



The Scottish Parliament  
Pàrlamaid na h-Alba

Economy, Jobs and Fair Work Committee

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Dear Paul

**POEC**

Please find attached a note setting out the Committee's findings from our recent short and focused inquiry into the Scottish Government's proposed Publicly Owned Energy Company.

We hope you will find this useful in terms of the focus and framing of your forthcoming consultation document.

Kind regards

Gordon Lindhurst MSP  
Convener

# Economy, Energy and Fair Work Committee

## Publicly Owned Energy Company

### Introduction

1. This paper addresses the Scottish Government's proposal for a Publicly Owned Energy Company (POEC).
2. It sets out the Economy, Energy and Fair Work Committee's findings from commissioned research, a call for written views, and evidence sessions held on 2 and 23 October 2018.

### Background

3. In its 2017 consultation on the draft Scottish Energy Strategy, the Scottish Government included a question on the role and remit of a "Government Owned Energy Company to help the growth of local and community projects".
4. Later that year it made a commitment to establish by the end of this parliamentary session (March 2021) a not-for-profit Publicly Owned Energy Company (POEC) to supply energy to consumers at as close to cost price as possible.
5. EY were commissioned to prepare a [Strategic Outline Case](#) (SOC), published in March 2018 and setting out a series of operating models for providing competitively priced energy and help to alleviate fuel poverty.

### Committee Approach

6. The Committee first considered the idea of a POEC in relation to the Scottish Government's Draft Energy Strategy, writing to the Minister in June 2017 with our [findings](#).
7. As part of our ongoing scrutiny of energy policy, a [research paper/scoping note on the topic](#) was commissioned by the Scottish Parliament Information Centre (SPICe) on behalf of the Committee.
8. Published in June 2018 alongside [a call for views](#), the paper reviewed the evidence on establishing a POEC and looked more widely at what the purpose and model of such a body could be.

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9. Its author, Ragne Low of the [Centre for Energy Policy](#), suggested four overarching objectives that a Scottish POEC could have—
  - Creating new energy infrastructure platforms
  - Accelerating wider energy system transformation
  - Increasing engagement and participation in the energy system
  - Reducing costs to consumers
10. The paper concluded that a Scottish POEC could deliver on a number of these objectives.
11. The call for written views closed on 13 September and [36 responses were received](#). The following key questions were asked—
  - What are your general views on the idea of a Scottish publicly owned energy company (POEC)?
  - What role should it fulfil and how?
  - What are the key challenges that the POEC should address?
  - How might a Scottish energy supply company work best to support the growth of local and community projects, and fuel poverty reduction?
  - How can the POEC be best designed to align with wider Scottish energy policy objectives, and to avoid potential policy conflicts?
  - Should a new Scottish POEC be more than solely a licensed energy supply company? Should it have a direct role in energy generation?
  - How might the POEC be designed to promote objectives and functions beyond the retail of gas and electricity (e.g. supporting investment and innovation in new technologies and infrastructure)? What benefits are there to having wider objectives?
  - What governance arrangements should a Scottish POEC have? Who should it be accountable to e.g. Parliament?
  - Should legislation be required to underpin the creation of a POEC?
12. On 30 August 2018, the Minister for Energy, Connectivity and the Islands [wrote to the Committee](#) with an update—

*“I have now written to COSLA to invite COSLA and its members to work alongside the Scottish Government to take this work forward and, in partnership, to develop a Local Authority based approach. Our ambition is to realise the significant potential opportunities to deliver against fuel poverty and economic development objectives that could be achieved through developing a public energy company that is involved*

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*in generation and supply. This is a tremendous opportunity to capitalise on Scotland's natural advantage in renewable energy resources."*

13. The Minister highlighted the SOC's view that a phased approach would be most appropriate, stating that—

*"...the focus of the first phase, to be delivered by the end of this session of the Scottish Parliament, will be to explore ways in which Local Authorities, individually or collectively, may be able to put in place white label arrangements or other arrangements with one or more existing energy companies to supply electricity and gas at a fair price. This would provide valuable impetus to our shared ambition to tackle fuel poverty."*

*"Ultimately, we would wish to see this, potentially, developed further through direct renewable generation and the purchase and supply of energy, delivering further economic development opportunities locally and nationally."*

14. The Scottish Government, he said, had *"initiated procurement of an outline business case to investigate these proposals further and to develop the practical details"*.

