Beond Weekly UK Insight

03 February 2020

Gas

p/therm	24 Jan 20	31 Jan 20	Change
Day-Ahead (DA)	27.60	25.10	-9.1%
Mar 2020	25.93	24.18	-6.7%
Summer 2020	25.58	24.58	-3.9%
Winter 2020/21	37.32	35.25	-5.5%

Source: Reuters

The UK's **Day-Ahead** gas price fell 9.1% to 25.10 p/therm, as higher LNG imports and plentiful gas supply in Northwest Europe complimented Britain's above seasonal normal temperatures last week.

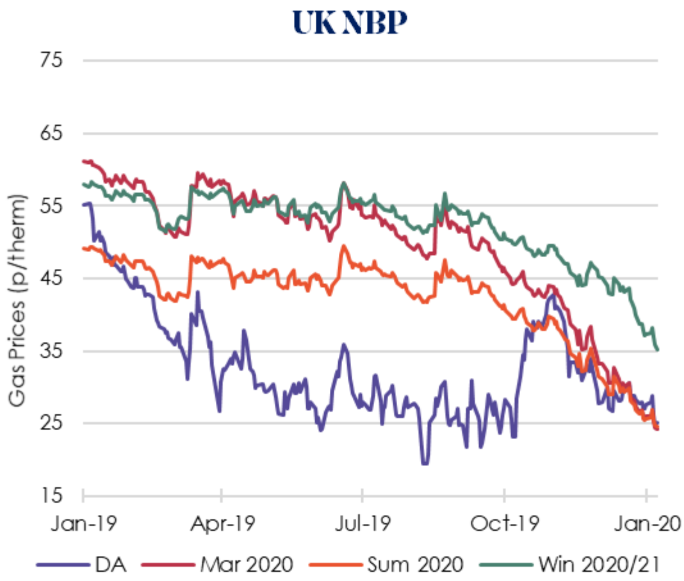
Total LNG send-out rose to 71 mcm/d with nine cargoes confirmed for delivery over the next month.

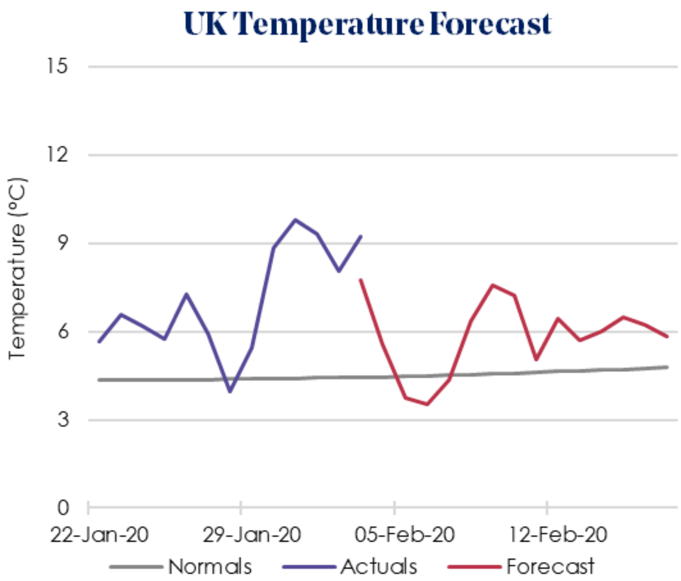
March 2020 gas prices also fell 6.7% reflecting Europe's well stocked gas storage, above seasonal normal temperature forecasts for the majority of February and seasonally weak power demand.

