Energy Network Operators' Price Control Pension Costs - Regulatory Instructions and Guidance: Triennial Pension Reporting Pack supplement including pension deficit allocation methodology

~~Final decision~~

Reference:		**Contact:**	Mick Watson
Publication date:	XX July~~March~~ 2017	**Team:**	RIIO Finance
Version	Draft V2.0	**Tel:**	020 7901 7416
		Email:	mick.watson@ofgem.gov.uk

Overview:

This document provides instructions and guidance to Electricity (DNOs) and Gas (GDNs) Distribution and Transmission (TSOs) Network Operators to enable them to complete the reporting requirements associated with the triennial reporting of their defined benefit pension schemes and pension deficit (and/or surplus) allocations.

Context

This document contains the Energy Network Operators' Price Control Cost - Regulatory Instructions and Guidance: Triennial Pension Reporting Pack supplements.

The purpose of this document is to provide a framework to allow Ofgem to collect triennially, accurate and consistent data on licensees defined benefit (DB) pension schemes; and, the attribution of the deficit (or surplus) on those schemes (and the constituent assets and liabilities) between the established deficit, the incremental deficit and non-regulated activities from energy network operators (NWOs).

The pension deficit allocation methodology (PDAM) chapters set out the high-level procedures for applying the methodology ~~at DPCR5, TPCR4 adapted rollover year and~~ for RIIO price controls. The pension data tables set out the information and attributions required together with information on each scheme to inform our triennial R~~r~~easonableness R~~r~~eview of pension costs.

A number of licence conditions require the NWOs to provide us with this information. The key licence conditions for the purposes of this document are Electricity Distribution standard licence condition 46~~8~~, Electricity Transmission standard licence condition B15 and, for GDNs and GTOs and GSOs, Gas Transporter standard special licence condition A40.

This version of the guidance will apply for DNOs ~~to the fifth price control arrangements (DPCR5) which runs from 1 April 2010 to 31 March 2015 and~~ from 1 April 2015 for the RIIO-ED1 price control period and subsequent price controls. For GDNs, this applies from 1 April 2013 for price controls starting with RIIO-GD1 price control. For TSOs, ~~these apply to the one year adapted rollover of the fourth price control arrangements (TPCR4) which runs from 1 April 2012 to 31 March 2013 and~~ from 1 April 2013 for the RIIO-T1 price control period and subsequent price controls.

Revised versions of the guidance may apply for subsequent years.

Associated documents

Pension Deficit Allocation Methodology consultation
http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=130&refer=Networks

22 June pension paper *Price Control Treatment of Network Operator Pension Costs Under Regulatory Principles* (ref 76/10)
http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=119&refer=Networks

RIIO-T1 Price Control Financial Handbook – Electricity Transmission
https://www.ofgem.gov.uk/publications-and-updates/et1-handbook-v1.4-effective-september-14-final-without-mark-ups
~~http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/NGFinHB.pdf~~

RIIO-T1 Price Control Financial Handbook – Gas Transmission
https://www.ofgem.gov.uk/publications-and-updates/gt1-handbook-v1.3-effective-september-14-final-without-mark-ups
~~http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/SD1_RIIO_GT1_Price_Control_Financial_Handbook.pdf~~

RIIO-GD1 Price Control Financial Handbook – Gas ~~Transmis~~Distribut~~s~~ion
https://www.ofgem.gov.uk/publications-and-updates/gd1-handbook-v1.3-effective-september-14-final-without-mark-ups

RIIO-ED1 Price Control Financial Handbook – Electricity Distribution (fast-track)
https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-direction-make-modifications-ed1-price-control-financial-handbook-fast-track-licensees

RIIO-ED1 Price Control Financial Handbook – Electricity Distribution (slow-track)
https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-direction-make-modifications-ed1-price-control-financial-handbook-slow-track-licensees
~~http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Documents1/SD1_RIIO_GD1_Price_Control_Financial_Handbook.pdf~~

RIIO-GD1/T1 March 2011 Strategy decision document - Financial Issues supplement
http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Documents1/GD1decisionfinance.pdf

RIIO-GD1 Final Proposals – Finance and uncertainty
http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Documents1/3_RIIOGD1_FP_Finance_and_uncertainty.pdf

RIIO-T1 Final Proposals - Finance
http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/4_RIIOT1_FP_Finance_dec12.pdf

~~TPCR4 adapted rollover Final Proposals~~

~~http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4Roll-over/Documents1/TPCR4_Rollover_Final_Proposals.pdf~~

~~DPCR5 Final Proposals – Finance~~
~~http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrls/DPCR5/Documents1/FP_1_Core%20document%20SS%20FINAL.pdf~~

RIIO- ED1 March 2013 Strategy decision document - Financial Issues supplement
http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrls/riio-ed1/consultations/Documents1/RIIOED1DecFinancialIssues.pdf

Decision to fast-track Western Power Distribution
https://www.ofgem.gov.uk/publications-and-updates/decision-fast-track-western-power-distribution

RIIO-ED1 final determinations for the slow-track electricity distribution companies
https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-final-determinations-slow-track-electricity-distribution-companies

Decision on Ofgem's policy for funding Pension Scheme Established Deficits
https://www.ofgem.gov.uk/publications-and-updates/decision-ofgems-policy-funding-pension-scheme-established-deficits
Notice of statutory consultation on a proposal to modify the Price Control Financial Handbook held by Network Operators
https://www.ofgem.gov.uk/publications-and-updates/notice-statutory-consultation-proposal-modify-price-control-financial-handbook-held-network-operators

~~RIGs glossary~~
~~http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrls/DPCR5/Documents1/DPCR5_Glossary_of_Terms_tracked[1].pdf~~

Contents

1. Introduction 10
- Background 10
- Legal framework 11
- Timescales for reporting under the pension RIGs 11
- Commentary 21
- Glossary, definitions and interpretations 22

1. Introduction - Pension supplement one 24

2. Notional Sub-Funds 26

3. Valuation requirements 27
- which includes detail of the assets and types of assets held by the pension scheme. 27

4. Attribution of liabilities to pre & post Cut-Off Date Notional Sub-Funds 28
- Liabilities at the Cut-Off Date Valuation 28
- Liabilities at each subsequent Valuation Date 28

5. Attribution of assets to pre and post Cut-Off Date Notional Sub-Funds 29
- Assets at the Cut-Off Date Valuation 29
- Assets at each subsequent Valuation Date 29
  - Table 5.1 – Summary of the value of assets attributed to the post Cut-Off Date Notional Sub-Fund 29
- Adjustment 31

6. Asset reconciliation attributions 32
- Employer contributions paid towards future benefit accrual 32
- Member contributions paid towards future benefit accrual 32
- Employer contributions towards deficit 32
- Employer contributions towards Pension Strain Costs and other benefit augmentations 33
- Employer contributions to meet scheme administration expenses and PPF Levies 33
- Assets paid in as part of a Bulk Transfer and Individual transfers in 33
- Benefits paid or transferred out 33
- Money paid out to meet scheme administration expenses and PPF Levies 34
- Assets paid out as part of a Bulk Transfer 34
- Other payments 34
- Actual investment return on assets during the period 34
- Adjustment to investment returns due to paragraph 5.7 35

7. Attribution of pre and post Cut-Off Date deficit to Regulated / Non-Regulated Business Activities 38
Pre Cut-Off Date deficit 38
Established Deficit 38
Post Cut-Off Date deficit 38
Incremental Deficit 39
and combining this "Weighted Proportion" with the Post Cut-Off Date Regulatory Proportion at the previous Valuation as follows: 39
Pension Strain Costs 39
Bulk Transfers 39
Adjustments to Pre Cut-Off Date Regulatory Fraction and Proportions Of Service 40
Application of Regulatory Fraction 42

8. Treatment of transfers in 43

9. Unfunded ERDCs 44

10. Sectionalisation of a scheme 45

11. Pension administration records 46
Employment records 46
Pension scheme administration record requirements 46
Triennial processing of pension scheme administration records 47

12. Alternative approach 48

13. Worked Examples: Asset and liability reconciliation 49

14. Statement by Reporting Actuary 58
Reporting requirement 58
Format of certificate 58
Submission of certificate 59

15. Instructions for completion of data tables 60
Introduction 60
Supporting documents 61
Purpose of data tables 62
Worksheets – Admin 62

16. Instructions for completion of scheme data tables - Worksheets P1.1 and P2.1 64
Guidance on completing the worksheet 64

17. Instructions for completion of scheme data tables - Worksheets P1.2 and P2.2 70
Guidance on completing the worksheets 70

18. Scheme datasets 74
Purpose 74

19. Instructions for completion of scheme data tables - Tables P1.3 and P2.3 [deleted] 75

20. Instructions for completion of scheme data tables - Tables P1.4 and P2.4 [not required to be submitted by RIIO-ED1 licensees] 81

Introduction 81
Section A: Pension Protection Fund levies 81
Section B: Pension Scheme Administration costs 82
Section C: Contingent asset and derivative financial instruments costs 83
21. Instructions for completion of Calculation of Vrr and IBAPA and PBAPA tables - Tables P1.5/2.5 and P1.6/2.6 84
Introduction 84
Guidance on completing the worksheets 85
22. Instructions for completion of worksheet - Paragraph 6.20 adjustments 89
Appendix 1 – Definitions and interpretations 90
~~**1. Introduction 7**~~
~~Background 7~~
~~Legal framework 8~~
~~Timescales for reporting under the pension RIGs 8~~
~~Commentary / scheme narrative dataset 11~~
~~Glossary, definitions and interpretations 11~~
~~**1. Introduction 13**~~
~~**2. Notional Sub-Funds 15**~~
~~**3. Valuation requirements 16**~~
~~which includes detail of the assets and types of assets held by the pension scheme. 16~~
~~**4. Attribution of liabilities to pre & post Cut-Off Date Notional Sub-Funds 17**~~
~~Liabilities at the Cut-Off Date Valuation 17~~
~~Liabilities at each subsequent Valuation Date 17~~
~~**5. Attribution of assets to pre and post Cut-Off Date Notional Sub-Funds 18**~~
~~Assets at the Cut-Off Date Valuation 18~~
~~Assets at each subsequent Valuation Date 18~~
~~Adjustment 19~~
~~**6. Asset reconciliation attributions 21**~~
~~Employer contributions paid towards future benefit accrual 21~~
~~Member contributions paid towards future benefit accrual 21~~
~~Employer contributions towards deficit 21~~
~~Employer contributions towards Pension Strain Costs and other benefit augmentations 22~~
~~Employer contributions to meet scheme administration expenses and PPF Levies 22~~
~~Assets paid in as part of a Bulk Transfer and Individual transfers in 22~~
~~Benefits paid or transferred out 22~~
~~Money paid out to meet scheme administration expenses and PPF Levies 23~~
~~Assets paid out as part of a Bulk Transfer 23~~
~~Other payments 23~~
~~Actual investment return on assets during the period 23~~

~~Adjustment to investment returns due to paragraph 5.7 24~~
~~**7. Attribution of pre and post Cut-Off Date deficit to Regulated / Non-Regulated Business Activities 27**~~
~~Pre Cut-Off Date deficit 27~~
~~Established Deficit 27~~
~~Post Cut-Off Date deficit 27~~
~~Incremental Deficit 27~~
~~and combining this "Weighted Proportion" with the Post Cut-Off Date Regulatory Proportion at the previous Valuation as follows: 28~~
~~Pension Strain Costs 28~~
~~Bulk Transfers 28~~
~~Adjustments to Pre Cut-Off Date Regulatory Fraction and Proportions Of Service 29~~
~~Application of Regulatory Fraction 30~~
~~**8. Treatment of transfers in 32**~~
~~**9. Pre Cut-off Date Regulatory Fraction and unfunded ERDCs 33**~~
~~**10. Sectionalisation of a scheme 34**~~
~~**11. Pension administration records 35**~~
~~Employment records 35~~
~~Pension scheme administration record requirements 35~~
~~Triennial processing of pension scheme administration records 36~~
~~**12. Alternative approach 37**~~
~~**13. Worked Examples: Asset and liability reconciliation 38**~~
~~**14. Key Dates 43**~~
~~**15. Statement by Reporting Actuary 44**~~
~~Reporting requirement 44~~
~~Format of certificate 44~~
~~Submission of certificate 45~~
~~**16. Instructions for completion of data tables 46**~~
~~Introduction 46~~
~~Supporting documents 47~~
~~Purpose of data tables 47~~
~~Worksheets – Admin 48~~
~~Worked examples of completed tables 48~~
~~**17. Instructions for completion of scheme data tables - Worksheets P1.1 and P2.1 49**~~
~~Guidance on completing the worksheet 49~~
~~**18. Instructions for completion of scheme data tables - Worksheets P1.2 and P2.2 54**~~
~~Guidance on completing the worksheets 54~~
~~**19. Scheme datasets 58**~~
~~Purpose 58~~

~~**20. Instructions for completion of scheme data tables - Tables P1.3 and P2.3 59**~~
~~Purpose 59~~
~~Guidance on completing the worksheets 59~~

~~**21. Instructions for completion of scheme data tables - Tables P1.4 and P2.4 65**~~
~~Introduction 65~~
~~Section A: Pension Protection Fund levies 65~~
~~Section B: Pension Scheme Administration costs 66~~
~~Section C: Contingent asset and derivative financial instruments costs 67~~

~~**22. Instructions for completion of worksheet - Paragraph 6.20 adjustments 68**~~

~~**Appendix 1 – Definitions and interpretations 69**~~

~~**Appendix 2 – Commentary template 76**~~

Commented [MW1]: Update

1. Introduction

Background

1.1. In June 2010, we published our decision document, *Price Control Treatment of Network Operator Pension Costs Under Regulatory Principles* (ref 76/10). This set out our commitment that network operators' defined benefit (DB) pension scheme deficits as at the end of the prevailing price controls (the Cut-Off Dates[1]) would be funded with two provisos. These were that the relevant schemes or schemes' costs are efficient and there has been no material failure of stewardship, to satisfy our first and third Pension Principles[2]. This was to ensure that the costs of addressing the established deficit are not higher than what is reasonable.

1.2. Our funding commitment does not cover future service of those employees still active in the scheme after the relevant cut-off dates for each price control, ie the incremental deficit, or that related to non–regulated activities.

1.3. Our decision required network operators to attribute the deficit (or surplus) on their DB pension scheme to its constituent assets and liabilities between the established deficit, the incremental deficit and non-regulated activities (the "PDAM dataset"). ~~At the time, we did not propose a methodology to facilitate this. We have worked with network operators and their actuaries to develop a methodology that is actuarially sound, economic and transparent to use in practice, and to provide an appropriate and not disproportionate audit trail. We recognise that this PDAM is a framework for allocating pension scheme costs and that it may, when it is applied by NWOs for the first time, require clarification and interpretation. We will continue to work with NWOs to develop this framework based on its application, initially to their valuations at 31 March 2013.~~

~~1.3.~~1.4. In April 2017, we issued our decision[3] for changes to the way Pension Scheme Established Deficits (PSEDs) are funded and evaluated. This gave clarification around the nature of our commitment to provide funding for PSEDs of NWOs subject to price control under our RIIO regimes.

~~1.4.~~1.5. T~~he second part of t~~his supplement sets out the data requirements for ~~their~~ DB pension schemes ("the scheme valuation dataset"), which we require to inform our ~~r~~Reasonableness R~~r~~eviews ~~starting with their 31 March 2013 Valuations~~. Th~~e~~at reviews will assist us to assess the reasonableness of the methods and assumptions used to determine NWOs' pension costs. We use this process to assist us, in

[1] Cut-off dates are, for DNOs the price control period ending on 31 March 2010, for GDNs – 31 March 2013 and for TOs and SOs – 31 March 2012
[2] Set out in our RIIO March 2011 Strategy paper for GDNs and TOs and those respective price controls' Final Proposals documents and the RIIO-ED1 February 2013 Strategy paper
[3] Decision on Ofgem's policy for funding Pension Scheme Established Deficits

determining whether a company's pension costs are efficient, so that the network company can recover its economic and efficient pension costs irrespective of the allowance set at the start of the price control. For GDNs and TOs it also includes data to inform the true up of the PPF levy and, pension scheme administration costs.

Legal framework

~~1.5.~~1.6. The same reporting frameworks govern this ~~pension supplement~~guidance as for the cost reporting RIGs of each licence, ~~of which they are an integral but separate part even though they~~but ~~-~~are only required to be submitted triennially for the Reasonableness Reviews as set out in Table 3.7 of the financial handbook.

~~1.6.~~1.7. A number of different licence obligations that require the NWOs to provide Ofgem with information. The following legal frameworks apply:

- For DNOs, standard licence condition 4~~8~~6 (Reporting of Price Control Cost Information);
- For ETs, Electricity Transmission standard licence condition B15; and
- For GTOs and GDNs - Gas Transporter standard special licence condition A40.

These set out the reporting obligations for cost reporting which govern this supplement.

~~1.7.~~1.8. The individual sector RIGs include definitions along with related instructions and guidance for preparing the annual information submissions. ~~For the avoidance of doubt, t~~The RIGs and this supplement are subordinate to the licence conditions. Consequently, the RIGs or this supplement will not change any definitions or obligations contained within the respective licences applicable to each of the NWOs and, in the event of any dispute, the licence conditions will always take precedence.

Timescales for reporting under the pension RIGs

Reporting year

~~1.8.~~1.9. The relevant reporting year for the provision of information required under the respective reporting conditions above runs from 1 April to 31 March of the following calendar year. However, the pension datasets herein are only required triennially, except in certain circumstances.

Submission dates

1.10. Table 1.1 sets out the process and timetable for revising Pensions Allowance values and for a Reasonableness Review.

