

13 November 2009

Bill McKenzie  
Senior Manager – Regulatory Finance, Networks  
Ofgem  
Millbank  
SW1P 3GE

Dear Bill,

**Price Control Pension Principles Third Consultation document**

Many thanks for the opportunity to respond to this minded-to position consultation. Our response should not be considered as confidential and we are happy for it to be published on your website.

Consumer Focus is the independent champion for consumers across England, Wales, Scotland and (for postal consumers) in Northern Ireland. We operate across the whole of the economy, persuading businesses and public services to put consumers at the heart of what they do.

We would echo the comments that we made in relation to the previous consultation, that Consumer Focus believes that it is vital Network Operators (NWOs) manage their pension costs effectively so that only efficient costs are passed through the price control mechanism. This is even more important given the scenarios outlined by Ofgem in its recent consultation on Project Discovery in terms of the substantial cost of climate change agenda, replacement of aging generation plant, network reinforcement and energy efficiency initiatives and consequently the heavy financial burden that is likely to fall upon the end users.

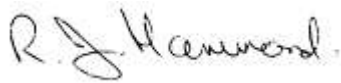
Consumer Focus broadly supports the minded-to position that Ofgem proposes to adopt. The significant challenges of meeting pension deficits and ongoing costs are a problem common to many businesses in a variety of markets and we believe that NWOs should not receive any preferential treatment in coping with these. The existing mechanism neither calls NWOs to account in a clear and transparent way, nor does it provide any real incentive upon them to manage their existing and future pension liabilities. The principal statutory objective of Ofgem to protect the interests of both current and future consumers must be the fundamental baseline against which any decision in relation to DPCR5, whether on pensions or any other aspect of the distribution price control, is made.

We would not presume to comment upon more detailed aspects of the pension arrangements and our basic position is set out in our response to Ofgem's last consultation on this subject. However, we would make two points. We note that there is insufficient time to carry out a benchmarking exercise in relation to total employment costs but we support the approach in principle and welcome that it will be applied in all future price control reviews.

We also believe that allowing a notional period of 15 years to make good any pension deficit is realistic, given the enduring nature of the distribution industry and will potentially alleviate some of the burden on consumers. To enable NWOs to make appropriate decisions in respect of their pension schemes, we believe that it is imperative that Ofgem does develop as early as possible further guidance on what it deems to be regarded as economic and efficient pension costs in the context of assessing deficits.

I hope these comments are helpful. If you would like to discuss our response in more detail, please contact me on 0207 799 7936 or via email at [robert.hammond@consumerfocus.org.uk](mailto:robert.hammond@consumerfocus.org.uk) .

Yours faithfully



Robert Hammond  
Head of Regulated Industries