Beond Weekly UK Insight

13 July 2020

Gas

p/therm	3 Jul 20	10 Jul 20	Change
Day-Ahead	13.50	13.00	-3.7%
Aug 2020	15.11	13.67	-9.5%
Winter 2020/21	33.64	34.03	1.1%
Summer 2021	31.01	31.50	1.6%

Power

£/MWh	3 Jul 20	10 Jul 20	Change
Day-Ahead	27.29	28.57	4.7%
Aug 2020	32.25	31.52	-2.3%
Winter 2020/21	46.09	46.63	1.2%
Summer 2021	41.23	41.88	1.6%

The UK's **Day-Ahead gas** price fell 3.7% to 13.00p/therm last week as the UK gas system was oversupplied, caused by lower gas for power demand. This was compounded by unseasonably strong wind generation earlier in the week.

Day-Ahead power climbed 4.7% to £28.57/MWh due to reduced solar generation, while French nuclear availability remained low.

Winter 2020/21 gas rose 1.1% week-on-week to 34.03 p/therm, with the equivalent **power** price rising 1.2% to £46.63/MWh. The key driver in recent weeks has been that energy demand across both the UK and Europe is on the rise as more and more businesses return to normal with lockdown restrictions easing.

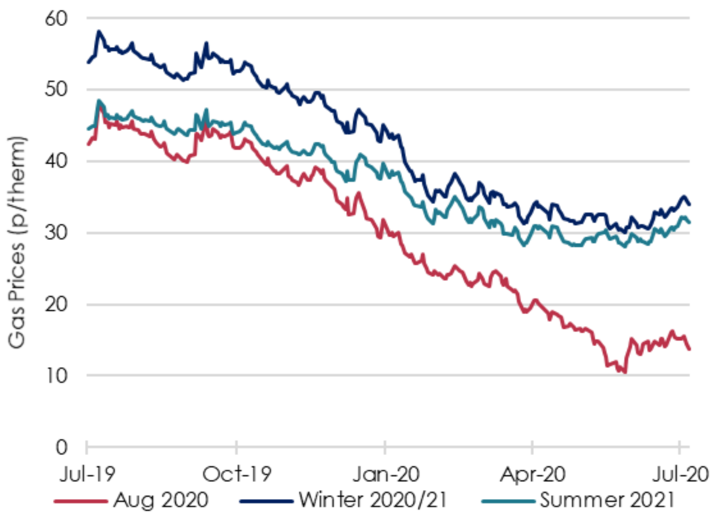
July has seen only two LNG arrivals so far, with just two more due over the next week. In addition, European storage levels would normally be around 58% at this stage in the year, while they are currently around 81%.

Norway's Oseberg field underwent unexpected maintenance midweek, reducing imports by 14 mcm/d. The delayed maintenance on Åsgard's field is due to commence later this week, with capacity impacted by 8mcm/d.

Week-on-week gains persisted across the forward energy market, despite the U.S. experiencing a record increase of nearly 67,000 new Covid-19 cases on Friday, raising concern that global fuel demand growth could stall again if we experience a second wave.

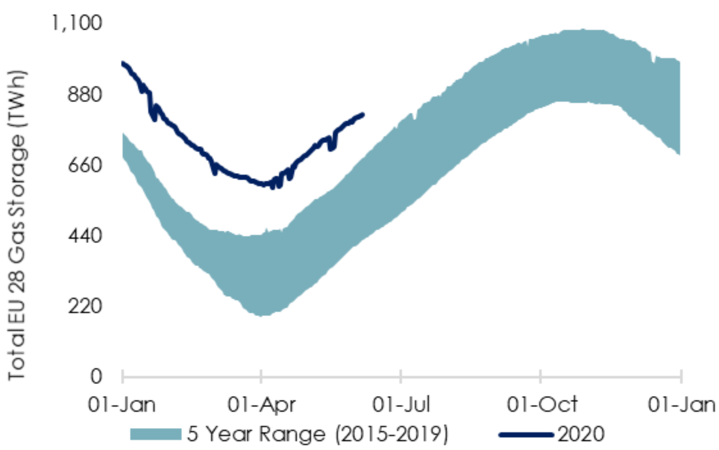
Our recommendation remains to lock in contracts as soon as possible as prices gradually rise following the easing of lockdown restrictions.

