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Dear Contract Manager

Re: Implementation of the Targeted Charging Review on the Slough Heat and Power electricity distribution network

We are writing to you to inform you of a forthcoming change to the Line Loss Factor Classes (LLFCs) on the Slough Heat and Power (SHP) electricity distribution network.

We shall be migrating the majority of MPANs from their existing LLFCs to new LLFCs, as set out in the table on page 3 of this letter, to enable the implementation of the Targeted Charging Review (TCR).

Please note, these LLFC changes are purely to enable TNUoS to be charged correctly via charging bands from April 2023 and do not affect the SHP Use of Systems (UoS) charges or associated Ofgem approved charging methodology.

Background

LLFCs are used to assign MPANs to tariffs and distribution loss factors. We are migrating the majority of MPANs from their existing LLFCs to new LLFCs to enable the implementation of the Targeted Charging Review (TCR).

The TCR is a major change to the way network use of system charges are applied and is the result of a Significant Code Review (SCR) by Ofgem. There are a number of changes that have been brought about as a result of the TCR, but this letter is about the introduction of the concept of “residual charges” into Transmission Network Use of system (TNUoS) and Distribution Use of System (DUoS) charges.

The residual charge is a balancing item that allows Network companies to recover the correct amount of revenue. It can be positive or negative, but in most cases, it forms a large positive component of the use of system charge. Ofgem are proposing that the residual element should be recovered via a fixed charge applied to demand customers for both TNUoS and DUoS based on a series of charging bands.

The impact of this change for typical customers connected to a licensed network (i.e. **not** the SHP distribution network) is summarised below:

- TNUoS – The residual is currently recovered as part of the Triad charge for demand customers. From **April 2023**, the residual will be removed and recovered via a fixed charge and the level of this charge will depend on which band a customer falls within.
- DUoS – *For reference only - From April 2022, for customers connected to licensed networks, the residual will be removed from the unit based or capacity charge element of DUoS and instead recovered, via a fixed charge. The level of this charge will depend on which band a customer falls within.*

The impact of the TCR for SHP customers

SHP currently sets UoS charges for its unlicensed network based on a charging methodology that has been approved by Ofgem. Our methodology is different to the methodologies that are used by Distribution Network Operators¹ (DNOs) and we do not currently intend to amend our methodology to incorporate the concept of a residual charge or to recover it within our fixed price charging bands.

As the SHP network is open to full competition, electricity suppliers supplying customers on our network currently incur TNUoS via the triad charge for their demand customers. **From April 2023, these customers will start to incur TNUoS based on the charging bands under the TCR and therefore the TNUoS charges for SHP customers will be impacted by the implementation of the TCR.**

Although TNUoS is not an SHP charge, the allocation of customers to the bandings is undertaken by SHP. SHP therefore needs to assign each MPAN² connected to our network to a band to allow the TNUoS charge to be applied correctly. To enable this, we are undertaking the following steps:

- We are assigning MPANs to bands based on either their consumption or MIC
- We are setting up new LLFCs that will allow Suppliers to identify which band each MPAN falls within.
- We will migrate each MPAN to the new LLFC prior to April 2023.

We would like to reiterate that the migration of LLFCs does not impact the level of UoS each MPAN will face. This is purely a change to enable TNUoS to be charged correctly via charging bands from April 2023.

TCR Banding

Each MPAN will be placed into a band based on the voltage of connection and either annual consumption for smaller customers or Maximum Import Capacity (MIC) for larger customers. The band boundaries are fixed for five years (the electricity transmission price control) and consequently once customers have been assigned to a band they will remain in this band until the next review in 2026.

A copy of the current bandings is included in Annex 1 to this letter. We highlight that although customers are assigned to a band for a 5 year period, they may move between bands in exceptional circumstances.

¹ DNOs use the Common Distribution Charging Methodology (CDCM) and Extra high voltage Distribution Charging Methodology (EDCM)

² The method for allocating customers to a charging band is set out in DCUSA, and a copy of the allocation rules is set out in Annex2

The exceptional circumstances are set out in paragraph six of Schedule 32 of the DCUSA³ and relate to a change in use or ownership of a Final Demand Site which is reflected by a ‘significant’ change to its Maximum Import Capacity (MIC) or annual consumption, or a change in the voltage of connection to the distribution network, or if the Final Demand Site needs to move from a non-MIC charging band to a charging band with a MIC, and vice versa. In this context a ‘significant change’ is an increase or decrease in MIC or annual consumption (as appropriate) “by more than 50 percent in comparison” to that “used for the purposes of the allocation” to a charging band. This criteria is currently being refined under DCUSA change proposal (DCP) 389⁴.

Mapping the LLFCs

To assist electricity Suppliers, we have set out a table of how the existing LLFCs on the SHP network will map onto the new LLFCs below:

| Existing Tariff Name | Existing LLFC | New Tariff name | New LLFC |
|--|-------------------|--|----------|
| Domestic Aggregated | Not used | Domestic Aggregated | Not used |
| Domestic Aggregated (related MPAN) | Not used | Domestic Aggregated (related MPAN) | Not used |
| Small LV | 166 | Small LV Aggregated NHH No Residual | Q05 |
| | | Small LV Aggregated NHH Band 1 | Q06 |
| | | Small LV Aggregated NHH Band 2 | Q07 |
| | | Small LV Aggregated NHH Band 3 | Q08 |
| | | Small LV Aggregated NHH Band 4 | Q09 |
| | 473, 474, 475,479 | Small LV Aggregated HH No Residual | Q10 |
| | | Small LV Aggregated HH Band 1 | Q11 |
| | | Small LV Aggregated HH Band 2 | Q12 |
| | | Small LV Aggregated HH Band 3 | Q13 |
| | | Small LV Aggregated HH Band 4 | Q14 |
| Non-Domestic Aggregated (related MPAN) | Not used | Non-Domestic Aggregated (related MPAN) | Not used |
| LV | 470 | LV No Residual | Q15 |
| | | LV Band 1 | Q16 |
| | | LV Band 2 | Q17 |
| | | LV Band 3 | Q18 |
| | | LV Band 4 | Q19 |
| LV Sub | H99 | LV Sub No Residual | Q20 |
| | | LV Sub Band 1 | Q21 |
| | | LV Sub Band 2 | Q22 |
| | | LV Sub Band 3 | Q23 |
| | | LV Sub Band 4 | Q24 |

