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Our Ref: SG&G/Cost & Outputs
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Date: 31 October 2011

Dear Colleague

Consultation on our minded-to position for the determination of re-opener applications in respect of additional income associated with the Traffic Management Act (and Transport for Scotland Act) under the first gas distribution price control review

Introduction

The first gas distribution price control for 2008-2013 (GDPCR1) enables the gas distribution network operators to apply to Ofgem to adjust their revenues to accommodate costs associated with the Traffic Management Act 2004 and the Transport (Scotland) Act 2005. They can do this if the costs associated with the implementation of this new legislation are in excess of one per cent of their base revenues.

We recently consulted[1] on our approach for assessing such applications and as part of the consultation we said we would consult further on our "minded–to" position with regard to the applications received. This letter sets out the proposed adjustment to their revenues, the timeframe in which we propose this should be recovered and the proposed principles that should be considered for any future re-opener applications and future price controls relating to the Traffic Management Act 2004 ("TMA") and the Transport (Scotland) Act 2005 ("T(S)A")[2].

Three of the eight gas distribution networks (GDNs), Scotland, Southern (the two GDNs owned and operated by Scotia Gas Networks (SGN)) and North London (one of the four GDNs owned and operated by National Grid Gas (NGG)), have given notice to Ofgem confirming that they have started to incur significant costs following the implementation of the TMA. The total gross[3] claim for the full price control period (2008-2013) by the three GDNs amounts to an additional £83.65 million[4].

Based on our analysis of the company submission, subject to consideration of consultation, our view of the efficient additional costs for TMA for the three GDNs for the price control period is £40.47m as shown in Table 1.

[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
[2] Traffic Management Act 2004 and the Transport (Scotland) Act 2005 referred to throughout this document collectively as "TMA" unless the context requires otherwise.
[3] Costs prior to any GDPCR1 adjustments for IQI or replacement incentive mechanism.
[4] Originally stated in our process consultation as £92.5m, see section on NGG error explaining error

Table 1: Total proposed additional TMA cost for 2008-2013 (2010-11 prices)

	£m
National Grid Gas - North London	18.50
Scotia Gas Networks - Southern	21.97
Scotia Gas Networks - Scotland	0.00
Total	40.47

Loss of productivity represents 49% of the additional costs following implementation of permit schemes within London (within the M25). This relates predominantly to the HSE requirements for a gas mains replacement programme and represents an 8% or £18 increase on the average unit cost allowance[5] of replacing one metre of gas mains.

Responses and consent to share information

We would like to hear the views of interested parties in relation to the minded to position for adjusting the revenues associated with TMA set out in this open letter. We would especially welcome responses to the specific questions which have been set out below:

Question 1: Do you agree with the proposed adjustments to the revenues associated with TMA for the three GDNs, North London, Southern and Scotland?

Question 2: Do you agree with the proposed principles that have been set and that these should be applied to future TMA re-openers and price controls?

Question 3: Do you agree with the timeframe within which it is proposed that additional revenues will be recovered?

Responses should be received by **24 November 2011** and sent to:

Mick Watson
Cost & Outputs
Distribution
Ofgem
9 Millbank
London, SW1P 3GE
Tel: 020 7901 7416
Email: mick.watson@ofgem.gov.uk

Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response, or part of response, is kept confidential. Ofgem shall respect this request, subject to any obligation to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and/or in writing.

Background

When we were setting the last price control (for the 2008-2013 period), the impact of the implementation of the TMA on the GDNs' costs was unclear and we were not in a position to make provision for an efficient level of cost for work carried out as a result of the TMA. (The exception was an expenditure allowance related to the systems which GDNs were

[5] This is the weighted average unit cost allowance (£234) given to North London for GDPCR1 for all diameter of mains abandoned.

putting in place in anticipation of its introduction, where we provided GDNs as a whole with a capital expenditure allowance of £11.3 million for 2008-09 to cover these costs.) For this reason we introduced a specific price control reopener mechanism so that any further TMA costs could be considered in isolation from the GDNs' financial performance within the price control period. The term in the price control formula which reflects the ability for a further adjustment to be made to allowed revenues is $ITMA_t$.

