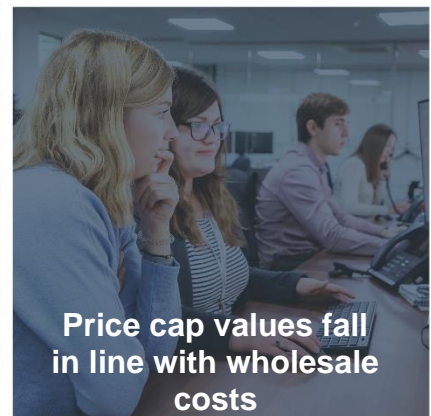
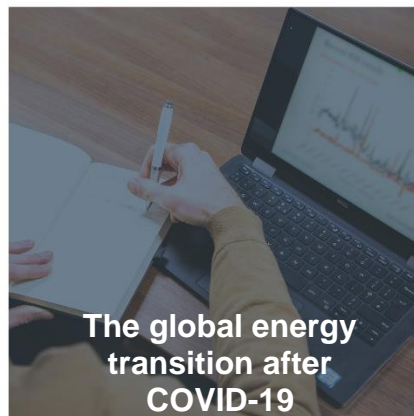
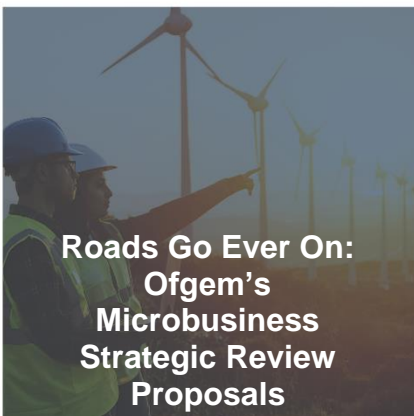


Energy Spectrum: Capturing key developments across the GB energy sector

ISSUE 725 – 10 August 2020



ISSUE 725

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ISSUE 725

Week in review



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We will be running a short webinar tomorrow morning (11 August) at 9am for *Energy Spectrum* subscribers, to briefly go through some of the main stories in this issue, with Head of Relationship Development Robert Buckley discussing the piece on the Microbusiness Review. We will also look forward to what will be in the next issue.

You can sign up [here](#) to register.

Monday 03/08 – The Energy Network Association's Open Networks Project launches a consultation on flexibility.

Tuesday 04/08 – The government urges tradespeople to sign up to the TrustMark or Microgeneration Certification Scheme accreditation if they want to provide their services as part of the new £2bn Green Homes Grant being implemented in September.

Wednesday 05/08 – The Prospect union urges the government to deliver an additional 10GW of new nuclear by 2030, as part of its 10-point green recovery plan for the energy sector. Ofgem announces it is proceeding with plans to roll the prepayment meter price cap into the wider default tariff cap, set with an appropriate prepayment uplift to reflect the different cost to serve.

Thursday 06/08 – The government announces its ambition that homes built under new planning changes will not need retrofitting in the future. The latest BEIS Public Attitudes Tracker finds that public awareness of net zero as a concept has jumped from 52% in March to 63% in June.

Friday 07/08 – Ofgem announces the level of the default tariff cap covering 1 October 2020 to 31 March 2021, which will see a decrease of £84 for a typical household paying by direct debit from £1,126 to £1,042. Conditions in the domestic retail market are not yet ready for the default tariff cap to be lifted, the regulator advises. Too many eligible households in Scotland are not benefiting from the Warm Home Discount scheme, Citizens Advice Scotland argues.

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Ofgem issued the policy proposals arising from its Microbusiness Strategic Review (“the Review”) for consultation on [29 July](#). These build on its initial consultation from May last year plus data collected from suppliers and looks to address several key issues faced by microbusinesses in the retail energy market.

Many of these proposals continue the work of previous initiatives undertaken by Ofgem and the Competition and Markets Authority (CMA). In this *Energy Perspective*, we consider how we got here, the proposals and what they may mean for the market.

Let them a journey new begin

As Ofgem says in its introduction to the policy consultation, the UK’s microbusinesses play an important role in the retail market. Here we encounter one of the big challenges of defining the sector. Many microbusinesses do not engage with the energy market through their own contracts. Many are home based or work from shared or rented accommodation where sourcing gas and power is the landlord’s responsibility. Ofgem said in its *Forward Work Programme 2019-2021* that microbusinesses face many of the

same issues as domestic consumers. As we highlighted in our first *Energy Perspective* on the Review [last year](#), it is important to note the differences between the two markets as well as the similarities.

Down from the door where it began

The Review was launched in May last year, with Ofgem setting out its aims for a market where businesses can access a competitive market and secure adequate levels of protection. Even before this review, this has proved a well-travelled road with these issues on the agenda for a few years now. This work started with the understanding of the microbusiness as a definable entity subject to additional rights compared to other businesses and moved through changes to contract terms, notably the banning of auto-rollovers (shifting customers that failed to terminate their contracts to expensive rates) and information presentation. It also encompassed the role of third party intermediaries (TPIs) following work by the statutory consumer advocate. As supplier terms and conduct have been adapted as a result of regulatory interventions, Ofgem’s attention has turned to back to TPIs and they are a key focus of its current recommendations.

Figure 1: Principles Ofgem expects TPIs to follow

Principle	Example of TPI behaviour
Honesty	The TPI should identify itself, the services being offered and any organisations it represents clearly at the start of any interaction with a customer and obtain consent before any marketing.
Respect	The TPI must at all times respect the consumer’s wishes and should cease the current contact and avoid future contact if the customer requests.
Accuracy	The TPI should make the customer aware of how much of the market it searched to obtain the offers it proposed to the customer and ensure all offers are accurately presented.
Transparency	Before obtaining their agreement to the contract, the TPI should make the customer aware of all principal terms of the energy contract, including the services it provides and how the customer will pay for those services.
Customer-focused	The TPI should record and investigate all complaints fully and act quickly to put things right when it makes a mistake.
Professionalism	The TPI should ensure staff are adequately trained for dealing with customers and adhere to these principles.

Source: Cornwall Insight TPI Report Q215, Ofgem

We have been here before of course, notably during 2013 to 2015 when the regulator led work on a code of practice for TPIs. That work petered out but not before, in March 2015, Ofgem published an open letter on principles that it expects TPIs to follow (see Figure 1). Officially the reason for the deferral was the joint assessment of competition in the energy market by Ofgem, the Office of Fair Trading and the CMA, which

culminated in the 2014-16 CMA investigation. This investigation brought microbusinesses into the scope. The CMA found, among other things, that microbusinesses had limited market awareness and struggled to find good information on the options open to them. It also reported on the complaints made by microbusinesses concerning alleged TPI malpractice (see Figure 2) but the CMA was silent on a TPI code of practice instead arcanelly distinguishing between online and offline brokerage channels. Looking at Ofgem's proposals coming out of the Review, it is clear that the regulator has not forgotten the work done so far.

Pursuing it with weary feet

In last year's *Microbusiness Strategic Review: Policy Consultation*, Ofgem presented a market with "theories of harm" to consumers, including:

- The smallest microbusinesses cannot effectively engage with the current market given its complexity.
- Many microbusinesses are generally unaware of the opportunities presented by the market.
- Despite the CMA's attempts to improve price transparency, pricing is still not fully transparent.
- The supplier/TPI contracting process is, or is perceived to be, overly complex, costly and opaque, leading to some consumers ending up on costly contracts with disadvantageous terms. Microbusinesses often rely on TPIs to switch and weak TPI regulation is allowing room for sharp practices by some TPIs. Gaps in current consumer redress mechanisms add further to this harm.

Figure 2: CMA's 2016 recommendations for the microbusiness energy market

Suppliers are required to disclose the prices and information of all their available products (including out-of-contract and deemed contract rates) prominently on their website or via third-party platforms and provide initial quotes to microbusiness customers.

