Defined Benefit Pension Scheme Questionnaire

1. Purpose

1.1. As part of our review of the adherence by licensees to the six Price Control Pension Principles, a completed questionnaire is required from each licensee for each Defined Benefit (DB) scheme in which a licensee is/has been a participating employer since 1990. Where different employee groups are dealt with separately, provide the information 9e.g. benefits, liabilities) for each employee group.

1.2. It would be helpful if colleagues would complete this questionnaire even if you have previously supplied any of this information so that we can collate it in the same format for all.

1.3. This data will be used to assess the uniqueness of each scheme and in particular to ascertain what actions have been taken to satisfy principle 1.

2. Instructions for completion

2.1. Complete the data in the text boxes underneath or by the side of each question.

2.2. The size of answer boxes/tables will expand to accommodate overflowing text.

3. Background

3.1. What is the name of the scheme?

Northern Gas Networks Pension Scheme (NGNPS)

3.2. In what year was the scheme established?

2005

3.3. What was the background to the establishment of the scheme? (For example, did it supersede a previous scheme which is now closed to new entrants? If so, a separate questionnaire should be provided for that scheme.)

The Scheme was established on the 18 August 2005 as a result of a bulk transfer from the Lattice Group Pension Scheme linked to the sale of the gas distribution networks from National Grid.

The scheme was established to mirror those prevailing in the Lattice Scheme prior to completion of the network sales.

3.4. Is the scheme, or any of its members, subject to any protected rights conditions from the time of privatisation? If so, provide details.

No

3.5. Is the scheme closed to new entrants and/or future accruals? If so, when did it close, and what pension benefits are provided for subsequent entrants/accruals?

The DB scheme has been closed to new members since its establishment on 18 August 2005. New members can join separate defined contribution schemes operated by United Utilities Operations Limited (UUOL) or Northern Gas Networks Limited (NGN).

3.6. Have any of the scheme's liabilities been insured (or bought out with an insurer)? If so, provide details.

There are no insured liabilities.

4. Scheme membership

4.1. Provide the number of scheme members as at the date of each of the last three triennial actuarial valuations and as at the most recent scheme accounts date. (If full actuarial valuations have been carried out more frequently than triennially, include all full actuarial valuations in the last ten years.)

4.2. Provide equivalent tables to 4.1 separately for each regulated and unregulated business.

Name of regulated business	**Northern Gas Networks Limited**			
Numbers of members	7/12/2005 (Last Trustee Actuarial Valuation)	31/3/2007 (Company Valuation)	31/12/2007 (Most recent scheme accounts)	
Members without protected rights from the time of privatisation				
Active members	950	894	878	
Deferred members	0	22	29	
Pensioner members	0	28	34	
Total	950	944	941	
Other members				
Active members	0	0	0	
Deferred members	0	0	0	
Pensioner members	0	0	0	
Total	0	0	0	
Name of unregulated business	N/A			
Numbers of members	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy
Members with protected rights from the time of privatisation				
Active members				
Deferred members				
Pensioner members				
Total				
Other members				
Active members				
Deferred members				
Pensioner members				
Total				

4.3. Which companies within your group currently participate in the scheme?

UUOL is the principal employer participating in NGNPS, however note that UUOL is entirely independent of NGN with no cross-shareholding.

NGN own the licence to operate the gas distribution network and the role of operating the network has been contracted to UUOL. Associated employees have been TUPE transferred to UUOL with their pension benefits in NGNPS. UUOL is the principal employer, however all costs associated with running NGNPS are passed from UUOL to NGN via a corporate service agreement and at the end of the contract between UUOL and NGN the scheme will transfer back to NGN.

4.4. Which companies have previously been participating employers in the scheme?

None

5. Scheme benefits

5.1. Complete the following table, summarising the current scheme benefits. Where benefits are not the same for all members, provide a separate table for each group of members, and explain which employees are in each group.

