Catalyst
Digital Energy

Digital Energy Element

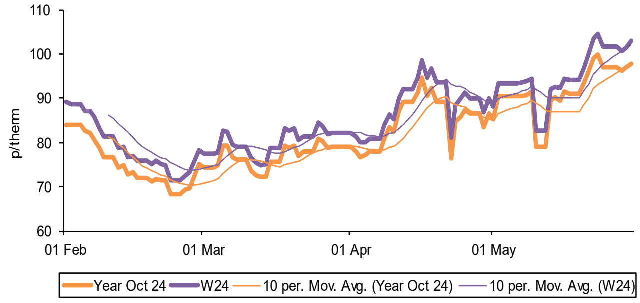
June 2024

Energy Markets Remain Nervous

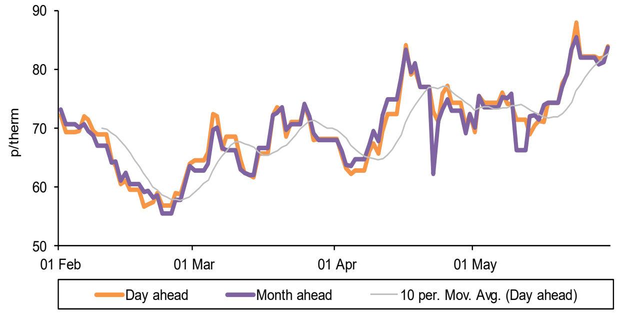
Untangle your energy spend management

Digital Energy Element / June 24

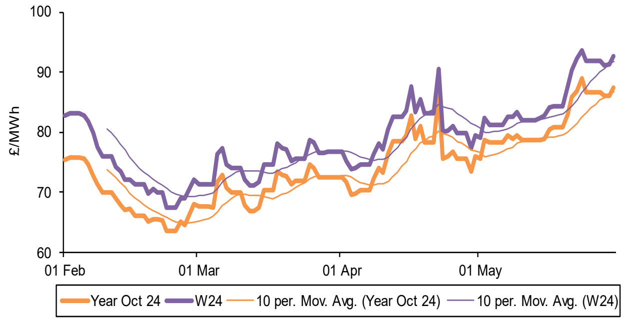
Annual gas prices



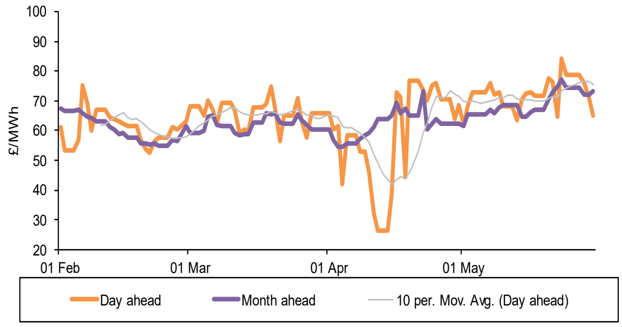
Spot gas prices



Annual power prices



Spot power prices



We are continuing to observe a bullish pricing environment compared to the beginning of 2024, where we saw notably low prices for gas, power, and wider international commodity markets despite representing the period of the year in which we would expect demand levels to be at their highest.

May saw yet another overall increase in wholesale price movements across tracked gas and power contracts, similar to the movements seen in March and April. However, the expectation is that this trend will likely subside into the summer months, acknowledging this typically represents the lowest demand period of the year, subject to any unforeseen events.

Seasonal gas contracts from Winter 24 to Winter 26 were, on average, 3.4% higher in May when compared to the previous month, but with Winter 26 the exception to this trend.

Moreover, longer-term contracts found support as Austria's OMV Group indicated that gas payments to Russia's Gazprom may stop due to a legal decision, limiting supplies into Austria. This acted to increase market speculation as to when these volumes may be terminated and the impact this could have on gas supply security across Europe as we move further through 2024 and the winter refilling window.

Across May, we saw the day-ahead gas price rise 6.5% to average 76.41p/th, with prices starting the month at 69.30p/th and ending the month at 83.96p/th, reaching the highest level seen since January 2024 at 87.50p/th on 23 May.

Similarly, front-month contracts were up 6.8% on average when compared to April, with June 24 seeing a 7.4% increase to 76.41p/th and July 24 growing 6.2% to 76.42p/th. This is, in part, supported by periods of extensive maintenance across the Norwegian and UK Continental Shelves in the latter half of May, strongly disrupting flows into GB and consequently tightening system margins as a result.

