MARKET INSIGHT

WHAT FACTORS ARE DRIVING ENERGY PRICES

Figures released by the Government in September showed that British businesses paid the highest electricity prices of anywhere in the developed world throughout 2023.

It also highlighted that the cost of power for industrial businesses had climbed 124% over the past five years, with electricity in the UK now around 50% higher than in Germany and France, and four times higher than the USA.

With 2023's high prices and subsequent struggle to remain competitive impacting on a wide number of UK businesses, Enexus Energy examines how the energy market has developed throughout 2024, as well as a look ahead at upcoming winter energy markets.

Quarterly price data from the Government shows that non-domestic consumers paid slightly less for gas and electricity in the first half of 2024 than they did in the latter half of 2023. However, any decline in prices was marginal, and overall gas prices remain around double and electricity approaching triple the average prices seen pre-pandemic.
Heading into the winter months, where increased demand for heating and lighting drives up energy costs, energy rates for businesses are already trending upwards. While we're not seeing the sharp increases of 2022, there is still considerable volatility in the market, translating to potentially substantial cost increases for businesses that don't have a robust energy procurement and management strategy in place.

Why are Energy Prices Rising

Prices for Forward Delivery Contracts for both electricity and gas have been trending upwards since early in the year, impacted by a complex mix of factors. Some of the major contributors to the UK's energy costs are outlined here.

Geo-political Instability

The Russian invasion of Ukraine in 2022 was a major driver of the energy crisis, and the ongoing conflict continues to impact on global energy markets. Before the invasion, Russia was the world's largest exporter of natural gas. Western sanctions have seen Russian exports fall by around 75bcm, with the United States overtaking it as the world's largest gas exporter. This Russian pipeline supply has largely been replaced by tankered LNG, which typically has a higher cost. With the USA, Australia and Qatar dominating the global LNG market, the UK faces particularly high import costs and increased competition from global markets, with some shipments being re-routed mid-transit due to higher bidders elsewhere.
A rapidly escalating conflict in the Middle East has also increased global political instability. Oil prices, which have a significant if indirect impact on energy prices, have been volatile but trended downwards throughout 2024, but analysts are predicting a rise following the news of a major missile attack by Iran on Israel. Iran is a member of the influential OPEC group of oil-exporting nations, although de-facto leader Saudi Arabia's apparent plans to reverse current production cuts is helping to mitigate bullish pressure on prices from conflict in the region.



Security Of Supply

Despite a shift away from gas-fired electricity generation and towards renewables, the UK remains dependent on natural gas for a large proportion of its overall energy mix. While installed wind capacity has grown significantly in recent years, overtaking gas during some periods, the UK still sources around 32% of our total electricity from gas.
This has a particularly significant impact on energy price volatility given that the UK only produces around 50% of our total gas demand, being reliant on imports for the remainder. Currently European gas stocks look healthy, helping to dampen prices, but factors including increased geo-political tension or increased competition for LNG shipments from Asian markets could all serve to drive prices upwards, particularly in the event of bad weather or unplanned outages.
The growth of renewable energy has seen another factor impact on rising electricity costs: grid balancing. Renewables such as wind and solar are intermittent, and during periods where generation doesn't meet demand, for example overnight during calm weather, National Grid relies on balancing mechanisms, standby generation and in front of the meter battery storage capacity to make up the difference, which typically comes at a premium price.
June 2024 saw the UK hit record levels of imported electricity, with a total of 14.95TWh imported between January and May. This makes up around 15% of the UK's total energy demand and is 46.1% higher than the previous record. This further highlights the UK's reliance on imported energy, and the role that increased energy independence could play in mitigating future rises in energy costs.

Change Of Legislation

On 1st April 2024, the Energy Bills Discount Scheme was withdrawn, removing key support for businesses in energy-intensive sectors. This scheme was itself a replacement for the previous Energy Bill Relief Scheme, put in place to support UK businesses through the acute phase of the energy crisis. With wholesale prices settling at the time that the scheme was ended, no replacement scheme was lined up, which means that many businesses are now facing a period of potential bill increases without a support mechanic that they had previously relied on.

Following Labour's victory in the 2024 General Election, the Great British Energy Bill was put forward as a new plan to expand green energy production, building on existing legislation to encourage customers to reduce energy consumption. It also continues the previous Government's focus on replacing carbon-intensive processes, particularly in manufacturing, with low-carbon electrical replacements, with some of the most challenging being traditional heat processes and the rollout of EV vehicle fleets. This also comes at a time where electricity prices are trending upwards more quickly than fossil fuel alternatives, as well as putting an additional financial burden on organisation's profitability due to the costs of retrofit and replacement.

Looking Ahead

The winter period always brings a pronounced increase in energy demand, which in turn serves to drive up wholesale electricity and gas prices. A mild winter for 2023/24 played an important role in dampening energy costs, reducing energy demand due to the reduced use of heating. How cold this coming winter is will also play an important factor. This is difficult to predict, with expected temperatures throughout the Autumn forecast to be the same or even slightly warmer than the 1981-2010 long-term average, but with some indications that the North Atlantic could see a particularly cold winter period.

Energy prices are expected to be more stable than they are currently or have been over the past few years. This added stability, however, is dependent on the UK increasing its energy independence and reducing reliance on imported supplies of both natural gas and electricity. In the short-term, up until April 2025, businesses are likely to continue to face a steady rise in costs, with the average increase around 70% compared to the same organisation's bills in 2021.

To find out how Enexus Energy can help protect your business from rising energy costs and provide greater certainty over future bills, our team is here to offer expert advice and tailored solutions. We work closely with businesses to secure the most competitive rates, optimise energy efficiency, and mitigate the risks of volatile price changes. Speak to one of our specialists today by calling 01253 966960 or emailing us at info@enexusenergy.co.uk to discover how we can support your energy strategy and safeguard your bottom line.