



<b>Subject:</b>	UK Exit and Energy Prices
<b>Date:</b>	5th December 2019
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<b>Restricted Reports</b>	
<b>Is this report restricted?</b>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
<b>If Yes, when will the report become unrestricted?</b>	
<b>After Committee Decision</b>	<input type="checkbox"/>
<b>After Council Decision</b>	<input type="checkbox"/>
<b>Some time in the future</b>	<input type="checkbox"/>
<b>Never</b>	<input type="checkbox"/>

<b>Call-in</b>	
<b>Is the decision eligible for Call-in?</b>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

<b>1.0</b>	<b>Purpose of Report or Summary of main issues</b>
	The purpose of this report is to provide a briefing for the committee on potential implications of UK Exit on energy prices. The briefing has been prepared by summarising the conclusions of a range of official sources and academic sources. It does not offer a technical appraisal or assessment, rather provides an opinion from officers, and should be treated as such.
<b>2.0</b>	<b>Recommendations</b>
	Members are asked to note the update provided.

3.0	<b>Main report</b>
	<p><u>Key Issues</u></p> <p>Members are reminded that at the October 2019 Council meeting the following Notice of Motion was agreed:</p> <p><i>“Council condemns plans to hike electricity and energy prices across Belfast, with, for example, Power NI planning to raise their prices by 6%, SSE Airtricity by almost 7% and Electric Ireland by 8%. Council notes that some of these companies have increased their prices for the past 3 years. Council believes that this is grossly unfair, particularly given the fact that prices on the wholesale gas market have fallen by 49% over the last 12 months. Council believes that every effort should be made to oppose these hikes and wishes to see an immediate energy cap put in place. Council calls on the Chief Executive to write to the utility regulator to argue for the above.</i></p> <p><i>This Council agrees that a report be submitted to a future meeting of the Brexit Committee on the impact of Brexit, including a ‘No Deal’ Brexit, on the electricity and wider energy market.”</i></p> <p>Members are advised that the Utility Regulator has been invited to attend this Committee but a suitable date has yet to be agreed.</p> <p>It is impossible to provide a definitive view of how UK Exit might affect energy prices in Northern Ireland, and much of the opinion in this area is speculative. Furthermore, reports on the issue tend to focus on the GB context, which is not always instructive regarding NI. Major differences exist between GB and NI energy systems, in particular because of the existence of a single electricity market (SEM) in Ireland.</p>
	<p><u>Electricity</u></p> <p>A key determinant of supply and price is the operation of the Single Electricity Market. Giving evidence to the House of Lords EU Committee, the Utility Regulator explained, “If SEM cannot operate as a functional market post Brexit then this could have a range of repercussive social and economic aspects—including security of supply concerns and the potential for higher prices with consequential impacts on fuel poverty and manufacturing costs in NI.”</p> <p>The EU Exit Single Electricity Market Team within the UK Government has provided information on its intentions regarding the SEM, stating that ‘it is the UK Government’s position that by far the best outcome for electricity in Northern Ireland is to maintain the Single Electricity Market (SEM). In the absence of a Northern Ireland Executive, the UK Government is determined to protect electricity supplies in Northern Ireland. We are therefore committed to seeking to maintain the SEM in any EU Exit scenario including in No Deal and will take all possible measures to do so.’</p>

The team has also confirmed that in terms of 'No Deal' Preparation the UK government announced its intention to legislate, to enable the modification of electricity industry licences and codes for the purpose of maintaining or restoring the effective operation of the SEM. This legislation would be brought forward in circumstances where there is substantial risk that the SEM will cease to operate effectively, or if the SEM has ceased to operate effectively.

If government meets the intentions set out above, the operation of SEM would not be materially impacted by a planned UK Exit withdrawal arrangement. However, in the event of a 'no deal' or disorderly withdrawal the operation of the SEM would be dependent on the successful passage of legislation as set out above.

Prices are impacted beyond the operation of the SEM. Access to the EU's internal energy market (IEM) is also a determinant of price, it gives efficient access to market, and as a net importer of energy, this is of critical importance to the city's economy and to households. Leaving the EU will mean either leaving this market, or agreeing new terms of trade within the EU market. For Northern Ireland the terms of the relationship with the IEM is critical for the operation of the Single Energy Market. As pointed out above, decisions which impact on the operation of the SEM could lead to higher prices.

