The Scottish Affairs Select Committee - Inquiry into renewable Energy in Scotland

Response from the British Hydropower Association

The British Hydropower Association (BHA) [www.british-hydro.org] is the only UK trade body solely representing the interests of the UK hydropower industry, including tidal range, and its associated stakeholders at regional, national, and global levels. The BHA is not government-funded, and anyone involved in, or with an interest in hydropower should be a member.

The BHA has grown since its establishment as a trade association in the mid-1990s and is now recognised as the leading representative of the UK hydropower industry.

Membership of the BHA is very diverse and members include design and consulting engineers in all disciplines, developers/owners, contractors, operators, all-scale generators, equipment and component manufacturers, supply chain businesses, project managers, financiers and investors, insurers, and environmental specialists.

The Scottish Affairs Select Committee questions –

1. Scotland renewable energy targets

Scotland has some of the most ambitious climate targets in the world, with a Climate Change Bill setting out a legally binding target of reaching net-zero emissions by 2045.

It is far too early to speculate whether by just setting a target that it will be met, and the concern is that the target eventually becomes just an 'aspiration'

By addressing a number of the issues raised in this response, particularly in Q3, it may be that the net-zero target can be achieved, whether by 2045 though, is another matter entirely.

Be pragmatic, not blindly optimistic.

2. Renewable energy sources

The reasons why marine energy currently accounts for such a small proportion of Scotland's energy output could be two-fold.

The lack of suitable locations, in particular for tidal range energy in which the BHA has an interest through our Tidal Range Alliance [www.british-hydro.org/tidal-range-alliance], and an apparent lack of interest and support from both UK and Scottish Governments in tidal range technology.

Scottish and UK Governments must consider in detail the benefits of tidal range far more than is currently the case to increase the contribution of marine energy output in Scotland.

The UK benefits from the 2nd highest tidal ranges in the world and tidal range energy is one of the most predictable forms of renewable energy, with tidal range power plants (tidal lagoons and barrages) delivering reliable and flexible electricity whatever the sun or wind conditions or time of day.

Unlike nuclear energy and other renewables, there is no expensive or complex decommissioning requirement at the end of its long operating life [at over 120 years].

Due to the high weighting of civil engineering costs, its competitiveness [as currently measured] is low compared to other renewable energy sources. However, tidal range projects have an exceptional operating life [over three times a wind farm and twice a nuclear plant] and significant co-benefits that other schemes do not bring [such as coastal protection and flood defence].

The UK tidal range industry, represented by the Tidal Range Alliance, has requested that the UK Government:

1. Provides a £20M Tidal Range Re-assessment grant to the TRA and its Independent Governance Partner.

2. Works with the industry to identify potential mechanisms for supporting future tidal range schemes.

3. Considers inclusion of tidal range in the National Policy Statement for Energy.

3. Employment in renewable energy sector

In 2010 Scottish Government confirmed there was potential for 130,000 jobs (Scottish Government, A low carbon economic strategy for Scotland, November 2010, p.10) in the low-carbon renewable energy sector.

-***What policy decisions do the UK and Scottish Governments need to make to increase the number of jobs in the renewable energy sector?***

A number of well-established renewable energy businesses in Scotland have recently seen jobs destroyed by an unintended anomaly in the levying of non-domestic

business rates for hydropower, which has resulted in some generators being pro-rata among the highest, if not the very highest, ratepayers in Scotland.

As an example, a diverse business such as Ardtornish in Argyll – for many years, the largest employer in Morvern – recently had to make 20% of its workforce redundant as a result of rates payments in 2020/21 totalling £525,000 on an enterprise with an annual turnover of £2.5m.

Unable to meet the agreed cash generation covenants with its bank due to these excessive rates payments, it was required to make emergency savings when it became clear that the Scottish Government interpreted its own Rates Relief Scheme for hydropower to be state aid.

The relief was therefore limited to €200,000 in any three-year period under the EU state aid regime.

The impact on the business has been absolutely catastrophic.

Working with the UK Government, the Scottish Government has expressed its interest in resolving this anomaly if it is so permitted by the new subsidy control regime currently being developed by BEIS.

It is important that the new regime's definition of subsidy recognises that Non-Domestic Rates relief on hydropower is not a subsidy – because of the following -

- The rates relief does not affect trade with another country
- It has no effect on the price of power
- It does not advantage one business in relation to another

Therefore, by most recognised definitions of a subsidy on business, it is not a subsidy.

