SUBMISSION FROM THE SCOTTISH COUNCIL FOR DEVELOPMENT AND INDUSTRY (SCDI)

1. SCDI is an independent membership network that strengthens Scotland’s competitiveness by influencing Government policies to encourage sustainable economic prosperity. SCDI’s membership includes businesses, trades unions, local authorities, educational institutions, the voluntary sector and faith groups.

Targets

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

2. SCDI supports a balanced energy mix for Scotland and the UK based on four energy policy pillars of security of supply, affordability of supply, decarbonisation of supply and wider economic benefits for Scotland. We believe that the strong growth of renewables within this mix will support delivery across these objectives.

3. In 2010, Scotland generated 30% of its demand for electricity from nuclear, 29% from coal, 24% from renewables and 17% from gas. The Scottish Government has said that it intends that when, the renewables target is delivered in 2020, Scotland will be generating twice as much electricity as it needs, just over half of it from renewables and just under half from other conventional sources. In its Draft Electricity Generation Policy Statement published in 2010, it identified that “a Scottish electricity generation mix cannot currently, or in the foreseeable future, operate without baseload and balancing services provided by thermal electricity generation”. It stated that this could be delivered “through the construction of a minimum of 2.5GW of new efficient thermal electricity generation” or the construction of lower levels of new build and “the considerable upgrade and extension of existing thermal electricity generation stations.” The export of electricity from all sources benefits the Scottish economy and skilled employment. SCDI believes that maintaining and growing this export is a priority.

4. Over the next decade, Cockenzie’s coal-fired power station will close and while Scottish Ministers have approved a gas-fired power station at Cockenzie, no final decision has been taken on this investment; Hunterston is due to close, although the Scottish Government has said that it is open to applications for operating extensions for existing nuclear power stations where their safety is approved; and Longannet also appears likely to close following the UK Government decision not to support its Carbon Capture and Storage (CCS) demonstration project. Peterhead power station will bid in the revised UK CCS funding competition. After a public inquiry, the Scottish Government is expected to decide on the proposal to build a new coal-fired power station, with CCS, at Hunterston.

5. The Scottish Government has not yet updated its Draft Electricity Generation Policy Statement to reflect its new renewables target and these developments. SCDI
recognises that the focus of this inquiry are the renewables targets, however these cannot be viewed or indeed achieved in isolation. We recommend that the Committee should consider the renewables target within a balanced generation mix and the Scottish Government’s overall aspirations for electricity generation and exports. It is vital for the economy that there is certainty that policy will support and attract the investment needed to ensure security of supply.

Electricity Target

6. Renewable electricity accounts for 24% of the electricity generated in Scotland. In terms of electricity generation, Scotland is in surplus and around 20% is exported to the rest of the UK. This means that renewable electricity generation in Scotland is equivalent to around a third of electricity consumption in Scotland.

7. While there has been accelerating growth in renewable electricity generation over the last 10 years, particularly in recent years, a significant percentage is from hydro, largely a legacy of the 1940s and 1950s. The Scottish Government has said that its target requires "a sustained annual renewable deployment rate of more than twice that ever experienced in Scotland". Reports from Scottish Renewables have shown that there is sufficient capacity in the pipeline to achieve this target. However, delivering this investment is likely to depend on a supportive, joined-up and long-term policy framework at all levels and in all arms of government. In particular, there is a need for clarity in how electricity market reforms will position Scotland and the UK to compete effectively for investment. Significant investment in electricity networks will also be necessary to increase their capacity to transmit electricity from more distributed and diverse sources, including the export of renewable electricity from Scotland to the rest of the UK. Ofgem’s proposals in its Project TransmiT review of transmission charges for lower charges for renewable electricity generation on mainland Scotland need to be implemented timeously. A solution for the Scottish islands which enables the development of subsea cable infrastructure and their substantial renewable resources should also be agreed. An efficient and supportive consenting and planning system, at national and local levels, is needed for projects and the grid. Retiring power workers need to be replaced with the attraction of new people into the industry and there will be a need for new skills and up-skilling for new technologies. Finally, progress with energy efficiency will have a direct impact on consumption and, therefore, the renewable capacity which needs to be achieved.

Heat Target

8. The target to generate 11% of heat demand from renewables by 2020 is equally challenging. At present, 2.8% of heat demand is met from renewables. Output doubled between 2008/09 and the Scottish Government has said that if all the projects currently under construction, and 50% of those in planning come to fruition, in addition to the known micro and small to medium installations, this could bring it to 4.5% of forecast Scottish 2020 nonelectrical heat demand within the next 3 years.

