

Mr Terry A'Hearn  
Scottish Environment Protection Agency  
Strathallan House  
Castle Business Park  
Stirling  
FK9 4TZ

03 November 2017

Dear Mr A'Hearn

### **Consultation on proposal for new Environmental Regulation (Scotland) Charging Scheme 2018**

Scottish Renewables is the representative body for the renewable energy sector in Scotland, working to grow a sustainable industry which delivers secure supplies of low-carbon, clean energy for heat, power and transport at the lowest possible cost. We represent around 280 organisations ranging from large suppliers, operators and manufacturers to small developers, installers and community groups, and companies right across the supply chain.

The services provided by SEPA play a key role in ensuring the sustainable development of our sector. We understand that these services come at a cost for the Agency and that recognise currently the intent is to charge operators to recuperate these costs. While costs are being recuperated from operators it is crucial that any charges levied are reasonable, proportionate, fair to all and transparent. We have significant concern that the current proposals do not meet those criteria.

This is particularly salient given the planned inclusion of small-scale hydropower sites within the charging scheme. With the economics of the hydro sector particularly challenging, proportionate and reasonable charging is crucial to ensure that the sector can continue to develop, delivering socio-economic benefits across Scotland.

Given the Scottish Government's ambitions to 'create a supportive environment for small scale and community hydropower in Scotland'<sup>1</sup> we are encouraged that the consultation

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<sup>1</sup> <http://www.gov.scot/Publications/2017/01/3414>

paper notes that “consistent and proportionate regulation plays a vital role in making Scotland an attractive place for doing business in Europe”.

As we set out in further detail in our attached response, we believe a charging scheme which is reasonable, proportionate, fair to all and transparent can be delivered through:

- Ensuring cost-reflectivity
- Developing proportionate means of charging for indirect costs
- Reflecting the state of the industry in the charging scheme
- Ensuring charges across sectors are transparent

We would welcome any opportunity to contribute further to your considerations and ask you to contact us should you have any queries.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Hannah Smith', written in a cursive style.

**Hannah Smith**

**Senior Policy Manager**

## **Consultation Response**

### **Small-Scale Hydropower**

It is important that, as far as possible, any changes to the charging scheme reflect the scale of regulatory effort that is needed for each scheme and that there is not any cross subsidy between sectors or between different operators.

We therefore acknowledge SEPA's intention to include hydro projects between 0.1 and 2MW into the charging scheme. Given the small size of these installations however, it is crucial that any charges levied are proportionate to the workload that the projects create. As detailed below, we have significant concerns about the charging scheme's cost-reflectivity in this regard.

It should also be remembered that hydropower schemes above 2MW have been contributing substantial annual fees to SEPA for over a decade. It is essential that any changes to the charging scheme are fair to all operators regardless of scale and that cross-subsidy from existing license payers does not take place.

We support the phased introduction of any charges; however, we caution that even a 60 per cent initial payment could be of significant economic impact to the hydro projects in question. An explanatory note detailing how these stages were derived at would be welcome.

We have received strong representations from small operators to encourage SEPA to continue to maintain an exemption to very small hydro schemes, generating less than 0.1MW going forward.

### **Cost Reflectivity**

We are concerned that the approach set out in the consultation may not be cost reflective.

It is crucial that charges are applied fairly, with the sites that create the highest costs paying the highest charges. Direct costs, where they are transparent and proportionate, are reasonable in this regard. We are concerned that charges for indirect costs are not cost-reflective in this way, and the application of these charges to smaller schemes will extend an unfair scheme, lacking in proportionality and transparency.

### **Charging for Indirect Costs**

We have significant concerns over the approach to charging for indirect costs. It is unclear what indirect costs are being recovered and from which elements of the charge they are being recovered. Similarly, we query whether it is reasonable to expect schemes to part-fund areas on which they have no/very little impact.

The 'Environmental Charge' component is particularly concerning in this regard. It is unclear how this charge relates to individual schemes included in the charging scheme.

Our members also report erratic charging with this component – unable to easily determine what the charge is likely to be and seeing fluctuations in the scale of the charge which don't appear to correlate to the size of schemes or similar variables.

### **Double Charging**

We are also concerned that there could be an element of double counting for indirect charges. The consultation document states that the Annual Activity Charge “recovers...direct regulatory costs as well as some indirect costs”. Similarly, environmental considerations are undertaken through the planning process and through CAR license applications. Urgent clarity is needed on what charges levied are funding in order to deliver a transparent scheme to stakeholders.

### **Reflecting the State of the Industry**

Hydropower is of critical importance to Scotland's rural economy. From the post-war development brought by the Hydro-Electric Development (Scotland) Act 1943 to more recent schemes in remote areas<sup>2</sup>, the sector is delivering local economic benefit across a wide range of Scotland's geographies. 88 per cent of the total UK hydro capacity is in Scotland, enough to power 1,000,000 homes. The sector was responsible for 27 per cent of all renewable electricity generation in 2015<sup>3</sup>. Scottish Government figures estimate potential for a further 1.2GW of hydro development across Scotland, the majority of which is expected to be at a small scale<sup>4</sup>.

As you will be aware, following a series of policy changes in 2015, the economics of the small-scale hydropower sector have been fundamentally altered. This has severely threatened the ability of the sector to realise its potential and deliver socio-economic benefit across Scotland, and in particular in its rural communities. Crucially, the challenging economic environment has dramatically increased the industry's sensitivity to cost increases.

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<sup>2</sup> <http://www.applecrosshydro.scot/>

<sup>3</sup> <http://www.gov.scot/Publications/2017/01/3414>

<sup>4</sup> <http://www.gov.scot/Publications/2010/01/19141527/0>

We very much support the intent that the scheme ensures “that environmental protection is carried out in a way that, as far as possible, supports health and wellbeing and sustainable economic growth” and the recognition from SEPA that compliance must be encouraged “in a way that also builds business benefits”.

We are concerned, though, that the scale of the charges will be of detriment to the further sustainable development of the small-scale hydropower sector. In particular, we caution that the charging metrics appear to have been built on data gathered in 2015 – a period at the peak of a renaissance in the hydropower sector, with a considerably different economic climate.

This underscores the need for reasonable, proportionate, fair and transparent charges – where operators pay for the costs they create and can reasonably forecast what these charges will be.