

**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(1)(a)**

**Modification of the financial instruments as defined in the special conditions of  
the electricity distribution licence held by the above licensees**

1. The above licensees are the holders of an electricity distribution licence ('the Licences') granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2) of the Act the Gas and Electricity Markets Authority ('the Authority')<sup>1</sup> gave notice on 18 May 2017 ('the Notice') that we proposed to modify the ED1 Price Control Financial Handbook ('the Handbook') specified in Charge Restriction Condition 4A of the Licences. We stated that any representations to the Notice must be made on or before 15 June 2017.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b)(ii) of the Act, and we have not received a direction that the change should not be made.
4. We received eight responses to the Notice, which we carefully considered. We have placed all responses on our website. Our response to these comments, and the consequent amendments made to our proposed modifications as a result, is set out in Schedule 1.
5. In addition to amendments made as a result of responses to the Notice we have also made the amendments set out in Schedule 2.
6. These licence modifications are necessary to implement our recent decision on our policy for funding Pension Scheme Established Deficits (PSEDs).<sup>2</sup>
7. The effect of the modifications will be to:
  - a) Replace the existing Chapter 3 of the Handbook and revise the existing definitions in the glossary to the Handbook in order to implement our PSED policy – see Schedules 3 and 4.

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<sup>1</sup> The terms "the Authority", "we" and "us" are used interchangeably in this document.

<sup>2</sup> [Decision on Ofgem's policy for funding Pension Scheme Established Deficits](#)

- b) Revise for 2017 the reasonableness review timetable and process to take account of the shorter time period available for submission of data this year – see Tables 3.7 and 3.8 of the modified Handbook.
8. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the CMA’s Energy Licence Modification Appeals Rules<sup>3</sup> requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. However, in this case since the modification relates to a special licence condition, the relevant licence holder is the holder of that particular licence. Section 11A(10) of the Act sets out the meaning of ‘relevant licence holder’.
9. Under the powers set out in section 11A(1)(a) of the Act, we hereby modify the Handbook specified in Charge Restriction Condition 4A of the Licenses in the manner specified in Schedules 3 and 4. This decision will take effect from 22 August 2017.
10. This document is notice of the reasons for the decision to modify the electricity distribution licence held by the above licensees as required by section 49A(2) of the Act.

**The Official Seal of the Gas and Electricity Markets Authority  
here affixed is authenticated by the signature of**

.....  
**Ian Rowson**  
**Associate Partner, RIIIO Finance**  
**Duly authorised on behalf of the Gas and Electricity Markets Authority**  
**27/06/17**



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<sup>3</sup> The rules were published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the CMA.



**Schedule 1 – Our comments on the responses to the Notice of statutory consultation on a proposal to modify the Handbook**

Serial	Raised by	Issue	Detail	Proposal	Ofgem response
1	ENWL	Handbook observations	<p>Para 3.42</p> <p>Para 3.48(d) - incorrect referencing</p>	<p>Add at end "If appropriate, the licensee may take into consideration the expected changes to total payment history allowances at the next reasonableness review in proposing revenue profiles</p> <p>Correct reference</p>	<p>Cross-referenced this with Table 3.8, row 3 and 4(b), part (b).</p> <p>Corrected</p>
2	ENWL	Ofgem's assessment of licensee proposals for revenue profiles	<p>It is essential that, in assessing whether or not to approve a licensee's proposed revenue profile, Ofgem recognises that no 'perfect' revenue profiling solution exists and that licensees will need to balance a number of potentially conflicting factors in deriving their proposals.</p> <p>In particular, we are concerned that Ofgem could rely on its requirement to ensure that the interests of existing and future customers are adequately balanced to make inappropriate changes to a revenue profile that has been sculpted to take account of financial ratio pressures in particular years or to avoid revenue volatility.</p>	<p>In para 3.42 add at end:</p> <p>"If appropriate, the licensee may take into consideration the expected changes to total payment history allowances at the next reasonableness review in proposing revenue profiles." and</p> <p>End of 3.49</p> <p>"In determining any alternative profile the Authority will consider all factors in paragraph 3.42 that the licensee deemed it appropriate to consider in proposing revenue profiles."</p>	<p>We have sought to ensure that the overall revenue profiles are:</p> <p>a) designed to recover the combined net obligation of the pensions deficit at the valuation date and the cumulative payment history variances also at the valuation date,</p> <p>b) in a way that appropriately protects the interests of consumers.</p> <p>We include in paragraph 3.42 a range of factors that the licensee may take into account in framing its proposals. Paragraph 3.42 deliberately relates these factors to the licensee's proposals for payment history and deficit allowances, taken together.</p>

