Pricing Report

10th August 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

Energy prices continue to soar, with **13-year highs** being seen in the wholesale market. A global increase in the demand for gas has seen a significant risk premium added to energy contracts this year. Pipeline disruptions in Russia have added to the European demand for gas, with supplies tightening due to gas being taken out of storage. Heavier reliance is on the LNG shipments however these are being sold to the "highest bidder" and as Asia are paying more they are attracting the much-needed shipments away from Europe.

Escalating cases of COVID-19 due to the Delta variant threatens global energy demand growth, as countries renew travel restrictions. Crude oil prices fell to their lowest level since May after China, the world's top crude importer, imposed more travel restrictions to fight what it sees as the worst outbreak since the original viral outbreak in Wuhan.

Despite increasing cases the UK wholesale gas prices are now over **200% higher** than this time last year. Wind generation is also predicted to be lower and as 40% of the UK's electricity is generated by gas, electricity prices are being impacted as well. Contract prices are expected to continue this increase throughout 2021, as current projections also are showing that Europe will be short of LNG this winter.

Bullish Factors (*upward pressure on markets*):

- Tight supplies as storage levels continue to deplete
- Asia paying premiums for LNG
- A forecasted sharp drop in wind generation
- Disruptions at Russian pipelines
- OFGEM increasing the price cap by £139

Bearish Factors *(downward pressure on markets):*

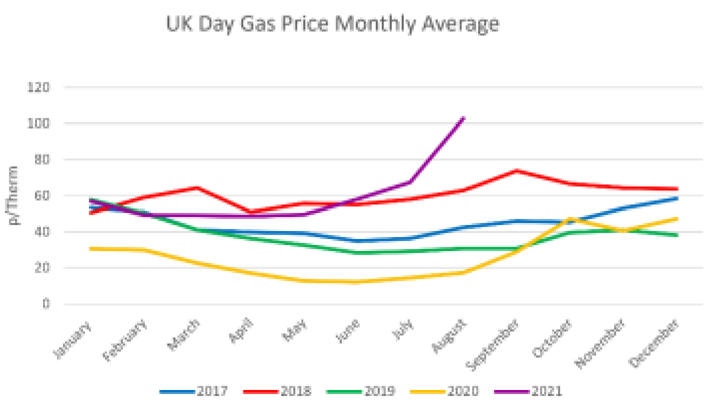
- Fears that the Delta variant will weaken global energy demand
- China imposes further lockdown restrictions to tackle a new outbreak

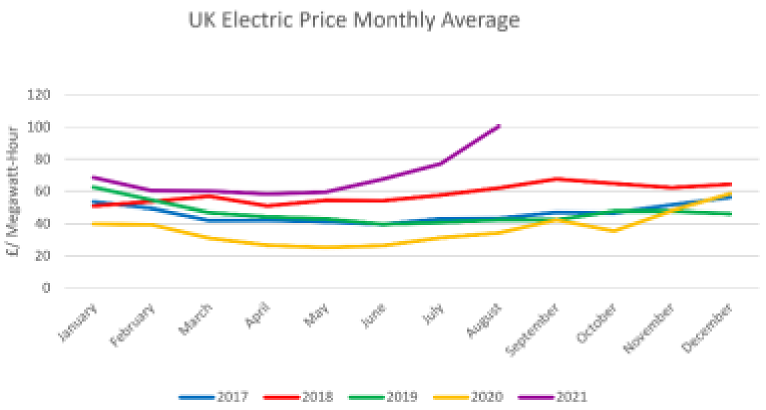
MARKET REPORT

Gas and Electricity

Gas and electricity markets have both been very bullish, due to supply levels depleting and risk premiums being added to contracts.

Asian demand for gas has continued to increase, which has seen LNG prices increase and more shipments going to the East instead of Europe. Gas production has also been limited further as fires were recorded at a Russian processing facility.





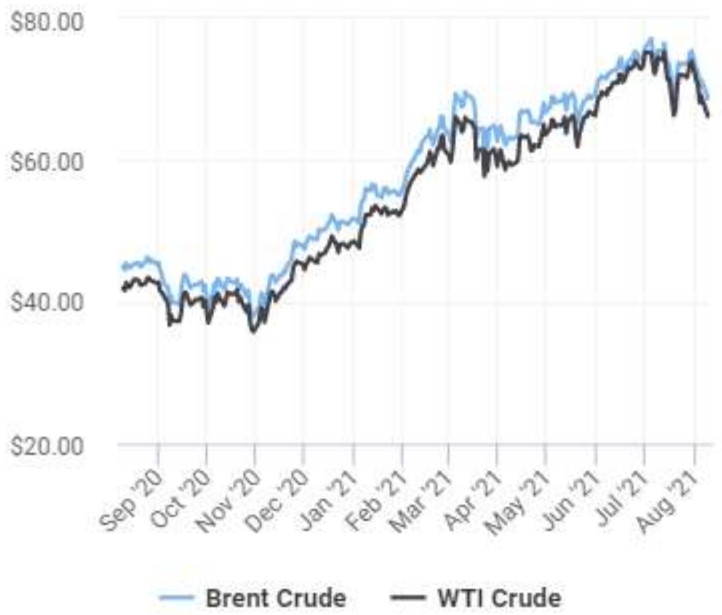
Crude

Crude prices have been bearish, falling by 4% on Monday after China imposed new travel restrictions in order to contain an outbreak. The price crash was also supported by growing concerns that global demand would be impacted.

Overall, Brent Crude and WTI lost 6% and 7% respectively throughout the last week, the largest weekly decline in the last four months.

Prices are still high when compared to this time last year with Brent trading over 53% higher and WTI by 57.9%.

Current price standings:
Brent Crude = $68.82/bbl
WTI Crude = $66.34/bbl



ENERGY NEWS

Tight Supply Issues

Tight global supplies have been exacerbated by lower Russian volumes (due to outages and planned maintenance) and declining European production. Colder weather has seen the demand for gas increase higher than usual for this time of year, resulting in supplies being taken out of stores usually kept for the colder winter months. Asian demand for gas is also high and countries are in bidding wars trying to attract cargoes of Liquified Natural Gas (LNG).

Gas is one of the world's most important fuels due to its broad range of uses, 40% of the UK's electricity is generated by gas. Also, as wind generation has not performed as predicted both gas and electricity contract prices have been impacted. This has seen prices increase to some of the highest levels on record for summer. The continuing increase in prices is raising concerns that a global supply squeeze will be seen in winter.

European storage levels are low due to the colder than average weather in spring depleting gas stores as the need for heating increased. Russia has also sent less gas to Europe since before the pandemic, which some critics believe is to pressure the EU to approve the new Nord Stream 2 pipeline, which once approved and activated will see gas flow freely directly from Russia to Europe.

Current projections are showing that Europe will be short of LNG this winter and concerns are growing around what will happen when the temperatures plunge and demand is at its peak, which can already be seen in the increasing contract prices.

OFGEM Increases Price Cap Again

Energy regulator OFGEM has set the next price cap for default energy tariffs to take effect from 1st of October this year.

They have said the price cap will increase even further to cover suppliers' extra costs. The price cap rose in February 2021 by £96, but since then wholesale prices have risen even further, with gas prices soaring to a record high as many economies recovered strongly from the Covid-19 crisis, prompting a surge in demand for energy. From October the cap will increase by a further £139.

Ofgem chief executive Jonathan Brearley said: "The reason the price cap is going up is there has been a record increase in energy prices across the board, not just in gas and electricity but in petrol and diesel."

He also urged customers to ensure they shop around to find the best rates, saying there were big savings to be made by switching.