SSE Submission to the Smith Commission

October 2014
1.0 Introduction

SSE welcomes the opportunity to respond to the Smith Commission on further devolution to the Scottish Parliament. SSE is a UK-listed company, the broadest-based energy company in the UK and one of the largest companies headquartered in Scotland. It is involved in the generation, transmission, distribution and supply of electricity; in the production, storage, distribution and supply of gas; and in provision of other energy services. SSE employs people, serves customers, owns and operates assets and has plans to invest in Scotland, England, Wales, Northern Ireland and the Republic of Ireland.

SSE is a major contributor to the economy in each of the jurisdictions in which it operates. It has plans for net investment of around £5.5bn in the four years to March 2018 in lower carbon energy and the infrastructure to support it. A recent study found that SSE contributes around £9bn annually to the UK economy, supporting more than 100,000 jobs. In Scotland alone SSE contributes around £1.4bn annually to the Scottish economy, supporting around 17,000 jobs.

This submission considers areas relating to the energy market which SSE believes could be devolved to Scotland, without undermining the fundamental structure of the single GB energy market, which SSE firmly believe must be maintained due to the important benefits it brings for consumers in Scotland, England and Wales.

Whilst the focus of the Smith Commission is on further devolution for Scotland, SSE recognises the calls for the proposals that are being considered for Scotland to be extended to other jurisdictions within the UK. To that end, this response should also be considered with regard to all devolved administrations.

The preparation and submission of this response is consistent with SSE’s policy on Directors’ conflicts of interest.

2.0 First principle: maintaining a single GB energy market

There is an apparent consensus in support of a single GB energy market, with both the Scottish and UK governments outlining the case for a single GB market in the run up to the referendum.

Her Majesty Government’s Scotland Analysis Paper on energy states:

“Scotland’s integration into the single Great Britain (GB) energy market and wider GB and United Kingdom (UK) regulatory framework mean that collective decision-making brings benefits to both Scotland and the UK as a whole. The integration delivered through the current UK political arrangements strengthens energy security, increases opportunities for competition through a wider and more diverse generation and consumer base, and enables a wider distribution of costs of investment in key infrastructure, such as transmission networks.”

Furthermore, the Scottish Government states:

“Scotland will continue to participate in the GB-wide market for electricity and gas, reflecting the integrated transmission networks between Scotland and the rest of the UK. There is a common interest in sharing our energy resources with our neighbours: Scotland can continue to provide safe and secure supplies of electricity and gas and can assist the rest of the UK in meeting its renewable energy targets. Our continued participation in a single GB-wide energy market is also in line with the trend for increasing integration of energy markets across Europe.”

1 http://sse.com/media/229256/SSE-Economic-Contribution-Study-FINAL-REPORT.pdf
2 Scotland Analysis Paper: Energy, HMG, April 2014
3 Scotland’s Future (Chapter 8), Scottish Government, November 2013
SSE firmly supports the interconnection and integration of the electricity and gas systems and markets across Scotland, England and Wales as it brings many important benefits for energy consumers north and south of the border. These benefits include, amongst other things, greater security of supply; increased competition in both the generation and supply markets; the ability to pool resources to meet the need to modernise the production of electricity and the infrastructure to support it; and working together to meet the UK’s legally-binding renewables and climate change targets. In fact, SSE supports the further harmonisation of energy systems and markets to further strengthen security of supply and achieve efficient use of energy resources for the benefit of customers, in line with the direction of travel within the European Union.

SSE strongly believes the following foundations of the single GB energy market must be retained to maintain the integrity of the market. These are:

1. A single regulator.
2. A single System Operator;
3. A single Transmission system; and
4. A single trading market.

SSE would therefore suggest that the recognised benefits of the existing arrangements are maintained.

SSE would urge the Smith Commission to apply a ‘test’ to ensure that any proposals for greater devolution within the area of energy are compatible with the existing single GB energy market arrangements and any changes to existing energy policies must not jeopardise the integrity of the market. Such an approach is consistent with the principles underpinning cross-party talks agreed by political parties in October 2014.

### 3.0 Powers to be devolved: energy efficiency and fuel poverty

SSE believes there is a strong case for devolving further powers to the Scottish Parliament that would enable a more bespoke approach to achieving energy efficiency and tackling fuel poverty in Scotland. The devolution of powers relating to energy efficiency and the Warm Home Discount would enable the Scottish Parliament to set and fulfil its own fuel poverty strategy, responsive to particular Scottish circumstances. The main principle underpinning this proposal is to allow devolved administrations the flexibility to pursue social policy in the most appropriate way to meet the needs of its citizens.

While fuel poverty is a devolved matter in principle, the key powers behind the main policies designed to help tackle this are currently reserved to Westminster: namely the Warm Home Discount and the Energy Company Obligation. Furthermore, following the Hills Review, the UK Government changed the definition of fuel poverty, whereas the Scottish and Welsh administrations have both maintained the previous definition. We therefore have a situation whereby the Scottish and Welsh administrations have limited policy levers to implement policies to address fuel poverty based on their applied definitions.

While the fuel poverty challenge facing Scotland is not fundamentally different to that of the rest of GB, there are differences which a devolved administration could better address in its design of schemes. Scottish-specific challenges, such as the nature and condition of housing stock and the difference in the mix of fuels used for heating, could benefit from a Scottish-specific set of solutions.

By devolving energy efficiency to the Scottish Parliament, SSE believes that the Scottish Government could use the opportunity to fundamentally redesign how household energy efficiency policies are funded and delivered in Scotland. This would also complement existing devolved powers relating to housing.
Finally, policies designed to tackle energy efficiency and fuel poverty are arguably logical extensions of housing policy, where powers are already devolved, and welfare policy, an area where there appears to be a political consensus for devolving new powers to the Scottish Parliament.

### 4.0 Conclusion

In summary, having carefully considered the devolution of additional energy related powers to Scotland, SSE has concluded that it sees no benefits to consumers in Scotland, England or Wales to devolve powers that would impact or undermine the recognised benefits of the existing single GB energy market; in fact, it believes there are significant potential disbenefits. However, SSE sees merits in considering the devolution of powers to address energy efficiency and fuel poverty.

SSE would be pleased to provide further information if the Commission requires.