Serial	Raised by	Issue	Detail	Proposal	Ofgem response
			<p>The issue is potentially compounded by the fact that the payment history allowance calculation fails to include any known difference between Base Annual PSED Allowances and actual contributions to established deficit in years rr-1 and rr. Where this is the case, it may be appropriate for licensees to roll forward calculations by a further reasonableness review in proposing revenue profiles. However it is not explicitly clear in the drafting that a licensee may take this into account.</p>		<p>One of those explicit factors is the profile of repair payments that can be agreed with the scheme trustees. Another explicit factor is how the licensee has sought to manage the volatility of revenues and financial ratios. I consider these factors naturally imply that the licensee could take into consideration the expected changes to total payment history allowances at the next reasonableness review, and don't believe it is necessary to give further emphasis to this point in the paragraph.</p> <p>Similarly, in paragraph 3.49, having explicitly identified in paragraph 3.42 the factors that "the licensee's explanations should, in each case where appropriate, refer to", we believe it would be incumbent on the Authority to consider those same factors before deciding whether it would be appropriate to determine an alternative profile. While we might have reason to discount a factor, it would be a failure if we simply did not consider it.</p>

Serial	Raised by	Issue	Detail	Proposal	Ofgem response
3	ENWL	Definition of 'ABV' term is unclear	<p>We believe that the proposed definition of 'ABV' is unclear and can be interpreted inappropriately. We believe that the reliance on the phrase 'funding by the licensee out of negative cumulative payment history variances' is misleading for two reasons.</p> <ul style="list-style-type: none"> <li>• Firstly, it would seem to suggest that the value of any ABV is constrained by the quantum of previous payment history allowance variances. This is not the case. It is quite possible that licensees could pay more into an asset backed arrangement than was provided in prior allowances.</li> <li>• Secondly, it is confusing to talk about arrangements being funded out of 'negative cumulative payment history variances'. The payment history allowance calculation calculates money that must be given back to consumers; shareholders can therefore not fund anything with this money. Furthermore, there is no mention in paragraph 3.38 as to how these relevant negative cumulative payment history variances will be identified. Indeed, any</li> </ul>	<p>In para 3.36, definition of ABV delete the following:</p> <p>"out of negative cumulative payment history variances (see paragraph 3.38)"</p>	<p>ABV naturally relates to the amounts funded by consumers. The ABV term is treated as a deduction from the PSED term as at the valuation date and thus modifies the value of future funding by consumers. We consider it would be inappropriate to deduct amounts that the licensee has paid into an asset-backed arrangement beyond what consumers have funded, since this would gratuitously reduce the amount of future BAPA funding required from consumers. Clearly, through the ABC term in paragraph 3.41, there is an offsetting effect on the payment history allowances. In accordance with paragraph 3.36, the effect can only be asymmetrical if the licensee has agreed a methodology with the Authority.</p>

