

**Cabinet Secretary for Net Zero, Energy  
and Transport**

Michael Matheson MSP

Dean Lockhart MSP  
Net Zero, Energy and  
Transport Committee  
Convener  
The Scottish Parliament

15 June 2022

Dear Convenor,

Thank you for inviting me to present evidence to the Committee on energy prices on 17 May. Please find below supplementary information in regard to a number of points raised during the session.

**Fuel Insecurity Fund update**

We have committed £10m to continue our Fuel Insecurity Fund from 2021/2022, to help households at risk of self-disconnection, or self-rationing energy use. This includes direct support for households using any tariff or fuel type, and is delivered via trusted third sector partners – namely, the Fuel Bank Foundation, Advice Direct Scotland and the Scottish Federation of Housing Associations.

We are currently considering all possibilities within our devolved powers to support vulnerable consumers. I am happy to commit to keeping the Committee updated on this important work and its delivery.

**Engagement with the UK Government**

As I highlighted at Committee, many of the levers around the cost of living challenges and energy lie with the UK Government, and as requested I attach copies of recent correspondence with the UK Government. We have highlighted the importance of shared working across the United Kingdom and have sought to seek engagement at the four nation level to drive action and share best practice

**£500m covid recovery underspent from UKG**

In relation to your question about unused underspend, thank you for the follow-up clarification that this relates not to last year but to 2020-21. You may recall that the 2021-22 Scottish Budget, published in January 2021, proposed to carry forward £392 million from 2020-21, and Parliament agreed this proposition through the Budget Bill in March 2021. The balance of the outturn underspend was duly allocated via 2021-22 in-year budget revisions which were also agreed by

Parliament. I trust this offers assurance regarding your suggestion that the underspend had not yet been spent.

### **Fuel Poverty data**

As fuel poverty is measured at a household level, it is not possible to disaggregate available data by gender. The Fuel Poverty Strategy does contain analysis of head of house/highest income householder by gender, but this analysis does not give an overview of fuel poverty figures by gender. Other poverty statistics could not be used to extrapolate fuel poverty impacts by gender either as there is no combination of indicators in available data that accurately predicts fuel poverty with a high degree of accuracy or coverage.

### **Scottish Government Fuel Poverty officials**

As I stated at the evidence session there is a team of policy officials who lead on the fuel poverty strategy and lead engagement with a number of policy areas to ensure that their work contributes to delivering of fuel poverty outcomes with devolved responsibilities. Particular priority areas of such action include energy policy teams, particularly with regard to Heat and Buildings Strategy delivery and energy consumers work; financial wellbeing and child poverty, housing and local government. The teams involved in that work consist of over 100 officials, and sit across a number of Scottish Government Directorates and their work is overseen by a number of Cabinet Secretaries and Ministers, such as the Cabinet Secretary for Finance and Economy, the Cabinet Secretary for Social Justice, Housing and Local Government and the Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights.

I hope you and the rest of the Committee members find this information useful.

Yours sincerely,

**MICHAEL MATHESON MSP**

The Rt Hon Kwasi Kwarteng MP  
Secretary of State  
Department of Business, Energy and Industrial Strategy  
1 Victoria Street London SW1H 0ET

10 January 2022

Dear Kwasi,

We are writing to highlight the need for an urgent and proactive response to the significant increase in consumer energy costs expected when the next energy price cap period comes into effect. We have highlighted the need for such action previously and write in the context of ongoing engagement with energy consumer groups and retail companies. We recognise your own engagement with such groups in advance of the timeline for revising the cap for the next 6 month period.

we are very concerned that the default tariff price cap may jump by over 50 percent, reaching an average annual cost of £2,000 for the summer 2022 period. While any prediction has a margin for error the direction of travel is already clear and UK Ministers must take action quickly so that support is in place in advance of the revised price cap in April.

