Beond Weekly UK Insight

4 May 2020

Gas

p/therm	24 Apr 20	1 May 20	Change
Day-Ahead	10.70	13.20	23.4%
Jun 2020	13.74	13.28	-3.3%
Winter 2020/21	32.06	31.32	-2.3%
Summer 2021	28.87	28.22	-2.3%

Power

£/MWh	24 Apr 20	1 May 20	Change
Day-Ahead	25.34	25.37	0.1%
Jun 2020	25.91	25.24	-2.6%
Winter 2020/21	41.21	40.29	-2.2%
Summer 2021	36.51	35.52	-2.7%

The UK's **Day-Ahead gas** price rebounded last week, gaining 23.4% to 13.20 p/therm as demand increased, in part due to cooler temperatures. The equivalent power prices were largely unchanged week-on-week as increased wind output and losses to the carbon market prevented similar sized gains.

The **Winter 2020/21 gas** price slid 2.3% week-on-week to 31.32 p/therm, with the equivalent **power** price falling 2.2% to £40.29/MWh.

Pipeline gas flows from Norway to the UK remain low, but stable. Flows to Britain were at 32 mcm/d on Friday, a 3 mcm/d increase from Thursday.

Norwegian imports are expected to fall in the coming weeks, with scheduled maintenance taking place. FLAG pipeline maintenance from 7-25 May will reduce capacity by 15 mcm/d. Additional heavy work at Kollsnes will impact capacity by 107 mcm/d.

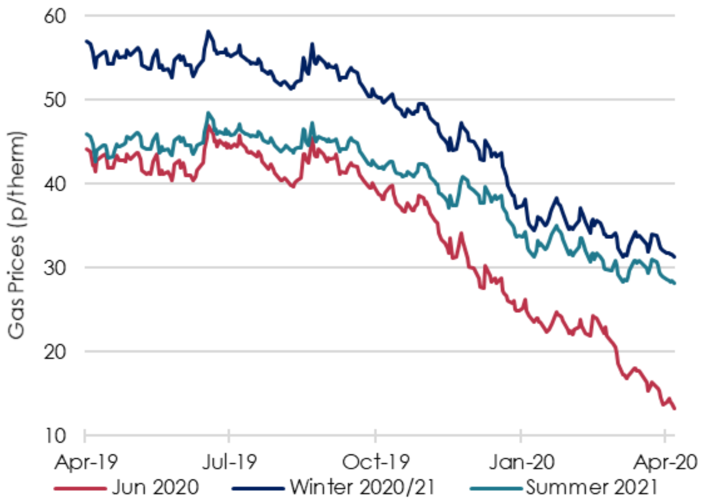
Low prices continue to persist, with the front of the curve dictated by healthy supply and storage levels, paired with reduced gas demand and low oil prices.

LNG send-out from South Hook saw highs of 59 mcm/d and is expected to remain strong in the first half of May, as 6 cargoes are now expected at the terminal in the next two weeks.

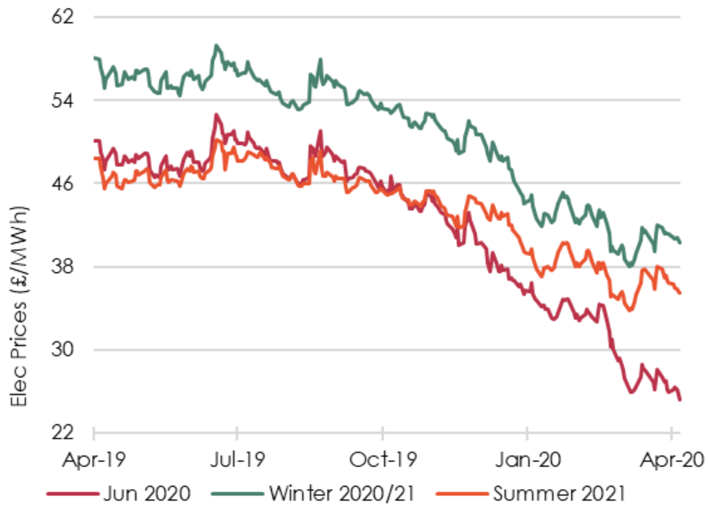
Seasonal contracts remain low and continue to fall. Sum-21 and Win-21 once again posted decreases across gas and power.

