

**ECONOMY, JOBS AND FAIR WORK COMMITTEE**

**PUBLICLY OWNED ENERGY COMPANY INQUIRY**

**SUBMISSION FROM Scottish Publicly Owned Energy Company (POEC)**

**21 September 2018**

**SUBMISSION FROM THE JUST TRANSITION PARTNERSHIP**

The Just Transition Partnership was formed by Friends of the Earth Scotland and the STUC in 2016. Membership includes Unite Scotland, UNISON Scotland, UCU Scotland, CWU Scotland, PCS Scotland and WWF Scotland.

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

Members of the Just Transition Partnership are united in our desire to move to a modern low-carbon economy in ways which protect workers' livelihoods, create a new industrial base and deliver a fairer Scotland. With the right remit and ambition, a Scottish POEC provides an important opportunity to drive this Just Transition - transforming our energy system by delivering clean, reliable energy at affordable and stable prices and supporting local initiative and wider engagement.

A POEC should be set up to play a transformative role in the whole energy system. This requires a broader remit than the supply-focus envisaged in the strategic outline case. While we agree that helping to address fuel poverty should be an important part of its mission, this cannot be addressed on its own, therefore a POEC with such a narrow objective will ultimately be unsuccessful. A POEC must additionally have a role in delivering energy efficiency measures and energy generation in order to deliver on key public policies.

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

The role of a POEC should be to both to make the energy system work well for citizens, including those in fuel poverty, and to drive a just transition to a low-carbon economy. This should therefore cover investment in new renewables generation capacity and transmission grids as well as retail operations. Crucially a POEC must be strategic, co-ordinating and interventionist, having a whole-system view and not restricted to being a publicly-owned competitor in commercial markets; it should have a remit to co-ordinate, invest in and drive forward energy system transformation at the Scottish level. This role could usefully be framed best through reference to a central role in delivering relevant elements of the Scottish Energy Strategy.

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

The current marketised, privately-owned energy system isn't delivering the urgently needed changes for a Just Transition to a low-carbon economy. Scotland needs to transition to a low carbon economy to meet our climate change targets, while delivering an affordable and secure energy supply. A well-resourced POEC could have a role in addressing the following challenges:

Key challenges for an agency taking a whole-system view include:

1. **Increasing low-carbon investment:** The current pace of investment in energy transition is simply not sufficient to meet Scotland's climate change targets. Specifically the pace of change is too slow in crucial sectors including:
  - a. energy efficiency for homes and businesses
  - b. new renewable generation and storage technologies
  - c. sustainable heat
  - d. low carbon transport
  
2. **Addressing fuel poverty:** Scotland faces unacceptable levels of fuel poverty, high energy prices and dissatisfaction with the behaviours of the big energy suppliers. Having ownership concentrated in the hands of a small number of private companies, many headquartered outside the UK, leads to major problems including anti-competitive practices, lack of investment and slow decision making. Addressing fuel poverty therefore requires addressing the current structure of ownership.
  
3. **Maximising social and economic benefit:** While Scotland has seen significant growth of wind generation, the manufacturing jobs, much of the ownership and most of the profits go to other countries. Low carbon jobs which have been created have too often been poor quality, non-unionised and prone to volatility of the market.<sup>1</sup> A POEC should be linked to an Industrial Strategy which ensures the transition to a low-carbon economy creates jobs in supply chains and maximises social and economic benefits for Scottish citizens and workers.

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

The role of the Scottish POEC in reducing fuel poverty can best be carried out by an agency which has a wider role than retail supply. Energy efficiency measures and a holistic customer relations approach will be vital, as will integration with developing new and local sources of generation and supply.

Given the narrow margins in energy markets, in particular for electricity, delivery of energy efficiency measures to fuel poor households will be just as important as offering marginally

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<sup>1</sup> Connolly, K et al (2016) *The evolution of green jobs in Scotland: A hybrid approach*  
<https://www.sciencedirect.com/science/article/pii/S0301421515301725>

lower energy costs. The design of funding schemes and delivery of energy efficiency measures to households as part of getting all homes reaching EPC level C should be an integral part of the offer to customers. A POEC should develop a unique approach to customer relations, driven by its public service ethos, which offers the best solutions for individual households and responds sensitively to those in financial difficulties through access to advice and support. These will be at the core of the drive to encourage switching to the POEC, particularly among those segments of the population with low switching rates.

