Catalyst
Digital Energy

Digital Energy Element

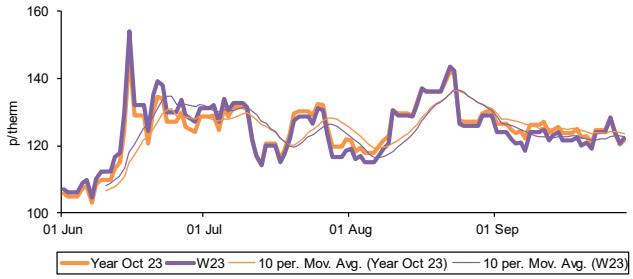
October 2023

Markets Settle on Healthy Supplies

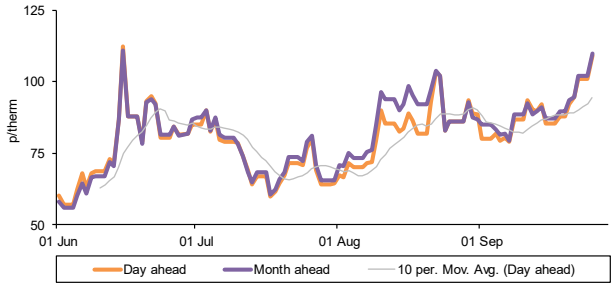
Untangle your energy spend management

Digital Energy Element / October 23

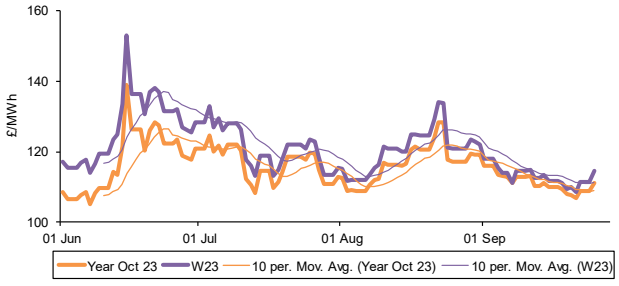
Annual gas prices



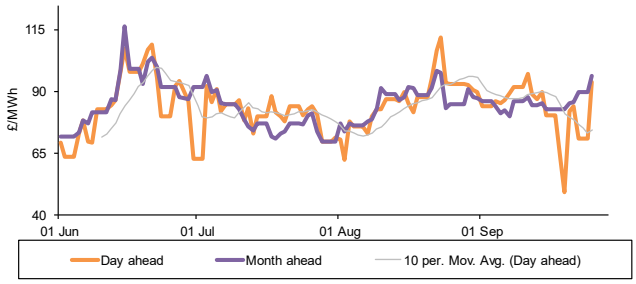
Spot gas prices



Annual power prices



Spot power prices



In September, the majority of tracked GB wholesale gas contracts saw losses in the month but with day-ahead, Summer 25 and Winter 25 gas the exceptions. Shorter dated contracts such as the front-months observed the most prominent losses month-on-month, whereas we observed slightly softer price decline further out on the forward curve.

However, a higher level of price risk remains baked into longer-dated contracts, with underlying future supply uncertainty still remaining - as the West continues to adapt to a supply environment with minimal Russian gas.

Despite this, on average, seasonal gas contracts from Winter 23 to Winter 25 were 1.3% lower in September compared with the previous month. Winter 24 gas prices represented the highest average contract price in September at 141.26p/th.

Competing market fundamentals were reflected in price movements in September. We attribute the predominantly bullish price movements at the day-ahead level, particularly in the latter half of the month, to periods of lower wind generation, resulting in higher gas-for-power demand and continued maintenance extensions to major Norwegian gas fields.

During the first half of the month, strike action at Australian LNG plants acted to drive longer-term domestic gas prices up – however this was resolved in the latter half of September, curtailing further gains seen. Bearish market drivers remained consistent in September overall, acting to offset price rises, with strong EU gas storage levels acting as a solid foundation to support supply for the upcoming winter period, coupled with above-average temperatures reducing demand for heating.

