Beond Weekly UK Insight

20 April 2020

Gas

p/therm	9 Apr 20	17 Apr 20	Change
Day-Ahead	14.80	13.50	-8.8%
May 2020	16.86	15.36	-8.9%
Winter 2020/21	33.86	34.04	0.5%
Summer 2021	30.90	30.94	0.1%

Power

£/MWh	9 Apr 20	17 Apr 20	Change
Day-Ahead	28.54	24.88	-12.8%
May 2020	26.95	26.09	-3.2%
Winter 2020/21	41.51	42.03	1.3%
Summer 2021	37.82	38.03	0.6%

The UK's **Day-Ahead gas** price fell by 8.8% to 13.50 p/therm as the UK wholesale market continues to feel the effects of the COVID-19 pandemic, paired with warmer weather forecasts. News that the UK lockdown has been extended by at least another 3 weeks means demand is expected to remain lower than normal. This is also impacting May 2020 prices, dropping 8.9%

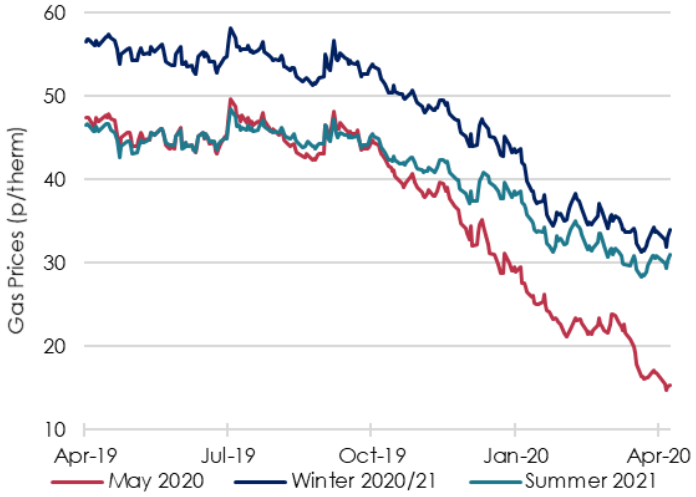
The **Winter 2020/21 gas** price remained flat, moving 0.5% week-on-week to 34.04 p/therm, with the equivalent **power** price rising 1.3% to £42.03/MWh. These small movements reflect the uncertainty around how long the impact of COVID-19 will be felt.

Pipeline gas flows from Norway to the UK continue to remain low, with flows to Britain at 31 mcm/d on Friday, down from 50 mcm/d in recent weeks. There is ongoing maintenance at Norway's Karsto gas processing plant, expected to end in June, although the impact of this is relatively small at 6 mcm/d.

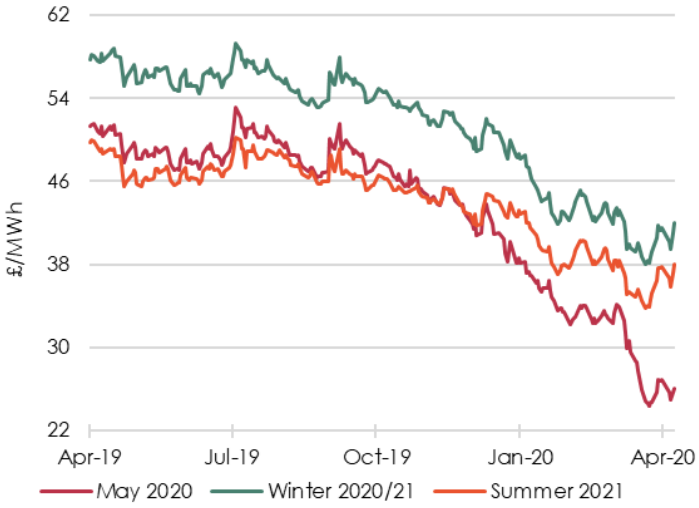
Sliding oil prices, paired with reduced demand for gas and record-high stocks, 25% higher than the average level at this time of year compared to the past five years, mean low prices persist. LNG send-out was noticeably higher at the end of last week compared to previous, with additional deliveries from Qatar expected on Tuesday and Wednesday.

Seasonal contracts remain low and continue to fall. Sum-21 and Win-21 once again posted decreases across gas and power. Our recommendation is to lock in contracts before June 2020 ahead of expected volatility related to Covid-19 driven economic slowdown.

