

**01/08/2022 between Scottish Association of Landlords and Shona Robison and Patrick Harvie**  
**MEETING BETWEEN MS ROBISON, MR HARVIE and**  
**SCOTTISH ASSOCIATION OF LANDLORDS**

**TIMING**

10.00 – 10.45, Monday 1 August 2022

Microsoft Teams meeting

**Join on your computer or mobile app**

[redacted]

**ATTENDEES**

John Blackwood: CEO of Scottish Association of Landlords

**Official Support**

[redacted], Future PRS Policy and Legislation Team, [redacted]

**AGENDA**

**Item 1:** John Blackwood wrote to Ms Robison on 22 April to express concerns from Scottish SAL members about the SG policy approach to “A New Deal for Tenants”. SAL members were concerned about social media and television adverts from Scottish Green Party that suggested policies like decoration and pets had already been decided despite there being a live consultation.

John has since suggested two additional items:

**Item 2:** Private Rented Sector Housing Supply

**Item 3:** Selling PRS Properties directly to Local Authorities

**(see background and key messages at Annex B)**

**YOUR MAIN OBJECTIVE**

To provide reassurance to SAL/landlords that their views and ongoing engagement are an important part of informing the implementation of the rented sector strategy and the associated legislation.

**(see summary page at Annex A for key messages)**

## **SUMMARY PAGE**

### **Biog: John Blackwood: CEO of Scottish Association of Landlords**

John has worked in the private rented sector for over 25 years and has represent SAL on Scottish Government committees working to inform and influence housing policy. He is chief executive of SAL, managing director of the Gladstones group of letting agencies and chairman of Landlord Accreditation Scotland (LAS). John also holds a judicial appointment as a member of the First-tier Tribunal for Scotland (Housing & Property Chamber) and is a Fellow of the Chartered Institute of Housing.

## **KEY MESSAGES**

### New Deal for Tenants

- We have consulted widely on A New Deal for Tenants which sets out a whole range of reforms – from further protection against eviction to more rights to personalise tenants' homes and higher quality standards.
- Responses are being analysed by external consultants and we will carefully consider the views from landlords and tenants alike.
- It is vitally important to take the time to consider all the consultation responses we have received, and we intend to do that before legislating.
- We have commissioned an external analysis of responses and will carefully consider the views of both landlords and tenants to inform how we take the strategy and associated legislation forward.
- We want to look closely at how the housing market is currently working and how we can work with landlords, letting agents, tenants and wider civic society to improve outcomes for people who rent their home.
- We must act to continually improve the fairness of the terms on which homes are rented and to ensure tenants' rights to an adequate home is properly respected.
- **We will be looking to work with all landlords across the social and private sectors to ensure effective progress in the next 5 years towards our vision for the rented sector to be an effective part of a whole housing system that, by 2040, offers quality, affordability and fairness to all tenants.**

### Rent Controls and Supply in Private Rented Sector

- We share concerns about the impact of the cost of living crisis on renters. That is why we are committed to introducing rent controls in a housing bill and to do so in a way which is robust and provides lasting benefit to tenants.
- What is good for tenants is also good for those landlords and letting agents who manage properties responsibly and professionally.
- Over the last 20 years, there have been a range of necessary changes to the private rented sector aimed at improving quality and accountability and, although stakeholders have often

warned that such changes would lead to a reduction in supply of private rented homes, the sector has more than doubled over that time from 130,000 to 340,000 properties.

- **We want to work with landlords as we develop proposals and good landlords having nothing to fear from the changes.** To the extent that landlords and agents are expressing concerns about the market this appears to be UK-wide, not unique to Scottish-specific policies.
- Rents in some areas have risen by more than 40% in the last ten years.
- We are aware of calls to implement an emergency rent freeze but it is likely that hastily introduced restrictions won't be robust against challenge and will fail to provide the real benefits to tenants that we are committed to delivering.
- **We will continue to monitor situation around PRS housing supply closely as the strategy is developed.**

#### Selling PRS Properties directly to Local Authorities

- We are aware that LAs do buy back properties to support the objectives of their local strategies but this would be a matter for individual local authorities to consider.
- **Would therefore suggest contacting COSLA/ALCHO to consider idea of a central point of contact or how best to contact individual local authorities and registered social landlords.**

#### Evictions

- We have been clear from the outset of the pandemic that eviction action – private or social, especially related to rent arrears – must be an absolute last resort, when all other avenues have been exhausted and a tenancy is no longer sustainable.
- **Of course, good landlords recognise the case for keeping tenants in their homes where possible. We welcome and appreciate SAL's support in helping us promote this message, particularly during the pandemic.**

<b>ITEM 1</b>	<b>A New Deal for Tenants, Rent Controls, Evictions</b>
<b>ISSUE/ BACKGROUND</b>	<p><b>NEW DEAL FOR TENANTS</b></p> <ul style="list-style-type: none"> <li>• Housing to 2040 set out our commitment to deliver a new Rented Sector Strategy, one that considers the whole of the rented sector in Scotland.</li> <li>• The draft strategy consultation ‘A New Deal for Tenants’ was published on Monday, 20 December and following a one-week extension for late responses closed on 22 April 2022.</li> <li>• The consultation sought views on how a final Strategy can improve accessibility, standards and affordability choices across the whole rented sector, including private, social, agricultural and non-traditional residential homes.</li> <li>• The consultation also takes forward additional commitments included in the Scottish Government and Scottish Greens Party’s Co-operation Agreement, and set out and sought views on how we will deliver a new deal for tenants.</li> <li>• A Housing Bill in this parliamentary session will deliver the legislative changes required to implement the Strategy, with further legislation to follow on longer-term issues such as rent controls and plans to introduce a new housing regulator.</li> </ul> <p><b>RENT CONTROLS</b></p> <ul style="list-style-type: none"> <li>• Through our New Deal for Tenants consultation, we have already committed to introducing rent controls during this Parliament, and we are currently doing the hard work required to develop a robust system that will give long-lasting benefit to tenants.</li> <li>• Through the Private Residential (Tenancies) (Scotland) Act 2016, Scotland has the strongest tenancy protections in the UK.</li> <li>• Landlords are already limited to no more than a single rent increase in a year and such a rise must be fair or the landlord can be subject to a rent adjudication ruling.</li> <li>• We will introduce a Housing Bill that will further strengthen these existing rights by improving rent adjudication and set out the framework for the delivery of new rent controls by 2025.</li> <li>• We have also committed to undertaking further awareness raising to ensure that tenants are aware of the rights they already have to challenge unfair rent increases.</li> <li>• We will also continue to explore what further action we can take to ensure rents in the social rented sector are affordable.</li> <li>• The principle of introducing rent controls is supported by a majority of MSPs.</li> </ul> <p><b>EVICCTIONS</b></p> <ul style="list-style-type: none"> <li>• We have strengthened protection for private tenants against eviction, agreed last month in Parliament, including making pre-action protocol measures which we introduced during the pandemic, permanent. There have been pre-action protocol measures in place in the social housing sector since 2012.</li> <li>• This means a landlord should make any tenant who is at risk of losing their home due to arrears aware of all the financial support available.</li> <li>• A court order is required before an eviction can be carried out.</li> </ul>

