Energy UK

The voice of the energy industry

Energy UK briefing: The situation in the Gulf and impact on energy prices

Updated 20th April 2026

This briefing is updated regularly given the fast-moving situation

Key Points

- Conflict in the Middle East has caused significant increases in wholesale gas prices which will have a material impact on the level of the next price cap (1 July to 30 September 2026).
- The final level of the cap, however, will depend on how gas prices evolve over the coming weeks and will be announced in late-May by the energy regulator Ofgem.
- The scale of any increase and potential impact on longer term price caps, such as the 1 October to 31 December 2026 cap, will depend on how long prices remain high over the summer.
- The price cap is set every three months and reflects the average price suppliers would have bought energy for over the observation window. This means there is a lag between 'live' wholesale prices and the price cap level.
- Right now (1 April to 30 June 2026 price cap), customers are paying the average price of energy between December and February, just before the conflict began, and they won't see the impact of the currently high gas prices until 1 July or later when the next price cap comes into place.
- This delayed nature of reflecting past energy prices means that customers are facing lower costs now, but if gas prices drop back to their pre-conflict levels, the following quarter's price cap may remain temporarily elevated.
- While few households are yet facing the higher energy prices caused by the conflict through being on a fixed deal or the current price cap, businesses entering a new contract will see almost an immediate impact. Ways to support businesses can be found on our website.
- Britain's gas supply remains secure, even if storage is low – which is completely normal coming out of winter. Only ~2% of our gas supplies come from countries around the Gulf, the majority coming from the North Sea, via pipelines from Norway and Europe, and Liquified Natural Gas (LNG) imports mainly from the US.
- In this context, the North Sea basin plays a vital role in the security of the UK's gas supply, which could be increased in the short-to-medium term, subject to regulatory changes. It should be noted, however, that any increase in gas supply will not have a direct or material impact on energy prices.
- The most effective way to protect UK households and businesses from price volatility is to reduce our reliance on gas and strengthen energy security by continuing to expand renewable and low-carbon generation, while electrifying homes and buildings across the UK.

What does the current volatility in gas markets mean for UK households?

- The 1 April to 30 June 2026 price cap was confirmed at £1,641 on 25 February, before the conflict in the Middle East started.[1] Therefore, households on a standard

[1] Ofgem (2026), Energy price cap explained

variable tariff will not see the impact of higher gas prices on their bills until 1 July – 30 September price cap period.
- Households that are currently on a fixed tariff that started before the conflict began will also avoid the effect of the recent gas price spike throughout the remaining length of their contract.
- A prolonged conflict will see the heightened prices in wholesale gas markets have a meaningful impact on customer bills, due to the influence of wholesale costs on the final price cap.
- The price cap is set every three months and reflects the average price suppliers would have bought energy for over a 3-month observation window.[2] This means there is a lag between 'live' wholesale prices and the price cap level.
- Right now (1 April to 30 June 2026 price cap), customers are paying the average price of energy between December and February, just before the conflict began, and they won't see the impact of the currently high gas prices until 1 July or later when the next price cap comes into place.
- This delayed nature of reflecting past energy prices means that customers are facing lower costs now, but if gas prices drop back to their pre-conflict levels, the following quarter's price cap may remain temporarily elevated.
- The scale of any increase and potential impact on the October 2026 price cap will depend on the duration of current volatility in the market.
- Suppliers and the Government are closely monitoring the situation to best prepare for any possible impacts. If households are concerned, they should speak directly to their supplier.

How are business energy prices affected?

- UK electricity prices are already among the highest in the developed world, with prices for medium-sized businesses substantially above the European median.
- Significant wholesale price volatility creates uncertainty for businesses, which face difficult trade-offs between locking in higher prices and remaining exposed to potential price changes.
- Businesses have a variety of arrangements for their energy bills, often with bespoke contracts that best suit their needs.
- These are often long-term contracts, lasting between one and three years. Just like a household, those already on a fixed contract will not see their price change until that contract ends.
- However, businesses whose contracts are due for renewal soon, or those on variable or flexible tariffs, may already begin to see higher prices reflected. Businesses should speak to their supplier immediately if they are concerned.
- Energy UK has produced a full briefing with more detail on the impact of the conflict on non-domestic energy contracts on our website.
- In any case, energy costs are a significant expense for too many businesses. Energy UK is currently working in partnership with the CBI, calling for urgent government action to reduce persistent high business energy costs in our latest report.

Could future energy price caps increase if gas prices stay high?

[2] Ofgem's price cap observation window is the three-month period used to calculate wholesale energy costs, setting the cap quarterly. This window ends approximately one month before the new price cap period begins, allowing for a swift reflection of market changes.

- The next energy price cap period (1 July to 30 September 2026) is currently being calculated using wholesale market data collected during Ofgem's observation window.
- The scale of any increase will depend on the duration of the current level of prices volatility in the market. This means if prices fall back before the end of the observation window, the impact on the cap may be more limited. If prices remain elevated or increase further, the effect will be larger. At this stage, it is still too early to quantify this exactly.
- It is important to note that, so far, prices are still a long way from what the country experienced in 2022 following Russia's invasion of Ukraine, where the price of gas went up to around ten times average levels.[3]

What is the difference between the types of energy companies out there?

