

Consultation

Energy Networks Ring-fence Review

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We are consulting on a review of the Energy Networks Ring-fence. We would welcome views from all stakeholders with an interest in regulation of the energy networks. We particularly welcome responses from groups representing consumers of gas and electricity. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Contents

Foreword	5
Executive Summary	6
1. Introduction	7
Background	7
Why we are conducting a ring-fence review	7
Licence conditions in scope.....	9
Objectives of the Ring-fence review consultation.....	9
Analysis	10
Next steps.....	10
2. Proposals	12
RIIO-3 measures proposed for Electricity Distribution sector	12
Licence modifications to enhance clarity	12
Additional financial resilience measures proposed for the ring-fence.....	13
Purpose of ring-fence to be provided in the licence condition.....	13
Availability of resources (AoR)	14
Credit rating of the licensee.....	16
Indebtedness	17
Independence of the network	18
Prohibition of cross-subsidies.....	19
Restriction of activity.....	19
Disposal of relevant assets and restriction on charges.....	20
Sufficiently independent director (SID) duties.....	21
Undertaking from ultimate controller.....	22
3. Your response, data and confidentiality	23
Consultation stages.....	23
Stage 1.....	23
Stage 2.....	23
Stage 3.....	23
Stage 4.....	23
How to respond	23
Your response, your data and confidentiality	23
General feedback.....	24
How to track the progress of the consultation	25
Appendices	26
Appendix 1 – Draft modifications to licence condition.....	27
A1.1 Text indicator	27
A1.2 Availability of Resources	27
A1.3 Credit rating of licensee.....	29
A1.4 Indebtedness.....	30
A1.5 Restriction of activity and financial ring-fencing	32
A1.6 Disposal of relevant assets and restriction on charges	33

Consultation – Energy Networks Ring-fence Review

A1.7 Sufficiently independent directors.....	33
A1.8 Undertaking from ultimate controller	34
A1.9 RIIO-3 Finance Annex draft measures.....	34
A1.9.1 RIIO-3 proposed draft modifications to be extended to ED.....	35
A1.10 Definitions proposed in RIIO-3 FD's to be extended to ED.....	38
Appendix 2 – Summary of consultation questions.....	39
Appendix 3 – Privacy notice on consultations	41
Personal data	41
Appendix 4 – Example AoR General obligation and 1F checklist.....	43
Appendix 5 – Example AoR 1F certificate template.....	44

Foreword

Energy networks are natural monopolies, providing essential services to consumers and the GB economy. These networks are licensed by Ofgem, which sets economic regulations to ensure monopoly companies who run our gas and electricity networks are incentivised to run their networks efficiently and deliver what customers need.

Networks' revenue covers both their short term operating costs and pays for the costs of investment in long-term infrastructure, which are recovered over many years. Networks receive revenues to cover returns on this long term investment, known as Regulatory Asset Value (RAV). RAV facilitates much needed long-term investment in network infrastructure, such as pipelines and power lines. This mechanism is required to balance investment in network infrastructure with the need to protect consumers from high prices.

Licensed network companies fund their investment through shareholders and through significant borrowing from lenders and investors. They often operate within complex multi layered group structures. The network ring-fence is a long-standing component of the regulatory framework and ensures the licensed network companies, on a standalone basis, have sufficient resources to be resilient and to continue to provide the essential services to consumers. Ultimately, the network ring-fence conditions give rise to regulatory restrictions to intercompany activity and decision making to minimise the licensee's exposure to financial and operational risk.

It is important we ensure networks are fit for purpose now and remain so as the environment changes. As part of our periodic review of networks' price controls, we proposed a set of measures to improve the financial resilience of the the gas and electricity transmission and gas distribution sectors¹. This consultation proposes to extend these resilience measures to the electricity distribution sector and a set of additional measures across all sectors to strengthen the ring-fence licence conditions which should benefit consumers and investors alike. We look forward to engaging with all stakeholders as we develop our proposals further, ahead of implementation in summer 2026.

Rohan Churm

Director – Financial Resilience and Controls

¹ [RIIO-3 Draft Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors | Ofgem](#) RIIO stands for Revenue = Incentives + Innovation + Outputs

Executive Summary

The network ring-fence review is being conducted to assess the effectiveness and financial resilience afforded by current ring-fence licence conditions. The primary objective of the ring-fence is to ensure licensees remain financially resilient throughout the energy transition and are protected from riskier business activities of the corporate structure they operate within to mitigate risk of value extraction.

This review aims to address the importance of maintaining a dynamic and resilient network ring-fence which safeguards licensee assets, ensures regulatory clarity and facilitates investor confidence in a financially resilient network.

We proposed a set of financial resilience measures as part of our RIIO-3 proposals² and we are recommending that these measures are extended to the electricity distribution sector during 2026.

In addition, our monitoring work and review of the ring-fence licence conditions indicate that there are different interpretations of some licence conditions and that licence conditions can be strengthened to align with the changing financial and operational needs of licensees, to provide sufficient protection in the consumer interest. We are consulting on a set of proposals, as summarised below, which seek to provide clarity on the existing obligations and strengthen the financial resilience of networks.

	What we are consulting on:
1	RIIO-3 DD's proposed financial resilience measures being introduced to Electricity Distribution (ED) sector during 2026
2	Measures to address ambiguities or lack of clarity in the ring-fence licence conditions
3	Strengthening the licence condition through the introduction of additional measures or obligations
4	Enhancements to network reporting to improve accuracy and consistency

These proposals are discussed in further detail within Chapter 2.

² [RIIO-3 Draft Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors | Ofgem](#) RIIO stands for Revenue = Incentives + Innovation + Outputs

1. Introduction

Following on from the Call for input decision paper³, published in April 2025, we are now consulting on strengthening of the network ring-fence licence conditions. The previous comprehensive consultation took place in 2010 and there have been significant risks to financial resilience seen in the utility sector since that time, such as the energy crisis in retail and ongoing concerns with Thames Water. Whilst energy networks have been resilient, these events have highlighted the need to be proactive and keep energy network ring-fence licence conditions up to date, to ensure networks continue to be financial resilient throughout the energy transition.

Background

- 1.1 The last stand-alone consultation on the energy network ring-fence took place in spring 2010⁴. Changes to the networks ring-fence conditions were published on 3 July 2012⁵ with formal proposals for modifications to the ring-fence conditions being published on 17 December 2012⁶, and modifications taking effect from 1 February 2013.

Why we are conducting a ring-fence review

- 1.2 There have been several major developments in the sector which have occurred since the previous comprehensive review was undertaken. These include:

1.2.1 Retail crisis

Energy retail sector has responded to strengthen financial resilience of suppliers in the wake of the energy retail crisis, which peaked in 2021-22 with multiple supplier failures due to unprecedented rise in wholesale energy prices. Additional measures were introduced such as the Capital target, ring-fencing 20% of Customer credit balances and Supplier of Last Resort (SoLR) levy offset⁷. These measures aim to shape the retail sector to be financially resilient and protect vulnerable consumers.

³ [Energy networks ring-fence review: call for input conclusion | Ofgem](#)

⁴ [Review of the ring-fence conditions in Network Operator Licences \(Mar 2010\) | Ofgem](#)

⁵ [Changes to ring-fence conditions in Network Operator Licences \(July 2012\) | Ofgem](#)

⁶ [Formal proposals to modify the ring-fence conditions in Network Operator Licences \(Dec 2012\).pdf](#)

⁷ [SoLR-Levy-Offset-Decision-2025.pdf](#)

1.2.2 Corporate structures

There have been significant changes in corporate structure and the economic landscape network licensees operate within since the last comprehensive review of the networks' ring-fence was conducted. We have seen the default of Thames Water's Parent company which raises concern about potential impact of complex corporate structures on financial resilience.

