Devolving further energy policy powers: a short commentary for the Smith Commission

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This short commentary considers the possibility of further devolved powers for energy policy in Scotland as part of wider post-referendum constitutional reforms. It does not attempt to resolve the issues raised; the aim here is to highlight some key issues which may be overlooked in energy policy debates. It draws on a number of other research and policy papers, many of which are referenced. All of the observations draw on an understanding, developed over long research experience, of energy supply and use as a complex, embedded social and technical system.

The energy sector faces a period of change and renewal in any version of the future – there is no credible 'business as usual' scenario for energy futures. Scottish energy policymakers, like others across Europe and beyond, face the concurrent and partly divergent challenges of climate change, combatting fuel poverty and providing energy security.

The Scottish Government's independence White Paper (Scottish Government, 2013) proposed the establishment of an energy partnership between an independent Scotland and the rest of the UK (rUK). While a full separation of policy and regulatory powers no longer seems likely, the further devolution of significant energy policy powers (e.g. on support for renewable technologies and energy efficiency policies) is now under active consideration by the Smith Commission.

A more devolved structure for energy policy would allow greater opportunity for distinctively Scottish policy goals to be developed and pursued. Already, there are important differences (e.g. to supply technology licensing and consenting, and support for energy efficiency) between Scotland and the UK – demonstrating the feasibility of diverging policy regimes within the UK. However, these powers are not guaranteed under current arrangements – for example, the Scottish Government is losing its ability (under the under the Renewables Obligation) to set different levels of support for renewable technologies from the rest of the UK. Under new Electricity Market Reform arrangements, UK-wide support rates are being set by the UK Government.

This invites questions about the limited ability of current UK policy arrangements to reflect distinctive Scottish priorities. Scotland's energy system (and energy policies) have particular characteristics within the wider UK system: on supply, the Scottish emphasis has been on renewable energy and offshore technologies; on demand, there has been an emphasis on energy efficiency, with a more integrated approach to housing and energy policy to address fuel poverty. Scotland has also made particular efforts to support community ownership, for example, for local recycling schemes and insisting on part-community ownership of some renewables projects.

The case for a distinctively Scottish set of energy policy priorities and interests can therefore be seen as clearcut – especially as policymakers in particular jurisdictions will tend to frame problems and solutions in terms of their particular resources and set of powers. However, many energy problems (such as climate change, the cost of low carbon technologies and patterns of energy demand) are often deeply international, and their solutions may also have international dimensions to an extent that can go underappreciated in national or local policy discussions.

There is also a need here for consideration of the possible implications of more divergent policies for costs, prices and subsidies, and the background politics involved – for example, how might differential support measures in Scotland be introduced at sufficient scale and impact, while still commanding UK-wide acceptance from politicians and wider publics? For longheld political reasons there is no local pricing for electricity in the UK, but this may be challenged by moves toward more

devolved, local and community energy systems – and any move to regionally-differentiated energy pricing is likely to become visible and contentious.

These issues became prominent in pre-referendum energy and independence debates. The UK Government (HMG, 2014) argued that Scottish businesses and consumers enjoy substantial net benefits under current policy arrangements: for example, through the UK- (or GB-) wide socialisation of the costs of renewable energy subsidies, Scottish electricity grid investment and in subsidising energy access for more remote / off grid Scottish consumers. As well as these more direct benefits, DECC also highlighted the benefits offered to Scottish innovation and developer communities from UK-wide support from Scottish-based initiatives such as the Green Investment Bank and the proposed Peterhead carbon capture and storage demonstration plant, and for shared liabilities for the decommissioning of Scottish-based oil & gas and nuclear facilities.

By response, the Scottish Government (Scottish Government, 2014a) highlighted suggested failures of current arrangements, in terms of the division and confusion over UK energy and climate policy direction (leading to loss of investor confidence, underinvestment and the 'capacity crunch' in UK electricity supply), the UK's costly commitment to new nuclear power stations, and a transmission charging regime which penalises Scottish renewables. Rather than a subsidy dependency relationship, the Scottish Government saw the Scottish energy sector as acting as the UK's energy reserve and clean energy powerhouse. The Scottish Government also commissioned an independent Expert Commission on Energy Regulation, whose report offered a detailed series of policy and regulatory guidelines for how a separate multi-utility national regulator for Scotland could operate alongside an rUK regulator, within an integrated GB markets for electricity and gas (ECER, 2014).

The continuity of UK Government commitments to its carbon and renewables policies is an important future uncertainty and source of Scottish-UK divergence, as is the possibility of a UK referendum on membership of the EU. These policy disagreements reflect wider divergences and tensions across Europe on energy system configuration and the future direction of travel – for example, on the respective role of fossil fuels, nuclear power and renewables.

In addition, there are much greater penetrations of decentralised and community-owned energy systems in some parts of Europe, and partly inspired by this, there is now an emerging emphasis on community energy (and district heating) in Scotland as a way of addressing fuel poverty and promoting social inclusion (Scottish Government, 2014b). There are some emerging technological enablers to this vision: emerging storage and IT innovations could, over time, transform energy systems; for example, by offering more local balancing of supply and demand and much greater demand management among households and communities.

The more immediate policy implications for Scotland of these emerging changes are not straightforward, however – and there are significant risks and costs involved. The UK energy system has operated as a nationally-integrated and centralised system for many decades, and a shift to a more decentralised system could well be a disruptive and expensive process of change, with a need for massive new infrastructure investments, while stranding existing assets and facing political and commercial barriers. The cost implications are far from clear – energy prices vary greatly across Europe (across cities, regions and countries) – but tend to be relatively high in countries with more decentralised or fragmented systems (Eurostat, 2014; Helm, 2014).

Alongside the vision of greater community-ownership and localisation, other visions suggest the most affordable path to decarbonised energy systems for Europe lies through greater opening-up of energy systems across national borders, and the removal of regulatory or market barriers (e.g. ECF, 2010). There are also suggestions that meeting energy security and affordability policies are best

pursued through *greater* engagement in international energy markets (Bradshaw, 2014). Historically, national energy policies have been deeply shaped by international forces – especially the changing availability and cost of fuels – and recent developments have confounded UK and European policy assumptions about the inevitability of increasing oil and gas prices.

Two overall recommendations can be drawn from this short discussion to help inform the Smith Commission's analysis of the appropriateness of further devolution of Scottish energy policy powers. Firstly, there is a need to consider the extent to which Scottish energy policy priorities are likely to further diverge from UK-wide priorities (UK energy policies and politics are themselves now very dynamic, so mapping emerging Scottish and UK priorities is not straightforward). Secondly, there is a need to comprehensively frame, assess and compare the different routes by which Scottish policy ambitions can be best realised – such as by more localised or more interconnected institutional and regulatory arrangements, by private- or public-sector finance and leadership, and by market-based or state-based decision-making. In an energy world of complex interdependencies, unanticipated consequences and often under-examined counterfactuals, the more considered answers to these questions may not be the same as the starting assumptions.

References

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Biography

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