Energy Market Insights

Twice Monthly Independent Market Analysis

ELECTRICITY

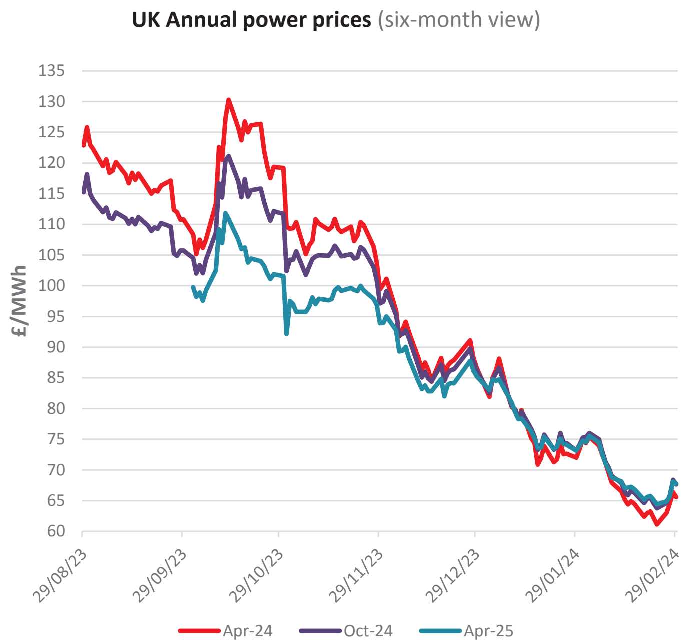
MARKET CREEPS UP AS WIND SLUMPS

Power prices have bounced upwards in recent days following a sustained slump, with falling wind speeds, rising gas and coal values and subdued nuclear availability all helping to provide a lift. The gains have also been partly attributed to short-covering – traders buying up volumes to close out short positions – and the recent upside has meant most key periods remain above levels seen in mid-February. However, overall the trajectory has been downwards since the start of 2024 as a prolonged period of cold weather has not materialised. April '24 Annual Baseload power is currently just over £66/MWh – rising from all-time lows close to £61/MWh – creeping upwards by just over 2% in the last fortnight. October '24 and April '25 Annuals have made similar gains with both periods just shy of £69/MWh at the time of writing.

Nuclear generation has remained constrained after the extension of a couple of outages, with the reactor fleet only accounting for about 13% of overall supply. There has also been a contraction in renewable generation with more settled conditions leading wind output to slump by 10%, to an average of about 9 GW. The impact of this has been tempered by a slight decrease in demand as well as a near 30% boost in imports, an increase largely driven by France where higher precipitation has boosted hydropower production over the past couple of weeks. Next-day electricity had moved as low as £53/MWh during several days when wind output averaged more than 12 GW but has since climbed back towards the £70/MWh mark as wind speeds dipped. March '24 tracked a similar trajectory to the Day-ahead and ended February at £61/MWh, up nearly 5% in two weeks. The new front month – April '24 – meanwhile has edged up by 3% to £59/MWh.

Elsewhere, carbon prices in the EU have been on a downwards spiral – catalysed by oversupply and weak market sentiment (net short positions continue to mount). Renewable capacity and generation have been pushing down the volume of carbon emitted – in the EU emissions from fossil fuels last year reportedly fell by 8% against 2022 levels – pressuring demand for allowances. At the same time the number of EU carbon permits being auctioned has risen with the proceeds used to fund the energy transition. As a result, EUAs have touched EUR 52/TCO2e – the lowest value since late 2021 – and although EU carbon has since rebounded slightly to EUR 56/TCO2e this is still 25% below levels seen at the start of the year. UK carbon – already at a steep discount to the EU market – has ticked down another 2% over the last fortnight, to £35/TCO2e.

Meanwhile coal prices for northwest European delivery have been pushed back into triple digit territory after surging more than 15% in the last two weeks. Analysts have suggested the rally is likely to be short-lived with demand for deliveries into Amsterdam, Rotterdam and Antwerp (ARA) – the three key receiving terminals for northwest Europe – expected to decline by about a quarter in February compared to the opening month of the year. Overall European coal use in 2024 is expected to decline by 40% against 2023 – in line with the proportional decline last year – prompting expectations that global oversupply will continue to build in the coming years and that more downside could be on the horizon. be on the horizon.



