

**To: Electricity North West Ltd
Northern Powergrid (Northeast) Ltd
Northern Powergrid (Yorkshire) Plc
London Power Networks Plc
South Eastern Power Networks Plc
Eastern Power Networks Plc
SP Distribution Plc (SPD)
SP Manweb Plc
Scottish Hydro Electric Power Distribution Plc
Southern Electric Power Distribution Plc
Western Power Distribution (East Midlands) Plc
Western Power Distribution (South Wales) Plc
Western Power Distribution (South West) Plc
Western Power Distribution (West Midlands) Plc**

**Electricity Act 1989
Section 11A(2)**

Notice of statutory consultation on a proposal to modify the ED1 Price Control Financial Handbook held by the above licensees

1. The Gas and Electricity Markets Authority ('the Authority')¹ proposes to modify the ED1 Price Control Financial Handbook ('the Handbook')² held by the above specified licensees and granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 ('the Act') by replacing Chapter 3 of the Handbook.
2. By virtue of paragraph 2 of Charge Restriction Condition 4A (Governance of ED1 Price Control Financial Instruments) of their Electricity Distribution Licences the Handbook forms part of that licence condition and as such can be modified by the Authority under section 11A of the Act.
3. In accordance with section 11A(2) of the Act the Authority hereby gives notice to the licensees that it proposes to modify the Handbook in the manner indicated in Schedules 1 and 3 to this Notice.
4. The Authority considers that it is necessary to modify the Handbook in the manner indicated in order to reflect the decision it made on Ofgem's policy for funding Pension Scheme Established Deficits (PSEDs)³ where we said we would modify the relevant financial handbook chapter for all sectors. This will allow the licensees to report this year the information required to enable the Authority to make its decision following the triennial reasonableness review in accordance with the recent PSED policy decision.
5. As part of the modified Handbook Chapter 3, Table 3.1 and 3.2 set out the timetable and process for the triennial reasonableness reviews. Due to this being the first year of reporting based on the recent PSED policy decision we consider it appropriate to delay some of the timetable and process, these changes are set out in Schedule 2 to this Notice. We do not consider this delay will have an impact on the overall delivery of the review.

¹ The "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

² For both fast-track and slow-track licensees,

³ [Decision on Ofgem's policy for funding Pension Scheme Established Deficits](#)

6. Schedule 3 sets out the proposed consequential changes to the glossary to the Handbook
7. Any representations on the proposed modifications may be made in writing on or before 15 June 2017 to Mick Watson at Ofgem, 9 Millbank, London, SW1P 3GE, or by email to mick.watson@ofgem.gov.uk.
8. All representations will normally be published on Ofgem's website. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication, indicating why it should be kept confidential.⁴ We prefer to receive responses in an electronic form so that they can be published easily on our website.
9. If we decide to make the proposed modification, it will take effect not less than 56 days after the decision is published.



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Ian Rowson
Associate Partner, RIIO Finance
Duly Authorised on behalf of the Gas and Electricity Markets Authority
18 May 2017

⁴ Ofgem may still have a duty to disclose if a request is made under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

Schedule 1: Modifications to Chapter 3 of the ED1 Price Control Financial Handbook

Delete current Chapter 3 - Pension Scheme Established Deficit revenue allowances - financial adjustment methodologies of the ED1 Price Control Financial Handbook.

Insert proposed modified Chapter 3 - Pension Scheme Established Deficit revenue allowances - financial adjustment methodologies of the ED1 Price Control Financial Handbook, which can be found [here](#) on our website.

Schedule 2: Proposed revision for 2017 reasonableness review timetable and process – Tables 3.1 and 3.2

Table 3.1 - Expected timetable for Pensions Allowance value revisions - proposed revision for 2017 reasonableness review

	Pension scheme valuation date	Submission of Scheme Valuation Data Set	Pension Deficit Allocation Methodology information provided	Completion of Reasonableness Review	Direction of revised Pensions Allowance values see note
Due by, per Handbook	31 March 2016	7 July 2017	31 August 2017	31 October 2017 (rr = 2017/18)	30 November 2017
Revision: 2017 review, due by	31 March 2016	11 August 2017 (Provisional*)	31 August 2017**	10 November 2017 (rr = 2017/18)	30 November 2017

* Not before licence modification takes effect.