There are significant opportunities in Scotland, but also limits to biomass resources
which have delivered much of the progress so far and a need for significant investment in heat infrastructure. Much will depend on the success of the Renewable Heat Incentive (RHI), introduced at the end of last year for commercial buildings and later this year for domestic properties. This is intended to revolutionise the way heat is generated in the UK, but it must be remembered that renewable heat is starting from a low base and that, as the first financial support scheme for renewable heat in the world, the main incentive is unproven. The delays in its introduction have not been conducive to investor confidence.

**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?**

9. The contribution of the achievement of the 2020 renewables electricity target to meeting Scotland’s CO2 emissions targets depends on the extent to which it replaces CO2 emitting sources from the electricity generation mix. Under current Scottish Government policies, renewables will have a critical role in the substantial decarbonisation of the electricity sector by 2030 which the Committee on Climate Change has said is necessary to meet the 2050 target at least-cost.

10. The UK is an integrated electricity market and the Scottish Government’s policy is that, by 2020, Scotland should be exporting significant renewable electricity. New subsea HVDC cables are planned for this purpose. EU policy is also to increase significantly renewables’ market share and integrate electricity markets via new ‘super-grid’ infrastructure to diversify supply and reduce CO2 emissions. It is recommended that this inquiry should consider what contribution the achievement of Scotland’s 2020 renewable electricity target will make to meeting the UK’s 2020 CO2 emissions target and the potential need for renewable electricity from Scotland to meet the UK’s 2050 target and European targets.

11. Heating currently accounts for 47% of UK’s CO2 emissions and progress with renewable heat is absolutely essential in meeting the 2020 and 2050 targets.

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

12. Planning assumptions at UK level project that Scotland’s annual electricity consumption will increase significantly to 2030. A report commissioned by SCDI and published in late 2008, *The Future of Electricity Generation in Scotland*, projected that demand would be 9% higher in 2020. It is not possible to predict with certainty the rate at which electric heat and transport will be taken-up. The development of many technologies will depend of global markets and fossil fuel prices. Technologies with storage capacity, such as electric vehicles, may support the balancing of supply from variable renewable sources with demand, and, at times, be complementary. There is a need to continue to improve the energy efficiency of buildings, for
example through insulation and smart meters, though a recent study has found that the behavioral change which smart meters are intended to encourage among consumers is often not sustained for long.

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

13. The Scottish Government’s 2020 Routemap for Renewable Energy in Scotland states that £30bn of investment will be required to achieve the 2020 target. It should be noted that substantial investment will be needed in the energy industry with or without the renewables targets to replace aging infrastructure. The costs of this investment will be borne by consumers, but, as reports such as the Stern Review have concluded, there would be far higher costs from climate change. The investment also represents an economic and employment opportunity given Scotland’s comparative advantages in natural resources and the energy industry.

14. By continuing to support the most cost effective technologies, especially onshore wind, in incentive mechanisms and planning, the overall costs can be minimised.

**Challenges**

(a) **Technology**

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

15. At present, renewables have higher capital costs than other technologies. Gas-fired power has less than 15% of the cost of onshore wind and less than 10% of offshore wind per MWh - by way of comparison, gas-fired has less than half the capital cost of coal per MWh and one-fifth the cost of nuclear - although, the costs of running and then retrofitting CCS technology onto fossil-fuelled power stations must also be considered along with the relative construction lead times. This shows the need to continue to reduce the costs of renewable technologies.

16. Onshore wind is one of the most mature and cost-effective renewable technologies and it will have significantly the largest role in meeting the renewable electricity target. The Scottish Government has said that, given that the rate of deployment is twice that previously attained, achievement of the 2020 target will depend upon the installation of large-scale offshore wind schemes. The UK Government has established an Offshore Wind Cost Reduction taskforce to set out a path and action plan to reduce the costs to £100MWh by 2020.

17. Wave and tidal energy are likely to make a contribution to the 2020 renewable electricity target and have much larger role in the following decade. Capital costs are presently significantly higher again. Support for research, development and demonstration of this world-leading technology in Scotland needs to continue. There
is potential for further hydro projects, including as a storage technology. Other energy storage technologies are technically and economically immature and will require major investment in research, development and demonstration, and support similar to other technologies through electricity market reforms.

