PRICING REPORT

JDNETWORKS

OCTOBER 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. 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:

The government announced their Energy Bill Relief Scheme on the 21st of September, in a bid to help business customers through the increased energy costs. The scheme will cap the wholesale costs that energy suppliers can incorporate into the rates for businesses but will not determine the final rate paid by business customers. Businesses will be eligible if they signed contracts from the 1st of April 2022. The discounts will then be applied to the energy used between 1st October 2022 and 31st March 2023.

However, the energy market then became more volatile when the government then announced tax cut plans, which saw the pound fall to its lowest point against the dollar since comparable records started over 50 years ago. When the pound is low against the dollar, imports of commodities priced in dollars, including oil and gas, become more costly.

Many businesses were sitting on out-of-contract rates, waiting for further details of the announcement. We have since seen a surge in customers signing up for fixed-rate contracts after the government advised customers to switch as usual, as the appropriate reductions will then be automatically applied.

There is a maximum discount that can be applied (40.5p/kWh on electricity and 11.5p/kWh on gas). Prices are only expected to increase when the temperatures drop and gas-fired heating demand increases. So, if you are out of contract or coming up for renewal in the next few months, do not wait to secure a fixed-rate contract and maximise the benefits of the scheme.

Bullish Factors (*upward pressure on markets*):

- Concerns around the leaks of the Nord Stream pipeline
- Further reduction in Russian flows
- Value of the pound falling to record lows against the dollar
- Prevalent threat of cold weather dropping back to historic average levels next week

Bearish Factors *(downward pressure on markets):*

- Expecting 7 LNG cargoes between 3rd-20th October.
- Wind generation forecasts rising 20% above the seasonal average
- Reduction in short-term supply concerns
- Government announcement of support for businesses

MARKET

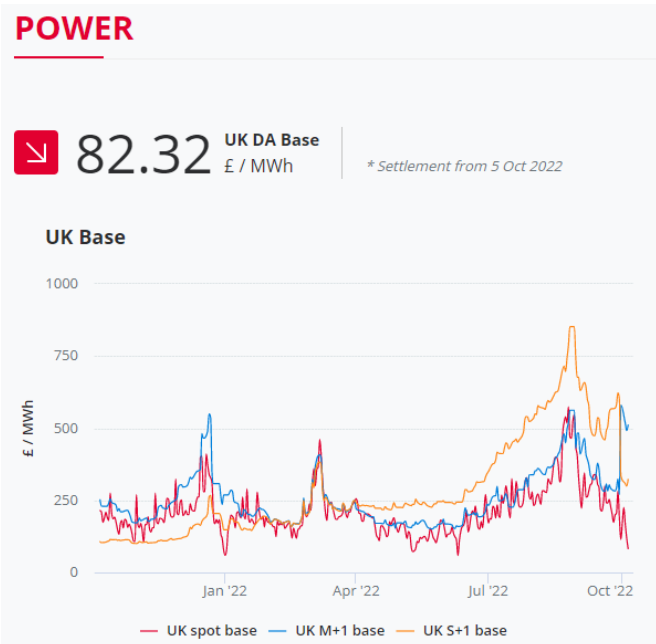
Gas and Power:

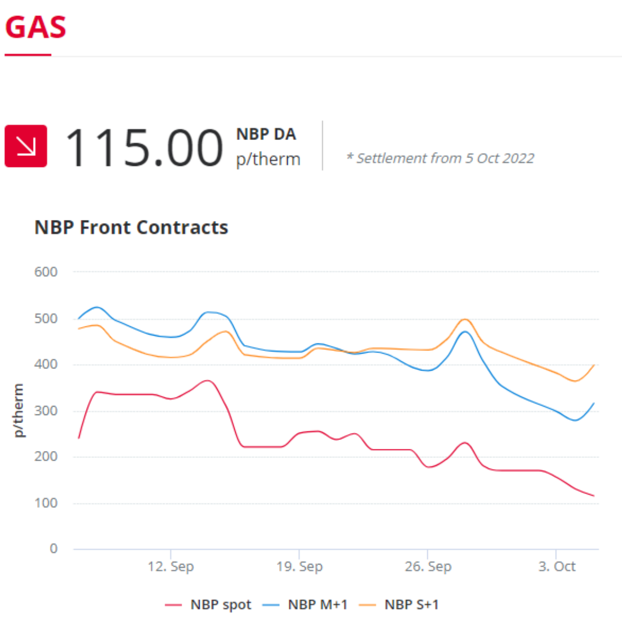
Contract prices have continued to decrease since the spike at the end of August when the Nordstream outage halted all gas supplies to Europe. Electricity prices have dropped 85.7% and gas by 79.8%.

