

Energy Outlook

June 2026

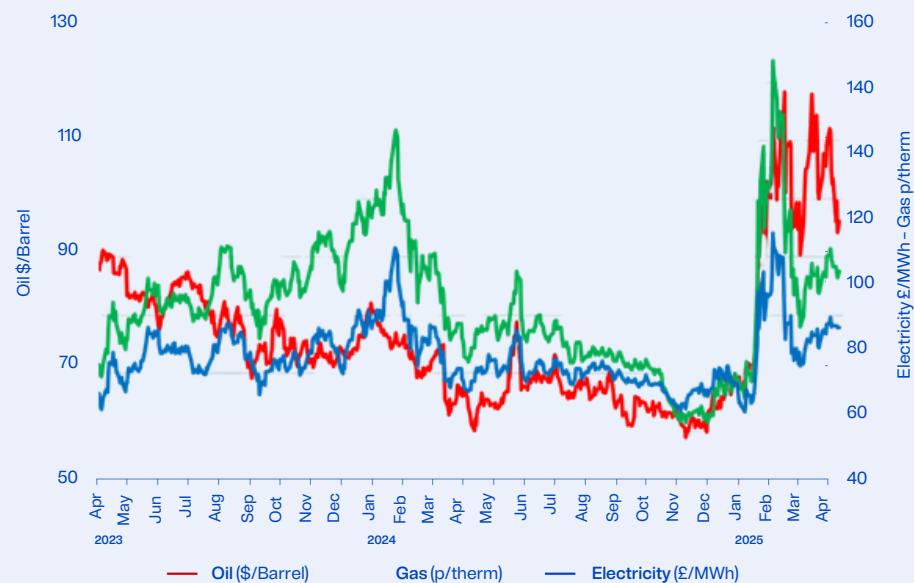


Overview

It has been a tumultuous time in the world of energy since the conflicts kicked off in the Middle East just before the last report was released. As expected, energy prices have risen sharply and become extremely volatile in response to a series of unpredictable escalations and apparent reconciliations. As the conflict continues into its fourth month it becomes important for the energy buyer to look ahead and consider the potential consequences of a prolonged war, especially the risks associated with restricted supply of LNG over winter.

Energy price history

The graph below illustrates how wholesale oil, gas and power prices have changed over the past two years. In spite of periods of volatility, prices had been trending steadily downwards right up until the bombing campaign commenced on the last weekend in February, plunging the markets into crisis.



Since that point, the markets have reacted to every twist and turn, falling in response to every claimed peace agreement (even the spurious ones made by President Trump on his 'Truth Social' platform) before jumping again on reports of renewed missile and drone attacks by either or both sides.

The heart of the problem for the energy markets is primarily the disruption to the Strait of Hormuz and the damage caused to oil and gas infrastructure in the Gulf states. Over 20% of the world's crude oil and Liquefied Natural Gas (LNG) is transported through the strait, so this strangling of supply has caused prices to increase everywhere. The key to bringing prices down will be a robust, lasting peace agreement including the US, Iran and Israel. Whilst there is certainly political pressure in the US to achieve this (driven by high prices at the pump), it would be optimistic to think it is very likely in the short term.

Oil



Of all the commodities in the energy complex, Oil has been most directly affected by the conflict in the Middle East.

This is particularly galling for energy buyers, as the market had otherwise been on a gentle decline. Iran has known for some time that blockading the Strait of Hormuz would cause significant disruption, but despite several threats in the past it has not been emboldened to do so until now. As a result, the impact on market sentiment is likely to last for some time (even in the event of a peace agreement) due to the risk of a recurrence now that Iran has learned how effective it is. Furthermore, the damage caused by missile and drone strikes on critical energy assets in Saudi Arabia, the UAE, Kuwait, Bahrain and Qatar means that it will be some time before full capacity is restored even if the passage was to fully re-open.

A ray of hope comes from the pressure on the US President caused by inevitable high fuel prices and the general cost of waging war, which suggests that he genuinely wants to see an end to the situation. It is not clear whether their regional ally Israel or even Iran itself has the same short term objective, so finding a way to do so (and without losing face) is a tough conundrum. Expect to see more 'false dawns' and tentative ceasefires over the coming months.

Gas



Supply of Liquefied Natural Gas (LNG) has been directly disrupted by the conflict in a similar way to oil.

It should be noted that the impact on UK prices has been less extreme so far (they are down from the initial spike and much lower than the peaks during the 2022 crisis). This is because LNG is most needed in the winter, so the real squeeze hasn't happened yet. If it looks like the conflict will continue much longer into the second half of the year, it's likely that prices will worsen.

