Beond Weekly UK Insight

4 May 2021

Gas

p/therm	23 Apr 21	30 Apr 21	Change
Day-Ahead	53.75	63.50	18.1%
Jun 2021	51.67	60.24	16.6%
Winter 2021/22	58.61	65.87	12.4%
Summer 2022	43.08	46.25	7.4%
12M Annual Oct 2021	50.84	56.06	10.3%

Source: ICE

Power

£/MWh	23 Apr 21	30 Apr 21	Change
Day-Ahead	63.00	71.02	12.7%
Jun 2021	62.61	69.68	11.3%
Winter 2021/22	69.79	76.01	8.9%
Summer 2022	52.83	55.62	5.3%
12M Annual Oct 2021	61.31	65.82	7.3%

Source: ICE

The **June 2021 Gas** price rose by 16.6% to 60.24p/therm last week as UK gas storage reaches critically low levels, currently sitting at 7.6% of capacity. With the UK gas system expected to remain short over the next few days there are concerns of gas shortages, which is driving up the price.

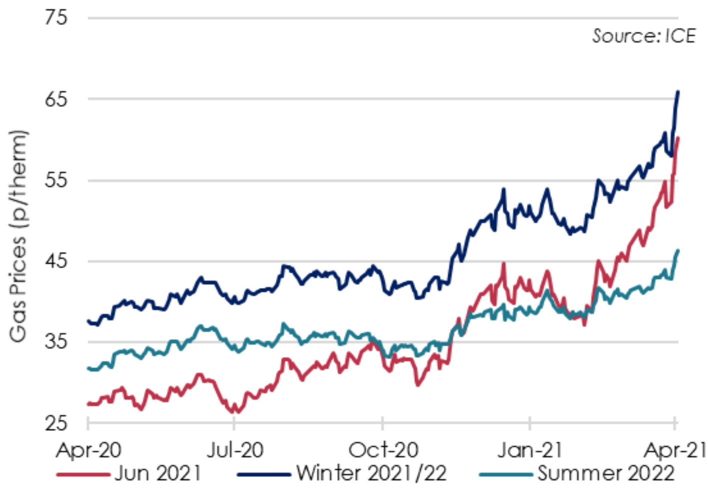
The price of UK LNG has seen a significant rise as a result, with 18 shipments now expected over the next 7 days to maintain UK gas supply.

The **June 2021 Power** price also continued to climb significantly, gaining 11.3% to £69.68/MWh. The main drivers of UK power remain the meteoric rise of EU carbon and continued reductions in EU gas storage. As gas shortages stretch across the EU, power providers have no choice but to use coal as a source of generation. The cost of carbon weighs far more heavily on, the more pollutant, coal-for-power generation. This cost is naturally passing through to the power market.

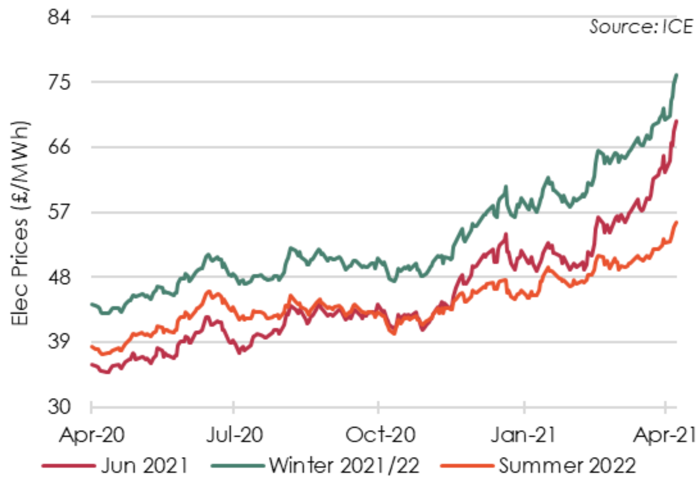
The **Oct 2021 12 Month Gas** price increased significantly last week, rising by 10.3% to 56.06p/therm. This is driven primarily by near-term price rises as the UK experiences a combination of very low storage and May weather expected to be far cooler than the seasonal norms.

The **Oct 2021 12 Month Power** price rose by 7.3% to £65.82/MWh, with continued, record-breaking, rises in the carbon market being the dominant driver. Additionally, the increasing percentage of the UK population being vaccinated and continued rises in UK energy demand will likely lead to increases in the price of power.

