

## 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 [REDACTED]

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	[REDACTED]
What is your job title	Regulation Director
What is your contact detail	[REDACTED] [REDACTED]
What is your company name	Northern Gas Networks Ltd
What is the name of your group (applicable only if you are representing a user group)	

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?	NGN have no objection to the withdrawal of the current regulatory accounts (A30).  We would also question if the current “financial” tables in the CRRP would still be required, particularly tables 1.1 Income statement, 1.2 Financial position and 1.3 Cash flow as these are directly linked to the regulatory accounts. Similarly the current reconciliation to the regulatory accounts in the CRRP would need to be replaced with a reconciliation to the applicable statutory accounts.
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.	Whilst it is difficult to comment pending development of an RFRS, our main concern would be that wherever possible/appropriate it would seem sensible to align and accounting principles with UK GAAP on order that the main focus can be the content of

	<p>the RIIO accounts rather than the reconciliation to the Statutory Accounts which will have been prepared on this basis. This is also most likely to produce consistency of reporting between the regulated entities concerned.</p> <p>With the introduction of the new UK GAAP reporting standards which will be adopted over the next year, consideration will also need to be given to the choice of standards (IFRS, FRS101 or FRS102) which statutory accounts will be prepared on going forwards. For example, RIIO accounting could align with FRS102, with additional requirements such as Corporate Governance reporting and License condition information added to cover additional information.</p>
<p>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.</p>	<p>The information we currently published in our annual RIIO report already contains:</p> <ul style="list-style-type: none"> <li>• RAV calculations</li> <li>• RORE</li> <li>• Revenue breakdown showing movement from published final proposals revenues</li> <li>• Comparison of cost of debt actuals v allowances</li> <li>• Performance under totex incentive mechanism</li> <li>• Year on year cost true ups</li> <li>• Incentive income/penalties</li> <li>• Customer bill impacts</li> </ul> <p>This information alongside the cost and output information provides a clear picture for all stakeholders of our regulatory performance.</p> <p>We therefore believe there is little value in producing separate RIIO accounts containing largely the same basic information. If there are additional financial items Ofgem require to be reported these should be incorporated into the RIIO reporting</p>

	requirements and included into the annual report.
<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>The draft principles of regulatory corporate governance generally appear reasonable.</p> <p>However, we would point out that not all licencees are required to comply with the principles of corporate governance set out in the UK Corporate Governance Code (UK Code) under the Listing Rules and thus introducing a set of further principles which expand on this UK Code may create obligations in excess of that required for some companies, especially in terms of the comply or explain approach in the accounts.</p> <p>As such it may be better for Ofgem to specify in the draft principles of regulatory corporate governance, those areas which is expected should be included in a corporate governance statement to the RIIO accounts as a minimum for all licencees and then each operator can expand on these minimums as appropriate to ensure compliance with any wider obligations to the UK Code.</p>
<p>5. Do you have any comments on the proposed time line in Appendix 3?</p>	<p>The timescales appear very ambitious to design and agree a brand new set of accounting principles for RFRS taking account of the variations between distribution, transmission, gas and electricity. In addition to gain understanding and acceptance from the audit community on the role they would be expected to take.</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>Ultimately the sign off of the wording of the audit opinion would of course be with our auditors, and be subject to the development of the RFRS which the 'fairness' is measured against, though on the whole we would not expect an issue with an audit against a defined set of methods and principles. In particular we would appreciate more</p>

	<p>guidance on how audit of the notional/future looking measures such as Notional Net Debt would be envisaged as these would not be reconcilable to actual financial results at the point of audit.</p> <p>Additionally, would this review and resulting opinion replace the requirement for separate AUPs and associated reporting currently required under the licence?</p>
<p>7. What are your expectations on how NWO boards should report on their governance (comments from investors are particularly welcome)?</p>	<p>Our expectation is that NWO boards should report on corporate governance in accordance with the Companies Act as per any other business of a similar scale and status.</p> <p>Ofgem has only recently finished an extensive piece of work to adjust some of the ring fencing and governance arrangements under the various licence conditions. We don't see the need for more change in this area. We are not aware of any stakeholder concerns or of any structures in the energy sector which have raised significant issues.</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>There is an assumption in the plan that the RIIO accounts will be linked to the Price Control Financial Model (PCFM) and will be published around the end of July each year. However the PCFM is owned by Ofgem, and is not currently updated until the end of November each year. The reason for this that the PCFM relies on data from the Cost Reporting submission (CRRP) which is submitted to Ofgem's Cost and Outputs team on the 31st July each year. This team then consolidate and review the submissions from the 8 gas networks and carry out a consistency and accuracy review, usually complete in September / October. The outputs of this then feed into the PCFM update by the end of November. Pulling these timescales forward would need to be agreed both internally at Ofgem and</p>

with the NWOs. The PCFM would also potentially need to be handed over as an Industry Model to the NWOs to complete and operate as part of their submission process in order to meet the 31st July deadline.

More generally we are concerned that these proposals need to be joined up with the work done by the cost and output teams.