It should also be noted that the Middle East is not the only 'bullish' factor affecting the gas market. Gas storage is only around 40% full across the whole of Europe (with the UK at 25%); this is nearly 8% lower than a year ago. High prices are deterring replenishment and it is almost certain that the 80% target for October will not be met this year. Without sufficient storage or LNG supplies, any cold weather will cause extreme volatility.

Electricity



As can be seen from the charts, electricity has followed a broadly similar pattern to gas.

The correlation isn't perfect because although gas still generates a large proportion of UK baseload electricity, there are increasingly other influences from wind and solar generation which are disrupting the link (mostly in a good way).

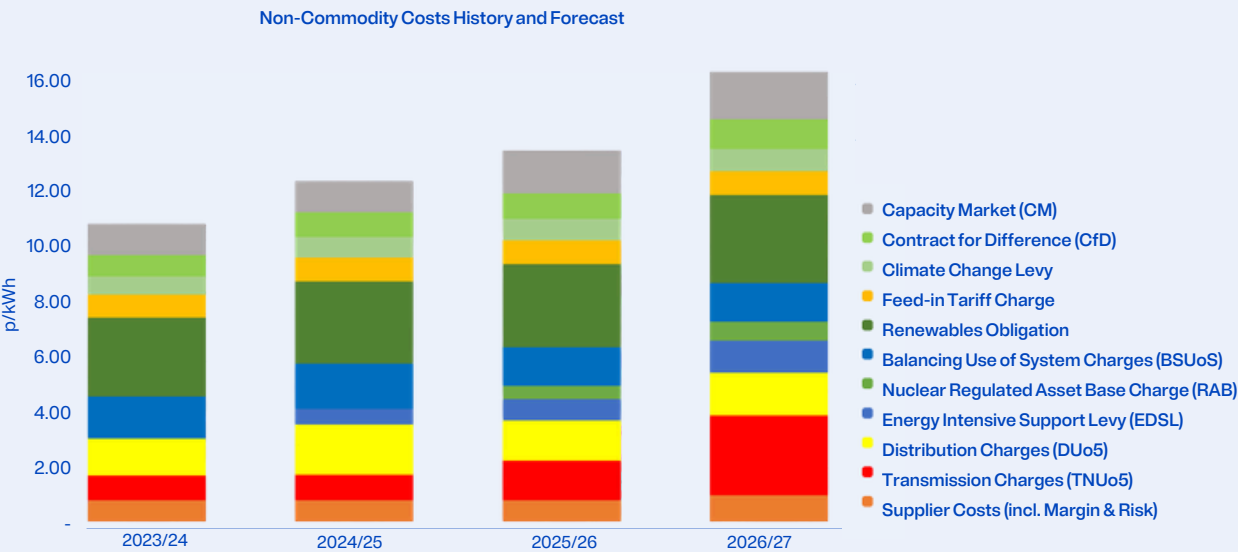
Earlier in the year, carbon prices (which feed into electricity prices) were falling and the gap between UK and EU prices was wide. Unfortunately, both the trend and gap have now gone the other way, driven by a widespread expectation of an announcement at the July EU-UK summit that prices are to be formally re-linked.

All that said, Renewables are going from strength to strength and can be a source of optimism as they continue providing an increasing proportion of the UK's electricity requirement, and also as they act to lop the worst off short term price spikes – something we might need this winter.

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 65% 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 kicked-in in April, doubling the transmission charge for some users overnight, with the overall cost for consumers rising from £5.1bn to £7.6bn for the year. To some extent the rises are over-shadowed by increases in wholesale prices, which give them even more of the appearance of a 'stealth tax'. Unlike commodity costs, these charges will never go down, creating a permanent high base for prices. Whilst the government recognise that this will impact the electrification of transport and heat, it has not made any significant commitment to rebalance the costs elsewhere for non-domestic electricity users.

Nuclear Support Scheme (RAB)

The Nuclear RAB charge increased to 0.47p/kWh from April, although is set to reduce very slightly to 0.45p/kWh from July. Whilst this is a tiny piece of good news, it should be noted that like all new non-commodity charges, it has started as a relatively small part of the overall bill, but will rise to a significant level over time (and will certainly not disappear).

Balancing Charges (BSUoS)

The National Energy System Operator (NESO) sets grid balancing charges in advance to give better certainty for this small part of the bill. Some slight relief here with prices dropping from 1.74p/kWh now to 1.25p/kWh this winter.



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