

IIEA Policy Brief

What does Brexit Mean for the Energy Sector in Ireland?

By Paula Higgins and Roisin Costello



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Introduction

On Thursday 23 June, 17,410,742 citizens of the United Kingdom (UK) voted to end their country's forty-three year long membership of the European Union (EU).. Five months later, the terms of the UK's departure and the nature of its future relationship with the EU remain uncertain.

Nonetheless, Prime Minister May's speech to the Conservative Party Conference on 2 October 2016 provided a welcome glimmer of clarity on the short to medium term domestic regulatory situation, proposing a 'Great Repeal Bill'¹ which will retain all EU law in force at the time of the UK's departure (although this comes with the rather significant caveat that such laws may be amended or repealed in whole, or part, as Parliament deems appropriate).

Beyond such developments, British Prime Minister Theresa May's ambiguous assertions that "Brexit means Brexit"² provide little guidance on what the UK's referendum will mean for energy policy and markets in Ireland and the future of the Energy Union.

This briefing will outline the main areas in which the Irish Energy Sector could be affected by the UK vote to leave the EU. In particular, it will discuss the future of the island of Ireland's shared electricity market (SEM); threats posed to the security of Ireland's energy supply; the implications of Brexit for investments in energy infrastructure as well as on current market-oriented and pro-liberalisation EU policy trends; and the associated regulatory, political and legal impacts for Ireland's energy sector.

What does Brexit mean for the Future of the Irish Single Electricity Market?

Despite the Brexit vote, the all-island SEM is likely to continue for the medium term as it currently exists, without any major alteration or disruption – though of course there are potentially significant challenges to which we must be alert and granular issues to be worked through.

The SEM is **clearly established** in national law in both the UK and Ireland. It is not the result of laws transposed directly from any EU-level directive. Thus the SEM as a standalone product of UK-Irish bilateral co-operation would remain unaltered in its legal constitution by the UK's departure, as it is primarily the product of concerted co-operation between the energy regulators and government ministers in Dublin and Belfast dating from the early 2000s.

More Info: The Single Electricity Market

The Single Electricity Market (SEM) came into operation in November 2007, creating a wholesale electricity trading pool between the Republic and Northern Ireland. Operating across multiple jurisdictions and trading in two currencies, Ireland's SEM has improved the security of Ireland's energy supply as well as facilitating higher rates of renewable energy penetration. By closely tracking input fuel prices and the costs and bids of generators, SEM has fostered competition and transparency in both the spot market and capacity electricity market in Ireland for almost a decade.³

¹ Watts, J. (2016) Theresa May and David Davis to push ahead with 'Great Repeal Bill' to end EU authority on day one of Brexit. The Independent. 1st October

² Dunford, D and Kirk, A (2016). 'Brexit means Brexit' says May, but what does Brexit actually mean? The Telegraph. 15th July

³ Commission for Energy Regulation (2011) CER Factsheet on the Single Electricity Market www.cer.ie/docs/000262/cer11075.pdf

Although energy was not an area of mutual interest explicitly demarcated in the Good Friday Agreement provisions, the SEM could be viewed as one of the most tangible successes in economic cross border co-operation, and may not have materialised so rapidly in the absence of the momentous 1998 peace agreement. While it would be within the UK Parliament's powers to repeal any bilateral electricity market agreement with Ireland, this is unlikely due to the successes of the SEM, which has enjoyed sustained support from political and business sector authorities on both sides of the border, as well as from both Dublin and London.

“... there are potential concerns for the continued operation of the SEM in the wake of Brexit such as security of supply, interconnectivity, and the data protection implications of running a cross-border market between an EU and non-EU state.”

Nonetheless, there are potential concerns for the continued operation of the SEM in the wake of Brexit such as security of supply for a country such as Ireland, which is isolated at the end of the energy system; interconnectivity through a then third country such as Britain outside the EU, which could impact on regional market integration; and the data protection implications of running a cross-border market between an EU and non-EU state.

Currently UK citizens and data processors enjoy the same data protection rights and protections as their counterparts in other EU Member States under the General Data Protection Regulation 2016 (and formerly the Data Protection Directive 1995).⁵ The data protection standards required by the GDPR permit all Member States to deal with the data of all European citizens on a cross border basis within the union, subject only to the limits of the Regulation.

