

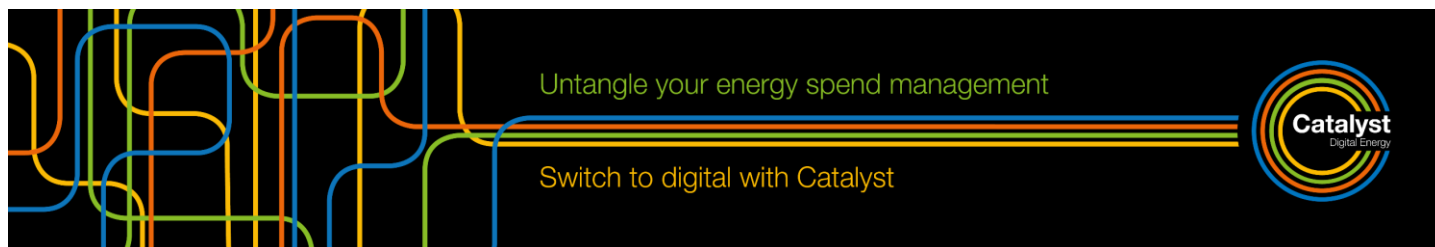


Digital Energy Element

May 2026

High Risk Markets





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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Annual gas prices



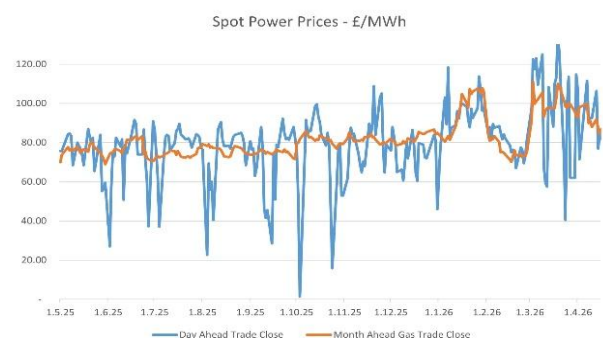
Spot gas prices



Annual power prices



Spot power prices



May 2026 has seen the UK energy market continue to trade within a relatively controlled range, but the underlying picture remains far from comfortable. Looking back at the trends established earlier in the year, particularly through January, the direction of travel is becoming clearer: prices are no longer reacting to short-term shocks in the same way, but they are still being supported by a tight and uncertain global gas balance.

Gas continues to set the tone for power, and that hasn't changed. What has shifted slightly is the market's sensitivity. In January, we saw prices move sharply on cold weather risks, storage concerns and LNG competition, particularly from Asia. Fast forward to now, and while those same drivers remain in play, the reactions have been more measured. That's partly down to a milder end to winter and a relatively stable start to injection season, but it would be wrong to interpret that as the risk disappearing.

European gas storage remains a key focal point. Levels exited winter at the lower end of recent years, and although injections are underway, the market is acutely aware that reaching comfortable levels ahead of next winter will require consistent LNG flows and limited disruption. This is where the risk premium is quietly sitting in the market. It's not dominating headlines day-to-day, but it is providing a floor to prices.

LNG dynamics have been a recurring theme since the start of the year and continue to underpin market sentiment. Competition with Asia hasn't gone away, and any signs of increased demand from that region still have the potential to pull cargoes away from Europe. In January, that risk drove some of the sharper upward movements. In May, it's more of a background concern, but one that traders are clearly not ignoring.

On the power side, the relationship with gas remains strong, although we are seeing the increasing influence of renewables during periods of higher generation. This has helped cap some of the upside in the short term, particularly during windy conditions. However, this is not a structural shift yet. When renewable output drops, the market quickly reverts back to gas-led pricing, reinforcing the underlying dependency.

Another theme that has carried through from earlier in the year is the impact of outages and maintenance across European infrastructure. While not always front-page news, these events have contributed to a steady level of support in both gas and power markets. The cumulative effect of these smaller disruptions is often underestimated, but they play a role in preventing prices from easing significantly.

Currency has also played its part. Sterling has seen periods of weakness against the dollar, which naturally adds cost pressure to imported energy. This is not the primary driver, but it is another layer that businesses need to be aware of when looking at overall price movements.

