Guidance on Electricity Trading and Carbon policies in the event of No Deal Brexit

The UK Government issued [guidance on the trading of electricity] and on [meeting climate change requirements (including carbon policies)] in the event there is no deal between the UK and the EU-27 on Brexit. These documents include a set of recommended actions for stakeholders.

Trading of electricity

The guidance explores what will happen in the absence of a Brexit deal to:

1. Electricity trade between EU and Great Britain; and
2. Electricity trade between Great Britain and I-SEM and within I-SEM (the joint market between Ireland and Northern Ireland).

1. Trading and Interconnection between the EU and Great Britain

The guidance notes that in the event of a no deal Brexit, European energy law will no longer apply to the UK and the UK's electricity markets will be decoupled from the Internal Energy Market after March 2019. This would include legislation on cross-border electricity trading and new market access rules would have to be approved by EU and UK regulators to 'set the terms and conditions for this trade'.

The paper states that 'the government will lay statutory instruments to ensure the UK's energy laws continue to work on day one of exit in a 'no deal' scenario'. Changes would, therefore, be required to 'domestic industry codes (the technical rules of the domestic electricity system) and licences'.

Interconnectors owners/operators will have to engage with other EU national regulators to assess whether they need to reapply for a certification.

The UK will maintain 'the majority of the existing Regulation on Energy Market Integrity and Transparency regime (REMIT) … domestically with minimal changes'. However, market participants will need to register with an EU regulatory authority to avoid a disruption to cross-border trade, trade within EU wholesale energy markets, or trade within the Single Electricity Market'.

Further information on this process will be provided by Ofgem (Regulator for gas and electricity) for Great Britain and by the Utility Regulator for Northern Ireland. The Government and Ofgem are already working with interconnectors on this issue.

RenewableUK & WindEurope Position

We believe that current market coupling and trading arrangement offer significant benefits for the UK and interconnected markets. Interconnectors are important to facilitate an open, competitive market and improve energy security in the transition to a low carbon power system.

It is vital that following Brexit, the UK retains access to the Internal Energy Market to ensure that trading of energy operates freely across borders on a level playing field that keeps costs down for consumers and ensures decarbonisation and security of supply.

2. Northern Ireland

The paper recognises that 'no deal' would leave 'key elements of the Single Electricity Market… without any legal basis'. The UK Government is, therefore, 'keen to work with the Irish Government and European Commission to seek agreement that the Single Electricity Market will continue in any scenario, including no deal'. It is unclear whether this implies that the UK has not yet undertaken such work with Irish and European counterparts.

Should such an agreement prove impossible, the guidance sets out that the 'Single Electricity Market will be unable to continue, and the Northern Ireland market would become separated from that of Ireland.

In such an outcome, the Government would seek to secure existing and new generation investment – alongside demand measures – to ensure adequate generation is in place. The paper notes that 'Government will use existing, energy-related legal powers where available and maintain market operation as far possible. However, it may be necessary to seek additional powers to preserve security of supply'.

Recommended Actions for Stakeholders

- UK market participants will need to register under the Regulation on Energy Market Integrity and Transparency with an EU regulatory authority for the purposes of market monitoring to avoid a disruption to cross-border trade.
- UK regulatory authorities will provide stakeholders with further information on the contingency requirements for domestic market monitoring later in the year.
- The administrators of the various domestic industry codes (the technical rules of the domestic electricity system) will need to work with relevant industry parties to ensure that the codes are updated. Ofgem will lead the licence change process in Great Britain and has recently issued a document to industry outlining the process it will follow: Preparing for EU exit: licence and industry code modifications
- Market participants should also check the status of contracts, and licences held in EU Member States, which may be impacted by the UK's departure from the EU.

RenewableUK & WindEurope Position

The UK Government's guidance on electricity trading highlights the risk to the legal basis of the Single Electricity Market (SEM) should no deal result from negotiations. With the SEM currently midway through a series of reforms, it is vital that Northern Ireland continues to be an integral part of this market and that the I-SEM is fully implemented.

Meeting Climate Change Requirements - Carbon Policies

The guidance reiterates the UK's commitment to tackling climate change. The UK Climate Change Act will not be affected by the UK leaving the EU and the UK will keep all its commitments to international Climate Agreements. However, a no deal Brexit would require the UK to adopt a different approach to carbon pricing.

1. Leaving the EU Emissions Trading System (ETS)

In case of a no deal Brexit, the UK will be excluded from participating in the EU Emissions Trading System.

2018 would be the final year where UK operators are required to comply with EU ETS rules. To minimise disruptions in the event on a no-deal Brexit, the government brough forward the deadlines for reporting and surrendering emissions to 11 and 15 March respectively (from 30 March and 30 April).

The UK government will retain the existing financial penalty for failing to surrender allowances for the year 2018.

In the event of a no deal Brexit, UK operators of installations will no longer take part in the ETS beyond 2018. Any allowances issued by the UK in 2019 will be invalidated and have no value on the carbon market.

The UK government would remove requirements for the surrender of emissions allowances. However, Monitoring, Reporting and Verification arrangements will remain in place to ensure continuing transparency over Greenhouse Gas emissions.

2. Carbon Pricing

The UK Government currently sets a Total Carbon Price created by the EU ETS and the Carbon Price Support Mechanism (Great Britain only).

In a no deal Brexit scenario the UK government will initially meet its existing carbon pricing commitments via the tax system. This will take effect as of 2019. The carbon price will apply across the UK including Northern Ireland.

The government will publish more details of how it will apply a carbon price at Budget 2018. Legislation will be included in the Finance Bill 2018-2019.

Recommended Actions for Stakeholders

- Operators should continue to comply with the EU ETS Directive while the UK remains a participant.
- Operators and traders with EU ETS allowances in their account in the UK section of the ETS registry should plan for loss of access to the registry. A contingency plan to address this may include opening a second account in another EU Member State's registry.
- UK businesses that benefit from energy intensive industry relief for the indirect policy costs of carbon pricing should continue to comply with the requirements set by these schemes.

RenewableUK & WindEurope Position

The EU ETS has created a level environmental playing field for energy intensive facilities across Europe. Continued UK participation in the EU ETS is still a matter for negotiation and the UK Government has linked participation to continued participation in the IEM.

It is essential that the result of negotiations avoids any surplus being added to the EU ETS. In addition, the option for the UK to remain in the EU ETS until the end of Phase IV should be explored.