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Our Reference:
Your Reference:

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Dear Bob,

Zonal Transmission Losses – The Authority's 'minded-to' decisions

Thank you for the opportunity to respond to the Authority's 'minded-to' decisions.

We have provided our answers to the questions posed in the consultation in the attached Annex. However in addition to these, we would like to highlight the following.

We continue to believe that not one of the Modifications P198 Original, P198 Alternative, P200 Original, P200 Alternative, P203 or P204 should be implemented. We firmly believe that none of the Modifications are better than the existing uniform allocation of losses and we strongly advocate that Ofgem ratify the Modification Panel's recommendations and reject all of the proposed Modifications and alternatives.

The 'minded-to' decision to approve P203 is based on Ofgem's belief that P203 will:

- promote efficiency by reducing losses;
- benefit the environment by reducing carbon emissions; and,
- have no material adverse impact on the development of renewable generation.

We do not believe that the case for approval has been conclusively made, particularly in view of the significant transfers of funds that will accompany the implementation of the Modification nor that approval is a proportionate response to remedy the alleged failing. Ofgem's conclusions are based on unsound modelling and evidence. It is also clear that the industry does not support these Modifications. Ultimately, we do not believe that approval will better meet the BSC objectives nor Ofgem's primary and secondary objectives towards consumers and the environment. We expand on these points below.

Lack of Industry Support

In addition to the Modification Group's rejection and the BSC Panel's rejection of the Modifications, it is clear from the responses to the RIA consultation that there is no significant support from industry for a change to the existing uniform loss arrangements. According to Ofgem's assessment, of the 25 responses the best supported was P203, with 2

votes, one of these being the proposer RWE. Energywatch do not believe that change will benefit consumers and have not supported change. Neither have other bodies such as Highlands and Islands Enterprise and Unison. In addition, there is no support from the renewable energy associations BWEA and SRF. With such a body of support for uniform losses, it is clearly incumbent on Ofgem to provide overwhelming evidence that that there is a significant benefit from making a change. We do not believe that Ofgem have i) provided such overwhelming evidence; nor ii) presented robust modelling supporting the conclusions; nor iii) shown that the benefits significantly outweigh the large transfer of funds that will occur with the consequent effect this will have on participants.

Ofgem's Modelling and Portrayal of Evidence

Ofgem put forward that there will be a reduction in losses associated with short-term dispatch and longer-term re-location. The level of reduction is calculated based on Oxera's modelling.

Short-term

The short-term year-on-year benefits are recognised by both Ofgem and Oxera as being volatile, *a "function of the snapshot estimation used in the analysis"*, that is, the analysis is based on only three snapshots of data out of a whole year. The savings due to reduced losses for the Central scenario are estimated to change from £1.6m for the year 2008/09 to £12m in 2009/10 back to £1.9m in 2010/11. This variation is exhibited across the Modifications, and is justified by Ofgem as being a result of feedback from participants behaviour. However, if participants were to react to the zonal loss signals, it would be expected that there would be a rational reaction that would show as a linear reduction in losses. We believe the volatility shown is simply a function of the lack of robustness of the model. We do not believe that such significant Modification decisions should rely on such weak modelling.

As importantly, this level of benefit needs to be put into the context of the overall energy on the system, the level of losses, and the transfer of funds that will take place. For this Central scenario, the estimated savings (e.g. £1.6m in 2008/09) need to be set alongside the value of the energy market, some £13.1bn, the cost of losses of £233m and the swing in funds from Northern generators to Southern generators, and Southern customers to Northern customers in total of some £353m. Even if the level of saving was to be believed, in the context of the market and the level of losses, the approval of the Modifications (P198 and P203 in particular) and their effect on the transfer of funds of some £353m to create such a saving, is wholly disproportionate.

