

## SUBMITTING EVIDENCE TO A SCOTTISH PARLIAMENT COMMITTEE

### DATA PROTECTION FORM

<b>Name:</b>	Scottish Renewables
<b>Date:</b>	13 September 2018
<b>Organisation: (if required)</b>	Scottish Renewables
<b>Topic of submission:</b>	POEC

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**ECONOMY, JOBS AND FAIR WORK COMMITTEE****BUSINESS SUPPORT INQUIRY****SUBMISSION FROM [Scottish Renewables]****Scottish Publicly Owned Energy Company (POEC)**

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

Scottish Renewables is the voice of Scotland's renewable energy industry, working to grow the sector and sustain its position at the forefront of the global clean energy industry. We represent around 250 organisations across the full range of renewable energy technologies in Scotland and around the world, ranging from large energy suppliers, operators and manufacturers to small developers, installers and community groups, and companies throughout the supply chain.

Scottish Renewables welcomes the potential of a publicly owned energy company (POEC) with ambitious and clear objectives to support the development of Scotland's renewable energy industry. Although we have concerns regarding some specific policies that they have pursued, overall the Scottish Government has set stretching targets and clear ambition for renewable energy, now backed by a robust consensus across the political spectrum. This ambition is reflected in the Scottish Energy Strategy. Scottish Renewables was particularly pleased by following policies included in the Strategy:

- A target to supply 50% of Scotland's energy (across electricity, heat and transport) from renewable sources by 2030 (from 18% today).
- A target to almost double Scotland's renewable electricity capacity (from 9.3 to 17 Gigawatts) by 2030;
- A target to increase the productivity of energy use across the Scottish economy by 30%;
- Confirmation of the £60 million Low Carbon Innovation Fund, announced in last week's draft Scottish Budget, and a new £20m Energy Investment Fund for low-carbon solutions;
- Confirmation of a new, publicly-owned Scottish energy company which will enable the public to invest in renewable energy projects.

The POEC has the potential to perform a vital role in securing and expanding both the energy and socioeconomic benefits generated by renewables in Scotland and, as such, to meet many of the ambitions outlined in the Energy Strategy. The POEC could have a role in supporting both small and large scale renewables, both of which are critical to meeting the ambitions of the energy strategy and creating a new energy system that could benefit the whole of Scotland

- What role should it fulfil and how?

The SNP's 2017 Manifesto committed the Scottish Government to examining the establishment of a publicly owned energy company to "to help the growth of local

and community energy projects”.<sup>1</sup> Expanding on this commitment, the First Minister told the 2017 SNP Conference that a POEC’s energy “would be bought wholesale or generated here in Scotland – renewable, of course – and sold to customers as close to cost price as possible.”<sup>2</sup>

However, EY’s Strategic Outline Case<sup>3</sup> for a POEC, commissioned by the Scottish Government, suggests that increased renewable energy activity and the “incorp[oration] of other forms of energy supply e.g. district heating” would form part of Phase 2 of the POEC programme, coming after Phase 1’s goals of establishing capability and strategy in the “medium to long term” were fulfilled. The report then proceeds to discuss primarily consumer supply issues.

It is our view that a POEC initially focused solely on supplying energy would be a missed opportunity. The POEC offers an excellent opportunity to support the growth of renewable generation in Scotland and – in line with the Energy Strategy’s objectives – grow local energy systems and community energy projects. Stimulating these projects not only serves to meet our energy ambitions, but to deliver jobs and investment to communities across Scotland.

Scottish Renewables therefore believes that the POEC should seek to fulfil three roles from the outset:

1. The aggregation of Scottish public sector electricity demand, ensuring that this demand is met by electricity from renewable sources, providing a route to market and long-term, stable revenue stream for a range of renewable energy technologies, including the cheapest (large-scale onshore wind and solar PV)
2. The development of a more holistic and consistent approach to the decarbonisation of heat supply
3. The provision of support for small-scale, local and community renewable energy projects to help them take control over their energy costs and carbon emissions.

These proposals would be bold, ambitious and impactful on Scotland’s energy mix and economy. They would provide a route to market for Scotland’s established, large-scale renewable technologies, support smaller and community level energy, and make a major impact on Scotland’s heat decarbonisation policy direction.

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

The Scottish Government’s Energy Strategy outlined an ambition to meet 50% of Scotland’s total energy demand – electricity, heat, and transport – from renewable sources by 2030. If the Scottish Government is to meet this challenging target, it must do everything it can to maximise Scotland’s renewables potential.

