Beond Weekly UK Insight

17 August 2020

Gas

p/therm	7 Aug 20	14 Aug 20	Change
Day-Ahead	19.50	19.80	1.5%
Sep 2020	21.82	22.01	0.9%
Winter 2020/21	34.27	35.29	3.0%
Summer 2021	30.12	30.77	2.2%

Power

£/MWh	7 Aug 20	14 Aug 20	Change
Day-Ahead	33.25	34.12	2.6%
Sep 2020	38.78	37.40	-3.6%
Winter 2020/21	47.09	46.68	-0.9%
Summer 2021	40.76	40.38	-0.9%

The UK's **Day-Ahead gas** saw a small price rise of 1.5% to 19.80p/therm as demand for gas-for-power generation continued as a result of the hot weather and low wind.

Day-Ahead power rose a further 2.6% to £34.12/MWh as temperatures remained high, wind generation low and gas for power generation became more expensive.

Winter 2020/21 gas rose 3.0% last week to 35.29 p/therm, with the equivalent **power** price seeing a drop of 0.9% to £46.68/MWh. Gas prices have risen ahead of scheduled annual maintenance to the Norwegian gas system during late August and September.

The gas balance across Europe was more favourable for UK prices last week following the re-routing of supply seeing a surge in UK-bound gas imports via Norway's Langeled pipeline.

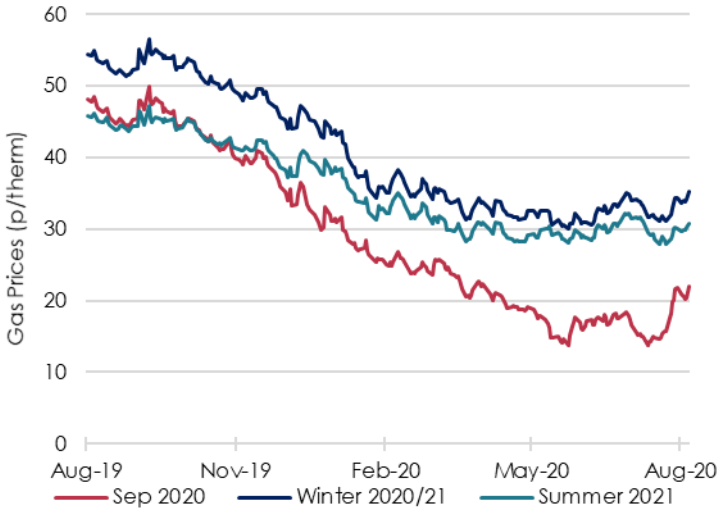
The rise in gas prices towards the latter half of last week follows increases in global LNG prices due to buoyancy in Asia as well as LNG cargoes arriving from the US to support power generation amid a heatwave. However, looking forward only a single shipment 126 mcm) of LNG is expected to arrive in the UK this week from Qatar.

As oil prices continue to rise and global energy demand edges higher, gas and power prices may continue to rise. Recent drops in forward power prices reflects a dip in European carbon following muted trading.

Gas storage remains well above the 5-year average and the UK system being 12mcm/d oversupplied.

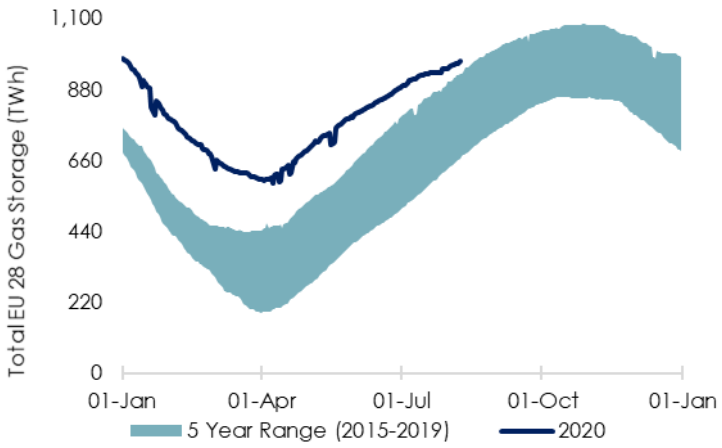
Our recommendation remains to lock in contracts as soon as possible as prices are at risk of further volatility following the easing of lockdown restrictions.

