

# Worksheet 5

## Speechwriting: Becoming an economist or a researcher

### Task:

Choose to be either an economist or a researcher.

Using the newspaper articles, select 8-10 facts, statistics or expert opinions which should be included in Ayesha's speech. Then, write why you think it's important to use these facts as evidence to cap energy.

Number	Fact/Statistic/Expert Opinions	Why is this evidence important to justify why energy should be capped?
1		
2		



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3		
4		
5		
6		



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7		
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10		



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Article 1 - Excerpt from Bloomberg UK, 26 August 2022

## Cost of UK's Winter Triples as Energy Price Cap Leaps

- Ofgem raises household cap to £3,549 starting in October
- More hikes coming as Russia keeps squeezing gas supplies

UK households will pay almost triple the price to heat their homes this winter compared with a year ago, a jarring increase for millions of people already struggling to afford everyday essentials.

Industry regulator Ofgem raised its cap on domestic energy bills to a record £3,549 (\$4,189) beginning Oct. 1. That amount is expected to go even higher in January as the UK competes with other nations for limited gas supplies.

"Come October, low-income households will simply not turn on their heating," said Peter Smith, director of policy and advocacy for the National Energy Action charity. "An increase of this much cannot be budgeted for by households with no wiggle room."

The higher cap, which was in line with analyst estimates, escalates the economic pressures on Britons paying increasingly more for everything from food to furniture. UK inflation hit a 40-year high last month, and Citigroup Inc. said it could surge past 18% in January.

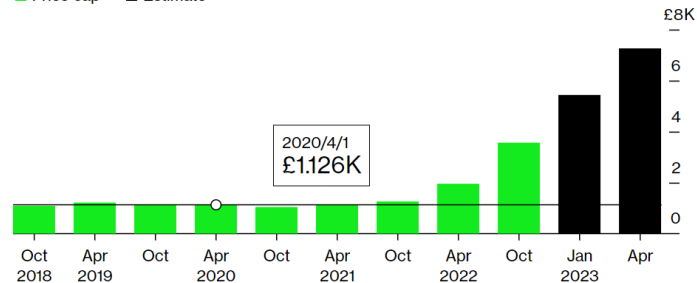


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## Bill Shock

Household energy bills will soar past historic levels as price cap jumps

■ Price cap ■ Estimate



Source: Ofgem; Auxilione estimate as of market close Aug. 25  
Note: UK price cap will be adjusted every 3 months starting in October

## Unit Costs

Energy rates and standing charges in UK bills are rising steeply

	October 2021	April 2022	October 2022	Winter to winter, % change
Electricity unit rate, £/kWh	0.21	0.28	0.52	+148% ▲
Gas unit rate, £/kWh	0.04	0.07	0.15	+275 ▲
Electricity standing charge, £/day	0.25	0.45	0.46	+84 ▲
Gas standing charge, £/day	0.26	0.27	0.28	+8 ▲

Source: Ofgem

The new cap -- a 178% increase on last winter's level and 80% up from April -- regulates how much suppliers can charge households per unit of energy and applies to about 24 million customers on variable tariffs.

Annual bills for a normal household could reach £5,405 in January after the next adjustment and as high as £7,263 in April, according to consultants Auxilione. However, the cap -- which is based on volatile market prices -- is hard to predict until closer to the adjustment times.

More than half of UK households risk being pushed into energy poverty this winter by eye-watering bills. Based on new unit rates, the cost of running a typical cycle on a normal dishwasher will go from about 40 pence last winter to over a pound, while the cost of a tumble-dryer cycle will jump from 80p to £2. Gyration on wholesale markets are the most important components for setting the level of the cap. While renewable sources have been accounting for a rising proportion of the UK's electricity supply, it's still gas that is the main driver of the overall price, and most UK homes get their heat from the fuel.



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## Article 2 - Excerpt from CNBC, 30<sup>th</sup> August 2022

### **UK inflation could top 22% as energy prices soar, Goldman Sachs warns**

LONDON — U.K. inflation could soar above 22% next year if energy prices continue their upward spiral, U.S. investment bank Goldman Sachs warned.

In a research note dated Monday, Goldman said headline inflation could peak at 22.4% and gross domestic product could drop by 3.4% if energy costs keep rising at their current pace.

It comes after British households were hit with a projected 80% increase in their energy bills in the coming months, taking the average annual household bill to £3,549 (\$4,197) from £1,971 and exacerbating the country's existing cost-of-living crisis.

