

**To: Electricity North West Ltd  
Northern Powergrid (Northeast) Ltd  
Northern Powergrid (Yorkshire) Plc  
London Power Networks Plc  
South Eastern Power Networks Plc  
Eastern Power Networks Plc  
SP Distribution Plc  
SP Manweb Plc  
Scottish Hydro Electric Power Distribution Plc  
Southern Electric Power Distribution Plc  
Western Power Distribution (East Midlands) Plc  
Western Power Distribution (South Wales) Plc  
Western Power Distribution (South West) Plc  
Western Power Distribution (West Midlands) Plc**

**Notice under Part D of Charge Restriction Condition 3C (Specified financial adjustments) of the Electricity Distribution Licence 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 an Electricity Distribution Licence granted or treated as granted under section 6(1)(c) of the Electricity Act 1989.
2. Part A of Charge Restriction Condition 3C (Specified financial adjustments) (“CRC 3C”) of the licensees’ Electricity Distribution Licences establishes the circumstances in which the Gas and Electricity Markets Authority (the “Authority”)<sup>1</sup>, by way of direction, can revise the licensees’ PCFM Variable Values for Pension Scheme Established Deficit revenue allowances (“EDE values”).
3. In accordance with Part D of CRC 3C, the Authority hereby gives notice to the licensees that it proposes to revise EDE values in the manner indicated in the Schedule to this Notice.<sup>2</sup> If we decide to make the proposed revision, it will take effect by 30 November 2020 as part of the wider direction for revising PCFM Variable Values.
4. In accordance with Part A of CRC 3C the Authority considers that it is necessary to determine the EDE values 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; and
  - (c) we have reviewed the level of payments actually made by the licensee to their relevant pension scheme.
5. We have performed our assessment in accordance with the methodology contained in chapter 3 of the ED1 Price Control Financial Handbook<sup>3</sup>.

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<sup>1</sup> 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.

<sup>2</sup> The Schedule to this Notice is in the form of a letter, including its appendices, published along with this Notice.

<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/latest-price-control-financial-handbooks-rrio-network-operator-licensees>

6. The Schedule to this notice sets out the revised values that we have determined and the reasons for those revised EDE values. In summary:
- (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.
7. Any representations by licensees on the proposed revision of EDE values may be made in writing on or before 23 October 2020 by email to [RegFinance@ofgem.gov.uk](mailto:RegFinance@ofgem.gov.uk).
8. You can ask us to keep your response confidential by clearly marking it confidential and providing reasons, and we will respect this, subject to any legal obligations on us to disclose information, such as under 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 will publish it on our website, [www.ofgem.gov.uk](http://www.ofgem.gov.uk).



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**Steven McMahon**  
**Deputy Director, RIIO Electricity Distribution and Cross Sector**  
**Duly Authorised on behalf of the Gas and Electricity Markets Authority**  
**09 October 2020**