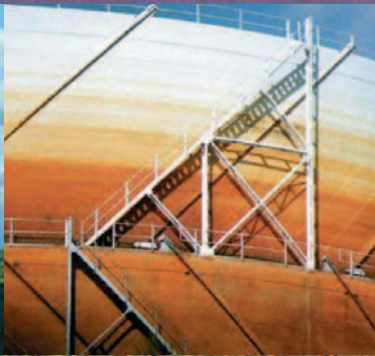


Scotland's Energy – Scotland's Future

a call for action



UNISON
Scotland



Scotland's Energy Industry

Scotland is an energy rich nation and its energy industry is a key resource. Three of Scotland's largest companies (ScottishPower, S&SE & British Energy) are in the sector and other major UK companies including Centrica (Scottish Gas) have large workforces in the country. Energy is a major Scottish export, provides high quality employment and contributes significantly to the Scottish economy.

However, the energy industry faces a number of difficulties. There is also a major challenge for government in combating climate change, eliminating fuel poverty and most importantly ensuring security of supply. Most of Scotland's existing generating capacity will close in the next 20 years with no replacement plan in place. Exposing Scotland to an energy crisis or reliance on insecure overseas supplies.

UNISON Scotland as the largest power industry trade union in Scotland has long argued that as a nation we need to develop a planned sustainable Scottish energy strategy.

Recent background and developments

There have been considerable changes since the Energy Act 2004. It covered three main areas (the civil nuclear industry; sustainability and renewable energy sources; energy markets and regulation) to implement commitments made in the White Papers Creating A Low Carbon Economy and Managing the Nuclear Legacy. It established the British Trading and Transmission Arrangements (BETTA), designed to bring the Scottish energy market into the market already operational in the rest of Great Britain.

Energy generation and nuclear regulation are reserved but planning, aspects of energy efficiency and renewable energy are devolved to the Scottish Parliament, which has set challenging targets for generating electricity from renewable sources. In July 2006 the UK government published its Energy Review, which acknowledged that most of the renewable resource, potential and planned projects are in Scotland.

The UK government said that the Energy Review was needed to assess progress on key areas of cutting CO2 emissions by 60% by 2050 (with real progress by 2020); securing energy supplies and ensuring every home is adequately and affordably heated. It was also prompted by rising oil costs, gas price, supply fears and concern about a potential looming 'energy gap' – many coal-fired plants face closure because of strict EU limits on emission levels and nearly all the UK's nuclear power plants reach the end of their scheduled operating life by 2020, while demand is increasing.

The Review gave a much heralded green light to building new nuclear power stations as well as setting out proposals to tackle problems listed above. The Scottish Executive, which has planning responsibilities, has said it will not support new nuclear power stations in Scotland until waste management issues are resolved. In fact economic factors linked to discriminatory grid levy charges under BETTA seem more likely to deter investment in new nuclear facilities in Scotland.

The Committee on Radioactive Waste Management said in July 2006 that it believed deep geological storage of waste is the best method, although identifying sites, proper consultation on siting, then building facilities could still take decades and meanwhile further research and robust interim storage measures are essential. The Scottish Executive said sites here will only be considered if the local community volunteers to have the waste.

The government has promised a new Energy White Paper in late 2006 or early 2007, laying out policy for the next 30-40 years.

UNISON believes that tackling climate change must be the over-riding priority of a sustainable energy policy, with democratic accountability ensuring that the long-term public interest is put ahead of short-term commercialism. To this end we see the government's commitment to liberalised and competitive markets as naïve. The government welcomed much of the European Commission's 2006 Green Paper on a European energy strategy. However, trade unions across Europe, including UNISON, have warned that there are clear structural faults in the internal market for energy. The European Federation of Public Service Unions, which has exposed the myth of liberalisation leading to price cuts, said that, in consultation on the strategy, poverty groups, environmentalists and consumer groups need to know their voices will not be frozen out in favour of big energy companies. The European Trade Union Confederation believes that the only way for Europe's energy system to be sustainable is if it has a clearly identified social content, supported by appropriate social policies.

BETTA or Worse?

Implementation of BETTA in 2005 created for the first time a fully competitive British-wide market for the trading of electricity generation (the wholesale market). The gas and electricity regulator Ofgem believes that BETTA enables more competitors to enter the Scottish wholesale and retail markets, putting increased pressure on prices to the benefit of consumers. Ofgem also believes that these transmission arrangements allow Scottish electricity generators improved access to a wider British market to sell their electricity.

