

## **Written evidence submitted by National Grid Electricity (FRE0083)**

This briefing note covers those issues (energy and climate) specifically raised by the Chair of the Future Relationship Committee in his letter to John Pettigrew on 25 June 2020. This note covers issues of concern to National Grid Group including the UK's Gas System Operator, National Grid Gas Transmission, National Grid Electricity Transmission and National Grid Ventures. The legally separated National Grid Electricity System Operator has responded separately.

National Grid sits at the heart of Britain's energy system, connecting millions of people and businesses to the energy they use every day. We understand our responsibilities to the environment and future generations, so we are working to develop solutions to make the transition to a clean economy, in which nobody is left behind. As we look ahead towards recovering from the COVID-19 pandemic, it is important that we seize the opportunity to be world leading in decarbonising our economy and tackling the climate crisis as a driver of economic growth in the short-term while establishing the robust foundations upon which the economy can flourish over the longer-term. We are physically connected to both the EU electricity and gas markets, as currently part of the EU's internal energy market (IEM). Whilst we are leaving the IEM at the end of the transition period, efficient trading between the UK and EU remains in the interest of UK and EU consumers. Looking further forward co-operation between the UK and EU on decarbonisation, the deployment of renewable energy in the North Sea, and potentially on hydrogen and CCS remain important aspects of our future relationship.

### **How close are the UK and the EU's negotiating positions for the future relationship on energy? Where are they further apart? In which areas is there a need for more detail to understand each other's positions?**

The UK and EU positions on energy share some high level objectives – the desire for efficient trading in gas and electricity; the intention to find a framework for regulators and Transmission System Operators (TSOs) to co-operate; and, in particular, to co-operate on the deployment of renewable energy and grids in the North Sea. The mechanism each side has developed to achieve these outcomes is different. The UK in its draft energy agreement is seeking to agree co-operation in areas that are relevant to cross-border wholesale markets in gas and electricity, and to agree a dispute resolution mechanism that would reassure the EU that such an agreement would not impact negatively on the integrity of the internal energy market. This would be contained within a separate agreement to the main FTA.

The EU's proposal would involve the UK agreeing to a series of obligations based around the main aspects of the existing internal energy market acquis, but without automatic market access. The EU text is explicit that the framework it sets out does not give access to mechanisms such as congestion management or balancing, nor does it imply membership of the European Networks of Transmission System Operators (ENTSOs).

Given the changes we expect in the energy system over coming years – particularly in terms of the need for new and innovative frameworks to develop offshore wind in the North Sea, and in terms of the development of hydrogen amongst other things, we foresee there will need to be flexibility in the UK-EU energy relationship to adjust as the technologies and policy frameworks develop.

The EU proposal also envisages a TSO-led negotiation on the details of the future electricity trading system but without a timeframe. From National Grid's perspective, the UK Government position is more likely to achieve the objective of efficient trading from 1 January, given it would enable a certain amount of continuity in trading systems. There is a need for greater information on how, and on what timescale, a future TSO-led trading framework would develop. If there is no agreed system in place on 1 January, the result will be less efficient electricity trading until a new system is put in place.

**Why is the future relationship on energy important for the UK and the EU? How might the future relationship influence UK domestic energy policy? For example, how might the future relationship link energy policy and action on climate change, renewable energy and energy efficiency?**

The UK and EU share very similar overarching strategic interests in the energy and climate space. The UK has a legally binding net zero target for 2050, the Climate Change Act puts in place the carbon budget system with a 2032 emissions reduction target of 57% on a 1990 baseline, and there is a commitment to a continued carbon pricing mechanism. Meanwhile, the EU is in the process of agreeing a legally binding net zero target for 2050, has a legally binding emissions reduction target of 40% for 2030 (which it is seeking to raise to 50-55%), and has the EU Emissions Trading System which sets an EU-wide carbon price. In essence, both sides share similar emissions reduction targets and trajectories.

Likewise, the development of the internal energy market has improved efficiency of trading via the development of a larger and more liquid market in both gas and electricity. This has been to the benefit of both UK and EU consumers.

Finally, the internal energy market in gas has increased security of supply across Europe – particularly in the gas market, where the development of interconnection and reverse flow, alongside Liquefied Natural Gas (LNG) terminals since the 2009 gas crisis, means there is less exposure to market dominance from single sources in Central and Eastern Europe. The UK's LNG terminals are part of this European market contributing to security of supply.

