

Decision

Energy Networks Ring-fence Review - Policy decision

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We published our *Energy Networks Ring-fence review* consultation on 12 November 2025, with a response deadline of 15 January 2026.

We welcomed responses from all stakeholders with an interest in regulation of the energy network. We have reviewed the feedback received on the policy consultation and have held several engagement sessions with networks and industry representatives this year to discuss the proposals. These sessions provided a summary of key points of concern raised by respondents and our rationale for the proposed policy modification. The engagement sessions provided the networks with further opportunity to share their views with us.

After carefully listening to and considering the feedback received, this document outlines our policy conclusions and the purpose and benefits of any changes. Please refer to Appendix 1 for a summary of the proposed policy amendments to the ring-fence licence conditions we are consulting on within our statutory consultation.

We aim to be transparent in our consultations. We will publish the non-confidential responses alongside the decision on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations).

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Foreword

Energy networks are natural monopolies that provide essential services to consumers and underpin the wider economy. Effective regulation is therefore critical to ensure these companies, who run the electricity and gas networks, operate efficiently, remain financially resilient, and deliver reliable services at a fair cost. At the same time, a stable and predictable regulatory framework is essential to support investor confidence and enable the significant long-term investment required across the sector.

The environment in which networks operate is evolving rapidly. The energy crisis, increasingly complex corporate structures, and the scale of investment required to deliver the energy transition all reinforce the need for a robust and forward-looking regulatory framework. In this context, the network ring-fence plays a central role in balancing consumer protection with the need to maintain an investable sector. It helps ensure that licensed network companies remain financially resilient, maintain appropriate independence, and continue to deliver essential services while limiting exposure to risks arising elsewhere within corporate groups.

Following our consultation in November 2025 and extensive engagement with stakeholders, we have reached our policy conclusions. This document sets out those conclusions.

The measures proposed are designed to strengthen financial resilience, enhance transparency, and improve oversight, while maintaining a proportionate and investable framework. In doing so, they support both the protection of consumers and the stability and confidence required for sustained investment.

These reforms will help ensure that the regulatory framework remains fit for purpose, supporting a resilient, well-governed, and investable network sector capable of delivering secure and reliable energy now and in the future.

Steve McMahon

Director – Financial Resilience and Controls

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Executive summary

The energy networks ring-fence review assesses whether existing licence conditions remain effective in protecting the financial resilience of network licensees in a rapidly evolving energy system. Our primary objective is to ensure that network companies remain robust and capable of delivering essential services to consumers throughout the energy transition, while operating within increasingly complex corporate group structures.

Network companies play a critical role in delivering reliable energy services, and their financial resilience is fundamental to protecting consumers. The network ring-fence framework is designed to ensure that licensees have sufficient independence, resources, and governance arrangements to limit exposure to risks arising from wider group activities, and to mitigate the risk of excessive value extraction.

Following our consultation in November 2025 and subsequent engagement with industry stakeholders, we have reached our policy conclusions. This document sets out those conclusions alongside our statutory consultation on the associated licence modifications.

Our review identifies areas where the existing network ring-fence framework should be strengthened to enhance transparency, improve governance, and ensure earlier visibility of emerging financial risks. In particular:

- We are extending the financial resilience measures introduced under RIIO-3 to the Electricity Distribution (ED) sector, ensuring alignment across all network sectors and consistent early-warning mechanisms for financial distress.
- We are strengthening governance arrangements by enhancing the role and visibility of sufficiently independent directors (SIDs), including their role in signing-off certificates and notifications submitted to Ofgem.
- We are updating the 'Availability of resources' (AoR) framework to improve forward-looking assessment of financial resilience, including requirements for longer-term resource visibility and clearer supporting evidence.
- We are introducing targeted enhancements to licence conditions relating to indebtedness, asset disposals, and financial structure, to improve transparency and safeguard licensee capital and liquidity.
- We are improving consistency across sectors by aligning reporting requirements and extending key licence conditions where appropriate.

Taken together, these measures are intended to provide earlier insight into financial risks, strengthen internal governance, and ensure that licensees maintain adequate financial resources. This will reduce the likelihood of financial distress and, where issues do arise, improve the ability to respond effectively.

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We recognise the importance of maintaining an investable regulatory framework. The measures proposed are designed to be proportionate and to build on existing practices, minimising unnecessary regulatory burden while strengthening consumer protection.

As the energy transition progresses, the ring-fence framework must remain adaptable. These changes represent an important step in ensuring that regulatory protections evolve in line with the changing risk profile of the sector, while continuing to support stable investment and reliable delivery of essential network services.

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1. Introduction

Following on from our *Energy Networks Ring-fence Review consultation*¹, published November 2025, we are now providing our policy position on strengthening the ring-fence.

Whilst energy networks appear to have largely been resilient to the energy crisis, this and other events impacting on the utility sector highlight the need to remain proactive on regulation relating to the ring-fence, to ensure networks continue to be financially resilient throughout the energy transition.

Background and related publications

- 1.1 The last stand-alone consultation on the energy network ring-fence took place in spring 2010². Amendments to the networks ring-fence licence conditions were published on 3 July 2012³, with formal proposals for modifications to the ring-fence conditions being published on 17 December 2012⁴. The modifications took effect from 1 February 2013.
- 1.2 As outlined in our November 2025 *Energy Networks Ring-fence Review consultation* there have been several major developments in the sector which have occurred since the previous comprehensive review was undertaken:
 - a) Retail energy crisis;
 - b) Changes in group structures; and
 - c) Energy transition changing market dynamics.
- 1.3 In response, our monitoring of licensee compliance with ring-fence conditions has increased. Going forward, we must ensure that ring-fence regulatory reporting requirements are sufficiently robust and clear to provide early warning of emerging financial risk.
- 1.4 In line with Ofgem's Multiyear Strategy⁵, the ring-fence policy amendments are to ensure we have appropriate powers to protect consumers and support investment while maintaining each network's financial resilience.
- 1.5 The Energy Network Ring-fence review policy consultation closed for responses on 15 January 2026. We have reviewed and considered the responses received, which are published alongside this document. We have held several engagement sessions with networks and industry representatives to discuss the

¹ [Energy Networks Ring-fence Review consultation | Ofgem](#)

² [Review of the ring-fence conditions in Network Operator Licences \(Mar 2010\) | Ofgem](#)

³ [Changes to ring-fence conditions in Network Operator Licences \(July 2012\) | Ofgem](#)

⁴ [Formal proposals to modify the ring-fence conditions in Network Operator Licences \(Dec 2012\).pdf](#)

⁵ [Ofgem Multiyear Strategy \(FINAL v2\)](#) section 10.2

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policy proposals. Our policy position to introduce measures to strengthen the ring-fence was refined during this process and is outlined in this document.

- 1.6 As indicated in the *Decision Energy Networks Ring-fence Review Call for Input*⁶, we do not intend to amend the obligations for Independent Distribution Network Operators (IDNOs).

Decision-making stages

Stage 1 Consultation opened: 12 November 2025

Stage 2 Consultation closed: 15 January 2026

Stage 3 Responses reviewed and further policy consultation engagement with network and industry representatives in spring 2026.

Stage 4 Policy decision publication: 1 July 2026. We are publishing the statutory consultation associated with our ring-fence review policy decisions alongside this decision document.

⁶ [Decision-for-energy-networks-ring-fence-review-call-for-input.pdf](#)

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2. Ring-fence review policy proposals and decisions

- 2.1 In sections 3 to 11 below, we have provided details of the policy proposals' purpose and benefits. We state our policy decision and any change we have made to the policy proposal since the November 2025 consultation. We summarise stakeholder responses to the consultation and provide our rationale for the policy decision.

3. Requirement for sufficiently independent directors

Purpose: Encourage licensees to adopt best practice in corporate governance with sufficiently independent directors (SIDs) fulfilling their independent non-executive duties with reasonable care, skill and diligence. Independent non-executive directors have a critical role in scrutinising performance of senior executives, being involved in developing strategy and executive remuneration decisions. In addition to having a role in managing financial risk, SIDs are in a pivotal position to provide assurance of licensee sustainability. The policy measures strengthen transparency and assurance over SID awareness and involvement in ring-fence and financial resilience matters. A SID should have appropriate knowledge and skills to provide assurance, as is reasonable for carrying out their duties as a director. These proactive measures help safeguard against licensee failures, which may arise through lack of oversight and poor risk management, and are in the consumer interest.

