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Charging Statement

Assistance for Areas with High Electricity Distribution Costs Scheme

Effective from 1 April 2008

Contents

INTRODUCTION	3
SCHEDULE 1	4
Schedule of the HDCA Energy Consumption Tariff.....	4
CHAPTER 1: PRINCIPLES	5
Objectives of the Scheme	5
Governance of the Scheme	5
CHAPTER 2: DERIVATION OF THE HDCA ENERGY CONSUMPTION TARIFF	6
Derivation of the Target Revenue	6
The Charging Base	7
Derivation of the p/kWh Tariff	7
CHAPTER 3: LIABILITY AND SETTLEMENT	8
Parties Liable for Charges	8
Basis of Charges	8
Settlement	8
APPENDIX 1: EXAMPLE: CALCULATION OF QUARTERLY LIABILITY	10
GLOSSARY	11
INDEX TO THE ASSISTANCE FOR AREAS WITH HIGH ELECTRICITY DISTRIBUTION COSTS SCHEME CHARGING STATEMENT (ISSUE 3) REVISIONS	16

Introduction

This statement is published in accordance with Licence Condition C21 of National Grid's Transmission Licence.

This document sets out the energy consumption tariff relating to the Assistance for Areas with High Electricity Distribution Costs Scheme. It also describes the methods by which and principles upon which National Grid derives charges resulting from the Scheme.

This document is also available on our Charging website at:

www.nationalgrid.com/uk/Electricity/Charges/aahedc/

This Assistance for Areas with High Electricity Distribution Costs Scheme Charging Statement Issue 3 was published on 15 July 2008, but is effective from 1 April 2008.

If you require further details about any of the information contained within this document or have comments on how this document might be improved please contact our **Charging Team**, preferably by email at:

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Schedule 1

Schedule of the HDCA Energy Consumption Tariff

Year	Energy Consumption Tariff (p/kWh)
2008/09	0.014623

The tariff is based on the total energy consumption over all settlement periods. Parties attracting liability for the tariff are described in Chapter 3 of this document.

Chapter 1: Principles

Objectives of the Scheme

- 1.1 The Assistance for Areas with High Electricity Distribution Costs Scheme was introduced in the Energy Act 2004. It replaces an earlier arrangement, commonly referred to as “Hydro Benefit”, which ended in January 2004 (although this continued on a voluntary basis until 31 March 2005).
- 1.2 The intention of the Scheme is to reduce the costs to consumers of the distribution of electricity in certain areas. Currently the only Specified Area is the North of Scotland. National Grid therefore recovers an Assistance Amount through the Scheme, which is passed to the Relevant Distributor in the Specified Area, Scottish Hydro Electric Power Distribution Ltd. This enables distribution charges to be reduced.

Governance of the Scheme

- 1.3 The Assistance for Areas with High Electricity Distribution Costs Scheme sits outside of the main contractual framework governing connection to, and use of, the transmission system (the Connection and Use of System Code, or CUSC). Similarly, the charging arrangements are not covered by the Charging Statements published by National Grid in accordance with Conditions C4, C5 and C6 of the Transmission Licence.
- 1.4 Instead, the Scheme is governed directly by Licence Conditions placed on Suppliers, Relevant Distributors, and National Grid.
- 1.5 Licensed Suppliers are obliged (by Licence Condition 30A of their Supply Licence) to pay to National Grid the tariff set out in this statement.
- 1.6 Relevant Distributors are obliged (under the terms of Licence Conditions 53A, 53B and 53C of their Distribution Licences) to apply the benefit from the Scheme to reduce the use of system charges levied on Suppliers.
- 1.7 National Grid’s administration of the Scheme is covered by four Conditions in the Transmission Licence:
 - Condition C20 defines the revenue to be recovered in each year;
 - Condition C21 covers payments from Suppliers, and the preparation of this charging statement;
 - Condition C22 specifies the payments to be made to Relevant Distributors; and
 - Condition C23 sets out further reporting requirements to Ofgem and to Relevant Distributors.
- 1.8 The following sections of this statement set out in more detail how the charge is calculated, who is liable for it, and how it is settled.

