ofgem

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?

Western Power Distribution Group of the Electricity Supply Pension Scheme

3.2. In what year was the scheme established?

The Electricity Supply Pension Scheme was established on 1 April 1983.

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 Electricity Supply Pension Scheme was the result of the amalgamation of the Staff and Industrial Staff Superannuation Schemes.

The Western Power Distribution Group of the Electricity Supply Pension Scheme was formed on the 1 April 2002, following the merger of the Western Power Group of the Electricity Supply Pension Scheme {formerly the South Western Electricity Group (the SWEB Group)} and the South Wales Electricity Group (the SWALEC Group), following the acquisition of the Hyder Group of Companies and associated pension schemes by Western Power.

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.

Yes.

The Electricity (Protected Persons) (England and Wales) Pension Regulations 1990 (the Regulations) were made by the Secretary of State under powers given by section 104 of, and Schedule 14 to, the Electricity Act 1989. They came into force on 31 March 1990 (the *transfer date*). They provide for the protection of the pension rights of the then existing and former employees of the Central Electricity Generating Board, the Area Electricity Boards and the Electricity Council who were accruing or who had accrued pension rights in the *Scheme*, together with their dependants. Employees then under eligibility age or serving a probationary period who subsequently joined the *Scheme* when first eligible to do so were also protected.

The Regulations impose a duty on the relevant employer to maintain or provide its *protected employees* and *protected beneficiaries* (together called *protected persons*) with pension rights on an ongoing basis.

Please refer to Table 4.2 below for details of protected beneficiaries.

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?

No the scheme is open to new entrants and future accrual.

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

No

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. [Insert tables as appropriate.]

Name of regulated business	Western Power Distribution (South West) plc			
Numbers of members	31/03/01	31/03/04	31/03/07	31/03/08
Members with protected rights from the time of privatisation				
Active members	1221	1136	1007	962
Deferred members	973	894	817	782
Pensioner members	5561	5381	5160	5080
Total	7755	7411	6984	6824
Other members				
Active members	133	386	483	525
Deferred members	569	538	518	516
Pensioner members	82	116	156	169

Total	784	1040	1157	1210

Name of unregulated business				
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?

Western Power Distribution (South West) plc

Western Power Distribution (South Wales) plc

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

Over the period of the last three tri-ennial valuations, Meter Reading Services Limited ceased to be a participating employer from 1 April 2007.

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. [Insert additional copies of the table as necessary]

Specify which group of members	All members
Type of benefits	Final salary
Contracted in or out of S2P	Contracted out
Normal retirement age (age when unreduced pension is payable)	63 For members who were in the industry before 1 April 1988 the normal retirement age is 60. However, pre 1988 male members receive reduced benefits for the period of service up to 16 May 1990 (Barber discounting) if they retire between the ages of 60 and 63.
Definition of pensionable pay (specify	Basic pay plus pensionable allowances

any deductions in particular)	
Member contributions	6% of pensionable pay
Accrual rate for member benefits	1/80th
Lump sum terms on retirement (specify commutation rate at NRA, if applicable)	3 x annual pension
Dependants' provision	Legal spouse, Civil Partner or nominated partner
Dependant's pension on death after retirement	54.25% of member's pension ignoring commutation
Ill-health benefits	Where the member has five years continuous employment or contributing service, the member is entitled to payment of unreduced benefits immediately based on the service the member would have attained had they remained in service until their normal pension age.
Lump sum benefit on death in service	4½ x pensionable pay
Pension increases in retirement (for excess pension over GMP)	The pension will be increased on 1st April each year in line with inflation, as measured by the rise in the Retail Prices Index (RPI) over the 12 months to the previous 30 September. The Company, with the consent of the Independent Trustee may specify that an annual increase will be restricted to 5%.
Pension increases in deferment (excess pension over GMP)	The pension will be increased on 1st April each year in line with inflation, as measured by the rise in the Retail Prices Index (RPI) over the 12 months to the previous 30 September. The Company, with the consent of the Independent Trustee may specify that an annual increase will be restricted to 5%

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

When was it introduced?	n/a
To which groups of employees does it apply?	n/a
What percentage of eligible members participates in the arrangement?	n/a
How is the reduction in salary calculated?	n/a
Is the saving in employer's National Insurance Contributions shared between the employer and employees? If so, how?	n/a

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?	Members are able to either purchase additional years of service subject to a maximum of 40 years service, and/or AVC's on a money purchase basis
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?	n/a
If yes, has ceasing to accept transfers in been considered?	Yes. Transfers in from non-ESPS members or ESPS members without protected rights are de-minimis. WPD wishes to retain this option to enhance its ability to recruit and retain the best staff.

