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Pension scheme trustees,
Consumers, and their
representatives; and other
interested parties

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Notice of provisional revised pension allowance values for RIIO network operators and 2026 reasonableness review

In this Notice we set out provisional conclusions from the 2026 Pensions Reasonableness Review and our proposed approach to revising the pension allowances that RIIO network operators (NWOs) may recover through regulated revenue. We also set out the actions we expect NWOs to consider before the next reasonableness review in 2029.

The Government Actuary's Department (GAD) has completed a high-level review of the methods and assumptions adopted at the most recent actuarial valuations in 2024 or 2025¹, together with the evidence provided by NWOs on how they have considered consumer interests in pension scheme governance. GAD reports no major concerns with the changes to benefit design, investment strategy, or the methods and assumptions used to determine defined benefit pension costs.

Appendix 1 contains our provisional revised pension allowance values, which would take effect from 1 April 2027. Appendix 2 sets out the average annual pension allowance proposed for the next three years and shows an overall net recovery position broadly consistent with that determined following the 2023 reasonableness review. The proposed allowances principally reflect the latest actuarial valuations, changes in scheme funding positions and the operation of the Pension Payment History (PPH) adjustment. Funding positions have generally improved since the previous review, with eleven schemes reporting a surplus, although three schemes experienced a reduction in funding level.

Summary of our provisional conclusions

- The effective management of pension scheme surpluses is key to protecting consumers' interests. Consumers have historically borne the funding burden and associated risks of established pension deficits through allowed revenues and, where they have done so, we consider that they should receive a commensurate share of the benefit from any resulting surplus. This reflects the principle of symmetry between risk, funding and reward, which is discussed further below.
- Funding positions have generally improved. Eleven schemes reported a surplus at their most recent valuation, compared with five at the previous review. Most

¹ The most recent formal actuarial valuations are as at 31 March 2025 for most schemes. The Scotia Gas Networks Pension Scheme, Scottish Hydro-Electric Pension Scheme, Scottish Power Pension Scheme and ESPS Manweb Group have their most recent formal valuations as at 31 March 2024, reflecting their respective triennial valuation cycles.

schemes were more than 95% funded, although three schemes experienced a deterioration in funding level.

- Only four schemes are paying deficit repair contributions. One scheme moved from surplus to deficit and agreed a new recovery plan.
- Many schemes have continued to de-risk by reducing return-seeking assets and increasing interest-rate and inflation hedging. These changes are broadly consistent with improving funding positions, scheme maturity and the revised defined benefit funding regime.
- Several schemes are using surpluses to support contribution holidays, reduced employer contributions or expense reserves. This may reduce the risk of stranded surplus, but Ofgem should be satisfied that consumers receive an appropriate share of the benefit, particularly where surpluses have arisen partly from historic consumer-funded deficit contributions. All NWOs provided examples of how consumer interests had been considered. GAD was generally satisfied that the behaviours reported were consistent with acting in consumers' interests. We are continuing to work with GAD to consider the implications of emerging pension scheme surpluses and how consumers can receive an appropriate share of any resulting benefits. We will communicate the outcome of this work in due course, including any implications for our future expectations of NWOs.

Based on our review, we propose to make no changes to the base Pension Scheme Established Deficit (PSED) values and PPH submitted by NWOs. Further, we do not consider that an adjustment factor should be applied to any NWO's pension allowance.

Background

The defined benefit pension schemes sponsored by NWOs largely originate from employee remuneration arrangements in place before the privatisation of the energy networks. All schemes are closed to new entrants, although most remain open to future benefit accrual for existing members. Since the 2023 review, the Scotia Gas Networks Pension Scheme and Cadent Gas Pension Scheme have closed to future accrual; the Wales & West Utilities Pension Scheme was already closed.² NWOs have a current defined benefit pension obligation of £25.6 billion, with £26.1 billion in assets, leaving a surplus of £0.5 billion.³ The assets and liabilities held by these schemes remain substantial relative to the regulated businesses themselves. These obligations will continue for several decades, although they should reduce as schemes mature and the number of members receiving benefits declines. In addition, certain pension benefits available to electricity network employees at the time of privatisation are protected by legislation.⁴

Defined benefit pension funding is inherently uncertain. Investment returns, inflation, interest rates, longevity, benefit experience and actuarial assumptions can all differ from expectations. These differences can produce funding surpluses or deficits. Ofgem's pensions policy determines the extent to which efficiently incurred established deficit costs may be recovered from consumers through regulated revenues.