Specify which group of members	*All Sections*
Type of benefits	*Defined Benefit*
Contracted in or out of S2P	*Contracted Out*
Normal retirement age (age when unreduced pension is payable)	*65*
Definition of pensionable pay (specify any deductions in particular)	*Salary plus other elements of pay, eg sales commission, regular bonus payments, area weighting and stagger salary*
Member contributions	*3% of pensionable pay*
Accrual rate for member benefits	*1/60 of pensionable pay*
Lump sum terms on retirement (specify commutation rate at NRA, if applicable)	*A member may commute part of his pension for a cash sum as follows:* *1. This option may be exercised once, and only within the period beginning three months before his retirement and prior to receipt by him of the first periodic payment of his pension.* *2. The amount of pension to be commuted to provide a particular lump sum must not exceed a quarter of that pension.* *3. The amount of the cash sum must not exceed HM Revenue & Customs limits and must be certified as reasonable by the actuary.* *4. The remaining pension must not be less than the member's guaranteed minimum pension at state pension age.*

	The commutation factor to apply to a member age 65 is 14.12 for calculations from 1 December 2008.
Dependants' provision	*Benefits paid to a member's widow(er) or civil partner.*

Dependant's pension on death after retirement	*<u>Death in retirement</u>* *– if the death occurs within 5 years of the pension coming into payment, a lump sum equal to the sum of the further instalments of pension which would have been payable to the member over the period including pension increases* *- Immediate pension of 1/90 of the member's pensionable pay for each year of completed service* *- An amount of £3,844.18 per annum in respect of each child and a further amount of £1,922.09 per annum in respect of each child if both parents are dead an no benefit is payable to the dependant* *- a lump sum of £1,000*
Ill-health benefits	*If the trustees in their discretion determine a member is entitled to immediate payment of the scale pension. The scale pension will be calculated as in 1/2 below:* *1. For permanently incapable of duties, the scale pension will be enhanced by taking into account one half of the additional pensionable service which the member would have completed had he remained in service until normal retirement age with no change in his salary after his actual exit date.* *2. For permanently incapable of any work, the scale pension will be enhanced by taking into account the additional pensionable service which the member would have completed had he remained in service until normal retirement age with no change in his salary after his actual exit date.*

Lump sum benefit on death in service	*<u>Death in Service</u>* *- A lump sum equal to the greater of 1) 4 times the member's pensionable salary, and 2) the aggregate of the amounts which would have been payable if, instead of dying in service, the member had retired entitled to an immediate pension and elected to received the maximum lump sum* *- Child's pension amount of £3,844.18 per annum in respect of each child; and a further amount of £1,922.09 per annum in respect of each child if both parents are dead and no benefit is payable* *- a dependant's pension of 1/90th of the member's pensionable pay for each completed year of service*
Pension increases in retirement (for excess pension over GMP)	*Retail Price Index (RPI)*
Pension increases in deferment (excess pension over GMP)	*RPI*

5.2. Do you have a salary sacrifice arrangement for any group of employees? If so:

When was it introduced?	2006
To which groups of employees does it apply?	All active members are eligible
What percentage of eligible members participates in the arrangement?	Approx 80%
How is the reduction in salary calculated?	The rate of deduction is 3% of pensionable pay
Is the saving in employer's National Insurance Contributions shared between the employer and employees? If so, how?	No

5.3. Are Additional Voluntary Contribution (AVC) facilities available to members? If so:

Is this on a defined contribution basis, by buying added years, or both?	Both defined contribution basis and buying added years
Does the employer contribute to members' AVCs?	No

5.4. Does the scheme accept transfers in?

If no, when did the scheme cease to accept transfers in?	Individual transfers in have not been accepted since the establishment of the scheme.
If yes, has ceasing to accept transfers in been considered?	

6. Changes to scheme benefits

6.1. Provide details of any changes to scheme benefits and/or member contributions since 1990. For each change:

Describe the change.	N/A
State the effective date of the change, and what periods of service (or which groups of members) were affected by the change.	
Explain briefly the reasons for the change (for example, "to comply with the Pensions Act 1995", "to reduce costs", or "to apply valuation surplus").	
Provide details of any consequential or associated changes in other terms and conditions or pension benefits.	
Quantify the benefits / costs / savings separately to the employer and to members, and the effect on the current scheme surplus or deficit.	
For decreases in member contribution rates, state whether the decrease was directly met by an equivalent increase in employer contribution rates at the same time.	

