Catalyst
Digital Energy

Digital Energy Element

August 2024

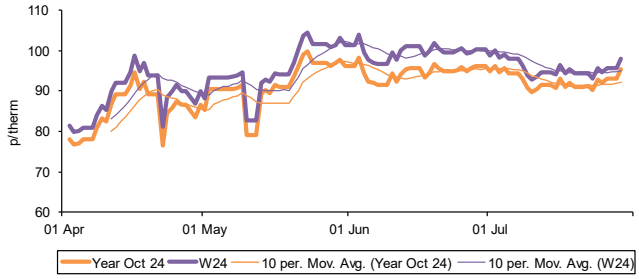
Shorter Durations Recorded

Losses Month-to-Month

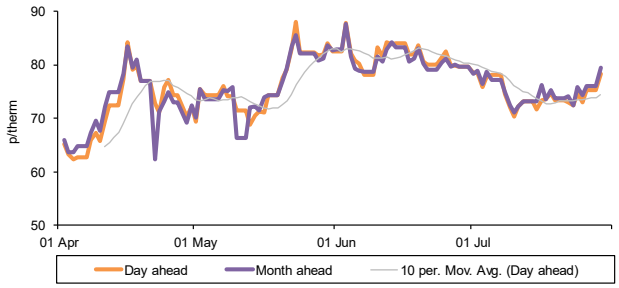
Untangle your energy spend management

Digital Energy Element / August 24

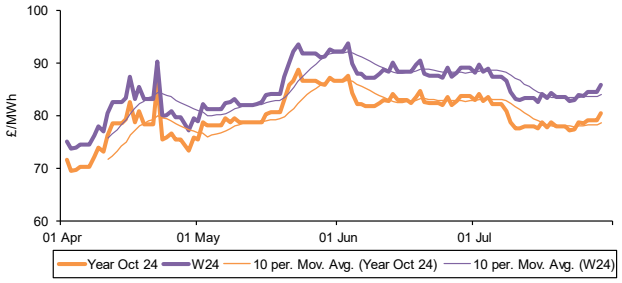
Annual gas prices



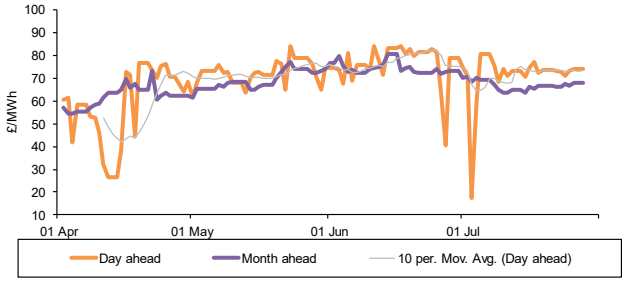
Spot gas prices



Annual power prices



Spot power prices



Contrary to the movements observed in the preceding month, and across most of 2024, power and gas contracts with shorter durations recorded losses month-to-month.

Despite the price losses, it is important to acknowledge that prices remain sensitive to change, especially as GB is more exposed to the global market for its procurement of gas. This was particularly apparent during July when Hurricane Beryl exacerbated supply fears for the West following an outage at the Freeport liquified natural gas (LNG) export facility in the US. Similarly, reduced gas supply from the Norwegian and UK Continental Shelf across various periods of the month further solidified concerns surrounding supply.

Day-ahead gas registered a 9.0% loss month-on-month to average 74.49p/th due to demand reductions as the higher temperatures limit total heating demand. Similarly, front-month contracts registered price drops, with August 24 seeing a 9.0% loss to 75.13p/th, and September 24 dropping 7.3% to 79.71p/th.

Similar to the front-month contracts, most seasonal gas contracts out to Winter 26 showed decreases, but we note outliers in the summer 26 and Winter 26 contracts which saw a gains of 2.0% and 2.1%, respectively. This led to an overall decrease of 0.1% across seasonal gas contracts, with an element of risk remaining across the medium-term as the present gas supply environment remains relatively uncertain despite elevated levels of EU gas in storage.