UK Gas

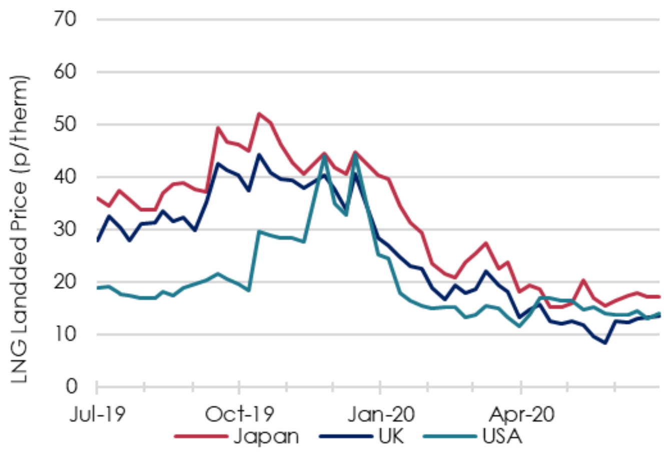


UK Power

European Gas Storage



Global LNG (Japan v UK v USA)



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Rewarding Climate Action

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Oil

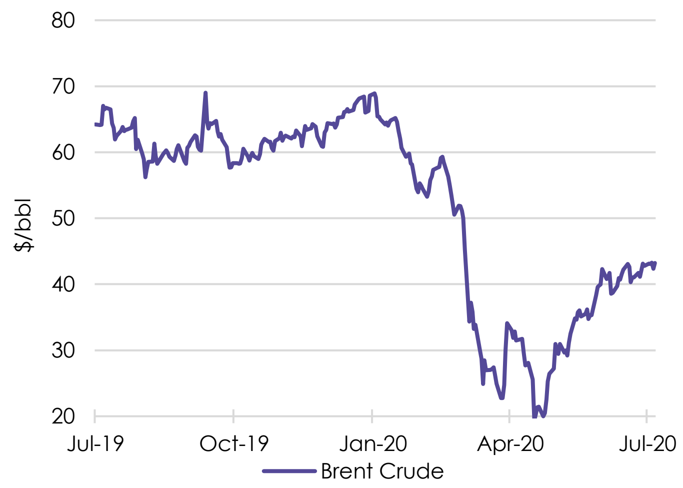
$/bbl	3 Jul 20	10 Jul 20	Change
Brent Crude Sep 20	42.80	43.24	1.0%

Source: Reuters

Brent Crude oil rose 1.0% last week to $43.24/bbl.

Fears remain that a spike in Covid-19 cases in the U.S. could curb fuel demand pressured prices downwards.

However, positive economic data supported prices, as global economies reopen, combined with OPEC oil production remaining at the lowest level in decades slightly overshadowed demand fears. This led to a small gain for the week.



Exchange Rates & Economics

£/$	3 Jul 20	10 Jul 20	Change
GBP/USD	1.2483	1.2620	1.1%

Source: Reuters

The **Pound Sterling** increased by 1.1% to 1.2620 as fears continue that high rates of new infections will prevent the full recovery of economic activity in the U.S., in contrast to Europe where the situation has improved dramatically in recent weeks.

The Chancellor of the Exchequer announced £30bn of measures to help boost the UK economy's recovery from lockdown, supporting the Pound.

Measures included a 6-month VAT cut from 20% to 5% to help boost the tourism and leisure sector.

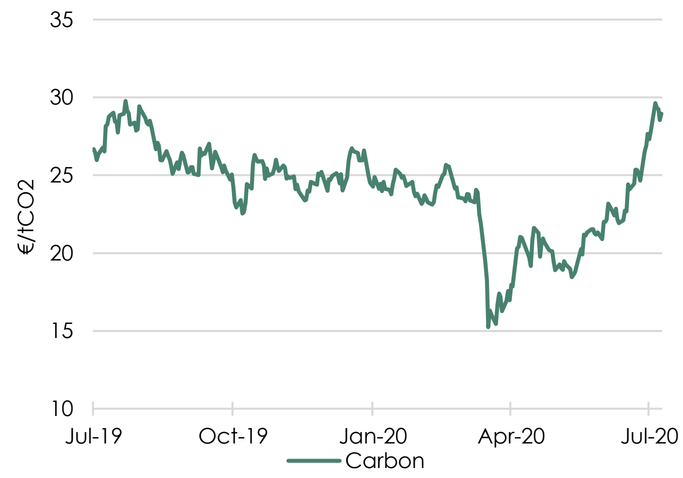
Carbon

€/tCO2	3 Jul 20	10 Jul 20	Change
EUA Dec Yr	27.85	28.96	4.0%

Source: Reuters

European carbon rose 4.0% to €28.96/tCO2 last week.

The EUA Dec-20 contract climbed back above €29 on Friday, ensuring a 4% weekly gain, that kept carbon near its year-high with support from easing of lockdowns in Europe.



