



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 20 June 2012

Session 4

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**Wednesday 20 June 2012**

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**ECONOMY, ENERGY AND TOURISM COMMITTEE**  
**21<sup>st</sup> Meeting 2012, Session 4**

**CONVENER**

\*Murdo Fraser (Mid Scotland and Fife) (Con)

**DEPUTY CONVENER**

\*John Wilson (Central Scotland) (SNP)

**COMMITTEE MEMBERS**

\*Chic Brodie (South Scotland) (SNP)

\*Rhoda Grant (Highlands and Islands) (Lab)

\*Patrick Harvie (Glasgow) (Green)

\*Angus MacDonald (Falkirk East) (SNP)

\*Mike MacKenzie (Highlands and Islands) (SNP)

\*Stuart McMillan (West Scotland) (SNP)

\*John Park (Mid Scotland and Fife) (Lab)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Jonathan Brearley (Department of Energy and Climate Change)

Edward Davey (Secretary of State for Energy and Climate Change)

Fergus Ewing (Minister for Energy, Enterprise and Tourism)

Graham Marchbank (Scottish Government)

David Wilson (Scottish Government)

**CLERK TO THE COMMITTEE**

Tracey White

**LOCATION**

Committee Room 6



## Scottish Parliament

### Economy, Energy and Tourism Committee

*Wednesday 20 June 2012*

[The Convener *opened the meeting at 10:01*]

### Decision on Taking Business in Private

**The Convener (Murdo Fraser):** Good morning, ladies and gentlemen. I welcome to the 21st meeting in 2012 of the Economy, Energy and Tourism Committee our guests, whom I will introduce in a moment; visitors to the public gallery, and, of course, members. I remind everyone to turn off their mobile phones and any BlackBerry-type devices.

Agenda item 1 is a decision on whether to take in private item 5, which is a discussion of a potential short inquiry on tourism. Do members agree?

**Members** *indicated agreement.*

## Renewable Energy Targets Inquiry

10:01

**The Convener:** Item 2 is the continuation of our inquiry into the Scottish Government's renewable energy targets. I welcome to the meeting the first of our two panels of witnesses: Edward Davey, Secretary of State for Energy and Climate Change; and Jonathan Brearley, director, energy markets and networks, United Kingdom Government.

Before we get into questions, Mr Davey, do you wish to make any introductory remarks?

**Edward Davey (Secretary of State for Energy and Climate Change):** I will make some very brief remarks, convener.

First, I thank the committee for its invitation, not least because we are in the course of putting forward for pre-legislative scrutiny to your equivalent committee in the House of Commons a draft bill to reform the electricity market. Jonathan Brearley has been leading much of the work on these very significant reforms in the Department of Energy and Climate Change, and I am sure that the committee will want to ask about them as they will affect the whole of the United Kingdom.

The reforms are driven by three needs: first, to decarbonise our electricity generation to ensure that we meet our climate change targets and carbon budgets; secondly, to ensure energy security—after all, we need to keep the lights on; and thirdly to meet both those objectives in the most cost-competitive way. In our view, the current electricity market favours fossil fuels. Most low-carbon technologies, no matter whether we are talking about the large renewable family that we know so well, new nuclear or carbon capture and storage, have high up-front capital costs, which makes it quite difficult for them to compete in the current electricity market and get investment off the ground.

Our reforms, which will lead to contracts for difference—which I can talk about later—are all about trying to help investment to be made in low-carbon technologies because they provide greater security on returns at a lower capital cost. Because such projects require high up-front capital cost investment, having a lower cost of capital will be pretty important in the decision-making process. That is our fundamental drive and thinking behind electricity market reform. We have to decarbonise and ensure that we have energy security, and we think that these particular techniques will help us to make that transition in the most affordable way.

I will not go on about anything else, convener. I simply thought that in my opening remarks I would be up front about these fundamental and dramatic reforms, which together represent the largest reform to the electricity market since privatisation. Indeed, one of the reasons why I am pleased to be here is because it gives me a chance to explain these significant reforms and answer members' questions.

**The Convener:** Mr Brearley, do you wish to add anything?

**Jonathan Brearley (Department of Energy and Climate Change):** No, convener.

**The Convener:** Mr Davey, you have touched on a number of issues that we have already covered in evidence. It is interesting to note that, as we reach the end of this inquiry, the draft energy bill has been published. It will clearly have a major impact on what the Scottish Government is trying to do.

As we are fairly limited for time, we will try to get through our questions as quickly as we can. I have already encouraged members to make their questions as brief as possible and, given the ground that we have to cover in the time available, it would be helpful, secretary of state, if you, too, could make your responses as brief as you can.

**Mike MacKenzie (Highlands and Islands) (SNP):** Good morning, Mr Davey. You might not be aware of this, but I wrote to you on 9 April and I am disappointed to note that, despite people in my office speaking to people in your office on a number of occasions, I have still not received a reply to my letter. I am afraid that that might indicate a lack of concern for the people I represent in the Highlands and Islands region of Scotland and perhaps a measure of complacency about the problems that they are experiencing as a result of UK energy policy.

I will very quickly run through the various issues. Under the draft proposals that the Office of the Gas and Electricity Markets has put together from project transmit, Scottish islands will still be paying transmission charges six or seven times higher than those paid by energy generators on the adjacent mainland. Are those proposals in accordance with European Union directive 2009/28/EC? From my reading of the directive, they do not appear to be.

I was also greatly disappointed to note the low take-up of solar photovoltaic technology in Scotland, particularly in the Highlands and Islands, and that in recent changes feed-in tariffs for solar PV have already been reduced to 23p per kilowatt hour and will be reduced again in August to 16p. In effect, that means that the technology will no longer be utilised in Scotland because on-the-roof

costs will be very much higher than those enjoyed in the south of England.

Added to the uncertainty and disappointment caused by such moves is the inordinate delay in the implementation of the domestic renewable heat incentive scheme. Many businesses are now very reluctant and unwilling to invest in training, for example, to ensure that they are prepared and ready to install the qualifying technologies. Moreover, in last weekend's press, we read that subsidies for onshore wind might be cut by 25 per cent and, indeed, might be done away with altogether by the end of the decade. Concerns have also been expressed about the operation of the green deal in the outer islands of Scotland, where 50 per cent of people are suffering from fuel poverty.

I am running all these issues together because we are very short of time. I realise that we could discuss these subjects for a whole day, but I am interested in hearing your responses—which, given the time constraints, should be fairly brief. *[Laughter.]*

**The Convener:** Thank you, Mr MacKenzie. I think that the rest of the committee can probably go home now.

**Edward Davey:** You have asked me about all my policies, Mr MacKenzie; I hope that my responses will not disappoint you.

First, I apologise for your not having received a reply to your letter. I was not aware that we had not replied, but I will look into the matter. We respond to many MPs, MSPs, MEPs, AMs and so on and although we hit most of our targets in that respect we seem to have failed in this case.

I can understand why, as a representative of the Highlands and Islands, you are interested in where the Ofgem-led project transmit is going and I am happy to make a number of comments that I hope you will find helpful. As you know, of the three options it was consulting on, Ofgem has opted for the improved investment cost-related pricing model and the connection and use of system code industry group is now considering how the proposed system should be implemented.

The Scottish Government has welcomed the proposal to use the improved investment cost-related pricing methodology for transmission charges, not least because it means that baseload generators will have to pay more than intermittent generators. Given the large number of wind farms in Scotland, that is seen as helpful to the renewable energy industry. That is a step forward.

I have spoken to a number of colleagues who represent the Highlands and Islands about the issue and they have made clear their concerns. Everyone is aware that there is a trade-off

between the efficiency that we will get on some of the islands—which is better than in other places; the comments made by Bill Manson from Viking Energy on Orkney and Shetland were positive about that—and the extra costs to which you refer. People are thinking about how those costs can be met in a fair way. Ofgem's report talks about the possibility of redefining the boundary of the network in some way so that part of the costs could be taken into account by the wider network. I presume that Ofgem is now looking at that, and you will be aware that there are other options.

I stress that, under the European rules, that is an issue for Ofgem to decide. The third energy package makes it clear that the independent regulator must look at that. That is not to say that the secretary of state and DECC officials have not been inputting our thoughts on that—of course, we will do so and I am sure that you will input yours. Tavish Scott, Liam McArthur and Alistair Carmichael have also done that. It is important that we all try to influence the debate—I do not think that it is closed at all.

Mr MacKenzie, you raised a whole set of questions about solar, wind, RHI, onshore wind and the green deal. I do not know whether you want me to answer all those questions now. I am happy to do so, but it would be a long answer.

**The Convener:** Other members will want to ask similar questions, but it would be helpful if you could set out the UK Government's general approach on those issues. That would then allow members to ask supplementary questions.

**Edward Davey:** I will be as brief as I can be on each subject.

We found that the uptake of solar PV and FITs generally for microgeneration was much greater last year than anyone had expected—it was ginormous and was busting the budget dramatically, so urgent action had to be taken. Other governments have taken action when they have experienced similar situations—for example, Germany recently took some fairly drastic action. You are right to talk about the changes that we have made. I recently published the consultation on how we are reforming the tariff regime for FITs and the response to it.

I do not have a breakdown of the figures from the different parts of the United Kingdom with me. To date, we have had 250,000 solar PV installations through the scheme to 2015, which has cost £1.7 billion. We estimate that, under the new scheme, we will get 620,000 installations—not quite three times as many, but nearly—at a cost of just £500 million by 2015. So, we will get nearly three times as many installations at a third of the cost because the technology has come down in price dramatically—far quicker than

anyone suggested. That is good value for money and means that we can have an ambitious renewables policy at a lower cost.

You will know that the non-domestic RHI system is out there and that we are learning an awful lot from it. We also have the renewable heat premium payment scheme, which we are learning a lot from, and we are working on the RHI domestic scheme. However, as we saw with FITs, it is really important to get the schemes right, otherwise we end up spending a huge amount of money and not getting enough renewable energy installations. I accept that we are taking a bit of time on the RHI domestic scheme, but it is important that we get it right.

10:15

On onshore wind subsidies, I am absolutely clear that when we respond to the consultation on the renewables obligation banding we should go with the evidence. The evidence is critical—I am keen to speak more about that. Industry would be extremely concerned if politics rather than the evidence moved the agenda, so I will go with the evidence when we respond. I do not intend to have a running commentary on every newspaper article that I read; they might not be as well sourced as some people think that newspaper articles are.

Finally, the green deal is one of the most exciting policies that I have inherited. The Scottish Government has worked with our officials to ensure that Scottish interests are taken account of in the policy—I should have made that point in relation to electricity market reform, too. The green deal is exciting for people in Scotland, not just because it will have a role in tackling fuel poverty but because, unlike schemes that have gone before it, it is open to everybody. Because it will create a market, we should see a lot more people coming into supply, so there will be more competition, which will drive down costs and promote the scheme far more effectively than has happened with previous schemes. Green deal is absolutely our top priority, to ensure that we save energy and help people with their bills.

**Mike MacKenzie:** I am slightly disappointed, because when the committee asked Ofgem whether its project transmit recommendations complied with the EU directive, it said that that is really a political decision for the secretary of state, whereas you seem to be saying, "It's not really me; it's Ofgem."

Do you accept that there has been very low uptake of solar PV in Scotland, largely because installed on-the-roof costs in Scotland have not come down to the extent that they have done in south-east England? That applies particularly to

Scotland's islands. It is unfortunate that islands are always hit by not a double whammy but a triple whammy. The fuel poverty rate on Scotland's islands is 50 per cent—I am sure that you are as shocked by that as I am.

I am sure that you know that certain community energy saving programme schemes did not help Scotland's rural areas, including our islands. I hope that you will take that into consideration before you finalise transmission rates, for example.

**Edward Davey:** I am surprised by what Ofgem said about the directive. If there is a legal or political decision for us to take we will take it, but as I understand them the EU rules require the independent regulator to lead. We will take that away and, if I am wrong, we will write to the committee. I will look at Ofgem's evidence, so that I can be clear about what it was talking about.

On solar PV in the Highlands and Islands, the great thing about renewable energy is that different parts of the world and the United Kingdom favour different types. Scotland is blessed with some of the best renewables potential, arguably in the world. There is more potential in wind, marine and tidal energy than in solar energy, as the committee will be aware. That is not to say that there is no potential for solar in Scotland—the sun does shine in Scotland, and as solar costs come down I think that Scotland will be part of the solar renewable energy revolution.

Scotland has a comparative advantage on some parts of England, at least, with respect to wind and tidal energy. We have supported and worked with Scottish Governments over the years in their efforts to deploy those technologies. If I was in the Scottish Government and had a choice about focusing an extra bit of resource, I would probably focus on wind and marine, but I am sure that there is also a place for solar.

**The Convener:** I will bring in other members, who have supplementary questions on finance and renewables obligation certificates.

**Angus MacDonald (Falkirk East) (SNP):** I want to pick up on the transmission issue. Like others on the committee, I have issues with the unfair system of locational charging. It is clear that Scotland faces the highest charges in the UK, while subsidies are paid to generators elsewhere. Your recognition that the current network needs to be redefined is welcome.

However, it is disappointing that there is little scope for a level playing field for island generators. I hope that that can be addressed. In illustrating how unfair the current system is, I would like to bring to your attention a company called Aquamarine Power, which I understand is progressing a 40MW wave energy project off the

west coast of Lewis. I believe that it would be the world's largest fully consented wave farm. The company is still waiting for clear figures from Ofgem. Previous modelling suggests that it will be subject to an annual charge of £77 per kilowatt hour, which, along with the annual connection costs, will equate to more than £3.5 million every year. I am sure that you will agree that that is a massive penalty at an early stage in the project. I will put that into context. A renewable energy project of the same size in southern England would pay just £40,000 a year.

