



VITAL ENERGI POWER NETWORKS LIMITED

USE OF SYSTEM CHARGING METHODOLOGY STATEMENT

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USE OF SYSTEM CHARGING METHODOLOGY STATEMENT

1. INTRODUCTION

1.1 This statement has been prepared in accordance with the standard conditions of the electricity distribution licence and provides details of the methodology that Vital Energi Power Networks applies to produce charges for use of its electricity distribution system.

1.2 Vital Energi Power Networks is required under Condition 13 of the standard conditions of the electricity distribution licence to prepare a statement setting out the methodology upon which charges will be made for use of its electricity distribution systems, as approved by the Authority. Vital Energi Power Networks is also required to review this statement annually to ensure that the Relevant Objectives of Licence Condition 13 continue to be achieved. The Relevant Objectives are:

- > That compliance with the use of system charging methodology facilitates the discharge by Vital Energi Power Networks of the obligations imposed on it under the Electricity Act 1989, as amended by the Utilities Act 2000, and by the Electricity Distribution Licence;
- > That compliance with the use of system charging methodology facilitates competition in the generation and supply of electricity and does not restrict, distort or prevent competition in the transmission or distribution of electricity;
- > That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by Vital Energi Power Networks in its distribution business;
- > That, so far as is consistent with sub-paragraphs (a), (b) and (c), the use of system charging methodology, as far as is

reasonably practicable, properly takes account of developments in Vital Energi Power Networks distribution business.

1.3 As an Independent Distribution Network Operator, Vital Energi Power Networks is also required under its electricity distribution licence to set its Distribution Use of System charges in relation to domestic customers so that, except without prior written consent of the Authority, the standing charge, unit rate and any other component of charges shall not exceed the distribution use of system charges to equivalent domestic customers (equivalent meaning use of system charges made by the Electricity Distributor which has a Distribution Services Direction that specifies the Distribution Services Area in which the Domestic Premises connected to Vital Energi Power Networks electricity distribution system are located).

2. METHODOLOGY TO DETERMINE DISTRIBUTION USE OF SYSTEM TARIFFS

2.1 This section contains the methodology used by Vital Energi Power Networks to determine the Distribution Use of System charges for sites and distribution systems connected to Vital Energi Power Networks electricity distribution systems.

2.2 The methodology differentiates between those properties connected at Low Voltage (LV) or High Voltage (HV), and those connected at Extra High Voltage (EHV).

Definition of LV, HV and EHV Properties

2.3 LV and HV Properties are defined as follows:

- > Premises connected to the licensee's electricity distribution system at less than 22 kilovolts, excluding those premises connected directly to substation assets that form part of the licensee's electricity distribution

system at 1 kilovolt or more and less than 22 kilovolts where the primary voltage of the substation is 22 kilovolt or more and where the Metering Point is located at the same substation.

2.4 EHV properties are defined as any premises that do not meet the criteria set out above for LV and HV properties.

Methodology to determine use of system charges for import to LV and HV properties.

2.5 For demand customers supplied through Vital Energi Power Networks electricity distribution systems at LV or HV and which fall within the scope of a generic tariff published by the Distribution Services Provider in the Host DNO Area, our applicable use of system tariff is the same as the published tariff that would apply to an equivalent customer supplied by the Distribution Services Provider in the Host DNO Area.

2.6 At the time of preparing this statement, the method used by Distribution Services Providers to determine the relevant use of system tariffs is called the Common Distribution Charging Methodology (CDCM).

Methodology to determine use of system charges for export from LV and HV properties

2.7 For export customers connected to Vital Energi Power Networks electricity distribution systems at LV or HV and which fall within the scope of a generic tariff published by the Distribution Services Provider in the Host DNO Area, our applicable use of system tariff is the same as the published tariff that would apply to an equivalent customer supplied by the Distribution Services Provider in the Host DNO Area and amended as follows:

- > Where the Host DNO export for an LV or HV customer contains a unit based credit, Vital Energi Power Networks will only pay a unit based credit in respect of export from LV and HV properties at the same level as that paid by the Host DNO to Vital Energi Power Networks. This credit will depend on the voltage of the boundary of connection between Vital Energi Power Networks and the Host DNO.

2.8 At the time of preparing this statement, the method used by Distribution Services Providers to determine the relevant use of the system



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tariffs is called the Common Distribution Charging Methodology (CDCM).

Methodology to determine use of system charges for import and export from EHV properties

2.9 For EHV properties, Vital Energi Power Networks use of system tariff will be determined on a site specific basis.

2.10 Where an EHV property is connected to a Vital Energi Power Networks electricity distribution system and the Host DNO produces an All The Way (ATW) import or export use of system tariff, then Vital Energi Power Networks will apply this tariff. An ATW tariff is defined as the tariff that would apply if the customer was connected directly to the Host DNO electricity distribution system.

Where Vital Energi Power Networks is not able to set an import or export tariff for an EHV property in accordance with the paragraph above, or where the tariff would not allow Vital Energi Power

Networks to recover all reasonable costs associated with providing the electricity distribution system to the customer, Vital Energi Power Networks will calculate the DUoS tariff that applies as the sum of:

- > The boundary tariff levied by the host DNO at the boundary with the Vital Energi Power Networks electricity distribution system in respect of the EHV property; and
- > All reasonable costs associated with the fulfilment of Vital Energi Power Networks obligation to provide a safe and secure electricity distribution system between the host DNO and the EHV property, and a reasonable rate of return on the assets deemed to be used by the customer (rate of return will be set to equal the pre-tax real Weighted Average Cost of Capital of the Vital Energi Power Networks business, in accordance with a prior (enduring) decision by Ofgem). This will include an allocation of direct and indirect costs, network rates,

transmission exit charges, and depreciation.

- > Where an EHV property is connected to an electricity distribution system that is connected to a Vital Energi Power Networks electricity distribution system, Vital Energi Power Networks will determine a boundary equivalent price that applies at the boundary between the Vital Energi Power Networks electricity distribution system and the electricity distribution system to which the customer is connected. The boundary equivalent price will be calculated based on the principles set out in the paragraphs above.