# Pricing Report | 13th April 2022

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:

UK inflation hit 30-year highest, with the annual 7% rise in the consumer price index surpassing the highest rise since March 1992. Experts predict these are likely to continue to rise and remain at record highs throughout 2022.

Energy prices have continued to remain volatile, with some countries looking to swap to purchasing Russian gas in Rubles and others still looking to push for further sanctions on Russian oil. A ban on the importation of Russian coal being considered by the EU has also pushed energy prices higher.

Demand is expected to increase, as the new coronavirus cases in China fall and Shanghai, the most populous city, is set to allow 'appropriate activity' in areas where there have been no cases for at least two weeks.

Whilst energy prices are currently down slightly they are still extremely volatile, as Russia's invasion of Ukraine shows no sign of abating and they could cease flows to Europe at any point, which could cause major supply disruption and prices to surge further.

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

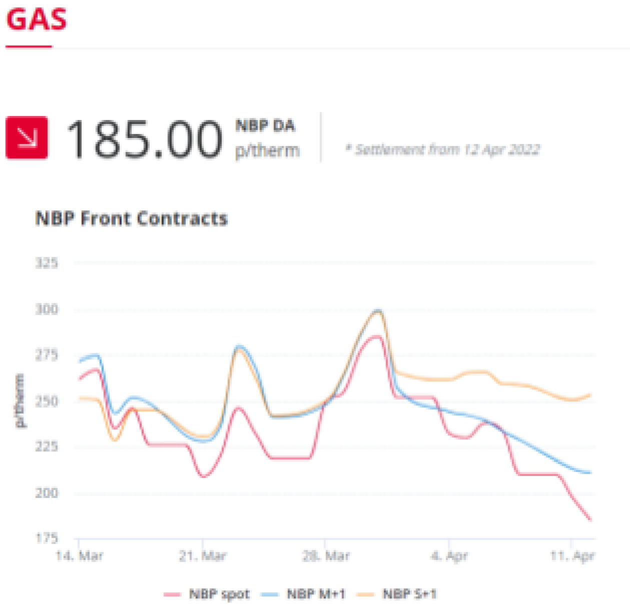
- Escalating Ukraine conflict
- Continued concerns over gas flows to Europe
- Increased demand
- Colder forecasts
- Reduced wind generation

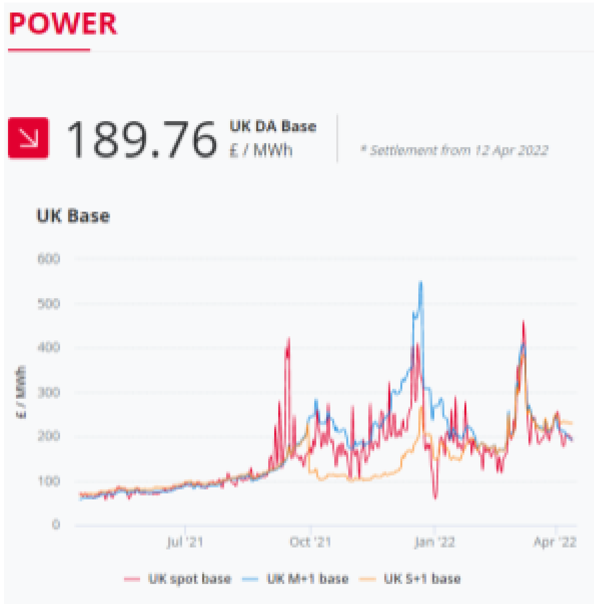
**Bearish Factors *(downward pressure on markets):***

- China and Japan released weaker than expected economic data

# Gas and Power

Both gas and power contracts strengthened this week, supported by increased demand, colder forecasts and stronger trading within the coal and carbon markets. Wind generation has also reduced, resulting in a heavier reliance on other elements in the energy mix to meet the demand.




In the graphs, you can see that gas contracts starting now (Spot) and those within the month ahead (M+1) are slightly lower than this time last month as well as those purchased now for the next season (S+1). If you are not out of contract until summer and have waited to secure a fixed contract, you will be paying a lot more than if you had locked a rate in back in January where prices were as low as 150p/therm compared to 490p/therm today.

