

Potential sale of gas distribution networks

Ofgem position paper on pensions

In its July 2003 initial consultation document on the potential sale of National Grid Transco's gas distribution network (DN) businesses, Ofgem indicated that any change of ownership of DN businesses raises a number of issues relating to the allocation of pension liabilities between the NGT gas transmission and DN businesses and the charging mechanisms by which liabilities can be recovered.

Since the release of our July 2003 consultation paper and December 2003 Next Steps document, Ofgem has received a number of questions from potential purchasers of DNs regarding its approach to these issues. On 2 August 2004 Ofgem released a position paper on pensions. The purpose of this paper is to supplement the information contained within that document.

In issuing this position paper, it is important to make clear that there can be no expectation on the part of Transco, potential DN purchasers or any other interested parties either as to what the Authority's final decision in relation to the proposed DN sales may be, or as to the regulatory framework which may be implemented if the Authority consents to the proposal. The information provided in this position paper is done so on an informal basis and should not be treated as binding on the Authority. Nothing in this position paper is to be construed as granting any rights or imposing any obligations on the Authority. The Authority's discretion in this matter will not be fettered by any statements made in this position paper.

Addendum

Contributions made to an occupational pension scheme in respect of attributable DN employment performed in the future will be eligible for recovery from future price controlled revenues. To the extent that, in any particular period, the amounts contributed exceed or falls short of the amounts recovered (i.e. the allowance), the excess or the shortfall will be taken into account in setting subsequent controls.

The same principle will be applied to DN employment performed in the current price control period prior to the date of sale. Purchasers of IDNs should note, however, that

excess contributions made in periods prior to sale will only fall to be recovered under future IDN price controls to the extent that IDN employees elect to transfer their past service benefits out of the Lattice Group Pension Scheme (LGPS). Where transferring employees elect to defer their accrued benefits under the LGPS, and transfer to a new scheme in respect only of future service, recovery of excess contributions will be under the NTS control.