

Gas

p/therm	21 Feb 20	28 Feb 20	Change
Day-Ahead	23.00	25.00	8.7%
Apr 2020	22.07	21.70	-1.7%
Summer 2020	23.73	22.65	-4.5%
Winter 2020/21	36.55	34.86	-4.6%

The UK's **Day-Ahead gas** price rose by another 8.7% to 25.00 p/therm. This has been due to the UK system being undersupplied as consumption was higher than expected, a result of temperatures dropping below normal today.

The **Summer 2020 gas** price fell by 4.5% week-on-week to 22.65 p/therm, with the equivalent **power** contract matching the trend in gas falling 3.7% to £33.22/MWh. The worries surrounding coronavirus and its impact, potentially slowing global economy, is a significant factor for bearish prices this week. These current trends are however still based largely on speculation of what's to come, an indicator of expected future market volatility.

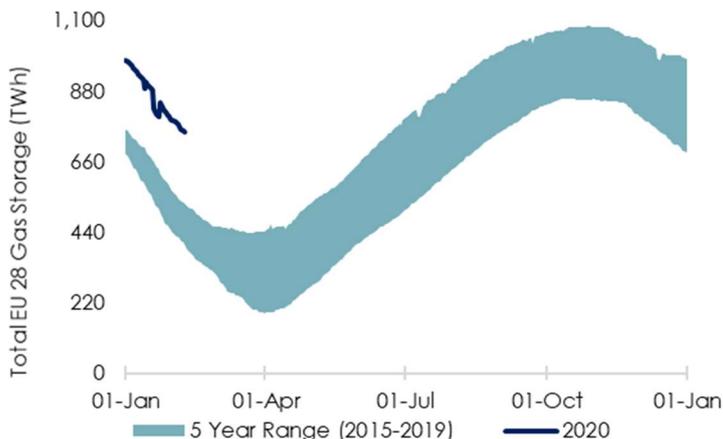
All in all, bullish drivers on price are dominated by the cooler than expected temperatures. The weather also continues to play its role with high wind speeds having allowed only three LNG offloads across Dragon and South Hook terminals. However, prices have become bearish as several cargoes are lined up awaiting the forecast drop in wind speeds.

In terms of power, consumption and solar production are both bearish drivers, with greater than expected solar output compounding reduced consumption. Additionally, with gas cargo supply expected to increase dramatically, gas to power generation will also edge prices down.

Seasonal contracts have dropped, with Sum-20 and Win-20 remaining low, and a good indication of bearish drivers both tangibly, due to the easing weather and intangibly, due to public perception of how corona virus will impact the global economy.

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.

European Gas Storage



Power

£/MWh	21 Feb 20	28 Feb 20	Change
Day-Ahead	29.15	29.26	0.4%
Apr 2020	33.26	32.60	-2.0%
Summer 2020	34.50	33.22	-3.7%
Winter 2020/21	44.05	42.47	-3.6%

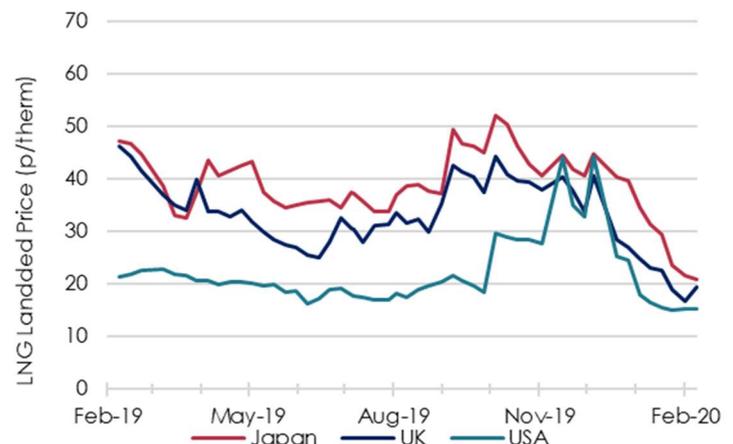
UK Gas



UK Power



Global LNG (Japan v UK v USA)



