

Consultation

RIIO-ED1 Reopener Consultation – Specified Street Works Costs

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Context

The RIIO-ED1 price control sets the outputs that the electricity distribution network companies need to deliver for consumers and the associated revenues they are allowed to collect for the eight year period from 1 April 2015 until 31 March 2023.

For cost categories where there was significant uncertainty about expenditure requirements at the time of setting allowances, the price controls include a “reopener” mechanism. The mechanism allows network companies to propose adjustments to baseline expenditure allowances for these costs when there is more certainty. The reopener mechanism specifies a window in May 2019 during which adjustments to allowances may be proposed.

We have received reopener submissions in the following cost categories:

- High Value Project Costs
- Rail Electrification Costs
- Enhanced Physical Site Security Costs
- Specified Street Works Costs

This document sets out our initial views on the applications under the “Specified Street Works Costs” category of uncertain costs.

We welcome the views of interested parties on any of the issues set out in this document. Responses should be addressed to RIIO-ED1@ofgem.gov.uk no later than 10 September 2019. Unless clearly marked as confidential, responses will be published on our website. We will consider responses as part of our final determination which we intend to publish in October this year.

Associated documents

[Informal consultation on RIIO-ED1 price control reopeners \(May 2019\)](#)

[RIIO-ED1 Price Control Financial Handbooks \(fast-track and slow-track licensees\)](#)

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1. Executive summary

What are we consulting on?

- 1.1 When setting the first RIIO electricity distribution price control (1 April 2015-31 March 2023), Ofgem introduced a number of mechanisms for the recovery of uncertain costs. Those uncertainty mechanisms included reopeners, which enable adjustments to electricity distribution network operators' allowances to reflect efficient costs associated with specific uncertain cost categories and are set out in Special Condition CRC 3F¹ of the Electricity Distribution Licences.
- 1.2 One of the uncertainty mechanisms relates to costs associated with certain street works legislation that impose a permit scheme, lane rental scheme or equivalent which were not included as part of the ex ante allowance set at the start of the price control. As part of setting allowances for RIIO-ED1, we allowed efficient street works costs where Highway Authorities (HAs) had already implemented schemes prior to the start of RIIO-ED1 and the licensee had 12 months of cost data relating to the scheme. The May 2019 reopener considers costs associated with schemes which were not operational by 1 July 2013 or where the scheme was implemented by this date but the DNO did not have 12 months of cost data.
- 1.3 Specified Street Works Costs (SSWC) are defined in Special Condition CRC 3F of the DNOs' licences as:

"the costs incurred, or expected to be incurred, by the licensee in complying with obligations or requirements arising under any order or regulation made under Part 3 of the Traffic Management Act 2004 (or, in Scotland, the Transport (Scotland) Act 2005) that impose a permit scheme, lane rental scheme or equivalent and comprise:

(a) permit fee cost;

(b) one-off set-up costs;

(c) administrative costs arising from the introduction of permit schemes or equivalent and lane rental schemes or equivalent; and

(d) costs arising from the introduction of permit conditions or equivalent and lane rental schemes or equivalent.

all as further clarified in the RIGs.²"

- 1.4 In the May 2019 window, we received submissions from the following eight licensees requesting an adjustment for their expenditure allowances in relation to SSWC:
 - Electricity North West Limited (ENWL)
 - Northern Powergrid (Northeast) Limited (NPgN), which is part of Northern Powergrid (NPg)
 - Northern Powergrid (Yorkshire) plc (NPgY), which is part of NPg
 - Scottish Power Manweb (SPMW), which is part of Scottish Power Energy Networks (SPEN)
 - UK Power Networks - Eastern Power Networks plc (EPN), which is part of UK Power Networks (UKPN)

¹ Charge Restriction Condition 3F: Arrangements for the recovery of uncertain costs.

² Appendix 2: RIIO ED1 Electricity Distribution Price Control- RIGs: Version 4.0-see page 186 onwards, <https://www.ofgem.gov.uk/publications-and-updates/direction-make-modifications-regulatory-instructions-and-guidance-rigs-riio-ed1-version-40>

- Western Power Distribution (West Midlands) (WMID), which is part of Western Power Distribution (WPD)
- Western Power Distribution (East Midlands) (EMID), which is part of WPD
- Western Power Distribution (South West) (SWEEST), which is part of WPD

1.5 Table 1 below sets out the level of additional funding requested by each licensee and each licensee’s materiality threshold (as set out in Appendix 3 to CRC 3F). Also set out is our proposed allowed funding for each licensee.

