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By Email:
reg.finance@ofgem.gov.uk
FAO: Steve McMahon

Cadent
Your Gas Network

Energy Networks Ring-fence Review Statutory Consultation

Dear Steve,

We welcome the opportunity to respond to Ofgem's statutory consultation on the Energy Networks Ring-fence Review.

Cadent continues to support Ofgem's objective of ensuring that the ring-fence framework remains robust, effective and fit for purpose. A strong ring-fence plays an important role in maintaining financial resilience, protecting consumers and supporting confidence in the sector. Equally, it is important that changes remain proportionate, respect established corporate governance arrangements and preserve the flexibility required for networks to operate efficiently, remain financeable and attract the investment needed to support customers both now and through the energy transition.

Engagement between Ofgem, network companies and other stakeholders since the previous consultation has led to several of the concerns we raised in our January 2026 response being addressed or refined, representing a meaningful improvement on the original proposals.

Whilst we welcome the progress made since the previous consultation, there remain some important issues where we continue to have concerns regarding the proposed licence modifications, particularly those in relation to the roles of Sufficiently Independent Directors (SIDs). Ofgem has previously expressed an interest in more regular dialogue with Boards, including SIDs, to better understand governance arrangements. Such discussions, we believe would better address the concerns Ofgem are trying to regulate against.

As stated in our previous response, in our view, many of the new measures described in the consultation documents, including those relating to the role of SIDs, should already be embedded within well-governed network companies with effective boards. Furthermore, much of the additional information being requested is already comprehensively disclosed in our Annual Report and Accounts, reflecting our commitment to transparency and to providing clear and accessible information to all stakeholders, not just the regulator. The consultation does not demonstrate what

information gap remains, nor how the proposed requirements would provide consumers or the regulator with better insights.

We provide a summary of our key concerns below, with our detailed drafting comments set out in Appendix 1.

Role of Sufficiently Independent Directors

We continue to recognise the important contribution that SIDs make to effective governance. However, we remain unconvinced by the benefits of the proposed extension of SID responsibilities through requirements to co-sign a range of notifications, submissions and other documents.

As set out in Appendix 1, the licence can only impose obligations on the licensee itself and not directly on individual directors. We are concerned that the proposed requirements risk blurring this distinction and place undue emphasis on individual directors where accountability properly rests with the licensee and its board collectively. We have seen nothing to support the suggestion that mandatory SID counter-signature requirements provide meaningful additional assurance beyond that already delivered through established board governance processes and directors' existing statutory duties under the Companies Act. We therefore remain of the view that licence obligations should be framed as obligations on the licensee rather than on individual board members.

We also believe that any requirements relating to SID involvement should be set out clearly within the relevant licence conditions, rather than through cross-references spread across multiple provisions, to support clarity and good licence drafting practice.

Financial Resilience and Distribution Restrictions

We remain concerned that the proposed dividend lock-up provisions are broader than is necessary to achieve the intended objective of protecting financial resilience.

During engagement, we understood that Ofgem recognised concerns regarding the potential disproportionate impact of lock-up mechanisms that extend beyond circumstances that present a clear risk to financial resilience. We are disappointed that aspects of these concerns have not been fully reflected in the final proposals. Restrictions on distributions should remain targeted and risk-based, focusing on situations that create a genuine risk to financial resilience. A broader approach risks reducing financial flexibility, creating uncertainty for investors and potentially increasing the cost of capital without delivering commensurate benefits for consumers.

Capital and Reserves

We also continue to disagree with the proposal requiring regulatory consent for alterations to capital and reserves.

Decisions regarding a company's capital structure are fundamentally matters for the licensee, subject to the existing framework of company law, corporate governance and

regulatory obligations. Ofgem already has extensive visibility of licensees' financial resilience through the existing ring-fence framework, financeability assessments, credit metrics and enhanced reporting requirements under the Regulatory Financial Performance Reporting (RFPR) which collectively provide appropriate safeguards. We do not consider that a separate consent requirement is necessary or proportionate, nor do we believe it would materially improve consumer protection. Instead, it risks introducing regulatory uncertainty and delay into legitimate corporate finance decisions that are the responsibility of company boards and shareholders. Furthermore, requiring regulatory consent to alter reserves could conflict with Ofgem's own financeability framework, which assumes the payment of notional dividends. By constraining the creation or maintenance of distributable reserves, the proposal may undermine a company's ability to pay those assumed dividends.