UK Gas

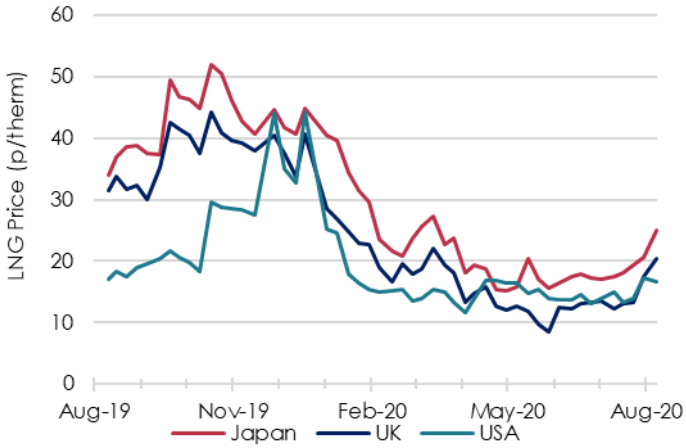


UK Power

European Gas Storage



Global LNG (Japan v UK v USA)



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Rewarding Climate Action

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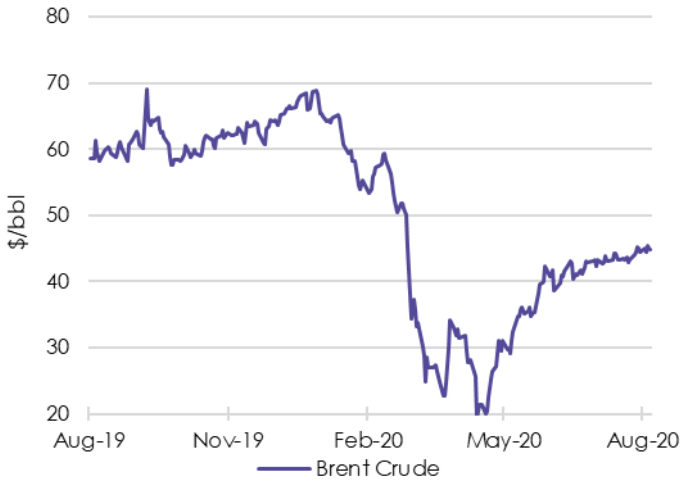
Oil

$/bbl	7 Aug 20	14 Aug 20	Change
Brent Crude Oct 20	44.40	44.80	0.9%

Source: Reuters

Brent Crude oil rose 0.9% for the week as both the International Energy Agency (IEA) and OPEC reduced their 2020 oil demand forecasts.

Prices bolstered earlier in the week by U.S. government data indicating that demand for crude oil and gasoline had increased last week and inventories had fallen as refiners ramped up production to match the increased demand. If this trend continues it will continue to be supportive of Brent and drive prices higher.



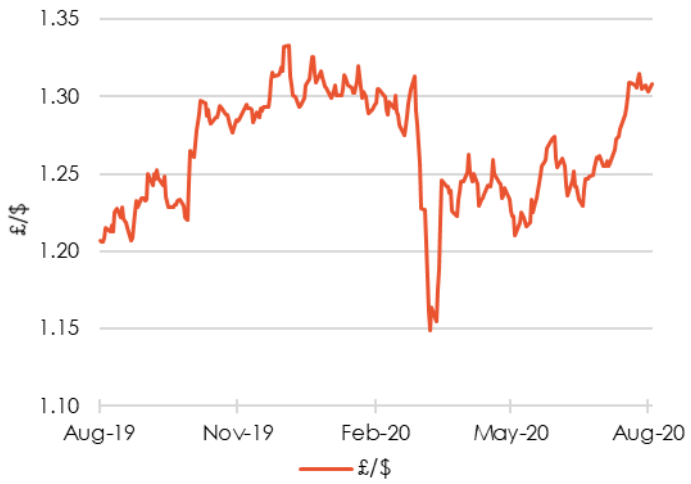
Exchange Rates & Economics

£/$	7 Aug 20	14 Aug 20	Change
GBP/USD	1.3051	1.3084	0.3%

Source: Reuters

The **Pound Sterling** gained 0.3% last week against the US Dollar despite the announcement that the UK has officially entered recession. The UK economy suffered its biggest slump on record from April-June as coronavirus lockdown measures caused the economy to shrink 20.4% compared to the first three months of the year.

The Bank of England's Monetary Policy Committee voted unanimously to leave interest rates unchanged. Previously the threat of negative interest rates had a bearish impact on the pound.



Carbon

€/tCO2	7 Aug 20	14 Aug 20	Change
EUA Dec Yr	26.36	25.42	-3.6%

Source: Reuters

European carbon saw a fall of 3.6% to €25.42/tCO2 this week.