Table 1: Requested funding by licensees and proposed allowed funding³

DNO group	Licensee	Materiality Threshold (£m)	Requested Funding (£m)	Ofgem’s Proposed Allowance (£m)	Difference (£m)
ENWL	ENWL	6.2	10.3	9.0	-1.3
NPg	NPgN	4.5	5.2	0	-5.2
NPg	NPgY	5.9	9.3	0	-9.3
SPEN	SPMW	5.8	21.3	8.0	-13.3
UKPN	EPN	9.7	10.2	0	-10.2
WPD	WMID	5.7	24.5	0	-24.5
WPD	EMID	5.7	20.7	7.6	-13.1
WPD	SWEEST	4.2	11.0	0	-11.0
Total			112.5	24.6	-87.9

Next steps

- 1.6 This consultation will close on Tuesday 10 September 2019. Please send in your response by emailing us at RIIO-ED1@ofgem.gov.uk.
- 1.7 In proceeding with a 28 day consultation we welcome engagement from interested stakeholders during the consultation period. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.
- 1.8 Our decision will be implemented through the 2019 Annual Iteration Process, which will mean that any adjustment to DNOs’ allowed revenues will take place from 2020/2021.

³ All prices in this consultation document, unless otherwise indicated, are in 2012/2013 prices.

2. Ofgem's assessment approach

Section summary

This section sets out our approach to assessing the submissions.

- 2.1 We have assessed the submissions in accordance with CRC 3F of the Special Licence Conditions and the RIIO-ED1 Price Control Financial Handbook.^{4 5}

Compliance with the Special Licence Conditions

- 2.2 Charge Restriction Condition (CRC) 3F of the Special Licence Condition sets out what constitutes a proposal for a relevant adjustment by the licensee.
- 2.3 Under CRC 3F, the licensee may propose a relevant adjustment to the allowed level of expenditure on SSWC, provided that the proposed change to the level of allowed expenditure:
- is based on information/auditable evidence and justification⁶ about the actual or forecast level of efficient expenditure on the uncertain cost activity that was either unavailable or did not qualify for inclusion when the licensee's Opening Base Revenue Allowance was derived
 - takes account of any relevant adjustments previously determined under CRC 3F
 - constitutes a material amount as specified for the licensee
 - relates to costs incurred or expected to be incurred after 1 April 2015
 - constitutes an adjustment to allowed expenditure that (excluding any Time Value of Money Adjustment) cannot be made under the provisions of any other condition of the licence.
- 2.4 In addition, CRC 3F sets out that a proposal must include statements setting out:
- the uncertain cost activities to which the proposal relates
 - the changes to the licensee's allowed level of expenditure that are proposed and the Regulatory Years to which those changes relate
 - the basis of calculation for the changes to the licensee's allowed level of expenditure.

⁴ ED1 Price Control Financial Handbook (slow track):

https://www.ofgem.gov.uk/system/files/docs/2017/08/ed1_handbook_v3_slowtrack_0.pdf

⁵ ED1 Price Control Financial Handbook (fast track):

https://www.ofgem.gov.uk/system/files/docs/2017/08/ed1_handbook_v4_fasttrack_0.pdf

⁶ SHEPD's licence makes it clear that this requires auditable evidence and justification.

Price Control Financial Handbook considerations

- 2.5 In accordance with the ED1 Price Control Financial Handbook⁷, we have also assessed the proposals to determine whether:
- the licensee has provided, or will be able to provide 12 months worth of costs data to support its proposal
 - the proposal by the licensee represents an efficient level of expenditure.
- 2.6 We have then reached a minded to position in relation to rejection, acceptance or amendment of the relevant adjustment proposed by the licensees.

Our approach to cost assessment

- 2.7 SSWC, as defined in Special Condition CRC 3F of the DNOs' licences, consist of four cost categories. These cost categories are:
- permit fee costs
 - administrative costs arising from the introduction of permit schemes or equivalent and lane rental schemes or equivalent
 - costs arising from the introduction of permit conditions or equivalent and lane rental schemes or equivalent
 - one-off set-up costs.
- 2.8 In order to determine whether the proposal by the licensee represents an efficient level of expenditure, we have carried out a cost efficiency assessment of the above categories. This has involved an assessment of both unit costs (for permit fee, administration and permit condition costs) and permit volumes. Below we set out how we have carried out this assessment.⁸

Assessing unit costs (permit fee, administration and permit condition costs)

- 2.9 First, we took the unit costs (for permit fee, administration and permit condition costs) provided in the DNOs' submissions and their corresponding 2018/19 Costs and Volumes Regulatory Reporting Packs (CV RRP), and carried out a data cleansing exercise. We identified values where there were inconsistencies (eg significant fluctuations in unit costs between years) and removed these from our analysis. Based on our assessment, we identified that ENWL, SPMW and EPN produced consistent unit costs for the first four years of RIIO-ED1.
- 2.10 Using this cleansed data for the three cost categories, we created an aggregate average actual unit cost.

