

Date

15 January 2026

Cadent Gas Limited

Pilot Way Ansty Park
Coventry CV7 9JU
United Kingdom
cadentgas.com

By Email:

reg.finance@ofgem.gov.uk

FAO: Rohan Churm

**Energy Networks Ring-fence Review Consultation**

Dear Rohan,

We welcome the opportunity to respond to Ofgem's consultation on the Energy Networks Ring-fence Review. We acknowledge that a review is timely given the significant period since the last comprehensive assessment in 2010 and the evolving market dynamics, including lessons learned from wider utility sector challenges and the ongoing energy transition.

We support Ofgem's objective to ensure that ring-fence provisions remain robust and fit for purpose, safeguarding financial resilience and consumer interests. To achieve that outcome, any proposed changes must be proportionate to the risks that exist in this sector and not be overly burdensome in respect of the risks they seek to mitigate.

In our view, many of the new measures described in the consultation documents, including those relating to the role of Senior Independent Directors (SIDs), should already be embedded within well-governed network companies with effective boards. Furthermore, much of the additional information being requested is already comprehensively disclosed in our Annual Report and Accounts, reflecting our commitment to transparency and to providing clear and accessible information to all stakeholders, not just the regulator. We therefore consider Ofgem's efforts would be more effectively directed towards promoting greater consistency in reporting and ensuring that those network companies which do not currently provide this level of disclosure are brought up to an equivalent standard.

The ring-fence should continue to provide clarity and assurance without introducing unnecessary complexity or compliance costs. We would like to highlight the following points:

- The fundamental driver of a resilient network is its operational performance and ability to deliver in line with the allowed returns provided in the regulatory framework. Ensuring sufficient allowances to invest efficiently for customers today and into the future is the backbone of a financeable and investable network that will support an equitable, safe and resilient transition to net zero.
- Whilst there may be some perceived weaknesses with the existing ring fence conditions, we have not identified any material issue with them or evidence of consumer harm.
- A number of additional measures have already been introduced as part of the RIIO-3 Final Determinations as well as via increased reporting requirements through the Regulatory Financial Performance Reporting. It would be prudent to allow a reasonable period of time to assess and evaluate the impact of these new measures before introducing anything further.
- We acknowledge the importance and value of Sufficiently Independent Directors (SIDs). We do not see a need to substantially change the existing requirements which provide effective protection for consumers. We also cannot support or accept proposals that would be in direct conflict with their obligations under s.172 Companies Act or which try to place obligations on them which go beyond their powers.
- We agree with Ofgem that the responsibility for financial resilience lies with management and shareholders, and that we must act responsibly in this regard with respect to our customers and wider stakeholders. To effectively comply with this duty, we must be permitted to arrange ourselves and our finances in a way that is economic and efficient and not excessively restricted.

We believe that a balanced approach is essential, strengthening resilience where needed whilst maintaining flexibility and proportionality. It is important that prior to any Statutory consultation we work through the detailed licence drafting to avoid any unintended consequences. We look forward to engaging further with Ofgem as these proposals develop and to working collaboratively to achieve outcomes that protect consumers and maintain investor confidence.

Please find our detailed consultation response attached. Should you require any clarification or wish to discuss our views further, please do not hesitate to get in contact.

Yours faithfully,



Gary Baron

Chief Financial Officer

Energy Networks Ring-fence Review Consultation: Cadent response

1. Do you agree with the definition provided for the purpose of the regulatory ring fence?

The regulatory ring fence is a well understood concept, and all responsible licensees are aware of its purpose and the important role that it plays. While we do not consider that a definition of the regulatory ring fence is necessarily required, if the purpose of such a definition is to provide further clarity, the proposed draft should consider the following points:

- Reference to specific ring fence licence conditions: Further clarity would be provided if those licence conditions referred to in this consultation are specifically referred to in the definition of the regulatory ring fence. If any further ring-fencing conditions are introduced, they could be added to the definition as a consequential amendment.
- Restriction on activity: The current definition refers to assets and resources of the licensee being for the sole purpose of delivering regulated network services. For all licensees, this is subject to the de-minimis exception, which should be acknowledged in the revised drafting. Clarity will also be required going forward as to how hydrogen investments are treated within this framework.