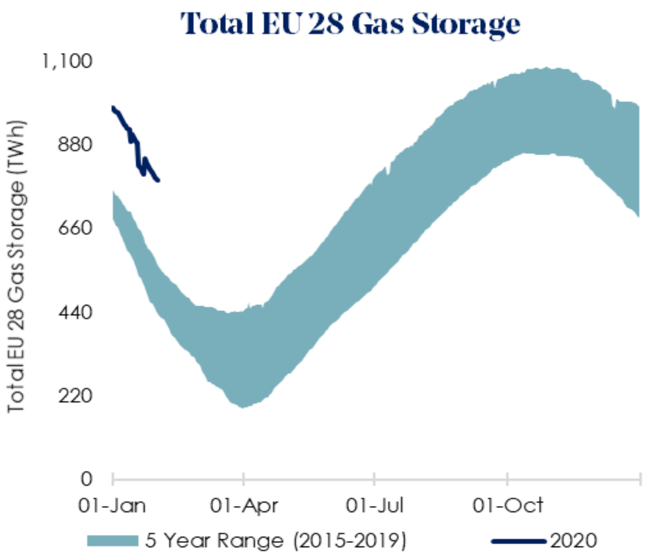
Growing LNG supplies from the USA has supported Britain's gas system, slowing the rate at which gas storage facilities in the UK and Continental Europe are being emptied. Despite entering February, historically one of the coldest months of the year, EU gas storage is still at a whopping 71%, far higher than the 51% recorded at the same time last year.

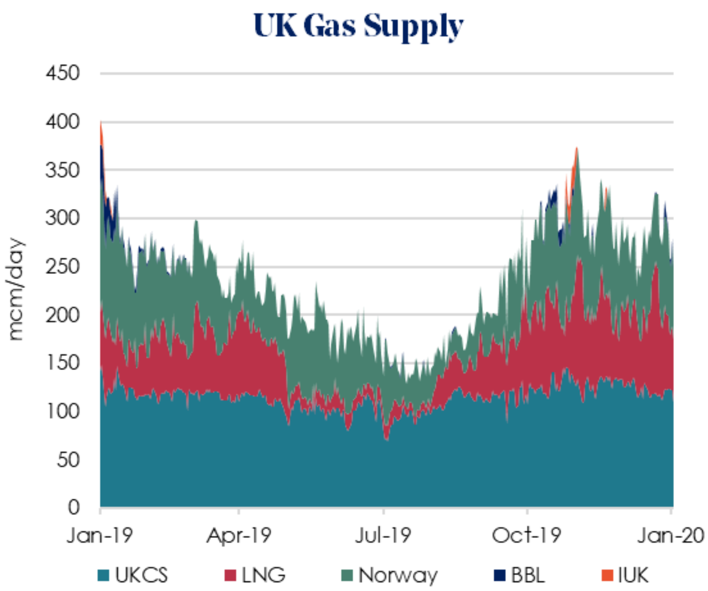
The **Summer 2020** gas price declined 3.9% week-on-week to 24.58 p/therm. The UK and Europe's high levels for gas storage, combined with record deliveries of LNG and unseasonably strong power production in Europe's Nordic and Central European regions, mean the outlook for next summer's supply and demand balance continues to look comfortable.

Prices continue to slide, although the uncertain nature of energy markets means we recommend going to market and getting contracts locked in before the end of June.









