

Rt Hon Jeremy Hunt MP
Chancellor of the Exchequer
His Majesty's Treasury
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13 October, 2023

Dear Chancellor of the Exchequer

Autumn Statement — Priorities for Scotland's Renewable Energy Industry

I am writing to you to outline the priorities of Scotland's £5.6 billion renewable energy industry, which supports more than 27,000 jobs, ahead of the Autumn Statement on November 22.

We recognise the challenging economic outlook currently faced by the UK. High inflation and capital costs have been felt by the entire energy sector, placing significant pressure on clean energy projects and associated supply chains — notably Vattenfall's halted Norfolk Boreas offshore wind project.

These increased development costs are keenly felt in Scotland where offshore windfarms are 20% more expensive than those in English waters due to outdated Transmission Network Use of System (TNUoS) charges, with catastrophic future projections announced this month by the Electricity Systems Operator.

Despite these pressures, renewable energy continues to be the lowest-cost way of generating new electricity, with wind power around half the price of gas generation. More broadly, our industry continues to make an enormous contribution to the UK economy, with almost 20,000 businesses currently within the net-zero economy across the country, including the more than 330 organisations we represent, which are contributing £71 billion (3.7%) in Gross Valued Added (GVA) in a year.¹

In Scotland, offshore wind developers who were awarded almost 28GW of seabed leases through the ScotWind programme have outlined plans to invest £1.4 billion for every gigawatt deployed. This world-leading pipeline is poised to help increase the UK offshore energy workforce by 50% to 225,000 by 2030, with new renewable jobs outnumbering oil and gas roles if a successful clean energy transition is achieved, according to new research by Robert Gordon University.²

However, alongside high inflation and capital costs, our industry is increasingly under threat from international competition for the supply chains, financing and skilled workers needed to build a net-zero economy. The USA's Inflation Reduction Act and the EU's REPowerEU plan both have measures which are pulling critical private investments for the clean energy transition away from the UK.

Reaching your Government's target of 50GW of offshore wind by 2030 alone will require an average of £17 billion of private investment into the UK each year of this decade.³ Timely and decisive action is therefore urgently required to create the stable policy environment essential for building long-term, international investor confidence in Scotland and the UK's renewable energy industry.

Put simply, we cannot afford to forfeit the UK's global advantage as an early mover in the race for clean, cheap energy. While the Office for Budget Responsibility has estimated that the cumulative investment

¹ eciu.net/analysis/reports/2023/mapping-the-uk-net-zero-economy
² rgu.ac.uk/news/news-2023/6352-clock-ticking-for-energy-jobs
³ sectormaritime.es/wp-content/uploads/2022/06/V5a-Final.pdf

cost of the UK reaching net-zero by 2050 will be £1.4 trillion in 2019 prices, or £334 billion in real terms assuming 70% of investment is made by the private sector, the UK's Gross Domestic Product (GDP) could be up to 6.4% higher in 2050.⁴

Following Contracts for Difference Allocation Round 5, which failed to procure any offshore wind projects and has further knocked investor confidence, the Autumn Statement must be used as an opportunity to reassert the UK's commitment to green industrial growth and as a world-leader in renewable energy.

Above all, removing the barriers to deployment of home-grown renewables at scale is the best way to lower consumer bills and increase energy security in the long-term. **Scottish Renewables supports the priorities for the Autumn Statement outlined by our industry partners RenewableUK and EnergyUK, which focus on incentivising investment.**

In addition, we wish to reiterate the following priorities on behalf of Scotland's renewable energy industry. Scottish Renewables believes the UK Government should:

1. Encourage investment in and accelerate deployment of renewable energy technologies by maximising the capacity delivered by Contracts for Difference (CfD) Allocation Round 6.