** See row 4(a) and 4(b) in Table 3.2 below

Table 3.2 - Process for revising Pensions Allowance values and for a reasonableness review – proposed revision for 2017 reasonableness review

Row	Due by	2017 review, due by	Event
1	7 July*	11 August 2017* (Provisional **)	The Authority will obtain the licensee’s Scheme Valuation Data Set, where relevant separately for its TO and SO activities, for the relevant valuation of the licensee’s defined benefit pension schemes as at the date indicated in Table 3.1 and commence a Reasonableness Review.
2	31 July*	31 July 2017*	The Authority will be in receipt of price control review information from the licensee for Regulatory Years up to and including the last complete Regulatory Year.
3	31 July*	31 July 2017*	The licensee will submit:

<u>Row</u>	<u>Due by</u>	<u>2017 review, due by</u>	<u>Event</u>
4(a)	31 August*	31 August 2017*	<p>The licensee will submit, where relevant separately for its TO and SO activities:</p> <p>(a) Pension Deficit Allocation Methodology information and its PSED figure as at the relevant valuation date indicated in Table 3.1 showing the movements from the previous valuation date</p>
4(b)	31 August*	29 September 2017*	<p>(b) Its proposals where applicable under paragraphs 3.35 and 3.41 together with supporting explanation framed in light of paragraph 3.42 for</p> <ul style="list-style-type: none"> • Base Annual PSED Allowances, PBAP_y, • payment history allowances, PPH_y, • any proposed prospective discounting basis for payment history variances, reflected in PhDR_y
5	30 September*	13 October 2017*	<p>The Authority will provisionally decide, where relevant separately for the licensee's TO and SO activities, whether:</p> <p>(a) Any change should be made to the licensee's proposals for Base Annual PSED Allowances and payment history allowances for reasons anticipated in paragraph Error! Reference source not found. Error! Reference source not found. and Error! Reference source not found. and Error! Reference source not found. and Error! Reference source not found.</p> <p>(b) To apply an existing adjustment factor, introduce a new adjustment factor or extend the scope or effect of an existing adjustment factor for reasons anticipated in Error! Reference source not found.</p> <p>(c) To set out any recommendation to the licensee to adopt good practice before the next reasonableness review under paragraph Error! Reference source not found.</p> <p>The Authority will give notice of any such provisional decisions to the licensee, allowing 14 days for representations to be made.</p>
6	31 October	10 November 2017	<p>The Authority will complete its Reasonableness Review, where relevant separately for the licensee's TO and SO activities:</p> <p>(a) Determine the values BAP_{Ay}, representing the Base Annual PSED Allowances, for each of the</p>

<u>Row</u>	<u>Due by</u>	<u>2017 review, due by</u>	<u>Event</u>
			<p>three years following the reasonableness review, giving reasons for any departure from those proposed in paragraph Error! Reference source not found.</p> <p>(b) Determine the values PH_y, representing the payment history allowances, for each of the three years following the reasonableness review, giving reasons for any departure from those proposed in paragraph Error! Reference source not found.</p> <p>(c) Determine the values AF_y, representing any adjustment factors, for each of the three years following the reasonableness review</p> <p>(d) Compute and determine the Pensions Allowance values for each of the three years following the reasonableness review, such that: $EDE_y \text{ or } SOEDE_y = BAPA_y + PH_y + AF_y$</p> <p>(e) Where relevant, determine APFE and SOAPFE values in accordance with the steps set out in Section 4</p> <p>(f) Set out any recommendation to the licensee to adopt good practice before the next reasonableness review</p> <p>(f) Determine the discount rates for payment history allowances, hDR_y, or an unambiguous basis for determining them, for each of the three years following the reasonableness review, giving reasons for any departure from those proposed in paragraph Error! Reference source not found.</p>
7	30 November	30 November 2017	The Authority will direct revised Pensions Allowance values and will publish a report on the reasonableness review.