Several RIIO network licensees operate within complex group structures which can make it challenging to ring-fence their financial activities effectively. The use of complex financial instruments and intercompany loans may hinder our ability to accurately assess licensee financial health. We are concerned that intercompany loans from the licensee to other group entities may weaken the financial resilience of networks. It is important that these arrangements are supported by a clear business rationale and that the terms reflect arm's length principles.

As part of our ongoing work, we will examine these arrangements more closely and consider what further steps may be appropriate to provide assurance that they remain consistent with regulatory expectations and do not compromise consumer interests. This review is taking a pro-active approach to explore ways of mitigating the risk of similar issues to Thames Water arising for network licensees.

1.2.3 Energy transition changing market dynamics

The energy transition poses a challenge for the gas sector with plausible implications for repurposing of gas assets, asset lives and RAV depreciation. This could have financeability implications for licensees if not addressed appropriately.

1.2.4 Increased monitoring

Since the last review of the ring-fence, monitoring of compliance with ring-fence conditions has increased somewhat. We must ensure that existing reporting requirements are sufficiently robust and clear to detect emerging financial risks.

Licence Conditions in scope

- 1.3 As outlined in the *Energy networks ring-fence review call for input decision*⁸, published on 3 April 2025 and as summarised below, there are nine licence conditions in scope of the review.

Licence Condition Name	Electricity Distribution	Electricity Transmission	Gas Distribution & Transmission
	(ED)	(ET)	(GD and GT)
Restriction of Activity and Financial Ring-fencing	Chp7 SLC29	SLC B6	StSpLC A36
Availability of Resources	Chp7 SLC30	SLC B7	StSpLC A37
Credit Rating of the Licensee	Chp10 SLC40	SLC B10	StSpLC A38
Indebtedness	Chp10 SLC41	Not found for ET	StSpLC A39
Disposal of Relevant Assets and restrictions on charges over receivables	Chp6 SLC26	SLC B3	StSpLC A27
Undertaking from Ultimate Controller	Chp7 SLC31	SLC B8	StSpLC A26
Sufficiently Independent Directors	Chp10 SLC43a	SLC B22	StSpLC A42
Independence	Chp7 SLC42	SpLC 9.16 - SPTL & SHET SpLC 9.17 - NGET	StSpLC A33
Prohibition of Cross-subsidies	Chp7 SLC4.9	SLC B5	StSpLC A35

Objectives of Ring-fence Review consultation

- 1.4 In line with Ofgem's Multiyear Strategy section 10.2⁹, this review is an opportunity to ensure we have appropriate powers to protect consumers and support investment while maintaining each network's financial resilience.
- 1.5 Objectives of the ring-fence include:
- Preventing the onset of financial distress by imposing a range of regulatory obligations to reinforce corporate governance arrangements of network licensees. Thus, ensuring the licensee maintains sufficient legal, financial and operational independence from other entities within the corporate structure

⁸ [Energy networks ring-fence review: call for input conclusion | Ofgem](#)

⁹ [20240328 Ofgem Multiyear Strategy \(FINAL v2\)](#)

such that the licensee is protected from riskier activities or financial distress of other entities within its corporate structure;

- To ensure regulatory assets and resources of the licensee are used solely for the purpose of delivering network services;
- Asset transfers or other financial transactions that could compromise the licensee's ability to meet its regulatory obligations are restricted;
- Provide warning signals when symptoms of financial distress appear or potential threats are identified by licensees or our financial resilience monitoring; and
- Mitigate the severity and impact of financial distress factors should they arise and reduce any 'chain reaction' of adverse financial events.

Analysis

1.6 In addition to our RIIO-3 financial resilience proposals, our monitoring and review work has identified issues which could potentially weaken the financial resilience of the networks, including:

- i. Ambiguity on how licence conditions are interpreted;
- ii. Inconsistent approaches across sectors;
- iii. Insufficient independent assurance of compliance;
- iv. Significant loans from the licensee to its parent company; and
- v. Non-core activities being conducted by the licensee.

1.7 We address issues i to iii in this consultation. We will continue to consider iv and v, in addition to any other issues identified, as we continue with our review and monitoring. We may consult on these issues in the future, as appropriate.

1.8 Chapter 2 sets out our current thinking on measures to address the issues identified.

Next steps

1.9 Subject to the responses of this consultation, we will consider amendments to relevant licence conditions which are in scope. However, should our on-going financial resilience monitoring identify other concerns we will engage directly with the licensee concerned. We have provided an initial draft of potential modifications being proposed in Appendix 1.

- 1.10 We will engage with networks during Q1 2026 through a series of sessions designed to discuss proposals and gather views, ideas, and suggestions from the networks.
- 1.11 In addition, for Agreed Upon Procedures (AUPs), we propose consulting with networks separately about possible changes to reporting requirements for cross subsidy AUPs.

2. Proposals

- 2.1 We propose four sets of licence modifications and reporting enhancements:
- RIIO-3 DD's proposed financial resilience measures being introduced to Electricity Distribution (ED) sector during 2026;
 - Measures to address ambiguities or lack of clarity in the ring-fence licence conditions;
 - Strengthening the licence condition through the introduction of additional measures or obligations;
 - Enhancements to network reporting to improve consistency across networks and enhance the granularity of data.

We are proposing changes to the ring-fence conditions to strengthen their effectiveness and address concerns regarding weaknesses we have identified to date. We detail our proposals further below and welcome the views of stakeholders.

RIIO-3 measures proposed for Electricity Distribution sector

- 2.2 We have already proposed measures to improve financial resilience as part of RIIO-3 for Gas Transmission (GT), Gas Distribution (GD) and Electricity Transmission (ET) sectors (Please refer to Appendix A1.9). If adopted in RIIO-3 we propose these measures would be extended to the ED sector in 2026, the purpose of this is for alignment across all sectors on key financial resilience measures to ensure we are informed in a timely manner of any potential or actual financial distress. The earlier we are informed, the more response options we have available to mitigate risk of failure.

Licence modifications to enhance clarity

- 2.3 Our monitoring and discussions with networks have revealed differences in interpretation of existing licence conditions. We are proposing to modify the licence conditions or guidance, as appropriate, to avoid misinterpretation or ambiguity and to improve clarity.
- 2.4 We will engage with networks during Q1 2026 through a series of sessions designed to discuss proposals and gather views, ideas, and suggestions from the networks on how to improve the wording of the licence conditions and guidance.

Additional financial resilience measures proposed for the ring-fence

- 2.5 We are proposing a set of incremental changes to the ring-fence conditions to strengthen their effectiveness and address concerns and weaknesses we have identified to date, as detailed below.

Purpose of ring-fence to be provided in the licence condition

- 2.6 We intend to provide clarity on the purpose of the ring-fence. The ring-fence forms an important part of our regulatory approach to mitigating risk of licensee financial distress. Primarily, the ring-fence purpose is to separate and protect licensee assets from financial risk of other entities within its corporate structure. Practically, the intention of the ring-fence is to protect essential network services in the interest of existing and future consumers. Should the financial position of a network licensee deteriorate this may threaten the security and reliability of the licensee's customers' energy supply. The regulatory framework is designed to reduce risk of licensee financial distress by placing constraints on licensees to ensure resources are available for regulated activities. Ultimately, a Special Administration Regime (SAR) would be enacted as a last resort to ensure security of supply and essential network services continue during an insolvency process. A SAR protects the interest of consumers when a network licensee is in financial distress.
- 2.7 The purpose of the ring-fence is not currently defined in the licence conditions or regulatory guidance. We propose a definition of the ring-fence as part of this consultation. (Please refer to Appendix A1.5 for our proposed definition of 'regulatory ring-fence'). By providing this definition we aim to eliminate ambiguity and any misinterpretation of the purpose of the network ring-fence.

Q1. Do you agree with the definition provided for the purpose of the <i>regulatory ring-fence</i>?

