



# PRICING REPORT

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DEC 2022

# 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

Currently, the gas market is very flat which has allowed pricing to remain relatively stable. However, it is still underpinned by the Chinese COVID restrictions that are decreasing demand for now and the concerns around a prolonged cold spell as we head through December into the new year. There still has been a good frequency of Liquefied Natural Gas (LNG) cargoes coming into North West Europe, which helps to boost the supply levels a little and steady pricing.

Power prices hit a record high on the 12th of December, due to the drop in temperatures and colder weather which limited wind generation. Severely cold weather, coupled with low wind speeds creates the perfect storm to drive wholesale costs up. However, temperatures are expected to be around normal from the 19th of December, alleviating some demand. Wind speeds are also expected to be around seasonal normal levels, which will reduce the reliance on gas for power demand.

The market does remain volatile and there is still a long-term outlook for both gas and electricity contracts, with the relief in pricing not coming until late 2024 and into 2025.

### **Bullish Factors (upward pressure on markets):**

- Colder temperatures
- Increased demand
- Overall global economic concerns
- Unplanned outage at the UK's Cygnus field
- Political actions – particularly in Russia

### **Bearish Factors (downward pressure on markets):**

- French interconnections coming back online
- Increased imports of LNG supply
- Forecasted increase in wind generation, reducing gas for power demand

# MARKET REPORT

## GAS & POWER

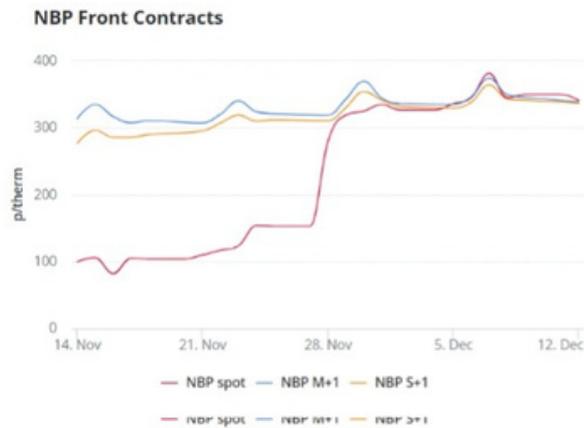
Contract prices have fallen this week, supported by interconnector activity and increased imports of LNG supply. This has also been helped by the forecasted temperature, which has been revised to be around seasonal norms. Wind generation is also expected to increase, reducing gas for power demand.

Power contracts remain volatile, however for both power and gas, those starting now (spot), starting within the month head (M+1) and starting within the next season (S+1) all currently remain similar in price. Gas has remained more stable due to the steady flows of LNG, whereas power has been impacted by the weather and temperatures that have reduced renewable generation.

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".

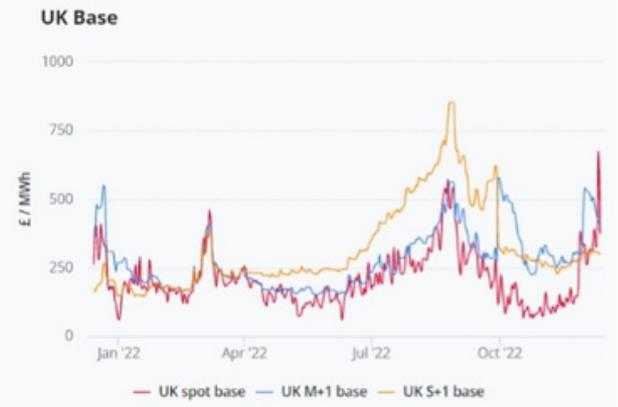
### GAS

341.00 NBP DA p/therm \* Settlement from 12 Dec 2022



### POWER

375.30 UK DA Base £ / MWh \* Settlement from 12 Dec 2022



## CRUDE OIL

Brent crude prices have been trading with some slight volatility last week, with increases resulting from political actions (particularly in Russia) and by overall global economic concerns.

However, since mid-November, it has traded under \$90 per barrel, which has only been seen briefly in September and then not back until February earlier this year.

Current price standings:  
Brent Crude = \$77.99/bbl

### BRENT OIL

77.99 Brent Oil M+1 \$/bbl \* Settlement from 12 Dec 2022



# ENERGY NEWS

## UK POWER PRICES HIT RECORD HIGH

Large areas of the country, from Scotland to south-east England, snowed over the weekend. This saw power prices hit record levels in the UK at £674.78 per megawatt-hour, an increase of 107.8% from the day before. The cold snap and a fall in supplies of electricity generated by wind power both combined to push wholesale costs up even further.

Wind speeds reduced sharply, hitting power suppliers and live data from the National Grid's Electricity System Operator showed that wind power was providing just 3% of the UK's electricity generation on Sunday and Gas-fired power stations increased to provide 59%.

The increase in power prices comes amid jitters over energy supplies this winter. National Grid warned in October that a combination of factors such as a cold spell and a shortage of gas in Europe related to the war in Ukraine could lead to power cuts in the UK.

However, prices have fallen back down as forecasts for milder temperatures and wind generation to return to seasonal levels have alleviated some of the concerns about supply meeting demand.