Government Actuary's Department

2026 Ofgem Pensions Reasonableness review

High-level review of network operators' pension costs

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Navigating risk | Cutting through complexity

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1. Executive Summary

High-level review of pension costs

We have considered how the methods and assumptions adopted at the most recent actuarial valuations in 2024 or 2025 have changed since the previous valuations. Overall, we have no major concerns with the changes to benefit design, investment strategy and the method and assumptions used to determine the network operators' (NWOs) defined benefit pension costs at the most recent valuations.

1.1 There were several notable changes identified since the 2023 reasonableness review. Given the constantly evolving nature of pension schemes and the wider economic and regulatory environment, some changes between actuarial valuations are expected. The results of our review are discussed in Section 3 and summarised in Appendix B. The key findings are set out below:

Long-term objective and de-risking

1.2 Many schemes have continued to de-risk since the previous reasonableness review, with one scheme completing a significant buy-in transaction. Schemes have generally reduced allocations to return-seeking (or "growth") assets and increased hedging of interest rate and inflation risks. These changes are broadly consistent with improving funding positions, increasing scheme maturity and the introduction of the revised DB funding regime. Whilst lower-risk strategies may reduce funding volatility and reliance on future employer support, they may also result in lower expected investment returns and higher funding costs.

1.3 Two of the schemes have closed to future benefit accrual since the previous reasonableness review. One further scheme had already closed to future accrual at the previous review. There are therefore twelve schemes that remain open to future benefit accrual for existing members. No other schemes reported material changes to future benefit accrual or benefit design.

1.4 The schemes with valuation dates falling under the revised DB funding regime appear to have adopted long-term objectives consistent with the requirement to establish a funding and investment strategy and to target a low-dependency funding and investment position by the time the scheme is 'significantly mature'. The remaining schemes have generally already adopted long-term objectives that appear broadly consistent with the principles underpinning the revised regulations.

1.5 Our understanding is that many NWOs benefit from strong sponsoring employer covenants, which may provide greater capacity to support funding and investment risk than is available to some other pension schemes. Consequently, NWOs may be able to tolerate a greater degree of investment risk than would otherwise be appropriate, potentially reducing expected funding costs and the costs ultimately borne by consumers. However, any investment risk taken should remain consistent with the scheme's maturity, funding position and long-term objective. As schemes become more mature and funding positions improve, a gradual reduction in risk would generally be expected. Ofgem should satisfy itself that this



understanding is appropriate, as the analysis and conclusions in this report have been prepared on that basis.

1.6 Given that most schemes now report funding surpluses, Ofgem may wish to consider its expectations regarding surplus management, including the appropriate pace of de-risking and actions intended to reduce the risk of stranded surplus.

Funding position

1.7 Funding positions generally improved between valuations. Eleven schemes reported a funding surplus at their most recent valuation, compared with five schemes at the previous review. Most schemes reported funding levels above 95%, although three schemes experienced a deterioration in funding level relative to the previous valuation.

1.8 Many of the schemes in surplus have provided examples of actions intended to mitigate the risk of stranded surplus (where a scheme is overfunded having benefited from previous consumer funding, but the resulting surplus cannot readily be used for the benefit of consumers). These actions are discussed further in Section 4. We recommend that Ofgem explore ways of allowing consumers to benefit from these emerging surpluses.

Employer contributions

1.9 We note that not all NWOs are paying employer contributions equal to the assessed cost of benefit accrual determined on the valuation basis. In some cases, reduced contribution requirements or contribution holidays have been supported by existing funding surpluses. While this may be appropriate given current funding levels, Ofgem may wish to continue monitoring the extent to which current accrual costs and scheme expenses are funded through ongoing contributions or existing surplus, particularly where those surpluses have arisen following historic consumer-funded deficit contributions. Ofgem may also wish to satisfy itself that consumers receive an appropriate share of the financial benefit where surplus is used to support contribution holidays, reduced contribution requirements or expense reserves.

Deficit recovery plan

1.10 Only four schemes are currently paying deficit repair contributions, reflecting the generally improved funding positions reported at the latest valuations. One scheme implemented a new recovery plan after moving from surplus to deficit between valuations. The recovery plans agreed reflect a range of approaches to balancing affordability and the pace at which deficits are addressed. Several NWOs noted that the revised DB funding regime informed discussions on appropriate recovery plan designs.

Consumer interests

1.11 We have considered the comments submitted in the NWO questionnaire responses provided by Ofgem. These describe how the NWOs believe they have interpreted the interest of consumers when engaging with the governance of their pension schemes (including setting investment and risk strategies).

1.12 All companies have been able to describe some examples of actions which they consider to be evidence of them acting in the consumer interest. We note that some companies have cited more examples than others, although it is recognised that scheme circumstances vary and views on how the consumer is best served can also differ.

1.13 It is possible that some companies may have considered or undertaken additional actions since the last reasonableness review which are not reflected in the information provided to us. However, given the scope of this review and the information provided, we are not in a position to identify material actions (or lack thereof) which could indicate that companies have not acted in consumers' best interests. Viable ways to represent the consumer interest will depend on individual scheme circumstances and will vary between schemes.

1.14 An overview of the actions taken is given in Section 4 and summarised for each NWO in Appendix C. A more detailed description of the actions cited by each NWO is given in Appendix D.

2. Introduction

2.1. This report has been prepared by the Government Actuary's Department (GAD) at the request of the Office of Gas and Electricity Markets (Ofgem). The purpose of this report is to assist Ofgem in its consideration of price control allowances. This report does not represent advice on the appropriate funding of network operators' (NWOs) pension schemes.

2.2. Ofgem is the government regulator for gas and electricity markets in Great Britain, whose primary role is to protect consumers now and in the future. Every three years, Ofgem reviews the pension allowances that the NWOs can recover as part of their regulated revenue.

2.3. To help inform Ofgem's review, Ofgem has asked GAD to perform a high-level review of NWO defined-benefit pension costs. This review is limited to the NWOs' defined benefit pension arrangements and does not consider any defined contribution pension provision. In particular, we have reviewed how benefit design, investment strategy, and the methods and assumptions used to determine pension costs have changed since GAD's previous review, which concluded in 2023. Further details of the review and a discussion of the findings can be found in Section 3. A summary of these results is included in Appendix B.

2.4. Ofgem has also asked GAD to review the NWO questionnaire responses which describe how they have interpreted the interest of consumers to inform participation in the governance of pension schemes. An overview of the actions taken is presented in Section 4 of this report, with a more detailed description of the actions cited by each NWO given in Appendix D. The actions reported by each NWO are summarised in Appendix C. Our review is based primarily on information provided by NWOs through these questionnaire responses and supporting documentation supplied by Ofgem. We have not independently verified the completeness or accuracy of the information provided.

2.5. The limitations relating to the information contained in this report are outlined in Section 5.

3. High-level review of pension costs

Overall, we have no major concerns with the changes to benefit design, investment strategy, and the method and assumptions used to determine the NWOs' defined benefit pension costs at the most recent valuations.

We identified several notable changes since the previous reasonableness review, including:

- a general improvement in funding positions, with eleven schemes in surplus at their most recent valuations;
- continued de-risking of investment strategies, including reductions in return-seeking assets and higher levels of inflation and interest rate hedging;
- the increased use of funding surpluses to meet scheme expenses and, in some cases, support reduced employer contributions or contribution holidays;
- the closure of two schemes to future benefit accrual; and
- an increased focus on surplus management and actions intended to reduce the risk of stranded surplus.

Given the evolving nature of pension schemes and the wider environment, including the introduction of new Funding and Investment Regulations, it is expected that some changes will occur between valuations.

A summary of the changes in funding approaches is provided in Appendix B.

Approach to the review

3.1. We have considered how the methods and assumptions adopted at the most recent actuarial valuations in 2024 or 2025 have changed since the previous valuations. For this review, we have assumed that Ofgem was content with the approach adopted by the NWOs' defined benefit pension schemes at the 2021 or 2022 valuations and have therefore only considered how the relevant methods and assumptions have changed.

3.2. We have carried out this comparison by considering the responses provided in the questionnaires, and the formal documentation from the previous two actuarial valuations, where provided.

3.3 The main areas we have considered in our review are:

- **Funding position:** the difference between the market value of the scheme's assets and the assessed value of the liabilities at the valuation date. Funding levels above 100% indicate that the scheme has more than enough assets to meet the value of the liabilities, as assessed at the date of the valuation.

- **Deficit recovery plan:** where a scheme is in deficit, this sets out the level of additional contributions (commonly referred to as deficit repair contributions or DRCs) that will be paid by the employer to eliminate the deficit, together with the period over which those contributions will be paid (the recovery period).

- **Employer cost of accrual and employer contribution rate:** the employer cost of accrual represents the employer's share of the expected cost of future benefit accrual. The employer contribution rate is the actual level of contributions paid by the employer towards future service benefits and, where relevant, any additional contributions required under the funding arrangements.

- **Benefits:** the more generous the benefits, the higher the ultimate cost.

- **Long-term funding objective and journey plan:** this represents the trustees' long-term approach to funding, including the target funding position and the journey plan by which the scheme intends to reach that position. For schemes subject to the new DB funding regime, trustees are expected to establish a funding and investment strategy that sets out how the scheme will reach a position of low dependency on the sponsoring employer by significant maturity. The chosen long-term objective influences the assumptions used in assessing the scheme's current funding position and the level of risk being taken. A lower-risk objective may increase current funding costs but is expected to reduce funding volatility and reliance on future employer support.

- **Investment strategy:** this affects expected investment returns, the choice of discount rate, funding volatility and ultimately the contributions required from the employer. Investment strategies are typically considered in terms of the balance between return-seeking assets[1] (also referred to elsewhere in this paper as growth assets, such as equities) and matching assets (such as bonds). Pension schemes typically hold a mixture of return-seeking and matching assets, with more mature schemes generally holding a higher proportion of matching assets than less mature schemes. For schemes within the scope of the new DB funding regime, trustees are expected to demonstrate an appropriate journey towards a low-dependency investment allocation as the scheme approaches significant maturity.

- **Discount rate:** usually this is the most important actuarial assumption used for a valuation. The lower the discount rate, the higher the assessed value of the scheme's liabilities, as future benefit payments are discounted at a lower rate. Discount rates are typically derived by reference to government bond (gilt) yields together with an allowance for expected investment outperformance. Schemes may adopt different discount rate structures, including separate pre- and post-retirement rates or rates that vary over time, provided the approach is consistent with the scheme's funding and investment strategy. Under the current funding regime, discount rate assumptions would generally be expected to move towards a low-dependency basis as schemes approach significant maturity.

3.4. Any other significant changes apparent from the documentation: including changes in funding arrangements, investment governance, risk management, covenant support, liability management exercises, surplus management, buy-in or buyout activity, or any other matters which may be relevant to the interests of consumers.

[1] Growth assets determined using the definition of 'Return-seeking assets' defined in the Glossary of this paper.

Events

Revised DB funding regime

3.5. Since the 2023 reasonableness review, the revised DB funding regime has come into force for actuarial valuations with effective dates on or after 22 September 2024. Trustees are now required to establish a funding and investment strategy setting out how their scheme will reach a position of low dependency on the sponsoring employer by the date of significant maturity of the scheme[2]. A number of schemes referred to the new regime, including the Fast Track framework, when describing changes to funding strategies, recovery plans and long-term objectives.

Improved funding positions and emergence of surpluses

3.6. Funding positions have generally improved since the previous reasonableness review. Eleven schemes reported funding surpluses at their most recent valuation compared with five at the previous review. As a result, a number of schemes have reduced or ceased deficit repair contributions, negotiated contribution holidays or considered actions relating to the management of emerging surpluses.

Continued de-risking and insurance transactions

3.7. Consistent with wider industry trends, and the introduction of the revised DB funding regime, many schemes have continued to de-risk their funding and investment strategies since the previous review. Common themes include reductions in return-seeking assets, increased hedging of interest rate and inflation risks, and continued consideration of insurance-based solutions. Notably, NGESPS completed a significant pensioner buy-in transaction during 2024, whilst a number of other schemes continue to hold buy-in arrangements or assess future risk-transfer opportunities.

