

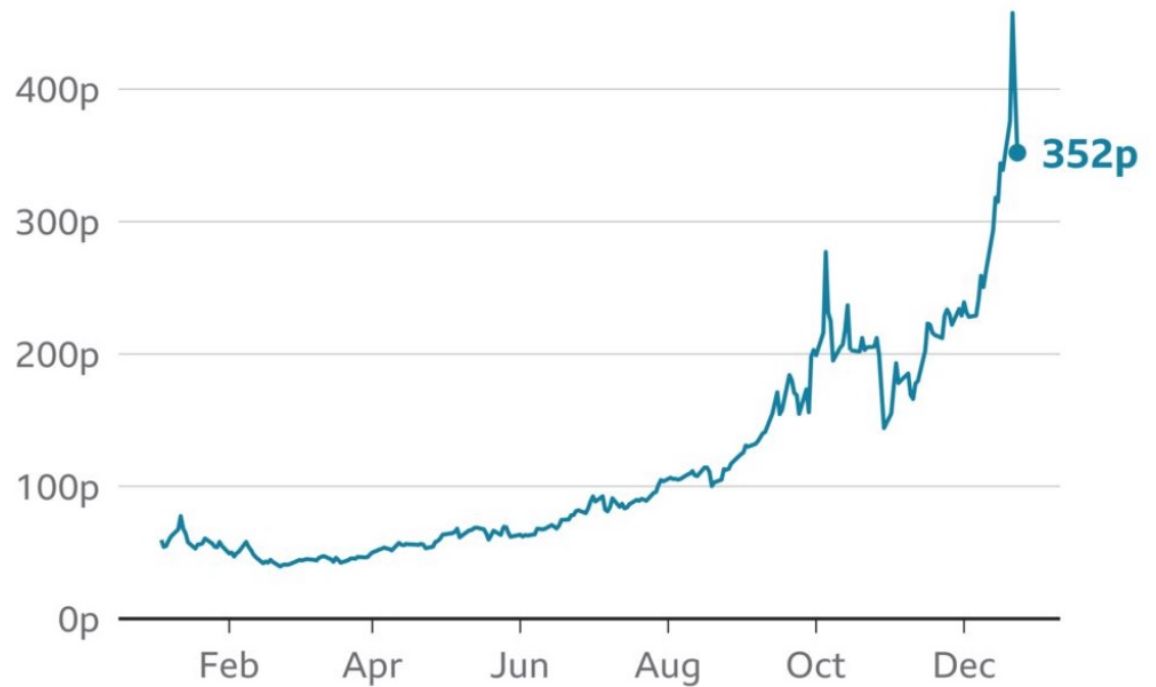
# UK Gas Crisis – A Perfect Storm

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energy  
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Price per therm in 2021, pence



AFP Source: Bloomberg. Last update: 23 December 11:30 GMT

BBC

Source: [www.bbc.co.uk/news/business-58090533](http://www.bbc.co.uk/news/business-58090533)

# Structure

## Agenda

- 1 Global Gas Market
- 2 The Price Cap
- 3 Retailers Going Bust
- 4 Impact on Customers



# Global Gas Shortage

- Post COVID economic recovery and cold winter 2020/21 led to low gas stocks – especially in Asia.
- China have doubled the level of LNG imports in 2021 – in part due to a shortage of coal.
- NordStream 2 (Gazprom) is delayed and not expected until late 2022 (due Sept 2021).
- A lot of LNG is traded on the high seas and will go to the highest bidder.

