

Scottish Trades Union Congress (STUC) submission to Scottish Parliament NZET Committee Inquiry Electricity Infrastructure: inhibitor or enabler of our energy ambitions?

18th April 2023

Our energy system is failing to serve the people of Scotland. Energy bill increases are estimated to have pushed 72% of households in Scotland into fuel poverty in January 2023.¹ From oil and gas companies like BP, to distribution network operators like Scottish Power and Scottish and Southern Energy, energy companies have seen huge rises in profits just as massively inflated energy prices drop through people's doors.²

The market has failed to deliver affordable or secure energy, and privatised renewable projects have failed to deliver on job promises. A decade of policy based on more competition and opening natural resources and monopolies to privatisation has failed. Now households are facing a cost-of-living crisis thanks to a regime that has embedded financial profiteering. A consistent and large majority of the public, across the political spectrum, supports taking energy back into public hands and this should be seen as a key component of ensuring our future energy system serves workers and the climate.

As we look to tackle the climate crisis by building our renewable energy capacity and low carbon solutions across the economy, a rapid transformation of our energy system is essential. There is an urgent need to expand grid capacity, invest in new storage solutions and align electricity regulation with just transition objectives. However, we are lacking the vital infrastructure for delivering such a transformation across our distribution and transmission networks.

Distribution and transmission networks are natural monopolies, where there is no realistic route to competition between operators. The privatisation of these natural monopolies is enabling companies to extract profits that could be otherwise be reinvested into the infrastructure, and a lack of credible plan for low carbon solutions across the economy is undermining the delivery of net zero compatible transmission and distribution networks.

Workers and their trade unions across Scotland and the rest of the UK have been highlighting the failures in industrial and energy strategy for years.³ There is an absence of serious policy and investment, as well as a stubborn refusal to intervene and take ownership of the transition. The failure to properly manage our economy is not only limiting progress towards the energy transition and net zero objectives but leading to a loss of jobs and economic benefit being retained in communities across Scotland.

"We are increasingly concerned about the economic value of infrastructure projects, such as the new Forth bridge. Construction workers came up, stayed in B&Bs, flew back down to England. For two years of works on the M72, senior managers came from England and labourers from Ireland. The economic benefit of this work wasn't concentrated in Scotland. If we're going to see infrastructure as a way of creating local jobs & local benefit, projects need to factor in local supply agreements and apprenticeships."

Stephen Smellie, UNISON Scotland⁴

Our transmission and distribution networks are not setup to serve the additional sites for new renewable energy generation projects or to handle the transport of the increase in capacity that will follow. The UK Committee on Climate Change has estimated that reaching net zero across the UK will require a doubling

¹ <https://news.stv.tv/scotland/more-than-72-of-scottish-households-expected-to-be-in-fuel-poverty>

² https://www.parliament.scot/-/media/files/committees/net-zero-energy-and-transport-committee/correspondence/2022/20220510_stuc_submission_energypricerises.pdf

³ <https://www.holyrood.com/news/view,trade-unions-dismiss-government-ten-year-plan-for-economy-as-a-strategy-for-status-quo>

⁴ https://stuc.org.uk/files/Policy/STUC_Green_Jobs.pdf

of electricity generation by 2050.⁵ Where our current energy system relies on dispatchable forms of energy, increased renewable capacity in the grid will require smarter demand and supply management as well as the development of emerging storage solutions. These changes will require significant investment to expand and upgrade existing connections and their capacity.

SSEN Scottish & Southern Electricity Networks operate the National Grid electricity transmission and distribution in Northern Scotland, while Scottish Power Energy Networks (SPEN) operate the same sectors for the Central Belt and Southern Scotland through several subsidiary companies.⁶ These sectors are natural monopolies with no competitors in their market and these subsidiaries are posting significant profits and dividends to shareholders. Despite the importance of investing to build a net zero aligned electricity infrastructure, money that could be reinvested into the networks is being extracted for private gain.

SP Transmission posted a net profit for 2021 of £82.7m while paying £185m in dividends and SSEN Transmission reported an operating profit of £380.9m.^{7 8} Research carried out by Common Wealth demonstrated average profit margins between 2017-2021 for the Distribution Network Operators in Scotland. SP Distribution, the Scottish Power subsidiary, had an average margin of 41.7%. SSE have two subsidiaries within distribution in Scotland, with Southern Electric Power recording a 36.7% average profit margin and 33.5% for Scottish Hydro Electric. Beyond these profits' margins, Scottish Power and SSE paid a combined £980m in dividends to their shareholders from their electricity distribution subsidiaries between 2017-2021.⁹

Electricity and gas distribution and transmission networks should be in public ownership, to enable the gas and electricity upgrades necessary, as well as to prevent asset-stripping.¹⁰ This is particularly important given recent precedent of private sector investors loading debt onto infrastructure acquisitions.¹¹ Last year, SSE sold a 25% stake in SSEN Transmission to the Ontario Teachers' Pension Plan Board meaning profits from this network will go towards securing the pensions of teachers in Ontario.¹²

Electricity infrastructure is a vital cog in realising an energy transition, yet private ownership is siphoning profit out of the system at a time when investment is urgently needed.

