PLMR COMMUNICATIONS WITH IMPACT

2019 PREDICTIONS: ENERGY AND ENVIRONMENT

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The UK's exit from the European Union looms large over all sectors of the economy in 2019 – and energy is no exception. However, the immediate EU-related concern for many in the industry as we move into new year will not be Brexit but rather the uncertain status of the **Capacity Market (CM)** – the Government's mechanism for ensuring sufficient generation is available to keep the lights on at peak times.

At present the CM is suspended pending EU state aid approval, following a shock decision by the European Court of Justice in November to revoke its legal status. The outcome of this is that many peak generation plants are no longer bringing in income on existing contracts, threatening not just business cashflow but, if unresolved, security of supply over the winter of 2019 and 2020, with the possibility that plants will be closed or mothballed. Whilst it is likely that the CM will be reinstated, this can't be treated as a certainty, and the timeframes remain unclear.

This lack of regulatory clarity comes at a bad time for the industry. In particular, **Brexit** (assuming it goes ahead) adds an additional layer of complexity not just to the CM situation but to many others besides. The UK's departure from Euratom, which regulates the nuclear industry across Europe, and the uncertainty over future participation in the Internal Energy Market means that trade in electricity, gas, nuclear materials and associated expertise are all up in the air.

Also in the air (literally) is the UK's **carbon policy.** The Government has confirmed it will retain a carbon price in the event of a 'no deal' Brexit, but this would mean leaving the EU's flagship Emissions Trading Scheme (ETS). With the ETS price rising, the Government will play a balancing game between supporting UK competitiveness post-Brexit and maintaining environmental leadership – in particular continuing to drive coal off the grid.

Renewables will take a growing share of the country's electricity mix, and their cost will continue to fall – although associated grid balancing services and fluctuating wholesale prices mean that bills are likely to go up rather than down. The growth of 'behind the meter' **storage** will help businesses and individuals who invest to insulate themselves from this (to an extent).

The next **Contracts for Difference** auction in May will continue to support the rollout of ever-cheaper offshore wind, though the Government will come under pressure from both sides of the renewables industry – established technologies (onshore wind and solar) and newer entrants (e.g. tidal, wave) – to do more to support their growth.

Heat and transport have long proven more challenging to decarbonise, but we should expect electric vehicles to have a major breakthrough and become significantly more visible on our roads this year. The Government's funding for low carbon district heating programmes should also mean that large scale tenders are allocated in 2019, promising major urban deployments in the 2020s.

In the environment sector more widely, **plastics policy** will continue to grab the headlines, with a string of consultations associated with the Government's recently published Resources and Waste strategy taking place throughout the year. Expect to start seeing a reduction in single use plastics such as straws and plastic cutlery, as manufacturers and retailers prepare for these to be banned across the EU by 2021. Packaging has already started to change, and will continue to do so, as higher levels of recycled content become increasingly expected by consumers and regulators alike.

One significant piece of policy that has already been introduced is a new Food Waste Hierarchy, which dictates that surplus edible food should be redistributed as a first option rather than being used for animal feed or sent to landfill. The months ahead will therefore see food manufacturers under greater pressure to ensure that their food reaches people's plates, as was intended.

For various reasons Michael Gove is unlikely to still be Environment Secretary by the turn of 2020, but the character of his proposed post-Brexit environment watchdog will be a contentious point of debate. His present proposal would give the Secretary of State the power to appoint the Chair and set the budget of the watchdog, calling into question its independence.

Of course, much of the above is impacted by the character of Brexit – how independent will we really be of EU law? Will we face no deal chaos? Will we leave at all? 2019 will continue to be dominated by this discourse, even as outside the Westminster bubble the technological and environmental drivers of change ratchet up yet again.