

# **ENTERPRISE AND LIFELONG LEARNING COMMITTEE**

Wednesday 6 March 2002  
*(Morning)*

Session 1

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## ENTERPRISE AND LIFELONG LEARNING COMMITTEE

† 10<sup>th</sup> Meeting 2002, Session 1

### CONVENER

\*Alex Neil (Central Scotland) (SNP)

### DEPUTY CONVENER

\*Miss Annabel Goldie (West of Scotland) (Con)

### COMMITTEE MEMBERS

\*Rhona Brankin (Midlothian) (Lab)  
\*Brian Fitzpatrick (Strathkelvin and Bearsden) (Lab)  
\*Mr Adam Ingram (South of Scotland) (SNP)  
\*Marilyn Livingstone (Kirkcaldy) (Lab)  
\*Mr Kenneth Macintosh (Eastwood) (Lab)  
\*David Mundell (South of Scotland) (Con)  
\*Tavish Scott (Shetland) (LD)  
\*Andrew Wilson (Central Scotland) (SNP)

\*attended

### WITNESSES

Euan Carmichael (Scottish Executive Development Department)  
Ross Finnie (Minister for Environment and Rural Development)  
Ben Maguire (Scottish Executive Enterprise and Lifelong Learning Department)  
Neal Rafferty (Scottish Executive Enterprise and Lifelong Learning Department)

### CLERK TO THE COMMITTEE

Simon Watkins

### SENIOR ASSISTANT CLERK

Judith Evans

### ASSISTANT CLERK

Jane Sutherland

### LOCATION

Committee Room 2

† 8<sup>th</sup> and 9<sup>th</sup> Meetings 2002, Session 1—held in private.



## Scottish Parliament

### Enterprise and Lifelong Learning Committee

Wednesday 6 March 2002

(Morning)

[THE CONVENER *opened the meeting at 10:03*]

**The Convener (Alex Neil):** We now have a committee member from every political party represented on the committee here so I feel that we can make a start. There is a rail strike today, which may have affected the time scale for people getting here, but we have to start the meeting regardless of whether everybody is here.

Given that this is the first public meeting of the committee since Elaine Thomson resigned as a committee member, I reiterate what we said at a private meeting of the committee. Elaine Thomson was one of the original members of the committee and the work that she did was extremely helpful. She made an enormous contribution and we want to place that on public record. She has been promoted to an MPA, which is a minister's personal assistant. Given that Elaine will be responsible for assisting Wendy Alexander, the minister whom we shadow, under the rules she is not allowed to serve on the committee and will be replaced by another Labour member, I hope sooner rather than later.

I welcome to the Scottish Parliament the delegation from Slovakia. We have two members of the Slovak Parliament with us this morning. They are here to see how we do things and I hope that we can have a return visit to see how they do things.

### Interests

**The Convener:** Item 1 is to ask Adam Ingram, a new member of the committee, to declare any interests, as this is the first public meeting of the committee that he has attended. Do you have any interests to declare, Adam?

**Mr Adam Ingram (South of Scotland) (SNP):** No, I will be boring and say that I am afraid that I have no interests to declare.

## Subordinate Legislation

### Renewables Obligation (Scotland) Order 2002 (Draft)

**The Convener:** We move to item 2, which is consideration of the draft Renewables Obligation (Scotland) Order 2002. I draw to the committee's attention the report from the Subordinate Legislation Committee, the comments of which we have to take into account in considering our attitude to the order.

I have had a discussion on how to proceed with Ross Finnie, the Minister for Environment and Rural Development, who is here this morning. We are going to divide the discussion into two. The first part will consist of Ross Finnie making brief introductory remarks and introducing his team. I will then open the meeting to questions by committee members. Once we have completed those, I will ask Ross Finnie to formally move the motion that the committee recommends that the order be agreed and there will be a debate. I remind members that they cannot ask the minister questions during the debate. They can only make points and it will be up to the minister to respond before we move to the recommendation.

Is that acceptable to everyone?

**Members indicated agreement.**

**The Convener:** I welcome Ross Finnie. This is the first time that he has appeared in front of the committee as minister. I will hand over to him to introduce the order and his team at the same time.

**The Minister for Environment and Rural Development (Ross Finnie):** Thank you, convener. On a morning such as this, I am grateful that transport is not one of the many responsibilities that I have.

I will start by introducing my team. Sitting on my right is Euan Carmichael, who is the assistant economist in environment and energy in the Scottish Executive development department. Sitting next to him is Ben Maguire, who is the head of the energy policy branch, and on my left is Neal Rafferty, who is also from the energy policy branch. I have with me the three people who are the most appropriate to the consideration of the statutory instrument.

I will begin by making a few brief remarks. I hope that those will put the order into context and explain in a simple and understandable way not necessarily the details of all the articles—and we may come to that in the course of questions—but what the articles are intended to achieve in general terms. I appreciate the fact that the order is in many ways complex and technical. Some of

the language is not easily understood, although I know that under Alex Neil's convenership, the committee will be up to speed and our presence will be barely required. I thought that I would get my retaliation in first.

As every member will know, renewables and renewable obligations are not entirely new. There has been a Scottish renewables obligation since 1994. That was the first attempt by a Government to select technologies that it wished to support and to invite tenders from developers. The two Scottish electricity companies are compensated for the extra costs of renewable electricity by means of the fossil fuel levy.

Scotland had almost anticipated all that. For 60 years Scotland had been in the vanguard of renewable energy with the development of the North of Scotland Hydro-Electricity Board, which was an immense boost to Scotland. However, we have moved on and members will be aware of recent reports that have highlighted an extraordinary potential within Scotland for developing renewables.