Beyond infrastructure, the current regulatory regime must be adapted to meet the requirements of a net zero economy and ensuring affordable energy across the country. The existing outdated model leads to charges to use the electricity network making offshore wind projects in Scotland 20% more expensive than those in the south of England.¹³ These charges are built into the project costs by offshore wind

⁵ <https://www.theccc.org.uk/2022/09/27/priorities-for-electricity-market-reform-and-net-zero/>

⁶ https://www.spenergynetworks.co.uk/pages/electricity_system.aspx

⁷ <https://www.spenergynetworks.co.uk/userfiles/file/SPT%202021%20Accounts.pdf>

⁸ <https://www.sse.com/news-and-views/2022/11/sse-agrees-sale-of-25-stake-in-transmission-business-for-1-465bn-to-unlock-further-growth/>

⁹ £980m total from SP Distribution (£330m); Scottish Hydro Electric (£180m); Southern Electric Power (£470m), Figure 7; <https://www.common-wealth.co.uk/publications/profitting-amid-the-crisis>

¹⁰ https://stuc.org.uk/files/Policy/STUC_Green_Jobs.pdf

¹¹ For example, <https://www.politicshome.com/news/article/row-breaks-out-as-government-completes-23bn-deal-to-sell-green-investment-bank-to-private-sector;>

<https://www.thisismoney.co.uk/money/markets/article-4313638/Vultures-leftThames-Water-10bn-debt.html>

¹² <https://www.ssen-transmission.co.uk/news/news--views/2022/11/sse-agrees-sale-of-25-stake-in-transmission-business-for-1.465bn-to-unlock-further-growth/>

¹³

https://www.scottishrenewables.com/assets/000/001/766/TNUoS_slides_and_explainer_210622_original.pdf?1624366259

developers and ultimately passed to consumers. With increasing onshore and offshore wind located in the north of Scotland and the North Sea, this must be rectified urgently, particularly given higher than average levels of fuel poverty in the Scottish Highlands.¹⁴

In creating a low carbon energy mix, more localised sources of energy and energy storage are vital for balancing demand across the country. Local energy projects can perform a valuable role in supporting the nationwide transmission and distribution infrastructure with flexibility, while retaining greater benefits for communities and improving energy democracy. To realise this there must be greater funding and resourcing provided to local authorities and communities to expand locally owned energy capacity. Electricity infrastructure must be developed in conjunction with these priorities, but greater resourcing is required to expand local capacity and ownership.

Furthermore, since the Climate Change Act became law in 2009, the Scottish Government has missed seven out of the eleven climate emissions targets,¹⁵ and plans for reaching future targets have faced severe criticism from the UK Committee on Climate Change for the lack of clarity on the how they will be realised.¹⁶ A clear plan for Scotland's energy system is necessary, to ensure electricity infrastructure can be aligned to sources of energy supply and demand, as well as chosen storage solutions.

Transforming our energy system to deliver net zero and just transition objectives requires coherent and forward-thinking alignment of different components, from energy generation to transmission and distribution networks, as well as forecasting of low carbon heating and transport solutions across Scotland's homes and communities.

We need a fundamental shift in energy policy to reduce profit extraction, provide long-term energy security and accelerate the climate transition. Workers in trade unions across the energy sector are ready to build a net zero economy and must be engaged in creating just transitions plans for how this will be realised. Investment and policy to reform our electricity infrastructure should be developed with workers to ensure decent work, retain wealth locally and drive the climate transition.

While powers over transmission and distribution of electricity are reserved, the Scottish Government and Scottish Parliament should be stating the importance of public ownership in these areas, and providing certainty through their own plans for energy supply and demand in a net zero economy that enables forward planning of electricity infrastructure. Profiteering and missed targets are incompatible with the necessary transformation of our energy system towards one that works for people across Scotland.

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¹⁴ <https://www.eas.org.uk/scottish-fuel-poverty-map>

¹⁵ <https://www.theccc.org.uk/2022/12/07/scotlands-climate-targets-are-in-danger-of-becoming-meaningless/>

¹⁶ <https://www.theccc.org.uk/2022/12/07/scotlands-climate-targets-are-in-danger-of-becoming-meaningless/>