Every three years, the Authority reviews pension allowances and the evidence on the governance of applicable pension schemes. The relevant sector Financial Handbooks set out the timetable and methodology for this process. The 2026 review considers the latest formal valuations, generally dated in 2024 or 2025, and developments since the 2023 reasonableness review.

² The NGN scheme has been excluded from the scope of this Reasonableness Review given its anticipated close-out. If the close-out does not proceed as expected, we would engage with NGN to agree the appropriate way forward.

³ Nominal price base, 2025/2024 valuations

⁴ The Electricity (Protected Persons) (England and Wales) Pension Regulations 1990 (SI 1990/346).

Reasonableness review and revision of pension allowances

We appointed GAD to review the NWO submissions and to provide a high-level assessment of changes in pension valuation methodology, assumptions, benefit design and investment strategy. We also asked GAD to consider the evidence provided by NWOs on how consumer interests had informed their participation in pension scheme governance.

In reviewing the submissions and determining provisional allowances, we have considered:

- what changes, if any, should be made to the base PSED amounts and PPH submitted by NWOs;
- whether any adjustment factor should be applied;
- whether the resulting allowances appropriately reflect the latest formal valuations and the applicable Financial Handbook methodology; and
- whether good-practice recommendations should be made before the next reasonableness review.

Summary of GAD's 2026 review

GAD's key findings are summarised below. We will publish GAD's final report when we conclude the reasonableness review in November.⁵

Funding position

Funding positions generally improved between valuations. Eleven schemes reported a surplus at their most recent valuation, compared with five at the previous review. Six schemes reported funding levels between 100% and 105%, four between 105% and 110%, and SHEPS reported the highest funding level at 120%. CGPS, WWUPS and WPDESPS experienced reductions in funding level.

Deficit recovery plans

Only CGPS, WWUPS, MANESPS and WPDESPS are currently paying deficit repair contributions. CGPS moved from surplus to deficit and agreed a new six-year recovery plan. WWUPS and MANESPS retained their existing recovery-plan end dates, while WPDESPS extended its recovery period and maintained contributions at their existing level.

Employer contributions and use of surplus

Not all NWOs are paying employer contributions equal to the assessed cost of future benefit accrual. Some reduced contributions or contribution holidays are supported by existing surpluses. GAD recommends continued monitoring of how future service costs and expenses are funded and whether consumers receive an appropriate share of the benefit from surplus.

Long-term objectives and de-risking

Most schemes continued to reduce investment risk. Allocations to return-seeking assets generally fell and hedging increased. Long-term objectives appear broadly consistent with the revised defined benefit funding regime and its expectation that schemes reach a low-dependency funding and investment position by significant maturity.

⁵ We will share a draft of the final report with NWOs in advance of publication.

Consumer interests

All NWOs described actions they considered evidence of acting in consumers' interests, including trustee engagement, valuation negotiations, review of funding and investment strategy, liability-management activity, and consideration of scheme surpluses. GAD was generally satisfied that the behaviours reported were consistent with NWOs acting in consumers' interests.

Surplus and stranded-surplus risk

The increased number of schemes in surplus means that surplus management is now a central consumer issue. NWOs reported contribution holidays, expense reserves, lower contributions, funding triggers and other measures. GAD recommends that Ofgem explore how consumers can benefit from emerging surpluses and that Ofgem should consider whether additional guidance is needed.

Our provisional assessment

We provisionally agree with GAD that the changes reviewed do not, in aggregate, give rise to major concerns. However, the improved funding position of many schemes changes the balance of issues for consumers. The central question is increasingly not only whether deficits are being funded reasonably, but also whether the value created by emerging surpluses is being managed and returned in a way that fairly benefits existing and future consumers.

Our provisional assessment is therefore that the 2026 review should close with focused expectations on surplus management, contribution arrangements, de-risking and transparency. The following section summarises our current thinking on pension scheme surpluses, including symmetry between risk, funding and reward.

Current thinking on pension scheme surpluses

Ofgem recognises that many defined benefit pension schemes are maturing and that improved funding positions may lead to significant surpluses. We also recognise that practical, legal, actuarial and governance barriers may make those surpluses difficult to access, creating a risk that value becomes trapped within schemes and is not realised for the benefit of consumers or shareholders.

The following summary represents our current thinking. It is subject to future changes in legislation, the outcome of any future consultation and the development of any additional regulatory principles relating to pension scheme surpluses. Any future decisions will be taken after considering the relevant evidence, legal framework, consultation responses, and the facts and circumstances applying at the time.

Ofgem is open to pragmatic, evidence-based approaches to the access, management and distribution of pension scheme surpluses. Circumstances differ between schemes and a range of solutions may be appropriate, provided they are demonstrably in consumers' interests and consistent with the regulatory framework.

