

Charging Methodology Statement:	Charging methodology for the use of Slough Heat and Power's electricity distribution system		
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 August 2019	Implementation date:	6 August 2019

Background

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 (Charges for use of system), 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.

The term "use of system charge", in relation to a DEH, is defined in paragraph 16(1) 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 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.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

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

³ <https://www.ofgem.gov.uk/ofgem-publications/50612/tpa-network-charging.pdf>

Slough Heat and Power's Charging Methodology Statement

Slough Heat and Power submitted a proposed charging methodology for our approval in accordance with the requirements set out in schedule 2ZA of the Act.

Reasons for our decision

We have decided to approve Slough Heat and Power's proposed charging methodology for its network on the basis of the information submitted to us.

In reaching our decision we have assessed Slough Heat and Power'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.⁴

For clarity, this decision is made on the basis of the information provided by Slough Heat and Power against the charging principles. It does not create a precedent for future charging methodologies submitted by other DEHs. These will be considered on their merits against the charging principles.

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 which provides a reasonable and proportionate method of identifying costs on the network where the DEH intends to charge for TPA.

Slough Heat and Power has set out in its submission the costs associated with the network it operates and has supported this with evidence. We conclude that the tariffs proposed by Slough Heat and Power 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 and accompanying proforma submission Slough Heat and Power costs are allocated to individual distribution system users on an objective basis based on voltage and type of supply, maximum import capacity and actual consumption.

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.

Also, each individual distribution system user is only charged for the parts of the distribution system that are used to serve it. Charges are applied in proportion to the distribution system capacity used by each individual distribution system user.

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 based on the information submitted to us by Slough Heat and Power 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.

Andy Burgess

Deputy Director, Charging & Access

Signed on behalf of the Authority and authorised for that purpose