Medium-term

In the medium-term it is recognised by both Ofgem and Oxera that new plant locations are effectively already fixed: Oxera - *"in the medium term (i.e. until the end of the study period), it [zonal transmission losses] is unlikely to have a significant impact on any new developments"*. There is also the likelihood in both the medium and longer-term that existing sites will be re-used because of the infrastructure already in place. Indeed, the proposer of both P198 and P203, RWE, announced in May 2007, their intention to build a new 2,400 MW coal fired power station at their existing Blyth site in Northern England. This is in a zone where zonal losses would be a dis-benefit. According to their press release, the site is in an *"ideal location"*. It is clear that RWE's actions do not reflect their arguments in their RIA submission that the implementation of zonal losses will *"lead to more efficient and economic short-term plant generation decisions and long-term plant investment decisions"*.

Long-term

Ofgem make several references to the long-term benefits of the introduction of zonal losses. Reference is made to an annual benefit of between £1m and £20m. This value comes from the Oxera report. However the context of the Oxera report is not properly represented. Oxera note that the analysis and estimation of the savings is speculative – *"As discussed, the impact of zonal loss charging on the long-run location of generation is subject to a large degree of uncertainty. Consequently, this section presents speculative scenarios that are intended to provide rough indications of the potential size of any long-run benefit under specific assumptions."* The consultation on the other hand puts forward these savings as though they will occur. Given the timescale, i.e. beyond 2015/16, the scenarios put forward are just that, scenarios, of 1 GW, 2 GW, 3 GW and 4 GW relocating from the North to the South. They are purely speculative, and cannot be relied upon to justify the implementation of zonal losses.

In justifying little impact on renewables, Ofgem put forward the argument that there are other factors that will influence the siting of renewables other than zonal losses – *"the actual impact on renewable generation would be determined by a wider range of factors than just charges for losses."* However, Ofgem do not attribute such reasoning to other types of plant, even when this has been recognised by Oxera. For example Oxera recognise that existing sites would be used because of their existing infrastructure, fuel source etc and that TNUoS will have a greater impact on locational decisions than losses. Indeed, RWE recognise such factors make Blyth their *"ideal location"* for their proposed new 2,400 MW power station. This reasoning is valid regardless of the technology; there are other factors greater than zonal losses that will affect all plant decisions. Ofgem cannot argue it both ways to suit their preferred outcome. If other factors will influence participants' actions greater than the effect of zonal losses, then implementation will not result in a change in behaviour, rather it will simply result in a funds transfer or tax on participants.

Renewables

Ofgem have provided analysis that renewable generation in the North will remain competitive against conventional thermal generation in the South following the implementation of zonal losses - *"And as a result, it would not be expected that locational loss charging arrangements would result in more environmentally efficient renewable generation being replaced by less environmentally efficient conventional generation"*. A table is produced on page 18 of the consultation. However, there are two significant flaws/omissions in this analysis:

1. The cost data is based on a paper published in March 2003 (relying on data prior to that year);
2. No recognition is given to the potential impact on large-scale hydro generation in the North that does not receive support through the Renewables Obligation.

We have reproduced the consultation table below using data provided as part of the DTI's consultation on Reform of the Renewables Obligation, May 2007 (E&Y report: Impact of banding the Renewables Obligation – Costs of electricity production). Both the market and the costs of generation have changed significantly since circa 2003. This new table shows categories of onshore wind (as described in the E&Y report), large- and small-scale wind generation in low and high wind speed conditions. These updated costs show that onshore wind <u>will</u> be affected by the introduction of zonal losses, as the 'South CCGT' cost will appear somewhere along the cost continuum between large-scale high wind speeds and small-scale low wind speeds. On Ofgem's analysis with updated costs, there will definitely be an impact on Northern onshore wind generation.

There is currently some 640 MW of large-scale hydro capacity installed in the North of Scotland owned by SSE Generation Ltd. The annual average output of this generation is some 1,500 GWhs per year. Whilst this generation counts towards the Government's renewables targets this generation does not receive support under the Renewables Obligation. The introduction of zonal losses could have an impact on the future of this generation, yet it would appear that Ofgem have not considered this impact. Ofgem's estimate of the environmental benefit of zonal losses is based around an annual peak level of some 559 GWhs of losses savings under P203. This level can be compared with the 1,500 GWhs of Northern large-scale hydro generation output that could be put at risk because of the implementation of zonal losses, to be replaced by a 'South CCGT'. This needs to be factored into Ofgem's analysis of the environmental benefits (if any) of losses savings before coming to a conclusion that renewable generation will not be replaced by less environmentally efficient conventional generation.

