Energy Bill Relief Scheme for Non-Domestic Customers in Great Britain

Reference Wholesale Price Methodology

In accordance with regulation 10 of the Energy Bill Relief Scheme Regulations 2022 (S.I. 2022 / 1100) the Secretary of State establishes the following methodology for determining reference wholesale prices applicable to variable price contracts and fixed price contracts.

1 Introduction

1.1 This document sets out separate parts of the methodology to apply to:

(a) fixed price contracts with a price-fix date before 1st October 2022

(b) fixed price contracts with a price-fix date from 1st October 2022 to 31st March 2023

(c) variable price contracts.

1.2 Reference wholesale prices for flexible price contracts are determined in accordance with the Regulations and are not within the scope of the methodology in this document.

1.3 In this document, words which provide background or explanation for the methodology are in italics and do not form part of the methodology itself.

1.4 Background

1.4.1 *Reference wholesale prices are used under the Energy Bill Relief Scheme to calculate the discount to be applied to prices for the supply of gas and electricity to non-domestic consumers in the UK.*

1.4.2 *The reference wholesale prices act as deemed values for the contracted wholesale price in supply contracts, in relation to the scheme period (the six month winter period that the scheme covers). As a result, the wholesale prices chosen to determine reference wholesale prices are forward prices for delivery over the period October 2022 to March 2023 or a part of that period, or an approximation where necessary.*

2 Data

2.1 Forward prices for wholesale electricity and wholesale gas are drawn from ICIS European Daily Electricity Market report and European Spot Gas Market report. For details of how these data are assessed and how to access them see:

(a) ICIS European Daily Electricity Market report: https://www.icis.com/explore/sectors/power/?intcmp=mega-menu-explore-sectors-power

(b) ICIS European Spot Gas Markets report: https://www.icis.com/explore/commodities/energy/natural-gas/?intcmp=mega-menu-explore-commodities-energy-natural-gas

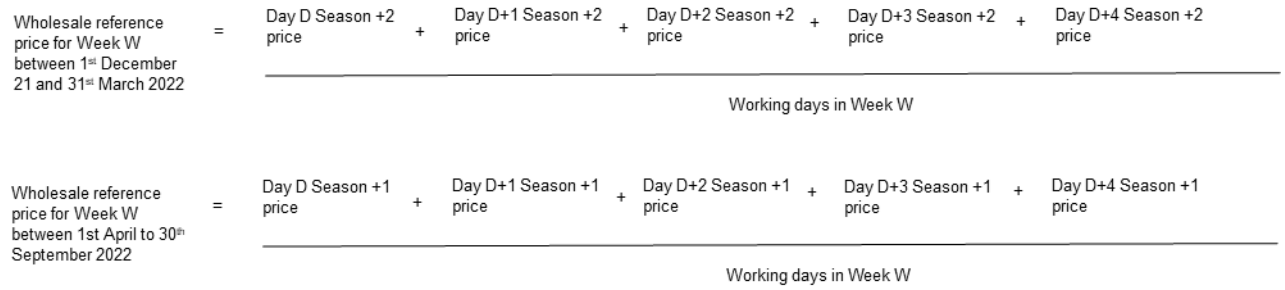
3 Fixed price contracts with a price-fix date before 1st October 2022

3.1 For fixed price contracts where the price-fix date was before 1st October 2022, forward wholesale prices for the Winter 22 period (defined as 1st October 2022 to 31st March 2023) are used to calculate the reference wholesale price on a given day. ICIS NBP Price Assessment Bid/Offer range daily outright (Mid) Season +1 and Season +2 are used for gas. UK OTC Power Price Assessment – Baseload Season +1 and Season+2 are used for electricity. Season +1 is used for those fixing after 1st April 2022 and Season +2 is used for those fixing prior to 1st April 2022.

3.2 An average is taken of the ICIS NBP Price Assessment or UK OTC Power Price Assessment for Winter 22 on the market trading days in a week, with the average then representing the reference wholesale price for contracts with a price-fix date in the 7-day period of that week.

Explanation: an average is taken over a working week in order to account for day-to-day variation in forward prices within the week.

