

Community Energy Scotland
67a Castle Street
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IV2 3DU

FAO Paul Wheelhouse MSP, Minister for Energy, Connectivity and the Islands

Date: 23rd February 2021

Dear Minister,

I am writing on behalf of Community Power Outer Hebrides to ask you to intervene in the ongoing crisis for community generators in the Scottish islands.

As you know, the community generators on Lewis and Harris have been forced to almost entirely shut down since the cable outage on October 16th, with nearly all local power being provided by the diesel generators at SSEN's power station in Stornoway. This is costing the local wind generators approximately £600,000 per month in lost income and SSEN approximately £1m per month in diesel alone. SSEN hope that a replacement cable will be operational in August but the cumulative economic cost by then will amount to a staggering £16m, quite apart from the excess dependence on a polluting source of generation that requires a SEPA waiver to be allowed to operate in a built-up area.

The long term effects are equally severe. This week, one of our community energy companies (Galson Trust) was told that as a result of the financial losses incurred, there is now no insurance company willing to cover community energy companies against loss of access to subsea cables on Scottish islands.

This is a major threat to all the wind farms which need to be able to maintain such cover as condition of their debt financing. It is also clear proof that we are being faced with a degree of market failure which requires and justifies political intervention to put right. (It is also worth mentioning that the new insurance cover which is being offered is 58% more expensive and the period covered for any claim has reduced from 18 months to 90 days.)

All the community companies use the same brokers and when we asked them for alternative sources of cover they responded as follows:

There are only a handful of insurers now that will offer adequate insurance for renewable energy projects. For a project of your size, in addition to RSA, the other options would be Aviva, Allianz and Riskpoint. Allianz and Riskpoint do not insure wind turbines on islands. Although Aviva will, they will not provide Business Interruption cover for subsea cable losses. Although some of these insurers may be involved in actually insuring the cable itself that is owned by the DNO, no insurer will now provide Business Interruption cover for generators such as yourselves. Over the past 10 years RSA have paid out significant sums for such losses and they have decided it is now too large a risk for them to insure.

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The interconnecting cables serving the Orkney islands have been significant problems and more recently the interconnecting between the Isle of Lewis and the mainland, all of which have resulted in substantial losses for RSA. RSA's view was that they cannot continue to insure a risk that they have no control over and cannot mitigate. In recent years due to cable losses, they increased the time excess, but such is the timescale to replace these cables, even that was insufficient to stop them from paying out significant sums. A dual cable would be the ideal solution as the downtime would be significantly reduced.

Generators may now find themselves in breach of bank covenants requiring them to hold business interruption cover for all eventualities; because of this, the banks may impose new conditions requiring the generating companies to retain far greater sums within their companies, to 'self-insure' against future losses from outages. Already, the community companies are unlikely to be able to make local charitable donations whilst they make up the losses from the current outage, but **bank requirements to build up further reserves could see payments to local causes cease for many years to come.**

Therefore, given the serious crisis we are facing, and have been facing since October, we would greatly appreciate your assistance and that of the Scottish Government on the following two actions which we believe are urgently required.

First, we ask that you join us in putting whatever pressure you can on SSEN to submit a proposal to Ofgem for a second 33KV cable between Harris and Skye, in addition to the replacement cable that they have already ordered. SSEN are not opposed to a second cable in principle but they would prefer to assess it as part of the wider RIIO ED2 business planning process that gets underway later this year. However, as the ED2 period doesn't commence until 2023, we feel this leaves an unacceptable period at risk, and would like to see SSEN put proposals to Ofgem for installation of a second cable ahead of ED2, perhaps as part of the Green Recovery initiative¹ which Ofgem and the DNOs are developing at present.

Ofgem made it quite clear to both SSEN and ourselves in our joint meeting last month that they would welcome an accelerated process focusing specifically on a second Harris-Skye cable, and we want SSEN to take advantage of that willingness. We would be very grateful for any support that you can give on this matter.

Secondly, we would like to assist in enabling SSEN to move quickly and efficiently on a long-term battery solution to the 'islanding' problem that occurs every year in the Western Isles. These are annually scheduled outages when the islands are disconnected by SSEN from the mainland grid, all the wind farms are forced to shut down and all local power is provided by the SSEN diesel generators in Stornoway. This occurs for between 20 and 30 days each year and the consequence is a pro-rata scaled down version of the current cable outage, with the same deleterious financial and carbon polluting effects.

This annual economic loss, and the additional pollution from the use of these diesel generators, is entirely unnecessary and could be mitigated at no net cost to SSEN. One of our members, Point and Sandwick Trust, has already received a £150,000 loan from CARES to develop a battery solution that would tackle

¹ <https://www.ssen.co.uk/greenrecovery/>

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this problem and, working with their PPA offtakers, Engie, they have proposed a 25MW community owned battery that would stabilise the local grid allow local wind generators to provide at least 60% of local load during all future scheduled 'islanding' outages, which would have the same benefit in the current cable outage if it was implemented quickly. The cost of the battery would be recovered by Point and Sandwick Trust providing ancillary services to the national grid when not 'islanded' and would not require any additional capital expenditure from SSEN.

SSEN accept that the solution would work technically but they say that regulatory requirements under the Utilities Scotland Act 2016 and the Public Contracts Scotland Act 2016 prevent a quick adoption of this solution. They interpret these acts as requiring a protracted public tendering exercise which would prevent a battery solution from being put in place before the cable is reconnected in August, and probably not till sometime next year.

We believe that the current crisis demands much more urgent action. It is intolerable that regulatory barriers should appear to be preventing a sensible, practical and cost-effective solution to alleviate the financial burden on the community generators and the current polluting diesel emissions in the Stornoway area.

SSEN have told us that the regulatory obstacles preventing a quicker implementation are not the responsibility of Ofgem but the result of the two acts above which are the responsibility of Scottish Government; Steve McMahon of Ofgem has also emphasised that their main aim is to see the share of wind generation on the grid increased and that they fully appreciate the need to be flexible as to regulatory requirements in the context of the remote Scottish islands.

We ask, therefore, that you and your officials look urgently into the regulatory barriers under these two acts which appear to be preventing a speedy adoption of a community-owned battery solution to the 'islanding' problem in the Western Isles, as proposed by Point and Sandwick Trust.

We hope that our request for your support and action on the two points above will meet with your approval and that you will be able to help us break through the current logjam that is preventing the speedy and sensible progress that the islands need.

Yours sincerely,



Jamie Adam
Development Manager
Community Energy Scotland

On behalf of Community Power Outer Hebrides, representing community wind operators in Tolsta, Galson, Point & Sandwick, Horshader, South Uist and Barra

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