

Guidance

Energy Network Operators' Price Control Pension Costs - Regulatory Instructions and Guidance: Triennial Pension Reporting Pack supplement including pension deficit allocation methodology (Version 2.01)

Publication date:	29 April 2020 <small>insert date</small>	Contact:	Mick Watson, Senior Advisor
		Team:	Regulatory Finance
		Tel:	020 7901 7416
		Email:	mick.watson@ofgem.gov.uk

Commented [LC1]: Version number should correspond with letter, as outlines by Mick. 2.01 or 2.1?

This document provides instructions and guidance to Electricity Distribution Network Operators ("DNOs") and Gas Distribution Networks ("GDNs") ~~Distribution and Network~~ Transmission (TOs) Network Operators ("TOs") 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.

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Commented [LC2]: Please review to confirm the paragraph and acronyms make sense.

Formatted: Font: 10 pt

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

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>

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>

RIIO-GD1 Price Control Financial Handbook – Gas Distribution

<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>

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_RIIOD1_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

RIIO- ED1 March 2013 Strategy decision document - Financial Issues supplement

<http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/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>

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

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>

© Crown copyright 2020~~19~~

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the [Open Government Licence](#).

Without prejudice to the generality of the terms of the Open Government Licence the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

Any enquiries related to the text of this publication should be sent to Ofgem at: 10 South Colonnade, Canary Wharf, London, E14 4PU. Alternatively, please call Ofgem on 0207 901 7000.

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to: psi@nationalarchives.gsi.gov.uk

Contents

Associated documents	2
Foreword	9
1. Introduction	10
Background.....	10
Legal framework.....	128
Timescales for reporting under the pension RIGs.....	12
Commentary.....	21+6
Glossary, definitions and interpretations.....	22+7
1. Introduction - Pension supplement one	24+9
2. Notional Sub-Funds	26+1
3. Valuation requirements	27+2
which includes detail of the assets and types of assets held by the pension scheme.....	27+2
4. Attribution of liabilities to Pre & Post Cut-Off Date Notional Sub- Funds	28+3
Liabilities at the Cut-Off Date Valuation.....	28+3
Liabilities at each subsequent Valuation Date.....	28+3
5. Attribution of assets to Pre and Post Cut-Off Date Notional Sub- Funds	29+4
Assets at the Cut-Off Date Valuation.....	29+4
Assets at each subsequent Valuation Date.....	29+4
Table 5.1 – Summary of the value of assets attributed to the Post Cut-Off Date Notional Sub-Fund.....	29+4
Adjustment.....	31+5
6. Asset reconciliation attributions	32+7
Employer contributions paid towards future benefit accrual.....	32+7
Member contributions paid towards future benefit accrual.....	32+7
Employer contributions towards deficit.....	32+7
Employer contributions towards Pension Strain Costs and other benefit augmentations.....	33+8
Employer contributions to meet Scheme Administration Expenses and PPF Levies	33+8
Assets paid in as part of a Bulk Transfer and Individual transfers in.....	33+8
Benefits paid or transferred out.....	33+8
Money paid out to meet Scheme Administration Expenses and PPF Levies.....	34+9
Assets paid out as part of a Bulk Transfer.....	34+9
Other payments.....	34+9
Actual investment return on assets during the period.....	34+9
Adjustment to investment returns due to paragraph 5.9.....	35+0
7. Attribution of Pre and Post Cut-Off Date deficit to Regulated/Non- Regulated Business Activities	38+3
Pre Cut-Off Date deficit.....	38+3
Established Deficit.....	38+3

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

Post Cut-Off Date deficit	3833
Incremental Deficit	3833
and combining this "Weighted Proportion" with the Post Cut-Off Date Regulatory Proportion at the previous Valuation as follows:	3934
Pension Strain Costs	3934
Bulk Transfers.....	3934
Adjustments to Pre Cut-Off Date Regulatory Fraction and Proportions Of Service	4134
Application of Regulatory Fraction	4236
<u>8. Treatment of transfers in.....</u>	<u>4437</u>
<u>9. Unfunded ERDCs.....</u>	<u>4538</u>
<u>10. Sectionalisation of a scheme</u>	<u>4639</u>
<u>11. Pension administration records</u>	<u>4740</u>
Employment records	4740
Pension scheme administration record requirements	4740
Triennial processing of pension scheme administration records	4841
<u>12. Alternative approach</u>	<u>4942</u>
<u>13. Worked Examples: Asset and liability reconciliation</u>	<u>5043</u>
<u>14. Statement by Reporting Actuary.....</u>	<u>0</u>
Reporting requirement	0
Format of certificate.....	0
Submission of certificate	20
<u>15. Instructions for completion of data tables.....</u>	<u>3</u>
Introduction.....	3
Supporting documents.....	4
Purpose of data tables.....	4
Worksheets – Admin	4
<u>16. Instructions for completion of scheme data tables - Worksheets P1.1 and P2.1</u>	<u>6</u>
Guidance on completing the worksheet	6
<u>17. Instructions for completion of scheme data tables - Worksheets P1.2 and P2.2</u>	<u>11</u>
Guidance on completing the worksheets	11
<u>18. Scheme datasets</u>	<u>15</u>
Purpose	15
<u>19. Instructions for completion of scheme data tables - Tables P1.3 and P2.3 [deleted]</u>	<u>16</u>
<u>20. Instructions for completion of scheme data tables - Tables P1.4 and P2.4 [not required to be submitted by RIIO-ED1 Licensees]</u>	<u>17</u>
Introduction.....	17
Section A: Pension Protection Fund levies	17
Section B: Pension Scheme Administration Expense	18

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

~~Guidance on completing the worksheets 9~~

~~**18. Scheme datasets 13**~~

~~Purpose 13~~

~~**19. Instructions for completion of scheme data tables—Tables P1.3 and P2.3 [deleted] 14**~~

~~**20. Instructions for completion of scheme data tables—Tables P1.4 and P2.4 [not required to be submitted by RIIO-ED1 licensees] 15**~~

~~Introduction 15~~

~~Section A: Pension Protection Fund levies 15~~

~~Section B: Pension Scheme Administration costs 16~~

~~Section C: Contingent asset and derivative financial instruments costs 17~~

~~**21. Instructions for completion of Calculation of Vrr and IBAPA and PBAPA tables—Tables P1.5/2.5 and P1.6/2.6 18**~~

~~Introduction 18~~

~~Guidance on completing the worksheets 19~~

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

~~**Appendices 23**~~

Formatted: Default Paragraph Font, Check spelling and grammar

Formatted: Default Paragraph Font, Font: Bold, Check spelling and grammar

Formatted: Default Paragraph Font, Check spelling and grammar

Formatted: Default Paragraph Font, Font: Bold, Check spelling and grammar

Formatted: Default Paragraph Font, Font: Bold, Check spelling and grammar

Formatted: Default Paragraph Font, Font: Bold, Check spelling and grammar

Formatted: Default Paragraph Font, Check spelling and grammar

Formatted: Default Paragraph Font, Check spelling and grammar

Formatted: Default Paragraph Font, Font: Bold, Check spelling and grammar

Formatted: Default Paragraph Font, Font: Bold, Check spelling and grammar

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

Foreword

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 ~~licensee~~ 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 for~~ methodology 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 Reasonableness Review 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, 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~~ was introduced for Distribution Network Operators ("DNOs") from 1 April 2015 for the RIIO-ED1 and for Gas Distribution ("GD") and Transmission Owners ("TOs") 1 April 2013 for RIIO-GD1 and RIIO-T1 and is reviewed and modified, as necessary, for each of the triennial Reasonableness Reviews. 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, 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.~~

Commented [LC3]: Please confirm acronym is NWO not NO. Thanks.

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 Date Cut-Off Dates" (the "Cut-Off Dates")) 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 Principles². 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 date Cut-Off Dates for each price control, ie the incremental deficit, or that related to non-regulated activities.

1.3. Our decision required network operator NWOs 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").

1.4. In April 2017, we issued our decision³ 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.

1.5. This supplement sets out the data requirements for DB pension schemes ("the scheme valuation dataset"), which we require to inform our Reasonableness Reviews. The 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 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

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. 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 *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> 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 See *Decision on Ofgem's policy for funding Pension Scheme Established Deficits* Footnote 2.

Formatted: Normal, Line spacing: single

Formatted: Font: 8 pt

Formatted: Font: 8 pt

Formatted: Normal

Formatted: Font: 8 pt

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

data to inform the true up of the ~~PPF levy and~~ pension ~~S~~cheme ~~a~~Administration ~~costs~~Expense and PPF Levy.

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

Legal framework

1.6. The same reporting frameworks govern this guidance⁴ as for the cost reporting [Regulatory Instructions and Guidance \(“RIGs”\)](#) of each licence, but are only required to be submitted triennially for the Reasonableness Reviews as set out in Table 3.7 of the financial handbook.