Special Condition E7[6] sets out a mechanism under which GDNs can apply for their allowed revenues to be adjusted, together with a notice of costs or expenses incurred or likely to be incurred. Following consultation the Authority determines whether the threshold has been reached to trigger the reopener and whether any or all of the costs or expenses were or are likely to be efficiently incurred and any adjustment that should be made to their allowed revenue.

Summary of approaches to key issues

As part of our consultation on the process we said we would approach our assessment in the following way:

- Our assessment of the efficient overall level of costs associated with the TMA implementation would be based on our cost analysis and review of the GDNs' strategies and management structures to deal with the requirements of the TMA.

- Setting out our view on the appropriate amount of additional allowance for the impact of TMA as part of GDPCR1.

- Establishing the principles which will be used for any future notice for an $ITMA_t$ and assessment as part of RIIO-GD1.

- We would also present our views on the appropriate timeframe over which the additional revenue should be recovered and how it will be recovered taking into consideration of the potential impact on customers.

We also said we would look at four areas of costs as follows:

- Permit costs;

- Fixed penalties;

- Ongoing administration costs; or

- Other costs that the Authority directs should be treated as TMA costs.

Under the category of other costs, we included the impact on productivity associated with the implementation of permit schemes.

Responses to consultation

We received five responses to our consultation, these responses broadly agreed with our approach, but two raised a concern regarding how we could benchmark costs between local authorities that may implement and interpret the application of the scheme in different ways.

Additionally one response from a shipper asked us to consider the period of time that the allowed amount is recovered over.

[6] Gas Transporter Licence: Special Condition E7: Determination of any adjustment factor to be applied to MRt (IAEt).

NGG error

On 14 October 2011 NGG notified Ofgem that they had made an error in their application and included costs that belonged to their East of England network. They resubmitted their application on 19 October 2011. This has reduced the size of their reopener submission from £46.7m to £38.7m.

GDN applications and supporting evidence

As part of the consultation we requested further information from the three GDNs. We requested data on the key workload drivers and the costs associated with those local authorities that have already implemented a permit scheme against those forecasted to implement one during the remainder of GDPCR1.

In addition to this we have carried out visits to both SGN and NGG to gain a clearer understanding of the complexities and costs they claimed. The visits included site visits to a gas mains replacement project which is subject to a permit scheme in both North and South London.

Our analysis

The applications from Southern and North London relate to the TMA 2004 and the application from Scotland relate to the T(S)A 2005, therefore our detailed analysis has been carried out separately in Appendices 1 and 2.

SGN Scotland analysis

Traffic management in Scotland is managed differently compared with England and Wales. In Scotland there is not a requirement to purchase a permit to carry out streetworks and the effect on productivity is far less. However, there is a greater administrative burden associated with entering notices on the Scottish Roadworks Register (SRWR). We have been unable to benchmark SGN Scotland costs because of the different requirements.

We are currently concerned that the application for Scotland does not demonstrate additional costs as a result of the introduction of T(S)A and that the costs relate to the New Roads and Streetworks Act 1991 (NRSWA) which was funded as part of the current price control. We recognise that there are increased costs relating to the establishment of the Scottish Road Works Commissioner (SRWR) but we are currently not convinced that these associated costs are in excess of one per cent of Scotland's base revenue of £2.3m.

In setting the allowances for the gas mains replacement programme (repex) for GDPCR1 we set the benchmark for cost allowances using the upper-quartile. The three top performing GDNs were Northern, West Midlands and Wales and West Utilities. All of these GDNs were already operating under NRSWA and hence funding was provided for this activity in GDPCR1. A number of the processes highlighted by SGN under its reopener claim are already component parts of NRSWA.

