

Distribution and transmission  
network companies, suppliers,  
consumers and their  
representatives; and other  
interested parties

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Date: 8 November 2017

Dear Colleagues,

### **Introduction of RIIO Accounts – further consultation on licence modification**

We propose to introduce the requirement for licensed network operators (NWOs) to prepare and publish RIIO Accounts for the Regulatory Year 2017-18. These will provide investors and other stakeholders with more transparent and relevant regulatory accounting information. Under our proposals, the first RIIO Accounts will be published by the end of September 2018 and NWOs will no longer be required to prepare Regulatory Accounts.

The aim of RIIO Accounts is to provide a step change in the quality of reported financial performance by NWOs. They will be the primary source for anyone who wants to understand the network companies' financial performance against the RIIO regulatory frameworks that we set, providing reliable and assured (audited) information about how they are creating value for investors and consumers under our incentive regimes. This information will be available in the public domain for the first time.

In November 2015 we consulted on our proposed framework.<sup>1</sup> This included a draft modification to the existing licence condition.<sup>2</sup> In March 2016 we said in our RIIO Accounts: Update letter and next steps<sup>3</sup> (our March 2016 letter) that we would consider licence modifications after further work had been progressed. Due to the ongoing work we have carried out since that consultation, to develop the Ofgem Regulatory Financial Reporting Standard (ORFRS), we consider it appropriate to further consult.

We are seeking views from interested parties on our consultation for the Introduction of RIIO Accounts. We would especially welcome responses to the specific questions set out below.

This consultation sets out the following:

1. Summary of changes to the draft modification of the existing licence condition since the last consultation and consequential modification required to other licence conditions;
2. Our proposals to finalise the ORFRS;
3. The proposed Regulatory Corporate Governance Statement (RCGS) Principles; and

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-accounts-consultation-our-proposed-framework>

<sup>2</sup> The draft related to Standard Condition 44 of the Electricity Distribution Licence and was a generic example that would be applied to the other sectors: Standard Special Condition A30 of the Gas Transporter Licence and Standard Condition B1 of the Electricity Transmission Licence.

<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-accounts-update-letter-and-next-steps>

#### 4. Proposed timetable to introduce RIIO Accounts.

We are seeking responses to the following questions:

**Question 1: Do you have any comments on the draft licence condition set out in Appendix 1?**

**Question 2: Do you have any comments on consequential modifications required to other licence conditions set out in Appendix 2?**

**Question 3: Do you have any comments on the proposed RCGS Principles set out in Appendix 3?**

**Question 4: Considering the one-year delay in introducing RIIO Accounts and potential impact on consumer benefit it may have for RIIO2, do you agree that licenced NWOs should report RIIO Accounts for the Regulatory Year 2017-18?**

#### **Background**

In our March 2016 letter we hoped we would introduce RIIO Accounts a year earlier, but this was reliant on the progress in developing the ORFRS.

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 needed to engage with and seek input from the audit community and ensure they are comfortable with key aspects of the new standard. We have engaged specialist support from PricewaterhouseCoopers (PwC). This support has engaged with the main audit firms including PwC, considering the issues raised by the development of RIIO Accounts.

This work has been ongoing since February 2016 and we are now in a position where we have a draft ORFRS with broad acceptance and support of the NWOs and main audit firms.

#### **Summary of changes to the draft modification of the existing licence condition since the last consultation**

In our previous consultation, we proposed to overwrite existing Regulatory Accounts licence condition for all sectors. We now propose to create a new licence condition, which will allow us to direct NWOs to produce RIIO Accounts and that the existing Regulatory Accounts condition will cease to have effect.

Table 1 sets out the proposed new licence conditions for each sector.

**Table 1: Proposed new licence conditions for each sector**

<b>Licence</b>	<b>Existing licence condition</b>	<b>Proposed new licence condition</b>
Electricity Distribution	Standard Condition 44. Regulatory reporting	Standard Condition 44A. Regulatory financial reporting
Electricity Transmission	Standard Condition B1. Regulatory reporting	Standard Condition B1A. Regulatory financial reporting
Gas Transporter	Standard Special Condition A30. Regulatory reporting	Standard Special Condition A30A. Regulatory financial reporting

Other material changes we have made since the last consultation are as follows:

