RP5 Final Determination Appendix J

Pensions Methodology

Pension deficit calculation

Method to calculate RP5 amounts in para 5.3 of Annex 2 of the licence
1. Assume the RP4 extension amount is fixed; subsequent payments are then indexed to RPI thereafter.
2. Nominal pre-retirement discount rate used to year 1 of RP5, then real thereafter. Discount rate may change dependant on results of subsequent formal valuations.
3. Adjust deficit contributions for each period to 2009/10 prices

Financial assumptions	
Pre-retirement discount rate (nominal)	5.35%
Assumed inflation	3.20%
Pre-retirement discount rate (real)	2.08%

Deficit recovery period	Years
RP4 Extension	0.75
RP5	4.75
RP6	5
RP7	4.5
Total	**15**

Deficit amount	£m
NIEPS total	156.4
Fraction applied to NIE T&D (to include NIE Powerteam Ltd)	99.26%
Total	**155.2**

Deficit amounts per price control period	£m
RP5	58.4
RP6	61.5
RP7	55.3

Deficit amounts per year (adjusted as required and subject to future adjustment as per updated formal actuarial valuations)	£m
RP5 Year 1 (9 months)	9.2
RP5 Year 2	12.3
RP5 Year 3	12.3
RP5 Year 4	12.3
RP5 Year 5	12.3

Pension adjustment calculation

Method to calculate RP5 amounts in para 6.2 of Annex 2 of the licence
1. Calculate the amount of deficit attributable to ERDCs using results of formal actuarial valuation reports for NIEPS
2. Apply regulated fraction and ensure that 30% adjustment is applied in line with agreed methodology at RP4
3. Adjust amounts using investment returns to 31 March 2012
4. Apply relevant pre-retirement discount rate
3. Adjust deficit contributions for each period to 2009/10 prices

Financial assumptions	
Pre-retirement discount rate (nominal)	5.35%
Assumed inflation	3.20%
Pre-retirement discount rate (real)	2.08%

Deficit recovery period	Years
RP5	4.75
RP6	5
RP7	5

Deficit amounts per price control period	£m
RP5	14.7
RP6	15.5
RP7	13.2