Beond Weekly UK Insight

1 September 2020

Gas

p/therm	21 Aug 20	28 Aug 20	Change
Day-Ahead	18.75	26.90	43.5%
Oct 2020	23.78	28.95	21.7%
Winter 2020/21	34.99	38.22	9.2%
Summer 2021	30.72	34.25	11.5%

Power

£/MWh	21 Aug 20	28 Aug 20	Change
Day-Ahead	29.58	35.89	21.3%
Oct 2020	38.49	43.62	13.3%
Winter 2020/21	46.90	51.07	8.9%
Summer 2021	40.66	44.41	9.2%

The UK's **Day-Ahead gas** rose by 43.5% to 26.90/therm as supply took a significant hit during various UK and Norwegian gas maintenance works. This compounded the effect of increased heating demand with the coldest August Bank Holiday in 50 years.

Day-Ahead power saw a significant rise of 21.3% to £35.89/MWh as gas-for-power supply and renewable generation availability dropped.

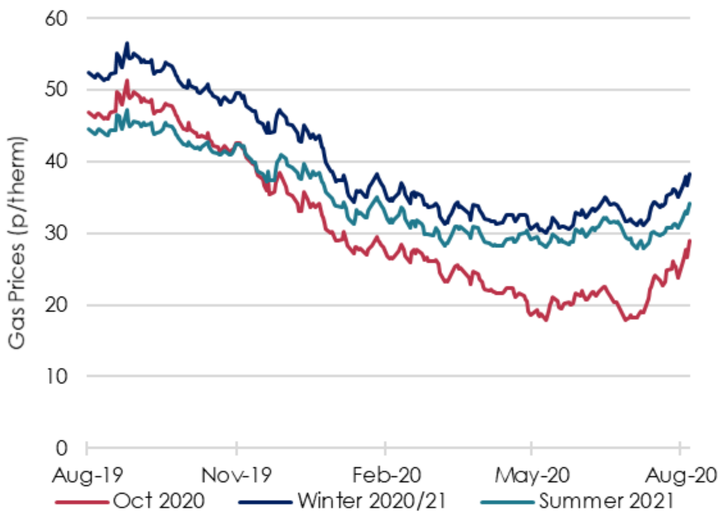
Winter 2020/21 power prices saw a rise of 8.9% to £51.07/MWh. These price rises follow the 15.1% rise seen in European carbon with outages at three French nuclear reactors increasing the demand for coal and gas-fired generation on the Continent. These factors bolstered the effect of reduced volumes of carbon credits available to auction due to the UK bank holiday.

Winter 2020/21 gas also rose 9.2% to 38.22p/therm due to significantly reduced UK gas production alongside heavy maintenances following two weeks of Norwegian disruptions.

Two shipments of LNG are set to arrive in the UK this week from Qatar, continuing to supplement reduced pipe flows. LNG prices remain low as the supply continues to outweigh demand. European LNG shipment rose by 11% this week despite concerns that US LNG exports would be slashed.

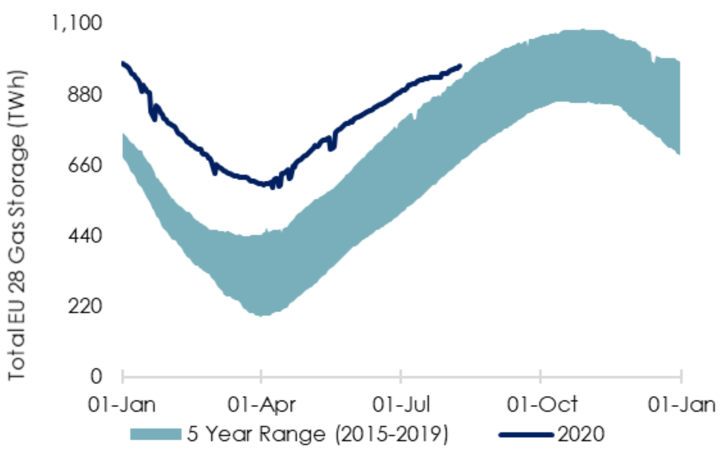
At present, our recommendation for clients with open Winter volume remains to lock this in soon. For those with greater risk appetite, holding off a week, until after the next round of carbon auctions, may see some drops in price as the current bullish market appears speculative.

