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Dear Bill

**Price Control Pension Principles Second Consultation document**

Many thanks for the opportunity to respond to this impact assessment. Our views on Ofgem's second consultation on price control pension principles are set out below.

Consumer Focus is the statutory organisation campaigning for a fair deal for consumers in England, Wales, Scotland and, for postal services, Northern Ireland. We are the voice of the consumer and work to secure a fair deal on their behalf.

Consumer Focus applauds the approach Ofgem has taken in assessing the status of network operators' (NWO) pension schemes, in particular the work to compare them against those of other economic regulators. We welcome Ofgem's intention to ensure that funds allowed under the Distribution Price Control Review (DPCR) are used efficiently, which includes pensions.

We note Ofgem's encouragement of greater transparency of actuarial assumptions, data and actions taken by network companies to manage pension costs. In addition, we support their suggestion that licensees' questionnaire data should be published, thereby promoting the interests of consumers (paragraph 1.34). This is particularly relevant given that pension costs comprise a not insignificant proportion of the total electricity and gas network costs ultimately passed on to consumers (7 per cent and 8 per cent respectively), and that they are likely to rise.

We note the comparisons with other regulators, in particular the suggestion that 'all other economic regulators, including the Competition Commission, have a policy framework that leaves shareholders of the regulated company with at least some, and in certain cases, all of the risk attached to deficit funding'. While we recognise that it is not always the case, current DPCR arrangements allow, in certain circumstances, NWOs to avoid the risk attached to deficit funding. This is of particular concern given that the Distribution Network Operator's (DNO) pension schemes are £3.3 billion in deficit, representing an increase since the last valuations of more than 260 per cent.

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At this stage, Consumer Focus has not formed a view on the most appropriate approach for the treatment of pensions in DPCR5. However, we believe that the costs and risks associated with pension deficits should not be passed to consumers. As a basic principle, DPCR5 should promote the efficient running of pension schemes with a significant share of the risk borne by shareholders. Energy bills are rising (and will continue to do so) as a result of, for example, renewable obligations, smart metering, the Carbon Emissions Reduction Target (CERT), Feed-in Tariffs (FiT) and DCPR5 more generally. It is vital that consumers do not become the cash cow of the energy industry or the de facto solution to all financial deficits.

Consumer Focus awaits the next consultation on this issue with interest, and is keen to be involved in any future workshops on pensions and treatment in DCPR5.

I hope these comments are helpful. If you would like to discuss our response in more detail, please contact my colleague, Victoria Moxham, on 020 799 7935 or via email at [victoria.moxham@consumerfocus.org.uk](mailto:victoria.moxham@consumerfocus.org.uk).

Yours sincerely



Robert Hammond

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