However, UNISON contends that Ofgem argued for and justified the implementation of BETTA on a description of the electricity market in Scotland which is unrecognisable by either the industry or consumers. We argued that, previously to BETTA, wholesale prices were essentially the same on both sides of the border. It is distribution, transmission and metering costs that account for any difference in price and that is due to geographic and demographic factors. UNISON Scotland does not believe that BETTA is capable of delivering the promised cost savings to electricity customers. Meanwhile many customers have been switching supplier, then returning, with evidence that they wish they hadn't bothered. The competitive market led to many accusations of high-pressure sales tactics and mis-selling. UNISON energy call centre members deal with countless phone calls from confused customers.

BETTA, Renewable Transmission and a European GRID

Probably the only strong argument in favour of BETTA was that the cost of strengthening the transmission network would be shared across the UK, thus encouraging the development of renewable capacity. However, there is real concern that discriminatory locational transmission charges (aimed at siting generating capacity close to demand i.e. English conurbations) could hamper the development of Scottish renewable energy. While the government listened to concerns and made some adjustments, there is still a potential problem, including on financial guarantees for construction costs for connection to the transmission network.

Further essential elements in boosting renewable energy in Scotland are high voltage upgrades to the national grid, including the Beaulieu-Denny power line and the Scotland-England interconnector.

On an international level, UNISON believes there should be a pan European network of gas



and electricity supply infrastructure that is publicly controlled, with access regulated by the European Commission in the interests of all European energy users.

Renewables

UNISON Scotland strongly supports the emerging renewables industries and realistic targets and incentives to increase generating capacity from renewables. However, this has to be as part of a balanced energy policy.

The Scottish Executive should not treat renewable energy in isolation to the rest of the industry. Whilst recognising that this reflects the crossover between reserved and devolved powers, joined up government would be preferable. UNISON Scotland welcomes the fact that the Executive target of 18% renewable generation by 2010 is set to be achieved, but this was only a modest increase on current generating capacity, well below that planned by other European countries.

We have concerns that the target of 40% by 2020 may not be realistic. Policy in this area must be rigorous and evidence-based and a great deal more must be done to maximise job creation in the sector, as has been achieved in countries such as Denmark, Germany and Spain. The scope for additional onshore wind power is limited by available sites and has been meeting considerable public opposition. Other technologies remain unproven and therefore do not, at this time, justify such an optimistic assessment of their potential, although clearly funds must be provided for research and development.

We have raised concerns that unrealistic targets for renewables can divert government attention from the need to support clean 'green' coal technologies (CCT). The level of government funding is totally inadequate. Coal generation will still be required even if the renewable targets are achieved and therefore CCT projects such as the ScottishPower one at Longannet, in Fife, are welcome.

Many organisations who claim to support renewables all too often undermine their case by supporting the next technology rather than the proven ones that the industry can realistically develop. Others then object to the infrastructure that is required to transmit the energy. Such an approach inevitable places security of supply at great risk.

Fuel Poverty

The high levels of fuel poverty in Scotland are unacceptable and require action as part of a Scottish energy strategy.

Despite some excellent Scottish Executive fuel poverty programmes, the recent fuel price rises have undone nearly all the good achieved. The number of Scottish fuel poor households fell from 738,000 (35%) in 1996 to 369,000 (17%) in 2002. But steep rises in gas, electricity, coal and oil prices since 2003 mean that Energy Action Scotland predicts around 600,000 Scottish households face a struggle to stay warm in the winter of 2006-07. Wholesale gas prices alone rose by at least 266% between winter 2002-03 and 2006-07.

Economically disadvantaged customers have been badly let down as energy companies cherry picked affluent direct debit-paying customers at their expense. Ofgem had to set up an energy bills disputes ombudsman in 2006 after a supercomplaint by gas and electricity watchdog Energywatch over thousands of billing problems for domestic customers, some of which increased debt problems and disconnections. In the supercomplaint Energywatch said the



problems were endemic and related to market structure, that self-regulation had failed, even though suppliers knew there was an issue since liberalisation of the market.