We are also concerned about the impact of rising costs on consumers who are already struggling with pressures on household finances. While this uplift in the price cap would reflect the underlying rise in wholesale costs, many households will be badly affected by these increases. Given that the price of energy is a significant factor for those in fuel poverty, any increase in the price cap will result in increasing the depth of those already struggling with their energy costs and is also likely to push more people into fuel poverty that are not traditionally thought to be at risk.

The causes of these prices are global and systemic in nature but this puts even greater importance on the actions that can be taken domestically to reduce energy costs where possible. The UK Government must urgently take further tangible actions in addition to what suppliers are already been asked to do to support those in need. We therefore welcome your call for evidence into how the UK retail market, the regulatory framework and the energy price cap may need to evolve to enable a lowest-cost, flexible and resilient energy system that protects consumers and we are ready to engage with you to ensure that the needs of people in Scotland are full represented in this.

We are committed to, and are already, using all powers and resources available to us to support people in Scotland; including through Energy Efficiency investment and Home Energy Scotland advice, support on housing costs, Child Winter Heating Assistance, welfare and debt advice services, The Money Talks Team service and support on food insecurity.

However, the majority of powers relating to the energy markets are reserved and swift action is needed. We reiterate our previous calls to review the policy cost on

bills, but even if removed entirely this will likely only go some way to reducing the increases to come and significant further direct support is very likely to be required. We would also urge you to engage meaningfully with energy industry as well as consumer and fuel poverty groups in designing solutions that can work practically on the ground. We are happy to assist with this process.

Since the start of the COVID-19 pandemic, we have been pressing the UK Government to provide more help to vulnerable households through the Warm Home Discount scheme. We have set out how this could be delivered by the Scottish Government as part of a single, more flexible fuel poverty scheme in Scotland. However time is running out for a replacement scheme of any kind to be put in place for next Winter, how these levy funded schemes will operate from April remains in your hands and a clear, prompt decision is now needed. We also believe you should urgently consider a reduction to VAT as one of the most simple means of mitigating the impact on consumers in the short term.

We would also urge you to make additional payments for those eligible for Cold Weather Payments as a means of targeting support for those on the lowest incomes including older people on pension credit.

Since meaningful collaboration between the UK Government and the devolved nations will be a vital component of any effective response to this situation, we would welcome an assurance that this is already part of your thinking and would like to meet as early as possible, to discuss these matters further.

We are copying this letter to Greg Hands, Minister of State for Business, Energy and Clean Growth, Vaughan Gething, Minister for the Economy (Welsh Government), Edwin Poots, Minister of Agriculture, Environment and Rural Affairs (Northern Ireland Administration) and Jonathan Brearley (Ofgem).

**MICHAEL MATHESON      SHONA ROBISON**

Michael Matheson MSP  
Cabinet Secretary for Net Zero, Energy and Transport

Shona Robison MSP  
Cabinet Secretary for Social Justice, Housing and Local Government

Scottish Government  
St Andrews's House,  
Regent Road,  
Edinburgh, EH1 3DG

Dear Michael and Shona,

Thank you both for your letter dated 10 January regarding support actions for when the next energy price cap level comes into effect in April 2022.

I recognise that the current market situation with rising energy tariffs is adding pressure to households with their energy bills across Great Britain. I can assure that it is an enduring priority that no matter how consumers engage with the market, they should all pay fair prices for their energy.

The Energy Price Cap will continue to ensure that 22 million households pay a fair price for their electricity and gas. As you are aware, the level of the Energy Price Cap is set by Ofgem. They announced the new level of £1971 (for an average dual fuel household) that will start from April 2022 and last until October 2022, to protect millions of customers and ensure they pay a fair price for their energy. Despite the rising costs of wholesale energy, the cap stayed at the level announced in October 2021 over this winter.

In response to the increase to the price cap, the Chancellor recently announced a package of support measures which will provide vital support to households and the fuel poor when it will be needed most:

- A £200 rebate for households delivered via their energy bill this autumn, paid back automatically over the next 5 years, spreading the increased costs of global prices over time in a way that is more manageable for households.
- A £150 non-repayable reduction in Council Tax bills for all households in Bands A-D in England.
- £144 million of discretionary funding for Local Authorities to support households who need support but are not eligible for the Council Tax reduction.

