Energy Outlook

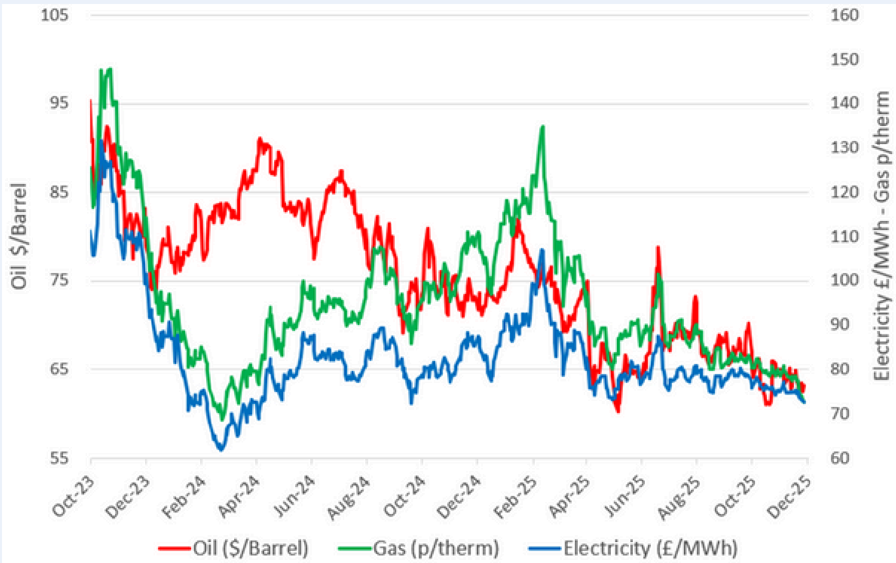
Quarter 1 2026

It has been an eventful second half to the year, with a slew of regulatory policy announcements from the government, and a continuation of existing and emergent geopolitical turmoil. The outcome of the long-awaited market reform consultation (REMA) was something of a damp squib, although this combined with the new Industrial Strategy will give rise to increases in costs for most consumers in the coming years.

Wholesale markets have been relatively benign in recent times following a choppy start to the year. This has been driven by a generally sluggish global economy, positive optimism about the prospect of a peace deal between Russia and Ukraine and a relatively mild start to winter. The question remains as to whether the recent talks will translate into a meaningful agreement and whether new tensions in Venezuela will counterbalance the benefit (at least in the oil markets).

Energy price history

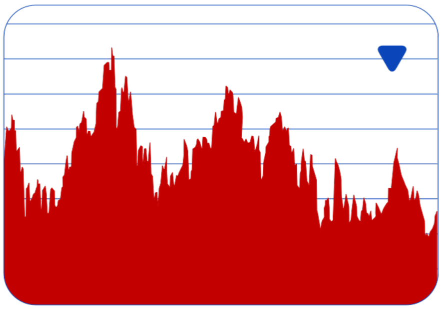
The chart below illustrates how UK energy prices have developed since early 2023:



Oil prices have bounced between the $70 and $80/barrel mark since the beginning of the year, in many ways reflecting the frenetic first quarter of Donald Trump's second presidential term.

The outlook for Q1 remains flat to downwards across all three commodity markets, although there are pressures in both directions. Close attention should be paid to diplomatic efforts to bring an end to the war in Ukraine, since this is likely to have the most immediate and significant impact on prices. Bear in mind that the market is pricing in a discount in anticipation of this, so a breakdown in talks could see a sudden jump.

Oil



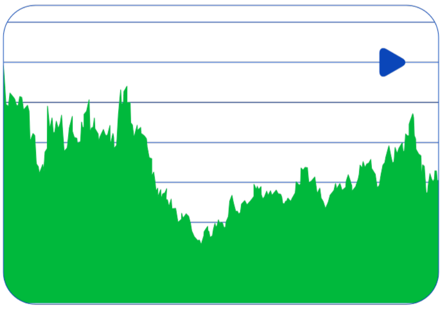
The oil market has remained weak throughout the year and would likely be even lower if it were not for the impact of the various geopolitical events over the period.

The markets are optimistic about the likely success of Ukraine peace talks brokered by the US, although with ongoing strikes on Russian energy infrastructure and resolute positioning from Putin, actual progress might be slow.

Elsewhere, the Israel-Gaza conflict has subsided into an uneasy peace, reducing the odds of escalation with oil-producing countries such as Iran, although this is counterbalanced to some degree by a ramping up of military action around the seas of Venezuela as Trump tries to crack down on the drug trade and illegal immigration from the oil-rich nation.

Recent OPEC talks failed to establish a consensus on the fundamental strength of the global oil market due to uneven demand trends and general uncertainty on whether a recent decline in shale production will continue, so they have simply decided to maintain current production levels until the end of Q1 of 2026.