	<ul style="list-style-type: none"> <li>Unfortunately some tenancies will no longer be sustainable and landlords must be able to deal with serious cases such as antisocial behaviour or where a tenant refuses to engage in rent payments and high levels of arrears are accruing.</li> </ul>
<b>WHAT THE STAKEHOLDER MAY SAY/ASK</b>	<ul style="list-style-type: none"> <li>Why should SAL/landlords continue to engage with the strategy when it appears that policies are already decided?</li> </ul>
<b>KEY MESSAGE(S)</b>	<p>(see lines at Annex A)</p> <ul style="list-style-type: none"> <li>We have consulted widely on our New Deal for Tenants which sets out a whole range of reforms – from further protection against eviction to more rights to personalise tenants’ homes and higher quality standards.</li> <li>Responses are being analysed by external consultants and we will carefully consider the views from landlords and tenants alike.</li> <li>It is vitally important to take the time to consider all the consultation responses we have received, and we intend to do that before legislating.</li> <li>We will be looking to work with all landlords across the social and private sectors to ensure effective progress in the next 5 years towards our vision for the rented sector to be an effective part of a whole housing system that, by 2040, offers quality, affordability and fairness to all tenants.</li> <li>We want to work with landlords as we develop proposals and good landlords having nothing to fear from the changes.</li> </ul>
<b>SUGGESTED QUESTION(S)</b>	<ul style="list-style-type: none"> <li>How can we improve our communications with landlords so that they understand our approach and are updated on progress with implementing the strategy?</li> </ul>
<b>CONTACT POINT</b>	[redacted]

<b>ITEM 2</b>	<b>Housing Supply in Private Rented Sector</b>
<b>ISSUE/ BACKGROUND</b>	<ul style="list-style-type: none"> <li>SAL is likely to ask about lack of PRS housing supply as landlords leave the sector.</li> </ul>
<b>WHAT THE STAKEHOLDER MAY SAY/ASK</b>	<ul style="list-style-type: none"> <li>What are the Scottish Government's plans to address a lack of PRS housing supply?</li> </ul>
<b>KEY MESSAGE(S)</b>	<ul style="list-style-type: none"> <li>Over the last 20 years, there have been a range of necessary changes to the private rented sector aimed at improving quality and accountability and, although stakeholders have often warned that such changes would lead to a reduction in supply of private rented homes, the sector has more than doubled over that time from 130,000 to 340,000 properties.</li> <li>We want to work with landlords as we develop proposals and good landlords having nothing to fear from the changes. To the extent that landlords and agents are expressing concerns about the market this appears to be UK-wide, not unique to Scottish-specific policies.</li> <li>Rents in some areas have risen by more than 40% in the last ten years.</li> <li>We will continue to monitor the situation closely as the strategy is developed.</li> </ul>
<b>SUGGESTED QUESTION(S)</b>	<ul style="list-style-type: none"> <li>What more can we do to reassure good landlords they have nothing to fear from these necessary changes?</li> </ul>
<b>CONTACT POINT</b>	[redacted]

<b>ITEM 3</b>	<b>Selling PRS Properties directly to Local Authorities</b>
<b>ISSUE/ BACKGROUND</b>	<p>SAL is likely to ask how we might facilitate an easy route for PRS landlords looking to leave the sector to sell their properties directly to local authorities (which John Blackwood suggests some would like to do). John highlights this would enable sitting tenants to remain in their properties and that perhaps a central email address could be provided for landlords to contact and be directed to relevant Las/information.</p> <p>We are aware that Las can and do buy back properties at or below market value to support the objectives of their local housing strategies. It would be a matter for local authorities to consider individually and would depend on the location, resources and the level of need in an area as well as the condition of the property.</p>
<b>WHAT THE STAKEHOLDER MAY SAY/ASK</b>	<ul style="list-style-type: none"> <li>• See above</li> </ul>
<b>KEY MESSAGE(S)</b>	<ul style="list-style-type: none"> <li>• We are aware that Las do buy back properties to support the objectives of their local strategies but this would be a matter for individual local authorities to consider.</li> <li>• Would therefore suggest contacting COSLA/ALCHO to consider idea of a central point of contact or how best to contact individual local authorities and registered social landlords.</li> </ul>
<b>CONTACT POINT</b>	[redacted]

## **Ministerial meeting with Scottish Association of Landlords: 1 August 2022**

### **Note of main discussion points**

#### **In attendance**

- Shona Robison MSP, Cabinet Secretary for Social Justice, Housing and Local Government
- Patrick Harvie MSP, Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights.
- John Blackwood, CEO, Scottish Association of Landlords

#### **Officials in attendance**

- [redacted], Future PRS Legislation and Policy

#### **Purpose:**

Scottish Association of Landlords (SAL) requested a meeting to discuss member concerns that Scottish Green party broadcast messaging gave the impression that some policies within A New Deal for Tenants had already been decided when the consultation process was still live. John also requested that the meeting also cover what could be done to address a lack of PRS housing supply as landlords leave the sector and how to facilitate an easier route for PRS landlords looking to leave the sector to sell their properties directly to local authorities.