### Concept and role

15. There appeared to be broad support for establishing a POEC, if little detail on or consensus for the best way forward. There was, however, broad agreement that simply supplying energy in an already crowded retail market would not be enough. What extra value, then, might a POEC add?

16. Scottish Renewables' Peter Spiers said—

*"...the difference that a publicly owned energy company could make would be through the political will to establish it. The Scottish Government's energy strategy notes the benefits of community decentralised generation...The financials might be difficult from a private sector perspective, but the Scottish Government recognises the advantages..."<sup>1</sup>*

17. The need for clarity of purpose was encouraged by Our Power Energy Supply (OPES). Alister Steel told the Committee—

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<sup>1</sup> OR, 23 October, Cols 8-9.

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*“...the Publicly Owned Energy Company has to be clear about what it is trying to achieve. If the market is not working and you are looking to intervene in the market, is having a company enter into that market the right thing to do, or are there other ways you could intervene to address the problems that you have identified?”<sup>2</sup>*

18. The central issue for OPES was “*how the supply chain works*” and whether anyone is disadvantaged by that. From that perspective, an agency rather than a company was considered the best option.<sup>3</sup>

19. Community Energy Scotland’s Nicholas Gubbins saw “*a huge opportunity*” to democratise the energy system—

*“That would be a good thing because there would be a much higher level of engagement...It is difficult to see that happening through the existing set-up of very large, privately controlled companies with limited or low levels of democratic accountability.”<sup>4</sup>*

20. He linked the local dimension with a stronger sense of ownership for consumers, citizens being his preferred term, their engagement being “*critical*”.<sup>5</sup>

21. OPES did not see evidence that a new company could make “*a big impact on fuel poverty*” on the basis that accessing disengaged consumers was “*very difficult*”. Alister Steele outlined the changes to the market over the next decade and said—

*“The people who are disadvantaged in the current market will be even more disadvantaged in the future market, so the challenge will be to ensure that nobody is left behind in that energy transition”.*<sup>6</sup>

22. Citizen’s Advice Scotland (CAS) noted in written evidence that “*rates of fuel poverty remain stubbornly high in Scotland with 26.5% of households being fuel poor in 2016*”, and that “*finding the best route to deliver...is complex*”. Professor Catherine Waddams stated that “*there is a danger that conflicting and/or poorly defined objectives result in poor achievement of any of them*”.

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<sup>2</sup> OR, 23 October, Col 3.

<sup>3</sup> OR, 23 October, Col 3.

<sup>4</sup> OR, 23 October 2018, Col 2.

<sup>5</sup> OR, 23 October 2018, Col 5.

<sup>6</sup> OR, 23 October 2018, Col 7.

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23. Ragne Low told the Committee that the proposal had begun with strategic aims before moving towards more of a consumer focus. However—

*“A lot is going on already on fuel poverty, so if the company is going to focus on it exclusively, it will need to be very well aligned with the actions.”<sup>7</sup>*

24. As well as alignment, she emphasised the need for *“a narrower focus now we have reached the point of putting forward concrete proposals”*.<sup>8</sup>

25. Much of the written evidence noted that retail supply of electricity and (to a lesser extent) gas is a low margin market. Professor Waddams again—

*“There is no reason why a POEC would have significantly lower costs than a privately-owned company, and the low profit margins, particularly in electricity, indicate that there is little scope for much lower prices without breaching state aid rules.”*

26. CAS highlighted the need for a POEC to *“acquire a sufficiently large customer base”*, and Professor Waddams suggests that *“it may be necessary to raise prices to those who show some loyalty to achieve break even in the longer term. The ability to do so will be somewhat constrained by Ofgem’s price cap on default tariffs”*.