Table 1.1 – Process and timetable for revising Pensions Allowance values and for a Reasonableness Review

Formatted: Paragraph, Indent: Left: -1.3 cm

Row	2017 Reasonableness review, due by*	Subsequent Reasonableness reviews, due by*	Event	Required to be submitted
1	22 August 2017	31 July	The Authority will obtain the licensee's Scheme Valuation Data Set, where relevant separately for its TO and SO activities, for the relevant valuation of the licensee's defined benefit pension schemes as at the date indicated in Table 3.7 of the financial handbook and commence a Reasonableness Review.	Scheme Valuation Data Set:- • Scheme funding report / actuarial valuation reports • Statement of funding principles • Statement of investment Principles • Any other information – Schedule of contributions, recovery plan, employer covenant review (if Trustees provide) and any other relevant information NWO to inform Reasonableness Review Plus Annual audited pension scheme accounts (for the three years reported in tables P1.1 and P2.1, which include the valuation date)

Row	2017 Reasonableness review, due by*	Subsequent Reasonableness reviews, due by*	Event	Required to be submitted
2	31 July 2017	31 July	The Authority will be in receipt of price control review information from the licensee for Regulatory Years up to and including the last complete Regulatory Year.	This is the information reported as part of the different sectors NWOs cost reporting.
3	31 August 2017	31 August	The licensee will submit: (a) Explanations and supporting evidence where appropriate for how it has interpreted the interest of consumers to inform its participation in the governance of pension schemes, including setting investment and risk strategies. (b) Explanation of how it has responded to any recommendations set out by the Authority in preceding Reasonableness Reviews.	Commentary required by para 3.42 and Table 3.8 Row 3 of the financial handbook.
4(a)	31 August 2017	31 August	The licensee will submit, where relevant separately for its TO and SO activities: (a) Pension Deficit Allocation Methodology information and its PSED figure as at the relevant valuation date indicated in Table 3.7 of the financial handbook showing the movements from the previous valuation date	• P1.1/2.1 - PDAM information completed by licensee • P1.2/2.2 - PDAM information completed by Actuary • P1.4/2.4 - PPF Levies and Scheme administration - [not RIIO-ED1 licensees] • Paragraph 6.20 adjustments • Scheme Actuary Report and Certificate on PDAM

Formatted: Not Highlight

Formatted: Not Highlight

Row	2017 Reasonableness review, due by*	Subsequent Reasonableness reviews, due by*	Event	Required to be submitted
4(b)	29 September 2017	14 September	The licensee will submit: (a) Its proposals where applicable under paragraphs 3.35 and 3.41 of the financial handbook together with supporting explanation framed in light of paragraph 3.42 of the financial handbook for • Base Annual PSED Allowances, PBAPAy, • payment history allowances, PPHy, • any proposed prospective discounting basis for payment history variances, reflected in PhDRy With: Explanation of any proposed material change to its Base Annual PSED Allowances and payment history allowance. The appropriateness and materiality should be set at a level that avoids the need for Ofgem to ask supplementary questions, and (b) Explanation of how it has engaged with pension scheme trustees and managers to advocate for the interest of consumers with respect to the PSED. See also paragraph 3.42 of the financial handbook.	• P1.5/2.5 - Calculation of Vrr • P1.6/2.6 - IBAPA and PBAPA • Commentary for proposals under para 3.35 and 3.41 of the financial handbook. • Commentary required by para 3.42 and Table 3.8 Row 3 of the financial handbook.
5	13 October 2017	30 September	The Authority will provisionally decide, where relevant separately for the licensee's TO and SO activities, whether:	Not applicable

Formatted: Indent: Left: 0.06 cm

Formatted: Indent: Left: 0.63 cm, No bullets or numbering

Formatted: Numbered + Level: 1 + Numbering Style: a, b, c, … + Start at: 1 + Alignment: Left + Aligned at: 0 cm + Indent at: 0.63 cm

Formatted: Bulleted + Level: 1 + Aligned at: 0.63 cm + Indent at: 1.27 cm

Formatted: Indent: Left: 0.5 cm

Formatted: Indent: Left: 0 cm, Bulleted + Level: 1 + Aligned at: 0.63 cm + Indent at: 1.27 cm

Formatted: Numbered + Level: 1 + Numbering Style: a, b, c, … + Start at: 1 + Alignment: Left + Aligned at: 0 cm + Indent at: 0.63 cm

Formatted: Indent: Left: 0.5 cm

Row	2017 Reasonableness review, due by*	Subsequent Reasonableness reviews, due by*	Event	Required to be submitted
			(a) Any change should be made to the licensee's proposals for Base Annual PSED Allowances and payment history allowances for reasons anticipated in paragraph 3.48 (a) and (b) and 3.49 of the financial handbook. (b) To apply an existing adjustment factor, introduce a new adjustment factor or extend the scope or effect of an existing adjustment factor for reasons anticipated in paragraph 3.49 of the financial handbook. Adjustment factor can be either upwards or downwards. (c) To set out any recommendation to the licensee to adopt good practice before the next Reasonableness Review under paragraph 3.54 of the financial handbook. The Authority will give notice of any such provisional decisions to the licensee, allowing 14 days for representations to be made.	
6	10 November 2017	31 October	The Authority will complete its Reasonableness Review, where relevant separately for the licensee's TO and SO activities: (a) Determine the values $BAPA_y$, representing the Base Annual PSED Allowances, for each of the three years following the Reasonableness Review, giving reasons for any departure from those	Not applicable

Row	2017 Reasonableness review, due by*	Subsequent Reasonableness reviews, due by*	Event	Required to be submitted
			proposed in paragraph 3.35 of the financial handbook. (b) Determine the values PH_y, representing the payment history allowances, for each of the three years following the Reasonableness Review, giving reasons for any departure from those proposed in paragraph 3.41 of the financial handbook. (c) Determine the values AF_y, representing any adjustment factors, for each of the three years following the Reasonableness Review (d) Compute and determine the Pensions Allowance values for each of the three years following the Reasonableness Review, such that: $EDE_y \text{ or } SOEDE_y = BAPA_y + PH_y + AF_y$ (e) Where relevant, determine APFE and SOAPFE values in accordance with the steps set out in Section 4 of Chapter 3 of the financial handbook. (f) Set out any recommendation to the licensee to adopt good practice before the next Reasonableness Review (g) Determine the discount rates for payment history allowances, hDR_y, or an unambiguous basis for determining them, for each of the three years following the Reasonableness Review, giving	

Row	**2017 Reasonableness review, due by***	**Subsequent Reasonableness reviews, due by***	**Event**	**Required to be submitted**
			reasons for any departure from those proposed in paragraph 3.41 of the financial handbook.	
7	30 November 2017	30 November	The Authority will direct revised Pensions Allowance values and will publish a report on the Reasonableness Review.	Not applicable

* Or such later date that may be notified to the licensee by the Authority in writing.

1.11. The procedures for the triennial resetting and true-up of allowances are set out in the respective Price Control Financial Handbooks for each price control. The effective date for the revised allocations produced by the PDAM at each triennial actuarial valuation take effect in the year of the Reasonableness Review stated in Table 1.1.

- ~~the PDAM dataset as soon as reasonably practicable and in any event, not later than 30 September 2014, for each of their DB scheme valuations as at 31 March 2013 and every three years thereafter; and~~
- ~~the Scheme dataset (in tables P1.3 and P2.3) as soon as reasonably practicable and in any event, not later than 7 July 2014, for each of their DB scheme valuations as at 31 March 2013 and every three years thereafter.~~
- ~~tables P1.4 and P2.4 as soon as reasonably practicable and in any event, not later than 31 July 2014, for each of their DB scheme valuations as at 31 March 2013 and every three years thereafter.~~

~~These are the latest dates that NWOs can submit the information unless the Authority has previously consented otherwise in writing.~~

~~1.9. Whilst the respective licences require submission on the RIGs on or before 31 July in each year, for the purposes of the Scheme and PDAM datasets the triennial submission dates set out in paragraph 1.9~~ 10 ~~above apply, and no other consents regarding these submissions are necessary from the Authority.~~

~~1.9. Each submission must be accompanied by a letter signed by a director on behalf of the licensee confirming that the data has been provided in accordance with this Pension RIGs supplement.~~

Resubmissions

~~1.10.~~1.12. Ofgem's agreement is required before any resubmission of information set out in a report produced in accordance with these RIGs can be made and in any such instance the report concerned must be resubmitted in full. A letter signed by a director where significant changes have been made must accompany the resubmission unless Ofgem agrees that such a letter is not required.

~~1.11.~~1.13. In addition, for each resubmission a separate explanation must be provided listing each cell that has been amended and sufficient commentary to explain the reasons.

Review

~~1.12.~~1.14. Once the NWOs have submitted the pension dataset information to the Authority, Ofgem or a person nominated by the Authority ('a reviewer') will undertake a ~~detailed~~ review of the information.

~~1.13. In the case of most of the scheme dataset, the reviewer will be an independent pension expert(s) who will perform the initial reasonableness review. We will share with all network operators and other stakeholders our proposed terms of reference (for our independent experts) for the initial high-level stage of each future reasonableness review of pension costs. These will take into account respondents' views on the conduct and process for the last review. The overall approach for the review of the 2013 valuations will broadly follow that set out in our 22 June 2010 paper and subsequent Final Proposal and price control Strategy Papers. This is for an initial review and a report by those independent experts. This may be followed by a second stage, which may be undertaken concurrently with closing out the initial stage.~~

~~1.14. Dependent on the issues raised at the initial stage, we will consider whether the second stage is either an in-depth review of the whole scheme or a more focussed approach on a few issues. Where the initial review highlights a limited number of issues for further actual or potential action, we will take both a proportionate and reasonable approach to understanding and resolving them, where we consider they do not require, justify or necessitate an in-depth review of the whole scheme. This would avoid the unnecessary burden being placed on licensees that a review of the whole scheme may incur. We may appoint independent experts to support us. We would not necessarily propose or expect to issue a separate report on the second stage.~~

1.15. Where a reviewer has been nominated, then in accordance with the relevant NWO licence conditions, the reviewer will enter into an agreement with Ofgem to maintain confidentiality on reasonable terms of licensee's datasets.

~~1.15. Ofgem will review the PDAM datasets and, as required may appoint a reviewer or examiner to assist or undertake the review.~~

Template

1.16. Within the RIGs workbooks all the cells that DNOs are required to complete are coloured yellow. Cells with populated values and checking cells are coloured orange and cells, which have auto calculations or are totals, are coloured green. Cells that are linked to other sheets are coloured blue.

1.17. Values must be entered in the column corresponding to the Regulatory Year under report. For example, values reported in respect of Regulatory Year 2011-12 (ie ending 31 March 2012) must be entered in the column headed "2012".

1.18. Instructions for the electronic submission of the workbooks will be circulated to the licensee regulation managers in advance of each submission deadline. However, if there is any doubt about the method of submission, the licensee must contact the regulatory Finance team at Ofgem.

Errors

1.19. In the event of any errors in the templates are identified after they are sent out to NWOs for completion, the following procedure shall be followed:

- Upon identifying an error, notify Ofgem by email, detailing the nature of the error.
- Ofgem will respond and if necessary provide guidance on correcting the error. Ofgem will maintain a log.
-

Accuracy of reporting

~~1.19.~~1.20. In the Scheme Data worksheets, the numbers will be displayed to two decimal places. In the PDAM worksheets, the numbers will be displayed to one decimal place. However, NWOs are required to provide this data to the highest level of accuracy available to them with the minimum being as stated unless otherwise indicated in the guidance.

~~1.20.~~1.21. Where a reportable value is zero or not applicable to the licensee, the cell can either be left as a blank or input as a zero. All the links to NWO's own workbooks must be removed prior to submission.

Price Base

1.22. All tables should be completed in nominal values, with the exception of tables P1.5/2.5 and P1.6/2.6 where they should be completed as per Table 1.2 below.

Table 1.2 – Template tables 1.5/2.5 and 1.6/2.6 price base

Price control	Price base used
RIIO-GT1	2009-10 prices
RIIO-GD1	2009-10 prices
RIIO-ET1	2009-10 prices
RIIO-ED1	2012-13 prices

Commentary ~~/ scheme narrative dataset~~

1.23. The ~~cost~~ commentary should provide the following:~~/ scheme narrative dataset provides the opportunity for NWOs to explain why costs have been incurred and the annual movements in cost levels. This principally relates to actuarial assumptions, returns and other narrative responses to understand the valuations, movements over~~

~~time in returns and changes in scheme structures or arrangements. It will also be used to inform the reasonableness review.~~

- Explanations and supporting evidence where appropriate for how the licensee has interpreted the interest of consumers to inform its participation in the governance of pension schemes, including setting investment and risk strategies;
- Explanation of how the licensee has engaged with pension scheme trustees and managers to advocate for the interest of consumers with respect to the PSED;
- Explanation of how the licensee has responded to any recommendations set out by the Authority in preceding Reasonableness Reviews; and
- Explanation of any proposed material change to Base Annual PSED Allowances and payment history allowance. The appropriateness and materiality should be set at a level that avoids the need for Ofgem to ask supplementary questions.

1.24. Where licensees are proposing Base Annual PSED Allowances and payment history allowances they should provide supporting commentary that satisfies paragraph 3.42 of the financial handbook.

Glossary, definitions and interpretations

~~1.21.~~1.25. The separate glossary of terms provides a definitive list of definitions and interpretations for all RIGs documents but excludes terms defined in the licence conditions. Where a term is defined in a RIGs document, it can also be found in the glossary of terms. The glossary at appendix 1 is specifically for terms used in this document.

~~1.22.~~1.26. ~~For the avoidance of doubt t~~The terms in appendix 1 of this document are subordinate to the licence conditions. Therefore, if a term is defined in both the licence and appendix 1 to this document~~the glossary~~, the licence takes precedence.

1.27. Any reference to the financial handbook relates to the respective price control financial handbook for that licensee.

~~1.23.~~1.28. This guidance should be read in conjunction with the respective financial handbook and is subordinate to it. Therefore, if a term is defined in both the financial handbook and appendix 1 to this document, the financial handbook takes precedence.

Pension Supplement One

Pension deficit allocation methodology and datasets

1. Introduction - Pension supplement one

1.1. This pension deficit allocation methodology (PDAM) supplement sets out for each defined benefit (DB) pension scheme, of which a licensee is sponsoring or co-sponsoring employer, how:

(a) the assets and liabilities, are to be attributed to post Cut-Off Date pensionable service and pre Cut-Off Date pensionable service

(b) using the attributions in (a), the deficit in respect of pre and post Cut-Off Date pensionable service must be determined

(c) the deficits in (b) attributed to pre and post Cut-Off Date pensionable service must be attributed to:

i. Regulated Business Activities; and

ii. Non-Regulated Business Activities.

1.2. The principal requirements of the PDAM are that it is actuarially sound, economic and transparent to use in practice; and, secondly, that it must provide an appropriate and not dis-proportionate audit trail.

1.3. The PDAM does not provide detailed guidance of all the calculations which licensees will need to undertake but does aim to provide enough detail to ensure that any licensee carrying out the calculations will produce similar answers. Where indicated in the tables (in a separate E~~e~~xcel workbook) the basis of the calculation of attribution to the post Cut-Off Date sub-fund, including data and formulae applied must be provided by the reporting actuary. In order to ensure the PDAM achieves this aim, we will review the PDAM submissions and underlying calculations licensees will carry out based on the 31 March ~~2013~~ 2016 Valuation. ~~Following this review the PDAM may need to be refined further.~~

1.4. We will adopt a reasonable and equitable approach in considering how the methodology is applied by licensees and in interpreting and applying the results it gives, consistent with our pension principles and policy intent. In considering and evaluating how the methodology is applied in practice and how points of detail may be resolved, the tests we will apply will be whether the results of this methodology gives a fair apportionment of the overall deficit between pre and post cut-off and between regulated and non-regulated businesses. Our approach will be to ensure that the funding of the appropriate share of the overall deficit by customers is in accordance with our Pension Principles.

1.5. We require licensees and their affiliates (and/or the scheme administrators on their behalf) to maintain, or cause to be maintained, appropriate records that will enable them to apply the methodology set out herein. This requirement is within the scope of the provisions of each licensee's licence condition for the Price Control

Review Information[4]. The respective Regulatory Accounts licence condition and the EC Third Package requires licensees to maintain in their internal accounts segmental information, this necessarily extends to pension data. This level of recording may be additional to that which licensees (and their affiliates), or scheme administrators on their behalf, currently maintain.

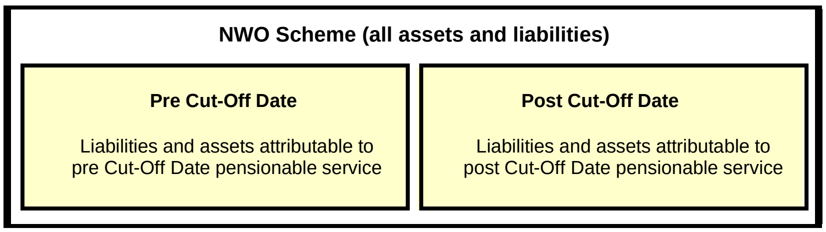
1.6. The procedures set out herein are applicable at ~~DPCR5, the TPCR4 Adapted Rollover,~~ RIIO-T1, GD1 and ED1 and subsequent price controls.

1.7. Licensees are required to prepare and report in the triennial Pension Pack ~~RRP~~ pension deficit, asset and liability attribution data, and other pension scheme information in the format set out in the separate excel workbook (or as otherwise agreed between licensees and us and as provided for in this methodology); and, triennially in accordance with the timetable in ~~chapter 1~~Table 1.1~~4~~.

[4] Respectively Electricity Distribution standard licence condition 4~~8~~6, Electricity Transmission standard licence condition B15 and Gas Transporter standard special licence condition A40.

2. Notional Sub-Funds

2.1. For each sponsored DB pension scheme, each licensee is required to attribute its assets and liabilities into a minimum of two Notional Sub-Funds, ie between pre and post Cut-Off Date pensionable service, as follows:



2.2. Where licensees are sponsoring employers in the same DB pension scheme then they may jointly report the attribution of assets and liabilities of the DB pension scheme to the above Notional Sub-Funds. In line with the approach set out in this methodology, they will then be required to identify the proportion of the deficit in each Notional Sub-Fund that relates to Regulated Business Activities for each licensee and Non-Regulated Business Activities.

3. Valuation requirements

3.1. At each Valuation Date (set out for guidance in the timetable in Table 3.7 of the financial handbook~~chapter 14~~) for each pension scheme, a licensee must obtain at its own expense, and provide to the Authority with the PDAM data tables, a report prepared by a Reporting Actuary (either the Scheme Actuary or a Corporate Actuary) which provides the information required as part of this PDAM based on the results of:

- a Triennial Valuation; or
- an Updated Valuation,

which includes detail of the assets and types of assets held by the pension scheme.

3.2. In the event that:

- a full triennial valuation as at the cut-off date or each subsequent valuation date (as set out in Table 3.7 of the financial ~~chapter 14 and~~handbook and the relevant Price Control Financial Handbook) has not been prepared, or
- not been completed by 30 June in the year following the valuation date,

the licensee is required to prepare an Updated Valuation and submit that on or before the dates set out in Chapter 1 (Introduction) – Table 1.1~~by 30 June in the relevant year~~. If no Valuation is received~~,~~ then no true up or reset of allowances will normally be made until the next true up and reset point set out in ~~the sixth column of the table to paragraph 14.1 in~~ Chapter 1 (Introduction) – Table 1.1~~chapter 14~~. However, we will consult on case-by-case basis.

4. Attribution of liabilities to pre & post Cut-Off Date Notional Sub-Funds

Liabilities at the Cut-Off Date Valuation

4.1. At the Cut-Off Date Valuation, all liabilities will be attributed to the pre-cut off date Notional Sub-Fund, as no liabilities will exist in respect of post Cut-Off Date pensionable service.

Liabilities at each subsequent Valuation Date

4.2. At each subsequent Valuation Date, the value of the liabilities (including those liabilities which relate to benefits based on prospective service) determined by a Triennial Valuation or an Updated Valuation must be attributed to the pre and post Cut-Off Date Notional Sub-Funds. This must be calculated, based on the actual accrued pensionable service data recorded for members, allowing for any transferred in service as set out in C~~c~~hapter 8 but making no allowance for part-time service. For simplicity, the assumption is that for each member, the value placed on the liabilities for each year of pensionable service is the same. Where this is not approximately the case, a more detailed calculation may be undertaken using individual member data to compute post Cut-Off Date liabilities at an individual member level. Licensees must advise us in writing before submission of the tables if they propose to use the latter more detailed basis. The method adopted at the Valuation Date subsequent to the Cut-Off Date must be applied at all subsequent Valuations unless an application is made to us in the light of changes to a scheme.

4.3. The liability value attributed to the pre Cut-Off Date Notional Sub-Fund must be calculated as:

	the total value of liabilities in respect of benefits earned to the Valuation Date
minus	the value of liabilities in respect of post Cut-Off Date benefits earned to the Valuation Date as calculated in 4.2 above

4.4. When placing a value on the liabilities in a Triennial Valuation or an Updated Valuation, the following items must be included:

- liabilities in respect of members' Additional Voluntary Contributions to the extent that they have secured additional defined benefits; and
- liabilities in respect of members who have secured additional defined benefits using a money purchase fund.

5. Attribution of assets to pre and post Cut-Off Date Notional Sub-Funds

Assets at the Cut-Off Date Valuation

5.1. At the Cut-Off Date Valuation, all assets will be attributed to the pre-cut off date Notional Sub-Fund, as no assets will exist in respect of post Cut-Off Date pensionable service.

