Beond Weekly UK Insight

29 June 2020

Gas

p/therm	19 Jun 20	26 Jun 20	Change
Day-Ahead	14.00	13.60	-2.9%
Jul 2020	14.42	13.92	-3.5%
Winter 2020/21	32.84	32.38	-1.4%
Summer 2021	30.50	29.70	-2.6%

Power

£/MWh	19 Jun 20	26 Jun 20	Change
Day-Ahead	29.80	27.86	-6.5%
Jul 2020	29.94	30.05	0.4%
Winter 2020/21	44.33	44.67	0.8%
Summer 2021	39.71	39.51	-0.5%

The UK's **Day-Ahead gas** price fell 2.9% to 13.60p/therm last week as a warm temperature and a rise in solar power reduced short term demand for gas-fired power demand. Weak gas demand and an increase in domestic gas production resulted in a heavily oversupplied UK gas system.

Gas flows to the UK via the Langeled pipeline rose this week with a total of 50 mcm of Norwegian gas delivered to Britain on Friday contributing to the UK gas systems oversupply.

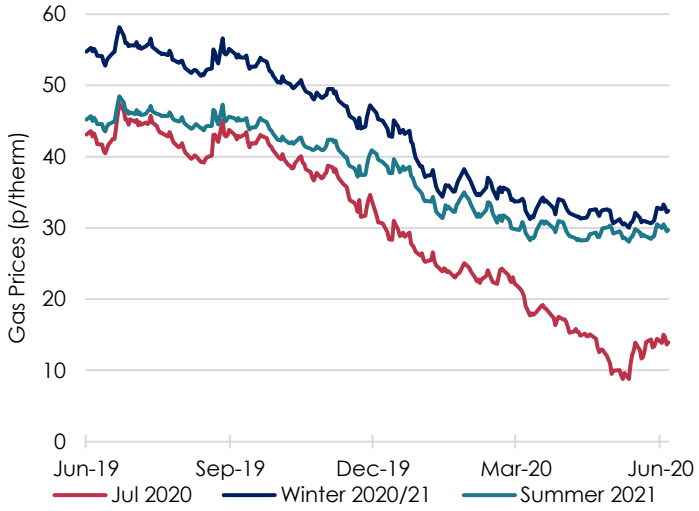
Day-Ahead power fell 6.5% to £27.86/MWh as a surge in Coronavirus cases in the US and the on-going US 'trade war' with China impact global markets. Warmer temperatures, strong solar and wind generation as well as weakening equities and other commodities have helped to weaken power contracts.

Winter 2020/21 gas fell by 1.4% to 32.38/therm following a dip in oil prices. Both oil and gas storage are extremely comfortable. Meanwhile, concerns grew that a record rise in Covid-19 infections worldwide could stall a recovery in fuel demand.

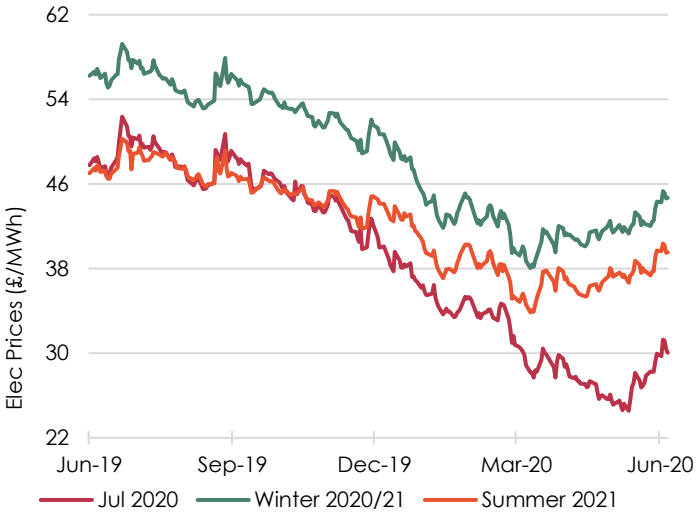
Concerns of slightly increased levels of radioactivity detected in northern Europe by Nordic authorities this week may be from a source in western Russia and may "indicate damage to a fuel element in a nuclear power plant." It is unclear whether there will be any further ramifications on this across Europe's power sector.

Our recommendation remains to lock in contracts as soon as possible as prices begin to rise following the easing of lockdown restrictions.

