Catalyst
Digital Energy

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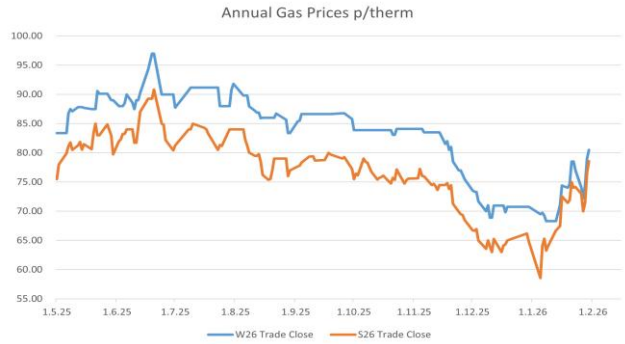
February 2026

Markets React To Weather Patterns

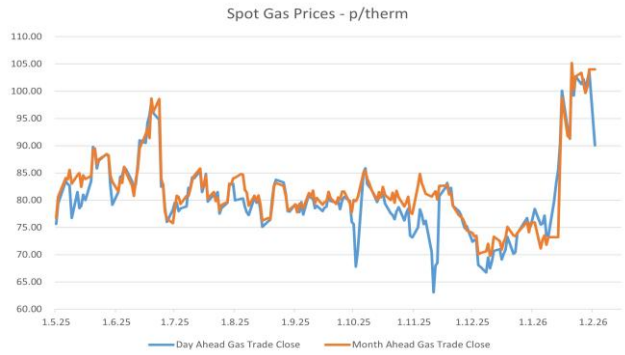
Untangle your energy spend management

Digital Energy Element / Feb26

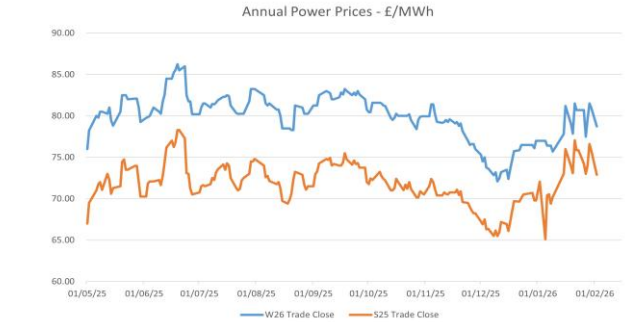
Annual gas prices



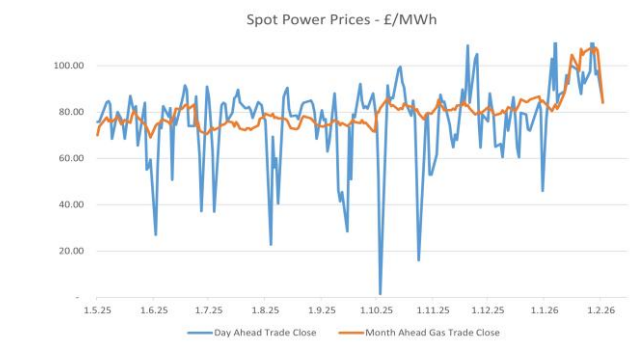
Spot gas prices



Annual power prices



Spot power prices



January opened with a renewed sense of optimism in the UK energy markets as hopes of sustained lower wholesale prices carried over from late 2025.

Early in the month, many forward contracts signalled softer pricing as forecasts suggested milder conditions ahead and ample LNG availability.

However, this optimism was tested as the New Year progressed and fundamental drivers began to assert themselves more sharply.

The most defining feature of the month was heightened volatility in wholesale gas markets, driven by a combination of persistent cold spells across Europe and supply-side sensitivities.

Gas prices, which had earlier eased following abundant LNG expectations, climbed significantly mid-January as colder-than-expected weather increased heating demand and lowered storage inventories.

Although storage remained a critical support for prices, inventories across the UK and EU stayed well below average seasonal levels, leaving the market exposed to weather risks and short-term flow disruptions.

Wholesale gas at the UK National Balancing Point notably rose during the month, with near-term contracts trading up as winter demand peaked.

These gains were mirrored in the power market, with day-ahead electricity contracts rising sharply at certain points as gas-for-power demand increased and nuclear outages tightened supply.

Despite upward pressures on prompt power prices, renewable generation played an increasingly influential role in curbing some of that upward momentum.

January saw UK wind output running at multi-year highs, with output averaging higher than at almost any point over the past few winters.

