

**To: National Grid Gas Plc
Cadent Gas Limited
Northern Gas Networks Limited
Scotland Gas Networks Plc
Southern Gas Networks Plc
Wales & West Utilities Limited**

Notice under Part C of Standard Special Condition A40 (Regulatory Instructions and Guidance) of the Gas Transporter Licence of proposed modifications to the Regulatory Instructions and Guidance

1. Each of the companies to whom this Notice is addressed (each "the licensee") is the holder of an Gas Transporter Licence granted or treated as granted under section 7 of the Gas Act 1986 (the "Act").
2. Standard Special Condition A40 (Regulatory Instructions and Guidance) ("SSC A40") of their Gas Transporter Licences establishes the circumstances in which the Gas and Electricity Markets Authority (the "Authority")¹, by way of direction, can make changes to the Regulatory Instructions and Guidance. This includes the Energy Network Operators' Price Control Pension Costs - Regulatory Instructions and Guidance: Triennial Pension Reporting Pack supplement including pension deficit allocation methodology ("the Pensions RIGs").
3. In accordance with SSC A40, the Authority hereby gives notice to the licensees that it proposes to modify the Pensions RIGs in the manner indicated in the Schedule to this Notice. If we decide to make the proposed modification, it will take effect when we make our decision on or around 31 July 2017.
4. The Authority considers that it is necessary to modify the Pensions RIGs in the manner indicated in order to reflect the decision it made on Ofgem's policy for funding Pension Scheme Established Deficits (PSEDs)². As part of this decision, we said we would make consequential revisions to the Pension Deficit Allocation Methodology (PDAM) and modify the relevant Price Control Financial Handbook³ chapter for all sectors.
5. 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.
6. The proposed modifications refer specifically to information required to be submitted to the Authority as part of the 2017 and future triennial reasonableness reviews. Schedule 1 contains the modified version of the Pension RIGs. The Pension RIGs are made up of the following:
 - the Pensions RIGs guidance document, and
 - the Pensions RIGs supporting excel template.
7. Schedule 2 summarise the changes that we propose to make to the Pension RIGs.

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

³ <https://www.ofgem.gov.uk/publications-and-updates/notice-statutory-consultation-proposal-modify-price-control-financial-handbook-held-network-operators>

8. Any representations on the proposed modifications may be made in writing on or before 24 July 2017 to Mick Watson at Ofgem, 9 Millbank, London, SW1P 3GE, or by email to mick.watson@ofgem.gov.uk.
9. 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.



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Ian Rowson
Associate Partner, RIIO Finance
Duly Authorised on behalf of the Gas and Electricity Markets Authority
27 June 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 the Energy Network Operators' Price Control Pension Costs - Regulatory Instructions and Guidance: Triennial Pension Reporting Pack supplement including pension deficit allocation methodology

The proposed modifications to the Pensions RIGS can be found [here](#). This includes the Pensions RIGs guidance document and the proposed modifications to the Pensions RIGs supporting excel template, which are shown as version 2.0 in the 'Changes Log' tab of the template.

Schedule 2: Summary of modifications to the Energy Network Operators' Price Control Pension Costs - Regulatory Instructions and Guidance: Triennial Pension Reporting Pack supplement including pension deficit allocation methodology

1. The main modifications are briefly summarised below, we have:
 - a. Removed the requirement to submit tables P1.3/P2.3 – Scheme data tables. The associated Chapter 20 of the Pension RIGs guidance document and tabs in the supporting excel template have been deleted. This reflects Ofgem's updated policy for funding PSEDs where licensees should demonstrate as part of their submissions how they have considered the interests of the consumers who are exposed to PSEDs. The information previously required in tables P1.3/P2.3 did not provide this;
 - b. Removed the requirement to submit, by electricity distribution licensees only, tables 1.4 and 2.4 – PPF Levies, scheme administration. The allowances and costs for this are now part of Totex for RIIO-ED1;
 - c. Added table 1.1 in Chapter 1 of the Pension RIGs guidance document. This table sets out the process and timetable for revising pension allowance values and for the reasonableness review in 2017 and subsequent reviews. This table also sets out what Pension RIGs tables, supporting documents and associated commentary licensees should submit to Ofgem. The addition of this has allowed Chapter 14 – Key dates to be deleted;
 - d. Added tables P1.5/P2.5 – calculation of Vrr in the Pension RIGS supporting excel template. The new Chapter 21 of the Pension RIGs guidance sets out the instructions for completion of these tables. Vrr is the cumulative pre-valuation payment history variance value at the end of the Reasonableness Review year. It is ascertained using the method set out in Chapter 3 of the respective Price Control Financial Handbooks;
 - e. Added tables P1.6/P2.6 – IBAPA and PBAPA in the Pension RIGS supporting excel template. The new Chapter 21 of the Pension RIGs guidance sets out the instructions for completion of these tables.
 - i. IBAPA is the indicative amount for the Base Annual PSED Allowance. It is zero if PSED is negative, but is otherwise ascertained using the method set out in Chapter 3 of the respective Price Control Financial Handbooks.
 - ii. PBAPA is the alternative proposal and should represent a profile of Base Annual PSED Allowances for each year subsequent to the valuation date specified in Chapter 3 of the respective Price Control Financial Handbooks;
 - f. Removed the requirement that submissions must be accompanied by a letter signed by a director on behalf of the licensee confirming that the data has been provided in accordance with the Pensions RIGs guidance. The licensees respective licence condition for data assurance requires them to undertake processes and activities for the purpose of reducing the risk, and subsequent impact and consequences, of any inaccurate or incomplete reporting, or any misreporting, of information to the Authority;
 - g. In Chapter 16, under supporting documents, changed the requirement for licensees from having to submit an employer covenant review, to being required to use reasonable endeavours for Ofgem to be provided with a copy. Employer covenant reviews are prepared for the trustees and not the licensee. Ofgem

acknowledges it cannot insist on being provided with a copy and that it is at the discretion of the trustees and covenant reviewer;

- h. Included in Chapter 5 (paragraph 5.2) the requirement for licensees to provide details of the portion of differences between employer contributions paid towards future benefit accrual since last Valuation and the value of future benefit accrual since last Valuation arising because of a surplus attributable to pre Cut-Off Date pensionable service;⁵
- i. Updated Appendix 1 – Definitions and interpretations to reflect changes to the Pensions RIGs and consistency with the respective Price Control Financial Handbooks;
- j. Deleted Appendix 2 – Commentary template. A reduced and more focused commentary requirement (eg demonstration of how licensees have considered the interests of the consumers who are exposed to pension deficits) is set out in Chapter 1 of the Pension RIGs guidance document; and
- k. Amended minor formula or typographical errors within the Pension RIGs guidance document and supporting excel template.

⁵ This is not applicable for the 2017 reasonableness review; refer to paragraph 3.45 of the respective Price Control Financial handbooks.