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Ofgem

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Call For Input – Pension scheme arrangements for National Grid employees transferring to the Future System Operator (Published 14 February 2024)

Dear Mick

We welcome the opportunity to respond to this Call for Input (CFI) and the objective and structured approach taken in the published document.

National Grid Group's operations in the UK include: National Grid Electricity Transmission (NGET), which owns the high voltage transmission system in England and Wales; National Grid Electricity Distribution (NGED), which owns and operates electricity distribution networks in the Midlands, the South West and Wales; National Grid Ventures (NGV), which owns and operates energy businesses in competitive markets, including sub-sea electricity interconnectors; and National Grid Electricity System Operator (NGESO), a legally separate business within National Grid Group which balances the supply and demand of electricity in real time across Great Britain.

This consultation response represents the views of National Grid as seller of NGESO and of NGET as the business whose electricity transmission licence will potentially be modified as a result of the proposals set out in the CFI.

As you are aware, while it was not National Grid's intention to sell NGESO, we have committed to working constructively and collaboratively to assist in delivering DESNZ's and Ofgem's goals for the process and to ensuring a successful and effective transaction to establish the National Energy System Operator (NESO).

NGET is currently the sponsoring employer of a defined benefit pension scheme, the National Grid Electricity Group of the Electricity Supply Pension Scheme ("NGEG"). NGESO is a participating employer of NGEG and is responsible for its active members of NGEG and for a defined share of the NGEG Deferred and Pensioner members. In common with certain other NGESO costs, these Deferred and Pensioner member pension costs are currently recovered as a pass-through cost through NGESO's price control set out in its electricity transmission licence.

DESNZ has determined that NGESO's current active members of the NGEG who transfer to the NESO will transfer to a new Defined Benefit Pension scheme, but that NGESO's share of NGEG Deferred and Pensioner members will remain in the NGEG scheme rather than transferring to the new NESO scheme. We agree that setting up a new scheme for the transferring active members is the appropriate way forward. Our response deals with the regulatory treatment of costs associated with non-transferring NGEG Deferred and Pensioner members. As the costs for these remaining members are currently recovered as a pass-through cost under the NGESO price control this pass-through cost recovery mechanism will need to be replicated within NGET's licence going forward to ensure that (as now) costs and risks are allocated and managed appropriately.

We have discussed options with Ofgem which would ensure that NGET's costs and risks associated with these Deferred and Pensioner members would not be affected by the proposed pension arrangement changes. In our view, the simplest and most equitable approach is to create a new pass-through cost recovery term in the NGET electricity transmission licence. We believe that this approach will maintain the same pass-through

approach for these costs as is currently provided in the NGENO Licence and will ensure that NGET and its customers are maintained in the same risk position as they are today.

If you have any questions on this response, please contact richard.allman@nationalgrid.com

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Chris Bennett', with a long horizontal flourish extending to the right.

Chris Bennett
UK Policy & Regulation Director & Programme Director FSO