- The volatility of oil and gas markets in recent weeks has seen a focus on 'energy' in a very broad sense, but it's important to understand the difference between companies out there.
- Energy UK represents companies across the energy system, including power generators, infrastructure developers and energy suppliers. There are also companies involved in the production of oil and gas, and those that supply heating oil – Energy UK does not represent this part of the sector.
- Companies across the energy sector are continuing to invest billions of pounds in new infrastructure, including renewable generation, electricity networks, storage and flexibility technologies. These investments are essential to strengthening the UK's energy security and reducing exposure to volatile international fossil fuel markets in the long term.

Why can't suppliers simply absorb higher costs?

- The current price cap limits what people pay for their energy by placing a ceiling on what suppliers charge them. The cap, however, doesn't limit what suppliers pay for the energy on the market or how much they're owed.
- Even the most successful suppliers only make a few pounds profit per household per year, on an average energy bill of around £1,700.
- Energy suppliers, like all businesses, should be able to make a reasonable and appropriate profit. This is important for a successful and competitive energy market. During the 2022 energy crisis, more than 20 suppliers went bankrupt because of unsustainable business models when gas prices spiked.
- For more detailed information about profits in the energy sector, we have produced this briefing.
- Energy debt is also a significant and growing problem. We estimate energy suppliers currently shoulder around £5.5 billion of debt on their books. This has increased by about £1 billion in a year and shows a growing affordability issue.

What does this mean for homes reliant on heating oil?

- Across the UK, an estimated 1.7 million UK households rely on heating oil rather than mains gas or electricity to heat their homes. They are typically located in rural areas with no connection to the gas network and where there is limited grid capacity to support the use of electric heat technologies.

[3] House of Commons Library (2023), *Gas and electricity prices during the energy crisis.*

- Homes that rely on heating oil purchase fuel from an unregulated market and are exposed to the volatility of global crude oil prices. While supplies of gas are presently not an issue, heating oil users can be more vulnerable to supply shortages, which may lead to scarcity concerns and significant price spikes.
- The UK Fuel Distribution Association has written consumer advice addressing why heating oil prices have gone up, and has recommended that households speak to their local distributors, and, where possible, delay purchasing for the time being.
- On 16th March, the Prime Minister announced £53 million in support for households using heating oil. Alongside this package of support, the Government committed to a series of measures to protect consumers and regulate the market.

Why is the price of electricity increasing when it is the cost of gas that is affected?

- In the UK, electricity prices are set by the last generator on the system needed to meet demand, which is typically a gas plant. This is called marginal pricing, which is the same way that almost every other commodity market works.
- Our explainer on marginal pricing can be found on our website.
- This means that even when cheaper sources, such as renewables or nuclear, provide much of our electricity, the overall market price is still set by gas.
- Gas plants are essential for balancing our supply and demand, particularly when renewable generation varies. When gas prices rise however, so does the cost of running these plants, and this is reflected in the wholesale electricity price.

Is the UK's gas supply at risk due to conflict in the Gulf?

- Our gas network is designed to be flexible and resilient, drawing on a wide range of sources to keep the lights on, homes warm, and businesses powered.
- For the time being, gas supplies remain stable. Around 40% of the UK's gas supply comes from the North Sea, with most imports coming from Norway and the United States. Only around 2% of our gas supplies come from countries around the Gulf. [4]
- Britain also uses gas storage differently from many European countries. The system incorporates a mixture of slow, medium and fast-responding storage technologies.
- As a result, direct comparisons with storage levels in other European countries can be misleading and do not always reflect how the UK meets its gas demand.

Will more drilling in the North Sea lower energy bills?

- The North Sea has played a historic and vital role in the UK's energy system, which continues to this day in providing around 40% of the UK's gas supply, but it is a maturing basin.
- While the long-term trajectory of the basin is clear, there is an opportunity for projects operating in the North Sea to provide a greater role in the UK's supply of gas in the short-to-medium term.
- It should be noted however, that new supply would not directly reduce energy bills, as the UK gas price largely mirrors that on international markets.

How can the UK reduce its exposure to gas price volatility in the future?

- As we build out more sources of low-carbon generation, gas plants will have to run less frequently, so gas will set the price of electricity less frequently.

[4] DESNZ (2024), Digest of UK Energy Statistics (DUKES)

- Building new, homegrown renewable and low-carbon power will reduce the impact of volatile wholesale costs, delivering energy security as well as affordable, stable bills.
- Additionally, rolling out electric heating and transport technologies, such as heat pumps, solar and batteries, will reduce households' direct reliance on gas for heating, helping to shield them from gas price volatility, whilst also contributing to our energy security by strengthening our system.

About Energy UK

Energy UK is the trade association for the energy industry, representing companies investing billions of pounds to secure our country's current and future energy needs.

From growing start-ups to major electricity generators, grid and infrastructure developers and energy suppliers, our members are driving change across power, heat, transport and flexibility.

We provide a collective voice for the sector, working with governments, regulators, charities and other organisations to provide crucial insight that shapes policy, offers solutions and promotes best practice.

Our broad view across the whole system supports evidence-based positions which are not tied to particular technologies, and are focused on delivering strategic benefits for people, businesses and the economy.

We champion initiatives such as our Vulnerability Commitment, which pushes suppliers to go beyond regulation to support customers with additional needs, and TIDE, the industry's drive for greater inclusion and diversity. Through our Young Energy Professionals Forum, we support the development of future leaders. We are equally committed to our team and are proud to be recognised as a 'Gold' Investors in People employer.

For more information, please contact Energy UK at MPSupport@energy-uk.org.uk.