



Open letter to Gas Distribution
Network Operators

*Promoting choice and
value for all customers*

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Dear colleagues

At the GDN Regulatory Report workshop held in March the issue of pension underspend against the one year allowances was discussed. All GDNs have underspent against the allowances set in the One Year Price Review. We indicated that an adjustment (totalling around £18m) would be made to true up the position at the next price review.

This statement was based on the Gas Distribution Price Control Review - One year control final proposals of December 2006 relating to the year 2007-08. Appendix 9 to that document (205/06a)⁽¹⁾ states that:

“Overspend/ underspend against each of these amounts will be subject to ex post adjustment in accordance with the pension principles.”

In the Price Control that covers the following five years (2008-2013) we have adopted a slightly different approach to the treatment of over/ underspend in the five year period. This was set out in page 23 of the main five year price control proposals for the years 2008-2013⁽²⁾ which states:

“For 2007-08 to 2012-13 the impact of the ex post adjustment is limited to changes in actuarial valuations only, i.e.:

(Actual DB cash contribution) – (Actual DB pensionable salary * allowed contribution rate)”

Whilst both approaches are in accordance with our underlying pension principles, there may have been some confusion caused by the reference to the year 2007-08. The reference to 2007-08 at this point was a typographical error. The correct reference should have been to the period 2008-09 to 2012-13. We apologise for any confusion this may have caused.

For the sake of clarity, our approach to pension adjustments for the one year control 2007-08, is to adjust for the underspend against allowances during the next Price Review on a Net Present Value neutral basis.

(1) <http://www.ofgem.gov.uk/Networks/GasDistr/GDPCR7-13/Documents1/16340-One%20year%20control%20final%20proposals%20document%20FINAL.pdf>

(2) <http://www.ofgem.gov.uk/Networks/GasDistr/GDPCR7-13/Documents1/final%20proposals.pdf>

Our approach to the pension costs for the five year period from 2008-09 to 2012-13 is to adjust (on an Net Present Value neutral basis during the next Price Review) for any under or overspend where that difference has been caused by a change in the allowed employer contribution rate.

The table below shows the 2007-08 underspend for each company. The figures in this table have been amended from the equivalent table in the Gas Distribution Annual Report ⁽³⁾ to include actual expenditure on defined contribution scheme pension costs and PPF levies. Consequently the outturn variance to allowances for some GDNs is slightly lower than stated in the Annual Report.

	Allowances 2007/08 prices			Actuals			(Under)/over spend to allowance £m	(Under)/over spend to allowance
	Ongoing cost	Deficit	Total	Ongoing cost	Deficit	Total		
East of England	14.4	1.2	15.6	11.0	2.6	13.5	-2.0	-13%
London	10.5	0.6	11.1	7.1	1.4	8.5	-2.6	-24%
North West	10.5	0.8	11.2	8.2	1.6	9.8	-1.4	-13%
West Midlands	7.9	0.5	8.4	5.7	1.2	6.9	-1.5	-18%
Northern	11.0	3.7	14.7	8.4	3.6	12.0	-2.7	-18%
Scotland	9.0	4.2	13.2	7.5	5.4	12.9	-0.3	-2%
Southern	14.2	9.7	23.9	11.5	8.1	19.6	-4.3	-18%
Wales & West	14.0	5.6	19.7	11.2	5.2	16.4	-3.3	-17%
Total	91.4	26.4	117.7	70.6	29.0	99.6	-18.1	-15%

We will adjust for the outturn variance in 2007/08 actuals to allowances at the next price review in accordance with the one year price control document which governs the expenditure in this year. We trust that this clarifies the position and apologise for any confusion that may have been caused.

Yours faithfully



Rachel Fletcher
Partner, Distribution

(3) http://www.ofgem.gov.uk/Networks/GasDistr/GDPCR7-13/Documents1/Gas%20Distribution%20Annual%20Report%202007_8.pdf