

NGN response to Energy Networks Ring-fence Review

General Points

We have made submissions¹ on financial resilience throughout the RIIO-GD3 price review process and, for brevity, do not intend to repeat all previous points here.

However, it is important to reiterate that in all prior representations we emphasised that in our view the measures in RIIO-GD2 provide Ofgem with sufficient oversight and assurance that regulated entities are financially resilient and have the resources to maintain this position. We also highlighted that some of Ofgem's proposed measures would introduce burdens beyond those in other regulatory regimes (such as water), potentially affecting investor appetite and increasing costs compared with RIIO-GD2.

We maintain this view and note that Ofgem has not provided evidence that current licence conditions aimed at ensuring financial resilience are ineffective. If the regulator wishes to pursue these proposals, a proper impact assessment should be undertaken to ensure additional costs to customers are justified by clear benefits.

To date, Ofgem has not meaningfully engaged with networks or provided detailed feedback on previous points. Aside from the potential benefits of alignment across the energy sector, Ofgem must set out a compelling case for what has changed since the last review to warrant these new measures and greater intervention.

A balanced approach to periodic price reviews remains the most effective way to prevent financial distress. Further tightening of regulatory controls appears reactive and may have unintended consequences for consumers. Issues cited by Ofgem as potentially weakening financial resilience do not appear to apply to GDNs generally and are definitely not relevant to NGN.

For example, Ofgem refers to “*mitigating the risk of similar issues to Thames Water arising for network licensees.*”² While this motivation is reasonable in principle, even a cursory review shows that the structural, operational, and financial risks behind Thames Water's crisis are absent in the gas distribution network (GDN) sector and are certainly not characteristic of NGN. Thames Water's difficulties stemmed from historic over-distribution of dividends (including >100% payout ratios), underinvestment, persistent environmental failures (with multi-hundred-million-pound penalties), extreme leverage (c.85%) with high index-linked debt, and sub-investment-grade credit ratings. These factors, particularly in combination, are idiosyncratic to Thames Water.

¹ NGN (2024). Northern Gas Networks response to Ofgem Call for Input – Energy Networks Ring Fence Review. <https://www.ofgem.gov.uk/sites/default/files/2025-03/Energy-networks-ring-fence-review-call-for-input-non-confidential-reponses.zip>; NGN (2025), RIIO-GD3 Draft Determination Consultation Response. Finance annex. Financial resilience questions. <https://www.northerngasnetworks.co.uk/wp-content/uploads/2025/09/Finance-Annex-Consultation-Response.pdf>

² Ofgem (2025). Energy Networks Ring-fence Review, paragraph 1.2.2.

The GDN sector operates under fundamentally different conditions. NGN, for example, has a particularly strong and transparent performance record, consistently meeting or exceeding safety, reliability, and customer service targets. Existing licence conditions and reporting requirements³ already restrict dividends in cases of licence breaches or credit downgrades, and require networks to provide a clear business rationale for distributions. Average gearing in the GDN sector is in the low 60% range, and exposure to index-linked debt is significantly lower.

Ofgem has expressed concerns about complex group structures, intercompany loans, and non-core activities. These do not apply to NGN. Our structure is simple and unchanged since 2005. NGN has no intercompany loans of the type Ofgem appears concerned about. It only has back-to-back loan arrangements with NGN Finance, which raises debt on NGN's behalf (NGN is the borrower under these arrangements). NGN conducts only licensed activities and permitted directly remunerated services. We maintain sufficient legal, financial, and operational independence from other entities. Therefore, the primary purpose of the Ring-fence Review has already been met by NGN under the existing arrangements.

We are concerned that Ofgem is consulting on ring-fence outcomes without considering interactions with the RIIO-GD3 price control review or implications for investability. Any additional measures that alter network risk profiles must be balanced and proportionate: hypothetical consumer benefits should be weighed against real-world impacts on investability and the resources required to meet new obligations.

Finally, it should be noted that reviewing this consultation document has been challenging due to drafting issues and uncertainty regarding its overlap with the Statutory Consultation on the RIIO-3 Licence Drafting modifications, published on 16 December 2025. The licence wording and references in the consultation appear to be drawn from the ED sector, which makes it difficult to comment on changes relative to the GD licence conditions applicable to NGN. Furthermore, the wording and references differ between these two related consultations, with a lack of clarity as to how the two sets of documents will ultimately be consolidated into the RIIO-GD3 licence.

