



The Rt. Hon. Greg Clark MP  
Secretary of State  
Department for Business, Energy and Industrial Strategy  
1 Victoria Street  
London, SW1H 0ET

27<sup>th</sup> September 2016

Dear Secretary of State,

**Maintaining reliable, affordable and lower-carbon energy supplies for UK consumers**

I am aware your officials are assessing the implications for energy consumers of the UK's vote to leave the European Union. The challenge is to ensure any changes to the energy relationship between the UK and the EU are consistent with the provision of reliable and affordable energy which consumers rely upon. With this in mind I wanted, in the annex to this letter, to outline initial considerations which I hope can support your Department's work and deliver a sustainable way forward for energy consumers in the GB energy market and Northern Ireland.

SSE is a UK-listed energy company, and the broadest-based energy provider in the UK and Ireland. It operates across the energy value chain in the GB energy market and generates and supplies electricity and gas to customers in Northern Ireland and the Republic of Ireland.

The GB energy market requires considerable investment in the years ahead and SSE has outlined plans to invest around £5.5bn in the period 2016-20. We said prior to the referendum that it did not present an immediate risk to how we serve our customers or to our investments, and this remains the case. For SSE GB and Ireland are our core markets and where our customer base resides. We therefore take an active interest in how the market develops and how we can assist your Department in meeting its energy aims.

As the UK - EU energy relationship develops our focus will be to identify opportunities that can benefit our customers, employees and shareholders. It is their interests that will guide our approach.

We hope to continue to have a constructive dialogue with your Department as the Brexit process ensues. At this stage SSE advocates three priorities for the development of the post-Brexit GB and Northern Ireland energy markets:

- Providing **stability** for future and existing UK energy investments by maintaining existing energy policy frameworks;
- Ensuring continued **security** of UK energy supplies by retaining the ability to access and trade with European electricity and gas markets; and
- Enabling Northern Ireland energy consumers to continue to benefit from market **efficiencies** by maintaining the Single Electricity Market and arrangements for gas.

The UK's participation in the EU's Internal Energy Market (IEM) has generally been beneficial to the development of the GB energy system and the UK has been instrumental in helping to shape the IEM's direction. However, were there now to be a divergence in the regulatory landscape between the UK and the IEM it would not necessarily be disruptive to efforts to meet the UK's energy aims. The energy industry is accustomed to a continuously evolving regulatory framework to meet the changing needs of consumers and society at large. As long as any change is supported by sufficient consultation and features agreed periods of transition then it can be managed. These issues are explored in greater detail in the annex to this letter.

More broadly, SSE would advocate that the UK maintains a co-operative and collaborative wider relationship with EU Member States and countries in North West Europe which have similarly structured energy markets, irrespective of its participation in the IEM. There are potentially transformative changes in European energy systems in the years ahead, from smart metering and flexibility to more regional system operation and opportunities to harness large-scale, low-carbon investments such as offshore wind in the North Sea. The UK can continue to benefit from close collaboration on these issues which will transcend national borders and provide cost-efficiencies as well as opportunities for shared learning and best practice.

Finally, the UK – EU energy relationship is an inherently complex matter requiring more detailed consideration than it is possible to convey in a letter. The considerations outlined below are therefore intended only to support your Department's work at this early stage in the process as it seeks to deliver a sustainable way forward for consumers in the GB and Northern Ireland energy markets.

If I or a member of the SSE team can provide further information please get in touch.

Yours sincerely,

**Alistair Phillips-Davies**  
**Chief Executive**

CC:

The Rt Hon. David Davis MP, Secretary of State for Exiting the European Union  
The Rt. Hon. Greg Hands MP, Minister of State for Trade and Investment  
Baroness Neville-Rolfe DBE CMG, Minister of State for Energy and Intellectual Property



**Maintaining reliable, affordable and lower-carbon energy supplies for UK consumers**

**Priorities for the development of the post-Brexit GB and Northern Ireland energy markets**

September, 2016

## Overview

In this document SSE outlines three priorities for the development of the post-Brexit GB and Northern Ireland energy markets:

- Providing **stability** for future and existing UK energy investments by maintaining existing energy policy frameworks;
- Ensuring continued **security** of UK energy supplies by retaining the ability to access and trade with European electricity and gas markets; and
- Enabling Northern Ireland energy consumers to continue to benefit from market **efficiencies** by maintaining the Single Electricity Market and arrangements for gas.