The price gains seen from the drop in Norwegian flows were limited by strong gas storage levels across Europe, however, which currently sit at approximately 69% full at the time of writing. Similarly, gas demand eased during periods of above-average temperature in the month, allowing for net storage injections.

Due to the intrinsic link between gas and power prices, this bullish trend was extended to equivalent GB baseload power contracts - with day-ahead power prices averaging £71.82/MWh, up 22.2% when compared to April.

This gain is strongly attributed to the rise seen in its gas counterpart, in tandem with notably decreased wind generation production when compared to April levels. As a result, on 23 May, day-ahead power rose to £84.40/MWh, the highest seen since January 2024.

Similarly, both front-month power contracts recorded gains, as June 24 rose 8.6% to £68.99/MWh and July 24 averaged 9.8% higher at £70.96/MWh. Likewise, seasonal power prices saw collective upwards price movements, rising 5.7% on average.

Brent crude prices saw a 6.4% decline month-on-month to average $83.15/bl as US inflation concerns outweighed tensions in the Middle East, in tandem with mild Chinese demand. Losses were capped, however, due to uncertainty surrounding another potential supply cut ahead of the next OPEC+ policy meeting on 2 June.

Elsewhere, LNG prices continued to rise, averaging 89.54p/th across May, and reaching the highest level seen since December 2023 on 24 May at 98.53p/th, as demand from Asian countries remained strong as high temperatures prompted greater cooling appliance demand.

Both ETS schemes registered month-on-month gains with the EU ETS rising 10.1% to average €72.56/t, up from €65.92/t in the month previous. The UK ETS saw a more notable increase, rising 13.9% to average £40.76/t.

 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.

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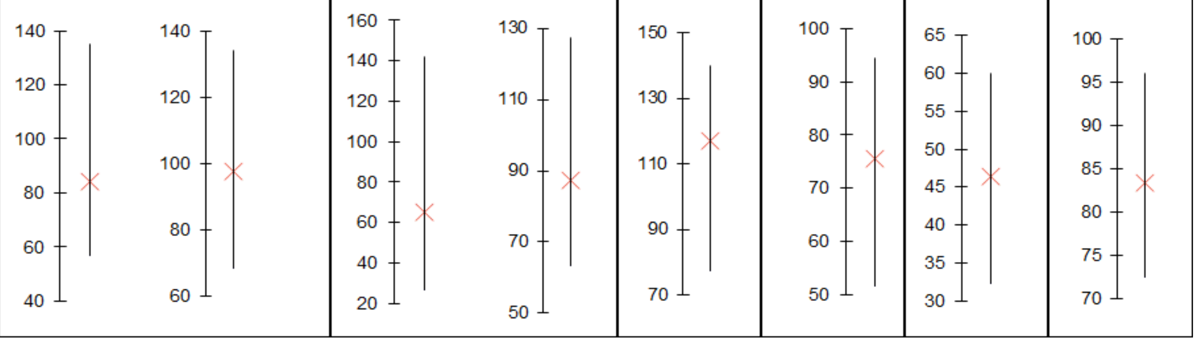
Key market indicators: 30/05/2024

		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	30 May 24	83.96	97.77	64.97	87.35	117.15	75.50	46.39	83.48
Last month	2 May 24	75.49	90.45	68.00	78.75	110.50	72.60	37.70	83.44
Last year	1 Jun 23	60.25	108.50	69.50	107.25	91.50	80.75	51.75	72.60
Year-on-year % change		39%	(10%)	(7%)	(19%)	28%	(7%)	(10%)	(11%)
Year high		135.00	134.25	142.00	127.50	140.00	94.55	60.00	96.05
Year low		56.70	68.43	26.50	63.50	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 ($/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 issues plan to empower and protect retail energy consumers

On 24 May, DESNZ published a policy paper titled ‘Putting Consumers First: Empowering and Protecting Energy Consumers’. The paper outlines how the government intends to empower and protect consumers in the retail energy market by increasing transparency and competition and enhancing consumer protection.

The first of the government’s goals – increased transparency and competition – aims to ensure consumers have access to the right information to get the right energy supply they need, along with incentivising suppliers to compete in ways that support good outcomes for consumers. To fulfil this goal, DESNZ will publish a call for evidence later this year to gather information on how consumers can more easily compare prices in the retail energy market. It will also look to introduce ways to make consumers better informed of when prices will change, such as by reporting on planned updates to the Default Tariff Cap. Ofgem is currently developing plans to make comparing energy supplier performance easier by making supplier data more accessible. DESNZ states it will work with Ofgem to explore possible options for this, including publishing a wider range of data later this year to help consumers to better hold suppliers to account and drive high quality customer service.

