

Ian Rowson  
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27 April 2016

Dear Ian,

**Response to second consultation on Ofgem's policy for funding Network Operators pension scheme established deficits**

This letter sets out our response to Ofgem's second consultation on funding of Network Operators' (NWOs') pension deficit. We welcome the proposed change in pension policy and see this as a significant positive step forward from Ofgem's previous approach to benchmark actuarial assumptions, investment and de-risking strategies, and scheme member benefits. In particular, we are supportive of Ofgem's reinforcement of the pension principles, its commitment to future funding and allowing flexibility in the deficit repair payment period (out-with the 15 years set previously).

We agree that decisions made by Trustees should consider the potential impacts on customers, however, this should be considered within the overall responsibility of the Trustees. As we outlined previously, we still believe there resides a degree of ambiguity and uncertainty around how a reasonableness review will be achieved in practice. For example, how would Ofgem avoid hindsight bias or expect to assess appropriate behaviour of how customers were considered by the company in their engagement with Trustees. Additionally, in our last consultation we outlined some of the areas Ofgem should consider as part of its practical implementation of their pensions policy, however, we feel these still need addressed. For example, what are Ofgem's intentions to create effective and fair incentives to encourage NWOs to act in the interests of consumers and not penalise outcomes; and what are the company requirements to comply with the Regulatory Business Governance in the context of pensions.

Separately, we accept that customers should not bear costs 'unfairly' which extends to any scheme surplus. As unlikely as a 'non-temporary' scheme surplus seems, and the mitigating steps available to avoid such a surplus, we acknowledge that Ofgem's approach is not unreasonable. We are unsure how Ofgem foresee this being addressed in practice but recognise that an urgent clarification is not required at this stage.

As a final point, we are not supportive of the intention to bring forward the reporting requirements to 31 August from 30 September. Given the external and internal demands as

well as the time of year and impending implementation of RIIO Accounts, we see no benefit in changing the submission date.

Overall, we welcome ongoing engagement between Ofgem, NWOs and, where appropriate, the Pensions Regulator (PR) to ensure effective and fair implementation of these proposals. We would be more than willing to discuss our views set out in this letter and our previous response to the first pensions consultation to further inform the development and practical application of Ofgem's pensions policy.

Yours sincerely,



Steven Kennedy  
Scottish and Southern Energy Power Distribution Limited