

We wish a prosperous New Year to all our members and their families.

Thank to all the members who sent in a proxy in support of the two motions submitted by our members to the ELECTRICITY SUPPLY PENSION SCHEME Annual Meeting. Both motions were passed without a dissenting vote. We are still waiting to hear what action EPTL will agree or will advise companies to take.

The Association – A Way Ahead

In his annual report the Chairman discussed the need to consider the future of the Association. The AGM agreed that we should open formal discussions with UNITE with a view to bringing a formal proposal to this year's AGM. Thank you to the members who wrote in giving support to the proposal.

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Subscriptions Thank you to all of you who responded to the earlier request for the £10 subscription and particularly those who have executed a standing order. It makes admin so much easier. For those who have not yet paid a reminder notice is included.

Cheques should be payable to AESP and sent to PO Box 64 ASHTEAD KT21 2YS.

Don't forget that our Web site www.aesp.org.uk contains a membership and standing order form. Please encourage new members.

The Cost of being a pensioner

According to Angela Eagle MP – the amusingly titled Minister of State for Pensions and the Ageing Society - we will, as a result of the 2.5% increase in the basic old age pension, be receiving a real increase of 4% in our income.

What planet does this woman live on? As we all know there will be no increase in our occupational pension in April as RPI for the month of September 2009 was negative at – 1.4% but our real rate of inflation - very few pensioners have a mortgage – is 9%.

Eagle tried desperately hard in a Radio 4 interview to explain why the Chancellor could only index the basic pension in spite of his previous promises to inflate the state pensions by 2.5%. Was he simply trying to mislead us or like so many government statements in recent years announcing a policy before officials had been consulted as to the efficacy or practicality of the policy. Nowhere did his Pre-Budget speech - or the hundreds of pages of pre-Budget documents –mention the fact that the parts of the state pension which do not count as "basic" would be frozen.

Eagle said the decision to freeze extras, such as Serps, was taken because otherwise it would have "created an unlevel playing field between the public and the private sector". She said there would have been "confusion and unfairness" because Serps affected company pension payments and there may have been a difference of approach between public sector pensions and occupational ones partly related to some firms freezing pensions. What here was the public sector? Was this a civil service ploy because they recognised that their taxpayer funded pension arrangements would be restricted whereas private scheme pensioners would not have been. (see the Ofgem report)

Subsequently a spokesman for the DWP was quoted as saying "The additional pension has not increased over and above inflation because it is linked in legislation to wider public and private sector pensions, pushing up the costs and consequences of any change."