The introduction of the Renewables Obligation (Scotland) Order 2002 is very timely. The order is the result of extensive policy consultation, which illustrated the consensus that there needs to be a rapid, substantial and sustainable increase in renewables. The order sets suppliers a target of securing 10.4 per cent of their sales from eligible renewable sources by 2010.

Members will agree that it would be folly to implement the order without responding to some of the issues that emerged from the consultation process. Some of those changes have already taken place. We have revised national planning policy guideline 6, which deals specifically with renewable energy in the planning process. We have also revised planning advice note 45, which provides advice on specific renewables technologies.

In addition, we have commissioned a network study to assess the ability of Scotland's electricity infrastructure to cope with the anticipated upsurge in renewable generation. We are participating fully in the working group that has been set up to address network access issues for smaller renewable developments. That group is being led by the Department of Trade and Industry and the industry regulator, the Office of Gas and Electricity Markets—Ofgem.

Members should be aware that access to considerable moneys for renewables technologies is available within the UK framework. That is administered through the DTI. Scotland will continue to access considerable amounts, because of its place in the sector. We expect to play a prominent part in that.

The order applies to all licensed electricity suppliers that supply customers in Scotland. It requires them to obtain an increasing percentage of their sales from renewable energy sources. That percentage will rise from 3 per cent on 1 April this year to 10.4 per cent in 2010 and will remain at that level until 2027.

The buy-out mechanism will protect consumers from excessive costs. The maximum cost of the renewables obligation each year is limited to the level of the total obligation multiplied by the buy-out price. By 2010, the total value of the market for electricity from renewable sources will be more than £1.5 billion a year across Great Britain as a whole. About £1 billion of that is attributable to the price of renewable obligation certificates. The rest comes from the price of the electricity. The additional cost to British consumers will be around £780 million a year by 2010. Consumers in Scotland will meet about 10 per cent of those costs, in line with their share of total electricity consumption.

We estimate that that will result in an average increase in electricity prices, compared to 1999 levels, of around 4.5 per cent by 2010. That potential increase should be considered in the context of the fall in electricity prices over the past decade. For example, the average bill for standard credit customers fell by more than 25 per cent in that period. We anticipate further reductions in consumer prices when further market reforms are introduced in Scotland as a result of BETTA—the British electricity trading and transmission arrangements.

We believe that the investment is worth while and the cost to consumers is acceptable. The cost of the damage to the environment that the pursuit of existing policies would cause means that that investment will result in a net benefit for the people of Scotland.

Although the promotion of renewables in Scotland is a devolved matter, the DTI will introduce parallel arrangements in Westminster—identical obligations will be set for England and Wales. Ofgem will oversee the implementation of the obligations throughout the UK and will publish an annual report that will cover compliance by suppliers.

Ofgem will issue the Scottish renewable obligation certificates—or ROCs, as we call them—to generators in respect of their eligible generation. Suppliers will surrender those ROCs to demonstrate the extent to which they have met their obligation. ROCs will be tradeable throughout the UK.

If there is a shortage of ROCs, or prices are too high, suppliers can also meet their obligation by paying a buy-out price to Ofgem to make up the

shortfall. That is in article 7 of the order. Initially, the buy-out price is set at 3p per kilowatt-hour. It will rise in line with inflation. Effectively, that sets a ceiling on the cost of the obligation to consumers. The buy-out fees will be recycled to suppliers in proportion to the number of certificates that they surrender. In that way, suppliers will be encouraged to comply. The market will operate to balance supply and demand for renewables around the level that is set by the obligation. Prices will rise if the market expects a shortfall, which will encourage new capacity.

10:15

I will move on to who is eligible. As I said earlier, hydro plays an important part in Scotland's energy mix. The aim of the renewables obligation is to encourage the uptake of new renewable capacity. For that reason, existing hydro with a capacity in excess of 20 megawatts is excluded from the certification process. Existing hydro that is smaller than that will also be excluded, unless it has been refurbished to an acceptable standard since 1990. Very small hydro generation that has been in place since before 1990 and has never benefited from support from the public purse will be eligible without any need for refurbishment.

We recognised that without the promise of support for smaller hydro outputs, hydro might wither on the vine and become the cinderella renewable. We believe that those proposals are welcome and have wide support in the industry as a whole.

The order excludes electricity that is generated outside the United Kingdom. A high proportion of renewables generation in Europe is already subsidised. We do not intend to let such generators double-dip from the Scottish consumer's pockets. Along with the DTI, we will explore bilateral arrangements with other countries that are developing schemes that are similar to ours. That is likely to be a slow process, in spite of the commitment across Europe to internationally accepted certificates.

In line with the Scottish waste strategy, we have excluded the incineration of mixed waste, but we are boosting the development of advanced technologies such as pyrolysis and gasification. Those technologies, which have the potential to be more flexible and efficient and which tend to encourage the sorting of waste into separate streams, are eligible.

If it was otherwise eligible, the output from stations that were built under current and expired SRO contracts will be eligible under the obligation. We hope that ensuring that a significant volume of certificates is available in the market will result in a liquid ROC market from day one. The proceeds from the sale of ROCs for contracted SRO output

will be used to offset the cost to consumers of the original contracts through the fossil fuel levy. It seems likely that those arrangements will significantly reduce the levy in Scotland and might eliminate it altogether.

We have gone through much consultation with the industry, trying to get the detail right. We are confident that the order will enable Scotland to deliver its initial 18 per cent renewables target by 2010 and will contribute an additional reduction of two and a half million tonnes of carbon a year to help the UK to meet its Kyoto target. We hope that the renewables obligation will stimulate the development of a new and thriving industry in Scotland, foster innovation, bring new technologies such as wave energy to the market and provide a solid foundation for delivering further progress in the field of renewables.