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<sup>1</sup>[https://d3n8a8pro7vhmx.cloudfront.net/thesnp/pages/5540/attachments/original/1461753756/SNP\\_Manifesto2016-accessible.pdf?1461753756](https://d3n8a8pro7vhmx.cloudfront.net/thesnp/pages/5540/attachments/original/1461753756/SNP_Manifesto2016-accessible.pdf?1461753756)

<sup>2</sup> [www.snp.org/nicola\\_sturgeons\\_speech\\_to\\_the\\_snp\\_conference\\_2017](http://www.snp.org/nicola_sturgeons_speech_to_the_snp_conference_2017)

<sup>3</sup> [www.gov.scot/Resource/0053/00533962.pdf](http://www.gov.scot/Resource/0053/00533962.pdf)

The public sector is responsible for a sizable proportion of Scotland's energy demand. The Scottish Government and its agencies have taken positive steps to increase the use of renewables to meet their energy demand, most notably Scottish Water – Scotland's largest energy user - whose use of onsite renewables generate and facilitate over 900GWh of electricity.<sup>4</sup> Whilst this is encouraging, there is still a distance to travel.

The 50% target in the Scottish Government's Energy Strategy is challenging and ambitious. It necessitates an active role from government and co-ordination of activities across the public and private sectors. The meeting of Scottish public sector energy needs by renewable sources would make a major contribution to Scotland's progress towards its all-energy target. The POEC's co-ordination capacity and potential to guarantee renewable development could play an integral role in this process.

### **Large Scale Renewables**

The cheapest form of electricity generation is new onshore wind,<sup>5</sup> With solar PV and offshore wind also increasingly low cost. Indeed, developers of all renewable technologies and projects, and their supply chains, are working hard to reduce costs to minimise the need for government support as quickly as possible. The cheapest, most established technologies are currently locked out of the energy market by the UK Government's failure to hold further auctions for 'established technologies' (Pot 1) for Contract for Difference (CfD) support. The socioeconomic benefits of onshore wind developments have already been substantial<sup>6</sup>, and a BVG Associates study has demonstrated that onshore wind has the potential to generate 18,000 jobs and £6bn investment in Scotland by 2025.<sup>7</sup>

Scotland risks missing out on these benefits in the near future. While a small number of onshore wind and solar PV sites in Scotland are able gain a route to market through the use of corporate power purchase agreements (PPA), delivering low cost power to those companies alone, these opportunities are limited. PPAs create direct contracts between the energy generator and a large power consumer over a prolonged period, providing the stable, predictable revenue stream necessary for large-scale energy investment.

Scottish Renewables proposes that the POEC aggregate the electricity demand of the Scottish public sector and enter into PPA-style agreements with renewables providers in order to meet this demand. Utilising such PPA-style agreements for Scottish renewable generation through a POEC would mean that the established technologies in Scotland's renewables sector could continue to grow and generate the myriad socioeconomic benefits that come with renewable energy generation. This would provide invaluable support beyond that provided by any future CfD action taken by the UK Government, and take the Scottish Government closer to its ambitious renewable energy targets. Scotland's public sector energy demand is vast. Meeting it with renewable energy could unlock similarly vast benefits.

<sup>4</sup> [www.scottishwater.co.uk/about-us/media-centre/latest-news/scottish-water-hits-renewable-energy-milestone](http://www.scottishwater.co.uk/about-us/media-centre/latest-news/scottish-water-hits-renewable-energy-milestone)

<sup>5</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/566567/BEIS\\_Electricity\\_Generation\\_Cost\\_Report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/566567/BEIS_Electricity_Generation_Cost_Report.pdf)

<sup>6</sup> [www.scottishrenewables.com/publications/onshore-wind-investing-scotlands-energy-future/](http://www.scottishrenewables.com/publications/onshore-wind-investing-scotlands-energy-future/)

<sup>7</sup> <https://bvgassociates.com/the-power-of-onshore-wind/>

## Heat

The POEC could also play a useful role in accelerating the decarbonisation of heat, an area where progress has been slow. Our renewables sector generates in excess of 68% of Scotland's current electricity supply.<sup>8</sup> However, the most recent figures show that only 5% of Scotland's non-electric heat demand is met from renewable sources.<sup>9</sup> The Scottish Energy Strategy has set a target for 20% of Scotland's non-electrical heat supply to be met by renewables in 2030.

Heat accounts for around half of Scotland's energy use and carbon emissions, so improving the policy drivers and support for renewable alternatives will be crucial in meeting the targets in the Climate Change (Scotland) Act 2009 and the Energy Strategy, particularly the ambitious heat target that it contains. At the same time, renewable heat can deliver energy that is both secure and affordable.

One function the POEC could play would be as a developer of district heat networks. One barrier facing the growth of this technology in Scotland is the lack of projects coming to market. The Scottish Government hopes to address this by increasing the amount of information available to the market by tasking local authorities to produce Local Heat and Energy Efficiency Strategies (LHEES) and a proposed new consenting and licensing system for district heat network development in Scotland<sup>10</sup>. Although the LHEES will address some information barriers, additional work will likely need to be carried out to identify, approach and seek agreement from suitable heat users to develop an investment grade business case for new networks. The POEC could take on this function, assisting local authorities and helping to bring new projects to the market.

The POEC could either tender delivery of these projects out to private developers, or take some projects forward itself. Given that the POEC may be able to borrow at lower rates of interest than the private sector, it may have a role to bring forward those first heat networks, whose borrowing costs are often such that they can make project unviable. In doing so the POEC would help bring forward projects that may otherwise not happen. The POEC could take on this developer function on behalf of local authorities in Scotland, who in future are likely to be tasked with delivering new heat networks as identified in their LHEES. Rather than have each individual local authority act as a developer, the POEC could perform this role in a more streamlined way. The POEC could also act as the developer of last resort that is also proposed in the district heating regulatory package.