27. However, the problem of acquiring new customers, in a traditionally *“inert”* market may be difficult. CAS highlighted its Consumer Tracker Survey which *“showed the overall switching rate to be 25%, while for those in social housing it was 19%, and for unemployed people, 10%”*. It set out some of the challenges that a POEC could address—

- Purchasing community-generated electricity.
- Diversification of energy generation sources.
- Increasing the number of district heating schemes.
- Offering flexibility services to balance local grid demands with local supply in order to connect consumers to cheaper periods of electricity.

28. The Centre for Energy Policy’s (CEP) scoping note outlined—

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<sup>7</sup> OR, 2 October 2018, Col 27.

<sup>8</sup> OR, 2 October 2018, Col 28.

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*“...a POEC that could take a strategic oversight role in the energy sector, driving innovation and supporting investment in and deployment of low carbon energy technologies, coordinating energy efficiency activities to achieve a step change improvement in Scotland’s housing stock, and supporting local energy systems and helping to drive down the cost of energy.”*

29. This was broadly supported by a number of other submissions, for example Professor Tony Mackay, Comhairle nan Eilean Siar, and Common Weal supported a strategic energy agency approach, similar to that of Denmark or elsewhere in Europe.

30. Scottish Renewables also viewed the POEC *“less as a company and more as an agency”*, telling us it provided the opportunity to move in the direction of Sweden or Denmark in terms of having *“embedded in government an organisation that is committed to ensuring maximum renewable generation and supply”*.<sup>9</sup> Peter Spiers said—

*“It could be both [agency and company], but the agenda that we are trying to push is for the company, if it does behave as a supplier, also to act within government in a broader sense.”*<sup>10</sup>

31. Addressing the Minister’s suggestion of a *“white label”* arrangement, Ragne Low described it as *“a hybrid somewhere in-between directly supplying and not directly supplying”* and perhaps *“de-risking the venture”*.<sup>11</sup> Asked about the Minister’s preference for a phased approach, she suggested it made sense given the degree of *“flux and change in the market”*, but—

*“...it is not clear to me yet whether the end point is still trying to address a large number of objectives simultaneously in a way that an energy agency, for example, might be better equipped to do than a supply company.”*<sup>12</sup>

32. Dr David Toke from the University of Aberdeen stated—

*“The key objective for a new Scottish Energy Company...must be, in marketing terms, to demonstrate how it can offer a superior product compared to its competitors at a price that is no higher than that offered by its competitors. The POEC could out-sell rival competitors by giving long term power purchase*

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<sup>9</sup> OR, 23 October 2018, Col 2.

<sup>10</sup> OR, 23 October, Col 4.

<sup>11</sup> OR, 2 October, Col 30.

<sup>12</sup> OR, 2 October 2018, Col 31.

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*agreements to new renewable energy schemes. This will achieve a ‘quality’ selling point that will be unmatched by other electricity suppliers. Although various electricity suppliers boast that their supplies come from renewable energy, usually they only offer PPAs to renewable energy schemes that have been given support on Westminster incentive schemes, the Renewables Obligation and feed-in tariff.”*

33. Common Weal considered that the “*POEC will not be the vehicle for raising funds. This should be a combination of the National Investment Bank, the Scottish and UK Governments, local authorities, housing associations and the DSOs [distribution system operators]*”.

34. In terms of the role of local authorities, partnership working with them having been highlighted in correspondence from the Minister, Robin Hood Energy underlined the importance of their role—

*“They bring together all the climate change objectives, the fuel poverty goals and the roll-out of renewables. They are also the planning authority, and they are generally linked to new housing developments. Their role can be significant, if you get the model right.”<sup>13</sup>*

### **Supporting community/local energy and reducing fuel poverty**

35. Neil Barnes told us there was “*a lot of interest in local energy schemes*” although the current arrangements were not ideal—

*“Ofgem is looking actively at how we could adapt the rules to enable a greater range of business models, whether local energy or other types of trading.”<sup>14</sup>*

36. CAS stated in its written submission—

*“The cost of fuel is one of the four drivers of fuel poverty – the others being household income, home energy efficiency, and how energy is used in the home. If a POEC is to be a retail supply company, then its impact on the other drivers of fuel poverty is likely to be limited. However, if the POEC took on a different form then there may be increased scope to support local and community energy projects. Piloting new project types for example through Power Purchase Agreements, providing expertise to communities, and supporting community ownership were all identified as possibilities in the responses to the Energy Strategy consultation.”*

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<sup>13</sup> OR, 23 October, Col 7.