- We previously said we would issue a RIIO Accounts Support Module (RASM).<sup>4</sup> Whilst we have developed this, we consider it a module that the NWOs should have the option whether to use or not to support them in preparing and publishing RIIO Accounts. We have therefore removed the need to issue this from the proposed licence condition.
- We have redefined the proposed minimum that the NWOs must include as part of RIIO Accounts. These are as follows:
  - The statements specified in the ORFRS. The previous draft licence listed the statements required. We consider it appropriate to refer only to the statements specified in the ORFRS.
  - A commentary on the licensee's operational performance, and regulatory financial performance and position. This is a new proposed requirement since the last consultation. This aims to provide a narrative of their operational and regulatory financial performance, which is consistent with the NWOs' prepared and published statements specified in the ORFRS. These should provide meaningful information for anyone who wants to understand a network company's financial performance against the RIIO regulatory frameworks that we set. Some NWOs have requested that we provide a template for this, but we consider it appropriate that the NWOs engage with the anticipated primary users of RIIO Accounts to understand what they would expect from published RIIO Accounts.
  - A Regulatory Corporate Governance Statement. This is broadly consistent with our November 2015 consultation. We have made one change to the draft Regulatory Corporate Governance Principles (RC4) where we now propose to require the NWOs to report on how their interaction with their pension schemes promotes the interest of consumers. This recognises that the pension trustees are responsible for the governance of the schemes, and not the NWOs. Some NWOs asked for more clarity on what they should include in this statement. Again, we consider it appropriate that the NWOs engage with the anticipated primary users of RIIO Accounts to understand what they would expect from published RIIO Accounts. Appendix 3 sets out the proposed RCGS principles that we intend to issue.
- We have included in the proposed new licence condition a section on the Agreed Upon Procedures in relation to the prohibition of cross-subsidy and discrimination applicable to the licensee. This section forms part of the existing Regulatory Accounts licence condition<sup>5</sup>, but will still be required once we have introduced RIIO Accounts. While this requirement is not directly linked to RIIO Accounts, we consider it appropriate to include as part of the proposed new licence once the existing licence condition is 'turned-off'. We also consider it appropriate to ensure this section is modified to be consistent across each of the three licence conditions.

Appendix 1 sets out the proposed new licence condition for the Electricity Distribution Licence. We propose that this licence condition will be replicated across electricity and gas.

Appendix 2 sets out the proposed modifications required to other licence conditions.

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<sup>4</sup> The RSAM is a MS Excel model that draws information from an NWO's Price Control Financial Model (PCFM) and information in its revenue RIGs.

<sup>5</sup> There are differences in the drafting between the three licences.

## **The ORFRS**

Under our proposal, RIIO Accounts are to be prepared under the ORFRS that we will issue. We also propose to require the NWOs to appoint Auditors to audit their RIIO Accounts, and for the Auditor to give an opinion on whether or not the RIIO Accounts fairly present the NWOs' regulatory financial performance and position under the ORFRS.

Since February 2016 there has been considerable effort between NWOs, Auditors and Ofgem to enable the NWOs to be in a position where they can prepare RIIO Accounts, under ORFRS, that allows Auditors to form a fairly presented opinion.

Given its technical nature, we have been working extensively with the NWOs and their auditors on the development of the OFRS which they have good visibility of. In December 2017, we intend to publish a draft version of the ORFRS that we expect NWOs to be required to follow if we decide to modify the licence following the statutory consultation process. We think this approach will enable NWOs to prepare and publish RIIO Accounts.

## **Proposed timetable to introduce RIIO Accounts**

We are proposing to introduce RIIO Accounts, which will be prepared and published by NWOs for the Regulatory Year 2017-18. This would mean that NWOs would have to publish their first RIIO Accounts by 30 September 2018. We are mindful that the introduction of RIIO Accounts is a year later than previously envisaged when we published our update and next steps letter in March 2016. We considered that the delay was appropriate to ensure we had a workable framework that enabled NWOs to prepare and publish audited RIIO Accounts.

Ofgem and the companies have been working together for over 18 months to develop the ORFRS and the required outputs have not fundamentally changed over that period. We expect this ongoing work to continue to achieve the introduction of RIIO Accounts for Regulatory Year 2017-18, but recognise the challenges for NWOs and for their Auditors to be satisfied that they are in a position to give a fairly presented opinion. We would welcome stakeholders' views on this.

In addition, the RIIO Accounts are based on the underlying statutory financial statements adjusted by regulatory items which are based on the Ofgem price control financial model (PCFM) and which are reported on to Ofgem.

We also consider that any further delay could affect consumer benefit that may be realised as we move towards RIIO2.

To enable us to achieve this, and subject to the outcome of this consultation, we propose to modify the licences and issue the ORFRS and RCGS Principles. Appendix 4 sets out our proposed timetable to achieve this.

This consultation closes on 6 December 2017. Responses should be sent to Mick Watson ([mick.watson@ofgem.gov.uk](mailto:mick.watson@ofgem.gov.uk)). We have provided a template in Appendix 5 for your responses.

Unless marked confidential, all responses will be published by placing them on its website [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Respondents may request that their response, or part of their response, is kept confidential. We shall respect this request, subject to any obligation to disclose information, for example, under the Freedom of Information Act 2000. Respondents who wish to have their responses remain confidential should clearly mark documents to that effect and include the reasons for confidentiality.

