

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

Notice under Part D of Special Condition 3C (Specified financial adjustments) of their Gas Transporter Licences to revise PCFM Variable Values for Pension Scheme Established Deficit revenue allowances

1. Each of the companies to whom this Notice is addressed (each "the licensee") is the holder of a Gas Transporter Licence granted or treated as granted under section 7 of the Gas Act 1986.
2. Part A of Special Condition 3C (Specified financial adjustments) ("SC 3C") of the licensee's Gas Transporter Licences establishes the circumstances in which the Gas and Electricity Markets Authority (the "Authority")¹, by way of direction, can revise the licensees' PCFM Variable Values for:
 - (a) Pension Scheme Established Deficit revenue allowances ("EDE values"); and
 - (b) Pension Scheme Administration and Pension Protection Fund levy revenue allowances ("APFE values").
3. In accordance with Part D of SC 3C, the Authority hereby gives notice to the licensees that it proposes to revise values in paragraph 2 in the manner indicated in the Schedule to this Notice. If we decide to make the proposed revision, it will take effect by 30 November 2017 as part of the wider direction for revising PCFM Variable Values.
4. In accordance with Part A of SC 3C the Authority considers that it is necessary to determine the values in paragraph 2 as a result of the following:
 - (a) there has been an actuarial valuation of each of the licensees' defined-benefit pension schemes in respect of which the licensee is either the principal employer or a participating employer ("relevant pension scheme");
 - (b) we have reviewed the valuations referred to in paragraph 4(a) and the reasonableness of the licensee's Pension Scheme Established Deficit ("PSED") funding levels;
 - (c) we have reviewed the level of payments actually made by the licensee to their relevant pension scheme; and
 - (d) we have reviewed the licensee's report levels of AFPE values.
5. This has been done in accordance with the methodology contained in chapter 3 of the GD1 Price Control Financial Handbook².
6. The Schedule to this notice sets out the revised values that we have determined and the reasons for those revised values. In summary these are:

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 <https://www.ofgem.gov.uk/publications-and-updates/latest-price-control-financial-handbooks-riio-network-operator-licensees>

- (a) We have made no changes to the base PSED proposed by the licensees. Allowances for all network operators have remained constant or reduced.
 - (b) We have accepted the pension payment history proposed by the licensees.
 - (c) We do not consider there is a need to apply an adjustment factor to any of the Licensees pension allowances.
 - (d) We have made no overall changes to APFE values apart from increasing Cadent's East of England's network allowance by £0.1 million to reflect an increase in PPF levy. We did not accept Cadent Gas Plc's proposal for additional funding as we consider the increase is a consequence of the National Grid Gas Distribution sales and sectionalisation of the pension schemes and these costs should not be borne by the consumer. The values are broadly consistent with actual expenditure in 2016, subject to a reallocation of allowances in accordance with the sectionalisation of their pension scheme. We also reviewed the remaining licensees' AFPE values and consider the current allowances to be set at an efficient level.
7. Any representations by licensees on the proposed revision of values may be made in writing on or before 27 October 2017 to Mick Watson at Ofgem, 9 Millbank, London, SW1P 3GE, or by email to mick.watson@ofgem.gov.uk.
8. You can ask us to keep your response confidential, by clearly marking it confidential and providing reasons, and we'll respect this, subject to obligations to disclose information such as the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. However, we would like to publish as much of your response as we can. To help us achieve this goal we would appreciate it if confidential material could be provided in a separate appendix to your main response. This should also be clearly marked as confidential with reasons provided. Unless you mark your response confidential we'll publish it on our website, www.ofgem.gov.uk, and put it in our library.



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Ian Rowson
Associate Partner, RIIIO Finance
Duly Authorised on behalf of the Gas and Electricity Markets Authority
13 October 2017

**Schedule 1: Revised PCFM Variable Values for Pension Scheme Established
Deficit revenue allowances – 2017 reasonableness review**

Details of the proposed revised PCFM Variable Values for Pension Scheme Established Deficit revenue allowances for all sectors following the 2017 reasonableness review can be found [here](#).