Benefits: Facilitates a SID making representations on behalf of the licensee board on decisions related to financial resilience and ring-fence matters. The measures provide reasonable assurance SIDs have had the opportunity to express their views in the interest of long-term viability of the licensee, which will benefit all stakeholders. Responsible corporate governance and decision-making by the licensee reduces risk of company failure due to financial mismanagement, which would be detrimental to members and consumers. Investors should benefit from stable and sustainable returns on investment.

Sufficiently independent directors – Completion of a checklist and template

Policy decision

- 3.1 We propose to implement this measure as set out in the November 2025 consultation. At that time, we proposed to modify the licence condition to include completion of both a checklist and template, for submission to the Authority, to provide an annual update confirming each SID's details and relevant skills. The information required is specified in the existing licence

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condition. Submission would be required on an annual basis, by 31 July each year, alongside availability of resources certificates and statement of factors.

Stakeholder responses and our rationale

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

- 3.2 The majority of network respondents were opposed to this measure as they stated the only information not currently provided was regarding SID skills and knowledge. There was concern raised by some networks that SID personal details would be required, which is not the intention of this measure. Respondents referred to Annual Report disclosures regarding non-executive directors and this measure would be an unnecessary administrative burden.
- 3.3 As all directors should be subject to annual re-election⁷, if a licensee is following best practice, we consider it appropriate and transparent for SID details to be provided to the Authority on an annual basis, by 31 July each year. Currently, SID information is submitted on appointment, resignation or removal from office. Therefore, several years may pass before any update on a SID is received. An annual process facilitates SID information being kept up to date, accurately reflecting any change in a SID's skills and knowledge obtained within a regulatory year, which the Authority would be otherwise unaware of. Standardisation will bring consistency in reporting to the Authority. The completion of both the checklist and template ensures all the obligations of the licence condition are adhered to. It is critical non-executive directors perform their duties with appropriate skill and knowledge required for the role. All directors have a duty to act with reasonable care, skill and diligence. The information requested should be readily available to the licensee and, as such, not an additional administrative burden. Ofgem will provide a standard checklist and template for completion.

Sufficiently independent directors – Signatory on ring-fence submissions and notifications

Policy decision

- 3.4 In the November 2025 consultation, we proposed at least one SID is a signatory on ring-fence and financial resilience submissions alongside an 'executive' director. To retain flexibility, we have amended our original proposal, instead of specifying a SID and an 'executive' director are signatories, we have broadened this to a SID and 'at least one other director' are signatories on board resolutions and notifications to the Authority.

⁷ UK Corporate Governance Code 2024 Section 3 Provisions 18

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- 3.5 In addition, we originally considered all asset disposals being within scope of SID oversight and scrutiny. We have amended part (e) of this measure to focus on an asset sale, disposal or transfer within the same group of companies as the licensee.
- 3.6 Our policy decision is to implement this measure with a SID providing a level of assurance to the Authority by being a signatory on relevant ring-fence submissions and financial resilience notifications. However, due to existing licence provisions in the electricity distribution (ED) sector, we are no longer proposing that SIDs in this sector will be required to be a signatory on an asset sale, disposal or transfer to a subsidiary of the licensee.
- 3.7 On behalf of the licensee board, a SID and at least one other director would be signatories on the following submissions requiring approval by board resolution:
- a) Availability of resources certificates, dividend distribution certificates and statement of factors; and
 - b) Financial resilience report.
- 3.8 Although not requiring a board resolution, a SID and at least one other director would be signatories of the following notifications to the Authority:
- a) Any downgrade in credit rating and / or outlook;
 - b) Credit rating withdrawal; and
 - c) Proposed asset disposals to another company or entity operating within the same group of companies as the licensee.

Stakeholder responses and our rationale

Responses to 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?

- 3.9 The majority of network respondents were opposed to at least one SID being a signatory on submissions to the Authority regarding ring-fence or financial resilience matters. Several respondents stated board sign-off should be sufficient. It was acknowledged by some networks that this measure may be relevant if Ofgem has concerns about board approval by majority, with SIDs being outvoted. Respondents stated currently no signatory is required on financial resilience reports or negative rating action notifications to Ofgem. Some licensees stated this would introduce unnecessary procedural formality. Concern was raised by some respondents that this measure would be disproportionate and an unnecessary administrative burden.
- 3.10 To help ensure and document that SIDs are aware of these submissions and notifications, we consider it appropriate for at least one SID to be a signatory on behalf of the licensee board, alongside at least one other director, on ring-fence or financial resilience matters. The requirement that SIDs sign relevant board resolutions (thereby confirming that they are aware of the views the directors'

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express in that resolution) helps ensure that SIDs are involved in board decisions regarding ring-fence or financial resilience matters (either by attending the meeting where these matters are discussed and ratified or by being informed of the decisions and reasons in some other way). It reduces the risk of board resolution approval without the SIDs being part of the decision-making process. This facilitates SIDs having the opportunity to express their views and provide input into decisions taken by the licensee. As noted by some respondents, currently the financial resilience report or negative rating action notification to the Authority does not require a signatory. This poses a potential risk of notification occurring without SID knowledge. In addition, Availability of Resources (AoR) certificates require “a director” to be a signatory, it is not specified in the current licence condition whether it should be an executive, non-executive or a SID. This measure will address these issues, ensuring SIDs provide appropriate scrutiny of submissions and notifications provided to the Authority. We do not consider this policy to be disproportionate or an unnecessary administrative burden.

- 3.11 Our amended policy decision is for a SID and at least one other director to sign-off submissions and notifications. The rationale for this is it facilitates SID involvement in financial and operational matters within the remit of their duties. Non-executive directors should have appropriate skills and knowledge to perform their duties with reasonable care, skill and diligence⁸. As asset disposals are a critical component of strategic management and managing financial risk, SIDs should have the appropriate skills and knowledge to provide assurance regarding these transactions, which are taking place in the group the licensee is operating within. Good governance ensures open and accountable processes are in place which encourages stakeholder trust and facilitates sustainable growth. Proactive measures, to safeguard against company failures which can arise through lack of oversight and poor risk management, are in the consumer interest.

Sufficiently independent directors – Requirement for quorum

Policy decision

- 3.12 In our November 2025 consultation we encouraged licensees to add a requirement to their articles of association for at least one SID to be in attendance to reach quorum in licensee board meetings, where financial resilience or ring-fence matters are discussed. As indicated in the November 2025 consultation, this is not mandatory. We are not proposing any policy amendment or licence modification in our statutory consultation.

⁸ Companies Act 2006 Section 174

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Stakeholder responses and our rationale

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

- 3.13 The majority of network respondents were supportive or raised no objection to this measure as it was considered standard practice by many. Respondents acknowledged this should be proportionate, being appropriate for licensee board meetings where financial resilience or ring-fence matters are discussed. One licensee was against this measure stating if a SID was unable to attend, the meeting would not be quorate and would require to be re-arranged.
- 3.14 We considered the feedback received and have not changed our position from the November 2025 consultation. At that time, we encouraged licensees to add a requirement to their articles of association 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 but, as above, we are not proposing a licence modification to make this a requirement. We continue however to encourage licensees to add SID attendance at board meetings as a requirement in their articles of association. Given we are proposing the requirement for at least one SID to be signatory on submissions or notifications on financial resilience and ring-fence matters to the Authority, an articles of association change to require attendance would facilitate SID awareness of ring-fence and financial resilience matters at appropriate licensee board meetings.

Sufficiently independent directors – Remuneration committee

Policy decision

- 3.15 In our November 2025 consultation, we proposed at least one SID attends a licensee Remuneration Committee, or equivalent meeting. SID representation would be in the consumer interest to ensure executive pay is commensurate with licensee performance.
- 3.16 Our policy decision is to amend the licence condition to require SID attendance at licensee Remuneration Committee, or equivalent, meetings where licensee executive remuneration is discussed and ratified, to safeguard remuneration is commensurate with licensee performance. If the Remuneration Committee is held at group level, at least one SID would make representations at the relevant section of the meeting to verbally communicate the licensee recommendation on chair and executive remuneration.

Stakeholder responses and our rationale

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?

