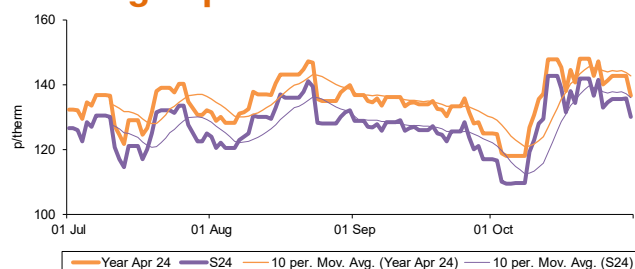




Digital Energy Element
November 2023
Mixed Market Directions



Annual gas prices



During October, most of the monitored GB wholesale gas contracts recorded gains for the month. However, contracts further out on the curve, notably across seasonal gas contracts, were the exceptions to this trend. The contracts with shorter timeframes, like the front-months, experienced the most significant month-on-month gains, while we noticed a somewhat softer price decline for contracts further along the forward curve. Likewise, gas experienced a more bullish month than power - the result of continued gas supply uncertainty.

An elevated degree of price risk was baked into contracts throughout October, as market concerns surrounding energy infrastructure grew following damage to the BalticConnector pipeline, the growing Israel-Hamas conflict, and the potential for industrial strike action across Australian LNG terminals in the first half of the month. This is particularly relevant as Western nations are more reliant on the global market for the procurement of gas following the Russian invasion of Ukraine.

Despite this, on average, seasonal gas contracts from summer 24 to summer 26 were 1.2% lower in October compared with the previous month. Winter 24 gas prices represented the highest average contract price in October at 142.80p/th.

During the middle of the month, the culmination of various geopolitical events acted to increase energy security concerns. Moreover, a period of notably below-average temperatures across the UK acted to bolster gas demand, in tandem with reduced wind generation tightening system margins. This resulted in a week-on-week increase to day-ahead gas of 97.1%, reaching 135.00p/th on 13 October – the highest since February 2023. Stronger price gains across October were limited by strong EU gas storage levels, which continue to remain a prominent price driver ahead of the winter period.

Day-ahead gas prices rose in September, up 14.9% to average 104.83p/th. Likewise, front-month contracts were up 4.9% on average from September, with November 23 averaging 116.98p/th and December 23 at 130.95p/th.

Day-ahead power prices followed their gas counterpart higher in October – up 7.2% on average to sit at £89.03/MWh. Similarly, day-ahead power reached a seven-month high on 13 October at £130.00/MWh, due to the strong bullish adjustment recorded by its gas counterpart, and reduced wind generation in tandem. Most seasonal power contracts recorded gains, however overall seasonal power contracts rose by only 0.1% on average from summer 24 to winter 25 – weighed by a 5.8% drop across the winter 25 contract.

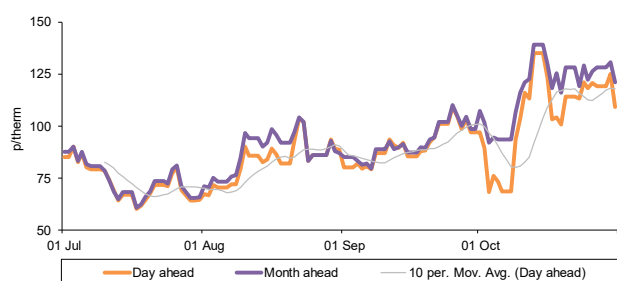
Front-month power contracts (November and December 23) shared the price direction of their gas counterparts, although to a much lesser extent, rising 0.2% on average to sit at £104.39/MWh and £115.14/MWh, respectively.

The price of Brent crude remained volatile across October, falling by 3.1% to 89.39/bbl, with conflicting market fundamentals influencing the price. Bearishness was found through increased oil output from Nigeria and Turkey, with the latter restarting operations on the Iraq-Turkiye pipeline, and the US agreeing to ease sanctions on Venezuela's oil industry. However, the ongoing Israel-Hamas conflict has the potential to impact the oil producing regions of the Middle East – providing a bullish pricing sentiment into the future.

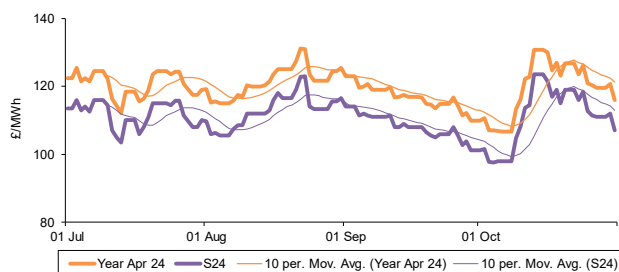
Elsewhere, EU and UK carbon markets registered opposing movements. The EU ETS fell 1.7% lower to €81.64/t whereas the UK ETS rose 10.8% to £43.60/t.

