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Pricing Report

21st May 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 focusses 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:

Energy contracts have dipped slightly this week, with volatile trading in the European carbon markets, spikes of coronavirus in Asia and more supplies entering the UK widening the supply margins as wind generation increases reducing the reliance on burning fossil for fuel.

The US and Iran have also been working towards ending trade sanctions, which could see an increase in global oil supplies if Iran is able to trade in the open market and stall the current oil price rally.

However, compared to this time last year, energy prices are still increasingly more expensive, with electricity prices over 60% higher than this time in 2020 and gas contracts have increased in price by 77%.

Lockdown restrictions have lifted in the UK, with pubs reopened and people being allowed inside each other's houses and free to hug again. Cases have been falling in the US too, which has kept contract prices steady despite the ongoing crisis in India and growing uncertainty around global oil demand recovering as hoped.

Bullish Factors (*upward pressure on markets*):

- The US and Iran working towards ending trade sanctions.
- Coronavirus spikes and new lockdown restrictions in countries including Singapore and Japan.
- Easing of lockdown measures throughout Europe.
- Falling number of coronavirus cases in the US.
- Reopening of a US fuel pipeline that had to close due to a cybersecurity attack.
- Increased hopes of increasing global oil demand, keeping crude oil prices steady.

Bearish Factors *(downward pressure on markets):*

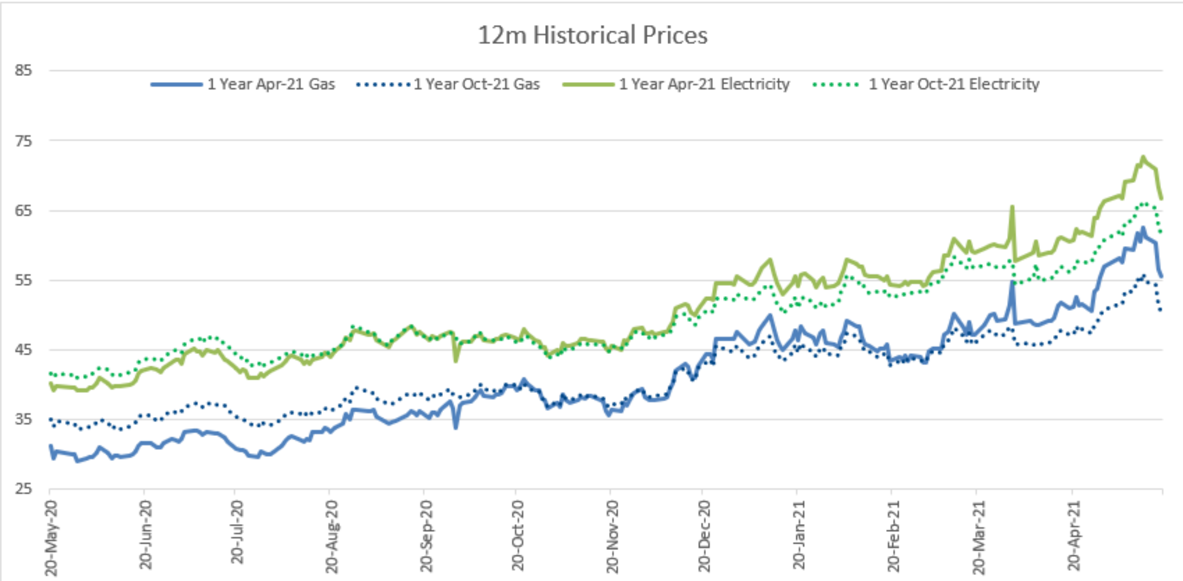
- Volatile European carbon markets.
- Energy supply margins widening as the UK receives more gas supplies from Norway.
- Increase in wind generation, reducing reliance on fossil fuels.
- Inflation growing in US, which could lead to interest rates rising.

MARKET REPORT

Gas and Electricity

Wind generation has increased this week as expected, meaning renewables delivered more of the UK's energy demand. This along with high amounts of gas have also been imported in the UK, widening the supply margin, which has helped to push contract prices lower.

Overall, prices are still an increase when compared to this time last year as seen on the graph below. This is due to bullish factors keeping the prices steady as well as the increased non-commodity costs along with suppliers raising their prices to help cover the losses from the pandemic.

