SUBMISSION FROM SCOTTISH CHAMBERS OF COMMERCE

Introduction

Scottish Chambers of Commerce is the umbrella organisation for 21 local Chambers of Commerce across the country, which have a membership of around 10,500 businesses. These members are businesses of all sizes, drawn from all sectors of the economy, from sole traders right through to large multinationals and they employ over half of Scotland’s private sector workforce. Scottish Chambers of Commerce and our constituent local Chambers exist to serve the needs of our members and to represent their interests.

Scottish Chambers of Commerce welcomes the opportunity to contribute towards the Economy, Energy and Tourism Committee’s Inquiry into the Scottish Government’s Renewable Energy Targets. This is a timely opportunity to assess the achievability and the affordability of these targets. We will address each of the questions contained in the call for evidence in turn.

Targets

Are the 2020 renewables targets (for electricity and heat) achievable? If not, why not?

SCC have brought together a policy group of energy experts to consider the achievability of the Scottish Government’s renewables targets, comprising industry and academic representatives and the clear view was that, whilst challenging, the targets could be met. The proportion of our electricity generated from renewable sources has risen from 10% in 2000 to 16% in 2006 and to 24% in 2010. The rate of expansion in this sector is increasing and there are significant numbers of approved developments in the pipeline.

That said, it is vital that installed renewables capacity is backed up by base load capacity to ensure reliability of supply. With a number of significant fossil fuel and nuclear power stations approaching the end of their planned life spans, it will be essential to fast track the replacement of the generating capacity of current base load providers.

Scottish Renewables have estimated that around one third of renewable energy capacity in Scotland currently in scoping, planning, consented or under construction would require to be in operation by 2020 if electricity targets are to be met. They have identified grid access and charging, market reform and the consents process as the main potential obstacles to progress.

It is vitally important that action is taken to address the provision of renewable heat. From a social perspective, when people talk of fuel poverty, they really
mean heat poverty and it is important that Scotland has a strategy to deliver reliable and affordable heat to individuals and to business customers. One of our members, Vattenfall, has a long history of producing and distributing heat across Europe, particularly through district heating networks but such schemes are still relatively rare in Scotland. Greater use of district heating schemes will be required if Scotland is to meet its renewable heat targets but this will require a far greater degree of responsiveness from the planning system, particularly where biomass solutions are identified. Direct incentivisation of these schemes also may be required.

Providing these challenges are met, we believe that the Scottish Government targets are attainable.

**What contribution will achievement of the 2020 renewables targets make to meeting Scotland’s CO2 emissions targets (a reduction of at least 42% by 2020 and an 80% reduction target for 2050) under the Climate Change (Scotland) Act 2009?**

It would be wrong to believe that installed renewable energy capability will necessarily produce a direct reduction in CO2 emissions in the short to medium term. The reason for this is that renewable energy projects are not replacing conventional fossil fuel generation assets. Conventional assets are still required to provide base load capacity and to cover for periods where the wind is intermittent. Fossil fuel facilities are therefore continuing to produce CO2 even as new renewable projects are coming on-stream. Therefore meeting the CO2 emission targets should be considered separately to the government’s renewables targets.

**Will increase in demand from electric heat and transport be offset by efficiencies elsewhere?**

There is no doubt that as more heat is generated from electrical sources and more cars are powered by electric or hybrid power trains, demand for electricity from these sources will increase. There is likely to be a general longer term shift in demand from natural gas and petroleum fuelled processes towards electric as our reliance on fossil fuels for direct consumption decreases over time. However we believe that there remains scope for significant action to be taken to reduce demand for electricity from consumers and to encourage and incentivise investment in energy efficiency and to promote behavioural change.

**Has the Scottish Government made any estimation of the overall costs of achieving the targets, and identified which parties will bear them?**

Ultimately it will be the consumer, both business and domestic, that will bear the costs of achieving these targets. Scottish Chambers of Commerce are strong advocates for maintaining a balanced energy policy which, in terms of electricity
generation, means that we see a place for renewable generation alongside fossil fuel and nuclear generation. We believe that all of these are necessary and must operate together to ensure the secure, affordable and reliable provision of electricity in Scotland. This balance is particularly important in order to maintain costs, since at present the costs of offshore wind in particular are far higher in terms of unit cost than other forms of electricity. This is important as of renewable energy projects currently being scoped in Scotland, some 60% of planned capacity is in the form of offshore wind.

**Challenges**

(a) **Technology**

Is the technology to meet these targets available and affordable? If not, what needs to be done?

Much of the technology that is required over the coming decades is already available. Scotland’s progress to date in terms of expanding our renewable energy sector is based on onshore wind. This is a long established technology and much of Scotland’s future installed renewables capacity will be of this nature.

Offshore wind is still an area where significant technological advances are being made and it will be important to anchor as much of this work as possible in Scotland. That is why the development of the European Offshore Wind Deployment Centre (EOWDC) is vital, providing a purpose built facility to allow manufacturers to test new offshore turbines at sea prior to full roll out. The UK Government have estimated the economic benefit to the UK of this site to be in the region of £4 billion, and the facility is essential to attracting new manufacturers to Scotland. It is imperative that the EOWDC is approved and built as soon as possible.

Scotland is also leading the way in many aspects of marine energy and whilst this technology is still in its infancy, it is essential that investment is leveraged into this given Scotland’s long term geographical advantages in this regard.

