

NATIONAL ECONOMIC FORUM – EIGHTEENTH MEETING: 12 MAY 2017 DISCUSSION REPORT: THE FUTURE OF ENERGY IN SCOTLAND

Host: Paul Wheelhouse MSP, Minister for Business, Innovation & Energy

Business Facilitator: Nick Molho, Executive Officer, Aldersgate Group

Scribe: Katherine White, Energy and Climate Change Directorate, Scottish Government

Summary

The discussion focused on the economic opportunities and challenges facing the energy sector in Scotland and how the Scottish Government's draft Energy Strategy can support a thriving energy sector fit for the future.

The discussion covered the full breadth of the energy system with participants giving their views on the role of Scotland's established industries, such as offshore oil and gas, and new sectors like renewable heat and low carbon vehicles, in the development of the future energy system.

Much of the discussion focused on the positive role for the oil and gas industry in the development of low carbon energy technologies via skills and technology transfer, whilst recognising the important role that gas – in supplying heat, transport and electricity - will continue to play in meeting our energy needs in the most cost-effective and least-polluting way.

Introduction and Background

The Minister for Business, Innovation and Energy introduced the discussion by setting out a summary of the draft Energy Strategy (open for public consultation until 30th May), and identifying the key economic opportunities for Scotland. The Minister welcomed the views of National Economic Forum delegates, emphasising the Scottish Government's commitment to the energy sector and the great prize to be won in developing the right long-term Energy Strategy for Scotland.

Nick Molho, Executive Officer of the Aldersgate Group¹, then set out his views on the draft Energy Strategy –

- This draft Energy Strategy for Scotland is particularly valuable, in that it seeks to set out what the future of the energy system might look like, what strengths

¹ The Aldersgate Group is a membership organisation, whose focus is to develop policy solutions that can help tackle today's environmental challenges like climate change, in a way that's effective, affordable and can deliver economic benefits.

the Scottish energy industry can build on, what kind of investments and innovation need to be incentivised and how Scotland can grow supply chains across the low carbon economy.

- The strategy also recognises that the Government will need to work closely with key sectors of the economy during this transition. Scotland's oil and gas sector is an important example here, given that we are looking at a gradual transition of the energy system in the coming decades and that the sector possesses significant engineering, research and technical expertise, which will be essential in the transition to a low carbon energy system.
- The purpose of this session was to have as constructive a discussion as possible to get thoughts on this draft Energy Strategy and the challenges facing the energy sector in Scotland today, what policy tools are needed to deliver the draft Strategy's objectives in a way that is affordable and economically beneficial for Scotland and how Scottish businesses can be best placed to tap into export opportunities in the global low carbon sector.

Topics discussed:

What are your views about the Energy Strategy's objectives and how these can be delivered affordably?

Participants welcomed the overall vision, ambition and leadership being shown by the Scottish Government in publishing the draft Energy Strategy and agreed with the First Minister's comment earlier in the morning that clear targets had a role to play in attracting affordable private investment in energy efficient and low carbon infrastructure.

In some areas, delegates felt there need to be more detail and a clearer articulation of the timescales over which decisions will be made. Heat (and associated role of natural gas) was not felt to be prominent enough in the Energy Strategy document, and that there was too much emphasis on electricity.

The position of Scotland as a devolved nation in the UK and EU was recognised as potentially being a barrier to delivering the full potential of the Energy Strategy – how can Scotland more effectively influence policies set at the national level?

The importance of Scottish Government's role in reducing the risk of energy investment was recognised – and how Scottish Government's devolved powers (such as non-domestic rates, planning powers, building standards, support for innovation and economic development) can be more closely aligned with the objectives of the Energy Strategy.

What are your views on the challenges and opportunities facing the energy sector in Scotland today?

The role of the established oil and gas industries and associated assets such as pipelines and gas infrastructure was acknowledged as having an important role to play in the future energy system. Anchoring oil and gas in the UK has already benefitted alternative energy sector and there will be a continued need for a strong oil and gas sector during this transition.

