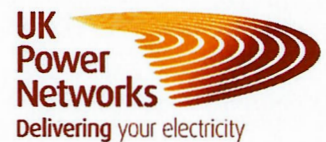


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15 January 2026

Energy Networks Ring-fence Review

Dear Sir/Madam

Thank you for the opportunity to comment on your above consultation dated 12 November 2025. This letter should be treated as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc (EPN), London Power Networks plc (LPN), and South Eastern Power Networks plc (SPN).

We understand the importance of financial resilience, and are broadly supportive of Ofgem's objectives in this space. We agree with the proposal to have two investment grade credit ratings applied to the ED sector mid-price control – our licensees already have two such gradings and it therefore does not directly place any additional regulatory requirements on us. However, this should not be seen as setting a precedent for reopening a price control or other such changes being applied mid-price control as neither are good regulatory practice and risk the stability of the GB electricity distribution regulatory framework

Our answers to your specific questions are set out in the appendix to this letter. The key points from our response which we would like to draw your attention to are:

- Sufficiently Independent Directors (SIDs) – Ofgem's proposed obligations on SIDs in respect of "the consumer interest" conflicts with those directors' duties conferred via other legislation including the Companies Act. Namely an obligation upon SIDs to act in the best interest of the consumer as per Ofgem's current license drafting, conflicts with their duties as a director of the licensee to promote "the company's success for the benefit of members as a whole" (s.172, Companies Act). Furthermore, "the consumer interest" may be subjectively interpreted, making this obligation ambiguous.
- We do not believe that it is appropriate for Ofgem to require licensees to seek its consent if the licensee wishes to adjust its existing capital and reserves. This is a matter for the Board who have a responsibility to preserve value over the long term.
- Although not explicitly covered by any of the questions, we note in the drafting of a definition of "regulatory ring fence" on page 32 of the consultation there is a reference to "legal, financial and operational independence of the licensee from other entities in the corporate structure". The proposed drafting introduces material unintended consequences. It would seem to prohibit the procurement of shared services from other companies within the same ownership group, including the sharing of services between energy networks within the same ownership structure (e.g. it could require separate functions such as



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regulation, treasury and finance for each licensee even when part of a multi-licensee group). Such a restriction would impose considerable inefficiencies and associated increased costs of separation onto networks and customers. Ofgem has verbally assured the ENA in a call on 10 December 2025 that it was not its intention to prevent such shared service arrangements.

We look forward to working with Ofgem through a structured licence drafting process (post policy decision publication) to ensure that the proposed licence amendments (including that in respect of share services) are fit for purpose. Such working groups have worked well in respect of recent RESP licence changes and earlier in respect of licence conditions for RIIO-ED2.

If you have any queries on the above feedback, please do not hesitate to contact me or one of my colleagues copied into this response.

Yours sincerely



Basil Scarsella
Chief Executive Officer
UK Power Networks

Copy Sul Alli, Director of Customer Service, Strategy, Regulation & Technology
James Hope, Head of Regulation & Regulatory Finance
Colin Nicholl, Head of Business Planning
Paul Measday, Regulatory Reporting & Compliance Manager

Appendix

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

The definition provided in SLC29.9 it is not used anywhere in the rest of the licence (including in SLC29 itself). We see no need for a definition which is not used and are unable to comment in a meaningful way on the definition without understanding its intended use.

In any event, the wording of “the set of licence conditions” used in the definition is too vague and the bullets in the draft definition may contradict the actual requirements of the set of licence conditions that should be referred to. Therefore, it would be simpler and cleaner to just refer to “the obligations set out in those conditions”.

Without these changes, the definition does not add anything and should be removed.

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

To enable us to help you ensure that the gaps you identified in para 2.9 are resolved by the checklist it would be beneficial for DNOs to see the outcome of the review which lists the particular issues that this review is seeking to address.

Whilst we are not against the introduction of the checklist, we are not clear what benefit it brings as the points in it duplicate obligations in the licence and are included in our submitted letter. It therefore feels like unnecessary duplication which should be avoided in the interests of efficiency.

If a certificate is introduced the contents should be on the face of the licence to ensure that there are no changes outside a formal statutory consultation, e.g. the wording already in the licence which is required to be used in the certificates is subject to change only following a statutory consultation, and the certificate wording should be the same.

