

ECONOMY, ENERGY AND FAIR WORK COMMITTEE

PUBLICLY OWNED ENERGY COMPANY INQUIRY

SUBMISSION FROM [Citizens Advice Scotland]

Scottish Publicly Owned Energy Company (POEC)

Citizens Advice Scotland (CAS) seeks to improve outcomes for consumers. We use research and other evidence to put consumers at the heart of policy and regulation in the energy, post and water sectors in Scotland. We work with government, regulators and business to put consumers first, designing policy and practice around their needs and aspirations.

Scottish consumers recently told us that they find the cost of their energy bills the second most concerning issue they face (after Brexit). The CMA's Energy Market Investigation found in 2016 that 70% of domestic customers of the 6 largest energy firms were still on an expensive 'default' Standard Variable Tariff and that consumers have been paying £1.4 billion a year more than they would in a fully competitive market.¹

The number of energy 'issues' which the Citizens Advice Network advises on in Scotland has more than doubled since 2012/13 and in 2017/18 we advised on over 38,000 energy issues.² Our case evidence clearly demonstrates that many consumers find the current energy market complex and difficult to engage with. As the consumer advocate for the energy market in Scotland we have a detailed understanding of the complexities and difficulties consumers experience within this market and take a keen interest in proposals to deliver improved consumer outcomes such as through a POEC. The energy market continues to undergo rapid transformation with new market entrants, new business models, new technologies and new services. A POEC should therefore be adaptable enough to meet these challenges and be mindful of supporting future, as well as current, consumers.

What are your general views on the idea of a Scottish publicly owned energy company (POEC)?

Given that rates of fuel poverty remain stubbornly high in Scotland with 26.5% of households being fuel poor in 2016, CAS strongly supports the objectives for a POEC stated in the final Scottish Government Energy Strategy – to “support economic development and contribute to tackling fuel poverty.”³ Finding the best route to deliver on these objectives is complex, as shown by the diverse responses to the POEC proposal in the Scottish Government's Energy Strategy, along with evolving thinking from the Scottish Government about the role of a POEC.⁴

The potential for public ownership to deliver cheaper energy for consumers by acting on a not-for-profit model was identified by the EY report and also the First Minister.⁵ As the scoping note

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/531204/overview-modernising-the-energy-market.pdf

²https://www.cas.org.uk/system/files/publications/energy_advice_summary.pdf

³ An 'energy issue' is defined as a piece of advice given by the Citizens Advice Network
<https://www.gov.scot/Resource/0052/00529523.pdf>

⁴https://consult.gov.scot/energy-and-climate-change-directorate/draft-energy-strategy/consultation/published_select_respondent?b_index=0

⁵<https://www.gov.scot/Resource/0053/00533962.pdf>

highlights, the retail supply of electricity and, to a lesser extent, gas is a low margin market, so to deliver cheap energy a POEC will have to acquire a sufficiently large customer base.

An economic analysis is required to find how many customers are required to achieve desired cost savings. CAS intends to undertake research on the affordability of energy which may include such an analysis. Given the Scottish Government's interest in a local authority based approach, it should undertake a thorough economic assessment of the impact of existing local authority supply schemes on tariff cost.

As the scoping note recognises, customers acquired by a POEC are by definition likely to be more engaged in the energy market, having switched at least once before to a new supplier.⁶ Certain groups of consumers likely to be in fuel poverty are also less likely to switch. As our Consumer Tracker Survey showed the overall switching rate to be 25%, while for those in social housing it was 19%, and for unemployed people, 10%. Our Power's void management service, switching social housing tenants to the supplier during a void period, could be a useful model.⁷ The POEC will need to consider innovative ways of attracting typically disengaged, fuel poor customers to ensure that they can benefit from lower-cost tariffs and thus fulfil its aim.

