

# Brexit: what next for renewables, clean growth & climate policy?



12 March 2019



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# Impacts of Brexit: an overview

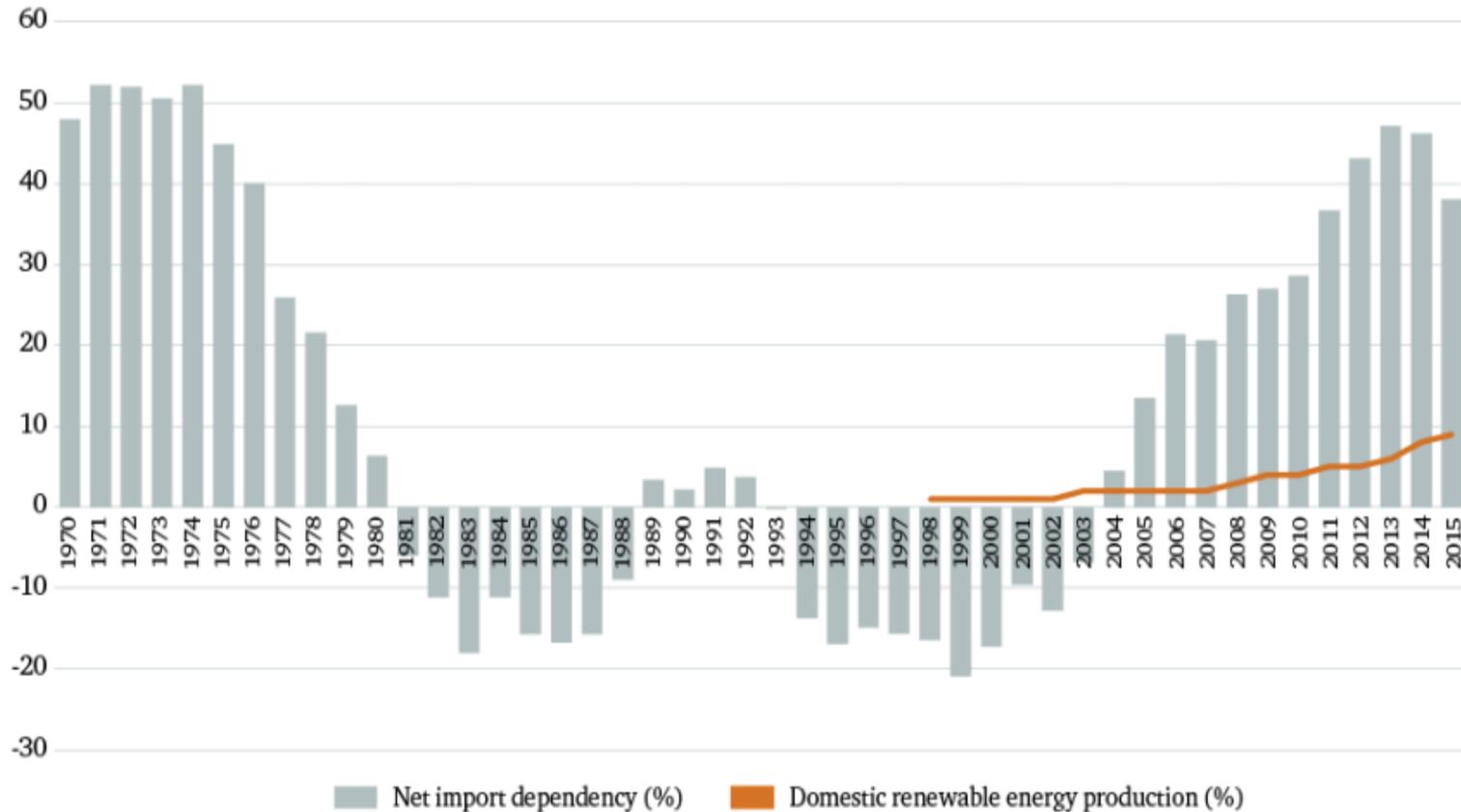
- Context: **the UK and the IEM**
- A **risk to cost-effective decarbonisation** for the UK and the EU?
- A **threat to UK renewables investment?**
- **What future** for UK low carbon and climate policy **after Brexit?**



