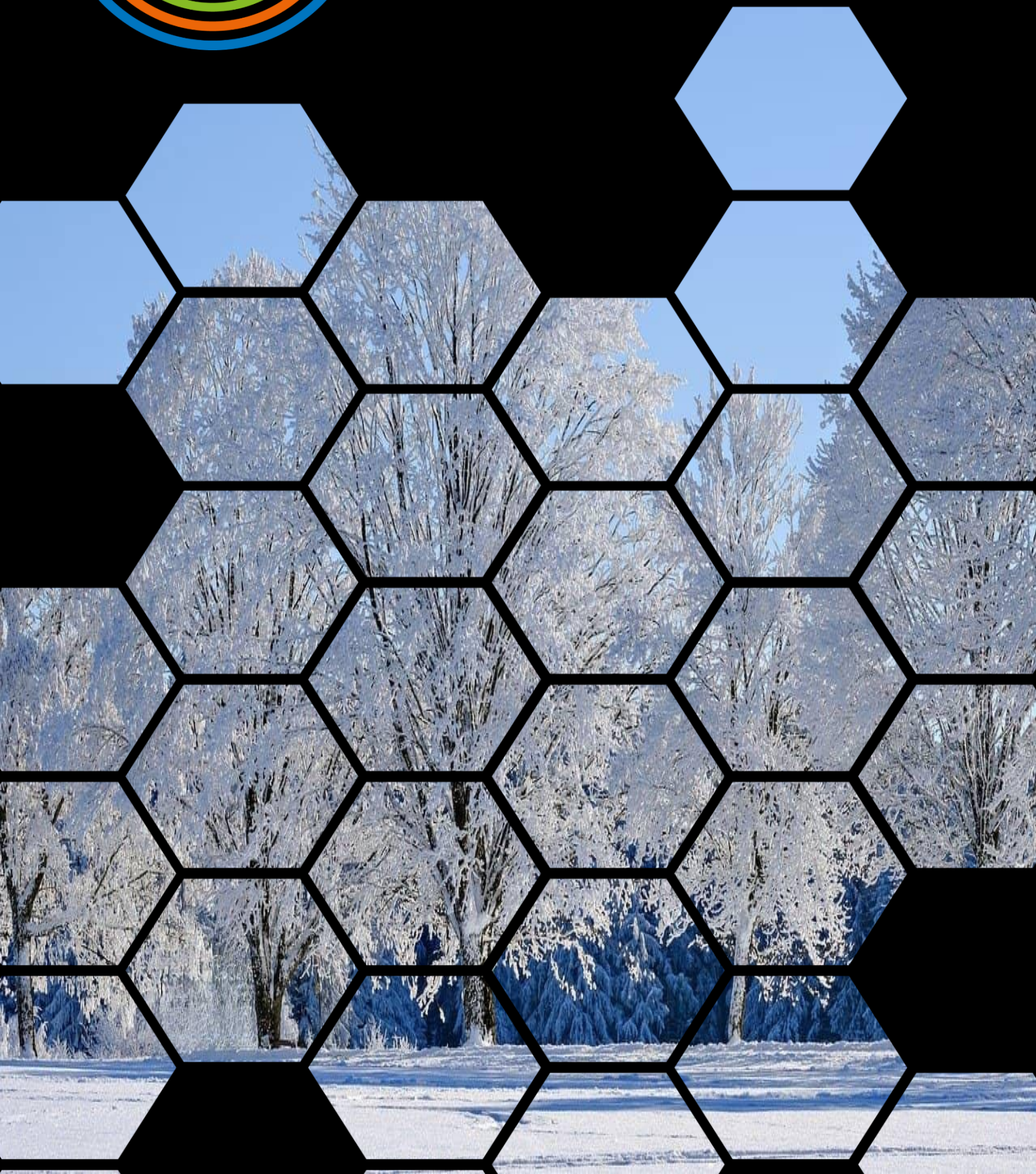
Catalyst
Digital Energy

Digital Energy Element

January 2025

Forward Curve Contracts

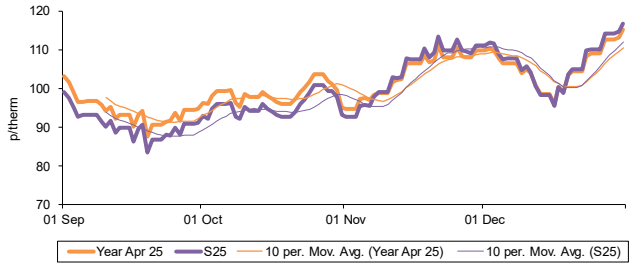
Recorded Gains



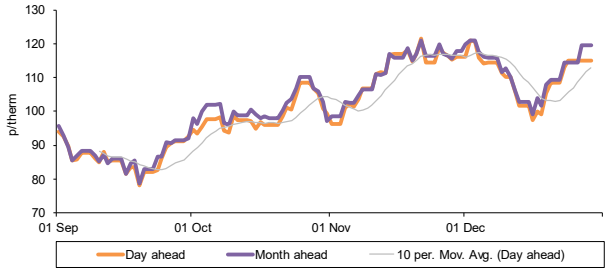
Untangle your energy spend management

Digital Energy Element / January 25

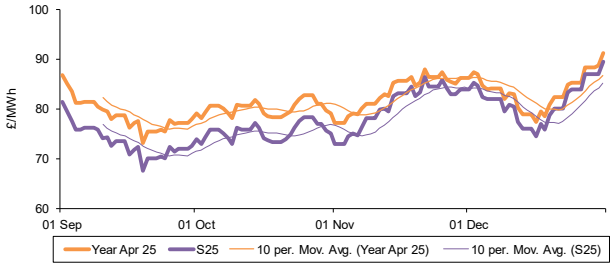
Annual gas prices



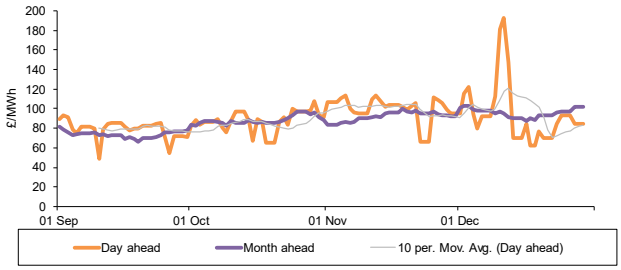
Spot gas prices



Annual power prices



Spot power prices



Throughout December, near-term power and gas contracts exhibited losses, while those further along the forward curve recorded gains month-on-month. This opposes what was seen in November when all tracked contracts registered gains, following the steady increase seen across UK power and gas prices since the middle of September.

Bearish market drivers arose across December, acting to suppress price rises from the bullish factors across the month. Particularly from an NBP gas point of view, levels of gas plant/field maintenance across both the UK Continental Shelf (UKCS) and Norwegian Continental Shelf (NCS) remained minimal – allowing a healthy volume of gas to reach the UK. Across the first half of the month, December remained relatively mild, particularly in comparison to typical seasonal average, limiting national gas demand for heating and leading to price losses during this period.

As a result, day-ahead gas prices experienced a decline from the month previous, down 0.4% to average 111.41p/th – driven in part by milder weather in the first half of the month, lower demand, and stronger levels of renewable generation when compared to November. Front month contracts followed this trend, with January 25 and February 25 down 2.0% on average, with the contracts averaging 112.56p/th and 113.07p/th, respectively.

However, gas contracts were supported in part by supply concerns in the New Year, after an announcement by Vladimir Putin outlining that there would not be a new deal for the transit of Russian gas through Ukraine after the end of the deal on 31 December, restricting gas supply in Europe. Because of this, contracts further out on the forward curve saw gains, with seasonal gas contracts from summer 25 to summer 27 2.6% higher in December when compared to the month previous. Summer 25 gas prices represented the highest average contract price in December at 106.94p/th – trading above the winter 25 contract price due to expectations of greater gas purchases to ensure storage facilities across Europe remain at an adequate level ahead of the winter 25/26 period.

