

Ian Rowson
RIIO Finance
Ofgem
9 Millbank
London
SW1P 3GE

Robert Latham
Pensions Manager – NGE Group
Group Administrator

robert.latham@nationalgrid.com

Direct tel.: +44 (0)1926 653484

25 April 2016

Dear Mr Rowson

Re: Response to Second Consultation on Ofgem's policy for funding Network Operators' Pension Scheme Established Deficits

I am writing to you on behalf of the Group Trustee of the National Grid Electricity Group of the ESPS. We made a full response to the First Consultation in July last year and do not propose to repeat our comments on this occasion. There will also be submissions from National Grid and the Trustee of the National Grid UK Pension Scheme which covers employees of the gas business.

We are pleased to note that Ofgem has reaffirmed its commitment for consumers to fund the established deficits. We also believe that Ofgem's willingness to allow the NWOs to justify the appropriateness of a course of action from the consumer's perspective could assist the valuation negotiations.

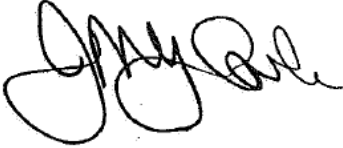
However, our biggest concern remains the emphasis which Ofgem places on the strength of the covenant. As Trustees we have to have regard to the "tail risks" which could have a high financial impact on the Group. Deterioration of the sponsor's covenant is key amongst these. It is this risk which is the fundamental reason for accumulating assets separate from the employer to meet the promised benefits. History has shown how quickly the covenant of strong companies can disappear. In the case of NWOs the political climate can change rapidly and other, as yet unknown threats, could act to erode the covenant. We agree that the covenant of our sponsor is currently very strong. However, our view of the pension scheme extends over many decades; certainly longer than a RIIO price control period and longer than the tenure in office of particular governments or heads of regulatory agencies. Against that background we therefore do not accept that the strength of the covenant justifies the prolonged deferment of the payment of the debt owed to our members by consumers.

Trustees have duties under trust law and legislation. Our ultimate duty as trustees is to ensure that members' benefits are paid in full. Consistent with that ultimate duty is our fiduciary duty to act in the best financial interests of members. From the consultation, Ofgem make it clear that they expect NWOs to protect the consumer interest in their dealings with pension scheme trustees in various ways including through pension scheme funding, liability management exercises, the approach to de-risking and avoidance of surpluses. To be clear, the Group Trustee does not accept that it has any direct responsibility to protect the interests of consumers, and we are not aware of any current guidance from tPR which would require us to do so.

If you would like to discuss our comments further then please contact Robert Latham whose details are given above.

I can also confirm that we do not require our response to be kept confidential.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jon Carlton', written in a cursive style.

Jon Carlton
Chairman
National Grid Electricity Group Trustee Limited