Yours faithfully,



**Geoff Randall**  
**Associate Partner, RIIO Networks**

## **Appendix 1: Proposed new licence condition for the Electricity Distribution Licence**

### **Condition 44A. Regulatory financial reporting**

#### **Introduction**

- 44A.1 This condition requires the licensee to prepare and publish RIIO Accounts in respect of each Regulatory Year commencing with the regulatory year directed by the Authority:
- (a) arrangements with respect to Standard Condition 44. Regulatory Accounts, which will cease to have effect on the date directed by the Authority pursuant to paragraph 44A.6 of this condition;
  - (b) a requirement for the licensee's RIIO Accounts to be prepared under the Ofgem Regulatory Financial Reporting Standard ("ORFRS") issued by the Authority for that purpose;
  - (c) a requirement for the licensees to include in their RIIO Accounts a Regulatory Corporate Governance Statement ("RCGS") based on the principles issued by the Authority for that purpose (the "RCGS Principles");
  - (d) a requirement for the licensee to have its RIIO Accounts audited; and
  - (e) the dates by which the requirements of this condition must be satisfied.
- 44A.2 This condition also sets out the process under which the Authority will issue and modify the ORFRS and/or RCGS Principles.
- 44A.3 This condition also makes provision for a review and report, in accordance with the Agreed Upon Procedures in relation to the prohibition of cross-subsidy and discrimination applicable to the licensee.
- 44A.4 The purpose of RIIO Accounts is to provide materially accurate and meaningful information which is reflective of the licensee's performance and regulatory financial position, in respect of each reported Regulatory Year, so as to promote clear and transparent reporting of the licensee's financial and operational performance under the RIIO price control arrangements.

#### **Part A: Commencement of the duty to prepare RIIO Accounts**

- 44A.5 Subject to paragraph 44A.6 the licensee must prepare Regulatory Accounts in accordance with the requirements provided for in Standard Condition 44.
- 44A.6 The Authority may, by direction, require the licensee to prepare RIIO Accounts in accordance with this condition, in respect of Regulatory Years commencing with the Regulatory Year stated in that direction. From the date the licensee is required to prepare RIIO Accounts, Standard Condition 44 will cease to have effect in accordance with paragraph 44.1A of that condition.
- 44A.7 A direction issued by the Authority under paragraph 44A.6 will be of no effect unless:
- (a) before issuing it the Authority has:

- (i) given Notice to all licensees in whose licence this condition has effect that it proposes to issue a direction requiring the licensee to prepare RIIO Accounts;
  - (ii) specified in the Notice referred to in subparagraph (i) the period (which may not be less than 28 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposal; and
  - (iii) considered any representations duly received in response to the Notice referred to in subparagraph (i); and
- (b) the Authority issues the direction on or before 31 March of the Regulatory Year in respect of which the licensee is required to prepare the first RIIO Accounts.
- 44A.8 The requirements for the giving of Notice under paragraph 44A.7(a) may be satisfied by actions taken by the Authority before as well as after the coming into effect of this condition.

#### **Part B: Licensee's obligations under this condition**

- 44A.9 Subject to the arrangements set out in paragraphs 44A.5 to 44A.8, unless and so far as the Authority otherwise consents, the licensee must:
- (a) prepare RIIO Accounts in accordance with this condition in respect of each Regulatory Year by 30 September after the end of that Regulatory Year;
  - (b) arrange for its RIIO Accounts to be audited in accordance with the provisions of Part F of this condition;
  - (c) publish its audited RIIO Accounts on its Website by 30 September following the end of the Regulatory Year to which those RIIO Accounts relate; and
  - (d) keep a copy of its most recent RIIO Accounts at the disposal of members of the public at its principal place of business and upon request provide a copy free of charge.

#### **Part C: Statements to be included in RIIO Accounts**

- 44A.10 The licensee must include, as a minimum, in its RIIO Accounts:
- (a) the statements specified in the ORFRS;
  - (b) a commentary on the licensee's operational performance and regulatory financial performance and position; and
  - (c) a RCGS.

#### **Part D: Scope of the Ofgem Regulatory Financial Reporting Standard and Regulatory Corporate Governance Statement**

- 44A.11 The ORFRS contains requirements for:
- (a) the format and content of the statements set out in paragraph 44A.10(a);
  - (b) the basis for ascertaining opening balance positions and relevant values referred to in the Regulatory Instructions and Guidance that are applicable to the licensee;

- (c) adjustments for the purpose of fairly presenting the licensee's regulatory financial performance and position, for use in the preparation of the statements set out in Part C; and
  - (d) additional statements and/or information.
- 44A.12 The licensee must set out its overall approach to its governance arrangements in the RCGS and prepare the RCGS based on the RCGS Principles issued by the Authority, as modified from time to time, in accordance with Part E of this condition.