To this extent, the UK and the EU continue to share broadly the same interests in the energy and climate policy space. This is particularly the case for continued decarbonisation. The North Sea has great potential for offshore wind deployment. As the industry develops there is greater scope for more complex projects involving so-called multipurpose interconnectors (combining offshore wind farms with electricity interconnectors to deploy renewables resources at a large scale and able to export power to multiple countries). These will need to be developed in partnership by companies around the North Sea. For example, National Grid Ventures (NGV) is working with the Dutch and Belgian TSOs to explore the potential for projects on this basis. These projects will involve complex regulatory systems that could

involve joint offshore bidding zones, shared cost-benefit analysis systems, a need for implicit trading arrangements and coordinated spatial planning. Wind Europe estimates that there is the potential for upwards of 200GW of offshore wind potential in the North Sea, which will be a significant contributor to the UK and EU's power sector decarbonisation.

The UK and EU policies on the future roles of low-carbon and decarbonized gases and the interplay of gas with other forms of energy will need to be complementary in order for the UK to continue to benefit from gas security of supply and a liquid market that minimises costs to consumers. UK and EU co-operation will optimize the use of interconnected infrastructure and provide opportunities to collaborate on technological development.

**Which aspects of the UK and EU negotiating positions could restrict the depth of the future relationship on gas and electricity trading, and access to the EU's internal energy market? What would be the consequences of the UK leaving the IEM?**

The main constraints on the depth of the future relationship on gas and electricity are likely to be on the UK concerns over the influence of the European Court of Justice, and the unwillingness to sign up to 'dynamic alignment' with European regulations. This has come up against the European Union's position that a non-member of the single market cannot have the benefits of single market membership – including those of the internal energy market. Whilst the UK's negotiating position seeks to find a way to co-operate on efficient cross-border trading, this is viewed as 'cherry-picking' by the EU side. It is currently unclear as to whether there is a compromise solution here.

Vivid Economics calculated in 2016 that the cost of the UK leaving the internal energy market would be equivalent to £500 million per annum. It is widely accepted that leaving the internal energy market will lead to a reduction in trading efficiency, with increased costs for UK and EU consumers. National Grid will need to work with the Government to establish a new trading arrangement for its interconnector portfolio, and wider co-operation on electricity and gas trading.

**How far apart are the UK and EU negotiating position for ongoing involvement in ACER, ENTSO-E, and ENTSO-G? What would be the implications if the UK was no longer a full member of these bodies? Are there any other relevant bodies that it would be advantageous for the UK to maintain involvement in?**

The UK and EU positions on ongoing involvement in EU regulatory bodies are significantly different. Both ENTSO-E and ENTSG are private sector associations that have some activities legally mandated by the EU via the Third Energy Package (2009) and the Clean Energy Package (2017). Our understanding of the EU position is that because of the role of the ENTSGs in EU legislative development (network codes, Ten Year Network Development Plan), the UK should not be allowed to remain a member of either organisation. As noted above, the EU's negotiating mandate foresees some level of co-operation between TSOs in the future but the details of this are unclear. The UK is seeking a relationship with both ENTSG's. From National Grid's perspective we believe we should be able to remain a full member of both.

### **What would be the advantages and disadvantages of the UK's future carbon pricing mechanism being linked to the EU emissions trading system (ETS)?**

Carbon pricing via a cap and trade mechanism is widely viewed as being the most economically efficient route for emissions reductions. We welcome the Government's recent statement that it is planning to introduce a UK Emissions Trading System to replace the EU ETS and we support the UK's efforts to decarbonize through a strong carbon price. The clear majority of our imports across our interconnector portfolio are driven by zero carbon nuclear and renewable generation, and this will increase still further as we connect new interconnectors to the low carbon, higher renewable generation markets of France, Norway and Denmark in the next three years.

### **What level playing field provisions has the EU asked for relating to climate change?**

The EU is asking for climate policy to be effectively integrated into the wider level playing field – in particular the issue of carbon pricing. We note the UK's domestic climate policy agenda – in particular the Climate Change Act and the legally binding net zero target for 2050 and would take the view that the UK has a robust climate policy framework in place. We note the importance of an effective UK carbon price – ideally from a linked ETS system – for the functioning of the NGV interconnector portfolio. As such, and given the shared strategic interest in climate policy, National Grid supports finding an agreement on climate policy between the UK and EU.

### **What would the consequences be if no agreement could be reached in any of the areas you have commented on above?**

Failing to reach an energy agreement with the EU will have a number of immediate and long-term consequences.

#### **Immediate consequences**

- **Electricity** – without a deal we do not expect disruption in electricity trading however the UK will leave market coupling and associated systems involving cross-border balancing and congestion management services on 1 January 2021. In that scenario, National Grid is preparing to return to pre-2014 explicit trading arrangements. This will decrease the efficiency of trading, which means UK consumers will likely face higher energy prices.
- **Gas** – without a deal, we expect gas trading to continue without disruption. The UK was removed from platforms such as the Gas Co-ordination Group that covers security of supply issues at the time of the UK's withdrawal from the EU on 31 January 2020.
- **Carbon price** - the UK will also leave the EU ETS; whilst the Government is committed to putting in place a replacement UK ETS, or creating a UK carbon tax if that is not possible, this switch in systems will potentially create disruption and uncertainty around the carbon price.