The second of DESNZ’s goals – enhanced consumer protection – aims to make sure the right systems are in place to protect consumers, both on an ongoing basis and as they engage with the market. DESNZ is currently running a call for evidence on the future of the Default Tariff Cap and whether it needs to be redesigned in alignment with developments in the energy market. DESNZ also plans to launch a consultation later this year on regulating Third-Party Intermediaries (TPIs) in the energy sector, with the consultation looking to ensure that customers get the best service from TPIs and are protected from potential harms. Another way DESNZ is enhancing consumer protection, is by developing a consumer-facing Code of Practice for smart metering. The Code is expected to increase industry adoption of good practice by creating clear expectations and a consistently positive consumer experience of smart metering, including improved aftercare following installation. It notes that it expects all energy suppliers to sign up to and adhere to the code once it has been developed.

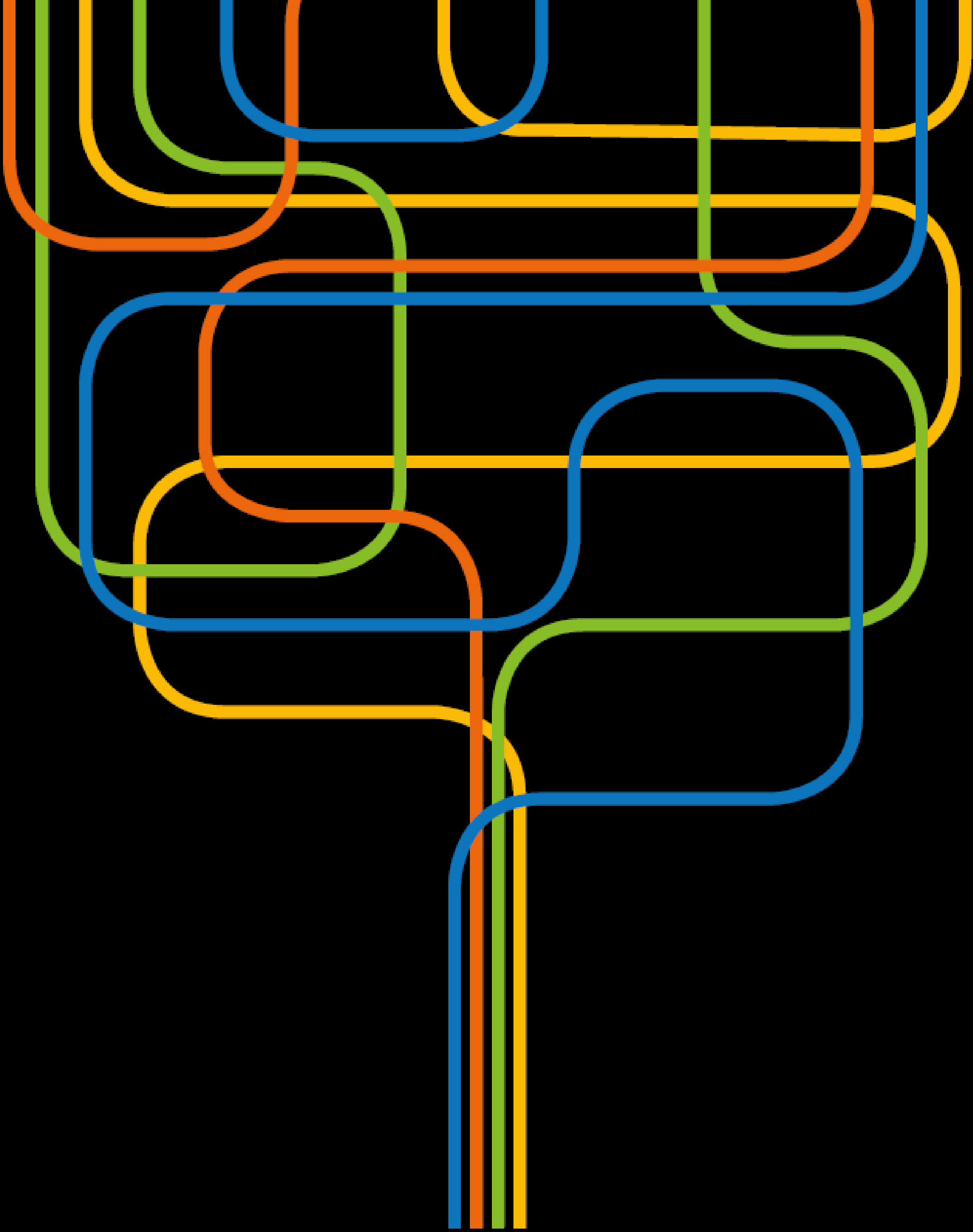
DESNZ

Report: 38% of businesses struggling with green policy uncertainty

On 16 May, the British Standards Institution (BSI) published its fourth annual net zero barometer. From a survey of more than 1,000 senior decision makers from businesses across the UK, the report finds that, despite 83% of businesses committing to achieving the UK’s net zero emissions target, nine in ten want greater government support to help reach decarbonisation targets. 23% of organisations reported a lack of clarity on what net zero means, with a lack of guidance on how to take action preventing small and medium-sized enterprises (SMEs) from taking steps. The BSI notes that confidence was lower amongst SMEs than large firms, with large firms (54%) more likely to have a 2050 target in place than SMEs (35%).

Half of respondents cited cost as the main barrier to achieving net zero targets, with 38% of businesses stating they are not confident net zero can be achieved without significant cost to their business. Moreover, 38% surveyed said their ability to decarbonise was being held back by uncertainty over the government’s green commitments. 35% stated they were impacted by uncertainty over what the next government will do and 92% said that pre-election they wanted parties to show a strong commitment to the UK meeting its net zero goals via targeted policy measures.

