Modifications to the Regulatory Instructions and Guidance (the "RIGs")

Northern Powergrid's response to Ofgem's proposal to make modifications to the Regulatory Financial Reporting ("RFPR") and Pensions RIGs

KEY POINTS

- As relatively few changes to the RIGs have been proposed, and these are generally of a minor nature, we have only four comments that we believe should be addressed in the final RIGs modifications. Those comments relate to:
    - clarification of Ofgem's derogation from SLC 46 of the Electricity Distribution Licence in relation to the submission deadline for the 2019-20 regulatory reporting packs;
    - the RFPR commentary structure;
    - the Pensions RIG tables; and
    - the treatment of pension scheme surplus.

  Details are provided below.

Comments

Derogation from SLC 46 of the Electricity Distribution Licence in relation to the submission deadline for the 2019-20 regulatory reporting packs

1. The derogation granted by Ofgem in its direction of 29 April 2020 (the "Direction"), which extends the deadline for submission of the 2019/20 reporting packs listed in paragraph 12 of the Direction to 31 August 2020, has introduced some uncertainty regarding the deadline for submission of the RFPR. This is because paragraph 12 of the Direction refers only to the "RFPR template", rather than using the term "RFPR". As the RFPR also includes the RFPR commentary, this would suggest that the submission deadline is different for the two elements of the RFPR i.e. 31 July 2020 for the RFPR commentary and 31 August 2020 for the RFPR template.

2. We believe that Ofgem should provide clarity, in the modification direction for the RFPR RIGs, that the derogation applies to the RFPR in its entirety i.e. to both the RFPR template and the RFPR commentary.

Outline structure of the RFPR commentary

3. Ofgem's proposed modification to the RFPR RIGs includes a change to remove the "Key Financial Performance measures" section from the outline structure of the RFPR commentary (paragraph 3.4).

Although the change serves to remove some existing duplication in the requirements, it means that the key output of the RFPR template (RORE) would be discussed at a later stage in the commentary, after 'Key operational performance measures'. This seems illogical, as the main purpose of the RFPR is to show the reader financial performance under the RIIO framework.

4. In our 2018/19 RFPR commentary, we used the "Key Financial Performance measures" section to describe RORE and totex performance.

5. Ofgem should make a change to the RFPR RIGs to explicitly allow flexibility in the structure of the RFPR commentary, provided that all of the listed items are covered. Otherwise, the proposed change should not be made.

6. If a consistent approach is required, discussion with NWOs would be the best way to establish a workable structure for 2020/21 reporting.

Pensions RIGs Tables

7. The only issue we have identified with the Pensions RIGs tables is that, following the insertion of additional "other adjustment" rows in table 1.2/2.2, the row and cell references in section 17 of the guidance document now need to be updated.

Treatment of pension scheme surplus

8. We have also noted and appreciate that Ofgem has acknowledged that the reasons why a scheme maybe in surplus are complex and should be reviewed on case-by-case basis. In many scenarios, those reasons would most likely be outside of our or the Trustees' control, for example the impact of investment markets or demographic changes to mortality as we have seen as part of the 2019 valuation. However, it is somewhat difficult to manage such an issue without any clear policy from Ofgem or direction as to its views and expectations. As per our e-mail of 31 January 2020, we continue to prefer an approach on surplus that provides clarity on the policy which we believe means updating the RIGs and the financial handbook with the detail of how Ofgem intends to approach the matter. The recent ENWL document set out different circumstances and was a useful starting point for discussions on the approach not only from an established deficit perspective but also regarding the consequential effects on Totex calculations.

9. We have not yet had a response to the comments we provided on the ENWL document and we would hope that Ofgem will clarify its views in the near future. We believe that will be essential to help Groups manage their schemes efficiently into the future for the benefit of customers. Our Group was one of the first to close to new members and we are in a mature and maturing position. With careful management, we are at a position where we are closing on 100% funding of the scheme on a technical provisions basis and a surplus is more of a realistic possibility in the near future than it has been previously. Alongside the Trustees, we have developed an innovative trigger-based mechanism for managing deficit

contributions into the Group as a fully-funded position approaches. The intention of that mechanism is to protect customers from funding a surplus. Due to the effect of COVID-19 on market conditions, however, we are yet to sign off the 2019 valuation but, once that is complete, we will be happy to share our approach with Ofgem.