18. Biomass can play a significant role in meeting both targets, ideally through Combined Heat and Power (CHP) projects. There is concern about that larger scale projects will lead to conflicts with other end users, especially of wood fuel, and/ or require significant imports, and there are proposals from the Scottish Government to reduce the support for them. This must not also impact on non-wood fuel biomass fuel projects which have high capital costs, such as the increasing use of cereal biomass for renewable CHP plants or biomass burning by the Scotch whisky industry. Distillers which have developed renewable energy projects also appear to be being assessed for far higher business rate valuations, and this would certainly be a barrier to the future development of these projects.

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

19. Yes, but only with sufficient baseload and balancing services. As the Scottish Government’s Draft Electricity Generation Policy Statement stated, “renewables alone cannot provide the security of electricity generation that would be required”. In the 2020s and 2030s “without thermal electricity generation dispatch, Scotland would require to import electricity for between 50% and 60% of the time” and most significantly “during 1%-2% of the year, power imports could exceed the maximum current and planned interconnection to Scotland”.

20. This demonstrates the need for significant investment in conventional power sources, grid infrastructure, including cross-border, and in storage technologies. An integrated demonstration project for CCS to trial and establish confidence in the technology – which could be a valuable export - is a high priority for Scotland.

21. A reliance on electricity from the rest of the UK for baseload and balancing would be a risk if there was a temporary failure with one of the two planned subsea HVDC ‘bootstrap’ cables. The rest of the UK will also at times be importing electricity from France. If there is insufficient baseload and balancing capacity in Scotland, security of supply could be at risk at the end of this very long chain.

22. The security and sustainability of supply for biomass electricity and heat generation is uncertain given the size of Scotland’s resources and competing end uses, and the potential need, therefore, for large imports, especially of wood fuel.

Are our universities and research institutes fully geared up to the need for technological development, innovation and commercialisation?
23. Yes, the Energy Technology Partnership by Scottish universities is the biggest collaborative research activity of its type in Europe. The announcement by the UK Government that the Offshore Renewable Energy Catapult is to be headquartered at Strathclyde University illustrates the expertise in Scotland. Collaborative activity between universities and businesses needs to be encouraged. The commercialisation of research is currently being discussed by universities, businesses and public agencies following the Scottish Government’s Post-16 Education review. It is important that the most effective way is identified. Businesses, including SMEs, also need to be geared up to absorb innovation.

(b) Supply chain and infrastructure

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

24. In relation to offshore wind, the Scottish Government and the enterprise agencies have made commendable efforts, in partnership with the industry, to engage with and develop the supply chain in Scotland, and attract a greater part of the global supply chain to Scotland, including research, development and manufacturing. It can be difficult for the supply chain in Scotland, much of it geared to the oil and gas sector, to understand the emerging requirements of offshore wind, which are not always clearly articulated, and this can delay supply chain investments.

25. SCDI welcomes the announcements which have already been made, such as the investment at Fife Energy Park by Samsung and Global Energy’s plans for Nigg. The National Renewables Infrastructure Plan (N-RIP) has identified 11 locations around Scotland’s coast which offer the biggest opportunities for renewables manufacturing operations. Of these, four have recently been designated as Enterprise Zones (Leith, Dundee, Nigg and Arnish) along with three other renewables locations (Hatson and Lyness in Orkney) and Scrabster. One (Fife Energy Park) has approval to submit a detailed business plan for Tax Increment Financing. Six others (Arderseir, Peterhead, Hunterston, Machrihanish/Campeltown, and Kishorn) have not been designated for either. It would be useful to understand the assessments behind these decisions, what exactly is proposed for the Enterprise Zones, the relative benefits of Enterprise Zones and Tax Increment Financing, and what this means for investment at the other sites.

26. SCDI has been concerned that the drive to attract manufacturing investment to Scotland, which it supports, might divert attention from the long-term value which can be realised by the Scottish supply chain from operations and maintenance.

27. There may be strong competition between different renewable technologies for the supply chain, such as between offshore wind and wave and tidal energy. The next stage of N-RIP will focus on locations for marine wave and tidal energy.
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?

