

An introduction to SECTION C



Introduction

Now that you know you're going to be in Section C of the Scheme, you may be wondering what this means. We want you to be confident that we have carried out the sectionalisation of the Scheme in a fair and consistent way to all members, and that your pension benefits remain just as

**SAFE,
SECURE AND
WELL SUPPORTED.**

There is a list of Questions and Answers on pages 6-7, but if you have any other questions about the process you can go to the Scheme website www.nationalgridpensions.com/542/scheme-changes, or get in touch if you can't find what you're looking for.



**Managed by the same,
experienced Trustee Board
Administered by UK Pensions Operations**

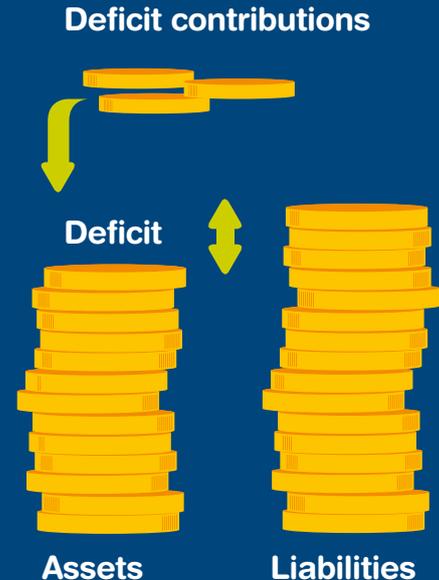
Valuing the Scheme

The National Grid UK Pension Scheme is one of the largest company pension schemes in the UK, with assets of around £19 billion. Sharing the assets out fairly between the three sections has been an important consideration.

Equally important to consider are the Scheme's 'liabilities' – how much the Scheme needs to pay all of the pensions that have been promised to members, over the next 50, 60 or even 70 years.

Working out the liabilities is a complex task, which requires us to make assumptions about what will happen in the future.

As you may know from the annual summary funding statement we send you, if the liabilities are greater than the assets, there is a deficit in the Scheme – a gap in funding which, ultimately, is up to the sponsoring employer to fill. So, the Trustees and National Grid have agreed principles about how any deficits that emerge will be funded by the sponsoring employer/s of each section.



Section C: funding and security

On 1 October 2016, the Gas Distribution business, including the regulated asset base of £8.7 billion as at 31 March 2016, was moved to a new company, National Grid Gas Distribution Ltd (NGGD). National Grid intends to sell 51% of this company. NGGD will be the lead employer in Section C.

Section C's funding and security package takes account of the fact that the lead employer in this section benefits from an Ofgem licence and owns the regulated assets of the Gas Distribution business.

Ofgem allows the business to recover a majority of pension costs and has recently reaffirmed its commitment to continue to allow recovery of regulated deficit costs. The Ofgem licence also places strong protections on the financial assets of the Gas Distribution business and provides clear financial incentives for each licensed business not to take on excessive debt; this safeguards the assets which underwrite the liabilities of this section.

In addition, it has been agreed with the Trustees that should the Gas Distribution business's debt levels go above certain thresholds, this will trigger additional support for this section.

It has also been agreed that following sectionalisation NGGD cannot provide security such as mortgages, pledges and charges to new creditors without Trustee consent.

Additional security will be provided to the section on sectionalisation as part of the agreed funding and security plan.



Allocating members to sections

The method we have used to allocate members to the different sections has been independently reviewed and assessed as being robust and fair.

- ▶ All contributing members have been allocated to a section based on where they work in the business:
 - Anyone working in the new Gas Distribution business has been allocated to Section C.
 - Anyone staying with the retained business has been allocated to Section A or Section B, depending on where they work in the business.
- ▶ Where data held as at September 2015 shows that a member last worked for a part of the business that directly relates to a particular section, the member has been allocated to that section. However, a majority of pensioners and deferred members worked for parts of the Gas business or parts of National Grid that cannot be directly related to a section. Where this is the case, members have been allocated across the sections using an independently verified, impartial method.