Availability of resources (AoR)

- 2.8 The purpose of the Availability of Resources (AoR) licence condition is for the licensee to confirm it has sufficient resources to carry on its regulated business responsibly and efficiently. Draft modifications, in relation to the additional measures, are provided in Appendix A1.2.
- 2.9 A review of recent submissions on Availability of Resources certificates and Statement of Factors highlighted areas where reporting to the Authority could be improved.
- 2.10 We propose licensees complete a standard template and checklist prior to submission to ensure consistency in approach and facilitate effective monitoring and review.
- 2.11 The template we propose providing to licensees going forward would provide standard certificates which would state the relevant ring-fence licence condition sections, various factors to be taken into account by the board of directors and provide narrative which states the certificate is approved by a resolution of the Board (please refer to Appendix 5).
- 2.12 In formulating an appropriate template for the AoR Certificates we consider it in the consumer interest if at least one Sufficiently Independent Director (SID) has oversight and signs off the AoR certificates. Therefore, we are proposing that AoR certificates are signed by one executive director and one SID.
- 2.13 In terms of the factors being considered for financial resources certificates 1F, 2F or 3F it would be beneficial, in addition to the most recent cash flow statement, that the licence condition also included the requirement to take into consideration cash flow forecast information, with forecast period to be specified within a price control period. It is reasonable to expect companies to plan beyond a 12-month horizon, Ofgem does not anticipate network businesses incurring significant additional costs in relation to this proposed change.
- 2.14 In addition, compliance certificates 1C and 2C require to be updated to reference all relevant ring-fence conditions. The compliance requirements would be extended to include the following ring-fence licence conditions:
- Sufficiently independent directors (SID)
 - Restriction on disposal of relevant assets
 - Prohibition of cross-subsidies

- Independence of the network business

Similarly, the certificate in relation to dividends should also reference all ring-fence licence conditions.

- 2.15 The licence condition currently states a licensee is required to maintain an intervention plan (ED SLC30.13). However, we propose an amendment for the Authority to request submission of this plan on an ad hoc basis, should a distress situation be anticipated. In addition, we recommend a review of the intervention plan for a price control period. As a licensee is required to maintain an intervention plan, this should not be an additional burden.
- 2.16 For clarity, the measures proposed above are further to the RIIO-3 Draft Determinations¹⁰ (RIIO-3 DD) consultation. We propose RIIO-3 DD decisions would be extended to electricity distribution sector in 2026 as part of the ring-fence review. The RIIO-3 measures proposed indicate licensees would be required to reference the results of any appropriate stress tests as part of the financial resources certificate 1F. As part of the feedback from the RIIO-3 DD consultation, licensees have asked for guidance on what factors to consider when undertaking stress tests (please refer to Appendix A1.9.1.3). Ofgem will consider appropriate guidance to provide in relation to this.

¹⁰ [RIIO-3 Draft Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors | Ofgem](#)

Questions re Availability of Resources:

Q2. What is your view of the proposal to introduce a ring-fence checklist and AoR certificate templates for completion?

Q3. What is your view of financial certificates 1F, 2F and 3F including a reference to a cash flow forecast as one of the factors to be considered by the board of directors?

Q4. What is your view of compliance certificates 1C and 2C requirements being updated to reference all relevant ring-fence conditions?

Q5. What is your view of the certificate in relation to dividends referencing all ring-fence licence conditions?

Q6. What is your view about a requirement for two signatories of AoR certificates, one executive director and one SID?

Q7. Do you agree the intervention plan should be submitted upon request, on an ad-hoc basis, should distress of the licensee be anticipated?

Q8. Do you agree with a review of the intervention plan by Ofgem being undertaken for a price control period?

Credit rating of the licensee

2.17 We are considering applying the draft modifications, as consulted on in RIIO-3 DD for GD, GT and ET, to the electricity distribution sector as part of the ring-fence review. The RIIO-3 DD included the proposal for a licensee to hold more than one investment grade credit rating (ED SLC40.1) (Please refer to Appendix A1.9.1.2).

2.18 The ET, GD and GT sectors already include the obligation to provide a Financial Resilience report to the Authority within 60 days of a negative rating action (ET B10.4). We propose extending this obligation to electricity distribution to align all sectors. In addition, there is a requirement (ET B10.5) for the Financial Resilience Report to include a forecast balance sheet, income statements, cashflow statements, key financial metric projections and results of any stress tests that the licensee considers appropriate. We propose to extend this to the ED sector.

- 2.19 The ET, GD and GT sectors include an obligation to provide published rating reports where a negative rating action occurs. We propose this obligation is also extended to the ED sector.
- 2.20 Draft modifications, in relation to the additional measures outlined, are provided in Appendix A1.3.

Questions re Credit rating of the licensee:

Q9. Do you have any views on extending the RIIO-3 measures (obtaining two investment grade credit ratings) to the electricity distribution sector in 2026?

Q10. Do you agree the obligation to provide a Financial Resilience Report and associated financial projections should be added to the ED licence condition to align with other sectors?

Q11. Do you agree the obligation to provide published rating reports should be added to the ED licence condition to align with other RIIO sectors?

Indebtedness

- 2.21 RIIO-3 DD proposed strengthening the distributions lock-up trigger in the Indebtedness licence condition from 'BBB- with negative outlook' to the earlier of 'BBB- with a negative outlook and regulatory gearing of 75% or greater'. We propose this to be extended to the electricity distribution sector in 2026 (please refer to Appendix A1.9.1.2).
- 2.22 In addition, across all sectors, we propose to introduce an obligation for the licensee to notify the Authority in writing of any payments that continue to be made on intercompany, shareholder or related party loans, once the licensee has triggered the distributions lock up. The licensee would be required to provide details of the loan terms and confirm they are on an arm's length basis. The licence condition currently requires networks to obtain consents for loans (ED SLC41.1). For clarity, future consents would only be granted if these are clearly in the consumer interest.

- 2.23 The lock up is triggered by submission of a 3F or 3R AoR certificate. We propose extending this trigger to the submission of the 2C certificate which would indicate a material compliance breach with ring-fence conditions.
- 2.24 The current licence condition states dividends should be made out of distributable reserves (ED LC41.3a). We recommend if a licensee is considering altering any existing capital and reserves held to enable a future dividend distribution, the licensee should seek consent from the Authority, providing full disclosure of the change being proposed and reasoning to justify the change.
- 2.25 During this review, we propose to consult on an appropriate time period for response to be provided by the Authority which is mindful of both licensee business requirements for a decision and timeframe feasible with current Ofgem resources. Draft modifications, in relation to *indebtedness* additional measures, are provided in Appendix A1.4.

Questions re Indebtedness:

Q12. Do you agree with extending the distribution lock up trigger proposed in RIIO-3 to ED?

Q13. What is your view about extending the distribution lock up to the 2C certificate?

Q14. What is your view about amendment proposed to SLC41.3 regarding any alterations to existing capital and reserves?

Q15. Do you agree we should consider appropriateness of response time period in respect of indebtedness licence condition?

Independence of the network

- 2.26 We recommend the licence conditions reflect the ability of the licensee to be financially independent with the ring-fence providing the licensee with protection from riskier activities of the corporate structure it operates within. We are aware this licence condition exists in GD, GT and ED sectors. However, as it is not included in ET we propose extending this condition to the ET sector.

Questions re Independence of the networks:

Q16. Do you agree the Independence of the network licence condition should be extended to ET?

Prohibition of cross-subsidies

2.27 We are not proposing any changes to this licence condition, as part of this consultation.

Restriction of activity

2.28 Draft modifications regarding additional measures for *restriction of activity* licence condition are provided in Appendix A1.5.

