

Distribution and transmission network companies, suppliers, pension scheme trustees, consumers and their representatives; and other interested parties

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Dear Colleagues,

### **Revised pension allowance values and completion of 2020 reasonableness review - update**

On 9 October 2020 we gave Notice<sup>1</sup> of our intention to direct revised pension allowance values as part of the 2020 reasonableness review for network operators (NWOs). This review determined the revenues that the RIIO network companies can recover to fund their established pension deficits for the following three years. Our decision letter dated 9 November 2020 set out the revised allowances and completed the 2020 reasonableness review. The letter also confirmed the recommendations, as set out in the Notice, to the NWOs on changes they may want to adopt before the next reasonableness review in 2023.

Since this date, one ownership group, NGED approached us and highlighted that market conditions had changed such that the current established deficit has reduced significantly and NGED no longer needed to charge consumers the permitted 2023/24 Pension Scheme Established Deficit allowance (EDE) amounts set out in Ofgem's determination letter dated 9 November 2020, and it believed that it would be in customers' best interests if its 2023/24 EDE values were set to zero.

Rather than requiring a full review of the 2020 PDAM process, the necessary changes can be achieved by simply re-profiling, on a NPV neutral basis, NGED's EDE allowances determined through the 2020 PDAM.

Ofgem agrees with NGED's proposal and considers that the Financial Handbook allows for the modification of EDE values at times outside the Reasonableness Review timetable. This revision of EDE values does not impact the timetable for subsequent reasonableness reviews including the review scheduled for completion in October 2023.

Appendix 1 sets out the revised pension allowances for NGED; table 1.1 sets out the original revised pension allowances per our 9 November 2020 letter, and table 1.2 sets out the updated revised pension allowances we have agreed for NGED.

The revised allowances have been reflected as part of the RIIO-2 final determinations and Price Control Financial Model, which is included in the statutory licence decision for RIIO-ED2.

Yours sincerely,

**Mick Watson**  
**Interim Chief Financial Adviser, Analysis and Assurance**

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<sup>1</sup> [Notice of our provisional revised pension allowance values and 2020 reasonableness review](#)

## Appendix 1 – Summary and analysis of revised pension allowances

**Table 1.1 - Revised pension allowances RIIO -ED1 per 9 November 2020 letter (£m, 2012-13 prices)**

Licensee	Description	Licence term	2022	2023	2024	2025	2026	Average 2022-24
WMID	PSED Revenue Allowance	EDE	34.8	34.8	23.4	£ -	£ -	31.0
EMID	PSED Revenue Allowance	EDE	36.3	36.3	24.7	£ -	£ -	32.4
SWALES	PSED Revenue Allowance	EDE	13.8	13.8	9.0	£ -	£ -	12.2
SWEST	PSED Revenue Allowance	EDE	24.2	24.2	17.0	£ -	£ -	21.8

**Table 1.2 - March 2023 Updated Revised pension allowances RIIO -ED1 (£m, 2012-13 prices)**

Licensee	Description	Licence term	2022	2023	2024	2025	2026	Average 2022-24
WMID	PSED Revenue Allowance	EDE	34.8	34.8	£ -	£ -	22.8	23.2
EMID	PSED Revenue Allowance	EDE	36.3	36.3	£ -	£ -	24.0	24.2
SWALES	PSED Revenue Allowance	EDE	13.8	13.8	£ -	£ -	8.8	9.2
SWEST	PSED Revenue Allowance	EDE	24.2	24.2	£ -	£ -	16.7	16.1