Maz Alkirwi & Dinesh Manuelpillai
Inveralmond House
200 Dunkeld Road
Perth
PH1 3GH

Email: RegFinance@ofgem.gov.uk

12th August 2026

Dear Sir/Madam,

Scottish and Southern Electricity Networks (SSEN) Distribution and Transmission response to Ofgem's Energy Networks Ring-fence Review statutory consultation

1.1 We welcome the opportunity to respond to Ofgem's consultation on the Energy Networks Ring-fence review. This response is on behalf of SSEN Transmission and SSEN Distribution (collectively referred to as SSEN throughout our response). SSEN support Ofgem's overarching objective: to ensure financial resilience of licensees, however we previously raised concerns regarding the proposed modifications.

1.2 Despite these concerns being highlighted through working groups and in response to the policy consultation, we remain of the view these concerns have not been addressed. In particular where those proposals interact with other statutory processes and obligations, introduce risks of ambiguity or conflict with existing requirements and primary legislation.

1.3 In our view, the measures Ofgem proposes to implement

- **Do not materially strengthen financial resilience** given the robust controls and protections already in place. Existing licence conditions already have well developed financial resilience frameworks which provide a strong basis for safeguarding the consumer.
- **Would introduce additional regulatory burden and complexity** and risk introducing confusion, without delivering clear proportionate benefits for consumers.
- **Must be corrected in line with the drafting proposals put forward by network operators** before implementation. Further detail of this can be found in the appendix.

1.4 Additionally, SSEN does not consider it appropriate to implement the policy proposals immediately, within the current set of price controls. The proposals represent a significant alteration to the price control and would undermine the predictability the price control framework is intended to provide. Any amendments to the ring-fence arrangements should be implemented at the start of ED3, for both distribution and transmission. See paragraph 7.1 which provides further detail on this specific point.

1.5 We provide further details on our concerns in sections 2 to 9 on specific areas of the proposed modifications below.

<u>Sufficiently Independent Directors (SIDs)</u>

2.1 SSEN do not support the proposal to introduce a standardised template and checklist requiring SIDs to provide personal information. Requiring networks to submit the proposed data has no clear meaningful connection in improving and strengthening financial resilience controls. As such it is unclear how the collection of SID information will provide any

additional level of protection to consumers interests or enhanced confidence in the sector and how Ofgem intend to use the data. Throughout the consultation process and working group discussions Ofgem has not demonstrated why the proposed template and checklist are necessary given governance arrangements and controls are already in place.

2.2 To date, Ofgem has not included the proposed template as part of its consultation and has only shared a draft version within the working groups. As a result, Ofgem's consultation process for issuing the proposed SID checklist and template is inadequate. If Ofgem intends to issue the template and checklist as a new Regulatory Instructions Guidance (RIGs) document, it should first ensure the relevant licence conditions references compliance with the RIG in the standard form used elsewhere in the licence framework. In addition, the scope of the template and checklist should be limited to matters that can appropriately be addressed through the RIGs and should not be used to introduce new obligations, responsibilities on SIDS or restrictions upon their appointment. Ofgem should undertake a formal consultation on the proposed content of the template and checklist in line with the process for issuing a new RIGs requirement and take proper account of stakeholder feedback before implementation to ensure transparency on expectations.

2.3 Alternatively, if Ofgem proposes to issue the template and checklist through a separate guidance document, the relevant licence conditions should clearly define the purpose and scope of the guidance. The licence should also set out the process by which the guidance will be issued, maintained and amended.

2.4 The increased requirement for SIDs to act as signatories on the submissions highlighted by Ofgem within its statutory consultation would be challenging and unnecessary. This level of enhanced disclosure is disproportionate and places an unfair administrate burden on licensees. SID signatories do not provide any additional reassurance or deliver tangible benefits to consumers, such as enhanced protection or improved confidence.

2.5 Ofgem should provide clear evidence how this measure would deliver additional assurance on Ring-fence submissions and financial resilience notifications. The submissions in question are already subject to Board level review and approval. Requiring an additional sign off from a SID would therefore largely duplicate an existing process and is unlikely to provide any meaningful increase in assurance. As a result, this proposal appears inconsistent with Ofgem's stated rationale. This additional administrative step delivers no tangible enhanced assurance or financial resilience which would benefit the consumer.

