



# Digital Energy Element

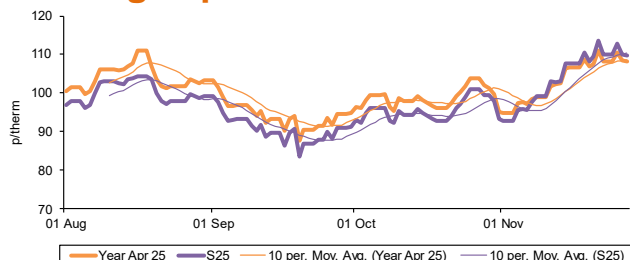
## December 2024

### Energy Market Price Increase

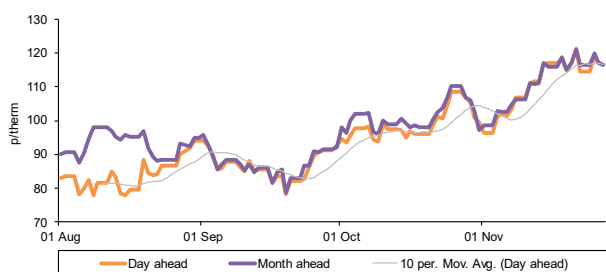




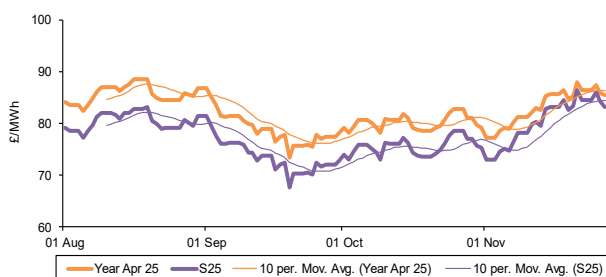
## Annual gas prices



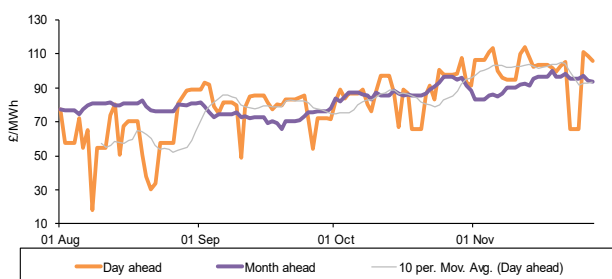
## Spot gas prices



## Annual power prices



## Spot power prices



In November, we observed near-term pricing for NBP gas continue its bullish sentiment from October. However, we are now observing the price differential between near-term wholesale gas pricing and contracts further out on the forward curve narrowing as we approach the winter season. More broadly however, gas contracts further along the curve saw monthly gains.

This saw seasonal gas contracts from summer 25 to summer 27 rise on average by 3.0% in November compared with the previous month. Representing another month of average monthly gains for seasonal gas contracts, we saw summer 25 trade higher than the winter 25 contract, a typically unexpected trend due to higher heating demand across the winter period. This reflects the expectation of heightened LNG demand in Asia and Europe next year to fill storage ahead of winter.

A steady increase in gas prices was evident across the month. Much of the driving force for the rise in day-ahead gas prices was due to colder weather conditions as the month matured, where we entered a multi-day 'cold-snap' – which saw a rise in domestic heating demand and consumption. Moreover, storm conditions across the United States decreased gas production levels from the Gulf of Mexico, reducing gas exports into Europe. As a result, day-ahead gas prices rose 12.9% to average 111.49p/th across the month.

Liquefied Natural Gas (LNG) is an important supply-side balancer for GB following the Russian invasion of Ukraine. As such, the bullish movements observed fed through to NBP gas prices across the month, with Spot Asian LNG prices rising 4.7% to average 110.93p/th. These bullish movements were primarily driven by European gas supply concerns as winter approaches, with the expiration of the Russia-Ukraine gas transit deal at the end of 2024 heightening supply concerns as no new agreement has been formed. Supply concerns were also driven by European gas inventories falling at a faster rate compared to last year, meaning Europe will have to compete on the global market for greater volumes of LNG.

