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Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 11 March 2015

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE
8th Meeting 2015, Session 4

CONVENER

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

DEPUTY CONVENER

Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Chic Brodie (South Scotland) (SNP)
*Patrick Harvie (Glasgow) (Green)
*Johann Lamont (Glasgow Pollok) (Lab)
*Richard Lyle (Central Scotland) (SNP)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Lewis Macdonald (North East Scotland) (Lab)
*Joan McAlpine (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Councillor Tom Adams (Fife Council)
Chris Boyland (Scottish Government)
Mike Calviou (National Grid)
Neil Clitheroe (Scottish Power)
Bruce Crawford (Stirling) (SNP) (Committee Substitute)
Martin Crouch (Office of Gas and Electricity Markets)
Graham Fisher (Scottish Government)
Joe FitzPatrick (Minister for Parliamentary Business)
Cara Hilton (Dunfermline) (Lab)
Robin Presswood (Fife Council)
Jim Smith (SSE)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 11 March 2015

[The Convener opened the meeting at 09:46]

Decision on Taking Business in Private

The Convener (Murdo Fraser): Good morning, ladies and gentlemen. Welcome to the eighth meeting in 2015 of the Economy, Energy and Tourism Committee. I welcome members and guests joining us in the public gallery, and I remind everyone, please, to turn off or at least turn to silent all mobile phones and other electronic devices so they do not interfere with the sound equipment.

We have received apologies this morning from Dennis Robertson, and we are joined by Bruce Crawford as his substitute. I also welcome Cara Hilton who as the member for Dunfermline is here for agenda item 4.

In agenda item 1, do members agree to take item 5 in private?

Members *indicated agreement.*

Subordinate Legislation

Common Financial Tool etc (Scotland) Amendment Regulations 2015 [Draft]

09:47

The Convener: Under item 2, we will consider a piece of subordinate legislation. I welcome this morning the Minister for Parliamentary Business, Joe FitzPatrick, who is joined by Graham Fisher, head of branch 1 of the constitutional and civil law division, and Chris Boyland, head of strategic reform, at the Scottish Government.

Minister, do you want to say anything to introduce this instrument?

The Minister for Parliamentary Business (Joe FitzPatrick): Thank you, convener. I will try to be brief.

The aim of the regulations is to allow debtors entering into any Scottish statutory debts who wish to retain a contingency allowance—that is 10 per cent of their disposable income subject to a maximum of £20 per month or equivalent—as a buffer against unforeseen expenses. The £20 maximum amount was discussed and agreed by stakeholders and members of our common financial tool working group. The group agreed that this amount struck the best balance between the needs of the debtors and the interests of the creditors.

The need to make this provision now arises because, as you know, the Bankruptcy and Debt Advice (Scotland) Act 2014—which this committee examined in detail—mandates the use of a single common financial tool for all statutory debt solutions in Scotland. The regulations being amended require the tool used to be the common financial statement or CFS, which is available freely under licence from the Money Advice Trust. The CFS is due to be replaced by a new tool—the standard financial statement. It was hoped that this replacement would happen before 1 April and would include a contingency allowance that could simply be built into the new tool but, as things stand, the new standard financial statement will not be introduced on time.

We are making this provision now in order that the debtors can benefit at the same time as other 2014 act changes come into force. The move has been supported by stakeholders, such as Citizens Advice Scotland, which has called it

"A sensible step which will allow those paying off debts to be able to save a small amount of money each month".

The regulations also take the opportunity to make some minor, technical clarifications and improvements.

I hope that that clarifies the purpose of the regulations. My officials and I would be happy to answer any questions.

The Convener: Thank you, minister. Do any members wish to ask any questions?

Chic Brodie (South Scotland) (SNP): Good morning, minister. We had some contention around whether there should be one tool or two tools, but I accept that we have the common financial tool. In the covering note, it says that, under the CFT regulations, you can add a contingency allowance to the CFT within defined limits. Who will define the limits, and what limits are we talking about?

Joe FitzPatrick: Chris, do you want to answer that?

Chris Boyland (Scottish Government): The limits are defined in the regulations as the amount that can be retained by way of contingency, which is £20 a month if someone is paying monthly. It works out at a slightly different sum if they are paying weekly, but those are the limits to which you are referring.

Joe FitzPatrick: Those limits were agreed by partners as striking a balance between the interests of the debtor and the interests of the creditors.

Chic Brodie: I have just one other question. There have been minor clarifications and corrections in response to the Institute of Chartered Accountants of Scotland. Can you give an indication of how minor they are?

Joe FitzPatrick: I ask Graham Fisher to respond.

Graham Fisher (Scottish Government): Yes, we can definitely say that these are technical, minor amendments. A lot of them pick up minor typographical points. Part of the process in bringing forward the regulations was to bring them in early so that there was enough time to make any adjustments necessary before 1 April, and that is what we have done. We have also picked up some minor points that the Delegated Powers and Law Reform Committee raised, and we have made all the changes in time for 1 April.

The Convener: If members have no other questions, we move to the formal debate on the motion. I invite the minister to move the motion.

Motion moved,

That the Economy, Energy and Tourism Committee recommends that the Common Financial Tool etc (Scotland) Amendment Regulations 2015 [draft] be approved.—[*Joe FitzPatrick.*]

Motion agreed to.

The Convener: Minister, I thank you and your officials for attending. We will now have a short suspension to allow a changeover of witnesses.

09:52

Meeting suspended.

09:54

On resuming—

Longannet Power Station and Security of Supply

The Convener: We move to item 4 on the agenda. The committee agreed that we would take some evidence on Longannet power station in Fife and the press speculation about its early closure and on the broader question of security of supply.

The committee agreed that we would do a broader piece of work on the issue, but because of the urgency of the Longannet situation we also felt that a one-off evidence session would be very useful. It will also help to inform our wider discussions to come at a slightly later date.

I welcome our panel of witnesses: Jim Smith, who is managing director, energy portfolio management, at SSE Energy; Neil Clitheroe, who is the chief executive officer of retail and generation at Scottish Power; Mike Calviou, who is director of transmission network service for National Grid; and Martin Crouch, a senior partner of transmission at the Office of Gas and Electricity Markets. Thank you all for coming along.

We have about 90 minutes for this panel. Afterwards, we have a panel from Fife Council to talk about some of the local economic development issues that might arise from the closure of Longannet. With this panel we will look at the plant itself and some of the broader strategic issues in relation to energy policy that affect its future.

We will go straight into questions. I ask members to keep their questions as short and to the point as possible as that will be useful in getting through the topics we want to cover in the time available. Because we have a panel of four, it would be helpful if the witnesses did not all try to answer every question—otherwise we will be here for quite a long time.

I encourage members to direct their questions at a particular panel member. If any of the witnesses wants to respond to a question addressed to somebody else, they should try to catch my eye and I will do my best to bring them in as time allows.

I will start and address this question initially to you, Mr Clitheroe. There has been a lot of press speculation over the past few weeks about the future of Longannet. We have always known that the likelihood is that Longannet would have to close by 2020 because of a combination of factors—European Union emissions directives, carbon pricing and so on—but the recent speculation has been that the closure might have to be brought forward.

There has also been speculation in the press about discussions that Scottish Power has been having with National Grid. I want to hear from National Grid shortly, but first can you tell me exactly where we are with Longannet, what the position is and, given a lot of our concern is for the workers at Longannet, what future they have as things stand?

Neil Clitheroe (Scottish Power): As we are all aware, Longannet has been at the heart of Scottish generation for the last 40 years. It was opened in March 1973—coincidentally, a month after I was born—and has provided generation through the whole time since then. It is actually able to provide 40 per cent of Scotland's peak demand needs, and it generates more than 10TWh a year. Roughly, that is about 20 per cent of all Scottish generation. It is a pivotal plant right in the centre of Scotland.

Over a number of years, the pressure on coal plants has increased as various policy changes have come in—not least of which has been the carbon floor price—that have forced a change in the economics of Longannet. We expected that: our plan has always been to get Longannet to 2020 and at the same time—obviously for us—to invest heavily in renewables, given the place of onshore and offshore wind in that investment.

We always expected Longannet to be phased out of the network, but what we are seeing is a real pressure on the economics of the plant in the short term. It is a combination of a number of factors: the environmental changes that are occurring due to some of the European environmental legislation that kicks in in April 2016; the carbon floor price at £18 hitting the plant in terms of all its output; and the expectation we will pay £170 million this year in carbon taxation.

I suppose that all coal plants in England, Wales and Scotland face those pressures, and Longannet is not different from any coal plant in that respect, but the difference is that Longannet is based in Scotland, which has higher transmission charges. Whereas a plant in the south of England will pay maybe zero transmission or actually be paid for transmission, we pay £40 million to £50 million a year in transmission. It is all those factors together that have brought pressure on to the economics of Longannet, which has brought April 2016 into a real focus.

10:00

The Convener: I wish to pursue a couple of points further. The transmission charging regime that affects Longannet is something that the committee is well aware of, but there is nothing

new about it. For how many years has it been in existence?

Neil Clitheroe: Some things have changed recently, but the principle of the regime has been in existence for a decade. Scottish Power has talked about it for a decade, but it is transmission as well as other factors that are leading to the pressure on the economics.

The Convener: So it is not simply about transmission. Although that is a factor, it is not just transmission that is driving the current decision.

Neil Clitheroe: No, not at all—it is a combination of things. I suppose that the key point about transmission is that that is the difference between Longannet and the other coal plants. All coal plants face the same pressures with carbon taxation and European environmental legislation, but Longannet is the only one that faces the heavy transmission charges, because it is located in Scotland.

The Convener: Thank you for that clarity. Where exactly are we now? There has been speculation in the press that you have been in discussion with National Grid. According to some reports, those discussions have broken down; according to other reports, they are still on-going. What exactly is the position as of today?

Neil Clitheroe: We have been speaking with National Grid for around 18 months, and we have been in detailed discussions since September 2014. National Grid is running a constraint management requirement, which is basically a proposal process, in which plants that can deliver the services are bidding to National Grid to provide them from April 2016 until October 2017. We are in the middle of that process at the moment.

The Convener: I will come to Mike Calviou in a moment, because we are interested to get his perspective, but some of the press speculation has suggested that, if there are no satisfactory outcomes from your point of view from the discussions with National Grid, you will bring forward the closure of Longannet. What can you tell us about what exactly is being thought about that issue?

Neil Clitheroe: We have been pretty consistent since October 2014—when we did not enter the capacity mechanism—in saying that, if something does not change at Longannet, the likelihood of closure is very high. Given the way the system works, we basically have to announce about a year in advance of closure that we are giving up the transmission rights, which is the signal for closure. Effectively, that decision is now for the time period starting in April 2016. We made that very clear in October, in terms, when we came out of the process, and we made it very clear in the tender documents to National Grid.

The Convener: If you cannot reach agreement with National Grid about the mechanism, what will happen to Longannet?

Neil Clitheroe: I will perhaps read out what we said in our letter, because that is probably the most clear:

> "It's important to note that in event of rejection of our offers we will be forced to announce as soon as is practicable the closure of Longannet power station by the end of March 2016 and we believe that the closure will have serious consequences on security of supply and on direct and indirect employment in the local community and beyond".

The Convener: Thank you for that. I represent Fife, and my colleague Cara Hilton is here as the constituency member for Dunfermline. We represent the area where there is obviously very real concern for the workers at Longannet, who must be very concerned about the discussions about their future employment and the wider knock-on impact on the Fife economy.

I hope that you can reassure me if I have this wrong, but is there an element of brinkmanship here? You are in discussion with National Grid. Are you being seen to up the ante by putting some of this in the public domain? We have seen the Minister for Business, Energy and Tourism making comment, we have seen the Scottish First Minister making comment, and the committee is looking at the matter. Are you using the workers at Longannet as pawns in a game just to try to force National Grid to come to the negotiating table?

