

Scotia Gas Networks

Response to Consultation Document: NTS GCM 02 DN Pensions Deficit Charge

Questions for consultation:

A new DN Pensions Deficit Charge is to be levied on DNOs from April 2007 for the duration of the next price control.

SGN understands that the price control referred to is the Transmission price control, April 2007 to March 2012, and that the annual amounts for each Network will be the same (at 2005/06 prices) from 2007/08 until 2011/12, which at least means that this new charge is entirely predictable.

The pension allowances are shown in the Ofgem document “Gas Distribution Price Control Review - One Year Control Final Proposals” as being included in the Network allowed revenues for formula year 2007/08. Therefore SGN can accept the charges for that year. However SGN’s acceptance of the charges for subsequent years will be subject to confirmation that Ofgem will allow the amounts in the allowed revenues for those years.

The amounts of the allowances need to be clarified. The Indicative Pension Annual Allowances quoted in appendix A of the paper for the SGN networks are the same as those quoted in Table 2.2. of the Ofgem document “Gas Distribution Price Control Review - One Year Control Initial Proposals”. However in the later document “Gas Distribution Price Control Review - One Year Control Final Proposals” published on 4 December the allowances have been revised, from £1.9m to £2.0m for Scotland and from £4.4m to £4.6m for Southern. The allowances in the Consultation Paper therefore need to be revised accordingly.

The allowances quoted are at 2005/06 prices. The price index to be used to inflate the allowances to outturn prices in each of the price control years and the way in which it will be applied need to be specified now and agreed with Ofgem so that there will be no disagreement in the future as to what the outturn charges are.

The charge will be levied on a monthly basis, and set at a level to allow the recovery of the annual fixed allowances during any formula year (thus avoiding any “carry-over” of revenue amounts).

It seems to be sensible to set the monthly charges on a basis which will recover each formula year’s allowance within that formula year.

The level of the annual charge for each DN will be in accordance with the DN allowances set out in National Grid’s NTS GT Licence, divided into 12 monthly amounts, and hence will remain fixed for the term of the next price control.

SGN has no objections to the proposal



In the event that the timing of the TPCR outcome does not allow charges to become effective from 1 April 2007, for the first year the monthly charges will be determined from the annual allowances divided by the remaining months of the formula year.

SGN has no objections to the proposal.