Beond Weekly UK Insight

11 May 2020

Gas

p/therm	1 May 20	7 May 20	Change
Day-Ahead	13.20	14.35	8.7%
Jun 2020	13.28	13.98	5.3%
Winter 2020/21	31.32	32.46	3.6%
Summer 2021	28.22	29.11	3.2%

Power

£/MWh	1 May 20	7 May 20	Change
Day-Ahead	25.37	28.23	11.3%
Jun 2020	25.24	25.72	1.9%
Winter 2020/21	40.29	41.41	2.8%
Summer 2021	35.52	36.35	2.3%

The UK's **Day-Ahead gas** price continued to rise last week, climbing 8.7% to 14.35 p/therm as demand begins to return, with signs of a progressive restarts in European economies emerging.

The equivalent power prices saw an increase of 11.3%, supported by cooler weather earlier in the week, along with weaker renewable generation.

The **Winter 2020/21 gas** rose 3.6% week-on-week to 32.46 p/therm, with the equivalent **power** price rising 2.8% to £41.41/MWh.

Pipeline gas flows from Norway to the UK continue to stay low but stable, sitting around 31 mcm/d last week.

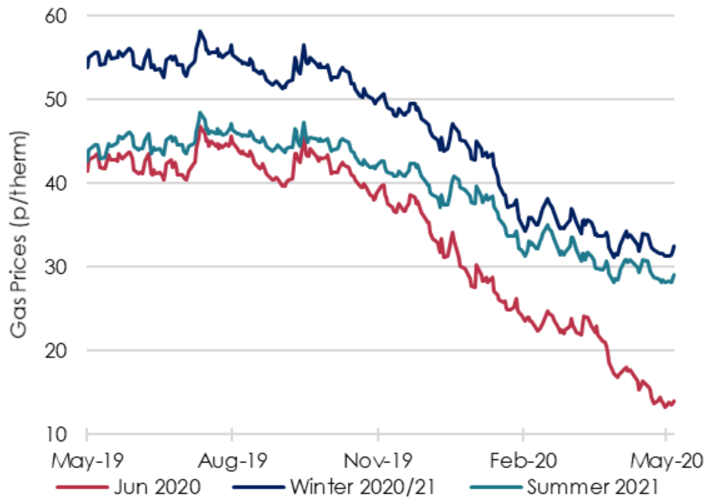
Scheduled maintenance is due to start on Tuesday at the Norwegian Kollsness processing plant, with impact of 107mcm/d, with additional planned maintenance at Troll gas field beginning midweek. However, given the current low Norwegian flows to the UK it is believed both outages will have little to no impact on flows.

Low prices continue to persist, with the front of the curve dictated by healthy supply and storage levels, paired with reduced gas demand and low oil prices.

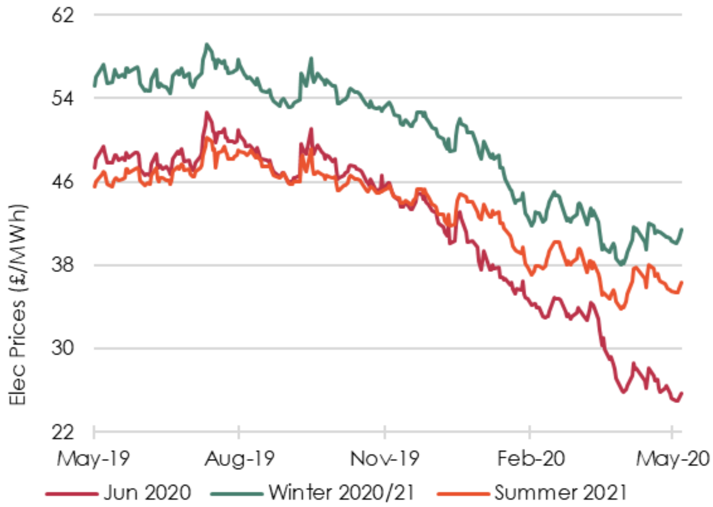
LNG send-out peaked at 65 mcm/d on Tuesday but levelled off at around 53 mcm/d later in the week. Thursday saw four cargoes arriving at the South Hook terminal.

Our recommendation is to lock in contracts before June 2020 ahead of expected volatility related to Covid-19 driven economic slowdown.

