



Making a positive difference
for energy consumers

National Grid plc and interested parties

Direct Dial: 020 7901 1858
Email: RegFinance@ofgem.gov.uk

Date: 15 May 2024

Dear Colleague,

Decision on Modification of National Grid Electricity Transmission Plc's Electricity Transmission Licence (the "Licence")

We published our proposed modifications to Special Condition 6.1 and associated definitions in Chapter 1 Special Condition 1.1 of the Licence on 27 March 2024.¹

Background

The planned acquisition of the Electricity System Operator ("ESO"), from National Grid plc by His Majesty's Government ("HMG"), and the creation of the National Energy System Operator ("NESO")², under public ownership as a result of the Energy Act 2023, will require changes to pension arrangements. These have been agreed in broad outline between National Grid and HMG. Our decision implements the modifications to the Licence to effect these changes.

In making these changes, our intention is that consumers will not face an increase in total costs as a result. These modifications are intended to ensure that total pension costs are split between National Grid Electricity Transmission ("NGET") and the NESO, by allowing a pass through of those pension costs which will apply to NESO employees as well as certain active and deferred members of the pension scheme who were employees of the ESO but are not transferring to the NESO.

Our Response to the Consultation

We received one response to the consultation, from National Grid plc, and we have published this on our website. Following consideration of the response we have made changes from our proposed modifications to remove typographical errors, improve the clarity of the drafting and take account of any consequential amendments to the Licence in the establishment of NESO.³

¹ <https://www.ofgem.gov.uk/publications/statutory-consultation-pension-scheme-arrangements-national-grid-employees-transferring-future-system-operator>

² Formerly the Future System Operator ("FSO") and currently the National Grid Electricity System Operator ("NGESO") as defined under Section 1.1 Part B of the [National Grid Electricity Transmission Plc Electricity Transmission Licence Special Conditions](#)

³ [National Energy System Operator \(NESO\) licences and other impacted licences: statutory consultation | Ofgem](#)

Our Decision

Appendix 1 sets out our decision to modify Special Condition 1.1 and Special Condition 6.1 of the Licence to the text specified in Appendix 2. The modifications will take effect on and from 11 July 2024.

If you have any queries regarding the information contained within this letter, please contact John Bolitho on 020 7901 1858 or by email john.bolitho@ofgem.gov.uk

Yours faithfully

Mick Watson
Chief Financial Advisor
Deputy Director, Financial Resilience and Controls

To: National Grid Electricity Transmission plc

**Electricity Act 1989
Section 11A(1)(a)**

Modification of the Special Conditions of the Electricity Transmission Licence held by National Grid Electricity Transmission Plc

1. National Grid Electricity Transmission plc is the holder of an electricity transmission licence ('the Licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2) of the Act the Gas and Electricity Markets Authority ('the Authority')⁴ gave notice on 27 March 2024 ('the Notice') of its proposal to modify Special Condition 6.1, and associated definitions in Special Condition 1.1, of the Licence.
3. The Authority stated that any representations to the modification proposal must be made on or before 24 April 2024.
4. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the change should not be made.
5. The Authority received one representation with respect to the proposed modifications. The Authority has properly taken account of all representations.
6. We have provided our response to the representations received alongside this Notice and indicated where there are changes from our proposed modifications in Schedule 1. The reasons for the decision to make changes to the drafting are:
 - a. Remove typographical errors;
 - b. To take account of consequential amendments to the Licence in the establishment of the National Energy System Operator; and
 - c. improve the clarity of the text of the modifications.
7. The effect of the modifications decided upon by the Authority is to hold consumers neutral to changes by allowing National Grid Electricity Transmission to pass through costs relating to the pension arrangements for employees transferring to the future National Energy System Operator (as well as deferred and active pensioners of the Electricity System Operator) following the acquisition of the Electricity System Operator ("ESO"), from National Grid plc by His Majesty's Government, and the creation of the National Energy System Operator.
8. The modifications decided upon by the Authority are set out in Schedule 1.
9. The modifications will have effect from Thursday 11th July 2024.
10. This document is notice of the reasons for the decision to modify the Licence as required by section 49A(2) of the Act.

⁴ The terms "the Authority", "we" and "us" are used interchangeably in this document.