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 46 (Reporting of Price Control Cost Information);
- ~~For ETs, Electricity Transmission standard licence condition B15; and~~
- [For NG ESO, 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.

1.8. The individual sector RIGs include definitions along with related instructions and guidance for preparing the annual information submissions. 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

1.9. 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 [specified certain](#) circumstances.

⁴ [For Electricity Distribution this guidance is Annex K to the RIIO-ED1 RIGs](#)

Formatted: List Paragraph, No bullets or numbering

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

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

Row	Subsequent Reasonableness reviews, due by*	Event	Required to be submitted
1	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 DB Pension Schemes as at the date indicated in Table 3.7 of the financial handbook and commence a Reasonableness Review.	<p>Scheme Valuation Data Set:-</p> <ul style="list-style-type: none"> • Scheme funding report / actuarial valuation reports • Statement of Funding Principles • Statement of Investment Principles • Any other information – Schedule of contributions, recovery plan, employer plan, employer covenant review (if Trustees provide) and any other relevant information NWO to inform Reasonableness Review <p>Plus</p> <p>Annual audited pension scheme accounts (for the three years reported in tables P1.1 and P2.1, which include the Valuation Date)</p>
2	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	The licensee will submit:	Commentary required by para 3.42 and Table 3.8 Row 3 of the financial handbook.

Formatted Table

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

Row	Subsequent Reasonableness reviews, due by*	Event	Required to be submitted
		<p>(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.</p> <p>(b) Explanation of how it has responded to any recommendations set out by the Authority in preceding Reasonableness Reviews.</p>	
4(a)	31 August	<p>The licensee<u>Licensee</u> will submit, where relevant separately for its TO and SO activities:</p> <p>(a) Pension Deficit Allocation Methodology information and its PSED figure as at the relevant valuation<u>Valuation</u> date<u>Date</u> indicated in Table 3.7 of the financial handbook showing the movements from the previous valuation<u>Valuation</u> date<u>Date</u></p>	<ul style="list-style-type: none"> • P1.1/2.1 - PDAM information completed by licensee<u>Licensee</u> • P1.2/2.2 - PDAM information completed by Actuary • P1.4/2.4 - PPF Levies<u>PPF Levies</u> and Scheme Administration Expense <u>Administration Expense</u> - [not RIIIO-ED1 licensees<u>Licensees</u>] • Paragraph 6.20 adjustments • Scheme Actuary Report and Certificate on PDAM
4(b)	14 September	<p>The licensee<u>Licensee</u> will submit:</p> <p>(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</p>	<ul style="list-style-type: none"> • 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.

Formatted Table

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

Row	Subsequent Reasonableness reviews, due by*	Event	Required to be submitted
		<ul style="list-style-type: none"> • Base Annual PSED Allowances, PBAPAy, • payment history allowances, PPHy, • any proposed prospective discounting basis for payment history variances, reflected in PhDRy <p>With:</p> <p>Explanation of any proposed material change to its Base Annual PSED Allowances (“BAPAY”) 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</p> <p>(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.</p>	<ul style="list-style-type: none"> • Commentary required by para 3.42 and Table 3.8 Row 3 of the financial handbook.
5	30 September	<p>The Authority will provisionally decide, where relevant separately for the licensee/Licensee’s TO and SO activities, whether:</p> <p>(a) Any change should be made to the licensee/Licensee’s proposals for BAPAY Base Annual PSED Allowances and payment history allowances for reasons anticipated in paragraph</p>	Not applicable

Formatted Table

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

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

Row	Subsequent Reasonableness reviews, due by*	Event	Required to be submitted
		<p>3.48 (a) and (b) and 3.49 of the financial handbook.</p> <p>(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.</p> <p>(c) To set out any recommendation to the licenseeLicensee to adopt good practice before the next Reasonableness Review under paragraph 3.54 of the financial handbook.</p> <p>The Authority will give notice of any such provisional decisions to the licenseeLicensee, allowing 14 days for representations to be made.</p>	
6	31 October	<p>The Authority will complete its Reasonableness Review, where relevant separately for the licenseeLicensee's TO and SO activities:</p> <p>(a) Determine the values $BAP_{y,t}$, representing the Base Annual PSED Allowances, for each of the three years following the Reasonableness Review, giving reasons for any departure from those proposed in paragraph 3.35 of the financial handbook.</p> <p>(b) Determine the values $PH_{y,t}$, representing the payment history allowances, for each of the</p>	Not applicable

Formatted Table

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

Row	Subsequent Reasonableness reviews, due by*	Event	Required to be submitted
		<p>three years following the Reasonableness Review, giving reasons for any departure from those proposed in paragraph 3.41 of the financial handbook.</p> <p>(c) Determine the values AF_y, representing any adjustment factors, for each of the three years following the Reasonableness Review</p> <p>(d) Compute and determine the Pensions Allowance values for each of the three years following the Reasonableness Review, such that:</p> $EDE_y \text{ or } SOEDE_y = BAPA_y + PH_y + AF_y$ <p>(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.</p> <p>(f) Set out any recommendation to the licensee to adopt good practice before the next Reasonableness Review</p> <p>(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 reasons for any departure from those proposed in paragraph 3.41 of the financial handbook.</p>	

Formatted Table

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

Row	Subsequent Reasonableness reviews, due by*	Event	Required to be submitted
7	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/Licensee](#) by the Authority in writing.

Formatted Table

[Triennial Pension Reporting Pack supplement including pension deficit allocation methodology](#) ~~Supplement One: Pension deficit allocation methodology and datasets~~

Worked Examples: Asset and liability reconciliation

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.

Resubmissions

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.

1.13. 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

1.14. 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 review of the information.

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/Licensee](#)'s datasets.

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".

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

1.18. Instructions for the electronic submission of the workbooks will be circulated to the [licensee/Licensee's](#) regulation managers in advance of each submission deadline. However, if there is any doubt about the method of submission, the [licensee/Licensee](#) must contact the [R](#)egulatory 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

1.20. 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.

1.21. Where a reportable value is zero or not applicable to the [licensee/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

1.23. The commentary should provide the following:

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

- Explanations and supporting evidence where appropriate for how the ~~licensee~~ [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~~ [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~~ [Licensee](#) has responded to any recommendations set out by the Authority in preceding Reasonableness Reviews; and
- Explanation of any proposed material change to ~~BAPA 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~~ [Licensees](#) are proposing ~~BAPA 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

1.25. 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~~ [Appendix](#) 1 is specifically for terms used in this document.

1.26. The terms in ~~appendix~~ [Appendix](#) 1 of this document are subordinate to the licence conditions. Therefore, if a term is defined in both the licence and ~~appendix~~ [Appendix](#) 1 to this document, the licence takes precedence.

1.27. Any reference to the financial handbook relates to the respective price control financial handbook for that ~~licensee~~ [Licensee](#).

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~~ [Appendix](#) 1 to this document, the financial handbook takes precedence.

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

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; ~~and~~
- (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~~ Non-Regulated Business Activities.

Commented [LC4]: Please confirm if and is appropriate, or "and/or".

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 disproportionate 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 Excel 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 ~~relevant Valuation Date 31 March 2016 Valuation~~.

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

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

requirement is within the scope of the provisions of each [licensee/Licensee](#)'s licence condition for the Price Control Review Information⁵. The respective Regulatory Accounts licence condition and the EC Third Package requires [licensee/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 [licensee/Licensees](#) (and their affiliates), or scheme administrators on their behalf, currently maintain.

1.6. The procedures set out herein are applicable at RIIO-T1, GD1 and ED1 and subsequent price controls.

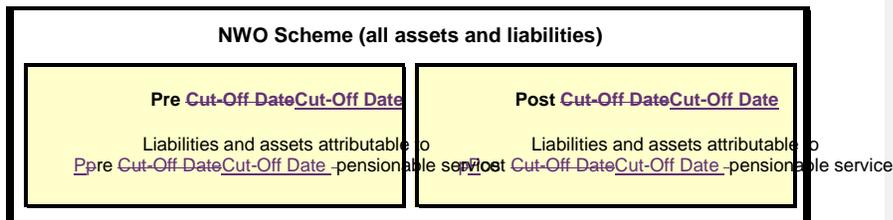
1.7. [Licensee/Licensees](#) are required to prepare and report in the triennial Pension Pack pension deficit, asset and liability attribution data, and other pension scheme information in the format set out in the separate excel workbook (or as otherwise agreed between [licensee/Licensees](#) and us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

⁵ Respectively Electricity Distribution standard licence condition 46, Electricity Transmission standard licence condition B15 and Gas Transporter standard special licence condition A40.

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

2. Notional Sub-Funds

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



2.2. Where ~~licensees~~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~~Licensee and ~~Non-Regulated Business Activities~~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)~~ for each pension scheme, a ~~licensee~~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~~Cut-Off Date or each subsequent ~~Valuation Date~~ Valuation Date ~~(as set out in Table 3.7 of the financial 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~~Valuation Date,

the ~~licensee~~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. If no Valuation is ~~received~~received, then no true up or reset of allowances will normally be made until the next true up and reset point set out in Chapter 1 (Introduction) – Table 1.1. However, we will consult on case-by-case basis.

