Market Intelligence

July & August 2020

We reflect on an eventful two months in the energy price markets during the summer months of July and August.

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GAS REVIEW

Gas News

Bulls make a late run

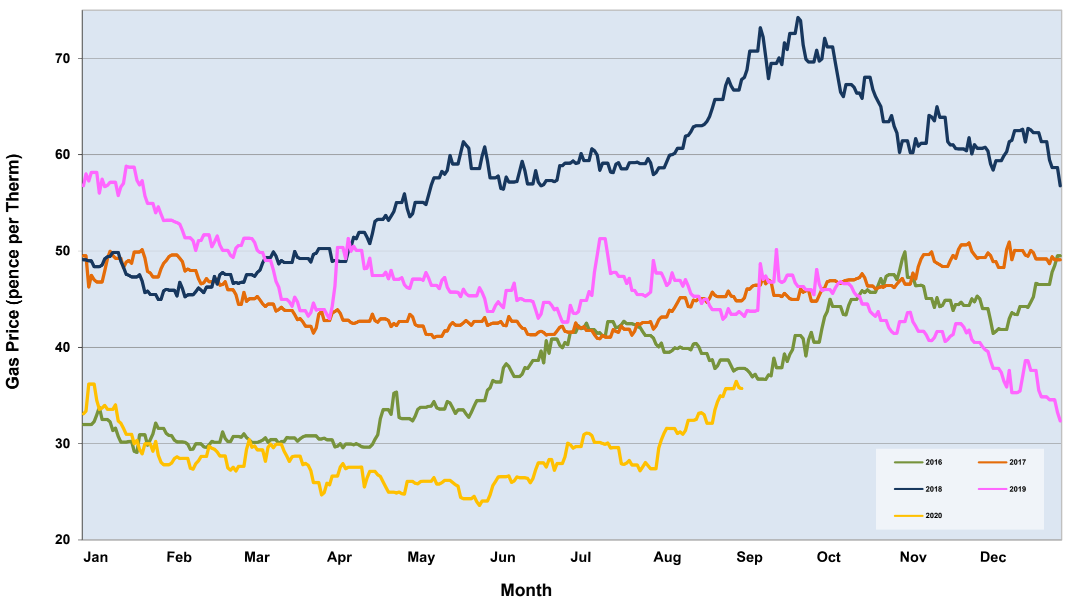
The bears retained their grip over the natural gas markets for most of July with a steady but noticeable drop across the first three weeks of the month. This can generally be attributed to a lack of demand because of lockdown, and limited seasonal injections into storage, after a winter and spring of above average temperatures, that did not eat too deeply into the reserves.

As July ticked into August, the UK found itself struggling to secure LNG deliveries with a noticeable drop in Norwegian flows. LNG storage had to step up to the mark and was used to restore the supply and demand balance. Storage levels dropped from 90% to 70% in less than two weeks through this challenging period.

Cue the bulls, who have taken control of the market since that time. The biggest increase was seen in short-term pricing with over 55% being added to delivered gas for the remaining summer months. Rising demand has been a key factor in this turn of events as the need for both natural gas in its raw form and for power generation increases with the economy whirring back into action again.

Even in the US, where some key geopolitical States remain under the Covid-19 cosh, there has been an increase in natural gas demand in this period.

Historic NBP Gas Graph



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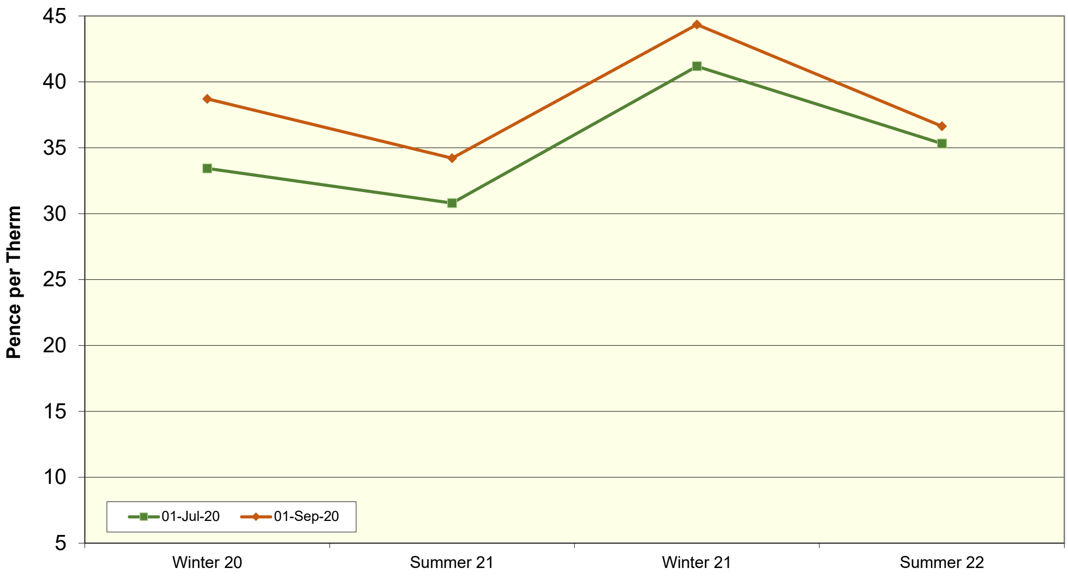
Energy Management