2.6 SSEN acknowledges Ofgem has refined its SID remuneration committee proposal. The revisions made represents an improvement on the original proposal which would require every licensee to have its own remuneration committee and all employees to be captured under the remuneration committee. However, the proposed licence modification continues to prescribe input from SIDs into remuneration discussions in a manner that exceeds the scope of Ofgem's stated policy objectives, is inconsistent with established governance practice and inappropriately imposes different requirements depending on corporate structure. Particularly SSEN does not support the requirement for a SID to make verbal representations to the remuneration committee. We have therefore provided a proposed modification to the licence condition set out in our appendix, which SSEN believe addressed these concerns.

Disposal of relevant assets and restriction on charges

3.1 SSEN continue to disagree with Ofgem's proposal to introduce a reference to 'Financial Asset' within the 'Disposal of relevant assets and restriction on charges' licence conditions.

We remain concerned with the proposed definition and how it interacts between newly proposed defined terms and other pre-existing licence wording and definitions.

3.2 During the working group discussions, Ofgem indicated the proposed definition was aligned to definitions for 'Financial Assets' within IAS32 / FRS102. However, the definitions within those independent accounting standards contain additional elements which do not appear to be reflected in Ofgem's definition. The omission from the definition is as follows: i) A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, or; ii) A derivative that will or may be settled other than by exchanging a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

3.3 The ENA and network companies had provided a revised definition to Ofgem for "Financial Asset" to address the concerns raised. However, while Ofgem has marked the issue as 'closed' within the issue log they have not responded to our detailed comments or revised proposed definition. To support a collaborative approach SSEN have provided the proposed definition within the licence conditions markup within our appendix. We encourage Ofgem to consider this definition as it directly aligns to IAS32 / FRS102 which provides a clear interpretation.

3.4 SSEN believes the proposal of SIDs to approve asset sales, disposals or transfers between the same group of companies would benefit from the introduction of a materiality threshold. Introducing an appropriate materiality threshold would ensure the requirement remains proportionate and focused on transactions that could meaningfully affect the financial resilience of the licensee. We propose using the existing materiality threshold as defined in the Transmission and Distribution licenses would be sufficient. This would avoid unnecessary administrative burden while ensuring greater attention is directed towards disposals most relevant to consumer interests.

Indebtedness

4.1 SSEN does not support the proposed requirement for licensees to obtain Ofgem's consent before amending existing capital resources / reclassifying reserves. Decisions relating to capital structure are fundamental responsibilities of the organisation. Licensees are best placed to assess their funding requirement and ensure their capital structures remain appropriate.

4.2 The proposal represents a significant intrusion into decisions regarding corporate structure and financing which are currently controlled by the organisation. Restricting the ability of networks to make changes to their capital and reserves structure risks undermining corporate governance processes without delivering any benefit for consumers.

4.3 The UK Corporate Governance Code emphasises the need to maintain an appropriate balance between returning value to shareholders and retaining earnings to support future growth and withstand unforeseen challenges. Robust risk-management processes and comprehensive financial assessments form an integral part of these safeguards, helping companies avoid excessive distributions that could jeopardise their ability to navigate economic uncertainty and maintain long-term financial resilience. These statutory safeguards have been effective in ensuring responsible distributions. We therefore see no basis or justification for requiring licensees to seek authority from Ofgem when altering existing capital and reserves to facilitate a future dividend distribution.

Availability of Resources (AoR)

5.1 SSEN welcome Ofgem's decision to reverse the proposal of introducing a checklist / certificate template for the AoR. We are pleased the concerns and suggestions raised throughout the working groups regarding this proposal have been listen to and considered. However, as discussed throughout the working groups, if Ofgem are to implement the AoR checklist / certificate template within this newly developed guidance document it's use would be advisory rather than mandatory. To make this proposal mandatory, Ofgem would need to explicitly incorporate into the relevant licence conditions.