## Compounded in the UK

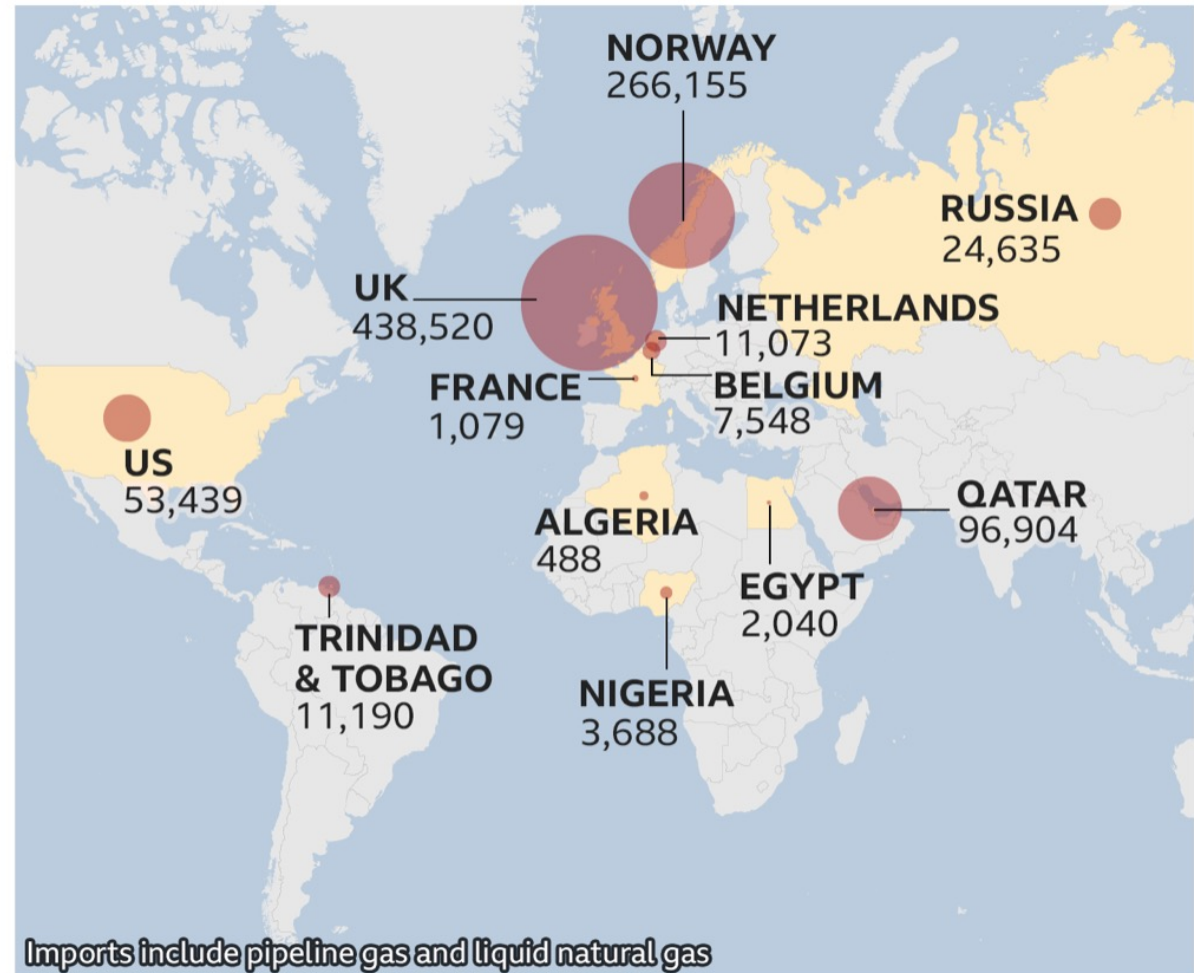
- Least windy autumn since 1961 – ensuring an increased reliance on gas-fired generation (from 25 per cent down to just 7 per cent).

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Source: <https://www.bbc.co.uk/news/business-58637094>

## Where does the UK get its natural gas?

UK production and imports in 2020 (GWh)



