

YPO Energy Market Update

Overview

We are currently experiencing unprecedented times with Wholesale Electricity and Gas prices. The energy markets are getting a lot of news coverage recently with fears of supply shortages and suppliers going out of business. Firstly, I would like to reassure you, that YPO regularly checks the financial situation of its suppliers and that both Corona Energy and Npower/Eon have the financial ability to hedge in the wholesale markets and therefore mitigate the risk to their business of the current high wholesale prices. The six suppliers that have ceased trading recently operated in the domestic space, which is subject to OFGEMs price cap. This Cap is currently lower than the live wholesale markets, so some small suppliers that were unable to hedge have gone out of business.

Gas and Electricity prices are trading at record highs, this is not just a problem that consumers are facing in the UK, it is a global issue and has prompted discussions and action from governments around the world. There have been numerous factors that have contributed to these high prices, which has led to a perfect storm for energy prices this winter:

- The previous winter was cold compared to historical averages, we also saw a cold April and May. This meant gas storage facilities across Europe were still being called upon to meet demand, instead of being stocked up for this coming winter. Europe Gas Storage levels at present are around 16% below the 5 year average. More supply was expected this summer to bring storage in line with the 5 year average, however that did not materialise.
- Liquid Natural Gas (LNG) cargo arrivals to Europe have been low this summer despite analysts forecasts that we would see record arrivals. These cargoes have instead gone to the Asian market due to better prices. European prices therefore increase to compete and try to attract some of that LNG supplies back into the European market.
- Heatwaves across Southern Europe, Asia and American have kept gas demand for power generation high due an increase in air conditioning use.
- Historically when prices are high, this has attracted more gas flows into Europe from Russia, this hasn't happened this year. It could be down to the fact that Russia has also experienced high gas demand and is simply using the gas that would have gone to Europe to top up their own storage facilities. Others would argue that they have withhold gas to Europe the make the case for the a multi- billion pound gas pipeline from Russia to Germany (Nord Stream 2), which has come under huge political pressure from the US and some European countries.
- Renewable generation particularly from Wind has been low this summer, which has meant gas has been relied on more heavily for power generation.
- Carbon prices have hit all-time highs, non-renewable generators must pay more to produce electricity as a result which is ultimately reflected in the wholesale price.
- Potential for a gas crunch this coming winter if it's a cold one and supplies to the UK and European market do not improve.
- Gas prices ultimately feed into electricity prices, as gas used for power generation makes up a large proportion of the UK mix.

As always, YPO keeps a close eye on the wholesale market and with the current uncertainty and volatility, this is likely to lead to big swings in prices both ways. Although prices after this winter have increase the extent of the increase is far less and YPO are looking at opportunities to hedge way into future where prices are lower.

YPO Flexible Contract

Electricity

YPO are fully locked out for this upcoming winter for electricity and have been since early 2021. For the year (April 21-March 22) a wholesale price of £50/MWh was achieved, this compares to the Winter 21 contract is currently trading at £178/MWh. We also have made purchases at lower prices for the next period (April 22-March 23), with further purchases being made at the opportune moments. YPO regularly have meetings with Npower regarding the consumption in the basket and at present is tracking where we expect it to be.

Gas

YPO have cover for this winter and are buying into future years where the prices are more favourable to minimise the impact of these current higher prices. Changing the trading strategy last year has allowed for purchases to made further than 12 months in advance. The gas flexible product is set up to purchase to an estimated consumption profile, once consumption happens and is billed, the difference between the bought gas and the consumed gas is then either bought or sold in the spot wholesale markets, this means that any increase in consumption over the winter period will be exposed to these current high prices. If there are any significant cold periods during this winter, we could potentially see consumption increase by over 40% compared to the seasonal norm. Due to the flexible nature of the contract which customers require, customers are also allowed to add/remove sites, so this will also have an impact on the consumption profile.

Unidentified gas (UIG) which is a pass-through charge which is linked to the wholesale markets, so large increases are expected from April 22. Corona Energy and YPO are lobbying with the industry to try and prevent these costs from occurring. YPO as usual will keep customers updated in the usual manner through communication and the Energy Initiative Steering Group (EISG) many customers attend.

The high wholesale prices which the market is currently experiencing will ultimately lead to higher prices and customers should be prepared from April 2022 for significant increases. YPO is currently preparing the latest budget forecasts from April 22, which will be sent out next month, by this time, I will have a clearer picture on how the wholesale market is looking, what the distribution charges will be under the Targeted Charging review and expected UIG costs.

As the saying goes “The cheapest Kwh, is the one that you do not consume” so anything you can do to lower consumption will lead to reduce costs and support decarbonisation. YPO and its suppliers can support you with this and as always be keen to discuss requirements.