2.29 In regard to De Minimis Business we propose to amend the 2.5% Turnover limitation (ED SLC29.9) and the 2.5% Capital and Reserves limitation (ED SLC29.10) which both apply to a regulatory year. The licence condition stipulates these are shown in the most recent audited regulatory accounts. However, most licensees currently have consent not to prepare regulatory accounts since the introduction of the regulatory financial performance reporting (RFPR). We acknowledge that the RFPR reporting year may not be aligned with the financial year for audited statutory accounts. We propose where audited statutory financial accounts are being used, a reconciliation to show adherence to meeting the licence requirement for a regulatory period is provided.

Question re Restriction of activity:

Q17. Do you agree with the amendment for a reconciliation to be provided to show regulatory obligations are being met for De Minimis Business when audited statutory financial statements are being utilised rather than regulatory accounts?

Disposal of relevant assets and restriction on charges

- 2.30 Draft modifications of additional measures for restriction on *disposal of relevant assets and restrictions on charges over receivables* licence condition are provided in Appendix A1.6.
- 2.31 We propose changing the notice period regarding a licensee's intention to dispose of or relinquish operational control over any relevant asset (ED SLC26.4). We consider the current two month notice period may, at times, not be an adequate timeframe to review all relevant information regarding the disposal. Therefore, we recommend making it clear in the licence condition that Ofgem has the option to extend this timeframe should we require further time to investigate any contentious areas.
- 2.32 We recommend a change to ED SLC26.2 to extend the requirement of the licensee not to grant any mortgage, charge or other form of security over any receivable or *financial asset*. This change is to ensure no security is granted over cash and cash equivalents held.
- 2.33 In addition, we recommend referring to requirements of International Accounting Standards Board (IASB) for International Financial Reporting Standard 13 (IFRS13)¹¹ or Financial Reporting Standard 102 (FRS102)¹² Fair value measurement of a non-financial asset (IFRS13 paragraph 27 to 30 or FRS102 2A.9 to 2A.12), which considers the ability to generate economic benefits by using the asset in its highest and best use or selling it to another market participant that would use the asset in its highest and best use. We aim to guard against assets, such as land, being sold, transferred or disposed of by the licensee at a lower value than could ultimately be reasonably achieved to the detriment of consumers.

¹¹ [ifrs-13-fair-value-measurement.pdf](#)

¹² [FRS 102 September 2024.pdf](#)

Questions re Restriction on disposal of assets:

Q18. Do you agree with the proposed change to extend the notice period when required?

Q19. Do you agree with adding 'financial asset' to ED SLC26.2? (Please refer to A1.5)

Q20. Do you agree a non-financial asset being sold, transferred or disposed of by a licensee should be valued according to its highest and best use?

Sufficiently independent director (SID) duties

- 2.34 We have provided draft modifications in respect of additional measures proposed for SID licence condition in Appendix A1.7.
- 2.35 The current requirement of the licence condition is for the licensee to have at least two non-executive directors which meet the sufficiently independent director (SID) specifications. The SIDs have been appointed to the licensee board to provide independent representation in the consumer interest. We consider the current level of assurance by networks to be insufficient. Therefore, it may be beneficial to utilise SIDs to provide a level of assurance, to the Authority, in regard to the financial resilience of the licensee.
- 2.36 Similar to the Availability of Resources additional measure, we propose a checklist and template for completion of SID details to be submitted as required by the existing licence condition. This would include information required as part of the licence condition, e.g. SID's name, SID's appointment, SID's skills and knowledge to perform this role effectively, confirmation SID does not have executive duties. Where applicable, it would also confirm a SID's resignation or removal from office and reason.
- 2.37 We propose it would be in the consumer interest if at least one SID had oversight of relevant ring-fence submissions to the Authority and was a signatory, along with an executive director.

This would include submissions to the Authority including:

1. Any downgrade in credit rating and / or outlook or credit rating withdrawal
2. AoR certificates and Statement of factors

3. Financial Resilience Report
 4. Proposed asset disposals
- 2.38 Although not mandatory, we encourage licensees to add a requirement for at least one SID to be in attendance to reach quorum in licensee board meetings where financial resilience or ring-fence issues are discussed.
- 2.39 We also propose at least one SID attends licensee Remuneration Committee, or equivalent, meetings. SID representation would be in the consumer interest to ensure executive pay is commensurate with performance.

Questions re Sufficiently Independent Directors:

Q21. Do you agree to completion of a checklist for SID details?

Q22. Do you agree it would be in consumer interest for at least one SID to be a signatory on submissions in relation to the ring-fence?

Q23. What is your view about the requirement for at least one SID to be in attendance to reach Quorum at licensee board meetings?

Q24. What is your view about the requirement for at least one SID to attend Remuneration Committee (or equivalent) meetings where licensee entity executive remuneration is discussed?

Undertaking from ultimate controller

- 2.40 We consider it appropriate to provide clarity for the licence definition of ultimate controller, please refer to Appendix A1.8 for our proposed changes.

Question re Undertaking from Ultimate Controller:

Q25. Do you agree with the proposed definition changes to ultimate controller?

3. Your response, data and confidentiality

Consultation stages

- 3.1 The consultation will be open until 15 January 2026. Responses will be reviewed and then the consultation decision will be published in spring 2026.

Stage 1

Consultation opens 12th November 2025.

Stage 2

Consultation closes (awaiting decision). Deadline for responses 15 January 2026.

Stage 3

Responses reviewed, and Statutory Consultation and/or further policy consultation in spring 2026.

Stage 4

Licence modifications come into effect summer 2026.

How to respond

- 3.2 We want to hear from anyone interested in this consultation. Please send your response to RegFinance@ofgem.gov.uk.
- 3.3 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 3.4 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, your data and confidentiality

- 3.5 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 3.6 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you

to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

- 3.7 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.
- 3.8 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

- 3.9 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:
1. Do you have any comments about the overall process of this consultation?
 2. Do you have any comments about its tone and content?
 3. Was it easy to read and understand? Or could it have been better written?
 4. Were its conclusions balanced?
 5. Did it make reasoned recommendations for improvement?
 6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit.

[ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)

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Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

Appendices

Index

Appendix	Name of appendix	Page no.
1	Draft modifications to licence conditions	27
A1.1	Text indicator	27
A1.2	Availability of resources	27/29
A1.3	Credit rating of licensee	29/30
A1.4	Indebtedness	30/32
A1.5	Restriction of activity	32/33
A1.6	Disposal of relevant assets and restriction on charges	33
A1.7	Sufficiently independent directors	33/34
A1.8	Undertaking from ultimate controller	34
A1.9	RIIO-3 Finance Annex draft measures	34/35
A1.9.1	RIIO-3 proposed draft modifications to be extended to electricity distribution sector	35/38
A1.10	Definitions proposed in RIIO-3	38
2	Summary of consultation questions	39/40
3	Privacy notice on consultations	41/42
4	Example AoR General obligation and 1F checklist	43
5	Example AoR 1F certificate template	44

Appendix 1 – Draft modifications to licence conditions

A1.1 Text indicator

Proposed modifications to licence conditions are set out below:

- Insertions applicable for all sectors are underlined in blue text;
- Deletions applicable for all sectors are shown in strikethrough (~~strikethrough~~) in red text;
- Alignment of other RIIO licence conditions with ED are shown by insertions underlined in bold grey text; and
- Proposed modifications for financial resilience in RIIO-3 DD are shown in green text (please refer to appendix A1.9). We propose these are extended to ED in 2026.

Please note this draft text is indicative of what the amended licence conditions will look like and may be subject to change. We have provided the ED licence condition wording for illustration purposes for Appendix A1.2 to A1.8. Similar amendments are proposed to be introduced for ET, GT and GD.

