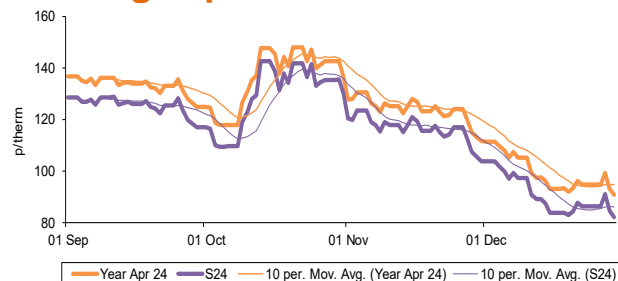




Digital Energy Element
January 204
Steady Decline of UK Power
and Gas Prices



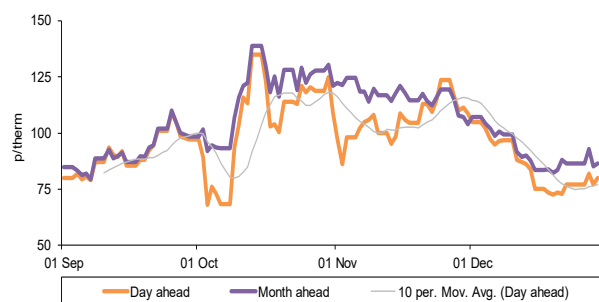
Annual gas prices



Throughout December, all tracked power and gas contracts exhibited losses, in-line with the overall downward trend experienced across wholesale prices throughout much of 2023. Since October, we have observed the steady decline of UK power and gas prices.

Bearish market drivers remained consistent in December, acting to suppress price rises. Particularly from an NBP gas point of view, low levels of gas plant/field maintenance across both the UK Continental Shelf and Norwegian Continental Shelf remained minimal – allowing a healthy volume of gas to reach the UK. Similarly, we also recognise that December remained a relatively mild month – particularly by comparison to typical seasonal averages – meaning national gas demand for heating and also wider industry usage was lower than can be expected for the time of year. Elsewhere, EU gas storage levels as of 3 January sit at >86% fullness. This is a buoyant starting position as we move into early 2024 and alleviates a level of concern over gas supply as we now sit within the typically coldest period of the calendar year.

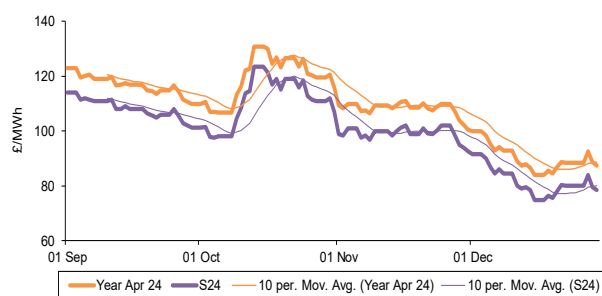
Spot gas prices



As a result, on average, seasonal gas contracts from Summer 24 to Summer 26 were 15.8% lower in December when compared to the month previous. Winter 24 gas prices represented the highest average contract price in December at 107.69p/th – though still registered a 17.7% drop on the month prior.

Similarly, day-ahead gas prices experienced a marked decline from the month previous, down 19.7% to average 85.31p/th – driven in part by milder weather, lower demand, and strong levels of renewable generation. Front month contracts followed this trend, with January 24 and February 24 down 24.8% on average, with the contracts averaging 91.77p/th and 93.15p/th, respectively.

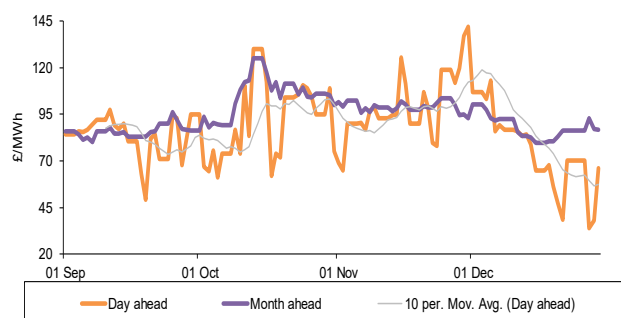
Annual power prices



Day-ahead power prices followed their gas counterpart lower in December – down 26.3% on average to sit at £73.77/MWh, with drivers of the evident downturn in price stemming from mild weather, higher renewable output and the downward adjustments of gas prices sending a bearish signal for power to follow more generally. Much like gas, all seasonal power contracts observed losses in the month of December. From Summer 24 to Winter 25, these contracts fell by an average of 13.9% - with Summer 24 the largest of the recorded losses at 17.6%.

