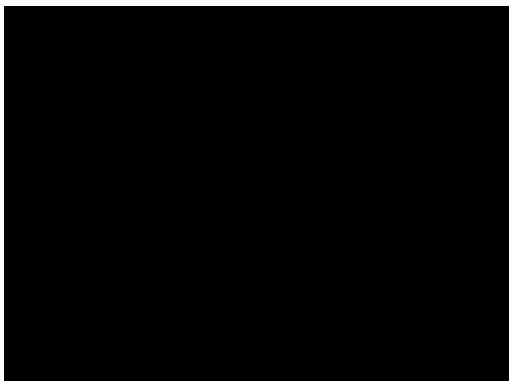




Street Works Reopener Spreadsheets Summary of Work

FINAL

Distribution:	
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1) Executive summary

Electricity North West Limited (ENWL) is intending to make a submission to Ofgem in accordance with Charge Restriction Condition (CRC) 3F for additional funding to cover the additional costs incurred and forecast to be incurred in relation to the payment of fees and costs arising from the Street Works permit scheme legislation.

ENWL's Risk, Control and Assurance team (which includes ENWL's internal audit function) was asked to undertake advisory reviews of aspects of the Street Works submission being prepared by Management. As part of ENWL's corporate governance, the Head of the RCA team reports to the Chair of the Audit Committee to ensure appropriate independence of this function.

An initial review was performed in 2017/18 to help ensure a robust process was followed in the construction of the financial workbooks. At this stage, the submission was at a very early preparatory stage. Feedback from the review formed constructive recommendations for the development of the reopener submission which was then acted upon by accountable management and the street works team.

Two areas of the claim have subsequently been subject to advisory reviews that have been undertaken in 2019: initially on the detailed documented financial workbooks for 2018/19 Q1 and Q2 that form the basis of the calculations for the claim for this element, and subsequently on the spreadsheets outlining the forecast claim.

As part of the review, feedback was provided to the street works team during fieldwork as points were noted, which were then acted upon. This report summarises those findings and also notes the strengths observed by the reviewer during the process.

2) Summary of Advisory Work Undertaken

Background

Part 3 of the Traffic Management Act (TMA) 2004 introduced permit schemes as a method to better manage activities in the public highway, including street works, and to improve highway authorities' ability to minimise disruption from road and street works.

Permit schemes can be mandated by highway authorities as an alternative to the notification system of the New Roads and Street Works Act (NRSWA) 1991, and require utility companies such as Electricity North West to apply for permission to undertake street works on the highway by obtaining a permit from the highway authority.

Several local Councils within ENWL's area have been implementing street works permit schemes since 2012, with the final Highways Authority planning to implement a scheme in the current financial year. Where permits are required this results in the unavoidable payment of associated fees and costs. There are no lane rental schemes currently operating in ENWL's area, though it is noted that highways authorities could still commence lane rental schemes during RIIO-ED1.

The additional costs for permit conditions were not taken into account when the RIIO ED1 settlement for ENWL was agreed due to lack of information and the level of resulting uncertainty of costs. Only permit and lane rental schemes that were operational as at 1 July 2013 which had 12 months of cost data at the time of the settlement were eligible for funding and so provision was made in CRC 3F for licensees to seek additional funding.

In the Regulatory Instructions and Guidance (RIGs) commentaries submitted to Ofgem in July 2017 and July 2018, ENWL indicated its intention to submit a reopener application in regards to the additional costs. Management noted this intention has been shared subsequently with Ofgem in face to face meetings in 2018 and 2019 as well as other regular reporting. The reopener final submission will be made in May 2019 during the application window.

To support such a submission, the Risk, Control and Assurance team was asked to undertake advisory work to review aspects of the submission. It was agreed that an initial street works reopener review would be performed in the 2017/18 RCA programme. At this stage, the submission was at a very early preparatory stage so the findings were used to input to the processes and approach to the reopener. Subsequent work has been led by the Street Works team to apply the recommendations that were identified to increase the robustness of the street works reopener.