Formatted: Indent: First line: 0 cm

4. Attribution of liabilities to pPre & pPost 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 pPre Cut-Off Date -Notional Sub-Fund, as no liabilities will exist in respect of pPost 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 bBenefits based on pProspective sService) determined by a Triennial Valuation or an Updated Valuation must be attributed to the pPre and pPost 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 Chapter 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 pPost 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 pPre 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 <u>pPost</u> <u>Cut-Off Date</u> -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 ("AVCs") 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.

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

5. Attribution of assets to ~~p~~Pre and ~~p~~Post ~~Cut-Off Date~~Cut-Off Date -Notional Sub-Funds

Assets at the ~~Cut-Off Date~~Cut-Off Date -Valuation

5.1. At the ~~Cut-Off Date~~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 ~~p~~Post ~~Cut-Off Date~~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 ~~p~~Post ~~Cut-Off Date~~Cut-Off Date -Notional Sub-Fund must be calculated as summarised in Table 5.1. Further detail of each of the items is provided in Chapter 6. The ~~licensee~~Licensee must provide details of this calculation to the Authority (in tables P1.2 and P2.2 of the excel workbook).

Table 5.1 – Summary of the value of assets attributed to the ~~p~~Post ~~Cut-Off Date~~Cut-Off Date -Notional Sub-Fund

	a.	Assets attributable to p Post cut-off date Cut-Off Date -pensionable service at previous Valuation
plus	b(i).	Employer contributions paid towards future benefit accrual since last Valuation
plus ⁶	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 p Pre Cut-Off Date Cut-Off Date -pensionable service
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 p Post Cut-Off Date Cut-Off Date pensionable service
plus	e.	Employer contributions paid since last valuation towards Pension Strain Costs attributable to p Post Cut-Off Date Cut-Off Date pensionable service
plus	f.	Employer contributions paid since last valuation towards other benefit augmentations attributable to p Post Cut-Off Date Cut-Off Date pensionable service

Formatted: Font color: Auto

Formatted Table

⁶This is not applicable for the 2017 Reasonableness Review, refer to paragraph 3.45 of the financial handbook.

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

plus	g.	Employer contributions to meet p Post Cut-Off Date Cut-Off Date s Scheme A Administration e Expenses and PPF Levies PPF Levies since last Valuation
plus	h.	Other employer contributions paid since last Valuation in respect of p Post Cut-Off Date Cut-Off Date -pensionable service
plus	i.	Assets paid in as part of a Bulk Transfer and individual transfers-in, in respect of p Post Cut-Off Date Cut-Off Date -pensionable service
minus	j.	Benefits paid or transferred out since last Valuation in respect of p Post Cut-Off Date Cut-Off Date -pensionable service
minus	k.	Money paid out to meet p Post Cut-Off Date Cut-Off Date s Scheme A Administration e Expenses and PPF Levies PPF Levies since last Valuation
minus	l.	Assets paid out as part of a Bulk Transfer in respect of p Post Cut-Off Date Cut-Off Date -pensionable service
minus	m.	Any other payments out of the scheme since last Valuation in respect of p Post Cut-Off Date Cut-Off Date -pensionable service
plus	n.	Actual investment returns achieved by the pension scheme's assets during the period as applied to p Post Cut-Off Date 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 ~~R~~eporting ~~a~~ctuary and ~~l~~icensee~~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 ~~p~~Pre ~~Cut-Off Date~~~~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 ~~p~~Post ~~Cut-Off Date~~~~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 ~~p~~Pre ~~Cut-Off Date~~~~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.

5.6. 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 ~~l~~icensee~~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.

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

5.7. These calculations must be provided to the Authority at the same time as the [Excel workbook](#).

Adjustment

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 ~~pPost-Cut-Off-Date~~[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 ~~R~~[return seeking assets](#)). This mismatch may result in a higher-/lower ~~Incremental-Deficit~~[Incremental and Deficit and](#) a lower-/higher Established Deficit.

5.9. Where ~~licensees~~[licensees](#) believe this issue to be significant, the ~~licensee~~[licensee](#) can use the default adjustment set out in paragraphs 6.20 to 6.22 or agree an adjustment to the deficits in the ~~pPre-~~[pPost-Cut-Off-Date](#)~~Cut-Off-Date~~-Notional Sub-Funds and the ~~Incremental-Deficit~~[Incremental and Deficit and](#) Established Deficit with Ofgem. Where the ~~licensee~~[licensee](#) decides to agree an adjustment with Ofgem rather than using the default in paragraphs 6.20 to 6.22, the ~~licensee~~[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 if the ~~licensee~~[licensee](#) provides appropriate supporting evidence for using split discount rates, this should include a comparison of both approaches.

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

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

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 ~~pPost Cut-Off Date~~ ~~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 ~~Ppost Cut-Off Date~~ ~~Cut-Off Date~~ -Notional Sub-Fund.

Member contributions paid towards future benefit accrual⁷

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 ~~pPost Cut-Off Date~~ ~~Cut-Off Date~~ -Notional Sub-Fund.

6.4. Member contributions arising because of a member's ~~Additional Voluntary Contributions~~ ~~AVCs~~ securing DB benefits directly must all be allocated to the Pre or Post ~~Cut-Off Date~~ ~~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 ~~pPost Cut-Off Date~~ ~~Cut-Off Date~~ -Notional Sub-Fund based on the ratio of ~~Ppost Cut-Off Date~~ ~~Cut-Off Date~~ -pensionable service to total pensionable service accrued at each Valuation Date.

Employer contributions towards deficit⁸

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

⁷ See also paragraph 5.2, row b(ii).

⁸ See also paragraph 5.2, row b(ii).

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

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 Early Retirement Deficiency Contributions ("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.

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-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-Cut-Off Date Notional Sub-Fund in ~~ce~~chapter 4.

Employer contributions to meet ~~s~~Scheme Administration ~~e~~Expenses and ~~PPF Levies~~PPF Levies

6.7. Total contributions paid to the scheme during the period to meet ~~s~~Scheme ~~a~~Administration ~~e~~Expenses (including investment advisor fees, where they are not set off against investment returns) and/or PPF LeviesPPF Levies must be extracted from the scheme records. These expenses must be allocated to the post-Cut-Off Date-Cut-Off Date-Notional Sub-Fund based on the ratio of the liabilities attributed to the post-Cut-Off Date-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-Post-Cut-Off Date-Cut-Off Date-Notional Sub-Fund, using the same proportion used to allocate the additional liabilities received to the post-Post-Cut-Off Date-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 ContributionsAVCs. For this purpose, benefits paid includes transfer values out of the scheme on an individual basis (e.g. to a personal pension).

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

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

Money paid out to meet ~~s~~Scheme ~~A~~Administration Expenses and ~~PPF Levies~~PPF Levies

6.11. The total money paid out of the scheme during the period to meet ~~s~~Scheme ~~A~~Administration ~~e~~Expenses (including investment advisor fees, where they are not set off against investment returns) and/or ~~PPF Levies~~PPF Levies must be extracted from the scheme records. These expenses must be allocated to the ~~post Post Cut-Off Date~~ Notional Sub-Fund based on the ratio of the liabilities attributed to the ~~post 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 Post Cut-Off Date~~ Notional Sub-Fund based in the same proportion as the reduction in liabilities were allocated to the ~~post Post Cut-Off Date~~ Notional Sub-Fund in chapter 4 (i.e. 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 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 ~~i~~Investment ~~M~~Management ~~F~~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 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.

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

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 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 ~~Ppre Cut-Off DateCut-Off Date~~ liabilities of the scheme, then the portion of the actual total investment return during the period allocated to the ~~ppre Cut-Off DateCut-Off Date~~ Notional Sub-Fund must be based on the actual investment returns achieved during the period for the separate ~~Ppre Cut-Off DateCut-Off Date~~ sub-fund. Similarly, the portion of the actual total investment return allocated to the ~~Ppost Cut-Off DateCut-Off Date~~ Notional Sub-Funds must be based on the actual investment returns on the remaining scheme assets (ie those maintained for the ~~Ppost Cut-Off DateCut-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, ~~licenseeLicensees~~ must apply reasonable and prudent judgement.

6.19. If ~~licenseeLicensees~~ 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 5.97

6.20. ~~licenseeLicensees~~ wishing to adopt the default approach for making an adjustment for different pre and post retirement discount rates as described in paragraph 5.79 should make the following calculations:

Commented [MW5]: Check to see if still para 5.9. Also amend 22.1, changes log in template and head in table 6.2

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

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

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

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

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

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

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

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

Annual investment return	x	Weighted average discount rate <u>Discount Rate</u> in respect of Pre Cut-Off Date <u>Cut-Off Date</u> -liabilities at the previous valuation in (a)
<hr/>		
Weighted average discount rate <u>Discount Rate</u> at the previous valuation in (c)		

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

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

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

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~~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 worksheet to provide the audit trail for these calculations for each year is provided in the Excel workbook at "~~p~~Paragraph 6.20 adjustments" tab.