As Ofgem's State of the Market Report found, consumer trust in energy suppliers is still low and while some consumers may feel greater trust in a POEC which is not operating for profit, a POEC would arguably be more vulnerable to a loss of trust if it faces difficulties (e.g. inability to maintain competitive tariffs, poor customer service) than other energy companies given its high profile and the likelihood of greater scrutiny.⁸ Good customer service is important to retaining customers and we have seen first-hand through our CAS network the financial detriment that can be caused when customer service goes wrong – such as incorrect billing and metering leading to fuel debt.⁹ Therefore a POEC would have to ensure the highest levels of customer service and this will need significant resource and planning.

- **What role should it fulfil and how?**

Delivering cheaper energy and alleviating fuel poverty are the key roles that a POEC should look to fulfil, although given current market conditions doing so on a significant scale may be challenging. CAS' consumer tracker survey showed that by far the most common reason for switching is for lower prices, with 78% of all respondents giving this reason for switching, with the figure growing to 85% amongst those who switched to a non 'big 6' supplier.

In terms of attempting to reach fuel poor households, a POEC could deliver tariffs targeted at these consumers. However as referenced in the scoping report Bristol Energy trialled an at-cost social tariff, but struggled with lower than hoped for sign up rates, which demonstrates how hard-to-reach these customers can be.¹⁰ This mirrors one of the findings from our recent fuel poverty research [Speaking Up: Understanding Fuel Poverty Support Needs](#) that households with the greatest need

<https://www.bbc.co.uk/news/uk-scotland-scotland-politics-41560397>

⁶ http://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/Scoping_note-Publicly_Owned_Energy_Company-Centre_for_Energy_Policy.pdf

⁷ http://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/Scoping_note-Publicly_Owned_Energy_Company-Centre_for_Energy_Policy.pdf

⁸ https://www.ofgem.gov.uk/system/files/docs/2017/10/state_of_the_market_report_2017_web_1.pdf

⁹ https://www.cas.org.uk/system/files/publications/advice_in_detail_energy_2016_17.pdf

¹⁰ http://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/Scoping_note-Publicly_Owned_Energy_Company-Centre_for_Energy_Policy.pdf

for support are often those who are not accessing it, mainly due to a lack of awareness of available support.¹¹

- **What are the key challenges that the POEC should address?**

There are a huge number of challenges that a POEC could seek to address. The specific consumer issues include providing more affordable energy, alleviating fuel poverty, supporting vulnerable consumers, improving trust in the energy market, increasing engagement in the market, providing consistently high levels of customer service, targeting specific groups of consumers such as those with electric heating (who pay the most for their energy). There are also a huge range of energy system challenges which a POEC could seek to address which would consequently benefit consumers such as buying up community-generated electricity, diversification of energy generation sources, increasing the number of district heating schemes, and offering flexibility services to balance local grid demands with local supply in order to connect consumers to cheaper periods of electricity.

However the POEC will not be able to do all of these things and the government will have to decide where to focus its efforts to have the greatest impact. The opportunities are significant, but more analysis to identify the best route to take to reduce fuel costs is required.

- **How might a Scottish energy supply company work best to support the growth of local and community projects, and fuel poverty reduction?**

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.¹² As set out in the response to the first question, detailed economic analysis is required to see how and if a POEC could sufficiently decrease unit costs. 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.

In terms of the type of support required for fuel poor households, our recent research on fuel poverty called for an adjusted minimum income standard for rural areas, increased financial support for those in fuel poverty, awareness raising of support services, and bespoke support for those in need, including those on electric heating, in rural areas, in rented accommodation, and for vulnerable consumers.¹³

- **How can the POEC be best designed to align with wider Scottish energy policy objectives, and to avoid potential policy conflicts?**

Care must be taken to ensure that the unintended dilution or duplication of existing policies does not occur with the creation of a POEC. At both Scottish and UK levels there are a vast range of policies

¹¹ https://www.cas.org.uk/system/files/publications/2018-06-18_fuel_poverty_in_scotland_cfu_cas_briefing_sheet.pdf