Spot Asian LNG prices reported another bullish month, as demand for LNG grows ahead of the winter period. This resulted in a 23.1% increase month-on-month, with Asian LNG averaging 139.95p/th in October.

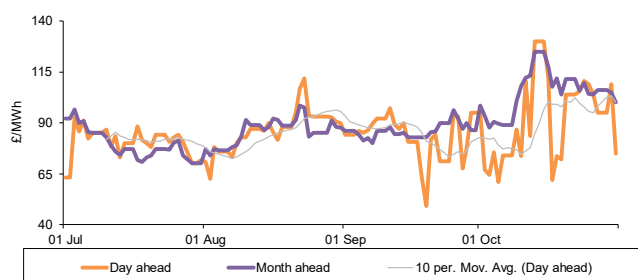
Spot gas prices



Annual power prices



Spot power prices





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Key market indicators: 31/10/2023

		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 Oct 23	109.00	136.50	75.00	116.00	119.00	78.75	38.35	88.15
Last month	2 Oct 23	89.50	124.75	67.00	110.63	129.00	81.07	39.30	93.19
Last year	31 Oct 22	66.00	250.00	94.00	232.50	225.00	78.85	77.90	94.51
Year-on-year % change		65%	(45%)	(20%)	(50%)	(47%)	(0%)	-51%	(7%)
Year high		392.00	252.00	483.00	247.50	274.00	100.00	84.50	98.70
Year low		52.00	108.80	49.25	105.48	91.50	72.25	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.

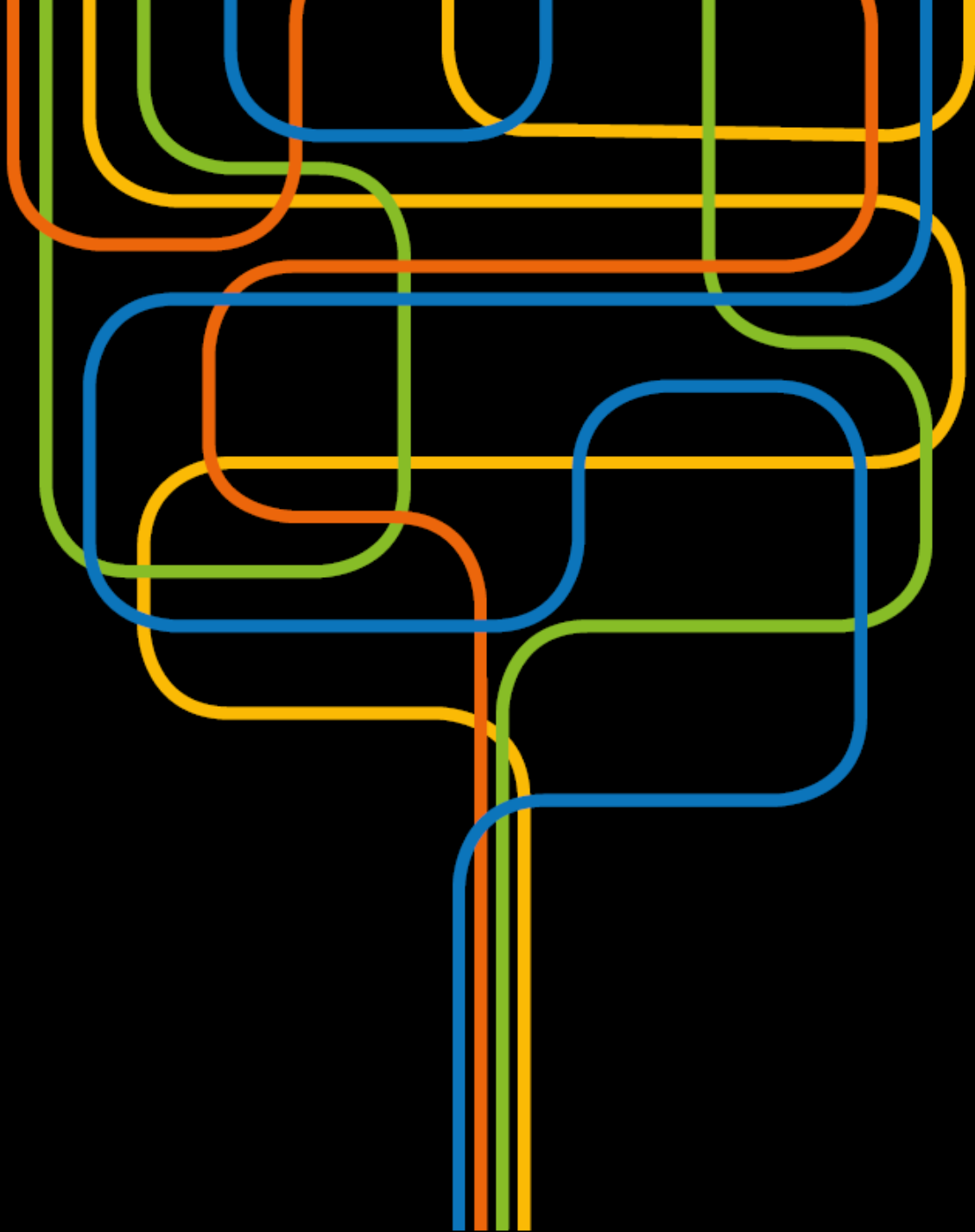
Margin: The indicated UK imbalance of a given settlement period. It is the difference between the sum of the indicated generation available, and the national demand forecast made by National Grid.

