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Overall Agreement

What are the implications of the UK-EU Trade and Cooperation Agreement for the UK's security of energy supply, costs for consumers, and decarbonisation?

The UK-EU Trade and Cooperation Agreement (TCA) will provide a number of specific benefits to UK consumers and the energy industry, contributing to the UK's net zero ambitions.

It maintains tariff-free trade, which will support delivery of low-cost energy supplies and deployment of new renewable infrastructure.

It provides for new efficient electricity trading arrangements over the interconnectors, making electricity more affordable for consumers, supporting security of supply and helping integrate low carbon technologies (especially renewables) on to the grid. Efficient gas trading over the interconnectors is also provided for, using the PRISMA platform to facilitate this.¹

The Ireland / Northern Ireland (NI) Protocol provides the basis for the continuation of the Single Electricity Market (SEM) on the island of Ireland. The TCA does not change the fact that the NI Protocol will continue to apply to the SEM. The new electricity trading arrangements will apply to the electricity interconnectors between Great Britain (GB) and the SEM.

The UK and the EU have agreed a framework for extensive technical cooperation between regulators and system operators on security of supply, network development and market abuse. Both Parties agreed to basic elements that support liberalised energy markets. The TCA facilitates enhanced cooperation on renewable energy, particularly in the North Seas, opening up the possibility of hybrid interconnectors and offshore windfarms, and the development of a North Seas grid - significant steps towards achieving our decarbonisation goals.

The TCA addresses the crucial importance of tackling climate change. The TCA elevates both Parties' commitment to the fight against climate change and respect for the Paris Agreement by making it an 'essential element' of the agreement. The UK and EU have agreed to co-operate on carbon pricing, including through giving consideration to linking their respective carbon pricing systems, although neither side is under any obligation to do so.

Electricity Trading

How do the envisaged electricity trading arrangements compare to the EU's internal energy market mechanisms?

¹ PRISMA is a commercial platform facilitating cross-border gas trading in Europe. Its shareholders are comprised of transmission system operators (TSOs).

The EU's internal energy market arrangements are based upon a price coupling solution, the TCA arrangements for the day-ahead timeframe are instead based on volume coupling. The technical details of the trading model will be developed by system operators over this year, before the model is expected to go live in 2022.

In price coupling, a single centralised system calculates the market prices and traded volumes of electricity, based on cross-border capacity and the order books of all power exchanges and transmission system operators (TSOs) in the coupled markets. In volume coupling, the volume traded between two countries or regions is calculated and then the prices are calculated separately.

What are you doing to establish the new arrangements?

We issued letters to UK TSOs on 22 of January asking them to develop draft technical procedures for calculating and allocating transmission capacities to ensure efficient trade over electricity interconnectors. We have also requested that UK TSOs develop a new framework for cooperation with EU TSOs now that our TSOs are no longer members of the EU TSO body, ENTSO-E. Similarly, UK regulators (Ofgem and the Northern Ireland Utility Regulator (UR)) are developing a new framework for cooperation with the EU's Agency for the Cooperation of Energy Regulators (ACER). These letters have been supplemented by Secretary of State Guidance² which: provides clarity on the necessity of cooperation between power exchanges and TSOs for the purposes of enabling the development of the new trading arrangements; sets out that UK TSOs should work together to reach coordinated UK TSO positions; and provides further details on cost sharing and recovery so that TSOs and power exchanges can enter into appropriate contracts as quickly as possible.

The guidance, published on 3 February, will enable development of new trading arrangements to progress quickly, helping to ensure that the UK can meet the deadlines set in the TCA.

We are also seeking permission to lay a Statutory Instrument in early Spring which will formalise an obligation on TSOs to begin implementation. This legislation will require TSOs and companies that operate electricity markets ("power exchanges") to note any guidance on implementation issued by the Secretary of State.

A TSO-led working group covering all UK interconnectors has been formed to track and review the implementation activities of the UK TSOs. BEIS, Northern Ireland's Department for the Economy (DfE), Ofgem and UR attend this working group to receive updates from the UK TSOs.

This process continues to be underpinned by extensive engagement with UK industry and stakeholders, to ensure they can prepare for the development and implementation of the new arrangements.

Termination of the Energy Title

Why is the energy Title time-limited?

²https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/958195/secretary-of-state-electricity-trading-arrangements-guidance.pdf

It is normal for free trade agreements to have termination clauses. The specific clause on energy allows the Energy Title to be reapplied annually by the UK and EU from 30 June 2026 onwards. The agreement on energy is mutually beneficial to the UK and the EU in helping achieve our respective climate change ambitions, making energy more affordable for consumers and in supporting security of security. We are confident that both the UK and the EU will see the benefits of energy cooperation over the next few years.

How will you address the potential impact of uncertainty on energy infrastructure investment?

