Community Energy Scotland
Cumhachd Coimhearsnachd na h-Alba
Empowering Communities

Western Isles Transmission Project: Consultation on Final Needs Case and Delivery model

Response by Community Energy Scotland
May 2019

Summary

Community Energy Scotland has been working with Community Energy Trusts in the Western Isles (WI) since 2004. Within that time the energy landscape has changed significantly, but the desire and interest of communities to make real and lasting positive change to their future through energy projects remains unchanged, with 130MW of potentially new community owned capacity being currently explored or developed .

The WI has some of the best renewable resource in the world, and boasts some of the most progressive and skilled community development trusts in the UK. The Western Isles is a prime example of the community energy which can happen if groups are given the support and opportunities to progress schemes, with 21.3MW of existing wholly owned generation installed prior to the closure of the WI grid network. These projects have levered in £30million of investment into the Isles and are providing a total of £2million into local communities annually for re-investment into the local economy.

Community Energy is a successful model – it provides communities, often in areas of deprivation, the tools to take control of their own future and develop projects which positively tackle issues of socio-economic growth in their area. It gives the general public the same rights, returns and influence as large investors. Community Energy has multiple additional benefits that deliver a huge amount of social capital, if communities are able to access the market to sell the energy they generate.

However, this minded to decision shows no consideration for the community sector and the challenges it faces, and effectively removes the potential for further large scale community energy development in the Western Isles. Community Energy Scotland feel that the significant reduction in policy support for Community Energy is short-sighted and and contrary to key Governmental aims around socio-economic growth and mobilization of the wider population in de-carbonising our energy system

Question 1: Do you agree that the current network on the Western Isles needs reinforcing in order to connect additional generation?

Yes. The current network is full with no additional capacity for anything over 3.68kW per phase. This has stifled community energy development in the Western Isles, which in turn is having a detrimental impact on our economy. A decision to go for a 450MW cable would leave community energy groups in a similar situation with limited opportunity for development, which in our mind would be the worst case scenario.

Question 2: What are your views on the generation scenarios developed by SHE-T? We are particularly interested in views on the likelihood of wind generation on the Western Isles developing to the levels predicted by SHE-T's scenarios.

We feel that there is an appropriate range of generation scenarios which have been explored by SHE-T. We strongly support SHE-T's GHD-S3 and GHD-S4 options which allow additional capacity for community energy projects to progress. We view these options are realistic and credible options due to the vast

resource available on island and strong demand from community energy groups to develop projects, not to mention smaller private developments which we are not involved in and have therefore not highlighted in this response.

Since August 2018, when there seemed to be additional certainty on the 600MW link, CES saw a rise in community energy development with 65MW of new community generation progressing through to planning. This included the Arnish Community Consortium at 35MW, a scheme which is wholly owned by a consortium of community groups and is looking to spread the benefits across communities in the Stornoway Trust Estate. This is a prime example of how community energy projects can overcome the challenges and hurdles in their way through adapting their approach to development. These communities have come together, pooling resources and enabling economies of scale - progressing with a novel and innovative solution to increased challenges such as the closure of the Feed in Tariff, the weak distribution network and the difficult funding landscape. This type of collaborative approach could be replicated elsewhere, if given the opportunity. There is another 64MW worth of projects which have either completed or are about to begin scoping studies. We strongly believe that community projects would progress further if the 600MW link option was approved.

One of the reasons this scale of community energy development has not already happened is that community energy groups do not have readily available finance or access to risk capital. They are reliant on funding, often not easily accessed, which is time consuming to secure and requires some guarantees of project progress. We strongly urge OFGEM to take note of the fact that the risks taken by community energy projects in order to get to the stage they have equates to the same level of risk taken by contracted commercial projects with significant capital reserves.

For the reasons detailed above regarding minimising risk we do not feel that additional conditionality on the 600MW decision would be beneficial to any party. This would provide delay and uncertainty to existing contracted projects but insufficient time and continued uncertainty for community energy schemes in gaining the necessary permissions. The community projects which are now progressing are looking towards securing their permissions in time for the next CfD round, but they need certainty in the near future around grid capacity to enable this to happen.

Finally, postponing a decision on the link until the CFD auction results are known, which takes us to the end of the year, further delays the uncertainty and hampers communities' ability to progress. This creates more ambiguity and leaves community groups unable to move forward.

Question 3: What are your views on SHE-T's approach to optioneering, specifically relating to the routes and link capacities considered, and are there other options that SHE-T could have considered?

We feel that a thorough review has been carried out by SHE-T, although we would like more clarity on the situation regarding the existing link from Harris to Skye which carried 21.3MW of existing community generation, as well as other existing commercial schemes. In total there is 34.3MW of contracted and installed generation which we are concerned has not been taken account of in this decision making process. During the 45year life span of the new link we are aware that the existing Harris to Skye link will need to be upgraded, potentially in the next ten years, but we are unaware of the proposed plan for these existing projects. Has the potential for these projects to require capacity on the new HVDC link in the future been factored into the calculations? This is capacity which may not be available in the future if a 450MW link is chosen as the preferred option, and which will therefore cause additional cost to the consumer in order to upgrade the existing Harris to Skye link.

