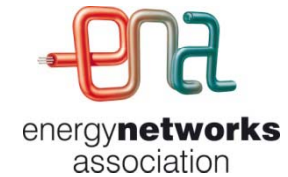


Pensions - A Network Perspective

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On Behalf of ENA
8th October 2008

Pensions - A Network Perspective

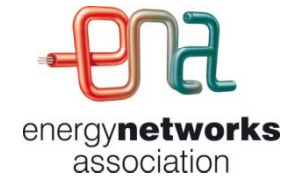


- What are the aims of the pensions principles
- Why Networks believe pension principles remain valid
- Other Issues

Pensions - Background

- Significant developments since principles were set in 2003:-
 - Pensions Act 2004
 - The Pensions Regulator
 - PPF
 - Changes to assumptions on:
 - Mortality
 - Investment Yields
- In context of these changes:-
 - Even stronger justification to maintain the existing principles
 - Avoid imposing further uncontrollable risk onto licensees

Pensions – Principles Should Remain



- Networks recognise that principles should:
 - Provide Regulatory certainty - a stable and predictable framework
 - Take a long term view to match the nature of commitment
 - Have an appropriate balance of risk and reward between Companies & Customers
 - Avoid unnecessary complexity
 - Reflect the Pensions Act
 - Recognise statutory protection under Electricity / Gas Act

Pensions Principles – No need for concern



- Incentives remain strong for both Companies & Trustees
 - E.g. Unregulated proportions
- Trustee Independence
 - Strengthened by Pensions Act
- Benchmarking will be difficult and could encourage short-term behaviour
 - All schemes are different and will require varied but equally valid approaches
- Unlikely in practice to see stranded surpluses
 - Cyclical nature of funding

Pensions – Other Issues

- Consultation dealt with some specific issues which have been addressed in more detail by individual Network responses including:
 - Buy Ins / Buy Outs
 - Basis to set future allowances
 - Under Funding / Over Funding

Pensions – Conclusion

- We believe there is no need for change to principles:
 - No evidence of perverse / undue outcomes
 - No evidence of weakening in incentives
- Any difference from treatment in DPCR4 / GDPCR that may be proposed by Ofgem would add increased risk on Networks and therefore would need to be reflected in allowed cost of capital and prices to Customers
- This would be more appropriate to be dealt with in RPI-X @ 20