

**The Annual General Meeting** will be held NATFHE 27 Britannia Street (off Grays Inn Road) Kings Cross London WC1X 9JP on Thursday 6 July 2006 at 14.30.

*We were very fortunate that Tony Allen, Secretary of the Scheme, was able to with us last September when we held our AGM. Our audience was not as large as perhaps we would have hoped. Given the experience of many of you on the ill fated 7 July 2005 it was only to be expected that you might not want the inconvenience and cost of coming to London again. A report of Tony's presentation appears in this edition.*

## **Annual Increase from 1 April**

**This Year's pension increase for members whose pension has been in payment for a whole year is 2.7%**

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## Wide Disparity of Benefits

When the ESPS was a public sector pension scheme we all knew where we stood; we all received pension and other benefits based on the one set of rules for defining benefits.

With the advent of privatisation and the arrival of our two-tier scheme it was always likely that benefits would start to diverge as group trustees made independent decisions. This process was given the opportunity to develop as a result of the 'surpluses' of the 1990s. Trustees made widely different decisions on how surpluses were to be used.

Council tried to monitor how surpluses were used to enhance benefits but this was not easy. We were also well aware of the different arguments used to justify decisions. When looked at locally each decision could be seen as fair and reasonable in the light of the structure of each group and its liabilities.

One of the key benefits offered by the ESPS is the spouses (partners) benefit. Originally this benefit was 50% based on the pensionable entitlement at retirement subject to any inflationary increase. This is not the same as 50% of the pension in payment at the death of the pensioner as the pension may have been enhanced in a number of different ways.

What has surprised us is how this very basic provision, and one which is so important to many of us, has diverged since privatisation. We do not have a complete series but the information in the table shows how surplus distribution decisions by different groups have affected this benefit.

Members in the groups with the poorest benefits may well ask their trustees how they justify this seeming inequity.

Because of its importance we simply ask that all trustees use whatever flexibility they will have in the future to see that this benefit is set at the highest level which can be prudently achieved.

## SPOUSES' BENEFITS 31 MARCH 2004

<b>British Energy Generation (60ths scheme)</b>	50% (#)
<b>East Midlands Electricity</b>	57.14%
<b>Electricity Association</b>	65%
<b>E.ON UK Group (benefits at 1 April 2005)</b>	
Former Powergen Section Members	66.67%
Former Powergen Section Members who left service or died prior to 1 January 1997	61.68%
Former EME Section Members	57.14%
Former Eastern Section	57.50%
Former Eastern Section Members who joined from the Powergen Group on 1 August 1997	
Post 1 August 1997 service	57.50%
Pre 1 August 1997 Service:	66.67%
Former Powergen Section Members who joined from the NORWEB Group on 1 April 2001.	
Post 1 April 2001 service	57.50%
Pre 1 April 2001 service	50%
<b>London Electricity Group</b>	
London members	60% (*)
Former TXU members	57.5%
Former Powergen members	66.67%
Former SWEB members	60%
<b>Magnox Electric Group</b>	54.33%
<b>National Grid Company</b>	66.67%
<b>Northern Electric Group</b>	66.67%
<b>RWE npower Group</b>	
80th section	58%
60th Section	50% (#)
<b>SEEBOARD Group</b>	55%
<b>Western Power Distribution</b>	54.25%
<b>United Utilities</b>	(typically) 50%

# 66.67% equivalent in 80ths scheme

\* In addition a special increase of 2% on attaining the age of 75

## **A Personal View**

The cost of fuel is rising steeply and, if the newspapers are to be believed, some of our energy companies (EdF, E.ON, and RWE) amongst them may have been involved in European market rigging policies designed to keep prices high. We have already seen petrol and diesel prices go through the roof and it will not have escaped your notice that the oil companies have made vast profits as a result. Will the energy companies do the same? We shall see.

What relevance has this to us, as pensioners or potential pensioners? Well, it's this; the privatisation of our industry was an excellent idea so long as the British Government maintained a controlling shareholding - the so called "golden share". They could have thus influenced what the energy employers could do. Once this control was abandoned it became a "free for all" which means that now the shareholders or foreign Governments can take all and the balance between treating their present and former staff "generously?" and rewarding business ownership has been seriously disturbed.