Source: Dept for Business, Energy and Industrial Strategy

BBC

# European Gas Storage

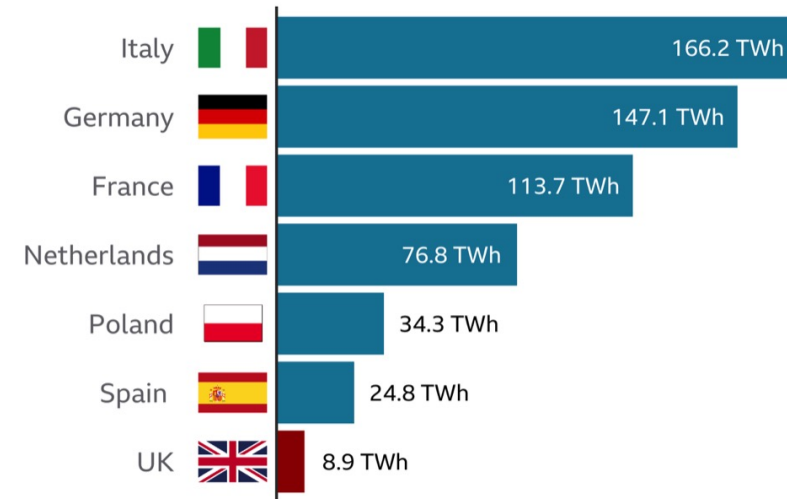
- Since Rough closed in 2017, UK has very little storage.
- LNG was considered a form of virtual storage.

# UK Electricity Prices

- Gas-fired power stations account for 40% of UK generation.
- Gas is the marginal form of generation, hence sets the price.
- So, electricity prices mirror the gas price.

## Gas storage in Europe

Selected countries, Terawatt hours

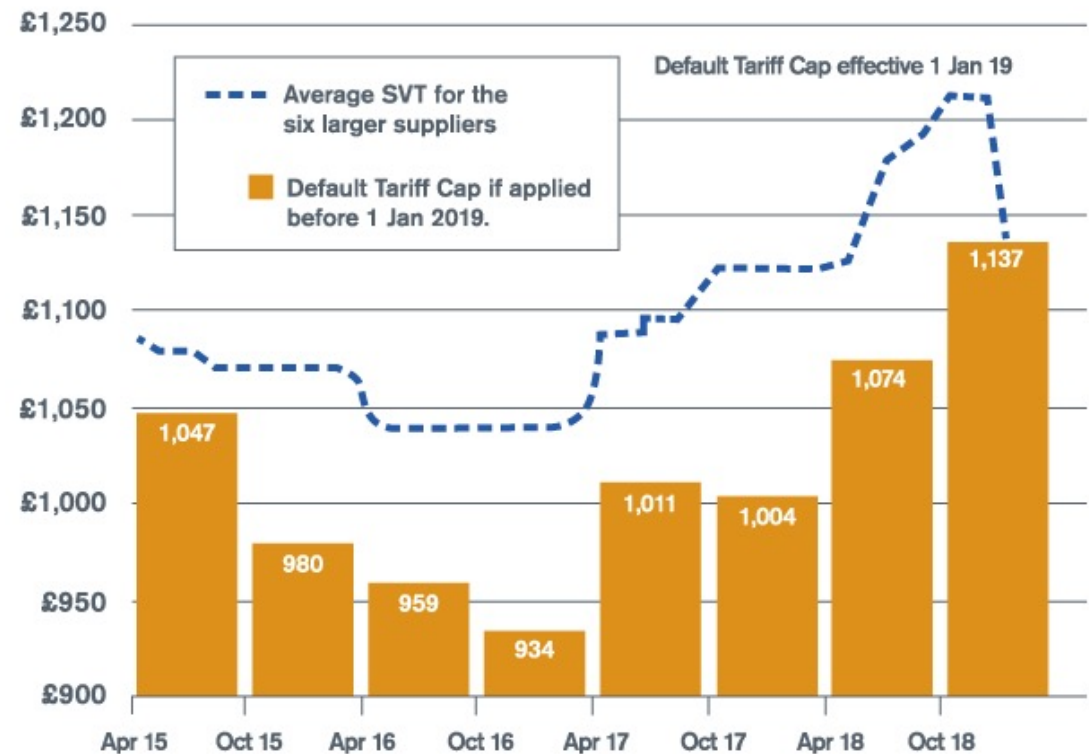


# Types of Domestic Tariffs (Dual Fuel)

- **Standard Variable Tariffs (SVT)**
  - These are an energy supplier's default tariff, and are usually the most expensive types of deal on the market. This is the tariff that you go onto if you don't choose a fixed-price deal.
  - In 2019 53% of households were on an SVT.
- **Fixed-Price Tariff (also referred to as fixed rate plans)**
  - These tariffs are a type of gas and electricity tariff that provide a fixed price per kWh.
  - Usually 12 months, but can be as long as three years.
  - Generally, the cheapest tariff available.
- **Prepayment Energy Tariffs**
  - Customer prepays for their energy either using a token, key, or smartcard that can be taken to a newsagents and topped up. Alternatively, a supplier will allow you to make top-ups online via a website or app.
- **Economy 7 Tariffs**
  - Economy 7 is a type of electricity meter which has a different prices for day and night consumption.

