Mick Watson,

Senior Advisor,

RIIO Finance,

Ofgem,

9 Millbank

London SW1P 3GE

4 December 2017

Dear Mick,

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

Thank you for the opportunity to comment on the consultation to modify the licence for the introduction of RIIO accounts. Our response is non confidential.

We have responded to the specific questions contained in the consultation in the attachment to this letter. In addition we have set out our key points below.

We support Ofgem’s objective to replace the Regulatory Accounts with something more meaningful that allows stakeholders to more easily compare and understand our actual performance, and can see this would provide benefits.

However the drive to achieve a ‘fairly presents’ audit opinion has resulted in the RIIO Accounts becoming increasingly complex, technical and difficult to interpret. If we are to continue down this route there is still further significant work required to ensure the accounts could be produced on a consistent and comparable basis. Without this there is a real likelihood that we would receive a qualified audit report and risk potential licence breaches.

We are not convinced about the benefits case for RIIO accounts in their current form. It seems clear the cost of producing and auditing the accounts will be considerable across the industry which will be borne by both consumers and investors. It is also not clear to us what the benefits will be to either party.

At this stage we would support a pause in the process to consider a simpler and clearer alternative reporting framework. This would build on the considerable time and effort all parties have invested in RIIO accounts to date. It should focus on developing comparable and transparent measures of regulatory performance in an easy to understand and efficient manner.

We believe this could add real value whilst providing good value to investors and consumers. We would welcome the opportunity to discuss this further.

Please do not hesitate to contact myself ([dpearson@northerngas.co.uk](mailto:dpearson@northerngas.co.uk)) if you wish to discuss any aspect of our response.

Yours sincerely,

**David Pearson**

**Feedback Questionnaire for Introduction of RIIO Accounts – further consultation on licence modification**

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 [mick.watson@ofgem.gov.uk](mailto:mick.watson@ofgem.gov.uk).

Once the questionnaire has been completed, please send it back to us using the email address above. Please return the completed questionnaire by 5 December 2017.

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| **Section 1 - About you** | |
| **Your name** | David Pearson |
| **Job title** | GD2 Manager |
| **Contact details** | dpearson@northerngas.co.uk |
| **Organisation name** | Northern Gas Networks |
| **Please state whether your response is confidential or not** | Not confidential |

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| **Response** |
| **Question 1: Do you have any comments on the draft licence condition set out in Appendix 1?** |
| 44A.9 – the requirement to prepare accounts for 30th September each year means that the accounts may contain inconsistent data to the 31st July RRP submissions if Ofgem instructs us to make any changes as part of the review and subsequent questions process. In addition the PCFM is not completed and issued until the end of November, and as this is a key driver for RIIO accounts information we will have to populate an ‘interim’ PCFM based on the prior year Ofgem version and that years RRP, which complicates the Audit process and adds cost.  44A.10 / 12 – preparation of the Commentary on Performance and the Regulatory Corporate Governance Statement. In the covering note Ofgem advise us to discuss the content of these with anticipated users of these documents, however it is not clear who this is. Our investors require information that is consistent across their multi national investments and receive much more than that contained within the RIIO accounts when they need it. In terms of other interested parties it doesn’t seem appropriate or efficient for all the regulated companies to approach them individually. There is also a clear danger of a lack of consistency.  44A.16 – changes to the ORFRS / RCGS need to be agreed before the year that we are due to report on to ensure we have the appropriate systems and processes in place to comply with any change.  44A.18 – it became clear in the RIIO Acounts meeting on the 17th of November that obtaining a ‘fairly presents’ opinion will not be achievable initially, and potentially for at least 2 further years. In any case there would still be work needed to agree on what basis and against what criteria the opinion is given, and what information is relied upon i.e. PCFM, RRP, Revenue Return. |
| **Question 2: Do you have any comments on consequential modifications required to other licence conditions set out in Appendix 2?** |
| SSCA40 RIGs – requires a reconciliation of totex costs and revenue in the RRP and Revenue Return respectively to the Regulatory Accounts by the 31st July, however RIIO accounts are replacing these and won't be available until 30 September. Therefore the requirement needs to be removed or the reconciliation needs to be to the Statutory Accounts. Note some companies won't have statutory accounts for this period. |
| **Question 3: Do you have any comments on the proposed RCGS Principles set out in Appendix 3?** |
| The principles are relatively high level and appear to largely duplicate the corporate governance statements contained within our statutory reporting, which is already available to investors and other interested parties. It is not clear from the guidance how this will be different. |
| **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?** |
| Given its likely that a ‘fairly presents’ audit opinion is unlikely to be achieved initially and potentially for a further two years, we would question whether introducing the accounts for 2017-18 is appropriate. It seems clear from the Audit feedback there are issues surrounding consistency, approach to key calculations and reliance on key Ofgem data sources such as the PCFM / Revenue Reports. It would be better to resolve these and not ‘confuse’ investors and other interested parties with RIIO accounts that are not comparable. This would undermine confidence in the accounts themselves.  We are also not convinced about the benefits case for RIIO accounts in their current form. It seems clear the cost of producing and auditing the accounts will be considerable across the industry which will be borne by both consumers and investors. It is also not clear what the benefits will be to either party. The drive to achieve a ‘fairly presents’ audit opinion has delivered a complex and technically challenging set of accounts. We would support a pause in the process to consider a simpler and clearer alternative report. |
| **General response to our further consultation for the Introduction of RIIO Accounts** |
| There appears to be considerable potential duplication between the RIIO accounts operational performance reporting requirements, the RRP commentary, the Strategic Performance Overview and the other stakeholder reports we publish. We would welcome discussion on how best to minimise this duplication and maximise the benefit to all interested parties. |