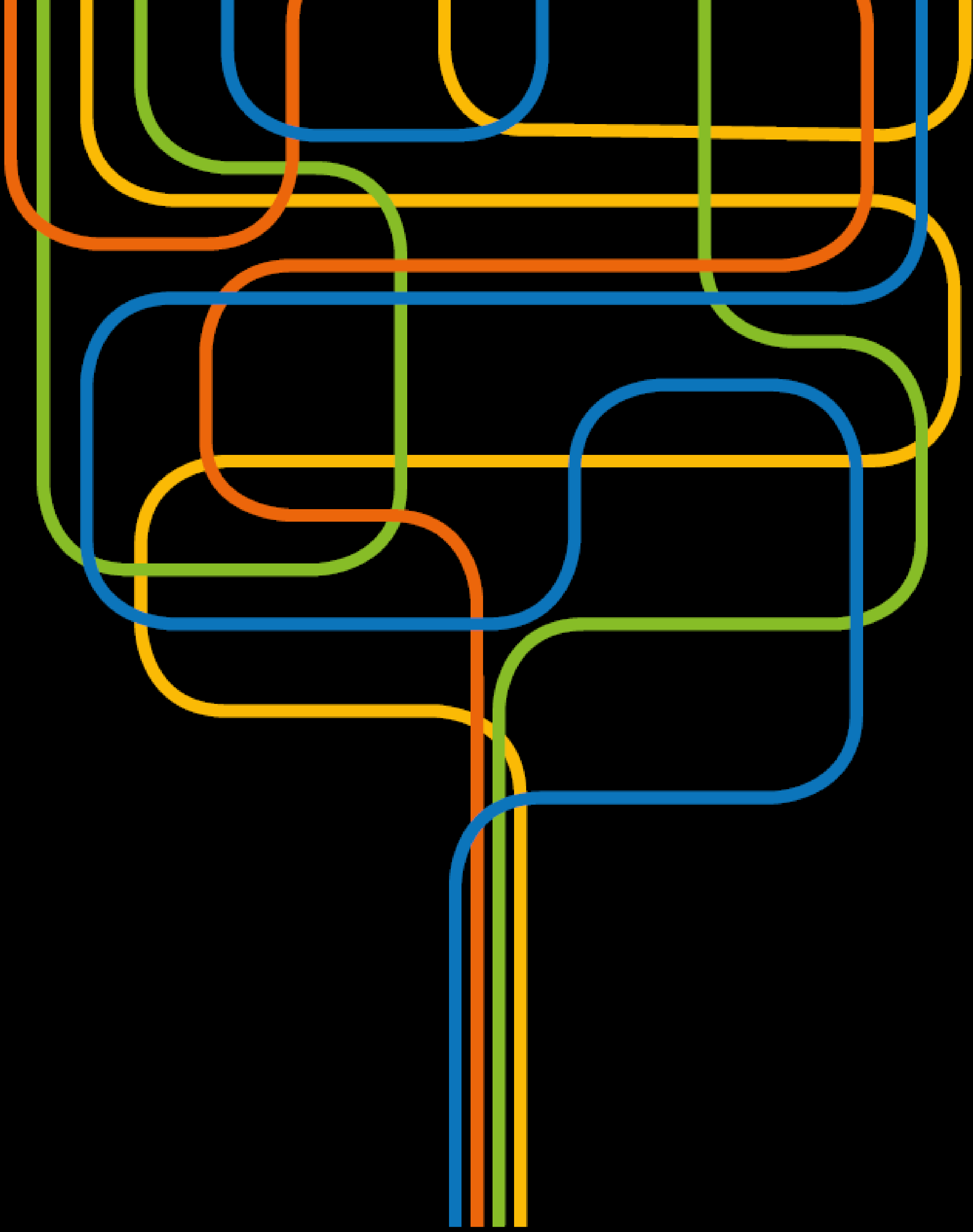
Ofgem publishes its non-domestic best practice guide for security deposits

On 26 July, Ofgem published its best practice guide for non-domestic security deposits. Suppliers often use security deposits to manage their risk exposure when contracting non-domestic consumers carrying a credit risk. Ofgem has released this document to drive better practices and greater standardisation in the use of security deposits and to address consumer concerns regarding large security deposit requests and unclear calculations.