However, Donald Trump's victory at the US Election provided some bearish movements to gas prices. Whilst Trump's policies are relatively sparse in detail, it is likely his administration will increase US gas production creating certainty over supply, acting to limit stronger price gains.

Day-ahead power prices found bullish influence from increases in gas prices stemming from concerns surrounding gas supply across the winter period. This follows news that Russia's Gazprom will reduce its contracted gas supply to Austria's Mineral Oil Administration Stock Company (OMV) to zero.

Wind generation across November was lower than what was seen in October, which acted to increase strain on the system during periods of notably below-average temperatures. Despite the decrease in wind generation, the arrival of Storm Bert in the latter half of November led to day-ahead power prices falling to a monthly low of £66.00/MWh on the 22 November.

Brent crude prices fell 2.5% to \$73.50/bl, with bearish movements attributed to the expectation of greater oil supply due to Trump's victory in the 2024 US Election. In addition, OPEC stated that it expects global oil demand to decrease by 1.8mn barrels per day (bpd) in 2024, down by 107,000bpd from its prior forecast, leading to demand concerns over the commodity. Demand concerns were further heightened by reports that China's factory output growth slowed during the previous month as well as its property sector having reductions in demand.

Elsewhere, across the carbon markets. The UK ETS registered a small loss of 0.8% to average £37.94/t, whereas the EU ETS saw a much larger change, up 5.5% to €67.48/t, reaching a 2-month high of €70.60/t on 21 November. The European Commission announced that it would not increase EU auction volumes in the near term under its REPowerEU programme to account for lower allowance prices, acting as a bullish price driver as lower auction volumes lead to higher prices.

## Key market indicators: 27/11/2024

		Gas (p/th)		Electricity (£/MWh)		Coal (\$/t)	EUA Carbon (€/t)	UKA Carbon (£/t)	Brent crude (\$/bl)
		Day-ahead	Year-ahead	Day-ahead	Year-ahead				
This month	27 Nov 24	116.40	102.80	106.00	82.11	119.90	68.39	36.04	72.74
Last month	31 Oct 24	99.33	97.78	91.35	79.06	120.00	63.91	37.71	73.18
Last year	30 Nov 23	108.75	126.04	142.00	111.99	109.00	71.10	41.60	83.80
Year-on-year % change		7%	(18%)	(25%)	(27%)	10%	(4%)	(13%)	(13%)
Year high		121.50	126.04	142.00	111.99	126.35	80.30	50.25	90.72
Year low		56.70	70.16	17.26	66.41	77.30	51.60	32.30	69.49
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.		140	140	150	120	130	90	55	100
		120	120	130	110	120	80	50	95
		100	100	90	100	110	70	45	90
		80	80	70	90	100	60	40	85
		60	60	50	80	90	50	35	80
		40	60	10	60	70	50	30	65

## 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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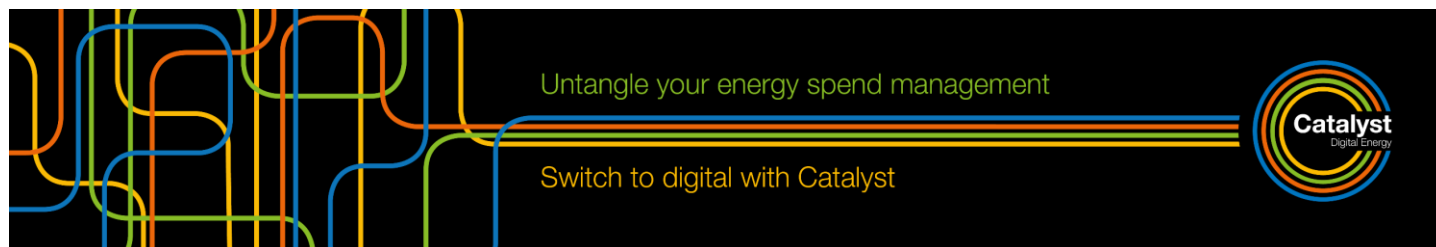
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## Key developments at COP29

On 11 November, the United Nations (UN) opened the 2024 UN Climate Change Conference (COP29). On the opening day, Parties reached consensus on standards for the creation of carbon credits under Article 6.4 of the Paris Agreement. Doing so will enable climate action by increasing demand for carbon credits and ensure that the international carbon market operates with integrity under the supervision of the UN. These standards will ensure that the international carbon market is high integrity, and that emission reductions and removals are real, additional, verified and measurable.