# Context: the UK and the IEM



## The UK's growing energy import dependency



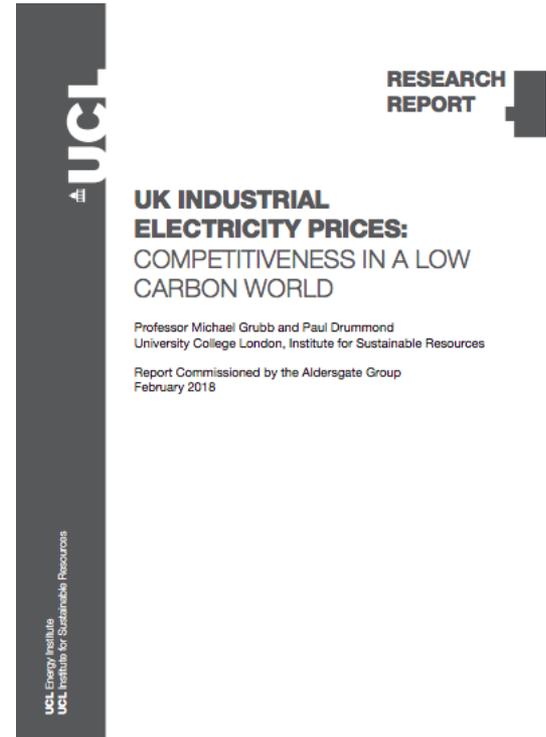
Source: Chatham House

# Context: the UK and the IEM

- **UK imports over a third of its energy** and rising (BEIS).
- **UK power prices often higher than in neighbouring markets:**  
e.g. in 2016/17, trading at €10/MWh more than in France & NL and €20/MWh more than in Norway.
- **Market coupling** under the IEM is estimated to be **worth £100m/year to the UK** through efficient trading across interconnectors (Chatham House).
- **Interconnection** = 5% of UK electricity supply and big increase planned. Every additional 1GW of interconnection **cuts cost of meeting UK emission targets** by £115m/year (Policy Exchange).
- Conclusion: UK would **continue to benefit from energy co-operation**

# Context: the UK and the IEM

- **Competitive industrial power prices remains an issue in the UK.** Recent UCL report commissioned by Aldersgate Group shows future growth of renewables (especially onshore and offshore wind) is essential to make prices more competitive for industry.
- **Renewables represent circa 30% of UK electricity demand.** Much more needed to stay on track to meet the UK's Climate Change Act targets: at least 57% cuts in emissions needed by 2032 to put UK on track for “at least 80% emission cuts” by 2050.



# 1. A risk to cost-effective decarbonisation?

Brexit – especially a hard Brexit – could result in the UK no longer being part of the IEM. Key risks:

- **No longer being part of market coupling arrangements**, including for the day ahead markets and the upcoming reforms to couple intraday power markets: undermines trading efficiency + threats of tariffs;
- **Negative impact on interconnector build**. Would be damaging given role of interconnection in reducing system security costs but business case for interconnectors still appears strong;
- All of the above **could push up the costs of maintaining system security** as the UK / EU power grids decarbonise;
- Less pronounced Brexit still raises **complex issues of governance**. Can UK still have say in IEM rules through future participation of UK regulator and TSOs in appropriate EU forums?

