

Energy and climate relationship: A high priority for both the EU and UK

Following the conclusion of the phase one negotiations and the ratification of the Withdrawal Agreement, the UK is officially leaving the EU on 31 January 2020 and enters a transition period. The current target is to conclude the future relationship negotiations, together with formal approval of the new Agreement by the EU and UK political institutions respectively, by end December 2020.

The EU-UK Political Declaration that was agreed in October 2019, recognises the energy sector as a priority in the future EU-UK relationship. **Maintaining close co-operation and collaboration to deliver secure, affordable and clean energy systems across the EU and the UK is strongly supported by Eurelectric.** It will be essential to support the shared energy & climate ambitions to reach net zero by 2050, and provide European climate leadership to encourage international action at COP26.

Energy and climate should therefore be included as a HIGH priority area in the future relationship negotiations taking place in 2020. An “Energy and Climate Chapter” should therefore include the following points:

- **Access to the Internal Energy Market:** The IEM is essential to ensure security of supply, wholesale energy market integration, cross-border interconnection and efficient energy trading arrangements between the EU and the UK to the benefit of all consumers.
- **Participation in relevant EU agencies:** The UK’s continued membership in ENTSO-E, ENTSOG, the new EU DSO entity, and participation in ESMA, ACER, and ENSREG are key to ensure that both the EU and the UK continue to benefit from each other’s expertise and can effectively collaborate on the required transition to a low carbon energy system. A lack of continued engagement might lead to inappropriate regulatory divergence and to unnecessary barriers to cross-border trade between the EU and the UK. This could lead to associated inefficiencies including increased risks to security of supply and higher costs for energy consumers.
- **Continued collaboration on climate change efforts:** UK actions on climate change currently contribute strongly to the EU’s performance overall. Maintaining the percentage targets without the UK would mean the rest of the EU must do more on greenhouse gas emissions, and possibly more on promoting renewable energy. Projects of common interest such as the Northern Seas Offshore Grid will be best delivered with the UK’s continued participation and can play a crucial role in moving to a low carbon energy system. The 2050 Net-Zero ambition that the EU and UK share provides us with a common direction. This joint target cements the need to work together for a clean energy future for all citizens across Europe.
- **Cooperation on carbon pricing :** Eurelectric supports the provisions of the Political Declaration on future relations between the EU and UK to consider linking a UK national GHG emissions trading system to the EU ETS. Continued collaboration on climate diplomacy will allow for a common effort

to achieve decarbonisation and limit long term temperatures in line with the Paris Agreement and the commitment in the EU and the UK to reach net zero by 2050.

- **Continued functioning of the I-SEM:** The future relationship between the EU and the UK must respect the Good Friday Agreement, which allowed for the creation of a single electricity market, the Integrated Single Electricity Market (I-SEM) between Ireland and Northern Ireland. As well as being a symbol of cross-border political cooperation, the I-SEM is also economically important. By enabling a more open and efficient market of larger scale the all-island approach provides customers with significant benefits. These include increased access to cheaper sources of electricity and the integration of unprecedented levels of renewable energy, leading to enhanced security of supply in both jurisdictions. In this way it underpins the continued expansion of renewable energy on the system in support of International commitments, UK and European goals on carbon reduction. Furthermore, a continued interlinkage underpins security of supply at a time where intermittent renewable energy may challenge the robustness of energy supply.
- **Nuclear:** The EU and the UK Government should work closely to conclude an ambitious and wide ranging Nuclear Cooperation Agreement (NCA) to facilitate continued cooperation on civil nuclear issues that will be beneficial to both parties. The NCA should ensure both the EU and UK continue to benefit from the current Euratom trading arrangements (unencumbered access to nuclear materials, equipment, technology and skills/expertise, plus export control licensing arrangements) and the close cooperation on nuclear policy, safety & regulation, innovation research & development.
- **Fair energy commodity trading regime:** It is essential that a future framework ensuring a consistent interface between financial and physical commodity markets is defined between the EU and the UK. This interface must avoid regulatory arbitrage and ensure fair competition between market participants.
- **Cooperation on funding energy projects:** The EU and UK should agree appropriate arrangements that allow the UK to continue to financially contribute to, participate in and access relevant EU infrastructure funding for projects that support the deployment of low carbon energy infrastructure, technologies and projects (H2020, CEF, PCI, EFSI...)
- **Arbitration and governance:** An arbitration mechanism will be needed to ensure that both the EU and the UK abide by the new agreement. It should aim to facilitate the free and fair trading of electricity in a competitive investment environment. Several existing models such as the Court of Justice of the European Free Trade Association (EFTA Court) and the EFTA Surveillance Authority used for the EEA Agreement ; or the Joined Committee supervising the linking of the EU and the Swiss ETS with dispute settlement via the Permanent Court of Arbitration, could be considered for this purpose. Joint committees can also be put in place to manage arising issues at an early stage.