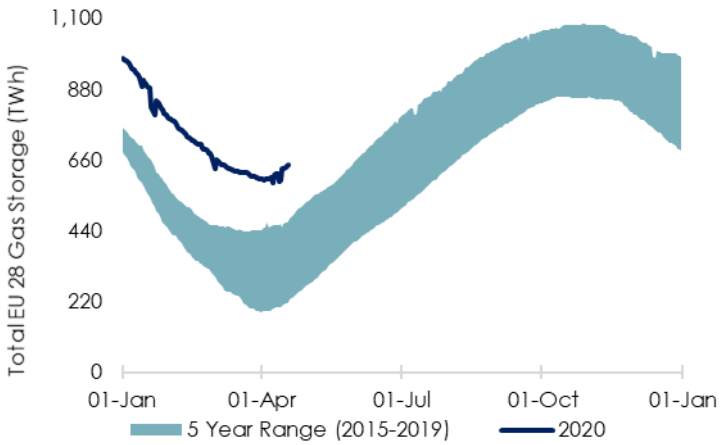
UK Gas



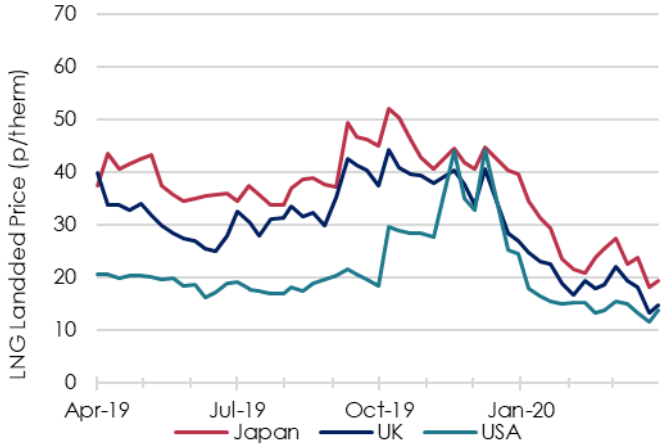
UK Power



European Gas Storage



Global LNG (Japan v UK v USA)



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Rewarding Climate Action

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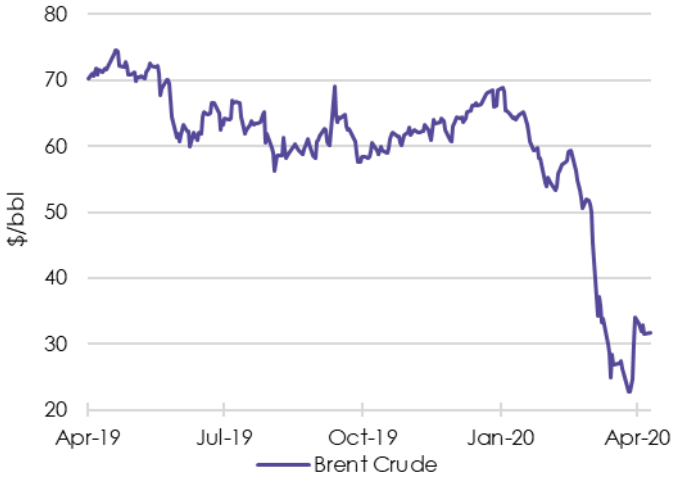
Oil

$/bbl	9 Apr 20	17 Apr 20	Change
Brent Crude Jun 20	31.48	28.08	-10.8%

Source: Reuters

Brent crude oil prices dropped even further last week to $28.08/bbl, a fall of 10.8%.

This fall reflects the true extent of the COVID-19 lockdown, with all efforts from OPEC+ reducing production, by 15 million bpd, still failing to meet the drop in demand. Despite reactive, sentimental, rises in price, global saturated storage capacity is a sign that further cuts are likely if the lockdown continues.



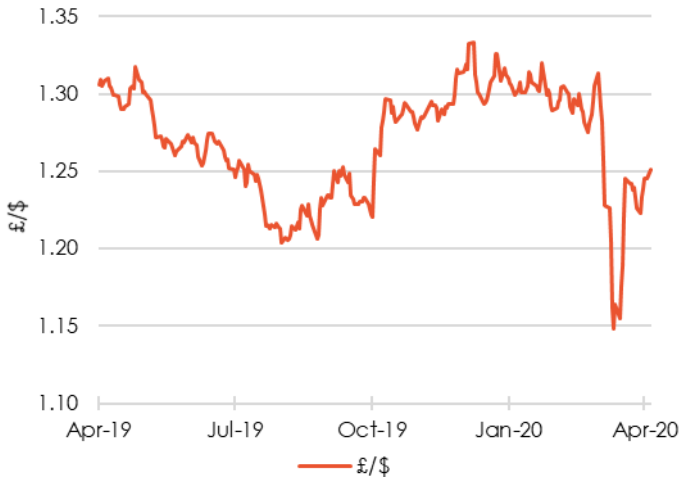
Exchange Rates & Economics

£/$	9 Apr 20	17 Apr 20	Change
GBP/USD	1.2455	1.2499	0.4%

Source: Reuters

The **Pound Sterling** remained overall stable week on week, rising 0.4%.

The pound saw slumps in line with a weaker US dollar this week whilst the UK announced it would extend its coronavirus lockdown for at least three more weeks. The UK government has also extended its furlough scheme for workers until the end of June as companies are hit by Covid-19.