Energy suppliers must not lock in a microbusiness customer into a contract by using an auto-rollover contract.

Suppliers are prohibited to charge microbusiness termination fees in out-of-contract contracts and evergreen microbusiness contracts.

A microbusiness compliance statement must be submitted to the CMA on an annual basis by suppliers.

And I must follow, if I can

To address these harms, Ofgem has set out a series of proposals for consultation. They concern further changes to how suppliers contract but their primary focus is on adapting the regulatory framework for suppliers to account for the behaviour of TPIs. The most important is a new TPI conduct principle. This would introduce a principles-based requirement for suppliers to ensure TPIs they work with conduct themselves appropriately and in a way that treats customers fairly. Ofgem proposes extending relevant parts of the existing 'Standards of Conduct' to achieve this.

In its draft impact assessment, Ofgem said that greater transparency should also reduce the search costs that microbusinesses incur when looking for an energy contract. Better monitoring of TPI behaviour should create a more consistent and clear interactions with microbusinesses. For suppliers, Ofgem predicts may incur costs to establish appropriate mechanisms to monitor TPI performance. It also considers that suppliers will save money in the medium and long term by minimising poor practice by TPIs.

The regulator also proposes introducing a requirement for suppliers to only work with TPIs signed up to an alternative dispute resolution (ADR) scheme. This would allow microbusinesses to raise a complaint to the ADR provider if they cannot resolve a dispute with their TPI directly. Ofgem would outline high-level requirements for the scheme in the supply licence, with the scheme provider setting out detailed scheme arrangements and requirements in its terms of reference. TPIs may face monetary costs to set up and engage with an ADR scheme, the draft impact assessment said. This seems to be a lesson learned from the code of practice development, which as it would have been voluntary, struggled for agreement on how it would be funded. Suppliers were unwilling to pay to regulate a market that they were not commercially active in.

Ofgem also considers more can be done to help microbusinesses make informed choices and proposes applying targeted sales and marketing rules to suppliers – and TPIs they work with – through the supply licence. Ofgem is proposing to strengthen the existing obligation to offer principal terms by requiring suppliers to bring – and ensure that any TPI brings – a written version of the principal terms to the consumer in any circumstances when negotiating a contract between a supplier and microbusiness.

To address issues surrounding verbal contracts, Ofgem is proposing a cooling-off period for microbusiness contracts. Microbusinesses would be able to cancel a contract, while only incurring the costs of energy consumed, for 14 days after the date they entered into it, having also been provided with the Principal Terms in writing. Ofgem believes that starting the cooling-off period once a written copy of the Principal Terms has

been provided would protect those microbusinesses unwittingly agreeing to unfavourable terms during a verbal sale, while still maintaining the benefits that the voice channel offers to customers. Telesales has grown to be the main channel to market for SME TPIs. Despite the expectation that calls will be recorded allegations of malpractice continue. The cooling off period should give more time for such occurrences to come to light but will require new management and extra risk for suppliers in the meantime.

Ofgem also proposes suppliers disclosing the charges paid to TPIs as part of the supply contract on bills, account statements and at the request of the microbusiness customer. It acknowledges that including additional commission payment data may increase the complexity of contract information sent to microbusinesses and suggests this could be an issue for some microbusinesses. Ofgem is also proposing to make microbusiness contracts lapse automatically without written notice from the customer. This, Ofgem said, should speed up the switching process and help to prevent microbusinesses who wish to negotiate a new contract from spending periods of time on costly Out-of-Contract rates. To further protect microbusinesses, Ofgem is proposing to require suppliers to maintain a customer's existing contract rates for up to 30 days while resolving issues with a blocked switch. This will ensure that engaged customers are not disadvantaged by increased charges while an issue with their switch is resolved.

This builds on Ofgem's 2014 auto rollover intervention. Ofgem believes this proposal should be less impactful on suppliers who have more efficient switching processes and better relationships with other stakeholders involved in the switching process. Suppliers with especially poor switching processes may incur additional costs until the issues preventing a contract switch are resolved. The more efficient switching process will also reduce the costs incurred by suppliers and brokers in the medium and long term.

A day will come at last when I/ Shall take the hidden paths that run/ West of the Moon, East of the Sun

It is clear from the similarities with the 2015 letter on TPI principles that Ofgem and much of the industry, has been wanting to take some of these actions for a long time. The proposals here will arguably have a bigger impact on TPIs than suppliers and amount to a mandatory code of practice in all but name enforced through the supply licence but probably funded by TPIs.

You could ask, why implement these now? Why not before? You can see a thread of exasperation all the way through this years-long process, from Ofgem's 2015 open letter referencing the 2013 draft code of practices not being adopted by many TPIs, to the Review proposals consultation document stating that transparency has not improved, "despite the CMA's attempts". Ofgem must feel that, now it has undertaken the review, it has sufficient evidence of harm in the microbusiness market and has the justification to act, effectively extending its powers informally in to a sector where it has no direct remit.

It is understandable that Ofgem feels the need to do this because transparency has been an issue in the TPI market for more than 20 years and that forcing obliging suppliers to publish the rates is the one full remedy the regulator has that it knows will get the information out there. We are concerned about mandating suppliers to publish TPI charges on bills and think Ofgem should look again at this. We believe it will tip the market scales back in favour of the suppliers, and to a lesser extent, those TPIs offering a transaction-driven service.

TPIs should be mandated to disclose their own charges to their customers and it seems to us that the new principles could be applied to enforce this expectation. Extreme examples of behaviour could be used in marketing to favour direct sales, against TPIs by suppliers, implying the honest many behave as unscrupulously as the dishonest few. The dishonest few could change their business models, say, to charging the customer or acting as a sales agent and step outside much of these new obligations in any case.

The ADR is a necessary part of the reforms. It (there should only be one) will need to be introduced proportionately and be well trailed so there is no cliff edge for applicants. Charges should be set to encourage sign ups by very small TPIs as well as the large competitors and the operator will need to ensure it has excellent credit control and identity verification processes.

All in all, Ofgem's review is a thorough and full evaluation of the issues, presented in a structured package with, in the main, well-justified actions. It builds on the extensive work undertaken by Ofgem, Citizens Advice and the CMA over the past decade or so, finding a way to achieve some long-desired objectives. We believe it should improve workings of the market and will have profound, and generally good, effects on the TPI channel. And while we expressed concern last year over Ofgem potentially using the domestic market as a basis for changes to the microbusiness market, we believe that this review has resulted in proposals which are generally well-suited to the sector.

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BEIS has confirmed that it will extend the Climate Change Agreements (CCA) scheme to March 2025, following a consultation process.

The outcome of the consultation on *Climate Change Agreements: proposal for scheme extension and views on reforms for any future scheme* was published on [29 July](#). The consultation was launched in April 2020 after the government confirmed in the Spring Budget that the scheme was to be extended until March 2025.