However, following a Brexit the UK would be required to surmount the twin hurdles of ‘adequacy’⁵ and ‘main establishment,’⁶ to be permitted to deal with personal data of European Union citizens. In the absence of a decision by the European Commission that the UK was considered to have provided adequate protections for any data transferred to its jurisdiction, the Republic of Ireland would be legally obliged to refuse to transfer the personal data⁷ of customers, employees or market participants in the Republic to any data processor (in this case an energy provider, distributor or regulator) located in Northern Ireland or indeed who stored or processed their data in Northern Ireland or the UK. In such circumstances the functional operability of the SEM would be challenged.

“What manner of regulatory changes may come after Brexit is uncertain. Even after the country’s withdrawal the UK will continue to require a data privacy framework that allows it to trade with the EU across a wide range of sectors, including not only energy but equally vital sectors such as financial services and insurance.”

A substantial divergence on data protection regulation is perhaps unlikely, although it cannot be discounted. The Secretary of State for Culture, Media and Sport, Karen Bradley MP, has said that the UK intends to be fully compliant with the GDPR by the time of the implementation deadline in 2018, at which time the UK will still be a member of the EU. What manner of regulatory changes might come after Brexit is uncertain, but even after the country’s withdrawal the UK will continue to require a data privacy framework that allows it to trade with the EU across a wide range of sectors, including not only energy but equally vital sectors such as financial services and insurance.

Brexit and the future of the Integrated Single Electricity Market

Currently, the design of the SEM is undergoing an overhaul in order to comply with **EU Target Models**.

The updated design of the all-island electricity trading pool in Ireland – to be renamed the Integrated Single Electricity Market (I-SEM) – is scheduled to be completed by the beginning of 2017 and would put the SEM in full compliance with the EU’s vision of a more liberalised Energy Union. Northern Ireland is a separate market from the rest of the UK for electricity purposes. In the event that the UK government were to withdraw Northern Ireland’s electricity market from the I-SEM in order to avoid the EU Target Model reforms, it would require alternative market arrangements in its place, such as integrating Northern Ireland with the Great British electricity market, for example.

⁴ REGULATION (EU) 2016/679 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 April 2016 at http://ec.europa.eu/justice/data-protection/reform/files/regulation_oj_en.pdf [Accessed 10/08/16]. Henceforth GDPR

⁵ Recital 104, 106, Article 13(1)(f), Article 45, Article 49

⁶ Ibid, note 13 Recital 36, 124, Article 4(16)

⁷ Personal data is defined to include any data relating to a living individual who is or can be identified either from the data or from the data in conjunction with other information that is in, or is likely to come into, the possession of the data controller. See Data Protection Commissioner at https://www.dataprotection.ie/docs/Key_Definitions/63.htm

“Post-Brexit, of course, Northern Ireland would no longer be obliged to undergo this protracted transformation to I-SEM in order to comply with EU Directives and harmonise its rules in line with the EU Target Model.”

Post-Brexit, of course, Northern Ireland would no longer be obliged to undergo this protracted transformation to I-SEM in order to comply with EU Directives and harmonise its rules in line with the EU Target Model. The question therefore arises whether it might opt to do so regardless - and in the face of the withdrawal of EU funding to aid in its particular transition.

The I-SEM project will undoubtedly be a positive development for the energy market in Ireland, however. For example, the current SEM capacity payment mechanism has proven incapable of providing exit signals to plants regardless of how much excess capacity the system has and how old and emitting the plants are.⁸ Implementing the I-SEM will rectify these deficiencies. The scale of investment and infrastructural development attendant on I-SEM prior to and following its commencement may prove more challenging to actualise without the involvement of Northern Ireland, which may be understandably reluctant to invest in a market to which it may no longer be party.

We might infer that the UK will continue supporting initiatives such as I-SEM until its withdrawal from the EU, as the prioritisation of the Third Energy Directive is part of the UK's energy strategy. Not just electricity market reform, but many aspects of the EU package of energy directives largely mirror the UK's own energy objectives as a whole. In fact, the EU's Target Model for gas market design for every Member State was designed in the image of the UK's own gas market design.