Elsewhere, demand profiles in Europe and South-East Asia across the winter period could play a key role in shaping future price movements for gas, particularly if we see competition between the two markets rise for the procurement of LNG. Currently, LNG demand from Europe remains subdued due to high gas storage stocks, currently at 85% at the time of writing, leading to the overall losses registered across gas contracts.

Following the bearish pricing sentiment experienced across its day-ahead gas counterpart, day-ahead power prices fell 7.4% to average £70.14/MWh in July, falling to the lowest level seen since April 2020 at £17.26/MWh on 3 July following high wind generation and low system demand on the day. However, stronger losses were limited by a month-on-month reduction in wind generation levels, acting to increase the reliance on more expensive forms of power generation. Moreover, continued extensions to French nuclear power generation acted to decrease interconnector flows from the country, in tandem with the maintenance across the GB nuclear fleet throughout the month.

Similarly, both front-month power contracts registered losses, as August 24 fell 9.3% to £66.87/MWh and September 24 dropped 7.2% to £72.33/MWh. Seasonal power prices saw an overall downward movement too – falling 3.2% on average, with winter 24 dropping 4.3% to £85.08/MWh and summer 25 falling 4.4% to £74.20/MWh.

Brent crude oil registered growth month-on-month, averaging $84.32/bl – up 2.0%. Prices found support as the market reacted to the arrival of Hurricane Beryl at the beginning of the month and the impact this would have on the Gulf of Mexico and the infrastructure in place. Moreover, data released by the EIA showed notable summer demand across the US following a notable drop in crude stockpiles, down 4.9mn barrels in the week commencing 15 July, and reaching the lowest level seen since February this year.

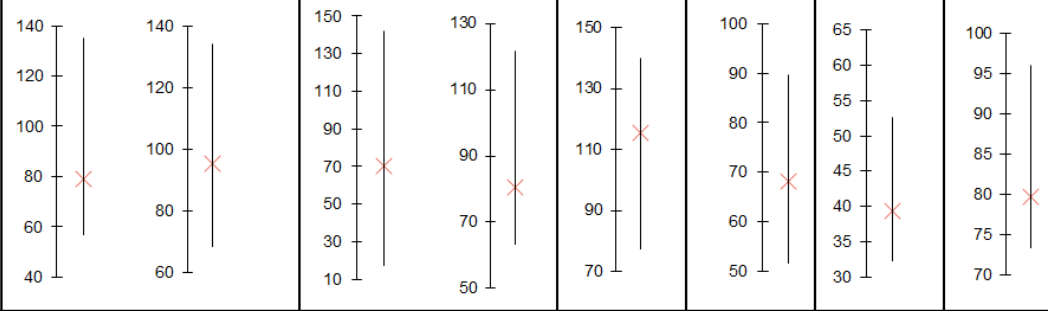
Spot Asian LNG recorded a bearish month as the market appears well supplied into early autumn when looking at EU gas storage site volume – with floating storage stocks growing in tandem with bolstered storage site levels across Europe. This resulted in a 4.6% decrease month-on-month, with Asian LNG averaging 94.11p/th in July. Stronger losses were limited as the influence of summer heatwaves continues to impact the price of the commodity, with greater power-for-cooling demand across Asia playing a large role in determining total LNG demand.

Downward movements were also recorded across both UK and EU ETS carbon prices, with the EU ETS down 2.1% to average €68.24/t, and the UK ETS falling 11.2% to average £42.20/t due to reduced demand levels across the summer period.