³ Distribution Connection and Use of System Agreement

⁴ More information on DCP389 is available here: <https://www.dcusa.co.uk/change/tcr-clarification-on-exceptional-circumstances-and-allocation-review-for-new-sites/>

| Existing Tariff Name | Existing LLFC | New Tariff name | New LLFC |
|----------------------|--------------------|--------------------|--------------------|
| HV | 476 | HV No Residual | Q25 |
| | | HV Band 1 | Q26 |
| | | HV Band 2 | Q27 |
| | | HV Band 3 | Q28 |
| | | HV Band 4 | Q29 |
| HV Sub | H96 | HV Sub No Residual | Q30 |
| | | HV Sub Band 1 | Q31 |
| | | HV Sub Band 2 | Q32 |
| | | HV Sub Band 3 | Q33 |
| | | HV Sub Band 4 | Q34 |
| 33kV | H66 | 33kV No Residual | Q50 |
| | | 33kV Band 1 | Q51 |
| | | 33kV Band 2 | Q52 |
| | | 33kV Band 3 | Q53 |
| | | 33kV Band 4 | Q54 |
| Unmetered | 586, 587, 588, 589 | Unmetered | 586, 587, 588, 589 |
| LV Generation | 79, 80, 477, 993 | LV Generation | 79, 80, 477, 993 |
| LV Sub Generation | 210,211 | LV Sub Generation | 210,211 |
| HV Generation | 212, 213, 478, H98 | HV Generation | 212, 213, 478, H98 |
| HV Sub Generation | H97 | HV Sub Generation | H97 |
| 33kV Generation | H65 | 33kV Generation | H65 |

Please contact me directly using the contact details below to discuss any aspect of this letter in more detail. More information regarding the SHP network is also available on our website here: <https://sseandme-customerservices.co.uk/products/slough-heat-and-power/>

Yours faithfully



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Annex 1 – Current TCR charging bands

| Voltage of Connection | Band | Units | Lower Threshold* | Upper Threshold* |
|--|-------------|-------|------------------|------------------|
| Domestic Aggregated | Single band | - | - | - |
| Designated Properties connected at LV, billing with no MIC | 1 | kWh | 0 | 3,571 |
| | 2 | kWh | 3,571 | 12,553 |
| | 3 | kWh | 12,553 | 25,279 |
| | 4 | kWh | 25,279 | • |
| Designated Properties connected at LV, billing with MIC | 1 | kVA | 0 | 80 |
| | 2 | kVA | 80 | 150 |
| | 3 | kVA | 150 | 231 |
| | 4 | kVA | 231 | • |
| Designated Properties connected at HV | 1 | kVA | 0 | 422 |
| | 2 | kVA | 422 | 1,000 |
| | 3 | kVA | 1,000 | 1,800 |
| | 4 | kVA | 1,800 | • |
| Designated EHV Properties | 1 | kVA | 0 | 5,000 |
| | 2 | kVA | 5,000 | 12,000 |
| | 3 | kVA | 12,000 | 21,500 |
| | 4 | kVA | 21,500 | • |

* All boundaries are inclusive of the upper threshold and exclusive of the lower threshold i.e. Lower < x • Upper.

Annex 2 – Method to allocate customers to charging bands

For Final Demand Sites connected at EHV, HV or LV with a Maximum Import Capacity as the basis for their current Use of System Charge SHP will allocate its Final Demand Sites to the relevant charging band based on the following criteria:

(a) if 24 months of data is available, the average Maximum Import Capacity over that period; or if not available

(b) allocation to a charging band will be based on the following criteria:

- (i) the average of Maximum Import Capacity over that period for which data is available; or
- (ii) if no such data is available, other available information that is appropriate for a typical profile of a similar site to best estimate the expected demand of the Final Demand Site.

For Final Demand Sites connected at LV, without a Maximum Import Capacity as the basis for their current Use of System Charges SHP will allocate its Final Demand Sites to the relevant charging band based on the following criteria:

(a) for a Final Demand Site that is half hourly settled

- (i) if 24 months of data is available, the average annual import consumption based on metered data over the 24 months; or if not available
- (ii) when a minimum of 12 months of data is available, the average annual import consumption over the period for which metered data is available; or if not available
- (iii) other available information that is appropriate for a typical profile of a similar site to best estimate the expected annual import consumption of the Final Demand Site.

(b) for a Final Demand Site that is non-half hourly settled:

- (i) the most recent Estimated Annual Consumption for that Final Demand Site; or if not available
- (ii) the Default Estimated Annual Consumption for that class of Final Demand Site; or if not available
- (iii) other available information that is appropriate for a typical profile of a similar site to best estimate the expected annual import consumption of the Final Demand Site.

Note: Sites classified as non-final demand will be placed in the non-residual bands.