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Indeed, the UK government has consistently advocated for Third Energy Package measures such as increasing cross-border Transmission System Operator (TSO) balancing across Member States and separating operation of both gas and electricity transmission systems from generation. Additionally, the steady fall in UK production of oil and gas in recent years has made the UK a keen advocate for the development of liberalised and transparent continental-wide energy markets such as the broader union of which the I-SEM will form a part.

However, the uncertainty over the format of the UK's future relationship with the EU inevitably raises questions over future divergence between EU and UK policy priorities in this area - and indeed practical, operational concerns for the future of the I-SEM. Perhaps most significant of such concerns is the need for alternate dispute resolution mechanisms to be included in energy supply contracts following Brexit. In a situation in which Northern Ireland was no longer willing to accept the ECJ as a final court of appeal in cases of dispute, choice of law clauses or indeed provision for arbitration would be required to avoid additional jurisdictional disputes where contractual difficulties arose.

Additionally, following a Brexit, the EU will have lost one of its most vociferous free market advocates. The United Kingdom, as well as the Scandinavian members, were the first EU Member States to liberalise their energy markets intensively, while members like Ireland, Italy, Portugal, Greece and France retained vertically integrated structures until much more recently. In a post-Brexit Union, support for the Energy Union may waver if the remaining Member States opt for a more statist approach.

The European Economic Area model

The majority of these issues would be solved were the UK to join the European Economic Area (EEA), a scenario often referred to

More Info: The EU Target Model

Introduced in the 2009 Third Energy Package of directives, the EU Target Model aims to create an internal EU energy market, which is fully liberalised, and prioritises the efficient trading of energy across borders without discrimination between countries. By focusing on a regional rather than national level, these reforms aim to encourage the cheapest electricity generators in any country to meet demand at each point in time, enhancing security of supply in each market, and facilitating the integration of renewable generation.

⁸ Electroroute (2016) BREXIT AND THE I-SEM. 30 June

as the “Norwegian Model”.⁹

EEA states are party to internal European energy markets and adjust their energy market design to comply with the Third Energy Package directives. In this configuration, there would be minimal change in UK Energy Policy from its current state. The EEA option would also resolve the data protection concerns for the I-SEM, as EEA members are required to comply with EU data protection law.¹⁰

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Furthermore, under such a model the UK could negotiate to remain a member of European energy governance institutions including the European Agency for the Cooperation of Energy Regulators (ACER) and the European Network of Transmission System Operators for Gas (ENTSO-G) and Electricity (ENTSO-E). Norway is a member of both ENTSOs. Although ENTSO-E has indicated that even following a Brexit, the UK’s National Grid would still remain a member, albeit as a lobby group - allowing the UK a place in the room, if not a seat at the table during the development of future plans.

ENTSO-G’s draft plans to develop pan-European network codes and cooperation in regions have yet to be finalised. When in operation, they will provide a framework for the harmonisation of tariff structures and prices at which interconnectors can sell their capacity. With the UK outside the EU (nor a member of EEA/EFTA), there will be uncertainty about whether or not the UK-Ireland interconnectors will be bound by such ENTSO-G codes.

While UK membership of the EEA would thus assuage Irish concerns over the future of I-SEM, it is unclear whether the UK, in light of its domestic political concerns would seek EEA membership following Brexit, given that member jurisdictions are required to commit to the EU’s four freedoms.¹¹

Outside the European Economic Area

If the UK chooses not to join the EEA, and its energy regulation were to drastically diverge from that of the EEA/EFTA members, Ireland may face an inability to continue to operate the I-SEM as previously discussed. Were an accommodation to be made permitting the I-SEM’s continuance, the market could also face the duplicated regulatory burdens associated with regulatory compliance in both the EU energy market and the non-EU based jurisdiction of I-SEM. There would also be a potential for duplicate regulatory burdens in interconnection projects as shall be examined in the following section.¹² This more challenging regulatory environment could ultimately lead to transactional costs transferred to Irish consumers and therefore increased retail energy prices.

What does Brexit Mean for the Future of Interconnection Projects?

