

HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

19 October 2018

## UK Budget 2018: Representation to HM Treasury

Dear Sir/Madam,

Scottish Renewables is the voice of Scotland's renewable energy industry, working to grow the sector and sustain its position at the forefront of the global clean energy industry. We represent around 250 organisations working across the full range of renewable energy technologies in Scotland and around the world, from large suppliers, operators and manufacturers to small developers, installers and community groups, and companies right across the supply chain. The commercial health of Scotland's renewables sector is fundamental to meeting the UK Government's ambitious climate change targets.

In this letter we outline key areas where we think the UK Government could support our sector to deliver on the UK's Clean Growth ambitions. These are:

- It is essential for Scotland and the UK's renewable energy industries and for the UK's ambitious climate change targets that the UK Government brings forward CfD Pot 1 auctions for onshore wind and solar as soon as possible.
- Scottish Renewables is concerned about the impact that a number of changes to the policy landscape are having on the **small-scale renewables** sector and would urge the UK Government to consider the range of support outlined in this letter to secure a future for the small-scale sector and the associated benefits it offers.
- On **heat**, the UK Government has introduced some positive measures in this area, but more action is needed to decarbonise the UK's heat supply. The UK Government must ensure that a successor policy is in place well in advance of the proposed closure of the Renewable Heat Incentive, that maintains incentives for the retrofit of existing buildings and projects feeding district heat networks.
- The renewables sector is one of our economy's most innovative. It is important, that where the UK has built a global lead, as is the case with emerging technologies like tidal, wave and floating offshore wind, the UK Government support the continuation of this lead. The UK Government must, therefore, must ring-fence part of the CFD Pot 2 budget to support projects to commercialisation and maintain this lead
- **Infrastructure investment** is essential to ensuring that emissions targets in the Clean Growth Strategy and recommendations from the National Infrastructure Commission on power, smart grid and heat infrastructure investment are acted upon throughout Government.

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Policies that have supported the continued development of renewable electricity from both the UK and Scottish Governments have seen renewable energy capacity in Scotland more than triple in the last eight years. Renewable electricity in Scotland is a success story for the whole of the UK. In 2017 68% of gross electricity consumption in Scotland came from renewable sources, and Scottish renewable generation made up approximately 25% of total UK renewable generation.<sup>1</sup> Scotland has more than 10GW of installed renewable energy capacity and a further 11GW awaiting completion or in the planning system.<sup>2</sup>

The sector has also become a key source of employment with 16,000 people currently working in renewables. Turnover from renewable energy activity in 2016, the most recent year for which figures are available, was almost £5.5 billion, demonstrating how the sector continues to be an important driver of investment at a time of slow or negative economic growth. This growth is often concentrated in Scotland's rural communities,

The socio-economic benefits of our industry aren't just being felt in Scotland as we continue to share our renewables services and products with overseas markets. Research conducted by Scottish Renewables in December 2016<sup>3</sup> revealed that renewable energy businesses here have been involved in projects worth £125.3 million in 43 countries in every continent bar Antarctica – and employ staff in 22 of those countries.

With more than 13 million tonnes of harmful CO2 emissions<sup>4</sup> being displaced by the renewable energy sector in Scotland it demonstrates our ever-growing contribution towards tackling climate change.

The UK Government's Clean Growth and Industrial Strategies contain many positive developments for the renewable energy sector. However, there are still many practical policies that can and should be considered by the UK Treasury in its forthcoming Budget in order to help the sector continue to grow and make a valuable contribution to our economy, our environment and bring real change to local economies.

## **Onshore Wind**

The cheapest form of new electricity generation is onshore wind,<sup>5</sup> with solar PV and offshore wind also increasingly low cost. Indeed, developers of all renewable technologies and projects, and their supply chains, are working hard to reduce costs to minimise the need for government support as quickly as possible. The socioeconomic benefits of onshore wind developments have already been substantial<sup>6</sup>, and a BVG Associates study has

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<sup>1</sup> <https://www.gov.scot/Resource/0053/00533679.pdf>

<sup>2</sup> *Ibid.*

<sup>3</sup> <https://www.scottishrenewables.com/news/global-reach-scot-renewables-revealed/>

<sup>4</sup> <https://www.scottishrenewables.com/news/scots-renewables-sector-reduces-carbon/>

<sup>5</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/566567/BEIS\\_Electricity\\_Generation\\_Cost\\_Report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/566567/BEIS_Electricity_Generation_Cost_Report.pdf)

<sup>6</sup> [www.scottishrenewables.com/publications/onshore-wind-investing-scotlands-energy-future/](http://www.scottishrenewables.com/publications/onshore-wind-investing-scotlands-energy-future/)

demonstrated that onshore wind has the potential to generate 18,000 jobs and £6bn investment in Scotland by 2025.<sup>7</sup>

The cheapest, most established technologies are currently locked out of the energy market by the UK Government's failure to hold further auctions for 'established technologies' (Pot 1) for Contract for Difference (CfD) support. It is essential for Scotland and the UK's renewable energy industries and for the UK's ambitious climate change targets that the UK Government brings forward Pot 1 CfD auctions for onshore wind and solar PV as soon as possible.

