



Assured Energy Outlook

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European Commission to appeal Capacity Market suspension

The European Commission (EC) has lodged an appeal against the decision to suspend payments under the Capacity Market (CM). The CM is a scheme introduced to help guarantee the UK's future security of supply. The date that the appeal was lodged is listed as 25 January, which was the deadline for appeals.

The decision to suspend the CM was made by the General Court of the European Court of Justice (ECJ) in November 2018 on the grounds that the EC had failed to properly investigate the CM when it was originally cleared for State Aid approval back in 2014.

In response to the EC lodging an appeal, the company that originally brought the case to the ECJ, Tempus Energy, said the EC was "trying to further set back a better energy future as it attempts to have coal subsidies reinstated".

According to commodities analysts S&P Global Platts, this appeal does not automatically suspend the ruling, but the EC can ask the ECJ to consider lifting the suspension until the appeal is decided. If successful, the appeal would lead to the ruling being overturned and the CM and payments restarting.

Brexit could also have an impact on these proceedings because, depending on the manner of the UK's withdrawal process, the UK may no longer be subject to EU State Aid rules after exit and the CM could therefore fall entirely under UK jurisdiction.

Last month, the government was criticised by MPs for not providing a plan B in the event of the CM not being reinstated. The BEIS Committee of MPs urged for a plan B on the CM "so that businesses and investors can ensure the UK's electricity system is prepared for next winter, whatever the Commission's ruling".

Trade associations warn regulator's proposals could harm flexibility and storage

A group of six trade associations has responded to the energy regulator Ofgem's Targeted Charging Review (TCR) consultation, arguing that the changes proposed would result in "a year or two with limited network benefits for flexibility and storage". Flexibility enables energy consumers to change their consumption behaviour or use onsite generation to help balance the grid during times of high demand and benefit from cheaper electricity.

The letter was sent on 4 February to Business and Energy Secretary Greg Clark from BEAMA, the Association for Decentralised Energy, Tech UK, the Renewable Energy Association, the Solar Trade Association and RenewableUK. It criticised Ofgem's proposals to change the method of calculation for how much is charged for use of the electricity network from the amount of energy used to the type of user of the electricity.

UK gas supply deemed secure in "all but the most unlikely" scenario

The government published the *UK National Risk Assessment on Security of Gas Supply 2018* on 29 January, concluding that the UK's gas market is "resilient to all but the most unlikely combination of high demand and supply disruption".

The government said it will continue to monitor risks to the UK's gas security of supply and will continue working to strengthen the country's position. The report said that the UK Risk Group's Common Risk Assessment concluded that "the region's extensive infrastructure is more than sufficient to meet the region's needs, even during periods of high demand".

Hitachi Chairman says nationalisation is the only way to save nuclear plant

Hitachi Chairman Hiroaki Nakanishi spoke at the Davos World Economic Forum on 23 January, telling delegates that investor support for the Wylfa nuclear plant has ended and that the UK government will need to nationalise the plant if it is ever to be completed. The UK government had offered to take a one-third equity stake in the project, alongside investment from Hitachi, Japanese government agencies and other strategic partners.

Following the announcement that the Wylfa project would be suspended, two major energy companies proposed that renewables could fill the gap. SSE CEO Alistair Phillips-Davies said in a 24 January blog post that offshore wind can do more of the “heavy lifting to keep us on track with our climate change commitments”. Additionally, innogy COO Hans Bunting said on 23 January that the suspension of Wylfa was “exciting news” for renewables.

Risk of no deal Brexit could increase cost of energy and impact supply security

Trade association Energy UK has warned that risk of a no deal Brexit could raise energy costs and impact security of supply in the UK. In a letter published on 31 January, Energy UK reasoned that this is because many aspects of acquiring fuel and generating and supplying energy are dependent on external factors, and the ability of the economy and other sectors to operate effectively.

Although Energy UK said it did not anticipate “any major disruption to the GB energy system”, it warned that delays in receiving fuel for generation or in receiving parts needed for power plant maintenance could impact security of supply, as well as leading to increased costs and decreased revenue. To mitigate risks, the trade association said, the government should ensure that: interconnectors between the UK and EU countries are able and legally allowed to operate; I-SEM (the Ireland and Northern Ireland wholesale electricity market) is preserved; UK and EU trading platforms continue to function; customs checks at the border are minimised; further guidance on carbon pricing is provided; and current EU border tariffs are replicated.

New UK-Belgium interconnector begins operation

The Nemo Link electricity interconnector between the UK and Belgium began operating on 31 January. Up to 1GW of electricity can be traded between the countries. The £560mn project is a joint venture between National Grid and Belgian transmission system operator Elia.

John Pettigrew, Chief Executive Officer of National Grid, said: “Interconnectors like Nemo Link are the perfect tool to move renewable energy from where it is produced to where it is needed most. By connecting the UK and Belgian electricity markets, we will also ensure customers have access to different sources of generation and lower priced electricity. This will mean that customers pay less for their energy.”

National Grid said Nemo Link is the first of four interconnector projects being developed under the cap and floor regulation (this places a maximum and minimum limit on the revenues that interconnectors can generate), collectively representing a total investment of £2.1bn.

In other news

- Statistics released by trade association WindEurope on 7 February have revealed that 2.6GW of new offshore wind capacity was installed in Europe in 2018, increasing the technology’s capacity by 18%. The UK was responsible for 50% of this increase. However, figures released by Eurostat found that the EU is getting further away from its 2020 energy efficiency target, as energy consumption rose for the third consecutive year in 2017.
- The UK’s final greenhouse gas emissions (GHGs) statistics from 1990-2017 were published on 5 February, revealing that overall emissions fell 3% from 2016 to 2017. The business sector accounted for 17% of UK GHGs in 2017, the third highest emitting sector after energy supply (24%) and transport (27%).

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