

Energy Outlook

March 2026

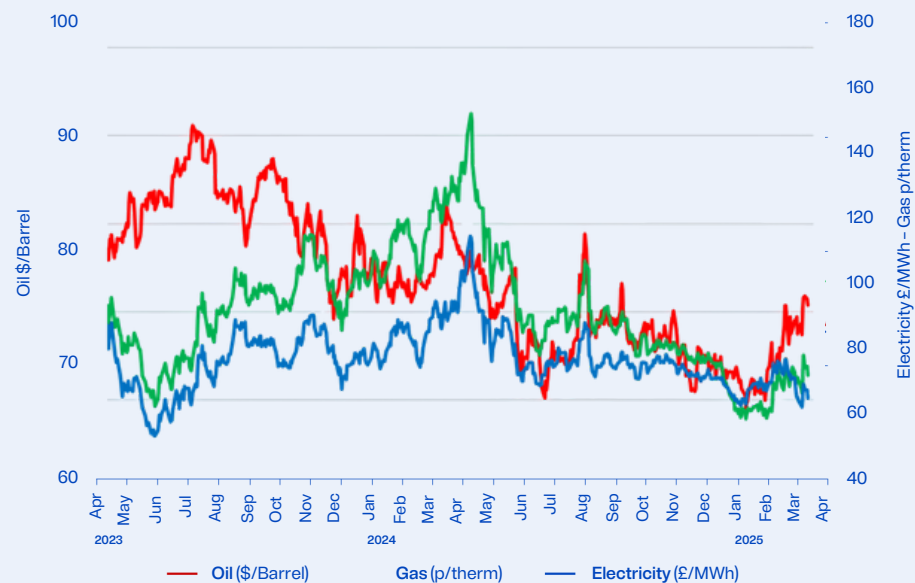


March has literally begun with a bang, with US and Israeli strikes on Iran in the first weekend and retaliatory counter-strikes against Israel, US bases and Gulf-state allies. These actions represent a significant escalation in conflict in the Middle East, causing significant concern in the markets for both oil and LNG production and transit, as the Strait of Hormuz (which carries about 20% of global oil supplies) is effectively closed.

This paper discusses the impact of these events and other recent market developments on UK gas and Electricity prices, and considers what might happen next and how concerned end consumers should be.

Energy price history

The graph below demonstrates how wholesale oil, gas and power prices have moved since the beginning of 2023. Prices have been volatile over this time, with an overall slight downward trend punctuated by periods of heightened concern driven by supply issues, depleting gas storage or geopolitical risks.



After steadily declining in the last quarter, UK gas and electricity prices rose in December and January before briefly coming off in recent weeks. This was mostly driven by cold (but not extreme) weather in the early part of the year, combined with low gas storage levels across the whole continent, which have dipped to their lowest point for four years. Sentiment has also been impacted by the erosion of the likelihood of a peace agreement between Ukraine and Russia.

Oil prices have risen sharply over the same period as a prolonged OPEC production freeze meant that severe disruption to North American supplies due to severe weather, tightened sanctions on Russia and a catastrophic fire at Kazakhstan's Tengiz supergiant oil field all combined to push prices upwards.

Oil



After finishing 2025 relatively weak, oil has made a bullish start to the year due to the previously mentioned supply constraints.

This has been compounded in February with a risk premium priced in for much of the month relating to mounting tensions between the US and Iran after nuclear de-escalation talks stalled in January and threats issued after Iran's violent crackdown on civilian protests.

The situation reached boiling point right at the end of the month with the launch of a US-Israeli military campaign which directly targeted the Iranian leadership. On the face of it, the mission was successful, with Iranian state media confirming that Supreme Leader Ayatollah Ali Khamenei and several top military officials had been killed in the strikes. Whether the overall goal of regime change happens is another question, but in the meantime the retaliation has brought the UAE, Qatar, Bahrain, Kuwait, Jordan and Saudi Arabia into the conflict. The situation remains highly volatile and further disruption to oil production and LNG shipments from Qatar should be expected.

Gas



Gas prices had started to relax after a tense start to the year, but the calming effects of the warmer weather as we enter March has been entirely overtaken by the fall out from the Middle East.

Although disruption of LNG supply from Qatar is significant (around 20% of the global market) and will certainly have an impact on our gas markets, it is not in the same league as when Russian supplies halted in 2022. So far, the impact is being felt mostly on short-term gas supplies (one or two months ahead), which initially jumped by 30% when markets opened after the weekend. Longer term gas for later in the year, out to 2027 (on which most supply contracts are based) should be expected to show an increase of up to 10%, but buyers should avoid panic-buying on immediate spikes which could exceed this.