Neil Clitheroe: No, not at all. If you visit Longannet, you will come across statements like "securing the future to 2020". You will see pictures of staff saying that and it being used as a logo. Our plan was always to get to 2020 and to keep the plant going, and we have invested in the belief of getting to that point.

We have invested £350 million in the plant over the past six or seven years. It is a big old plant; it takes £30 million a year in capital investment to keep it going, and we have continued to commit to that investment. This is not brinkmanship at all; it is just the economic reality of the situation that we find ourselves in with Longannet.

We continue to invest in Scotland—by £7.8 billion a year—and we continue to invest across the United Kingdom. We continue to build our networks, and we continue to build renewable plants. We continue to do all that within Scottish Power. It is just that this plant, which has existed for 42 years, is in a very, very difficult situation economically.

The Convener: I will turn to Mr Calviou from National Grid. You have heard the position set out by Scottish Power. Essentially, it is saying that it might have to close the plant by March 2016. That

means that a lot of jobs will go in Fife and there will be a big gap in Scottish electricity generation capacity. Scottish Power is putting the ball back in your court and is asking why you—National Grid—are not prepared to do a deal.

Mike Calviou (National Grid): Thank you for inviting me this morning, convener. It is probably worth saying that we are a system operator. We are responsible for the real-time balancing of the Great Britain electricity network and for directing and co-ordinating flows across that network. We operate the system to agreed security standards, and we take the role very seriously. We believe that we are a prudent operator that always considers risks so that we maintain the extremely high levels of reliability that the system enjoys.

We have to recognise that we are in the middle of a big energy transition as we move to a low-carbon economy. I absolutely understand the concerns about the potential closure of Longannet and the timing of that, but we have seen more than 10GW of fossil fuel generation across the GB system close in the past five years. There is probably another 5GW due to close in the coming few years, so there is a lot of fossil fuel generation in similar situations. For example, the Barking combined-cycle gas power station in London closed last year—six months ago. I am setting the context. As Neil Clitheroe said, there are common pressures on a lot of generators.

The issue with the potential closure of Longannet is that it plays an important role in Scotland. Therefore, because of the potential closure of Longannet and some uncertainty about Peterhead power station as well, we have been doing studies jointly with the Scottish transmission companies over the past 12 months, looking at how we can secure the network in a scenario in which both Longannet and Peterhead are not available. Ultimately, we concluded that, at least until some transmission reinforcements are delivered—including the western link project, which I think you will be aware of—and particularly to ensure that we can have stable voltage control in some risky but not inconceivable circumstances, we wanted to procure some additional balancing services for 2016-17.

We are in the middle of a tender process for that, as Neil Clitheroe said. We are looking for offers and we will—as we are obliged to by licence—procure the most economic option that is in the best interest of consumers. We are certainly expecting to finish that process by the end of March—in the next week or so, we hope. I cannot yet say what the outcome will be, but we will ultimately choose what we think is the best option in terms of the most efficiency for the system.

We clearly cannot comment about individual power stations and their decisions. That is a decision for power station operators.

The Convener: Just to clarify, you say that we will know your decision by the end of this month.

Mike Calviou: By the end of this month, yes.

The Convener: To put it back to Scottish Power, that means that you will be in a position to know by the end of this month whether or not Longannet has a future.

Neil Clitheroe: That is correct.

The Convener: Thank you.

Lewis Macdonald (North East Scotland) (Lab): I want to understand what it is that these talks are concerned with. We have a little bit of an insight from what you have said but, clearly, Scottish Power is not asking National Grid to change the national system overnight. Presumably, the conversation is around a bid, as you say. I recognise that Mike Calviou said that he cannot comment on individual power stations, but SSE is here and I can only assume that we are talking about a bid that involves the two companies and the two power stations that currently exist.

I would like to understand from National Grid, but also from the generators, what the consequences are of the decision that will be made on this additional balancing requirement. There is power from both stations on the grid at the moment. Is the additional balancing requirement essential to the economic feasibility of both stations and, if not, what is the difference?

Mike Calviou: We have identified that, for the scenario in 2016-17 where there may be low or no availability from Longannet and Peterhead, we would need at least one balancing mechanism unit—a 400MW or 500MW generating unit available to provide voltage control services. In effect, that is what we are asking people to provide. As you said, it is interesting, because we are tendering for a requirement that might be provided naturally by the market already but, given the statements that you have already heard, you can understand why we think that it is prudent to procure it. If you talk to SSE, there are some uncertainties and permutations about exactly what is going to happen to Peterhead and how that relates to its carbon capture and storage project, so we felt that it was prudent.

There is a third party also in talks—an innovative new provider of services—so we are considering three options and we are setting them against a number of technical and economic factors. We will come to our decision, as I said, as soon as possible. Recognising the timescales for decisions, we have undertaken to do that by the

end of March, and I am hopeful that we will be able to conclude the process in the next week or so.

Jim Smith (SSE): I can confirm to the member that SSE is part of the bidding process for Peterhead, as people would expect. On what winning or not winning a contract means for Peterhead, there are a number of permutations for Peterhead in the future. People should understand that, at the moment, Peterhead is effectively commercially out of the market. We reduced the tech of the station down to 400MW back in April to reduce costs. To reinforce what Neil Clitheroe has said, all thermal plant in the GB system is challenged economically at the moment, so that was pure cost saving. We are investing £15 million this year that will allow us to operate at below 400MW, which we cannot do at the moment. That will be available for the winter.

The other factor is carbon capture and storage. We have been working with Shell now for over two years on that project. The engineering studies are coming to a close and it will now go back. The Department of Energy and Climate Change is looking to get state aid clearance from Europe for the project. If the project follows the planned timetable, a financial decision on that project will probably take place around a year from now. Clearly, that would secure one unit at Peterhead for the next 15 years.

The plant is currently out of the market, because it is uneconomic. We have had to reduce tech. In the past, we have bid Peterhead in to provide services to National Grid. Over the summer, we had a voltage contract. This winter past, we bid for an SBR—supplemental balancing reserve—contract. It was there to support the grid if needed. Indeed, National Grid has an option to extend that contract to next winter if it so wishes. There are a number of potential outcomes for Peterhead and, of course, overlaid on top of that is the economics of thermal generation.

Although it participated in the forward capacity market auction for 2018, Peterhead did not receive a contract because the price that we were looking for was higher than the price that it cleared at. That is the truth for about 8GW of thermal plant in the GB system. All that plant that still has tech will face a decision about whether to give it up. As Neil Clitheroe says, you have to give a year's notice. That process is a bit later this year because of the judicial review on project transmit, but some plant will probably make the decision not to continue, although I cannot comment on what others will do. We need to wait and see.

Lewis Macdonald: What I think we are talking about is an additional requirement from National Grid, which Scottish Power is bidding for presumably—or are you saying that you are uneconomic already and that without this additional contract you cannot proceed?

10:15

Neil Clitheroe: That is basically correct. A coal power station has a lot of big fixed costs. For gas plant, which we also operate, it is possible to manage the cost down in a much easier manner in terms of the variable costs. However, a coal plant has a lot of costs: we have to spend £20 million to £30 million a year in capital and £50 million a year in operating costs. We need to recover that amount of expenditure, so we are bidding into this tender to try to get extra revenue to cover some of those costs.

What is being asked for in the tender is 350MW of voltage support. Mike Calviou might be better at explaining this to the committee, but there are two sides to managing a grid. There is managing the demand and supply side—the quantity—and there is managing the quality. Is the voltage correct so that everybody can use all their electrical appliances? Is the frequency correct? In effect, this contract is asking for 350MW to support the quality of electricity on the network. At the moment, Longannet is 2,260MW, so there has to be change out of the plant even if we win the contract, but that is what we are planning for with our bid into National Grid.

Lewis Macdonald: There will still be a significant reduction.

Neil Clitheroe: Yes.

Lewis Macdonald: Will there therefore be employment implications even if you are successful?

Neil Clitheroe: There are 270 people who work at Longannet. Those are the direct employees for Scottish Power and there are a lot more who work for our suppliers. The plant closing entirely would have a major impact. If the plant stays open with two or three units or whatever, it is much easier to manage that through early retirement and voluntary schemes. That is what Scottish Power does and has always done. Some of those people will want to stay at Scottish Power, to work in our networks business or whatever, and we will manage it as we have always done.

Lewis Macdonald: Thank you.

Bruce Crawford (Stirling) (SNP): I have visited Longannet a couple of times, so I know it reasonably well. Thank you for being clear in your evidence today. Given the timescale issues and the potential closure of Longannet, the importance of longer-term resilience and security is something that the committee is inevitably interested in. I will begin with a strategic, high-level question so that I can get some clarity in my understanding here. I

am not sure whether this is to Mike Calviou or Martin Crouch, but which organisation in the architecture of the generation and transmission of electricity in the UK has formal responsibility for security of supply?

Mike Calviou: There are a number of aspects to security of supply. I will try to give you as clear an answer as I can. The overall responsibility for security of supply and the overall system sits with the secretary of state of the British Government, and it is very clear. For example, we have seen with electricity market reform that the British Government has implemented the capacity mechanism to ensure there is sufficient overall generation capacity to meet demand across the GB system.

As system operator, though, National Grid is responsible for the real-time operation and effective balancing of the network and we work to the national electricity transmission system security and quality of supply standard. Within that overall framework, we are obliged to make sure that the system will balance and can be operated with the quality aspects that Neil Clitheroe was talking about, so that we can manage the volts and manage the frequency. It can be done. That is why, if we see that, although the overall system has enough generation, there is a concern at a local or regional level that in certain conditions there is not enough generation in a certain locality, we will take action, such as contracting in the short term and probably in the medium to long term, prompting investment in further transmission assets to make the system robust and secure.

Martin Crouch (Office of Gas and Electricity Markets): To add to that, I agree with what Mike Calviou has said but, in essence, we rely on generators responding to—in the main—market signals to deliver security of supply, so the market has a very important role. Our role as Ofgem is both to look at the market rules and make sure that they are appropriate so that generators are responding to those signals and, on occasion when we—often working collectively with DECC and with National Grid—consider that there are issues, as has happened in the recent past, to provide additional tools to National Grid to enable it to deliver security of supply. Those tools include the supplementary balancing reserve that was mentioned earlier, so there are examples of this working in practice.

Bruce Crawford: To be clear, though, DECC has responsibility for security of supply, and it does not lie with National Grid or Ofgem.

Martin Crouch: In some sense it is a combination, though, because DECC has overall responsibility for the policy.

Bruce Crawford: Yes, but who has statutory responsibility for security of supply? That is the question that I need absolute clarity on.

Martin Crouch: The policy responsibility is with DECC and responsibility for the day-to-day operation of the system is with National Grid.

Bruce Crawford: Questions arise about black start if Longannet is no longer there. My understanding is that, if everything goes down, which is unlikely but not impossible, and we get into a black start situation, Cruachan is the first thing that works because it is pump storage. Cruachan then gives the power to Longannet and Longannet in turn then powers all the other power stations, because they need enormous amounts of power to operate in their own right. What happens when Longannet is no longer there?

Mike Calviou: Black start is something that we plan for even though we hope we never have to do it. It is the ultimate insurance policy. We have a portfolio of stations that we contract to supply black start services across the network. We did a big exercise on black start policy about five years ago for the UK Government Energy Emergencies Executive Committee—E3C. We agreed an approach under which we would have at least three black start stations available in each region of the country—for this purpose, Scotland is a region. In Scotland at the moment we have four contracted black start stations, including Cruachan. For the avoidance of doubt, neither Longannet nor Peterhead is a contracted black start station.