⁷ Please see 7.40 (ii) b. and c. of ED1 Price Control Financial Handbook (slow track): https://www.ofgem.gov.uk/system/files/docs/2017/08/ed1_handbook_v3_slowtrack_0.pdf; and 7.42 (ii) b. and c. of the ED1 Price Control Financial Handbook (fast track): https://www.ofgem.gov.uk/system/files/docs/2017/08/ed1_handbook_v4_fasttrack_0.pdf

⁸ We have not included one-off set-up costs in our benchmarking exercise due to the fact that we do not have data with which to benchmark these costs. Where licensees have requested additional funding for one-off set-up costs, these have been addressed in the DNO specific sections on this document (Chapters 3-7).

- 2.11 We compared this aggregate average actual unit cost against the licensees' requests for funding for each year of the ED1 price control period. We consider this to be an appropriate approach because, unless otherwise justified in the submissions, we expect unit costs to be comparable across years and across licensees. Where licensees' proposed costs (for all three cost categories) were higher than our benchmarked proposed allowances, we have used our benchmarked values. Where licensees' proposed costs were lower than our proposed allowances, we have used the proposed costs provided by the licensee.
- 2.12 For forecast costs, from 2019-20 onwards, we took the same approach and also applied a 3% efficiency reduction. This approach is consistent with the approach we took in regards to the RIIO-GD1 SSWC reopeners in 2018.⁹
- 2.13 We consider a 3% efficiency reduction to be appropriate for the following reasons:
- DNOs should aim to reduce the number of permit variations
 - DNOs should look at innovative solutions to improve ways of working, reduce the time they spend in the highway and the overall impact that will directly reduce costs
 - as the management of street works becomes more business as usual, administrative processes should become more efficient
 - DNOs should aim to work more closely with HAs to improve the impact that street works cause
 - DNOs are incentivised through varying incentives (eg totex, broad measure of customer satisfaction) to be more efficient and improve customer service.
- 2.14 When assessing licensees' unit costs, we also considered any factors set out in the DNOs' submissions to justify significant variations in unit costs, including where licensees' costs were above the average.

Assessing permit volumes

- 2.15 All licensees who submitted a reopener application for SSWC, except SWEST¹⁰, submitted four years of actual permit volumes and four years of forecast volumes for the RIIO-ED1 period. We removed permit variation volumes from the total actual volumes to volumes. Our assessed issued permit volumes exclude permit variation volumes. In their submissions, licensees also included forecast permit volumes for new HAs that are proposing to introduce permit schemes in the RIIO-ED1 period. We identified a number of challenges when determining a robust forecast for permit volumes for the remainder of RIIO-ED1. Some of these challenges included:
- timing of when a new permit scheme will be introduced
 - where schemes are introduced part-way through a Regulatory Year

⁹ RIIO-GD1 Reopener Consultation – Specified Street Works Costs:
https://www.ofgem.gov.uk/system/files/docs/2018/08/street_works_cadent_consultation_document_ofgem_public_version_-_may_2018.pdf

¹⁰ SWEST requested additional funding for forecast permit fee costs and forecast lane rental costs only.

- where HAs first introduce a partial (sensitive roads only) scheme and then move to a full scheme during RIIO-ED1
 - where more than one DNO operates in a HA's area.
- 2.16 To establish a reasonable number of permit volumes, we identified the average number of permits issued per HA per year, where a permit scheme was in operation in the first four years of RIIO-ED1. We then applied this average to forecast volumes. Where DNOs' forecast volumes are lower than our view of reasonable permit volumes, we have accepted their forecast volumes; where they are higher, we have used our view.
- 2.17 A number of DNOs submitted a claim for permit variations.¹¹ It is our view that permit variations, and the associated cost are inefficient and we therefore propose to disallow funding for them. We would expect all DNOs to avoid or completely minimise permit variation costs.

Approach to lane rental costs and logging up

- 2.18 Due to continued uncertainty over future implementation of lane rental schemes across HAs, three DNOs¹² have requested a logging-up mechanism for any efficient lane rental costs that are incurred by the end of the ED1 period.¹³
- 2.19 Our RIIO-ED1 Strategy Decision for Uncertainty Mechanisms sets out the position in relation to the logging up of costs.¹⁴ This provides that no logged-up costs will be allowed unless the reopener threshold is triggered. In such conditions, the logged up costs would be assessed on the same cost efficient basis as the May 2019 reopener and require 12 months of cost data to be provided. Only DNOs that pass the materiality threshold for SSWC after our efficiency assessment will qualify to log up further SSWC. All SSWC reopener criteria will need to be triggered for these logged up costs to be considered.
- 2.20 NPg has requested a volume driver for lane rental costs. This request cannot be considered as it is outwith the scope of the street works reopener. NPg also requested a fixed allowance in the event that the request for a volume driver is rejected. As there is no credible evidence to support this request and the criteria requiring 12 months of costs data has not been met, we are minded to reject this request.

