

Impact of Covid-19 on the global energy sector

Over the past few months, the Covid-19 pandemic has caused an unprecedented global economic and social crisis. The pandemic has significantly affected all aspects of life, including the energy sector.

APRIL 24, 2020

TETIANA MYLENKA, LL.M., COUNSEL, HEAD OF ENERGY PRACTICE AND BOHDAN NOVYK, JUNIOR ASSOCIATE, HILLMONT PARTNERS

COVID-19 OPINION & ANALYSIS WORLD



This website uses cookies to anonymously count visitor numbers. [View our privacy policy.](#)



Image: hpgruesen/Pixabay

Share



The energy sector has already felt the [impact of Covid-19](#). The outbreak has contributed to a [dampened demand for oil](#), resulting in plummeting prices and declining production, especially in the wake of the Russia-OPEC price war. According to the IEA Oil Market Report – April 2020, global [oil demand](#) is expected to fall by a record 9.3 mb/d year-on-year in 2020. Demand in April is estimated to be 29 mb/d lower than a year ago, down to a level last seen in 1995. Covid-19 has also accelerated the continued drop of gas prices.

A similar trend of falling demand and price reduction can be observed in the electricity sector. Europe has faced a record collapse in electricity prices. In many European countries, power prices have turned negative. This is evidenced by the data from Nord Pool (Europe's leading power market) and HUPX (Hungarian Power Exchange) regarding prices in the day-ahead market. Such a situation is considered normal in some countries during weekends or holidays, but now negative figures are also fixed on weekdays.

Unsurprisingly, the strictness of confinement measures correlates with drops in consumption: 25% in Italy, 20% in France, 12% in the United Kingdom. Another concern is the impact of the reduced demand on utility companies' cash flows and the spillover effect this has on the energy sector.

Construction of new energy facilities and infrastructure delayed or stopped

Many companies across different sectors globally have ceased or decreased capital expenditures where possible, and the energy sector is no exception. For example, Distribution System Operators (DSOs) are delaying most initiated projects, resulting in a substantial decrease in the procurement of goods and services. Non-critical investments have been suspended. The fulfillment of investment programs by Transmission System Operators (TSOs) and DSOs is also at risk.

Covid-19 is having an especially negative impact on the [renewables sector](#). One of the main problems relates to the delivery of equipment to power plants. [China](#), which is among the countries most heavily [affected by the coronavirus](#), is the main global producer of many clean energy technologies, such as solar panels, wind turbines and batteries. Since coronavirus has [delayed deliveries from China](#), renewable energy companies are not able to comply with

energy projects face delays, due to the coronavirus lockdown. [BYD](#), the world's leading producer of rechargeable batteries, was unable to complete tests of new models of rechargeable batteries due to the pandemic, and this has led to a reduction in delivery volumes of rechargeable batteries for the European market.

Default of payment

In many countries (including all but two Contracting Parties of the Energy Community), customers have been advised by energy regulators and governments to delay the payment of utility bills. Defaults on payments cause cascade effect and impact the whole sector.

Although there is widespread tolerance of non-payment by end-users, policymakers did not explicitly define if leniency towards non-payment would be applied further along the supply chain (to DSOs, TSOs, suppliers and producers). So far, none of the Contracting Parties of the Energy Community have explicitly defined who will bear the costs of financing this debt.

The waiving of interest and bans on disconnection will most likely increase costs for DSOs. Consequently, their revenues will be decreased and, if the crisis continues, their financial status will deteriorate. It is inevitable that all this would negatively impact the cash flow and short-term liquidity of DSOs. A lack of working capital to finance short-term liabilities for regular operation is expected within two to three months if the situation persists.

Response of policymakers, regulators, and market participants

Countries around the world are taking steps to support the energy sector and to mitigate the negative effects of the crisis. There are myriad challenges that policy makers, regulators, TSOs and DSOs need to address to ensure energy security.

Europe's energy regulators have already taken special measures to ensure a safe and reliable energy supply by guaranteeing essential services such as gas, heating and power, as well as measures aimed to ease financial requirements on consumers who face economic difficulties during lock down (bill-paying measures for vulnerable consumers to avoid disconnections).

In some countries, certain measures have also been taken to support the renewables sector. For instance, [Poland](#)'s government has developed a draft of the so-called Anti-Crisis Shield Act, which provides the President of the Energy Regulatory Authority with the right to extend deadlines for renewable energy producers for commencement of sales within the auction system.

DSOs have implemented a number of organizational measures related to the safety of

teams in isolation on stand-by; restricted access to dispatch centers and to stand-by units; and standby teams composed of retired staff, in order to maintain the safety and prevent the exhaustion of key staff, and address the issue of the lack of qualified and trained key staff.

Regular maintenance activities and field work are restricted to a minimum, with repair and restoration being prioritized. Planned interruptions for regular maintenance are either suspended, postponed, or implemented with a limited duration. Mobile intervention teams have been established as a back-up for field units. The quality of service, however, may be at risk if planned repairs and maintenance works are postponed for too long. According to the document summarizing issues of concern based on discussions at the ECDSO-E meeting held on April 21, 2020, DSOs reported that current supplies of vital spare parts, tools and equipment are sufficient for repairs and urgent remedial maintenance; some DSOs have a central warehouse or a centrally managed stock system, enabling more efficient use of available vital spare parts, materials, tools and equipment. Nevertheless, should the crisis continue, there is a risk to network and staff safety if supplies are not replenished in time.

As was rightly pointed by the International Energy Agency, the sharp decline of the oil market may put clean energy transitions at risk by reducing the impetus for energy efficiency policies. Without measures by governments, cheaper energy always leads consumers to use it less efficiently. It reduces the appeal of buying more efficient cars or retrofitting buildings to save energy. Thus, policymakers should keep the “green” agenda in mind.

Covid-19 has drastically impacted energy sector across the globe. The whole range of consequences for the energy sector is yet to be revealed and is difficult to predict, however it is already clear that demand for energy resources has dropped, prices have plummeted and non-payment of utilities bills by end-consumers will have a detrimental effect along the supply chain (DSOs, TSOs, suppliers and producers). Notwithstanding, the “green” agenda should not slip away from the list of national policymakers’ and regulators’ priorities.

Key references

1. [*IRENA’s Global Renewables Outlook: Energy transformation 2050.*](#)
2. [*Distribution system operators’ response to Covid-19 crisis: Actions taken and concerns expressed of 21 April 2020.*](#)
3. [*Energy Community Secretariat’s Report “COVID-19: Security of energy supply monitoring” of 01 April 2020.*](#)
4. [*Publication of Council of European Energy Regulators \(CEER\) “Keeping the lights on saves lives – Energy sector and regulators guarantee energy supply during lockdown” of 14 April 2020.*](#)
5. [*IEA Oil Market Report – April 2020.*](#)