# Price Cap

- The Price Cap was introduced in 2018 to protect those customers on Standard Variable Tariffs (SVT) from being ripped off.
- The Price Cap was never designed to protect customers from wholesale prices.
- The Cap is set by Ofgem and covers a six month period (Apr – Sept, Oct – Mar).
- The chart shows how prices would have reduced if the Cap had been applied before 2019.



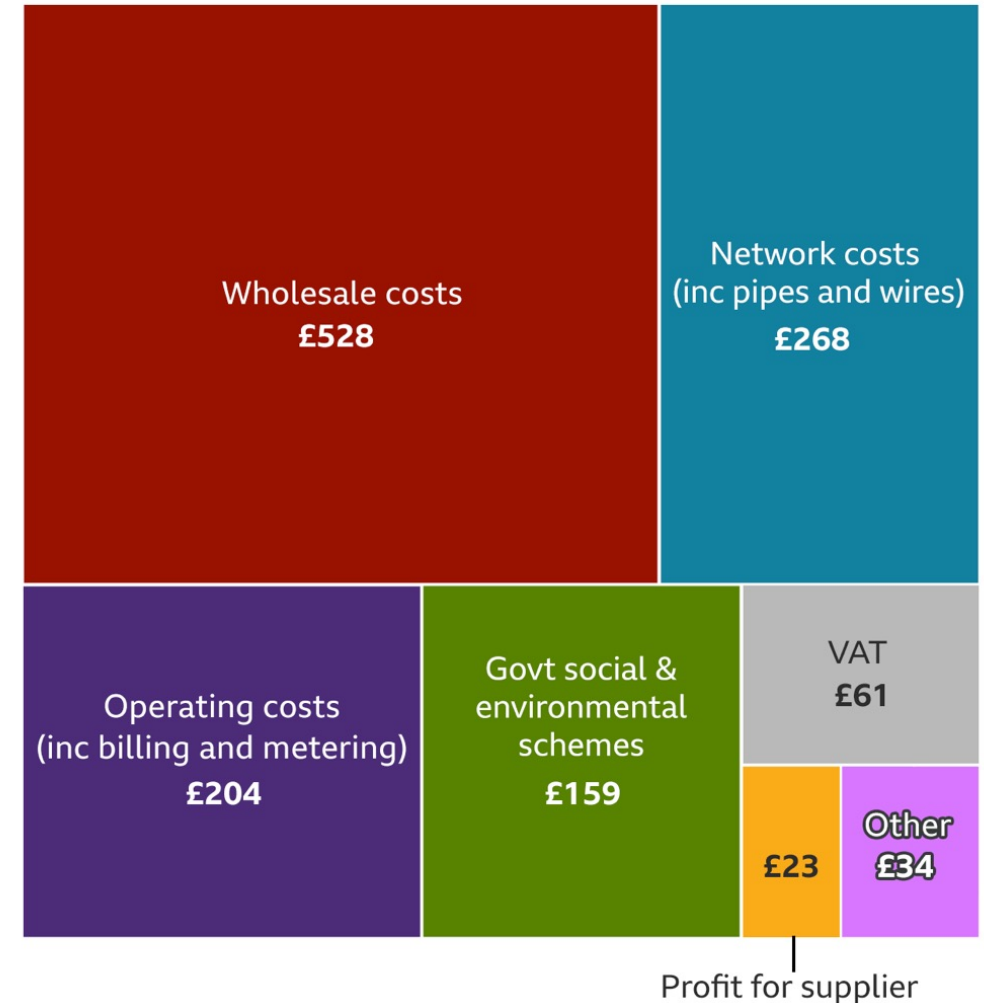
# A Domestic Bill

- Biggest elements are:
  - Wholesale Energy
  - Networks (wires and pipes)
  - Operating costs
  - Policy – mostly green subsidies