Penalty charges

- 2.21 Penalty charges do not fall within the definition of SSWC in the RIIO-ED1 licence. We consider these to be an inefficient cost that should not be borne by consumers and DNOs are expected to manage the risk of incurring such costs. This view is supported by Citizens Advice and SPEN who responded to our

¹¹ Permit variations are costs incurred in making changes to planned and unplanned works.

¹² ENWL, SPEN and WPD.

¹³ Permit schemes must be in place before lane rental schemes can be established.

¹⁴ See 3.15 and 3.18 of Strategy Decision for the RIIO-ED1 electricity distribution price control: Uncertainty Mechanisms (March 2013):

https://www.ofgem.gov.uk/sites/default/files/docs/2013/02/riioed1decuncertaintymechanisms_0.pdf

informal consultation. A summary of informal consultation responses is set out below.

Informal consultation

2.22 On 7 June 2019, we published an informal consultation seeking early views on all the ED1 reopener submissions received in the May 2019 window.¹⁵ This informal consultation closed on 21 June 2019. A brief summary of responses regarding reopener submissions for SSWC is set out below:

- Citizens Advice (CA) raised concerns with the forecasting of SSWC to the end of ED1. It considers that a close-out mechanism or similar process would provide for a more efficient allocation of costs.
- Centrica and CA commented on the disparity of costs claimed. CA citing NPg as an example, suggests this might indicate a non-standardised approach to claiming these costs. Centrica considers that robust benchmarking is an appropriate approach for assessing efficient costs. It further suggests that a consistent approach is adopted with the treatment of future lane rental scheme related costs. CA suggests costs not directly associated with fees determined by non-network companies should also be benchmarked.
- CA consider some network bids such as WPD provide no substantial evidence for their forecast figures based on the available materials. CA states efficient costs should be based on actual costs incurred and where already incurred costs have been estimated, justifications should be provided.
- CA states that the risk of incurring penalty costs should be borne by network companies and not consumers. CA suggests that Ofgem should not permit the recovery of fines against customer funds. SPEN states costs outside the price control should be excluded from all proposals including penalty costs and overstay fines. It also suggested that actual permit fee costs incurred that are noted within the proposals should reflect the figures submitted within the RRP M9C tables, unless there is clear justification to the contrary.

2.23 The remainder of this document presents our minded-to views on each licensee's submission.

¹⁵ Informal consultation on RIIO-ED1 price control reopeners (May 2019): <https://www.ofgem.gov.uk/publications-and-updates/informal-consultation-riio-ed1-price-control-reopeners-may-2019>

3 ENWL

Section summary

This section sets out our minded-to position on ENWL's SSWC submission, which is subject to consideration of consultation responses.

Application

- 3.1. ENWL submitted a proposal for an adjustment for SSWC of £10.3m. ENWL's claim comprised permit fee costs, administration costs and permit condition costs. Based on our analysis of ENWL's application, and subject to further consideration of consultation responses, we are minded to amend ENWL's proposed adjustment to allowances to allow efficient costs of £9.0m.

Compliance with CRC 3F

- 3.2. We consider that in its application, ENWL has demonstrated that it complies with all the requirements under CRC 3F set out in Section 2 of this consultation.

Permit fee costs

- 3.3. The total costs claimed in this category are £3.0m which is what we are minded to allow.
- 3.4. Although ENWL's average actual permit fee unit cost is lower than other DNOs, forecast permit fee unit costs are relatively flat over the final four years of the price control. Our efficient view is £3.2m and therefore, consistent with our approach, we are minded to allow the licensee's proposed costs of £3.0m.

Administration costs

- 3.5. The total costs claimed in this category are £1.7m and our efficient view is £1.4m. ENWL's submission includes costs for back office administration for processing permit applications and managing associated penalties.
- 3.6. ENWL forecast administration unit costs are broadly consistent over the remainder of the price control. We would however expect to see a reduction in these costs over the ED1 price control period and as such we have applied a 3% annual efficiency reduction to ENWL's forecast administration costs.

Permit condition costs

- 3.7. The total costs claimed in this category are £5.7m and our efficient view is £4.6m.
- 3.8. ENWL's permit condition costs are on average higher when compared to some DNOs. Further, ENWL's permit condition forecast unit costs remain constant when we would expect to see a reduction over time. ENWL have used and are also developing a number of innovative techniques, however, ENWL have explained that although these have helped improve quality of services, SSWC have not been directly impacted. We applied a 3% annual efficiency reduction to address efficiencies we would expect to see over time.