Overall, the market in May feels more stable on the surface compared to the volatility seen in January, but the fundamentals tell a more cautious story. The key risks have not gone away; they have simply become more embedded in pricing rather than causing sharp daily swings. Gas supply, LNG competition, storage levels and geopolitical uncertainty remain the core drivers, and as we move closer towards the next winter period, their influence is likely to increase rather than fade.

For customers, the takeaway is relatively straightforward. While the absence of extreme volatility may create a sense of calm, the market is still carrying a level of underlying risk that shouldn't be ignored. Opportunities to secure value are likely to appear in windows rather than sustained downward trends, and having a clear strategy in place remains as important as ever.



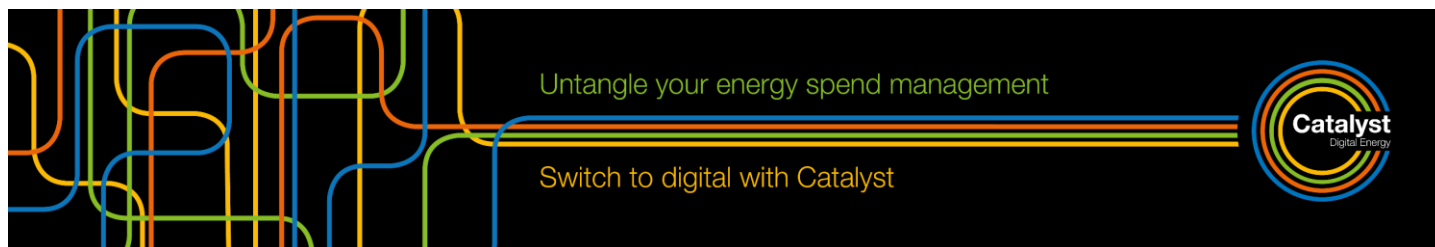
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Geopolitical risk continues to sit beneath the market

Geopolitics has once again become one of the most important underlying drivers in the energy market, even if it is not always visible in day-to-day pricing. Ongoing tensions in the Middle East, particularly involving Iran, continue to influence global oil and gas flows, with the Strait of Hormuz remaining a key pressure point. A significant share of global LNG and oil shipments pass through this route, meaning any disruption, real or perceived, quickly feeds into wholesale pricing.

Earlier in the year, we saw how sensitive the market can be to these risks, with sharp price spikes driven more by sentiment than physical shortages. While volatility has eased in recent weeks, the risk premium has not disappeared. Instead, it has become embedded in forward pricing, quietly supporting the market.

For the UK, this matters more than most. As a net importer of gas, pricing is dictated by global dynamics rather than domestic supply. Even when UK fundamentals appear stable, external shocks can quickly reset the market.

There have been moments of optimism, particularly where diplomatic progress has been hinted at, leading to short-term price corrections. However, these have tended to be temporary. The broader picture remains uncertain, and markets are likely to stay reactive to any escalation.

As we move towards the next winter period, geopolitical risk is unlikely to fade. If anything, it becomes more relevant, as tighter seasonal demand increases the market's sensitivity to disruption.

[Guardian](#)

Energy price cap drops, but not a return to “normal”

The reduction in the UK energy price cap from April has provided some welcome relief, but it does not signal a return to historically low pricing. While headlines point to falling bills, the reality is that costs remain significantly above pre-2021 levels.

The recent drop has largely been driven by earlier easing in wholesale markets rather than any structural shift in supply and demand. More importantly, recent movements suggest wholesale prices are beginning to firm again, driven by global influences rather than domestic factors.

This creates uncertainty around future price cap movements. While short-term relief is positive, it may not be sustained if wholesale costs continue to rise.

For businesses, the key takeaway is that the underlying market remains fragile, and pricing direction will continue to be shaped by global gas fundamentals.

[Ofgem](#)

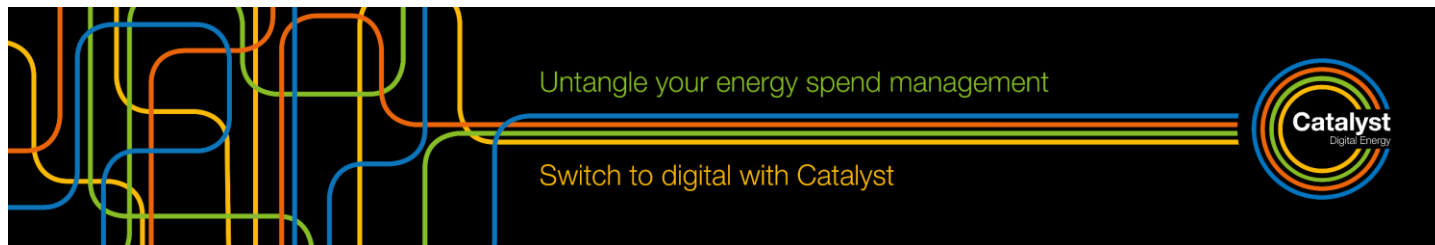
LNG competition remains a defining feature