5.2 However, it was apparent within the working groups Ofgem were seeking to position the guidance document as a new RIGs document despite not being subject to a formal process. This approach would be unacceptable in the context of the current draft guidance document which Ofgem shared during the working groups. The guidance document in its current form is not sufficiently developed to achieve its intended objectives and, in several instances, contradicts with the requirements set out within the licence conditions. Ofgem would need to undertake a formal consultation on the proposed guidance document in line with the process for issuing a new RIG and take proper account of stakeholder feedback before implementation.

5.3 Expanding the financial resource certificates (1F, 2F or 3F) to require cash-flow forecasts beyond a 12-month horizon risks undermining both financial efficiency and regulatory stability. This challenge is already evident within the RIIO-3 price control, which will involve a significant increase in capital expenditure to achieve net-zero objectives.

5.4 It is important to highlight that Distribution networks do not yet have an ED3 financial package in place. As a result, any forecasts produced for this period would be highly assumption-driven and indicative rather than definitive. Attempting to forecast across different price controls is challenging due to significant uncertainty in projected cash-flows. These forecasts would provide no meaningful benefit to consumers or enhance the level of financial resilience controls.

5.5 Ofgem's proposal on implementing the dividend certificate and 2C certificate to reference all ring-fence licence conditions is surprising. Significant time and effort were spent during the working groups to collaboratively discuss and provide industry feedback, during which Ofgem agreed that it would remove this proposal. This proposal is unacceptable as it would prevent licensees making alterations to capital or reserves without obtaining consent. This places unnecessary restrictions on licences to determine their own corporate structure. Ofgem have implemented this proposal again without providing a clear explanation for its change in logic. The repeated introduction and reversal of proposals within the working groups have created uncertainty and confusion regarding which measures remain to be implemented, and which have been reversed.

5.6 As set out in our original response, SSEN recognises the rationale behind Ofgem's proposal to review the intervention plan at the start of a new price control period and supports the principle of providing the intervention plan on an ad hoc basis. However, we do not consider a requirement to submit an updated plan within a 10-working day period to be reasonable. Ofgem should be mindful the intervention plan may not be up to date to represent present information at the time of request. Where an up-to-date submission is required, sufficient time should be allowed for the necessary governance, review and sign-off processes to be completed.

Credit Rating of the Licensee

6.1 SSEN has no objection to aligning the ED sector with other sectors through the requirement to provide a published financial resilience report and a published rating report. However, we believe this measure should be implemented only from the start of the ED3 price control. Introducing the requirement at the commencement of ED3 would allow its impacts to be properly assessed and incorporated into business planning from the outset, while preserving the stability, predictability and integrity of the regulatory framework. Implementing the measure before the start of ED3 would undermine these important regulatory principles.

6.2 However, SSEN has concerns regarding the new draft licence conditions proposed by Ofgem under Condition 40, relating to the credit rating of the licensee. The draft conditions now require licensees to always maintain more than one investment grade credit rating. This would not present an issue as SSEN currently hold three investment grade credit ratings. However, if a negative rating action occurs for the third investment grade rating, the policy position outlined above would be triggered.

6.3 Current drafting of the licence conditions appear to be inconsistent with Ofgem's principle of strengthening financial resilience. The proposed conditions currently discourage licensees from obtaining a third credit grade rating. Holding additional investment grade credit ratings provides greater evidence of financial resilience, however, current drafting creates a risk of regulatory consequences. As a result, licensees may conclude that there is a limited benefit in seeking ratings beyond the minimum requirement, despite there being a financial resilience and therefore consumer benefit of holding multiple credit ratings with different agencies.

Implementation of measures within 2026

7.1 Within the 'Energy Networks Ring-fence Review' statutory consultation, Ofgem has proposed introducing certain measures for the electricity sector from September 2026. SSEN strongly opposes the introduction of these measures during ED2 as this represents a significant alteration to the current price control.

7.2 Implementing these proposals immediately within the current price control would create significant operational disruption, requiring a redesign of our governance structures and reporting systems that were agreed at the outset of ED2. While RIIO-T3 has just been set, aligning the implementation of these measures at the same time would allow efficiencies in process and avoid interim arrangements for transmission compliance until the start of T3.

7.3 We consider that implementing these changes immediately for the electricity sector risks creating unintended consequences that could negatively impact consumers. Instead, these proposals should be implemented, for both Transmission and Distribution, at the start of the ED3 price control. The modifications should not come in force until the 1st April 2028. This would allow the impacts to be properly assessed and incorporated into the business planning process from the outset, ensuring that the stability and predictability of the regulatory framework are not undermined.