Ofgem is due to recalculate its price cap again in three months. However, Goldman said that if prices remain "persistently higher," another 80% hike could be possible.

The bank also said that the U.K. was likely to fall into a recession in the fourth quarter. It forecast that the U.K. economy would contract by -0.3% on a non-annualized basis in the fourth quarter of this year, followed by -0.4% and -0.3% in the first and second quarters of 2023, respectively. "We now expect the deepened cost-of-living crisis to push the U.K. economy into recession later this year," the note said.

Goldman's outlook is the latest gloomy forecast for the British economy, with Citi predicting last week that U.K. inflation would breach 18% in January 2023.



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## Article 3 - Excerpt from *The Guardian*, 30<sup>th</sup> August 2022

### Energy prices could push UK inflation to 22%, a near post-war record

Inflation in the UK could top 22% next year, close to the post-war record set in 1975, if wholesale energy prices remain at current high levels, Goldman Sachs has warned.

Highlighting the pressure on households and businesses, the US investment bank said inflation could peak at 22.4% next year if wholesale gas and electricity prices continue to spiral over the winter.

In a scenario where prices “remain elevated at current levels”, economists at the bank said the Ofgem energy price cap for household bills could rise by more than 80% in January. This would “imply headline inflation peaking at 22.4%”.

Inflation rose above 10% for the first time since the early 80s in July, fuelled by surging wholesale energy prices and the rising cost of basic essentials. Inflation hit a post-war record of 24.5% in August 1975. Wholesale gas prices in the UK have climbed by 145% since the start of July amid fears of shortages this winter as Russia throttles supplies to Europe. Goldman said it did not expect the recent leap in European gas prices to persist, meaning inflation was likelier to peak at close to 15% early next year.

Gas prices have fallen back in recent days after Germany’s economy minister said its storage facilities had reached 85% of their capacity, ahead of expectations. The EU is also preparing to make “emergency interventions” which could help bring down current soaring prices.

The Goldman forecast is the latest eye-watering estimate for UK inflation, surpassing predictions made by the US bank Citi for an 18.6% peak next year. The Bank of England has forecast a peak above 13%.



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## Article 4 - Excerpt from the Conversation, 15<sup>th</sup> August 2022

### Britain's energy price cap was never designed to keep your gas and electricity affordable

The price of gas and electricity is soaring in Britain and many millions of people are likely to be pushed into fuel poverty. And this is even with an “energy price cap”. Perhaps weirdly to many, nothing has actually gone wrong in terms of what the price cap was designed to do. But something clearly *is* going wrong since energy is becoming more and more unaffordable.

In short, the cap prevents the retail part of the energy supply chain (the companies that send you a bill) from making excessive profits, but places no restrictions on the production and wholesale parts. And massive increases in wholesale costs since the pandemic and the Ukraine invasion have been passed on to households (and businesses, who are not protected by the cap).

A problem upstream

To understand why there has been such a rapid rise in the “price cap”, which after all sounds like something that should be keeping prices under control, we should go back to its origins. In January 2019 the UK government introduced a price cap in the British energy retail market, applying to household users and the companies who bill them for gas and electricity (often referred to as “suppliers”). It means those companies cannot set their prices above a stated level, which is reviewed periodically (every six months so far) by the regulator, Ofgem.

Generally, the price cap has held the average annual household bill at less than £1,200. But the the cap – and therefore household bills – is now rising rapidly and, if there is no change, is expected to be more than £4,000 by early 2023.

We need to be clear about what the energy price cap was designed to do: to protect households who hadn't secured a fixed priced contract and find themselves on a supplier's basic variable default energy tariff. However, this protection is only in terms of ensuring





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people pay a “fair” retail market price (even if relative to an unfair or unaffordable wider energy market), with bills falling when suppliers’ costs do.

But there are two crucial points. First, the price cap doesn’t apply further upstream, where energy is actually produced and where most of the price rise comes from. Second, it was never designed to keep gas and electricity affordable or to offer any specific protection for those in danger of slipping into fuel poverty. The price cap is the same for every household, regardless of income.

What’s gone wrong?

Just as the price cap forces suppliers to lower the default tariff when their costs fall, it allows them to increase it when their costs rise. This flip-side is important – the first big impact of rising wholesale gas prices earlier in 2022 was when a number of smaller British energy companies providing fixed price deals went out of business, because they couldn’t pass on rising costs in time and didn’t have the financial resilience to weather the storm.

