

FAO: Rohan Churm
Director – Financial Resilience and Controls
Ofgem
10 South Colonnade
London
E14 4PU

By e-mail: RegFinance@ofgem.gov.uk

15 January 2026

Dear Rohan,

RE: National Gas response to Ofgem Energy Networks Ring-fence Review

National Gas Transmission (NGT) welcomes the opportunity to respond to Ofgem's consultation on the Energy Networks Ring-fence Review.

NGT is committed to maintaining strong financial resilience and recognises the need to continuously review financial resilience measures. This is demonstrated by our engagement in constructive discussions with Ofgem's Financial Resilience team in recent months. As we documented in our Finance Annex, both alongside NGT's Business Plan submission and in response to Ofgem's RIIO-3 Draft Determination, introducing measures that are too restrictive risks interfering with the core principle of network choice of financing strategies. The financial resilience measures Ofgem intends to introduce for RIIO-T3 (the requirement for more than one licensee investment grade credit rating, the revised dividend lock up threshold and extended availability of resources assessment) will reach the appropriate balance of allowing networks to set their own financing strategies. These measures stop short of imposing restrictions on networks' financing strategies, whilst giving Ofgem more information and foresight of potential issues.

Going beyond these measures would interfere with the core principle of networks setting their own financing strategies, which could result in additional costs to the consumer. Where we consider the amendments Ofgem is proposing in this consultation may compromise that principle, we have documented our rationale in response to the individual questions below. We also emphasise that elements of the regulatory regime in the UK that investors have traditionally valued are its transparency and predictability. The reference to ongoing reviews without clarity as to the substance or driver for such reviews may undermine this perception and reduce investor confidence. As such, we have also provided comments on matters not directly in scope below.

Relevant matters not directly in scope of the current consultation

Paragraphs 1.6 and 1.7 of the consultation summarises areas that Ofgem considers “could potentially weaken the financial resilience of the networks”, with items iv. (significant loans from the licensee to its parent company) and v. (non-core activities being conducted by the licensee) being listed as outside the scope of the current consultation but subject to further review by Ofgem. As part of that review, Ofgem should carefully consider the evidence NGT has previously provided and whether further changes to the licence are appropriate and justified.

In relation to item iv. (significant loans from the licensee to its parent company), engagement calls prior to the release of the consultation included a reference to requiring consent for new inter-company loans. NGT’s existing indebtedness condition (standard special condition A39) establishes that consent is only required if such arrangements do not meet the requirements of A39, including arrangements being on an arm’s length basis, on normal commercial terms and for a permitted purpose. It is unclear how a consenting process would enhance these protections. Requiring consent for new loans (beyond the existing requirements) would be inconsistent with the principle of allowing networks to set their own financing strategy subject to reasonable constraints; we do not regard such a measure as a reasonable constraint as there is adequate protection in place already. Should Ofgem wish to enhance these requirements without implementing undue restrictions, an alternative is to ensure the terms of A39 are sufficiently well defined to ensure they are interpreted consistently by networks and Ofgem itself.

In NGT’s specific circumstances, v. (non-core activities being conducted by the licensee) appears to be a reference to non-RIIO activities carried out within NGT plc, the licensee. Such activities are either directly included in the definition of permitted activities, consented to or carried out within existing de minimis thresholds. Given the positive cashflow contribution of such activities and compliance with existing conditions that prevent harm to the customers of core regulated activities, our view is that these activities actually benefit the consumer and the harm Ofgem is seeking to prevent by further restrictions is not clear.

We will continue to support Ofgem in its review of these areas but would welcome clarity as soon as possible.

Structure of consultation and NGT’s response

We appreciate the opportunity to feed into Ofgem’s early consideration of enhanced measures set out in this consultation. However, our ability to comment effectively on this consultation is limited by the fact that Ofgem:

- has not provided sufficient reasons or evidence to support proposed amendments or the matters scheduled for future consultations;
- is running this consultation at the same time as it will run a statutory consultation, on the same licence conditions, to implement its final determination on the RIIO-3 price control; and

- is intending for this review to provide clarity in this area and consistency across licensees. However, Ofgem does not provide a full suite of drafting (e.g. across all licensees including NGT, in terms of definitions) which means we cannot assess either clarity or consistency.