Although the T(S)A scheme differs from that implemented under TMA, the principle is the same with the GDNs being required to plan their work, contact the local authority and notify them of planned works. As such it is our initial view that the majority of administration costs highlighted in Scotland's reopener application have been allowed for in the price control and are not additional costs to those allowed for at the time of setting the current price control. Whilst we accept there are differences between TMA and T(S)A, particularly around the work with the SRWR, and the costs of operating under the SRWR, again we do not currently consider these are additional costs and processes over and above the NRSWA scheme and EToN[7] process that were being operated by the other GDNs.

[7] Electronic Transfer of Operating Notices

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Proposed principles

We currently expect the principles used within this minded-to position to be applied to any future TMA re-opener during the current price control and when setting future price control for RIIO-GD1 and RIIO-ED1 taking into account the complexities of working within London against working outside London. However, it is out current position that we expect GDNs to demonstrate continued efficiencies in delivering streetworks, which include the following:

- Improved working with local authorities.
- A reduction in the level of fixed penalties.
- A more efficient ongoing administrative support as the scheme becomes 'business as usual'.
- An innovative approach to increasing productivity for streetworks where a permit scheme is in place

Recovery of additional revenue

In relation to the recovery of additional revenue we have considered two options as follows:

- Option 1 - Recover the full additional revenue within 2012-13 as these revenues relate to GDPCR1
- Option 2 - Phase the recovery of the additional revenue over a period of time

Our minded-to position

Based on the analysis that we have carried out of the GDNs' applications and information provided by Department for Transport (DfT) we have set out in Table 2 the proposed additional costs for TMA which we are minded to allow for the current price control period (2008-2013).

We are currently of the view that the information provided in relation to Scotland's application is insufficient to enable us to assess whether an income adjusting event has occurred and have therefore currently set SGN Scotland's adjustment at zero.

Table 2: Proposed allowed costs for TMA (2010-11 prices)

	Actual costs			**Projected costs**		**Total costs over 5 yrs**
	2008-09	2009-10	2010-11	2011-12	2012-13	**2008-13**
	£m	£m	£m	£m	£m	**£m**
National Grid Gas - North London	0.35	2.73	3.92	5.71	5.78	**18.50**
Scotia Gas Networks - Southern	0.44	0.88	5.92	6.57	8.16	**21.97**
Scotia Gas Networks - Scotland	0.00	0.00	0.00	0.00	0.00	**0.00**

Table 3 shows the proposed adjustment to the GDNs allowed revenue for the current price control period.

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Table 3: Proposed adjustment to allowed revenue (2010-11 prices)

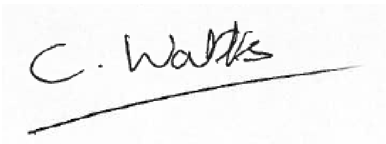
	GDN Submission	Ofgem minded to position
	£m	£m
National Grid Gas - North London	22.0	9.9
Scotia Gas Networks - Southern	22.7	13.2
Scotia Gas Networks - Scotland	5.0	-

We currently consider that the principles that have been set out in this paper should be applied to any future TMA re-opener during this price control and when setting future price controls for RIIO-GD1 and RIIO-ED1. However, it is our minded-to position that we will expect GDN to demonstrate continued efficiencies in delivering streetworks.

Subject to consideration of consultation responses we consider that the additional revenue should be recovered within the final year of the current price control, 2012-13 as these costs relate to GDPCR1 and should not be carried over to the next price control. However, we would welcome responses in this area.

We recognise the uncertainty over the number of local authorities that may implement a permit scheme within Southern's network, predominantly outside London. We therefore propose to allow both North London and Southern to log up efficient costs for local authorities that implement permit schemes within 2012-13 over and above those allowed as part of this re-opener and based on the principles set out in this paper. We would expect any logged up costs should be based on the proposed unit costs, but should take into account economies of scale in relation to ongoing administration and the differences of working in and outside London.

Yours sincerely,



Chris Watts
Associate Partner, Costs and Outputs

Appendix 1: Detailed analysis of North London and Southerns' proposed adjustments

This appendix sets out the detailed analysis of the proposed adjustments against the GDNs applications, with the rationale behind this. It shows the workloads we have used in our assessment, proposed unit costs, total costs and the adjustments we have made.