GAS REVIEW

NBP Gas Prices

	Trading date		
	01-Jul-20	**01-Sep-20**	**Increase**
Winter 20	33.43	38.71	5.28
Summer 21	30.80	34.21	3.41
Winter 21	41.18	44.35	3.17
Summer 22	35.32	36.63	1.31

Forward NBP Gas Curve



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ELECTRICITY REVIEW

Electricity News

Cooling off period

After a period of one-way traffic throughout the month of June, the bears returned for the first two weeks of July. Almost a third of June's price increases were eaten away until markets levelled during the third week of the month. The bulls subsequently returned for a run, taking wholesale prices back beyond June's peak before once more levelling and taking a short break in mid-August. By the end of the month, though, prices had taken off again.

Short-term drivers have been based predominantly around wind generation, or rather the lack of it, at critical peaks. While generally deemed to be the most reliable of renewable generation sources, wind still does not have ability to be controlled in the same manner as fossil fuel generation in matching grid demand.

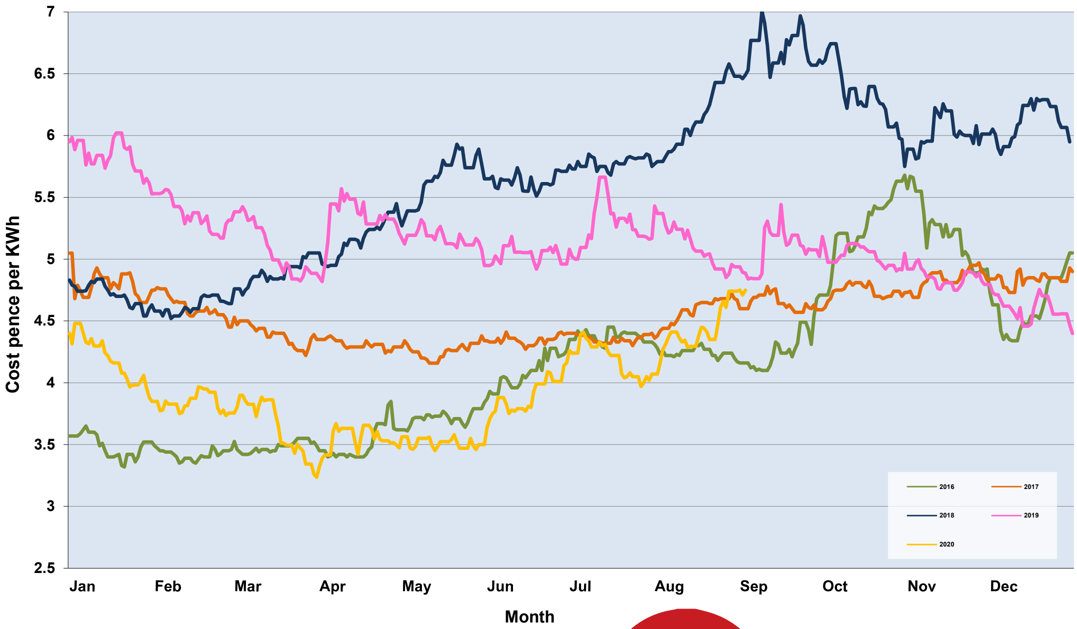
News from across the Channel helped to unsettle long-term prices as EDF started looked at how it could manage reactor maintenance in a post-Covid-19 lockdown world. Maintenance scheduling has suffered severe disruption over the past five months while operations were tailored to ensure plants could operate safely.

Elsewhere in Europe, the German short-term market suffered from similar issues as the UK with a heavy exposure to winter generation causing volatility.

A lack of demand for power has been another factor to consider with seasonal cooling well below the norms while many businesses are still not 100 per cent operational. Covid-19 it not far from anyone's minds, and despite the return to some normality over the last week, which may have contributed to the recent price rally, we are still a long way from what any analysts would have predicted for global electricity demand just 12 months ago.

Fossil fuel costs have also played their part in the short-term market, where a downturn in both LNG deliveries and pipeline imports have caused concerns over the ability of supply to meet demand. September baseload rose by over 15% in reaction to increasing corresponding gas costs.