Investors should see this deal as a very positive step. We have delivered a strong framework for future cooperation, in the North Seas in particular. This facilitates continued efficient electricity and gas trade between the UK and EU and supports investment in the huge renewable energy potential of the North Seas that will play a key role in meeting our climate ambitions. This is in addition to our wider domestic energy policy ambitions, for example, the Prime Minister's Ten Point Plan, which sets out how government investment will leverage billions of pounds more of private investment and support up to 250,000 jobs by 2030.

Interconnector projects also continued to progress during the EU-UK negotiations - including the go-live of NEMO Link in 2019 to Belgium, the final investment decision on VikingLink to Denmark in Oct 2019 and the go-live of IFA2 to France in 2021 - demonstrating confidence in the strong fundamentals of interconnection.

Linking Emissions Trading Systems

What is the current status of discussions with the EU about linking emissions trading systems?

The TCA demonstrates our continued commitment to carbon pricing as an effective tool to help fulfil our climate change objectives.

We have confirmed that each Party shall have in place an effective system of carbon pricing which covers greenhouse gas emissions from electricity and heat generation, industry and aviation. Both Parties have also agreed to co-operate on carbon pricing, including through giving consideration to linking their respective carbon pricing systems, although neither side is under any obligation to do so.

What will be your priorities in any negotiations with the EU on linking systems?

The Government recognises the importance of international co-operation on carbon pricing and the important role international carbon markets can play in tackling climate change. The UK is open to linking the UK ETS internationally in principle and we are considering a range of options. Our priorities for any linking negotiation will be to respect the domestic sovereignty of the UK, and the other party, and to ensure the integrity of the carbon market.

Cooperation on North Seas Energy

What is your assessment of the provisions on cooperation on North Sea energy?

Realising the energy potential of the North Sea is central to both the UK's and the EU's decarbonisation plans. The electrification of oil and gas platforms, developing Carbon Capture, Utilisation and Storage (CCUS) and hydrogen facilities, and deploying and efficiently connecting hundreds of gigawatts of offshore wind will all require extensive cross-border cooperation. It is therefore in both the UK's and the EU's interest to further strengthen our cooperation in order to tackle climate change and achieve our respective net zero goals. We have agreed to continue to cooperate on renewable energy, particularly in the North Seas, which will open up the development of hybrid projects, linking interconnectors and offshore windfarms, possibly incorporating offshore hydrogen production, and the development of a North Seas grid. Cooperation to develop and integrate renewable power in the North Seas will be important for the UK and the EU to achieve our respective world leading climate ambitions.

When do you expect the arrangements for cooperation to be established?

We are working closely with the EU to ensure cooperation mechanisms are established as soon as possible. We have agreed to establish a specific forum for cooperation, similar to the previous North Seas Energy Cooperation, that will cover the same workstreams - which are explicitly set out in the Treaty. These include hybrid and joint projects, maritime spatial planning, support framework and finance, best practices on respective onshore and offshore grid planning, the sharing of information on new technologies, and the exchange of best practices in relation to the relevant rules, regulations and technical standards. In line with the Treaty, the UK and the EU will cooperate to create this forum.

Nuclear Cooperation Agreement

What is your assessment of the Nuclear Cooperation Agreement reached with Euratom, and are you hoping to agree anything further in this space?

The UK achieved its negotiating objectives: we have secured a standalone Nuclear Cooperation Agreement (NCA) for future civil nuclear cooperation between the UK and the European Atomic Energy Community (Euratom). This is a fully separate agreement from the TCA.

Securing an NCA with Euratom is important for the civil nuclear sector in both the UK and the EU: it ensures that there will be cooperation on nuclear safeguards (non-proliferation), nuclear safety and security. It provides a framework for trade in nuclear materials and technology, facilitates civil nuclear research and development (while the TCA determines the actual involvement in specific nuclear research programmes), and enables exchange of information and expertise including on issues of great importance to public health and safety, such as monitoring of radiation releases into the atmosphere, and security of supplies of medical radioisotopes.

The NCA is being provisionally applied pending its formal entry into force and completion of the final legal-linguistic revision process. The only remaining issues to be resolved are technical ones: the administrative arrangements that set out detail for the implementation of the NCA are currently being discussed with Euratom and should be agreed in the next month or two. These arrangements form part of the NCA framework and are not a separate "agreement" for the purpose of either treaty law nor domestic

legislation. A technical committee under the NCA, consisting of BEIS and the Office for Nuclear Regulation on the UK side, and DG ENER on the Euratom side, is being established. This is entirely separate from the governance and committee structures being established under the TCA. Finally, and as set out in the NCA, the UK will take part as a third country in various Euratom systems and working groups that deal with a range of nuclear safety issues. This is being done through normal diplomatic channels.

