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Dear Paul

GDN Traffic Management Act Reopener process

Thank you very much for the opportunity to comment on your proposals for assessing the GDNs' Traffic Management Act reopener submissions. The implementation of the Traffic Management Act represents a significant cost pressure for all utilities. These costs will form an increasingly large proportion of the efficient costs of providing utility services to customers. Ensuring that the impact of these costs is correctly and appropriately assessed is therefore of importance to network companies and customers alike.

I see two main challenges in making an appropriate assessment of reopener claims:

1. Assessing the impact of the changes at a time when the extent and impact of the changes remains uncertain
2. Assessing the efficiency of the costs reported by individual companies given differences in local implementation of changes by different Highways Authorities

Our thoughts against those key challenges are outlined below.

Understanding the evolving impact of the implementation of the Traffic Management Act

There are a number of potential changes to the administration and management of street works that may affect the current and future cost of working in the highway. The changes that may affect Electricity North West's cost base within DPCR5 include:

- The introduction of permits
- The introduction of lane rental
- Self Regulation
- Changes to Specification Reinstatement of Highways (SROH)
- Implementation of increase of Section 74 Changes (overstay fines)
- The introduction of coring schemes

The implementation of all or any of these changes would result in changes to our cost base. Further details of our current view of how these potential changes may affect our network are included within Appendix 1 to this document.

Different Local Authorities will adopt at different times and to different extents making comparisons difficult. For example, we are aware that 11 of the 25 Highways Agencies within our operating have plans to introduce permit schemes during 2012.

Assessing the efficiency of costs

It is likely to prove difficult to mechanistically compare the costs experienced by different companies as Highways Authorities generally have scope to determine the scope of their schemes and to develop their own pricing mechanisms. As a result efficient costs may be set at different levels in different operating areas. This makes detailed review of the actions that companies have taken to minimize costs as important, if not more important, than analytical comparison of costs in assessing efficiency.

Notwithstanding the above point, we have the following comments on Ofgem's proposed methodology to compare costs:

- It may be difficult for companies to provide comparable Local Authorities as required, particularly where the company operates across a number of very diverse areas.
- It may sometimes be difficult for companies to directly extract details of costs that are embedded in contractor costs. For this reason, extra care must be taken to ensure that costs are comparable.
- It will be necessary to understand the proportion of costs that have already been funded by connections customers in connection charges in order that Use of System customers do not pay for costs that GDNs have already received payment for.

Implications for DPCR5 Reopener

The points that we raise in this letter are equally applicable to DNOs as GDNs. I doubt that the answers to these questions will be much clearer at the window that DNOs may submit for reopener. It may be necessary to reopen both in July 2012 and make adjustment at the RIIO-ED1 price control.

It is important to note that the materiality threshold defined in CRC18 of the DNO licence incorrectly applies the IQI incentive rate to the relevant costs in determining whether costs are sufficiently material to justify reopening the price control. As TMA costs are treated as fast money, these costs are not subject to the sharing factor and consequently the licence as currently drafted suggests that DNOs are exposed to costs of greater than 2% of annual revenue. We have previously notified Ofgem of this error.

If you have any questions regarding our response please do not hesitate to contact me.

Yours sincerely,

**Sarah
Walls**

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Sarah Walls
Head of Economic Regulation

cc James Hope

Appendix 1 – Latest view of likely impact of streetworks changes on Electricity North West's network

Permits

Electricity North West currently has no permit schemes in operation within its distribution area. The first one is planned to commence in January 2012 within the St Helens region, followed by the Association Greater Manchester Authorities (AGMA) commencement in April 2012.

AGMA consist of 10 Local Authorities. We expect that the costs to the business for these Authorities will be in the region of £1.2 million per year. About £500k of these will be associated to Connections and therefore will be recoverable from connections customers.

We expect further Local Authorities to introduce schemes at later dates.

Lane Rental

The Department for Transport consultation for Lane Rental introduction has now been released and the proposed costs will have a maximum of £2,500 per day per lane rental. At present we cannot approximate these costs but it is unlikely the charges will come into effect until after 2015, once pilot schemes have been carried out and responses made to consultations. We anticipate that this will continue to be an uncertain cost for RIIO-ED1.

Self Regulation

As a responsible business within the energy sector, we believe it is appropriate for us to be self regulating and therefore are currently implementing a review of actions required to self manage our quality. The introduction of self regulation is aimed to enhance the relationship with the Highway Authorities as well as reducing our costs in the long term.

We have introduced a half yearly steering group with all Highway Authorities to discuss all proposals and agree priority actions. The first meeting was held in June 2011 and our main focus is to implement a coring regime for our works. The cost of self regulation will initially be significant (of the order of £1 million per year) but the long term will see reduction in costs and risks to Electricity North West as a Statutory Undertaker.

We have also reviewed all of our current working practices and rebriefed these to all relevant Highway Authorities, employees and contractors to ensure our compliance with the NRSWA and TMA acts of 1991 and 2004.

Change to Specification Reinstatement of Highways (SROH)

In October 2011 there were changes to the Specification Reinstatement of Highways (SROH) that we are in the process of fully reviewing and understanding the impacts within the business.

Changes to S74 (overstay fines)

In October 2012, the new Section 74 charges came in to effect increasing overstay fines from £2,000 per day, to £10,000 per day. Whilst this is a significant increase to individual fines, the impact is minimal as the volume of overstays has been decreasing year on year for Electricity North West and the increased costs are only applied 3 days after notification of the overstay allowing us opportunity to rectify the situation.

Coring

The recent introduction of coring schemes within the AGMA group results in 200 jobs per authority per month across all Statutory Undertakers (2000 reinstatements cored per month). We anticipate that about 25% of these cores will be to Electricity North West's reinstatements. Applying the current national pass rate of 70%, we would expect about 150 failures per month costing £22,500 per month for defect invoices alone, excluding the actual cost of rectifying the failure.

To prevent significant cost within this area, the quality of reinstatement and application of specification are crucial. Our proposed self regulation processes are designed to manage our performance and provide reassurance of our compliance to Highway Authorities therefore not driving them to this action.