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

7. Attribution of ~~pPre and pPost Cut-Off Date~~Cut-Off Date deficit to ~~Regulated-/Non-Regulated Business Activities~~Non-Regulated Business Activities

Pre ~~Cut-Off Date~~Cut-Off Date -deficit

7.1. The deficit in the ~~pPre Cut-Off Date~~Cut-Off Date-Notional Sub-Fund, at any point in time, must be calculated as⁹:

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

Established Deficit

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

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

Post ~~Cut-Off Date~~Cut-Off Date -deficit

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

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

Incremental Deficit

⁹See also paragraph 5.2, row b(ii).

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

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

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

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

$$\frac{\sum (\text{Proportions } \text{of Service in each } \text{p} \text{Post } \text{Cut-Off Date} \text{Cut-Off Date} \text{ year since the previous Valuation} * \text{Total Pensionable Salary in each } \text{p} \text{Post } \text{Cut-Off Date} \text{Cut-Off Date} \text{ year since the previous Valuation})}{\text{Total Pensionable Salary for all } \text{p} \text{Post } \text{Cut-Off Date} \text{Cut-Off Date} \text{-years since the previous Valuation}}$$

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

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

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~~ ~~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~~ ~~Licensee~~ intends to admit members under a Bulk Transfer or individual transfer from another ~~licensee~~ ~~Licensee~~, subject to the special situations exclusion in paragraphs 8.3 and 8.4 of chapter 8, the assets and liabilities associated

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

with the transfer must be treated as relating to ~~Non-Regulated Business Activities~~Non-Regulated Business Activities, in accordance with Pension Principle 2. As a result, an adjustment may be required to the Pre ~~Cut-Off Date~~Cut-Off Date Regulatory Fraction and Proportions Of Service. The ~~licensee~~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~~Cut-Off Date Regulatory Fraction and the Proportions of Service determined from the Regulatory Reporting Packs (RRPs).

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

7.8. The Pre ~~Cut-Off Date~~Cut-Off Date Regulatory Fraction will have been determined in advance of each ~~Cut-Off Date~~Cut-Off Date. This will apply up to the next ~~Valuation Date~~ (set out in in Table 3.7 of the financial handbook), 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 Date~~Cut-Off Date 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 Date~~Cut-Off Date 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 Table 3.7 of the financial handbook).

7.9. Where there is a structural change within a three-year review period, then adjustments to the Pre ~~Cut-Off Date~~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~~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~~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~~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~~Cut-Off Date liabilities attributable to ~~Regulated~~ ~~Business~~ ~~Activities~~ (eg due to changes in membership profile). Thus, the allowed Pre ~~Cut-Off Date~~Cut-Off Date Regulated Fraction should increase over time. This will be calculated by determining the proportion of Pre ~~Cut-Off Date~~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~~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~~Cut-Off Date Regulatory Fraction has already been updated using this approach. This approach to updating the Pre ~~Cut-Off Date~~Cut-Off Date Regulatory Fraction is only applicable to electricity distribution ~~licensees~~Licensees and may be updated at each ~~Valuation Date~~ (set out in Table 3.7 of the financial handbook). It does not apply to the calculation of any true up adjustment.

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

~~Licensee~~Licensees using this approach to adjust their Pre ~~Cut-Off Date~~Cut-Off Date Regulatory Fraction must provide detailed supporting evidence.

7.11. The calculation is set out in section B of pension workbook table P1.1 (and P2.1). The calculation is made at an individual ~~licensee~~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~~Cut-Off Date -liabilities attributable to regulated business activities, updates the Pre ~~Cut-Off Date~~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~~Cut-Off Date -Regulatory Fraction determined in paragraphs 7.9 or 7.10 the residual balance of unfunded ERDCs from pre 1 April 2004 (see paragraph 7.13-7.14) will be deducted. This will be expressed as a percentage of the Pre ~~Cut-Off Date~~Cut-Off Date -deficit (as calculated in chapter 9).

7.13. Data to inform a revision to the Pre ~~Cut-Off Date~~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).

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~~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 ~~licensee~~licensees¹⁰ must advise us where this is expected to be material. We will work with those ~~licensee~~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 by the underlying records as evidenced by scheme administrators or a Reporting Actuary and provide an appropriate audit trail. See also chapter 12.

Application of Regulatory Fraction

1.1. ¹⁰ The NGUKPS scheme covering both gas transmission and gas distribution is one example.

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

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 dateCut-Off Date~~ to the sectionalisation date (if not a ~~Vvaluation #Date~~) and the next ~~vValuation #Date~~.

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

8. Treatment of transfers in

8.1. Bulk Transfers-in which occur after the respective ~~Cut-Off Date~~~~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~~~~Non-Regulated Business Activities~~, ie the ~~licensee~~~~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 ~~licensee~~~~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 ~~licensee~~~~Licensees~~ have demonstrated this, eg that the transfer relates to ~~pre Cut-Off Date~~~~Cut-Off Date~~ regulated activities, these costs may be treated as part of the Established Deficit and/or ~~Incremental Deficit~~~~Incremental and Deficit and~~ may be funded accordingly (through the appropriate mechanism – specific allowance or as part of benchmarked ~~T~~~~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. 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:

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

9.4. 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~~ licensee-sponsored DB pension scheme may be sectionalised. This may occur at any point within a price control period or funding period, for example, when a ~~licensee~~ licensee or affiliate is sold. The ~~licensee~~ 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)~~ 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~~ licensee(s) (in relation to the new scheme) and the selling ~~licensee~~ 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)~~

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

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

11. Pension administration records

~~11.1. In accordance with the Reporting of Price Control Cost Information licence condition, licensee~~ Licensees are required to maintain (and ensure that any Affiliate or Related Undertaking of the ~~licensee~~ Licensee maintains) such accounting records, other records and reporting arrangements as are necessary to enable the ~~licensee~~ Licensee to prepare Price Control Cost Information for submission to the Authority. This includes the appropriate pension scheme administration records. ~~Licensee~~ 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~~ Cut-Off Date year, for each pension scheme, the ~~licensee~~ Licensee shall determine the proportion of ongoing pension costs attributable to:

- Regulated Business Activities for the ~~licensee~~ Licensee;
- Regulated Business Activities for any other ~~licensee~~ Licensee; and
- ~~Non-Regulated Business Activities~~ Non-Regulated Business Activities for the ~~licensee~~ Licensee.
- Such proportions will represent the regulated and non-regulated ~~p~~Post ~~Cut-Off Date~~ Cut-Off Date -Proportions ~~o~~f Service (the "Proportions Of Service") and must add up to 100 per cent.

~~11.3. For each licensee, the Proportions o~~f 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 ~~o~~f 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, licensee~~ 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 ~~P~~re and ~~p~~Post ~~Cut-Off Date~~ Cut-Off Date Notional Sub-Funds.

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

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

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

11.6. However, ~~licenseeLicensees~~ 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 ~~pPre~~ and ~~pPost Cut-Off DateCut-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 ~~licenseeLicensee~~ (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 ~~pPre~~ and ~~pPost Cut-Off DateCut-Off Date~~-Notional Sub-Funds.

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

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 date~~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~~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~~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~~Cut-Off Date

13.2. A similar situation occurs where National Grid Gas (“NGG”) ~~NGUKPS~~ has two ~~cut-off date~~Cut-Off Dates for the National Grid Gas UK Pension Scheme (“NGUKPS”), one at 31 March 2012 for its gas transmission ~~licensee~~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~~Cut-Off Date for gas distribution ~~licensee~~Licensees.

Commented [LC6]: Please confirm acronym. National Grid UK Pension Scheme?

Commented [LC7]: Please confirm acronym. National Grid UK Pension Scheme?