Under our black start plans—if we conceive of the worst case, in which we have lost the entire GB network—we have to virtually piece the network back together bit by bit. Having available large, reasonably flexible plants, such as Longannet, helps. Therefore, the answer to your question is that, if we do not have Longannet, we will have to develop alternative strategies. It is quite hard to predict how a black start would work in practice. There are a number of different strategies that we would apply. If we have one of Longannet and Peterhead, we think that we can probably black start Scotland within an overall GB black start on a timescale that is similar to the one at the moment, which is 12 to 24 hours. If neither Peterhead nor Longannet were available to help with black start, it probably would extend the timescale, because we might only be able to do certain amounts and develop a skeletal network in Scotland and then would have to rely on the wider GB network all coming up together.

It is something that we are considering. We will be updating our black start restoration plans as the evolving generation pattern develops, but it is probably worth saying that different parts of the network have different amounts of generation

connected. The parts that have more generation connected will probably come back quicker in a black start. The last thing that I should say is that this is definitely the worst, worst case. We have never seen a full system black start. The last major black start event was the 1987 hurricane, and even that was just part of the system. In a scenario in which we have to do a black start for just part of the system, because we can build off what is already there, we can do it much quicker anyway, so we really are considering the worst, worst case, which is a full system shutdown.

Bruce Crawford: This is our insurance policy. I think that you quite rightly described it in that way.

Mike Calviou: Yes.

Bruce Crawford: We have just heard from Neil Clitheroe that Longannet might not be there after March 2016 if this contract arrangement does not work out. This question is for Jim Smith. In those circumstances, if Longannet is not there and Peterhead is a fallback, does Peterhead have the capacity, once Cruachan has given it some power, to start up the rest of Scotland?

Jim Smith: As Mike Calviou said, there are other stations beside Cruachan. We have Foyers pump storage scheme and Sloy also provides black start facilities.

Bruce Crawford: Immediately after Cruachan and Foyers start up, one of the stations needs a hugh generating capacity to put it into the next station, to give it a boost and to help the nukes get back up, for instance.

Jim Smith: Yes. Mike Calviou is the expert on network black start, but I think that that is right; he needs a system with a lot of generators to allow him to start up quickly. If he does not have that, he would need to rely on interconnectors from other regions of the country.

Bruce Crawford: In that case, are the interconnectors from the rest of the UK strong enough to provide the level of power required in a black start situation?

Mike Calviou: Yes. The debate on black start is about timescale. We can always bring the system back, but we absolutely recognise that, in what would clearly be an awful situation, we would be aiming to bring it back as quickly as possible. We absolutely can black start Scotland with no Scottish generation by using the circuits linking it to the rest of the network. It would just take longer. The issue with black start is purely, in this extreme scenario, how quickly we can get it back. If both Longannet and Peterhead were not available, a black start would probably take longer in Scotland.

Neil Clitheroe: Historically, it is important to realise that the transmission network in the UK was in effect an England and Wales network, a central belt of Scotland network and a north of Scotland network. Therefore, the black start plans related to each of those transmission networks. SSE had its plan in terms of Foyers, and the plan for the central belt of Scotland was that Cruachan comes on, water comes down the hill, there is a transmission line that goes from Cruachan to Longannet, Longannet comes up and it then repowers the network. Interconnection within black start is quite a new thing in the model, but that has been the plan for 40 years. Thankfully, it has never been used. In November, we had Cruachan totally without power for the first time, I think, for 20 years, and National Grid tested that. I think that we did a full test of Cruachan to Longannet five years ago, as Mike Calviou said, as part of the overall UK plan.

That has been the route, so we get a payment each year for providing black start services at Cruachan. I think that part of our connection agreement for Longannet includes the provision of some of those services, albeit that the contract for black start is directly with Cruachan. That is how it has worked for many, many years.

Bruce Crawford: If Longannet is there, black start can be done more quickly than it can if Longannet is no longer there. What do we mean when we say that it will take longer to get restarted if Longannet is no longer in the system?

Mike Calviou: When we did the E3C study, we looked at the distribution of how quickly we could get 60 per cent of GB demand back. In the best case, it takes about 12 to 13 hours, and in what we call a challenging case, when things do not go as well as we might hope, it might take anything up to 36 hours.

Looking at Scotland by itself, we think that we can probably do Scotland in 12 to 18 hours with the current black start stations and with Longannet and Peterhead available. If neither of them is available, it probably pushes Scotland by itself to 24 hours plus. That is still within the envelope of the overall GB plan, but it is clearly likely to take longer than it would if those stations were available. That is because, as Neil Clitheroe says, in practice we would benefit from having a live plant available.

Jim Smith: To answer properly the question that Bruce Crawford asked me earlier. Peterhead can provide that role if Longannet is not providing the role to support the black start process.

Bruce Crawford: That is helpful.

Finally on resilience, I want to ask about voltage stability if Longannet is no longer there. I understand that not only is Longannet able to meet 40 per cent of peak winter demand but it is called on significantly in the summer for the purposes of voltage stability. How do we ensure

voltage stability in the Scottish network if Longannet is no longer there?

10:30

Mike Calviou: Voltage control and voltage stability are the reason why we are going through the current procurement exercise to buy services. For 2016-17 we absolutely recognise that we need someone to provide additional services. It is a low risk, but we felt it was prudent action.

In the longer term, there are investments being made in the transmission system that will help. We have particularly worked with the Scottish transmission owners, SP Transmission and Scottish Hydro Electric Transmission, to identify a number of reactive compensation investments. They are due to come on stream by 2017. National Grid itself will be making some similar investments in the north of England, which will also help. The western link by itself does not help with voltage control, but some of the control equipment at Hunterston will also provide a voltage control benefit. There are a number of transmission investments that are in the pipeline that we have ordered to deal with a scenario in which Longannet and Peterhead are not available.

Bruce Crawford: Of course what they are buying is the additional—apologies; I will come back in if I get another chance.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I will continue on that theme before I ask my own questions.

I am keen to understand this point. I think that Mike Calviou said that if Longannet and Peterhead are not available we will need to depend on the rest of the UK. However, the rest of the UK is a net importer of electricity from Scotland, Wales, France and the Netherlands. The interconnectors from France and the Netherlands appear to be working at capacity 24 hours a day, so how much spare capacity does the UK network have to meet the situation in which Longannet and Peterhead are not available?

Mike Calviou: That is a very good question. When you look at these things, you must recognise that we are moving from the traditional position, in which there has been a pretty consistent and large export from Scotland to the rest of the GB network, to the position in which, although Scotland has so much intermittent wind generation that there will still be—probably for the majority of the time—a large export from Scotland to the rest of the network—

Gordon MacDonald: It was at record levels in 2013, I believe. Is that right?

Mike Calviou: Yes, and more wind generation is connecting continually in Scotland, so it will increase. However, clearly there will be periods when the wind is not blowing in Scotland and, increasingly, we will start to see flows from England up into Scotland. I operate an entire GB system and we are used to that sort of dynamic. The power flows where it will: sometimes it flows one way, and sometimes it flows the other way. That is pretty typical for—

Gordon MacDonald: Would it be right to say that the relationship is that, with the interconnector, 90 per cent of the time the electricity flows south and 10 per cent of the time the electricity flows north?

Mike Calviou: That is probably about right at the moment. However, going forward, I think that that will change and we will see an increase in the amount of electricity flowing north, albeit that I think that you will still be right, in that the electricity will still probably flow south the majority of the time.

I think that you are asking whether, when the power needs to flow north, there will be enough. Almost by definition, there will be enough as long as GB has sufficient generation to meet its overall security standards. Electricity market reform and the capacity mechanism are designed to ensure that GB as a whole has sufficient generation capacity.

In the short term, until EMR comes on stream in 2018, we will have the new tools that Martin Crouch talked about. We used the supplemental balancing reserve last winter when we procured some additional generation across GB—including, as was said earlier, from Peterhead—and we are currently out to tender and looking at whether we need to buy anything more for this winter.

We are reasonably confident that across GB there should be enough generation overall to meet demand even when the wind is not blowing. Therefore, if there is enough generation and transmission capacity across GB, there will be enough to attend to Scotland, if needed. That is effectively what our analysis work has looked at.

Gordon MacDonald: You used the word “should” a few times there. What is the spare capacity? Am I right in saying that it is as low as 4 per cent

Mike Calviou: For last winter, it was actually 6 per cent. Just to be clear, we define spare capacity by looking at what we call the derated margin. We look at all the generation on the system and apply a derating factor that takes into account typical availability at peak. Therefore, for coal and gas, we would look at 85 to 90 per cent availability. For wind, having done all the all the statistical analysis, we recognise that it is very unlikely that we will get no wind anywhere in the network, so we allow, typically, a factor of about

15 or 20 per cent. We derate everything and then we quote the difference between derated generation availability and forecast peak demand. That is the 4 per cent that you heard about. However, once we took our SBR actions, spare capacity last winter was actually 6 per cent.

As it happened, last winter was not particularly cold. The underlying demand was slightly lower than expected, so we did not use any of our SBR contracts. Although there was probably quite a bit of concern going into winter about how tight the margin was, I would have said that the winter margin was reasonably comfortable. However, we are never complacent about security.

Gordon MacDonald: I will move on to my own questions. I want to fully understand the generating capacity situation. What is the current generating capacity in Scotland, and what is the peak demand in Scotland?

Mike Calviou: The current generation capacity is about 11GW, and the peak demand is 5.4GW.

Gordon MacDonald: How much generation capacity is currently contracted in Scotland over the next few years?

Mike Calviou: I believe that there are transmission contracts for 14GW.

Gordon MacDonald: Given that we could lose Longannet and Peterhead, and accepting the black start argument that we heard from the generating companies, does that give Scotland enough headroom to meet its peak demand?

Mike Calviou: I think, generally, yes. We have been focusing on a particular condition because a lot of the new generation that is coming on is wind. The concern is that, although that is fine most of the time, what about when the wind is not blowing? I am talking about the wind not blowing across the whole of Scotland, which is possible but clearly pretty unlikely, and that is why I regard the work that we have been doing as reasonably prudent. We have been analysing what happens if there is no wind, no Peterhead and no Longannet, and we are saying that, in the short term, we need one additional unit. Once we have made the transmission investments that we have discussed and agreed with the Scottish transmission companies, I think that there should be enough generation in Scotland to meet peak demand—allowing for the capability of the transmission system.

Gordon MacDonald: Moving on to Longannet itself, is there an alternative fuel that could be used at Longannet, such as wood pellets? If such a transfer was able to take place, what effect would that have on Scottish Power's operating costs?

Neil Clitheroe: When we did some biomass trials about six or seven years ago, we found two key things. The first was about the technical combustion impact of the pellets on a 40 year-old station. It was quite volatile—the combustion was difficult to manage—and there were technical problems. An obvious one was where we could get all the wood pellets from. Longannet is a big station that uses 5 million tonnes of coal a year—you need only think of all the trains going in—so where would we get all the wood pellets to burn? That was a major supply-chain problem that we had with biomass.

Secondly, the plant is 40 years old, as I said, so converting any of it takes a lot of investment. We spent £250 million on reducing the sulphur output from the plant. That was a combination of bolting new technology on to a very old plant. Economically, biomass never worked for Longannet.

Gordon MacDonald: I will move on to Scottish Power's point about transmission charges. Last week, you issued a press release that said that

"there needs to be a fair and level playing field with the rest of the UK in order to develop new power generation in Scotland",

and that

"No other country in Europe has this unfair locational-based charging system for power stations, and we need a fairer system for Scotland".

What is your understanding of the charging regime elsewhere in Europe, and why do we currently have a charging system that seems to favour the south of the UK?

Neil Clitheroe: The UK system is a locational-based system: it looks at where the demand is in the country and it charges plants less if they are close to where the demand is high and more if they are a distance from that demand.

Gordon MacDonald: Are you talking about demand in London or demand in Edinburgh or Glasgow?

Neil Clitheroe: It is in a UK context. If you imagine a graph of the UK showing who is consuming the most, you can see that the south-east consumes the most. There is no local aspect to any of the transmission charging.