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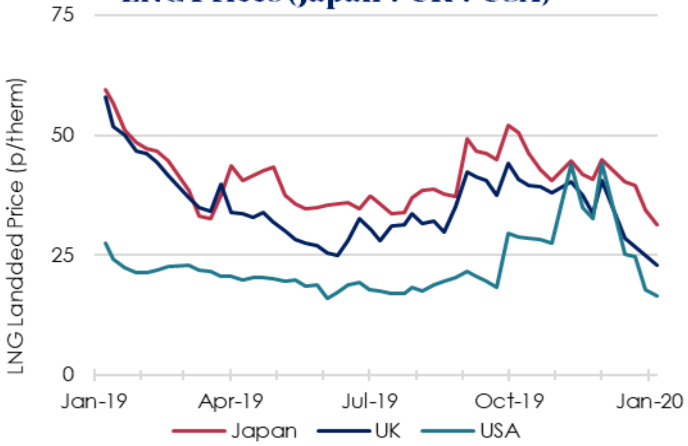
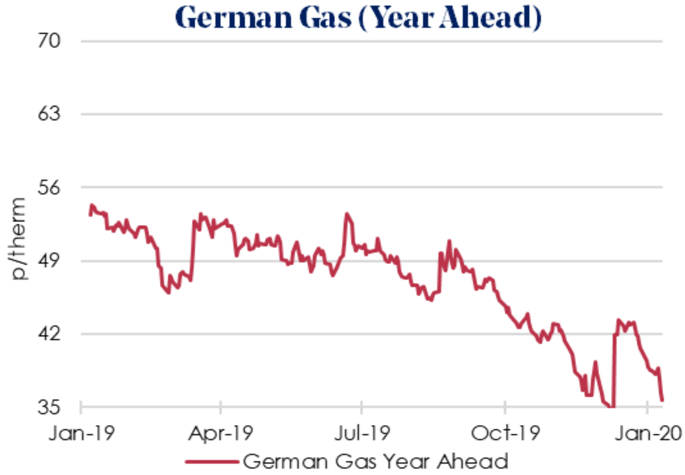
LNG Tanker	Regas Volume (mcm)	Expected Arrival Date	From	LNG Terminal
Al Nuaman	126	6 Feb	Qatar	South Hook
Christophe Margerie	104	6 Feb	Russia	Isle of Grain
Stena Blue Sky	87	7 Feb	USA	Dragon
Gaslog Sydney	94	9 Feb	Trinidad and Tobago	Isle of Grain
Golar Kelvin	99	10 Feb	USA	Dragon
Al Bahiya	128	12 Feb	Qatar	South Hook
Madrid Spirit	83	22 Feb	USA	Dragon
Al Hamla	129	27 Feb	Qatar	South Hook
Al Mayeda	160	2 March	Qatar	South Hook

LNG Prices (Japan v UK v USA)



German Gas (Year Ahead)



Power

£/MWh	24 Jan 20	31 Jan 20	Change
Day-Ahead (DA)	36.05	24.87	-31.0%
Mar 2020	35.95	34.24	-4.8%
Summer 2020	35.84	34.67	-3.3%
Winter 2020/21	44.21	42.60	-3.6%

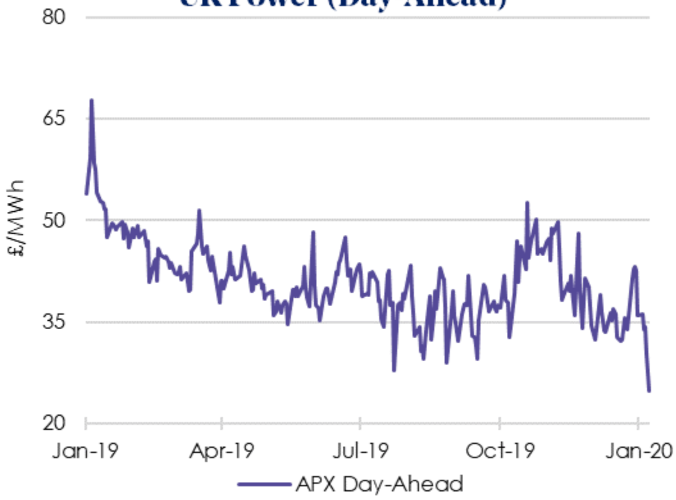
Source: Reuters

Day-Ahead power prices crashed 31.0% to £24.87/MWh, reflecting stronger wind generation, cheaper gas prices and a stronger Pound.

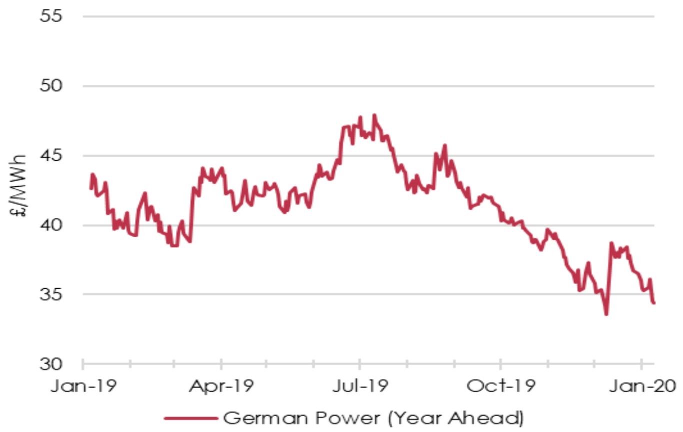
Summer 2020 power prices dropped 3.3% to £34.67/MWh in response to losses in the equivalent gas, coal and carbon markets and the stronger Pound. The lower cost of gas and coal means power production is expected to be less expensive over the next year.