6.2. Have member contribution rates been reduced, and currently remain, below the maximum level allowed under the Electricity and Gas Acts for members covered by protected rights? If so, why?

N/A

6.3. Have you ever restricted any new (or existing) elements of salaries to make them non-pensionable, or restricted salaries for pension scheme members relative to non-members? If so, provide details.

No.

6.4. Have you ever offered cash, or other benefits, in return for employees giving up their protected rights? Have there been any other modifications to protected rights terms? If so, please provide details, including the percentage of eligible employees who accepted.

N/A - no member has protected rights.

6.5. Where redundancy benefits were provided by the scheme, have such benefits been removed or reduced for any employees? If so provide details, including savings.

No

6.6. Quantify the overall saving achieved in pension costs due to changes in scheme benefits or member contributions since 1990.

N/A

7. Actuarial valuation results

7.1. Provide the following information as at the date of each of the last three triennial actuarial valuations. (If full actuarial valuations have been carried out more frequently than triennially, include all full actuarial valuations in the last ten years.) Results should be taken from ongoing actuarial funding valuations, unless stated otherwise. If appropriate, provide additional information on recommended employer contributions.

	7/12/2005 (Last Trustee Actuarial Valuation)	31/3/2007 (Company Valuation)
Under Pensions Act 2004? (yes/no)	Yes	Yes
Funding method (for example, Projected Unit)	Projected Unit	Attained age
Market value of assets	£163.9m	£191.1m
Actuarial value of assets, if not at market value	N/A	N/A
Actuarial value of liabilities	£192.0m	£218.7m
Ongoing funding level (%)	85%	87%
Deficit recovery period (years)	10 years	10 years
Employer contribution rate for future accruals (%) of pensionable pay	31.1%	35.5%
Employer contribution rate after surplus/deficit (%)of pensionable pay	31.1% (Shortfall contributions paid as lump sums in addition)	35.5% (shortfall contributions as paid as lump sums in addition)
Solvency (or buy-out) funding level (%)	55%	65%

7.2. Describe the basis on which the employer contribution rate has been set.

The same assumptions were used as those which were used to value the liabilities under the Statutory Funding Objective (see Q8).

7.3. Have actual employer contributions been in line with the rates in 7.1? If not, provide details of actual contributions, and explain why they differ to the rates in 7.1.

Actual contributions have been in line with the employer contribution rate as agreed with the Trustees in the December 2005 valuation. In addition, the employer has been paying a shortfall additional contribution.

The employer currently pays a shortfall correction additional contribution of at least £862,000, no less frequently than quarterly from 30 September 2006 to 31 December 2015 inclusive. These contributions fall due on the last day of each calendar quarter in respect of that quarter, and are paid by the last day of that quarter. For the avoidance of doubt, the first such contribution was due on 30 September 2006 and the second on 31 December 2006. The amount of the quarterly payments is increased with effect from the start of each calendar year by the percentage increase in the RPI over the 12 months to the September of the preceding year.

7.4. Provide details of the basis on which the deficit recovery period was set at each triennial valuation, including the factors that were taken into account when setting the recovery period, and whether there were any discussions with The Pensions Regulator.

The deficit recovery period was set as a result of negotiation between the Trustees and the employer bearing in mind The Pensions Regulator's (tPR) triggers. This recovery plan has been agreed by the employer, (UUOL) and NGN as ultimate sponsoring employer.

The Pensions Regulator confirmed that it would not issue any directions in relation to the 2005 valuation of the scheme. However, it added that "on your next valuation we recommend that you give particular attention to the length of the recovery period".

7.5. On what basis do you identify/attribute deficits and pension costs to each regulated and non-regulated business in the scheme?

N/A. UUOL (which contracts from NGN) recharges all pension costs in respect of NGNPS to NGN. (See also Q4.3.)

8. Actuarial assumptions

8.1. Provide the following information on the assumptions underlying ongoing actuarial funding valuations as at the date of each of the last three triennial actuarial valuations. (If full actuarial valuations have been carried out more frequently than triennially, include all full actuarial valuations in the last ten years.)