### **Part E: Process to issue and modify the Ofgem Regulatory Financial Reporting Standard and the Regulatory Corporate Governance Statement Principles**

- 44A.13 The Authority will issue the ORFRS and RCGS Principles, and may modify either or both of them, by issuing a direction for that purpose to the licensee in whose licence this condition has effect.
- 44A.14 A direction issued by the Authority under paragraph 44A.13 will be of no effect unless, before issuing it, the Authority has:
- (a) by Notice to all licensees in whose licence this condition has effect, set out the form of or, as applicable, the modifications to the ORFRS and/or RCGS Principles;
  - (b) specified in the Notice the reasons for the Authority's proposals;
  - (c) specified in the Notice the date on which it proposes that the ORFRS and/or RCGS Principles or modifications to the ORFRS and/or RCGS Principles should take effect;
  - (d) specified in the Notice the period (which may not be less than 28 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
  - (e) considered any representations duly received in response to the Notice.
- 44A.15 The requirements for the giving of Notice under paragraph 44A.14 may be satisfied by actions taken by the Authority before as well as after the coming into effect of this condition.
- 44A.16 No modification to the ORFRS and/or RCGS Principles may have effect with respect to RIIO Accounts for a Regulatory Year unless the direction giving effect to the modification is issued before 31 March of that Regulatory Year.

### **Part F: Requirement for audit of RIIO Accounts**

- 44A.17 Unless the Authority otherwise consents, the licensee must at its own expense procure an audit by an Appropriate Auditor of its RIIO Accounts and a report by the Appropriate Auditor for inclusion in the licensee's published RIIO Accounts.
- 44A.18 Unless the Authority otherwise consents, the Auditor's report under paragraph 44A.17 must state whether, in the Auditor's opinion the licensee's RIIO Accounts fairly present



its regulatory financial performance and position under the ORFRS in respect of the Regulatory Year under report.

## **Part G: Agreed Upon Procedures in relation to the prohibition of cross-subsidy and discrimination applicable to the licensee**

- 44A.19 The licensee must at its own expense appoint an Appropriate Auditor to conduct a review and prepare a report in respect of the licensee's compliance with its obligations in relation to the prohibition of cross-subsidy and discrimination generally in accordance with Agreed Upon Procedures. The report should specifically comment on compliance with: paragraph 9 of Standard Condition 4 (No abuse of the licensee's special position); Standard Conditions 19 (Prohibition of discrimination under chapters 4 and 5); and Standard Condition 39 (Prohibition of discrimination under chapter 9).
- 44A.20 The contract of appointment with the Appropriate Auditor must require that a review and report under paragraph 44A.19 prepared in accordance with Agreed Upon Procedures is completed each Regulatory Year and that the Appropriate Auditor addresses a report to the Authority by 31 July following the end of each Regulatory Year that:
- (a) states that he has, in a manner consistent with the relevant auditing standards, completed the review and prepared the report in accordance with the Agreed Upon Procedures issued by the Authority in respect of the Regulatory Year under report ; and
  - (b) sets out his findings.
- 44A.21 If the Authority is satisfied that the report referred to in paragraph 44A.20 demonstrates that the licensee has complied with the obligation to avoid discrimination and cross-subsidies that is specified in Article 31 of Directive 2009/72/EC of the European Parliament and of the European Council of 13 July 2009 and is imposed on the licensee by the standard conditions of this licence referred to in paragraph 44A.19, the report will be deemed to represent the results of an audit of that obligation, as required by the Article.

## **Part H: Interpretation**

- 44A.22 For the purposes of this condition:

Ofgem Regulatory Financial Reporting Standard	means the document of that name issued by the Authority, as modified from time to time, in accordance with this condition.
Regulatory Corporate Governance Statement	means the statement of that name which the licensee is required to include in its RIIO Accounts in accordance with the requirements of this condition.

Regulatory Corporate Governance Statement Principles	means the document of that name issued by the Authority, as modified from time to time, in accordance with this condition.
RIIO Accounts	means the accounts prepared by the licensee in accordance with the requirements of this condition.