Day-ahead power prices followed their gas counterpart lower in December – down 6.2% on average to sit at £96.24/MWh. However, prices experienced notable fluctuations across the month, rising to the highest level seen since December 2022 at £192.50/MWh on 11 December. During this period, GB experienced Dunkelflaute conditions, with wind making up less than 10% of the generation mix on 12 and 13 December alongside high demand. This increased reliance on more expensive gas fired generation, making up more than 70% of the generation mix on the same days. Shortly thereafter, prices fell lower as wind generation hit 22.4GW on 15 December, a new record at the time, followed by another record of 22.5GW, reached on 18 December.

The January 25 and February 25 front-month power contracts shared a similar price trend to that of their gas counterparts, dropping 1.9% on average to sit at £96.20/MWh and £97.07/MWh, respectively. Seasonal power contracts observed gains in the month of December. From summer 25 to winter 26, these contracts rose by an average of 0.3% - with summer 26 the largest of the recorded gains at 1.1%.

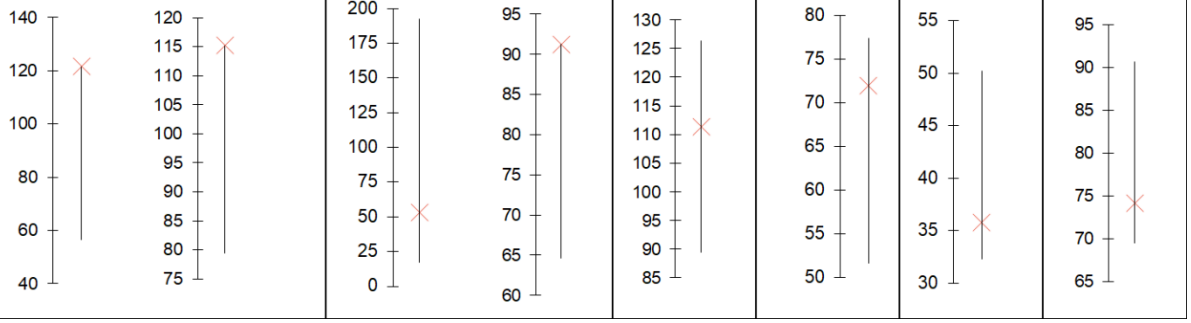
Brent crude oil experienced downward price movements across the month, falling by 0.7% to average $72.95/bl due to various bearish fundamentals. Price losses came from ongoing concerns around China's weakening demand – fuelling concerns over future global demand, and news from OPEC+ postponing planned supply increases and extending their 2.2mn barrel per day output cut until the end of 2026, as current output cuts have had a lower-than-expected impact on the market.

Across the EU and UK carbon markets a mixed trend was seen, with the EU ETS carbon price rising 0.7% €68.02/t. However, the UK ETS registered a loss of 7.2% - to average £35.08/t in December which we can attribute, at least in part, to traders moving to the Dec-25 futures contract towards the end of the month.

Key market indicators: 31/12/2024

		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	31 Dec 24	121.58	115.23	53.41	91.25	111.30	72.00	35.76	74.17
Last month	2 Dec 24	121.05	110.55	115.00	87.53	117.65	68.67	39.90	72.13
Last year	2 Jan 24	74.20	88.00	65.75	84.25	97.40	76.50	45.10	78.65
Year-on-year % change		63.9%	30.9%	-18.8%	8.3%	14.3%	-5.9%	-20.7%	-5.7%
Year high		121.58	115.23	192.50	91.25	126.35	77.40	50.25	90.72
Year low		56.70	79.38	17.26	64.63	89.50	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.