Ofgem has indicated to networks that the November Ring-fence Review consultation reflects its early thinking and will be subject to further consideration and refinement in 2026. For this reason, we do not consider it efficient at this stage to provide line-by-line detailed comments on specific licence wording, numbering, or references across all licence conditions; however, we reserve the right to do so in response to future consultations.

NGN Response to Specific Questions

Q1. DO YOU AGREE WITH THE DEFINITION PROVIDED FOR THE PURPOSE OF THE REGULATORY RING-FENCE?

³ RIIO-GD2 Standard Special Conditions Applicable to both NTS and DN Licensees: For example, Standard Special Condition A37: Availability of Resources, paragraph 8; Standard Special Condition A38: Credit Rating of the Licensee and related obligations, paragraph 5(c). RIIO-2 Regulatory Financial Performance Reporting – Regulatory Instructions and Guidance, paragraphs 4.28-4.31.

We agree in principle that Ofgem should provide clarity to stakeholders on the meaning of “*regulatory ring-fence*”⁴ and welcome a discussion on its purpose and precise wording. While we are sharing some initial considerations, we reserve the right to comment further on the exact definition once this review is complete and the outstanding questions have been resolved.

Our specific comments include, but are not limited to, the following:

- In the opening paragraph of the definition, the term “set” of licence conditions and obligations feels vague and could be made more precise;
- The second and last paragraphs of the proposed definition appear duplicative;
- We are not convinced that the word “solely” is appropriate in the third paragraph of the proposed definition (“*the assets and resources of the licensee are used solely for the purpose of delivering regulated network services*”), given that de minimis activity is permitted under the Licence.

Q2. WHAT IS YOUR VIEW OF THE PROPOSAL TO INTRODUCE A RING-FENCE CHECKLIST AND AOR CERTIFICATE TEMPLATES FOR COMPLETION?

We do not oppose the introduction of a ring-fence checklist and AoR certificate templates in principle, but we emphasise that both documents must be developed in close collaboration with networks to avoid unintended consequences.

The proposed checklist should not be mandatory – ultimately, it is for the company’s Board to determine what information it requires before signing the AoR certificate. Regarding the AoR template, it is essential to avoid impractical or unnecessarily onerous requirements that could hinder process efficiency or impose additional costs without delivering tangible benefits to consumers. We propose that Ofgem hold workshops throughout 2026 to develop these documents collaboratively.

We also note that the newly proposed requirements for the checklist, completed template, and SID’s signature cannot apply retrospectively from 01 April 2013 as currently drafted. The Licence wording will need to be amended accordingly.

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?

We agree that it is reasonable to expect companies to plan and forecast for a sensible period, where sufficient information is available to make such forecasts meaningful. We note that in paragraph 2.13 and the suggested wording of StSpLC 30.3(ii), Ofgem appears to agree that this period should be specified “*within a price control period.*”⁵ This represents a different position from that consulted on in the RIIO-GD3 Draft Determinations (page 35 of the current Ring-fence consultation) and reflected in the modified wording of the Certificates pursuant to StSpLC A37 (page 37), which refers to “*a period of 36 months*” and suggests coverage of “*the entire price control period or a minimum of three years ahead*”.

⁴ Ofgem (2025). Energy Networks Ring-fence Review, paragraph A1.5.

⁵ Ofgem (2025). Energy Networks Ring-fence Review, paragraph 2.13.

The “36-month” requirement implicitly assumes that licensees have fully committed funding in place (which is not cost-free) to cover all expected obligations in that period, with headroom. Forecasting beyond one price control period introduces significantly higher uncertainty and moving parts, making such forecasts speculative. Therefore, NGN strongly opposes the “*minimum of three years ahead*” requirement, as the cost implications could be substantial and are unlikely to deliver any meaningful benefit to consumers. Please refer to our detailed position outlined in our response to the RII0-GD3 Draft Determinations.

We welcome Ofgem’s intention to consider appropriate guidance on “*stress tests*” as part of the financial resources certificate (1F). However, we request that Ofgem works closely with networks to develop this guidance, ensuring that any solution is practical, efficient, and does not impose unnecessary costs or onerous requirements.