The POEC could also help roll out other forms of low-carbon heating in Scotland, setting standards and expanding market. One of the key barriers to renewable heat uptake is a lack of knowledge of the low-carbon heat options available and how they can be best utilised. The POEC could play a vital role in informing and advising consumers on the value of low-carbon heat. Consumers and supply chain could be brought together, enhancing uptake and encouraging economies of scale through

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<sup>8</sup> <https://news.gov.scot/news/record-year-for-renewables-generation>

<sup>9</sup> [www.energysavingtrust.org.uk/sites/default/files/reports/Renewable%20Heat%20in%20Scotland%202016%20report%20FINAL%20EST%2031Oct17.pdf](http://www.energysavingtrust.org.uk/sites/default/files/reports/Renewable%20Heat%20in%20Scotland%202016%20report%20FINAL%20EST%2031Oct17.pdf)

<sup>10</sup> <https://consult.gov.scot/energy-and-climate-change-directorate/lhees-and-dhr2/>

buying groups and coordinated works - the value of which has been demonstrated by the recent SEEP pilot<sup>11</sup> and previous Energy Savings Trust Scotland initiatives.

The benefits of such an approach could be extensive. With significant cross-over between energy efficiency and renewable heat supply chains in rural areas<sup>12</sup>, the POEC could work together with the Scottish Government to consider how to integrate all elements of the existing heat supply chain in the design of future schemes.

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

### **Small-Scale Renewables**

The Feed-in Tariff (FiT) is the principle means by which local and community renewable energy projects are currently supported. The FiT is a UK government scheme designed to encourage particular renewable energy generation and allow consumers and businesses to engage in the energy market. The scheme requires participating licensed electricity suppliers to make payments on both generation and export from eligible installations. The programme has provided revenue support to small-scale (that is, those under 5MW) renewable electricity generation technologies since 2010. The scheme has been hugely successful and has provided essential support to a wide raft of renewable technologies, particularly solar PV and hydro schemes. The most recent statistics from the UK Government show that 761,000KW of electricity generation capacity has been deployed in Scotland as a result of the FiT scheme.<sup>13</sup>

The UK Government has proposed that the FiT scheme will close to new entrants on March 31, 2019. We believe this will be of significant detriment to the small-scale renewables sector in Scotland and the rest of the UK. Alongside the proposed closure of the scheme, the UK Government opened a call for evidence on the future for small-scale low-carbon generation.

The benefits of decentralised and small-scale developments are significant. They include the ability to site generation close to where demand is (particularly in rural and remote areas), the provision of important flexibility to the energy system which maximises the system's resilience, all while supporting thousands of jobs. Securing and building on these strengths is essential to ensure a smart, resilient and dynamic energy system in Scotland.

It is for these reasons that the Scottish Government should look to secure Scotland's small-scale renewables future. Whilst we will continue to work with the UK Government to ensure a viable policy framework for small-scale renewable generators, Scottish Renewables believes that the POEC provides a singular opportunity to provide a Scotland specific development opportunity for small-scale renewable generation

<sup>11</sup> <http://scene.community/blog2/iona-6-hats-workshop>

<sup>12</sup> [Energy Efficiency and Low Carbon Market Research, Energy Saving Trust 2017](#)

<sup>13</sup> <https://www.gov.uk/government/statistical-data-sets/sub-regional-feed-in-tariffs-confirmed-on-the-cfr-statistics>

The precise mechanics of such a scheme may be *ultra vires* under the Scotland Act 1998, as amended by the Scotland Acts 2012 and 2016, but such a scheme could make a contribution of sufficient significance to justify the committee looking into this issue further.

As discussed above, the cheapest forms of new electricity generation are renewable. Continued utilisation of these technologies will reduce the cost of electricity to the consumer, thus mitigating fuel poverty. Further, the enhanced use of community renewables projects will give increased control over electricity and heat generation as well as provide revenues to local communities.

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

Scottish Renewables believes that there is a need for government-wide consistency in approach to renewable energy. It is essential that every department of the Scottish Government is aware of the implications of their policy decisions on the renewables sector and the Scottish Government's Energy Strategy and Climate Change Plan. The POEC could play an essential role in ensuring this joined up approach and foregrounding the renewables sector across government.

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

As discussed above, it would be a missed opportunity if the POEC were to be restricted to a licensed energy supply company.

- 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 already noted, Scottish Renewables believes that the POEC should have a wider set of ambitions beyond supplying gas and electricity. New onshore wind farms are now the cheapest generator of electricity available. Solar PV and offshore wind are both similarly low cost. Generating more electricity using these methods will have a downward pressure on electricity bills.

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

Scottish Renewables has no comment on this at this time.

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

Scottish Renewables has no view on this beyond ensuring that the necessary powers lie with the Scottish Government.