



Distribution network operators,
generators, transmission owners,
electricity suppliers, consumers
and their representatives and
other interested parties

*Promoting choice and value for
all gas and electricity customers*

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Date: 18 March 2011

Dear colleagues

Efficiency review of energy network operators pension costs

As advised in our open letter dated 14 October 2010, we commissioned the Government Actuary's Department (GAD) to conduct a high-level review of the reasonableness of NWOs pension costs. This review will inform the setting of allowances for RIIO-T1 and GD1; and the established deficit as at 31 March 2010 for electricity distribution network operators. The review is based on the latest pension data, including the most recent triennial valuations, together with an updated valuation for those whose valuation dates are earlier than 31 March 2010.

GAD has provided an early draft report on the initial stage of their review. They have qualified the outcome of their review due to the uncertainty caused by the incomplete status of some of the latest triennial actuarial valuations. For some schemes, the report is based on data and information in draft valuations. In some cases, schemes use the same assumptions as in their previous triennial valuations; some have updated their valuations for market conditions and no other changes; and, in others, provisional valuation assumptions. GAD have advised us that any decisions based on the data as submitted might subsequently turn out to be inappropriate once the final actuarial assumptions have been agreed. We agree with their comment.

This draft valuation data has yet to be agreed by trustees and the companies and, as such, contains sensitive information not otherwise in the public domain which, as noted, may change. For these reasons we have decided not to publish the initial GAD report at this time.

We have decided to suspend the review until the open valuations have been finalised. Valuations and recovery plans should be completed within 15 months of the valuation date. The review will recommence on the basis that most network operators will achieve that deadline, being 30 June 2011. We will issue an open letter once the initial review is completed in the late summer.

A second stage in-depth review, if required, will take place after completion of the updated report. Our intention would be to try to complete that review in time for our decision on whether any company should be considered for fast-tracking in the current RIIO-T1 and GD1 price controls.

Any questions on this letter should be directed to William McKenzie who can be contacted on 020 7901 7220 or by email at william.mckenzie@ofgem.gov.uk

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', is written over a light grey rectangular background.

Rachel Fletcher
Partner, Distribution