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".

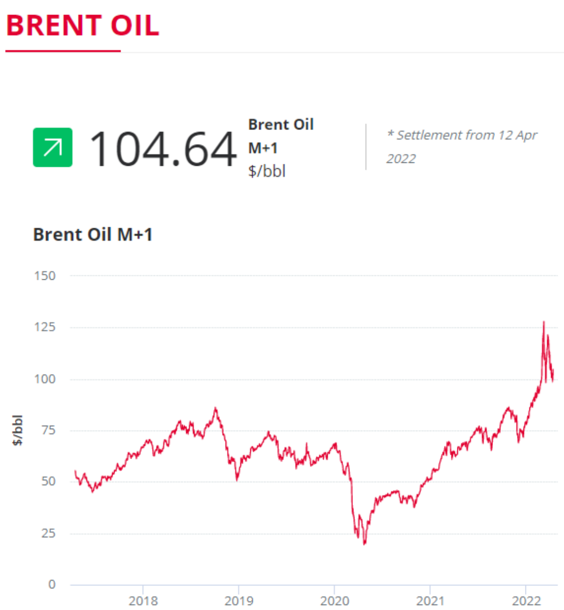
# Crude Oil

Brent crude firmed this week as some lockdown restrictions in China were eased boosting expectations of demand growth, with further value added by missed oil production quotas by some OPEC member countries.

However, it has dropped from above $120/bbl after China and Japan released weaker than expected economic data which could see some demand destruction.

Current price standings:

Brent Crude = $104.64/bbl




# UK Inflation Hits 30-Year High

The UK inflation came in at its highest rise since March 1992 last month, with an annual increase of 7. This is its highest increase in 30 years, outstripping the 6.2% increase recorded in February.

From April 1 Ofgem increased the price cap for household energy users by 54% following the surge in wholesale energy prices, where gas prices reached a record high last year and then surpasses this again last month.

Central banks around the world face a balancing act between tackling soaring inflation and signs of slowing economic growth, with the Russia-Ukraine war dampening economies' recovery from the Covid-19 pandemic.

Boris Glass, senior economist and director at S&P Global Ratings, said British inflation rates are likely to rise and remain at record highs throughout 2022. The global supply shock caused by Russia's invasion of Ukraine, which shows no signs of abating, means that inflation is likely to peak higher and take longer to moderate, according to Ambrose Crofton, global market strategist at JPMorgan Asset Management.

"As well as the obvious impact the war has had on consumers' utility bills, Russia's key role as a commodity producer extends beyond just energy to many industrial metals and fertilizers," Crofton noted. "As a result, consumers are likely to see further upward price pressure in goods and food products in the coming months."

## Renewable Energy Prices Soar

Prices for wind and solar power in major global markets have climbed nearly 30 per cent in a year, as developers struggle with "chaotic" supply chains and surging costs. This has impacted everything from shipping to parts to labour, according to a report published on Wednesday.

Contract prices for renewables jumped 28.5 per cent in North America and 27.5 per cent in Europe in the last year, according to a quarterly index by LevelTen Energy that tracks the deals, known in the industry as power purchase agreements (PPAs).

These kinds of market disruptions during the COVID-19 pandemic have worsened since the Russian invasion of Ukraine, reversing a decade of cost declines for the renewable energy sector. There is a risk higher costs could slow demand growth at a time when the United Nations has called for clean energy to expand more rapidly to avoid the worst effects of a warming climate.

In Europe, the war in Ukraine has led governments to try to reduce dependence on natural gas from Russia, further boosting robust demand for renewables. The war has been "the last straw for a market where there was already a lot of price tension," Oscar Perez, a partner at Spain-based fund manager and renewable energy developer Q-Energy, said in an interview.

"It's not about demand," Luigi Sacco, head of PPA origination at Milan-based Falck Renewables, said. "Demand is there but supply is struggling a bit in several markets."

"There's just intractable problems right now with our supply chain," Reagan Farr, chief executive of US solar developer Silicon Ranch, said in an interview. One factor luring buyers to renewables is the soaring cost of fossil fuels. "The ready alternative to renewable generation right now is gas, and gas prices are up 100 per cent as well," Farr said.