Other places in Europe, such as Germany, Belgium and the Netherlands, operate a flat transmission charge. That is more of what I suppose you could call postage-stamp transmission charging: it is no different from the postal system, in which the cost of sending a letter from the north of Scotland to London is the same as the cost of sending a letter within London. There are obvious benefits to transmission charges being the same across the country—for

example, plant can be located anywhere in the country—and there is an offset, in as much as the transmission operator cannot build lines to the middle of nowhere to bring them into demand, and it cannot spend a lot on that transmission network. However, countries have made different decisions in the past.

The issue is coming into more focus in the UK now with the increase in interconnection. The plants in the UK may have different transmission or carbon floor price regimes from the plants in Europe that generate to interconnect to the UK and which might not have transmission charges or the impact of the carbon floor price. There is a lot of thinking in the industry about that problem because everyone wants more interconnection. The best way to manage energy generation across Europe is for us to move energy to the places where it is needed. However, it is important that generation plants across Europe operate on a level playing field with one another in a competitive sense. There is a debate that is going on in the background all the time in the UK just now as to how to level up that playing field.

Martin Crouch: Let me give some context around transmission charges from Ofgem's perspective. National Grid sets the transmission charges and Ofgem approves the methodology, so we are very closely involved in the issue.

Back in 2010, we started a major review of how transmission charges work. We looked at the pros and cons of different systems. We found that there is clear value to consumers throughout GB—Scottish consumers and English and Welsh consumers—from having a system where the charges to generators and consumers are based on not just where they are located but on an estimate of the costs that they impose on the transmission system, so that they pay those costs. That is intended to be very reflective of the costs of the system and is what we would see as a fair system.

10:45

The system that we have proposed as a result of that review, which we decided on last summer, will reduce the costs to most of the generators that are based in Scotland in comparison with what they have been charged in the past—the only change that is occurring is that there will be a reduction in charges compared with what they have been in the past. Clearly, it is still true that generators in Scotland pay more than generators in England, just as consumers in Scotland pay less than consumers in England, for transmission. It is not less overall if you include other network charges, which are calculated on a different basis, but that is absolutely fair.

It is true that our exact system does not exist elsewhere in Europe, but it is certainly not true to say that other locational charging systems do not exist in Europe. I think that that is misleading. The Competition and Markets Authority, to which we have referred the whole energy market, has been looking at that recently. One of its reports says the main Australian market, the Nordic market, and markets in most of the north-east USA, Texas and California are all examples of markets that have adopted either zonal or nodal—that is, locational—approaches to wholesale markets. We have chosen to do that through transmission charges, but all those other markets, including the Italian market, have locational charges, so there are plenty of examples.

Most of the markets that have seriously reviewed their electricity market design have elements of locational charging, where generators or customers that are based in different parts of the country will face different charges.

We have chosen to do that in a slightly different way, through transmission charges. You can argue about the pros and cons of different systems, but the review that we have done over the past few years found that some form of locational charging is definitely in the interests of consumers overall. Some generators will clearly find that that is not in their particular interests, but our focus is on what is in the best interests of consumers.

The Convener: We need to move on. I appreciate that these are complex issues, but I am also conscious of the time and I still have a long list of members who want to get in. It would be helpful if we could try to keep questions and responses as sharp as possible.

Chic Brodie: Good morning. First of all, an endemic issue seems to be that nobody has any statutory responsibility for the security of supply. I was kind of surprised by that, but it might be an issue for another day.

According to Ofgem,

"it is very difficult to accurately estimate the level of security of supply that will be provided by the market."

The market creates demand; we are talking about supply. Last year, we met Ashley and Julian, I think, from National Grid, who suggested that there was 4 per cent capacity—I see that you have updated that figure to 6 per cent—but were totally unable to tell us about the capacity guarantee for the coming winter. Why was that?

Martin Crouch: DECC has now a very clear security standard that it expects to be met, which is three hours' loss of load expectation. Over the past few years, we and National Grid have been providing forward-looking estimates of the

margins, and we have always felt that the winter just gone and the winter coming up were going to be the areas of most concern. It is difficult to know which individual generators are going to close and which are going to open; as you will have seen, the generators are quite cagey about announcing such things well in advance.

Chic Brodie: We were told by Julian—I am not sure; I cannot remember which of the two it was—that in going through your no doubt very interesting calculations, they would have to negotiate through the SBR the opening of plants down south. Why?

Martin Crouch: The SBR mechanism is predominantly intended to deal with the uncertainty that we face looking forward and to provide a mechanism for National Grid to contract with existing providers of generation.

Chic Brodie: What is the capacity for this coming winter?

Mike Calviou: At the moment, it looks to be broadly similar to the winter just gone. However, we are conscious that a number of generators did not get contracts under EMR in the capacity mechanism for 2018 and that, therefore, there might be some question about their future and when they might close. I have certainly had some indications; I think Centrica has announced that it will be closing two of their plants with almost immediate effect. As Martin Crouch has said, the key issue is that this is a market. We do not know what individual power station operators are going to do.

Chic Brodie: So 270 people might be put on the streets, because you do not know what you think the maximum or minimum demand will be next winter.

Mike Calviou: We know what the demand will be, but there is uncertainty about supply. Once that uncertainty is resolved, we will complete our tenders for SBR. That will address concerns about the overall national plant margin, and our existing process will, I think, address the issue of the additional balancing services that we need for voltage control or other system services.

The only uncertainty is about what generators are going to do. Once that uncertainty is resolved, we will decide what action we need to take. We have the tools that we need to take action to secure the network.

Chic Brodie: We have heard about interconnectivity and interconnectors. What is the situation with the Northern Ireland connector? Is it working at the moment? If so, how often has it been out of action this year?

Mike Calviou: I do not have the precise figures for how often it has been out of action, but it is broadly working. A few years ago, it had quite a few technical problems, but it is now broadly working and is used regularly.

Chic Brodie: What does "broadly working" mean?

Martin Crouch: Due to technical issues, the link is running at lower than its full design capacity, but it has been operating at that capacity for a period. Any plans to bring it back up to full capacity are a matter for the operator, but I think that it is looking at the issue.

Chic Brodie: So it is somebody else's problem.

Martin Crouch: How the link is run is a matter for the operator; that is its business. I think that it has been operating at 250MW for the past period of time. Generally, it has been exporting to Northern Ireland, although not all of the time; electricity has been flowing in both directions. As far as security of supply is concerned, the planning assumptions are that, often, it would be exporting rather than importing. It is not necessarily helping to provide more electricity to Scotland.

Chic Brodie: We are talking about £40 million a year with regard to this connection. Last year, Martin, National Grid made an operating profit of £3.7 billion, and it also invested heavily in its operations in the States. Has Longannet just fallen down National Grid's priority list?

The Convener: Is that question for Mike Calviou?

Chic Brodie: Yes. Did I say Martin?

Mike Calviou: Ultimately decisions about power stations and their future are down to power station operators. As Martin Crouch has said, we have to do transmission charging according to the methodology that Ofgem has approved, and Martin has explained how that system has been reformed.

You are right that the current transmission charges for Longannet are just over £40 million. Once project transmit comes in—assuming, of course, that it gets through the judicial review in 2016—those charges will drop by a third to probably about £28 million or £29 million. I absolutely understand Neil Clitheroe's comment that that still puts him at a disadvantage to coal-fired stations in other parts of the system, but that is a consequence of the locational system that we use.

Neil Clitheroe: Mike Calviou is right about the reduction, but the fact is that the charge was going up anyway under a pre-project transmit model, so we are talking about the pre-reform situation.

Perhaps I can show the comparison by giving the committee in actual pounds the charges for 2017-18, which means that they include the

transmission upgrade. With the reform, Longannet will pay £52 million in 2017-18; without the reform, it would have paid £68 million. Although there will be a reduction as a result of the reform, the cost is still escalating. Under the current mechanism, a similar plant in the centre of London will receive a payment of £9 million. Of course, you are not going to build this kind of coal plant in the centre of London; it would have to be outside London, which will bring that number a little bit towards zero. However, those are the differences.

I also point out that generating 2GW of wind power in a similar zone will pay £32 million. Mike Calviou has articulated very well the change that has occurred for renewables under the legislation. Those are the types of numbers that we are talking about with regard to the differences, and that is the current model under project transmit, assuming Longannet generates 2,260MW in 2017-18.

Chic Brodie: It might be an idea to put a coal-fired power station in the middle of London to see exactly how that would change your charging. I find it ridiculous that the charge that you pay for further distribution is less than that for production and distribution on the doorstep. It is just absolute nonsense.

The Convener: I am not sure if that was a question or a statement.

Chic Brodie: It was a statement. It has been compounded by the fact that—

The Convener: Mr Brodie, we are here to ask questions.

Patrick Harvie (Glasgow) (Green): Good morning. I apologise if it sounds like I am going back a wee bit in the conversation, but I just wanted to understand the voltage control contract a little bit more. The bidders for the contract are Longannet and Peterhead—and I think that you mentioned a third. Who was that again?

Mike Calviou: I am not sure that we can reveal who it is until the end of the process, but I can tell you that it is someone with an innovative, new idea that it is proposing to develop.

Patrick Harvie: Is it based in Scotland?

Mike Calviou: Yes.

Patrick Harvie: It seems odd that you can confirm two of the bidders, but not the third.

Mike Calviou: Two of them are existing generators; the third would be a new one.

Patrick Harvie: As I understand it, this short-term work is required to deal with a one-in-600-year weather event. Is that an accurate description?

Mike Calviou: Yes. We have been doing lots of studies on the risks to Scottish security of supply in the scenario in which there is no Longannet or Peterhead, and the key focus is voltage control. One of the questions that we are asked—and we have been doing lots of work with Scottish Government and Scottish Government officials on this—is to explain the size of the risk that we are dealing with, and we have calculated it as being a one-in-600-year event. Allowing for low generation availability, low wind and perhaps the need for a double circuit transmission fault to get at the problem, you get to this very low probability. Although we have the kind of highly reliable system that everybody expects nowadays and although people expect electricity always to be there, we have to think about these extreme risks.

Patrick Harvie: Is this low risk that you feel we need to be insured against—let me describe it that way—an on-going one, or will it exist only until some of the wider grid upgrades like the western link come into being?

Mike Calviou: The risk will get a lot lower once the grid upgrades come in. We believe that as long as those grid upgrades come in on time, we will need no more services to meet the risk.

Patrick Harvie: Mr Clitheroe, is it fair to say that even if you were to win this bid, it would give you no more than a year or two's grace?

Neil Clitheroe: That is fair. The contract really depends on the completion of the western high-voltage direct current link. As the current contract is for 18 months with a 12-month extension, the expectation is that the new contract will last 30 months from April 2016.

Patrick Harvie: But does that not take us beyond the point at which Longannet, if it is still operational, has to meet the new sulphur dioxide standards under the industrial emissions directive?

Neil Clitheroe: Yes, although I think that you are talking about the nitrous oxide standards.

Patrick Harvie: Are you at that point?

Neil Clitheroe: The new environmental requirements start in April 2016, so—

Patrick Harvie: Are you at the point of saying that you will be able to comply with those standards by that time?

Neil Clitheroe: We have to comply with them, and the only way of doing so is to produce less than a certain level of NOx emissions. In that respect, we have two options: either to produce less or to invest in new technology in order to produce more with less nitrous oxide output. At Longannet, we have invested in a couple of systems in one of our units to reduce nitrous oxide output from about 550mg down to 350 or 300. If

the plant is going at full output at 12 to 13TWh, the level must be below 200mg, and there will be another level of investment in that.

11:00

Patrick Harvie: So in order to move from the current standards to the new standards that are coming in 2016 you need to make further investment that you have not yet made.

Neil Clitheroe: To operate at full output, yes.

Patrick Harvie: And you have not yet made that investment to comply with the higher standard.