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

We support the principle of providing clarity and consistency in the application of ring-fencing requirements. A checklist and standardised certificate templates support this principle; however, we believe the approach should strike the right balance between guidance and flexibility. In particular:

A checklist could be a useful mechanism to support compliance and ensure key considerations are addressed. However, we believe it should not be overly prescriptive. Ultimately, these decisions rest with the Board of Directors, who will determine what information they require to discharge their responsibilities effectively. This could differ between companies and over time, depending on the specific circumstances the company finds itself in. Any checklist should therefore provide that flexibility to allow companies to adapt their approach as required, whilst ensuring compliance with the overarching principles.

We also recommend treating the first year of implementation as a transitional period, an approach used previously where new reporting requirements have been implemented. This would allow Ofgem to review submissions and establish best practice guidance. It also affords stakeholders time to learn from practical experience

and refine processes, accordingly, ensuring that the framework is robust and proportionate in the long term.

3. 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?

As shown in our latest certificate 1F submission, our statement of factors demonstrates that cash flow forecasts are already a fundamental part of the Board of Directors' review process, and therefore, we have no objection to this requirement being included.

As we have highlighted throughout the RIIO-3 process, any additional financial resilience measures should avoid adding unnecessary costs to licensees and customers and should only be introduced where there is clear evidence of need which Ofgem considers is absent for the energy sector. The RIIO-3 requirement to extend the availability of resources period to the longer of the price control or three years must be accompanied by a framework that allows reasonable refinancing assumptions. Without this, network companies could be forced to pre-fund large elements of the price control, which is neither efficient nor in the best interests of customers.

Beyond the current price control period, companies will inevitably need to make assumptions regarding the next price control framework. Without explicit guidance from Ofgem, this requirement becomes inconsistent across licensees and of limited regulatory value. Such subjectivity risks undermining the credibility of the process and could introduce unnecessary complexity without delivering any meaningful benefit to consumers or financial resilience.

We also note the Financial Reporting Council's (FRC) guidance issued in February 2025, which clarifies that "the minimum period for the going concern assessment does not mean that the outlook should be limited to 12 months." This guidance provides practical criteria for when the assessment period should be extended, such as in cases of major refinancing beyond the 12-month horizon. Our going concern assessment, which follows this guidance, is already subject to statutory audit and therefore offers the regulator and consumers greater assurance than an arbitrary extended time window with hypothetical refinancing assumptions. This approach is far more practical and proportionate than imposing a blanket extension, which adds little value beyond what is already achieved through maintaining investment-grade credit ratings, ratings that inherently secure access to debt capital markets and underpin financial resilience.

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

We have no objection for the compliance certificates 1C and 2C being updated to reference all relevant ring-fence conditions which are suitably defined in the ring fence definition.

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

We have no objection for the certificate in relation to dividends being updated to reference all relevant ring-fence conditions which are suitably defined in the ring fence definition.

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

The AoR certificate is currently required to be approved by a resolution of the licensee's board of directors and signed by a director of the licensee pursuant to that resolution. Our board of directors comprise three SIDs, three executive directors, as well as shareholder-nominated directors.

In addition, the certificate must be accompanied by a report prepared by its auditors and addressed to the Authority, stating whether the auditors are aware of any inconsistencies between the certificate and the licensee's statutory accounts.

It is therefore not clear what additional assurance is achieved by adding a SID as signatory to the current requirement, which is sufficiently robust. Ofgem should be cautious about introducing different requirements for different Board members, whose obligations are already prescribed by the Companies Act and subject to oversight by the Financial Reporting Council (FRC). Indeed, a resolution of the entire Board is more powerful than an individual signature from a SID. We also provide further detail on the response to this requirement in question 22.

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

We are supportive of sharing our intervention plan in such circumstances; however, it is not clear from the current drafting how Ofgem would anticipate distress, which we believe should be made explicit for the avoidance of doubt.

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

Cadent acknowledges the importance of ensuring intervention plans remain fit for purpose.

Our intervention plan is updated and reviewed annually by our Executive Committee and contains sufficient detail to enable an energy administrator to readily understand

the licensee's business affairs. Given the stable nature of regulatory activity, the plan is unlikely to change significantly between reviews.

Therefore, it is unclear what additional value Ofgem's review would provide beyond existing governance processes. We recommend that any review by Ofgem be triggered only by material changes in circumstances or risk indicators, rather than as a blanket requirement. This approach would avoid unnecessary duplication and administrative burden while maintaining assurance that plans remain robust.

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

As a gas distribution network operator, we do not have a direct view on measures relating to the electricity distribution sector.

