IndigoSwan
energy contract enthusiasts

Monthly
Energy Report

3rd of October 2022

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Energy Overview

Headlines:

- ✓ The government outlined the Energy Bill Relief Scheme.
- ✓ Threats of further disruption to Gas imports from Russia.
- ✓ EU Gas Storage levels are an improved 88% full, compared to 75% last year.

As of the 3rd of October, Gas and Electricity Year Ahead Wholesale costs were lower, when compared to last month's report. The Oil price is also down at $88 per barrel, from $96.

Last week saw pressure added to prices due to a suspected attack on the Nord Stream 1 and 2 Gas pipelines. Although these had not been operating, this appears to confirm that Nord Stream 1 is not likely to resume Gas flows anytime soon, as was hoped. These are not the only Gas routes into Europe from Russia, which leaves them vulnerable to additional disruption. This is highlighted by the current dispute between Ukraine and Russia, as Gazprom are threatening to stop flows if Ukraine continues to make claims of late and under payment of Gas transit fees.

Electricity prices are impacted by Gas due to its use for generation. In the event that there were Gas supply issues this winter, all available other methods of generation would be explored, which has meant that Coal power stations are being made available. With large numbers of French Nuclear reactors being offline due to safety issues, the UK is exporting large volumes of power to the continent.

The Met Office forecast suggests we will generally see seasonal norm temperatures in October. Conditions will be unsettled with some showers and the potential for stronger winds.

What does this mean for me?

The government's, Energy Bill Relief Scheme, is providing assistance for non-domestic customers from Oct 2022 until March 2023, and being reviewed, with the option to extend it for targeted industries. This means that companies will not be fully exposed to the very high winter prices. If a contract was entered from April 2022, a Wholesale price cap of 21.1 p/kWh for Electricity and 7.5 p/kWh for Gas will be applied. The key point is that this is just Wholesale and so all other charges that make up an energy bill will be added. Those that are not contracted during the six months and choose to be exposed to supplier's non contracted rates, will receive a Maximum Discount from the Wholesale cost of 34.5 p/kWh and 9.1 p/kWh. This could mean that the price paid is greater than that of the price cap. Energy suppliers are currently looking at updating their billing to automatically incorporate these changes. The advice being given is to contract for six months and also look at options from April 2023, when prices are lower than 2022.

Over the next year, the way some charges are calculated will change, under the Targeted Charging Review. Energy suppliers can choose whether to fix Electricity contract costs, pass them through or leave that decision until a later date. This does allow for the possibility of a review of the Transmission and Balancing charges in some fixed price Electricity contracts, as the pricing method is due to change from April 2023.

Indigo Swan will be working closely with energy suppliers to best help all our customers through this worrying time.

Please contact us on 0333 320 0475 to discuss options or to get a latest update.

Gas Market Overview

On the 3rd of October, the Gas Year Ahead Wholesale cost was 452.17p/th, down from 543.04p/th in last month's report and 159% higher than 2021. Prices for 2023 and 2024 are considerably lower.

With EU Gas Storage levels now 88% full, against a higher target of 85% by November, there is an element of confidence which is bringing down prices. This is despite the continued efforts to drive them higher, with the attack on the Nord Stream 1 and 2 pipelines and further threats to close more Gas routes into Europe should countries choose not to be bullied into agreeing payment terms with Russia.

The UK continues to see large numbers of LNG shipments arrive, partly due to the lower demand from Asia, as China puts more cities into lockdown, due to Covid. We are expecting deliveries to resume from the US Freeport LNG facility in November, which was closed in June due to a fire. With good levels of supplies to the UK from the North Sea and Norway, the LNG shipments mean we can export Gas to the continent to help relieve the shortages and fill Storage for the winter.

The use of Gas for generation remains high, adding an additional pressure. Although the Renewables contribution in September was up, we are generating excess Electricity to export to Europe as they have a number of supply issues.

Let us know if you would like us to research your options for 12, 24 and 36 month contracts.

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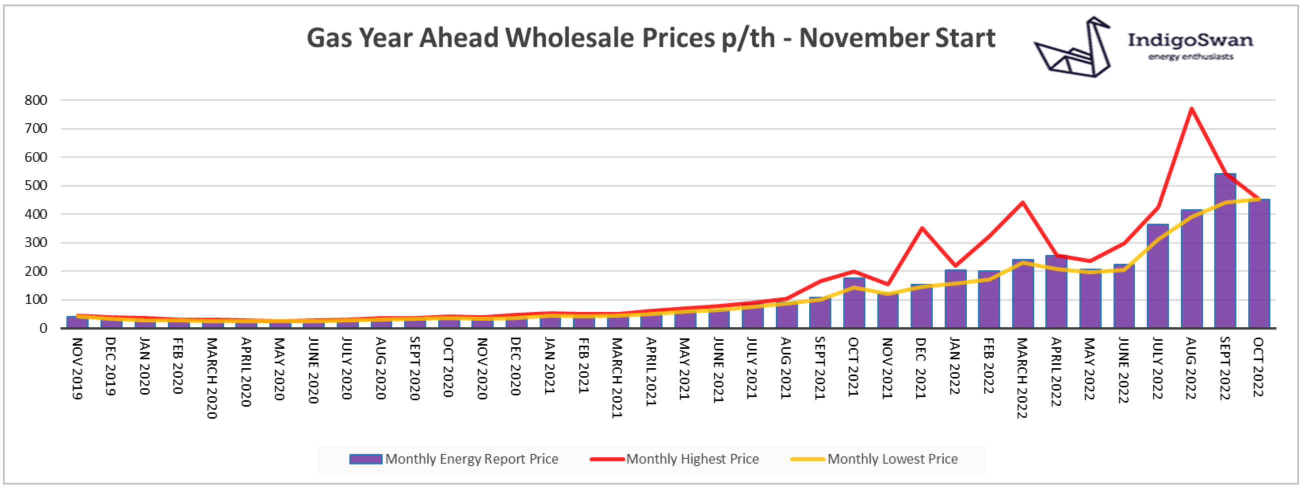

Electricity Market Overview

On the 3rd of October, the Electricity Year Ahead Wholesale cost was £467.27/MWh, down from £507.28/MWh in last month's report and 172% higher than 2021. Prices for 2023 and 2024 are considerably lower.

Electricity prices continue to be driven by the cost of Gas generation, which accounted for a high 46% of supplies in September. Wind's contribution increased to 21%, the highest since February. This reliance on Gas and the concern that supplies may be stopped by Russia, will continue to inflate prices, especially if there are forecasts for very low temperatures this winter, which would increase demand.

The connectivity we have with Europe through Interconnectors, means are able to support them by exporting large amounts of power. They currently have generation issues, which includes a number of the French Nuclear reactors being offline due to safety concerns and low water levels impacting on Hydro supplies.

The National Grid has mechanisms in place to secure additional Electricity or reduce demand. These do come at a cost premium, in the form of higher third-party charges within bills, but provide an element of stability to prices which otherwise may react even more dramatically. An example has been the securing of Coal generation this winter if required to meet any spikes in demand.

Let us know if you would like us to research your options for 12, 24 and 36 month contracts.

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