### **Offshore Wind**

Scotland is the windiest country in Europe. The development of offshore wind projects in the waters off the country's east coast is just beginning following several years of delay while legal challenges to planning consents were considered. Our waters are already home to the world's first floating offshore wind farm, Hywind, with others waiting in the wings.

Projects like Beatrice, in the Moray Firth, have deployed more conventional, bottom-fixed turbines off Scotland, too. In total more than 2GW of offshore wind – enough to power more than 1.6 million homes – has UK Government contracts to sell the power it will produce. That means huge opportunity for the hundreds of supply chain companies which feed their offshore expertise into these projects. It also means huge opportunity for ports and communities along our east coast, with Wick, for example, already benefitting from a £10 million investment as part of its role as the operations and maintenance base for the £2.6 billion Beatrice project. Scottish Renewables is pleased about the announcements to date on the upcoming CfD round on offshore wind and remote island wind. We are also pleased with the budget allocated to the sector. The scale of ambition demonstrated in the proposed offshore wind sector deal reflects offshore wind's enormous potential. Scotland has already shown that it can provide a base for innovative and significant developments.

It is essential that the UK Government continues to work with the UK offshore wind industry to support a Sector Deal for offshore wind, given the huge growth expected in the sector and associated socio-economic opportunities across the country, and the specific strengths that projects and supply chain in Scotland are delivering today and in the future. Scotland has unique international strengths in offshore/subsea engineering, project development and innovation. Scotland offers the best opportunity for industry coordination with the Oil and Gas sector, has grown from only 3% of the UK's total offshore wind capacity to 16% with a clear pathway to 20% by 2030, and has a 10 year legacy of successful project development, which has meant that developer presence and advisory services has become very active in the

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<sup>7</sup> <https://bvgassociates.com/the-power-of-onshore-wind/>

domestic and international markets. Moreover, as home to the ORE Catapult and academic centres of excellence such as the University of Strathclyde, Scotland is at the forefront of the UK's innovative effort and drive to reduce Levelised Cost of Energy.

### **Small-Scale Renewables**

The UK energy market, and policy ambition surrounding energy, has changed drastically in recent years. Along with technology development, and our wider energy system adapting to increased decentralisation and renewables penetration, new and emerging technology-driven market opportunities are continually appearing. Small-scale embedded technologies are at the forefront of this transition. We expect this to be revolutionary for how consumers, businesses and energy generators engage in the energy market. The opportunity this shift presents to tackle issues such as climate change and fuel poverty while growing the UK economy should not be underestimated.

Scottish Renewables is concerned about the impact that a number of changes to the policy landscape are having on the small-scale renewables sector, threatening the opportunity to deliver across these three areas.

Our response to the Call for Evidence on the future for small-scale low-carbon generation<sup>1</sup> sets out our ambitions for the future of the sector in detail, along with a number of proposals through which we believe both Scottish and UK governments could support the sector.

It is our view that to effectively support this sector government should:

- Protect the sector from a potential 'policy gap' through implementing a transition period out of the Feed-in Tariff, involving:
- Allowing for the full utilisation of existing budget within deployment caps
- The short-term continuation of an export tariff
- The reform of the export tariff upon the emergence of flexibility markets
- A route to market mechanism to lower risk for small-scale generators in tandem with operational flexibility markets
- Improve transparency in the FiT queue process and better maintain the queue
- Allow for the fair replacement of generating plant
- Ensure the continuation of certification schemes and data provision

Further detail on this topic can be found in our response to BEIS' consultation on the proposed closure of the Feed-in Tariff scheme.<sup>8</sup>

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<sup>8</sup> <https://www.scottishrenewables.com/publications/consultation-response-feed-tariff-scheme/>

## **Renewable Heat**

Along with transport, heat is the next stage of decarbonising our economy. The UK Government has introduced some positive measures in this area, but more action is needed to decarbonise the UK's heat supply.

