



Making a positive difference  
for energy consumers

To: Electricity and Gas  
distribution companies, Electricity  
and Gas transmission companies,  
consumer groups, investors,  
other users of Regulatory  
accounts and other interested  
parties

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Dear Stakeholders

## **RIIO accounts: Update letter and next steps**

### **Introduction**

Our intention is that RIIO accounts, once fully developed, will provide investors and other stakeholders with more transparent and relevant regulatory accounting information. From the reporting year 2016-17 (published by the end of September 2017), we intend these accounts to replace the existing regulatory accounts across all four energy network sectors. They will deliver relevant audited information and become the primary source for anyone who wants to understand an energy network company's financial performance against the RIIO regulatory frameworks that we set.

We consulted twice during 2015 to inform the work to develop and implement RIIO accounts.

- June 2015<sup>1</sup>, open letter
- November 2015<sup>2</sup>, second consultation document.

**This letter presents our decision on the project's updated timeline following our second consultation, provides details of the work that we have been doing since and explains that we intend to implement RIIO accounts for 2016-17.**

### **Since the consultation**

As well as reviewing responses to our second consultation, we have made significant headway during 2016 in two areas. The first is the Regulatory Financial Reporting Standard (RFRS), which is the rules and procedures by which the accounts need to be prepared. The second is the RIIO accounts support module (RASM). The RASMs are sector specific spreadsheet models that help ease the burden on network companies by providing the means to input and calculate the data which will be reported in RIIO accounts.

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<sup>1</sup> Ofgem: open letter consultation on development and introduction of RIIO accounts, 24 June 2015  
<https://www.ofgem.gov.uk/publications-and-updates/open-letter-consultation-development-and-introduction-riio-accounts>

<sup>2</sup> Ofgem: consultation on our proposed framework, 4 November 2015  
[https://www.ofgem.gov.uk/sites/default/files/docs/2015/11/riio\\_accounts\\_second\\_consultation\\_final\\_2\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/11/riio_accounts_second_consultation_final_2_0.pdf)

We have engaged a specialist consultant to assist us in developing the RFRS in discussions with the audit community with the goal of developing the RFRS in a way that attracts general acceptance.

On RASM development, we had conference calls during December and a workshop on 25 January 2016 to answer network companies' questions on the distribution<sup>3</sup> RASMs which should help the companies when they prepare RIIO accounts.

To get from where we are now to September 2017 we will continue to work with network companies and the audit community. We will keep investors and other stakeholders up to date and then widen our engagement in summer 2016. Our current plan is to hold a workshop(s) in June and we will publish dates for this in the near future.

Many felt that we needed to provide extra time to provide confidence in all remaining work areas before we start the process of implementing the requirement for RIIO accounts through licence modifications. We have therefore decided to adopt the later licence modification timetable option as set out in our consultation. This means we can be sure of progress on the main work areas before we modify licences. Below we provide updates on the RFRS and RASM work and also address how we will progress other issues raised in response to our consultation.

## **Timetable options and licence modifications**

### *Consultation*

The main focus of our second consultation was the timetable for the further development and implementation of RIIO accounts. We presented 4 options:

1. Implement licence modifications straightaway and require RIIO accounts to replace Regulatory Accounts from 2016-17
2. As option 1 but giving network companies the right to elect to stick with Regulatory Accounts for 2016-17
3. Move licence modifications to later in 2016 to allow more work on the key elements of the RIIO accounts, (potentially with option 2 - right for network companies to elect to stick with Regulatory Accounts for 2016/17)
4. Move the whole timetable back implying 2017/18 as the first year of RIIO accounts, published in September 2018.

We also asked for alternative options if available and preferable.

### *Responses*

The vast majority of responses felt that option 1 was no longer achievable or that it would imply high risk to delivery.

A significant majority favoured a change to the timetable as described in option 3.

Some stakeholders were concerned that all the network companies should produce RIIO accounts at the same time rather than any one having the option to delay publication for an extra year. This point is considered further in the section below on implementation.

### *Our decision*

We have decided to adopt option 3, so that the licence modifications are considered after further work has been progressed. Our immediate focus will now be to work on the other issues needed to gain confidence in the RIIO accounts and their preparation. Licence work

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<sup>3</sup> As below work is ongoing on RASMs for the transmission networks.

can then continue in September/October. While remaining flexible at this stage, we are confident that we can progress sufficiently for 2016-17 to be the first year of RIIO accounts for all energy network companies. We think that slippage to 2018-19 would reflect a significant loss to investors and others. However, we will consider this again during the summer and early autumn.

## **Progress in development of Regulatory Financial Reporting Standard (RFRS)**

For RIIO accounts to be trusted as the first point of reference on network companies' regulatory financial performance, auditors would need to refer to an appropriate standard to reach an opinion on whether the RIIO Accounts are 'fairly presented'. To achieve this we need to engage with and seek input from the audit community and ensure they are comfortable with key aspects of the new standard. To help with this we have engaged specialist support from PricewaterhouseCoopers (PwC). This support is engaging with the main audit firms including PwC, considering the issues raised by the development of RIIO accounts.

This work has been ongoing since February and we are now starting to involve the network companies to help build confidence in the RFRS.

## **Progress in development of the RIIO accounts support modules (RASMs)**

We circulated distribution RASMs before Christmas and conducted introductory conference calls with network companies. The RASMs include the inputs and processes to develop the final RIIO accounts. To optimise these preparatory tools we agreed to develop a guide to the RASMs which should support our aim to manage the regulatory burden associated with preparing the new RIIO accounts. We intend this to be available during May. We also held a workshop on 25 January to discuss the RASM further.

We are addressing a number of detailed issues raised by the distribution network companies on the two RASMs prepared so far. The transmission RASMs raise some new issues but we expect to complete the electricity transmission RASM during April 2016. The gas transmission RASM relates to one company (National Grid's gas transmission business). In this case, we will work closely with National Grid to develop it.

## **2015-16 dry run**

The 2015-16 dry run of RIIO accounts is an important opportunity for the network companies, the audit community and us to learn lessons that should help support full implementation for 2016-17. For this to work well we will need to try out and test all aspects in a way that is as real as possible, subject to some obvious constraints to minimise cost. For example, we do not expect these 2015-16 RIIO accounts to be audited but for the dry run to fully serve its purpose we will need to highlight as many challenges as possible that could have been faced during an audit process.

## **Opportunities for you to engage**

We continue to want you to be a part of the ongoing work to develop and implement RIIO accounts. Stakeholders are already involved in the above areas of work, network companies and audit company representatives particularly. We believe investors and other stakeholders will get most value in coming together to discuss the emerging product, likely in early summer. We plan at least one workshop in June and will send details shortly. Separate to this, we are always happy to discuss the project individually.

## **Implementation**

We hope (and are providing as much time and assistance as we can to help) that all network companies will be content to have licence drafting requiring RIIO accounts to be compulsorily prepared for 2016-17 in the early autumn. We will make a decision on this at that time ahead of licence modifications being consulted on in October 2016.

## **Other issues**

We asked for specific feedback on other areas within our second consultation document. These covered the following areas:

- Licence drafting
- Corporate governance
- Our impact assessment work

We also received points in response on other issues. We have collected these and will consider them ahead of June and share our thinking with all stakeholders at one or two workshops during June.

If you would like to discuss this letter please contact Iain Morgan at [iain.morgan@ofgem.gov.uk](mailto:iain.morgan@ofgem.gov.uk).

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