

[insert DNO Group Name]

**Regulatory Instructions and Guidance
Commentary – Primary Finance Tables**

Reporting Year 2011-12

Contents

The main chapter numbers relate to the tables names in the RIGs templates to which the text relates

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- F2 Balance Sheet / Statement of financial position
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- F4 Net Debt
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 - F8.2 Pension detail tertiary DB scheme costs
- F9 Pension DC scheme costs
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Objectives and Information required

Objectives

General

To avoid duplication, one Commentary document is required per DNO Group. Respondents should ensure that comments are clearly marked to show whether they relate to all the DNOs in the group or to which DNO they relate.

Commentary is required in response to specific questions included in this document. If the respondent wishes to include further comments to assist in our understanding of the data provided in the data tables this is welcomed.

If the commentary is exactly the same as a previous year then the DNO should 'cut and paste' previous year's commentary into the document and include a note explaining that this is the same as for the previous year. This should minimise the number of documents that we need to refer to in discussions with the DNOs.

DNO's should include supporting documentation where they consider it necessary to support their comments or where it may aid Ofgem's understanding. Please insert an appropriate chapter heading and commentary box in the body of this document where it is necessary to provide additional commentary.

We have included some basic guidance in some areas to give an indication of the quantity of commentary we would expect to receive. This is only very broad guidance and should not be seen as a reason to limit comments where you feel additional information would be beneficial to our work.

Detail the compliance assurance steps that you have followed to assure yourself of the accuracy and validity of the information contained in your submission. It may be helpful for you to identify the assurance techniques/steps, provide commentary as to how you applied these and also to list the table(s) to which these techniques were applied.

[Type commentary here](#)

Changes in Reporting Systems

[Type commentary here](#)

Supporting data submissions

If not submitted please indicate when the submission will take place and/or reason for delay.

	Comment:
Corporation Tax return (CT600) and supporting tax computations for the licensee's last statutory accounting financial year.	
Final agreed corporation tax return for all years closed by HMRC in the regulatory year and up to the date of submission of RRP	
Annual audited accounts for each Pension Scheme	
Triennial actuarial valuation reports (or any that might be provided more frequently)	
S224 Pension Act 2004 updated valuations at 31 March each year to support data in tables F7, F8, F8.1 and F8.2	
Copy of the Certification by senior accounting officer that is prescribed in FA2009, which certifies annually that the accounting systems for the company and its subsidiaries are adequate for the purpose of reporting of "taxes and duties".	

Changes to amounts reported in prior year(s)

Explain each and any change(s) to amounts reported in prior year(s) columns. Identifying each separately by table number and cell number.

<i>Type commentary here</i>

F1 and F2: Profit & Loss and Balance Sheet

Commentary should specifically include explanation of:

- Exceptional items
- Differences between UKGAAP and IFRS.

<i>Type commentary here</i>

F4 and F5: Net Debt and Financing costs

Commentary should specifically include explanation of:

Whether within the "Analysis of other amounts due to/ (from) group companies per Balance Sheet (memorandum)" there are any amounts that are more than one year old. If this is so, explain whether or not these amounts should not be considered as part net debt for the purpose of assessing whether the gearing ratio has been exceeded.

If there are any derivative financial instruments held by a related party that are not reported in the table, quantify them and stating which debt(s) is being hedged.

Identify any new debt or debt refinanced, or new derivative financial instruments in the regulatory year.

Detail the covenants relating to the top 5 loans (by value).

	Comment:
Whether within the "Analysis of other amounts due to/ (from) group companies per Balance Sheet (memorandum)" there are any amounts that are more than one year old. If this is so, explain whether or not these amounts should not be considered as part net debt for the purpose of assessing whether the gearing ratio has been exceeded.	
If there are any derivative financial instruments held by a related party that are not reported in the table, quantifying them and stating which debt(s) is being hedged.	
Identify any new debt or debt refinanced, or new derivative financial instruments in the regulatory year.	
Detail the covenants relating to the top 5 loans (by value).	

F6: Financing requirements

A commentary is required to detail any concerns the licensee has about refinancing, except to the extent that such issues have been separately notified to Ofgem.