	7/12/2005 (Last Trustee Actuarial Valuation)	31/3/2007 (Company Valuation)
Pre-retirement nominal rate of return	5.4%	5.45%
Pre-retirement real return above price inflation	2.6%	2.35%
Pre-retirement real return above salaries	1.85%	1.6%
Promotional salary scale (if not in salary assumption)	There is a further allowance for promotional salary increases of 5.0% per annum at age 20 reducing to nil at age 35.	There is a further allowance for promotional salary increases of 5.0% per annum at age 20 reducing to nil age 35.
Post-retirement nominal discount rate (i.e. real rate of return to value liability)	4.7%	4.75%
Post-retirement real return above price inflation	1.9%	1.65%
Post-retirement real return above pension increases	1.9%	1.65%
Proportion of pension commuted at retirement	Assumed that no members take cash at retirement.	Assumed that no members take cash at retirement
Mortality table used to value current pensioners*	N/A – no pensioners at the valuation	PA92 (b=1965) mc + 1 year
Expectation of life at 60 for male pensioner	N/A	N/A
Expectation of life at 60 for female pensioner	N/A	N/A
Mortality table used to value future pensioners*	PA92 (b = 1965) mc + 1 year	PA92 (b=1965) mc + 1 year
Expectation of life for male who will be aged 60 in 20 years	26.8 years	26.8 years
Expectation of life for female who will be aged 60 in 20 years	29.7 years	29.7 years

** Specify the mortality table used, including any age ratings: e.g. PMA/PFA92 U=2004 x-1 with medium cohort improvement factors subject to a 1% underpin.*

8.2. Summarise the basis on which the discount rates were determined.

Investment return pre-retirement (discount rate)

For December 2005 Actuarial Valuation:

A yield based the gross annualised redemption yield on the FTSE Actuaries Government Securities 15 year index, plus 1.1% p.a.

For March 2007 Company Valuation:

It was felt a more appropriate assumption was to use a gilt yield which has a term similar to that of the liabilities when determining the discount rates. This change in assumption was driven by change in the shape of the yield curve from December 2005, where it was relatively flat, to one which sloped downwards as the term of the gilts increased as prevailed at March 2007.

A gilt yield of 4.35% p.a. as at 31 March 2007 was therefore applied as appropriate for the maturity of the scheme.

Investment return post-retirement (discount rate)

For December 2005 Actuarial Valuation:

A yield based the gross annualised redemption yield on the FTSE Actuaries Government Securities 15 year index, plus 0.4% p.a.

For March 2007 Company Valuation:

It was felt a more appropriate assumption was to use a gilt yield which has a term similar to that of the liabilities when determining the discount rates. This change in assumption was driven by change in the shape of the yield curve from December 2005, where it was relatively flat, to one which sloped downwards as the term of the gilts increased as prevailed at March 2007.

A gilt yield of 4.35% p.a. as at 31 March 2007 was therefore applied as appropriate for the maturity of the scheme.

8.3. Summarise the basis on which the salary increase assumptions were set, including consistency with the employer's long-term plans or pay policies.

The assumptions used in both the December 2005 and March 2007 valuations performed by the Actuary to the Trustees and the Company's advisor were that salaries would increase at a rate of 0.75% p.a. in excess of price inflation (as measured by the RPI). In addition, there was some allowance for promotional increases prior to age 35 which increases the level of real salary increase.

As is widely noted there is ample historic evidence to support this assumption of above RPI real salary growth, which has actually been acknowledged by the Regulator in the salary allowances given for the 2008-13 Gas Distribution Price Control.

The 0.75% real salary growth long term assumption is slightly more conservative than the allowance which was given by Ofgem as part of the 2008-13 Price Control where it was assumed that there would be real growth in direct labour costs of 2% for the first two years of the reset followed by 1% thereafter which acknowledges the upward price pressures being faced by the industry.

The long term assumption of 0.75% real growth takes account of other general longer term economic conditions as well as the separate promotional salary award increases of up to 5% assumption.

In the March 2007 Company Valuation a yield curve was also used to determine the market expectation of inflation. This differed from the approach adopted at the previous Trustee Actuarial Valuation. Between December 2005 and March 2007 market expectations of inflation rose which consequently increased the allowance for future salary increases.

