utility aid

Energy Outlook

October 2026



Overview

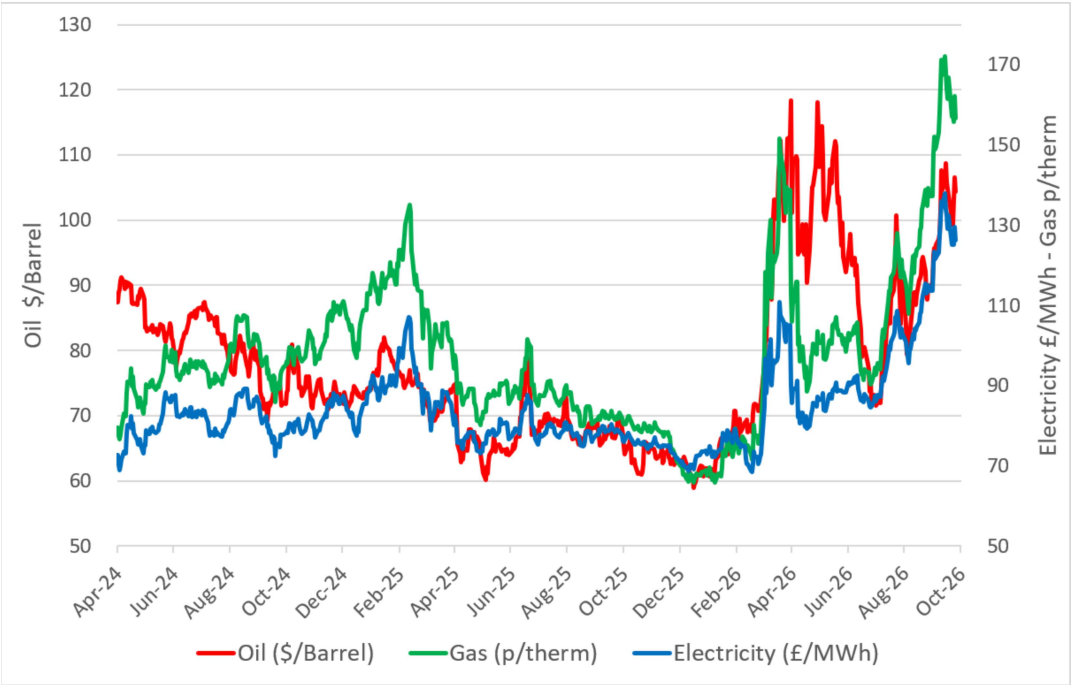
In spite of the ongoing good weather, we have now moved into the winter season and the worst fears of energy buyers has been realised, with no realistic end in sight for the conflict in the Middle East and gas storage levels across Europe (and in the UK in particular) sitting much lower than a year ago. As a result, energy prices have shown considerable volatility over the past few months, reaching new highs for the year in September.

The news isn't all bad, though. Wind and solar generation levels in the UK have now reached a point where they are measurably taking the edge off of wholesale electricity prices, so although power continues to take its direction from gas, the peaks have been softened. It has also been confirmed that the output capacity of the Norwegian Troll field has been increased in time for winter, which will alleviate some of the risk of lower LNG shipments from Qatar.

The situation in the Middle East will continue to dominate market sentiment for some time to come. As discussions and hostile actions between the US and Iran go back and forth, with agreements (such as the Memorandum of Understanding in June) breaking down almost as soon as they are put in place, the process towards peace has lost credibility and the risk of the conflict spreading to other countries in the area increases. That said, alternative commercial passages to the Strait of Hormuz are slowly emerging, giving hope that prices will show some kind of restraint as we enter the final quarter of 2026, although so far this has been more successful for oil than for LNG.

Energy price history

The graph below illustrates how wholesale oil, gas and power prices have changed since 2024. The markets had begun to trend downwards until the conflict broke out earlier this year. Whilst the impact has been less severe than the crisis of 2022, the rises have certainly been significant and could worsen, especially if there is an early cold snap.



Oil

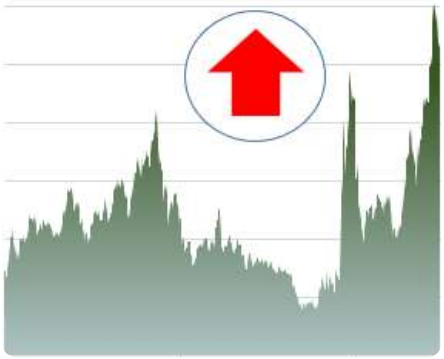


The ongoing crisis in the Middle East continues to create volatility and push oil prices ever higher.

There was hope back in June that diplomatic efforts were starting to bear fruit with the MoU between the US and Iran. The oil price had dropped back to nearly $70/barrel at the beginning of July before a Qatari LNG tanker was attacked and the US retaliated. By the end of the month, rumours had spread of a potential large-scale strike on Iran, pushing the market above $100 once again.

Things took a further turn for the worse in September, with Houthis seizing the Red Sea port of Mokha and the East-West pipeline in Saudi Arabia shutting down after drone strikes mid-month. Aside from the direct impact on supply from this Hormuz-bypass route, it raises the more significant concern that the field of conflict is expanding once again. As the month closed, it appears that tentative talks had resumed, although it requires a lot of optimism to expect this to be the end of matters!

