

Guidance on: Assistance for Areas with High Electricity Distribution Costs (AAHEDC) Scheme Charging

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Assistance for Areas with High Electricity Distribution Costs (AAHEDC)

Introduction

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', 'Shetland Assistance Amount' and the 'Administration Amount' were introduced by the Energy Act 2004 and are inflated annually by the Consumer Prices Index including owner occupiers' housing costs (CPIH) published by the Office for National Statistics (ONS).

National Energy System Operator (NESO) is the appointed scheme administrator.



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

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

- **Assistance Amount** and **Shetland Assistance Amount:** paid to Relevant Distributors quarterly on 15 September, 15 December, 15 March and 15 June. (Inflated each year in line with CPIH).
- **Administration Allowance:** retained by the scheme administrator to cover the costs of administering the scheme (inflated by CPIH 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 retrospectively¹ from 1 April that year. It is a flat-rate tariff and does not vary by demand zone.

March	April	May	June	July
◆ Draft Tariff Published	◆ 1 April Charge effective			◆ 15 July Tariff published

Note: A blue arrow points from the 15 July diamond back to the 1 April diamond, indicating retrospective effectiveness.

¹ Retrospectively because NESO must wait for the final quarter invoiced values to calculate the Correction Amount (under/over-recovery) in the previous scheme year.

Invoices are issued to electricity suppliers quarterly in arrears. The value is calculated using the sum of gross demand attributable to Licensed Suppliers across all GSP Groups in the previous quarter² and includes all settlement periods across all GSP Groups. Suppliers are invoiced on 15 August, 15 November, 15

Note: NESO 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.

February, and 15 May with 28-day payment terms. There is no reconciliation; settlement is deemed to be final at the invoice date.

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

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 and the settlement runs used in the calculation are issued along with each invoice.

² Settlement metering data provided to NESO by Elexon in the SAAi014 and P0210 files.

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.³

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.neso.energy/industry-information/charging/assistance-areas-high-electricity-distribution-costs-aahedc>

Contact us

For more information, please contact the TNUoS team at TNUoS.Queries@nationalenergyso.com

³ Licence Condition F8 of NESO's Licence