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- 3.17 The majority of respondents were against this measure or thought it unnecessary. Some respondents stated they did not have a licensee remuneration committee, with remuneration decisions being taken at group level. Other respondents stated it was not a core skill set held by sufficiently independent directors. Moreover, SIDs would not have skills to assess executive remuneration. It was also stated this would weaken the board. A minority of respondents were supportive stating this was already part of their governance.
- 3.18 We consider the licensee board should endeavour to establish licensee remuneration committee meetings, which consist of independent non-executive directors, including SIDs. While we acknowledge licensees may operate within larger corporate groups, decisions on licensee remuneration should be taken by the licensee itself, where feasible and practical. Where remuneration decisions are ratified at group level, SID representation at such meetings would be necessary. A group level remuneration committee should allocate time on the agenda for at least one SID of the licensee to make representations at the relevant section of the meeting, to communicate the licensee's recommendation regarding licensee chair and executive remuneration.
- 3.19 SIDs should have skills and knowledge appropriate to carry out their duties with reasonable care, skill and diligence, which includes determining licensee executive remuneration.

4. RIIO-3 financial resilience measures to be extended to Electricity Distribution (ED) sector, ahead of ED3

Purpose:	Encourage licensees to adopt a prudent and responsible approach to financial arrangements, provide the Authority with early warning of financial distress and the ability to consider mitigations and / or restrict activities in the event of financial deterioration.
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Benefits:	These measures benefit consumers by making licensee failure less likely and/or increasing the chance and quantum of recovery in the event of failure. Investors benefit from lower risks assumed by licensees and increase likelihood of investment recovery. Introducing these measures aligns the ED sector with RIIO-3 sectors (ET, GD and GT) on key financial resilience measures to ensure we are informed in a timely manner of any potential financial distress. The earlier we are informed, the more response options we have available to mitigate risk of licensee failure.
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RIIO-3 financial resilience measures to be implemented into ED, ahead of ED3

- 4.1 Financial resilience refers to the ability of licensees to maintain sufficient safeguards or headroom to mitigate or manage the risk of financial distress in the event of an adverse financial shock. Our principal objective is to protect the interests of consumers and our requirements relating to financial resilience aim to shield consumers from the potential negative effects of financial mismanagement or corporate failure. Through our financial monitoring and strengthening relevant measures in the licence condition, we support a prudent and responsible approach to financial resilience by network licensees.
- 4.2 Extensive analysis, performed in conjunction with RIIO-3 SSMD⁹, directed our approach, with financial resilience measures considered more effective in protecting consumers when adopted proactively, rather than as a reaction to a financial distress situation. The RIIO-3 financial resilience measures, as implemented in April 2026, are designed to provide early indication of financial vulnerability, enabling us to explore potential mitigations and solutions with the licensee. The aim is to reduce the likelihood of licensee failure and / or increase the prospect and extent of recovery, which will benefit all stakeholders.
- 4.3 Our policy decision is the suite of measures introduced to RIIO-3 network licensees, to reinforce existing financial resilience measures, will be introduced to the ED sector during 2026 as part of the ring-fence review, ahead of ED3. These measures are as follows:
- Measure 1: 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 credit rating.
 - Measure 2: Amend the ‘Indebtedness’ condition 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 3: Amend the ‘Availability of resources’ (AoR) obligations to require licensees to state that they have sufficient financial resources and financial facilities to cover the entire price control period or a minimum of three years ahead. Additionally, the certificates in relation to

⁹ [RIIO-3 Sector Specific Methodology for the Gas Distribution, Gas Transmission and Electricity Transmission Sectors | Ofgem](#)

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financial resources would include a reference to stress test analysis undertaken prior to the licensee issuing the certificate.

Measure 1: Credit rating of the licensee

Policy decision

- 4.4 Our policy decision is to implement this measure in the ED sector in 2026. We will modify the current obligation for licensees to “use reasonable endeavours” to maintain one investment grade credit rating to a requirement that licensees “must” maintain more than one investment grade rating at all times. This measure refers to an Issuer Credit Rating (ICR), issued for the entity as a whole. This is to ensure we capture the overall credit position of the licensee rather than components of the debt structure.

Stakeholder responses and our rationale

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

- 4.5 The majority of respondents were supportive or raised no objection to introducing this measure. Respondents acknowledged alignment with other sectors was reasonable. However, concern was raised regarding the timing of implementation in 2026. This was considered too early to introduce to ED, with many respondents suggesting implementation at the start of the next ED price control period instead.
- 4.6 Our proposal is to introduce this measure to be effective from late autumn 2026 for the ED sector. The measure has been in force for RIIO-3 licensees since 1 April 2026. We consider it reasonable to implement this measure, with immediate effect, during ED2. Our rationale is this safeguards alignment of all network licensees, strengthening financial resilience across the electricity distribution networks at a critical time. Maintaining two investment credit ratings provides an indication of robust corporate governance, financial controls and risk management.

Measure 2: Indebtedness

Policy decision

- 4.7 Our policy decision is to implement this measure in the ED sector in 2026. The distribution lock-up trigger occurs if the licensee has, or is forecasting, Regulatory Gearing ratio of 75% or higher. This is to minimise future exposure to risk, ensure long-term resilience and enhance consumer protection.

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Stakeholder responses and our rationale

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

- 4.8 We received mixed views on the introduction of this measure to the ED sector. Objections were raised regarding RIIO-3 change to “distributions” lock up. Similar to measure 1, objection was raised to introducing the measure to ED in 2026, with the preference being introduction of the measure at the start of ED3.
- 4.9 We consider the distribution lock-up will safeguard licensee cash being retained within the regulatory ring-fence during periods of potential elevated financial risk. This should support continued investment and lower the risk of service disruption and potential increased costs, which would ultimately be borne by the consumer. Our rationale for including this measure, ahead of ED3, is for alignment across all sectors on key financial resilience measures. This is to ensure the Authority is informed, in a timely manner, of any potential or actual licensee financial distress. The earlier we are informed, the more opportunity we have to intervene. This broadens the spectrum of response options we have available to mitigate risk of licensee failure and protect the consumer from harm.

Measure 3: Availability of resources

Policy decision

- 4.10 Our policy decision is to implement this measure to the ED sector. This will require licensees to submit an additional annual certificate in relation to financial resources, which will confirm whether or not the licensee has sufficient financial resources for the price control period or a minimum of three years. The measure would be effective in the licence from late autumn 2026 with first submission of certificate being due by 31 July 2027.
- 4.11 We propose to modify the licence in the ED sector, as per the proposed drafting in appendix A1.9.1.3 in the November 2025 consultation document.
- 4.12 As per RIIO-3, this certificate would not require pre-funding or maintaining more liquidity than necessary to cover the timeframe required by the certificate. Instead, the certificate would require that the licensees use relevant assumptions in relation to the availability of financial markets for any financing or refinancing requirements or around equity injections. Where the certificate covers two different price control periods and the parameters of the new price control are not yet determined, licensees should make reasonable assumptions, noting Ofgem has a duty to have regard to the need to ensure that business plans are financeable when setting future price controls. The new certificate is to be accompanied by a statement of factors which states the factors considered by licensees in issuing the certificate. It would also require licensee

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board approval and sign-off from a licensee director. However, the new certificate, for the extended period, would not require an independent auditor opinion to be provided.

- 4.13 In addition, this measure would require licensees to reference stress tests undertaken prior to issuing the certificates. This is relevant for both the existing 12-month certificate in relation to financial resources and the new extended version of the certificate.

Stakeholder responses and our rationale

Q9. Do you have any views on extending RIIO-3 measures to electricity distribution (ED) sector in 2026?

- 4.14 Respondents were supportive of extending RIIO-3 measures in relation to AoR to ED sector and acknowledged alignment of all sectors is reasonable.
- 4.15 We consider this a proactive preventative measure aimed at reducing risk and providing the Authority with early warning and visibility of financial deterioration of the licensee.

5. Availability of resources

Purpose: Require licensees to provide cash flow forecasts which should provide the Authority with early warning of potential financial distress, giving time to consider mitigation action and/or restrict activities in the event of financial deterioration. Cash flow forecasts facilitate effective financial planning and budgeting for the long-term. Periodic checks of the intervention plan in each price control period safeguards the plan remains relevant and under review to be agile and responsive to changing market conditions.