Chapter 2: Derivation of the HDCA Energy Consumption Tariff

- 2.1 The Assistance for Areas with High Electricity Distribution Costs Scheme (or “HDCA”) Energy Consumption Tariff is calculated for each financial year. The tariff is effective from 1 April in each year, but is not published until after this date. National Grid is required to give no less than one month’s notice prior to issuing the first invoice on 15 August of each year. The tariff is derived by dividing the Target Revenue by the Charging Base, as set out in detail below.
- 2.2 The mid July publication date for the final tariff is set to allow the previous years final quarter payments to be made (around mid June, see section 3.6) in order for the Correction Amount to be calculated and hence the Target Revenue (section 2.3). However, National Grid will publish its latest forecast tariff in a draft schedule for 1 April.

Derivation of the Target Revenue

- 2.3 Condition C20 of National Grid’s Transmission Licence defines the Total Scheme Amount in pounds sterling to be recovered each financial year, using the following formula:

$$HBM_t = A_t + HBOC_t - HBK_t$$

Where

HBM_t represents the Total Scheme Amount in relation to year t

A_t represents the Assistance Amount in relation to year t

$HBOC_t$ represents the Administration Allowance in relation to year t

HBK_t represents the Correction Amount in relation to year t

- 2.4 The Assistance Amount is that recovered by National Grid on behalf of Relevant Distributors. For financial year 2008/09 this will be £46.4m. This is inflated from last year’s assistance amount in line with the Retail Price Index. The Assistance Amount for 2008/09 will be paid to the Relevant Distributor, Scottish Hydro Electric Power Distribution Ltd, in accordance with the following schedule:

Payment Date	Proportion to be Paid	Amount to be Paid
15 September 2008	23%	£10,676,342.94
15 December 2008	22%	£10,212,154.12
15 March 2009	27%	£12,533,098.24
15 June 2009	28%	£12,997,287.06
Total	100%	£46,418,882.37

- 2.5 The Administration Allowance is an amount of revenue that National Grid is permitted to retain in order to cover the costs of administering the scheme. In 2006/07 it was £80,000 and in subsequent years it will be inflated in line with the Retail Price Index.

- 2.6 The Correction Amount is the difference between the Total Scheme Amount in the previous year and the income received from the Scheme in that year.

The Charging Base

- 2.7 The Charging Base is National Grid's forecast of the total energy to be consumed by customers of Licensed Suppliers across all GSP Groups in the relevant financial year. Further detail regarding the exact liabilities incurred by Suppliers can be found in **Chapter 3: Liability and Settlement**.

Derivation of the p/kWh Tariff

- 2.8 The p/kWh energy consumption tariff is calculated as follows:

$$\text{p/kWh Tariff} = \frac{\text{HBM}_t * 100}{\text{HBCB}_t}$$

Where

HBM_t represents the Total Scheme Amount in relation to year t

HBCB_t represents National Grid's forecast of total energy to be consumed by customers of Licensed Suppliers at GSPs in kWh in year t

- 2.9 The current tariff is set out in **Schedule 1** of this statement.

Chapter 3: Liability and Settlement

Parties Liable for Charges

3.1 Licensed Suppliers are liable for HDCA energy consumption charges.

Basis of Charges

3.2 From 1 April 2005, the HDCA energy consumption charge incurred by a Supplier will be determined by the total half-hourly and non half-hourly metered energy consumption over all settlement periods attributed to the following BM Units for which the Supplier is the lead party:

- Supplier BM Units (i.e. those comprising plant and/or apparatus registered in SVA Metering Systems);
- Any other BM Units relating to demand supplied by Licensed Suppliers by means of a distribution system.

3.3 Section 179 of the Energy Act 2004 has extended the definition of electricity supply to include electricity conveyed solely by means of a transmission system. Therefore from the 1st April 2006, the energy consumption charge incurred by a Supplier also includes BM Units relating to Non-Embedded Customers.

