

██████████  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Wales & West House  
Spooner Close  
Celtic Springs  
Coedkernew  
Newport NP10 8FZ

Tŷ Wales & West  
Spooner Close  
Celtic Springs  
Coedcernyw  
Casnewydd NP10 8FZ

Telephone/Ffôn: **0800 912 29 99**  
Fax/Ffacs: **0870 1450076**  
Email/Ebost: [enquiries@wwutilities.co.uk](mailto:enquiries@wwutilities.co.uk)  
[www.wwutilities.co.uk](http://www.wwutilities.co.uk)

30<sup>th</sup> July 2015

## Open letter consultation on our proposals to develop and introduce RIIO accounts

Dear ██████████

We welcome Ofgem's proposal to replace the current annual regulatory accounts, as required under standard special condition A30 of our licence, with a more simplified set of RIIO regulatory financial statements which better fit with the wider stakeholders' requirements.

The current regulatory accounts are required to be prepared as if the Network Operators (NWOs) were a listed company and contain the majority of the disclosures required by a UK listed company. This includes significant disclosure notes which we perceive to have little value to either Ofgem or our wider stakeholder community.

Simplifying these regulatory accounts to show two primary statements:

- (i) statement of regulatory performance and,
- (ii) the regulatory financial position,

along with a governance statement, as suggested by Ofgem, would increase their usefulness, focus effort on information stakeholders require and reduce the time taken to prepare. However, it is important that the information that these new statements contain can be readily sourced and that the content is understandable to the reader, whether informed or casual.

We note that significant levels of detail are currently provided by the NWOs to Ofgem annually, notably through the RRP process. If Ofgem considers it is this information which they required to ensure that the NWOs' act in the interest of consumers, then it is likely that the new RIIO regulatory financial statements will largely be formed from this same information at a more consolidated level. It is unlikely that any additional, newly collected, information should be required.

The RIIO regulatory financial statements should focus on the requirements of a broad cross-section of stakeholders rather than the needs of any individual stakeholder group. Certain specific stakeholder groups, for example rating agencies, will already have access to alternative sources for the information they require.

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The content of the new reporting framework is therefore likely to evolve through the consultation process as views from stakeholders are obtained. It is therefore difficult at this stage to comment in detail on Ofgem's proposals, or on the proposed regulatory financial reporting standard until the requirements of the wider stakeholder population is known.

Further detailed discussion is required on the precise content of the new reporting framework, and we would therefore welcome an additional opportunity to formally comment before Ofgem make any minded to decision on the introduction of RIIO regulatory financial statements.

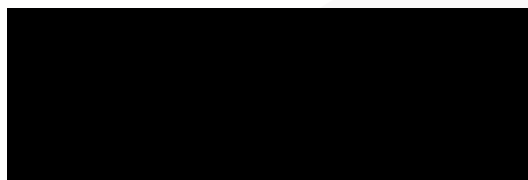
In our view, keeping this information straight forward will aid its usefulness. There are obvious complexities in pulling disparate information together under one framework, one example of which is building RAV balances into a statement of regulatory position which largely represents historic cost positions for most reported assets and liabilities. This is likely to add complexity to the regulatory financial performance statement in reconciling from one statement of regulatory position to the next.


The timing of issue of the RIIO regulatory financial statements will require careful consideration. The current regulatory accounts are required under licence to be completed by 30 July for the accounting period finishing on 31 March. The RIIO financial statements are likely to require information from the annual price control financial model PCFM reporting cycle update. This cycle is not completed until 30 September following the relevant 31 March year end. Thus causing a potential delay to the issue of the RIIO regulatory financial statements and impacting on their usefulness.

In addition, the work the auditors undertake may well need to be performed under agreed upon procedures, which could limit the type of opinion which they are able to provide on the RIIO regulatory financial statements when compared to the regulatory accounts prepared under the Companies Act 2006.

We look forward to continuing to discuss the proposals for new RIIO regulatory financial statements with Ofgem.

Yours sincerely,



  
Head of Regulation  
Wales & West Utilities

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## 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	Head of Regulation
What is your contact detail	[REDACTED]
What is your company name	Wales & West Utilities Ltd
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>WWU agrees with Ofgem that the regulatory accounts, as required by standard special licence condition A30 have limited benefit and support their withdrawal.</p> <p>We do see the requirement to have an independently reviewed starting point for the preparation of the annual RRP, which provides Ofgem with comfort over the overall accuracy of the costs within the RRP. However, producing regulatory accounts for this purpose is not efficient. A profit and loss account separating out formula and non-formula activity over which agreed upon procedures have been completed could achieve the same goal.</p> <p>Certain other aspects of the regulatory accounts, such as the</p>