We note in paragraph 2.16 that Ofgem states that it will consider appropriate guidance for stress testing. This is inconsistent with the proposed licence drafting which clearly states that the stress tests are those “that the licensee considers to be appropriate”. We believe it is appropriate for the licensee to make the decision on the appropriateness of the scope of the stress tests and, therefore, Ofgem should not be providing guidance in this area. If, however, Ofgem does set guidance this should be first informally consulted upon and then formally set out in an Associated Document or the face of the licence following a statutory consultation. That way all parties have been involved in its specification and the change process for it is clear. If an Associated Document route is chosen then the scope of that guidance cannot stray beyond the requirements set out on the face of the licence.

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 objections to including a reference to a cash flow forecast as one of the factors to be considered by the Board of Directors.

Although not specifically asked in Q2 or Q3, the drafting in respect of the AoR certificates now includes the following wording “entire price control period or a minimum of three years ahead”. Using the ED sector as a worked example, if this obligation was placed on DNOs for the July 2026 submissions, the three years ahead would include the first two years of ED3. Any certificates

would therefore be based on the logic that the business plan the DNO submits would inherently enable to DNO to meet the requirements of complying with a 1F certificate, but with the caveat that any areas of Ofgem uncertainty in terms of guidance or policy decisions would have to be taken into account. A means of incorporating this caveat into the wording on the (relevant) certificates needs to be introduced.

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

We believe that updating the 1C/2C certificates to include the relevant ring-fence conditions will provide clarity in this area, however we note the following:

- They should be in numerical order for further clarity; and
- They should reflect the actual titles of the conditions e.g. 43A not 43a

We also note your question phrasing – “all relevant ring-fence conditions” – we agree that there are ring fencing conditions that are not relevant to 1C/2C certificates, namely SLC4 (Prohibition of cross-subsidies) and SLC26 (Disposal of relevant assets and restriction on charges). We do not believe that these should be included.

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

Please see our answer to Q4, noting that there is no reference to “relevant” in this question.

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

We are unclear why a SID is required to sign the AoR certificate. In Appendix 5 the AoR certificate requires the date at which the Board resolution approving the certificates was obtained – the SIDs are present at Board meetings and hence will have approved the certificates. If required, a formal resolution of the Board confirming their approval can form part of the obligations on a licensee prior to the submission of the AoR certificates.

Although we are not supportive of the checklist proposed due to its duplication of existing requirements, if Ofgem chose to implement that policy, a simplification to the process would be to include on the checklist which SIDs were present at the Board meeting where the relevant resolution was approved or to include in the checklist that a Board resolution approving the AoR certificates has been made.

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

Mindful of Ofgem’s powers under SLC6 there is no requirement to specify in SLC30 that the Intervention Plan needs to be submitted for review on an ad-hoc basis.

More importantly, the lack of a definition for a “distress situation” and how one is forecast means that there is no common understanding of when such a request might be made of the licensee. An example situation was proposed by Ofgem during an ENA/Ofgem call on 10 December 2025 (“a situation where a licensee is unable to meet its financial obligations or access financial resources required to discharge its obligations”) and this should be used as a starting point for a joint review by finance and licence drafting specialists.

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

We are unclear where this policy proposal is set out in the consultation – the wording regarding a review of the Intervention Plan in paragraph 2.15 is ambiguous as to who is conducting it, when during a price control period it is being conducted and why. We seek further clarification on these points before being able to provide considered feedback.

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?

In this specific instance we are content to accept the requirement to have two investment grade credit ratings applied to ED mid-price control – our licensees already have two such gradings and it therefore does not directly place any additional regulatory requirements on us. It is on this basis that we accept this change. It should not be seen as setting a precedent for reopening a price control or any other such changes being applied mid-price control as neither are good regulatory practice and risk the stability of the GB electricity distribution regulatory framework.

Furthermore we do not support the removal of “use reasonable endeavours” as this makes it an absolute obligation. We do not believe that this has been covered in policy discussions to date and it could be practically impossible for a licensee to achieve this if rating agencies refused to cover companies for a specified reason.

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?

We agree to the addition of an obligation to the licence to provide a Financial Resilience Report when specified financial thresholds are met – these are currently termed a “Negative Rating Action” but are not defined. This must be defined to ensure all licensees and Ofgem have the same understanding of when such a report is required – we look forward to understanding Ofgem’s precise policy and associated drafting from Ofgem for this term so it can be considered by licensees. Furthermore, we recommend that 90 days not 60 days is given to the licensee to provide the report to ensure that the document(s) can be produced, assured and board approved before submission.