Proposed adjustment

3.9. Following our assessment, we are minded to amend the proposal to allow a total adjustment of £9.0m as opposed to £10.3m requested by ENWL (an overall difference of £1.3m less than requested), for the period of 2015/16 to 2022/23. This is detailed in Table 2 below.

Table 2. Total proposed adjustment

	<i>Ofgem proposed allowance</i>	<i>DNO's submission</i>	<i>Difference</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Costs	9.0	10.3	-1.3

4 SPEN (SPMW)

Section summary

This section sets out our minded-to position on SPMW's SSWC submission, which is subject to consideration of consultation responses.

Application

- 4.1. SPMW submitted a proposal for an adjustment of £21.3m. This comprises permit fee, administration and permit condition costs. Additionally it includes forecast costs for lane rental schemes of £12.5m. After assessing SPMW's submission, we are minded to amend the proposal and allow efficient costs of £8.0m.

Compliance with CRC 3F

- 4.2. We consider that in its application, SPMW has demonstrated that it complies with all the requirements under CRC 3F as set out in Section 2 of this consultation.

Permit fee costs

- 4.3. The total costs claimed in this category are £3.0m and our view of efficient costs is £2.8m.
- 4.4. SPMW's permit fee unit costs are lower when compared to most other DNOs and the forecast unit costs remain broadly consistent over the final four years of the price control. However, we would expect to see a reduction of these permit fee costs over time.
- 4.5. Our review of forecast permit volumes indicated that these are higher than our assessment of reasonable forecast volumes. As per our assessment approach, we applied our lower assessed permit volume figures. We have also applied a 3% annual efficiency reduction to address efficiencies that we would have expected to see over time.

Administration costs

- 4.6. The total costs claimed in this category are £1.3m and our efficient view is £1.2m.
- 4.7. SPMW's claim includes administration costs for back office support to process permit applications and related activities. SPMW's administration unit costs have shown moderate increases over the first four years of the price control and the forecast costs are broadly consistent over the remainder of the price control. SPMW has made operational efficiencies such as introducing a telephony platform, knowledge management system and a move towards a centre of excellence structure which it considers has improved efficiency levels in this area. However, we would expect to see steady reductions in this cost area over time as processes are integrated and the management of these works become a part of ordinary business arrangements. We have applied a 3% annual efficiency reduction to SPMW's forecast administration costs to address efficiencies we would expect to see over time.

Permit condition costs

- 4.8. The total costs claimed in this category are £4.3m and our efficient view is £4.0m.
- 4.9. We are of the view that SPMW’s average unit cost for permit conditions for the first four years of RIIO-ED1 is reasonable. However, the permit condition costs increase moderately over the forecast years. SPMW have provided evidence of operational efficiencies however the submission does not demonstrate any steps taken to mitigate increasing costs for framework contracts. We would expect to see more robust evidence of efficiencies and innovation to reduce costs in this area. We have applied a 3% annual efficiency reduction to SPMW’s forecast permit condition costs to address efficiencies we would expect to see over time.

Lane rental costs

- 4.10. SPMW has submitted costs for potential lane rental schemes that may arise in the remainder of the price control.
- 4.11. The total costs claimed in this category are £12.5m. As the requirement for 12 months’ of lane rental costs data is not available, these costs are not eligible for consideration under the reopener. Furthermore, there is no certainty that such lane rental schemes would be implemented by 2022. As such there is insufficient evidence to justify these costs.

One-off set up costs

- 4.12. SPMW has submitted one-off set up costs of £0.06m.
- 4.13. SPMW requested costs related to replacing its existing I.T. system with a new software system that is an associated street works requirement imposed by the DfT. We are minded to reject these costs as a system refresh does not come under the definition of Streetworks - Permit and Lane Rental Set-Up Costs as set out in Annex A of the Regulatory Instructions Guidance (RIG) document. This states that one-off costs are for developing the necessary IT system to process permit and lane rental applications and associated penalties.

Proposed adjustment

- 4.14. Following our assessment, we are minded to amend the proposal to allow an adjustment of £8.0m as opposed to £21.3m requested by SPMW (an overall difference of £13.3m less than requested), for the period of 2015/16 to 2018/19. This is detailed in Table 3 below.

Table 3. Total proposed adjustment

	<i>Ofgem proposed allowance</i>	<i>DNO's submission</i>	<i>Difference</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Costs	£8.0	£21.3	-13.3

5 UKPN (EPN)

Section summary

This section sets out the minded to position on UKPN's licensee, EPN, which is subject to consideration of consultation responses.