**The Convener:** That was extremely helpful, minister. You provided a lot of useful information. I reiterate, for members who have just joined us, that this is the question-and-answer session prior to the formal debate on the order. Once we have finished the session, I will ask the minister to move the motion on the order. After that, we will have the formal debate, when no questions can be asked, other than debating points.

**Miss Annabel Goldie (West of Scotland) (Con):** In principle, I endorse what is being proposed. Without wearing my Enterprise and Lifelong Learning Committee hat, I want to raise a concern with you as the Minister for Environment and Rural Development. Many of the processes involved in this initiative are pioneering—they are innovative in nature. I am particularly conscious of issues to do with biomass projects, with specific reference to the process of pyrolysis. Given that much of the nature of those processes is uncharted, is it proposed that an environmental audit will be conducted of the renewable energy projects once they are up and running?

I disclose that I have been approached by constituents on the island of Arran. The Deputy Minister for Rural Development, Mr Wilson, is aware of the incident to which I refer. People are hugely concerned that no one is able to examine the proposed project in operation anywhere and that, therefore, no one is able to make an assessment of the effects on and consequences for the community. As I said, in principle I endorse the proposal, but I have genuine concerns about the untried nature of many of the processes that are involved. Does the Scottish Executive intend to keep a close eye on those developments, rather than blithely leaving the matter to the local authorities and their planning departments to resolve?

**Ross Finnie:** I thank Annabel Goldie for raising that interesting point. I followed her perfectly until

the last sentence. She questioned how the processes work, but the inference that I draw from her last sentence is that she doubts the efficacy of the local authority in carrying out its duties in relation to planning permission. I am familiar with the case to which she referred, which is germane. The local authority concerned—North Ayrshire Council—has, in granting planning permission, rightly imposed severe conditions in relation to emissions. In addition to specifying the nature and quantum of the emissions, it has placed an obligation on the company to monitor those emissions.

The Executive's position is that we welcome the fact that the proper environmental considerations were taken into account before the project was approved. The local authority cannot conduct that monitoring process on its own and I would be disappointed if it were to try to do so without having regard to the expertise that might be available within the Scottish Environment Protection Agency.

I understand Annabel Goldie's point. The planning permission is well written and the conditions that are attached to it are no more than any member of the committee would expect. That is how we expect any application for planning permission to be dealt with. It is at that stage that it is appropriate to call for an environmental audit. Such an audit would require SEPA and others to give evidence to a local authority on the efficacy or otherwise of the equipment that is being installed.

**The Convener:** I ask members to keep the discussion general. I do not want to get into a discussion about a specific planning issue in a specific area. We need to address general policy issues.

**Rhona Brankin (Midlothian) (Lab):** On a point of order, convener. When Annabel Goldie raised the issue, she said that she was doing so without her enterprise and lifelong learning hat on. If that is so, the issue should not be raised in the Enterprise and Lifelong Learning Committee. Could you clarify the position?

**The Convener:** Early in his remarks, the minister referred to the process, so I think that Annabel Goldie raised a fair question. However, I stress that this is the Enterprise and Lifelong Learning Committee.

**Miss Goldie:** Let me explain my position. In gremio of the order are the technical and environmental terms that the minister was kind enough to explain—it was helpful of him to expand on them in his opening address. I wish to make clear, minister, that I am in no way impugning North Ayrshire Council, which I think has carried out the process meticulously.

Many of the processes that we are discussing

are innovative. My main point was that, as we have a devolved Parliament and a Scottish Executive, it is important that we maintain an overview of how those processes are implemented. It is difficult to have such an overview if local authorities are left to consult one another or SEPA is left to be the co-ordinating agency. I was anxious to confirm—

**Ross Finnie:** I think that Annabel Goldie will find that, without exception, local authorities have recourse to SEPA, which is the national organisation. SEPA has access to those developments and local authorities have access to SEPA's experience of both good and—sadly—bad practice. That is the comfort that I offer her.

**Tavish Scott (Shetland) (LD):** I will ask two general questions and two specific questions. On the basis of the briefings that I have read, wind power is the form of renewable energy that will create more opportunities more quickly, if I may put it that way. Is there a danger that that form of renewable energy will become predominant? How will the order ensure that the new and developing forms of renewable energy, such as tidal and wave energy, will be able to compete and to develop advantages for the Scottish economy, not least in manufacturing and employment?

My second general question is on the climate change levy. I understand that electricity that is generated from renewables is exempt from the climate change levy. Therefore, it is in the interests of suppliers to provide as much electricity as possible from renewable sources. Has the minister assessed what that means for the drive that is being made towards meeting the renewables target?

**Ross Finnie:** I will allow one of my officials to answer those points. However, there is no doubt that the Scottish renewables obligation drove suppliers to find the cheap option. The Renewables Obligation (Scotland) Order 2002 is part of a wider, sustainable—I chose that word carefully—energy policy. I am encouraged by the response of the operators—that is not always the case—who are conscious of the fact that having a raft of wind stations will not give them the base load that they require, because other factors are involved. When the initial renewables targets of 3 per cent, 4 per cent or 5 per cent were set, the energy companies tended to go for the cheapest option at the bottom end, excluding hydro, which accounts for 11 per cent. Now that the companies have to reach targets of 18 per cent and beyond, they must look for a balanced supply of energy. That is an important general point, but I will ask Ben Maguire or Neal Rafferty to comment further.

There are two elements to the climate change levy. First, companies will be penalised if they are not awarded a number of the ROCs. Secondly,



there is an opportunity to get out of paying the levy. The order is designed to drive the companies towards meeting the renewables targets. The economist among my officials might have produced a general model, but we are reasonably satisfied with the situation. The order has been published and we are already encouraged, because what we thought would happen has happened. Interest in Scotland has increased and we hope that those two elements will drive that interest. The purpose of the order is to drive forward the existing targets. Ben Maguire will address the rather more technical question.

