

Ofgem
9 Millbank
London
SW1P 3GE

Chris Bennett
Head of UK RIIO Delivery

Chris.bennett@nationalgrid.com
Tel. 01926 653626

For the attention of Mick Watson

www.nationalgrid.com

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Dear Mick

Response to Ofgem minded-to position for the determination of a proposed relevant adjustment associated with Specified Streetworks costs under the RIIO-GD1 price control review

Further to the publication of Ofgem's minded to position on 31 July 2015 regarding the above, we have taken into consideration all the points raised and do not agree with the Ofgem assessment and proposed adjustments to our claim for our North West and North London Gas Distribution Networks. The main elements of challenge are outlined below and more detail is provided to support each argument in the attached appendix to this letter.

For East of England network, due to the differences in the permit schemes across the network only applying to a subset of roads, which adds to the complexity in this network, and the challenge that we have had from Ofgem regarding only having one years data to assess our costs, we believe it would be appropriate to submit a claim for East of England at the second reopener window in May 2018, which would include a submission for actual costs incurred from 2013-14 up to and including 2016-17 and a forecast for the remaining RIIO-GD1 period.

Permit Fee and Variation costs

The adjustment mechanism used by Ofgem is flawed as it has used the number of variations rather than the cost of variations to calculate an adjustment. This has resulted in Ofgem assuming that 47% of the costs are for variations where the correct costs for variations is 14% for North West as detailed in the attached appendix. Similarly the same methodology has been applied to North London. Based on this, it is inappropriate to make a disallowance when the actual variation costs incurred are below the 25% level proposed by Ofgem and the calculation does not take into account non-chargeable variations. This is reinforced by the fact that our Ofgem's proposed disallowance are greater than the total cost incurred in variations for each network.

Permit Fee and Variation efficiencies

Ofgem have proposed an efficiency incentive on our forecast Permit fees and Variation costs based on National Grid being able to roll-out new innovative techniques that reduce disruption to road users. We do believe we will be able to roll-out and deliver efficiencies based on innovation; however, this will not alter the requirement or driver for the number of permits or variations which are a legislative requirement when we occupy the highway. Permits are required for any works, which would include techniques that significantly reduce the number of excavations such as PRISM and keyhole technology as described in our submission. Given the necessity to have permits and variations regardless of innovation techniques, it is inappropriate to make a disallowance.

Administration & Productivity cost efficiencies

We welcome that Ofgem are minded to accept our costs for administration and productivity costs in North West and North London networks for 2013-14, which we believe are at an efficient level. In addition, we took the decision not to include Real Price Effects of 1.2% (as set during RIIO-GD1 final proposals) in our forecast costs for the remaining period of RIIO-GD1 as we considered this could be offset by efficiencies we may be able to deliver in managing the Streetworks process. We believe applying a further 3% taking the total to 4.2% efficiency adjustment as proposed by Ofgem is unacceptable due to the following arguments;

Administration - The costs incurred for administration are incurred to work to the permit process and we do not see our physical on-site innovation techniques being able to reduce the administration of the permit scheme and / or reduce the requirement to provide traffic management plans.

Productivity – Whilst new innovation techniques will have some benefits in reducing either the excavation size and / or the duration we occupy the road, we are not able to assess whether this will have a similar effect on the management and compliance with permit scheme conditions. Again, we do not believe it is acceptable to apply a 3% efficiency adjustment when it is likely the permit condition will still require additional working practices and that we had not included Real Price Effects of 1.2% to take into account potential efficiencies that we may be able to deliver. Whilst we do not consider an adjustment appropriate, any movement should at least take into account the 1.2% Real Price Effect, which would make a maximum adjustment of 1.8%.

North London Lane Rental efficiencies

Ofgem have proposed a 3% annual cumulative reduction to our lane rental forecast of costs to account for efficiencies and innovation whilst having acknowledged how we have been able to better manage our lane rental process and costs for lane rental charges. We accept that there will be potential to deliver improved efficiencies through innovation, however, our new innovations planned will be specific to new technologies to deliver our replacement activities. It would be acceptable to apply an efficiency rate to our replacement activities, which equate to approximately 20% of the jobs. However, it would be inappropriate to apply to our repair activities and our specific London Medium Pressure programme where we have no planned new innovation projects and we have already

included innovations to help deliver the benefits to-date. The examples of innovations already delivered are;

Repair innovations - keyhole technology, fast cure concrete, and development of a Lane Rental application for our workforce, etc. as outlined in our submission.

London Medium Pressure replacement programme - deployed a new large diameter PE pipe to minimise the costs of this programme and the lane rental charges that we will incur, with none of the additional PRISM and core and vac technologies being suitable for this specific programme.