A1.2 Availability of Resources (ED SLC 30, ET SLC B7, GD & GT StSpLC A37)

30.2 The licensee must by 31 July each year give the Authority a [checklist and completed template](#) certificate that has been approved by a resolution of the licensee's board of directors and signed by ~~a~~ [an executive](#) director [and a sufficiently independent director](#) of the licensee pursuant to that resolution and is in one of the following forms:

(a) Certificate 1F

“After making enquiries, [including reviewing the results of stress tests that the licensee considers to be appropriate](#) and having taken into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid by the licensee, the licensee's directors have a reasonable expectation that the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the Distribution Business for a period of 12 months from the date of this certificate.”

30.3 The licensee must ensure that the certificate given to the Authority under paragraph 30.2 is accompanied by:

- (a) a statement of the main factors that the licensee's directors have taken into account in giving that certificate including reference to:
 - (i) the main financial resources and financial facilities available to the licensee;

(ii) the most recent cash flow statement [and cash flow forecast for the price control period](#) prepared for the licensee; and

30.4 With effect from 1 August 2013, the licensee must by 31 July each year give the Authority a [checklist and completed template](#) certificate that has been approved by a resolution of the licensee's board of directors and signed by ~~a~~ [an executive](#) director [and a sufficiently independent director](#) of the licensee pursuant to that resolution and is in one of the following forms:

30.6 With effect from 1 August 2013, the licensee must by 31 July each year give the Authority a [checklist and completed template](#) certificate that has been approved by a resolution of the licensee's board of directors and signed by ~~a~~ [an executive](#) director [and a sufficiently independent director](#) of the licensee pursuant to that resolution and is in one of the following forms:

(a) Certificate 1C

After making enquiries the licensee's directors consider that, at the time of their approval of this certificate, the licensee is in compliance in all material respects with all of the obligations imposed on it by standard condition 6 (Provision of Information to the Authority), standard condition 29 (Restriction of activity and financial ring-fencing of the Distribution Business), standard condition 30 (Availability of resources), standard condition 31 (Undertaking from Ultimate Controller), [standard condition 40 (Credit rating of the Licensee) and standard condition 41 (Restriction of Indebtedness and transfers of funds)] [amended standard condition BA 3 (Credit rating of licensee), and amended standard condition BA 4 (Indebtedness), [standard condition 43a \(Sufficiently independent directors\)](#), [standard condition 42 \(Independence of the network\)](#), [standard condition 26 \(Disposal of relevant assets and restriction on charges\)](#) and standard condition 4 (Prohibition of cross-subsidies). or

30.6 (b) Certificate 2C

In the opinion of the licensee's directors, the licensee is not at the time of their approval of this certificate in compliance in all material respects with all of the obligations imposed on it by standard condition 6 (Provision of Information to the Authority), standard condition 29 (Restriction of activity and financial ring-fencing of the Distribution Business), standard condition 30 (Availability of resources), standard condition 31 (Undertaking from Ultimate Controller), [standard condition 40 (Credit rating of the licensee) and standard condition 41 (Restriction of Indebtedness and transfers of funds)] [amended standard condition BA 3 (Credit rating of licensee), amended standard condition BA 4 (Indebtedness), [standard condition 43a \(Sufficiently independent directors\)](#), [standard condition 42 \(Independence of the network\)](#), [standard condition 26 \(Disposal of relevant assets and restriction on charges\)](#) and standard condition 4 (Prohibition of cross-subsidies).

30.7 The licensee must inform the Authority in Writing immediately if:

(a) the directors of the licensee become aware of any circumstance that causes them no longer to have the reasonable expectations expressed in the most recent certificate given under paragraph 30.2(a), 30.2(b), 30.4(a), 30.4(b), [30.6\(a\), 30.8, or relied upon under 30.11](#); or

(b) the directors of the licensee consider that any adverse circumstance that caused them to give

the Authority a certificate in the form of Certificate 3F under paragraph 30.2(c), Certificate 3R under paragraph 30.4(c), or Certificate 2C under paragraph 30.6(b) has materially worsened.

30.9 (a) Amendment as per 30.6 (a) above

30.10 (b) must be signed by ~~a~~ an executive director and a sufficiently independent director of the licensee

30.13 The licensee must prepare by 1 April 2014, or within 12 months of this condition coming into effect in respect of the licensee, whichever is the later, and thereafter, maintain an Intervention Plan. The Authority may require a copy of the intervention plan to be submitted when either a distress situation is forecast or for review on an ad-hoc basis. The intervention plan should fulfil ~~fulfilling~~ the criteria described in the definition of Intervention Plan in Paragraph 30.16 below.

A1.3 Credit rating of the licensee (ED SLC 40, ET SLC B10, GD & GT StSpLC A38)

40.1 The purpose of this condition is to place obligations on the licensee in respect of credit ratings, Published Rating Reports, Negative Rating Actions and Financial Resilience Reports.

The licensee must take all appropriate steps within its power to ensure that at all times it maintains ~~an~~ more than one Investment Grade Issuer Credit Rating (which is to be interpreted in accordance with the provisions of paragraphs 40.2 to 40.4).

Where a negative rating action occurs in respect of the licensee or the licensee's credit rating is withdrawn, it must within a period of ten working days beginning with the date of the relevant Published Rating Report:

a) notify the Authority and

b) if permitted by the relevant rating agency, provide the Authority with a copy of the Published Rating Report, or where the Published Rating Report relates to the wider group provide such parts as are relevant to the licensee.

The 'Variation of rating by agency' is currently only included in the ED licence condition. We propose alignment across sectors with this condition being extended to RIIO-3 sector licence conditions:

Variation of rating by agency

40.4 If a rating higher than a particular rating set out in paragraph 40.3 is at any time specified by the credit rating agency in question as its lowest investment grade issuer credit rating, that higher rating is to be taken as the relevant Investment Grade for the purposes of that paragraph.

The requirement to provide a Financial Resilience Report is included in Part C of ET SLC B10 and GD and GT StSpLC A38, we propose to extend to ED.

40.5 The licensee must provide the Authority with a Financial Resilience Report [for review](#) within 60 days of 1 April 2021 or the date of a Negative Rating Action relating to the licensee (whichever is later), if:

a) the licensee's highest rating held for an Issuer Credit Rating or highest rating held for a Significant Instrument Credit Rating is one notch higher than the lowest Investment Grade and that Issuer Credit Rating or Significant Instrument Credit Rating is on Negative Watch;

b) the licensee's Issuer Credit Rating or Significant Instrument Credit Rating is at the lowest Investment Grade or lower;

c) the licensee has a debt covenant linked to a specific Issuer Credit Rating or Significant Instrument Credit Rating that would, if breached by the licensee, trigger an event of default under the relevant debt documents and that rating is either;

(i) one notch above the minimum covenant requirement and is on Negative Watch; or

(ii) lower than one notch above the minimum rating specified within the covenant requirement

40.6. The Financial Resilience Report must include:

a) an assessment of the licensee's current and forecast financial standing, including an assessment of resilience to downside scenarios relating to either operational performance or macro-economic events;

b) financial projections for the next three Regulatory Years (including the remainder of the current year) or the remainder of the Price Control Period, whichever is longer; and

c) details of Potential Mitigating Actions the licensee could take to improve its financial resilience and an indication of whether such actions are planned.

40.7. The financial projections required by paragraph 40.6(b) of this condition must include:

a) a forecast balance sheet;

b) income statements;

c) cashflow statements;

d) key financial metric projections; and

e) results of any stress tests that the licensee considers to be appropriate.

A1.4 Indebtedness (ED SLC41, GD and GT StSpLC A39)

41.1 In addition to complying with the requirements of standard condition 26 (Disposal of Relevant Assets and restrictions on charges ~~over Receivables~~), the licensee must not without consent of the Authority following the licensee's disclosure of all material facts, enter into any transaction or commitment of a type described or referred to in this condition that does not comply with the restrictions applicable to it under this condition. [Authority consent will only be granted for such transactions or commitment deemed to be in consumer interest.](#)

41.3 The licensee must not transfer, lease, or lend any sum or sums, asset, right, or benefit to any Associate of the licensee except by way of any of the following transactions:

(a) a dividend or other distribution out of distributable reserves; or [...]