Coal

$/tonne	3 Jul 20	10 Jul 20	Change
API2 CIF ARA Yr	57.35	57.85	0.9%

Source: Reuters

European coal prices increased slightly by 0.9% to $57.85/tonne last week as the increase in power demand, because of higher economic/business activity across Europe, increased coal demand for power generation.

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Regulatory and Market News

Energy suppliers criticise Ofgem's plans to cut bills amid £25bn spending on network over 5 years

Energy companies have criticised proposals by the industry's regulator to cut customers' bills and spend more on green investments.

Under Ofgem's plans, households could see their bills cut by £20 a year while firms spend £25bn over five years to invest in the UK's energy network.

Ofgem said it wanted "a greener, fairer energy system for consumers". However, National Grid, SSE and Scottish Power all said that the regulator's plans were flawed.

The energy regulator sets out price controls which dictate how much money gas and electricity companies can earn, while allowing them sufficient scope to fund new investment from customers' bills.

Within the draft, Ofgem outlined plans to:

- Allow £25bn over the five-year control
- Allocate £10bn, and potentially more funding if justified, for forward looking decarbonisation investment
- Allocate £3bn upfront for connections and grid upgrades
- Set aside at least £630m for innovation projects & £500m for networks to reduce their own environmental impacts.

Under its latest proposals, which run from 2021 to 2026, they will be allowed to spend £25bn on improving gas and electricity networks and recoup this cost from customers.

Some £3bn will be used to make the electricity network more environmentally friendly, while more than £1bn will go towards green energy research and reducing the networks' own impact on the environment.

In order to reduce the cost to consumers, Ofgem says, the return energy firms will be allowed to make from their investments will be nearly halved.

Energy firm SSE said the proposal was likely to be challenged through the Competition and Markets Authority (CMA).

Rob McDonald, SSE's MD of transmission, said: "The draft settlement does not strike the right balance for all stakeholders and without significant changes during the consultation period, there is a real risk that the critical investment in Britain's electricity networks will be unnecessarily slowed down by an appeal process via the CMA, which is not in any stakeholders' interests."

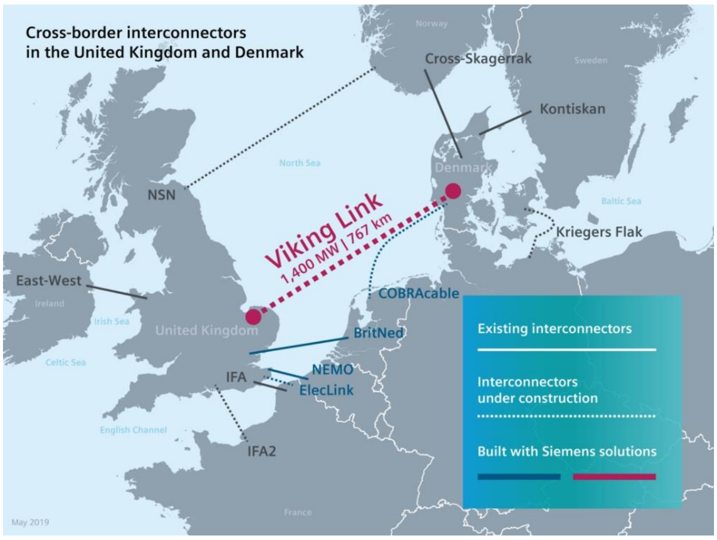
LINK: BBC - Ofgem network charging 2021-2026

National Grid starts construction on subsea Viking Link electricity interconnector between UK and Denmark

Britain's National Grid said on Monday it had started construction on Viking Link, an electricity interconnector between Britain and Denmark.

Viking Link is a joint venture between National Grid Ventures, part of National Grid, and the Danish electricity system owner and operator, Energinet.

The 1.4GW high voltage electricity interconnector will be the longest in the world when completed, stretching 765 km between Lincolnshire in eastern England and South Jutland in Denmark, National Grid said.



Source: Offshore Wind

Siemens Energy will construct the British and Danish converter stations on both ends of the interconnector link.

Once completed by the end of 2023, the EUR 2 billion ($2.3 billion) subsea electricity cable will have the capacity to be able to supply renewable energy to power one and a half million UK homes.

By 2030, 90% of electricity imported via National Grid's interconnectors will be from zero-carbon sources, the grid operator said.

Minister for Energy and Clean Growth, Kwasi Kwarteng, said:

"This major construction project will put Lincolnshire firmly at the heart of our economic recovery. Not only will this scheme create local green-collar jobs across the county, but it will also bolster our energy security, reduce bills for consumers, and give our home-grown renewable generators a greater chance to export zero-carbon electricity around the world."

LINK: Viking Link - Viking Link under construction