In summary, the evidence on short-term benefits is based on modelling that outturns volatile year-on-year loss savings due to only 3 snapshots being taken from a whole year. The level of estimated savings is insignificant given the level of funds transfer that will occur and the effect this will have on participants being unable to undertake the course of their licensed business. The effect is disproportionate. There can be no medium-term or long-term benefits ascribed to zonal losses. By Ofgem's analysis and updated costs, there <u>will</u> be an impact on Northern renewables. In addition, the potential impact on existing non-ROCable large-scale hydro generation plant has not been given consideration in Ofgem's analysis.

Disproportionate Response

As noted above, we do not believe that Modifications that will transfer some £353m between participants to make an estimated annual saving as potentially as low as £1.6m can be a proportionate response. In addition, there is likely to be a significant impact on North of Scotland generation, including hydro generation, belonging to SSE Generation Ltd. Ofgem's discussion on proportionality puts forward a definition that *"the proposed action taken should not exceed that which is necessary to achieve a stated objective"*. However, Ofgem's consideration of this only extends to the costs of the implementation of the Modification without considering the impact the Modification would have on participants. In the case of SSE Generation Ltd, the annual cost is likely to be of the order of £5m.

In their conclusions on the Modifications, Ofgem make the comment that *"under the existing arrangements the fact that Scottish consumers are in close proximity to generation stations is not reflected in the charges they pay for losses."* This statement recognises that a benefit can be properly attributed to demand and generation that are in close proximity, e.g. North of Scotland demand and generation. This would suggest that a solution to the perceived problem of uniform losses would be to net-off demand and generation and apply loss factors to only the residual element in a zone. This could be a viable alternative that has not been assessed, and could be one that better meets the stated objective and so could lead to a more proportionate response than the existing Modifications. Making a decision on zonal losses without assessing such an option would fail Ofgem's own definition of proportionality.

Significantly, we believe that Ofgem has failed to comply with its obligations under the IME Directive and the general principles of Community law to ensure that terms, conditions, rules, mechanisms and methodologies are proportionate and applied in a non-discriminatory manner.

We believe that implementation of any of the zonal loss Modifications would be a disproportionate response to the perceived problem of uniform losses, particularly given the impact on participants through the transfer of funds and doubt on whether all relevant alternatives have been taken into account. This would be a breach of the IME Directive and the general principles of Community law.

	Total generation Cost in 2006/07	ROC	Generation Cost with ROC	Maximum TNUoS differential See Note 2	Convert to energy cost	Maximum average TLF differential	Convert to energy cost	Total generation cost with ROC and network charges	Pre zonal loss economics
	£/MWh	£/MWh	£/MWh	£/kW	£/MWh		£/MWh	£/MWh	£/MWh
South CCGT	42.00	0.00	42.00	-8.57	-1.22	-2%	-0.84	39.94	40.78
North offshore wind	86.00	-35.00	51.00	0.00	0.00	3%	1.26	52.26	51.00
North onshore Large wind Hi wind/spd	62.00	-35.00	27.00	0.00	0.00	3%	1.26	28.26	27.00
North onshore Large wind Low wind/spd	72.00	-35.00	37.00	0.00	0.00	3%	1.26	38.26	37.00
North onshore Small wind Hi wind/spd	74.00	-35.00	39.00	0.00	0.00	3%	1.26	40.26	39.00
North onshore Small wind Low wind/spd	86.00	-35.00	51.00	0.00	0.00	3%	1.26	52.26	51.00
Notes:									
1. Revised using current energy and renewables figures - ref E&Y report to DTI, 2007; CCGT cost from Redpoint study, 2007.									
2. Average TNUoS costs are already included in E&Y costs and have been excluded in their entirety from these calculations.									

Response to RIA – Outstanding Issues

In addition to the above, we believe that the following points raised by us in the previous RIA consultation have not been fully addressed.

