

RIO accounts

RIO

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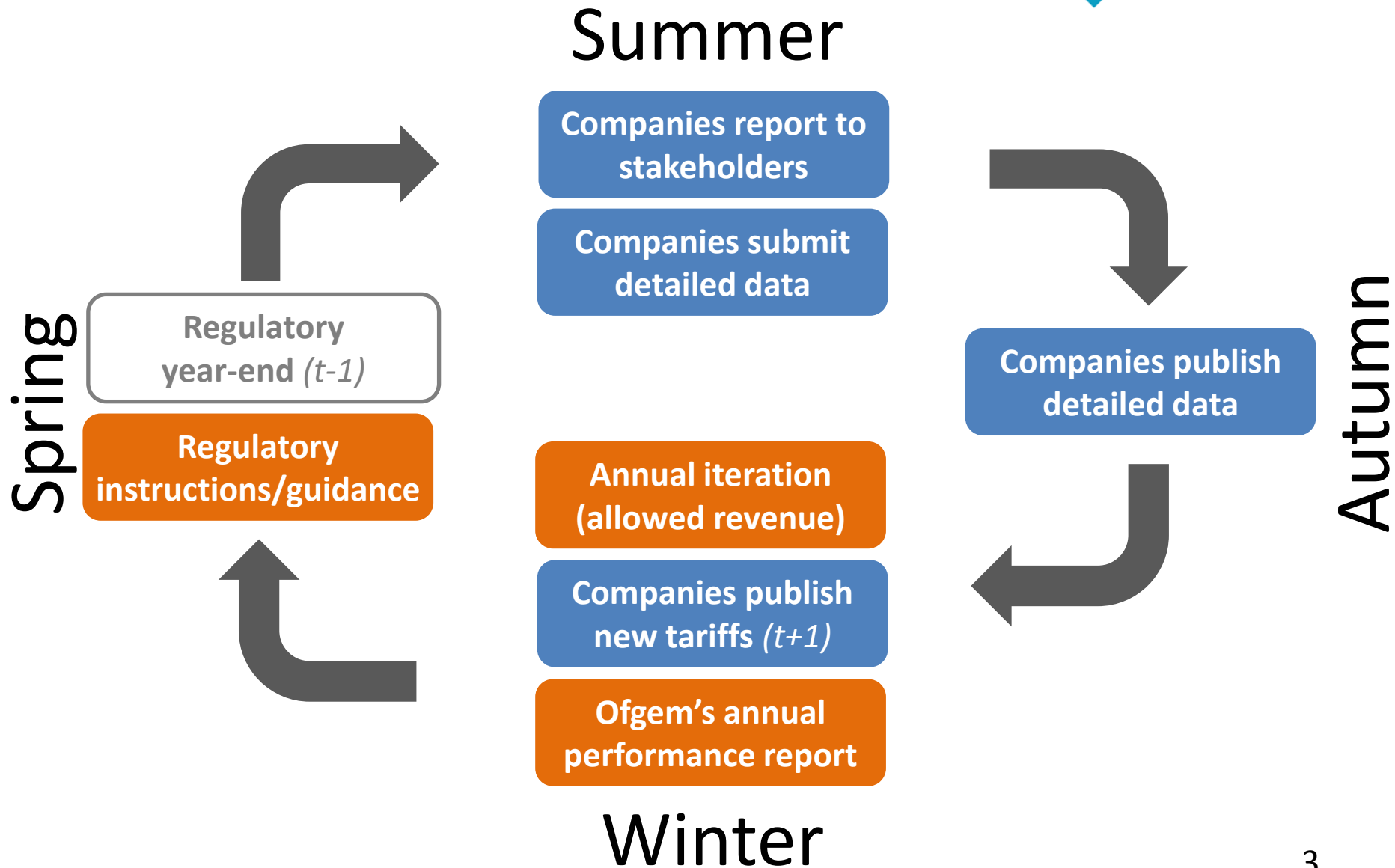
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ofgem

- RIO – a dynamic process
 - Reformed price control, periodic reviews and in-period processes
 - Annual iteration: annual calculation of regulatory information
 - The models, mechanisms etc are substantially available to companies