**Ben Maguire (Scottish Executive Enterprise and Lifelong Learning Department):** The rationale behind the renewables obligation is to reduce the amount of Government direction in the industry. Unlike the previous Scottish renewables obligation, under which the Government chose which technologies should be supported, the new obligation that is to be introduced by the order leaves the choice of technologies to the market.

We recognise that, for a number of reasons, it would be inappropriate to put all our eggs in one basket. Therefore, a raft of measures has been put together to support those technologies that are not competitive in the market, such as wave power and tidal power. Support for research and development is the responsibility of the DTI, which has made available a considerable amount of additional money for those technologies. In addition, the DTI recently announced that it is supporting two projects, both of which are being undertaken by the Inverness-based company Wavegen. Capital grants will be available to help wave and tidal power projects to overcome the difference between their costs and the costs of the more established technologies. Finally, the Executive is supporting the work that is being done to develop a marine energy test centre in Orkney, which we hope will provide a considerable push for that industry.

10:30

**Tavish Scott:** I also have two specific questions. The first is on the omission from the order of energy from biodegradable sources that could be counted as renewable. My understanding is that the European Commission includes that—I presume that there has been pressure from other member states. My concern about imposing a blanket ruling is that there are parts of Scotland where the waste stream is not of adequate size to be split economically. Were those calculations made in relation to the decision that the minister mentioned earlier?

My second question is about Fair Isle, in the context of the Scottish renewables obligation certificates. Fair Isle has two wind turbines, which have provided power commercially for 14 years on

what is a small island—70 people live on it. I appreciate that you will probably not be able to answer this question today, but is there any reason, in principle, why the island should not apply for a ROC and then trade it in order to invest the return in its system? The system is a commercial one—the island spent £350,000 in 1998 on upgrading and reinvesting. It strikes me that, if that were possible, it would encourage small-scale schemes around Scotland. Such schemes may not be linked into the grid, for the reasons that the minister mentioned in relation to the grid study. There is a good opportunity to enhance and encourage such schemes, which could help to achieve the target that we are all aiming for.

**Ben Maguire:** I will answer the Fair Isle question first, because I think that I know the answer to that one.

**The Convener:** That is fair.

**Ben Maguire:** The renewables obligation certificates will be issued to generators that produce electricity that goes into the public supply system. The electricity does not need to go into the national grid, so renewable energy generated in, for example, Orkney and Shetland, which are not connected to the grid, will be eligible for certificates provided that the electricity goes into the public supply system. I hope that that answers the question.

**Tavish Scott:** So that is a yes.

**Ben Maguire:** If the electricity from the two wind turbines on Fair Isle is supplied to the public, the answer to your question is yes.

**Ross Finnie:** Tavish Scott also asked a question about waste. If the waste is unseparated and is dealt with in a straight, conventional way, the answer to the question is no. However, if members go through the order, they will find that if, in dealing with that unseparated waste, a scheme embraces gasification or pyrolysis technologies, that will bring it within the ambit of the order. If the scheme does not embrace those technologies, the answer to Tavish Scott's question is no.

**Andrew Wilson (Central Scotland) (SNP):** I am sure that my questions are based on ignorance, but I will ask them anyway. Why do we have an 18 per cent renewables target in Scotland when the UK target is 10 per cent?

**Ross Finnie:** That recognises the fact that we start from a different base. About 11 per cent of our target is accounted for by existing hydro power.

**Andrew Wilson:** In other words, the UK overall renewables target will include the Scottish 18 per cent target.

**Ross Finnie:** Yes.

**Andrew Wilson:** There will not be a separate 10 per cent for RUK—the rest of the UK.

**Ross Finnie:** The UK target includes the Scottish one.

**Andrew Wilson:** So there is a disproportionate contribution from Scotland.

**Ross Finnie:** Indeed.

**Andrew Wilson:** That raises the question for the committee of the net impact on the Scottish economy. It strikes me again, reading the papers that we have, that the end of the food chain is the supplier of the renewable energy equipment and the beginning of the food chain is the consumer who is paying the increased prices for electricity supply. To the extent to which the end of the food chain is an indigenous Scottish company, the net impact on the Scottish economy is not negative, but to the extent to which the end of the food chain is external, the impact on the Scottish economy is negative, and disproportionately so. What analysis of that have you done?

**Ross Finnie:** Why is that negative?

**Andrew Wilson:** It is negative because the transfer of cash will go from the Scottish consumer to the provider of equipment for the generation of renewable energy. For example, the provider might be a wind turbine manufacturer from Denmark and it will receive the cash from the Scottish consumer. If the provider is domestic—as in the example that Tavish Scott gave—the net impact will be a transfer of cash from a Scottish consumer to a Scottish company.

**Ross Finnie:** We are talking about a policy issue rather than an order issue. On the policy issue, we are clear that, now that we have reports that indicate the potential for renewable energy within Scotland, we still have three major issues to consider, which I referred to in the report “Scotland’s Renewable Resource”. We have called for a report on what is necessary—that is in private hands, of course—within Scotland to give us access to the grid and what problems might arise in the grid. We have to deal with the issue of visual intrusion in the environment, particularly with wind power. There is also the question of stimulating effort.

The thrust of the Scottish Executive energy division—and where the Government comes into play—is to use the fact that the renewables obligation certificates allow us to have dialogue with the energy producers and potential energy producers. We are trying to line up the ducks in stimulating basic investment in Scotland at that end of the chain. That is a policy issue on which the Scottish Executive is quite clear.

