

## Appendix 5 - Pensions

### Pensions

1 National Grid welcome the significant developments in the pensions area of the TPCR since the Initial Proposals, in particular the recognition of the importance of regulatory consistency in relation to Early Retirement Deficit Costs. Nevertheless, National Grid have two issues with the pensions proposals contained in the September update. These are:

- (a) the treatment of Centrica surplus prior to 2002/3;
- (b) a double counting of the liabilities associated with existing non-regulated activities.

These issues along with options for the long term regime are discussed below:

### Centrica surplus

2 We are disappointed with Ofgem's treatment of the past use of Centrica surplus and the fact that Ofgem do not propose to recognise the use of Centrica surplus for the benefit of consumers prior to 2002/3. We believe that this approach is not consistent with the treatment of the Centrica surplus in previous price controls.

### Non regulated liabilities

3 In their calculations of liabilities attributable to shareholders in the Updated Proposals, Ofgem seem to have double counted the liabilities of National Grid's non regulated entities.

4 The 37.4% non regulated liability calculated by dividing up the liabilities of the scheme already includes the liabilities of both Centrica and other non regulated businesses. Ofgem have therefore included these liabilities in the £102m they propose to disallow for Centrica.

5 On top of this, Ofgem are also proposing to disallow a further £32m from the Transmission price control for "other non attributable." Approximately £22m of this other non attributable is recoverable via the Distribution price control, but the remainder relates to non regulated businesses and is not recoverable. In effect, this £10m has therefore been double counted.

### Long term regime

6 In addition to the apportionment of liabilities between shareholders and customers over the present price control, it is important to agree on the long term regime in relation to pensions. This applies to both the mechanics of the overs and unders regime going forward and the methodology for apportioning deficit liabilities between customers and shareholders in future.

7 In relation to the latter, National Grid see three possible ways forward:

- (a) The default option of agreeing a different proportion of the liabilities for shareholders at each subsequent price control
  - (b) A method of apportioning the scheme for regulatory purposes between customers and shareholders
  - (c) An agreement that once shareholders have paid sufficient funds into the scheme to remove the deficit in their section, all liabilities will be taken on by customers
- 8 These options are not mutually exclusive and National Grid look forward to working with Ofgem to arrive at a solution to these issues.