SSE believes that these priorities can form the foundations of an energy system for UK consumers that is reliable, affordable and lower-carbon, and is able to adapt to future changes.

### Providing stability for future and existing UK energy investments by maintaining existing energy policy frameworks

The UK's electricity infrastructure requires significant investment if it is to continue to supply power that is reliable, flexible and lower-carbon, at a cost that is acceptable to consumers. Whilst the level of investment required is difficult to ascertain, and the development of smarter technologies and a more flexible system will significantly change how the electricity system operates, it is clear that over the next decade ageing assets must be replaced with investment in more flexible and lower-carbon alternatives.

#### *Ratifying the Paris Climate Change Agreement will send a signal on ambition*

The UK has legally binding climate change targets and SSE was encouraged by the fact that one of this Government's first actions was to approve the Fifth Carbon Budget for the period 2028-32. SSE welcomes recent statements on this matter by the Prime Minister and looks forward to the UK Government ratifying the Paris Climate Change Agreement as soon as is practical. Taken together this would send a clear signal that the UK will continue to reduce its carbon emissions and work toward the ambitions agreed in Paris.

The vote to leave the EU has not caused a material change in SSE's investment outlook at this stage. Major infrastructure projects including the Beatrice offshore wind farm and the Caithness to Moray electricity transmission link, are continuing unchanged.

However, a period of stability is required to maintain the confidence of energy investors in the UK following a period of volatility in the political and regulatory environment. Energy is a long-term investment: it can take anything from 5 to 10 or more years for a major energy project to go from initial scoping to operation. As such, decisions are being taken now for projects in the 2020s. These projects require a stable policy and regulatory framework if they are to be financed.

*A framework for a low-carbon and affordable GB energy system in the 2020s is emerging*

Going forward UK energy utilities and investors are seeking long-term certainty about the investment outlook. SSE strongly advocates that, where possible, the existing investment mechanisms which formed the GB Electricity Market Reforms (EMR) should be maintained. In particular:

- A commitment and clarity that the UK Government will work toward a robust and stable carbon price in the period to at least 2025 delivered through the **Carbon Price Floor** for GB electricity generation. Particularly as the UK's participation in the EU ETS cannot be guaranteed at this stage;
- The maintenance of the **Capacity Market** with annual capacity auctions to support the economics of existing thermal plant in GB. This will ensure reliable supplies are maintained at an affordable cost to consumers, as well as supporting the investment case for new gas-fired plant, electricity storage, and DSR; and
- Supporting low-carbon forms of generation, such as renewables, in the 2020s by allocating incrementally lower cost **Contracts for Difference (CfDs)** through competitive auctions.

These mechanisms alongside: preserving the principle of 'grandfathering' existing assets, introducing the CMA's recent remedies regarding the supply and acquisition of energy and Ofgem's RIIO model for setting price controls for electricity and gas network companies, can form the framework for continued low-cost energy investment in GB, regardless of the UK's precise relationship with the European Union.

Each of these policy and regulatory mechanisms has been implemented in recent years following a lengthy period of development and consultation. The structure of the GB market in the early 2020s can be built around these mechanisms which are now understood by both investors and market participants and are becoming embedded into the functioning of the energy system. It will be important to ensure that the development of regulatory policy whether it is in Europe or in GB is supportive of these important foundations. This will allow them to form the basis of a framework to support the necessary energy investment in the GB market into the 2020s.

### **Ensuring continued security of UK energy supplies by retaining the ability to access and trade with European electricity and gas markets**

*The ability to access electricity and gas from the EU's Internal Energy Market is desirable*

SSE would advocate for the continuation of non-restrictive electricity and gas trading between the UK and the EU's Internal Energy Market (IEM), irrespective of the nature of the UK's wider relationship with the EU. If access to the IEM is not agreed then significant changes to the operation of the GB market will need to be devised and implemented in a potentially relatively short time period, and any approach taken in such a scenario could have cost implications for GB consumers.

The question of whether the UK is able or willing to remain a participant member of the EU's Internal Energy Market (IEM) is not fundamental to the provision of reliable, affordable and lower carbon energy supplies. Until there is clarity about what arrangements are possible it is too early to consider all the intricacies of the IEM - from Network Codes to its governance - for consumers and the functioning of the GB energy market and the Single Electricity Market in Ireland.

