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Pricing Report

8th February 2021

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 focuses 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 wholesale price of oil reached a milestone this week, with Brent Crude trading above $60/bbl and WTI above $57/bbl (both the highest price in a year), as we start to see a boost in demand and a reduction in production levels which is helping the levels in storage still to decline.

Alongside the oil prices increasing, OFGEM is to adjust the price cap this April and increase it by £24. This is to ease the pressure on suppliers who are struggling financially with the large numbers of customers who are unable to pay their bills and the same effects will be felt for businesses energy customers as well.

Despite concerning new mutations of the COVID-19 virus, experts are optimistic that the 2 current vaccines and the 2 new ones soon to be approved will be able to cope with the variants and contract prices continue to increase week-on-week.

Prices are unlikely to become any cheaper and from April, they are likely to increase furthermore. There is still time to lock in a rate before April though and secure today's price for your next energy contract.

Bullish Factors (*upward pressure on markets*):

- Voluntary supply cuts by Saudi Arabia leading to a fall in global oil inventories.
- Suppliers increasing their pricing in response to growing bad debt as a result of the COVID-19 pandemic.
- Increased investor confidence that oil demand will recover.
- Third-Party Charges set to increase this April.
- Bullish trading within the European carbon market.

Bearish Factors *(downward pressure on markets):*

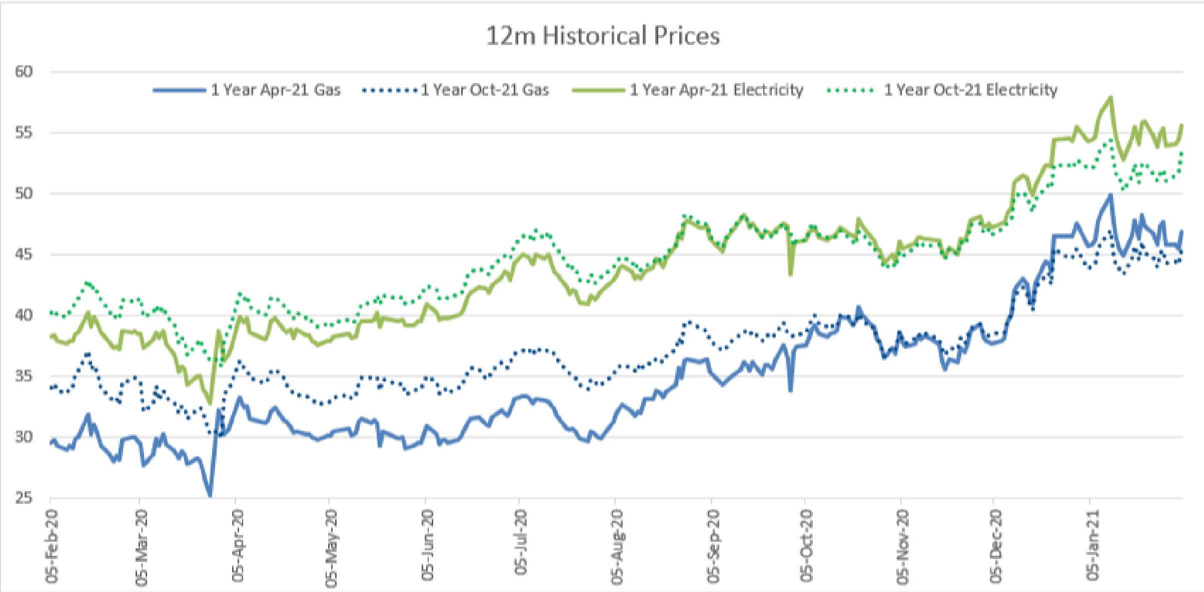
- Revised forecasts predicting warmer than previously expected, which threatens to reduce demand.
- UK finding more coronavirus cases with 'concerning' mutations.
- Worldwide COVID-19 cases surpassing 104 million.