Day-ahead gas prices rose in September, up 8.9% to average 90.92p/th, including an approximate three month high of 109p/th on 25 September. On the contrary, front-month contracts were down 5.2% on average from August, with October 23 averaging 91.88p/th and November 23 at 110.49p/th.

Day-ahead power prices opposed their gas counterpart and moved lower in September – down 4.5% on average to sit at £82.44/MWh. Similarly, day-ahead power fell to the lowest level since March 2021 on 19 September at £49.25/MWh, due to periods of increased wind generation and lower demand. All seasonal power contracts recorded losses, down 4.3% on average from winter 23 to summer 25.

The downward momentum on near-term gas prices set a bearish direction for power prices to follow. The return of the French nuclear fleet in September after prolonged maintenance and heatwaves in August, bolstered interconnector flows and continues to ease some concern over winter supply.

As a result, front-month power contracts (October and November 23) shared the price direction of their gas counterparts, falling 9.0% on average to sit at £85.86/MWh and £105.10/MWh, respectively.

The price of Brent crude rose 8.2% to 92.03/bl, including a ten-month high of $96.05/bl on 28 September. Continued OPEC+ supply cuts set to last until the end of the year, larger-than-expected drawdown in US crude inventories, and a temporary ban on fuel exports from Russia spiked prices this month.

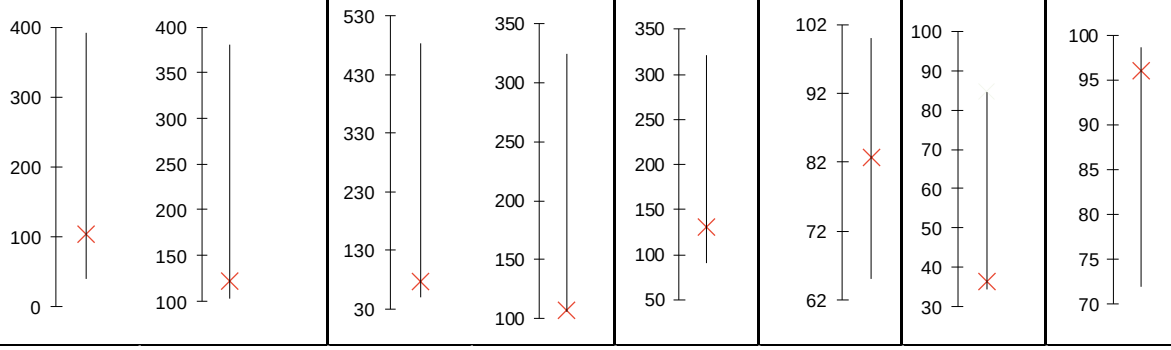
Elsewhere, carbon markets in both the UK and Europe registered bearish movements. The EU ETS fell 3.7% lower to €83.13/t whereas the UK ETS dropped 9.3% to £39.45/t – and experienced its lowest price on record at £34.25/t on 22 September.

Spot Asian LNG prices reported another bullish month, as strike action at the Wheatstone and Gorgon terminals in Australia threatened global supply – before a decision was reached on 21 September. This resulted in a 10.2% increase month-on-month, with Asian LNG averaging 111.79p/th in September.

Key market indicators: 28/09/2023

	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 Sep 23	103.50	121.60	77.50	106.50	130.50	82.65	36.25	96.05
Last month 31 Aug 23	88.50	130.50	90.00	119.25	127.50	86.65	47.30	86.24
Last year 29 Sep 22	189.00	380.63	185.00	325.00	275.00	65.90	74.75	89.66
Year-on-year % change	(45%)	(68%)	(58%)	(67%)	(53%)	25%	-52%	7%
Year high	392.00	380.63	483.00	325.00	322.00	100.00	84.50	98.70
Year low	38.75	103.15	49.25	105.10	91.50	65.09	34.25	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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Changes announced on several measures to reach net zero

In a speech delivered on 20 September, the Prime Minister announced that the government will revise a number of current measures intended to help reach net zero emissions as a country by 2050.