Using the additional information received from the GDNs we have analysed the costs by benchmarking between years, local authorities and the GDNs, where possible. We recognise the concerns raised that different local authorities may implement and interpret the application of the permit scheme in different ways. Differences include how penalties are applied, processing of permit applications, the number of inspections and whether the scheme includes all roads or targeted roads.

In relation to fixed penalties we are minded only to allow what we consider as efficient penalties and not to give an allowance for avoidable penalties. Our minded-to position is that efficient penalties are incurred where it is considered more efficient to receive the penalty than not, an example of this is when a project overruns it is more efficient to remain in the road to complete the project than to close down early and incur further charges for reinstatement of the road, applying for a new permit and returning at a future date.

As part of our analysis we have identified that the majority of the costs claimed for other costs relate to productivity, parking bay and bus stop suspensions. We currently believe that the majority of these costs relate to gas mains replacement programme.

In the four areas of costs we have identified different workload drivers. Subject to consultation, we consider that they be treated as follows:

- Permit costs – we consider that this should be based on the number of permits.

- Fixed penalties – we consider that this should be based on an efficient level of penalties to permits issued.

- Ongoing administration – we consider that this should be based on the number of projects.

- Other costs - we consider that these costs should be based on length abandoned under the gas mains replacement programme.

As part of their applications the GDNs had to make an assessment of the number of local authorities which may implement a permit scheme for the remainder of the current price control period and this was based on the knowledge at the time of the GDNs' applications. We recognise there is an uncertainty surrounding this and have contacted DfT for their view. They have provided a list of local authorities which have implemented a permit scheme and those which currently have an application outstanding. We are aware that DfT are proposing to consult on devolving the responsibility for approving schemes from the Secretary of State to local authorities. Based on this information we have adjusted the forecasted workloads to reflect the local authorities which have implemented the scheme and those with outstanding applications. Our initial view is that we do not consider there is sufficient certainty to make an assessment on local authorities that may implement a permit scheme before the end of this current price control following the devolution of the responsibility for approving the scheme. We have therefore adjusted the forecasted workloads in the applications to reflect this lack of certainty.

Whilst carrying out our analysis and during the visits to the licensees we recognised the impact that the introduction of TMA permit schemes may have on the GDNs' productivity when working in the roads in the most productive way and the delays the scheme may cause when the GDNs can commence work. These include the following:

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- An increased requirement to resubmit applications.
- For some projects in London requiring multiple permits from more than one local authority for the same job. This is where a project crosses over the boundary of two local authorities or when the streetworks on a road belonging to one local authority runs adjacent to a road belonging to another local authority.
- Inconsistency in the application and interpretation of the scheme amongst local authorities.
- Restriction on working hours, working outside normal working hours, therefore incurring additional costs of labour eg overtime, idle time.
- Detailed traffic management plans for every permit, increased use of one-way routes, parking bay and bus stop suspensions, manned traffic control and removal of traffic islands.
- Working at shorter lengths than considered efficient.
- Increases in the temporary reopening of roads during peak times.

North London included costs for section 74A of New Roads and Street Works Act (NRSWA) 1991 (lane rental) and section 74 NRSWA 1991 (section 74 NRSWA daily charge rates) of £7.95m for 2012-13. Southern indicated such costs as an uncertainty and assessed them to be also £7.95m, but this did not form part of their application. We consider that there is too great an uncertainty over the introduction of lane rental and the use of section 74 daily charges and have excluded these costs. However, if these costs do materialise the GDNs would be able to apply to us to consider a potential adjustment to their revenues to recoup costs associated with lane rental and/or section 74 NRSWA daily charges in accordance with Special Condition E7.

Southern's application included costs for 2007/08 of £0.33m. We are minded to exclude these costs as such costs fall outside GDPCR1 and therefore should not be considered under the TMA reopener for the current price control.

