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To whom it may concern,

INA response to Ofgem consultation on Energy networks Ring-fencing Review

UK Power Distribution is a licensed independent electricity distribution network operator (IDNO), operating since 2016 across Great Britain.

We have been engaging with Ofgem's work on the topic of Ring-fencing on various occasions, and look forward to discussing proposals in the engagement sessions mentioned for Q12026.

We reply to the questions relevant to our section of the licence in Annex 1, but summarise our main concerns here:

- The requirement to appoint a Sufficiently Appointed Director (SID) is currently contained in SLC43A, which sits in Section B of the licence, which in turn does not apply to IDNOs. As Annex 1.2 proposes the introduction of SIDs in section A as part of Licence Condition 30, this would need to be further qualified so that, for instance, it applies to DNOs only.
- Annex 1.2 also proposes the introduction to a stress test in paragraph 30.2. It is similarly not clear if the stress test is meant to refer to DNOs only as it seems to be linked to RII0-3 DD/ED.



- The proposed wording around Availability of Resources refers to Price Control period which does not relate to IDNOs, therefore it is unclear what the requirements for IDNOs are.

Clarification on the points above may result in excluding IDNOs from some of the new measures. It is thus worth mentioning licence conditions BA3 and BA4: they do not feature in the review paper, but are nonetheless of relevance and provide strong mitigation to the risks that are of interest here.

We remain at your disposal should you wish to discuss any point in this submission.

We respectfully ask for our response to be kept confidential.

Best regards,

Anne-Claire Leydier
Head of Regulation



Annex 1: Our response to the questions of the consultation

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

We have no comment on the definition provided, but question the place to locate it: adding it to licence condition 19 provides context in which to interpret the text, but perhaps does not achieve that for the other eight conditions under review.

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

We think the current requirement is clear as it is, but have no objection to introducing a template. We are unsure Microsoft excel is the best format for it though as Appendix 4 and 5 seem complex at first glance.

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?

Our finance department does prepare a cashflow forecast, according to its own assumptions about unknown factors, but it is worth noting this setting it as a requirement would differ from accounting standards and corporate law under which auditors sign off a company's accounts over the next 12 months. This is often justified by the complexity of predicting various external factors, putting in question the validity of such forecast. As a result, we suggest Ofgem may want to consider introducing relevant guidance for basing the forecast.

Q4. What is your view of compliance certificates 1C and 2C requirements being updates to reference ring-fencing conditions?

We have no objections to expand the scope of the 'Certificate for the Authority in relation to compliance with certain standard licence conditions'. It is not clear however, if the obligation relating to a Sufficiently independent directors (SID) is one that is meant to apply to IDNOs, so clarity would be welcome. Please refer to our answer to question 6.



Q5. What is your view of the certificate in relation to dividends referencing all ring fencing conditions.

We are of the same opinion as stated in answer to question 4.

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

The requirement to appoint a Sufficiently Appointed Director (SID) is currently contained in SLC43A, which sits in Section B of the licence, which in turn does not apply to IDNOs. As Annex 1.2, in this current draft, proposes the introduction of SIDs in section A as part of Licence Condition 30, this would need to be further qualified: would it apply to DNOs only and if not, should the requirement contained in licence condition 43A be moved from Section B to A?

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

Yes, we agree.

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

We would seek clarity as to whether this includes IDNOs.

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

Yes we do.

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? (Please refer to A1.5)

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 have no objection to these suggestions.



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?

It is not clear whether the intention is to apply these requirements to IDNOs, as per our answer to question 6.

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

We have no objections with the proposal.