Most of our ESPS pension schemes were in substantial deficit at the last valuation in March 2004. That was not actually their worst time; that was in 2001/2, when equity investments plummeted and the FTSE reached 3600. It has recently peaked at over 6100 but has now dropped back to 5700. Unfortunately, this is how the market goes and it gives our trustees a very uncomfortable ride!

Many employers have found defined benefit schemes such as ours more expensive to support. This has resulted in more than 50% of non-electricity DB schemes either being closed altogether, being closed to new members or being transferred to DC schemes. Most of our Schemes have now also been effectively closed to new members. In fact, the ESPS rules have also been changed to incorporate DC schemes although no ESPS employer has yet attempted compulsorily to transfer existing ESPS members from DB to DC. We are, of course, watching this situation very carefully.

During the "crisis" period, there was a panic induced rush by the remaining DB schemes to transfer investments into bonds, which it was thought, would best cover their liabilities. Boots were the best-publicised example of this but they have now reverted to a more balanced approach. Of course, you must expect our trustees to invest our funds wisely and safely – that is their prime function – but bonds are now more scarce and, in any case, their purchase price makes it certain that they alone will not produce enough revenue to cover our increasing liabilities. So what is the answer?

It's all a question of risk and judgement. If the investments do not cover the liabilities either the employers will have to make up the deficiencies on a continuing basis or some of our money must be invested in the equity market, which will outperform bonds in the long term. The risk of another equity market collapse has to be considered against the other options of alternative investments or a shortfall in income. Where a scheme is "mature" (having a large number of pensioners) actuaries prefer to see funds located in bond-like investments; they also like schemes to be solvent. In the end, it is down to the trustees, helped by their advisers, to wrestle with these problems.

Having very recently considered these matters at some length, Council favours a strategy that takes advantage of the current equity market upturn but has safeguards to transfer funds speedily when adverse "trigger" events occur. This will help to cover our present deficits more quickly and make us less dependent on the employers' "generosity" which is always subject to their business strategy and their continued ownership of our scheme companies.

It is often said that members are only really interested in pension schemes when a crisis occurs which affects the likelihood or not of the pension being paid. This is very evident in the ESPS, which certainly appears to contain safeguards in the Protection Regulations for members in service before April 1990. We do, of course, have members who joined after 1990 and who are not covered by the Regulations. Considerable doubt has recently surfaced about the ability of trustees to see that the Regulations are implemented; the current legal advice is that this is a matter between the member and the present or previous ESPS employer direct. The Association is pondering this decision and may consider further action if any "trigger" event occurs.

Coming back to my opening comment; if the electricity employers do make large profits from their new pricing structures, we would expect a more generous approach to the clearance of all Scheme deficits. After all, the employers have benefited in the past from our surpluses, so why should we not seek to pressure them to meet their scheme obligations more quickly in these circumstances?

Legal expenses can be very considerable, so we do not want to rush to the Courts unnecessarily but we do now have a legal fund which is sufficient to instigate legal proceedings if, or when, the need arises. We are sure that the ESPS employers are aware of our existence and this, in itself, may afford our members some additional protection.

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## **Presentation by Tony Allen to 2005 AGM**

**Tony's presentation explained how the Scheme had evolved since privatisation. Two factors had dominated developments since 1990; changes in the employing companies as a result of key business decisions giving rise to mergers and acquisitions and changes in the organisation of the groups and the way investment decisions are made.**

Initially there were sixteen principal employers and this grew to 28 at the maximum and this is now down to 20. (April 2006) It was probable that the number of groups would decline further as companies continued to streamline their operations. One feature of the Scheme was that as a result of acquisitions some groups were not now the responsibility of traditional electricity employers.

The ESPS is to some extent unique in that it is a two-tier scheme. The Customs and Revenue require that there shall be no cross subsidy between groups. All assets of the fund continue to be held centrally in the name of the scheme trustee (EPTL) but individual groups of trustees are responsible for the investment performance of their group funds. Group trustees may agree to invest in the unitised fund, which is managed by EPTL, or independently in segregated funds. This gives trustees the flexibility and freedom to meet their liabilities whilst maintaining security of the assets over all.