Benefits: Cash flow forecasting anticipates when cash shortages may arise to ensure working capital is deployed effectively in line with operational need and strategic priorities. Periodic checks of the intervention plan provide an opportunity for benchmarking and to provide advice on best practice.

Availability of resources – Checklist and certificate templates

Policy decision

- 5.1 In the November 2025 consultation, we proposed licensee completion of an AoR checklist and template certificates would be included within the licence condition. Through our engagement with networks, we now think it is appropriate to provide the AoR checklist and template as guidance, for reference purposes on our expectations for AoR submissions. We will separately engage with

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industry on the scope and form of any future guidance around compliance with ring fence and financial resilience licence conditions. The aim of such guidance would be to encourage consistency in approach across all network licensees.

Stakeholder responses and our rationale

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

- 5.2 The majority of respondents were broadly supportive, raised no objection or did not oppose the introduction of this measure.
- 5.3 Respondents stated this would achieve consistency in reporting and be a useful mechanism, providing clarity on requirements.
- 5.4 A minority raised concerns that this should not be overly prescriptive or add to regulatory burden. Clarity was requested on the governance arrangements for the checklist and templates.
- 5.5 We are considering the merits of providing the AoR checklist and template certificates in a guidance document rather than modifying the licence condition and any submission would have to comply with the licensees' data assurance obligation. The rationale for implementation of this resource is to encourage consistency in approach and improve quality of submissions, in addition to facilitating effective monitoring and review.

Availability of resources – Reference to cash flow forecast

Policy decision

- 5.6 Our November 2025 consultation policy proposal was to amend the licence for statement of factors in relation to the annual 1F, 2F or 3F certificates to include a reference to a cash flow forecast. Our policy decision is to amend the licence for statement of factors in relation to the 1F, 2F or 3F extended certificates to include a reference to a cash flow forecast. We consider it appropriate for licensees to reference cash flow forecast information for consideration by the board in its statement of factors assessment of whether or not the licensee has sufficient financial resources. Anticipated cash shortfalls in the future could be addressed in the present day by making proactive changes, such as negotiating extended payment terms with creditors or ensuring efficient credit control procedures are adhered to. It is reasonable to expect any large infrastructure company to plan and budget beyond a 12-month horizon. Ofgem does not anticipate network businesses incurring significant additional costs in relation to this proposal.

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Stakeholder responses and our rationale

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?

- 5.7 The majority of network respondents were supportive, raised no objection or did not oppose this change to the licence condition.
- 5.8 Respondents agreed it was reasonable to expect companies to plan and forecast. Board responsibility for approving certificates is based on what the board considers appropriate, and a cash flow forecast is a key element.
- 5.9 Some respondents stated a forecast beyond a current price control may require a caveat, due to uncertainty of forecast accuracy. It was suggested this should be proportionate and should not require fully committed facilities, as this would have cost implications. Some respondents asserted they already provide a cash flow forecast as part of their AoR submission.
- 5.10 We propose to modify the licence condition to include cash flow forecasts as a factor to be considered in the assessment of availability of financial resources. Our rationale being it is reasonable for licensees to plan beyond a 12-month horizon, as such, this should not have additional cost implications. Cash flow forecasts facilitate effective financial planning and sustainable budgeting for long-term financial stability. Utilising forecasts supports informed decision making at the present time and provides assurance of financial resilience over the long-term. We acknowledge cash flow forecasts are subject to assumptions and uncertainty, as such, this amendment will not require an audit.

Availability of resources – 1C and 2C compliance certificates referencing all ring-fence conditions

Policy decision

- 5.11 In our November 2025 consultation, we proposed that compliance certificates 1C¹⁰ and 2C¹¹ would be updated to reference all relevant ring-fence conditions. Currently six licence conditions¹² are referenced within the 1C and 2C compliance certificates. We have now considered the other ring-fence conditions which would be appropriate to be included and have decided to broaden the scope to reference all ring-fence conditions.

¹⁰Certificate 1C is submitted if a licensee's directors consider, at the time of their approval of this certificate, the licensee is in compliance in all material respects with the obligations of the ring-fence licence conditions.

¹¹Certificate 2C is submitted if 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 the obligations imposed on it by ring-fence licence conditions.

¹² Current licence conditions referenced in 1C and 2C include: Provision of information; Availability of resources; Restriction of activity and financial ring-fencing; Undertaking from ultimate controller; Credit rating of the licensee and Indebtedness.

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Stakeholder responses and our rationale

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

- 5.12 The majority of network respondents were supportive, stating it was reasonable to reference relevant ring-fence conditions. Respondents stated this would provide clarity and suggested each relevant ring-fence condition to be referenced should be named in the licence condition.
- 5.13 We think it is appropriate to review the current licence and ensure all ring-fence conditions are referenced in the compliance certificate. This will provide clarity on compliance requirements. All ring-fence conditions will be specifically named in the licence. Therefore, in addition to existing licence conditions referenced, we propose adding reference to the following four licence conditions:
- Requirement for sufficiently independent directors;
 - Independence of the network;
 - Disposal of relevant assets and restriction on charges; and
 - Prohibition of cross-subsidies.
- 5.14 This means no dividend or other distribution will be permitted by a licensee not in compliance with all ten ring-fence licence conditions.
- 5.15 We consider adding a reference to the “Requirement for sufficiently independent directors” licence condition appropriate to ensure both SIDs are in appointment and have the opportunity to contribute to decisions on licensee dividend payments or other distributions made. SID skills and knowledge should be utilised to provide assurance on ring-fence submissions and notifications to the Authority.
- 5.16 Similarly, adding a reference to include the “Independence of the network” licence condition is important to ensure licensees have appropriate operational and managerial systems in place to meet the requirements of the licence and the compliance statement.
- 5.17 Likewise, adding a reference to include the “Disposal of relevant assets and restriction on charges” licence condition is relevant to ensure the licensee adheres to providing the Authority with a two-month notice period, prior to a relevant asset sale, disposal or transfer taking place. This is necessary to assess whether or not the relevant asset sale, disposal or transfer would impact adversely on licensee operations and providing essential network services to consumers.
- 5.18 In addition, we consider it appropriate to reference “Prohibition of cross-subsidies” licence condition. This is to ensure the licensee does not give or

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receive any cross subsidy. It is important licensee assets and resources are primarily maintained within the licensee to deliver essential network services.

Availability of resources – Dividend certificate to reference all ring-fence licence conditions

Policy decision

- 5.19 In the November 2025 consultation, we proposed amending the licence condition in relation to the dividend certificate to reference all relevant ring-fence conditions. Our policy decision is to include in the dividend certificate references to all the additional ring-fence licence conditions being proposed for inclusion in the 1C and 2C compliance certificates. All ten ring-fence conditions will now be referenced in the licence.

Stakeholder responses and our rationale

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

- 5.20 The majority of network respondents were supportive, raised no objection or did not oppose. Respondents stated it was reasonable to reference relevant ring-fence conditions. These conditions should relate to specific elements which impact financial resilience. The changes should provide clarity with relevant ring-fence conditions being named. A minority of respondents were concerned regarding the significance of the distribution lock-up being triggered, specifying this should occur when a risk to financial resilience was anticipated.
- 5.21 We acknowledge the feedback received and have considered which ring-fence conditions are appropriate to reference in relation to the dividend certificate. In line with the licence conditions referenced in the 1C and 2C certificates, we think it is appropriate to include a reference to all ring-fence licence conditions in the dividend certificate. In particular, ensuring both SIDs are in appointment and have relevant skills and knowledge to provide scrutiny on appropriateness of proposed dividends payments by a licensee.

Availability of resources – SID signatory on behalf of board

Policy decision

- 5.22 In our November 2025 consultation, our proposal was to amend the licence condition to require at least one sufficiently independent director and an executive director to sign-off the board resolution, on behalf of the board, for ring-fence submissions to the Authority.
- 5.23 We have amended the proposal to provide flexibility in regard to the second director signatory. The policy proposal is AoR submissions are required to be signed off by a SID and at least one other director. This facilitates SIDs having an

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opportunity to express their views and input into decisions taken by the licensee board, by providing appropriate challenge and scrutiny of ring-fence and financial resilience matters. Improving transparency of SID awareness of relevant matters discussed at licensee board meetings will also be attained.

