ECONOMY, ENERGY AND FAIR WORK COMMITTEE

PUBLICLY OWNED ENERGY COMPANY INQUIRY

SUBMISSION FROM GREEN CAT RENEWABLES

Green Cat Renewables is a renewable energy consultancy focused on all aspects of development support based in Scotland. With a team of 45 staff spread across the country, the company’s multi-disciplinary resource base spans all stages of project delivery from feasibility and concept development through to planning, engineering, project management and operational asset management. GCR offer the full range of support and services, tailored to the client’s needs, to economically deliver any scale of renewable energy project, from initial feasibility and planning to construction and commissioning.

Scottish Publicly Owned Energy Company (POEC)

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

There are a number of potential benefits that could be achieved by setting up a publicly owned electricity company, however, some of them appear to be mutually exclusive. We also have significant concerns about the Scottish Governments ability to set up and manage such a company efficiently enough to be competitive. Energy supply business is a low-margin market, and many supply companies face a constant struggle to be profitable. Generally, successful supply companies are those that can procure energy at the lowest prices, have the most resourceful billing and customer relations systems, and have to be consistently sharp at managing their buying and selling in order to minimise risk.

A supply company publicly owned or not will need to operate within the existing regulatory regime and state aid rules, this means that it will be heavily restricted on what it can and can’t do, it may not even be able to supply the Scottish Governments own energy needs without an open and fair competitive tender. Not having the Scottish Public sector energy contract would significantly diminish what can be achieved.

At the present time there are two broad categories of supply business;

1. There are the ‘big six’ who are all utilities with massive balance sheets and very broad customer bases giving significant economies of scale and significantly aiding their ability to balance their supply and demand. On the downside they are large inefficient organisation and there has always been a suspicion (but little evidence) that they play commercial games between their supply, generation and wires business to maximise overall profit whilst operating within the regulatory rules.
2. Small independent suppliers (some of whom are no longer that small) who tend to be much leaner more efficient business but tend to be crippled by balancing costs and network charges.
In theory a new publicly owned electricity company with a contract to supply the entire public sector in Scotland alongside operating in the general Scottish market would have the scale and diversity to balance its supply portfolio and would have the scale to achieve some economies of scale whilst potentially having a lean structure. This is the optimistic view. The pessimistic view is that you could land up with something as inefficient as one of the big six but without the competitive advantages.

- What role should it fulfil and how?

As a renewable energy company that specialises in small scale locally owned projects we are keen to see a publicly owned electricity company provide a route to market for such projects. This would ideally be through a long term bankable PPA either at a fixed price or a variable price with a floor that is at a modest discount to current market rates but is still at a level that allows reasonable levels of bank debt to be secured. This would make Scotland a leader in the supply of green energy, and potentially provide a route to market for many small to medium scale renewable energy projects.

By procuring power from a significant number of distributed generators (and potentially storage facilities) it would be possible to supply a significant proportion of customers from within the same GSP thereby significantly reducing Transmission Use of System charges.

The role of reducing fuel poverty is a little harder. The total price that electricity is sold at is the cost it is bought at plus the cost of delivering it plus profit/loss. If profit is removed that is a marginal saving that could be passed on, any prediction based on a public company being more efficient than a private company should be treated with caution and likewise there is limited scope to reduce the price paid for generation. The only option then left is to cross subsidise the fuel poor from other customer groups which is also going to be difficult.

Any sort of industry strategic overview/energy agency type role would be better done as a standalone energy agency than as an add on to a supply business.

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

In the current market, successful suppliers are those that can procure energy at lowest prices, have the most efficient billing and customer relations systems, and are best at managing their buying and selling to minimise risk. The biggest challenge a POEC faces is no different to any other supply business and that is how it manages market risk. If the POEC enters in to long term contracts with generators and the wholesale market falls then it will either find itself in a loss making situation or it will have to charge its customers a premium thereby making fuel poverty worse not better. The government is well placed to underwrite this risk but is that politically acceptable?
Another challenge that it will face is how the management and oversight are achieved efficiently. Any public body such as this will need oversight committees, boards and management teams all of whom will look for support from external consultants. This is a significant overhead before a single kWh of energy is traded.

It is interesting to see that Nottingham, Leeds, Liverpool and Derby City Councils have all launched not-for-profit energy companies with the goal of tackling fuel poverty and driving tariff prices down. It is recommended that these cases are given significant consideration and ensure lessons from those case are taken on board.

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

As stated above what local and community energy projects need is a route to market and the simplest way to achieve that would be through a bankable long term PPA.

As discussed above the impact on fuel poverty from a Scottish Energy Supply company is likely to be limited. It could potentially undercut some of the most unfair practices of the big six, but much of the same benefit could be achieved by encouraging the same customers to switch to more competitive existing offers.

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

A POEC cannot be ‘all things to all men’ it needs to have a very clear remit of what it is trying to achieve and an experienced board of Directors must be appointed to deliver that remit. The number of academics, civil servants, Scottish Enterprise employees on that board needs to be kept to a minimum, with board members with supply business experience and main stakeholder groups (local and community renewable developers, fuel poverty groups) making up the majority.

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

Yes, a new Scottish POEC could be more than a solely a licensed energy supply company, for example by setting the energy supply company up under an umbrella structure that could have other subsidiary elements, in order to achieve wider energy market benefits, such as new infrastructure platforms and overseeing wider system transformations.

Any energy generation development and operation should ideally be done by a separate business and potentially opens a whole regulatory can of worms. There are obvious advantage in some situation such onsite generation where for example as part of a holistic energy solution solar PV is fitted to government building roof to supply EV charging points.
for government vehicle or a CHP unit is fitted to supply electricity and heat to a building. However, project development requires a whole different skill set to electricity supply and would significantly add to the scale and complexity of what is being proposed. If this was to be considered it would seem sensible for this to treated as a phase 2 to be added at a later date once the supply business is up and running.

- 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?

We believe that any energy agency type role would be better carried out through a completely separate entity. However, if this role is to be incorporated then thought needs to be given as to how this would work alongside Scottish Enterprise who already provide part of this function. It is conceivable that special tariffs could be used as incentives to promote the uptake of new energy efficient technologies or on-site generation, however, we suspect that this will be an inefficient way to promote new technologies and again the question of where the money comes from to support premium tariffs needs to be answered.

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

Whilst we believe it should ultimately be answerable to Parliament there should be a board of Directors who are responsible for the day to day running of the business, who have a very clear mandate on what is expected of the business operationally and also in terms of reporting.

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

It is not clear why legislation would be required, however, it may be sensible for an idea as fundamental as this face to scrutiny in parliament before being put into action.

Scottish legislation needs to allow the POEC to make its own purchasing contracts that will allow for long-term power purchase agreements. The UK Government has a centralised system, particularly around nuclear, whereas in Scotland we are moving towards a decentralised, smart, flexible, renewables and low-carbon based system, and this should be set out in the Climate Change Bill.