Pricing Report

9th March 2022

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. The wholesale cost of the energy makes 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.

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:

Gas prices hit a new record this week and peaked at over six times the pre-2021 record. The intraday volatility was unprecedented, and the session's prices surpassed the highest price ever paid for a wholesale product outside of network balancing actions.

Concerns remain over potential disruption to Russian gas deliveries to Europe amid historically low storage stocks. There was no impact on Russian gas flows via Ukraine to Europe so far, but day-to-day uncertainties led to panic.

President Biden has targeted the main sector of Russia's economy and has signed an executive order to ban the import of Russian oil, gas and coal to the US. The UK Government has also announced its plan to phase out oil imports from Russia by the end of 2022 instead of immediately, to give the market, businesses and supply chains “more than enough time” to replace Russian imports, which make up 8% of UK demand.

Market analysts say there is no sign of downward pressure on prices for the next few years and prices are heavily dependent on how the conflict between Ukraine and Russia develops. If you are sitting on out of contract rates, unaware that business energy prices are not regulated in the same way as domestic, then you could end up paying up to 500% more for your energy than you need to.

Bullish Factors (*upward pressure on markets*):

- Escalating Ukraine conflict
- Threat of Russia stopping gas flows to Europe
- Imposed sanctions on Russia

Bearish Factors (*downward pressure on markets):*

- Uninterrupted Russian gas supply to Europe
- Milder temperatures forecasts

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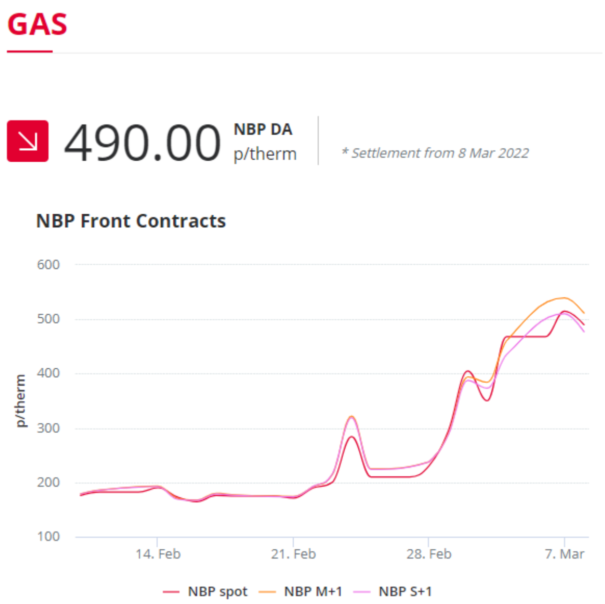
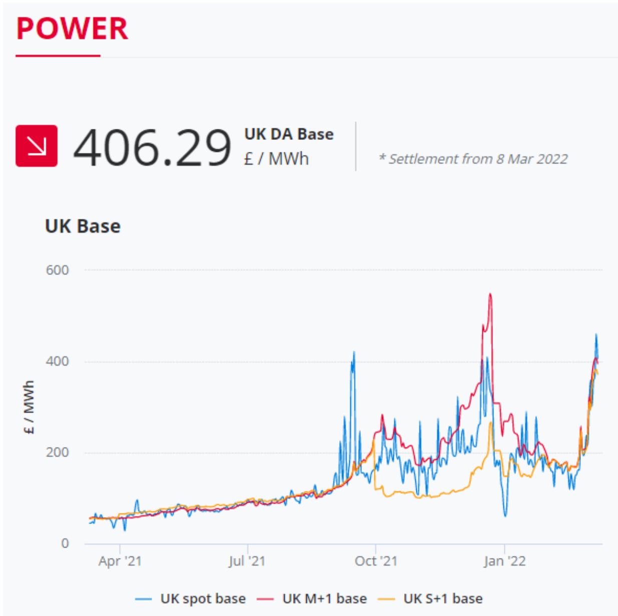
MARKET REPORT

Gas and Power

The news that the US has banned Russian energy imports has placed further pressure on European natural gas prices. Contracts in the UK rose by 66% within the day to hit a new record just under 800p per therm before slipping back to 500p. To put the scale of that price into context, 18 months ago prices were just under 13 times cheaper at around 40p per therm.





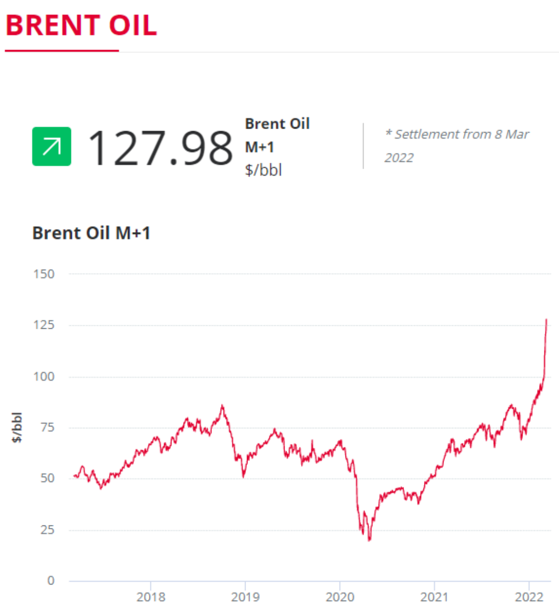
In the graphs, you can see that gas contracts starting now (Spot), those within the month ahead (M+1) and those purchased now for the next season (S+1), are all a similar price. If you are not out of contract until summer and have waited to secure a fixed contract, you will be paying a lot more than if you had locked a rate in back in January where prices were as low as 150p/therm compared to 490p/therm today.