<sup>14</sup> OR, 2 October, Col 33.



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37. The potential of Power Purchase Agreements (PPAs) was picked up by Ragne Low who suggested there “*might be a role*” for a POEC to pursue “*longer-term*” PPAs with “*a more social objective*”.<sup>15</sup> Local energy systems was an area that did not appear “*to cut across anything else the Scottish Government is trying to do*”, However, it would cover “*only one part of the objectives*” being talked about.<sup>16</sup>

38. Community Energy Scotland suggested they key, if the POEC was to make a difference via PPAs, would be to have “*the combination of capital up front and a revenue stream*”. Nicholas Gubbins also pointed out though that the company “*would not be able to offer much better PPAs than the market currently can*”.<sup>17</sup>

39. Alister Steele reported that OPES had “*a number of PPAs with community generators*” and described the market as “*very active*”, expressing concern that “*a different offer*” from the Scottish Government “*could push up costs*”.<sup>18</sup>

40. The Adam Smith Business School considered that working with existing community energy support schemes and “*taking the lead on providing finance (e.g. through partnership with the proposed public bank) or through the development of innovative finance mechanisms (e.g. bond financing)*” might provide a way forward.

Furthermore—

*“It could also use its revenues from electricity supply to fund renewables generation on its own and in partnership with local authorities and communities. Addressing fuel poverty can best be achieved in the longer term through developing a fully integrated POEC that either generates its own energy or has a partnership with other public or community energy providers, making it less vulnerable to changes in wholesale energy prices. In the short term, it may be possible to offer lower tariffs to lower income customers – both the Robin Hood Energy company in Nottingham and Bristol Energy are examples of public energy companies that have tried to develop mechanisms to address fuel poverty.”*

41. Professor Waddams, however, believed that “*there is likely to be little profit to redistribute, [therefore] one way in which the POEC could reduce fuel poverty is to give special assistance to consumers at risk of fuel poverty to switch to cheaper deals, but this will be limited in the market by restrictions imposed by State Aid rules*”.

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<sup>15</sup> OR, 2 October 2018, Col 23.

<sup>16</sup> OR, 2 October 2018, Col 34.

<sup>17</sup> OR, 23 October, Col 8.

<sup>18</sup> OR, 23 October, Cols 9-10.

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42. CAS's Kate Morrison pointed out that a recent survey had revealed that with some suppliers up to 10% of customers were not even aware they could switch energy company. She said—

*“There needs to be a huge amount of awareness raising to identify and reach the fuel poor and the vulnerable...whether the creation of that company [a POEC] will be the single solution to those issues is another question”.*<sup>19</sup>

### Aligning with Scottish energy policy objectives

43. CAS noted a “vast range of policies attempting to address problems in the energy market”, identifying “36 main policies, funds and initiatives enacted by suppliers, the Scottish Government, Ofgem and consumer bodies” including, for energy efficiency alone—

- Energy Efficient Scotland (EES) scheme
- Green Deal
- Home Energy Scotland Loan Scheme
- Home Energy Efficiency Programmes (HEEPS) Area Based Scheme
- Warmer Homes Scotland
- Climate Challenge Fund

44. It suggested “the complexity and scale of EES means some form of national oversight arrangement will be critical for ensuring its effective and efficient delivery”.

45. Scottish Renewables said—

*“If it were simply to result in a 37<sup>th</sup> intervention, that would not necessarily simplify things, but a system-wide approach could be taken to consolidate and improve on what exists. The opportunity is there, what happens depends on the precise proposal.”*<sup>20</sup>

46. Community Energy Scotland felt the company ought to be able to co-ordinate various agencies and other Scottish Government initiatives.<sup>21</sup>

47. Professor Waddams believed that “it may be clearer if different objectives are delivered by different bodies and instruments, rather than expecting the POEC to meet several objectives which may be in conflict”.

