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Fidelity Energy
Energising Our Partners

Pricing Report | 9th September 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:

Liz Truss became Britain's new prime minister on the 6th of September and within less than 48 hours into the job announced a two-year "Energy Price Guarantee" with a £2,500 yearly price cap for the average household until October 2024.

The plan for businesses was not as detailed or clear. The prime minister announced that businesses will get similar support, under a scheme lasting six months to protect them from soaring energy costs and provide them with the certainty they need to plan their business. After this, she has promised there will be continuing support, particularly for vulnerable industries. There will be a review in 3 months' time to consider where this should be targeted to make sure those most in need get support.

What this means for businesses and what the actual support will be is unsure. Liz Truss said that Kwasi Kwarteng, the Chancellor, will be setting out the costs of the energy bills plan "as part of his fiscal statement later this month". Having spoken with senior contacts at various energy suppliers, there is a lot more to iron out. However, there will be no official government business for up to 3 days as a mark of respect to Her Majesty the Queen.

Russia has switched off all flows of Gas to Europe via Nord Stream 1 and blames the western sanctions for the failure to deliver gas through the pipeline. They have stated that they will not resume gas supplied in full to Europe until the West lifts the sanctions, which has continued to push energy prices higher due to concerns over supplies for winter.

Many energy suppliers continue to pull their pricing or add new terms to the business customers they are willing to take on, as taking on new energy contracts with the highly volatile market runs at a huge risk. If prices surge again, some suppliers may not be able to afford to purchase the required energy to supply their existing and any new customers, which is what happened to the 31 other companies that have ceased trading since 2021. If you are out of contract or coming to the end of your contract, we recommend contacting us and having a chat to see what the best options are for your business. All advice is free and impartial and requires no obligation.

Bullish Factors (*upward pressure on markets*):

- Flows via Nord Stream switched off
- Concerns about the global economy and inflation
- Worries about adequate supplies for winter
- Norwegian gas outages
- Improving US dollar

Bearish Factors *(downward pressure on markets):*

- Greater levels of LNG are expected to arrive this month
- Announcements of intervention to tackle energy prices

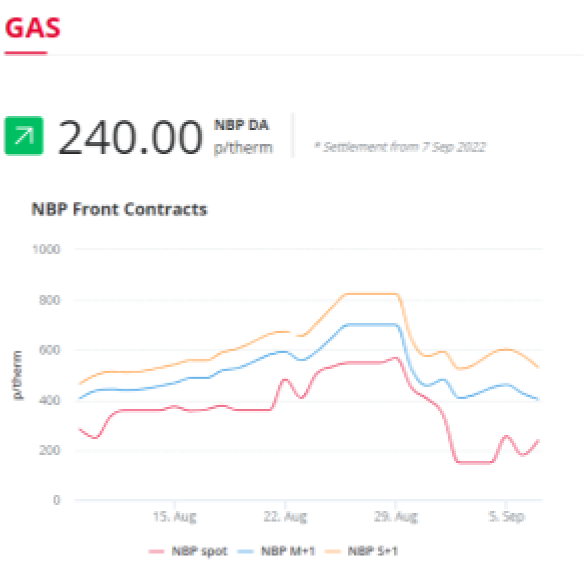
Market Report

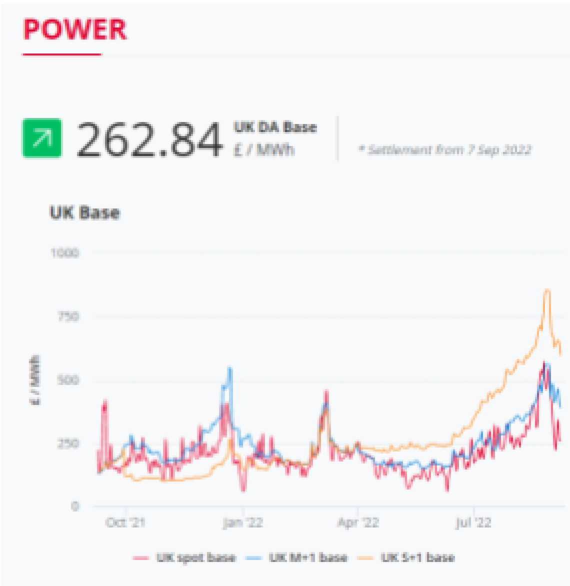
Gas and Power

Contract prices have decreased since the surge at the end of August, with gas prices 58% lower and power prices 54% lower. This is attributed to greater levels of LNG expected to arrive during August and supply concerns around Nordstream and Norwegian gas outages. Recent announcements on intervention to tackle energy prices have pushed prices lower as well. However, the scheme to help businesses has not been as detailed as the price cap for domestic customers, so it depends on what these specifics are and how they impact all business customers.

