



**IndigoSwan**  
energy contract enthusiasts

# Monthly Energy Report

*4th of January 2023*



▶ *Written by Lee Hart, Head of Knowhow*

# Energy Overview

## Headlines:

- ✓ Gas and Electricity Wholesale prices fall significantly.
- ✓ EU Gas Storage levels are a high 84% full.
- ✓ The EU has taken action to cap the price of Gas to avoid future volatility.

As of the 4th of January, Gas and Electricity Year Ahead Wholesale costs were lower, when compared to last month's report.

The Oil price has increased from \$79 per barrel to \$82, far lower than the highs of \$120 plus, at times through 2022. OPEC+ are restricting Oil production and China has reduced COVID measures, which are supporting factors.

EU Gas Storage levels remain high at 84% full, which provides considerable confidence that serious Gas supply shortages can be avoided, with the resulting higher costs and enforced restrictions on use. This has been achieved through an awareness to reduce consumption and by replacing Russian supplies, partly with large numbers of LNG deliveries. Shipments from the US Freeport LNG terminal have been further delayed until January 2023, potentially providing further cargos to Europe, which now includes newly commissioned German LNG sites.

Electricity generation costs have moved lower due to the use of cheaper Gas, a good Wind contribution and an increase from both Nuclear and Interconnectors with the continent. The government has tools that will respond to supply issues to provide additional support and stability.

The Met Office forecast is for mild and windy conditions for most of January.

## 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 December 2021 (previously 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 updating their billing to automatically incorporate these changes. The advice being given is to contract for this period and also look at contract options from April 2023.

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 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 4th of January, the Gas Year Ahead Wholesale cost was 194.63p/th, down from 342.48p/th in last month's report and down 4% on 2022. Prices for 2024 are lower.

The significant reduction of the Gas Wholesale price is the result of a much healthier supply position than had been feared this winter. EU Gas Storage targets were set at 85% full for November 2022, with the expectation that they would gradually fall much lower into 2023. As they are currently 84%, it reduces the concern for supplies for the remainder of the season. This has been achieved through energy saving measures and the sourcing of Gas at a considerable cost from around the world. Large numbers of LNG deliveries are being made with more potentially available in January from the US Freeport terminal, which has been delayed a number of times.

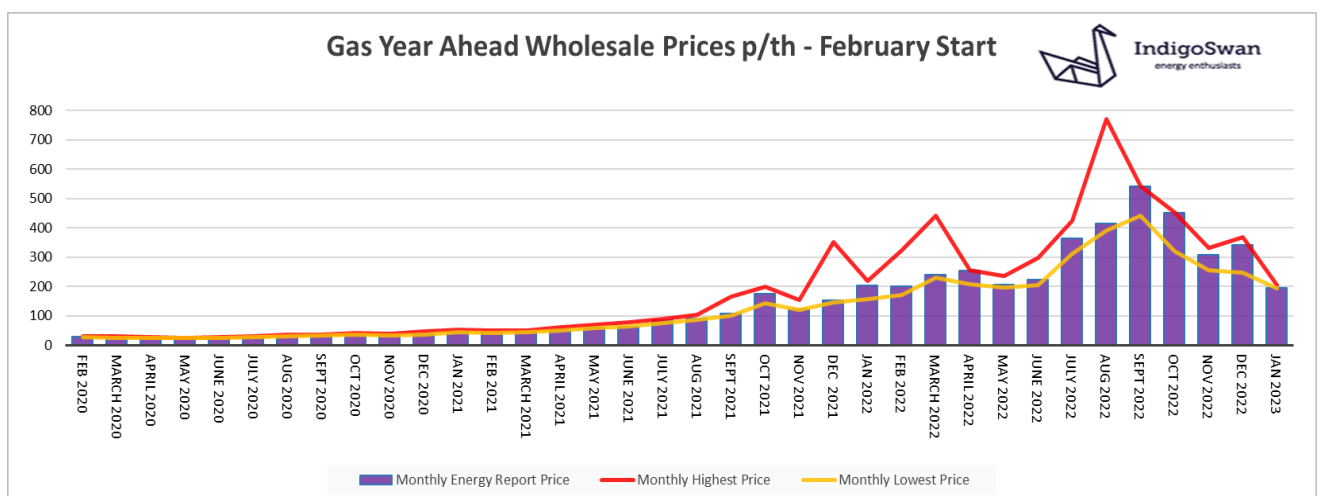
On the 19th of December the EU agreed a cap on Gas costs at €180/MWh, from 15th of Feb 2023 for 12 months. It will be triggered should the price exceed this for three days and be €35/MWh higher than the price of LNG. This is designed to prevent prices reacting with the extreme volatility that we saw earlier in 2022, which has created considerable global economic issues and provided Russia with resources for their war effort.

The contribution of Gas for generation was lower in December at 37% and with milder temperatures forecast and periods of high winds, it is hoped demand for power and heating will be low in January.

**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 4th of January, the Electricity Year Ahead Wholesale cost was £201.84/MWh, down from £348.62/MWh in last month's report and 6% higher than 2022. Prices for 2024 are lower.

Electricity prices have followed Gas, as it contributed 37% of generation in December, which is the lowest since February 2022. This is despite Wind accounting for a lower 25%. However, there was a significant increase in the contributions of both Nuclear, and Imports from the continent.

There are doubts that France will be able to provide us with Electricity Imports at times of high demand, due to a large number of their reactors being offline. This does mean that all available assets are considered to prevent supply issues, which included using Coal, at a high 2.7% of supplies in December. Despite this, the message from the authorities remains one of optimism, that we will avoid any enforced power cuts this winter, by carefully managing tools and resources.

The National Grid has mechanisms in place to help avoid power shortages and has taken additional steps to make Coal generation available on demand. These measures 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.

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