

# UK Gas Crisis – A Perfect Storm

Peter Haigh

Energy Market Risk Ltd

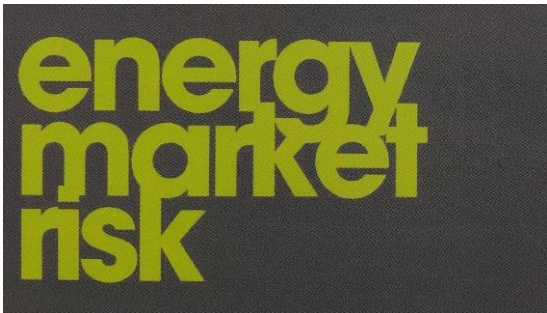
Price per therm, pence



Source: Bloomberg. Last update: 6 October 12:00 BST

**BBC**

Source: [www.bbc.co.uk/news/business-58815665](http://www.bbc.co.uk/news/business-58815665)



# Structure

## Agenda

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

### NEWS

## ENERGY CRISIS, ROLLING BLACKOUTS IN CHINA COULD DISRUPT GLOBAL SUPPLY CHAIN

Surging coal and gas prices, as well as rising demand for electricity amid a boom in manufacturing and exports, have led to severe power shortages across China

Source | The Globe and Mail  
Date: September 30th, 2021

# Global Gas Shortage

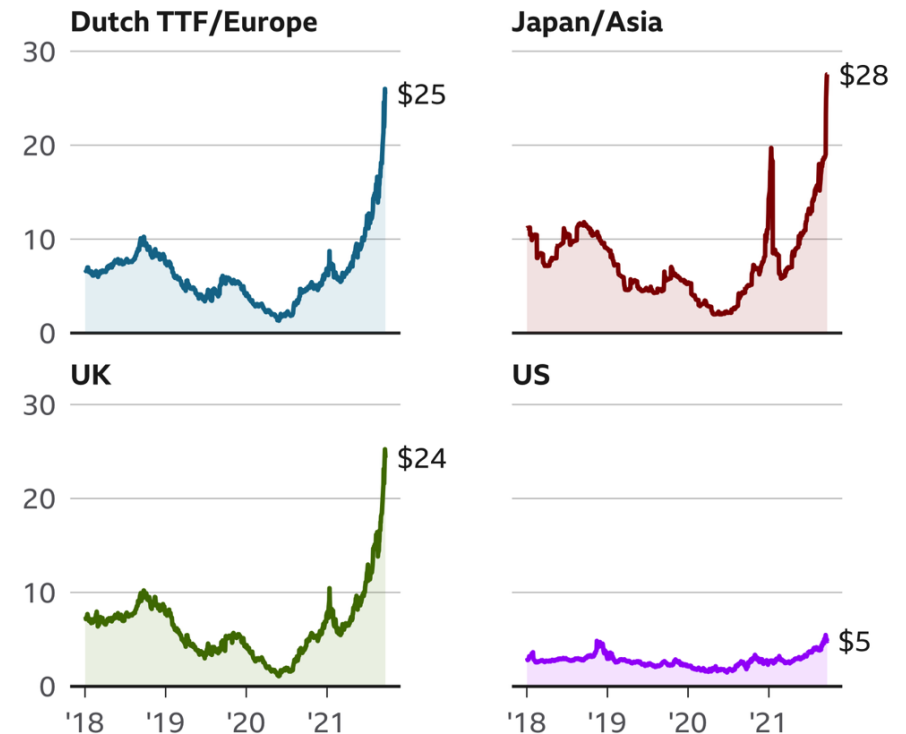
- Post COVID economic recovery and cold winter 2020/21 led to depleted gas stocks – especially in Asia.
- China have doubled the level of LNG imports in 2021 – in part due to a shortage of coal.
- US is struggling to meet own needs so has significantly reduced exports.
- NordStream 2 (Gazprom) is delayed and not expected until 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 summer since 1961 – ensuring an increased reliance on gas-fired generation (from 25 per cent down to just 7 per cent).

