

Ian Rowson
RIIO Finance
Ofgem
9 Millbank
London
SW1P 3GE

James Kerrane
Pension Finance Manager

James.kerrane@nationalgrid.com
Direct Tel +44 (0)1926 655585
Mobile +44 (0)7768 368725

www.nationalgrid.com

14 June 2017

Dear Ian

Statutory consultation on a proposal to modify the Price Control Financial Handbook held by Network Operators

National Grid owns and operates the electricity transmission system in England and Wales. National Grid also owns and operates the gas transmission system which serves the whole of Great Britain.

We value the effort that you and your team have invested in endeavouring to achieve a clear set of modifications to Chapter 3 (Pension Scheme Established Deficit Revenue Allowances) of the Price Control Financial Handbook in time for the triennial PDAM and Allowance Reset submissions due this year.

We expressed our broad support for Ofgem's high-level aims contained in the Second Consultation on Funding Network Operators' Pension Deficits in our response of 26 April 2016.

We continue to welcome your stated aims of providing both greater flexibility and increased certainty around Pension Scheme Deficit Allowances funded by consumers. We set out below our comments relating to some specific details of the proposed modifications.

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.

There may be other items of detail such as this, 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.

Please would you also clarify that the modified chapter of the financial handbook will not be used to revisit and revise the true-up allowances for ET and GT relating to pension payment history in the period prior to the cut-off date (which were set out in the RIIO-T1 Final Proposals), nor take these into account when working out the true-ups relating to payment history in subsequent years.

Timetable Dates

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.

This is essential, as we believe that some of the original submission deadline dates shown in Chapter 3 of the Financial Handbook are not realistic or achievable.

For example, indicated submission deadlines for :

- 1) The Scheme Valuation Data Set under item 1 (by 7 July) and
- 2) Network Operators' PBAPA, PPH and PhDR proposals under item 4(b) (by 31 August)

We would be concerned if the aim (outlined in Schedule 2 of each of the licence-specific modification proposals) to replace these dates by 11 August 2017 and 29 September 2017 respectively was changed or removed altogether.

In addition, we believe that the need for a minimum gap of two weeks between PDAM report submission deadline (item 4a) and NWOs' PBAPA, 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.

If you require any further information, or if you have any questions regarding our response, please contact me directly on 01926 655585. This response is not confidential.

Yours sincerely

James Kerrane
Pension Finance Manager