Strong wind conditions helped temper spot power pricing as fundamentals tied to gas volatility continued to dominate the narrative.

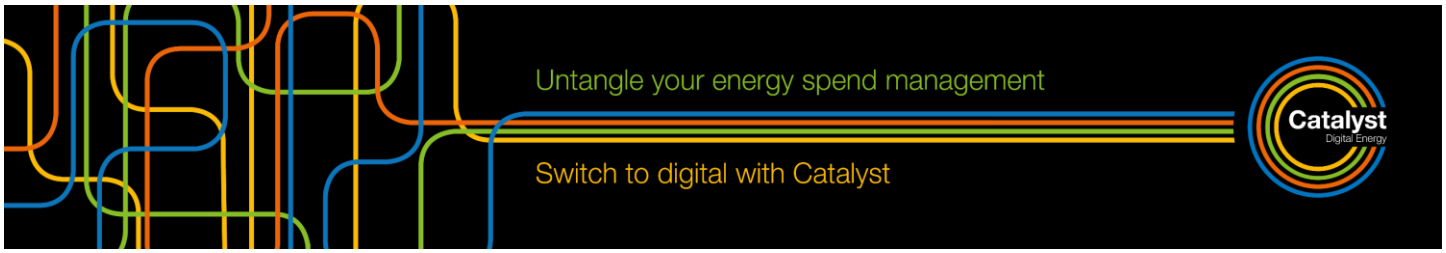
Internationally, broader energy market themes continued to influence sentiment within the UK.

A backdrop of swelling oil and gas inventories in some regions contrasted with the structural tightness seen in European gas, and ongoing geopolitical uncertainty remained a recurring feature in commodity outlooks.

Looking ahead, the market narrative at the close of January suggests that volatility rather than clear directional trends is likely to define the early part of 2026.

A combination of weather-driven demand pressures, reliance on LNG flows into Europe, and the evolving mix of renewable and thermal generation will continue to shape price discovery across both gas and power markets.

The sensitivity of prompt contracts to short-term fundamentals highlights the importance of active risk management as we transition into Q2 pricing and beyond.



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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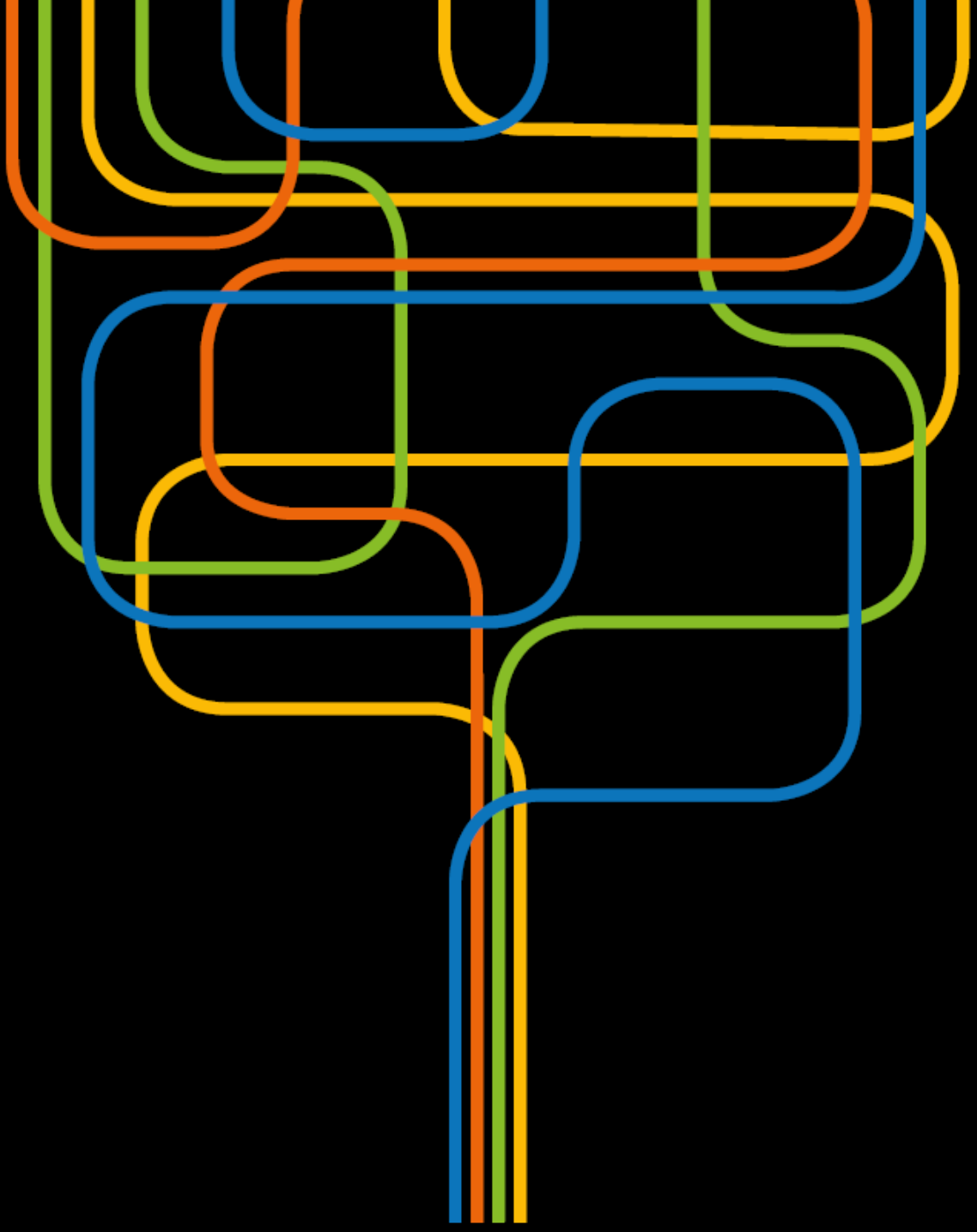