41.10 The circumstances described by this paragraph is that the licensee has:

(a) given the Authority a certificate in the form of Certificate 3F under the requirement set out in paragraph 30.2 of standard condition 30 (Availability of resources) and has not subsequently given the Authority a certificate in the form of Certificate 1F or Certificate 2F as set out in the same condition;

(b) given the Authority a certificate in the form of Certificate 3R under the requirement set out in paragraph 30.4 of standard condition 30 (Availability of resources) and:

(i) the opinion expressed in the certificate arises in whole or in part from circumstances affecting an Associate of the licensee, and

(ii) the licensee has not subsequently given the Authority a certificate in the form of Certificate 1R or Certificate 2R as set out in the same condition;

(c) given the Authority a certificate in the form of Certificate 2C under the requirement set out in paragraph 30.6 of standard condition 30 (Availability of resources) and has not subsequently given the Authority a certificate in the form of Certificate 1C as set out in the same condition;

or

~~(e)~~ (d) informed the Authority of any circumstance of the type referred to at paragraph 30.7 of standard condition 30 (Availability of resources) and:

(i) the circumstances giving rise to the licensee's report related to the licensee's financial resources and the licensee has not subsequently given the Authority a certificate in the form of Certificate 1F or 2F as set out in the same condition; or

(ii) the circumstances giving rise to the licensee's report relate to the licensee's operational resources and:

(aa) relate in whole or in part to circumstances affecting an Associate of the licensee; and

(bb) the licensee has not subsequently given the Authority a certificate in the form of Certificate 1R or 2R as set out in the same condition; or

(iii) the circumstances giving rise to the licensee's report related to the licensee's compliance with certain standard licence conditions and the licensee has not subsequently given the Authority a certificate in the form of Certificate 1C as set out in the same condition.

41.11 The circumstance described by this paragraph is that the licensee has, after 1 April 2013, materially breached any formal covenant contained in any loan agreement, commercial paper, bond issue or committed facility that it has entered into with a counterparty, unless one of the following applies:

(a) the licensee has remedied the breach to the satisfaction of the counterparty concerned and the Authority has confirmed in writing that the remedy is sufficient to avoid triggering the provisions of Part D;

(b) the licensee has renegotiated the covenant or arrangement to the satisfaction of the counterparty concerned and the Authority has confirmed in writing that the renegotiation is sufficient to avoid triggering the provisions of Part D;

and in either case (a) or (b) the remedy or renegotiation has been notified in Writing to the Authority;

or

(c) in response to a written request from the licensee, either the Authority has confirmed in

Writing, before the breach occurs, that the breach in question shall not trigger the provisions of Part D, or the Authority has not provided a substantive response to such a written request within seven days of receiving it.

41.12 The licensee must not enter into any transaction or series of transactions under paragraph 41.3 that, whether directly or indirectly, has the effect of circumventing the requirements of this condition, including but not limited to arrangements where the consideration for a transaction is funded, guaranteed, or otherwise facilitated by the licensee or another Associate of the licensee.

Part D: Restricted Category 3

~~41.12~~ 41.13 Where any of the circumstances [...]

Part E: Restricted Category 4

~~41.13~~ 41.14 Subject to paragraph ~~41.14~~ 41.15 [...]

~~41.14~~ 41.15 Nothing in paragraph ~~41.13~~ 41.14 [...]

A1.5 Restriction of activity and financial ring-fencing (ED SLC29, ET B6 GD and GT StSpLC A36)

We propose to define the regulatory ring-fence for all sectors. We may include this in the introduction of the licence condition rather than as a definition.

Definition: “Regulatory ring-fence” means the set of licence conditions and obligations designed to ensure that:

-the licensee maintains sufficient legal, financial and operational independence from other entities within its corporate structure such that the licensee is protected from exposure to financial and operational risks arising from the activities or financial distress of other entities within its corporate structure;

-the assets and resources of the licensee are used solely for the purpose of delivering regulated network services, are not exposed to material unrelated risks;

-Cross-subsidisation, asset transfers or other financial transactions that could compromise the licensee’s ability to meet its obligations under the licence are restricted;

-the Licensee has adequate financial and operational resources to meet its obligations under the licence; and

-to minimise the likelihood and mitigate the impact of financial distress within the corporate group on the licensee.

29.9 The first limitation is that the total turnover of all of the De Minimis Business carried on by the licensee plus the Equity Share of the total turnover of all of the De Minimis Business carried on by all its relevant associates must not in any Regulatory Year exceed 2.5 per cent of the total turnover of the licensee’s Distribution Business as shown by the most recent audited ~~Regulatory~~ Statutory Accounts of the licensee

29.10 The second limitation is that the total amount (calculated in accordance with paragraph 29.11) of all investments made by the licensee in De Minimis Business, as carried on by the

licensee and all its relevant associates, must not at any time after the date on which this condition takes effect in this licence exceed 2.5 per cent of the sum of the licensee's share capital in issue, its share premium, and its consolidated reserves (including retained earnings) as shown by its most recent audited ~~Regulatory~~ Statutory Accounts available at that date.

A1.6 Disposal of relevant assets and restrictions on charges (ED SLC26, ET SLC B3, GD and GN SSPLC A27)

26.2 Subject to paragraph 26.3, the licensee must not, on or after 1 April 2023, grant any mortgage, charge, or other form of security over any Receivable or financial asset except in accordance with the provisions of this condition.

26.4 Except where paragraph 26.6, 26.7 or 26.9 applies, the licensee:

(a) (i) must give the Authority not less than two months' Notice of its intention to dispose of or relinquish operational control over any Relevant Asset, together with such further information as the Authority may request relating to that asset, or to the circumstances of the intended Disposal or Relinquishment of Operational Control, or to the intentions in regard to those matters of the person who proposes to acquire the asset or operational control over it. The Authority may extend the timeframe to investigate any contentious issues; and

A1.7 Sufficiently Independent Directors (ED SLC43A, SLC B8 and StSpLC A42)

43A.2 A sufficiently independent director must

- (a) be a natural person; and
- (b) in the reasonable opinion of the licensee, have the skills, knowledge, experience, and personal qualities necessary to perform effectively as a non-executive director of the licensee; ~~and~~
- (c) not have any executive duties within the Distribution Business or any associate of the licensee; and
- (d) act in the best interest of the consumer.

43A.8 The terms of appointment of each sufficiently independent director must include a condition stipulating that both the licensee and the appointee will use their best endeavours to ensure that the appointee remains sufficiently independent during his term of office, having particular regard to the criteria set out in paragraphs 43A.2, 43A.3 and 43A.5. At least one sufficiently independent director should have oversight of submissions to the Authority in respect of the following:

- (a) Availability of Resources certificates, dividend certificate and statement of factors;
- (b) Issuer credit rating withdrawal;
- (c) Any change in credit rating and / or outlook;
- (d) Financial resilience report; and
- (e) Proposed asset disposals

43A.12 At least one sufficiently independent director must be in attendance at any Remuneration Committee (or equivalent) meeting where executive pay or bonuses of licensee employees is being discussed or approved. Sufficiently independent director has a duty to ensure executive remuneration is commensurate with operational performance of the licensee.

Interpretation

~~43A.12~~[43A.13](#)

A1.8 Undertaking from Ultimate Controller (ED SLC 31, ET SLC B22, GD and GT StSpLC A26)

We propose to clarify the ultimate controller definition for all sectors.