Table 1 below shows a summary of the analysis we have carried out in our assessment. Tables 2 to 4 gives more detail on the analysis we have carried out. This includes the original applications made by the two GDNs, our adjustments to workload and costs, and our rationale for doing so.

Table 1: Summary of proposed adjusted costs for North London and Southern (2010-11 prices)

	National Grid Gas - North London			**Scotia Gas Networks - Southern**		
	GDN application	**Ofgem's minded to position**	*difference*	GDN application	**Ofgem's minded to position**	*difference*
	£m	**£m**	£m	£m	**£m**	£m
Permits	2.37	**2.38**	*0.01*	5.42	**2.92**	*-2.50*
Fixed Term Penalty Notices	0.44	**0.14**	*-0.30*	0.59	**0.18**	*-0.41*
Ongoing administration costs	8.48	**7.42**	*-1.06*	15.07	**7.49**	*-7.58*
Other costs	19.42	**8.55**	*-10.87*	16.45	**11.38**	*-5.07*
Lane rental (inc S74 charges)[1]	7.95	**0.00**	*-7.95*	*7.95*	***0.00***	*-7.95*
Total	**38.67**	**18.50**	*-20.17*	**37.53**	**21.97**	*-15.56*

[1] Included in London's application are costs for lane rental and section 74 NRSWA daily charge rates of £7.95m for 2012-13. Southern indicated this as an uncertainty and assessed these costs to be £7.95m, but this did not form part of their application.

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Table 2: Proposed workload adjustments

	National Grid Gas - North London						Scotia Gas Networks - Southern					
	Actual Workload			Projected Workload		Total workload over 5 yrs	Actual Workload			Projected Workload		Total workload over 5 yrs
Original workload data	2008-09	2009-10	2010-11	2011-12	2012-13	**2008-13**	2008-09	2009-10	2010-11	2011-12	2012-13	**2008-13**
Permits (no.)	0	1,463	7,943	9,772	10,576	**29,753**	0	0	9,129	21,900	37,000	**68,029**
Penalties (no.)	145	626	942	1,080	1,111	**3,905**	20	1,510	1,474	1,775	2,251	**7,030**
Projects (no.)	129	184	183	275	286	**1,056**	0	0	220	480	1,141	**1,841**
Length abandoned (km)	63	82	99	158	162	**565**	0	0	188	310	790	**1,288**
Ofgem adjusted workload data	2008-09	2009-10	2010-11	2011-12	2012-13	**2008-13**	2008-09	2009-10	2010-11	2011-12	2012-13	**2008-13**
Permits (no.)	0	1,463	7,943	9,772	10,576	**29,753**	0	0	9,129	13,166	14,214	**36,509**
Penalties (no.)	0	88	477	586	635	**1,785**	0	0	548	790	853	**2,191**
Projects (no.)	129	184	183	275	286	**1,056**	0	0	220	381	333	**935**
Length abandoned (km)	63	82	99	158	162	**565**	0	0	188	218	268	**674**

We have currently allowed the workloads for North London, based on the workloads for the initial three years of the price control and the number of local authorities that have implemented a permit scheme. We consider this is consistent for the forecast and known local authorities that will implement.

For Southern we currently accept they believed at the time of their application there would be an increase in the number of local authorities that would implement a permit scheme within their network, both within London and outside London. However, following our discussions with the DfT we only have evidence that there will be an additional four local authorities[8] within London implementing a permit scheme and none from outside London. We have therefore adjusted the workload to reflect only these four local authorities implementing such a scheme based on the average of two existing similar local authorities, Bromley and Wandsworth.

