



Digital Energy Element

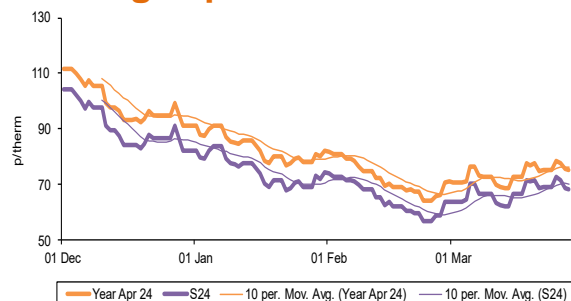
April 2024

Turbulent Times

as Market Finds Direction



Annual gas prices



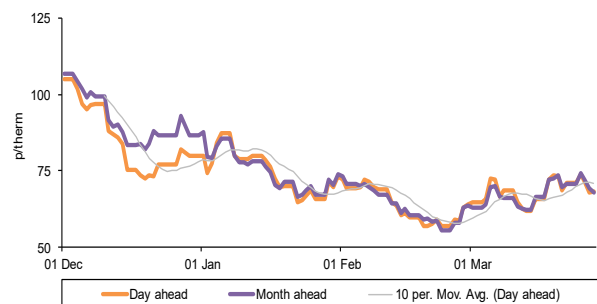
In March, we saw all tracked gas and power contracts register gains, when compared to February, despite the first two months of 2024 showcasing relatively consistent losses in wholesale energy costs.

Seasonal gas contracts from Summer 24 to Summer 26 were, on average, 3.2% higher in March when compared to the previous month, reversing the six previous months of consecutive average losses.

Whilst there has been no evidence of a radical shift in the fundamentals underpinning the current wholesale pricing environment here in GB, we have observed the introduction of some more bullish market dynamics that underpin the highlighted wholesale price rises across the month. Price rises in gas were relatively consistent across the full forward curve, inclusive of near-term contracts closer to delivery.

Across the month, we saw the day-ahead gas price rise 7.6% to average 68.33p/th. Likewise, front-month contracts were up 6.3% on average when compared to February, with April 24 seeing a 7.0% rise and May 24 recording a 5.7% rise to 67.90p/th and 67.17p/th respectively.

Spot gas prices

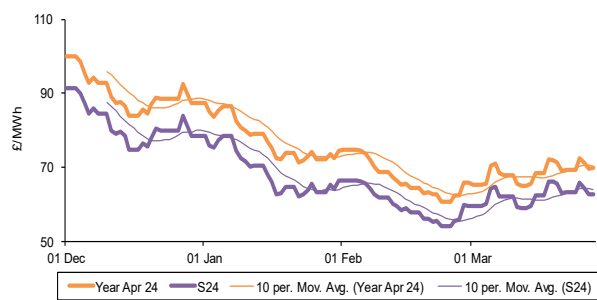


Much of the upward price adjustment in price observed over March stemmed from supply dynamics. Specific to gas, we continued to see the reduction in flows from primary gas supply sources such as Norway and the UK Continental Shelf (UKCS), amid maintenance work-scopes or other unspecified technical downtime, resulting in reduced operational capability and therefore available volume able to reach the National Transmission System (NTS).

Secondary influences stem from reduced power generation available. We observed a steep drop-off in daily wind generation averages in March compared with February, down 27% month-on-month – the net result being a higher reliance on more expensive forms of power generation to supplement that deficit, such as gas-fired assets or gas peaking plant.

Elsewhere, some sentiment based increase to the GB gas market came from buoyant Dutch TTF prices, sending an upward price signal for many other western gas markets to follow.