The main impact of the Brexit referendum has been investor insecurity. Market uncertainty fomented by the Brexit vote may result in hesitance to invest in **interconnection** infrastructure across the Irish Sea. In fact, spending on infrastructure has fallen precipitously since the UK voted to leave the EU. According to figures from Barbour ABI – a consultancy group that supplies figures to the UK Office for National Statistics – the value of infrastructure construction contracts in the UK for the month of July (the first full post-Brexit month) fell by 20% down to £1.5bn.¹³ The trend continued into September, where the figure was down 44.5% on the same month in the previous year.

More Info: Energy markets and interconnection

Achieving deep energy market integration is a fundamental aim in the European Union. Interconnection is seen as a vital prerequisite for such energy market integration across Europe. Physical interconnection between Member States’ energy infrastructure will increase security of cross-border energy supply and enable a reduction in generation costs by lowering dependence on peaking plants.

⁶ At present this seems unlikely. The EEA agreement requires participating states to abide by the EU’s Four Freedoms (free movement of Goods, Capital, Services and People) in exchange for access to the Single Market. EEA members are also obliged to abide by relevant EU legislation, but will not be at the table during the crafting of this legislation. Considering the tenor of the domestic debate in the UK, focusing on issues of sovereignty and immigration, it is unlikely that such an outcome would be politically palatable. Additionally, if the UK did pursue this it would be permitted to become an EEA member only with the unanimous agreement of the current members (Norway, Iceland and Liechtenstein). Norwegian Minister for European Affairs Elisabeth Vik Aspaker has noted it would not necessarily be in the current members’ interests to permit the UK to enter the EEA.

¹⁰ New EU internal market texts are examined by an EEA Joint Committee, composed of representatives of the EU and the three EFTA-EEA states which decides what legislation should be incorporated into the EEA, relevant legislation must then be transposed into national legislation of the EFTA-EEA jurisdictions. See, European Parliament “The European Economic Area (EEA), Switzerland and the North” http://www.europarl.europa.eu/atyourservice/en/displayFtu.htm?ftuid=FTU_6.5.3.html

¹¹ Ibid., note paragraph 72

¹² <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2015%3A80%3AFIN>

“Leaving the internal energy market is projected to cost the UK economy as much as £500mn a year by the early 2020s as a result of planned infrastructure investments as well as increased costs of financing.”

Such declines are at least partly attributable to the prevailing uncertainty surrounding the UK government’s long-term energy policy and regulatory future and may demand higher returns to cover the risk. The primary concerns in respect of continued use of the existing East-West interconnector will be the potential introduction of tariffs on energy transmissions to Ireland as the UK leaves the EU and the customs union. Leaving the internal energy market is projected to cost the UK economy as much as £500mn a year by the early 2020s as a result of planned infrastructure investments as well as increased costs of financing.¹⁴ Moreover, such infrastructural improvements will have to be achieved absent any support from the European Union’s structural development funds.

What will the slowdown in investment mean for Irish interconnection to the European markets?

The uncertainty surrounding the UK’s post-EU status may hinder future endeavours to end the relative isolation of the Irish energy market from continental Europe, as it has a far lower level of interconnection than the continent and Brexit could impact negatively on security of supply. Only one high voltage direct current (HDVC) electricity interconnector link - the Moyle interconnector - connects the Single Electricity Market on the island of Ireland with the United Kingdom amounting to almost 4.7% (about 500 MW) of total SEM generation capacity.

“The uncertainty surrounding the UK’s post-EU status may hinder future endeavours to end the relative isolation of the Irish energy market from continental Europe, as it has a far lower level of interconnection than the continent and Brexit could impact negatively on security of supply.”

The lack of greater interconnection is a major concern in as highly a concentrated market as SEM, as this could potentially lead to negative strategic behavior by the incumbents, create opportunities for market power abuse and exercise or unilateral profiting from limited competition.¹⁵ As Ireland constitutes a relatively peripheral island, with fewer than average energy interconnectors compared to other Member States, Brexit may present obstacles to interconnection investment and this will have negative effects on the island.