Figure 1: Reference wholesale prices calculation for fixed price contracts with a price-fix date before 1st October 2022 – Day D refers to the first working day of the week



3.3 Once calculated the reference wholesale price remains fixed throughout the scheme period.

Explanation: As the reference wholesale price acts as a proxy for the contracted wholesale price of a fixed price contract, and the forward prices used are for delivery period covered by the scheme (October 2022 – March 2023 or Winter 22). This is either season +1 or season +2 depending on the price-fix date

4 Fixed price contracts with a price-fix date between 1st October 2022 and 31st March 2023

4.1 For fixed price contracts with a price-fix date between 1st October 2022 and 31st March 2023, the same approach to calculation is applied as for those fixing pre 1st October 2022, however proxies are used for the remainder of the winter season covered by the scheme.

Explanation: This is because the winter delivery period begins on 1st October.

4.2 A proxy for remaining Winter 22 prices will be calculated using ICIS data. For gas, ICIS NBP Price Assessment Bid/Offer range daily outright (Mid) Month +1 up to Month +6 is used. For electricity ICIS UK OTC Power Price Assessment – Baseload Month +1 up to Month + 4 is used, with Quarter+2 is used for Month +5 and Month +6.

Explanation: Quarter +2 is required for electricity prices as ICIS do not produce Month +5 and Month+6 price data for electricity.

4.3 As shown in the figures below, an average is taken across month+1, month+2 and so on until the final month in the calculation is March 2023. Each month's price is weighted by the number of days in that month. For example, the reference wholesale price for a customer with the price-fix date of 15th October 2022 would be an average of the prices for delivery in November, December, January, February and March, weighted by the number of days in each month. The reference wholesale price for contracts signed in March will be based on April prices.

Figure 2: Gas reference wholesale price calculation for fixed price contracts with a price-fix date between 1st October 2022 and 31st March 2023 - Day D refers to the first working day of the week

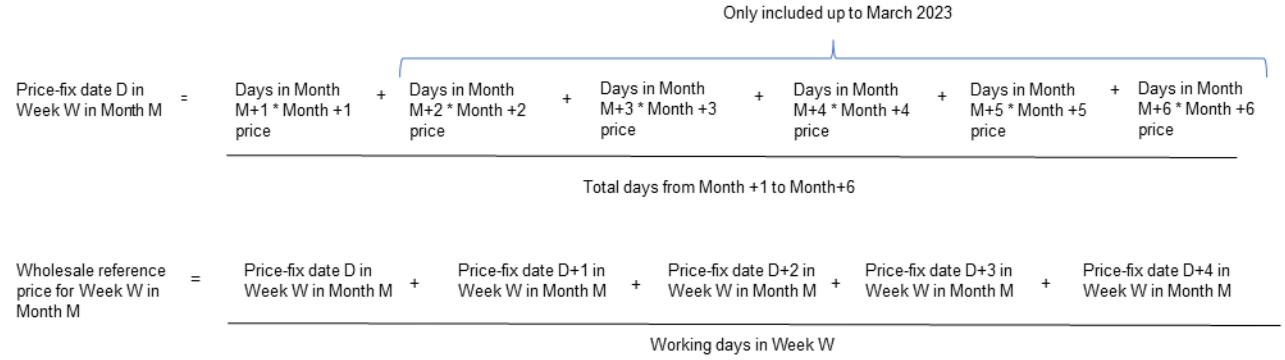


Figure 3: Electricity reference wholesale price calculated for fixed price contracts with a price-fix date between 1st October 2022 and 31st March 2023- Day D refers to the first working day of the week

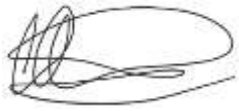
5 Variable price contracts

5.1 The reference wholesale prices used to calculate the maximum discounts for variable price contracts are ICIS NBP Price Assessment Bid/Offer range daily outright (Mid) Season +1 for gas and UK OTC Power Price Assessment – Baseload Season +1 for electricity, averaged across the 10 days up to and including 30th September 2022.

Explanation: A 10-day average is used to account for day-to-day price volatility. The 30th September was selected as the date at which to set the maximum discounts, as it was the final trading day before the scheme period began.

6 Publishing reference wholesale prices

6.1 The government publishes the discounts for fixed and variable tariffs, alongside the relevant reference wholesale prices, currently on a weekly basis here: https://www.gov.uk/government/publications/energy-bill-relief-scheme-discounts-for-fixed-default-and-variable-contracts



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