However, carbon prices are expected to rise gradually towards €40/tCO2 over the next 5 years, according to CRU (formerly Commodities Research Unit), boosting the cost of power production in the UK and Continental Europe.

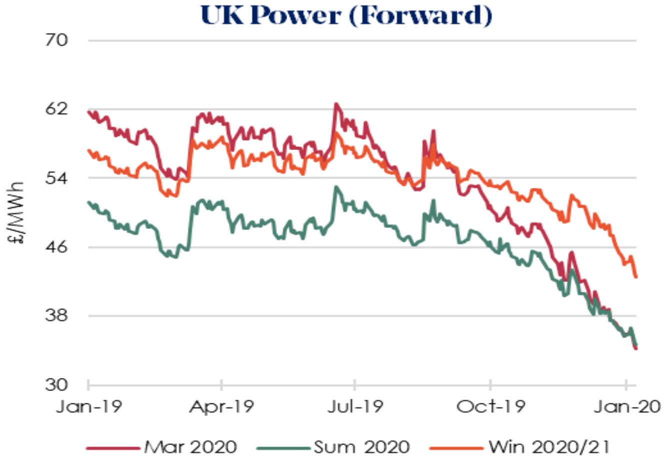
UK Power (Day-Ahead)



German Power (Year Ahead)



UK Power (Forward)



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Oil

$/bbl	24 Jan 20	31 Jan 20	Change
Brent Crude Apr 20	60.69	58.16	-4.2%

Source: Reuters

Brent crude oil prices recorded its biggest January decline in 30 years, sliding a further 4.2% to $58.16/bbl, as the coronavirus epidemic hit forecasts for global economic and energy demand.

Prices fell despite news that OPEC's oil output plunged in January to the lowest since 2009 after several members led by Saudi Arabia overdelivered on a new agreement to cut production and as Libya's supply slumped.

OPEC and its allies could bring forward their March meeting to February to discuss the impact on oil demand from the virus flare-up.

Exchange Rates & Economics

£/$	24 Jan 20	31 Jan 20	Change
GBP/USD	1.3076	1.3199	0.9%

Source: Reuters

The **Pound Sterling** was trading higher last week, rising versus the U.S. dollar and euro, following Britain's official exit from the EU last week.

Now that Britain has formally left the union and entered an 11-month transition period until 31st December 2020, some investors expect the currency to gain as a reduction in uncertainty boosts confidence and economic growth.

However, the Pound is likely to continue to be driven by politics, with the shape of the trade deal with the EU set to dominate discussions later this year.

Carbon

€/tCO2	24 Jan 20	31 Jan 20	Change
EUA Dec 2019	24.31	23.81	-2.1%

Source: Reuters

European carbon prices 2.1% to €23.81/tCO_2, after the EU confirmed that the UK would commence allocating its 2019 and 2020 allowances in early March, following a year-long suspension on distributing its carbon permits was being lifted.

Coal

$/tonne	24 Jan 20	31 Jan 20	Change
API2 CIF ARA 2019	60.85	59.50	-2.2%

Source: Reuters

European coal prices slid 2.2% to $59.50/tonne as the outburst of China's coronavirus dampened power demand forecasts in Asia. Coal imports into China are likely to slow for a time, with Indonesia already instructed to delay further coal shipments to China.