The speech started with Rishi Sunak stating that the UK's 68% reduction target in carbon emissions by 2030 is one of the most ambitious. Sunak claimed that progress made on emissions meant the government considers some measures previously outlined are now no longer required. Several changes were announced including:

- Delaying the ban on the sale of new petrol and diesel cars by five years, so all sales of new cars from 2035 will be zero emission.
- Delaying the ban on installing oil and LPG boilers, and new coal heating, for off-gas-grid homes to 2035, instead of phasing them out from 2026.
- Setting an exemption to the phase out of fossil fuel boilers, including gas, in 2035, so that households that will struggle to make the switch to heat pumps or other low-carbon alternatives will not have to do so.
- Raising the Boiler Upgrade Grant by 50% to £7,500 to help households who want to replace their gas boilers with a low-carbon alternative like a heat pump.
- A "fast track" through the nationally significant infrastructure project planning regime, available for major eligible transmission projects, to ensure they are prioritised, helping speed up connects to the grid.
- A new approach to grid connections, where energy projects that are ready first will connect first – and ultimately get online quicker.

Sunak also stated that Parliament would be able to give full scrutiny to all future measures that might be needed to fulfil the Carbon Budget. Sunak said this would mean more accountability from elected representatives and more transparency on net zero plans.

The release also stated that the Chancellor and Energy Security Secretary will bring forward comprehensive new reforms in due course.

Government

DESNZ publishes non-domestic energy efficiency statistics

On 24 August, DESNZ published its Non-domestic National Energy Efficiency Data (ND-NEED) Framework 2023. The report presents statistics on the metered electricity and gas consumption of non-domestic buildings in England and Wales for 2012-2021, with analysis by building use, building size, and occupying business size.

The report highlights the key findings as:

- Total electricity consumption increased by 6% in 2021 compared to 2020, although this is still an overall decrease of 4% from 2019. The significant increase for Hospitality (28%) and Arts, Community and Leisure (17%) reflects the bounce back from the COVID-19 pandemic following the notable falls in consumption seen in 2020.
- Total gas consumption decreased slightly in 2021 compared to 2020 (less than 1% decrease). Although the consumption for most sectors fell in 2021, there were notable increases in the Hospitality and the Arts, Communities and Leisure sectors, which grew by 24% and 16%, respectively.

DESNZ

CfD AR5 results published by government

On 8 September, DESNZ published the results of Allocation Round 5 (AR5) of the Contracts for Difference (CfD) scheme, which commenced on 30 March 2023. This lists the successful applicants for AR5 and includes information such as the size of the project, strike price, and delivery year.

AR5 secured 3.7GW of capacity across all pots, comprising of five successful bidding technologies and 95 individual projects. By comparison, AR4 achieved 10.8GW of secured capacity – an evident reduction.

Notably, no offshore wind capacity was secured, re-affirming concerns surrounding rising costs for developers which had already seen one wind project from AR4 (Norfolk Boreas) halt development. Solar PV secured the greatest amount of capacity (1.9GW), at the Administrative Strike Price (ASP) of £47/MWh. This compares to 2.2GW at a Strike Price of £45.99/MWh in AR4. Just under 1.5GW of onshore wind secured contracts, at a Strike Price of £52.29/MWh, marginally lower than its ASP of £53/MWh. One remote island wind site (223MW) was successful, at a Strike Price of £52.29/MWh, against an ASP of £53/MWh.

Like AR4, a monetary budget minimum was set for tidal stream projects with 53MW successful, compared to 41MW in AR4. These projects secured a Strike Price of £198/MWh, up from £178.54/MWh in AR4, and just £4/MWh below the technology's ASP. Geothermal projects were successful for the first time, with a combined total of 12MW from three projects winning contracts. These contracts also secured agreements at their ASP of £119/MWh.

