



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 (e.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?

Wales & West Utilities Pension Scheme

3.2. In what year was the scheme established?

December 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 to provide employees of Wales & West Utilities Limited with benefits mirroring those available in the Lattice Group Pension Scheme which were available to employees before the sale of the business by NGT.

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. Please note that under the Scheme Rules any amendment is only possible if approved by two-thirds of the in-service members if the amendment increases member contributions or reduces future pensions. The Company and Trustee are therefore unable to change the Rules and consequently the benefits available through the Scheme or the level of member contributions without at least two-thirds of the current membership of the Scheme first agreeing to the change. This is always the case unless the change is required by over-riding legislation, e.g. the Pensions Act 2004. The Scheme was a product of the GDN sale process in 2005 when WWU were required to adopt a mirror scheme to that previously operated by National Grid

For the purpose of this question and the remainder of this form, we have interpreted "protected rights" as those that apply to certain members under the 1989 Electricity Act.

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 membership of the defined benefit section of the Scheme has been a closed scheme since 2002 when the defined benefit section of the Lattice Group Pension Scheme was closed to new entrants. The liabilities of the Scheme therefore reflect only the inherited benefits attributable to former members of NGT's scheme who transferred when NGT sold part of its business to Wales & West Utilities Limited in 2005. The inherited benefits of the residual members are required to be mirrored following the sale and, as noted in 3.4, the benefits cannot be changed going forward without a two thirds majority of the members. The membership profile is reducing year on year (see 4.2)

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	Wales & West Utilities Limited			
Numbers of members	31/03/08	31/03/06	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	802	988		
Deferred members	72	12		
Pensioner members	128**	1		
Total	1,002	1,001		

*As noted in 3.4, for this form, we have assumed that "protected rights" refers to the pension rights of individuals that were protected under the Electricity Act 1989.

**This figure includes dependent pensioners where a member dying has left more than one dependant.

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?

Wales & West Utilities Limited.

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

None. The Scheme was inherited from National Grid

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	<i>All members of the defined benefit section of</i>
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	<i>the scheme.</i>
Type of benefits	<i>Final Salary.</i>
Contracted in or out of S2P	<i>Contracted out.</i>
Normal retirement age (age when unreduced pension is payable)	<i>60</i>
Definition of pensionable pay (specify any deductions in particular)	<i>Salary and wages, but not payments for special duties, overtime or emoluments in kind. Pensionable pay is defined under the Scheme Rules and as required mirrors the definition under the NGT scheme in 2005.</i>
Member contributions	<i>3% of pensionable pay.</i>
Accrual rate for member benefits	<i>1/60th of service.</i>
Lump sum terms on retirement (specify commutation rate at NRA, if applicable)	<i>By commutation, 20:1 at age 60, 17:1 at age 65.</i>
Dependants' provision	<i>Legal spouse, live in partner or financial dependant / inter-dependant.</i>
Dependant's pension on death after retirement	<i>1/90th of pensionable pay multiplied by pensionable service increased to date of death.</i>
Ill-health benefits	<i>Immediate unreduced pension either 50% or 100% of potential future service plus past service dependant on nature of the ill health condition.</i>
Lump sum benefit on death in service	<i>4 x pensionable pay.</i>
Pension increases in retirement (for excess pension over GMP)	<i>RPI</i>
Pension increases in deferment (excess pension over GMP)	<i>RPI</i>

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?	<p>Historically added year AVCs were available in the Lattice Group Pension Scheme. These residual arrangements continue as agreed at the time of the Sale in 2005 sale. Members with the historic added year AVC arrangements have been unable to increase the rate at which they earn added years AVCs since 2005. This restriction was introduced by WWU to control any costs arising from AVCs. Since 2005 no new added years contracts have been allowed</p> <p>All AVC arrangements that have commenced since</p>
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	the Scheme was established in 2005 are therefore on a defined contribution basis only to control costs and risks.
Does the employer contribute to members' AVCs?	No employer contributions are paid for the defined contribution AVCs.

