

Funding Network Operator' pension deficits

Submission by Prospect on Ofgem's consultation on policy for funding Network Operators' pension deficits

July 2015

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Introduction

1. Prospect is an independent trade union that represents over 110,000 professional, managerial, technical and scientific staff across private and public sectors. Prospect represents engineers, managers and other professionals across the electricity supply industry and in the gas industry.
2. In the energy supply sector our thousands of members perform a vital function. Their skills, dedication and professionalism are crucial for the efficient running of the sector and for addressing the future challenges that are emerging. Over a period of many years, Prospect members in the sector have consistently demonstrated a high level of understanding of and a great appreciation for their workplace pensions. Members remain guarded against any perceived attacks on these arrangements and have consistently demonstrated their strong desire to defend quality pension provision.

Prospect's Position

3. In recent years Prospect's position has remained unchanged. We appreciate one of Ofgem's duties is to protect the interests of energy consumers. However we do not believe that there is any rationale for undue interference in what is essentially a matter for negotiation between employer and employees; with the employer mindful of working in the interests of consumers. This is a delicate balance and unnecessary interventions may not result in desirable outcomes for companies, employees or consumers.
4. There are further complexities to the balance that companies and their employees must achieve in their considerations around pension provision. We are mindful that many schemes include Protected Persons, whose benefit provision cannot be legally changed without express consent. We are also aware that many of these schemes are closed to new joiners, and therefore represent a finite and diminishing population of employees; meaning that exposure to risk will also diminish in future years. However we recognise that the industry must work hard to retain experienced members of its workforce. With 80% of employees due to retire in the next 15 years, further cuts to pension provision would be likely to add to the demographic challenge that already exists. The value of a quality pension scheme remains a significant tool for the continued retention of this older tranche of the workforces.
5. We recognise that the proposals contained in the current consultation are not as revolutionary as those put forward in recent years when developing pension principles for price controls and indeed that most of the proposals reflect an evolution of that process. Nevertheless we wish to ensure that our consistent position is clear to Ofgem – that any discussions on changing workplace pension principles should be subject of direct discussion with the employees who would be impacted by them, and not imposed in any indirect manner.
6. Prospect members are particularly wary of the implications of reasonableness reviews through sector comparisons, and the inevitable downward pressure this will

put on quality workplace pensions. Ofgem may not wish to engender a herd mentality with such an approach, but there is a strong possibility that such an outcome would be an inevitable consequence. Prospect believes that any perception that Ofgem is trying to unpick agreed positions reached between sector employers and trade unions is likely to result in considerable resistance from both parties.

Responses to selected Consultation Questions

Chapter 1

- 1 It is agreed that greater flexibility on repayment periods linked to Established Deficits will protect against adverse cost of capital impacts. It remains to be seen as to whether or not the benefits of this improved position are shared equitably amongst stakeholders.

Chapter 2

- 1 The increased flexibility regarding the timing of deficit funding should be welcomed by all stakeholders.
- 2 As noted above the flexibility in timing is welcome; however there should not be any clarification of the commitment to fund deficits that would lead to any long term weakening of that commitment.

Chapter 3

- 1 The focus on benefits as part of any reasonableness review will give Prospect members cause for concern. As outlined in our initial position, there is a danger of comparisons of benefit structures resulting in pressure being put on any outliers, particularly where these are seen to be more generous. There is a perception that Ofgem will use such an exercise to exert influence on employers to make detrimental changes to their pension schemes which could result in legal challenges, which have been successful in other industries. No benchmarking exercise should be used in this way.
- 5&6 We do not believe any benefit changes or liability management exercises should be considered without first talking to the staff who would be impacted by such a move at the earliest opportunity. Any failure to engage meaningfully in such a proposal would be viewed most unfavourably by sector workers. Given that such changes would have a profound impact on individuals' pension outcomes it is important that they would receive access to financial advice as part of such an exercise. If such meaningful engagement was not adopted, Prospect could not advocate such exercises.

Chapter 4

- 1&2 Attitudes to risk should be developed through constructive talks between NWOs and trustee boards and it would be wrong for Ofgem to seek to fetter these discussions

with any arbitrary position developed without a detailed understanding of the fund in question and its asset and liability profile. The attraction of a de-risked position is clear, but in many instances some risk seeking behaviour may be most appropriate subject to advice taken by trustees and NWOs.

Chapter 5

- 1-4 Pension fund surpluses seem unlikely to occur anytime soon given the current economic climate, but it does seem fair to give consideration as to how they are treated. As a general principle it would seem asymmetric if any surplus recovery period was not aligned to an equivalent deficit recovery period.

Chapter 6

Ofgem is correct to identify that it has no regulatory power over trustees. Trustees should be mindful of the impact of Ofgem's principles as they apply to sponsoring employers and how they extend to covenant and commitment to pension funding; but we do not believe that there is any direct relationship between trustee boards and Ofgem.