DESNZ

Demand Flexibility Service to return this winter

On 1 September, National Grid Electricity System Operator (ESO) confirmed that, subject to Ofgem approval, its Demand Flexibility Service (DFS) will return this winter. As a result, participants in homes and businesses across GB will again be able to earn money, points, or prizes across the winter by shifting their energy usage away from peak times.

Alongside the potential live use of the service to help balance the electricity network, the ESO said that it is looking to run 12 test events this winter to deliver commercial value and incentive for providers, businesses, and consumers to participate. It stated that this years' service will offer providers a Guaranteed Acceptance Price (GAP) of £3,000MWh/£3kWh, for at least six of the 12 tests subject to the registered volumes from January 2024.

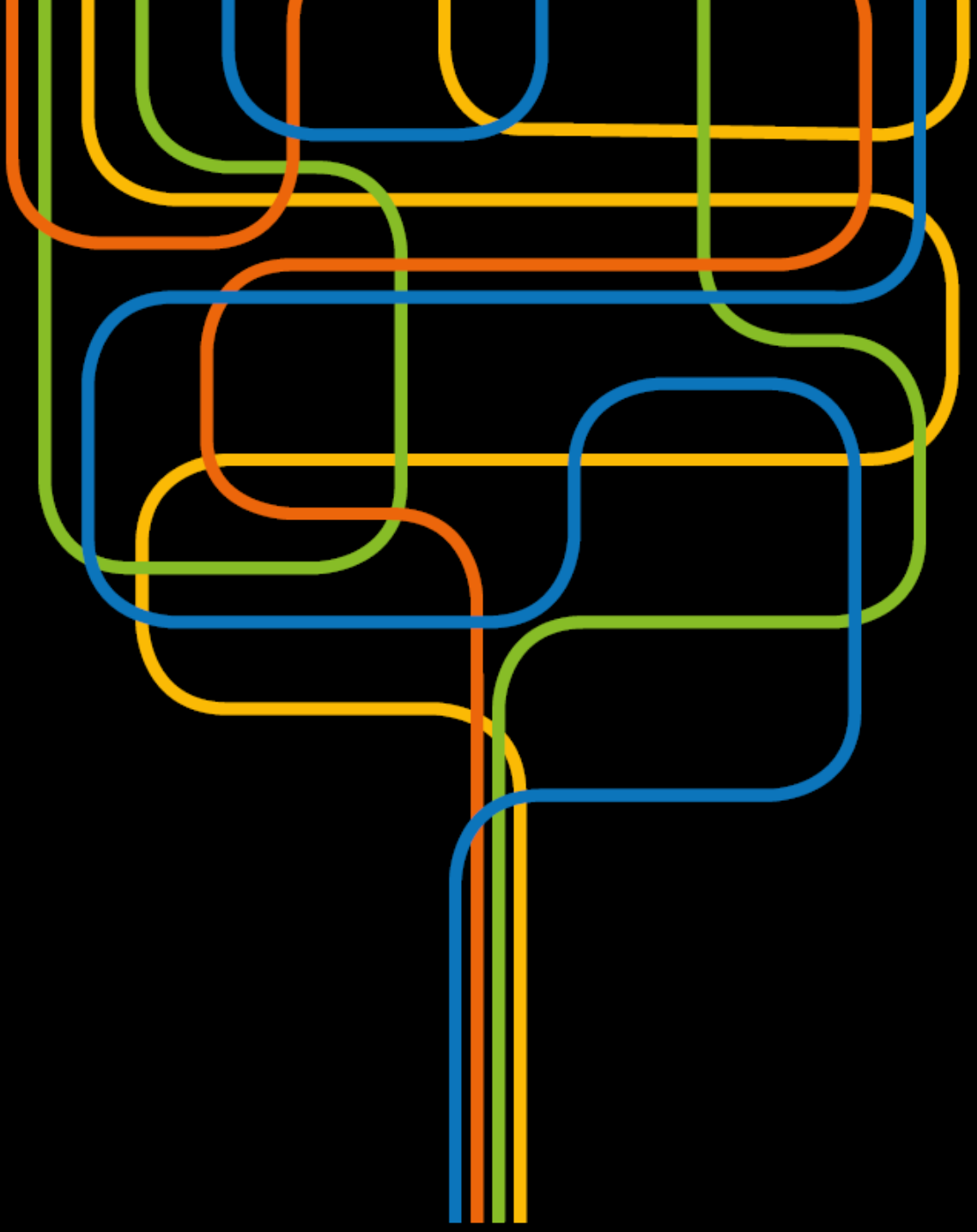
The release added that recent research around household engagement with the DFS in 2022-23, found that 89% of respondents were satisfied with their experience in last winter's scheme and 83% would participate again.