Wind generation during the opening two weeks of March is expected to be about 25% lower than the latter half of February at an average of less than 7 GW, according to the latest Elexon forecast.

The UK capacity market auction for 2027-28 cleared at a record price of £65/kW per year – according to provisional results from National Grid – with 42.8 GW awarded through the process, compared to a target of 44 GW. The capacity market was introduced in 2014 to ensure electricity supply can match demand during periods of scarce renewable generation. During a delivery year capacity providers receive monthly payments for their agreed obligation at the auction clearing price. Gas-fired plants dominated the latest auction and accounted for almost 70% of capacity awarded.

The UK energy price cap – which sets a maximum level per unit of gas and electricity that can be charged to retail consumers – will be cut by 12% in Q2, regulator Ofgem has announced. The reduction is a result of falling wholesale market prices.

WIND SPEED

Falls in average wind speeds across the UK over the last week has increased prices.

The EU installed a record 16.2 GW of new wind capacity last year – according to a report from WindEurope – the majority of which (79%) was onshore. Wind accounted for 19% of overall power supply in 2023, while solar delivered another 8% and all renewables made up 42% of the mix. A WindEurope forecast indicates the EU is expected to install 29 GW per year on average between 2024 and the end of the decade.

GAS STORAGE

European gas storage levels remain above long-term historic averages.

NUCLEAR SHUTDOWNS

Recent, unplanned EU nuclear shutdowns, also putting upward pressure on prices.

KEY POWER INDICATORS:

Long-term UK (£/MWh)				Short-term UK (£/MWh)				European power (£/MWh)			
Apr '24 Annual	chg	Oct '24 Annual	chg	Month-ahead	chg	Day-ahead index:	chg	Germany Cal '24	chg	France Cal '24	chg
65.55	0.67	67.65	1.03	61.42	2.53	63.25	0.79	74.70	2.05	73.13	0.75

KEY OTHER INDICATORS:

Coal ($/MT) '24	chg	Oil (Brent) $/bbl	chg	UKA '23 (£/TCO2)	chg	EUA '23 (€/TCO2	chg	EUA '24 (€/TCO2)	chg	EUA '25 (€/TCO2)	chg
102	10.25	83.69	1.09	35.63	-0.57	56.44	-1.51	58.70	-1.37	60.27	-2.20

The Changes to ESOS for Phase 4 and What They Mean for UK Organisations

March 2024

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Introduction

The Energy Savings Opportunity Scheme (ESOS) has been a cornerstone of the UK's commitment to improving energy efficiency among large enterprises. As we move into Phase 4 of ESOS, it's crucial for organisations to understand the changes that lie ahead and how they will impact their operations.

ESOS, established under the Energy Efficiency Directive, mandates that large undertakings in the UK conduct comprehensive energy assessments and implement measures to enhance energy efficiency. To qualify as a "large undertaking," organisations must meet specific criteria: employing over 250 individuals, or have an annual turnover exceeding £44 million and an annual balance sheet total surpassing £38 million.

Key requirements of ESOS include auditing the energy consumption of over 95% of an organisation's activities, providing recommendations for reducing energy consumption, calculating energy intensity metrics, and hiring a lead assessor to verify compliance with the scheme.

Strengthening ESOS Legislation for Phase 4

With ESOS Phase 3 coming to a close on the 5th June 2024, and recognising the need for more tangible action on energy efficiency, ESOS legislation is undergoing significant changes in Phase 4. The most noteworthy change involves the introduction of a mandatory energy reduction action plan, ensuring that the recommendations generated through energy assessments lead to practical improvements in energy performance. This shift signals a more proactive approach to energy management, moving away from a checkbox compliance mentality to fostering a culture of sustainability.

This action plan will outline the steps to reduce energy consumption and the dates for their implementation, serving as a roadmap for continuous improvement throughout Phase 4 and beyond, and must be submitted by the 5th December 2024. Furthermore, for the first time, ESOS has introduced an annual reporting requirement. Large undertakings are now required to report against their action plans by the 5th December of each interim year (2025 and 2026) before completing their Phase 4 assessment by the 2027 deadline. And, in another first, submissions will be made available in the public domain, making it easier to hold organisations to account over their action plans.

