Beond Weekly UK Insight

24 August 2020

Gas

p/therm	14 Aug 20	21 Aug 20	Change
Day-Ahead	19.80	18.75	-5.3%
Sep 2020	22.01	21.05	-4.4%
Winter 2020/21	35.29	34.99	-0.9%
Summer 2021	30.77	30.72	-0.2%

Power

£/MWh	14 Aug 20	21 Aug 20	Change
Day-Ahead	34.12	29.58	-13.3%
Sep 2020	37.40	36.43	-2.6%
Winter 2020/21	46.68	46.90	0.5%
Summer 2021	40.38	40.66	0.7%

The UK's **Day-Ahead gas** fell 5.3% to 18.75p/therm as energy demand fell alongside temperatures last week. Increased renewable generation from wind and solar also reduced the demand for gas-powered electricity generation.

Day-Ahead power fell much further with a -13.3% change to £29.58/MWh as renewable generation rose well above average levels for this time of year.

Winter 2020/21 power prices moved laterally with a small rise of 0.5%. Currently, forward power contracts are linked closely to the carbon price. Carbon remains broadly flat despite earlier thoughts its value would rise alongside action towards a 'Green Recovery' from Covid-19. Concerns of a second wave of lockdown seem to be the main driver weighing down on price rises.

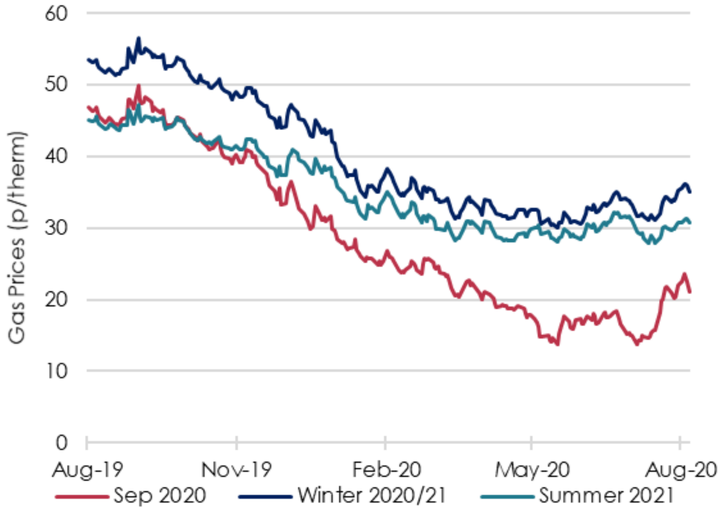
Winter 2020/21 price movement was mixed**. Gas** edged 0.9% lower last week to 34.99 p/therm on comfortable supply. However, unplanned maintenance at Kollsnes has reduced Norwegian flow volumes a further 20%. As a result, gas prices are forecast to rise as the week develops.

Three shipments of LNG are set to arrive in the UK this week, two from Qatar and one from Norway, accounting for reduced pipe flows. LNG price rises are being called 'deceiving' as the US makes plans to cut output with little incentive for other LNG producers to take the slack.

UK gas storage continues to trend back towards the 5-year average range amidst flow maintenance placing the UK system 25mcm/d undersupplied.

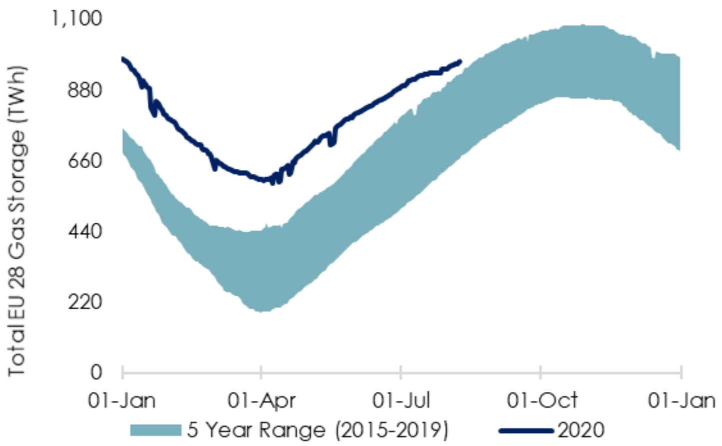
Our recommendation remains to lock in contracts as soon as possible as prices are at risk of further volatility following the easing of lockdown restrictions.