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

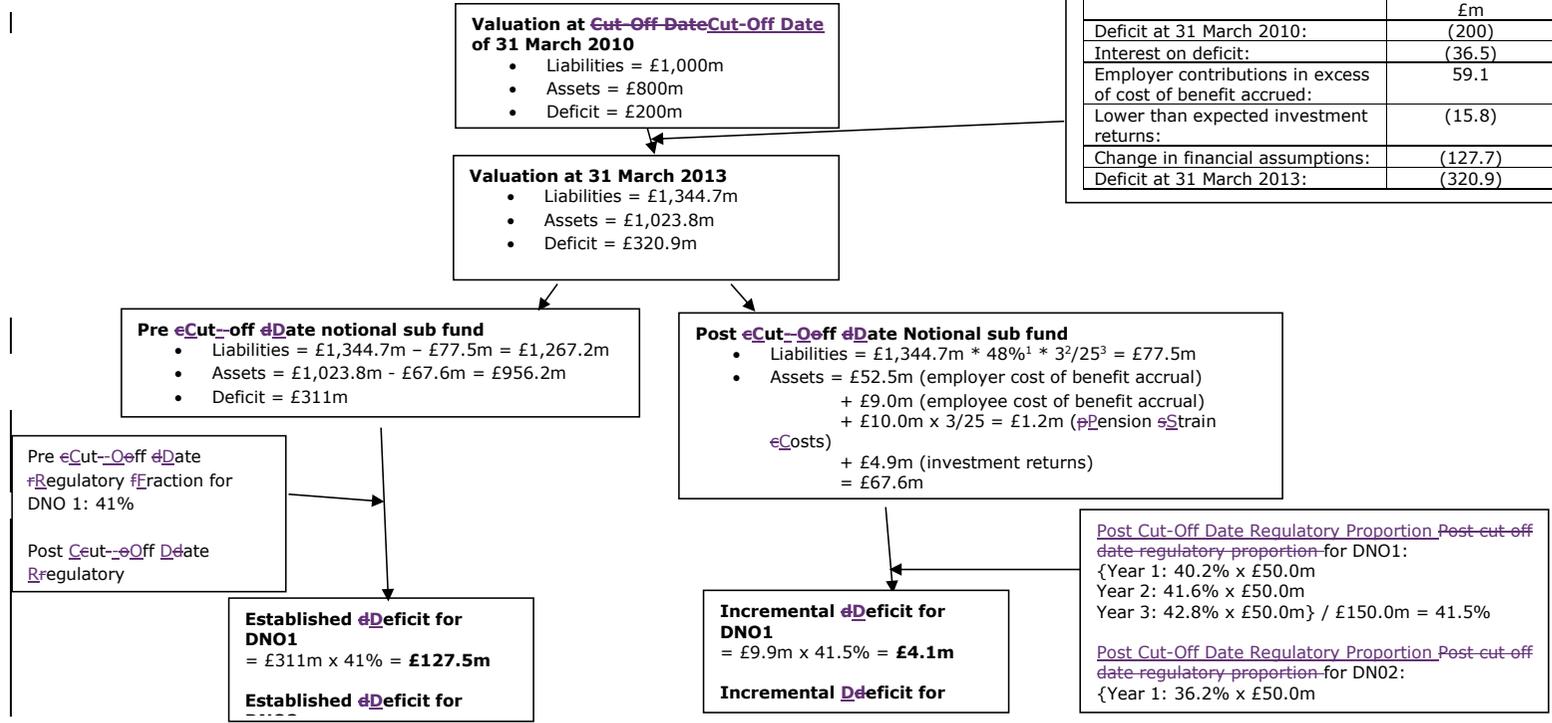
Triennial Pension Reporting Pack supplement including pension deficit allocation methodology Supplement One: Pension deficit allocation methodology and datasets

Worked Examples: Asset and liability reconciliation

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

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

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)



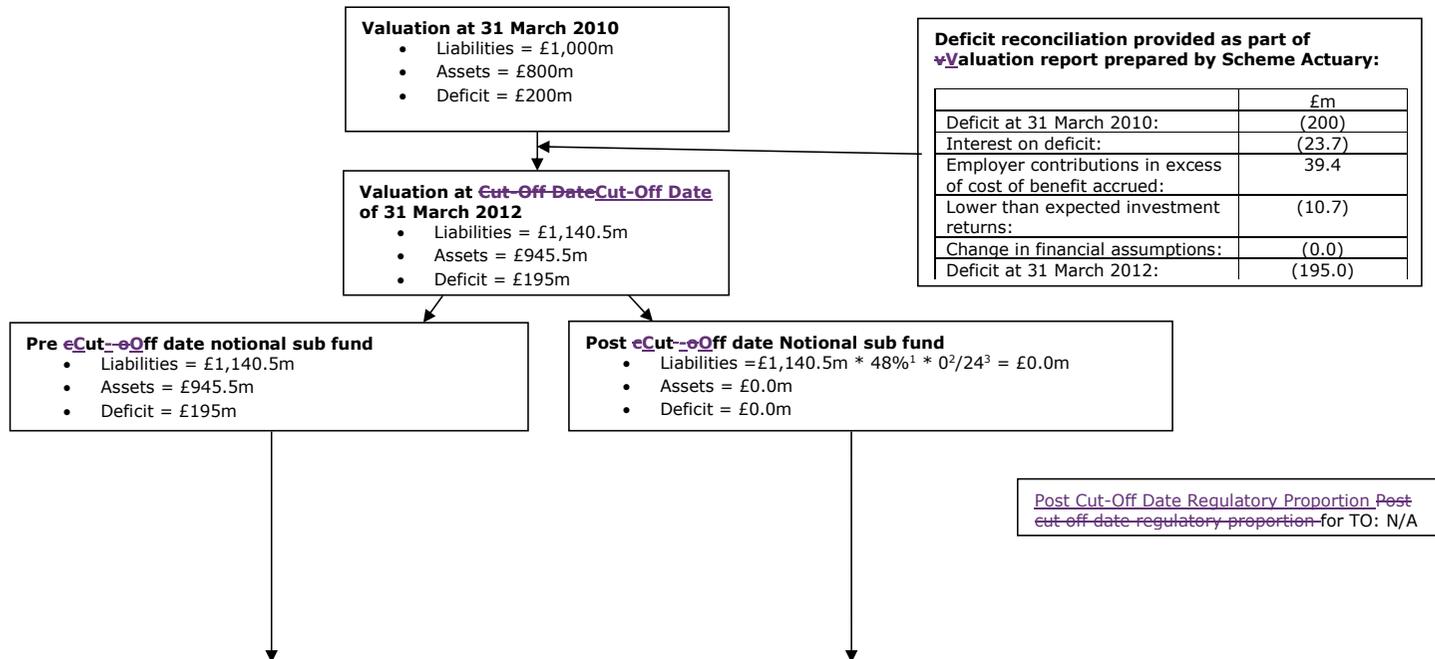
1. Assumed active proportion. For simplicity, calculation assumes there are no deferred or pensioner members with $p_{Post\ eCut-o\ff\ eDate}$ service.
2. Liability weighted average $p_{Post\ eCut-o\ff\ eDate}$ -service for active members.

Formatted: Font: 8 pt

~~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~~

Example 2 – Pension scheme with liabilities that relate to one DNO and one TO with different cut-off dateCut-Off Dates

31 March 2012 - for TO



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

Pre Cut-Off Date Regulatory Fraction for TO:

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

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

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.	
Pension strain costs	£3.33m p.a.	
Duration of liabilities	20 years	

31 March 2013 – for DNO

Valuation at Cut-Off Date of 31 March 2010

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

Valuation at 31 March 2013

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

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)