The CCA scheme which was established in 2001 to incentivise energy efficiency and rewarded action by reducing the burden of the Climate Change Levy (CCL) on business with energy intensive processes. Over 9,000 facilities engage with the scheme with 80%-100% of eligible businesses taking part. The scheme received strong support from businesses to continue and based on the outcome of the consultation the government has made the following decisions:

- **Target Period** - Target Periods 4 and 5 will run between 1 January 2019 to 31 December 2020 and 1 January 2021 to 31 December 2022.
- **Certification Dates** - Certification Period (CP) 4 will run from 1 July 2019 to 30 June 2021, while CP5 will run from 1 July 2021 to 30 June 2023 and CP6 will run from 1 July 2023 to 30 March 2025.
- **Eligibility** - The current eligibility criteria will be maintained for the extension.
- **New Entrants** - Will be allowed to apply to join existing sector agreements, Environment Agency to certify new entrant facilities from January 2021, deadline for applications is 30 November 2020.
- **Baseline for Targets** – Baseline period to be updated. Where discrete data for 2018 is not available, adjusted Target Period 3 data may be used instead to estimate a 2018 baseline.
- **Target Setting** – The process for agreeing sectoral targets will remain as proposed. Where required, the deadline for counter proposals has been extended up to 30 October 2020.
- **Surplus** – Surplus will not be allowed to be brought forward to use in Target Period 5.
- **Buy-out Price** – This will increase as proposed to £18/tCO₂e for Target Period 5. Target Period 4 buy-out remains at £14/tCO₂e.
- **Financial Penalty Price** – Increase to the financial penalty price for penalties related to Target Period 5 in line with the buy-out cost per tCO₂e for the appropriate target period; the financial penalty will increase to be the greater of £250 or £18/tCO₂e.
- **Other Aspects of the Scheme** – All other scheme rules and processes to be maintained for this extension. There will be a period for specific amendments to agreements in 2021, there will be separate guidance on this.

In addition to extending the deadline for new entrant applications to 30 November 2020, BEIS announced an extension of the deadline for sector associations to submit counter proposals for target setting to 30 October 2020. BEIS said it will look to confirm a timeline for further engagement on the future of the CCA scheme.

“While there was no change to the eligibility criteria the re-opening of scheme allows new facilities to enter. The focus will now shift to the future of the scheme beyond 2025 and what role it will play in helping to support business with the net zero target.”

Nick Palmer, n.palmer@cornwall-insight.com

BEIS published more details on the Green Homes Grant scheme, set to start in September, explaining the requirements for tradespeople and the measures that will be eligible for support.

In the [4 August](#) update, the government urged tradespeople to sign up to the TrustMark or Microgeneration Certification Scheme accreditation if they want to provide their services as part of the new £2bn scheme “going live at the end of September”. TrustMark is the government-endorsed quality scheme covering work a consumer chooses to have carried out on their home. Households will be able to choose from approved tradespeople in their areas to carry out the work, but only approved and accredited installers will be able to be commissioned, ensuring high standards and consumer protection.

Homeowners and landlords will be able to claim vouchers worth up to £5,000. The voucher will pay for two-thirds of the cost of the improvement. Low income households can receive vouchers covering 100% of the cost of the improvements, up to a maximum of £10,000.

The available measures are split into “primary” and “secondary” categories. Households will need to install at least one of the primary measures below to qualify for funding:

- Insulation: Solid wall, cavity wall, under-floor, loft, flat roof, room in roof, park home.
- Low carbon heat: Air source heat pump, ground source heat pump, solar thermal.

“Top ups” are allowed (e.g. additional loft insulation up to the recommended level, solid wall insulation for other walls where a wall has been previously insulated), but replacements are not included.

In its guidance, BEIS said, so long as there is at least one primary measure in the package of works, households will also be able to install secondary measures. Secondary measures can only be subsidised up to the amount of subsidy provided for primary measures. (e.g. if a household receives £1,000 for primary measures, they can only receive a maximum of £1,000 towards secondary measures). The secondary measures are:

- Draught proofing.
- Windows and doors: Double/triple glazing (where replacing single glazing), secondary glazing (in addition to single glazing), upgrading to energy efficient doors (where replacing doors installed prior to 2002).
- Heating controls and insulation: appliance thermostats, hot water tank thermostats, hot water tank insulation, smart heating controls, zone controls, delayed start thermostat, thermostatic radiator valves.

BEIS also announced that, “later this month”, homeowners across England will be able to access advice and support on improving the energy efficiency of their homes from the Simple Energy Advice (SEA) service. SEA will suggest appropriate home improvements that homeowners may be able to apply for support in funding.

In response, Energy UK Chief Executive Emma Pinchbeck [said](#): “We hope as many customers as possible can take advantage of the scheme.” STA Policy Manager Cam Witten [said](#): “This is a welcome announcement and a strong endorsement of the important role solar thermal has to play in the decarbonisation of heating. The technology can help households save hundreds of pounds a year on their energy bills while also reducing their carbon footprint.” Heating and Hotwater Industry Council Director Stewart Clements [said](#): “Whilst we welcome the details of Rishi Sunak’s new Green Homes Grant scheme, which could raise the profile of low carbon heating, there is disappointment that more measures are not included.”

“The challenge here is to roll out measures which are understandable and easy to administer for a fragmented industry and to consumers with many and various needs. The initial industry reaction suggests that this is a positive action.”

Nick Palmer, n.palmer@cornwall-insight.com

The Prospect union has urged the government to deliver an additional 10GW of new nuclear by 2030, as part of its 10-point green recovery plan for the energy sector.

Published on [5 August](#), the plan's first point underpins the other points, calling on the government to establish a comprehensive net zero roadmap. The union criticised successive governments for short-term thinking on climate change, highlighting that the UK is expected to miss its Fourth and Fifth Carbon Budgets. As a matter of "urgency" the government should map out, in detail, how it will make progress in priority areas every year for the next decade as part of a comprehensive net zero roadmap.

A priority area for Prospect is the rapid expansion of low carbon power. The union said, between 2010 and 2015, the UK enjoyed a low carbon generation "boom", but the ending of support schemes towards the end of the decade has ended this, leading to a fall in build rates. The average build rate of offshore wind for the last five years has been 1.1GW/year, and to hit 40GW by 2030, this needs to increase to 2.7GW/year.

See Figure 1 for how much each generation source should be expanded. Prospect argues that, at present, the only suitable low carbon firm power technology proven to work at scale is nuclear and getting the nuclear new build programme back on track "needs to be a key priority for government".

Figure 1: The government roadmap for net zero should aim to deliver by 2030:

- a total of 40GW of offshore wind.
- an additional 15GW of onshore wind and solar.
- an additional 10GW of new nuclear.
- at least one operational tidal energy demonstration project.
- at least one operational CCUS demonstration project.

Prospect also calls for the government to implement a whole systems approach to energy policy, arguing that it has recently focused on providing piecemeal support to particular technologies, without a coherent vision. Prospect said that this approach has led to the costs of balancing the system to more than double to £1.6bn. The "lack of progress" in managing grid constraints, improving flexibility and developing new storage techniques has led to renewable energy being wasted.

Policy funding is another area Prospect urges action on. It said that leaving the private sector to finance and assume all the risk has led to higher costs for consumers and fewer projects delivered, as well as emerging technologies remaining at the prototype stage. Additionally, Prospect said that the current system of policy costs falling on consumer bills will not be sustainable as the need for accelerating low carbon energy investment increases. It is a regressive form of taxation, Prospect argued. The proportion of the average household electricity bill that is green subsidy costs has grown 70% over the last five years, and is forecast to rise steeply, Prospect said. The union urged for the government to borrow more to achieve net zero.

Prospect described the last ten years as a "lost decade" for UK energy efficiency measures, with policies such as Zero Carbon Homes and the Green Deal being "abandoned", and ECO being too limited. There has also been "no meaningful progress" on energy efficiency standards for new builds, Prospect argues. An energy efficiency strategy "is an urgent priority, which needs to include the right mix of incentives.

Other points in the plan include: maximising the benefits for UK PLC; a net zero workforce plan; ramping up research and development; a just transition; and a net zero energy commission.

As an important player in the sector, Prospect has produced a sound analysis of how we have arrived at the current situation. In highlighting failures in energy efficiency policy and funding of energy policy, it has touched upon two essential questions for the government. It has concentrated its recommendations on sectors in which its members will work in. The government needs to decide if it is going to support new nuclear and must give developers time to act to enable a net zero power system.

Homes built under new planning system should not need retrofitting

The government has announced its ambition that homes built under new planning changes will not need retrofitting in the future. The Planning for the Future consultation, published on [6 August](#), said that the government also intends to review the roadmap to the Future Homes Standard “to ensure that implementation takes place to the shortest possible timeline”.

