

No deal risks for customers and the energy industry

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Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests over £12.5bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT. The UK energy industry has a long history of European collaboration and we have been a key contributor to the work towards the EU's ambitions on tackling climate change.

Risks of no deal Brexit- continued uncertainty for the energy sector

The UK is due to leave the EU on 29th March 2019, and it is still unclear under which circumstances. The business world, including Energy UK representing the energy industry, has repeatedly called for a deal with a transition period as the best way to proceed and raised potential difficulties and negative impacts leaving without a deal would have on the economy and therefore people's livelihoods.

The energy industry has an important responsibility and role in the effective functioning of the country and is working tirelessly to prepare for a 'no deal' exit.

They have been reviewing their business operations and strategies to identify where issues might arise and put in place mitigating measures where possible. This means for example reviewing their supply chain and procurement systems to ensure they have a good visibility of what they will need over the next few months, reviewing contracts with EU partners and suppliers to ensure those contracts will remain valid post-Brexit, and ensuring they adapt to their new regulatory framework by reviewing and adapting their reporting methodology among other things.

As such, we do not anticipate any major disruption to the GB energy system. However, there are many aspects in the process of exiting the EU without a deal that are out of companies' control, either because they can only happen at political level or because it is not possible at this point in time to understand how the amount of changes to the way the UK operates as a third country to the EU might translate.

The accumulation of multiple negative effects which energy companies on their own cannot mitigate has the potential to increase the cost of energy and impact security of supply in the UK. This is due to the fact that many aspects of acquiring fuel, generating and supplying energy are dependent on external factors and the ability of the economy and other sectors to operate effectively.

Delays in receiving fuel to generate electricity or in receiving parts needed for power plant outage work (maintenance) can impact security of supply by keeping plants offline for longer than expected. This would lead to increased costs and loss of revenue.

Energy companies rely on a mobile workforce moving between sites and construction projects. Restrictions to the mobility of the EU/EEA workforce could lead to skill and labour shortages, again with a risk of increased costs across the industry and delays in maintenance work and project completion.

Other externalities such as the application of WTO tariffs on parts needed for construction projects, such as offshore wind farms or nuclear new build, would increase the costs of projects.

Mitigating the risks to security of supply and limiting cost pressures

Security of supply

The UK government must ensure that everything is in place to keep electricity and gas cross-border trading optimised and mitigate the risks arising from other areas of the economy. Work is ongoing within the relevant government departments and the relevant operators to ensure that this is the case.

This means:

- Ensuring **interconnectors are operational both technically and legally**, meaning that all parties at each have done their due diligence work;
- **UK and EU trading platforms can continue to function** and contracts between parties remain valid (EU27 firms should be able to carry on using UK trading platforms). Further clarification and reassurance are urgently needed;
- The **single electricity market** in the island of Ireland (I-SEM) is **preserved**. We see this as an easy win, partly because there is no time to change the setup, but more importantly because there is no need to. The Northern Ireland energy market has been operating independently from the rest of the UK for a long time and it works. This would **limit the risks to security of supply in Northern Ireland**.
- **Labour mobility must be addressed now to ensure energy companies can carry on recruiting**, generating and supplying, as well as completing projects that bring the industry into the low carbon era.
- **Creating priority lists for goods at the borders** to ensure essential goods, such as medicines, fresh food, and **parts and goods** (e.g. turbine parts, lubricants, all chemicals) **for power plants and energy companies** (e.g. smart meters) **are prioritised** and delivered on time;

Minimising cost pressures

The UK government must **ensure that goods will continue to come into the UK at as close to the current costs as possible and that EU workers needed in the UK can still come in at no extra cost**.

This means:

- Minimising customs checks at the border to **avoid delay in the delivery of goods and parts**;
- **Replicating the tariffs currently applied** at the EU borders;
- Ensuring that **customs declarations are as simple and cost free** as possible. Supporting small and medium-sized businesses (SME) through this process is crucial;

- Ensuring **trade agreements with third countries are protected**, at least in the short term, to avoid further costs to trade;
- **Ensuring labour mobility is not impeded** as skill shortages would lead to delays and cost increases for construction projects. On the retail side, most energy retailers also see the EU as an important source of labour given the **high employment levels** which is making it **harder already to recruit**, creating wage inflation and thus pressure on costs and prices.

Efficient functioning of the energy industry and the wider economy

Energy fuels our homes, businesses and transport system, so minimising disruption to the system is vital. The UK government must ensure that energy companies and stakeholders in the energy industry can carry on operating efficiently and within a solid regulatory framework.

This means:

- The UK government must **reach an adequacy decision with the EU on data**, at least on a temporary basis, to ensure data can flow both ways unrestricted. This should be supplemented by strong engagement and support from government for businesses as well as individuals to ensure they are equipped to adapt to the new rules;
- The government must **clarify with the EU whether they will recognise the UK new regulatory framework for wholesale energy markets as equivalent to REMIT. Further clarification is needed on reporting obligations** for UK companies both in the UK and in the EU;
- **On carbon pricing, the UK government must provide further guidance** and ensure the Finance Bill which sets the new carbon regime is passed by March 2019 in order for UK generators to be able to fulfil their new obligations. **Engagement on this issue is vital** as uncertainty remains high;
- **The climate change ambitions must be preserved** to carry on supporting the low carbon transformation the energy sector is going through. **Close collaboration with the EU cannot be abandoned.** Government needs to urgently set out the new policies required to deliver the ambitions as set out in the 2017 Clean Growth Strategy. This would be welcomed by the business community.

Please do not hesitate to contact Energy UK's press office if you require any further information.

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