

Cabinet Secretary for Wellbeing Economy,
Fair Work and Energy
Rùnaire a' Chaibineit airson Eaconamaidh do
Mhath Dhaoine, Obair Chothromach is
Cumhachd
Neil Gray MSP
Niall Gray BPA



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Edward Mountain MSP
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Scottish Parliament
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11 November 2023

Dear Edward,

**Net Zero, Energy and Transport Committee Inquiry
Scotland's electricity infrastructure: inhibitor or enabler of our energy
ambitions?**

I would like to extend my thanks to the Committee for its work on what is a vitally important aspect of our energy system.

The draft Energy Strategy and Just Transition Plan set out our vision for a future net zero energy system and we welcome the Committee's consideration of the electricity infrastructure needed to realise our ambitions. Scotland is at a pivotal point in the energy transition, and although we have already made great strides towards net zero, there is still more to do to maximise our enormous renewables potential as we make the move away from fossil fuels.

The electricity network is the backbone of our energy system and will be central to delivering on our ambitions. In the years ahead we know that our electricity demand will increase as our economy decarbonises further. To achieve a net zero energy system that can support this wider decarbonisation will require both increasing amounts of clean energy generation and our electricity networks to be fit for the future.

As the Committee's report highlights, legislation and regulation of electricity networks is a reserved matter to the UK Government, with National Grid Electricity System Operator (ESO) responsible for the strategic approach to transmission investment, and regulatory functions carried out by Ofgem.

I am grateful to Nick Winser, the UK Electricity Networks Commissioner, for his work on how to accelerate the deployment of electricity transmission infrastructure across GB – and for engaging with the Scottish Government throughout the process. We have considered Nick Winser's report in detail, and I have written to the UK Government Secretary of State for Energy Security and Net Zero outlining the Scottish Government's views. A copy of my letter to the Secretary of State is enclosed for the Committee's reference.

The recommendations in the Winser report represent a step-change in policy relating to electricity networks and, if implemented effectively, could be transformational for our energy system. It is therefore welcome that the Committee has also explored this area in depth and added its weight to the evidence on the urgent need for change. I have provided further detail on some of the key points raised in the report in the annex to this letter, which I hope you will find helpful.

As you are aware, earlier this year we consulted on our draft Energy Strategy and Just Transition Plan, which detailed our commitment to a future net zero energy system. This included a series of questions on scaling up renewables, including in relation to solar and marine energy. Responses to the consultation confirmed broad support for our net zero vision and ambitions, and highlighted the importance of policy certainty to enable the required investment in skills, infrastructure and technologies that we need. As the Committee is aware, we recently announced a proposed solar ambition of 4-6GW by 2030, with the ambition being contingent on industry agreeing to an appropriate level of community benefit.

The views of those consultees are vitally important and we are carefully considering the consultation analysis and evidence from stakeholders as we develop Scotland's Energy Strategy and Just Transition Plan.

I would like to thank the Committee again for producing its report on this vitally important subject. We will further consider the issues raised in the report as we work towards the final publication of the ESJTP by summer 2024.

Yours sincerely,

NEIL GRAY

Annex A: Response to key points raised by the Committee

Modernising the grid

Significant investment is needed in electricity networks to ensure clean, low-cost renewable electricity can flow to where it is needed. Electricity transmission infrastructure in particular requires huge levels of investment to ensure the grid does not become a barrier to net zero, and it is critical that this investment happens at the pace and scale required. This will help to reduce constraint costs, which the GB Electricity System Operator (ESO) estimates could reach up to £3 billion annually across GB by the late 2020s¹, and are paid in large part by consumers across GB.

We welcomed Ofgem's decision in December 2022 to accelerate some strategic transmission investments through the Accelerated Strategic Transmission Investment (ASTI) framework. These projects should be taken forward at the earliest opportunity to relieve constraints, ensure power can flow to where it is needed and maintain our system security. We agree with the Committee on the importance of affirming the principle of prudential investment in grid capacity in anticipation of future need. It is vital that we continue to work together with all stakeholders across the system to enable these critical investments, while ensuring that the regulatory levers continue to drive down costs and increase benefits for customers and communities.

