Staying Connected: Key Elements for UK-EU27 Energy Co-operation after Brexit

10th May 2017
Brexit negotiations

• Brexit will be complicated and unlikely to be completed within 2 years

• Energy, and electricity in particular, offers opportunity for co-operation and progress and is important as:
  • Maintaining reliable and affordable supplies is essential for society and economy
  • Electricity is difficult and expensive to store
  • Decarbonisation will change energy system
  • Supply dominated by wires and pipes
  • Electricity is not traded globally
UK’s growing import dependency increases the need for energy co-operation
EU’s external energy relationships
Non-energy specific Brexit issues may affect the energy sector

- Increasing costs of non-tariff barriers
- Divergent manufacturing standards
- Restricted access to skilled workers
- Potential for additional financial reporting requirements
Brexit negotiations and future agreement: key issues

• Key elements of future relationship
  • Electricity trade and market coupling
  • Interconnector investment
  • Influencing EU energy policy
  • Compliance and enforcement
  • All-Ireland Single Electricity Market
  • Access, or replacing, European funds
  • Emissions Trading Scheme
  • Euratom

• The global dimension
  • Impact on EU27
  • An enlarged European Energy Union
Electricity trade and market coupling

- **Implicit market coupling**: when interconnector capacity and energy are sold together in a single market process. It is more efficient than explicit market coupling.

- Different market coupling arrangements:
  - **Forward**: Explicit market coupling arrangements
  - **Day-ahead**: Implicit market coupling arrangement since completion of Day Ahead Multiple Regional Coupling in 2013
  - **Intraday**: Explicit market coupling arrangements, until completion of XBID

- Financial benefits of implicit market coupling:
  - Lower wholesale prices across the system due to larger pools of supply and demand being matched more efficiently
  - Lower intermarket and transaction costs, so trading becomes easier and cheaper.
  - More efficient use of interconnector capacity

- Estimates of benefits of the order of £100m/year. These will increase with more interconnector capacity and move to cross-border balancing.

- Still unclear whether GB post-Brexit will remain part of current and future market coupling arrangements. Requires the active collaboration of GB interconnection counterparts. Market coupling also developed through European legislation.
### Interconnector investment

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

- Project by UK Department for Business, Energy & Industrial Strategy: UK’s net electricity imports will rise from around 20 TWh in 2016 to 80 TWh in the mid-2020s.

- Brexit adds to uncertainty over economic viability over interconnectors, in part because of UK status in market coupling mechanism.
Governance and Policy Influence: the example of European Network Codes (ENC)

1. European Commission decides priorities for network codes
   - No formal UK influence on policy

2. European Commission asks ACER to prepare guidelines
   - No UK influence on policy

3. ACER prepares guidelines
   - No formal Ofgem influence on policy

4. Finalization of the draft by ENTSO-E
   - Input from GB TSOs

5. Public consultation by ENTSO-E
   - Input from GB TSOs

6. ACER reviews draft
   - No formal Ofgem influence on policy

7. Fine-tuning in European Commission
   - No formal UK influence on policy

8. Code drafting in ENTSO-E
   - Input from GB TSOs

9. Comitology (European Council, Commission and Parliament)
   - No Department for Business, Energy & Industrial Strategy influence on policy

10. Entry into force
    - No UK influence on policy

11. Formal approval (European Council and Parliament)
    - No UK influence on policy
## Compliance and enforcement for energy

<table>
<thead>
<tr>
<th></th>
<th>EU members</th>
<th>Norway/EEA</th>
<th>Switzerland</th>
<th>Energy Community</th>
<th>WTO</th>
<th>Customs union</th>
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<tr>
<td><strong>Market access</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-tariff barriers allowable?</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td><strong>Membership</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Compliance with current market acquis</td>
<td>Required</td>
<td>Required</td>
<td>Required</td>
<td>Required</td>
<td>Not required</td>
<td>Not required</td>
</tr>
<tr>
<td>Advanced market rules – market coupling</td>
<td>Required</td>
<td>Required</td>
<td>Not required</td>
<td>Not required</td>
<td>Not required</td>
<td>Not required</td>
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<tr>
<td><strong>Governance</strong></td>
<td></td>
<td></td>
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<tr>
<td>European Commission</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
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<tr>
<td>ENTSO-E</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Observer</td>
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<tr>
<td>ACER</td>
<td>Y</td>
<td>Observer</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
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<tr>
<td><strong>Enforcement</strong></td>
<td></td>
<td></td>
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<tr>
<td>ECJ</td>
<td>EFTA Surveillance Authority, EFTA Court</td>
<td>National law</td>
<td>Ministerial Council, no judicial action</td>
<td>GATT, GATS, WTO dispute-settlement processes</td>
<td>Bilateral agreement, WTO dispute</td>
<td></td>
</tr>
</tbody>
</table>
All-Ireland SEM

• A Single Electricity Market (SEM) operates across the whole of Ireland (the Republic and Northern Ireland). It is jointly operated by the two jurisdictions and regulated by the Irish Commission for Energy Regulation.