This integrated approach to delivering energy services to households can often best be managed at local levels and a POEC must be set up to support local and municipal initiatives where these are in place or being developed. This may be through a white-label approach to energy supply, provision of advice and reliable legal frameworks for local energy enterprises, devising investment packages and financial instruments and in general de-risking local initiatives.

Locally-owned projects to develop new energy generation have an important part in the Scottish Energy Strategy and there is some evidence that the commercially most successful challenger energy companies are often those which integrate retail and generation. Public ownership of the distribution and transmission systems for electricity would enable public service principles to apply to new connections of generation capacity and could support locally-owned network development better than the privatised system.

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

The proposal for a publicly-owned energy company should play a central part in delivering wider Scottish energy policy objectives, particularly the drive to a low carbon energy system. In order to do so its remit has to be ambitious, covering generation and distribution as well as retail operations.

Meeting the carbon reduction objectives of the Scottish Energy Strategy will require significant investment. Yet the private sector doesn't have long-term, patient capital. Given that the public sector can access capital at cheaper rates, it makes sense for public ownership models to concentrate activity in capital intensive activities. In practice that means the POEC must cover generation as well as supply.

**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?**

As noted above, in order to play a central role in the Just Transition a Scottish POEC should be much more than a licensed energy supply company. A broader remit is needed to transform our energy systems so that they deliver clean, reliable energy at affordable and stable prices and support local initiative and wider engagement.

Even if, in a staged process, it is required to focus on fuel poverty in the first instance, success will require careful attention to delivery of energy efficiency and a public service approach to delivery of energy-related services and customer relations. Ultimately however creation of a publicly-owned retail competitor in the existing system will not deliver the significant changes needed. Public ownership of distribution and transmission (of electricity, gas and heat systems) and significant elements of new generation capacity will be needed.

The roles for, and activities of, a POEC should therefore include:

- Taking a strategic, whole-system view of the energy system, including the importance of energy efficiency in workplaces and homes.
- Stimulating investment in – and capturing the returns of – offshore renewables, through a publicly-owned offshore renewables company;
- Supporting municipal energy companies which reduce energy prices; promote energy efficiency measures and deliver clean, low carbon generation;
- Supporting the development of district heating and renewable heat networks. These can play a significant part in achieving the policy objectives of the Scottish Energy Strategy but they will only take off at sufficient scale through public intervention and co-ordination. A National Energy Agency is needed for this purpose.
- Supporting good quality manufacturing and supply-chain job opportunities. Over the last year, Scottish-based companies have struggled to win enough contracts to ensure sustainability. The POEC could have a crucial role in promoting the sustainability of good quality jobs in critical areas of Scotland’s low-carbon economy.

The development of the capacity of the POEC should be linked to the availability of finance on the right terms from the Scottish National Investment Bank. The dramatic falls in the rate of investment in low-carbon energy, as reported by the House of Commons Environmental Audit Committee,<sup>2</sup> threaten achievement of the objectives of the Scottish Energy Strategy. They also threaten the promise of reindustrialisation contained within the Scottish Government’s Economic Strategy. To tackle climate change, create new, good quality jobs,

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<sup>2</sup> House of Commons Environmental Audit Committee (2018) ‘Green finance: mobilising investment in clean energy and sustainable development’ <https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/617/61704.htm>

and achieve other policy objectives, bold changes are needed to reverse the fall in low carbon investment.

**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?**

Public ownership should improve public accountability and mean the POEC is not simply accountable to private shareholders. However a number of additional mechanisms should be put in place. Lessons should be learned from the Norway model of oil development, whereby Statoil had a number of accountability mechanisms, including being required to present a report to Parliament.<sup>3</sup> It may be that legislation is required to ensure a similar form of Parliamentary scrutiny and accountability.

Additionally, the POEC workers themselves should be empowered through employee voice based on trade union representation and collective bargaining arrangements to scrutinise company strategy and actions and contribute to oversight of management direction.

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<sup>3</sup> Cumbers, A et al (2013) 'Repossessing the Future: A Common Weal Strategy for Community and Democratic Ownership of Scotland's Energy Resources' <http://reidfoundation.org/portfolio/repossessing-the-future-a-common-weal-strategy-for-community-and-democratic-ownership-of-scotland's-energy-resources/>