

30 July 2007

Mr Robert Hull  
Director of Transmission  
Ofgem  
9 Millbank  
LONDON  
SW1P 3GE

Dear Mr Hull

**ZONAL TRANSMISSION LOSSES – THE AUTHORITY’S  
‘MINDED-TO’ DECISIONS**

The Scottish Council for Development and Industry (SCDI) is an independent membership network, which strengthens Scotland’s competitiveness by influencing Government policies to encourage sustainable economic prosperity. It is a broad-based economic development organisation, with membership drawn from Scottish business, trades unions, public agencies, educational institutions, local authorities, and the voluntary sector. SCDI has had a strong interest in energy policy for many years and has previously submitted views on issues such as Transmission Network Use of Supply (TNUoS) charges. I write to inform you of its concerns regarding the ‘minded-to’ decision in the above document.

SCDI accepts that a reduction in electricity lost during transmission will reduce the amount of electricity production required, leading to environmental benefits in terms of reduced pollution. The regulatory necessity for a cost-reflective charging mechanism - to develop an efficient network and protect consumers is acknowledged and TNUoS does this. However, the Authority’s ‘minded-to’ decision to introduce zonal transmission loss charges based on the location of the generator will be extremely damaging to Scotland’s energy sector including nuclear and renewables regardless of whether the estimated annual savings of a few million pounds materialise or not.

The introduction of the zonal transmission charges, in addition to the other charges imposed on Scottish based energy generators, such as TNUoS, will mean that the development of renewable projects in optimal, but peripheral locations would become more difficult to finance, with many schemes unable to proceed.

SCDI believes that Ofgem's ‘minded-to’ decision risks hindering the encouraging progress on renewable energy by making it less attractive to export “clean” electricity, both renewable and nuclear, from Scotland to the highly populated markets in the south of

England. This seems completely contrary to Scottish Executive and UK Government energy policy to address climate change. While it may be true that transmission and distribution losses represent a cost even for electricity generated from renewable sources, the environmental impact of such losses is significantly lower than other forms of generation, given its carbon-free nature.

The 'minded-to' decision would also seem contrary to European Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources in the internal electricity market which calls for charging regimes to be non discriminatory for electricity from renewable sources, including in peripheral areas.

SCDI recommends that Ofgem does not impose any zonal transmission charges.

Yours sincerely

A handwritten signature in black ink, appearing to read 'alan wilson', followed by a horizontal line. The signature is positioned to the left of a vertical red line.

Alan Wilson  
Chief Executive