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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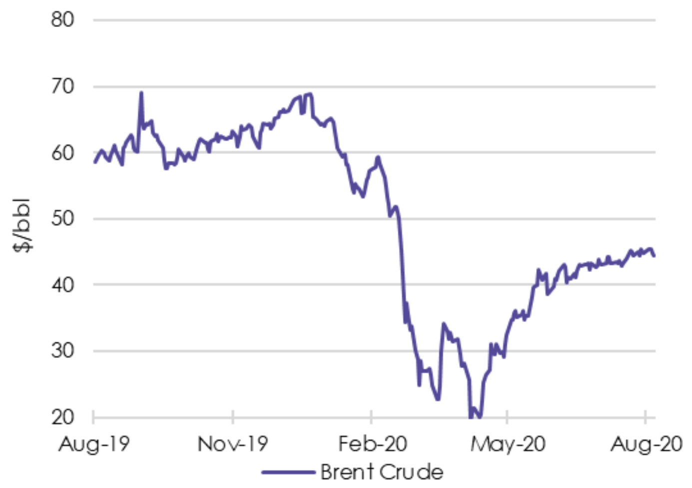
Oil

$/bbl	14 Aug 20	21 Aug 20	Change
Brent Crude Oct 20	44.80	44.35	-1.0%

Source: Reuters

Brent Crude oil fell 1.0% for the week. Brent prices fell by over 1% on Friday from slow coronavirus recovery and worries of rising global crude oil supply.

Indian crude imports have hit the lowest level in more than a decade. Meanwhile, Libya's national oil company announced that it may restart oil exports following a ceasefire announced by the internationally recognised Libyan government.



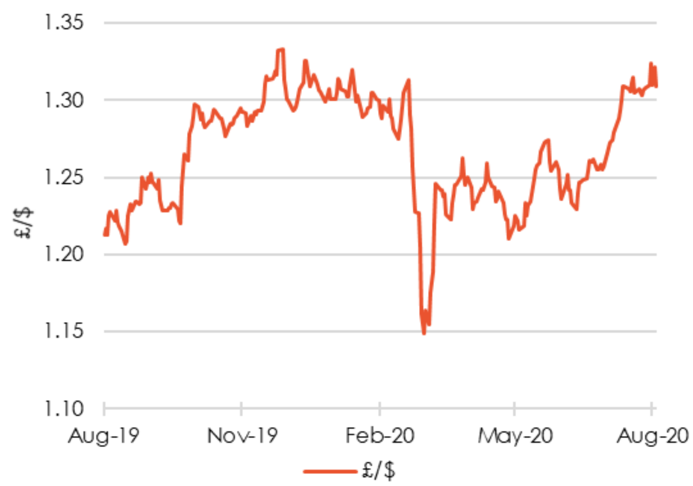
Exchange Rates & Economics

£/$	14 Aug 20	21 Aug 20	Change
GBP/USD	1.3084	1.3087	0.0%

Source: Reuters

The **Pound Sterling** remained largely unchanged against the US Dollar last week, despite news of recovery in the UK retail sector. The Office for National Statistics reported retail sales were up by 3.6% in terms of volume in June and July, surpassing February figures.

However, spending from the UK government on measures to aid the recovery of the economy, such as the furlough scheme, have pushed debt above £2 trillion for the first time.



Carbon

€/tCO2	14 Aug 20	21 Aug 20	Change
EUA Dec Yr	25.42	25.62	0.8%

Source: Reuters

European carbon rose 0.8% to €25.62/tCO2 last week.

EUAs almost rose to €27/tCO2 Wednesday after strong demand from UK customers in the auction of EU allowances ear-marked for them. The number of available allowances for last week's UK carbon auction was half of normal. However, prices slipped later in the week due to a 3-day emissions registry outage and coronavirus demand fears.