UK Gas



UK Power

European Gas Storage



Global LNG (Japan v UK v USA)

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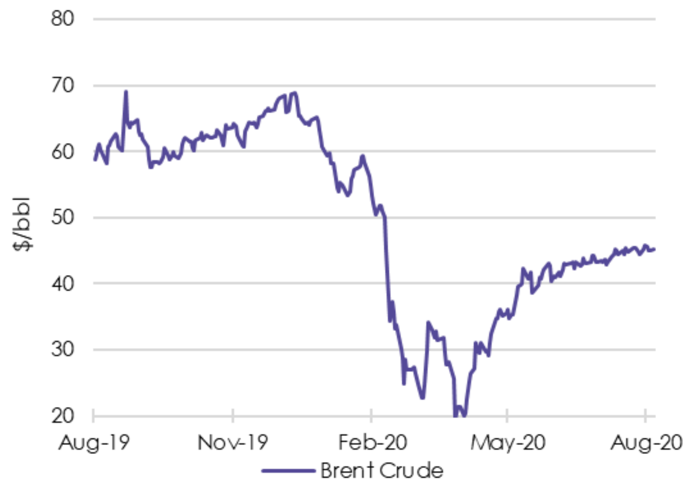
Oil

$/bbl	21 Aug 20	28 Aug 20	Change
Brent Crude Nov 20	44.35	45.05	1.6%

Source: Reuters

Brent Crude oil rose by 1.6% last week, while peaking on Tuesday at a five-month high of $45.86/bbl. Crude oil producers shut down 84% of US Gulf of Mexico output in anticipation of Hurricane Laura, equating to 90% of the outage for Hurricane Katrina 15 years prior.

Oil prices fell slightly on Friday, to settle at $45.05/bbl, as Hurricane Laura passed through without inflicting as much damage as expected and production operations began to restart.



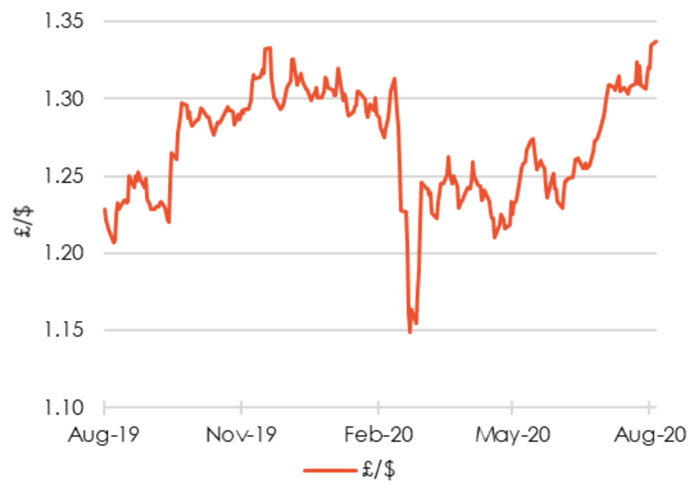
Exchange Rates & Economics

£/$	21 Aug 20	28 Aug 20	Change
GBP/USD	1.3087	1.3349	2.0%

Source: Reuters

The **Pound Sterling** rose 2% against the US Dollar last week, as a survey by Lloyds Bank showed business confidence in August saw the largest monthly rise in over three years. The survey showed improved economic optimism and trading prospects among businesses.

However, it is feared this rebound may be short lived as unemployment is expected to rise following the winding down of Britain's furlough scheme. The scheme is due to finish at the end of October.



Carbon

€/tCO2	21 Aug 20	28 Aug 20	Change
EUA Dec Yr	25.62	29.50	15.1%

Source: Reuters

European carbon rose by 15.1% to €29.50/tCO2 last week. Prices were driven by French nuclear outages increasing demand on the continent as well as lower permit volumes on the market through European auctions due to the Bank Holiday Weekend.

However, with auction volumes returning to normal next week it is likely that carbon prices will settle down.