Serial	Raised by	Issue	Detail	Proposal	Ofgem response
			payment history payments associated with asset backed arrangements are explicitly (and correctly) added to those calculated in 3.38.		
4	ENWL	Drafting of algebra can sometimes be interpreted in multiple ways	<p>We note that the algebra included in the chapter is complex.</p> <p>There is sometimes potential to interpret algebra and input terms in more than one way. Given the large value of allowances associated with this condition it is important that the expectations are clearly understood.</p> <p>Ofgem's informal sharing of the relevant calculations in Excel workbook format is appreciated. However, we note that each licensee will be making its own interpretation of the expected input values.</p>	We urge Ofgem to issue each licensee with a workbook populated with the licensee's data to 2015-16 populated at the same time as issuing the modification notice. In this way licensees can be confident that their interpretation is consistent with Ofgem's at the same time that they consider the acceptability of the proposition.	We accept that companies may value some sensitive guidance from us when preparing their submissions for this reasonableness review. However, we believe it is a wider issue than just how to populate the spreadsheet with data Ofgem already has. If licensees were to be concerned about this aspect, we would encourage them to engage with Ofgem before completing their submission
5	ENWL	In the legacy true-up section for DPCR5 it refers to the Handbook (para 3.20)	This only relates to RIIO-ED1	Update para 3.20 to read "the RIIO-ED1 handbook".	Agreed and amended.
6	ENWL	Para 3.39(a) last sentence needs to be clearer		Move "prior to the cut-off date" to end of sentence	Agreed and amended.
7	ENWL	Para 3.40 last sentence unclear		No proposal	We made the intent of this and the mechanism that could

Serial	Raised by	Issue	Detail	Proposal	Ofgem response
					be adopted extra clear in the model we issued
8	Cadent/NG	While we appreciate the simplification achieved by combining all four sectors (ED, ET, GT & GD) into one chapter, we would welcome confirmation that this won't be taken as an opportunity to remove intentional Licence specific characteristics.	There may be items of detail which may only become apparent when the true-up and reset tables are being compiled in September, and we recognise that it may not be practical to identify each and every single issue at this point.	We would welcome a statement of reassurance from Ofgem that the Authority will adopt a sympathetic and pragmatic approach in relation to the completion of these tables, which ensures that network operators are not subjected to any unintended consequences which may arise on application of the modified Financial Handbook in future, including any of the revised algebraic formulae.	We intend for the chapter to reflect the policy decision we have made and that if any errors are identified in the handbook/algebra we would expect to correct them to ensure our policy decision is given effect.
9	Cadent/NG	We welcome Ofgem's intention (outlined in paragraph 5 of each licence-specific modification proposal) to delay some of the timetable and process in this first year of reporting following the PSED policy decision.	In addition, we believe that the need for a minimum gap of two weeks between PDAM report submission deadline (item 4a) and NWOs' PRAPA, PPH & PhDR submission deadline (item 4b) is an enduring one that will always be needed for as long as the PDAM report submission deadline is accelerated to 31 August (previously 30 September).	We would like to see the inclusion of a minimum gap of two weeks between submission dates for items 4a and 4b being written into the timetable in Chapter 3 of the Financial Handbook	See updated timetable in Tables 3.7 and 3.8 which now reflect an update timetable following discussions between licensees and Ofgem during the Pension RIGs review.  In addition have made changes to table 3.8 as following: <ul style="list-style-type: none"> <li>we have separated out row 4 into (a) and (b),</li> <li>We have move the requirement in row 3(b) to be part of 4(b),</li> <li>Included the timetable for the 2017 reasonableness review</li> </ul>
10	SSE/SGN	Clarity of Practical Application of	We believe there still resides a degree of ambiguity and	We hope Ofgem applies this 'new' approach in the spirit in	See response to Serial 8



Serial	Raised by	Issue	Detail	Proposal	Ofgem response
		Ofgem's Reasonableness Review	<p>uncertainty around how a reasonableness review will be undertaken in practice despite the revised drafting of Chapter 3 in the Financial Handbook. We continue to be cautious regarding some areas of assessment and believe Ofgem should consider the implementation of their pensions policy pragmatically particularly given it's the first review using this 'new' approach. For example, it is still unclear as to what extent Ofgem will be able to assess the appropriate behaviour of how customers are considered by the company in their engagement with Trustees. Ofgem has not explicitly set out how this will be done while also not ruling out utilising their previous approach to benchmarking actuarial assumptions, investment and de-risking strategies, and scheme member benefits. In the absence of this drafting in the Financial Handbook, there appears to be a risk that this will become the default methodology for quantifying adjustments. We acknowledge Ofgem intend on using a more balanced view of Pensions</p>	<p>which it was intended regardless of whether it has been effectively translated into Chapter 3 of the Financial Handbook.</p>	