Of course, whilst investment in networks is vital, we must also ensure that the wider system is fit for purpose. We fully agree with the Committee's assessment of the current approach to grid connections and the need to remove speculative projects to free up capacity. The Scottish Government has long called for reform to the queue management process to ensure it is no longer a barrier for the connection of renewable electricity generation, and indeed sources of demand.

Reform to the queue management process will not only support continued growth of renewables but will also enable wider economic and environmental benefits across Scotland. We firmly believe that urgent action is needed to apply these processes retrospectively and across all contract types, and we are continuing to call on the ESO and Ofgem to implement wider reforms to reduce the growing trading market in obtaining and selling connections contracts to enable swift connection to those who are ready to connect. We welcome the work of the ESO on queue management and we eagerly await an announcement by Ofgem on this matter in the coming days.

As we have set out in our response to the Winser report, the Scottish Government concurs with the Committee in welcoming the expansion of Ofgem's objectives to include net zero and its inclusion in the UK Government's Energy Bill (now Act). It is important to highlight that the Scottish Government has a statutory target to reach net zero emissions of all greenhouse gases by 2045, with interim targets of 75% by 2030 and 90% by 2040, against 1990 baseline levels. Ofgem must recognise and honour these targets in all regulatory decisions relating to Scotland.

¹ National Grid ESO (2022) modelled constraints costs NOA 2021/2022 Refresh – August 2022 - [download \(nationalgrideso.com\)](https://www.nationalgrideso.com)

Creating the infrastructure

Our Fourth National Planning Framework (NPF4), published and adopted earlier this year, is an important milestone for planning in Scotland. It sets out our strategy for working towards a net zero Scotland by 2045 and makes clear our support for all forms of renewable, low-carbon and zero emission technologies, including transmission and distribution infrastructure.

NPF4 establishes that the views of local communities are of the utmost importance in the planning system. It is vital that everyone has the opportunity to engage in decisions about future development. We are clear that this engagement must happen as early as possible and should be effective, collaborative and meaningful.

NPF4 also ensures that appropriate checks and balances are in place. Potential impacts on communities, nature and cultural heritage, including the cumulative effects of developments, are important considerations in the decision-making process, with all applications being subject to site-specific assessments, including Environmental Impact Assessment (EIA) where relevant.

In May we published a public consultation on Phase 3 of the Scottish Government's ongoing review of permitted development rights (PDR). Phase 3 sought views on extending PDR for electricity undertakings to support the deployment of electricity network infrastructure. The consultation closed on 23 August. We are currently considering the responses and will use this feedback to finalise the proposals, with a view to introducing new measures early in 2024.

An effective and efficient planning system is essential to delivering the ambitions in NPF4. Improving the resourcing and performance of the planning system are important priorities. We have appointed a new National Planning Improvement Champion, based at the Improvement Service, to support improvement in planning by monitoring performance, looking at overall trends, sharing good practice and identifying improvements and efficiencies.

In addition, a Transmission Networks short life working group (SLWG) was established in October 2022 consisting of representatives from Scotland's two Transmission Owners, SPEN, SSEN and the Scottish Government Energy Consents Unit ("ECU"). The purpose of the SLWG was to review processes to accelerate determination timescales for grid applications. Regular meetings were held to discuss existing processes and, explore opportunities and proposed changes to improve the current consenting procedures for section 37 applications for overhead lines at transmission voltages.

The SLWG has now concluded and a report 'Review of consenting timescales for grid infrastructure under section 37 of the Electricity Act 1989' was produced in September 2023, which sets out the key findings and included actions for both government and industry. The recommendations include exploring the removal of the mandatory public inquiry trigger (noting that this is set in UK legislation under the Electricity Act 1989, and this Act would need to be amended to enable this change)

and setting out clear timescales to determine applications within 12 months. We are continuing to engage with SSEN and SPEN to deliver efficiencies to determination timescales. Additionally, the [Onshore Wind Sector Deal](#) sets out commitments around timescales for determining applications under section 36.