#### **Main discussion points:**

Ms Robison started by explaining that our focus was to consult fully on any changes and maintain a healthy, vibrant housing sector made up of all its component parts. Recognise SAL members are the type of good landlords who look to provide good quality, affordable homes so should have nothing to fear from changes we are looking to bring in and keen to work through member concerns with SAL.

John explained that he wanted to see a vibrant private rented sector that provides good homes for people to live in and works for both landlords and tenants.

John was interested in the SG vision for the PRS as many landlords were choosing to exit the sector and that, more so than in the past, it was the good ones that were leaving. On top of this, SAL wasn't seeing new investment and the stock for providing homes to tenants was diminishing.

Ms Robison asked about the geographical variation and whether the challenges within the Edinburgh housing market, which we are working to address, were not representative of the situation across Scotland. Ms Robison asked if some of the exit



factors guiding the decisions of landlords were issues beyond the changes being proposed e.g. changes to mortgage tax relief, cost of living crisis, buoyant market means a good time to sell.

John agreed he was talking with an Edinburgh experience but SAL branches across the country (rural and urban) were all reporting the same problems to different degrees which started when the pandemic hit and people wanted to live in rural areas (resulting in higher rents) as opposed to cities. John agreed there were a whole variety reasons why people choose to leave the sector but that his main concern was about tenants finding a home.

John didn't have great issues with the new deal proposals but an issue was bringing SAL members to the table to discuss it. Joint consultation events with SG had gone down well with members and talking issues through with landlords can bring them on board. A concern for members was that SG officials had indicated that issues (e.g. keeping pets/personalisation) remained up for discussion while Scottish Green Party broadcasts gave impression decisions had been made. This left members feeling their views don't matter.

Mr Harvie said he would feed the concerns about the broadcast back to the party to be more aware of sensitivities of messaging on issues still under consultation.

Mr Harvie agreed need to be conscious about different factors affecting landlord decisions. Noting some of the regulatory changes had been in place in other European countries for years, he asked if there was a particular type of landlord choosing to exit e.g. the single property landlord as opposed to the more professional end of the market.

John said he was hearing that companies were not continuing to invest in Scotland, although they were in England and Wales which he thought was a knee jerk reaction as those countries will soon follow suit. People with properties as part of their retirement plans were selling up to retire earlier than was typical before but not seeing younger people coming into the sector in the same numbers. A more difficult mortgage market could be one reason but new deal also acts as a fear factor.

Mr Harvie asked about what more could be done around exits to ensure rented stock was retained. John said many members were expressing interest in selling properties (a lot which will have tenants in situ) to the local authority/RSL but that it was difficult to know who to speak to in the Council and often calls were not

returned. John suggested this was a lost opportunity and that a simple centrally administered email inbox could help facilitate such enquiries.

Ms Robison recognised the benefits for retaining the right type of properties in the right place and agreed that SG officials would pick up with COSLA to facilitate a more productive discussion. John mentioned that he was meeting with Edinburgh Council later in the week and that Mark Griffin had also shown an interest but that it would be good if the government could help make the transition to sell to LAs/RSLs easier.

**ACTION:** Ms Robison asked that relevant SG officials pick up with COSLA.

Ms Robison thanked SAL for the work during the pandemic to ensure landlords and tenants were informed about support. SG was looking at another information campaign in the lead up to a difficult winter for cost of living so that people are aware of the sources of help available to them (e.g. fuel insecurity fund) and asked if SAL could help disseminate some of the information. John said this was something SAL was looking at as paying rent would understandably be lower down the list of priorities. Reducing this risk by helping people deal with fuel cost is therefore something SAL would be keen to help get information out. **ACTION:** SG officials to ensure SAL are included in the campaign for disseminating information.

John suggested a way of finding finance for new affordable homes in the rented sector could be to set up a unique investment funding model (like through Scottish Investment Bank) to allow ordinary people to invest in a fund that raises capital to invest in new homes. He thought this type of investment opportunity could attract ordinary people wishing to invest in the rented sector who are maybe concerned about meeting legislative requirements/changes and/or whose funds are limited in terms of current market/lending conditions to buy a house outright. He felt this was a less risky proposition that would appeal to current SAL members and others and that it could bring much needed investment into the social rented sector which could be targeted by government to where there is a need.

Ms Robison said she was interested in exploring the proposition and would ask SG officials currently looking into financing opportunities beyond the affordable housing supply programme to do scoping work/have discussions with the relevant people around the technical aspects (e.g. ethical, tax, finance issues etc.) to see what more can be done in that space.

**ACTION:**[redacted] to pass request to the relevant policy team in SG.

**[redacted]**

Better Homes

4 August 2022

**03/12/2021 between Shell U.K. Limited and Michael Matheson**

[redacted],

It might be helpful for Mr Matheson to have the current oil and gas FMQ note.

In terms of points the Cab Sec might want to make on the call, below are some bullets:

- Welcome the early engagement with Scottish Ministers.
- Our focus is now on achieving the fastest possible, just transition for the oil and gas sector – one that delivers jobs and economic benefit, ensures our energy security, and meets our climate obligations.
- In Scotland, a just transition means one that supports those currently employed in oil and gas into green alternatives, and ensures that we don't replace domestic supply with imported oil and gas.
- Recognise that Scotland is focused on how to accelerate the development of new sources of energy, with associated new jobs so that we can move away from oil and gas more quickly, with a presumption as far as possible against new development.