<i>Type commentary here</i>

F7 to F12: Cash Pension Contributions & Scheme data

A commentary is required to detail any other relevant items identified in the completion of this table. In particular it should specifically include explanation of:

	Comment:
Where the employee contribution rate per the valuation/scheme rules differs from that expressed as a percentage of employee actual contribution and pensionable salary (excluding salary sacrifice) provide an explanation of the difference.	
Where the employer contribution rate per the valuation/scheme rules differs from that expressed as a percentage of employer actual contributions and pensionable salary (excluding salary sacrifice) provide an explanation of the difference.	
Where the actual deficit funding payments vary from that using the regulatory fraction for a year, explain why this so and when the discrepancies will be remedied.	
How the attributions to segments reported have been calculated and how they differ from prior year(s).	
Where the pension scheme encompasses more than one DNO, related party or business activity how the reported amounts have been calculated.	
What steps are taken to alleviate the risk based element of the pension protection fund levy, including the current and prior year Dun & Bradstreet failure score.	
Changes in employer contribution rates across time and the reason for each change.	
Changes in employee contribution rates across time and the reason for each change.	

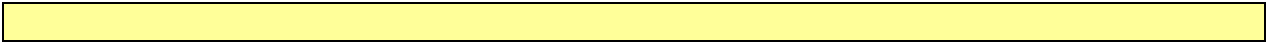
<p>How the administration costs of each DB pension scheme are met, e.g. paid directly by the licensee, related party or collected through ingoing contributions by the pension scheme; and, if shared between companies in common ownership, the basis of attribution and whether this is consistent across time?</p>	
<p>Provide full details of any salary sacrifice schemes, which should include:</p> <p>Date arrangements introduced and any subsequent changes.</p> <p>To which group of employees it applies.</p> <p>What percentage of members participate.</p> <p>How the reduction in salary is calculated.</p> <p>Whether the saving in employers National Insurance contributions is shared with employees; and, if so, explain the basis.</p>	
<p>Identify any differences between the assumptions used to value the past service liabilities and those used to calculate future contributions. Detail any differences, including whether the differences apply to contributions to meet future accruals, deficit recovery contributions or both.</p>	
<p>Where there are differences between the assumptions used to value the past service liabilities and those used to calculate future contributions, quantify the effect on the value attributable to the scheme's liabilities if the latter assumptions had been applied to the actual valuation. Provide supporting evidence of that amount.</p>	
<p>Comment on any significant differences between a scheme's current investment strategy and its benchmark strategy, or any agreed future changes to a scheme's investment strategy.</p>	
<p>If a scheme has closed, detail what pension benefits are provided for</p>	

subsequent entrants.	
Where the employer's deficit recovery contributions (or contribution reductions for surplus) are expressed as fixed monthly amounts, detail the annual amounts.	
Indicate if there is a significant difference in the remaining service life between non-distribution and distribution members, and provide both numbers. Where the mortality tables used needs further detail – supply this here as necessary.	
State the basis on which scheme's investment management advisors are remunerated including success factors and why these fees have varied year on year.	
Where any change(s) is made to prior year membership data these should be identified and detailed.	
Provide complete details of, and on what, basis any scheme deficit has been attributed across licensee's regulated business, licensee's non-regulated business segments, affiliates and other sponsoring employers and specifically other licensees. Provide supporting documentation and explain the calculation of any proposed change in the regulatory fraction from that prescribed in the current or last price control settlement. [This can be ignored once the Pension Deficit Allocation Methodology has been implemented.]	
Explain how each pension schemes' administration costs are met, e.g. by licensee, related party or pension scheme; and, if shared, how.	
Detail all bulk transfers and scheme mergers from corporate transactions explaining how the valuations of assets and liabilities have been determined, e.g. actuarial assessment of assets and	