A central consideration is symmetry between risk, funding and reward. Consumers have historically funded established pension deficits through allowed revenues. Our current view is therefore that consumers should benefit from resulting surpluses to the extent that they have borne the associated funding burden and risk. In applying that principle, we currently consider that:

- the allocation of any established surplus should reflect the extent to which consumers previously funded the corresponding established deficit;
- the allocation of any incremental surplus or deficit arising after the relevant cut-off date

should be consistent with the treatment of the associated incremental funding obligations and risks;

- stakeholders bearing downside risk should have a commensurate entitlement to upside benefit; and
- consumers should not fund deficits under one sharing arrangement only for surplus value arising from the same liabilities to be distributed on a materially different basis.

These principles will inform our consideration of NWO proposals concerning contribution holidays, reduced contributions, expense reserves, surplus extraction or distribution, and other arrangements affecting how pension scheme value is shared. They do not predetermine the outcome for any individual scheme or proposal.

The existence of a pension scheme surplus does not, in itself, demonstrate that consumers have overpaid or that an immediate adjustment is appropriate. A surplus may, for example, support proportionate de-risking, improve benefit security or reduce the likelihood that consumers will be required to fund future deficits. In assessing any proposal, we will consider the source and materiality of the surplus, the funding burden and risks previously borne by consumers, the interests of NWOs and their shareholders, the actions taken to manage the surplus, prevailing and expected market conditions, and the expected benefits for consumers.

We recognise that the increasing prevalence of pension scheme surpluses may raise broader questions about whether the existing pensions funding framework continues to allocate risks and benefits appropriately. Any future consideration of those issues will be subject to separate assessment and, where appropriate, consultation.

Provisional recommendations to network operators

Taking account of GAD's findings and our own assessment, we provisionally recommend that NWOs adopt the following practices before the 2029 reasonableness review.

1. Surplus management and consumer benefit: NWOs should maintain a documented strategy for the use of current and emerging surpluses. The strategy should explain the options considered, legal and scheme-rule constraints, the expected timing and value of benefits, and how those benefits will be shared with existing and future consumers to mitigate any intergenerational unfairness.

2. Contribution holidays, reduced contributions and expense reserves: Where surplus supports a contribution holiday, reduced future-service contributions or an expense reserve, NWOs should evidence the value released, the period over which it is expected to arise, and how the benefit is reflected in regulated revenues or otherwise passed to consumers. Where there are contribution holidays, this should not be to the detriment of consumers eg where consumers have fully funded pre-cut-off established deficits.

3. De-risking and long-term objectives: NWOs should evidence that the pace and extent of de-risking appropriately balance benefit security, scheme maturity, funding volatility, expected investment returns and consumer cost. NWOs should be able to demonstrate that any additional prudence or accelerated de-risking is proportionate to the risks being managed and does not increase expected consumer costs without a commensurate benefit.

4. Recovery plans: Where a deficit remains, NWOs should evidence how the recovery period and level of contributions balance scheme security, NWO and consumer affordability, the requirements of the revised Defined Benefit funding regime, intergenerational fairness and the risk of subsequent overfunding.

5. Valuation and governance evidence: NWOs should retain a clear audit trail of challenge to trustee proposals, advice obtained, alternative options considered and the

resulting consumer impacts. Evidence should distinguish between statutory trustee decisions and matters on which the NWO can exert influence or exercise discretion.

6. Liability management and discretionary benefits: NWOs should assess liability-management exercises, buy-ins, buy-outs and any discretionary benefit decisions for value for money, legal risk, member impact and consumer impact. Any claimed consumer saving should be supported by a transparent calculation.

7. Future reporting: For the 2029 review, NWOs should provide a clear reconciliation of changes in Technical Provisions, funding level, contributions, expenses and surplus use since the 2026 review, including a quantified explanation of consumer benefits where practicable.

Provisional revised pension allowances

Appendix 1 sets out our proposed allowances, and Appendix 2 shows a comparison against the previous reasonableness review.

Responding to this Notice

We invite representations on this Notice and the provisional allowance values in Appendix 1. Responses should identify any factual or calculation errors, explain the proposed correction and provide supporting evidence. Respondents should also state clearly whether any information is considered confidential and why.

Responses should be sent to david.simpson@ofgem.gov.uk by 13 November 2026. Unless marked confidential, responses may be published. We will consider representations before issuing our final decision and revised pension allowance values.