This guide is based on three overarching principles: transparency of supplier processes, consistency across supplier practices, and fairness in the outcomes for consumers. It sets out Ofgem’s expectations that suppliers should communicate their consumer creditworthiness assessment process in a clear and timely manner and should publish a high-level version of this on their website to promote transparency. Further, suppliers following best practice will inform consumers in writing if they fail to meet the necessary credit threshold, providing the basis for the deposit request, the requested amount, the repayment timeframe, and any alternative options available. Ofgem outlines that non-domestic consumers should be allowed to request partial or full refunds of their security deposit during the contractual term following a material improvement in their credit worthiness.

Ofgem recognises that the decision of whether a security deposit is required, and the level requested, is ultimately up to the supplier. Furthermore, third-party intermediaries (TPIs) can facilitate the use of security deposits when contracting non-domestic consumers on behalf of suppliers, therefore carrying out the actions set out in this guide. Ofgem urges suppliers to notify any TPIs working with them of this guide and where applicable, for TPIs to seek best practice.

Ofgem



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DESNZ launches initiatives to help businesses reach net zero

On 14 August, DESNZ published the net zero business sector roadmap guidelines, which have been developed by the Net Zero Council to help empower businesses to create tailored roadmaps to reduce emissions. The guidelines outline the criteria that all sector roadmaps should meet to ensure they can effectively reduce emissions, calling for: a credible pathway (criteria apply to individual roadmaps); robust delivery plan (criteria apply to individual roadmaps); mechanisms for collaboration; and independent assessment of roadmaps.

On the same day, the government announced the launch of its UK Business Climate Hub, which it states will help small and medium-sized businesses (SMEs) to cut carbon emissions and reduce energy bills. According to DESNZ, the scheme is targeted at the estimated 5.5mn SMEs in the UK and is expected to serve as a ‘one-stop-shop’ to help businesses transition to net zero. DESNZ noted that the Business Climate Hub will provide businesses with a free carbon calculator, tools to aid with measuring, tracking, and reporting emissions, and detailed advice on issues such as obtaining air source heat pumps and buying credible carbon offsets.

DESNZ

National Grid ESO publishes ETYS 2023

National Grid ESO reported on 29 August that it has published its Electricity Ten Year Statement (ETYS) 2023. It stated that the report illustrates its view regarding future transmission requirements and the capability of GB’s National Electricity Transmission System (NETS) over the next ten years.

It outlines the main points as being: over the next decade the GB Electricity Transmission System faces growing system needs; the winter peak still drives the majority of bulk power transfer needs; emerging high and low voltage issues on the GB Electricity Transmission System over the next decade will need to be addressed; and timely and coordinated network reinforcements will significantly help reduce network constraints.

National Grid ESO

Views sought on reducing residual charges for ‘peaky customers’

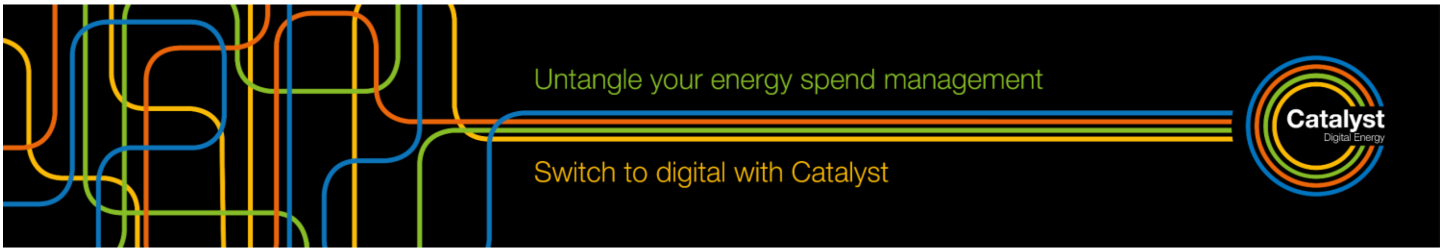
On 3 August, the modification DCP412 *Discounts from TCR Charges for ‘Peaky’ Final Demand Customers* was issued for consultation by the DCUSA. This modification seeks to create a discount against the residual charge for ‘peaky’ customers, which are defined as those with low annual consumption but with high-capacity requirement needs.

