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Dear Mick

Consultation on GDN re-opener applications in respect of the Traffic Management Act

Thank you very much for the opportunity to comment on your minded to position for adjusting the GDNs' revenues in response to 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.

There are currently no permit schemes active within Electricity North West's operating area and hence we comment on the published logic of your approach rather than on the appropriateness of detailed cost proposals. We currently anticipate that 11 of the 25 Highways Agencies within our operating will introduce permit schemes within the DPCR5 period.

Scope activities allowed within the reopener

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)
- The introduction of Section 74 Changes (overstay fines)
- The introduction of coring schemes

It is very important that the scope of reopeners includes all of these external cost pressures, none of which were included in allowances at the time of price controls being set. We are pleased that Ofgem has acknowledged that costs such as section 74 charges and lane rentals should be included, and that the approach in GDPCR will form a precedent for DPCR5 reopeners and RIIO-ED1 allowance setting. We remain disappointed, however, that the exact mechanism via which costs other than permits will be remunerated remains unclear.

Assessment of efficient permitting costs

As we have not yet got any active permit schemes within our area it is impossible for us to comment on detailed costs. However, we are surprised that Ofgem has been able to calculate an efficient cost that applies across all GDNs. We had expected that it would be difficult to mechanistically compare the costs experienced by different companies because Highways Authorities have the ability 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 Highway Authority areas and hence in different operating areas. Ofgem must be confident that their analysis has determined the correct efficient costs for each GDN, taking into account the application of permits by each relevant Highways Authority and the work mix across Highways Authorities.

We agree that you should expect companies to demonstrate continued efficiencies in delivering streetworks, We have undertaken number of initiatives to minimise the impact of streetworks changes on our cost base, including:

- We have introduced a half yearly steering group with all Highway Authorities to discuss all proposals and agree priority actions
- We are actively managing Section 74 charges which has seen the volume of overstay decreasing year on year, mitigating the impact of significant increases to unit costs
- We are currently implementing a review of actions required to self manage the quality of reinstatements

It is important to note, however, that despite our considerable efforts to minimise the costs that we are exposed to, we still forecast significant cost increases.

Dealing with uncertainty of remainder of GDPCR period

We agree that Ofgem should only adjust costs at this stage for Highways Authorities who have signaled that they intend to introduce permits. Given the ongoing uncertainty, it would be inappropriate to adjust revenues for such potential costs at this stage.

We agreed that costs associated with authorities that implement permit schemes within 2012-13 over and above those allowed in reopener should be logged up and assessed as part of the GD1 review.

Timing of recovery of revenues

We agree that costs should be recovered in 2012-13. These costs relate to GDPCR and should be recovered within period.

Implications for DPCR5 Reopener

The points that we raise in this letter are equally applicable to DNOs as GDNs. We fully expect that there will be continued uncertainty as to which Highways Authorities will implement permits schemes or other streetworks management initiatives at the window that DNOs may submit reopener applications. It may be necessary to reopen both at July 12 and make adjustment at 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 question regarding our response please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink that reads "Sarah Walls". The signature is written in a cursive, slightly slanted style.

Sarah Walls
Head of Economic Regulation