[redacted]

Head of Oil and Gas

Oil and Gas

Please note that I am now working from home and available via mobile [redacted]

From: [redacted]@gov.scot> On Behalf Of Cabinet Secretary for Net Zero, Energy and Transport

Sent: 02 December 2021 14:11

To: [redacted]@gov.scot>

Cc: [redacted]@gov.scot>; [redacted]@gov.scot>; [redacted]@gov.scot>; [redacted]@gov.scot>; Cabinet Secretary for Net Zero, Energy and Transport <CabSecNetZET@gov.scot>

Subject: RE: Update on Shell and Cambo Field

Thanks Linsey,

Here is the dial in details for Shell:

[redacted]

Regards,

Jordan

[redacted] Assistant Private Secretary (Diary)

Private Office of Michael Matheson, Cabinet Secretary for Net Zero, Energy & Transport

2N.08 | St Andrew's House | Regent Road | Edinburgh | EH1 3DG |

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From: [redacted]@gov.scot>

Sent: 02 December 2021 14:00

To: Cabinet Secretary for Net Zero, Energy and Transport  
<CabSecNetZET@gov.scot>

Cc: [redacted]@gov.scot>; [redacted]@gov.scot>; [redacted]@gov.scot>;  
[redacted]@gov.scot>

Subject: RE: Update on Shell and Cambo Field

Ellie

Shell can accommodate a call tomorrow at 10 if you can provide dial in details I can share with Shell.

[redacted]

Head of Oil and Gas

Oil and Gas

Please note that I am now working from home and available via mobile [redacted]

From: [redacted]

Sent: 02 December 2021 13:35

To: Cabinet Secretary for Net Zero, Energy and Transport  
<CabSecNetZET@gov.scot>

Cc: [redacted]@gov.scot>; [redacted]@gov.scot>; [redacted]@gov.scot>;  
[redacted]@gov.scot>

Subject: RE: Update on Shell and Cambo Field

Thanks Ellie,

I will speak with Shell and see if they can hold a 10am phone call tomorrow – and happy to join from policy.

[redacted]

Head of Oil and Gas

Oil and Gas

Please note that I am now working from home and available via mobile [redacted]

From: [redacted]@gov.scot> On Behalf Of Cabinet Secretary for Net Zero, Energy and Transport

Sent: 02 December 2021 13:27

To: [redacted]@gov.scot>; Cabinet Secretary for Net Zero, Energy and Transport  
<CabSecNetZET@gov.scot>

Cc: [redacted]@gov.scot>; [redacted]@gov.scot>; [redacted]@gov.scot>;  
[redacted]@gov.scot>

Subject: RE: Update on Shell and Cambo Field

Hi Linsey,

Mr Matheson is available to do the call tomorrow AM at 10:00 via conference call.

PO will set up but I would be grateful if officials and SpAds can be on the call as well given the high level nature of the information.

Thanks,

Ellie

[redacted]

Deputy Private Secretary

Cabinet Secretary for Net Zero, Energy and Transport

CabSecNetZET@gov.scot

[redacted]

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From: [redacted]@gov.scot>

Sent: 02 December 2021 12:30

To: Cabinet Secretary for Net Zero, Energy and Transport  
<CabSecNetZET@gov.scot>

Cc: [redacted]@gov.scot>; [redacted]gov.scot>; [redacted]@gov.scot>;  
[redacted]@gov.scot>

Subject: Update on Shell and Cambo Field

PO / Cabinet Secretary for Net Zero, Energy and Transport

## Purpose

1. Officials have received confidentially an update from Shell on their position with respect to their 30% interest in the Cambo Oil Field. [redacted]

2. This decision has been shared with Siccar Point (operator of the Cambo Field), the OGA and BEIS.

## Media interest

3. It is anticipated that this move will create significant media interest given the ongoing coverage of the Cambo Field. There is also potential for this announcement to increase the risk of investor confidence in the UKCS.

4. Shell are not planning any proactive external engagement on this, but have shared their media lines should it become public.

- [redacted]

## Engagement with Shell

5. [redacted]



6. [redacted]

Recommendation

7. That the Cabinet Secretary provides a view on the preferred engagement approach.

[redacted]

Head of Oil and Gas

Oil and Gas

Scottish Government

Atlantic Quay

150 Broomielaw

Glasgow

G2 8LU

Please note that I am now working from home and available via mobile [redacted]

PO / Cabinet Secretary for Net Zero, Energy and Transport

Short note below of the call held by the Cabinet Secretary with Shell on Friday. Grateful if PO can offer potential times for a call with Siccar Point noting the action in the read out.

Linsey

**OFFICIAL – SENSITIVE – COMMERCIAL**

**Readout of call with Shell, 3 December 2021**

Cabinet Secretary for Net Zero, Energy and Transport

Simon Roddy, Shell (Senior Vice President of UK Upstream)

[redacted], Shell (Corporate Relations Manager)

SG Energy & Climate Change officials

- Cabinet Secretary welcomed the opportunity to speak with Shell regarding their recent announcement on Cambo, where the company has stated publicly that “the economic case for investment in this project is not strong enough at this time, as well as having the potential for delays”.
- At the outset, Shell stated that the information discussed in this call was considered commercially and market sensitive. This was noted.
- Shell continue to invest in renewables but noted that they see a need for offshore oil and gas as part of the energy transition. [redacted].
- Shell’s involvement with Cambo dates back to 2018 having a 30% stake in the project. Shell brings both technical skills and investment into this highly challenging project – which would be delivered over a number of decades.
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

**[redacted]**

Head of Oil and Gas  
**Oil and Gas**  
Scottish Government  
Atlantic Quay  
150 Broomielaw  
Glasgow  
G2 8LU

**06/09/2022 between Scottish Association of Landlords and Patrick Harvie and Gavin Corbett**

**Minister for Zero Carbon Buildings, Active Travel and Tenants**

**meeting with Scottish Association of Landlords**

### **Note of meeting**

Minister for Zero Carbon Buildings, Active Travel and Tenants

John Blackwood, SAL

- Acknowledgement that SAL and landlords may be unhappy with announcement.
- Acknowledged that some landlords will be facing hardships too, reassurance that we are looking to build in relevant safeguards
- SAL were disappointed at the lack of advance communication and engagement with the sector, which the Minister agreed was not optimal and was due to circumstances beyond our control.