The findings of the project transmit report are welcome, but given that—as you said—the western and northern isles are home to the world's best wind, wave and tidal resources, are those not the economics of the madhouse?

**Edward Davey:** I am obviously not acquainted with the specific example that you cited, but the Scottish Government has a renewables obligation banding of five ROCs for marine. At DECC, we have consulted on a similar approach across the UK that would give a great deal of support to the development of wave power. I think that that is the right thing to do. I cannot prejudge my response to that consultation, as I am sure that you will appreciate, but we have received evidence—you have given an example of such evidence—that, in the early stages, marine energy projects need real support. I hope that that brings a bit of sanity to the economics.

**Angus MacDonald:** I certainly welcome your acknowledgement of the issue.

The draft energy bill proposes a number of reforms to the electricity market. It will involve a new system of long-term contracts with feed-in tariffs and contracts for difference, which will give generators a fixed price for their energy that is generally higher than the price for which they could sell it on the open market.

As we have heard from some witnesses during our inquiry, there is some uncertainty about future income streams, which is constraining investment in renewables here and perhaps also down south at a time when money should be being thrown at the sector. Will the energy bill increase the availability of finance for renewable projects in Scotland?

**Edward Davey:** Absolutely. One reason why we are making the reforms is to encourage low-carbon technology. As I said in my opening remarks, a critical purpose of the energy bill and the electricity market reforms is to decarbonise. Inevitably, there is a little uncertainty—you will have heard that; I have certainly heard it—because the industry is waiting to see the final proposals. We have been working with, listening to and responding to the industry all the way through.

We are quite close to locking things down, but one reason why doing pre-legislative scrutiny is helpful is that it gives parliamentarians, industry, academics and members of the public a chance to look at the white paper and to influence the final legislation. We are on track to put the bill before the Houses of Parliament. That will probably happen in November next year, but we do not have an exact date, because that is up to the business managers.

My point is that we are being very open about the process. We are getting people's views so that we get the right solution for something that we expect to last for years. In the run-up to doing that, there will inevitably be a bit of uncertainty. When a really significant change is made—as I said in my opening remarks, the change that we are talking about is highly significant—people worry about where we might end up. However, we share the same goals. We want to decarbonise and bring on the new, low-carbon energy infrastructure and it is therefore in our interests to have a system in which people want to invest. One of the advantages to investors of contracts for difference is that, because they are not dependent on a ministerial decision—because they are contracts—there will be greater security and certainty that a normal business transaction is being undertaken. That will increase investment.

I absolutely understand that, until the final details are set out, people will be uncertain. However, I hope that, when I announce the response to the renewables obligation banding consultation, which has to be seen alongside the electricity market reform—because, in the first stage of electricity market reform, it will still remain—a lot of investment that is waiting to hear about the new bands will be unlocked. The electricity market reforms and the contracts for difference will start in this period, but they need to be seen as the long-term reform, whereas the next period of renewables obligation certificates and the new banding, which will go to 2017, will unlock a significant amount of investment over the next few years.

**Jonathan Brearley:** It is worth emphasising that the reason why we went for a dual-running system was to give investors certainty. People who are planning projects today or are looking for projects that will be built before 2017 know what the renewables obligation is, and that is what they will be investing under.

**Angus MacDonald:** I am certainly aware of that. Clearly, we all want clarity as soon as possible in order to encourage investment in the projects that are on-going or are waiting in the wings.

Are contracts for difference likely to cost the consumer more or less than the renewables obligation?

**Edward Davey:** Less. That is one of the reasons why we think that they are advantageous. Some people, including some in the renewables sector, would prefer something more akin to renewables obligation certificates to continue. Others would prefer the premium feed-in tariff model, which was part of our consultation and was in the modelling that we did of different forms of support for low-carbon technology. The contracts for difference operate in other jurisdictions; we have not just made them up—I refer you to Denmark, in particular. Our modelling showed that that model can bring on low-carbon technology at the least cost. Part of the reason for that is that you can move to a more market-based system, so that there is more competition. Another part of the reason is that, once the wholesale electricity price goes above the strike price, the generators have to pay back to the consumer. Under the renewables obligation certificate system, if the wholesale price goes up, that is just economic rent to the generator. It is almost a one-way bet. With contracts for difference, at least the consumer can get back some of the money when prices go above the strike price.

**John Park (Mid Scotland and Fife) (Lab):** As you know, we had Ofgem in last week. On the reforms that you are pushing forward, concerns have been raised about the level of finance that is likely to go into the industry. As you mentioned earlier, there is always a degree of risk in investment, particularly when we are reliant on the private sector. What is your assessment of the current situation across the UK? What challenges might Scotland have in attracting investment from the private sector for upgrades and more generally?

**Edward Davey:** There is a range of risks, but one of our jobs is to minimise those risks in order to make people feel that they are able to make those investments. It is fair to say that we have listened to what has been said during the consultation process—which involved industry and investors—and have responded by changing some of our proposals. Through that process, we are trying to minimise the risk so that people understand where we are going. The system is designed to minimise risk, with the strike price giving people longer-term certainty, which will therefore reduce the cost of capital. I hope that it will help to have such a system that is mapped out well into the future.

10:30

There are risks that DECC, Her Majesty's Government and the Scottish Parliament and

Government cannot control in relation to wider macroeconomics and how investors feel. People expected the economy to grow rather more than it has done in the past few years, which has affected a range of investments. The situation has affected things such as energy production and carbon emissions. Such risks always exist, and planning the electricity market cannot compensate for them but, within the confines of energy policy, we are trying to assist with the issues that John Park mentioned.

John Park is absolutely right that energy infrastructure, whether it is generation or transmission and distribution, involves high costs. We are trying to attract £110 billion of investment into the UK energy infrastructure between now and 2020. Because of the banking crisis, we sometimes sort of dismiss such big figures, but that is actually a huge figure. We need an historic level of investment, for energy security and for decarbonisation. Because it is such a big ask, the only way we will get investors to put up the money is by making the regime as stable as possible and by designing it so that we reduce the cost of capital.

Jonathan Brearley may want to add something.

**Jonathan Brearley:** I would add only that, globally, the changes in the banking sector, which have been driven by the recent financial problems, will change the nature of what people can lend and how they lend it. Equally, global investors look at many countries, and their concern about political risk has gone up. The reforms are designed so that, once an investor gets the CFD or feed-in tariff, it is not impossible but incredibly hard for a Government to retrospectively change that. That was not worth so much years ago, but it is worth a lot now.

**John Park:** That is what I was getting at.

You talk about consistency in approach. Looking back, we have seen many changes in approach to, or emphasis in, energy policy, particularly at UK level, but also in the Scottish Parliament. Do you agree that, along with consistency, we need a degree of flexibility as things change and opportunities ebb and flow? Have you built that into your policy development? What will be the engagement with industry and the Scottish Parliament and Government?

**Edward Davey:** This answer will be a double act again.

The flexibility comes from moving away from administrative price setting in which ministers set the prices—for the renewables obligation, for example—to a situation in which prices will be discovered through technology-specific auctions from 2017, which means market price discovery. Beyond that, there will be an auction for low-

carbon capacity generally, with all low-carbon technologies competing. That is what people are used to. It involves market forces. If markets are designed correctly—as we are trying to do—they give flexibility as well as certainty.

**Jonathan Brearley:** That is absolutely the point that I would have made.

In essence, the deal with investors is that, once they get their CFD and it is signed, they have it and it is fixed. However, we cannot promise what will happen in 10 or 15 years; the overarching strategy might change. Let us say that solar power costs continue to come down as they have recently, or that onshore or offshore wind costs come down faster than we thought they would. In that case, we might decide to do more of one technology or another, either through auctions or through setting technology-specific groups. That will change over time, but the key thing for investors must be that, when we make an agreement with them, they have full confidence that it is an agreement that will stand. The deal should be that they should, if we provide more certain revenue streams, charge less for the capital that they put in.

**Patrick Harvie (Glasgow) (Green):** The Scottish Government's target for 2020 is for 100 per cent of our electricity consumption to come from renewables. Does the UK Government support the Scottish Government's target?

**Edward Davey:** We have been working with the Scottish Government on renewable energy for some time now. The Scottish Government has set its own target, but we welcome ambition. Speaking both personally and as secretary of state, I want to see England, Wales, Scotland and Northern Ireland—the whole UK—Europe and the world being more ambitious in renewable energy deployment.

**Patrick Harvie:** You welcome the 2020 target.

**Edward Davey:** Of course I do.

**Patrick Harvie:** Thank you. You have said that decarbonisation is central to your objective. Would it make more sense, or be more credible, to progress a bill that was very clear about targets for decarbonisation and for reducing demand? You currently project that demand for electricity could double, despite the fact that there is, even under the United Kingdom Committee on Climate Change's medium-abatement scenario, a suggestion that demand increase could be restricted to 425 terawatt hours; the UKCCC said that, under its most ambitious scenario, it could be held back to pre-recession levels, even when the electrification of heat and of transport are taken into account.

Should not there be clear targets for reducing electricity demand? Should not the UKCCC's recommendation for 50g of CO<sub>2</sub> per kilowatt hour as an emissions cap for 2030 be implemented? Would not it be clearer to set those targets for restricting demand and CO<sub>2</sub> emissions from electricity generation? Would not having those targets mean that the bill would be clearer and that it would be more credible to say that its objective was decarbonisation?

**Edward Davey:** There is an interesting debate to be had about targets. I made it clear that I am keen to engage in that debate during pre-legislative scrutiny, but we should be clear about the framework that we are talking about. We already have targets from the Climate Change Act 2008 and the carbon budgets that implement the targets in the 2008 act. Those targets are hitting what we really want to hit, which is to reduce carbon emissions. If we want to attack climate change, it is not so much about energy efficiency, renewables and CCS themselves, because they are the means to the end, which is reduced carbon emissions. We have legal obligations to do that, which is why we have the targets.

There is a question about whether we should have intermediate targets and about their role. They can sometimes play a role because they can mobilise investment and effort, which is particularly important at the early stages of a technology. The renewable energy target for 2020, which was set across the European Union and the UK, has been helpful in the early stages of driving investment into renewable energy. As we have seen, the costs have come down.

The questions to ask are how long we should have the intermediate targets for, and what are the right targets to have at different stages as we try to meet the main target, which is the carbon emissions target. You are right that there is a debate about whether the bill should include a target for the decarbonisation of electricity. You could argue that that would help and that people would send signals to investors, who would invest even more in low carbon. I have to say that EMR is designed to send a very powerful signal so that there is investment in low carbon anyway.

The question, though, is whether we should have a target for electricity. We should remember that there are other ways in which we can decarbonise. I will put this in a way that is not negative but just for debate. Imagine that we are in the year before the target is to be reached and are not far from meeting our carbon emissions reduction target but quite a long way from meeting our decarbonisation of electricity target. To meet our carbon emission reduction target, we could spend, say, £1 billion on transport, but to meet our electricity decarbonisation target, we would have

to spend £10 billion. I am just making numbers up to illustrate the point. It would not be efficient to make the electricity decarbonisation target superior to the target that we really want to achieve, which is the carbon emissions reduction target. The cheapest, most effective and quickest thing to do would be to invest in something else.

I do not say that to discount what Patrick Harvie suggests, or to rule it out. All I am saying is that we need a debate about targets and how they work in order to achieve the goal that we want, which is already in the legislation.

**Patrick Harvie:** So, you are open to the debate. I hope that you recognise that most targets that are set in legislation come with some kind of review mechanism built in. It is not rocket science. It strikes me as being pretty extraordinary that there is no clear sense at least of the demand reduction target, because we know that to reduce demand and energy waste is one of the most efficient ways to reduce CO<sub>2</sub> emissions in the economy, particularly from the electricity sector.

**Edward Davey:** I completely agree that we should do as much as possible on energy efficiency. We all know that the cheapest energy is the energy that we do not use. We played an important role in raising the ambition in the recent energy efficiency directive. Some people have said otherwise, but I have to say that they are wrong. Anyone who was there and tried to help in the negotiations will know that we played a really important role in supporting the Danish presidency and Martin Lidegaard to get a target at the EU level.

We are not against all targets; it is a question of how we use them. The demand reduction debate that we are having with respect to the draft energy bill is about whether there are additional measures that we could put into the bill to support demand response and demand reduction in the system. I have made it clear that I am open to that debate. Indeed, we are working extremely hard in DECC to establish what the options are. Let us, however, be clear that there are some tricky practical issues, because the debate sometimes glosses over those.

I can assure members that there is no lack of political will. When we talk about demand reduction and energy efficiency, the question for me is, "What is the best way to achieve what we want?" It might be through tougher product standards or through capital grants to enable companies to invest in new motors, pumps or lighting. I am clear that we need to be really ambitious, and because I am ambitious, I am not going to say that there is only one way to do it. I have made it clear to officials that I want analysis of the policy options, including the introduction to

the draft energy bill of demand response and/or demand reduction.

**Patrick Harvie:** I hope that the bill that comes from that process will spell out that ambition rather than leave it to ministers, because policy sometimes changes from minister to minister.