The UK Government must ensure that a successor policy is in place well in advance of the proposed closure of the Renewable Heat Incentive, which is currently set for April 2021. It is essential that this successor policy maintain incentives for low-carbon heat generation, particularly for the retrofit of existing buildings and projects feeding district heat networks.

Although we welcome recent work by the Department for Business, Energy and Industrial Strategy considering future options for the RHI, we are concerned that the current proposals<sup>9</sup> do not adequately address the need to combine incentives with regulation to drive the deployment of low-carbon heating at the scale required by the UK's carbon budgets.

The UK Government is right to target near-term heat decarbonisation at off-gas grid areas and district heat networks in urban areas<sup>10</sup>. To deliver on these ambitions it will be vital that it continues to intervene to level the playing field between low-carbon and high-carbon heating fuels. High-carbon fuels like oil and gas do not face the costs of their carbon pollution, and in the case of gas, face some of the lowest levels of taxation found in the energy sector<sup>11</sup>. Where low-carbon alternatives are able to offer lower running costs (as found in some off-gas grid sectors and district heat network projects) these are offset by higher capital costs, meaning that consumers and businesses may require assistance with financing to incentivise them to switch. We therefore believe that there is a strong case for targeted subsidy for retrofit installations in off-gas grid buildings, and for low-carbon heat generators feeding district heat networks. Combining this support with regulation will drive demand and keep subsidy costs to a minimum. We therefore recommend:

- The installation of high-carbon fossil fuel heating should be phased out from 2025, and after this date no new installations of coal, oil and LPG boilers should be permitted.
- Continue incentives for retrofit installations in off gas grid buildings, both to encourage take up before regulations enter force and to aid with compliance afterwards.

Continued support to the off-gas grid sector will ensure continued decarbonisation in the 2020s, and help grow supply chains that are proficient in the retrofit of low-carbon heating to

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<sup>9</sup> BEIS, A Future Framework for Heat in Buildings, 2018

<sup>10</sup> BEIS, Clean Growth Strategy, 2017

<sup>11</sup> CCC, Next Steps for UK Heat Policy

buildings. It is the decarbonisation of the existing housing stock that will deliver the bulk of emissions reduction from the built environment.

We also believe that there is a strong case to continue subsidy support for low-carbon heat generation where this is feeding district heat networks. This will allow the decarbonisation of district heat networks by supporting emerging UK markets for technologies like large scale ground, water and air source heat pumps, geothermal and waste heat recovery. Most heat networks are constructed in on-gas areas and to be viable must sell heat at least at the same rate as heat from mains gas. Without a continued subsidy to close the gap between low-carbon heat generation and gas, the installation of low-carbon heat generation into heat networks will be severely limited. Large scale electric heat pumps drawing energy from the ground, water or sources of waste heat have a large potential to help decarbonise heat networks. However, their economics versus heat from mains gas is deteriorating as the costs of electricity rise. There are a number of additional policy costs levied on electricity that are not applied to gas and supporting large scale electric heating will help level the playing field.

### **Early-Stage Technologies**

Both the Clean Growth and Industrial Strategies recognise the importance of innovation to the future of the UK's economy. The renewables sector is one of our economy's most innovative and the UK Government must provide mechanisms of support in order to retain our strategic advantages in emerging energy technologies such as wave and tidal. Scottish Renewables would like to see the UK Government commit to provide continued innovation funding support for early stage projects in the UK's innovative and world-leading marine energy sector and for other technologies in the early-to-mid stages of maturation, such as floating offshore wind. As such, it is important that there is a commitment to providing ring-fencing for early-stage technologies within the CfD mechanism.

### **Carbon Price and Infrastructure**

The Carbon Price Support helps support investment in renewables by ensuring that fossil fuel generation faces the costs of its carbon pollution. We believe that the UK Government should maintain a clear trajectory to support investment in the sector, particularly once the UK leaves the EU.

Infrastructure investment is essential to ensuring that emissions targets in the Clean Growth Strategy and recommendations from the National Infrastructure Commission on power, smart grid and heat infrastructure investment are acted upon throughout Government. Scottish Renewables believes that increased infrastructure spending across the UK would be of benefit to the renewables industry and the economy as a whole.

## **Conclusion**

Scottish Renewables and our members want the renewable energy sector to continue to contribute to the UK's economy. We believe that the measures outlined in this letter would boost not only Scotland and the UK's renewable energy sectors, but the economy as a whole. We would be happy to contribute to any additional work that may arise from this Budget representation process.

Yours sincerely,

Claire Mack  
Chief Executive  
Scottish Renewables