**Andrew Wilson:** Can you see the point that I am making? We have already reached our target for our contribution to the UK target. We have been asked to increase our contribution disproportionately so that the rest of the UK does not have to meet the 10 per cent renewables target. If, as looks likely from what I have read, the investment goes into wind power, nothing in the system will focus the new investment that the Executive desires into newer technological development, which might benefit indigenous companies. Tavish Scott’s point on that was well made.

**Ross Finnie:** With respect, I think that the answer that Ben Maguire gave on the availability of moneys for research and development and capital grants dealt with that. That approach is directed and relevant, particularly to those involved in wave energy. The market is in a sense more interested in where the greatest potential is. That is one of our great advantages. The report “Scotland’s Renewable Resource” indicated that the potential for wind and wave power is more concentrated in Scotland than in the rest of the UK. The policy objective is therefore to harness both those interests together.

**Andrew Wilson:** Finally, would it be possible for the committee to have a short note analysing the net economic impact of the different scenarios of the supply of equipment—whether from external sources or from indigenous companies? That would be especially helpful given the Executive’s policy emphasis on regional selective assistance and other economic subsidies.

**Ross Finnie:** Do you accept that Vestas Wind Systems is an indigenous company?

**Andrew Wilson:** I would count any company that has its headquarters here as indigenous.

**Ross Finnie:** Are you referring to companies that have their headquarters here or those that manufacture here?

**Andrew Wilson:** If manufacturing takes place here, that is fine.

**Ross Finnie:** It is important not to lose sight of that. The Scottish Executive energy division stimulated investment to deal with the kind of problem to which you are alluding. That investment is a small start, but the purpose of expending a considerable inducement was to stimulate domestic production of renewables technology. That is our stance and that is where we wish to end up.

**Andrew Wilson:** With respect, minister, I am not seeking to be unhelpful; I was thinking in terms of selling the policy to the wider public. If Scotland has to contribute disproportionately, it would be helpful to the Scottish Executive and the rest of us

to be able to show that the economic benefits will be significant.

**Ross Finnie:** I am not sure that we are contributing disproportionately in terms of costs.

**Ben Maguire:** That is not the case.

**Ross Finnie:** We might be generating a greater amount of renewable energy. Our energy companies might be benefiting hugely from having sold more renewables throughout the United Kingdom. However, the cost to us is not disproportionate, as I understand it.

**Ben Maguire:** The obligation has been set in such a way that the Scottish contribution to the overall UK target represents an increase on our existing renewables generation. It is only that increase that will be a cost under the obligation. The existing renewables generation in Scotland does not qualify for renewables obligation certificates. The 5 per cent increase in Scotland is equivalent to the 5 per cent increase in England and Wales.

**Mr Kenneth Macintosh (Eastwood) (Lab):** I have two points for clarification. One is on the buy-out fund. If my understanding is right, one buy-out fund will apply in Scotland and a separate buy-out fund will apply in England and Wales. Is it the case that you can identify and treat Scottish suppliers as a discrete and integral market? Is there a distortion from having two separate funds, even though some suppliers might operate across the border? Can you identify the suppliers and share the benefits between them in a fair manner?

**Euan Carmichael (Scottish Executive Development Department):** The buy-out fund is intended to equilibrate the market so that the price remains the same. There is a reason for having separate funds for Scotland and for England and Wales. The suppliers have a 10.4 per cent sales target for energy that comes from renewable generation, which they prove through the ROCs. If they meet only half of that target, for example, they have to pay a buy-out price of 3 pence per kilowatt-hour.

Imagine if Scotland had 100 per cent compliance with that and England had only 50 per cent compliance. Every unit of buy-out goes into a fund that is redistributed among the suppliers that present the ROCs—that is called recycling. If England had 50 per cent compliance, a ROC would be worth more there because a supplier would receive money from the fund. If there is 100 per cent compliance in Scotland, there would be no fund and the ROC would be worth only the 3 pence per kilowatt-hour.

The market will determine a set price for ROCs and they will be worth the same in Scotland as they are in England and Wales. That means that compliance should be proportionately the same.

**Mr Macintosh:** I followed that all the way up to the end.

**The Convener:** That is more than the rest of us did.

**Mr Macintosh:** I understand the reason for having two separate markets. Scottish suppliers would otherwise be discriminated against. However, I am trying to work out whether separating the two markets builds in a distortion. That is resolvable as long as you can always identify the Scottish supply market and treat it as one market.

If we are net exporters of electricity, which I believe that we are, that affects only electricity generators—I do not think that that affects suppliers. However, if that did affect suppliers, I can see how there might be distortions. It is a complex issue to get my head around, but I am assuming that you can identify entirely Scottish suppliers. For example, a company that operates as a supplier in England and Wales and Scotland would be able to separate its supply in Scotland from its supply in England and Wales and treat that as part of the Scottish market. Have I helped matters?

**The Convener:** Remember that we have to leave aside time for the debate, so we need to keep questions and answers succinct.

**Ben Maguire:** I will answer Mr Macintosh. There is a distinct and identifiable Scottish supply market. The obligation will be on companies licensed in Scotland as suppliers. Electricity that is exported from Scotland to England through the interconnector becomes the responsibility of suppliers in England and Wales and becomes their obligation. There is therefore no confusion between generation and supply.

**Mr Macintosh:** Therefore the fund will be distributed fairly.

I think that I understood Euan Carmichael's remarks, but I will read them in the *Official Report* of the meeting to make sure.

It has been brought to my attention and to that of other members that the obligation focuses mainly on large-scale developments in the industry and does not do as much as we might wish to encourage small-scale—especially community-scale—development of wind power. Given that there is a huge amount of interest in small-scale developments, is there anything in the order that could be helpful?

