Friends of the Earth Scotland Policy Briefing Paper

# Scottish Government Debate: Electricity Market Reform

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## The importance of electricity market reform

Electricity market reform is critical to the release of Scotland's renewable energy potential. More than any other part of the UK, Scotland has the potential to deliver all its electricity needs from renewables, and to make a substantial contribution to UK and EU total renewable capacity.[1]

A botched reform could see renewable investment stalling. Even a temporary hiatus could be highly damaging to prospects for supply chain jobs and investment – clear and generous transitionary arrangements need to be put in place. A longer term imbalance in support of gas, nuclear or CCS options for lower carbon generation – would also put at risk the wider environmental and economic opportunities that could arise if Scotland remains at the forefront of renewables development, especially offshore.

It is critical that Scotland's voice is heard in Westminster, not only from the Scottish Government, but also from the Scottish representatives of all the parties, if the reforms are to support rather than hinder Scotland's transition to a low-carbon leader based on renewable power generation.

## What the reforms must deliver

An effective approach requires an integrated package with strong versions of all the main elements of the reform, alongside ***much greater emphasis on demand reduction*** – with explicit objectives and targets in all energy-using sectors. Each of the 4 main policy instruments – a carbon floor price, a low carbon price support mechanism, back-up payments and an emissions performance standard - need to be strengthened.

### 1. Carbon floor price

The carbon floor price should be extended to all sectors of the economy to maximise its impact and revenue generation effects. Given the potential windfall benefit for nuclear generators this should also be backed with a nuclear 'windfall' tax.

### 2. Price support for low carbon technologies

The price support mechanism ('feed in tariffs' or 'contracts for difference') for low-carbon generation must allow for forward contracts for different levels of support for more and less sustainable technologies and locations. For example unsustainable large-scale biomass should not benefit from price support, and nor should nuclear power.

There is also a need for price support to be guided by clear targets for increased renewable capacity. This would recognise that in the long term only renewables are sustainable, secure and affordable.

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1 Our recently published 'Power of Scotland Secured' report concludes that renewables could deliver over 185% of Scotland's electricity needs by 2030 allowing, all fossil fuel and nuclear to be phased out by 2030. See: http://www.foe-scotland.org.uk/power-secured

Furthermore, we believe the Scottish Government should retain the devolved capacity it has under the Renewables Obligation, to vary the levels of support offered to specific technologies in Scotland.

### 3. Payments for 'back-up' capacity

Subsidies for the provision of back-up capacity must be designed to give demand management measures a fair share – for example helping ensure that electric vehicle charging arrangements can be adjusted to help manage demand. Placing demand management measures at the forefront in this manner would also help meet our climate change targets and fuel poverty obligations.

### 4. Emissions performance standard

A tough emissions performance standard (EPS) with progressively wider applicability to both new and existing power stations is essential. Otherwise the risk of new coal fired power stations with only partial carbon capture – such as the Hunterston proposal - remains significant. It may be appropriate to give flexibility to vary the scope or level of EPS to Scotland.

### 5. Other areas of concern

The reform package must ensure support for ***improved interconnection*** between the nations of the UK and between the UK and Europe, including direct links from Scotland to the Continent to maximise opportunities to export renewable power and share back-up capacity.[2]

The whole package also needs to be supported with clear and accountable institutional arrangements, and effective investment management, including the early establishment of a powerful ***Green Investment Bank***, ideally based in Scotland.

## Conclusion: managing demand and supporting renewables

We must all recognise and acknowledge that higher electricity prices are inevitable, even in the absence of environmental constraints and objectives. To deliver best value, support for those on the lowest incomes and long-term sustainability, demand management and renewable technologies (where the fuel is free) must be prioritised above fossil fuels and nuclear. Scottish parliamentarians from all parties need to must make this case in Holyrood and Westminster.

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2 This is key to delivering the high levels of renewables predicted in the Power of Scotland Secured.