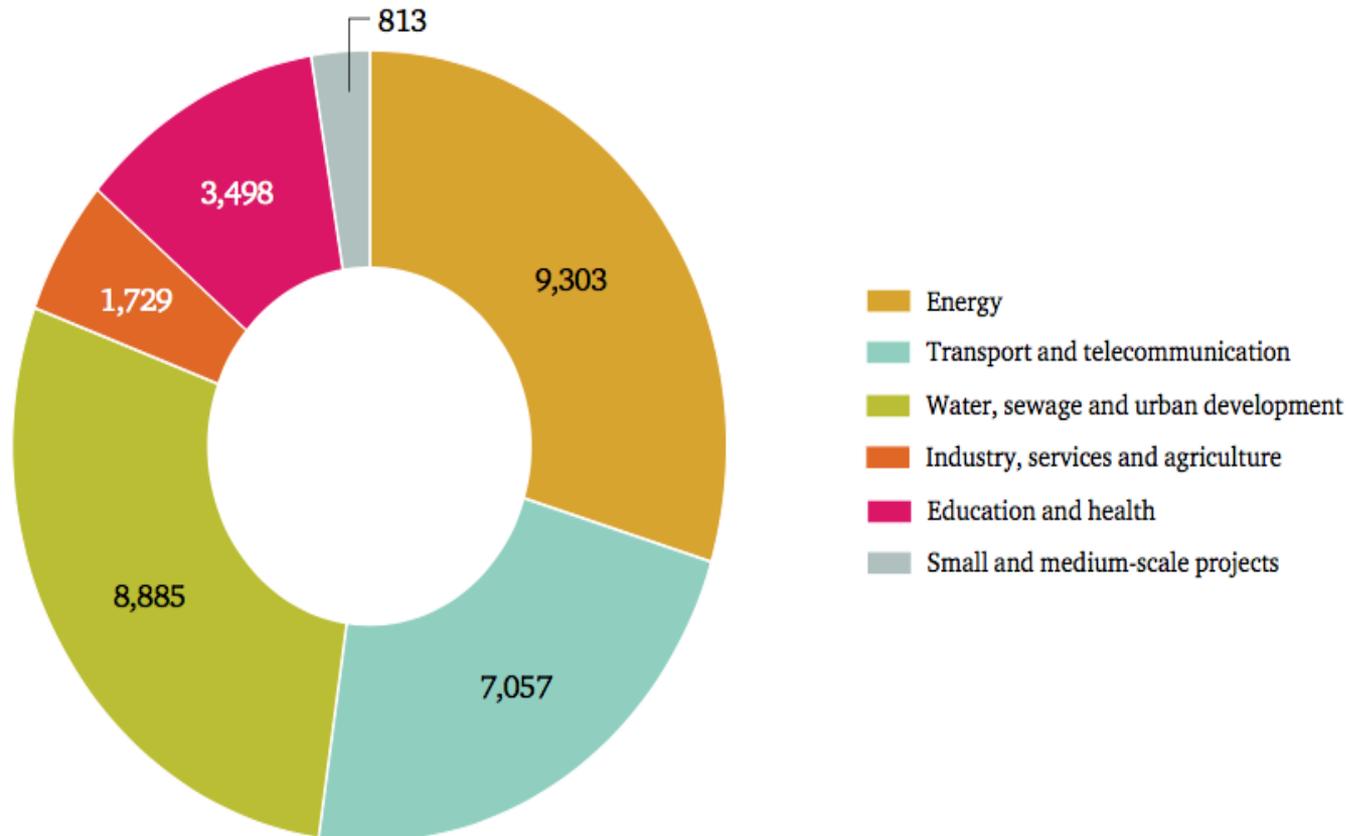
## 2. Impact on UK renewables investment

Depending on its final form, Brexit could impact negatively on renewables investment in the UK - key potential risks:

- **UK outside of EU market coupling mechanisms + possible tariffs** could undermine investment case for renewables;
- **Overall economic impact of Brexit** could depress electricity prices. This is compounded by damage done to UK investability image following political instability;
- **Currency risks:** impacts could go both ways. A weak £ would make € imports (e.g. turbines) + expensive but make the UK look cheaper for inward investment;
- Plugging **investment gap left by EIB** will be key (€9.3bn of funding in 2012-16 in UK energy infrastructure, incg. offshore wind & interconnection).

## 2. Impact on UK renewables investment

EIB lending to the UK by sector 2012-16 (€million)



Source: EIB

# 3. Beyond Brexit: cautious optimism

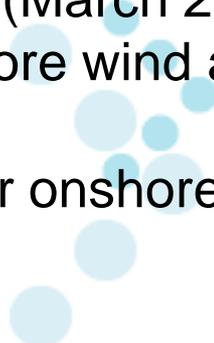


## Strong fundamentals

- Strong legislation in place & 42% emission cuts since 1990.
- Growing penetration of renewables at circa 30% of power demand.

