

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:

The markets have been gaining following the natural gas flows from Russia via Nord Stream 1 being limited to around 20% capacity, with gas and power contracts jumping by 35% and 17% within a day. This has forced Europe to seek additional reserves from Norway and to bid on LNG cargoes from Qatar and the US. Concerns over winter gas supply meeting the demand when the temperatures drop are driving the costs up, which is starting to impact 2023 and 2024 pricing as well as this year.

The heatwave due across Europe and the UK has caused a spike in the market which is limiting suppliers' ability to offer contracts that are valid for a long enough window for a customer to reach a decision and accept, as many are having to withdraw their pricing until there is some stability in the marketplace.

The surge in the market has left it highly volatile and the uncertainty around supply meeting the demand has been the main contributing factor pushing contracts prices higher. At the end of July, we were not seeing any relief in the markets until Summer 2024, when both gas and electricity were at 180.15 pence per therm and 180 pounds per MWh. However, pricing has increased so much so that for Summer 24 gas prices have increased by 41.5% and electric prices have increased by 24.2% and we now are not seeing relief until a whole year later in Summer 2025.

Bullish Factors (*upward pressure on markets*):

- Flows via Nord Stream 1 at 20% capacity
- Low storage levels
- Concerns over undersupplied storage levels for winter
- Heatwave across Europe increasing cooling demand
- Falling wind generation
- Reduced imports from Norway due to outages

Bearish Factors (*downward pressure on markets*):

- Production increase in Iran
- Falling value of the US dollar

MARKET REPORT

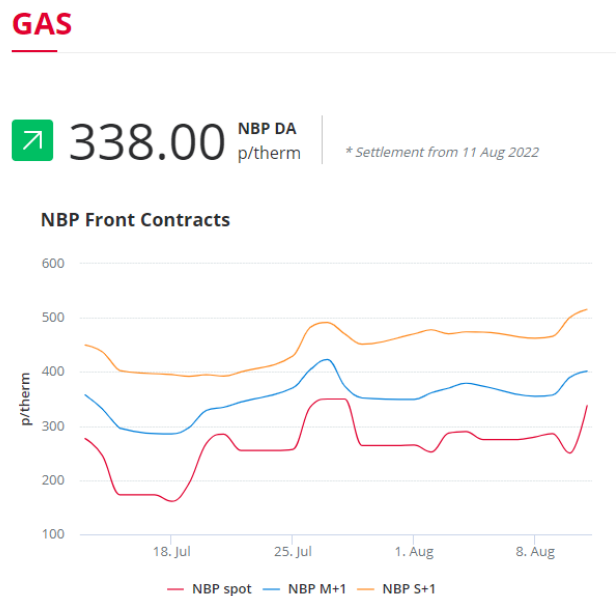
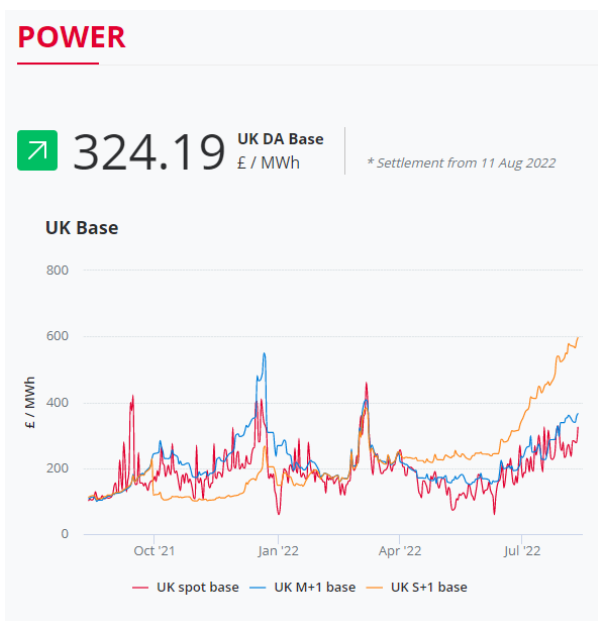
Gas and Power

Contracts have continued to increase, supported by falling wind output, increased demand and reduced imports from Norway due to outages. This morning, increased interconnector exports and rising temperatures sparked further price rises.

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. However gas spot prices have increased by over 20% since Monday 8th.

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. Power contracts starting S+1 are 84% more expensive than spot and M+1 contracts.

(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 prices continued to rise as issues in Russia saw most supply ceasing, allied with more widespread demand concerns. Production has increased in Iran which has seen a slight drop in prices, which has been supported further by the falling value of the US dollar.

Oil prices are 22.8% more expensive than at the start of 2022 and over 387.2% more expensive than in 2020 when prices reached multi-year lows.

Current price standings: Brent Crude = \$99.60/bbl



ENERGY NEWS

UK Braces for Blackout

A reasonable worst-case scenario envisages a 4-day power shortfall this winter, where the cold weather and gas shortages may lead to planned power outages for industries and households.

Under the government's latest "reasonable worst-case scenario," Britain could face an electricity capacity shortfall totalling about a sixth of peak demand, even after emergency coal plants have been fired up, according to people familiar with the government's planning. Under that outlook, below-average temperatures and reduced electricity imports from Norway and France could expose four days in January when the UK may need to trigger emergency measures to conserve gas, they said.

If they materialize, the power cuts would come even as Britons face up to average annual energy bills possibly rising above £4,200 (\$5,086) in January from just under £2,000 currently, stoking already soaring inflation.

If the winter is particularly cold, Britain may have to rely increasingly on pipeline shipments of gas from mainland Europe -- where supplies are already thin as Moscow curbs flows. That presents a dilemma for the UK, which has very little domestic storage capacity. The nation has been shipping record amounts of gas to the continent and will want the favour returned when temperatures plunge.

The Government insists it does not expect the scenario to happen, despite concerns over the supplies and soaring energy costs. This is "not something we expect to happen," the government Department for Business, Energy and Industrial Strategy said in a statement. "Households, businesses and industry can be confident they will get the electricity and gas they need."

Concerns Over Winter Supply in Europe

Plans are in place to build additional LNG terminals and installing import infrastructure to support the switch in dependence on LNG cargos as the European Markets move away from Russian gas and oil.

Centrica have applied to reopen their Rough Gas Storage this winter seeking government support to carry out the necessary engineering work to make this operational one again. Centrica is seeking a regulatory framework from the government to enable the site to reopen, and the company is prepared to invest around 2 Billion Pounds (\$2.4 Billion) into the project. If successful, the site would build up capacity gradually and could eventually be used to store hydrogen.

Having significant gas in storage gives countries protection from unexpected supply issues and helps guard against price spikes. The Rough site previously provided about 70% of Britain's gas storage capacity. Had the site been open last winter, it could have saved households about £100 (\$121.82) on their annual energy bills.