British Standards Institution



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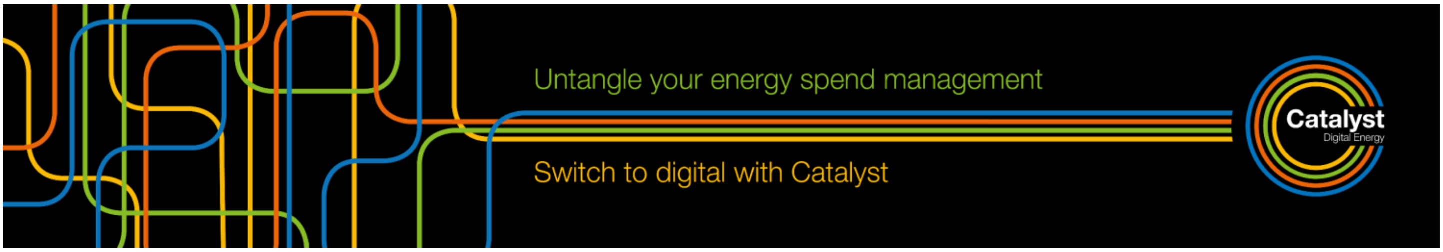


OVO: only 7% of UK workers have received green skills training

According to new research commissioned by OVO with Energy and Utility Skills and released on 21 May, only 7% of UK workers report receiving dedicated green skills training – despite 21% having asked for green skills training at least once at work. OVO finds that 362,000 workers may be needed by 2035 to decarbonise homes and, as such, is calling for a national drive to address the green skills gap and prepare for green jobs of the future. This includes through boosting visibility of green roles in primary and secondary education, introducing green requirements into existing recertification assessments, and mapping out regional workforce and skills shortages.

OVO

Only 22% of organisations have good control of energy consumption

On 14 May, Centrica Business Solutions published a report exploring how businesses can overcome organisational barriers to strengthen their energy control. The report finds that only 22% of organisations believe they have good control of their energy consumption. It also finds that 63% of businesses plan to increase their onsite generation capabilities over the next two years.

Centrica Business Solutions

SBTi releases plans for revision of the Corporate Net-Zero Standard

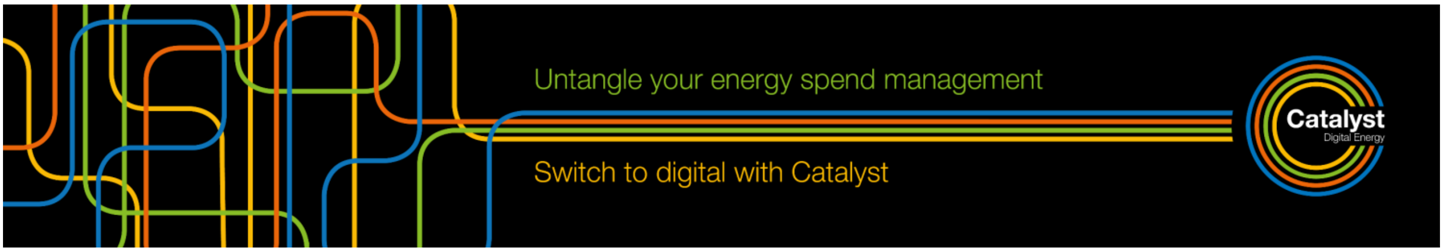
On 9 May, the Science Based Targets initiative (SBTi) launched the Terms of Reference for the revision of the Corporate Net-Zero Standard. The Terms of Reference detail the objectives, scope, deliverables, provisional timeline, and engagement opportunities during the standard revision process. In its announcement, the SBTi outlines four key goals for the revision of the Corporate Net-Zero Standard. These are aligning with the latest scientific thinking and best practice; addressing challenges relating to scope 3 target setting and implementation; integrating continuous improvement and target delivery; and improving the structure and enhancing the interoperability with other SBTi standards and other related external frameworks.

