SUBMISSION FROM CBI SCOTLAND

SUMMARY

- CBI Scotland believes renewable energy can offer enormous benefits to Scotland, and that there is merit in setting ambitious targets in this area, in principle.

- However, although the energy targets set by Ministers may be a positive force in theory, the drive to meet them must be balanced with efforts to maintain an energy mix which is also affordable and secure.

- In terms of viability, many CBI Scotland members in the generation industry believe that the targets are technically feasible – but that there are challenges that must be addressed if they are to be met.

- Ultimately, CBI’s preferred position is not to have specific renewable energy targets, but rather general carbon mitigation targets.

INTRODUCTION

1. CBI Scotland is Scotland’s premier business organisation, representing over 26,000 firms of all sizes and from all sectors, including both producers and consumers of energy.

2. The CBI has had a close and longstanding interest in energy policy matters, both at a Scottish and UK level, and, as such, we welcome the opportunity to respond to the Committee’s current call for evidence on the issue of the Scottish Government’s renewable energy targets.

3. This response builds upon our previous submissions in this area\(^1\), as well as our manifesto document ‘Energising the Scottish Economy – A business agenda for reform and recovery’, which was published in June, 2010.

RESPONSE

CBI Scotland believes renewable energy can offer enormous benefits to Scotland, and that there is merit in setting ambitious targets in this area, in principle.

4. As Committee members will be well aware, renewable energy represents a fantastic opportunity for Scotland. Economically, the sector has the potential to deliver 40,000 jobs and £30bn worth of investment by the turn of the decade, and in terms of energy generation, it has been estimated that, by harnessing just a third of our off-shore resource (wave, tidal and wind), Scotland could meet its

\(^1\) Such as our 2008 submission to the Energy, Economy and Tourism Committee’s ‘Scotland’s Energy Future’ inquiry.
demand for electricity seven times over by 2050\(^2\). These are staggering figures, and serve to emphasise just how much renewable energy has to offer Scotland – both in terms of low-carbon energy generation and economic prosperity.

5. Accordingly, given the benefits at stake, it is only right that the Scottish Government has high hopes for the renewables sector, and has set ambitious targets going forward. Indeed, as well as being a symbolic gesture, aspiring targets - in any policy area - can help encourage and galvanise private sector investment and drive constructive government action, and so, in principle, there is real value to be gained from Ministers setting strong, green energy objectives.

However, although the energy targets set by Ministers may be a positive force in theory, the drive to meet them must be balanced with efforts to maintain an energy mix which is also affordable and secure.

6. Whilst the current administration is right to want to capitalise on Scotland’s vast renewable potential – and the fantastic opportunities the sector will provide - it is imperative that this focus does not detract from efforts to ensure an affordable and plentiful supply of energy for Scotland’s business community.

7. Indeed, the CBI has previously made it very clear that Scotland requires an energy mix that addresses all 3 aspects of the so called energy ‘trilemma’ (namely cost, security of supply and environmental impact), and we maintain that, between now and 2020, the Scottish Government must seek to balance its desire to promote renewables with its duty to provide an energy supply which can deliver in all of these areas.

8. For example, going forward, Ministers must make every effort to ensure that their renewable targets are pursued in a way that attempts to minimise – as much as is possible – any increase in the energy bills of consumers. Failure to act in such a manner may deliver increased renewable capacity, but potentially at the expense of private sector companies (especially those within energy intensive industries, for example), who may not be able to withstand a large increase in utility costs. Although CBI Scotland appreciates that investment in energy infrastructure and capacity must be paid for, and that efforts to decarbonise our energy mix will bring long-term cost benefits in the years and decades to come, the price of heat and power remains a crucial concern for business, and one that must be forefront in the minds of those looking to realise Scotland’s green energy potential. On this point, CBI Scotland notes that organisations such as the Institution of Mechanical Engineers have already raised ‘serious concerns’ about the cost implications associated with the 2020 targets\(^3\), and this may be an area that the Committee wishes to explore in greater detail.

