Electricity North West Group of the ESPS (*the Group*)
Statement of Funding Principles (*SFP*)

Introduction

This statement sets out the Trustee's policy for securing that the statutory funding objective (*SFO*) is met. The SFO is defined in section 222 of the Pensions Act 2004, which states that every scheme must have sufficient and appropriate assets to cover its technical provisions.

The document shows the principles by which the technical provisions are calculated, noting that they have been agreed specifically for the 2022 actuarial valuation and might not be appropriate at future valuations.

Technical Provisions

The technical provisions are the amount that will be needed to pay the Group benefits that relate to service up to the valuation date, if the assumptions made are borne out in practice.

The assumptions used to calculate the technical provisions are intended to provide a prudent estimate of the future experience of the Group, with a prudent allowance for the future potential returns on investments. There is an underlying assumption that the Group will continue with benefits being met from the Group as they fall due.

The method and assumptions used to calculate the technical provisions are summarised in Appendices A and B.

Valuation of pensioner buy-in policy

The value placed on the pensioner buy-in policy as an asset of the Group will be equal to the value placed on the Group's liabilities (in respect of the benefits covered by the buy-in policy). This is to ensure that the assets and liabilities are valued consistently.

Employer contributions

Employer contributions are assessed by calculating the present value of future benefit accrual using the same assumptions as for the technical provisions:

plus

- an estimate of the cost of providing lump sum death benefits;
- any additional contributions required in respect of early retirements and other benefit augmentations;

reduced by

- the ordinary contributions made by (or on behalf of) members;

adjusted by

- the amounts needed to eliminate any shortfall or surplus in the market value of the assets relative to the technical provisions (including in relation to notional post 2010 assets and technical provisions as assessed under Ofgem reporting).

The Employers will also pay contributions in respect of Defined Contribution and life assurance only members and will reimburse the Group in relation to the Pension Protection Fund (PPF) and other levies collected by the Pensions Regulator.

Dealing with shortfalls / surpluses

Any shortfall in assets compared with technical provisions identified at an actuarial valuation will be eliminated as quickly as the Employers can reasonably afford by the payment of additional contributions which may allow for some expected out-performance of the Group's assets compared to the discount rate in accordance with the recovery plan agreed between the Trustee and the Principal Employer. The additional contributions will normally consist of a stream of regular payments made over the recovery period.

In determining the recovery period at any particular valuation the following factors (amongst others) will be taken into account:

- the size of the funding shortfall;
- the business plans of the Employers;
- the Trustee's assessment of the covenant provided by the Employers; and
- any contingent funding or security offered by the Employers.

Subject to considering the employer covenant, should future valuations reveal a deficit larger than expected, the payments under an existing recovery plan will normally continue and be supplemented by additional payments and/or an extension of the recovery period. However, the Trustee and the Principal Employer can agree alternative arrangements, if appropriate.

The assumptions to be used in the shortfall elimination calculations will be the same as those for calculating the technical provisions, with the exception that allowance may be made for some of the expected out-performance of the Group's assets compared to the discount rate.

Policy on discretionary increases and funding strategy

Under the provisions of the Group, there are certain discretionary powers to provide or increase benefits for, or in respect of, all or any of the members of the Group.

The Trustee and Principal Employer have agreed that allowance will be made in the technical provisions for pension increases (for excess over GMP) in line with increases in the Retail Prices Index. However, the Trustee and Principal Employer have agreed that the assumption used for the purpose of setting the technical provisions is not intended to have an impact on the level of pension increases actually granted under the Principal Employer's or Trustee's discretionary powers to provide increases above 5% where inflation exceeds that percentage.

Allowance is made in the technical provisions for discretionary dependants' pensions, where there is no legal spouse.

Monitoring employer covenant

The Principal Employer will present information to the Trustee at least once a year on the employer covenant, and inform the Trustee as soon as possible of developments which have or could have a material adverse impact on the strength of the employer covenant.

The Trustee will review the need for further information on employer covenant from time to time, as appropriate.