Creation of NESO and separation from National Grid

3.8. During the review period, National Grid's Electricity System Operator activities were separated from the National Grid group and transferred into public ownership as the National Energy System Operator (NESO). A new NESO Section was established following the transfer of assets and liabilities from the National Grid Electricity Group section of the ESPS. As this section did not exist at the time of the previous review, it has been considered separately and is not included within the comparative analysis presented in the remainder of this section.

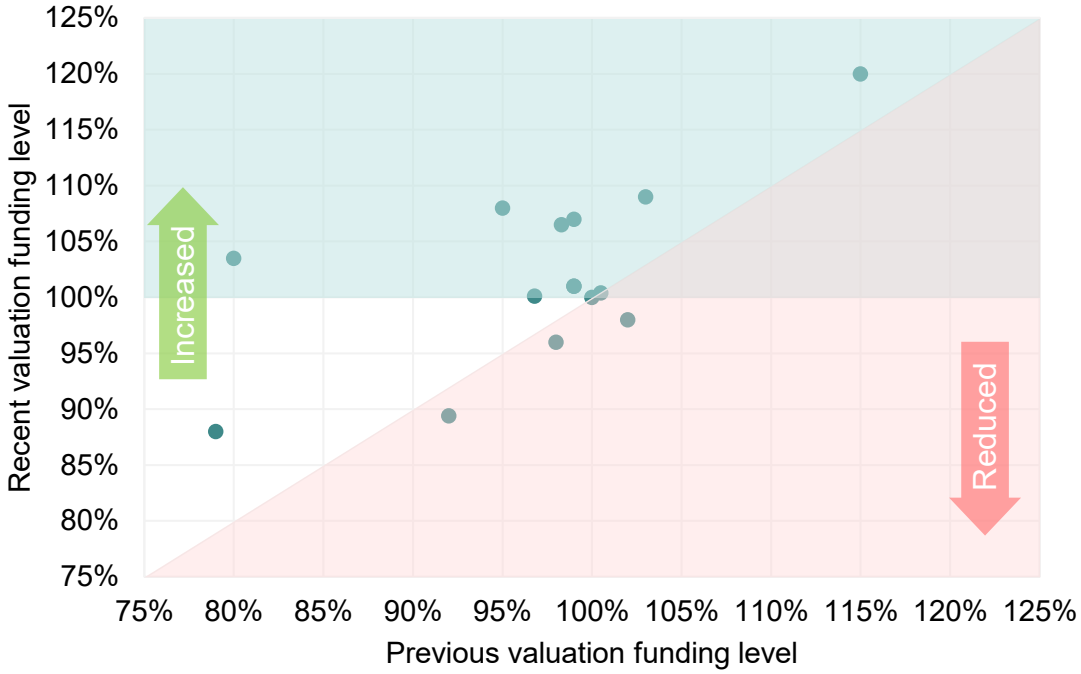
[2] The revised regime was introduced through the Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024. To support implementation of the regulations, The Pensions Regulator issued a revised Defined Benefit Funding Code of Practice setting out its expectations for scheme funding and investment strategies.

Comparison of funding approaches

Funding position

3.9. The funding levels at the latest valuation compared with the previous valuation are shown for each scheme in Graph 1 below. Schemes plotted above the diagonal line have experienced an improvement in funding level since the previous valuation, while schemes below the diagonal line have experienced a reduction in funding level. In particular, the red shaded triangular section highlights schemes whose funding levels have reduced since the previous valuation. The dark green shaded area at the top of the graph shows schemes that were fully funded at the recent valuation.

Graph 1: Reported funding level as at previous and most recent valuations



3.10. The funding positions of most schemes improved between valuations. However, CGPS, WWUPS and WPDESPS experienced a reduction in funding level.

CGPS

- The deterioration was primarily driven by the recognition of additional liabilities arising from historical benefit issues identified during GMP equalisation work, including matters relating to pension increases and anti-franking requirements. CGPS reported undertaking extensive legal and actuarial review of these issues, including obtaining King's Counsel opinion and exploring alternative interpretations of the scheme rules. Based on the information provided, the additional liabilities recognised at the valuation appear to reflect the conclusions of that review process.
- As a result, the scheme moved from a surplus at the previous valuation to a deficit position at the latest valuation.
- It is noted that changes to the actuarial assumptions used for the 2025 valuation would, in isolation, have reduced the liabilities.

WWUPS

- Despite the reduction in the Technical Provisions funding level, primarily driven by investment returns being lower than expected as well as adverse pension increase experience between the valuation dates, the scheme appears to have continued progressing towards its long-term objective, including through further de-risking of the investment strategy.

WPDESPS

- While a small deterioration in funding level can be observed, the Technical Provisions assumptions were made consistent with the new DB funding regime, while seeking to avoid additional prudence that could have increased the disclosed deficit and associated contribution requirements even further.

In addition, NGTPS and NPESPS have reported funding levels that are unchanged from the previous valuations. Both schemes were in surplus at their most recent valuations and therefore no deficit repair contributions are currently payable.

3.11. The majority of schemes reported funding levels above 95% at their most recent valuations. Two schemes reported lower funding levels of around 90%. In many cases, funding levels have improved since the previous valuation, reflecting a combination of investment experience and deficit repair contributions paid over the inter-valuation period. Most schemes also maintain material levels of interest rate and inflation hedging, which generally acts to reduce the impact of changes in gilt market conditions on funding levels (and can therefore increase or decrease the value of scheme assets).

3.12. Eleven schemes were in surplus at their most recent valuation date. Six of these schemes reported funding levels between 100% and 105% (NGTPS, SEPS, UKPNPS, UKPNESPS, NPESPS and CNESPS), while a further four schemes reported funding levels between 105% and 110% (SGNPS, SPPS, NGESPS and ENWESPS). SHEPS reported the highest funding level of the schemes reviewed at 120%, compared to 115% at the previous valuation.

3.13. Many of these schemes have provided examples of actions intended to reduce the risk of stranded surplus (where a scheme is overfunded having benefited from previous consumer funding, but the resulting surplus cannot readily be used for the benefit of consumers). These actions are discussed in Section 4.

Deficit recovery plan

3.14. Where a scheme is in deficit (i.e. the value of assets is lower than the value of liabilities such that the funding level is below 100%), a deficit recovery plan is typically put in place. This sets out the level of additional contributions, known as deficit repair contributions (DRCs), that will be paid to eliminate the deficit, together with the period over which those contributions will be paid (the recovery period).

3.15. As shown in Table 1, there is a range of approaches to recovery plans across the schemes reviewed and to changes made since the previous valuations. However, a number of NWOs stated that, during valuation negotiations, they considered the requirements of the new funding code, including the Fast Track framework, when determining appropriate recovery plan periods. In particular, several referred to the Fast Track framework as a useful reference point when considering appropriate recovery periods, noting the broad expectation that recovery periods would typically not exceed six years.

Table 1: Summary of change in recovery plans since previous valuation

		Recovery period end date New	Recovery period end date Maintained	Recovery period end date Extended
Annual deficit contributions	**Maintained**		WWUPS	WPDESPS
Annual deficit contributions	**Increased**	CGPS	MANESPS	

Note: SGNPS, SHEPS, SEPS, SPPS, UKPNESPS, UKPNPS, NPESPS, NGESPS, ENWESPS, CNESPS and NGTPS are excluded from this table as they are not making any deficit repair contributions due to being in funding surplus.

3.16. Two schemes, WWUPS and MANESPS, retained the same recovery plan end date as at the previous valuation. WWUPS maintained contributions at their existing level. For MANESPS, the deficit recovery contribution schedule was unchanged from the previous valuation however the cash amount of contributions increased as a result of the inflation-linking mechanism within the agreed recovery plan. Whilst the recovery plan for MANESPS retained the same end date, contributions are not required unconditionally until that date, as the recovery plan includes a funding trigger under which deficit recovery contributions could cease earlier if specified funding conditions were met.

3.17. One scheme, WPDESPS, restarted deficit recovery contributions in 2026 at the same level as under the previous recovery plan which ended in 2024. This is consistent with the deterioration in funding level for WPDESPS. This approach was intended to limit additional costs to consumers whilst continuing to address the funding shortfall.

3.18. One scheme, CGPS, moved from a funding surplus to a funding deficit between valuations. As a result, a new recovery plan was agreed, whereas no recovery plan had been required at the previous valuation.

3.19. SGNPS, SHEPS, SEPS, SPPS, UKPNESPS, UKPNPS, NPESPS, NGESPS, ENWESPS, CNESPS and NGTPS all reported funding surpluses at their most recent valuations and therefore are not currently paying deficit recovery contributions.

3.20. Different recovery periods adopted by NWOs will result in costs filtering through to consumers at different rates. Costs for customers will increase as DRC payments increase (all else being equal), and this has implications for intergenerational fairness between different cohorts of consumers. We note that Ofgem published its policy on deficits in 2017.

Employer cost of accrual and employer contribution rate

3.21. Schemes with active members receive payments in respect of future accrual via standard employer (and member) contributions.

3.22. Since the last review, SGNPS and CGPS have closed to future accrual, whilst WWUPS had already closed to future accrual prior to the 2023 reasonableness review. These schemes therefore no longer receive standard employer contributions, although deficit repair contributions are being paid for CGPS. SHEPS continues to take a contribution holiday while it remains in surplus. SPPS and ENWESPS have also negotiated contribution holidays, with the cost of future benefit accrual being funded from the surpluses disclosed at the most recent valuations.

3.23. The remaining nine schemes (NGTPS, SEPS, MANESPS, UKPNESPS, UKPNPS, NPESPS, NGESPS, WPDESPS and CNESPS) continue to receive contributions.

3.24. Many schemes have agreed a modified contribution rate that is lower than the cost of benefit accrual calculated on the Technical Provisions basis. This could lead to a deficit emerging over time unless factors such as investment outperformance or changes in valuation assumptions counteract the underpayment at the next valuation.

3.25. Table 2 summarises the level of employer contribution rates, and the directional change in rates since the previous valuation, for those schemes receiving standard employer contributions. These contribution rates reflect any modified contribution rate agreed and exclude deficit repair contributions. Schemes may allow for expenses in different ways in their contributions and some schemes may have changed the way of allowing for such expenses since the previous valuation. These factors may impact on comparisons between scheme contributions.

3.26. Table 2 shows a variety of changes in standard employer contribution rates since the previous valuation. The majority of schemes receiving standard employer contributions have reduced these rates relative to those implemented following the previous valuation. There is also considerable variation in contribution levels, ranging from around 17% to around 41% of pensionable pay. The impact of these contribution rates on consumers will depend not only on the percentage rate applied but also on the size of each scheme's active membership and pensionable payroll.

Several schemes are now funding future service costs and/or scheme expenses from existing surpluses, either through contribution holidays or the establishment of expense reserves. While this may be an appropriate way of reducing the risk of stranded surplus, Ofgem may wish to satisfy itself that consumers are receiving an appropriate share of the benefit, particularly where the surplus has arisen in part from historic consumer-funded deficit contributions.



