

Dear Sir or Madam,

DECC Consultation on Electricity Market Reform – Response by Scottish Enterprise

1. Scottish Enterprise (SE) is the Scottish Government's agency responsible for economic development activity in much of mainland Scotland. Scottish Enterprise's role is to identify and exploit opportunities for economic growth, through helping to build globally competitive sectors, by attracting new investment, by creating a world-class business environment and by supporting Scottish companies to compete globally. Scottish Enterprise works closely with partners such as Highlands and Islands Enterprise (HIE) and Scottish Government.
2. Scottish Enterprise is actively engaged in the development of the renewables sector, as this sector represents a major economic opportunity for Scotland, with a focus on infrastructure, innovation, investment and in particular, a key priority has been and still is the development of a strong renewables supply chain. Scottish Enterprise works closely with trade associations such as Scottish Renewables, who have consulted extensively with their member base on the EMR, and with Scottish Government and HIE – all of which have prepared detailed responses. Scottish Enterprise agrees with the position of Scottish Government and HIE that only arrangements which will bring demonstrable benefits over the existing system can be supported. Scottish Enterprise would like to highlight a number of points which are particularly relevant to its role as Scotland's main economic development agency.
3. **Impact on renewables investment** – The EMR proposals could create uncertainty in the industry which may have a negative impact on investor confidence and hence may delay projects. Scottish Enterprise has engaged repeatedly with industry stakeholders over the last 12 months on issues influencing investment in renewable energy, for example through the high-profile Scottish Low Carbon Investment Conference which brought together thought leaders from the investment community, industry experts and public sector leaders. Whereas there is evidence to suggest a Feed-in Tariff (FiT) based mechanism would also support investment, there is clear consensus that the Renewables Obligation (RO) regime has also proven to be successful. Industry refers to the current uncertainty around the definition of the future supporting mechanism as being a significant obstacle to enabling finance. In addition, clarity is sought as to the provisions and timescales for the transition from one mechanism to the next and for these to be defined in a way which does not compromise current, planned or prospective investments. Clarity and security of an appropriately priced market mechanism form prerequisites to investment decisions and address market risks. However, of particular interest to renewable energy developers are provisions for addressing construction risks, particularly for large scale offshore wind. Construction risk forms the principle blockage to securing finance.
4. **Impact on the supply chain and inward investment** – The uncertainty created by the proposed reforms may have a knock-on effect on the supply chain for renewables which Scottish Enterprise and Highlands and Islands Enterprise have been working hard to strengthen. This uncertainty comes at a crucial time when major manufacturers are deciding where to locate key manufacturing/assembly units. The dedicated £70 million National Renewables Infrastructure Fund was set up to strengthen port and manufacturing facilities and supply chain provision for manufacturing offshore wind turbines and related components. The fund will leverage significant private sector investment in the next years and help deliver an estimated 28,000 jobs and £7.1 billion in value to Scotland's economy over the coming decade. Important recent

developments include plans from Gamesa for a research base for offshore wind technology in Glasgow and from Mitsubishi Power Systems Europe for £100 million investment in an engineering facility for research and development into offshore wind turbine technology. The success of these major developments in strengthening the supply chain may be put at risk by the current proposals.

5. **Impact on SMEs** – The proposed EMR arrangements may constitute a barrier for smaller companies and new entrants. Removing the current supplier obligation for renewable energy, for example, may adversely impact SMEs due to the increased risk entailed. In addition, as detailed in Scottish Government's response, the industry in general has expressed opposition to the auction mechanism for Feed-in Tariffs (FITs) – and this mechanism may in particular be a deterrent for smaller entities. A significant part of Scottish Enterprise's activities consists of supporting new companies with high-growth potential and we are keen to avoid any unnecessary barriers which may impact these companies. Scottish Enterprise favours a system which is simple, transparent and creates as much as possible a level playing field for all market participants.
6. **Impact on alternative flexible capacity technologies** – We agree with HIE that the EMR proposals don't fully consider demand reduction/response, demand side management and energy storage as capacity mechanisms which need incentives under the EMR. Nevertheless these mechanisms have an important role to play in the low-carbon economy and in the integration of renewables. Scotland has strong capabilities in demand management and energy storage. For example, Scotland has world-class academic expertise as well as important supply chain player in cell and battery development. Incentivising alternative flexible capacity mechanisms would further enhance economic development in these areas.
7. **Impact on competitive position of renewables** – The proposals treat renewables, Carbon Capture and Storage (CCS) and nuclear power generation on a similar footing. While we recognize the need for a mix in generation technologies, renewables – and in particular marine renewables – require much greater support than more mature generation technologies. We recommend that this difference is taken into account in the further development of the EMR proposals.

I urge that these comments – together with these from our partners – be taken into consideration as part of the consultation. Please don't hesitate to contact me for further clarification.

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Scottish Enterprise

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