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Beond Weekly UK Insight

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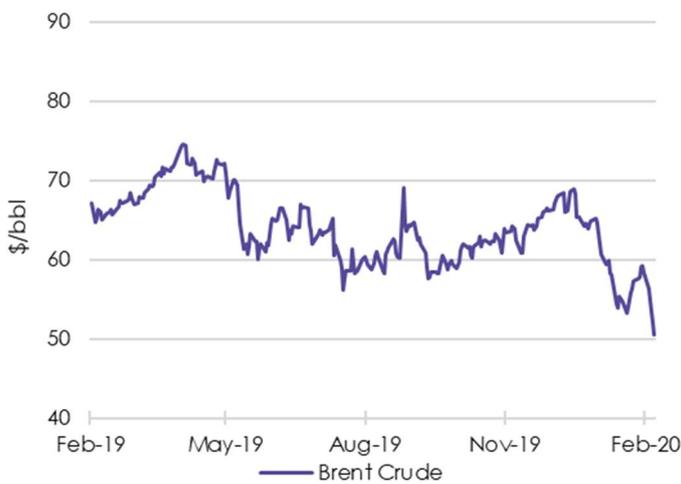
Oil

\$/bbl	21 Feb 20	28 Feb 20	Change
Brent Crude May 20	58.50	50.52	-13.6%

Source: Reuters

Brent crude oil fell 13.6% to \$50.52/bbl last week as a growing number of coronavirus cases worldwide hit forecasts for global economic and energy demand. The list of countries directly impacted by the illness has climbed to nearly 60 with more than 82,000 people worldwide contracting the illness.

Oil industry analysts fear that what they thought was a contained disruption may instead lead to more travel restrictions and even less oil consumed.



Exchange Rates & Economics

£/\$	21 Feb 20	28 Feb 20	Change
GBP/USD	1.2969	1.2820	-1.1%

Source: Reuters

The **Pound Sterling** saw further falls against the US Dollar this week as concerns over the coronavirus saw the FTSE 100 experience one of its worst weeks since the 2008 financial crisis. £210bn was wiped from the value of the index, around 13%, as investors sold shares over fears that economic growth will slow.

Mark Carney, the governor of the Bank of England, has said the Bank has already seen a fall in activity that could imply an economic growth downgrade, but that it was too early to gauge the magnitude of this.



Carbon

€/tCO2	21 Feb 20	28 Feb 20	Change
EUA Dec 2019	25.56	23.57	-7.8%

Source: Reuters

European carbon prices slid 7.8% to €23.57/tCO2 as the UK is set to commence auctions for its 2019 and 2020 allowances in the first week of March, following a year-long suspension on distributing its carbon permits was being lifted. The increased sales of EUA carbon permits will test the European market's ability to absorb additional supply.

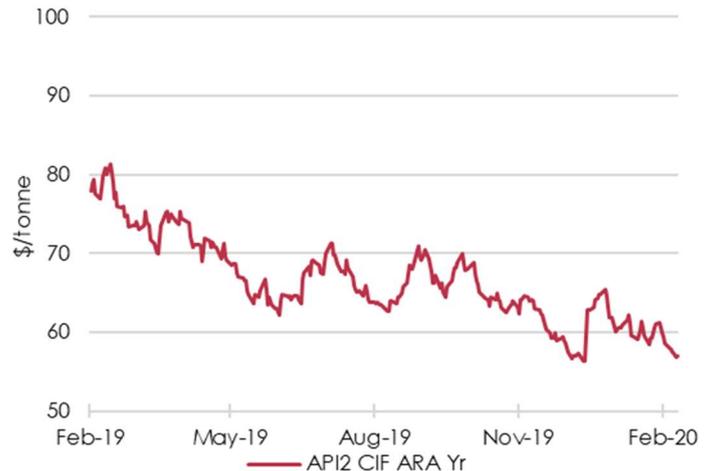


Coal

\$/tonne	21 Feb 20	28 Feb 20	Change
API2 CIF ARA 2019	58.50	57.00	-2.6%

Source: Reuters

European coal prices fell 2.6% last week to \$57.00/tonne, as news comes that Drax, the UK's largest coal power station, has said it will phase out the use of coal and convert generators to biomass beginning in March 2021. The move away from coal comes in advance of the Government's 2025 deadline when the country must stop burning coal for fuel.



