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By email: RegFinance@ofgem.gov.uk

15/01/2026

Dear Andrew,

Energy Networks Ring-fence Review consultation

This Ring Fence Review response is from SP Energy Networks (SPEN) and SP Electricity North West (SP ENW). SPEN owns and operates the electricity transmission network in the Central Belt and South of Scotland (SP Transmission) distribution networks in the Central Belt and South of Scotland (SP Distribution) which serves approximately two million customers, and in Merseyside, North Wales, Cheshire and North Shropshire (SP Manweb), which serves approximately one and a half million customers. SP ENW owns and operates the electricity distribution networks in the North West of England, which serves approximately two and a half million customers.

We welcome the opportunity to respond to participate in the consultation process to ensure that both the distribution and transmission network can maintain an appropriate degree of separation from riskier elements of the companies' portfolios, while avoiding unnecessary regulatory overreach or administrative burden. It is important that we can ensure customers have the confidence that the financial risk associated with other parts of our business will not have a negative impact on the network, while also working with Ofgem to ensure that any price control proposals ensure we can maintain financeability.

We want to support Ofgem in delivering on the vast majority of these ring fencing ambitions, and are broadly supportive of Ofgem's approach. However, as is set out in this response, there are areas where further engagement by Ofgem will be required to make sure that all new proposals are proportional and in line with the best interests of the network operators and their customers.

In the appendix we have set out our answers to the specific questions.

Yours sincerely,



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RIIO-T3 Director
SP Energy Networks



Paul Auckland
Head of Economic Regulation
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Appendix 1

Proposed modifications to the Electricity System Operator and Gas System Planner Licences

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

While we generally agree with the principle of having separation of the network element of the companies and this definition does highlight this, we are also aware of the potential issues that could arise from this definition, around unintended consequences, and potential disproportionality.

The use of this specific, fairly strict definition is likely to be disproportionate and may (albeit unintentionally) restrict practices such as shared services across companies and could potentially introduce excessive inefficiencies. It is important that any definition that Ofgem introduces does not add any undue restrictions and is proportionate to the benefits that the policy aims to allow for.

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

We are supportive of this proposal

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 are supportive of this proposal

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

We are supportive of this proposal

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

We are broadly supportive of this proposal however, it is important that any such proposals are both relevant (e.g. relate to specific elements that impact financial resilience) and proportionate.

Q6. What is your view about a requirement for two signatories of AoR certificates,

one executive director and one SID?

These submissions are currently approved by the licensees board on which two SIDs are appointed and we believe that is sufficient.

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 are supportive of this proposal

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

We are supportive of this proposal

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?

Generally, we are supportive of increasing financial resilience measures to ensure that there are suitable levels of financial resilience in the electricity distribution sector, in line with the ET sector. However, we believe it should be a reasonable endeavours objective rather than an obligation for the reasons set out below on differences between credit rating agencies.

It is logically consistent to provide the same levels of guardrails in each sector to allow the confidence in the market that both sectors can meet their debt obligations efficiently.

As we have set out within our ED3 SSMC Response (FQ19) however, we are cognisant that with added financial resilience measures comes the risk of uncertainty, sub-optimal decision-making, and potential inefficiency in the exceptional circumstance that credit rating agencies differ in opinion.

In the absence of sufficient safeguards (in addition to the requirement) coming from a financeability package that will allow us to remain financeable, this could lead to heightened risk with potential impacts on the cost of capital and investment.

Regarding introduction of reporting to the electricity distribution sector, we are also concerned that 2026 may be too early given the consultation process and licences changes that are necessary for implementation.

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?

While we generally agree that alignment between transmission and distribution is helpful in the case of the provision of a Financial Resilience Report, in this instance, we are unclear as to what the additional regulatory burden on DNOs will provide to the distribution sector. This, as we understand it, would ensure that DNOs, like TOs, have to provide Financial Resilience

Reports as per section 4 of “Condition B10: Credit rating of the licensee and related obligations” in the Transmission Licence Standard Conditions.¹ It is worthwhile to note here that this is additional regulatory bureaucracy for the DNOs to have to conform with. While this would bring the distribution sector in line with the transmission sector, it is not clear that this proposed addition to reporting requirements actually remedies any existing shortcomings in the financial resilience reporting within the electricity distribution sector.

While this does not change the reporting criterion for the Financial Resilience Report itself, it is important to note that ensuring DNOs are able to maintain a Baa1/BBB+ credit rating is vital for the ED sector to efficiently meet its debt obligations, especially given the important of DNOs’ long-term financeability.