In the consultation, it said that, from 2025, the government expects new homes to produce 75-80% lower CO₂ emissions compared to current levels. These homes will be ‘zero carbon ready’, with the ability to become fully zero carbon homes over time as the electricity grid decarbonises, “without the need for further costly retrofitting work”.

The government will respond to the Future Homes Standard consultation in full in the autumn. The government will “also explore options for the future of energy efficiency standards, beyond 2025”.

The UK Green Building Council welcomed the proposals and [called](#) for “a significant strengthening of energy efficiency standards in 2020 and 2025”.

The consultation closes on 29 October.

Public awareness of net zero jumps

The latest BEIS Public Attitudes Tracker has found that public awareness of net zero as a concept has jumped from 52% in March to 63% in June. Published on [6 August](#), *BEIS Public Attitudes Tracker: Wave 34* also showed support for renewables increasing slightly from 79% in March to 80% in June, with 44% strongly supporting it. Only 2% said they opposed renewable energy.

Energy was the third most shopped around for product/service, after car insurance and home insurance. Among people who have shopped around for energy in the last 12 months, 71% used an online price comparison website or app, with 43% using consumer websites and 28% visiting websites of the individual provider/supplier. Energy came second behind car insurance when people were asked whether they had switched provider or contract for products or services in the last 12 months (among those responsible for purchasing each product and service).

On fracking, 25% expressed support, compared with 36% opposed. Support has risen from 19% in March, with opposition falling from 42%. People were asked why they supported or opposed fracking. In June, the most common reasons for supporting fracking were: the need to use all available energy sources (55%); reducing the dependence on fossil fuels (52%); and reducing the dependence on other countries for the UK’s energy supply (52%). The main reasons for opposing fracking were: the loss and destruction of the natural environment (63%); and concern about the risk of earthquakes (59%).

MPs urge government to deliver hydrogen strategy

Environmental Audit Committee (EAC) Chair Philip Dunne has written to Business Secretary Alok Sharma stating that the lack of a clear vision from government “risks scuppering progress for hydrogen to play a key role in developing the UK’s low carbon energy mix”.

Published on [6 August](#), the letters see Dunne highlighting the evidence the EAC gained from its inquiry into hydrogen. He said the UK has the expertise and technological capability to scale up hydrogen, but it “lags behind other nations such as Australia, Japan and Canada which all have ambitious hydrogen strategies, as well as the recently launched EU initiative”. Dunne said that the global hydrogen economy will be worth \$2.5trn by 2050.

Dunne cited the Committee on Climate Change (CCC) noting in 2018 that progress developing hydrogen has been too slow over the last 10 years and policy needs significant “ramping up”. It said the UK does not currently produce significant amounts of low carbon hydrogen, nor does it have technologies in place that would provide a market for that hydrogen. In its June 2020 progress report to Parliament, Dunne highlighted, the CCC called on the government to “set out a clear vision of the long term policy mechanisms for industrial decarbonisation” and a “cross-cutting vision and strategy for a hydrogen economy”.

The EAC welcomed the recent government announcement of £139mn to cut emissions in heavy industry by supporting the transition from natural gas to clean hydrogen power and scaling up carbon capture and storage (CCS) technology. However, the EAC heard in its evidence sessions that the level of investment needed to exploit the opportunities that the UK potentially has, needs to be much greater. Investments need to be aligned to a strategy to guide investments to ensure that they are coordinated. The witnesses stressed that they cannot continue to do projects of the scale that are needed on grant funding.

Dunne said: “The Autumn Budget and Spending Review “seems the ideal time to bring forward a strategy, will the government commit to this?” The EAC has requested a response by 2 September.

The Energy Networks Association supported the EAC’s call for a hydrogen strategy. Chief Executive David Smith said: “Britain’s gas networks have been running hydrogen trials across the country and it is now time to build on our world-leading expertise and develop the UK’s own strategy.”

Offshore energy systems could contribute 30% of UK carbon reductions

The integration of offshore energy systems (oil & gas, renewables, hydrogen and carbon capture and storage) could deliver approximately 30% of the UK’s total carbon reduction requirements needed to meet the 2050 net zero target, according to the Oil and Gas Authority (OGA). This is a finding presented in OGA’s *UKCS Energy Integration - Final Report*, published on 6 August.

Other findings include:

- Oil and gas platform electrification is “essential to cutting sector production emissions in the near term, and critical to the industry’s social licence to operate”. Electrification can abate operational emissions by 20% of today’s production emissions, rising to 40% by 2030.
- Oil and gas capabilities, infrastructure and supply chain are “crucial to energy integration”, and can potentially support further offshore renewables expansion, including floating windpower.
- Re-using oil and gas reservoirs and infrastructure can accelerate carbon capture and storage (CCS), connecting to onshore net zero hubs and saving 20-30% Capex on specific projects. To reach the CCS scale in support of net zero, the UK needs to develop around 20 individual carbon stores for a total capacity of over 3GtCO₂ by 2050.
- Blue hydrogen (produced from natural gas) has the potential to decarbonise around 30% of the UK natural gas supply by 2050, potentially supporting circa half of CCS expansions in the same timeframe.
- Green hydrogen (from renewables) can support and enable the significant expansion of offshore renewables in the 2030s and beyond, providing an efficient storage and energy transportation solution. Reducing the costs of the technology involved (electrolysis) would be needed to support the faster uptake of this technology.

In response to the report’s findings, SNP Business & Industry spokesperson Richard Thomson MP said: “This new report by the OGA sets out some key recommendations that the UK government must seriously engage with if we are to support our vital oil & gas sector and push towards transition efforts. It is critical at this time – with the industry suffering a double blow from the hit to oil prices and the economic impact of the coronavirus crisis – that the UK government takes heed of the report’s findings and acts.”

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Regulation

Price cap values fall in line with wholesale costs

Tom Faulkner, t.faulkner@cornwall-insight.com

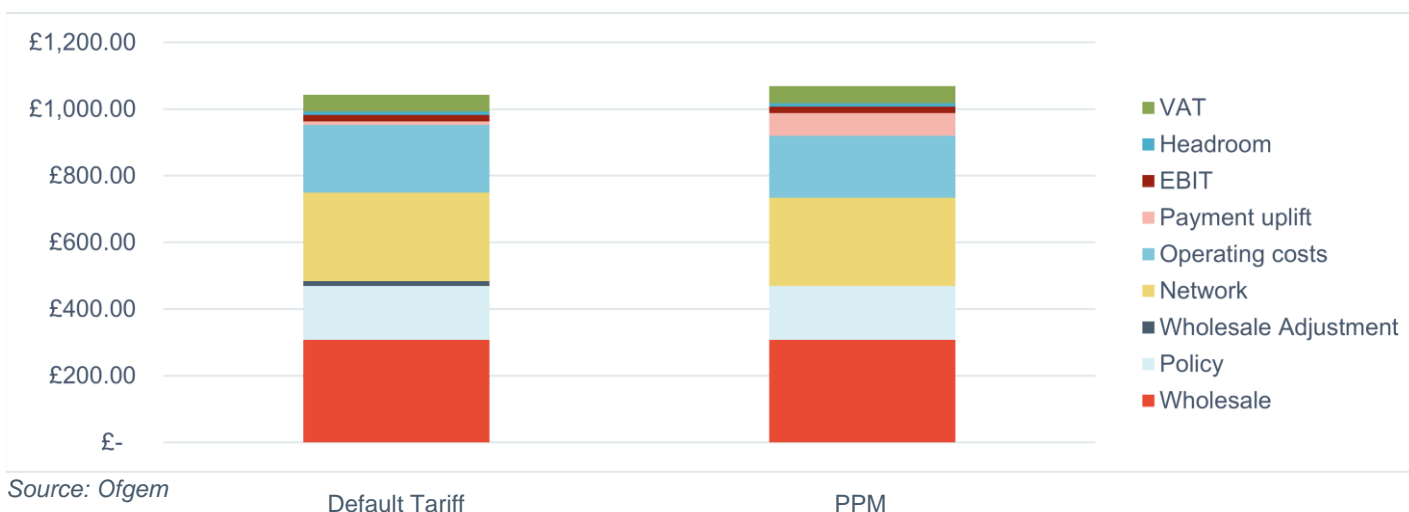
On **7 August**, Ofgem announced the level of the default tariff cap covering 1 October 2020 to 31 March 2021, which will see the energy bills for 15mn households fall this winter. To adjust for reduced wholesale energy costs amid COVID-19, the level of the price cap will see a decrease of £84 for a typical household paying by direct debit from £1,126 to £1,042. The level for prepayment meter (PPM) customers will also fall by £95 to £1,070.

