

Mick Watson
Ofgem
9 Millbank
London
SW1P 9GE

27 October 2017

By email only

Dear Mick

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

Thank you for the opportunity to comment on the above notice, dated 13 October 2017. This response should be regarded as a consolidated response on behalf of UK Power Networks' affected distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc and South Eastern Power Networks plc.

Although we have no specific observations to make on the actual Notices we have a small number of feedback items on the process and Ofgem's/GAD's reports:

- We welcome the Authority's extended commentary regarding the potential risk of stranded surplus and the detrimental impact on consumers. However, we do believe that one point raised in relation to future service contributions (FSC) for contributing members could be inadvertently misleading. Our reading of paragraph 5 of page 5 of your letter of 13 October, states that underpaying FSC could essentially increase the Established Deficit. As any deficit arising from ongoing accrual would be classed as Incremental Deficit this would not impact consumers;
- Also, we would like to take this opportunity to clarify the way some information is represented in the draft GAD report. In their report GAD state that the UKPN ESPS Trustees have increased their return seeking portfolio by 17%. Whilst this is strictly correct it does misrepresent the extent of the change and we would propose that some additional text is added after the first sentence in paragraph 2.5 of the Results in the GAD report.
 - "We understand that upon changing investment advisers some previously categorised matching assets were categorised to growth assets. Whilst the Group did increase its return seeking allocation we understand the extent is not to the same degree as the headline percentage would suggest."
- Under the second bullet of 2.3 of the GAD report we expect the further increase post the valuation date to be 5%, not the 10% shown and would be grateful if this could be corrected.
- Finally, for the next revision of the pensions allowance we believe it would be appropriate for Ofgem to set out more guidance on its expectations with respect to the phasing of



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payment history allowances (PPH). In our view the base principle should be that the proposed phasing should be both net present value neutral and equitable to both customers' and shareholders. Such guidance could be built into the PCFH.

I look forward to hearing from you on the above. If you have any queries please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Hope', with a stylized flourish extending to the right.

James Hope
Head of Regulation and Regulatory Finance
UK Power Networks

Copy Paul Measday, Regulatory Returns and Compliance Manager, UK Power Networks