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Rt Hon Kwasi Kwarteng MP
Secretary of State
Department for Business, Energy and
Industrial Strategy
1 Victoria Street
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18 March 2022

Dear Kwasi,

I am pleased to give my support to the announcement last week that the UK is looking to end the importation of Russian oil and gas by the end of this year. However, at this juncture, I want to make it clear that I find it completely unacceptable to read about the future direction of the UK Government, in particular the forthcoming publication of a National Energy Independence Strategy, in the press.

The Scottish Government has not been consulted on this National Energy Independence Strategy at either ministerial or official level, which is hard to believe given the vital role that Scotland already plays in exporting electricity and gas to the rest of the UK and beyond. As you are no doubt aware Scotland exported 20.4 TerraWatt hours of electricity in 2020, enough to power every household in Scotland for 26 months. In addition Scotland exported 17 Mtoe of natural gas to the rest of the UK in 2019, which accounted for 42% of the rest of the UK's total gas consumption.

Furthermore, I understand that the Prime Minister met with key energy stakeholders to discuss increasing investment in the North Sea Oil and Gas Industry, again this appears to have happened without input from The Scottish Government.

While the oil and gas sector has, and continues to remain, a key part of the Scottish economy, increasing domestic production is not the way to end dependence on fossil fuel from Russia. Instead we should be looking to immediately accelerate the transition to renewables and reduce our dependence on oil and gas products. This type of global shock to the energy system requires collaboration and action across all areas of energy policy.

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As you will know, at EU level the key institutions are working to reduce dependency on Russian fossil fuels. The European Commission's 'RePowerEU' plan, published on 8 March 2022, assesses that it could reduce dependence by nearly two-thirds within a year, and entirely before the end of the decade. Individual EU states are also taking action, with Germany last week announcing that it had earmarked 200 billion euros to fund industrial transformation between now and 2026.

The UK cannot be left behind in this transition and there is a huge opportunity to both decrease our dependence on oil and gas products from Russia as well as further accelerate the transition to net zero to mitigate the worst impacts of climate change. With that in mind, I have the following key asks for the UK Government:

- **Accelerate the decarbonisation of electricity.** There is an immediate need to increase investment to meet our net zero ambitions. In particular; anticipatory investment required to enable the swift connection and transportation of renewable electricity and, to enable the accelerated decarbonisation of heat and transport, should be approved without delay. In particular, we have heard from ScotWind developers who have expressed concern around National Grid's plans to only account for 10.7GW of ScotWind in the forthcoming Holistic Network Design publication. While we are aware that the transformational nature of ScotWind requires careful consideration, BEIS, Ofgem and National Grid ESO must consider how to accelerate electricity network investment in order to enable ScotWind projects to connect to the electricity system without delay.
- While the increased frequency of CfD allocation rounds is welcomed, the ring-fenced budget allocated for emerging technologies should be increased to ensure the potential pipeline of floating offshore wind and marine projects can achieve commercialisation. Importantly we should not be looking backwards to traditional nuclear technologies which, we know, in addition to their waste and environmental concerns, are poor value for consumers compared to renewables. Further, the long lead in times for the construction of nuclear fission reactors means that even if new projects were approved today there would be no immediate benefit to energy security. Finally, we need to rapidly increase the development and construction of planned interconnectors so that we can support our European partners as they look to decrease their reliance on Russian fossil fuel products.
- **Reform the network charging system.** Scotland has some of the most extensive renewable generation capabilities in Europe but investments in these areas are being held back by unfair network charges, which are focussed on the location of generation. In a net zero world, it is counterproductive in the extreme to care more about where generation *is situated* than what *type of generation it is*. Instead, taking forward reform to reward those developers who are investing in renewable generation (and supporting technology like storage) will allow us to meet the net zero targets by accessing the best locations for these sites; not make them more expensive.

