Beond Weekly UK Insight

16 March 2020

Gas

p/therm	6 Mar 20	13 Mar 20	Change
Day-Ahead	23.50	24.00	2.1%
Apr 2020	21.85	23.98	9.7%
Summer 2020	22.55	24.34	7.9%
Winter 2020/21	35.43	35.64	0.6%

The UK's **Day-Ahead gas** price rose by 2.1% to 24.00 p/therm. This has been due to milder weather last week giving way to cooler temperatures for this time of year, resulting in strong demand for gas for power generation, leaving the market undersupplied.

The **Summer 2020 gas** price rose by 7.9% week-on-week to 24.34 p/therm, with the equivalent **Summer 2020 power** seasonal price rising 3.4% to £34.34/MWh. Commodity markets have displayed a small rebound toward the end of the week despite sharply weakening equity markets as coronavirus disruption continues.

Bullish drivers this week are mainly due to a tighter gas supply and although still strong, wind output was weaker than traders expected. Analysts forecast demand for gas from power stations at 62 mcm on Friday, up 24 mcm on the previous forecast.

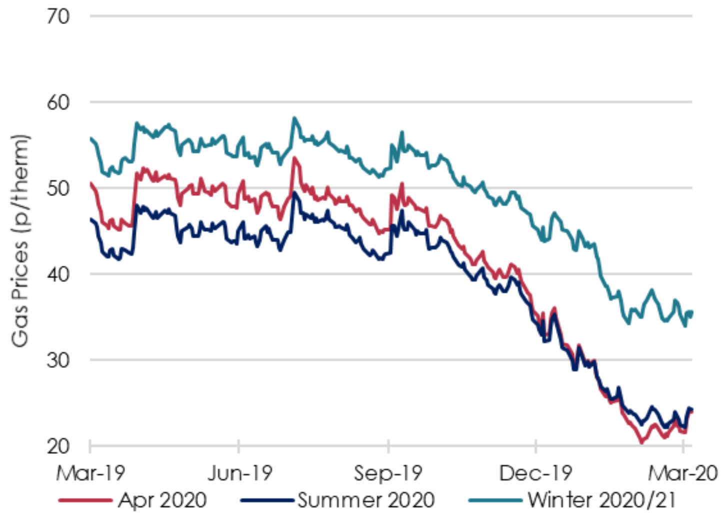
Bearish drivers mirror slumps in oil and equity markets. Further reduction in demand following the coronavirus outbreak across Europe could put more pressure on prices to drop to levels that encourage producers to curb supply earlier this summer than previously expected.

Despite the rebound seen at the end of last week seasonal contracts overall remain low. Sum-21 and Win-21 are relatively steady with marginal decreases across gas and power. Our recommendation is to lock in contracts before June 2020 ahead of expected volatility related to coronavirus driven economic slowdown.

Power

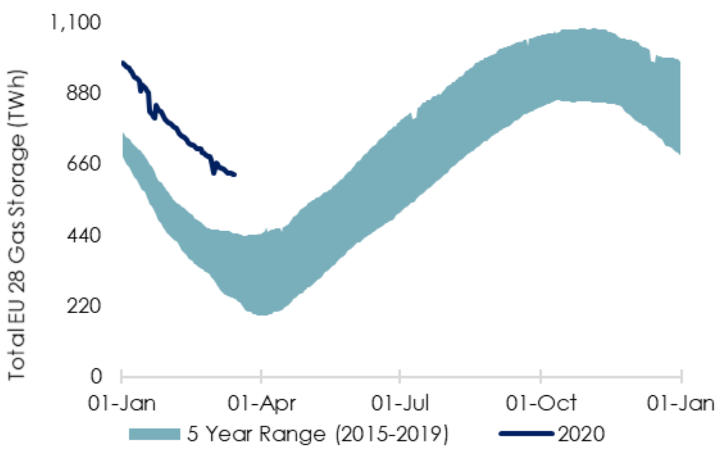
£/MWh	6 Mar 20	13 Mar 20	Change
Day-Ahead	33.53	33.92	1.2%
Apr 2020	32.68	34.11	4.4%
Summer 2020	33.20	34.34	3.4%
Winter 2020/21	43.00	43.19	0.4%