The proposal for the creation of seven regional electricity markets in the EU envisages an FUI regional market between France, Ireland and the UK which would connect these three national markets. However, if the UK is outside of the EU, it would mean that Ireland’s interconnection would run through a “third country” with all the attendant regulatory complications which that might involve.

There are numerous interconnection projects between UK and Ireland classified as Projects of Common Interest (PCIs), given varying levels of priority by the European Commission. PCIs can benefit from accelerated planning and permit granting, a single national authority for obtaining permits, improved regulatory conditions, lower administrative costs due to streamlined environmental assessment processes, increased public participation via consultations, increased visibility to investors and access to financial support totalling €5.35 billion from the Connecting Europe Facility (CEF). PCIs, such as the Greenlink interconnection (between Wexford and Pembroke, Wales) and the ISLES interconnection (between Coolkeeragh and Islay, Scotland) have been earmarked for EU funding, as they will increase the level of renewable integration on both countries’ grids, introduce bidirectional flow between Ireland and UK and increase transmission capacity.

In the new milieu of uncertainty, it is likely that UK-Ireland projects will face substantial delays and reduced political support at a European level as well as operational delays once underway. It is true that PCIs include non-EU countries such as Norway, and thus the UK outside the EU will not automatically be excluded from potential funding. Future projects involving the UK, which have not yet been formally designated as PCIs, however, will face uncertainty, delays and may be designated as a relatively lower priority. According to the European Investment Bank (EIB), any potential for the UK to continue its access to the European Fund for Strategic Investment (EFSI) - a €21 billion fund that constitutes part of **the Juncker Plan** - will have to be re-evaluated as part of the

¹⁵ Nepal, Rabindra and Jamasb, Tooraj, Market Integration, Efficiency, and Interconnectors: The Irish Single Electricity Market (March 18, 2012). USAEE Working Paper Forthcoming. Available at SSRN: <https://ssrn.com/abstract=2025628>

¹⁶ Clarke, G (2016) EU Investment Bank will honour pre-Brexit deals – but don’t gamble on new ones happening. The Register. 30th June. Available from: www.theregister.co.uk/2016/06/30/european_investment_bank_pledge/

Brexit negotiations.¹⁶ Infrastructure projects in the UK such as an offshore wind farm in the North Sea may now no longer go ahead if EIB funding is in doubt.¹⁷ Even if the UK became a member of EEA or EFTA, this would not guarantee EU investment funding. Over recent years, the EIB has provided €43 billion of long-term investment to the UK, compared to a total of just €1 million for the EFTA countries of Switzerland, Liechtenstein, Norway and Iceland combined.

“...it is likely that UK-Ireland projects will face substantial delays and reduced political support at a European level as well as operational delays once underway.”

Delayed PCI construction and a drying-up of EFSI funding from the EU for UK-Ireland projects may expedite the completion of the Celtic Interconnector project currently under consultation between Ireland and France. Having successfully completed a preliminary feasibility study, the two companies involved - Ireland's EirGrid and its French partner Réseau de Transport d'Électricité (RTE) - have indicated their commitment to the interconnection project by signing of a Memorandum of Understanding. The next steps will include a new two-year project to complete its design. All these steps toward final construction will surely gain momentum as a result of the Brexit vote.

The €1 billion Celtic Interconnector pipeline is projected to have a capacity of 700 megawatts, which could provide enough power to provide electricity to almost half a million households. Speaking following the recent visit of President Holland to Ireland, Minister for Communications, Energy and Natural Resources Denis Naughten commented, “this project would provide access to the European electricity market, leading to increased competition and lower prices in Ireland. It would also improve security of electricity supply and facilitate increased capacity for renewable energy.”

More Info: The Juncker Plan

The Juncker Plan is the European Commission's response to the investment deficit affecting Europe since the beginning of the financial crisis. The plan calls for a small fraction of the EU budget as a guarantee for EIB projects that would be riskier and more innovative than the usual ones. These projects would be labelled ‘EFSI projects’ and would generate a total of €315 billion of investment over the next three years through leverage and co-financing.

What does Brexit Mean for the Future Security of Energy Supply in Ireland?

Both the 2007 Lisbon Treaty and the Energy Union strategy emphasise that pooling energy resources among EU Member States is essential for the European Union to build a common, integrated, and internal energy market that can withstand external shocks.