I want to explore another issue. When we consider energy expenditure, a balance needs to be struck between taxpayers and bill payers. In many ways, it is a gift to those who are trying to pour scorn or scepticism on the renewables agenda or climate change if we allow them to say, "This is how much renewables are adding to your bill." Other forms of energy expenditure—such as decommissioning of nuclear power stations, which is phenomenally expensive—are paid for from general taxation.

There is also a social justice argument. General taxation can be redistributive; it can mean that the wealthier pay more than an equal share because they can afford to do so, and poorer people pay less. If the costs are put on to people's bills, everybody has to pay even if they have to use a certain amount of energy. There is also a question of public perception and the way in which people relate to energy and how they perceive energy policy.

Is there an underlying principle that you are applying as to which costs should be added to energy bills and which should be paid for through general taxation?

**Edward Davey:** That is a very interesting question. I think that what lies behind it is a concern that I share, which is that if energy costs go up for consumers and businesses, that can have big impacts, particularly on the most vulnerable people in society, but also on the competitiveness of industry.

I made it clear during my first few months as Secretary of State for Energy and Climate Change that I am concerned about consumers' energy bills, as I hope some of the things that I have been saying demonstrate. We had negotiations with the big six, to get them to help their household customers to be aware of the best tariffs for them—

10:45

**Patrick Harvie:** I am thinking more about the cost of the renewables agenda, such as the cost of investing in North Sea grid infrastructure. Ofgem has told us that the UK Government supports such investment, and we know that the Scottish Government and other European countries support it, but it will not happen without clear political momentum. If costs in relation to grid upgrade or the North Sea supergrid need to be

borne by the state or the public, is there a principle that determines whether those costs should be loaded on to bills or raised through general taxation? It changes people's perceptions—

**Edward Davey:** Let us remember that the sort of investments that you are talking about are undertaken by private companies—

**Patrick Harvie:** Often with public subsidy.

**Edward Davey:** We could renationalise, but I think that that would be a bad idea because that approach would be less efficient and more costly.

Most investments of the nature that you are talking about are added to bills. You made a good point in that regard. People forget that quite a lot of their bill is to pay for the transmission and distribution lines—the whole network. New investments will be added to bills, just as happened in the past; there will be no change in that regard. Part of the consumer's bill has always gone towards paying for the cost of the network.

The reason why I started my response to your initial question by talking about consumer bills, switching, deals with the energy companies and collective switching—I have been pushing collective switching hard and I hope that I get a chance to talk more about it, because I urge the Scottish Parliament to get behind the approach—is that I think, with due respect, that you are making a mistake in allowing people to talk just about the impact of renewable energy on bills, when so many things impact on bills. You mentioned the transmission system; there is also the price of gas in the wholesale market, which has a much bigger impact.

When we talk about bills, which I am genuinely worried about, I want to look at all the tools and not restrict the debate. For example, something that Patrick Harvie missed is that the supplier obligations for energy efficiency programmes, which are designed to tackle fuel poverty, are included in bills. Therefore, wealthier people—quite rightly in my view—subsidise measures to deal with fuel poverty through the community energy saving programme and CERT—and they will do so through the energy company obligation and the affordable warmth programme.

**Patrick Harvie:** It strikes me that there is no basic principle that determines which costs are met through bills and which are met through taxation.

**Edward Davey:** Jonathan Brearley may be able to talk about the principle. I thought that I had explained it in terms of the private-public issue.

**Jonathan Brearley:** Patrick Harvie mentioned the offshore transmission regime and grid interconnection. There is a very good reason why we do that through the electricity market and

through consumers, which is that the rates that are paid are set by an independent regulator. Remember that there are periodic pricing reviews, so although investors do not know what they will get in the future they know that the independent regulator will give them a fair return for the investments that they have made. If they rely on the Exchequer, there is always the risk that a new political Administration will come along that does not like some of the funding that was agreed in the past. Investors then charge a lot more to invest, because they see more risk.

**The Convener:** We need to move on, given the time.

**Chic Brodie (South Scotland) (SNP):** At last week's meeting, I said that Scotland hopes to be a major exporter of electricity after 2020, rather than an importer. The head of European strategy at Ofgem said that the UK has

"quite a strong role in the north seas countries' offshore grid initiative",

and is working with 10 other countries, including Luxembourg.

When I asked what role Scotland had, Dr Ramsay said:

"To be frank, it is not a big role."—[*Official Report, Economy, Energy and Tourism Committee*, 13 June 2012; c 1715.]

Would not it be helpful to DECC to have Scotland at the table when we are discussing that initiative?

**Edward Davey:** As you know, under the devolution settlement, my job is to represent Scotland on many such issues. Energy is not a devolved issue and I assure you that I fight for Scottish interests as a British minister and that I expect my officials to do so. I also have a lot of Scottish Liberal Democrat colleagues who know all about oil and gas, nuclear, offshore wind, onshore wind, marine, tidal. I will not list all my colleagues for you—you will know them well—but they bend my ear about Scottish energy interests, I assure you.

I am absolutely clear that, whether it is the international discussions such as the one that you have just mentioned, or the EU Council of Ministers, or the international climate change negotiations, Scottish interests are part of what a British minister should be about.

**Chic Brodie:** I think that the answer to my question is that you do not think that Scotland should have a role.

I turn to the energy bill. According to *The Guardian* it is being seen as

"A dash for gas, a major fillip for nuclear power".

You mentioned the Liberal Democrats. When did you have your damascene conversion to supporting nuclear power? In 2006, you said about nuclear power:

"It is an issue that crops up in my postbag time and again. People don't want nuclear, but they don't know what the alternatives are. Now they do, and the alternatives are cleaner, safer, greener and better for the environment and the taxpayer."

When did you change your mind?

**Edward Davey:** I am so pleased that you asked that question. The coalition agreement is very clear. It says that—

**Chic Brodie:** I am not asking for an executive statement; I am asking when you changed your mind.

**The Convener:** Let Mr Davey answer the question, please.

**Edward Davey:** I will answer your question. The coalition agreement is very clear that Liberal Democrats can abstain on nuclear issues, and that happened when there was a planning statement. However, the coalition agreement also says that the Government's policy is that we will pursue new nuclear generation investments, but with no public subsidy. In October 2010, my predecessor set out exactly what that means.

You were right to say that coalition policy does not come immediately from the Liberal Democrat manifesto. That is absolutely right. It is called coalition politics and it means that you do not always get everything that you want. We have 75 per cent of our manifesto in the coalition agreement, which means that we did not get 25 per cent of it. Scotland has had coalition government, and I assume that similar things happened in that.

You mentioned two other things on which I would very much like to take you up. You talked about a "dash for gas". I say very clearly that there is no dash for gas, and it is particularly odd to link that idea to the proposed energy bill because it is clearly about decarbonisation. It is about bringing on non-fossil fuel forms of electricity generation. People are also saying that the bill is all about nuclear, but it is not; it is about the whole family of low-carbon technologies and all the different types of renewables that we have discussed already, and carbon capture and storage.

Pieces of legislation are bound to be misrepresented—that is politics—but it is also nice to be able to come to committees to put those misrepresentations right.

**Chic Brodie:** I understand what the objective is, but one of the delivery mechanisms seems to be an increase in nuclear power. I will quote from the House of Commons Energy and Climate Change

Committee. The committee chair asked Dr Cocker, who is the chief executive of E.ON, and Volker Beckers, who is the group chief executive officer of RWE, about their decision to pull out of building nuclear power stations. It asked:

“Is there any circumstances under which this decision might be reversed?”

Dr Cocker said, “No”, and Volker Beckers said:

“It is simply a fact that we cannot afford this investment.”

The Government seems to be going in one direction and investors seem to be going in another. We are concerned that such misplaced guidance on investment will impact on our strategy. I am not sure what the overall strategy is in London. Clearly the views that are different to those of the Government seem to be moving in the opposite direction, particularly on investment.

**Edward Davey:** You referred to RWE’s and E.ON’s chief executives. It is no secret that they have pulled out of the Horizon Nuclear Power Ltd project. It is also no secret—as they went on the record to explain why—that that was because of decisions that were taken in Germany that have affected their balance sheets and financial positions. Therefore, they have had to pull in some of their investments. Let us remember that, as German companies operating the German nuclear fleet, they clearly wanted economies of scale, particularly with their engineers and their resources, and investing in the UK was additional to their operations in Germany. The operations in Germany have been wound down, so the situation is different. It is not unreasonable for us to understand why they changed their mind.

Other consortia that have been interested in building new nuclear facilities in the UK have taken a different position. EDF Energy and Centrica are pursuing negotiations with the Government on investment in Hinkley Point C power station in Somerset. They are significantly ahead of other potential operators. Indeed, there is great interest in the Horizon project, which RWE and E.ON are putting up for sale, from other consortia and companies. Obviously, that is a commercial decision for RWE and E.ON and members would not expect me to get drawn into that. Nevertheless, Chic Brodie’s suggestion that investors are walking away from nuclear is not what I see; indeed, I see quite the contrary.

**Chic Brodie:** You mentioned EDF, which has, of course, just pulled out of building two power stations near the German border. In the current economic environment, the exposure of the UK Government and UK banks to Greek debt, for example, stands at €14.2 billion. The French Government has exposure of €15 billion and the French banks have exposure of €42 billion. Will that not have a significant impact on EDF’s

decision to progress any investment in nuclear facilities in the UK or, indeed, elsewhere?

**Edward Davey:** EDF has announced that it will give €2 billion-worth of contracts to suppliers. It wants and hopes to strike a deal with the UK Government to build. I think that that announcement was made yesterday, although it might have been made the day before—I am sorry that I do not know. EDF’s action does not suggest to me that it is pulling away but suggests, rather, that it wants to go forward. We have certainly not concluded a deal with it yet: the negotiations have only just started, but the announcement suggests to me that it wants to go ahead with its investment, and we have seen no sign to suggest otherwise. It is keen to get on with the negotiations.

**Chic Brodie:** Did you say earlier that there will be no public subsidy for nuclear stations?

**Edward Davey:** That is right. I refer you to what my predecessor, Chris Huhne, said in the House of Commons in October 2010, when he gave the definitive statement on that.

**Stuart McMillan (West Scotland) (SNP):** Good morning. Secretary of state, you said that it is important to have a system in which people want to invest, and you talked about sending a signal to investors to invest in low-carbon technologies. In a House of Commons Energy and Climate Change Committee meeting on 12 June, Ian Marchant of SSE argued that wind farms of up to 700MW cost a few hundred million pounds and take two to three years to construct, whereas nuclear facilities will take 10 years of development and construction time. There is also their cost. Do you agree with Ian Marchant that, to encourage investment in low-carbon technologies, it is better to consider more renewable opportunities rather than nuclear opportunities?

11:00

**Edward Davey:** Having met and talked to Ian Marchant—and, indeed, the chief executives of various generating companies—I know that he has been very constructive in his ideas. He has not always agreed with the Government, although I hasten to add that it is not unusual for people not to automatically agree with the Government. He has certainly made a fine contribution to the debate.

However, on the question whether it follows from what Mr Marchant said that we should focus only on renewable investment, I would have to disagree. What has surprised me in my first few months as secretary of state and after looking at this issue in great detail is the degree of uncertainty in energy and climate change policy. That is partly to do with the fact that these investments are being made over a long period—

in some cases, 20, 30 or 40 years—and partly to do with the fact that the key components of energy policy such as the price of gas over the next few decades, whether the cost of renewables will come down, whether new nuclear power stations can be built without public subsidy and whether carbon capture and storage will, as we hope, be commercially viable over the next few years are all uncertainties.

I cannot give you an answer on those matters. Because of those uncertainties, it is wrong for us to say that we will go just for renewables, just for nuclear or just for energy efficiency. Climate change is far too dangerous and serious for any Government to hitch its wagon to one technology and I think that doing so would be irresponsible. The electricity market reforms are designed to ensure not that we pick winners, but that we create a framework that will allow us to bring forward the most competitive low-carbon technologies.

**Stuart McMillan:** Forgive me, but a few moments ago you stated to my colleague that there would be no Government subsidy for nuclear. However, in that response, you said that there was a risk going forward—

**Edward Davey:** No. My point was that because of our policy of no public subsidy if nuclear power stations cannot be built without public subsidy, there is a possibility that they will not get built. That is the logic of our policy.

**Jonathan Brearley:** We are not saying over and above that that we want to exclude nuclear from the mix because of the risk that the secretary of state has highlighted.

**Edward Davey:** My point is that it should be in the mix, but that each of the technologies has different risks.

**Stuart McMillan:** For the UK Government to reach its renewable energy targets, it is imperative for Scotland to meet its targets under the wider ones that have been set for the whole of the UK. I suggest that Ian Marchant's points about 700MW wind farm developments, their two to three-year construction period and their associated costs far outweigh the benefits not just to Scotland but to the whole of the UK of nuclear, given the huge amount of investment that will be required.

**Edward Davey:** I am afraid to say that we will know that only in due course—that is what I meant by uncertainty. I have seen figures—time will tell whether they are right or not—that suggest that new nuclear might provide some of the most competitive low-carbon generation. As secretary of state, I do not think that we should go back to the old days of picking winners and saying, "This is definitely the way we're going to go," because that ends up with people making huge mistakes that

are very costly to consumers, business and the taxpayer. We are taking this more market-led approach because, as we move into the second part of the decade and into the 2020s, I think that the market itself will decide which low-carbon technologies should be used. However, it will be able to do so only because of our market reforms.

