Assured Energy **Outlook**

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Energy security scheme suspended after EU Court ruling

The General Court of the European Court of Justice ruled in November that the UK's Capacity Market (CM) – the main system to guarantee security of electricity supply – is no longer legal under State Aid rules, resulting in the UK government suspending payments under it.

On 6 December, the government announced that the CM would continue to operate without payments, adding that the European Commission should formally commence the process for the CM to regain State Aid clearance in early 2019. The electricity system operator National Grid ESO has said it has been instructed to "postpone indefinitely" the upcoming auctions.

Head of Research at energy consultants Cornwall Insight, Ed Reed, said there would be "immediate consequences" for generators that relied on the payments but added: "the lights are not going to go out – we certainly have enough power stations – but the consequence is the market price might go up."

Flexibility-focused energy firm Tempus Energy brought the case to court, claiming that the CM unfairly favoured conventional electricity generators over demand-side response (DSR) providers. DSR enables energy users to commit to reducing or shifting their energy consumption to help balance demand on the system and be rewarded with cheaper electricity or earning revenue. The court ruled that the European Commission had failed to investigate the CM properly when it cleared it for State Aid approval in 2014.

Another consequence of this suspension is that domestic and non-domestic energy suppliers, which will have made payments toward the Capacity Market, will see some of those payments returned to them before the end of 2018.

Business Secretary gives major energy policy speech

The government set out its approach to making the GB energy system more streamlined in a speech delivered by Business Secretary Greg Clark on 15 November. Clark claimed that the energy "trilemma" – the balance between delivering energy that is secure, affordable and clean – had ended, saying that "green energy is, increasingly, cheap energy".

Key energy policies such as the Capacity Market, Contracts for Difference – a government support scheme for low-carbon electricity – and carbon pricing would continue for the time being. However, Clark said: "a gradual transition from current mechanisms to a more integrated whole" was needed. He also said that the energy sector should move towards systems that "give businesses more decisions and governments fewer".

Failed energy suppliers' customers taken on by competitors

Energy supplier Extra Energy's 21,000 business and 108,000 household customers were taken on by Big Six company ScottishPower, effective from 25 November, following the former ceasing trading. Extra Energy was subject to regulator Ofgem's Supplier of Last Resort procedure in which suppliers compete to take on failed competitors' customers once they cease trading. Another supplier, Spark Energy also ceased trading on 23 November, sparking concerns about the market. Liberal Democrat Ed Davey, a former Energy Secretary, said this showed that "something has gone very wrong" in the market. Some of the cost of protecting these customers will feed through to network charges.

UK-Belgium electricity interconnector to begin operating in early 2019

The Nemo Link electricity interconnector between the UK and Belgium is to begin trading electricity between the two countries from early 2019, National Grid confirmed on 5 December.

The joint venture between Belgian transmission operator Elia and National Grid will allow up to 1000MW to flow between the UK and Belgium and is the first new interconnector in the UK since 2011.

National Grid Chief Executive John Pettigrew said: "By connecting the UK and Belgian electricity markets, we will ensure customers have access to different sources of generation and lower priced electricity. This will mean that customers pay less for their energy. Over the next five years, National Grid will be investing more than £2bn in new interconnectors to Europe and our significant commitment is driven by the value that interconnectors like Nemo Link can bring to customers at both ends of the cable."

Hard Brexit could increase electricity bills by £270mn annually, warns research group

The UK Energy Research Centre (UKERC) has predicted that a hard Brexit could add £270mn to the UK's annual electricity bills due to electricity trading with Europe becoming less efficient.

Published on 7 December, the report called this a "Hard Elecxit", warning that it would pull the UK out of the European single electricity market, leading to more frequent trading errors, unutilised capacity and trades based on anticipated prices rather than actual prices. The single electricity market allows electricity to be traded across borders, with benefits such as automatic trading of electricity from lower- to higher-priced markets – maximising both profits and energy security.

Co-author Dr Iain Staffell said: "With ever more electricity coming from variable sources, having inefficient trade with our neighbours would cause real harm to consumer electricity bills, not to mention the security and stability of electricity supply."

Large nuclear project rumoured to be facing cancellation

Sources in Japan have indicated that Hitachi's planned 2.9GW Wylfa nuclear project on the island of Anglesey may be cancelled, *The Guardian* reported on 10 December. The paper reported that the nuclear project may be cancelled by the Japanese conglomerate. This could result in almost £2bn of investment by being written off, the paper said.

Hitachi Board Chairman Hiroaki Nakanishi said the week previously that the company was struggling to find investors willing to finance the project. He said that Hitachi faced "an extremely severe situation".

Wylfa is one of two sites that Hitachi is currently considering, with an identical 2.9GW nuclear plant planned for Oldbury in Gloucestershire. This rumour follows the announcement in November that Toshiba was winding up its nuclear subsidiary, resulting in the cancellation of plans for a new nuclear project in Cumbria.

In other news

- Data from *Energy Efficiency Trends Vol. 25* by EEVS Insight and BloombergNEF found that business energy efficiency spending declined in Q3 2018 compared with Q2. As a result, spending went back to the "normal range" following a large increase from April – June. Released on 4 December, the report said that spending remained strong at around £250,000 per project.
- Carbon emissions in advanced economies are set to rise in 2018, according to data published by the International Energy Agency (IEA). This marked the end of a five-year trend of falling emissions. Published on 4 December, the data showed that emissions in North America, the EU and other advanced Asia Pacific economies have increased by 0.5% in 2018, as higher oil and gas generation offset a decline in coal use. This was also in spite of a rise in the implementation of solar and wind generation.

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