10:45

**Neal Rafferty (Scottish Executive Enterprise and Lifelong Learning Department):** We find, daily, that there is tremendous interest throughout the country in setting up small-scale

developments, which are helpful in many ways. For example, they help to regenerate rural areas and to spread awareness of the benefits of renewable energy and of the various types of technology. We have started to speak to various partners, including the enterprise networks and the Energy Saving Trust Scotland, about how we might put in place measures to support small-scale developments. We are proceeding with those discussions urgently and we hope to have something in place in the next few months. I hope that that answers the question.

**David Mundell (South of Scotland) (Con):** I want to ask about the reality of some of the proposals. The minister mentioned the need to get ducks in a row. I have had correspondence with him about the role of the Ministry of Defence and its attitude to wind farms. In theory, large parts of Scotland could be used for wind farms, but if the Ministry of Defence objects—as it does in relation to its tactical training areas—wind farms cannot be built. What is the minister doing to get the ducks in a row on that?

**Ross Finnie:** Executive officials are in discussions—that is the technical term—with the Ministry of Defence and I have a meeting lined up with a minister from that department. David Mundell is right that the issue is important; it concerns a potential impediment to progress. We take the matter seriously and we have engaged with the Ministry of Defence. The matter will not be resolved in a single meeting, but we must elevate the debate and impress on that department the importance of the domestic issues that are at stake. I am not saying that the MOD will change its policy, but it must recognise the importance to the economy and to the environment of renewable energy. The UK Government recognises that importance, but the Scottish Executive places a particular emphasis on it. We have set up meetings to address the issue.

**David Mundell:** My next question is on the benefit to communities of renewable energy developments. Projects such as wind farms are located in relatively remote areas and the community receives little or no benefit from the development. People sign up to a general commitment to renewable energy, but such developments directly employ only a few people. During the planning process, it is difficult to sell—if I may use that term—the idea that a wind farm should be located in an area because the community will see it, but will not benefit directly. What is the minister's thinking on that? How can we give financial benefit to communities that respond positively to renewable energy developments?

**Ross Finnie:** Companies that exhibit an interest in manufacturing various elements of the equipment that is required for an expansion of

renewables generally state that there is no need for the sites to be located in the central belt, which is the traditional location for manufacturing. A good example of that is the decision by Vestas Wind Systems to locate near Machrihanish. We cannot be prescriptive. We can only demonstrate that investment can be made in the many areas of Scotland that are close to locations for the expansion of renewable technology.

I appreciate the planning difficulty, but it is amazing how opinions on that vary. A survey that was published in a magazine indicated that the closer that a person lived to a wind farm the less obtrusive they found it.

**Brian Fitzpatrick (Strathkelvin and Bearsden) (Lab):** Even if they live at the bottom of a wind farm?

**Ross Finnie:** That was my immediate thought when I read the article, but I did not conduct the poll.

We cannot be prescriptive about that, but the general policy direction in which Scottish Enterprise and others are moving is to recognise that the order could have great potential for job creation in rural and remote areas. We are cognisant with that and will do everything that we can to identify localities that would be suitable for that purpose.

**David Mundell:** What is the relationship between renewables and the nuclear industry in Scotland? Are renewables a substitute for nuclear power or is the relationship a question of working together? In a recent letter to me about the future of the Chapelcross power station, Helen Liddell said that she envisaged that nuclear and renewable energy would work together. Is that how you envisage the future, or do you envisage one ultimately being substituted for the other?

**Ross Finnie:** The Scottish Executive's submission to the recently-published United Kingdom energy review was clear about our need for a far clearer handle on the disposal of radioactive waste and that we need to see the outcome of the recent investigation into that. It is becoming increasingly difficult to justify sustainable, progressive energy policies if we have not worked out the sustainability of nuclear waste disposal.

I have a slight word of caution to anyone who thinks that Scotland could switch off nuclear power at the drop of a hat. We must acknowledge the position: 53 per cent of our total energy generation is provided by nuclear power, although domestic consumption of nuclear energy is not necessarily 53 per cent. As we progress by means of renewables—as we develop wind power and, in particular, wave power—the trick will be to develop sufficient critical mass to provide us with a base

load of electricity. Those of us with a strong environmental feeling would hope very much that that is how the situation will develop, but at the moment we must simply build up far more renewable energy, which, by definition, is more environmentally sustainable.

The argument on nuclear energy is complex, but the Executive is clear that we need to see the outcome of the UK nuclear waste report before we can sanction any expansion of the nuclear capacity in Scotland.

**The Convener:** You mentioned in your introduction that there is a price to be paid for renewable energy. I think that you mentioned a projected 4.5 per cent increase in electricity prices. I presume that that increase is spread over the initial period of the obligation.

**Ross Finnie:** It is. It is spread over the initial nine-year period.

**The Convener:** The increase does not sound much, but there has always been concern that any increase in electricity prices disproportionately affects those on lower incomes. Are you taking any measures to ensure that, if that estimate proves to be too low, those in low-income groups do not suffer disproportionately?

**Ross Finnie:** When we were drafting the order, that matter was in our minds. The 4.4 per cent increase is spread over the initial nine-year period of the obligation. In real terms, it is not too disproportionate. The targets in the order fit with the uniform price structure for the whole UK so as not to disadvantage the domestic consumer.

It is possible for the Scottish Executive to set higher renewables targets for companies. However, it would be much trickier to bring those within the renewables obligation, as that would involve imposing a cost. We will be constrained to have high regard to the impact of targets on the domestic consumer. We will always want to draw a distinction between the renewables obligation and setting higher targets outside it, aimed at exploiting Scotland's potential for driving up the use of renewables for environmental reasons.