Further evidence that competitive markets do little for fuel poverty is shown by the appalling figures for debt-led-disconnections which led to an outcry that forced the energy companies to set up a 'disconnection safety net'. They say no vulnerable customer has been disconnected since 2004, but in 2005 the Trade & Industry Select Committee warned that companies could be banned from carrying out disconnections unless they increase support to customers. The Energywatch submission to the government's Energy Review said that the reality of competition since 2003 and for the foreseeable future is that suppliers are chasing their competitors' prices ever upwards, with the unacceptable fact that adequate warmth is at risk of becoming a luxury item rather than a basic necessity for low-income families.

UNISON Scotland totally rejects the idea that price competition alone is sufficient to assist those in greatest need. Instead it has exacerbated long-standing inequalities between low-income groups and more affluent customers. UK government support for the mantra of competition must be reviewed along with the Ofgem terms of reference. We need direct intervention and incentives to encourage good practice.

The role of Ofgem

UNISON Scotland believes that the regulatory 'settlement' that was made at the time of privatisation is no longer relevant, and that the present regulatory model is redundant because of the challenges currently facing the UK and Scottish energy industries. Reform is long overdue and a regulatory system designed primarily to resolve problems that are not adequately addressed by the market place should be adopted.

A Scottish Energy Strategy

UNISON Scotland wants to see a unique Scottish Energy Strategy within the context of UK strategy. The Scottish Parliament has an important role to play in supporting a Scottish energy strategy, having devolved responsibilities that both impact and interface with UK energy policy. These include; the environment, planning, education and training, economic development and, not least, sustainable development. UNISON Scotland has supported many initiatives in these areas, while arguing for increased funding to support clean-coal, the full range of renewables and investment in the right skills and specialities. We would urge the Scottish Parliament to pursue policies that support a balanced and sustainable approach to energy generation and use, and which promote future investment across the energy sector in Scotland. UNISON would also support the devolution of energy powers to the Scottish Parliament.

We believe a sustainable Scottish energy strategy should be based on a planned market for energy combined with security of supply, as well as social, employment and environmental objectives. Key principles should be:

- Prioritising tackling climate change with challenging targets for reducing CO₂ emissions in line with Kyoto and other international treaties
- A balanced electricity generation policy from a number of sources to minimise volatility and ensure security of supply.
- For the foreseeable future, to continue gas and coal generation at current levels, subject to the introduction (with government research support) of new clean 'green' coal technologies.

- There should be an increase in the targets for generating electricity from renewable sources supported by government funding and planning. Wind and wave power appear to be the most viable medium term options and the necessary transmission infrastructure should be strengthened to support these developments.
- Whilst in England it is arguable that nuclear power can be replaced by renewables - this is not the case (at least in the medium term) in Scotland where between 40% and 50% of our potential generating capacity is delivered by nuclear. However, despite the likely need for the replacement of one nuclear power station it seems unlikely that the market will want to build in Scotland given the discriminatory transmission charges and political resistance.
- Scotland should aim to continue to produce an energy surplus to export, recognising the importance of the industry in providing high quality jobs and with specific investment in sector-based skills.
- Demand for electricity should be reduced by promoting and incentivising energy efficiency for individuals, the private and public sectors, with new resources for local government and revised targets including new building standards.
- A better co-ordinated drive against fuel poverty together with new initiatives to ensure that fuel poverty is eradicated.
- Privatisation and liberalisation of the energy market will not deliver a planned energy policy and has not enabled alternative generation to make a significant new contribution to our energy requirements. The integrated Scottish electricity industry remains the most efficient method of delivering Scotland's energy needs.

A New Direction

There needs to be a new realism in the energy debate in Scotland. Far too many organisations oppose proven energy generation in favour of future technologies that are not contributing the capacity required to meet our energy needs. Such an approach will inevitably lead to a crisis in security of supply with devastating economic consequences. For probably the first time in our history Scotland will be importing energy and exporting the associated jobs.

The time has come to call a halt and bring some sanity back to Scotland's energy structures. Liberalised and competitive markets are not the panacea that the UK government believes them to be. We need a planned energy policy that provides safe, secure and sustainable generation, which contributes to the economic future of Scotland and eliminates fuel poverty.

For further information on the issues covered in this leaflet visit the UNISON Scotland website www.unison-scotland.org.uk or contact:
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