We note that the drafting includes a capitalised term of “Financial Resilience Report” and this therefore should mean there is a defined term. Instead SLC40.6 sets out the scope of the report – we believe this should instead be set out in a defined term. A further nested definition exists but this time without capitalisation of the term (in this case “financial projections” which is used in SLC40.6 and defined in SLC40.7). Finally for ED, the reference to the 2021 date and “whichever is the later” in SLC40.5 can be removed as these are no longer relevant as that date is in the past. These sorts of changes to the drafting are key elements that a licence drafting working group will be able to help Ofgem on.

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?

We agree that this obligation can be added subject to the recognition that the rating reports only have to be provided if this is permitted by the relevant rating agency. Ofgem must then also comply with any conditions that the relevant rating agency places on their provision e.g. they must

not be made public although we are concerned that a Freedom of Information request might put this confidentiality at risk.

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

We have no objections to Ofgem to the proposal for the lock up trigger to be amended to the earlier of “BBB- with a negative outlook and regulatory gearing of 75% or greater”.

However, we seek clarity regarding the proposed changes to SLC41.11 as to why there is a need for Ofgem to confirm in writing that the remedy/renegotiation is sufficient to avoid triggering the provisions of Part D, when the counterparty is satisfied? We were also unable to identify the policy change that is associated with this drafting.

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

We have no objections to this proposal.

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

We do not believe that it is appropriate for Ofgem to require licensees to seek its consent if a licensee wishes to make adjustments to existing capital and reserves. This is a matter for the Board who have a responsibility to preserve value over the long term.

Such an obligation is too broad and would be disproportionately burdensome for both networks and Ofgem. 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 further. There are sufficient 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?

We believe that this refers to the policy in paras 2.24/2.25 where Ofgem describes consulting on a licensee proposing to change its capital structure. Irrespective of our answer to Q14, we do not believe it is appropriate to consider Ofgem’s “current resources” and Ofgem should be resourced to process such a request at pace to ensure the interests of customers are not harmed by any consequential delay. We believe that a maximum time period should be added to the face of the licence, after which if Ofgem have not approved (or rejected), the requirement to gain approval is waived. This is to give the licensee certainty in this scenario and protect consumers’ interests in the event of a delay.

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

No comment.

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 agree with:

- the logic of removing references to “Regulatory Accounts” as these are no longer produced in the ED sector; and
- the provision of a reconciliation to show how the De Minimis Business requirements are being met.

However, we believe that the latter is already in place for ED2 as part of table R2 in the CVR pack and seek clarity on whether this meets Ofgem’s requirements.

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

Extending the notice period where a customer or an IDNO is buying an asset is not appropriate as it will negatively impact their ability to connect to the network, this is particularly important where any connection is part of the drive to net zero. However, for larger (non-connections based) disposals we understand Ofgem’s desire to not make a quick decision due to the potential impacts if the process is not carried out correctly.

With the above in mind, where any disposal is in relation to making or maintaining a connection, we believe there should be a fast-track process with a maximum period of one month for a decision from Ofgem, except where the disposal is to an Affiliate.

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

We have no objections to 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 do not believe that this change is in customers’ best interests as illustrated by the following scenario. A customer wishes to purchase a distribution transformer and substation from a DNO to better allow them to manage their onsite electrical network. The current requirement is for the DNO to use “market value” and this is easy to calculate for such assets. However, the “highest and best use” feels like an over complication as it could require the DNO to consider the potential for development rights of the land to another customer (even though they are not seeking to make a purchase from the DNO for that purpose). Consequently, it could lead to cost and environmental inefficiencies where it is cheaper for a customer to apply for a totally new connection from the DNO rather than purchasing the assets which comprise the existing one.

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

We are not supportive of this proposal – its inclusion has not been justified nor has a worked example been provided for licensees to consider. The SID’s name and appointment date are details that Ofgem already hold from when the SID obligation was introduced (or from when a new SID was appointed after that date). In terms of any SID’s resignation or removal from office, the licence already requires the licensee to inform Ofgem of this.

Therefore, the only information which Ofgem does not have in its possession concerns the SID’s skills/knowledge and the SID not having executive duties. These are licence obligations and,

therefore, it is for the licensee to assess these to ensure compliance prior to the SID's appointment. Furthermore, it is not in the licensee's best interests to appoint a SID without appropriate skills and knowledge.

Given the above we do not support an annual checklist but would be comfortable providing a checklist when a SID is appointed (and/or reappointed).