**Stuart McMillan:** How does the UK Government perceive the direction of travel of Germany, Switzerland, Belgium and Italy in their decisions on nuclear power? Does the Government look upon that as an excellent opportunity because there is the potential for additional resources that will now not be involved in building new nuclear power stations elsewhere, or does it consider it as an opportunity to take stock, change the direction of travel in the UK and go more down the renewables route?

**Edward Davey:** We are going down the renewables route.

**Stuart McMillan:** I said "more".

**Edward Davey:** It is difficult to say that we are not. I would argue that the reforms that we are making are really good for renewables.

A major investor said to me the other day that he has not been investing in renewables in the UK because the renewables obligation certificate regime has political risk. However, because we are moving to contracts for difference, he is now interested in investing in renewables in the UK. That runs exactly counter to Mr McMillan's argument. Getting rid of political risk for many investors is an incredibly significant change.

Mr McMillan referred to other European countries. It would be wrong for me to tell other European countries how to run their energy policy. We try to learn from one another. However, my responsibility, working with other energy ministers throughout the EU, is to see whether we can work together collaboratively, whether that is on our international climate change obligations, where we are trying to show real leadership in what the EU is doing, or on developing a much better grid across the European Union to develop the single energy market. That is really important. I have been putting a lot of time and effort into that, because I think that it can improve competition and reduce prices ultimately by having a deeper market. It can also improve security and enable us to move to the low-carbon energy system that we want.

The problem with the single energy market is that other member states have lots of regulations, codes and rules that get in the way, and we need massive investment in interconnectors. We have to work together to get the single energy market going in Europe, and we have a long way to go. I

want to push it as fast as possible but it is a big task.

**Stuart McMillan:** I whole-heartedly agree. I do not think that the UK Government should be telling any Government what to do. We are at one on that.

My question was about the other European nations. Does the UK Government consider it to be a positive opportunity for the UK if other European nations are not going down the line of further investment in new nuclear power stations? There are resources that will not be utilised in those countries. Could the UK Government use those resources to build more nuclear power stations?

**Edward Davey:** I guess that we probably see that as a positive opportunity. The reason that I answer in that way is that nuclear power stations are built by private companies and not by the British Government. How those private companies decide to resource themselves and where they get the resources from is not an issue for us. Clearly, we work with them in terms of the supply chain. My department has been working with the Department for Business, Innovation and Skills to ensure that we can maximise the local content from the supply chains for all low-carbon technologies—not just new nuclear, but renewables and so on. That is really important. However, it may well be that there are various German nuclear engineers who have expertise that is not currently available in the UK. I do not know, but I hope that you will appreciate that it is not really for me to work out how many nuclear engineers should come from which countries for which company.

**Stuart McMillan:** That has been helpful. Thank you.

**Rhoda Grant:** May I ask some supplementary questions?

**The Convener:** Yes.

**Rhoda Grant:** I will start with project transmit. I cover the Highlands and Islands, and it is important to find a solution to the problem. If a solution does not come from Ofgem or the like, will the Government be willing to step in to level the playing field for the Scottish islands to ensure that wave and tidal energy—which will be really important once we get the technology right—is not stalled in any way?

**Edward Davey:** As I explained to Mike MacKenzie, I am not sure that we are allowed to do that under the third energy package. I would not want to say that we are going to do something illegal. That is not to say that we do not offer opinion and advice or try to assist—of course, we do. We want to ensure that we exploit the

renewable energies to which you refer, on the islands or on the mainland. I assume that Ofgem and the various parts of the industry that are in on the connection and use of system code industry group want to do that as well.

I hope and believe that there is a way forward that will sort out the situation, so that we can reap the benefits of some of the high-efficiency potential of those renewable sources and find a way forward on the costs. I am not in charge of that decision—I am not allowed to be—so I cannot give you an answer. However, that is not to say that we are not interested. We are extremely interested in doing what we can to assist.

**Rhoda Grant:** Could you use contracts for difference? Would you be able to put a different weighting on island renewables—as opposed to mainland renewables—to offset some of the additional cost?

**Edward Davey:** I do not think that we could. Contracts for difference are about generation, but the big issue here is the cost of transmission and distribution. It is not the right policy tool for the problem. I was interested in what Ofgem said in its report about changing where the boundary of the network is defined and whether that would enable a bit more cost sharing than happens now. However, I repeat that that is for Ofgem and the industry group to work through.

**Rhoda Grant:** Okay. Let us move on to energy efficiency. One of the messages that has come out of our inquiry is that energy efficiency is as important as renewable energy generation. Some of the schemes for home insulation have covered areas of deprivation and urban areas. I represent a rural area that is off the gas grid and in which deprivation indicators often do not point to fuel poverty. The problem can be huge, but people live in mixed communities and fuel poverty is not always easily identified. When you are considering new schemes and redesigning the current schemes, will you take those factors into account?

**Edward Davey:** Absolutely, and we have done so. The new supply obligation is called the energy company obligation, and we laid regulations on 11 June that set out how we want to shape the energy company obligation. It does a number of things. The affordable warmth programme is trying to tackle fuel poverty. Also, after listening to the consultation and thinking about fuel poverty, we have introduced a carbon saving community sub-obligation, which is trying to ensure that we can pursue other aspects of energy efficiency in poorer areas. There is a rural element to that. We have tried to respond to those needs.

When we think about energy efficiency and the energy company obligation, we need to move into a different world. Over some time, we have been

used to seeing supplier obligations—whether CERT, CESP or other programmes—as the only way of doing it. We are now using supplier obligations such as ECO to link with the green deal so that there is an interrelationship, which we believe will mean that the scarce resources that are always the challenge—in this case, the energy company obligation—can go a lot further, whether in rural or in urban areas and whether in tackling fuel poverty or in helping people to reduce their carbon footprints in their homes.

When people are thinking about energy efficiency, I urge them to see those two things together, because together they can potentially be more powerful. As we implement the policy, we will have to prove that it is as successful as we believe it can be. In our impact assessments, we have made very cautious assumptions about how the two things will help the new markets to develop and how quickly they will develop. I think that we were right to do that, because we have some serious challenges, not least in Scotland.

11:15

One of the big changes that we are making in energy efficiency policy, which is long overdue in my view, is that we are tackling the issue of solid wall insulation. Over time, we have done a lot of work on cavity walls. In the UK, there are 19 million homes with cavity walls, but there are seven million homes with solid walls. Often, they are properties in rural areas and they are off grid. They can be social housing, and sometimes they are picturesque cottages. The installation of solid wall insulation, whether it is internal or external, is quite a big intervention in someone's home. As well as being a lot more costly, it is a lot more disruptive, and that is why the market has not taken off. However, it is incredibly important in relation to fuel poverty, energy efficiency and carbon saving.

We are changing the direction of energy efficiency policy. The energy company obligation is tilting things away from the old approach, which, to oversimplify, was basically cavity wall insulation, towards solid wall insulation. That will mean that a new market, a new industry and a new supply chain build up, but it is incredibly important that we do that if we are to deal with aspects of fuel poverty and carbon saving, which we have failed to do in the past.

**Rhoda Grant:** How will you persuade fuel companies to provide solid wall insulation, given that it is much more expensive than cavity wall insulation? Loft insulation and cavity wall insulation represent the low-hanging fruit. Housing where such insulation can be installed has been targeted and an awful lot of properties have been upgraded. When we come to one-and-a-half

storey houses with solid walls and no loft, it becomes much more expensive and difficult to insulate them. How will you ensure that that happens?

**Edward Davey:** It will be done through the interaction between the energy company obligation and the green deal. The past schemes have not really addressed the solid wall debate. We believe that the provision of loft insulation through the green deal is much more effective, and we will be saying more about that in due course, but the thing that has not been tackled is solid wall insulation. Part of the energy company obligation will therefore require the energy companies to have programmes for solid wall insulation, and indeed programmes for hard-to-treat cavity walls. I have discovered that, of the 7 million cavity walls in the UK that have yet to be treated, 0.5 million are deemed to be almost impossible to treat, 3.5 million are hard to treat and 2.5 million are easy to treat. In designing the policies, we have had to take into account the reality of which cavity walls are left.

There are very few virgin lofts left, as most lofts have some sort of insulation. Quite a few do not have anywhere near enough insulation, but in such cases the returns on investment in terms of carbon saved and energy bill reductions inevitably reduce, because the first bit of loft insulation is the most effective and there are diminishing returns thereafter.

We are trying to ensure that there is still support for cavity wall and loft insulation through the green deal, through incentives and through part of the energy company obligation. We cannot just switch that off overnight. We have listened and we have tried to tweak our policies to ensure that we are taking account of those needs, but we cannot ignore the real challenge, which is to get to the solid walls.

For the reasons that I have explained, people will think twice about whether they want solid wall insulation. Our market research people find that, when they ask, people are not saying, "Yes—we'll have some of that, please." There will be some resistance because it is so disruptive. We have to ensure that our policies tackle that, because if we do not tackle those 7 million homes and install solid wall insulation, we will not have a serious policy on energy efficiency. We are deadly serious about energy efficiency and we are determined to crack that nut.

**The Convener:** We have covered a lot of ground and we are getting towards the end of our time, but I will pick up on a couple of areas that we have not yet covered. The first relates to greenhouse gas emission reductions. DECC estimates that the net savings from wind power in 2010 were 6 million tonnes of CO<sub>2</sub>, but the

committee has heard in evidence from a number of sources, including Sir Donald Miller, the former chair of Scottish Power, and representatives of professional engineering institutions, that the carbon costs of running baseload thermal generating plant at lower efficiencies as a necessary back-up to intermittent renewable sources would negate the savings from those sources. When DECC calculated the CO<sub>2</sub> savings from wind, did it factor in that issue?

**Edward Davey:** As you will appreciate, a huge number of issues have to be factored in when such calculations are done. We have tried to be more open than any Government has been about how we come to our conclusions and figures. Our 2050 pathways calculator, which is on the web and which people anywhere in the world can look at, shows the many different pathways in trying to meet our Climate Change Act 2008 obligations to reduce carbon emissions by 80 per cent by 2050. The reason why I mention that big picture is that, for each of those pathways, all the assumptions are available. People can challenge the assumptions, particularly on reducing carbon emissions.

You are right that, in the 2030s, when we have largely decarbonised, we envisage that unabated gas will be held back and will not go at full potential. Although I have not looked at the bit of the website that says that, I can only assume that it sets out how those assumptions have been made. It is important that it is open to the witnesses to whom you referred to challenge those assumptions. I am clear that we need to be as transparent as possible. No other Government has been as transparent as we are about our modelling and assumptions, and we are happy for them to be challenged. Often, when we are challenged, we find that our scientists got it right because the process that they went through to get to the assumptions was a collaborative one involving external stakeholders.

**The Convener:** Mr Brearley, do you wish to comment?

**Jonathan Brearley:** I will check the figure, but I am pretty sure that we have factored in the back-up issue. In essence, the problem is one of scale. If we had just one wind turbine in the existing market, the impact on the efficiency of gas would be negligible. We should remember that gas generators deal with the fact that we have huge peaks in demand at 6 o'clock in the evening and we do not use much electricity at night, so they are already configured to respond to quick changes in demand. Through consideration of the long-term pathways, we have begun to consider what might happen with a system that takes on more and more wind. Over time, that issue grows. Post 2020, with more and more wind in the system,

there will be an issue about how much the gas plant can be used and how much gas plant is needed just to back up the wind. However, we are not near there yet.

**The Convener:** Another issue that has come up in the course of our evidence is the constitutional question. We know from evidence that the renewables obligation certificates, the FITs and, under the new regime, the contracts for difference will be supported by 60 million consumers across the United Kingdom. We have heard concerns, particularly from investors, about what Scottish independence would mean for support for Scottish renewables. In the event of independence, what would be the support for Scottish renewables? Would there be a prospect of consumers in the rest of the UK continuing to make a contribution towards the cost of Scottish renewables?

**Edward Davey:** On the constitutional question, let me be clear that I and the Government believe that Scotland is better in the UK and that the UK is better with Scotland as part of it. It will not be a surprise that I say that, but I want to get it on the record.

On renewables, you are right that, at present, consumers across the UK pay for the subsidy that is provided through the renewables obligation certificates and that, if Scotland were to become independent, a number of questions would be raised about that. We do not have a set of proposals from the Scottish Government on how it wants to handle the energy and climate change policy issue and, in particular, renewables. I urge the Scottish Government to produce its proposals; when there is nothing on the table to look at and analyse, it is difficult to give detailed answers to such questions.

In principle, it is right to say that UK consumers pay for renewable energy, and, if an independent Scotland were to produce 100 per cent of electricity through renewables, under the current system—if there were no changes—consumers in England, Wales and Northern Ireland would be paying for that Scottish power to be generated even before it is sold in the market. Questions would be raised about whether that was fair. If Scotland were to export its energy and ask us to pay for it but we had already paid for it to be generated, people might say, "Hold on a minute, we are not paying twice."

Until we have the model, it is difficult to comment. I urge the Scottish Government to present its detailed plans.

**The Convener:** It has been said that, in order to meet its carbon reduction targets, the rest of the UK, in the event of independence, would have no option but to buy renewable energy from Scotland. Do you accept that, or are there other sources?

**Edward Davey:** I do not accept that, in the sense that, if we were faced with that—I really do not want to be faced with that, because we work so well together, as we have with the devolution settlement—we would obviously want to know the European Commission target. The European Commission sets the target and it would have to decide, having looked at the policies of an independent Scotland, how the targets would be redrawn. Again, there is much uncertainty there.

