



# Hell and high water

Small hydro schemes aren't waving, but drowning, and the Scottish Government and their mysterious 'Assessor' are both pretending to look the other way

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The high-water mark of small hydro development in Scotland has come and gone. It was precipitated by Labour and Coalition governments in Westminster, was enthusiastically promoted by the Scottish Government in Holyrood, and then it drained away last year, when both Tory and SNP administrations withdrew financial support.

For a moment, hydro was the poster child of renewable energy: it was elegant, durable, unobtrusive and popular. 'Run-of-river' schemes fitted the mood of climate-change politics. They helped meet carbon emission targets; they were shaped to the contours of glens and burns; they engaged local engineers and contractors; they engendered indigenious

**Above:** Sloy hydro-power station Loch Lomond.

**Right:** The weir of a smallscale 'run-of-river' hydro scheme.

development in fragile rural economies.

There are now more than 410 hydro schemes operating in Scotland, of anywhere between 50 kilowatts - 5 megawatts. Over 70 per cent of these were built in the era of the Feed-in-Tariffs (FiTs) and over half were built in just three years, from 2014-2016. FiTs incentivised smaller developers and communities to take the often existential risks of construction, on the basis that rain would continue to fall and subsidised sale of electricity would pay back borrowing over time.

Then came the sucker punch. In 2015, the UK government announced the withdrawal of the FiTs. This meant that hydro would have to move out of development mode into what

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was described as 'operation & maintenance landscape'. Shortly afterwards, the Scottish government announced that its support for renewable energy – relief from business rates – would also be withdrawn. The industry wasn't booming any more, but it was still doing its job and functioning like any other business.

The hydro industry took a look at itself and concluded that paying rates was fair enough.

Fair, that is, until results came in from the 2017 revaluation, which was announced last December to coincide with Scottish Finance Secretary Derek Mackay's budget.

In 2017, rates for hydro went nuclear. The revaluation saw rateable values (or 'RVs', from which business rates are calculated) rise by such extraordinary degrees that one site received a record increase of 622 per cent. Another site found that its RV amounted to half of its total turnover, meaning that a quarter of all its revenue would have to be paid to the local authority. The average increase for the hydro sector across Scotland was a valve-popping 150 per cent.

As a result, the financial model for the hydro industry in Scotland has fallen to bits. And it's not Big Energy that takes the hit – companies like SSE and Scottish Power get cut-price rates through a cumulative system of valuation - rather, it's the independent operators. While the wind sector, with its scenery despoiling turbines, receives rateable values that now averages 10 per cent of revenues – in line with other business sectors – the small hydro average is a dam-busting 24 per cent.

So why the drastic disparity? The principal answer lies with the rates assessors themselves, whom we must call, collectively and with a shiver of awe, "The Assessor" – for he may be the most intransigent and least accountable public servant in the British tax system. His chosen methodology marked out hydro for perverse increases, thanks to such logarithms as the "hypothetical divisible balance" between tenant and landlord – which even the Assessor admits does not occur in reality. Forget actually existing markets, a hydro site now receives a valuation proportionately 2-3 times greater than a wind site, despite being proportionately no more valuable.

So why not simply judge the value of hydro sites from the rent they pay? After all, that is the traditional comparative method deployed for

most high-street businesses. Why not for hydro?

Alba Energy, a collective of independent hydro operators in Scotland, took up a case on this basis that has now been languishing in a defunct appeals system for five life-sapping years. In that time it's become increasingly apparent that the only appeals system the Assessor takes seriously is a court of law.

Which is why the bodies representing small hydro operators have formed a partnership to tackle the case. The British Hydropower Association has teamed up with Alba Energy and Scottish Renewables to represent an industry that scarcely existed 20 years ago. As a result, the Scottish government has introduced a temporary cap on rates increases in 2017/18 for small hydro schemes of up to 1 megawatt. Which means a brief respite and an opportunity to rectify a manifest inequity.

Of course, nobody wants to take responsibility. The Assessor says he is merely obeying a higher law. The Scottish Government says it cannot influence the Assessor. Both say they are independent of one another.

But business rates are a devolved matter in Scotland. Legislation which governs the Assessor lies within the gift of the Scottish Government. All that is required is for Holyrood to decree that small hydro sites are valued proportionately and pay fair business rates.

Independent hydro sits in a sweet spot of the Scottish Government's Energy Strategy, with its high ambition of producing half of Scotland's energy from renewable sources by 2030. Energy minister Paul Wheelhouse repeatedly re-states his support for hydro and its contribution to the rural economy. Does this mean in principle, or in practice? Derek Mackay has yet to respond in detail.

Scotland faces far greater challenges than a technical anomaly in the valuation system for renewable energy. But if the Scottish Government can't fix a small problem in one of its pivotal policy areas, what can it do? ☹️



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