

PART FUNDED REINFORCEMENT (PFR) TRIAL

Review workshop



Scottish & Southern
Electricity Networks



INTRODUCTION & SAFETY



INTRODUCTION

Purpose

To engage with ICP and IDNO stakeholders and review the completed PFR trial in a workshop setting to try and map out potential improvements

Approach

We will provide a brief overview of the trial to date before opening up the floor to those customers who either fully or partially completed the process to discuss their views

Speakers

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AGENDA

Introduction – Helene Bjørndal Fosse	
Safety Moment	3
Purpose, Approach & Speakers	4
Housekeeping	6
Online Interaction Tool	7
Overview of PFR trial – Maryline Guinard	
Background	10
PFR Trial Proposal	15
Projects Under Trial	20
Success Criteria & Lessons Learnt	22
Discussion	
Connect It Utility Services experience	24
Feedback & Slido	25
Close	
Next Steps	28
Thank you	29





HOUSEKEEPING

Following the introduction presentations, the aim of this session is to facilitate discussion. We encourage you to please either:

- Raise your digital hand, unmute your microphone and join in the discussion
- Post any questions or comments on the Q&A tab on Slido if you would prefer to remain anonymous
- Post any questions or comments in the chat function on Teams (not anonymous)





OVERVIEW OF PFR TRIAL TO DATE



CONTENT OVERVIEW

Key points covered in this presentation

- Background
 - What is Part Funded Reinforcement
 - Why we carried out a trial
 - ICE commitment 2015/16 and ICE commitment 2017/18
 - Ofgem's decision document
- PFR trial proposal
 - Criteria
 - Approach and cost recovery
 - List of Closely Associated Indirects (CAI) & Business Support (BS) costs
- Projects under trial
- Success criteria and lessons learnt



BACKGROUND



WHAT IS PART FUNDED REINFORCEMENT?

- **Reinforcement** involves the installation of assets to add capacity to the existing shared use Distribution System.
- **Part Funded Reinforcement (PFR)** describes works initiated by a specific customer as part of a connection but that benefit other Users.
- Given benefits to other Users, a contribution to works is made by the DNO and recovered through Distribution Use of System (DUoS) charges.
- Historically PFR works have been a Non-Contestable task (only the DNO can carry out the work).

***[Note:** Where a Connection Project requires the reinforcement of existing assets or involves the installation of new assets that will not be used solely by the connecting party, the funding will be split between the new connectee and the wider customer base through Distribution Use of System (DUoS) funding. This funding is split using the apportionment rule as detailed in the DNO's connections charging methodology.]*



WHY WE CARRIED OUT A TRIAL

- Since the Connections Market was opened up to Competition, ICPs have only been able to carry out Reinforcement works which are:
 - fully funded by the customer; and
 - physically and electrically separate from the wider Distribution System (as set out in our Connection Charging Methodology Statement).
- In July 2011 Ofgem consulted on whether PFR could be opened up to ICPs and ran a working group in 2012 – SHEPD/SEPD supported proposals.
- We are also mindful of obligations set out in the Competition in Connections Code of Practice (November 2015) to increase customer choice and minimise the number of services which are only available from us.
- Following stakeholder feedback, in our Incentive on Connections Engagement (ICE) 2015/16 submission*, we committed to carrying out a number of tasks with a view to initiating a trial.



WHY WE CARRIED OUT A TRIAL

***ICE commitment 2015/16:** *“Where a customer wishes their Alternative Provider to carry our works required to reinforce our existing network ... we will ensure their Alternative Provider has the opportunity to complete this reinforcement works.”*

To help deliver this commitment we:

- Carried out a survey asking stakeholders for views e.g. on how changes made to policy have helped open the market to competition in relation to reinforcement work.
- Included in all our standard quotation letters (SLC 15A) for large demand the following statement: *“If your project includes reinforcement your alternative provider may be able to deliver this for you. Please contact your designer if you wish to discuss the above”*.
- Proposed an approach and developed a policy following a request and input from an ICP.
- Established an internal working group to develop a basis for a trial to test this approach.
- Set out ambitions to carry out a trial in our ICE Looking Forward Report for 2017/18**.



