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Sent by email to: RegFinance@ofgem.gov.uk

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Dear Regulatory Finance team

Optimal Power Networks' response to Energy Networks Ring-fence Review consultation

This is a response to Ofgem's consultation published on 12 November 2025 regarding the effectiveness and financial resilience afforded by current ring-fence licence conditions contained within electricity and gas network licence conditions.¹ The response is sent on behalf of the Independent Distribution Network Operator (IDNO), Optimal Power Networks.

We are content that there are measures already in place to ensure the financial resilience of electricity and gas networks. The existing network licence conditions contain wide-ranging requirements to this effect and Ofgem receives wide-ranging reporting submissions from all network companies that enables them to monitor this. In addition, Ofgem has the powers to request information from specific licensees if there are specific issues it wishes to investigate more. Furthermore, as Ofgem state in the consultation, energy networks have proven to be resilient during the recent energy crisis and have not encountered any of the same problems as witnessed in the water sector.

Therefore, we do not believe that adding additional regulatory burden on energy network companies is proportionate as it will not bring any benefit of increased financial resilience.

Nonetheless, it would be good to explicitly understand if IDNOs are in the intended scope of this review and if Ofgem intends to amend the reporting requirements for IDNOs. There is no direct reference to IDNOs or independent network operators anywhere in the consultation, and it is unclear if Ofgem has considered IDNOs in these proposals.

Accordingly, we find the changes proposed by Ofgem confusing and create ambiguity as to the requirements imposed on IDNOs. For example:

- Some of the proposed amendments are not defined (such as references to 'stress-testing' and 'distress situations') or use terms that are not applicable to IDNOs (such as references to the 'price control period' and 'sufficiently independent directors'). This is confusing and makes it hard to understand what IDNOs would need to do to comply with the proposed updated licence requirements.

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

- There are proposed new cross-references between standard licence conditions that are applicable to IDNOs and those licence conditions that are not applicable to IDNOs.² This means it is unclear how IDNOs could practically discharge these licence requirements.

Our responses to the selected consultation questions that are directly relevant to IDNOs are included within the appendix overleaf. We have not sought to provide comments on the proposed changes to those licence conditions that are not applicable to IDNOs.

We are happy to discuss our response further with you or provide any further information.

We separately look forward to further discussions about the reporting requirements for the cross subsidy Agreed Upon Procedures. We believe there is an opportunity to reduce the regulatory burden associated with this reporting and we would be happy to discuss the work involved in compiling this report from an IDNO's perspective.

Our response is not confidential.

Yours sincerely,

Graeme Barton
Regulation Manager

² Only Part A of the Electricity Distribution Standard Licence Conditions (ED SLCs) (ED SLC1 to ED SLC31) apply to IDNOs.

Appendix: responses to selected consultation questions

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

We disagree that there is a need to insert a definition of “Regulatory ring-fence” into the licence. It is sufficient that the purpose of this group of licence conditions is set out within policy consultations and decision documents, leaving the licence conditions to contain requirements imposed on licensees.

The introduction of a definition into licence, as proposed, is unnecessary and creates a risk of conflict with existing licence conditions. The definition does not add anything as it just summarises the requirements that are already contained in other licence conditions.

If a definition is introduced, it would be better if it just contained a list of licence conditions that Ofgem deem to be part of the ‘regulatory ring-fence’ grouping, rather than a descriptive summary of the requirements Ofgem is seeking to impose.

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

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

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

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

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

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

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

We disagree with the need to revisit ED SLC30. The existing licence condition already requires the director of the company to give an assurance there are adequate resources in place, which achieve the stated intent of this licence condition. We believe proposed amendments are disproportionate as they create additional complexity and regulatory burden on network companies, without any evidence this would result in a commensurate increase in financial resilience.

Additionally, the proposed amendments regarding directors’ role could create conflict with wider corporate governance requirements (within the Companies Act and UK Corporate Governance Code for listed companies). Optimal Power Networks and SSE Group is already complying with these wider requirements, so it would be unnecessary and potentially conflicting to include additional provisions regarding directors within ED SLC30.

In addition, the proposed changes do not make sense for an IDNO for several reasons:

- IDNOs do not have a licence requirement to have a Sufficiently Independent Director. Therefore, we do not believe the requirement for a Sufficiently Independent Director to sign off the certificate should exist for IDNOs. If Ofgem does indeed introduce this proposal for other network companies, then wording should be inserted into licence to make clear that the certificate only needs to be signed off by a Sufficiently Independent Director if the company is required to have one by its licence.
- Proposed cross references to ED SLC43a and ED SLC42 are confusing as these licence conditions are not applicable to IDNOs. Such a cross-reference is inappropriate in a licence condition for IDNOs. If a cross reference is inserted into licence, it should be made clear that they are only relevant for DNOs.
- References to the need for 'stress-testing' as part of the process that needs to be followed for the Availability of Resources certificates are ill-defined and inappropriate for IDNOs. We understand that stress-testing is a concept grounded in the RIIO price control for DNOs and therefore it would be unclear what would be required for IDNOs.
- What is meant by a 'distress situation' is not defined. This concept needs to have clear and unambiguous guidance that is meaningful to IDNOs.
- References to the need to submit a cash flow statement for the 'price control period' is inappropriate for IDNOs. IDNOs do not follow the RIIO price control and it is therefore unclear what this would mean for IDNOs. If a longer time period of cashflow statement is desired, the time period should be explicitly stated as a number of years to avoid confusion.

We also note that requirements to share longer term cash-flow forecasts to Ofgem are unlikely to particularly valuable considering the uncertainty that is associated with long-term cash flow forecast. This could create the risk that we misrepresent the financial situation we will face in years to come.

Although we do not object to filling in a standard template to Ofgem for the Availability of Resources certificate, we do not believe the presence of this template needs to be referenced in the licence. Ofgem could issue the certificates bilaterally to network companies and ask they use this as desired template.

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

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

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

The requirement re credit rating contained in ED SLC40 is not applicable to IDNOs, so we have no comments.

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

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

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

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

The requirement re indebtedness contained in ED SLC41 is not applicable to IDNOs, so we have no comments.

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

This proposal is not relevant to IDNOs, so we have no comments.

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 objections to these proposed amendments.

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

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

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

We disagree with the proposed amendments that give Ofgem a great deal of flexibility to extend the time period used to investigate the disposal of assets. A delay in this time period would increase commercial risk, create operational problems and result in inefficiencies for licensees when they seek to dispose of assets.

We would welcome further detail as to the need for Ofgem to extend the time period. Ofgem should only be able to seek an extension in rare and material instances, and instances where the time period may need to be extended should be predictable to licensees.

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

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

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

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

The requirement re Sufficiently Independent Directors contained in ED SLC43A is not applicable to IDNOs, so we have no comments.

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

We have no objections to these proposed amendments.