10. 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?

As a gas distribution network operator, we do not have a direct view on measures relating to the electricity distribution sector.

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

As a gas distribution network operator, we do not have a direct view on measures relating to the electricity distribution sector.

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

As a gas distribution network operator, we do not have a direct view on measures relating to the electricity distribution sector.

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

We do not support extending the distribution lock-up to the 2C certificate. Whilst we recognise the importance of maintaining financial resilience and transparency, the 2C certificate covers a broad range of compliance areas, many of which are unrelated to financial resilience. Automatically imposing a lock-up for any breach recorded under 2C, for example a company failing to provide information to Ofgem in the required form or timeframe, would be disproportionate and could introduce unnecessary rigidity into the framework.

Such an approach would not only fail to deliver meaningful consumer benefit but could also be considered to harm investor confidence which relies on a regulatory environment that is predictable and proportionate. Introducing blanket restrictions in

this way risks undermining that confidence and could adversely impact the sector's ability to secure capital for essential network investment.

We believe that any lock-up mechanism should remain targeted and risk-based, focusing on breaches that have a clear and material impact on financial resilience. The existing ring-fence provisions already provide robust safeguards, and further restrictions would add complexity without improving outcomes for consumers.

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

We do not agree with the proposed amendment. Licensees should retain the flexibility to manage their capital structure in a manner that best supports their business needs and financial resilience within the existing regulatory framework.

Introducing a requirement to seek Ofgem's consent for any alterations to capital and reserves would represent an unnecessary intrusion into legitimate corporate governance and financial management decisions. Such changes are typically undertaken to optimise efficiency, maintain investor confidence, and respond to market conditions, all of which ultimately benefit consumers by supporting a financially stable network operator.

We believe the existing ring-fence provisions already provide sufficient safeguards to prevent inappropriate value extraction or actions that could compromise financial resilience. Additional restrictions would add complexity and administrative burden without delivering commensurate consumer benefit.

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

We agree that Ofgem should consider the appropriateness of the response time period for the indebtedness licence condition. Clear guidance and timely confirmation are essential for ensuring that networks are able to manage businesses effectively and efficiently. Any revised timelines should be proportionate and practical, avoiding unnecessary administrative burden, so a system which prioritises responding within shorter deadlines for material indebtedness events could be considered.

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

As a gas distribution network operator, we do not have a direct view on measures relating to the electricity transmission sector.

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

We support the licence amendment which results in the use of statutory accounts to show regulatory obligations are being met for De Minimis Business, as opposed to the Regulatory Accounts which are no longer prepared following the implementation of the Regulatory Financial Performance Reporting (RFPR).

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

We have not seen any evidence that supports a blanket requirement to extend the notice period. However, we recognise that there may be merit in applying an extension in specific circumstances, such as complex or high-value transactions, where additional scrutiny could be necessary to protect consumers and uphold the integrity of the ring-fence.

That said, we have several concerns with the proposed licence drafting:

- **No limit on extension timeframe:** The current drafting does not specify a maximum period for which the Authority could extend the notice period. This creates uncertainty and could deter potential buyers in arm's-length commercial transactions. We recommend introducing a cap of **no more than four months**.
- **Triggering the extension:** The drafting should include wording that requires the Authority to exercise any extension within a defined timeframe. We suggest this should be **no longer than one month** from the initial notice.
- **Scope of assets:** The extended notice period should apply only to **operational assets**. In SSPLC A27 of the Gas Transporter licence specifically, any extension should apply only to "Transportation Assets".
- **Criteria for extension:** The drafting does not clearly specify the criteria under which an extension would be triggered. Greater clarity is needed to ensure transparency and predictability. Such an extension should be used in exceptional circumstances and where greater scrutiny is objectively required and not relied upon, for example, to manage any regulator resource restraints.

Provided these concerns are appropriately addressed through redrafting and the process is transparent, we would not object to this change being implemented.

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

As a gas distribution network operator, we do not have a direct view on measures relating to the electricity distribution sector.

20. 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?

This approach is consistent with International Financial Reporting Standards (IFRS 13) and UK FRS 102, which require fair value measurement based on highest and best use.

We broadly support the principle that a non-financial asset being sold, transferred or disposed of by a licensee should be valued according to its highest and best use.

