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ENERGY BREXIT DEBATE

Event Report





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PAUL MASSARA

CONSENSUS TO REMAIN

...but not because of energy

Addleshaw Goddard's debate on the EU Referendum and the implications for the UK Energy Sector heard from a panel that agreed that leaving the EU would be a bad idea, but said that the impact of a vote to leave on the energy sector was not the main reason to stay.

Energy is not one of the main focuses of the debate on whether or not to leave the European Union, but in a Europe where the EU has set targets for member states on renewable energy, energy efficiency and greenhouse gas emissions, the decision has important implications for the sector. In addition, as European electricity markets become increasingly interconnected, the UK's energy system will become more closely integrated with those of its neighbours but there was little consensus on whether EU membership would have any impact on that.

These were among the issues the panel discussed, along with the relative impact of EU policy and UK policy; energy price differentials; the impact on investor confidence; and the nature of UK engagement with the energy debate at a European level.

Despite the consensus on the need to remain in the EU, few participants were impressed by the Remain campaign. There was very little support, for example, for the suggestion by Energy and Climate Change minister Amber Rudd in a recent speech that Brexit would cost consumers at least £500 million a year, a claim that **Matthew Pennycook**, the Labour MP for Greenwich and Woolwich, described as "somewhat alarmist".

The UK's energy issues are of its own making not the result of EU dictats, suggested **Paul Massara**, CEO of Northstar Solar, former CEO of RWE npower and an advisor to the government on energy policy. "I don't think energy should be a factor in making the decision," he added. "The challenges that face the UK in terms of policy are because we got ourselves in a mess. They're very little to do with Europe. We are going to be stuck with the same problems whether we are in or out."

Lack of consistency

However, that didn't mean that he thought EU energy policies had been entirely effective. "I don't think the Common Energy Policy has been a great success," he added. "We have seen a separation of distribution and supply but it is pretty mixed across the continent. There is no harmonisation of the capacity mechanism. We have one, but the Germans don't while the French do. There is no mechanism to show how the marginal kilowatt will move."

There are other areas where there is no consistency of policy among EU member states, including carbon prices, fracking, phasing out coal and retail supply of energy, he added.

However, the UK market's size and importance, along with its higher power prices, will ensure our energy needs are met, he suggested, saying that with £20/MWh power in Europe and £35/MWh energy in the UK and interconnection capacity from Europe to the UK set to increase from 3MW to 9MW from 2017, "the energy is going to flow from Europe to us ... whether we are in or out, because it makes economic sense. There will be some uncertainty, but the UK is too big a market to ignore."

Nonetheless, Pennycook said that leaving the EU would be "a huge, huge gamble". Some areas of energy policy would be unaffected, such as gas supplies, the phasing out of coal-fired power stations and membership of the EU ETS (Emissions Trading Scheme). Other areas would need a minor readjustment, such as the UK's climate change target, where an individual INDC (Intended Nationally Determined Contribution) to the United Nations Framework Convention on Climate Change may need to be agreed to replace the EU commitment agreed at the Paris climate talks in December 2015. The UK would be released from some of its renewable energy targets under the EU Renewable Energy Directive, giving it more leeway in how it meets its own targets.

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Damage to investor confidence

There would be a more significant impact on investor confidence, said the member of the Energy and Climate Change Select Committee. "There is no doubt in my mind that if we leave, we would see investor confidence damaged quite considerably," he said. "Projects would be seen as riskier and more expensive. We would see the cancellation of some projects at a critical period of investment in electricity infrastructure. The UK government's own policies have disrupted investor confidence, but this would be on a different order of magnitude."

Inward investment would be severely disrupted, particularly in the area of interconnection, which is vital for the UK's energy security at a time of tight capacity margins, he added.

Meanwhile, our energy system has to be transformed from its high-carbon legacy that was born out of the Industrial Revolution to a new sustainable, low-carbon infrastructure.

Guy Winter, joint head of the energy group at Addleshaw Goddard, said that the age of economic growth underwritten by unlimited amounts of cheap coal is coming to an end and so policymakers need to focus on providing security of energy supplies at an affordable price while also focusing on the sustainability agenda, particularly in the wake of the climate change commitments made in Paris. The Internal Energy Market is the best way to deliver value for money, consumer protection, interconnection and generation capacity, he said.