Ninety percent plus of the assets were now held in segregated funds. Over 30 fund managers with in excess of 100 investment portfolios manage these funds on behalf of trustees. The unitised fund contains over £1.3 billion of UK property, forestry, index-linked gilts and cash.

Like all pension funds the Scheme enjoyed very good returns in 1990s with significant surpluses up to 2001. This resulted in benefit improvements for most members as well as employer and employee contribution reductions. The 2004 Valuation showed widespread deficits as a result of poor investment returns over the previous three years. There had been better investment returns in the last two years. A major issue was that of significant increases in life expectancy. All companies had now agreed deficit repair plans with group trustees.

The new pensions legislation, now in place, aimed to provide greater security to pension scheme members. There was now an increased role for trustees who had to agree and publish a statement of funding principles. There were to be annual funding checks between actuarial valuations. Some of the checks and balances would increase the costs of pensions provision and there was the risk that pension provision for future generations would worsen.

The ESPS remained a robust scheme with a strong control framework. The Pensions Protection Regulations enacted at privatisation remained in force. There was also a no detriment rule. The Scheme as a whole could not be wound up without the agreement of all the original principal employers.

Mr Allen responded to a number of questions.

### *Pension Protection Fund*

All groups would be required to pay to the new pensions protection fund and there were detailed ongoing discussions on the level of the contribution given the nature of the Scheme and its inbuilt guarantees.

### *Longevity*

The apparent sudden increase in longevity had to some extent caught actuaries by surprise. There was a need to refine the mortality tables to obtain mortality trends within groups of the population rather than the population as a whole. There was no evidence that the actuaries had not maintained a proper level of professionalism and the issues of longevity were not limited solely to the ESPS.

### *How are actuaries appointed and performance determined*

The actuaries were appointed on a competitive basis every three years after completion of the triennial valuation. Their performance was assessed on the basis of cost and quality of service including response to emerging issues.

### *Indexation*

Concern was expressed about indexation in the light of fuel and council tax increases which had a disproportionate effect on pensioners. Mr Allen assured members that the 2 1/2% restriction in recent legislation would not apply. The ESPS would continue to apply the retail price indexing of benefits up to 5% and employers continued to have the ability to use their discretion above this figure.

### *By passing elected trustees*

Recent legislation had provided for the right of trades unions to be consulted. This had not been the practice in the ESI. There was now an obligation to consult through appointed representatives. This could include representatives of different types of member.

### *How open is the scheme*

About one third of the scheme was still open to new employees although not all new employees received the same level of benefit as established members.

### *Self investment*

No individual group held more than 5% of its assets in the sponsoring company. This did not mean that groups did not invest in energy and electricity shares. Any investment by trustees in this sector would be as a result of professional investment advice and a basket of UK equities would include energy and electricity companies.

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## **Scheme Developments: for MANWEB members**

In connection with the Return of Cash to Shareholders as a consequence of the sale its US investment Pacific Corp ScottishPower has reached agreement with the trustees of the Manweb Group Section, the ScottishPower Pension Scheme, the ScottishPower Group Final Salary Lifeplan to make special contributions to each scheme in order to fund the FRS17 deficit (as at 31 December 2005) in respect of each scheme over a period of up to five years.

ScottishPower has made an aggregate lump sum contribution of £28 million during March 2006 into the relevant schemes. On completion of the Return of Cash to Shareholders, an aggregate lump sum contribution of £100 million will be made to the relevant schemes and four further aggregate annual payments of £13.2 million will be made to the relevant schemes commencing on 31 March 2007, subject to an FRS17 deficit continuing in those schemes at each due payment date.

*According to Professional Pensions (30 March) the DB schemes would close to new members from 6 April and a DC scheme would be offered. But last month the Company revealed it was in talks with the unions over plans to reopen the final salary scheme to employees who stayed with the firm for more than 10 years.*

## **EDF trustees preparing to make switch from equities**

*by Jason Douglas 08-05-2006*

EDF ENERGY trustees look set to switch assets out of equities as part of a new liability-matching strategy.

EDF operates a new £100m final salary scheme and a £2bn closed final salary scheme within the Electricity Suppliers Pension Scheme.

The new EDF Energy Group scheme was created in 2005 following the merger of the pension schemes of London Electricity and Seaboard, both acquired by EDF in 2001.