Key market indicators: 29/07/2024

		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	29 Jul 24	79.20	95.40	70.00	80.65	115.60	68.08	39.35	79.78
Last month	1 Jul 24	78.50	94.79	75.00	83.08	105.45	70.95	46.25	86.60
Last year	31 Jul 23	64.50	123.25	71.60	112.75	120.00	87.96	46.65	85.34
Year-on-year % change		23%	(23%)	(2%)	(28%)	(4%)	(23%)	(16%)	(7%)
Year high		135.00	134.25	142.00	121.50	140.00	89.65	52.55	96.05
Year low		56.70	68.43	17.26	63.50	77.30	51.60	32.30	73.40

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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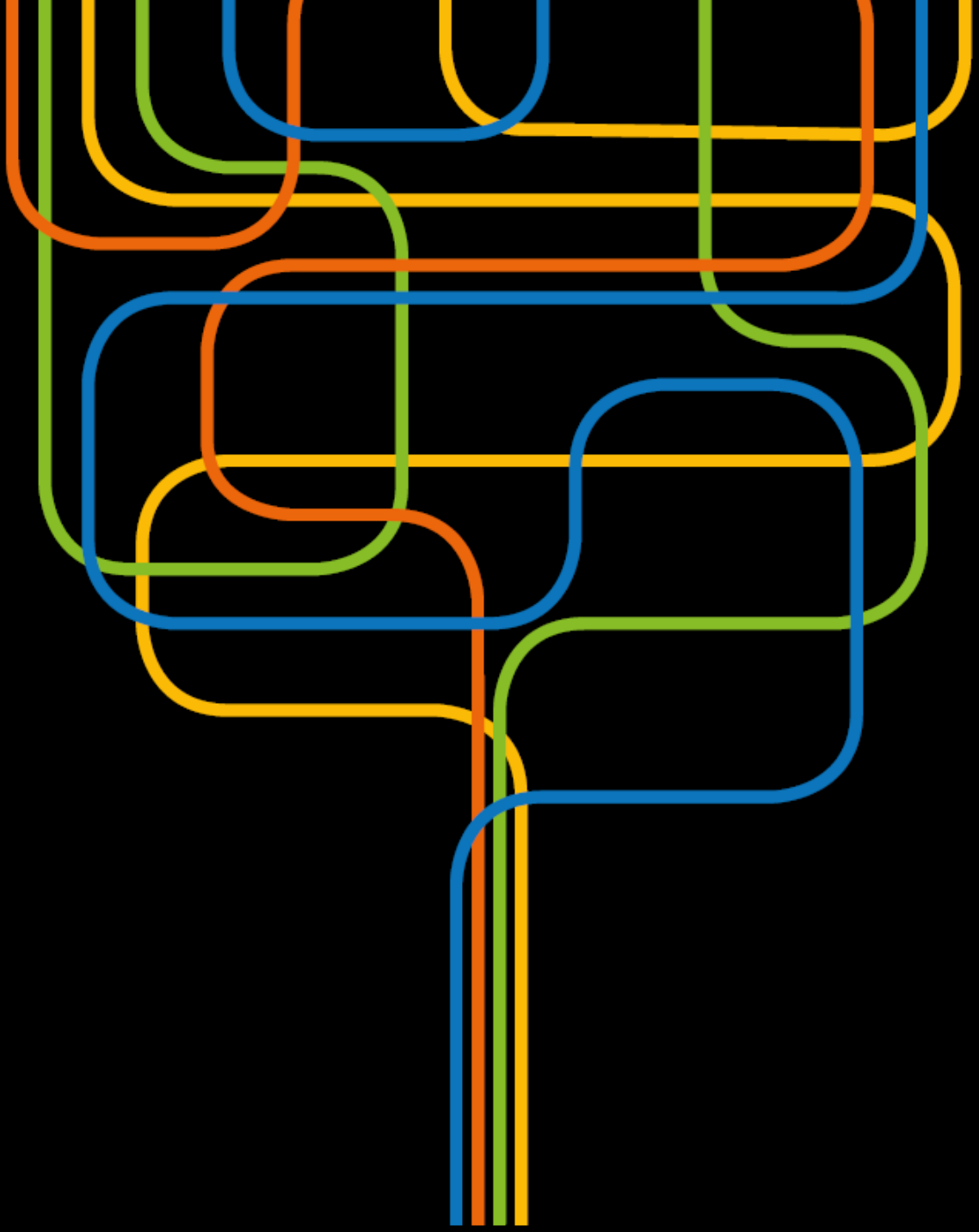

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New government sets out energy priorities

