



## Select Committee Evidence

# Brexit: Energy Security Inquiry

## House of Lords EU Energy and Environment Sub-Committee

**Which? is the largest consumer organisation in the UK with more than 1.5 million members and supporters. We operate as an independent, apolitical, social enterprise working for all consumers and funded solely by our commercial ventures. We receive no government money, public donations, or other fundraising income. Which?'s mission is to make individuals as powerful as the organisations they have to deal with in their daily lives, by empowering them to make informed decisions and by campaigning to make people's lives fairer, simpler and safer.**

### Summary

1. We have an opportunity through the Brexit process to create a new economy, where essential markets that are currently failing consumers are reformed, and where consumers have the confidence to spend and propel growth.
2. Energy prices are consistently one of the issues that top consumer concerns in the Which? bi-monthly Consumer Insight tracker. Energy prices account for around 5% of household expenditure and as much as 10% of expenditure for those in the lowest earning 10% of households.
3. Many factors will impact on energy costs, but exiting the EU Internal Energy Market (IEM) could affect both security and prices, particularly for energy and gas where the UK market currently benefits from flexibility and access to supply. Around 38% of energy used is currently imported. On-going access to the IEM is therefore an important issue – and particularly important for the Ireland/Northern Ireland market.
4. Other aspects of security also need to be addressed – including the UK's relationship with EU regulatory and oversight bodies that play an important role and enable access to expertise for the sector. This includes access to Euratom.
5. Brexit related issues related to energy prices and security need to be addressed as part of wider domestic energy policy. Consumer engagement has to be at the heart of this in order to ensure that any trade-offs between short and long-term priorities reflect consumer interests.
6. More generally, the Government must start paying greater attention to consumer interests as part of its negotiating position for Brexit. An important signal that the Government is willing to listen to consumer views would be to appoint a consumer body, such as Which?, to the Business Forum that is now advising Ministers on policy.

## Introduction

7. Which? welcomes this opportunity to submit evidence to the EU Energy and Environment Sub-Committee's Inquiry into Brexit and energy security. It is essential that consumer interests, rights and protections are prioritised in the negotiations for our future relationship with the European Union (EU) and the wider world. Which? is concerned that the Government is not giving enough attention to consumer impacts and has asked for consumer interests to be prioritised and a consumer organisation to be represented on the high level Business Forum created to advise Ministers. A recent survey by Which? also found that 80% of businesses said that consumers' interests were either very or fairly important to them, in relation to Brexit meetings or negotiations<sup>1</sup>.
8. Consumers spend 4.4% of their total expenditure on household fuel on average, rising to 10% for people in the lowest earning 10% of households<sup>2</sup>. Given that 36% of the energy we consume is imported<sup>3</sup>, ensuring security of supply at a reasonable price is absolutely crucial in view of the UK's inter-connectivity with the EU market. Our latest consumer tracker survey shows that energy prices are one of consumers' top concerns:<sup>4</sup> 63% of people were worried about energy prices in July 2017. As of 2015, 2.5 million households (11%) in England were classed as being in fuel poverty<sup>5</sup>.

## Energy security and prices

9. The UK currently imports around 36% of the energy that is consumed<sup>6</sup>. Trade in oil, petroleum products, gas and electricity between Great Britain, the rest of Europe and the Irish market is well established and helps provide security and a certain level of flexibility. Closures of conventional electricity generating capacity and intermittency risks of renewable generation mean that interconnectors can provide an important source of diverse and competitively-priced power for UK consumers. Currently, the UK has 4GW of electricity interconnector capacity and a further 7.3GW planned to be delivered between 2019 and 2022<sup>7</sup>.
10. At a time when there are proposals for further integration through a European energy union and security of supply measures, it is important that this cross-border trade can be maintained without any barriers that would impact on prices or security. Irrespective of the form of Brexit, the UK will face a choice of either building more electricity generating capacity at home, or importing more electricity via interconnectors from abroad.
11. Which? hosted a roundtable with a range of sectoral experts and stakeholders to explore the potential implications of the EU's exit for consumers in terms of energy in the Spring of 2017. Continuing access to the evolving IEM was seen as crucial. While other risks to security face the sector, continuing to be part of the IEM is likely to reduce the costs of

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<sup>1</sup> Research was carried out between 26th April and 4th May by Populus on behalf of Which?, who conducted online interviews with 511 business owners and directors within SMEs in various sectors across UK.

