

Pricing Report

8th January 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:

On Monday, UK Prime Minister Boris Johnson announced a full national lockdown to take place from Tuesday in England. This was in response to the rapid spread of new cases of COVID-19, with the highest daily total of cases since the start of the pandemic being recorded on Monday in the UK, reaching 58,784.

Despite this, we have seen contract prices continuing to increase for both gas and electricity. Even though we have entered our 3rd national lockdown, contract prices do not look to be heading to the lows last April and are already well above what they were this time last year, with both gas and electricity contracts showing an increase of 27% in price. The wholesale price of energy has steadily increased day by day, with Crude oil performing the opposite to what was expected and increasing by almost 6% in trade price since the lockdown announcement on Monday.

This Spring, prices are expected to increase even further to help alleviate some of the financial loss that energy suppliers incurred last year because of COVID-19 impacting the demand for energy. Therefore, the best new year's resolution you can achieve for your business is to lock in a rate today and secure the price for your next energy contract.

Bullish Factors (*upward pressure on markets*):

- Saudi Arabia, Russia and Kazakhstan announcing pledges to cut their production quotas from February.
- Deliveries of gas to the UK lower than expected, tightening the supply outlook.
- London's FTSE 100 was broadly flat at lunchtime on Tuesday, with the blue-chip benchmark showing resilience in spite of a new national lockdown in England.
- Oxford-AstraZeneca vaccine being rolled out in the UK.
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Bearish Factors (*downward pressure on markets*):

- New lockdown measures announced in England, Scotland, Italy, and Germany, with worldwide total cases rising to 88.1 million.
- Temperatures are forecasted to increase, threatening to reduce energy demand.



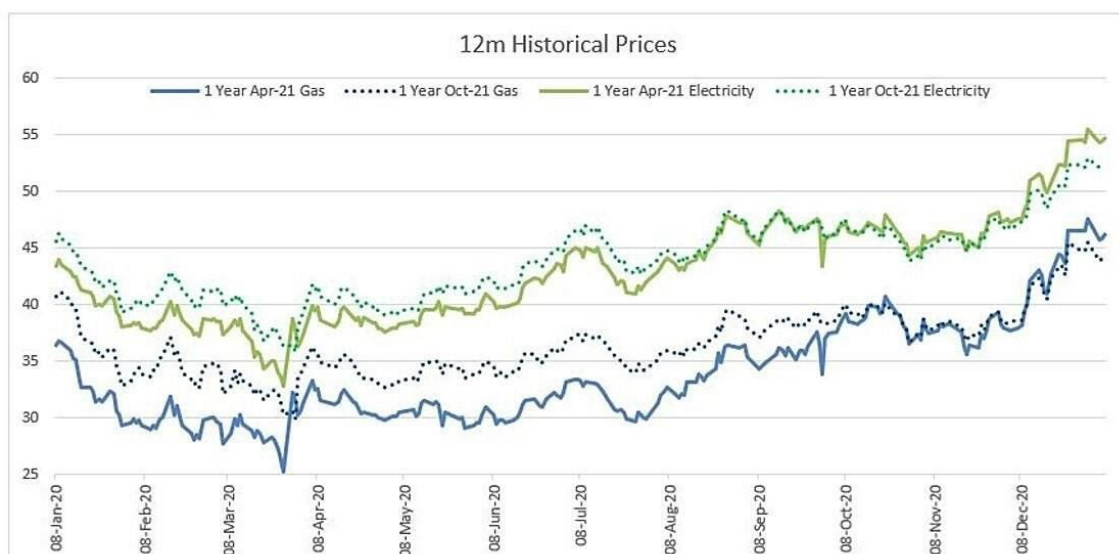
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MARKET REPORT

Gas and Electricity

Temperatures are forecasted to be higher than normal averages and wind generation is set to pick up, which caused a slight drop in prices on Wednesday.

However, gas and electricity contracts have been trading higher this week as energy demand remains strong and trading within the wider commodities continues to increase. Therefore, contract prices are likely to rise further over the coming weeks.

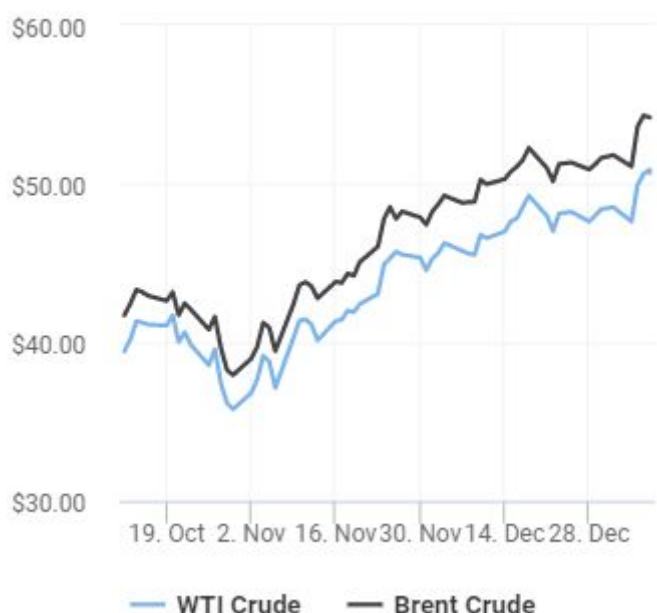


Crude

Crude has continued to increase this week, with Brent and WTI both increasing by over 7.6% in price since Monday, despite the announcement of another national lockdown.

Prices have also been supported further by the announcement that Saudi Arabia would cut their production quotas from February, with Russia and Kazakhstan making similar pledges. This means whilst demand is still not back to normal, there will not be surplus stores of energy as were seen back in 2020 which led to prices plunging.

