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Dear Chris,

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

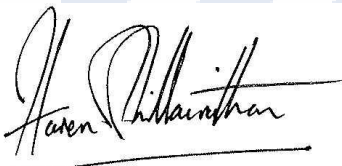
Thank you for the opportunity to comment on the above consultation. We broadly support the approach and principles used to determine the re-opener though we do have some concerns with some of individual calibrations used. Our responses to the specific questions posed in this consultation are set out in the appendix to this letter and highlight these concerns.

The key issue for NGN is the remuneration of streetworks costs from 2012 onwards. We therefore welcome Ofgem's decision to set ex-ante allowances for the RIIO-GD1 period based on well justified forecasts. As we outlined in our response to the consultation on the proposed process for this determination¹ NGN's forecast will primarily comprise costs associated with the Yorkshire Common Permit Scheme (YCPS) commencing in April 2012. NGN will submit costs associated with Highway Authority (HA) schemes that are not confirmed at present at the proposed RIIO-GD1 re-opener windows in July 2015 and July 2018. These will include any costs associated with lane rental schemes.

Our business plan forecast includes costs that will be incurred in 2012/13 predominantly associated with the YCPS. NGN's preference is for these costs to be considered and included in the ex-ante allowances. We note at the end of the open letter on page 6, Ofgem propose that North London (NGG) and Southern (SGN) be allowed to "log up" costs for 2012/13 for HAs not included in their respective re-opener application. Should Ofgem choose not to include our 2012/13 costs in the ex-ante allowances then we should be allowed to log up costs on the same basis as NGG and SGN.

Please let me know if you would like any clarification of any aspect of this letter. This response can be regarded as non confidential.

Yours sincerely



Haren Thillainathan
Regulation Manager

¹ <http://www.ofgem.gov.uk/Networks/GasDistr/GDPCR7-13/Documents1/NGN%20response%20to%20TMA%20re-opener%20consultation.pdf>

APPENDIX

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

There is insufficient detail for us to comment on all Ofgem's proposed adjustments certain adjustments appear to be down to Ofgem's assertion that NGG and SGN have not submitted sufficient or correct detail which given that we do not have sight of the companies' forecasts we cannot comment on.

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?

In general NGN we agree with the proposed principles and approaches Ofgem has used but we have some concerns with the individual calibrations used.

GDPCR 1 NRSWA allowances

On page 4 Ofgem state that given the GDNs comprising the upper quartile including NGN, in the GDPCR 1 repex assessment were all subject to NRSWA at the time by default all GDPCR 1 allowances include NRSWA costs. We can confirm in the case of NGN NRSWA costs included in its GDPCR 1 repex forecast were based on HA activity at the time of the forecast in 2006 which was extremely low. It is clear that since 2006 the number of HAs operating components of NRSWA in NGN's region has increased significantly above what was assumed in NGN's GDPCR 1 forecast. Furthermore HAs have deliberately increased their activity in these areas e.g. overstay fines, FPNs etc regardless whether they implement TMA permit schemes. This increase in costs is driven purely by HA objectives and is not reflective of GDN efficiency therefore any NRSWA incurred up to 31 March 2013 should not be automatically excluded from GDNs' submissions.

FPN to permit ratio

Ofgem state that the level of FPNs funded should be based on an efficient level of permits issued NGN agrees with this principle. However it appears that Ofgem's application of this principle is fairly arbitrary on page 9 Ofgem note that FPNs in relation to permits issued information from NGG and SGN produced range of 6% to 16% and Ofgem have decided that 6% is an efficient level simply because it is the lowest number no further justification is provided. NGN's experience of HAs in its region would suggest that the rate of FPN issuance will vary between HAs who have implemented TMA permit schemes some will continue and increase their diligence in FPN issuance. NGN's experience to date suggests that a ratio over 10% is more justified.

TMA Permit Unit Costs

On page 9 Ofgem comment that they derived a range of TMA permit unit costs of £79-£81 it is not clear what the basis of these unit costs is. We note that the indicative standard permit rates for YCPS² are all in the range £96 to £109 which are higher than Ofgem's range and major activity permits are significantly higher.

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

Yes, as stated earlier we believe costs incurred in 2012/13 outside Ofgem's proposed reopener allowances should included in the RIIO-GD1 ex-ante allowances alternatively all GDNs should be allowed to log up these costs on the same basis as NGG and SGN.

²[http://www.leeds.gov.uk/files/Internet2007/2011/35/proposed%20permit%20fees%20\(august%202011\)%20a%20\(2\).pdf](http://www.leeds.gov.uk/files/Internet2007/2011/35/proposed%20permit%20fees%20(august%202011)%20a%20(2).pdf)