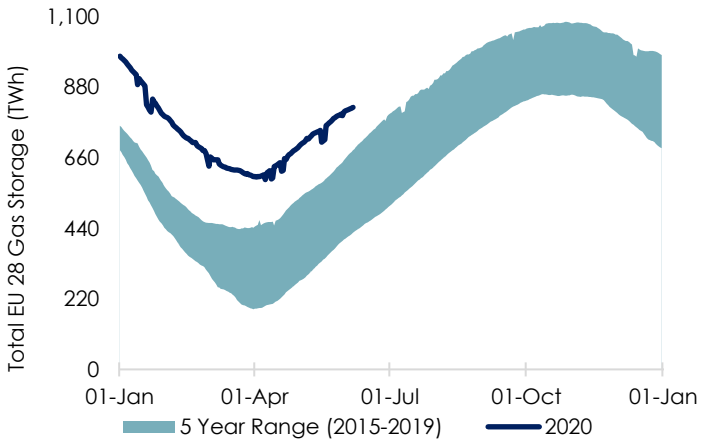
UK Gas



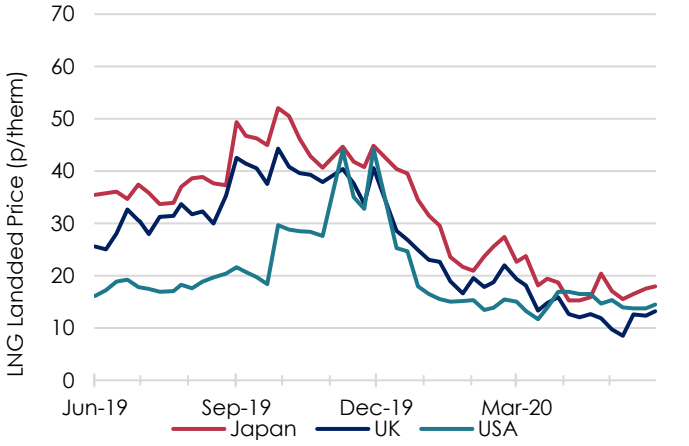
UK Power



European Gas Storage



Global LNG (Japan v UK v USA)



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Rewarding Climate Action

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Oil

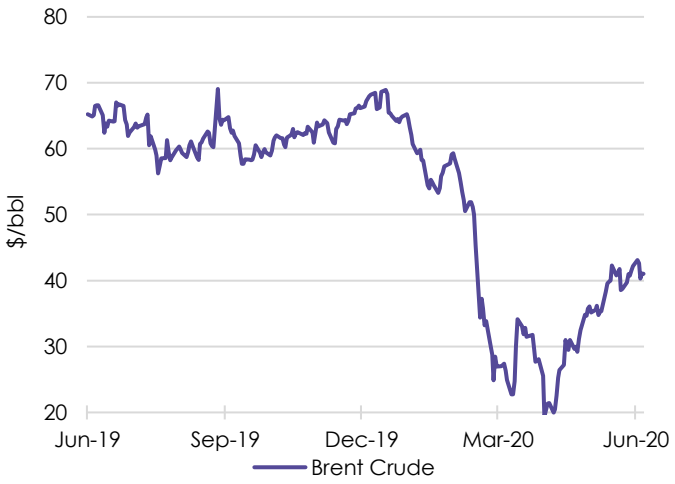
$/bbl	19 Jun 20	26 Jun 20	Change
Brent Crude Aug 20	42.19	41.02	-2.8%

Source: Reuters

Brent Crude oil fell 2.8% last week to $41.02/bbl, as demand concerns threatened further oversupply in the market.

Concerns in Europe over a second wave have arisen after Germany recorded a series of localised outbreaks in the Covid-19 virus, dampening demand recovery.

Meanwhile, US oil production has been increasing, but much slower than the rate of consumption, leaving the market to draw on sizeable fuel stocks.



Exchange Rates & Economics

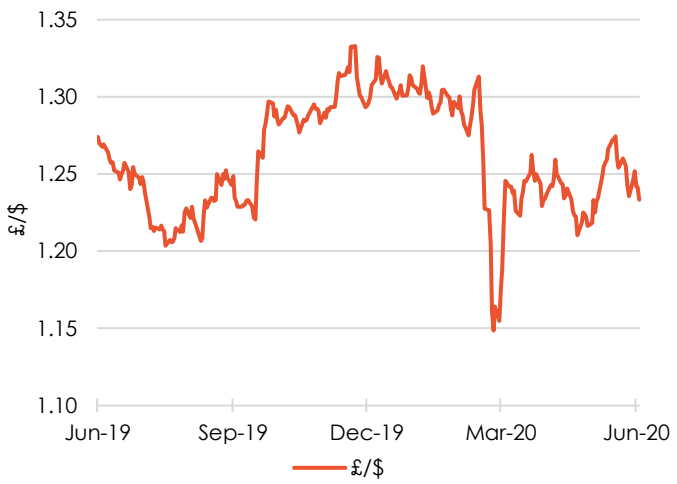
£/$	19 Jun 20	26 Jun 20	Change
GBP/USD	1.2356	1.2333	-0.2%

Source: Reuters

The **Pound Sterling** fell by a small margin last week, 0.2% to 1.233. Last week's price has been maintained by a balanced range of factors.

UK retail sales and EU pressure for a friendly trade deal during Brexit negotiations are acting to keep rates high.