Directives such as EU Security of Gas Supply Regulation (EU 994/2010) stipulate that Member States must share energy resources at times of energy disruption to help avert energy crises in any one country. In 2014, an Energy Security Strategy was introduced amid growing concerns among Member States about their vulnerability to supply disruptions. One measure introduced by the Strategy was a series of energy “stress tests”. The results found Ireland to be among the countries least likely to be affected by insufficient gas supply, due to the availability of gas from the UK.

“As Ireland is poorly interconnected to other EU Member States, this could leave the country more vulnerable to energy crises if the UK is no longer required to compensate for supply disruptions. We may face problems with future “stress tests” set by the European Commission.”

However, with Brexit now closer to becoming a reality, the UK may no longer be obliged to comply with the EU's solidarity principle. As Ireland is poorly interconnected to other EU Member States, and receives some 85% of its gas from the UK this could leave the country more vulnerable to energy crises if the UK is no longer required to compensate for supply disruptions. While the availability of gas from the Corrib pipeline is projected to reduce Irish dependency on UK gas to between 5% and 10% this reduction is projected to last for a maximum of twenty years after which point Irish dependency (absent an alternative energy source) will return to present levels. Given such dependency, we may face problems with future “stress tests” set by the European

¹⁷ Allan, G. (2016) How might Brexit affect the supply of energy in Scotland? Fraser of Allander Institute. 5th July. Available from: <https://fraserofallander.org/2016/07/05/how-might-brexit-affect-the-supply-of-energy-in-scotland/>

Commission as a consequence. Furthermore, the national requirements, delineated by the EU, to have ninety days oil in reserve could potentially necessitate moving the portion stored in Britain to another EU Member State.

As all of Ireland's natural gas imports that come to Ireland are transited through the UK, and as natural gas, in turn, is very important for electricity generation, Ireland may find itself unable to keep the lights on if the UK is no longer obligated to follow the Solidarity Principle. Over 46% of the electricity generated came from natural gas in 2014.

If Ireland no longer receives emergency gas supplies from the UK during crises, Northern Ireland might suffer, as it often imports electricity that was generated in Ireland through the SEM. This method of supply may be subject to change following Brexit. However, the UK may be reluctant to ignore Irish emergency needs and continue to assist during times of energy disruption, particularly in a worst-case scenario in which Northern Ireland would be plunged into darkness and would require cross-border assistance.

State Aid, Carbon Pricing Regulation and Competitiveness

The 'hard Brexit' scenario, in which Britain would leave the EU without joining the EEA, would mean the UK would no longer be obliged to follow **EU State Aid regulation**. Exiting the EU would also enable the UK to exit the EU Emission Trading Scheme (EU – ETS), the EU project to put a market price on carbon. In order to boost competitiveness, the UK could in theory introduce a carbon price below the current EU level or provide state aid thus undercutting its neighbours, though this strategy would sit uneasily with the UK's commitments under the Paris Agreement. This would mean the UK could export energy at a cheaper rate than EU Member States resulting in Irish renewable and natural gas energy becoming increasingly uncompetitive.

This is arguably unlikely however, as the UK has its own legally binding emission targets (see climate policy section below).

More Info: EU State Aid

The EU's State Aid rules are an element of the Union's Competition policy. State Aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities. These EU rules are designed to prevent the distortion of competition and trade in the EU's Single Market.

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Since Ian Duncan, MEP (ECR), is no longer the rapporteur for the Emissions Trading Scheme (ETS) reform (he tendered in his resignation the day after the Brexit vote), there could be a negative shift in climate policy trends. Sources in the European Parliament that a Polish MEP from Duncan's centre-right ECR party could replace him as ETS reform rapporteur.¹⁸ Poland has a vested interest in keeping coal-powered generation plants a viable industry in the country. Any curtailment of decarbonisation policy will not be a welcome shift, if the EU wishes to reach its Paris Commitment to work towards 2° global warming goal (let alone the more ambitious 1.5° goal).

