

# **PROJECT DISCOVERY – OPTIONS FOR DELIVERING SECURE AND SUSTAINABLE ENERGY SUPPLIES**

## **Response to consultation**

**Comhairle nan Eilean Siar (Western Isles Council)**

March 2010

### **Question 1 – Do you agree with our assessment of the current arrangements?**

Yes. Our experience with small, community scale generators confirms that the availability of finance in the current climate is a major constraint to the development of a diverse energy portfolio. These difficulties can be multiplied many times for the investment required to expand the existing network. Although the Western Isles of Scotland are Europe's area of best resource in terms of wind and wave and are capable of contributing disproportionately to a secure energy supply and carbon targets, unprecedented levels of investment will be required to bring Grid into this area. Investment in this expansion may be viewed as risky but is necessary if the UK's domestic energy supply is to be secure. Supply security must be prioritised as a major concern to consumers to ensure that network investment is not driven in a stop-go fashion by short term price patterns.

### **Question 2 – Are there other aspects of the current arrangements which could have a negative impact on secure and sustainable energy supplies, or costs to customers?**

Inequitable transmission charging is deterring investment in the areas of best resource and are inhibiting the UK's ability to rise to the security of supply challenge. Transmission costs must be equalised, or compensated for, in order to drive investment into the areas that can provide the nation with a secure, sustainable and indefinite supply source. Interconnection to these areas of best resource is a critical priority. Short term connect and manage solutions, as proposed by SSE for the Western Isles, are not sufficient to harness the explosion in onshore wind and offshore marine energy envisaged in the period to 2020. OFGEM must work with TO's to future proof the nation's electricity networks.

### **Question 3 – Do you agree that the five issues we have highlighted are the most important?**

Yes. Fuel poverty and dependence on volatile regimes for our energy are major threats and they have been adequately covered in the consultation paper.

### **Question 4 – Do you have any comments on our description of what might happen if no changes are made to the current arrangements?**

The scenarios presented are shrouded in uncertainty – uncertainty over interconnection with international markets, gas supply and Smart Grid. This uncertainty will continue to hamper the search for solutions and OFGEM must be proactive and risk taking in supporting investment in new renewable generation in areas of best resource. The answer to security of supply and carbon targets lies in accessing the UK's own domestic renewable resource, primarily in the North and West of Scotland. As the debate over gas, nuclear and international interconnection hypotheticals rumbles on, OFGEM must support the expansion of Grid into these areas where the resource is already identified and the contribution of that resource to the energy mix can be measured.

### **Question 5 – Do you believe that our policy packages cover a sufficient range of possible policy measures?**

Comhairle nan Eilean Siar welcomes any system which moves investment decisions away from short term price signals and treats these decisions as strategic and in the national interest. Renewable Tenders with an added element of certainty may

stimulate investment in high resource areas which are currently perceived as 'risky'. Central energy buying and the associated pre-identification of the future energy mix is extremely risky and could penalise future technologies which break through convention and deliver beyond all expectation within an unprecedented timescale. The Comhairle would not wish to see the nation tied into a certain energy mix given the rapidly evolving nature of (particularly) marine technology.

**Question 6 – Do you have any suggestions for variants to these policy packages?**

Direct Government investment in strategic projects which are in the national interest is now required. The packages outlined in the consultation paper should be strengthened to increase investment certainty over the longer term.

**Question 7 – What other policy measures do you believe should be considered, and why?**

A customer levy to support investment is supported but must be allied to an equalisation of transmission charging. Direct Government investment is now required to 'unlock' the areas of best resource. Strategic investment must be prioritised to ensure security of supply beyond 2015 and the achievement of carbon targets beyond that.

**Question 8 – Do you agree with the assessment criteria that we have used to evaluate the policy packages?**

The Comhairle welcomes the relegation of energy price in favour of supply security which must now become the main priority in the energy sector. Fixation on price will not bring about the investment required to give us security of supply and the Comhairle firmly supports an assessment that places supply security as the main determinant of investment policy. Supply security considerations will drive investment into the areas of best resource and allow places like the Western Isles to contribute above their weight to the national interest.

**Question 9 – Do you have any comments on our initial assessment of each of the packages?**

No. The assessment seems comprehensive and identifies areas which the Comhairle would like to see addressed going forward.

**Question 10 – Do you agree with our summary of the key benefits and key risks of each policy package?**

Renewable Tenders are the Comhairle's favoured mechanism for securing necessary investment but even this will not bring about sufficient investment given the scale of the challenge. The summary notes this and the Comhairle suggests the addition of direct strategic investment by the Government to facilitate this investment. With central energy buying, the risks of pre-identifying the nation's future energy mix in a highly dynamic technological context are excessive.

**Question 11 – Do you have a view on which package is preferable, or alternative policy measures or packages that you would advocate? We are particularly interested in any analysis you may have to support your views.**

Renewable Tenders which provide long term investment certainty are the Comhairle's preferred package. Perception of risk and inability to access investment capital are key constraints to the development of renewable energy solutions in areas of best resource. These areas are, by definition, peripheral and remote and getting Grid into these areas is the main priority. A Renewable Tender approach which gives generators confidence must be allied to direct Government / OFGEM investment in network expansion which will underwrite this confidence in terms of infrastructure provision. Targetted Reforms and Enhanced Obligations will not go far enough to achieve the necessary level of investment and Capacity Tenders and Central Energy Buying are not supported given their propensity to pre-identify certain technologies while discriminating against nascent technologies with huge commercial

potential. The Comhairle is in constant dialogue with marine developers and the huge range of prototype devices currently being trialled will ultimately narrow down to one or two effective technologies making decisions based on the current technological context highly risky.

**Question 12 – Do you agree with our assessment of the timing for important investment decisions?**

Action is required now. Lead in times for marine technologies, which could realise 1GW+ of installed capacity off the Western Isles after 2020, are long. Based on the Pentland Firth experience. Developers receiving Crown Estate agreements now will not be commercially viable on site until 2019 / 2020. Supply Security will become a problem after 2015 so work has to start now on releasing the resource from the best areas. Even with simplified consenting and fast tracked technological development, the really big renewable returns will not be available until the second half of this decade.

**Question 13 – Do you believe that early actions should be considered?**

Yes. Early action is essential to create the climate for significant investment in the areas of best resource in the period 2012 onwards.

**Question 14 – Do you think that the issues are such that policy measures should be considered as a package or should they be considered on a case by case basis?**

The package approach is probably advisable but coherence between elements is critical. Production side incentives such as Renewable Tenders must be supported by direct Government investment in infrastructure which must, in turn, be supported by a more efficient Grid (Smart Grid, supply switching, real time telemetry to equalised demand etc). When there is so much uncertainty about the production side incentives and so much inertia in the area of Government investment and Smart Grid development, it is not easy to see a simple solution to this complex problem. As far as the Comhairle is concerned, early investment in the transmission network is an absolute necessity in order to get Grid into the area of best resource. This investment should include consideration of a West Coast 'bootlace' system and / or submarine connection from the north west of Scotland to the Scottish Territorial Waters cluster of offshore wind installations off Argyll.