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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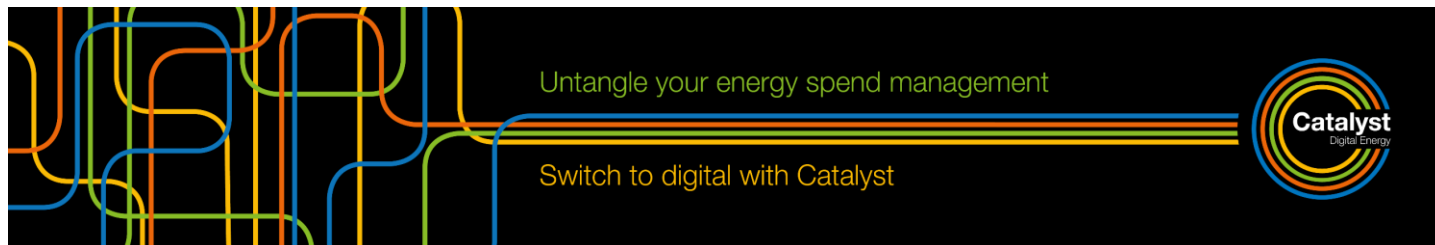


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Energy Act 2023 comes into force

On 26 October, the Energy Bill received Royal Assent and is now the Energy Act 2023. In a release on the same day, the government said that the Energy Act will transform the UK's energy system by strengthening energy security, supporting the delivery of net zero, and ensuring household bills are affordable in the long-term. The government highlighted several measures within the Act, including: increasing competition in GB's onshore electricity networks, through a new tender process; expanding Ofgem's remit to heat networks; updating Ofgem's remit so that it considers net zero targets as part of everyday decisions; and establishing the Future System Operator.

That day, the Carbon Capture and Storage Association (CCSA) issued a release in which it stated it welcomed the Royal Assent of the Energy Bill. The next day, the Association for Renewable Energy and Clea Technology (REA) reported that it was 'delighted' the Energy Act had received Royal Assent. Frank Gordon, Director of Policy at the REA, said: "The Act provides certainty for investors in both hydrogen and bioenergy with carbon capture and storage (BECCS) – both technologies identified by the Climate Change Committee (CCC) as critical to reaching net zero".