MARKET REPORT

Gas and Electricity

Different weather models predicted differing temperature outlooks at the start of last week. However, the forecasts were revised, and warmer weather is expected in the coming days, providing uncertainty for the demand for energy, pushing contracts slightly lower.

Overall, gas and electricity contract prices are substantially higher this year than compared with February 2020, before the pandemic and the first national lockdown. The wholesale price of energy has continued to increase even further, alongside bullish trading within the NBP gas and European carbon market, making contract prices more expensive.

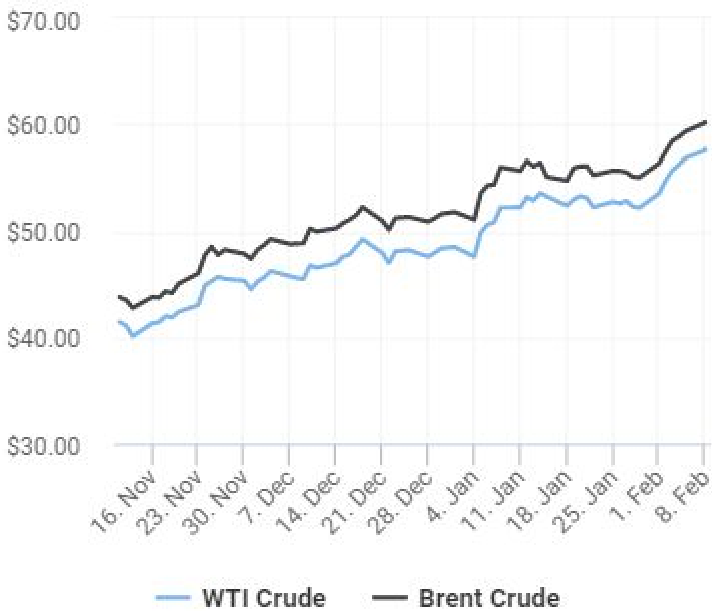


Crude

Oil prices have gained further value this week, with both Brent and WTI trading at their highest price in a year.

Data shows that US oil inventories have fallen as a result of Saudi Arabia making volunteer cuts, helping to reduce the surplus stores of oil and increase demand. Prices were also firmed further by increased investor confidence that oil demand will recover, despite growing numbers of cases and new strains of the virus.

Current price standings:
Brent Crude = $60.19/bbl
WTI Crude = $57.68/bbl



ENERGY NEWS

OFGEM Increases the Price Cap

Ofgem has increased the price cap by almost £24 this coming April, to allow suppliers to recoup some of their costs they lost last year due to households and businesses being unable to pay their bills, which in turn negatively affected suppliers' finances and cash flows.

The decision follows a consultation launched in November 2020, in which the regulator considered an 'Adjustment Allowance' to help suppliers deal with the economic fallout of the pandemic.

Last year saw many energy suppliers go bust and as it is the other suppliers and customers who end up having to pay for the fallout, prices will likely increase across the board for all energy contracts, as there are growing concerns that more might follow suit this year if they are unable to stabilise their cash flow.

Although the price cap only is applicable to domestic energy prices, this decision will still be reflected for business energy customers as well and if not more. So whilst your contract might not even be up for renewal this year, reviewing a quote of today's prices for your future contract is highly recommended.

New Concerning COVID-19 Mutations

Public Health England is currently investigating new cases of COVID-19 that have neem found in some parts of the UK which show 'worrying' new genetic mutations.

Tests are showing the mutation called E484K, that is already seen in the South Africa variant and there have been 11 cases reported in Bristol and a cluster of 32 cases in Liverpool.

Dr Julian Tang, a virus expert at the University of Leicester, described the finding as "a worrying development, though not entirely unexpected" and that allowing the spread could allow a "melting pot" for different emerging variants.

Another large outbreak of a mutated variant could see energy demand being devasted again, as the country enters into its second month of lockdown this year. However, a silver lining may be that the variants are mutating in a similar way rather than diverging from each other. Although this change may reduce vaccine effectiveness, experts say the current ones in use should still work and there are two new vaccines that could be approved soon which also appear to offer good cover against variants.