3.4 BM Units relating to Station Load, Pumping Demand and Additional Load at Power Stations, and Interconnector User BM Units, are not liable for Assistance for Areas with High Electricity Distribution Costs Scheme energy consumption charges.

3.5 For the avoidance of doubt, BM Units in the North of Scotland are liable for Assistance for Areas with HDCA energy consumption charges.

Settlement

3.6 HDCA energy consumption charges are invoiced on a quarterly basis, with invoices despatched by 15 August, 15 November, 15 February and 15 May (or the following business day). In 2008/09, the invoicing timetable will be as follows:

Period of Liability	Invoice Date	Payment Date
April – June 2008	15 August 2008	12 September 2008
July – September 2008	15 November 2008	13 December 2008
October – December 2008	15 February 2009	15 March 2009
January – March 2009	15 May 2009	12 June 2009

3.7 Payment terms for invoices relating HDCA energy consumption charges are 28 days. The dates by which such invoices relating to the financial year 2008/09 should be paid can be seen in the above table.

3.8 Invoices may also include a separate amount representing an interest charge to cover the late payment of previous invoices. This will be applied at 8% above the base interest rate on any payments not made on the payment due date, calculated for each day after the payment due date up to and including the date on which payment was actually made. Suppliers should also note that Condition 30A of their Supply Licence requires them to pay relevant invoices in accordance with the above timetable.

- 3.9 Invoices are calculated using the best possible settlement data relating to half-hourly and non half-hourly metered energy consumption supplied from BSCCo available at the time. This calculation may be performed at any time between receipt of data from the Initial Settlement Run relating to the final day of the relevant quarter and the invoice date, as set out in paragraph 3.4. In normal circumstances, for an entire quarter, the data will predominantly comprise that from the Initial and First Reconciliation Settlement Runs however National Grid will confirm which BSCCo data has been used.
- 3.10 In the event of data for any settlement day being unavailable at the time of the invoice calculation then National Grid will substitute such data as it shall, at its reasonable discretion, think fit. In normal circumstances, data for the corresponding settlement day the previous week will be used but occasionally last year's data may be used if a gap occurs during an annual holiday, Easter for example. If such a situation arises then National Grid will notify the method of substitution to users.
- 3.11 Settlement is final at the Invoice Date. There is no reconciliation using data from the Final Reconciliation Settlement Run.
- 3.12 In the event of any queries concerning the operation of the Assistance for Areas with High Electricity Distribution Costs Scheme please contact our **Charging Team** using the details set out on page 3 of this statement.

Appendix 1: Example: Calculation of Quarterly Liability

This appendix illustrates the methodology used by National Grid in the derivation of charges relating to the Assistance for Areas with High Electricity Distribution Costs Scheme through the use of a hypothetical example.

Supplier A is the lead party of one set of 14 Base BM Units. It is also the lead party of one BM Unit relating to a Non-Embedded Customer. Using the best settlement data available at the time, the following energy consumption for Quarter 1, 2008/09 (i.e. 1 April 2008 – 30 June 2008) is recorded:

BM Unit	Quarterly Energy (kWh)
2_AAAAA000	100,000,000
2_BAAAA000	100,000,000
2_CAAAA000	100,000,000
2_DAAAA000	100,000,000
2_EAAAA000	100,000,000
2_FAAAA000	100,000,000
2_GAAAA000	100,000,000
2_HAAAA000	100,000,000
2_JAAAA000	100,000,000
2_KAAAA000	100,000,000
2_LAAAA000	100,000,000
2_MAAAA000	100,000,000
2_NAAAA000	100,000,000
2_PAAAA000	100,000,000
Sub-total	1,400,000,000
T_AAAAD-1	100,000,000
Total	1,500,000,000

The Supplier's charge for Quarter 1 is therefore calculated as follows:

$$\begin{aligned} \text{Charge} &= \frac{1,500,000,000 \text{ kWh} \times 0.014623}{100} \\ &= \text{£219,345.00} \end{aligned}$$

These charges would be invoiced in accordance with the timetable set out in **Chapter 3** of this statement.