Pensions manager Ian Baines said the ESPS scheme had a membership of more than 20,000 – including more than 12,416 pensioners.

He said: “Having merged these two schemes in the middle of 2005, the combined trustees have taken as their first challenge to look at the asset allocation and the investment strategy of the combined group. We are now in the final throes of concluding that process.

“Logically, because of the maturing of the scheme and because of the drive for some form of liability-matching asset allocation we are going to see a move from our current equity rating to a higher bond-like weighting.”

Baines added this “did not necessarily” mean the pension scheme would move wholly into bonds or long-dated gilts, and nor had the new strategy been finalised.

“In common with many big schemes, we are asking if this is the right time to move out of equities and whether long-dated bonds are the right match for our underlying liabilities. There is also a timing issue. You might want to get there but you don’t want to do it now because it is too expensive and yields are poor.

“Or do you want to be more innovative and come up with something sexier that will do it but be more complicated? We are a pretty big scheme so we have to be pretty cautious about how we do it.”

He said the scheme was working with its investment consultants to boost the trustees’ knowledge of alternative investments.

*Professional Pensions - 13 April 2006*

## ESPS Investment Returns 2004/2005

	Maturity %	Investment Return %	Fund value £ million	EQUITIES	GILTS	OTHER
Alfred McAlpine	76	9.80	48	75	25	0
AREVA	24	(a)	1	70	30	0
British Energy Combined	11	12.70	36	90	10	0
British Energy Generation	66	11.30	1,939	57	26	17
Drax Power	25	13.10	50	100	0	0
EA Technology	84	8.10	45	78	22	2
Eastern (b)	97	10.50	821	56	34	10
East Midlands Electricity (b)	89	10.80	864	50	35	15
Midlands Electricity (b)	86	9.30	884	38	57	5
PowerGen (b)	88	11.00	1,315	50	50	0
First Hydro (Edison Mission Energy)	39	10.30	34	74	10	16
Electricity Association Services	99	8.90	167	38	49	13
International Power	8	12.50	58	81	9	10
Keadby Generation (Formerly AEP)	6	11.40	55	100	0	0
London Electricity	74	10.60	1,140	70	30	0
Magnox Electric	69	10.90	1,344	63	26	14
Manweb	80	9.20	581	61	38	1
National Grid	80	10.70	1,166	60	30	10
Northern Electric	73	9.20	713	50	39	11
Powerhouse Retail	100	7.40	128	26	70	4
RWE Npower	87	7.90	3,317	26	64	10
Seeboard	85	9.50	718	60	35	5
Southern Electric	80	8.90	798	57	37	6
United Utilities	81	10.10	1,038	60	38	2
Western Power	82	9.70	1,021	75	22	3

a) Awaiting transfer of funds

b) E.ON UK as from 1.4.2005 amalgamated Eastern, East Midlands, Midlands and PowerGen

c) ) ESN Wound up 31 March 2005

<b>ESPS Deficits 2004</b>	<b>£ thousands</b>	<b>Agreed repayment period years</b>
Alfred McAlpine	9,100	12
AREVA	900 Surplus	-
British Energy Combined	8,800	9
British Energy Generation	375,800	13
Drax Power	20,400	13
EA Technology	10,800	10
East Midlands Electricity (b)	93,000	14
First Hydro (Edison Mission Energy)	5,400	
Electricity Association Services	8,200	7
ESN	100	Wound up
International Power	7,400	12
Keadby Generation (Formerly AEP)	13,700	12
London Electricity	216,700	13
Magnox Electric	48,400	7
Manweb	132,200	(c)
Midlands Electricity (b)	125,200	14
National Grid	271,500	14
Northern Electric	190,300	13
PowerGen (b)	229,400	14
Powerhouse Retail	4,400	11
RWE npower (formerly RWE Innogy)	136,000	13
Seaboard	154,000	13
Southern Electric	275,500	13
TXU Europe (a)	281,500	14
United Utilities	113,900	14
Western Power Distribution	195,300	14
<b>Total Deficit</b>	<b>2,926,100</b>	

a) now E.ON UK Eastern Section

b) now E.ON UK

c) see separate article on recent Scottish Power decision.