The January 24 and February 24 front-month power contracts shared a similar price trend to that of their gas counterparts, dropping 22.0% on average to sit at £87.59/MWh and £89.84/MWh, respectively.

Spot power prices



Brent crude oil experienced downward price movements across the month, falling by 5.4% to average \$77.84/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. However, any sustained losses have been pegged back by concerns over shipping delays through the Suez Canal as reports emerge of Houthi rebels operating there as well as in the Red Sea.

Across the EU and UK carbon markets, a similar downward trend was registered across December, with the EU Emissions Trading Scheme (ETS) carbon price falling 5.8% lower to €72.09/t. Similarly, the UK ETS registered a notable month-on-month loss of 9.0% - to average £38.06/t in December which we can attribute, at least in part, to the recent mild weather – easing demand for gas and other fossil fuel fired emitters in the generation mix.

Spot Asian LNG prices continue to fluctuate in response to global economic and geopolitical movement. We note a 26% reduction in spot LNG prices compared with November – now averaging ~104p/th. Lower demand for LNG amid warmer weather in Europe and healthy gas storage stocks have eased LNG demand in recent months.



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Key market indicators: 29/12/2023

		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	29 Dec 23	80.00	90.95	66.00	87.50	77.30	80.30	47.20	79.85
Last month	30 Nov 23	108.75	111.75	142.00	100.50	109.00	71.10	41.60	83.80
Last year	29 Dec 22	166.00	203.00	78.00	217.50	185.00	85.87	73.95	82.15
Year-on-year % change		(52%)	(55%)	(15%)	(60%)	(58%)	(6%)	-36%	(3%)
Year high		178.00	203.00	181.00	217.50	185.00	100.00	84.50	96.05
Year low		57.00	90.95	34.00	84.10	77.30	66.95	32.95	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.

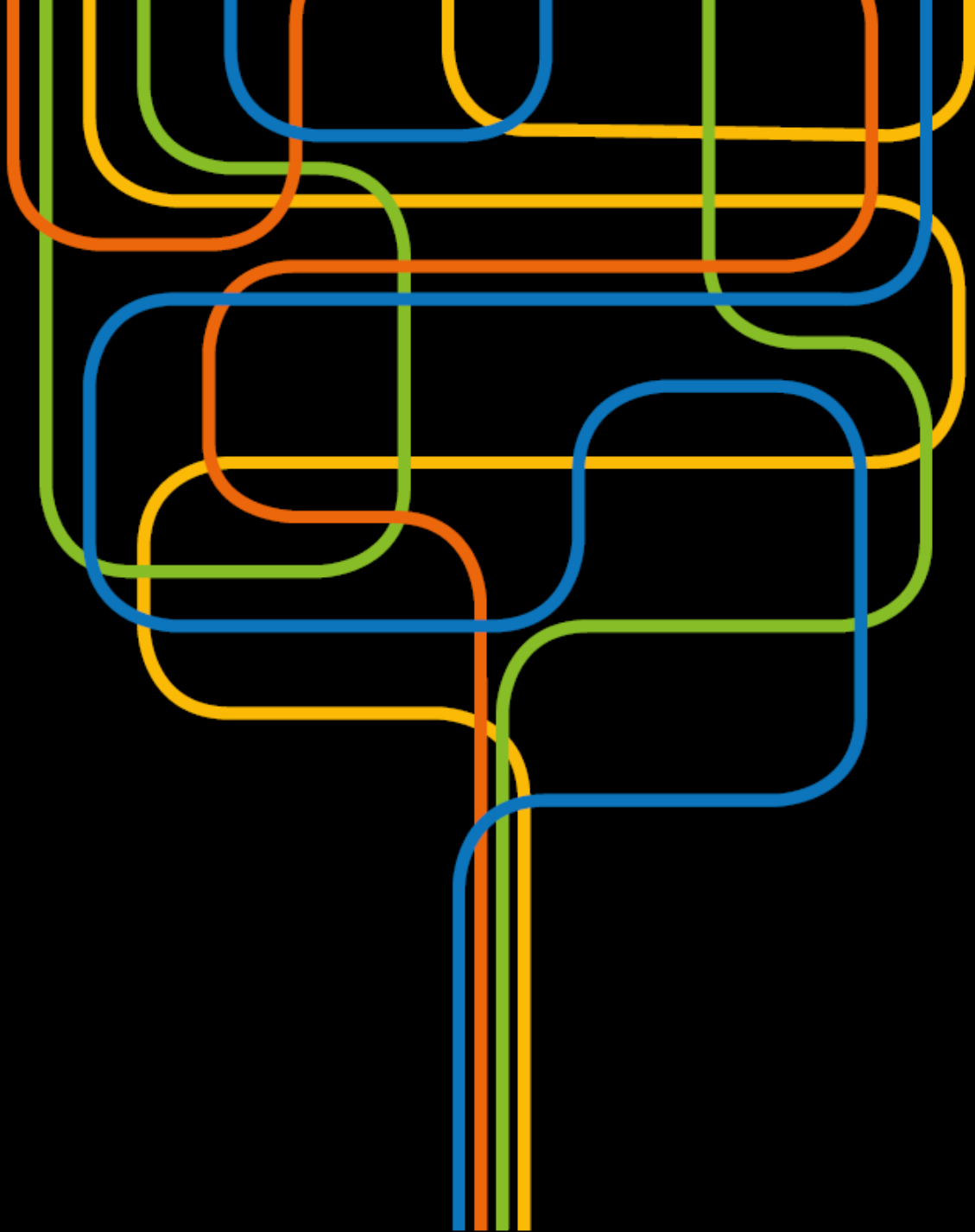
Margin: The indicated UK imbalance of a given settlement period. It is the difference between the sum of the indicated generation available, and the national demand forecast made by National Grid.