9. Similarly, in terms of security of supply, over the next eight years the Scottish Government will have to plan not just for an increase in renewable capacity, but

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\(^3\) ‘Scottish renewables targets could worsen fuel poverty, say engineers’, Institution of Mechanical Engineers, 3 November, 2011
for the continued presence of more traditional forms of generation - such as coal, gas and nuclear - which will, for the time being, continue to be relied upon to provide businesses with sufficient, consistent and dependable levels of heat and power. Should these tried-and-tested generation technologies not receive the attention – and investment – they deserve in the coming years, then there is every chance that Scotland could find itself unable to meet its day-to-day demands for energy. (Indeed, this is an especially salient point in terms of baseload electricity generation capacity – something intermittent, unpredictable forms of renewable energy are unable to address at the moment - given both the planned closure of some of Scotland’s large scale power plants\(^5\) and the long lead-in times required to replace such facilities.)

This train of thought applies equally to infrastructure, also. For example, whilst it will be important to put the right transmission networks in place to handle the ever-increasing number of decentralised, renewable energy projects that are coming on-stream, it will also be vital to make sure that similar attention is being paid to replacing and upgrading those parts of the gas and electricity grids that serve our large-scale thermal power plants and gas facilities. There is, after all, no point in maintaining adequate capacity levels if the energy being produced cannot be transported.

10. At this stage it should be noted that CBI Scotland was very encouraged by the remarks made by the Minister for Energy, Enterprise and Tourism during his appearance before the EET Committee on 1\(^{st}\) February, where at the time it was stated plainly by Mr Ewing that Scotland’s future electricity mix ‘...must provide a secure electricity supply at an affordable cost to consumers’\(^6\). Based on this evidence – and assuming these principles also apply to current administration’s approach to heat - it would appear that the Scottish Government is focussing not just on its renewables targets, but on Scotland’s wider energy needs as well, and this is incredibly welcome.

11. Nevertheless, given the Committee’s remit, and the consequences of the policy at hand, CBI Scotland feels that we must take this opportunity to stress just how important it is that companies continue to have access to an energy mix which is fundamentally affordable and reliable, and we hope that the Committee will appreciate the significance of this point.

In terms of viability, many CBI Scotland members in the generation industry believe that the targets are technically feasible – but that there are challenges that must be addressed if they are to be met.

12. Fundamentally, the general opinion amongst CBI Scotland members in the energy generation sector is that the 2020 targets set out by Ministers are technically feasible, and this is especially true of the Government’s electricity generation targets.

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\(^4\) CBI Scotland appreciates that the current Scottish Government has a policy of no new nuclear facilities in Scotland, however we maintain that this technology could play an important role in Scotland’s energy mix.

\(^5\) Cockenzie power station is due to close by 2015; Lognanet power station is likely to close before 2020; Hunterston B power station, depending on lifetime extensions, may close within the next 10 years.

\(^6\) Official Report, Economy, Energy and Tourism Committee, 1\(^{st}\) February, Col. 922
13. That being said, whilst the goals are considered by many to be achievable, there are a number of practical challenges and issues which will have to be addressed if they are to be met:

14. **Planning and consents system** – One of the key obstacles to achieving the 2020 targets in the eyes of several CBI Scotland members is the current planning and consents regime. Indeed, many firms in the sector remain concerned that the current system may be unable to keep pace with the demands placed upon it in coming years as more and more renewable energy developments look to come ‘on-stream’, with the end result being a bottleneck that could stifle the industry. Although there have been welcome moves to address aspects of the planning and consents regime in recent times (for example, the convening of the Offshore Renewables Taskforce), there remains room for further reform. Indeed, CBI Scotland would like to see planning procedures put in place to allow energy projects to be ‘fast-tracked’ in the future.

15. **Grid Infrastructure** – If Scotland is to meet its energy objectives, then it must have in place an energy infrastructure that is fit-for-purpose. Simply put, there is no point in private companies planning, developing and building additional renewable energy capacity if there is no way to transfer the power or heat generated to homes and businesses across the country – or, indeed, to other markets. CBI Scotland’s members therefore wish to emphasise the importance of ensuring that the right infrastructure is in place at the right time to help Scotland realise its renewables potential. Crucially, this means not only guaranteeing that appropriate upgrades will be made, but also that they will be made in good time (the long and protracted process of approving the vital Beauly-Denny power line upgrade, for example, should not be allowed to be repeated with future projects of a similar nature and significance). This issue is an especially large concern with regards to the Government’s heat target, where the matter of energy transmission may represent a greater hurdle.

16. **Supply chain** – Whilst Scotland undoubtedly has a natural ‘edge’ in terms of renewable energy resource (especially with regard to green power generation), CBI Scotland remains concerned that we do not yet have a manufacturing base or supply chain fully capable seizing this advantage. Although it is possible that Scotland could achieve its 2020 targets by importing the necessary equipment and expertise required from outwith the country, such an approach may make it more difficult to reach the objectives set, and would represent a substantial missed economic opportunity.