5.4. Does the scheme accept transfers in?

If no, when did the scheme cease to accept transfers in?	No. In 2005, other than for a small number of members transferring employment from NGT. Since the Scheme was established in 2005, members have not had the option to transfer individual benefits from other arrangements into the Scheme. As set out in 3.4 any benefits that have been earned by members in the Scheme have been inherited from NGT's scheme.
If yes, has ceasing to accept transfers in been considered?	n/a

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 maximum lump sum available to members on retirement, arising from the exchange of pension for cash, has increased slightly as the Inland Revenue restrictions on the amount of cash available have been removed following legislative changes relating to the tax regime for UK pensions.
State the effective date of the change, and what periods of service (or which groups of members) were affected by the change.	1st November 2007.
Explain briefly the reasons for the change (for example, "to comply with the Pensions Act 1995", "to reduce costs", or "to apply valuation surplus").	<p>This change was prompted by the legislative changes introduced by the Government under the Finance Act 2004 and guidance from the Government promoting greater flexibility of benefits for individuals within UK pension arrangements.</p> <p>The change was introduced alongside similar changes that were being introduced by other Gas Networks in the context of legislative changes relating to pensions and Government guidance.</p> <p>The change provided greater flexibility to individuals in light of the new provisions of the Finance Act 2004 whilst potentially reducing uncertainty and risk by bringing forward uncertain future benefit payments. It is envisaged that the change would not increase costs over the long term.</p>
Provide details of any consequential or associated changes in other terms and conditions or pension benefits.	n/a

Quantify the benefits / costs / savings separately to the employer and to members, and the effect on the current scheme surplus or deficit.	From members' point of view the change introduced greater choice regarding the lump sum at retirement. The change should increase certainty and reduce risk associated with future benefit payments and there may be a saving to the employer against the ultimate cost of providing the benefit to the extent that members take greater lump sums at retirement.
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.	n/a

Describe the change.	Defined benefit section of the Scheme closed to new members.
State the effective date of the change, and what periods of service (or which groups of members) were affected by the change.	In 2002 by National Grid No new members were allowed to join.
Explain briefly the reasons for the change (for example, "to comply with the Pensions Act 1995", "to reduce costs", or "to apply valuation surplus").	To control costs associated with pension provision.
Provide details of any consequential or associated changes in other terms and conditions or pension benefits.	n/a
Quantify the benefits / costs / savings separately to the employer and to members, and the effect on the current scheme surplus or deficit.	From employer's point of view the change introduced greater certainty regarding future pension accrual and the ultimate cost of provision.
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.	n/a

6.1. 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?

Member contribution rates have not changed. Any change would require two thirds majority of the membership to support

6.2. 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. Under the Rules of the Scheme, the definition of pensionable salaries was inherited from the NGT scheme. As set out in 3.4, restrictions apply on Rule changes.

6.3. 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

6.4. 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 – the benefits that are available on redundancy under the Scheme Rules are the same as those inherited from the NGT scheme.

Under the contribution agreement between the Trustee and the Company, where a pension strain arises as a result of a redundancy, the Company is required to pay a contribution into the Scheme to reflect the strain of the redundancy on the Scheme. Therefore any additional benefits provided by the Scheme Rules in respect of a redundancy would not be expected to be to the financial detriment of the Scheme as the employer would pay.

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

. The Scheme was closed to new members in 2002. Since 2005 when WWU inherited the scheme there has been no change to benefits or contributions from members and any such changes would require two third majority of the membership to support.

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.

	31/3/06	dd/mm/yy	dd/mm/yy
Under Pensions Act 2004? (yes/no)	Yes		
Funding method (for example, Projected)	Projected		

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Unit)	Unit		
Market value of assets	£164.8m		
Actuarial value of assets, if not at market value	n/a		
Actuarial value of liabilities	£201.8m		
Ongoing funding level (%)	81.7%		
Deficit recovery period (years)	10		
Employer contribution rate for future accruals (%) of pensionable pay	39.3%*		
Employer contribution rate after surplus/deficit (%) of pensionable pay	£5.2m pa, with an additional £1.7m pa for Scheme years 2010/11 to 2012/13 inclusive (recovery plan in £ amounts rather than % of pensionable pay)		
Solvency (or buy-out) funding level (%)	57%		

*In line with historic practice, this figure includes an allowance of 2.6% of pensionable payroll for ongoing administrative expenses, PPF levies and life assurance premiums. The member contribution is a further 3%.

