

# A Guide to AAHEDC Charges

December 2018

# Assistance for Areas with High Electricity Distribution Costs

A scheme implemented as part of the Energy Act 2004, and designed to reduce the cost of electricity distribution in 'Specified Areas'.

## Who pays?

### Electricity suppliers

The scheme amount is recovered in line with conditions defined in the electricity supplier licence.

## Who Benefits?

Currently there is only one Relevant Distributor:

- Scottish Hydro Electric Power Distribution (SHEPD)

## How does it work?

The scheme 'Assistance Amount' and the 'Administration Amount' were introduced by the Energy Act 2004 and both are inflated annually by the Retail Price Index (RPI) published by the Office for National Statistics (ONS).

National Grid (NGESO) is the appointed scheme administrator.



We have a licence obligation to set an annual tariff to recover the required Assistance Amount on behalf of Relevant Distributors.

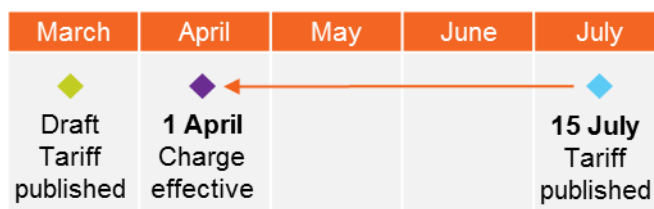
The total amount collected under the scheme ('Total Scheme Amount') is made up of 3 parts:

- **Assistance Amount:** paid to Relevant Distributors quarterly on 15 September, 15 December, 15 March and 15 June. (Inflated each year in line with RPI).
- **Administration Allowance:** retained by the scheme administrator to cover the costs of administering the scheme (inflated by RPI each year).
- **Correction Amount:** represents the difference between the Total Scheme Amount in the previous year and the income received in that year.

**Note:** The calculation of the tariff is based on a forecast of demand and this is influenced by a number of factors, including economic factors and weather conditions.

## What does that mean for electricity suppliers and their customers?

The tariff is published annually on or before 15 July (i.e. one month before the first invoice date) and is effective retrospectively<sup>1</sup> from 1 April that year.



**Note:** National Grid publishes a 'draft' tariff at the end of March to give industry a 'forecast' based on known invoice values and the latest available settlement metering data.

Invoices are issued to electricity suppliers quarterly in arrears. The value is calculated using the sum of consumption in the previous quarter<sup>2</sup> and includes all settlement periods across all GSP Groups. Suppliers are invoiced on 15 August, 15 November, 15 February and 15 May with 28-day payment terms.

## Which BM Units are included in the AAHEDC Charge?

AAHEDC is chargeable on those 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) and
- **Any other BM Units** relating to demand supplied by Licensed Suppliers by means of a distribution system.

**Note:** 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. Effective 1 April 2006, the energy consumption charge incurred by a Supplier also includes BM Units relating to Non-Embedded Customers.

Backing sheets showing details of consumption at each BM Unit are issued along with each invoice and the email advice will detail the settlement runs used in the calculation.

## How is the tariff calculated?

We are responsible for calculating and publishing the tariff in the AAHEDC Charging Statement - the document that sets out how the scheme operates.<sup>3</sup>

The AAHEDC Energy Consumption Tariff (in pence per kWh) is calculated by dividing the Total Scheme Amount (£) by the forecast of total energy consumption across all settlement periods during the relevant year.

The final tariff is published by 15 July of the charging year.

Further information, including the current scheme tariff, can be found in the relevant charging statement at <https://www.nationalgrideso.com/charging/assistance-areas-high-electricity-distribution-costs-aaheadc>

<sup>1</sup> Retrospectively because National Grid must wait for the final quarter invoiced values to calculate the Correction Amount (under/over-recovery) in the previous scheme year

<sup>2</sup> Settlement metering data provided to National Grid by Elexon in the SAAi014 file

<sup>3</sup> Licence Condition C20 of National Grid's Transmission Licence

# Frequently asked questions

Q. Is the AAHEDC charge applicable only to Scottish BM Units?

A. No, it's applicable to all supplier BM Units, across the entire transmission system.

Q. Are AAHEDC charges reconciled (like TNUoS demand charges)?

A. No, there is no reconciliation; settlement is deemed to be final at the invoice date.

Q. Is the draft tariff likely to be a good indicator of the final tariff?

A. Usually yes; we calculate the draft tariff using the latest available settlement metering and extrapolate using last 5 years' final quarter invoicing.

Q. Does the tariff vary by demand zone?

A. No, it's a flat-rate tariff.

We hope you've found this guidance document useful. If you have any further questions, please get in touch.

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