### Inclusive Rents

- SAL have had a number of queries today from members who include utility bills as part of their rent, regarding the implications of the rent freeze.
- Minister reassured that we are already considering this in terms of PBSA providers – the intention is to achieve parity of protection for tenants, but this may not be by the same methods in every case.
- SAL would be concerned if institutional investors were given advantages which weren't available to smaller scale landlords.

### Timescales and further details

- Regarding next steps and any further details which can be announced, there are short timescales for the legislation, and the Minister will ask officials to be in touch regarding the timescales in the next few days.
- Also not clear what measures UKG will be taking, and as this context alters it may change things going forwards.

### Eviction Moratorium

- Regarding eviction moratorium, this is likely to be similar to the covid emergency provisions although there may be other exemptions; this is still being considered.
- Query regarding eviction cases which are already in the hands of Tribunal – the Minister will ask officials to be in touch regarding this as details are worked out.
- On the question of whether the eviction moratorium will be a complete stay of eviction, or longer notice periods along the lines of the covid measures, the Minister will ask officials to be in touch as details are worked out.
- Awareness that some rogue landlords may abuse eviction grounds to evict tenants in order to raise rents, and it is necessary to ensure some level of protection, whilst acknowledging that there are many good landlords.

## Rent Freeze

- Regarding how retrospective rent freezes will work, the Minister will ask officials to be in touch regarding this as more details are available.

**09/12/2021 between Drax Group plc and Michael Matheson**

**Invitation**

Michael Matheson MSP  
Cabinet Secretary for Net Zero, Energy and Transport  
Scottish Government  
St Andrew's House  
Regent Road  
EH1 3DG  
4 June 2021

Dear Cabinet Secretary,

Invitation to visit Cruachan Power Station

On behalf of Drax Group, we would like to congratulate you on your re-election and appointment as Cabinet Secretary for Net Zero, Energy and Transport. We wish you every success in this new and most important role. The decade ahead will be critical to meeting Scotland's climate targets and Drax is committed to supporting the Scottish Government realise its ambitions by enabling a zero carbon lower cost energy future.

Drax owns and operates a portfolio of flexible hydro power stations in Scotland with the ability to provide electricity to over 2 million homes instantaneously. From Cruachan Power Station in Argyll to the Galloway Hydros, our energy assets are generating renewable and flexible energy supporting Scotland's world-leading climate targets.

We would welcome the opportunity of hosting you at Cruachan, Scotland's largest pumped hydro power station, to discuss with you the potential of this tried and tested technology for delivering a zero-carbon electricity system. Pumped hydro is the only technology available today that can store energy at scale. At full capacity, Cruachan alone can power a city for more than 16 hours. Alongside batteries, power stations like Cruachan will be needed to help deploy more renewables such as wind and ensure that the lights stay on when the wind is not blowing, and the sun is not shining.

We are exploring the opportunity of expanding Cruachan Power Station, maximising its potential to accelerate the deployment of renewables at a reduced cost to the consumer. The expansion of Cruachan would involve an investment of over £500million, the creation of hundreds of local jobs during construction and generate millions in savings for consumers.

We look forward to hearing from you and hope you can join us at Cruachan in the coming months for a discussion and tour of the power station.

Yours faithfully,

[redacted]

Public Affairs Manager  
Drax Group

**Date of Event:**

**Time of Event:** n/a

**Has the Minister been asked to attend on Behalf of FM:** No

**Recommendation:** Accept

**Recommendation Comments:**

[redacted] Public Affairs Manager, sent a letter on behalf of Drax Group to congratulate Mr Matheson on his appointment as the Scottish Government's new Cabinet Secretary for Net Zero, Energy and Transport, and invite him to visit Cruachan power station in the coming months.

The visit will cover:

- Tour of the Cruachan power station, Scotland's largest pumped hydro power station
- Discussion of the technology used by Drax and its role for delivering a resilient zero-carbon electricity system in Scotland.

**Has another minister been asked to attend:** No

**Theme of Event:** stakeholder engagement and site visit

**Purpose of event (from options available on the system):**

Improve relations with stakeholders

Reinforce or illustrate existing policy

Recognise Contribution to policy implementation

**Main message to communicate:**

- As well as decarbonising the electrical energy generated in Scotland, we also need to address the substantial challenges of maintaining security of supply and a resilient electricity system.
- Renewables and other zero-carbon technologies are capable of providing all the services needed to ensure a secure electricity system. It is critical that the appropriate market and regulatory arrangements are put in place by National Grid Electricity System Operator, Ofgem and UK Government to support this.
- Pumped Storage Hydro (PSH) has an important role to play in providing security of supply and balancing the electricity system.
- At present, there is no market mechanism available to secure investment in PSH, with some large projects in Scotland awaiting that signal. It is critical that UK Government considers mechanisms to enable the development of PSH.

## **View/Comment:**

The decade ahead will be critical to meeting Scotland's climate targets and Drax owns and operates a portfolio of flexible hydro power stations in Scotland with the ability to provide electricity to over 2 million homes instantaneously. Cruachan is Scotland's largest pumped hydro power station which, at full capacity, can power a city for more than 16 hours. Onshore wind, hydro generation, pumped storage hydro, and battery technologies all have a role to play in ensuring a secure and resilient electricity system. Drax's plan to expand Cruachan would involve an investment of over £500million, the creation of hundreds of local jobs during construction and generate savings for consumers. This site visit will provide the opportunity for Cab Sec to acknowledge the contribution of such projects to the pathway to net zero and resilience of the network.

## **Response Letter**

Dear [redacted]

Thank you for your letter of 4<sup>th</sup> June 2021, inviting Michael Matheson Cabinet Secretary for Transport, Infrastructure to visit Cruachan Power Station.

The Cabinet Secretary would be happy to include this visit into future plans for engagement with key stakeholders across Scotland. His team will be in touch with you over the coming months to discuss potential arrangements for a visit.

