



Electricity Market Reform: Consultation response of the Scotch Whisky Association

Introduction

The Scotch Whisky Association¹ is the trade association representing 90% of the Scotch Whisky industry. SWA members are distillers, blenders, bottlers and those engaged in the wholesale and export trade in Scotch Whisky.

The Scotch Whisky industry has taken an active role in reducing both energy use and greenhouse gas emissions. Through their participation in the spirit drinks sector's Climate Change Agreement (CCA), distillers have improved energy efficiency by 18% since the 1999 baseline and in doing so have met four stretching biennial energy efficiency targets. The industry has also set itself ambitious climate change targets under the umbrella of our award-winning Environmental Strategy². The targets relating to energy efficiency, mitigating greenhouse gas emissions and substituting fossil fuels are challenging and will require significant investment, coupled with an understanding policy framework.

Investing in renewable energy generation and need for financial support

Distillers are not resting on their laurels. Capital investments exceeding £250m in technologies to reduce the industry's carbon footprint have recently been or are close to being completed, or are planned. Some of these projects involve unlocking the embedded energy in distillery by-products (such as spent grains) to generate heat and electricity. Surplus renewable electricity can be exported to the grid. Two large grain distilleries have installed anaerobic digestors which generate biomethane from spent wash from the distilling process. This is used to generate electricity which is fed into the grid. On Speyside, a consortium of distillers is investing around £50m to construct a new CHP plant on the site of an existing dark grains facility which currently converts distillery by-products into animal feeds. The CHP plant will convert the energy embedded in draff and pot ale to generate 7MW electricity. Much of this renewable electricity will be fed into the grid.

The viability of projects such as these is dependent on the financial incentives available under the Renewable Obligation (Scotland). Although the consultation does not appear to relate directly to Scotland, we would be concerned if any changes are introduced which are detrimental to the funding mechanisms (including to the level of funding, and duration of funding) that are currently in place for generators of renewable electricity. Early investors in renewable electricity generation must be guaranteed to receive at least the same level of ROC support that applied at the time of accreditation throughout the 20-year lifetime of the project. If the Renewables Obligation (Scotland) scheme were to be replaced by a new

¹ http://www.scotch-whisky.org.uk/swa/CCC_FirstPage.jsp

² [Scotch Whisky Industry Environmental Strategy](#) (scroll down page to Environmental Strategy section)

feed-in-tariff (FIT) mechanism, operators who currently receive ROC support should be given the opportunity to either continue to receive ROC support up to the lifetime of the project, or opt to join whatever alternative funding mechanism is introduced.

If the Renewables Obligation support mechanism is to be replaced in the future (i.e. 2017), our preferred option (of those presented in the consultation paper) is fixed feed-in-tariffs. Renewable electricity generation projects are long-term investments. Fixed FITs offer generators long-term certainty on the level of support they will receive during the lifetime of a project as the level of support is not tied to the vagaries of the wholesale electricity price. The obvious downside of this approach to generators, as illustrated in the graph on page 50, is that they could receive less than they might if the wholesale price exceeds the level of the fixed FIT. However, members are distillers whose prime business interest lies in the production of Scotch Whisky and other spirit drinks. They are not energy speculators. Fixed FITs provide certainty. We believe that the FIT with CfD could be complex to administer and to manage, especially if revenue payments are required to be returned if the wholesale electricity price exceeds the level of the FIT.

The Scotch Whisky Association
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