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

SUBMISSION FROM Professor Tony Mackay

Scottish Publicly Owned Energy Company (POEC)

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

I support the idea of a POEC similar with the Danish Energy Agency but not the proposals in the Strategic Outline Case (SOC) produced by the accountants Ernst & Young (EY). I strongly oppose the proposals that the Company should be involved in directly supplying/retailing energy to consumers.

- What role should it fulfil and how?

I agree with the objectives set out in paragraph 5.1 of the Scoping Note…”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.”

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

Government energy policies – both UK and Scottish governments – are mixed. Some are good; some are poor. The implementation of many of the policies is poor, particularly in Scotland. I believe that a POEC along the lines of the Danish Energy Agency could result in major improvements.

Energy is a vitally important part of the Scottish economy. There is a very important distinction between supply and demand.

Current Government policies to encourage energy supply are mixed. I believe that a good POEC could result in substantial improvements, as the Danish Energy Agency and other bodies have demonstrated.

I use the word “good” carefully because the current contributions of some of the existing public bodies are far from that. I believe that many people would have serious reservations about the POEC if it was of a similar quality to existing bodies such as Scottish Enterprise, Highlands and Islands Enterprise and the Scottish Futures Trust.

Let me give two examples, although I could give more if there were space to do that.

Firstly, the marine energy industry – both wave and tidal power. There is undoubtedly great potential for the industry in Scotland. Alex Salmond, the former First Minister, once
described Scotland as the “Saudi Arabia of marine energy.” Unfortunately the reality – at least to date – has been very different.

One of the main reasons for that has been the poor contributions of Highlands and Islands Enterprise (HIE) and their subsidiary Wave Energy Scotland. HIE lost millions of pounds of public money in two wave energy companies which went bust. Their support for tidal energy projects in the Pentland Firth has been virtually non-existent.

The second example is the decommissioning phase of the North Sea oil and gas industry, which will become increasingly important over the next decade as more oil and gas fields on the UKCS end production. However, Scottish Enterprise’s involvement in this part of the industry has been embarrassingly poor.

I could give more examples.

The point I wish to stress is that a new POEC in Scotland must do better than existing public bodies such as SE, HIE and the Scottish Futures Trust.

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

I disagree with the proposals that a Scottish POEC should be directly involved in energy supply.

I agree that more can be done to support the growth of local and community projects, and also fuel poverty reduction. However, those objectives do not necessarily involve a POEC in directly supplying electricity and gas.

The EY Strategic Outline Case (SOC) was a very poor piece of work, which has been widely and heavily criticised….and rightly, in my opinion. I believe that the Committee should reject most of the recommendations in the SOC.

There are many excellent examples of local/community energy projects in Scotland and I hope that there will be many more in the future. A POEC could make a big contribution to them.

I agree that fuel poverty is a serious problem, particularly in the Highlands where I live. I also agree that policies to reduce fuel poverty require radical changes but I do not believe that the POEC should be directly involved in electricity and gas supply.

I would like to point out to the Committee that some of the Scottish Government’s energy policies have actually resulted in higher electricity prices for consumers, including those on low incomes. That is particularly true of the support for wind farms, both onshore and offshore.

Wind energy obviously reduces carbon emissions but at a cost. Under present policies, the costs are shared by both consumers, including those on low incomes, and taxpayers.
I can give the Committee my suggestions for alleviating fuel poverty in Scotland but I believe that this should not be the main purpose of the POEC.

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

I believe that the Danish Energy Agency is an excellent model for Scotland.

The general quality of the current Scottish energy policies is mixed; some are very good but some are poor, including a few very poor ones. The Government’s Scottish Energy Strategy was poor, in my opinion, and requires radical changes and improvements.

I would expect that an independent POEC would have conflicts or disagreements with some Government energy policies, particularly some of the existing ones. I do not see that as a problem.

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

I do not believe it should be a licensed supplier nor a generator.

- 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?

Again, I do not believe the POEC should be involved in the retail of gas and electricity. However, it should certainly support investment and innovation.

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

Both the Scottish Government and Parliament.

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

Yes.

Tony Mackay
Professor of Energy Economics
Inverness