

Written Evidence submitted by Utility Regulator for the Northern Ireland Affairs Committee's inquiry into Northern Ireland and the EU Referendum (EUN0017)

1. Thank you for the opportunity to provide evidence.
2. By way of context I would explain that the Utility Regulator is the economic regulator for the energy and water industries in Northern Ireland. Overall, our focus is on protecting the short- and long-term interests of energy and water consumers in Northern Ireland.
3. We regulate the prices of monopoly utility companies which supply electricity and gas to consumers in Northern Ireland and oversee the efficient and effective operation of retail energy markets. Along with the Commission for Energy Regulation (CER) we also jointly regulate the wholesale electricity market for the island of Ireland, the Single Electricity Market (SEM). The SEM is being replaced by an enhanced wholesale market worth €2.7 billion, the 1-SEM, and we are working with the CER to put this new market in place by the end of 2017.
4. The terms of reference for the Committee's inquiry are wide-ranging and obviously on the central question of the referendum on the UK's membership of the EU this is a matter for the UK electorate to decide. The inquiry does however include one item which has direct relevance for us: "Does leaving the EU have implications for the energy market in Northern Ireland?" Our response is therefore based on providing evidence on this issue.
5. If there were a vote by the UK to leave the EU, a significant issue in terms of the implications for Northern Ireland could be the all-island wholesale electricity market, the SEM.
6. The SEM came into being in 2007 and its establishment is enshrined in both UK and Irish legislation. Its development was however initiated and led by the two regulatory authorities in Northern Ireland and the Republic of Ireland in response to concerns about their respective small, uncompetitive markets. Key considerations driving the creation of the SEM included promoting investment in generation assets and the potential for constraining wholesale electricity prices in both jurisdictions on the island.
7. Given that the genesis of the SEM was neither an EU nor a UK requirement therefore, any decision by the UK to leave the EU would be unlikely to undermine the economic case for a wholesale electricity market on the island.
8. The design of the original SEM is being replaced by an enhanced wholesale market in 2017, the 1-SEM, and that work is partly driven by EU energy regulations focused on achieving the greater integration of energy markets across the EU. The project is currently on schedule to deliver the 1-SEM by Q4 2017.
9. Importantly however, the development of the 1-SEM is also being driven by wider considerations to improve the working of the wholesale market which would need to

be addressed in any case, irrespective of EU legislation, such as in relation to improved energy trading arrangements and the better utilisation of interconnectors.

10. In the case of a UK decision to leave the EU, and the potential lengthy negotiations that would ensue (some commentators have said that this may take up to two years), it is unlikely that this would significantly impact on the programme to implement the 1-SEM by 2017
11. Additionally, in principle, there is no reason why wholesale electricity flows between ROI and NI or between either part of the island and the UK mainland should be affected by Brexit.
12. Overall the success of 1-SEM will also depend on significant matters unconnected with any decision by the UK to leave the EU. For example, the construction of a second north-south interconnector between NI and ROI is extremely important from both a 1-SEM perspective (in terms of maximising renewables and the efficiency of the new market), and security of electricity supply to electricity consumers in NI.
13. We also believe that it is likely that there would however need to be some agreement on wholesale energy market arrangements between Great Britain and the EU following a Brexit, as there is interconnection between UK and mainland Europe as well as with Ireland. However, there is no way of knowing at this stage what the outcome of such negotiations would be. Maintaining a competitive GB market and ensuring security of supply would be key concerns.
14. Finally, while there may be some longer term implications for energy markets and policies arising from any decision by the UK to leave the EU, as an independent regulatory authority we will continue to work to ensure the secure and effective operation of energy markets for NI consumers.
15. I hope this is helpful to the Committee's considerations.

Yours sincerely

Jenny Pyper
Chief Executive

24 March 2016