

Paul Branston
Costs & Outputs
Local Grids
Ofgem
London
SW1P 3GE

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Dear Paul,

Proposed process for the determination of re-opener applications in respect of a Traffic Management Act income adjusting event under the first gas distribution price control review

Thank you for the opportunity to comment on the above consultation, we set out our views on the specific questions raised in Appendix 1 to this letter.

We believe Ofgem's overall approach to the determination seems appropriate it appears that Ofgem will undertake an in depth assessment of SGN's and NG's costs and therefore we expect Ofgem to have an informed view on an efficient level of such costs for GDNs. Consequently we would like to discuss with Ofgem whether the work in this determination can be used to set ex-ante allowances for other GDNs as part of RIIO-GD1

NGN's current situation

NGN will be subject to TMA permit costs with the introduction of the Yorkshire Common Permit Scheme¹ (YCPS) which subject to DfT approval will commence 1 April 2012 with four local authorities (LAs) in NGN's region a further three have indicated their intention to join the YCPS by October 2012. A conservative estimate of NGN's efficient TMA permit costs incurred in the 7 YCPS LAs would be circa £5m by 31 March 2021. It is likely that many of the remaining 17 LAs in NGN's region will introduce permit schemes following the YCPS increasing these costs significantly. It should be noted the YCPS' development has been rapid in 2011 there is now little doubt that the scheme will "go live" from 2012 onwards.

In anticipation of the rollout of the YCPS NGN is developing its strategy and approach for mitigating the impact of TMA permits on its operations in particular mains replacement, emergency response and repairs activities our expectation is that this will be completed by the end of 2011 in readiness for the start of the YCPS. We are confident that we will be able to demonstrate that NGN will only incur an efficient level of TMA permit and other related costs.

Our proposed approach

In the RIIO-GD1 Strategy Decision document Ofgem confirmed that [after this determination] GDNs will be able to apply for price control re-openers to recover TMA and NRSWA costs in July 2015 and July 2018. However where GDNs like NGN have increased certainty of these costs commencing before 31 March 2013 it would seem expedient to utilise Ofgem's work in this determination to set ex-ante allowances for such costs. Consistent with Ofgem's approach in

¹ http://www.leeds.gov.uk/Transport_and_streets/Roads_highways_and_pavements/Roads_roadworks/Yorkshire_common_permit_scheme.aspx

this determination, we would expect GDNs seeking consideration for ex-ante allowances to demonstrate:

- likelihood, timing and scope of schemes expected to be deployed by LAs impacting GDNs' operations;
- projected workloads for the areas and timescales concerned; this would be linked to
- robust strategy and approach by the GDNs to mitigate the impact of such costs on productivity of their operations.

NGN can provide information on all the above points and we propose that this could be done as part of the RIIO-GD1 business plan re-submission in April 2012 this would follow Ofgem's final determination in December 2011. Whilst GDNs may not be able to provide six months of actual cost data indicative unit costs would be available, taken together with the information above and Ofgem's determination this should enable Ofgem to set robust ex-ante allowances. To provide Ofgem and consumers further assurance we propose that such allowances could be "trued up" to take account of actual developments during RIIO-GD1. Ofgem's proposed re-openers for TMA and NRSWA costs (in 2015 and 2018) would be retained for costs and schemes that fall outside these ex-ante allowances, GDNs would have to demonstrate that such costs claimed were incremental. Any adjustments arising from the re-openers could be combined with the "true up" of the ex-ante allowances.

We believe there are a number of benefits of adopting NGN's proposed approach:

- setting ex-ante allowances would enable such costs to be "smoothed" and minimise volatility in charges for suppliers and consumers in contrast to the impact of a price control re-opener;
- it would minimise the burden on Ofgem by reducing the number of GDNs applying for re-openers in RIIO-GD1 and maximise the use of the knowledge Ofgem acquires in this determination;
- an ex-ante allowance would provide strong incentives for GDNs to reduce costs further any savings would be shared with consumers through the IQI incentive..
- it resolves the uncertainty of costs incurred in 2012/13 in RIIO-GD1 which could exist if cost recovery was restricted to a re-opener in the GT price control licence condition (GDC 27).
- GDNs would be required to provide similar supporting evidence being sought from SGN and NG in this determination providing a robust basis for setting allowances.

Conclusion

We believe Ofgem's proposed approach to this determination provides an opportunity to set robust ex-ante allowances for GDNs like NGN who have greater certainty regarding specific TMA schemes. Our proposed approach would be in addition to Ofgem's proposed re-openers with the onus on GDNs to demonstrate costs being claimed through the re-opener were incremental to any allowances.

Please let me know if you would like any clarification of any aspect of this letter. .

Yours sincerely



Haren Thillainathan
Regulation Manager

APPENDIX 1

Proposed process for the determination of re-opener applications in respect of a Traffic Management Act income adjusting event under the first gas distribution price control review

Question 1: Do you agree with the overall approach we plan to take and our timetable?

Yes as we set out in the letter we believe the proposed approach and timetable are appropriate and furthermore provide the basis to set ex-ante allowances for certain GDNs provided they are able to provide the relevant supporting information and evidence.

Question 2: Do you agree with our methodology for assessing the efficiency of GDNs in dealing with the impact of TMA?

Overall we believe Ofgem's proposed methodology should facilitate a thorough assessment of such costs further supporting the use of this determination to set ex-ante allowances as set out above.

Comparative assessment

We note with interest Ofgem's intention to using comparative analysis we will be interested to see what conclusions Ofgem forms between different LAs given their discretion to determine the scope and terms of permit schemes. Such differences will have a significant impact on inter GDN comparisons so this will need to be taken into account.

On page 5 of the consultation there is a reference to making comparisons with relevant DNOs we assume that in making such comparisons Ofgem will take account of the fact that outside of London, DNOs have a smaller scope to impact roads relative to the GDNs