

To Chairs of Distribution Network
Operators (DNOs), Gas
Distribution Networks (GDNs),
Transmission Owners (TOs),
Electricity System Operator
(ESO)

Date: 9 July 2021

Dear colleague,

Invitation to provide input in relation to effective board leadership, governance and transparency in the energy sector.

The purpose of this letter is to inform you and other interested stakeholders of the Authority's plans to start a dialogue with energy network operators about the arrangements they have in place to ensure effective board leadership, governance and transparency. I will be seeking your input and engagement on this topic in the months ahead, including, where possible, direct involvement from your company's Independent Non-Executive Directors ("**INEDs**").

In recent years, the corporate governance landscape has shifted significantly. There has been greater recognition of the importance of board leadership, stakeholder interests, and corporate purpose, values and culture in driving corporate success, particularly in relation to regulatory focus and compliance. I am reaching out to industry at this stage as the Authority is keen to understand how network operators and other stakeholders are interpreting and responding to this agenda. I am particularly interested in the impact that this heightened focus on board leadership and public purpose may be having on network operators, in light of their important role as providers of essential services.

With this letter, I also wish to signal our interest in engaging or reinforcing our relationship with INEDs of network operators, who play a key role in bringing an independent perspective to boards' decision-making. In 2014, we introduced Licence Conditions requiring the appointment of sufficiently independent directors to company boards. By reaching out to network operators with this call for input, I am hoping to better understand what role INEDs have had on board decision-making and company culture and how this, and other things, ensure the consumer voice is heard loudly and clearly in the board room.

Allied to this, as part of RII02 we are considering whether current board disclosure requirements could be further developed and how the interests of customers and other stakeholders can be met through disclosure¹. The upcoming proposed changes to Regulatory Financial Performance Reporting (RFPR) will place emphasis on greater transparency, and accountability for the information that is publicly disclosed by licensees. We will engage with network companies on a range of issues, including dividend policies, executive remuneration

¹ https://www.ofgem.gov.uk/system/files/docs/2020/12/final_determinations_-_core_document.pdf, p.113

and the resilience and diversity of the workforce. We expect informal engagement with companies on this matter to begin in late summer 2021, as part of our regular RII02 discussions.

In the coming months, I will be looking to arrange round-table discussions with INEDs who are interested in sharing their views on this topic. Please share direct INEDs contact details with my colleague Laura.nell@ofgem.gov.uk to take part – we would greatly value the participation of as many INEDs as possible to ensure fair representations of different views.

I would also be interested in receiving or discussing any views on the issues raised in this letter either by correspondence or in the course of my routine engagement with some network operator Chairs, or by a special appointment.

Yours faithfully,

Martin Cave

Chair, Gas and Electricity Markets Authority