Options and Considerations for the future EU electricity and gas partnership with the UK after Brexit

Gustav Fredriksson
Alexander Roth
Georg Zachmann
Gas trade: UK a net importer and transit country to continent and Ireland

- Mutual dependency on gas flows makes it likely that an arrangement is found to continue those.
Electricity trade: UK a net importer, but exporter to Ireland

- **Electricity trade value (€1.2 bn) is only about 10% of gas trade, but electricity not storeable -> more coordination needed**
- **Importance of electricity trading set to increase with new lines (doubling current capacities) and more renewables**
Without EU rules and institutions trade partners might only export/import bulk electricity

- **Electricity markets are complex service markets – not simple commodities markets**
  - RES support
  - Capacity Mechanism
  - Wholesale Market
  - Balancing
  - Ancilliary services
  - …

- **Without EU rules and institutions trade partners might only export/import bulk electricity**
  - Suboptimal dispatch
  - Lower market liquidity
  - Less competitive pressure
  - Imperfect investment signals

-> Keeping IEM intact would make both sides better off
Issue: Capacity mechanism

- If the UK leaves the internal energy market it would also not participate in any cross-border exchange of capacity.
- increasing capacity investments into the UK (paid for by UK consumers)
- overcapacities \(\rightarrow\) might depress prices in regional wholesale markets.

\(\rightarrow\) the EU should make sure that UK-overcapacities (that are supported through mechanisms that are unavailable for market participants in the EU27) do not undermine investment or dispatch decisions in the EU27
Post-Brexit, the UK would not be bound to EU state aid rules.

Hence, EU companies would have to challenge regulatory decisions and state aid in favor of UK competitors in a UK court.

Hence, after Brexit, EU companies might need some safeguards against an uneven playing field.
Issue: Remit

• Electricity and gas trading settled in the UK would be treated as financial instruments implying higher capital requirements
• Data exchange between UK and EU will not be possible after Brexit unless EU and UK decide on a new regime of data exchange
• EU needs to address the risk, that energy trading in the UK can dive under the radar of EU tax, financial supervision, competition and other authorities

-> London needs rigorous financial market and transparency rules for energy trading
Conclusion

• From a sectoral perspective, both, the UK and the EU would benefit if the UK could commit to the EU energy *acquis*

• The *Energy Community* and the *EEA* provide two institutional models

• Otherwise,
  1. the EU and the UK would fall back to duty-free exchanges of bulk amounts of electricity and gas under the WTO
  2. or a frustrating number of details will need to be settled in a short period of time, to make sure that energy exchanges continue to contribute to the efficient operation of both systems