Application

- 5.1. EPN submitted a proposal for an adjustment for SSWC of £10.2m. This comprises permit fee costs, administration costs and permit condition costs. After assessing the application, our efficient view of costs is £9.3m. As this falls below the materiality threshold £9.7m, our view is that EPN does not qualify for an adjustment under the SSWC reopener.

Compliance with CRC 3F

- 5.2. We consider that in its application, EPN has demonstrated that it complies with all the requirements under CRC 3F as set out in Section 2 of this consultation.

Permit fee costs

- 5.3. EPN's total costs claimed for permit fee costs are £3.7m and our efficient view of costs is £3.3m.
- 5.4. Our assessment of permit fee costs shows EPN's average permit unit costs are higher compared to other DNOs. EPN's forecast unit costs also remain constant over the final four years of the price control. EPN's claim for forecast permit fees, both costs and number of permits, is based on an average actual permit unit cost and volumes from the first four years of the ED1 price and extrapolated for future years. EPN's approach to forecasting volumes using 2018/19 actuals data only was amended following responses to SQs. This resulted in a reduction of £1.0m. Our review of EPN's forecast volumes indicated that these figures were reasonable.
- 5.5. As set out in our assessment approach, we have applied an annual efficiency reduction of 3%.

Administration costs

- 5.6. EPN's total administration costs claimed are £1.43m and our efficient view is £1.4m.
- 5.7. EPN has claimed administration costs for processing permits, associated charges and permit variations. EPN's administration unit costs remain relatively consistent over the ED1 price control period. EPN report on improvements that have been introduced which have led to reductions in certain costs that impact on administration costs although there is no downwards trend in forecast figures. We would expect DNOs to show a reduction of these costs over time as the management of street works activities become part of ordinary business arrangements. We applied an efficiency reduction of 3% to EPN's forecast administration costs to address efficiencies we would expect to see over time.

Permit condition costs

- 5.8. EPN's submitted permit condition costs are £5.0m and our efficient view of costs is £4.7m.
- 5.9. EPN's permit condition unit costs are higher compared to some DNOs and as per our assessment approach we are applying our efficient benchmark unit costs. EPN's permit conditions unit costs for forecast years remain constant when we would expect to see a reduction over time. The largest permit condition costs impacting EPN are requirements for traffic management plans, display of permit numbers and site visits. EPN did not provide evidence of any operational efficiencies or impact of innovation that were made or assumed to mitigate future costs in this category. We expect to see all DNOs actively developing improved ways of working and implementing innovative solutions to significantly reduce these costs. We have applied an annual efficiency reduction of 3% to EPN's forecast permit condition costs.

Proposed adjustment

- 5.10. Following our assessment, our efficient view of costs is £9.3m. However, as this falls below the materiality threshold of £9.7m, it is our view that EPN does not qualify for an adjustment under the SSWC reopener.

6 WPD (SWEST, WMID and EMID)

Section summary

This section sets out our minded-to positions on WPD's licensees, SWEST, WMID and EMID's Specified Street Works Costs submissions, which are subject to consideration of consultation responses.

Compliance with CRC 3F

- 6.1. We consider that in its application, SWEST, WMID and EMID have demonstrated that they comply with all the requirements under CRC 3F set out in Section 2 of this consultation.

SWEST

Application

- 6.2. SWEST submitted a proposal for an adjustment of £11.0m. This comprises permit fee, administration, permit conditions and lane rental scheme costs.

Ofgem's minded to position

- 6.3. SWEST has not provided 12 months of cost data to support its proposal for any of the above mentioned costs. As this is a requirement under the RIIO-ED1 Price Control Financial Handbook, our view is that SWEST does not qualify for an adjustment under the SSWC reopener.

WMID

Application

- 6.4. WMID submitted a proposal for an adjustment of £24.5m. This comprises permit fee, administration, permit condition and lane rental costs. After assessing the application, our efficient view of costs is £3.8m. However, as this falls below WMID's materiality threshold of £5.7m, our view is that WMID does not qualify for an adjustment under the SSWC reopener.

Permit Fees

- 6.5. The total costs claimed in this category are £2.6m and our efficient view is £1.3m.
- 6.6. Our assessment of permit fee costs shows WMID's average permit unit costs are considerably higher compared to other DNOs. WMID's unit costs also continue increasing over the remaining price control period. As per our assessment approach, we applied our average unit cost.
- 6.7. Our review of WMID's forecast volumes indicated that the figures were 25% higher than our forecast of reasonable volumes. There are a number of HAs in WMID's network area that are shared with other DNOs but are included as sitting fully within WMID's network area. For example, only 1% of Cheshire East HA's road network comes within WMID's network area and this is counted as a full coverage

scheme within WMID's network area. We applied our lower assessed permit volume figures as per our assessment approach.

