Energy Management

Market Intelligence

February 2021

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GAS REVIEW

Gas News

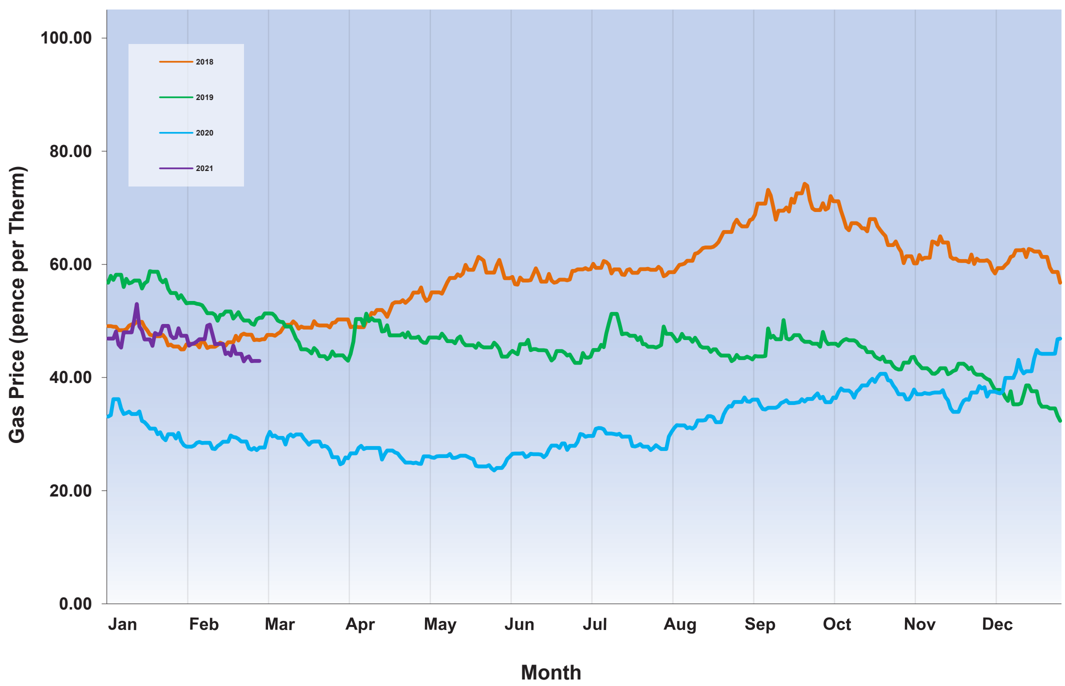
Gas prices in the grip of Storm Darcy

Natural Gas is the main contributor to UK energy costs during the winter, as it's the main source of heating fuel and the main source of power generation fuel. Natural gas always trades higher during winter periods, and the bulls were sent running by the recent cold snap. The influence of Storm Darcy increased wholesale prices by 23%.

However, markets have tailed downwards since that early February peak, despite a few short rallies caused by different factors such as the continued disruption of output from a number of Norwegian fields. Also, at the end of February, European storage levels were only just over 50% full compared to 69% at the same time the previous year, according to Gas Storage Europe, the storage operators' association.

On the flip side, Asian LNG markets came under the influence of warmer weather in the region, allowing the UK to secure much-needed deliveries to help satisfy the Bears.

