

## Annex 8 - Related Modifications Discussions

### Use of Line Loss Factor Class (LLFC)

The TCR SCR direction from Ofgem is clear that the bands for the demand residual charge should apply for the entire Transmission price control period and that demand sites, once they are allocated to a particular band for charging purposes, are fixed within that band for the duration of the price control period.

The Workgroup<sup>1</sup> noted that DNOs propose to use Line Loss Factors Class (LLFC)<sup>2</sup> to identify which band an individual site should be allocated to as, according to the DNO representative and supported by some Workgroup members, using LLFC is the only feasible option for delivery by 1 April 2021. There was a concern expressed by a Workgroup member as to the number of disputes that may arise from customers if the use of LLFCs leads to identical sites being placed in different charging bands. There was some support within the Workgroup for creating a new data registration item<sup>3</sup> for this purpose. However, this cannot be delivered by 2021.

Workgroup members identified the following impacts for normal LLFC processes, which need to be discussed as part of DCP360:

- Amending existing LLFCs to align with bands as this will result in significant volumes of LLFC changes; and
- Where an existing Metering System changes LLFC within a price control period they may only move to an LLFC within the same band. If the required LLFC and TCR SCR fixed charge band combination does not already exist, the DNO will need to create a new LLFC reflecting all changes required; however, the new LLFC can only be allocated by the DNO to the same charging band as the site is already in.

The Workgroup recognised that use of LLFC is a temporary solution and this solution will need to be unpicked later as part of implementing the ongoing AFLC SCR and Market Wide Half Hourly settlement reform.

The Workgroup also noted that Independent DNOs (IDNOs) also use LLFC and the need for consistency in the application of the rules by both DNOs and IDNOs. These business rules need to be defined as part of DCP360 and DCP361.

### Definitions of Site and Final Demand

The Workgroup agreed that the definitions of “Site” and “Final Demand” should be set out in CUSC on the basis that the code that sets out the rules for setting bands for charging should host the primary definitions, which in this case would be the CUSC.

The Workgroup also considered how to ensure the definitions would remain aligned following inevitable developments within the CUSC and DCUSA. A Workgroup member argued that in event of a discrepancy in regard to TNUoS charging that the CUSC

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<sup>1</sup> References here to “Workgroup” are to the CMP332 Workgroup

<sup>2</sup> Line Loss Factor Class (LLFC) is a 3-digit alpha numeric code assigned to all metering systems. Every metering system has an MPAN. A metering system can only have one LLFC at a point in time.

<sup>3</sup> The new registration item would need to clearly identify the metering system the site is linked to and whether or not this is chargeable or non-chargeable

definitions took precedence whilst others argued that it is made clear in the body of the definitions that they are also defined in another Code.

DCUSA Modification DCP359<sup>4</sup> and the CUSC Modification (CMP334) would be progressed as a joint Workgroup to agree what these definitions are and ensure consistency across DCUSA and CUSC.

### **Process for Disputes in the event that a User believes they have been allocated in the wrong tariff band**

The TCR SCR Direction envisages that disputes may be allowed in “tightly defined circumstances” where “substantial changes in usage” result in “significant changes in the level of agreed capacity”.

Given that the indicative difference shown between the illustrative charges in each band<sup>5</sup> in some cases is significant, the Workgroup discussed how end customers could challenge which band their site(s) were in. The Workgroup agreed that a Disputes process needs to be consistent across both the CUSC and DCUSA whilst noting that those parties would also have the right to make a complaint directly to Ofgem<sup>6</sup>. The Workgroup also raised concerns that Ofgem might not have the capacity to deal with the level of disputes that may happen with customers who believe their site(s) have been allocated to the wrong band – Ofgem do not share this concern and expect minimum disputes.

The Workgroup noted that if a sufficient volume of customers successfully appeal after the allocation of individual sites to charging bands, this may significantly impact the number of sites in the banding and therefore adjust the revenue to be recovered from that band. As appeals are only likely from customers seeking to move their site(s) from a higher paying to a lower paying band; rather than the other way around; this would suggest that a meaningful number of successful appeals of site bandings could lead to a significant under recovery of TNUoS. This is different to that modelled in the TCR SCR Decision. However, it is clear from the TCR SCR Direction that disputes may be allowed in “tightly defined circumstances” where “substantial changes in usage” result in “significant changes in the level of agreed capacity”.

The Workgroup noted that the “tightly defined circumstances” will be defined as part of CMP335/6 and DCP360, whilst being aware that this would not replace the existing rights for customers to take complaints about transmission or distribution charges directly to Ofgem. The Workgroup also noted that it would be important to include a transitional period such that Customers have sufficient time to check and review their indicative charging band allocation(s) and therefore avoid charging disputes post implementation. However, the Workgroup also noted that including such a transitional period will cause further risk to the Implementation Date of 1 April 2021. CMP335/6 Workgroup and DCP360. will consider this further but the DNO Workgroup Member clarified that they were proposing to issue indicative tariffs as far ahead as possible.

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<sup>4</sup> DCP 359 is the change which will define eligibility for residual fixed charges in terms of defining/establishing processes for Single Site and Final Demand, and is the proposed DCUSA/CUSC working group

<sup>5</sup> See Table 7, page 89 of Ofgem’s November 2019 TCR SCR decision document.

<sup>6</sup> As, for example, is set out in CUSC Section 7.3