

## **ECONOMY, ENERGY AND FAIR WORK COMMITTEE**

### **PUBLICLY OWNED ENERGY COMPANY INQUIRY**

#### **SUBMISSION FROM OUR POWER**

##### **Scottish Publicly Owned Energy Company (POEC)**

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

Our Power is a licensed supplier of domestic electricity and gas, established in 2015 by Scottish social housing providers to help tackle fuel poverty. A description of Our Power is included in the Scoping Note on a Scottish Publicly Owned Energy Company. We currently operate across the GB energy market and, with over 30,000 households on supply, our customer growth will come from a voids switching service for social housing providers, from within social housing members' communities, a range of local partnerships which will bring a wide range of customers. The Scottish Government has invested £6m in Our Power through debt funding which was essential to start the business.

We support the view set out in the Scoping Note that 'This scoping review highlights many of the same issues raised by stakeholders in relation to a POEC as the EJFW's inquiry on the draft Energy Strategy. Those stakeholders wanted to see 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'.

We do not believe that within this view, the Scottish Government should set up a licensed Energy Supply Company as part of a Publicly Owned Energy Company.

The Scoping Note and the Strategic Outline Case prepared by EY both recognised the competitive and challenging nature of the energy supply market. Since both these documents have been completed the market has seen a number of company failures and has become more challenging, not less.

Our Power, Robin Hood and Bristol Energy all operate across the GB market to gain customers and achieve economies of scale. Scale is critical for any supply business and there has been no discussion on whether a Scottish POEC would only operate in the limited Scottish market or whether the Scottish Government would look to compete across the English and Welsh markets.

In our opinion, the Strategic Outline Case has underestimated a number of key challenges in starting up a new energy supply business including the cost of business start up, working capital requirements and operating margins. New businesses tend to offer the lowest tariffs and seek to grow through loss-leading tariffs offered on price comparison switching websites or paid for switching services. While this offers savings for particular customers in the short term, it does not

offer sustainable pricing over time nor serve the wider community – for example, prepayment customers and those on related meters.

We believe that Our Power can play a key role in supporting Scottish Government in its objective to reduce levels of fuel poverty through a direct supply arrangement with customers. We would welcome the opportunity to discuss this further.

Given that Scottish Government is an investor in Our Power, it is difficult to see the case for public funding to be used for a second energy supply company that could benefit households across a range of incomes and based on household choices (i.e. those that actively switch suppliers) rather than more targeted interventions to deal fuel poverty, those disadvantaged in the energy market in Scotland, and make energy more affordable to low income households.

- What role should it fulfil and how?

We would argue that a POEC with a strategic rather than operational remit can ensure that Scotland and all parts of Scottish society can fully participate and benefit from energy transitions.

We would see priorities areas being support for:

- 1) Developing a national energy system for Scotland including grid infrastructure
- 2) Development of local energy systems with local authorities developing a strategic planning role and potentially being involved in local supply through partnerships or White Label offers.
- 3) Development of new technologies and business models to make effective the transition to a low carbon economy.
- 4) Financially viable community and individually owned renewable generation.

We would welcome direct interventions from the Scottish Government to tackle embedded unfairness in the regulated charging mechanisms for transmission and distribution charges and to help address grid constraints to maximise opportunities for renewable generation. Flexible grid infrastructure is the key in grid and distributed energy storage.

We would also welcome a role including the decarbonisation of domestic heating.

There is potentially a strong case for Scottish Government to have enhanced devolved powers for energy policy and specifically the National Grid in Scotland which could be brought under POEC.

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

Energy markets are changing. The existing heavily centralised markets are likely to become more decentralised and decarbonised with the potential to become more democratic.

As in all market changes, it is essential to ensure that it is aligned with National Priorities and that those least able to participate in the markets do not lose out. The key challenge is to have a strategic oversight role in a period of significant energy transition.

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

We do not support the establishment of a Scottish energy supply company.

Scottish Government has a good track record in tackling fuel poverty and has provided financial support to Our Power in recognition that fair energy supply is key component as part of an overall strategy to tackle fuel poverty.

A holistic strategy which combines security of generation, improving energy efficiency, increasing household incomes through the Benefits system, targeted discounts for those in greatest need which do not lock customers in to particular suppliers, and support for those existing suppliers offering appropriate products and services has the potential to address fuel poverty.

Scottish Government should also seek to maximise the opportunities of the roll out of smart meters to ensure a skilled workforce is available to install the meters, the revenue from this activity is retained in Scotland and future energy services are facilitated for the benefit of communities in Scotland.

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

No comment

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

We support a Scottish POEC being directly involved in generation and at a scale to have a significant impact on the security and cost of supply. It may need to be prepared to nationalise existing privately owned large scale renewable assets, to invest in research and development within a global market place and to invest in future new renewable developments which could be privately funded.

The Scottish Government should consider how to more effectively support community owned renewable generation through discounted loans or the introduction of a repayable grant scheme. The POEC could have strategic oversight of such a scheme.

A Scottish POEC could also consider how to effectively intervene in wholesale markets to ensure price stability for energy supply.

- 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?

As set out above.

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

The governance arrangements should be determined by the purpose of the POEC, it should be accountable to the Parliament.

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

No comment