Gas producers may gain from Brexit

Andreas Walstad / Brussels

Experts debated the impact of Brexit on Europe's energy industry at an event hosted by Interfax Global Energy in Brussels on Wednesday.

Ana Stanic addresses delegates at the Interfax conference in Brussels on Wednesday. (Interfax)

GAS PRODUCERS AND traders may take advantage of increased volatility and higher prices on the UK's National Balancing Point (NBP) if the country exits the EU's single energy market, speakers told a conference hosted by Interfax Global Energy in Brussels on Wednesday.

Thierry Bros, a senior research fellow at the Oxford Institute for Energy Studies, told participants that the Dutch TTF had overtaken the NBP as Europe's most liquid gas hub. Prices at the NBP would increase and become more volatile than those at the TTF if the UK left the single energy market, he added. "[The] NBP will not be the reference anymore," said Bros.

"Independent trading houses, Norway and LNG producers could take advantage of the increased NBP premium and volatility versus the TTF," he added. "However, higher volatility is not something that policymakers like very much."

Market segmentation would allow for arbitrage between price zones, added Bros. "Norway could be interested in supplying two different markets: continental Europe and the UK. Segmentation is a good thing for producers," he said.

Peter Stewart, chief energy analyst at Interfax Global Energy, said the UK would likely need to import more LNG and boost its storage capacity following Brexit.

"The UK has always been an LNG importer; the LNG terminals have been underutilised in the past. After Brexit, they could be used more to ensure supply security," said Stewart.

Although more storage capacity is needed to boost security of supply, the differentials between summer and winter prices are currently not high enough to attract investors, he added. "The question is: who foots the bill for new storage? The low winter/summer spread does not facilitate investment at the moment," said Stewart.

Single market exit

Graham Taylor, vice president and senior utilities analyst at Moody's ratings agency, said it was a "reasonably good bet" that the UK would leave the single energy market and end market coupling arrangements.

This could increase the volatility of British energy prices. However, "given persistent price differentials between the UK and Europe, the UK will continue to import electricity, and our current expectation is that the next generation of planned interconnectors will still be built", said Taylor.

This will allow imported power to influence prices more and more often in the early 2020s, placing downward pressure on both generation and capacity revenues.

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Speakers also highlighted the uncertainty surrounding EU state aid rules in the energy sector post-Brexit.

"We do not know what the new state aid rules in the UK will be," said Ana Stanic, an energy expert at E&A Law. "In principle, the UK has been strongly supportive of state aid rules and has an excellent record of compliance with such rules."

However, if no deal is reached within the statutory two years of Brexit negotiations, the UK will go straight to World Trade Organization rules, she added. "What is then going to happen to undecided state aid that has already been notified to the commission but is not yet approved?" said Stanic, adding that Austria's legal challenge against the Hinkley Point C nuclear power plant was one of many uncertainties.

Marco Giuli, a Brussels-based policy analyst at the European Policy Centre, highlighted that countries such as Norway have had less influence over EU energy policy since the 2007 Treaty of Lisbon gave the European Parliament a bigger role in decision-making.

"The influence of Norway in European energy policy has been declining, particularly with the Lisbon treaty and the increased powers of the parliament, and the introduction of trialogues to fast-track legislation" he said.

To this end, it would be reasonable to expect the UK to have limited influence over EU energy policy post-Brexit under any type of relationship, Giuli added.

The UK government officially triggered Article 50 on Wednesday, paving the way for two years of negotiations. The six-page letter was handed to Donald Tusk, the president of the European Council, in Brussels at around noon local time.

"There is nothing to win in this process, and I am talking about both sides. In essence, this is about damage control. Our goal is clear: to minimise the costs for the EU citizens, businesses and member states," said Tusk in a statement.

"And what we should stress today is that, as for now, nothing has changed: until the United Kingdom leaves the European Union, EU law will continue to apply to – and within – the UK," he added. ■

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