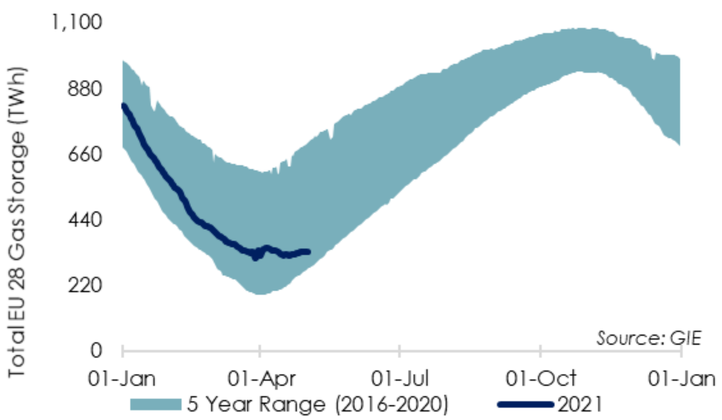
UK Gas



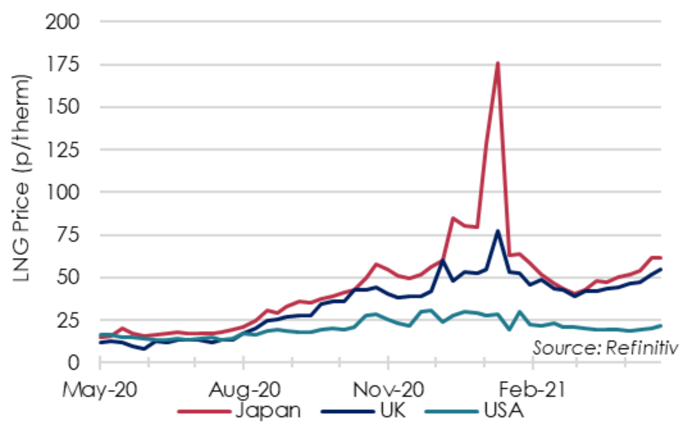
UK Power



European Gas Storage



Global LNG (Japan v UK v USA)



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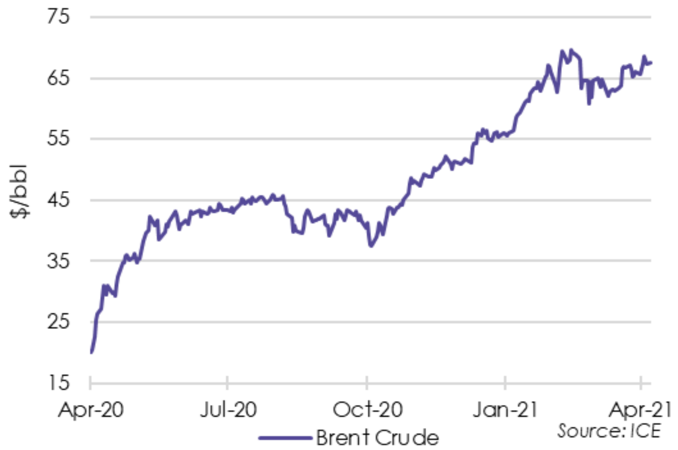
Oil

$/bbl	23 Apr 21	30 Apr 21	Change
Brent Crude Jul 21	66.11	67.25	1.7%

Source: Reuters

Brent crude oil saw a rise of 1.7% to $67.25/bbl last week as OPEC released positive statements regarding global oil demand recovery following a meeting this week.

Brent prices moved close to $70/bbl but gains were resisted by the increasingly concerning situation in India. Covid-19 infections passed 200 million this week in the country and some Indian states have been forced to announce short term lockdowns. Despite the growing demand concerns in India, overall global demand continues to rise.



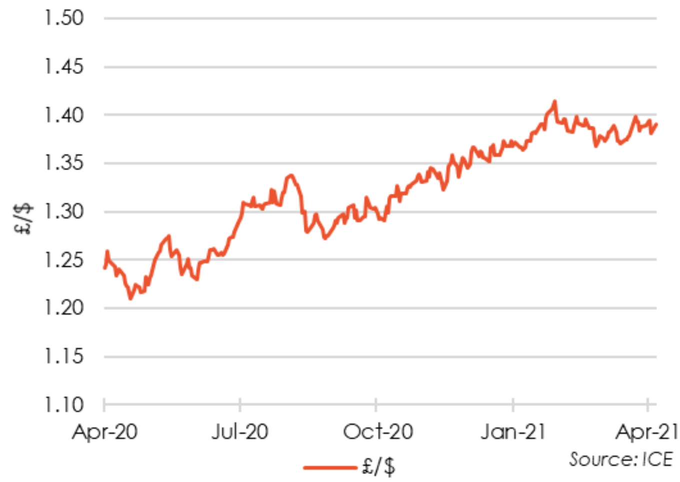
Exchange Rates & Economics

£/$	23 Apr 21	30 Apr 21	Change
GBP/USD	1.3874	1.3814	-0.4%

Source: Reuters

Pound Sterling fell 0.4% last week, as it was reported that the UK's job market recovery looks uneven as the economy reopens. Despite the introduction of the furlough scheme last year, payrolled employment has still fallen by over 800,000, with long term unemployment among young people at a five-year high.

