ECONOMY, ENERGY AND FAIR WORK COMMITTEE
PUBLICLY OWNED ENERGY COMPANY INQUIRY

SUBMISSION FROM Dr David Toke, Reader in Energy Politics, University of Aberdeen

Scottish Publicly Owned Energy Company (POEC)

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

This submission is based on a report that I wrote on how the Scottish Government Energy Company could promote renewable energy which was published by Nuclear Free Local Authorities in July 2018. The Executive Summary of the report stated:

‘The Scottish Government’s commitment to start an energy company could re-energise renewable energy in Scotland and deliver electricity at competitive prices for the consumer. The key objective for a new Publicly Owned Energy Company (POEC) 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 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. The Energy Company initiative should be backed by activities of the Scottish National Investment Bank to offer loans to new renewable energy projects. There are a number of potential renewable energy projects that can be implemented for prices at or below recent levels in wholesale power prices meaning that the Scottish Energy Company could give PPAs to such companies and deliver electricity to consumers at the same or lower prices than other electricity suppliers’.

- What role should it fulfil and how?

As the Executive Summary of the report (above), states: ‘The key objective for a new Scottish Energy Company (otherwise known as POEC) 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 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’.
What are the key challenges that the POEC should address?

What renewable energy projects need are the offer of long term power purchasing agreements (PPAs) lasting say, 15 years. This is needed because unlike fossil fuels renewable energy projects are capital intensive. Even though such projects may be able to deliver energy for the consumer at the same, or lower, price than fossil fuels, they will not be built unless investors and bankers are insulated against the risk of power price market fluctuations. This can be done through the projects having long term PPAs.

Onshore wind power in Scotland is a particularly cheap resource which can be implemented at recent levels of wholesale power prices. However market distortions, described below, prevent this happening. Yet the Scottish Government, could through its energy company, ensure that considerable quantities of onshore wind power are developed whilst at the same time delivering electricity to consumers at prices which compete well with other suppliers.

As a report prepared last year for Scottish Renewables indicated, around 1000 MW of onshore wind are available for a price that is around less than recent levels of wholesale power prices. Since then wind power costs have fallen still further meaning that more wind power might be available at such prices, certainly by 2021 when the POEC is set to be launched. Vattenfall, the Swedish multinational corporation, has indicated that it will develop some wind power by selling the power to corporate clients who will buy power the power on the basis of a long term PPA. Some solar farms are interesting some corporate sized electricity consumers in offering them long term PPAs.

However, there is a limited market for this sort of deal because the market is distorted for three reasons. First because the bulk of the electricity market is dominated by the main electricity companies who do not want to offer long term PPAs to renewable developers that will reduce the market for selling electricity from power plant that they own. Second, the smaller electricity companies may not have a sufficiently robust credit rating to encourage banks to lend to developers on the basis of long term PPAs issued by small electricity suppliers. Third, there is a reluctance on the part of electricity suppliers in general to offer long term PPAs to developers when they can pick up power for much the same price by offering much shorter PPAs.

The POEC could adopt one or both of two options for securing new renewable energy capacity. First it could offer a set tariff, like a ‘feed-in tariff’ to be paid for electricity generation over a defined period (say 15 years). ‘First come first served’ quotas could be set for new capacity in any annual or bi-annual period. Second, the POEC could establish a series of auctions for capacity, something like which is done by Westminster under the systems of issue of contracts for difference (CfD). The difference with Westminster is that this would be done privately by the POEC as mechanism for awarding contracts. Again, the PPAs should last for at least 15 years.
It may be through this way that community renewables projects with an innovative aspects, for example peer-to-peer selling, could be given a slightly higher price compared to corporate projects.

The POEC should be given a mandate by the Scottish to achieve targets of capacity to be established by the issue of long term PPAs.

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

As regards community projects, as the report suggests: ‘could offer a set tariff, like a ‘feed-in tariff’ to be paid for electricity generation over a defined period (say 15 years). ‘First come first served’ quotas could be set for new capacity in any annual or bi-annual period’

- How can the POEC be best designed to align with wider Scottish energy policy objectives, and to avoid potential policy conflicts? The objectives of the Company should involve, as a priority, giving opportunities to new renewable energy projects.

It should have a representative of the Scottish Government on the board.

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

Being involved with energy generation would make the organisation much more complex and subject to risk. There is a shortage of suppliers offering long term power purchase agreements (PPAs) for new renewable energy projects.

- 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?

The Company should liaise with the Scottish National Investment Bank who could offer loans to new renewable energy projects.

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

It should make reports to the Economy Jobs and Fair Work Committee

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

Yes. This will be necessary to describe the governance of the Company in ways that ensure consideration of sustainable energy priorities eg appropriate membership of the Board and targets for renewable energy.

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