Ofgem
Regulatory Finance Team

By email: regfinance@ofgem.gov.uk

Date: 6 August 2026

Ref: Energy Networks Ring-fence Review - Statutory Consultation

Dear Regulatory Finance Team,

We welcome Ofgem's statutory consultation on the Energy Networks Ring-fence Review and the collaborative and constructive approach Ofgem has taken to developing these proposals.

SP Energy Networks (SPEN) represents the distribution licensees of SP Distribution plc (SPD) and SP Manweb plc (SPM) and the transmission licensee, SP Transmission plc (SPT). We own and operate the electricity distribution networks in the Central Belt and South of Scotland (SPD), and Merseyside and North Wales (SPM). We also own and maintain the electricity transmission network in Central and South Scotland (SPT). SP Electricity North West (SP ENW) own and operate the electricity distribution network in the North West of England.

Our response is on behalf of the four licensees above.

We are broadly supportive of Ofgem's approach and agree it is essential that regulated energy networks, as providers of critical national infrastructure, are resilient to foreseeable financial risks and are financed to achieve strong investment grade credit ratings As this consultation mainly covers licence drafting, we have focused our efforts there. However, we remain disappointed that Ofgem has not taken on board the feedback set out in our policy consultation response – we remain of the view that a number of these proposals (e.g. enhanced role of SIDs in certain certifications and attendance at remuneration committees) increases the administrative burden, without bringing any substantive benefits to consumers or enhanced oversight. In the Appendices we have made specific suggestions for licence drafting for the electricity distribution and transmission licences respectively.

We have particular concerns in the following areas:

Sufficiently Independent Directors (SIDs)

We remain concerned that some of the new obligations required of SIDs are drafted in a manner that is unclear, fails to correctly implement Ofgem's stated policy or introduces unintended consequences including conflicts with other obligations in the licence.

Particularly the proposed licence modification which prescribes input from SIDs into remuneration discussions exceeds the scope of Ofgem's stated policy, does not reflect established governance practice and inappropriately imposes different requirements depending on corporate structure. We are also concerned that SIDs do not have specific expertise that would allow them to play an effective role on remuneration committees. We have made suggestions for changes to licence drafting to allow for more flexibility in the role of the SIDs when it comes to director remuneration, including how they make their representations.

Changes to existing capital and reserves

Ofgem's decision sets out that the Authority's consent would be required to amend existing capital and reserves under some circumstances. This proposal represents a very significant change to Ofgem's previous policy that actual company financing is for companies to manage. The policy restricts the rights of a licensee to make changes to its actual company structure.

We have previously identified that if this policy is to be implemented a change will also be required to Ofgem's approach to setting price controls to ensure that the notional dividend assumption can be paid (i.e. that accounting profits will be sufficient). This is to avoid internal inconsistency between elements of Ofgem's policy. This change may result in Ofgem needing to provide additional revenues to licensees to satisfy the financeability duty. No reference was made to this change in the recent ED3 SSMD and we would welcome confirmation from Ofgem that this will be considered as part of ED3.

New proposed Transmission Licence Condition B2

We are concerned by the proposed introduction of Transmission Licence Condition B2. We understand from the consultation document that this licence condition is to be introduced to ensure consistency with SLC42 of the Electricity Distribution Licence. However, the Transmission Licence (Special Conditions 9.14-9.16 of the SPT licence) already contain requirements on the safeguarding of confidential information and the requirements around a compliance statement. These robust transmission requirements have been longstanding, have a similar purpose, but differ from the distribution licence (and the proposed condition B2) when it comes to the specific obligations.

Introducing two different licence conditions with conflicting requirements for the same policy area would create confusion and cause difficulties in securing day-to-day compliance with these licence conditions. The aim for alignment seems to address no clear issue or address any consumer detriment and we ask Ofgem not to introduce Transmission Standard Licence Condition B2.

Guidance

There are a number of references to additional guidance in the consultation document, for example a specific reference to the AoR checklist and template, and a general reference to additional guidance on ringfencing obligations (paragraph 5.3). If Ofgem intends to include guidance that may aid licesee's understanding of licence requirements, we believe Ofgem should share this guidance before any licence conditions that this guidance intends to cover are implemented and include within the proposed licence drafting requirements for how guidance would be implemented, reviewed and amended. This will allow licensees to understand what obligations Ofgem is imposing. We would welcome further clarity what Ofgem's intention is for further guidance beyond the proposed licence changes.

