

Utilities Pricing Report

November 2023

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 wholesale energy (Commodity). 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 remainder being third party charges (non-commodity). Commodity costs have been continuously rising in recent years and can be extremely volatile. Currently, with the latest rise in wholesale costs mean that they now make up around 78% of a gas bill and 72% of an electricity bill.

This pricing report will focus on the wholesale element of an energy price to help you keep track and understand the wholesale energy market and the factors affecting the price of your contracts.

Overview:

The surge in energy prices can be attributed to the increasing expenses in the global wholesale energy market, influenced by a mix of market instability and global events, including conflicts in Ukraine and Israel.

In addition to these factors, the UK is preparing for snow and wintry showers, with temperatures expected to significantly drop this weekend. The current storage levels, standing at 81%, raise concerns about potential impacts on the market, increasing the supply and demand pressure on prices.

It is advisable to consider securing your next agreement before the market peaks. Prices are expected to escalate further in January with the onset of colder weather. Taking proactive measures now can help mitigate the impact of these anticipated price increases.

Bullish Factors (*upward* pressure on markets):

- Colder weather
- Demand for heating
- Lower wind output
- Higher interest rates in the US

Bearish Factors (*downward* pressure on markets):

- Record-high levels of storage across Europe
- LNG flows
- OPEC+ meeting

MARKET REPORT

Gas and Power

The drop in temperature is causing concern that the demand for heating will rise, with the potential to deplete the currently elevated storage levels. Traders are facing the challenge of assessing prospective demand against the resilient storage levels, and the situation is compounded by a low wind output.

Graphs below display gas and electric prices over the last 12 months.

POWER PRICES

24th November



Winter
Gas
Prices

GAS PRICES

24th November



Anticipated temperatures across a lot of Europe are projected to drop and remain below their five-year averages, potentially lasting until the end of December.

Natural gas prices in Europe have experienced fluctuations this week, with traders assessing heightened heating demand amid colder weather, while EU inventories remain nearly full. The surge in demand is down to below-average temperatures, influencing both heating needs and natural gas consumption.

Despite the assurance provided by full inventories, governments and forecasters emphasise the importance of avoiding complacency. Presently, Europe draws confidence from record-high inventories and strong LNG flows, mitigating concerns of a recurrence of last year's energy crisis.

However, the landscape remains unpredictable and volatile, with natural gas prices now influenced by factors in distant locations such as Australia, Japan, China, and the United States. While Europe is not expected to face challenges in procuring LNG supply, the determining factor for gas prices is increasingly shifting to these global regions, as highlighted by Reuters market analyst John Kemp.