



UK PARLIAMENT SCOTTISH AFFAIRS COMMITTEE: CALL FOR EVIDENCE

Report by Chief Planning Officer

PURPOSE

- 1.1 The purpose of the Report is to seek homologation of a response submitted to the UK Parliament's Scottish Affairs Committee in respect of its Call for Evidence on GB Energy and the Net Zero Transition.

EXECUTIVE SUMMARY

- 2.1 The UK Parliament's Scottish Affairs Committee has issued a Call for Evidence on GB Energy and the Net Zero Transition and has followed up with a series of visits around Scotland, introducing the Call and exploring the Call subject with local stakeholders. The Committee visited the Comhairle on 10 December when presentations were made on the Outer Hebrides context, key areas of UK Government support and Renewable Energy opportunities across the islands.
- 2.2 The text of the response submitted to the Call for Evidence, which fell between Committee series', is attached at Appendix 1 but the key points highlighted are:
- the impact of the Transition to Net Zero on the Outer Hebrides will be considerable given the contribution currently made to the island economy by Oil and Gas workers;
 - the existing capabilities of the Oil and Gas industry must be harnessed to deliver Renewable Energy solutions with re-skilling support for Oil and Gas workers exiting that industry;
 - more Government support should be available for training and re-skilling for a Low Carbon future;
 - Government investment in West Coast Port infrastructure, including Stornoway's 'Deep Water South', should be accelerated given that future leasing rounds for Offshore Wind will move from the North Sea to the Atlantic Ocean north and west of Scotland;
 - large scale Green Hydrogen production could eventually take the place of Oil and Gas in Scotland and both Government should be investing now in the development of Scotland's Hydrogen Hubs, including Stornoway, with potential for replication in Uist and Barra;
 - given the Outer Hebrides' national lead in Community Energy deployment, GB Energy should establish a Community Energy division in the islands;
 - given the Outer Hebrides' capability for Green Hydrogen production, GB Energy should establish a Green Hydrogen division in the islands;
 - GB Energy should support new Community Energy with access to development finance, access to Grid and access to Price Support; and,
 - a Just Transition requires that areas hosting visually intrusive energy infrastructure for the benefit of national energy security should be adequately compensated through the type of Government support outlined above.

RECOMMENDATION

- 3.1 **It is recommended that the Comhairle homologate the response submitted to the UK Parliament's Scottish Affairs Committee's Call for Evidence on GB Energy and the Net Zero Transition.**

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Appendix: 1. Response to Scottish Affairs Committee Call for Evidence
Background Papers: None

IMPLICATIONS

4.1 The following implications are applicable in terms of the Report.

Resource Implications	Implications/None
Financial	None
Legal	None
Staffing	None
Assets and Property	None
Strategic Implications	Implications/None
Risk	None
Equalities	None
Corporate Strategy	Supports the Corporate Strategy 2022-2027 ambition to strengthen the local economy.
Environmental Impact	None
Consultation	None

BACKGROUND

- 5.1 The UK Parliament's Scottish Affairs Committee has issued a Call for Evidence on GB Energy and the Net Zero Transition. The Committee is investigating the transition to net zero in Scotland's energy sector, and how the UK Government can support a transition that maximises opportunities for jobs and economic growth. As part of this, the Committee is examining how GB Energy and other interventions can most effectively back the development of clean energy.
- 5.2 The Committee visited the Comhairle on 10 December when presentations were made on the Outer Hebrides context, key areas of UK Government support and Renewable Energy opportunities across the islands.
- 5.3 As the deadline for submissions to the Call for Evidence was 12th January 2025, homologation of the response at Appendix 1 is being sought.

CONCLUSION

- 6.1 The visit of the Scottish Affairs Committee to the Outer Hebrides, accompanied by its enquiry into GB Energy and the Net Zero Transition, has afforded the Comhairle the opportunity to highlight a range of pertinent issues to UK Government. The response to the Call for Evidence at Appendix 1 seeks to emphasise the considerable impact anticipated on the islands from the Net Zero Transition, mechanisms through which the UK Government could support a Just Transition, and the role that the Outer Hebrides could play in the delivery of GB Energy, particularly in respect of Community Energy and Green Hydrogen production.

