Changing energy prices explained

For large business customers

EDF ENERGY

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Information for business customers

At EDF Energy, we believe in helping our customers understand energy purchasing so that they can get a good deal for their business. In this fact sheet we aim to briefly explain the main reasons behind the cost of wholesale energy, and how this affects the price you pay.

Understanding energy prices

Wholesale markets are where energy suppliers, such as EDF Energy, buy the energy that their business customers require. They buy this from producers such as power station operators and gas producers. Of all the elements that make up our customers' electricity and gas prices, the wholesale cost accounts for around 75%; which is why it's so important for energy buyers to understand any changes in wholesale energy costs.

Changing energy prices are the result of a combination of many factors. The key ones are outlined below:

1. Supply and demand factors

These days there is relatively high demand for energy in summer (to power air conditioning units etc). However, as many power stations schedule their main annual maintenance programmes at this time of year, a reasonable amount of generation capacity is removed from the market.

Many of the UK's ageing nuclear power stations have been called upon in order to generate enough electricity to meet demand. This in turn supports higher wholesale energy costs.

This supply shortage is compounded by the Large Combustion Plant Directive, which was introduced on 1 January 2008 to cut acid rain causing emissions (sulphur dioxide (SO2) and nitrogen oxides (NOx) from coal fired power stations.

To comply, these power stations had to fit new equipment to reduce these emissions, which lead to extended maintenance shutdowns and higher operating costs.

Around a third of the UK's coal fleet (c.10% of total UK generating capacity) opted not to comply and as a result now have only 20,000 hours until their closure in 2015. As a result, these stations tend to operate only when prices are high to optimise their profitability and to fund the build of replacement stations.

2. Cost of producing electricity

Around 75% of the UK's electricity is produced by coal and gas fired power stations. Operators of these power stations also have to purchase emissions allowances via the EU Emissions Trading Scheme (EU ETS) to cover their CO2 emissions. Changes to the cost of coal, gas and emissions allowances have a dramatic affect on UK wholesale electricity prices, and for various reasons all three factors have risen dramatically:

a. Gas: The UK is becoming more reliant on imported gas to meet local demand. Influential factors include the price of oil, reliability of gas import infrastructure and European weather; all of which affect the amount of gas the UK receives as well as the price we pay.

b. Coal: Coal prices have settled somewhat since 2008. The Government has pledged not to allow any new coal plants in the UK, unless a proportion of their CO^2 emissions are buried underground.

c. Emissions allowances: The cost of emissions allowances has continued to climb steadily since February 2009, when emissions allowances hit a record low. Airline emissions will be added to the EU ETS from 2012, which may drive prices up.

Fixing your energy prices with a contract

Businesses can fix their electricity and gas prices by signing a contract with us. This allows us to purchase energy in advance for future energy supply, therefore reducing risk. There are several types of contract available, details of which can be found at: edfenergy.com/largebusiness.

Our sales team is also happy to help. Call them on 0845 366 3664.

Managing your energy contract with better Market Insight

In the fast moving world of wholesale electricity prices Market Insight our online service provides you with a range of information to help you make better energy decisions and navigate one of the world's most volatile and regulated markets.

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