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<sup>19</sup> OR, 2 October 2018, Col 29.

<sup>20</sup> OR, 23 October 2018, Col 10.

<sup>21</sup> OR, 23 October 2018, Col 11.

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48. Professor Andrew Cumbers advocated “*providing the POEC with a clear mission statement to align with existing government priorities*” and considered that while “*it is important to avoid unnecessary conflict, the POEC should at the same time aspire to develop an independent view on energy matters as a source of expert knowledge, advice and democratic voice*”.

49. As to whether the company would simplify or complicate matters, Ragne Low suggested that if the white label arrangement fitted with what local authorities wanted, “*all to the good*”. The concern was that “*a patchwork*” emerged, to which end—

*“It would be good if the proposal could be designed in such a way that would support as many local authorities as possible in their endeavours to reduce fuel poverty and increase energy resilience locally.”<sup>22</sup>*

50. Should the company be independent from or sit within the Scottish Government? Community Energy Scotland suggested within – if not engaged in energy supply – “*so that it would have the weight and policy influence of a Government body or agency*” but independent in a supply scenario.<sup>23</sup>

51. OPES pointed to the experience of Robin Hood Energy—

*“...you can have publicly owned energy companies that sit more at local authority level, where there may be reference to a local energy market.”<sup>24</sup>*

### Potential role in energy generation

52. As noted, the potential for a POEC to have a direct role in energy generation, rather than being solely a licensed energy supply company, was widely commented on, and is one of the key areas for inquiry. Christopher Gibson set the scene—

*“The energy market is generally split into generation, distribution and domestic supply. Each element is often covered by separate legal entities/businesses, under the group ownership of one company, allowing the real overall profit of end to end supply to be considerably higher than the headline figure quoted to the domestic user. This segregation enables companies to present an artificially low profit margin*

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<sup>22</sup> OR, 2 October 2018, Col 34.

<sup>23</sup> OR, 23 October 2018, Col 11.

<sup>24</sup> OR, 23 October 2018, Col 11.

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*for the domestic supply while also making additional profits in generation and distribution. A POEC acting as a licensed energy supply company would only be able to reduce the relatively small profit element of the domestic supply business. To offer significant reductions in cost, the profit margins in generation and distribution must be addressed too. A POEC needs to get involved in the generation business if it is to make a significant reduction in the real cost of supplies.”*

53. CAS recognised that—

*“Suggestions on the nature of a POEC have varied significantly beyond the retail supply of energy, with responses to the Energy Strategy consultation including, but not limited to, suggestions of a community model, a third party licensed supplier (TPLS), a district heating facilitator, an advice provider, a distribution company, an energy agency, a supporter of local planning processes, a driver of innovation, an investor in infrastructure, and an aide for off-gas areas.”*

54. Professor Cumbers believed that *“it should take a more strategic oversight role over Scottish energy objectives and targets, particularly in facilitating the transition to renewables and more energy efficient systems”*, specifically, *“it should have the role of encouraging and supporting local and community renewable generation projects.... Another potential role would be to take a public stake in larger renewables projects with private and corporate partners (e.g. in offshore wind projects)”*.

55. Energy2Consultants did not agree that a POEC should develop a generation arm—

*“...instead it could act as a facilitator to identify organisations and local initiatives that could benefit from government (or otherwise) funding and obtaining energy from these ventures”*.

56. Scottish Carbon Capture and Storage, CommonWeal and Comhairle nan Eilean Siar agreed that the POEC should have a direct role in generation and infrastructure, with CnES suggesting that it should prioritise energy storage infrastructure—

*“We feel that a Scottish POEC can only be of relevance if it exists from the outset as more than a licensed supply company, and would...query the business case for establishing a new licensed energy supply company at the present time.”*

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57. Scottish Carbon Capture and Storage pointed out that “*energy supply companies with a social remit already exist and operate in Scotland*” while the Centre for Energy Policy argued that the POEC could be purposefully designed to accommodate objectives and functions beyond energy retailing—

