Business Voices

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Comment
Mark Williamson

Drax has been working on plans to more than double the capacity of the Cruachan pumped hydro storage facility in the Argyll hills Picture: Drax

Scotland's hydropower boom hopes fade amid threats to bumper projects

HOPES that Scotland is set for a hydropower boom are fading as giants delay key projects amid tensions with the government.

SSE and Drax caused excitement with plans for huge pumped hydro storage developments that they said would create hundreds of construction jobs in the Highlands and Argyll.

However, the projects have been cast into uncertainty after cost increases and concerns about issues such as planning appeared to weaken the commercial appeal of the projects they had enthused about.

Perth-based SSE has held out the prospect the Coire Glas development could store enough power for three million homes.

It would work by harnessing the power generated by the flow of water between two reservoirs that SSE plans to develop by Loch Lochy.

The company would use power generated by windfarms in times of low demand to pump water into the upper reservoir. When demand increases the water will be allowed to flow into the lower reservoir turning huge turbines in the process.

Drax has developed a plan to double the capacity of the massive Cruachan Hollow Mountain facility in Argyll, which would involve hollowing out spaces in which it would install more turbines.

The companies have claimed the schemes could provide vital support for the renewables revolution by tackling the problem caused by the fact that the UK does not have enough capacity to store renewable energy or transport it to centres of high demand.

But in its annual results, SSE said it planned to reduce its investment budget by £3 billion, to £17.5bn, citing the challenges posed by the macro environment and planning issues.

Chief executive Alistair Phillips-Davies said a range of projects including Coire Glas would be delayed as a result.

Mr Phillips-Davies said the giant Berwick bank windfarm development off Scotland had also been delayed, as a long wait for the Scottish Government to provide planning consent drags on. He complained to reporters that the scheme has been on ministers' desks for about three years.

The announcement by SSE came a fortnight after Drax announced that the Cruachan expansion project had been put on hold following a significant rise in costs.

The statements leave huge uncertainty hanging over projects that were expected to provide a badly-needed boost to flagging hopes that Scotland will enjoy a green jobs boom.

The number of jobs created has fallen well short of expectations, partly because windfarm developments require relatively few people to complete.

Coire Glas and the Cruachan expansion scheme would be unusual in featuring large-scale construction work.

Experts have highlighted the fact Scotland urgently needs to accelerate the pace of green job creation amid turmoil in the oil and gas sector. There are fears that firms could cut hundreds of jobs in response to the Labour government's decision to increase the windfall tax rate in its first Budget.

In a report issued today, Robert Gordon University says the UK oil and gas energy workforce could shrink by approximately 400 jobs every two weeks for the next five years – the same number lost as a result of the closure of the Grangemouth refinery – unless governments take urgent action.

It notes: "Before 2027, there is likely to be limited capacity for the UK offshore renewables sector to host and accommodate the quantity of oil and gas workers becoming available on the job market." Oil and gas industry leaders are mounting a last ditch bid to persuade chancellor Rachel Reeves to provide relief when she announces the results of her Comprehensive Spending Review on June 11.

Offshore Energies UK said the government should bring forward the date for the ending of the windfall tax to 2026 from 2030.

The trade body claimed: "Independent data from the Office of National Statistics confirms that the profits for those investing in the UK oil and gas sector have fallen to negative levels, but the tax remains – holding back vital investment across the UK's energy landscape."

OEUK chief executive David Whitehouse said the UK needed the output of the oil and gas industry and the support firms could provide for the development of green energy sources.

"The sector needs action now to secure jobs, boost energy security, and build for the future. That means a commitment from government to deliver a mechanism in 2026 that creates a predictable response to future price shocks," declared Mr Whitehouse.

"This is what is needed to unlock investment in UK energy – oil, gas, renewables, hydrogen, and carbon capture."

But SSE and Drax made clear they will only proceed with big pumped hydro storage projects if tough conditions are met.

SSE chief executive designate Martin Pibworth noted the company is in talks with Ofgem about the cap and floor mechanism the regulator has proposed to guarantee firms a minimum price for the output from pumped hydro storage schemes.

Regarding Coire Glas, he said: "We will only progress if we are convinced we have a solid remuneration contract with appropriate risk-adjusted returns."

Drax said: "We will not be entering the forthcoming Cap & Floor application process while we evaluate the investment case for the [Cruachan expansion] project."

The bad news from SSE about Coire Glas and Berwick Bank will compound the disappointment caused by the company's decision to shelve plans for the Bhlaraidh windfarm extension in the Great Glen because bosses did not like the look of the "risk-return profile".

But SSE will still spend heavily on growing its renewables generating capacity in the expectation that it will generate strong returns on investment in favoured projects.

Mr Pibworth said: "The vast majority of this growth will be delivered by the first two phases of Dogger Bank [off Yorkshire] and well-progressed onshore and battery projects."

He highlighted the value of the support the favoured projects will get under UK Government schemes such as the Contracts for Difference (CFD) programme – the costs of which are added to household energy bills.

"Crucially, these investments are underpinned by long-term government-backed contracts such as CfDs or the capacity mechanism, providing price certainty and inflation protection for the vast majority of volumes produced," said Mr Pibworth.

SSE said it championed a fair and just energy transition, as it posted a near £2bn operating profit for the latest year,

The company said it supports 62,000 jobs in the UK and around 5,200 in Ireland.

But householders who are grappling with high energy bills may wonder who will be the biggest beneficiaries of SSE's investment in renewables. The company expects to reward shareholders with inflation-busting increases in dividend payments of up to 10% for the next two years.