1. What impact will the UK Government's approach to net zero have on Scotland's oil and gas industry?

Although the Western Isles (Outer Hebrides) has no significant Oil and Gas production or processing sector, a relatively high proportion of the working population is engaged in Oil and Gas activity in the North Sea and across the world. This 'diaspora' is a key economic contributor to the Western Isles as earned income is largely sent back to families at home in the islands. These families support education, health, business and the voluntary sectors across the Western Isles and contribute significantly to local taxation and the maintenance of key local services.

The impact of a badly managed transition to a Low Carbon economy could be catastrophic for the Scottish Islands given the proportionately high number of well paid jobs currently occupied by island workers in the carbon sector. Loss of these jobs without replacement would mean loss of a considerable income stream to the fragile island economy, a loss of demand for lifeline local services and could undermine the viability of some economically marginal transport links on and off the islands.

As the UK Government transitions to a Net Zero future, the Oil and Gas industry's existing capabilities, infrastructure and private investment potential must be harnessed to deliver new and emerging technologies in Renewable Energy. In addition to creating new economic opportunities, this should involve re-skilling workers exiting the carbon sector.

There must be a Just Transition for workers currently engaged in Oil and Gas so that no-one is left behind or pushed behind in the move towards Net Zero. Engagement in the Oil and Gas industry for island workers inevitably means a demanding transient and itinerant lifestyle as those workers constantly travel to and from work sites in the North Sea, the Baltics, the Far East, Africa or South America. The shift to sustainable energy production in high yield resource areas around Scotland brings new opportunities at home for those workers and every effort should be made to match existing Oil and Gas skills directly into these new opportunities.

- What state of readiness is the oil and gas sector in for the net zero transition?

With no Oil and Gas production or processing sector locally, the Comhairle is not positioned to comment on this.

- Is the scaling up of the clean energy sector keeping pace with the decline of jobs and investment in the oil and gas sector, or does the UK Government need to do more to close this gap?

Job opportunities in the clean energy sector will appear organically as the sector grows but more requires to be done proactively in the area of training and re-skilling for a Low Carbon future. This ranges from career choice support in late Primary School years and curriculum alignment during Secondary School years to new Further / Higher Education courses available locally / online, workplace Apprenticeships and re-skilling / re-certification for workers exiting the Oil and Gas industry.

2. What UK Government interventions will be necessary to maximise the ability of oil and gas workers to find jobs in clean energy?

Through local Economic Development Agencies, a register of the energy sector diaspora should be developed and maintained with appropriate data protection controls. Job opportunities in the emerging Low Carbon sector should then be communicated to those on the register with the offer of support for re-skilling or re-certification as appropriate.

3. Are Scotland's energy industry and associated supply chains well-placed to transition to clean energy generation, or is more support needed?

More support is required. It is generally accepted that, due to cumulative impact in the North Sea, future rounds of Offshore Wind leasing will focus on the North and West of Scotland with the Irish Government focusing on the West of Ireland. These are areas of massive Renewable Energy resource and the scope for sustainable development is unlimited. This being the case, there will be the need for fabrication, assembly and O&M support facilities in the North and West of Scotland and little is being done to build this capacity.

The Comhairle was particularly disappointed when a recent application from Stornoway Port Authority to the UK Government's Floating Offshore Wind Manufacturing Investment Scheme (FLOWMIS) was rejected. This

application was submitted on the back of successful completion of the £60m Stornoway Deep Water Terminal and would have funded a modest port extension, critical for servicing the growing Offshore Wind sector to the North and West of Scotland and enabling future export of Green Hydrogen derivatives. Without this infrastructure, the capacity of Scotland to service this growing sector is compromised and significant socioeconomic benefits for the islands are lost. This is an example of essential, strategic Low Carbon supply chain infrastructure opportunities being missed.

