ARGYLL AND BUTE COUNCIL | **Environment, Development and Infrastructure Committee**

Development and Infrastructure Services | **19 January 2017**

Contracts for Difference: Consultation on treatment of non-mainland GB onshore wind projects

1.0 EXECUTIVE SUMMARY

On the 8 November 2016 The UK Government's Department for Business Energy and Industrial Strategy (BEIS) opened its consultation on 'treatment of non-mainland GB Onshore Wind projects' within the Contracts for Difference regime.Through this consultation the UK Government is seeking views on its position that non-mainland GB onshore wind projects should not be classified as a separate technology nor allowed access to Pot 2 (less established technologies), but should continue to be treated as onshore wind. This consultation is to seek evidence on this issue from respondents. Should this result in, for example, new evidence or strong justification being provided, the Government is open to considering the possibility of distinct treatment for non-mainland GB onshore wind projects.

This report provides the background to the consultation and presents a draft response to the three questions posed within the consultation for members consideration and approval. The deadline for submissions is 31 January 2017.

2.0 RECOMMENDATIONS

Members are asked to:-

1. Agree that the response at Appendix 1 forms the basis of the council's response to the consultation 'Contracts for Difference: Treatment of Non-Mainland GB Onshore Wind Projects'

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3.0 INTRODUCTION

3.1 The UK Government's Department of Business Energy and Industrial Strategy (BEIS) is seeking views on its current position that non-mainland GB onshore wind projects should not be classified as a separate technology nor allowed access to Pot 2 (less established technologies), but should continue to be treated as onshore wind. The implications of this would be that there would be no subsidy support for non-mainland GB onshore wind projects. This consultation is to seek evidence on this issue from respondents. Should this result in, for example, new evidence or strong justification being provided, the Government is open to considering the possibility of distinct treatment for non-mainland GB onshore wind projects.

4.0 RECOMMENDATIONS

Members are asked to:-

4.1 Agree that the response at Appendix 1, subject to Members comment, forms the basis of the council's response to the consultation 'Contracts for Difference: Treatment of Non-Mainland GB Onshore Wind Projects'.

5.0 DETAIL

5.1 On the 18th June 2015 the Secretary of State announced that there would be an end to the operation of the Renewable Obligation Certificate (ROC) for onshore wind from 1 April 2016. Whilst the UK Government stated that it recognised that onshore wind had made a meaningful contribution to the UK energy mix, it would end any new public subsidy for commercial wind developments.

5.2 In relation to other renewable technologies and public subsidy the replacement for the ROC is known as Contracts for Difference. A Contract for Difference (CfD) is a private law contract between a low carbon electricity generator and the Low Carbon Contracts Company, a government-owned company.

5.3 The Contracts for Difference ('CfD') scheme was introduced through the Energy Act 2013. The purpose of CfDs is to provide long-term price stabilisation to incentivise investment in low carbon electricity generation. The first CFD Allocation Round was launched in October 2014 and successfully allocated 2.1GW of capacity, significantly driving down costs in respect of a number of technologies.

5.4 A CfD is a private law contract between a low carbon electricity generator and the CFD Counterparty, the Low Carbon Contracts Company ('LCCC'), which is an independently operated government-owned company. Under a CfD a generator is paid the difference between the 'strike price', a price for electricity reflecting the cost of investing in a particular low carbon technology, and the 'reference price', a measure of the average market price for electricity in the market of Great Britain. Where the 'reference price' is above the 'strike price' the generator will pay the difference back to the LCCC.

5.5 The objective of CfD is to give greater price stability to generators by reducing their exposure to volatile wholesale prices, whilst protecting consumers from paying for higher support costs when electricity prices are high. In this way, CfDs provide efficient long-term support for low carbon electricity generation. The costs of CfDs are met by electricity consumers via the supplier obligation, which is a levy on electricity suppliers in Great Britain.

5.6 On 9 November 2016 the Government reaffirmed its commitment to spend £730m of annual support on renewable electricity projects over this parliament, and set out further details for the next Contracts for Difference auction where companies will compete for the first £290m worth of contracts for renewable electricity projects. This allocation round is for less established technologies: offshore wind, Advanced Conversion Technologies, Anaerobic Digestion (>5W), Dedicated biomass with Combined Heat and Power, wave, tidal stream and geothermal projects starting to generate from 2021/22 or 2022/23.

5.7 Whilst the commitment does not apply to onshore wind the Government did also announced the fact that it was also looking to end uncertainty over whether onshore wind projects on remote islands should be treated differently from onshore wind projects on mainland Great Britain. The consultation is therefore seeking views which either support or oppose this position and these will then be reviewed to provide a comprehensive answer.

The consultation poses three main questions

Should non-mainland GB onshore wind be considered a separate technology from onshore wind more generally?

1. Are there specific barriers/costs/issues associated with non-mainland GB onshore wind? If yes, please provide evidence.
2. If specific challenges have been identified for non-mainland GB onshore wind projects, are there other measures outside of the CfD scheme that could be adopted by the Government, or others, to remedy those challenges?

5.8 This is not the first time that the UK Government has undertaken a consultation on this matter. In 2013, the UK Government issued a consultation on additional support for island renewables. This consulted on a proposal to provide a separate strike price for onshore wind projects located on the Scottish islands of Orkney, Shetland and the Western Isles within the Contracts for Difference scheme. At that time and further to work undertaken through the UK and Scottish Governments and the "Our Islands Our Future" campaign, it was suggested that these island groups were identified as exhibiting a particular set of unique characteristics which could justify a different support level to that set for onshore wind on mainland Great Britain, as well as placing it in the less established technology pot.