Assets at each subsequent Valuation Date

5.2. Unless the trustees are separately tracking the assets in the Notional Sub-Funds, at each subsequent Valuation, the value of assets attributed to the post Cut-Off Date Notional Sub-Fund must be calculated as ~~set out below~~summarised in Table 5.1. Further detail of each of the items is provided in Chapter 6. The licensee must provide details of this calculation to the Authority (in tables P1.2 and P2.2 of the excel workbook).

~~5.2.~~ **Table 5.1 – Summary of the value of assets attributed to the post Cut-Off Date Notional Sub-Fund**

	a.	Assets attributable to post cut-~~-~~off date pensionable service at previous Valuation
plus	b(i).	Employer contributions paid towards future benefit accrual since last Valuation
~~p~~Plus[5]	b~~.~~(ii).	The portion of differences between employer contributions paid towards future benefit accrual since last Valuation and the value of future benefit accrual since last Valuation arising because of a surplus attributable to pre Cut-Off Date pensionable service ~~Employer contributions paid towards future benefit accrual since last Valuation~~
plus	c.	Member contributions paid towards future benefit accrual since last Valuation, including any age-related contracting-out rebates
plus	d.	Employer contributions paid since last Valuation towards the deficit attributable to post Cut-Off Date pensionable service
plus	e.	Employer contributions paid since last valuation towards Pension Strain Costs attributable to post Cut-Off Date pensionable service
plus	f.	Employer contributions paid since last valuation towards other benefit augmentations attributable to post Cut-Off Date pensionable service
plus	g.	Employer contributions to meet post Cut-Off Date scheme administration expenses and PPF Levies since last Valuation

[5] This is not applicable for the 2017 Reasonableness Review, refer to paragraph 3.45 of the financial handbook.

Formatted: Heading 3,Sub-heading 2 - Bold, No bullets or numbering

Formatted: Font: Not Italic

Formatted: Font: Not Italic

Formatted: Font: Not Italic

plus	h.	Other employer contributions paid since last Valuation in respect of post Cut-Off Date pensionable service
plus	i.	Assets paid in as part of a Bulk Transfer and individual transfers-in, in respect of post Cut-Off Date pensionable service
minus	j.	Benefits paid or transferred out since last Valuation in respect of post Cut-Off Date pensionable service
minus	k.	Money paid out to meet post Cut-Off Date scheme administration expenses and PPF levies since last Valuation
minus	l.	Assets paid out as part of a Bulk Transfer in respect of post Cut-Off Date pensionable service
minus	m.	Any other payments out of the scheme since last Valuation in respect of post Cut-Off Date pensionable service
plus	n.	Actual investment returns achieved by the pension scheme's assets during the period as applied to post Cut-Off Date assets and cashflows set out in (a) to (m) above

5.3. Where trustees are separately tracking assets or specific assets to liabilities of identifiable groups or sections of members, the reporting actuary and licensee must provide the supporting calculations and the basis on which the matching is made, eg Statement of Funding Principles (SFP), Statement of Investment Principles (SIP) or other supporting document. The supporting document(s) must relate to the period under review.

5.4. The value of assets attributed to the pre Cut-Off Date Notional Sub-Fund must be calculated as:

- the total asset value at the Valuation Date; *less*
- the value of assets attributed to the post Cut-Off Date Notional Sub-Fund as calculated in paragraph 5.2 above.

5.5. A check must be carried out to ensure that the value of assets attributed to the pre Cut-Off Date Notional Sub-Fund is reasonable when compared to the value of assets which would have been attributed had the approach detailed in 5.2 above been used.

~~5.5.~~5.6. Where the total of the assets calculated in paragraphs 5.2 and 5.3 using the approach to allocating investment returns in paragraph 6.14 of chapter 6, differs significantly to the actual assets held by the scheme at the same date, it may be necessary for the licensee to refine the above calculation. This is required so that the investment return applied to all cashflows or certain cashflows accurately allows for the period from either payment or receipt date, as applicable.

~~5.6.~~5.7. These calculations must be provided to the Authority at the same time as the excel workbook.

Adjustment

~~5.7.~~5.8. For pension schemes with different pre and post retirement discount rates it is recognised that the above approach of allocating the actual investment returns achieved by the pension scheme's assets to the post Cut-Off Date assets will not match the rationale for the split discount rates (which notionally envisage backing non-pensioner liabilities with a greater proportion of return seeking assets). This mismatch may result in a higher / lower Incremental Deficit and a lower / higher Established Deficit.

~~5.8.~~5.9. Where licensees believe this issue to be significant, the licensee can use the default adjustment set out in paragraphs 6.20 to 6.22 or agree an adjustment to the deficits in the pre- and post-Cut-Off Date Notional Sub-Funds and the Incremental Deficit and Established Deficit with Ofgem. Where the licensee decides to agree an adjustment with Ofgem rather than using the default in paragraphs 6.20 to 6.22, the licensee must request such an adjustment at least 30 days prior to the date for submission of the tables and the actuary's report. We will not unreasonably refuse to accept such adjustments ~~provided that~~if the licensee provides appropriate supporting evidence for using split discount rates, this should include a comparison of both approaches.

~~5.9.~~5.10. Paragraphs 6.14 to 6.18 of chapter 6 provide further guidance on attributing investments returns on assets to different sub-funds.

6. Asset reconciliation attributions

6.1. This chapter provides further guidance regarding the items that are used to calculate the value of the assets that must be attributed to the post Cut-Off Date Notional Sub-Fund at each Valuation Date in chapter 5.

Employer contributions paid towards future benefit accrual

6.2. The employer contributions to meet the cost of new benefits accruing during the period for active members must be extracted from the scheme records. These contributions must be allocated to the post Cut-Off Date Notional Sub-Fund.

Member contributions paid towards future benefit accrual[6]

6.3. Active members pay contributions to meet part of the cost of the benefits they accrue during the period. The total member contributions paid during the period must be obtained from the scheme's administrators and must be allocated to the post Cut-Off Date Notional Sub-Fund.

6.4. Member contributions arising because of a member's Additional Voluntary Contributions securing DB benefits directly must all be allocated to the Pre or Post Cut-Off Date Notional Sub-Funds according to when they were received. Lump sum contributions securing DB benefits (normally arising from money purchase funds, deficiency costs or additional benefits) must be allocated to the post Cut-Off Date Notional Sub-Fund based on the ratio of post Cut-Off Date pensionable service to total pensionable service accrued at each Valuation Date.

Employer contributions towards deficit

6.5. The total employer deficit contributions must be extracted from the scheme records. The allocation of the employer deficit contributions to the post Cut-Off Date Notional Sub-Fund in the period must be based on the ratio of the deficit (or surplus) in the post Cut-Off Date Notional Sub-Fund to total scheme deficit, as reported at the previous Valuation Date.

Similarly, for the purposes of paragraph 9.3 of chapter 9, the proportion of deficit payments that must be allocated to the remaining additional liabilities that relate to unfunded ERDCs, must be based on the ratio of the deficit in respect of residual unfunded ERDCs to total scheme deficit, as reported at the previous Valuation Date.

[6] See also paragraph 5.2, row b(ii).

Employer contributions towards Pension Strain Costs and other benefit augmentations

6.6. Total contributions towards Pension Strain Costs and other benefit augmentations must be extracted from the scheme records and must be allocated to the post Cut-Off Date Notional Sub-Fund in the same proportion as the additional liabilities due to Pension Strain Costs were allocated to the post Cut-Off Date Notional Sub-Fund in chapter 4.

Employer contributions to meet scheme administration expenses and PPF Levies

6.7. Total contributions paid to the scheme during the period to meet scheme administration expenses (including investment advisor fees, where they are not set off against investment returns) and / or PPF Levies must be extracted from the scheme records. These expenses must be allocated to the post Cut-Off Date Notional Sub-Fund based on the ratio of the liabilities attributed to the post Cut-Off Date Notional Sub-Fund to total pension scheme liabilities, as reported at the previous Valuation Date.

Assets paid in as part of a Bulk Transfer and Individual transfers in

6.8. The amount of any additional assets, received as part of a Bulk Transfer into the scheme or due to individual transfers in, must be allocated to the post Cut-Off Date Notional Sub-Fund, using the same proportion used to allocate the additional liabilities received to the post Cut-Off Date Notional Sub-Fund in chapter 4, ie using a member’s pensionable service or a more detailed calculation.

Benefits paid or transferred out

6.9. Total pension scheme benefits paid during the period must be obtained from the scheme’s administrator, including those DB benefits accrued from, or converted from, members' Additional Voluntary Contributions. For this purpose, benefits paid includes transfer values out of the scheme on an individual basis (eg to a personal pension).

6.10. Licensees must allocate total pension scheme benefits paid to the post Cut-Off Date Notional Sub-Fund by extracting the benefit paid amounts in respect of the post Cut-Off Date Notional Sub-Fund from the pension administration records.

Money paid out to meet scheme administration expenses and PPF Levies

6.11. The total money paid out of the scheme during the period to meet scheme administration expenses (including investment advisor fees, where they are not set off against investment returns) and / or PPF Levies must be extracted from the scheme records. These expenses must be allocated to the post Cut-Off Date Notional Sub-Fund based on the ratio of the liabilities attributed to the post Cut-Off Date Notional Sub-Fund to total pension scheme liabilities, as reported at the previous Valuation Date.

Assets paid out as part of a Bulk Transfer

6.12. Amounts paid out of the scheme as a result of a Bulk Transfer must be allocated to the post Cut-Off Date Notional Sub-Fund based in the same proportion as the reduction in liabilities were allocated to the post Cut-Off Date Notional Sub-Fund in chapter 4 (ie using a member's pensionable service or a more detailed calculation).

Other payments

6.13. The amount of any other payments out of the scheme not reported above, since the last Valuation in respect of post Cut-Off Date pensionable service must be reported separately. These must be allocated in the same proportion as the allocations of liabilities to which they relate.

Actual investment return on assets during the period

6.14. The actual total investment return achieved by each pension scheme in each year of the relevant period (net of expenses including investment management fees) must be extracted from scheme records. Except as noted in paragraphs 6.15 to 6.19 below, these annual actual total investment returns must be attributed to the post Cut-Off Date Notional Sub-Fund. This will be done using the annual average investment returns achieved across all asset classes, ie equities, fixed interest bonds, index-linked bonds etc, assuming that annual net cashflows (including assets paid in or out) as reported in the asset reconciliation statement arise evenly each year.

6.15. Where a scheme operates Liability Driven Investment or hedging strategies specified against part of their fund, the returns on these assets must be allocated to the relevant Notional Sub-Fund(s) first and must be excluded from the allocation of the remainder of the investment returns between the various Notional Sub-Funds as described ~~below~~paragraph 6.16-6.19.

6.16. For the remaining assets there are two options dependent on whether the scheme has a separate sub-funds policy (as evidenced in their SFP or SIP) or not:

(a) Some schemes will have an actual sub-fund that includes one or more of the Notional Sub-Funds. For schemes where this is the case, the investment return derived from those assets must be allocated to the Notional Sub-Funds included in the separated (legal or otherwise) sub-fund, using the total investment return in that actual sub-fund rather than the total investment return for the scheme as a whole.

(b) For schemes where the investment strategy has been considered for the scheme as a whole (with no separated (legal or otherwise) sub-funds) and with a regular re-balancing of investments against strategy and between Notional Sub-Funds, the attribution must be made by using the overall scheme return over the period derived from aggregated asset and cash flow data.

6.17. For example, applying (a) above for a separate (legal or otherwise) sub-fund being maintained for the pre Cut-Off Date liabilities of the scheme, then the portion of the actual total investment return during the period allocated to the pre Cut-Off Date Notional Sub-Fund must be based on the actual investment returns achieved during the period for the separate pre Cut-Off Date sub-fund. Similarly, the portion of the actual total investment return allocated to the post Cut-Off Date Notional Sub-Funds must be based on the actual investment returns on the remaining scheme assets (ie those maintained for the post Cut-Off Date liabilities) during the period.

6.18. The sum of each Notional Sub-Fund's investment return during the period must equal the actual total investment return during the period for the pension scheme as a whole. In following this approach, licensees must apply reasonable and prudent judgement.

6.19. If licensees are not using the approach in this chapter 6, they must provide written justification for the approach taken with their submission.

Adjustment to investment returns due to paragraph 5.7

6.20. Licensees wishing to adopt the default approach for making an adjustment for different pre and post retirement discount rates as described in paragraph 5.7 should make the following calculations:

(a) The weighted average discount rate in respect of Pre Cut-Off Date liabilities at the previous valuation:

Pre retirement discount rate at the previous valuation	x	Proportion of Pre Cut-Off Date liabilities at the previous valuation in respect of actives and deferred pensioners
Plus		
Post retirement discount rate at the previous valuation	x	Proportion of Pre Cut-Off Date liabilities at the previous valuation in respect of pensioners and dependants

(b) The weighted average discount rate in respect of Post Cut-Off Date liabilities at the previous valuation:

Pre retirement discount rate at the previous valuation	x	Proportion of Post Cut-Off Date liabilities at the previous valuation in respect of actives and deferred pensioners
Plus		
Post retirement discount rate at the previous valuation	x	Proportion of Post Cut-Off Date liabilities at the previous valuation in respect of pensioners and dependants

(c) The weighted average discount rate at the previous valuation:

Weighted average discount rate in respect of Pre Cut-Off Date liabilities at the previous valuation in (a)	x	Proportion of liabilities in respect of the Pre Cut-Off Date sub-fund at the previous valuation
Plus		
Weighted average discount rate in respect of Post Cut-Off Date liabilities at the previous valuation in (b)	x	Proportion of liabilities in respect of the Post Cut-Off Date sub-fund at the previous valuation

(d) The adjusted annual actual investment return for the Pre Cut-off Date sub-fund:

$$\frac{\text{Annual investment return} \times \text{Weighted average discount rate in respect of Pre Cut-Off Date liabilities at the previous valuation in (a)}}{\text{Weighted average discount rate at the previous valuation in (c)}}$$

(e) The adjusted annual actual investment return for the Post Cut-off Date sub-fund:

$$\frac{\text{Annual investment return} \times \text{Weighted average discount rate in respect of Post Cut-Off Date liabilities at the previous valuation in (b)}}{\text{Weighted average discount rate at the previous valuation in (c)}}$$

6.21. Once the adjusted annual actual investment returns have been calculated in (d) and (e), these adjusted annual actual investment returns should be used in applying the rest of the PDAM instead of the overall scheme investment return.

6.22. When the adjusted annual actual investment returns calculated in (d) and (e), are applied to:

- the assets at the previous valuation, and
- cashflows since the previous valuation

for the Pre and Post Cut-Off Date sub-funds respectively, to determine asset values at the current valuation, the sum of these two asset values is unlikely to equal the scheme's actual asset value at the current valuation. This may arise as the adjusted returns have been weighted by liabilities at the previous valuation. As such, they make no allowance for the impact of cashflows since then. Therefore, both asset values should be scaled up or down using the same scaling factor so that their sum equals the scheme's actual asset value at the current valuation.

6.23. A work~~ing ~~sheet to provide the audit trail for these calculations for each year is provided in the ~~e~~Excel workbook at "Paragraph 6.20 adjustments" tab.

7. Attribution of pre and post Cut-Off Date deficit to Regulated / Non-Regulated Business Activities

Pre Cut-Off Date deficit

7.1. The deficit in the pre Cut-Off Date Notional Sub-Fund, at any point in time, must be calculated as[7]:

	the value of the liabilities attributed to the post Cut-Off Date Notional Sub-Fund (in paragraph 4.3 of chapter 4);
minus	the value of assets attributed to the post Cut-Off Date Notional Sub-Fund (in paragraph 5.3 of chapter 5).

Established Deficit

7.2. The Established Deficit, at any point in time, must be calculated as:

Deficit in pre Cut-Off Date Notional Sub-Fund (in 7.1 above)	x	[Pre Cut-Off Date Regulatory Fraction (as defined); minus ERDC adjustment (as calculated in chapter 9)]

Post Cut-Off Date deficit

7.3. The deficit in the post Cut-Off Date Notional Sub-Fund, at any point in time, must be calculated as:

	the value of the liabilities attributed to the post Cut-Off Date Notional Sub-Fund (in paragraph 4.2 of chapter 4);
minus	the value of assets attributed to the post Cut-Off Date Notional Sub-Fund (in paragraph 5.2 of chapter 5).

[7] See also paragraph 5.2, row b(ii).

Incremental Deficit

7.4. The Incremental Deficit, at any point in time, must be calculated as:

Deficit in post Cut-Off Date Notional Sub-Fund (in paragraph 7.3 above)	x	Post Cut-Off Date Regulatory Proportion (in paragraph 7.5 below)

7.5. The Post Cut-Off Date Regulatory Proportion in paragraph 7.4 above must be calculated at each Valuation by weighting the Proportions Of Service in respect of the three years since the last Valuation as follows:

$$\frac{\Sigma\left(\text{Proportions Of Service in each post Cut-Off Date year since the previous Valuation} * \text{Total Pensionable Salary in each post Cut-Off Date year since the previous Valuation}\right)}{\text{Total Pensionable Salary for all post Cut-Off Date years since the previous Valuation}}$$

and combining this "Weighted Proportion" with the Post Cut-Off Date Regulatory Proportion at the previous Valuation as follows:

$$\frac{\left(\text{Weighted Proportion} * \text{post Cut-Off Date value of benefits accrued since the previous Valuation}\right) + \left(\text{Post Cut-Off Date Regulatory Proportion at previous Valuation} * \text{value of post Cut-Off Date benefits accrued before the previous Valuation}\right)}{\text{Total value of liabilities for all benefits accrued since post Cut-Off Date}}$$

Pension Strain Costs

7.6. Pension Strain Costs refers to the cost of providing enhanced pension benefits granted under severance or reorganisation arrangements on or after 1 April 2004. These enhanced pension benefits will be fully matched by increased contributions so no adjustment is required to the Post Cut-Off Date Regulatory Proportion for Pension Strain Costs. Where this is not the case, an adjustment must be made to reflect the mismatch.

Bulk Transfers

7.7. Where a licensee intends to admit members under a Bulk Transfer or individual transfer from another licensee, subject to the special situations exclusion in paragraphs 8.3 and 8.4 of chapter 8, the assets and liabilities associated with the transfer must be treated as relating to Non-Regulated Business Activities, in accordance with Pension Principle 2. As a result, an adjustment may be required to the Pre Cut-Off Date Regulatory Fraction and Proportions Of Service. The licensee must agree in writing with us, at least 30 days before the tables and the actuary's report are to be submitted, the approach they will use to adjust the Pre Cut-Off Date Regulatory Fraction and the Proportions ~~Of~~of Service determined from the RRPs.

Adjustments to Pre Cut-Off Date Regulatory Fraction and Proportions Of Service

7.8. The Pre Cut-Off Date Regulatory Fraction will have been determined in advance of each Cut-Off Date. This will apply up to the next valuation date (set out ~~in the third column of the table~~ in ~~paragraph 14.1 of~~ in Table 3.7 of the financial handbook~~chapter 14~~), subject to movements as set out in paragraphs 7.10 and 7.14, unless there are structural changes to the scheme. Where the Pre Cut-Off Regulated Fraction changes over time for the reasons explained in paragraphs 7.10 and 7.14, it will be necessary to revise the Pre Cut-Off Regulatory Fraction effective at each valuation date accordingly. This fraction will be used for truing up the costs of the immediately following three-year period to the next valuation date (set out in ~~the third column of the table in paragraph 14.1 of~~ Table 3.7 of the financial handbook~~chapter 14~~).

