

Modification proposal:	Uniform Network Code (UNC)127: Introduction of a DN Pensions Deficit Charge on DNO Users, UNC127		
Decision:	The Authority¹ directs that this proposal be made²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	3 April 2007	Implementation Date:	3 April 2007

Background to the modification proposal

As part of the Transmission Price Control Review (TPCR) for April 2007 to March 2012 an allowance for the National Grid UK Pension Scheme deficit has been included in the allowed revenues for National Grid Gas (NGG). This allowance will be incorporated within the maximum National Transmission System (NTS) transportation owner revenue (TOMR). Ofgem has proposed that the most practical solution would be for National Grid NTS to recover the allowance for the deficit costs from Gas Distribution Networks through the introduction of a new DN Pensions Deficit Charge. This would be levied on GDNs with effect from the start of the price control period.

In November 2006, NGG NTS consulted on a change to its transmission charging methodology to introduce a pensions deficit charge namely 'NTS GCM 02: DN Pensions Deficit Charge'. The purpose of the charge is to recover from the GDNs, pension deficit costs relating to non-active pension scheme members. It was proposed that the charge be levied only on GDNs and on a monthly basis. The charge is intended to relate to the costs of pensions relating of former employees of the GDNs who retired prior to GDN sales. At present NGG NTS funds these pensions and a charge is needed recover these costs from the GDNs. As this charge is regulated via TPCR, it is appropriate for the costs to appear as a pass through item in GDPCR.

Following the completion of the pricing consultation, NGG NTS submitted a conclusions report on GCM 02 to the Authority in early January. The Authority did not veto the proposal and as such, the charging methodology has been amended to reflect the new charge taking effect from April 2007.

The modification proposal

The purpose of this proposal is to enable National Grid Gas (NTS) to levy a charge on the GDNs to recover the pension deficit that relates to staff previously employed in their Networks. NGG NTS considers that this proposal would facilitate implementation of their proposed DN Pensions Deficit Charge and avoid inconsistency with the Gas Transmission Transportation Charging Methodology Statement. Therefore NTS is of the view that this proposal would further the efficient discharge of their obligations under its Gas Transporter Licence and thus better facilitate the achievement of Standard Special Condition A11.1 (c).

The proposal is also intended to assist the licensee in meeting its obligations under Standard Special Conditions A4 (Charging General), A5 (Obligations as regard charging methodology).

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

²This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

It is therefore proposed within this UNC modification proposal that:

- the proposed new charge type ("DN Pensions Deficit Charge") is defined as a Transportation Charge within the UNC;
- the amount of the DN Pensions Deficit Charge is as defined with National Grid NTS' Transportation Statement;
- the DN Pensions Deficit Charge will be invoiced in accordance with Section S; and
- credit provisions (contained in TPD Sections V) are applied, where relevant, for DNO Users in respect of the DN Pensions Deficit Charge.

UNC Panel³ recommendation

At the Modification Panel meeting held on 15 February 2007, of the 10 Voting Members present and capable of casting 10 votes, 10 votes were cast in favour of implementing this modification proposal. Therefore the Panel recommend implementation of this proposal.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 15 February 2007. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC; and
2. it is consistent with the Authority's principal objective and statutory duties.

Reasons for the Authority's decision

In July 2006 as part of the Gas Distribution Price Control Review (GDPCR) Second Consultation document Ofgem consulted upon the impact of a GDN pension deficit charge on the level of charges levied by GDNs on their customers. Ofgem also consulted again on pension allowances including the DN Pension Deficit Charge through its Initial Proposals for the 2007-08 GDPCR extension. The consultations undertaken through the GDPCR process and the proposals received support from respondents.

Following these consultations, Ofgem proposed through the GDPCR and TPCR processes that a specific allowance be granted to NGG NTS to recover pension costs from the GDNs through a DN Pension Deficit Charge.

Seven responses were received to the consultation on this modification proposal. One respondent offered a qualified response with the remainder fully supporting implementation of the proposal. One respondent noted that the legal text would require minor amendments to ensure that the distinction between charges payable by Shipper Users and DNO Users is clearly identified. The proposer (NGG NTS) has noted this in their response and proposed to amend the legal text accordingly.

³ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

Another respondent had concerns with regards to how a differentiation is made between employees working for National Grid's regulated and unregulated businesses in relation to the Pension Fund. The Final Proposals for the TPCR based this differentiation on the respective number of employees in each of these businesses. It is also the respondents understanding that this proposal represents an extension of the existing transportation charge ("DN Pensions Deficit Charge") for the purpose of reducing the Pension Fund deficit to the divested DNs.

Ofgem would note in this context that the proposal is intended to give effect within the UNC to the charging methodology changes that have recently been made to create the concept of the GDN pensions deficit charge. As noted above, this charge will enable NGG NTS to recover revenue allowances from the GDNs with respect to pensions deficit costs as agreed through the TPCR.

Objective (d) – the securing of effective competition between relevant shippers, between relevant suppliers and/or between DN operators and relevant shippers

As noted above, this proposal will enable NGG NTS to levy its proposed DN pensions deficit charge from April 2007. Ofgem considers that the creation of the pensions deficit charge represents a cost reflective mechanism which ensures that GDNs and their customers bear the costs associated with the funding of the pensions deficits that are attributable to non-active pension scheme members formerly employed by these businesses. These charging arrangements should ensure that the costs of funding the pension deficits are appropriately targeted to the GDNs and therefore their customers and are not recovered more broadly from users of the NTS.

Ofgem considers that the introduction of cost reflective charges of this nature should facilitate the securing of effective competition by ensuring that costs are appropriately targeted to those that have caused them. For example, the creation of a specific charge should ensure that other NTS charges (eg NTS exit capacity charges) are not otherwise distorted or altered in order to recover liabilities that are attributable to the GDNs. Such distortions in charges could potentially have negative impacts on competition between shippers in so far as they require NTS shippers to incur costs that they have not caused.

As such, Ofgem considers that this proposal better facilitates achievement of objective (d) as outlined above.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC127: 'Introduction of a DN Pensions Deficit Charge on DNO Users', be made.



**Robert Hull,
Director, Transmission**

Signed on behalf of the Authority and authorised for that purpose.