Carbon

€/tCO2	9 Apr 20	17 Apr 20	Change
EUA Dec 2019	20.98	21.61	3.0%

Source: Reuters

European carbon prices rose a further 3.0% last week to €21.61/tCO2 as optimism swells over economies reopening after weeks of COVID-19 lockdown. More tangibly, this price is bolstered by decreased French Nuclear output amidst disturbed maintenance schedules.

Coal

$/tonne	9 Apr 20	17 Apr 20	Change
API2 CIF ARA 2019	55.90	55.30	-1.1%

Source: Reuters

European coal prices fell 1.1% last week as many European countries extended lockdowns and an LNG oversupply limited coal demand. Austria officially closed its last coal-fired power station on Friday, becoming the second EU country, after Belgium, to do so.

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Regulatory and Market News

Government consults on extending Climate Change Agreements

In the March 2020 Budget, the Government announced they would extend the Climate Change Agreement (CCA) scheme which gives large energy users in qualifying sectors a discount off the Climate Change Levy (CCL).

The Government claims the scheme will "secure up to £300 million of annual savings for companies" and "prevents an estimated 700,000 tonnes of CO2 from being emitted each year."

The rates of CCL are continuing to rise, particularly for gas. From April 2021, the CCL will be 0.775p/kWh for electricity and 0.465p/kWh for gas. And the discounts offered to CCA holders will be a healthy 92% and 83% respectively. The Government says CCAs cover 114 TWh of annual energy consumption and "approximately 43% of all industry".

In 2012, they chose sectors of high "energy-intensity and trade-intensity" ranging from "aerospace" to "wood-panels" at a time when British companies were complain about competition from countries with lower energy prices and taxes. Supermarkets were including in the list of industries eligible for discounts (they must employ brilliant lobbyists). The CCAs are administered by trade associations who sign an "umbrella agreement" with the Government.

Data-centres and saw-mills were added to the original list in 2014 but only "co-lo" data-centres (which rent their space to multiple users) are eligible.

In return for the CCL discounts, companies have to hit a target perentage improvement in their energy efficiency (which is negotiated between the Government and each industry sector). Over 1,000 sites don't hit their target and pay a "buy-out" of £14/tonne of CO_2.

The new proposal is to offer discounts from April 2023 to March 2025. Secondly, new entrants are now allowed to join the new scheme. They can apply immediately and the deadline will be 30 September 2020. The old scheme was closed to new entrants on 31 October 2018.

The new entrants will have to sign-up before January 2021. There would be a "Target Period, TP5" from January 2021 to December 2022 where baseline energy consumption will be measured before they can received the discounted CCL from April 2023. If sites don't hit their new targets then the "buy-out" will increase to £18/tonne of CO_2.

LINK: BEIS - CCA Consultation

Gas networks outline plan to repurpose pipes for hydrogen and biogas

UK gas network operators have outlined a high-level roadmap aiming to repurpose the existing methane network to carry hydrogen and biogas.

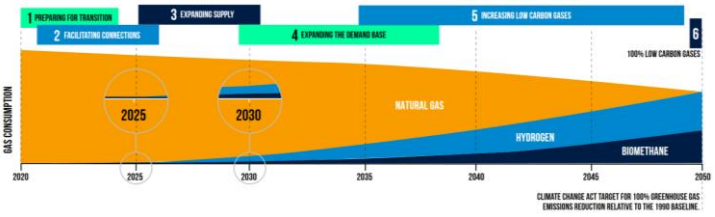
Led by the Energy Networks Association, the operators' 'Gas Goes Green' initiative sets out actions and research needed for delivery this year to enable net zero by mid-century.

Decarbonising gas requires massive investment and unprecedented advances in technology and network operations, says the report. Carbon capture and storage must be proved to pay for itself at utility scale, and a "quantum leap" in energy efficiency is required before all else.

The 'pathway to 2050' is built around four core elements, which work together to reduce the overall cost and disruption of decarbonising the energy system:

1. Low carbon and renewable gases supplied for all end-users
2. Continued electrification
3. Carbon capture, utilisation and storage
4. Energy efficiency

The Pathway to 2050



Source: ENA

With over 100 green gas plants already connected, operators have expanded supply of biomethane and are starting on hydrogen, the plan notes, thus gathering data on how network upgrades can cut emissions.

Around 85% of Britain's homes are heated from the gas grid. The proposal's first steps include making networks hydrogen-ready, in preparation to convert up to 23 million boilers.

The networks also see transport as a major hydrogen consumer over the long term. Automakers, policymakers and fleet operators must work with pipeline firms, they say, to enable a resilient charging network for hydrogen-powered vehicles.

All key proposals must be delivered by this December, per the document. Details of 'Gas Goes Green' can be read here.

LINK: ENA - Pathway To 2050