Serial	Raised by	Issue	Detail	Proposal	Ofgem response
			governance bearing in mind the difference between schemes and pension management strategies. We hope Ofgem applies this 'new' approach in the spirit in which it was intended regardless of whether it has been effectively translated into Chapter 3 of the Financial Handbook.		
11	SSE/ SGN	Treatment of Pension Scheme Surplus	We accept that customers should not bear costs 'unfairly' which extends to any scheme surplus. As unlikely as a 'non-temporary' scheme surplus seems, and the mitigating steps available to avoid such a surplus, we acknowledge that Ofgem's approach is not unreasonable. However, this has not been appropriately reflected in the narrative in the Financial Handbook.	We believe Ofgem should amend the wording to allow sufficient flexibility to addressing this in practice while recognising a final solution is not perhaps required at this stage.	We consider that para 3.45 is sufficient where we said we will amend the RIGs to reflect any future scheme surplus. As recognised by all the licensees it is highly unlikely to be required for the 2017 reasonableness review.
12	SSE/ SGN	Timetable for Reasonableness Review	As we have consistently stated, we are not supportive of the intention to bring forward the reporting requirements unnecessarily for any of the Pensions Reasonableness reviews either for 2017/18 or beyond. The current proposed dates of 7 July for the Scheme Valuation dataset and 31 August for the Pension Deficit Allocation Methodology is inconsistent	We see a real benefit and strongly prefer the submission date to not be earlier than 31 August for all pension information.	See updated timetable in Table 3.8 which now reflects this.

Serial	Raised by	Issue	Detail	Proposal	Ofgem response
			since Ofgem will not utilise any of the information before the 31 August information is submitted. Given the external and internal demands as well as the time of year and impending implementation of RIIO Accounts.		
13	SSE/ SGN	The truncated algebra set out in Chapter 3	The number of data sources is relatively complex and is therefore subject to a degree of interpretation differences and may have unintended consequences.	We believe it would be clearer if Ofgem set out the algebra in steps similar to that of other chapters to avoid any complications.	See response to Serial 4
14	WPD	The proposed handbook wording is not effective where a single scheme has more than one licensee as sponsor.	This is largely because the definition of the PSED in para 3.6(b) defines this as the deficit of the scheme, rather than the licensee portion of the deficit.	Amend 3.6(b) to:  "the term PSED, or "established deficit", means the proportion of any pension scheme deficit which is attributable to the licensee's regulated business and to pensionable service up to and including the cut-off date, determined in accordance with the PDAM published by the Authority and expressed as a positive number."  And delete para 3.6(c)	Para 3.6 amended as follows:  "(b) the term Pension Scheme Established Deficit (PSED), or "established deficit", means an amount derived as the value of the liabilities within a defined benefit pension scheme (or schemes) sponsored (or co-sponsored, eg if part of a group scheme) by the licensee expressed as a positive number, less the corresponding assets, where those assets and liabilities are: § attributable to the licensee's regulated business specified in table 3.4, and § attributable to pensionable service up to and including the cut-off date.

Serial	Raised by	Issue	Detail	Proposal	Ofgem response
					Deleted para. 3.6(c)
15	NPg	Payment history allowances	Paragraph 3.38: As Ofgem is aware, we believe the payment history allowance calculation (Vrr) should include the variance in the two years between the valuation date and the date of reset of base allowance. We accept that, when combined with the PBAPA formula, Ofgem's proposal would appear to give the same overall answer as the alternative method we proposed and we also appreciate the additional guidance in paragraph 3.42, which indicates that the overall revenue profile should be a factor considered in the proposals.	However, we would appreciate further reassurance by the inclusion of additional words to make it clear that (a) in paragraph 3.42, the licensee may take into account expected changes to payment history allowances at the next reasonableness review in proposing profiles; and (b) in paragraph 3.49, the Authority must consider all of the factors that the licensee considered relevant in making its proposal in deciding whether to superimpose its own profile;	See response to Serial 2
16	NPg	Vrr term	More clarity would be welcomed on paragraph 3.40. The paragraph is difficult to follow and we are unsure of the general intent of the paragraph. For example, on the option to submit an alternative truncated calculation of the term Vrr 'that is consistent', it would be helpful to understand what this option needs to be consistent with, and how, since we are unsure whether	n/a	We made the intent of this and the mechanism that could be adopted extra clear in the model we issued

