Beond Weekly UK Insight

23 November 2020

Gas

p/therm	13 Nov 20	20 Nov 20	Change
Day-Ahead	38.00	34.25	-9.9%
Dec 2020	40.27	36.21	-10.1%
Summer 2021	34.22	30.93	-9.6%
Winter 2021/22	42.32	40.40	-4.5%

Source: ICE

Power

£/MWh	13 Nov 20	20 Nov 20	Change
Day-Ahead	42.26	38.47	-9.0%
Dec 2020	46.41	43.09	-7.2%
Summer 2021	43.31	41.22	-4.8%
Winter 2021/22	49.21	48.23	-2.0%

Source: ICE

The UK's **Day-Ahead gas** fell by 9.9% to 34.25 p/therm as the temperature outlook remains above seasonal norms. The National Grid predicts the gas system to be 8.9% oversupplied moving into this week.

Day-Ahead power fell by 9.0% to £38.47/MWh following strong wind generation despite speculative trading keeping carbon prices higher than expected.

December 2020 gas saw a significant fall of 10.1% to 36.21 p/therm as demand forecasts remain low due to warm temperatures and UK gas storage hitting 100% on Friday (20th Nov).

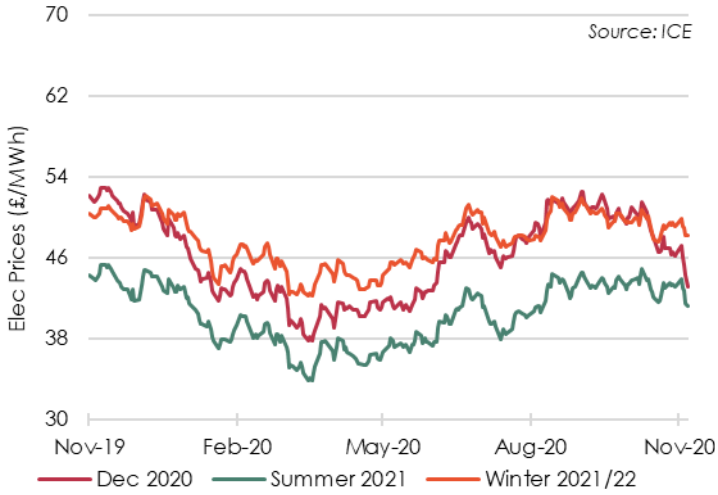
Summer 2021 gas also saw a large fall of 9.6%, to 30.93 p/therm largely due to LNG oversupply and European temperatures averaging 1°C above seasonal norms.

Low global LNG prices have been the main driver of weakening gas, and to some extent, power prices this week, largely as an indicator for the state of the gas market. The UK has 8 LNG deliveries scheduled for the next fortnight, with 5 of these coming from the US. The election of Joe Biden as the has caused a stir of fear amongst US shale as shale gas incentives appear to be in the crosshairs for the future 46th President of the United States. This has caused US LNG producers to sell now before the market is weakened, leading to a global oversupply.

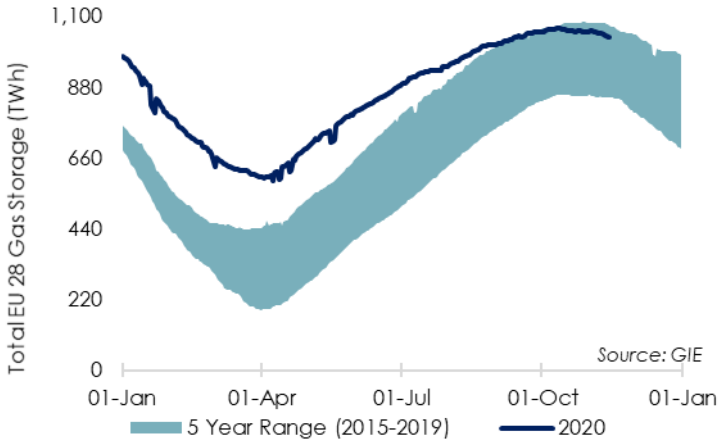
Gas and Electricity contracts have fallen as LNG supply has spike. Despite this, it is likely that average prices will continue to rise as we move further into winter, therefore the recommendation remains to lock-in now or, if possible, wait until Summer 21.