However, we note that a different treatment may be warranted when an asset is being transferred to another regulated entity. Ofgem is currently developing thoughts on valuation of repurposed assets (for example from natural gas to hydrogen) and it is important this consideration enables the full wider policy implications to be properly assessed without any constraints on the valuation methodology. Hence some flexibility in the drafting should be deployed at this stage, to allow that process to be concluded.

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

We agree in principle with Ofgem's proposal to introduce a checklist and template for SID details, as it enhances transparency and ensures compliance with licence conditions. However, the information requested is already comprehensively disclosed in our Annual Report and Accounts, reflecting our commitment to transparency and providing visibility to all stakeholders, not just the regulator. Rather than imposing an additional checklist that risks duplication and unnecessary administrative burden, we believe Ofgem's efforts should focus on ensuring consistency of reporting across all network companies.

22. 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?

We do not agree that having a SID as a co-signatory on key ring-fence submissions would be in consumer interest. Such interest is already well served by the oversight SIDs have through their Board role. Adding a co-signatory requirement would create additional governance and operational burden for licensees, without advancing the effective requirements already in place to protect consumer interest. In addition, the draft modification seeks oversight of certain documents by the SIDs, which again is achieved through their Board role and not by a signature.

Further, we cannot support the proposed licence drafting in StSpLC 42, which states that a SID must "act in the best interest of the consumer." While we fully support Ofgem's objective of ensuring consumer interests are protected, this requirement is in direct conflict with the statutory duties imposed on directors under Companies Act 2006, Section 172.

Under s.172, directors have a primary duty to promote the success of the company for the benefit of its members, while having regard to a range of factors, including:

- The interests of employees,
- The need to foster business relationships,
- The impact of operations on the community and environment,
- The desirability of maintaining a reputation for high standards of business conduct,
- The need to act fairly between members.

Consumer interests are therefore considered indirectly as part of these wider factors, but the statutory obligation is clear: directors must act in the interests of the company, not in isolation for any single stakeholder group. By requiring SIDs to “act in the best interest of the consumer,” the proposed licence condition creates a legal inconsistency and potential conflict for directors who are bound by s.172. This could expose SIDs to uncertainty and liability, as they would be asked to prioritise consumer interests over their statutory duty to the company.

Any proposed drafting must ensure compliance with the law while reflecting the intent to safeguard consumers through independent oversight.

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

We support Ofgem’s encouragement for SID attendance at board meetings where financial resilience or ring-fence issues are discussed, as this strengthens independent oversight and consumer protection. This is consistent with Cadent’s longstanding practice. Our Shareholders’ Agreement requires the appointment of at least two sufficiently independent directors to the Cadent Board. Currently three sufficiently independent directors are appointed, one of whom is the Chair and all of whom attend Board meetings.

We do not however consider there is benefit to adding a requirement for at least one SID to be in attendance at Board meetings to reach quorum. It is implicit in the existing Licence requirements – for example those relating to having required skills “to perform effectively as a non-executive director” that attendance and participation at Board meetings is expected.

24. 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?

We agree with Ofgem’s proposal, which already forms part of our governance framework. Our Terms of Reference requires the appointment of at least one SID as a member of the Remuneration Committee and to be present to achieve quorum. We exceed this requirement as two of our SIDs are appointed to our Remuneration Committee, one of them being the Chair.

In terms of the specific licence drafting proposed for StSpLC42, we do not agree that SIDs should have a “duty to ensure executive remuneration is commensurate with

operational performance". As non-executive directors, SIDs do not have unilateral authority to determine remuneration outcomes. Decisions are made collectively by the committee via delegated authority and the board, and remuneration policies are influenced by multiple factors, including market benchmarks, contractual obligations, and shareholder agreements. Imposing an obligation to "ensure" creates an unrealistic expectation and potential liability for SIDs, as they cannot guarantee the outcome of a collective decision-making process.

We would propose that the licence drafting requires amendment to reflect the SID's role as an independent voice and oversight function, without imposing an absolute duty which is not within their power.

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

We understand that the fundamental requirements of the definition remain that an ultimate controller must be either: (a) a holding company of the licensee (which is not itself a subsidiary of another legal entity); or (b) a legal entity which is in a position to control or exercise significant influence over the policy of the licensee or any holding company of the licensee. The clarification appears to be that such an entity could be a general partner of a limited partnership if they meet the above criteria. The definition of ultimate controller should continue to ensure that the undertakings that are obtained by the licensee are meaningful and effective and come from those who can in fact exercise significant control or influence over the licensee.