Serial	Raised by	Issue	Detail	Proposal	Ofgem response
			this option allows a calculation that gives a different answer to the full term or just a different presentation of the formula;		
17	NPg	Table 3.2	We believe that item (b) in row 3 of table 3.2 refers to information required under paragraph 3.42. The table shortens the requirement in an unhelpful way and states the requirement is about how we have engaged solely in respect of PSED. Paragraph 3.42 is a much wider requirement in line with the policy decision.	We suggest the table should state "(b) Explanation of why it considers its proposals appropriately protect the interests of consumers as per paragraph 3.42.";	Table 3.8 updated to reflect this.
18	NPg	Submission dates	As you are aware, we discussed the timings of the submissions on an industry call on 8 June 2017 and after further consideration (including the above point Table 3.2).	We believe that the information in row 3 of table 3.2 should be submitted on 29 September this year and 31 August for future reviews i.e. at the same time as the information in row 4(b);	See response Serial 9
19	NPg	Representations period	The number of days for licensee representations following a provisional decision at step 5 in table 3.2 should be extended to 21 days to allow sufficient time for consideration and response;	Extend representation to 21 days	The 14 days is consistent with the notice period for the annual iteration process for the price control financial model. If there was likely to be a material change to the allowance proposed by the licensee we would endeavour to engage with that licensee prior to publishing the notice.
20	NPg	Scheme Valuation Dataset	The definition of Scheme Valuation Dataset should cross	n/a	Cross referencing added to the definition.

<b>Serial</b>	<b>Raised by</b>	<b>Issue</b>	<b>Detail</b>	<b>Proposal</b>	<b>Ofgem response</b>
			refer to paragraph 3.9, which provides the information that is included in this dataset.		
21	ENA	Ofgem Approach to Reasonableness Review	The proposed drafting of the Financial Handbook does not include details of matters Ofgem will consider in its review or how its assessment will be translated into financial adjustments.	We would therefore like to understand Ofgem's approach to the reasonableness review more explicitly. In the absence of this information there is a degree of uncertainty particularly given Ofgem's intention not to benchmark actuarial assumptions or apply hindsight bias in their assessment	We recognise this is the first review following the change of policy. We expect companies to embrace the need to consider the interest of consumer and consider innovative ways to achieve this. As such it is impossible for us to set out in detail in advance the financial adjustments we may make. However, we will do so in accordance with the modified chapter and our principal objective and duties.
22	ENA	Process for Revising Pension Allowance Values and for a Reasonableness Review	The timing of submissions is currently under consideration within the ENA's RIG's Working Group.	Our current view is that there is a need for some revision of the 'due dates' and these will be communicated to Ofgem in due course as part of that process. Any changes will naturally need to align with the relevant chapter of the Financial Handbook.	See response to Serial 9
23	ENA	Definition of ABV and ABC – Paragraphs 3.36 and 3.41	We consider that the phrase "funding by the licensee out of negative cumulative payment history variances" in the definition of ABV (similarly repeated for ABC) can be misleading. For instance, it could suggest that ABV could not be bigger than the	We would suggest that the phrase referring to negative cumulative payment histories is deleted. The licensee would then agree the valuation method in writing with Ofgem as per the note in paragraph 3.36.	See response to Serial 3

Serial	Raised by	Issue	Detail	Proposal	Ofgem response
			<p>cumulative payment history variance (D-E) calculated in paragraph 3.38, whereas this might be the case.</p> <p>In order that ABV and ABC are not constrained by the value of the payment history calculation in 3.38</p>		
24	ENA	Payment History Allowances – Paragraph 3.38	<p>In line with previous feedback, we believe that payment history variance value (Vrr) should, where possible, take into account the latest available information. Specifically, based on the current drafting, the cumulative pre-valuation payment history variance value at the end of the Reasonableness Review year 'rr' does not include the variance in the two years between valuation date and date of reset of base allowance.</p> <p>We accept that when combined with the PBAPA formula, it would appear to give the same overall answer as the alternative method proposed and we also appreciate the additional guidance in 3.42 that indicates</p>	<p>We would appreciate further reassurance by additional words in (a) paragraph 3.42 to make it clear that licensee may take into account expected changes to payment history allowances at next reasonableness review in proposing profiles and (b) in paragraph 3.49 the authority must consider all of the factors that the licensee considered relevant in making its proposal in deciding whether to superimpose its own profile.</p>	See response to Serial 2