Checklist and Guidance Documentation

Finally, we are concerned that certain checklists referenced within the proposed framework have not been published alongside the licence drafting.

Whilst we have had sight of draft versions during stakeholder engagement, respondents are being asked to comment on licence obligations without being able to review the final supporting documents that will inform compliance with those obligations. This makes it difficult for stakeholders to fully assess the practical implications of the proposals and to provide comprehensive feedback on the final framework. We would encourage Ofgem to publish final versions of all relevant checklists and templates before concluding the review so that stakeholders have a clear understanding of the requirements that will ultimately apply and an opportunity to comment on them.

Notwithstanding these concerns, Cadent remains supportive of the overall objective of maintaining a resilient, well-governed and investable network sector supported by a robust and proportionate ring-fence regime. We appreciate that reviewing the ring-fence framework is a complex exercise given the range of ownership, governance and financing arrangements that exist across the sector. Whilst significant progress has been made, we believe there remains an opportunity to address the remaining issues through further constructive dialogue and refinement of the licence drafting to ensure the framework is effective, proportionate and workable for all licensees.

Should you wish to discuss any aspect of our response or the licence drafting comments contained in Appendix 1, we would be pleased to do so.

Yours faithfully,



Gary Baron
Chief Financial Officer

Appendix 1 - Cadent response to Energy Networks Ring-fence Review - Statutory Consultation - 1 July 2026

Where comments below propose alternative drafting relating to SID signatory requirements, these are without prejudice to Cadent's overarching position that such requirements should not be introduced.

Licence Condition	Paragraph	Comment	Proposed change to drafting
SSC A27 - Disposal of Assets	Definition of Financial Asset	The definition of transportation asset makes clear that the restriction only relates to an asset required for the core business. If a financial asset is not related to the core business, it should not be subject to these conditions.	is any asset that relates to the transportation business that is…
SSC A27 Disposal of Assets	11	The requirements on the SID in respect of this condition should clearly be set out in this condition for ease of review and good licence drafting practice. The current relevant wording in SSC A42 is: *"At least one sufficiently independent is a signatory alongside at least one other director of the licensee in respect of the following notifications: proposed asset disposals to another entity operating within the same group structure as the licensee."* There are a number of drafting issues that need resolving: 1. Group structure does not appear to be defined in the licence and is open to interpretation. The reference should use existing definitions in the licence, such as associate. 2. It is not clear how this requirement interacts with SSCA39 (Indebtedness), which permits a transfer of assets to an associate in a set number of circumstances. 3. The current drafting envisages a level of board engagement in all potential disposals, regardless of the size or materiality. This is not proportionate and a materiality threshold should be applied, or the restriction should only apply where, in the reasonable opinion of the licensee, it could have an impact on its proper performance of its duty under section 9(1) of the Act.	Replace paragraph 11 of SSCA27 with the following: Where there is a disposal of a transportation asset valued in excess of £[NUMBER] / which, in the reasonable opinion of the licensee could have an impact on the proper performance of its duty under section 9(1) of the Act, the notification under paragraph 4 should be signed by a Sufficiently Independent Director and one other director, unless such disposal meets the criteria set out in SSC A39 (b).