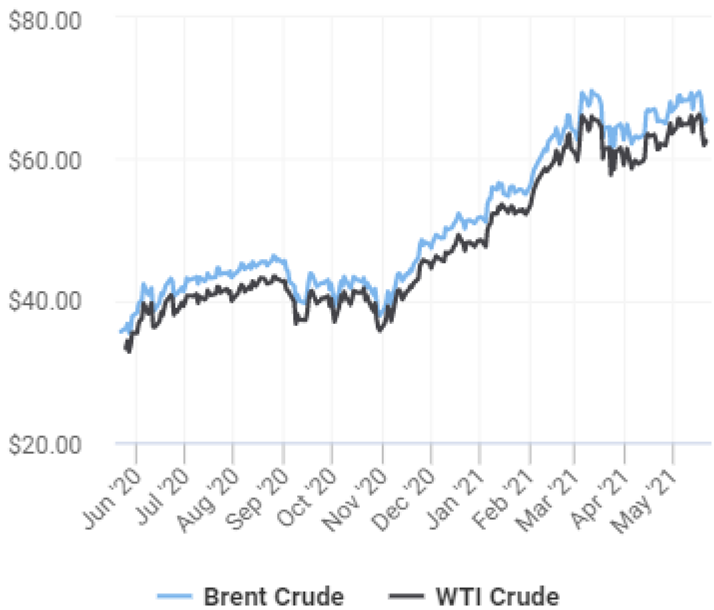


Crude

Uncertainty has meant the carbon market has been mildly unstable this week. Prices increased earlier in the week as lockdown restrictions in lifted in the UK and reports that cases in the US have been falling. The market then fell on Wednesday as new coronavirus cases were reported as Japan reported a spike.

Trading has since been bearish, as Iran and the US work to ease some sanctions which could see Iranian oil returning to the market.

Current price standings:
Brent Crude = $65.63/bbl
WTI Crude = $62.59/bbl



ENERGY NEWS

Iran and US Working Towards Ending Trade Sanctions

Due to war, support of terrorism and Iran's nuclear weapon program, the country has received multiple international trade sanctions from the US as far back as the 1970s. However current US president Joe Biden is looking to end the sanctions imposed in 2015 under former US President Donald Trump.

Iran has still been trading and has been able to sell its oil at such a low price as there have been very few buyers whilst it is still under US sanctions. China (the worlds top importer of oil) quietly accepted record amounts of oil early this year. The ease of restrictions would allow Iran to trade oil in the open market and trade to a wider customer base.

Global oil demand recovery is still extremely fragile with worries of cases are spiking across the world continue and lockdown restrictions being imposed, so Iran re-entering the market would see a huge influx of production to the already volatile market, which is likely to stall the price rally oil is currently experiencing. “Clearly the headlines will not be great for sentiment, particularly given that OPEC+ countries are gradually increasing output, whilst there are also demand worries in Asia,” said Warren Patterson, ING head of commodities strategy.

However, analysts have predicted that if the sanctions on Iran are eased it should not cause too much disruption to the market, despite the uncertainty around global demand recovery. Warren Patterson also stated, “Iran has already increased supply over the course of the year, and so the impact from the lifting of sanctions will not be as significant in terms of supply as some may expect,” said Mr Patterson.

Rising Iranian Oil Imports to China

The International Energy Agency (IEA) works with countries around the world to shape energy policies for a secure and sustainable future. The Net Zero report comes as the organisation (which has faced pressure from climate activists to produce a road map to the target) to draft a pathway to reach net zero carbon dioxide emissions by 2050.

It calls for an end to fossil fuel exploration and details an overhaul of energy supply and demand whereby coal demand would collapse by 90%, gas demand by 55% and oil demand would shrink nearly 75% by 2050.

The report is far more severe than many producers were prepared for and Dave Jones, analyst at the climate think-tank Ember, said the report’s call to halt new oil and gas exploration was extremely surprising given the agency’s history.

The radical move would have to be compensated by a huge investment in clean energy. "We need a historical surge in investment,” said Fatih Birol, head of Paris-based IEA on Tuesday, “Those countries whose economies are relying on oil and gas revenues will face huge challenges,” said Birol. “We came up with over 400 milestones, and one of them is — there is no need for new oil, gas and coal development, which includes no need for oil and gas exploration investments.”

While the report is not a forecast or a recommendation, the IEA’s scenarios are considered definitive by many governments and often form the basis for energy policy.