E&CCC Inquiry – Leaving the EU: implications for UK energy policy

Written submission from the **Energy Intensive Users Group**

- To what extent have the Government's energy policies been driven by the EU? Are any policy areas currently at risk?

  The government's policy on renewable energy has been driven significantly by the EU, for example in relation to the imposition of arbitrary and uncosted targets for renewable energy consumption that have resulted in significantly increased costs for electricity users in return for comparatively small environmental gains. Freedom from EU membership could allow this economically damaging approach to be abandoned, so this policy area is indeed at risk.

  The excessive subsidisation of uneconomic renewable energy production has not only distorted the energy market but also undermined the operation of the Emissions Trading Scheme (ETS) which was intended to be the EU's flagship policy to enable power sector and industrial emissions to be reduced at least cost. It is currently unclear whether UK power generation and industry will continue being subject to EU ETS after Brexit (e.g. as price of continued membership of, or tariff-free access to, the single market), some analogous mechanism, or an alternative approach. Whatever the final outcome, it is vital that trade-exposed energy intensive industries receive the protection they need with respect to the direct cost of production emissions and the indirect cost of carbon on energy prices until such time as our industrial competitors outside Europe face similar costs, in order to prevent carbon leakage.

  The EU ETS has been further undermined by the UK's unilateral Carbon Price Floor, which has unnecessarily raised costs to UK electricity users in return for zero net environmental benefit. Power sector emissions are (currently) capped at an EU level, so every tonne of CO_2 saved in the UK simply enables another tonne of CO_2 to be produced elsewhere in the EU, increases the proportion of EU decarbonisation costs borne by UK electricity users, and depresses the price of EU ETS allowances. We hope the government will take the opportunity to address this mess by repealing the CPF at the earliest opportunity and in any case by 2025 when the UK's last coal fired power generation will have been closed and the issue of encouraging fuel substitution from coal to gas will no longer be relevant.

- What should be the Government's priorities on energy when negotiating the UK's exit from the EU? What would a successful negotiation outcome look like?

  The priority must be to ensure the UK retains non-discriminatory, tariff-free access to the single EU energy market from the moment the UK ceases to be a member of the EU. This is vital for the security supply since the UK is dependent on trade of both electricity and gas with our European neighbours – a dependency that is set to increase in future as the UK's oil and gas production declines and reliance on intermittent renewable electricity generation increases. Efficient trade between neighbouring national or regional European markets will also tend to reduce the geographic spread in wholesale prices and reduce the average cost of energy to European consumers as a whole.

The government should determine how Ofgem might best maintain a constructive working relationship with other national energy market regulators when it ceases to be a member of EU regulators' group ACER. The government should also seek to maintain diplomatic co-operation with the EU and other European neighbours in relation to energy security, including geo-political issues that have a bearing on security of imported oil and gas, and the development of secure, low carbon energy technologies with the potential for global deployment.

- What aspects of existing EU energy policies and directives are beneficial to the UK? What should be the Government's priorities in deciding which EU-led energy policies and legislation to retain?

  EU directives and regulations relating to the creation of a single energy market have been advantageous to UK energy consumers both in terms of energy security and cost of supply. The UK can take credit for the extent of its influence over these policies, and be proud of having pioneered energy market liberalisation, with unbundling of energy production, transmission, distribution, balancing generation and supply, with independent economic regulation of natural monopoly networks significantly ahead of most of our EU neighbours. There is no immediate reason for the UK therefore to alter legislation in this area.

  EU 'Projects of Common Interest' will also remain relevant post Brexit (e.g. interconnectors to and from Ireland) so it may be prudent to explore whether the UK should retain some informal involvement in the designation process for transnational energy infrastructure that will directly affect the operation of UK energy markets. The potential benefits of retaining REMIT regulations, or something analogous to them, should also be explored in order to maintain confidence that market participants will continue to have timely access to relevant information. There will also be a need to maintain co-operation on network codes, gas quality, etc., to ensure barriers to efficient cross border trade are minimised.

  It is less clear whether the UK should persist with the requirements of the Energy Efficiency Directive, which has resulted in extra bureaucracy for industrial users and 'gold plating' in the form of ESOS. There is considerable scope for improving regulation in this area so as to reduce compliance costs whilst maintaining (possibly exceeding) current environmental objectives.