The reduction in the default tariff cap for what will be the fifth cap period is driven by falling wholesale prices, with the wholesale proportion of the cap down from £395 to £307. Wholesale energy prices have reduced significantly during the observation window for this cap period, particularly for gas. This was attributed to the COVID-19 pandemic resulting in a drop in demand which, combined with an already oversupplied gas market, pushed down prices. Operating costs also fell by £6/year, while policy costs increased £2/year.

This default cap period also includes a £15 one-off adjustment to this price cap period after Ofgem considered it should have set an allowance in line with the weighted average comparable wholesale costs of the six large suppliers in the first cap period. This adjustment will only be in place for this cap period. Following Ofgem's review of smart metering costs (the non-pass-through Smart Metering Net Cost Change (SMNCC) allowance), these costs have reduced by £4 compared to the previous cap period.

The prepayment cap will also fall, with the non-pass-through SMNCC for prepayment in the default tariff cap to be set to £0 for the next two cap periods. Updated versions of the underlying models have also been published. The Competition and Markets Authority PPM price cap expires on 31 December 2020, but default PPM customers will continue to be protected by the default tariff cap once this expires. With the PPM and default tariff methodologies aligned, the cost drivers will be the same for both caps, apart for the PPM uplift which accounts for the greater costs incurred by serving PPM customers.

Figure 1: Breakdown of price cap components for PPM and default tariff customers for October 2020 - March 2021



Source: Ofgem

“The overall level of the cap continues to be influenced by important technical changes, this time concerning consumption, supplier hedging and smart metering. The price cap drop was expected following the significant fall in wholesale prices which were a direct result of the COVID-19 lockdown and the subsequent slump in energy demand. The cap will be falling at the start of winter when we would normally expect to see wholesale markets rise.”

Laurie Heyworth, l.heyworth@cornwall-insight.com

Ahead of its update to the price cap for the fifth period (see p12), on 5 August Ofgem announced four decisions on the methodology used to provide price protection for prepayment and default tariff customers. This includes an updated smart meter allowance; the rolling of the prepayment meter cap into the default tariff price cap; and an adjustment to retrospectively correct wholesale energy allowances in the first cap period.

To help suppliers recover the costs associated with the smart meter rollout, the default price cap includes a non-pass-through Smart Metering Net Cost Change (SMNCC) component. This reflects changes to smart metering costs from the price cap's 2017 assumptions on supplier operating costs. Following a review of the treatment of smart metering costs and in light of recent consultation responses, Ofgem has updated the SMNCC values from those set out in May's consultation. The main adjustments are to increase the assumed average rollout profile, increase net costs per installation, reduce the extent to which IT costs are assumed to have declined, and reduce the amount of smart costs assumed to be covered in the operating cost allowance. Overall, this has increased Ofgem's assessment of net costs by £8 from May's consultation.

For the fifth cap period (1 October 2020 to 31 March 2021), the SMNCC will be set at £17.12 for typical dual fuel direct debit customers (£10.64 for electricity and £6.48 for gas). For the sixth cap period the SMNCC will be frozen at the same level. The prepayment meter (PPM) cap, which places restrictions on what a supplier can charge PPM customers, is set to expire by the end of 2020. Under a do-nothing scenario, PPM customers on default tariffs would automatically be covered under the default tariff. According to the regulator, this is problematic because it was designed for direct debit customers and would be "materially below the efficient cost of serving PPM customers".

To provide more protection for PPM customers on default tariffs, Ofgem has therefore decided to set a specific level for PPM customers in the default tariff cap. This will cover 98% of PPMs but exclude those on fixed term tariffs. The new PPM cap level will be calculated using the same methodology for other payment methods, with provisions made for two allowances. The PPM uplift allowance, designed to cover the additional operating costs of serving PPM customers with traditional meters, will be used and set at the same level as it is under the current PPM cap. Allowances will also be made for a PPM-specific non-pass-through SMNCC which will initially be set at £0 for cap periods five and six. This is a contingency option, using the current PPM cap methodology, as Ofgem has not yet been able to set a robust and scrutinised set of values.

In November 2019, British Gas won a court appeal against Ofgem over how it calculated the wholesale cost of energy in the first price cap (Q119). British Gas argued that it made unfair assumptions about the "typical" behaviour of suppliers' historical hedging strategies up to May 2018 which resulted in suppliers' comparable costs exceeding the wholesale allowance for this period.

In light of this, the regulator is including a new adjustment allowance in its default tariff cap methodology to recover the revenue that would have been charged by suppliers in the first cap period. In the fifth cap period suppliers will be able to recover an additional £7.98 per gas customer and £2.64 per electricity customer at typical consumption. Annually, this will increase dual-fuel cap levels by £10.71 and £4.56, respectively.

Ofgem also announced that it will not update the Feed-in Tariff (FiT) allowance methodology, despite the current forecast of FiT costs ceasing to be updated. It intends to further consult on the subject later this year for the 6th cap period.

“Ofgem has significantly increased smart metering allowances, taking into account evidence from stakeholders on the costs of the programme. The retrospective wholesale cost adjustment also provides a boost to allowances. With the level of the cap falling significantly from October due to a drop in wholesale prices, these decisions will slightly soften the blow for suppliers.”

Ofgem allows ESO's £55mn black start costs

The regulator issued its decision on [31 July](#) not to adjust the black start costs incurred by National Grid ESO (NGESO) in 2019-20, meaning that it can recover all of the £54.91mn of costs incurred.

Black start is the process used to recover from an event which results in the full or partial shutdown of the transmission system. The costs incurred by the ESO are to pay for service providers to be available to provide the service, to warn service providers that would otherwise have been unavailable, to test and provide capital to ensure capability to service providers, as well as to assess the feasibility of new service providers to offer the service.

Under the regulatory framework introduced in April 2017, NGESO is required to submit the methodologies it has used to determine the costs as well as the costs incurred so that Ofgem can carry out an assessment at the end of each year. Ofgem then determines whether the costs were incurred in accordance with the Approved Methodologies, which seek to ensure that costs incurred are economical and efficient. It has decided that the black start costs for 2019-20 were incurred in accordance with the Approved Methodologies and therefore NGESO can recover the full costs. It has asked the company to publish the annual report on black start on its website.

ESO awarded £1mn incentive payment

The regulator issued its decision on [31 July](#) to award National Grid ESO a net £1mn in respect of its financial incentive arrangements for April 2019-20; the possible range was between +/- £30mn.

Ofgem considered that the ESO had largely met its baseline expectations and said that, on balance, there were slightly more positives than negatives and therefore NGESO will receive a “modest” financial reward. It said that there were several delays, some with justification, to important deliverables in the year, across all of the roles and this was the main reason that prevented the ESO from reaching higher scores. Ofgem said it shared the views highlighted by stakeholders that the ESO needs to deliver tangible, on-the-ground improvements in several areas, in line with its stated ambitions.

