Abstract

I reaffirm earlier work by myself and other experts that the Scottish Government’s ‘100 per cent’ Renewable Energy (RE) target can be achieved for no higher price increases for Scottish consumers under Scottish independence compared to price increases that would occur if the target was achieved under continued Union with the rest of the UK (rUK). I dismiss the UK Government’s recent claim that Scottish energy consumers would face steep price increases to fund the achievement of the whole Scottish RE target under independence. This claim is wholly implausible.

The UK Government’s claim implies that they will enact retrospective legislation to remove the incentives from renewable energy schemes that have already been installed, or are about to be installed, in Scotland. This would be adjudged illegal by the courts. Indeed the UK Government has already lost a Supreme Court case (in 2012) for premature curbing of solar pv incentives, an instance that is rather less extreme than the highly punitive action that the Government is implying it would take to remove incentives from existing renewable energy schemes in Scotland. I accuse the Government of producing an ‘analysis’ that is deeply flawed in a number of respects and potentially disastrous for business confidence across the UK. I call for a ‘devoplus’ solution for electricity and renewable energy policy. This would include devolving control over energy regulation to Scotland in a continued Union. The Scottish Government could be given control over the spending of a dedicated portion of low carbon incentives proportional to Scotland’s share of the UK land mass (and thus renewable resources).

Introduction

I have been the lead author of two papers published as an offshoot to a research project on ‘Delivering Renewable Energy Under Devolution’ (DREUD ) funded by the Economic and Social Research Council (ESRC). Early in 2013 we published a paper arguing that it would be considerably more expensive for Scotland to achieve its target of 100 per cent of electricity from renewable energy (hereafter referred to as the Scottish RE programme) through independence compared to remaining in the Union (Toke et al 2013a). However, last December we argued that this conclusion was no longer necessarily the case, and there was a plausible case to say that the Scottish RE targets could actually be achieved at lower prices rises for the Scottish consumer compared to doing this within the Union (Toke et al 2013b).

The developments that prompted our re-think are: a) The deal for the twin reactor at Hinkley C of a type that we previously thought was implausible and which placed great costs on consumers by levying them increasing premium prices for 35 years with the taxpayer being liable for loan guarantees for 65 per cent of the capital costs. The UK Government plans to construct three twin reactors by 2030. b) Indications that rather less offshore windfarms would be built in the UK as earlier anticipated, with very little offshore renewable construction being financed in Scotland c) A rapid build-up of onshore windfarms in Scotland and the likelihood that the rest of the
Scottish RE target could be achieved mostly with relatively cheap onshore wind power capacity. There is now enough renewable capacity installed in Scotland to deliver half of the Scottish RE target.

We concluded that Scotland could fund the incentives necessary to fund renewable installed after independence to achieve the Scottish RE target without a greater cost increase than would occur anyway within the Union to achieve its RE targets. We assume that the Scottish Government could reduce headline costs of the programme by giving renewable developers longer contracts, such as 20 years rather than the 15 years offered by the Government, and also access to cheaper finance through loan guarantees.

Since then policy developments have entrenched this view that the Scottish RE targets could be achieved at no greater price increase for electricity consumers in an renewable incentive system funded solely by Scottish consumers compared to relying UK-wide incentives under Electricity Market Reform (EMR). The UK’s support for renewable energy is declining and the Conservative Party is suggesting a policy of capping the relatively cheaper onshore wind and solar farms in favour of restricted spending on solar pv on buildings and windfarms in English and Welsh waters. Funding of expensive nuclear power appears to be taking priority in British policy. ‘Status quo’ policies are failing renewable energy. New schemes in the UK are not currently guaranteed any incentives after 2020. Yet Scotland could gain benefits by staying in the Union under a ‘devoplus’ arrangement, as discussed below. This could offer an optimum solution for developing renewable energy in Scotland.

Claims made by UK Government

The UK Government in its ‘Energy Analysis’ document published earlier this month has made some spectacular claims about how consumers in an independent Scotland would experience high increases in their electricity bills (DECC 2014a). This document is seriously flawed, not least because it assumes that Scotland will enjoy 3GWe of offshore wind by 2020 despite the fact that no major Scottish offshore wind schemes seems likely to be funded by the UK Government (DECC 2014b, 10). However the biggest flaw in the document is that it appears to suggest that in an independent Scotland electricity consumers would have to pay for all of the renewable energy installed there, not just plant installed after independence (DECC 2014, page 32 para 9). This claim implicitly assumes that it is feasible for the UK Government to renege on paying incentives for renewable energy schemes that have already been installed in Scotland. This stance by the British Government has the effect of creating considerable uncertainty in the electricity industry. This is in contrast to the wishes of the electricity and renewable energy industry that the politicians reduce uncertainty in the run-up period to the referendum in what is already a difficult time for the British electricity industry in view of perceived capacity shortages and arguments about energy prices.