Climate Intelligence Service

Good progress has been made with local government in setting up the Climate Intelligence Service, which will help build the capacity of local authorities to reduce area wide emissions.

Joint funding has been agreed by the Scottish Government and local authorities, and the service is being delivered by a partnership between the Edinburgh Climate Change Institute and the Improvement Service. The partnership brings together expert knowledge and practitioner insights, a track record of successfully supporting local authorities and access to existing networks to engage stakeholders and progress actions.

The service will provide all 32 local authorities with the data-informed evidence, insights and intelligence they need for continuous improvement of their climate action plans, and the skills, knowledge and confidence to present and use these insights effectively for delivery across Scotland.

This initiative is a good example of the principles of the Verity House Agreement being put into practice, with closer co-operation and pooling of resources between national and local government in order to support the reduction of greenhouse gas emissions.

Planning skills and STEM

We have been working with Heads of Planning Scotland, the RTPi in Scotland, the Improvement Service and the planning schools to implement the recommendations of the Future Planners report, which seeks to increase the pipeline of qualified planners needed to operate the planning system and deliver the ambitions set out in NPF4. Good progress has been made with the shorter term actions, including steps to increase awareness in schools of planning as a career.

We are supporting Dundee University's initiative to establish a 'practice-based degree'. We recognise a practice based degree has capacity to deliver very similar outcomes to an apprenticeship, and we are keen to support its successful implementation. We will also continue to explore scope to establish a graduate apprenticeship in Scotland.

The Partners in Planning group, which includes key partners, is coordinating work to implement the medium and longer term actions of the Future Planners report. We expect this to include discussion on matters such as defining planning as a STEM subject.

Research led by the Royal Town Planning Institute suggests that Scotland will need around 700 additional planners over a period of 10-14 years to ensure planning authorities have the skills, resources and staff hours available to deliver a high-

quality, well-functioning planning system. This has been well recognised across sectors as impacting on the effective delivery of planning services across Scotland.

Our current work programme contains a package of activities that collectively aim to strengthen the future pipeline of skilled planners, improve quality and customer service and build resilience into our planning service. These are ongoing collaborative activities which are expected to make a difference in the medium and longer terms, rather than more immediate, short term solutions.

Skills

As our economy transforms, we want Scottish workers to be ready to take advantage of the job opportunities that a just transition will bring, and so realising the skills potential of Scotland's workforce is critical to delivering a just and fair transition.

We are focusing on identifying the opportunities and challenges for meeting the future skills demand within the energy, transport, land use and agriculture, and built environment and construction sectors. The final Energy Strategy and Just Transition Plan will be published by Summer 2024 and the draft just transition plans for other sectors will also be published in 2024.

Hydrogen

We welcome the Committee's views on the role that hydrogen, and in particular green hydrogen, can play as Scotland transitions to net zero. Scottish industry has much to gain from being at the forefront of the transition to a low carbon economy. Decarbonising our industrial sector in a just and fair way will help the sector grow and compete in the economy of the future; this includes the use of hydrogen in industrial decarbonisation. Scotland has the potential to be a globally leading hydrogen nation and we are fully committed to helping the Scottish hydrogen sector develop and grow. Establishing hydrogen production from onshore wind and the development of regional hydrogen production hubs linked to offshore wind are part of the critical path towards achieving our ambition of 5GW of installed hydrogen production capacity by 2030.

Our final Hydrogen Action Plan sets out the strategic approach and actions required to support the development of the hydrogen economy in Scotland over the course of this Parliament.