6. Changes to scheme benefits

6.1. Provide details of any changes to scheme benefits and/or member contributions since 1990. For each change: [Insert additional tables as necessary]

Describe the change.	The Scheme Rules state that – in effect – a portion of any surplus may be used for benefit improvements with the remainder for Company purposes (e.g. payment holidays) and/or a general reserve. Historically (but without commitment to the future) 1/3 of any surplus was used for benefit improvements on the basis that members make 1/3 of the contributions. Details of specific benefit improvements paid out of the 1/3rd and their costs are given in the attached table.
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?

No

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.

Following the sale of the servicing and contracting businesses in 1996, all affected members were offered an enhancement of past service pension for giving up their protected rights. This enhancement was based on a sliding scale relevant to the member's age and existing pensionable service at the time of the sale of the businesses. The level of enhancement granted was subject to the maximum allowance permissible under Inland Revenue limits. The acceptance rate was 100%

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.

The scheme does not provide redundancy benefits per se. In 1999 the company funded enhanced pension benefits as follows:

All staff who were made redundant and who were members of the Electricity Supply Pension Scheme were, subject to Rules of the Scheme restrictions, granted an additional ESPS contributory service enhancement of 2 years. The enhancement was applied as follows:-

- **For those under 50, an additional pension and lump sum payable immediately on retirement at aged 50 based upon an additional ESPS contributory service enhancement of 2 years.**

- **For those over 50, an immediate additional pension and lump sum based upon an additional ESPS contributory service enhancement of 2 years.**

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

None

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.

	31/03/01	31/03/04	31/03/07
Under Pensions Act 2004? (yes/no)	No	No	Yes
Funding method (for example, Projected Unit)	Projected Unit	Projected Unit	Projected Unit
Market value of assets	737.7	989.9	1267.4
Actuarial value of assets, if not at market value			
Actuarial value of liabilities	682.5	1208.5	1403.8
Ongoing funding level (%)	110	83.5	90.3
Deficit recovery period (years)	n/a	14	3
Employer contribution rate for future accruals (%) of pensionable pay	13.7	18.5	21.1
Employer contribution rate after surplus/deficit (%)of pensionable pay	Awaiting clarification of the question from Ofgem	Awaiting clarification of the question from Ofgem	Awaiting clarification of the question from Ofgem
Solvency (or buy-out) funding level (%)	107.7	64	70

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

In accordance with the ESPS Scheme Rules and the Pensions Regulator's Guidance, on the advice of the Scheme Actuary and in agreement with the scheme's Independent Trustee

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.

Yes

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.

2001 – Not applicable - there was no deficit

2004 – In accordance with the "remaining working life" principle which was normal practice prior to the 2004 Pensions Act. This valuation was not subject to the 2004 Act

2007 – In accordance with the Pensions Regulator's Guidance and Ofgem's Pensions Principles. This was cleared by the Pensions Regulator.

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

Non-regulated businesses are de minimis for WPD and the Pension Scheme does not distinguish between regulated and non-regulated businesses. However, the cost to the regulated and non-regulated businesses are apportioned in accordance with Ofgem's Pensions Principles at the Company level and reported in the RRP Tables each year.

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.)

	31/03/01	31/03/04	31/03/07
Pre-retirement nominal rate of return	5.8	6.7	6.7
Pre-retirement real return above price inflation	3.5	3.8	3.5
Pre-retirement real return above salaries	2.0	2.3	2.0
Promotional salary scale (if not in salary assumption)	n/a	n/a	n/a
Post-retirement nominal discount rate (i.e. real rate of return to value liability)	5.3	5.7	5.7
Post-retirement real return above price inflation	3.0	2.8	2.5
Post-retirement real return above pension increases	0.2	0.1	0.0
Proportion of pension commuted at retirement	0%	0%	0%
Mortality table used to value current pensioners*	PMA92/PFA 92, base year 2010 rated up 2 years	PMA92/PFA 92 base year 2002 rated up 1 year reducing by 0.4% compound	110% PNMA00 and 110% PFMA00 (birth year) Medium Cohort
Expectation of life at 60 for male pensioner	21.7	22.9	25.7
Expectation of life at 60 for female pensioner	24.6	26.1	28.1
Mortality table used to value future pensioners*	PMA92/PFA 92, base year 2020 rated up 2 years	PMA92 and PFA 92 both base 2002 + 1 year reducing by 0.2% p.a. compound before retirement and 0.4% p.a. after	110% PNMA00 and 110% PFMA00 (both birth year) Medium Cohort
Expectation of life for male who will be aged 60 in 20 years	22.6	23.8	26.9
Expectation of life for female who will be aged 60 in 20 years	25.5	27.2	29.2

**** 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.

2001 – Liabilities were valued by the Actuary using a discount rate based on financial assumptions derived from market yields on Fixed Interest and Index-Linked Government Stock (gilts) at the valuation date but adjusted to allow for the anticipated extra returns available on equities and equity-type investments

2004 – Liabilities were valued by the Actuary using a discount rate equal to the yield on fixed interest gilts of appropriate term at the valuation date plus 2% per annum over the period to retirement and 1% per annum thereafter. The inflation assumption is derived from the difference between the yield on fixed interest gilts and the yield on index-linked gilts of appropriate duration at the valuation date.