## **Pensions Commission's Final Report**

**The Pensions Commission's Final Report was frankly disappointing, offering small comfort to people who need to save for a pension. It does not appear to have satisfied either employers or the government.**

The reports concludes that the government needs to put in place an integrated suite of changes including:

- a reform of the state pension provision that will deliver simpler and more generous benefits and less means testing;
- a rise in the state pension age;
- a new approach to private pension saving through the creation of a new National Pension Savings Scheme (NPSS) into which employees not currently in a good workplace pension are automatically enrolled and pay personal contributions;
- contingent employer contributions for those who do not opt out.

The report suggests that employers should contribute to the NPSS at the rate of 3%. This raises the possibility that defined benefit schemes (DB) such as the ESPS, which currently provide good benefits, will be weakened as employers attempt to level down their contributions for all employees to the 3% minimum.

Deloitte's estimate that almost 4.5 million members of private sector pension schemes benefit from contributions in excess of 3% of their salary from employer contributions. The Government Actuary has reported that employers providing pension schemes in 2004 were paying average contributions of 14.5% into DB schemes and 6% into defined contribution (DC) schemes

The potential impact of a 3% benchmark can only be seen as further weakening the role of DB schemes and will make provision of DC benefits even less secure than they are already. As we know to provide the type of benefit which we enjoy through the ESPS requires a regular contribution of 18% of salary in total coupled with sound investment policies to ensure fund growth. Whilst new tax rules have removed the maximum 15% annual limit on pensions contribution by employees how many working people could make even that level of contribution without a significant hike in salary let alone invest a whole year's salary?

The immediate reaction of the unions is surprisingly muted. Amicus welcomed the compulsory approach but did not comment on the level of the employer contribution. Unison supported the proposal to increase the basic state pension. It argued that a 3% employers contribution would be too low. It said that not all the risk should be placed on the employee. Both unions said they would resist any increase in the state retirement age. Prospect appears to have made no comment.

The recommendation to reform state pension provision to provide a better basic state pension has to be applauded. However it has not had a warm reception by government. Simplification would make life a lot easier for many people and if necessary the tax system would recover over generous payments to the better off pensioner. However given the number of civil servants needed to deliver the present complex system can we expect “turkeys to vote of Christmas” and reorganise themselves out of a job. Only a firm government policy will do that. Does it look likely from any party?

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## **The Association’s aims and objectives**

The Objectives of the Association are:

- to represent the interests of existing and former employees in the electricity supply industry in England and Wales and their dependants who are, or were, participants in the electricity industry’s final salary scheme – the Electricity Supply Pension Scheme.
- to restore equity in the treatment of the pension benefits of existing and former employees and Board members across the pension groups of the ESPS
- to represent the interests of employees who are members of money purchase pensions schemes within the electricity supply industry.
- to do all things lawful in order to represent these interests including supporting the trustees elected by the members under the rules of the Scheme
- to take legal and other professional advice with the aim of ensuring the protection of existing and future benefits.
- to work with other like minded organisations representing pensioner interests to seek improvements in the benefits provided through state and company pension schemes.

## **PENSIONS A bit rich-**

WHAT'S the difference between a government actuary who says that taxpayers should be asked to find several million quid to fill a hole in the MPs' pension scheme, and a parliamentary ombudsman who finds that official "maladministration" has cost tens of thousands of low paid workers their pensions and demands that the government compensate them?

Obviously, the former's instructions have to be followed to the letter while the latter can be safely ignored.

Conveniently for ministers they legally have no choice but to accept the government actuary's views, while the opposition doesn't dare criticise the payment as the law requiring it was brought in under the last Tory government.

There is, however, no such legislation to rescue impoverished workers who faithfully followed official advice to plough money into their company schemes, assured it would be safe, and now find that when their employers went bust with inadequate pension funds the government promise was completely empty.

The best excuse that the prime minister and Pensions Secretary John Hutton could offer for leaving 85,000 workers and pensioners high and dry was that coughing up would cost an eye-watering £15bn. They presumably hoped that such a number would persuade everyone that the taxpayer couldn't possibly be asked to stump up for the government's misconduct. In fact the cost of doing so is significantly less, as the government calculation includes some glaring errors - such as assuming all those involved will live to 95 and failing to take any account of the reduced pension credits and state benefits they would be due if compensated. The true one-off figure is nearer to £6bn. But even this exaggerates the cost as it will be spread over decades and the annual bill is easily within the government's means.