Competition for LNG continues to be one of the most important factors shaping UK energy prices. The global nature of LNG means cargoes will always move to the highest-value market, putting Europe, and by extension the UK, in direct competition with Asia.

This dynamic was particularly evident earlier in the year, when stronger Asian demand contributed to upward pressure on prices. While conditions have stabilised somewhat, the risk has not gone away. Any increase in demand from Asia, whether driven by weather or economic growth, can quickly tighten supply into Europe.



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The UK is particularly exposed due to its reliance on LNG imports. Unlike pipeline gas, LNG flows are highly flexible, but this flexibility introduces volatility.

Looking ahead, LNG supply will be a key factor in determining how comfortably Europe can rebuild storage levels ahead of winter. Strong inflows would ease pressure, but any disruption could quickly push prices higher.

[IEA](#)

Renewable growth is helping, but not changing pricing fundamentals

Renewable generation continues to increase across the UK, helping to reduce reliance on gas during periods of strong output. This has been particularly evident during periods of high wind generation, where power prices have softened.

However, the overall structure of the market remains unchanged. Gas continues to set the marginal price of electricity, meaning that when renewable output falls, prices quickly return to gas-driven levels.

While progress towards a cleaner energy mix is clear, it has not yet translated into a fundamental shift in pricing dynamics.

[Guardian](#)

North Sea uncertainty raises longer-term concerns

The future of domestic oil and gas production in the North Sea is becoming increasingly uncertain, with major operators reassessing their positions and long-term investment strategies.

This reflects a broader shift across the sector, as companies balance traditional energy production with the transition towards lower-carbon alternatives. However, reduced investment in domestic supply has clear implications for UK energy security.

A decline in North Sea output would increase reliance on imports, particularly LNG, further exposing the UK to global price volatility. This is already a defining feature of the market and would only become more pronounced over time.

At the same time, policy and taxation continue to influence investment decisions, creating additional uncertainty for operators.

From a market perspective, the direction is relatively clear. Greater dependence on imports increases exposure to global risks, which in turn supports wholesale pricing.

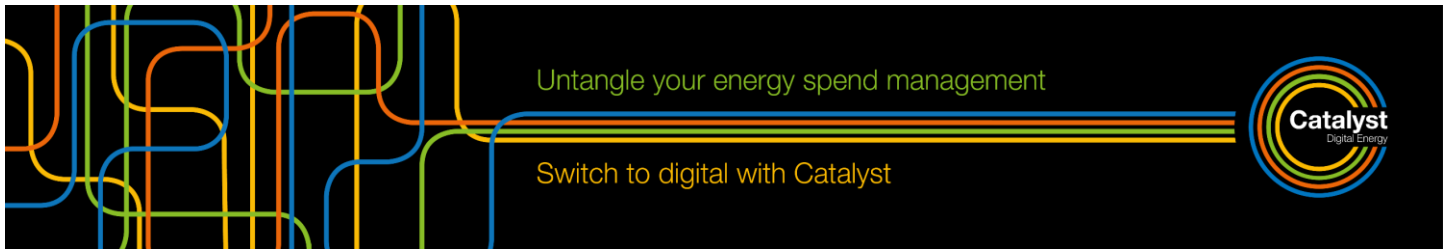
For businesses, this highlights the importance of understanding not just current market conditions, but also the longer-term structural trends that will shape pricing in the years ahead.

[Reuters](#)

Carbon prices remain a key influence on power markets

Carbon pricing continues to play an important, and sometimes underestimated, role in shaping UK power prices. The UK Emissions Trading Scheme (UK ETS) has seen relatively stable pricing compared to previous years, but it still adds a material cost to gas-fired generation.