That said, it is unlikely that gas prices will fully settle in the coming months. Gas storage levels coming out of winter at 30% full means that gas demand over summer will be supported by injections to fill it back up again.

Electricity



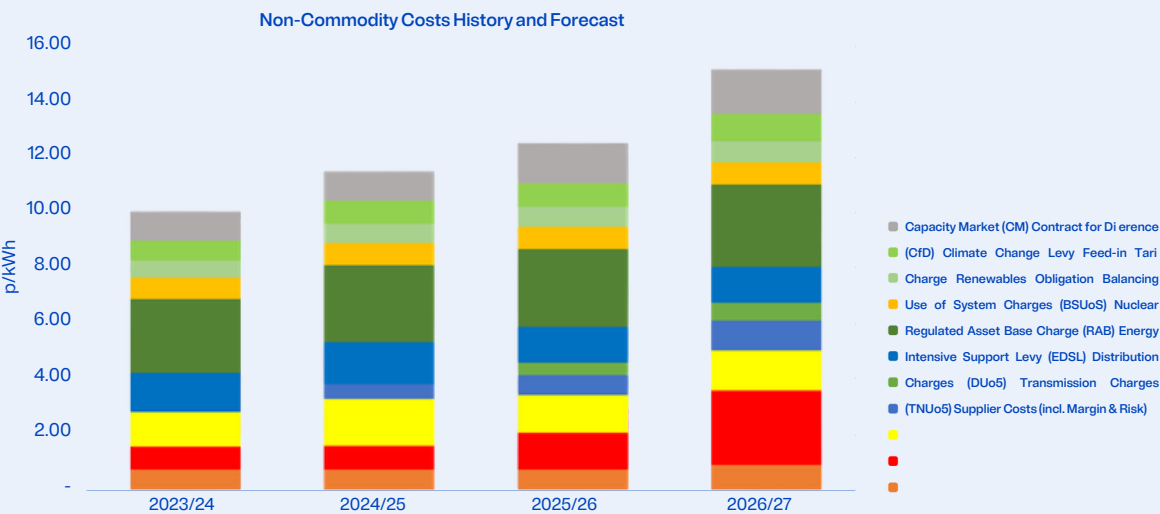
The story for electricity is similar to gas, since gas is still used to generate most of the UK’s baseload electricity requirement.

In the current market, electricity has followed the same pattern, although this has been mitigated somewhat by falling carbon prices, which are some €20 below their 2026 peak (and UK carbon still trading at nearly €20 below EU prices). Wind generation has also performed particularly strongly over winter, setting new records and at times contributing almost 50% of total UK demand. Growth in wind is inevitable with new wind farms in constant development, but it has also benefitted from favourable weather conditions with consistent strong winds and fewer periods of ‘drought’ when the wind doesn’t blow at all. Prices are likely to go up in the short term in sympathy with gas, and while opportunities to get the best prices this year may have passed for now, buyers should not buy on the spike!

Non-Commodity Costs

Non-commodity costs (sometimes called ‘non-energy charges’ or NECs) are added to bills to cover the costs of the national transmission network, local distribution costs, renewable and environmental surcharges and levies to ensure security of supply by subsidising the availability of capacity. These currently represent around 60% of an average bill.

The chart below shows the history and forecast charges for an average customer:



Figures based on an average UK Half-Hourly portfolio.

Some of the charges are based on a set formula, whilst others can be variable, depending on market conditions, demand and renewable generation.

Transmission Charges (TNUoS)

New transmission charges were confirmed in January, with costs for consumers rising from £5.1bn to £7.6bn for the 2026/27 year – a significant jump which will double the transmission charge from April for some users. This latest round of increases has resulted in calls for reviews of the entire non-commodity charging regime, which has long been seen as a kind of ‘stealth tax’ on electricity users which pushes up bills and reduces incentives for organisations and households to take up air-source heat pumps and Electric Vehicles, which are essential to achieve the UK’s decarbonisation goals.

Nuclear Support Scheme (RAB)

The initial rate for the Nuclear RAB charge was set at 0.35p/kWh in December. The Low Carbon Contracts Company has confirmed that it will increase in April to 0.47p/kWh. Although it is still a relatively small part of the overall bill, the increase is notable, coming just four months after its introduction. The rate is reviewed quarterly, with another potential increase from July.

Shift to CPI Indexation (RO and FIT)

Some small nugget of relief for consumers comes in April when the indexation mechanism for both Renewable Obligation (RO) and Feed-in Tariffs (FIT) changes from RPI to CPI, which historically has been the lower index. This change will not result in a reduction, of course; the benefit of this will be small and will take some time to manifest.



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