Based on these innovations having already been factored into our actual and forecast costs, we believe it is unacceptable to factor an additional 3% efficiency for 80% of the workload when many of the innovation techniques have already been deployed.

Given the points raised in this letter to further support our Streetworks claim for North West and North London we believe it is appropriate to reduce the disallowance in line with the above arguments.

Yours sincerely

SENT BY EMAIL

Chris Bennett
Head of UK RIIO Delivery
National Grid

Appendix to specified Streetworks costs response letter dated 1 September 2015

North West

Permit Fees

Permit fees recorded within our submission are for actual costs inclusive of both fees and variations. It needs to be understood that the proportion of costs allocated to each source needs to be taken into consideration with permit fees equivalent to 86% (£423k) of the costs incurred which are totally unavoidable and variations comprising of only 14% (£69k).

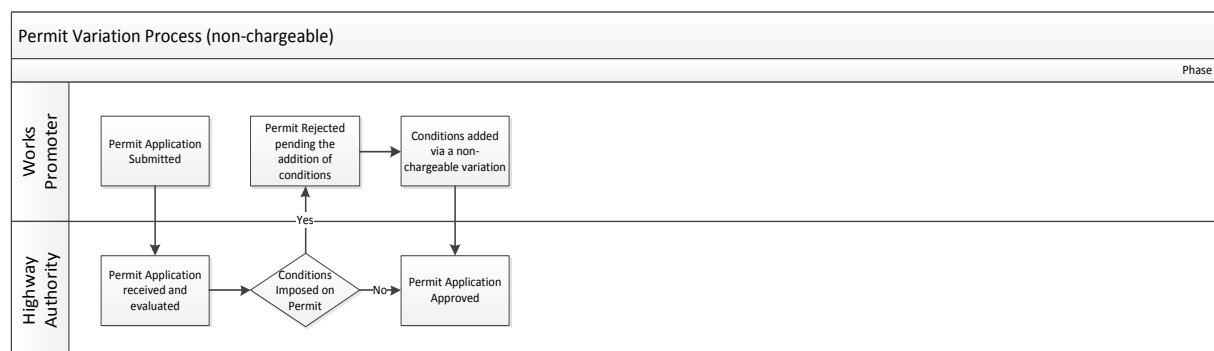
The high number of permit variations reported was a true reflection of the changes required to permits but is not reflective of the costs or reasons for those variations. Of the 5,343 permit variations only 1,642 incurred variation costs from the Highway Authority due to re-planning or changes made by National Grid.

The specific reason for the high number of variations, in particular those not incurring a cost, is that the regulations laid out within TMA and the accompanying systems utilised to deliver the administration of the scheme do not lead to an effective or efficient delivery of the legislation and local agreements have been reached between works promoters and highway authorities to facilitate the administration of the legislation through the permit variation process.

The table below details the actual split between the permits and variations and the costs incurred

North West				
	Actual Cost	Proportion	Numbers	Chargeable
	£k	%		
Permits	423	86	6082	6082
Variations	69	14	5343	1642
Total	492	100	11425	7724

Regulation 10 of the Act details how permit conditions should be applied to permits by Highway Authorities and the industry system 'Eton' is not reflective of this process. Highway Authorities impose at least one condition on every permit and do not have the ability, through the system, to apply these conditions and are therefore dependant on the works promoter adding these conditions through the variation process at a nil charge. This can be seen on the flow chart below.



Taking these facts into consideration, National Grid believe the permit and variation costs should be allowed in full.

North London

Permit Fees

Permit fees recorded within our submission are for actual costs inclusive of both fees and variations. It needs to be understood that the proportion of costs allocated to each source needs to be taken into consideration with permit fees equivalent to 79% (£253k) of the costs incurred which are totally unavoidable and variations comprising of only 21% (£67k).

The high number of permit variations reported was a true reflection of the changes required to permits but is not reflective of the costs or reasons for those variations. Of the 1,323 permit variations only 479 incurred variation costs from the Highway Authority due to re-planning or changes made by the works promoter.

The table below details the actual split between the permits and variations and the costs incurred

North London				
	Actual Cost	Proportion	Numbers	Chargeable
	£k	%		
Permits	252.8	79	3293	3293
Variations	67.2	21	1323	479
Total	320	100	4616	3772

The same processes and systems outlined for North West apply to North London permit processes.

Taking these facts into consideration, National Grid believe the North London permit and variation costs should be allowed in full.

East of England

National Grid has considered the Ofgem 'minded to position' in relation to our claim and taken into account the points that have been raised.

Similarly to the points raised for North West and North London networks we have concerns over the adjustments that have been made with regard to Permits, variations, administration and productivity costs. As we believe Ofgem require further information with regarding to the permit schemes operating in East of England we will take the opportunity to split out the costs between those highways running full and partial schemes and will be in a position to submit a claim during the May 2018 reopener window.