Table 2: Summary of standard employer contribution rates and change since previous valuation

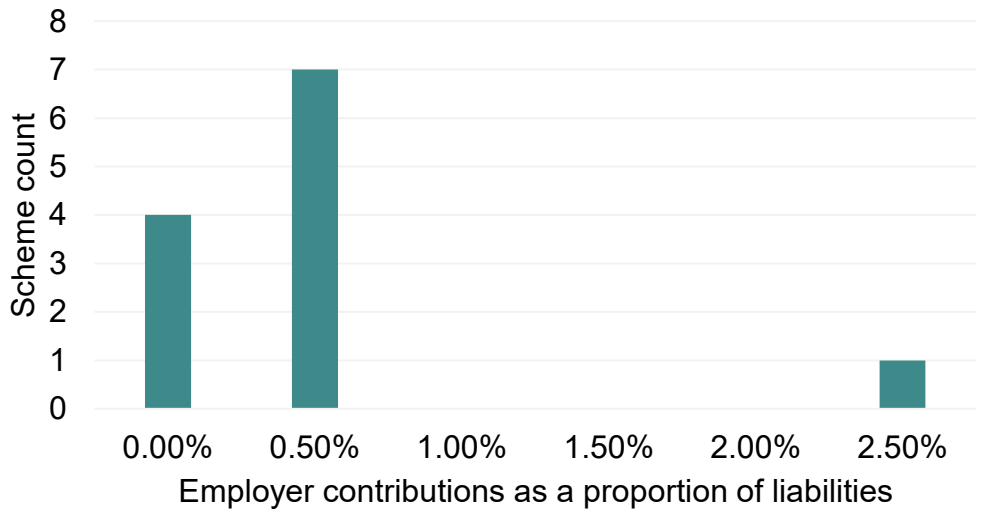
Change in	Standard employer contribution rate (percentage of pensionable pay) 15% - 25%	Standard employer contribution rate (percentage of pensionable pay) 25% - 35%	Standard employer contribution rate (percentage of pensionable pay) 35% - 45%
Reduced	SEPS MANESPS NPESPS NGESPS WPDESPS CNESPS	NGTPS	
Unchanged		UKPNPS*	UKPNESPS*

Note: CGPS, SGNPS and WWUPS are not currently receiving standard employer contributions as they are closed to future benefit accrual. SHEPS, SPPS and ENWESPS are not currently receiving employer contributions as the employer is taking a contribution holiday while the schemes remain in surplus. For SPPS, this arrangement is subject to a bi-annual trigger test.

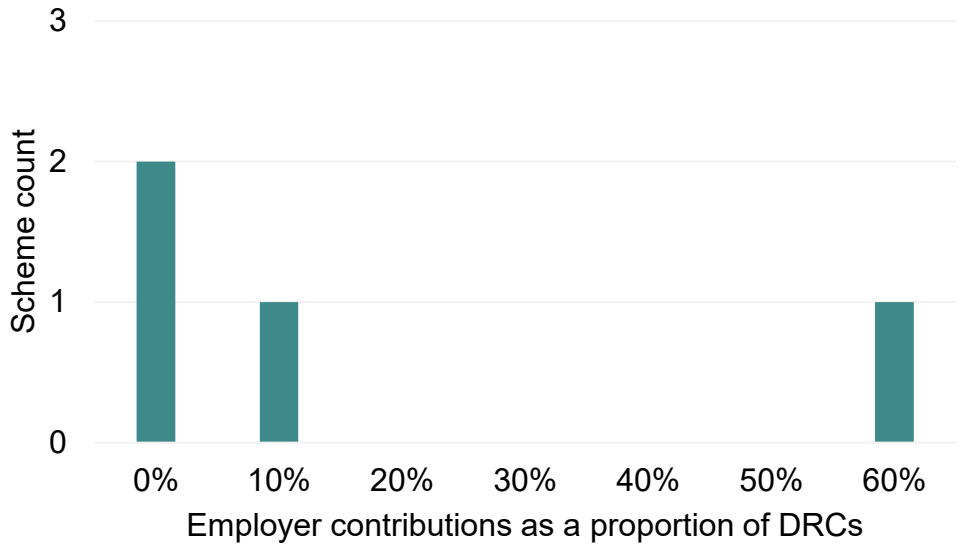
***** The standard employer contributions for UKPNPS and UKPNESPS are unchanged at the date of publication of this report and therefore remain categorised as "unchanged" in Table 2. However, revised contribution rates have been agreed following the latest valuation and are expected to take effect from 1 January 2027, resulting in a significant reduction in contributions for both schemes.

3.27. To provide some context to the level of contributions, Graphs 2 and 3 below compare the employer's contributions with the value of the technical provisions, and with the level of deficit reduction contributions (DRCs). Graph 2 demonstrates that employer contributions are generally small relative to scheme liabilities, at around 0.5% of technical provisions for most schemes. Graph 3 shows that, where DRCs are payable, these are often materially larger than ongoing employer contributions, highlighting the importance of deficit recovery payments in the overall funding cost for some schemes.

Graph 2: Employer contributions compared to technical provisions



Graph 3: Employer contributions compared to deficit reduction contributions (DRCs)



3.28. Ofgem may wish to discuss the level of future service benefits with NWOs to seek a more cost-effective outcome for consumers. However, there may be restrictions on the changes that could be made to future benefits, for example due to protected persons legislation.

Benefits

3.29. All of the schemes are closed to new entrants. Most schemes remain open to future benefit accrual for existing members, although SGNPS, CGPS and WWUPS are now closed to future accrual.

3.30. Other than the closure of SGNPS and CGPS to future benefit accrual, none of the schemes reported changes to future benefit design since the previous review. While a reduction in future benefits could benefit consumers, schemes may be limited in their ability to make these changes given the protections some members have on their benefits, for example by protected persons legislation. Furthermore, reducing benefit accrual may lead to challenges in industrial relations. Pension benefits are part of a wider reward package and there are many considerations to take into account before reforming such benefits.

3.31. Some NWOs continue to offer options which help manage liabilities, such as pension increase exchanges, flexible retirement options and transfer exercises. These are summarised in the tables in Appendices C and D. Generally, we view these as useful initiatives as they are indicative of employers looking to manage costs and risks, whilst offering members additional flexibility.

Long-term funding objective and journey plan

3.32. Since the previous review, the revised defined benefit funding regime has come into force. Schemes are now required to establish a long-term funding and investment strategy and document this in a Statement of Strategy submitted to The Pensions Regulator (TPR). The objective of the regime is that schemes should be fully funded on a low-dependency basis by the time they reach significant maturity.

3.33. The requirements are set out in regulations issued by the Department for Work and Pensions (DWP) and are supported by TPR's revised Defined Benefit Funding Code of Practice. The code provides guidance on how trustees can demonstrate compliance with the statutory funding requirements.

3.34. A key feature of the revised regime is its focus on long-term planning and the management of funding and investment risk. TPR has adopted a twin-track approach, comprising a Fast Track route and a Bespoke route. The Bespoke approach allows schemes greater flexibility provided trustees can demonstrate that any additional risk is appropriately supported and managed.

3.35. The revised funding framework places greater emphasis on schemes having a clear journey plan towards their long-term objective and reducing reliance on future employer support as schemes mature. As a result, many pension schemes across the industry have continued to consider opportunities to reduce funding and investment risks.

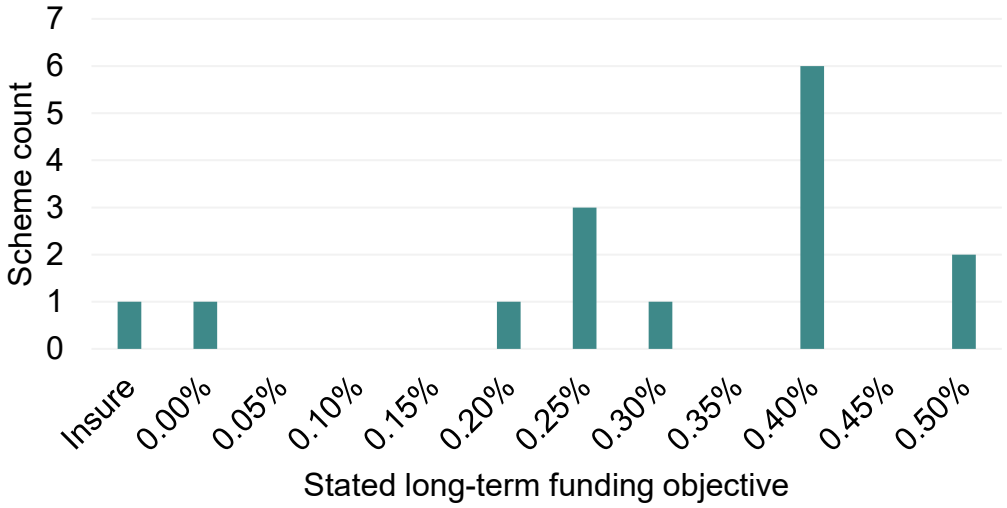
3.36. Protected persons legislation continues to provide additional constraints on some NWOs and may influence the range of funding and investment strategies available to those schemes.

3.37. As was the case at previous reviews, all schemes have adopted a long-term funding objective. Based on the information provided, all schemes other than WWUPS have adopted long-term objectives based on ongoing run-on with a low-dependency funding and investment strategy. WWUPS is the only scheme that reported a long-term objective of securing benefits through insurance buyout, with a target date of 2031. The schemes' long-term funding objectives appear broadly consistent with the revised DB funding regime, with most schemes targeting a low-dependency funding basis at or before significant maturity.

Graph 4 shows that most schemes have adopted long-term discount rates in a relatively narrow range, suggesting a broadly consistent view of the level of investment risk appropriate in the long term.

Most schemes continue to target ongoing run-on rather than buyout as their long-term objective, although some schemes have completed insurance transactions or continue to explore further risk-transfer opportunities. Improvements in insurer pricing and increasing scheme maturities may make insurance solutions more attractive for some schemes over time. Ofgem may wish to consider whether the level of prudence and pace of de-risking being adopted by schemes provides an appropriate balance between reducing risk to consumers and limiting current pension costs.

Graph 4: Count of scheme long-term discount rates (outperformance relative to gilts)



3.38. These NWO schemes may be able to tolerate a greater degree of investment risk given the strength of the sponsor covenant. This could reduce expected funding costs and, ultimately, costs passed through to consumers, although higher expected returns are likely to be accompanied by greater volatility in funding levels and future contribution requirements. However, under the new DB funding regime, investment risk should be supportable by the employer covenant and consistent with the scheme reaching a low dependency funding and investment position by the date of significant maturity. As schemes mature and approach their significant maturity date, the capacity to take investment risk is generally expected to reduce.

3.39. Ofgem may wish to consider whether its existing pension policies remain aligned with its expectations regarding funding prudence, investment risk and long-term funding objectives under the revised DB funding regime.

Discount rate

3.40. A discount rate is used to express the current value of a stream of future benefit cashflows and is generally set with reference to a scheme's expected return on its assets. Under the revised DB funding framework, the discount rate should be consistent with the scheme's funding and investment strategy and its journey plan towards a low dependency funding and investment position by the date of significant maturity. Approaches observed in this review include:

- applying different discount rates before and after retirement, reflecting differences in the timing and nature of member benefits and the associated lower risk investment strategy; or
- applying different discount rates before and after a specified point in time, typically reflecting the scheme's planned transition towards its long-term funding and investment objective, and target low dependency position, by the date of significant maturity.

3.41. All schemes apply one of these approaches, with 7 schemes setting discount rates by reference to retirement status and 8 schemes setting discount rates by reference to a specified point in time within the scheme's journey plan.

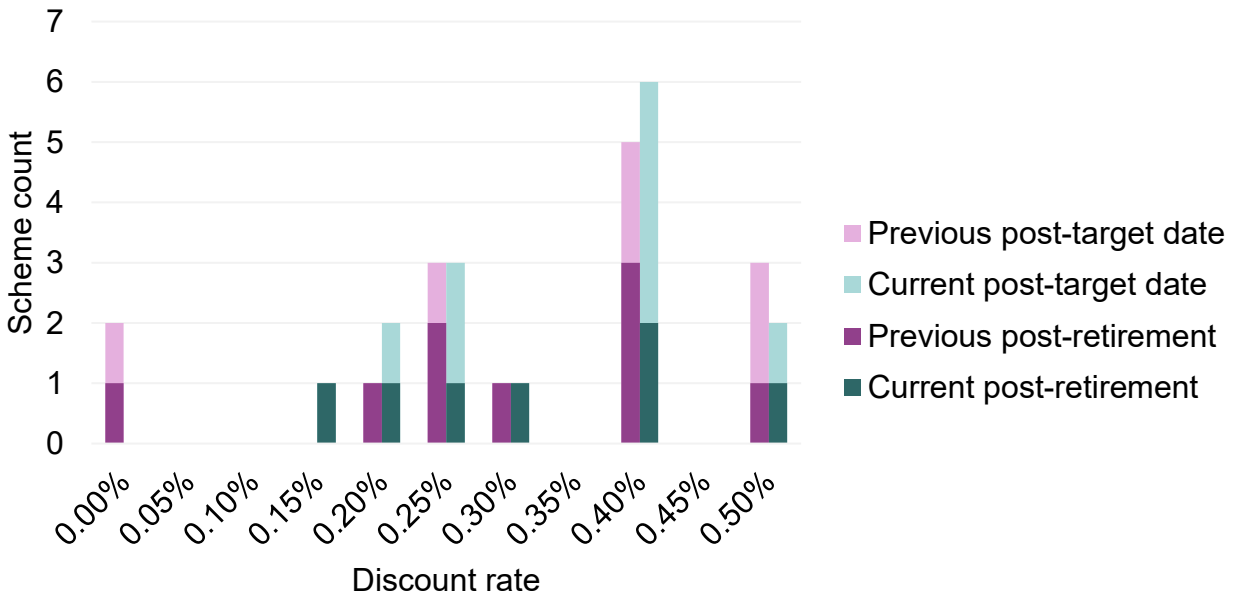
3.42. WPDESPS and CNESPS have moved from setting discount rates by reference to retirement status to setting them by reference to a specified point in time within the scheme's journey plan.