28. National Grid is planning £22bn of investment across the UK to 2021 with 17GW in Scotland. SCDI believes that transmission and distribution companies must be able to adopt an anticipatory approach to grid infrastructure improvements where analysed as appropriate. Following approval for and the start of work on the Beauly-Denny project, subsea connections to Scotland’s islands and a particular priority for SCDI. There is a need for interconnection to export electricity to the rest of the UK at times of high renewable generation. ScottishPower plans to increase export capacity from Scotland to England from 3.3GW to at least 7GW which would reduce constraint costs to UK consumers by £1.7bn. Subsea HVDC cables are planned on the west and east coasts. As wave and tidal energy projects are deployed in larger arrays post-2020, further interconnection infrastructure is likely to be required. The Scottish Government, Irish Government and Northern Ireland Executive have jointly worked on the Irish-Scottish Links on Energy Study, mainly funded by the EU, and the EU is supportive of the concept of a North Sea grid which would, ultimately, be part a pan-European ‘super-grid’. The Scottish Government should promote these visions and work with the UK Government and the EU to identify and attract potential sources of investment.

29. There is the risk that generation patterns across Europe for renewable electricity may be similar, creating temporary oversupply and a limited market for exports. The Scottish Government should undertake analysis of this issue. If this is the case, then the capacity to store excess electricity and export it at times when generation is lower or demand is higher would maximise the value to Scotland.

30. The major barrier to the development of grid infrastructure to Scotland’s islands is the very high level of transmission charging which makes it uneconomic for sufficient developers to underwrite the cost of the cables. If this is not reduced, the high-capacity renewable resources on the islands would not be able to contribute to Scotland’s renewable electricity target and a once-in-a-generation socio-economic opportunity for the islands would be missed. With two thirds of the leased UK areas for marine energy based on the islands, there would be very damaging consequences for Scotland’s world-leading wave and tidal industries. SCDI has worked very closely with the Scottish Government on this issue, organising a meeting with the Energy Minister Fergus Ewing MSP, Ofgem, the islands’ authorities and MSPs, and the industry to discuss the Project TransmiT consultation. Highlands and Islands Enterprise and Scottish Renewables have submitted proposals to Ofgem - with the former illustrating that island wind would cost consumers £1.5bn less than the equivalent generation from offshore wind – and it is SCDI’s view that a solution to this issue must be agreed in this process.
31. SCDI is strongly supportive of the building of a smart grid, but it does not underestimate the significant challenges for the distribution network operators.

32. Heat networks are underdeveloped in Scotland compared to most EU countries and their benefits need to be understood by consumers and planners. The introduction of the RHI and the Green Deal, also to be introduced in October, should help with financing the capital cost of the infrastructure, but local authorities may also need to be able to access new funding for capital projects.

(c) Planning and consents

Is the planning system adequately resourced and fit for purpose?

33. The Scottish Government has devoted considerable attention to streamlining the system of planning and consents for renewable electricity projects. The planning system in Scotland is widely-regarded as the best for larger projects in the UK. Many local authorities have also made good progress and have supportive policies, but this is not universally the case and there can be concerns about inconsistency in decision-making which does not reflect national or local policies. The national overview which is provided by the Scottish Government’s Energy Consents Unit in determining wind farms over 50MW is, therefore, important.

34. SCDI is concerned about the resourcing of the planning system going forward. Budgets are squeezed across the public sector, but it must be seen as a priority.

35. The Scottish Government has put in place at an early stage a framework for ensuring a timely and consistent marine energy consents process. National priorities for marine energy need to be incorporated into the National Marine Plan and the Regional Marine Plans to be prepared by the regional partnerships.

How can national priorities be reconciled with local interests?

36. Early engagement and meaningful dialogue between developers, communities and others on projects can help to reconcile and win support from local interests.

37. Socio-economic benefits from national priorities are critical to building local support, in particular the creation of business and employment opportunities. Appropriate community benefits for local areas can also secure their support and SCDI understands that the Scottish Government has agreed to explore the localisation of business rates from renewable developments to local authorities.

38. Community and locally-owned schemes give local interests a direct stake in the success of renewables. Last year, SCDI and COSLA, in partnership with Aberdeen City Council, organised the first-ever conference in Scotland focussed on the newly legalised opportunities for local authorities and other public bodies to generate renewable energy and revenues from the Feed-In Tariff and, in due course, RHI.
inform the discussion, AEA and SCDI published *The AEA Scottish Microgeneration Index*. This found that, in its first year, the Feed-In Tariff scheme encouraged the development of 107.7 MWe of renewable energy capacity in the UK, 20% of which was in Scotland. To accelerate growth, it recommended that Scotland should do more of what was already a success – wind and hydro at community and commercial scale - and do more of what was working in the rest of the UK – solar PV for homes – through volume purchases for social housing and collaboration between local authorities. The report suggested that there was a need for each local authority to re-assess how well its current planning policy facilitates the projects that the Feed-In Tariff incentivises.

