Digital Energy Element

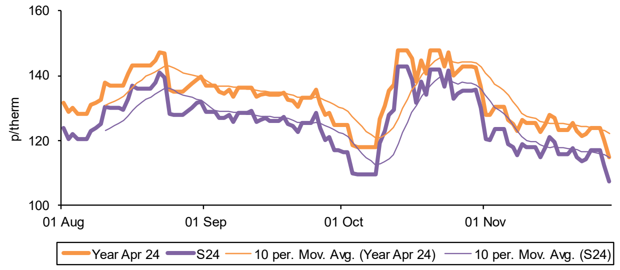
December 2023

Tracked Contracts Exhibited Losses Over The Last Month

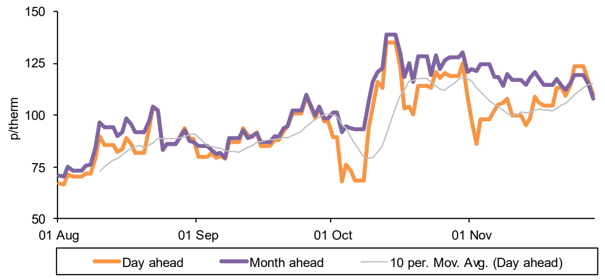
Untangle your energy spend management

Digital Energy Element / December 23

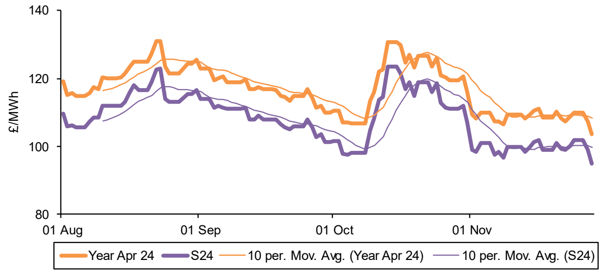
Annual gas prices



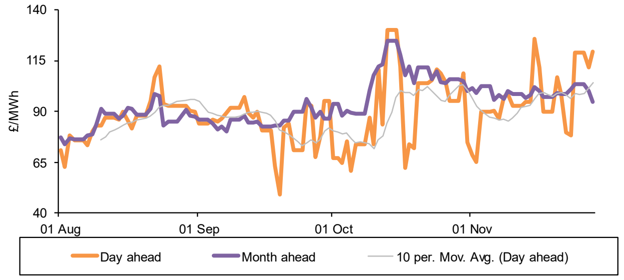
Spot gas prices



Annual power prices



Spot power prices



Throughout November, the majority of tracked contracts exhibited losses, in-line with the overall downward trend experienced across wholesale prices throughout 2023 to date, with the notable exceptions to this trend being experienced in the day-ahead contracts which recorded gains. The front-month contracts, characterised by shorter timeframes, saw the most significant month-on-month losses, while contracts extending along the forward curve experienced a more subdued decline in prices.

Bearish market drivers remained consistent in November overall, acting to offset price rises, with notably reduced levels of maintenance across the Norwegian and UK Continental Shelf gas facilities throughout the month, acting to bolster security of supply. As a result, on average, seasonal gas contracts from Summer 24 to Summer 26 were 2.2% lower in November when compared to the month previous. Winter 24 gas prices represented the highest average contract price in November at 132.39p/th – however, registering a 7.3% drop on the month prior.

Elsewhere, the UK received increased volumes of Liquified Natural Gas (LNG) into its deep-water ports – helping to satisfy the country's demand ahead of the higher demand winter months, while acting as a 'supply side balancer' to the market. Currently EU gas storage levels have also remained strong, sitting at 96% full at the time of writing, and meeting the mandated target set by the EU to ensure gas storage sites are 90% full by 1 November – providing a bearish price signal for the UK wholesale gas market in turn.

Despite this, day-ahead gas prices experienced a slight increase from the month previous, up 0.7% to average 105.58p/th – finding support from periods of lower-temperatures acting to bolster domestic heating demand. Opposing this, the December 23 and January 24 front-month contracts were down 10.6% on average, with the contracts averaging 117.67p/th and 124.19p/th respectively.