While it said the ESO's engagement with stakeholders had generally improved since the previous year, it needed to improve its collaboration and coordination with distribution network operators to ensure the development of a coordinated and efficient whole electricity system. Ofgem awarded the ESO a score of three, meaning meeting baseline expectations, over all its four roles, although it considered that for Role 2 Facilitating Competitive Markets it was at the lower end of this score and imposed a penalty of £1mn. For Roles 3 and 4 Facilitating Whole System Outcomes and Supporting Competition in Networks, which were considered together, Ofgem considered the ESO was at the upper range of this score and awarded a £2mn reward.

New gas transmission postage stamp prices confirmed

National Grid Gas (NGG) has published the final transmission charges that will apply from 1 October, which reflect the reforms to be implemented under *UNC678A Amendments to Gas Transmission Charging Regime*.

Issued on [31 July](#), these contain both the auction reserve prices for all types of entry and exit capacity – which are now uniform across the country – and the Non-transmission Services Charges (NTSCs) applied to commodity flows. UNC678A moves the current long-run marginal cost charging regime to use a postage stamp approach, and align with the EU Tariffs Network Code, with the result that most of NGG's revenue will be recovered from capacity rather than commodity charges.

The auction reserve price for Firm Entry Capacity will be 0.0717p/kWh/day, and there is a 10% discount for interruptible capacity. For Flat Exit Capacity the charge is 0.0198p/kWh/day, with a 10% discount for off-peak daily capacity. The same prices also apply to capacity at interconnectors, while capacity booked at storage sites benefits from a 50% discount. The General NTSC on both entry and exit flows will be 0.0128p/kWh, and the St Fergus compression charge will be 0.0085p/kWh.

The Optional Commodity Charge will be removed from 1 October and while the industry has made proposals for replacements, Ofgem has previously indicated that these cannot be implemented in time for 1 October in a way that complies with the EU Tariffs Network Code.

The Energy Network Association's (ENA) Open Networks Project launched a consultation on flexibility on **3 August**, to seek views from stakeholders on its developments to date and planned future developments. ENA has developed various 2020 products as part of the project. This consultation covers a subset of those products, including:

- **Common Evaluation Methodology.** This aims to deliver a common methodology for DNOs to assess flexible vs non-flexible options to meet network needs. ENA said the methodology will provide transparency and alignment on how DNOs make decisions in the pre-procurement stage to choose the most suitable solution.
- **Procurement Processes.** ENA has completed a review of the existing processes for the assessment and award of flexibility contracts. It has now looked at the opportunities for alignment and good practice through the procurement lifecycle. The areas of alignment include: four assessment stages for companies/assets within the flexibility procurement cycle; alignment of assessment stages within the flexibility procurement cycle; and alignment of milestones within the flexibility procurement cycle.
- **Active Power Services Parameters.** ENA has reviewed the existing service parameters for the Sustain, Secure, Dynamic and Restore DSO services and sought to find further parameters to standardise as part of the common service offer and to embody into the common contract.
- **Commercial Arrangements.** ENA published a standard contract for the procurement of flexibility and an associated implementation plan in March 2020. The contract will be introduced by all network operators by the end of 2020.
- **New DSO Services.** ENA will begin work on this product with a review of services later in the year and will include stakeholders in the development work. ENA said there is a need to ensure that there is enough experience of using new products to be able to learn and reflect on their use before standardisation – “it is important not to stifle the innovation and development of new products through standardisation too early”.
- **Market Facilitation – Non DSO Services.** ENA published an interim report into the investigation of current trials and innovation projects and future opportunities to facilitate non-DSO service markets. The report is in an interim stage and ENA wants to use the remainder of 2020 to identify “quick wins” in the development and understanding of non-DSEO services.
- **Baselining Methodology.** To date each DNO/DSO has developed their capability in flexibility supporting differing methodologies to establish baselines, ENA said. While the DNOs' experience operating flexibility is “still in its infancy, it is likely to be impractical to establish good practice”.

To complement the consultation, the Open Networks Project is holding two webinars on **26 August** and **9 September**. The consultation closes on 25 September. A formal Open Networks Project response to the feedback will be published later this year.

66 This consultation represents a milestone in the development of regional flexibility markets. Having separately developed flexibility services and contracting methods through innovation trials and “learning by doing”, the network companies are now responding to stakeholder feedback on the need for standardisation and seeking to identify best practice to embed within common approaches to evaluating the value of flexibility, undertaking transparent procurement processes, and dispatching services effectively.

Industry Structure

Renewable electricity hit 37.1% of total UK generation in 2019

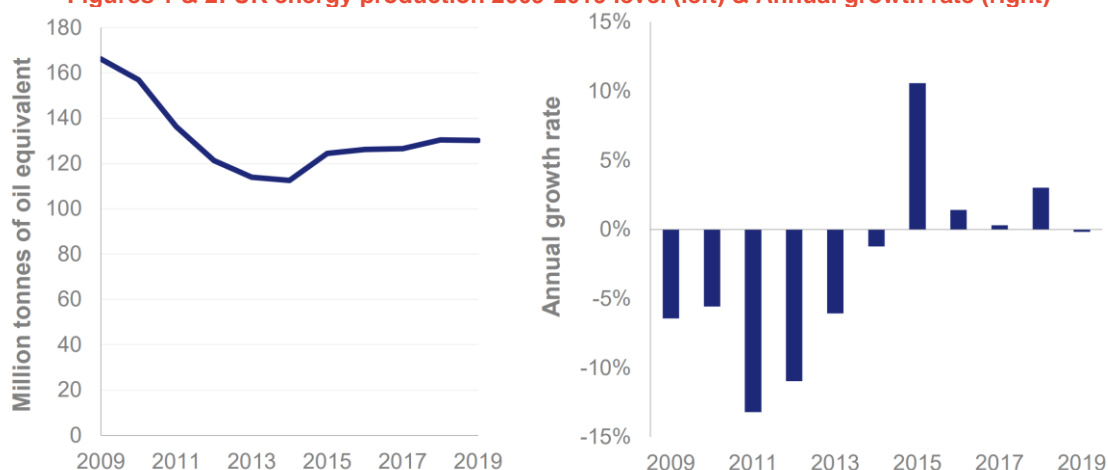
Sam Nicholls, s.nicholls@cornwall-insight.com

Published on **30 July**, BEIS released its annual digest of UK energy statistics (DUKES) outlining changes to energy consumption and supply to include 2019 figures.

Headline statistics show that primary energy production in the UK dropped by 0.2% in 2019 at 197.6mn tonnes of oil equivalent (mtoe), with the decline attributed to lower gas and nuclear output. This fall in energy production reverses the trend seen in the previous years, which had recorded consecutive gains in energy production starting in 2014. In line with the decline in primary energy production was a fall in primary energy consumption, which fell by 1.5% in 2019. While fossil fuels remained as the single largest source of energy, their percentage share dropped to 78.3% of total energy supply.

Looking at the proponents of UK energy consumption, electricity consumption accounted for 17% of final UK energy demand, which is in line with the proportion seen in recent years. Petroleum accounted for nearly half of final consumption, while natural gas and other fuels made up the rest of energy demand.

Figures 1 & 2: UK energy production 2009-2019 level (left) & Annual growth rate (right)



Source: BEIS

Whilst remaining at a similar percentage of total energy consumption, total electricity demand was 2.0% lower in 2019 as all sectors marked annual losses. The industrial sector saw the largest drop, falling 2.4%, whilst energy consumption in the domestic sector fell by 1.2%. Changes to supply roughly matched demand, as total electricity generation in the UK fell by 2.4% in 2019 to 325TWh, pushed lower as a result of higher electricity imports. Continuing the decline in recent years, fossil fuels share of the electricity mix dropped to 43.1%, with coal generation marking an all-time low, generating just 2.1% of UK power in 2019. Gas generation's share rose slightly to 40.6%.