Glossary

The following definitions are intended to assist the reader's understanding of this document. In the event of conflict with definitions given elsewhere, those used in the Electricity Act 1989 (as amended by the Utilities Act 2000 and the Energy Act 2004), Transmission Licence, Grid Code, Balancing and Settlement Code and Connection and Use of System Code take precedence.

For the avoidance of doubt "as defined in the BSC" relates to the Balancing and Settlement Code as published from time to time.

Act	The Electricity Act 1989
Additional Load	Site Load other than Station Load and importing Generating Units for processes other than the production of electricity
Administration Allowance	The amount of the revenue allowance that National Grid is permitted to retain to cover the costs of administering the Scheme
Assistance Amount	The amount payable by National Grid to a relevant distributor in a relevant year under the Scheme
Assistance for Areas with High Electricity Distribution Costs Scheme	The scheme established pursuant to the Energy Act 2004 (Assistance for Areas with High Distribution Costs) Order 2005
Balancing and Settlement Code (BSC)	As defined in the Transmission Licence
Base BM Unit	As defined in the BSC
Base Interest Rate	In respect of any day, the rate per annum which is equal to the base lending rate from time to time of Barclays Bank plc as at the close of business on the immediately preceding business day
BM Unit	Defined in the BSC as: "a unit established and registered (or to be established and registered) by a Party in accordance with section K3 [of the BSC]"

BM Unit Metered Volume “QM _{ij} ”	<p>Defined in the BSC as:</p> <p>“In respect of a Settlement Period:</p> <ul style="list-style-type: none"> (i) in relation to a BM Unit (other than an Interconnector BM Unit) comprising CVA Metering Systems, the Metered Volume (as determined in accordance with Section R [of the BSC]); (ii) in relation to an Interconnector BM Unit, the quantity determined in accordance with Section R7.4.2 [of the BSC]; (iii) in relation to an Interconnector Error Administrator BM Unit, the quantity determined in accordance with Section T4.1; and (iv) in relation to a Supplier BM Unit, the quantity determined in accordance with section T4.2.1 [of the BSC].”
BSCCo	As defined in the BSC
Charging Base	As defined in section 2.6 of this statement
Charging Statements	Documents prepared by National Grid in accordance with Conditions C4, C5 and C6 of the Transmission Licence setting out charges payable for connection to, and use of, the transmission system for matters other than the Scheme
Connection and Use of System Code	A document prepared by National Grid in accordance with Condition C10 of the Transmission Licence forming the main contractual framework governing connection to, and use of, the transmission system for matters other than the Scheme
Correction Amount	The difference between the Total Scheme Amount in the previous year and the income received from the Scheme in that year
CUSC	The Connection and Use of System Code
Demand	Electricity consumed at sites or by equipment not owned and operated by National Grid
Distribution	Conveyance of electricity by means of a Distribution System
Distribution System	As defined in the BSC
Energy Consumption	As defined in sections 3.2 and 3.3 of this statement
Energy Consumption Charge	Charge levied on Suppliers in order to allow National Grid to recover the Total Scheme Amount
Energy Consumption Tariff	The tariff levied on Suppliers' Energy Consumption in order to allow National Grid to recover the Total Scheme Amount, and calculated in accordance with Chapter 2 of this statement