<sup>2</sup> Living Costs and Food Survey 2015/6, Office for National Statistics

<sup>3</sup> UK Energy in brief 2017, Department for Business, Energy and Industrial Strategy, July 2017

<sup>4</sup> Fieldwork was conducted 16-17 November 2016. The Which? Consumer Insight Tracker

(<http://consumerinsight.which.co.uk/tracker/worry>) is a nationally representative online survey of around 2,000 UK households every other month.

<sup>5</sup> Annual fuel poverty statistics report 2017, England, Department of Business, Energy and Industrial Strategy, June 2017

<sup>6</sup> UK Energy in brief 2017, Department for Business, Energy and Industrial Strategy, July 2017

<sup>7</sup> <https://www.ofgem.gov.uk/electricity/transmission-networks/electricity-interconnectors>

## Which?

maintaining energy security. If the UK does retain access to IEM but without the policy-making power, there are risks of a divergence in policy direction between the EU and domestic energy policy. The risks are heightened for Ireland and Northern Ireland, as the UK retains policy responsibility for Northern Ireland, even though it is part of the Irish electricity market. The issues and impacts are also different for different types of energy. It is important to distinguish oil, traded on a global level, from gas and electricity, which are more regionally-based markets. In particular, the latter is far more dependent on trade with the EU and European Free Trade Association (EFTA).

### **Wider considerations**

12. A number of short and longer-term risks also need to be taken into account. This includes the contribution of a weak pound to wholesale cost increases, as well as the potential impact on heightened perceptions of risk around investment – although Brexit is just one of many policy factors affecting this. This includes the potential impact that increased costs and risks may have on the growth of smaller suppliers, and potentially fixed-term deals that undercut the standard variable tariffs that most consumers are on. If new entrants are under-capitalised and inadequately hedged against such cost changes, there may be a risk of supplier failure if wholesale costs peak for any length of time and increases in policy costs feed through. Domestic energy policy will need to take account of greater uncertainty and less stability over longer-term periods, without the flexibility afforded by a larger EU supply network.
13. There is, however, now an opportunity to develop a clear domestic policy on energy. Decisions around implementation of the 5th Carbon Budget and Industrial Strategy will require the UK to look beyond electricity to a broader carbon emissions framework that includes heat and transport. Energy efficiency, particularly around heat, will be an important aspect. It is important that this energy policy framework does not lead to expensive, unnecessary generation projects that could distort the UK electricity market, inflating costs to consumers for many years to come. The UK should explore how to encourage innovation that could benefit consumers, including making the most of the smart meter roll-out, encouraging innovation in energy efficiency and ensuring there is a good investment environment for improved supply chain technologies.

### **Priorities for the negotiations**

14. The negotiations must ensure that the future arrangements between the EU and UK maintain flexibility through cross-border trade, without any additional costs that will impact on consumers - for electricity, gas and oil.
15. Agreement is also needed on co-operation with regulatory and standards bodies that govern the cross-border energy market, including the European Network of Transmission System Operators for Electricity and Gas (ENTSO-E/G), the Agency for the Cooperation of Energy Regulators and Euratom, which sets the legal framework for generation and waste disposal.

### **Beyond the negotiations**

16. Energy policy is already set at a national level, although subject to an EU framework that is seeing further development towards an Energy Union. The UK must therefore focus on



developing a domestic energy policy that addresses the broader challenges facing the sector, along with issues raised by Brexit. It may be beneficial to stay linked to some aspects of the EU system (e.g. the emissions trading scheme) but the UK will be able to set its own national targets, for example in renewable generation or roll out of smart meters.

17. Consumer protections should be maintained. Beyond the EU Withdrawal Bill, opportunities for greater flexibility should be taken. This could include retail measures such as incentivising companies to provide information to consumers to help their decision-making and engagement, or supply-chain measures that allow faster development of new technologies such as generating technologies or energy management systems.

### **Consumer engagement**

18. Effective consumer engagement will be essential in shaping policy and agreeing the priorities going forward, particularly where there may be difficult trade-offs between short-term price issues and longer-term security and affordability.

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