The UK Government’s ‘Energy Analysis’ document is highly tendentious because:

1. Denial of incentives paid by rUK consumers for plant already installed under the Renewables Obligation would by its nature involve retrospective legislation that is likely to be subject to court challenge and almost certain to be adjudged contrary to human rights laws. In 2012 solar pv and allied interests
won a legal battle (ultimately through a ruling by the Supreme Court) against the Government for implementing cuts in solar pv feed-in tariffs too quickly. The feed-in tariffs were reinstated for a further 3 month period after the Government’s original deadline for cuts to come into effect. It was commented that the decision ‘provides certainty to the renewable energy market that the Government cannot plan to make retrospective cuts to future schemes’ (Click Green 2012). The Government were merely proposing to cut incentives for plant that were being newly installed. It will be even more difficult to defend retrospective legislation to remove previously guaranteed incentives for plant that had already been installed on the basis of guarantees made under longstanding legislation. The Government’s implicit case that an independent Scotland would have to pay for schemes implemented before independence is highly implausible on legal grounds that have already been demonstrated by this relevant precedent.

2. Such retrospective action would, ignoring its illegality, create drastic financial losses for many companies with Scottish RE investments, not least Scottish Power and SSE, who operate across the UK, and also many small community based companies. This cross section of companies would be extremely angry with the UK Government, and also they will be much less able to build new power plant (conventional or otherwise) in England and Wales as wanted by the Government. This will intensify Government problems to implement a complex Electricity Market Reform (EMR) and keep English lights on as capacity margins tighten over the next few years. OFGEM has issued warnings about capacity margins (OFGEM 2013). The British Electricity Trading Arrangement (BETTA) would be ended. The loss to the remaining English and Welsh system of spare capacity from Scotland would intensify the capacity crisis (Scottish Government 2014).

3. The UK Government is wrong to imply that issues of political accountability are a barrier for the maintenance of a common System Operator (SO) with Scotland (DECC 2014, p40 para1.72). Hence large sections of the UK Government analysis are, at best, irrelevant. In North America, the Mid Continental SO operates across 13 US states and also the Canadian state of Manitoba, all of which have different regulatory regimes. It should be straightforward for the UK and Scottish Governments to agree to issue the same license terms to the National Grid so that the National Grid is able to utilise the same grid codes on both sides of the border. It would benefit England and Wales to enjoy a continued common SO.

4. The UK Government is wrong to imply that Scotland would face constraints payments to stop excessive variable cross border flows of electricity to England if there was no common SO. Under European Network Transmission System Operator –Electricity (ENTSO-E) rules cross border trade cannot be prevented and English and Welsh based generators would face being constrained as a result of cross border flows of variable renewable energy supplies. Transmission charges for Scottish electricity would be considerably less under independence that they are now because of ENTSO-E rules.
5. Early termination of UK incentives for Scottish renewable (before 2020) could lead to a complaint being made to the EU Commission for UK failure to observe its targets under the 2009 Renewables Directive.

Devoplus?

Both the UK Government and the Scottish Government have so far not considered ideas for greater devolution of powers over energy markets to Scotland. Here I briefly mention two possibilities that would devolve power within the rubric of a continued Union and achieve the combination for Scotland of regulatory powers and also more resources for spending on renewables than would be possible under either independence of the status quo.

First, Scotland having control over a portion of low carbon incentives. Scotland comprises around 33 per cent of the British land mass, and, therefore has available a much larger potential quantity of renewable energy resources than the proportion of the UK population that is Scottish. Given that there are differences between the Scottish and the UK Government over whether low carbon electricity incentives should be spent on nuclear power, the Scottish Government should have a legislative right to decide how a dedicated share of low carbon incentives would be spent in Scotland. The practice whereby a much larger portion of incentives for renewable energy was spent in Scotland compared to the proportion of Scotland that is Scottish would be continued, except that control over how this was spent would rest with the Scottish Government. The cost of spending on renewable energy would be equalised across all UK electricity consumers as is done now. The proportion of total UK low carbon incentives under the control of the Scottish Government could be fixed. This proportion would be larger than the share of the UK population made up by Scottish people and calculated to take into account the size of the Scottish land mass compared to rUK. There already exists a Treasury device known as the ‘Levy Control Framework’ for central control over low carbon spending. Scotland could be afforded a fixed proportion of this.

Second, Scottish autonomy over regulation of energy markets and ‘green energy’ incentives. This would include Scottish control over the type of mechanism used to finance renewable energy and energy efficiency, and the amount that could be raised to finance such measures from precepts on Scottish energy bills or public spending allocations. Scottish control over energy regulation could help the Scottish Government realise its own priorities in energy generation, and energy efficiency including promotion of community energy schemes. District heating, combined heat and power and community renewables could be promoted. Regulations covering investments in upgrading electricity distribution networks could be changed to allow more pro-active upgrades that could help renewable energy schemes achieve cost-effective connection to electricity networks. Also a better feed-in tariff system could be designed and cheap finance options could be offered to community energy.

References:


About Dr Toke’s work: He has published five books and over forty papers in refereed academic journals as well as many reports and journalistic pieces. His work, including a report published by the World Future Council, was a prime early influence (in 2007-2008) leading to the adoption of a system of feed-in tariffs for smaller renewable energy projects in the UK. He has advised and produced publications with environmental and green NGOs. Friends of the Earth published his report ‘A Proven Solution: How to Grow Renewables with a Fixed Feed-in Tariff’ at the end of 2012. In 2012 he served as a member of a group of experts advising the European Green Group of MEPs about developing EU Renewable Energy policy. As stated in the introduction, he is a member of a team of academics funded by the ESRC to study the delivery of renewable energy under devolution.

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