7.9. Where there is a structural change within a three-year review period, then adjustments to the Pre Cut-Off Date Regulatory Fraction and Proportions Of Service may also be required in situations other than due to a Bulk Transfer, eg transfers out of the scheme, changes to membership profile, and other structural changes (including sectionalisation) as set out in the Pension Principles. In these situations, the licensee must agree in writing with us, at least 30 days before the tables and the actuary's report are to be submitted, the approach to be applied to revise the Pre Cut-Off Date Regulatory Fraction and the Proportions Of Service. Any true up adjustments may be made on a time apportionment based on the date of the structural change(s). We would expect that to facilitate the apportionment, that tables P1.1 and P1.2 would need to be submitted (a) for the period from the last valuation date to the date of the structural change, and then (b) for the period from the date of the structural change to the next valuation date. For example, for scheme with a three–year review period commencing on 1 April 2013 and a structural change on 31 May 2014, then one set of tables from 1 April 2013 to 31 May 2014, and another for the period 1 June 2014 to 31 March 2016.

7.10. The non-regulated component of Pre Cut-Off Date pension liabilities should logically reduce over time in a closed pension scheme for a predominantly wires or pipes only business due to a change in the proportion of Pre Cut-Off Date liabilities attributable to regulated business activities (eg due to changes in membership profile). Thus, the allowed Pre Cut-Off Date Regulated Fraction should increase over time. This will be calculated by determining the proportion of Pre Cut-Off Date liabilities attributable to regulated business activities and the movement in this proportion from that determined at the previous price control. For DNOs, over time, this should increase the Pre Cut-Off Date Regulatory Fraction (where supported by the necessary records) from the 80:20 pragmatic split applied at DPCR4. Post DPCR4, the Pre Cut-Off Date Regulatory Fraction has already been updated using this approach. This approach to updating the Pre Cut-Off Date Regulatory Fraction is only applicable to electricity distribution licensees and may be updated at each valuation date (set out in ~~the third column of the table in paragraph 14.1 of~~ Table 3.7 of the financial handbook~~chapter 14~~). It does not apply to the calculation of any true up adjustment. Licensees using this approach to adjust their Pre Cut-Off Date Regulatory Fraction must provide detailed supporting evidence.

7.11. Th~~is~~e calculation is set out in section B of pension workbook table P1.1 (and P2.1). The calculation is made at an individual licensee level. This takes the 80:20 split of liabilities at DPCR4, as known or implied from the 80:20 start point at DPCR4. Then, using the proportion of Pre Cut-Off Date liabilities attributable to regulated business activities, updates the Pre Cut-Off Date Regulatory Fraction for DPCR5 as at 31 March 2010 and as at 31 March 2013. This will need repeating at subsequent three-year valuation dates.

7.12. From the updated Pre Cut-Off Date Regulatory Fraction determined in paragraphs 7.9 or 7.10 the residual balance ~~will be deducted the residual balance~~ of unfunded ERDCs from pre 1 April 2004 (see paragraph 7.13-7.14~~below)~~) will be deducted. This ~~which~~ will be expressed as a percentage of the Pre Cut-Off Date deficit (as calculated in chapter 9).

7.13. Data to inform a revision to the Pre Cut-Off Date Regulatory Fraction is required to be input to Section D (for structural changes in paragraph 7.9) and to Section B (for DNO specific changes in paragraph 7.10) of Table P1.1 (and P2.1)~~and in the detailed DB pension scheme dataset table P1.3 (and P2.3)~~.

7.14. Where an NWO has a scheme which has a material difference in the age profile and service history of regulated and Non-Regulated scheme members (including pensioners, dependents, deferred members and actives), this may result in significant changes in the membership profile over time. Consequently, it is likely that either the pre or post Cut-Off Date Regulatory Fraction may gradually increase (or decrease), and this may not be reflected in the methodology. To ensure an equitable treatment, affected licensees[8] must advise us where this is expected to be material. We will work with those licensees to develop the necessary reporting structure and methodology to reflect the outcome of membership profile changes in the Regulatory Fraction. Such a methodology must be transparent and the calculations supported be the underlying records as evidenced by scheme

[8] The NGUKPS scheme covering both gas transmission and gas distribution is one example.

administrators or a Reporting Actuary and provide an appropriate audit trail. See also chapter 12.

Application of Regulatory Fraction

~~7.15. The regulatory fraction will apply in all regulatory reporting years from the Cut-Off date to the next valuation date (except for DNOs where it is fixed in the DPCR5 Final Proposals for the period 1 April 2010 to 31 March 2015, unless there are structural changes to the scheme). The revised Regulatory Fraction will then apply in all regulatory reporting years from the first valuation date to the next valuation date (eg for DNOs 1 April 2013 to 31 March 2016).~~

~~7.16.~~7.15. In the event that there is a structural change in a triennial period, in accordance with chapter 10, additional PDAM tables may need to be submitted. A separate regulatory fraction will then apply to the period from the Cut-Off date to the sectionalisation date (if not a valuation date) and the next valuation date.

8. Treatment of transfers in

8.1. Bulk Transfers-in which occur after the respective Cut-Off Dates will, subject to the special situations set out in paragraphs 8.3 and 8.4, be treated as relating to Non-Regulated Business Activities, ie the licensee carries all the risk that the transferred-in assets will continue to meet the transferred-in liabilities over time.

8.2. This treatment of Bulk Transfers-in may not be equitable in all situations. Where licensees regard the treatment of the transfer to be inequitable, they must apply to Ofgem, in writing and in advance of the Bulk Transfer event setting out their case. Ofgem will endeavour to respond within a reasonable period, not exceeding 30 days. If the Authority is satisfied that there are exceptional circumstances and licensees have demonstrated this, eg that the transfer relates to pre Cut-Off Date regulated activities, these costs may be treated as part of the Established Deficit and / or Incremental Deficit and may be funded accordingly (through the appropriate mechanism – specific allowance or as part of benchmarked totex).

8.3. The treatment of the assets and liabilities associated with the transfer-in of an individual Protected Person who is transferring within the industry and, whose benefits are governed by legislative requirements will be preserved in the receiving scheme provided they are not part of a Bulk Transfer.

8.4. Where a Bulk Transfer includes individuals (not just Protected Persons), transferring within the industry and whose pension benefits cannot be amended due to the provisions of the trust deed and rules of their pension arrangements or due to legislative requirements, the treatment of their assets and liabilities will be preserved in the receiving scheme. Under the Pension Principles, we retain the option to deal with Bulk Transfers on a case-by-case basis.

9. ~~Pre Cut-off Date Regulatory Fraction and u~~Unfunded ERDCs

9.1. Unfunded residual Early Retirement Deficiency Costs (ERDCs) represent the balance of any remaining additional liabilities, resulting from early retirements due to redundancy or re-organisation prior to 1 April 2004, which were funded using surpluses rather than by increased contributions.

9.2. Since 31 March 2004, ERDCs are a matter solely for shareholders and are not funded by consumers.

9.3. The adjustment for unfunded residual ERDCs in paragraph 7.2 of chapter 7 is calculated, at any point in time, as follows:

$$\frac{\text{rolled forward amount of unfunded ERDCs}}{\text{pre Cut-Off Date deficit}}$$

The rolled forward amount of unfunded ERDCs above will be calculated as:

	amount of unfunded ERDCs at the start of the current price control period (rebased using RPI to real prices)
plus	expected returns, calculated using the vanilla weighted average cost of capital (WACC) determined for each year of the relevant price control
minus	the proportion of deficit payments that can be attributed, in line with the approach detailed in paragraph 6.5 of chapter 6, to the remaining additional liabilities which relate to unfunded ERDCs, allowing for expected returns calculated using WACC (as above) determined for the relevant price control.

10. Sectionalisation of a scheme

10.1. A licensee-sponsored DB pension scheme may be sectionalised. This may occur at any point within a price control period or ~~15-year notional~~ funding period, for example, when a licensee or affiliate is sold. The licensee sectionalising a scheme must, in relation to the period from the last Valuation Date (as set out in Table 3.7 of the financial handbook~~chapter 14~~) up to the date of sectionalisation or sale, provide us with the information, data tables and other returns required under this PDAM for each section. When preparing its tables~~-~~, the acquiring licensee(s) (in relation to the new scheme) and the selling licensee(s) (in relation to the retained scheme) must, for the period from the date of sectionalisation to the next Valuation Date (as set out in Table 3.7 of the financial handbook~~chapter 1~~)~~4), provide us with the information required in chapters 16, 18 and 19.~~

10.2. In each case the licensee must inform us in writing in advance, where possible~~,~~, or otherwise as soon as reasonably p~~ossible~~racticable, of sectionalising a DB scheme; and Ofgem will determine the reporting requirements on a case-by-case basis and will advise the licensee within a reasonable time.

11. Pension administration records

11.1. In accordance with the Reporting of Price Control Cost Information licence condition, licensees are required to maintain (and ensure that any Affiliate or Related Undertaking of the licensee maintains) such accounting records, other records and reporting arrangements as are necessary to enable the licensee to prepare Price Control Cost Information for submission to the Authority. This includes the appropriate pension scheme administration records. Licensees, or their scheme administrators on their behalf, must maintain pension scheme administration records that contain sufficient detail to enable the attribution of pension scheme assets and liabilities to the Notional Sub-Funds to a reasonable degree of accuracy.

Employment records

11.2. In each Post Cut-Off Date year, for each pension scheme, the licensee shall determine the proportion of ongoing pension costs attributable to:

- Regulated Business Activities for the licensee;
- Regulated Business Activities for any other licensee; and
- Non-Regulated Business Activities for the licensee.
- Such proportions will represent the regulated and non-regulated post Cut-Off Date Proportions Of Service (the “Proportions Of Service”) and must add up to 100 per cent.

11.3. For each licensee, the Proportions Of Service for each pension scheme will be determined each year using the ongoing DB pension cost allocation in the relevant table of the annual RRP. The Proportions Of Service determined for each pension scheme will be recorded in the triennial Pension RRP submission as set out in table(s) P1.1 (and, where relevant, P2.1).

Pension scheme administration record requirements

11.4. For the purposes of this methodology, licensees must maintain, or arrange to have maintained, records at the necessary level of granularity to enable the attribution of pension scheme assets and liabilities (for the schemes which they are a sponsor or co-sponsor) between pre and post Cut-Off Date Notional Sub-Funds.

11.5. It is recommended that licensees record, or arrange for their pension scheme administrators to record, the following:

- for each active member, the number of years of pre and post Cut-Off Date pensionable service; and
- for deferred pensioners and pensioners the proportion of benefits which relate to pre and post Cut-Off Date pensionable service.

11.6. However, licensees can record alternative data to the above, as long as the data recorded enables the attribution of total pension scheme assets and liabilities between the pre and post Cut-Off Date Notional Sub-Funds to a reasonable and appropriate degree of accuracy to complete the data table and provide an appropriate audit trail.

Triennial processing of pension scheme administration records

11.7. The licensee (and its affiliates) shall provide, or ensure that the scheme administrator provides, the required data to enable the attribution of total pension scheme assets and liabilities between the pre and post Cut-Off Date Notional Sub-Funds.

12. Alternative approach

12.1. Where a licensee proposes to adopt an alternative approach to any aspect of the methodology set out herein, they must work with us to ensure that their procedures are consistent with the spirit and intention of this guidance and that they are transparent and equitable and provides an appropriate audit trail. Any alternative approach must be submitted in writing to us three months prior to applying it. We reserve the option to consult on any alternative approach to ensure that it is equitable, actuarially sound and does not advantage or disadvantage any other licensee.

12.2. If a licensee wishes or needs to change their alternative methodology, once we have consented in writing, the process in paragraph 12.1 above must be repeated.

13. Worked Examples: Asset and liability reconciliation

13.1. The following examples are of how the asset and liability reconciliation works for the period 1 April 2010 to 31 March 2013 in each of the following circumstances:

1) Pension Scheme with liabilities that relate to two DNOs

2) Pension Scheme with liabilities that relate to one DNO and one TO / TSO with different cut-off dates, will need to complete these in 3 parts:

    (a) 31 March 2012 - for TO for the period 1 April 2010 to 31 March 2012, as the TO needs to exclude the movements prior to the end of TPCR4, ie the cut-off date

    (b) 31 March 2013 – for DNO for the period 1 April 2010 to 31 March 2013, as the PDAM applies from 1 April 2010 cut-off date

    (c) 31 March 2013 – for TO for the period 1 April 2012 to 31 March 2013, as the PDAM applies from 1 April 2012 cut-off date

13.2. A similar situation occurs where National Grid Gas (NGG) NGUKPS has two cut-off dates, one at 31 March 2012 for its gas transmission licensee and one at 31 March 2013 for its gas distribution businesses. NGG will need to prepare a return for the period 1 April 2012 to 31 March 2013 applicable to its six regulated businesses. This will inform the attribution at the next review date, which is also the Cut-Off Date for gas distribution licensees.

13.3. Licensees having a scheme with two Cut-Off Dates are required to complete Tables P1.1 and P1.2 for each of the two periods as separate submissions.

~~**Worked Examples**: Asset and liability reconciliation~~

Example 1 – Pension Scheme with liabilities that relate to two DNOs

Assumptions:

Discount rate – 31.3.2010	5.75% p.a.
Discount rate – 31.3.2012	5.75% p.a.
Investment return	5.00% p.a.
Deficit contributions	£19.70m p.a.
Benefits paid	£13.33m p.a.
Pension strain costs	£3.33m p.a.
Duration of liabilities	20 years

Valuation at Cut-Off Date of 31 March 2010

- Liabilities = £1,000m
- Assets = £800m
- Deficit = £200m

Deficit reconciliation provided as part of valuation report prepared by Scheme Actuary:

	£m
Deficit at 31 March 2010:	(200)
Interest on deficit:	(36.5)
Employer contributions in excess of cost of benefit accrued:	59.1
Lower than expected investment returns:	(15.8)
Change in financial assumptions:	(127.7)
Deficit at 31 March 2013:	(320.9)

Valuation at 31 March 2013

- Liabilities = £1,344.7m
- Assets = £1,023.8m
- Deficit = £320.9m

Pre cut off date notional sub fund

- Liabilities = £1,344.7m – £77.5m = £1,267.2m
- Assets = £1,023.8m - £67.6m = £956.2m
- Deficit = £311m

Post cut off date Notional sub fund

- Liabilities = £1,344.7m * 48%[1] * 3[2]/25[3] = £77.5m
- Assets = £52.5m (employer cost of benefit accrual)
  + £9.0m (employee cost of benefit accrual)
  + £10.0m x 3/25 = £1.2m (pension strain costs)
  + £4.9m (investment returns)
  = £67.6m
- Deficit = £9.9m

Pre cut off date regulatory fraction for DNO 1: 41%

Post cut off date regulatory fraction for DNO 2: 43%

Post cut off date regulatory proportion for DNO1:
{Year 1: 40.2% x £50.0m
Year 2: 41.6% x £50.0m
Year 3: 42.8% x £50.0m} / £150.0m = 41.5%

Post cut off date regulatory proportion for DN02:
{Year 1: 36.2% x £50.0m
Year 2: 39.0% x £50.0m
Year 3: 41.8% x £50.0m} / £150.0m = 39.0%

Established deficit for DNO1
= £311m x 41% = **£127.5m**

Established deficit for DNO2
= £311m x 43% = **£133.7m**

Incremental deficit for DNO1
= £9.9m x 41.5% = **£4.1m**

Incremental deficit for DNO2
= £9.9m x 39.0% = **£3.9m**

1. Assumed active proportion. For simplicity, calculation assumes there are no deferred or pensioner members with post cut off date service.
2. Liability weighted average post cut-off date service for active members.
3. Liability weighted average service for active members.

~~**Worked Examples**: Asset and liability reconciliation~~

Example 2 - Pension Scheme with liabilities that relate to one DNO and one TO with different cut-off dates
Example 2 – Pension scheme with liabilities that relate to one DNO and one TO with different cut-off dates

31 March 2012 - for TO

Valuation at 31 March 2010
- Liabilities = £1,000m
- Assets = £800m
- Deficit = £200m

Deficit reconciliation provided as part of valuation report prepared by Scheme Actuary:

	£m
Deficit at 31 March 2010:	(200)
Interest on deficit:	(23.7)
Employer contributions in excess of cost of benefit accrued:	39.4
Lower than expected investment returns:	(10.7)
Change in financial assumptions:	(0.0)
Deficit at 31 March 2012:	(195.0)

Valuation at Cut-Off Date of 31 March 2012
- Liabilities = £1,140.5m
- Assets = £945.5m
- Deficit = £195m

Pre cut off date notional sub fund
- Liabilities = £1,140.5m
- Assets = £945.5m
- Deficit = £195m

Post cut off date Notional sub fund
- Liabilities =£1,140.5m * 48%[1] * 0[2]/24[3] = £0.0m
- Assets = £0.0m
- Deficit = £0.0m

Pre cut off date regulatory fraction for TO: 6.2%

Post cut off date regulatory proportion for TO: N/A

Established deficit for TO
= £195.0m x 6.2% = **£12.1m**

Incremental deficit for TO
= **£0.0m**

~~**Worked Examples**: Asset and liability reconciliation~~

31 March 2013 – for DNO

1. Assumed active proportion. For simplicity, calculation assumes there are no deferred or pensioner members with post cut off date service.
2. Liability weighted average post cut-off date service for active members.

Assumptions:

Discount rate – 31.3.2010	5.75% p.a.	
Discount rate – 31.3.2013	5.25% p.a.	
Investment return	5.00% p.a.	
Deficit contributions	£19.70m p.a.	
Benefits paid	£13.33m p.a.	

Valuation at Cut-Off Date of 31 March 2010

- Liabilities = £1,000m
- Assets = £800m
- Deficit = £200m

Deficit reconciliation provided as part of valuation report prepared by Scheme Actuary:

	£m
Deficit at 31 March 2010:	(200)
Interest on deficit:	(36.5)
Employer contributions in excess of cost of benefit accrued:	59.1
Lower than expected investment returns:	(15.8)
Change in financial assumptions:	(127.7)
Deficit at 31 March 2013:	(320.9)

Valuation at 31 March 2013

- Liabilities = £1,344.7m
- Assets = £1,023.8m
- Deficit = £320.9m

Pre cut off date notional sub fund

- Liabilities = £1,344.7m – £77.5m = £1,267.2m
- Assets = £1,023.8m - £67.6m = £956.2m
- Deficit = £311m

Post cut off date Notional sub fund

- Liabilities = £1,344.7m * 48%[1] * 3[2]/25[3] = £77.5m
- Assets = £52.5m (employer cost of benefit accrual)
  + £9.0m (employee cost of benefit accrual)
  + £10.0m x 3/25 = £1.2m (pension strain costs)
  + £4.9m (investment returns)
  = £67.6m
- Deficit = £9.9m

Pre cut off date regulatory fraction for DNO: 50.0%

Post cut off date regulatory proportion for DNO:
{Year 1: 50.0% x £50.0m
Year 2: 51.4% x £50.0m
Year 3: 52.4% x £50.0m} / £150.0m = 51.3%

Established deficit for DNO
= £311.0m x 50.0% = **£155.5m**

Incremental deficit for DNO
= £9.9m x 51.3% = **£5.1m**

~~**Worked Examples**: Asset and liability reconciliation~~

1. Assumed active proportion. For simplicity, calculation assumes there are no deferred or pensioner members with post cut off date service.
2. Liability weighted average post cut-off date service for active members.
3. Liability weighted average service for active members.

