

# DATA TABLE COMMENTARY – PRT63 ENERGY COSTS



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## Energy prices – actual and forecasts:

Please provide actual and forecast nominal input and export energy prices between 2018-19 and 2029-30. Also explain how your energy price forecasts have been derived in accompanying commentary. Any difference between wholesale and retail energy price forecasts should also be explained.

PWL has engaged Cornwall Insights to assess forecast energy costs based upon our actual energy basket and supply distribution. A copy of their analysis is available on request. Relevant commentary from Cornwall Insight is reproduced below.

### Forecast Overview

- Underlying structural shifts in the power sector towards increased renewables have been playing through meaningfully into prices in both the gas and electricity markets for at least the last 3-4 years and this will only grow.
- Current market highs reflect issues specific to this winter, especially in the case of gas, but highlight some key future drivers for prices in terms of the pursuit of decarbonization of electricity supply.
- In terms of the period under review (2022-23 to 2031-32), we note that:
  - Following the decline from the recent record highs seen in the market, wholesale gas and electricity prices alike exhibit a general downward trend in real 2022-23 terms over the period to 2032 this being the case across all three wholesale price scenarios (Central, High and Low) from the Benchmark Power Curve.
  - Delivered retail power prices exhibit a similar downward trend over the review period, with costs associated with legacy renewable support schemes trending to zero in the 2030s again, this is the case across all three scenarios, although prices remain above pre pandemic levels.

The UK’s Net Zero Strategy may result in a restructuring of low carbon levies away from electricity and on to gas as efforts to decarbonise the energy system (especially heat) continue.

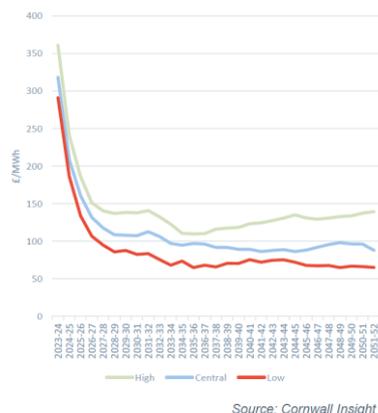
- Due to uncertainty surrounding these, these are not modelled.

The recently announced Review of Electricity Market Arrangements (REMA) is intended to yield options for reform (2022 23) and a full delivery plan and implementation thereof (mid 2020s).

- Due to uncertainty surrounding the REMA process, this also not modelled in our analysis.

### Outlook to 2030 and beyond

Forecast power prices – CI Q322 BPC (Real 2021-22)



*N.B Prices on chart (left) are for wholesale trends and do not reflect retail (delivered) pricing.*

- Tight gas markets and rising carbon prices have pushed power prices upwards in response in the short term, while in the longer-term ambitious plans to ramp up renewable energy generation will reduce power prices.
- Low margins are expected in the mid-2020s, and prices do not drop until significant volumes of new capacity, primarily offshore wind, are developed.
- GB becomes a net electricity exporter as nuclear capacity declines in France and high renewables output in GB lowers GB prices and facilitates exports.
- New generation capacity will primarily be low carbon renewables in order to meet policy objectives (50GW of offshore wind by 2030 and 2050 Net Zero emissions).

Prices stabilise in the mid-2030s as rising demand is met with new low marginal cost capacity and gas (abated or offset) and battery storage provide firm backup for variable renewables.

### Export Prices

PWL has **not** historically exported energy and therefore no actual export prices are available. Forecasts for 2024-2030 only envisage trivial amounts of energy being exported (i.e. <100MWh compared to an energy demand of circa 24GWh). Therefore, any export is based on spot prices and is not expected to materially influence our finances.

**Wholesale/Retail**

Wholesale and Retail share the same cost base for energy.

## On the consumption forecasts:

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*Companies should set out how much of their forecast consumption is hedged, as at the end of 2022-23. In the commentary provide alongside this table, please could companies explain:*

### **a. How much of its energy consumption it hedges in advance, and if/how it operates a ‘hedging ladder’**

PWL aim to implement a hedging ladder dependent on actual market factors and conditions. This ladder seeks to fully hedge energy prices to 6-12 month horizon thereby providing budgetary assurance for the financial year ahead.

- P-6 months 100%
- P-12 months 66%
- P-18 months 33%
- Greater than 18 months 0%

However, recent market conditions and brokerage advice has been indicated significant risk premiums since the invasion of Ukraine and actual hedging has been deferred to optimise our market position. For example in Mar 2023, 100% of “Summer 23 (Apr 23 to Sep 23)” was finally purchased.

### **b. How much (if any) of its consumption is effectively purchased at spot market prices**

PWL only purchase on spot market to balance consumption as hedges are purchased on a “baseload” basis. Actual consumption on a given half-hour, hour, day or month may vary depending on consumer demand, weather, operational factors. However, this is balanced such that such balancing is on a neutral basis.

### **c. How much (if any) of its consumption is set under long-term offtake contracts**

PWL currently have Power Purchase agreements under a power-as-produced basis for circa 5% of our energy consumption. These agreements are for on-site solar power generation on 25-year contracts.



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