First Reconciliation Settlement Run	As defined in the BSC
Final Reconciliation Settlement Run	As defined in the BSC
Financial Year	The period of 12 months ending on 31 st March in each calendar year
Generating Unit	As defined in the Grid Code
Grid Code	A document prepared by National Grid in accordance with Condition C14 of the Transmission Licence setting out the technical parameters for the operation and use of the transmission system and of plant and apparatus connected to the transmission system
Grid Supply Point (GSP)	A point of delivery from the GB Transmission System to a distribution system or Non-Embedded User
GSP Group	As defined in the BSC
HDCA	An abbreviation of the Assistance for Areas with High Electricity Distribution Costs Scheme
Hydro Benefit	A common abbreviation of the Assistance for Areas with High Electricity Distribution Costs Scheme. More accurately, the scheme preceding the Assistance for Areas with High Electricity Distribution Costs Scheme
Initial Settlement Run	As defined in the BSC
Interconnector	As defined in the BSC
Interconnector User	As defined in the BSC
Interconnector User BM Units	BM Units for which the lead party is an Interconnector User
Licensed Supplier	A holder of an electricity supply licence
Non-Embedded Customer	A User, except an Electricity Distributor, receiving electricity direct from the National Grid Transmission System irrespective of from whom it is supplied
North of Scotland	The area of Scotland specified in Schedule 1 of the Energy Act 2004 (Assistance for Areas with High Distribution Costs) Order 2005
Ofgem	The Office of Gas and Electricity Markets

Power Station	<p>Defined in the Grid Code as:</p> <p>“an installation comprising one or more Generating Units (even where sited separately) owned and/or controlled by the same Generator, which may be reasonably considered as being managed as one Power Station.”</p>
Relevant Distributor	As defined in Condition C20 of the Transmission Licence
Retail Price Index	<p>In the context of the Scheme, means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index figures published or determined with respect to each of the six months May to October (both inclusive) in relation to the relevant year t-1 and that are published or determined with respect to the same months in relation to the relevant year t-2</p>
Scheme	The Assistance for Areas with High Electricity Distribution Costs Scheme
Settlement Day	has the meaning given to that expression in the BSC
Settlement Period	<p>Defined in the BSC as:</p> <p>“Settlement Period j starts at the spot time occurring at the beginning of the half hour and ends at the spot time occurring exactly 30 minutes later. The spot time at the beginning of one period therefore coincides with the spot time at the end of the previous period.”</p>
Settlement Run	<p>Defined in the BSC as:</p> <p>“a determination (in accordance with Section T), in relation to a Settlement Day, of amounts giving rise, on the part of Trading Parties and the Transmission Company, to a liability to pay or a right to be paid by the BSC Clearer amounts in respect of Trading Charges in each Settlement Period in that Settlement Day, and of the net credit or debit in respect of such amounts; and where the context requires a reference to a Settlement Run includes the data and information produced by the SAA following such a determination and delivered to the FAA in accordance with Section N”</p>
Site Load	<p>May comprise Station Load and Additional Load.</p> <p>The sum of the BM Unit Metered Volumes (QM_{ij}), expressed as a positive number, of BM Units within the Trading Unit with QM_{ij} less than zero during the three Settlement Periods of the Triad (i.e. $\sum QM_{ij}$ where $QM_{ij} < 0$)</p>
Specified Area	As defined in the Energy Act 2004 (Assistance for Areas with High Distribution Costs) Order 2005

Station Load	The Station Load is equal to the sum of the demand of BM Units solely comprising the Station Transformers within the Power Station. For the avoidance of doubt, Station Load excludes BM Units comprising Additional Load
Station Transformer	Defined in the Grid Code “as a transformer supplying electrical power to the auxiliaries of a power station which is not directly connected to the generating unit terminals.”
Supplier	A holder of an electricity supply licence
Supplier BM Unit	As defined in the BSC
SVA	Supplier Volume Allocation, as defined in the BSC
SVA Metering System	As defined in the BSC
Total Scheme Amount	National Grid’s maximum allowable revenue in relation to the Assistance for Areas with High Electricity Distribution Costs Scheme
Transmission Licence	The licence granted to National Grid Company plc under Section 6(1)(b) of the Act
Transmission system	A system which consists (wholly or mainly) of electrical plant and lines at transmission voltages
Transmission voltage	In England and Wales, voltages above 132kV, and in Scotland, voltages of 132kV and above

**Index to the Assistance for Areas with High Electricity
Distribution Costs Scheme Charging Statement (Issue 3)
Revisions**

Issue 3	Modifications	Changes to Pages
Revision 0	New Issue	