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**Our Ref:** HIE 2006/02677  
**Date:** 30 July 2007

Lesley Nugent  
Ofgem  
70 West Regent Street  
Glasgow  
G2 2QZ

Dear Ms Nugent

#### **HICEC's Response to Ofgem 'minded to' decision on Zonal Transmission Losses**

HICEC is a non-profit distributing company with a voluntary board, originally established by Highlands and Islands Enterprise to promote and support community –owned renewable energy development. We do this by:

- Delivering the Scottish Executive's Scottish Community and Householder Renewables Initiative in the Highlands and Islands. This supports small scale, non-commercial renewable energy installations, typically designed to heat or provide electricity to community buildings. In this way, community groups can significantly reduce the running costs of their buildings, thereby helping with their financial as well as environmental sustainability;
- Providing assistance to non-profit distributing community groups in the Highlands and Islands developing larger scale commercial renewable energy projects designed to generate revenue to invest in their community. These projects hold the potential for transforming the financial prospects for community based development in some of the most fragile communities in Scotland.

We are acutely concerned that Ofgem's zonal loss charging proposals will have a disproportionate impact on the small (< 5MW) renewable energy projects currently under development by 28 community groups across the Highlands and Islands. These community groups do not have the option of locating their projects nearer to major centres of demand as typically they are located in peripheral locations with low population density.

Given this, we also believe that the proposal, if implemented, would run counter to Article 7(6) Directive 2001/77/EC and note that the consultation does not explicitly address this. This requires Member States to ensure that the charging of distribution and transmission fees does not discriminate against electricity from renewable energy sources, including *in particular*

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(our italics) electricity from renewable energy sources produced in peripheral regions, such as island regions and regions of low population density.

It is also the case that these areas have outstanding renewable energy resources. In our view, if the government's targets for low carbon energy are to be met, the charging system should provide an incentive for generation in the areas of best renewable resource. We believe that the proposal will have the opposite affect, making it harder to develop renewable energy generation in the Highlands and Islands.

Therefore, we request that Ofgem does not move to apply the proposal, but reconsiders the approach in the light of the above considerations.

Yours sincerely

**Nicholas Gubbins**  
**Chief Executive**

Cc Sue Kearns, Head of Renewables Policy, Scottish Executive

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