

Gas and Electricity Markets Authority  
9 Millbank  
Westminster  
London  
SW1P 3GE

For the attention of Colin Green

14 January 2005

Dear Sirs

**Comments regarding proposed licence condition modifications 42, 42A, 44 and new conditions 50 and 52**

We are pleased to respond to your working paper on the proposed distribution licence condition modifications. As advised by William McKenzie, we have restricted our comments to proposed licence condition modifications 42, 42A, 44 and new conditions 50 and 52. Our response reflects the input from the Central Networks, Scottish Power and Western Power Distribution audit teams and reflects our wider involvement as professional services providers to other Regulated Entities.

**Condition 42 – Regulatory accounts**

- Part A  
No comments.
- Part B  
Para 3b If the regulatory accounts are prepared in accordance with IFRS, then there will be no statement of total recognised gains and losses. Depending on the accounting adopted for pensions, there may be an equivalent Statement of Recognised Income and Expenditure (“SoRIE”).

The contents of an operating and financial review (“OFR”) do not appear to be mentioned in the licence condition. Please state if the OFR requirements will be in line with the new OFR requirements for listed companies that will come into force shortly.

Clarification is required of the requirement to disclose the links between directors’ pay and standards of performance as we do not understand how it will be applied in practice.

- Para 4            We interpret this as stating that the regulatory accounts will be in line with the additional requirements of listed companies (OFR, corporate governance etc.). Where a DNO is not a listed plc or does not form part of a UK listed plc group, many formalised corporate governance structures may not exist – are the regulatory accounts going to continue to be required in the form of an FSA listed plc on a best endeavours basis in this case?
- Part C
- Para 5            We will report to the Authority when it has engaged with us and the DNO via a tri-partite engagement letter or a bi-partite letter with a written notice.
- Para 6            We will not be able to undertake an audit and issue an opinion on any DNOs compliance with the obligation to avoid discrimination and cross subsidies per Article 19(4) of Directive 2003/54/ED. We should however be able to report on the DNOs compliance with certain aspects of the Directive under an agreed upon procedures approach. On this basis we will agree with the Authority the specific procedures to be undertaken and issue a report on the findings of those procedures.
- Para 7            Please remove references to "best commercial auditing practice" as all audits need to comply with either UK or International Auditing Standards, which are all relevant and appropriate.
- Part E
- Para 11           We understand that the Companies Act 1985 will be revised in a number of areas. These changes will need to be incorporated.

**Condition 42A – Change of financial year**

No comments.

**Condition 44 – Availability of resources**

- Para 2            Please confirm that the 2005 Condition 44 return will be required by 31 July rather than 30 June, as was historically the case. The 31 July Condition 44 return due date is now more consistent with the timing of work on Condition 42 – Regulatory Accounts.
- Para 3            The requirement for DNOs to provide a cash flow projection and underlying working capital statement is new. We will need to fully understand the format and detail required as illustrated via a worked example.

**Condition 50**

Para 6           We can provide, as in the past, a “correctly extracted” report on information included in para 5 (a), but not a “fairly presents” opinion as is suggested. A “fairly presents” opinion is reserved for accounts that are prepared in accordance with accounting standards.

Para 7           We will report to the Authority when it has engaged with us and the DNO via a tri-partite engagement letter or a bi-partite letter with a written notice.

Procedures over and above correct extraction can be agreed with the Authority. This can be either by the Authority setting out these procedures or by us providing a list of suggested procedures and the Authority agreeing them as being sufficient for their purposes. In both cases, our engagement letter would only be for agreed procedures, not for an audit.

Para 8           Our report on the information included within para 5 (a) will not cover the licensee’s compliance with charge restriction conditions. Should the Authority need a report on the licensee’s compliance with charge restriction conditions, then this could be undertaken via agreed upon procedures stipulated by the Authority.

Para 9           Please remove references to “best commercial auditing practice” as all audits need to comply with either UK or International Auditing Standards, which are all relevant and appropriate.

**Condition 52**

Para 6           Our working papers and other internal documentation created for the purpose of carrying out our duties as auditor belong solely to PricewaterhouseCoopers LLP and will not be provided to the Authority or the DNO even if they have engaged with us via a tri-partite engagement letter or a bi-partite letter with a written notice. We will however cooperate with any examination carried out in accordance with paragraph 5. The findings of any work undertaken under agreed upon procedures will be made available via our report.



Please do not hesitate to contact Jasbir Khela of this office on 0121 265 5157, in the first instance, should you have any queries.

Yours faithfully

PricewaterhouseCoopers LLP