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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DESNZ consults on Energy Ombudsman access for businesses

On 7 December, DESNZ announced that over 200,000 businesses could obtain access to specialist support for disputes with their energy supplier for the first time. It stated that, under new proposals, companies with up to 50 employees would qualify for support from the Energy Ombudsman on issues such as disputes over bills and wider customer service issues. Currently, only companies with up to 10 employees and households are able to access this support. DESNZ hopes the proposed changes will make it easier for companies to settle disputes with their energy supplier without having to go to court, which it notes can be expensive for businesses.

On the same day, DESNZ issued a consultation on the proposal to introduce a new threshold for bringing cases to the Energy Ombudsman to include small business consumers. It is seeking feedback on whether the proposed expansion is sensible; whether the language is clear; and whether the new thresholds are set at the right level. DESNZ added that the consultation follows findings from Ofgem's non-domestic energy market review that more businesses would benefit from access to dispute resolution through the Energy Ombudsman. Views on the consultation are requested by 31 January 2024.

DESNZ

Consultation issued on changing non-domestic supplier obligations

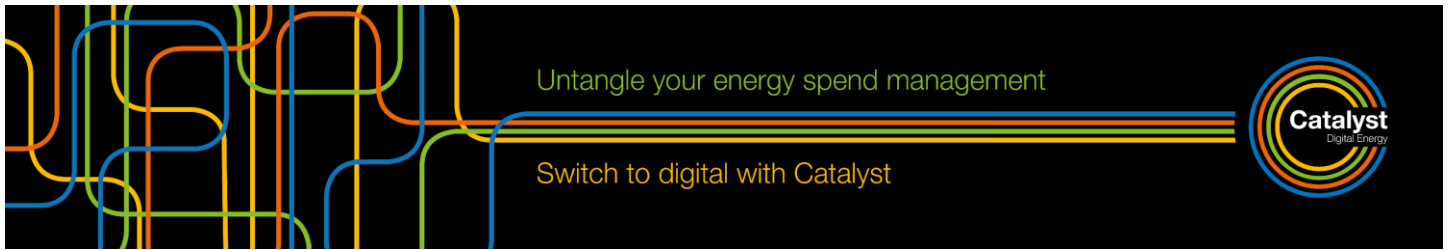
On 7 December, Ofgem published a statutory consultation following its non-domestic market review, setting out a number of proposals around the Standards of Conduct (SoC), Third Party Intermediaries (TPIs), customer support, and complaints handling standards.