Long-term discount rates

3.43. The long-term discount rates, being those that apply after retirement or after a specified target date, are summarised in Graph 5. Most schemes have adopted long-term discount rates in the range of approximately gilts +0.25% p.a. to gilts +0.5% p.a., with a smaller number adopting lower rates or insurance-based funding targets. This suggests a broadly consistent approach to long-term funding and investment risk across the schemes reviewed, although there remains some variation reflecting differences in funding objectives, investment strategies and scheme-specific circumstances.

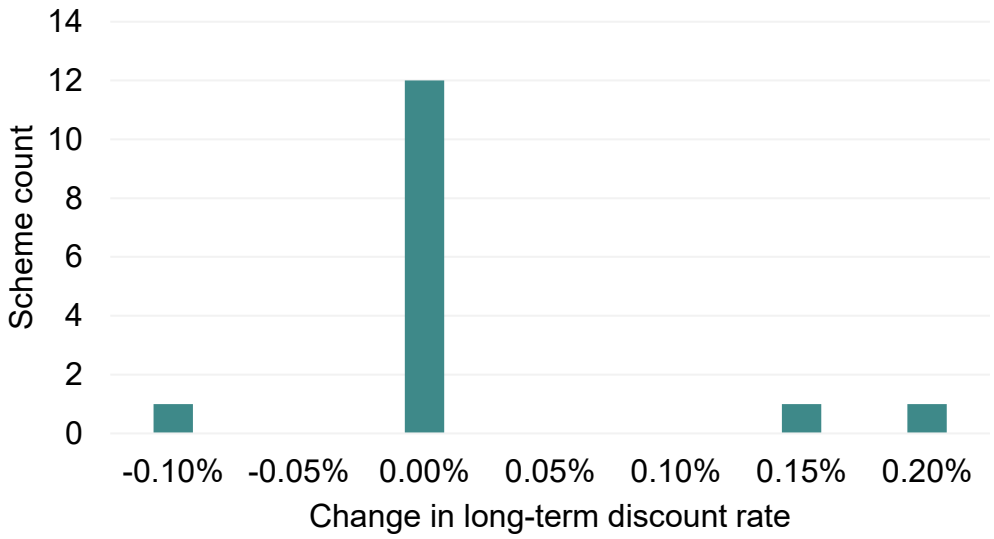
For schemes subject to the revised DB funding regime, these long-term discount rates are broadly consistent with low-dependency funding approaches. Discount rates towards the lower end of the range represent a more prudent funding approach and may increase current funding costs, although they also provide greater protection against adverse future experience. Ofgem may wish to consider whether the level of prudence and pace of de-risking being adopted by schemes provides an appropriate balance between reducing funding risk and limiting costs ultimately borne by consumers.

Graph 5: Count of schemes with specific long-term discount rates relative to gilts



3.44. Graph 5 indicates that long-term discount rates are broadly unchanged across the schemes reviewed. This is illustrated more clearly in Graph 6, which shows that twelve schemes have maintained the same long-term discount rate. WWUPS and SHEPS have increased their long-term discount rates relative to gilts by 0.2% and 0.15% respectively, while UKPNESPS has reduced its long-term discount rate by 0.1%.

Graph 6: Count of schemes with specific change to their long-term discount rates relative to gilts



Short-term discount rates

3.45. As observed in the 2023 reasonableness review, the trend towards lower short-term discount rates has continued, with thirteen schemes reducing their assumptions.

3.46. Several of these reductions were material, exceeding 1.0% p.a. The reductions are generally consistent with the continued de-risking of investment strategies, improving funding positions and the increasing focus on low-dependency funding and investment strategies under the revised DB funding regime.

3.47. Five schemes (NGESPS, SGNPS, SHEPS, SEPS and ENWESPS) reduced their short-term discount rates by between 1.2% p.a. and 1.45% p.a. NGESPS made the largest reduction, decreasing its pre-retirement discount rate by 1.45% p.a. such that the same discount rate now applies both before and after retirement.

3.48. Three schemes also changed the structure used to determine short-term discount rates. ENWESPS moved from a term-dependent approach, with different rates applying to active and deferred members, to a single discount rate. WPDESPS and CNESPS moved from setting discount rates by reference to retirement status to setting them by reference to a specified point in time within the scheme's journey plan. While these changes affect the presentation of the assumptions, they primarily reflect alternative ways of implementing the schemes' funding strategies rather than a material change in long-term funding prudence.

3.49. The remaining schemes generally reduced their short-term discount rates by smaller amounts, with reductions of up to 1.15% p.a. NPESPS retained the same short-term discount rate as at the previous valuation, while NGTPS increased its outperformance assumption relative to gilts by 0.2% p.a.

3.50. Overall, the discount rates adopted appear reasonable in the context of the schemes' investment strategies and wider UK practice.

Investment strategy

Return-seeking assets

3.51. Schemes have adopted a wide range of investment strategies, with the benchmark proportion of return-seeking (or growth) assets disclosed in the questionnaire responses ranging from 11% to 52%.

3.52. Most schemes reduced their benchmark allocation to return-seeking assets:

- UKPNESPS and UKPNPS reduced their allocation to return-seeking assets by 39% and 41% respectively.
- SGNPS, WWUPS, SEPS, SPPS, MANESPS and CNESPS reduced their allocation to return-seeking assets by 13% to 19%.
- WPDESPS and NGESPS reduced their allocation to return-seeking assets by 5% and 8% respectively.

3.53. CGPS increased its allocation to return-seeking assets by 20%. This is because Asset Backed Securities (ABS) have been classified as 100% return-seeking, which has materially increased the reported allocation following a shift from gilts and corporate bonds to ABS over the period.

3.54. The remaining four schemes, NGTPS, SHEPS, NPESPS and ENWESPS, increased their allocation to return-seeking assets by between 1% and 10%.

3.55. A reduction in the allocation to return-seeking assets is consistent with the wider trend observed across UK private sector defined benefit pension schemes as they mature. Given that all NWO schemes are closed to new entrants, their liability profiles are expected to mature over time and a gradual shift from return-seeking assets towards lower-risk matching assets may therefore be expected. This is also broadly consistent with the direction of travel under the new Funding and Investment Strategy (FIS) requirements, which encourage trustees to consider the level of investment risk that is appropriate as schemes mature.

3.56. However, lower-risk investment strategies are generally expected to result in lower investment returns over the long term, which may increase funding costs and, ultimately, contributions where required. Companies and trustees must therefore balance the pace and extent of de-risking against their funding and affordability objectives when setting their FIS and long-term investment strategy.

Inflation and interest rate hedging

3.57. Inflation and interest rate risk arise from mismatches between a scheme's assets and liabilities. Investors are generally not expected to be compensated for bearing these risks, although funding positions may benefit or deteriorate as a result of such mismatches. Consequently, there has been an increasing trend for pension schemes to seek to reduce inflation and interest rate risk through the adoption of more closely matched investment portfolios.

3.58. At the previous review, the NWOs' schemes were already generally subject to relatively high levels of inflation and interest rate hedging.

3.59. Since the previous review, seven schemes have maintained at least one of their inflation or interest rate hedging levels. These schemes had already adopted relatively high levels of inflation and interest rate hedging, ranging from 85% to 100%, following the previous valuations.

3.60. The remaining eight schemes increased their inflation hedging levels by between 8% and 42%, and their interest rate hedging levels by between 6% and 30% since the previous review.

3.61. Based on the submissions received (noting that there may be differences in the basis on which hedging is assessed), all schemes are at least 85% hedged against changes in inflation and interest rates.

Buy in

3.62. A buy-in is an insurance policy under which an insurer makes payments to a pension scheme intended to match some or all of the benefits payable to members. The insurer bears the risks associated with providing those benefits, such as members living longer than expected. However, the buy-in policy remains an asset of the scheme, and the scheme retains exposure to the risk of insurer default, although this is generally considered to be low.

3.63. NGTPS, SHEPS, NGESPS and ENWESPS hold buy-in policies covering a subset of their liabilities.

3.64. Since the previous valuation, NGESPS has completed a buy-in transaction in respect of its pensioner members.

NESO Section

3.65. The NESO Section was established in December 2024 following the separation of National Energy System Operator activities from National Grid. As this is a newly established section, there is no directly comparable previous valuation. It has therefore not been included in the comparative analysis presented in the remainder of this report.

3.66. The inaugural valuation was carried out as at 31 March 2025. At the valuation date, the section comprised only a small number of members with nominal liabilities and no assets, pending the completion of a bulk transfer of assets and liabilities from the National Grid Electricity Group section. Following completion of the transfer on 1 July 2025 and allowing for post-valuation experience to 28 February 2026, the section reported a surplus of approximately £6 million on the Technical Provisions basis, corresponding to a funding level of 107%. As a result, no deficit recovery contributions are currently required.

3.67. The section remains open to future benefit accrual and reported an overall future service cost of around 28% of pensionable salary. Employer contribution rates vary by membership category but are broadly in the range of 19% to 27% of pensionable salary, which is within the range observed across the other schemes reviewed. Administration expenses and levies are expected to be met from scheme assets, with an explicit expense reserve included within the Technical Provisions.

3.68. The trustees have adopted a long-term objective of providing benefits through ongoing run-on and have established a funding and investment strategy consistent with the

requirements of the revised DB funding regime. The section is expected to reach significant maturity in 2048 and has adopted a journey plan towards a low-dependency funding and investment position by that date. The valuation was submitted through the Fast Track route under the new funding framework.

3.69. The investment strategy includes a high level of interest rate and inflation hedging together with a modest allocation to return-seeking assets. The discount rate approach is consistent with the section's long-term funding objective, with pre-retirement liabilities valued using gilt yields plus an allowance for investment outperformance of 1.0% p.a. reducing to 0.25% p.a. by the date of significant maturity, and post-retirement liabilities valued using a margin of 0.25% p.a. above gilt yields. Overall, the funding and investment approach appears broadly consistent with the revised DB funding regime and with the approaches adopted by a number of the other schemes reviewed.

4. Consumer interest

All NWOs were able to provide examples of actions which they considered demonstrated consideration of consumer interests, including:

- Engagement with trustees and advisers;
- Negotiations on valuation outcomes;
- Discussions relating to funding and investment strategy;
- Liability management exercises; and
- Consideration of funding surpluses

We note that some NWOs cited a wider range of examples than others. However, viable ways to represent consumer interests will depend on individual scheme circumstances and may therefore differ between schemes. Given the scope of this review and the information provided, we are not in a position to identify any actions (or lack thereof) which indicate that NWOs have not fully acted in consumers' best interests. Based on the evidence provided, we are generally satisfied that NWOs have demonstrated behaviours consistent with acting in consumers' interests.

Compared to previous reviews, there was a greater focus on the management of scheme surpluses. A number of NWOs reported considering the risk of stranded surplus when determining funding strategies, contribution arrangements and long-term objectives. Given the improved funding positions observed across many schemes, Ofgem may wish to continue monitoring this area and consider whether further guidance on surplus management and stranded surplus risk would be beneficial.

An overview of the actions taken is given in this section, with a more detailed description of the actions cited by each NWO given in Appendix D. The actions of each NWO are summarised in the table in Appendix C. Viable ways to represent the consumer interest will depend on individual scheme circumstances and will vary between schemes.

