This response is on behalf of the ScottishPower Group. ScottishPower is part of the Iberdrola Group, a global energy company and world leader in wind energy. As part of the Iberdrola group, we are committed to leading the development of clean and competitive electricity, modernising electricity networks to improve quality of service and increasing customer choice through digital enhancements.

The ScottishPower Group, which includes our retail, renewables, thermal/hydro generation and networks businesses, has a strong presence in Scotland. It has recently moved its Headquarters into new state of the art offices in central Glasgow and currently employs around 6,000 staff, with approximately 4,000 located in Scotland. We have exciting plans to invest at scale in renewable energy, enhancing our electricity networks, and promoting the roll-out of electric vehicles. Indeed, over the period 2015-2017, we have already invested over £2 billion in Scotland. Local communities in Scotland have also benefited from over £25 million of Community Benefit funding from our renewable business, ScottishPower Renewables.

Our retail arm, ScottishPower Energy Retail Limited (SPERL), is a long standing player in the GB energy supply market. It is currently responsible for supplying gas and electricity services to some 4.9 million customers in the UK, with 1 million of these customers in Scotland. We work to offer competitive prices to our customers and have enshrined in formal Charters our commitment to assisting all customers who need additional support, including provision of debt advice, the Warm Home Discount, energy efficiency measures under the ECO scheme and operating our Priority Services Register.

In recent years, we have worked hard to encourage our standard variable tariff (SVT) customers to engage in the market by moving to fixed price deals. We are well ahead of the other major suppliers in this regard. For example, 38% of our non-prepayment domestic customer base is on a standard variable tariff compared to an average of 58% for the other major suppliers. In the last year we have also been working closely with MSPs and MPs to assist local foodbanks with our Quick Credit Voucher scheme. The voucher is designed to give customers who are referred to foodbanks and may be in need of fuel assistance a £49 credit payment (with up to three payments in any 12 month period). The Voucher Scheme, part of the ScottishPower Hardship Fund, is intended to help those who are engaging with 3rd sector partners, where those partners recognise that the customers are at immediate risk of self-disconnection and there is severe hardship involved.

Opportunities and Challenges for the POEC supply company project

The “Scoping Note on a Scottish Publicly Owned Energy Company” by the Centre for Energy Policy, which accompanies this Inquiry, as well as the Scottish Government’s publication of the EY report, “Publicly Owned Energy Company: Strategic Outline Case (SOC)", 29 March 2018, are helpful in setting out some of the opportunities and challenges for the POEC project. Both reports are consistent in their findings that electricity and gas supply is a highly competitive, low margin market across GB. Indeed, we note that the introduction of a publicly owned energy supply company would bring the number of suppliers offering tariffs to domestic customers in Scotland to around 43.

These findings are consistent with SPERL’s own experience of operating in this increasingly competitive environment. For instance, the rapid increase in the number of small suppliers in recent
years has led to an increase in low margin tariffs, which, when combined with rising wholesale and non-energy costs, has made it increasingly challenging for new market players to operate at profit. This is illustrated by Portsmouth City Council’s decision in August 2018 to abandon its plans to launch its own energy firm, due to concerns about profitability and cost pressures.

It will be important that the publicly owned nature of the proposed POEC does not distort the competitive market, to the detriment of customers. Clearly, it is vital that there is a competitive level playing field in the market. This means that both the financing and operational costs of the POEC (including the funding behind any implicit or explicit guarantees provided) must be in accordance with State Aid rules so as to ensure that there is no competitive disadvantage to privately financed suppliers competing in the market.

The option of promoting wider objectives and functions

A number of rationales for establishing the POEC have been put forward by the Scottish Government since announcing the project in October 2017. These include addressing fuel poverty, providing greater choice for Scottish consumers, promoting renewable generation, and maximising benefits for local communities. Indeed, we welcomed the focus in the Scottish Government’s consultation on its draft “Scottish Energy Strategy: The future of energy in Scotland” on the potential wider role that a POEC could play in addressing identified market failures.

In this context, we would suggest that a useful purpose for the POEC might be to consider how it could be designed to drive innovation and accelerate the development of low carbon heat technologies. The cost-effective decarbonisation of the heat sector is currently particularly challenging, especially taking into account the relatively early stage of technology development. However, the availability of cost effective, market ready technologies will be of key importance in efforts to decarbonise Scotland’s heating systems in the coming years.

The POEC could therefore have a useful role to play in developing and promoting the demonstration of low carbon heat technologies. As Scotland has a sizeable proportion of households “off gas grid”, there would be an additional rationale for establishing an organisation with a focus on bringing more cost-effective heating solutions to such customers, addressing another priority area for the Scottish Government.