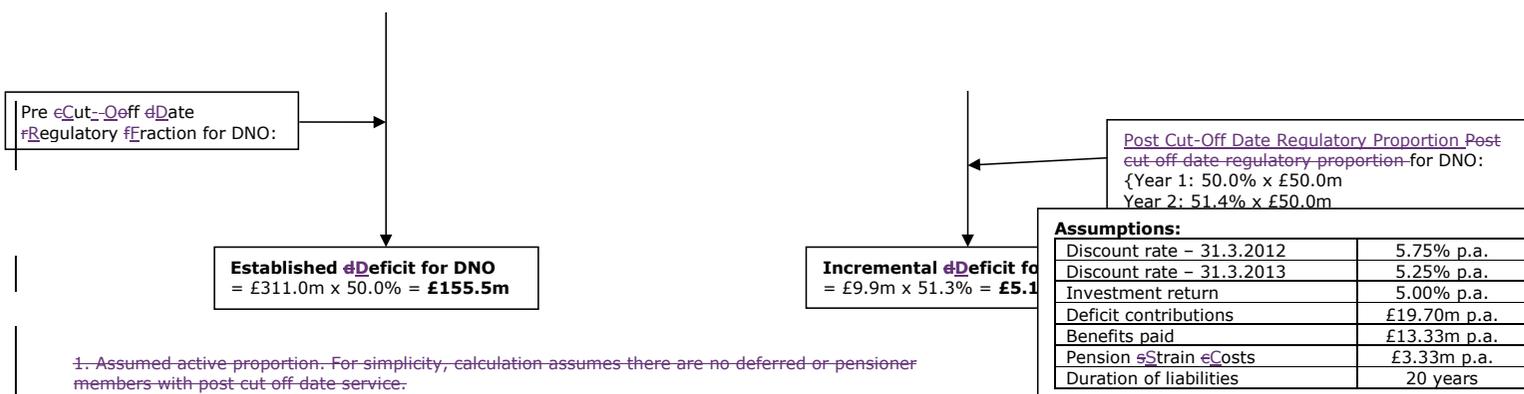
Pre Cut-Off Date notional sub fund

- 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

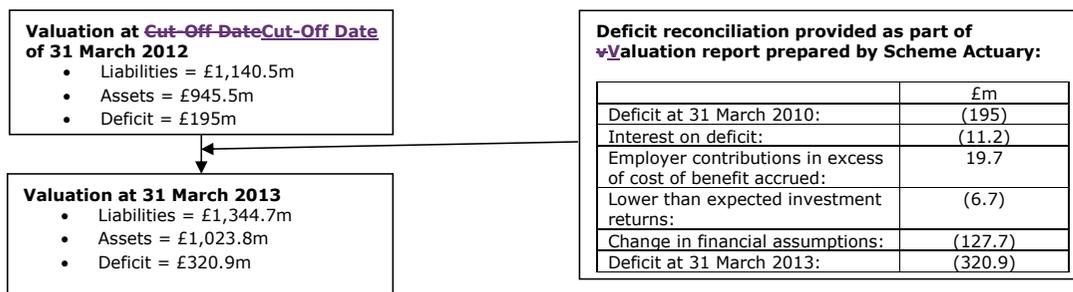
- Liabilities = £1,344.7m * 48%¹ * 3²/25³ = £77.5m
- Assets = £52.5m (employer cost of benefit accrual)
 - + £9.0m (employee cost of benefit accrual)
 - + £10.0m x 3/25 = £1.2m (pension strain costs)
 - + £4.9m (investment returns)
 - = £67.6m

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

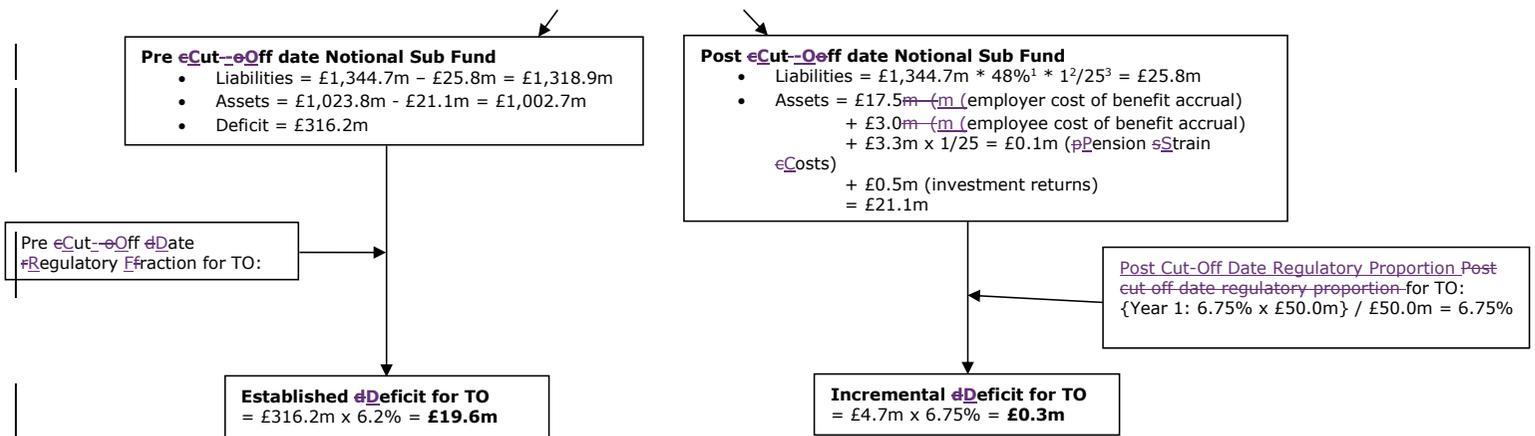


1. Assumed active proportion. For simplicity, calculation assumes there are no deferred or pensioner members with post cut off date service.
2. Liability weighted average post cut off date service for active members.
3. Liability weighted average service for active members.

31 March 2013 – for TO



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



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.

[Triennial Pension Reporting Pack supplement including pension deficit allocation methodology Supplement One: Pension deficit allocation methodology and datasets](#)

Worked Examples: Asset and liability reconciliation

14. Statement by Reporting Actuary

Reporting requirement

14.1. In accordance with Chapter 3 the [Licensee/Licensee](#), at its own expense, must arrange for a Reporting Actuary to prepare a report for each DB pension scheme of which the [Licensee/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/Licensee's DBdefined 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

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:

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

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

Submission of certificate

14.3. The ~~licensee~~ [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.

15. Instructions for completion of data tables

Introduction

15.1. The [licensee](#) is to complete all data tables for its DB pension scheme (P1.1, P1.2 and P1.4¹¹) and, where it has a second DB scheme, tables (P2.1, P2.2 and P2.4¹²). 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 and the relevant Price Control Financial Handbook.

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

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

15.5. The pension data tables workbook comprises:

- Pension Pack cover
- Version control [i](#)
- Contents [i](#)
- Changes log [i](#)
- P1.1 - PDAM information completed by [licensee](#) - primary scheme [i](#)
- P1.2 - PDAM information completed by Actuary - primary scheme [i](#)
- P1.3 -- Deleted [i](#)
- P1.4 - ~~PPF Levies~~PPF Levies and Scheme ~~a~~Administration - Primary scheme [not DNOs] [i](#)
- P1.5 - Calculation of Vrr – [licensee](#) 1 [i](#)
- P1.6 IBAPA and PBAPA – [licensee](#) 1 [i](#)
- P2.1 - PDAM information completed by [licensee](#) - second scheme [i](#)
- P2.2 - PDAM information completed by Actuary - second scheme [i](#)
- P2.3 -- Deleted [i](#)
- P2.4 - ~~PPF Levies~~PPF Levies and Scheme ~~a~~Administration - second scheme [not DNOs] [i](#)
- P2.5 - Calculation of Vrr – [licensee](#) 2 [i](#)
- P2.6 IBAPA and PBAPA – [licensee](#) 2 [i](#) and

¹¹ Not required to be completed by DNOs [i](#)

¹² Not required to be completed by DNOs [i](#)

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

- Paragraph 6.20 adjustments.

15.6. Data must only be entered in cells with a yellow background.

Supporting documents

15.7. The following other supporting documents must be submitted (subject to paragraph 15.9) with the data tables for each scheme on or before the dates set out in Chapter 1 (Introduction) – Table 1.1:

- Annual audited Pension Scheme accounts (for the three years reported in tables P1.1 and P2.1, which include the ~~v~~Valuation ~~D~~ate);
- Actuarial valuation reports;
- Statement of Funding Principles; and
- Statement of Investment Principles.

15.8. The following additional supporting documents must be submitted for each scheme on or before 31 August in the year specified in Chapter 1 (Introduction) – Table 1.1 and the relevant Price Control Financial Handbook:

- Statement by Reporting Actuary on Tables P1.2 and P2.2.

15.9. Employer covenant reviews are prepared for the trustees and not the ~~licensee~~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. ~~Licensee~~Licensees are required to use reasonable endeavours for Ofgem to be provided with a copy.

Purpose of data tables

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.

15.11. Where a ~~licensee~~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 ~~p~~Pre ~~Cut-Off Date~~Cut-Off Date -Regulatory Fraction over time in ~~licensee~~Licensees other than DNOs.

Worksheets – Admin

Cover – Triennial Pension Reporting Pack data tables

15.12. This worksheet is used for the NWO to enter key data including the NWO group name, the ~~licensee~~Licensees that are sponsors of the pension scheme and the name of the

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

pension schemes; and the reporting year or period. The names are linked to the relevant worksheets in the pension workbook.

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.

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

Version control

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.

Contents

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

Changes log

15.17. The change log is to be used to list changes made to each worksheets.

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

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~~ licensee group has more than one scheme. If the ~~licensee~~ licensee group has more than two schemes, the latter table should be copied and renamed P3.1. These tables are for the period covering the years 31 March ~~of the previous Valuation year to 31 March of the current Valuation year~~ 2013 to 31 March 2016.

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

16.3. This table has eight sections:

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

Guidance on completing the worksheet

Valuation ~~d~~ Dates

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~~ Cut-Off Date -Regulatory Fraction

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

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~~ Cut-Off Date Regulatory Fraction Update – DNOs (if applicable)

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

16.7. This section is only to be completed by DNOs (if applicable) and they should select “Yes” in cell C20. It calculates the movement in the optional roll forward of the Pre ~~Cut-Off Date~~Cut-Off Date Regulatory Fraction as set out in chapter 7. 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.

16.8. This section allows for up to three sponsors for any one scheme and calculates the updated ~~R~~Regulatory ~~F~~Fraction for each sponsor separately.

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

16.10. The columns for the year 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.

16.11. The amount of sponsor one’s ~~p~~pre ~~cut-off date~~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.

16.12. For sponsor one, rows 40 to 43 show the split of ‘actives’ and ‘pensioners & deferreds’ ~~p~~pre ~~cut-off date~~Cut-Off Date liabilities attributable to regulated and ~~non-regulated business activities~~Non-Regulated Business Activities. Enter in cell C40 the percentage of sponsor one’s ~~p~~pre ~~cut-off date~~Cut-Off Date active liabilities that were associated with ~~R~~Regulated ~~B~~Business ~~a~~Activities at 31 March 2004, in F40 as at 31 March 2013 and at I40 as at 31 March 2016.