Ofgem is proposing to expand the scope of the SoC so that they apply to all non-domestic consumers regardless of size. Currently, the SoC only applies to microbusiness consumers and requires suppliers to behave and carry out actions in a fair, honest, and transparent manner, alongside improving ease of contact and provision of information. This expansion aims to address the number of complaints from business customers that sit outside of the microbusiness definition, including billing problems and poor customer service issues that are not resolved in a timely manner.

Ofgem also proposed that changes should be made to expand the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008 (CHS) to apply to 'Small Business Consumers'. This is to align with the government's open consultation on expanding access to the Energy Ombudsman to include Small Business Consumers and follows many responses from stakeholders about poor complaints handling by suppliers for customers larger than microbusinesses. The proposed definition for a Small Business Consumer is "a non-domestic customer who: employs fewer than 50 employees and has an annual turnover of no greater than £6.5mn or balance sheet total no greater than £5.0mn; or uses no more than 500,000kWh of electricity per year; or uses no more than 500,000kWh of gas per year". This would encompass a further 4% of the UK business population compared to the current microbusiness definition, bringing the total percentage of businesses covered to 99%.

Ofgem is also looking to increase third party cost transparency and amend the presentation requirements. It is proposing that suppliers provide all non-domestic customers with details of third party service fees that are charged via a customer's energy bill. Fees must be presented as a cost per unit where it forms part of the unit price of energy, or a cost per day (month) where it forms part of the daily (monthly) standing charge. For microbusiness customers, suppliers must also present the figure as a lump sum. Responses to the consultation are requested by 31 January 2024.

Ofgem



Ofgem reports findings of businesses' energy market experiences

On 6 December, Ofgem published a longitudinal research report on the impact of COVID-19 on microbusinesses. After interviewing approximately 30 microbusinesses, Blue Marble Research found that many microbusiness consumers said they needed to adapt to circumstances during the pandemic meaning they were less engaged with changes in energy, consequently increasing the risk of bill shock. Another key point was that some microbusinesses assumed that non-domestic consumers receive similar protections as domestic consumers do in the energy market. In addition, the report found that some microbusinesses felt energy suppliers had not been proactive in communicating during the pandemic.

The next day, Ofgem published its interim findings about businesses' experiences of the energy market. The main findings were that out of the 1,000 surveyed, 58% of businesses said they were concerned about the impact of energy prices on their business. While 60% of businesses were satisfied with the overall service they had received from their supplier, 13% said that they were dissatisfied due to the service being too expensive; having experienced poor customer service; poor communication; and billing issues. 55% said they found it easy to contact their supplier and 12% reported they had made a complaint to their supplier.

Ofgem, Ofgem

UK Government issues decision on CBAM and consults on UK ETS

On 18 December, the UK Government published the outcome of its consultation looking at how to address carbon leakage risk in order to support decarbonisation. Following the consultation, the government reported it will implement a carbon border adjustment mechanism (CBAM) by 2027 and apply a charge on the carbon emissions embodied in imports from the following sectors: aluminium, cement, ceramics, fertiliser, glass, hydrogen, iron, and steel. The government noted it will consult further on CBAM delivery in 2024. The government also reported that it will work with industry to establish voluntary product standards that businesses could choose to adopt to help promote their low carbon products to consumers. An embodied emissions reporting framework will also be developed to serve future carbon leakage and decarbonisation policies.

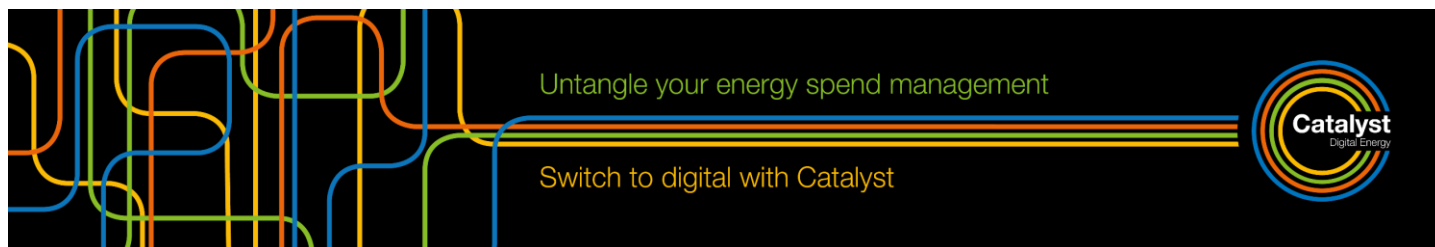
On the same day, the government announced new proposals which will aim to enhance the role of the UK Emissions Trading Scheme (ETS) in supporting decarbonisation. Power, aviation, and industrial sectors have been invited to offer their views on proposed changes to the UK ETS that will ensure it continues to support progress to net zero across the UK. As part of the proposals it is also seeking views on the development of the UK ETS markets policies. The government has set out the steps it is currently taking to develop the long term pathway for the UK ETS, announcing its intentions to legislate the continuation of it until at least 2050.