Day-ahead power prices followed their gas counterpart higher in November – up 6.3% on average to sit at £94.68/MWh, finding bullish support from periods of decreased wind generation acting to tighten system margins and increase the use of more expensive plants. Despite the increase registered at the day-ahead level, all seasonal power contracts from summer 24 to winter 25 recorded losses, down by 7.1% on average.

The December 23 and January 24 front-month power contracts shared a similar price trend to that of their gas counterparts, dropping 12.6% on average to sit at £99.28/MWh and £114.29/MWh, respectively.

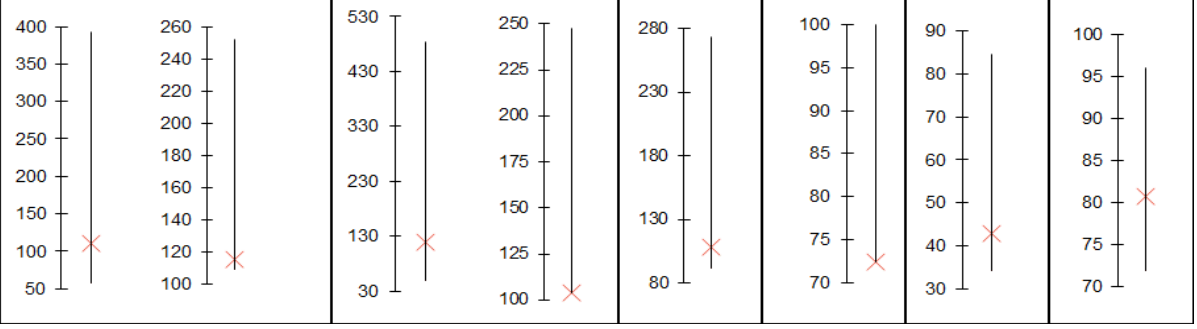
Brent crude oil experienced downward price movements across the month, falling by 7.9% to average $82.30/bl due to various bearish fundamentals. Price losses came from ongoing concerns around China's weakening demand – fuelling concerns over future global demand. China remains the largest importer of Brent crude globally and therefore, any material shift in consumption can alter the trajectory of prices. Moreover, a rise in US crude inventories and production acted to ease supply concerns – resulting in Brent crude falling to the lowest price since July 2023, at $78.25/bl, on 17 November.

Across the EU and UK carbon markets, a similar downward trend was registered across November, with the EU ETS carbon price falling 5.4% lower to €77.20/t and experiencing its lowest price since November 2022 on 28 November at €72.40/t following forecasts of mild temperatures across Europe, and the UK ETS carbon price dropping 4.3% to £41.73/t.

Spot Asian LNG prices opposed recent pricing trends and reported a bearish month, as strong gas storage stocks across Asia and Europe provide a downward sentiment. However, stronger losses were limited by increased demand ahead of the winter period. This resulted in a 0.4% decrease month-on-month, with Asian LNG averaging 139.46p/th in November.

 Catalyst Commercial Services' independent approach enables clients to manage their exposure to energy price risk, while at the same time benefiting from a first-class service from a range of major and independent suppliers. Catalyst Commercial Services' procurement solutions make it simple, so contact a member of the team to discuss requirements.

Key market indicators: 28/11/2023

		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 Nov 23	110.00	115.00	119.50	103.75	108.60	72.40	42.75	80.80
Last month	31 Oct 23	109.00	136.50	75.00	116.00	119.00	78.75	38.35	88.15
Last year	28 Nov 22	274.00	227.50	385.00	227.50	230.00	77.40	67.50	81.08
Year-on-year % change		(60%)	(49%)	(69%)	(54%)	(53%)	(6%)	-37%	(0%)
Year high		392.00	252.00	483.00	247.50	274.00	100.00	84.50	96.05
Year low		57.00	108.80	49.25	103.75	91.50	72.40	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.