- 6.8. WMID has assumed that all the HAs in its network will have established permit schemes by 2020 and has included forecast costs for future permit schemes. There were four HAs for which WMID was unable to provide certainty on implementation dates within the ED1 price control period. The forecast volumes for these HAs were extracted in our review of WMID's efficient forecast permit fee costs.
- 6.9. We have applied an annual efficiency reduction of 3% to WMID's forecast permit fee costs to reflect reductions we would expect to see in this cost category over the ED1 price control period.

Lane Rental Costs

- 6.10. WMID requested additional funding for future lane rental scheme related costs totalling £14.5m. As the requirement for 12 months of lane rental costs data is not available, these costs are not eligible for consideration under the reopener.

Administration costs

- 6.11. WMID has claimed total administration costs of £2.1m and our efficient view is £0.6m. WMID's costs are comparatively higher than other DNOs. Although WMID's forecast unit costs have remained constant through the remainder of the price control period, we would expect DNOs to show a reduction of these costs over time. WMID's submission does not evidence any operational efficiencies, improved ways of working and innovative solutions that have a direct impact on reducing these costs over the ED1 price control period. We have applied an annual efficiency reduction of 3% to WMID's forecast administration costs.

Permit condition costs

- 6.12. WMID proposed adjustments of £5.3m for permit condition costs and our view of efficient costs is £1.9m.
- 6.13. WMID's permit condition costs are considerably higher when compared with other DNOs. WMID's submission does not demonstrate any justification for these high costs. WMID also submitted estimated costs for an actual specific permit condition cost that was incurred (this cost was benchmarked using similar costs for EMID).
- 6.14. WMID's submission shows no evidence of operational efficiencies or any impact of innovation to mitigate these costs. We expect DNOs to establish improved ways of working to mitigate the impact of such costs. We have taken this into account in applying an annual 3% efficiency reduction to WMID's forecast permit condition costs.

Proposed adjustment

- 6.15. Following our assessment, our efficient view of costs is £3.8m. However, as this falls below the materiality threshold of £5.7m, our view is that WMID does not qualify for an adjustment under the SSWC reopener.

EMID

Application

- 6.16. EMID submitted a proposal for an adjustment of £20.7m, which includes permit fee, administration permit condition and lane rental costs. After assessing the submission, we are minded to allow efficient costs of £7.6m.

Permit fee costs

- 6.17. The total costs claimed in this category are £3.4m and our view of efficient costs is £2.7m.
- 6.18. Our assessment of permit fees shows EMID's average permit unit costs are higher compared to the majority of DNOs. EMID's unit costs also increase over the remaining price control period. As per our assessment approach, we applied our average unit cost.
- 6.19. Our review of EMID's forecast volumes indicated that these were reasonably forecasted. EMID has assumed that all the HAs in its network will have established permit schemes by 2020 and has included forecast costs for three HAs. However EMID was unable to provide certainty on implementation dates within the ED1 price control period therefore the forecast volumes for these HAs were extracted in our review.
- 6.20. We have applied an annual efficiency reduction of 3% to EMID's forecast permit fee costs to reflect reductions we would expect to see in this cost category over the ED1 price control period.

Lane Rental Costs

- 6.21. The total costs claimed in this category are £7.5m. As the requirement for 12 months' of lane rental costs data is not available, these costs are not eligible for consideration under the reopener.

Administration costs

- 6.22. The total costs claimed in this category are £3.1m and our view of efficient costs is £1.1m.
- 6.23. EMID's administration costs are comparatively higher when benchmarked against other DNOs. Although EMID's forecast unit costs have remained constant through the remainder of the price control period, we would expect DNOs to show a reduction of these costs over time. EMID's submission does not evidence any operational efficiencies, improved ways of working and innovative solutions that have a direct impact on reducing these costs over the ED1 price control period. An efficiency reduction of 3% has been applied to EMID's forecast administration costs.

Permit condition costs

- 6.24. The total costs claimed in this category are £6.7m and our view of efficient costs is £3.8m.
- 6.25. EMID's permit condition costs are considerably higher when compared against other DNOs, however, its submission does not demonstrate justification for these higher costs. As with WMID, EMID's submission shows no evidence of any

operational efficiencies or impact of innovation to mitigate these costs. We expect DNOs to establish improved ways of working to significantly mitigate the impact of such costs. We have applied an annual 3% efficiency reduction to forecast permit condition costs to address efficiencies we would expect to see over time.

