



**SCOTTISHPOWER**

Human Resources

Mr Bill McKenzie  
Senior Manager, Regulatory Finance (Networks)  
Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE

10 September 2009

Dear Mr. McKenzie,

**Price Control Pension Principles: Second Consultation Document  
Response of the Group Trustees of the SP Manweb Group of ESPS (the “Group”)**

This letter is a response on behalf of the Group Trustees of the SP Manweb Group of the Electricity Supply Pension Scheme (“ESPS”) to the second consultation document referred to above. The Trustees commented on Ofgem’s first consultation document on 26 September 2008. The majority of the concerns we raised at that time remain relevant to the second consultation document and, as such, we attach a further copy of our letter as an appendix to this letter.

The Trustees would like to emphasise that the findings of the GAD report as discussed in the consultation document reinforce the view that each of the schemes sponsored by regulated businesses, including Groups within ESPS, have been managed efficiently and that the investment policy, funding strategy, and underlying technical assumptions adopted by each are all broadly consistent with those of other large private sector schemes. In this regard the Trustees would like to stress their commitment to managing the costs of the Group efficiently and their success in doing so in past years in relation to investment and other Group matters.

The Trustees are currently in the process of undergoing a formal actuarial valuation of the Group. By agreement with the principal employer, SP Manweb plc, this valuation is being carried out with an effective date of 31 March 2009, which is one year earlier than legislation requires.

The legislation and Code of Practice require that the Trustees, in consultation with the employer, should assess the funding position of the Group on a “scheme specific” basis. When setting the actuarial assumptions for the Group, the Trustees must take the advice of the Group’s Actuary and this process must have regard to factors specific to the Group including the covenant of the sponsoring entity.

As Ofgem will be aware, the Trustees are required to act “prudently” when setting the actuarial assumptions and funding strategy as emphasised by the Pensions Regulator’s Code of Practice No. 3 (Funding Defined Benefits). Recent statements from the Pensions Regulator in response to current difficult market conditions confirm the need to demonstrate a prudent approach to setting actuarial assumptions, and being mindful of any adverse impact on the employer covenant in terms of agreeing deficit repair arrangements

To fulfil their fiduciary duties, and to meet the expectations of the Pensions Regulator, the Trustees negotiate robustly with the employer to set the funding strategy and contribution payments for the Group going forward. In this context, the Trustees are both confused and concerned by the idea set out in the second consultation document that Ofgem is considering setting standard conformed valuation assumptions against which to measure and compare the formal outcomes of individual actuarial valuations – particularly in view of all the legitimate differences in the composition, characteristics, and history of these schemes, as noted in the GAD report.

The Trustees take great care to seek to ensure that the assumptions adopted best match our Group's specific circumstances and the strength of our particular employer's covenant. As the GAD report confirms, we do not believe it would be possible to set assumptions that can realistically and sensibly be applied to all the schemes of regulated businesses.

Furthermore, and as discussed in our previous response, the points raised in the consultation paper in relation to the length of scheme recovery periods conflict with the current legislation and the Pensions Regulator's requirements for the Trustees. When agreeing a recovery plan with the Group's employer, the Trustees are obliged by law to take actuarial advice on the appropriate length of the recovery period and notify the Pensions Regulator of it. The Pensions Regulator's Code of Practice indicates that deficits should be recovered "as quickly as the employer can reasonably afford" and therefore the suggestion of a generic recovery period is inconsistent with the Pensions Regulator's guidance.

Of further concern to the Trustees is the issue that, when it introduced the price control principles some five years ago, Ofgem stated that these principles were intended to be enduring and would be applied by Ofgem to all network operators at future price control reviews. It was the Trustees' understanding that these principles could not be materially varied or diluted. The long-term nature of these pension principles was seen as allowing the Trustees to take a balanced long-term view of how "prudence" should be reflected in the management of the Group.

Regulatory uncertainty in relation to the current pass-through system would detrimentally affect the Trustees' ability to negotiate with the sponsoring employer in relation to, for example, funding strategy and deficit repair periods. In our view Ofgem can best facilitate the continuing efficient and responsible stewardship of the Group by publicly confirming the long term stability of its price control pension principles and the enduring application of a consistent view of its own past decisions.

Warwick Jones, Chairman

**For and on behalf of the Trustees  
of the Manweb Group of the ESPS**