

Appendix 2- FEEDBACK QUESTIONNAIRE (word format)

Thank you for taking the time to respond to our questions

We hope all the questions are understandable, If you have any difficulties please email Sanjay.Vadhera@ofgem.gov.uk

Once the questionnaire has been completed, please send it back to us using the email address above. Please return the completed questionnaire by 4 August 2015.

Section 1 - About you	
Question	Response
What is your name	Conrad Steel
What is your job title	Policy Manager – Energy Regulation
What is your contact detail	
What is your company name	Citizens Advice
What is the name of your group (applicable only if you are representing a user group)	Consumers

Section 2 – RIIO Accounts	
Questions	Response
1. Do you have any comments on the withdrawal of the current regulatory accounts as specified in standard special licence conditions A30 on Regulatory accounts for Gas Distribution and Transmission, standard condition B1 on Regulatory accounts for Electricity Transmission and standard condition 44 on Regulatory accounts for Electricity Distribution?	Continuity of available historic data is very important for holding the network companies to account, and the Regulatory Accounts are key to this. It is our understanding that the proposed replacement for the regulatory accounts would include all the information currently published, so continuity would not be compromised, but we would welcome confirmation that this is the case.
2. Do you agree with the use of RFRS principles as a basis for the preparation of RIIO accounts? If not, please give further information why.	Yes.
3. Do you agree that the new framework for reporting on Network’s financial position and performance would be more beneficial to users and stake holders? If you don’t please explain.	Yes, the switch to a framework that more closely reflects how the price control works is a good idea. This would potentially be useful to a range of stakeholders, though as the open letter notes, this form of reporting will still be

	<p>primarily of interest to investors, and other reporting is needed that addresses a wider audience.</p> <p>The framework will be particularly useful if it can cover not only the relevant figures but also make RIIO at least partly comprehensible to a stakeholder picking up the accounts for the first time. Though challenging, this should not be too much to ask for. Including an explanation of basic concepts such as RAV, RoRE and totex would be a good start.</p> <p>Of the three statements mooted in the annex of the open letter, our view is that the most important is likely to be the part of the statement of financial performance which 'would present reconciliation between the real equity return and allowances for the cost of equity showing how the NWO has created positive or negative value from incentives etc'. Ideally this should make it clear what RoRE the company has earned and why, and should show this against the range of possible outcomes to help readers gauge how this compares to expectations.</p> <p>The framework should also ensure that the results of the network companies are more comparable. Reintroducing an annual Ofgem report on network performance, financial and otherwise, would be very helpful. This should knit together the results reported in RIIO accounts.</p>
<p>4. Do you have any comments on the principles stated in the statement of regulatory corporate governance contained in Appendix 1 of this letter and do you support the development of such principles?</p>	<p>In our view these principles do not do enough to recognise the special situation of the network companies, in that firstly they are operators of a local monopoly, and secondly this monopoly provides an essential service. In light of this, we would recommend adding a fourth principle, 'consumer welfare'. This would make it clear that in some cases decision-making in the networks should take their unique and vital position into account, and their customers' reliance on them, into account in a way that unregulated companies might not.</p>

	<p>Of the proposed principles, 'accountability' comes closest to this, but the question is accountability to who. Being accountable to shareholders is not identical to being accountable to other stakeholders (see our answer to q.8 for more on this) and the principles should reflect this.</p>
<p>5. Do you have any comments on the proposed time line in Appendix 3?</p>	<p>No.</p>
<p>6. Do you have any comments on our proposal to develop an audit opinion that provides assurance on the proposed RIIO accounts on a 'fairly presents' basis?</p>	<p>We very much welcome the under the draft principles that the board should have 'responsibility to present a fair, balanced and <i>understandable</i> assessment of the licensee company's position and prospects'. On the basis that that the networks' regulatory accounts are fair and balanced already, the emphasis of this project should be on making the accounts more understandable (without compromising fairness or balance).</p>
<p>7. What are your expectations on how NWO boards should report on their governance (comments from investors are particularly welcome)?</p>	<p>No comments.</p>
<p>8. Please use this section to let us know of any other thoughts you might have on the introduction of RIIO accounts.</p>	<p>Overall we very much welcome the proactive project from Ofgem, and we are confident that RIIO accounts will produce a documentation resource much more useful to stakeholders than the regulatory accounts are at present.</p> <p>However, we have two reservations about the project.</p> <p>First, as the open letter rightly notes, there is a broader problem with network transparency, and RIIO accounts will not be enough to address this. What is needed is accessible, comparable performance reporting addressed to customers and stakeholders, not only shareholders. We understand that Ofgem</p>

will shortly be holding a separate consultation on this issue, and Citizens Advice will also be publishing a report on this in August. RIIO accounts can usefully support a new approach to network reporting, but we are pleased to see the recognition in the open letter that it will not solve the problem by itself.

Second, we feel there is a risk of putting too much faith in the argument that shareholders can be activated, by better accounting, to fight for better service for customers. In some cases this might be true, for example where a network company is not doing everything it might to achieve performance rewards. But there are other cases of network behaviour that advantages shareholders but disadvantages customers. Notably this includes attempts to secure an unrealistically high allowance at the stage of negotiating a price control, and taking decisions that grow the RAV within the price control (this has been partly but not wholly addressed by switching to a totex approach). Therefore while better reporting to shareholders and potential investors is welcome, it should not be seen as a panacea, and should take second place to more public-facing reporting.