Proposed adjustment

6.26. Following our assessment, we are minded to amend the proposal and allow a total adjustment of £7.6m as opposed to £20.7m requested by EMID (an overall difference of £13.1m less than requested), for the period of 2015/16 to 2022/23. This is detailed in Table 4 below.

Table 4. Total proposed adjustment

	<i>Ofgem proposed adjustment</i>	<i>DNO's submission</i>	<i>Difference</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Costs	7.6	20.7	-13.1

7 NPg (NPgN and NPgY)

Section summary

This section sets out our minded-to position on NPg's submission, which is subject to consideration of consultation responses.

Application

- 7.1. NPg submitted a proposal for an adjustment totalling £14.5m across its two licensees, NPgN and NPgY. Based on our analysis of both submissions, and subject to further consideration of consultation responses, we think only the permit fee costs are justified. Our view of NPgN's efficient permit fee costs is £0.9m, which falls below its materiality threshold of £4.49m. Our view of NPgY's efficient permit fee costs is £1.0m, which falls below its materiality threshold of £5.9m.
- 7.2. On 31 May 2019, NPgN and NPgY submitted proposals for adjustments of £5.2m and £9.3m respectively. The combined value of NPg's claim for both licensees is £14.5m.
- 7.3. NPgN and NPgY's requests for adjustments comprise permit fee, administration and permit condition costs. The overall request also included approximately £1.0m in penalty charges. On 21 June 2019, in its response to requests for further information issued by Ofgem under CRC 3F.13, NPg provided a 'resubmitted Notice' of its proposal for relevant adjustments, increasing its overall request by £1.0m. CRC 3F.13 provides an opportunity for Ofgem to obtain such further information or analysis, or re-formatting of information already provided, that it reasonably considers is required in order to assess the licensee's duly made proposal. CRC 3F.13 is not an opportunity for a licensee to re-submit its proposal. We therefore cannot consider NPg's 'resubmitted Notice'.
- 7.4. In our assessment of NPg's submission, we have only considered the permit fee costs that were included in NPg's duly made submission on 31 May 2019. We have not considered the permit condition and administration costs submitted in NPg's duly made submission due to the poor quality of the information provided and our low confidence in the accuracy of these figures. The administration and permit condition costs provided for both licensees either vary significantly over the RIIO-ED1 period or vary significantly from the unit costs of other licensees. In addition, in their 'resubmitted Notice', NPg acknowledged that their permit condition and administration costs included errors.
- 7.5. In addition, we have not considered the approximate £1m in penalty charges submitted by NPg across both licensees. As set out in our methodology, we consider penalty charges to be an inefficient cost that should not be borne by consumers and DNOs are expected to manage the risk of incurring such costs. We have therefore have excluded these costs from our assessment.

Permit fee costs

- 7.6. NPg's submitted permit fee unit costs vary across years, when compared to other DNOs. They also vary significantly from other DNOs. Due to this variation in NPg's costs, it was not possible to include these in our benchmarking exercise. We therefore compared NPg's unit costs based on their actual figures (with an annual

3% efficiency reduction applied to the forecast years) with costs calculated using our benchmarked unit costs.

- 7.7. For each year we applied the lower of the unit costs figures to calculate our proposed allowance. We deem this to be an appropriate assessment of NPg's costs due to the inconsistent data provided. Based on our analysis of both applications, and subject to further consideration of consultation responses, our view of NPgN's efficient permit fee costs is £0.90m, which falls below its materiality threshold of £4.5m and our view of NPgY's efficient permit fee costs is £1.0m, which falls below its materiality threshold of £5.9m.
- 7.8. For completeness, we also carried out an assessment of NPg's permit fee costs based only on our benchmark efficient unit cost, which also resulted in these costs falling below the materiality threshold.

Minded to position

- 7.9. Based on our assessment, our view is that neither NPgN nor NPgY qualify for an adjustment under the SSWC reopener.

Appendix 1 - Feedback on this consultation

Section summary

This section sets out the next steps of the consultation.

How to respond

- 1.1 We want to hear from anyone interested in this consultation.
- 1.2 Please send your response to the person or team named on this document's front page. We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 1.3 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations, and put it in our library.

Your response, data, and confidentiality

- 1.4 You can ask us to keep your response, or parts of your response, confidential by clearly marking it confidential and providing reasons. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.
- 1.5 However, we would like to publish as much of your response as we can. To help us achieve this goal we would appreciate it if confidential material could be provided in a separate appendix to your response. This should also be clearly marked and reasons provided.
- 1.6 If the information you give in your response contains personal data under the General Data Protection Regulations 2016/379 (GDPR) or domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations.¹⁶

¹⁶ <https://www.ofgem.gov.uk/consultations/our-consultation-policy>