Disclaimer

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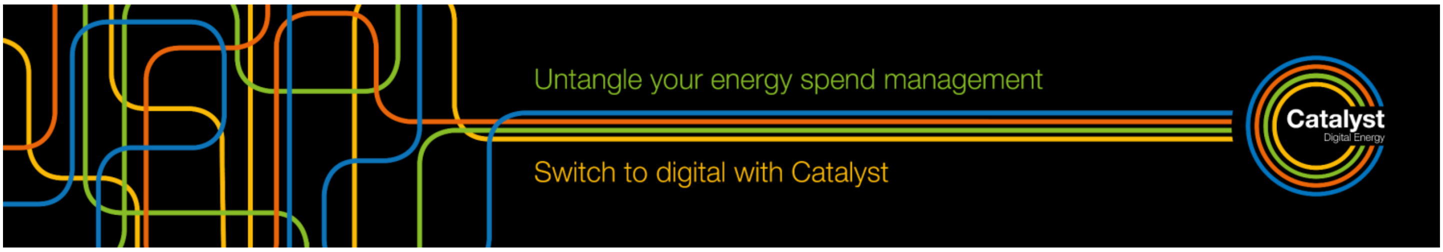


Chancellor delivers Autumn Statement

On 22 November, the Chancellor of the Exchequer, Jeremy Hunt, presented the government's Autumn Statement 2023 which contained a variety of measures related to energy. Several of the measures addressed investment, with the government stating it intends to provide £600bn of planned public sector investment over the next five years to underpin future growth and support energy security, net zero, and public services. It also announced a £960mn Green Industries Growth Accelerator to support the development of supply chains and global growth opportunities.

The government also announced plans to introduce a six-year Climate Change Agreement scheme. Participants that meet agreed energy efficiency or decarbonisation targets between 2025 and 2030 will be entitled to reduced rates of Climate Change Levy (CCL) from 1 July 2027 to 31 March 2033. The new scheme will be open to applications for new sectors that meet energy intensity and import penetration criteria and will require more regular reporting of energy and throughput data. The government issued a consultation on the scheme on 22 November, with views sought until 14 February 2024.

In the statement, the government reiterated its intentions to remove barriers to investment in critical infrastructure by reforming the UK's planning system and speeding up electricity grid connection times. It is stated that the reformation of the grid connection process will free up 100GW of capacity and help to reduce overall connection delays from five years to no more than six months. This was supported by the publication of the government's response to the Electricity Network Commissioner's report on accelerating electricity transmission network build. Key elements of this action plan include new proposals for community benefits with up to £1,000 a year off electricity bills for ten years; consulting next year on reforms to energy consenting rules in Scotland; committing to commission the Electricity System Operator to work with government to produce a new Strategic Spatial Energy Plan; and introducing competition into onshore electricity networks in 2024 to benefit consumers.

The government also announced plans to progress the National Infrastructure Commission's April 2023 recommendations on planning by delivering reforms to return the Nationally Significant Infrastructure Project regime to a two and a half year average consenting time in order to support reformation of the planning sector. It also intends to strengthen the capacity of the planning system to deliver a better service for businesses, including introducing new premium planning services across England with guaranteed accelerated decision dates for major applications and fee refunds wherever these are not met.

UK Government

FSB calls for increased protection of small businesses this winter

On 27 November, the Federation of Small Businesses (FSB) issued a press release calling on Ofgem for an energy contract cooling-off period and a standing charge freeze for small businesses ahead of winter.

This follows findings from its latest small business index, which shows that over 57% of small businesses cited utilities as the main cause for rising business costs in Q323, down slightly from 62% in Q223. It notes that this illustrates the need for greater action from Ofgem to protect small businesses against mis-selling energy contracts and being trapped in unaffordable tariffs. As such, it states that microbusinesses should be given more flexibility to cancel a contract through access to a 14-day cooling off period, as is in place for domestic customers. It added that it would also like to see a freeze on standing charges over the winter period due to the current economic climate.

FSB

Offshore wind strike price to rise 66% to £73/MWh for CfD AR6

On 16 November, the DESNZ announced that the maximum strike price has been increased by 66% for offshore wind projects, from £44/MWh to £73/MWh, and by 52% for floating offshore wind projects, from £116/MWh to £176/MWh ahead of Allocation Round 6 (AR6) of the Contracts for Difference (CfD) scheme next year. In addition, offshore wind will also be given a separate funding pot in AR6 in recognition of the high number of projects ready to participate.

On the same day, DESNZ published proposals to review applications from the 2025 auction. It will examine the applications' ability to deliver low-cost renewable energy as well as how much the project will strengthen the environmental and economic sustainability of the industry.