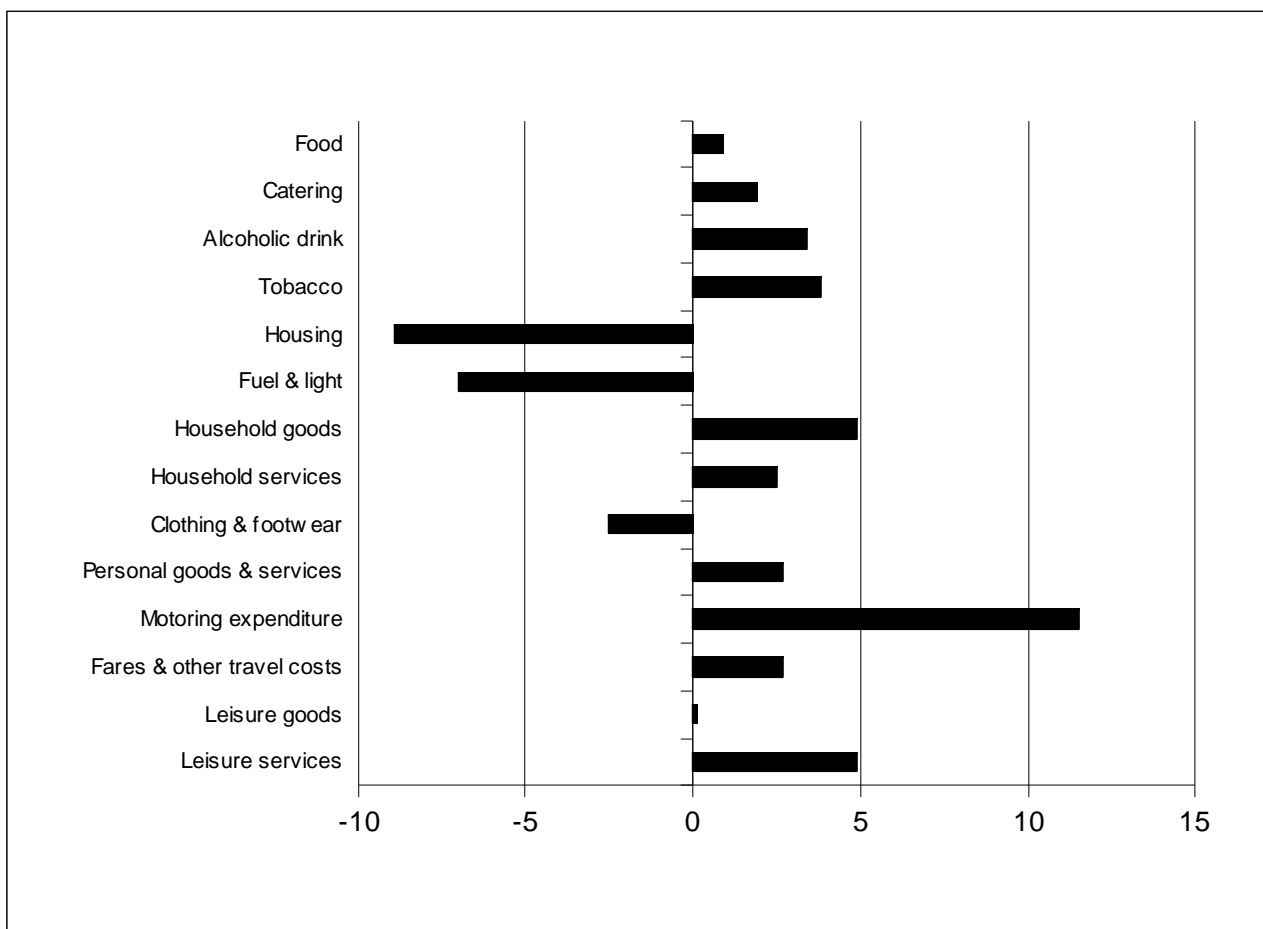
The National Pensioners Convention (NPC), described the Chancellor's plan to freeze next year's 2.5% increase to parts of the state pension package as "underhand and shabby". "Over 2.5 million older people already live in poverty and millions more are struggling to meet the rising costs of living. This decision will certainly push more into financial hardship."

We are told by the Prime Minister that we live in the world of the microchip and everyone must have broadband etc. Incidentally according to the NPC pensioners will now face a new 50p a month high speed broadband levy equal to £6 a year, despite the fact that 7 out of 10 have never used the internet. If universal broadband is indeed one aim of a 21st century society surely it is not beyond the intellectual capability of a few mathematicians and computer programmers to provide for an increase in all elements of the pension paid by the state. If on the other had we simply cannot afford it because of the gross macro economic mistakes then be honest and say so and certainly don't waste resources on a universal broadband!

The True Pace of Inflation

We have said before that we have to rely on the annual RPI increase in our pension to compensate us, however miserly, for the continuing loss of purchasing power, which is the lot of the pensioner. It is why Eagle's comment about a 4% real increase is so ludicrous even more so when only part of the pension is given only a well below real pensioner inflation increase. The Chart shows how prices have changed in the past year.

