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2<sup>nd</sup> Sept 2011

Dear Paul,

Thank you for your letter dated 4<sup>th</sup> August on the proposed process for the determination of re-opener applications in respect of Traffic Management Act Income adjusting event. This letter is the Wales & West Utilities Ltd response to the consultation. Our response is not confidential.

### **Summary**

We think the current arrangements in place for gas distribution networks to recover the costs of Traffic Management Act (TMA) during the current five year Gas Distribution Price Control broadly strike an appropriate balance of risk between Networks and Consumers. The current equity return that Networks are allowed to earn reflects the current balance of risk between networks and Consumers. Networks must be able to charge network users efficiently incurred costs that are required to meet their obligations.

The gas distribution networks have little control over the future TMA costs that could be levied and therefore to maintain the same level of risk profile the current arrangements must continue through the longer eight year RIIO GD1. Any changes to the existing arrangements will result in a change in the risk balance and therefore must be reflected in the allowed equity return to Networks.

Our recent stakeholder engagement has highlighted one possible improvement to the current arrangements. Stakeholders value transparency of our charges to them and therefore where possible we should aim to include anticipated costs within our base cost submissions to provide them with a more robust view of the total network charges to be levied on them. We should then continue with appropriate uncertainty mechanisms to address material variations and hence maintain the current risk profile.

24 hour gas escape number  
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\*calls will be recorded and may be monitored  
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The remainder of this response addresses the two specific questions raised in the consultation.

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

We are broadly supportive of the Ofgem approach and timetable as documented in the consultation but we do not agree with the “Interpretation” statements. You state that that ITMA<sub>t</sub> should not include any additional costs associated with NRSWA and be limited to the impact of TMA. If networks have efficiently incurred costs as a result of Highway Authority or Government levied costs which were not anticipated at the start of a price control review, then we think it is wholly reasonable for these costs to be included within the re-opener.

Government (local and national) legislation will evolve and it is obvious that no uncertainty mechanism will ever fully cover every possible eventuality but the broad principles of the uncertainty mechanism should be applied as long as networks can demonstrate costs have been efficiently incurred.

Where possible we should try to ensure Licence drafting is sufficiently broad to ensure its sustainability. This will be extremely important over a longer eight year price control period.

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

We agree that it is appropriate for the Networks to demonstrate the efficient level of costs incurred. We also agree Networks should articulate the mitigations they have employed to minimize cost impacts. That said, Ofgem must recognise that TMA charges are likely to be “Authority” specific and every Authority can act in a different manner. Therefore using benchmarking to establish efficient levels of cost between networks may be misleading. We therefore think the better way to establish “an efficient” level of costs incurred would be a specific review by Ofgem of each Network claim.



The Traffic Management Act and associated implications are a material uncertainty for the networks and consumers. We hope that our comments assist the development of appropriate process in this area. If you would like any further information, please do not hesitate to contact myself.

Yours Sincerely

Steve Edwards  
Head of Regulation and Commercial