

**To: National Grid Electricity Transmission Plc  
Scottish Hydro Electric Transmission Plc  
SP Transmission Plc**

**Notice under Part D of Special Condition 6D (Specified financial adjustments – Transmission Owner) and Part D of Special Condition 7C (Specified financial adjustments – System Operator) of their Electricity Transmission 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 an Electricity Transmission Licence granted or treated as granted under section 6(1)(b) of the Electricity Act 1989.
2. Part A of Special Condition 6D (Specified financial adjustments – Transmission Owner) (“SC 6D”) and Part A of Special Condition 7C (Specified financial adjustments – System Operator) (“SC 7C”) of the licensees’ Electricity Transmission 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:
  - (a) Pension Scheme Established Deficit TO revenue allowances (“EDE values”);
  - (b) Pension Scheme Administration and Pension Protection Fund levy TO revenue allowances (“APFE values”);
  - (c) Pension Scheme Established Deficit SO revenue allowances (“SOEDE values”); and
  - (d) Pension Scheme Administration and Pension Protection Fund levy SO revenue allowances (“SOAPFE values”).
3. In accordance with Part D of SC 6D and SC 7C, 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 6D and SC 7C 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 reported levels of AFPE and SOAFPE values.

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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.

5. This has been done in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook<sup>2</sup>.
6. The Schedule to this notice sets out the revised values that we have determined and the reasons for those 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) 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 changes to APFE or SOAPFE values.
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](mailto: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](http://www.ofgem.gov.uk), and put it in our library.



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

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<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/latest-price-control-financial-handbooks-riio-network-operator-licensees>

**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](#).