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Mick Watson
Chief Financial Adviser
Deputy Director, Financial Resilience & Controls
Duly authorised on behalf of the
Gas and Electricity Markets Authority

15th May 2024

Chapter 1: Interpretation and definitions

Special Condition 1.1 Interpretation and definitions

Part B: Definitions

<u>Incremental Deficit</u>	<u>has the meaning given in the Pensions RIGs</u>
<u>Pension Protection Fund</u>	<u>has the meaning given in the Pensions RIGs</u>
<u>Pensions Regulator</u>	<u>has the meaning given in the Pensions Act 2004</u>
<u>Pension RIGS</u>	<u>means the guidance document issued by the Authority titled 'Network Operators' Price Control Pension Costs - Regulatory Instructions and Guidance: Triennial Pension Reporting Pack supplement including pension deficit allocation methodology</u>
<u>Pre Cut-Off Date</u> <u>Regulatory Fraction</u>	<u>has the meaning given in the Pensions RIGs</u>
<u>NGESO Pension Transfer Costs</u>	<u>means pension scheme costs properly incurred by the licensee that otherwise would not be incurred in the transfer of assets and rights under Schedule 10 of the Energy Act 2023</u>

Chapter 6: Pass-through expenditure

Special Condition 6.1 Pass-through items (PT_t)

Introduction

- 6.1.1 The purpose of this condition is to calculate the term PT_t (the allowed pass-through term). This feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 6.1.2 The effect of this condition is to ensure that the licensee's Allowed Revenue reflects that certain costs can be passed through to Users.

Part A Formula for calculating the allowed pass-through term (PT_t)

- 6.1.3 The value of the PT_t term is derived in accordance with the following formula:

$$PT_t = RB_t + EDE_t + TPD_t + ESOP_t$$

where:

- RB_t means the amount levied on the licensee in respect of the Prescribed Rates or an amount directed under Part B;
- EDE_t means the payments in relation to the Pension Scheme Established Deficit repair expenditure for each Regulatory Year, as further explained and elaborated upon in the ET2 Price Control Financial Handbook; ~~and~~
- TPD_t means the temporary physical disconnection costs incurred by the licensee in relation to interruption payments made by the System Operator as part of its balancing services activity in the licensee's Transmission Area that are charged to the licensee in accordance with the provisions of the STC; ~~and~~
- $ESOP_t$ means the NGESO Pension Transfer Costs and is derived in accordance with Part C.

Part B Review of Prescribed Rates pass-through term (RB_t)

6.1.4 As part of any periodic revaluation, the licensee must:

- (a) engage with the Relevant Valuation Agency; and
- (b) use its reasonable endeavours to minimise the amount of the Prescribed Rates to which it is liable.

6.1.5 If, after reviewing the licensee's engagement with the Relevant Valuation Agency and any further information required from the licensee with respect to a particular revaluation, the Authority considers that the licensee has not complied with paragraph 6.1.4, the Authority will adjust the value of RB_t by direction.

Part C Formula for calculating $ESOP_t$

6.1.6 $ESOP_t$ is derived in accordance with the following formula:

$$\underline{ESOP_t = LSOIDE_t + LSOEDE_t + FSOE_t + FSOO_t}$$

where:

$LSOIDE_t$ is the payments made by the licensee in relation to the Incremental Deficit for each Regulatory Year in respect of legacy pensioner and deferred pension members attributed to NGESO;

$LSOEDE_t$ is the adjustment to offset any negative value incurred by the licensee for each Regulatory Year in relation to the Pension Scheme Established Deficit in respect of legacy pensioner and deferred pension members attributed to NGESO, including (for

avoidance of doubt) any stranded surplus clawback, as further explained and elaborated upon in the ET2 Price Control Financial Handbook;

$FSOE_t$ is the fair allocation of payments made by the licensee for external costs relating to the National Grid Electricity Group of the Electricity Supply Pension Scheme for each Regulatory Year as specified in paragraph 6.1.8 multiplied by the Pre Cut-Off Date Regulatory Fraction for NGENSO, excluding any costs recovered by the licensee via NGENSO as part of the transition cost recovery process; and

$FSOO_t$ has the value directed by the Authority and represents for each Regulatory Year other NGENSO Pension Transfer Costs, excluding any costs recovered by the licensee via NGENSO as part of the transition cost recovery process.

6.1.7 The Authority may review, and by direction adjust the value of, of the $LSOIDE_t$ term, the $LSOEDE$ term and/or the $FSOE_t$ term.

6.1.8 Costs properly incurred by the Licensee for the purposes of calculating $FSOE_t$ are:

- (a) scheme management and administration costs, including all explicitly charged investment fees and regulatory imposed costs such as Pension Protection Fund and related levies and other non-controllable costs of meeting regulatory requirements of the Pensions Regulator and all relevant statutory requirements;
- (b) reasonable pension liability management costs including the cost of early retirement, voluntary redundancy, flexible retirement options, transfer and pension increase exchange (PIE) exercises, and
- (c) such project costs reasonably incurred.

6.1.9 The licensee may submit evidence to the Authority of such other NGENSO Pension Transfer Costs that in their view should be included in the calculation of $FSOE_t$.