1. As noted above, we believe that the implementation of zonal losses will not provide a signal that generation can credibly be expected to react to, particularly taken alongside the often contradictory signals given by TNUoS and gas network charges. There is significant inconsistency of zonal signals between TNUoS and zonal losses. In particular, there are contradictions between TNUoS and zonal losses in the North of Scotland and across TNUoS generation zones 14 and 15. In these zones, participants are faced with TNUoS signals and losses signals in opposite directions. We continue to believe that the effect of TNUoS signals on top of losses signals is punitive and unnecessary, despite Ofgem's response on the additive effect of the two signals. The level of the zonal TNUoS signal dominates that provided by zonal losses. The disconnected effect of the two signals can be seen to stem from the separate governance of the two arrangements, the BSC and the CUSC. Zonal losses under the BSC should not be implemented without reviewing TNUoS charging including consideration of the relevant governance arrangements of both. Despite Ofgem's response on the additive effect of the two signals, we believe that Ofgem have completely failed to address the separate point on contradictory signals between TNUoS and losses and need to reconsider the overall effect of the two including their governance arrangements.

2. If implemented, the loss factors that will be applied will be based on ex-ante data that will be more than a year out of date; the aggregation of nodes into zones and the aggregation of half-hourly data to seasonal or annual. The combination of these effects means that the resulting loss factors cannot be cost-reflective. We do not believe that Ofgem have fully addressed this in their analysis.

3. Some 67% of NGET's short-term actions in the Balancing Mechanism are related to system/network actions over which generators have no control. These actions will introduce a penal cross subsidy through zonal losses of more significance than any alleged cross subsidy that exists with the present uniform arrangements. We believe that this is inappropriate and that Ofgem have yet to address this point.

4. Furthermore, there is a large set of plant that will be immune to any zonal losses signal in dispatch timescales, be that because of: their technology; their fuel source; to recoup investment in new plant or equipment; or because they are committed through contracts. In the long-term, the pattern of generation is already set. Overall, we believe that there will be little change in the pattern of generation as a result of the introduction of zonal loss factors. However, zonal losses will inevitably have an impact on the economics of marginal projects where there is not the possibility of substitution. As noted above, some of these projects will be renewables in the North. This could result in projects not going ahead or could encourage plant to close earlier than is efficient. This risk is a reality and as such the introduction of zonal losses increases regulatory risk and could undermine investment. Again, we do not believe that Ofgem have fully addressed these points.

5. We have commented previously and have added through the comments above, that the environmental benefits have been misrepresented. On generation:

- We do not believe that there will be a switch from coal to gas as the price differential between the fuels is much larger than the effect of zonal losses;
- Instead, zonal losses will penalise northern renewables in favour of more carbon-intensive Southern generation;
- In addition, the Government is striving to meet its renewable targets and is subsidising wind generation in the North through the Renewables Obligation. Zonal losses will remove some of that subsidy and provide it to (mainly thermal) generators in the South.

On demand:

- The inclusion of negative loss factors for demand encourages increased energy use in the North.

We do not believe Ofgem can meet their environmental obligations nor that Ofgem have fully addressed these points.

6. We continue to believe that zonal losses introduces a totally unnecessary regulatory risk, one which existing power stations (or consumers) are unable practically to respond to. It introduces a volatile year-on-year charge that will disappear if a generator tries to react to it. The calculation of loss factors is not transparent or replicable by participants. This instability and lack of transparency in the zonal losses signal can only increase risk and deter investment. In addition, we continue to believe that the statement by the Secretary of State, along with the actions of both Ofgem and Government, have provided clear strong signals of intent that uniform losses would remain post BETTA.

7. Ofgem continue to reference benefits from the demand side despite recognising in the RIA consultation that *"in the short term, changes to the volume of losses are likely to be relatively small as a consequence of any of the proposals being implemented"*. We continue to believe that there will be no material benefit from the demand side. Indeed, as noted above, negative demand side losses will only encourage greater energy use in the North, harming environmental objectives. This, in particular, has not been addressed by Ofgem.