Approach

4.1 We have considered the comments provided in NWOs' questionnaire responses, which describe how the NWOs believe they have interpreted the interest of consumers when engaging in the governance of their pension schemes, including discussions relating to funding, investment and risk management. In this context, examples of actions that may demonstrate that an NWO has actively considered and represented consumer interests include the following (note that this is not intended to be an exhaustive list):

- **Governance** – evidence of effective engagement with trustees and advisers, robust governance processes, and appropriate oversight of scheme expenditure.

- **Long-term objective and investment strategy** – evidence that the NWO has considered consumer interests when discussing the scheme's long-term objective and investment strategy, including the level of investment risk, funding prudence and the management of emerging surpluses. This may include consideration of the balance

between expected costs, contribution stability, funding volatility and the scheme's long-term objectives.

- **Valuation outcomes** – evidence that the NWO has represented consumer interests during discussions on actuarial valuation outcomes, including assumptions, contribution requirements and recovery plans.

- **Managing liabilities** – evidence that the NWO has sought to ensure that benefits are administered efficiently and that consumers do not bear unnecessary costs, while taking account of legal requirements and protections applying to scheme members, including protected persons legislation where relevant.

- **Actions taken to prevent stranded surplus** – evidence that the NWO has considered the risk of surplus becoming trapped within the pension scheme and therefore not ultimately benefiting consumers. This may include consideration of funding and investment strategies, contribution triggers, valuation outcomes, expenditure policies, liability management exercises, insurance transactions or other mechanisms intended to improve the likelihood that any surplus can ultimately be utilised for the benefit of consumers. Given the general trend of improved funding positions and the emergence of surpluses across a number of schemes, Ofgem may wish to consider its policy in this area and whether the possibility of stranded surplus presents a material concern for any of the schemes.

- **Consumer research** – evidence that the NWO has sought to understand consumer views and priorities and, where appropriate, reflected these in discussions with trustees and advisers.

4.2 We recognise that there may be different views on what outcome would best represent consumers in some areas (e.g. the level of risk in the investment strategy). However, we understand that Ofgem are particularly interested in understanding the process followed by NWOs in considering the consumer interest.

Findings

4.3 All companies were able to provide examples of actions which they considered to be evidence of them acting in the consumer interest.

4.4 We note that some companies have cited more examples than others. It is possible that additional actions could have been explored further by some companies since the previous reasonableness review. However, actions will need to be prioritised and represent value for money. Given the scope of this review and the information provided, we are not in a position to identify any actions (or lack thereof) which could indicate that companies have not fully acted in consumers' best interests. Based on the evidence provided, we are generally satisfied that NWOs have demonstrated the behaviours we would expect in terms of acting in consumers' interests. Viable ways to represent the consumer interest will depend on individual scheme circumstances and are therefore likely to vary between schemes.

4.5 Please note we have summarised the evidence provided by the companies. We have not independently verified the accuracy or completeness of the information provided.

Governance

4.6 All NWOs reported ongoing engagement with trustees and advisers in relation to the management and governance of their pension schemes.

4.7 Examples included attendance at trustee meetings, participation in working groups, oversight of scheme expenditure and engagement with independent professional advisers.

4.8 Several NWOs highlighted formal governance structures, including governance sub-committees, and regular dialogue with trustees as important mechanisms for representing consumer interests during discussions on funding, investment and scheme expenditure.

4.9 Many NWOs also noted that they sought to provide challenge to trustee proposals where these could affect costs ultimately borne by consumers, while maintaining an appropriate balance between affordability and benefit security.

Long-term objective and investment strategy

4.10 Many NWOs reported reviewing their long-term funding objectives and investment strategies since the previous reasonableness review. This reflects both scheme-specific developments and the introduction of the revised DB funding regime, under which schemes are expected to establish a long-term funding and investment strategy.

4.11 A common theme was the continued de-risking of investment strategies as schemes mature and funding positions improve. Many NWOs reported supporting reductions in investment risk, increased levels of interest rate and inflation hedging, and greater alignment between investment strategy and long-term funding objectives.

Buy-ins (and longevity hedges)

4.12 Several schemes have implemented, maintained or considered insurance-based risk transfer arrangements as part of their wider funding and investment strategies. These include pensioner buy-ins, longevity hedging arrangements and the exploration of future insurance transactions. Such arrangements can reduce exposure to investment, longevity and other funding risks, potentially reducing the likelihood of future costs falling on consumers. However, insurance solutions typically involve an upfront cost and may reduce opportunities for future investment outperformance. The efficiency of any approach will depend on scheme-specific circumstances, including funding position, maturity and the pricing available from insurers. We have not commented on the appropriateness of individual transactions.

4.13 Four schemes currently hold buy-in policies covering part of their liabilities (NGTPS, SHEPS, NGESPS and ENWESPS), with NGESPS completing a significant pensioner buy-in transaction during 2024, which included the entire novation of a previously arranged longevity swap. In addition, SPPS and MANESPS have implemented longevity hedging arrangements, while SEPS reported that it continues to assess potential risk transfer opportunities. Several NWOs described these arrangements as part of a broader strategy to reduce funding risk, improve certainty of member outcomes and limit the potential for future consumer-funded pension costs. As funding levels have improved across many schemes, insurance-based solutions may become increasingly relevant when considering long-term funding objectives and endgame planning. Ofgem may wish to consider whether



further guidance on the balance between risk reduction, affordability and value for consumers would be beneficial as schemes continue to mature.

Valuation outcomes

4.14 NWOs reported active involvement in valuation discussions, including negotiations on actuarial assumptions, contribution requirements and recovery plans. Several companies stated that they sought to challenge unnecessary prudence where appropriate whilst maintaining adequate security for scheme members.

4.15 Many schemes reported improved funding positions at the latest valuation and, in several cases, no longer require deficit recovery contributions. A number of NWOs also reported agreeing lower future service contribution rates or funding arrangements intended to limit costs to consumers whilst remaining consistent with the schemes' funding objectives.

Managing liabilities

4.16 A number of NWOs reported actions intended to reduce pension liabilities, funding risks or ongoing costs. These included:

- Closure of schemes to future accrual;
- Pension increase exchange exercises;
- Flexible retirement arrangements;
- Transfer options and support; and
- GMP conversion exercises.

4.17 Several schemes reported exercising discretionary powers available under scheme rules in relation to pension increases. Examples included the application of pension increase caps or the award of increases below full inflation where permitted. Companies described these actions as helping to limit scheme liabilities and reduce costs ultimately borne by employers and consumers.

4.18 Several schemes also reported the use of insurance-based risk transfer arrangements, including buy-ins and longevity hedging. While such arrangements may reduce the scope for investment outperformance, they can also reduce exposure to investment and demographic risks and improve certainty over future funding outcomes.

Action taken to prevent stranded surplus

4.19 Compared to previous reviews, there was a greater focus on the management of scheme surpluses. As discussed in Section 3, eleven schemes reported a funding surplus at their most recent valuation, increasing the relevance of considerations around stranded surplus.

4.20 NWOs reported a range of actions intended to reduce the likelihood of surplus becoming trapped within pension schemes. These included:

- contribution holidays
- establishment of expense reserves
- reduced contribution requirements

- monitoring of funding levels
- de-risking investment strategies
- use of funding triggers and consideration of mechanisms through which surplus value may ultimately benefit employers and consumers.

4.21 Several NWOs stated that they had explicitly considered stranded surplus risk when determining funding strategies, contribution arrangements and long-term objectives.

4.22 The approaches adopted varied considerably between schemes, reflecting differences in funding positions, scheme maturity, legal constraints and long-term objectives. Given the improved funding positions observed across many schemes, Ofgem may wish to continue monitoring this area and consider whether additional guidance on surplus management would be beneficial. In particular, Ofgem may wish to satisfy itself that consumers are receiving an appropriate share of the benefit arising from funding surpluses. This may be particularly relevant where surpluses are used to support contribution holidays, reduced contribution requirements or the establishment of expense reserves, as these arrangements can reduce the level of contributions that would otherwise be paid by NWOs. Where such surpluses have arisen in part from historic consumer-funded deficit contributions, Ofgem may wish to consider whether the resulting benefit is being appropriately reflected in customer outcomes.

Consumer research

4.23 Only a minority of NWOs reported undertaking specific consumer research since the previous reasonableness review. Where research was undertaken, it was used to inform consideration of issues including risk appetite, value for consumers and the potential use of pension scheme surpluses.

4.24 Most NWOs indicated that consumer interests were represented through governance processes, professional advice and consideration of the impact of funding and investment decisions on current and future consumer costs. While approaches varied between schemes, the information provided indicates that NWOs have considered consumer interests when participating in pension scheme governance and funding discussions.



5. Limitations and compliance

5.1 The purpose of this report is to assist Ofgem in its consideration of price control allowances. This report does not constitute advice on the appropriate funding of NWOs' pension schemes.

5.2 For this review, we have assumed that Ofgem was content with the overall funding and investment strategies adopted by the NWOs' defined benefit pension schemes at their latest valuations. Accordingly, our review has focused on changes in the methods and assumptions adopted since the previous valuations.

5.3 The consumer interests summary table is based on our interpretation of the information and statements provided. Other interpretations may also be reasonable. A blank entry does not necessarily indicate that an action has not been undertaken or that it would not have been appropriate to do so.

5.4 We have not reviewed any annual funding updates or Pension Deficit Allocation Methodology (PDAM) reports.

Information used

5.5 In preparing this report, GAD has relied on the data and other information provided by Ofgem. In particular, GAD has relied on the general completeness and accuracy of the information supplied without independent verification. In limited instances, we have adjusted data provided in questionnaires to more accurately reflect information contained in valuation reports. Where inconsistencies in figures could not be resolved, the figures provided in the questionnaires have been adopted.

5.6 In carrying out this review, we have considered the information provided by NWOs and Ofgem. We have not independently assessed compliance with the Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 or the requirements of The Pensions Regulator's DB Funding Code. References to these requirements are provided for contextual purposes only.

Distribution and publication of this report

5.7 This report has been prepared for the use of Ofgem. A draft version of this report was shared with the NWOs through Ofgem prior to finalisation for factual review and comment. Any comments received were considered before finalising the report. We are aware that Ofgem may publish this report in full alongside its final decision on the 2026 reasonableness review.

5.8 This report has been prepared for the use of Ofgem and must not be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior written permission.

Other than Ofgem, no person or third party is entitled to place any reliance on the contents of this report, except to any extent explicitly stated herein. GAD has no liability to any

person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this report.

Compliance

5.9 This work has been carried out in accordance with the applicable Technical Actuarial Standard, TAS 100, issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

Appendix A: Pension schemes and abbreviations

	Defined benefit pension scheme	Abbreviation used	Most recent formal valuation Date	Most recent formal valuation Technical Provisions (£m)	Most recent formal valuation Surplus / (Deficit) (£m)
Gas	Scotia Gas Networks Pension Scheme	SGNPS	March 2024	782	51
Gas	Cadent Gas Pension Scheme	CGPS	March 2025	4,234	(102)
Gas	Wales & West Utilities Pension Scheme	WWUPS	March 2025	305	(32)
Gas	National Gas Transmission Pension Scheme	NGTPS	March 2025	3,651	13
Electricity	Scottish Hydro-Electric Pension Scheme	SHEPS	March 2024	1,146	230
Electricity	ESPS Southern Electric Group	SEPS	March 2025	1,524	1
Electricity	Scottish Power Pension Scheme	SPPS	March 2024	2,413	191
Electricity	ESPS Manweb Group	MANESPS	March 2024	886	(109)
Electricity	ESPS UK Power Networks Group	UKPNESPS	March 2025	2,648	14
Electricity	UK Power Networks Pension Scheme	UKPNPS	March 2025	401	14
Electricity	Northern Powergrid Group of the ESPS	NPESPS	March 2025	969	2
Electricity	ESPS National Grid Electricity Group	NGESPS	March 2025	2,091	136
Electricity	ESPS ENW Group	ENWESPS	March 2025	807	54
Electricity	ESPS WPD Group	WPDESPS	March 2025	1,708	(66)
Electricity	ESPS Central Networks Group	CNESPS	March 2025	2,534	37
Electricity	NESO Section of the Pensions Master Plan (Former NGEG members)	NESO*	March 2025	84	6

*NESO valuation results allow for post valuation experience to 28 February 2026

Appendix B: Summary of funding approaches

The following table summarises the main differences between the two most recent formal actuarial valuations.

