17 July 2015

Eliza Twaddell
Ofgem/Ofgem E-Serve
9 Millbank
London
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Helen Forrest, DB Policy Lead
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Dear Ms Twadell,

RE: Ofgem's policy for funding Network Operators' pension deficits

Please find below the NAPF's response to the above consultation.

The NAPF is the voice of workplace pensions in the UK. We speak for over 1,300 pension schemes that provide pensions for over 17 million people and have more than £900 billion of assets. We also have 400 members from businesses supporting the pensions sector. We have a number of the largest Network Operators (NWO) in membership.

We aim to help everyone get more out of their retirement savings. To do this we promote policies that add value for savers, challenge regulation where it adds more cost than benefit and spread best practice among our members.

We welcome the opportunity to respond to this consultation on Ofgem's policy for funding NWO pension deficits. We recognise that it is important that a balance is maintained between the need to fund deficits (and to thereby protect members of the pension scheme) and being fair to customers, both current and future. However we are concerned that some of the proposals put forward in the consultation risk creating further uncertainty and conflict for sponsors and trustees which does not particularly help trustees or indeed utility consumers.

Our members are keen to see coordinated guidance as soon as possible from Ofgem and The Pensions Regulator (TPR) on how trustees of these schemes should approach the assessment of NWO covenants and how they balance this against the need for NWOs to be fair to their customers (presumably as part of their consideration of the employer's sustainable growth). In particular, it will be useful to have TPR's view, if any, of the impact that any extension of the cost "pass through" period might have on the employer covenant.

Deficit funding period

The clarification of Ofgem's commitment to funding established deficits regardless of the 15-year funding period is welcome. However, this does create tension for trustees between the broader recovery plan and establishing whether a different, probably longer funding period for established would be “reasonable” for them to accept.

Trustees are now operating under TPR’s new DB Funding Code which requires them to operate an integrated approach to risk management. This involves accurately assessing the employer covenant, risk appetite and any plans for sustainable growth and setting these against the funding level to set an appropriate investment strategy, employer contribution level and recovery period. Adding an additional variable to this approach is likely to create confusion and conflict.

Ofgem has recognised this tension and we welcome the work with TPR to provide clear guidance to trustees and employers on covenant, NWO duties to their customers and recovery plan appropriateness. Early sight of this guidance would be incredibly helpful for both trustees and employers trying to navigate a path between these potentially conflicting regulatory environments.

Future reasonableness reviews

The NAPF agrees that benchmarking schemes against one another in terms of benefits, valuation assumptions and investment strategies is not terribly helpful and welcomes the change in focus to more comparative measures, such as liability management and administrative expenses.

However this new approach does still need to acknowledge the constraints that these schemes work under, for example the limited scope some schemes have to alter liabilities.

Kind Regards,

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