Annual power prices

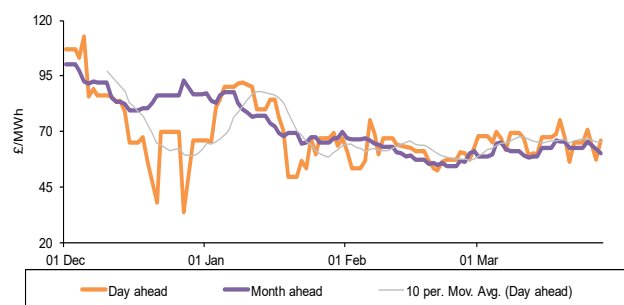


A similar upward trend was recorded across GB wholesale power prices, with day-ahead power prices up 7.4% to £65.30/MWh. Front-month baseload power contracts observed similar price rises, climbing 4.3% on average. April 24 saw a 4.7% rise to £62.19/MWh and May 24 rose 3.9% to £60.44/MWh. Much of the near-term prices rises for power contracts came from the reduced wind generation seen on the grid, tightening system margins.

Similarly, non-planned maintenance works continue among select nuclear generating plants in the five-strong operational nuclear fleet here in GB. Heysham 1 (reactor 2) and Hartlepool (reactor 2) remained offline for the majority of the month. At the time of writing, EDF has set return statuses of 30 March 2024 for Heysham 1 and 28 March 2024 for Hartlepool. The unexpected downtime of these particular reactors squeezed available power capacity to the network across the month of March.

Much like the seasonal gas forward curve, power contracts also saw prices climb. From Summer 24 to Winter 25, these contracts saw an average rise of 2.9%. Winter 25 was the premium priced seasonal contract across March, at £75.45/MWh.

Spot power prices



Wider international commodity markets followed the upward trend of domestic gas and power prices. Brent crude oil rose 3.8% to average \$84.50/bl. Price support continues to come from OPEC+ supply cuts and the on-going conflict across the middle-east, potentially disrupting global crude oil supply and in particular the West.

Carbon prices across both the EU and UK Emissions Trading System (ETS) saw price rises. EU ETS prices climbed 3.6% to average €59.58/t and the UK ETS lifted 3.9% to £36.56/t.



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		Gas (p/th)		Electricity (£/MWh)		Coal	EUA Carbon	UKA Carbon	Brent crude
		Day-ahead	Year-ahead	Day-ahead	Year-ahead	(\$/t)	(€/t)	(£/t)	(\$/b)
This month	28 Mar 24	68.25	75.10	66.00	69.75	116.75	61.53	37.50	86.98
Last month	29 Feb 24	64.05	71.00	63.25	65.83	100.75	56.10	35.80	83.60
Last year	31 Mar 23	112.50	138.50	111.75	137.00	141.00	91.40	73.80	79.00
Year-on-year % change		(39%)	(46%)	(41%)	(49%)	(17%)	(33%)	-49%	10%
Year high		135.00	150.75	142.00	145.50	151.00	98.12	76.95	96.05
Year low		56.70	64.05	34.00	60.75	77.30	51.60	32.30	72.60

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 (\$/b).

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.