Want to know more?

We've created a video explaining how we've allocated members across the three sections:

www.nationalgridpensions.com/542/scheme-changes

If you do not have internet access, please call us on 08457 585 247 to request a summary of the video.



Questions & Answers

What changes are being made to the Scheme?

The Trustees have accepted National Grid's proposal to create three independent sections within the Scheme. Each section will be ring-fenced from the others, with completely separate assets and liabilities. This provides all our members with continued security following the planned sale of the majority stake in Gas Distribution, by providing a clear set of assets, financial support and security arrangements for each section.

Why is this happening?

The new structure was proposed by National Grid because it felt that this was the best way to combine protection for members' benefits with a clear allocation of pension responsibilities between different parts of the business, which is important given the planned sale of a majority stake in the Gas Distribution business. The Trustees carefully considered the proposal, taking professional advice, before deciding to agree to it. The Trustees and National Grid have worked together to ensure that each of the three sections of the Scheme will have a source of committed financial support, with access to additional security such as cash and assets to safeguard the future of the Scheme and its sections. The Scheme will continue to be managed by the experienced Trustee Board.

How do I know that my section is secure?

The funding and security plans have been negotiated for each section so that the pension scheme remains just as safe, secure and well supported. The Trustees agreed to this process only after detailed professional advice concluded that each section would be no less secure.

Will the funding of Section C change following the sale of the Gas Distribution business?

The Trustees and National Grid have agreed funding and security plans for each section. The funding and security plan for Section C includes annual payments from NGGD in line with the plan agreed following the 2013 Scheme Valuation and additional security will be provided to this section on sectionalisation. In addition, should the Gas Distribution business exceed agreed debt levels above triggers, additional support will be required for the section. It has also been agreed that NGGD cannot provide security such as mortgages, pledges and charges to new creditors without Trustee consent.

Please be reassured that your pension remains just as safe, secure and well supported.

How has the deficit been shared across the three sections?

The proportions of the allocations between the three sections, including assets and liabilities and therefore the deficit, will be calculated in accordance with the regulated proportions as agreed with Ofgem. As at September 2015, the proportion relating to the Gas Distribution business has been deemed to be approximately 36% of the Scheme. This 36% has been allocated to Section C.

Can I change the section to which I have been allocated?

No, this will not be possible as we have to maintain the impartiality of the methodology. Members have been allocated to a section using an agreed, robust methodology which has been independently verified. Contributing members have been allocated based on where they work in the business. The Trustees have worked with National Grid to allocate as many deferred members and pensioners as possible into the section that relates to the part of the business for which they last worked (based on information available as at September 2015). Where allocation based on last employment has not been possible (which is the case for the majority of deferred members and pensioners) an impartial allocation methodology has been used, to ensure fairness for all.

What does ‘regulated asset base’ mean?

The regulated asset base is the amount that the Regulator (Ofgem) determines to be the base value of the business. The regulated asset base of National Grid Gas Distribution Ltd (NGGD) was £8.7 billion as at 31 March 2016. This is the asset value that supports the business and ultimately provides support to Section C.

Which company backs Section C?

The company backing Section C is National Grid Gas Distribution Ltd (NGGD). This is a new company which was created on 1 October 2016 and is wholly owned by National Grid. National Grid intends to sell a 51% stake in this company.

Will I see any difference in the communications that I receive?

Your benefits will continue to be administered by UK Pensions Operations and you will receive the same communications from the Scheme as before, although in most cases these will refer to your section specifically.

When is the next valuation of this section?

A funding valuation of each of the three sections is scheduled for 31 March 2017.

More information

Website: www.nationalgridpensions.com/542/scheme-changes

We'll update the Scheme website regularly, so make that your first port of call if you have any questions. We've also produced some useful videos, available on the website, to explain the processes we have used and the funding of the sections.

However, if you can't find the information you're looking for on the website or in this booklet, please get in touch.

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