31 March 2013 – for TO

Assumptions:

Discount rate – 31.3.2012	5.75% p.a.
Discount rate – 31.3.2013	5.25% p.a.
Investment return	5.00% p.a.
Deficit contributions	£19.70m p.a.
Benefits paid	£13.33m p.a.
Pension strain costs	£3.33m p.a.
Duration of liabilities	20 years

Valuation at Cut-Off Date of 31 March 2012

- Liabilities = £1,140.5m
- Assets = £945.5m
- Deficit = £195m

Deficit reconciliation provided as part of valuation report prepared by Scheme Actuary:

	£m
Deficit at 31 March 2010:	(195)
Interest on deficit:	(11.2)
Employer contributions in excess of cost of benefit accrued:	19.7
Lower than expected investment returns:	(6.7)
Change in financial assumptions:	(127.7)
Deficit at 31 March 2013:	(320.9)

Valuation at 31 March 2013

- Liabilities = £1,344.7m
- Assets = £1,023.8m
- Deficit = £320.9m

Pre cut off date Notional Sub Fund

- Liabilities = £1,344.7m – £25.8m = £1,318.9m
- Assets = £1,023.8m - £21.1m = £1,002.7m
- Deficit = £316.2m

Post cut off date Notional Sub Fund

- Liabilities = £1,344.7m * 48%[1] * 1[2]/25[3] = £25.8m
- Assets = £17.5m (employer cost of benefit accrual)
  + £3.0m (employee cost of benefit accrual)
  + £3.3m x 1/25 = £0.1m (pension strain costs)
  + £0.5m (investment returns)
  = £21.1m
- Deficit = £4.7m

Pre cut off date regulatory fraction for TO: 6.2%

Post cut off date regulatory proportion for TO:
{Year 1: 6.75% x £50.0m} / £50.0m = 6.75%

Established deficit for TO
= £316.2m x 6.2% = **£19.6m**

Incremental deficit for TO
= £4.7m x 6.75% = **£0.3m**

~~**Worked Examples**: Asset and liability reconciliation~~

~~14. Key Dates~~

~~This appendix sets out the key dates affecting pension returns, efficiency reviews, true up and reset of pension deficit allowances for each price control. This is for guidance only; reference must be made to the respective price control Financial Handbooks for definitive dates.~~

~~*Regulatory year ending 31 March*~~	~~*Attribution statement due date on or before 30 September*~~	~~*Based on valuation date as at 31 March*~~	~~*Reasonableness review performed*~~	~~*True up effective in revenues from 1 April*~~	~~*Reset of revenue allowances effective from 1 April*~~
~~2014~~	~~2014~~	~~2013~~	~~2014~~	~~2015~~	~~2015~~
~~2015~~	~~none due~~				
~~2016~~	~~none due~~				
~~2017~~	~~2017~~	~~2016~~	~~2017~~	~~2018~~	~~2018~~
~~2018~~	~~none due~~				
~~2019~~	~~none due~~				
~~2020~~	~~2020~~	~~2019~~	~~2020~~	~~2021~~	~~2021~~
~~2021~~	~~none due~~				
~~2022~~	~~none due~~				
~~2023~~	~~2023~~	~~2022~~	~~2023~~	~~2024~~	~~2024~~
~~2024~~	~~none due~~				
~~2025~~	~~none due~~				
~~2026~~	~~2026~~	~~2025~~	~~2026~~	~~2027~~	~~2027~~
~~2027~~	~~none due~~				
~~2028~~	~~none due~~				
~~2029~~	~~2029~~	~~2028~~	~~2029~~	~~2030~~	~~2030~~

~~139.0. For DNOs the notional 15-year funding period ends on 31 March 2025 and, unless there are Significant Additional Deficits, the final reset and true up adjustments using the Triennial Valuations as at 31 March 2025 will be required over 2027-28.~~

~~140.0. For TSOs the notional 15-year funding period ends on 31 March 2027 and, unless there are Significant Additional Deficits, the final reset and true up adjustments using the Valuations as at 31 March 2027 will be required over 2029-30.~~

~~141.0. For GDNs the notional 15-year funding period ends on 31 March 2028 and, unless there are Significant Additional Deficits, the final reset and true up adjustments using the Triennial Valuations as at 31 March 2028 will be required over 2030-31.~~

~~142.0. As provided for in our Pension Principles, in the event that the established deficit increases materially in the latter part of the 15-year period, the funding period may be extended at our discretion in order to protect different generations of consumers. In addition, if a new established deficit arises, following the 15-year funding period, additional allowances may be provided on a case-by-case basis where that new deficit is due to exogenous factors and not poor stewardship. This deficit must relate to pensionable service accrued up to the cut-off date and be demonstrated to be efficient and economic by a reasonableness review. The process will be as determined under our pension methodologies and in accordance with our Pension Principles.~~

~~165.0. Valuations to be used to set initial established deficit funding allowances and initial pre Cut-Off Data Regulatory Fraction at each price control and resetting of those initial amounts are as follows:~~

~~***Sector***~~	~~***Valuation Date***~~	~~***Valuation Date for resetting of initial allowances***~~
~~Electricity distribution for DPCR5~~	~~30 September 2009~~	~~31 March 2010*~~
~~Transmission for TPCR4 Adapted Rollover~~	~~31 March 2011~~	~~31 March 2012*~~
~~Gas distribution for RIIO-GD1~~	~~30 June 2012~~	~~31 March 2013*~~
~~Electricity distribution for RIIO-ED1~~	~~31 December 2012~~	~~31 March 2013~~

~~*and for determining the established deficit and Pre Cut-Off Date Regulatory Fraction~~

~~167.0. Pension deficit allowances are not reset at the commencement of each subsequent price control, as there is a rolling reset and true up as set out above. As shown above the first Valuation Date after which all sectors deficit funding allowances are reset and trued up is 31 March 2013.~~

~~***Reset of allowances effective from 1 April***~~	~~***Number of years over which reset allowances and true up adjustments are spread***~~		
	~~DNOs~~	~~TOs/SOs~~	~~GDNs~~
~~2015~~	~~10~~	~~12~~	~~13~~
~~2018~~	~~7~~	~~9~~	~~10~~
~~2021~~	~~4~~	~~6~~	~~7~~
~~2024~~	~~1~~	~~3~~	~~4~~
~~2027~~	~~Final year (unless paragraph 14.5 applies)~~		~~1~~

~~2029~~		~~Final year (unless paragraph 14.5 applies)~~	
~~2030~~			~~Final year (unless paragraph 14.5 applies)~~

~~213.0.~~

~~The procedures for the triennial resetting and true-up of allowances is set out in the respective Price Control Financial Handbooks for each price control. Those for RIIO-GD1 and T1 have been published. That for RIIO-ED1, will be published as part of the price control process, this will implement the methodologies in the RIIO-ED1 March 2013 Strategy Decision document Financial Issues supplement. The effective date for the revised allocations produced by the PDAM at each triennial actuarial valuation take effect in the year of the reasonableness review stated in the above table.~~

~~214.~~14. Statement by Reporting Actuary

Reporting requirement

~~214.1.~~14.1. In accordance with Chapter 3 the licensee, at its own expense, must arrange for a Reporting Actuary to prepare a report for each DB pension scheme of which the licensee is a sponsor or co-sponsor. This report must include a certificate by the Reporting Actuary that provides:

- the input information required on Table(s) P1.2 and P2.2 (where relevant);
- confirmation that the information has been prepared from the Valuation (i.e. a Triennial Valuation or an Updated Valuation) of the licensee's defined benefit pension schemes as at the Valuation Date;
- confirmation that the input information has been prepared in accordance with the methodology set out in this document; and
- confirmation that they have received all the information necessary to calculate and complete the input in accordance with this methodology as required and the source(s) of that information.

Format of certificate

~~214.2.~~14.2. This certificate must be in the following format:

I certify that:

- *the information above has been prepared from [my / A N Other's] valuation report to the Trustees of [name of scheme] dated DD MMM YYYY;*
- *the input information has been prepared for the [name of] scheme in accordance with the methodology set out in Ofgem's Pension Deficit Allocation Methodology document dated DD MMM YYYY; and*
- *that I have received all the information necessary to calculate and complete the inputs in accordance with Ofgem's Pension Deficit Allocation Methodology document as required and the source(s) of that information are shown in [insert relevant chapters of report].*

Signed:

Date:

Submission of certificate

~~214.3.~~14.3. The licensee must provide the Authority with a certified copy of the required certificate from the Reporting Actuary. It must be submitted at the same time and with the P1.2 and P2.2 data tables.

~~215.~~15. Instructions for completion of data tables

Introduction

~~215.1.~~15.1. The licensee is to complete all data tables for its DB pension scheme (P1.1, P1.2 and ~~, P1.3 and~~ P1.4[9]) and, where it has a second DB scheme, tables (P2.1, P2.2 and~~,~~ ~~P2.3 and~~ P2.4[10]). Tables P1.5, P1.6, P2.5 and P2.6 are completed at the licensee level. It must arrange for the tables P1.2 (and, where appropriate P2.2) to be completed or signed off by a Reporting Actuary. If the licensee intends to complete tables P1.2 and P2.2 itself and not use a Reporting Actuary, then the Report should be completed and signed off by an actuary directly employed by the licensee.

15.2. Data tables are to be submitted on or before dates set out in Table 1.1 of Chapter 1 - Introduction~~Tables P1.3, P2.3 and the supporting documentation listed below are to be submitted on or before 7 July in the year specified in chapter 14~~ and the relevant Price Control Financial Handbook.

~~215.2.~~

~~215.3. The complete pack, including already submitted data tables (required in paragraph 16.2 above) and the remaining PDAM tables (P1.1, P2.1, P1.2 and P.2.2) are to be submitted on or before 30 September in the year specified in chapter 3 and the relevant Price Control Financial Handbook. Tables P1.3, P2.3, P1.4 and P2.4 are to be submitted on or before 7 July in the year specified in chapter 3 and the relevant Price Control Financial Handbook.~~

~~215.4.~~15.3. The data tables are set out in a separate excel workbook (attached).

~~215.5.~~15.4. Where errors are identified when completing the data tables we may need to refine them ~~data tables~~ based on network operators experience of completing them and to deal with any application issues which may be identified. See Chapter 1 (Introduction) – paragraph 1.19.

~~215.6.~~15.5. The pension data tables workbook comprises:

- Pension Pack cover
- Version control

---

[9] Not required to be completed by DNOs
[10] Not required to be completed by DNOs

Formatted: Superscript

Supplement One: Pension deficit allocation methodology and datasets

- Contents
- Changes log
- P1.1 - PDAM information completed by licensee - primary scheme
- P1.2 - PDAM information completed by Actuary - primary scheme
- P1.3 - Deleted
- P1.4 - PPF Levies and Scheme administration - Primary scheme [not DNOs]
- P1.5 - Calculation of Vrr – Licensee 1
- P1.6 IBAPA and PBAPA – Licensee 1
- P2.1 - PDAM information completed by licensee - second scheme
- P2.2 - PDAM information completed by Actuary - second scheme
- P2.3 - Deleted
- P2.4 - PPF Levies and Scheme administration - second scheme [not DNOs]
- P2.5 - Calculation of Vrr – Licensee 2
- P2.6 IBAPA and PBAPA – Licensee 2
- ~~P1.1 - PDAM information completed by licensee - primary scheme~~
- ~~P1.2 - PDAM information completed by Actuary - primary scheme~~
- ~~P1.3 - Pensions Primary scheme~~
- ~~P1.4 - PPF Levies, scheme administration, contingent asset and hedging costs - Primary scheme~~
- ~~P2.1 - PDAM information completed by licensee - second scheme~~
- ~~P2.2 - PDAM information completed by Actuary - second scheme~~
- ~~P2.3 - Pensions Second scheme~~
- ~~P2.4 - PPF Levies, scheme administration, contingent asset and hedging costs - Second scheme~~
- Paragraph 6.20 adjustments

15.6. Data must only be entered in cells with a yellow background. ~~All data is to be entered as positive amounts, unless an amount is negative. Data may be entered to more than one decimal place but will only show to one decimal place.~~

Supporting documents

~~215.7.~~15.7. The following other supporting documents must be submitted (subject to paragraph 15~~6~~.~~9~~9) with the data tables for each scheme on or before the dates set out~~7 July in the year specified~~ in Chapter 1 (Introduction) – Table 1.1~~chapter 14 and the relevant Price Control Financial Handbook~~:

- Annual audited Pension Scheme accounts (for the three years reported in tables P1.1 and P2.1, which include the valuation date)
- Actuarial valuation reports
- Statement of Funding Principles
- Statement of Investment Principles
- ~~Employer covenant review (see paragraph 16.9 below)~~
- ~~Scheme narrative data tables~~
- ~~Directors sign off letter on behalf of the Board~~

~~215.11.~~15.8. The following additional supporting documents must be submitted ~~with the data tables (in paragraph 16.3 above)~~ for each scheme on or before 31 August~~before 30 September~~ in the year specified in Chapter 1 (Introduction) – Table 1.1 ~~chapter 14~~ and the relevant Price Control Financial Handbook:

- ~~Annual audited Pension Scheme accounts, if not previously provided~~
- Statement by Reporting Actuary on Tables P1.2 and P2.2
- ~~Directors sign off letter on behalf of the Board~~

~~215.12.~~15.9. E~~The e~~mployer covenant reviews ~~is~~ are prepared for the trustees and not the licensee. Ofgem acknowledges it cannot insist on being provided with a copy and that it is at the discretion of the trustees and covenant reviewer. Licensees are required to use reasonable endeavours for Ofgem to be provided with a copy.

Purpose of data tables

~~215.13.~~15.10. The purpose of the instructions and guidance in this chapter is to provide a framework for the collection and provision of accurate and consistent cost data from NWOs.

~~215.14.~~ Where a licensee utilises its own tables in order to compute an input, it is requested to submit that as support to their input and to explain its derivation. In this way additional tables may be developed to build on the existing framework in this document, eg to record the evolution of the pre Cut-Off Date Regulatory Fraction over time in licensees other than DNOs.

~~215.15.~~15.11.

Worksheets – Admin

Cover – Triennial Pension Reporting Pack data tables

~~215.16.~~15.12. This worksheet is used for the NWO to enter key data including the NWO group name, the licensees that are sponsors of the pension scheme and the name of the pension schemes; and the reporting year or period. The names are linked to the relevant worksheets in the pension workbook.

~~215.17.~~15.13. Names should be entered in the yellow cells using the drop down menus, which will appear when mouse is placed on the cell.

~~215.18.~~15.14. A navigation button to the contents page is provided.

Version control

~~215.19.~~15.15. Each time the pack tables are submitted or resubmitted the version control worksheet must be completed detailing the date submitted and the changes.

~~Navigation~~Contents

~~215.20.~~15.16. This worksheet details what tables are contained within the workbook, and provides hyperlinks to all the tables.

~~This worksheet also lists all the additional supporting documents that must be submitted as set out in paragraph 1.5 of chapter 1. NWOs should complete whether the document are submitted for the primary and /or the second scheme; and if not provided with the submission when each document will be submitted or, should also be used to indicate if previously submitted.~~

Changes log

~~215.22.~~15.17. The change log is to be used to list changes made to each worksheets. ~~listing each cell changed.~~

~~215.23.1.1. Data must only be entered in cells with a yellow background. All data is to be entered as positive amounts, unless an amount is negative. Data may be entered to more than one decimal place but will only show to one decimal place.~~

~~215.23. Worked examples of completed tables~~

~~215.23. The last two worksheets are worked examples of tables P1.1 and P1.2. These may be deleted when the pack is submitted.~~

~~216.~~16. Instructions for completion of scheme data tables - Worksheets P1.1 and P2.1

~~216.1.~~16.1. These tables are identical and must be completed for the primary DB scheme (P1.1) and second DB scheme (P2.1) if the licensee group has more than one scheme. If the licensee group has more than two schemes, the latter table should be copied and renamed P3.1. ~~As set out t~~These tables~~, for DNOs they~~ are for the period covering the years 31 March 201~~0~~3 to 31 March 201~~6~~3. ~~and for the period 31 March 2012 to 31 March 2013 for TSOs. GDNs are not required to complete these tables for the March 2013 Valuations. NG may complete this to show the attributions to their GDNs as well as TSOs for their NGUKPS at 31 March 2013.~~

~~216.2.~~16.2. The scheme name and names of the sponsoring NWOs are automatically populated from the cover tab.

~~216.3.~~16.3. This table has eight sections:

- Section A - Pre Cut-Off Date Regulatory Fraction
- Section B - Optional Roll Forward of Pre Cut-Off Date Regulatory Fraction Update
- Section C - ERDC computation of movement in residual unfunded balance in period
- Section D - Changes to pre Cut-Off Date Regulatory Fractions
- Section E - Post Cut-Off Date Regulatory Proportion at Previous Valuation
- Section F - Calculation of Weighted Proportions Of Service
- Section G - Calculation of Post Cut-Off Date Regulatory Proportion
- Section H - Calculation of Established Deficit and Incremental Deficit

Guidance on completing the worksheet

Valuation dates

~~216.4.~~16.4. Using the drop down boxes in D8 and D9 respectively choose the date of previous, ie opening, valuation; and date of current, ie closing, valuation. These dates will auto-populate other cells as necessary.

Section A - Pre Cut-Off Date Regulatory Fraction

~~216.5.~~16.5. This section requires data entry in row 14 for each sponsor of the Pre cut-off date Regulatory Fractions as ~~set out in the relevant Final Proposals documents~~those agreed at the last valuation, and prior to the percentage of the residual unfunded ERDCs at the opening date in cell D8.

~~216.6.~~16.6. Enter in row 15 the percentage of the residual unfunded ERDCs at the opening date in cell D8 for each sponsor.

Section B - Optional Roll Forward of Pre Cut-Off Date Regulatory Fraction Update – DNOs

~~216.7.~~16.7. This section is only to be completed by DNOs and they should select "Yes" in cell C20.~~, as i~~ It calculates the movement in the optional roll forward of the Pre Cut-Off Date Regulatory Fraction as set out in chapter 7. ~~Data should only be entered in cells with a yellow background.~~ Other schemes may need to report alternative information as provided for in paragraph 7.14 of chapter 7 to support the methodology that is to be agreed.

~~216.8.~~16.8. This section allows for up to three sponsors for any one scheme and calculates the updated regulatory fraction for each sponsor separately.

~~216.9.~~16.9. In cells D26 to D28, G26 to G28 and J26 to J28 enter the pre cut-off date scheme liabilities attributable to each sponsor as at each of 31 March 2004, 2013~~0~~ and 2016~~3~~, respectively. The pre cut-off date scheme liabilities in cells G29 and ~~J29,~~J29 should equal the value of pre cut-off date liabilities detailed in table P1.2.

~~216.10.~~16.10. The columns for the year ~~2004,~~2004 attribute liabilities between actives (plus retirees from actives after 2004) and 'pensioners & deferred members (less retirees from actives since 2004)' and the amount of each within the 80 per cent allowed proportion.

~~216.11.~~16.11. The amount of sponsor one's pre cut-off date liabilities which are attributable to Active members (plus retirees from actives after 2004) should be entered in cells D35, G35 and J35.

~~216.12.~~16.12. For sponsor one, rows 40 to 43 show the split of 'actives' and 'pensioners & deferreds' pre cut-off date liabilities attributable to regulated and non-regulated business activities. Enter in cell C40 the percentage of sponsor one's pre cut-off date active liabilities that were associated with regulated business activities at 31 March 2004, in F40 as at 31 March 201~~0~~3 and at I40 as at 31 March 201~~3~~6.