Devolved governments in Scotland, Wales and Northern Ireland are expected to receive around £565 million of Barnett funding as a result of the Council Tax Energy Rebate in England.

The rebate is on top of measures already in place like the Warm Home Discount, and Winter Fuel and Cold Weather payments. To further help people with the costs of energy, the Government has also launched an extra £500m Household Support Fund for those most in need to support consumers through this winter and beyond.

As you noted, BEIS published a call for evidence on the future of the retail energy market. We will take account of lessons from recent months to ensure the retail market is resilient, sustainable, and continues to protect consumers. We've committed to publish an updated strategy soon as possible after the market has stabilised.

Additionally, as set out in the Heat and Buildings Strategy, we will publish a Fairness and Affordability Call for Evidence to set out the options for energy levies and obligations to help rebalance electricity and gas prices and to support green choices, with a view to taking decisions in 2022. We want to ensure our approach works cohesively with a package of measures available to consumers to help them decarbonise and get a good deal. We will work to identify how costs can be allocated in a way which incentivises user behaviour that drives decarbonisation.

The role of VAT on energy bills, is a matter for HM Treasury. Domestic fuels such as gas and electricity are already subject to the reduced rate of 5% of VAT. Going further would not guarantee that prices would fall given that price rises are driven by a number of factors and can be seen worldwide.

We are continuing our extensive engagement with Ofgem and the industry to help understand and to mitigate the impacts of high global energy prices. The Government's priority is to ensure costs are managed and energy supplies maintained. I recognise and value the effort and contributions from Scottish Parliament and look forward to our continued engagement and collaboration on this situation.

Thank you.

Yours ever,  
THE RT HON GREG HANDS MP  
Minister of State for Energy, Clean Growth and Climate Change

Kwasi Kwarteng  
Secretary of State for Business, Energy and Industrial Strategy  
House of Commons  
London  
SW1A 0AA

Copied to:  
Rishi Sunak, Chancellor of the Exchequer  
Lord Callanan, Parliamentary Under Secretary of State for Business, Energy and Industrial Strategy

02 February 2022

Dear Kwasi

We are writing on behalf of the Scottish Energy Advisory Board to express our deep concern about the energy price surges and to urge you to take immediate action to avert potentially devastating impacts on consumers, businesses and suppliers across Britain.

We have seen the impacts that high energy prices are already having and the forthcoming change to the level of the default tariff cap, expected to be announced tomorrow, will likely see a further increase for domestic consumers of around 50% as of April 2022, potentially putting another 211,000 households in Scotland alone into fuel poverty. (Taken together with the impact already felt as a result of the October price cap rise, this would mean a 43% increase in fuel poverty in Scotland since 2019.) Added to the wider pressures on household costs from the planned national insurance rise and inflation, this is a cost of living crisis. A crisis calls for emergency action.

Of course the causes of the higher energy prices are largely global but UK energy market powers are reserved and therefore the UK Government must act swiftly to mitigate impacts on energy consumers, including providing immediate targeted support to those who need it whilst urgently reforming the energy market to make it fit for purpose.

The Warm Home Discount scheme is an existing mechanism which provides targeted support, albeit not to the degree that would be necessary to address the current price rises. You are reforming the scheme for England and Wales and you have advised stakeholders that the Scottish Government will be responsible for a new scheme in Scotland. This has not been agreed with Scottish Ministers, and has created uncertainty, including about continued funding for important energy advice services. If the WHD scheme remains a key part of Government's response to rising energy prices, then you will need to make urgent provision for the current scheme to continue in Scotland and confirm on-going funding for those services.

The Scottish Government is already doing everything it can to support households and businesses through the wider energy transition to net zero, including support for energy efficiency and heat decarbonisation, and our strong renewable energy sector is playing its part. But longer term measures need to be introduced to ensure that the

GB energy retail market is fit for purpose, that our dependence on volatile global gas markets is reduced, and that the costs of decarbonisation do not burden energy consumers.