*“This could be achieved for example by the supply company becoming a subsidiary of a wider group of companies with complementary roles. Or the mission and activities of the supply company could be purposively aligned with those of a strategic oversight body established in parallel with the supply company (and which might have a governance relationship with the supply company e.g. through representation on the supply company’s Board). Or the supply company could be designed with flexibility and growth built in at the outset, as suggested in the Strategic Outline Case.”*

58. However, both Dr David Toke and Professor Waddams sounded notes of caution, with Dr Toke stating that—

*“Being involved with energy generation would make the organisation much more complex and subject to risk.”*

59. Professor Waddams considered that—

*“There are dangers as well as benefits in expecting the POEC to meet wider objectives. One is that it may carry so many potentially conflicting expectations that it will inevitably disappoint at least some of its supporters, who then lobby for changes which are incompatible with its other objectives. Given the importance of the issues, particularly to low income households and those in vulnerable situations, it is important not to ‘set it up for failure’.”*

60. OPES explained that it “*buys rather than generates*” at present, the complexities of that side of the business and the need for capital having “*precluded our doing that*”. However—

*“We could look at way of supporting the generation industry, rather than entering it directly.”<sup>25</sup>*

## How best to promote objectives and functions beyond energy retail

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<sup>25</sup> OR, 23 October, Col 12.

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61. CAS considered that “a POEC is unlikely to be able to take a whole system or coordinating role to support investment and innovation” if there was a sole focus on the retail supply of energy. Therefore, the company should—

*“...be designed to adapt to a rapidly evolving energy market, meeting the needs of future energy consumers. This could include managing ‘flexibility services’ to match lowest cost energy generation with local supply, whilst also offering robust consumer protection in an area that is currently lacking mandatory consumer protection.”*

62. Better matching where energy was generated and used was a point echoed by OPES, Alister Steele telling us—

*“It is important to look at the matter holistically and ensure that local authorities and others invest in renewables both in cities and in remote areas, where there is a lot of generation that bypasses consumers in those areas.”<sup>26</sup>*

63. The Centre for Energy Policy highlighted the increasing importance of data in the energy system and the “rapidly growing set of opportunities and challenges around the collection and use of data”, citing the “the smart meter rollout to better target support to vulnerable and fuel poor consumers, and to supplement this with increasingly sophisticated data collection, monitoring and analysis techniques”.

64. Ofgem told the Committee the market was experiencing a period of “rapid change” and—

*“...we expect significant innovation as a result of the opportunities afforded by new sources of data from smart metering, new technologies such as energy storage or electric vehicles, and new ways of trading such as local energy or peer-to-peer trading. It remains to be seen whether that innovation will come from existing players or from those who are not yet in the market...”<sup>27</sup>*

65. OPES also envisioned a “huge change” with the energy system moving from kilowatt hours “to a much more holistic energy services model”, one in which homes would be better able to generate power and benefit from storage technology.<sup>28</sup> Alister Steele encouraged investment in those Scottish companies “at the leading edge” with such technologies and saw opportunities “to link investment to

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<sup>26</sup> OR, 23 October, Col 16.

<sup>27</sup> OR, 2 October, Col 31.

<sup>28</sup> OR, 23 October, Cols 6-7.

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*employment*”.<sup>29</sup> Robin Hood Energy similarly emphasised the need to join things up, given electric charging and battery storage, or “*we will be missing a trick*”. Gail Scholes said—

*“The market will definitely change, and thought and vision are needed to bring that all together.”*<sup>30</sup>

66. Energy2Consultants made the specific suggestion of “*investigating the opportunities presented by blockchain infrastructure*” which would allow the POEC to trial and potentially roll out an “*energy trading platform for solar and wind generators in residential and SME properties such as the pilots ran by Australian-run firm Power Ledger in Thailand*”.