liabilities of relevant members.	
Detail the value of scheme assets and liabilities at the time of any merger or bulk transfer relating to that merger or bulk transfer.	
Where a pension scheme has been sectionalised provide the basis for the sectionalisation of each of the assets and liabilities; and provide supporting evidence from the scheme valuers.	
Where there has been a change in ultimate controller(s) in the year explain whether there has been a covenant review by the trustees; and whether there has been any change in pension contributions, deficit payments or one-off lump sum deficit funding payments, additional security, contingent assets or other specific requirements by the scheme's trustees.	
Identify any differences between the assumptions used to value the past service liabilities and those used to calculate future contributions. Detail any differences, including whether the differences apply to contributions to meet future accruals, deficit recovery contributions or both.	
If the opening balances of scheme assets are revised, correct the previous year's data rather than adjusting in the current year. Where any changes are made to prior year data, these should be detailed.	
For all scheme transfers in, explain the reasons for transfer, whether transfer was fully funded, and	
Have member contribution rates been reduced or increased since 2005? If so, why and provide the changes.	
Has the scheme or the licensee 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.	

<p>Has the scheme or the licensee ever offered cash, or other benefits, in return for employees giving up their protected rights?</p> <p>Have there been any other modifications to protected rights terms? If so, provide details, including the percentage of eligible employees who accepted.</p>	
<p>Provide the period over which existing deficit as at the last triennial valuation is being funded as agreed with the Trustees and accepted by The Pensions Regulator (TPR) in the deficit recovery plan and state which triennial valuation this refers to.</p>	
<p>Where the latest triennial valuation has not been agreed by the sponsors and trustees, explain the reasons why and quantify the differences arising from differing views on actuarial assumptions.</p>	
<p>Where there have been any changes to investment managers since the last triennial valuation explain why, particularly if it relates to asset performance.</p>	
<p>Where the scheme used innovative investment strategies to manage their liabilities and hedge risks (e.g. contingent assets, longevity swaps or insurance products) explain their effect on scheme funding and de-risking (if any).</p>	
<p>If the established deficit has increased from that at 1 April 2010 explain the reasons, particularly identifying and quantifying every item outside the control of sponsors and trustees.</p>	
<p>Explain the assumptions applied in allocating costs, income and investment returns between the established and incremental deficits.</p>	

[DNO any further response to be entered here](#)



Summarise the DB Scheme benefits in the following format:

Benefit:	Comment:
Type of benefits	
Contracted in or out of S2P	
Normal retirement age (age when unreduced pension is payable)	
Definition of pensionable pay (specify any deductions in particular)	
Member contributions	
Accrual rate for member benefits	
Lump sum terms on retirement (specify commutation rate at NRA, if applicable)	
Dependants' provision	
Dependant's pension on death after retirement	
Ill-health benefits	
Lump sum benefit on death in service	
Pension increases in retirement (for excess pension over GMP)	
Pension increases in deferment (excess pension over GMP)	

Summarise any changes to DB scheme benefits here:

Change:	Comment:
Describe the change	
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.	

Summarise the actuarial assumptions made including:

Assumption:	Comment:
Pre-retirement nominal rate of return	
Pre-retirement real return above price Inflation	
Pre-retirement real return above salaries	
Promotional salary scale (if not in salary assumption)	
Post-retirement nominal discount rate (i.e. real rate of return to value liability)	
Post-retirement real return above price inflation	
Post-retirement real return above pension increases	
Proportion of pension commuted at retirement	
Mortality table used to value current pensioners	
Expectation of life at 60 for male pensioner	
Expectation of life at 60 for female pensioner	
Mortality table used to value future pensioners	

Expectation of life for male who will be aged 60 in 20 years	
Expectation of life for female who will be aged 60 in 20 years	

<i>DNO any further actuarial information response to be entered here</i>

F9: Defined contribution pension schemes

Commentary should specifically include explanation of:

Where different contribution rates exist, detail the individual rates here.

<i>Type commentary here</i>

F10 Pension Protection Fund (PPF) costs

Commentary should specifically include explanation of:

	Comment:
Explain any material variance in the PPF levy charges compared to prior years.	
Provide explanation of any change in the any participating employers Dun & Bradstreet Failure Score; and the effect this has on the quantum of the PPF levy.	