The proposer considers that the recent reform of residual charges through the Targeted Charging Review (TCR) and subsequent DCUSA Change Proposals, have led to an unintended consequence where ‘peaky’ customers are seeing overly excessive charges on their bills. This could lead to some ‘peaky’ customers seeing in excess of a five-fold increase to their electricity bills from April 2023, compared to pre-April 2022.

As such, the proposal recommends allowing ‘peaky’ customers to have access to discounts up to 85% against the full residual charge. The remainder of these customers’ full charge would be factored back into the fixed charges for non-domestic users. Consumers who fall into the ‘peaky’ definition would therefore no longer incur the high network costs, while consumers who do not fall into this definition would see an increase to their network charges.

Responses are requested by 5 September, and a second consultation is expected on 28 September.

DCUSA



Proposal to introduce a TPI code of Practice into the REC

On 20 July, the Retail Energy Code Company (RECCo) submitted a proposal to introduce a Third Party Intermediary (TPI) Code of Practice (CoP) into the Retail Energy Code (REC). A separate change proposal will be raised to introduce changes to the REC that would require suppliers to only use a TPI that complies with the CoP.

An implementation date of 1 October 2023 is proposed and is part of an ongoing process by RECCo to have a TPI CoP formally put in place by October 2023, as TPIs are currently not regulated under a statutory CoP. A draft CoP was first proposed by RECCo in June 2023, with the aim to first introduce the CoP "voluntarily" for suppliers and TPIs as work continues on developing and later implementing a mandatory and fully accredited CoP for the industry.

Based on findings and feedback from workshops with TPIs held on 20 June, RECCo decided that a "principles-based approach" was the most "appropriate" way in which to introduce a TPI CoP, as it sets out the standards expected by TPIs while still allowing for "flexibility" in how TPIs "meet their business model". The principles are based on a prior draft CoP developed by Ofgem in 2013 that was not formally implemented, with RECCo revising these "where appropriate" such as adding new principles around data protection.

The latest principles are: transparency and accuracy; price and product; fair and appropriate selling; complaints handling/dispute resolution; data protection; and training.

Retail Energy Code Company

DESNZ and Ofgem consult on heat networks regulation – consumer protection

On 4 August, DESNZ and Ofgem published a joint consultation on Heat Networks Regulation – Consumer Protection. The consultation is seeking views to inform the development of consumer protection requirements relating to pricing, quality of service, information transparency, and protections for consumers in vulnerable circumstances. It is noted that domestic consumers will benefit from all consumer protections and microbusinesses will benefit from most consumer protections.

The consultation proposes to scale-up consumer protections and Ofgem's measures for enforcing them in three phases. The proposals for fair pricing aim to give the regulator specific powers to protect consumers from disproportionate pricing and monopoly power. Proposals relating to quality of service and supply of heat focus specifically on how better reliability can be driven through better customer service, via improved complaints handling and Guaranteed Standards of Performance. Views are also sought on the proposal to implement mandated minimum standards on the transparency of information to consumers prior to and during residency. It is also proposed that smart meters will be installed by default on heat networks.

In addition, the document seeks to address several outstanding policy questions regarding cost recovery for regulation, including costs in the initial period of heat network regulation, how fees are calculated, and how to best streamline the cost recovery process.

Responses are requested by 27 October 2023.

DESNZ and Ofgem

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