Neil Clitheroe: The first stage of our investment was in sulphur dioxide reduction, and we have spent £250 million on that. We have made small investments to deal with nitrous oxide, and they have started to have an impact. To justify the full investment required to get below 200mg—which, I should add, not many UK coal plants in the UK have done—we would need to know that the economics for the plant were there for the rest of this decade and into the next. Because of the combination of factors that I have already talked through such as the carbon floor price, which will not change, and the transmission charges, which are not changing, the economics are not there to justify that full investment. If we put in no more investment, we could still have just less than 6TWh of output, and then we would step up that investment in what is there.

Patrick Harvie: As pretty much everybody will accept that on-going coal capacity of that scale is not compatible with the UK or Scotland's climate change objectives, that is clearly not going to happen. You are saying that, because of that context, you do not intend to put in that investment to meet the new emission standards in terms of full capacity—which means that we are still talking about when, not if, here.

Neil Clitheroe: Absolutely. We are talking about when, not if. Scottish Power has always planned to try to get to 2020 with this plan, because we need a balanced portfolio across not just the UK but our own fleet; as you know, we continue to be a massive investor in renewables. We also have planning permission for two gas plants, one in England and the other in Scotland, where the economics need to be right. With Longannet, we always expected that towards the end of the decade the bubble would burst under the industrial emissions directive or something would change that would enable us to invest and keep it going. A new level of environmental legislation is coming in in 2023, which is probably the maximum you can get to with a coal plant at the moment. The direct answer to your question, then, is yes; we are talking about three to four years up to the end of the decade.

Patrick Harvie: Finally, I have a question for Mr Calviou. In the longer term, transmission upgrades such as the western HVDC link and perhaps additional links across the North Sea that have not yet been approved really raise questions about the need for on-going thermal generation in Scotland, do they not? From a security of supply point of view, there would be no engineering need for that kind of thermal generation in Scotland.

Mike Calviou: I think that you are right. The western HVDC link is all about exporting Scottish renewables, but it has a secondary benefit of helping to import electricity into Scotland. As you build more transmission, you become less reliant on local generation. Scotland still has an awful lot of generation and a lot of planned interconnects, but what has tended to happen in the long run with the Great Britain network, areas of which have been very reliant on local generators, is that, as those generators have reached an age at which it is not economic to keep them running, we have generally reinforced the transmission system to the point where we do not need them. That has happened in all parts of the country.

Patrick Harvie: So can we expect over time to be less dependent on local generation to meet our peak demand but to be able to export that local generation if we are producing more than we consume over the year?

Mike Calviou: I think that that is right.

Patrick Harvie: Thank you.

Neil Clitheroe: The point about a one-in-600-year event comes back to a comment in the note from National Grid that

"if Peterhead and Longannet were unavailable, there was a ... low probability of a 1 in 600-year event, brought on by extreme weather, affecting the electricity network."

That is very much about a loss of load and some of the really extreme black-start situations that you might get. I am sure that Mike Calviou can add to this, but it is important to clarify that the contract that we are talking about relates to voltage control, which happens every minute of every day on the network.

I have a small, but good example from last summer, when the power price dropped for a couple of months. Because Longannet was in a loss-making position, we started to turn the station off—obviously that was planned, because each marginal unit would not be making any money—but in order to provide voltage support services to National Grid, we were actually traded back on every day last summer. At no point last summer did Longannet go down to zero. There were always one or two units on to provide support; after all, that was the service that Longannet was delivering into the network. That is a good example of how the network has been running in

Scotland for many years. From an economic perspective, we would have turned the station off for two months and brought it back on for the autumn and winter.

Patrick Harvie: I appreciate that you need to bat for your team to a certain extent, but you are not suggesting that that is the only way that that service can be delivered.

Neil Clitheroe: No. It is just the way that it has been delivered for the past few years.

Patrick Harvie: Thank you.

The Convener: We have 25 minutes or so left. Five members want to ask questions and I will try to fit them in. It would be helpful if we did not go over old ground, because I think that we have exhausted quite a few of the issues. Novel angles would be helpful.

Richard Lyle (Central Scotland) (SNP): I will give you a novel angle around security of supply. Imagine that the year is 2025—10 years from now. We have lost Longannet, or 16.7 per cent of our total capacity. Peterhead is not on, which is 8.7 per cent. Hunterston closed in 2023, which is 7.1 per cent. Torness is 8.8 per cent. That is 41.3 per cent away from the whole electricity supply. For 30 years, Scottish Power has said, "We export supplies to England, or whatever." The document refers to Scotland exporting 28 per cent of generation. Take 28 per cent off the 41.3 per cent, and we are minus 13.3 per cent of the supply. How can you assure me—I know that we can talk about renewables and so on—that the ordinary Mr and Mrs Punter out in the street will be able to put the lights on in 2025 if all those stations are away in Scotland?

The Convener: That question is for Mike Calviou, I think.

Richard Lyle: It is for anyone.

Mike Calviou: There is no doubt that a lot of change is planned. We look further out. Inevitably, when you look further out, you have more time to do something about it; you also have longer uncertainties. We tend to analyse the scenarios and think about what we might do, but we do not necessarily pull the trigger until we get closer to them and have a bit more certainty. I know that EDF would hope to life-extend its nuclear plant, so it might still be open in 2025. That is not known—we might find out nearer the time.

As discussed in response to the previous question, as the system evolves there will be further investment in generation. That investment will mainly be in renewables, but it might be in different renewables with different characteristics that provide more diversity. If there is more marine power, that will probably operate at different times than wind, so that will provide a benefit. Clearly, if CCS happens, that will provide a long-term base-load option.

As all that generation plant shuts, the transmission charging regime will naturally rebalance. As soon as there was not enough base-load generation in Scotland to meet Scottish demand, the signals would radically reduce and even flip around. The system is meant to be cost-reflective, and if we reached the point at which Scotland was much more reliant on imports most of the time, the generation charge in Scotland would come down massively and the demand charge would go up. That is how the network works, and there would then be a market signal. If new combined cycle gas turbines had been developed across GB, it is certainly possible that one or more may have been developed in Scotland, too.

There are quite a few ifs and buts in there. In the timescales that we are talking about, there is inevitably a lot of uncertainty and all sorts of things might play out. The key point is probably one that was mentioned earlier—ultimately, if there is any concern about scenarios in which there is not enough local Scottish generation, we have time over those timescales to bring forward further transmission investments in order to secure the network. In effect, we plan the system under a very robust, systematic process to spot those issues coming and to ensure that there is a network that we can secure to the security standards.

Jim Smith: There has been a lot of discussion about Longannet and Peterhead closing. The first thing to say is that we have not said that Peterhead will close. It is economically challenging at the moment, but we are working, through a number of things, to try to get through this particularly challenging period. We are investing to make the plant more flexible for this winter coming.

By potentially winning ancillary service contracts like the voltage contract that I mentioned previously, and the one that is currently in play, we hope to mitigate some of the losses that we are seeing in the plant. That is obviously a very short-term thing; Peterhead is a modern gas-fired power station, which has the capability to operate well beyond 2030. The scenario of Peterhead being closed is not necessarily one that will happen. If CCS goes ahead, and of course at some point we would hope to see a market recovery in the wholesale market for thermal plant, Peterhead could still have a long-term future in the Scottish generation market.

Martin Crouch: By 2025, we will have billions of pounds more invested in the transmission system. There are a number of upgrades—not just the western HVDC link, but the Caithness Moray

project and others—which will lead us to have a much stronger transmission system to support security of supply by the time we get out there. We would expect demand response to play a much bigger role in helping to meet security of supply, so that is another change over that period. We would then be into about the sixth or seventh year of the capacity mechanism, which is intended to help as well with long-term signals for investment in generation. By the time that we get to 2025, there will be a number of factors. There are no perfect guarantees, but there are a number of tools in place to help ensure that we have security of supply over that period.

Joan McAlpine (South Scotland) (SNP): The National Grid has undertaken a system study of Scotland, and last month the First Minister wrote to the Prime Minister asking for that study to be put into the public domain, along with all the background reports that accompanied it. It is still not in the public domain. Can you tell us when it will be?

Mike Calviou: Yes. I am not sure that that request has come straight to us, but we did the system study jointly with SP Transmission and SHE Transmission. We have shared it extensively with the Scottish Government and some advisory boards. We have also shared it, as you might expect, with Ofgem and with the UK Government. We are very happy to put it in the public domain, and we will get it published on our website. We will probably do that once we finish the current procurement exercise so that we can put up a whole package of stuff in one go, but we are very happy to publish it.

Joan McAlpine: Why can you not publish it now?

Mike Calviou: We need to get it up on our website and ensure that the only issues we have to worry about are any commercial sensitivities around individual generating stations. I would anticipate it being published in a matter of weeks.

Joan McAlpine: I do not quite understand why it is so difficult to get something on a website. Would you share it with the committee now?

Mike Calviou: I am very happy to send it to the committee.

Joan McAlpine: Will you do that now—after you leave here today?

Mike Calviou: Yes.

Joan McAlpine: Okay. Thank you very much.

You have mentioned a couple of times the increase in wind power, particularly from Scotland, but also the intermittency of supply. The Institute of Mechanical Engineers published a report last year that showed that the UK's energy storage capacity was way behind other countries. We are not even in the top 10 for energy storage. Have you any thoughts on why that should be? Is electricity market reform not encouraging the development of energy storage capacity in the UK?

11:15

Martin Crouch: If you are talking about electricity storage rather than energy storage—we have lots of gas storage and so on—most of what exists across Europe now is in hydroelectric systems with pump storage. We tend to have fewer hydro systems than countries such as Norway, Switzerland and Austria, because of our geography. We have some in Scotland and some in Wales, but the costs of having pump storage sites in GB are higher than in some other countries. Therefore, we tend to have less and to rely more on gas and other plant for faster response.

We are very keen to see new forms of storage, such as battery storage, come on to the system over the next few years. We have funded innovation trials on the networks to look at some of these issues, so we are very keen to see such things develop, as are many countries across Europe. Such forms of storage are not widespread anywhere at the moment. The current stats on electricity storage are primarily about pump storage.

Joan McAlpine: You say that they are not widespread anywhere, but we are not in the top 10 in the world. Our European competitors are ahead of us, and IMechE says that we need to increase our capacity considerably. Are you aware of the IMechE report?

Martin Crouch: I am not aware of that specific report.

Mike Calviou: I am aware of the report. I think that the issue with the report is that it seems to presuppose that one can say what the right amount of storage is. My view is that storage has a number of potential uses, and if it can become more economic with innovative new technology such as batteries, flywheels or whatever, it can play a massive role in helping with intermittent generation and in smart grid applications. We are very interested in how we might be able to use storage to provide some of the balancing services, and the voltage control things that we have been talking about. We are very enthusiastic about the technology, but at the moment it is not economic, although that might change in the next few years.

To say that there is not enough storage is to presuppose what the right answer is. To me, that is why we have a market, and if the market says

that the technology is economic, it will be developed.

Jim Smith: Pump storage is obviously the tried and proven method of electricity storage, never mind any new technologies. Sometimes I wonder why people get all worked up about battery storage when we have a proven technology that works. As I am sure that everyone is aware, we have consent to build a pump storage in the north of Scotland. That is actually a little bit different from both Foyers and Cruachan, and indeed Dinorwig and Ffestiniog, in that it would be built with a very large storage capacity, unlike others that are built to store maybe seven or eight hours of their capacity to deal with the peaks. Unfortunately, the market mechanisms do not exist to justify the investment.

Joan McAlpine: Nuclear power is not economic either, but it gets huge subsidies from the UK Government. Why is it okay for nuclear power not to be economic and to get investment, but not energy storage?

Martin Crouch: I think that what the UK Government chooses to support is a matter for the UK Government, is it not?

The Convener: That could be applied to all energy technologies, could it not? Anyway, thank you.

