Brexit and the UK's energy policy

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With a week to go until the 23 June referendum, the odds on the UK exiting the EU are shortening. “The momentum is such that it seems inevitable Brexit will be favourite by the weekend,” bookmaker William Hill said mid-week.

Trying to assess the way the vote will go, whether through polls or bets, is a notoriously unreliable science. So too is trying to consider the impact an exit from the EU would have on upcoming energy projects in the UK.

It is clear that two of the cornerstones of the UK government's long-term energy strategy - nuclear power and transmission interconnectors - are propped up by foreign investors. What threat Brexit is to these plans is harder to predict however.

Nuclear

New nuclear projects in the UK are entirely dependent on foreign investment. The largest upcoming project, the £21 billion, 3.2GW Hinkley Point C, is reliant on European and Chinese investment and sponsorship. The equity partners in the project – France’s EDF and China’s CGN – have committed to invest up to £13.8 billion and £6.9 billion in equity, respectively.

The project’s debt financing is also likely to be heavily dependent on France. In order to fund Hinkley’s capital expenditure, EDF has said it could try to raise €4 billion this summer. Up to €3 billion of the rights issue would be backstopped by the French government, which owns 85% of the company.

EDF has remained neutral on the referendum. Chief executive Vincent de Rivaz told a House of Commons committee last month “Hinkley Point C is needed whatever the result of the EU referendum. [It] is needed for the country, the policy of de-carbonisation, the policy for securing supply, the policy of partnership with France, with China.

“All these elements are not dependent, in my view, on the result of the EU referendum.”

But Hitachi, the owner of the next nuclear project in line to be built in the UK, the £14 billion, 2.7GW Wylfa Newydd, has taken a different view.

Hitachi’s president Toshiaki Higashihara told Japanese newspaper The Asahi Shimbun this week that he opposed Brexit. He cited Hitachi’s 2015 decision to build infrastructure maintenance and operational facilities in the UK “because Britain is part of the EU and we are considering expanding into the EU.”

Should these projects get financed, there also remains the issue of a weak UK nuclear supply chain. Andrew Hilton, director of think tank Centre for the Study of Financial Innovation (CSFI) said this week that an estimated 66% of UK construction firms have turned down contracts because of a shortage of skilled staff. The technology developed for both Hinkley and Wylfa is foreign. Wylfa has already selected international, not domestic, construction contractors from the US and Japan.

Making - or breaking - connections

The burgeoning pipeline of interconnector projects in the UK could be adversely affected by next week's vote.

Sharing power between countries via interconnector cables is a cornerstone of the European Commission's plans for an integrated, Europe-wide shared electricity market. The European Council in October 2014 called for all member states to achieve interconnection of at least 10% of their electricity capacity by 2020.

The UK is one of 12 member states the EC judges to be insufficiently connected with the EU electricity market, and there are at least five approved interconnector projects in the UK pipeline, linking the country with EU members Denmark, France and Ireland.

Groupe Eurotunnel, the sponsor of the €400 million ($433.35 million), 1GW Eleclink interconnector project to share power between the UK and France is planning to reach financial close this summer. A source told *IJGlobal* last month the sponsor "has received positive market signals" about the deal, but admitted the timing of the referendum has made advancing the transaction "awkward."

UK energy minister Amber Rudd argued in March that interconnector projects are likely to suffer in the event of a Leave vote. "Britain's geography means we are exposed. We are an island." If the UK were to sever ties with the EU, "it is potentially much harder for us to import and export electricity and gas," she said. "It was Britain that pushed to break up the monopolies on building cross-border cables […] exposing them to proper competition that drives down costs," she said. Although it is important to acknowledge that she is a supporter of the Remain campaign, and so her impartiality can be questioned.

Other technologies

Nuclear and interconnectors are just two energy resources typically funded by foreign investors. In the offshore wind sector, for instance, the recent £1.5 billion Dudgeon offshore wind farm financing featured an exclusively non-UK equity and debt group.

In 2014, direct investment in UK utility projects from elsewhere in the EU amounted to some £45 billion and the UK has received around a third of the EU's renewable energy investment to date.

This is in contrast to the infrastructure sector. Two of the largest upcoming major transport projects – the £15.9 billion Crossrail, for example, and £42.6 billion High Speed 2 – are predominantly financed by the UK state.

Energy as a sector is typically far more dependent on foreign investment than transport and social infrastructure. Whether international investors are less attracted to the UK following Brexit, will only be seen if the country votes to leave the EU next week.