Continuation of the current short-sighted approach to infrastructure provision will leave Scotland with a profusion of East-facing facilities (Shetland, Cromarty, Aberdeen, Montrose, Forth Ports etc) with little work to the East and nothing on the West coast except a dry-dock at Kishorn. Over time, the West coast opportunity could dwarf current North Sea activity so time and resource should be invested now in upgrading facilities at Arnish (Stornoway), Kishorn, Hunterston etc.

4. What actions should the UK and Scottish Governments take to ensure the necessary generation and transmission infrastructure to support the development of Scotland's renewables sector?

Following over twenty years of relentless lobbying by the Comhairle of UK Government and OFGEM, a 1.8GW HVDC Transmission Link is finally in train for the Western Isles, providing a route to market for Onshore and Offshore Wind and supporting a raft of unprecedented socioeconomic opportunities for the islands. This Transmission Link will connect 450MW of Onshore Wind and 1.4GW of Offshore Wind to the GB National Grid. However, 1.5GW of optioned 'ScotWind' Offshore Wind will still remain stranded with no obvious route to market. And, as future rounds of Offshore Wind leasing move from the North Sea to the Atlantic Ocean North and West of Scotland, there is no planned capacity to accommodate this new production. If nothing is done to capture this new generation for Scotland, it will be exported subsea to markets in England and Continental Europe with no benefit to host island economies or the wider Scottish economy. The islands will have to suffer the considerable disbenefits associated with hosting Offshore Wind deployment (visual impact, potential environmental impact and construction / O&M disruption) with no corresponding benefit, effectively taking the 'Just' out of Just Transition.

The Comhairle accepts that the North of Scotland Electricity Grid is nearing full capacity and that future large scale connections to that system will be challenging. Now is the time for the UK Government to look at non-Grid solutions for Offshore Wind generation and this will involve large scale Hydrogen production taking the place of Oil and Gas in the UK economy. While exporting electrons to Grid through the islands provides a welcome revenue stream for struggling island economies, the real value is added to these electrons at their mainland destination. If Hydrogen production at scale can be captured for the islands, all value is added on-island in terms of Hydrogen and Synthetic Fuels R&D, conversion to Methanol or Ammonia for shipping, development of liquid Hydrogen transport options etc. Traditionally, the main export from these islands has been its well-educated young people, leaving the islands to embark upon Higher Education or to secure highly-skilled jobs, never to return. The development of a Hydrogen economy of scale reverses this trend and brings island graduates, and other, back to the islands to undertake highly skilled jobs in the new Low Carbon Economy.

5. How can GB Energy, and other ways of backing industry (including funding), most effectively support employment, economic growth and the development of clean energy supply chains in Scotland?

Support a GB Energy Green Hydrogen Division based in the Western Isles *Green Hydrogen development is at a critical stage in Scotland. Some large industry players have shown an interest in developing Hydrogen production capability in Scotland on account of its Renewable Energy resource, its relatively stable governance regime and its proximity to large European markets. Projects aimed at Gigawatts of production have been proposed but have been hampered by the high production cost of Green Hydrogen and / or difficulties in identifying large scale offtakers. The Hydrogen Allocation Round (HAR) regime will eventually go some way to equalising the cost of Hydrogen with LNG but, when it is considered that the Delivery Years for HAR3 (closing in late 2025) are 2027 and 2028, the required pace of development is just not there. There is the risk that - as was the case with Offshore Wind - Scotland 'misses the boat' in terms of Hydrogen production and export. A GB Energy Green Hydrogen division based in the Western Isles could focus on these issues, looking at innovative incentive regimes and offtaker support measures which will really accelerate the pace of Green Hydrogen production. Offshore Wind is going to be the feedstock for GW scale Hydrogen*

production in the 2030's and the centre of gravity for Offshore Wind is about to move from the North Sea to the North and West of Scotland. Couple this with the strongest and most sustained wind resource in Europe and it makes sense to locate the Green Hydrogen division of GB Energy in the Western Isles.