We have structured our response using the headings set out in Ofgem's consultation, setting out our responses to specific questions asked under each of those headings. Unhelpfully, Ofgem has not included a question against all specific policy and/or drafting proposals. Where no question has been asked, but we do have comments on the policy and/or drafting proposals we have included comments against the relevant heading.

For clarity, as a gas transmission network operator, we do not have direct insight into measures pertaining to the electricity distribution, transmission or gas distribution sectors. With respect to this response and the points outlined below, our comments are therefore limited to the gas transmission context.

NGT remains committed to constructive engagement with Ofgem on financial resilience and ringfence matters. We support measures that enhance clarity, consistency, and consumer protection, but urge Ofgem to ensure that any new obligations are proportionate, evidence-based, and compatible with existing legal and regulatory frameworks. Given the importance of these matters, we emphasise the requirement for ongoing engagement and Ofgem-led working groups that allow networks and other stakeholders to understand Ofgem's rationale for changing existing licence terms and to align on any necessary changes.

Should you have any questions or wish to discuss our response in more detail, please contact Matt Plant (matthew.plant@nationalgas.com).

Yours sincerely,



Tony Nixon
Regulation Director
National Gas

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

Q1. Do you agree with the definition provided for the purpose of the regulatory ringfence?

We can see a benefit in having an agreed definition of “regulatory ring-fence”. The term “regulatory ring-fence” is often used by Ofgem and networks but is not currently defined in the Gas Transporter Licence, or elsewhere, leading, in our experience, to different interpretations of the term between Ofgem and networks. However, it is not clear from the proposed licence amendments where this definition would be used in this licence meaning that NGT cannot comment definitively on the merits of the definition.

We note that the proposed definition appears consistent with the stated objectives of this consultation, however it includes a reference to “the set of licence conditions and obligations”. For the definition to be effective and remove the ambiguity currently experienced by licence users, these conditions and obligations should be specifically referenced. Where this approach is adopted, there is no need to include a summary of what each of these conditions is doing which invites further confusion if the summaries are not sufficiently accurate. By way of illustration, the second bullet of the proposed definition refers to “the assets and resources of the licensee are used solely for the purpose of delivering regulated network services, are not exposed to material unrelated risks [sic]”. Many licensees operate within wider groups, often operating shared services or resource models (shared properties, human resources, systems etc), to the clear benefit of consumers as such structures remove the need for duplicated resources. This definition implies greater separation of resources than such models allow for and more restrictions on licensees than are currently set out in the licence.

If this is Ofgem’s intention, then significant additional costs will be incurred by networks and consumers in separating such services or resources which, given the protections already afforded by cross-subsidisation conditions (SSC A35 in the NGT licence) and related reporting requirements, is not in the interests of consumers and does not appear justifiable. This is particularly relevant to the transition to Net Zero and the Hydrogen and Carbon Capture and Storage business models being evaluated by Networks and the Government given the complexity and scale of investment. We suggest it is better for the definition to align with the existing regulatory ring-fence provisions, including Standard Special Condition A35 “Prohibition of Cross-Subsidies”.

Availability of resources (AoR)

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

If there is evidence that network reporting on these matters is of inconsistent quality and content, then an intervention to align the content and quality of such reporting appears reasonable. Checklists and standard templates are often an effective way of achieving such consistency and therefore we broadly support the proposal but would caution that sufficient flexibility (both between networks and over time) will need to be embedded in the checklist to reflect each networks’ individual circumstances.

There is insufficient content in the consultation to express a view on the detail of the checklists and certificates at this stage.

We set out in the table below issues on the proposed licence drafting.

Licence condition reference	Issue
30.2, 30.4, 30.6	The drafting does not mirror the policy intent with respect to the provision of the checklist. It is understood that the intent is for NGT to provide a completed checklist, but the drafting implies that NGT will provide a checklist for completion.
30.2, 30.4, 30.6	There is insufficient clarity in the proposed drafting about what Ofgem will include in the checklist and template certificate. If a checklist and template must be completed by NGT, it should be clear on the face of the licence what these documents will include with sufficient governance included in NGT's licence to provide assurance that these documents cannot be unilaterally amended by Ofgem.