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 publishes Clean Power 2030 Action Plan and REMA autumn update

On 13 December, DESNZ published the Clean Power 2030 Action Plan, setting out a pathway to Clean Power 2030 (CP30).The action plan states that annual electricity demand is likely to at least double, with ambitions for 43-50GW of offshore wind, 27-29GW of onshore wind and 45-47GW of solar power to be operational by 2030, as well as 23-27GW of battery storage and 4-6GW of long-duration energy storage.

Additionally, the plan sets out a number of key actions that the Government will need to undertake in order to reach CP30, including reforming electricity networks and connections, delivery of nuclear and renewable projects, electricity market reform and encouraging investment in supply chains.

On the same day, DESNZ also published an assessment of the clean energy skills challenge as supporting evidence for the CP30 Action Plan. The assessment, which was produced by the Office for Clean Energy Jobs, aims to aid the government in better understanding the 2030 workforce requirements and support targeted skills planning. It is noted in the assessment that between 135,000-725,000 net new jobs could be created in low carbon sectors by 2030, with the largest increase coming from the energy efficiency & low carbon heating sector.

On 13 December, DESNZ also published its autumn update on policy development within the Review of Electricity Market Arrangements (REMA) programme, which highlights how its vision for electricity market reform is expected to work alongside the CP30 Action Plan. It provides updates on longer-term reforms to both the Contracts for Difference (CfD) and Capacity Market schemes, notes that no decision has yet been taken between zonal pricing or reformed national pricing and confirms its commitment to the equal treatment of CfDs under allocation round seven in relation to legacy or transition agreements. The update also reaffirms the Government's ambition to conclude the policy development phase of the REMA programme by around mid-2025.

DESNZ, UK Government, DESNZ

Prime Minister announces UK Government's Plan for Change

On 5 December, the Prime Minister, Keir Starmer, announced the UK Government's Plan for Change. As it relates to energy, Starmer stated that the Government will work in partnership with businesses and the energy sector to provide long-term certainty, with catalytic public investment. He added that the Government will remove barriers in the planning process and grid to help enable clean power by 2030. It noted that through the implementation of a diverse, low carbon energy system, the UK will be able to 'make the most of' its abundant natural resources, reduce energy bills 'for good' and protect consumers from future price shocks.

The Prime Minister further outlined the need to power up infrastructure across the country, with the construction of new pylons and wind farms, alongside reforms to the planning process. The announcement also highlighted the Government's recent funding commitment of £21.7bn into carbon capture, and the industry target for at least 50% of the supply chain to be UK-based. It added that there would "be significant opportunities to export UK technology abroad in a global sector that is expected to attract £135bn investment by 2035." The Plan for Change also encouraged taking action to ensure the public enjoys the benefits of home-grown clean power. The release also stated that the Government would "harness cutting-edge technology as we build out clean power. The UK is home to some world-leading green-tech companies and researchers, pioneering the way to a clean future."

UK Government

DfT consults on phasing out sales of new petrol and diesel cars from 2030

The Department for Transport (DfT) opened a consultation on 24 December seeking views on the commitment to end the sale of new cars powered solely by internal combustion engines by 2030 and supporting the UK's transition to zero emission vehicles (ZEVs). The first part of the consultation considers the phasing out of sales of new petrol and diesel vehicles from 2030 with views sought on how to achieve this, along with potential requirements for new non-zero emission vans to be sold from 2030 to 2035. The DfT also aims to consider its approach for small volume manufacturers along with the delivery of demand measures to support the uptake of ZEVs. The second part of the consultation addresses the ZEV Mandate, delivered through the vehicle emissions trading schemes. The Government is seeking views on the existing flexibilities within the ZEV mandate, and consideration of further flexibilities, as well as other technical updates to ensure its efficiency. Submissions to the consultation are requested by 18 February 2025.

DfT

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25 emissions-cutting projects receive share of £51.9mn through the IETF

On 9 January, DESNZ announced that 25 businesses, that have adopted emissions-cutting projects, have been supported with a share of £51.9mn through the Industrial Energy Transformation Fund (IETF). It states that the funding – which supports the deployment of industrial energy efficiency and deep decarbonisation projects –will help businesses to reduce their carbon emissions and energy bills.