In the meanwhile, he would like to thank you for the information provided and your contribution to assist Scotland and Scottish consumers in our journey to Net Zero, and, hopes that he will be able to discuss with you in the near future.

Yours sincerely

**[redacted]**

Private Secretary

## **Briefing Pack**


## **MINISTERIAL ENGAGEMENT BRIEFING: MICHAEL MATHESON**

Copied to: As per email list.

<b>Engagement title</b>	Visit to Cruachan power station	
<b>Engagement timing</b>	<b>11:15 – 13:15</b>  <b>9 December 2021</b>	
<b>Organisation</b>	Drax/Cruachan Power Station	
<b>Venue and full address</b>	Cruachan Power Station, Lochawe, Dalmally	Post code: PA33 1AN
<b>Micase reference</b> if applicable	202100212570	
<b>Background/Purpose</b> include invitation history	[redacted], Public Affairs Manager for the Drax Group invited Mr Matheson to visit Cruachan for a discussion and tour of the power station.	
<b>Relevance to core script</b>	This site visit will provide the opportunity for Cab Sec to acknowledge the contribution of such projects to the pathway to net zero and resilience of the network.	
<b>Greeting party and specific meeting point on arrival if event is at a non-SG Building</b>	[redacted] will meet Mr Matheson at the front door of the Cruachan Admin Building.  Ian Kinnaird, Scottish Assets & Generation Engineering Director  [redacted], Hydro Assets & Portfolio Engineering at Cruachan Power Station  [redacted], Cruachan Visitor Centre Manager  [redacted], Media Manager  [redacted], Public Affairs Manager	
<b>Specific entrance for Ministerial car and/or parking arrangements</b>	A car park space will be reserved for the Cab Sec and either [redacted] or [redacted] will be there to direct the driver to it.	
<b>Venue contact number</b>	[redacted], Public Affairs Manager	



	[redacted]
<b>Special dress requirements</b>	PPE, hard hats and high viz vests will be provided. Sensible shoes recommended.
<b>Event programme</b>	<p>Itinerary</p> <ul style="list-style-type: none"> <li>• 11.00: Arrival at the Cruachan admin building (this is clearly signposted and just before the Cruachan Visitor Centre entrance); coffee and refreshments will be available.</li> <li>• 11.05 – 11.20: Short presentation about Drax, Cruachan and its expansion.</li> <li>• 11.30 – 12.40: Tour of the Power station (turbine hall) and dam.</li> <li>• 12.40 – 12.55: Tour of the Visitor Centre.</li> <li>• 13.00: Return to admin building.</li> </ul>
<b>Summary page</b> key issues, lines to take if pressed and issues to avoid.	Annex A
<b>Biographies</b>	Annex B
<b>Background</b>	Annex C (Background/Pumped Storage Hydro)
<b>Supplementary information</b>	Annex D
<b>Directions</b> include map(s)	<p>In terms of parking and arrival, the Cab Sec should enter the power station entrance – not the visitor centre one. Unhelpfully on Google Maps the visitor centre is where the Cruachan Power Station pin is. (Hopefully this crude picture below helps).</p> <p>If the Cab Sec is travelling from the Central Belt, it will be the first Cruachan/Drax signed left turn along the A85. If he is coming from a prior engagement in the Oban</p>

	<p>area then it is the second Drax/Cruachan signed right turn along the A85.</p> 
<p><b>Media Handling</b> include mobile number(s)</p>	<p>n/a</p>
<p><b>Official Support</b> include mobile number(s)</p>	<p><b>[redacted]</b>, Head of Electricity Networks and Regulation.  Contact no: [redacted]</p>

## ANNEX A

### **Bullet point Summary and media handling (key issues, and issues to avoid)**

#### **Key messages to get across on this visit:**

4. As well as decarbonising the electrical energy generated in Scotland, we also need to address the substantial challenges of maintaining security of supply and a resilient electricity system.

2. Renewables and other zero carbon technologies are capable of providing all the services needed to ensure a secure electricity system.

3. It is critical that the appropriate market and regulatory arrangements are put in place by National Grid Electricity System Operator, Ofgem and UK Government to support this.

4. The case for reviewing incentives for Pumped storage Hydro (PSH), which has always been strong, is now greater than ever. We believe that with the right policy and regulatory framework, Scotland, and the UK, can unlock development in new PHS capacity, delivering cost-effective flexibility and storage at scale.

#### **Top Facts and figures to mention for increased public/ stakeholder awareness:**

4. Cruachan Power Station, affectionately known as the 'Hollow Mountain', resides deep inside Ben Cruachan in Argyll and Bute. It is one of only four pumped storage hydro stations in the UK and has a capacity of 440MW – enough to power more than 90,000 homes.

2. Pumped storage is one of the oldest forms of large-scale energy storage requiring two reservoirs based at different altitudes but close to each other

3 Cruachan's Visitor Centre offers over 50,000 people the opportunity to explore the power station and learn more about how it supports Scotland's net zero targets. It is one of Scotland's top-20 5-star tourist attractions, according to Visit Scotland.

4. Drax is developing plans to expand Cruachan's capacity by up to 600MW making the power station even more responsive to the demands of the grid and providing essential stability services.

### **Defensive lines to take on any sensitive issues:**

- **Ministers cannot comment on planning applications that could come before them for determination as this would be prejudicial to the outcome of the decision making process.**

In the latest Energy Networks Strategic Leadership Group (SLG) that I (Cab Sec) have attended, we discussed at length the need to have the system ready for net zero. I have also highlighted to the Group the need for regulatory process to align with key policy objectives in order to move things on pace as well as the need for clarity on which parts of this regulatory process and what type of change people are looking at in order to move things on pace and press forward to achieve our decarbonisation targets.

### **Stakeholder support:**

National Grid ESO, reported in its Future energy scenarios that it expects 10GW of storage capacity would be needed by 2030, rising to about 40GW by 2050. At the moment there is only 4GW of long duration pumped storage available.