It is important to say that England, Wales and Northern Ireland produce quite a lot of renewable energy. With some of the new renewable energy, for example biomass and solar, which we have talked about, a lot of that is provided in England and Wales compared with Scotland. Some of the cheapest offshore wind power is off English waters, because they are shallower.

It is simply not true to say that we would be dependent, but I do not want to get to that position—that would be a real shame, because the current integrated energy market works well and keeps bills down in a way that might not happen if we were to break up.

**The Convener:** Will you speculate on what might happen to bills in an independent Scotland?

**Edward Davey:** It is difficult to speculate; I will not provide hard and fast figures because we do not have any proposals from the Scottish Government. The underlying thrust of the argument, particularly on renewables, is that if, under Scottish independence, the English, Welsh and Northern Irish people said that they were not paying subsidies for Scottish renewables and Scottish consumers had to pay, there is no doubt that energy bills would increase in Scotland. I am sure that that would not be in pence and pounds, but in tens of pounds—I do not know how many, but there is a risk that we would see significant increases in energy bills for Scottish consumers and business.

**Chic Brodie:** I am sure that there will be another conversion shortly.

**John Wilson (Central Scotland) (SNP):** Good morning, secretary of state. The debate about the future of Scotland and whether Scotland decides in 2014 to be independent is one that we can have elsewhere, and I am sure that the issue of energy bills will be in the mix. However, it must be put on record that Scottish taxpayers are already paying for the installation of solar panels in the south-east of England and they are making a contribution to the renewables target.

**Edward Davey:** For the record, it is consumers, not taxpayers, who pay for the feed-in tariffs; that cost goes on consumer bills.

**John Wilson:** Scottish consumers, then—I am sorry if it is not taxpayers.

We have not touched on Scotland's 2020 renewables targets and the renewable heat incentive that has been delayed and delayed. People are looking for assurances. DECC announced, in March 2012, that it would consult on the specifics of the scheme in September 2012, in anticipation of a launch in the summer of 2013. Where are we with the RHI and what should we expect to see from the consultation process?

11:30

**Edward Davey:** The timelines that you describe are absolutely right. We hope to be able to consult on how we support domestic renewable heating from September this year. From that, we would want to set out a firmer timetable for delivering the support; I anticipate that that will be from summer 2013. As I said in my first response to Mr MacKenzie, it is a shame that the RHI has been delayed, but it is important that we get it right.

We are learning quite a bit about the technologies that are involved. When I looked at the heat strategy that we published, we had details about air source heat pumps and ground source heat pumps, but we did not have much on water source heat pumps. I think that the latter are potentially very significant, so I asked for those to be considered in more detail. Such technologies are fast developing and we want to encourage that. We need both commercial and domestic renewable heat and are ambitious about it, but it is important that we get it right to ensure that the incentives go in the right places and that we get their form correct.

**John Wilson:** I welcome the secretary of state's response on the initiatives that can be taken forward. We have heard concerns in evidence about the efficiency of the heat pumps that are in operation.

You indicated earlier that there will be no public subsidy for new nuclear. Can you clarify whether that means no taxpayer or consumer subsidy, so that the consumer will not be charged for new nuclear? We have heard in evidence that the estimated cost for a new nuclear power station is £7 billion. We have also seen the decommissioning costs that the UK Government is paying. In Scotland alone, the lifetime cost of decommissioning three nuclear power stations is estimated to be £4 billion. There are currently discussions in Cumbria about decommissioning costs for the safe storage of nuclear waste. While the renewables obligation means that there is a low-carbon target, what about the waste materials from nuclear power production that will have to be stored?

**Edward Davey:** When we say no public subsidy, we mean no public subsidy; “the public” is defined as the taxpayer or the consumer. You are right to say that when we look at the negotiations with nuclear companies, we need to ensure that all the costs are taken into account. We have legislation to ensure that the decommissioning costs for a future nuclear power station have to be taken into account up front. A fund would have to be contributed to in that regard; that did not happen with the first and second generation nuclear power stations. You are also right that we are paying a heavy price today for past mistakes. More or less half of DECC’s budget goes on nuclear decommissioning. We must learn those lessons from the past. That is one of the reasons why having a discipline of no public subsidy is the right approach to take.

**John Wilson:** Thank you.

**The Convener:** We are slightly over time, so we need to call a halt. I thank the secretary of state and Mr Brearley for coming along to answer our questions; it has been extremely helpful to the committee.

11:34

*Meeting suspended.*

11:38

*On resuming—*

**The Convener:** I welcome our second panel of witnesses: Fergus Ewing, Minister for Energy, Enterprise and Tourism; David Wilson, director of energy at the Scottish Government; and Graham Marchbank, principal planner at the Scottish Government. Minister, would you like to say something by way of introduction?

**The Minister for Energy, Enterprise and Tourism (Fergus Ewing):** Yes, thank you. Good morning, convener, and committee members. Thank you for the invitation to debate these extremely important matters today. The Scottish Government has set ambitious targets, but we believe them to be achievable. I note that much of the evidence that the committee has heard shows that a great many of the witnesses agree with that view.

I would like to offer a few reflections on the progress that we have made. The renewables industry in Scotland is going from strength to strength, despite the difficult economic times. Scottish Renewables estimates that 11,000 people are now employed in the renewables sector, which means that more people are directly employed in the sector than are directly employed in the Scotch whisky industry.

The facts show that we have unrivalled natural resources in Scotland. We have 25 per cent of Europe’s offshore wind potential, 25 per cent of Europe’s tidal energy potential and 10 per cent of Europe’s capacity for wave power, although we have just 1 per cent of Europe’s population. We believe that our world-renowned expertise in engineering hostile marine environments, which was developed in oil and gas, and our research capabilities make us ideally suited to exploiting those natural assets.

However, like Governments and citizens around the world, we are at a crossroads in energy policy. Much of the traditional generation sources that we have relied on for decades will be decommissioned over the next 10 to 15 years, so the direction that we choose now is critical. As our electricity generation policy statement demonstrates, we will continue to need a mixed energy portfolio, but now is the time to move to the next stage of developing our renewable resources, which are arguably the best in Europe. If we choose not to deploy renewables now, we will be left with no choice once historical generation sources are decommissioned. We would then have to rebuild all—or, at least, most—of those facilities. Rebuilding them would commit us to fossil fuel generation for a further 40 years, and we would forfeit all the opportunities that renewables deployment offers for nearly the next half-century.

Because we are acting now, we can seize opportunities such as the chance to create 28,000 jobs and £30,000 million of investment in offshore wind, as well as a further 2,600 jobs and £1,300 million of expenditure in Scotland from marine energy. Renewables will deliver enormous benefits to communities in Scotland, to rural Scotland and to our islands. Even in constrained financial markets, investment commitments totalling hundreds of millions of pounds have been delivered.

At the same time, delays, confusion and uncertainty have been created by the electricity market reform process. SSE has described the EMR process and proposals as

“too complex—they are unworkable, and they are looking more and more like a train wreck”,

and Scottish Power and RWE have admitted that we are seeing an investment hiatus. We need to get the EMR process right, but we need a system that supports industry and which is supported by industry. We need a system that bolsters our progress to date and looks ahead to developing and exploiting the technologies of the future.

We are seeing real investment confidence in Scotland. As the committee has heard from some of its witnesses, our ambitious targets have played

a key part in creating and sustaining that confidence. We owe it to Scotland's people to maintain the momentum behind the renewables industry in Scotland and to achieve our renewable energy targets.

**The Convener:** We have a wide range of questions for you, as you would expect. We are somewhat tight for time, so I ask members to make their questions brief and to the point. It would be appreciated if you could answer the questions in a similar fashion, as that will allow us to get through all of them in the time available.

Before I bring in John Wilson, I would like you to clarify something. You said that we will decommission existing sources of generation in the next 10 to 15 years. If we meet our target of meeting 100 per cent of our electricity needs from renewables by 2020, what reduction will there be in our conventional generating capacity by 2020?

11:45

**Fergus Ewing:** We reckon that we will still need and should still have a mixed portfolio of energy generation. Our EGPS provides one scenario for what the generation component might be. It is likely that by 2020 we will still need to generate a couple of gigawatts of electricity a year—perhaps 2.5GW—from conventional thermal generation, that is, coal and gas. There will also still be a role for the existing nuclear power stations, although our policy is not to build new nuclear power stations, as I have made clear.

There will continue to be a need for conventional thermal generation. I am pleased to have the opportunity to make that clear. Such generation is part of our EGPS, and it is realistic to think that it will be required from 2020. By 2030 I think that we will have made further progress—from memory, I think that table B2 sets out the modelling that supports our belief that the 100 per cent target is achievable, and other tables in the EGPS will help members by illustrating how we might generate the country's electricity in 2020 and 2030.

We want CCS technology to develop. I jointly chair, with Mike Farley, of Doosan Power Systems, the sub-group on thermal generation and carbon capture and storage, and it is fair to say that we are itching to have CCS schemes in Scotland and in the UK, and that we are a bit frustrated that there has not been more progress in that regard. We might come on to that.

**The Convener:** You mentioned community benefit. Members have questions on that area.

**John Wilson:** You are probably aware that a number of members of the committee visited Orkney and Caithness on Monday 11 and

Tuesday 12 June. We visited a number of harbours and discussed with communities what is happening locally. There were good signs that communities are engaging with the opportunities that offshore wind developments present.

Local harbour trusts, particularly at Scrabster and Wick, made a plea to be fully engaged in the process and in the opportunities. How can communities become part of the renewables agenda? What infrastructure development or funding can be offered to help communities to realise their potential?

**Fergus Ewing:** I am aware of the committee's visit to Caithness. I, too, have visited Scrabster and Wick and, just a few weeks ago, I had a meeting with Willie Watt, of the Wick Harbour Authority, which has ambitious plans. Indeed, many ports and harbours around the land—too many to mention—have ambitious plans to take advantage of opportunities, especially in offshore wind.

As members know, there was public sector investment from Highlands and Islands Enterprise in developing Scrabster harbour, to enable it to take advantage of precisely such opportunities. Progress is being made in Wick in relation to at least one major company—I am not sure whether that is in the public domain yet—and in various ports in the Highlands and off the west and east coasts of Scotland. The £70 million national renewables infrastructure plan fund was designed to stimulate investment in ports and harbours, to take advantage of renewables activity.

On how communities can benefit from and be a part of what is going on, we have a fairly well-developed policy and a target of 500MW of community and locally owned renewable energy. We have made reasonable progress towards that target with—from memory—147MW as at June 2011, which means that we are about 30 per cent of the way there. We have recently announced the second stage of the community and renewable energy scheme—the CARES loan scheme—which is worth £23 million. We learned lessons from the first loan scheme, which was fairly successful, and we wanted to widen it out so that more communities could benefit.

We also recognise the good work that several banks have done. I particularly recognise the work of the Co-operative Bank, which plays a valuable role. However, there is a need to top up the maximum loan that can be made available. There is also a need to provide advice, assistance and support to communities. That is key.

I have been struck by something that I know you have heard in your evidence—from West Coast Energy and others, including the smaller energy company from the microrenewables sector—which

is that companies are keen to assist communities through the quite considerable challenges that are involved in developing any community renewables scheme.

These are difficult matters, but we are entirely at one with all parties in the Scottish Parliament in our desire to ensure that communities benefit from renewables. We have recently arranged for the register of community benefit to encourage developers to show what benefits communities receive. Of course, communities receive substantial community benefit from commercial schemes—I think that the current figure is about £4 million to £5 million, cumulatively, a year. As I think you have heard in evidence, more and more companies, such as Vattenfall and SSE, are following the lead of the Forestry Commission and implementing a £5,000 per megawatt tariff. Of course, for community schemes, the community benefit has to be £10,000 in order to qualify for a CARES loan.

We have a fairly well-developed policy, and it is the application to individual communities that is the challenge. We look forward to meeting that challenge.

**Mike MacKenzie:** I have a question on community benefit but, before I get to that, I feel that a word of explanation is appropriate. About 15 minutes ago, you may have heard some astonished gasps from some members of the committee—I am sure that everyone in the building heard them. The gasps were in response to Ed Davey's suggestion that, after independence, Scottish consumers could end up with much higher bills. Given what you have said about Scotland's considerable opportunities for renewable energy generation, coupled with the fact that we have 40 or 50 years' worth of oil reserves, the logic that would suggest that Scottish consumers could be paying much higher energy bills than those in the rest of the UK after independence seems astonishing. Do you agree? Can you explain that convoluted logic?

**Fergus Ewing:** The gasps were not audible to those of us watching the proceedings on television. We work with the UK Government and I have good relationships with UK ministers, but we have differences in our approaches that are well known and understood, and this is one of them. DECC's own figures show that, if we depart from harnessing the renewables potential of the UK—a large part of which is in Scotland—energy bills will go up. DECC's own analysis shows that the renewables policy will result in bills being 7 per cent lower than they would be if we simply pursued a traditional thermal generation policy and that our policy, of which DECC is well aware, of continuing with an integrated energy market will be good for consumers.

I am pleased to confirm that Charles Hendry himself has stressed the need for co-operation after independence, but he was referring to Ireland, not Scotland—he made a statement to that effect in Dublin. We are also working towards the same objectives as the UK Government in our wish to increase interconnectivity. The committee has heard evidence about the Irish-Scottish links on energy study—or ISLES—and the connection to Norway, and I believe that I am right in saying that there are plans this year to increase interconnectivity between the UK, the Netherlands and France. The more integrated the European energy market becomes, the better it is for Scotland and the UK.

