

How might Brexit impact on the electricity and gas industry?

04 March 2016

By Volker Beckers & Stuart Cook



In the first in a series of blogs, Volker Beckers and Stuart Cook consider how Brexit might impact the electricity and gas industry.

In recent years, UK energy policy has been framed in the context of the energy trilemma – the sometimes conflicting objectives of achieving a secure supply, decarbonising our energy industry, and delivering electricity and gas at affordable prices. In our view, Brexit poses risks in all three components of the trilemma.

Secure supply - Britain's electricity and gas markets have become increasingly connected with Europe. A significant proportion of our electricity and gas is provided through interconnectors - underwater electricity cables and gas pipelines which connect us with continental Europe. We are now joined to Belgium, France, Netherlands, Norway and to Ireland. And we are planning to increase the level of this interconnection. Of course, Brexit may have no impact on our ability to use the interconnectors. But, it cannot make it easier for us to negotiate the delivery of essential power and gas at times when Europe as a whole is suffering shortages.

Decarbonisation - We have a very substantial programme of investment ahead of us, focused on supporting the delivery of low carbon generation, investment in gas fired generation, and in the grid. None of this investment will happen without willing investors to fund the infrastructure required. Investors “shy away” from the type of uncertainty associated with an EU exit. Outside the EU, it may prove difficult for Britain to attract investment at the levels required to renew our energy infrastructure. Another concern is that our ability to influence the low carbon endeavours of other countries would be diminished.

Affordability - We may face increased costs because we find it harder to benefit from the efficiencies which flow from cross-European coordination. Put simply, consumers' bills may be higher.

But, the impact of Brexit will reach beyond the energy trilemma – it will also **impact on the day-to-day operation of energy companies**.

A number of our electricity companies are headquartered on the continent – notably, EDF Energy, E.on, ScottishPower and RWE npower. These organisations could be affected by restrictions on the movement of their people. And in recent years, there has been a strong demand for specialist and scarce skills, particularly in the electricity industry. Many companies have found it easier to recruit individuals to fill vacancies from outside the UK.

A significant proportion of UK energy policy flows directly from European directives and regulations. We have implemented European directives and regulations on energy efficiency and low carbon generation. European policy makers have also been working hard to introduce a common approach for the operation of the wholesale markets and for the “rule book” which governs the way gas and electricity networks operate. The UK benefits from this integrated approach. All of these gains are at risk from Brexit.

Finally, many will applaud the opportunity to remove European “red tape”. But, this is likely to take considerable effort at a time when the industry has other pressing issues to address.

On balance, the electricity and gas industry is likely to conclude that tackling the energy trilemma will be more successful if the UK remains part of a European-wide energy system with ready access to European sources of capital and talent.

Volker Beckers, PwC Advisory Board Member and former CEO of RWE npower