Put simply, when energy trading becomes less efficient, prices tend to go up. The cost of electricity will therefore be determined by the manner of the UK's exit, whether new trading arrangements with the EU internal market can be agreed, and how these terms of trade will specifically impact Northern Ireland, and the SEM.

#### New North-South Interconnector

Critical to the continuation and functioning of the electricity system in Ireland is the construction of the newest 'North-South Interconnector'. The House of Lords EU Committee recognised its importance in the context of the UK's decision to leave the EU, and concluded, 'The construction of the North-South interconnector on the island of Ireland is vital for reducing consumer costs in both countries, and for maintaining energy security in Northern Ireland. The Government must satisfy itself that its construction is not at risk as a result of Brexit.'

#### Oil

Home heating oil is a globally traded commodity and is therefore subject to a range of factors that affect its cost, including trade-related or other shocks. Currency volatility will impact price in the future (see section below), as ever. Oil prices are unlikely to be fundamentally impacted by UK Exit, any more than any other commodity.

#### Gas

	<p>The UK already has mitigation against security of supply risks built into the system, so price rises due to security of supply issues are not expected. Price rises would have to have occurred due to export tariffs, but given supply capacity within the UK at present, any changes are not likely to be a result of UK Exit. It is understood that by and large, fundamental changes to gas trading <u>as a result of UK Exit</u> are currently unlikely. However, given the dependence, which NI has on connectivity with GB for gas supply, it is worth reiterating that interconnectors between Great Britain and the island of Ireland play a critical role in security and affordability for Belfast.</p>
	<p><u>Currency Volatility</u></p> <p>The 19% reduction in the value of UK sterling since the referendum has had material impacts on the cost of consumer goods, including energy. At this point, currency volatility is likely to continue to impact the cost of energy.</p> <p><u>Cost pressures due to uncertainty</u></p> <p>The operation of the energy market, which requires companies to set energy prices in advance, could result in higher prices being set, to mitigate for future price shocks. These shocks could emerge, for example, due to ongoing uncertainty around a future carbon-pricing regime for the UK post- Brexit. At present the UK is part of EU Emissions Trading System (EU ETS), and how or whether that will continue is unclear.</p> <p><u>Long Term Investment</u></p> <p>Transition to low-carbon energy sources is critical to the future of the Northern Ireland economy, and to Belfast. Risks to future investment in low-carbon initiatives remain while the manner of UK Exit remains uncertain. This could have a longer term impact on the supply of renewables and how quickly we can increase the proportion of renewable energy supplied to households. In turn, it could negatively impact prices in the medium term.</p> <p><u>Public Perceptions</u></p> <p>Public views of energy prices since UK Exit are worth noting. The NI Consumer Council published a perceptions study in October, which had found that 40% of people felt UK Exit will have a negative impact on the cost of electricity, and a further 44% and 41% on oil and gas prices respectively.</p> <p>Source: <a href="https://www.consumercouncil.org.uk/sites/default/files/2019-10/EU_Exit_Survey_Consumer_Council.pdf">https://www.consumercouncil.org.uk/sites/default/files/2019-10/EU_Exit_Survey_Consumer_Council.pdf</a></p>
	<p><u>Conclusion</u></p> <p>The decision of the UK to leave the European Union will require careful planning to ensure security of supply and price stability for residents in Belfast. This is particularly the case for the electricity market. While we do not expect short-term supply issues, it is critical that steps are taken to ensure that the market's competitiveness is not undermined, which might result in cost increases for consumers. These steps would include maintenance of effective energy trading arrangements between the UK and EU ensuring access to gas and electricity</p>

	and preventing price shocks for consumers. It would also include maintaining the SEM and co-operation between regulators and standards boards that govern cross-border trading.
	<u>Financial &amp; Resource Implications</u> There are no implications relating to this report. <u>Equality or Good Relations Implications/Rural Needs Assessment</u> There are no implications relating to this report.
	<b>Appendices</b>
	None