

# Brexit – Updates for Energy Markets

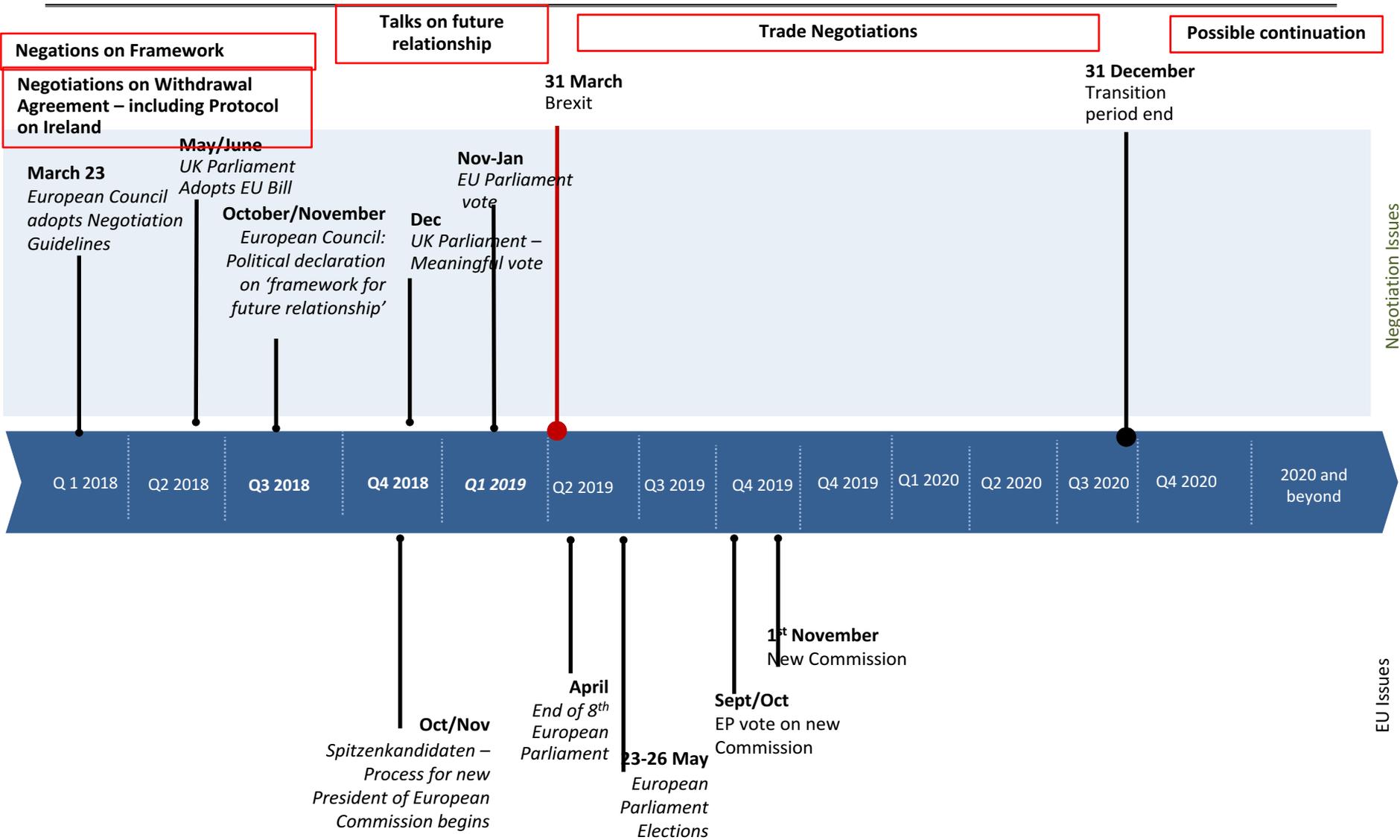
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**CHATHAM  
HOUSE**  
The Royal Institute of  
International Affairs

# Brexit Timetable 2018-20 | Overview



## 2 Years on the Vision on the Future Relationship is unclear

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### Climate and Energy EU Cooperation