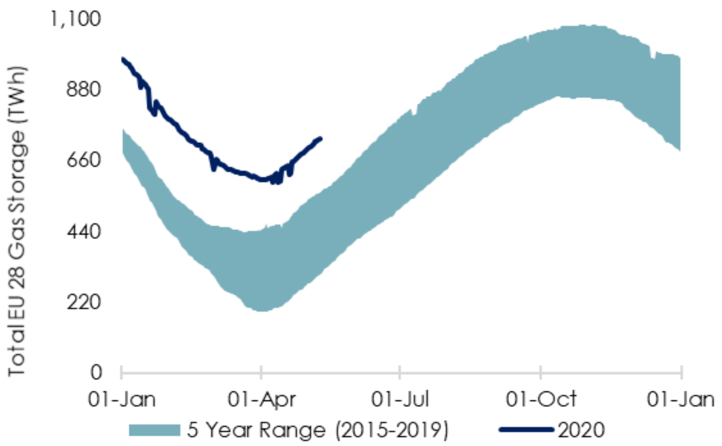
UK Gas



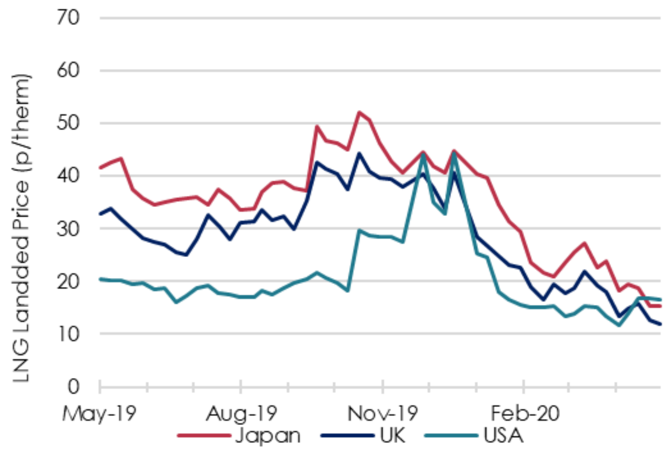
UK Power



European Gas Storage



Global LNG (Japan v UK v USA)



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Rewarding Climate Action

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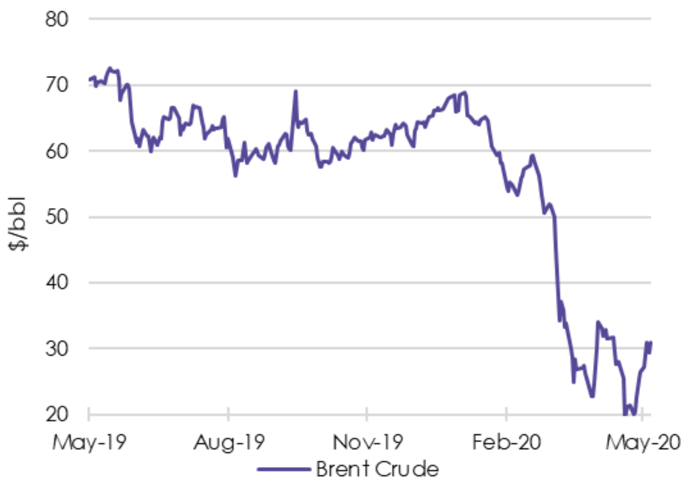
Oil

$/bbl	1 May 20	7 May 20	Change
Brent Crude Jul 20	26.44	29.46	11.4%

Source: Reuters

Brent crude oil prices saw a further rise of 11.4% this week to $29.46/bbl as countries continue easing their respective COVID-19 lockdowns.

Despite some encouragement as Chinese oil imports pick up, the economic outlook remains troubled and the oil market remains close to saturation, both of which are likely to keep prices low for the coming weeks.



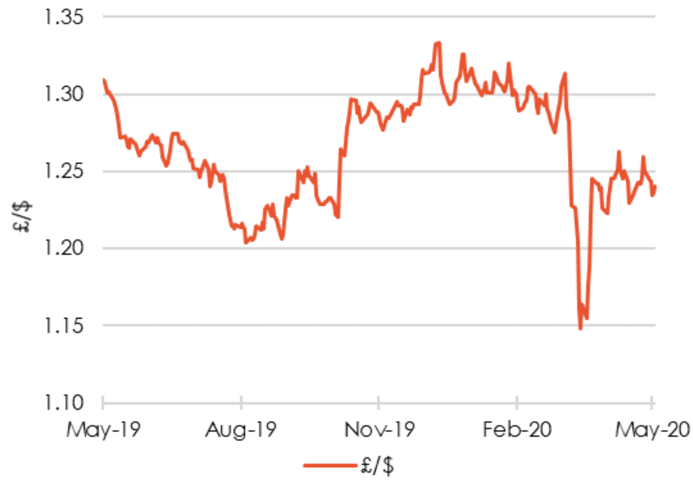
Exchange Rates & Economics

£/$	1 May 20	7 May 20	Change
GBP/USD	1.2502	1.2361	-1.1%

Source: Reuters

The **Pound Sterling** fell 1.1% last week against the US Dollar as The Bank of England warned that the UK economy is heading towards its sharpest recession on record, suggesting that the economy will shrink by 14% this year alone.

