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Pricing Report

July 2023

Energy bills are driven by both the price of energy on the wholesale market and Third-Party Costs (TPCs). TPCs include non-energy costs set by the government, network (the National Grid), policy and system costs and electricity transmission/distribution costs.

The biggest single cost on a bill is the price of the energy. Before the energy crisis the wholesale cost of energy made up approximately 40% of an electricity bill and 70% of a gas bill, with the remaining being TPCs, which have been continuously rising in recent years and can be volatile. Currently, with the rise in wholesale costs they are around 78% of a gas bill and 72% of an electricity bill.

This pricing report will focus on the energy element of a bill to help you keep track and understand the wholesale energy market and the factors affecting the price of your contracts.

Overview:

The energy market has remained relatively stable this year, with prices trading at an 84% decrease from when they peaked in August 2022and healthy European Storage levels sitting at almost 20% above the capacity they were this time last year.

However, prices still remain open to volatility, with an extension to the annual maintenance in Norway tightening gas supplies for an unspecified duration. Prices are likely to be strained further, with a strong global demand for LNG and analysts currently forecasting an increase of 4% in global imports for this month compared to June. This will lead to a rise in prices, as Europe competes with Asia to bid, where the demand there is high due to increased temperatures resulting in the need for cooling.

We continue to track the energy market to identify any fluctuations which might impact prices in the long run. The International Energy Agency has warned that a cold winter could lead to a rise in gas prices, so procuring soon rather than later is advised.

Bullish Factors (*upward pressure on markets*):

- Global demand for LNG
- Extended maintenance in Norway
- High demand for cooling in Asia

Bearish Factors *(downward pressure on markets):*

- Increase in wind generation predictions
- Healthy European Storage

MARKET REPORT

Gas and Power

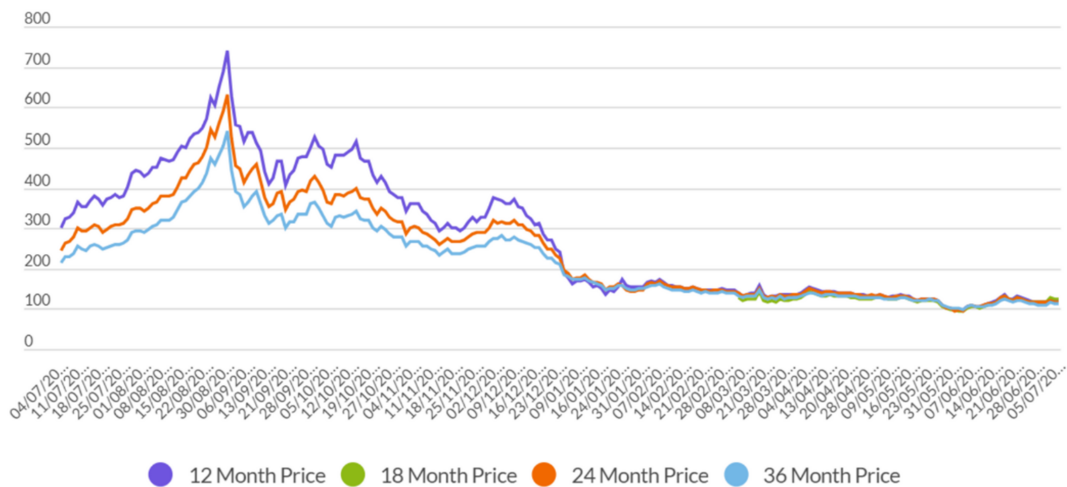
Predictions of an increase in renewable generation (solar and wind) have currently decreased the need for gas-fired demand. However, global demand for LNG weighs on the market, with competition with Asia looking likely.

Prices are set to continue the steady trading over the summer. However, concerns over a colder winter requiring a higher demand for gas have been further strengthened after the head of the International Energy Agency cautioned about a rise in gas prices.

Graphs below display gas and electric prices over the last 12 months.

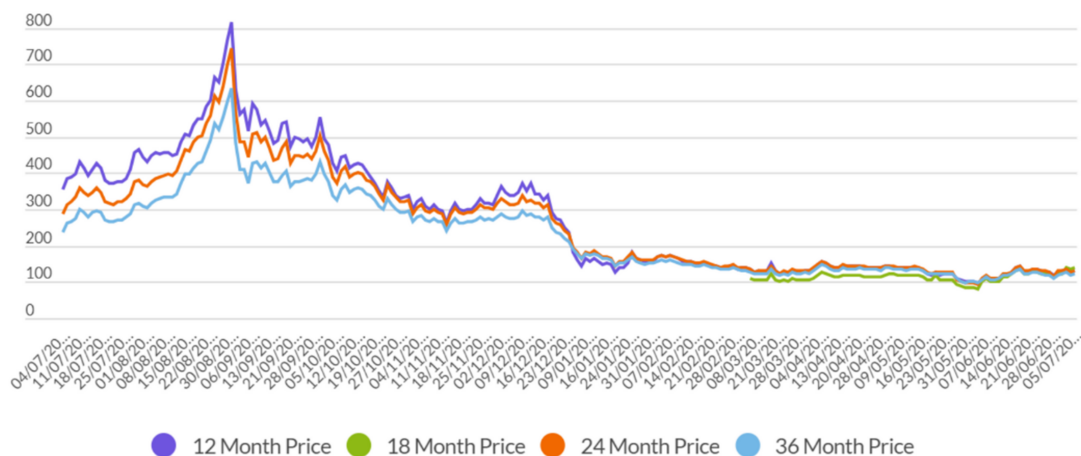
ELECTRICITY PRICES

5th July



GAS PRICES

5th July



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ENERGY NEWS

Cautions for a Winter Price Spike

The head of the International Energy Agency (IEA), Fatih Birol, has cautioned that energy prices could see a sharp spike this winter forcing governments to step in and subsidise bills again. He said this winter "we cannot rule out" another spike in gas prices.

The IEA is an agency that works with governments and industries to help provide data, analysis and recommend policies. Fatih Birol said in an interview with the BBC's Today Programme that many European governments made strategic errors by over-relying on Russia for energy and that foreign policy had been "blindfolded" by short-term commercial decisions.

He also highlighted the potential rises could be even higher due to factors such as the stronger Chinese economy.

"In a scenario where the Chinese economy is very strong, buys a lot of energy from the markets and we have a harsh winter, we may see strong upward pressure under natural gas prices, which in turn will put an extra burden on consumers."

Prices are also forecasted to remain high for the foreseeable future according to Chris O'Shea, chief executive of Centrica (the company that owns British Gas).

"I think the first act of the crisis is over," he said. "I think what we've got to remember is the energy prices had more than doubled before Russia invaded Ukraine. Now, prices are back down to pre-invasion levels but they're still two and a half times the long-run average."

Despite prices being stable now and healthy storage levels, especially when compared to this time last year, there is still the risk of the UK becoming complacent as supplies are still vulnerable to external shocks. You also must take into account that although UK levels are healthy, it still has one of the lowest gas storage capabilities in Europe.

"I think that there's a danger that we get complacent because last winter was okay and because prices are quite stable now," he said. "But when we had trouble between the Wagner group and the Russian military last week we saw energy prices go up by about 20%. Chinese economic activity at the moment is relatively low. If that starts to pick up we'll see more demand for gas in the form of LNG [Liquified Natural Gas], then we'll see European gas prices go up so there could be more volatility to come."