

GREAT BRITISH ENERGY: WHAT WOULD A PUBLICLY OWNED ENERGY COMPANY ACTUALLY DO?



FLINT

AN ELECTORAL DIVIDE

The starting gun has been fired and the UK general election campaign is now well underway. Over the coming weeks, the major parties will set out more detail about their respective policy programmes and publish their manifestos. This will include policies on the energy and climate agenda, some of which will have long-term ramifications for how the country charts a course to net zero out to 2030 and beyond.

For the Labour Party, the creation of a publicly owned energy company, Great British Energy (GB Energy), has been an important part of its energy and climate policy for some time. It was first announced in 2022, when Labour was committed to spending £28 billion a year on green investment. While that funding commitment has since been reduced, GB Energy remains a central priority for Labour. It featured on Keir Starmer's pre-election pledge card and is now seen as the key tool for enabling Labour's (highly ambitious) target to decarbonise the UK electricity system by 2030.

Labour has provided some detail on how GB Energy will work. We know it will have an initial capitalisation of £8.3 billion over the next Parliament (with £3.3 billion allocated to community energy) and be based in Scotland (likely Aberdeen). Labour wants to put the new body on a statutory footing through primary legislation. Its intention is for GB Energy to invest alongside the private sector in leading-edge energy technologies, help get capital intensive projects over the line and support community energy projects.

But there is a great deal more that we do not know. Will GB Energy become the UK's answer to state-owned entities elsewhere – the UK's EDF? Or will it be more of an extension to the current state-owned investment vehicles that already exist, such as the UK Infrastructure Bank? Will it have a role in just electricity markets, or will it go beyond, including into the green supply chain? And how does it interact with Labour's separate proposal for a new National Wealth Fund?

In summary, what will GB Energy actually do? To help answer this question, this note presents three broad options on the table for how GB Energy could be structured and what it could do, ranging from a narrow, state-owned energy investment vehicle, to a fully-fledged publicly owned energy developer, through to a more strategic, net zero delivery agency. We review the respective merits and limitations of these options, as well as how they would interact with the current institutional structures that govern the UK's energy system. We do not seek to reach any firm conclusions on what the right structure would be, but aim to stoke debate on what role GB Energy could play in practice.

HOW 'GREAT' WILL GREAT BRITISH ENERGY BE?

There has been debate about the role of GB Energy from the moment it was first announced. In contrast to many other countries, ever since privatisation in the 1980s, there has been little direct public ownership of energy assets in the UK. The sector has been predominantly privately owned with varying degrees of regulation across the value-chain. The state's role has largely been in market creation, regulation of natural monopolies and the deployment of subsidy instruments (like the Renewables Obligation and the Contracts for Difference scheme). There have been various incarnations of state-led investment vehicles, such as the Green Investment Bank and the UK Infrastructure Bank, but these have focused largely on commercial, minority investments. There have also been examples of state-led development vehicles, such as Great British Nuclear, but these have been for tightly defined purposes.

But with pressure to accelerate the transition to net zero and generate public value for the transition in the form of cheaper energy and state revenues, there is renewed political debate around whether the state should become more muscular once again. The question is whether a dose of centralisation – delivered in part through the current government's creation of a publicly owned system operator – should be accompanied by greater state involvement in the financing and delivery of the transition.

This is where GB Energy comes in. This is not the nationalisation agenda pushed by recent brands of the Labour Party. However, talk of a publicly owned energy company has some worried about how to avoid a reduction in the power of the market to drive efficiency and lower costs. Others are keen to ensure that state investment is additive, crowding in investment, rather than causing capital flight away from the UK.

In light of this tension, Labour has purposefully chosen only to define the broad concept of GB Energy. This is partly political – the current optionality plays to both wings of the party on the scale of public ownership it implies – but also practical. Labour knows that the institutional governance of the energy system is already overly complicated, and it will take them time in government to develop a structure that does not simply add to this confusion. This has led to a long list of activities and roles GB Energy might play, but not yet a definitive sense of what its exact role will be.

OPTIONALITY ONLY GETS YOU SO FAR

At some stage, Labour will have to define what GB Energy really is, with the real detail unlikely to come until after the election. If the Party does win, it will need to choose between the roles that it has hinted the organisation may take on.

On the basis that it cannot do everything, and given what Labour has said to date, there are broadly three 'models' for what GB Energy could do (with inevitable overlap between each):

1. State energy investment vehicle

An organisation providing financial investments – both debt and equity – into privately-run energy projects of strategic importance, on behalf of the state. This would likely be through a minority investment position. Investments could include mature technologies, as well as more innovative technologies that need to be scaled up. For example, Labour has specifically stated that floating offshore wind will be the first priority for GB Energy. This role could also involve providing finance to community energy projects through grants and loans to local authorities.