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

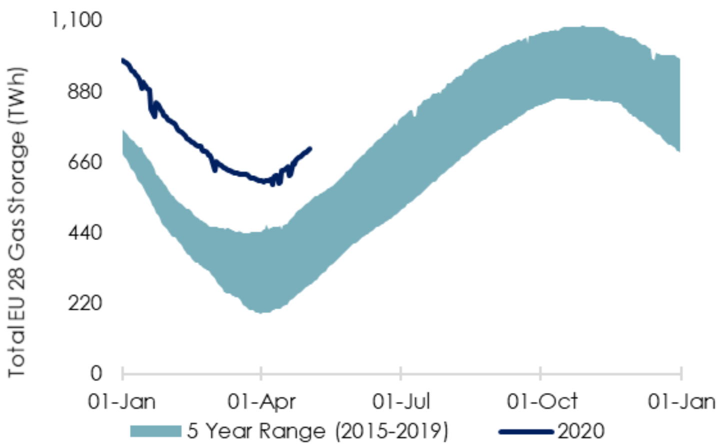
UK Gas



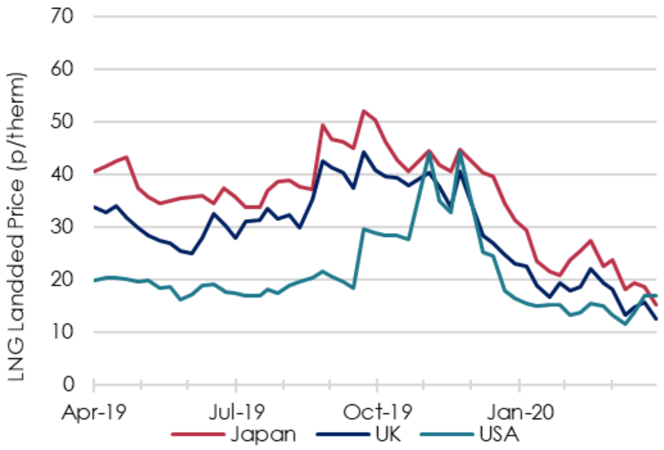
UK Power



European Gas Storage



Global LNG (Japan v UK v USA)



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Rewarding Climate Action

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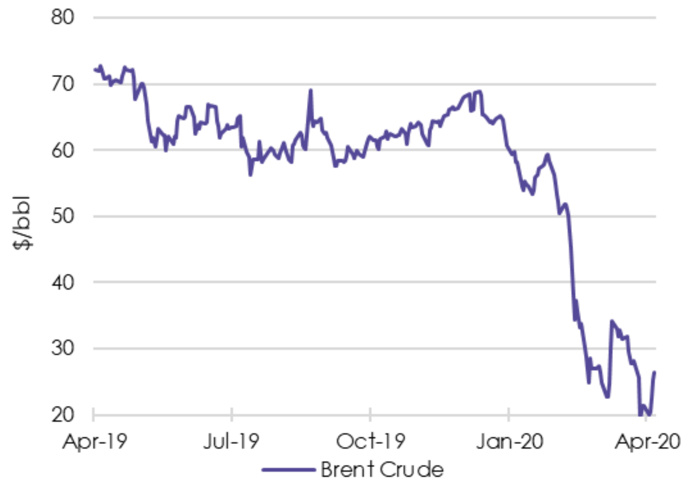
Oil

$/bbl	24 Apr 20	1 May 20	Change
Brent Crude Jul 20	21.44	26.44	23.3%

Source: Reuters

Brent crude oil prices saw a technical bounce this week to $26.44/bbl following the record lows in the market on the 21 April and US crude stocks plummeting.

The oil price remains turbulent however, with North Sea storms exacerbating wider market conditions.



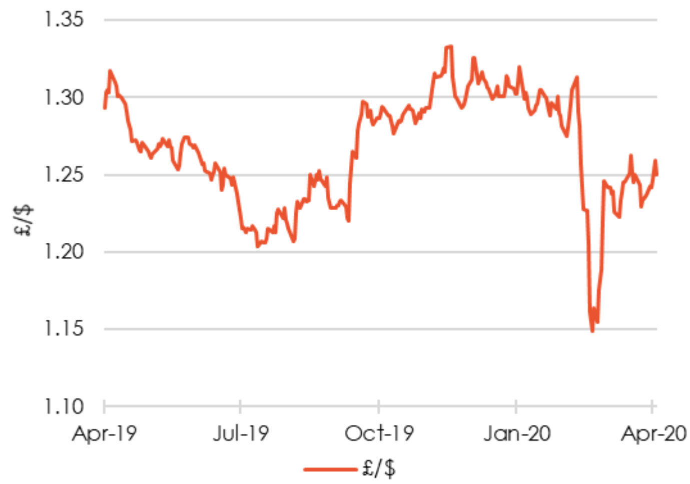
Exchange Rates & Economics

£/$	24 Apr 20	1 May 20	Change
GBP/USD	1.2367	1.2502	1.1%

Source: Reuters

The **Pound Sterling** rose 1.1% last week against the US Dollar. Encouraging news that a roadmap out of lockdown in the UK would soon be announced helped the Pound to make strong gains early last week.

