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Company:
UK Power Networks
(Operations) Limited

Registered in England and Wales No: 3870728

Ian Rowson
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Ofgem
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5 August 2015

Dear Ian

Ofgem open letter on the RIIO accounts

Thank you for the opportunity to respond to your open letter on the introduction of the RIIO accounts. This letter should be treated as a collective response on behalf of UK Power Networks' three licensed distribution companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc – herein known as UK Power Networks.

We welcome the recent engagement you have carried out with network companies to raise understanding and awareness of your requirements. We note that the feedback you have received, particularly with regards to the need for clear rules around making future projections of performance, have not yet been reflected in your discussion documents. We would therefore welcome an additional opportunity to formally comment before Ofgem makes any minded to decision on any changes associated with the introduction of RIIO accounts.

As your open letter indicates, it is important that any data reported under the RIIO accounts is aligned with and to existing regulatory reporting requirements and particularly those under the Regulatory Instructions and Guidance (RIGs). We are mindful of the considerable amount of data that we have to report to Ofgem as part of the new RIIO-ED1 reporting requirements and would be happy to work with your regulatory finance and RIIO implementation teams, either bilaterally or as part of a wider industry working group, to ensure that duplication of reporting is minimised. We also believe that this is important in trying to make the ambition of publishing the RIIO accounts by the end of July each year possible.

As requested, we have used your feedback questionnaire to provide detailed comments in response to the consultation questions; please see the appendix to this letter.

I hope that you will find our response helpful. If you have any questions, please do not hesitate to contact me on [REDACTED]

Yours sincerely

[REDACTED]

[REDACTED]
Head of Regulation
UK Power Networks

Copy [REDACTED], Director of Finance, UK Power Networks
[REDACTED], Regulatory Reporting & Compliance Manager, UK Power Networks
[REDACTED], Regulatory Finance, RIIO Team, UK Power Networks

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 Regulation
What is your contact detail	[REDACTED]
What is your company name	UK Power Networks
What is the name of your group (applicable only if you are representing a user group)	N/A

Section 2 – RIIO Accounts	
Questions	Response
<p>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>	<p>We have no objection to the withdrawal of the DNO regulatory accounts obligation in SLC 44. However, any replacement needs to have an appropriate framework for financial information to be made available to stakeholders to ensure transparency. In our opinion, such information does not need to be a full set of RIIO accounts.</p> <p>The goal of providing broader regulatory financial information to stakeholders to ensure transparency could potentially be dealt with by requiring NWOs to provide supplementary information in their statutory accounts or alternatively publishing a separate stakeholder document. It is worth noting that, going forward, it is our intention to publish a stakeholder document including some financial information.</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>It is difficult to comment on the RFRS principles without understanding the proposals in detail. However, we believe that it will be confusing for stakeholders to see two different sets</p>

	<p>of accounts which indicate financial performance. Furthermore, there is no easy bridge between statutory and RIIO accounts prepared using RFRS principles. A set of adjustments to the statutory accounts to reflect the impact of revised revenue if recognised when earned, rather than received, would be easier for stakeholders to understand.</p> <p>With the introduction of the new UK GAAP reporting standards consideration will need to be given to the choice of standards – FRS101 or FRS102. For simplicity, RIIO accounting could align with one of these and have additional requirements added to them.</p> <p>It is worth noting that it is not possible to be authoritative on the RFRS principles without understanding the proposals in detail, however we will continue to work with Ofgem to progress the proposals and how we can achieve an outcome that works for stakeholders.</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 stakeholders? If you don’t please explain.</p>	<p>We agree that it is beneficial for more information regarding NWO performance to be published, as this will aid transparency. This could be achieved through including supplementary information in existing statutory accounts (or statutory type RIIO accounts) or through publishing a separate annual report.</p> <p>Information on the following areas could be made available without the need for separate RIIO accounts being prepared using RFRS principles:</p> <ul style="list-style-type: none"> • RAV calculations • RORE • Revenue breakdown showing movement from published final proposals revenues • Comparison of cost of debt actuals vs allowances • Performance under totex incentive

	<p>mechanism</p> <ul style="list-style-type: none"> • Year on year cost true ups • Incentive income/penalties • Customer bill impacts <p>Such an approach would stop short of the requirements for a full set of RIIO accounts using the RFRS principles.</p> <p>We believe that this would meet the requirements of stakeholders.</p> <p>Stakeholders require transparency and consistency of information and this could also be achieved if Ofgem utilised the RIGs submissions to calculate and publish summary RIIO information, as has happened with regulatory reports in the past. The companies could be given the opportunity to add commentary to these figures.</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>We are in general agreement with the content of Appendix 1 and note that this largely reflects the existing corporate governance code for listed companies in the UK, extended to incorporate the regulated nature of the businesses.</p>
<p>5. Do you have any comments on the proposed time line in Appendix 3?</p>	<p>We believe that concluding the consultation and introducing the accounting framework in time for reporting effective from 31 March 2016 feels ambitious – particularly with a 31 July submission date. NWOs’ ability to comply with any proposed requirements for this regulatory year will be further clarified once the requirements are fully known.</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 believe that Ofgem should ask this question of the audit firms of the NWOs. It is, however, our experience that when audit firms move away from the Companies Act “true and fair” requirements, the fall back is to use agreed upon procedures and to refer to the scope of the work against these in the statements the procedures relate to. This is likely to fall short of a ‘fairly</p>

	presents' basis.
<p>7. What are your expectations on how NWO boards should report on their governance (comments from investors are particularly welcome)?</p>	<p>While we recognise that governance is important, it is already addressed through detailed disclosures in the statutory accounts which are in accordance with the Companies Act.</p> <p>We have recently implemented new governance and ring fencing requirements and would suggest that these are allowed to embed within organisations before Ofgem looks at further changes.</p> <p>However, we support the governance disclosures including a section on how creating value for consumers underpins the value for shareholders.</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>We are keen to ensure that the introduction of a further set of accounts does not lead to confusion across stakeholder groups. We believe that an appropriate way forward would be to base core accounts on FRS101 or FRS 102 principles with additional financial information relating to performance against the RIIO-ED1 framework either being included as supplementary information to the accounts or published in a separate document.</p> <p>This supplementary information could include the items we have identified in our response to Question 3.</p>