On 5 July, it was announced that the Labour Party won the 2024 General Election. Following his appointment as the Secretary of State for Energy Security and Net Zero, on 8 July it was announced that Ed Miliband has set out his priorities for the department. He stated: “Our department will be at the heart of the new government’s agenda, leading one of the Prime Minister’s 5 national missions, to make Britain a clean energy superpower with zero carbon electricity by 2030, and accelerating our journey to net zero. […] The job of our department will be to deliver our mission so we can make the UK energy independent, bring down energy bills for good, create good jobs, and tackle the climate crisis.” He noted that DESNZ will be “mission-driven” and issued his priorities, including clean power by 2030, upgrading Britain’s homes and cutting fuel poverty through the government’s Warm Homes Plan, and creating jobs in Britain’s industrial heartlands, including a just transition for North Sea based industries.

On the same day, the UK Government published a policy statement on onshore wind, detailing revisions to planning policy that place the technology on the same footing as other energy development in the National Planning Policy Framework. DESNZ announced on 9 July that former Chief Executive of the Climate Change Committee, Chris Stark, has been appointed as the head of Mission Control – the new control centre tasked with delivering clean power by 2030. DESNZ also noted that it intends to proceed with the implementation of the National Energy System Operator (NESO) and is still aiming for NESO to be established in 2024, subject to several factors.

On 25 July, the Prime Minister and Energy Secretary announced that Great British Energy – a publicly owned energy company designed to drive clean energy deployment – will partner with The Crown Estate. It is stated that this has the potential to leverage up to £60bn of private investment into the UK’s drive for energy independence. The Crown Estate, which has new investment and borrowing powers recently announced by the government, estimates that the partnership will result in up to 20-30GW of new offshore wind developments reaching seabed lease stage by 2030, which is enough power for the equivalent of almost 20mn homes.

On the same day, DESNZ published the founding statement for GBE. In the document, it is announced that Juergen Maier will be the chair of GBE, with the company overseen by an independent fiduciary board - as opposed to ministers – and owned wholly by the Secretary of State for Energy Security and Net Zero. It states that over the next few months, its priorities will be announcing the location of its headquarters in Scotland, starting to recruit key roles into the organisation, and undertaking a programme of stakeholder engagement to further develop its policy approach.

UK Government, UK Government, UK Government, DESNZ, DESNZ

Report outlines key obstacles to commercial EV adoption

On 29 July, the Social Market Foundation (SMF) published a report exploring what more could be done to increase electric vehicle (EV) adoption among business fleets. It finds that business uptake of EVs is growing, but that fleet numbers are falling behind the uptake of passenger cars. The SMF attributes this growth to business-oriented EV policies but notes that these are scheduled to end in 2025. As such, it is calling on the government to extend key EV subsidies to ensure commercial adoption does not plummet. The report also finds that high upfront costs continue to be an obstacle to EV adoption, but the main obstacles are around insufficient charging infrastructure and unreliable battery life. To tackle this, the SMF suggests that the government should expedite funding to the rollout of EV charging infrastructure, as well as directing any new EV policies to consumer subsidies to encourage widespread adoption.

SMF

CfD budget increased by £500mn for Allocation Round 6

On 31 July, DESNZ announced that it will increase the budget for the next Contracts for Difference (CfD) round by £500mn, an increase of over 50% compared to the previous budget set in March, to reach a total of over £1.5bn.

This includes £1.1bn for offshore wind, which it states has more budget available than all of the previous auctions combined. It also includes £185mn for established technologies such as onshore wind and solar, and £270mn for emerging technologies such as floating offshore wind and tidal. DESNZ reports that the budget for this auction round is seven times higher than that of Allocation Round 5.

DESNZ

Ofgem confirms amendments to non-domestic supplier SLCs

On 11 July, Ofgem published its decision confirming several amendments to the Standard Licence Conditions (SLCs) in both the electricity and gas supply licence that apply to non-domestic suppliers. These changes specifically concern the new requirements that were brought in following the conclusion of the non-domestic market review in April 2024.