Additional prudence on account of Project Planet Letter of Credit	For each payment into the Group in respect of a letter of credit (as envisaged under the Project Planet Agreement), the technical provisions applying for the Group shall be increased by an amount equal to the relevant Indexed Principal Amount (as defined under the Project Planet Agreement). It is envisaged that this increase will be achieved by applying a reduction to the discount rate assumption for the Group. The reduction(s) to the discount rate will continue to apply until such time as the Trustee and the Principal Employer agree otherwise.
Frequency of valuations	The Group's first actuarial valuation to which this statement applies is being carried out as at 31 March 2022. Subsequent valuations will normally be carried out every three years. The Trustee will obtain an update showing the approximate progression of the Group's funding level at regular intervals following the issue of valuation results. The Trustee will also obtain an actuarial report on developments affecting the Group's funding level as at each intermediate anniversary of the valuation date. The actuarial reports will not normally lead to changes in the employer contribution rate unless the Trustee and Principal Employer agree upon such changes. The Trustee may call for a full actuarial valuation instead of an actuarial report when, after considering the scheme actuary's advice, it is of the opinion that events have made it unsafe to continue to rely on the results of the previous actuarial valuation as the basis for future contributions. The Trustee will consult the Principal Employer before carrying out an early valuation. The Trustee and Principal Employer may review the Group's funding position without commissioning a formal actuarial valuation. This may include revisions to the statement of funding principles, any recovery plan and the schedule of contributions, agreed as part of the informal review without completion of a formal actuarial valuation.
Signatures	This statement has been agreed by the Trustee Signed on behalf of the Trustee of the Electricity North West Group of the ESPS

Signature:		Name:	
Position:	Trustee Director	Date:	31 March 2023
		Name:	
Signature:			
Position:	Trustee Director	Date:	31 March 2023

Signatures (continued)

This statement has been agreed by the Employers
Signed on behalf of Electricity North West Limited

Signature:		Name:	
Position:		Date:	31 March 2023

Appendix A:
Method and financial assumptions for determining the technical provisions and employer contributions

Method	The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method with a three year Control Period. Risk benefits are funded based on the accrued proportion of total benefits, where the proportion is calculated as actual service/service to exit. The future service rate includes the remaining cost of those benefits
Financial assumptions for technical provisions - approach	The approach to be used in determining each of the financial assumptions for calculating the technical provisions is set out below. All rates will be rounded to 2 decimal places.
RPI inflation	The assumption uses the RPI yield curve derived from the gilt market at the valuation date. An adjustment to this rate may be made for a particular valuation where the Trustee and Principal Employer agree it is appropriate taking into account market conditions.
CPI inflation	The assumption is derived at the valuation date by deducting 1.0% p.a. from the RPI inflation assumption pre-2030 and 0.1% p.a. post-2030. The difference between the assumption for RPI and CPI inflation may vary over time to reflect changing views of structural differences between the calculation of RPI and CPI inflation at the date subsequent calculations are carried out.
CPIH inflation	The assumption is derived at the valuation date by adding 0.1% p.a. to the CPI inflation assumption. The difference between the assumption for CPI and CPIH inflation may vary over time to reflect changing views at the date subsequent calculations are carried out.
Discount rate	**Pre-retirement**: The fixed interest gilt yield curve at the valuation date plus 2.4% p.a. for pre-1 April 2022 service. RPI inflation plus 1.5% p.a. for post 31 March 2022 service. **Post-retirement:** Members not covered by the buy-in: The fixed interest gilt yield curve at the valuation date plus 0.5% p.a. Members covered by the buy-in: The fixed interest gilt yield curve at the valuation date plus 0.36% p.a. The discount rates will be kept under review at future valuations, in particular in light of the Group's investment strategy and if market conditions around a valuation date are exceptional.

Pay increases

Each member's Salary or Pensionable Earnings is assumed to increase in line with RPI inflation for 2022 and 2023 and then CPIH inflation from 2024 onwards.

This together with the allowance for promotional increases (excluding Post 2010 members) in the table in Appendix B.

Increases in pensions in payment

Derived where relevant from the price inflation assumption allowing for the maximum and minimum annual increases, and for inflation to vary from year to year, as follows:

Fixed 0%: No increases

Pre-88 GMP: No increases

Post-88 GMP: CPI inflation, up to 3% p.a. with minimum of zero

Fixed 3%: 3% p.a. increases

RPI-based pension increases: RPI inflation with minimum of zero

Revaluation of deferred benefits

The pension increase assumption.

This applies to the full benefit for ESPS members and the excess over GMP for UUPS members.

GMP section 148 revaluation

The assumed rate of CPI inflation plus 0.9% p.a.

Financial assumptions for technical provisions summary

The table below shows the full gilt yield curve forward rates (that apply from time t-1 to time t) for durations up to year 50 used to derive the assumptions for calculating the technical provisions and the employer contributions for the valuation as at 31 March 2022 determined using the approach outlined above.