Coal

$/tonne	21 Aug 20	28 Aug 20	Change
API2 CIF ARA Yr	53.50	57.05	6.6%

Source: Reuters

European coal prices rebounded 6.6% to $57.05/tonne last week, as fears of a strike by workers at Colombia's Cerrejon mine, one of Europe's largest coal suppliers, weighed on prices.

The largest union at the mine voted on possible strike action last month with 99% of members backing a potential walkout.

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Regulatory and Market News

Ofgem faces pricing rebellion from energy network suppliers

National Grid has warned the UK's energy regulator to rethink its plans to crack down on energy network companies as the industry prepares to mount an unprecedented rebellion against Ofgem's proposals this week. Energy network companies, including National Grid, are expected to oppose plans to halve returns they make on investing in energy infrastructure in an industry consultation that closes on Friday.

Scottish Power and SSE have also spoken out in the brewing row between the regulator and the energy industry, which could lead to an investigation by the Competition and Markets Authority (CMA).

Ofgem set out plans earlier this summer to slash the spending of energy networks by £8bn over the next eight years and halve the returns they are allowed to make on their investments to 3.95%, down sharply from 7-8% under the current regulatory regime, in order to keep a lid on household bills.

Nicola Shaw, the head of National Grid's networks business, said the financial crackdown could "hit the reliability" of Britain's energy system and put "barriers in the way" of the UK's net zero climate targets.

She said Ofgem's "unprecedented" financial cuts meant crucial projects to help the UK reach net zero had been left out of the spending plans for the next eight years and alienated investors who had historically prized Britain's stable regulatory regime.

"Investors are absolutely expecting a lower rate of return. That isn't the concern," Shaw said. "But they like predictability and stability. And they have none of that with Ofgem."

However, Jonathan Brearley, Ofgem's new chief executive and the former head of network regulation, said its proposals were the result of "extensive analysis" to determine "a fair balance between investment and customers".

Ofgem controls the amount that monopoly energy network companies can spend on upgrading the country's gas pipes and power lines because the cost is passed on to customers through their energy bills. Typically, network company costs make up about a fifth of the average household energy bill.

In the past, the regulator has faced fierce criticism from MPs and consumer groups for overseeing a regulatory plan that allowed energy company profits and shareholder payouts to rise at the expense of energy bills.

LINK: Guardian - Ofgem facing networks

Heat pumps critical to decarbonise London, says Carbon Trust

If London is to become a net zero emissions city within a decade, mass deployment and funding of heat pumps will be critical, according to a new report. The Carbon Trust's 'Heat pump retrofit in London' also underlines the need for a simultaneous step change in building energy efficiency. That will require "significant" investment from central government.

Smart heat pumps that can shift loads (also known as demand-side response, or DSR) can have a major impact on the business case for retrofitting heat pumps, which are more expensive and disruptive than other approaches.

The report underlines the need for well designed systems to unlock potential carbon emission savings of 60-70% compared to conventional electric heating and 55-65% when compared to efficient gas boilers.

Given the sums involved for a city-wide retrofit, the report states that most building types will require some form of grant or subsidy to remove gas boilers, but that blocks of flats on electric heating and other buildings already due for major upgrades already present "strong" business cases and should be prioritised.

LINK: Carbon Trust - Heat pump retrofit

Europe could have subsidy-free Offshore Wind by 2023

A study has analysed offshore wind projects in 5 countries – the UK, Germany, Denmark, the Netherlands and Belgium – to show that wind farms due to be built after 2020 are converging towards a range of €50-70/MWh. It wasn't long ago that such low prices were only predicted for 2050.

To make their price calculations meaningful their study required them to "harmonise" the very different offshore wind auction rules applied by each country, encompassing issues like subsidies, contract type and length, and grid connection costs. The authors also looked closely at the two other factors critical to offshore wind's prospects: integration costs and future wholesale electricity prices.

One of their many conclusions is that the remarkable consistency of cost decline, despite varying site conditions, auction criteria and levels of competition, is a sign that the auction model is working.

The offshore wind farms auctioned last September in the UK will most likely be the world's first "negative subsidy" projects – wind farms that will pay money back to the government over their lifetime.

LINK: Energy Post - Subsidy free offshore wind by 2023