Businesses that have received funding include Heinz, which received over £2.5mn for the installation of heat pumps; Hanson Cement, which received £5.6mn for its carbon capture and storage projects; and ReCon Waste Management Ltd., which received funding of £280,502 to switch from diesel to electric powered equipment.

DESNZ, UK Government

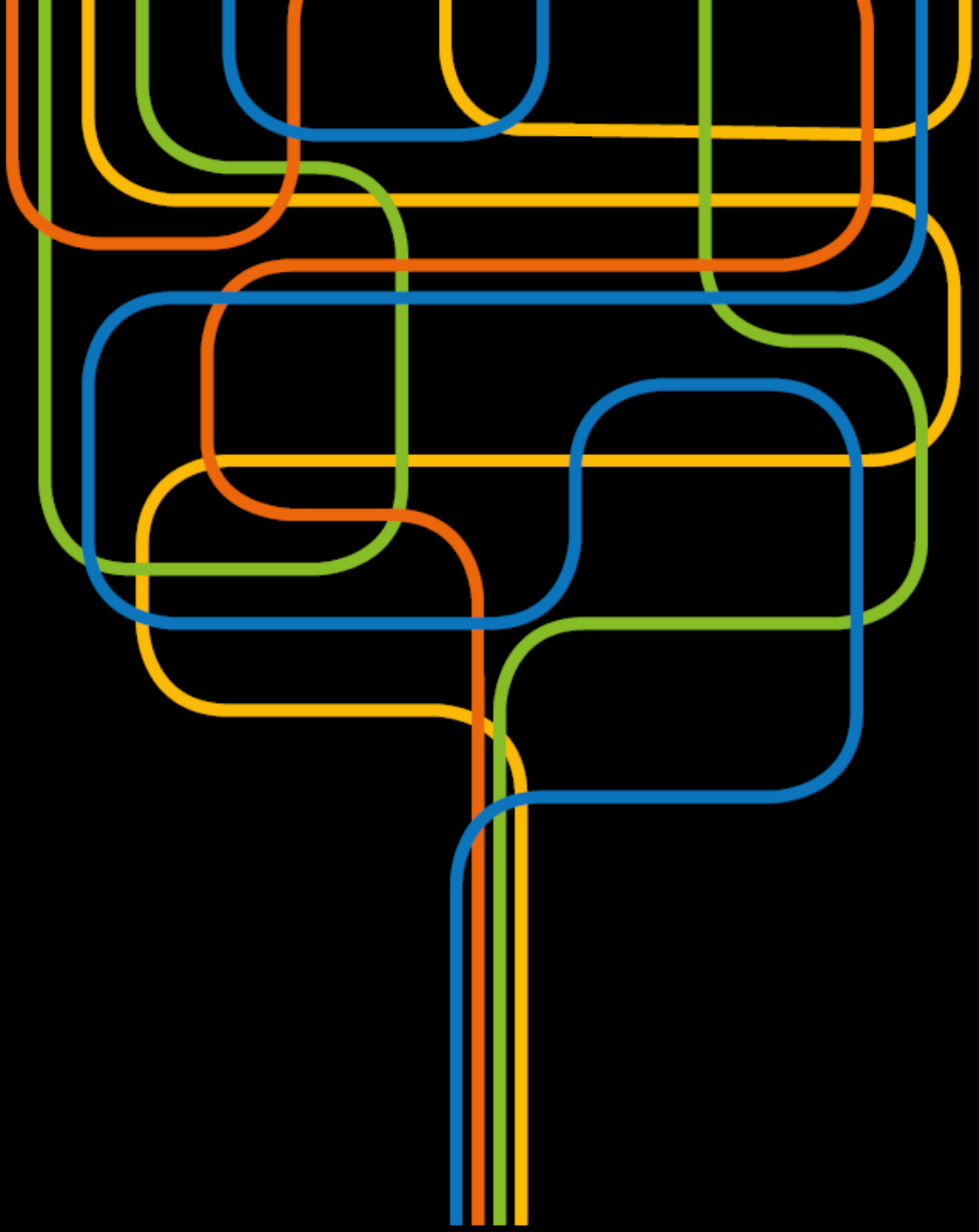
Government publishes research and analysis on EVs