Next steps

Following consideration of responses, we expect to publish our final decision, the revised allowance values and GAD's final report. The revised allowances are expected to take effect from 1 April 2027, subject to the applicable licence and Financial Handbook provisions.

Yours faithfully,



Mick Watson
Deputy Director, Regulatory Finance
Duly authorised on behalf of the Gas and Electricity Markets Authority

Appendix 1 – Summary and analysis of revised pension allowances

Table A1.1 - Revised pension allowances RIIO-ED2/ED3 (£m, 2020 to 2021 prices)

Licensee	Description	Licence term	2028	2029	2030	Average 2028 to 2030
ENWL	PSED Revenue Allowance	EDE	(2.6)	0.0	0.0	(0.9)
NPgN	PSED Revenue Allowance	EDE	0.0	0.0	0.0	0.0
NPgY	PSED Revenue Allowance	EDE	0.0	0.0	0.0	0.0
WMID	PSED Revenue Allowance	EDE	(6.4)	(6.4)	(6.3)	(6.4)
EMID	PSED Revenue Allowance	EDE	(6.7)	(6.6)	(6.6)	(6.6)
SWALES	PSED Revenue Allowance	EDE	4.4	4.4	4.4	4.4
SWEST	PSED Revenue Allowance	EDE	4.8	4.8	4.8	4.8
LPN	PSED Revenue Allowance	EDE	(1.6)	(1.6)	(1.6)	(1.6)
SPN	PSED Revenue Allowance	EDE	(1.3)	(1.3)	(1.3)	(1.3)
EPN	PSED Revenue Allowance	EDE	(0.5)	(0.5)	(0.5)	(0.5)
SPD	PSED Revenue Allowance	EDE	(11.0)	(11.0)	(11.0)	(11.0)
SPMW	PSED Revenue Allowance	EDE	1.3	1.3	1.3	1.3
SSEH	PSED Revenue Allowance	EDE	(4.9)	0.0	0.0	(1.6)
SSS	PSED Revenue Allowance	EDE	0.0	(3.8)	(3.8)	(2.5)

Table A1.2 - Revised pension allowances RIIO-ET3 (£m, 2018 to 2019 prices)

Licensee	Description	Licence term	2028	2029	2030	Average 2028 to 2030
SHE - Transmission plc	PSED Revenue Allowance	EDE	0.1	0.0	0.0	0.0
SPTL	PSED Revenue Allowance	EDE	(1.1)	(1.1)	(1.1)	(1.1)
NGET TO	PSED Revenue Allowance	EDE	(7.1)	(7.0)	(7.0)	(7.0)
NGET SO	PSED Revenue Allowance	SOEDE	(2.3)	(2.2)	(2.2)	(2.2)

Table A1.3 - Revised pension allowances RIIO-GT3 (£m, 2018 to 2019 prices)

Licensee	Description	Licence term	2028	2029	2030	Average 2028 to 2030
NGGT TO	PSED Revenue Allowance	EDE	(0.0)	0.0	0.0	(0.0)
NGGT SO	PSED Revenue Allowance	SOEDE	0.0	0.0	0.0	0.0

Table A1.4 - Revised pension allowances RIIO-GD3 (£m, 2018 to 2019 prices)

Licensee	Description	Licence term	2028	2029	2030	Average 2028 to 2030
East	PSED Revenue Allowance	EDE	8.5	8.5	8.5	8.5
London	PSED Revenue Allowance	EDE	5.3	5.3	5.3	5.3
North West	PSED Revenue Allowance	EDE	5.0	5.0	5.0	5.0
West Midlands	PSED Revenue Allowance	EDE	5.5	5.5	5.5	5.5
Northern	PSED Revenue Allowance	EDE	0.0	0.0	0.0	0.0
Scotland	PSED Revenue Allowance	EDE	(0.1)	(0.1)	(0.1)	(0.1)
Southern	PSED Revenue Allowance	EDE	(0.1)	(0.1)	(0.1)	(0.1)
Wales & West	PSED Revenue Allowance	EDE	6.1	2.2	0.0	2.8

Table A1.5 - of which payment history accounts (£m, 2020 to 2021 prices)