8. Whilst acknowledging the point, Ofgem have not addressed our previous comments on zonal losses taking GB further away from EU policy, cutting across efforts to encourage greater cross-border trading. In particular, we believe that Ofgem have failed to take account of the obligations contained in Article 4 of the Cross-Border Exchanges in Energy Regulation, that any such charges should not be *"distance related"*. The impact on cross border trading needs to be taken account of in the overall assessment of the benefits of zonal losses. More generally, Ofgem have failed to clarify whether it is mandated under EU obligations to implement zonal loss charging or whether the existing system of uniform losses is prohibited. We believe that this failure to provide analysis on whether Ofgem has met its obligations under EU regulations relating to cross-border trading, the IME Directive and the Renewables Directive means that Ofgem cannot reach a conclusion on the implementation of zonal loss charging arrangements.

9. The network needs generation spread across it from both an electrical and a security & diversity of supply point of view. In particular there is a need for generation in Scotland. The potential dependency on imports from England & Wales was highlighted in January/February 2007 when the coal conveyer belt system at Longannet power station failed. Such geographical diversification is also highlighted by the recent flooding in England affecting Grid substations. We highlighted that the Scottish 132kV transmission network is treated differently from 132kV networks in England and Wales. The inclusion of these 132 circuits increases the losses that are allocated on a locational basis and hence to participants in Scotland. This results in discriminatory treatment of Scottish generation with regards to zonal losses. This discrimination is further exacerbated when it is considered that the 132kV network in Scotland connects generation closely to demand (this is particularly the case in relation to Northern Scotland hydro and wind generation). As noted above, this close proximity of demand and generation would appear to be a desired outcome from the implementation of zonal losses for Ofgem, yet clearly the application of the Modifications would disproportionately load costs onto Northern Scotland 132kV generation that is close to demand. Ofgem have failed to address these points.

Our response to the questions posed by Ofgem follows. Please do not hesitate to give me a call if you wish to further discuss any aspect of this letter and Annex.

Yours sincerely

Rob McDonald
Director of Regulation

Annex 1 – Response to Questions

CHAPTER: Two

Question 1: *Do respondents consider that we have appropriately summarised the key themes of the responses to Ofgem's impact assessment on zonal losses?*

No. As noted above, we believe that a number of aspects of our response to the RIA consultation have not been fully addressed. Some could be listed as themes that have not been addressed, others as aspects of themes that have not been addressed. Regardless of their title, we believe that there are a number of points that have still not been fully addressed by Ofgem in formulating the 'minded-to' decision. These points are listed above as points 1 to 9.

Question 2: *Are there any other themes which respondents considered should have been highlighted?*

Yes. As noted above we believe that a number of points remain outstanding, points 1 to 9 above.

CHAPTER: Three

Question 1: *Do respondents consider that the additional analysis we have provided addresses the concerns expressed by respondents to the impact assessment regarding analytical gaps in the impact assessment?*

No. We do not believe that Ofgem have provided analysis to counter many of the points made in points 1 to 9 above. For example, the contradiction between TNUoS and losses; the aggregation to zones and to seasons/years; the influence of NGET's actions to resolve network issues; the increase in consumption in the North by allowing negative demand-side zonal loss factors and its impact on the environment; the impact on cross-border trading, the IME and Renewables Directives; the impact on Scottish security of supply. Where additional analysis has been provided, e.g. on the impact on renewables in page 18, this has relied on out-of-date data and as a consequence the conclusions cannot be relied upon. This additional analysis has also failed to give consideration to the impact on large-scale non-ROCable generation. Fundamentally however, we do not believe that the Oxera work based on snapshot analysis can be relied upon; the output is recognised by Ofgem as being volatile year-on-year and the alleged benefits can be seen to be minimal in comparison with the size of the market, the level of losses, the transfer of funds and the impact this will have on participants.

Question 2: *Do respondents consider that there are any remaining aspects on the modification proposals that require to be addressed analytically?*

Yes. We believe that Ofgem need to address the points we have made in our response above.