Historic NBP Gas Graph



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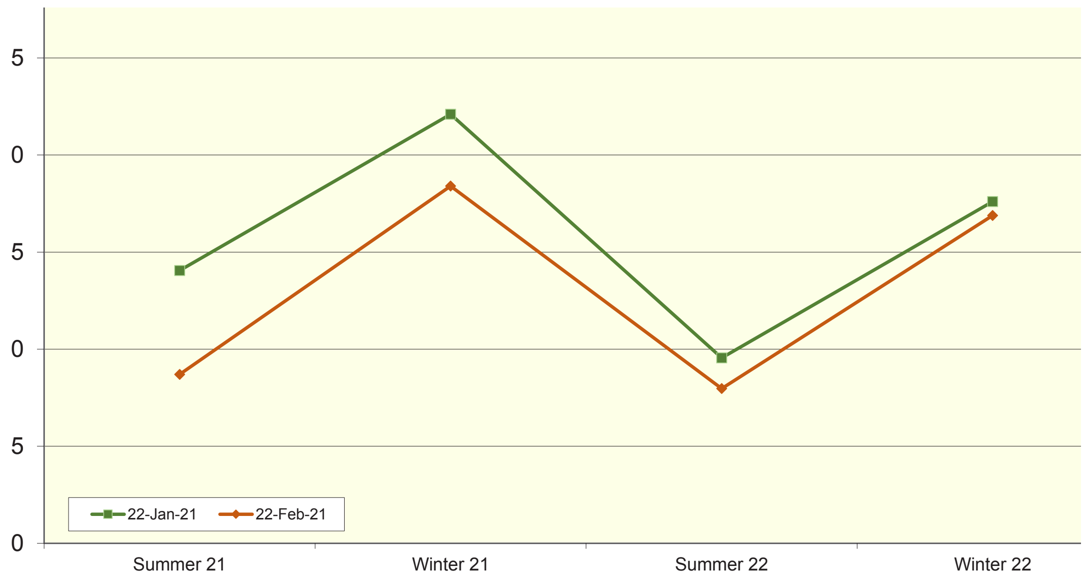
GAS REVIEW

NBP Gas Prices

	Trading date		
	22-Jan-21	**22-Feb-21**	**Increase**
Summer 21	44.05	38.70	-5.35
Winter 21	52.10	48.40	-3.70
Summer 22	39.55	37.97	-1.58
Winter 22	47.60	46.89	-0.71

Forward NBP Gas Curve



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ELECTRICITY REVIEW

Electricity News

Power market still finely balanced

February was a month of contrasts. The final days of the month were bathed in glorious sunshine with daytime temperatures hitting the low teens. It was hard to believe, then, that two weeks earlier much of the eastern side of the UK was covered in snow and the western half was gripped by an artic wind that resulted in temperatures plummeting to 25-year lows. Despite Lockdown 3 still dominating the profile of Industrial and Commercial demand here in the UK and elsewhere in Europe, generators had to ramp up output for the best part of a week until a return to more seasonal temperatures eased the burden. This was reflected in a sharp rise in wholesale costs early in the month.

As natural gas prices began to ease, power prices also gave way to the Bears as February came to a close. Increased wind output also the fed into market, allowing what was still a volatile market to tail downwards from the heady heights of January.

So what of this month? The UK power market still remains finely balanced with no guarantees that winter is over just yet. This winter has provided one of the clearest pictures of how reliant the UK has become on wind generation. Wind met 60% of the UK's demand in August 2020, as ageing fossil fuel generation plants and older gas technology was replaced by this form of renewable energy.

With the UK operating at reduced demand, the system has coped up to now, but only marginally at times when wind speeds have dropped. What would happen under the same scenario post-Covid recovery is yet to be known.

