The cost of electricity and your business' electricity prices

Around 35% of your price reflects what your supplier will pay for the electricity your business will use during its contract. The two main factors behind that cost are the prevailing wholesale price of electricity at the time you ask for a quote and your use of electricity.

Let's talk about the prevailing market rate…

The day to day price of electricity on the UK's wholesale markets driven by the cost of producing electricity and confidence that supply can meet demand.

The cost of production

Generators need to sell the electricity they produce at a price that covers their operating costs. Different generators have different costs. So, the changing mix of generation sources (gas, coal, nuclear, wind, solar etc) that make up the UK's electricity supply greatly influences the prevailing wholesale market rate. Fuel costs are a far higher share of operating costs for power stations that burn coal and gas than for nuclear or renewable generators. That's why the price of coal and gas has a direct influence on the cost of electricity. The cost of these fuels is in turn influenced by other markets such as oil (to which gas is directly linked) and foreign exchange rates as the UK imports a good deal of the gas and coal it needs.

Supply and demand

As with many commodity markets, wholesale electricity prices tend to fall when supply easily meets demand. However, the margin between supply and demand is getting tighter as old power stations close. So, wholesale prices can shoot up when demand for electricity rises, for instance during economic growth, cold spells in winter or heat spells in summer and squeezes the margin of available supply.

Your use of electricity

To set your price in a fair and cost reflective way, suppliers look at when and how your business uses electricity.

As a rule of thumb, electricity costs more to source when demand is high because less efficient power stations need to run. That tends to be during week days and during winter. So, the more of your electricity use that falls during those periods, the higher your price will be to reflect the higher costs.

How predictable your electricity use is also matters. Suppliers typically buy the amount of electricity they think you'll use during your next contract based on how much you've used in the past. If your usage changes significantly, they may need to sell or buy the difference on the short term or imbalance markets. That can be very costly. This risk may not be included in the price you're shown, but rather covered by what's known as a volume tolerance clause. This places a certain limit (or tolerance) on the amount your electricity use can vary against your normal usage (or volume) before you may be liable for a surcharge to cover the supplier's extra costs.

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