### UK Isolationism

- Access to internal energy market supports interconnection
- Co-ordination of domestic climate action
- No-regression on environmental standards, targets and state aid rules
- Diplomatic cooperation to accelerate international action 2020 and beyond

- UK as an energy island
- Implications for Ireland
- Race to the bottom on standards to try and secure a competitive advantage ?
- Unknown impacts of future relationship affecting ability to meet targets of the Climate Change Act
  - Negative economic shocks
  - Currency and exchange rates

# UK Positions on Climate and Energy Brexit

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- May 2017 – White Paper:
  - **“We will continue to be a leading actor, working with European and other international partners**, in global efforts to tackle major challenges, including climate change. The UK’s climate action will continue to be underpinned by our climate targets as set out in the Climate Change Act 2008 and through our system of five-yearly carbon budgets, which in turn support our international work to drive climate ambition”
  - **We are considering all options for the UK’s future relationship with the EU on energy**, in particular, to avoid disruption to the all-Ireland single electricity market operating across the island of Ireland, on which both Northern Ireland and Ireland rely for affordable, sustainable and secure electricity supplies.
- March 2018 – Mansion House Speech:
  - And in other areas like workers’ rights or **the environment, the EU should be confident that we will not engage in a race to the bottom in the standards and protections we set**. There is no serious political constituency in the UK which would support this – quite the opposite (there was no mention of climate change)
  - On energy, we will want to secure broad energy co-operation with the EU. This includes protecting the single electricity market across Ireland and Northern Ireland - **and exploring options for the UK’s continued participation in the EU’s internal energy market**. We also believe it is of benefit to both sides for the UK to have a close association with Euratom.

# Preparing for No-Deal – Energy and Climate Papers

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<b>UK – No Deal Preparation</b>	<b>EU – Notification to Stakeholders</b>
Industrial emissions standards (13 Sept)	Euratom (25 Sept)
Reporting Co2 emissions for new cars (13 Sept)	Internal energy market (27 April)
Upholding environmental standards (13 Sept)	Guarantees of origin (7 March)
Civil nuclear regulation (23 Aug)	
Generating low-carbon electricity (24 Sept)	
Nuclear research (23 Aug)	
Running an oil or gas business (13 Sept)	

# Electricity trade and market coupling

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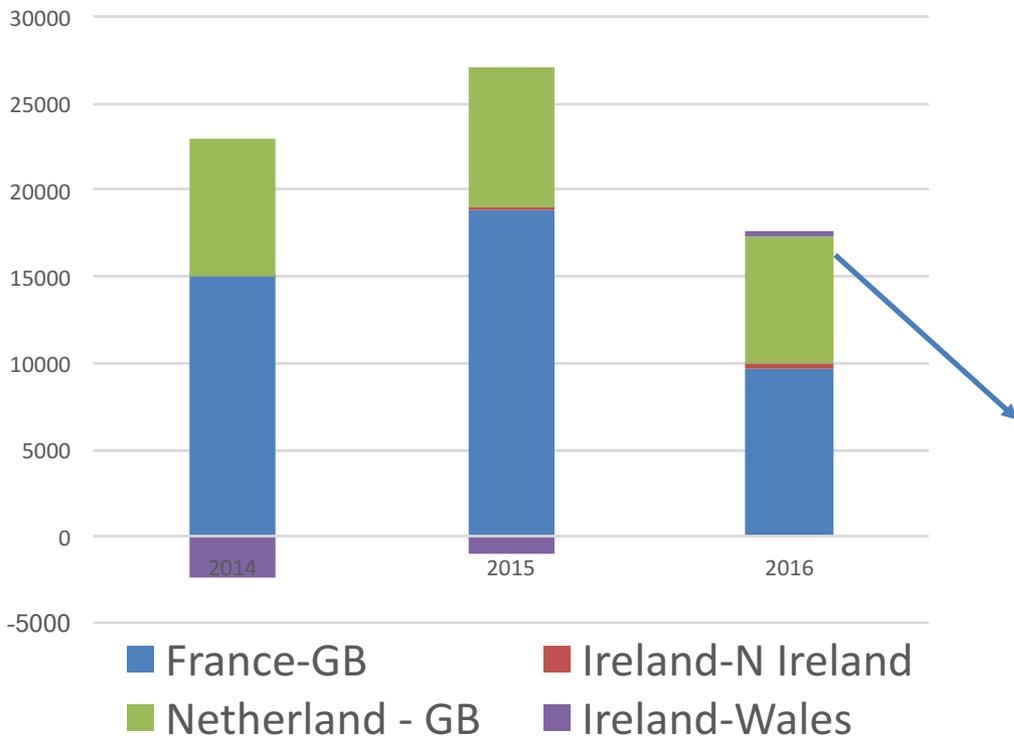
- **Interconnection capacity:** outside the EU, the UK no longer has to comply with EU requirement of 10% interconnection by 2020 and aspiration of 15% by 2030.
- **Common operational regime:** unclear whether UK will change standards/practices necessary for greater renewable integration.
- **Market coupling:** Can GB post-Brexit remain part of current and future market coupling?
- **IEM:** remaining fully integrated would require compliance with EU environmental and competition (State Aid) rules.