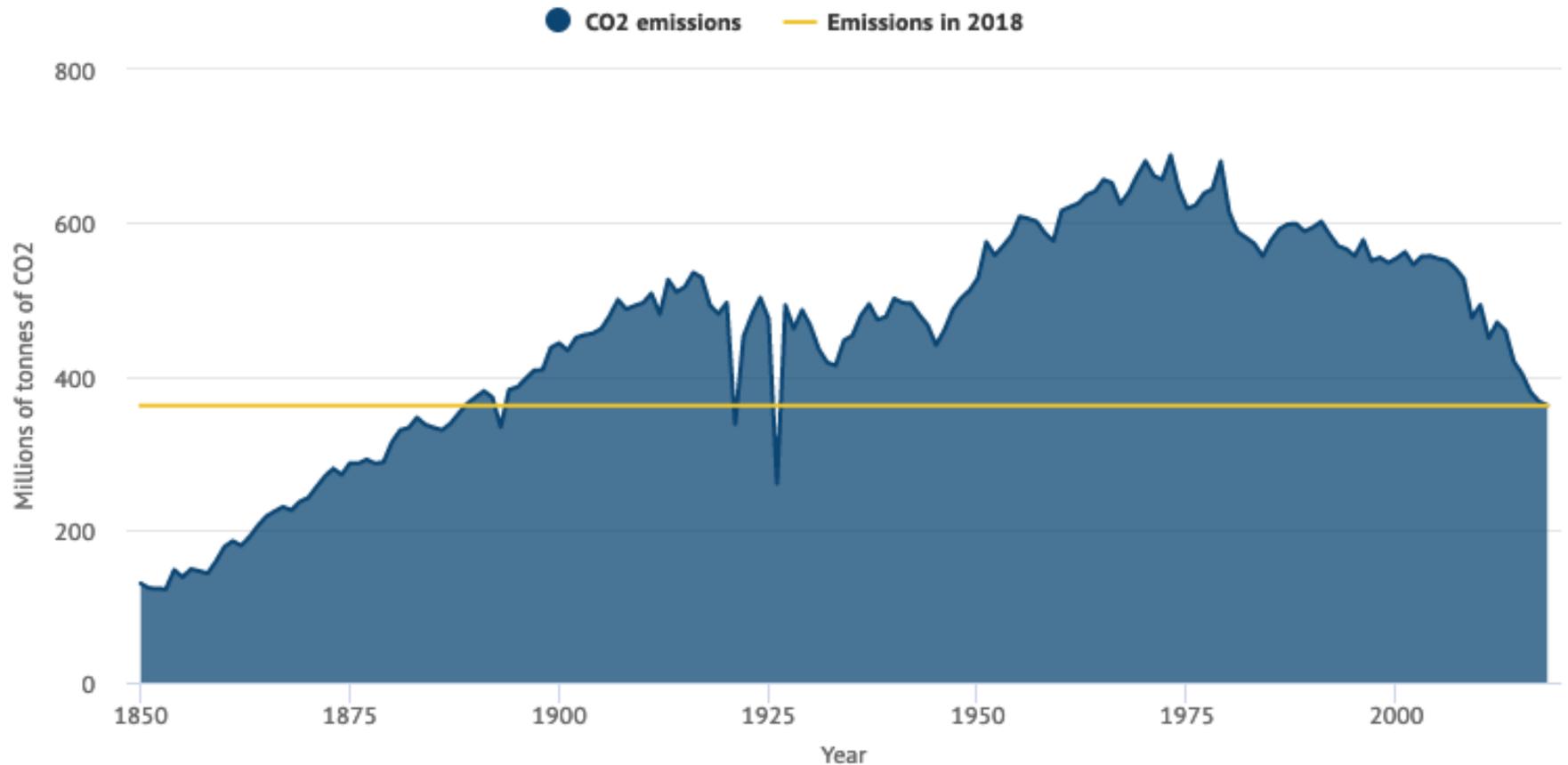
## Positive outlook for offshore wind

- Significant cost reductions in UK offshore wind projects, with a circa 50% cost reduction between last two project auctions.
- Offshore Wind Sector Deal (March 2019) targets a 30% share of electricity demand for offshore wind alone by 2030.
- But note lack of certainty for onshore wind and solar power.