### Gas prices have spiked around the world

Price in \$ per mmbtu by trading point



# European Gas Storage

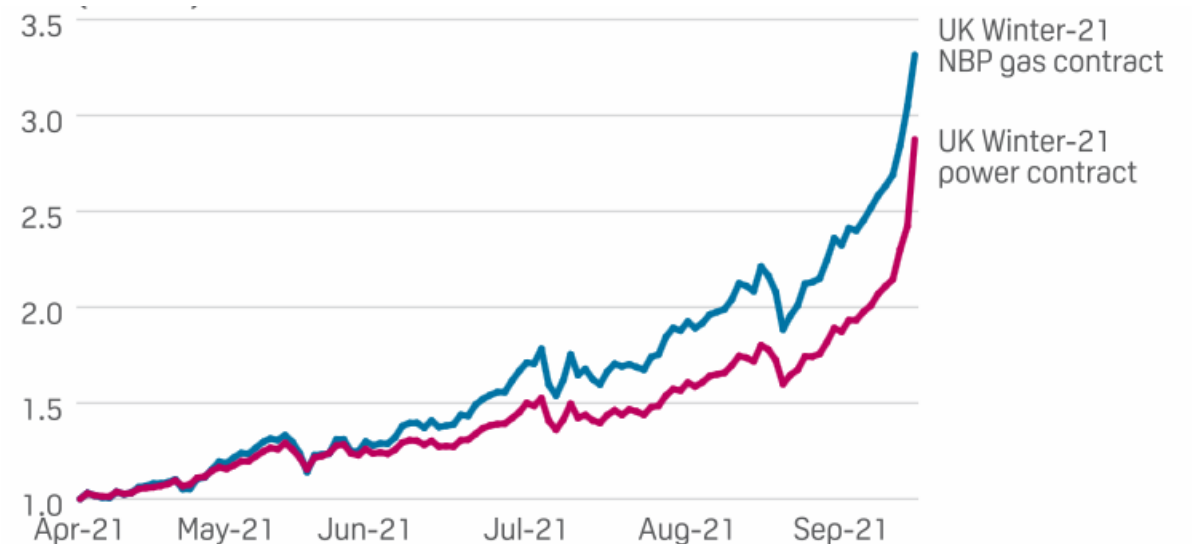
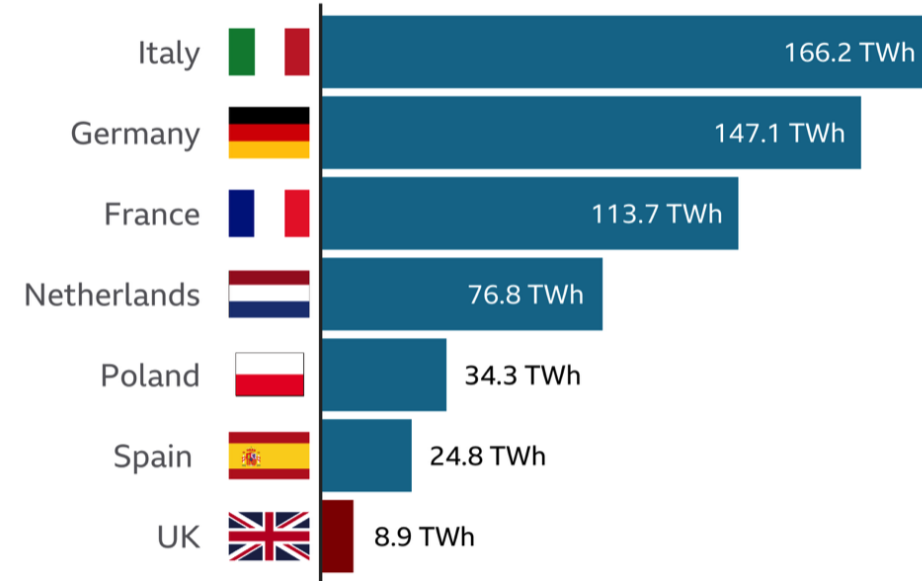
- Since Rough closed in 2017, UK has very little storage.
- LNG was considered a form of virtual storage.

