Beond Weekly UK Insight

26 May 2020

Gas

p/therm	15 May 20	22 May 20	Change
Day-Ahead	12.30	9.30	-24.4%
Jun 2020	12.59	9.46	-24.9%
Winter 2020/21	32.48	30.63	-5.7%
Summer 2021	29.95	29.20	-2.5%

Power

£/MWh	15 May 20	22 May 20	Change
Day-Ahead	24.90	-10.13	-140.7%
Jun 2020	25.30	24.00	-5.1%
Winter 2020/21	41.53	41.38	-0.4%
Summer 2021	36.72	37.23	1.4%

The UK's **Day-Ahead gas** price continued to fall last week, by 24.4% to 9.3p/therm, the lowest price in over a decade.

Day-Ahead power also saw a record drop to -10.13 £/MWh as exceptional wind-power generation coincided with the bank holiday weekend, exacerbating continued low demand.

Winter 2020/21 gas saw a drop from last week, down 5.7% to 30.63 p/therm. The equivalent **power** price was stable at 41.38 £/MWh.

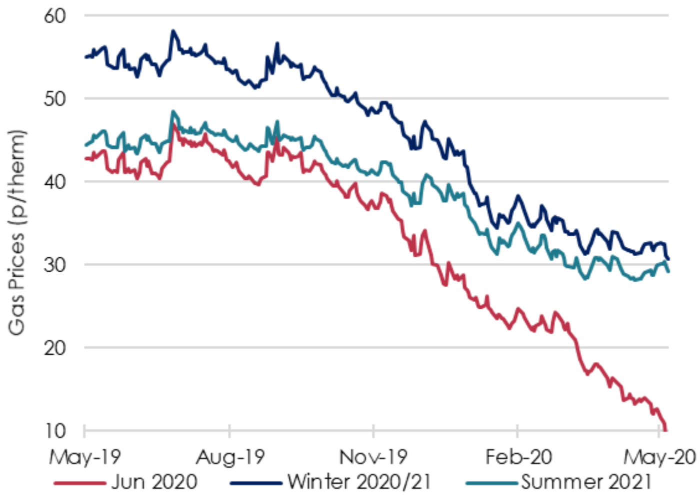
European gas prices are being described as sitting in 'no man's land', with several forward contracts being priced below average production costs. With no sign of an easing supply or increasing demand, going into the summer, the acute oversupply becomes more pronounced.

Gas prices are expected to remain neutral this week with warmer weather reducing demand and less windy weather increasing the need to gas to power generation causing a balanced price. Three LNG tankers are also due this week, injecting supply which remains well above the 5-year average.

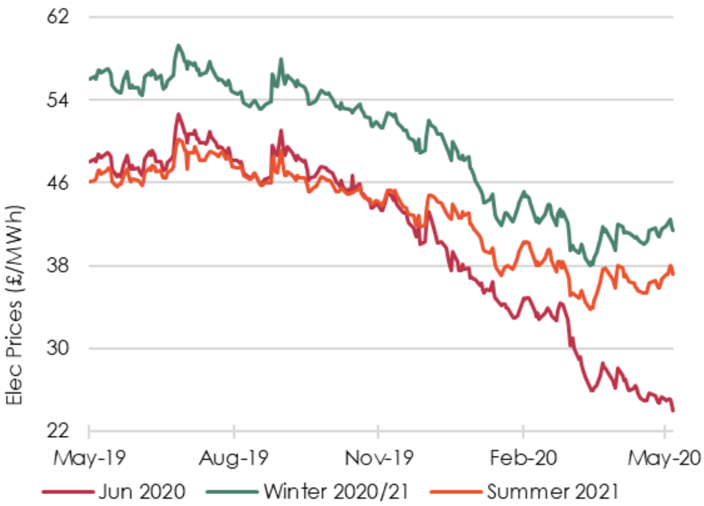
As the gas system gets well into 'injection season', whereby supply outweighs demand, the dramatically reduced demand indicates remedial action will be required before the end of the Summer to maintain prices.

Our recommendation remains to lock in contracts before June 2020 ahead of expected long-term volatility due to economic slowdown.

