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Pricing Report

8th March 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 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.

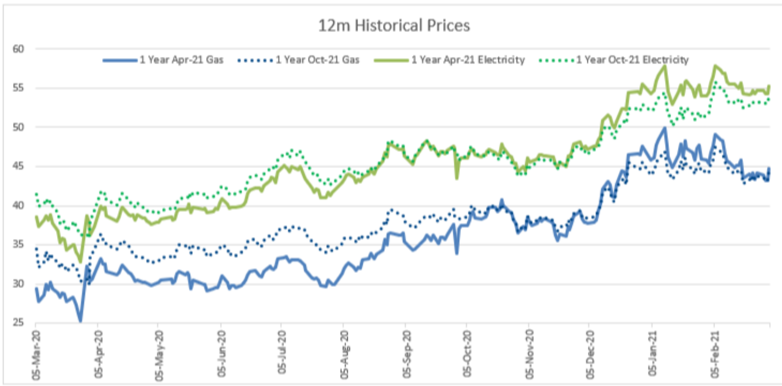
Overview:

Benchmark oil prices have reached their highest levels in a year, with Brent soaring above $70 as OPEC (Organization of the Petroleum Exporting Countries) announced they will not start to increase their production levels from April.

Gas and electricity contract prices have however been fluctuating, as gains within the markets and falling temperatures have pushed prices higher. With wind generation increasing, resulting in less reliance on burning fossil fuels for energy and more shipments of LNG (Liquified Natural Gas), energy stores will stay high, helping to push contract prices lower.

Usually, at this time of year, prices start to dip, and contracts become cheaper. They have however started to plateau, and it is likely we will see another spike once Lockdown restrictions begin to lift and the energy demand increases.

Energy suppliers are also increasing their contract prices, to help recoup the losses they have incurred due to the pandemic. Energy regulator Ofgem has announced that from April the price cap will increase. Even though the price cap is only for the domestic side, the effects will still be felt for businesses and if not more.



However, there is still the option to renew your contract today or forward procure for your future contract even if it is not up for renewal. Now is the perfect opportunity to purchase, as prices are likely to continue to increase over the coming months.

Bullish Factors (*upward pressure on markets*):

- The "Big Six" energy companies have all said that they are putting up their prices.
- OPEC members continuing the current oil production cuts, instead of raising them from April.
- Forecasts confirmed for below seasonal normal temperatures for the rest of March.

Bearish Factors (*downward pressure on markets):*

- Increase in gas shipments arriving to the UK.
- US oil refineries returning after the outages caused by the extremely low temperatures in Texas, increasing US oil inventories.
- Wind generation increasing, which decreases the gas-for-power demand.

MARKET REPORT

Electricity

The wholesale price of electricity is higher now than it has been in the last 5 years, making contract prices much more expensive. The seasonal trend for this time of year is for prices to get cheaper, however as you can see on the graph below, they have started to level out and once restrictions lift and energy demand increased, as will contract prices.

Electricity contract prices have also fluctuated this week as wind generation is expected to increase and take up more of the generation stack. However, as wind generation falls lower than expected, supplies tighten and more reliance is needed on burning gas-for-power.

Gas

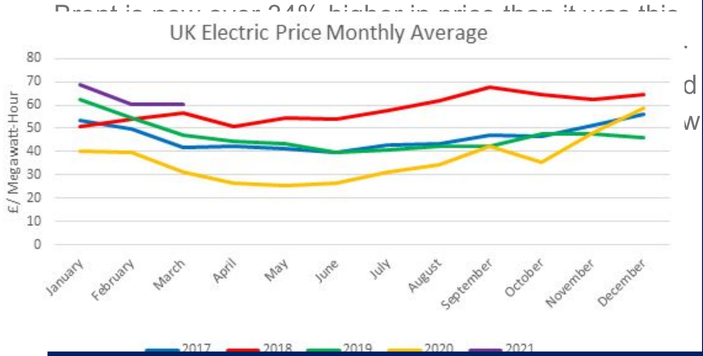
Temperatures are forecasted to be below seasonal norms for the rest of the month, which will result in the demand for gas to remain higher and contract prices more expensive. Similar to electric, prices usually tend to decrease this time of year, but they have also plateaued.