This would overlap with the UK Infrastructure Bank (UKIB), which invests in strategic infrastructure projects, but does not have a sole focus on the energy sector. Government (often via UK Government Investments) also already makes financial investments in energy projects e.g., Sizewell C. The £10 million Community Energy Fund also provides funding through regional hubs for local community energy projects.

2. Publicly owned energy developer

A fully-fledged developer of energy projects, responsible for developing, financing, constructing and operating energy assets, including both onshore and offshore renewables. This could be done either in partnership with other private sector developers, or as a fully independent developer, or both. Such a model would be more akin to other state-owned entities that operate in their home energy markets – Labour has specifically name-checked EDF and Vattenfall in the past. This role could also include de-risking development projects that are then sold into the private market. There is also potential for this model to provide resource to support community energy projects in the longer term from a developer standpoint.

There is no equivalent to such an organisation in the UK market since privatisation, but a ‘developer’ model does exist in some areas. This includes GB Nuclear that is currently developing large and small nuclear projects as an arm of government.

3. Net zero delivery agency

Rather than focusing on individual projects, GB Energy could take the form of a net zero delivery agency, convening and coordinating different players in the energy market to accelerate the delivery of the transition. This could include a role in the supply chain, where Labour has indicated that GB Energy could underwrite the centralised procurement of key energy network components. While the assumption would be that it initially focuses on electricity, the role could also be expanded out to other areas where constraints exist.

This model would be separate from the soon to be established National Energy System Operator (NESO), which will play a strategic planning function across the energy market. GB Energy’s focus would be on translating that plan into delivery, coordinating different players to address strategic barriers to progress.

Any of these models could have some merit, but there will be particular limitations that need to be overcome, including how GB Energy would interact with other institutions that already exist. **Table 2 in the annex sets out a high-level assessment of what these could mean in practice.**

YOU CAN'T HAVE YOUR CAKE AND EAT IT

The three models outlined above are not all mutually exclusive, but if GB Energy is to make an impact quickly, and within a constrained fiscal environment, it is unlikely to be able to fulfil all of them in tandem. An early priority will therefore be to identify its core roles and responsibilities, as well as how it coordinates (or replaces) existing institutions.

This will be complex given political expectations have been set, limiting the ability to start from scratch. As with all big political decisions, trade-offs will have to be made. One way of doing this would be to define a set of criteria that can assess each core model, and use this to decide the optimum model. A set of criteria might include:

- **Ability to work within a constrained funding envelope:** In a constrained fiscal environment, available funding will limit GB Energy's functions. It will need to be effective even if funding is limited immediately and in the medium-longer term.
- **Ability to provide additionality and address market failures:** To be truly additive, GB Energy would ideally focus on areas where there is a genuine market failure which it can address, rather than trying to compete in markets where the private sector is capable of achieving the government's objectives.
- **Impact on investor confidence:** Private investment will be essential for delivering Labour's energy and climate targets. It will be important that the creation of GB Energy does not impact investor confidence, for example through a sense that it has an unfair competitive advantage, as this could delay or increase the cost of private investment in the transition.
- **Speed of implementation and ability to adapt what exists:** Labour will want to establish GB Energy quickly and demonstrate its impact early on. However, the greater the roles and responsibilities of GB Energy, the longer it will take to fund, resource and develop the organisation. Key to making an impact quickly will also be ease of delivery – could GB Energy build upon existing institutions, or would it require extensive new primary legislation and/or significant changes to other bodies?

- **Value for money:** As GB Energy will be taxpayer funded, it will need to ensure that its investments offer good value for money for taxpayers – a Labour government will want to appear as responsible with the public finances and crowd in as much private capital as possible.
- **Return on investment:** In the long-term, securing a good return for the public from the investments and activities that GB Energy undertakes will be vital to demonstrating its success (and potentially providing long-term funding for a National Wealth Fund or to re-invest elsewhere in the transition).

