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Our ref

Your ref

Date

15 June 2017

Dear Mick,

**Statutory Consultation on changes to Chapter 3 of the Financial Handbook:
Pension Scheme Established Deficit revenue allowances**

WPD welcomes the opportunity to respond to the above consultation, issued by Ofgem on 18 May 2017. We continue to take a proactive approach to managing pension costs, as demonstrated by our work with PWC on a consumer led strategy for pensions, and have had considerable input in discussions with Ofgem prior to the issue of this consultation.

Overall, WPD believes that Ofgem's proposed changes would be broadly acceptable. We recognise that some issues remain and are supportive of the points raised in the ENA collective response to this consultation.

One issue we would like to raise in our response is that 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 Pension Scheme Established Deficit (PSED) in paragraph 3.6 b) defines this as the Deficit of the Scheme, rather than the licensee portion of the deficit.

We propose the following wording for paragraph 3.6 b):

"the term Pension Scheme Established Deficit (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 pension deficit allocation methodology published by the Authority and expressed as a positive number".

Along with this amendment, paragraph 3.6 c) should then be deleted.

We echo the concerns raised in the ENA letter around the complexity of the algebra in the proposed chapter and reiterate our belief that the Handbook should be user-friendly. WPD is leading discussions with Ofgem on the consequent changes to the PDAM RIGS and we will encourage the inclusion of clear guidance and definitions of terms to aid users' understanding of the new approach.

Now we are approaching the conclusion of the PDAM discussions, we hope that all parties will be able to focus on the primary issue of putting consumers at the heart of licensees' pension strategies.

We hope that you find this response helpful. In the meantime please feel free to contact us if there is anything further we can do to assist.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Paul Branston', with a large, stylized initial 'P'.

PAUL BRANSTON
Regulatory Finance Manager