39. The cities strategy *Scotland's Cities: Delivering for Scotland*, recently-published by the Scottish Government in collaboration with Scotland’s Six Cities and facilitated by SCDI, states that it is critical that our Cities are at the forefront of the transition to a low carbon economy because they are where many of the opportunities lie, with denser urban environments offering increased scope to maximise resource efficiency. The initial areas providing the greatest potential for collaboration, competitive advantage and job creation identified by the cities are:

- combined heat and power energy systems which can deliver significant energy and cost savings and where the urban density in cities provides ideal opportunities to install and operate infrastructure;
- district heating networks which have the potential to make a significant and cost effective reduction in carbon from Scotland's heat supply and cut fuel bills for businesses and households;
- retrofitting existing building stock, with the potential to create thousands of jobs while contributing to objectives on fuel poverty and reduction of energy use and emissions; and
- low carbon transport, utilising new technologies and intelligent transport systems.

40. Opportunities for commercial premises, like distilleries, to supply excess heat they generate to consumers nearby aligns national priorities and local interests.

(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?

41. The investment required is unprecedented. For the UK as a whole, Ofgem’s Project Discovery estimated that £200bn of investment might be required by 2020. By way of comparison, the oil and gas industry has invested £300bn in the UK Continental Shelf over the last 40 years, an average of £75bn every decade, and the oil and gas industry has had relatively much stronger balance sheets.
42. Access to sufficient capital is probably the most important factor in the installation and the development of renewable technologies in the current economic climate.

43. Scotland and the UK are attractive markets for investment in renewable electricity. The UK has risen from 6th to 5th on the latest Ernst & Young Country Attractiveness Index report for overall attractiveness for renewables and remains top of the offshore wind index, with progress on offshore wind in Scotland a main reason. However, there can be no complacency. The report states that emerging renewable energy markets will grow at the expense of Western markets in 2012. Investors need confidence in support mechanisms, joined-up policy-making to remove other barriers and continued leadership by the Scottish Government.

44. The public sector also needs to help to finance the low carbon economy. The Green Investment Bank needs to have a key role as soon as possible. It will have an initial £3bn capital, and the UK Government must consider whether its borrowing powers will be needed sooner. SCDI supports Edinburgh’s case to host the Bank and welcomes the agreement between the UK and Scottish Government to release the Fossil Fuel Levy on which we have long campaigned.

45. As relatively immature technologies, to stimulate investment in the wave and tidal sectors early sight of an attractive marine energy Feed-In Tariff will be required. The Scottish Government and the UK Government can and will need to influence investment in the development of these technologies with grant funding for early stage array projects and with government-backed loans or government equity.

46. Improving access to finance is one of the frameworks for Scotland’s new cities strategy. The Smart Cities Network, jointly chaired by the Scottish Government, Scotland Europa and the Scottish European Green Energy Centre, brings together Scotland’s cities and the private sector to support their individual city sustainable ambitions and take full advantage of EU funding opportunities such as the Framework Programme 7, Joint European Support for Sustainable Investment in City Areas (JESSICA) and the European Energy Efficiency Fund.

47. Retrofitting existing properties, the largest market for renewable heat, usually has a higher cost and is more complex to install. Consumers often do not make the trade-off between higher upfront capital costs and future energy bill savings.

**What will the impacts be on consumers and their bills?**

48. Much of Scotland’s and the UK’s energy infrastructure needs to be replaced and this will require many billions of pounds of investment. Whichever technologies replace this capacity, consumer bills would need to increase to fund this investment. As previously mentioned, the impact of the price volatility of fossil fuels on consumers and the costs of climate change need to be borne in mind.

49. The cost of the Renewables Obligation is a relatively small percentage of the average annual electricity bill and is projected to rise to only 5.2% in 2017. However,
costs to consumers must be minimised, particularly with the continuing squeeze on living standards, and industry and Government must work together.