We note the Committee's recommendation regarding mapping the role green hydrogen could play in decarbonising Scotland's main industrial emitters; we continue to engage with these emitters on their decarbonisation plans, and remain cited on research in this area, such as the hydrogen demand analysis reports for industrial applications, and distilleries, undertaken by Scottish Enterprise earlier this year.

Intergovernmental cooperation

Scotland is part of the GB electricity system and the powers to legislate and regulate that system are reserved to the UK Government. The Scottish Government

recognises the need to work together with all relevant stakeholders, and use all regulatory levers, both reserved and devolved, to ensure our electricity system is fit for the demands of the future.

We note the Committee's views on network charging and we strongly agree that the current Transmission Network Use of System charges (TNUoS) framework is not consistent with Scotland's net zero ambitions, and is creating uncertainty and volatility that is leading to poorer outcomes for both industry and consumers.

The TNUoS ten-year outlook, which was recently published by National Grid Electricity System Operator (ESO), shows that costs are set to rise significantly for renewables projects located in Scotland. This represents a risk for both existing, and new projects, and is major barrier to investment.

Ofgem's own analysis suggests that by 2040 renewable and low carbon generators in Scotland will be the only ones to pay a wider TNUoS charge; with all others, including gas generators, elsewhere in GB being paid credits².

We have consistently urged Ofgem to review its approach and urgently bring forward proposals for reform. It is in this regard that we welcome Ofgem's recent open letter on strategic transmission charging reform and call for views. We urge Ofgem to conduct this review at pace to ensure a fairer solution is reached that maximises the benefit to consumers and fully recognises Scotland's renewable capabilities.

We agree that the time taken to consent grid infrastructure projects needs to be accelerated, while still ensuring robust and balanced decision making. As Nick Winser's report made clear, changes to the consenting regime in Scotland are necessary to accelerate the determinations process. We continue to seek to work with the UK Government to enable a more efficient onshore grid determinations process in Scotland.

With regards to the offshore consenting regime, the UK Government (UKG) is progressing several major reforms to existing habitats regulations assessment (HRA) and environmental impact assessment (EIA) processes for offshore wind projects. These reforms are enabled by the UK Energy Act and the Levelling-up and Regeneration Act. Our primary position remains that a fit for purpose licensing and consenting regime for offshore wind should be achieved through full legislative devolution.

Scottish Ministers must, as a minimum, be able to maintain all existing devolved and executively devolved functions and responsibilities currently undertaken for offshore wind licensing and consenting in Scotland. We will continue to use all of the powers at our disposal to ensure that our consenting processes are as robust and as agile as possible.

² Ofgem, Access & Forward-Looking Charges SCR Minded-To Publication (Jul 2021) – document (3) CEPA TNEI Quantitative analysis. Available: <https://www.ofgem.gov.uk/publications/access-and-forward-looking-charges-significant-code-review-consultation-minded-positions>

Scottish Government officials continue to work constructively with UK Government officials to deliver the secondary legislation required across both the UK and Scottish waters to enable the provisions of the Energy Act to ensure a fit for purpose regulatory regime for the offshore wind sector.

Hydro/Pumped Hydro Storage

Scotland is a leader in hydro power, with 88% of the UK's current hydro capacity. Pumped Hydro Storage (PHS) currently accounts for 0.74 GW of Scotland's 0.94 GW of energy storage. There is additionally around 2.95 GW of PHS capacity in the pipeline, However, the industry has voiced concerns that these projects cannot progress under the current market arrangements.

Long Duration Energy Storage (LDES) (including hydro) has the potential to play a significantly greater role in the energy transition by providing flexibility services, helping to ensure a continued resilient and secure electricity supply and managing constraints across the grid. However, PHS, an important low carbon technology, is currently ineligible for UK Government support.

We need urgent clarity on how the wholesale electricity market can incentivise greater flexibility and storage. Scottish Government officials have been engaging with their UK Government counterparts on the Review of Electricity Market Arrangements (REMA) work but we are clear that any reform proposals need to be managed in a way that does not create market uncertainty and risk jeopardising the very significant levels of investment needed in renewables.

