



What will the Impact of Brexit be on your Energy Pricing?

The picture for the UK energy market post Brexit remains a complex one. UPG – The Utilities Procurement Group, have investigated three of the key areas that could influence your businesses' future energy costs:

Future Energy Policy

The EU's Renewable Energy Directive set a 20% target for Energy from Renewable Sources by 2020 and this has had a very significant influence on UK energy policy, particularly under the former DECC – Department for Energy and Climate Change. We are hopeful that Brexit might lead to more flexibility for the UK to shape its own future energy policy without undue influence and the new BEIS – Department for Business Energy and Industrial Strategy are thought to be much more sympathetic towards the economic impact of energy policy on energy intensive UK businesses. Already they have raised taxation on FIT - Feed In Tariff, where costs incurred by all UK

consumers to pay predominantly solar generators were rising steadily out of control.

Theresa May has also signalled intentions to look to cap energy billing if possible, if international wholesale market movement and the UK regulator permit. We have found that many UK businesses feel we are unequally impacted by energy policy that has its roots in EU legislation compared to other member states such as Germany, which still has an abundance of high-technology, but albeit heavy industry within its borders, but economically seems less burdened by the very same legislation.

Infrastructure

The UK receives a significant volume of Gas via the Norwegian Langeled gas interconnector, but as an EEA, though not full EU member, we would be hopeful that this relationship remains positive and unaffected significantly by Brexit. The BBL and IUK gas interconnectors linking Bacton in the UK with the Netherlands and Belgium are open to more political influence potentially post Brexit, but the import/export relationship is more balanced which should hopefully promote continued co-operation. The HVDC French electricity interconnectors are open to the most potential future impact, with the UK having an import heavy relationship, particularly at times of peak national demand.

Already last Winter significant fluctuations in expected import levels were seen with a vague explanation of undersea cable damage given for this. Also, given that France's EDF look increasingly more likely to pull out of the UK Hinckley Point C nuclear power plant project, more fluctuation and less certainty from French nuclear imports may also become evident.

Renewable Energy Taxation

The actual Energy/Commodity element of your total billed electricity costs now represents less than 50%, with the remaining majority accounted for by non-energy costs, of which an increasingly significant proportion of these costs relate to renewable energy taxation. Although many of the charges have been created and are levied by UK organisations such as FIT – Feed in Tariff and RO - Renewables Obligation from Ofgem and Climate Change Levy via HMRC, the roots of these costs are to meet EU legislative Carbon Reduction Targets.

The costs of future green generation and supply certainty are also being accounted for by the EMR – Energy Market Reform policy and although charges resulting from this, CfD – Contracts for Difference and CM – Capacity Market, started off at modest levels, they are now rising very significantly with even more significant future increases forecast.

We are hopeful that whilst these costs are unlikely to go away in the short term, the significant and above inflation rates of increase both seen and forecast in these elements might be brought back under

LNG – Liquefied Natural Gas deliveries to the Isle of Grain in the UK have always been at risk of redirection to a higher bidder en-route, and despite partially effective “Use It or Lose It” rules, LNG may become politicised post Brexit as UK deliveries first pass through continental waters.



control, particularly if the UK regains some control over how we reduce our own future carbon output, and with the best possible balance of creating a competitive environment for UK business to operate in, on the global stage. We would also be hopeful that other more directly attributable, mismanaged and controversial costs such as EU ETS – European Union Emission Trading Scheme might fade from the UK energy landscape altogether.