On 12 November, in his speech at COP29, Prime Minister Keir Starmer announced the UK's Nationally Determined Contribution (NDC) target to reduce greenhouse gas emissions by at least 81% by 2035, compared to 1990 levels. The new "ambitious and pragmatic" NDC target has been made to be in line with the recommendation from the Climate Change Committee and it is also expected to support the UK's mission for growth, attract greater investment and create new green jobs. The PM also called for other countries to match the UK's ambition to address the urgency of climate change, as the United Nations highlights that the world is "way off track" to limit global temperature rise to 1.5°C.

Continuing his speech, the PM announced the launch of the Global Clean Power Alliance, which aims to unlock private finance needed to accelerate the UK's clean energy transition; a £1bn windfarm turbine contract awarded by Scottish Power to Siemens Gamesa, as part of its £24bn investment to support British energy projects; and the introduction of the Clean Industry Bonus (CIB) Scheme, which aims to strengthen offshore wind supply chains.

In relation to the CIB Scheme, Keir Starmer disclosed that it will be set up with a provisional £27mn per GW of offshore wind projects, noting that the scheme is intended to incentivise offshore wind developers to invest in UK clean industry.

DESNZ has opened a consultation on the CIB scheme, which proposes additions to the Contract for Difference scheme to enable the inclusion of the scheme in the contract. It noted that offshore wind developers who invest in sustainable supply chains will be allocated extra revenue support. It states that the consultation will close on 10 December 2024.

Also announced at COP29, by Energy Secretary Ed Milliband, was a new package of support to aid the global energy transition, particularly in climate vulnerable countries. Funding pledges within the package include: £45mn for the World Bank's Energy Sector Management Assistance Programme, £15mn for Innovate UK, £14mn for United Nations Industrial Development Organisation, and £5mn to help developing countries tackle methane emissions.

The COP29 Presidency launched the 'Baku Call on Climate Action for Peace, Resilience, and Recovery' alongside Egypt, Italy, Germany, Uganda, the UEA, and the UK. It states that the initiative aims to address climate change, conflict and humanitarian needs to recognise the adverse effect of climate change in creating conflict and instability.

On 24 November, it was announced that the nearly 200 countries in attendance at COP29 reached agreement on a new finance goal. It states that the agreement is set to triple the finance available to developing countries to \$300bn annually by 2035, as well as secure \$1.3trn per year by 2035 to scale up finance to developing countries. Simon Stiell, Executive Secretary of UN Climate Change, stated that the new agreement will "keep the clean energy boom growing".

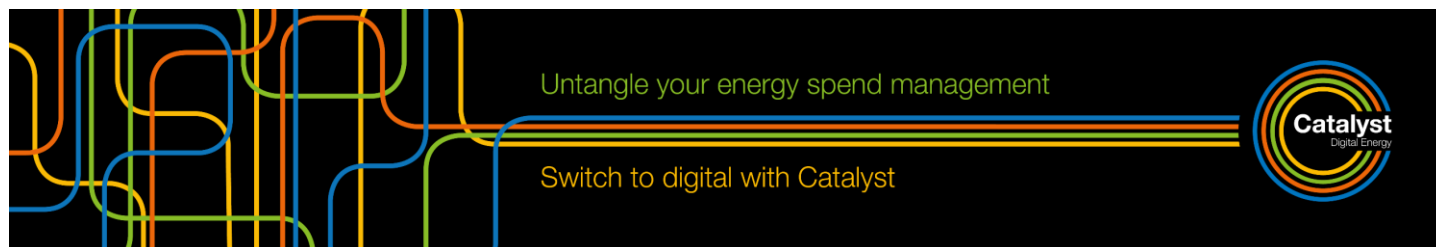
United Nations, UK Government, DESNZ, UK Government, COP29 Presidency, United Nations