Ofgem has now decided to revisit the price cap more frequently – every three rather than every six months from the start of 2023. If supplier costs were falling, that would work better for households. When those costs are rising, due to factors further up the supply chain, regular updates to the cap will help stop suppliers going out of business but will do little to help their customers pay their bills.

How the supply chain works

Gas prices are the main problem as they affect not just gas bills, but also electricity bills, even when only a small share of electricity is generated using gas. We’ve all heard about numerous and complex constraints on energy supply, not least what’s happened to Europe’s gas supply since Russia – a major supplier of gas – invaded Ukraine. Britain doesn’t actually get much from Russia (about 4% in 2021). But that doesn’t matter, because wholesale gas prices are set on global markets and when supply is constrained, global prices rise.



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Those high prices do contribute to huge profits being declared by some big energy firms – when there are supply shortages, those involved in extracting and trading fossil fuels can increase profits simply by securing a high price for their gas (and oil) on global markets. Crucially, the price cap does not apply at this stage of the supply chain, and there is no requirement to “share the gain” along with the costs.

So, what can be done?

Unfortunately, not much under the current price cap system. It only applies to the retail market, that part of the energy supply chain that households have their contracts with. The price cap is also a flat rate cap applying to all households, and it's not designed to act as some kind of social tariff.

Our own analysis at the Centre for Energy Policy shows that lower income households are being hit hardest by the current energy price shock. The £400 Energy Grant Payment due to roll out from autumn 2022 could offset much of the direct impacts on them under the current price cap but will fall far short when the price cap and bills rocket in September and again in January.

To prevent rising poverty and an increased chance of severe recession, more direct help must be provided in the near term, perhaps along with wider emergency action. However, it is also time to revisit what the energy price cap is designed to do, and how it does it.



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## Article 5 - Excerpt from IEA, 12<sup>th</sup> October 2021

### What is behind soaring energy prices and what happens next?

The historic plunge in global energy consumption in the early months of the Covid-19 crisis last year drove the prices of many fuels to their lowest levels in decades. But since then, they have rebounded strongly, mainly as a result of an exceptionally rapid global economic recovery (this year is on track for the fastest post-recession growth in 80 years), a cold and long winter in the Northern Hemisphere, and a weaker-than-expected increase in supply.

Natural gas prices have seen the biggest increase, with European and Asian benchmark prices hitting an all-time record last week – around ten times their level a year ago. US month-ahead natural gas prices have more than tripled since October 2020 to reach their highest level since 2008. International coal prices are around five times their level a year ago, and coal power plants in China and India, the world's two largest coal consumers, have very low stocks ahead of the winter season.

The strong increases in natural gas prices have prompted substantial switching to the use of coal rather than natural gas to generate electricity in key markets, including the United States, Europe and Asia. The increased use of coal is in turn driving up CO<sub>2</sub> emissions from electricity generation globally.

The higher gas and coal prices, combined with rising European carbon prices, have resulted in higher electricity prices. In Germany, electricity prices leaped last week to their highest level on record, up more than six times from a year ago. In Spain, where gas-fired power generation plays a larger role in setting electricity prices, the increase was even higher. In recent weeks, lower-than-expected wind generation has provided additional upward pressure.



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Meanwhile, global oil demand continues to recover from its 2020 lows, and prices at the pump in many countries are at or near their highest levels in years. Companies around the world are expected to continue to draw on their oil stocks to help meet demand until the end of this year.

The price increases are expected to result in sharp upward pressure on household energy bills and also present broader risks to economic activity, especially for sectors that are directly exposed to the price rises. Many governments have taken measures to alleviate electricity bills, especially for vulnerable consumers.

In Europe, many businesses are likely to face the double impact of rising energy costs and a potential decline of consumer spending due to households' increased energy-related expenses. Rising power prices are already impacting operations of electricity-intensive industries. And several companies have temporarily curtailed ammonia and fertilizer production, citing deteriorating margins due to the sharp increase in gas prices.

In China, rigid electricity tariffs have not followed the large increase in coal prices. As a result, coal power producers have insufficient coal on hand and rolling blackouts have occurred across two-thirds of Chinese provinces. Large energy-intensive industries – including steel, aluminium and cement – have been directed to cut production. The effect on global supply chains is not yet clear. In the northeast provinces of Heilongjiang, Jilin and Liaoning, even households are suffering power cuts, which is likely to have policy implications.