A season in the business energy market is a 6-month spread and these are from April to September for "Summer" and October to March for "Winter".

Crude Oil

Brent crude has risen by almost 70% over the course of 2022 to date - forcing steep increases in obvious areas such as fuel costs which are hitting record highs daily in the UK and elsewhere.

Prices reached decade highs and soared beyond the high 2008 prices this week after the US went ahead without Europe and announced it was banning all imports of Russian gas, oil and coal.



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Current price standings:

ENERGY NEWS

Brent Crude = $127.98/bbl

Surging Energy Prices

Fears of a natural gas squeeze meant that wholesale gas prices were hitting record levels across Europe. Gas prices hit new record highs and oil prices soared to their highest level since the 2008 financial crisis. Market analysts say there is no sign of downwards pressure on prices, with some even saying that the impact of the ban on Russian oil and associated products could push Brent crude towards an unprecedented $200 a barrel after the US has announced a ban on all Russian gas, oil and coal imports.

The UK's department for business, energy and industrial strategy tweeted that the country was "in no way dependent on Russian gas supply" in a bid to calm domestic nerves over inflows. It published data showing that the UK relies on Russia for just over 2% of current needs.

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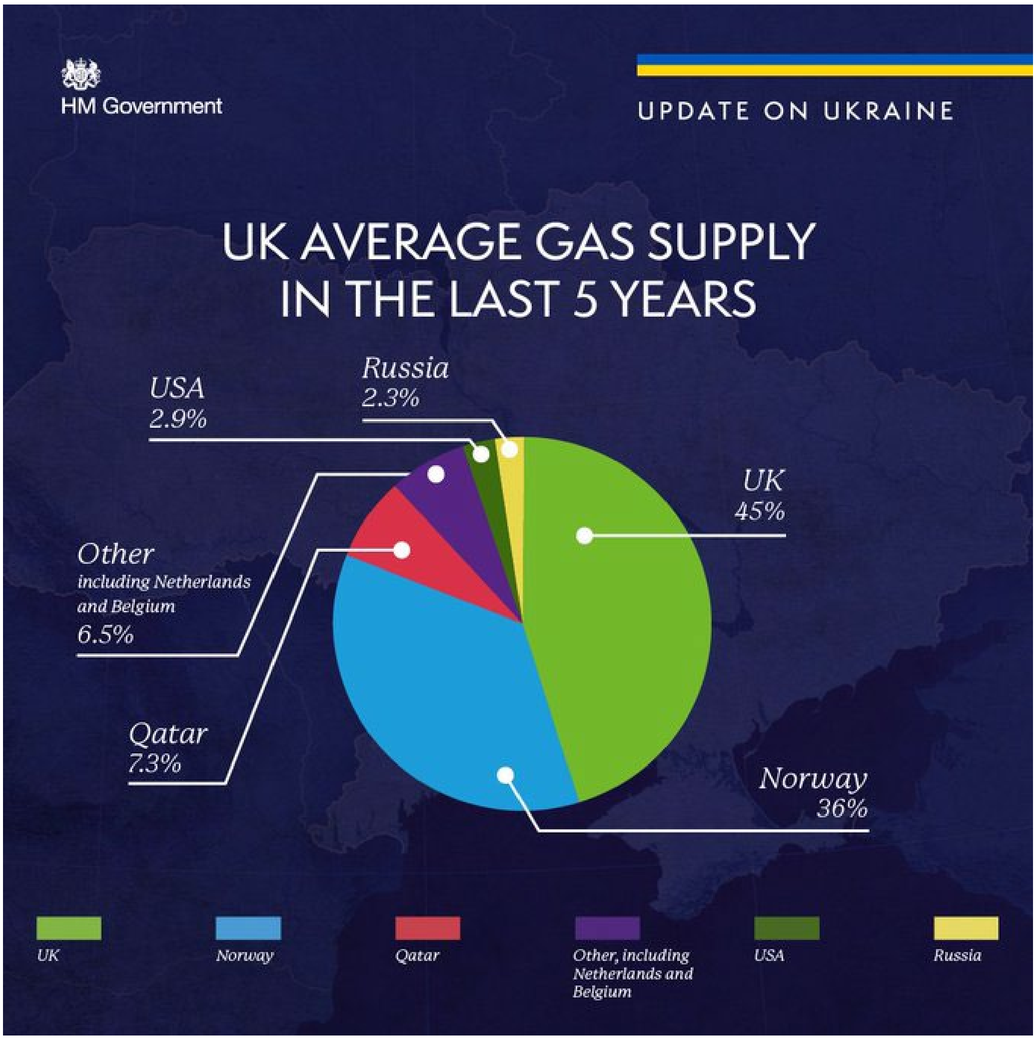
Despite this, Britain is among the worst affected by rising prices. This is due to the privatisation of UK supplies in the North Sea ties consumers to the going rate on international energy markets, leaving the UK as exposed as any other country to rising prices. Britain also has a shortage of supplies in storage as well as lacking storage capacity, in general, to build up inventories to help cushion the fall.



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