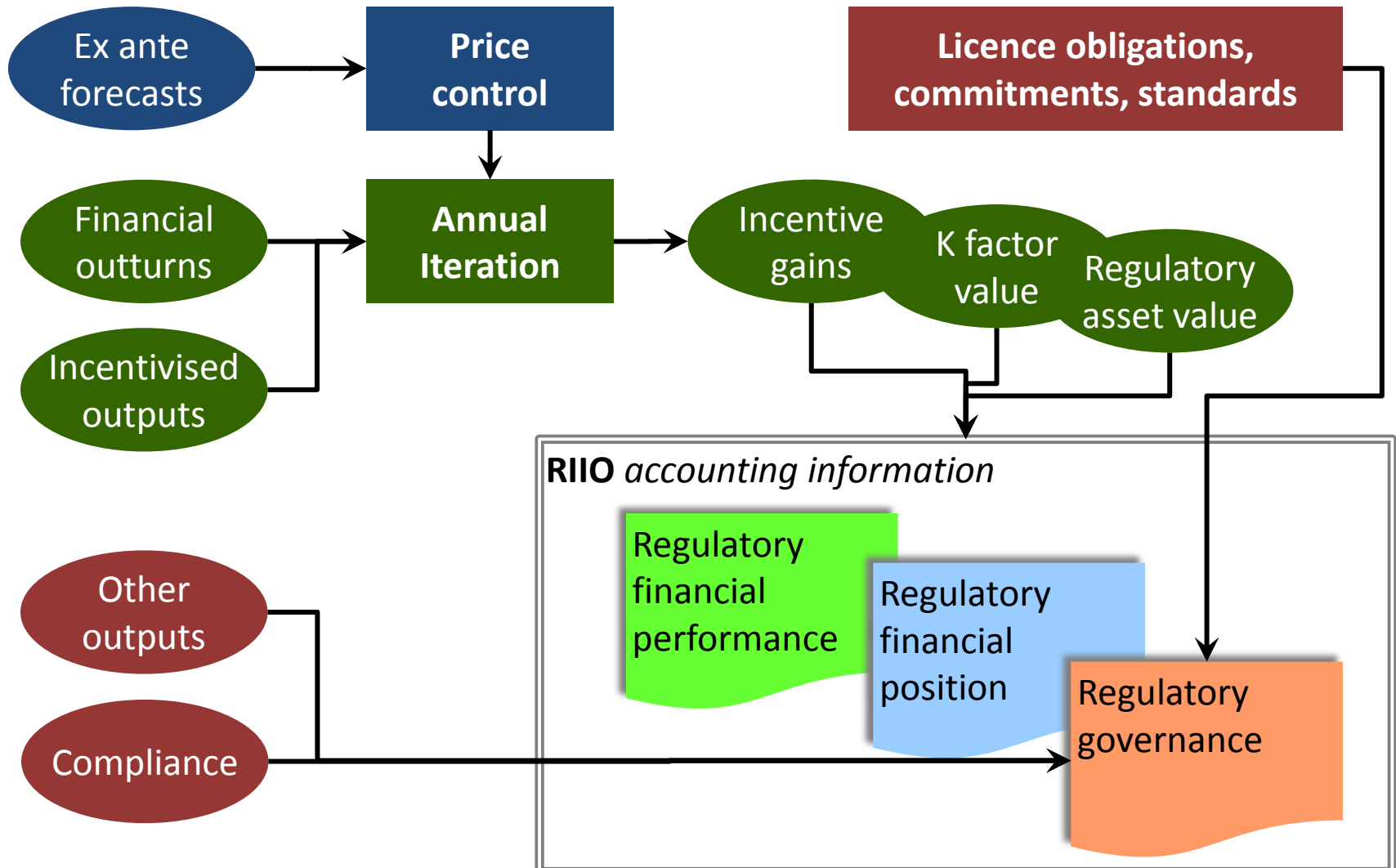
- Scope for richer information for stakeholders
 - Companies able/encouraged to report their performance and position early
 - Companies' views, not Ofgem's
 - Ofgem's annual iteration process will reveal Ofgem's view
 - Experience of company-Ofgem variances will help
 - ... assess reliability of reported information
 - ... understanding of regulatory uncertainties
 - Better information, earlier

Reporting cycle



- RIIO-T1 and RIIO-GD1 implemented from 1 April 2013
- Project to review monitoring/reporting started so that conclusions for improving monitoring/reporting could be introduced in time to address year 1 results
- Application to RIIO-ED1
 - What the companies will publish on year 1 performance in 2016
 - How our website can add value to consumers?
 - ED pre 2016?

RIO accounting information



A statement of regulatory financial performance

■ Returns

- Regulated revenues
- K factor movement

- Allowed revenues
- ‘Fast money’ allowances
- Regulatory depreciation
- Incentive value adjustments
- Interest and tax

- Shareholder returns

■ Sources of returns

- Allowed WACC on RAV
- Incentive gains/losses
- Tax variance
- Gearing variance
- Interest rate variance

- Shareholder returns

A statement of regulatory financial position

■ Regulatory balance sheet

- RAV at the end of the year
 - Incentive fair value adjustments
 - Other timing differences
 - Net debt/ working capital
-
- Regulatory equity
-
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■ Analysis of movements

- Regulatory equity at the start of the year
 - Regulatory returns
 - Dividends
 - New equity
 - Indexation (*RAV – debt*)
-
- Regulatory equity at the end of the year
-
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- **Broad principles**
 - High quality regulatory governance helps underpin long-term company performance
 - Licensee board is responsible for regulatory governance
 - ... compliance with licence conditions and other legal obligations
 - ... Performance against incentivised targets, other standards and commitments
 - ... Safeguards and procedures for ensuring, monitoring and reporting performance and compliance
 - Analogous corporate governance implications for owning groups
 - Accountable to shareholders

A statement of regulatory governance

- General statement
 - Board responsibility
 - Governance approach
 - ... Licensee-group relationship, licensee board role, committees, SIDs, organisation (eg compliance officer), internal audit
 - ... Procedures/safeguards
 - Relationship with business strategy
 - Performance evaluation
- Specific compliance statements
 - Sufficiency of resources
 - Performance against business plan commitments and other commitments
 - Data Assurance
- Non-compliance disclosure
 - Incidents, investigations
 - Remedial action/ timetable
- Other metrics
 - Output performance
 - ... Customer satisfaction
 - Environmental performance
 - Financial metrics

- **Current statutory accounts basis**
 - Useful to capture regulatory year information
 - Useful for audited basis for regulatory information
 - But ... limited relevance to stakeholders

- **Agenda for reform**
 - RIIO accounts
 - Regulatory accounting principles
 - Regulatory governance principles
 - Basis for audit opinions

Reporting overview

DNOs

RIIO accounts

Performance
against
business plan
commitments

RIGs/
performance
summary

Environmental
reporting

Ofgem

Annual reporting

Website

Ofgem is the Office of Gas and Electricity Markets.

Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.

We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.