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 have no objection to providing a cashflow forecast alongside the certificate submitted on an annual basis, although such submissions are highly commercially sensitive and will need to be handled accordingly. There are however important considerations that need to be included in Ofgem's detailed guidance on this matter:

- The required statement is that Directors have a "reasonable expectation" of sufficient financial resources. We therefore consider this not to require fully committed facilities to be in place throughout the period of assessment. Ofgem has acknowledged that to do so would incur unnecessary additional costs and is therefore not required but the licence terms or associated guidance should confirm that;
- Forecasts beyond the end of the current price control are highly dependent on assumptions regarding the allowed Totex and financial package for the next period, factors often outside of networks' control. While networks perform such forecasts on a regular basis, Ofgem will need take into account the inherently judgemental nature of forecasts of future price control periods.

With each additional submission by networks, the potential for inconsistent approaches by networks grows; Ofgem will need to consider how it ensures that only information adequate for its purposes is gathered.

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

Given the proposal set out later in the consultation (Q13) to extend the “distribution lock- up” to the 2C certificate each licence provision that is included in certificates 1C and 2C needs to be carefully considered to balance between enhancing the licensee’s financial resilience and minimising the future cost of financing the licensee’s activities for the benefit of consumers. The consultation is not clear on which (if any) additional provisions of the NGT licence would be included in certificates 1C and 2C and if Ofgem is proposing the removal of any provisions from the current licence that are not directly relevant to the ring-fence (e.g. SSICA26 Provision of Information).

We set out in the table below issues on the proposed licence drafting.

Licence condition reference	Issue
30.6(a) and (b) 30.9(a)	NGT’s licence does not contain some of the conditions cross referred to in the drafting meaning we cannot comment on the specificity of the drafting. Please use NGT’s licence as the basis for drafting proposals.

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

We have no objection to this proposal, although please refer to our comments on question 1 regarding the definition of ring-fencing conditions and the need to specify the conditions in question.

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

AoR (and similar) certificates all go through a Board oversight and governance process which includes review by SIDs before approval by the Board. Whilst the requirement to have a signature by a SID alongside an executive director is arguably an unnecessary additional bureaucratic requirement it is not material, therefore we have no objection to this proposal.

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

We have no objection to the principle of this proposal given the existing condition requires networks to maintain an intervention plan.

We set out in the table below issues on the proposed licence drafting.

Licence condition reference	Issue
30.13	It would seem appropriate to include a reasonable notice period in which Ofgem may request an intervention plan, consistent with other similar requirements.
30.13	“Distress situation” is not used in the NGT’s licence and therefore the use of such term is ambiguous. Ofgem should provide a definition for this terminology and outline the grounds for requesting the intervention plan.
30.13	It is unclear why Ofgem has chosen to include provision for the intervention plan to be submitted to it in the middle of the existing paragraph. If the proposal is adopted, it would be more appropriate to include it as a stand-alone requirement.

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

It is not clear to NGT what Ofgem intends by this proposal and what Ofgem would be looking to achieve by carrying out a review as no detail has been included in the consultation and no proposed drafting provided. Clarification is required from Ofgem before we can comment.

Credit rating of the licensee

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

NGT has not submitted a response to this question.

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?

NGT has not submitted a response to this question.

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?

NGT has not submitted a response to this question.

Indebtedness

We set out in the table below issues on the proposed licence drafting.

Licence condition reference	Issue
40.4	NGT does not agree with Ofgem's conclusion that the "variation of rating by agency" is not included in its licence. Please see the definition of 'investment grade', paragraph (b), SSC A3.
40.5	Proposal to include 'for review'. Please could Ofgem clarify why it has proposed including this drafting as it is implied that information provided to Ofgem would be reviewed.

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

NGT has not submitted a response to this question.

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

We have no objection to the principle of this proposal given the circumstances leading to the issuance of a 2C certificate, but need to see drafting proposals specifically for NGT's licence before we can provide a definitive response. We would be concerned if the drafting introduced unnecessary rigidity into the framework that could ultimately impact Networks' financing costs.

We set out in the table below issues on the proposed licence drafting.

Licence condition reference	Issue
41.1	Ofgem has proposed deleting the reference to 'over Receivables' from the description of standard condition 26. It is unclear why as this is the title of that condition and is therefore simply stating that fact.
41.1	It is unclear why Ofgem is proposing to include "Authority consent will only be granted for such transactions or commitment deemed to be in consumer interest" as Ofgem already has a primary duty within the Gas Act 1986 to "protect the interests of existing and future consumers in relation to gas conveyed through pipes" and this wording therefore unnecessarily fetters Ofgem's discretion.
41.10(d)(iii)	It is insufficient to say 'certain standard licence conditions'. Drafting in this paragraph should mirror the language of the Availability of Resources condition.
41.11(a) and (b)	The proposed drafting does not work as it is circular. If the licensee has remedied the breach to the counterparties' satisfaction then Part D would not be triggered and therefore the Authority would have no grounds for it to make a different decision (i.e. trigger the Part D provisions).