Undelivered Wholesale Electricity Rates

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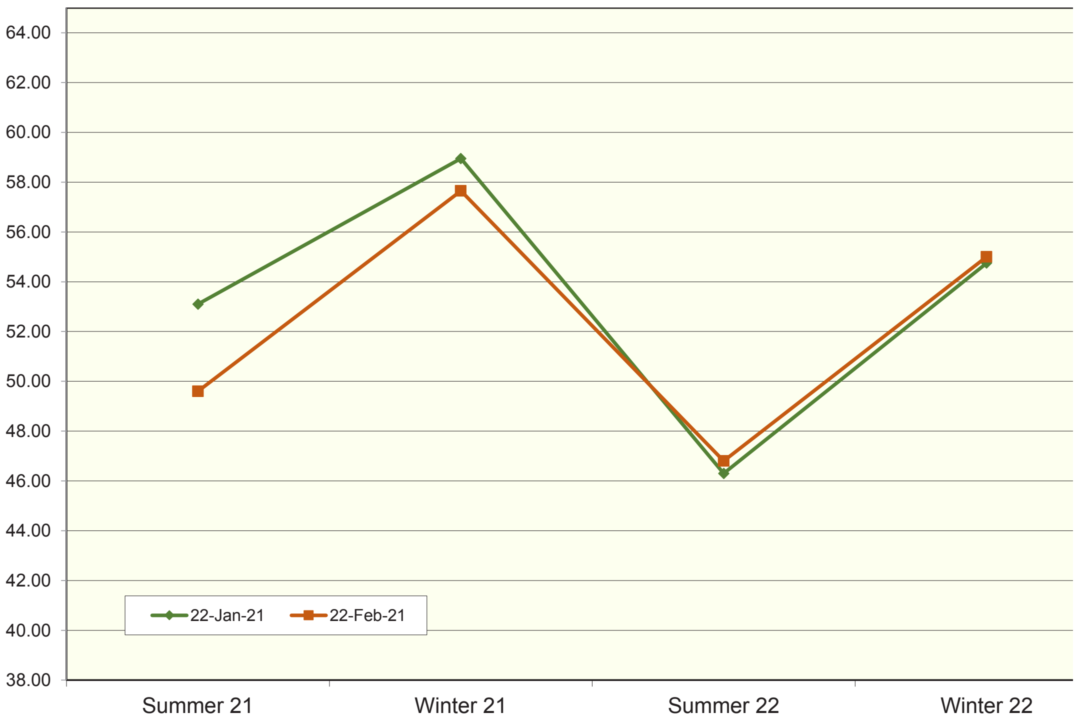
ELECTRICITY REVIEW

OTC Power Price Assessments £/MWh

	Trading date		
	22-Jan-21	**22-Feb-21**	**Increase**
Summer 21	53.10	49.60	-3.50
Winter 21	58.95	57.65	-1.30
Summer 22	46.30	46.80	0.50
Winter 22	54.75	55.00	0.25

OTC Electricity Forward Price Curve



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OIL REVIEW

Saudi cuts send prices rocketing

Oil prices travelled in one direction in February – up. Around US$10 was added to send the overall barrel price during February up to US$65 per barrel – its highest level since Q4 2019. The continued bullish run comes off the back of extra Saudi production cuts of 1 million barrels a day during February, and continuing into March, and lower US crude inventories.

With President Biden only one month into his term of office, thoughts will soon turn to just how he will balance the US recovery against the fight to decrease the US's reliance on fossil fuel associated CO2 emissions. The value of crude oil has always been a key performance indicator of the US economy but with a sitting President already laying out his plans to reduce US Carbon emissions, it will interesting to see where both crude oil demand and prices go over the next few years.

Here in the UK, we are seen as a world leader in the bid to reduce CO2 output. Ambitious targets to achieve carbon neutrality have been published along with key milestone dates to achieve that. Hydrogen technology, according to recent articles, could be a key factor in whether the UK is successful or not. Watch this space, as they say.

OTHER NEWS

Going green

Energy Management Ltd is delighted to reveal a £300 million UK-wide green recovery scheme, designed to encourage low-carbon energy projects, is now available for companies to access.

The green recovery scheme is a collaboration between Ofgem and the ENA (Electricity Network Association), who represent all UK DNOs. A list of DNOs can be found here >>

The aim of this project is to deliver electricity distribution infrastructure and solutions in places where that will lead to rapid, material development and stimulate economic recovery.

It is designed to help pay for any electricity network updates needed to enable low-carbon projects, such as the installation of EV charge points and heat pumps, to go ahead.

Companies interested in accessing funding need to submit their applications prior to the 19th March, 2021 deadline.

To be successful, projects will need to demonstrate how they meet both the Government's Net Zero objective and the Ten Point Green Recovery Plan.

They will also be assessed to understand their contribution towards improving air quality, creating jobs and alleviating fuel poverty in local communities.

The scheme will focus on funded projects that can be delivered in 2021 or 2022 to make sure it has an immediate impact.

To find out if you are in an area identified for potential investment under the scheme, please contact your relevant DNO.

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