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 are unclear on what the benefit of this requirement would be for all submissions relating to the ring-fence. By way of a worked example, for asset disposals relating to making or maintaining a connection to our network, as noted in our response to Q18, this area would benefit from a fast-track process – therefore adding in a SID to the signatory process would achieve the opposite effect as they are not full-time employees of the licensee and, therefore, delays would be inevitable in getting them to review and approve what can be very low value disposals.

Furthermore, the proposed obligations on SIDs (particularly those in SLC43A.2(d)) are in conflict with those directors' duties conferred via other legislation including the Companies Act. These create conflict with or ambiguity about the interaction between the obligations under the licence and other (non-licence based) obligations placed on the SIDs. For example, the proposal that SIDs must act in the best interest of the consumer could be in conflict with their duties as a director of the licensed entity. While we agree with Ofgem that SIDs have a very important role to play in corporate governance, Ofgem must not introduce obligations that create conflict with their duties as a director of those companies.

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 are unclear of the benefit of this proposal being applied for every board meeting. However, note the interaction with our proposal under Q6 which we think is a more proportionate policy position. This is that a SID should be in attendance at relevant board meetings (e.g. those where AoR certificates are approved), to avoid the administrative overhead of a SID having to sign the actual certificates.

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 seek clarity on how executive remuneration is part of a review of ring fencing that is looking at the financial resilience of network licensees. We agree that Ofgem have a legitimate interest in directors' remuneration but this is covered off by primary legislation i.e. the director's remuneration statement requirement under the Electricity Act which results in an annual submission to Ofgem in July. This demonstrates to Ofgem how executive remuneration is assessed and is therefore commensurate with the operational performance of the licensee. With this in mind, we do not see the benefit of requiring a SID to attend the Remuneration Committee (or equivalent) when executive remuneration is discussed.

The relevance point aside, in respect of the proposed drafting, it is not possible for the SID to "ensure" executive remuneration is commensurate with operational performance as that would require them to have a veto on remuneration.

Finally, in this respect, should Ofgem choose to implement this, the solution must be fair and equal to all licensees, irrespective of whether they have a remuneration committee (or equivalent).

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

Although we have not identified any issues with the amendments to the definition of “ultimate controller” we are unclear as to the problem you are trying to solve as the consultation just states “to provide clarity” but doesn’t articulate how the existing wording is unclear.

Drafting Feedback (where it is not affected by policy feedback)

We note some initial drafting points below but strongly urge Ofgem to work with licensees via a series of licence drafting working group meetings prior to commencing a statutory consultation to thoroughly resolve all drafting issues.

In addition, we also request the Ofgem set out the changes by licence type (sector) and include the full licence condition and associated definitions when they document the changes as this consultation only included selected elements of affected licence conditions and was therefore hard to follow.

1. SLC30.2 should read “completed checklist” as current drafting could mean a blank one could be submitted.
2. In SLC30.4, SLC30.6 and SLC41, take the opportunity to remove the “With effect from 1 August 2013” to simplify the drafting and remove out of date wording.
3. In all the certificates that list licence conditions, the licence conditions should be in numerical order and in the case of SLC43A it should be “43A” and not “43a” in the title.
4. At the end of SLC30.6(a) there should be a semi colon before the “or” rather than a full stop.
5. In SLC30.13 “distress situation” should be a defined term and capitalised.
6. The additions to SLC40.1 require paragraph numbers.
7. SLC40 should be thoroughly checked as there are uses of “Investment Grade Issuer Credit Rating” which are not capitalised and others that are.
8. Where new terms such as “Negative Watch” and “Negative Rating Action” are introduced as capitalised terms they must have a definition – we could not identify definitions for these two. A thorough review of all RIIO-3 changes for such capitalised and undefined terms is also required as these are just two examples.
9. SLC41.1 requires clarity as to what “consumer interest” means – this should be by way of a defined term.
10. SLC41.12 requires clarification that the direct or indirect impact was with intent at the time of entering into the arrangements. This will avoid the scenario where post event, unintended consequences which would at the time of entering into the arrangements not have reasonably been foreseen, being held against the licensee.

11. SLC26.2 requires a definition for “financial asset” to allow a full understanding of the impact mindful that “Receivable” is already defined.
12. SLC43A.12 requires a definition for “Remuneration Committee”.
13. As drafted, it is possible to read SLC43A.12 such that all that the SID can consider is operational performance.