In the meantime, the immediate pressures demand immediate attention. A framework for supporting consumers should be developed now so that we are not thrown into crisis once again at the next review of the price cap.

**MICHAEL MATHESON PROFESSOR**  
**Cabinet Secretary for**  
**Net Zero, Energy and Transport**

**SIR JIM McDONALD**  
**Co-Chair, Scottish Energy Advisory Board**



Dear Michael and Jim,

Thank you for your letter dated 2 February regarding the impacts of rising global gas prices.

I am very aware of the difficulties that households and businesses have experienced as a result of the rise in global gas prices. Protecting consumers, especially the most vulnerable from price spikes has been my number one priority. That is why the Government is stepping in with direct support that will help around 29 million households with their rising energy costs over the next year.

The Chancellor recently announced a £9 billion package of support measures which will provide vital support to households and the fuel poor when it will be needed most:

- A £200 rebate for households delivered via their energy bill this autumn, paid back automatically over the next 5 years, spreading the increased costs of global prices over time in a way that is more manageable for households.
- A £150 non-repayable reduction in Council Tax bills for all households in Bands A-D in England.
- £144 million of discretionary funding for Local Authorities to support households who need support but are not eligible for the Council Tax reduction.

Devolved governments in Scotland, Wales and Northern Ireland are expected to receive around £565 million of Barnett funding as a result of the Council Tax Energy Rebate in England.

The rebate is on top of the support the government is already providing to ease growing cost of living pressures. This includes the Warm Home Discount, Cold Weather and Winter Fuel Payments, and increasing the National Living Wage to £9.50 in April. I would like to reassure you that the Price Cap will stay in place at least until the end of 2022 and will ensure millions of customers will pay a fair price for their energy.

BEIS will consult on how best to deliver the energy rebate, through a public consultation in the Spring. I look forward to working with the Scottish Government on how best to deliver this policy.

The Warm Home Discount is a key policy in the Government's programme to tackle fuel poverty and the effects of rising energy prices on low-income and vulnerable households, and we recognise the valuable support provided through both the £140 rebates and the wide range of measures delivered under the Industry Initiatives element of the scheme.

As you note, from 2022/23, the proposals for the reformed scheme would only apply to England and Wales. These reforms could not be implemented in Scotland in any case, due to differences in government-held data on property characteristics. We are agreeing a position with the Scottish Government in regard to the future Warm Home Discount in Scotland. Any scheme in Scotland will be consulted on. Should the UK Government implement a scheme for Scotland, our intention would

be to have conducted the consultation and to have the necessary Regulations in place in advance of the summer Parliamentary recess.

I agree that our exposure to volatile global gas prices underscores the importance of our plan to develop a strong, home-grown renewable energy sector to further reduce our reliance on fossil fuels. How the energy retail market may need to evolve to enable a lowest-cost, flexible and resilient energy system is a key priority for the government when reviewing the Energy Retail Market Strategy. As set out in my letter to Michael Matheson MSP and Shona Robinson MSP in January, the call for evidence on the future of the retail energy market continues the conversation with stakeholders on how best we can achieve this vision. BEIS Officials are currently reviewing responses to the call for evidence and we will publish an updated strategy as soon as possible after the market has stabilised.

I remain in constant contact with colleagues across Government and with Ofgem, to manage the impacts of the global gas prices. I look forward to our continued engagement and collaboration on this situation.

Yours ever,

RT HON KWASI KWARTENG MP  
Secretary of State for Business, Energy & Industrial Strategy

The Rt Hon Kwasi Kwarteng MP  
Minister of State for Business, Energy and Clean Growth  
Department of Business, Energy and Industrial Strategy,  
1 Victoria Street  
London  
SW1H 0ET

Dear Rt Hon Kwasi Kwarteng,

I am writing to highlight the need for an immediate and proactive response to the significant increase in gas wholesale prices across UK and Europe.