The First Minister wrote to the Prime Minister on 22 May 2023, urging the UK Government to put in place a suitable market support mechanism for large-scale, LDES, such as PHS. In response, the PM restated the UK Government's commitment to establish an appropriate policy framework to enable investment in LDES by 2024, and highlighted an upcoming consultation on possible policy approaches, later in 2023. We are concerned that a consultation has still not yet been published by the Department for Energy Security and Net Zero (DESNZ).

UK Government inaction on this issue represents a significant obstacle to deployment and risks failing to secure economic benefits, such as creating thousands of good quality, green jobs.

Industry representatives have been clear that in order for LDES solutions to progress they require a cap-and-floor mechanism that ensures a minimum level of revenue. With an appropriate market support mechanism, several PHS projects across Scotland including Coire Glas, that have already secured planning permission, could begin construction immediately. This would provide vital resilience and flexibility as thermal generation starts to retire.

We are concerned that slow action in this area is also dampening investor confidence and preventing projects that are essential to the joint goals of both Governments from coming forward. PHS is identified as being of national importance in National Planning Framework 4.

In response to the findings of the Tretton Review of Small Scale Hydro Plant and Machinery, and to provide investor certainty, the Scottish Government has extended the current 60% hydro relief until 2032. The Scottish Government also provides a non-domestic rates exemption for renewables with a capacity of up to 50kW, which supports microgeneration producers, and businesses that retrofit micro renewable schemes to reduce their carbon footprint. This exemption is not time-limited, unlike other parts of the UK, making it the most generous exemption for renewable microgeneration in the UK.

Engaging the public and communities

We agree that there is a need for more effective communication with the people of Scotland around the build-out of electricity transmission infrastructure. As we have made clear, we are ready to work with all relevant stakeholders to deliver a public information campaign setting out both the need for infrastructure and to ensure the benefits are understood.

Despite the powers to mandate community benefits and shared ownership opportunities from renewable energy and grid infrastructure developments being reserved to the UK Government, we continue to work with communities and a wide range of energy businesses to maximise benefits flowing into communities from existing and new developments.

Some developers are already leading the way, and as part of the Onshore Wind Sector Deal, developers have committed to meet or exceed the principles set out in the Scottish Government's Good Practice Principles for onshore renewable energy developments.

We want to see network companies take similar steps and the Scottish Government has strongly encouraged the network companies to bring forward tangible benefits to communities where infrastructure is proposed. This includes measures that can have a positive impact on household fuel costs. Scottish Ministers have urged the network companies to be creative in these solutions, and work closely with communities to tailor them. We want to see yet more innovation and good community engagement on how community benefit can be best deployed, in a way that meets communities' own needs.

We are continuing to have close engagement with the UK Government about the recommendations in the Winser report to ensure Scotland's ambitions are taken into account and incorporated into the action plan, which we expect the UK Government to publish in the coming weeks.

Net zero funding landscape

The Scottish Government has recognised the challenge with navigating the net zero funding landscape and continues to simplify and streamline activity. The Funding Alignment programme has worked across a cohort of major funding programmes related to net zero to achieve efficiencies in delivery and better connectivity across funds – ultimately with an objective of making funds easier to access and ensuring the outcomes delivered from funding programmes are more impactful. A core part of

the programme has been the work with enterprise agencies to draw on their skills, capacity and experience to deliver funding programmes. This also aligns with the Business Support Partnership which focuses on delivering a one-stop-shop for accessing government support through the Find Business Support website.

We also continue to invest in our flagship Community and Renewable Energy Scheme (CARES), which has advised over 900 organisations and provided over £60 million in funding to communities, supporting over 680 projects and the installation of 57.9MW of renewable energy. We continue to keep CARES under review, and work with Local Energy Scotland to ensure funding for community energy projects is accessible and targeted so that it is most effective in achieving our ambitions.