



Ofgem position on pensions

DISG 14, 20 July 2004

Background

- Transco employees, members of Lattice Group Pension scheme – liability for pension benefits with Transco.
- Active and non-active members
- Transco has price control allowance for pensions
- Allocation of allowances split between NTS and DN businesses following price control separation

Potential DN sale - Pension issues

- How to ensure that DN liabilities for pensions are effectively transferred to IDNs.
- Need to consider both active and non-active member liabilities.
- Prevent cross-subsidies and undue discrimination
- Paper to be circulated shortly

Approaches to allocating liabilities

- Different approaches include sectionalisation, direct transfer, contractual, and regulatory.
- Ofgem prefers regulatory approach.
- Regulatory approach involves:
 - Transfer of active members to IDN scheme
 - Transco retains responsibility for management of non-active liabilities
 - Non-actives remain in LGPS
 - Transco provided with price control allowance to manage non-actives
 - Costs recovered through a new specific NTS charging item and not NTS exit charges.

Ensuring no undue discrimination

- Important that no cross-subsidies are provided to RDNs by the NTS in funding pension liabilities.
- Regulatory approach should be applied to both RDNs and IDNs.

Valuing assets to be transferred

- Two approaches proposed by Transco:
 - Share of fund
 - Prescribed – ex ante formula
- Share of fund approach not practical.
- Ofgem accepts prescribed approach provided no cross-subsidies created.