Contracts starting now (spot) and those within the month ahead (M+1) both continue to trade lower than those purchased now for the next season (S+1), as shown in the graph. The S+1 prices represent contracts purchased now that start this winter. Contracts are higher here as there are growing concerns that there will not be enough energy supply or in storage to meet the demand in winter, when the S+1 contracts will come into play.

(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".)

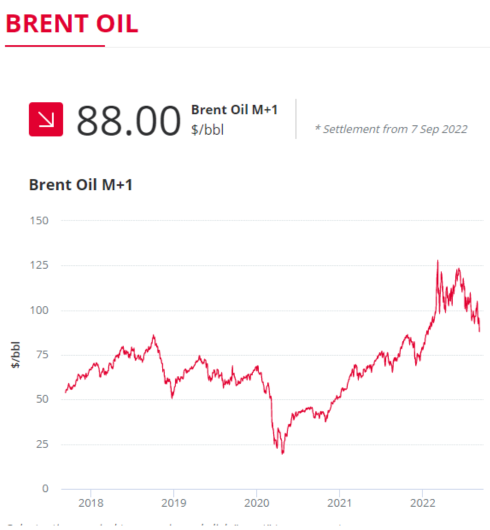




Crude Oil

Concerns over global demand, particularly in Asia with their zero Covid policy, pushed crude prices down this week. This was further supported by the UK government announcements on commodities and the intervention to tackle prices.

Current price standings:
Brent Crude = $88.00/bbl



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Energy News

Liz Truss – Energy Price Guarantee

Within less than 48 hours as the new Prime Minister, Liz Truss announced a package of measures to help the UK deal with the energy crisis. Household energy bills would be frozen for two years from 1st October.

The prime minister also promised support for businesses struggling with bills for six months, with targeted support for vulnerable firms beyond that as she set out her plan to help deal with the UK energy crisis. Further details will be published on the government website.

Liz Truss's energy plan at a glance:

- Typical household will save an average of £1,000 a year on their energy bills, under a new two-year Energy Price Guarantee rolling out from the 1st of October
- Businesses and public sector organisations will see equivalent support over the winter
- New plans will tackle the root causes of problems in the energy market by boosting domestic energy supply, including lifting the ban on fracking to enable shale gas production in areas where there is local support and increasing domestic oil and gas production by launching a new oil and gas licensing round as early as next week
- Package claims it will boost economic growth and reduce inflation by 4-5 points

Lib Dem leader Sir Ed Davey called for a “genuine freeze” paid for through a windfall tax on oil and gas – expressing his concern that Ms Truss appears to want to utilise a “loan system”. Labour’s deputy leader Angela Rayner also said it would be “completely unfair” for working-class people to bear the brunt of any bill freeze through a later levy, rather than introduce a new windfall tax.

What will the cost to the taxpayer be? We currently do not know and the Treasury will not make a forecast until later in the month. Even then it will be uncertain but it is predicted to be north of £100 billion.

Liz Truss said she would not "give in" to calls for a larger windfall tax to fund her energy support package. The PM told the Commons: "I can tell the House today that we will not be giving in to the Leader of th Opposition who calls for this to be funded through a windfall tax." She also added, "that would undermine the national interest by discouraging the very investment we need to secure homegrown energy supplies."

The dramatic state intervention was accompanied by promises to increase domestic oil and gas production — including fracking for shale gas — and reforms to the energy market, where she added that her government's plans were "pro-growth, pro-business, and pro the investment we need for our country's energy security".

To read the full policy paper on the government website here:
https://www.gov.uk/government/publications/energy-bills-support/energy-bills-support-factsheet-8-september-2022

Nord Stream 1 Shut Down

All flows through the pipeline were stopped last week, with Russia citing technical issues for the reason. However, many saw this as Russia weaponising gas in an attempt to turn Europe against the war in Ukraine and pressure the bloc for relief in sanctions.

Russia has said it will not resume gas flows via the key Nord Stream 1 pipeline to Europe until the 'collective West' lifts sanctions against the country.

Last week, the G7 group of nations - announced a price cap for Russian oil - a move it said would reduce both Moscow's revenue for its Ukraine invasion and inflation in the West. The EU now plan to cap the price of Russian gas. "We must cut Russia's revenues which Putin uses to finance this atrocious war," said European Commission chief Ursula von der Leyen.

This comes despite President Putin threatening to halt all supplies if this were to happen. If it went against Russia's interests he said, "we will not supply gas, oil, coal, heating oil - we will not supply anything."

As well as putting a price cap on Russian gas, EU ministers have been looking at how to separate the cost of gas from the price of electricity, which is linked in Europe's market. The Commission president outlined several other plans which are due to go before energy ministers on 9th September:

- A mandatory target for reducing electricity use at peak hours
- A cap on revenues for companies making unexpected profits from low-cost electricity such as renewable energy
- A "solidarity contribution" from fossil fuel companies
- Helping struggling energy companies cope with the volatile energy market with "liquidity" support