SSE Renewables argues pumped storage hydro offers a more cost-effective solution for when power is needed over longer periods of time.

Ian Innes, project director for SSE Renewables' planned Coire Glas project in the Highlands, said pumped storage hydro was a "proven technology" which was already playing a part in supplying electricity across the UK.

*"However, a new large-scale scheme has not been built for decades even though more is needed to maintain and improve security of supply in the most cost effective way, particularly as more renewable generation is built to meet net zero by 2050,"*

SSE Renewables wants the UK government and Ofgem to establish a framework which "appropriately values long duration storage technology and the role it will play in the net zero transition".

Eddie Rich, CEO of the International Hydropower Association has stated : "No national electricity grid has been able to decarbonise without a significant element of hydropower. Projects like Cruachan demonstrate how easy it is to back-up our wind energy resources in the UK with other renewables. Gas is not the only storage option. As they say 'water, wind and sun get the job done'. I hope to see other pumped storage come online in Scotland in the next decade."

## Annex B

### Biographies

#### **Ian Kinnaird, Scottish Assets and Engineering Director**

Ian is Drax's Scottish Assets Director, managing a portfolio of hydro power stations and a fuel processing plant in Scotland, working in the energy industry for 25 years on coal, gas, nuclear and hydro power plants. He also leads for Drax on Engineering Governance and compliance across all its operational assets.

#### **[redacted], Operations and Maintenance Manager**

[redacted] is responsible for the day-to-day running of Cruachan Power Station, managing a team who ensure the asset is ready to respond to support the grid. He's led the team at Cruachan since December 2018 and was previously at ScottishPower as Maintenance Manager for the Lanark Hydro Electric Scheme.

#### **[redacted], Cruachan Visitor Centre Manager**

[redacted] has worked at the Cruachan Visitor centre for a number of years helping the centre to a 5-star award from Visit Scotland.

#### **[redacted], Media Manager**

[redacted] has worked as Media Manager for Drax since December 2019. Delivering coverage winning press releases, writing impactful Op-Eds, managing enquiries from energy correspondents and providing media briefings to the CEO and other senior management personnel.

#### **[redacted], Public Affairs Manager**

[redacted] is a Public affairs and communications professional, specializing in environment policy and sustainability. She has worked for Drax since July 2019.

### Background

#### About Drax Group

Drax Group is a UK-based renewable energy company engaged in renewable power generation, the production of sustainable biomass and the sale of renewable electricity to businesses.

Drax acquired Scottish Power's portfolio of pumped storage, hydro and gas-fired generation for £702 million in 2018. The company now operates a generation portfolio of sustainable biomass, hydro-electric and pumped hydro storage assets across four sites in England and Scotland.

#### Cruachan Power Station

- At Cruachan, water released from the upper reservoir (Cruachan dam) flows through a turbine and into the lower reservoir (Loch Awe).
- The flow of water rotates the turbine which in turn rotates a generator to produce electricity. Electricity from the grid can then be used to drive the turbine in the opposite direction, to pump water from the lower reservoir back up into the upper reservoir.
- Cruachan can reach full generating capacity in less than 30 seconds and can maintain its maximum power production for more than 16 hours if necessary.
- It is an important part of managing a stable, zero-carbon grid through its ability to provide stability services and long duration storage, supporting intermittent renewables such as wind. For these reasons, Cruachan recently won a six-year NG ESO contract to keep the electricity system stable.

#### The role of pumped hydro for net zero

- Greater deployment of flexible technologies like pumped hydro will be required to continue decarbonising the grid, enable the deployment of renewables and meet net zero.

- Pumped hydro is the only tried and tested long duration storage technology capable of both storing vast amounts of excess energy and discharging at full capacity for long periods of time.
- It contributes the majority of storage on the power system today and there are opportunities to deploy additional capacity onto the GB system – several projects have been identified in Scotland, including the expansion of Drax’s Cruachan Power Station.
- The Climate Change Committee’s 2020 Progress Report to the Scottish Parliament identified flexibility as one of the two major challenges facing the electricity grid in Scotland, alongside increased renewable generation.
- National Grid ESO Future Energy Scenarios indicates that between 23-40GW of storage required in 2050 up from ~4GW installed today, this will need to be a mix of short duration storage (batteries etc.) and long duration storage.
- Pumped hydro projects in the UK have not been built under liberalised market conditions. This is due to high capex costs, long build times and the fact that revenue streams are uncertain.
- Existing mechanisms to support renewables deployment or capacity on the system (Contract for Difference (CfD) and Capacity Market (CM) schemes) are unable to support the deployment of additional pumped hydro.
- In line with calls from Scottish Renewables and the REA, the UK government should investigate the possibility of introducing a mechanism to support long-duration large-scale storage technologies such as PSH. The UK government intends to outline its views in Spring 2022.

### **Investing in the expansion of Cruachan Power Station**

- Drax’s ambition is to be a leader in UK dispatchable and renewable generation. In this regard, the expansion of Cruachan Power Station is a key development project for the Group.
- Drax is developing plans to invest over £500m to expand Cruachan’s capacity by up to 600MW making the power station even more responsive to the demands of the grid and providing essential stability services.
- Drax intends to submit a Section 36 to Scottish Ministers in April 2022 with a view to taking a Final Investment Decision in 2024 and the plant being fully constructed by 2030.
- The expansion of Cruachan is considered a national development under Scotland’s National Planning Framework (NPF) 3 and draft NPF 4. It also has status as an EU Project of Common Interest status.