## How your fuel bill is broken down

Typical customer on a price capped dual-fuel tariff paying by direct debit, winter 2021 to 2022

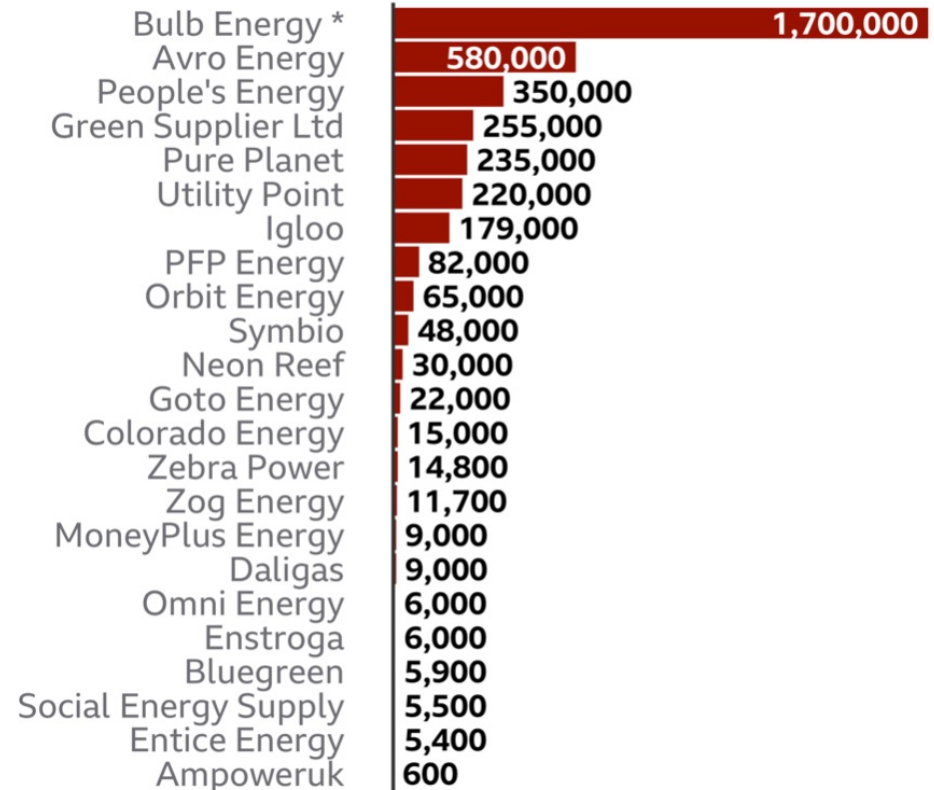
**Total annual cost: £1,277**



# Why are Suppliers going bust?

- The Cap was put in place BEFORE the current surge in gas prices.
- The 'do nothing' option is, thanks to the Cap, the cheapest option.
- Suppliers discovered that they now had huge volumes of customers on the SVT tariff – far more than they had forecast.
- As customers flood onto the SVT, any price competition between Suppliers evaporates.
- **If your supplier goes bust, take a meter reading and wait until the new supplier contacts you.**

## More than 3.8m UK households affected by energy firms going bust



\* = Bulb Energy is in special administration.