Yours faithfully,



Andrew Stanger
Head of Licence and Revenue

Appendix 1 – specific comments on electricity distribution licence drafting

SLC 26.10 - disposal of assets and role of SIDs

We believe this licence condition needs to be amended to clarify where the SID needs to play a role. Ofgem set out in its policy decision (paragraph 8.12) of the consultation that: *"Our policy decision is the notification submitted to the Authority to support the relevant asset sale, disposal or transfer to another company or entity within the same group as the licensee, should be signed by a sufficiently independent director and at least one other director. Due to existing licence provisions in the ED sector, SIDs in ED licensees will not be required to sign-off on an asset sale, disposal or transfer to a subsidiary of a licensee"*.

The current licence drafting is not clear that the SID role only relates to disposals that require notification to the authority (and where the DNO cannot rely on any of the general consent grounds in SLC26). We also believe that some of the drafting can be streamlined by using the existing definition of Relevant Assets used in SLC 26. There is possibly also some text missing in the last part of the licence condition drafting.

The drafting could be amended to:

"26.10 In respect of a sale, disposal or transfer of a ~~distribution asset~~ Relevant Asset to a company or other entity operating within the same group structure as the licensee, excluding subsidiaries of the licensee, except where paragraph 26.6, 26.7 or 26.9 applies, the licensee is required to meet the requirement of paragraph 43A.10(c) of condition A43A (Requirement for sufficiently independent directors)."

SLC 30.8 / 30.11 - Certificates related to compliance and dividends

The reference to "standard condition 4 (Prohibition of cross-subsidies)" uses the incorrect title of the licence condition, and should likely instead refer to be "standard condition 4.9 (Prohibition of cross-subsidy)." Although, if Ofgem wishes to refer to SLC4, the drafting should be changed to use the correct title of SLC 4 which is "No abuse of the licensee's special position".

There is a similar issue with references to "standard condition 42 (Independence of the network)" uses the incorrect title of the licence condition and should be "Standard condition 42 (Independence of the Distribution Business and restricted use of Confidential Information)".

SLC 43A.2 - Requirement for sufficiently independent directors – SID checklist

SLC 43A.2 (b) requires licensees to submit a completed checklist and completed templated to the Authority every 31 July to confirm sufficiently independent directors comply with the requirements in the licence and, in short, that they are competent to undertake the role. There is no checklist or template set out in the licence or guidance. In the absence of this, and indeed this is probably not needed, we suggest changing the licence drafting from "a completed checklist and completed template" to "a statement". This approach also aligns with other licence requirements that require DNOs to submit statements.

Alternatively, we suggest Ofgem should introduce wording to link this checklist /template to guidance provided under the RIGs, as has been done in the new definitions of Actual Regulatory Gearing and Net Debt.

43A.14 - Requirement for sufficiently independent directors - Remuneration

As set out in our cover letter, we believe more flexibility is needed in the licence drafting to allow for a range of governance structures and remove the requirement to make verbal recommendations, so also allow for written representations where more appropriate. We suggest the following text for 43A.14:

43A.14 "At least one sufficiently independent director must have the opportunity to make representations each year in respect of the licensee's executive directors' remuneration to those who determine such remuneration."

Appendix 2 – specific comments on electricity transmission licence drafting

B2 Independence of the transmission business and restricted use of Confidential Information

We believe Transmission Standard licence condition B2 should be removed. It introduces conflicting requirements with existing requirements in the Transmission Special Conditions.

The proposed licence condition seems to replicate SLC42 of the electricity distribution licence and introduces both duplication and inconsistency. SPT already have requirements around independence, safeguarding information and compliance statements. These are longstanding requirements contained in Special Conditions 9.14-9.16 in the SPT conditions. Other TOs have similar obligations.

Proposed Condition B2 would introduce duplication and inconsistency between new proposed Standard Condition B2 and Special Condition 9.14. This cannot be Ofgem's intention and would create confusion and cause difficulties in securing day-to-day compliance.

Condition B3: Disposal of relevant assets and restrictions on charges

Please see our comments above in relation to SLC 26 (disposal of assets and role of SIDs) of the Electricity Distribution licence, the same suggestion apply to the relevant transmission condition. That is Condition B3.10 should use the definition of "Relevant Assets".

Standard Condition B7: Availability of Resources (Requirement to maintain an Intervention Plan)

The proposed drafting of paragraph 8[1] would currently mean a licensee would be non-compliant on the day the licence changes into force, as this will be after three months of the RIIO-T3 price control starting. To prevent this from occurring, we suggest the drafting is amended as follows: "T*he intervention plan must be submitted to the Authority within 3 months of the start of each price control period or within 3 months of the introduction or amendment of this condition*". We would also highlight, intervention plan, is not a defined term and should be decapitalised throughout parts 8 and 9.

[1] B2. Para 8: The Intervention Plan must be submitted to the Authority within 3 months of the start of each price control period.

Condition B22.2: Requirement for sufficiently independent directors – statement and remuneration

Please see our comments above in relation to SLC 43A of the Electricity Distribution licence, the same suggestion apply to the relevant transmission conditions.