# 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 tariff 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.
- Term is usually 12 months, but can be as long as three years.
- Generally, the cheapest tariff available.

## ■ **Prepayment Energy Tariffs**

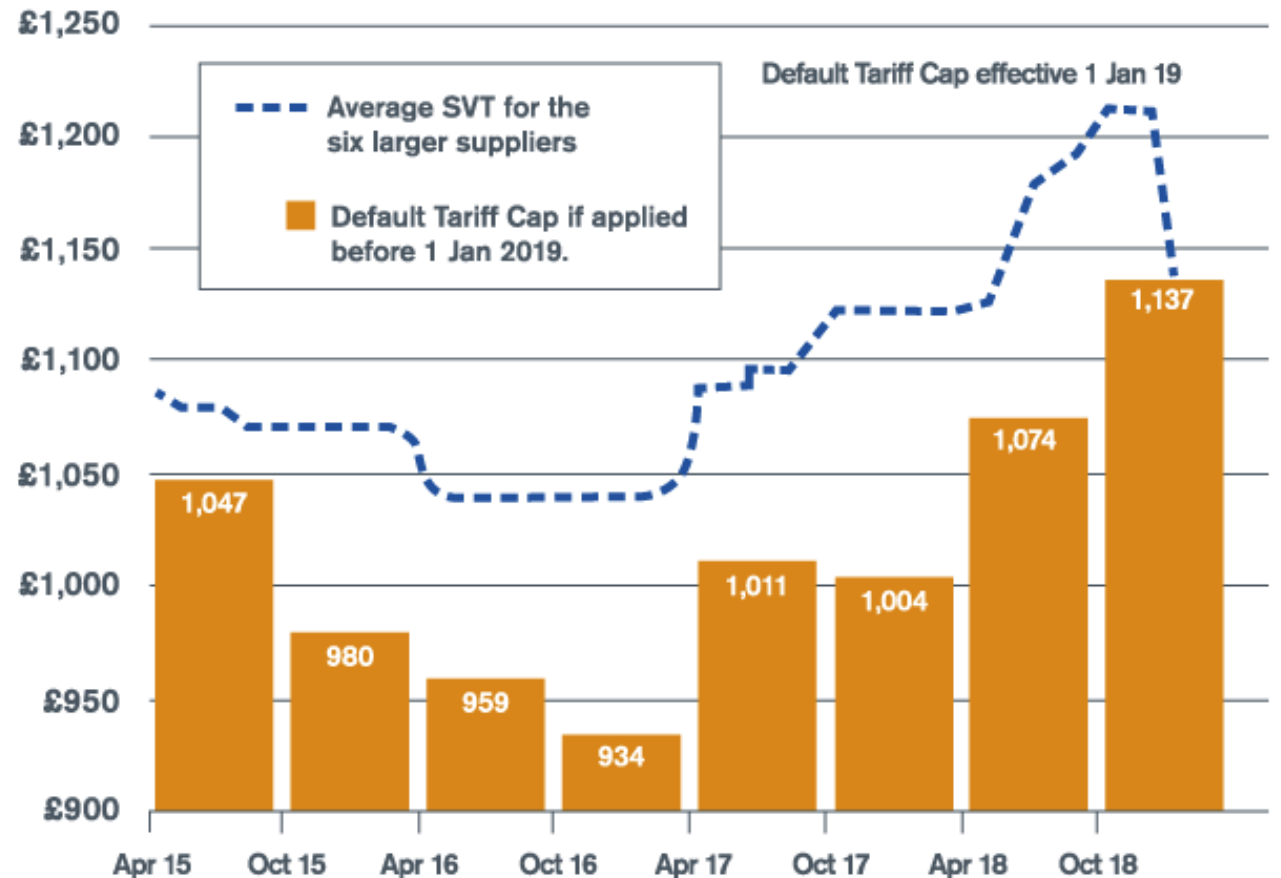
- Customer prepays for their energy either using a token, key, or smartcard that can be taken to a newsagents and topped up. Alternatively, a supplier will allow you to make top-ups online via a website or app.

