

Energy bills: How households could feel the cold this winter

October 27 2023, by Michael Bradshaw



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As winter starts to bite, you may be starting to worry again about how much you will have to pay for your gas and electricity over the coming months. Of course, energy isn't the only rising cost in the current inflation-led economy, which has caused most households to see [a decline in disposable income](#) since last winter.

Compounding this, even if energy prices are lower this [winter](#) than last, some households will struggle to pay their [energy bills](#) because they are still carrying [significant energy debts](#).

The current price cap, set by Great Britain's energy regulator Ofgem, is [£1,834 per year](#) until December 31 for a typical household paying by direct debit. This is well below the peak of £4,279 in January to April last year, but it's still [nearly £800 more](#) than three years ago. And a cap doesn't mean your bill won't fluctuate.

The price cap sets the amount you pay for each unit of gas and electricity that you consume. The key variables for your bill are then how much energy you consume and the wholesale price of natural gas, which also sets the electricity price. Natural gas heats most homes in the UK and is used by many for cooking. It [generated nearly 40% of UK electricity in 2022](#). This explains why many households are so exposed to changes in global gas prices.

What's in your bill?

Look at your latest bill and you will see a daily standing charge, which is also regulated by Ofgem. This charge differs depending on the type of fuel you use, where you live and how you pay for your energy. The [standing charge covers](#) the costs to the energy companies of supplying your gas and electricity and supporting various government initiatives.

Last winter, the government helped all households with a universal £400

payment under the Energy Support Bill.

That support package, along with other measures, launched in response to the rise in energy prices, [cost the government](#) £78 billion in 2022-23 and 2023-24. So, it's unsurprising that another payment hasn't been promised this year.

As [the think tank Resolution Foundation](#) recently pointed out, this winter's typical energy bill will be driven by three factors: the unit price for gas and electricity, the standing charge and the lower level of government support.

We know what to expect from latter two factors, so the unit charge is the only unknown. The way this will affect your energy bill this winter will come down to changes in supply and demand that will influence where Ofgem sets the cap from January 1 next year.

An easily spooked market

UK households are at the center of a complex web of factors that influence the global energy supply and demand balance. This winter, supply remains a concern amid Russia's ongoing invasion of Ukraine, and more recently, the threat of a wider Middle East conflict following fighting in Gaza between Israel and Hamas.

Russian pipeline gas continues to flow into southern Europe via Ukraine and Turkey, and Russia continues to supply liquefied natural gas (LNG) to Europe. But any reductions there could cause prices to spike.

Europe has [record levels of gas in storage](#) this year, but the supply of global LNG is still relatively "tight" (that is, there is not much to spare). This means the market could be easily spooked by any interruption in gas supply, causing a short-term price spike. We have seen this three

times recently:

- when there was [labor unrest](#) in the Australian LNG industry
- after [unexplained damage](#) to a gas pipeline linking Finland and Estonia
- and, most recently, due to the [ongoing conflict](#) between Israel and Hamas in Gaza, which has so far caused [the closure of one gas field](#).

Although these events had a minimal real impact on global supply, price spikes at the time show just how easily "spooked" the gas market is. The continued threat of the conflict in Gaza spreading to other parts of the Middle East echoes the oil crisis of 50 years ago, when prices spiked for countries like the UK and US.

The UK [produces about half the gas it consumes](#), with another third coming by pipeline from Norway and the balance arriving as LNG or via two interconnector pipelines from Europe. So, for the moment at least, a physical supply crisis in the UK looks unlikely, but as network operator National Gas Transmission said in its [winter 2023/2024 outlook report](#): "Disruptions to other markets could impact the GB market."

So, what is the status of other markets? The main issue is whether or not Asian, and particularly Chinese, demand for LNG will be higher than last year, reducing gas availability for Europe. China is still [struggling economically post-COVID](#), which could push down energy demand from the world's second-largest economy.

The [weather will also drive demand](#)—both in Northeast Asia and Europe. A prolonged cold spell could tighten LNG markets further, amplifying any supply scares.

In Europe, weather also impacts the availability of renewable energy. In

the winter months, long spells of cold, gloomy weather with no wind drive up gas demand to compensate for the lack of renewable generation. The Germans call this time [Dunkelflaute](#) (dark wind lull or dark doldrums).

We also have to hope that [France's nuclear power stations stay online](#) after a record number of outages last year. If not, heightened gas demand in continental Europe would mean the UK has to pay more to buy gas from Europe's stores. Countries such as Germany have also been busy [building LNG import terminals](#), boosting competition for LNG shipments.

Households should follow the same advice as last winter: the most affordable molecule of gas or electron of electricity is the one you don't consume. Heed the [responsible advice](#) available on how to save energy and cut your bills because. Although the price cap is much lower than last winter, [energy](#) could be even less affordable for many people this year.

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