Stakeholder responses and our rationale

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

- 5.24 The majority of respondents were against this measure as they considered board approval sufficient. Some respondents considered this amendment unnecessary and disproportionate, while others stated SID attendance was required for the board to be quorate. Several respondents stated board oversight of ring-fence and financial resilience matters occurred including SIDs, before board resolution sign-off. A few respondents suggested board resolution could state SID's agreement.
- 5.25 Our engagement with networks continues to raise concern around existing governance practices. As a monopoly entity, each licensee is in a privileged position, and consumers have no choice in the network licensee they are assigned to. For these reasons, we think it is important for licensees to endeavour to follow best practice in corporate governance with transparency in their governance arrangements, to build trust. It transpires, from our recent engagement with network licensees, best practice is not being followed by all. We consider the suggestion for the board resolution to state SID's agreement may be somewhat unrealistic and potentially unachievable. The amendment we are proposing will help licensee directors to be mindful of their duties, not only to their members, but also the impact of the company's operations on the community. Our rationale for the change is it strengthens the existing measure bringing visibility and assurance of the SIDs' awareness of directors' views at relevant licensee board meetings and independent scrutiny of the AoR submission occurs prior to submission to the Authority.

Availability of resources – Intervention plan submission ad-hoc request

Policy decision

- 5.26 As per our November 2025 consultation, our policy decision is for the Authority to be able to request submission of the intervention plan on an ad-hoc basis. The current licence condition only requires the licensee to maintain an intervention plan.
- 5.27 In our November 2025 consultation, we proposed the intervention plan would be requested if a distress situation was anticipated. We are no longer proposing the licence condition specifies the plan is submitted due to a 'distress situation'.

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However, the Authority may utilise cash flow forecast data, which should provide adequate warning of any potential financial vulnerability on the immediate horizon, in determining whether an ad-hoc request is appropriate and whether a licensee would be required to submit an intervention plan. Likewise, the Authority may utilise the results of relevant licensee stress tests, which would provide early warning of financial distress in determining whether it was appropriate to make an ad-hoc request for the intervention plan to be submitted.

- 5.28 Periodic review provides the opportunity to proactively scrutinise a licensee's existing plan and consider if it is fit for purpose. As the licensee is already obligated to maintain an intervention plan, this measure should not be an additional burden or have additional cost implications.

Stakeholder responses and our rationale

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

- 5.29 The majority of network respondents were supportive, raised no objection or did not oppose. Several respondents stated their licensee's intervention plan was reviewed and updated on an annual basis. Other respondents wanted clarification and guidance on what we meant by a 'distress situation'. It was suggested we should provide a reasonable notice period for submission of the plan.
- 5.30 In our view, the maintenance of an intervention plan is an obligation licensees are already required to adhere to. As such, a long notice period should not be necessary, as the existing intervention plan should be available on request. Our decision is to consult on submission of the intervention plan to take place within 10 working days. Our rationale is this should be sufficient for an existing plan. We have removed the reference to 'distress situation' from the proposed licence modification, thus, guidance on this term is not considered necessary.

Availability of resources – Intervention plan submission for a price control period

Policy decision

- 5.31 As per our November 2025 consultation, our policy decision for our statutory consultation is to amend the licence condition for the Authority to receive submission of the intervention plan at the start of each price control period. We think this is an appropriate measure to ensure the plan remains robust and fit for purpose.

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Stakeholder responses and our rationale

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

- 5.32 The majority of respondents were supportive. Respondents acknowledged it was important the intervention plan remains fit for purpose. Clarity was sought on what we mean by a review, whether an audit would be required and process and timings. Some respondents suggested we share best practice and noted the intervention plan had not been tested. Other respondents stated the intervention plan was updated and reviewed by the licensee annually. It was also suggested any review by Ofgem should only be triggered by material changes in circumstances or risk indicators.
- 5.33 We have decided to amend the licence condition for the purposes of our statutory consultation to state the intervention plan is to be submitted to the Authority at the start of each price control period. Our rationale is this will facilitate compliance checks and enable us to benchmark plan contents against other network licensees. We should then be in an informed position to provide feedback on best practice to safeguard licensee intervention plans are fit for purpose.
- 5.34 Submission of the intervention plan would be expected within the three months of the start of a price control period.
- 5.35 We do not anticipate the requirement for the intervention plan to be audited as a result of this amendment to the licence condition. However, it would be our expectation this would fall under a licensee's data assurance obligation.

6. Indebtedness

Purpose: The measure proposes requiring Authority consent where a licensee's intention is to alter capital and reserves, of a non-distributable by nature, to a distributable capital or reserves category. Consent would be required prior to the licensee progressing to the next stage in the process. This a proactive measure being introduced to strengthen and clarify the current licence condition. By protecting licensee capital, a buffer is available to the licensee to absorb future financial shocks, maintaining financial sustainability. By introducing this measure, we safeguard transparency regarding such potential future alterations to protect the consumer from harm.

Benefits: Stronger regulation on capital maintenance of the licensee builds in financial resilience to withstand unforeseen market shocks, should parent or ultimate controller support be unavailable or minimal. This also protects against riskier practices of the wider corporate group a licensee

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may operate within.

Indebtedness – Extending the distribution lock-up to the 2C compliance certificate

Policy decision

- 6.1 In our November 2025 consultation, we asked for views on a proposal for the distribution lock-up to be triggered on submission of a 2C compliance certificate. We received opposition to this measure, and have carefully considered the feedback received. We have reviewed the ring-fence licence conditions and no longer consider this measure to be necessary. This is due to this measure already being addressed by our amended proposal to include a reference to all ring-fence conditions in the 1C and 2C compliance certificates. If implemented as part of this consultation, for all ring-fence licence conditions, licensees will be prohibited from making dividend distributions if they are not in compliance, in all material respects with the licence, please refer to paragraph 6.4 below.

Stakeholder responses and our rationale

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

- 6.2 Majority of respondents were against this proposal or thought it unnecessary. Respondents stated the licence was already clear on the board requirement to confirm compliance with relevant ring-fence conditions, prior to a dividend or any other form of distribution being paid.
- 6.3 Some respondents stated applying blanket restrictions would be disproportionate. Others stated there are already sufficient statutory protections in place and additional regulatory measures were unnecessary. Concerns were also raised regarding impact on long-term investment required for future infrastructure needs. Some respondents stated the 2C certificate covers a broad range of compliance areas, some which are not related to financial resilience.
- 6.4 Currently, for all sectors, the lock-up is triggered by a submission of a 3F certificate, where a licensee would not have sufficient financial resources, or a 3R certificate, where the licensee would not have sufficient operational resources. In addition, for RIIO-3 sectors, the distribution lock up is triggered when a 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 Negative Watch or Outlook. The 2C certificate explicitly states the licensee is not in compliance in all material respects with the obligations imposed on it. The licence condition in relation to the dividend distribution certificate specifically states the licensee must be in compliance in all material respects with the obligations imposed on it prior to making a dividend payment or other form of distribution. This prevents the licensee making dividend payments or

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other forms of distributions when the licensee is not in compliance. We no longer consider this measure is required, as the licence already prohibits dividend distributions when a licensee is not in compliance with a suite of licence conditions. As part of the ring-fence review, we have modified the availability of resources licence condition in relation to the 2C certificate, which now references material compliance with all ring-fence conditions. We think this provides sufficient safeguard to ensure licensees meet ring-fence compliance obligations.

Indebtedness – Authority consent of proposed alterations to licensee capital and reserves

Policy decision

- 6.5 In the November 2025 consultation, we recommended Authority consent would be required for potential alterations to existing capital and reserves held by the licensee, of a non-distributable nature, being changed to a distributable category in order to enable a future dividend distribution. We have since clarified this proposal. Our policy decision is the Authority should provide consent to proposed alterations to licensee existing capital and reserves, which are usually non-distributable by nature, to a distributable category which are being made to facilitate a dividend payment or other distribution. The licensee would be required to provide reasoning and justification for the alteration to the Authority, prior to consent being granted or rejected. For public listed licensees, consent would permit the licensee to proceed to the next stage in the process of submitting a special resolution for approval by Court order. Whereas, for limited company licensees, consent would permit directors to proceed with Companies House requirements of submitting a solvency statement and completing the relevant forms.
- 6.6 This policy decision is to maintain long-term financial sustainability, protect creditors and encourage responsible distributions with stable predictable returns on investment being provided to shareholders, which ultimately protects the consumer from harm.