Regulatory and Market News

Ofgem discuss their 2024 vision for retail competition

Ofgem have published their vision and medium-term objectives and priorities to help protect the interests of existing and future consumers in a rapidly changing energy sector.

The document articulates their ambitions without spending too much time on the problems and practicalities.

Net Zero – In 2019, over 50% of UK electricity generation came from low-carbon sources. But the electricity system will have more low-carbon generation and demand will grow as heat and transport are electrified. “Flexibility” and “consumer contribution” are key as discussed in Ofgem’s 2050 vision.

Flexibility and Price Signals – With more variable renewable electricity generation, flexibility is essential for reducing the need for more generation assets. This will succeed on four assumptions:

- 53 million smart meters are installed;
- these meters are settled half hourly;
- customers move to smart tariffs; and
- they move their usage away from peak periods, including “smart charging” of their electric vehicles.

Make Data Available – they want “trusted third parties” to be able to access customers’ data.

Reduce barriers to entry – Ofgem want to simplify market rules and systems. They are imposing “more stringent tests” on suppliers because of the problem of suppliers entering the market and then going bust.

Make Customers Engaged – Ofgem will develop a “robust and nuanced understanding of customers”, hopefully this will include understand why many customers can’t actually be bothered to pursue better prices.

Consumer Protection – the domestic tariff cap is only in place until 2023 at most so Ofgem need another way to protect inactive consumers. They also want to protect users of heat networks.

Ofgem recognise that further reforms may be needed to fully unlock benefits and protect consumers from existing and potential future harms. Britain’s energy regulator will therefore monitor the impact of planned changes on the market to inform whether further reforms are needed.

[LINK: Ofgem - 2024 vision for retail competition](#)

Drax power station to stop using coal for power generation in 2021

After almost 50 years, coal-fired electricity generation at Drax Power Station is expected to come to an end in March 2021 – marking a major milestone in the company’s world-leading ambition to become carbon negative by 2030.

It means the country’s largest power station will stop using coal well ahead of the government’s 2025 deadline, making an even bigger contribution to the UK’s efforts to achieve net zero.

The decision to stop using coal at Drax comes after a comprehensive review of its operations. Drax does not expect to use coal after March 2021, but will ensure its two remaining coal units remain available until September 2022 in line with its existing Capacity Market agreements.

Over the last decade four of the power station’s six generating units have been converted to use sustainable biomass, delivering carbon savings of more than 80% compared to when they used coal.

This has transformed Drax to become the UK’s largest renewable power generator and the biggest decarbonisation project in Europe.

[LINK: Drax - Drax power station to exit coal in 2021](#)

Heathrow third runway ruled illegal by court of appeal over climate change commitments

The UK government has said it will not appeal against a court ruling that Heathrow airport’s £14bn project to build a third runway was unlawful on environmental grounds.

The Court of Appeal found that the government had failed to take into account commitments made under the 2016 Paris agreement on climate change when assessing Heathrow’s expansion plan. It ruled that this made the government’s airports policy unlawful.

The ruling is a serious setback for Heathrow in its long-running effort to build a third runway, which has dragged on for more than a decade. The airport will launch an appeal against the decision at the Supreme Court.

Boris Johnson, who represents the nearby seat of Uxbridge, had previously vowed to “lie in front of the bulldozers” to block the third runway but avoided the key Heathrow vote in 2018 by scheduling a meetings in Afghanistan.

[LINK: FT - Heathrow third runway ruled illegal](#)