



**Department for
Business, Energy
& Industrial Strategy**

The Rt Hon Greg Hands MP
Minister of State for Energy, Clean Growth
and Climate Change

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05 January 2021

Dear Pete,

Thank you for your letter of 7 December, regarding the government's response to the Scottish Affairs Committee's recommendations from its inquiry on Renewable Energy in Scotland. I thank you for raising your concerns with me and seeking clarification on some aspects of the government's response to the Committee's report and recommendations. I will address the points you raise in turn.

The government's announcement of £20 million per year ringfenced support for tidal stream as part of the Contracts for Difference scheme is the biggest investment in a generation into tidal power. It will kickstart a new chapter for the tidal energy industry and could create jobs across the UK, including in Scotland. The UK possesses tremendous energy resources along our coastlines and in our bays and estuaries, and the government has long supported the development of tidal generation technologies. The government also remains open to well-developed tidal range proposals, including barrage schemes and other alternatives. However, such proposals would have to demonstrate clear value for money in the context of other renewables, as well as energy system benefits and plausible environmental mitigation strategies before the government could take a view on their merits.

Turning to your points on Scotland's networks, as stated in the government's response to the Committee's report, network regulation is a matter for Ofgem as the independent regulator. It is for Ofgem to formulate its own methodology within the RIIO price control process to incentivise the necessary investments in network infrastructure, although government works with Ofgem and network operators to provide support where required. RIIO-2 allows for a greater level of strategic investment on the network than before through uncertainty mechanisms like, for example, the net zero reopener which will allow funds for network companies during the price control for net zero related projects. Government continues to work with Ofgem as they allow for greater levels of strategic investment in the network, striving to find the balance between early investment to ensure net zero readiness, and risk of underutilisation of any given asset.

On the Committee's specific recommendation of an urgent review of the grid in Scotland, we note that Ofgem's RIIO-2 price control for electricity transmission only commenced in April 2021, and consideration of key network investments is progressing. This includes those investments needed to support renewable generation in Scotland and the predominantly north-to-south power flows. For example, Ofgem announced its decision on 5 November 2021 to proceed to the Final Needs Case stage of regulatory approvals for two electricity transmission links that will connect Scotland and England along the east coast. The need for these links is triggered by the need to transmit electricity generated in Scotland down past the congested network around the border to England, closer to demand. At an estimated cost of £3.4 billion for the two links, each with a capacity of 2GW, the project would be the largest

electricity transmission investment project in the recent history of Great Britain. These two eastern links are just a couple of examples of relevant network investments to support the north-to-south power flows; further details are set out in the Networks Options Assessment produced by National Grid Electricity System Operator at:

<https://www.nationalgrideso.com/research-publications/network-options-assessment-noa>.

More broadly on Ofgem's priorities, the government response to the Committee report set out plans for a Strategy and Policy Statement.

Ofgem's recent call for evidence on possible transmission charging reform recognises the importance of charges which, amongst other things, take account of net zero. The call for evidence closed on the 12 November 2021, and Ofgem is currently reviewing responses received, before determining next steps. As noted in the government response to the Committee report, the government is continuing to engage closely with Ofgem as it progresses its consideration. The focus of our engagement is understanding how any decisions can best support the delivery of a secure, net zero energy system at lowest cost to consumers.

Finally, I wish to assure you that the government recognises the critical importance of skills to delivering our net zero goal and putting the UK at the forefront of global green markets, including that for Offshore Wind. As an example of our support for the growth of this new industry, the Committee will have noted that on the 3rd December, Global Energy Group and Haizea Wind Group announced an investment of more than £110m in a wind turbine tower manufacturing facility at Nigg Energy Park in Ross-Shire, which will support more than 400 jobs. This project will be supported by grant funding from both the UK Government's Offshore Wind Manufacturing Investment Support scheme (subject to completion of due diligence), and from the Scottish Government's economic and community development agency, Highlands and Islands Enterprise.

As you know, the government launched the independent Green Jobs Taskforce in November 2020 to advise on how to support the workforce with the transition to a green economy. The Taskforce reported its recommendations in July 2021, and these have fed into the Net Zero Strategy, which sets out the government's overall approach to working with industry to support workers in the transition from high-carbon sectors and create the workforce to deliver net zero.