Lewis Macdonald: From what Jim Smith said in answer to a previous question, Peterhead is working on a number of options in the medium term. My deduction from that is that the short-term bid that you are engaged in this month is not vital to the future success of Peterhead, although it is part of your bigger plan. Is that one of the things that you are doing in order to maintain the station?

Jim Smith: As I said, the economics of Peterhead are currently challenging. You might say, "Why keep going?" We have always hoped and felt that we could secure some ancillary services from National Grid to contribute to the upkeep of the station in this short-term period. As I think Mike Calviou said, he has an obligation to find the most economically beneficial solution to his problem, so we have put in a bid and we are keen to be successful.

Lewis Macdonald: You also mentioned carbon capture as a key part of that prospect. Neil Clitheroe told us about the contract that Scottish Power is bidding for; clearly that is important from your point of view. Are there any other irons in the fire that the committee should know about in the work you are doing to maintain the station to 2020?

Neil Clitheroe: Not really, no. Ultimately, with the power plant and with the gas plant, which Jim Smith mentioned, we generally suffer through the difficult times in the expectation that the market will change. In the early 1990s, Cockenzie and Longannet did not make any money for a number of years. We kept the plants going over three or four years, so that in the end, when the market changed, opportunities arose.

The difference today is that there is an acceptance that coal is in a very difficult situation in the UK network, and therefore it is extremely unlikely that one could ride out the difficult time with an expectation that something will happen in the future that will make coal significantly more profitable in two or three years' time, hence allowing recovery. One reaches the point at which one has to take action today, and that is what we have tried to do. We are doing all the things that you would expect of us—making the plant more flexible to try to deliver services to National Grid, managing the cost base, and managing all our contracts. We are doing everything we can to bring down the cost and make the situation better at the plant.

Lewis Macdonald: Is the work that is being done elsewhere on carbon capture from coal not of any interest?

Neil Clitheroe: No.

Cara Hilton (Dunfermline) (Lab): Unfortunately, most of my questions have been stolen. Mike Calviou said earlier that the decisions were down to power station operators, but in the briefing that you issued last week on security of supply, you said that you were committed to applying your expertise to developing sustainable energy solutions for the UK. What does that mean for Longannet? Does it involve exploring an alternative option for the site and for the workforce?

Mike Calviou: I do not think that it is appropriate for us to look at an individual power station and the best options for that site and its workforce; that is not our role. Clearly, that is for Longannet. Scottish Power has to take decisions, and Neil Clitheroe talked about his plans. Ultimately, we look at the overall GB network. We have a clear obligation to ensure that that network can be secured in real time and that the flows can go where they need to go.

We are committed to doing our bit to move to a more sustainable, decarbonised system and a lot of investment is going on in transmission network across the whole of GB in order to allow new, low-carbon generation to connect. We see ourselves having a big role in that sustainable future, but individual decisions on individual power stations are down to the power station operators.

Cara Hilton: Investment in the transmission network has been discussed. What is the likelihood of a new gas-fired replacement for

Longannet, and what conditions would have to be met for that to happen?

Neil Clitheroe: That would be very unlikely at the moment, given the difference in the economics between locating a gas plant in Scotland and locating one in the south-east of England. In effect, you are going into one capacity auction, which is a UK auction within which there are no locational factors. You are bidding against all the other plants across the UK. The charge is higher in Scotland than it is elsewhere, so if you are getting a fixed price for your capacity, you will try to put the plant in the place that has the lowest fixed cost, because that is the most economic.

I cannot predict what will happen in future auctions, but in the last auction there was just one plant that was new in the UK. In the next auctions, I am sure that there will be one or perhaps two plants in each auction. Those plants will be located where the transmission charges are the lowest, because everything else is the same.

Martin Crouch: I think that the plant that was successful in the capacity auction was not located where transmission charges are the lowest—it was located in the north of England, rather than the south. However, I agree with the driving factors that Neil Clitheroe talked about. New gas plant is less likely to be located in Scotland than in England, because of a range of factors including the ability to get planning consent, land prices, gas prices, which also vary according to location, and electricity charges. Over time, I suspect that there would need to be a different balance of demand and supply in Scotland and in the rest of the country, which could lead to transmission charges changing. I would not rule it out for the future, but I agree that it looks less likely at the moment.

Neil Clitheroe: That is why we have options. We have an option at our old Cockenzie site for a gas plant, but we also have an option at our Damhead Creek site in the south-east. That is the one that we entered into last year's auction.

The Convener: I think that it was suggested—I cannot remember who by—that, if there were to be a drop-off in generator capacity in Scotland, the transmission charging regime would flip around and make it more viable. Was that the case?

Mike Calviou: Yes.

The Convener: Thank you.

Cara Hilton: I have one final point, which is mainly for Scottish Power. Obviously, this is a really worrying time for the workers and their families, probably more so after today's session. If the decision goes the wrong way for Longannet and the contract is not awarded, what would be the timescale for generation to cease on the site?

Neil Clitheroe: As I said earlier, March 2016 is the position that we would be looking at for the site. That assumes that transmission goes to zero and the station at that point would close. The potential deal with National Grid would mean that the transmission would not drop down to zero; it would be above that. Therefore, the workforce and everything would accommodate that lower level of transmission.

Two or three years ago, Scottish Power shut the Cockenzie plant and some of the workforce there moved to our Longannet plant. Some staff got jobs elsewhere in Scottish Power, for example in the metering businesses and the network businesses. Some of the employees took early retirement. As we always do, we managed the employee base as best we could to provide either a future at Scottish Power or the early retirement/voluntary severance plans that we have always provided.

Johann Lamont (Glasgow Pollok) (Lab): Mr Clitheroe spoke about the postage stamp model. What would be the price of the postage stamp model for Scottish Power if transmission costs were defined in that way?

Neil Clitheroe: That is a good question. I am not entirely sure on that, as it would depend on the model that was developed. It could be a postage stamp model with the same split between generation and demand as at the moment, or the model could be applied just to demand, in which case there would need to be consideration of what that proportion would be. At the moment, the key thing that I look at is the difference between what we pay today and what other coal plants across the UK pay. That is the issue for Longannet. I suppose that the key issue would be the construction of the model. It takes a long time to change transmission charges. The current project transmit commenced in 2010—I think that the initial proposal was in 2008—and the charges will come into effect next year. It is not an overnight thing. There is a lot of debate, because there are a lot of transition consequences.

11:30

Johann Lamont: Is the postage stamp model of delivering service entirely legitimate for consumers? It is not extreme.

Neil Clitheroe: No, it is not extreme.

Johann Lamont: From your point of view, it would benefit you. I do not know what the balance of winners and losers would be, but that would be worth reflecting on. Ofgem's argument seems to be that the current model is in the interests of consumers and that a postage stamp model would not be. I argue that that is highly contentious, given that a postage stamp model is an entirely legitimate way to deliver things. We do not have a

lot of time. What would the transmission costs need to be for you to be able to function beyond 2016?

Neil Clitheroe: The model that we looked at was one in which we were paying a £10 million transmission cost, which I think is equivalent to costs in the midlands area. If we were paying around £10 million instead of £40 million, the plant would just survive—it would break even, which would enable us to fight another day.

Johann Lamont: When it was suggested that National Grid might have a role, Mr Calviou made the point that the matter is for plant operators. However, does National Grid not accept that, to an extent, you define the ability of plant operators to operate if you stick to a transmission cost regime that disproportionately disbenefits Longannet in comparison with other plants?

Mike Calviou: We understand that our transmission charges will have an impact. They are designed to provide the cost-reflective system that Martin Crouch talked about. As Neil Clitheroe says, we are planning to implement a major change next year, subject to judicial review, so making further changes in the short term seems pretty hard to achieve. There are different ways. Even if Longannet closed some of its capacity, that would reduce the transmission charges to all the other generation in Scotland, so it is quite a dynamic system.

Johann Lamont: Do you accept that your decision to stick to transmission cost has a consequence for Longannet that is outwith its control?

Mike Calviou: Yes. It has a consequence for all generators in the system, including Longannet.

Johann Lamont: Specifically, it might mean that Longannet closes. I ask Ofgem the same question. Given that sticking to a model that is said to be in the interests of consumers will have a consequence for Longannet, have you looked again at the issue in terms of benefit to consumers?

Martin Crouch: As has been said, we looked at that over the course of several years. Our estimate is that, in the longer term, it would cost several billion pounds more for consumers to move to a system of everyone paying the same. As I said, many other countries have market designs with locational signals in the charges. That is part of the European target model that has been agreed at European level. Although there are impacts on individual plants, that is not entirely outside their control. As has been said, if a plant reduces capacity, it pays less. For the year that is really in question, which is 2016-17, Longannet's charges will fall by more than £10 million. Clearly, that is not to a level that the generator would want or choose but, within the legal framework that we operate, it is not open to us to make individual decisions just to give a bit more money to one company rather than another.

Johann Lamont: It is a choice of model, and there are other entirely legitimate choices of model that would have different impacts on different plants. You have chosen a model that has a specific impact on Longannet.

My final question is on the broader consequences. Mr Clitheroe talked about Cockenzie workers having moved to Longannet. Presumably, a significant number of the workforce are skilled and, therefore, we might argue that Longannet generates a demand for skilled jobs, which has an impact on local skills drivers, such as opportunities or incentives for people to take up particular kinds of jobs. Has any work been done by anyone on the panel on the impact of closing Longannet on the development of high-level engineering skills or whatever within those communities and more broadly for Scotland?

Neil Clitheroe: On the job situation overall, as I said, there are 270 permanent employees and another 160 permanent supplier employees on site, and at each major outage we bring in between 500 and 700 other employees from our suppliers. There are 100 small business suppliers that receive regular business from Longannet, totalling £10 million per annum. It is a hub for the local economy, along with the other major industrial plants in that economy.

Scottish Power has strong apprentice programs that we run across our SP Energy Networks business, which runs across Scotland. We are always looking at reskilling and retraining people to assist in that transition. We also have good connections with other employers across Scotland. When these types of things happen, there are always some parts of the economy where jobs are growing and, therefore, people can be moved across to them. We will throw every tool that we can at managing what could be a difficult situation.

Johann Lamont: There are obvious examples across Scottish industry where jobs have been retained in order to retain the skills for when the market picks up again, but it does not feel to me as if that has even crossed the desk of those who are making decisions that have a consequence for Longannet. It might be for the Scottish Government to consider, under its industrial and economic strategy, whether there are things that it should be doing to retain skills while the market is not being helpful.

The Convener: That is more of a rhetorical question than one to the panel, but if anybody is keen to answer it, go ahead.

Neil Clitheroe: Scottish Power has some extremely skilled and dedicated people at Longannet, and our aim is always to try to find opportunities for those people, should the status of the plant change.

The Convener: Other members are keen to come in, but we are already over time, and we have another panel to hear from. I thank all our witnesses for coming. It has been a long session and we have covered a lot of ground, but it has been extremely useful.

We will now have a short suspension.

11:37

Meeting suspended.

11:43

On resuming—

The Convener: We reconvene, and I welcome our second panel. We are joined from Fife Council by Councillor Tom Adams and by Robin Presswood, who is head of service, economy, planning and employability services. Thank you both for coming along.

I think that you were in the public gallery to hear the evidence we received earlier, but I will summarise it. We have always known that Longannet is likely to close by 2020. There is now a prospect of that closure being brought forward—if I recall correctly what Neil Clitheroe was saying—if Scottish Power does not win this contract with National Grid. The closure could be brought forward to March 2016, and clearly there would be very serious implications for the Fife economy if that were to take place.

Could you start by explaining what Fife Council has been doing in relation to this issue and what initial thoughts you might have about the impact on the west Fife economy, should Longannet close early as was suggested?

Robin Presswood (Fife Council): Thank you very much, convener. I will start off and Councillor Adams will then speak about the economic impact and, in particular, the supply chain, which is an important point.