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

The employer contribution rate was calculated by reference to the technical provisions and future service rates derived using the assumptions set out in the statement of funding principles. The rate was subject to agreement after discussions between the employer and Trustee and advice from the Scheme Actuary.

7.2. 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

7.3. 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 agreed by the Trustee and the employer after discussion and receiving advice from the Scheme Actuary. It reflects the Trustee's view of the employer covenant, guidance from the Pensions Regulator and the nature of the employer's business amongst other things. The Pension Regulator's stated trigger point for deficit recovery periods was 10 years in 2006.

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

n/a

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.)

	31/3/06	**	dd/mm/yy
Pre-retirement nominal rate of return (see 8.2)	5.95		
Pre-retirement real return above price inflation (see 8.2)	2.95		
Pre-retirement real return above salaries (see 8.2)	1.70		
Promotional salary scale (if not in salary assumption)	Promotional scale in addition		
Post-retirement nominal discount rate (i.e. real rate of return to value liability) (see 8.2)	4.20		
Post-retirement real return above price inflation (see 8.2)	1.20		
Post-retirement real return above pension increases (see 8.2)	1.20		
Proportion of pension commuted at retirement	-		
Mortality table used to value current pensioners*	PMA/PFA92 u06sc		
Expectation of life at 60 for male pensioner	25.9		
Expectation of life at 60 for female pensioner	28.9		
Mortality table used to value future pensioners*	PMA/PFA 92 u06sc		
Expectation of life for male who will be aged 60 in 20 years	27.2		
Expectation of life for female who will be aged 60 in 20 years	30.0		

** 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.*

****** The actuarial valuation as at 31st March 2006 was the first actuarial valuation of the Scheme. In previous years, the benefits of the Scheme's membership that were inherited from the NGT scheme would have been valued as part of the actuarial valuation of NGT's Scheme. The benefits of many other members would also have been valued as part of the actuarial valuations of this larger scheme.

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

For the actuarial valuation, a "horizon based" approach was used rather than a pre/post retirement discount rate approach. Under the "horizon based" approach, the benefit payments falling due within 15 years were assumed to be backed by bonds and benefit payments falling due after more than 15 years were assumed to be backed by property / equities. The discount rate reflects the underlying investments, as well as a margin for prudence and the Trustee's view of the employer covenant, as well as advice from the Scheme Actuary.

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 pensionable salaries of a significant proportion of the membership are underpinned under the Scheme Rules by a pensionable salary figure from 1992, increased in line with an index of national salary increases. The assumption reflects the employer's policy, past practice, with allowance for the pensionable salary underpin required by the Rules. This is a benefit feature that was inherited from the NGT scheme. Any change to the benefit would require the agreement of two-thirds of the membership as required by the inherited provisions of the Rules of the Scheme as set out in 3.4.

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

n/a

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 Trustee took independent advice on the covenant of the employer before agreeing the technical provisions with the employer. The Trustee set the assumptions with the agreement of the employer in light of this review.

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.	5th December 2005.
Background to the merger/transfer and name of other pension scheme(s).	On the Sale of Blackwater 2 Limited by National Grid to MGN (Gas Network) Senior Finances Limited. At the time of the Sale National Grid's scheme was named the Lattice Group Pension Scheme.
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.	<p>At the time of the merger, 959 active members and a further 6 deferred members transferred benefits from the NGT scheme into the Scheme.</p> <p>At the same time, a further 36 active members joined the Scheme from the NGT scheme but chose to leave their historic NGT benefits in the NGT scheme.</p> <p>Therefore, in total 1001 members joined the Scheme from the NGT scheme in 2005.</p> <p>All members are in the regulated business</p>
The amount of the transfer value and the principles/basis underlying its calculation.	Transfer amount: £151.4m reflecting the sum of the past service reserve for each transferring member calculated as at 31/5/05 on assumptions set out in the Actuary's letter to the Sale Agreement.
The extent to which the transfer value was scaled back to reflect underfunding.	The basis reflects the past service liabilities for transferring members in the Lattice Group Pension Scheme, adjusted to reflect the underfunding in the Lattice Group Pension Scheme at the last actuarial

	valuation of the Lattice Group Pension Scheme.
Quantify the amount of the scheme's current surplus or deficit relating to the transferred members.	The deficit was estimated to be £72m on an ongoing funding basis as at 31/3/08. All of this deficit relates to the liabilities of members who were previously members of the NGT scheme.