67. The Community Energy Scotland view was that opportunity lay “*in using power in different ways*” e.g. as a substitute for oil for heat or fossil fuel for transport—

*“The key is to have the will to explore, pilot and test the ways in which power can be linked directly, with the existing infrastructure, to local use.”*<sup>31</sup>

68. Dr Toke suggested that the company “*should liaise with the Scottish National Investment Bank who could offer loans to new renewable energy projects*”, and Scottish Carbon Capture and Storage noted that—

*“CCS has been shown to have the potential to deliver significant economic value. In addition to the potential revenue from providing storage services, CO<sub>2</sub> storage would provide revenue to Scottish Ministers through the Scottish Crown Estate.”*

69. Looking at existing models, particularly at the municipal level, CAS drew attention to Bristol Energy and Robin Hood Energy, Kate Morrison suggesting “*the jury is out*” regarding their sustainability. She also referred to a scoping study carried out for the Energy for Londoners programme which had “*double weighted*” the white-label approach but—

*“...in fact setting up a supply company would have delivered better on revenue retention, more control over tariffs, tackling fuel poverty, generating economic*

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<sup>29</sup> OR, 23 October, Col 11.

<sup>30</sup> OR, 23 October, Col 7.

<sup>31</sup> OR, 23 October, Col 9.

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*benefits such as jobs, getting higher customer numbers and supporting renewables in the area.*<sup>32</sup>

70. Robin Hood Energy themselves spoke about their three years of operation and how they had been able to join up such strategies as climate change and fuel poverty. Gail Scholes said the POEC model at a local level provided “*a real way into connecting with communities*” as well as with other publicly owned agencies such as Citizens Advice. The company now had “*200,000 meter supply points*” and the approach had proven effective in reaching “*the sticky customers*”, including those paying most.<sup>33</sup>

71. Alister Steele from OPES explained how the organisation had been set up by housing providers as “*a community benefit society*” and – from the viewpoint of an energy supply company – he said—

*“I question whether having a new publicly owned energy company [enter the market place] is the right thing for Government to be doing just now.”*<sup>34</sup>

## Governance and accountability

72. There were a range of views over how the POEC should be governed, held accountable and whether it should be established by legislation.

73. Professor Waddams considered that the POEC should be accountable to Parliament, rather than Government, and that a “*statutory basis might be the best way of making its objectives and priorities clear*”. Dr Toke and CommonWeal agreed that it should be accountable to Parliament. Professor Cumbers also believed that it should be “*fully accountable to Parliament and its committees*”; however, “*the potential exists to create more participatory governance structures that involve democratic multi-stakeholder participation by workforce, communities and user groups*”. He noted that—

*“There are many diverse examples of good practice that could be used from elsewhere in developing more democratic governance structures that engage citizens and make public enterprises more accountable and democratic.”*

74. The Centre for Energy Policy noted that “*municipal energy companies on the continent may provide good examples of how local democratic structures can be integrated with energy company governance to ensure accountability*”, and cited Statoil (now Equinor) as a good example, stating that—

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<sup>32</sup> OR, 2 October, Col 32.

<sup>33</sup> OR, 23 October, Col 3.

<sup>34</sup> OR, 23 October, Col 3.



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*“A public company that has a direct role in supplying customers with services and charging for those will need particularly robust governance arrangements, transparently managed.”*

75. Ragne Low suggested the company could in the interests of transparency and accountability be required to report to the Parliament *“on its business objectives and how they are being met”*.<sup>35</sup>

76. CAS did not take a firm view on the need for legislation, stating that—

*“While writing a POEC into statute may increase its permanence, the functions of a POEC must be kept under review to allow it to adapt to the needs of consumers in a rapidly changing energy market.”*

## Conclusions

77. In considering the proposed Publicly Owned Energy Company, the Committee has drawn on research commissioned on our behalf from the Centre for Energy Policy, written submissions to our call for views, and formal evidence sessions.

78. Also of relevance is our 2017 response to the draft energy strategy in which the issues we covered included: the question of whether a national agency was required to oversee the transition of the energy system; the importance of the demand side and behaviour change (for people not to be sold to but to buy in); the need to evaluate schemes and monitor progress; the balance to be struck between local and national (in terms of ensuring ownership and funding of programmes, directing resources and targeting vulnerable households); and how crucial it was to meet the three-way needs of energy security, decarbonisation and affordability to the consumer.