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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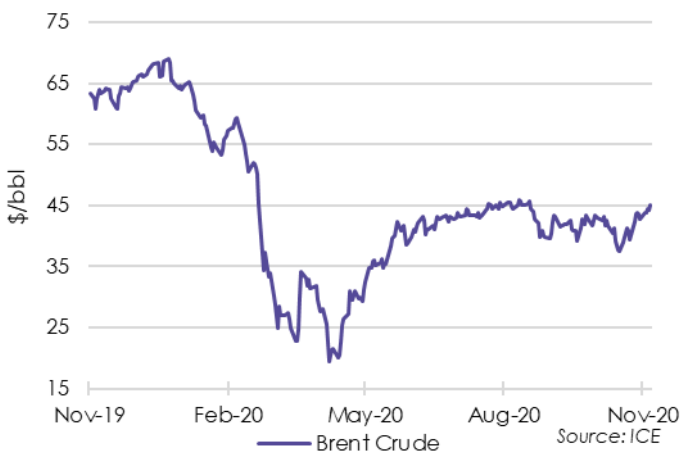
Oil

$/bbl	13 Nov 20	20 Nov 20	Change
Brent Crude Jan 21	42.78	44.96	5.1%

Source: Reuters

Brent crude oil rose 5.1% last week to $44.96/bbl. Brent prices were boosted on Monday as Moderna Inc said its vaccine was 94.5% effective in preventing Covid-19, boosting global economic prospects.

During the week, prices were supported by news that OPEC+ are to postpone a planned January ramp up in oil output by at least three months as the Covid-19 pandemic continues its second wave.



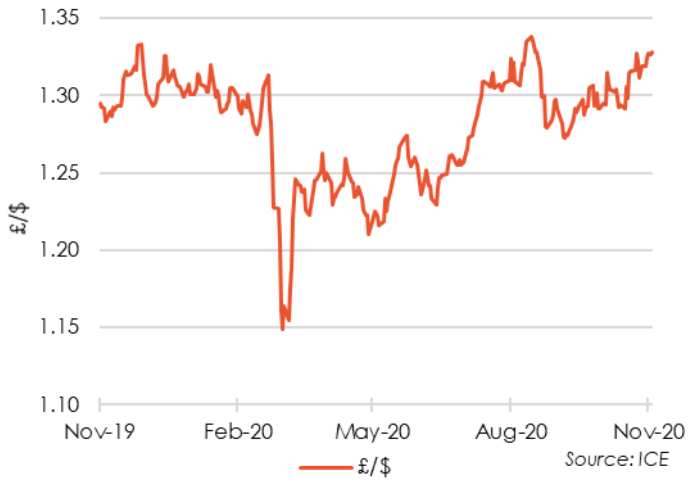
Exchange Rates & Economics

£/$	13 Nov 20	20 Nov 20	Change
GBP/USD	1.3186	1.3282	0.7%

Source: Reuters

The **Pound Sterling** continued to make small gains last week, rising 0.7%, supported by advances made in a potential Covid vaccine by AstraZeneca, as well as improved Brexit optimism.

It has been reported Boris Johnson is planning to personally intervene in Brexit negotiations this week and talk to the president of the European Commission, Ursula von der Leyen, with hopes of removing the final barriers to a trade deal.



Carbon

€/tCO2	13 Nov 20	20 Nov 20	Change
EUA Dec Yr	26.28	26.74	1.8%

Source: Reuters

European carbon rose 1.8% last week. Carbon prices jumped 4% on Monday as news of another successful vaccine trial boosted optimism for demand recovery.

However, following a drop in European power forecasts for next year, EUAs fell on Thursday as the winter outlook is still dampened heavily by the pandemic as any successful vaccines effects are not likely to be felt until mid to late-2021.

