

Press Release

Friday 5 April

OFGEM TIGHTENS NETWORK COMPANIES' CORPORATE GOVERNANCE TO PROTECT CONSUMERS

- **New measures to give additional early warning signs of financial distress and mitigate any impact on consumers**

Improved rules have come into effect this week, which will enhance consumer protection in the event that a network company experiences financial distress.

Network companies own and operate the gas and electricity infrastructure that delivers energy to homes and businesses. Ring-fence arrangements for these companies have been in place since privatisation and are designed to give early warning of financial distress, mitigate the impact of any financial distress on consumers and instil good financial governance.

New protections, introduced by Ofgem, include the introduction of a requirement for major network licensees to have two sufficiently independent directors on their Boards. This measure will mitigate the risk that executive directors with other group roles, however well-intentioned, could become conflicted at times of crisis. This is in recognition of the diverse management arrangements that can exist, where the network company is part of a larger ownership group. The appointment of sufficiently independent directors must be completed by April 2014.

Ian Marlee, Ofgem's Senior Partner for Transmission said: "Given the significant investment of around £30 billion that will take place over the next eight years, it is vital that consumers' money is protected. That is why Ofgem is strengthening the ring fence rules and introducing a requirement for two sufficiently independent non-executive directors on network licensee Boards."

The new requirement for sufficiently independent directors is part of a range of enhancements that have been made to the ring-fence conditions applicable to network companies. These include:

- new triggers to apply a "cash lock-up", restricting cash flows, if there are signs of financial distress
- additional restrictions on using network company assets as security.

-Ends-

Notes to Editors

1. A summary of the existing ring-fence conditions and changes can be viewed in Appendix 1 of this document:
<http://www.ofgem.gov.uk/Networks/Policy/Documents1/Changes%20to%20the%20Ring%20Fence%20Conditions%20in%20Network%20Operator%20Licences.pdf>

2. The £30 billion investment in energy infrastructure includes the capital expenditure of the transmission companies and gas distribution companies secured under Ofgem's RIIIO price controls. These controls came into effect on 1 April 2013 and will run for eight years. Ofgem recently published its strategy decision for the electricity distribution companies and the price control for these companies will run from 2015 – 2023.
3. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 as well as arising from directly effective European Community legislation.

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