## **BUT: UK Clean Growth Strategy**

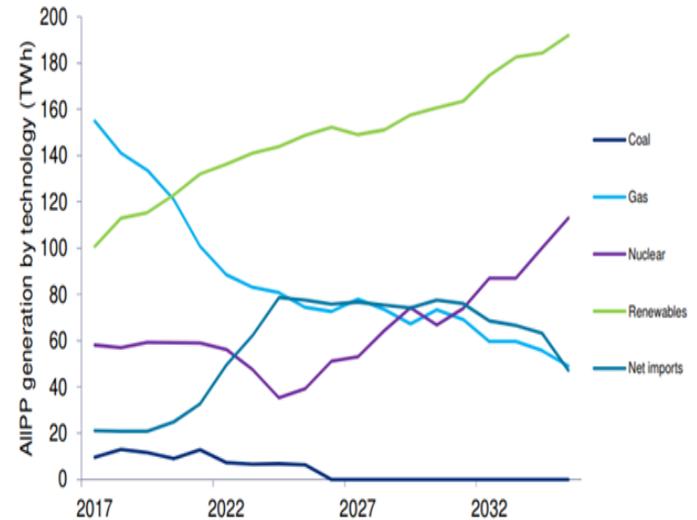
- “keep step with equivalent standards wherever possible and appropriate, or even exceed them where it is in the UK’s interest to do so”
- “while UK is a member of the EU, existing rules still apply and we will continue to engage constructively on new and existing EU legislation”