The first change concerns the definition used within SLC 20, specifically, the wording for the definition of 'Third Party' and 'Third Party Costs'. This change will see a narrow reference to microbusiness consumers removed, to ensure that it is clear that the new requirements will apply to larger consumers as well. The requirement in question requires suppliers to disclose Third Party Costs paid by the customer via the supplier – this is something that currently only applies to microbusiness consumers.

However, due to the review decision, from 1 October 2024 it will be applied to all non-domestic consumers. The amendment should provide further clarity that the non-domestic supplier obligation will apply to all non-domestic consumers.

Ofgem

ESC finds seven gaps in carbon accounting regulation

On 16 July, Energy Systems Catapult (ESC) published its second report in a series of Operationalising a Carbon Regulator reports, looking to understand the existing landscape of carbon accounting regulation. It has identified seven gaps in current regulation and outlines proposals for how these gaps could be filled by a Carbon Regulator.

It finds that there is a lack of coordination between regulators and government, which is creating inconsistent requirements. As such, it proposes that a Carbon Regulator could have a coordinating role to improve alignment among existing regulators.

It also finds that there is an absence of detailed methodologies and calculations guidance within existing regulations and standards. It, therefore, suggests that a Carbon Regulator could have a role in issuing more detailed sector specific guidance, co-developed with industry to improve alignment.

Another finding is that a lack of standardised emissions factor datasets and significant gaps in availability of Scope 3 emissions factors are limiting the accuracy and consistency of disclosures and could limit the effectiveness of audits/verification. As such, ESC proposes that a Carbon Regulator could provide guidance on accurate emissions factor use and set requirements on dataset owners to keep them updated and aligned.

ESC

SBTi report finds 102% increase for science-based target setting in 2023

On 1 July, the Science Based Targets initiative (SBTi) published its Monitoring Report 2023, in which it outlines the key trends last year for companies and financial institutions that set science-based targets. Over 2023, the SBTi witnessed an 102% increase in the number of companies setting science-based targets compared to 2022. By the end of 2023, 4,205 companies had validated science-based targets, up from 2,080 in 2022, with 2,125 companies setting targets for the first time. This is a 113% increase on the previous year when 996 companies set targets for the first time.

Science-based targets have now been set in 76 countries worldwide, with companies in 14 countries setting targets for the first time. By the end of 2023, 53% of companies and financial institutions with validated science-based targets were based in Europe, 27% were based in Asia, and 14% were based in North America. In the Middle East and Africa, target setting grew by 450%, from two validated targets in 2022 to 11 validated targets in 2023. Similarly, in Africa and Latin America, the SBTi reports a 46% and 38% growth, respectively. However, the majority of countries demonstrating strong growth continue to be found in regions with more developed economies.

Of the 2,267 companies that had targets validated in 2023, 1,425 were classified as small or medium-sized enterprises, 802 were classified as large corporations, and 40 were classified as financial institutions. This brings the total number of financial institutions with validated targets to 86. The SBTi notes that it is trying to encourage greater uptake of science-based targets for financial institutions due to the potential of these companies to exponentially drive down greenhouse gas emissions across entire sectors and economies.

SBTi

DriveElectric launches workplace vehicle to grid charging trial

DriveElectric is inviting corporates to take part in its workplace vehicle to grid (V2G) electric vehicle (EV) charging trial, which will support them to lower carbon emissions and reduce energy costs. The V2VNY Phase 2 project, led by Hangar 19 in collaboration with DriveElectric and CrowdCharge, secured investment from the V2X Innovation Programme Phase Two, which is funded by DESNZ.

The innovation programme is part of the £65mn Flexibility Innovation Programme which is funded by the £1bn Net Zero Innovation Portfolio. As part of the trial, participants will receive a 7kW AC bidirectional V2G EV charger, site feasibility survey, and energy optimisation and back-office software until the end of the project. The technology enables drivers to charge their EV at times when electricity costs are low and give energy back to the grid, or a building or other EV, when electricity prices are higher.

DriveElectric has listed eligible EV models corporates need to have to be able to take part in the project. The project aims to demonstrate, test and refine the V2G technology.

DriveElectric

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