## Annex C

### Pumped Storage Hydro/Long duration electricity storage

#### Top Lines

- It is critical that the appropriate market and regulatory arrangements are put in place by National Grid Electricity System Operator, Ofgem and UK Government to support this.
- We believe that the case for reviewing incentives for Pumped storage Hydro (PSH), which has always been strong, is now greater than ever. As we continue to decarbonise our energy system, as well as our demand for energy linked to transport and heat, greater storage – PSH, as well as other forms – across the network will be essential to help balance fluctuations in demand and ensure system stability.
- At present, there is no market mechanism available to secure investment in PSH, with some large projects in Scotland awaiting that signal. It is critical that UK Government considers mechanisms to enable the development of PSH.
- Finding the means to unlock these huge investments would be absolutely key in keeping up with our respective commitments to deliver a green economic recovery from the Covid-19 crisis- a point that we have raised with BEIS in our response to their call for evidence on barriers to the deployment of large-scale and long-duration electricity storage.
- With regards to the planning application to expand Cruachan Power Station, Ministers cannot comment on planning applications that could come before them for determination as this would be prejudicial to the outcome of the decision making process.

#### Background

- Scotland has a proud tradition of hydro engineering and development, with large and established Pumped Storage Hydro (PSH) facilities at Foyers and Cruachan.
- The decade ahead will be critical to meeting Scotland's climate targets and Drax owns and operates a portfolio of flexible hydro power stations in Scotland with the ability to provide electricity to over 2 million homes instantaneously.
- Cruachan is Scotland's largest pumped hydro power station which, at full capacity, can power a city for more than 16 hours. Onshore wind, hydro generation, pumped storage hydro, and battery technologies all have a role to play in ensuring a secure and resilient electricity system.

- Drax's plan to expand Cruachan would involve an investment of over £500million, the creation of hundreds of local jobs during construction and generate savings for consumers.

## **Security of Supply**

All aspects of electricity security of supply have historically been provided by nuclear stations, large fossil fuel power stations, pumped storage and hydro. The closure of Scotland's coal stations during the last decade, and the confirmed / expected closure of Hunterston and Torness nuclear stations, leaves a gap in this traditional provision.

As well as decarbonising the electrical energy generated in Scotland, we also need to address the substantial challenges of maintaining security of supply and a resilient electricity system.

Renewables and other zero carbon technologies are capable of providing all the services needed to ensure a secure electricity system.

## Potential Future Options

- **No change:** it may be technically feasible for the Scottish electricity system to operate without any baseload plant. However, this would mean increased reliance and dependence on the wider GB system, with power stations in England and Wales providing these services, and (arguably) significantly higher risks to security of electricity supply.
- **New low or zero carbon baseload power stations:** power stations including natural gas with CCS, bioenergy with CCS (BECCS) and hydrogen can directly replace the services offered by nuclear and unabated fossil fuel generation.
- **Pumped Hydro Storage (PHS):** large scale PHS stations such as those at Cruachan and Foyers can help provide security of supply. SG has granted consent in recent years for new stations at Corrie Glas, Red John and Glenmuckloch, and we expect an application soon from Drax for an expansion of

the Cruachan station. However, these projects won't move forward without mechanisms for revenue certainty or risk management, which would need to be put in place by UK Government and Ofgem.

- **Battery Storage:** Battery storage can deliver some security of supply services, although the costs are likely to limit its ability to support peak demand security.
- **Support development of security of supply services from renewables:** some (but not all) security of supply services can be provided by wind and solar stations. However, the requirement to do so often needs to be built in from the start of the project. Regulations for generators, or the introduction of appropriate market structures and sufficient long-term clarity from UKG, Ofgem and the ESO, may be able to accelerate and increase that provision.
- **Increased electricity network investment:** network infrastructure itself can provide some of the services needed. For example, technologies such as synchronous compensators can support system operability. Some investment in security of supply infrastructure is included in SSEN and SPEN's regulatory settlements, primarily under uncertainty mechanisms.

## **Barriers to investment in Pumped Storage Hydro**

At present, there is no market mechanism available to secure investment in PSH, with some large projects in Scotland awaiting that signal. It is critical that UK Government considers mechanisms to enable the development of PSH.

Earlier in the year Mr Matheson's predecessor, Paul Wheelhouse wrote to the Secretary of State for Business, Energy and Industrial Strategy, Kwasi Kwarteng on this matter in the hope that the UKG can commit to a fresh and meaningful review of options for securing new PSH investments and capacity.

Moreover, finding the means to unlock these huge investments would be absolutely key in keeping up with our respective commitments to deliver a green economic recovery from the Covid-19 crisis.

Not only will their development spur great investment and employment, but it can be expected that, with sufficient care and maintenance, they would be able to endure for

over a century, providing a huge boost to the rural economies of both the Highlands and Southern Scotland.

In September 2021 BEIS sought evidence on barriers to the deployment of large-scale and long-duration electricity storage, and on different approaches for supporting the deployment of these technologies. In our response we reiterated all of the above points.

### KPMG report on

- In November 2021, KPMG produced a report on Long-duration storage and flexibility Income Stabilisation Mechanism on behalf of Drax. In the report, two main barriers have been identified to successful financing and delivery of long-duration storage especially for the Cruachan station- **revenue uncertainty** and **cash flow uncertainty**.
- Revenues from the provision of flexibility and long-duration storage services can be uncertain and volatile with no longer term visibility regarding the levels of likely revenues.
- PSH projects, such as Cruachan 2, face variable costs associated with the pumping of water back up to the reservoir. The price of the energy to do this is driven by the market, can be highly variable and therefore also has an effect on the uncertainty of cashflows.
- KPMG conducted a high-level, qualitative assessment of four potential mechanisms and potential options;
  - The **Cap and Floor** regime provides sufficient certainty to investors that income will cover the cost of debt which has the potential for unlocking finance for new projects to go ahead.
  - While a **reformed Capacity Mechanism (CM)** can provide stable minimum revenue streams, it is not the preferred option because CM-payments appear unlikely to be sufficient on their own to service debt costs for large scale investment, although CM revenues would form an important part of the stackable revenues under the Cap and Floor regime.
  - The **RAV-model** is deemed unsuitable on the basis that it provides insufficient incentives for asset operators to respond to market signals and carries minimal competitive pressure to drive efficiency.
  - **Contract for Difference** is deemed unsuitable because this type of regime typically incentivises export of power irrespective of market conditions.