16.13. Cell C41 will display the balance of any of sponsor one’s ~~p~~pre ~~cut-off date~~Cut-Off Date active liabilities at 31 March 2004 associated with ~~non-regulated business activities~~Non-Regulated Business Activities. Sponsor one’s ~~p~~pre ~~cut-off date~~Cut-Off Date pensioner & deferred liabilities at 31 March 2004 are then attributed between regulated and ~~non-regulated business activities~~Non-Regulated Business Activities to ensure that the overall proportion of sponsor one’s total ~~p~~pre ~~cut-off date~~Cut-Off Date liabilities at 31 March 2004 allocated to ~~R~~Regulated ~~B~~Business ~~a~~Activities equals 80 per cent.

16.14. Cells F41 and I41 will display the balance of any of sponsor one’s pre ~~cut-off date~~Cut-Off Date active liabilities associated with ~~non-regulated business activities~~Non-Regulated Business Activities at 31 March 2013 and 31 March 2016, respectively. The proportion of sponsor one’s ~~p~~pre ~~cut-off date~~Cut-Off Date pensioner & deferred liabilities at 31 March 2013 and 2016 are attributed to regulated and ~~non-regulated business activities~~Non-Regulated Business Activities in the same proportion as they were at 31 March 2004.

16.15. The ~~licensee~~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 2013 and 2016 based on the latest available valuation data.

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

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.

16.17. Cells H46 and K46 show the updated ~~p~~Pre cut-off date~~Cut-Off Date~~ -~~R~~Regulatory f~~F~~raction which applies to the ~~p~~Pre cut-off date~~Cut-Off Date~~ -liabilities attributable to sponsor one at 31 March 2013 and 31 March 2016, respectively.

16.18. Cells H50 and K50 show the updated ~~p~~Pre cut-off date~~Cut-Off Date~~ -~~R~~Regulatory f~~F~~raction for sponsor expressed as a proportion of total ~~p~~Pre cut-off date~~Cut-Off Date~~ -liabilities at 31 March 2013 and 31 March 2016, respectively.

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

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

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

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.

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.

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 ~~p~~Pre cut-off date~~Cut-Off Date~~ -~~R~~Regulatory f~~F~~raction due to the outstanding ERDCs for each sponsoring DNO.

Section D - Changes to ~~p~~Pre Cut-Off Date~~Cut-Off Date~~ -~~R~~Regulatory Fractions

16.25. This section calculates the changes in the ~~R~~Regulatory f~~F~~raction for each of up to six sponsoring NWOs in the relevant period to 31 March 2016 from bulk transfers in and out of the scheme, other items and ERDCs.

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:

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

- Row 117 - Adjustment to Pre ~~Cut-Off Date~~~~Cut-Off Date~~ -Regulatory Fractions due to bulk transfers in during period excluding ~~p~~~~Protected p~~~~Persons~~.
- Row 118 - Adjustment to Pre ~~Cut-Off Date~~~~Cut-Off Date~~ -Regulatory Fractions due to bulk transfers in during period in relation to ~~p~~~~Protected p~~~~Persons~~
- Row 119 - Adjustment to Pre ~~Cut-Off Date~~~~Cut-Off Date~~ -Regulatory Fractions due to bulk transfers out during period excluding ~~p~~~~Protected p~~~~Persons~~
- Row 120 - Adjustment to Pre ~~Cut-Off Date~~~~Cut-Off Date~~ -Regulatory Fractions due to bulk transfers out during period in relation to ~~p~~~~Protected p~~~~Persons~~
- Row 121 - Adjustment to Pre ~~Cut-Off Date~~~~Cut-Off Date~~ -Regulatory Fractions due to other items
- Row 122 - ERDC adjustment as at 31 March ~~2016~~ of the current Valuation year

16.27. In the Pre ~~Cut-Off Date~~~~Cut-Off Date~~ -Regulatory Fractions at the latest ~~v~~~~Valuation d~~~~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.

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

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

Section F - Calculation of Weighted Proportion ~~o~~~~f~~ Service (based on data from RRP)

16.29. This section calculates the "Weighted Proportion" from the Proportions ~~o~~~~f~~ Service for each year of the triennial review period ending on 31 March of the current Valuation year~~2016~~.

16.30. Input for each NWO in each year of the triennial review period ending on 31 March of the current Valuation year~~2016~~, the amount of pensionable salaries (before salary sacrifice) for each NWO attributable to ~~R~~~~regulated b~~~~Business a~~~~Activities~~ for this ~~d~~~~Defined b~~~~B~~~~enefit-P~~~~pension s~~~~S~~~~cheme~~. The amount of pensionable salaries not attributed to ~~r~~~~Regulated b~~~~Business a~~~~Activities~~ for an NWO should be attributed to ~~non-regulated business activities~~~~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.

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

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

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

Section H - Calculation of Established Deficit and Incremental Deficit

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

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

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

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. The tables are for the relevant period to 31 March 2016 as set out in paragraph 17.1.

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

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

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 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

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

Section C - Reconciliation of scheme surplus / deficit

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. All the captured movements

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

should be entered observing the relevant signage, ie assets and cash in as positives, outgoings as negatives.

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

17.8. Rows 36 to 38 should be used for additional items, where material. The text in column B must be overwritten with a description.

17.9. The movements must result in the amount at cell D39 being equal to the amount in cell D21. If not, an error message will be displayed in cell D40, 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

17.10. This section captures the movements in scheme liabilities from the previous valuation (eg 31 March 2013 for DNOs) to the current valuation (eg 31 March 2016 for DNOs).

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

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 ~~p~~Pre and ~~p~~Post ~~Cut-Off Date~~Cut-Off Date -Notional Sub-Funds

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

17.14. Enter in rows 69, 70 and 71 (as a percentage) the proportion of the schemes active, deferred and ~~p~~Pensioner ~~l~~Liabilities attributable to the ~~p~~Post-~~cut-off date~~Cut-Off Date ~~n~~Notional ~~s~~Sub-~~f~~Fund, calculated as set out in chapter 4.

17.15. Enter in cell D77 the value of liabilities at the current Valuation Date in respect of ~~p~~Post ~~Cut-Off Date~~Cut-Off Date benefits accrued up to and including the date of the previous Valuation.

17.16. Enter in cell D78 the value of liabilities at the current Valuation Date in respect of ~~p~~Post ~~Cut-Off Date~~Cut-Off Date -benefits accrued since the date of previous valuation.

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

Section E - Scheme assets and attribution to ~~p~~Pre and ~~p~~Post ~~Cut-Off Date~~Cut-Off Date -Notional Sub-Funds

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

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.

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~~Cut-Off Date -Notional Sub-fund for each of the listed items in column B.

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~~Cut-Off Date -Notional Sub-fund.

17.21. In column F for each item above, enter the basis of the calculation of the attribution to Post ~~Cut-Off Date~~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 ~~p~~Pre and ~~p~~Post ~~Cut-Off Date~~Cut-Off Date -deficits

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

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

Pension Supplement Two

Scheme datasets

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

18. Scheme datasets

Purpose

Chapter 3 of the respective Price Control Financial Handbooks¹³ set out the information required for each ~~defined benefit~~DB Pension 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.~~

¹³ See also Table 1.1 of Chapter 1 (Introduction).

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

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

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

Introduction

20.1. These tables ~~collects~~ collect data for each of the ~~four~~ four (three for Section C) years ending 31 March ~~2016-2020~~ for:

- ~~PPF levies~~ PPF Levies (section A)
- ~~pension~~ Scheme Administration ~~costs~~ Expenses (section B)
- contingent asset and hedging costs (section C)

DNOs are not required to complete these tables.

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~~ licensee group has more than one scheme.

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

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

20.5. The attribution of the costs (in paragraph 20.1) should be made on the basis of the Regulatory Fraction/ Proportions ~~of~~ 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 ~~R~~ regulatory ~~f~~ fraction used in the relevant price control should be applied.

Section A: Pension Protection Fund levies

Purpose

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.

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

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

Guidance on completing the worksheet

20.8. Row ~~67~~: Enter the total ~~PPF levy~~PPF Levy for all ~~licensee~~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.

20.9. Rows ~~9-10~~ to ~~167~~: Enter the allocation of ~~PPF levies~~PPF Levies for all ~~licensee~~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~~Licensee(s).

20.10. Rows ~~201~~ to ~~278~~: Input the allocation of ~~PPF levies~~PPF Levies for all ~~licensee~~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~~Licensee(s).

20.11. ~~Row 44: Input latest, relevant PPF failure or insolvency risk score (e.g. Dun & Bradstreet, Experian, etc)~~ 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).