Independence of Network

8.1 Ofgem is proposing to introduce a new Standard Condition B2 Independence of the transmission business into the Electricity Transmission licence. Within the statutory consultation it is clear that the only reason for doing so is that an equivalent condition exists in other sectors, and that Ofgem recognises existing conditions in the licence already give transmission licensees the required obligations.

8.2 This condition introduces unnecessary regulatory burden. The essence of the condition is to prevent Relevant Undertakings from having access to Confidential Information. The condition details at length the requirements for and suggested content of a Compliance Statement that must be submitted to, and approved by, the Authority.

8.3 This B2 condition is not in the current electricity transmission licences because other conditions already exist that provide all the necessary protections. Licensees are already subject to a similar condition (Special condition 9.14) if they have Relevant Undertakings as defined in B2 (suppliers and generators) in their group. These licensees are then also subject to further conditions in 9.15 and 9.16 dealing with the independence of the transmission business. It is not clear how the proposed new B2 is intended to interact with these existing provisions and /or whether the existing special conditions are to be modified in light of the new standard condition.

8.4 The rationale for the current provisions within the ET Special Conditions referred to above seems to have been ignored in bringing forward the B2 proposals. The introduction of B2 only serves to increase regulatory burden and create confusion with existing licence conditions. Ofgem should not add B2 to the transmission licence given obligations are provided for in SpC 9.14 and 9.15.

Working Group Sessions Hosted by Ofgem

9.1 SSEN welcomed Ofgem's decision to establish dedicated working groups to discuss and gather feedback on each of the policy areas covered by the ring-fence consultation. This was intended to provide the opportunity for constructive engagement and enable concerns raised by networks to be discussed, explored and resolved collaboratively.

9.2 We recognise the significant effort invested by Ofgem throughout the working group process and we remain supportive of collaborative engagement in developing effective regulation. However, we do not believe the process adopted within the working groups achieved the intended objective of effective collaboration and engagement. It was often unclear how feedback provided by network companies had been considered and reflected in subsequent discussions, meeting minutes and policy decisions.

9.3 There were some occasions where discussions indicated network companies feedback had been positively received and amendments to the proposals were being considered. This gave SSEN confidence the working groups were helping create an effective ring-fence policy. However, there were other occasions where positions which had been previously agreed were changed at later stages without a clear explanation of the reason for those changes. This resulted in confusion as to which policy issues had been resolved and which had been reversed.

9.4 Greater visibility of how industry feedback is evaluated and how the policy decisions are reached would help networks better understand the evolution of the proposals and provide greater clarity and certainty on areas that have been resolved.

Summary

10.1 We continue to support the overarching objective to ensure financial resilience of licensees through the regulatory framework. However, the proposals as presented within the consultation remain not fit for purpose and could introduce additional costs for consumers.

10.2 We remain concerned that a number of the issues flagged in this response, and through the ENA are yet to be addressed despite being discussed during the policy consultation and through working groups.

10.3 In our view, the measures Ofgem proposes to implement

- **Do not materially strengthen financial resilience** given the robust controls and protections already in place. Existing licence conditions already have well developed financial resilience frameworks which provide a strong basis for safeguarding the consumer.
- Would introduce additional regulatory burden and complexity and risk introducing confusion, without delivering clear proportionate benefits for consumers.
- **Must be corrected in line with the drafting proposals put forward by network operators** before implementation. Further detail of this can be found in the appendix.

10.4 No additional requirements should be introduced within the current price control period. Any changes should instead be considered as part of the RIIO-3/ED3 price control, including for Transmission, and the modifications should not come in force until the 1st April 2028. This would ensure that the impacts are properly assessed and incorporated into the business planning processes, maintaining the stability and predictability of the regulatory framework.

10.5 SSEN teams are willing to discuss appropriate adjustments to the proposed modifications to ensure they are fit for purpose and achieve the overarching objective.





Dinesh Manuelpillai

Director of Finance

SSEN Distribution

Maz Alkirwi

Director of Finance

SSEN Transmission