



PRICING REPORT

JAN 2023

INTRODUCTION



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. Before the energy crisis the wholesale cost of energy made 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. Currently, with the rise in wholesale costs they are around 78% of a gas bill and 72% of an electricity bill.

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

Support for business energy bills under the current scheme is to be cut from April 2023. A new scheme, the Energy Bills Discount Scheme (EBDS) will run for 12 months from the 1st of April 2023 to the 31st March 2024 where eligible businesses, public sector organisations and charities will benefit from a per-unit discount on bills. The government said that such levels of support were time-limited and intended as a bridge to allow businesses to adapt. The latest data shows wholesale gas prices have now fallen to levels just before Putin's invasion of Ukraine and have almost halved since the current scheme was announced.

Warmer weather and high wind speeds this winter resulted in the demand for gas decreasing while supply stores remain at good levels. This caused short-term wholesale prices to drop. However, experts warn that bills are not likely to come down "for the next two or three years". This is due to companies often forward buying a portion of the energy they need in case prices rocket to avoid this risk. However, if wholesale prices fall (as they are now), it can mean businesses who bought a big proportion of their gas in advance (for a higher price) are worse off.

With the market remaining volatile, there is not a lot of confidence that the current situation is likely to continue. Demand in Asia has started to pick up following Beijing reopening its borders. There have also been issues with LNG supply which is likely down to stormy weather conditions preventing the cargoes from docking and resulting in queues outside Milford Haven in Wales.

Mike Fulwood, Senior Research Fellow at the Oxford Institute for Energy Studies said there are a lot more factors at play when calculating forward prices, including the market's confidence in gas prices (which isn't very high given Putin's unpredictability), as well as demand and supply. A drop in costs is not likely to be seen "until 2026 or 2027 when we get a lot more supply of liquefied natural gas on the market."

Bullish Factors (upward pressure on markets):

- Reduction of LNG supply
- Increased demand in Asia
- Concerns over the remaining winter demand

Bearish Factors (downward pressure on markets):

- Milder weather and temperatures
- Strong wind speeds
- Good levels of renewable generation for power
- Good levels of storage
- Increase in Norwegian flows



MARKET REPORT

GAS & POWER

Wholesale prices have fallen to levels before the Ukraine invasion where mild weather, renewable generation and good levels of storage continue to be able to meet demand.

Due to this gas and power contracts starting now (spot), starting within the month head (M+1) and starting within the next season (S+1) all currently remain similar in price.

(A season in the business energy market is a 6-month spread and these are from April to September for "Summer" and October to March for "Winter".)

GAS

155.00 NBP DA p/therm * Settlement from 11 Jan 2023



POWER

108.14 UK DA Base £ / MWh * Settlement from 11 Jan 2023



CRUDE OIL

Demand has been forecasted to increase, however crude prices have remained relatively stable as the US dollar price recovers, which stifled increases.

Brent prices still remain under \$90/bbl which, since mid-November been seen briefly in September and then not back until February earlier this year.

Current price standings:
Brent Crude = \$82.67/bbl

BRENT OIL

82.67 Brent Oil M+1 \$/bbl * Settlement from 11 Jan 2023



ENERGY NEWS

ENERGY BILLS DISCOUNT SCHEME

The Energy Bills Discount Scheme (EBDS) will run from the 1st April 2023 to 31st March 2024. A discount of up to £19.61/MWh for electricity and £6.97/MWh for gas will be automatically applied. The discount will be applied if wholesale prices are above a price threshold of £302/MWh for electricity and £107/MWh for gas. The discount is calculated as the difference between the wholesale price associated with an energy contract and the price threshold.

As with the original scheme, the new scheme will be available to everyone on a non-domestic contract including businesses, voluntary sector organisations (such as charities), public sector organisations (such as schools), hospitals, and care homes.

The new scheme will also only be eligible to those who are on existing fixed price contracts that were agreed on or after 1 December 2021, signing new fixed price contracts, on deemed / out of contract or standard variable tariffs, on flexible purchase or similar contracts or on variable 'Day Ahead Index' (DAI) tariffs (Northern Ireland scheme only).

The government will provide a discount on gas and electricity unit prices per the current scheme. Eligible non-domestic consumers will now receive a per-unit discount on their energy bills during the 12-month period from April 2023 to March 2024, subject to a maximum discount. The relative discount will be applied if wholesale prices exceed a certain price threshold.

For most non-domestic energy users in Great Britain and Northern Ireland, these maximum discounts have been set at:

- electricity - £19.61 per megawatt hour (MWh) with a price threshold of £302 per MWh.
- gas - £6.97 per MWh with a price threshold of £107 per MWh

The discount is calculated as the difference between the wholesale price associated with an energy contract and the price threshold. The discount is phased in when the contract's wholesale price exceeds the floor price until the total discount per MWh reaches the maximum discount for that fuel.

Recognising that some non-domestic energy users in Great Britain and Northern Ireland are particularly vulnerable to high energy prices due to their energy-intensive and trade exposure, (referred to as Energy and Trade Intensive Industries or ETIIs), these sectors will receive a higher level of support, subject to a maximum discount. The maximum discounts and price thresholds for these sectors are:

- > electricity - £89 per MWh with a price threshold of £185 per MWh
- > gas - £40 per MWh with a price threshold of £99 per MWh