- *HM Treasury should support a move to 'sustainable pricing' in the CfD as well as taking forward the recommendations of the UK Government's outgoing Offshore Wind Champion, Tim Pick, to reform the CfD to maximise capacity procured and better balance competitive tensions, signals for collaboration, consumer benefit and international competition.*

2. Rethink the Electricity Generator Levy (EGL) and establish new tax incentives to increase the UK's global clean energy competitiveness.

- *HM Treasury incentives to encourage investment in renewable energy projects and manufacturing are severely undeveloped compared to oil and gas. HM Treasury should consider new incentives and provide confidence to investors and industry by exempting new projects from EGL and introducing a sunset clause on the windfall tax.*

3. Unlock the UK's offshore renewable ambitions by increasing investment in port infrastructure, creating a catalyst for supply chain growth.

- *HM Treasury must outline how it will attract and de-risk the substantial level of new investment needed in Scotland and the UK's port infrastructure to support offshore wind deployment, including by fully utilising bodies such as UK Export Finance and the UK Infrastructure Bank to support the development of manufacturing facilities and reduce project capital costs.*

4. Accelerate the delivery of a 'cap and floor' mechanism for pumped storage hydro projects to maximise the UK's electricity storage capacity.

- *HM Treasury must urgently deliver the long-awaited investment framework for large-scale, long-duration electricity storage to enable the delivery of the six projects currently under development in Scotland, which will more than double the UK's pumped storage hydro capacity to 7.7GW, create almost 15,000 jobs and generate up to £5.8 billion for the UK economy by 2035.⁵*

⁴ energy-uk.org.uk/wp-content/uploads/2023/08/Energy-UK-Clean-Growth-Gap-Path-to-Prosperity-1.pdf

⁵ scottishrenewables.com/news/1295-six-pumped-storage-hydro-projects-to-create-up-to-14800-uk-jobs-new-report-finds

5. Urgently launch a rapid strategic review of the Transmission Network Use of System (TNUoS) mechanism to establish a UK energy system fit for the twenty-first century and ensure fairness for Scottish clean energy projects.

- *Transmission charging is an important driver for achieving our 2035 and 2050 targets, however dramatic increases in the recent Five-Year Projection of TNUoS Tariffs for 2029/30 to 2033/34 by the Electricity Systems Operator for Scottish projects present clear risks for consumers, generators and our overall net-zero ambitions.⁶ The UK's net-zero targets will not be met without Scottish renewable generation, much of which will be brought forward through the Contracts for Difference mechanism. Scottish projects clearing CfD auctions must bid higher to cover outsized and unpredictable TNUoS charges. Urgent reform is required to avoid a situation where these higher costs are passed to consumers when TNUoS-impacted Scottish projects raise CfD clearing prices for all UK generation.*
- *HM Treasury must instill greater confidence in the UK's clean energy transition by supporting a rebalancing of TNUoS charges. In addition, Ofgem should launch a rapid, strategic review of TNUoS methodology now, as opposed to the timelines set out in Ofgem's recent open letter on strategic transmission charging reform.⁷ This review must take into account the scale, timing and cost of net-zero delivery to ensure the current transmission charging methodology is fit for purpose and will not present a barrier to achieving our net-zero targets.*

The UK Government has outlined an ambition to make long-term decisions for a brighter future. Scotland's renewable energy industry stands ready to play our part in delivering that brighter future which will be cleaner, cheaper and greener by achieving net-zero.

At this crossroad for the growth of our industry, immediate action is required to keep the UK on track with our legally binding net-zero ambitions, to maintain our global competitiveness and to deliver the unrivalled socioeconomic opportunity of renewables across these islands.

In the meantime, Scottish Renewables looks forward to working with HM Treasury and we would be pleased to meet with you and your team to discuss how we can deliver green industrial growth for Scotland's renewable energy industry and the wider UK economy.

Yours sincerely



Claire Mack
Chief Executive

⁶ nationalgrideso.com/document/288956/download

⁷ ofgem.gov.uk/publications/open-letter-strategic-transmission-charging-reform