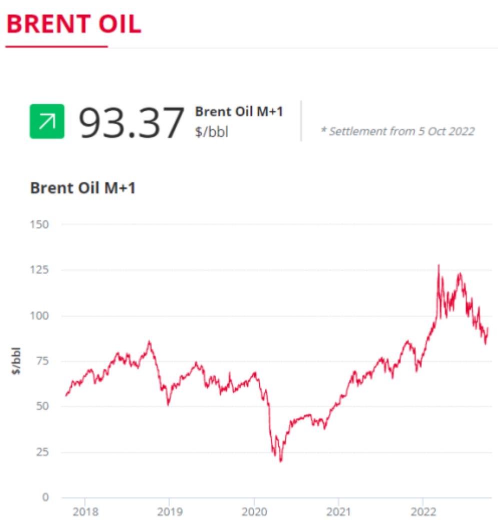
The heavy maintenance schedule in September has now passed and the strong LNG imports expected to the UK this month have helped to keep contract prices lower. However, due to market volatility, these low prices are subject to change at short notice.

Gas contracts starting now (spot) and those that start within the month head (M+1) are a lot lower than those starting within the next season (S+1) currently. Power contracts starting within the month ahead are higher due to the expected drop in temperatures and increase in demand towards the end of the year.

(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

Oil prices have become more stable on the expectations that OPEC+ will call for production cuts at their meeting this week. Oil prices were under bearish pressure from a strengthening dollar and coupled with the decline in global demand supported the lower prices.

Current price standings:

Brent Crude = $93.37/bbl

ENERGY NEWS

Energy Bill Relief Scheme

Providing government support for households is relatively straightforward because there is an existing retail price cap. The details of the business scheme were delayed because of challenges in devising it and the complexity of corporate tariffs. However, this move also allows for a degree of competition to remain in the market.

The Energy Bill Relief Scheme will cap the wholesale costs that energy suppliers can incorporate into the rates for businesses but will not determine the final rate paid by business customers.

Energy suppliers will be allowed to incorporate a capped wholesale price of 21.1p/kWh for electricity and 7.5p/kWh for gas.

The maximum discount will be 40.5p/kWh on electricity and 11.5p/kWh on gas

Only applies to all energy contracts signed with suppliers since 1st April

It will apply to energy usage from 1 October 2022 to 31 March 2023

After the six months, ministers will focus support on “vulnerable” industries but is yet to define which ones

Wholesale charges are only part of what makes up the final costs on an energy bill. The capped wholesale prices will not be the final rates that businesses pay, so your kWh rate will not be 21.1p and 7.5p respectively.

To read the full policy paper on the government website here:

www.gov.uk/government/news/government-outlines-plans-to-help-cut-energy-bills-for-businesses

Why the Falling Pound Matters for Energy

Following the publication of Chancellor Kwasi Kwarteng's growth plan, the pound plunged to record lows against a strong dollar. Investors trade huge amounts of foreign currency, worldwide, every day. The rate at which they swap currencies also determines what rate people get.

Many people don't think about exchange rates until it's time to swap money for a holiday. However, when the value of the pound falls it affects business and household finances too. If the value of the pound is comparably low, then the cost of importing goods from overseas goes up.

The UK received gas imports from other countries and all the oil and gas that the UK uses is priced in dollars, even if the gas is produced within the UK. So, energy costs are one of the things that are also likely to increase as the value of the pound falls.

Even though wholesale prices have fallen from recent highs, energy suppliers could come under further strain due to the slide in the value of the pound. Therefore, if the pound continues to trade lower, consumers are not likely to see the benefit (e.g. paying for petrol or energy rates).