

Charging Methodology Statement:	<b>Statement for Use of LCP Management Limited's Private Network</b>		
Decision:	The Authority's <sup>1</sup> decision is that this Charging Methodology Statement is approved <sup>2</sup>		
Target audience:	DNOs, IDNOs, Suppliers, Generators, Customers and other interested parties		
Date of publication:	21 September 2015	Implementation Date:	21 September 2015

## Background to the charging proposal

In accordance with schedule 2ZA of the Electricity Act 1989 (the Act) distribution exemption holders (DEHs) are required to allow third party supplier access (TPA) where a customer has served on the DEH an expression of interest in taking a supply of electricity from a third party supplier through the DEH's distribution system. Under paragraph 5 of schedule 2ZA of the Act, a DEH must not impose a use of system charge on a customer who has requested third party supply unless we<sup>3</sup> have approved its charging methodology.

The term "use of system charge", in relation to a DEH, is defined in paragraph 16 of schedule 2ZA of the Act as a charge which –

- a) *is levied by the distribution exemption holder on a third party supplier identified in an expression of interest that has been served on the distribution exemption holder; and*
- b) *is for use of the exempt distribution system to which the expression of interest relates.*

On 10 November 2011 we published a guidance document<sup>4</sup> for DEHs putting together a charging methodology statement. This states that charging methodologies must comply with two principles:

- i) *the resulting tariffs must be justified by reference to the costs of the distribution network; and*
- ii) *costs must be allocated to individual network users on an objective, justifiable and non-discriminatory basis.*

The guidance follows our December 2010 consultation on TPA.

## LCP Management Limited's Charging Methodology Statement

LCP Management Limited submitted a proposed charging methodology for our approval in accordance with the requirements set out in schedule 2ZA of the Act.

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This document sets out the reasons for the Authority's decision.

<sup>3</sup> The terms "we", "us", "the Authority" and "Ofgem" are used interchangeably in this document. The Authority is the gas and electricity markets authority. Ofgem is the office of the Authority.

<sup>4</sup> <http://www.ofgem.gov.uk/Networks/Policy/Documents1/TPA%20network%20charging.pdf>

## **Reasons for our decision**

We have decided to approve LCP Management Limited's proposed charging methodology for its network within LCP Management as submitted.

In reaching our decision we have assessed LCP Management Limited's proposed charging methodology against schedule 2ZA of the Act (ie the network operator has provided a record of the assets and liabilities associated with its distribution activities and has a charging statement as well as other documents we require to make a decision), the charging principles referred to above and our principal objective under the Act and wider statutory duties.<sup>5</sup>

### **Charging Principle (i) - the resulting tariffs must be justified by reference to the costs of the distribution network**

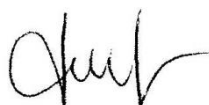
In accordance with our guidance document, DEHs must have in place a charging methodology<sup>6</sup> which provides a reasonable and proportionate method of identifying costs on the network where the DEH intends to charge for TPA. LCP Management Limited has set out in its submission the costs associated with the network it operates and has supported this with evidence, such as a cost profile for the next ten years. We conclude that the tariffs proposed by LCP Management Limited are cost-reflective as they are justified by reference to the costs of operating and maintaining the network that have been or will be properly incurred.

### **Charging Principle (ii) - costs must be allocated to individual network users on an objective, justifiable and non-discriminatory basis**

DEHs are required to provide an explanation of how the costs of the distribution network have been allocated between network users. In its charging methodology LCP Management Limited states that costs are allocated to all customers (whether supplied by a third party or not) by the network operator itself according to network usage. Customers are then charged a unit rate for the electricity they consume. We conclude that the costs are allocated to individual customers on an objective, justifiable and non-discriminatory basis

### **Our principal objective under the Act**

We consider that approving this methodology is consistent with our principal objective under section 3A of the Act of protecting the interests of existing and future consumers. Approving this methodology will allow the DEH to operate and maintain its network while allowing consumers connected to that network to take part in the electricity retail market.



James Veaney  
**Head of Distribution Policy**  
**Signed on behalf of the Authority and authorised for that purpose**

<sup>5</sup> The Authority's statutory duties are detailed mainly in the Electricity Act 1989, Gas Act 1986, Utilities Act 2000, Competition Act 1998, Enterprise Act 2002, the Energy Act 2004 and in European legislation.

<sup>6</sup> As defined in schedule 2ZA of the Act.