~~216.13.~~16.13. Cell C41 will display the balance of any of sponsor one's pre cut-off date active liabilities at 31 March 2004 associated with non-regulated business activities. Sponsor one's pre cut-off date pensioner & deferred liabilities at 31 March 2004 are then attributed between regulated and non-regulated business activities to ensure that the overall proportion of sponsor one's total pre cut-off date liabilities at 31 March 2004 allocated to regulated business activities equals 80 per cent.

~~216.14.~~16.14. Cells F41 and I41 will display the balance of any of sponsor one's pre cut-off date active liabilities associated with non-regulated business activities at 31 March 2013~~0~~ and 31 March 201~~3~~6, respectively. The proportion of sponsor one's pre cut-off date pensioner & deferred liabilities at 31 March 2013~~0~~ and 2016~~3~~ are attributed to regulated and non-regulated business activities in the same proportion as they were at 31 March 2004.

~~216.15.~~16.15. The licensee should provide supporting data to justify the percentage entered in cells C40, F40 and I40. Each percentage needs to be fully supported with individual valuation of the original 2004 actives updated to 201~~0~~3 and 2016~~3~~ based on the latest available valuation data.

~~216.16.~~16.16. The orange background cells E46 and E47 are fixed and must agree with the 80:20 ratio used in DPCR4, although in some DNOs this can be 100 per cent as per DPCR4 Final Proposals

~~216.17.~~16.17. Cells H46 and ~~K50~~ K46 show the updated pre cut-off date regulatory fraction which applies to the pre cut-off date liabilities attributable to sponsor one at 31 March 2013~~0~~ and 31 March 201~~3~~6, respectively.

~~216.18.~~16.18. Cells H50 and K50 show the updated pre cut-off date regulatory fraction for sponsor expressed as a proportion of total pre cut-off date liabilities at 31 March 201~~0~~3 and 31 March 201~~3~~6, respectively.

~~216.19.~~16.19. Where there is more than one regulated sponsor, then complete parts 2 and 3, commencing at rows 53 and 75.

Section C - ERDC computation of movement in residual unfunded balance in period

~~216.20.~~16.20. This section calculates the return on the opening unfunded ERDC for each of up to three sponsoring DNOs.

~~216.21.~~16.21. Enter in cells C102, D102 and E102 for each year the vanilla WACC from the relevant Financial Model~~/Final Proposals~~ to three decimal places.

~~216.22.~~16.22. In C104, F104 and I104 enter the Opening balance of the residual amount of unfunded ERDCs from the previous valuation in £m for each sponsoring DNO.

~~216.23.~~16.23. In row 106 enter in £m the proportion of employer deficit payments that can be attributed, in line with the approach detailed in paragraph 6.5 of chapter 6, to the remaining additional liabilities which relate to unfunded ERDCs, allowing for expected returns calculated using the WACC determined for the relevant price control.

~~216.24.~~16.24. At row 107, the closing balance of residual unfunded ERDCs will be shown and in cells E109, H109 and K109 the percentage reduction in the pre cut-off date regulatory fraction due to the outstanding ERDCs for each sponsoring DNO.

Section D - Changes to pre Cut-Off Date Regulatory Fractions

~~216.25.~~16.25. This section calculates the changes in the regulatory fraction for each of up to six sponsoring NWOs in the relevant period to 31 March 201~~3~~6 from bulk transfers in and out of the scheme, other items and ERDCs.

~~216.26.~~16.26. Each entry in cells C117 to I122 must be evidenced with supporting data and setting out the source and the calculation of the proposed adjustment as a percentage of the scheme. Data is required where there are such adjustments in the following rows:

- Row 117 - Adjustment to Pre Cut-Off Date Regulatory Fractions due to bulk transfers in during period excluding protected persons
- Row 118 - Adjustment to Pre Cut-Off Date Regulatory Fractions due to bulk transfers in during period in relation to protected persons
- Row 119 - Adjustment to Pre Cut-Off Date Regulatory Fractions due to bulk transfers out during period excluding protected persons
- Row 120 - Adjustment to Pre Cut-Off Date Regulatory Fractions due to bulk transfers out during period in relation to protected persons
- Row 121 - Adjustment to Pre Cut-Off Date Regulatory Fractions due to other items
- Row 122 - ERDC adjustment as at 31 March 2016

16.27. In the Pre Cut-Off Date Regulatory Fractions at the latest valuation date, cells C123:H123 will calculate as follows:

- For DNOs where Section B has been complete the sum(C116:C122), sum(D116:D122) etc, or
- For non-DNOs, or where Section B has not been completed, the sum(C115,C117:C122), sum(D115,D117:D122) etc.

~~3~~

Formatted: Font color: Black

Formatted: Paragraph, No bullets or numbering, Adjust space between Latin and Asian text, Adjust space between Asian text and numbers

Formatted: Paragraph

Section E - Post Cut-Off Date Regulatory Proportion at Previous Valuation

~~216.27.~~16.28. This section is for the input of the opening post Cut-Off Date Regulatory Proportion

Section F - Calculation of Weighted Proportion Of Service (based on data from RRPs)

~~216.28.~~16.29. This section calculates the "Weighted Proportion" from the Proportions Of Service for each year of the triennial review period ending on 31 March 201~~3~~6.

~~216.29.~~16.30. Input for each NWO in each year of the triennial review period ending on 31 March 2016~~3~~, the amount of pensionable salaries (before salary sacrifice) for each NWO attributable to regulated business activities for this defined benefit pension scheme. The amount of pensionable salaries not attributed to regulated business activities for an NWO should be attributed to non-regulated business activities. This amount should be sourced from each year Cost Matrix table in the annual RRP document and a source provided to the relevant table in column K.

Section G - Calculation of Post Cut-Off Date Regulatory Proportion

~~216.30.~~16.31. This section shows the Post Cut-Off Date Regulatory Proportion calculated from the inputs in sections E and F.

Section H - Calculation of Established Deficit and Incremental Deficit

~~216.31.~~16.32. This section calculates the following from the inputs in sections A to G above:

- Pre cut-off date regulatory fractions, post residual unfunded ERDCs
- the Post Cut-Off Date Regulatory Proportion
- Established Deficit (£m) at the end of the triennial period
- Incremental Deficit (£m) at the end of the triennial period.

~~217.~~17. Instructions for completion of scheme data tables - Worksheets P1.2 and P2.2

~~217.1.~~17.1. These worksheets are identical and should be completed for the primary DB scheme (P1.2) and second DB scheme (P2.2) if the licensee group has more than one scheme. If the licensee group has more than two schemes, the latter table should be copied and renamed P3.2. T~~Initially, t~~he~~y~~ tables are for the relevant period to 31 March 201~~3~~6 as set out in paragraph 17.1. ~~GDNs are not required to complete these tables for the March 2013 Valuations.~~

~~217.2.~~17.2. The scheme name and names of the sponsoring NWOs is automatically populated from the cover worksheet.

~~217.3.~~17.3. The worksheet has seven sections:

- Section A - Assets and Liabilities at previous valuation
- Section B - Assets and Liabilities at closing valuation
- Section C - Reconciliation of surplus / deficit
- Section D1 - Scheme liabilities and attribution (chapter 4 of Supplement One)
- Section D2 - Attribution of scheme liabilities to pre and post Cut-Off Date Notional Sub-Funds (chapter 4 of Supplement One)
- Section E - Scheme assets and attribution to pre and post Cut-Off Date Notional Sub-Funds (chapter 5 of Supplement One)
- Section F - Calculation of pre and post Cut-Off Date deficits (chapter 7 of Supplement One)

Guidance on completing the worksheets

Section A - Assets and Liabilities at previous valuation

~~217.4.~~17.4. This section requires the input of the total assets and liabilities of the named DB scheme at the previous valuation. The first time this is completed it will be at the date valuation as set out in Chapter 1 (Introduction) – Table 1.1 ~~chapter 14~~ being the Cut-Off Date, eg for DNOs 31 March 2010. Assets should be entered as a positive and liabilities as negative amounts respectively.

Section B - Assets and Liabilities at closing valuation

~~217.5.~~17.5. This section requires the input of the total assets and liabilities for each of actives, deferred and pensioner members of the named DB scheme at the current valuation date. ~~The first time this section will be completed will be the valuation date set out in chapter 14, eg for DNOs and TSOs 31 March 2013, for GDNs 31 March~~

~~2016.~~ Assets should be entered as a positive and liabilities as negative amounts respectively.

Section C - Reconciliation of scheme surplus / deficit

~~217.6.~~17.6. This section requires the input of the scheme deficit (as negative) or surplus (as a positive) of the named DB scheme at the previous valuation~~, eg the first time this is completed it will be the valuation as set out in chapter 14, ie for DNOs 31 March 2010~~. All the captured movements should be entered observing the relevant signage, ie assets and cash in as positives, outgoings as negatives.

~~217.7.~~17.7. The reconciliation should follow that in the DB scheme's latest valuation, eg 31 March 2016~~3~~.

~~217.8.~~17.8. Rows 3~~5~~6 to 3~~7~~8 should be used for additional items, where material. The text in column B must be overwritten with a description.

~~217.9.~~17.9. The movements must result in the amount at cell D3~~8~~9 being equal to the amount in cell D21. If not, an error message will be displayed in cell D~~39~~40, and the data must be corrected to eliminate the error message. The workbook must not be submitted until the error message has been eliminated.

Section D1 - Scheme liabilities and attribution

~~217.10.~~17.10. This section captures the movements in scheme liabilities from the ~~Cut-Off Date~~previous valuation (eg 31 March 201~~0~~3 for DNOs) ~~set out in the Glossary~~ to the current valuation (eg 31 March 201~~6~~3 for DNOs).

~~217.11.~~17.11. Enter the amount of the movements in the period for each item listed in the scheme's liabilities.

~~217.12.~~17.12. Amounts should be entered as positive numbers, ie for an item increasing the liability; and a negative number for an item reducing the liability, as indicated in column A.

Section D2 - Attribution of scheme liabilities to pre and post Cut-Off Date Notional Sub-Funds

~~217.13.~~17.13. This section captures the necessary data required to attribute total DB scheme liabilities to the pre and post Cut-Off Date Notional Sub-Funds and will also show the total value of all liabilities in respect of all benefits accrued since post Cut-Off Date from the previous valuation.

~~217.14.~~17.14. Enter in rows 6~~8~~9, 70~~69~~ and 7~~1~~0 (as a percentage) the proportion of the schemes active, deferred and pensioner liabilities attributable to the post-cut-off date notional sub-fund, calculated as set out in chapter 4.

~~217.15.~~17.15. Enter in cell D7~~6~~7 the value of liabilities at the current Valuation Date in respect of post Cut-Off Date benefits accrued up to and including the date of the previous Valuation.

~~217.16.~~17.16. Enter in cell D7~~7~~8 the value of liabilities at the current Valuation Date in respect of post Cut-Off Date benefits accrued since the date of previous valuation.

Section E - Scheme assets and attribution to pre and post Cut-Off Date Notional Sub-Funds

~~217.17.~~17.17. This section analyses the movement in scheme assets in the period between the opening valuation (eg the Cut-Off date) and the latest valuation and its attribution to pre and post Cut-Off Date Notional Sub-Funds.

~~217.18.~~17.18. Applying the methodology set out in chapters 5 and 6, in column C, enter the movements in the value of assets for the total DB scheme for each of the listed items in column B.

~~217.19.~~17.19. Applying the methodology set out in chapters 5 and 6, in column D, enter the movements in the value of assets attributable to the Post Cut-Off Date Notional Sub-fund for each of the listed items in column B.

~~217.20.~~17.20. No data entry is required for column E, which subtracts the amounts in column D from those in column C to show the value of assets attributable to the Pre Cut-Off Date Notional Sub-fund.

~~217.21.~~17.21. In column F for each item above, enter the basis of the calculation of the attribution to Post Cut-Off Date Notional Sub-fund, including the data (amounts) and formulae applied, where it is not the approach set out in chapters 5 and 6.

Section F - Calculation of pre and post Cut-Off Date deficits

~~217.22.~~17.22. Section F calculates the attribution of the deficit between the Pre and Post Cut-Off Date Notional Sub-funds as set out in chapter 7 from the data in Sections A to E.

Pension Supplement Two

Scheme datasets

~~218.~~18. Scheme datasets

Purpose

~~218.0.~~ Chapter 3 of the respective Price Control Financial Handbooks[11] set out the information required for each~~These tables (P1.3, P2.3, P1.4 and P2.4) collect data relating to each~~ defined benefit scheme for the purpose of the triennial R~~r~~easonableness ~~r~~Review and the resetting and true up of allowances. See also Chapter 1 (Introduction), Table 1.1.

~~218.0. Tables P1.3 and P2.4 are required to be submitted on or before the 7 July in the year following the relevant valuation dates (31 March 2013, 2016, 2019, 2022), as set out in the third column of chapter 14 and the respective Price Control Financial Handbooks, which have priority. The submission should include any supporting data and the completed Commentary (set out in appendix 2).~~

~~218.0. Tables P1.4 and P2.4 are required to be submitted on or before the 31 July in the year following the relevant valuation dates (31 March 2013, 2016, 2019, 2022), as set out in the third column of chapter 14 and the respective Price Control Financial Handbooks, which have priority.~~

[11] See also Table 1.1 o Chapter 1 (Introduction).

~~219.~~19. Instructions for completion of scheme data tables - Tables P1.3 and P2.3 [deleted]

~~Purpose~~

~~219.0. This table collects data relating to each defined benefit scheme. These worksheets are identical and should be completed for the primary DB scheme (P1.3) and second DB scheme (P2.3) if the licensee group has more than one scheme.~~

~~219.0. If the NWO group has more than two schemes, the latter table should be copied and renamed P3.3. Initially, they are for the various periods ending 31 March 2013, dependent on the data specified below.~~

~~219.0. They also collect information on all membership data and scheme data for the purposes of informing the price control on pension costs and liabilities.~~

~~219.0. The data is primarily collected as part of the panel data for the reasonableness reviews, in accordance with our approach to pension costs and set out in our pension principles; and additional information and analysis.~~

~~219.0. The scheme name and names of the sponsoring NWOs are automatically populated~~

~~Guidance on completing the worksheets~~

~~219.0. All data must be entered in nominal prices each year.~~

~~219.0. Data is to be provided for each DB pension scheme where there is an element relating to the regulated distribution or transportation business.~~

~~219.0. The licensee is to complete the scheme data table(s). The tables are to be submitted on or before 7 July in the year specified in chapter 14 to supplement one and the relevant Price Control Financial Handbook.~~

~~Section A: Group Scheme cashflows~~

~~219.0. This section collects information on the total group scheme cashflows for which the NWO is the sponsoring employer.~~

~~219.1. This data will enable a cross check on information in the PDAM data tables.~~

~~219.1. Cells D8 to F9, should include the amounts payable by employees and employers without adjustment to reverse for the effect of salary sacrifice amounts.~~

~~219.1. Cells H8 to J9, should include the amounts payable by employees and employers reported after reversing for the impact of salary sacrifice amounts, ie any reduction in employee contributions and increase in employer contributions from the salary sacrifice arrangements.~~

~~Section B: Investment Returns~~

~~219.1. This section collects investment returns, net of investment management fees where they are deducted from investment returns.~~

~~219.1. Rows 31 to 35: The data is required for each year from 31 March 2001 to 31 March 2013 and should be input in £m. If the licensee has not previously provided or does not have the historical data on an annual basis, it should be provided as at each full actuarial valuation date.~~

~~219.1. Row 38: The investment return assumption in each of the relevant valuations applicable to each year should be entered as a percentage, which should be the average or the weighted average of the pre- and post-retirement discount rates.~~

~~219.1. Row 39: The investment return assumption in each of the relevant recovery plans applicable to each year should be entered as a percentage, which should be the average or the weighted average of the pre and post- retirement discount rates.~~

~~219.1. Row 40: The actual investment return achieved in each year should be entered as a percentage of total assets based on scheme cashflows.~~

~~Section C: Scheme assets by class~~

~~219.1. This section collects investment returns, investment management expenses where they are deducted from investment returns for each year in the period 2001 to 2013.~~

~~219.1. Rows 44 to 62: Enter details on the assets by category held in the scheme at the 31 March each year. The data should be sourced from triennial valuations and /or annual pension scheme accounts. Where historic data is unavailable due to a scheme having been formed from a sectionalisation of a previous scheme, this should be noted in the Commentary. The opening scheme assets as at the date of sectionalisation should be entered as well as data for each year to 31~~

~~March. For the purposes of the asset allocation memorandum, enter in column B which category each asset is in for the analysis at rows 65 to 67.~~

~~219.1. Rows 65 to 67: Enter the asset allocation memorandum as percentages of the total assets in rows 44 to 62. This is the scheme's view of asset classes and these are not pre-determined as some asset categories may fall into different classes dependent on how the assets are managed.~~

~~219.1. Columns Q, R and S: Enter the estimated attribution of assets at 31 March 2013 and the asset allocation memorandum as percentages of the total assets in rows 44 to 62 and 65 to 67, to the following groups of members:~~

- ~~Members in currently regulated activities~~
- ~~Members in non-regulated activities~~
- ~~Legacy members from businesses disposed of~~

~~It is acceptable to use an approximation if assets are not held in physically separated sub-funds attributable to any specific groups of members.~~

~~Licensees should explain how they have made their attributions in the Commentary and provide any supporting documents or analysis. Licensees must explain whether assets are, or are not, held in physically separated sub-funds attributable to any specific groups of members.~~

~~Section D: Membership data~~

~~219.1. This section seeks information on the membership of the total group and three key groups of members:~~

- ~~Members in currently regulated activities~~
- ~~Members in non-regulated activities~~
- ~~Legacy members from businesses disposed of~~

~~219.1. This total group data should be that used in the valuation. It is not expected that this data would need to be revised in subsequent years. The analysis of members to activities and legacy members for business disposed of should be extracted from the scheme records. Licensees should explain how they have made their attributions in the Commentary and provide any supporting documents or analysis. If the individual movements are unobtainable then it is acceptable to provide at a minimum the opening balance and a single movement figure (using only the leavers row in each case) to derive the closing balance. If the licensee has not previously provided or does not have the historical data on an annual basis, it should be provided as at each full actuarial valuation date.~~

~~219.1. Rows 86 & 95: These rows are for members who became deceased during the financial year.~~

~~219.2. Row 102: New dependents must be populated with any dependent members created on the death of a member in one of the other categories.~~

~~219.2. Row 117 to 121: input the average age of members in the four categories as at 31 March 2010 and 2013.~~

~~219.2. Rows 125 to 128: Enter membership totals split between those with protected rights under the Protected Persons legislation and the remainder of the scheme.~~

~~219.2. Rows 129 to 138 are auto populated, no data entry is required.~~

~~Section E: Scheme mergers (into this scheme)/Sectionalisation~~

~~219.2. This section provides details of any mergers into this DB scheme analysed by year, collecting incoming scheme data to compare to scheme data populated from other sections. Three years are allowed for, corresponding to the three years of the current triennial period.~~

~~219.2. Rows 152 to 153: The regulatory fractions must be as used in the preceding price control. Where there is no previous regulatory fraction, or the position is uncertain, the cell should be left blank and a note included in the Commentary.~~

~~Section F: Actuarial Data~~

~~219.2. This section collects information on the actuarial valuation results for the DB scheme as at each of 31 March 2010 and 2013. This refers to scheme funding valuations rather than valuations for other purposes (for example, company accounting valuations or PPF levy valuations or sectionalisation).~~

~~219.2. Most of the information is self-explanatory and be that from the actuarial valuations as at 31 March 2010 and 2013; however, where necessary answers should be expanded in the commentary.~~