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?

Yes, broadly we agree, as we did in Q10 with the principle that the ED sector should be aligned in financial resilience reporting terms with the electricity transmission (ET) sector. To maintain this principle, it is reasonable to expect the DNOs to produce their own published rating reports “...where a negative rating action occurs”². As with Q10, it is not immediately clear what the addition of this significant regulatory bureaucracy does to directly solve any existing challenges with the financial resilience reporting in the electricity distribution sector.

As in Q10, however, this further highlights the importance of ensuring that the network operators are provided with a sufficient financial package with adequate headroom, which would make a negative rating action less likely, and would provide the assurance to the markets that the DNOs are able to efficiently meet their debt obligations.

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

We agree with the principle for aligning the electricity distribution network with the ET industry in adopting the “...*dividend lock-up trigger to be the earlier of reaching BBB- with a negative watch/outlook and...*”³ 75%⁴ regulatory gearing. We do note however the inconsistency of the language around this lock up trigger used within the RIIO-3 Draft Determination around the naming conventions of (and therefore potentially, the coverage) the trigger:

6.23⁵ states:

“...the move of the dividend lock-up gearing threshold to 75% has aligned our measure with credit rating methodologies”

¹ Ofgem. (2023). *Transmission Licence Standard Conditions*. p76-77.

² Ofgem. (2025). *Energy Networks Ring-fence Review*. para 2.19.

³ Ofgem. (2024). *RIIO-3 Sector Specific Methodology Decision – Finance Annex*. para 6.55

⁴ Ofgem. (2024). *RIIO-3 Sector Specific Methodology Decision – Finance Annex*. para 6.61

⁵ Ofgem. (2025). *RIIO-3 Draft Determinations – Finance Annex*. para 6.23

6.4⁶ states:

“For Measure 2, which introduces an additional distribution lock-up trigger at 75% gearing...”

We would recommend that if there were a move to align ED with RIIO-3, that this is only as far as a “dividend” lock-up only. We do not see that the extension to be a “distribution” lock up delivers further for financial resilience.

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

We do not support extending the provisions of the lock up trigger to cover 2C certificate as we are not clear as to what challenge this extension would, in itself, solve. There is the risk more generally that applying restrictions/lock-ups in a blanket way may be disproportionate and could be unduly punitive.

We consider the current coverage of 3F and 3R to be sufficient in promoting reasonable debt maintenance without extension to use 2C

We note that 2C (from the RIIO-T2 Licence Conditions)

“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 of the obligations imposed on it by standard condition E5 (Provision of information to the Authority), standard condition E7 (Restriction on Activity and Financial Ring Fencing), standard condition E8 (Availability of Resources), standard condition E9 (Undertaking from ultimate controller), standard condition E11 (Credit Rating of Licensee) and standard condition E10 (Indebtedness).”

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

We are unclear as to what the addition of this disclosure and justification of future dividend distribution does to either alleviate any existing issues associated with having adequate capital and reserves or provide further assurances of ring fencing. Furthermore, Ofgem have previously made clear that financial arrangements (and risks/rewards thereof) are for shareholders to manage⁸.

Such an obligation would be too broad and would be disproportionately burdensome for both networks and Ofgem as, depending on how the restriction is drafted, business-as-usual obligations could fall within scope. Instead, Ofgem should focus on clearly defining the specific types of change that Ofgem wishes to be consulted on and also the circumstances under which it would be appropriate for Ofgem’s consent to be required (e.g. if the licensee has triggered the gearing or credit rating levels for lock-up). However, we are unable to identify any proposed licence modification(s) pertaining to alteration of capital structures and licensees would need to see any proposals in order to comment. There are sufficient

⁶ Ofgem. (2025). RIIO-3 Draft Determinations - Finance Annex. para 6.4

⁷ Ofgem. (2021). *Transmission Licence Standard Conditions*. para 9(b). page 187.

⁸ Ofgem. (2025). *RIIO-3 Final Determinations – Finance Annex*. para 5.3

obligations already (and planned with the 36-month certificates) to ensure dividends are only paid if the licensee has sufficient financial resources so this measure is unnecessary.

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

Yes, we agree it is sensible to consider response time with respect to indebtedness and believe this should be put to a consultation as Ofgem is providing.

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

We are supportive of this proposal.

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 believe statutory accounts are sufficient on the basis that they represent 12 months of trading and are appropriate for this assessment.

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

We are supportive of this proposal.

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

We are supportive of this proposal.

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 are supportive of this proposal.