# Interconnectors

## Net electricity imports (GWh)



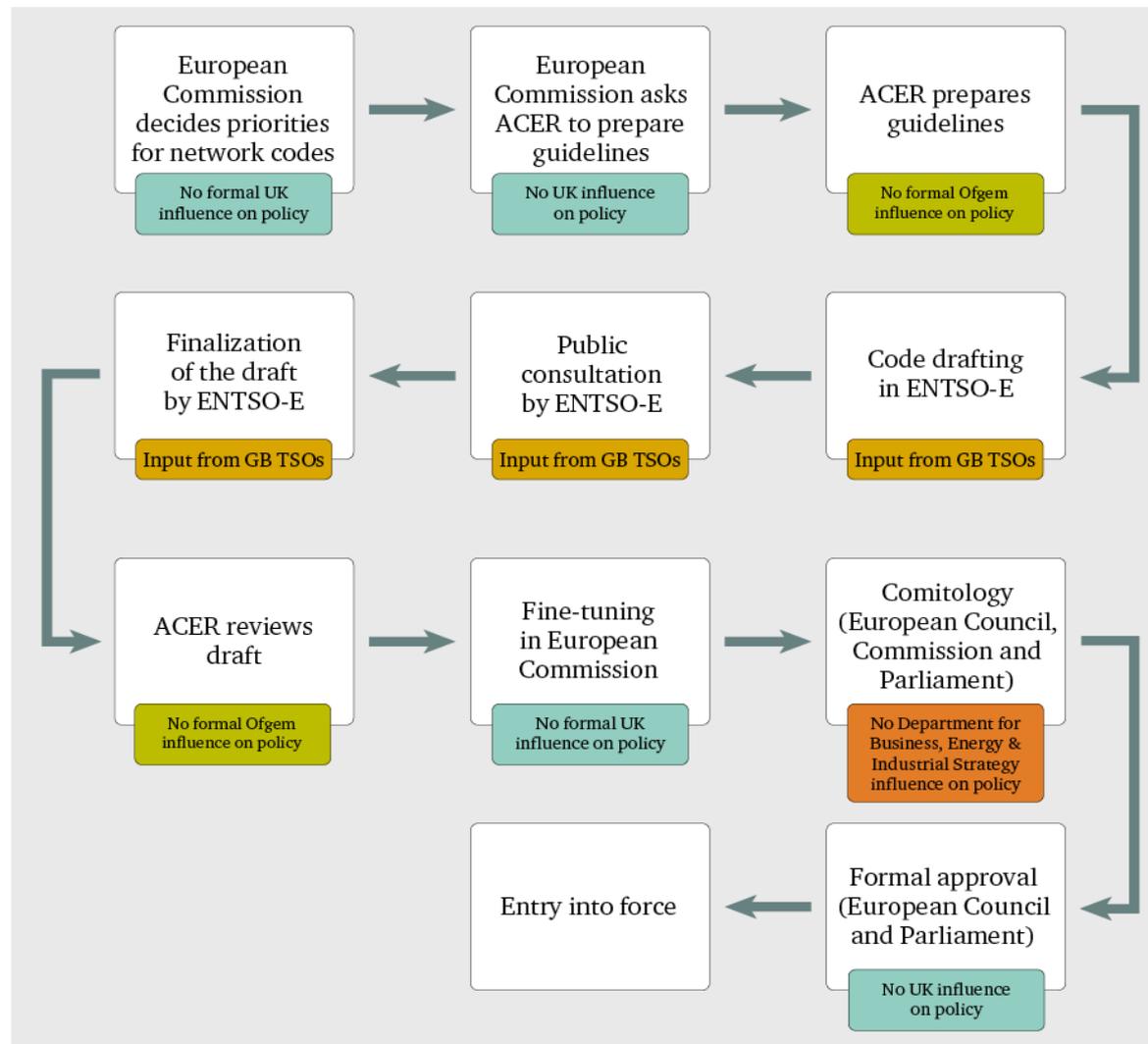
## BEIS – Updated Energy and Emissions Projects 2017



# Interconnector investment

Name	Connects GB to	Capacity (MW)	Contracted or actual date of operation	Estimated cost <sup>a</sup>	Connecting Europe Facility development funding <sup>b</sup>
<b>Operating</b>					
IFA	France	2,000	Since 1986		
Moyle	Northern Ireland	450 MW to NI (of which 295 MW to GB)	Since 2002		
BritNed	Netherlands	1,200	Since 2011		
EWIC	Republic of Ireland	505	Since 2012		
<b>Total</b>		<b>4,155</b>			
<b>Contracted</b>					
Eleclink	France	1,000	Contracted 2016	£590 million	€1.7 million, €0.5 million
Nemo	Belgium	1,000	Contracted 2018	€690 million	
NSN	Norway	1,400	Contracted 2019	€2,000 million	€31.3 million
IFA-2	France	1,000	Contracted 2019	€690 million	€5.9 million
FABLink	France	1,400	Contracted 2020	€750 million	€7.23 million
Aquind	France	2,000	Contracted 2020	£1,100 million <sup>c</sup>	
Viking Link	Denmark	1,000	Contracted 2022	€2,000 million	€14.8 million
NorthConnect	Norway	1,400	Contracted 2021	€1,300 million	€10.7 million
<b>Total</b>		<b>10,200</b>			
<b>Projects of Common Interest or party of ENTSO-E* Ten-Year Network Development Plan</b>					
Belgium-GB-2	Belgium	1,000			
Icelink	Iceland	1,000			
Greenwire	Republic of Ireland	3,000			
Codling Park	Republic of Ireland	500–1,000			
Energy Bridge	Republic of Ireland	5,000			
Irish-Scottish Isles	Northern Ireland	1,200			
Second Interconnector	Belgium	1,000			
		<b>12,700–13,200</b>			