SSC A37 - Availability of Resources	15	Decisions regarding a company's capital structure are fundamentally matters for the licensee, subject to the existing framework of company law, corporate governance and regulatory obligations. Ofgem already has extensive visibility of licensees' financial resilience through the existing ring-fence framework. It is not proportionate or appropriate for companies to have to seek consent to alter their capital structure. If Ofgem require more visibility about alterations to capital structure, notification of such a change can be made. The drafting should be amended so the licensees are obliged to provide notification to the regulator, rather than requiring consent.	Before making any alterations to a capital or reserve category, which are usually non-distributable by nature, or to facilitate a dividend payment or other distribution, the licensee shall notify the Authority of its intention to make such alteration, along with an explanation and reasoning for such alteration.
SSC A37 - Availability of Resources	11	Dividend lock-up provisions are broader than is necessary to achieve the intended objective of protecting financial resilience. During engagement, we understood that Ofgem recognised concerns regarding the potential disproportionate impact of lock-up mechanisms that extend beyond circumstances that present a clear risk to financial resilience.	Remove additional licence requirements.
SSC A38 - Credit Rating of Licensee	7	Notwithstanding our overarching point, that we don't see the benefit for SIDs to countersign documents, if the requirements on the SID in respect of this condition are to be introduced, they should clearly be set out in this condition for ease of review and good licence drafting practice. The relevant provision from SSC A42 is: *"On submissions to the Authority which require approval by a resolution of the board, at least one sufficiently independent is a signatory, alongside at least one other director of the licensee, on behalf of the board in respect of the following submissions:.... (b) Financial Resilience Report."* There are various drafting issues that need amending: 1. The drafting presumes that a board resolution will be required to file a Financial Resilience Report. The board will be involved in discussions in relation to the Financial Resilience Report and the circumstances requiring it but it will not necessarily require a board resolution so the reference to a board resolution needs to be deleted.	Replace paragraph 7 of SSC A38: Where a licensee is required to provide the Authority with a Financial Resilience Report in accordance with paragraph 4, that Financial Resilience Report must be signed by a Sufficiently Independent Director and one other director.

		2. The drafting lacks clarity, partly because it requires readers to navigate between different licence conditions. The obligation should be set out clearly within SSC A38, with a cross-reference to SSC A42 where appropriate.	
SSC A38 - Credit Rating of Licensee	8 (A)	Any requirements regarding notifications under SSC A38 should be clearly set out in SSC A38 for ease of reference and best practice licence drafting. The rationale for requiring a SID to sign a notification to the Authority following a Negative Rating Action or a credit rating withdrawal is unclear. The notification merely confirms that an event has occurred. If the concern is that the Board, and in particular the SIDs, may not be informed of such an event, a more proportionate approach would be to require the licensee to confirm within the notification that the Board and SIDs have been informed, rather than requiring SID sign-off on the notification.	Delete existing para. 8, insert new paragraph 4 as set out below and amend later paragraph numbers accordingly: 4. Any notification to the Authority under paragraph 3 above must include a statement from a director that the board including all sufficiently independent directors are aware of the event leading to the notification and have been provided with a copy of the notification to the Authority.
SSC A 42 - Requirement for SIDS	General	The licence cannot impose obligations directly on SIDs, only on the licensee. It is important to recognise that a SID performs many valuable roles within a licensee and is not in position purely to provide perceived additional assurance in relation to the ring-fence conditions. It should also be recognised that SIDs won't necessarily be experts on the areas where Ofgem is proposing to make them signatories or to	

		require them to make representations, e.g. in relation to executive remuneration. The additional benefit or perceived assurances to be gained by proposed new obligations on SIDs are not clear and have not been established by earlier engagement or in this consultation. Where a decision involves the board, all directors (including the SIDs) have very clear duties under the Companies Act 2006 to, amongst other things, promote the success of the company, exercise independent judgement, exercise reasonable care and skill and avoid conflicts of interest. These are the statutory obligations that apply directly to SIDs and the licence cannot try and impose obligations that conflict with these. There is no clear need to impose greater obligations on a SID than on other directors and over and above their existing statutory duties.	
SSC A42 - Requirement for SIDs	2 (a) (iii)	No need for "business" after licensee.	Delete word
SSC A42 - Requirement for SIDs	9, 10	The drafting in these two paragraphs does not make sense. The detail of the SID requirements in respect of the relevant ring-fence conditions should sit in the ring-fence conditions themselves for clarity and best practice licence drafting. Suggest combining paragraphs 9 and 10 and cross reference relevant conditions.	The licensee must ensure that at least one sufficiently independent director is a signatory to various documents as required by the following licence conditions: Standard Special Condition A27: Disposal of Assets and restrictions on charges; Standard Special Condition A37: Availability of Resources; and Standard Special Condition A38: Credit Rating of the Licensee and related obligations.
SSC A42 - Requirement for SIDs	14	We support the opportunity for SID involvement in executive remuneration matters by attendance at the relevant licensee remuneration committee or equivalent licensee meeting. This is appropriately addressed in the first sentence, and executive remuneration is already required to be comprehensively reported as part of as annual Statutory and Regulatory reporting requirements.	Amend paragraph 14 to remove the second sentence.