<b>Serial</b>	<b>Raised by</b>	<b>Issue</b>	<b>Detail</b>	<b>Proposal</b>	<b>Ofgem response</b>
			that the overall revenue profile should be considered.		
25	ENA	Option to present a truncated Vrr - Paragraph 3.40	Consistent with our comments on paragraph 3.38 we also find this paragraph unclear. For example, the meaning and intention of "and rolled forward for payment history variances arising since the valuation date relevant to that earlier review" is particularly unclear.	It could be helpful if Ofgem were to provide an example of the truncated Vrr formula that it would accept under this paragraph	The response to Serial 2 should give some further clarity and, therefore, do not consider it necessary to provide an example.
26	ENA	Clarity of algebra an interpretation risk	The algebra used under Chapter 3 of the Handbook is complex and may give rise to unwanted risk of varying interpretations across licensees. We appreciate the work that has already been carried out in providing us with example workbooks. However, anything further that Ofgem may be able to do to give greater clarity and certainty with regard to the proposed formulae would be appreciated.	One option could be to provide each licensee with a workbook containing their individual data to 2015-16 populated at the same time as issuing the modification notice. This will help to ensure consistency of interpretation between individual licensees and Ofgem and would be helpful to the acceptability process.	See response to Serial 4
27	UKPN	Schedule 2 to stat con	It is unclear which licence modification Ofgem are referring to with the single asterisk	n/a	This will not be included in the final modification, but cross referencing with Schedule 1 should have made this clear.
28	UKPN	Draft Handbook	In numerous places in the response, the term "box below" is used – these should be replaced with cross references to specific tables –	n/a	Updated with Table numbers. In addition we have removed duplicate tables and referenced where necessary back to the Table number.



<b>Serial</b>	<b>Raised by</b>	<b>Issue</b>	<b>Detail</b>	<b>Proposal</b>	<b>Ofgem response</b>
			this consequentially means that the un-numbered tables need naming and numbering in line with the rest of the PCFH		
29	UKPN	Draft Handbook	3.4 needs a caveat of "subject to CRCs"	n/a	Para 3.4 updated
30	UKPN	Draft Handbook	3.5 would be better framed to state that Ofgem have written this document and will conduct this review in line with the principles	n/a	Para 3.5 updated to reflect this
31	UKPN	Draft Handbook	3.19 would be better introduced with a caveat that this and 3.20 only apply to licensees subject to RIIO-ED1	n/a	Para 3.19 updated to reflect this
32	UKPN	Draft Handbook	3.19 sub bullets need renumbering as they start with (d)	n/a	Updated
33	UKPN	Draft Handbook	3.24 should have the words "For the avoidance of doubt" removed as they are superfluous. This also applies to 3.38 where it occurs twice	n/a	Removed from 3.24 and 3.38
34	UKPN	Draft Handbook	3.29 should specify which of the "following paragraphs" are being referred to	n/a	Updated to refer to 3.31-3.54
35	UKPN	Draft Handbook	3.31 definition of DR – the cross reference to Principle 4 needs checking	n/a	The reference in 3.31 relates to DR specified in the scheme valuation data set "established in accordance with Principle 4
36	UKPN	Draft Handbook	3.33 ends with a rogue "and"	n/a	Deleted
37	UKPN	Draft Handbook	3.37 uses the wording "do not unduly lose out" which infers that it is ok for customers or	n/a	Removed "unduly" from para 3.37