# Governance and Policy Influence: the example of European Network Codes (ENC)



# All-Ireland SEM

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- A Single Electricity Market (SEM) operates across the whole of Ireland (the Republic and Northern Ireland).
- Move toward greater interconnection: the new Integrated Single Electricity Market (I-SEM) with EU & need for network code compliance
- Options going forward:
  - Northern Ireland a special zone – but compliance with EU regulation
  - Special status of SEM, with N. Ireland not subject to ECJ jurisdiction
  - Unwind SEM
- Recognition that EU and IEA require gas and oil storage minimum infrastructure which is currently shared with the UK
- UK Government reliance on DUP likely to increase consideration of SEM
- Irish border issues (including SEM?) considered during 1<sup>st</sup> phase of Brexit negotiations – agreed before October
- Precedent for future GB-continental Europe energy relations ?

# Emission Trading System

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- ETS has 31 members: EU member states, **plus Norway, Iceland, Liechtenstein** which joined during 2<sup>nd</sup> phase – 45% of EU GHGs
- 3<sup>rd</sup> Phase **2013-2020 – coincides with likely end of transition period**
  - 57 % of the available allowances are sold in regular auctions, and 43 % are allocated to industry for free
  - a 21 % emissions reduction compared to 2015 levels, the cap is lowered by 1.74 percentage points per year
  - Market Stability Reserve (MSR) introduced from 2019 to set aside and subsequently cancel surplus
- 4<sup>th</sup> Phase **2020-2030**
  - 57 % of the emission allowances would be auctioned, the same proportion as in phase 3
  - 43 % reduction in GHG 2030. the ETS cap raised to 2.2 % per year
  - 2019 to 2023, 24 % of the cumulative surplus of allowances will go to MSR; from 2023 excess above the total number auctioned during the previous year will be cancelled;

# UK seek to remain in ETS ?

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- Assuming there is transition period the UK is likely to remain in Phase III
- UK White Paper “An alternative option would be for the UK to participate in the IEM to preserve the existing efficient trading practices over interconnectors. In this case, the UK would need a common rulebook with the EU on the technical rules for electricity trading, such as the market coupling mechanism – as well as a consistent approach to carbon pricing necessary for the market to function, which, for example, **could be delivered by remaining in the EU’s Emissions Trading System.**”
- The Minister of State for Energy and Clean Growth (Claire Perry) has confirmed that she “firmly believe[s] in a Cap and Trade System as the best way forward—and the bigger the pool the better in doing that”
- UK Parliament report “It is not clear that there are as yet any alternative options to membership of the EU ETS that could deliver our emissions reduction target at least cost”
- No Government positions on Land use, land-use change, and forestry (LULUCF) or on Effort Sharing Regulation (ESR)

# Beyond Brexit and the ETS

	Remain in ETS Phase 4	Two Way linked system with the ETS (e.g. Switzerland)	Linkage to third countries - w/without domestic trading system	Agreement on Carbon Floor Prices - no trading system	Domestic Carbon Tax - no trading system
Compliance with EU climate acquis	ETS/ESR and LULUCF ??	Partial	No	No	No
Enforcement	ECJ/EFTA Court	Joint Committee	International arbitration	International agreement	Domestic
Governance	Energy Governance Framework ?	Joint Committee	International agreements	Unknown	Domestic
Set up Implications	Low	Medium	High	Low	Medium
Political Stability	High	Medium	Medium	Low	Low
Effectiveness	Known	Unknown	Unknown	Unknown	Know

# Conclusions

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- The Agreement on the UK leaving the EU will, most significantly, affect the energy sector in Ireland and the retention of the i-SEM
- On the assumption that a transitional period is agreed, the UK will remain within the EU's climate and energy legal framework until the end of 2020. This will require conformation to current and future EU legislation.
- The extent of details in the political declaration about the future framework is unclear, with key areas of clarification on energy and climate – such as engagement with IEM or ETS – unlikely prior to March 2019.
- In the future framework agreement, will there be a climate and/or energy chapter or chapters ?

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Thank you