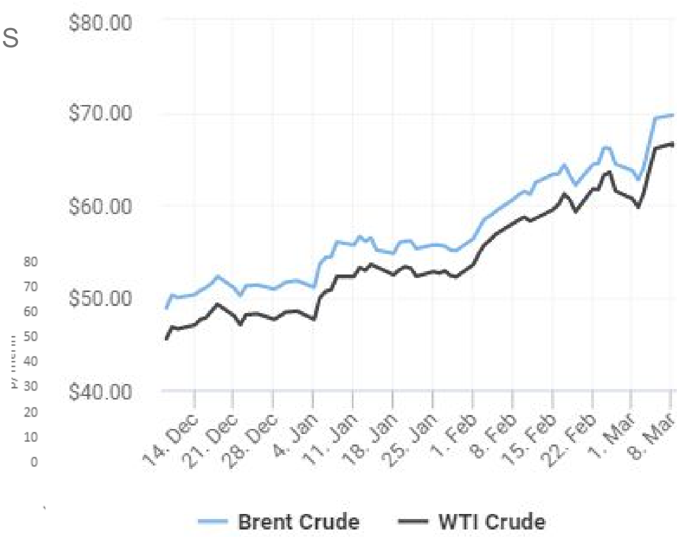
More shipments of LNG are expected to arrive in the UK and the strong supply outlook along with a weakening European carbon market has helped to push contract prices slightly lower.

Crude

Brent crude has soared in value, supported by a fall in US fuel inventories and after OPEC+ sources reported that the members may be close to an agreement to not increase their collective oil production in April.

Brent is now over 24% higher in price than it was this





ENERGY NEWS

OPEC+ Meeting

Oil prices surged on Thursday, with Brent rising above $67/bbl as OPEC+ members decide against a big rise in oil production from April as was originally planned.

OPEC members and non-OPEC leaser Russia have decided against flooding the market with more crude oil in the face of persistent uncertainty of demand due to the pandemic.

As the news leaked oil prices increase by more than 5%, with Brent nearing the highest level since January 2020 when coronavirus had only just begun spreading across the world. This morning, Brent traded at its highest level in over a year, topping $70/bbl which is an increase of 9.5% in price since Wednesday before the speculations began.

OPEC members and allies made historic cuts last April which helped to balance the market after oil prices collapsed to an 18-year low last year. Since then, they have slowly been unwinding the cuts, which has kept oil prices steady. There were some concerns that come April they would ramp production back up as was initially planned which saw the market dip slightly. However, with the new agreement, prices are likely to continue to stay steady, if not rise further as demand continues to pick up as restriction begin to ease.

Energy Prices to Jump

Energy regulator Ofgem sets an energy price cap to limit the price energy suppliers can charge domestic consumers for their electricity and gas. They recently announced that from this April the cap will increase by £97 a year for a normal home on a default tariff.

Since this, the “Big Six” energy suppliers have all stated they will be putting up their prices following the increase to the cap which, will affect millions of customers. It is highly likely suppliers will also increase business prices, however as business energy does not have a price cap, the scale of the increase is unknown. Experts have warned that the remaining Big Six energy companies are likely to put up their prices in the coming weeks.

The price cap is based on the ‘wholesale’ price of energy - the basic cost energy companies must pay to get the energy in the first place. Ofgem stated they had taken the step due to the wholesale price of energy returning to normal levels after it plunged last year due to the pandemic which caused a huge drop in demand and an increase in energy supply. Now, the wholesale price of energy is even more expensive than this time last year, so as the country recovers from Covid-19 and demand picks up, further increases are possible.