## Appendix 2: Proposed modifications required to other licence conditions.

**Table A2.1: Electricity Distribution Licence**

Licence condition	Current text	Proposed modification
Standard Condition 44. Regulatory Accounts		After para 44.1 add the following:  <b>44.1A On the date directed by the Authority pursuant to paragraph 44A.6 of Standard Condition 44A (Regulatory financial reporting), this condition will cease to have effect.</b>
Standard Condition 1. Definitions for the standard conditions	Agreed Upon Procedures - means procedures from time to time agreed between the Authority, the Appropriate Auditor, and the licensee for the purpose of enabling the Appropriate Auditor to review and report to the Authority on matters relating to: (a) in the case of standard condition 44 (Regulatory Accounts), the licensee's compliance with the obligation to which Part E of that condition refers; and (b) in the case of standard condition 46 (Regulatory Instructions and Guidance), the licensee's provision of Specified Information (as defined in Part H of that condition).	Agreed Upon Procedures - means procedures from time to time agreed between the Authority, the Appropriate Auditor, and the licensee for the purpose of enabling the Appropriate Auditor to review and report to the Authority on matters relating to: (a) in the case of <b>Standard Condition 44</b> (Regulatory Accounts), the licensee's compliance with the obligation to which Part E of that condition refers; (b) in the case of <b>Standard Condition 46</b> (Regulatory Instructions and Guidance), the licensee's provision of Specified Information (as defined in Part H of that condition); and <b>(c) in the case of Standard Condition 44A (Regulatory financial reporting), the licensee's compliance with the obligation to which Part G of that condition refers.</b>
Standard Condition 29. Restriction of activity and financial ring-fencing of the Distribution Business	29.9 The first limitation is that the total turnover of all of the De Minimis Business carried on by the licensee plus the Equity Share of the total turnover of all of the De Minimis Business carried on by all its relevant associates must not in any	29.9 The first limitation is that the total turnover of all of the De Minimis Business carried on by the licensee plus the Equity Share of the total turnover of all of the De Minimis Business carried on by all its relevant associates must not in any

	<p>Regulatory Year exceed 2.5 per cent of the total turnover of the licensee's Distribution Business as shown by the most recent audited Regulatory Accounts of the licensee.</p> <p>29.10 The second limitation is that the total amount (calculated in accordance with paragraph 29.11) of all investments made by the licensee in De Minimis Business, as carried on by the licensee and all its relevant associates, must not at any time after the date on which this condition takes effect in this licence exceed 2.5 per cent of the sum of the licensee's share capital in issue, its share premium, and its consolidated reserves (including retained earnings) as shown by its most recent audited Regulatory Accounts available at that date.</p> <p>29.12 (a) paragraph 29.9 has effect as if for the reference in that paragraph to the total turnover of the licensee's Distribution Business as shown by the most recent audited Regulatory Accounts of the licensee there were substituted a reference to the total turnover of the licensee as shown by its most recent audited historical cost accounting statements; and</p> <p>29.12(b) paragraph 29.10 has effect as if for the reference in that paragraph to the most recent audited Regulatory Accounts of the licensee available at the date mentioned in that paragraph there were substituted a reference to the licensee's most recently audited historical cost accounting statements available at that date.</p>	<p>Regulatory Year exceed 2.5 per cent of the total turnover of the licensee's Distribution Business as shown by the most recent audited Regulatory Accounts <b>or RIIO Accounts</b> of the licensee.</p> <p>29.10 The second limitation is that the total amount (calculated in accordance with paragraph 29.11) of all investments made by the licensee in De Minimis Business, as carried on by the licensee and all its relevant associates, must not at any time after the date on which this condition takes effect in this licence exceed 2.5 per cent of the sum of the licensee's share capital in issue, its share premium, and its consolidated reserves (including retained earnings) as shown by its most recent audited Regulatory Accounts <b>or RIIO Accounts</b> available at that date.</p> <p>29.12 (a) paragraph 29.9 has effect as if for the reference in that paragraph to the total turnover of the licensee's Distribution Business as shown by the most recent audited Regulatory Accounts <b>or RIIO Accounts</b> of the licensee there were substituted a reference to the total turnover of the licensee as shown by its most recent audited historical cost accounting statements; and</p> <p>29.12(b) paragraph 29.10 has effect as if for the reference in that paragraph to the most recent audited Regulatory Accounts <b>or RIIO Accounts</b> of the licensee available at the date mentioned in that paragraph there were substituted a reference to the licensee's most recently audited historical cost accounting statements available at that date.</p>
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Standard Condition 30. Availability of resources	<p>30.3(b) a report prepared by its auditors and addressed to the Authority that states whether or not the auditors are aware of any inconsistencies between, on the one hand, that certificate and the statement submitted with it under sub-paragraph (a) and, on the other hand, any information that they obtained during their audit work under standard condition 44 (Regulatory Accounts) on the licensee's Regulatory Accounts.</p> <p>30.15 If the licensee is not a Distribution Services Provider, paragraph 30.3(b) has effect as if, for the reference to "audit work under standard condition 44 (Regulatory Accounts) on the licensee's Regulatory Accounts" there were substituted a reference to "audit work on the licensee's most recent annual accounts as referred to in standard condition 31A (Accounts)".</p>	<p>30.3(b) a report prepared by its auditors and addressed to the Authority that states whether or not the auditors are aware of any inconsistencies between, on the one hand, that certificate and the statement submitted with it under sub-paragraph (a) and, on the other hand, any information that they obtained during their audit work under <b>Standard Condition 44 (Regulatory Accounts) on the licensee's Regulatory Accounts or Standard Condition 44A (Regulatory financial reporting) on the licensee's RIIO Accounts, whichever is in effect.</b></p> <p>30.15 If the licensee is not a Distribution Services Provider, paragraph 30.3(b) has effect as if, for the reference to "audit work under <b>Standard Condition 44 (Regulatory Accounts) on the licensee's Regulatory Accounts or Standard Condition 44A (Regulatory financial reporting) on the licensee's RIIO Accounts, whichever is in effect</b>" there were substituted a reference to "audit work on the licensee's most recent annual accounts as referred to in <b>Standard Condition 31A (Accounts)</b>".</p>
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**Table A2.2: Electricity Transmission Licence**