UK Gas

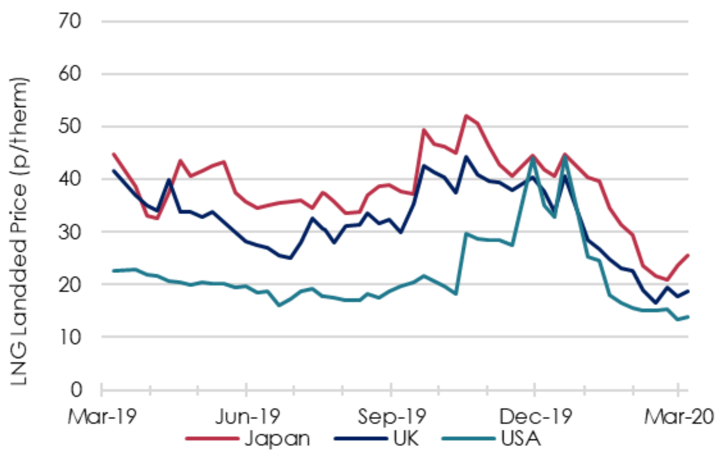


UK Power

European Gas Storage



Global LNG (Japan v UK v USA)



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Rewarding Climate Action

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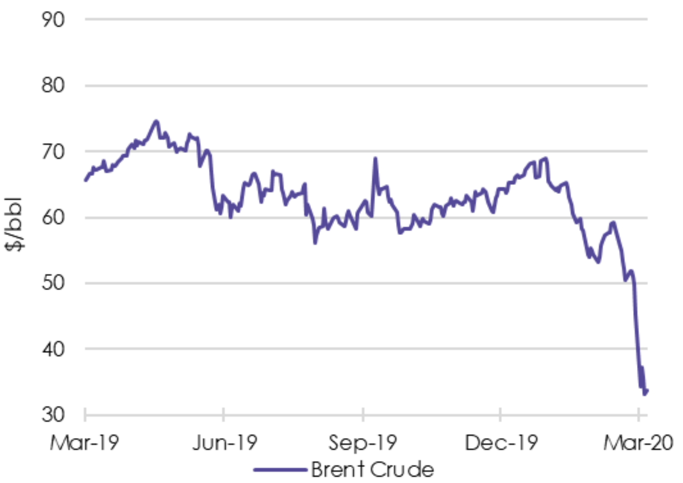
Oil

$/bbl	6 Mar 20	13 Mar 20	Change
Brent Crude May 20	45.27	33.85	-25.2%

Source: Reuters

Brent crude oil tumbled 25.2% to $33.85/bbl last week, some of the largest week-on-week declines since 2008, caused by both demand and supply side factors.

Prices have been pushed lower due to fears over global demand suffering as a result of the continued coronavirus pandemic, while Saudi Arabia increased output and cut prices in an attempt to boost sales in Asia and Europe. This follows news earlier this month that OPEC and Russia had failed to reach an agreement to cut production levels, which had been supporting prices since 2016.



Exchange Rates & Economics

£/$	6 Mar 20	13 Mar 20	Change
GBP/USD	1.3047	1.2276	-5.9%

Source: Reuters

The **Pound Sterling** has plummeted over the last few days alongside global concerns about the impact of COVID-19. The drop in the FTSE index, attributable to both the decline in productivity, and the knowledge of things getting worse before they get better, have all reduced confidence in the global economy.

News that UK manufacturing production had fallen prior to the COVID-19 outbreak, due to the lack of a trade deal following Brexit, compound concerns of the UK economy seeing turbulent times ahead.

Carbon

€/tCO2	6 Mar 20	13 Mar 20	Change
EUA Dec 2019	23.39	21.89	-6.4%

Source: Reuters

European carbon prices fell 6.4% to €21.89/tCO2 last week as worries over coronavirus put significant downward pressure on the wider financial markets. Increased auction supply is also expected this week, with Wednesday's UK auction.

Coal

$/tonne	6 Mar 20	13 Mar 20	Change
API2 CIF ARA 2019	56.55	55.60	-1.7%

Source: Reuters

European coal prices fell 1.7% to $55.60/tonne, as the world coal market recorded a substantial drop in demand over Q1 2020. Now that COVID-19 has begun taking hold in Europe, the largest coal consuming nations (such as Germany) have heralded marked drops in consumption.