Question 3: *Do respondents have any additional analysis in relation to the impact of the modification proposals that they wish to bring to the attention of the Authority?*

Yes. We believe that Ofgem have relied on out-of-date data in relation to the impact on renewables. We have provided more up-to-date data that results in an alternative conclusion.

CHAPTER: Four

Question 1: *Do respondents consider that the modification proposals have been appropriately assessed against the applicable BSC objectives?*

No. We do not believe that a case has been made that the implementation of P203 will promote efficiency by reducing losses. We do not believe that Oxera's analysis can be relied upon. Even if it was to be believed, the benefits are estimated to be volatile and minimal. In addition, there is a large set of plant that will be immune to any zonal losses signal in dispatch timescales be that because of their technology, fuel source contracts or to make a contribution towards their investment. The medium-term re-location decisions are already made so there can be no benefit attributed to this. The long-term benefits have been misrepresented as being factual whereas they are labelled as speculative by Oxera. Furthermore, it is recognised that medium- and long-term locational decisions are influenced significantly more by TNUoS than losses and by many other factors such as infrastructure, fuel sources, etc as evidenced by RWE's proposals for their Blyth site. Ofgem recognise this in relation to renewables, but not in relation to other plant technologies. This position is untenable. Overall, the effect is that there will be little if any benefit from the introduction of zonal losses.

Significantly however, the proportionality of the implementation has not been appropriately assessed and will breach the IME Directive requirements. The benefits (if any) will be minimal in comparison with the size of the market, the level of losses, the transfer of funds and the impact this will have on participants.

Ofgem have concluded that objectives have been met "on balance". This suggests that in their view, the evidence was finely balanced. However, given the significant impact on participants and the overall minimal benefit (if any) that would accrue, it would be expected that the evidence would be overwhelming before a decision was taken to change. It should be incumbent on Ofgem to seek and then make available such evidence. It is clear from the response to the RIA consultation that the market is not convinced that Ofgem have provided that evidence nor that the change should be made.

Question 2: *Do respondents consider that there are any aspects of the modification proposals that have not been adequately assessed in relation to the applicable BSC objectives?*

We do not believe that the proportionality of the effect of zonal losses has been fully factored into Ofgem's assessment against the applicable objectives. Ofgem have concluded that objectives have been met "on balance". This suggests that in their view, the evidence was finely balanced. However, given the significant impact on participants and the overall minimal benefit (if any) that would accrue, it would be expected that the evidence would be overwhelming before a decision was taken to change. It should be incumbent on Ofgem to seek and then make available such evidence. It is clear from the response to the RIA consultation that the market is not convinced of the merit of the change.

As noted above we believe that there are still a number of issues from our previous RIA response that have not been fully addressed. Points 1 to 9 above need assessed both individually and collectively.

CHAPTER: Five

Question 1: *Do respondents consider that the Authority has appropriately assessed the modification proposals against the applicable BSC objectives when considered collectively?*

No. We do not believe that the Modification proposals have been appropriately assessed either individually or collectively. In that regard, just as above, we do not believe that a case has been made that the implementation of P203 will promote efficiency by reducing losses. We do not believe that Oxera's analysis can be relied upon. Even if it was to be believed, the benefits are estimated to be volatile and minimal. In addition, there is a large set of plant that will be immune to any zonal losses signal in dispatch timescales be that because of their technology, fuel source contracts or to make a contribution towards their investment. The medium-term re-location decisions are already made so there can be no benefit attributed to this. The long-term benefits have been misrepresented as being factual whereas they are labelled as speculative by Oxera. Furthermore, it is recognised that medium- and long-term locational decisions are influenced significantly more by TNUoS than losses and by many other factors such as infrastructure fuel sources etc as evidenced by RWE's proposals for their Blyth site. Ofgem recognise this in relation to renewables, but not in relation to other plant technologies. This position is untenable. Overall, the effect is that there will be little if any benefit from the introduction of zonal losses.

Significantly however, the proportionality of the implementation has not been appropriately assessed and will breach the IME Directive requirements. The benefits (if any) will be minimal in comparison with the size of the market, the level of losses, the transfer of funds and the impact this will have on participants.