Licence condition	Current text	Proposed modification
Standard Condition B1: Regulatory Accounts		<p>After para 1 add the following:</p> <p><b>1A On the date directed by the Authority pursuant to paragraph A.6 of Standard Condition B1A (Regulatory financial</b></p>

		<b>reporting), this condition will cease to have effect.</b>
Standard Condition B6: Restriction on Activity and Financial Ring Fencing	<p>4(b)(i) the aggregate turnover of all the de minimis business carried on by the licensee and the equity share of the aggregate turnover of all the de minimis business carried on by all its relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2.5 per cent of the aggregate turnover of the transmission business, as shown by the most recent audited regulatory accounts of the licensee produced under paragraph 3(b) of standard condition B1 (Regulatory Accounts); and</p> <p>4(b)(ii) the aggregate amount (determined in accordance with sub-paragraph (d) below) of all investments made by the licensee in de minimis business, carried on by the licensee and all relevant associates, does not at any time after the date at which this condition takes effect in the licensee's transmission licence exceed 2.5 per cent of the sum of the share capital in issue, the share premium and the consolidated reserves (including retained earnings) of the licensee as shown by the most recent audited regulatory accounts of the licensee produced under paragraph 3(b) of standard condition B1 (Regulatory Accounts) then available.</p>	<p>4(b)(i) the aggregate turnover of all the de minimis business carried on by the licensee and the equity share of the aggregate turnover of all the de minimis business carried on by all its relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2.5 per cent of the aggregate turnover of the transmission business, as shown by the most recent audited regulatory accounts of the licensee produced under paragraph 3(b) of <b>Standard Condition B1 (Regulatory Accounts) or RIIO Accounts of the licensee produced under Standard Condition B1A (Regulatory financial reporting), whichever is in effect;</b> and</p> <p>4(b)(ii) the aggregate amount (determined in accordance with sub-paragraph (d) below) of all investments made by the licensee in de minimis business, carried on by the licensee and all relevant associates, does not at any time after the date at which this condition takes effect in the licensee's transmission licence exceed 2.5 per cent of the sum of the share capital in issue, the share premium and the consolidated reserves (including retained earnings) of the licensee as shown by the most recent audited regulatory accounts of the licensee produced under paragraph 3(b) of <b>Standard Condition B1 (Regulatory Accounts) or RIIO Accounts of the licensee produced under Standard Condition B1A (Regulatory financial reporting), whichever is in effect,</b> then available.</p>

<p>Standard Condition B6: Restriction on Activity and Financial Ring Fencing</p>	<p>4(b)(i) the aggregate turnover of all the de minimis business carried on by the licensee and the equity share of the aggregate turnover of all the de minimis business carried on by all its relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2.5 per cent of the aggregate turnover of the transmission business, as shown by the most recent audited regulatory accounts of the licensee produced under paragraph 3(b) of standard condition B1 (Regulatory Accounts); and</p> <p>4(b)(ii) the aggregate amount (determined in accordance with sub-paragraph (d) below) of all investments made by the licensee in de minimis business, carried on by the licensee and all relevant associates, does not at any time after the date at which this condition takes effect in the licensee's transmission licence exceed 2.5 per cent of the sum of the share capital in issue, the share premium and the consolidated reserves (including retained earnings) of the licensee as shown by the most recent audited regulatory accounts of the licensee produced under paragraph 3(b) of standard condition B1 (Regulatory Accounts) then available.</p>	<p>4(b)(i) the aggregate turnover of all the de minimis business carried on by the licensee and the equity share of the aggregate turnover of all the de minimis business carried on by all its relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2.5 per cent of the aggregate turnover of the transmission business, as shown by the most recent audited regulatory accounts of the licensee produced under paragraph 3(b) of <b>Standard Condition B1 (Regulatory Accounts) or RIIO Accounts of the licensee produced under Standard Condition B1A (Regulatory financial reporting), whichever is in effect;</b> and</p> <p>4(b)(ii) the aggregate amount (determined in accordance with sub-paragraph (d) below) of all investments made by the licensee in de minimis business, carried on by the licensee and all relevant associates, does not at any time after the date at which this condition takes effect in the licensee's transmission licence exceed 2.5 per cent of the sum of the share capital in issue, the share premium and the consolidated reserves (including retained earnings) of the licensee as shown by the most recent audited regulatory accounts of the licensee produced under paragraph 3(b) of <b>Standard Condition B1 (Regulatory Accounts) or RIIO Accounts of the licensee produced under Standard Condition B1A (Regulatory financial reporting), whichever is in effect,</b> then available.</p>
<p>Standard Condition B7: Availability of Resources</p>	<p>3(b) a report prepared by its auditors and addressed to the Authority which states whether</p>	<p>3(b) a report prepared by its auditors and addressed to the Authority which states whether</p>