Annual Reporting, SECR and Long-Term Benefits

One of the key parallels to draw is the similarity between ESOS Phase 4's new reporting requirements and those of the Streamlined Energy and Carbon Reporting (SECR) legislation. SECR, introduced in 2019, requires organisations to disclose information about their energy consumption and carbon emissions in their annual accounts. Whilst SECR is a distinct piece of legislation focusing on emissions, as opposed to energy, ESOS Phase 4 is aligning to a similar structure by necessitating the submission of an annual report detailing progress against the prescribed action plan.

Both ESOS Phase 4 and SECR reflect a broader trend in corporate sustainability reporting. Companies are increasingly expected to transparently communicate their efforts to mitigate environmental impact, showcasing a commitment to responsible business practices. Aligning the reporting frameworks allows organisations to streamline their processes and present a unified front in addressing energy efficiency and carbon reduction. Organizations should recognize that the gradual alignment of ESOS Phase 4 and SECR, and the disclosure of a long-term action plan, is not just a regulatory requirement but an opportunity to enhance operational efficiency, reduce costs, reduce emissions, and contribute to broader environmental goals. Investing in energy efficiency measures can lead to long-term financial benefits while positively impacting an organisation's reputation.

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Implications for Organisations: Time to Act

As Phase 4 of ESOS approaches, it's paramount for organisations to start making arrangements to create their action plans ahead of the December deadline. Waiting until the last minute may lead to rushed decisions and missed opportunities for optimisation. Proactive planning ensures a smoother transition to the new requirements and maximises the potential benefits of energy efficiency measures, whilst ensuring that the submitted action plans are based on sound engineering, achievable targets, and realistic projects; crucial given that they'll be open to public scrutiny.

For organisations seeking support in creating and implementing their action plans, the team of specialists at Boxfish, a leading sustainability consultancy, stands ready to assist. With a wealth of experience in guiding organisations through compliance and sustainability initiatives, Boxfish can provide tailored solutions to meet specific needs and goals.

Conclusion

The changes to ESOS for Phase 4 herald a new era of proactive energy management for large undertakings in the UK. The introduction of mandatory action plans aligns with a broader global push towards sustainability and responsible corporate citizenship. Organisations must recognise the importance of not only complying with regulations but actively participating in the transition to a more sustainable future.

As the compliance landscape evolves, the team at Boxfish encourages organisations to act now, initiating the process of creating their action plans having freshly conducted their Phase 3 assessments. By doing so, they not only fulfil regulatory obligations but also position themselves as leaders in the journey towards a greener and more efficient business landscape. Boxfish is ready to support organisations in navigating these changes, ensuring a smooth and successful transition to a more sustainable and energy-efficient future.

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GAS

TIGHTENING SUPPLY DRIVES UPTREND

Cooler forecasts, dipping wind speeds and a slowdown in LNG arrivals have helped UK gas prices to tick up fractionally over the past week – after diving for most of February – although relatively full storage and weak demand have held gains firmly in check. Gas prices have been far less volatile than earlier in the year, with the difference between April '24 Annual high and low closing values around 5 p/th, compared to swings of more than 10 p/th the previous fortnight.

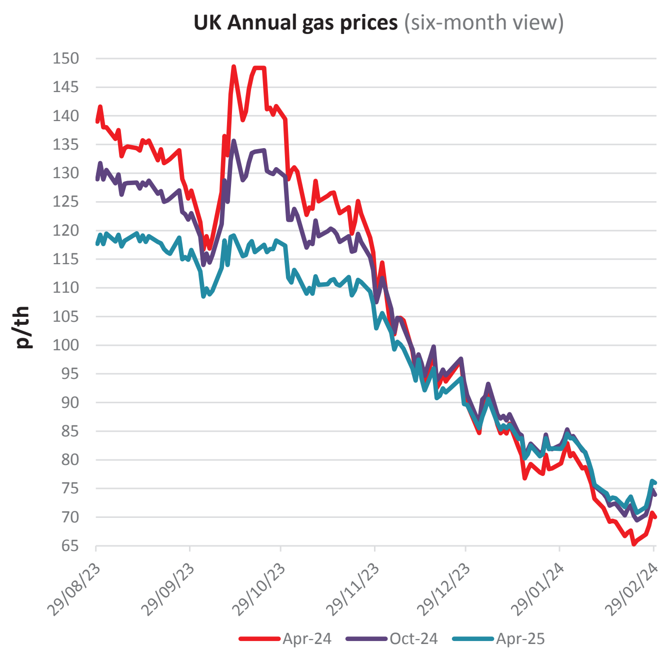
At the time of writing front Annual gas was up to nearly 72 p/th – springing back from lows close to 65 p/th about a week ago – an increase of 3% compared to mid-February. October '24 and April '25 Annuals have at the same time crept up by 4-5% – to 75 p/th and 77 p/th currently. It is worth noting that all three front Annuals are still at least 10% lower than levels seen a month earlier.