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

We do not support the introduction of a mandatory checklist for SID details. While we recognise the importance of transparency and independence, the proposed checklist would

add unnecessary administrative burden without delivering meaningful benefits for consumers or governance.

Under SLC 43A.2 (D) SLC B22 (T), licensees are already required to ensure that SIDs *"in the reasonable opinion of the licensee, have the skills, knowledge, experience and personal qualities necessary to perform effectively as a non-executive director"*. If Ofgem is concerned with licensee's assessment of suitability, we consider additional guidance would be more appropriate than a rigid checklist.

Further, there is already a requirement under SLC 43A.7/ SLC 43A.10 (D) and SLC B22.2 and SLC B22.10 (T), to notify Ofgem of the appointment of SIDs, and removal of SIDs - including giving *"sufficient details for the removal or (to the extent they are known to the licensee) the resignation"*. We are unclear what the addition of this checklist would add, beyond increasing the administrative burden on network companies.

Rather than introducing this prescriptive checklist, we recommend Ofgem rely on the existing reporting requirements and allow flexibility for network licensees to determine the appropriate composition of their boards within their existing governance structures (supported by additional guidance on the skills, knowledge and experience required, as needed). This approach would maintain transparency while avoiding duplication and unnecessary complexity and bureaucracy.

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?

We do not agree that requiring a SID to act as a signatory on ring-fence submissions is in the consumer interest. While we fully support strong governance and assurance, SID-specific signature for documents like the Availability of Resources certificate introduces unnecessary procedural formality, without delivering additional protection for consumers.

In particular, in relation to each of the documents proposed for executive director and SID sign-off, we would note that:

- Availability of Resources certificates are already subject to Board approval under SLC 30 (D)/ SLC B7 (T). Adding a SID-specific requirement for signature would add nothing substantive to existing governance and controls. We recommend maintaining the current approach, where the Board collectively approves submissions, including with oversight from the SIDs. This achieves Ofgem's objectives without imposing unnecessary procedural steps.
- Credit rating negative action notifications – We note there is no current requirement in the licence for Board approval of these submissions
- Financial resilience reports - We note there is no current requirement in the licence for Board approval of these submissions.

- Asset disposal – We note that Ofgem must be notified and provide consent to disposals under the licence. We therefore struggle to understand what additional oversight by an executive director and SID would achieve. Further, while we acknowledge there is no current requirement for Board approval under the licence, this must be limited to only material disposals. Otherwise, it would have the effect of slowing down operations, which is not in the consumer interest, given it would potentially capture business-as-usual issues which require the disposal of minor assets

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 support the principle that at least one SID should be present at licensee board meetings, particularly where financial resilience or ring-fencing issues are discussed. However, we agree with Ofgem that this should not be a mandatory requirement.

A mandatory requirement could invalidate meetings or delay urgent decisions e.g. in the event of market volatility, or even practical issues like vacancies, unplanned absence, or conflicts.

We further note that Articles of Association and Board Terms of Reference may not currently require SID attendance to achieve a quorum – it would be disproportionate to introduce new regulatory requirements which may require licensees to update their governance documents to reflect this (particularly when these documents are often based on centralised global templates, where the licensee operates within an international group).

We assume that any requirement for SID-attendance at board meetings would not affect the ability of boards to pass resolutions in writing or preclude remote participation in meetings. - This will ensure decisions can proceed efficiently without compromising governance integrity.

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?

We strongly oppose proposals requiring SIDs to oversee or approve executive remuneration. SPEN/SPENW is part of a large international group where remuneration policy and decisions are often overseen at group level. The remuneration is subject to established governance frameworks and SPEN/SPENW already has disclosure requirements through its accounts.

Assigning SIDs responsibility for remuneration would be disproportionate and not a core knowledge / skill set of the majority of SIDs. It risks undermining the independence of SIDs, whose role is to provide objective oversight rather than engage in operational matters.

We believe Ofgem's objectives on transparency and alignment with consumer interests can be achieved through existing remuneration reporting requirements and group-level governance, without imposing additional duties on SIDs which do not fit within their natural remit.

If Ofgem do decide to proceed with this proposal, we would recommend Ofgem focus on SID oversight of licensee decision making on remuneration. If introduced at all, which we would not support, this must be revised to require only e.g. SID “oversight of licensee’s decision making on licensee executive remuneration”.

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

We support the need for clarity in the licence and have no issues with the changes proposed.

However, to improve clarity further, reduce the risk of misinterpretation, and for consistency, we would suggest that the definition should be aligned, as far as appropriate, with the Companies Act 2006 persons with significant control regime.