	or not the auditors are aware of any inconsistencies between, on the one hand, that certificate and the statement submitted with it under sub-paragraph (a) and, on the other hand, any information that they obtained during their audit work under standard condition B1 (Regulatory Accounts) on the licensee's regulatory accounts.	or not the auditors are aware of any inconsistencies between, on the one hand, that certificate and the statement submitted with it under sub-paragraph (a) and, on the other hand, any information that they obtained during their audit work under <b>Standard Condition B1 (Regulatory Accounts) on the licensee's regulatory accounts or Standard Condition B1A (Regulatory financial reporting) on the licensee's RIIO Accounts, whichever is in effect.</b>
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**Table A2.3: Gas Transporter Licence**

<b>Licence condition</b>	<b>Current text</b>	<b>Proposed modification</b>
Standard Special Condition A30: Regulatory Accounts		After para 1 add the following:  <b>1A On the date directed by the Authority pursuant to paragraph A.6 of Standard Special Condition A30A (Regulatory financial reporting), this condition will cease to have effect.</b>
Standard Special Condition A3: Definitions and Interpretation	financial year - means, subject to Standard Special Condition A30 (Regulatory Accounts) (where applicable), a period of 12 months beginning on 1st April of each year and ending on 31st March of the following calendar year;	financial year - means, subject to Standard Special Condition A30 (Regulatory Accounts) <b>or Standard Special Condition A30A (Regulatory financial reporting)</b> (where applicable), <b>whichever is in effect</b> , a period of 12 months beginning on 1st April of each year and ending on 31st March of the following calendar year;
Standard Special Condition A36: Restriction on Activity and Financial Ring Fencing	4(b)(i) the aggregate turnover of all the de minimis business carried on by the licensee and the equity share of the aggregate turnover of all the de minimis business carried on by all its	4(b)(i) the aggregate turnover of all the de minimis business carried on by the licensee and the equity share of the aggregate turnover of all the de minimis business carried on by all its



	<p>relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2.5 per cent of the aggregate turnover of the transportation business, the metering business and the meter reading business (excluding the turnover on transactions which each of those businesses make with each other) as shown by the most recent audited regulatory accounts of the licensee prepared under Standard Special Condition A30 (Regulatory Accounts); and</p> <p>4(b)(ii) the aggregate amount (determined in accordance with sub-paragraph (d) below) of all investments made by the licensee in de minimis business, carried on by the licensee and all relevant associates, does not at any time after the date at which this condition takes effect in this licence exceed 2.5 per cent of the sum of the share capital in issue, the share premium and the consolidated reserves (including retained earnings) of the licensee as shown by the most recent audited regulatory accounts of the licensee prepared under Standard Special Condition A30 (Regulatory Accounts) then available. i</p>	<p>relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2.5 per cent of the aggregate turnover of the transportation business, the metering business and the meter reading business (excluding the turnover on transactions which each of those businesses make with each other) as shown by the most recent audited regulatory accounts of the licensee prepared under Standard Special Condition A30 (Regulatory Accounts) <b>or RIIO Accounts of the licensee prepared under Standard Special Condition A30A (Regulatory financial reporting), whichever is in effect;</b> and</p> <p>4(b)(ii) the aggregate amount (determined in accordance with sub-paragraph (d) below) of all investments made by the licensee in de minimis business, carried on by the licensee and all relevant associates, does not at any time after the date at which this condition takes effect in this licence exceed 2.5 per cent of the sum of the share capital in issue, the share premium and the consolidated reserves (including retained earnings) of the licensee as shown by the most recent audited Standard Special Condition A30 (Regulatory Accounts) <b>or RIIO Accounts of the licensee prepared under Standard Special Condition A30A (Regulatory financial reporting), whichever is in effect,</b> then available.</p>
Standard Special Condition A37: Availability of Resources	3(b) a report prepared by its auditors and addressed to the Authority which states whether or not the auditors are aware of any inconsistencies between, on the one hand, that certificate and the statement submitted with it	3(b) a report prepared by its auditors and addressed to the Authority which states whether or not the auditors are aware of any inconsistencies between, on the one hand, that certificate and the statement submitted with it

	under sub-paragraph (a), and, on the other hand, any information that they obtained during their audit work under Standard Special Condition A30 (Regulatory Accounts) on the licensee's regulatory accounts.	under sub-paragraph (a), and, on the other hand, any information that they obtained during their audit work under Standard Special Condition A30 (Regulatory Accounts) on the licensee's regulatory accounts <b>or Standard Special Condition A30A (Regulatory financial reporting), whichever is in effect,</b> on the licensee's regulatory accounts.
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## **Appendix 3: Proposed Regulatory Corporate Governance Statement Principles**

### **Introduction**

These principles expand on the principles of corporate governance set out in the UK Corporate Governance Code (UK Code) to help boards of directors and users of accounts interpret the UK Code's application to licensed operators of energy networks subject to price control under RIIIO. They may also be relevant to the governance of groups that contain licensee companies.