Section B: Pension Scheme Administration Expense~~costs~~

Purpose

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 ~~i~~Investment ~~m~~Management ~~f~~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.

20.13. This data will be used to inform the ex post true up of pension ~~s~~Scheme ~~a~~Administration Expense~~costs~~ where specified in the relevant Price Control Financial Handbook.

Guidance on completing the worksheet

20.14. Row ~~487~~: Input the total pension administration costs for all ~~licensee~~Licensee sponsored DB schemes in aggregate, showing pure administration costs. This should (a) exclude ~~i~~Investment ~~m~~Management ~~f~~Fees; and (b) include fees for investment advice.

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

20.15. Rows ~~510~~ to ~~598~~: 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~~Licensee(s).

20.16. Rows ~~612~~ to ~~689~~: 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~~Licensee(s).

20.17. Row ~~712~~: Enter amount of administration costs actually paid in respect of all ~~licensee~~Licensee sponsored DB schemes in aggregate in the year. This is to identify if the contributions or costs paid by ~~licensee~~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

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.

20.19. Rows ~~756~~ and ~~767~~: 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.

20.20. Rows ~~789~~ to ~~856~~: Enter the allocation of these costs to non-regulated and each regulated business or sponsoring ~~licensee~~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 ~~eEstablished d~~Deficit element and payment history element of the Pension Allowance value¹⁴ for each ~~LicenseeLicensee~~.

21.2. ~~Pension Scheme Established deficit~~ (PSED) means the total of the proportion(s) of any pension scheme deficits which are attributable to the ~~LicenseeLicensee~~'s regulated business and to pensionable service up to and including the ~~cut-off date~~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 ~~BAPA Base Annual PSED Allowances~~ for each year subsequent to the ~~vvaluation d~~Date, specified in ~~Table 3.7 of the financial handbook~~.

21.6. These tables should be completed at ~~LicenseeLicensee~~ level. If the ~~LicenseeLicensee~~ group has more than two ~~LicenseeLicensees~~, 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 ~~LicenseeLicensee~~ may have the following:

- One ~~LicenseeLicensee~~ is the sponsor of more than one scheme, and/or
- One scheme has more than one ~~LicenseeLicensee~~ 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 ~~LicenseeLicensee~~'s regulated business and to pensionable service up to and including the

¹⁴ The other element of EDE and SOEDE is the pension ~~sScheme a~~Administration Expense and PPF levy allowances, which is only applicable in the RIIIO-GD1 and T1 price control allowances (see Chapter 20).

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

~~cut-off date~~ 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~~ 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
<u>Licensee</u> 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 ~~y~~Year ~~p~~post ~~e~~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.

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

21.14. In row 18 enter payment history allowance and Legacy true up allowance received for historical payment history (PH) and ~~L~~egacy ~~T~~riennial ~~U~~p ~~V~~alue (LTU) allowances.

21.14.1. Payment history allowances ensure that customers are properly compensated if the ~~licensee~~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.

21.14.2. ~~Legacy true up value~~ (LTU) represents the present value as at the end of the Reasonableness Review year (~~rr~~) of any arrangement or arrangements previously agreed or determined by the Authority for the ~~Post e~~Cut-~~o~~ff true-up of the ~~licensee~~Licensee's pension deficit payment history prior to the ~~cut-off date~~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 ~~O~~ffset. LTU ~~O~~ffset is where, with the Authority's written agreement, the ~~licensee~~Licensee may attribute payment history allowances to legacy true up values. If a ~~licensee~~Licensee chooses under 3.39(b) of the financial handbook to attribute allowances received to the ~~legacy true up value~~LTU 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 ~~V~~aluation ~~d~~ate). 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~~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~~Licensee or a ~~Related U~~ndertaking by the relevant pension scheme(s) during the course of year y under an arrangement agreed between the ~~licensee~~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; ~~and-~~

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

21.17. In row 28 enter ~~licensee~~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~~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~~Licensee during year y.

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

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 E_y 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 ~~dDiscount~~ ~~rRates~~ (~~rPhDRy~~). ~~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 ~~rRisk Ttransfer~~. ~~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): ~~LicenseeLicensee~~ ~~Oobligation~~ (~~LO~~) means the value of any assets included in the PSED valuation that represent an obligation from the ~~LicenseeLicensee~~ for future payments (or other consideration) to the relevant scheme(s) under an arrangement agreed between the ~~LicenseeLicensee~~ and the scheme(s).

21.28. In cell C16 enter the ~~aAsset bBacked vValue~~ (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~~ ~~Discount Rate~~ (DR), an annual real (inflation-adjusted) ~~discount rate~~ ~~Discount Rate~~ specified in or justified with reference to the ~~LicenseeLicensee~~'s Scheme Valuation Data Set.

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

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

22. Instructions for completion of worksheet - Paragraph 6.20 adjustments

Purpose

22.1. 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 ~~5.29~~ of chapter 5. This is for ~~licensee~~ licensees who adopt the default approach for making an adjustment for different pre and post retirement discount rates.

Formatted: Highlight

Guidance on completing the worksheet

~~22.2. Licensees should enter the required data for the previous valuation, which was at the 31 March 2013 for DNOs, 31 March 2013 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.~~

~~22.3-22.2.~~ Rows 19 to 21 set out the calculation for steps (a) to (c) in paragraph 6.20. No data entry is required.

~~22.4-22.3.~~ Rows 23 and 24 show the result of annual investment return calculation for each year of the previous valuation. No data entry is required.

~~22.5-22.4.~~ Where a ~~licensee~~ licensee has more than one scheme, this worksheet may be copied and should be inserted in their workbook before the example tables.

Appendices

Index

Appendix Appendix	Name of Appendix Appendix	Page No.
1	Definitions and interpretations	1
2	Enter Text here	1
3	Enter Text here	5
4	Enter Text here	6
5	Enter Text here	8
6	Enter Text here	9

Formatted: Highlight

Formatted: Highlight

Formatted: Highlight

Formatted: Highlight

Commented [LC8]: Update.

Formatted: Highlight

Formatted: Highlight

Appendix 1 - Definitions and interpretations

Additional Voluntary Contributions ("AVCs") 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~~

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

~~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 Discount Rate specified in or justified with reference to the licensee's Scheme Valuation Data Set.~~

Formatted: Normal

~~**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).~~

~~**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 Date 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.~~

Formatted: Font: Not Bold

~~**First Year Post Cut-Off ("pco1")** means the first regulatory year subsequent to the cut-off date 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.~~

~~**Incremental Deficit Incremental Deficit** means the difference between the assets and liabilities, determined at any point in time, attributable to post Cut-Off Date 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 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 Fees expenses** means any scheme Investment Management expenses Fee 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 ("rr") 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 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 Obligation 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 (e.g. 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~~ 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~~ [Cut-Off Date](#) ~~Notional Sub-Funds~~ where the assets and liabilities of a ~~defined benefit DB 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 DB 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~~ [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).

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

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) – As set out in our Decision on Ofgem's policy for funding Pension Scheme Established Deficit¹⁵

PSSED (Pension Scheme Established Deficit ("PSSED")) 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 is the period on or before the Cut Off-Date.

Formatted: Font: Not Bold

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 is the period 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 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

Formatted: Font: 8 pt

Formatted: Font: 8 pt

Formatted: Font: 8 pt

¹⁵ [Decision on Ofgem's policy for funding Pension Scheme Established Deficits](#).

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

remunerated by base demand revenues and which are not ~~Non-Regulated Business Activities~~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~~Non-Regulated Business Activities of the ~~licensee~~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~~Cut-Off Date and does not include an adjustment for ERDCs.

Related Undertaking – see Affiliate and Related Undertaking.

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 46; 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 ~~s~~Seeking ~~A~~Assets means assets which may be exposed to greater risk, but where the potential return is higher than ~~Low~~ ~~r~~Risk ~~a~~Assets (e.g. equities).

RIIO-ED1 means the review of the price control applying to incumbent Electricity Distribution Network ~~licensee~~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 ~~licensee~~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 ~~licensee~~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 ~~t~~Transfer is, where agreed with the Authority, the allocation of risk for ABV between consumer and ~~licensee~~Licensee.

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

Scheme ~~A~~Administration ~~E~~Expense~~s~~costs means costs associated with Pension Scheme Administration and ~~PPF Levy~~PPF Levy which are attributable to the ~~licensee~~Licensee's regulated business.

Scheme ~~v~~Valuation ~~d~~Data ~~S~~et means data relating to each ~~defined benefit~~DB Pension ~~s~~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.

Formatted: Font: Bold

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

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 [Licence](#) may be subject).

Formatted: Font: Bold

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 [Licenses](#) (TOs and SOs) for the period from 1 April 2007 to 31 March 2012.

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 [Licence](#) may be subject).

TSOs generic term for both [Transmission Owners and System Operators](#) [TOs and SOs](#).

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.

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

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~~ 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.