	Ability to work within a constrained funding envelope	Ability to provide additionality and address market failures	Impact on investor confidence	Speed of implementation and ability to adapt what exists	Value for money	Return on investment
State energy investment vehicle	Investments (most likely minority positions) can be limited and targeted where most needed.	Provides finance where it may be difficult for projects to obtain it, but if done on solely commercial basis this will be more limited.	Likely to have little impact on investor confidence given precedents that currently exist. Investment vehicle could also act independently of Ministers.	Likely to be able to be established fairly quickly given existing precedents. UKIB already carries out a similar role and there are previous examples to build on (e.g., Green Investment Bank).	If governed on a commercial basis, likely to have strong framework for assessing and delivering value for money. More challenging if investment is done on a non-commercial basis.	Investments will provide some level of return, but likely to be more limited if only minority equity / debt investments.
Publicly owned energy developer	Likely to require high level of funding and find it difficult to operate in a fiscally constrained environment.	Active market for private developers already exists, but could play a different role (e.g., de-risking delivery of others) that could make it more additive than simply a public competitor.	Potential to have some impact on investor confidence if not carefully designed e.g., creating concern amongst investors that GB Energy has a competitive advantage. Could be mitigated if role is limited to development and then auctioning projects off to private developers.	Likely to take time to scale up resource and capability beyond other existing organisations. No equivalent to such an organisation in UK market, but potential to extend activities of bodies like GB Nuclear.	Uncertainty over whether a state-owned body could develop projects cost-effectively and how it would assess value for money on large-scale projects, compared to private sector delivery.	Partial or full ownership of assets provides greatest level of payback opportunity to taxpayer, but with greater risks around delivery (both at development and construction phase).
Net zero delivery agency	Likely to require lower amount of funding as not making its own direct investments (or in the form of contingent liabilities only).	Could focus its activities on coordinating private sector groups to overcome market failures (such as scale of supply chain order books).	Likely to have a limited impact on investor confidence, provided that coordinating functions are focused on genuine market failures and not limiting commercial flexibility for existing developers.	Dependent on scope, likely to be able to be set up reasonably quickly, but will face complexity if supply chain focused (where existing knowledge is limited). Could potentially build on framework established for existing bodies (e.g., NESO).	Value for money hard to assess, such as the payoff for intervening in supply chain procurement (compared to individual investment projects).	May not provide direct payback to taxpayers but interventions on supply chain can contribute to UK economy and job creation.

CONCLUSION: RETAINING OPTIONALITY IS ADVANTAGEOUS FOR NOW, BUT CAN'T LAST FOR LONG

The abrupt calling of the general election means that there is now limited time and space to develop more detailed proposals on GB Energy ahead of the potential arrival of a Labour government. The optionality that Labour has given itself is useful to avoid being boxed in during the campaign, but it has limited the certainty businesses have to plan against. This coincides with other potential reforms across the energy sector (e.g., REMA) that are creating a sense that the investment climate for UK energy projects is now – at least to an extent – up in the air.

A new Labour government will need to act swiftly to address this uncertainty and set out more detailed plans for GB Energy early on. Primary legislation is likely to be needed to create the institution, regardless of the exact model chosen. This gives an early opportunity to set some boundary conditions on what it will seek to achieve. But there will be a choice as to just how tightly defined that initial legislation will be, especially in advance of a fulsome consultation process with those in the sector and beyond. There will also need to be serious thought given to how the creation of GB Energy impacts the frameworks that govern existing institutions. Given where the polls are pointing to, now is the time for businesses to start thinking hard about a UK energy market where a publicly owned energy company exists, and how it could be structured to best unlock more private capital, not less. The prospect is no longer theoretical, but now highly likely.

ANNEX: ASSESSING THE POTENTIAL ROLES THAT GB ENERGY COULD PLAY

Core activities	Areas of overlap with existing institutions	Merits	Limitations
State energy investment vehicle			
- Investing alongside the private sector (likely through minority investments) in new energy projects, with the potential that this is done on a quasi-commercial basis to be truly additive to private capital. - Could focus on both mature and immature technologies, with the investment type likely to vary between each (e.g., minority equity investment vs project-level debt). - A role in investment is also likely to include a focus on community energy projects – Labour has allocated £3.3 billion for the ‘Local Power Plan’. This could include through the re-badging of existing grant funding for local authority led projects.	- UK Infrastructure Bank invests in strategic infrastructure projects but does not have a sole focus on the energy sector. UKIB also invests on a similar basis to private investors. - Government (often via UK Government Investments) also makes financial investments in energy projects e.g., Sizewell C. The British Business Bank offers direct investment support to UK SMEs. - Previously, the Green Investment Bank existed to play a similar role. The £10 million Community Energy Fund already exists that provides funding through regional hubs to kickstart community energy projects.	- If structured on a strictly commercial basis, this will be similar to existing institutions and therefore have a limited impact on wider investor confidence and not be that disruptive to the wider system. - On the basis that it could make quasi-commercial investments, minority public investment could do more to leverage in additional sources of private finance and de-risk projects. - Given the variety of general vehicles that already exist to deploy government investment, a single vehicle could help bring greater coordination and consistency of funding awards. If solely an investment vehicle, Labour could look to raise funding to finance other GB Energy activities	- Level of investment that GB Energy could deploy in practice will be limited given initial capitalisation of £8.3 billion, given that £3.3 billion of this has been allocated to community energy and the government has other spending commitments on areas like nuclear. - Investment is not the only issue impacting project delivery (e.g., delayed grid connections, planning rules, subsidy frameworks) that the state can have a role in resolving. This may limit the extent to which such a model can really accelerate the transition.