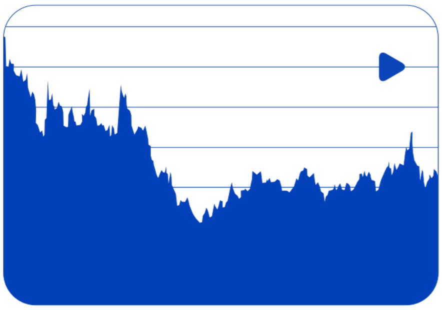
Gas



Gas prices have started to move somewhat independently of oil as the long term link between the two commodities weakens, but the trend is nevertheless in the same downward direction. Most of the factors driving sentiment on gas prices is ‘bearish’, in spite of UK and European gas storage levels being around 10% lower than they were a year ago (UK levels sit at only 50% full).

The sentiment is driven by some fundamental factors such as a mild start to winter and the plentiful supply of liquefied natural gas (LNG), which continues to flow in spite of some re-routing of ships to the premium Asian market. With favourable weather expected to continue, this is likely to weaken prices further, although a close eye should be kept on the Ukraine peace negotiations, as a breakdown here could cause a reversal.

Electricity

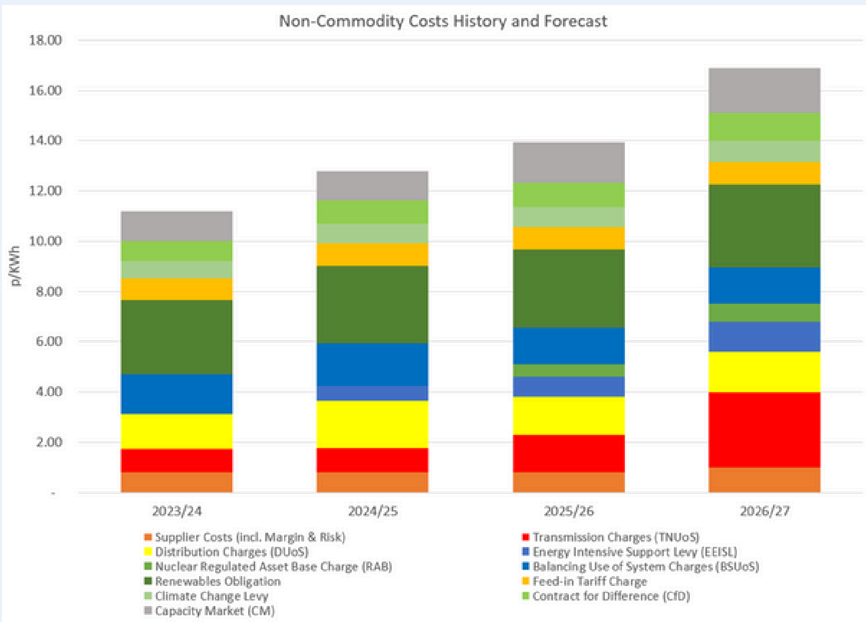


The electricity market generally takes its lead from the gas market, but in recent times it has refused to drop to the same degree. The main culprit holding the price firm is carbon, having increased by €10/tonne since July. Although UK ETS trades at almost €20 discount to EU ETS, its movements are very closely correlated and should be expected to converge again in the medium term.

In spite of carbon putting a brake on a slide in prices, other factors have been very positive for buyers. The French nuclear fleet (for several years a source of risk due to unreliability) has had very strong output, leading to more power flowing over the interconnector into the UK, whilst continued growth of wind capacity has meant the 'operational capacity' (the headroom that NESO, the market operator, forecasts between anticipated peak demand and availability of generation) is, at 10.9%, the highest it has been for over five years.

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 taxes to ensure security of supply by subsidising the availability of capacity.These currently represent around 60% of the price an average consumer pays today, and are set to rise to over 65% next year:



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)

NESO have released their 5 year transmission tariff forecast from April 2026, revealing a significant jump in costs for customers over the course of the charging period, with a big jump from 1.6p/kWh to 3.1p/kWh expected between 25/6 and 26/7. Exact numbers will be confirmed in January, affecting most consumers.

REMA (Review of Electricity Market Arrangements) and Modern Industrial Strategy

'Zonal' pricing has been rejected following REMA, with unspecified reform of the existing markets proposed instead, but not until 2029. The Modern Industrial Strategy will have an impact; however, with increased relief against network charges for both large and small industrials to be spread amongst other consumers.

Nuclear Support Scheme (RAB)

The Final Investment Decision (FID) for the new Sizewell C nuclear plant was approved and the new 'Regulatory Asset Base' (RAB) charges are due to commence from this month (December 2025). Needless to say, the actual charges are going to be higher than the government initially estimated – expected to be almost double the originally anticipated cost at 0.35p/kWh by 2026/27.

For more information, please get in touch with your Utility Aid Account Manager or call us on **0808 1788 170**