17. **Skills** – Another key challenge going forward will be ensuring that Scotland has the right skills base to realise its renewable energy potential and achieve the targets set out by Ministers. The green energy sector has the capacity to create a vast number of highly-skilled jobs – in manufacturing, engineering, research and development, etc. – and our education system must be up to the task of producing school-leavers and graduates who are able to fill these positions. CBI Scotland has consistently advocated that more must be done to encourage young people to study science and mathematics at school, courses which are the foundation for a rewarding and lucrative career in the energy sector. To help deliver in this area, we maintain that the Scottish Government should reform the
Educational Maintenance Allowance system so that it incentivises more people to study STEM subjects. We also believe that more consideration should be given to introducing bursaries for those who take up science undergraduate degrees.

18. **Clarity over incentive regimes** – Some CBI Scotland members have expressed concerns about the uncertainty surrounding the future format of renewable technology incentive regimes north of the border, especially in light of the on-going debate surrounding the UK government’s Electricity Market Reform process. In order to negate some of this uncertainty, the CBI believes that Scottish Ministers should attempt to provide further clarity on the direction in which they wish to take the support system in Scotland as soon as is possible, both in the aftermath of the EMR process, and beyond.

19. **Technological Development** – A further obstacle that exists to the realisation of our green energy potential and, in turn, our renewables targets, is the issue of technology. For example, although the Scottish Government is keen to cite statistics which boast the wave and tidal capacity of Scotland’s renewable energy sources, the technology required to take advantage of this capacity is still very much in its infancy, and faces a number of technical hurdles before it can be fully utilised. Thus, if Ministers are expecting these – and other – experimental forms of renewable technologies to contribute to the 2020 targets, then it stands to reason that they must be prepared to dedicate resources to help develop them and bring them to market. CBI Scotland recognises that the Scottish Government has been very strong in this area in the past (introducing the WATES, WATERS and POWERS schemes, for example), and we would like such R&D support to remain a priority in the future, with public funding being concentrated where it can make the biggest impact.

20. **Aviation** – Although we can expect to see an increasing number of on-shore and off-shore renewable energy projects being installed in Scotland over the coming years and decades, in the future Ministers must make sure that developments of this nature can be deployed without compromising the safe and efficient operation of aircraft and airports, and the economic benefits these bring. Wind turbines in particular can have an impact on air navigation due to their height and potential interference with radar systems. Whilst CBI members in this area continue to work proactively and constructively with government, local authorities and developers on a project-by-project basis to overcome any potential conflicts that may exist between air routes and renewables, there remains an appetite for these issues to be addressed at a strategic level going forward.

21. **Rating and Valuation system** – Whilst the Scottish Government is to be commended for its efforts to promote renewable energy through the rating and valuation system, more work needs to be done in this area to ensure that the regime that is in place is both consistent and fit for purpose. For example, as cited in CBI Scotland’s 2010 manifesto document, there exists an anomaly within the current system where companies developing large-scale biomass renewable energy facilities for on-site use face rates bills well in excess of those generated by comparable facilities which sell their energy to the National Grid. In some
instances, this can lead to a facility providing on-site energy receiving a rateable value thrice that of a facility twice the size that generates electricity for off-site use – a situation that comparatively penalises those firms interested in generating energy for their own consumption. If innovative Scottish businesses are to be encouraged to adopt and embrace green energy developments – and, thus, contribute to efforts to meet the 2020 targets - then Ministers must act to address this anomaly, and any similar inconsistencies that may exist within the system, in a timeous fashion.

CBI’s preferred position is not to have renewable energy targets, but rather general carbon mitigation targets.

22. CBI Scotland would like to make it clear that, in terms of objectives for energy policy, our preferred position is for Governments to set targets relating to carbon mitigation, as opposed to those relating to renewable energy consumption or capacity. We continue to maintain that this represents the most cost effective approach to energy policy and permits administrations a degree of flexibility, whilst still allowing Ministers to meet any environmental commitments they may have, however ambitious.

23. That being said, CBI Scotland appreciates that the renewable energy targets, in this case, represent not just government policy, but a flagship manifesto commitment for the current administration, and so are unlikely to be revised in the short term.

CBI Scotland
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