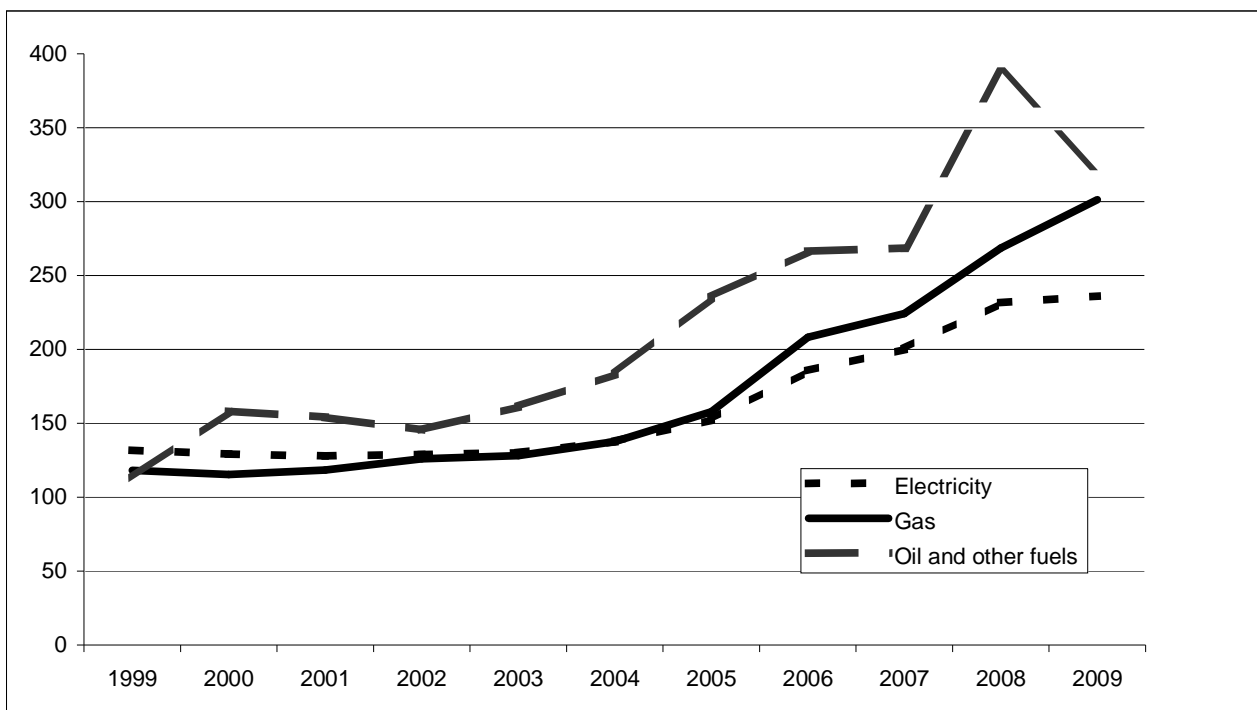
Inflation for 2009 - RPI November 2009 0.3%



According to moneysupermarket.com its basket of food prices has increased by 9% over the last year with very significant increases in the prices of milk, rice and pasta, minced beef and sugar. We will all be aware that supermarkets are in a price war but it is not always easy for pensioners to benefit. Many do not have ready access to large superstores and in any event do not need BOGOFs -buy one get one free – or the large packages which are so often the only ones available.

In 2010 prices generally will be influenced by the increase in VAT, with more to come no doubt. Petrol and Derv are already up by 2-3p per litre and further oil price hikes are predicted as well as further duty increases.

We may all be pleased to see that fuel and light costs have come down in the last twelve months but don't let us be mislead. This was based on the summer price reductions. If we look closely (see Chart 2) we see real significant increases in the costs of energy over the last ten years.



We must all use energy in the home. The older we get the more we need. As I write the snow is a foot deep – sorry not politically correct - 30cm. We are in the grip of the longest cold snap for almost 30 years, and extreme or severe weather warnings are still in place across the UK for both snow and ice. Energy costs have certainly outstripped any increase in pension that we may have received. Given that the annual tax-free lump sum winter fuel payment has remained fixed for two years energy costs must remain a grave concern for all pensioners. Most of us will be faced with substantial extra heating bills this spring.

Ownership change - The Impact

All of our EDF Energy Group members will have received a letter from this Scheme clarifying reports in the financial press at that time that EDF had decided to “evaluate options for ownership” of its network businesses. This had already been mentioned in a Scheme newsletter in July.

Obviously, such transactions affect both existing staff and pensioners because working members naturally transfer with a business to the new owner and pensioners are sometimes also transferred. In past transactions of this nature it has often been the practice for the “selling” company to hold onto the pensioners but this largely depends on the nature and detail of the transaction. We, obviously hope that the EDF trustees will be able to ensure that this practice is continued if the company proceeds with this transaction because owner uncertainty in pension support is at the least unhelpful and at the worst worrying for members.

It is not easy for members to evaluate the effect that business “deals” in the private sector may have on pension schemes; however, it is readily apparent that many private sector companies are currently more than anxious to close their “end salary” schemes due to the deficits which they have accrued in difficult financial times such as we have seen in the past year’. Some employers have been looking to the insurance market to take over their schemes and this raises doubts about the continuity of the Protected Persons legislation which applies in our industry. Most of our ESPS Schemes are already closed to new members and most also are carrying substantial deficits. Perhaps this is the motivation for Ofgem’s proposals that employers be permitted to meet these costs over a 15 year period.

Certainly, in any business disposal such as EDF seem to be considering, the size of any Scheme deficit must be a factor but the final Ofgem report appears to allow such costs incurred up to March 2010 to be passed into customer tariffs so this may ease the concerns of would be purchasers.

