

Alan Craig
Finance and Network Assets
Queens House
14 Queen Street
Belfast
BT1 6ED

22 March 2024

Dear Mr Craig

**Northern Ireland Electricity Networks Ltd Transmission and Distribution 7th Price Control (RP7)
Draft Determination November 2023**

I am writing on behalf of the Trustees of the Northern Ireland Electricity Pension Scheme (“NIEPS” or “Scheme”) regarding the Utility Regulator's consultation on its RP7 proposals as they apply to pensions. The Trustees have had the opportunity to discuss the potential implications of the proposals for NIEPS with our advisors.

NIE Networks is the statutory employer for NIEPS. Its ability to support the Scheme via the payment of contributions, where these are required to be made in accordance with the Scheme's legal documentation as well as prevailing pensions legislation/regulation, is critical to the Trustees' view of the sponsor covenant. Given the maturity of the Scheme and recent changes to the pension scheme funding regulations introduced by the DWP in January this year, it is also critical to the Trustees' ability to ensure the Scheme is funded in line with regulatory expectations. Ultimately a materially adverse impact on NIE Networks' covenant strength and ability to support the Scheme will cause us, in protecting the pension rights of members, to take a more prudent view to managing the Scheme's pension risk. This in turn could lead to higher contributions as steps are taken to change the risk/return balance of our long term investment strategy.

Whilst we are supportive of most of the RP7 proposals in respect of pensions, we do not agree with the proposals in respect of the pensions monitoring framework. The proposed framework, as we understand it, would only trigger a re-opener between NIE Networks and the Utility Regulator in respect of pension allowances for RP7 if the Scheme's funding position falls below 75% at a future actuarial valuation. In our view, this framework is not appropriate for the reasons detailed below.

Firstly, this approach is at odds with Ofgem's current approach for energy utilities under its regulation, which allows for a triennial recalibration of pension allowances following each actuarial valuation. As Trustees, we cannot see the logic for a deviation away from Ofgem's approach in this area given your general intention for RP7 to aim for consistency with Ofgem's approach and noting that you already adopt Ofgem's approach for some pension aspects such as the RIGS/PDAM reporting.

Secondly, the new pension scheme funding regulations require pension scheme trustees and employers to agree a strategy to reach full funding on a low dependency funding basis by the time schemes are significantly mature, regardless of the strength of the employer covenant. These funding regulations will be accompanied by a new Code of Practice to be published by The Pensions Regulator later this year. Whilst the new Code has yet to be published, based on previous draft versions of the Code we strongly expect that NIEPS will be classified as a 'significantly mature' scheme, meaning that any new pension scheme deficits emerging over time will need to be funded by further deficit contributions from NIE Networks payable as soon as it can reasonably afford. Any undue delay in NIE Networks being able to fund such contributions would be at odds with the requirements of the new scheme funding regulations and would be significantly detrimental to the security of the pension scheme and our members.

Taking the above two points into account, it is our view that the proposed monitoring framework is not appropriate. This includes your proposal for a lower threshold of 75% which in our view is so low that it effectively means that there would be no realistic re-opener mechanism, having regard to the Scheme's current funding position and investment strategy. This is contrary not only to the current Ofgem approach and the new funding regulations which will oblige the Trustees to seek swift redress of any emerging funding deficits, but also to your own obligation to ensure NIE Networks has adequate funding in relation to pension scheme costs.

In the absence of an effective re-opener mechanism if a pension deficit emerged, this could create considerable tension between:

- the Trustees (operating in accordance with the new funding regulations and The Pensions Regulator's guidance) and
- NIE Networks (operating in accordance with price control allowances).

We would urge you to review your proposals for the pensions monitoring framework and we recommend a re-opener mechanism more aligned to Ofgem's current approach, allowing a three-yearly adjustment of in-cycle pension allowances.

We would welcome the opportunity to meet with the Utility Regulator to discuss our response.

Yours sincerely

Peter Ewing, Chair of Trustees

On behalf of the Trustees of the Northern Ireland Electricity Pension Scheme