



**Highlands and Islands Enterprise**  
Iomairt na Gaidhealtachd 's nan Eilean

Lesley Nugent  
Ofgem  
70 West Regent Street  
Glasgow  
G2 2QZ

31 July 2007

Dear Ms Nugent

**Response to Ofgem 'minded to' decision on zonal transmission losses**

As you are aware, Highlands and Islands Enterprise (HIE) is the Government's agency responsible for economic and community development across the northern half of Scotland. Along with its local partners (Shetland Islands Council, Orkney Islands Council, Comhairle Nan Eilean Siar, Highland Council, Moray Council and Argyll & Bute Council), HIE has taken a considerable interest in, and has responded to a number of consultations on, issues affecting development of and access to grid infrastructure.

HIE and its partners respond to the previous consultation in relation to zonal losses. That response questioned the need for the proposed change. HIE is aware that a number of other bodies, including Scottish Renewables, likewise objected to the proposal.

HIE and its partners are extremely disappointed that despite the Balancing and Settlement Code Panel recommending rejection and the concerns raised during the previous consultation, Ofgem still proposes to take this forward. The additional analysis provided to address concerns about interaction of charging for losses and Transmission Network Use of System charges (TNUoS) is simply not convincing. In particular, the assumption that average losses are half of the marginal losses is unsubstantiated. To proceed on this basis is therefore highly inappropriate.

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Careers Scotland in the Highlands and Islands is part of the HIE network.



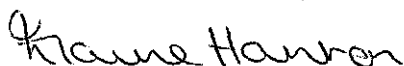
HIE and its local partners have recently published work by Xero Energy which underlines the key regulatory challenges to developing the North of Scotland's substantial renewable energy resource. Locational transmission charges applied to renewables is already placing the area, and developers of a range of projects, at a disadvantage. The proposal to now introduce zonal loss charging increases the level of discrimination and further undermines the ability of the UK to develop renewable generation in the best resource areas. Not only will this impact on the viability of existing commercial and community scale projects, but will create a further barrier to the UK developing emerging renewable resources, such as wave and tidal energy.

This proposal therefore runs entirely contrary to wider initiatives to combat climate change at a global and national level, as reflected in UK and Scottish Government Climate Change and Energy policies.

HIE and its partners have previously argued to Government that the remit of Ofgem needs to more closely align with Government policy. This proposal further underlines the need for urgent action in this regard.

This letter is being copied to both the DTI and Scottish Executive.

Yours sincerely



**Elaine Hanton**  
**Head of Renewables**

On behalf of a Highlands & Islands partnership comprising:-

Highlands & Islands Enterprise

Shetland Islands Council

Orkney Islands Council

Comhairle Nan Eilean Siar

Highland Council

Moray Council

Argyll & Bute Council