Wider economic fears and weakening power markets continue to outweigh the bullish effect of reduced auction supply, which is only half the normal volume. Trading during the holiday period remains low.

Coal

$/tonne	7 Aug 20	14 Aug 20	Change
API2 CIF ARA Yr	59.80	56.30	-5.9%

Source: Reuters

European coal prices saw a fall of 5.9% to $56.30/tonne as prices were pressured by increased renewable energy generation capacity.

However, in the UK, National Grid fired up a coal-fired power station for the first time in 55 days as the heatwave brought wind turbines to a standstill and gas-fired power stations struggled.

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Regulatory and Market News

Ørsted CEO: "There's a big need for more flexibility"

Increasing volatility driven by greater penetration of renewable power will require a major increase in system flexibility, according to Ørsted CEO Henrik Poulsen.

The UK business was most impacted in terms of demand for power, said Poulsen and he expects "similar, maybe slightly smaller impacts" in the second half of the year. In some cases, energy suppliers and their business customers may need to resolve "important" discussions around contractual arrangements, he said.

The UK electricity system operator has had to work harder to keep the system stable due to exceptionally low demand as a result of Covid, with a significant increase in balancing costs.

With the ESO planning to run the system entirely on renewables when possible within five years, this summer has provided a glimpse of the future.

"As demand goes down the share of renewables in the mix goes up, driving additional volatility," said Poulsen. "Ultimately volatility needs to be matched by increased flexibility either in production, dialling up or dialling down. Or to add storage mechanisms to production and consumption to smooth out peaks, or to add more flexibility from industrial consumers." Either way, he said, "There is no doubt there is a big need for building more and more flexibility into the end-to-end energy system to create better alignment."

Ørsted is "investing in the ability to have our offshore wind farms respond as quickly as possible to any imbalances in the system; increasing the responsiveness of offshore wind production is high on our agenda," added Poulsen.

The company is also building battery storage alongside some of its generation projects, but Poulsen said hydrogen production via offshore wind power could also play a balancing role.

The company last week received government funding for the Westküste 100 hydrogen project in Germany. The initial plan is for a 30MW electrolyser, though "the ultimate ambition is to create a 700MW capacity electrolyser", said Poulsen.

Meanwhile Ørsted is building a sustainable fuels hub at Copenhagen Airport along with companies such as Maersk and airline SAS. It could be producing transport fuels as soon as 2023, said Poulsen. "The vision is to become what could be one of the world's largest electrolysers for hydrogen production," he added.

LINK: Orsted - H1-2020 Financial Report

Npower doubles Eon's UK sales, but b2b sale undecided

Eon doubled UK energy sales in the first half of the year despite the impact of Covid-19, thanks to its purchase of Npower. UK sales increased from £3.4bn to £6.65bn.

"The turnaround is not due to the market environment but to the measures we took," said CFO Marc Spieker. "As we have previously communicated, the B2C business of Npower will be transferred to a new platform and Npower will be completely dismantled in this area".

Reduction of marketing and acquisition costs is already delivering "substantial economic improvements before the personnel reduction," added Spieker.

Meanwhile, the firm is as yet undecided on the long-term future of its combined business-to-business energy division. In a direct reversal of the B2C business, Spieker said that the B2B units would migrate to Npower's platform, "where the business is better integrated".

Asked if E.ON would ultimately sell or keep the combined business-to-business operation, Spieker gave little away. "What we are going to do with the integrated business, we have not yet decided. We are first going to do the integration of the two businesses," he said, where there will be "substantial synergies."

LINK: E.ON - Update

NIC: Increasing renewables to 65% 'won't cost any more'

Policymakers should increase targets for renewable power from 50% of the generation mix to 65% by 2030, according to the National Infrastructure Commission.

Doing so would not materially increase costs for consumers in the short or long term – even accounting for additional back-up and system balancing costs – because renewables are the cheapest form of generation, it suggests in a new report.

Across all modelled scenarios between 86 and 99GW of renewables must be deployed by 2030 to deliver an electricity system with 65% renewable generation, per the report. This includes 40GW of offshore wind, 14–18GW of onshore wind, and 29–38 GW of solar.

As such, the NIC said government should set out clear timetables with annual auctions and budget envelopes for support contracts (CfDs), which help stabilise revenues for generators, giving them the confidence to significantly ramp up investment, thereby creating jobs.

Renewables currently make up about 40% of the UK generation mix.

LINK: NIC - Cost of Renewables