In future we may want to present the committee with amendments to the targets. At the moment we are satisfied that a 4.4 per cent increase in electricity bills over nine years is not an undue imposition. However, we are cognisant of the point that you make.

**Rhona Brankin:** We have talked about the impact that the obligation may have on communities. I welcome the work that is being done with rural communities and the importance that is attached to the order's potential for boosting rural development and development more generally. Research that was presented to the

Scottish Executive recently demonstrated that Scotland has huge potential for renewables. Do you agree that the renewables obligation should not affect adversely the local economy in areas that benefit greatly from types of tourism such as wildlife tourism, and that it is possible to develop renewable sources to meet virtually all of Scotland's needs without impacting on currently designated areas?

**Ross Finnie:** I agree totally with what Rhona Brankin has said. There are different types of constraints, some of which are difficult to get one's head round—David Mundell mentioned the MOD. There are also economic constraints; we need, with the owners of the grid, to devise ways of gaining access. Finally, there are natural heritage and environmental considerations. The compilers of the report—which spoke of millions of gigawatts—indicated that we could achieve our targets and more by using a relatively small amount of the area that has been identified. We could not override natural heritage considerations to drive forward the renewables strategy.

**Rhona Brankin:** I understand that it will be possible to meet Scotland's electricity needs without impacting on any currently designated areas.

**Ross Finnie:** When I used the word "override", I meant that we could not impinge on designated areas.

I move,

That the Enterprise and Lifelong Learning Committee recommends that the draft Renewables Obligation (Scotland) Order be approved.

I have practised moving motions with Euan Robson, but I did not quite manage his half-crouched position.

**The Convener:** Do you wish to add anything to the comments that you have made?

**Ross Finnie:** No. I am happy to respond at the end of the debate if members raise other issues.

**David Mundell:** It is important to underline the points that have been made about the nuclear industry. I support continuing development of nuclear energy in Scotland, although I accept that not all members of the committee or the Parliament share that view. I am happy to support the renewables obligation, because I do not believe that there is a contradiction between supporting continued nuclear development and signing up to the renewables obligation.

There is considerable scope in Scotland for much greater working together by the renewables industry—if we can use that expression—and the nuclear industry, because there is considerable expertise in the nuclear industry on power generation. At a UK level it is recognised that

there needs to be a transfer of expertise into the renewables industry.

11:00

Secondly, while I welcome the sentiments of the order, it must never be forgotten how difficult it can be to persuade members of the public—even those who say that they are in favour of renewable energy—to agree to the siting of renewable energy activity in the vicinity of their own homes and communities. More has to be done to identify sites that are suitable and unlikely to face significant objection, and to persuade rural areas of the wider benefits.

I accept Rhona Brankin's point that power generation by wind and many other methods will not necessarily have an adverse effect on tourism and other activities; indeed, such generation could have positive effects. I am interested in the minister's suggestion that if people move closer to wind farm developments they will find them less obtrusive. I understand what is being said, and I do not want to be facetious about it, but we must recognise the difficulties and the fact that a significant selling exercise has to be undertaken.

Finally, in relation to economic development, we have to step back and draw on specific examples, such as Chapelcross nuclear power station. People see that 450 people are employed there in well-paid jobs that contribute economically to the community. Although the power station intrudes on the skyline, people understand the economic benefit that it brings to the area. It is much more difficult for people to understand the economic and general benefits that a wind farm that employs one person to ensure that it is functioning properly brings to the community. There is a big job to be done.

**Tavish Scott:** Renewables are an important issue, which affects future generations and not just this generation. There is always a danger when discussing renewables that this generation tries to have it both ways—in a sense it is the nature of the beast—in that, as the convener said, we demand low power prices. There may be gasps about a 4.4 per cent rise in costs over nine years, yet we have finite fossil fuel resources and finite resources in other areas, so we have to drive forward renewables. I hope that this order is the beginning of a greater move towards renewables.

To some extent, the point about nuclear installations is made by Dounreay, which will take 60 years, or perhaps longer, to decommission. It will be a centre of excellence, and the expertise that will be gained by the men and women who work there could be used worldwide. In addition, 60 years provides a long time in which to reconfigure the local economy. Local economic effects could be dealt with over the long periods of

time that are being considered.

The issue is how we build critical mass behind renewables and drive up the targets for the amount of power that we generate from renewable sources. That must involve more than just wind power, because wave and tidal power is the future. The methods need to be cost effective. We need to use the DTI's resources and other aspects of Government in a joined-up way to achieve that. Tidal power and wave power have a great advantage over wind power. The minister might be interested in the fact that, even in Shetland, the wind stops now and again. Tidal power never stops.

**David Mundell:** I hope that the wind stops for my visit.

**Tavish Scott:** I hope that it stops especially for your visit in June. Tidal power has a great advantage.

I hope that we can build renewable energy manufacturing businesses in Scotland that can provide jobs. David Mundell's concerns relating to one part of Scotland are true in respect of all Scotland. We can build such businesses, which can mean well-paid jobs for people throughout the country, and we will meet increasingly tough targets—I hope—on the power that is produced from renewables.

**Marilyn Livingstone (Kirkcaldy) (Lab):** I support Tavish Scott's sentiments, but we must not forget the order's effect on emissions reduction and the environment. We should be positive. There is a positive message to sell and I am sure that it will be taken on board. People are concerned about emissions reduction and the environment and the order will have a positive effect.