		• (e.g., requiring a minority public stake for electricity projects funded through a government subsidy contract). This would be more challenging under a model where GB Energy has a controlling stake in other projects given the risk it creates a sense of unfair competition. • Given the greater financial and delivery barriers that local and community energy projects currently face, could enable more to come through and provide a 'stake' for local people in the transition.	• State aid rules will impact how far beyond the terms of normal private finance the entity can go, potentially restricting additionally (as has been the case for UKIB). An early focus on local and community projects could impact the ability for GB Energy to invest at the scale and pace required to unlock meaningful returns for the public through public investment (especially if some of the investment is structured as grants). Also a danger that insufficient community energy projects come forward and whether they represent value for money.
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Publicly owned energy developer

• An entity that looks to develop, finance, construct and operate its own energy assets. This could be done either in partnership with other private sector developers, or as a fully independent developer (or both). Likely to focus on generation initially but could extend into other areas. • Could also include supporting development of community energy projects. • Labour has allocated £3.3 billion for the 'Local Power Plan'.	• No equivalent to such an organisation in UK market since privatisation. • Precedents exist abroad, such as EDF in France or Vattenfall in Sweden (albeit funding and models vary). • A 'developer' model does exist in some areas, such as GB Nuclear that is currently developing SMR projects as an arm of government.	• Providing full (or at least partial) control of developing and delivering projects is likely to be a more direct way of delivering tangible financial and economic outcomes through GB Energy. A greater level of state ownership of developments could, in time, increase financial flows from the organisation that could help to fund the separate National Wealth Fund that Labour has proposed. • As a developer, GB Energy could also play a role in working with policymakers to address non-financial barriers, such as on consenting and planning. This role could extend to de-risking new developments upfront (such as offshore wind developments or large-scale onshore renewable developments) and then looking to sell potential assets into the private sector / bring in private partners.	• Risk that this option doesn't allow for a 'level playing field' in the development of new energy assets vis-a-vis the private sector. This would especially be the case if GB Energy was allowed to invest on a sub-par basis compared to commercial entities, or if it had a role in developing new projects that then enter into the private market. • Danger that GB Energy is seen to have an unfair advantage in competitions for subsidy contracts or regulated competitions which could distort the market (e.g., create an effective requirement for all projects to partner with GB Energy). Would be true for both generation and network assets open to competition.
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		In principle GB Energy could increase competition in some parts of the value chain (including where competition is introduced for previously monopoly assets). This will depend on the approach to setting the cost of capital and investment rules for the organisation.	- Setting up a fully-fledged developer would take time and likely require a significant level of resource and capability beyond what currently exists in other organisations. Governance will be particularly important given the concern that a developer should be sufficiently arms-length from Ministers (given it is competing in a private market). - Risk that once established, the vehicle is seen as a route to allow the state to compete in other markets or take on a public ownership of existing entities (such as in the energy retail market).
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Net zero delivery agency

Convening the energy sector to deliver strategic initiatives or financial investments that accelerate the transition. Labour has already committed to such a model in the case of electricity transmission supply chain component sourcing. While the assumption would be that it initially focuses on electricity, the role could also be expanded out to other areas where constraints exist.	- Various trade bodies in the sector already convene different groups in industry (including on supply chain initiatives). The soon to be established National Energy System Operator (NESO) will play a strategic planning function across the energy market. - The Crown Estate and Crown Estate Scotland are responsible for coordinating the deployment of offshore energy assets, alongside the North Sea Transition Authority.	- Given current constraints, the state becoming more involved in supply chain procurement could accelerate the transition. This could include a role in increasing the certainty of order books for key components, such as high-voltage cables where supply is already limited. - An entity more focused on coordination rather than investment could arguably play a more effective role in resolving non-financial constraints that impact project delivery (such as planning delays). - Setting up an entity focused on delivery could allow it to take on new roles as new constraints arise, such as on decarbonising homes and different elements of the transport system.	- If GB Energy is not simply helping to procure supply chain components but is also able to bid to construct infrastructure, as Labour has indicated it will, there is a material risk that this distorts competitions and deters private investment. - There is already a complex array of entities looking to coordinate delivery across the energy system, including the creation of the National Energy System Operator. Another entity involved in this process could further confuse institutional governance.
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