

# The impact of COVID-19 on the Energy Sector

Rohit Tyagi

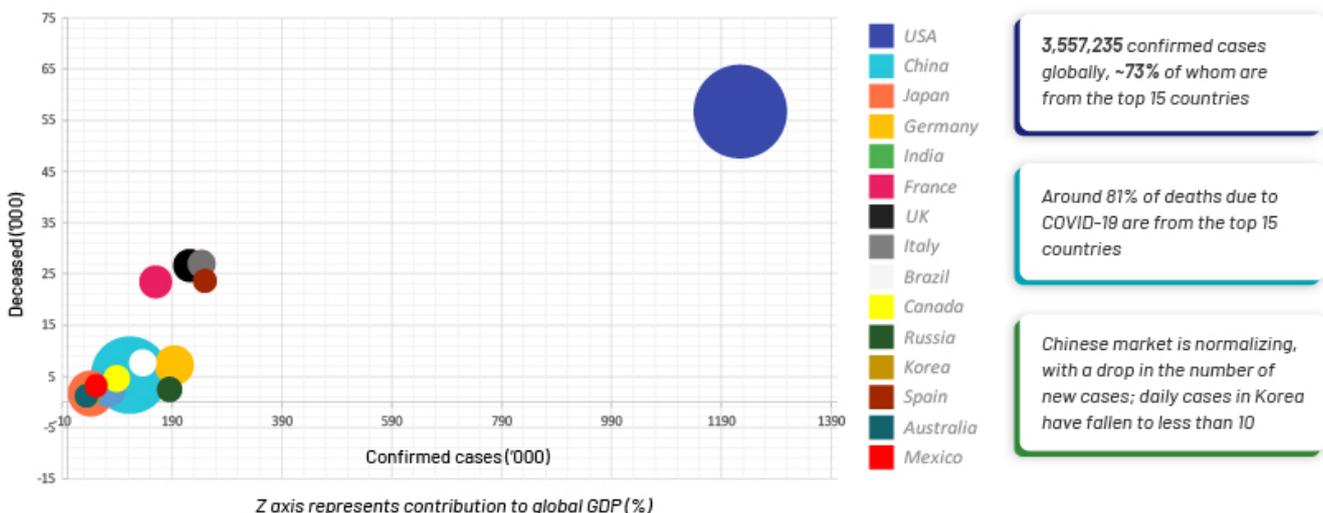
As COVID-19 spreads across the world, number of confirmed cases crossed 3.5 million with over 0.2 million deaths. China has reported a fall in the number of new COVID-19 cases for the first time to 'below 10' in the first week of May 2020. However, it continues to witness new infections as people return back to China.

Oil prices have continued to drop as demand reduces due to COVID-19. Oil prices hit their lowest in 1Q of USD20.09 per barrel (WTI) and are still showing high volatility. Overall, energy companies are seeking support from governments to offer payment breaks to large consumers struggling to pay bills amid the COVID-19 crisis.

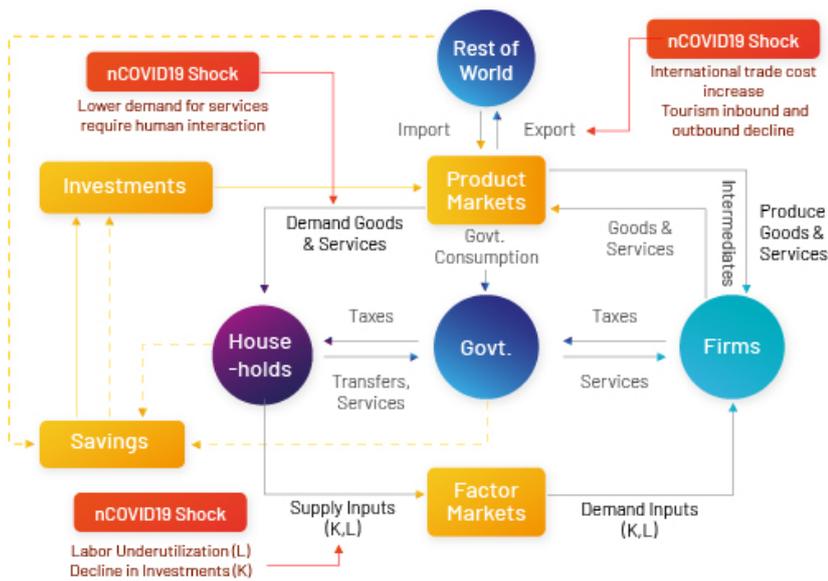
Amid COVID-19 related disruption in the energy sector, we think that renewables can play an integral role in reviving an economy. Hence, the sector will likely attract new investments and potentially create new jobs through suitable policy and legislative support. Also, the disruption in supply from China would lead countries to focus on locally manufacturing of PV panels, batteries and other equipment in the long run.