Stakeholder responses and our rationale

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

- 6.7 The majority of respondents were against this proposal. Respondents stated a licensee is only permitted to make a dividend payment or other distribution if they have sufficient financial resources. In addition, respondents stated the extended AoR certificate protects licensee resources for at least 36 months.
- 6.8 Some respondents stated the need to maintain an appropriate balance between returning value to shareholders, retained earnings to support future growth and

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withstand unforeseen challenges. Other respondents stated it was for shareholders to manage financial arrangements and this measure was unnecessary.

- 6.9 We consider it appropriate for proposed alterations to licensee existing capital and reserves, which are non-distributable by nature, to a distributable capital or reserve category to be communicated to the Authority and require consent. Such alterations should be a rare occurrence and any additional regulatory burden would only occur if a licensee proposed an alteration. Therefore, we consider this measure to be proportionate. This measure is intended to safeguard capital and reserves, of a non-distributable nature, held by the licensee. Our rationale is this safeguards transparency and risk management. The current licence explicitly states dividend, or other distributions, should be made out of distributable reserves. If a licensee has insufficient existing distributable reserves available to make a dividend payment or other distribution, it is vital the Authority has transparency regarding any potential alterations to capital and reserves in order to facilitate a potential future dividend or other distribution, which otherwise, would not be possible for the licensee to make. This measure protects the consumer from excessive dividend payments or other distributions being made by the licensee. We encourage responsible, stable and reliable dividend payments, being made out of retained earnings, to safeguard sustainability and support long-term investment.

Indebtedness – Appropriate response timeframe

Policy decision

- 6.10 In the November 2025 consultation we proposed to make it clear in the licence condition that Ofgem has the option to extend this decision making timeframe beyond the two-month notice period should we require further time to investigate any contentious areas. We have considered appropriateness of response time in relation to indebtedness licence condition and have decided no further action is required. We are not proposing this measure in our statutory consultation.

Stakeholder responses and our rationale

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

- 6.11 Network respondents were broadly supportive of Ofgem considering appropriateness of response time. Respondents indicated licensees require certainty. It was suggested a maximum time period be added, which once lapsed would waive the right to gain approval. Timely confirmation was considered essential for a licensee to manage its business effectively. It was also asserted any revised timelines should be practical and set clear expectations.

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- 6.12 We concur with the feedback received that the time period for Ofgem response should balance licensee business requirements for a prompt decision, against protecting consumers from potential harm. We have considered the current licence condition timeframe is sufficient for an appropriate Ofgem assessment and response.

7. Independence of the network

Purpose:	To align the ET sector with other sectors by extending independence of the network licence condition to ET. In addition, within the GT licence condition, we are updating the definition of ‘meter-related service business’, to remove a reference to a licence condition which has since been deleted and is no longer relevant.
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Benefits:	To ensure all licensees are protected from riskier activities of companies within the corporate group a licensee may operate within. The change in GT licence, in relation to the definition of ‘meter-related service business’ is to improve clarity of the definition.
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Independence of the network – Extend licence to the ET sector

Policy decision

- 7.1 Our policy decision is unchanged from the November 2025 consultation. We propose to extend the independence of the network licence condition to the ET sector to align with other sectors and safeguard all licensees.

Stakeholder responses and our rationale

Q16: Do you agree the Independence of the networks licence condition should be extended to Electricity Transmission (ET)?

- 7.2 We received mixed views from respondents on this measure. The majority being unaffected by this, provided no direct view or stated it was not applicable for them to comment. Some respondents in the ED sector stated they were supportive of alignment. Moreover, in the ET sector, one respondent stated they were supportive of the proposal to align all sectors. Whereas another licensee within the ET sector stated they already had business separation requirements within their licence and there was no value in extending to ET.
- 7.3 As outlined in the policy consultation, the network ring-fence licence conditions, across all sectors should protect the licensee from the riskier activities of the corporate structure it may operate within. This licence condition exists in ED, GD and GT sectors. We have decided to consult on extending this condition to ET. We acknowledge the feedback received from an ET sector licensee regarding business separation and confirm our intention is not to undermine what Ofgem

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has previously consented to for a specific licensee. Due to existing licence obligations, we consider any additional regulatory burden to be minimal.

Independence of the network – Meter-related services business definition

Policy decision

- 7.4 We have decided to update the GT licence, in relation to the definition of ‘Meter-related services business’. This amendment is to remove a reference to a licence condition, Standard Special Condition D17 *Provision and Return of Meters*, which has been deleted from the licence and is no longer relevant.

Stakeholder responses and our rationale

- 7.5 We received feedback from networks in relation to the ‘meter-related services business’ definition within Standard Special Condition A33 *Restriction on use of certain information and Independence of the Transportation business* licence. This was due to the definition in the current licence referring to Standard Special Condition D17 *Provision and return of meters*, which has since been deleted. Therefore, we are updating the definition in the licence to reflect this change.

8. Disposal of relevant assets and restriction on charges

Purpose: To improve transparency, we require assurance of SID scrutiny of a relevant asset sale, disposal or transfer to another company or entity within the group of companies the licensee may operate within.

We consider it appropriate to broaden the restriction on charges to include receivables and other financial assets, to safeguard licensee liquidity to meet financial liabilities as they fall due.

Benefits: The measures provide independent assurance from a SID, the disposal of a relevant asset provide the greatest benefit and optimal value for the consumer. In addition, to ensuring licensee financial assets are utilised appropriately to maintain licensee liquidity.

Disposal of relevant assets and restriction on charges – Extended time period

Policy decision

- 8.1 In the November 2025 consultation, we proposed extending the review time period regarding a licensee’s intention to dispose of or relinquish operational control over any relevant asset. At that time, we considered the current two-month period may be an inadequate timeframe to review all relevant information

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regarding a high value or complex asset disposal. We are satisfied the current licence obligation meets our requirements to date, as we have the ability to ask for further information before consent is given and are not constrained to reaching a decision within the 2-month notice period. Therefore, we are no longer considering this proposal for our statutory consultation.

Stakeholder responses and our rationale

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

- 8.2 Majority of respondents were against this proposal or thought it unnecessary. Some stated the current two-month timeframe was sufficient, while others acknowledged it may be appropriate to extend the timeframe for high value asset disposals which could require a greater level of scrutiny. Concerns were raised that a delay may impact on major projects, the price or be a potential barrier to disposal. Respondents suggested a materiality threshold be set in relation to asset disposals which would be subject to the extension and Ofgem should specify the types of assets this measure would apply to. Respondents also recommended the licence should specify a defined timeframe for triggering an extension, with a maximum extension period of no more than four months.
- 8.3 We have considered the feedback received and are no longer proposing an option for the Authority to extend the timeframe, beyond the current two-month period. We are satisfied from the responses received, and internal discussions on the proposal, the current two-month notice period is sufficient to request further information before consent is granted or to confirm the proceeds from an asset sale or disposal provide benefit to consumers and does not hinder the licensee's ability to deliver essential network services.
- 8.4 It is vital the Authority continues to have transparency over such disposals to ensure consumers are adequately protected and considered in such transactions. Licensees should have an asset management framework in place which outlines their approach to overseeing the lifecycle of critical infrastructure. This framework should facilitate assets being utilised efficiently, in line with licensee long-term strategic objectives, to deliver a resilient service and value for consumers now and in the future.
- 8.5 We acknowledge respondents' concerns regarding delay potentially impacting on sale price or being a barrier to disposal. We need to be certain such transactions are conducted transparently with all licensees being subject to consistent and fair treatment.
- 8.6 We are no longer proposing this policy amendment and licence modification in our statutory consultation.

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Disposal of relevant assets and restriction on charges – Add reference to Financial Asset

Policy decision

- 8.7 In our November 2025 consultation, our recommendation was to extend the requirement of the licensee not to grant any mortgage, charge or other form of security over any receivable or *Financial Asset*. Our policy decision is to extend the requirement for no security over receivables to also include other financial assets. This broadens the scope to protect licensee assets and maintain liquidity for financial stability to provide essential network services.

Stakeholder responses and our rationale

Q19: Do you agree with adding “Financial Asset” to restriction on charges?