F11 Pension scheme administration costs

Commentary should specifically include explanation of:

	Comment:
Explain any material variance in the scheme administration charges compared to prior years.	
What the governance and control	

procedures are to ensure that scheme administration costs, where they are funded by additional contributions, that the actual spend is in line with contributions and that there is no material surplus or shortfall at a year end	
What the governance and control procedures the company has in place to monitor scheme admin costs and ensure that they are efficient.	

F13: Tax Capital Allowances

Commentary should specifically include explanation of:

Whether there are any specific additions within each capital allowance pool that are used for non-DUoS activity.

Revision to opening tax pools from that reported in the previous years' RRP,, including an analysis by year where more than one prior year has been amended. (This may be on statutory year ends with an adjustment for the difference between statutory and regulatory financial year ends.)

Whether there has been a disclaimer of capital allowances in any year since 2007-08 and the amounts disclaimed for each year by each capital allowance pool.

<i>Type commentary here</i>

Table F14: Tax Computation

Commentary should specifically include explanation of:

An analysis of other add backs should be disclosed and described separately for individual items over £500,000 where the individual analysis exceeds two.

Where there are or have been investigations by HMRC into the licensees in the last two years (to the date of the submission), what the investigation was for and the outcome, specifically any changes to reported taxable profits/losses or revisions of capital allowance pools; and any transfer pricing investigations.

Whether there have been any surrenders or receipt of group loss relief, or consortium relief; and, if so, explain with which entities and the amounts. Also confirmation that any surrender of losses or use of consortium relief has been paid for in full (at the applicable corporation tax rate for the year, or the rate applied).

Type commentary here

Table F14a: Tax Computation – DUoS activity

Commentary should specifically include explanation of:

An analysis of other add backs should be disclosed and described separately for individual items over £500,000 where the individual analysis exceeds two.

Type commentary here

Table F15: Reconciliation to Regulatory Accounts

Commentary should specifically include explanation of the reasons for each reconciling item. The commentary should include:

A description of the reconciling item

A basic explanation of why the reconciling item has arisen

An explanation of how the figure has been calculated. This should be sufficient for Ofgem to confirm the calculation during the visits if required.

Where IFRS has been adopted a statement of that fact listing the principle changes in the accounts to opex and capex is required.

Where costs are incurred by an affiliate and not recharged to the licensee, state name of affiliate, amount and reasons why not recharged and justification for allowing such costs as efficient and why they should be allowed in computing RAV additions.

Where any pension costs (ongoing employer contributions, deficit funding payments, PPF levies or pension scheme administration costs are incurred by an affiliate and not recharged to the licensee, state name of affiliate, amount and reasons why not recharged and justification for allowing such costs as efficient and why they should be allowed as distribution costs of the licensee.

Type commentary here

Table F17: Reconciliation of Cash Pension Costs to other tables and licensee's Regulatory Accounts

Commentary should specifically include explanation of the reasons for each reconciling item. The commentary should include:

A description of the reconciling item for each of

- Reconciling items required to reconcile to FI Ongoing Pension Service costs; and
- to Pension charge in Regulatory Accounts

A basic explanation of why the reconciling item has arisen

An explanation of how the figure has been calculated. This should be sufficient for Ofgem to confirm the calculation during the visits if required.

Where there is an unreconciled amount on rows 28 and 63 "Pension costs remaining to be reconciled" an explanation of why there are such amounts and the difficulty in clearing them.

If all or some of the pension costs are initially incurred in an affiliated company/companies, explain which and how they are recharged to the licensee.

Where any pension costs (ongoing employer contributions, deficit funding payments, PPF levies or pension scheme administration costs are incurred by an affiliate and not recharged to the licensee, state name of affiliate, amount and reasons why not recharged and justification for allowing such costs as efficient and why they should be allowed as distribution costs of the licensee.

Type commentary here

F20: TAX CLAWBACK CALCULATION

Commentary should specifically include explanation of the reasons for each item reported as a borrowing not in accordance with the defined net debt item. The commentary should include:

A description of the item

A basic explanation of why the item has arisen

An explanation of how the figure has been calculated. This should be sufficient for Ofgem to confirm the calculation during the visits if required.

Where you disagree with or have comments on tax/gearing clawback computation explain those.

Type commentary here