Scheme	Year of latest valuation	Change in funding level (assets / liabilities)	Change in recovery plan end date (years)[1]	Change in annual deficit repair contributions[1]	Change in employer contributions pa[2]	Change in discount rate relative to gilts (pre/post-retirement)[4] Pre	Change in discount rate relative to gilts (pre/post-retirement)[4] Post	Change in return seeking asset allocation	Change in hedging Inflation	Change in hedging Interest rate	Buy in
SGNPS	2024	+6%		N/A	N/A	-1.2%	0.0%	-15%	0%	0%	No
CGPS	2025	-4%	+6.0	Higher	N/A	*-0.15% pre-2030 0.0% post-2030	*-0.15% pre-2030 0.0% post-2030	+20%	0%	1%	No
WWUPS	2025	-3%	0.0	Similar	N/A	-0.4%	*+0.1% pre-April 2031 +0.2% post April 2031	-13%	0%	0%	No
NGTPS	2025	0%	N/A	N/A	-23.4%	*+0.2% pre-2030 0.0% post-2030	0.0%	+1%	6%	7%	Yes
SHEPS	2024	+5%	N/A	N/A	N/A	-1.25%	0.15%	+3%	0%	0%	Yes
SEPS	2025	+3%	N/A	N/A	-6.5%	-1.3%	0.0%	-16%	30%	30%	No
SPPS	2024	+13%	N/A	N/A	-53.4%[3]	*-0.25% pre-2028 0.0% post-2028	*-0.25% pre-2028 0.0% post-2028	-19%	1%	0%	No
MANESPS	2024	+9%	0.0	Higher	-28.8%	*-0.25% pre-2028 0.0% post-2028	*-0.25% pre-2028 0.0% post-2028	-17%	0%	0%	No

UKPNESPS	2025	+2%	N/A	N/A	-19.1% to 0.0%	*-0.2% for past service pre-2026 -3.2% for future service pre-2026 -0.1% post-2026	*-0.2% for past service pre-2026 -3.2% for future service pre-2026 -0.1% post-2026	-39%	8%	8%	No
UKPNPS	2025	+24%	N/A	N/A	-18.2% to 0.0%	*-0.9% pre-2039 0.0% post-2055	*-0.9% pre-2039 0.0% post-2055	-41%	42%	26%	No
NPESPS	2025	0%	N/A	N/A	-16.7%	0.0%	0.0%	+1%	0%	0%	No
NGESPS	2025	+8%	N/A	N/A	-27.6%	-1.45%	0.0%	-8%	10%	10%	Yes
ENWESPS	2025	+8%	N/A	N/A	Contribution holiday	-1.3% for past service -2.8% for future service	0.0%	+10%	14%	6%	Yes
WPDESPS	2025	-2%	+4.3	Similar	-32.0%	*-1.6% to -1.15% pre-April 2050 -1.6% post April 2050	*0.0% to +0.45% pre-April 2050 0% post April 2050	-5%	12%	12%	No
CNESPS	2025	+2%	N/A	N/A	-27.0%	*-1.45% to -0.95% pre-April 2040 -1.45% post April 2040	*0.0% to +0.5% pre-April 2040 0% post April 2040	-15%	11%	11%	No

[1] Schemes marked with N/A had a funding surplus and therefore had no DRCs
[2] Schemes marked with N/A have no active members or have closed to future accrual and therefore have no standard employer contributions
[3] SPPS paying nil contributions but subject to bi-annual trigger test
[4] Those marked with a * have a discount rate structure before/after a long-term funding date

Appendix C: Summary of representation of consumer interests

We have provided a simplified summary of the recent actions taken by NWOs to reflect consumer interests in the table below. The summary is based on information contained in companies' consumer interest questionnaire response, as provided by Ofgem.

All companies reported that they have actively represented consumers in discussions and committee meetings involving the trustees. This is in part expected due to statutory requirements.

The summary table reflects our interpretation of the information provided and alternative interpretations may also be reasonable. A blank entry does not necessarily indicate that a particular action has not been undertaken, or that it would have been appropriate to do so, because:

- the relevant information may have been omitted from the statement; and
- viable ways to represent the consumer interest will depend on individual scheme circumstances and will vary between schemes, so not all the actions may be relevant to all schemes.

We note that some companies provided more examples than others. It is possible that additional actions have been considered or undertaken by some companies since the previous reasonableness review but were not reflected in the information provided to us. However, given the scope of this review and the evidence available, we have not identified any actions (or lack thereof) that would indicate that companies have failed to act in consumers' interests.

Scheme	Investment strategy reviewed	Valuation concessions Assumptions negotiations	Valuation concessions Recovery plan	Valuation concessions Contribution rate (accrual)	Liability management	Buy-in or longevity hedging	Expense reserve	PPF levy	Consumer research since last review
SGNPS	Yes	Yes	N/A	N/A	Closure to future accrual	None	No	Monitored	Yes
CGPS	Yes	Yes	Yes	N/A	IFA support, closure to future accrual	None	Yes	No risk-based levy	No
WWUPS	Yes	Yes	No	N/A	IFA support	None	No	No risk-based levy	No
NGTPS	Yes	Yes	N/A	Yes	IFA support	Partial buy-in	Yes	No risk-based levy	No
SHEPS	Yes	Yes	N/A	N/A	FRO, partial transfers and permitting suspension of accrual	Partial buy-in	Yes	Levies negligible	No
SEPS	Yes	Yes	N/A	Yes	FRO, partial transfers and permitting suspension of accrual	None	Yes	Levies negligible	No
SPPS	Yes	Yes	N/A	N/A	FRO, PIE	Longevity swaps	Yes	No risk-based levy	No
MANESPS	Yes	Yes	Yes	Yes	FRO, PIE, Bulk PIE exercise ongoing throughout 2025-26.	Longevity swaps	Yes	No risk-based levy	No
UKPNESPS	Yes	Yes	N/A	Yes	Pension increase cap	None	Yes	No risk-based levy	No
UKPNPS	Yes	Yes	N/A	Yes	None	None	Yes	No risk-based levy	No
NPESPS	Yes	Yes	N/A	No	Pension increase cap	None	Yes	No risk-based levy	No
NGESPS	Yes	Yes	N/A	Yes	IFA support, Pension increase cap	Buy-in	Yes	No risk-based levy	No
ENWESPS	Yes	Yes	N/A	Yes	GMP conversion, PIE, pension increase cap	Partial buy-in	Yes	No risk-based levy	No
WPDESPS	Yes	Yes	Yes	Yes	Pension increase cap	None	No	No risk-based levy	No
CNESPS	Yes	Yes	N/A	Yes	Pension increase cap	None	Yes	No risk-based levy	No

Appendix D: Representation of consumer interests

Acting in the consumer interest – examples presented by companies as evidence

SGNPS

Governance

The Company and Trustees operate a collaborative governance framework while retaining their respective responsibilities and independent advisers. Regular engagement includes monthly meetings between the Trustee Chair and the CFO's representative, joint working groups and Company oversight of Trustee budgets and significant expenditure. The Company independently assesses Scheme risks and uses this analysis to inform its engagement with and, where appropriate, proposals to the Trustees.

Long-term objective and investment strategy

Following the 2023 Review, the Company undertook a comprehensive review recognising the Scheme's increasing maturity, significant future liquidity requirements and the new DB funding regime. The preferred strategy is to retain the Scheme and adopt a low-risk cashflow-matching approach generating predictable contractual cashflows to meet pension payments while reducing the likelihood of future deficits and reliance on the Company. Insurer buy-out and alternative run-on strategies were considered (but ruled out) as part of the review.

Valuation outcomes

The Scheme was 109% funded on the Technical Provisions basis at 31 March 2025, compared with 103% at the previous Review. No deficit recovery contributions are payable. The Company continues to challenge excessive margins for prudence where these would unnecessarily increase costs for consumers while seeking to maintain an appropriate level of security for members' accrued benefits.

Managing liabilities

The DB Scheme was closed to future accrual on 31 March 2025, removing the future cost and risk associated with additional DB accrual. No liability management exercises have been undertaken since the 2023 Review. The Company's focus has been on managing the existing liabilities through a review of the long-term funding and investment strategy (see above).

Actions taken to prevent stranded surplus

Following Ofgem's 2023 recommendations, the Company developed a proactive strategy for managing existing and future surplus. Alternatives were assessed by reference not only to the quantum of value available to consumers but also its timing and distribution between current and future consumers. The preferred approach includes establishing a DC section within the existing trust so that, subject to appropriate funding safeguards and Trustee agreement, surplus can be used to meet DC contributions rather than becoming stranded. We are currently in discussions with Ofgem to ensure that the economic value generated from the surplus is passed back to consumers through an appropriate mechanism.

Consumer research

Independent consumer research was undertaken in early 2026 involving more than 1,000 consumers across SGN's network. The research tested preferences between alternative approaches to returning value, including differences in quantum, timing and certainty. Consumers consistently preferred approaches providing greater overall value through continuing bill reductions rather than smaller one-off benefits. The findings were considered alongside Green Book principles and incorporated into the Company’s preferences for its long-term objective and investment strategy.

CGPS

Governance

Cadent has continued to maintain a strong and constructive relationship with the CGPS Trustee, representing consumer interests throughout funding, investment and governance discussions. The Company attends regular Trustee meetings and relies on external professional advisers to provide efficient and informed input.

Long-term objective

As part of the 31 March 2025 valuation, Cadent and the Trustee formally agreed the Scheme's long-term objective, Low Dependency funding basis and relevant date. The agreed objective is for the Scheme's assets to pay benefits as they fall due, with a target of being fully funded on a low dependency basis by 31 March 2033.

Investment strategy

Cadent has continued to advocate a low-cost investment strategy that broadly matches benefit payments while appropriately managing risks. The Trustee undertakes regular formal reviews of the investment strategy in consultation with Cadent. Recent reviews have considered the gradual divestment of the Scheme’s portfolio of illiquid assets, with the intention for the allocation to higher-risk and illiquid assets to reduce over time.

Valuation outcomes

The updates to the Technical Provisions basis negotiated with the Trustee were supported by economic, legislative or demographic developments and reflected an appropriate level of prudence. Overall, the agreed changes to assumptions led to a slight reduction in the Technical Provisions liabilities. The funding shortfall was largely driven by the estimated impact of rectifying historical benefit issues identified since the previous valuation. Cadent obtained independent legal and actuarial advice in respect to these issues in parallel with the valuation discussions. A six-year recovery plan was agreed, balancing the interests of consumers and security of benefits.

Managing liabilities

The most significant liability management action since the 2023 Review was the cessation of future benefit accrual from 31 March 2024. This followed consultation with members and was undertaken in part to address the ongoing cost of future service benefits and support cost efficiency for consumers.

Actions taken to prevent stranded surplus

Cadent and the Trustee have continued to monitor the Scheme's funding position closely and have considered stranded surplus risk in the design of the funding strategy, investment strategy, recovery plan and long-term objective. The provision of ongoing security arrangements enabled a less prudent funding basis than would otherwise have been required, helping to manage funding levels efficiently. Deficit contributions have been spread over an appropriate period that reduces the risk of overfunding at the next valuation.

Consumer research

Cadent has a dedicated Customer Insights team which undertakes a wide range of customer research and stakeholder engagement activities each year, helping to ensure that key business decisions are informed by a robust understanding of customer views and priorities.

WWUPS

Governance

The Company cites a strong relationship with the Trustees and takes the view that the interests of consumers are best served by a positive constructive relationship and continual dialogue. It regularly works with Trustees, attending Trustee meetings and exchanging formal correspondence. It negotiates to balance the needs of consumers with those of other stakeholders.