"We need to find renewable energy sources to build into the mix. The internal energy market is the fundamental way to resolve this. The objective is to create a true energy market across Europe," he continued. "Interconnection is a great way to counter the intermittency of renewables and to balance supply and demand. It's about creating the most effective market with our partners to ensure none of us is wasting money on excess generation capacity."

Massara's criticism of the Internal Energy Market to date showed the way to a more successful market in future, Winter said. "In the past we have come to see ourselves as the Millwall Football Club of the EU, whose motto is 'no-one likes us, we don't care'. Now is not the time to flounce out, now is the time to get it sorted. We should see ourselves as a more positive influence in the EU."

"... if we leave, we would see investor confidence damaged quite considerably"

MATTHEW PENNYCOOK, MP

Energy policy is a sensitive issue

It is easy to forget that energy is a very political issue and that the best technical solutions may run into opposition because nations do not like to cede sovereignty over their energy supplies.

Dipesh Shah, OBE, chairman of the Investment Committee of the EU Marguerite Fund and a non-executive director at organisations including Thames Water and The Crown Estate, agreed with Massara that unbundling "has been all over the place", but explained that "while the policy may be made at European level, decisions on the fuel mix are a national preserve. Energy policy is a very sensitive, very national and very political issue."

Poland, for example, is very reluctant to shut its coal mines and coal-fired power stations partly because of the employment implications and partly for energy security reasons because it does not want to be reliant on Russian gas.

"There will be idiosyncrasies in every member state. Would Brexit make a difference to our approach? I would suggest that it would not," he added. "In the short to medium term it makes no difference what happens because the direction of travel is pretty well set. We face common challenges with the rest of Europe on security of supply and affordability."

In addition, he continued, "In a world where renewables have transformed the power supply environment, we need to worry about baseload and back-up. We have to revisit CCS (carbon capture and storage)."

One benefit of Brexit would be that a weaker currency could increase employment, while there would also be the flexibility to invest without the same intensity of scrutiny on state aid. Shah added that there were definite risks to the downside and "I am not saying there is any reason to leave the EU. It would create economic and political uncertainty in areas such as Scotland and the all-Ireland market. If we leave there will be an investment hiatus and there will be a risk premium increase. And we won't be at the table so we won't be able to influence policy."


Regulation is here to stay ... whether we are in or out

It is the great hope of many who want to leave the EU that if we do so, we will be able to throw off the shackles of restrictive regulations and be free to make our own decisions once again. Leaving aside the issue of whether many of these regulations are in fact desirable because they help us to protect our environment, Winter suggested that those hoping to be free of EU regulation in the event of a Leave vote were likely to be disappointed. “We will be far from shot of state aid rules. Just on interconnection, for example – at the other end of the interconnector is another country and we will have to negotiate the rules with them. It would be incredibly surprising if we could do that without adhering to state aid rules.” Those hoping that Brexit would free the UK of environmental targets were also likely to be disappointed, he added, as many of them are enshrined in UK law as a result of the Climate Change Act.

It was also suggested that we might have got more out of our membership of the EU in years gone by if we had engaged with it more rather than doing our best to ignore it. The UK has for a long time been seen as the awkward partner in Europe, trying to get its own way by throwing its weight around, said Pennycook, but it would achieve more by building alliances in Europe with others that share its agenda.

“If we do stay in, I think we really have to learn the art of fighting our corner a lot more effectively,” countered Shah, adding that the UK implements EU rules in an incredibly rigid manner, failing to use the flexibility in interpretation that exists within the rules.

The panel was agreed that in the event of Brexit, there would be a long hiatus while we worked out how our relationship with the EU and others would work, while members of the audience raised fears that leaving the EU would lead the UK to move away from its commitments to decarbonise the economy. “When you get to these macro-level issues, turning our back on other countries is just not going to be the right way to do it,” said Massara. “[Being part of the EU] is about dealing with these global problems together. We should have a voice at the table.”



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