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Chief Executive



ofgem E-Serve

Promoting choice and value for all gas and electricity customers

AB235-09sel
Mike Jeram
National Secretary
1 Mabledon Place
LONDON WC1H 9AJ

7th December 2009

Dear Mike

As I am sure you are aware, we have today published our final proposals as part of the fifth Distribution Price Control Review.

Before turning to the issue of pensions, I wanted to highlight that we have made substantial allowances of over £218m – or over 4,500 new full time jobs - for growth and renewal in the electricity companies' workforce over the next five years. This is to deal with both an ageing workforce but also the substantial increases in investment to renew the networks and get them ready for a low carbon future. We have reflected the concerns from some of the unions about whether the bids from some companies were realistic and whether some of them should have been doing more in the current price control period to recruit and train new workers. We have scaled back the allowances for companies we judged not to have properly tackled this issue during the current price control so that shareholders, not customers will have to fund any catch up. And we have given the allowances on a "use it or lose it basis". We will require companies to report annually on their workforce renewal and they will only be able to keep the allowances if they meet their plans. This may well be an aspect of the proposals that the Unions may want to enter into dialogue with the DNO's on.

On pensions, we have also set out our final decisions. I wanted to thank you for your contributions throughout the consultation process both in writing and at our series of seminars. We have listened carefully to the views that you and other stakeholders have expressed. Although our final decisions do involve changes I hope you will be able to see that in reaching our final decisions we have listened to your views.

We have made two specific changes in response to comments received from the unions. We have dropped our proposal to use the PPF7800 index and adopted the suggestion that we should use a report from the Government's Actuary Department to assess whether we should trigger an efficiency review in assessing how companies have managed any pension deficits. And we have reduced the incentives rates companies will be exposed to on any overspend relative to their forecasts of ongoing pensions' costs from 50% to 20%. We did this because we were persuaded that the companies have limited control over the pension costs associated with just under half of their employees whose pension terms and conditions are protected by legislation introduced at privatisation.

We have not made any efficiency adjustments to the companies' forecasts of their ongoing pension costs for the next five years and have allowed them what they asked for in full - £650 million over the five years.

Finally, on the issue of the deficit repair period we have decided that we should adopt a notional repair period of fifteen years. We think this places a fair and reasonable burden on business and domestic customers against a background of a deep recession and rising energy bills who will be funding over £1bn on deficit repair in addition to the ongoing costs. We have made clear that if the companies, trustees or the Pension Regulator agree a different recovery plan - we will keep the companies financially whole on any timing difference. And we have reassured ourselves that the companies can finance and fund any difference between our notional deficit recovery funding and their actual deficit funding period.

I have copied this letter to the Secretary of State for Energy and Climate Change as I know you have been speaking to him about your views on the pension's issues.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alistair'.

ALISTAIR BUCHANAN CBE
CEO OFGEM/OFGEM E-SERVE