

Charging Methodology Statement:	<b>Charging methodology for the use of Leep Electricity Networks' electricity distribution system at Liverpool International Business Park</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:	17 July 2020	Implementation date:	17 July 2020

## 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 document<sup>3</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.

<sup>1</sup> 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.

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

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

## **Leep Electricity Networks' Charging Methodology Statement**

Leep Electricity Networks ("Leep") submitted a proposed charging methodology for the private electricity network that they own at Liverpool International Business Park (LIBP) 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 Leep's proposed charging methodology for this network based on the information submitted to us.

In reaching our decision we have assessed Leep'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>4</sup>

For clarity, this decision is made, against the charging principles, based on the information provided by Leep regarding the network at LIBP. 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 that provides a reasonable and proportionate method of identifying costs on the network where the DEH intends to charge for TPA.

Leep's proposed approach is to replicate the use of system charges that are used by Scottish Power Manweb (SPM), the network operator of the licensed host distribution network to which the network at LIBP is connected.

In its submission, Leep set out the costs associated with the network it operates and a hypothetical tariff that would be based on those costs. This hypothetical tariff was compared to SPM's tariff, showing that the use of the SPM tariff would not disadvantage customers, compared to the hypothetical tariff.

Having considered the basis for, and results of, this comparison, we conclude that the tariff proposed by Leep, that is, applying the tariff that SPM would charge if the customer connected to the LIBP network were connected directly to SPM's network, is justified by reference to the costs of operating and maintaining Leep's network, that have been or will be properly incurred.

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<sup>4</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.

**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.

Leep's proposed approach, to replicate the use of system charges that are used by SPM, which are in turn based on the charges derived in accordance with the Common Distribution Charging Methodology (CDCM), results in charges that are allocated to individual customers on an objective, justifiable and non-discriminatory basis. The CDCM, approved by the Authority, is subject to Annual Review by DNOs and amendments to the Distribution Connection and Use of System Agreement.

**Our principal objective under the Act**

We consider that approving this methodology based on the information submitted to us by Leep 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.

**Eleanor Wood**  
**Head of Electricity Network Charging**

Signed on behalf of the Authority and authorised for that purpose