UK Parliament

Views sought on reporting of Scope 3 GHG emissions in UK

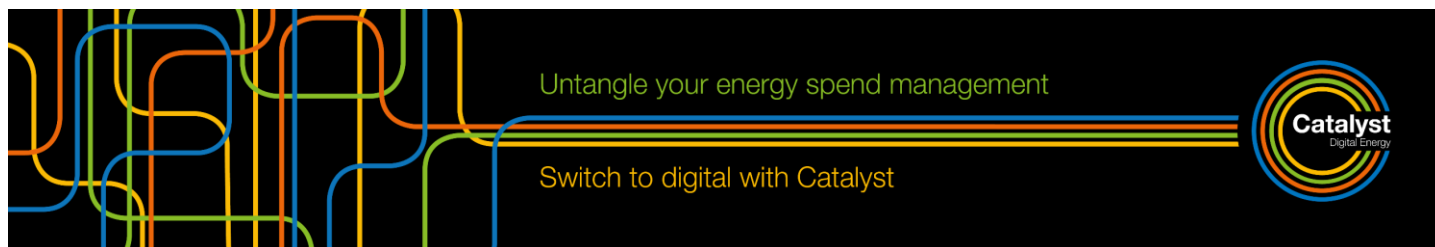
On 19 October, DESNZ opened a call for evidence regarding the costs, benefits and practicalities of Scope 3 greenhouse gas (GHG) emissions reporting in the UK. Under the GHG protocol, a company's emissions are currently classified into three scopes. Scope 1 emissions are direct emissions from owned or controlled sources; Scope 2 emissions are indirect emissions from the generation of purchased energy; and Scope 3 emissions are all indirect emissions, not included in Scope 2, that occur in the value chain of the reporting company. DESNZ notes that Scope 3 emissions are often the most challenging source of emissions for businesses to identify, quantify, and address. However, under the government's Streamlined Energy and Carbon Reporting (SECR) framework, the reporting of Scope 3 emissions remains largely voluntary.

In June 2023, the International Sustainability Standards Board (ISSB) issued its inaugural standards for sustainability-related disclosures. The first two standards – IFRS S1 and IFRS S2 – include the requirement for entities to report their Scope 1, Scope 2, and Scope 3 emissions. Following the ISSB's announcement, the government declared that it would launch an endorsement process to assess the suitability of the standards issued by the ISSB for use in the UK.

DESNZ notes that Scope 3 emissions account for approximately 80-95% of total emissions for a large number of organisations and reducing Scope 3 emissions should help the UK reach its 2050 net zero target. DESNZ adds that the reporting of Scope 3 emissions is becoming increasingly important for investors and stakeholders when considering the transition readiness of organisations. However, DESNZ outlines that measuring, calculating, and disclosing Scope 3 emissions can create additional administrative burdens on reporting entities, as well as an increased cost for organisations who do not usually report Scope 3 emissions.

The call for evidence is expected to support the government in understanding any wider impacts of the ISSB's endorsement. It is also expected to inform a post-implementation review of the SECR, due to be held in 2024, which will help ensure the SECR is achieving its aims and inform any future changes that could help reduce compliance costs or increase the benefits of the regulation. The call for evidence is expected to be of particular interest to UK businesses of all sizes. Views are requested by 14 December.

DESNZ



Progress on smart meter rollout is too slow, says the PAC

On 20 October, the Public Accounts Committee (PAC) published a report, titled Update on the rollout of smart meters, setting out several conclusions and recommendations.

A key conclusion is that progress on rolling out smart meters is too slow and DESNZ has not done enough to ensure consumers are aware of their benefits. The PAC notes that while the government's original target was to complete the smart meter rollout by 2019, this has been repeatedly pushed back and in March 2023 only 57% of meters in GB were smart. In addition, DESNZ now has new targets for suppliers to install smart meters in at least 74.5% of homes and nearly 69% of small businesses by the end of 2025.

The report also highlights the negative media attention regarding smart meters recently, particularly around the forced switching of consumers to smart prepayment mode. As such, the PAC is calling on DESNZ to work with Smart Energy GB to review its public engagement strategy, ensuring it drives demand and clearly sets out consumer benefits.

Public Accounts Committee

RECCo publishes finalised TPI Code of Practice

On 26 October, the Retail Energy Code Company (RECCo) published the Third-Party Intermediary Code of Practice (TPI CoP) for non-domestic energy brokers and aggregators. The finalised CoP contains six key principles, focusing on transparency, dispute resolution, and fairness, following a consultation on the draft TPI CoP. Responses received were in favour of the need for the document, such as the TPI CoP, to raise standards and ensure that there is a level playing field.

While the TPI CoP is not currently mandatory, it will be administered by the RECCo and has been included in the Retail Energy Code (REC) to allow for parties to better prepare for meeting the requirements, should the CoP become mandatory. The TPI CoP may still be further refined and improved.