Term (years)	Gilt yield curve (% p.a.)	RPI inflation (% p.a.)	CPI inflation (% p.a.)	RPI pension increases (% p.a.)	Increases on post-88 GMPs in payment (% p.a.)
1	1.27%	7.82%	6.82%	7.82%	3.00%
2	1.48%	6.22%	5.22%	6.22%	3.00%
3	1.61%	4.51%	3.51%	4.51%	2.85%
4	1.21%	3.67%	2.67%	3.67%	2.41%
5	1.64%	4.01%	3.01%	4.01%	2.58%
6	1.48%	3.95%	2.95%	3.95%	2.50%
7	1.94%	3.99%	2.99%	3.99%	2.48%
8	1.51%	3.77%	2.84%	3.77%	2.35%
9	1.97%	4.01%	3.91%	4.02%	2.66%
10	2.47%	4.15%	4.05%	4.15%	2.75%
11	2.31%	4.09%	3.99%	4.09%	2.71%
12	2.45%	4.08%	3.98%	4.09%	2.69%
13	2.25%	4.00%	3.90%	4.00%	2.65%
14	2.15%	4.11%	4.01%	4.12%	2.67%
15	2.07%	4.02%	3.92%	4.02%	2.63%
16	1.81%	3.59%	3.49%	3.60%	2.48%
17	2.05%	3.48%	3.38%	3.50%	2.43%
18	1.80%	3.29%	3.19%	3.32%	2.34%
19	1.97%	3.63%	3.53%	3.64%	2.47%

20	1.89%	3.56%	3.46%	3.58%	2.44%
21	1.98%	3.17%	3.07%	3.20%	2.26%
22	1.65%	2.95%	2.85%	2.99%	2.15%
23	1.73%	3.10%	3.00%	3.14%	2.22%
24	1.58%	3.19%	3.09%	3.23%	2.26%
25	2.01%	2.91%	2.81%	2.96%	2.11%
26	1.00%	2.98%	2.88%	3.02%	2.14%
27	1.58%	3.35%	3.25%	3.38%	2.32%
28	1.61%	3.39%	3.29%	3.42%	2.33%
29	1.00%	2.66%	2.56%	2.74%	1.97%
30	1.70%	3.01%	2.91%	3.05%	2.14%
31	1.27%	2.61%	2.51%	2.69%	1.93%
32	1.33%	2.24%	2.14%	2.36%	1.73%
33	0.95%	2.23%	2.13%	2.36%	1.73%
34	0.84%	2.57%	2.47%	2.66%	1.90%
35	1.64%	3.25%	3.15%	3.29%	2.25%
36	0.78%	3.14%	3.04%	3.19%	2.19%
37	0.40%	2.73%	2.63%	2.81%	1.98%
38	0.74%	2.62%	2.52%	2.70%	1.92%
39	2.19%	2.62%	2.52%	2.71%	1.92%
40	1.67%	2.62%	2.52%	2.71%	1.92%
41	1.00%	2.94%	2.84%	3.00%	2.08%
42	1.01%	3.10%	3.00%	3.15%	2.16%
43	1.00%	3.11%	3.01%	3.15%	2.17%
44	1.30%	3.40%	3.30%	3.43%	2.30%
45	1.44%	4.12%	4.02%	4.13%	2.60%
46	1.44%	4.42%	4.32%	4.42%	2.69%
47	1.14%	3.78%	3.68%	3.80%	2.47%
48	1.00%	3.46%	3.36%	3.49%	2.33%
49	1.00%	3.46%	3.36%	3.48%	2.33%
50	0.76%	3.46%	3.36%	3.48%	2.33%

The above inflation linked curves include an adjustment to allow for a RPI/CPI reference date of September used for the majority of pension increases.

Additional assumptions for employer contributions

In determining employer contributions the same assumptions will be used as those for calculating the technical provisions together with the additional financial assumptions described below.

Expected return on assets

If there is a funding shortfall, allowance may be made for some of the expected outperformance of the Group's assets compared to the discount rate. The expected return on assets will be derived from the expected future Group investment strategy over the relevant period, together with assumed future returns from the asset classes, based on the advice of the Group actuary and the Group's investment adviser, and subject to the agreement of the Trustee and the Principal Employer. The assumption for the expected return on assets (excluding the pensioner buy-in policy) for the valuation as at 31 March 2022 is 0.35% p.a. above the discount rate for members not covered by the pensioner buy-in policy.

Expenses

An amount for the year ending 31 March 2023 of £200,000 per quarter was added to the contributions paid towards benefit accrual.

The technical provisions also include a reserve of £13.0M for future administration expenses of the Group. The amount of the reserve will be considered at least triennially at each actuarial valuation as advised by the actuary and agreed by the Trustee and Principal Employer.

The Employers will in addition reimburse the Group in respect of the PPF and other levies collected by the Pensions Regulator.