I want to make another point that the press have not made much of but which is undoubtedly true. Last week, I attended the offshore wind energy conference in London, which was hosted by RenewableUK, and discussed with a great many England-based companies their plans to do more business in Scotland, given, for example, the projects in the Pentland Firth and the 17GW of marine and offshore energy projects that are in the pipeline. Were the UK to pursue a policy other than the sensible one that we have proposed and informally discussed of continuing with the UK energy market, the victims would be a number of English and Welsh companies. Last Friday, in Inverness in my constituency, I attended the opening of an office of a Welsh company that has come to Scotland because this is where the business is. The losers in any scorched-earth policy would be English jobs, English businesses and English consumers and, unfortunately, Wales might get dragged into that as well.

However, I do not think that such a policy has been seriously proposed. Put simply, I think that it is just politics. The reality is that we will continue with the UK energy market, because it makes sense. Our renewable energy potential, our expertise, our jobs and our industries require it, as do English businesses, engineers, experts and consumers. It is not really a serious argument, although it gets a lot of airtime.

**Mike MacKenzie:** The committee has received a copy of a joint letter from you and the Minister for Local Government and Planning that helpfully addresses a number of planning issues. As I am sure you are aware, communities and small-scale developers face an additional problem in applying for grid connections. Under the current system, they are obliged to post up front quite large sums of money almost in the form of a bond. Could you tell us about any help or solutions that might be in the pipeline to assist communities in dealing with that particular problem?

**Fergus Ewing:** Through our community renewables policies, we are seeking to assist in

meeting the challenges associated with connecting projects to the grid. However, the costs are not inconsiderable and there are also issues with delays. Of course, such issues arise because, up to now, places such as Argyll and its islands have not needed to be able to transmit or distribute a large megawattage of electricity. I know that the committee has received evidence that the connect and manage system that was introduced in 2009 has gone some way towards addressing the issue in some parts of the country, but plainly a lot more progress has still to be made.

The good news is that, as you have also heard in evidence, the relevant authorities—Ofgem and National Grid—have announced their approval of a £7 billion investment to improve the grid in Scotland, and the Beaulieu to Denny line, the bootstraps and many other grid improvements will partly address problems of connection as well as problems of constraints. However, there is more to be done.

One of the benefits of our renewables policy is that the more successful it becomes, the stronger is the case for further grid improvements. There is a virtuous circle there, but I cannot deny the fact that it is expensive, because it is not cheap to connect to the grid. It involves a lot of detailed and expensive engineering work. I do not think that I can suggest any short cuts through those problems, but a huge amount of progress is being made in many parts of Scotland, and we want that to continue and hasten as far as it can.

12:00

**Mike MacKenzie:** I have just one further question on improvements to the grid, convener.

**The Convener:** Very briefly, please.

**Mike MacKenzie:** We have heard a lot of arguments about intermittency of wind and the necessity of keeping back-up generation on stream, which is inefficient and produces a lot of carbon, and so on. Given the improvements to the grid that you have just talked about and the evidence that we have heard that the grid will become smarter over time and that, as we get better connected to other European countries, the demand and supply of energy will balance out much better, will that situation begin to improve?

**Fergus Ewing:** Yes, I believe that it will. We expect the final analysis to show that 2011 was a record year for renewables generation—35 per cent of our needs were met by renewables.

Every type of electricity generation has difficulties. None is perfect. In response to a question from Mr Harvie, the witness from National Grid said that, if a thermal or nuclear generation

plant goes offline or out of action, it has a massive impact on the network because it can lose up to 2GW or even more at a stroke. That happens; I could go into detail, but I do not think that I really need to. The gentleman from National Grid successfully scotched and dismissed the wilder claims about intermittency. We are plainly in favour of a balanced portfolio. Churchill said that the key to electricity generation lies

“in variety, and in variety alone”—[*Official Report, House of Commons*, 17 July 1913; c 1477.]

That will remain the case for the foreseeable future. I know that members do not often hear me quote Churchill, but I thought that it might liven things up this morning.

The facts, and most of the evidence that the committee has taken, show that renewable energy plays an extremely valuable, complementary role in the provision of Scotland’s and Britain’s electricity needs.

**Mike MacKenzie:** Thank you; I am most grateful for your answers.

**Patrick Harvie:** I have one very simple factual question to ask about the evidence that we have just heard from the secretary of state. He talked about the ECO regulations that were produced earlier this month. The relationship with UK-defined rules on the energy companies has been an issue. When Scotland wants to do more on demand reduction, we have to work around something that has been defined at the UK level or risk losing funding. How much involvement has the Scottish Government had in developing the ECO regulations? Has there been co-operation between the two Governments and the other devolved Administrations? Is there any process of joint sign-off?

**Fergus Ewing:** That issue is being substantially dealt with by Mr Neil, but I understand that there has been extensive dialogue between the Scottish and UK Governments. Indeed, on Monday this week, I took part in a conference call to a committee meeting chaired by Greg Barker, with various other UK ministers, to discuss how best we could make great progress towards energy efficiency and demand reduction. Obviously we would like rapid progress to be made there, and the engagement between the Scottish and UK Governments has been fairly extensive.

**Patrick Harvie:** But there is no joint sign-off—

**Fergus Ewing:** I will obtain the details about any specific technical question from Mr Neil, who is handling ECO.

**Patrick Harvie:** Thank you. You talked about the community benefit that can come from commercial developments. Some witnesses suggested that the 500MW target for community

and locally owned renewable energy generation unhelpfully combines types of community or local ownership. Local private ownership, ownership by community bodies and ownership by public bodies all have a role to play—it is all good stuff, from my point of view—but the context for such arrangements is very different. The requirements of bodies are different and the kind of leadership that is required is different. Would it make more sense to break the target down and have separate approaches to local private ownership, community ownership and renewables developments by public bodies, including councils? Many witnesses thought that there is a role for such developments.

**Fergus Ewing:** I am aware of those views, but there is value in having a target that encompasses different types of ownership. The 500MW target is clearly understood and drives activity. It is perhaps not the best approach to complicate matters and have too many targets.

There is a debate to be had about the relative merits of ownership versus receiving a community benefit. Some communities very much want ownership, whereas others are not comfortable with ownership, for various reasons, and much prefer to have a community benefit.

In either case, we want to ensure that the benefits that communities receive are as substantial as possible. We have never felt that putting a tariff on that would do anything other than complicate things, by applying a one-size-fits-all policy to a huge array of communities in Scotland, which might deter investment and confound attempts to achieve the target. I understand the argument, but there is value in having one target and relentlessly pursuing its achievement.

**Patrick Harvie:** You said that the target is simple and that everyone understands it, but your answer suggested the opposite. In my experience, the target on community and locally owned renewables is often mistaken for a target on community ownership. There is no clear recognition that private ownership is also included. Private and community ownership are both good, but they are very different.

You said that some communities want ownership and some do not. There is ambiguity about how the target will achieve the maximum community benefit, as communities would define it. The target is not clear and simple but ambiguously lumps very different things together.

**Fergus Ewing:** With respect, the target's purpose is to ensure that communities benefit. Communities can benefit in different ways from different types of schemes. You mentioned two types, but there is a variety of other models.

Perhaps not for the first time, we might have to agree to disagree.

**Patrick Harvie:** What contribution will the overall renewables target make to the CO<sub>2</sub> targets? We have heard two arguments on that. Scottish Power said that the development of renewables will make no contribution to Scotland's CO<sub>2</sub> targets, because such renewables are included in the EU emission trading scheme and will not show up in the Scottish emissions inventory. Other people said that the overall target will clearly help to achieve Scotland's CO<sub>2</sub> targets.

Another question is about the displacement of fossil fuels, which is perhaps more about the longer term. If there is a point at which we can say, "We're on track for 100 per cent. The infrastructure's in the pipeline and everything is getting planning consent", where will we go from there? Do we keep on generating more electricity for export or do we displace fossil fuels in the 2020s, driving them out of the system as marine energy comes on?

Those are the two issues that I would like you to address. One is about the trading scheme and whether it means that renewable energy contributes to the CO<sub>2</sub> target, and the other is about displacement. Renewable energy does not reduce CO<sub>2</sub>; burning less fossil fuel reduces CO<sub>2</sub>.

**Fergus Ewing:** I tend to look at the matter in a fairly simple way. One of the main reasons for having renewable energy is that it does not emit or produce CO<sub>2</sub>, whereas fossil fuels do. Whether we are talking about community renewable energy or commercial renewable energy, it has that benefit. Friends of the Earth suggests that the potential saving could be massive—the statistic that I have seen is that 13 million tonnes of CO<sub>2</sub> could be saved. I think that that is a good thing, and I assume that Patrick Harvie agrees.

Do we want renewables to drive out fossil fuels eventually? We want to decarbonise the generation of electricity in so far as we can, but we must do so in a practicable way. As the foreword to the EGPS says, we must have regard to the need for security of supply, the interests of consumers, the desire to achieve our green targets, the capacity constraints and other practical issues. I think that we agree on the direction of travel.

Increasingly in Scotland, renewable energy is replacing fossil fuel-generated electricity. We are seeing that on a grand scale. Since 2007, we have given consent to section 36 applications for schemes to generate nearly 5GW of power. Not all those applications have related to renewables, but our record is substantial. As I have said, there are 17GW of renewable energy applications in the pipeline. Given that we consume about 6GW a

year, it is plain that Patrick Harvie is right to say that we have the potential; the challenge is how we tap it and deliver on it.

**Patrick Harvie:** What about my point on the ETS? Will it mean that Scotland's achieving the renewables target will show up in the Scottish emissions inventory under the Climate Change (Scotland) Act 2009? Is Scottish Power right or wrong?

**Fergus Ewing:** I think that Mr Wilson is champing at the bit to give the technical answer, if that would be in order.

**The Convener:** Nicely passed, minister.

**David Wilson (Scottish Government):** There is a very technical explanation, which it would probably be better to provide in writing. In effect, when it comes to the classification in the greenhouse gas inventory—which the Scottish Parliament will use to measure our achievement of the CO<sub>2</sub> and climate change targets—of all the electricity generation that is covered in the emission trading scheme at European level, there is a cap within the overall cap, which is set on the notional allocation of emission trading scheme permits to Scotland. Statistically speaking, the representative from Scottish Power was technically correct in what they said, but that should not in any way take away from the fact that we are seeking to achieve, with the utmost rigour and enthusiasm, the renewables targets. That is one reason why we acted in the way that we did.

**Patrick Harvie:** For me, it does not undermine the renewables target at all, but there is a disconnect with the CO<sub>2</sub> target.

**David Wilson:** I would not say that there was a disconnect. Perhaps we could explain the matter in writing.

An important point is that there will be different options for how, statistically, we allocate that in the greenhouse gas inventory after 2013. A decision will have to be made in time.

**Patrick Harvie:** I look forward to receiving the written explanation.

**The Convener:** It would be helpful if you could follow up what you have said in writing, Mr Wilson.

**Rhoda Grant:** Good morning, minister. Earlier, you explained how a UK energy market would work and how we could share an energy market with the rest of the EU and Norway, but you did not explain how the Scottish Government would continue to pay subsidies for renewables if Scotland were to separate from the rest of the UK.

**Fergus Ewing:** We do not envisage that we will separate from the rest of the UK—we envisage that we will work harmoniously, as an independent

country, in partnership with the UK. It is implicit in the answer that I gave, in which I said that we would continue with the integrated UK energy market, that, broadly speaking, we want to continue to see the same provision of support and incentivisation for renewables technologies that the UK Government wishes to see. In other words, there are shared objectives.

At the current time, consumers ultimately pay for the costs of renewables, although the cost per household has been estimated at £15 to £20 a year, as opposed to the fossil fuel costs, which have risen by nearly £200 a year in respect of the average household bill.

12:15

We are at one with the UK Government on the model of how we will get from where we are at present to a renewables powerhouse Scotland and Britain. We have made considerable progress, but we are not there yet. We agree that there should continue to be a model whereby consumers pay through their bills for the incentivisation of renewables technology. With the single, integrated UK energy market, that system will continue. Scottish consumers, who are also taxpayers, will pay, and so will citizens south of the border. Frankly, that is the sensible way to do it.

That is not the real debate, because that is undoubtedly what will happen post independence. I have not a shadow of a doubt about that. Any other system would not make sense. Why on earth would National Grid have agreed with Ofgem to enable a four-fold increase in our capacity to export electricity south of the border unless it was necessary? It did not do that for fun; it did it because the consumers need our electricity. Were there suddenly to be an abandonment of Scotland, with a sort of Hadrian's wall scorched earth policy or whatever we want to call it, the consequences south of the border would be disastrous. Such a move would completely contradict what the regulators have said is the sensible and necessary thing to do.

Incidentally, the improvement that will allow us to export has been fast tracked ahead of improvements in England because of the progress that we have made in Scotland, because of the fact that we have set the targets, because of the fact that we have seen the gigawattage of applications going ahead, and because the grid requires to be upgraded to deal with our power from renewable energy, so that we can export that power south of the border. Is the Labour Party really saying that, in those circumstances, it does not make sense for there to be, and to continue to be, one energy market?

**Rhoda Grant:** We are clear that there will be one energy market, and indeed one that stretches out to the rest of the EU and Norway. However, when the northern interconnector is built, I do not think that you will be asking Norwegian consumers to pay a levy on their bills that will then be handed to Scotland for the development of renewables. Why, in a separate country, would you ask consumers in another country to subsidise your renewables? They would surely pay the market price for the electricity, or indeed decide to import electricity from the continent if no charge was levied there. Surely you need to give developers some guarantees that the level of subsidy will be paid as a fallback position by the Scottish Government in order not to stall development in Scotland.