Technical Cooperation and Regulatory Autonomy

Are you satisfied that the channels established for technical cooperation with the EU on energy and climate change are sufficient?

The Energy Title provides a framework for technical cooperation between the UK and the EU. As part of this, TSOs and regulators are required to draw up plans for formal cooperation in order to deliver the requirements of the Title. The UK and the EU are close partners on climate change and we will continue to cooperate on our shared priorities in this area.

Will yourselves, the regulators and transmission system operators be able to receive and share the information needed to cooperate with EU counterparts?

Yes, this agreement facilitates efficient information exchange. For example, the TCA requires cooperation between regulatory authorities, with a view to detecting and preventing trading based on inside information and market manipulation. This includes, where appropriate, the exchange of information on market monitoring and enforcement activities.

In your view, does the Agreement provide space for the future development of UK energy and climate change policy?

The deal means the UK can now regulate in a way that suits the UK economy and UK businesses – doing things in a more innovative and effective way, without being bound by EU rules. The Prime Minister’s Ten Point Plan and the Energy White Paper are examples of ambitious policies and significant new investment to allow the UK to forge ahead with eradicating its contribution to climate change by 2050.

We want to continue to work closely with our European and international partners to secure ambitious climate objectives. The TCA commits both sides to trying to remove barriers to trade and investment in climate relevant goods and services, particularly for climate mitigation and adaptation. For example, we are committed to ‘enhanced’ cooperation on renewable energy, particularly in the North Seas, opening up the possibility of hybrid interconnectors and offshore windfarms, which will contribute to the UK’s net zero ambitions.

The EU will remain a close partner on climate change, and we will continue to work closely with them in the future, building on our strong cooperative relationship and shared objectives in this area. We have agreed strong commitments in the TCA to cooperate on climate and trade-related policies in bilateral, regional and multilateral fora.

Horizon Europe

Having secured Horizon Europe participation, what are you looking to achieve with the EU on energy and climate change research and innovation?

The UK will have formally associated to Horizon Europe once the EU has finalised the regulations for the programme and the relevant Protocol published in draft alongside the TCA is adopted by the UK-EU joint Specialised Committee on Participation in Union Programmes.

Once UK association has begun, the UK will be able to participate in all the pillars of Horizon Europe on equivalent terms as those from Member States including in the European Research Council and the Marie Skłodowska Curie Actions. There are two exceptions to this; the UK will not participate in the element of the European Innovation Council Fund, which provides equity funding. However, UK entities will be eligible to participate in all other grant funding elements of the European Innovation Council. As in previous Horizon Programmes, the EU reserves the right to limit the participation of Associated Countries (AC) in specific calls. This can only be done for 'duly justified' reasons – the UK can ask the Commission to justify any exclusion of AC entities from calls to the UK.

Association to the Horizon Programme aligns with broader UK priorities, including net zero and clean transportation. The Horizon Europe Programme will provide funding for a wide range of climate change and clean energy research and development, with an estimated 35% of the programme funding ringfenced for climate change activities. The details of this will be published as part of the Horizon Europe work programmes. We encourage UK researchers, businesses and innovators to begin to form collaborations to bid into the opening calls to the Programme.

Next Steps

What key things will you be looking to resolve or achieve in the UK's energy and climate change relationship with the EU over the short- and medium-term, within the parameters of the Agreement?

On energy the focus is on implementation of the provisions of the Energy Title, in particular the electricity trading provisions within the timeframe described in Annex ENER-4. The UK and EU have agreed that both parties will ensure the relevant technical and regulatory bodies from each side collaborate in the design and development of this model in accordance with the framework set out in the agreement. The timeline for implementation, from the 1 January 2021, is set out in the treaty as follows:

- within 3 months – cost benefit analysis and outline of proposals for technical procedures from Transmission System Operators (including interconnectors & the Electricity System Operator);
- within 10 months – proposal for technical procedures. The relevant EU and UK TSOs will jointly draft technical procedures in accordance with Annex ENER-4 of the TCA; and
- within 15 months – technical procedures enter operation.

Within this process, TSOs will develop proposals for technical procedures, the National Regulatory Authorities (NRAs) will provide an opinion on those proposals, and the Specialised Committee on Energy will provide the final approval.

On climate, the EU will remain a close partner on climate change, and we will continue to work closely with them in the future, building on our strong cooperative relationship and shared objectives in this area. We are strongly committed to the Paris Agreement and the United Nations Framework Convention on Climate Change (UNFCCC), and the provisions in the TCA make this clear. As incoming COP26 President in partnership with Italy, we will continue working tirelessly with our international partners to deliver the increased ambition needed to meet the objectives of the Paris Agreement. The deal also protects both parties' right to regulate, to set our own policies and priorities to meet our ambitious climate goals.