

SP/kh
18 January 2013

Mr Ian Marlee
Ofgem
9 Millbank
London
SW1P 3GE

Dear Ian

Open Letter Consultation on the Pension Deficit Allocation Methodology

Many thanks for your consultation letter dated 17 December 2012 in relation to the pension deficit allocation methodology ("PDAM").

In its current form, we are broadly comfortable that we can implement the PDAM without incurring significant issues. However, due to the complexity of the calculations which will be carried out as part of the PDAM, we welcome the fact that (as specified in paragraph 1.3) Ofgem will review the submissions and underlying calculations that licensees will carry out based on the 31 March 2013 valuation to ensure the PDAM has been applied consistently. In addition to this review, we would suggest that Ofgem carry out reviews at each subsequent valuation date as the impact of different PDAM applications will become more significant at these later dates.

In Appendix 4, illustrative tables have been included which detail the data Ofgem may require from licensees in relation to the PDAM. However, due to the complexity of the PDAM calculations and in order to ensure Ofgem capture the necessary data to assess that the PDAM has been applied consistently by licensees, we would suggest that these data tables be developed further when licensees first apply the PDAM.

In the Appendix to this letter we have also set out some minor drafting points.

Yours sincerely



Stephen Parker
REGULATION DIRECTOR

Appendix

1. Paragraph 5.2: this paragraph should refer to section 6 not section 5.
2. Paragraph 6.7: the words “(excluding investment advisor fees)” should be replaced with “(including investment advisor fees)” to ensure consistency with paragraph 6.11.
3. Paragraph 6.8: the words “. This must be performed” should be removed from this paragraph to ensure it is interpreted correctly.
4. Paragraph 7.11: this paragraph should refer to section B not section G.
5. Paragraph 7.13: this paragraph should refer to sections D and B instead of sections F & G.
6. Paragraph 9.4: we would suggest that this paragraph be removed as the updating of the Pre Cut-Off Date Regulatory Fraction has been dealt with elsewhere in the PDAM.
7. Appendix 4: This should be relabelled Appendix 3 and references to it should be updated.
8. Appendix 5: This should be relabelled Appendix 4 and references to it should be updated.
9. Appendix 5; definition of Bulk Transfer: Reference to paragraphs 2.7 and 2.8 should be changed to paragraphs 8.3 and 8.4.
10. Appendix 5; definition of Pre Cut-Off Date Regulatory Fraction: the words “section 9 of” should be removed.
11. Appendix 5; definition of Reporting Actuary: the definition is inconsistent with paragraph 3.1 and therefore should be replaced with the following:

 “**Reporting Actuary** means the Scheme Actuary or Corporate Actuary.”
12. Appendix 5: we believe the following definitions can now be removed as they are no longer used:
 - Defined contribution (DC) Pension Scheme
 - GDPCR1
 - National Transmission System (NTS)
 - Projected Unit Method
 - Regulatory Fraction
 - Shared Services
 - Shared Service Employee