Question 4: What are your views on the CBA put forward by the ESO, particularly in relation to the results it produces?

We feel that there needs to be a move away from of the purely theoretical stance provided by the CBA. We feel the CBA is an arbitrary way in which decisions are made, decisions which impact on the reality faced by communities.

We also strongly argue that the Steady State Scenario should be discounted due to the existing conditionality which has been included to safeguard consumers from a stranded asset. This has also been further covered by the significant securities and liabilities being asked for from the contracted schemes. The removal of the steady state in favour of a more realistic scenario which uses the agreed conditionality is sensible and highlights that the 600MW option is the right decision.

Question 5: What are your views on the technical design and costs of the proposed Western Isles link?

We fully support pushing down the costs of the proposed link where possible to safeguard consumers and developers. However, we are also well aware of the additional difficulties and the uniqueness of progressing projects on remote Scottish Islands, as well as the additional costs which can come with that. It is therefore important that OFGEM take into account the commercial reality of tendered costs.

Question 6: What are your views on the following points:

i. Do you agree with our minded-to position to reject the 600MW link conditional on only the two Lewis Wind Power projects securing CfDs?

No, this minded-to decision does not taking into account the community energy developments which would proceed if they had the certainty that a 600MW link was progressing. As previously highlighted the WI has some of the best renewable resource in the world, and boasts some of the most progressive and skilled community development trusts in the UK. Community groups can, and will, develop energy projects if provided with the support and certainty to do so through a 600MW link. As highlighted above we have 65MW of community energy in the early stages of planning and a further 64MW at a scoping stage. These are not insignificant numbers and we urge OFGEM to bear these projects in mind when making their final decision.

ii. What are your views on our analysis of the information, which suggests a 450MW link would represent the best outcome for existing and future consumers if only the two LWP projects secure CfDs?

We feel that this analysis is so heavily focused on numerous algorithms and estimates that it lacks consideration of the impact on the socio economic future of our isles, or the urgent need to decarbonize the UK as a whole. This decision has the potential to make a meaningful impact on the UK's decarbonisation plan and energy security, both of which need to happen at a faster rate than has hitherto been expected.

CES are concerned about the real and considerable 'future risk' to the GB consumer if the 450MW link is progressed over the 600MW. This decision does not take the vast natural resource and desire for development by communities into account, it is too focused on the 5% extra cost now rather than taking a strategic look at the future cost and impact to the consumer if a second link needs built later. A 600MW link is the best value for money link for its size and the potential benefits. For the sake of 5% extra cost there will be 33% extra benefit – this to our minds is a clear indication as to why the 600MW link is the best option.

We are also concerned about the fact that there are already 418MW contracted to build, with a further 34.3MW installed and potentially having to be allocated to the new link in the future, without even considering schemes in the planning stages. There seems to be no future proofing built in to this decision and it risks significant further cost to the consumer in the future, rather than the 2-4pence extra cost per year now.

This analysis does not take into account the fact that a decision to go for 450MW risks the ability of the larger contracted projects to proceed, delays the timetable for building the link and leaves generators in a difficult position when it comes to bidding in the CfD auction. To go for a 450MW decision risks the link not happening at all and no projects, or community benefits, being realised.

iii. iii. Do you consider that consumers could be appropriately protected from the costs of funding a potentially significantly oversized link if we were to approve the needs case for a 600MW link? If so, how could this be achieved?

We strongly feel that the link will not be oversized and that community projects, amongst others, will be developed once they have more certainty around the link. We also urge OFGEM to consider the safeguarding options being provided by SHE-T which cover any worst case scenarios OFGEM remain concerned about. CES supports any initiative which, with appropriate licence derogations, allows SSEN to underwrite the additional cost of a 600MW cable in a way that protects the consumer from this additional cost.

In conclusion, we also feel that there needs to be a recognition of the positive impact community energy can have on the Government's key policy aims, and the positive improvements it can make to our society in general. We urge OFGEM and the Government to focus on clear low-cost ways they can support Community Energy to contribute highly leveraged national benefit in carbon reduction, decentralised energy sector growth, and positive social impact.

We feel there are three key ways in which the Government/OFGEM should support community energy:

- Retain the Feed in Tariff (FIT) generation and export tariffs for community energy projects – or introduce a modified 'Community Feed in Tariff'.
- Reinstate the Enterprise Investment Scheme (EIS) and Social Investment Tax Relief (SITR) to community energy projects
- Extension of the Contract for Differences (CfD) mechanism to sub-5MWe schemes and create a specific tranche for community energy generation projects, with a clear schedule of when rounds were to be announced.

Community energy groups are there to make real and tangible differences to the socio-economic status of their communities by directing funds to key needs and priorities such as housing, employment, health and fuel poverty. If community energy was given the right support to develop they could make significant improvements to the desperate fuel poverty statistics we have in our isles. Community energy is a way of directly, and positively, impacting on the most vulnerable consumers, giving them the power to change their future. This minded to decision to proceed with a 450MW cable disregards community energy and the wide and far-reaching benefits it can provide.