Support a GB Energy Community Energy Division based in the Western Isles The Western Isles are well ahead of the rest of the UK in terms of direct community ownership of Renewable Energy generation assets. From around 2010 to 2015, some ambitious and forward thinking communities grabbed the opportunity presented by the (now discontinued) Renewable Obligation (>5MW) and Feed-in Tariff (<5MW) incentive regimes to construct community-owned turbines on community-owned land. The result is 23.5MW of wholly community-owned Onshore Wind generation exporting to Grid from the Western Isles (because the local electricity network cannot accept intermittent generation) with £2m+ returning to island communities each year for investment in lifeline projects. As the commercial Wind Farms in Lewis move forward into construction for connection by 2030, the Comhairle and The Stornoway Trust are finalising agreements for Shared Ownership of 20% in Stornoway and Uisenis Wind Farms, placing an additional 80MW+ of renewable generation in the hands of the local community. Again, this is the most ambitious Shared Ownership scheme in development in the UK and the proceeds will be applied, inter alia, to addressing Fuel Poverty through discounted electricity offered to island consumers through a licenced, community-owned energy supply company and to building a community-owned Green Hydrogen production capability. With regard to 'ScotWind' Offshore Wind, the Comhairle quickly recognised that a Community Benefit vacuum existed in the seabed leasing and consenting process. The Comhairle therefore, with the affected communities, developed its own Memorandum of Understanding which was signed by the main ScotWind developers and this has already led to a commitment from Northland Power to contribute £4.5m per annum, index linked for 35 years, to the four Community Estates bordering the 'Spiorad na Mara' project. This will result in circa £200m going into a small population of 4,500 over the lifetime of the Wind Farm and this is in addition to Northland Power's support for communities across the wider Western Isles. Leadership in these areas suggests again that it would make sense to locate the Community Energy division of GB Energy in the Western Isles.

Support for Training and Re-Skilling GB Energy should work with Schools and Further / Higher Education establishments, particularly the FE Colleges in the islands which are part of the University of the Highlands & Islands, to prepare them for the approaching Transition. A school pupil, hoping to find skilled work in the new Low Carbon Economy in the islands and committed to the conventional Higher Education route in say, Mechanical Engineering, would have to be entering S6 in August 2025 in order to graduate from University and into work in 2030. So, time is of the essence if we are to guide school pupils into a qualification pathway that results in highly-skilled, island based jobs in the new Low Carbon Economy. To make up time, Graduate Apprenticeships in all key Energy disciplines should be supported and industry-relevant Further Education courses should be developed in island Colleges now.

Support for Renewable Energy Infrastructure Following the regrettable FLOWMIS episode which deprived Stornoway of much needed funding for a new Offshore Wind assembly and mobilisation facility, the UK Government should redouble its efforts to develop Renewable Energy infrastructure on the West Coast of Scotland. This will include new facilities at Arnish / Stornoway which will be a strategically critical location as Offshore Wind generation moves to the North and West of Scotland. This support should include meaningful engagement with Navantia, the new owners of the Harland & Wolff facility at Arnish, which already employs over 170 local workers and 27 local apprentices. UK contracts for Navantia, such as the current Fleet Solid Support programme involving the construction of three ships for the Royal Fleet Auxiliary, will be critical to the success of Arnish and its partner Navantia UK yards going forward.

6. How should GB Energy work with the Scottish Government and other Scottish bodies to identify appropriate funding and other mechanisms?

GB Energy reportedly has a budget of £8.3bn for application to its priorities of Green Hydrogen production and community ownership of energy. This funding could be directly applied to local projects or could leverage substantial additional funding from the National Wealth Fund, Scottish National Investment Bank, both Governments etc to deliver Green Hydrogen production and community ownership at scale.