- 8.8 Respondents provided mixed views regarding adding financial asset to this licence condition. Some respondents stated they were supportive or had no objection to ‘Financial Asset’ being added. Respondents opposed to this measure stated it was unnecessary repetition and the reference to ‘Receivables’ was sufficient. Others requested clarity regarding the term ‘Financial Asset’.
- 8.9 ‘Financial Asset’ is a well-defined term in accounting standards¹³. We do not consider this amendment to be repetition, as the term ‘Financial Asset’ is broader and referenced within the ‘Receivables’ definition. Our rationale for introducing this measure is to ensure no security is granted over receivables or other financial assets of a licensee which provide liquidity, to meet licensee financial liabilities as they fall due. It is important financial assets are available to be converted into cash quickly, if needed. Licensees should have an appropriate risk management framework in place for managing liquidity, particularly when considering scenario planning.

Disposal of relevant assets and restriction on charges – SID signatory of relevant asset sale, disposal or transfer to group company or entity

Policy decision

- 8.10 In the November 2025 consultation, we recommended referring to requirements of International Accounting Standards Board (IASB) for International Financial Reporting Standard 13 (IFRS13)¹⁴ or Financial Reporting Standard 102 (FRS102)¹⁵

¹³ [ias-32-financial-instruments.pdf](#) and [FRS_102_Glossary.pdf](#) Glossary page 353 provides a definition of Financial Asset

¹⁴ [ifrs-13-fair-value-measurement.pdf](#)

¹⁵ [FRS_102.pdf](#)

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‘Fair value measurement of a non-financial asset’, 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. Through our engagement with networks, we have amended the policy proposal. Our policy decision is the notification submitted to the Authority to support the relevant asset sale, disposal or transfer to another company or entity within the same group as the licensee, should be signed by a sufficiently independent director and at least one other director. Due to existing licence provisions in the ED sector, SIDs in ED licensees will not be required to sign-off on an asset sale, disposal or transfer to a subsidiary of a licensee.

Stakeholder responses and our rationale

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?

- 8.11 Majority of respondents were against or thought this unnecessary. It was stated that networks are incentivised to obtain a good price. Some respondents proposed asset disposals should be at arm's length or fair market value. There were concerns raised that licensees may have to consider development rights of land and there may be cost inefficiency as a result.
- 8.12 Respondents who were supportive stated this was consistent with IFRS13 and FRS102 requirements and this was widely understood and established concept for entities reporting under IFRS. Some respondents suggested asset disposals to another regulated entity should warrant a different treatment. Other respondents referred to the separate consultation on “Natural Gas Asset Repurposing Valuation Methodology” and commented flexibility would be required for potential repurposing of assets.
- 8.13 We acknowledged the feedback received during our engagement with networks and amended the proposal. Our policy decision is to require a SID and at least one other director to be a signatory on a licensee asset sale, disposal or transfer occurring within the same group of companies the licensee may operate within. The only exception to this is for ED licensees, no SID sign off on an asset sale, disposal or transfer to a subsidiary of the licensee will be required. This is due to existing obligations in the ED licence. Our rationale for the decision is that improved transparency provides assurance such transactions provide the greatest benefit to the consumer and do not compromise delivery of essential network services. We agree that the repurposing of natural gas assets is an important point and is outside the scope of this ring-fence review, this would be considered as part of further Ofgem reviews in future, to ensure no consumer harm.

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9. Credit rating of the licensee

Purpose:	To ensure consistency in financial reporting obligation to the Authority across ED, ET, GD and GT sectors, should a licensee be subject to a negative rating action or show signs of financial deterioration. Timely reporting provides the Authority with the opportunity to intervene and take mitigating action to avoid company failure.
Benefits:	Alignment of ED with other sectors brings consistency, facilitating appropriate preventative intervention and prompt action to mitigate risk of further financial deterioration in a licensee, to safeguard essential network services provided by the ED sector.

Credit rating of the licensee – Financial resilience report being extended to the ED sector

Policy decision

- 9.1 In the November 2025 consultation, we proposed extending the obligation to provide a financial resilience report and associated financial projections to the ED sector. Our policy decision is unchanged. This measure will align all sectors, ensuring consistency in reporting to the Authority on financial resilience matters. It is appropriate this measure is applicable when a negative rating action occurs to provide early warning of potential financial distress in a licensee. The policy proposal is to extend an obligation to the ED sector to submit a financial resilience report within 60 days of a negative rating action.

Stakeholder responses and our rationale

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?

- 9.2 Majority of respondents were supportive or raised no objection to the introduction of this measure. Respondents acknowledged consistency in reporting across sectors was a reasonable expectation. Respondents stated this reporting should be applicable where a negative rating action was identified. Some licensees also suggested a 90-day period to provide the report, rather than 60-days which is the timeframe currently applicable to other RIIO sectors.
- 9.3 We note respondents in the gas sector did not provide a view on this measure as they are already subject to this licence condition.
- 9.4 Ofgem considers aligning ring-fence financial reporting requirements for all sectors appropriate. Our rationale being this ensures consistency and timeliness in reporting to the Authority. The Authority should receive timely

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information when financial deterioration of a licensee is anticipated, and a negative rating action occurs. Due to the pressing nature of these reports, to safeguard essential network services for consumers, the current 60-day period to provide the financial resilience report, currently applicable to RIIO-3 sectors, is considered appropriate. Prompt action to mitigate risk of further financial deterioration of the licensee or potential failure is critical.

Credit rating of the licensee – Published rating report being extended to the ED sector

Policy decision

- 9.5 In the November 2025 consultation, we proposed extending the obligation to provide published rating reports to the ED sector. This licence condition currently applies to RIIO-3 sectors. This measure will align all sectors, ensuring consistency in reporting to the Authority if a negative rating action occurs. The policy decision is to extend the obligation to the ED sector to provide a published rating report where a negative rating action occurs.

Stakeholder responses and our rationale

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?

- 9.6 Majority of respondents were supportive or raised no objection to the introduction of this measure to the ED sector. Electricity sector respondents stated it was appropriate to have consistency across sectors. A minority of respondents raised concern over confidentiality of such reports being submitted to the Authority. Whereas, gas sector respondents provided no views or comments as they are already subject to this measure.
- 9.7 We consider alignment across sectors, in relation to ring-fence measures, a necessary proactive safeguard to mitigate potential risk of financial failure of network licensees. The obligation to provide published rating reports to the Authority should not create a confidentiality issue for a licensee, as it is already common practice for a network licensee to routinely provide confidential information to us.

10. Restriction on activity and financial ring-fencing

Purpose: Ensure the licence condition is up-to-date and reflects regulatory accounts may no longer be prepared by network licensees.

Benefits: To ensure all sectors are aligned in respect of reporting of de-minimis business.

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Restriction of activity – De minimis accounts reference and reconciliation

Policy decision

- 10.1 In the November 2025 consultation, we proposed to amend the de minimis business 2.5% Turnover limitation and the 2.5% Capital and Reserves limitation, which both apply to a regulatory year. The RIIO-3 sector licence conditions stipulate these are shown in the most recent audited ‘regulatory’ accounts. Whereas, in ED, audited ‘historical cost accounting statements’ were referenced. Licensees currently have Authority consent not to prepare regulatory accounts, since the introduction of the regulatory financial performance reporting (RFPR). Therefore, we have decided to align the RIIO-3 sector licences with ED, to reference audited ‘historical cost accounting statements’. We acknowledge that the RFPR reporting year may not be aligned to some licensee’s financial year end. In such situations a reconciliation to show adherence to meeting the licence requirement for a regulatory period should be provided.

Stakeholder responses and our rationale

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 financial statements are being utilised rather than regulatory accounts?

- 10.2 Majority of respondents were supportive as they were already using audited statutory financial statements. Respondents stated it was logical to remove the reference to regulatory accounts which are no longer prepared by licensees.
- 10.3 Our proposal is to reference ‘historical cost accounting statements’ rather than ‘regulatory accounts’, is to provide greater flexibility to licensees and reflect the changes as a result of the introduction of RFPR.

Restriction of Activity – Definition of the network ‘Regulatory Ring-fence’

Policy decision

- 10.4 In our November 2025 consultation, we proposed to provide a definition of the ‘Regulatory Ring-fence’, to improve clarity, reduce ambiguity and mitigate any misinterpretation of the purpose of the ring-fence by stakeholders. 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. We are no longer including a definition of the ‘Regulatory Ring-fence’ in the licence condition, as part of our statutory consultation, instead we will separately engage with networks on any future guidance.