Ofgem have concluded that objectives have been met "on balance". This suggests that in their view, the evidence was finely balanced. However, given the significant impact on participants and the overall minimal benefit (if any) that would accrue, it would be expected that the evidence would be overwhelming before a decision was taken to change. It should be incumbent on Ofgem to seek such evidence. It is clear from the response to the RIA consultation that the market is not convinced that Ofgem have provided that evidence nor that the change should be made.

Question 2: *Do respondents consider that there are any aspects on the modification proposals that have not been adequately assessed in relation to the applicable BSC objectives when considered collectively*?

We do not believe that the proportionality of the effect of zonal losses has been fully factored into Ofgem's assessment against the applicable objectives. Ofgem have concluded that objectives have been met "on balance". This suggests that in their view, the evidence was finely balanced. However, given the significant impact on participants and the overall minimal benefit (if any) that would accrue, it would be expected that the evidence would be overwhelming before a decision was taken to change. It should be incumbent on Ofgem to seek such evidence. It is clear from the response to the RIA consultation that the market is not convinced of the merit of the change.

As noted above we believe that there are still a number of issues from our previous RIA response that have not been fully addressed. Points 1 to 9 above need assessed both individually and collectively.

CHAPTER: Six

Question 1: *Do respondents consider that the Authority has appropriately assessed the modification proposals against its duties?*

No. We do not believe that the Modifications have been appropriately assessed in relation to the environment, security & diversity of supply, proportionality and EU obligations.

Question 2: *Do respondents consider that there are any aspects on the modification proposals that have not been adequately assessed in relation to the Authority's duties?*

In relation to the environment, the conclusions on the impact on renewables is based on out-of-date data. The impact on large-scale non-ROCable hydro and the impact on the environment of increased energy consumption in the North as a result of negative demand loss factors have not been considered. In relation to security & diversity of supply, the potential impact on Scotland's security has not been fully analysed. In relation to proportionality, whilst the system costs of implementation have been considered the significant impact on participants has not been factored in. In relation to EU obligations, we do not believe that Ofgem have fully considered their obligations in relation to cross-border trading, the IME and Renewables Directives.

CHAPTER: Seven

Question 1: *Do respondents have any comments on any of the issues set out in this chapter?*

We do not believe that consumers' interests will be improved as a result of zonal losses. Energywatch agree with this view. We also do not believe that the case has been made that there will be a benefit to the environment. Aspects such as the impact on renewables, the impact on large-scale non-ROCable hydro and the impact of increased Northern energy consumption have not been addressed. In addition, given the recognition of the benefits of demand and generation in proximity in this chapter, this would suggest a potential alternative has not been assessed. It should be incumbent on the Authority to ensure that only a proportionate solution is implemented.

CHAPTER: Eight

Question 1: *Do respondents wish to raise any specific issues regarding the Authority's minded to position?*

Given the outstanding issues from the RIA and those additional issues raised by the 'minded-to' consultation, we do not believe the 'minded to' decision is valid.

Question 2: *Do respondents have any views on both the process and timetable that are proposed for the Authority making its final decisions on the modification proposals and for publishing those decisions?*

Given the outstanding unresolved issues and our view that the current 'minded to' decision is untenable, we believe rejection of all the Modifications is the Authority's only viable course of action.

Appendix 6 - Feedback Questionnaire

Does the report adequately reflect your views? If not, why not?

No. As noted above, we believe that many of the issues we raised in the RIA have not yet been addressed.

Does the report offer a clear explanation as to why not all the views offered had been taken forward?

No.

Did the report offer a clear explanation and justification for the decision? If not, how could this information have been better presented?

No. There is a lack of transparency with regard to Ofgem's analysis. Increased transparency would assist a better understanding of Ofgem's reasoning.

Do you have any comments about the overall tone and content of the report?

If additional analysis is provided, the background to the data needs to be made transparent.

Was the report easy to read and understand, could it have been better written?

Other than the lack of transparency regarding the numerical analysis, the report was readable and understandable.

Please add any further comments?