

Rt Hon. Rishi Sunak MP
Chancellor of the Exchequer
1 Horse Guards Road
Westminster
London
SW1A 2HQ

12 February 2021

Dear Rishi,

Scotland's renewable energy industry offers enormous potential to support the UK Government in delivering a green recovery to the huge economic challenges produced by the COVID-19 pandemic. For our industry to play its full role in rebuilding our economy we would welcome the following support in the upcoming March 2021 Budget.

Tidal and wave technology

The development of tidal stream and wave technologies across the UK is at a crucial point and government support is needed to secure the UK's early global lead and secure 'first mover' economic advantage.

The UK industry currently boasts 22 tidal stream technology developers and 23 wave developers with an estimated investment to date in excess of £500m of private capital in developing marine energy technologies and £70m in direct public support. The tidal stream industry could generate a net cumulative benefit to the UK by 2030 of £1.4bn, including considerable exports and creation of 4,000 direct jobs. Wave energy, which is at an earlier stage of development, could also add a net positive contribution to the UK economy, worth a cumulative benefit to the UK by 2040 of £4.0bn, supporting 8,100 direct jobs.

Targeted support from the UK Government can now unlock the next stage of commercialisation, moving to the deployment of multi-turbine arrays around our coast, using high levels of Scottish content to generate clean and predictable power. The marine energy sector has benefited from £200m in EU Research & Development funding over the last four years. As we leave the European Union, the UK Government will need to fill this gap and ensure that this funding continues at a rate of £50m per annum.

An immediate route to market for Scotland's marine energy sector will encourage more innovation across Scotland. HM Treasury should create a tax credit mechanism known as an Innovation Power Purchase Agreement (IPPA). This would allow projects of up to 5MW to sell power at higher than market rates, with the off-taker then able to reclaim the excess back through the tax system.

The transition to renewable heat

Transitioning our energy system to renewable heat provides real opportunity for economic stimulus and will support the UK to make enormous progress towards net-zero. To date, the majority of the 7,600 low-carbon heat projects in Scotland have been supported by the Renewable Heat Incentive (RHI), which has funded installations in off-gas-grid buildings, new builds, heat networks, and biomethane production. The closure of the Non-Domestic Renewable Heat Incentive (NDRHI) applications in 2022 without a replacement means there is no support for investment in low-carbon heating in commercial or domestic buildings with a heat need greater than 45kW, the equivalent heating requirement of a large family home.

Scotland's renewable energy industry now needs a clear Heat Decarbonisation Strategy from the UK Government which establishes ongoing support for medium-sized projects. This strategy should extend the NDRHI to avoid a 'cliff edge' in renewable heat investment until a full suite of successor policies are in place at the continued cost of £859 million per annum. Support should continue at this level with the same year on year increases in support that have been seen since 2016/17.

Ensuring support is provided for medium-sized renewable heat projects such as schools, office, hotels and leisure facilities which can be delivered in 12-18 months will provide much-needed stimulus which can underpin a green recovery. A pipeline of such projects will help to support the growth of Scotland's renewable heat supply chain, ensuring that we have the domestic support systems to fulfil our transition. This strategy should also ensure that fossil fuels bear the costs of the carbon pollution they produce, and the Carbon Price Support cap should be phased out. Doing so will encourage a step change in uptake of renewable heat.

Offshore wind

Support announced in 2020 by the UK Government to realise the potential of the offshore wind industry has been welcomed. Funding for the Offshore Wind Enabling Actions programme from the Department of Environment, Food and Rural Affairs and Department for Business, Energy and Industrial Strategy, and support for the Offshore Wind Evidence and Change programme from The Crown Estate will help industry to work collaboratively with stakeholders to deliver the UK's ambitions. Industry has also welcomed the £160m announced by the UK Government to upgrade UK ports and infrastructure so that they are best placed to capture benefits from the expansion of offshore wind activity.

In line with the UK Government's levelling-up agenda it is essential that Scottish ports are able to benefit from this funding through the Offshore Wind Manufacturing Support Scheme, and where possible this should work in collaboration with The Scottish Government's recent support for a green ports enterprise model.

The recent announcement that the capacity to be procured through Allocation Round 4 of the Contracts for Difference scheme will be doubled from the previous round should

increase the pipeline of renewable projects, help supply chain companies to plan ahead, and deliver a green recovery. The Budget allocation to individual CfD auction pots should reflect government ambitions to be world leaders in floating wind. It is important, however, that any budgetary support for offshore wind must be accompanied with a commitment from the UK Government to address the Transmission Network Use of System (TNUoS) charging regime, which structurally disadvantages Scottish offshore projects.

Small-scale renewables

Renewable technologies are decentralising our energy system from large scale fossil-fuel power plants, towards a more dynamic, responsive and flexible system powered by clean energy. Small-scale renewable energy generation is key to delivering the transition to a flexible and decentralised energy system which enables consumers and businesses to take control of their energy supplies. Indeed, small-scale renewables can help meet levelling-up ambitions by delivering growth opportunities and socioeconomic benefits to rural economies.

The Feed-in Tariff (FiT) was instrumental in enabling rural businesses and communities in remote locations to install small-scale renewable technologies and generate income to support the rural economy. With the closure of the FiT in March 2019 this support for the rural economy and the transition to a more dynamic, responsive and flexible approach to energy ceased.

The Smart Export Guarantee (SEG) that replaced the FiT only supports a small segment of the market, predominately solar PV development. Small-scale commercial projects rely on long-term contract visibility to secure project finance and a floor-price for revenue. Neither of these are offered by the SEG. The UK Government now needs to introduce a support mechanism similar to the FiT to enable rural businesses and communities to install small-scale renewables; strengthening the rural economy and supporting the Government's levelling up agenda. A replacement scheme should provide support of £100m over four years.

Green Hydrogen

Scotland has the potential to become a world leader in green hydrogen production and exports by maximising our extensive renewables resource, existing energy infrastructure and longstanding engineering expertise. Whilst we are awaiting the publication of the UK Government's Hydrogen Strategy, there is opportunity in the Budget to establish key measures to scale up the production of green, renewable hydrogen. These measures should recognise The Scottish Government's own forthcoming hydrogen strategy.

Creating demand for green hydrogen is as necessary as supplying it and this Budget will need to consider how it drives this critical aspect of the hydrogen economy. The Budget offers the opportunity to establish how to invest the £240m of capital co-investment of the UK Government's Net Zero Hydrogen Fund, announced in the Energy White Paper, and outline what measures it intends to finance to support zero-carbon hydrogen production in Scotland.

Education and skills

Scottish Renewables has worked hard over the past four months to advocate for The Scottish Government to introduce a Renewables Transition Training Fund to support oil and gas professionals, supply chain businesses, tradespeople and public servants acquire the skills to join the the renewable energy industry; a policy which was supported by 86% of Scottish oil and gas professionals. Developing renewable skills is essential if we are to meet net-zero, and will be of transferable benefit to all parts of the UK, and the UK Government should now ensure financial provision is provided to support training for green jobs.

As I know you'll agree, it is more important now than ever that we all work together to ensure Scotland's renewable energy industry continues to grow and to help strengthen and future proof our economy. I would welcome the opportunity to meet with you to discuss our proposals, and look forward to receiving your response.

Yours sincerely



Claire Mack
Chief Executive