Renewables' share of the generation mix hit another high in 2019 at 37.1%, rising from 33.1% in 2018. Breaking the renewables down by technology, both onshore and offshore wind generation reached record highs of 32TWh in 2019, increasing 6.5% and 20% respectively since 2018. Capacity for onshore wind was the highest at 29.9%, whilst solar was at 28.3%.

As the figures show, the general trend over recent years has been rising levels of indigenous energy production, with 2019 seeing the first fall since 2014. The increase in renewables capacity has helped to decrease the UK's reliance on imported fossil fuels, helping energy security.

GRIDSERVE acquires subsidy-free solar farm from Anesco

The subsidy-free Clayhill solar farm has been sold by Anesco to GRIDSERVE for an undisclosed sum. The farm comprises 10MW of solar PV co-located with a 6MW energy storage facility, Anesco said in the [6 August](#) announcement. Anesco said Clayhill was the UK's first solar farm developed free from subsidy.

Mark Futyan, Anesco CEO, commented: "Engineering a subsidy-free development at Clayhill was a landmark achievement for the industry and is something we're very proud of. It has proven to be a solid investment and we look forward to working with GRIDSERVE to ensure Clayhill continues to generate the optimal financial and environmental returns."

Anesco will continue to provide operations and maintenance services for the site, as part of a 20-year agreement with GRIDSERVE.

Good Energy completes SMETS2 three phase smart meter installation

Good Energy announced that, with partners SMS plc, it completed the UK's first ever SMETS2 three phase smart meter installation on [5 August](#). Good Energy said there are hundreds of thousands of sites in the UK that operate on three phase connections, which use higher loads of electricity and can have a more complex set up with on-site generation or storage.

Our CEO and Founder Juliet Davenport said: "The energy system of the future is one in which customers don't buy power from suppliers like us. They generate, share and store clean power. To build that future, high energy load and complex grid connections have to be smart."

Drax Group reports £44mn COVID-19 impact in H120

On [29 July](#), Drax Group published its H120 results, reporting an adjusted EBIDTA of £179mn in the six months ended 30 June 2020. This was up 30% on H119. The figure includes an estimated £44mn impact from COVID-19, which was principally attributed to its Customers SME business. The full year adjusted EBITDA is expected to be in line with market consensus, including a £60mn estimated impact from COVID-19.

The company increased its interim dividend to 6.8p/share, up from 6.4p/share in H119. The expected full year dividend is 17.1p/share, up 7.5% on the previous year at 15.9p/share, should the impact of COVID-19 remain in line with current expectations. Operationally, Drax Group reported a 9% reduction in biomass supply costs, a 15% increase in production and improved quality compared to H119. The company generated 11% of the UK's renewable electricity and reported reduced customer demand, and an increase in bad debt provisions, mostly within SME business.

Drax Group Chief Executive, Will Gardiner, described the results as "robust" and said: "We're delivering against our strategy to reduce the costs of our sustainable biomass and we're continuing to make progress pioneering world leading bioenergy with carbon capture technologies, known as BECCS, to deliver negative emissions and help the UK meet its 2050 net zero carbon target."

BP posts \$16.8bn loss for "challenging" Q2 and sets out net zero ambition

A "challenging" Q2 has seen BP post a \$16.8bn (£12.8bn), compared with a profit of \$1.8bn (£1.38bn) for the same period a year earlier.

In its Q220 results, published on [4 August](#), BP said this included a net post-tax charge of \$10.9bn (£8.36bn) for non-operating items. This included \$9.2bn (£7.05bn) in post-tax non-cash impairments across the group "largely arising from the revisions to its long-term price assumptions and \$1.7bn (£1.3bn) of post-tax non-cash exploration write-offs treated as non-operating items".

BP's redesign of its organisation to become "leaner, faster moving and lower cost", including the announced reduction of around 10,000 jobs, is expected to make a significant contribution to its planned \$2.5bn (£1.91bn) reduction in annual cash costs by the end of 2021, relative to 2019. BP said restructuring costs of around \$1.5bn (£1.15bn) are expected to be recognised in 2020.

CEO Bernard Looney said: “These headline results have been driven by another very challenging quarter, but also by the deliberate steps we have taken as we continue to reimagine energy and reinvent BP. In particular, our reset of long-term price assumptions and the related impairment and exploration write-off charges had a major impact.”

On the same day as its results, BP [announced](#) its new strategy to go from “international oil company to integrated energy company” by 2030. Actions include:

- A 10-fold increase in low carbon investment by 2030, with up to eight-fold increase by 2025.
- Capital intensity decreasing as major project wave completes, combined with continued efficiency focus, to drive earnings and ROACE growth.

On its oil exploration and production, BP is aiming for:

- Production declines by 40% by 2030 through active portfolio management, along with no exploration in new countries.
- Emissions from BP’s operations 30-35% lower by 2030.
- Emissions associated with carbon in upstream oil and gas production 35-40% lower by 2030.

National Grid announces project to test viability of hydrogen heating

National Grid announced on [5 August](#) that it is partnering with Northern Gas Networks and Fluxys Belgium to build a hydrogen test facility in the UK. The aim is to understand how hydrogen gas could be used in the future to heat homes and deliver green energy to industry.

The £10mn project will be delivered by DNV GL. The project involves building a hydrogen test facility at DNV GL’s site at Spadeadam, Cumbria. The facility will be built from a range of decommissioned assets, to create a representative network which will be used to trial hydrogen and will allow for accurate results to be analysed. Blends of hydrogen up to 100% will then be tested at transmission pressures, to assess how the assets perform.

The plans have been submitted to Ofgem and if funding is awarded, the aim is to start construction in 2021 with testing beginning in 2022.

Planning application submitted for North Devon solar farm

Aura Power announce that it has submitted a planning application for Litchardon Cross Solar Farm in North Devon. In the [28 July](#), Aura Power said the farm would be developed subsidy free and would provide enough electricity to power 12,700 homes.

Aura Power is proposing to set up a Community Benefit Fund of £350 per MW per year (index-linked), for the lifetime of the solar farm. This could amount to £17,500 a year for 35 years or over £612,000 in total, the developer said. The consultation process for the application began on 28 July and will end on 27 August.

Additionally, Blackfinch Energy announced on [20 July](#) that it has signed a construction contract with Grupotec to develop the Llwyndyrus Solar Farm in North Wales, its first subsidy-free development. In July 2019, Blackfinch Energy acquired the project from Luminous Energy through its energy investment holding company Sedgwick Trading Ltd. Blackfinch Energy said, prior to its involvement, Llwyndyrus already had in place the planning permission, grid connection offer and option to lease to install a 6MW solar farm at the site. Following the signing of the contract, work commenced this quarter.

Blackfinch Energy’s portfolio stands at 49MW of installed capacity (operational and under construction) across 47 individual sites and 14 project companies.

Dan Atzori, d.atzori@cornwall-insight.com

In July, the Oxford Institute for Energy Studies published the latest issue of its 'Oxford Energy Forum' journal, which includes a set of papers on COVID-19 and the energy transition. Cornwall Insight Research Partner Dan Atzori considers the findings.

The latest issue of the 'Oxford Energy Forum' presents several papers on the impact of the global pandemic on the process of decarbonisation. These essays offer a wide variety of point of views that reflect the different backgrounds of the authors. By reflecting different opinions and outlooks, these texts provide a useful stimulus to critical thinking, in particular by deconstructing excessively optimistic views that we may harbour about the trajectory of the process of decarbonisation after COVID-19.

A green recovery is not guaranteed

One point that emerges is that long-term uncertainty is increasing, so for example we should not take for granted that decarbonisation will inspire the post-pandemic economic recovery. While the EU has taken significant steps in this regard, this does not necessarily appear to be the most common response at a global level. For example, some emerging countries, which have an increasing role in the global economy, may favour recovery over decarbonisation. Hence, the policies adopted in the coming months as a response to the economic crisis induced by the COVID-19 pandemic are set to dictate the pace of the energy transition. Closer to home, the UK offers glimmers of hope, given the growing consensus among businesses and policy makers around a 'green' recovery and the need of 'building back better'.