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UK Energy Firm Expands into China's Renewable Trading

Octopus Energy has agreed a strategic joint venture with China's PCG Power to trade renewable electricity in China, signalling the UK energy sector's ambitions to export expertise and technology overseas.

The partnership is expected to trade up to 140 TWh of renewable energy annually by 2030 and could generate substantial revenues for the UK company while strengthening bilateral clean energy cooperation.

Reuters

Long-Duration Storage Deal Advances UK Flexibility

Drax Group has signed a 10-year tolling agreement for a 250 MW battery storage project in Nottinghamshire.

The deal notable for being Drax's first of its kind, sees a third party assume construction and operational risk, with Drax paying fixed annual fees linked to inflation. The project underlines the growing maturity of the UK's storage market and the drive to integrate flexible capacity as renewable generation rises.

Reuters

North Sea Offshore Wind Cooperation Boosted

In a significant international development, the UK joined nine other North Sea nations in a landmark agreement to build out 100 GW of offshore wind capacity by 2040.

The plan includes interconnected subsea transmission and shared investment to create what leaders described as the world's largest clean energy reservoir. For the UK, this underlines ongoing commitment to deep decarbonisation and offshore renewables leadership.

Guardian

Renewables Continue to Dominate Speak on Europe's Energy Future

At the recent North Sea Summit in Hamburg, political and energy leaders reiterated strong commitments to accelerate clean power and energy security. The declaration highlighted collaboration on offshore renewables, grid integration, and supply stability, signalling that regional policy alignment remains a priority for the UK and its neighbours in 2026.

European Commission

Record Offshore Wind Contracts Achieved in UK Auction

Government auction results in January confirmed a record level of offshore wind capacity has secured contracts under the UK's Contracts for Difference regime.

The scale of capacity awarded outstripped expectations and is expected to materially support the UK's clean power ambitions for 2030 even as debates continue about cost impacts for consumers and system integration.

Guardian

Renewables Outlook 2026: Major Industry Forecasts Shape Strategy

Industry forecasters have released their 2026 renewable energy outlooks, providing important context for expectations around technology deployment, cost trajectories, and system integration challenges.

Analysts highlight that winners in this phase of the energy transition will be those who can effectively manage grid risk, leverage data and digitalisation, and integrate hybrid energy solutions that combine renewables with storage and flexible demand. Renewables are expected to continue their rapid cost declines, further improving competitiveness relative to thermal generation and expanding opportunities for corporate and public sector buyers of green power.

These outlooks also flag key considerations that could influence market dynamics this year.

For instance, grid constraints and connection bottlenecks remain significant barriers to faster deployment unless addressed through targeted investment and regulatory reform.

Additionally, supply chain pressures, particularly for critical minerals and components, may affect project delivery timelines.

For commercial energy buyers analysing long-term procurement strategies, these insights emphasise the importance of considering not just nominal capacity growth but also the broader systems context in which renewable generation must operate.

Deloitte

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