

**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")¹, 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. 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 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. This has been done in accordance with the methodology contained in chapter 3 of the ED1 Price Control Financial Handbook².

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>

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 these are:
 - (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) For pension payment history, we have made changes to London Power Networks Plc, South Eastern Power Networks Plc and Eastern Power Networks Plc's proposals. We do not accept their profiling for the recovery of underfunded/overfunded payment history and have changed this. We have accepted the remaining licensees' proposals.
 - (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 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](#).