

Charging Methodology Statement:	Statement for Use of SSE's Heat Networks Ltd Private Network at Woolwich		
Decision:	The Authority's ¹ decision is that this Charging Methodology Statement is approved ²		
Target audience:	DNOs, IDNOs, Suppliers, Generators, Customers and other interested parties		
Date of publication:	6 January 2015	Implementation Date:	6 January 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 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, a DEH must not impose a use of system charge on a customer who has requested third party supply unless we have approved its charging methodology.

"Use of system charge", in relation to a DEH, is defined under paragraph 16 of schedule 2ZA 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 document³ 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.

DEH's Charging Methodology Statement

On 19th May 2014, SSE Heat Networks Ltd submitted a charging methodology containing details of the proposed methodology for our approval in accordance with the requirements set out in schedule 2ZA of the Act.

Reasons for our decision

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

² This document sets out the reasons for the Authority's decision.

³ <http://www.ofgem.gov.uk/Networks/Policy/Documents1/TPA%20network%20charging.pdf>

We have decided to approve SSE's Heat Networks Ltd charging methodology for the network it operates on behalf of Berkeley Homes Limited at Woolwich. In reaching our decision we have considered SSE Heat Networks Ltd's proposed charging methodology against schedule 2ZA of the Act, the charging principles referred to above and our principal objective and wider statutory duties⁴.

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 methodology⁵ that provides a reasonable and proportionate method of identifying costs on the network where the DEH intends to charge for TPA. SSE Heat Networks Ltd has set out in their submission to us the costs associated with the network it operates at Woolwich and has supported this with evidence.⁶

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 SSE Heat Networks Ltd states that costs are allocated to all customers (whether supplied by a third party or not) and electricity used by the network operator itself according to network usage. Customers are then charged a unit rate for the electricity they consume. Domestic and non-domestic customers are charged the same unit rate.

Andrew Burgess



**Associate Partner, Transmission and Distribution Policy
Signed on behalf of the Authority and authorised for that purpose**

⁴ 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.

⁵ As defined in schedule 2ZA of the Act.

⁶ SSE considers this information to be commercially sensitive.