~~219.2. In cells G190 and H190 enter the total amount for salaries in the Group Accounts in each of 2010 and 2013.~~

~~219.2. In cells G194 and H194 enter the aggregate amount of deficit recovery contributions paid to the scheme in each of the three years ending 31 March 2010 and 2013.~~

~~219.2. Rows 200 to 208 and 222 to 230: As indicated, enter in columns G and H respectively whether (G) smoothing has been applied, and (H) whether account has been taken of changes in market conditions since the valuation date, in arriving at the value of assets and liabilities.~~

~~219.3. Row 219: This may be answered in the narrative commentary. It will also depend on whether smoothing is eventually prescribed and on its form.~~

~~219.3. Rows 222 to 230: Where different actuarial assumptions are used in the deficit recovery plan compared to the actuarial valuation, enter only the different assumptions compared to those for each category in row 200 to 208.~~

~~219.3. Rows 232 and 233: Specify the mortality table used, including any age ratings: eg "PMA/PFA92 U=2004 x-1" with medium cohort improvement factors subject to a 1 per cent underpin". Expand in Commentary as necessary.~~

~~219.3. Rows 238 and 239: Specify the mortality table used, including any age ratings: eg "PMA/PFA92 U=2004 x-1" with medium cohort improvement factors subject to a 1 per cent underpin. Expand in the Commentary as necessary.~~

~~219.3. Rows 244 to 259: Enter, for up to four different groups of members, the current scheme benefits applicable each different group of members. Additional columns may be copied and pasted in where there are more than four different groups.~~

~~219.3. Row 248: The rows headed "normal retirement age" are to be completed with the earliest age at which unreduced benefits are payable on age retirement (which might strictly be different to the scheme's "normal retirement age").~~

~~219.3. Rows 262 to 263: Information on AVC facilities is required only to the extent that employees can purchase additional service in the defined benefit scheme or the employer contributes in some way. AVC information is required for the DB scheme as a whole. Information is not required for defined contribution AVC schemes.~~

~~219.3. Rows 279 to 284: Data is required to be input in the year column where there was a full triennial valuation, the requested experience data, enter "na" in the other years. Where the historic data is not available, licensees should complete for their latest two valuations, ie 2010 and 2013. In the Commentary, advise if a scheme was formed after 31 March 2003 or when if it was formed from a sectionalisation of a larger scheme.~~

~~219.3. Row 279: this should be computed as the number of members retiring in the scheme in each triennial period who took a lump sum commutation payment as a percentage of all retirements in the scheme. This includes where provided those who take the 3/80ths scheme lump sum.~~

~~219.3. Row 280: this is the nominal average actual salary increases to active scheme members in the triennial period computed expressed as a percentage of each years' pensionable salary as at 1 April.~~

~~219.4. Row 281: this is the percentage increase in salary assumption in the valuation applicable to the triennial period.~~

~~219.4. Rows 286 to 313: Enter the relevant ratios. For rows 286 to 289 this is information in the Group accounts[12] of the ultimate holding company for the relevant scheme. For rows 292 to 313 this should be derived from information in the regulatory accounts and the scheme's pension deficits at each date using the published regulatory fractions. Expand in Commentary as necessary. Pension costs are the aggregate of DB and DC scheme employer contributions, pension strain costs, deficit recovery plan funding payments, PPF levies and pension scheme administration costs, and contingent asset and hedging costs.~~

~~219.4. Rows: 292 to 313: Enter the ratios for each licensee/business activity using the regulatory fraction from the relevant Final Proposals document attributable at 31 March 2010 and 2013.~~

~~219.4. Rows 317 to 348: Enter names of all sponsoring employers within the group participating in the DB scheme; and, using the drop down box, enter "Yes" or "No" to indicate which employers were sponsors in each year.~~

~~[12] Group accounts as prescribed in Part 15 of the Companies Act 2006~~

~~220.~~20. Instructions for completion of scheme data tables - Tables P1.4 and P2.4 [not required to be submitted by RIIO-ED1 licensees]

Introduction

~~220.1.~~20.1. These tables collects data for each of the four (three for Section C) years ending 31 March 201~~3~~6 for:

- PPF levies (section A)
- pension scheme administration costs (section B)
- contingent asset and hedging costs (section C)

~~GDNs~~ DNOs are not required to complete these tables. ~~for the March 2013 Valuations.~~

~~220.2.~~20.2. These worksheets are identical and should be completed for the primary DB scheme (P1.4) and second DB scheme (P2.4) if the licensee group has more than one scheme.

~~220.3.~~20.3. This data required to be submitted by electricity and gas transmission and gas distribution licensees. The information is no longer collected annually in RIIO price controls and will be used to inform the true up of PPF levy and scheme administration costs where specified in the relevant Price Control Financial Handbooks.

~~220.4.~~20.4. The names of sponsoring licensees/business segments will be auto-populated from the inputs in the pack cover.

~~220.5.~~20.5. The attribution of the costs (in paragraph 20~~1~~.1) should be made on the basis of the Regulatory Fraction/ Proportions Of Service at the start of the review period, eg 1 April 2010 for DNOs, 2012 for TSOs and 2013 for GDNs, and then 2016 and every three years. That basis applies unless there is a structural change, in which case different proportions would apply pre- and post-change. For earlier years the regulatory fraction used in the relevant price control should be applied.

Section A: Pension Protection Fund levies

Purpose

~~220.6.~~20.6. This section collects data on a cash basis on the Pension Protection Fund (PPF) levies for each scheme and shows the allocation of these costs between sponsoring entities. This enables reconciliation at the scheme level to the PDAM data and to the annual RIGs cost reporting packs and informs the triennial true up of these costs.

~~220.7.~~20.7. This data will be used to inform the ex post true up of PPF levy costs where specified in the relevant Price Control Financial Handbook.

Guidance on completing the worksheet

~~220.8.~~20.8. Row 6: Enter the total PPF levy for all licensee sponsored DB schemes in aggregate, paid (in cash) in the year. This is sum of the levies paid direct by the employer (not collected through the scheme contributions) and levies collected through the scheme contributions.

~~220.9.~~20.9. Rows 9 to 16: Enter the allocation of PPF levies for all licensee sponsored DB schemes in aggregate paid direct by the employer (not collected through the scheme contributions) attributed to non-regulated and each regulated business or sponsoring licensee(s).

~~220.10.~~20.10. Rows 20 to 27: Input the allocation of PPF levies for all licensee sponsored DB schemes in aggregate collected through the scheme contributions, ie not paid direct by the employer and the attribution to non-regulated and each regulated business or sponsoring licensee(s).

~~220.11.~~20.11. Rows 43-44: Input latest Dun & Bradstreet PPF failure score for the risk-based element of the levy and the date it was scored for the DB pension scheme. Where the score is based on multi-company data, enter the weighted average score (as used by the PPF).~~ and detail the constituent scores in the Commentary.~~

Section B: Pension Scheme Administration costs

Purpose

~~220.12.~~20.12. This section collects data on a cash basis on each pension scheme's administration costs, ie the costs incurred by the trustees in the running of the pension scheme and (a) excludes investment management fees, and (b) includes fees for investment advice, for each scheme and shows the allocation of these costs between entities. These do not include costs incurred by the NWO or other sponsoring employers in collecting employee contributions or managing their interface with the scheme.

~~220.13.~~20.13. This data will be used to inform the ex post true up of pension scheme administration costs where specified in the relevant Price Control Financial Handbook.

Guidance on completing the worksheet

~~220.14.~~20.14. Row 47: Input the total pension administration costs for all licensee sponsored DB schemes in aggregate, showing pure administration costs. This should (a) exclude investment management fees; and (b) include fees for investment advice.

~~220.15.~~20.15. Rows 50 to 58: Enter the allocation of administration costs paid direct by the employer (and not collected through the scheme contributions) to non-regulated and each regulated business or sponsoring licensee(s).

~~220.16.~~20.16. Rows 61 to 68: Enter the allocation of administration costs collected through the scheme contributions, ie not paid directly by the employer(s), to non-regulated and each regulated business or sponsoring licensee(s).

~~220.17.~~20.17. Row 71: Enter amount of administration costs actually paid in respect of all licensee sponsored DB schemes in aggregate in the year. This is to identify if the contributions or costs paid by licensee in respect of scheme administration during a year vary from the sum of contributions and direct payments to the scheme.

Section C: Contingent asset and derivative financial instruments costs

~~220.18.~~20.18. This section collects any cost incurred directly by the NWO, and not the scheme, in funding any contingent asset and for derivative financial instruments related to hedging pension deficits ("hedging costs"). This informs the triennial true up of these costs.

~~220.19.~~20.19. Rows 75 and 76: Input the contingent asset and hedging costs for each scheme. Where the costs are a calculation of, for example, interest paid and received on a number financial or debt instruments then the supporting calculation must be provided.

~~220.20.~~20.20. Rows 78 to 85: Enter the allocation of these costs to non-regulated and each regulated business or sponsoring licensee(s).

21. Instructions for completion of Calculation of Vrr and IBAPA and PBAPA tables - Tables P1.5/2.5 and P1.6/2.6

Introduction

21.1. These tables demonstrate the calculation of Vrr (P1.5/2.5) and IBAPA and PBAPA (P1.6/2.6). The aim of these tables is to identify the network companies proposed established deficit element and payment history element of the Pension Allowance value[13] for each Licensee.

21.2. Pension Scheme Established deficit (PSED) means the total of the proportion(s) of any pension scheme deficits which are attributable to the licensee's regulated business and to pensionable service up to and including the cut-off date, determined in accordance with this guidance.

21.3. Vrr is the cumulative pre-valuation payment history variance value at the end of the Reasonableness Review year. It is ascertained using the method set out in Chapter 3 of the respective Price Control Financial Handbooks.

21.4. IBAPA is the indicative amount for the Base Annual PSED Allowance. It is zero if PSED is negative, but is otherwise ascertained using the method set out in Chapter 3 of the respective Price Control Financial Handbooks.

21.5. PBAPA is the alternative proposal and should represent a profile of Base Annual PSED Allowances for each year subsequent to the valuation date specified in Table 3.7 of the financial handbook.

21.6. These tables should be completed at Licensee level. If the licensee group has more than two Licensees, the latter table should be copied and renamed P3.5, P3.6, P4.5, P4.6 etc.

21.7. It is recognised that many of the network companies which have more than one licensee may have the following:

- One licensee is the sponsor of more than one scheme, and/or

[13] The other element of EDE and SOEDE is the pension scheme administration and PPF levy allowances, which is only applicable in the RIIO-GD1 and T1 price control allowances (see Chapter 20).

- One scheme has more than one licensee as sponsor

21.8. Where this applies, the total of the proportion(s) of any pension scheme deficits reported in tables P1.2 and P2.2 (and P3.2 and so forth as required), which are attributable to the licensee's regulated business and to pensionable service up to and including the cut-off date, should be summed to calculate a PSED for each licensee. Separate tables P1.5 and P1.6 (and P2.5 and P2.6 and so forth) should be completed for each licensee's PSED to calculate BAPA and PPH values for each licensee to be included in each licensee's EDE calculation.

21.9. Where a licensee has two or more sponsored schemes that have different inputs eg discount rate or repair period, the licensee should submit two (or more) table P1.5 and P1.6 and name them P1.5a and P1.5b etc. In this case, the EDEy calculation for the licensee would include the BAPAy and PPHy values from each such table relating to that licensee, and licensees should also submit a schedule of total proposed annual EDE values per licensee, which would add together the proposed EDE values in row 79 of P1.5a, P1.5b and so forth. This can be submitted as a separate working.

21.10. The key output from Table P1.5/2.5 and P1.6/P2.6 are shown in Table 21.1, these should identify the following at Licensee level:

Table 21.1 – Key outputs at Licensee level

Output	Table	Cells
Proposed payment history, PPH	P1.5/P2.5	row 79, columns L:U
Flat profile indicative base annual PSED allowance, where IBAPA is equal to PSED	P1.6/P2.6	row 7, columns L:Z
Flat profile proposed base annual PSED allowance less any asset backed funding arrangements, where PBAPA is equal to PSED less ABV	P1.6/P2.6	row 8, columns L:Z
Licensee proposed base annual PSED allowance, PBAPA	P1.6/P2.6	row 9, columns L:Z

Guidance on completing the worksheets

Table P1.5/2.5 – Calculation of Vrr

21.11. Use drop-down in cell C5 for First year post cut-off (pco1). First year post cut-off (pco1) means the first regulatory year subsequent to the cut-off date

21.12. Use drop-down in Cell C6 for Reasonableness Review year (rr). The Reasonableness Review year (rr) is the regulatory year specified in Table 3.7 of the financial handbook for the relevant Reasonableness Review

21.13. In row 17 enter allowance history for historical Base Annual PSED Allowance (BAPA), i.e. deficit repair allowances received.

21.14. In row 18 enter payment history allowance and Legacy true up allowance received for historical payment history (PH) and legacy true-up value (LTU) allowances.

- Payment history allowances ensure that customers are properly compensated if the licensee has, prior to the triennial valuation, paid less in funding the PSED than it has received from consumers, and that companies do not unduly lose out if they have paid more.

- Legacy true-up value (LTU) represents the present value as at the end of the Reasonableness Review year of any arrangement or arrangements previously agreed or determined by the Authority for the post cut-off true-up of the licensee's pension deficit payment history prior to the cut-off date or true-up of other pension-related costs.

21.15. In row 20 enter payment and allowance history (ie actuals) for attributed to LTU offset. LTU offset is where, with the Authority's written agreement, the licensee may attribute payment history allowances to legacy true up values. If a licensee chooses under 3.39(b) of the financial handbook to attribute allowances received to the legacy true-up value and take them both out of the Vrr calculation, entries in row 20 should correspond to the value of the allowances excluded from Ey.

21.16. In row 22 enter payment history (ie actuals) for Dy (up to valuation date). Dy means the net sum of (a) to (d), which may be positive or negative:

(a) amounts received by the relevant pension scheme(s) from the licensee in respect of PSED repair during the course of year y, including amounts received in respect of an obligation accounted for in the LO term in paragraph 3.36 of the financial handbook.

(b) less any amounts directly or indirectly returned to the licensee or a related undertaking by the relevant pension scheme(s) during the course of year y under an arrangement agreed between the licensee and the scheme(s),

(c) less the amount by which ongoing pension contributions (for active members) have been reduced on account of an established surplus as described in paragraph 3.45 of the financial handbook.

(d) plus any amounts determined by the Authority as pensions initiative development advisory fees following a review of evidence submitted by the licensee.

21.17. In row 28 enter licensee forecast for future corporation tax rates where this is not inputted into the 'controls' tab in the RIGs template.

21.18. In row 35 enter hDR, the discount rate values under any alternative discounting basis determined by the Authority in the relevant Reasonableness Review for year y or, where no alternative discounting basis has been specified, the Vanilla Weighted Average Cost of Capital applicable to the licensee during year y.

21.19. In cell G47 enter LTU value.

21.20. Cell C48 is for an offset value to be input, corresponding to the value of the allowances excluded from Ey in accordance with paragraph 3.39(b) of the financial handbook (row 20). There is no prescribed calculation of the attributed value.

21.21. In row 69 enter Proposed discount rates, PhDRy. PhDRy means the discount rate for payment history allowances for year y proposed by the licensee, or the rate forecast for year y according to the licensee's proposed basis of determining discount rates.

21.22. In row 73 enter Input: Proposed PPHy (balancing figure in last column).

21.23. In row 78 enter Adjustment factors determined by the Authority (if any). See paragraph 3.47 of the financial handbook.

21.24. In cell C84 enter Input: difference, agreed risk transfer. Risk transfer is, where agreed with the Authority, the allocation of risk for ABV between consumer and licensee.

Table P1.6/2.6 – IBAPA and PBAPA

21.25. Use drop-down in cell C7 for Reasonableness Review year (rr).

21.26. In row 9 enter User input proposed (PBAPA) (for rr-1 and rr PBAPA should be equal to allowances). PBAPA is the alternative proposal under paragraph 3.35 of the financial handbook.

21.27. In cell C15 enter PSED (+LO): Licensee obligation (LO) means the value of any assets included in the PSED valuation that represent an obligation from the licensee for future payments (or other consideration) to the relevant scheme(s) under an arrangement agreed between the licensee and the scheme(s).

21.28. In cell C16 enter the asset backed value (ABV) (input as positive): ABV means the value of assets as at the PSED valuation date held under asset-backed arrangements that is fairly attributable to funding by the licensee out of negative cumulative payment history variances (see paragraph 3.38 of the financial handbook) up to the valuation date and where those assets are available under an agreement with pension scheme trustees only for future funding of an established deficit or for recovery on behalf of consumers, for example in the event that pension surpluses arise.

21.29. In cell C20 enter discount rate (DR), an annual real (inflation-adjusted) discount rate specified in or justified with reference to the licensee's Scheme Valuation Data Set.

21.30. In cell C28 enter preferred repair period (this is only required if the licensee wished to have a flat PBAPA which gives an allowance stream equal to PSED-ABV).

~~221.~~22. Instructions for completion of worksheet - Paragraph 6.20 adjustments

Purpose

~~221.1.~~22.1. ~~These~~This worksheet is set out to provide an audit trail of the calculation of the paragraph 6.20 of chapter 6 adjustments allowed in paragraph 5.7 of chapter 5. This is for licensees who adopt the default approach for making an adjustment for different pre and post retirement discount rates.

Guidance on completing the worksheet

~~221.2.~~22.2. Licensees should enter the required data for the previous valuation, which was at the 31 March 201~~0~~3 for DNOs, 31 March 201~~2~~3 for TSOs. It will not apply to GDNs until 2016, in rows 7 to 14 and the annual investment return for each year of the previous valuation.

~~221.3.~~22.3. Rows 19 to 21 set out the calculation for steps (a) to (c) in paragraph 6.20. No data entry is required.

~~221.4.~~22.4. Rows 23 and 24 show the result of annual investment return calculation for each year of the previous valuation. No data entry is required.

~~221.5.~~22.5. Where a licensee has more than one scheme, this worksheet may be copied and should be inserted in their workbook before the example tables.

Appendix 1 – Definitions and interpretations

Additional Voluntary Contributions (AVC) means contributions over and above a member's normal contributions, if any, which the member elects to pay to a DB scheme to obtain additional benefits

Affiliate and **Related Undertaking** have the meaning given in the NWO's licence conditions

Asset backed value (ABV) means the value of assets as at the PSED valuation date held under asset-backed arrangements that is fairly attributable to funding by the licensee out of negative cumulative payment history variances (see paragraph 3.38 of the financial handbook) up to the valuation date and where those assets are available under an agreement with pension scheme trustees only for future funding of an established deficit or for recovery on behalf of consumers, for example in the event that pension surpluses arise.

The Authority/Ofgem/GEMA
Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority (GEMA), the body established by chapter 1 of the Utilities Act 2000 to regulate the gas and electricity markets in Great Britain. These terms and 'we' or 'our' may be used interchangeably

Base Annual PSED Allowances (BAPA) represent how consumers will fund the established deficit as evaluated at the last triennial review.

