

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 5 August 2015.

Section 1 - About you	
Question	Response
What is your name	[REDACTED]
What is your job title	Head of Regulatory Finance
What is your contact detail	[REDACTED]
What is your company name	Northern Powergrid Holdings Company on behalf of its two licensed entities
What is the name of your group (applicable only if you are representing a user group)	N/A

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?	<p>For companies that have a statutory year end of March we can see that the production of an extra set of accounts for the same accounting period for the same company is a duplication. For these companies, the withdrawal of the regulatory accounts would still mean a set of statutory accounts will be produced and subject to audit to provide an assured basis for the completion of the Regulatory Reporting Pack (RRP). The RRP is in turn a key input to the Price Control Financial Model (PCFM) from where the proposed base information for the new statements will be extracted. Based on our understanding of the two products (see note), while some duplication would be avoided, we do not believe the resource savings would be material in the context of the overall reporting burden.</p> <p>For companies like ours with a</p>

	<p>December year end we believe a set of audited accounts to a March year end will still be required to provide the level of assurance (and reconciliation) for the subsequent completion of the RRP and PCFM, and this initial view of the requirement is supported by our auditors. There may be an opportunity to look to produce an abridged set of accounts that still provide the requisite level of assurance. We will explore this further if the proposals proceed.</p> <p>We do not, however, see a substantial reduction in regulatory reporting burden from the removal of the licence requirement to produce regulatory accounts.</p> <p>Note: the regulatory accounts do include some additional information compared to the statutory accounts. For example there is more detail in the segmental note to the accounts which is largely drawn from the RRP.</p>
<p>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.</p>	<p>Generally we are supportive of a principles based approach to accounting standards since this avoids perverse results from prescriptive application of rules.</p> <p>There is a balance though and in certain instances to ensure consistency of interpretation a more rules-based approach is appropriate.</p> <p>We also understand that a clear rules-based approach will allow auditors to complete their work in shorter period.</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>We will be keen to see the responses to this open letter in terms of the level of interest from stakeholders. Our experience is that the type of reporting proposed under this framework is of interest to a limited audience within the investment community and, in particular, ratings agencies.</p> <p>We believe the wider stakeholder community may have little interest in</p>

	<p>this information, particularly, since it will contain information that is a mixture of economic and accounting information some of which is based on a notional company basis.</p> <p>If, as we believe, the audience is narrow there will be more cost effective ways of providing the appropriate information to this small group.</p> <p>The implementation of the RIIO model has led to the annual publication of the price control model following the annual iteration process and is a step forward for the investor community and provides much of the proposed information. A 'RIIO Accounts Lite' approach could improve investor information in a targeted way with the lowest possible reporting burden.</p> <p>We would be very supportive of Ofgem exploring this area further in the proposed consultation in September, so it can be properly considered by all relevant stakeholders.</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>The proposed principles of corporate governance may have some merit. However, Ofgem should recognise that company directors have a statutory duty to promote the success of a company for the benefit of its members as a whole and do not have a direct duty to stakeholders. These principles would impose additional reporting requirements that must be framed in such a way that they are able to subsist with and are clearly secondary to the primary statutory requirements that exist already.</p> <p>We welcome the fact that these principles are not a rigid set of rules and that an alternative to following them may be justified in particular circumstances. In this respect, we consider that Ofgem should recognise formally in the framing of these</p>

	<p>principles that the UK Corporate Governance Code is founded on the “comply or explain” approach and that such an approach should be available to licensees in the drafting of the statement of regulatory corporate governance.</p> <p>We understand that the auditors already need to provide an enhanced audit report for those companies adopting the “comply or explain” approach.</p>
<p>5. Do you have any comments on the proposed time line in Appendix 3?</p>	<p>We believe the timetable is challenging, we note that much of the detail of the approach has yet to be developed and published.</p> <p>We would be keen to understand your progress on the drafting of the various items described in Appendix 3, in conjunction with the audit profession.</p> <p>In particular, we would expect drafts of these to be available for the proposed consultation in September and that further consultations will be required with further drafts before a decision document is contemplated.</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>As discussed under the answer to question 3 we believe Ofgem should explore further the audience for this information and establish their requirements.</p> <p>The requirement may well be to produce comparable information for the NWOs, and this may be possible via publication of information solely from the proposed extra module of the PCFM.</p> <p>We believe the extra judgement information, such as forecasts of future incentives will be difficult for the audit profession to provide an opinion.</p>
<p>7. What are your expectations on how NWO boards should report on their governance (comments from investors are particularly</p>	<p>Our boards already report on their governance, see answer to question 4.</p>

welcome)?	
<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><u>31 July Production of RIIO Accounts</u> We believe Ofgem has seriously underestimated the time to produce the RIIO accounts, particularly with a requirement of estimates of future incentives approved by the Board. Much of the activity must be undertaken sequentially and Ofgem need to recognise that the RRP which provides the input in to the PCFM, also has a deadline of 31 July.</p> <p>As noted in answer to question 1, Ofgem has not materially lightened the regulatory reporting burden for companies by removing the requirement for regulatory accounts, since it reduces the degree of duplication for some companies but does not necessarily remove the need for an audited set of figures for the regulatory year. A July deadline for publication of RIIO accounts would therefore materially increase the current reporting burden, particularly since the additional workload requirements would fall in the peak reporting period (making it more difficult to efficiently manage workload peaks).</p> <p>A 30 September date should be achievable but we believe there is merit in publishing the RIIO Accounts as part or following the completion of the annual iteration process to avoid confusion and reconciliation (if the numbers differ between September and November). The likelihood of requirements to restate figures could be materially reduced by ensuring that final, Ofgem agreed, figures are used in the published accounts. This would help minimise the additional reporting burden associated with RIIO accounts.</p> <p>We note the network operating company quoted in the consultation as providing similar information (but not</p>

	<p>as extensive) do so some months after the conclusion of the annual iteration process.</p>
--	--