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From: Ralph Turvey [<mailto:ralph@randb.demon.co.uk>]

Sent: 05 March 2007 15:42

To: Andrew MacFaul

Subject: Comments on impact analysis of zonal transmission loss proposals

1. Zonal and/or seasonal factors would improve the efficiency of dispatch, so reducing generation costs and it is this saving which OXERA estimated. Talk of reduction in losses and their value is curiously roundabout and serves to obscure the economic analysis.
2. OFGEM continues its occasional expository confusion between (i) the fact that average variable losses are half marginal variable losses, (ii) the fact that some losses are fixed, not variable.
3. With the scheme of emission rights, the introduction of zonal transmission loss adjustments would not alter total CO2 emissions; it would merely reallocate them.

Professor Ralph Turvey

(I am an Associate of Frontier Economics but send this note pro bono publico)