Coal

$/tonne	13 Nov 20	20 Nov 20	Change
API2 CIF ARA Yr	57.05	55.50	-2.7%

Source: Reuters

European coal prices fell 2.7% last week amid news that Germany, who relied on hard coal and lignite to make up around 20% of energy production in the first half of 2020, would be using gas plants to run baseload until Christmas. It is reported that amid current low gas prices, the marginal cost of operating German gas plants is lower than the coal equivalent.

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Regulatory and Market News

UK Government reveals 10-point climate action plan

Prime Minister Boris Johnson has set out the UK's 10-point plan to tackle climate change, deliver net zero and launch a "green industrial revolution". Clean hydrogen, carbon capture and storage (CCS), zero-carbon transport and offshore wind are all key pillars of the new package of promises.

The plan focuses on increasing ambition in the following areas:

- advancing offshore wind
- driving the growth of low carbon hydrogen
- delivering new and advanced nuclear power
- accelerating the shift to zero emission vehicles
- green public transport, cycling and walking
- 'jet zero' and green ships
- greener buildings
- investing in carbon capture, usage and storage
- protecting our natural environment
- green finance and innovation

The 10 point plan will mobilise £12 billion of government investment, and potentially 3 times as much from the private sector, to create and support up to 250,000 green jobs.

Initial reaction to the plan was one of optimism, with green groups describing the announcement as an "ambitious plan for a green industrial revolution". As always with the Government, however, the devil is in the detail.

By the Government's own admission, the Ten Point Plan would deliver a reduction in emissions of 180 million tonnes between 2023 and 2032, which is "equal to taking all of today's cars off the road for around two years".

It's a promising start. However, analysis from Carbon Brief suggests that this translates to around 50% of the required emissions cuts to deliver on the Fourth and Fifth carbon budgets that cover those time periods. Those existing carbon budgets are tracked against the old Climate Change Act of an 80% reduction in emissions, rather than the net-zero target, and are expected to be updated. In fact, the Climate Change Committee (CCC) is expected to publish advice on future carbon budgets in December.

Fortunately the Government is adamant that the 10 Point Plan is not the end point for green policy aimed at the net-zero transition.

LINK: BEIS - 10 point plan for climate action

Business customers to cover cost of RO Mutualisation for third year as small suppliers can't make payments

For the third year in a row, mutualisation of Renewables Obligations (RO) has been triggered according to Ofgem. A number of smaller suppliers failed to make their 2019-20 RO payments by the late payment deadline of 31 October 2020, leading to a "relevant shortfall" in the clean energy support mechanism.

Nabuh Energy Limited, Robin Hood Energy Limited and Symbio Energy Limited all failed to pay into the buyout fund or present the required number of Renewables Obligation Certificates (ROCs) by the initial deadlines of 31 August and 1 September 2020.

Following Ofgem's confirmation this week, Tim Dixon, from research company Cornwall Insight explained that: "Suppliers will be picking up the costs of exited rivals across 2021 and 2022, which will ultimately be passed on to the consumers' bill."

"While Ofgem will not confirm the total shortfall until early December, it seems unlikely that we will see a shortfall as large as the levels seen in 2017-18 and 2018-19. But the legacy of any defaulted payments will endure."

LINK: Ofgem - RO Mutualisation 2019/20

EDF to start closure of Hinkley Point B nuclear plant in July 2022, 8 months earlier than planned

French energy giant EDF has announced its decision to begin shutting down the 45-year-old reactors at Hinkley Point B no later than 15 July 2022.

Hinkley Point B started generating electricity in 1976 and since then has produced more than 300 TWh of power, enough to meet the electricity needs of every home in the UK for three years.

In 2012, EDF extended the estimated generating life of Hinkley Point B by seven years, from 2016 to March 2023.

Hinkley Point B has two Advanced Gas-cooled Reactors, an output of 965 MW, which is enough to power around 1.8 million UK homes.

Peter Evans, Station Director of EDF's Hinkley Point B power station, said: "This station has delivered more low carbon energy during its lifetime than any other UK nuclear station.

"Over its life, this station has helped the UK avoid millions of tonnes of carbon dioxide going into the atmosphere and provided rewarding jobs for thousands of people and supply chain partners across Britain."

LINK: EDF - Hinkley Point B closure July 2022