Definition: “ultimate controller” means:

(a) a holding company of the licensee which is not itself a subsidiary of another company [or entity](#); and

(b) any person [or entity \(including a general partner of a limited partnership, whether an individual or corporate body\)](#) who (whether alone or with a person or persons connected with [them](#)) is in a position to control, or to exercise significant influence over, the policy of the licensee or any holding company of the licensee by virtue of:

- (i) rights under contractual arrangements to which [they are](#) a party or of which [they are](#) a beneficiary; or
- (ii) rights of ownership (including rights attached to or deriving from securities, [partnership interests](#), or rights under a trust) which are held by [them](#) or for which [they are](#) a beneficiary but excluding any director or employee of a corporate body in their capacity as such

(c) for the purposes of sub paragraph (b) a person is connected with another person if they are party to any arrangement regarding the exercise of any such rights as are described in that paragraph; and [...]

A1.9 RIIO-3 Finance Annex draft measures

Chapter 6 of the RIIO-3 Draft Determinations Finance Annex outlined the proposed changes to reinforce existing financial resilience measures to protect consumers. If adopted in RIIO-3, we propose these measures would be extended to ED in 2026. These included:

- Amend the Credit Rating of the licensee and related obligations to replace the current obligation for licensees to "use reasonable endeavours" with a requirement that they "[must](#)" maintain more than one investment grade rating (Measure 1);
- Amend the Indebtedness conditions to include an additional distribution lock-up trigger when the licensee reaches [75% Regulatory Gearing](#) (calculated as Net Debt / RAV) along with the existing trigger when the licensee reaches a credit rating of BBB- with a Negative Watch/Outlook (Measure 2); and

- Amend the Availability of Resources (AOR) obligations to require licensees to state that, based on the agreed assumptions, they have sufficient financial resources to cover the entire price control period or a minimum of three years ahead (Measure 3). Additionally, the certificate in relation to financial resources would have to include references to stress testing analysis undertaken prior to the licensee issuing the certificate: "After making enquiries, including reviewing the results of any appropriate stress tests, and having..." (new text in green).

A1.9.1 RIIIO-3 draft modifications as consulted on in July 2025

A1.9.1.1 Credit rating of the licensee

Part A: Obligation to maintain an Investment Grade Issuer Credit Rating

The licensee ~~must use reasonable endeavours to~~ maintain more than one Investment Grade Issuer Credit Rating at all times.

Part B: Obligation to provide Published Rating Reports

Where a Negative Rating Action occurs in respect of the licensee or any of the licensee's credit ratings is withdrawn, it must within a period of ten working days beginning with the date of the relevant Published Rating Report:

- (a) notify the Authority; and
- (b) if permitted by the relevant rating agency, provide the Authority with a copy of the Published Rating Report, or where the Published Rating Report relates to the wider group provide such parts as are relevant to the licensee.

Part C: Obligation to provide Financial Resilience Reports

The licensee must provide the Authority with a Financial Resilience Report within 60 days of 1 April ~~2021~~ 2026 or the date of a Negative Rating Action relating to the licensee (whichever is later), if:

- a) any of the licensee's ~~highest~~ ratings held for an Issuer Credit Rating or highest rating held for a Significant Instrument Credit Rating is one notch higher than the lowest Investment Grade and that Issuer Credit Rating or Significant Instrument Credit Rating is on Negative Watch;
- b) any of the licensee's Issuer Credit Rating or Significant Instrument Credit Rating is at the lowest Investment Grade or lower; or
- c) the licensee has a debt covenant linked to a specific Issuer Credit Rating or Significant Instrument Credit Rating that would, if breached by the licensee, trigger an event of default under the relevant debt documents and that rating is either;
 - (i) one notch above the minimum covenant requirement and is on Negative Watch; or
 - ii) lower than one notch above the minimum rating specified within the covenant requirement

The Financial Resilience Report must include:

a) an assessment of the licensee's current and forecast financial standing, including an assessment of resilience to downside scenarios relating to:

(i) operational performance, or

(ii) macro-economic events,

in each case as applicable

a)b) financial projections for the next three Regulatory Years (including the remainder of the current year) or the remainder of the Price Control Period, whichever is longer; and

b)c) details of Potential Mitigating Actions the licensee could take to improve its financial resilience and an indication of whether such actions are planned.

The financial projections required by paragraph 5(b) of this condition must include:

a) A forecast balance sheet;

b) Income statements;

c) Cashflow statements;

d) Key financial metric projections; and

e) Results of any stress tests that the licensee considers to be appropriate

A1.9.1.2 Indebtedness

41.4 The payment condition referred to in paragraph 41.3 is that the consideration due in respect of the transaction in question is paid in full when the transaction is entered into unless either:

(a) the counter-party to the transaction has and maintains until payment is made in full an Investment Grade Issuer Credit Rating; or

(b) the obligations of the counter-party to the transaction are fully and unconditionally guaranteed throughout the period during which any part of the consideration remains outstanding by a guarantor which has and maintains an Investment Grade Issuer Credit Rating.

41.6 3 Except with the prior consent of the Authority, the licensee shall not enter into or complete any transaction of a type referred to or described in paragraph 1(b) save in accordance with paragraph 41.9, 41.12 if any of the circumstances set out in paragraphs 4 to 9 applies.

41.12 9 The circumstance described by this paragraph is that the licensee has an Actual Regulatory Gearing ratio of 75% or higher and, based on reasonable projections, will exceed this ratio at the end of the current Regulatory Year.

Note in ED:

~~41.12~~ change to 41.13,

~~41.13~~ change to 41.14 and

~~41.14~~ change to 41.15

A1.9.1.3 Availability of Resources

The licensee must by 31 July each year give the Authority a certificate that has been approved by a resolution of the licensee's board of directors and signed by a director of the licensee pursuant to that resolution and is in one of the following forms:

(a) Certificate 1F-Extended

"After making enquiries, including reviewing the results of stress tests that the licensee considers to be appropriate, and having taken into account in particular (but without limitation) any dividend or other distribution that might reasonably be expected to be declared or paid by the licensee, the licensee's directors have a reasonable expectation that the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the ~~transmission~~ distribution business for ~~a period of 12 months~~ the longer of:

- (i) a period of 36 months from the date of this certificate or
(ii) the remainder of the Price Control Period."

or

(b) Certificate 2F-Extended

"After making enquiries, including reviewing the results of stress tests that the licensee considers to be appropriate, and subject to the factors explained below, having taken into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid by the licensee, the licensee's directors have a reasonable expectation, subject to the factors explained below, that the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the ~~transmission~~ distribution business for ~~a period of 12 months~~ the longer of: (i) a period of 36 months from the date of this certificate or (ii) the remainder of the Price Control Period. However, the directors of the licensee would like to draw attention to the following factors, which may cast doubt on the licensee's ability to carry on the ~~transmission~~ distribution business *[followed by a description of the factors concerned]*."

or

(c) Certificate 3F-Extended

"In the opinion of the licensee's directors, the licensee will not have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the ~~transmission~~ distribution business for ~~a period of 12 months~~ the longer of: (i) a period of 36 months from the date of this certificate or (ii) the remainder of the Price Control Period."

The licensee must ensure that the certificate given to the Authority under paragraph 3 is accompanied by a statement of the main factors that the licensee's directors have taken into account in giving that certificate including reference to:

- (e) results of any stress tests that the licensee deemed to be appropriate;

- (f) financial projections of key financial metrics;
- (g) assumptions made in relation to the availability of financial markets for any financing or refinancing requirements, including assumptions around equity injections;
- and
- (h) credit facilities, including drawn and undrawn, and compliance with covenants.

A1.10 Definitions proposed in RIIIO-3 Draft Determinations

We propose extending these to ED in 2026.

Definition: “actual regulatory gearing” means

The ratio of Net Debt to regulatory asset value (RAV), as reported at the closing of the previous regulatory year and calculated as per the Regulatory Instructions and Guidance published by the Authority.

Definition: “Net Debt” means

The value of the licensee’s net debt as reported at the closing of the previous Regulatory Year and defined by the Regulatory Instructions and Guidance published by the Authority.