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## UK ETS Authority publishes Functioning of the UK Carbon Market report

On 19 November, the UK Emissions Trading Scheme (ETS) Authority published its 'Functioning of the UK Carbon Market for 2023' report, which outlines the performance of the UK ETS during the third year of the scheme's operation. The report outlines that emissions in the third compliance year (2023) of the UK ETS had decreased to 96,757,682 tonnes of CO<sub>2</sub>e – in comparison to 110,618,346 tonnes of CO<sub>2</sub>e in 2022 – which it states was largely driven by a substantial decrease in UK ETS-covered power sector emissions. It also notes that as of 1 May 2024, 98% of Operators and Aircraft Operators were fully compliant with their UK ETS surrender obligations.

### UK ETS



## NESO announces Demand Flexibility Service go-live date

On Thursday 21 November, the National Energy System Operator (NESO) announced that, having been approved by Ofgem, the Demand Flexibility Service (DFS) will go live from Wednesday 27 November. The “new look” DFS will now allow all households and businesses to participate across the entire year, rather than being a winter only service. The service is now designed to be compete with power generators, providing greater opportunities for participating consumers and business.

Households and businesses can pre-register through participating energy suppliers, aggregators, and third parties identified by NESO as registered service providers. The release also stated that, in December, NESO will publish the response to its summer call for Input on flexibility as well as the Routes to Market review for demand side flexibility.

NESO

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## DESNZ publishes notice on the voluntary carbon and nature market

On 15 November, DESNZ published a notice on raising integrity in the voluntary carbon and nature market. In the notice, DESNZ stated that the UK Government sees a clear role for the use of high-integrity carbon and nature credits by companies that wish to do so as part of their climate and nature strategies.

As such, it was announced that the Government will issue a public consultation in early 2025 to seek views on the steps required to raise the integrity and use of Voluntary Carbon and Nature Markets as mechanisms to support climate and nature goals. The consultation will seek to clarify the expectations for the standards and invite responses on endorsement, market design, and Scope 3 emissions. Additionally, the consultation will look to elaborate on the six principles for Voluntary Carbon and Nature Market integrity.

DESNZ, UK Government

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## NAO examines effectiveness of energy bills support schemes

On 14 November, the National Audit Office (NAO) published an update report examining the impacts of eight government support schemes from 2022-24, which were introduced in response to rising electricity and gas prices in the UK and Europe from summer 2021. The support schemes aimed to reduce the impact of increased energy bills on domestic and non-domestic customers.

The main schemes for the non-domestic sector included the Energy Bills Relief Scheme (EBRS) and the Energy Bill Discount Scheme (EBDS) which both aimed to offer financial support, reduce inflationary pressure, support economic growth, minimise redundancies and insolvencies and support supplier market stability. DESNZ stated that between 2022 and 2024, £7.786mn of energy bill support payments were made to non-domestic customers and noted that just 0.7% (£291.8mn) of all domestic and non-domestic scheme payments were due to fraud or error.