Counteractively, concerns over a second Covid-19 wave and worsening geopolitical conditions both are likely to indicate a stronger Dollar.



Carbon

€/tCO2	19 Jun 20	26 Jun 20	Change
EUA Dec Yr	24.09	24.66	2.4%

Source: Reuters

European carbon continued to rise by 2.4% to €24.66/tCO2 last week, as midweek prices reached four-month highs supported by investors and speculative traders. This follows calls from the International Energy Agency for the EU to strengthen carbon pricing in order to help meet targets for decarbonisation.

Coal

$/tonne	19 Jun 20	26 Jun 20	Change
API2 CIF ARA Yr	54.70	57.90	5.9%

Source: Reuters

European coal prices rose 5.9% to $57.90. These gains are largely technical following record lows in May.

Wider market sentiment remains under pressure. Supply is ample and demand remains sluggish despite an increase in European businesses opening. The fundamentals suggest the increase may be short-lived.

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Regulatory and Market News

Hydrogen can meet half of UK energy demand, says Aurora Energy Research

Hydrogen produced from both renewables and methane can meet 48% of UK final energy demand by 2050, calculates Aurora Energy Research.

'Green' hydrogen (produced via electrolysis) or 'blue' (via reformed methane and carbon capture and storage) could produce as much as 500 TWh of power, suggests the energy research company.

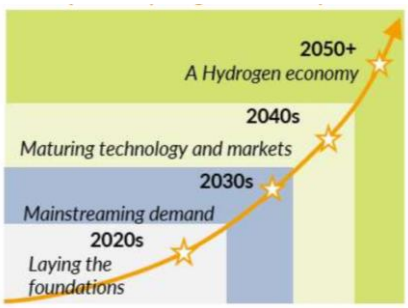
Adopting hydrogen at that scale would entrench renewables deeper in the power grid, Aurora argues, as the gas becomes an easy stand-by source for generation.

As a generating source, wholesale clean hydrogen could cost as little as £50/MWh by mid-century, Aurora estimates.

Salt caves would provide standard storage, backed up by a national reserve of 7GW to cover short term needs.

Aurora calculates hydrogen also means renewable generators could push excess power into hydrogen production, leading to lower production costs, with hydrogen produced power feeding back into the system and reducing balancing costs. Aurora suggests that benefit could total £3bn/year by 2050.

Roadmap to Hydrogen Economy



Source: Aurora Energy Research

The country's gas networks could also be adapted to hydrogen, enabling mass conversion of boilers to provide clean heat and hot water.

While green hydrogen could help decarbonise the power sector to a large degree, decarbonising heat and transport would require the bulk of hydrogen to come from methane with CCS, states the report.

"Low-regret" options for government, Aurora argues, include stimulation of hydrogen demand in key sectors like manufacturing, transport and power, the deployment of CCS close to high-carbon sites and the standardisation of networks.

LINK: Aurora - Hydrogen can meet half energy demand

Ofgem sets cap on BSUoS electricity grid charges amid Covid-19, deferring additional costs until 2021/22

Ofgem has approved a £15/MWh (1.5 p/kWh) price cap on Balancing Services Use of System (BSUoS) charges from 25 June until 31 August 2020, following skyrocking forecast costs.

This came after National Grid identified an additional £500 million increase in the cost of managing the electricity transmission system because of the impact of Covid-19.

The average half-hourly BSUoS charge in April and May 2019 was £2.82/MWh and £2.56/MWh respectively, before it rose to £4.93/MWh and £5.75/MWh in April 2020 and May 2020.

Any under-recovery of revenue from the cap will be recovered through BSUoS charges equally across all settlement periods in 2021/22, as part of the newly approved regulatory code CMP345.

A number of other options for deferring charges were considered by Ofgem but rejected.

Ofgem continued to say that it doesn't expect the total amount of charges that are likely to be deferred under the price cap to exceed 5% of total BSUoS charges from 25 June until 31 August.

LINK: Ofgem - Defer BSUoS Costs (CMP345)

Drax power station to trial Mitsubishi's biomass-with-carbon-capture tech

Britain's biggest biomass burner Drax is to pilot new biomass energy carbon capture and storage (BECCS) technology from Mitsubishi starting this autumn.

The small scale trial aims to collect up to 300kg of CO2 per day over 12 months. If successful, the Yorkshire generator hopes massively scaled up kit and associated infrastructure can help enable its ambition of being carbon negative by 2030.

Drax calculates that implementing BECCS could eliminate 16 million tonnes of emissions a year, or a third of the total the UK needs from BECCS to reach the national goal of carbon zero by 2050.

Once Britain's biggest carbon emitter, Drax is switching off coal for commercial generation and has converted four of its furnaces to biomass.

The announcement comes as anti-biomass campaigners stepped up calls for the UK government to remove subsidies for biomass, and divert support to wind and solar.

LINK: Drax - carbon capture BECCS pilot