



BRINGING ENERGY HOME

WA COMMUNICATIONS' REVIEW OF
LABOUR'S PLAN FOR
ENERGY NETWORKS



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What is Labour's plan for the energy sector?

The Labour Party's plan to nationalise energy infrastructure, primarily consisting of the National Grid and energy networks, has now been published. Labour plans to nationalise the National Grid and associated energy distribution infrastructure via the establishment of a system of national, regional and municipal energy agencies. However, the existence of private energy suppliers of all sizes will remain a feature of the UK marketplace.

The move to public ownership of networks reflects a significant enhancement in the size of the state and presents major changes for the currently privately-owned networks and their investors.

Headline announcements

- Labour plans to bring the energy transmission and distribution networks into public ownership. The benefit to the public, according to Labour, is that the nationalised energy network will be able to reinvest any money currently paid out in dividends to shareholders. This follows criticism from the Labour Party and others in the past few years over the corporate behaviour of a number of network operators.
- In practice, Labour would move to publicly owned networks by compensating existing shareholders with bonds issued by HM Treasury. The level of compensation would be defined by parliament but is unlikely to be paid at the current market value for these assets. Labour has proposed making deductions for factors including "the state of repair of assets and state subsidies given to the energy companies".
- This announcement covers not only nationalisation but also sets out a wider radical reform agenda, including decentralisation and structural changes to the market.
- Labour will establish the National Energy Agency (NEA), which will own, maintain and operate transmission infrastructure. The National Energy Agency will also incorporate some of the regulatory functions held by Ofgem and set regional decarbonisation targets.
- Labour will create Regional Energy Agencies (REAs) to run the distribution networks, including system operation. Regional Energy Agencies would be responsible for meeting decarbonisation targets, reducing fuel poverty and driving industrial strategy. Regional Energy Agencies would also be accountable to local councils, workers and residents.
- Local authorities will be able to set up their own Municipal Energy Agencies (MEAs), which will allow them to remove themselves from the regional structures and to own and operate their own distribution networks.
- On a much smaller level, Labour would "enable and support" the creation of Local Energy Communities (LECs) – vertically integrated bodies that can engage in supply, distribution and/or generation of energy at the micro level. Membership of a Local Energy Community will be voluntary.

The aim of these proposals is primarily to give Labour more control over its decarbonisation policy. From a consumer perspective, the biggest change is likely to be an increase in supplier choice.

Labour is hoping this will lead to an increase in regulatory scrutiny of all bodies within the energy sector, therefore there may be a need for greater engagement with Ofgem or the National Energy Agency, depending on the way in which regulation is divided between the two bodies.

How long will these changes take?

The timescale for these proposals to be implemented will be significantly longer than the immediate nationalisation upon entering government as promised. Full implementation of these proposals is unlikely to be completed within a single parliamentary term given the complexity of the required legislation and the scale of the changes, and the possibility of a Labour government operating as a minority or in some form of coalition. There is a high probability of legal challenges from shareholders, which could also delay progress on implementation for years.



REFLECTIONS ON WHAT THIS WILL MEAN FOR THE SECTOR

1. A totemic policy

While Labour's policy agenda over the last few years has included re-nationalisation of energy networks, this is a significant moment. The publication of this plan reflects a level of detail greater than many in the sector may have expected.

These plans are likely to become a flagship policy and used as an example of Labour's radical domestic agenda. This is the first sector in which Labour has set out such a granular blueprint and it is likely to hold public appeal.

While these proposals are expected, the significant implications they will have for businesses and investors operating in the sector should not be underestimated. It marks a major departure from the general consensus around ownership structures which has prevailed since privatisation.

2. This is a highly radical proposal that goes beyond nationalisation

While the proposals in relation to public ownership are the most significant and have dominated the headlines, this plan extends beyond simply setting out how to nationalise networks. The language of decentralisation and community energy has been used extensively by Labour in recent years and features heavily in its 2017 General Election manifesto. However, this plan sets out a much more detailed blueprint for introducing it.