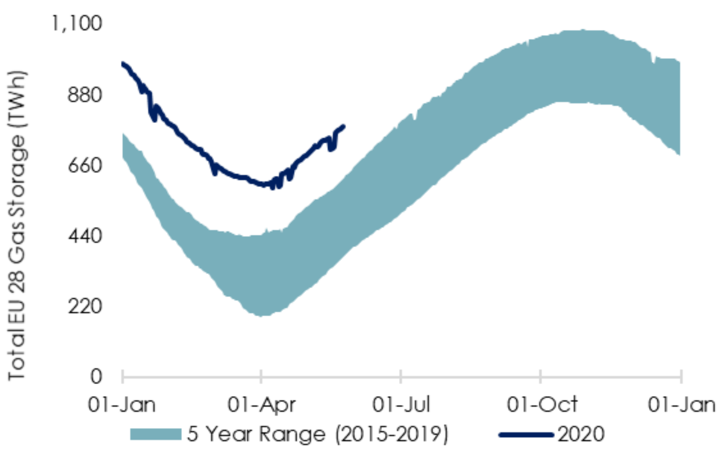
UK Gas



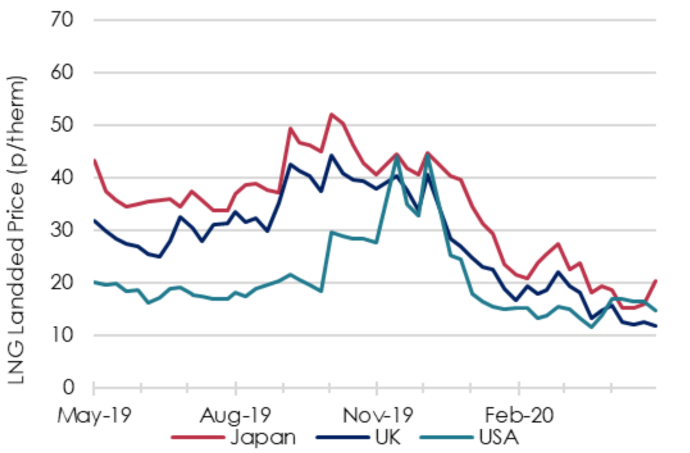
UK Power



European Gas Storage



Global LNG (Japan v UK v USA)



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Rewarding Climate Action

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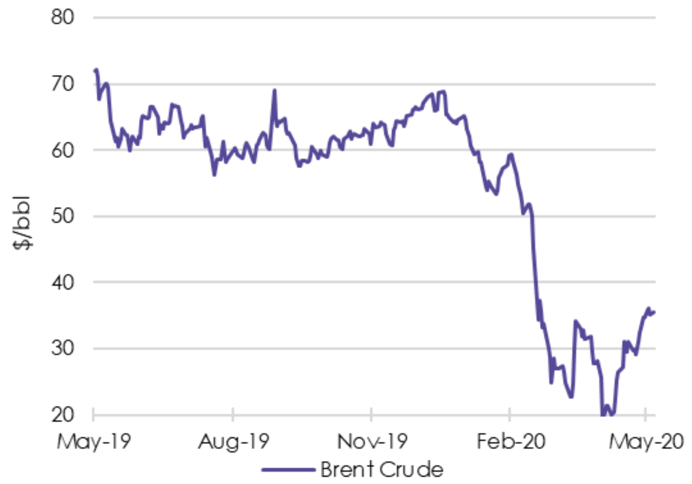
Oil

$/bbl	15 May 20	22 May 20	Change
Brent Crude Jul 20	32.50	35.13	8.1%

Source: Reuters

Brent Crude oil prices saw the biggest rise in two months 8.1% this week to $35.13/bbl as optimism over output cuts, resumption of economic activities and positive early vaccine results supported gains.

The market was boosted by signs that output cuts agreed by the OPEC as well as Russia are being implemented. Supply has been reduced by a record 9.7 million bpd from 1 May to support market prices.



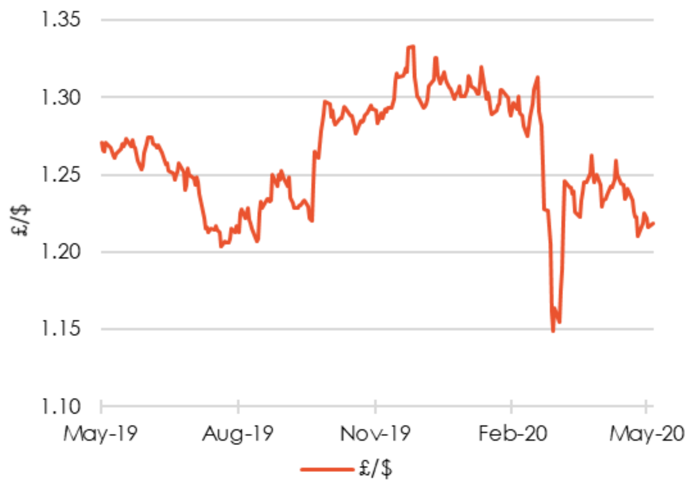
Exchange Rates & Economics

£/$	15 May 20	22 May 20	Change
GBP/USD	1.2104	1.2164	0.5%

Source: Reuters

The **Pound Sterling** saw little change last week, rising 0.5% against the US Dollar. Support for the UK economy came as Prime Minister Boris Johnson announced all non-essential retail could reopen in England from 15 June, with outdoor markets and car show rooms able to reopen as soon as 1 June.