Undelivered Wholesale Electricity Rates



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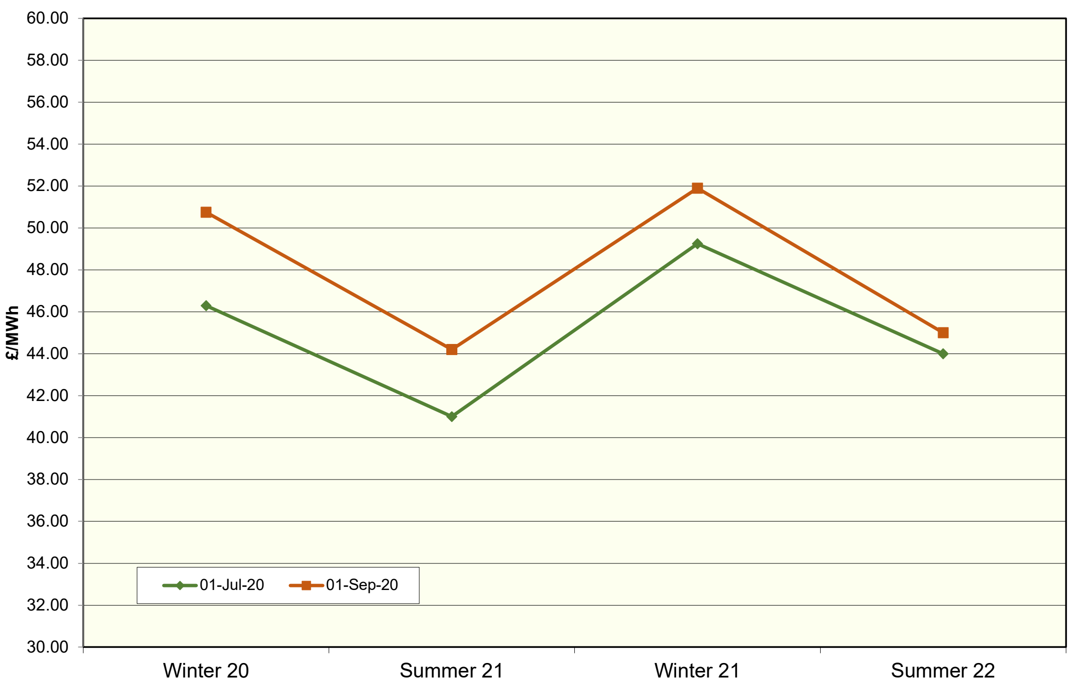
ELECTRICITY REVIEW

OTC Power Price Assessments £/MWh

	Trading date		
	01-Jul-20	**01-Sep-20**	**Increase**
Winter 20	46.30	50.75	4.45
Summer 21	41.00	44.20	3.20
Winter 21	49.25	51.90	2.65
Summer 22	44.00	45.00	1.00

OTC Electricity Forward Price Curve



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OIL REVIEW

Steady recovery in prices

In contrast to the volatility seen elsewhere, Brent Crude prices have remained relatively steady across the last two months. Starting the period priced at just over US$40 per barrel, that has steadily risen to around the US$45.50 mark.

Oil producers around the world seem to be content with the current balance of demand versus costs, with OPEC announcing they would begin to ramp up production in line with increasing demand brought about by the easing of the initial lockdown restrictions.

MARKET INFORMATION

Third Party Charges update

As you will have already noted from the contents of this bulletin, Covid-19 has not only had a dramatic effect on people's lives but also the energy market.

With industry effectively shutting down for long periods, business energy use over the year has plummeted while domestic energy use has risen, due to more people working from home following the closure of offices and other work premises.

The landscape has also changed in respect to the increased reliance on renewable energy generation as opposed to fossil fuels. Even the US, where government policy has favoured traditional sources over a more innovative approach, has broken records in this field.

Whilst low electricity demand and unusually high renewable generation is clearly a good combination in the race to a carbon-zero future, it does potentially have implications on the Third Party Charges (TPCs) customers may have to pay as the country's power distribution system (National Grid) attempts to find some equilibrium.

As TPCs can make up to 60 per cent of your bill, news of any increase in this area is clearly not welcome.

TPCs include so-called green levies such as the Renewables Obligation (RO) and Contracts for Difference (CfD), which were introduced by the government to incentivize companies to be more energy efficient.

Others are designed to help support the National Grid, which is where the Balancing Services Use of System (BSUoS), Distribution Use of System (DUoS) and Transmission Network Use of System (TNUoS) come into play.

If you would like to know more about TPCs and how they may affect your business over the coming years, please get in touch on 01225-867722.

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