I am highly concerned about the impact of rising costs on consumers who are already struggling with pressures on household finances. While the increased default tariff cap reflects the underlying increase in prices and will provide some protection to consumers over the coming price cap period, it remains the case that many households will be badly affected by these price rises. The Scottish Government has committed to using all power within its remit to mitigate this impact where possible; however, the majority of powers in this area are reserved. I would welcome a clear assurance that all actions that could help consumers during this difficult time will be considered as a priority - particularly those supporting consumers in vulnerable circumstances or living in fuel poverty.

As I'm sure you are aware, the First Minister has called for the UK Government to reverse their decision to cut Universal Credit by £20-per-week at the start of October. Analysis from the Resolution Foundation shows that four in ten households on Universal Credit face a 13% rise in energy bills in the same month that their income is cut by £20-per-week. Energy costs soaring what the most vulnerable in society have their incomes reduced by over £1,000 per year will force families across the UK into fuel poverty this winter.

I understand that you have engaged in urgent discussions with industry and Ofgem, during which I am confident that the concerns of the those working in energy retail regarding risks to businesses and jobs will have been made very clear. Ensuring a fair and stable energy market for all consumers is paramount and I would urge you to ensure that the UK Government considers the options available thoroughly with regard to impacts that may be felt within Scotland and the other devolved nations. I would be very interested to discuss longer term plans to avoid the risks of multiple suppliers ceasing trading as soon as possible.

The coverage over the past few days of very high wholesale prices, and the ESO's need to reintroduce coal generation as well as the fragility of inter-connection to European markets, highlight a number of issues that must be addressed if we are to protect consumers and deliver a just transition to net zero.

In addition to the immediate impacts in consumers and energy suppliers, it is also vital that we have the tools necessary to maintain security of supply and a resilient electricity system. We urgently need greater storage as well as flexibility that can support demand during periods of low wind across Scotland and the UK, such as pumped hydro storage (PHS) and gas/hydrogen with CCS.

I believe that PHS in particular has an important role to play in providing security of supply and balancing the energy system. Several large PHS projects in Scotland which either have or are about to apply for planning consent are unable to progress due to the lack of suitable market mechanism. Your recent call for evidence in this area has raised optimism that such a mechanism may at last be forthcoming; however, the recent spikes in day-ahead and short term power prices underline the need to move urgently from gathering evidence to confirming and providing solutions which will support the required investments.

The current circumstances and developments emphasize the importance of our joint commitment to net zero and to decarbonising our energy systems. A focus on renewables, hydrogen and storage, and on a transition away from natural gas, is vital for our environment, for the economy, and for the interests of our consumers.

This is an area where Scotland is already making great progress, of course, with provisional figures that renewable generation in 2020 was equivalent to 96% of gross electricity consumption. Maintaining that progress will depend in very large part on decisions that fall to the UK Government or regulator – such as on transmission charging, which the Scottish Affairs Committee recently highlighted as in urgent need of reform if Scottish renewable potential is to play its part in driving us towards our respective net zero commitments. I have been urging this same reform for some time, and believe that Ofgem needs to provide clarity as soon as possible on its intention to pursue and implement this.

Since meaningful collaboration between the UK Government and the devolved nations will be a vital component of any effective response to this situation, I would welcome an assurance that this is part of your thinking. I would also be pleased to meet with you at your earliest availability to discuss these matters further.

Yours sincerely.

**MICHAEL MATHESON**

Rt Hon Rishi Sunak MP  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

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18 March 2022

Dear Rishi,

I am writing ahead of your spring forecast statement on 23 March to outline actions required from the UK Government in a number of areas, to address the impact of the substantial rise in the cost of living, the practical implications of the unfolding tragedy in Ukraine and the need for fuller proposals to replace EU funding. This builds on the dialogue that our two governments have had on some of these issues.