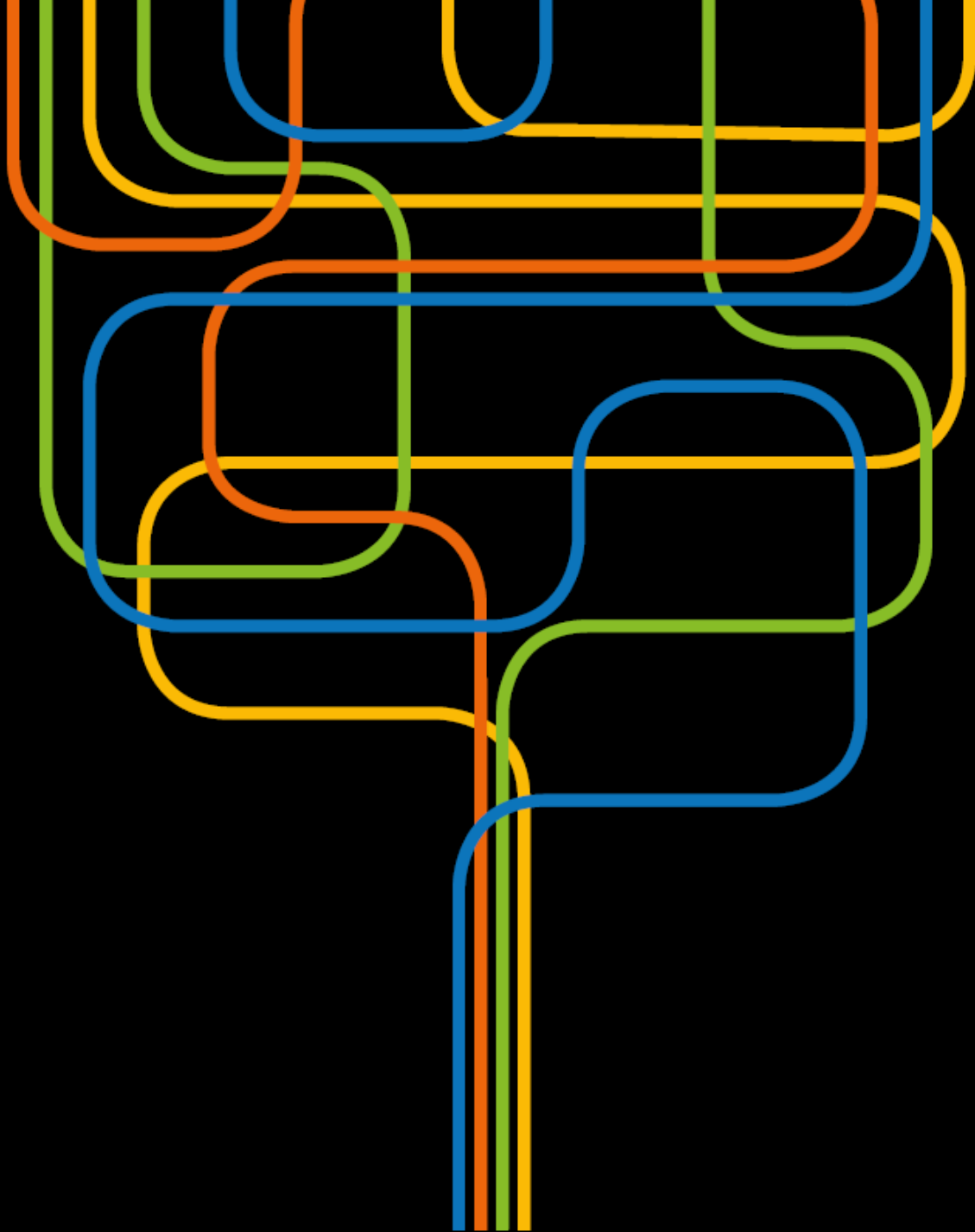
Margin: The indicated UK imbalance of a given settlement period. It is the difference between the sum of the indicated generation available, and the national demand forecast made by National Grid.

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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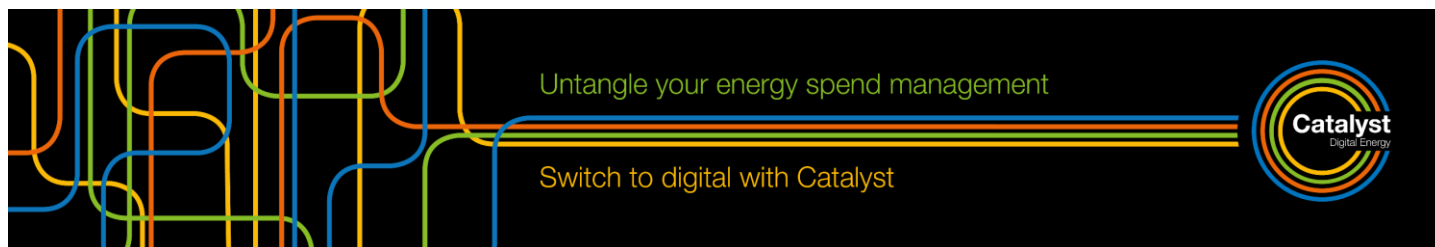


