Making a positive difference for energy consumers

Distribution Network Operators, Generators, Transmission Owners, Electricity Suppliers, Pension scheme trustees, Consumers, and their representatives; and other interested parties

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Direction to set out revised pension allowance values and to complete the 2026 pensions reasonableness review

On 30 October 2026 we published a Notice[1] setting out our provisional revised pension allowance values and the provisional conclusions of the 2026 Pensions Reasonableness Review for RIIO network operators (NWOs) for consultation. This Direction sets out the revised allowances, completes the 2026 pensions reasonableness review and confirms the recommendations that NWOs should consider before the next pensions reasonableness review in 2029.

The revised pension allowances in Appendix 1 will take effect from 1 April 2027, subject to the applicable licence and Financial Handbook provisions. Appendix 2 compares the average annual allowances determined following this pensions review with those determined following the 2023 reasonableness review. Appendix 3 provides a link to the Government Actuary's Department's (GAD's) final report.

Summary of GAD's review

As part of the 2026 pensions reasonableness review, we appointed GAD to provide a high-level assessment of changes in pension valuation methodology, assumptions, benefit design and investment strategy, and to consider the evidence provided by NWOs on how consumer interests informed their participation in pension scheme governance. GAD did not identify material concerns with the changes reviewed.

- Funding positions generally improved. Eleven schemes reported a surplus at their most recent valuation, compared with five at the previous pensions review, although three pension schemes experienced a reduction in funding level.
- Only four schemes were paying deficit repair contributions at the time of the review.
- Many pension schemes continued to de-risk by reducing return-seeking assets and increasing interest-rate and inflation hedging.
- Several pension schemes were using surpluses to support contribution holidays, reduced employer contributions or expense reserves.
- All NWOs provided examples of how consumer interests had been considered, and GAD was generally satisfied that the behaviours reported were consistent with acting in consumers' interests.

[1] https://www.ofgem.gov.uk/policy/notice-our-provisional-revised-pension-allowance-values-and-2026-reasonableness-review

Responses to our Notice

We received seven responses to the Notice, and these have been published on our website.[2] Respondents raised no objections to the proposed pension allowance values or to our proposal not to amend the base Pension Scheme Established Deficit (PSED) values or Pension Payment History (PPH) or apply an adjustment factor. A number of responses identified factual or presentational points relating principally to GAD's draft report. These have been considered and, where appropriate, are reflected in GAD's final report and the corresponding summary in this Direction.

Respondents also sought further clarity on our developing approach to pension scheme surpluses, including the application of the principle that consumers should receive an appropriate share of surplus benefits, the evidence expected from NWOs and the timetable for further work. We recognise the importance of providing clarity, particularly where upcoming actuarial valuations may involve decisions on funding, investment and long-term strategy. We will continue our work with GAD and engage with NWOs as our approach develops. Any material changes to the pensions funding framework will be subject to appropriate assessment and consultation.

Having considered the responses, we have decided to make no changes to the proposed allowance values in Appendix 1.

Managing pension scheme surpluses

The increased number of schemes in surplus means that surplus management is now a central consumer issue. Consumers have historically funded established pension deficits through allowed revenues. Where they have borne the associated funding burden and risk, we consider that they should receive a commensurate share of the benefit from any resulting surplus, reflecting symmetry between risk, funding and reward.

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

We will continue to work with GAD to consider the implications of emerging pension scheme surpluses and how consumers can receive an appropriate share of resulting benefits. Any broader reconsideration of the pensions funding framework will be undertaken separately and, where appropriate, consulted upon.

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

Recommendations to network operators

We confirm the following recommendations for NWOs to consider and adopt, where relevant, before the 2029 reasonableness review:

1. Surplus management and consumer benefit: NWOs should maintain a documented strategy for the use of current and emerging surpluses. The strategy should explain the options considered, legal and scheme-rule constraints, the expected timing and value of

[2] https://www.ofgem.gov.uk/policy/notice-our-provisional-revised-pension-allowance-values-and-2026-reasonableness-review

benefits, and how those benefits will be shared with existing and future consumers to mitigate any intergenerational unfairness.

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

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

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

5. Valuation and governance evidence: NWOs should retain a clear audit trail of challenge to trustee proposals, advice obtained, alternative options considered and the resulting consumer impacts. Evidence should distinguish between statutory trustee decisions and matters on which the NWO can exert influence or exercise discretion.

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

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

These recommendations are intended to inform NWO governance and the evidence we expect to consider at future reasonableness reviews. They do not introduce new licence obligations or prescribe a single approach for individual schemes. We recognise that their application will depend on the legal, actuarial and scheme-specific circumstances.

Our decision and completion of the 2026 reasonableness review

Our decision is to revise the pension allowances for each of the three years following this review in accordance with the values set out in Appendix 1. We have decided to make no changes to the base PSED values or PPH submitted by NWOs and not to apply an adjustment factor to any NWO's pension allowance.

The revised allowances will take effect from 1 April 2027 and will be reflected through the Annual Iteration Process for each relevant sector, in accordance with the applicable licence and Financial Handbook provisions.

This Direction completes the 2026 Pensions Reasonableness Review. If you have any queries in relation to this Direction, please contact us at david.simpson@ofgem.gov.uk.

Yours faithfully,



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

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Appendix 1 – Summary and analysis of revised pension allowances

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix 2 - Comparison with the 2023 reasonableness review

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

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

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

Appendix 3 – GAD's 2026 high-level review of network operator pension costs

Full report

https://www.ofgem.gov.uk/policy/notice-our-provisional-revised-pension-allowance-values-and-2026-reasonableness-review