LNG supply has tightened with volumes supplied into the network by UK terminals falling by more than a fifth compared the opening half of February as the pace of cargo arrivals has waned. This is partly a function of weak demand and full storage on mainland Europe, as much of the LNG imported into the UK in recent months has been re-exported via pipeline connections to Belgium and the Netherlands, helping to plug the gap left by reduced supply from Russia. This LNG mini-squeeze – as well as temperamental imports from Norway due to infrastructure issues in the North Sea – has injected some upside impetus to the short-market and Day-ahead gas has climbed about 6% in the past couple of weeks.

The paucity of supply has been partly offset by weak demand, with gas use 15% below the seasonal average as mild conditions have lowered the pull from the residential sector. Renewable generation – although lower than in the first two weeks of February – has remained relatively high and prevented a surge in gas use for power production. March '24 edged up by 4% to expire just shy of 64 p/th – although this is still down by 10% since the start of February – while the new front month (April '24) is currently around 63 p/th, up 3%.

Over the last couple of weeks, the UK has switched to net imports from the Continent for first time this winter – bucking the traditional trend that sees consistent net inflows into the country throughout Q1 – although the aggregate volume has been tiny at around 4 million cubic metres (mcm) and flows have flicked back to being outbound for the last few days. Most of the volume of gas being delivered from Belgium and the Netherlands entered the country over a four-day stretch during which North Sea production was restrained by outages. Dutch month-ahead gas – the main EU benchmark – is meanwhile little changed from two weeks ago, at just over EUR 25/MWh.

Elsewhere oil prices continue to oscillate in a tight range, with North Sea crude hovering around the $80/bbl mark. The OPEC+ cartel of producers has signalled that it may look to extend voluntary cuts and tensions in the Red Sea are yet to abate, but on the other hand weak economic sentiment is helping to cap any upside.



EU energy commissioner Kadri Simson has told the European Parliament that there is no need to renew the Russian gas transit contract through Ukraine after the existing agreement expires at the end of this year. Simson said the countries still receiving gas via this route – Austria, Italy and Slovakia – could source volumes elsewhere. Last year about 13.6 billion cubic metres (bcm) of Russian gas was delivered into Europe through Ukraine, down 15% compared to 2022 and 50% below 2021 levels, ENTSOG data showed.

OIL PRICES

Oil prices remains stable despite ongoing tensions in the middle east.

QatarEnergy has said it will expand LNG export capacity by 12% to 142 million tonnes per annum (mpta) by 2030. The rise in global capacity across the latter half of the decade is reportedly equivalent to about half of all LNG supplied last year, prompting oversupply concerns.

GAS DEMAND

Weaker gas demand has offset reduced LNG arrivals into UK terminals, holding gas costs steady.

The European Commission is looking to extend the EU-wide goal of reducing gas demand by at least 15% – set to expire at the end of next month – to March 2025. The Commission said EU gas use from August 2022 until the end of last year was 18% lower than the equivalent period in 2021/22.

EU gas buyers have registered demand for 34 bcm of gas through the AggregateEU platform managed by PRISMA. Requests included more than 15 bcm of LNG and 18 bcm of pipeline gas from 19 companies. PRISMA will invite suppliers to bid for this demand on Monday and Tuesday next week. The AggregateEU system looks to pool demand in order to reduce prices with PRISMA matching buyers and sellers, although it is up to the companies involved to negotiate contract terms.

CARBON PRICES

EU and UK carbon prices have dropped slightly in recent weeks, on reduced economic output.

KEY GAS INDICATORS:

Long-term UK (p/th):				Short-term UK (p/th):				European gas (€/MWh):		Crude Oil:	
Apr '24 Annual	chg	Oct '24 Annual	chg	Month-ahead index:	chg	Day-ahead index:	chg	TTF 2024:	chg	Oil (Brent) $/bbl:	chg
70.04	0.66	73.90	1.65	62.77	0.47	63.73	3.35	29.39	0.76	83.69	1.09

All changes (chg) are compared to last report

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