There are acute challenges currently facing households, public services and the economy as a whole, ranging from the continuing pandemic to the cost of living crisis to the implications of Russia's illegal invasion of Ukraine. Therefore it is not a time for government to be ducking the considerable challenges we face, and I trust you will take the opportunity of your fiscal statement to take the significant action needed to support citizens, considering that most of the relevant levers are reserved to the UK Government.

Reflecting the extent of the issues facing us as governments, you may be aware that the First Minister has supported calls for the UK Government to implement a windfall tax, to ensure a fair contribution from companies benefiting from circumstances which at the same time see ordinary people suffer; and that the Cabinet Secretary for Net Zero, Energy and Transport, Michael Matheson, wrote to the Secretary of State for Business, Energy and Industrial Strategy on 18 March regarding further energy policy interventions. This includes accelerating the decarbonisation of electricity (in part to support the decarbonisation of heat and transport), reforming the network charging system, creating new business models for green hydrogen, rebalancing policy costs on bills to protect consumers and accelerating the delivery of the Scottish Cluster for carbon capture and storage. His letter is annexed for reference.

### **Support for households and businesses**

While the economy is recovering from the impact of the pandemic, it now faces a new economic shock as a result of Russia's illegal invasion of Ukraine. This will increase prices for oil, gas and other commodities and will drive inflation even higher – with the Bank of England forecasting inflation of 8 per cent in the second quarter of this year and noting that it could rise further by several percentage points later in the year, depending on the level of the next energy price cap.

Large rises in energy bills, increased costs for everyday essentials, rising interest rates and the UK Government's new National Insurance hike are causing huge concern and worry, and people are struggling, particularly low-income households. Higher input costs will also mean that businesses will see their margins squeezed. Therefore I urge you to

prioritise support for households and businesses to deal with this crisis. The Scottish Government is using its limited powers and resources to do everything we can but this must be matched. The UK Government must use its reserved levers to make substantial and significant interventions.

In particular, as suggested by the Resolution Foundation and the Institute for Fiscal Studies, and in order to better target support at those on lower incomes, benefits such as child benefits and Universal Credit should be increased at a higher rate that is closer to the current rate of inflation. This need not set precedent – it is clear that it is a specific need at this time of a cost of living crisis, and accordingly the Scottish Government has acted to uprate benefits as set out below. Further to this, and in light of your continued commitment to increase National Insurance Contributions (NICs), businesses should be supported by a short term NICs relief, which would also avoid the risk of their passing on the additional cost of increasing NICs to consumers.

Further, as repayments under the Coronavirus Business Interruption Loan Scheme are due to start at the end of this month, alongside the end of the moratorium on rents and wind-up petitions, there must be measures in place to enable a smoother transition for businesses.

Some sectors of the economy require immediate support because of the direct impact they are experiencing from the Russia/Ukraine conflict, including agriculture, manufacturing, haulage, and food and drink. Action is needed now to ensure that jobs are not lost in viable businesses. Businesses in those sectors require funding from Government. Funding would help sectors to cover losses inflicted by supply chain and market access constraints, as well as volatile and rising energy costs in energy intensive industries. The Scottish Government and its enterprise agencies should shape the direction of any such funding as we know the business needs of the affected sectors in Scotland, and can respond to regionally specific sectoral challenges.

Michael Matheson's letter referred to earlier set out a number of ways that the UK can support households with the rising cost of living, as well as accelerate the transition to net zero and reduce reliance on oil and gas. We have already called for a removal or reduction in VAT from household energy bills in the short term, in addition calling on you now to introduce a windfall tax to fund targeted support for those who need it most.

I also urge you to commit to rebalancing the policy costs element of energy bills to reduce the premium paid by households reliant on electric heating and to 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 household energy bills.

It is also crucial that targeted direct support to consumers be provided as soon as possible and without the need for repayment. Furthermore, we 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.

In relation to employment, as noted in our response to the consultation run by BEIS on the forthcoming Employment Bill, we set out why the Scottish Government should have the necessary powers to work with employers to implement flexible working policies.