#### **Longer-term consequences**

The long-term consequences of leaving without an energy agreement are obviously less clear. However, it is worth noting that both the UK and EU put into their negotiating mandates an intention to co-operate on the deployments of renewables and associated grids in the North Sea. As noted above, NGV is working on the development of multi-purpose interconnectors (offshore wind resources connected to interconnectors) that would potentially be delayed in the case of no energy agreement. Likewise, the major developments taking place on the decarbonisation of gas (in particular the current focus on post-COVID recovery plans in the EU on hydrogen) mean that changes to the gas system in the EU could have an impact on the UK. Without a deal, there will not be an immediate mechanism to consult on and mitigate those issues, though we would expect a framework for co-operation to be developed over a longer period of time.

**Are there any other aspect of the future UK-EU relationship and energy that you wish to bring to our attention?**

In any future scenario we will seek to engage effectively with European partners to monitor emerging EU policy and to understand the potential impacts of that on our interconnected market.

We would also flag the key global energy and climate event next year of COP26, being held in Glasgow in November. This is an opportunity for the UK to show its leadership in the energy transition on the world stage, and it is important that the UK works closely with international partners to deliver a successful summit. Finding a sustainable relationship with our European partners will be an essential element in making COP26 a success.

***July 2020***



# Committee on the Future Relationship with the European Union

House of Commons, London, SW1A 0AA

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25 June 2020

John Pettigrew  
Chief Executive  
National Grid

Dear Mr Pettigrew,

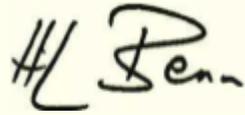
The House of Commons Committee on the Future Relationship with the European Union is inquiring into the progress of the negotiations between the UK and the EU. Under normal circumstances, the Committee holds regular oral evidence sessions in Westminster. However, measures to prevent the spread of the coronavirus make this difficult.

The Committee is keen to gather as much evidence as possible to inform its deliberations so I am writing to you to ask whether you would be willing to help us with our work by making a written submission. We welcome general responses to our [call for evidence](#), which was published on 4 March. We also hope that you would be willing to answer some of the more specific questions set out below on issues that fall within your area of expertise. Submissions need not address every bullet point and can include other matters that you think are relevant to the negotiations and should be drawn to the attention of the Committee.

- How close are the UK and the EU's negotiation positions for the future relationship on energy? Where are they further apart? In which areas is there a need for more detail to understand each sides' positions?
- Why is the future relationship on energy important for the UK and the EU? How might the future relationship influence UK domestic energy policy? For example, how might the future relationship link energy policy and action on climate change, renewable energy and energy efficiency?
- Which aspects of the UK and EU negotiating positions could restrict the depth of the future relationship on gas and electricity trading, and access to the EU's Internal Energy Market (IEM)? What would be the consequences of the UK leaving the IEM?
- How far apart are the UK and EU negotiating position for ongoing involvement in ACER, ENTSO-E, and ENTSO-G? What would be the implications if the UK was no longer a full member of these bodies? Are there other relevant bodies that it would be advantageous for the UK to maintain involvement in?
- What would be the advantages and disadvantages of the UK's future carbon pricing mechanism being linked to the EU emissions trading system (ETS)?
- What level playing field provisions has the EU asked for relating to climate change?
- Based on the UK and EU draft legal texts, what are the range of possible outcomes for the relationship on civil nuclear cooperation? What do these outcomes mean for the UK-EU relationship on Euratom, for nuclear safety, and the UK's participation in EU programmes, such as Horizon Europe, for collaboration on nuclear research?
- How does the Withdrawal Agreement provide for continuity of the Single Electricity Market (SEM) on the island of Ireland, and how could this be built upon in the future negotiations? Do the negotiations on the future relationship with the EU's Internal Energy Market present risks for the SEM on the island of Ireland?
- What would be the consequences if no agreement could be reached in any of the areas you have commented on above?
- Are there any other aspect of the future UK-EU relationship and energy that you wish to bring to our attention?

The Committee staff will be happy to discuss the inquiry, any issues raised, or the process for submitting written evidence. You can contact them at [freucom@parliament.uk](mailto:freucom@parliament.uk).

Yours,

A handwritten signature in black ink, appearing to read 'H/ Benn', written in a cursive style.

**Hilary Benn**  
Chair of the Committee