In India, the economic recovery and related increase in energy demand are causing a coal shortage. India's domestic coal mining, which accounts for 80% of the country's supply, has been unable to keep pace with demand, and higher international prices are making imports uneconomical. Power plants that rely on imported coal have slowed or even halted operations, and some plants that rely on domestic coal are starting to run out. Despite government efforts to address the shortages, several Indian states have suffered serious power shortages in recent days, affecting both residential and industrial customers.



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The current high coal and gas prices are not the result of a single “shock event” on the demand or supply side. Rather, they result from a combination of supply and demand factors that gradually tightened markets over the course of several months and even years.

Investments in oil and natural gas have declined in recent years as a result of two commodity price collapses – in 2014-15 and in 2020. This has made supply more vulnerable to the sorts of exceptional circumstances that we see today. At the same time, governments have not been pursuing strong enough policies to scale up clean energy sources and technologies to fill the gap.

Against this backdrop, both coal and natural gas demand recorded strong gains across key markets in the first half of 2021 as the global economy rebounded. Initial estimates suggest that natural gas and coal consumption in these key markets increased by 8% and 11% respectively, compared with the first half of 2020. As well as the economic recovery, these rises were driven by a number of weather-related events, including a cold winter in the Northern Hemisphere, droughts that curtailed hydropower output in Brazil and elsewhere, and lower-than-average wind generation in Europe.

In terms of supply, both natural gas and coal have faced constraints. The Covid-19 lockdowns pushed some maintenance work from 2020 into 2021, which weighed on supply at a time when demand was recovering. The impact was particularly tangible in the UK and Norwegian areas of the North Sea Continental Shelf. In addition, unplanned outages at LNG liquefaction plants, upstream supply issues, unforeseen repair works, and project delays all further tightened the global gas market. The amount of global LNG supply affected by outages in the first nine months of 2021 was up by an estimated 27% compared with the average for the same period throughout 2015-2020 – with most of the outages unplanned. Russia’s Gazprom, while honouring its long-term supply contracts, reduced its exposure to short-term sales and has not replenished its own storage sites in Europe to the levels seen in previous years. Gas supplies from the Groningen fields in the Netherlands, which are being closed in 2022, continue to be reduced as planned.

We estimate coal demand in China was up more than 10% in the first half of 2021 from the same period a year earlier, but coal production increased just over 5%, pushing up prices. With China by far the world’s largest coal consumer and the price setter for global coal markets, international prices followed those in China. Disruptions among major exporters – in particular Indonesia, the



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world's largest thermal coal exporter, and to a lesser extent Australia and South Africa –pushed up prices further. High prices for natural gas, the main competitor of coal in power markets, also supported coal prices.

Due to strong demand growth and tighter-than-expected supply, European underground gas storage levels at the end of September were 15% below their five-year average levels. Low storage levels are expected to further increase Europe's reliance on gas imports through the heating season. In Brazil, the prolonged drought left the country's huge water reservoir levels 25% below their five-year average by the beginning of October, which could lead to further demand for LNG imports in the coming months. Prospects for the coal market, with low inventories ahead of the winter season not only in China but in all key consuming regions, are little better.

Current market dynamics (forward curves as of beginning of October) suggest that European benchmarks for natural gas (TTF) and coal (Rotterdam coal) will remain high, averaging USD 30/MBtu and USD 190/t through the 2021-22 heating season respectively.

Globally, the key drivers of energy market dynamics over the coming months will be the severity of the Northern Hemisphere winter, the strength of economic growth trends and the magnitude of unplanned supply outages. Prices of both natural gas and electricity will fluctuate in Europe depending on temperatures, wind output and many other factors. In this sense, weather conditions will affect markets from both the demand and supply sides. These fluctuations may be exacerbated by reduced natural gas storage levels, since these result in lower pressure levels that weigh on the ability to withdraw gas from storage sites during periods of high demand.

It is legitimate for countries to take emergency measures such as temporary relief from some taxes or charges to ease the burden on consumers, especially the most vulnerable, from periods of short-term market turmoil. But these measures should be implemented in such a way that they do not worsen the investment environment for low-carbon energy sources and technologies – such as renewables, energy efficiency, electricity grids, nuclear power and sustainable biofuels – which are vital for the transition to cleaner and more resilient energy systems.