RECCo

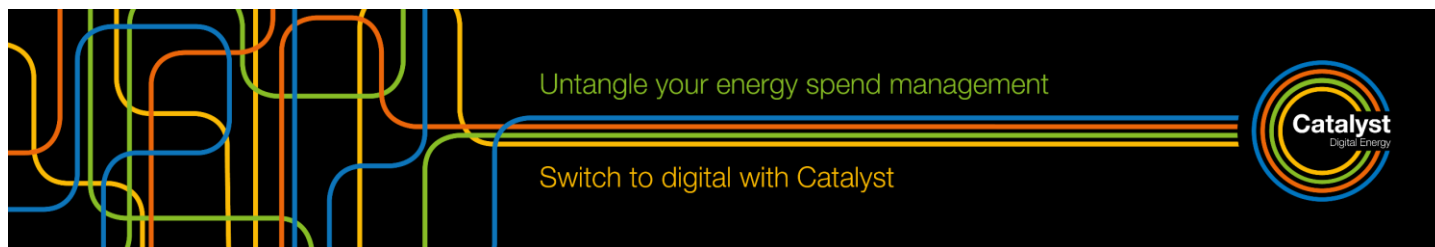
Ofgem grants approval for Demand Flexibility Service

The Electricity System Operator (ESO) announced on 27 October that Ofgem has granted approval to its Demand Flexibility Service (DFS), which will be available from 30 October. DFS incentivises households with smart meters, as well as industrial and commercial users, to voluntarily flex the time they use their electricity to help manage the system this winter during periods where margins are tightest. Last winter, DFS successfully saved over 3,300MWh across 22 events.

This year, it will also aim to run 12 test events for consumers to participate in between November 2023 and March 2024, which will offer commercial incentives for providers to reward end-consumers for delivering flexibility. The first six tests, planned for November and December 2023, will offer a Guaranteed Acceptance Price (GAP) of £3,000/MWh. The ESO also noted that following the first six tests, it will be setting a threshold of 1.25GW for when tests will move to be competitively run.

The approval follows ESO's announcement on 20 October that it has been engaging with industry partners and a variety of stakeholders to drive awareness and participation in the DFS.

ESO



World Energy Outlook 2023 released

On 24 October, the International Energy Agency (IEA) published its World Energy Outlook (WEO) 2023. The report provides an in-depth analysis and strategic insights into the global energy system. A key highlight from the WEO 2023 is that clean energy technologies will surge between now and 2030, based on today's policy alone, with almost 10 times as many electric cars on the roads worldwide by 2030 and the renewables' share of the global electricity mix nearing 50%, up from around 30% today. In addition, it notes that the expansion in solar manufacturing seen over the last decade is set to continue at an elevated pace, with manufacturing capacity for over 1,200GW per year by 2030, outpacing solar PV deployment, which is set to increase from ~220GW in 2022 to ~500GW in 2030.

The report adds that global demand for fossil fuels is forecast to peak this decade, with the share of fossil fuels in global energy supply expected to decline from 80% today to 73% by 2030. Despite this, demand for fossil fuels globally is set to remain too high to achieve the Paris Agreement goal of limiting global warming to 1.5°C. To keep this target achievable, the IEA proposes a five-pillar global strategy, which it states can also provide the basis for a successful COP28 climate change conference in December. This includes tripling global renewable capacity; doubling the rate of energy efficiency improvements; implementing measures to ensure an orderly decline in the use of fossil fuels; reducing methane emissions from fossil fuel operations by 75%; and innovative, large-scale financing mechanisms to triple clean energy investments in emerging and developing economies.

Alongside its main scenarios, the outlook explores some key uncertainties which could affect future trends, including structural changes in China's economy. It notes that as the growth in China's economy slows, its total energy demand peaks around the middle of the decade and then slowly declines, meaning that clean energy growth is sufficient to drive a decline in fossil fuel demand. In addition, it highlights that from 2025, a large increase in new Liquefied Natural Gas (LNG) projects is projected, with around 250bcm of new LNG capacity expected by 2030, led by the United States and Qatar. While this rise in LNG production capacity eases prices and gas supply concerns, it also risks creating a "supply glut", due to slowing global gas demand growth.

[International Energy Agency](#)

Transition Plan Taskforce publishes Final Disclosure Framework

On 9 October, the Transition Plan Taskforce (TPT) launched its 'gold standard' Disclosure Framework and Implementation Guidance to aid companies and financial institutions in the net zero transition. According to the TPT, the Disclosure Framework provides the basis for companies to set out credible and robust climate transition plans as part of annual reporting on forward business strategy. It added that the Framework will support the creation of consistent, comparable company reports, and reduce the level of complexity faced by firms disclosing climate-related information.

Additional guidance was also published alongside the Disclosure Framework to assist companies and financial institutions in building their transition plans.

[Transition Plan Taskforce](#)



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