We were asked here to talk about the economic impact of closure, and we will do that, but the first point to emphasise is that we are here primarily as part of the campaign to support Longannet in a longer-term transition to a cleaner form of power generation.

The views put forward by Mr Clitheroe from Scottish Power are very similar to the views of Fife Council. We have always had very good relationships with Scottish Power. It has been a good employer, and it has gone out of its way to do community engagement well. It has been a high-quality employer, and it has always been an excellent partner with the council. The council recently passed a motion of support for the campaign against premature closure of Longannet, and there is a unified cross-party position on the council on that.

In terms of economic impact, we are obviously and correctly focused this morning on the 260 direct employees at Longannet, but towards the end of Mr Clitheroe's contribution he talked about the supply chain. I think that he gave a figure of 500 to 700 people involved in the supply chain and as contractors, and that figure chimes with our analysis, which we have done using standard industry multipliers that are available through Scottish Government.

We would estimate that potentially there are around 600 indirect jobs that depend on the facility and an additional 200 induced jobs, which would be jobs in local shops and hospitality facilities that are supported by the wages coming out of the plant. From our perspective, we believe we are talking not about 260 direct employees but about 1,000 jobs across the central belt, not just in the west Fife villages, Longannet and Kincardine, but across the central belt. There would be a very significant impact. That is the context in which we must consider the response to any potential closure.

In particular, I know that Councillor Adams wants to talk about the impact on the coal industry. I am sure members will not need any history lesson from me on the recent phenomenal pressures on the coal industry and the ups and downs of that. The Scottish Government coal task force is a very important part of the response. Clearly, Longannet consumes a very large amount of coal from the remaining Scottish opencast mines, and two local ones—Muir Dean and St Ninian's, I think—still both supply the plant. There would be a very significant impact from closure. There would be an economic impact, but there would also be an impact on the restoration and the environmental impact of those operations and the ability of the operators to ensure an orderly restoration strategy.

Fife Council's position is very clear. We support the position as articulated by Scottish Power and the need for an orderly rundown and transition of the site. If the economic circumstances are correct, we will broadly be supportive of a transition to a cleaner form of thermal generation on the site. We think there is an incredibly important infrastructure at Longannet that should not go to waste. It is strategically well located for Scotland. We do not anticipate that a replacement facility would be required to be anything like as

large as Longannet, but certainly—looking beyond the 2020 horizon that Mr Clitheroe set out—we believe that, if the economic circumstances and the charging regime change, a gas-fired combined cycle gas turbine facility would be probably a beneficial option for us to explore.

There is a degree of frustration within the community and within the council. I am sure Councillor Adams would like to articulate that a little more. We believe that we should have had five to 10 years to plan for this transition, and realistically it has only been since October last year that we have had any real visibility of the potential of closure of the facility in 2016.

Given time, we would like to lessen the dependence of the Kincardine and west Fife villages on that large, single employer. We would like to do more work on enterprise and entrepreneurship to stimulate a start-up culture and many smaller firms. We would like to ensure that there is a supply of physical business infrastructure, such as employment land and facilities for start-up businesses—perhaps a business incubator in small industrial units—to provide alternatives to the large, single employer that we have. We would certainly like to pick up an accelerated strategy on those actions with support from the other partners. Again, Councillor Adams will say a little more about that.

Finally, in the event that the station does close, there is a well-trodden path through the partnership action for continuing employment, the multi-agency response group that the Scottish Government, the council, the Department for Work and Pensions, and Skills Development Scotland would jointly lead on. There would be a strong response to support the existing workforce in considering other options through that work.

We would want probably some kind of task force approach, similar to the task force put together for Hall's of Broxburn and other similar major closures. It might require a multi-council response, because the economic impact would not stop at the boundaries of Fife. The impact would run across the central belt and into Falkirk, Clackmannanshire, Stirling, Perth and Kinross and further south, so we would need to engage with partner councils as part of the approach.

With those words, I will hand over to Councillor Adams.

Councillor Tom Adams (Fife Council): Thank you, Robin. I will concentrate on the supply chain.

Let us look at where coal is coming in from just now. We are speaking about 5 million tonnes being burnt at Longannet. There is a supply chain for the coal from around the world. It comes into Hunterston, and it is then shipped to Longannet, whether that be by road haulage or trains. The impact on the economy in Fife that a premature closure of Longannet would have—which is a clear and present danger—is horrendous.

I speak as someone who actually worked in the coal industry in Longannet, which closed 12 years ago. The local economy is only now starting to pick up from that closure. It was quite a severe closure and there was not really anything in position for when the industry closed.

Now, the hauliers are in danger and even the Alloa to Kincardine rail link would be affected. There is a significant amount of transport on that rail line, and, although I am not sure that it would close, the closure of Longannet would have a major economic impact on it. The two local coal mines that feed into Longannet—the opencast sites—between them employ around 500 employees. Again, there would be a huge impact.

What we are here to say is that, if that premature closure happens, we will be looking for a task group to be set up—probably including Scottish Power, Scottish Enterprise, the Scottish Government and Fife Council—with significant funding put into it so that we can enable people to go on to apprenticeships and then secure long-term employment. That would be for everyone affected, including those who are not directly involved in Longannet power station.

What we are looking for is support for the whole central belt of Scotland but most of all the west Fife villages and the local community in Kincardine, and also just across the water in Alloa and places near it. A huge problem would arise, and we would look for a lot of help from the organisations I have mentioned.

The Convener: I thank you both very much.

Before I bring in other members, I want to tease out a couple of issues. I think that you said, Mr Presswood—and you echo this, Councillor Adams—that your preference would be a replacement for Longannet, and you mentioned a gas-fired generating station. Have you had any discussions with Scottish Power about that prospect?

Robin Presswood: We speak fairly regularly. The council engages with all the major employers in Fife, and given Scottish Power's importance I manage the relationship personally. We are aware that, from its point of view, that option is technically feasible but not commercially viable at this time. If the overall economic circumstances surrounding thermal power generation in Scotland were to change, Scottish Power would certainly be keen to explore that again—I think that is consistent with the answer that Mr Clitheroe gave earlier.

We believe that such a facility would be smaller than the capacity at Longannet. We do not see any regulatory hurdles—it would almost certainly be a Scottish Government consent, rather than Fife Council, so I can say that without prejudicing my position as head of planning. We believe that it would be broadly consistent with both Scottish Government and Fife Council planning policy, so I do not see any major headaches with such a facility from a consent point of view.

The Convener: If there were no replacement power generating capacity, is there anything on that site that could replace these jobs or even come close?

Robin Presswood: It is certainly a very large site, so it has the physical capacity to be converted—probably not the main power station itself, but some of the ancillary buildings could be converted.

As we have seen when there have been large-scale closures in the past, one option is to bring some capital to the table to convert, for example, workshops or offices into a business incubation space. It may be that that is not feasible and a complete removal of all the estate is required. Therefore, the approach may be to build a new-build proposition somewhere else on the estate—perhaps a small business park with a business incubator and some terraced workshops—to provide options for accommodation for small and growing businesses in the local area.

The Convener: That is not going to come anywhere near the 500 to 700 jobs that are dependent on the station at the moment.

Robin Presswood: The 1,000 jobs figure—if you take that as a broadly consistent figure between the point that Scottish Power set out and the view that Councillor Adams and I have expressed—would be distributed across Scotland. Typically, if you build a business park over a period of 10 years, you create 60 to 70 jobs per hectare, so a 10-hectare business park might have 600 to 700 employees on it by the time it is completely developed.

Given the strategic location of Longannet at Kincardine, next to the new bridge and well-connected for many communities, we certainly believe that over a period of time, if we could put some capital investment into business incubation and a business park, we could gradually grow the workforce back up, but it would not be an overnight transformation. It would take time for businesses to grow and move into the area.

The Convener: Thank you.

Chic Brodie: Good morning, Robin. I know you from my days in Dundee and Fife. When did you first know of the real danger? You say that you talk to Scottish Power regularly and it is in your own portfolio, but when did you first know that the closure was a likelihood?

Robin Presswood: I hope that I am not going to say anything to incriminate myself. I spoke to the generation director, Hugh Finlay, in October or November last year, and he explained that it had not gone into the capacity auction because it could not make money doing so, but he explained that it was bidding for the supplementary balancing reserve. I think that, at that time, Scottish Power's view was that National Grid needed Longannet. What you have heard this morning proves that National Grid's thinking and public statements have changed considerably since then.

My assessment of the conversation in October or November of last year was that it was probably sabre-rattling, and I felt that an agreement might be reached between the two parties. Obviously the news flow hotted up considerably in January and early February, and I spoke to Hugh Finlay again at that time. It was really only in that second phone conversation that I realised that there was a very real threat that Longannet may close as early as 2016.

Thinking about the story of Longannet and all the engagement that the Scottish and UK Governments have had around it, it is not that long since we were considering spending in excess of £1 billion in carbon capture and storage at the site, linked to the Goldeneye field in the north-east of Scotland. That was comparatively recently. As Mr Clitheroe said, Scottish Power has spent £250 million in recent years on pollution control measures. I suppose that part of our frustration is that it feels a little like dancing with a corpse, given the way public policy has lurched from one side to the other on the future of Longannet. That has been a compounding factor in the frustrations that the local community and the local council feel.

Chic Brodie: I have to say that I was depressed by your comments about what you are going to do if Longannet shuts. With all due respect, we are going around the same loop that we go around very often when major places close—"We will bring in PACE and we will create small businesses," and so on.

What have you done since October to mitigate the effects of the decision and to get the community behind you to fight it? Based on some of the information we had previously, I believe that there are enough holes in the argument that could have been prodded—and certainly will be prodded. Why are you taking the road that Longannet is going to close?

Robin Presswood: The council has taken clear and robust action to campaign against the closure. There has been a motion agreed at full council

with unanimous support for the continuation of power generation and a longer-term strategy to clean up power generation at the site. The council leader has written to both Ofgem and National Grid to highlight concerns and seek assurances that everything is being done to ensure a medium-term future for Longannet.

Fife has a strong record in community-based campaigns. The campaign against the closure of Tesco in Kirkcaldy is a current, live example of how the community tends to unify and come together very quickly with the support of cross-party groupings of politicians to campaign on the issues. The fact that the Longannet campaign is really only starting vigorously now is a reflection of the fact that the realisation that there is a clear and present threat to the station has come about only into 2015.

Chic Brodie: I have loads of questions but, given the time, I will pass.

12:00

Richard Lyle: I say to Councillor Tom Adams that I sympathise with the council's position. I represent Central Scotland and I was a councillor for the Motherwell district in North Lanarkshire Council. We had to deal with the Ravenscraig closure, in which thousands of jobs went, and it has taken the council a number of years to get the numbers back up. I recommend that you chase the Government for the status of national priority, which was eventually given to Ravenscraig, and also for tax increment financing.

However, we do not want to get there. How does the council feel about the transmission charges? Longannet pays more than £17, yet the figure for central London—I loved the comment by Mike Calviou—is minus £5, and the figure for west Devon and Cornwall is nearly minus £6. In Longannet, we have an excellent facility. My concern is about future supply. As I asked earlier—you were here—what is going to happen in 2025? Scottish Power says that, if Longannet closes, it will be because of the cost, and that it costs more than £40 million to run it. What if the different transmission charges were done away with and we ensured that they were equal all over the country, as they are in Europe? Is the council pursuing that?

Robin Presswood: I suppose that the council is anxious to ensure that Longannet has a level playing field. The detail of the way in which the transmission charges play out and their impact on Longannet have not been the subject of detailed investigation because they are probably outwith our scope as the local authority. However, we support a level playing field and we are keen to ensure that Longannet can compete openly on that basis.

It is important to emphasise Mr Clitheroe's comment that, if Longannet was in the Midlands, it would break even. Transmission charging is not the sole reason why Longannet is facing financial difficulties; there is also the carbon tax, and the nature of the capacity auction is a factor. It is important to recognise that and to be sure that we do not just focus on one problematic aspect of the financial challenges that are facing Longannet.

