



AFFORDABLE ENERGY OPTIONS

Report by Chief Planning Officer

PURPOSE

- 1.1 The purpose of the Report is to appraise Members of ongoing work to secure affordable energy for island homes and businesses.

EXECUTIVE SUMMARY

- 2.1 The Outer Hebrides consistently feature among those areas with the highest Fuel Poverty rates in the UK and this situation is exacerbated by high energy prices. While the volume of Renewable Energy electricity being produced, and about to be produced, in the islands might suggest that a solution is easily to hand, it is, unfortunately, the case that this locally produced electricity cannot be directly supplied to local homes and businesses due to the idiosyncrasies of the local electricity network.
- 2.2 Once large-scale renewable electricity production is underway, from 2030, it may be possible for a local, not-for-profit Energy Supply Company to procure electricity from island generators and to retail that electricity to island consumers at discount. This concept is explored in more detail in the Report.
- 2.3 Until there is access to sufficient volumes of renewable electricity (2030), the Comhairle and its partners continue to pursue a range of measures which could mitigate the impact of high fuel prices and reduce the level of Fuel Poverty in the islands.
- 2.4 With external funding from UK Innovation's 'Fast Followers' project, expert advice has been commissioned on some of the opportunities outlined in this Report and the outcomes of this work will be reported to the Committee in due course.

RECOMMENDATION

- 3.1 **It is recommended that the Comhairle:**
 - a) **note the ongoing work which seeks to lower the price of energy for island homes and businesses, thereby reducing current levels of Fuel Poverty; and,**
 - b) **approve the addition of Muaitheabhal Trust (Uisenis Wind Farm) to the Comhairle / Stornoway Trust Shared Ownership Joint Venture.**

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Appendix: None
Background Papers: None

IMPLICATIONS

4.1 The following implications are applicable in terms of the Report.

Resource Implications	Implications/None
Financial	None
Legal	None
Staffing	None
Assets and Property	None
Strategic Implications	Implications/None
Risk	None
Equalities	None
Corporate Strategy	The proposal supports the delivery of the Local Housing Strategy
Environmental Impact	None
Consultation	None

BACKGROUND

- 5.1 At present, island households are almost entirely dependent on imported energy for heat – Grid electricity for storage / infra-red heaters, kerosene for oil boilers, network LPG within Stornoway Town Centre for gas boilers or tanker-delivered LPG for gas boilers outwith Stornoway Town Centre.
- 5.2 Current Island demand for electricity is circa 45MW, supplied by a Distribution connection from National Grid at Fort Augustus, supplemented by on-island diesel generation in Lewis, South Uist and Barra during periods of peak demand. It is an enduring irony that community-owned wind turbines in the islands produce 21.5MW of electricity but this cannot be routed to meet island demand because the local electricity network is incapable of accepting intermittent generation, Instead, locally produced renewable electricity has to be exported to southern markets at wholesale cost, only to be bought back by island consumers at significantly inflated prices.
- 5.3 With the current state of energy storage technology, it is simply not possible to run the island network exclusively on intermittently dispatched renewable electricity. To mitigate the impact of an outage in Shetland’s new Transmission Link from the Scottish mainland, SSEN are installing a massive 70MW back-up battery which will only be capable of running the island network for the one to two hours it takes for Lerwick Power Station to come out of standby mode.
- 5.4 While the Comhairle and partners continue to press the energy Regulator to permit a discounted electricity tariff in areas rich in renewable energy generation and high in Fuel Poverty, regulatory intervention of this kind would be unprecedented, would take considerable time to process and would be unlikely to deliver a sizeable discount. Another option may be to work with local generators – commercial and community – to access electricity for onward retail to island consumers through a not-for-profit, locally owned Energy Supply Company. Regrettably, the incompatibility between locally produced renewable electricity and the island electricity network means that this Energy Supply Company will still have to engage with the volatile UK electricity market in order to secure product for retail. The key question with this approach is the extent to which the risks of a highly volatile market, which has quickly knocked many new start supply companies out of business, can be mitigated.