We wait with great interest and not a little concern the outcome of this development and will comment further when we know more. In the meantime, whilst we recognise that the trustees have no power to prevent such transactions, we must rely on them to safeguard members’ interests.

OFGEM and the pension issue

We reported in the September 2009 Newsletter of our concerns about Ofgem's proposals to interfere with the pension arrangements in the network distribution companies (DNOs) in its formulation of DNOs allowable costs in the distribution price review (DPCR5).

Council members attended each of Ofgem's consultative meetings and we submitted detailed responses to various questions posed by Ofgem in its 'consultative' documents.

The outturn decision, which was barely an improvement on the original proposal, will create considerable difficulty for our trustees when they come to discuss deficit recovery.

Ofgem argues that pension costs represent 10% of the DNOs cost base. Its DPCR5 decision is claimed to be a new approach to pensions. It will only allow a notional deficit recovery period of 15 years. It will also attempt to benchmark what it calls efficiency and will set an efficiency trigger. It has at least agreed that this should be based on work by the Government Actuary's Department (GAD) at the end of DPCR5. Ofgem clearly considered trying to break the protection for pensions put in place at privatisation but now claims it has taken account of these protections to our pension rights.

According to Ofgem's figures the cost to the domestic consumer of the distribution networks amounts to £76 per year. Pensions' costs therefore amount to about £7.60 per customer per year. It has allowed £1.7bn for pension costs including £1.0bn to fund pension deficits over the next five years. It argues that the our companies are monopolies which can never in reality fail so setting a long - 15 year period - for deficit recovery is reasonable.

It is not unreasonable, indeed it is very prudent, for our trustees to seek to negotiate a front-loading for deficit repair. Ofgem's approach militates against this. For our part it is not unreasonable to point out however that reducing the deficit recovery periods to 10 years, which would be more acceptable to trustees, would only cost consumers on average £4 per year – less for domestic consumers. It would also be in line the Pensions Regulator's thinking regarding the period for deficit repayment.

Your Association Council feels that Ofgem's approach throughout has been unreasonable and despite Ofgem's denials DPCR5 will undoubtedly fetter the hands of our trustees when negotiating with the companies concerning deficit repair.

The Unions' views on the Ofgem decision

Prospect's Deputy General Secretary Mike Clancy said "We are glad Ofgem has listened to our arguments on two key important points, but we still think the regulator should have left the existing system in place."

Commenting further Clancy said "This is a crude attempt to incentivise companies to reduce pension costs where they can. One effect could be that companies overbid in the first place, which begs the question of how much money will actually be saved. It certainly won't protect consumers from higher costs. And we repeat our warning that if any company does use this new system to attack defined benefit schemes, our members will not tolerate it. During the current consultation the Government Actuary's Department (GAD) reviewed the existing pension provision of DNO companies and found no problems with schemes."

Prospect welcomed Ofgem's decision to use reports from the GAD to trigger any future reviews of companies' efficiency regarding pensions payments, rather than a mechanism covering all defined benefit schemes called the PPF7800.

GMB Consider that Ofgem should leave regulation of energy sector pensions to the Pensions Regulator

Gary Smith, GMB National Secretary said, "We're glad OFGEM has moved away from its most outrageous proposals but are not reassured by the suggestion of more radical action in subsequent reviews.

"GMB members' view is clear. OFGEM should be regulating the energy sector, scrutinising the failure to pass on wholesale price reductions to consumers for example, not pressuring companies to cut workers' terms and conditions.

“OFGEM has done nothing to stop energy companies making £85 profit per customer, more than double the amount of money they were making just three months ago. No consumer’s fuel bill will drop as a result of this change in approach to employees’ pensions. Though what impact the bureaucratic burden created by the industry regulator has is yet to be seen.”

So much for efficiency!

Right from the first consultation meeting Ofgem staff displayed an attitude that was clearly anti-defined benefit pension schemes. Ofgem staff clearly felt they had been unfairly treated by recent changes it was claimed had been made to the unfunded final salary civil service pensions. What a nerve! These schemes have no assets and rely for their unlimited pension payments on continued funding by the present and future taxpayers - us, our children grandchildren and great grandchildren.

From the Office of Gas and Electricity Markets Resource Accounts 2008-09 presented to Parliament

“The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but Ofgem is unable to identify its share of the underlying assets and liabilities.”

Secretary’s email address

Please note Ben Flude has a new address:

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