Long-term objective and investment strategy

The long-term objective is to buy-out the scheme with an insurer in 2031 and the deficit contributions and investment strategy have been chosen with this objective in mind. The investment strategy has been refined to remove an underperforming private credit fund, with the additional benefit of increasing liquidity and thereby enabling a transaction on a buy-in if affordability arises sooner than expected. The strategy now consists of only credit and 'matching' assets, which balances the benefit of expected investment return with downside risk.

Valuation outcomes

The Company negotiated to retain the current recovery period up to 2031, consistent with the recovery plan end date from the 2022 valuation. This included the adoption of higher discount rates to reflect an updated view of future insurance pricing. The objective is to buy annuities and wind up the scheme in 2031.

Actions taken to manage liabilities

The Company took proactive steps in prior reviews such as closing the scheme to future accrual. The Company reports it has reduced risk and improved the funding position by supporting process for members to opt to transfer out at retirement, including by providing access to a preferred IFA.

Actions taken to prevent stranded surplus

The Company has negotiated an arrangement with the Trustees whereby deficit reduction contributions will be suspended should a situation arise where it is expected that there are sufficient funds already in the Scheme to meet the anticipated cost of an insurance premium.

Consumer research

The Company state it has conducted a comprehensive customer and stakeholder engagement programme to better understand customers' perceptions and reflect their preferences in the 2019 business plan.

NGTPS

Governance

To ensure good Scheme governance the Company has appointed a professional trustee. The Trustee has set up a governance sub-committee; the Company reviews the meeting papers and minutes. NGT maintains a strong relationship with the Trustee, at both executive and operational levels. A Company representative attends all Trustee Board meetings and, where relevant, sub-committee / working group meetings, leaving only when conflicts arise. The Company also regularly engages, both formally and informally, with the Trustee Board Chair, the Secretariat and key Trustee advisers, emphasising the importance of consumer interests.

Long-term objective and investment strategy

The agreed long-term objective is flexible and does not commit the Scheme to a particular path. This minimises risk to consumers and allows for future decisions to be made based on circumstances and factors as they arise. Both parties have developed an investment strategy that seeks to minimise the risk of future deficit contributions emerging (funded by consumers). By law, the investment strategy is set unilaterally by the Trustee, but the Company provides input and to date has been able to influence it, with recent hedging discussions being an example.

Valuation outcomes

The Company has negotiated assumptions resulting in a small Technical Provisions surplus at the most recent funding valuation, with no need for consumer funded deficit contributions. The future service contribution rate has also fallen following the valuation following an earlier, inter-valuation, reduction to reflect higher gilt yields.

Managing liabilities

The Trustee holds a buy-in covering around a quarter of total liabilities, held since 2019. This hedges almost all market and demographic risk for those liabilities. In 2013 the Company implemented a salary cap on pensionable pay for future service, reducing the costs of providing benefits for current employees, saving costs for consumers.

Actions taken to prevent stranded surplus

The Company has taken actions to reduce the potential size of any stranded surplus, noting that scheme funding regulations require prudent funding. The Company provides a security guarantee that may otherwise lead the Trustee to seeking more cash. The Trustee will meet Scheme expenses directly from Scheme assets going forward, but with Company oversight.

Consumer Research

The Company has sought to minimise the risk of deficit contributions, now or in the future, clearly in consumer interest.

SHEPS & SEPS

Governance

SSE maintains a constructive relationship with both Trustee boards. The Trustee Chairs meet the CFO and Group HR Director quarterly to review funding, investment strategy and governance; Company representatives attend quarterly Trustee meetings, and the CFO or nominee gives an annual business update. The Trustees formally assess the sponsor covenant during each valuation, most recently rating the Group's covenant as strong for the 2025 SEPS valuation. Senior finance, investor-relations and operational colleagues serve as employer-nominated Trustees, while joint projects across the schemes help control costs.

Long-term objective and investment strategy

Both schemes have long-term funding objectives designed to secure members' benefits while limiting reliance on the Group and consumers. SHEPS targets full funding on a gilts basis plus a defined risk buffer, with interest-rate and inflation exposure fully hedged and assets focused on matching and high-quality credit. SEPS is working towards its statutory low-dependency objective by significant maturity in 2034. Since 2023, both schemes have further de-risked: SHEPS exited equities, restored 100% hedging and introduced a buy-and-maintain credit mandate; SEPS increased credit, consolidated its credit mandates, raised hedging and progressed through triggers reducing growth asset allocations. Decisions incorporate advisers' analysis, manager performance and ESG considerations, supported by SSE.

Valuation outcomes

SEPS' improved funding produced a Technical Provisions surplus at the 2025 valuation, enabling its recovery plan to end early and reducing expected 2026/27 cash contributions by £18m. Future-service costs fell by more than £1m and the expense allowance was frozen. An enhanced SSE plc guarantee was agreed instead of additional prudence that would have increased contributions. SHEPS remains strongly funded, with no employer cash contributions beyond salary-sacrifice member contributions.

Managing liabilities

SSE supports flexible retirement, partial transfers and suspension of accrual for tax-affected colleagues. Pension-increase impacts have been managed within scheme rules. SHEPS buy-in policies cover around two-thirds of pensioner liabilities and investment approach includes a longevity risk buffer; SEPS is assessing risk-transfer options.

Actions taken to prevent stranded surplus

SHEPS surplus assets fund future service and scheme expenses. The Company and Trustees are reviewing how assets above the risk buffer can best be invested or deployed, considering emerging legislation, member security and consumer interests.

Consumer research

Historic research with stakeholder representatives established two guiding principles—minimise current cash costs and reduce future volatility—which continue to shape funding and investment discussions with the Trustees.

SPPS & MANESPS

Governance

Company and Trustees work collaboratively to manage Schemes. Company regularly engages with Trustees at quarterly meetings and proactively when material events take place.

Long-term objective and investment strategy

Since 2023 Review, LTO for Schemes continues to be ‘run-on’ targeting gilts + 0.4%. Each Trustee Board consults on de-risking activity to ensure broad alignment with ScottishPower. ScottishPower and Trustees have previously agreed to de-risking Schemes’ investment strategies. Schemes are well hedged against interest rate and inflation risk (hedge ratios of 98% and 96% for SPPS and Manweb respectively at March 2026).

Valuation outcomes

31 March 2024 triennial valuation exercise confirmed £191m surplus for SPPS and £109m deficit for Manweb. For SPPS, it was agreed that no DRCs were required. Established future service and expense reserves within Technical Provisions (as well as notional £20m “budget” for benefit augmentations) meaning no employer contributions required, subject to bi-annual funding tests. For Manweb, continuation of existing level of DRCs agreed, subject to bi-annual funding tests to guard against trapped surplus. Employer future service contributions fell from 52.9% to 24.1%. Establishment of an expense reserve means no contributions towards expenses are required, subject to ongoing funding tests.

Managing liabilities

Company has worked with Manweb Trustee to reach clarity on Manweb BEC, reducing pension costs and removing obligation to fund for BEC in Technical Provisions. Both Schemes have an at-retirement FRO and PIE option in place, resulting in modest reductions in pension costs and risk exposure. Company currently working with Manweb Trustee to implement a bulk pension PIE exercise.

Actions taken to prevent stranded surplus

SPPS funding level was monitored regularly prior to 31 March 2024 triennial valuation. By 30 September 2023 a significant Technical Provisions surplus was confirmed and Company and Trustee agreed to interim Schedule of Contributions suspending further DRCs. Company advocates for appropriate levels of prudence in the triennial valuation assumptions. Established future service, expense reserves and augmentation “budget” in SPPS making efficient use of existing surplus. Bi-annual funding tests for Manweb ensure DRCs are suspended once full funding reached.

Consumer research

As part of the 2020 Reasonableness Review, a comprehensive review was carried out. Management have elected not to renew the research this year as it still considers 2020 results valid and both Schemes are now considerably better funded.

UKPNESPS

Governance

The Company maintains a strong governance framework through its Corporate Pension Committee (CPC), regular engagement with the Trustee and ongoing support from professional advisers. The Head of Pensions attends Trustee meetings as a Company observer and provides support to the CPC, ensuring that pension risks, funding developments and strategic decisions are actively monitored. The Company has sought to provide challenge while maintaining a collaborative relationship with the Trustee, with particular focus on matters that could affect future costs borne by consumers.

Long-term objective and investment strategy

The Company's long-standing objective has been to reduce pension risk and reliance on future Company support. The Group successfully achieved its long-term funding objective and low dependency target, enabling further progress towards a lower risk funding and investment strategy. The Company supported a continued de-risking approach, high levels of interest rate and inflation hedging and reduced reliance on return-seeking assets. These actions reduce funding volatility and the potential for future deficit reduction contributions that could ultimately affect consumers.

Valuation outcomes

The Company engaged with the Trustee, negotiating funding assumptions and contribution requirements in a manner which balanced prudence, benefit security and affordability. At this valuation there was no deficit, no need for a recovery plan, and a significant reduction in future service contribution costs. The Company also supported a lower-risk funding basis and the establishment of a reserve to meet future scheme expenses.

Managing liabilities

Liability management opportunities continue to be monitored and have been implemented in the past. However, since the previous valuation, the focus has remained on reducing risk through funding and investment strategy. The Company did consider feasibility of a bulk Pension Increase Exchange in 2023 but deemed it not sufficiently worthwhile.

Actions taken to prevent stranded surplus

The Company supports a funding strategy that seeks to avoid excess risk and unnecessary surplus accumulation. This includes agreeing with the Trustee to cease deficit reduction contributions before the Long Term Objective was met. The agreed de-risking framework reduces the likelihood of material surplus emerging over time, while recognising that a modest surplus provides a buffer against adverse experience and reduces the risk of future deficit contributions. The Company agreed with the Trustee to establish an expenses reserve, enabling implementation of the Secretary's Protocol from April 2026 and allowing future scheme expenses to be met from Scheme assets rather than directly by the Company.

Consumer research

No formal consumer research was undertaken. Consumer interests have instead been considered throughout funding, valuation and investment decisions, supported by specialist advice.

UKPNPS

Governance

The Company maintains a strong governance framework through its Corporate Pension Committee (CPC), regular engagement with the Trustee and ongoing support from professional advisers. The Head of Pensions attends Trustee meetings as a Company observer and provides regular updates to the CPC, ensuring that pension risks, funding developments and strategic decisions are actively monitored. The Company has sought to provide constructive challenge while maintaining a collaborative relationship with the Trustee, with particular focus on matters that could affect future costs borne by consumers.

Long-term objective and investment strategy

The Company continues to support the Scheme's long-term objective of achieving full funding on a low-risk basis before the Scheme reaches a high level of maturity. The 2025 strategy review reflected the improved funding position by reducing the target return from Gilts +3.1% p.a. to Gilts +2.5% p.a. net of fees and increasing inflation hedging to align with interest-rate hedging at around 90% of assets. This reduces future funding volatility while maintaining a realistic path to the long-term objective. The Company has supported a strategy that seeks to minimise the likelihood of future deficits while maintaining a realistic prospect of achieving the long-term funding objective.

Valuation outcomes

The 2025 valuation represented a significant improvement in the Scheme's financial position, with a £133 million deficit at the 2022 valuation becoming a £14 million surplus. The Company actively negotiated valuation assumptions, funding arrangements and covenant support provisions, reducing technical provisions liabilities and future service contribution requirements. Deficit repair contributions ceased from March 2026, materially reducing future pension costs.

Managing liabilities

Liability management opportunities continue to be monitored and have been implemented in the past. However, since the previous valuation, the focus has remained on reducing risk affordably through funding and investment strategy.

Actions taken to prevent stranded surplus

The Company supports a funding and investment framework that seeks to avoid both unnecessary deficit risk and excessive surplus accumulation. The Scheme's surplus is currently viewed as an appropriate buffer against adverse experience and future funding volatility. The Company and Trustee will continue to monitor emerging surplus and consider how it can be used to further reduce future risks and costs. The Company has also discussed with the Trustee that the Company’s expectation is that surplus that emerges in the future can be used to meet the expenses of the Scheme.

Consumer research

No formal consumer research has been undertaken. Consumer interests have instead been considered throughout funding, valuation and investment decisions, supported by specialist actuarial, covenant and investment advice.