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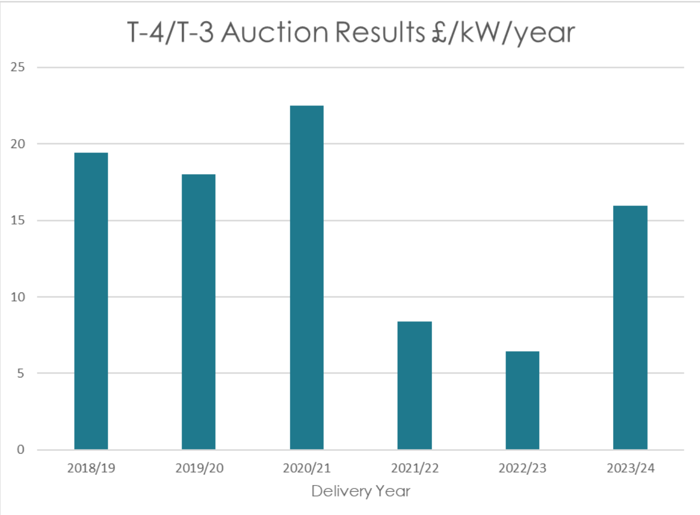
Regulatory and Market News

Capacity Market prices will rise from £6.44/kW/year to £15.97/kW/year from 2023/24

National Grid ran the T-4 2023/24 Capacity Market auction at the beginning of March shortly after the delayed T-3 2022/23 auction. 59,000MW entered the auction and only 44,000MW was required. In this latest auction more new gas-fired generation was successful: 1,500MW. SSE have won 800MW for their new CCGT station "Keadby 2" which is already under construction. The rest of the capacity was won by many small <50MW projects.

In total, 38,000MW of existing and refurbished generators and existing interconnectors were successful.

Only 165MW of existing demand side response was successful compared with 1,000MQ of new demand-side response projects. Three new interconnectors picked up 2,600MW of one-year contracts: the link to Norway plus two links to France: from Southampton and through the Channel Tunnel. These same three projects were also successful in the 2022/23 auction.



The latest price of £15.97/kW/year looks much more helpful to investors than the previous two auctions though we haven't quite got to 2016's levels of £22.50/kW/year. The interested fact is that the only large new power station winning £15.97/kW is SSE's project that they'd already decided to build anyway.

Electricity consumers will continue to see changes in their bills, with fluctuating costs included in "fully-inclusive" bills or shown transparently on "pass-through" bills in the months of November to February between 4pm and 7pm.

LINK: EMR Delivery Body - 2023/24 Capacity Market

Budget 2020: Climate Change Agreements for energy intensive industries extended for further two years

Chancellor of the Exchequer Rishi Sunak's Budget 2020 announcement has promised "to deliver green growth and protect the environment".

Although fuel duty will remain frozen despite its environmental impacts, the Chancellor has committed to "increase taxes on pollution" by freezing climate change levies on electricity and raising tax rates for gas from April 2022.

He has also promised to "support the most energy-intensive industries to transition to net zero" by extending the Climate Change Agreement (CCA) scheme for a further two years until 31 March 2025, giving participating businesses a discount on their Climate Change Levy (CCL) bill if they meet targets on energy efficiency and decarbonisation.

After this year's Brexit transition period, the UK also intends to continue applying an ambitious carbon price from 1 January 2021 to support progress towards reaching net zero. The Government's finance bill 2020 will legislate for a UK Emissions Trading System (ETS) to replace the EU ETS, but says the two "could be linked".

The announcement also commits to:

- Introduce a "Green Gas Levy" to help fund the development of greener fuels.
- More than doubling research and development investment in the UK's Energy Innovation programme to £1 billion.
- Making it cheaper to buy low emission vehicles, cutting taxes on clean transport. investing £300 million in tackling nitrogen dioxide emissions in towns and cities and investing £500 million to support the rollout of rapid EV charging hubs.
- Supporting woodlands and peat bogs and spending £640 million for a new Nature for Climate fund, which would plant around 30,000 hectares of trees and restore 35,000 hectares of peatland over the next five years.
- Investing at least £800 million to establish two or more carbon capture and storage clusters by 2030, which would be able to store millions of tonnes of greenhouse gases.

However, green campaigners argued the Chancellor missed a key opportunity to take leadership on the climate crisis with his budget, leaving the UK with little leverage to persuade other countries to join in with tougher targets on carbon.

LINK: BEIS - Energy in Budget 2020