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	<p>narrative disclosures contained within the strategic report, report of the directors and the corporate governance statement, could be produced as a stand alone governance document in modified form. Again, these could be subject to examination under agreed upon procedures.</p> <p>There are further returns which the GDNs produce, some of which are reviewed by our auditors under agreed upon procedures. Consideration should also be given to incorporating these into any reporting changes.</p>
<p><b>2.</b> 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 opine on the RFRS principles without understanding the proposals in detail. However, as a general rule it would be beneficial to align with current GAAP wherever possible to simplify application. Ie alignment with FRS102.</p> <p>We, together with our auditors, will continue to work with Ofgem to better understand their proposals and how we can achieve a mutually beneficial outcome.</p> <p>We have informally fed back comments on the overall approach to Ofgem and ask that they continue to consider these comments.</p> <p>It should be noted that producing similar information on two different basis (statutory accounts and regulatory accounts), which</p>

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	<p>contain different information, may confuse stakeholders. A more simplistic approach of providing adjustments to the statutory accounts to reflect, for example earned vs collected income may be a less confusing approach and improve stakeholder understanding.</p>
<p><b>3.</b> 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>WWU has a healthy relationship with a broad spectrum of stakeholders.</p> <p>We would point out that we are not aware that any of our stakeholders have requested further detail beyond that which we have provided, either publically or, for specific stakeholder groups, in individual meeting, for example with bodies such as trustees, rating agencies and debt investors.</p> <p>We also note that the requirements of consumers, shareholders and rating agencies are likely to be different. Capturing these different requirements in a single set of accounts may be difficult.</p> <p>Consistency in reporting this additional information could be achieved by Ofgem extending its current annual review of a particular years NWOs performance to pick up the disclosures which Ofgem consider missing.</p>
<p><b>4.</b> Do you have any comments on the principles stated in the statement of regulatory</p>	<p>We are in general agreement with the content of Appendix 1 and note that this largely reflects the</p>

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<p>corporate governance contained in Appendix 1 of this letter and do you support the development of such principles?</p>	<p>existing corporate governance code for listed companies in the UK, extended to incorporate the regulated nature of the businesses.</p> <p>To ensure consistency, Ofgem should specify the particular aspects of corporate governance they require included within the statement.</p>
<p><b>5.</b> Do you have any comments on the proposed time line in Appendix 3?</p>	<p>Concluding the consultation and introducing the accounting framework in time for reporting effective 31 March 2016 seems ambitious.</p> <p>If additional information is required to be collected in respect of the regulatory year ended 31 March 2016, its early identification will aid that process. Collecting information retrospectively can be difficult and inefficient.</p> <p>We also note that the new accounts will require input from the PCFM process. Whilst the annual accounts are due to be published at the end of July, the PCFM process doesn't complete until the September.</p>
<p><b>6.</b> 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>This question will require answering by the various audit firms of the Network Operators.</p> <p>The proposed RIIO accounts are likely to have been reviewed by the NWO's auditors in accordance with a set of agreed upon procedures, which is a similar process to that adopted for other</p>

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	<p>returns by NWOs to Ofgem, and the NWO's auditors will sign off on this basis.</p> <p>There is likely to be a considerable amount of work required to adjust the historic companies act compliant accounts onto the proposed basis, especially around recognising the notional gearing position. It is important that such adjustments are well understood by the stakeholders in order to not draw incorrect conclusions.</p>
<p><b>7.</b> What are your expectations on how NWO boards should report on their governance (comments from investors are particularly welcome)?</p>	<p>We refer back to our answer to question 1.</p> <p>All Boards should report their corporate governance in accordance with the Companies Act 2006, having regard for the size and type of entity reporting.</p> <p>Certain other aspects of the current regulatory accounts, such as the narrative disclosures included within the strategic report, report of the directors and the corporate governance statement could be produced as a stand alone governance document in modified form. However, the specific information to be included requires clarification.</p> <p>These could be subject to examination under agreed upon procedures.</p>
<p><b>8.</b> Please use this section to let us know of any other thoughts you might have</p>	<p>We are keen to ensure that the introduction of a further set of accounts should not lead to</p>

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on the introduction of RIIO accounts.

confusion amongst NWOs stakeholders.

It is important that any reasonable requirements of a broad cross section of stakeholder groups, which are not currently met, are duly considered and that targeted information is produced as appropriate.

Careful consideration should be given to the timing of the submission of these new accounts and their interaction with other returns/information provided to Ofgem. An example is the interaction with the PCFM, which is not finalised until later in the year. This may lead to inconsistent data being published.

Given the uncertainties identified above, we consider that further discussions are required between the NWOs and Ofgem before a minded to position is issued.

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