**Mr Ingram:** I welcome the order and look forward to renewables replacing nuclear and fossil-fuel generating capacity. From material that the Scottish Parliament information centre and others have produced, we can look forward to having around 50 per cent renewable energy by the middle of the century. Scotland has a huge potential to be a world leader in the technology and in piloting new technologies. Just as Aberdeen has become the oil capital of Europe, I would like Scotland to become the renewable technologies capital of Europe. I am not entirely sure that the order assists that, as I was concerned to hear remarks about support for indigenous Scottish companies coming through the DTI rather than the Scottish Executive. I would like the minister to clarify that in his closing remarks. However, in so far as the order moves in the direction I have described, I support it.

**Rhona Brankin:** I welcome the order, which provides a tremendous opportunity for the Scottish

economy and will deliver on environmental outcomes. In the future, the committee may consider how increased research and development in Scottish universities can be stimulated and discuss that with the Minister for Enterprise, Transport and Lifelong Learning. We need to take advantage of research and development opportunities.

**The Convener:** Ken Macintosh has a question.

**Mr Macintosh:** Thank you, minister.

**The Convener:** I am the convener, not the minister, although the election is only a year away.

**Mr Macintosh:** Let us get back to earth. I add my voice to the general welcome that members of the committee have given to the order. In particular, I welcome the minister's comments about measures that are forthcoming in the next few months that will build on the obvious backing among small groups and community groups for smaller-scale support for renewable energy sources. I echo David Mundell's point that we should not take the order for granted but should build on it.

When I was young, or rather, when I was a school pupil—I am still young—

**Ross Finnie:** We thought that the first attempt was quite right.

**Mr Macintosh:** When I was a school pupil, I visited Cruachan power station. The visit has stayed with me all my life. The support for hydro-electric power in Scotland is strong, although, when it was introduced, it was possibly controversial in some areas. There can be similar support for wind power.

Whitelees wind farm, which is in my constituency, is being developed by Scottish Power and will be the biggest in the country, I believe. There are plans for a visitor centre, which will be of enormous benefit and interest to local pupils. Such an initiative should be supported and welcomed. Further developments along those lines would be warmly welcomed and supported.

**Miss Goldie:** While I endorse the principles of the order and the comments made by David Mundell, the other side of the coin relates to the sensible use of energy. I watched a Scottish Executive-produced television advert on the subject that featured a woman, a tap and a kettle. I took a great interest in the advert as that is about the extent of my culinary skills. However, I was not quite clear about what the underlying message was. I merely wish to observe that, although the matter that we are discussing is extremely important, the continuing education of people in Scotland on the sensible use of energy is vital. I hope that the Executive will address its attention to that.

**The Convener:** I will exercise my right as a member to say a word or two.

I disagree with David Mundell. All the forecasts show that, if we make maximum use of renewable energy, we will not need to have nuclear power, even in 30 years' time, when the supposed energy gap will occur.

Minister, would you like to sum up?

**Ross Finnie:** I want to emphasise the point that Marilyn Livingstone and Tavish Scott made. The starting point for the matter that we are discussing is the environment and the need for us to reduce radically the amount of CO<sub>2</sub> emissions that we produce. The question is one of finding a sustainable way to produce energy that does not continue to pollute the atmosphere.

It is in that context that the perceived increase in energy costs must be seen. There might be a 4.5 per cent increase in one's electricity bill over nine years, but we must think of the cost to future generations if we do not take seriously the need to reduce CO<sub>2</sub> emissions.

I have made clear the Executive's position on the nuclear issue and will not enter into that debate.

There is a question of the public acceptability of what we are trying to do. The idea of renewable energy might take a bit of selling, but we are selling it on the ground that we are making a serious contribution to reducing CO<sub>2</sub> emissions. Of course, we will always have the not-in-my-backyard problem, but there is a great gain to be secured.

Rhona Brankin made the point that our actions must be consistent with other environmental objectives. We must not intrude on specially designated areas or create a welter of intrusions throughout the countryside. As Annabel Goldie said earlier, we must not have installations that give rise to other problems.

Annabel Goldie also referred to the Executive's energy-use reduction campaign, "do a little—change a lot". Members will be encouraged to know that even the First Minister has been persuaded to close the door of his fridge, apparently. He admitted that to us in a speech the other day and we regard it as a bit of a success. Perhaps members can tell me after the meeting whether they still fill the full kettle to make one cup of tea. The campaign is a serious one that is designed to reduce energy consumption.

I have tried to explain the technical matters to you. The tradeability of the ROCs will allow energy companies a reduction in their climate-change levy and ensure that they meet their obligations in terms of the number of tradeable certificates. That will help us to increase the amount of renewable

energy that we use and will result in a net benefit not just to the energy industry but to the Scottish economy in terms of investment and research and development. I assure Adam Ingram that, although some relevant matters are reserved to Westminster, the energy division within Scottish Enterprise will drive the scheme forward and will not allow the DTI to sit on any money that we could usefully use.

I hope that the order commends itself to the committee. Passing this order is the simple part of the process; the difficult part is getting all the ducks in a row and ensuring that all the benefits—in terms of the environment, energy and the economy—come to Scotland. The Executive is committed to ensuring that.

**The Convener:** The question is, that the Enterprise and Lifelong Learning Committee recommends that the draft Renewables Obligation (Scotland) Order be approved.

*Motion agreed to.*

That the Enterprise and Lifelong Learning Committee recommends that the draft Renewables Obligation (Scotland) Order be approved.

## New Economy

**The Convener:** Item 3 concerns the report on the inquiry into the impact of the new economy, which we produced last year. We have to decide whether that report should be submitted to the European Commission's open consultation on the e-economy. Do we agree to do that?

**Members indicated agreement.**

**The Convener:** We will now move into private session to consider the appointment of an adviser for this committee's budget process. I mention to members that, at a later stage, we will have assistance from Douglas Baird, who is responsible for budgets and finance in the Scottish Executive enterprise and lifelong learning department.

11:15

*Meeting continued in private until 11:25.*



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