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 initial strategy to invest the transfer payment from the NGT Scheme was: 81% equity, 9% property and 10% index-linked bond investment with new funds being invested in index linked bonds. The initial strategy reflected the initial membership profile of the Scheme. The strategy has not changed, although it is reviewed at regular intervals. Around 30% of the assets currently invested in index linked bonds as a result of new funds invested in this asset class.

The Trustee has regular reviews of the strategy with its investment advisers in the context of the changing membership profile of the Scheme and the payments expected over the next 10-15 years in line with the horizon based approach that was adopted at the latest actuarial valuation for funding amongst other things. (Under the horizon based approach, assets backing benefit payment arising within 15 years are assumed to be invested in bonds and the remaining assets are invested in equities/property.)

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 was set by the Trustee, after consulting the employer it reflects the Scheme liabilities and the employer covenant. The Trustee has regular meetings with its investment advisers and monitors and reviews the strategy at regular intervals.

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

Asset class	*31/3/06	**31/3/07	31/3/08	Date	Date	Date	Date	Date	Date
UK equities	50%	49%	44%						
Overseas equities	32%	30%	28%						
UK property	8%	8%	7%						
Overseas property									
Hedge funds									

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UK fixed-interest gilts	10%	13%	19%						
UK index-linked gilts									
UK corporate bonds									
Overseas bonds									
Cash			2%						
Other (give details)									
Other (give details)									

*The Scheme was established in June 2005. All of the members of the Scheme were previously members of the NGT scheme at the scheme year end 31st March 2005.

** The allocation shown above is based on figures in the Scheme's published accounts and therefore represents a snapshot of the assets of the Scheme at various points in time. Under the Scheme's investment strategy the assets were initially allocated in 2005 to 81% equities, 9% property and 10% index-linked gilts. Under the Scheme's investment strategy, the allocation at any point in time will reflect the initial allocation, subsequent market movements and new contributions which, as required by the investment strategy, are allocated to index-linked bonds rather than equities or property. This strategy takes account of the increasing maturity of the Scheme and is reviewed regularly.

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)									

10.4. 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.

The investment strategy has not changed since the initial strategy was implemented. As at 31st December 2008, 65% of the invested assets were held in equities, 28% in index-linked government bonds and the remaining 7% was held in property.

This allocation is consistent with the investment strategy of the Scheme that was implemented when the Scheme was established in 2005.

The allocation as at 31st December 2008 differs from the initial assets allocation established in 2005 because, under the Scheme's investment strategy, new contributions are invested in index-linked bonds rather than property/equities. The allocation as at 31st December 2008 also reflects market movements since the Scheme was established in 2005.

The proportion of assets that are allocated to index-linked bonds has therefore increased over time, as would be expected under the Scheme's investment strategy, to reflect the increasing maturity of the Scheme.

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

The proportion of index-linked gilts is expected to increase due to new contributions continuing to be invested in this asset class under the Scheme's investment strategy. The allocation of new funds to index-linked bonds reflects the increasing maturity of the Scheme over time.

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

Based on allocation as at 31st March 2008, the long-term average expected investment return is nominal 7.0% pa. This is calculated using the best estimate assumptions currently underlying the Trustee's investment consultants' investment model.

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

No significant strategy charges, although as expected the proportion of index-linked bonds is increasing overtime to reflect the allocation of new funds to this class of investment. This reflects the increasing maturity of the closed Scheme and the current investment strategy of the Scheme which is reviewed at regular intervals by the Trustee.

10.8. Provide the scheme’s actual investment returns for each of the last 9 years:

	2007/08	2006/07	Year	Year	Year	Year	Year	Year	Year
Investment return (%)	-3.3	+7.8							