UK Government, UK Government

Views sought on proposed changes to Building Regulations

On 13 December, the UK Government issued a consultation outlining proposed changes to the Buildings Regulations for dwellings and non-domestic buildings in order to achieve the Future Homes Standard and Future Buildings Standard. According to the government, these changes would help to improve the energy efficiency and reduce the carbon emissions of new homes and non-domestic buildings. Views are requested by 6 March 2024.

UK Government



New deal agreed upon at COP28

On 13 December, the United Nations Climate Change Conference (COP28) closed with an agreement on its global stocktake. The final text includes recognition of the need for deep, rapid, and sustained reductions in greenhouse gas (GHG) emissions in line with 1.5°C pathways and calls on Parties to contribute to several global efforts. These include the tripling of renewable energy capacity globally and doubling the global average annual rate of energy efficiency improvements by 2030. Notably, the document does not include any language calling for the phase out of fossil fuels, but it does call for a transition 'away from fossil fuels in energy systems, in a just, orderly, and equitable manner'.

Prior to the agreement on the global stocktake, on 30 November, it was announced that an agreement had been reached at the UN's COP28 climate summit to operationalise a Loss and Damage Fund. The fund will be used to support developing countries that are particularly vulnerable to the adverse effects of climate change. With the announcement, the United Arab Emirates announced it would commit \$100mn to the fund. Other countries making notable commitments included Germany, which committed \$100mn, the UK, which committed £40mn and £20mn for other arrangements, the US, which contributed \$17.5mn, and Japan, which committed \$10mn.

The following day, saw the UK's Prime Minister (PM), Rishi Sunak, deliver a speech at the UN's COP28 climate summit 2023. As part of the event, the PM announced that the UK Government will commit £1.6bn for international climate finance (ICF) projects.

On 2 December, plans to launch a Global Decarbonisation Accelerator (GDA) were announced by the COP28 President, Sultan Ahmed Al-Jaber. It is noted that the GDA will aim to speed up the energy transition and significantly reduce global emissions by focusing on three key pillars: rapidly scaling the energy system of tomorrow; decarbonising the energy system of today; and targeting methane and other non-CO₂ GHG. As part of the GDA, 116 countries have signed the Global Renewables and Energy Efficiency Pledge to triple global installed renewable energy generation capacity to at least 11,000GW and to double the global average annual rate of energy efficiency improvements to over 4% every year until 2030. An Oil and Gas Decarbonisation Charter (OGDC) has also been signed by 50 companies committing to zero methane emissions by 2030. It is also reported that over \$1bn will be mobilised for methane abatement projects.

UNFCCC, UN, UK Government, UN

Government outlines direction for UK hydrogen production

On 14 December, the government released several announcements regarding hydrogen. This included the issuance of a roadmap outlining how the government expects the hydrogen production landscape to evolve towards 2035. It is noted that achieving the deployment trajectory will be dependent on affordability and value for money, with the government looking to industry to demonstrate significant cost reductions as the UK hydrogen sector takes off. The government also stressed the importance of developing a competitive marketplace that can drive investment and push costs down as hydrogen transport and storage infrastructure is developed.

Findings from research into the barriers within the planning process for hydrogen projects in the UK were also published in a separate announcement. The research, conducted by Verian, found that participants' most significant concerns lay with the complexity of the wider planning process, as well as the significant resource constraints in examining bodies and other statutory consultees. Notably, a lack of resources in local authority planning departments was consistently cited as the greatest barrier and the highest priority for the UK Government to focus on improving.

UK Government, UK Government



Award Winning
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