This would allow us to remove a significant barrier to people entering employment or moving between jobs, particularly for those with caring responsibilities. While 60 per cent of people work flexibly, fewer than 30 per cent of roles are advertised as flexible, which deters many people from applying for posts, and this is something we are keen to address. Supporting people into flexible work can increase working hours for people and would address poverty and inequality. We also need a fair and appropriate response on public sector pay. While the Scottish Government has for years focused on protecting those on the lowest incomes, the UK Government's approach to pay flows limits our consequential funding. And while I appreciate the processes you have in respect of pay review bodies, I would urge you to give firmer assurances about sensible pay uplifts for our public sector workers.

### **Responsive and responsible welfare support**

To support low-income households and carers in light of the increasing cost of living pressures, the Scottish Government has taken the decision to uprate eight Scottish benefits by 6 per cent from 1 April as well as increase our Scottish Child Payment by 100 per cent from £10 per week per eligible child to £20. We have chosen to take action and use our powers to help those who need us most in these difficult times, and I am calling on you to follow our lead and uprate social security benefits by 6 per cent.

Under the current devolution settlement most of the social security levers sit with the UK Government, and the support offered to date is simply inadequate. We have written to your Government many times to raise concerns about the effect that withdrawing the Universal Credit uplift will have on poverty levels, particularly child poverty, and the overall financial health and well-being of people. I again urge the UK Government to reverse this decision, reinstate the £20-per-week uplift to Universal Credit and strengthen the support offered by Universal Credit instead of weakening it.

I would also ask you to take direct action to support low-income households through the Cold Weather Payment as a means of providing immediate support, by making an additional payment now and then again in winter 2022-23 when we know energy bills will have risen again. This would help people without needing a link to particular cold weather. People are facing higher bills right now, yet very few Cold Weather Payments have been made this winter – only six payments. This is closer to the policy intention of our replacement for Cold Weather Payments from winter 2022-23, with an annual payment of £50 guaranteeing support for heating costs to approximately 400,000 people regardless of the weather.

### **Replacement EU funding**

I understand that the plans and the quantum for the Shared Prosperity Fund may be announced as part of your statement. I would reiterate the factual position that Scotland requires at least £183 million per annum to replace the EU structural funds including LEADER and the European Territorial Cooperation Programmes, and that convention, the devolution settlement and plain common sense all support this money being transferred in full for the Scottish Government to control. In this context, I also note the outcomes of our Strategic Transport Projects Review 2 and the UK Government's Union Connectivity Review.

The rural economy needs assurances of the future support available to it. Replacement EU funding will form a key part of our economic recovery and, following EU exit, we no

longer have the certainty of a full seven years of funding. We welcome the continuation of the Bew Review funding settlement until 2024-25, however we still await meaningful discussions to agree the principles of future intra-UK allocations, in line with the commitment from UK Government and Mr Eustice. We need these discussions to proceed as soon as possible. As it stands, the proposed rural funding provides insufficient budget to replace EU funding levels lost and Scotland is set to lose out on approximately £93 million between 2021-22 and 2024-25.

Following the UK's departure from the EU, we also provided clear evidence to the UK Government of a multi-year £62 million annual allocation for marine funding that we could have accessed as EU members. Instead, the UK Government has allocated £14 million annually to Scotland, which fails to recognise the value and importance of Scotland's seas. Such a reduced funding pot means reduced opportunity to realise benefits for coastal communities, marine businesses and the marine environment in Scotland, and this must be rectified as soon as possible.

I trust this letter is helpful, and look forward to dialogue between our governments across these urgent issues, including with the Chief Secretary to the Treasury at the upcoming Finance Inter-ministerial Standing Committee.

Yours sincerely,

KATE FORBES



Rt Hon Kwasi Kwarteng MP  
Secretary of State  
Department for Business, Energy and  
Industrial Strategy  
1 Victoria Street  
London  
SW1 0EH

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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.

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.
- **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.
- **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**