8.4. Summarise the method and assumptions used to calculate the actuarial value of the assets, if different to market value.

Market value of assets is used so as to be consistent with that of valuing the liabilities.

8.5. To what extent do the actuarial assumptions reflect the employer's covenant, in particular the employer's position as a regulated utility company and the extent of any unregulated business.

The employer's covenant was a key consideration in setting the actuarial assumptions.

See Q4.3 for the relationship between the employer and NGN.

NGN provided information to the Trustees on the financial security and standing of NGN to demonstrate its ability and willingness to provide long-term support to NGNPS in light of its regulated Licence.

9. Merged schemes

9.1. Where schemes have been merged or demerged, with assets and liabilities being transferred from or to other schemes, provide the following information (for each merger/transfer):

Date of merger/transfer.	N/A
Background to the merger/transfer and name of other pension scheme(s).	
Number of active, deferred and pensioner members involved in the merger/transfer, and total number of active, deferred and pensioner members in the pension scheme at the merger/transfer date, separately for each regulated and unregulated business.	
The amount of the transfer value and the principles/basis underlying its calculation.	
The extent to which the transfer value was scaled back to reflect underfunding.	
Quantify the amount of the scheme’s current surplus or deficit relating to the transferred members.	

10. Investment strategy

10.1. Summarise the approach to risk underlying the scheme's investment strategy, indicating how (and why) this has changed in the last ten years.

The Trustees have translated their objectives into a suitable strategic asset allocation benchmark for the Scheme. The benchmark is consistent with the Trustees' views between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk. The strategic asset allocation currently targeted by the Scheme comprises:

UK Equities	22.5%
Overseas Equities	22.5%
Bonds	45.0%
Property	10.0%
Total	100.0%

The strategic benchmark has in turn been translated into benchmarks for the individual investment managers which are consistent with the Scheme's overall strategy.

10.2. To what extent does the scheme's investment strategy reflect the employer's covenant, in particular the employer's position as a regulated utility company and the extent of any unregulated business?

The investment strategy takes due account of the maturity profile of the Scheme, the level of disclosed deficit (relative to the funding basis used) and the Trustees' assessment of the covenant of the sponsoring employer.

(See Q4.3 for background on the employer and arrangements with NGN)

10.3. Provide details of the scheme's asset allocation as at each of the last 9 years' scheme accounts dates (percentage).

Asset class	7/12/2005	31/12/2006	31/12/2007
UK equities	53.6%	22.9%	21.1%
Overseas equities	19.4%	24.0%	23.0%
UK property	-	-	7.3%
Overseas property	-	-	-
Hedge funds	-	-	-
UK fixed-interest gilts	12.5%	15.8%	15.4%
UK index-linked gilts	12.5%	15.9%	16.4%
UK corporate bonds	-	15.7%	15.0%
Overseas bonds	-	-	-
Cash	2.0%	5.7%	1.8%
Total	100.0%	100.0%	100.0%

10.4. If materially different to the above, provide the intended asset allocation:

Asset class	**Date**	**Date**	**Date**	**Date**	**Date**	**Date**	**Date**	**Date**	**Date**
UK equities									
Overseas equities									
UK property									
Overseas property									
Hedge funds									
UK fixed-interest gilts									
UK index-linked gilts									
UK corporate bonds									
Overseas bonds									
Cash									
Other (give details)									
Other (give details)									

10.5. Summarise the scheme's current target investment strategy if different to that as at the most recent scheme accounts date in 10.3 or 10.4.

N/A

10.6. Provide details of any expected future changes to the scheme's investment strategy.

No changes agreed at the current time.

10.7. What is the long-term annual expected rate of return on the scheme's assets, based on its current target investment strategy?

A straight weighted average gives an approximate estimated return of 5.5% p.a. though in practice more detailed analysis of the correlations and volatilities would give a slightly different estimate. Please note that this estimate also excludes any contribution from active management.

10.8. Explain the background to any significant changes in investment strategy over this period, and their effects on expected rates of return.

N/A

10.9. Provide the scheme's actual investment returns for each of the last 9 years:

	31/12/2006	31/12/2007
Investment return (%)	8.8% from 7 December 2005	4.8% p.a.

[redacted]