Current price standings:





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Brent Crude = \$54.99/bbl

WTI Crude = \$51.29/bbl

ENERGY NEWS

New Lockdowns

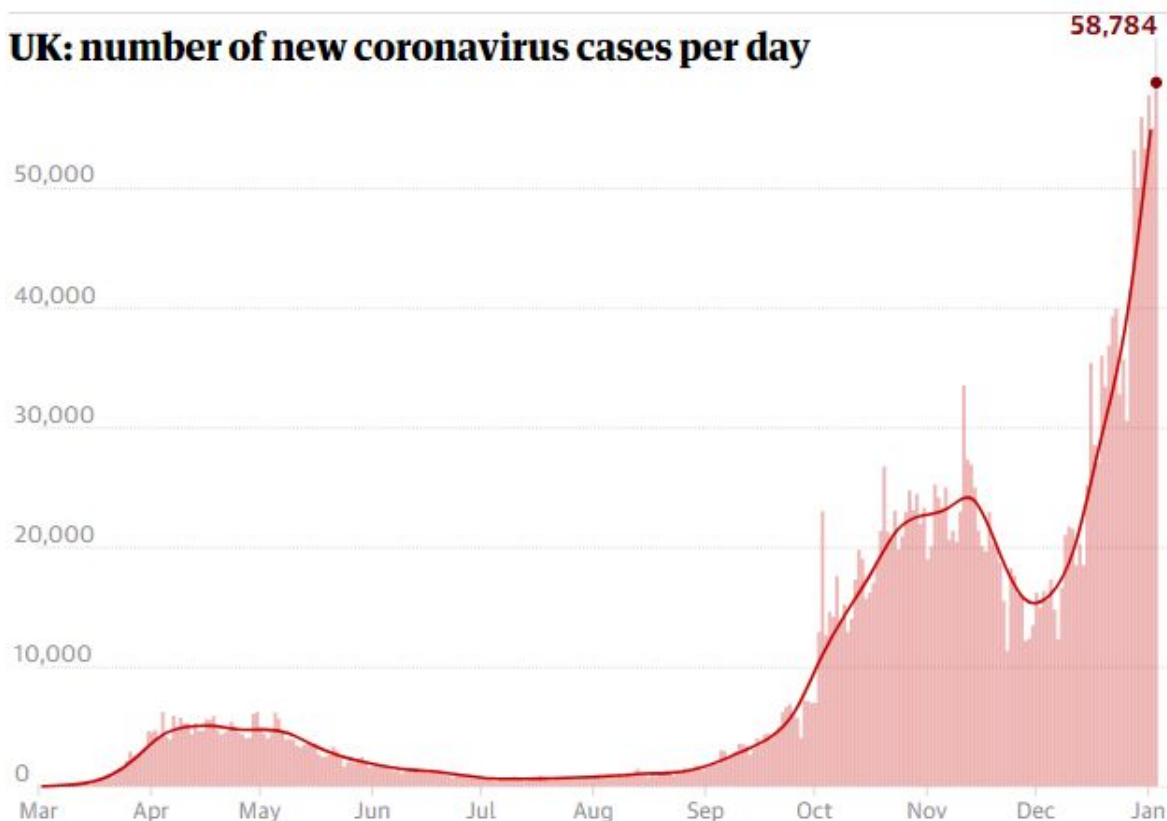
The UK recorded 58,784 new coronavirus cases on Monday - the highest daily total since the start of the pandemic. It was the seventh day in a row that there have been more than 50,000 daily cases.

The latest figures available show there has been a 33% rise in the number of patients with coronavirus in hospitals in England between Christmas Day and 2 January.

Prime Minister Boris Johnson announced a new national lockdown for England in light of the rapid spread of the new variant of the virus, whilst Scotland First Minister Nicola Sturgeon described the COVID situation as "extremely serious" and announced Scotland would be placed in full lockdown for January. Restrictions include a broad stay-at-home order, closure of non-essential businesses and schools, and limits on social gatherings.

Italy announced on Tuesday that it would also extend its lockdowns through until 15th January, while Germany announced it would extend its lockdowns until the end of the month.

Despite the new restrictions, oil prices seemed unaffected, with both benchmarks closing on Wednesday at their highest levels since late February.



Note: Line chart based on the average number of new cases per day in a given week. Cases are assigned to the date

Oil Production Cuts

Crude prices jumped on Tuesday after Saudi Arabia announced they would cut their oil production in February and March by 1 million barrels a day. The announcement came after a difficult meeting of the Organization of the Petroleum Exporting Countries and its allies, a group known as OPEC+. Both Russia and Kazakhstan also pledged to reduce their output of oil production.

The meeting saw most of the major producers agree to hold output steady as new cases of COVID-19 spread rapidly over the world. Whilst the demand is likely to be low, by decreasing the levels of production the group are likely to help keep oil prices steady and even lift them higher, which will increase contract prices even further.

Second UK Vaccine Roll Out

Monday brought some positive news as 82-year-old Brian Pinker became the first person in the world to receive the Oxford-AstraZeneca vaccine since it was approved for use in the UK last month.

Some 53,000 doses of the Oxford University jab are initially being rolled out at six hospital trusts in Oxford, Sussex, Lancashire, Warwickshire, and two in London.

It is the second COVID vaccine to be rolled out in the UK following the Pfizer/BioNTech. Most of the Oxford vaccine supplies will be sent to more than 700 GP-led services and care homes. Having two vaccines has kept the markets positive and prevented the wholesale price of energy to drop as they did after the first lockdown was introduced.

Health Secretary Matt Hancock told Sky News on Monday it was a "big British success story, starting today".