¹² <https://www.gov.scot/Publications/2018/06/2306>

¹³ <https://www.cas.org.uk/publications/speaking-understanding-fuel-poverty-support-needs>

attempting to address problems in the energy market. Although not fully exhaustive, a count by CAS identified 36 main policies, funds and initiatives enacted by suppliers, the Scottish Government, Ofgem and consumer bodies. To take the example of energy efficiency, recent policies include the new Energy Efficient Scotland (EES) scheme, the Green Deal, Home Energy Scotland Loan Scheme, Home Energy Efficiency Programmes (HEEPS) Area Based Scheme, Warmer Homes Scotland, and the Climate Challenge Fund. Recent research by Cambium Advocacy on behalf of the Existing Homes Alliance concluded that ‘the complexity and scale of EES means some form of national oversight arrangement will be critical for ensuring its effective and efficient delivery.’ Certainty is also required around new powers devolved under the Scotland Act over the Warm Homes Discount (WHD) and Energy Company Obligation (ECO). A function of a POEC could therefore be to oversee and coordinate policy, particularly if the local authority based approach to a POEC proposed by the Scottish Government is pursued.

- **Should a new Scottish POEC be more than solely a licensed energy supply company? Should it have a direct role in energy generation?**

The Minister for Energy, Connectivity and the Islands’ letter to the committee indicated the Scottish Government’s intention for a Local Authority based approach and that this would initially focus on the retail supply of electricity and gas with the potential for future involvement in renewable generation. 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.¹⁴ There is thus a range of other functions a POEC could have beyond the retail supply of energy, and there is a need to analyse which option, or options, would provide the best value and consumer outcomes.

Dr David Toke has proposed a role for long term power purchase agreements to new renewable energy schemes by a POEC to improve its competitive advantage over other suppliers and deliver cheaper energy.¹⁵ CAS would welcome further consideration of the benefits and practicalities of this proposal, particularly if a POEC is ultimately to be involved in the generation as well as the retail supply of electricity.

- **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?**

If there is a sole focus on the retail supply of energy, a POEC is unlikely to be able to take a whole system or coordinating role to support investment and innovation. It is also likely to face the same challenges that current suppliers contend with and will need to adapt to the many changes predicted in the energy market in coming years. Citizens Advice’s ‘Disrupted Decade’ research suggested that of these, those which would have the greatest impact on consumers are: new pricing models – most significantly time of use (ToU) tariffs, that vary energy costs by time of day; energy retail

¹⁴ https://consult.gov.scot/energy-and-climate-change-directorate/draft-energy-strategy/consultation/published_select_respondent?b_index=0

¹⁵ http://www.nuclearpolicy.info/wp/wp-content/uploads/2018/07/A290_NB177_The_potential_of_a_SEC.pdf

intermediaries - making it easier for consumers to find and switch tariffs by handling part or all of the switching process; widespread adoption of storage - reducing demand and possibly cost on the electricity network at peak times; distributed generation and costs with for example rooftop solar panels resulting in a re-allocation of network costs.¹⁶ A POEC should therefore 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.

- **What governance arrangements should a Scottish POEC have? Who should it be accountable to e.g. Parliament?**

A POEC, should it take the form of a retail supply company, will have to comply with the same regulatory arrangements under Ofgem as any other energy company. However, the company's public ownership would imply the need for greater public accountability than a private energy company. Scottish Water provides an example of a publicly owned company responsible to the Scottish Government with its Chair and Non-Executive members appointed by Scottish Ministers and such an approach could also be taken for a POEC. Similarly, under section 251 of the Companies Act 2006, Scottish Ministers act as Shadow Directors of Caledonian MacBrayne.¹⁷ A POEC should lay an annual report before the Scottish Parliament and MSPs should be able to table Parliamentary Questions about its performance and operation. Finally, as the scoping note indicated, a publicly owned energy company would inevitably be subject to greater scrutiny than private supply companies, by both media and the public's use of Freedom of Information requests.¹⁸

- **Should legislation be required to underpin the creation of a POEC?**

CAS does not take a firm view on the need for legislation. 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.

¹⁶ <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/DisruptedDecade.pdf>

¹⁷ https://www.legislation.gov.uk/ukpga/2006/46/pdfs/ukpga_20060046_en.pdf

¹⁸ http://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/Scoping_note-Publicly_Owned_Energy_Company-Centre_for_Energy_Policy.pdf