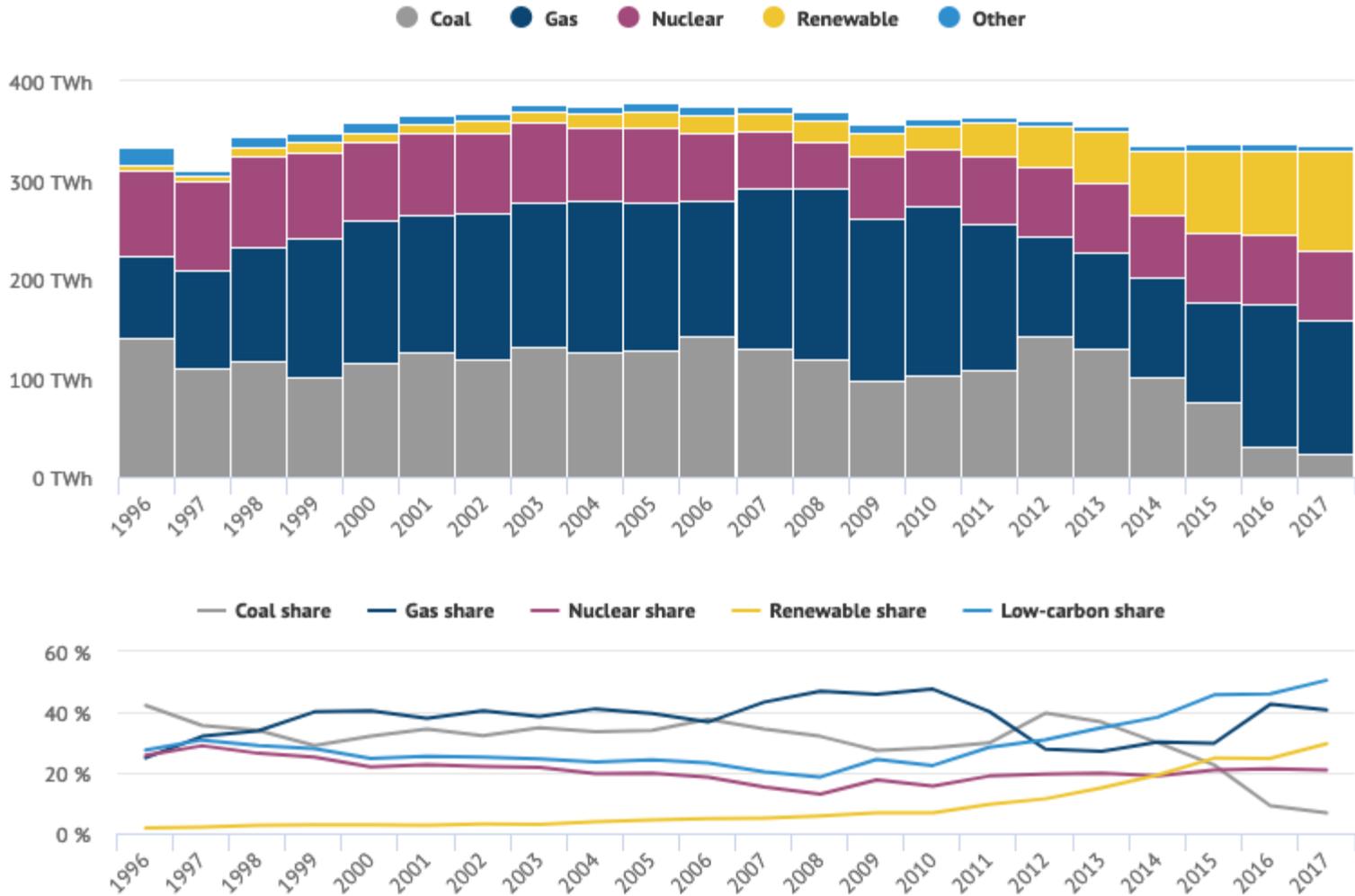
# The UK's CO2 fell for a record sixth consecutive year in 2018