Appendix 2 – Summary of consultation questions

Q1. Do you agree with the definition provided for the purpose of the *regulatory ring-fence*?

Q2. What is your view of the proposal to introduce a ring-fence checklist and AoR certificate templates for completion?

Q3. What is your view of financial certificates 1F, 2F and 3F including a reference to a cash flow forecast as one of the factors to be considered by the board of directors?

Q4. What is your view of compliance certificates 1C and 2C requirements being updated to reference all relevant ring-fence conditions?

Q5. What is your view of certificate in relation to dividends referencing all ring-fence licence conditions?

Q6. What is your view about a requirement for two signatories of AoR certificates, one executive director and one SID?

Q7. Do you agree the intervention plan should be submitted upon request, on an ad-hoc basis, should distress of the licensee is anticipated?

Q8. Do you agree with a review of the intervention plan by Ofgem being undertaken for a price control period?

Q9. Do you have any views on extending the RIIO-3 measures (obtaining two investment grade credit ratings) to the electricity distribution sector in 2026?

Q10. Do you agree the obligation to provide a Financial Resilience Report and associated financial projections should be added to the ED licence condition to align with other sectors?

Q11. Do you agree the obligation to provide published rating reports should be added to the ED licence condition to align with other RIIO sectors?

Q12. Do you agree with extending the distribution lock up trigger proposed in RIIO-3 to ED?

Q13. What is your view about extending the distribution lock up to the 2C certificate?

- Q14. What is your view about amendment proposed to SLC41.3 regarding any alterations to existing capital and reserves?
- Q15. Do you agree we should consider appropriateness of response time period in respect of indebtedness licence condition?
- Q16. Do you agree the Independence of the network licence condition should be extended to ET?
- Q17. Do you agree with the amendment for a reconciliation to be provided to show regulatory obligations are being met for De Minimis Business when audited statutory financial statements are being utilised rather than regulatory accounts?
- Q18. Do you agree with the proposed change to extend the notice period when required?
- Q19. Do you agree with adding 'financial asset' to ED SLC26.2?
- Q20. Do you agree a non-financial asset being sold, transferred or disposed of by a licensee should be valued according to its highest and best use?
- Q21. Do you agree to completion of a checklist for SID details?
- Q22. Do you agree it would be in consumer interest for at least one SID to be a signatory on submissions in relation to the ring-fence?
- Q23. What is your view about the requirement for at least one SID to be in attendance to reach Quorum at licensee board meetings?
- Q24. What is your view about the requirement for at least one SID to attend Remuneration Committee (or equivalent) meetings where licensee entity executive remuneration is discussed?
- Q25. Do you agree with the proposed definition changes to *ultimate controller*?

Appendix 3– Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be as specific as possible.)

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for (be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. ‘six months after the project is closed’)

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

10. More information For more information on how Ofgem processes your data, click on the link to our “[ofgem privacy promise](#)”.

Appendix 4– Example AoR General obligation and 1F checklist

The checklist provides extracts from each relevant section of the license condition relating to the ring-fence and asks the licensee for confirmation the requirements have been met. We have provided Availability of Resources (ED SLC30) licence condition for certificate 1F for illustration purposes below. Please refer to the ED standard licence condition document¹³ for the ring-fence licence conditions.

Relevant entity name:	Test ABC Plc		
Licensee contact for submission			
Date AoR RFI submitted:	DD/MM/YYYY		

	Licence Condition Area	Standard Conditions Electricity Distribution (ED)	Question answered
1	Availability of Resources General Obligation	30.1 The licensee must at all times act in a manner designed to ensure that it has available to itself such resources, including management and financial resources, personnel, fixed and moveable assets, rights, licences, consents, and facilities, on such terms and with all such rights, as will enable it to: (a) properly and efficiently carry on its Distribution Business; and (b) comply in all respects with its obligations under the licence and such obligations under the Act as apply to the Distribution Business, including its duty to develop and maintain an efficient, co-ordinated and economical system of electricity distribution.	
Q1	Please confirm if you have met the requirements of the General Obligation stated above. Please select from drop down menu (Yes/No)	Yes	Agreed
Q1.1	If you have answered 'No' to Q1 above, please specify reason		
2	Certificates for Authority in relation to financial resources	30.2 The licensee must by 31 July each year give the Authority a certificate that has been approved by a resolution of the licensee's board of directors and signed by an executive director and at least one SID of the licensee pursuant to that resolution and is in one of the following forms:	
Q2(a)	Have the licensee directors completed Certificate 1F for submission? (Please refer to '1F Certificate' tab)	Yes	Agreed
Q2(b)	If the licensee has answered No to Q2 a, have licensee directors completed Certificate 2F for submission? (Please refer to 2F Certificate tab) or	N/A	Agreed
	If the licensee has answered No to Q2 a, have licensee directors completed Certificate 3F for submission? (Please refer to 3F Certificate tab)	N/A	Agreed
3	Statement of factors in relation to financial resources certificate	30.3 The licensee must ensure that the certificate given to the Authority under paragraph 30.2 is accompanied by: (a) a statement of the main factors that the licensee's directors have taken into account in giving that certificate including reference to:	
Q3(a)(i) 1	Does the Statement of factors include the main financial resources available to licensee? (Please complete Statement of Factors tab)	Yes	Agreed
Q3(a)(i) 2	Does the Statement of factors include the financial facilities available to licensee?	Yes	Agreed
Q3(a)(ii)	Does the Statement of factors include the most recent cash flow statement and cash flow forecast prepared for the licensee? (Please complete Statement of Factors tab)	Yes	Agreed

¹³ [Electricity Distribution Consolidated Standard Licence Conditions - Current.pdf](#)

Appendix 5– Example AoR 1F certificate template

We have provided an example template for Availability of Resources (ED SLC 30) certificate 1F below, for illustration purposes.

The certificate outlines the obligations of the licence condition and ask the licensee to select factors considered by the board from a drop-down list. The licensee would add the date the certificate was approved by a resolution of the Board and the certificate would be signed by an executive director and one sufficiently independent director.

Relevant Entity Name:	Test ABC Plc		
Licence Condition: (Please select from drop down list)	Standard Condition (ED) 30		
To:	The Chief Executive, Gas & Electricity Markets Authority (GEMA)		

2(a) Certificate 1F Availability of Financial Resources

"After making enquiries, **including reviewing the results of any appropriate stress tests**, and having taken into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid by the licensee, the licensee's directors have a reasonable expectation that the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the **Distribution business** for a **period of 36-months or a price control period** from the date of this certificate."

In giving this certificate, the board of directors have taken into account the following factors:

Financial resources available (Forecast period to be specified)	Yes	
If applicable, information to support payment of final/proposed dividend	Yes	
Most recent Cash flow Statement and forecast (Forecast: Price control period)	Yes	
Forecast reconciliation of net cash flow to movement in net debt	No	
Financial facilities currently available in the period	Yes	
A report prepared by licensee auditors	Yes	
Stress test scenarios for forecast period and assumptions made	Yes	
Financial results of relevant entity for year 20YY/YY	N/A	

Approved by a resolution of the Board of
Test ABC Plc on DD/MM/YY

Director 1 Signature

Director 1 Name

Date signed by Director 1 DD/MM/YY

Director 2 Signature (SID)

Director 2 Name (SID)

Date signed by Director 2 DD/MM/YY

Please confirm at least one director signing Certificate 1F is a Sufficiently Independent Director (SID) Yes

: Per RIIIO-3: Period of 36 months or 5 yr price control period is proposed.

: Propose we add reference to Cash flow forecast to the licence condition?

Attached (Yes/No)	Yes
Attached (Yes/No)	Yes
Attached (Yes/No)	Yes

: Request reference to stress test scenarios and assumptions

: Propose we add a second director signatory and specify this should be a SID.