Licensee	Description	Financial handbook term	2028	2029	2030
ENWL	Payment history	PPH	(2.6)	0.0	0.0
NPgN	Payment history	PPH	0.0	0.0	0.0
NPgY	Payment history	PPH	0.0	0.0	0.0
WMID	Payment history	PPH	(6.4)	(6.4)	(6.3)
EMID	Payment history	PPH	(6.7)	(6.6)	(6.6)
SWALES	Payment history	PPH	(2.6)	(2.6)	(2.5)
SWEST	Payment history	PPH	(5.0)	(5.0)	(5.0)
LPN	Payment history	PPH	(4.7)	(4.7)	(4.7)
SPN	Payment history	PPH	(3.9)	(3.9)	(3.9)
EPN	Payment history	PPH	(1.5)	(1.5)	(1.5)
SPD	Payment history	PPH	(11.0)	(11.0)	(11.0)
SPMW	Payment history	PPH	1.3	1.3	1.3
SSEH	Payment history	PPH	(4.9)	0.0	0.0
SSES	Payment history	PPH	0.0	(3.8)	(3.8)

Table A1.6 - of which payment history accounts (£m, 2018 to 19 prices)

Licensee	Description	Financial handbook term	2028	2029	2030
SHE - Transmission plc	Payment History	PPH	0.1	0.0	0.0
SPTL	Payment History	PPH	(1.1)	(1.1)	(1.1)
NGET TO	Payment History	PPH	(7.1)	(7.0)	(7.0)
NGET SO	Payment History	PPH	(2.3)	(2.2)	(2.2)

Table A1.7 - of which payment history accounts (£m, 2018 to 2019 prices)

Licensee	Description	Financial handbook term	2028	2029	2030
NGGT TO	Payment History	PPH	(0.0)	0.0	0.0
NGGT SO	Payment History	PPH	0.0	0.0	0.0

Table A1.8 - of which payment history accounts (£m, 2018 to 2019 prices)

Licensee	Description	Financial handbook term	2028	2029	2030
East	Payment History	PPH	0.6	0.6	0.6
London	Payment History	PPH	0.4	0.4	0.4
North West	Payment History	PPH	0.9	0.9	0.9
West Midlands	Payment History	PPH	(0.1)	(0.1)	(0.1)
Northern	Payment History	PPH	0.0	0.0	0.0
Scotland	Payment History	PPH	(0.1)	(0.1)	(0.1)
Southern	Payment History	PPH	(0.1)	(0.1)	(0.1)
Wales & West	Payment History	PPH	(1.6)	(1.6)	0.0

Appendix 2 - Summary of proposed Pension Scheme Established Deficit revenue allowances

Table A2.1 - Revised allowances following Ofgem 2026 Reasonableness Review (2023 to 2024 prices*)

Price Control	Licensee	Licence term	Average 2023 Reasonableness Review (2023 to 2024 prices) £m	Average 2026 Reasonableness Review (2023 to 2024 prices) £m	Variance £m
ED2/ED3	ENWL	EDE	(3.1)	(1.1)	2.0
	NPgN	EDE	(13.6)	0.0	13.6
	NPgY	EDE	(6.6)	0.0	6.6
	WMID	EDE	(7.6)	(8.2)	(0.6)
	EMID	EDE	(7.0)	(8.5)	(1.5)
	SWALES	EDE	(0.6)	5.6	6.3
	SWEST	EDE	0.6	6.1	5.5
	LPN	EDE	(6.2)	(2.1)	4.1
	SPN	EDE	(4.5)	(1.7)	2.8
	EPN	EDE	0.2	(0.6)	(0.8)
	SPD	EDE	(7.4)	(14.1)	(6.7)
	SPMW	EDE	42.6	1.7	(40.9)
	SSEH	EDE	(6.1)	(2.1)	4.0
	SSES	EDE	(1.1)	(3.2)	(2.2)
			(20.3)	(28.0)	(7.7)
ET2/ET3	SHE - Transmission plc	EDE	(0.1)	0.0	0.2
	SPTL	EDE	(0.1)	(1.4)	(1.3)
	NGET TO	EDE	(1.5)	(8.8)	(7.3)
			(1.7)	(10.1)	(8.4)
	NGET SO	SOEDE	(0.5)	(2.8)	(2.3)
GD2/GD3	East	EDE	(3.9)	10.6	14.4
	London	EDE	(2.5)	6.6	9.1
	North West	EDE	(2.3)	6.2	8.5
	West Midlands	EDE	(2.9)	6.9	9.8
	Northern	EDE	18.0	0.0	(18.0)
	Scotland	EDE	(0.1)	(0.1)	0.0
	Southern	EDE	(0.2)	(0.1)	0.0
	Wales & West	EDE	14.9	3.4	(11.5)
			21.1	33.5	12.3
GT2/GT3	NGGT TO	EDE	(8.1)	(0.0)	8.0
	NGGT SO	SOEDE	(3.4)	0.0	3.4
			(11.4)	(0.0)	11.4
	Total		(12.8)	(7.5)	5.3

*2023 to 2024 is the price base of the current RII0-3 price control