National Grid ESO

SBTi opens call for evidence on Environmental Attribute Certificates

The Science Based Targets initiative (SBTi) announced on 21 September that it has opened a call for evidence on the Effectiveness of the Use of Environmental Attribute Certificates in Corporate Climate Targets. It stated that the aim of the call for evidence is to help the corporate climate action ecosystem understand whether different instruments can credibly drive decarbonisation and support corporate emission reduction claims. SBTi expects the call for evidence will help support the work on how companies achieve their targets and the parameters that should be considered for robust reporting of target progress, delivery, and achievement. The call for evidence is open until 24 November 2023.

SBTi



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Energy crisis could be detrimental to reducing UK business' emissions

On 7 September, Schneider Electric published its *Missing the target* report, in which it outlined that 82% of UK business leaders believe the energy crisis will impact their organisation's emission reduction plans. The report also found that of the 1,504 organisations surveyed, 49% are delaying planned investment into sustainability and net zero plans, and 34% of organisations now say they have more immediate business challenges to meet, such as economic pressures, supply chain delays and skill shortages.

According to the report, organisations struggled to mitigate the impact of the energy crisis because of higher business priorities (55%), insufficient government support (52%), and being unable to obtain suitable products and solutions (39%), and advice (38%). Schneider Electric stated that the latter of these findings illustrate the division between those who understood how technology could benefit their business, and others who do not know where to start. Thus, it recommended organisations bring in experts to assess the needs of their business so that knowledge and expertise can be promptly and effectively given.

Despite the report finding 88% of the surveyed organisations have a carbon emissions reduction or net zero plan in place, a disparity between public and private sector organisations was uncovered. Public sectors were more likely to have emission reduction targets in place (91%) than private sectors (86%) and were less likely to have delayed planned investments to reduce carbon emissions as a result of the energy crisis (45%) than their private sector counterparts (52%). Yet, the report found that public sector organisations are less likely to have invested in technology to gain insights into their energy use (49% in the public sector vs 54% in the private sector).

The report noted that delaying decarbonisation goals may present organisations with new business risks associated with fluctuating energy prices and extreme climate events, whereas businesses that continue to address their carbon reductions will see tangible benefits in the form of lower costs and greater efficiency, while making progress against their sustainability goals. It also highlighted that maintaining emissions targets does not have to be difficult, noting that simple and practical steps can be taken by organisations to protect themselves against future energy crises and reduce costs as they progress to net zero.

Schneider Electric

Valda Energy urges government to provide support for microbusinesses

On 25 September, Valda Energy published the results from its survey of 500 microbusinesses, which revealed that microbusiness owners remain concerned about high energy costs, with only 4% happy with the government support in place to help with energy bills. 75% of respondents said they have been neglected in favour of more focused support on consumers and larger businesses, and only a third of businesses felt that the Energy Bill Discount Scheme is providing adequate support.

Following these findings, Valda Energy stated it is urging industry, the government and Ofgem to come together to design a tailored funded support package for those businesses most in need.

Valda Energy

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