Note: Companies collapsing since 1 September 2021

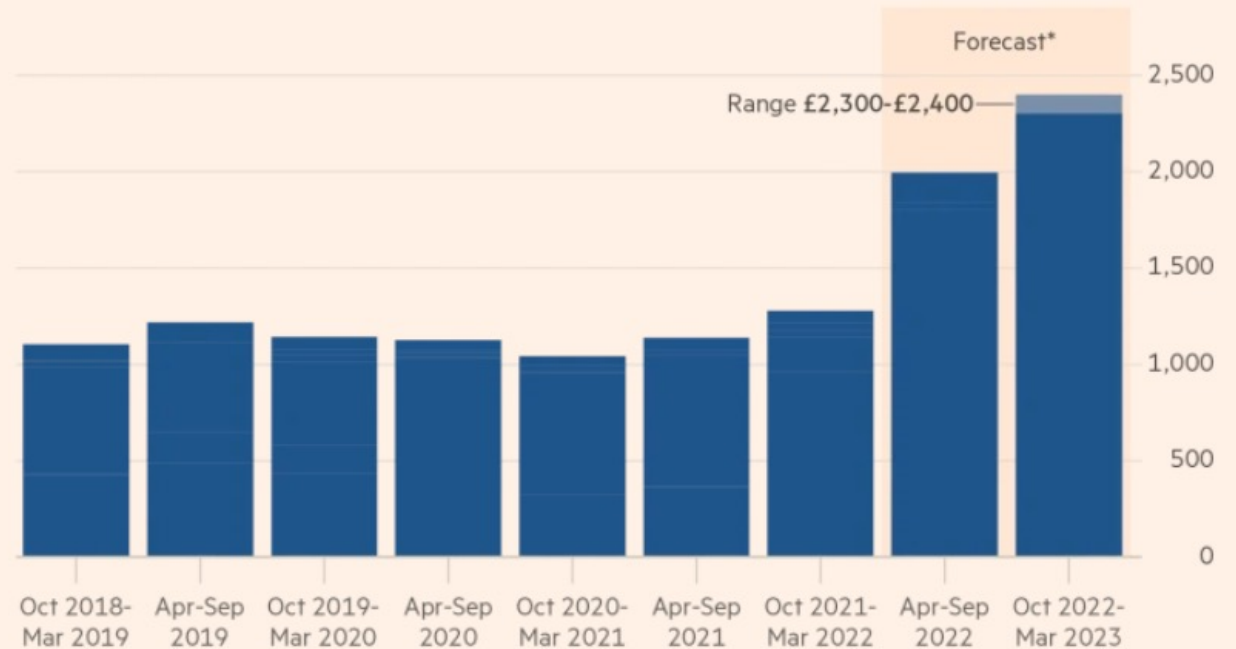
Source: Ofgem



# Customer Impact Price Cap Levels

- **Direct Debit Customers – estimated costs over 12 months**
- Apr – Sep 2021                               **£1,138**
- Oct – Mar 2021/22                           **£1,277**
- Apr – Sep 2022                               **£1,907<sup>A</sup>**
- Oct – Mar 2022/23                           **£2,100<sup>A</sup>**

The energy price cap is set to increase sharply twice in 2022  
Annual cost (£), based on average use



\* Apr-Sep 2022 forecast from Investec; Oct 2022-Mar 2023 from EnAppSys

Sources: Ofgem; Investec Securities; EnAppSys

© FT

9 Source: A estimate by Investec (<https://utilityweek.co.uk/analysts-trim-price-cap-forecast/>)  
[www.ft.com/content/d246f8b4-80ef-498f-b9f1-7779acc5efd7](https://www.ft.com/content/d246f8b4-80ef-498f-b9f1-7779acc5efd7)

## Conclusion

- Potentially severe impact on the vulnerable and the fuel poor.
- Gas prices will correct themselves, but nobody knows when.
- The next Cap for Apr – Sept will be announced by Ofgem on 7<sup>th</sup> February.

## UK households facing 'fuel stress' will treble to 6.3m - thinktank

**Middle-income families will also find it hard to cope with new energy cap in April, says thinktank**



📷 The Resolution Foundation says 9% of English households now experience fuel stress and this will rise to 27% when the new energy cap is introduced. Photograph: Danny Lawson/PA

# What help is available?

- Try your energy provider first - all energy suppliers must offer support to vulnerable customers.
- Citizens Advice ([Citizens Advice - Energy](#))
- National Energy Action (<https://www.nea.org.uk/>)
- Money Saving Expert (Martin Lewis) ([Price Cap advice](#))
- The regulator (Ofgem) ([Household Energy Advice](#))

## Energy bills could rise by 50% amid 'national crisis' of soaring UK prices

**Industry calls on government to intervene, with situation 'looking pretty serious for the spring'**



# Winter Fuel Payments

- **Warm Homes Discount (£140)**, which is dependent on being on certain on benefits ([www.gov.uk/the-warm-home-discount-scheme](http://www.gov.uk/the-warm-home-discount-scheme)). This money is deducted from the customer's electricity bill.
- The **Winter Fuel Payment (£100 - £300)** is paid to anyone born on or before 26 September 1955. It is paid as a direct payment to the householder and not means tested. ([www.gov.uk/winter-fuel-payment](http://www.gov.uk/winter-fuel-payment))

Those that don't need it are encouraged to donate to the NEA.  
([www.nea.org.uk/professional-advice-workers/](http://www.nea.org.uk/professional-advice-workers/))

- If the claimant is on certain benefits they may receive **Cold Weather Payments**. They will get £25 for each 7 day period of very cold weather between 1 November and 31 March. ([www.gov.uk/cold-weather-payment](http://www.gov.uk/cold-weather-payment)) Again, this is a direct payment to the householder.