Serial	Raised by	Issue	Detail	Proposal	Ofgem response
			companies to lose out to some extent		
38	UKPN	Draft Handbook	3.45 makes reference to Ofgem changing the RIGs in respect of a pension contribution holiday	Should a date be added to when this will be done by?	We would aim to complete this prior to the 2020 reasonableness review, but would only do this if there was a likelihood of a pensions contribution holiday.
39	UKPN	Draft Handbook	3.47 sub bullets need renumbering as they start with (c)	n/a	Para 3.47 updated
40	UKPN	Draft Handbook	3.54 infers that the Authority can through this process allow harm to the licensee	We believe that "impact" would be a better term	Para 3.54(d) amended to read impact
41	NG	Simplification	While we appreciate the simplification achieved by combining all four sectors (ED, ET, GT & GD) into one chapter, we would welcome confirmation that this won't be taken as an opportunity to remove intentional Licence specific characteristics. For example the £0.6m contingent asset allowance referred to as the "H" value in row 12 of Table 3.2 of the existing GT1 Price Control Financial Handbook appears to have been lost in the move into one section. We understand that this is an error that will get addressed in the final version	This can be easily addressed by including wording to the following effect into Chapter 3 of the revised Financial Handbook at the end of para 3.41 (before the subtitle Framing proposals for Base Annual PSED Allowances and payment history allowances) :  "Any contingent asset allowances set out in Final Proposals would then be added to the proposed Base Annual PSED Allowances and payment history allowances for future years."	In the definitions of Dy and Ey in paragraph 3.38 changed the following text <ul style="list-style-type: none"> <li>Amended Dy (fourth bullet) – "plus any amounts determined by the Authority as advisory fees or other costs relating to the development or implementation of a pensions initiative, eg a contingent asset arrangement, following a review of evidence submitted by the licensee."</li> <li>Added the following to EY - "and any other relevant allowances, including contingent asset allowances"</li> </ul>

## **Schedule 2 – Additional amendments to the Notice of statutory consultation on a proposal to modify the ED1 Price Control Financial Handbook**

1. In the table in paragraph 3.2 of the modified Chapter 3 of the Handbook for the pension allowance value for RIIO-ED1 we have amended it to read “EDE values”. This amendment makes the RIIO-ED1 pension allowance value in the table consistent with other sectors price controls and the electricity distribution licence.
2. In footnote 3 we have added a link to the modification of the Pension RIGs.
3. In paragraph 3.30 for clarity at the end of the sentence we have added which paragraphs we are referring to.
4. We changed paragraph 3.56 to make it clear this section only relates to RIIO-GT1, GD1 and ET1 licensees.

### **Schedule 3 – Updated Chapter 3 of the ED1 Price Control Financial Handbook**

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

**Schedule 4 – Updated changes to the glossary to the ED1 Price Control Financial Handbook**

<b>Glossary term</b>	<b>Revised Definition</b>
Base Annual PSED Allowance	See Chapter 3, para 3.29-3.30
Cut-off Date	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.
Pensions Allowance	See Chapter 3, para 3.2.
Pension Scheme Administration	Amend glossary term to read 'Pension Scheme Administration and PPF levy' and amend current definition to:  See Chapter 3, para 3.15
Qualifying Workplace Pension Schemes	See Qualifying Schemes in the Pension Act 2008 <sup>4</sup>
Reasonableness Review	See Chapter 3, para 3.47-3.54
Scheme Administration Costs	Costs associated with Pension Scheme Administration and PPF levy which are attributable to the licensee's regulated business. See Chapter 3, para 3.15-3.16.
Scheme Dataset	Amend glossary term to read 'Scheme Valuation Dataset' and amend current definition to:  Data relating to each defined benefit scheme for the purpose of the triennial reasonableness review and the resetting and true up of allowances. See also Chapter 3, para 3.9.
Triennial (pension scheme) valuation	An actuarial valuation of a pension scheme which has been carried out to meet the requirements of 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 valuation	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.

<sup>4</sup> [http://www.legislation.gov.uk/ukpga/2008/30/pdfs/ukpga\\_20080030\\_en.pdf](http://www.legislation.gov.uk/ukpga/2008/30/pdfs/ukpga_20080030_en.pdf)