

Rt Hon Theresa May MP
UK Prime Minister
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Michel Barnier
European Chief Negotiator
Taskforce on Article 50 negotiations with the
UK
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Brussels, 15 October 2018

Dear Prime Minister May and Chief Negotiator Barnier,

The next European Council is a critical occasion for the EU and the UK to define the basis of a constructive future relationship. The economic consequences of a no-deal scenario, as well as the global uncertainty emerging from unstable political negotiations, will, in our view, prove very harmful for many European businesses, including those operating in the EU and UK power sectors, in particular regarding climate ambitions, security of supply, trade efficiency and energy bills.

For these reasons Eurelectric feels the need to reiterate our call for a deal to be reached on the Withdrawal Agreement and the Political Declaration so that we can move smoothly to the transition period. We also want to stress the need to ensure energy and climate issues play a prominent part in these discussions:

- **Real and severe risks to security of supply on the island of Ireland:** Ireland has just finished a long-term project to re-develop an all island market (which originally arose from the Good Friday agreement) which meets the EU's vision for an Internal Energy Market (IEM). That market benefits customers on both sides of the border. In our view it would be hugely detrimental, from a cost and security perspective, to not preserve its function. Any Brexit scenario must continue to support the effective functioning of the recently activated (1st October) Integrated Single Electricity Market (I-SEM). Ireland's gas market is also closely linked to that of the UK, with over 42¹% of gas being imported. Close trading arrangements are essential to keeping gas and electricity prices for Irish customers at reasonable levels).
- **A lose-lose situation due to a less efficient gas and power trading:** Many countries² are likely to rely on imports this winter to ensure security of supply and prevent price spikes. The IEM has had significant benefits for consumers in both the EU and the UK – with the UK tending to import and export both electricity and gas³. Ultimately the IEM has enabled resources and capacities to be shared across borders to reduce costs, has improved security of supply and

¹ <http://ireland2050.ie/questions/where-does-irelands-gas-come-from-and-what-determines-its-price>

² See information on the nuclear unplanned outages in Belgium: <http://www.elia.be/en/grid-data/power-generation/unplanned-outages>

³ See in particular: House of Lords, Brexit: energy security report:
<https://publications.parliament.uk/pa/ld201719/ldselect/ldecom/63/63.pdf>

has allowed us to better integrate renewable electricity⁴. Several analyses show that no longer applying IEM rules to the UK will negatively impact the achievement of the energy trilemma in the UK, by up to £500m per year in 2020⁵, and in the Union as a whole.

- **A less robust EU ETS:** Recent months have seen the EU ETS price rebound. This will help drive progress towards our shared goal of cost-effective decarbonisation and enable investments in renewable technologies. It is imperative that this investor confidence is maintained. The overall balance of the EU-ETS could be severely disrupted by the withdrawal of UK, because the UK is currently the net supplier of allowances. Brexit may also contribute to weakening the EU's ambition to reform the ETS ahead of phase IV (2021-2030). Early certainty around the ability for financial and non-financial entities to trade commodities, such as carbon, power or gas, will avoid undue disruption to all parties.
- **Risks on mutually beneficial investments:** The Northern Seas have vast renewable potential which can help decarbonise Europe; a pipeline of electricity interconnectors between the UK and Ireland and a number of other European countries (incl. Belgium, France, the Netherlands, Denmark and Norway) will reinforce Europe's power grid; and the reinforcement of North-South lines in Ireland will strengthen the market. These projects need to attract various sources of finance and will not move forward without deep levels of ongoing cooperation. Failing to realise these projects would impose unnecessary costs on customers across Europe including in the UK. Continued support from both the UK and the EU will be necessary for the cost efficient development of interconnectors.
- **Weakening of collective climate ambitions:** Both the UK and EU are committed to the ambition of the Paris Agreement. We would be gravely concerned were the withdrawal of the UK to lead to lower levels of ambition or a less strong voice for both parties in the upcoming revisions of the agreement. It is crucial to keep a credible, ambitious and united voice in climate ambitions.
- **Risk on trading and financial regulation:** A no-deal scenario may affect the global functioning of energy trading, as a significant part of the trading venues (mainly brokers) used for hedging energy risks are located in the UK. The EU and the UK should therefore maintain a common regulatory approach to avoid regulatory arbitrage and to ensure fair competition between market participants.

A cost effective, clean and secure energy system underpins our current and future prosperity and impacts on the standard of living of all consumers in Europe including UK energy customers.

We believe it will be of mutual benefit for a deal to be reached on the Withdrawal Agreement and it is vital that any Political Declaration includes energy and climate change as priority areas which are clearly addressed.

We would be happy to provide any additional briefing or provide further information on these issues should you, or any member of your respective teams, require it.

Yours sincerely,



Kristian Ruby
Secretary General

⁴ In a 2013 report for the European Commission Booz & Co et al estimated benefits of electricity market coupling in the range of €2.5-4 billion per year for the EU27 or €5-8 per person (at the time included UK and not Croatia)-
https://ec.europa.eu/energy/sites/ener/files/documents/20130902_energy_integration_benefits.pdf

⁵ See in particular House of Lords, Brexit: energy security report:
<https://publications.parliament.uk/pa/ld201719/ldselect/lddeucom/63/63.pdf>. Impact on the UK energy sector, as per the study:
<http://www.vivideconomics.com/publications/the-impact-of-brexit-on-the-uk-energy-sector>.