



Making a positive difference
for energy consumers

Beverley Grubb
SSE plc
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Direct Dial: 0207 901 7274
Email: chris.brown@ofgem.gov.uk

Date: 13 March 2018

Dear Beverley,

Part funded reinforcement works – request for a derogation from the connection charging methodology statement

This letter sets out our¹ consent that Scottish & Southern Electricity Networks (SSEN) does not need to comply with a condition of their Connection Charging Methodology Statement (CCMS).² Our consent is needed to facilitate a trial allowing Independent Connection Providers (ICPs) to undertake Part Funded Reinforcement (PFR) works as part of a new connection.

Background

Standard licence condition (SLC) 13(1) of the electricity distribution licence states that licensees must have in force and comply with a connection charging methodology that has been approved by the Authority. Furthermore, SLC 52 requires the licensee to facilitate competition in connections within their distribution network area.

With the introduction of competition in connections, customers have the option to have some of the connection work, referred to as contestable work, carried out by an ICP. Other work, referred to as non-contestable work, can only be carried out by the Distribution Network Operator (DNO) or its appointed agent.

Currently Part Funded Reinforcement (PFR) is non-contestable work that only the DNO can provide. The reason PFR is classed as non-contestable is that work may include reinforcement of the existing network, elements of which may be paid for by other customers through Distribution Use of System (DUoS) charges.

We consulted in July 2011 on the development of competition for part funded connections, by making price control revenue available to ICPs.³ SSEN also committed, as part of their 2015/16 Incentive in Connections Engagement (ICE) plans, to develop a trial if a willing partner could be found.⁴ SSEN has now informed us that an ICP has expressed interesting

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

² <https://www.ssepd.co.uk/Library/ChargingStatements/>

³ <https://www.ofgem.gov.uk/publications-and-updates/competition-part-funded-connections-work-consultation-document>

⁴ <https://www.ssen.co.uk/ICE/>

in conducting network reinforcement on their network and of their desire to trial such arrangements.

SSEN propose to allow ICPs to carry out PFR work on a trial basis in both their Scottish Hydro Electricity Power Distribution (SHEPD) and Southern Electric (SEPD) network areas. SSEN propose to restrict the trial by:

- project type;
- participants;
- number and value of projects; and
- duration

SSEN's target start date of the trial is 30 March 2018 following approval by the Authority.

SSEN has calculated thresholds for the total number and value of the projects that are eligible to take part in the trial in their SHEPD and SEPD regions. These have been set at 10% of the number and value of projects that were proposed in the regulatory year 2015/16 in each region. No more projects will be considered for the trial once either the threshold for the number or value of projects for that region is met. Notwithstanding this, the trial will end on 30 March 2021.

An element of indirect cost will still be incurred by SSEN despite works being carried out by an ICP. SSEN has proposed a split of the indirect costs between the DNO and ICP to establish a basis for apportioning costs for the trial. This is based on the approach developed during the Ofgem led PFR working groups in 2012. To protect the DUoS customer base from cross subsidising the connection customer, the element of ICP charge payable by the DUoS customer base will be capped at no higher than would have been the case had the SSEN undertaken the work.

Along with regular reporting throughout, a report will be prepared and shared with all stakeholders following conclusion of the trial. If the trial is successful SSEN aim to implement arrangements into their business as usual processes by raising a modification to their CCMS for approval by the Authority, taking into account lessons learned.

Your request

You have written to us as you believe there is one aspect of the CCMS that prevents the trial from taking place.

Paragraph 6.15 of your CCMS restricts the types of reinforcement and diversionary work that can be carried out by suitably accredited ICPs for adoption by SSEN. The scope of such work is limited to reinforcement and diversionary works, associated with connections, which (amongst other things) "*are fully funded by the single third party who is seeking the connection.*" This excludes ICPs from carrying out PFR work.

You have requested a derogation rather than modifying the CCMS as this will allow you to run the trial in parallel with other business as usual connections.

You have not requested a derogation from any other licence obligation.

Our decision

We have considered the request in accordance with our principal objective and statutory duties and decided to grant the request. The derogation shall apply for the length of the trial only.

In reaching our decision, we have assessed this case on its own merits. We will assess any future requests on their merits and this decision does not fetter our discretion when considering any requests in the future.

We have also considered your ICE commitments and wider obligations on facilitating competition in connections. We consider that conducting a trial to widen the scope of contestable work that can be completed by ICPs will better facilitate competition in the local connections markets and is in line with the Relevant Objectives set out in SLC 52.

Finally, we welcome the commitment to regular reporting which will help inform any future work in this area. We expect this to measure the impact on all consumers connected to the SEPD and SHEPD networks, not just the customer requesting the connection.

If you have any questions regarding this letter, please contact David McCrone (david.mccrone@ofgem.gov.uk) in the first instance.

Yours sincerely

Chris Brown
Head of Core and Emerging Policy
For and on behalf of the Authority

Annex

Direction made by the Gas and Electricity Markets Authority

To: The Company Secretary, Scottish and Southern Electricity Networks, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ

A. This Direction is issued by the Gas and Electricity Markets Authority ("the Authority") pursuant to SLC 13(1) of the Electricity Distribution Licence.

B. The company to whom this Direction is addressed (the "Licensee") holds a licence granted, or treated as granted, pursuant to section 6(1)(c) of the Electricity Act 1989 (the "Distribution Licence").

C. SLC 13(1) of the Distribution Licence requires each Licensee, except with the consent of the Authority, to comply with the charging methodology as set out in SLC 13 and as approved by the Authority.

D. In order to comply with SLC 13(1), the Licensee has a connection charging methodology Statement ("CCMS") that has been approved by the Authority.

E. The Licensee has notified the Authority that it wishes to carry out a trial to allow Independent Connection Providers to carry out Part Funded Reinforcement on its network. The Licensee's CCMS does not allow this to take place and such a trial would mean that the Licensee is unable to comply with its obligations under SLC 13(1). Therefore, the Licensee has requested our consent that it does not need to comply with their approved charging methodology in accordance with SLC 13(1). The trial will start on 30 March 2018. The trial will end on 30 March 2021.

F. The Authority has considered this request and has decided to grant its consent for the period of the trial as stipulated above and no longer.

G. This Direction (and letter to which it is attached) constitutes notice of the reasons for the Authority's decision pursuant to section 49 of the Electricity Act 1989.

NOW THEREFORE:

H. The Authority hereby directs that pursuant to SLC 13(1), the Licensee is not required to comply with its obligation to comply with the charging methodologies approved pursuant to SLC 13(1), insofar as this is necessary to allow Independent Connection Providers to carry out Part Funded Reinforcement work as part of a trial.

I. The direction shall have effect from the commencement date of the trial and remains in force until the end of the trial or until revoked or varied by the Authority.

Dated: 13 March 2018

Chris Brown
Head of Core and Emerging Policy
For and on behalf of the Authority