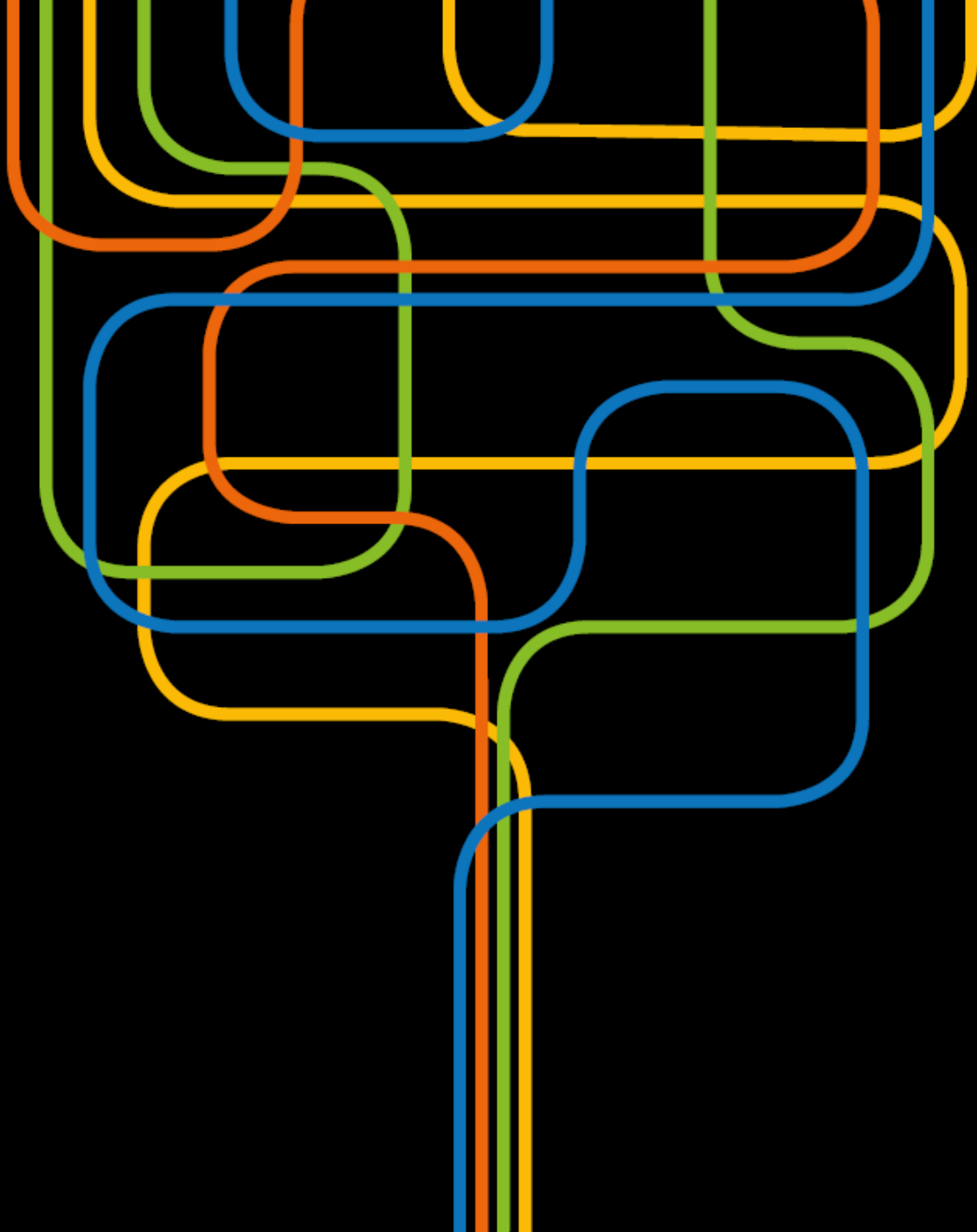
The NAO noted that 12 out of 101 non-domestic suppliers have been approved to exit the EBRS after a supplier-by-supplier basis review of payments. DESNZ expects to close this scheme by April 2025.

The NAO outlined a series of recommendations, including that DESNZ should review its approach on preventing fraud and error to identify good practice and ensure insights from implementing non-domestic energy schemes are incorporated into future policy design.

