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Dear Nick

### **Pensions Review: Second consultation**

SSE welcomes the further opportunity to comment on Ofcom's developing proposals on the treatment of pension costs. We have not answered each individual consultation question but provide below our comments on the recommendations put forward by Ofcom in this second consultation.

#### **Deficit Repair payments: Ofcom recommends continuing to disallow these when setting regulated charges**

We continue to believe that the customers of regulated infrastructure providers should contribute to the reasonable costs of pension provision for the relevant sector of the workforce and that this should include deficit repair contributions, as appropriate to the particular history of pension provision and any privatisation settlement, if relevant. The "Openreach" part of BT has many of the characteristics of a utility infrastructure provider due to the extensive scope of its existing network. Given the long-lived nature of many of the infrastructure assets, customers today are benefiting from the efforts of the workforce in the past to develop and maintain the assets.

#### **Ongoing service costs: Ofcom recommends continuing to use statutory reported accounting costs as a measure of ongoing service costs**

We believe cash costs would be more transparent than statutory reporting and that the price control setting process for BT's regulated products could be made more transparent by taking a cash-flow approach. We note that Ofcom does not use a cash-based approach to charge setting generally, unlike many other utility regulators and comments that this is a function of its statutory duties. As the Openreach access network has been recognised as an enduring economic bottle-neck, leading to the provision of Undertakings from BT to Ofcom in 2005, we wonder if there might be a case as the legislative framework develops for providing some flexibility for Ofcom to look at setting price controls for Openreach assets in a manner more consistent with the approach in other utility infrastructures.



**Cost of capital: Ofcom recommends no adjustment at this stage on the cost of capital for any possible effect of the defined benefit pension fund**

We support this and believe that any potential negative effect on BT's cost of capital overall would be highly uncertain and difficult to measure robustly. This is borne out by the academic reports commissioned by Ofcom and noted in the paper.

I hope these comments are helpful.

Yours sincerely

Aileen Boyd  
Regulation Manager.