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Stakeholder responses and our rationale

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

- 10.5 The majority of respondents were against this proposal or thought it unnecessary. Many respondents raised concern the proposed definition would prohibit shared services or de minimis business. Others stated it was not necessary to have a definition. However, if a definition was provided, Ofgem should name the specific licence conditions the definition relates to.
- 10.6 We acknowledge network respondents feedback and have decided not to include the 'Regulatory Ring-fence' definition within the licence condition. Networks raised concern regarding potential removal of the prohibition of shared services or de minimis business. Our intention is not to prohibit shared services. However, we do need transparency over assets and resources of the licensee being protected and utilised appropriately for the purpose of delivering network services.
- 10.7 The ring-fence purpose is to separate and protect licensee assets from financial risk of other entities within the corporate group it may operate within. Thus, protecting essential network services in the interest of existing and future consumers is vital.
- 10.8 To improve clarity and help understanding, we have decided the purpose and scope of the regulatory ring-fence will be provided as guidance.

11. Undertaking of ultimate controller

Purpose: Provide clarity on 'Ultimate Controller' definition to ensure it is fit for purpose

Benefits: This ensures the definition is broad enough to capture individuals or different types of corporate bodies.

Undertaking of ultimate controller – Ultimate Controller definition

Policy decision

- 11.1 In the November 2025 consultation, we proposed an amendment to the 'Ultimate Controller' definition. This policy proposal was to improve clarity regarding the scope of persons or entities the definition relates to. Our policy decision in our statutory consultation is unchanged.

Stakeholder responses and our rationale

Q25: Do you agree with the proposed definition changes to Ultimate Controller?

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- 11.2 Majority of respondents agreed with the amendments to the ‘Ultimate Controller’ definition, stating this provides clarity. It was suggested we align, as far as appropriate, with the Companies Act 2006 definition of ‘persons with significant control’.
- 11.3 We propose to amend the definition to provide greater clarity on entities this definition relates to. We also consider it appropriate to consider gender neutral terminology in the licence drafting.

12. Impact Assessment

- 12.1 We have considered our duty as set out in section 5A of the Utilities Act 2000 with regard to carrying out a statutory impact assessment. We do not consider this decision involves a major change to GEMA’s activities, and we do not consider that it would likely have significant impacts on industry participants, the general public or on the environment. For these reasons, we have decided not to carry out a full statutory Impact Assessment but we have considered the impacts in a proportionate way, in line with our impact assessment guidance.
- 12.2 In developing these measures we have sought to ensure that any incremental regulatory burden, including enhanced reporting and governance processes, is proportionate and targeted. The majority of requirements build on existing licence obligations and established practices within network companies. For example, much of the information required for enhanced reporting (such as financial forecast, governance arrangements, and director responsibilities) is already prepared by licensees as part of standard internal processes, statutory reporting, or existing regulatory submissions. As such the measures are intended primarily to formalise, standardise, and improve the transparency of existing practices rather than introduce wholly new obligations.
- 12.3 We have also taken steps to mitigate potential regulatory burden where appropriate. This includes
- Aligning requirements across sectors to reduce complexity and promote consistency
 - Allowing flexibility in how certain obligations are met (for example, through guidance rather than prescriptive licence drafting where appropriate)
 - Avoiding duplication of requirements where equivalent information is already provided through other regulatory or statutory processes
 - Limiting new obligations to areas where we have identified clear gaps in visibility, governance or risk management.
- 12.4 Our qualitative assessment is that the measures will deliver net benefits by strengthening financial resilience, improving early visibility of emerging risks, and enhancing governance and accountability within network licensees. These

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improvements are expected to reduce the likelihood and potential impact of financial distress, thereby supporting continuity of service for consumers and reinforcing investor confidence in the sector.

- 12.5 Overall we consider that the decisions strike an appropriate balance between enhancing protections for consumers and maintaining a stable, proportionate and investable regulatory framework.

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Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this decision. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?

Did it make reasoned recommendations?

Please send your feedback to stakeholders@ofgem.gov.uk Do you have any further comments?

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Decision Energy Networks Ring-fence Review - Policy decision**Appendix 1 Summary of policy decisions**

Licence condition name / reference	Proposed modification
Availability of resources	Statement of factors in relation to financial 1F, 2F or 3F extended certificates to include a reference to a cash flow forecast.
	Compliance 1C or 2C certificate to reference all ring-fence conditions.
	Dividend certificate to reference all ring-fence conditions.
	Authority to be able to request submission of an intervention plan on an ad-hoc basis.
	Authority to receive submission of an intervention plan at the start of each price control period.
Credit rating of the licensee	Obligation to submit a Financial Resilience Report to the Authority within 60-days of a negative rating action to be extended to ED sector.
	Obligation to provide a Published Rating Report to the Authority when a negative rating occurs to be extended to ED sector.
Indebtedness	Authority to provide consent prior to any proposed alteration to existing capital and reserves, which are usually non-distributable nature, being made to facilitate a dividend payment or other distribution. The licensee would be required to provide reasoning and justification for the alteration prior to consent being granted or rejected. For public listed licensees, Authority consent would permit the licensee to proceed to the next stage in the process of submitting a special resolution for approval by Court order. For limited company licensees, Authority consent would permit directors to proceed with Companies House requirements of submitting a solvency statement and completing the relevant forms.

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Licence condition name / reference	Proposed modification (continued)
Independence of the network	Extend this licence condition to the Electricity Transmission sector. In the GT licence, update the definition of ‘Meter-related services business’ to improve clarity.
Restriction of activity and financial ring-fencing	Update the reference to refer to ‘historical cost accounting statements’ rather than ‘regulatory accounts’ for 2.5% de minimis business Turnover limitation. Reconciliation to be provided to regulatory period, if applicable.
	Update the reference to refer to ‘historical cost accounting statements’ rather than ‘regulatory accounts’ for 2.5% de minimis business Capital and Reserves limitation. Reconciliation to be provided to regulatory period, if applicable
Disposal of relevant assets and restriction on charges	Extend the requirement for no security over receivables to also include other financial assets.
	Notification submitted to the Authority to support relevant asset sale, disposal or transfer to another company or entity within the group should be signed off by a sufficiently independent director and at least one other director. No SID sign-off is required for ED licensee asset sale, disposal or transfer to a subsidiary.
Requirement for sufficiently independent directors	Completion of a SID checklist and template to provide an annual update which confirms each SID’s details and relevant skills, as specified in the current licence condition. To be submitted to the Authority on an annual basis by 31 July each year, alongside AoR compliance.

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Licence condition name / reference	Proposed modification (continued)
Requirement for sufficiently independent directors (continued)	At least one SID must provide a level of assurance to the Authority on ring-fence submissions and notifications. On ring-fence submissions to the Authority that have been approved by a board resolution a SID must be a signatory, alongside at least one other director, on behalf of the board on the following submissions: 1. AoR certificates, dividend distribution certificate and statement of factors; and 2. Financial resilience report. On ring-fence notifications to the Authority a SID must be a signatory, alongside at least one other director of the licensee, in respect of the following notifications: 1. Any downgrade in credit rating and / or outlook; 2. Credit rating withdrawal; and 3. Proposed asset disposals to another company or entity operating within the same group of companies as the licensee.
	At least one SID must be in representation at a licensee Remuneration Committee, or equivalent meeting, where licensee executive remuneration is discussed and/or ratified, to safeguard executive remuneration is commensurate with licensee operational and financial performance. If the Remuneration Committee is held at group level, at least one SID must make representations at the relevant section of the meeting to communicate the licensee recommendation on chair and executive remuneration.
Interpretations and definitions	Amend the existing definition of: ‘Ultimate Controller’ to improve clarity on scope of persons or entities this definition relates to and reduce ambiguity.

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Licence condition name / reference	Proposed modification (continued)
RIIO-3 financial resilience measures to ED sector, ahead of ED3	Measure 1: 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 credit rating.
	Measure 2: Amend the ‘Indebtedness’ condition 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 3: Amend the ‘Availability of resources’ obligation to require licensees to state that they have sufficient financial resources and financial facilities to cover the entire price control or a minimum of three years ahead. Additionally, the certificates in relation to financial resources would have to include references to stress testing analysis undertaken prior to the licensee issuing the certificate.