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

It is proposed that the equivalent licence term in NGT's licence (standard special condition A39) is ultimately amended to require Ofgem's consent to enter into alterations of capital or reserves.

It is not clear what benefit Ofgem considers this additional oversight provides, but it would increase the regulatory burden and cost on licensees.

These processes are subject to significant regulatory oversight under the Companies Act 2006 (for example, NGT would need to go through a court process to reduce its capital). In addition, the licence already includes several conditions that restrict the payment of dividends if the requirements of the licence are not being delivered as well as extensive reporting on such matters. Furthermore, Ofgem's approach to calibrating the Allowed Return is centred on networks having the freedom and ultimate responsibility for financing strategies, subject to reasonable constraints. Placing restrictions on a network's ability to amend its financial structure, which includes the makeup of capital and reserves, would appear inconsistent with this established principle and would amount to an unreasonable interference in Network companies' ability and mandate to manage their own financial strategies and respond to market conditions to access investment efficiently.

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

Please see our response to question 14. To the extent Ofgem has the right to approve a submission by a Network in relation to matters covered by SSC A39 (in the NGT licence) their needs to be a defined period for the response as delay could have far reaching consequences and adversely affect investor and market appetite for investment in the energy infrastructure sector.

Independence of the network

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

NGT has not submitted a response to this question.

Restriction of activity

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

We have no objection to this proposal. NGT does not publish annual regulatory accounts in line with the licence condition derogation provided by Ofgem. Statutory accounts are therefore already utilised when calculating de minimis thresholds.

Licence condition reference	Issue
29.9, 29.10	For NGT's licence additional amendments will be required, for example, removal of the cross reference to SSC A30 and the inclusion of a definition of 'Statutory Accounts'.

Disposal of relevant assets and restriction on charges

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

The relevant condition in NGT's licence is standard special condition A27 (Disposal of Assets and restrictions on charges over Receivables). This condition currently requires that Ofgem shall receive not less than two months' notice when a network intends to dispose of an operational asset.

We have no objection to the principle of this proposal to extend this notice period, but Ofgem must elaborate on the circumstances in which, and the extent to which, the timeframe may be amended.

We refer also to our comments included in NGT's RIIO-3 Finance Annex in response to the Draft Determination regarding the unsuitability of the current terms of A27 to the transfer of assets into new regulated businesses (see "Draft Determinations Finance Annex Response" FQ31,

https://www.nationalgas.com/sites/default/files/documents/NGT_DD05_finance_annex_response_redacted.pdf)

We set out in the table below issues on the proposed licence drafting.

Licence condition reference	Issue
26.4	Ofgem is proposing to include “The Authority may extend the timeframe to investigate any contentious issues” at the end of the current paragraph. NGT has several issues with this: 1. The placement of this sentence makes it difficult to understand what timeframe Ofgem is extending to enable investigation. 2. The drafting offers no detail of what Ofgem would consider a ‘contentious issue’, and therefore the circumstances in which a timeframe may be extended. 3. The drafting offers no limitations on what the timeframe could be extended to, leaving NGT with no certainty as to when an Ofgem conclusion may be reached.

Q19. Do you agree with adding ‘financial asset’ to ED SLC26.2?

The relevant condition in the current Gas Transporter licence is standard special condition A27 (Disposal of Assets and restrictions on charges over Receivables). The restriction of providing security only refers to receivables or classes of receivable at present.

Further clarity is required on what Ofgem means by ‘financial asset’ before we would be able to provide a definitive response.

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?

No proposed licence amendments have been provided in conjunction with this question.

IFRS 13 “Fair Value Measurement” paragraph 28 states that the following should be considered in arriving at a fair value:

The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:

(a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (e.g. the location or size of a property).

(b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g. the zoning regulations applicable to a property).

(c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

These principles are widely understood and established for entities reporting under IFRS, albeit the assessment of such conditions will vary materially for each case.