2007 – Same as 2004

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.

RPI plus a margin to reflect actual pay settlements and incremental progression up pay scales

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

Market value used

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.

WPD understands that when considering both the actuarial assumptions and the investment strategy, the Trustees, the Independent Trustee and their advisers rely on the strength of the employer's covenant e.g. Ofgem's Pension Principles.

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):

<table>
<tr><td>Date of merger/transfer.</td><td colspan="2">1 April 2002</td></tr>
<tr><td>Background to the merger/transfer and name of other pension scheme(s).</td><td colspan="2">The Western Power Distribution Group of the Electricity Supply Pension Scheme was formed on the 1 April 2002, following the merger of the Western Power Group of the Electricity Supply Pension Scheme {formerly the South Western Electricity Group (the SWEB Group)} and the South Wales Electricity Group (the SWALEC Group), following the acquisition of the Hyder Group of Companies and associated pension schemes by Western Power.</td></tr>
<tr><td rowspan="2">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.</td><td>Western Power Group as at 31 March 2002

Actives 1626

Deferreds 1522

(plus 2631 EPB liabilities)

Pensioners 5578</td><td>South Wales Group as at 31 March 2002

Actives 861

Deferreds 1078

(plus 892 EPB liabilities)

Pensioners 3768</td></tr>
<tr><td colspan="2">Western Power Distribution Group with effect from 1 April 2002

Actives 2487

Deferreds 2600

(plus 3523 EPB liabilities)

Pensioners 9346</td></tr>
<tr><td>The amount of the transfer value and the principles/basis underlying its calculation.</td><td colspan="2">£ 481.7m total assets of the South Wales Group as at 31 March 2002 – straight transfer.</td></tr>
<tr><td>The extent to which the transfer value was scaled back to reflect underfunding.</td><td colspan="2">Not applicable</td></tr>
<tr><td>Quantify the amount of the scheme's current surplus or deficit relating to the transferred</td><td colspan="2">Surplus of £68.5m at the time of merger in respect of the Western Power Group.</td></tr>
</table>

members.	Surplus of £61.1m at the time of merger in respect of the South Wales Group.

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.

Since the inception of the scheme the trustees' investment strategy has had a high bias towards equities. However over the last 3 years excess investment returns have been used to switch from equities to fixed income securities in accordance with their Statement of Investment Principles.

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 Company understands that the Trustees rely on the strength of the employer's covenant when determining their investment strategy.

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

Asset class	2000	2001	2002	2003	2004	2005	2006	2007	2008
UK equities	55.5	55.3	55.5	37.5	37.5	37.5	37.5	37.5	35.0
Overseas equities	26.4	24.9	26.4	37.5	37.5	37.5	37.5	37.5	35.0
UK property	1.4	0.9	1.1	2.0	2.0	2.0	2.0	2.0	2.0
Overseas property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hedge funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UK fixed-interest gilts	12.7	14.1	12.7	7.0	7.0	7.0	7.0	7.0	8.6
UK index-linked gilts	3	3.7	2.6	7.0	7.0	7.0	7.0	7.0	8.6
UK corporate bonds	0.0	0.0	0.0	8.0	8.0	8.0	8.0	8.0	9.8
Overseas bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash	1	1.1	1.7	1.0	1.0	1.0	1.0	1.0	1.0
Other (give details)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (give details)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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.

The Scheme's Statement of Investment Principles states that "The long term aim of the group trustees and the Company is to reduce investment risk. The group trustees have agreed a process to monitor the discontinuance buy-out funding level on a quarterly basis. This has established trigger points which would result in a more detailed consideration of the investment strategy with the group trustees and the Company. It is anticipated that this would result in a reduction in investment risk if there were a sustained outperformance of the assets relative to the discontinuance buy-out liabilities…….a reduction in the required return of 0.2% p.a. is broadly equivalent to a 5% reduction in equity exposure. Thus, if the required return is more than 0.2% lower than the expected rate of return on the assets then the group trustees will consider reducing the equity allocation following discussion with the group actuary and the Company. "

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

8.3% as of 30/06/08 (Source: Trustees' Quarterly Investment Report Q3/08)

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

The reduction in the percentage of equities from 75% to 70% was made in July 2007 in line with the principles set out in 10.6 above.

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Investment return (%)	13.4	-7.5	-1.7	-19.6	24.0	9.7	24.0	8.2	-3.2

[redacted]