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Government launches second REMA consultation

On 12 March, the UK Government published its long-awaited second consultation on the Review of Electricity Market Arrangements (REMA). A key announcement within the second consultation is the government's further consideration of a zonal pricing market in GB. This would introduce different wholesale prices in different zones across GB. DESNZ commissioned modelling considers that introducing zonal pricing could reduce the cost of running the electricity system in the region of c.£5-15bn over 2030-2050, and that consumer benefits could be in the region of c.£25-60bn over the same period. As an alternative to zonal pricing, DESNZ is also considering whether network charging reforms could deliver the required locational signals as well as some locational changes to the Capacity Market (CM) and Contracts for Difference schemes. The consultation is open until 7 May 2024.

RenewableUK and SolarEnergyUK issued a joint response to the consultation, in which they stated they remain sceptical about the claimed benefits of a zonal system, adding that this would introduce additional uncertainty into the market and raise the cost of capital for renewable energy. Energy UK's Deputy Director, Kisha Couchman, also responded to the announcement, saying: "We welcome the government pressing ahead with ensuring the electricity market is fit for this future and capable of attracting the billions of pounds of investment we need for power generation, storage, and network infrastructure. The challenge is to bring forward changes that will support this aim while also providing the certainty that is essential to bringing forward long-term investment – especially when we have no time to waste and there is increasing international competition for such funding".

[UK Government](#), [Renewable UK](#), [Energy UK](#)

Ofgem publishes research on non-domestic consumer experiences

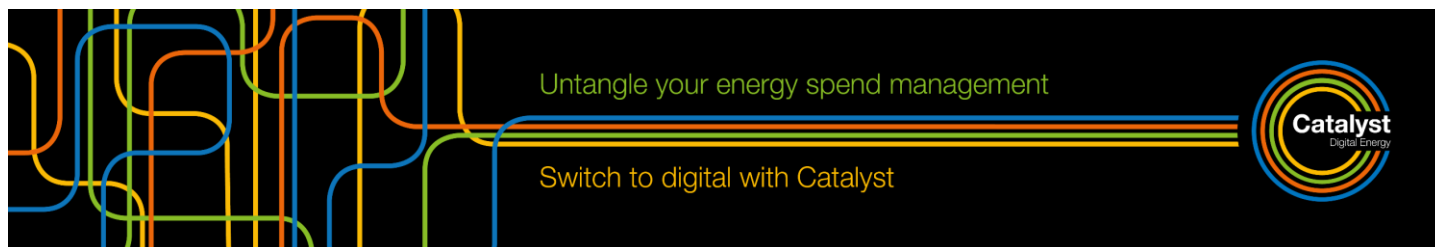
On 19 March, a research report was published by Ofgem exploring the experiences of businesses and the energy market. The research was commissioned by the regulator and DESNZ to improve their understanding of experiences, and was undertaken by IFF Research, which surveyed 1,000 GB businesses throughout July 2023, and conducted 30 qualitative interviews in September and October of the same year.

The research covered the energy contract and supplier experience, where it found that businesses were typically satisfied with the overall level of service that their energy supplier offered (60%), although 13% were dissatisfied with their supplier. 18% reported difficulty in contacting their supplier, with this being more common in small businesses at 28%. Qualitative interviews revealed that customer service and costs were key determinants of whether businesses had a positive experience with their supplier.

In considering costs, 64% of businesses experienced an increase in gas and/or electricity bills in the last 12 months; most businesses that experienced an increase reported that this led to reductions in their energy usage, while around half reported reduced profit margins, reduced spending in other areas of the organisation, and increased prices for customers (48%, rising to 62% among small businesses).