MEASURE 1 – AN ‘ISLAND TARIFF’ (FOR IMPLEMENTATION BEFORE 2030)

- 6.1 One approach to an ‘island tariff’ is collaboration with an existing Energy Supply Company, through which they offer a discounted island tariff as one of the suite of tariffs they offer customers. This is known as the ‘White Label’ approach and, back in 2015, the Community Interest Company, ‘Hebrides

Energy' was set up to pursue this option. Over time, as access to local generation became available, it was envisaged that Hebrides Energy would become a licenced Energy Supply Company in its own right but this White Label approach was viewed as a way for Hebrides Energy to gain early market experience and build market exposure. Unfortunately, the only significantly discounted product available at that time was from new market entrant partners who, because of their low process and resulting constrained cash flow, could not 'buy forward' into the winter and consequently crashed out of the market. This approach was attempted twice by Hebrides Energy but both supply partners failed so it was agreed to pause Hebrides Energy's activity in the market and to wait until local generation became available for retail.

- 6.2 Subsequent attempts to secure an 'island tariff' have focused on the work of the 'Inter-Islands Council Energy Pricing Workgroup' (Outer Hebrides, Orkney and Shetland Island Councils) which has urged OFGEM to pursue a variation in regulation which recognises that lower energy prices should be available in areas of high renewable generation. As fossil fuel generation and gas imports contract, these areas – with the islands chief among them - are set to become the powerhouse of the UK economy and society in much the same way as the mining areas were in the past.
- 6.3 Other avenues being pursued by the Inter-Islands Council Energy Pricing Workgroup include: removal of VAT on electricity in areas of high Fuel Poverty; reform of Nodal Pricing to transition from low prices around fossil fuel production to low prices around renewable energy generation and engagement with Renewable Energy developers to explore supply of discounted electricity as a form of Community Benefit. All this is additional and complementary to the work of the Community Planning Partnership's Anti-Poverty Group which continues to lobby Government and Regulators for fairer energy pricing.

MEASURE 2 – DEVELOPMENT OF A LOCAL ENERGY ECONOMY (FOR IMPLEMENTATION AFTER 2030)

- 7.1 The development of a Local Energy Economy where a locally owned, not-for-profit Energy Supply Company procures electricity from local Renewable Energy developers and retails that electricity, at discount, to island consumers is an ambitious proposition beset by risk and complexity. However, this approach represents full expression of community wealth building where the community itself, to an extent, takes control of the means of production in order to improve the lives of its citizens.
- 7.2 Due to the limitations of the local electricity network alluded to above, it is currently not possible to route electrons directly from point of generation to point of consumption in the island context. To do so would require an entirely new and parallel network of 'private wires', independent of the existing National Grid originated network, connecting wind turbines directly to every home and business in the islands. It would also require a yet-to-be-invented energy storage system which can balance an island-wide network for days, or even weeks, of low wind conditions.
- 7.3 It is therefore necessary for any affordable electricity solution involving local generation to engage with the volatile UK electricity network. Local Renewable Energy developers will have to export their product to this market and any locally owned Energy Supply Company will have to purchase product from this market in order to retail it to island consumers. The level of discount achieved for island consumers will be a function of the contracts struck between the seller (Renewable Energy developer) and the buyer (local Energy Supply Company). Initial discussions with local Renewable Energy developers have been positive with developers, onshore and offshore, happy to explore the concept of sale of product, through a retail intermediary, to a local Energy Supply Company.
- 7.4 Normally, the significant risk in this arrangement is an inability to insulate the local Energy Supply Company from spikes in the UK wholesale electricity price which can knock, and has knocked, several new-entrant supply companies out of the market. This area will require detailed expert analysis but, on the face of it, purchase of electricity from the Renewable Energy developer at Contract for Difference (CfD) price could insulate the local Energy Supply Company from these market shocks. The CfD is a guaranteed price which, itself, insulates the generator from market fluctuations.