While critics will claim that Labour is deliberately trying to move the focus away from its divisions over Brexit to re-emphasise its radical domestic policy, it is too simplistic to argue that this plan is just about nationalisation. While public ownership is the cornerstone of its approach, Labour's proposals will fundamentally change how the sector operates beyond who owns the pipes and cables.

3. The relationship between the newly proposed National Energy Agency and Ofgem is unclear

While the document recognises the continued need for an independent regulator, the responsibilities and focus of this regulator going forward are unclear. With the National Energy Agency likely to take over significant parts of Ofgem's current work, there are questions as to how responsibilities will be divided, and how duplication will be avoided. Similar questions remain over the functions of the Department for Business, Energy and Industrial Strategy.

There is no clarity on what role Labour sees for the regulator going forward. While it's clear that the National Energy Agency would be the most significant body of the two, it's unclear how the two will co-ordinate. On the assumption that Ofgem would continue to take the lead on retail issues, the risk is that the lack of a holistic view will make it difficult to achieve policy objectives and create a complex picture for industry.

4. Implications for the supply market

Labour's plan is clear that public ownership will only cover energy networks, rather than suppliers. However, it still leaves a host of unanswered questions over the implications that this will have for the retail market.

The plan notes that Municipal Energy Agencies will have the ability to supply energy. This is consistent with Labour's previous vision for reforming the supply market and builds on what they see as the success of local authority-based suppliers, such as Robin Hood Energy. This has the potential to significantly distort the supply market with one participant potentially having control of the infrastructure that other suppliers rely on, and arguably being given preferential treatment from government. It's unclear what checks and balances – if any – would be in place to manage this.



REFLECTIONS ON WHAT THIS WILL MEAN FOR THE SECTOR

5. More questions than answers

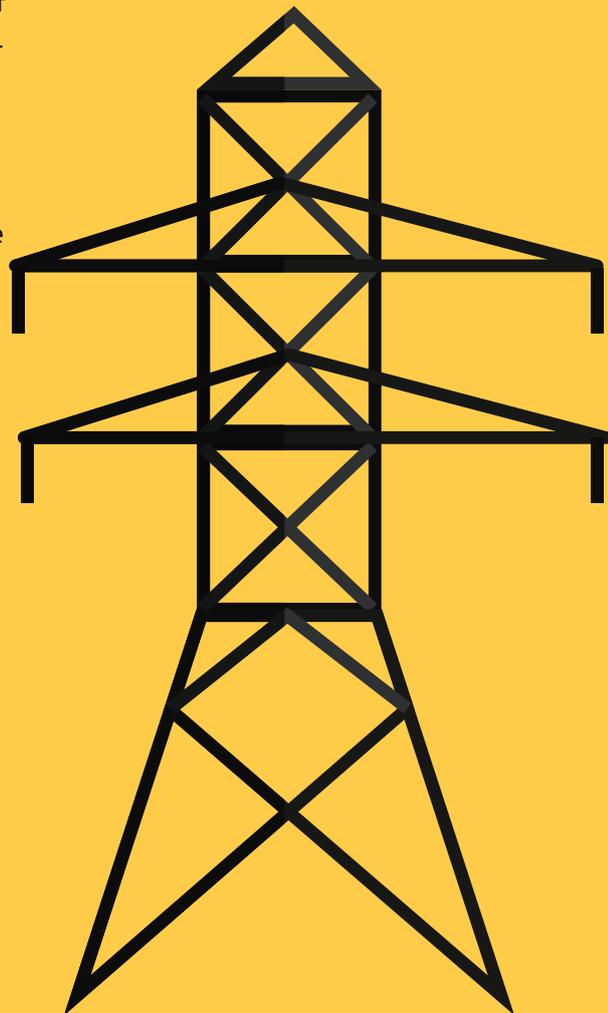
While this plan sets out more detail than has been given previously, questions do remain. For example, although the plan is clear that networks and interconnectors would be taken into public ownership, it's less clear on the implications for other participants in the sector. In particular, the role of central market functions, such as code bodies, is not discussed. Even with public ownership of infrastructure and new publicly owned suppliers, there will still need to be clear rules. Further detail will be required on how this will be managed, and whether the existing landscape will be reformed, or if these responsibilities will be adopted by the National Energy Agency.