Appendix B: Demographic Assumptions

Post-retirement mortality	Base mortality table appropriate for each member's year of birth: ▪ Non pensioners: 109% men/107% women of standard S3PXA_M tables ▪ Pensioners: 99% men/97% women of standard S3PXA_M tables With allowance for improvements in mortality from 2013 in line with the CMI 2021 model with initial addition to mortality improvements (A) of 0.5%, period smoothing (Sk) of 7.0 and a long-term improvement rate of 1.75% p.a. Sample life expectancies are shown below.
Pre-retirement mortality	Males: Standard table AMC00 Ultimate, with an 85% scaling. Females: Standard table AFC00 Ultimate, with an 85% scaling. Sample rates are shown below.
Retirements	**ESPS members:** Contributing members are assumed to retire at the Normal Pension Age applicable. Deferred pensioners are assumed to retire at the Normal Pension Age applicable at the date of leaving service or, if left service under severance arrangements, the age at which unreduced benefits may be taken. **UUPS DB members:** WPS members are assumed to retire at age 60 and MIS members are assumed to retire at age 61. Otherwise active members are assumed to retire at age 63 and deferred members are assumed to retire at age 65.
Ill-health retirements	Allowance made for ill-health retirements (see sample rates below).
Withdrawals	Allowance made for withdrawal (see sample rates below).
Promotional pay increases	Allowance made for promotional pay increases, except for Post 2010 members (see sample scale below).
Family Details	**Non-pensioners** Male members are assumed to be three years older than their eligible dependants. Female members are assumed to be three years younger than their eligible dependants. 85% are assumed to have an eligible dependant at retirement or earlier death. **Pensioners** Male members are assumed to be three years older than their eligible dependants. Female members are assumed to be the same age as their eligible dependants. 88% for men / 70% for women are assumed to have an eligible dependant up to age 60, with a scale then decreasing by age based on mortality assumptions.

Commutation

Members are assumed to take 20% of their total benefit value as cash (inclusive of the accrued cash lump sum for ESPS members). A long term factor of 20 at age 60 is assumed with consistent factors at other ages.

"Rule 29" costs

Allowance made for each active member's service to be rounded up by 0.9 years less the members' share of the cost.

GMP equalisation

0.5% loading to past service liabilities in respect of members whose benefits have not already been equalised.

PIE at retirement

30% of members with pre 1997 benefits take the PIE option based on terms consistent with those offered for the 2021 bulk pensioner PIE exercise.

Sample rates

The tables below illustrate the allowances made for withdrawal, deaths before retirement and retirements from service at various ages. Also, shown is the allowance included for promotional pay increases, based on a scale starting with 100 at age 16.

Men

	Percentage leaving the Group in the next year as a result of			Promotional pay scale
Current age	Withdrawal from service	Death before retirement	Ill health retirement	
25	5.34	0.04	0.03	137
30	4.44	0.05	0.04	156
35	3.40	0.05	0.08	169
40	2.40	0.07	0.14	178
45	1.40	0.10	0.23	184
50	0.58	0.17	0.44	188
55	0.00	0.29	1.01	188

Women

	Percentage leaving the Group in the next year as a result of			Promotional pay scale
Current age	Withdrawal from service	Death before retirement	Ill health retirement	
25	17.06	0.02	0.00	137
30	14.24	0.03	0.03	156
35	10.08	0.03	0.09	169
40	6.37	0.05	0.18	178
45	3.39	0.08	0.36	184
50	1.23	0.13	0.52	188
55	0.00	0.22	1.24	188

Sample life expectancies

The assumed life expectancies (based on the assumptions for non-pensioners) are illustrated in the table below:

Current age	Male life expectancy on reaching age 60	Female life expectancy on reaching age 60
60	26.1	29.0
40	28.4	31.2

Appendix C:
Further information to meet requirement of Scheme Funding Regulations

Policy on reduction of cash equivalent transfer values	The Trustee will ask the scheme actuary to advise at each valuation of the extent to which assets are sufficient to provide cash equivalent transfer values (CETVs) for all non-pensioners without adversely affecting the security of the benefits of other members and beneficiaries. Where coverage is less than 100%, the Trustee will take advice from the scheme actuary regarding whether to reduce CETVs and, if appropriate, the extent of such reduction. If at any other time, after obtaining advice from the scheme actuary, the Trustee is of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustee will commission a report from the scheme actuary regarding whether and, if appropriate, the extent to which CETVs should be reduced.
Payments to the Employers	Payments can only be made to the Employers if the Group winds up, and members' benefits have already been secured.
Contributions to the Group	There are no arrangements currently in place for persons other than the Employers or members of the Group to contribute to the Group.