## ■ **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 current cap was announced on 6<sup>th</sup> August 2021.
  - Those paying by direct debit saw an increase of £139 from £1,138 to £1277.
  - Prepayment customers saw an increase of £153 from £1,156 to £1309.
- The chart shows how prices would have reduced if the Cap had been applied before 2019.

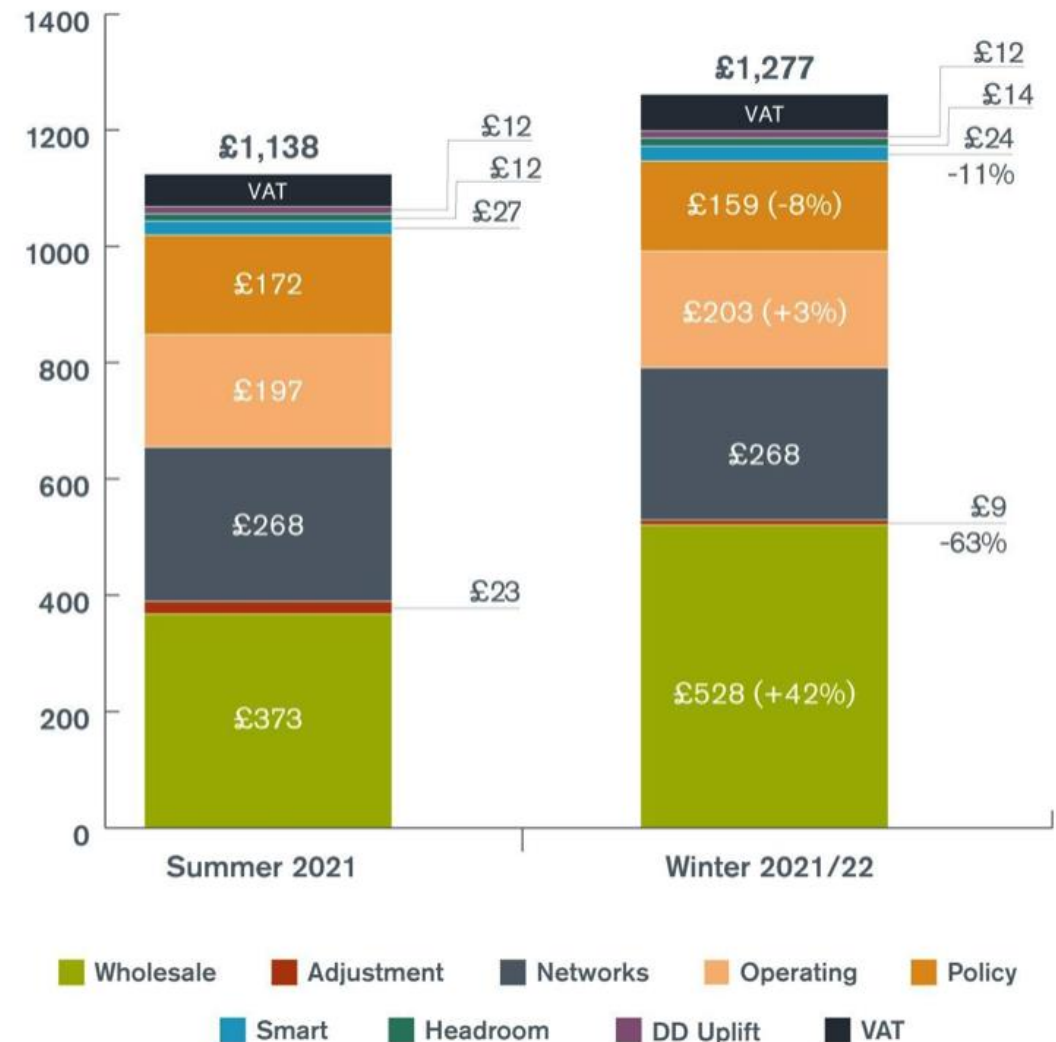




# Why are Suppliers going bust?

- Nearly all Suppliers offer fixed-price deals, usually for 12 and 24 months. Typically, these were ~ 10% cheaper than the SVT.
- All Suppliers have to offer an SVT tariff that is protected by the Cap. It is the default tariff.
- If they haven't chosen to re-contract, customers default onto the SVT when their fixed-price deal comes to an end.
- Customers on an SVT either:
  - Stay on the SVT
  - Get a new deal with another Supplier
  - Get a new deal with their existing Supplier
- A prudent Supplier will hedge a fixed-price deal over the life of the contract and typically hedge the SVT over a six month period.