However, at a global level, the current emergency has highlighted a significant lack of international coordination, which is not dissimilar to the challenges we witness in our global response to the climate crisis, as Pedro Gómez Pensado and Harsh Vijay Singh convincingly argue. More broadly, the COVID-19 pandemic will not automatically lead to progress in the sustainability agenda, unless businesses, governments, and international organisations will boldly support the latter. As the authors poignantly write, "energy transition is not a sprint but a marathon, and quick wins should not be mistaken for structural changes that are likely to persist across time and geographies".

Have working patterns changed for good?

Based on our everyday experience, we are sometimes inclined to think that some of the short-term consequences of the lockdown, such as remote working and education, will automatically bring benefits to the environment. However, as Giacomo Luciani reminds us in his essay that opens the collection, forms of agile and smart working impacted office workers in developed countries with access to high-speed Internet but are less relevant to the global workforce as a whole. What is more, it is worth adding that it is still not clear to what extent these working patterns will last in the post-lockdown world. For change to be effective and lasting, we need a paradigm shift towards a more sustainable and less consumerist economic model, as Pedro Linares explores. This said, there appear some well-founded reasons to be hopeful about the post-crisis economic recovery, such as the resilience of ESG portfolios during the current crisis, and investors' increasing desire of lowering their exposure to carbon-intensive assets.

Electrification, less reliance on fossil fuels and greater consumer power?

Finally, a very useful lens to analyse current developments is adopted by Malcolm Keay and David Robinson in their "*COVID-19: Glimpses of the energy future?*". Indeed, COVID-19 offered us a foretaste of a future that is likely to be characterised by a decreasing reliance on fossil fuels and a more prominent role for electrification. At the same time, consumers will be more empowered, while the system as a whole will need more flexibility to ensure the integration of renewables. After reading these papers, we can be more certain than ever that the energy transition will not happen by itself but will require a lot of effort and goodwill from all stakeholders.

Gas

Day-ahead gas rose 47.3% to 19.15p/th, with high gas-for-power demand forecast for the start of next week to cover the deficit in low wind generation. September 20 gas was up 38.2% at 21.61p/th and October 20 gas increased 26.3% to 23.85p/th.

All seasonal gas contracts were boosted last week, up by 5.3% on average. Both winter 20 and summer 21 gas increased 8.9% and 7.2% respectively, lifting to 34.28p/th and 30.25p/th. The annual October 20 gas rose 8.1% to 32.27p/th, 1.4% lower than the same time last month (32.74p/th), and 35.2% lower than the same time last year (49.79p/th).

Electricity

Day-ahead power fell 1.6% to £34.45/MWh last week. However, losses were pegged back across the week on falling wind generation forecasts. September 20 power climbed 15.7% at £39/MWh, and October 20 power increased 11.5% to £39/MWh.

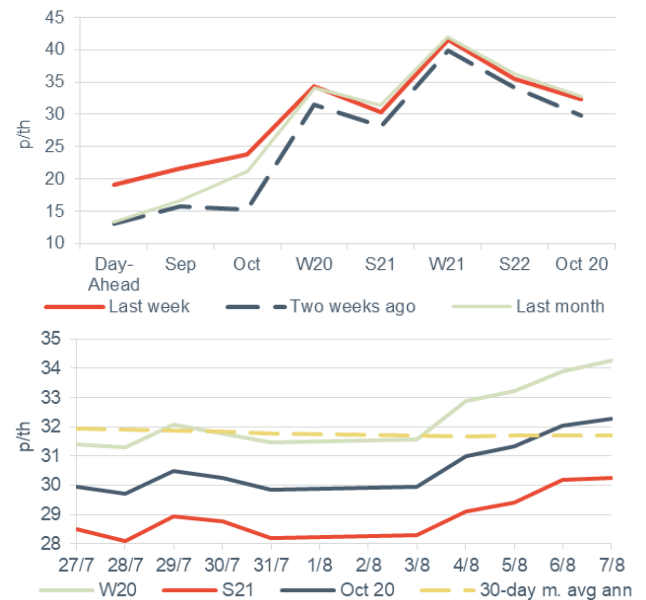
All seasonal power contracts boosted last week, up on average by 3.5%. Winter 20 and summer 21 rose 5.3% and 5.1% respectively, climbing to £47.1/MWh and £41/MWh. The annual October 20 contract rose 5.2% to £44.05/MWh, which was 0.5% lower than the same time last month (£44.25/MWh), and 15.7% lower than the same time last year (£52.28/MWh).

Oil, coal and carbon

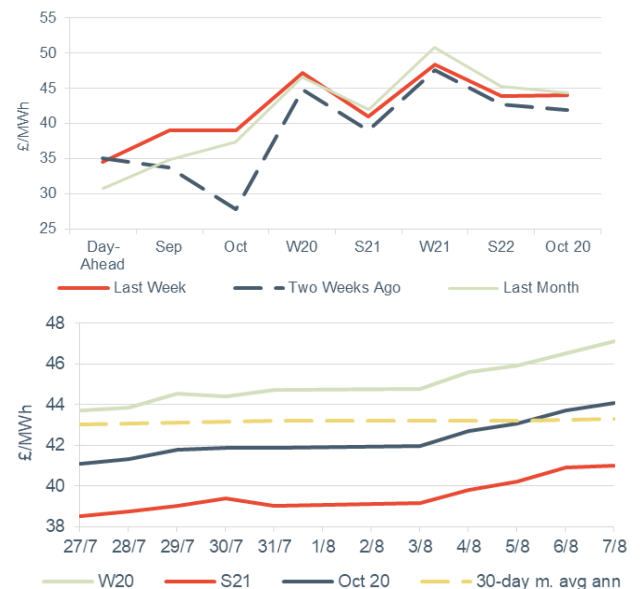
Brent crude oil prices rose by 2.0% to average \$44.31/bl last week, reaching a near-five month midweek. The decision taken by OPEC+ countries in July to begin easing oil production began to take affect last week, with the oil market initially moving lower at the turn of the month. Price movements reversed midweek, as the EIA announced a large weekly decline of 8.6mn barrels in US crude inventories. This announcement saw the Brent price shoot up to a near five-month high of just over \$46/bl on 6 August.

The EU ETS price rose by 2.6% to average €26.51/t and was supported by weaker auction supply with the withdrawal of EUA's at the start of August. Four EU ETS auctions last week saw a rise in the average bid-to-cover ratio (ratio of bids to the number of EUA's in supply) rising to 2.02. API 2 coal prices rose 0.8% last week to average \$59.89/t, with global coal prices boosted by reports of higher Chinese imports.

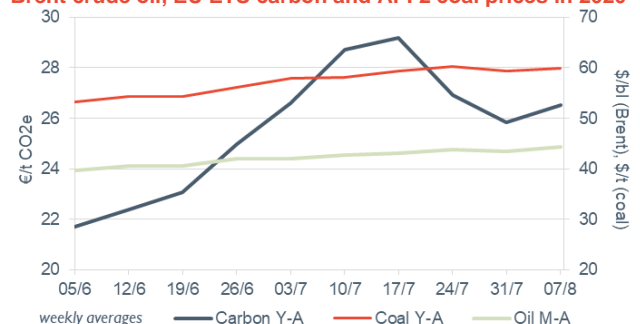
Gas forward curve (top) and seasonal contract movements (bottom) – prices taken 07 August 2020



Power forward curve (top) and seasonal contract movements (bottom) – prices taken 07 August 2020



Brent crude oil, EU ETS carbon and API 2 coal prices in 2020



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