

ECONOMY, ENERGY AND FAIR WORK COMMITTEE

PUBLICLY OWNED ENERGY COMPANY INQUIRY

SUBMISSION FROM Brookfield Renewable U.K. Limited

Introduction and context

Brookfield Renewable U.K. Limited welcomes the opportunity to respond to the Economy, Jobs and Fair Work Committee's Call for Written Evidence on the merits, or otherwise, of a Scottish publicly owned energy company (POEC).

We very much welcome the Scottish Government's commitment to establish a not-for-profit, publicly owned energy company to supply energy to consumers at as close to cost price as possible. This, combined with the progress that has been made in terms of decarbonising Scotland's electricity supply and the commitment to meeting Scotland's electricity needs wholly from renewable sources by 2030, demonstrates the Scottish Government's continuing commitment to acting sustainably, creating opportunities for economic growth and protecting our environment.

As one of the largest developers of onshore wind in Scotland, we remain committed to developing appropriate sites to contribute to the Scottish Government's emission reduction targets, working in partnership with local communities to ensure the benefits derived from each development have a material effect on the local economy.

The continued success of onshore wind in Scotland will be crucial for meeting Scotland's climate change aspirations and, ultimately, we consider it to also represent a key opportunity for delivering the ambitions of the POEC.

About Brookfield Renewable U.K. Limited

Brookfield Renewable U.K. Limited is a subsidiary of Brookfield Renewable Partners, one of the largest publicly-traded, pure-play renewable power platforms globally. Brookfield Renewable's power portfolio includes over 270 facilities totalling more than 17,000 MW of hydroelectric, wind, solar, distributed generation and storage capacity and is diversified across 25 power markets in 15 countries. The global operating platform employs over 2,000 people.

Brookfield Renewable is building a European platform to provide fully-integrated development, operating, construction and power marketing capabilities. Today, the platform has approximately 500 MW of operating wind capacity across the U.K., Ireland and Portugal, and a development pipeline of approximately 1,200 MW.

In Scotland, Brookfield Renewable has an office in Edinburgh with a team of specialist staff focused on the acquisition and development of suitable onshore wind energy sites throughout the U.K. It currently has 170 MW of permitted capacity, a further 75 MW in planning, and a growing pipeline of over 200 MW.

The role of renewables and the POEC

In October 2017, the First Minister made a commitment to set up a publicly owned, not-for-profit energy company by the end of the current Parliament, stating that:

“energy would be bought wholesale or generated here in Scotland - renewable, of course - and sold to customers as close to cost prices as possible. It would give people - particularly those on low incomes - more choice and the option of a supplier whose only job is to secure the lowest price for customers.”

We very much welcome the commitment to source wholesale renewable energy and the opportunity it will provide to promote locally sourced renewable energy in the medium to long term.

In addition, we support the objectives of the POEC being widened to focus on the dual impact of tackling fuel poverty while also driving economic development. Alone, the commitment to sourcing renewable energy from Scotland, will help to stimulate wider economic growth, presenting the opportunity to directly support future employment.

We do believe that the Scottish Government’s strategic outline case, produced by Ernst & Young LLP, should reconsider the prioritisation of the proportion of renewable energy sourced, which is outlined as being within Phase 2 rather than Phase 1 of the remit of the POEC. Whilst we support the acquisition of energy from renewable sources, we do not consider that this should be delayed to Phase 2. The levelized cost of energy (LCoE) from renewable sources is increasingly competitive when compared against (and often below) existing and future predicted wholesale power pricing, particularly the LCoE of onshore wind¹. Therefore, ensuring a large proportion of energy from renewable sources is secured in Phase 1 would help to achieve the Government’s key objective of passing the lowest pricing onto the consumer at the outset and potentially lock-in pricing to de-risk future price increases.

The exclusion of onshore wind from the second U.K. Contracts for Difference (CfD) auction has made the commercial deployment of onshore wind farm development much more challenging. In addition, the inquiry into the Scottish renewables sector prepared by the Scottish Affairs Select Committee in 2016 highlighted that these cuts would have a disproportionate impact in Scotland given that the majority of onshore wind capacity is deployed here.²

Developing onshore wind generation can be grouped into several different activities; beginning with the support of a host community to achieving planning and grid and making a project viable by lowering costs, securing stable revenues and securing financing. Renewable generators including onshore wind need long term stable cash flows to attract

¹ Onshore wind is the cheapest form of low carbon electricity generation available to the U.K.. New projects’ costs are forecast to drop beneath BEIS’s forecast wholesale electricity price from 2023, demonstrating net benefit for U.K. consumers: BVG Associates, The Power of Onshore Wind, June 2018.

² <https://www.publications.parliament.U.K./pa/cm201617/cmselect/cmsscota/741/74102.htm>

investment and financing to make new build renewable projects viable, primarily because renewable generation projects have a large up-front capital expenditure and security around stable cash flows is required to obtain financing and mitigate the exposure to volatile energy prices.

As the levelized cost of energy of onshore wind continues to drop it is becoming increasingly attractive to energy consumers seeking to fix their costs for a number of years.

There are business models that have been used elsewhere around the world using a public sector/corporate Power Purchasing Agreement (PPA) model to guarantee a sustainable route to market for existing and potential capacity that have proven to be successful. The Scottish Government has referenced this option in its Energy Strategy, and Onshore Wind Policy Statement in addition to the Climate Change Plan.

Although the private sector ultimately drives these models, there are significant opportunities for the Scottish Government to use its networks and infrastructure to play an enabling and convening role. We believe the objective of the Government's POEC's to deliver low cost energy to the consumer can be achieved through the contracting of power from renewable sources. This in turn and at the same time, has the potential to unlock exiting commercial barriers to the further deployment and investment in construction ready Scottish onshore wind farms.

Conclusion

Brookfield Renewable U.K. appreciates the chance to provide our views on the opportunities associated with a publicly owned energy company in Scotland.

We fully welcome the Scottish Government's commitment to help alleviate fuel poverty and in doing so we believe that the POEC will allow the opportunity to commercialise low cost power from renewable sources in Scotland. We would welcome further engagement with the Committee on this matter.