Richard Lyle: Not having sat on Fife Council, I do not know whether you have a regeneration committee or an economic committee that you will be pursuing the case through. I know you have all-party support on the issue, but have you set up a particular committee or task force within the council to pursue it?

Robin Presswood: There is a coal task force, which mirrors the Scottish coal task force, and it has largely taken the lead on such areas. The full council debated the motion, which was agreed unanimously with cross-party support, and we have an economy and planning policy advisory group, which may wish to take the matter up and look into the detail. At the moment, we are very much in campaigning mode, and there is cross-party support for the campaign.

Richard Lyle: I wish you well.

Patrick Harvie: I was a wee bit surprised to see that it was only recently that you saw a real danger of the plant closing. We have been discussing the decarbonisation of the energy supply for a long time now—in Scotland and the UK—and there has been a general expectation that Longannet would close by 2020. There is still no clarity—or an open debate, let us say—about whether even a new generation of gas energy generation is compatible with the country's climate change objectives. I presume that you have spent a considerable number of years looking at the long-term future and developing alternative contingency plans in the event that there is no energy generation on the site.

Robin Presswood: We were aware that the likely backstop date was 2023. We have been planning on the basis of Longannet closing in 2023, and through the local development plan we have identified options for physical, business park-type accommodation to help with diversification.

The council is strongly supportive of decarbonisation. At the launch of the RWE biomass plant in Markinch last week, Fergus Ewing described Fife Council as one of the leading councils in sustainability and low-carbon generation, so it is territory that we are comfortable with. I should have emphasised that it is the premature closure that has taken the council

by surprise, rather than the closure itself. I do not think anyone in the council is arguing that coal should have a long-term future to 2030 or 2040.

Patrick Harvie: At a practical level, who owns the land and who would bear the responsibility for the costs of decommissioning plant or buildings? Would that fall to Scottish Power or to the council? Would some additional support be needed from the Scottish Government to deal with those practical issues? As I understand it, the land at Longannet and some of the nearby land is reclaimed through the use of ash. Are there issues around contamination or other environmental factors that would limit the use of that land in future?

Robin Presswood: My understanding is that Scottish Power owns the whole estate and that, therefore, it would be fully liable for the clearing and restoration of the site. It may well be that that is not the case, but that is certainly the normal approach in these situations.

Our only other experience is at Methil, where Scottish Power closed a station some years ago and demolished it four or five years ago. In that instance, the site was owned by Forth Ports and was on a long-term lease but, as part of that lease, Scottish Power was required to clear the site and fully restore it before returning it to the landlord. I think that, in this instance, it owns the site.

Patrick Harvie: Is it your understanding of the relationship that the responsibility would fall on Scottish Power to clear and restore the land?

Robin Presswood: Yes.

Patrick Harvie: Would ownership then transfer to the council?

Robin Presswood: I anticipate that, if we had a joint task force involving the Scottish Government, perhaps the UK Government, Scottish Enterprise, Fife Council and Scottish Power, we might work jointly with them on the reuse strategy for the site. Given the extent of the grid infrastructure there, I would hope that, in the first instance, we might consider what use we could make of it as part of Scotland's journey towards a low-carbon power generation future. Some options might arise from that.

We would also want to look at whether any of the surplus estate could be turned to future economic use. Is there some land that might be suitable as a business park? As part of the local planning policy work, we identified a business park site and we had a provisional agreement with a housing developer to cross-subsidise the development of the business park from housing release, but that might not be possible now due to economic constraints. We have identified other site options and we would want to work through a task force approach to consider how we could create a business park and potentially get some accommodation for small and growing businesses as well.

Patrick Harvie: So you have not found any problems with land contamination that would affect that proposition.

Robin Presswood: If there was any contamination, the operator would be expected to remediate it to an agreed standard.

Patrick Harvie: Thank you.

Bruce Crawford: This is a difficult challenge for everyone, but I think there are actually some glimmers of hope in what has been said today. Let me explain quickly what I mean by that. I do not think that we should give up on Longannet being a generating site. Longannet has a gas pipeline going into it, and we heard from the representative of Scottish Power that it is considering Cockenzie for potential gas use in the future. Cockenzie and its area have already absorbed the economic impact. It must have been difficult for people, but it has already been absorbed. Would it not be a commonsense argument to put to Scottish Power that, instead of concentrating on Cockenzie in future for gas—despite the climate change issues, which I understand—Longannet might be a better site for the opportunity, particularly given that, if it closes, the transmission charge mechanism will begin to change in Scotland and costs will come down?

I think that there is a real campaigning issue for Fife Council and others to persuade Scottish Power that Longannet should be a gas site in the future, hopefully by 2020. What do you think of that, Robin?

Robin Presswood: We would welcome that if there was a commercially viable solution to new thermal generation. I understand very well the point that Mr Harvie has made about gas not being entirely consistent with our national objectives to decarbonise the electricity supply chain.

Bruce Crawford: It is still better than coal.

Robin Presswood: It is significantly better than coal. As a council, I think that we would broadly welcome that.

Patrick Harvie: A fail is a fail.

Robin Presswood: Mr Clitheroe's comments about the likelihood of that were very clear, and were at the bottom end of a pessimism scale. Scottish Power's position as I heard it today is that it is probably dependent on substantial changes in the economics of UK power generation to make it commercially viable to invest in any gas in Scotland. However, from our perspective, I absolutely agree with the broad view that you set

out that Longannet would be an excellent location for new gas capacity if it was commercially viable.

Bruce Crawford: If the transmission costs were to change, that would perhaps open up an opportunity.

I hope that we can avoid it, but if the worst was to happen at Longannet, there is potential for a double whammy in that part of the west Fife economy, given that the warship work at Rosyth will come to an end. You introduced the idea of the UK Government also being involved. I think that it would require to be involved, given that some of the policy decisions, by their nature—I am not blaming anyone—would flow from decisions made by that body. How important is it for the UK Government to be involved in any task force?

Robin Presswood: In a situation such as this, it is all hands on deck. If there is potential for 1,000 job losses across Scotland, each of the bodies has an element of responsibility to react to that. UK Government participation would be welcome to reflect its statutory role in energy.

Bruce Crawford: Thank you.

Cara Hilton: It is a shame that, so far, a lot of the debate has focused on transmission charges, given that both National Grid and Scottish Power have been clear that the current talks have nothing to do with that.

That aside, we have heard about Fife Council and the UK Government, but it has long been anticipated by the Scottish Government in the national planning policy and other guidelines that Longannet would close by 2020. Do you feel that the Scottish Government should have done more to secure new employment and investment in Kincardine and the west Fife area?

Robin Presswood: I have not been actively involved internally with the Scottish Government in relation to what assumptions it has made around Longannet. It would not be unreasonable for it to have made the same assumption that the council made—that the broad time horizon that we were speaking about was 2020. Given that we are five years from what was the consensus, which I think was shared by Scottish Power, it perhaps does not surprise me that there were not detailed contingency plans in place for a closure in 2020, 2022 or 2023, which were probably the initial dates that we had in our heads.

It is clear that the position has changed very rapidly. I am not trying to make excuses for the Scottish Government or for any of the parties that have been round the table, but the position has changed rapidly. I tend to focus on the look forward and how we can work collectively to resolve the issue, rather than on who should have seen this coming, because we can all take some of the blame for not having considered a contingency.

For me and, I think, the council, the focus is how we can ensure that the impact on Fife—particularly west Fife—and Scotland as a whole is minimised. That is why I think that a joint task force is the proposition to focus on.

Cara Hilton: Thank you.

Lewis Macdonald: People have talked about various scenarios. In the scenario that production at Longannet ceases in 2016, a task force would be very helpful. What objectives would Fife Council enter that task force with? Clearly, it would aim to maintain employment and skills, but what might the economic model look like, given that we are talking about a time only 13 months from now?

12:15

Robin Presswood: First and foremost, we would want to focus not just on the existing workforce but on career opportunities for the next generation that are coming through—the people who might otherwise have gone to work at the plant if it had had a longer lifespan. We would wish to build on the council's considerable investment in the Fife youth job contract, which has been a great success. Youth employment in Fife is now close to convergence with youth unemployment across Scotland, after many generations of being significantly higher. That is thanks to a significant investment of about £7 million over the past three years in the Fife youth jobs contract. I think that we would want to extend that and focus specifically on the Longannet area to ensure that the next generation of young people have opportunities to get into skilled jobs in other industries. There are opportunities out there, despite some of the challenges around oil and gas.

The second thing that we would want to focus on is ensuring that the barriers to businesses setting up in west Fife were removed. We would want to move quickly towards getting a good supply of employment land and perhaps a small business centre and incubator unit to ensure that businesses had the ability to make the first step from people working in their garage to working in rented premises and then—we hope—expanding beyond that.

We would want to work with Scottish Power on the commercial opportunities that might exist for construction and engineering firms as part of the rundown and decommissioning of the site. It is clear that there will be opportunities there, and I imagine that Scottish Power would be keen to work with us on a "meet the buyer" supply chain-type assessment.

Another factor is a deep dialogue with Hargreaves and the other coal operators, not just in Fife but in Ayrshire and all the other communities that still have opencast coal, because there is a real and live issue around what happens to those sites if Scottish Power stops purchasing coal for Longannet. I do not think that any of them is solely dependent on Longannet, but a number of mines supply a fair amount of coal to it.

Lewis Macdonald: That is very helpful.

Councillor Adams: We would also want to concentrate on the social impact that such a large closure would have. Not only would people lose their jobs, but bus companies would stop buses that pick people up to take them to work. They would not need to travel because there would be no employment for them, and the bus companies would stop taking people into towns. Also, schooling levels sometimes drop in disadvantaged areas. We do not want that. The whole social impact has to be looked at as well.

Lewis Macdonald: Thank you.

Johann Lamont: You mentioned that the impact would not be just on the Fife Council area. What conversations have you had with other local authorities? Has the Convention of Scottish Local Authorities been doing any work on the broader impact? What Councillor Adams has just said about the social impact is profound. At one level, the issue becomes theoretical because it is about transmission costs, but the direct impact on communities is going to be massive. Is COSLA a good vehicle for doing work on that? Have those conversations already started?

Robin Presswood: There has not been detailed work with other councils, but they are aware of the situation and we will be following that up. In the initial period, we have focused on engaging with Scottish Power, National Grid and Ofgem to highlight the concerns and, obviously, engaging with the Scottish Parliament.

We will make contact very quickly. COSLA could be a useful forum for campaigning on national issues, such as the national implications for coal, but in relation to the direct localised impact, I think that bilateral discussions with Falkirk Council, Clackmannanshire Council and the other neighbouring authorities to exchange views and campaigning positions would be the quickest way to respond.

Johann Lamont: I suppose that my question was more about what resource there is in Scottish Enterprise, in COSLA or elsewhere to support the right initiatives around employability and supporting people from the immediate impact of the jobs going to a transition into something else. There must be expertise that could be harnessed.

Robin Presswood: That remit was largely transferred to Skills Development Scotland when it came into being. Scottish Enterprise will have a view from the company development side, but the bulk of the work would be done by SDS in partnership with the relevant local authority and the DWP. That tends to be the core of a PACE response team, and there is potential to work with local colleges on reskilling. That is the way in which it tends to operate.

The DWP will lead the PACE response team, but the other agencies will play in and bring expertise to the table. That tends to be co-ordinated on a pan-local authority basis in large-scale closures such as this one.

The Convener: Is there anything that you would like to add, or anything that we have not covered that you would like to put on the record?

Councillor Adams: No.

Robin Presswood: No.

The Convener: In that case, I thank you on behalf of the committee for attending. We are well aware of the seriousness of the situation for the economy and the people of Fife, and we are grateful to you for coming.

12:20

Meeting continued in private until 12:46.

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