

# UK gas supply explainer



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There has recently been widespread media coverage of wholesale gas prices, and the effect this could have on household energy bills. The impact on certain areas of industry, and its ability to continue production, has also attracted attention.

This explainer sets out the background to the issue and the action the government is taking to protect the UK's energy supply, industry, and consumers.

Natural gas prices have been steadily rising across the globe this year for a number of reasons. This has affected Europe, including the UK, as well as other countries around the world.

We have a diverse range of gas supply sources, with sufficient capacity to more than meet demand. The UK's gas system continues to operate reliably and we do not anticipate any increased risk of supply emergencies this winter.

Why are there high global gas prices?

The prices that are currently visible reflect the high value being placed on gas at the present time, with prices being determined by global supply and demand. They are not necessarily representative of pre-existing contracts and therefore do not apply to all of the gas being consumed in the UK this winter.

Current prices reflect a number of factors including:

as the world comes out of COVID-19 lockdowns and economies reopen, we are seeing an uptick in global gas demand this year.

\*combined with a cold winter (which has an impact on gas demand as gas is often used for heating homes) this has led to a much tighter gas market with less spare capacity

in particular, high demand in Asia for Liquefied Natural Gas (LNG), natural gas transported globally by ship, means less LNG than expected has reached Europe

\*some essential maintenance projects rescheduled from 2020 due to coronavirus coincided with necessary scheduled projects in 2021, while weather events in the US have adversely affected their LNG exports to Europe

How are high global gas prices impacting the UK?

The gas market is crucial to the UK's energy supply because of its significance in heating, industry and power generation.

Over 22 million households are connected to the gas grid and in 2020, 38% of the UK's gas demand was used for domestic heating, 29% for electricity generation and 11% for industrial and commercial use.

High gas wholesale prices have subsequently driven an increase in wholesale power prices this year.

In recent weeks, this trend has been exacerbated by the weather and planned maintenance at some power stations. This has resulted in unusually low margins for this time of year. These factors have combined to cause spikes in wholesale electricity prices, with a number of short-term markets trading at, or near, record levels.

While we are not complacent, we do not expect supply emergencies this winter.

Is our gas supply at risk?

The Great Britain (GB) gas system has delivered securely to date and is expected to continue to function effectively, with a diverse range of supply sources and sufficient delivery capacity to more than meet demand.

While our largest single source of gas supply continues to be the UK Continental Shelf (approximately 48% of total supply in 2020), the maturity of that source means we have to supplement supply from international markets.

Whilst the diversity of those international sources promotes our energy security, by reducing reliance on a particular source, the UK – as with other nations – is exposed to global trends in supply and demand which affect the price of gas traded at UK's market hub (the National Balancing Point).

We have a wide range of supply sources including direct pipelines across the North Sea from Norway to the UK, our single biggest source of imports. We are also investing millions into scaling up strong renewable energy capacity and driving down demand for fossil fuels.

GB also has a number of gas storage facilities that act as a source of system flexibility when responding to short-run changes in supply and demand.

What is the government doing on this?

Energy security is an absolute priority for this government. The government works closely with the regulator and gas supply operators to monitor supply and demand.

While wholesale gas prices have increased internationally this year, the market continues to balance supply and demand through adjusting the prices at which energy trades take place. We have no reason to suggest this will not continue but will monitor the market.

National Grid Gas has a number of tools at its disposal to mitigate the risk of a gas supply emergency, including requesting additional gas supplies be delivered to the National Transmission System. Together with the Department for Business, Energy and Industrial Strategy (BEIS), National Grid Gas has robust response plans in place in the unlikely event that risk should materialise. Read plans for network gas supply emergencies.

Will this affect energy bills?

The high wholesale gas prices that are currently visible may not be the actual prices being paid by all consumers.

This is because major energy suppliers purchase much of their

wholesale supplies many months in advance, giving protection to them and their customers from short-term price spikes.

The Energy Price Cap is also in place to protect millions of customers from the sudden increases in global gas prices this winter. Despite the rising costs of wholesale energy, the cap still saves 15 million households up to £100 a year.

The current global wholesale gas price situation as set out above could have an effect on companies.

Companies without longer-term contracts may face higher costs, but we expect that companies with longer-term contracts in place may have little exposure to the current high wholesale prices. If there were an event where a supplier fails, Ofgem would work to ensure that customers are moved to a new supplier, so they are not without energy.

How is the government helping poorer households?

Our Energy Price Cap will protect millions of customers from the sudden increases in global gas prices this winter.

We are also supporting low income and fuel poor households with their energy bills in a number of ways which demonstrates the government's commitment.

This includes through:

the Warm Home Discount which provides eligible households with a £140 discount

in addition, Winter Fuel Payments and Cold Weather Payments will help ensure those most vulnerable are better able to heat their homes over the colder months

Vulnerable people and anyone in financial distress during this time should talk to their energy supplier, who will be able to discuss personal circumstances and consider options to help, including reassessing, reducing or pausing payments. Emergency measures have been agreed between government and energy suppliers to support those most in need during the disruption caused by COVID-19, and this

agreement remains in place this winter. Read details of the agreement.

As set out in the Energy white paper, we plan to extend the Warm Home Discount until 2026, increase it to £150, and help an extra 780,000 pensioners and low-income families with their energy bills. With a total of 2.7 million to get support, with the vast majority to receive the money back automatically, without having to apply as at present.

Cold Weather Payments provide vulnerable households on qualifying benefits with financial support when the weather has been, or is forecasted to be, unusually cold. £25 is available for eligible households for each 7 day period of very cold weather between 1 November and 31 March.

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