In other news, the eurozone has fallen back into recession, as GDP fell by 0.6% in Q1-21, marking two consecutive quarterly falls.



Carbon

€/tCO2	23 Apr 21	30 Apr 21	Change
EUA Dec Yr	46.86	48.74	4.0%

Source: Reuters

European carbon once again reached record highs last week, with a 4.0% rise to €48.74/tCO2. Prices continue to strengthen as traders predict the availability of allowances will fall in order for the EU to meet climate targets, which include reducing emissions by 55% by 2030.

It is also thought the current low gas storage levels reduce scope for coal-to-gas switching across Europe, further pushing up demand for carbon permits.

Coal

$/tonne	23 Apr 21	30 Apr 21	Change
API2 CIF ARA Yr	73.75	76.15	3.3%

Source: Reuters

European coal prices rose 3.3% last week as European gas storage remain ~30% full, compared with around 64% at the same time last year leading to demand for coal power generation.

Additionally, a decrease in wind output for numerous European countries contributed to the increase in demand for coal this week.

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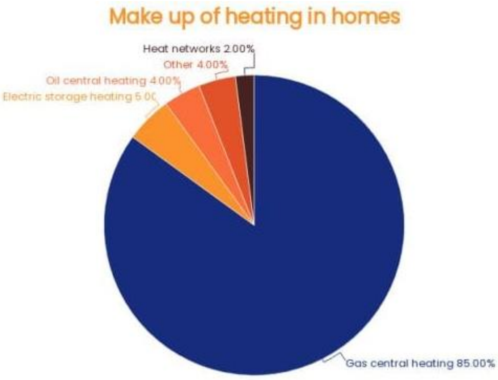
Regulatory and Market News

Large UK energy suppliers back calls for carbon tax

Several large energy suppliers have called on the government to shift policy costs from electricity bills and introduce a carbon tax to deliver its green heating ambitions.

Ovo, Eon, EDF, Scottish Power and British Gas owner Centrica commissioned the Options for Energy Bill Reform report by consultancy Public First which examines ways of incentivising heat decarbonisation, claiming the current framework actively encourages the use of fossil fuels.

Currently 1.6 million new gas boilers are installed by UK households each year, compared to just 30,000 heat pumps.



Source: Utility Week

The decarbonisation of heat is a crucial component of the UK's climate change goals and in its 10-point plan released last year the government announced plans to install 600,000 heat pumps annually by 2028.

However, Public First's report highlights how under the current framework many policy costs such as feed-in tariffs (FIT), renewable obligation certificates (ROCs) and contracts for difference (CfD) are imposed on electricity bills but not on gas.

As a result, it said, customers who seek cleaner heating options such as heat pumps are penalised. It added that unless policy changes, households opting for an air source heat pump will be paying £305 more in energy bills a year in 2030 than those with a gas boiler.

The report suggests imposing a tax that would be levied across electricity and gas, starting at £54/tCO2e at a consistently increasing rate up to £75/tCO2e in 2030. Given electricity is assumed to become increasingly renewable, gas would bear an increasing proportion of the carbon charge.

LINK: Utility Week

CfD scheme to reach 6.8GW of renewable capacity in the UK by end of 2021

The Contracts for Difference (CfD) scheme could bring a significantly larger share of renewables to the UK's grid, reaching 6.8GW by the end of the year.

CfDs is the government's main initiative to encourage low carbon electricity generation by providing project developers with high upfront costs and long lifetimes to protect from volatile wholesale prices.

New research by Cornwall Insight estimates in the first three months of 2021 operational capacity under the scheme rose to 5.6GW.

The analysis suggests offshore wind could become the main driver of the new generation installed under the scheme.

Lee Drummee, Analyst at Cornwall Insight, said: "The big driver of the CfD capacity this year is offshore wind. In fact, forecasts indicate that over next winter, monthly generation from the CfD fleet could total between 2.5TWh and 3.0TWh.

"Whilst this is still only around 10% of monthly demand levels for the winter months, the variable nature of wind generation is increasingly impacting the market over these periods."

LINK: Cornwall Insight

Ørsted warns offshore UK windfarms need urgent repairs

Danish wind power firm Ørsted has warned that up to 10 of its giant offshore windfarms around the UK and Europe will need urgent repairs because their subsea cables have been eroded by rocks on the seabed.

The renewables firm told investors it might need to spend up to DKK3bn (£350m) over the next two years on cable repairs.

Ørsted has found that the rocks placed at the base of the wind turbine foundations to prevent the erosion of the seabed were responsible for wearing down the cable protection system which, in a worst case scenario, could cause the cables to fail.

Offshore wind made up 13% of the UK's total electricity generation last year, surpassing onshore wind for the first time. The government expects offshore wind to play a major role in the UK's future electricity system, and aims to quadruple the UK's offshore wind capacity to generate enough electricity to be able to power every home in the UK.

LINK: The Guardian