Are electricity generating or heat producing technologies compatible with the need for security of energy supplies?

Energy is a vital strategic resource and it is important that Scotland, the UK and indeed Europe work towards ensuring that our electricity and heat supplies are secure and resilient. Supply of raw materials for constructing and fuelling electricity generating and heat producing technologies necessarily comes from a wide variety of sources. This is again a reason why a broad and balanced energy policy is required in order to ensure that only limited parts of the sector are vulnerable to a break in supply of raw materials or fuel. It is often claimed
that nuclear is particularly vulnerable in terms of the location of uranium supplies around the world, but the fact is that more than 50% of the world’s known uranium supplies lie in very stable countries such as Australia, Canada and the United States of America.

**Are our universities and research institutes fully geared up to the need for technological development, innovation and commercialisation?**

Scotland’s universities are well geared up towards the requirements of all of our energy sector in the fields of technology, research and development, as they must be if Scotland is to reap the full rewards of renewables. We do have some reservations about their current preparedness to provide the right mix and volume of skills, however.

**(b) Supply chain and infrastructure**

**Is the supply chain in Scotland in place to meet the targets?**

This is a particularly important question in terms of the long term benefits that should accrue to Scotland from the renewables industry. We have seen in the oil and gas industry that over half of the economic value of the sector to Scotland derives from the supply chain businesses that have grown up around the primary industries, many of which have themselves become world leaders in their sector. This is a model we would wish to see replicated in the renewables sector. Work is being done to facilitate development around the ports which could service the offshore wind sector. This is being backed by the positioning of Scotland’s new Enterprise Areas, where there is a strong focus on the renewables sector and future development opportunities.

**What further improvements are needed to the grid infrastructure or heat supply networks both at a national and a local level? Additionally, are we confident that the necessary infrastructure can be developed and financed so that Scotland can export any excess electricity generated to the rest of the UK and/or the EU? What is the role for the Scottish Government here?**

There has been significant progress in terms of strengthening the grid with the commencement of work on the Beauly-Denny power line and the award of the contract to lay the interconnector between Hunterston and the Wirral peninsula. The strengthening of the grid between Scotland, England Ireland and potentially continental Europe is essential if electricity produced in Scotland is to be exported at times of high production and, if necessary, in order to import electricity at times when demand is high and production low in Scotland.
(c) Planning and consents

Is the planning system adequately resourced and fit for purpose?

If targets are to be achieved, we need to ensure that the planning process is configured to bringing new proposed developments on-stream as soon as possible. The Scottish planning system has improved in terms of its ability to recognise and prioritise projects of strategic and national significance but the fact remains that renewable energy developments too often end up being delayed by years as a result of the use and abuse of the planning system. In SCC’s view, Scotland’s planning system requires to be streamlined with the number of planning authorities reduced significantly from its current number (i.e. 32 local authorities, 2 national parks and the Scottish Government).

How can national priorities be reconciled with local interests?

The planning system has attempted to make sensible changes by front loading the planning process and seeking early contact and engagement between the developer and affected interests. This is welcome but unfortunately our system still seems to allow abuses to take place where the voice of the vocal few seems often to have greater weight than the public interest and common sense.

(d) Access to finance

Will sufficient funds be available to allow investment in both the installation and the development of relevant technologies? What can the Scottish Government do to influence this?

Scotland is attractive to developers in the renewable energy sector because we have a wealth of natural resources, particularly in terms of wind and marine; we provide a route to market through networks and incentivisation, and we aspire towards a workable planning and licensing system.

We particularly welcome the decision by the UK Government to headquarter the new Green Investment Bank in Scotland, with £3 billion of initial investment and helping ultimately to leverage up to £200 billion of investment into the UK’s renewable energy sector, of which we would expect that Scotland ought to secure a substantial share.

What will the impacts be on consumers and their bills?

As has been mentioned previously, it will be consumers that will shoulder the bill for the investment that is required in renewable energy, either through taxes or through energy bills. This burden can be mitigated by maintaining a balanced energy policy, ensuring that renewables play an important role in future energy provision but that this is counterbalanced by conventional electricity generation.
(e) Skills and workforce development

Will Scotland have sufficient home-grown skills to attract inward investment? Are current policies producing the desired move towards Science Technology Engineering and Maths subjects at schools and universities? Is the skills transfer from the oil and gas sectors being realised?

The Scottish Government has rightly identified the renewables sector as a priority for future skills development and there are already some good examples of local colleges working with local businesses to identify and meet skills demands. However, these projects are currently sporadic and without greater planning and encouragement to participate in STEM subjects, Scotland may be left without the necessary skills to take full advantage of the opportunities in the renewables sector and we may be left reliant on imported skills. Businesses within the sector are already telling us that they cannot find people with the skills they need in Scotland. There may well be some transferrable skills from the oil and gas sector but that industry will require significant skills retention as it moves towards a lucrative decommissioning phase.

(f) Energy market reform and the subsidy regime

Are the reforms of the energy markets and subsidy regimes at both UK and EU level sufficient to meet the challenge of the Scottish Government’s renewable targets?

As mentioned earlier, a sound incentive regime is one of the key attractions that will bring renewable energy developers to Scotland. There are currently a range of unknowns in terms of the transition from the Renewables Obligation to new Feed-in-Tariffs with Contracts for Difference and the introduction of a Capacity Mechanism. The industry is awaiting clarification as to how this change will manifest itself in practice.

Scottish Chambers of Commerce
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