DESNZ

Ofgem updates guidance for non-domestic suppliers

On 6 November, Ofgem published a letter to non-domestic retail stakeholders, setting out its expectations for non-domestic suppliers going into this winter period. This was accompanied by a draft update to the Standards of Conduct guidance and the final Guidance on deemed contracts.

Ofgem stated that, following its summer consultation on the non-domestic market review, it will soon publish a statutory consultation to take forward certain licence changes, with the non-confidential responses it received during the summer consultation now published online. The regulator also outlined its intentions to continue working closely with suppliers, consumers and the government to enhance its "monitoring and intelligence" for the non-domestic market.

Ofgem

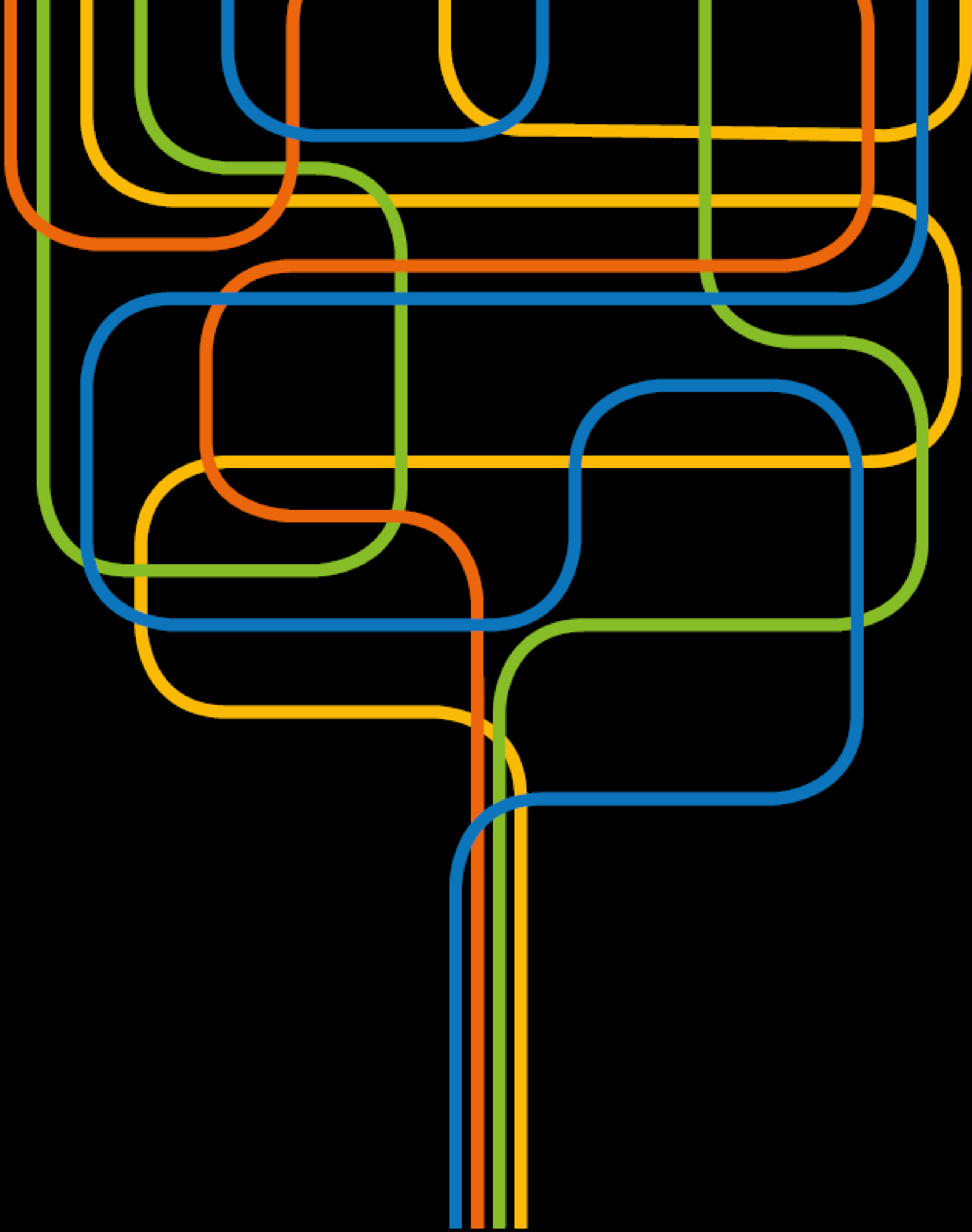
Report highlights UK businesses' support for CBAM