WHY WE CARRIED OUT A TRIAL

****ICE commitment 2017/18:** *“We will launch an initial trial to allow ICPs to carry out part-funded network reinforcement works dependent on Ofgem approval***.”*

*****Ofgem’s decision document:**

- A report setting out details of the proposed trial to allow ICPs to deliver the reinforcement element of a project was submitted to Ofgem in early January 2018. Ofgem completed a review of our proposal and made the decision to grant consent to our derogation from Section 6.15 of our CCMS, which excludes ICPs from carrying out non-contestable reinforcement. This allowed SHEPD/SEPD to offer Part Funded Reinforcement to ICPs on a 3-year trial subject to project and participant criteria being met.
- Ofgem’s decision document is dated 13 March 2018 and was published on their website on 15 March 2018.
- Related Ofgem’s website links are:
 - www.ofgem.gov.uk/publications-and-updates/decision-ssen-s-request-derogation-their-connection-charging-methodology-statement
 - www.ofgem.gov.uk/system/files/docs/2018/03/ssen_pfr_decision_document_final_002.pdf



PFR TRIAL PROPOSAL



PFR TRIAL PROPOSAL

Our Aim: To conduct a trial over a 3-year period to allow ICPs to carry out PFR works commencing 30th March 2018 and ending 30th March 2021, with a view to establishing a business-as-usual approach.

- The proposal we submitted to Ofgem has been developed in direct response to feedback from stakeholders.
 - Applies to Relevant Market Segments with reinforcement at LV and HV for demand projects (LVAL / LVHV / HVHV).
 - Same contractual framework applies as for any new connection activity including those under competition in connections.
 - Costs based on our quotation.
 - Reinforcement work carried out by the ICP to be to the design of SHEPD/SEPD.
 - Reinforcement asset subject to adoption under the NERS requirements and in line with network adoption process for sole use asset.
 - For each participating project, a single ICP must carry out all sole use contestable works in their entirety as well as any associated reinforcement works.
- We published details of the trial on SSEN's website at: www.ssen.co.uk/Connections/Developers/ and www.ssen.co.uk/CompetitionInConnections/.



PFR TRIAL PROPOSAL

Criteria

- In order to manage risk to SHEPD/SEPD and wider customers while ensuring the trial is both meaningful and manageable, we applied some restrictions:
 - **Location:** SHEPD/SEPD's Distribution Service Area (NOT AVAILABLE outside our DSA).
 - **Nature of works:** PFR works must be physically and electrically separate in line with our CCMS (section 6.15).
 - **Project type:** LV Metered Demand Connections, LV Metered Demand Connections involving HV works, HV Metered Demand Connections involving HV works (NOT AVAILABLE for EHV or 132kV works, or for DG works, or for minor connections).
 - **Participants:** appointed on a first come first served basis; restricted to newly quoted connection projects on or after the implementation date; and restricted to ICPs with suitable NERS accreditations.
 - **Duration of the trial:** to ensure the trial is meaningful but manageable the duration of the trial is capped at 3 years, which reflects the maximum expected lifecycle of a new connection demand project, including HV reinforcement.
- If the cap on the number/value of projects is met within the 3-year period, no new projects will be considered until the trial is complete and learning has been analysed.



PFR TRIAL PROPOSAL

Approach and cost recovery

- We have opened PFR to ICPs on a trial basis on both our SHEPD and SEPD networks.
- During the initial consultation and working group discussions DNOs raised concerns regarding recovery of indirect costs.
- We have carried out a high level desk top analysis of such costs, based on the approach developed during the Ofgem led PFR working groups in 2012 and WPD's subsequent trial.
- This has helped us establish the level of costs that will still be incurred by SHEPD/SEPD and that need to be recovered from connection projects under the trial.
- The analysis included Closely Associated Indirects (CAI) and Business Support (BS) costs. The breakdown of these are detailed on next slide.
- We apportioned these costs under the trial to remain cost reflectivity and avoid cross subsidy.