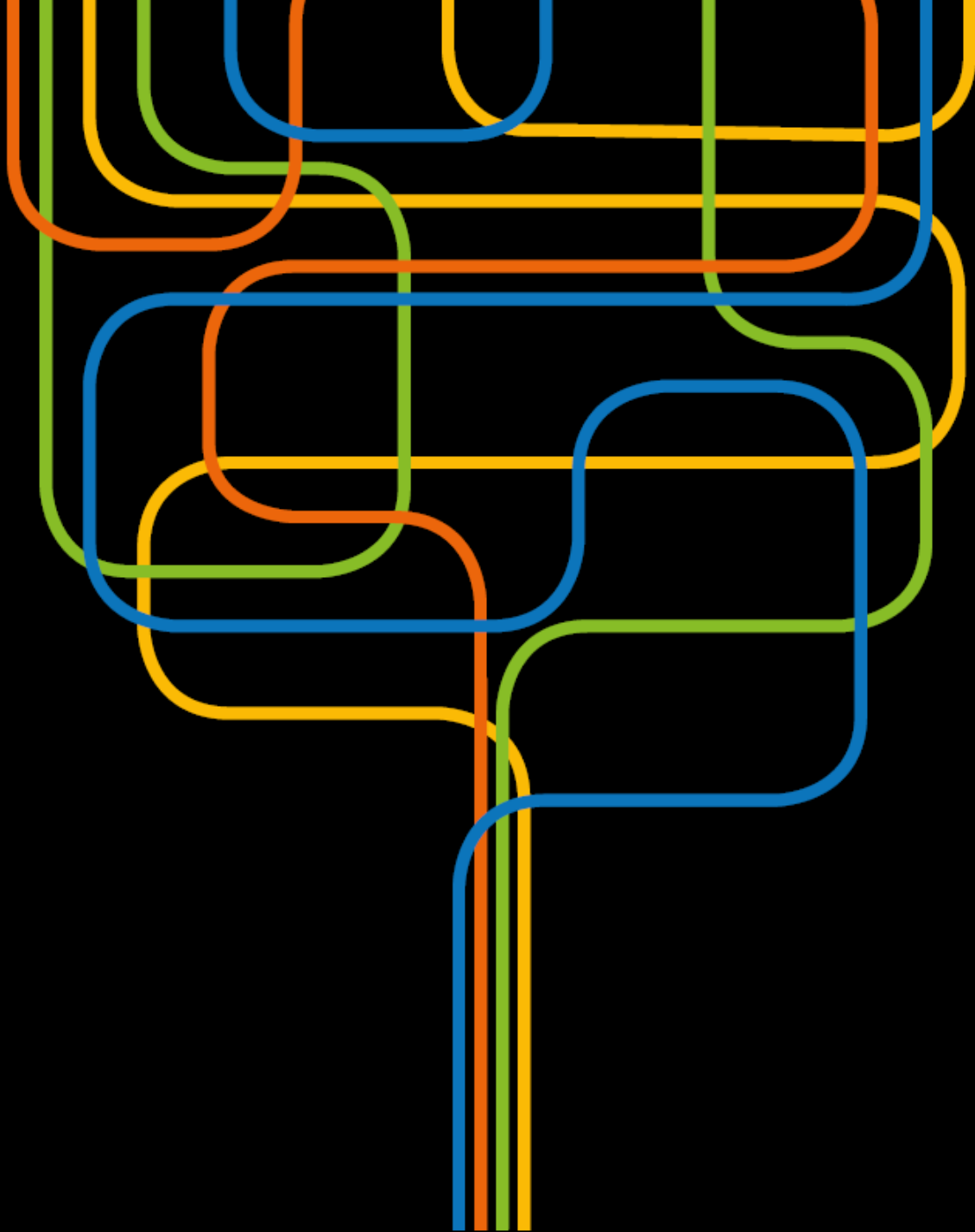
Because gas plants are required to purchase carbon allowances, any movement in carbon pricing feeds directly into electricity costs. Even when gas prices remain steady, rising carbon costs can push power prices higher.



While carbon markets have been less volatile recently, they remain sensitive to policy changes and broader decarbonisation targets. As the UK continues to tighten emissions goals, there is an expectation that carbon pricing will remain a supportive factor in the medium to long term.

For businesses, this is another layer to consider when assessing future electricity costs. It is not just gas that matters, carbon continues to quietly influence pricing in the background.

[Gov](#)



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