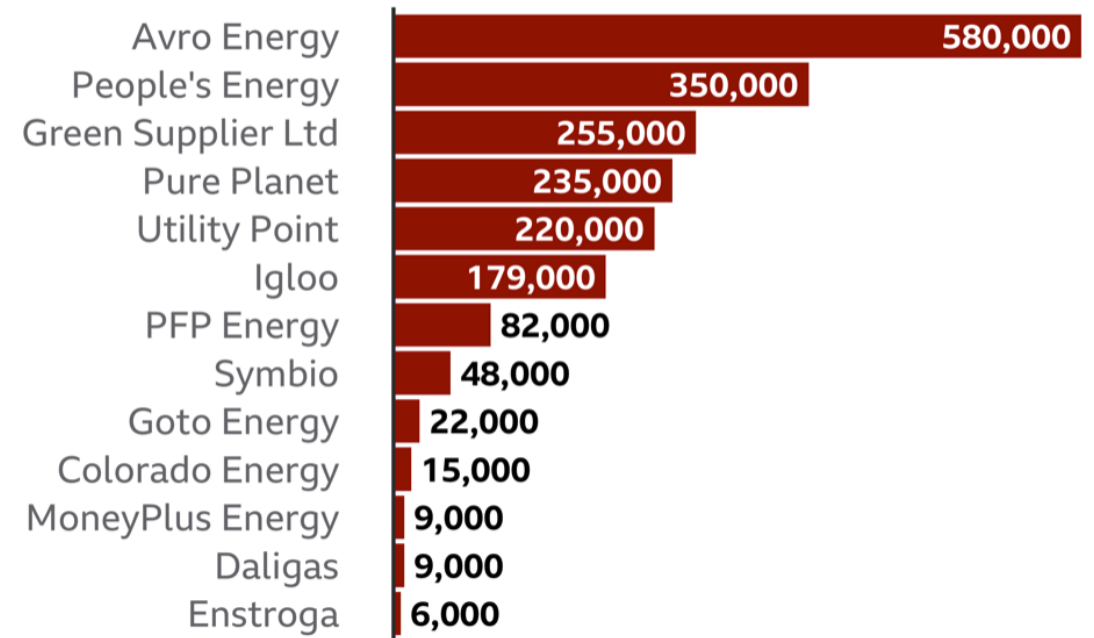
DTC Winter 21/22 - Cost Stack breakdown for typical dual fuel/DD customer



# 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.
- Those customers than would ordinarily have renewed onto another fixed-price deal discover that the SVT is by far the cheapest. Approximately 500k customers a month are now falling onto the SVT.
- Suppliers discovered that they now had huge volumes of customers on the SVT tariff – far more than they had forecast and hedged for.
- As customers flood onto the SVT, any price competition between Suppliers evaporates.

## More than 2m UK households affected by energy firms going bust



Note: Companies collapsing since 1 September 2021



# Price comparison sites have no prices to compare.....



comparethemarket™

## We're really sorry but we can't get you a quote at the moment

We're temporarily pausing our energy comparison as energy suppliers are currently restricting the number of tariffs available.

As our priority is to provide you with an energy comparison service which is right for you, we'll resume the service as soon as we are confident we can offer comparison for you.

[Go to homepage](#)

# And retailers (Octopus) don't want your business .....

## You need to know this 📌

Right now, energy prices are at record highs, and most homes will **be better off staying with their current energy supplier** for the winter.