Energy tariffs and Ireland

Ireland's dependence on energy imports ranks amongst the highest in Europe. As mentioned above, natural gas represents about 30%

18 Crisp, J. (2016). MEPs try to stop emissions trading bill falling into Polish hands after Brexit vote. Euractiv. 28th June. Available from: www.euractiv.com/section/uk-europe/news/meps-try-to-stop-emissions-trading-bill-falling-into-polish-hands-after-brexit-vote/

19 Sustainable Energy Authority of Ireland (2016). Energy Security in Ireland: A Statistical Overview. Available from: https://www.seai.ie/Publications/Statistics_Publications/Energy_Security_in_Ireland/Energy-Security-in-Ireland-2015.pdf

of Ireland's energy supply.¹⁹ Any tariffs on UK transited-gas will have a deleterious effect on the Irish economy and a 10% increase in energy costs could potentially lead to a fall in GDP of 0.4%, based on historical estimates. However, Norway, Switzerland and Russia are examples of non-EU member states that are integral to the EU's energy markets and do not face the imposition of tariffs.

“Any tariffs on UK transited-gas will have a deleterious effect on the Irish economy and a 10% increase in energy costs could potentially lead to a fall in GDP of 0.4%, based on historical estimates.”

Brexit notwithstanding, the United Kingdom was already facing an uncertain future with respect to electricity prices. Most existing nuclear plants are envisioned to close around the end of the decade. Much coal-fired capacity will also be phased out throughout 2016 as a result of the EU Large Combustion Plant Directive. The UK has been a net importer of natural gas since 2011. If the UK departs the EU, they would no longer be constrained by this Directive nor by the EU Industrial Emissions Directive. This could revive the UK coal mining industry if they eschew EU environmental laws, which on average constitute around 80% of environmental regulations in Member States.

What does Brexit mean for EU climate policy?

As mentioned above, natural gas constitutes approximately one third of energy demand in Ireland. A large part of Ireland's plan for transitioning to a low-carbon economy by 2050 includes the increased use of natural gas. 100% of Ireland's natural gas came via transmission through the UK in 2015 and the introduction of tariffs or other barriers to trade on British gas would make Ireland's attempts to decarbonise more expensive. Alternatively, UK tariffs could incentivise Irish investment in indigenous renewable resources or finding new countries from whom to import gas. Of course the issue of investment viability and cost-efficiency of renewable generation will still be present.

“100% of Ireland's natural gas came via transmission through the UK in 2015 and the introduction of tariffs or other barriers to trade on British gas would make Ireland's attempts to decarbonise more expensive.”

The EU seeks to have a 20% share of its gross final energy consumption from renewable sources by 2020. By 2030, EU targets aim for a 40% cut in greenhouse gas emissions compared to 1990 levels and at least a 27% share of energy consumption from renewable energy. Outside of any EEA-type formation, the UK would no longer be required to comply with the EU's mandatory carbon-reducing directives post-Brexit. Therefore, it could choose energy sources other than Renewable Energy Sources (RES) to make up its energy mix, for example, domestic coal fired plants or nuclear plant developments. With regard to nuclear development, however, analysts foresee Brexit as potentially the death knell of French government support for the Hinckley nuclear station.

The transfer of the responsibilities of the UK DECC to a new Department of Business Energy and Industrial Strategy by PM Theresa May augurs badly for Britain's commitment to combatting climate change. In reality, the UK is unlikely to completely abandon its climate policy trajectory, as its own national legislation under the Climate Change Act 1998 is solid and analogous to EU climate policies. In recent years, the UK has been leading by example in terms of international climate commitments. The UK was already ahead of the rest of the EU on reducing its coal generation capacity and carbon emissions, with a commitment to close all coal plants by 2025 and there is no evidence to suggest that this will change.

Furthermore, the likelihood that the UK will repeal all EU climate laws at the moment appears low. Only a handful of MPs voted against the UK Climate Change Act in 2008, and most Conservative MPs broadly support efforts to decarbonise the UK economy. However, there are observed correlations between Euroscepticism and climate scepticism. Labour's former climate change secretary, Ed Miliband, said “climate sceptics” might try to derail the deal if they gained positions of power following the EU referendum.