On 10 November, think tank E3G released a report in which it highlighted that 73% of UK manufacturers are in favour of the UK introducing a carbon border adjustment mechanism (CBAM), with only 8% reportedly opposing it. E3G defines a CBAM as a tax placed on imports, such as steel and cement, that produce a large volume of carbon emissions when they are manufactured. The EU introduced its own carbon border tax earlier in October 2023.

Upon sharing details of the CBAM policy with UK manufacturers, E3G noted that 49% of respondents believed CBAM would be beneficial for their business, stating it would create a level playing field and ensure their business would not be undercut by cheaper products from countries with less stringent environmental regulations. It added that 62% of respondents said they would support part of their funds recouped from the border tax being used to help developing countries decarbonise their manufacturing process, amidst concerns that a CBAM would negatively impact developing countries.

Moreover, the report reveals that UK businesses want to see more action on climate. 77% of manufacturers said they are concerned about the negative impacts of climate change on their business and 55% believe the UK Government is not doing enough on green issues and the environment.

E3G



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PAC calls for more detailed long-term plans for net zero delivery

On 15 November, the Public Accounts Committee (PAC) published a new report, Support for innovation to deliver net zero, calling for the government to set out a detailed long-term plan to achieve net zero by 2050. The PAC stated that the government is prioritising short term interventions aimed at boosting confidence in low carbon markets but warned that this is at risk of policy rollbacks.

PAC noted that, when designing the Net Zero Innovation Framework (NZIF), the government did not consider what level of longer-term public sector investment might be required up to 2050 to support delivery of the 31 innovation technology challenge areas. It added that while there have been suggestions that many of these challenge areas will require longer term financial investment, the government's delivery plan only reflects funding for the Spending Review period from 2022 to 2025. It therefore recommended that the Department for Energy Security and Net Zero (DESNZ) should set out its plans for supporting priority technologies beyond the confines of the spending review period and explain how recent announcements to delay the phasing out of new fossil fuel vehicles and heating systems will impact on costs.

The report warned that it is often difficult for businesses to know what support is available for delivering successful innovation for net zero. While the government is providing £4.2bn in support for net zero research and development (R&D), the support is spread through 115 funding programmes across eight departments, making it complex. It recommended that the Treasury works with DESNZ to review whether current, complex funding arrangements for net zero R&D are best suited to supporting the innovation needed to deliver net zero.

PAC

Ofgem announces Default Tariff Cap increase to £1,928

On 23 November, Ofgem announced that the Default Tariff Cap level will be increasing to £1,928/year on average for cap period 11b (1 January to 31 March 2024) for direct debit dual fuel customers. This is an increase of 5% compared to the current cap period, representing a rise of £94 for a typical annual energy bill.

Standard credit customers will see an increase of £99, from £1,959 to £2,058, while those on prepayment meters (PPMs) will see a rise of £99, from £1,861 to £1,960 under the October 2023 Typical Domestic Consumption Values (TDCVs). PPM customers will continue to receive Energy Price Guarantee (EPG) support to address the cost differential until 31 March 2024, ahead of longer-term measures currently being considered by Ofgem.

The regulator predominantly attributed the cap's increase to rising costs in the international wholesale energy market. Ofgem noted that August and September saw price spikes due to concerns about prolonged Norwegian gas outages and possible strike action at Australian gas export facilities. Further disruption was caused in October by damage to a gas interconnector in the Baltic Sea and the outbreak of conflict in the Middle East. The regulator stated that, although prices remain lower than the record highs seen in 2022, "the wholesale market for gas remains volatile".

In the accompanying press release, Ofgem said that it will "continue to use all levers available to ensure costs are spread fairly and customers struggling with bills are supported", including a recent a call for input on standing charges. While this call for input is largely focused on the domestic sector, the regulator also asked if any considerations need to be made for standing charges in the non-domestic sector, with responses requested by 19 January 2024.

Ofgem

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