

Via email

29th November 2013

Dear Bill,

Reasonableness review of energy network operators' pension costs

1. Thank you for the opportunity to respond to your open letter on the reasonableness review of the energy network operators' pension costs.
2. As a large integrated energy company in Great Britain that does not own any network interests, Centrica is in an ideal position to provide an unconflicted perspective on network operators' performance and whether their services offer consumers value for money. This is a non-confidential response on behalf of the Centrica Group excluding Centrica Storage.
3. We believe that this pensions review is an ideal opportunity to undertake a market test for the consultancy firm who can assist in getting the best results from your reasonableness review. We see the tender process as good governance and believe that it will enable Ofgem to seek a more detailed commercial view of potential ways of reducing pension costs that has possibly been lacking from the last few pension reviews undertaken.
4. There are several UK consultancy firms whom we believe have good understanding of the environment that the networks operate in and the innovative changes that private companies have needed to make to their pension schemes to ensure they remain affordable and sustainable in the future, whilst continuing to offer their employees reasonable income in their retirement. We would expect the Government Actuarial Department (GAD) to tender for the review and highlight how they can compete with the consultancy firms to deliver a commercial and challenging review of the pension schemes.
5. We understand Ofgem's perceived risk of the pension consultants' conflict of interest in advising the networks and Ofgem; however we feel that these firms are large enough to have completely separate teams advising the networks and yourselves and have significant experience of working on separate mandates (with perceived conflicted positions) within their organisations.
6. We hope that other comparators are used such as water companies and other private utilities to give a wider view of the current trends of employee pension offerings within a regulated environment.

7. We also believe that no change to the network operators' risk mitigation strategy in relation to pensions over the past three years could be viewed unfavourably by yourselves and the consultants.
8. We encourage Ofgem to meet the independent trustees of each pension scheme and to gain their insight into how they cope with the conflict of interest between the pension scheme members, trade union representatives and consumers. We also feel it is important that Ofgem seek the views of the ESPS central Trustee board.
9. Please do not hesitate to contact me either via email Rochelle.hudson@centrica.com or my mobile number below if you have any questions.

Yours sincerely,

Rochelle Harrison
Network Regulation Manager
British Gas

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