The government has committed to reforming the skills system so that training providers, employers and learners are incentivised and equipped to play their part in delivering the transition to net zero. We will deliver a Lifetime Skills Guarantee and grow key post-16 training programmes (such as apprenticeships, Skills Bootcamps and T levels) in line with the needs of employers in the green economy, which will help people get the training they need; either at the start of their careers, or when retraining or upskilling once already in the workforce. These represent a first step in addressing the challenges identified by the Green Jobs Taskforce and our overall mission to support green jobs and skills, with a new cross-cutting Delivery Group driving forward action on this agenda across government and industry.

Yours ever,

A handwritten signature in blue ink, appearing to read 'G Hands', with a long horizontal stroke extending to the right.

THE RT HON GREG HANDS MP

Minister of State for Energy, Clean Growth and Climate Change

Scottish Affairs Committee

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From the Chair, Pete Wishart MP

Rt Hon Greg Hands MP
Department for Business, Energy & Industrial Strategy
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7 December 2021

Dear Mr Greg Hands,

Thank you for the response to the Scottish Affairs Committee report into renewable energy in Scotland. We have published the response on our website. We wanted to follow up on some matters.

We welcome the Government's actions to address our recommendation (paragraph 45) that "the Government guarantee financial support for the tidal energy sector through the CfD mechanism". The importance of this support in maintaining the UK's leading position as a developer of tidal current technologies cannot be understated. In his letter to all the Committee's members (see annex) Mr Neil Kermode of the European Marine Energy Centre reminded us that the 2MW, grid connected, O2 Tidal Turbine which we visited in Orkney has more than 80% UK content and was the first vessel launched from a Dundee shipyard for more than 40 years. Mr Kermode notes "The Potential Success of the UK [Tidal Energy] Sector looks like the Industrial Strategy writ large" and the Committee agree. We strongly welcome the announcement of the ring fenced £20 million per year investment in the tidal stream sector as part of the CfD auction process, noting that this is a significant change from the Government's response to our recommendation in paragraph 45.

We remain concerned that unless the Government responds in a more positive way to some of our other recommendations. The full benefits of the announced CfD funding will not be realised in Scotland. If it is to be fully exploited, the tidal energy potential in the Pentland Firth and Orkney Waters requires much more than just the announcement of a Tidal Energy pot in the CfD auction.

The Government has not responded to a key aspect of our first recommendation (paragraph 11) that as a matter of urgency a review should be conducted of the grid in Scotland. We are disappointed by this omission and would welcome a detailed response on this point.

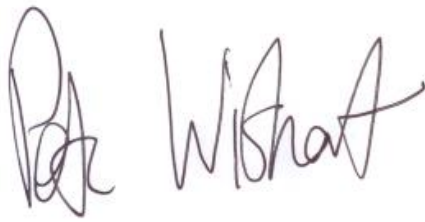
The evidence we received did not support the Government's contention that "Ofgem places a strong focus on enabling strategic investments". As we reported, areas with strong renewable energy generation capability have some of the highest energy prices in the UK and progress to reinforce the energy network to address this has been glacial to say the least. The Committee seek further clarification on how the Government will

ensure that Ofgem prioritises the grid to act as an enabler for the decarbonisation of the electricity system.

As discussed in our report, the existing Electricity Network infrastructure combined with the negative impacts of the TNUoS charging system will hamper development. We are concerned that in only considering “best value for the consumer” Ofgem are not ensuring the best outcomes for the UK and are hampering the decarbonisation of the energy system. We therefore seek further information from the Government to understand if it is monitoring the impact of the policies being developed by Ofgem in response to its consultation on the TNUoS system.

Finally, we note that the Government did not address our final recommendation concerning the Green Jobs Fund (paragraph 55). Whilst the provision of CfD funding is welcomed and will enable the development of new projects, indirectly creating jobs, without investment in skills development and training there is a significant risk that these jobs will either be overseas or that a skills gap will hamper development. We request more information on how the government will ensure that there is alignment between the Green Jobs Fund, Levelling Up Agenda and the decarbonisation of the energy system.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Pete Wishart', with a stylized, cursive script.

Pete Wishart MP
Chair, Scottish Affairs Committee