Despite this, the Bank of England warned the economy could be recovering from the effects of Covid-19 at a slower rate than previously thought.



Carbon

€/tCO2	15 May 20	22 May 20	Change
EUA Dec 2020	19.09	21.33	11.7%

Source: Reuters

European carbon rose 11.7% to €21.33/tCO2 last week.

EUAs rebounded posting a gain of more than €2 last week, even as weak gas due to high wind output across Europe and wider macroeconomic concerns weighed.

Coal

$/tonne	15 May 20	22 May 20	Change
API2 CIF ARA 2020	52.65	51.85	-1.5%

Source: Reuters

European coal prices fell 1.5% to $51.85 as power prices in Germany fell 13% midweek amid strong wind and solar generation.

Further afield, China is reducing imports of Australian coal as trade tensions escalate. Coal is Australia's second largest export to China and this oversupply could cause downward pressure on European markets.

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Regulatory and Market News

UK Day-Ahead power price turns negative for the first time on record

The UK day-ahead average price has cleared below zero for the first time. It delivered at minus £10.13/MWh for delivery last Saturday, down from £11.58/MWh for Friday delivery, Nordpool data shows.

Within-day prices had gone below zero for certain hours previously, but this marks the first time the average price for the day was negative.

The first negative hourly prices in the day-ahead auction were seen in December last year, when strong levels of wind pushed the price below zero for one overnight hour.

Negative hourly prices have become more frequent in the past two months as the Covid-19 pandemic has dramatically reduced power demand. Six days of within-day negative hourly prices have already been recorded since 5 April.

The price for Saturday's delivery went negative because of a combination of both factors. Demand is expected to be exceptionally low over this bank holiday weekend, while wind power is forecast to be exceptionally high.

National Grid is forecasting metered wind at an average of 13.5GW tomorrow, up from 11.9GW forecast for today. This would be the highest on record. Another 3GW of additional embedded wind output is forecast.

Actual wind output will likely be much lower, as the National Grid will take action to curtail wind generation in order to balance supply and demand. It expects to need 6GW of biomass and gas turbines to run overnight and 8.5GW during the day this weekend, while nuclear output will likely be about 5.8GW. It forecasts that grid demand will peak at just 23.4GW tomorrow evening.

Negative prices could become increasingly common even after the Covid-19 pandemic subsides, as renewable capacity continues to rise. Offshore wind capacity is set to double to 20GW by 2025, while the government says it is targeting 40GW by 2030.

Since 2016, Contracts for Difference have acted to avoid this, introducing a clause stating that generators will receive no top-up payments if the day-ahead price goes below zero for six consecutive hours in an attempt to discourage renewables from running during times of oversupply.

However, similar clauses exist in the German renewables support scheme, where negative prices are also becoming increasingly common.

LINK: Argus Media - Negative UK DA Power

DSR can bid for 15-year capacity market agreements

Demand-side response will be able to bid for 15-year Capacity Market agreements under changes to the UK government's flagship Capacity Market policy intended to keep the lights on over winter and incentivise new build power stations.

The UK government agreed to make changes to the scheme after the European Commission was forced to undertake a formal investigation of the policy. This followed a successful legal challenge by Tempus Energy that led to the Capacity Market being suspended.

Tempus, a demand-side response company, launched the challenge because founder Sara Bell argued it was anticompetitive to allow some technologies to bid for multi-year agreements, but DSR to only bid for one-year contracts.

The old Department for Energy and Climate Change (DECC), however, dismissed Bell's arguments, with then energy minister Matt Hancock telling MPs in 2015 that DECC was "very confident" about winning the case and that the "[European] Commission is very confident that it is lawful."

After a long review, the European Commission ultimately decided that It wasn't and the market was suspended, leaving those with a billion pounds worth of contracts somewhat annoyed.

The market was eventually reinstated following an investigation, with the Department for Business, Energy and Industrial Strategy (BEIS) given a list of amendments by the European Commission.

As a result, BEIS now says DSR can bid for 15-year agreements, which many businesses with DSR assets will welcome.

However, providers will have to demonstrate they meet capital expenditure thresholds to justify those terms, which may mean few 15-year DSR agreements are awarded.

The consultation has also:

- halved the minimum threshold to 1MW;
- removed the block on those with long-term STOR contracts from participating; and
- confirmed plans to introduce a 'reporting and verification mechanism for the introduction of CO_2 emission limits'.

LINK: BEIS - 15-year CM contracts for DSR