**Below are 5 charts that summarize the world scenario in the Energy sector:**

## Status of COVID-19 crisis in the top 15 countries (contributing more than 75% of the world's GDP) as of 5th May, 2020



**Based on the World Bank's preliminary assessment, the potential impact of COVID-19 on global GDP in illustrative scenarios is 3.9%**



Countries	Global pandemic (S1)	Amplified global pandemic (S2)
Brazil	-1.71%	-3.42%
Canada	-1.57%	-3.18%
China	-3.69%	-4.31%
India	-2.41%	-4.93%
Japan	-2.23%	-4.57%
Korea	-2.44%	-4.89%
Russia	-1.94%	-3.99%
Europe	-1.85%	-3.85%
US	-1.67%	-3.40%
Developing countries	-2.49%	-4.00%
High-income countries	-1.84%	-3.77%
World total	-2.09%	-3.86%

**Impact on Oil prices**

Oil prices

- » WTI crude oil prices bounced back to USD23.47 a barrel in the first week of May after hitting the lowest of the years so far at USD11.57
- » Brent crude oil prices also bounced back to USD29.64 a barrel in the first week of May after hitting USD19.33



**Oil prices continue to show volatility**

Global consumption of oil and petroleum has dropped sharply, largely driven by the steep reduction in economic activity due to COVID-19. This has increased volatility in O&G prices



**Global inventory buildup at a record high**

A contraction in demand and an increase in crude oil supply following the suspension of previously agreed production cuts have led to a significant buildup. The EIA forecasts global inventory buildup of 3.9 million barrels per day (b/d) in 2020 and a drawdown in 2021



**The US to become a net importer of crude oil and petroleum products**

As per the IEA Short-Term Energy Outlook (STEO), the US will become a net importer of crude oil and petroleum products in 3Q 2020 and remain a net importer for most of 2021. This is a result of higher net imports of crude oil and lower net exports of petroleum products due to a decline in US crude oil production and a run of US refineries



**O&G producers seek cuts and defer taxes to fight oversupply and low demand**

O&G producers are seeking support from governments to cut and defer taxes on output and to lift price controls on domestic natural gas to fight the twin battle of a global supply glut and falling demand due to COVID-19

**Impact on Power and renewables**

## Power and renewables

Growth in the number of power and renewable energy projects has dropped considerably due to cancellations, postponement of auctions, disruptions to the supply chain, and delays in obtaining approval and clearance



### Need to support green energy policies in this crisis

The European Union, by confirming that it will not neglect green deals amid the COVID-19 pandemic, has set a strong example for other economic regions to back green policies and investments in green energy



### Disruptions to supply chain may lead to focusing on manufacturing locally

Countries may start focusing on locally manufacturing PV panels, batteries and other equipment due to the disruption of supply from China and other manufacturing countries.



### Renewables will play an integral role in economic recovery post COVID-19

Legislation to make renewable energy an integral part of New York state's economic recovery post COVID-19 was included in the annual budget. This would boost the economy, create jobs and promote generation of clean energy. It may also prompt other countries to adopt similar measures for economic revival



### Delay in energy transition from conventional to clean energy due to plummeting prices of natural gas

Many energy companies were voluntarily shifting from fossil fuels to renewable energy, but transition may be delayed due to the drop in prices of natural gas. Projects already underway will most likely be completed, but future investments to diversify or increase renewable energy portfolios may be delayed in the short to medium term

## Impact on Energy and Utilities

### Energy and utilities

Energy demand has also fallen sharply due to the global lockdown of non-essential industrial and commercial units. This has resulted in delaying investments and product launches



### Power demand in Europe has plummeted

Power demand in large markets such as Italy, France, Spain, the UK and Germany has plummeted to below historical levels, primarily due to restrictions related to COVID-19. However, demand is now stabilising in markets gradually easing their lockdowns



### Increased share of renewable power in overall supply mix

The share of clean energy in the overall power supply mix has increased to 54% in Germany. This is a result of reduced demand due to COVID-19, increasing wind and solar power generation and backing up conventional power projects



### Utilities are offering support to vulnerable customers amid COVID-19

UK utilities are taking measures to support customers struggling to pay their energy bills amid the current crisis. British Gas is considering pushing out due dates and removing debt charges for late payment; EDF Energy is considering offering delayed payments. However, small utilities are facing cash flow problems



### Emission reduction and clean energy targets may not be met, due to reducing demand

Due to the reduction in power demand globally, adding new renewable energy capacity would be a challenge for many countries. In addition, utilities would procure less green energy, not fulfilling their purchase obligations and, thus, delay meeting emission reduction and clean energy targets

Based on an assessment of the global energy market amid the COVID-19 crisis, the following are our recommendations for energy companies to weather the situation.

### • Operations

Review capital reserves and corporate budget to see how low energy prices (oil and gas) can support profitability and cash flow generation

### • Manpower

Automate tasks to minimise person-to-person contact and focus on training and capacity building to add new skills and improve productivity

- **Customers**

Boost customer confidence by, for example, offering payment breaks and reward programmes, adopting new pricing strategies and increasing online engagement

- **Investments**

Cash-rich companies could look for M&A opportunities to acquire distressed businesses in new and emerging markets in a business-as-usual scenario

## **Adapting to the new normal**

We believe COVID-19 will have a deep impact on how we do business around the world. Energy and Utility firms will need to be agile to adapt to this new normal of business as they rethink their strategy for 2020.

Here is where Acuity Knowledge Partners can help you navigate through these challenging times. Our global offices can enable you to handle business demand and uncertainties with ease. Currently, we are helping many of our clients with our understanding of the market to chart their 2020 strategy.

To help our clients navigate both the people and business impact of COVID-19, we have created a [dedicated hub](#) containing a variety of topics including our latest thinking, thought leadership content and action oriented guides and best practices.

### About Acuity Knowledge Partners

Acuity Knowledge Partners is a leading provider of high-value research, analytics and business intelligence to the financial services sector. The company supports over 300+ financial institutions and consulting companies through a team of over 2,500+ subject matter experts who work as an extension of the clients' teams based out of various global delivery centres.

We empower our clients to drive revenues higher. We innovate using our proprietary technology and automation solutions. We enable our clients to transform their operating model and cost base.