6. A patchwork of democracy

The introduction of four new tiers of bureaucracy (the National Energy Agency, Regional Energy Agencies, Municipal Energy Agencies and Local Energy Communities) will create significant new complexity.

While Labour do start to define the roles and responsibilities of each of these organisations, it is likely there will be significant duplication of activity and responsibility, and mission creep as individual agencies seek to build a power base. More importantly, there is a risk that key responsibilities could fall between the gaps.

In addition, there is a danger of this bureaucracy being a patchwork, with different approaches in different areas. Not all areas will establish Local Energy Communities and possibly even Municipal Energy Agencies, and so there is likely to be a very inconsistent and varied picture across the UK with these organisations taking radically different shapes and sizes. These organisations may have limited experience or understanding of the sector.





OPPORTUNITIES FOR INDUSTRY TO RESPOND TO AND SHAPE THIS

1. Influencing implementation

Radical reform of the energy sector to include public ownership of networks and significant decentralisation is one of the Labour Party's most totemic policies. However, there remain opportunities to engage on the implementation of these plans both with Labour and, in due course, with officials responsible for introducing them.

While the broad policy is fundamental to Labour's wider agenda, input into the detail of the plan will be important for businesses across the sector. This should include advisers close to the leadership and Shadow Chancellor as well as the Shadow energy team.

2. Working with potential government partners

Current opinion polling suggests while Labour would be the largest party in the next parliament, they would fall short of a majority. Labour may rely on other parties – most likely the SNP or Liberal Democrats – to form a government. While the SNP has supported public ownership of utilities in the past (and indeed Scotland has a publicly owned water company), making the case to smaller parties who could play a pivotal role in the next parliament that this will have significant unintended consequences is likely to be critical to preventing this plan being implemented.

3. Beware how the Conservative Party may respond

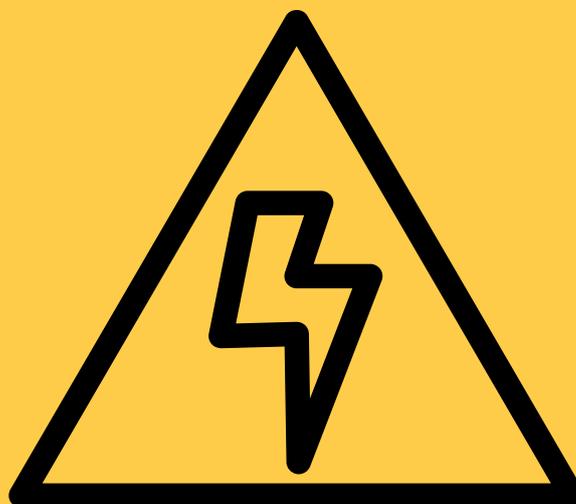
The Conservative Party has a history of adopting policies previously proposed by Labour. The energy price cap is just one example. While it is highly unlikely that the Conservative Party may suddenly become advocates for public ownership, the upcoming leadership contest is likely to coincide with a 'battle for ideas' for how the party responds to Corbynism. How consumer markets operate and whether consumers are getting the best possible outcomes will be one of these key themes.

Leadership contenders will be looking for populist policies that can be sold on the doorstep. Improving how utilities operate is likely to be high on this list. This could include a greater focus on compensation, transparency and improving corporate practices. The industry will need to be mindful of this, and there is an opportunity now for those who can get ahead and show they are responsive to this agenda. Proactively showing social value is critical.

4. Being smart with your messaging

There are strong arguments to be made in opposing these proposals. The negative impact on efforts to address decarbonisation is likely to be the most significant. In order to be effective, messages should focus on decarbonisation, security of supply and housing delivery.

While centre-right commentators will complain it is not 'fair' to nationalise assets at significantly less than their market value and make arguments about the broader implications for investor confidence in the UK, this is unlikely to resonate with the public. Sticking to arguments focused on the negative impact on key government – and Labour – priorities will be most likely to get cut through.





WA blends creative, strategic thinking with experience to solve public affairs and strategic communications challenges.

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