79. Specifically on the oversight point, we said in our 2017 response to the draft energy strategy: *Given the scale and complexity of the many policy strands cover by the strategy, it will be important to ensure good governance, policy expertise, cross-party buy-in (as there has been for climate change) and long-term ownership. Sitting on the edge of a few civil servants’ desks, we were told, will not be enough.\* This is a strategy the lifespan of which extends beyond the usual electoral and budgetary cycles. The Committee on Climate Change was mentioned, as was the Danish Energy Agency, and the model of Transport Scotland for large infrastructure projects. Another witness underlined the importance of a body to spot problems before they became “a matter of post hoc accountability”. In the interests of ensuring continuity of delivery for the strategy, the Committee recommends a long-term framework*

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<sup>35</sup> OR, 2 October 2018, Col 42.

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*be put in place; one which could include the establishment of an independent body.*<sup>36</sup>

80. We believe the POEC should become that independent body, one that can provide oversight, continuity and a long-term framework. Our concern is that, if the POEC is too focused on market entry and supply and possibly generation, the strategic dimension would be lost or diminished. The Scottish Government's own study, for which EY was commissioned, recognised the challenges of delivering competitively priced energy to help alleviate fuel poverty "*in a highly innovative, competitive and evolving energy retail market*".
81. If the focus of the POEC, as the First Minister has suggested, is on providing cheaper energy and the alleviation of fuel poverty, we expect to see a clear mission statement to that effect. The forthcoming consultation should also set out the core functions of the company – as we begin to move from expectation closer to action – along with key objectives that meet the SMART criteria. The Committee wants to see the how as well as the what.
82. What the POEC should not do is cut across or undermine the various strands of current energy policy, the 36 main policies as one of our witnesses calculated. Nor should it cut across the work of existing bodies such as Our Power Energy Supply. A collaborative approach is needed, one that can help simplify rather than complicate or create further clutter or entanglement in projects, schemes and initiatives. The Committee welcomes the Minister's stated intention to work in partnership, and as part of a phased approach to POEC, with local authorities. As the Committee heard from Robin Hood Energy, working at the municipal level can bring together various policy strands – including climate change objectives, fuel poverty goals and the roll-out of renewables, as well as planning and housing.
83. The Committee has heard a lot in this and previous pieces of work on energy policy about the speed of change in the market, about innovation in technology, about the potential of big data, about a number of possible futures. We note, however, in the context of policy oversight, alignment and continuity, that the [Scottish Energy Advisory Board](#) has not – according to the Scottish Government's own webpage – met in over two years. We believe the POEC should be positioned at the heart of energy policy and market transition, strategic in its long-term thinking and planning while prepared and flexible enough to react to change as it happens.

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<sup>36</sup> Note accompanying a letter from the Convener of EJFW Committee to the Minister for Business, Innovation and Energy, 30 June 2017

\* – the wording was paraphrased from a quote by Elizabeth Leighton of Existing Homes Alliance, who said: "*The approach will not succeed if it simply sits on the edge of a few civil servants' desks*" (Official Report, 23 May 2017, Col 7)

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**84. In terms of governance and accountability, the Committee recommends the POEC be accountable to the Parliament.**

**85. Given the tentative stage at which the proposal for a POEC sits and our wish to help inform the Scottish Government's thinking on its own consultation on the matter, we did not take formal evidence from the Minister in this short and focused inquiry. We would, however, highlight the following issues for inclusion in the consultation—**

- how the company plans to build a sustainable customer base, what analysis has been done on this, and how it will take into account Ofgem's price cap on default tariffs;**
- the detail of the white label approach;<sup>37</sup>**
- the parameters of what a POEC can achieve within state aid rules;**
- whether the intention is for the company to be municipal in character (in the manner of Robin Hood Energy for example) or working more at the state level (Equinor perhaps), and**
- the status of the body regarding its independence from the Scottish Government and accountability to the Parliament.**

**86. With so many expectations placed upon a Publicly Owned Energy Company, there is a danger that it ends up pleasing nobody. The Committee hopes that will not be the case and – in the twin interests of affordable fuel bills and decarbonisation – encourages the design of a body that can encapsulate the whole-system approach that underpins the Scottish Government's own energy strategy.**

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<sup>37</sup> White label refers to a product or service that is purchased by a reseller who rebrands the product or service.