Q4. WHAT IS YOUR VIEW OF COMPLIANCE CERTIFICATES 1C AND 2C REQUIREMENTS BEING UPDATED TO REFERENCE ALL RELEVANT RING-FENCE CONDITIONS?

We do not oppose the compliance certificates being updated to include all relevant ring-fence conditions.

Q5. WHAT IS YOUR VIEW OF CERTIFICATE IN RELATION TO DIVIDENDS REFERENCING ALL RING-FENCE LICENCE CONDITIONS?

We do not oppose the dividend certificates referencing all relevant ring-fence licence conditions.

Q6. WHAT IS YOUR VIEW ABOUT A REQUIREMENT FOR TWO SIGNATORIES OF AOR CERTIFICATES, ONE EXECUTIVE DIRECTOR AND ONE SID?

The current certificate is signed as “*Approved by the Board of Directors and signed on their behalf*”. It is unclear what further assurance an individual SID sign-off would offer, considering they are already a member of the Board that has approved the certificate.

Q7. DO YOU AGREE THE INTERVENTION PLAN SHOULD BE SUBMITTED UPON REQUEST, ON AN AD-HOC BASIS, SHOULD DISTRESS OF THE LICENSEE IS ANTICIPATED?

We have no objection to the intervention plan being submitted on an ad hoc basis upon request. The plan is maintained in accordance with our compliance schedule, reviewed quarterly, and is subject to annual sign-off by both data providers and process owners to ensure accuracy and accountability.

Q8. DO YOU AGREE WITH A REVIEW OF THE INTERVENTION PLAN BY OFGEM BEING UNDERTAKEN FOR A PRICE CONTROL PERIOD?

We agree that periodic review of the intervention plan could provide value; however, it is important to recognise that GDNs may differ in their interpretation of the licence obligations. Therefore, any review process should account for these variations to avoid misalignment.

Should Ofgem proceed with such reviews, we recommend issuing clear guidance on the minimum content and structure required within the intervention plan. This would promote consistency across GDNs, facilitate comparability, and streamline the review process.

Q9. DO YOU HAVE ANY VIEWS ON EXTENDING THE RIIO-3 MEASURES (OBTAINING TWO INVESTMENT GRADE CREDIT RATINGS) TO THE ELECTRICITY DISTRIBUTION SECTOR IN 2026?

N/A

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?

N/A

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?

N/A

Q12. DO YOU AGREE WITH EXTENDING THE DISTRIBUTION LOCK UP TRIGGER PROPOSED IN RIIO-3 TO ED?

N/A

Q13. WHAT IS YOUR VIEW ABOUT EXTENDING THE DISTRIBUTION LOCK UP TO THE 2C CERTIFICATE?

We seek clarification from Ofgem on how the extension of the distribution lock-up to the 2C Certificate should be interpreted. For example, does the wording in Certificate 2C, “[...] *in compliance in all material respects with all of the obligations* [...]”⁶, imply some latitude to pay dividends where minor non-compliance exists? If not, we believe a more flexible approach, assessing the circumstances and severity of any non-compliance on a case-by-case basis, would achieve a better balance between consumer and investor interests.

Q14. WHAT IS YOUR VIEW ABOUT AMENDMENT PROPOSED TO SLC41.3 REGARDING ANY ALTERATIONS TO EXISTING CAPITAL AND RESERVES?

Ofgem has consistently maintained that capital structures are for shareholders to determine, and that they should bear the consequences of the associated risks and opportunities. For example, in the RIIO-GD3 Final Determinations, Ofgem states, “*We expect companies to manage their own*

⁶ Ofgem (2025). Energy Networks Ring-fence Review, paragraph 30.6(b).

financial risks and for shareholders, rather than consumers, to bear the direct consequences, whether gains or losses, of those decisions”⁷.

Requiring Ofgem’s consent for any alterations to an existing capital structure is clearly at odds with this long-held position and with the design of the RIIO-GD3 price control, which is based on the status quo.

Furthermore, given the existing and newly proposed restrictions on distributions, it is unclear why a licensee should require consent from the Authority for capital restructuring or changes in reserves as an additional measure.

