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Dear Secretary of State,

Ofgem Consultation on the Cost of the New Energy Solution for Shetland

On behalf of the Shetland Charitable Trust, I am writing to voice our deep concern over Ofgem's proposal on the Shetland New Energy Solution (SNES) as set out in the above consultation. I am also copying this letter to Ofgem as our response to the Consultation.

Ofgem is proposing that SSE Networks (SSEN) proceed with NGSSL-Aggreko's scheme to construct a 60MW import-only cable from Caithness to Shetland, and install sixty-four containerised stand-by generators in the Lerwick area.

We believe that rushing ahead with Ofgem's proposal is wrong and against the public interest. If built, the SSEN interconnector would be one way, subscale, and undermine, perhaps permanently, Shetland's opportunity to become a major producer of renewable energy.

The Shetland Charitable Trust has been working for over a decade to build a new future for our islands as a major producer of renewable energy, in part through our investment in the Viking wind farm.

Viking Energy will make its own response, which we support, but the Trust has a locus which goes well beyond being an investor in that project.

Our role is to invest Shetland's "oil fund" in investments which yield the best return for the people of Shetland, and to help build and future-proof the Shetland economy. In a world of secularly low oil prices and an increasing move towards renewable energy sources, we have long believed that we need to re-balance Shetland's economy – away from a reliance on the oil sector, and towards industries which make the most of Shetland's abundant natural energy sources, notably wind, tidal and wave power.

Shetland's unique location makes it ideal for wind, tidal and wave energy. Firstly it offers "off-shore" type yields with "on shore" type building and maintenance risks. But in addition it can produce electricity at times which are largely non-correlated with those of the rest of the UK. This would increase dramatically the smoothing of the peaks and troughs present in current aggregate wind energy production. For these reasons we believe that large-scale wind-farms in Shetland would help to secure Shetland's economic future AND help to secure UK electricity supply in a highly cost-

effective manner.

These fundamentals make renewables in Shetland an industry waiting to happen. However, such an industry must have a means of exporting this power – a cable linking Shetland (the source of supply) to the mainland (the source of demand). Without this, this 'industry waiting to happen' simply won't.

So if a cable is to be built, it must be capable of export and with sufficient capacity to enable the larger Shetland renewables industry to develop.

The Trust's goals are being frustrated by a classic market-failure: Without public investment in enabling infrastructure, a market whose fundamentals are strong will fail to become established.

The Shetland Charitable Trust invested some of its oil fund as equity to support Viking Energy's development costs, not simply because we believe this project will provide attractive, long-term returns, but because we believe the cable which Viking will bring to Shetland will enable the wider renewables industry here to be developed.

Construction of that export cable has been frustrated by several changes of Government policy, and regulatory structures and regimes, delaying the Viking Energy project. It has also put our investment, that we have continued to fund in good faith, at risk because there is now doubt that a large-capacity, export cable will ever be built.

Rushing ahead now with Ofgem's limited proposal would be terrible news for Shetland's economy.

As caretaker of the funds dedicated for the benefit of Shetland's population we were well aware that SSE and Ofgem were seeking a replacement for Lerwick Power Station (LPS). It has also been argued for years that, even were LPS to be replaced by a modern power station, a cable built to support renewables in the Islands could reduce the ongoing subsidy required for SNES¹.

Ofgem's consultation now makes clear that the costs of standby generation have become so competitive that they underpin a cable and standby generation as the preferred solution to the replacement. This is a new and, if properly acted upon, welcome outcome from the SNES tendering process.

But this reveals too, that the planned 600MW Viking cable could equally meet the import needs, and most importantly obviate the need for the SNES cable. It would cut the public subsidy required for SNES by £450m or more, leaving only a need to support the Aggreko standby generation, at an NPV cost of no more than £130m.

Given the above, we cannot understand Ofgem's proposal to rush ahead with a cable connection that will do nothing to enable the renewables industry.

The right decision is to await clarity on the future of Government policy on non-mainland GB onshore wind before committing customer money to the SNES proposal.

To proceed otherwise would mean rushing ahead with a sub-scale cable that will cost customers GB-wide at least £35m p.a for 20 years, at the same time as BEIS is progressing energy policy that could, within 18 months, trigger parallel construction of a much larger cable, funded through the CfD mechanism at some £70m² p.a for 15 years.

We have seen estimates that the larger cable would provide ten times the capacity for under twice the investment. Consequently we cannot see how Ofgem and BEIS could justify this decision-making process to the Public in their roles as guardians of customers' money.

¹ Baringa 2013

² The requirement for CfD support for island projects is virtually all attributable to the cost of connecting island generation to mainland GB. This assumes 600MW of capacity generating approx. 2.4TWh p.a

We have a further worry. Giving the SNES cable the go-ahead now, without proper consideration of how it fits with the Government's non-mainland GB onshore wind energy policy, could create a strong risk of fettering any near-term decision to support significant renewable developments in Shetland. Who would wish to explain away the potential squandering of some £450m?

We urge you to call-in this proposal as a matter of urgency, to examine how a better more cost effective and affordable solution can be found that meets Government policy goals, both to keep the lights on in Shetland and to support community-backed remote island wind generation.

Yours sincerely



Drew Ratter
Chair of Investment Advisory Committee

Copies:

Lord Duncan, Parliamentary Under Secretary of State for Scotland.
Grant McEachran, RIIO – Electricity Distribution, Ofgem, 3rd Floor, Cornerstone, G2 2BA
Maurice Golden MSP
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