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- Accelerate the delivery of the Scottish Cluster:** Carbon Capture and Storage (CCS) is vital component for delivery of our statutory emission reductions targets. The UK Government's cluster sequencing decision has not provided Scotland with clarity on the potential for UK government support, despite its 'reserve' status demonstrating its suitability for delivery. The UK Government should give certainty to the Scottish Cluster and find a solution to bring it online at an accelerated pace. Now is not the time to artificially hold back on decarbonisation when industry is primed to invest. We wish to work collaboratively on solutions to funding and delivery of CCS in Scotland and for our emissions targets, energy security, and unique opportunity to raise revenue for the exchequer through storage of international CO₂ to be recognised as key in the acceleration of our decarbonisation efforts. We continue to advocate for the Cluster and have offered the UK Government £80 million from our Emerging Energy Technologies Fund to accelerate deployment.
- Accelerate business models for green hydrogen:** The UK Government should also accelerate the design and application of the UK hydrogen business model and other market mechanisms to support hydrogen production and use. This is an immediate action that is necessary to provide market certainty and investor confidence to enable the development of hydrogen production required in Scotland to meet domestic demand from transport, industry and other sectors in the mid-2020s and underpin the future export market. The acceleration of the UK hydrogen business model to support hydrogen production will also help to address energy storage and supply issues, with hydrogen production unlocking the use of onshore constrained renewables and supporting the management of constrained electricity, potentially reducing the scale of constraints payments and introducing new options for energy storage and system balancing.
- Accelerate energy efficiency and the decarbonisation of heat:** Reducing our heat demand and decarbonising heat is one of the most challenging elements of achieving net zero. One area where rapid action should be taken is to increase energy efficiency for both domestic and non-domestic buildings. This will have multiple benefits, it will reduce heat demand and will improve the health and wellbeing of those living in the most inefficient properties. Scotland's long standing support schemes for energy efficiency improvements have already helped over 150,000 households in, or at risk of, fuel poverty. In addition, the Scottish Government has committed to investing at least £1.8 billion over the lifetime of this parliament in energy efficiency and heat decarbonisation measures. The UK Government should remove the financial barriers preventing the creation of commercially viable large scale heat decarbonisation and provide better incentives for investment in enabling infrastructure. It should also develop innovative financing mechanisms and appropriate levels of consumer protection which will give confidence to property owners looking to improve the carbon footprint of their homes.

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- **The UK Government must commit to rebalancing the policy costs on energy bills to reduce the premium paid by households reliant on electric heating** and help to unlock the deployment of low and zero emissions heating. Furthermore, as VAT policy control is reserved to the UK Government, I would urge that all policy levers are considered to help people through this crisis, including the reduction or removal of VAT on energy bills. We also call for an immediate removal of VAT on energy efficiency and zero emissions heat equipment and products. This would significantly increase take-up of these products thereby supporting reduced household demand for energy as well as supply chain growth in this key sector.
- **Accelerate the Decarbonisation of Transport:** The Scottish Government has been clear that technology alone will not achieve the transformational change required for transport to play its part in the transition to net-zero. Fundamental behaviour change and mode-shift will be required, mirroring assertions, from the UK Committee on Climate Change, that demand for travel also has to be reduced. In recognition of this, in January of this year the Scottish Government published a draft route map for our world leading ambition to reduce car kms by 20% by 2030. The UK Government must set out a timeline for productive engagement on incentives and tax structures that are fair, progressive and support net zero choices, alongside investment in net zero technologies, including reform of fuel duty and vehicle excise duty. It is also important that the National Independent Energy Strategy also considers measures to strengthen the support for hydrogen as a transport fuel, recognising the role that hydrogen, particularly green hydrogen, can play in the transport sector.

Taking these steps immediately would put the UK not only onto an accelerated pathway to net zero but help reduce our reliance, and that of our closest allies and partners, on oil and gas products from a regime currently engaged in unprovoked war against Ukraine.

There are opportunities for Scotland and the rest of the UK to become a world leader in the creation of a net zero economy, if only there is the will to grasp those opportunities rather than fall back on fossil fuels.

I welcome the opportunity to discuss these points with you at your earliest convenience and I look forward to hearing from you on how you plan to include my officials in the development of key pieces of work such as this moving forward.

Yours sincerely,



MICHAEL MATHESON

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