Table 3: Proposed unit costs

	National Grid Gas - North London						Scotia Gas Networks - Southern					
	Actual			Project			Actual			Project		
Original workload data	2008-09	2009-10	2010-11	2011-12	2012-13	2008-13	2008-09	2009-10	2010-11	2011-12	2012-13	2008-13
	£	£	£	£	£		£	£	£	£	£	
Permits	80	80	80	80	80	-	80	80	80	80	80	-
Fixed Term Penalty Notices	80	80	80	80	80	-	80	80	80	80	80	-
Ongoing administration costs	2,682	6,124	8,000	8,000	8,000	-	0	0	8,000	8,000	8,000	-
Other costs	18,000	18,000	18,000	17,000	16,000	-	18,000	18,000	18,000	17,000	16,000	-
Level of FPN to permits	6%	6%	6%	6%	6%		6%	6%	6%	6%	6%	-

For permits we looked at costs which the GDNs submitted in their application and used their workload for permits to identify a unit cost. This cost ranged between £79-£81 where significant information was provided. We currently believe this to be consistent with what we expected and are therefore minded to allow a unit cost of £80 per permit.

The cost of fixed penalties (FPNs) that are paid for within the early settlement time frame amount to £80[9] and we have therefore used this as the unit cost. We then identified the number of FPNs received in relation to the number of permits issued, this ranged from 6% to 16% where significant information was provided. We are currently of the view that as these are penalties for failing to meet the agreed conditions. We propose to set the efficient level at the lower end of 6%.

[8] The four local authorities are Greenwich, Lambeth, Richmond upon Thames and Southwark which implemented their permit scheme in September 2011.
[9] Code 09 - Breaking the agreed conditions of a Permit (FPN is £120 discounted to £80 for early settlement)

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For ongoing administration costs, we looked at the costs submitted in the GDNs applications and used a workload driver based on the number of projects undertaken. We accept the size of project and how these are managed by local authorities can vary but currently believe that such variations will even themselves out with the number of local authorities involved. From the significant information provided, both actual and projected, this created a range of unit costs between £8,700 and £10,800 per project. We currently consider that these costs included an element of work associated with existing legislation, NRSWA, and have therefore currently set a unit cost at £8,000 per project.

We originally separated other costs in the companies' submission into productivity and other costs. However, we have identified that other costs related in the main to parking bay and bus stop suspensions. We consider that the majority of the other costs relate to the gas mains replacement programme and therefore are currently of the view that the correct driver is the length of mains abandoned within the local authorities that have implemented or will implement a permit scheme. This created a range of unit costs where significant information has been provided of between £18,670 and £44,670 per kilometre of mains abandoned. We are currently not convinced that the reported levels of other costs, predominantly lost productivity, are solely as a result of the implementation of permit schemes and have therefore currently set an efficient unit cost of £18,000 per km abandoned for before 2010-11, reducing to £17,000 in 2011-12 and to £16,000 in 2012-13. This recognises as the number of local authorities implementing the scheme increases and as traffic management schemes become 'business as usual', GDNs should develop solutions to the loss of productivity.

As stated in the main paper we are minded to exclude costs for lane rental and section 74 charges and have therefore not developed a unit cost for these areas.

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Table 4: Proposed allowed costs