National Audit Office

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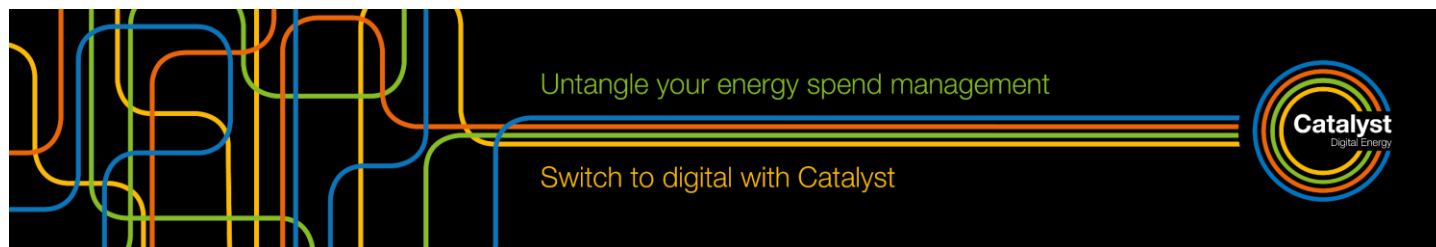


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## DESNZ and Ofgem open heat networks regulation consultations

On 8 November, DESNZ published a consultation in partnership with Ofgem on implementing consumer protections within heat networks regulations, seeking views on consumer protections around: the scope of regulation; how protections will work for non-domestic and small-medium size enterprise (SME) consumers; overarching Standards of Conduct; obligations for fair pricing; protecting vulnerable consumers; step-in proposals; and approaches to segmentation.

Focusing on some of the topics the consultation is seeking feedback on, in terms of scope, DESNZ proposes two types of regulated activity – operation and supply. Those operating would be a person or entity controlling transfer of thermal energy on the network or owning the asset/having power over development. Those under the supply regulations will be expected to hold a heat supply contract with the heat network customers.

Consumer protections will apply if the end consumer on the network is: a domestic and microbusiness consumer; non-domestic consumer, small businesses consumer or SMEs; industrial; or self-supply. Shared Grounds Loops (SGLs) are also in scope of the consumer protection regulations and due to the way SGL technology differs to that of traditional heat networks, DESNZ intends to apply protections where they are relevant and practical to the characteristics of this network type. It proposes that consumers on bulk supplied networks are afforded the same protections as heat network consumers who are supplied directly.

DESNZ also sets out the specific approach for non-domestic customers, and some applications of the regulatory framework which will apply differently.

- Non-domestic customers: Standards of Conduct, the obligation to provide fair and transparent prices, certain Guaranteed Standards of Performance (GSOPs) and the 'step-in' framework will apply.
- Small business consumers: the complaints handling process will also apply in addition to the above.

On the same day, Ofgem opened a consultation on heat networks regulation authorisation and regulatory oversight. Responses to both consultations are requested by 31 January 2025.

DESNZ, Ofgem

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## NESO publishes Clean Power 2030 advice to the Government

On 5 November, the National Energy System Operator (NESO) published its advice to the Government on how to achieve clean power by 2030. Commissioned by the Secretary of State for Energy Security and Net Zero, NESO sets out two pathways to clean power by 2030 and their feasibility, associated benefits and costs, and critical enablers.

The report notes that clean power is a huge challenge but is achievable for GB by 2030. It emphasises that clean power will require a combination of efforts across the household, community, regional and national levels and notes the strong position it will put GB in, by allowing it to become a net exporter of electricity and less exposed to the international markets. It states that the transition requires large initial investments, efficiency losses due to increased reliance on storage, and high levels of curtailment.

The NESO outlines two clean power pathways in the report, both of which involve the electrification of heat, transport and industry, with GB becoming an exporter of electricity and the share of unabated gas generation reduced to below 5%. Pathway one includes the expansion of flexibility and 50GW of offshore wind with no new dispatchable plants. Pathway two includes new dispatchable plants and 43GW of offshore wind. Based on its pathways, the NESO outlines the need for: growth in renewables; the electrification of transport, heat and industry; network investments; increased grid connected battery storage; a four-to-five-fold increase in demand flexibility; and increased efficiency of the connections queue. Critical enablers set out include market arrangements and investment support schemes being reformed, speeding up and streamlining the planning process, and an accelerated adoption of artificial intelligence and digitalisation.

The Government is expected to consider this advice in developing its clean power action plan later this year.

NESO





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