When exploring the impact of the Energy Bill Relief Scheme (EBRS), around half of businesses (53%) were aware of the EBRS, which ended in March 2023. Of this group, 46% reported that the EBRS was applied to their energy bills, while those who were asked why they did not receive the EBRS, businesses were largely unsure. 28% responded 'don't know', the most common answer, followed by 19% responding that their business was not eligible, but with no further elaboration.

[Ofgem](#)



Government delivers Spring Budget 2024

On 6 March, the government delivered its Spring Budget. Key energy related announcements included an extension to the Energy Profits Levy – a temporary tax on oil and gas producers – to March 2029 or until energy prices return to normal levels. The government also published the full parameters for the Contracts for Difference (CfD) Allocation Round 6, stating it would set the largest ever budget for a single round of over £1bn. It also announced it would pay £160mn to acquire the Wylfa and Oldbury-on-Severn nuclear sites from Hitachi, to explore the potential for further large-scale reactor projects and small modular reactors in the UK. Plans to provide up to a further £120mn for the Green Industries Growth Accelerator were also reiterated, to support low carbon manufacturing supply chains across the UK.

Responding to the Spring Budget, Director of Policy at the REA, Frank Gordon, said: “This is a political budget above all that does not reflect the urgency of net zero and while we welcome the CfD budget announced alongside the Spring Statement today, and extension of the windfall tax on oil and gas excess profits, this is disappointing overall”. The Confederation of British Industry (CBI) also issued a response, noting: “the extension of the energy profits levy weakens the competitiveness of the sector. Business will be looking for more emphasis on delivery by developing a Net Zero Investment Plan to crowd in the private finance needed to deliver the clean energy transition.”

UK Government, REA, CBI

Ofgem considers DSR trials for NDM gas consumers

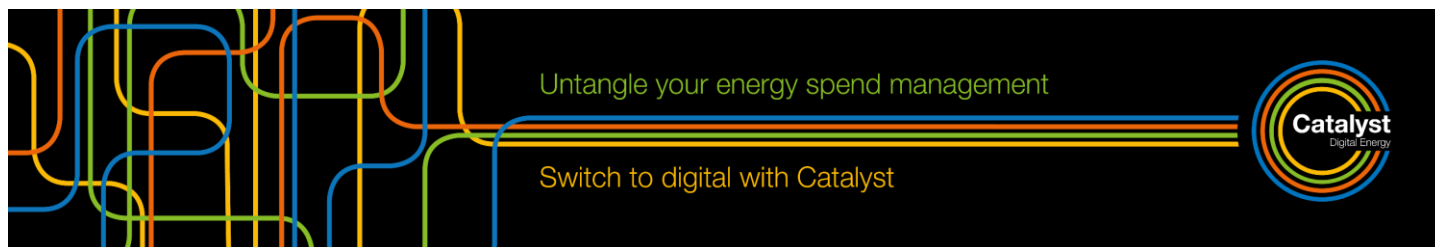
On 19 March, Ofgem published its decision to approve UNC0856 *Introduction of Trials for Non-Daily Metered Demand Side Response* for implementation on a date to be confirmed. The modification is set to introduce a new term into the Uniform Network Code (UNC) to allow National Gas Transmission (NGT) to trial time limited Non-Daily Metered (NDM) Demand Side Response (DSR), which can support the effective balancing of the gas system and expand pre-emergency tools. Gas DSR is where consumers offer to voluntarily reduce their gas demand in return for financial compensation and is intended to reduce the likelihood, severity, and duration of any National Gas Supply Emergency in periods of high demand. Currently only Daily Metered (DM) (large business) gas consumers can participate in DSR events and while reforms and modifications have been targeted at increasing participation from DM customers, Ofgem stated that DM DSR is still only seeing low volumes of demand savings. As NDM consumers (domestic and smaller businesses) make up a large proportion of total demand of the gas network, it is thought that tapping into the NDM consumer market share has much wider potential in delivering significant gas demand reductions.