**Fergus Ewing:** I just do not accept the analysis. I do not want to repeat myself, convener, given the short time that we have. I think that I have set out fairly clearly a number of reasons why I believe that it makes sense for there to be, and to continue to be post independence, a single, integrated UK energy market.

If these matters are such a pressing concern and worry, why has a company such as Gamesa decided to invest more than £100 million in Scotland? Samsung has done likewise in Methil, and there is investment by Mitsubishi. In the evidence that Keith Anderson and Ian Marchant gave to the House of Commons Energy and Climate Change Committee just last week, they talked about major investments continuing in Scotland. Investors are voting with their feet. They are continuing to invest in Scotland. As one of them said in evidence to this committee, they invest in Scotland because of the strong Government support—that is the phrase that was used—for renewables. That is exactly what I hear from just about every company that I have met. I have met hundreds of companies from across the world and they are looking forward to continuing to invest in Scotland.

What those companies are concerned about—which I hope we will come on to as it is the meat of the discussion, if I may say so—is how we can best achieve that by working together, and how we can make EMR work. We will not do that through disguised subsidies to the nuclear industry, which seems to be a possibility that has not been excluded.

**Rhoda Grant:** Scotland has 30 per cent of the renewables, but only 10 per cent of the customer base. In a separate Scotland, the cost of subsidising those renewables would fall on that 10 per cent, unless you are suggesting that there will be an energy market in which Scottish taxpayers pay the English and Welsh, or the rest of the UK, to decommission nuclear energy because we have

benefited from it. I do not think that you are suggesting that. How will we continue to pay for the development of renewables in Scotland if it is a separate country?

**Fergus Ewing:** We will do that because, in future, in an integrated UK energy market, as at present, there will be one system of incentivising renewables. If that is departed from, everybody will lose. In particular, people down south will lose their jobs and investment will be lost down south. I have with me a list of companies that are investing in Scotland. I do not have permission to name them, but there is a whole screed of companies, some of which I met just last week, and others that have been pointed out to me.

Is the member really saying that it is Labour's policy that somehow it would be better to import electricity from Ireland and France but not from Scotland, after National Grid and Ofgem have decided that the sensible way of doing these things is to enable further increases in the amount of electricity to be generated and exported from Scotland to England? The reason why that happens is because it is sensible. The reason why it will continue to happen is because it will enable Scotland and England to continue to meet in the best fashion shared objectives with regard to electricity, which are a reasonable cost to consumers, security of supply and the encouragement of renewable energy.

Therefore, I completely reject the scenario that the Labour Party appears to be intent on pursuing. We have gone round in circles on the issue, but there we are. There are a host of other things that I thought that members might want to ask about that seem pretty important to me.

**The Convener:** Okay. We need to move on.

**Chic Brodie:** Good afternoon. Listening to the previous question and to the secretary of state from Westminster commenting on the position of Scotland reminds me somewhat of the comments in the McCrone report from 1974 on oil and gas, but I will leave the issue there.

This morning and last week, I asked about Scotland's position as a net exporter of electricity. My question to the head of European strategy for Ofgem was about what role Scotland plays in the north seas countries' offshore grid initiative, wherein 10 members play a part, including Luxembourg and Belgium. The representative of Ofgem said:

"To be frank, it is not a big role."—[*Official Report, Economy, Energy and Tourism Committee*, 13 June 2012; c 1715.]

Why are we not at the main table?

**Fergus Ewing:** I will make two points in answer to that. First, the Scottish ministers and the First

Minister have ensured that Scotland's voice is heard in European circles. I have met the commissioners and attended the energy council, alongside UK ministers. The Commission is extremely well aware of the strong support that Scotland gives to renewables, which is an incredible plus and advantage, achieved in part thanks to the Scottish Government's work. Charles Hendry and I work together in the area. Scotland's voice is heard, but plainly we have aspirations that our voice should be heard as a member of the EU, rather than as part of a member state of the EU.

My second point is about our relationship with Ofgem and why it is as it is. We have good engagement with Ofgem. Charles Gallacher has given evidence to the committee about the expanding office in Glasgow, which I visited fairly recently. Those relations stem from the statutory arrangements. One achievement that we have made in the past few months is to persuade Ed Davey and his colleagues that we should have a considerable say in EMR. The draft bill says that the Scottish ministers shall be consulted. We are statutory consultees. That means that we have persuaded the UK Government that, under the current constitutional arrangements, we should have a significant role in EMR.

Let me use a simple metaphor of someone driving a car. At the moment, with Scotland in the UK, DECC is in the driver's seat and is driving the car in pursuit of EMR objectives, particularly on renewables. We do not want to be in the boot; we want to be in the passenger seat so that we can have a say on where we are going and on the navigation—on how we will get there. With independence, there would be joint controls, and we would be partners pursuing EMR. Once we achieve that following independence, we will, of course, have the direct role that Mr Brodie and I seek.

**Chic Brodie:** I appreciate that answer and your comment on the draft energy bill. Given the levels of uncertainty that some main players in the industry say that that bill creates and the assertion that there will be a movement of investment incentives towards nuclear energy, for example, how much influence do we have in developing that bill?

**Fergus Ewing:** It is plain that we persuaded DECC that we should be statutory consultees. I think that the Secretary of State for Energy and Climate Change referred in his evidence to the banding of ROCs for marine, and we have played a role in persuading DECC to agree that it would be sensible to have a five-ROCs-type regime to give nascent technologies the substantial capital incentive that is required. Those are two examples.

It is also plain that we have many concerns. SSE trenchantly highlighted some of those concerns in its comments to the House of Commons select committee last week, particularly in relation to the fact that the plan to proceed with nuclear power stations seems to be in trouble. The plan is to proceed with perhaps six new nuclear power stations. I understand that, of the two nuclear power stations that are currently being built in Europe—one in France and the other in Finland—one is four years late and the other is seven years late, and that the cost of one is 82 per cent above the original estimate and the cost of the other is 90 per cent above the original estimate. That makes the Edinburgh trams project a model of good management. It has been pointed out that E.ON and RWE have pulled out, which leaves one player or possibly two players. I do not know how there can be an option under the CFD system with one player.

It has been pointed out that the UK Government's impact assessment of EMR has not been updated since the white paper was published. Since then, the UK Government has decided that it will no longer be the counterparty, which is extremely serious. At the very least, a fresh and independent impact assessment of EMR must be carried out before we proceed any further. As Keith Anderson and Ian Marchant agreed, if there is no Government counterparty, that will increase the risk and reduce the capacity of two of the major companies that are involved and all the rest of them to invest in renewables. It will have a major impact.

In addition, there are concerns that disguised nuclear subsidies may jeopardise the whole EMR package because, whereas state aid is approved for renewables, it is not for nuclear. I have alluded to the fact that risk in relation to nuclear power is massive because of the huge building costs involved, the cost overruns and the cost of decommissioning. If a hidden subsidy in the form of a guarantee to remove the risk by setting a guaranteed contract price falls foul of state aid and is challenged, the whole package will fall, including investment in renewables.

There are also serious questions about the levy control framework, which I think Keith Anderson from Scottish Power and Sara Vaughan from E.ON raised. There is a problem if the amount of the benefits that can be deployed to incentivise capital is controlled. For the offshore wind industry, it is expected that there will be a lump circa the end of this decade, when we expect several major projects to go ahead at one time. Is the levy control framework going to be applied to delay some of those projects? That would be extremely bad.

I simply retail some of the serious concerns about EMR that the House of Commons select committee heard about, in its useful session of 12 June, from leading figures in the sector who should know what they are talking about. We think that EMR can be made to work—Keith Anderson set out very well the reasons why that is the case. At the moment, however, Ian Marchant has described it as a possible train wreck. There needs to be an urgent debate about all those matters, and you can be assured that the Scottish Government will continue to put all these points clearly to our friends in Her Majesty's Government.

12:30

**John Park:** Good afternoon. I would like to move the discussion on a bit to the issue of people working in the industry. You mentioned some of the current figures and the aspirations for the future, which we all warmly welcome. I would be interested to hear about the policies that the Scottish Government is currently pursuing to ensure that we have the right skills mix and the right people to secure the benefit that will come from the industry and to make sure that we meet the targets. Can you say what the Scottish Government is doing currently?

**Fergus Ewing:** We are doing a great deal, working with the industry, to address those issues. As you will know, we have the Scottish energy advisory board and its various sub-groups—a skills sub-group, an oil and gas sub-group and a renewables sub-group, which I chair. I assure you that the general issue is given careful and daily consideration. We also work closely with our colleges and universities, with Skills Development Scotland and with companies.

We have recently seen a number of good examples of success in meeting the emerging needs of the whole energy sector. I am pleased to say that we have a thriving oil and gas sector, which we support and for which we have the Nigg skills academy, which members may have visited—I visited it not long ago. There has been an increase in the availability of relevant courses for onshore wind, for example, at places such as Carnegie College, which John Park will know because it is on his patch. People such as Jim McDonald are leading the way in ensuring that we have more engineers going through relevant courses, including degree courses, at places such as the University of Strathclyde, which is world renowned for producing some of the best engineers in the world. There is, however, a long way to go. The First Minister recently announced the investment of £2 million to support an additional 1,000 flexible training places in Scotland's energy and low-carbon sector, and I have provided an additional £1.6 million for

activities to support skills development in the renewables sector.

When it took evidence from Oil & Gas UK, the committee had a debate with its representative about whether oil and gas employees will move into renewables. We need to supplement the number of people who are working in the sector, as most oil and gas companies have vacancies that they cannot fill—they need more people to work for them. So, in creating a new industry we must ensure that we provide people with the opportunity to garner the skills to work in that industry. That is a challenging problem, but it is one to which we are devoting a lot of time and attention, and we will continue to do so.

**John Park:** Thank you, minister. I may come back to the oil and gas issue in a moment. I am interested to know what work the Scottish Government is doing to address the physical requirements and skills needs of the future—either through the skills sub-group that you mentioned or more generally with industry.

During last week's debate on youth unemployment, we heard that 800 to 1,000 people leave the electrical contracting industry every year because of their age or because they move into other areas and so on. However, that industry takes on only 450 apprentices each year, so the starting point is a deficit that will impact on construction more widely and not necessarily just on renewables.

As I have highlighted before, there is also the employment situation in current projects. For example, despite a huge number of people looking for employment in the construction sector, we still have to import labour to work on a project such as the Tullis Russell biomass plant in Glenrothes because we do not have the required skills in Scotland.

What has the Scottish Government decided to do to ensure that we have people in the right positions and that Government interventions are correct so that the skills pipeline is stocked? I appreciate all the announcements that have just been made, but are there any plans for providing detail about what future requirements will be?

**Fergus Ewing:** That is a reasonable question. First, as I said in my introductory remarks, the renewables industry supports over 11,000 jobs in Scotland. Those involve people who, by definition, already have jobs and the skills and who are doing the work. It includes 3,223 working in the grid, 2,235 working in onshore wind and 521 working in wave and tidal. I think that those figures come from Scottish Renewables' analysis, and they show that a large number of people are already working in renewables. However, we anticipate that if they succeed—and, to an extent, the more

we succeed—the greater the challenge will be to recruit more. That is why I think that John Park's question is on the button and why we have announced the financial investment of £3.6 million.

I will briefly mention some other factors. First, we are working with SDS and the Scottish Further and Higher Education Funding Council to develop an approach to raise awareness of opportunities in the sector. Secondly, through the funding council we are supporting the recently established Scotland's Colleges energy skills partnership, which is looking at how colleges collaborate with each other to ensure that the best approach to providing skills is taken and that there is no unnecessary duplication—for example, ensuring that not every college offers a wind turbine technicians course. To do otherwise would be the wrong approach. It is sensible that the colleges are working together in that regard.

Lastly, John Robertson of Burntisland Fabrications Ltd, which is in John Park's part of Scotland, said in evidence to the committee:

"I find recruiting for the renewables sector easier than recruiting for the oil and gas sector. Renewables are in the papers every day and the kids are well aware of the opportunities that could come in the renewables sector."—*[Official Report, Economy, Energy and Tourism Committee, 28 March 2012; c 1269.]*

There is therefore a positive view of the renewables sector, but there should be more of a positive view of the oil and gas sector. It is to be hoped that that is changing, too. However, the younger generation think that renewables is a huge opportunity for them, as it is for the world, not to be too hyperbolic about it.

**John Park:** One of the obvious benefits of the renewables sector is not having to work three weeks on and two weeks off or two on and two off, as a lot of people in the oil and gas sector have to. Because they can work closer to home, the renewables sector is obviously more attractive to people with skills that are similar to those required for the oil and gas sector.

I want to say something about employment in the oil and gas sector, though. I think that we recognise that, whether people work offshore or work onshore in the supply chain, there has been a culture of people being employed through agencies and of self-employment. I think that we would admit that that has contributed to some of the skills shortages in what is now very much a global market, because individuals who can work in the North Sea can quite happily and easily go and work in other parts of the world.

**The Convener:** Can we have a question please?

**John Park:** I will get on to that, convener—thanks for the prod.

The nature of employment in the renewables sector will be important. Does the Scottish Government agree that in order to secure the future of the industry and to ensure that the renewables sector does not face the same skills shortages that the oil and gas sector is currently experiencing, we need to ensure that people are directly employed in the renewables sector and to recognise that the nature of that employment is very different from that in oil and gas?

