



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 ScottishPower Pension Scheme Committee of Trustees (the Scheme)**

This letter is a response on behalf of the Committee (Trustees) of the ScottishPower Pension Scheme ("Scheme") to the second consultation document referred to above.

The Committee wish to stress that they continue to manage the costs of the Scheme efficiently in their administration of the Scheme and in relation to investment and other Scheme matters and are currently in the process of undergoing a formal triennial actuarial valuation of the Scheme as at 31 March 2009.

In carrying out this valuation and agreeing the contributions to be paid by the employer going forward, the Committee have stringent and prescribed duties and obligations placed on them by legislation, by the general law and by the Pensions Regulator. These duties and obligations require the Committee:

1. to assess the funding position of the Scheme on a scheme specific basis, taking the advice of the appointed Scheme actuary in setting the assumptions to be used in the valuation;
2. when setting the actuarial assumptions for the Scheme to have regard to factors which are specific to the Scheme – that includes an assessment of the covenant of the sponsoring employer(s) responsive for the funding of the Scheme, which will be different in the case of each Scheme;
3. to act prudently in setting the assumptions for funding the Scheme and following on this to negotiate robustly with the employer to set the funding strategy and the employer contributions to be made going forward.

The Committee will seek to ensure that the assumptions adopted best match our Scheme's specific circumstances and the strength of our particular employer's covenant. As the GAD report discussed in the consultation document 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.

The Committee is therefore 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 the different schemes sponsored by regulated businesses, as noted in the GAD report.

The Committee are also concerned that when Ofgem introduced price control principles some five years ago, it stated that these principles were intended to be enduring and would be applied to all network operators at future price control reviews. It was therefore the Committee's understanding that these principles could not and would not be materially varied or diluted. The long-term nature of these price control principles was seen as allowing the Committee to take a balanced long-term view of how "prudence" should be reflected in the management of the Scheme.

The Committee are therefore deeply concerned that regulatory uncertainty in relation to the current pass-through system would detrimentally affect their ability to negotiate with the sponsoring employer in relation to, for example, funding strategy and deficit repair periods, and would mean them having to adopt a less flexible approach. In our view Ofgem can best facilitate the continuing efficient and responsible stewardship of pension schemes 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.

Ofgem's current suggestion that it might consider changing the basis on which the network price controls treat pension costs would accordingly add back a substantial amount of risk into schemes. This increase in risk would inevitably force us to consider adopting a more cautious approach to the current (and future) valuations, including a review of investment strategy, which in the long run could increase the costs of meeting the Company's pension liabilities.

We are happy for this letter to be published on Ofgem's website.

Yours sincerely

A handwritten signature in black ink, reading "Peter Thomson". The signature is written in a cursive, flowing style with a long horizontal line extending from the end.

Peter Thomson, Chairman

**For and on behalf of ScottishPower
Pensions Scheme Committee**