On 24 December, the Government published a range of research and analysis relating to the adoption of electric vehicles (EVs). A publication on EV adoption and smart charging for electric vans and commercial fleets explores the barriers commercial fleet operators and drivers face in adopting electric vans and potential solutions. It also considers the barriers commercial van fleet operators and drivers face in installing and using smart charging technologies and potential solutions. The report also outlines a series of recommendations to industry, the Government and Local Authorities, to overcome barriers, including: supporting vehicle manufacturers to improve vehicle range technology, to consider expanding existing grants, and to help guide operators and fill knowledge gaps on adopting electric vans.

In a publication on EV smart charging, the Government examines consumer groups' understanding of and attitudes towards smart charging, and how to develop and test messages to help build awareness and encourage uptake.

A final publication details research and evaluation findings on the Electric Vehicles (Smart Charge Points) Regulations 2021, following their phased introduction in June and December 2022. The research examines how the Regulations have been implemented and how industry and consumers have responded.

UK Government, UK Government, UK Government



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Climate Group calls on the Government to address the price of electricity to enable decarbonisation of industry

On 16 December, the Climate Group commented on the Government's Invest 2025: the UK's modern industrial strategy, stating that it fails to provide details on two issues important for meeting the UK's climate targets. The Group notes that the proposals give a 'greater voice' to subnational Governments and offer the potential for a more strategic and long-term approach to policy making but emphasises that the document lacks the detail of how the industrial strategy will aid the UK in meeting its climate targets and secure economic growth. The Climate Group called on the Labour Government to urgently address the price of electricity and improve the use of public procurement to strengthen the case for investment in low-carbon technologies. It stated that the price of electricity 'is the most pressing' issue with it impacting the UK economy and efforts to cut emissions.

The Group noted that the widening gap between the cost of electricity and gas, along with businesses in the UK facing some of the highest commercial electricity rates in the world, is obstructing the electrification of transport and heating. It pointed that the high energy costs as a result of rising cost of electricity is a barrier to business investment. The Group also mentioned that the Government can improve the effectiveness of its procurement power to drive decarbonisation especially in highly polluting sectors such as steel and concrete. It recommended that the Government achieve this through adopting emissions intensity standards and clear incentives which remove blockers such as cost to the adoption of new materials in the public sector.

Climate Group, UK Government

Government lays out actions to support rollout of energy storage at scale

On 31 December, the Government issued its response to the Environmental Audit Committee's report published in May 2024 regarding the lack of long-term energy storage. In its response, the Government set out the steps it is taking to remove market barriers to support the rollout of energy storage projects at scale.

The Government highlights the Market-wide Half Hourly Settlement Programme Steering Group – comprising Elexon's Programme Management function, industry representative, the Independent Programme Assurer and Ofgem – which reviews the 'most serious programme risks and agrees how best to mitigate them'. Within its response, the Government outlines key risks and how the Programme and Ofgem are working to address them. Key actions outlined include that the National Energy System Operator (NESO) will develop a Strategic Spatial Energy Plan in 2026 that feeds into a Centralised Strategic Network Plan, to be published in 2027; that the Government will review the need for an electrification roadmap; and that the Government is reforming permitted development rights in England for the installation of air source heat pumps.

Within its response, the Government stated that it 'agrees with the importance of long-duration energy storage' (LDES) as a key enabler to a secure, cost-effective and low carbon energy system. It noted that the Government will 'continue to work with NESO' in the preparation for next steps on delivery of the LDES cap and floor scheme. The response emphasised the importance of the rollout of clean and flexible energy technologies – such as heat pumps, electric vehicles, battery storage and demand side response – to minimise the scale of generation and network capacity require, therefore keeping system costs as low as possible.

UK Government, Environmental Audit Committee

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