However, IFRS does not require that these principles are directly applied to disposals of assets and therefore statutory audits will not necessarily provide Ofgem with assurance that such guidance has been followed when assets have been disposed of. Further consideration is therefore required on how Ofgem intends to gather assurance that networks have consistently complied with such a condition, particularly given the impact of differing circumstances in each case.

Ofgem is also currently consulting on the methodology to be applied when transferring assets between regulated businesses ("Natural Gas Asset Repurposing Valuation Methodology"). This is an extremely complex matter, and an aligned solution is yet to be established; there is therefore a risk that this proposal conflicts with the conclusions of that consultation.

We refer also to our comments included in NGT's RIIO-3 Finance Annex in response to the Draft Determination regarding the unsuitability of the current terms of A27 to the transfer of assets into new regulated businesses (see "Draft Determinations Finance Annex Response" FQ31,

https://www.nationalgas.com/sites/default/files/documents/NGT_DD05_finance_annex_response_redacted.pdf)

Whilst the principle of providing protection to consumers is understood, Ofgem must align with the conclusion of the RIIO T3 consultation and provide clear and unambiguous licence amendment proposals for consideration by licensees.

Sufficiently independent director (SID) duties

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

If there is evidence that network reporting on these matters is of inconsistent quality and content, then aligning the content and quality of such reporting appears reasonable. Checklists and standard templates are often an effective way of achieving such consistency and therefore we broadly support the proposal.

If adopted, sufficient information must be included on the face of the licence as to what these documents will include and governance arrangements for amending them.

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?

Regulatory submissions made by NGT regarding the ring-fence already go through a Board oversight and governance process which includes review by SIDs before approval by the Board. Whilst the requirement to have a signature by a SID alongside an executive director is arguably an unnecessary additional bureaucratic requirement it is not a material burden. We do not consider this proposal provides any additional protection for the consumer.

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

The consultation discusses a SID being required for the quorum at a Board meeting where financial resilience or ring-fence issues are discussed but the licence drafting does not reflect that. Subject to that clarity, NGT governance practices already align with this proposal, as such we have no objections to this proposal.

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?

NGT governance practices already align to this proposal. As such we have no objections to this proposal.

Ofgem has included proposed changes to the definition of a SID but not asked a specific consultation question on this matter. We set out in the table below issues on the proposed licence drafting.

Licence condition reference	Issue
43A.2	Ofgem is proposing to include a requirement for sufficiently independent directors to “act in the best interest of the consumer”. NGT has several issues with this: 1. Directors have legal obligations under the Companies Act 2006 including a duty to promote the success of the company and in doing so must have regard to six listed factors which include reference to the Company’s “suppliers, customers and others” and “the community and the environment” (section 172). NGT considers that this proposal will potentially lead to SIDs having conflicting obligations under different legal instruments (the Companies Act and the licence) which they may not be able to reconcile making the role untenable. 2. The proposed drafting appears to try and bind individuals in a licence granted to NGT. This is not appropriate. 3. Ofgem appears to be attempting to pass its primary duty onto licensees. There is no clarity in the drafting about how NGT would be expected to fulfil this licence obligation. For example, is the expectation that NGT monitors and reviews SID actions at every Board meeting; who determines what is in the best interests of ‘the consumer’; and which ‘consumer’ is it that a SID must act in the best interests of.

43A.12	As with NGT's comment on 43A.2, Ofgem appears to be trying to bind individuals in a licence granted to NGT. This is not appropriate. The last sentence "Sufficiently Independent Director [sic] has a duty to ensure executive remuneration is commensurate with operational performance of the licensee" is not an accurate, appropriate or acceptable statement in a networks' licence. Directors' duties are set out in the Companies Act 2005.
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Undertaking from ultimate controller

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

We set out in the table below issues on the proposed policy / licence drafting.

Definition of 'Ultimate Controller', paragraph (a)	Inclusion of 'or entity' It is unclear what Ofgem means by 'entity' in this context. Please clarify.
Definition of 'Ultimate Controller', paragraph (b)	It is unclear why Ofgem considers that the additional drafting " <i>or entity (including a general partner of a limited partnership), whether an individual or body corporate</i> " is required. 'Person' is defined in the Interpretation Act 1978 as " <i>includes a body of persons corporate or unincorporate</i> " and therefore this additional drafting is unnecessary.