Gas



In many ways, the gas market is now more impacted by the events in the Middle East than oil.

This is partly because there are fewer alternative supply routes to the Strait of Hormuz for gas, but also because we are now heading into winter, and the risk of cold weather pushing up demand.

During winter, the UK becomes reliant on three sources to meet gas demand: i) Liquified Natural Gas (LNG), (ii) Storage and (iii) import pipelines. Of these, the only positive story is with the pipeline from Norway after the production capacity of the Troll field was expanded, coming into effect as this report goes to press. There is no good news for storage: across Europe, levels are down 12% compared to a year ago and as at the beginning of September, the UK's capacity is only 32% full!

LNG is most affected by the lack of supply from Qatar due to the situation in the Strait of Hormuz. Although most of this cargo would ordinarily be destined for Asia, with this not flowing, the competition for what remains is strong. This competition from Asian markets will continue to hold prices up, regardless of whether the winter is mild.

Electricity



UK Electricity prices are still driven to a great extent by the cost of gas.

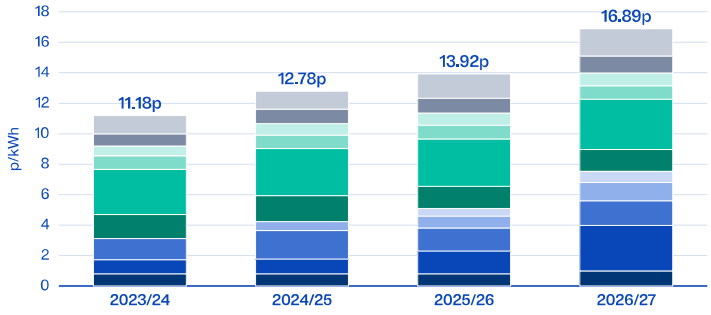
This is because gas-fired generators continue to be responsible for a large portion of overall generation and tend to set the price at which supply meets demand. This has been mitigated to some extent by the contribution of wind and solar generation, which has now become significant enough to take the edge off the gas price-induced spikes (even in winter). The price still spikes, but not by quite as much. As the share of renewables continues to increase, this will become more and more apparent over time.

Otherwise, after dipping at the end of the first quarter, carbon prices have risen back to similar levels to a year ago, but are below previous expectations after the decision to re-link UK and EU prices (which are tracking higher) was postponed following Kier Starmer's resignation in June. A further thing to watch out for over the coming months is unplanned nuclear outages. The fleet is already running at (deliberately) reduced output after problems with Heysham, Hartlepool and Sizewell B over the summer, as the limitations of the aging AGR (advanced gas-cooled reactor) technology starts to show.

Non-Commodity Costs

Non-commodity costs (typically referred to as '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.

Non-Commodity Costs History and Forecast



- Capacity Market (CM)
- Contract for Difference (CfD)
- Climate Change Levy
- Feed-in Tariff Charge
- Renewables Obligation
- Balancing Use of System Charges (BSUoS)
- Nuclear Regulated Asset Base Charge (RAB)
- Energy Intensive Support Levy (EEISL)
- Distribution Charges (DUoS)
- Transmission Charges (TNUoS)
- Supplier Costs (incl. Margin & Risk)

Figures based on an average UK Half-Hourly portfolio

Transmission Charges (TNUoS)

The ongoing upward march of TNUoS charges is set to continue after an almost 50% jump earlier this year. The Network Operator, NESO, published an update in the summer which showed an expected average rise in these fixed charges for most non-residential customers of 23% from April 2027. Although more stable than the wholesale energy component of the price, these charges will never go down, creating a permanent high base. This will certainly have an impact on ambitions to electrify transport and heat, and the new Prime Minister has made it clear that he is keen to make some fundamental changes to the way the network is owned and operated (although it's not clear whether this will reduce costs, and certainly will not over the coming year).

Balancing Charges (BSUoS)

Real balancing costs for NESO have gone up over the summer due to the volatility in the wholesale market caused by the Iran situation. Whilst BSUoS charges are fixed for users in the short term, it is likely that these will rise from April next year to recover the current shortfall.

Contracts for Difference (CfD)

Finally, some good news for CfD charges! Renewable generators receive a 'top-up' to make up the difference between the flat price that has been agreed for their power and the wholesale market price. When wholesale prices increase, the top-up reduces (and can even reverse, with the generator paying money back). Since prices have risen so much over summer, CfD costs have reduced significantly, which will filter into bills.

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

DISCLAIMER – This Outlook Paper is provided for information purposes only and may include opinions expressed by Utility Aid Ltd ("UA") which are not guaranteed in any way. UA does not represent or warrant that the information provided to you is comprehensive, up to date, complete or verified, and shall have no liability whatsoever for the accuracy of the information or any reliance placed on the information or use made of it by any person or entity for any purpose. Nothing in this Outlook Paper constitutes or shall be deemed to constitute advice or a recommendation to engage in specific activity or enter into any transaction.