* Or such later date that may be notified to the licensee by the Authority in writing.

** Not before licence modification takes effect.

Schedule 3: Proposed changes to the glossary to the Handbook

Glossary	Current Definition	Revised Definition
Base Annual PSED Allowance	<p>For the purposes of chapter 3 of this handbook, means an allowance derived in accordance with the formulae set out in row 7 of Tables 3.2 and 3.3 in chapter 3 and excludes the components of total PSED revenue allowances that relate to:</p> <ul style="list-style-type: none"> ○ the licensee’s under/over-payment history; ○ the application of adjustment factors resulting from Reasonableness Reviews; and ○ any adjustment due in respect of the true up of forecast costs to actual costs for ongoing pension costs in Regulatory Year 2009/10. 	<p>See Chapter 3, para 3.29-3.30</p>
Cut-off Date	<p>No current glossary term</p>	<p>Means 31 March 2010 for DNOs, 31 March 2013 for GDNs and 31 March 2012 for TOs and SOs, see Chapter 3, para 3.6.</p>
Pensions Allowance	<p>No current glossary term</p>	<p>See Chapter 3, para 3.2.</p>
Pension Scheme Administration	<p>The range of activities that pension scheme trustees are required by legislation to undertake or commission in running the pension scheme. It includes, without limitation, the keeping of scheme records, scheme management and administration, scheme policy and strategy formulation, the provision of information to scheme members, the calculation and payment of benefits, liaison with tax and regulatory authorities and the preparation of valuations. It</p>	<p>Amend glossary term to read 'Pension Scheme Administration and PPF levy' and amend current definition to:</p> <p>See Chapter 3, para 3.15</p>

	does not include the provision of advice to the licensee's manager on the management of the scheme or any deficit position. Administration costs do not include investment management fees; these are considered to be deductions from investment returns.	
Qualifying Workplace Pension Schemes	No current glossary term	See the definition of Qualifying Schemes in the Pension Act 2008 ⁵
Reasonableness Review	A review by the Authority of the findings of an independent report commissioned by it on the reasonableness of costs associated with the licensee's pension deficit position (but not on the deficit allocation to the PSED) which may lead to further review procedures if the licensee is an outlier with respect to cost levels and that position is: <ul style="list-style-type: none"> (a) to the detriment of consumers; and (b) reasonably attributable to the NWO, recognising the responsibilities and independence of pension scheme trustees. 	See Chapter 3, para 3.47-3.54
Scheme Administration Costs	No current glossary term	See Chapter 3, para 3.15-3.16. This term is not applicable to RIIO-ED1.
Scheme Valuation Dataset	The items set out in paragraph 3.22 of chapter 3 of this handbook, provided to Ofgem by the licensee in accordance with the Pension RIGs.	Data relating to each defined benefit scheme for the purpose of the triennial reasonableness review and the resetting and true up of allowances.
Triennial (pension scheme) valuation	An actuarial valuation of a pension scheme which has been carried out to meet the requirements of	Amend glossary term to read 'Triennial valuation' and retain current definition.

⁵ http://www.legislation.gov.uk/ukpga/2008/30/pdfs/ukpga_20080030_en.pdf

	Section 224(2)(a) of the Pensions Act 2004 and which results in a written report on scheme assets and liabilities by the scheme actuary. Interim updates to triennial valuations may also be produced.	
Updated (pension scheme) valuation	A report by the scheme actuary which provides an update on scheme assets and liabilities between triennial valuations.	Amend glossary term to read 'Updated valuation' and amend current definition to: A report, prepared and signed by the Scheme Actuary, which updates a Triennial Valuation to a later date. This is further defined in the Energy Network Operators' Price Control Pension Costs - Regulatory Instructions and Guidance: Triennial Pension Reporting Pack supplement including pension deficit allocation methodology.