The UK is currently a net importer of both electricity and gas. SSE's principal concern regarding the UK's relationship with the IEM is therefore its ability to access the energy it requires to meet the needs of its customers.

*Secure electricity supply can be achieved through GB generation, flexibility and storage*

Currently the UK's 4GW of electricity interconnection capacity helps support the System Operator to balance generation and supply and help to meet peaks in demand and deal with surpluses in supply. The number of interconnectors between GB and the rest of Europe is expected to increase over the coming years, as a result of consents already given, and will receive bill-payer support through Ofgem's 'Cap and Floor' regulatory regime. It would be prudent to take efforts to level the playing field between interconnectors and GB generation so that the latter is not at a disadvantage. Furthermore, an understanding of the future energy relationship between the UK and the EU is required, before supporting increased GWs of electricity interconnection. Doing so will help to ensure sustainable and affordable outcomes for GB consumers.

If desired the UK could become self-sufficient for its electricity capacity needs over time. This could be achieved through an increase in GB-based generation capacity, such as new gas-fired power stations, which can be supported through the Capacity Market. Alongside this the GB market could benefit from increased electricity storage capacity, which could include large scale bulk storage such as new pumped storage capacity as well as decentralised and, in time, domestic storage facilities as the consumer becomes a more active market participant. An efficient set of market arrangements will ultimately determine the most efficient and secure mix of imports and domestic resources needed to meet UK consumer needs.

*Reliable and affordable gas supplies require a diversity of sources from imports, gas storage and LNG*

The continued decline in both the UK Continental Shelf and Norwegian production makes GB increasingly reliant for its gas needs on LNG and pipeline imports from continental Europe. It is expected that this reliance on imports will become even greater over time.

The reliability and affordability of UK gas supply is due to its diversity. In this regard, access to European gas markets is particularly critical for GB consumers and can help to ensure reliable and diverse supplies. SSE would therefore advocate that a priority consideration is the continuation of non-restrictive gas trading through gas interconnectors with Belgium and the Netherlands.

If a sustainable arrangement cannot be found to trade gas with IEM members then necessary steps will need to be taken to improve gas supply in GB. One option would be to increase gas storage capacity to increase the UK's gas stocks and help to ensure access to the volumes of gas needed to serve the needs of homes and businesses, particularly in winter. Currently the UK has less gas storage than many other European countries and relies on ageing gas storage assets. The economics and outlook for UK gas storage are currently challenging, due largely to the lack of seasonal volatility in the wholesale price. Were the UK to not continue with the option of accessing gas from IEM members then changes to the regulatory framework for gas storage may be required.

Furthermore, in such a scenario assessing the need for increased LNG import capacity and building relationships with LNG suppliers, including new supplies from Australia and the US, may also be prudent. SSE would likely seek to adopt a longer-term approach to the trading of gas to ensure it has the supply required for its customers and its gas-fired power stations. It would welcome a UK regulatory and legislative regime which is supportive of such a long-term approach.

### **Enabling Northern Ireland energy consumers to continue to benefit from market efficiencies by maintaining the Single Electricity Market and arrangements for gas**

Wholesale electricity trading in Ireland and Northern Ireland has operated under the Single Electricity Market since 2007. This 'All-Island' arrangement has enabled efficiencies from a larger market. It has built and supported competition and the cost-effective construction of generation capacity to ensure security of supply.

As a market participant in both Northern Ireland and Ireland, SSE advocates maintaining the SEM and transitioning to the proposed Integrated Single Electricity Market (I-SEM). This can further increase liquidity in the market and reduce costs for consumers.

SSE believes a harmonised market across Northern Ireland and Ireland, as also exists in GB across England, Scotland and Wales, has benefitted consumers. This is due to the island's continuing energy import dependency. Furthermore, Northern Ireland's consumers are increasingly dependent on electricity imports from Ireland and the whole market is reliant on trading electricity and gas with GB. As with the need for GB to continue to be able to trade freely over interconnectors, if this arrangement is not maintained then alternative arrangements may need to be devised in a relatively short period of time.

### **Conclusion**

As a UK-based energy company SSE takes an active interest in the development of its core markets. In this letter SSE has outlined three priority areas for the Government's consideration as the post-Brexit GB and Northern Ireland energy markets develop. These priorities are intended to help the UK Government in meeting its aims and delivering a sustainable way forward for consumers, investors and energy market participants.