However, the brewing conflict between the US and China intensified after President Donald Trump made controversial comments about the origins of Covid-19, threatening the fragile trade relationship between the two countries.



Carbon

€/tCO2	24 Apr 20	1 May 20	Change
EUA Dec 2019	20.66	18.90	-8.5%

Source: Reuters

European carbon fell a further 8.5% last week to €18.90/tCO2 as coal and oil usage are at historic lows.

The price is also reflective of dropping global equity markets as US/China relations worsen over the origins of the Covid-19 pandemic. Given these circumstances, the carbon price looks unlikely to rise before next week.

Coal

$/tonne	24 Apr 20	1 May 20	Change
API2 CIF ARA 2019	53.40	52.20	-2.2%

Source: Reuters

European coal prices fell 2.2% last week falling to $52.20 as poor competitiveness against gas and weak power demand due to the Covid-19 continues.

The UK set a record for the longest period without coal power since the industrial revolution this week (18 days). All four coal-fired power plants that remain in the UK are due to stop contributing to the grid within five years.

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Regulatory and Market News

E.ON says business energy demand has fallen 38% since lockdown

Business energy demand has dropped 38% on average since the start of coronavirus lockdowns, according to traditional big six energy supplier E.ON.

However, leisure, hospitality and real estate sectors have taken bigger hits.

Even essential sectors, such as water, agriculture and IT, are using around 20% less, according to the supplier's consumption figures.

Electricity is the largest part of E.ON's B2B business and director of business energy sales, Iain Walker, stated in a blog that the firm "expects electricity demand to remain this way for some time to come".

As much of the population is largely confined to their homes, National Grid's figures over the last week show weekday electricity demand is down around 20%. That compares to around 14% declines in the first four weeks of lockdown.

To mitigate low demand, National Grid will go live with a new 'footroom' service called Optional Downward Flexibility Management (ODFM) from 7 May, paying people to use more power over the summer or to stop exporting it.

While high levels of embedded solar PV have posed challenges for some years, this summer the National Grid must manage exceptionally low demand on the transmission system due to the coronavirus lockdown.

The ODFM service requires a minimum 1MW commitment (which can be aggregated if from the same grid supply point) and the ability to deliver for three hours.

Providers cannot be separately registered as balancing mechanism (BM) units, or otherwise active in the BM and they cannot be participating in or contracted to any other balancing/flexibility or related service during periods when the service is offered, per the draft guidance document.

Neither can they be signed up to a DNO's active network management scheme or flexible connection.

However, aggregators and service providers will welcome Grid's decision to treat ODFM as an 'applicable balancing service'. That means, unlike the original Demand Turn Up service launched in 2016, providers will not be exposed to imbalance price risk.

Aggregators suggest that makes it far more likely that people will participate.

LINK: E.ON - Demand drops 38% since lockdown

BEIS to offer grants of £4k for heat pumps plus green gas subsidies

The UK Government's Department for Business, Energy and Industry Strategy (BEIS) is planning to rollout a new scheme offering grants of £4,000 in a bid to boost heat pump uptake.

The grant, for both businesses and households for schemes up to 45kW, is detailed in a consultation on future support for low carbon heat.

The consultation also outlines subsidy support for biomethane injected into the grid – a mechanism government "would like to be in place as soon as practicable" so that there are no gaps in support when the non domestic RHI closes to new applicants next March.

As such, BEIS said the Green Gas Support Scheme will begin in financial year 2021-22 and will run until financial year 2025-26. It plans to tier subsidies to favour larger plant and is considering 15-year payments, though seeks views on 10- or 12-year support.

For the heat pump scheme, all technologies will be eligible, and BEIS said the grant may work particularly well in shared ground loop schemes.

LINK: BEIS - £4k grants for heat pumps

Tesla applies to Ofgem to become licenced UK electricity generator

US electric car manufacturing Tesla Motors has applied for a UK power generation licence. The company's application, signed off by Tesla energy products sales director, Evan Rice, was published by energy regulator Ofgem.

The move suggests Tesla may be planning to build large-scale battery storage projects in the UK, as it has done in countries such as Australia, where it constructed a 100MW scheme in less than 100 days in late 2016.

However, it may mark Tesla's first UK move into aggregation, as it eyes the virtual power plant (VPP) market. The company's 'autobidder' platform aims to make money from distributed batteries via real time trading and optimisation.

As well as its electric car business, Tesla also supplies battery storage for homes and businesses, plus solar roof tiles. The autobidder platform aims to harness everything from behind the meter home batteries to utility scale assets, bidding in flexibility to all available markets.

LINK: Energyst - Tesla applies for generation licence