Ofgem

ESO publishes recommendations for network upgrades

On 19 March, National Grid Electricity System Operator (ESO) published its ‘ESO Beyond 2030’ report, in which it recommends an additional £58bn investment into the electricity grid to meet growing demand for decarbonised electricity. It states that this investment plan will facilitate the connection of an additional 21GW of offshore wind in development off the coast of Scotland, increasing GB's potential offshore wind capacity to 86GW by 2035. It adds that the plan would support the connection of other low-carbon electricity generation, including Sizewell C and Hinkley Point nuclear power plants. The ESO states that, by enabling the integration of more low-carbon technologies, the investment plan aims to deliver cheaper electricity for consumers than fossil fuel alternatives – reducing reliance on imported gas which has recently been subject to high price volatility.

NGESO



SBTi report finds scope 3 emissions main barrier to setting net zero targets

The Science Based Targets initiative (SBTi) published a report on 7 March in which it examined the success of its Business Ambition for 1.5°C campaign, which ran between June 2019 and October 2021. The report sets out the key findings from the campaign, as well as feedback from participating companies and key learnings and recommendations. It finds that of the companies who committed to set science-based targets as part of the Business Ambition for 1.5°C campaign, 84% (818) have either set a target or are currently in the validation process. The UK was ranked as the top country for setting targets after having committed to do so (242 businesses), followed by the USA (155), France (49), and Sweden (46). 96% of companies surveyed rated the value of having science-based targets as good to very good, with 71% agreeing that the campaign delivered on their motivations for joining.

One of the key findings from the campaign was that science-based net zero target setting is still not a mature practice. The SBTi attributes this to net zero being a relatively new concept, that only became prominent in the business sector in 2018. It adds that relatively few companies have long-term business and sustainability strategies. It also postulated that companies may be concerned about the unknowns of setting emissions targets, as well as doubts about their ability to meet their targets. The most common barrier to setting net zero targets was stated to be 'Scope 3 is too much of a challenge', with 53.6% of campaign participants reporting this. Scope 3 emissions are indirect emissions that are present in the value chain of the company.

On a related note, on 5 March, the UK Green Building Council (UKGBC) published new guidance on Scope 3 embodied carbon measurement and reporting. It states that Scope 3 emissions can constitute up to 80-95% of an organisation's total value chain carbon footprint, with the guidance reframing Scope 3 reporting as a singular methodology instead of isolated efforts. According to the UKGBC, the guidance includes how developers, owners, contractors, investors, lenders, and facilities managers can use embodied carbon assessment to report Scope 3 emissions across an asset's lifetime. It also sets out how architects, engineers, and other professional services should adopt a project-based emissions disclosure for embodied carbon, due to the challenge of designing embodied carbon emissions that do not easily fit within the current Greenhouse Gas (GHG) Protocol.

SBTi

Green Alliance publishes March 2024 update for Net zero policy tracker

On 19 March, Green Alliance published the March 2024 update for its net zero policy tracker, which monitors the government's progress towards the goals set out in the Net Zero Strategy. The report states that there is currently insufficient policy covered in the fifth carbon budget period (2028-2032) to reduce emissions so that the 2050 net zero target can be reached. Green Alliance adds that, while the power and greenhouse gas removals sectors are on track to meet or exceed the reductions required, significant policy gaps in some sectors, such as transport, remain. It highlights that for heat and buildings, only 10% of the emission reductions required for the sector are covered by confirmed policy, down from 27% in its last assessment in June 2023. For transport, the Green Alliance welcomes the Zero Emission Vehicles mandate, which is responsible for 80% (113MtCO_{2e}) of the sector's confirmed policy, but notes that transport has the biggest policy gap of all sectors at 97MtCO_{2e}.

Green Alliance



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