If your fixed term is coming to an end, **don't choose a new tariff or switch supplier.**

Instead, let your supplier automatically move you to their default tariff, so your prices are protected by the [Government's Energy Price Cap](#).

Would you like an email when prices fall?

Yes, please email me

[I've read and understood the above, and I would still like a quote to switch to Octopus](#)

# What's the impact on a customer?

- Customer in two bed home:
  - Annual consumption (electricity) 4,030.5 kWh
  - Annual consumption (gas) 11,115 kWh
- Customer on a one year fixed deal - Octopus Super Green tariff.
- Unfortunately, it ended on 1/10/2021.
- Under this deal the estimated annual cost was:
  - £711.46 a year for electricity.
  - £386.10 a year for gas.
- A total spend of £1,097.56

YOUR TARIFF ?

## Super Green Octopus

Super Green Octopus 12M Fixed

September 2020 v2

Fixed term ends 01/10/2021

15.52p/kWh ?

23.55p/day ?

(All rates inc. VAT) ?

# It's hard to find quotes at the moment....

- Bristol Energy SVT appears to be available to customers online.
- Using the same volumes for gas and electricity.
- Estimated to be £348 a year more expensive than the Octopus deal.
- An increase of 31%.
- Data correct on 5/10/2021



## BE Standard Green

---

Our default tariff – no minimum contract  
100% green electricity and 50% gas carbon  
offsets

Variable rates (prices aren't fixed). Effective from  
the 1st October inline with the Ofgem Price Cap  
2021

Electricity and/or gas

**£120** per month

**£348 a year more expensive than your  
current supplier**

# But what if the customer really wanted another fixed price deal?

- Bristol Energy do appear to offer one online.
- Estimated to be £1,221 a year more expensive than the Octopus deal.
- An increase of 111%.
- Data correct on 5/10/2021



## BE Simply Green September22 Issue 24

Bristol Energy's best value fixed tariff

100% green electricity and 50% gas carbon offsets

Prices fixed for 12 months and no tie-ins

Electricity and/or gas

**£193** per month

**£1221 a year more expensive than your current supplier**

# Price Cap Levels (Direct Debit Customers)

- Apr – Sep 2021
  - £1,138
- Oct – Mar 2021/22
  - £1,277
- Apr – Sep 2022
  - £1,660 (estimate by Cornwall Insight).
- Since September, over 2m customers going through SoLR process (Supplier of Last Resort). Estimated that the mutualised costs will add £35-£40 to everyone's bill.

## UK energy bills could rise 30% in 2022, warn analysts

**Cornwall Insight says expected surge in wholesale prices and rise in UK energy price cap will feed hefty increase**



▲ The UK regulator's energy price cap could rise from £1,277 to £1,660, says the energy research firm Cornwall Insight. Photograph: Lee Smith/Reuters

Energy bills could rise by as much as 30% next year if gas and electricity prices continue to soar and more suppliers go bust, according to a new report.



# And finally ....

- West Burton power station.
- It began generating electricity in 1966.
- It is due to close by this time next year.
- It's already been running in early September to balance the UK electricity system in order to ensure security of supply (i.e. to stop the lights from going out).
- National Grid have already signalled that electricity supplies will be tighter than winter 2020/21.



# 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 in early February.
- Let's hope it's a mild winter.

## Long, cold winter ahead for Britain could keep gas prices soaring to record levels

**Meteorologists and energy market experts predict a grim season for hard-pressed and vulnerable families**



▲ A disused storage tank at a former gasworks in Brighton. The UK's storage of gas is significantly lower than that of its European neighbours. Photograph: Leon Neal/Getty Images