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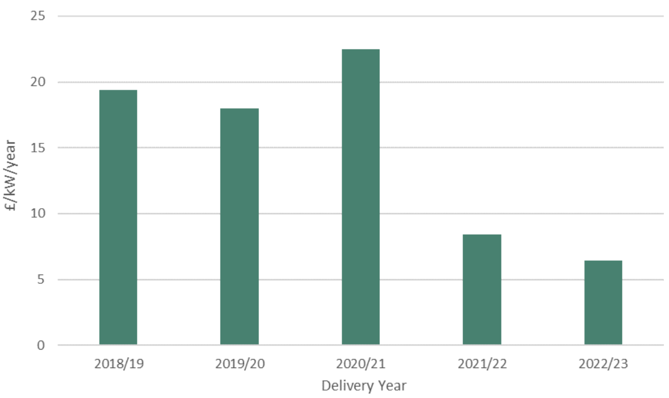
Regulatory and Market News

T-3 Capacity Market auction for 2022/23 delivery clears at £6.44/kW/year

National Grid ran the 2022/23 capacity mechanism auction on Thursday and Friday. 59,000MW entered the auction and only 45,000MW was required. The winners were 38,000MW of existing and refurbished generators, 3,000MW of existing interconnectors and 500MW of demand side response.

Only 300MW of new generators were awarded contracts. Three new interconnectors picked up 2,800MW of contracts: the link to Norway plus two links to France: from Southampton and through the Channel Tunnel.

Capacity Market Auction Results 2018-2023



The price of 6.44/kW/year doesn't compare well with 2018's auction which paid £8.40/kW/year or 2016's which paid a much more meaningful £22.50/kW/year.

Investors in new generation will be paid the auction price for a guaranteed 15 years and have 3 or 4 years lead-time to build their stations. The auction only sponsored 300MW of new generation investment compared with 2,800MW of new interconnectors.

As total electricity demand drifts downward it is largely being satisfied by the existing generators and interconnectors. This auction failed again to sponsor any large new power stations.

Electricity consumers will feel happier than the generators: they will be paying high capacity mechanism charges in 2020/21 and then the cost will fall by more than 60%.

These cost are included in "fully-inclusive" bills or shown transparently on "pass-through" bills in the months of November to February between 4pm and 7pm.

The T-4 CM auction for delivery 2023/24 will take place on 5 and 6 March 2020.

[LINK: EMR Delivery Body - T-3 CM results 2022/23]

SSE Renewables to build first subsidy-free wind farm, in 47MW extension

Energy giant SSE Renewables is to build its first wind farm without the support of UK government subsidies. The project is an 11-turbine extension to the company's existing 35-turbine 70MW Gordonbush onshore wind farm. It would be one of the few onshore wind schemes to go-ahead since government support for onshore schemes ended after 2015.

The capacity of the new extension will be 47MW. Construction of the new turbines is due to start in March, with the first power generated later this year.

The project has support on a "merchant basis", which is investment that comes through selling its output "competitively" into the energy market rather than having secured a long-term power purchase agreement, or a government-funded financial support mechanism, such as the UK's Contract for Difference.

SSE Renewables said merchant investments were only possible for a "limited number of the most attractive projects".

Jim Smith, MD of SSE Renewables, said onshore renewable projects could still play an important part in helping the UK meet climate change targets. Onshore wind is the cheapest form of low carbon generation and brings job and investment to rural communities. Yet despite the climate emergency, onshore wind construction is at the lowest it has been in a decade.

[LINK: SSE - First subsidy free wind farm at Gordonbush]

Nearly half of England's councils 'don't know carbon footprint'

Almost half of England's councils cannot put a number to their own carbon emissions, according to engineering trade body the Electrical Contractors' Association (ECA).

The research suggested approximately 43% of Councils say they don't measure all energy use in council-owned buildings like offices, homes, depots or sports centres. And 47% of 214 English local authorities admit they've no plan in place to peg back emissions.

"There's a lot of rhetoric out there, but very few action plans" said ECA energy advisor Luke Osborne.

Some 23% of England's councils responding to the ECA insisted they would be carbon neutral as early as 2030. But a quarter even of these are yet to measure their current carbon emissions.

It's positive that almost one in four councils are seeking to radically exceed the government's net zero target by 20 years. But that figure needs to rise significantly.

[LINK: Energyst - Councils don't know carbon footprint]