

NORTHUMBRIAN WATER PENSION TRUSTEES LIMITED

Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ

Northumbrian Water Pension Scheme

Increases on pensionable service before 1 January 2008 in the WPS Section

Introduction

I am writing to you on behalf of the Trustee of the Northumbrian Water Pension Scheme (the "**Scheme**") with some news about the Scheme.

This is the second communication from the Trustee, following our initial communication in July 2024 (copy attached) which provided some information as to why Court proceedings (the "**Proceedings**") were being prepared. By way of reminder, the Proceedings have been proposed to ask the Court how to interpret the Scheme's Rules dealing with pension increases (and revaluation of benefits for deferred members through a linked provision) and how they should be applied to pension benefits *earned before* 1 January 2008 under the WPS Section of the Scheme (the "**Pension Increases**"), as the position is not clear.

This communication provides you with more information about the Proceedings only. **You do not need to do anything in response.**

The Proceedings

Questions for the Court

Northumbrian Water Limited ("**NWL**") will formally begin the Proceedings shortly by submitting a number of questions to Court in a claim form.

Those questions will ask what happens to pension increases when inflation (measured by the Retail Prices Index ("**RPI**")) rises above 5% p.a., how the Scheme's Rules operate, and in what circumstances pension benefits earned before 1 January 2008 in the WPS section would be increased by more than the guaranteed rate of RPI up to 5% p.a. otherwise set out in the Rules.

In brief, what the relevant Scheme Rule says is that, where RPI is above 5% p.a. in a calendar year (1 January to 31 December), then in April the next year, the Trustee shall increase pensions in payment and deferred pensions by (in addition to the guaranteed 5% increases) the excess over 5% "*provided that after consulting the Scheme actuary the Trustee considers this can be done without an increase in the employer's ordinary annual contributions*". Where the Trustee does not consider that this "*proviso is satisfied*", the Trustee shall instead increase pensions in payment and deferred pensions by such part of the excess over 5% as it "*considers prudent having regard to the Scheme actuary's advice*". Where the amount paid is less than RPI (though it must always be at least the guaranteed rate) the Rules also provide a process for the Trustee to increase those benefits by so much of the shortfall as they consider "*appropriate*" in later years, again having considered the advice of the Scheme actuary.

The issue has arisen following RPI exceeding 5% in the calendar year preceding April 2022, April 2023 and April 2024.

The Court process

In the Proceedings, NWL will present its understanding to the Court on how the rules governing the Pension Increases should be interpreted.

It is necessary for the interests of all beneficiaries who may be affected by the issues in the Proceedings ("**Affected Members**") to be independently represented and have an opportunity to respond to NWL's position. In order to do so, it is normal practice for a person from within the relevant beneficiary group to be formally appointed as the "Representative Beneficiary".

John McGovern is an Affected Member and having been approached in relation to the role, he has agreed to be appointed as the Representative Beneficiary. The Court will be asked to formally appoint Mr McGovern as the Representative Beneficiary during the Proceedings.

Mr McGovern will receive independent legal advice on behalf of the Affected Members as a whole from specialist legal advisors. Osborne Clarke LLP (a law firm) and Fenner Moeran KC, a specialist pensions barrister (a King's Counsel), have been appointed to act as Mr McGovern's legal advisors. Both Osborne Clarke and Mr Moeran KC have expertise in this type of court proceedings. It is the role of these legal advisers to properly represent the best interests of all the Affected Members and to analyse, scrutinise and (as appropriate) challenge NWL's case.

As all Affected Members will have their interest represented through the arguments advanced by the Representative Beneficiary, there is no need for other Affected Members to be involved in the court proceedings.

The Trustee will also be involved in the Proceedings to assist the Court, to provide information and to make sure that the Company and the Representative Beneficiary have been able to consider all of the relevant documentation available to the Trustee. The Trustee will be represented in Court by its own legal advisors (Sacker & Partners LLP) and its own specialist pensions King's Counsel. But the Trustee will maintain a neutral role in the Proceedings and will not therefore be "taking sides". The Trustee is primarily concerned to see that the Court has what it needs to be able to make a proper and fair ruling.

Once the Court has considered the parties' submissions, the Court will then rule on the correct position so that the Trustee can be sure that it is administering the Scheme correctly.

NWL is meeting the entire costs of the Proceedings.

Timetable and future communications

It is expected that, once the Proceedings begin, it may take up to 12 months for the application to be heard by the Court, but it could take longer.

Following the hearing, the Court will issue a decision. Once the Trustee has had an opportunity to consider the decision and what it means in practice for the administration of Scheme benefits, a further communication to all Affected Members will be issued.

'Pension Increases Exchange' offer

You may have seen that NWL has initiated a pension increases exchange opportunity for other pensioners in the Scheme. Please note that that opportunity has not been extended to Affected Members as the questions referred to in the Proceedings need to be resolved.

When we write to update you following the conclusion of the Proceedings, we will also update you on the status of any pension increases exchange opportunity.

Questions?

The Trustee is not able to answer questions related to any Affected Member's individual circumstances until the Proceedings have been concluded. But should you have any questions or comments regarding the Proceedings or the Pension Increases more generally, you may contact either:

- The Representative Beneficiary's legal advisers by emailing Katie.Tradelius@osborneclarke.com and Katherine.King@osborneclarke.com or by writing to: FAO: Katie Tradelius, Osborne Clarke, Halo, Counterslip, Bristol, BS1 6AJ. Please note however that Osborne Clarke LLP cannot give any advice on your personal circumstances; or
- The Trustee's legal advisers by emailing nwps.claims@sackers.com or by writing to Peter Murphy, Sacker & Partners LLP, 20 Gresham Street, London, EC2V 7JE.

Yours sincerely

Duncan Willsher

Duncan Willsher
Chair

Northumbrian Water Pension Scheme