Two advisory reviews have been undertaken in 2019: initially on the documented financial workbooks for 2018/19 Q1 and Q2 that forms the basis of the calculations for the claim, and subsequently on the spreadsheets outlining the forecast claim.

The value of the reopener submission has been calculated by the ENWL Street Works team using spreadsheet workbooks, with supporting method statements (which have been reviewed and approved by management). Data has been submitted annually in the RIGs submissions along with supporting narrative.

Information on costs, volume and frequency of applied permit conditions is collated from information held within ENWL's Symology Insight noticing / permitting system. The ENWL Street Works team have used a combination of established contractor rates, published highway authority permit fees and operational delivery costs to establish the eligible costs resulting from permit conditions.

ENWL reports permit related costs annually in regulatory reporting tables M9b and M9c. Data assurance has been performed by ENWL management over the data submitted in the RIGs tables from 2014 through to March 2018 on the basis of Ofgem's detailed guidance, and therefore the 2019 reviews have focussed on data from after this period (Q1 and Q2 data from 2018/19) and forecast data (2019/20 to 2022/23). Detailed guidance on what can be included in the regulatory tables (and therefore the reopener) is set out in the RIGs. Management noted that the Street Works team has applied the recommendations from this review to all historic costs improving the accuracy of prior period numbers. Management wanted to ensure historic costs were as robust as possible as these are directly used in forecasting future costs.

The reviews performed looked to identify current strengths and opportunities for improvement in the relevant spreadsheet calculations and workbooks that form the basis for the reopener application that will be submitted for the periods in scope. Broader considerations on the approach taken were also highlighted to management where noted during work performed.

Objectives and approach

The role of the reviews performed by the RCA team was to assess formulas within the complex financial workbooks, challenge the methodology and identify opportunities for improvement/development. Detailed feedback on possible considerations and key points raised was communicated to the Street Works team as the field work was performed.

A detailed approach was taken, tracing the high level figures back through the spreadsheet formulas to the figures they were derived from and assessing the reasonableness of the formulas used.

Points to note:

- The RCA work performed has reviewed the reasonableness of the formulas used (up to the summation of data by management from primary systems exports, underlying hard coded assumptions, or prior period numbers) in the spreadsheets that form the basis of the submission value calculation. The assumptions that underpin these calculations and supporting calculations have been subject to management scrutiny and independent expert third party review.
- The 2019 reviews have focussed on calculations from periods that had not previously been subject to ENWL RRP submission process.

Strengths

Strengths observed during the reviews include:

- Proactive response by management to feedback from the first review in 2017/18 has resulted in significant strengthening of the reopener submission workbooks. The limited number of minor issues noted in the 2019 reviews was also promptly acted upon by management.
- Street works procedure documents ('SWRO' documents) have been written to help ensure the process in compiling the spreadsheets is standardised and a strong control environment is in place.
- A formally documented review of the spreadsheet workbooks is now performed by the Street Works team for the quarterly internal submissions of the RRP tables, allowing the identification and resolution of any issues on an ongoing basis.
- The spreadsheet workbooks are password protected for editing, with only the staff members requiring edit access having the password.
- A third party with street works and operational knowledge has been engaged to assess the reasonableness of assumptions used in the workbooks.

Findings from the initial review (in 2017) of the Street Works Reopener Approach:

- Recommendations for the development of the reopener submission were provided to management, recognising the early stage of work on the submission, which were then acted upon by accountable management and the Street Works team.

Findings from the review of Street Works Reopener Spreadsheets 2018/19 Q1&Q2 are as follows:

- A small number of opportunities for improvements in calculations were identified in the final reviews of the Q1 and Q2 data from 2018/19. These were promptly corrected by the Street Works team when identified by the reviewer.

Findings from the review of Street Works Reopener Spreadsheets Forecast Costs are as follows:

- A small number of opportunities for improvements in formula referencing were identified in the final reviews of reopener forecast spreadsheets. These were promptly corrected by the Street Works team when identified by the reviewer.

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