In particular, GB Energy should address the current constraints facing community ownership of renewable generating assets, namely access to development finance, access to Grid and access to price support: **Access to Development Finance** – the RO and FiD incentive regimes guaranteed a return on power exported to Grid

ahead of project development and community organisations, with limited assets or collateral, benefited greatly as banks were happy to lend at 90% / 95% against guaranteed lifetime income. Replacement of these front-loaded schemes with the Contract for Difference (CfD) regime in 2019, however, effectively excluded community organisations from project development as developers are now required to fund themselves through bird, aviation and environmental studies and Planning Permission before they enter a blind auction and only success at that auction secures a CfD. Banks will now only lend once a CfD has been secured and community organisations with limited assets or collateral are simply unable to fund project development work, studies and the Planning process – a cumulative cost in the millions of pounds. **Access to Grid** – at present, Grid space is offered on a first come, first served basis with no preference for community-owned projects. This means that developers who can fund project development off balance sheet can apply for Grid connection at risk, paying the millions of pounds required to secure that connection, and communities cannot compete. Grid space is quickly used up and the community is squeezed out of the process. National Grid's recent review of this process which was meant to level the playing field for communities has only consolidated the inequality. The planned TMO4+ 'First Ready, First Connected' approach may indeed halve the length of the current Grid connection queue but, in doing so, it will assign community projects (without land option or readiness of Planning) an indicative Gate 1 offer while well-financed, commercial projects with land and readiness for Planning in place are offered a firm Gate 2 offer. Although this approach will remove 'zombie' projects without land option from the queue, it is unlikely to benefit community projects in any way. **Access to Price Support** – as indicated above, community organisations are effectively excluded from the Contract for Difference regime through an inability to self-finance their projects through Planning and a blind auction. GB Energy could make a real difference for communities by enabling a review of the incentive system or offering direct GB Energy underwriting so that the best elements of the legacy RO and FiT regimes are revived, providing some pre-Planning certainty for community projects and allowing them to access ringfenced GB Energy funding or commercial bank funding for project development costs before they secure their CfD.

A Community Energy division of GB Energy, located in the Western Isles, could address these issues directly from practical experience in a well-informed way.

7. What does a just transition look like for workers and communities across Scotland's highland and island communities, and what role might community energy and community benefits play in this?

A Just Transition is a transition that is as fair and inclusive to everyone concerned, creating decent work opportunities and leaving no-one behind. At the very least, a Just Transition across the Highlands and Islands should ensure that every Oil and Gas worker domiciled in the region who is disadvantaged by the down-turn in the Oil and Gas is offered an equivalent job in the new Highlands and Islands Renewable Energy economy.

But Just Transition is about more than that. It should recognise that the Highlands and Islands are shortly to become the powerhouse of the UK – the existing National Grid was built on fossil fuel generation around the main urban centres with energy pushed out to the periphery through a fragile distribution network. With the emergence of renewable generation at scale, this system is now 'back to front' and no longer fit for purpose. The periphery is fast becoming the centre as the majority of UK energy is generated through Onshore and Offshore Wind in and around the North of Scotland with that power reverse-pushed to the main urban centres in the south.

A Just Transition requires that, if the population of the Highlands and Islands is to suffer the disbenefits of commercial scale energy development and a semi-industrialised environment for the sake of UK energy security and the national interest, then the Highlands and Islands should be adequately compensated. Government support for transmission and distribution infrastructure, for Renewable Energy fabrication and assembly processes in the region, for upgraded port facilities, for supply chain revitalisation and growth, for Fuel Poverty mitigation, for community ownership of generation, for large scale Green Hydrogen production and export, for improved transport links and for general community empowerment should now move up a gear. That would represent a Just Transition. A good first step would be the location of GB Energy divisions for community ownership of energy and for Green Hydrogen production in the Western Isles.

8. Can the UK learn lessons from international examples about how to effectively manage Scotland's energy sector transition?

The Comhairle has been engaged in European energy projects since the 1990's and has yet to see an example of community empowerment through renewables that beats what is currently being modelled in the Western Isles. Most regions would gladly accept a cash-per-MW contribution as community benefit but the Western Isles approach goes well beyond that, seeking to empower the community through Shared Ownership in commercial Renewable Energy schemes and through the highly-skilled opportunities emerging from a home-grown Green Hydrogen industry. There is no lack of ambition and vision in the Scottish Islands all that is lacking is Government support for supply chain and connectivity and Government help with access to development finance, access to Grid and availability of equalising price support.