

James Norman
Ofgem
South Colonnade
Canary Wharf
London

31 May 2019

Dear James

Western Isles transmission project: Consultation on Final Needs Case and Delivery Model

Scottish Renewables is the voice of Scotland's renewable energy industry, working to grow the sector and sustain its position at the forefront of the global clean energy transition. We represent around 260 organisations across the full range of renewable energy technologies in Scotland and around the world, ranging from energy suppliers, operators and manufacturers to small developers, installers and community groups, as well as companies throughout the supply chain.

Access to the electricity networks is fundamental to enabling our industry to deliver; to help meet both the UK and Scottish Government's objectives around clean growth and to meet our legally binding climate obligations.


Scottish Renewables supports the progression of a timely upgrade to the connection to the Western Isles to alleviate future constraints and allow more generators to connect smoothly.

We have several concerns around Ofgem's position regarding the Western Isles link which are outlined below, with further detail provided in the consultation questions:

- Ofgem has been inconsistent in its approach to assessing Needs Cases across the Scottish Islands (Orkney, Shetland and the Western Isles)
- Ofgem has not accounted for the conditionality set out in SHE-T's Needs Case
- A 600MW link offers better long-term value for money to the GB consumer than a 450MW link
- Resubmitting a Needs Case for a smaller cable would risk the development of CfD-ready projects, reducing competitive tension across island wind in the 2019 CfD allocation round
- There is sufficient confidence in the amount of generation coming forward on the Western Isles to justify a 600MW link

Ensuring the right network reinforcements are in place across the Scottish Islands will be critical to ensuring the decarbonisation of our energy system. We would welcome the opportunity to discuss our concerns with you in further detail.

Yours Sincerely,



Hannah Smith
Senior Policy Manager
Scottish Renewables

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

We agree that the current network on the Western Isles needs reinforcing in order to connect additional generation.

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.

CfD projects

SHE-T proposed conditionality in the Needs Case ensures that the link will only progress if the two largest generation proposals (up to 369MW) secure CfD contracts in the 2019 CfD auction. This approach is consistent with Ofgem's minded to position on the Needs Case for the Orkney link.

Another CfD round is currently planned for 2021. If the largest generation proposals go ahead, a 450MW link would not allow sufficient headroom for further CfD scale projects on the Western Isles to come forward in 2021, risking significant local and national benefits. There would be significant cost associated with further reinforcement at a later date.

Subsidy-free

We believe that it may be possible for some specific projects under the right circumstances to come forward without subsidy in the UK, as demonstrated by Energiekontors onshore wind project commissioned last year which is funded solely through the projected revenues from a power Purchase Agreement¹.

The western Isles have excellent wind resource which we would expect to contribute to the likelihood of subsidy free development taking place on the island. However, this will be highly dependent on-site specific characteristics and available finance terms. Ongoing

¹ EnergieKontor [press release](#)

network charging reform^{2,3} adds further uncertainty to the business case for subsidy free projects, with costs for distribution connected generation assets likely to increase⁴. Access to the network across all renewable energy projects is a critical factor in their progression.

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?

No answer

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

We do not believe the Steady State (SS) scenario put forward by the ESO should not be considered as part of the CBA. The SS scenario assumes only 222MW of generation on the Western Isles by 2032. This scenario disregards the conditionality set out in SHE-T's Needs Case, which requires the two largest generation proposals (up to 369MW) secure CfD contracts in the 2019 CfD auction. Without these conditions being met, SHE-T could not progress the project. A scenario with only 222MW of wind generation is not plausible and should not be included in a CBA.

The effect of removing this scenario from the CBA would be to make a 600MW link the "least worst regret (LWR) option. Ofgem have countered that also removing the highest generation scenario from the CBA results in a 450MW link being the LWR option. However, we do not consider this appropriate, as the highest generation scenario put forward by the ESO is plausible, whilst the lowest scenario (222MW) is not, due to SHE-T's proposed conditionality.

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

No answer

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?**

We disagree with Ofgem's minded to position to reject the 600MW link, conditional on the two Lewis Wind Power projects securing CfDs.

² Ofgem: [Targeted Charging Review - Minded to decision and draft impact assessment](#)

³ Ofgem: [Electricity Network Access and Forward-Looking Charging Review - Significant Code Review launch and wider decision](#)

⁴ SR consultation response: [Targeted charging review: minded to decision and draft impact assessment](#)

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?

When SHE-T's conditionality around CfD projects is taken into consideration, the ESO's own analysis has shown that a 600MW link is the preferred option.

A 450MW solution would likely cost consumers more in the long run. Assuming the CfD-ready projects go ahead, a 450MW link would only leave 81MW for future development. Given the rich renewable energy potential of the Western Isles, this is a wasted opportunity. A 450MW link is likely to become constrained quickly, requiring a second cable at an estimated cost of c£270m.

SHE-T analysis has shown that in addition to the two conditional anchor projects, there is 180MW of generation already interested in connecting to the link. It is likely that once there is confidence that a link with sufficient capacity is being built, further projects will come forward.

We do not support Ofgem's proposal to resubmit a Needs Case for a 450MW link. We understand this process would require SHE-T to re-tender the major design and construction contracts, likely to take around 15 months.

This would pose significant challenges for the supply chain and any predicted cost saving may be reduced. Furthermore, uncertainty around grid costs would reduce developers' ability to compete in the 2019 CfD auction. This would ultimately reduce competitive tension across island wind projects in the forthcoming CfD round

Furthermore, SHE-T have estimated the cost differential between a 600MW link and 450MW link to be less than £30m. This represents less than 5% of total CAPEX and would unlock and additional 33% of capacity.

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?

As discussed above, we consider a 600MW link based on successful participation in the 2019 CfD auction as the best long-term value for money for GB consumers. The conditionality proposed by SHE-T provides a high degree of certainty that at least 369MW will connect by 2023. Furthermore, SHE-T analysis has identified a range of community and council owned projects at various stages of development that will also be looking to connect in the future.

Construction of the link would only commence once sufficient capacity had secured a CfD and demonstrated financial commitment by triggering full grid securities and liabilities, significantly reducing the risk of stranded assets costs. These safeguards to consumers go over and above what is required of other GB generators.

SHE-T analysis has shown that the net present value (NPV) of theoretical constraint costs exceeds the capex of a 600MW link when there is between 122MW to 156MW of capacity

connected. Given the conditionality set out in the Needs Case (369MW) and the likelihood of further generation connecting over the 45-year lifetime of the asset, we are confident that consumers are adequately protected from the costs of constructing a 600MW link.

We believe SHE-T and ESO analysis robustly demonstrates the net benefit of a 600MW link to the Western Isles, when appropriate scenarios are considered. Reducing network access to cheap, low carbon electricity generation on the Western Isles is not in the best interest of the GB consumer.