Changes in capital and reserves occur regularly as part of business-as-usual operations, adjustments to accounting standards, and other routine factors. Therefore, introducing a specific requirement to obtain Ofgem’s consent would hinder normal reporting processes and is both impractical and unreasonable.

Q15. DO YOU AGREE WE SHOULD CONSIDER APPROPRIATENESS OF RESPONSE TIME PERIOD IN RESPECT OF INDEBTEDNESS LICENCE CONDITION?

We agree that a defined response period should be included within the Standard Special Condition A39: Indebtedness to set clear expectations and accommodate business requirements.

Q16. DO YOU AGREE THE INDEPENDENCE OF THE NETWORK LICENCE CONDITION SHOULD BE EXTENDED TO ET?

N/A

Q17. DO YOU AGREE WITH THE AMENDMENT FOR A RECONCILIATION TO BE PROVIDED TO SHOW REGULATORY OBLIGATIONS ARE BEING MET FOR DE MINIMIS BUSINESS WHEN AUDITED STATUTORY FINANCIAL STATEMENTS ARE BEING UTILISED RATHER THAN REGULATORY ACCOUNTS?

The RFPR reporting year is aligned with NGN’s financial year for audited statutory accounts. Therefore, no reconciliation will be required for NGN.

Q18. DO YOU AGREE WITH THE PROPOSED CHANGE TO EXTEND THE NOTICE PERIOD WHEN REQUIRED?

We are unclear on the reasons why Ofgem may require more than the current two-month notice period, which, in our view, is plentiful.

Under the proposed drafting, the Authority could extend the timeframe to investigate any contentious issues indefinitely, which may become problematic in time-critical situations. It is also not clear, by way of example, what Ofgem would deem to be “contentious”⁸.

⁷ Ofgem (2025), RIIO-3 Final Determinations – Finance Annex, para 6.2.

⁸ Ofgem (2025). Energy Networks Ring-fence Review, paragraphs 2.31.

We believe a clear time limit should be stipulated.

Q19. DO YOU AGREE WITH ADDING ‘FINANCIAL ASSET’ TO ED SLC26.2?

We have no objection to adding financial assets to this requirement.

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?

Whilst we understand the principle, ‘*the highest and best use*’⁹ of an asset is somewhat vague and sets a very high standard. The valuation depends on several factors, such as the prevailing market conditions for that particular asset and the macroeconomic landscape. A clearer wording would be preferable, such as, “*use reasonable endeavours to obtain the most economically advantageous value for the asset in question, given the prevailing market conditions at the time*”.

Q21. DO YOU AGREE TO COMPLETION OF A CHECKLIST FOR SID DETAILS?

Please see our response to Question 6 – we are not convinced that the current level of SID assurance is inadequate, and Ofgem has not offered reasons for the proposed changes.

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?

Please see our response to Question 6 – we are not convinced that the current level of SID assurance is inadequate, and Ofgem has not offered reasons for the proposed changes.

Q23. WHAT IS YOUR VIEW ABOUT THE REQUIREMENT FOR AT LEAST ONE SID TO BE IN ATTENDANCE TO REACH QUORUM AT LICENSEE BOARD MEETINGS?

We do not consider this requirement to be necessary. Since we have overseas investors, coordinating diaries to arrange Board meetings can be logistically difficult. If for any reason SIDs were unable to attend the meeting (e.g., due to technical reasons or unforeseen circumstances), the meeting would not be quorate and would need to be rearranged. This creates logistical and regulatory risks, which are made particularly acute by the strict timescales for submitting regulatory certificates to Ofgem each year. We always aim for our SIDs to attend all Board and Committee meetings; however, requiring mandatory attendance could present a practical challenge.

⁹ Ofgem (2025). Energy Networks Ring-fence Review, paragraph 2.33.

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?

Whilst our SIDs are standing members of our Remuneration Committee, the same risks as outlined in response to Question 23 above apply regarding the impracticality of making attendance by at least one SID mandatory for quorum purposes.

Q25. DO YOU AGREE WITH THE PROPOSED DEFINITION CHANGES TO ULTIMATE CONTROLLER?

We have no objection to the proposed definition changes to “*ultimate controller*”.