**Fergus Ewing:** We want to see—and are seeing—young people get the opportunity to use their skills and to play a part in the renewables sector and ensure that they, like all other citizens, are able to do so with fair and reasonable conditions of employment, remuneration and job security.

In the very interesting debate that the committee had with the oil and gas sector, there was a suggestion that there might be a pull from oil and gas to renewables and that that might not be a good thing. Having visited many oil and gas companies, including, just a couple of weeks ago, Oceaneering in Rosyth and FMC Technologies, I point out that much of the work in the oil and gas sector has changed radically. I think that the potential to recruit more females into that and the renewables sector has been untapped and that a focus in that respect would be extremely valuable. Companies such as those I have mentioned are looking at that; indeed, when I visit companies I see a better gender mix—if I can put it that way—in the workplace. That can be only a good thing and it might be one way of meeting the challenge that, as far as I can recall, was encapsulated in one of your evidence sessions.

**Stuart McMillan:** As you know, minister, I have written to you about the supply chain and we will meet soon to discuss it.

The initial focus for the renewables sector will be the east coast of Scotland. That is only understandable, given the Crown Estate's leasing rounds and the £350,000 that the committee heard was the estimated cost per day of leasing vessels to take equipment out for installation. I believe that the supply chain is key to ensuring that all of Scotland can buy into and economically benefit from renewables; indeed, when a representative from Scottish Enterprise gave evidence a couple of weeks ago, I asked him what he and his organisation are actually doing to get the message out to the whole country and to get companies involved in the sector's supply chain—which, as I have suggested, has emerged as a key issue in evidence. In his not very convincing response, the witness said that the focus was on areas where manufacturing is happening, not on areas where turbines were not being manufactured at the moment. What instruction or guidance have you or

your department given to the likes of Scottish Enterprise and HIE to ensure that they are getting the message out to the whole of Scotland and all manufacturing companies that might get into renewables that anyone in Scotland can get into the sector?

**Fergus Ewing:** I will highlight some of the huge amount of work that is being done, which has been well recognised by the industry as exemplary. As Stuart McMillan suggested, some of that work is being carried out by Scottish Enterprise, HIE and Scottish Development International, which are constantly engaged in ensuring that any opportunities emerging in Scotland are, as far as possible, fully developed through the development of the local supply chain.

12:45

The witness from Clyde Blowers Capital who gave evidence some weeks ago outlined opportunities for making jackets, gearboxes and cabling. I deal with such things almost all the time. The industry takes a number of practical measures, which are, plainly, commercial arrangements above all else. The public sector's role is to facilitate, to provide funding that encourages activity that would not otherwise happen and to provide introductions, which occurs through arranging and attending exhibitions and introducing companies furth of Scotland that are choosing to invest in Scotland to companies that are in Scotland. That goes on all the time. As members would expect, the First Minister plays a role in bringing people together.

Many companies, such as SSE, have formed strategic alliances with groups of companies, which I think are in the public domain. At a recent meeting of the renewable energy sub-group, which I chair, Gamesa outlined some of its extremely encouraging plans to invest just up the road, in the port of Leith. Gamesa and other companies furth of Scotland that are investing in Scotland are actively seeking to engage with companies in Scotland.

The enterprise network has prepared a directory of the companies that are involved. Considerable efforts are being made to work with the oil and gas sector—with companies such as Technip, the Wood Group and Subsea 7, which are involved in or which plan to be more involved in renewables. There are trade organisations such as Energy North in the north of Scotland, of which Rhoda Grant will be aware, which is holding a conference on Friday this week—I have recorded a video contribution to that, because I cannot be there. Energy North brings together companies in the north of Scotland.

However, much more can be done. I was struck by what Keith Anderson said to construction companies and the construction sector. Many of the construction companies that are having a difficult time in Scotland and the UK could take advantage of opportunities in the renewables sector and perhaps most especially and soonest in the grid upgrade work, which is 7 billion quid of work. There is lots of work there. Keith Anderson made a plea to an audience that was composed entirely of companies in the construction sector to do more. He said, "Knock on our door—we want to work with you and use your civil engineering skills to deliver a different type of work."

Stuart McMillan is absolutely right—there is a lot more work to be done but, from my viewpoint, I am fortunate to see the successful work that has ensured that jobs have been created in Scotland. The major players that I mentioned—such as Gamesa, Mitsubishi and Samsung—are ready to engage increasingly with Scotland-based indigenous companies. That is a good thing. Such a process will—rightly—continue for the foreseeable future.

The debate is turning. When the committee decided to hold its inquiry, the main focus was on whether the targets are achievable. I have not heard anybody ask me about that. That question seems to have been answered—the answer is that they are achievable. The debate has moved on to how we ensure that, as John Park says, we benefit with good, long-term, secure and fruitful jobs that provide reasonable conditions and pay. I would welcome the committee's thoughts on what more we as a country might usefully do to succeed in developing the supply chain and in developing the jobs that emerge therefrom.

**Stuart McMillan:** Does a mechanism allow Government agencies to liaise directly with local authorities, chambers of commerce, local construction forums or any other local forums to get the message out there about the supply-chain opportunities? If that does not happen, could it happen?

**Fergus Ewing:** There is such a mechanism. To echo the evidence of a previous witness, I am the mechanism. Without being immodest, I say that because my role is to get out there. I have met about 10 chambers of commerce and four or five Federation of Small Businesses branches in the past two or three months. My job is to communicate, get the message across, listen to what businesses say and meet local government—we do that in places such as Dundee, where involvement is proactive. Developers rate Highland Council highly for much of the work that it has done to develop Nigg, the grid and the opportunities that members have

seen. I am the mechanism, but a few other mechanisms are also around.

**Stuart McMillan:** What other options might be available to you should it become apparent that the supply chain is not developing due to a lack of investment in infrastructure?

**Fergus Ewing:** The enterprise network certainly tends to deal with each major player by engaging with it in order to find out what its needs are and whether they can be met by companies in Scotland and, if so, introducing them to each other. There is a certain point at which Government should step back and let business handle the terms of the deal. It is for Government to ensure that companies that come to Scotland and are not familiar with the players, the capacity and what is available have those issues addressed. From my perspective, I think that that is being done fairly effectively. However, if members have any specific examples of where further progress could be made, my door is open to any serious suggestion about how we can improve our game.

**Angus MacDonald:** Given the time constraints, I will ask just two brief questions.

Unfortunately, there was no time to explore carbon capture and storage with Ed Davey earlier, so I am glad that you raised it in your opening remarks, minister. There is clearly potential for carbon capture and storage in Scotland. Could you expand on the prospects for Scotland with regard to CCS and the problems that are caused by the dithering and delay of the UK Government?

**Fergus Ewing:** We very much want to see the application of carbon capture and storage to gas and coal-fired power stations in Scotland and south of the border. We want that to happen because that would enable us to use fossil fuels while spectacularly reducing the amount of carbon that is produced in doing so. We also want that to happen because we have the capacity in Scotland to store the carbon, using our pipeline network and the depleted oil fields—in fact, I think that we have around a half of Europe's total estimated storage capacity. In addition to that, we have some of the world's leading experts in CCS technology. Last week, I was present at the launch of the Scottish carbon capture and storage partnership—the SCCS—which brings together some of the leading experts in the world. What we do not have is a project. We have a nascent industry that is itching to get started.

It would be wrong for me to talk about individual candidate projects in Scotland, as I may be involved in decisions in relation to planning, so I will decline the opportunity to do that. Suffice it to say that there are strong candidates in Scotland and that it is difficult to see how we will be able to

meet the EU targets on emissions reduction unless CCS becomes a reality.

I do not have time to go into it all today, but we are concerned that the EMR process must not neglect CCS. We believe that disguised subsidies to the nuclear industry should really be used to promote renewables and CCS.

**Angus MacDonald:** We can agree that, if the UK Government would concentrate on CCS instead of nuclear, we would possibly be in a better place.

It has come to the committee's attention that checking progress on renewable energy targets is difficult. At the start of our lengthy inquiry, all planning authorities were asked by the convener to supply up-to-date and accurate regional information on trends and consenting rates for all sizes of renewable energy targets. Why is there no central database showing progress towards renewable energy targets? Without readily available figures, how are we expected to scrutinise the progress?

**Fergus Ewing:** Data is extremely important, and the data that we have gives a degree of comfort. For example, figures that were published in March this year show that 2011 was a record year for renewable electricity generation in Scotland and that we appear to have comfortably met our interim target. Those provisional figures also showed that hydro and wind power surged to new highs—hydro was up by 63 per cent and wind power was up by 45 per cent. So statistics are available. I have not spent a great deal of time studying how sufficient or otherwise the statistics are, but I am happy to do that in more detail. Perhaps time does not permit us to go into the issue in the detail that it merits, so I will leave the issue there. Certain information is available that has assisted us in our policy planning. We always want statistics that are as accurate as possible.

**The Convener:** Thank you. We could follow up on that.

**Angus MacDonald:** I am sure that the committee would appreciate that, convener.

**The Convener:** I have a question about planning more generally, which we have not touched on, but which formed an important part of the evidence to the committee. We have heard evidence from local authority planning departments and from communities that they feel deluged with a flood of speculative applications, usually for onshore wind projects. Earlier this week, we heard that Fife Council has suggested that there should be a moratorium on onshore wind applications, which follows a similar call from Aberdeenshire Council a few weeks ago. I note that you and Derek Mackay have put out a letter

this morning trying to address some of the issues. Do you accept that this is all a bit of a mess?

**Fergus Ewing:** No—that is going a bit too far. Plainly, as your witnesses have said, planning is a difficult process. There must always be a balance between the interests of ensuring that development that is desirable in principle goes ahead and ensuring that the people who live where the development is to take place have a say about all aspects of it. It is not correct to say that the situation is a mess. It is true that there is considerable pressure in some areas of Scotland—you mentioned one—where there are a significant number of planning applications, particularly for smaller-scale wind turbines and other types of applications. I do not primarily deal with those matters—Mr Marchbank is here because he works for Derek Mackay who, as you know, deals with those matters.

I have been very pleased to respond to the events in local authorities that we have followed, the general debate as it continues and the evidence to the committee. We have acted fairly swiftly to take a number of steps. First, we want to improve the coverage and quality of spatial frameworks for onshore wind farms. We will require spatial frameworks to form part of the development plan. Secondly, we are taking a couple of steps to improve matters in relation to the particular pressure. We are updating the technical approaches to impacts from noise, carbon assessment, wind farm visualisation and wild land protection. Thirdly, because we recognise the strain on resources, we are considering what additional help we can bring to bear for planning authorities in which the need is greatest. Our assessment has concluded that funding of at least £300,000 should be made available from the Scottish Government for that purpose. Lastly, the consents and deployment unit is to hold seminars for local authorities in respect of the handling of the larger-scale applications. That will be extremely useful, because a number of practical things can be done to help the joint-working arrangement between national and local Government.

There are strains and pressures. We are aware of that and we have taken the actions that I have set out, which are modest but significant steps to make progress and to deal with the situation as we find it. Above all, we want to make progress and ensure that the planning process does not impede the achievement of the objectives. We are conscious of the charge that things are too slow and that there is inconsistency in some elements of what is asked of developers. That is not particularly good if it is true. We want the planning system to work in the best way possible.

I have tried to cover most of the measures that we have decided to take now rather than let the grass grow further, but I am not sure whether I have missed anything out. Perhaps Mr Marchbank can say whether I have covered more or less everything.

13:00

**Graham Marchbank (Scottish Government):** I simply add that some of the detail is being rolled out today with a group of development planners, including 10 authorities that do not have spatial frameworks for wind farms. I know that the Minister for Local Government and Planning will talk to the Convention of Scottish Local Authorities today about planning performance. One of the interesting consultations behind that is on the idea that there should be a new and higher fee for wind turbine applications so that, given the peak of applications that we are experiencing, cost recovery might be sorted out. On Monday, the planning minister will talk to the Scottish Renewables onshore wind conference about some of the detail behind that.

**The Convener:** There are other issues that I would like to pursue and other members want to ask supplementaries, but I am conscious that we are already over time, unless you want to stay for another half hour or so, minister.

**Fergus Ewing:** I have to be elsewhere—I should have left about a minute ago.

**The Convener:** In that case, perhaps we could pursue those other issues in writing.

I thank the minister and his officials for coming. The discussion has been extremely helpful.

## Work Programme

13:02

**The Convener:** We come to item 3. Rather than bring a set of papers to this meeting, particularly given the time constraints, we thought that we would arrange a business planning day in August. We used to call these things away days, but we are not allowed to have them away now, so it will be an away day here. Are members content that we do that and try to find a date that is mutually acceptable?

**Chic Brodie:** Not in August—I have holidays planned for August.

**The Convener:** The reality is that, whether we have it in July or August, members will have holidays planned. We have to try to find a date that best fits most members of the committee.

**John Wilson:** I suggest that the clerks e-mail members to find out about availability and, I hope, get a date that suits everyone for the business planning day.

**The Convener:** Are members content with that approach?

**Members** *indicated agreement.*

## Draft Budget Scrutiny 2013-14

13:03

**The Convener:** We come to item 4. At this stage, all that we need to agree is that we will appoint a budget adviser for the draft budget scrutiny exercise. This is not about identifying a candidate. In fact, it would be inappropriate to talk about potential candidates in public. Do members agree in principle that we will appoint a budget adviser?

**Members** *indicated agreement.*

13:03

*Meeting continued in private until 13:18.*



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