Coal

$/tonne	14 Aug 20	21 Aug 20	Change
API2 CIF ARA Yr	56.30	53.50	-5.0%

Source: Reuters

European coal prices fell 5.0% to $53.50/tonne last week. Prices dropped to two-month lows amid weak physical demand for coal, healthy inventories, and high renewable energy generation.

One of the last commercial coal mines in England is set to extract coal for the last time, after an extension application was rejected. The mine in County Durham opened in 2018 to extract 500,000 tonnes of coal.

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Regulatory and Market News

Summer balancing costs £718m and counting, Ofgem considers options

The UK's National Grid has incurred record power system balancing costs this summer as a result of Covid lockdowns and subsequent demand destruction.

Ofgem is now preparing a review into National Grid's preparedness and response to the situation, with balancing costs standing at £718m for March to July, up 39% on National Grid's predictions. Balancing costs are passed on to generators and suppliers, and ultimately their customers.

While summer transmission demand has been falling for some years, largely due to growth in solar PV, the lockdown saw demand plunge to new lows. That meant the Electricity System Operator (ESO) has had to work much harder to keep the system stable while managing Covid impacts on its own workforce.

During this spring and summer, the ESO introduced three changes to the GB arrangements to enable it to better manage the system:

- It contracted with Sizewell B to reduce its output by 50% during the spring and summer to provide the control room with more tools to manage system stability.
- It designed and procured a new service, Operational Downwards Flexibility. This service allowed the ESO to access downward flexibility from distributed generation that do not normally provide balancing services to the ESO.
- It clarified the emergency arrangements for the disconnection of distributed generation if necessary, although to date these have not been used.

To date, the ESO has kept the lights on despite unprecedented challenges, with industry also gaining a clearer understanding low carbon future system requirements.

Ofgem will now launch a review into how the ESO handled the situation. Its findings will govern whether the ESO earns incentives or faces penalties, as well as future policy development more broadly, said the regulator.

It will look at how much the ESO could have foreseen and prepared for issues witnessed this summer, and how much was down to Covid or otherwise; how the ESO responded to the challenges, and whether this represented value for money; and how this summer can inform a low carbon market structure.

LINK: Ofgem - Covid-19 balancing cost review

SSE enters Demand Side Response market, targets I&C businesses and local authorities

SSE Enterprise is stepping up its push to bring I&C firms and local authorities into flexibility markets and ancillary services with the formal launch of its demand-side flexibility business, SSE Enhance.

Suppliers have been pushing into distributed and flexible energy aggregation for several years, some with more success than others.

Launching an aggregation, optimisation and trading platform brings SSE into that arena. It means "we can offer the full solution – funding, deployment, management and now optimisation [of distributed assets]" said SSE Enterprise director of strategy & digital services, Stephen Stead.

By reducing their electricity demand during peak periods, or reducing their own peaks using optimisation and automation of local demand and generation and storage, companies can contribute to keeping the grid balanced.

Additionally, customers can use the SSE Enhance to sell their own excess energy generation – from combined heat and power units, solar panels, wind turbines or batteries – to the grid.

LINK: Energyst - SSE enters DSR with SSE Enhance

Ovo Energy pays £1.2m fine after SSE misses smart meters target

Ovo Energy has inherited a £1.2m fine months after buying SSE's home energy supply business after SSE failed to install enough smart meters last year.

The regulator, Ofgem, said Britain's second largest energy supplier missed its smart meter targets for 2019 before Ovo Energy bought the business for £500m.

Under the government's smart meter roll-out plans all energy companies are expected to take "all reasonable steps" to fit smart meters in the homes and small businesses they supply by the middle of next year.

The scheme has been dogged by repeated delays to the software infrastructure, which has deterred homes from fitting a smart meter over fears it may stop working if they want to switch to a new supplier.

The outbreak of the coronavirus pandemic has thrown the roll-out further off course, forcing the regulator to push back its annual targets for this year to mid-2021. At the same time the government set a new end date for the scheme of 2024, four years later than first planned.

LINK: Guardian - Smart meter fine