• Move toward greater interconnection: the new Integrated Single Electricity Marker (I-SEM) with EU & need for network code compliance

• Options going forward:
  • Northern Ireland and special zone – continuing to comply to 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 and Ireland also engage in regional approaches on energy, such as North Seas Countries Offshore Grid Initiative, which may be threatened by Brexit
EU financial support and investment

- EIB: significant source of investment - €9.3 billion for energy in UK (2012-16)
- Structural Funds: €2.9 billion for low carbon and €2.6 billion for climate adaptation (2014-20)
- European Fund for Strategic Investment: €8 billion
- Connecting Europe Facility: around €190 million for UK projects
- Research and Development: UK expected to receive €2.5 billion over 7 years for energy, transport, climate and nuclear
- JET in Culham particularly vulnerable, as major centre of EU research: EU providing €60m annually
  - Budget extension decision expected in 2018
ETS

• ETS has 31 members: EU member states, plus Norway, Iceland, Liechtenstein which joined during 2nd phase
• Support for remaining in ETS is not overwhelming: reform is needed
• The ECJ has jurisdiction over the ETS which may rule out UK participation post-Brexit
• Linked systems - Switzerland: technical talks completed in January 2016, but delayed start due to issues around immigration (now resolved)
• UK Emissions Trading Scheme? Tax on carbon/energy – need to consider political and financial longevity
Some Brexatom Issues

- **Nuclear material safeguards**: Outside of Euratom, inspections would need to be carried out either by the UK’s Office for Nuclear Regulation (ONR), a new agency, or via an agreement with the IAEA.
- **Research and Development**: UK fusion research fully linked with Euratom, in JET operation or in ITER.
- **The Euratom Supply Agency** oversees the supply of nuclear materials
- **Nuclear safety standards**: The EU, through Euratom, is responsible for:
  - Setting standards for operating reactors;
  - Designing nuclear waste-management strategies;
  - Regulating radiation, health protection (for workers and the public) and environment protection
- **International agreements**: UK post-Brexit will need to replace all Euratom international agreements for supply of nuclear material/equipment. Otherwise, it will become impossible for the UK’s civil nuclear business to continue to operate or develop in the longer term. Unlike other aspects of trade, there is no WTO agreement to fall back on.
Brexit and energy: key issues for EU27

• UK currently important EU entry point for fossil fuel imports, particularly LNG
• UK important player in regional approaches to energy, such as the North Sea Grids initiative and offshore wind projects
• Climate Change
  • Changes to EU targets as a result of Brexit
  • Loss of key proponent of existing policy
  • UK action on global climate diplomacy
A Reformed and Enlarged Energy Union

- Create continental vision for Energy Union: competition, security & prosperity for all of Europe
- Enable ‘unaligned’ European countries to operate in binding multilateral framework
- Widen influence of European energy acquis
- Strengthen energy sectors in European Energy Community countries
- Reduce risks, via strengthening sectors in transit countries, for energy producers and consumers
Conclusions

• Negotiations on Brexit terms and future UK-EU27 agreement will be complex. Achieving a deal in 2 years is unlikely.
• A transitional arrangement or implementation phase is likely to be necessary.
• Strong UK-EU27 energy cooperation, particularly for electricity, would benefit the UK, EU27 and potentially wider Europe
• Such a permanent or transitional deal would need to address key areas, such as:
  • Maintaining the Single Electricity Market across Ireland
  • Maintaining the considerable benefits from interconnectors and market coupling
  • Ensuring against consequences of Brexatom to avoid safety and non-proliferation problems.
• Domestic action will be needed to
  • Ensuring that energy & climate investment and R&D funds are at least comparable to that currently allocated from EU funds
  • Deciding whether to remain within the ETS or replace it with a domestic trading scheme or carbon tax with similar political stability
• It will be essential to conveying benefits of strong UK-EU27/pan-European energy cooperation to consumers across Europe early on in negotiations.
Thank you

For more information contact:

Antony Froggatt: afroggatt@chathamhouse.org
Georgina Wright: gwright@chathamhouse.org
Matthew Lockwood: M.lockwood@Exeter.ac.uk