The Bank of England voted unanimously on Friday to keep UK interest rates on hold at 0.1% which caused a slight rebound for Sterling after a week of losses.



Carbon

€/tCO2	1 May 20	7 May 20	Change
EUA Dec 2019	18.90	19.47	3.0%

Source: Reuters

European carbon remained neutral this week with a small rise to €19.47/tCO2. The carbon market remains oversupplied with a sluggish demand outlook.

However, increasing coal generator profitability (coal prices dropping relative to electricity prices) and drops in wind and solar generation may lend support to the carbon price.

Coal

$/tonne	1 May 20	7 May 20	Change
API2 CIF ARA 2019	52.20	53.05	1.6%

Source: Reuters

European coal prices rose 1.6% to $53.05 as Germany begins to exit their strict lockdown period. The easing of lockdown restrictions combined with a sharp drop in temperatures expected this week, will see higher demand from increased coal generation in the country.

The UK extended its record for the longest period without coal power generation since the industrial revolution, lasting 28 days and counting.

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Regulatory and Market News

Ofgem consults on mandatory Half Hourly Settlement

The UK is rolling out smart meters for all domestic and small business customers. However, behind the scenes, data collected by these meters is only being used to calculated quarterly bills. The next step is to use the data collected from each meter in each half hour to calculate the exact costs each supplier should be paying, "half hourly settlement."

At the moment suppliers can elect for half hourly settlement if they want to offer customers a special tariff for electric vehicle charging or "time-of-use tariffs" which incentivise customers to use electricity when it is plentiful. However, these special arrangements are only used by ≈1% of small customers.

Ofgem would like the industry's systems to be changed over the next 4 years so that by the end of 2024 all suppliers will be paying their wholesale energy bills based on the half-hourly consumption of all of their customers.

Ofgem need to progress from an "outline business case" to a "full business case". There evidence of "some domestic consumer interest in saving money on energy bills by using electricity flexibly" but less interest from small businesses. OFGEM still manage to estimate a net benefit of £1billion to £4billion from this project taking account of £½billion of extra IT cost to deliver the changes.

LINK: Ofgem MHHS Consultation

National Grid to pay EDF to reduce output at Sizewell B nuclear power over summer

National Grid has confirmed it will pay EDF to reduce output from the Sizewell B nuclear power station over summer to help keep the power system stable.

The system operator said it had agreed a "one off, fixed term" contract instead of making daily payments to the generator via the balancing mechanism. It said that approach is "more cost efficient and secure" and gives its control room greater options.

The system operator has also launched a new 'footroom' service, which pays generators on the distribution network to stop exporting when demand is low and renewable generation is high, and has raised an urgent modification to allow it to make distribution networks constrain generation if required.

The moves come as transmission fell to a new low of approximately 14.4GW on Sunday.

LINK: Energyst - National Grid payments to Sizewell B

E.ON and Npower's industrial and commercial businesses to merge

E.ON and Npower's business energy supply units are to merge by the end of 2021.

Npower's business supply unit was originally left out of the deal which saw its domestic retail division being rolled into E.ON after the German parent companies did an asset swap. However, Eon said it now makes sense to bring everything under one roof.

"Bringing together our two successful Industrial & Commercial units into a single organisation creates one of the largest B2B energy businesses in the UK," said CEO Mike Lewis.

"These are fundamentally two complementary companies that bring together wider expertise in different areas of the market."

"What this means for British business is an expansion of our abilities to offer a greater range of smarter and personalised support to help meet their business efficiency and zero carbon ambitions."

"This is the latest stage of a process to build a more sustainable business and to succeed in this extremely challenging market."

E.ON is hoping to integrate the two businesses, including migrating them to a single IT system, by the end of next year.

LINK: Reuters - E.ON & Npower merger

EV sales hold up as car market crashes in April

Sales of Electric Vehicles (EV) held up in April despite a Covid-19 induced market-wide collapse, according to latest industry data.

In the UK, 1,374 battery electric vehicles were registered in April, down 9.7% year-on-year.

However, petrol and diesel models plunged around 98% as dealers shut down showrooms.

As a result, the report highlights that EVs have now increased their share of the car market almost 30-fold from 0.9% in April 2019 to 31.9% in April this year.

The UK trade association says the decline was 'the steepest of modern times' and is in line with similar falls across Europe, with petrol and diesel sales in France 88.8% down and the Italian market falling 97.5% in April.

LINK: SMMT - EV sales hold up compared to petrol/diesel