	National Grid Gas - North London						Scotia Gas Networks - Southern					
	Actual costs			Projected costs		Total costs over 5 yrs	Actual costs			Projected costs		Total costs over 5 yrs
Original expenditure data (£m)	2008-09	2009-10	2010-11	2011-12	2012-13	**2008-13**	2008-09	2009-10	2010-11	2011-12	2012-13	**2008-13**
	£m	£m	£m	£m	£m	**£m**	£m	£m	£m	£m	£m	**£m**
Permits	0.00	0.10	0.64	0.78	0.85	**2.37**	0.00	0.00	0.73	1.75	2.95	**5.42**
Fixed Term Penalty Notices	0.01	0.06	0.11	0.13	0.13	**0.44**	0.01	0.15	0.11	0.14	0.18	**0.59**
Ongoing administration costs	0.35	1.13	1.98	2.40	2.63	**8.48**	0.96	2.14	3.15	4.25	4.57	**15.07**
Other costs	0.62	2.80	4.45	5.70	5.85	**19.42**	0.00	0.98	3.51	5.32	6.64	**16.45**
Lane rental (inc S74 charges)[1]	0.00	0.00	0.00	0.00	7.95	**7.95**	*0.00*	*0.00*	*0.00*	*1.45*	*6.50*	***7.95***
Total	**0.98**	**4.08**	**7.18**	**9.01**	**17.41**	**38.67**	**0.97**	**3.26**	**7.50**	**11.46**	**14.34**	**37.53**
Adjusted expenditure data (£m)	2008-09	2009-10	2010-11	2011-12	2012-13	**2008-13**	2008-09	2009-10	2010-11	2011-12	2012-13	**2008-13**
	£m	£m	£m	£m	£m	**£m**	£m	£m	£m	£m	£m	**£m**
Permits	0.00	0.12	0.64	0.78	0.85	**2.38**	0.00	0.00	0.73	1.05	1.14	**2.92**
Fixed Term Penalty Notices	0.00	0.01	0.04	0.05	0.05	**0.14**	0.00	0.00	0.04	0.06	0.07	**0.18**
Ongoing administration costs	0.35	1.13	1.46	2.20	2.29	**7.42**	0.44	0.88	1.76	1.75	2.67	**7.49**
Other costs	0.00	1.48	1.79	2.69	2.60	**8.55**	0.00	0.00	3.38	3.71	4.28	**11.38**
Lane rental (inc S74 charges)	0.00	0.00	0.00	0.00	0.00	**0.00**	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	***0.00***
Total	**0.35**	**2.73**	**3.92**	**5.71**	**5.78**	**18.50**	**0.44**	**0.88**	**5.92**	**6.57**	**8.16**	**21.97**

[1] Included in London's application are costs for lane rental and section 74 daily charge rates of £7.95m for 2012-13. Southern indicated this as an uncertainty and assessed these costs to be £7.95m, but this did not form part of their application.

We have based our proposed allowed costs on the above workload and unit costs. However we have made additional specific adjustments, predominantly in the first two years of the price control period.

North London has identified costs for FPNs and other costs in 2008-09 without any workload or costs for permits. We consider that permits are the primary driver for penalties and other costs and have therefore excluded these costs in our proposed adjustments. However, we currently allow the ongoing administration costs in that year as they were preparing for the implementation of permit schemes by local authorities.

Southern have also indentified costs for FPNs in 2008-09 and 2009-10 without any workload or costs for permits and we have therefore excluded these costs. For ongoing administration in those two years we currently believe the costs are too high considering no permits were issued. However, in recognition that they were preparing for the implementation of permit schemes by local authorities we have allowed 25 per cent of the 2010-11 ongoing administration costs in 2008-09 and 50 per cent in 2009-10.

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Appendix 2: Detailed analysis of SGN Scotland's proposed adjustments

This appendix sets out the analysis of the proposed adjustments against the SGN Scotland's application, with the rationale behind this.

In SGN Scotland's application they stated the road authorities that have implemented a traffic management scheme and those they believed would implement schemes in the future. We have concerns over the uncertainties of other road authorities that may implement a scheme in the future and have therefore adjusted the forecasted costs to reflect such uncertainties. However, we have retained Glasgow as they are implementing the scheme in October 2011. We recognise that the majority of costs relate to Edinburgh (scheme implemented February 2009) and Glasgow.

In SGN Scotland's application they included costs for 2007/08 of £0.37m. We are minded to exclude as such costs fall outside GDPCR1 and therefore should not be considered under the TMA reopener for the current price control.

SGN Scotland also indicated lane rental and section 74 NRSWA daily charges as an uncertainty and assessed these costs to be £3.98m, which however did not form part of their application. However, if these costs do materialise SGN Scotland would be able to apply to us to consider a potential adjustment to their revenues to recoup costs associated with lane rental and/or section 74 NRSWA daily charges in accordance with Special Condition E7.

We propose to allow costs for the contribution to the SRWR of £0.1m per annum.

We would only consider allowing efficient costs for ongoing administration and other costs where it can be shown that such costs arise because of the implementation of T(S)A. It is our current view that the costs in SGN Scotland's application relate to NRSWA.

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