If Tony Blair and Hutton can't understand this they could turn to their Treasury colleagues for an explanation. As Gordon Brown pointed out to parliament last year when dismissing a then £425bn public sector pension liability as a distraction: "What really matters for the public finances, of course, is the amount that has to be paid out each year for public pensions." Indeed it does - and "each year" the 85,000 could affordably be compensated at the same level as those "lucky" enough to have seen their employers' schemes wound up after the start of the new pension protection fund.

PS: In its near 40-year history, the parliamentary ombudsman's findings have only been dismissed twice - on both occasions under New Labour. Last time the claims of Japanese PoWs were rejected. So much for caring for the oldies.

**From Private Eye, 14 April:**

## **A Government at sixes and sevens**

**Well what a confused response to the Pension's Commission. Are there any bright lights on the pensions horizon?**

Mr Blair now agrees that it would be a good thing if pension increases were indexed to salaries and wages and not retail prices. Mr Brown agrees, providing it can safely be left to 2012. Should we be concerned? Well even if implemented this year the benefit would not be large. Last year's basic weekly pension of £82.05, has under RPI risen to £84.25. The additional increase, if the wages index had been applied, would have been just over an extra £1 per week. Hardly enough to compensate for 12% increases in council tax and 30% increases in energy bills.

The problem for pensioners is simple, our spending habits are the not the same as the working population. A much higher percentage of the fixed income goes on the basics. Keeping warm is an absolute essential. Council tax increases hit really hard even if you are a single householder and get a rebate. A recent Daily Telegraph strap line put it succinctly; "Pensioners punished for splashing out on heating, not iPOds"

The fundamental problem is that the basic pension is far too small. This is of course recognised and a wide range of other benefits are available to provide income support. The problem here is that over 30% of those eligible for these additional benefits do not claim.

If you have been retired many years the real value of your pensions will have been significantly eroded notwithstanding the fact that some of our members have had real above inflation benefits since privatisation. You see the index of retail prices is carefully constructed to exclude taxes like council tax and VAT. As we know the former has risen at something like three or four times the rate of inflation for the last few years.

**So the message is simple. Review your income position. Don't be afraid to seek any tax credits or other additional benefits. Remember some benefits, such as attendance allowance, are not taxable or means tested, and are there as a right if you or your partner actually needs help with personal care. Do not be afraid to seek them out. If you are not sure where to go seek help from the tax office, DSS, Citizens Advice or Help the Aged. Advice is free and whilst the benefits are not huge they could just make a useful difference.**

## **ASSOCIATION OF ELECTRICITY SUPPLY PENSIONERS**

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The Ninth Annual General Meeting of the Association will be held at the NATFHE 27 Britannia Street (off Grays Inn Road) Kings Cross London WC1X 9JP on Thursday 6 July at 2.30 p.m.

**Light refreshments will be available from 2.00 p.m.**

### **Special Guest Speaker**

Our Speaker this year will be

### **Reports**

- 1 To receive and consider the Chairman's Report, the Accounts for the year ending January 2006 and the Fund Examiner's Report.
- 2 Developments in the ESPS

### **Resolutions**

- 3 To authorise the Council to appoint a Fund Examiner and to fix the remuneration.

### **Election of Council**

The members of the Council are: Mr Jack Andrews, Mr Geof Blackburn, Mr Ben Flude, Mr David Laws, Mr Gordon Lewis, Mr Mike Moriarty, Mr Harry Sharrock, Mr Colin Wooff, Dr Neville Wrench.

4. Mr Flude and Mr Lewis retire by rotation and offer themselves for reappointment.

Any other nominations for Members to serve as Council Members should be sent to me at the address above to arrive no later than 18 June.

Nominations must be signed by the person proposed certifying his or her willingness to be proposed. The nominee and the proposer must be bona fide Members of the Association.

Any Member entitled to be present and vote at this AGM may appoint a Proxy to attend and vote for him/her. The name of any Proxy so appointed should be addressed to me at the Association of Electricity Supply Pensioners at the address above so as to be received no less than 48 hours before the holding of this AGM. Otherwise the person so named shall not be entitled to vote at this AGM.