# NEA

- NEA (National Energy Action)
  - [www.nea.org.uk](http://www.nea.org.uk)
  - Free to join (for charities)
  - In 2019-20, NEA helped over 1 million people access support.
  - 6,000 people provided with direct advice and support.
  - 1300 clients were helped to access an additional £5.5 million welfare benefits at an average of more than £2,600 each.
  - 200 energy efficiency and heating measures were installed in partnership with gas distribution and energy suppliers bringing boilers, heating systems and energy efficiency into fuel poor homes.



Action for Warm Homes

ABOUT US

WHAT WE DO

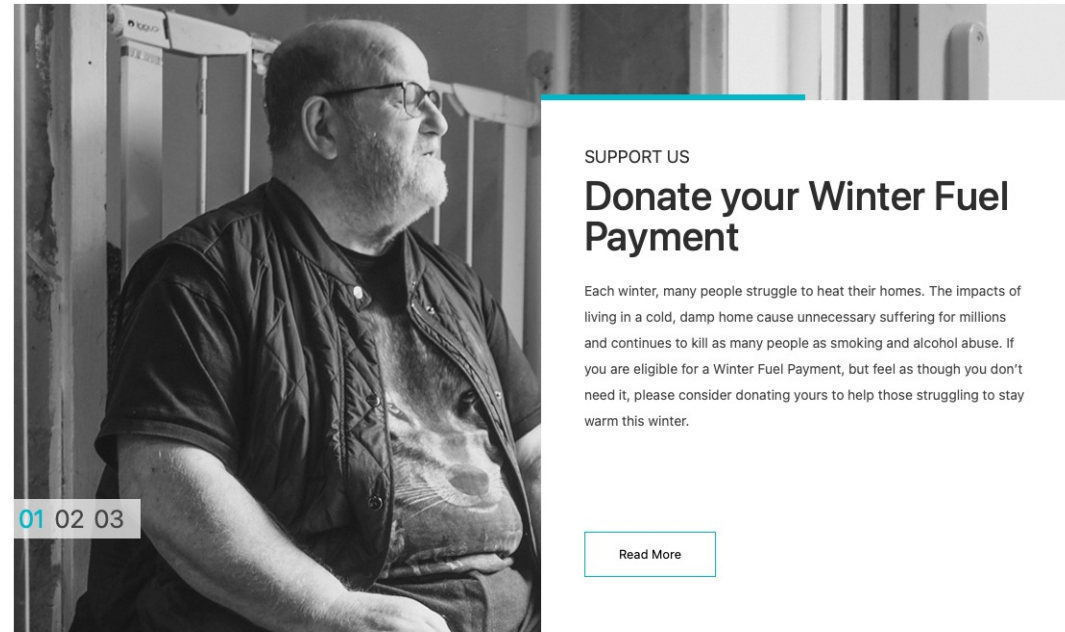
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SUPPORT US

## Donate your Winter Fuel Payment

Each winter, many people struggle to heat their homes. The impacts of living in a cold, damp home cause unnecessary suffering for millions and continues to kill as many people as smoking and alcohol abuse. If you are eligible for a Winter Fuel Payment, but feel as though you don't need it, please consider donating yours to help those struggling to stay warm this winter.

[Read More](#)

NEA

## About us

Around 4 million UK households are in fuel poverty, unable to afford to live in a warm, dry home. National Energy Action is the national charity working to end fuel poverty in England, Wales and Northern Ireland.

What is

## Fuel Poverty

We should all be able to stay warm at home. However rising energy costs, low incomes and energy-inefficient homes are restricting people's options, leaving them in impossible situations like having to choose to heat their home, feed their children or pay their rent.