Delegates felt it important not to encourage stranded assets in order to reduce the costs of the transition. Alternative forms of gas (green gas such as bio-methane and syngas, as well as hydrogen) could continue to use gas infrastructure while reducing carbon emissions. However, it was also important to recognise the role of gas as a feedstock for petrochemical industry, where a substitute is not currently available.

On the role of increasing renewable energy, the discussion focused on the importance of preserving the resilience of the energy system, that different types of renewables must be balanced and managed efficiently, and the system operator must place a value on system services as well as generation.

What are your views on the key benefits of local communities and social enterprise groups participating in the delivery of the future energy system?

Scotland is leading the way with community/local energy where community engagement has grown from standing start, and the energy strategy reinforces and emphasises the importance of communities. We are now moving to a more complex system; everyone recognises how important wider public voice in future energy system and communities are uniquely placed to influence and build capacity.

The new system depends on new commercial and regulatory arrangements – most of which are reserved to UK government - so Scotland should promote the value of community involvement to UK government officials.

The importance of public engagement on the future energy system was raised by several members. Some had experience of delivering local conversations on energy issues and recognised the importance of developing trust with a local community and also recognising the social context of the particular community (and the legacy impact of existing or previous industries) – recognising that government and industry have a role to play in ensuring high quality public information and awareness-raising regarding the future of energy.

Where do you feel that current strengths in areas such as oil and gas can be best used to develop the energy system of the future?

Most participants recognise that Scotland should focus efforts on the technologies and services where it is already or can develop a world leader status in order to maximise our role in the export economy. But we can't be a world leader on everything.

While the cost structures of renewables and oil and gas industries are different, there is merit in enhancing the areas of common expertise. Engineering innovation was seen as the key transferable asset – so Scottish Government has a role to support innovation, particularly where no one commercial company is likely to benefit.

The discussion group felt that a more strategic approach to managing the availability of skilled workforce for the future energy system was required – including a focus on STEM to bring these innovations forward, and a common re-training / reskilling frameworks to allow transfer between the oil and gas and renewables sector.

How can Scottish Government and its enterprise agencies' support and guidance help your business to overcome the barriers standing in the way of Scottish businesses seizing growth opportunities at home and on global export markets?

There was a desire across participants to have the Scottish Government's Energy Strategy set clear direction in order to attract investment. Participants also recognised the importance of alignment between Scottish and UK policies.

The group also recognised that Scotland has a great opportunity to build on the existing partnerships and demonstration projects but this will require leadership and coordination by Scottish Government.

Scotland will need to have the necessary infrastructure in place to bring forward private sector commitment and attract investment. This will require greater coordination in order to maintain and build the right infrastructure and ensure policy direction is clearly articulated.

Without clear signals on the future commitment to individual technologies – such as offshore wind, low-carbon heat and marine renewables – and with uncertainty over UK funding mechanisms, some sectors of the renewables industry may not attract the necessary investment. Scottish Government Energy Strategy should be clear about the ambitions under a future without Contracts for Difference support.

Future targets for the built environment (insulation and low-carbon heat), together with the right regulatory / fiscal incentive tools, would help to bring investment forward in public sector and commercial buildings.

Closing Comments

In summary, there was a lot of positive support for both the vision and the work the Scottish Government was trying to take forward under the Energy Strategy.

The key points of the discussion can be summarised as the following:

- (i) the importance of clear targets, regulatory measures and clear incentives to ensure stable management of the transition over the long term,
- (ii) paying close attention to the role of natural gas in Scotland's energy mix and in developing a better understanding of the role of existing infrastructure and assets,
- (iii) the use of systems thinking in delivering integrated change (e.g. power sector / buildings / transport), and
- (iv) the importance of developing skills strategies that recognise the value of existing industries to new and emerging energy technologies.

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