NPESPS

Governance

The Company has a Pensions Advisory Group for pension matters, and has a strong, collaborative relationship with the Trustees that allows it to represent consumers views on all key decisions. The Company has an in-house pensions team, supported by external expert advisers, as necessary.

Long-term objective

The Company and Trustees are targeting a low-risk funding strategy, that aims to reduce the probability of a future deficit and future deficit contributions. The 2025 valuation reflected a low-risk funding basis, based on a discount rate assumption of Gilts + 0.3% a year.

Investment strategy

The investment strategy was agreed to support the long-term objective above. As at the 2025 valuation date, the scheme invests around 50% of its assets in return-seeking assets. Since the valuation date, the investment strategy has been de-risked, implementing a low-risk cashflow driven investment strategy to support the long-term objective of the scheme and improve the efficiency of the shorter-term cash flow requirements. The Scheme’s interest and inflation risks are 99% hedged.

Valuation outcomes

The funding level continues to show a small surplus at the 2025 valuation, with no material changes in assumptions. Company maintained the pension increase assumption cap of RPI to 5% per annum. An expense allowance from the 2025 valuation will continue to see expenses being met by the scheme assets rather than the company going forward. The 2025 valuation was completed in an accelerated timescale, so that the consumers benefit from savings in the future service contribution rate of £2m in 2026 (the annual reduction is £4m per annum reducing as members retire).

Managing liabilities

The Company proposed to limit pension increases to 5% in both April 2023 and April 2024, however this was rejected by the Independent Trustee. The final agreed position was a pension increase of 5.75% (versus RPI inflation of 8.9%) in April 2023 to 6.5% relative to full RPI of 12.6%, and 5.75% relative to full RPI of 8.9%, significantly limiting consumer costs. The Company has focussed on the investment strategy and actuarial valuation discussions in the period since 2023 and considered how future stranded surpluses can be managed.

Actions taken to prevent stranded surplus

A “stranded surplus mechanism” was implemented at the 2019 valuation which led to the suspension of deficit contributions in 2021 and 2022, savings around £60m in deficit contributions and consumer costs. The Company has proactively engaged with the Trustees to consider the surplus, including during the investment strategy and whether additional risk is worthwhile. The Company has started discussions with the Trustees on the use of future surplus, ensuring consumers are central to the benefit of the surplus use.

NGESPS

Governance

The trustees and company have a strong collaborative working relationship. The trustee board includes two independent professional trustees and operates sub-committees for key risk areas. The company attends main board meetings and sub-committees when relevant, always challenging trustee proposals on grounds of consumer costs and only accepting changes that are consistent with market peers and practice. In some instances, Joint Working Groups are set up for specific projects (like the recent buy-in).

Long-term objective and investment strategy

The long-term funding objective is to reach a position of low dependency on the company covenant (i.e. self-sufficiency), and the scheme has already achieved this. Given the strong funding position the scheme has transitioned to a low-risk investment strategy to help secure this position. This includes the purchase of a £1.7bn pensioner buy-in policy in 2024.

Valuation outcomes

A surplus was agreed at the valuation on the technical provisions basis which is now in line with the scheme long-term funding objective basis. The liabilities continue to include an expense reserve, so scheme expenses are met from scheme assets. The company negotiated paying a lower contribution rate for future service than that calculated on the technical provisions assumptions thus reducing costs to consumers.

Managing liabilities

The company uses its discretion to apply a 5% cap on annual pension increases when RPI is above 5% pa (as it was for the 2023 and 2024 pension increases) as this is what is funded for in the technical provisions. The company agreed with the trustees to equalise GMPs using conversion via method C2 which is the method with the lowest liability impact. The company introduced a cap on Pensionable Salaries in 2013 and this continues to remain in force. Scheme provides IFA support at retirement for members to make informed decisions about their retirement options.

Actions taken to prevent stranded surplus

Transitioned to a low risk investment strategy, including entering into a buy-in transaction. Return of a £32m deficit allowance payment previously granted by Ofgem in 2020, that was due to be paid in to the scheme in September 2023, but was not required. The technical provisions include an expense reserve so that scheme expenses are met out of scheme assets. Negotiated paying a lower contribution rate to meet future accrual than that determined by the Scheme Actuary based on the technical provisions assumptions.

Consumer research

The company did not undertake any explicit consumer research. The company’s overall strategy is to reduce risk to consumers when the scheme can afford to do so and at no extra costs to consumers. As such, the scheme is now in a strong funding position, with a low-risk investment strategy to protect against the risk of further costs being incurred by consumers.

ENWESPS

Governance

The Company has a strong relationship with Trustee. The Company has a joint working group with the Trustee, and we work collaboratively. The Company takes independent advice from its own actuarial and legal advisers to ensure any decisions made are informed and fully considered.

Long-term objective and investment strategy

The long-term objective is to be fully funded on a low-dependency funding target (discount rate of gilts +0.5%); the strategy does not preclude pursuing buy-in options, subject to market pricing and compatibility with the consumer interest.

Valuation outcomes

There was an aggregate funding surplus as at 31 March 2025 of £54.3m. Of this, the Pension Scheme Established Deficit (PSED) was a surplus of £39.9m. Due to the surplus as at 31 March 2025, no recovery plan was required as part of the 2025 valuation. The net cost to the Company of future service benefits accrual as at 31 March 2025 was 18.7%. As allowed by Paragraph 7.11 of the financial handbook, it was agreed that a contribution holiday would be implemented with the future accrual of benefits for active members being funded by the surplus. The contribution holiday will be reassessed as part of the 2028 valuation.

Managing liabilities

The Company has constructive engagement with the Trustee on strategic issues relating to management of the liabilities. For example, the previous bulk GMP conversion and pension increase exchange exercise has been expanded into an at retirement option, reducing inflation and longevity risk in the Scheme. The Company also exercised its available powers to limit the pension increase payable in April 2024 to 5%, noting that an uncapped increase of 8.9% (as proposed by the Trustee) would expose consumers to higher funding costs.

Actions taken to prevent stranded surplus

The Company has agreed with the Trustee for a contribution holiday to be implemented to allow the surplus to be used to fund future accrual of benefits for active members. This reduces the risk of surplus being trapped.

Consumer research

The most recent research was carried out in 2019 with the conclusion that consumers typically prefer lower risk and are supportive of the pensioner buy-in.

WPDESPS

Governance

The trustees and company have a strong collaborative working relationship. The trustee board includes two independent professional trustees and operates sub-committees for key risk areas. The company attends main board meetings and sub-committees when relevant, always challenging trustee proposals on grounds of consumer costs and only accepting changes that are consistent with market peers and practice. The trustees recently commissioned an independent firm to review their governance structure and processes, and all recommendations have since been implemented.

Long-term objective and investment strategy

The long-term funding objective is to reach a position of low dependency on the company covenant (i.e. self-sufficiency). The investment strategy is to reduce investment risk when the funding level improves and without putting additional costs on consumers and the scheme has implemented a de-risking trigger framework.

Valuation outcomes

The company agreed technical provisions assumptions that include the same level of prudence as the previous valuation which limited the extent of the deficit. The company negotiated future service contributions plus deficit reducing contributions that were no more, in pound terms, than those currently being paid under the prior schedule of contributions.

Managing liabilities

The company ensured that pension increases in 2023 and 2024 were limited to halfway between RPI and 5% pa (despite RPI being above 5% in each of these years) as this was in line with the technical provisions assumptions that were agreed at the 2022 valuation. The company agreed with the trustees to equalise GMPs using conversion via method C2 which results in a liability impact which is broadly equivalent to lowest possible method of GMP equalisation.

Actions taken to prevent stranded surplus

Negotiated with the trustees to ensure technical provisions assumptions do not include excessive prudence that would result in a higher deficit and deficit reducing contributions. The deficit reducing contributions agreed allowed for the overpayment of future service contributions since the valuation date, as the future service rate agreed as part of the 2025 valuation was significantly lower than that agreed as part of the 2022 valuation.

Consumer research

WPD carried out consumer-based research in 2016. The company's overall strategy remains to reduce risk to consumers when the scheme can afford to do so and at no extra costs to consumers.

CNESPS

Governance

The trustees and company have a strong collaborative working relationship. The trustee board includes two independent professional trustees and operates sub-committees for key risk areas. The company attends main board meetings and sub-committees when relevant, always challenging trustee proposals on grounds of consumer costs and only accepting changes that are consistent with market peers and practice. The trustees recently commissioned an independent firm to review their governance structure and processes, and all recommendations have since been implemented.

Long-term objective and investment strategy

The long-term funding objective is to reach a position of low dependency on the company covenant (i.e. self-sufficiency). The investment strategy is to reduce investment risk when the funding level improves and without putting additional costs on consumers and the scheme has implemented a de-risking trigger framework and has also passed two trigger points.

Valuation outcomes

A modest technical provisions surplus was agreed at the valuation which included the same level of prudence as the previous valuation, avoiding any need for consumers to be called on to fund deficit repair contributions. The liabilities include an expense reserve, so scheme expenses are met from scheme assets, not from any Totex budget. The company negotiated paying a slightly lower contribution rate for future service than that determined on the technical provisions assumptions. This was to take account of excess contributions paid between the valuation date and signing the schedule of contributions and to return these to consumers rather than accumulating an unnecessary scheme surplus.

Managing liabilities

The company uses its discretion to apply a 5% cap on annual pension increases when RPI is above 5% pa (as it was for the 2023 and 2024 pension increase) as that is what is funded for in the technical provisions. The company agreed with the trustees to equalise GMPs using conversion via method C2 which results in a liability impact which is broadly equivalent to lowest possible method of GMP equalisation.

Actions taken to prevent stranded surplus

Move to a lower-risk, and therefore lower return investment strategy. The liabilities include an expense reserve so that scheme expenses are met out of scheme assets. Agreed to pay a lower contribution rate to meet future accrual than that determined by the Scheme Actuary based on the technical provisions assumptions.

Consumer research

CNESPS carried out consumer-based research in 2016. The company's overall strategy remains to reduce risk to consumers when the scheme can afford to do so and at no extra costs to consumers.

Glossary of technical terms

Buy-in

An insurance policy purchased by a pension scheme under which an insurer makes payments intended to match some or all of the benefits payable to members. The policy remains an asset of the pension scheme.

Buyout

An arrangement under which an insurer assumes responsibility for paying members' benefits directly, typically leading to the eventual wind-up of the pension scheme.

Deficit Repair Contributions (DRCs)

Additional contributions paid by an employer to eliminate a funding deficit identified at an actuarial valuation.

Discount Rate

The actuarial assumption used to convert future benefit payments into a present value. Lower discount rates generally result in higher assessed liabilities and funding costs.

Employer Covenant

The sponsoring employer's legal obligation and financial ability to support a pension scheme now and in the future.

Fast Track

One of the compliance routes under the revised defined benefit (DB) funding regime. Schemes meeting prescribed funding and risk parameters are generally expected to receive less regulatory scrutiny from The Pensions Regulator.

Journey Plan

The planned route by which a pension scheme intends to move from its current funding position to its long-term funding objective.

Low Dependency

A funding and investment position in which a pension scheme is expected to have only limited reliance on future financial support from the sponsoring employer.

Protected Persons Legislation

Legislation that provides certain utility-sector employees with protections relating to pension benefits, which may limit the changes that can be made to benefits or future benefit accrual.

Return-seeking assets

'Return-seeking assets' as a proportion of total assets held comprise the sum of:

- 100% of a scheme's allocation to equities
- 75% of property
- 100% of commodities
- 60% of Insurance policies, excluding buy-in insurance policies
- 80% of hedge funds
- 25% of corporate bonds
- 100% of assets held in the 'other' category

Significant Maturity

This is the point when a scheme reaches a duration of 10 years or less calculated on the low dependency funding basis but using economic assumptions at 31 March 2023.

Stranded Surplus

A situation where a pension scheme has developed a surplus but there is limited scope for that surplus to be used for the benefit of consumers.

Technical Provisions

The value placed on a pension scheme's liabilities for funding purposes, calculated using assumptions agreed between the trustees and employer. Technical Provisions are used to assess the scheme's funding position.