
Call for Input – Pension scheme arrangements for National Grid employees transferring to the Future System Operator (National Energy System Operator or NESO)

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Response deadline: 28 February 2024

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1. Introduction

- 1.1 In our joint decision with Department for Energy Security and Net Zero (“DESNZ”) on the National Energy System Operator (“NESO”), formerly the Future System Operator (“FSO”),¹ in April 2022² we confirmed that the NESO will be an operationally independent public corporation, which is owned by government. This is different from the existing ownership model for the Electricity System Operator, or ESO, which is a private sector company owned by National Grid.
- 1.2 In December 2023 we published a consultation on the policy direction for the NESO’s regulatory framework which confirmed that the NESO will be licensed and regulated by Ofgem and funded by consumers through price control arrangements.³
- 1.3 The Energy Act 2023 provides for a transfer scheme to ensure that existing capabilities and functions of the ESO are transferred to the NESO. It also makes provision to facilitate transfer of pension schemes attached to these bodies, and the protection of certain rights and entitlements connected to these pensions.
- 1.4 Following DESNZ engagement with National Grid, Ofgem is considering a proposal to allocate the costs of the pension scheme between National Grid and the NESO in a way that would preserve neutrality for consumers and National Grid.

¹ [ESO announces the name of the forthcoming Future System Operator | ESO](#)

² [Future System Operator: Government and Ofgem's response to consultation](#)

³ [Consultation on the policy direction for the FSO’s regulatory framework](#)

2. Pensions

- 2.1 National Grid is currently the sponsoring employer of a defined benefit pension scheme, the National Grid Electricity Group of the Electricity Supply Pension Scheme ("NGEG"). In establishing the NESO, the ownership of the ESO will transfer from National Grid to His Majesty's Government ("HMG"). This will necessitate a formal separation of the pension liabilities.
- 2.2 DESNZ has considered options regarding the treatment and future funding of pension liabilities with the transfer of the ESO from National Grid to HMG. DESNZ has indicated that there should be the creation and establishing of a new pension scheme for employees who are active members of NGEG and who transfer to the NESO; and that deferred and pensioner members who previously worked in the ESO (but are not transferring over to the employ of the NESO) will remain members of NGEG.
- 2.3 This means that while the costs and risks associated with the deferred and pensioner members who previously worked in the ESO are currently funded as a pass-through cost through the ESO price control, those same costs and risks will not be funded through the NESO price control after separation date.
- 2.4 National Grid has therefore raised the need for changes to the Electricity Transmission Licence of National Grid Electricity Transmission plc ("NGET") designed to avoid exposing NGET to the costs and risks associated with the deferred and pensioner members of the ESO who will remain within the NGEG after separation date.
- 2.5 If adopted, this would result in Ofgem proposing licence modifications to NGET's Electricity Transmission Licence which would create a mechanism to allow cost recovery as an ET pass-through item in the RIIO-ET2 Price Control.
- 2.6 Ofgem is considering this proposal from National Grid. Ofgem intends that any approach should adhere to two general principles:
- That consumers should be held neutral in funding pension costs under the new arrangements, relative to the current policy for the ESO; and
 - That any solution be linked to Ofgem's current pension policy⁴ and Pension Principles, and in particular, the principles regarding stewardship.⁵

⁴ <https://www.ofgem.gov.uk/publications/decision-of-gems-policy-funding-pension-scheme-established-deficits>

⁵ [Price Control Treatment of Network Operator Pension Costs Under Regulatory Principles](#)

- 2.7 We welcome views on the nature of the proposal by National Grid, the approach to implement any proposal on pensions for the NESO and the general principles we have outlined.

3. Next Steps

- 3.1 We are keen to engage with a wide variety of stakeholders and interested parties during this process and to draw on their experience and expertise. This includes network companies, pension scheme members, investors, rating agencies, end-consumers, suppliers, generators, system operators, government, regulators, representatives of relevant organisations and other bodies.
- 3.2 We would welcome written comments on the proposed changes outlined above, or any other issues you believe we should address in the review, by 28 February 2024. Please email responses to RegFinance@ofgem.gov.uk. Unless clearly marked as confidential, we will publish responses on our website shortly after the response deadline.
- 3.3 Subject to consideration of the responses we receive, we intend to conduct a formal Licence statutory consultation on proposed modifications to the NGET Licence.

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