-How effective has the renewable energy sector been in producing careers for Scottish people?

Renewable energy has been highly effective at producing jobs in rural areas, by enabling rural businesses – many of them very remote – to invest in renewables and generate new revenue streams which generate considerable local economic activity and support employment throughout the supply chain.

Until hit with its recent rates crisis, Ardtornish was a case in point.

-What UK and Scottish Government support would facilitate the growth of jobs in this sector?

A definitive resolution of this rates anomaly would certainly go a long way in creating further jobs, as existing hydropower generators would invest in further capacity without the fear of being seriously penalised by excessive non-domestic rates.

Ardtornish for example has opportunities to enhance the performance of its hydropower schemes by improving catchment management and water storage, therefore increasing load factors, and contributing to UK and Scottish decarbonisation targets.

But if, by so doing, the Ardtornish rating valuations are again revised upwards, the de minimis limit on eligibility for rates relief could have the opposite financial effect to that intended.

Another example of the effect on the potential growth of jobs because of excessive rates increases, is an estate in the Highlands with two operational hydropower schemes, where the owner is considering a significant investment of over £1.5M to develop reservoir capacity on one of these schemes. This investment would create significant employment in a rural part of Scotland and considerable economic activity within the local supply chain.

This investment though, is on hold due to the uncertainty created because of the excessive business rates that could make the investment completely unprofitable, with the associated loss of potential employment and local income.

To be crystal clear – the current uncertainty about the effect of business rates on further investment is having a chilling effect on the development potential of hydropower in Scotland and the jobs that could be created.

The BHA is also aware of other potential investments in hydropower in Scotland that will not proceed unless this perverse rating anomaly is resolved – for the very same reason.

-***What do the UK and Scottish Governments need to do to achieve a 'just transition' for workers in the oil and gas industry to successfully redeploy to the renewable sector or other sectors?***

4. Intergovernmental relations

-***How effective have the Scottish and UK Governments been in harnessing Scotland's renewable energy potential?***
-How effective has consultation between the two Governments been on the development and design of renewable policies?
-What discussions took place between the Scottish and UK Governments in preparing the Energy White Paper?
-How will the Energy White Paper affect the renewable energy sector in Scotland?
-***How can the UK and Scottish Governments work together effectively to achieve their respective targets of net zero by 2050/2045?***

It is clear to the hydropower sector that there is a need for much closer relations between Scottish and UK Governments. There needs to be greater liaison between the two and with a focus that is not solely directed to offshore wind.

There must be an urgent 'balancing up' of the renewable energy support, which must be spread across more than one renewable technology and the dismantling of the current 'silo' mentality that is evidenced across both Governments and their departments.

Businesses in Scotland find themselves trapped in a damaging and unintended consequence of EU legislation, as a result of interpretation of that legislation by Scottish Government in a way that limits their eligibility for rates relief.

Now the UK has left the EU this can be resolved, if UK Government uses its powers under the Trade and Co-operation Agreement to enable this to happen by designing any new subsidy control regime to confirm that Non-Domestic Rates Relief is not a subsidy.

The Scottish Government could then apply the new subsidy control regime such that it removes any de minimis limit on Non-Domestic Rates Relief.

The businesses in question are trapped by the following combination of circumstances:

- The rateable values of Scottish FIT-eligible hydropower schemes are excessively high; this makes some of them uneconomic, significantly damaging both the UK and Scotland's targets for energy decarbonisation

- Those hydropower schemes have been assisted to remain economic by a hydropower Non-Domestic Rates Relief scheme introduced by the Scottish Government that reduces their rates payable to a level comparable with other renewable technologies

- Unfortunately, the Scottish Government has determined that this Rates Relief is State Aid

- The most ambitious operators of small-scale hydropower therefore qualify for very modest levels of relief – which makes those businesses, which contribute meaningfully to the UK's decarbonisation targets, almost certainly the highest ratepayers in Scotland.

- This is having a chilling effect on future investment in hydropower in Scotland, which is a situation that the Scottish Affairs Select Committee must address as part of this inquiry.

The BHA believe that this was not intended, and that it can be resolved.

The details of the subsidy control regime, as permitted under the Trade and Co-operation Agreement, are currently being determined.

If BEIS is able to confirm, in developing the detail, that relief for penal levels of non-domestic rates on hydropower generators is not a subsidy, that in turn would enable the Scottish Government to extend full Non-Domestic Rates Relief to those hydropower producers that are currently being penalised and indeed discriminated against.

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