Community Energy Scotland
Cumhachd Coimhearsnachd na h-Alba
Empowering Communities

Anna Rossington
Distribution Policy
Ofgem
9 Millbank, London
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Your Ref: 100/11

Date: 02 September 2011

Dear Ms Rossington

Re Shetland Northern Isles New Energy Solutions (NINES) Project Consultation

Please find attached our response to the above consultation.

Community Energy Scotland is a registered charity dedicated to building confidence, resilience and wealth at community level in Scotland through sustainable energy development. We have supported hundreds of community-owned renewable energy projects across Scotland and are currently delivering funding to projects up to 10MW.

We believe that community owned and based renewable energy development has a vital role to play in a low carbon future and can be developed in a way which brings many benefits to the local community.

Our focus in responding to the consultation is, therefore, on its implication for renewable energy development by community groups.

We are happy for this response to be made public.

Yours sincerely,

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Shetland Northern Isles New Energy Solutions (NINES) Project Consultation 01/09/11

This response is set out according to the questions in the consultation document.

Question 1: Do you agree that NINES can potentially reduce the cost of ensuring a secure, environmentally compliant electricity supply compared with the option of replacing LPS with a like-for-like power station?

Yes, it is clear that Nines can potentially reduce the cost of ensuring a secure, environmentally compliant electricity supply compared with the option of replacing LPS with a like-for-like power station.
In the first instance a more holistic approach is required rather than simply replacing the power station in Lerwick as the good wind and potential future renewable energy options such as wave and tidal energy in Shetland has meant that the original generation and distribution model for Shetland is no-longer suitable and won't be in the future. The pattern of generation and demand within Shetland is changing as communities look to develop their own energy projects. Also rising fuel prices means that any steps which can be taken to reduce the size of the replacement Lerwick Power Station would be advantages in helping to future proof Shetland.
In addition there will be good learning opportunities from the project as there are other areas of Scotland and the UK where communities would like to connect renewable energy generation projects onto weaker and remote parts of the grid. This problem/opportunity is only going to increase as the Scottish Government aims to meet its 2020 targets. From our point of view, there may be additional, 'trickle down' benefits from the project, in that it may allow both large- and small-scale community wind schemes to connect to the Shetland grid. The revenue generated by community turbines is often reinvested in energy efficiency measures in the local community, meaning further reductions in energy requirements for the island, and further cost and carbon savings for consumers. Shetland has some of the highest rates of fuel poverty in the UK and these measures would also help reduce this. The project may also help raise awareness within communities of the link between electricity generation and use, which is often taken for granted.

Question 2: Do you agree with our proposal to change SHEPD's licence to enable the NINES proposal to be submitted as a part of the Integrated Plan?
Yes, we agree that SHEPD should be allowed to change their licence to enable the NINES proposal to be submitted as part of the integrated plan, as this would allow the project to be undertaken in a shorter timeframe. This is necessary as renewable energy technologies are moving forward and the grid and demand side management needs to be able to progress in order to keep up. Otherwise, opportunities may be missed and developers will look for alternatives which work around the rules which are in place or look to develop projects elsewhere. NINES clearly fits well with the aims of the Integrated Plan, as (compared to the other options laid out in the consultation) it will have the cheapest ongoing running costs (and therefore least

cost increases for the consumers); it will involve least disruption of supply; and will involve the lowest environmental impact, thereby meeting the three aims of the Integrated Plan.

Question 3: Do you agree with our proposal to finance NINES using a totex approach and to classify it as Integrated Plan Costs?
We believe that it would be unfair to recoup the costs associated with the project in such a short period of time as SHEPD propose, as the benefits are longer term. We suggest that the costs should be recovered over at least the three-year period of the project, if not longer. It is important that consumers do not become hostile to projects like this by being subject to spikes in their bills, given how important it is to have public backing for schemes like this which will provide significant cost and carbon savings to consumers in the long term. The proposal to finance NINES using a totex approach and to classify it as Integrated Plan Costs seems appropriate in this case.

Question 4: Do you agree that the risks to the project have been mitigated, and that the potential benefits from the project outweigh the risks?
We agree that the many of the risks have been mitigated and that the potential benefits outweigh the risks. In addition there are risks in not undertaking the project or delaying when the project is undertaken. In particular the Lerwick Power Station needs to be replaced as it does not currently meet legislation on emissions and has been given a time-limited derogation. This means that there is a time limit on how long before a replacement power-station has to be built it is therefore advantageous to have installed measures which aim to reduce the size and therefore the cost of the replacement and to have tested these before the new power-station is built.
In addition future potential projects such as Viking if developed would result in the development of a HVDC cable to the mainland but without developments on the Shetland grid through active network management and domestic demand side management, renewable energy generation in Shetland will still be constrained. This would mean it will not be possible for SHEPD to make full use of the renewable energy generation and storage available, and the replacement power station would have to be the same size. This would lead to Shetland still having a high dependence on imported fuels and a high carbon footprint, as the carbon emission factor for electricity will remain high.

Other areas across Scotland will also be able to benefit from the lessons learned through the development of the Nines project in Shetland as there are many other areas which (although they are not island grid) do suffer from limited export potential. Domestic Demand Side Management and Active Network Management would allow these areas to develop and benefit from renewable energy projects.

In addition, there is scope longer term for the replacement of oil boilers with electric boilers and hot water storage associated with demand side management. Shetland does not benefit from large resources of biomass for example, so any moves to decarbonise heating systems in Shetland will inevitably require electricity as the main source of energy.