5.9 The current consultation seeks views as to whether there is a justification for an enhanced support mechanism for non-mainland GB onshore wind projects. The consultation is not specific to the Scottish islands of Orkney, Shetland and the Western Isles however as detailed above, previous work undertaken by UK and Scottish Government has proposed that wind projects on these three islands would fall within the definition of a distinct category which is referred to as "remote island wind". This is based on the islands exhibiting unique characteristics including distance from mainland and the requirement for subsea cabling to an extent that results in extremely high Transmission Network Use of System (TNUoS) charges. In addition to the three islands there are number of Argyll islands which are located a significant distance from the mainland and the costs of securing a Grid connection back to the mainland often makes renewable projects unviable despite the significant natural resource that is available. The Grid on many of these islands is also currently constrained and this is preventing both commercial as well as community renewable projects from being taken forward thereby disadvantaging our communities.

5.10 In line with the response to the three consultation questions detailed in Appendix 1 the Council would seek the inclusion of onshore wind on remote islands in future CFD Allocation Round auction announcements and that our eligible islands would then be able to benefit from this should there be the opportunity for such projects. This would ensure that our eligible islands would not be at a disadvantage particularly if enhanced support were to be proposed for other renewable

technologies and projects being delivered on or in close proximity to the remote islands.

6.0 CONCLUSION

6.1 Whilst it is unlikely that large scale commercial wind developments would be proposed on our remote islands given the environmental considerations and current Grid constraints our remote islands should not be excluded from benefiting from any agreed island support mechanism for onshore wind especially if this could set a precedent for further more favourable support mechanisms for other less developed renewable technologies on remote islands in the future.

7.0 IMPLICATIONS

7.1	Policy	The Single Outcome Agreement and Economic Development Action Plan recognises the importance of the renewables industry and the REAP recognises the importance of renewables to the local economy and to our communities including our island communities
7.2	Financial	None
7.3	Legal	None
7.4	HR	None
7.5	Equalities	None
7.6	Risk	There is a risk that if the Government agreed to introduce a distinct treatment for non-mainland GB onshore wind projects and the council had not sought to have those Argyll islands that meet any agreed description/criteria to be included that in the future our islands may be disadvantaged if a similar approach is taken towards other renewable technologies.

7.7 Customer Service None

Executive Director of Development and Infrastructure, Pippa Milne
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6.12.2016
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APPENDICES

Appendix 1 Consultation questions and response

Contracts for Difference: Consultation on treatment of non-mainland GB onshore wind projects

Deadline 31 January 2017

CONSULTATION QUESTIONS **APPENDIX 1**

There is no doubt that across Argyll there is a significant natural renewable resource from wind, tidal, wave and forestry. The energy industry in Argyll is based on the use of these renewable sources of power with hydro and onshore wind particularly widely deployed at scales ranging from small to commercial scale developments. Over the longer term there are future opportunities for tidal and wave power, with the Sound of Islay project being the most advanced at the moment. There is currently more than 1GW of renewable power generation operational or consented within Argyll, including more than 1MW of Council owned renewables. All of this has assisted in delivering the UK Governments and Scottish Governments renewable energy and climate change targets. However whilst this natural resource, especially in relation to wave and tidal, can be found close to many of our remote islands, there are significant challenges in being able to harness this resource due to the remoteness of our islands, their distance from the mainland and the lack of Grid capacity and the high cost of providing subsea cable links back to the mainland.

Questions

1. **Should non-mainland GB onshore wind be considered a separate technology from onshore wind more generally?**

   Many of our Argyll islands are located a significant distance from the mainland and would fall into the category of remote islands as a consequence. In addition the distance from the mainland, higher cost of transport and the exposed and harsh environment of many of our more remote islands make the cost of developing onshore wind, wave and tidal renewable projects prohibitive. This often means that our remote islands are disadvantaged and there is a significant barrier to our islands realising their economic potential from renewables.

   On our remote islands Grid capacity is a significant constraint and for any developers or community considering new renewable project this is a significant deterrent as a consequence of the exorbitant subsea cable installation costs which would have to be recoverable from the generators. This means that the costs of island generated electricity on our more remote islands are significantly higher when compared with similar projects on the mainland.

   Whilst it is very unlikely that we would see large scale commercial wind developments on our remote islands given the

environmental considerations, the Argyll remote islands should not be excluded from benefiting from any agreed island support mechanism for onshore wind especially if this could set a precedent for further more favourable support mechanisms for other less developed renewable technologies on or close to remote islands in the future.

2. **UK Government interested to hear if the Council believe there are specific barriers/costs/issues associated with non-mainland GB onshore wind? If you believe there are, please provide evidence.**

   Renewable projects on our remote islands are physically and electrically remote from the high voltage transmission system needed for the export of their generation output and would require long new subsea cable connections. Under the transmission charging regimes, they are forecast to be subject to transmission charges (TNUOS) of several times the average for comparable projects on the mainland.

   In addition the cost of developing these projects on our remote islands is also greater as a consequence of the costs of transport given the distance from the mainland. Added to this is the often exposed and harsh environment and yet often these islands offer the best natural renewable resource and therefore have the benefit to deliver on the UK Governments targets as well as secure real and lasting economic benefit for our islands.

3. **If you have set out any specific challenges for non-mainland GB onshore wind projects, do you consider there to be other measures outside of the CFD scheme that could be adopted by the Government, or others, to remedy those challenges? What would these measures be.**

   Given that the greatest issue facing those looking to develop renewable projects on our remote islands is transmission costs and given that this is due to the fact that the Grid network serving our remote islands is at capacity and no longer fit for purpose then the only other measure would be to secure alternative investment to allow the provision of the necessary subsea cable links.