PFR TRIAL PROPOSAL

List of Closely Associated Indirects (CAI) & Business Support (BS) costs

An element of indirect cost is still incurred by SHEPD/SEPD despite works being carried out by an ICP. As such there is a requirement to allocate a proportion of Closely Associated Indirects (CAI) and Business Support (BS) costs to the project to ensure cost reflectivity.

As SHEPD/SEPD does not capture costs at activity level for each project, a desk top assessment has been carried out to establish a reasonable basis of apportioning such costs for the trial.

The list of CAI and BS costs are shown in the table.

Closely Associated Indirects	Business Support Costs
Network Design and Engineering	HR
Project Management	Non-operational Training
Engineering Management and Clerical Support	Insurance totals
System Mapping	Fines & Penalties (other than in Streetworks)
Network Policy	Finance and Regulation
Call Centre	CEO
Control Centre	IT & Telecoms (Business Support)
Stores	Property Management
Wayleaves	
Operational Training (CAI)	
Vehicles and Transport (CAI)	



PROJECTS UNDER TRIAL



PROJECTS UNDER TRIAL

The official start date for the trial was 30th March 2018 and it ended on 30th March 2021. No new projects will be considered for this trial. Projects which are still in progress can continue till completion.

Only two ICPs have applied for one project each as part of the trial during the 3-year period. Both projects are in SEPD area. No ICPs have applied for any projects as part of the trial in SHEPD area.

Completed projects

- One project in SEPD area has been applied for and accepted by one ICP, and completed within the 3-year period.

Projects still in progress

- One project in SEPD area has been applied for and accepted by one ICP, but not yet completed within the 3-year period. This project is still in progress. It is understood that the Contestable Works have not yet started due to some delays, some of which are a result of the coronavirus pandemic. The works are now pending on customer's site readiness for the ICP to proceed.



SUCCESS CRITERIA AND LESSONS LEARNT



SUCCESS CRITERIA AND LESSONS LEARNT

Success criteria

- We use the following criteria to measure success and to inform a business-as-usual approach:
 - Uptake from ICPs: target 50% of all projects (i.e. 50% of cap on number/value of projects within 3-year period);
 - Support from ICPs that arrangements are workable for business as usual;
 - Customer satisfaction with process and outcome; and
 - No detrimental impact on technical, operational or safety of the network.

Lessons learnt

- Lessons learnt to be discussed during this workshop (held on 24th November 2021) and captured for reporting.
- A lessons learnt report will be produced and shared with interested parties.



DISCUSSION



Pre-application

- As first candidate, set up somewhat prolonged with policy being conferred with on several occasions
- Not well advertised/offered. Example wanted of what a PFR eligible quote would look like

Application

- Had to make enquiry to find out if project was viable, wasn't shown in connection offer
- 15% deduction made to cover SSEN cost covering cost of wayleaves/GIS etc – excessive. Feel this needs to be reviewed to create fair market place for all ICPs

Design

- Pleasure to deal with designated design engineer throughout



Delivery

- Construction phase was collaborative with support from SSEN's delivery engineer
- Construction went smoothly with positive engagement from local community and other stakeholders
- Testing and handover straight forward and in line with SSEN's standard procedures
- Benefit – ability to set own programme of works
- PFR payment only made when land rights and energisation was completed despite reinforcement being live, i.e. there was a funds deficit for a period of time. This may restrict trial to larger ICPs who have sufficient capital to undertake costs

AOB

- Overall, experience was positive; in timescale of delivery, profitability and collaboration with SSEN
- Would complete trial again if it were to be available on a scheme and would recommend to others
- Fortunate to be a multiutility contractor. Luxury of minimising disruption on residents/stakeholders/local authorities and reduce waste/carbon footprint by trench sharing. By opening more reinforcement activities as contestable, we may be able to trench share more often
- ICPs not able to benefit from SSEN's statutory undertaker NRSWA licence, i.e. had increased costs for Section 50 licences



NEXT STEPS

We will take away the actions, minutes and Slido feedback from today's session and analyse this.

Following this, we will publish a paper which outlines the trial, including findings from this session and any potential improvements for future.





THANK YOU

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