# What help is available?

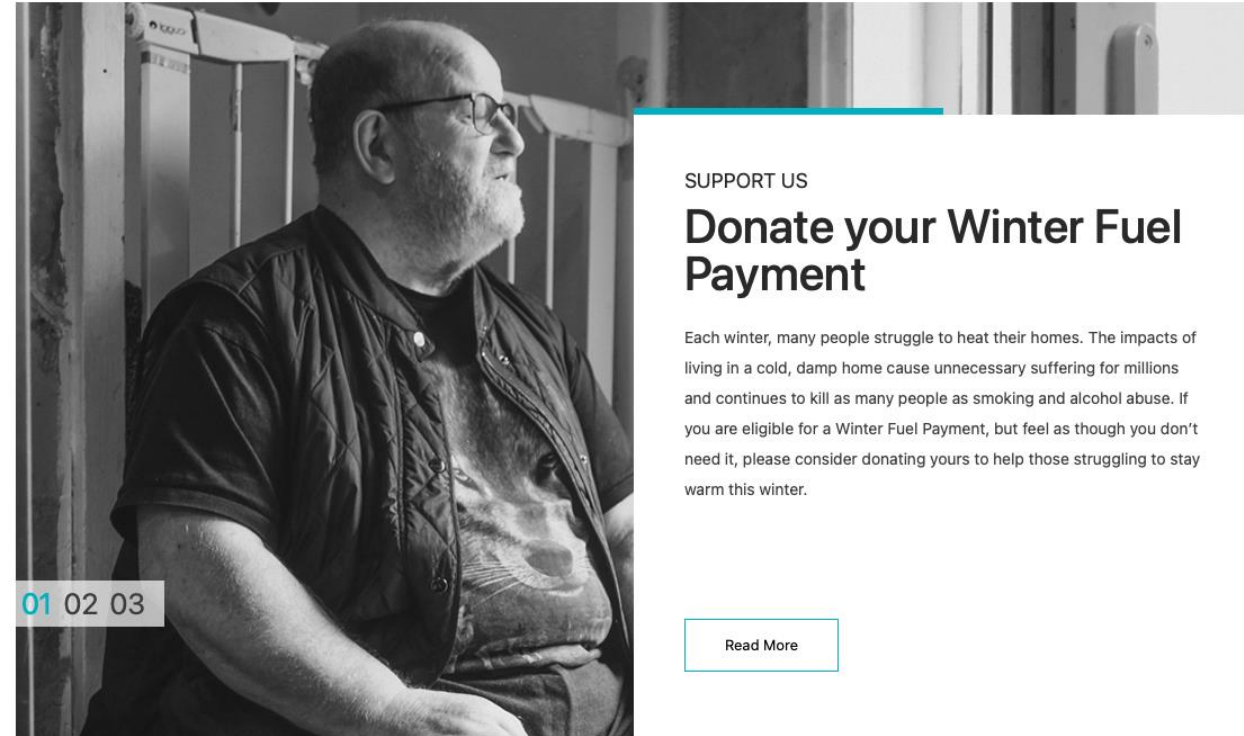
- **Warm Homes Discount (£140)**, which is dependent on being on certain on benefits ([www.gov.uk/the-warm-home-discount-scheme](http://www.gov.uk/the-warm-home-discount-scheme)). This money is deducted from the customer's electricity bill.
- The **Winter Fuel Payment (£100 - £300)** is paid to anyone 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 (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.



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.

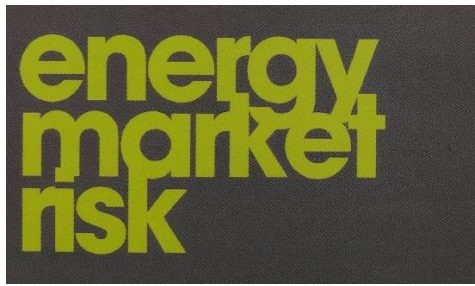
What is

## 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.



# Peter Haigh



## Professional Profile

- An experienced and successful Chief Executive, Managing Director and Non-Executive/Advisor of utilities and regulated businesses.
- After a decade in top roles at Powergen and E.ON, Peter subsequently led an important element of the UK's electricity infrastructure (its payment settlement business, Elexon) and successfully started a values-led, award-winning energy retail business (Bristol Energy Ltd).
- LinkedIn: [linkedin.com/in/pjhaigh](https://www.linkedin.com/in/pjhaigh)
- Tel: +44 (0) 7887 833 429
- Mail: [peter@energymarketrisk.com](mailto:peter@energymarketrisk.com)