The SBTi states that as part of the revision process, it is performing an evaluation of the effectiveness of environmental attribute certificates in corporate climate targets. Responses from a call for evidence, which took place in 2023, and results from the assessment will feed into the Corporate Net Zero Standard revision. The SBTi stresses that any decisions on changes to the standard will follow a strict process of research, consultation, pilot testing, approval by the technical council, and adoption by the SBTi board of trustees.

The SBTi is set to release a scope 3 discussion paper in July 2024, which will set out its initial thinking on potential changes around scope 3 target setting, including on underlying principles and concepts. In the same month, a second paper will be released titled 'Assessment of Evidence on the Effectiveness of Environmental Attribute Certificates in Corporate Climate Targets'. This will present the SBTi's assessment of the evidence received on the effectiveness of carbon credits in corporate climate targets. It is noted that potential changes to the standard as a result of the paper will be assessed through a feasibility study.

In Q424, the SBTi expects to issue the public consultation on the draft Corporate Net-Zero Standard 2.0. The feedback received from the consultation will be made public and used to inform the development of the standard.

SBTi



DESNZ publishes BASEE programme evaluation report

On 3 May, DESNZ published an evaluation report, setting out the findings from its £6mn Boosting Access for SMEs (small and medium-sized enterprises) to Energy Efficiency (BASEE) programme. Developed in line with the government's ambition – as set out in the Clean Growth Strategy – to support businesses to improve their energy efficiency by at least 20% by 2030, the BASEE competition aimed to understand and address the barriers preventing SMEs from taking energy efficiency action. For this, eight pilot projects were awarded funding to develop and deliver innovative solutions that would encourage SMEs to take up energy efficiency measures. The programme was held between February 2020 and February 2022, with 400 SMEs taking part in the pilots.

Following the pilot schemes, an evaluation period took place, through which the outcomes of the pilots were assessed so that they could inform future programmes and policy. The main finding was that levels of SME engagement with, and use of, the platforms were lower than had been anticipated, with limited evidence that specific pilots had supported SMEs in identifying potential actions and starting to implement those. DESNZ notes that some pilots were promoted to thousands of SMEs, and yet none could progress more than 25 SMEs through to considering action. Consequently, many of the key outcomes and impacts that the evaluation was looking to measure were not realised.

When asked how the government could further support the objectives underpinning the BASEE programme, competition participants and wider stakeholders pointed to three key themes. These were: for greater and more sustained funding for SME energy efficiency measure installation; the acceleration of the smart meter rollout to commercial premises; and changes to enable more efficient access to energy data where the business has granted permission. It was also thought that the new Minimum Energy Efficiency Standards for commercial premises would be an important driver of action.

DESNZ

Report finds businesses require more support on sustainability

According to a report by Small Business Britain released on 14 May in partnership with BT and Oxford Brookes Business School, one in four businesses are leveraging sustainability as a growth opportunity amid financial constraints. Yet, the report notes that there is a significant gap in sustainability knowledge and application, with businesses reportedly expressing a need for external support and guidance. Financial barriers are stated to be the main limitations for small businesses. Despite 80% being inclined to adopt more sustainable practices, almost half report that access to finance is their primary hurdle.

The report adds that there appears to be a disconnect between government initiatives and small business engagement, with over a quarter of survey respondents stating they feel unaffected by the government's net zero commitments. The report calls for more direct, impactful support and clearer communication from governmental bodies and recommends that an urgent re-evaluation of current government strategies is carried out to better align with small business needs.

In order to bridge the gap between sustainability knowledge and application, the report recommends that comprehensive awareness campaigns are set up to provide clarity on sustainability benefits and practices for small businesses. It also recommends the development of programmes that offer mentorship, training, and financial support to small businesses.

Small Business Britain

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