These principles are not a rigid set of rules and an alternative to following them may be justified in particular circumstances if good governance can be achieved by other means. A condition of doing so is that the reasons for it should be explained clearly and carefully to shareholders in the company's annual RIIIO Accounts.

The main focus of these principles remains the relationship between the company and its shareholders. In light of their regulated status, companies are encouraged to recognise the role of other stakeholders and to confirm the board's interest in listening to their views and understanding their interests insofar as these are relevant to the licensee company's overall approach to governance.

While governance of a company is the responsibility of that company's board, these principles recognise that some aspects of the governance of a company subject to licence obligations may be shared with companies within a group. It would be for the company's board of directors to be satisfied that the company's governance, taking all aspects together, operates in the company's interest and meets appropriate standards.

### **Leadership**

**RA1** - When setting the company's values and standards and ensuring that its obligations to its shareholders and others are understood and met, the board is encouraged to recognise the obligations the company has under its licence. The board is also encouraged to recognise that the longer-term success of the company's licensed businesses depends on effective engagement with, and maintaining the shared interest of, a wide range of other stakeholders - including consumers and the regulator.

### **Effectiveness**

**RB1** - When identifying in the annual report each non-executive director it considers to be independent, if relevant, the board should refer to the company's licence requirement to have two Sufficiently Independent Directors, explain the roles played by those directors, and explain the governance relationships between any wider group and the company.

### **Accountability**

**RC1** - These principles are relevant to the annual RIIIO Accounts of a company that is required to prepare them and should be considered by the board in presenting its statement of regulatory corporate governance.

**RC2** - In exercising its responsibility to present a fair, balanced and understandable assessment of the company's position and prospects, the board should take account of the company's regulated business model and the wider range of stakeholders who have an interest in and an ability to influence its future.

**RC3** - The directors' explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company should refer to the regulatory incentive regime the company

operates under, and the shared interests of consumers and investors in the company's success.

**RC4** - Reflecting the benefit-sharing nature of the regulatory regime the company's licensed businesses operate under and that demonstrating benefits for consumers helps maintain the perceived legitimacy of the regime, the directors should explain how consumers have benefited from performance alongside the benefits for shareholders. The directors should also explain how they satisfy themselves that the company's interactions with their pension schemes and industry code governance arrangements promote the interests of consumers as well as of shareholders whilst having regard to all relevant regulatory (industry and pension) and legal requirements.

**RC5** - In explaining the basis on which the company preserves value over the longer term (the business model), the directors should describe how the ring fence conditions and price control arrangements in the company's licences help ensure the company's longer term financial viability.

**RC6** - In confirming their robust assessment of the principal risks facing the company, the directors should describe how the principal risks affecting consumers, both in terms of tariff and service levels and in the shorter and longer term, are being managed or mitigated.

**RC7** - The board's report on its review of the company's risk management and internal control systems should cover its controls over compliance with its licence obligations.

**RC8** - The board should satisfy itself that the terms of reference for the main role and responsibilities of the audit committee that the board relies on for oversight of the company's risk management and internal control systems, which may be a committee of the holding company's board, covers the company's controls over compliance with its licence obligations.

#### Appendix 4: Proposed timetable to introduce RIIO Accounts

<b>Date by<sup>1</sup></b>	<b>Delivery</b>
08/11/2017	Consultation on Introduction of RIIO Accounts
06/12/2017	Consultation closes
19/12/2017	Subject to consultation responses, statutory consultation on licence modification
16/01/2018	Statutory consultation on licence modification closes
02/02/2018	Decision on licence modification and, subject to statutory consultation responses, give Notice for the requirement for licensees to prepare RIIO Accounts and issue the ORFRS and RCGS Principles.
31/03/2018	Licence modification takes effect and issuing of the ORFRS and RCGS Principles, if we decide to make any modification and issue the relevant directions.

1. Dates may be amended at our discretion.

## **Appendix 5 - Feedback Questionnaire for Introduction of RIIO Accounts – further consultation on licence modification**

The template for your response can be found [here](#).

<https://www.ofgem.gov.uk/publications-and-updates/introduction-riio-accounts-further-consultation-licence-modification>