

CABINET OFFICE - UK ENERGY POLICY REVIEW

SCOTLAND OFFICE SUBMISSION

Introduction

1. This submission reflects the initial views of the Scotland Office on topics covered by this review, and identifies issues for the PIU team to consider further during the review. The Scotland Office notes in particular the long horizon for the review and wide-ranging terms of reference - reflecting the timescales for closure of generating assets and the need for a long-term direction as regards security and diversity; and other factors such as environmental obligations, the scope for demand management, for energy efficiency, and the implications for industrial competitiveness and social policies.

Devolution: Legislative Framework

2. Under the terms of the Scotland Act 1998, regulation of the main energy sectors is reserved to the UK Parliament, and executive responsibility lies with the Government. Schedule 5 of the Scotland Act defines reserved matters under the heading of Energy and includes:

- **Electricity.** Generation, transmission, distribution and supply of electricity
- **Oil and Gas.** Including the ownership of, exploration for and exploitation of deposits of oil and natural gas. Offshore installations and pipelines, liquefaction of natural gas and the conveyance, shipping and supply of gas through pipe.
- **Coal.** Including its ownership and exploitation, deep and opencast coal mining.
- **Nuclear Energy.** And nuclear installations, including safety, security and safeguards.
- **Energy Conservation.**

For the purposes of brevity, this list is not comprehensive. Full details may be found in Schedule 5 of the Scotland Act 1998.

3. There are certain explicit exceptions to these reservations, which enable the Scottish Parliament to legislate in relation to the promotion of energy efficiency. In addition, a range of other matters, relevant to the provision of energy supplies, are devolved, such as the systems of planning control and environmental controls.

4. Scottish Executive Ministers also exercise relevant functions which have been "executively devolved" under Section 63 of the Scotland Act 1998. These functions include the promotion of renewable energy, consents for power stations and overhead electricity lines and approvals for major land based gas pipelines. A concordat between the Scottish Executive and the Department of Trade and Industry provides for co-operation on energy matters, including mutual consultation and exchanges of information.

5. The Scotland Office works in close co-operation with the Scottish Executive on energy issues. Three of Scotland's six largest companies are in the energy sector, and there is significant employment related to the exploration of oil and gas reserves from the UK Continental Shelf (UKCS). Scotland also offers substantial potential for the exploitation of renewable energy sources. At the outset of this review, the Secretary of State for Scotland and the First Minister agreed to work together to ensure that there would be close co-operation in preparing inputs to this PIU Review on behalf of Scotland. The Minister of State for Scotland is a member of the Energy Policy Review Advisory Group, and has had regular discussions with Scottish Executive Ministers and officials. The Scottish Executive has also had direct access to the Cabinet Office team undertaking this review.

Distinctive Scottish Interests

6. This review of energy policy is directed at the energy needs of the UK as a whole, but there are a number of aspects where Scotland has a particular or distinctive interest.

- **Security and diversity of supply.** The main coal, gas and nuclear generating units in Scotland are scheduled to close by around 2025, and production from the UKCS is expected to decline after around 2005. These foreseeable developments require a planned policy response, which gives explicit recognition to the long lead times for planning, for obtaining approvals and for commissioning any new electricity generating capacity.
- **Nuclear Generation.** This accounts for over 50% of the demand for electricity in Scotland, and all the nuclear generating stations have published lifetimes which imply cessation of production within the next twenty five years. There are no current plans for replacement or for expansion of this capacity. Any replacement of nuclear generation in Scotland, including any plans to use existing sites for the next generation of nuclear power stations, should only take place after full consideration of all the economic costs and the environmental issues involved.
- **Renewable sources of energy.** Hydro-electricity is already an important component of the supply of electricity in Scotland, with significant environmental benefits. The planned refurbishment of these plants ensures a continuing contribution for many years.

In Scotland, a significant contribution to electricity supply may also be expected from other renewable energy sources notably from harnessing energy from wind, wave and tidal streams. The Scottish Executive have an objective to increase the contribution to electricity production in Scotland from renewable sources from 12% to 18% by 2010 (the UK target is to increase the contribution from renewable energy sources from 2% to 10% over the same period). Increased use of renewable energy sources will yield important benefits in respect of environmental targets, and in terms of greater security and diversity of supply; but it is also likely to be associated with a marginal increase in electricity prices. The wider economic and social implications will therefore require consideration.

- **Electricity transmission.** The electricity grid system is relatively weak in north and west Scotland. Capital investment would be needed to allow electricity from renewable sources in these areas to be fed into the national grid. Some consideration should therefore be given to the capacity of and the regulation of the electricity transmission system in order to ensure that it does not inhibit the development of investment in renewable energy sources in remoter parts of Scotland.

- **Electricity market mechanisms.** The regulatory framework plays a major role in promoting competitive markets and, in the case of electricity, this includes NETA (the New Electricity Trading Arrangements) which impact on the England and Wales electricity market. Ofgem are currently proposing arrangements - The British Electricity Trading and Transmission Arrangements - to extend NETA across Great Britain.
- **Coal.** The coal industry and coal-fired electricity generation remain important to Scotland representing one quarter of Scotland's electricity generation. There is therefore interest in clean coal technology, which might contribute to reducing Carbon Dioxide, Sox and Nox emissions. Scottish coal reserves are generally lower sulphur coal than found elsewhere in the UK.
- **UK Continental Shelf.** Employment arising from oil and gas production, including in the construction and supplies sectors, is important to Scotland. Around 100,000 jobs in Scotland are related, directly or indirectly to offshore oil and gas production. Production from the UKCS is projected to decline beyond 2005. PILOT, the joint Government/Industry initiative to promote development of the oil and gas exploration and production industry and its supply chain, is also considering the opportunities for sustaining the industry by exploiting the potential for diversification and for export.
- **Emissions.** Upgrading of the Anglo-Scottish electricity supply interconnector may lead to increased electricity generation and therefore increased emissions of carbon dioxide - in Scotland from 2002/3. Within the next fifteen years the scheduled closure of Hunterston B generating station also has the potential to increase emissions. On the other hand, Scotland offers potential for exploiting options such as geological storage or carbon sequestration, and these options merit further investigation.
- **Transport policy and fuel prices.** Transport accounts for a significant proportion of fossil fuel consumption and of greenhouse gas emissions (and of other pollutants). Measures to reduce such emissions in the transport sector can have a disproportionate effect in Scotland because of its geography.
- **Social issues.** There are important interactions between energy policy and aspects of the Government's social policy, for example towards fuel poverty, for the regeneration of coalfield communities facing high unemployment, for housing construction standards, and these interactions need to be taken into account. Policy responses which have the potential to increase energy prices need to be considered in the context of such social policy objectives.
- **Industrial and technological competitiveness.** There are wider economic (as well as environmental) benefits to Scotland in developing technology for exploiting renewable energy sources or for developing new coal, oil and gas or nuclear technology. The potential benefits to a range of suppliers needs to be taken into account. It will be important for Scottish companies to recognise this opportunity to diversify and to develop export opportunities consistent with the outcome of this review.

Scotland Office
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