Ultimately, if the UK wanted to keep the option open to have access to the Single Market and / or become a member of the EEA in the foreseeable future, it will be required to comply with these policies.

Ireland's dependence on imported gas on the other hand is expected to reduce significantly due to the Corrib natural gas field recently becoming operational, with the field expected to meet approximately 56% of forecasted demand during 2016. During days of low demand, such as the summer months, Corrib is projected to meet the full gas requirements of the country. On days of greater demand, additional gas supplies will continue to be available via the Moffat Interconnection point. In May 2016, Irish gas exports nominally entered the UK supply chain for the first time, via this Scottish interconnector pipeline. However, it must be noted that Corrib has an estimated lifespan of only 10 to 15 years.

Implications of a Scottish Secession on Irish Energy Policy

The main result of a renewed push for **Scottish Independence** would be an unprecedented level of uncertainty, as it is unknown if a newly independent Scotland would remain in the EU or would be required to wait a period before re-accession was granted.

The UK and Ireland's gas grids are linked via two interconnectors with the vast majority of Ireland's gas consumption supplied via the Scotland interconnector. If Scotland votes to secede from the UK, nearly all of the British North Sea oil fields, half of its natural gas fields – along with its accompanying highly important transit infrastructure – would fall under Edinburgh's control. A subsequent Scottish membership of the EU²⁰ could result in the removal of any energy tariffs on energy from Scotland's jurisdiction transiting to Ireland. The Irish-Scottish Links on Energy Study (ISLES) interconnection between Scotland and Ireland would probably become a high priority PCI resulting in the Irish single energy market being expanded to include Scotland and more interconnection projects would most likely be commissioned in order to increase the density of connection between the two countries. The sobering figures about commodity prices will make the push for Scottish independence seem more untenable; despite the fact that Scottish oil and gas production increased by more than a fifth in 2015-16, the sales value of Scottish North Sea oil and gas dropped by £4.1 billion on the previous year, to £13.4 billion.

More Info: A New Scottish Independence Referendum?

The Scottish independence movement has been reinvigorated by the result of the UK's EU referendum, in which Scots voted overwhelmingly in favour of remaining in the EU. This was underlined on Thursday, 20 October, 2016, when the Scottish Government released a draft second independence referendum and opened it to public consultation. It should be noted that an independence referendum is not guaranteed; in the upcoming negotiations, the bill will serve Scotland's strategic goal of ensuring that the UK Government takes heed of Scottish interests. That is not to say, however, that the draft Bill is an empty threat; a UK departure on unfavourable terms for Scotland would put independence firmly back on the table.

Conclusion

In conclusion, each aspect of Ireland's energy trilemma – competitiveness, sustainability and security of energy supply – could be heavily affected by the referendum vote calling for the UK to depart from EU. The exact impact of a Brexit on energy markets in Ireland is, as yet, unclear. It will depend, to a large extent, on negotiations yet to take place by parties whose negotiation stances remain to be determined and, significantly for the I-SEM, the status of a post-Brexit UK as a third party country deemed capable of processing EU citizen data.

“... each aspect of Ireland's energy trilemma – competitiveness, sustainability and security of energy supply – could be heavily affected by the referendum vote calling for the UK to depart from EU.”

The UK's departure would mean the UK Government no longer had a voice to influence European-wide energy policy. As the UK was the main agitator for liberalised energy markets and minimal state-intervention, there will now be a vacuum after its departure. Will there be paradigm shift in the EU's approach to the Energy Union and will a more state-subsidised permutation emerge? Any divergence in energy policies and regulations would be highly problematic for Ireland. Close contact between regulators in London and Dublin would be required, as most of the regulations appertaining to Northern Ireland are driven from the UK.

Uncertainty is the defining characteristic of this entire enterprise. It seems likely that the immediate outcome of the UK referendum will result in a slowdown of energy activity across the Irish Sea, in which energy generators, investors and analysts will wait to see how the UK wishes to fashion its new role on the world stage.

²⁰ It must be noted that this scenario is something of an outlier. Sensitivities surrounding regional independence movements in other Member States, such as Spain, would severely complicate any Scottish bid for EU membership. New members can only be admitted to the EU by a unanimous decision of the European Council.



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