Benefits based on prospective service means those benefits whose amounts are calculated by reference to service after the calculation date, as well as service already completed

Bulk Transfer means a transfer of assets and liabilities involving individuals or groups of individuals (but not whole or substantially the whole of a scheme) into a scheme as set out in paragraphs 8.3 and 8.4 of chapter 8, or where the Authority has agreed a different treatment in special situations (as provided for in the Pension Principles)

Change in market value of investments means the change in the market value of a schemes investments over a period of time where the approach used to assess the market value of an asset is the same as the approach used for the purposes of a triennial valuation

Corporate actuary means the Actuary appointed by the licensee to prepare the input data in accordance with the PDAM and to report on such

Cut-Off Date means 31 March 2010 for DNOs, 31 March 2013 for GDNs and 31 March 2012 for TOs and SOs

Defined benefit (DB) pension scheme means a pension scheme where the benefits that accrue to members are normally based on a set formula taking into account the final salary and accrual of service in the scheme. It is also known as a final salary pension scheme

Defined contribution (DC) pension scheme means a pension scheme where the benefits that accrue to members are based on the level of cash contributions made to an individual account and the returns on those funds are used to provide a cash amount to purchase an annuity on retirement

Discount rate (DR) is the annual real (inflation-adjusted) discount rate specified in or justified with reference to the licensee's Scheme Valuation Data Set.

Distribution Network Operators (DNOs) means any Electricity Distributor in whose electricity distribution licence the requirements of Section B of the standard conditions of that licence have effect (whether in whole or in part).
~~a company which owns and operates the electricity distribution network which includes all parts of a network from 132kV down to 230V in England and Wales. In Scotland 132kV is considered as part of the transmission rather than distribution so their operation is not included in the DNO's activities~~

~~**Dividends** means dividends on all classes of shares paid in the year of the regulated business(es)~~

DPCR4
Distribution Price Control Review 4 – the price control regime for the 14 incumbent DNOs applicable for the period from 1 April 2005 to 31 March 2010

DPCR5
Distribution Price Control Review 5 – the price control regime for the 14 incumbent DNOs applicable for the period from 1 April 2010 to 31 March 2015

Early Retirement Deficiency Contributions (ERDCs) means the cost of providing enhanced pension benefits granted under severance arrangements prior to 1 April 2004 which were not fully matched by increased contributions

Established Deficit means the difference between assets and liabilities, determined at any point in time, attributable to pensionable service up to the end of the respective Cut-Off Dates and relating to Regulated Business Activities under Pension Principle 2. The term applies equally if there is a subsequent surplus**. See also PSED.**
~~means the difference between assets and liabilities, determined at any point in time, attributable to pensionable service up to the end of the respective Cut-Off Dates and relating to Regulated Business Activities under Pension Principle 2. The term applies equally if there is a subsequent surplus~~
First year post cut-off (pco1) means the first regulatory year subsequent to the cut-off date

Gas Distribution Networks (GDNs) means a gas distribution network as defined with reference to the aggregate of its constituent local distribution zones (as defined in the Uniform Network Code ("LDZs")), see Standard Special Condition A3: Definitions and Interpretation of the Gas Transporter Licence.~~means companies which own and operate the transportation infrastructure that transports gas from the National Transmission System to final consumers and to connected system exit points~~

Formatted: Font: 10 pt

~~**Group statutory accounts** has the meaning prescribed in Part 15 of the Companies Act 2006 to Group Accounts; and relates to the Group Accounts of the participating employers of the DB pension scheme.~~

Incremental Deficit means the difference between the assets and liabilities, determined at any point in time, attributable to post Cut-Off Date pensionable service and relating to Regulated Business Activities. The term also applies equally where there is a surplus for the post cut-off date regulated Notional Sub-Fund

Investment income means the income received on scheme assets, net of investment management fees where it is deducted from investment income

Investment management expenses means any scheme investment management expenses which are charged separately or have not been implicitly allowed for in the "Change in market value of investments" item or as a deduction from the "Investment income" item

Legacy true-up value (LTU) represents the present value as at the end of the Reasonableness Review year of any arrangement or arrangements previously agreed or determined by the Authority for the post cut-off true-up of the licensee's pension deficit payment history prior to the cut-off date or true-up of other pension-related costs.

LTU offset is where, with the Authority's written agreement, the licensee may attribute payment history allowances to legacy true up values. See also para 3.39(b) of the financial handbook.

Liability Driven Investments (LDI) means an investment vehicle designed to match the profile of the investments more closely to the profile of the liabilities of the pension scheme for all or part of those liabilities

Licensee (LO) means the value of any assets included in the PSED valuation that represent an obligation from the licensee for future payments (or other consideration) to the relevant scheme(s) under an arrangement agreed between the licensee and the scheme(s)

Low risk assets means assets where the focus is on protecting capital and gaining a modest return (eg gilts)

Network Operators (NWOs) mean companies which own and operate the gas and electricity licensed networks in Great Britain. This includes DNOs, GDNs and TSOs

Non-Regulated Business Activities means activities which are not remunerated by base demand revenues and for TO, SOs and GDNs include excluded service, de minimis, metering, distributed generation, LNG storage and other consented activities and those activities of co-sponsoring affiliates of the licensee which are not themselves regulated NWOs. For DNOs in DPCR5 and RIIO-ED1 means non-licensed and non-regulated business activities, which are not distribution business activities of the licensee and those of co-sponsoring affiliates of the licensee which are not regulated DNOs

Notional Sub-Fund means the pre and post Cut-Off Date notional sub-funds where the assets and liabilities of a defined benefit pension scheme are reported under the PDAM. The sub-funds are notional in that there are not actual sub-funds recognised by the scheme and are a regulatory construct reported in accordance with the methodology set out in this document

Pension Protection Fund (PPF) means the statutory body established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer; and, where there are insufficient assets in the pension scheme to cover PPF levels of compensation

PPF Levy means the levy on pension schemes by which the PPF is financed. This levy has a number of constituent elements including a fixed element (based on scheme liabilities), and a risk based element (based on the perceived insolvency risk of each scheme). Additionally there is an administration levy charged to cover the PPF running costs

Pensioner Liabilities means all pension scheme liabilities as determined by an actuarial Valuation of the pension scheme that relate to pensioners and dependents who are in receipt of a pension from that pension scheme in accordance with the scheme rules (including liabilities for benefits that will be payable on the death of such members)

Pension Methodology means the methodology for setting and resetting pension allowances as published for the respective price controls or incorporated in the licence or charge restriction conditions applicable to each licensee

Pension Principle(s) –
~~Ofgem's price control Pension Principles and guidance notes as set out in the appendices to the Final Proposals December 2012 for each of RIIO-T1 and GD1 Finance and Uncertainty supporting documents, and the March 2013 Strategy decision document for the next electricity distribution price control ED1 – Financial issues supplement. It shall include any revision to the guidance notes issued from time to time~~As set out in our Decision on Ofgem's policy for funding Pension Scheme Established Deficits.[14]

Formatted: Default Paragraph Font, Font: 10 pt

[14] Decision on Ofgem's policy for funding Pension Scheme Established Deficits

PSED (Pension Scheme Established Deficit) means the total of the proportion(s) of any scheme deficits which are attributable to the licensee's regulated business and to pensionable service up to and including the cut-off date, determined in accordance with the PDAM published by the Authority and expressed as a positive number.

Pension Strain Costs mean the cost of providing enhanced pension benefits granted under severance arrangements on or after 1 April 2004 which were fully matched by increased contributions

Pre Cut-Off Date Regulatory Fraction means the opening or initial Regulatory Fraction as determined at the relevant Cut-Off Date. This fraction may be subject to adjustment after the Cut-Off Date

Post Cut-Off Date Regulatory Proportion means the proportion of a company's pension scheme liabilities that relates to licensed Regulated Business Activities after the relevant Cut-Off Date

Proportions ~~Of~~of Service means the annual proportion of post Cut-Off Date liabilities which can be attributed to Regulated Business Activities

Proposed discount rates (PhDRy) means the discount rate for payment history allowances for year y proposed by the licensee, or the rate forecast for year y according to the licensee's proposed basis of determining discount rates.

Protected Persons means people covered by The Electricity (Protected Persons) (England and Wales) Pension Regulations 1990 (SI 1990/346) and Electricity (Amendment of Scottish Pension Schemes) Regulations 1990. These regulations place obligations on successor employers to fund the pension benefits accrued to date and provide a certain level of future pension benefit provision

Reasonableness review year (rr) is the regulatory year specified in Table 3.7 of the financial handbook for the relevant Reasonableness Review.

Regulated Business Activities means for TOs, SOs and GDNs the licensed regulated business activities, ie distribution or transportation business activities and which are remunerated by base demand revenues and which are not Non-Regulated Business Activities. For DNOs, in DPCR5 and RIIO-ED1, means licensed regulated business activities, ie distribution business activities and which are not Non-Regulated Business Activities of the licensee

Regulatory Fraction means the proportion of a company's pension scheme liabilities that relates to licensed Regulated Business Activities before the relevant Cut-Off Date and does not include an adjustment for ERDCs

Reporting Actuary means the Scheme Actuary or the Corporate Actuary.

Reporting of Price Control Cost Information licence condition for DNOs this is standard licence condition 4~~8~~6; for GDNs and gas TSOs Standard Special Licence Condition A40; and for electricity TSOs standard licence condition B15. This includes any subsequent changes or re-numbering

Regulatory Instructions and Guidance (RIGs) has the meaning as set out in the respective **Reporting of Price Control Cost Information** licence conditions

Return seeking assets means assets which may be exposed to greater risk, but where the potential return is higher than low risk assets (eg equities)

RIIO-ED1 means the review of the price control applying to incumbent Electricity Distribution Network licensees for the period from 1 April 2015 to 31 March 2023

RIIO-GD1 means the review of the price control applying to incumbent Gas Distribution Network licensees for the period from 1 April 2013 to 31 March 2021

RIIO-T1 means the review of the price control applying to incumbent electricity and gas transmission network licensees for the period from 1 April 2013 to 31 March 2021

Regulatory Reporting Pack (RRP)
Price control cost information submitted in accordance with the RIGs and the respective Reporting of Price Control Cost Information licence conditions

Risk transfer is, where agreed with the Authority, the allocation of risk for ABV between consumer and licensee.

Scheme actuary means the Actuary appointed by the DB Scheme's trustees to prepare and report on a Triennial Valuation

Scheme administration costs means costs associated with Pension Scheme Administration and PPF levy which are attributable to the licensee’s regulated business.

Scheme valuation data set means data relating to each defined benefit scheme for the purpose of the triennial Reasonableness Review and the resetting and true up of allowances. See also Chapter 1 (Introduction), Table 1.1 or paragraph 3.9 of the financial handbook.

Significant Additional Deficits means a significant increase in the Established Deficit, which occurs towards the end of the notional 15-year funding period, caused by exogenous factors, for example market movements or justifiable changes in actuarial assumptions

Standard Actuarial Techniques means generally accepted actuarial techniques or methods and procedures recognised by members of the Institute and Faculty of Actuaries

Statement of Funding Principles (SFP) means the statement, prepared by the trustees to satisfy the requirements of chapter 223 of the Pensions Act 2004, which sets out their policy to meet the requirement on them for securing the Statutory Funding Objective. It also details the principal assumptions to be used for calculating the scheme’s Technical Provisions

Statement of Investment Principles (SIP) means a written statement of investment objectives and the principles governing decisions about investment for a DB pension scheme, which trustees are required to prepare and maintain

Statutory Funding Objective means (as set out in chapter 222 of the Pensions Act 2004) the requirement to have sufficient and appropriate assets to cover the Technical Provisions

System Operators (SOs) means the holder for the time being of a transmission licence in relation to which licence the Authority or the Secretary of State, where appropriate, has issued a Section C (system operator standard conditions) Direction and where Section C remains in effect (whether or not subject to any terms included in a Section C (system operator standard conditions) Direction or to any subsequent variation of its terms to which the licensee may be subject).~~means the respective operators of the Great Britain electricity and gas transmission systems~~

Technical Provisions means the value placed on a pension scheme's liabilities when calculated using the principal method and assumptions detailed in the Statement of Funding Principles. The general principles that are adopted by trustees are that the assumptions used, taken as a whole, will be sufficiently prudent for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members' accrued pension rights

Totex means the aggregate net network investment, net network operating costs and indirect costs, less the cash proceeds of sales of assets and scrap

TPCR4
The review of the price control applying to electricity and gas transmission network licensees (TOs and SOs) for the period from 1 April 2007 to 31 March 2012

~~**TPCR4 Adapted Rollover**~~
~~A one year roll-over of the TPCR4 price control for the period from 1 April 2012 to 31 March 2013 and for which the Pension Methodology first set out in DPCR5 and the June 2010 Pension paper[15] applies~~

Transmission Owners (TOs) means the holder for the time being of a transmission licence in relation to which licence the Authority has issued a Section D (transmission owner standard conditions) Direction and where Section D remains in effect (whether or not subject to any terms included in a Section D (transmission owner standard conditions) Direction or to any subsequent variation of its terms to which the licensee may be subject). ~~means the companies which own and operate the gas and electricity transmission networks in Great Britain~~

TSOs generic term for both TOs and SOs

~~15 http://www.ofgem.gov.uk/Networks/Documents1/Price_Control_Treatment_of_Pension_Costs_final.pdf~~

Field Code Changed

Triennial Valuation means an actuarial valuation of a pension scheme which has been carried out to meet the requirements of Section 224(2)(a) of the Pensions Act 2004 and which results in a written report on scheme assets and liabilities by the scheme actuary. Interim updates to triennial valuations may also be produced. ~~an actuarial valuation of a pension scheme which has been carried out to met the requirements of Chapter 224(2)(a) of the Pensions Act 2004 and which details in a written report, prepared and signed by the Scheme Actuary, the value of the scheme's assets and Technical Provisions. Actuarial valuations are usually produced triennially but the term may also refer equally to any full actuarial valuation that is not an Updated Valuation~~

Updated Valuation means a report, prepared and signed by the Scheme Actuary, which updates a Triennial Valuation to a later date.

~~For the avoidance of doubt,~~ Updated Valuations must use the Statement of Funding Principles agreed at the latest Triennial Valuation to derive the assumptions at each Valuation Date.

The actuary's report prepared for Ofgem purposes must detail, at the Valuation Date, the following:

- the market value of a DB pension scheme's assets;
- an updated calculation of the Technical Provisions based on up to date market conditions; and
- an update of the ongoing contribution rate.

In addition to the valuation, the following information must be included in the actuary's report prepared for Ofgem purposes:

- a copy of the SFP on which the roll forward valuation is based;
- a statement from that actuary setting out the basis of the valuation;
- a schedule of the actuarial assumptions used at both the last Triennial Valuation and Updated Valuation;
- an explanation of the following changes since that last Triennial Valuation:
    - Asset values and how they have been recalibrated from known asset data and latest asset allocations, which must be specified, eg index returns and which ones;
    - Movements in liabilities as a result of yields and hence inflation and discount rate assumptions;
    - Movements in contributions (specifying lump sum contributions (and date) separately from ongoing service and deficit contributions);
    - Movement from benefit payments;
    - Confirm it maintains the assumption that demographic experience is in line with assumptions in the last Triennial Valuation;
    - Significant Bulk Transfers out (eg arising from corporate transactions);
    - Significant Bulk Transfers in (eg arising from corporate transactions).
- detail of the experience items which have been reflected in the Updated Valuation including:

- Variations in liabilities arising from salary rises, deferred pension revaluation or pension increases differing relative to assumptions;
- Variations between actual and expected demographic experience (eg early retirement or mortality); and
- Benefit changes.

Valuation means a Triennial Valuation or an Updated Valuation

Valuation Date means the dates set out in the relevant Price Control Financial Handbook and set out, for guidance, in Table 3.7 of the financial handbook~~chapter 14~~.

~~Appendix 2 – Commentary template~~

~~A commentary submission is required for each scheme.~~

~~P1.1/P2.1: PDAM Licensee provided data~~

~~A commentary is required to detail any other relevant items identified in the completion of this table.~~

~~DNO any further response to be entered here~~

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~P1.2/P2.2: PDAM Actuary provided data~~

~~A commentary is required to detail any other relevant items identified in the completion of this table.~~

~~DNO any further response to be entered here~~

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~P1.3/P2.3: Pension scheme data~~

~~221.6. 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~~	

Formatted: Heading 1,Section heading

~~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~~	

Formatted: Heading 1,Section heading

~~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).~~	

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~Where the pension scheme encompasses more than one NWO, 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.~~	

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~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.~~	
~~How the administration costs of each DB pension scheme are met, eg paid directly by the~~	

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~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?~~	
~~Provide full details of any salary sacrifice schemes, which should include:~~	

Formatted: Heading 1,Section heading

~~Date arrangements introduced and any subsequent changes.~~ ~~To which group of employees it applies.~~ ~~What percentage of members participate.~~ ~~How the reduction in salary is calculated.~~ ~~Whether the saving in employers~~	

~~National Insurance contributions is shared with employees; and, if so, explain the basis.~~	
~~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~~	

Formatted: Heading 1,Section heading

~~meet future accruals, deficit recovery contributions or both.~~	
~~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~~	

Formatted: Heading 1,Section heading

~~actual valuation. Provide supporting evidence of that amount.~~	
~~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.~~	
~~If a DB scheme has closed, detail what~~	

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~pension benefits are provided for subsequent entrants.~~	
~~Where the employer's deficit recovery contributions (or contribution reductions for surplus) are expressed as fixed monthly amounts, detail the annual amounts.~~	
~~Where a lump sum deficit funding contribution has~~	

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~been made to the scheme explain the reasons, including whether it was required as part of covenant review, or trustees exercising their rights under an agreement made as part of a corporate transaction.~~	
~~Indicate if there is a significant difference in the remaining service life between non-regulated and regulated members, and provide both numbers.~~	

Formatted: Heading 1,Section heading

~~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~~	

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~to prior year membership data these should be identified and detailed.~~	
~~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.~~	

Formatted: Heading 1,Section heading

~~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~~	

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~evidence from the scheme actuaries.~~	
~~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~~	

Formatted: Heading 1,Section heading

~~other specific requirements by the scheme's trustees.~~	
~~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?~~	

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~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.~~	
~~Has the scheme or the licensee ever offered cash, or~~	

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~other benefits, in return for employees giving up their protected rights?~~ ~~Have there been any other modifications to protected rights terms? If so, provide details, including the percentage of eligible employees who accepted.~~	
~~Provide the period over which existing deficit as at the last~~	

Formatted: Heading 1,Section heading

~~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.~~	
~~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~~	

Formatted: Heading 1,Section heading

~~on actuarial assumptions.~~	
~~Where there have been any changes to investment managers since the last triennial valuation explain why, particularly if it relates to asset performance.~~	
~~Where the scheme used innovative investment strategies to manage their liabilities and hedge risks (eg contingent~~	

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~assets, longevity swaps, internal or market based inflation hedges or insurance products) explain their effect on scheme funding and de-risking (if any).~~	
~~If the established deficit has increased from that at the Cut-Off Date explain the reasons, particularly identifying and quantifying every item outside the control of sponsors and trustees.~~	

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~*DNO any further response to be entered here*~~

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~**P1.4/P2.4: Pension Protection Fund (PPF), scheme administration, contingent assets and hedging costs**~~

~~221.7. Commentary should specifically include explanation of:~~

	~~Comment:~~
~~Explain any material variance in the PPF levy charges compared to prior years.~~	

Formatted: Heading 1,Section heading

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

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~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~~	

Formatted: Heading 1,Section heading

~~administration costs and ensure that they are efficient.~~	
~~Explain what contingent asset costs have been incurred in the period.~~	
~~Provide details of any contingent assets entered into by the licensee in the period 1 April 2010 to 31 March 2013, including the main terms and conditions.~~	

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~Provide details of each hedging instrument which is paid directly by the company (or an affiliate(s)).~~	

Formatted: Heading 1,Section heading

Formatted: Heading 1,Section heading

~~DNO any further response to be entered here~~

Formatted: Heading 1,Section heading