Emissions fell to the lowest level since 1888, outside years with strikes



Source: Carbon Brief

# UK electricity generation by source



Source: Carbon Brief

# 3. Beyond Brexit: cautious optimism

## Strong direction of travel

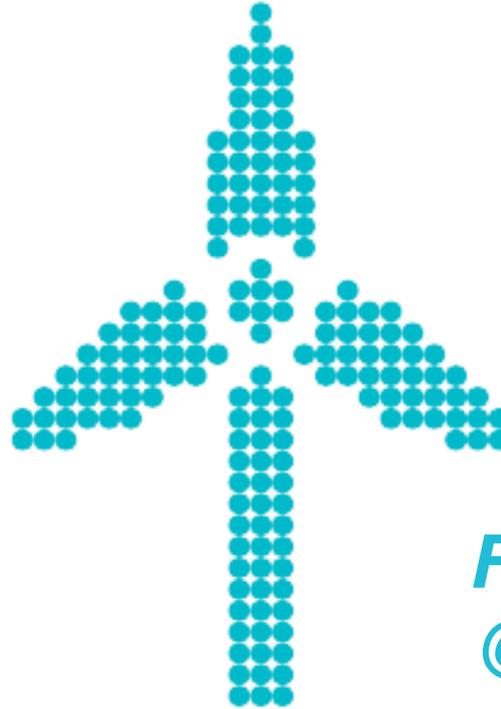
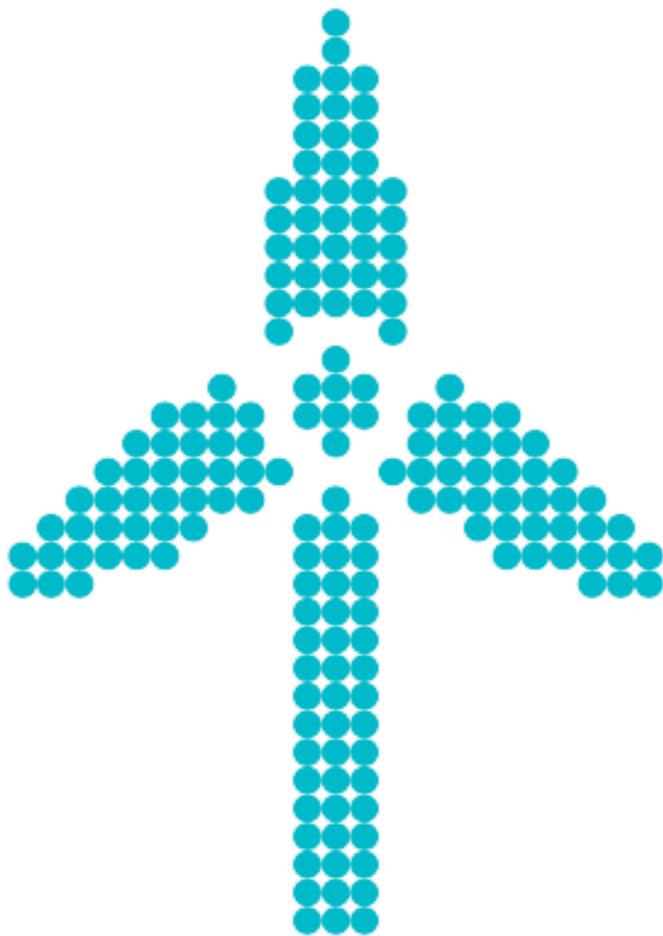
- Growing focus on cutting emissions economy-wide.
- UK Clean Growth Strategy sets out path for cutting emissions in heating and transport, much of which will need to be electrified.

## Signs of growing ambition

- Government asking for advice on possible net zero target & showing desire to host COP26;
- But ... **change of government could muddy the waters.**



# Thank you



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