

Business, Enterprise & Regulatory Reform Committee – Energy Prices Inquiry

Supplementary evidence from the **Energy Intensive Users Group**

1. The comments below and attached charts should be read in conjunction with the written memorandum from the EIUG submitted in April 2008.
2. UK energy prices have risen significantly in the last three months, largely in response to the worldwide increase in the price of oil and coal. However, the differential between UK and European gas and electricity prices has also increased, and hence also the level of competitive disadvantage faced by UK industrial energy users. As of July 2008, UK gas prices are around **16%** above those in continental Europe and UK electricity prices are around **38%** higher than those in Germany on a year-ahead basis.
3. The level of competitive disadvantage in gas is greatest during the winter periods, and in percentage terms has now reached levels comparable with those experienced during the problematic winter of 2005-06. Forward market data for the next two years shows this is not a transient phenomenon (see charts 1 & 2 appended to this memorandum).
4. It was suggested in oral evidence from Ofgem that forward gas prices should not be of great concern to large industrial users since a relatively large proportion of their gas is bought under indexed contracts, typically linked to day-ahead or month-ahead prices, and hence they are relatively unexposed to market prices a year or more ahead. As we stated in our original evidence, it is the fact that forward prices are persistently uncompetitive that has left large industrial users with little option but to purchase much of their gas in this comparatively risky way. The Committee should be aware that this form of purchasing is not an option for all large users, and is much less prevalent in electricity supply (where the competitive disadvantage for large consumer is currently even greater than it is for gas).
5. We question whether high global LNG prices are an adequate explanation for the current high level UK gas prices. The US is at least as dependent on LNG imports as the UK, yet US forward market prices are substantially below UK forward prices. LNG continues to be delivered to the US – yet little if any is coming to the UK. We remain concerned to understand why UK suppliers do not appear able to deliver to the UK market in a similar manner and at similar prices to the US. In particular, we believe that Third Party Access arrangements at Isle of Grain require independent investigation

Appendix – Energy Price Charts

Chart 1

Wholesale Gas Prices

Forward market: UK NBP v European oil-indexed v US Henry Hub (pence/therm)

Source: Energy Purchasing Specialists (UK) Ltd

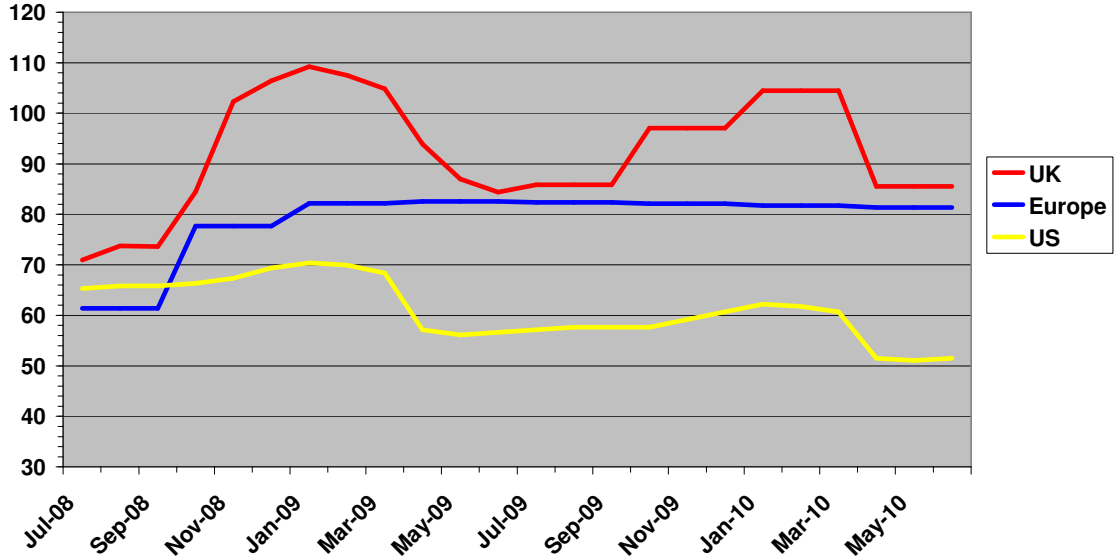


Chart 2

Wholesale Electricity Prices

Forward market: Uk v Germany - Baseload (£ per MWh)

Source: Ineos/Heren