50. A big concern is for those who are already fuel poor. However, community and locally-owned renewable energy has the potential to generate electricity and heat locally and enable communities and businesses to take advantage of the Feed-In Tariff and, in due course, the RHI, particularly in rural areas. The Scottish Government has suggested that its target of 500MW of these projects by 2020 could represent up to £225m revenue per year going directly to communities.

(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?

51. The Skills Investment Plan for the Energy Sector, commissioned by the Energy Advisory Board and published in March 2011 by Skills Development Scotland, details the skills need for the key energy sectors to 2020. The Plan identifies the potential for up to 95,000 job opportunities to 2020 combining replacement demand to sustain more established energy sectors with new additional growth in emerging sectors. Of these, at least 40,000 opportunities are in the renewables sector. Progress is being made by the education and training sectors, and the Scottish Government’s Post-16 Review must further align supply with demand. Ensuring that graduates and apprentices acquire relevant training and experience and are absorbed into the workforce at a faster rate will be important. Confidence in renewable heat is increasing with growing installer accreditation.

52. Scotland has many strengths in Science, Technology, Engineering and Maths subjects at schools, universities and colleges. However, for many years insufficient numbers of young people have been attracted into these subjects. Moreover, the latest Trends in International Maths and Science Survey (2007) and Programme for International Student Assessment (2009) suggest that the performance of pupils in these subjects in Scotland has stood still around the OECD average, while it has improved in many other OECD countries. SCDI has for over 25 years championed science, maths and engineering education in schools working in partnership with the private sector, schools and local government. There has been very strong growth in this network in the last two years to over 500 clubs across Scotland, supported by substantial investment by the private sector which has enabled the development of new resources (including for renewable projects) and the appointment of regional co-ordinators. This activity is being aligned with the opportunities in the Curriculum for Excellence and SCDI warmly welcomes the Science and Engineering Education Advisory Group’s latest report on the Science and Engineering 21 Action Plan.
53. SCDI believes that it can be unhelpful to talk about the skills “transfer” from the oil and gas sector being “realised”. The oil and gas industry is one of Scotland’s most important industries and has estimated that increased capital investment in the UKCS could lead to up to 15,000 people being taken on this year alone. There is at least another 40 years of activity in the basin meaning that young people starting in the industry now could work their whole career in Scotland. Competition for these skills could result in unsustainable wage inflation which reduces their attractiveness for investment. There are undoubtedly opportunities for the sectors to share skills and expertise to their mutual benefit. SCDI’s annual survey of sales by the oil and gas industry in 2009/10 showed that sales into the renewable energy sector increased from £17.9m to £23.3m. This was an increase of 31%, but should be seen within the context of total sales of £15.9bn. Sales are anticipated to grow as business opportunities, particularly in the offshore wind, emerge in the next five years, and the expertise in the oil and gas sector is expected to have a very important role in offshore wind cost reduction.

(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?

54. In the Renewables Obligation, the UK has had one of the most successful support mechanisms in the world and the transition to the new Contracts for Difference (CfDs) must be smooth to protect the attractiveness of the UK for investors. Insufficient clarity and certainty regarding electricity market reform is the most important issue in meeting the challenge of the renewables target in Scotland. SCDI is concerned that the UK Government plans to weaken the support when introducing the CfDs. This is having an impact on investment not only in projects, but in the supply chain. Investors need to be reassured that there is supportive long-term policy framework. Spain’s fall from top of the Ernst & Young Country Attractiveness Index 5 years ago to outside the top 10 in the new report shows the risks that weakened incentive regimes pose to investment.

55. Integration of EU energy markets in a way which enables the export of renewable electricity from Scotland is critical to the Scottish Government’s long-term policy. Support from the EU for specific projects in Scotland has been very important. SCDI welcomes the proposal in Towards European Industrial Leadership in Ocean Energy in 2020 for the European Commission to fully recognise this potential by including the sector in the EU’s Strategic Energy Technology plan.

56. Electricity market reforms could improve support for energy storage technology.

57. SCDI is concerned that opportunities in the Scotch whisky industry will not be fully realised due to specific issues with UK incentives. The proposed reduction in support for electricity generated by Anaerobic Digestion (AD) would particularly
affect distillers because by using their by-products for energy generation rather than selling them to the animal feeds markets they are forgoing an alternative source of income. The RHI and Renewables Obligation incentivise distillers to inject biomethane into the gas grid or generate electricity rather than use their potential to generate biomethane by AD to substitute or complement natural gas onsite to generate heat, the most efficient and environmentally sustainable use.

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