- 7.5 Through the externally funded Innovate UK ‘Net Zero Living: Fast Followers’ project, the Comhairle is in the process of commissioning expert advice on the opportunity for local Renewable Energy developers to offer electricity for sale, through a retail intermediary, to Hebrides Energy for onward sale, at discounted price, to island consumers. The outcome of this study will be reported to Committee in due course. Voar Energy of Shetland, who supported the Just Transition Commission’s 2024 report into Community Benefit and the Energy Transition in Shetland, has kindly offered a pro-bono advisory service, working with the commissioned contractor to ensure that study outcomes are island proofed.

SHARED OWNERSHIP IN ONSHORE WIND (JOINT VENTURE)

- 8.1 One way in which a Local Energy Supply Company could access renewable electricity for local retail will be through the Shared Ownership Agreements already in place with island Onshore Wind developers, namely Lewis Wind Power (Stornoway Wind Farm) and EuroWind Energy (Uisenis Wind Farm). Initially, the 20% Shared Ownership of Stornoway Wind Farm was offered to The Stornoway Trust as landowner while the 20% Shared Ownership of Uisenis Wind Farm was offered to the Comhairle, the Wind Farm being sited on private Estate land.
- 8.2 The Comhairle previously agreed the formation of a Joint Venture between the Comhairle and The Stornoway Trust to take forward the Stornoway Wind Farm opportunity only. This arrangement will allow the Comhairle to support The Stornoway Trust while securing benefits for the island community beyond The Stornoway Trust’s territorial limits. The Joint Venture steering group has met and continues to make good progress towards formalisation of the arrangement and the raising of the necessary finance.
- 8.3 The Joint Venture steering group has now agreed that Muaitheabhal Trust, as the receiving body for Community Benefit from Uisenis Wind Farm, should be invited to become part of the Joint Venture so that a single vehicle comprising the Comhairle, The Stornoway Trust and Muaitheabhal Trust handles the Shared Ownership in both Wind Farms, totalling 80MW+ of renewable electricity. The Joint Venture will have an Outer Hebrides wide remit and a portion of this electricity could be routed through Hebrides Energy for discounted retail to island consumers from the Butt to Barra.
- 8.4 The Report seeks the Comhairle’s ratification of the Joint Venture steering group’s decision to add Muaitheabhal Trust to membership of the Stornoway and Uisenis Wind Farms Joint Venture.

OTHER ONGOING WORK

- 9.1 The Community Planning Partnership’s Anti-Poverty Group continues to highlight the impact of Fuel Poverty on island households. Benefits maximisation, pathways into work, cost of living support and business support are all in scope as the Group seeks to increase household income, one of the three pillars of Fuel Poverty. The Group is also active in lobbying Government and the Regulator to introduce measures which might mitigate unacceptable levels of Fuel Poverty in the islands.
- 9.2 The Comhairle Building Standards team continues to enforce rigorous energy efficiency standards paving the way for the introduction of Passivhaus, the global gold standard in energy efficiency. The ECO4 programme, offering energy efficiency measures to eligible households, will soon be available in the Outer Hebrides following a delay in rollout caused by staff shortages.
- 9.3 OFGEM’s Energy Price Cap continues in operation but its limited effectiveness in the island context is not always appreciated. The Price Cap imposes a limit on the unit cost of electricity or gas and this is multiplied by energy usage to present the typical maximum an ‘average UK home’ should be spending on energy. The problem in the islands is that, due to high climatic exposure and a poorly insulated

housing stock, energy usage can be twice that of the 'average UK home. So, although the unit cost of energy is capped, the total cost when the rate of energy usage is applied is not capped and this can result in island energy bills much higher than the capped energy bill of an 'average UK home'.

- 9.4 The Price Cap covers only variable rate electricity and gas and does not apply to unregulated fuels like heating oil. This is clearly of concern in the islands where so many households rely on heating oil for heating the home. It is worth noting that, a number of years ago, the Comhairle campaigned vigorously over the unacceptably high cost of road fuel in the islands. The Competition and Markets Authority (CMA) subsequently directed that the two island fuel depots, owned and run by a single supplier, should be opened up to competing suppliers and this resulted in a stabilisation of road fuel and heating oil prices. The 5p per litre Rural Fuel Duty Rebate also continues in force locally.