HM Treasury
1 Horse Guards Road
Westminster
London
SW1A 2HQ

March 1, 2023

Dear Sir/Madam,

Scottish Renewables is the voice of Scotland's renewable energy industry. The sectors we represent deliver investment, jobs, social benefits and reduce the carbon emissions which cause climate change. Our members work across all renewable energy technologies in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.

Scotland's renewable energy industry offers enormous potential to support the energy security of the UK, lower prices for consumers and play its essential role in the achievement of net-zero.

Currently, however, a number of issues are preventing our industry from fulfilling its potential, and we welcome the opportunity to outline some of these ahead of the UK Government's Spring Budget.

Electricity Generator Levy

Alongside other industry bodies we recently wrote to the Chancellor to set out the need for a reformed capital allowances regime and improvements to the UK's strategic support for clean energy investment.

We recognise that the Electricity Generator Levy (EGL) was introduced to break the link between global gas prices and domestic power prices, but we are concerned that the lack of an investment allowance will undermine the UK's critical energy security and decarbonisation objectives. In short, it is currently more attractive to invest in oil and gas production in the UK than it is in clean energy – a situation which must be put right.

Clean electricity generation will be the bedrock of both our energy security and our transition to a net-zero economy, but this industry requires sustained and ongoing capital investment in existing plants as well as new assets. A level playing field across the energy industry is crucial to justifying capital investments in clean energy production. Any extra output achieved will cut emissions, cut gas imports, and generate government revenue as appropriate under the EGL.

International competitiveness

The National Audit Office this month set out that transitioning to a secure, affordable and decarbonised supply of power by 2035 requires a step-change in both private investment and the pace at which new generating capacity is built.

Renewable energy is a truly global business, and project developers looking to invest must weigh the attractiveness of a large number of territories. It is therefore imperative that the UK retains its desirability if we are to build the new power plants needed to ensure a secure and affordable electricity supply.

Current government policy must go much further to ensure that the UK can stay competitive internationally. The United States' Inflation Reduction Act alone offers $216 billion worth of tax credits to companies investing in clean power and transport, on top of nearly $60 billion from the earlier

infrastructure law. In recent weeks, the European Commission has also announced that the EU will institute a similar mechanism to incentivise inward investment to the EU. This is in addition to a significant ramp up of clean energy that the EU has already committed to through the REPowerEU scheme.

The UK Government has yet to put in place an equivalent investment incentive scheme. Industry is keen to deliver the ambitious targets in the British Energy Security Strategy, but this will require renewed focus on ensuring that the UK is able to remain an attractive investment climate. The UK cannot afford to squander historic opportunities in clean energy.

Contracts for Difference mechanism

The Contracts for Difference mechanism (CfD) has been successful in reducing the cost of renewably-generated electricity – but the scheme must now adapt to a new market reality, and government must understand the budgetary implications of that.

Developers of renewable energy projects are experiencing increases in costs far exceeding headline rates of inflation, and volatility in international markets is expected to persist, further adding to the risks and uncertainty that developers must factor into their CfD bids. It is therefore of critical importance that the AR5 parameters and budget reflect this reality, as well as the impact of any policy changes.

We believe that the CfD must now focus on delivering volume, both to bolster the UK's energy security, ensure that climate targets remain within reach and to reduce consumers' exposure to fossil fuel prices, as soon as possible. The Department for Energy Security and Net Zero must therefore show sufficient ambition when finalising the design of AR5. Last autumn the Spanish Government set their auction parameters too low and ended up securing only 46MW of wind and solar in an auction where 3.3GW (3,300MW) was targeted.

Vital infrastructure development

The future electricity system will be at the heart of the energy transition, with transport and heating demand increasingly switching to electricity, significantly increasing the volumes and value of electricity markets. At the same time, if net-zero is to be achieved, by 2035 electricity production must be achieved without fossil-fuel generation and vast amounts of new low-carbon flexibility resources will have to replace flexible fossil fuel generation.

Renewable generators are already providing clean, home-grown electricity to support UK businesses and families. As we ramp up deployment of those technologies government must act to ensure that the infrastructure which transmits power from generators to consumers is fit for purpose.

One of the biggest constraints on the pace of development of new renewables is the UK's electricity grid infrastructure. For example, in some instances, industry can deliver offshore wind farms faster than they can be connected to the grid by around 3-5 years. The issue of grid constraint is particularly acute in areas of high renewable energy resource, such as Scotland.

To rectify this situation and ensure we have enough physical electricity network infrastructure (such as cables, transformers and substations) available to distribute electricity to where it is needed, the UK Government must create a new model of grid development, where critical investments are accelerated by Ofgem and the Transmission Owners to rapidly upgrade our electricity system.

Finally, we are strongly opposed to proposals to introduce new zonal or nodal locational price signals for low-carbon generation or demand assets. We believe that the most effective way of delivering locational signals is through network access and charging reform. The TNUoS Task Force is currently working to deliver a more cost-reflective and predictable locational signal for generators. We believe this is the most cost-efficient way to deliver the right signals for generators and demand users rather than the introduction of locational marginal pricing in wholesale markets.

Conclusion

Scottish Renewables and its 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