

#1

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Monday, March 04, 2019 4:37:06 PM
Last Modified: Monday, March 04, 2019 5:10:36 PM
Time Spent: 00:33:30

Page 1

Q1 FQ1. Do you support our proposal to retain full indexation as the methodology for setting cost of debt allowances?

Yes, cost of debt indexation better captures actual cost of debt dynamic over time

Q2 FQ2. Do you agree with our proposal to not share debt out-or-under performance within each year?

Yes

Q3 FQ3. Do you have any views on the next steps outlined in Paragraphs 2.22 to 2.25 for assessing the appropriateness of expected cost of debt allowances for full indexation?

Respondent skipped this question

Q4 FQ4. Do you have a preference, or any relevant evidence, regarding the options for deflating the nominal iBoxx as discussed at Paragraph 2.14? Are there other options that you think we should consider?

Do not have a preference

Q5 FQ5. Do you agree with our proposal to index the cost of equity to the risk-free rate only (the first option presented in the March consultation)?

No, we would prefer indexation to include ERP as well

Q6 FQ6. Do you agree with using the 20-year real zero coupon gilt rate (Bank of England database series IUDLRZC) for the risk-free rate?

Yes

Q7 FQ7. Do you agree with using the October month average of the Bank of England database series IUDLRZC to set the risk-free rate ahead of each financial year?

No, we would prefer longer period of time (at least 2 years rolling would be preferable)

Q8 FQ8. Do you agree with our proposal to derive CPIH real from RPI-linked gilts by adding an expected RPI-CPIH wedge?

Yes

Q9 FQ9. Do you have any views on our assessment of the issues stakeholders raised with us regarding outturn inflation, expected inflation, and the calculation of arithmetic uplift (from geometric returns)?

No

Q10 FQ10. Do you have any views on our interpretation of the UKRN Study regarding the TMR of 6-7% in CPI terms and our 6.25% to 6.75% CPIH real working assumption range based on the range of evidence?

We think it should be at the upper end of the range

Q11 FQ11. Do you have any views on our reconciliation of the UKRN Study to previous advice received on TMR as outlined at Appendix 2?

Respondent skipped this question

Q12 FQ12. Do you have any views on our assessment of the issues that stakeholders raised regarding beta estimation, including the consideration of: all UK outturn data, different data frequencies, long-run sample periods, advanced econometric techniques, de-gearing and re-gearing, and the focus on UK companies?

Disagree with declining beta as the risks have been increasing

Q13 FQ13. What is your view on Dr Robertson's report?

Respondent skipped this question

Q14 FQ14. What is your view on Indepen's report?

Respondent skipped this question

Q15 FQ15. What is your view of the proposed Ofgem approach with respect to beta?

Respondent skipped this question

Q16 FQ16. Do you agree with our proposal to cross-check CAPM in this way?

Respondent skipped this question

Q17 FQ17. Do you agree that the cross-checks support the CAPM-implied range and lend support that the range can be narrowed to 4-5% on a CPIH basis?

Think returns should be at the upper end of the range as some adjustments used over-penalise the calculations

Q18 FQ18. Are there other cross-checks that we should consider? If so, do you have a proposed approach?

Respondent skipped this question

Q19 FQ19. Do you agree with our proposal to distinguish between allowed returns and expected returns as proposed in Step 3?

No, this does not seem to represent "fair" returns for the companies as automatically assumes outperformance.

Q20 FQ20. Does Appendix 4 accurately capture the reported outperformance of price controls?

Yes

Q21 FQ21. Is there any other outperformance information that we should consider? We welcome information from stakeholders in light of any gaps or issues with the reported outperformance as per Appendix 4.

Respondent skipped this question

Q22 FQ22. What is your view on our proposed approach to assessing financeability? How should Ofgem approach quantitative and qualitative aspects of the financeability assessment? In your view, what are the relevant quantitative and qualitative aspects?

Respondent skipped this question

Q23 FQ23. Do you agree with the possible measures companies could take for addressing financeability? Are there any additional measures we should consider?

Respondent skipped this question

Q24 FQ24. Do you agree with the objectives and principles set out for the design of a cashflow floor?

Yes, agree

Q25 FQ25. Do you support our inclusion of and focus on Variant 3 of the cashflow floor as most likely to meet the main objectives?

Respondent skipped this question

Q26 FQ26. Do you support our proposal that companies should seek to obtain the "Fair Tax Mark" certification?

Agree

Q27 FQ27. Is there another method to secure tax legitimacy other than the "Fair Tax Mark" certification? Could we build upon the Finance Acts (2016 and 2009) with regards to the requirement for companies to publish a tax strategy and appoint a Senior Accounting Officer?

Respondent skipped this question

Q28 FQ28. For Option A, how should a tax re-opener mechanism be triggered? Is there a materiality threshold that we should use when considering the difference between allowances and taxes actually paid to HMRC? If so – what might this be?

Respondent skipped this question

Q29 FQ29. What is your view on our proposal for an immediate switch to CPIH from the beginning of RIIO-2 for the purposes of RAV indexation and calculation of allowed return?

We think 50/50 approach as adopted by Ofwat would be more appropriate

Q30 FQ30. Is there a better way to secure NPV-neutrality in light of the difficulties we identify with a true-up?

Respondent skipped this question

Q31 FQ31. Do you have any specific views or evidence relating to useful economic lives of network assets that may impact the assessment of appropriate depreciation rates?

Respondent skipped this question

Q32 FQ32. Do you agree with our proposed approach to consider capitalisation rates following receipt of company business plans?

Agree

Q33 FQ33. Do you have any comments on the working assumption for notional gearing of 60%, or on the underlying issues we identify above?

It is helpful in terms of financeability & absolute allowed returns

Q34 FQ34. Do you agree with our proposed approach to consider notional equity issuance costs in light of RIIO-2 business plans and notional gearing?

Agree

Q35 FQ35. Do you agree that for RIIO-2 we align transmission and gas distribution with electricity distribution and treat Admin and PPF costs as part of totex?

Respondent skipped this question

Q36 FQ36. Do you have any views on the categories of Directly Remunerated Services and their proposed treatment for RIIO-2?

Respondent skipped this question

Q37 FQ37. Do you have any views on the potential treatment of financial proceeds or fair value transfers of asset (including land) disposals for RIIO-2?

Respondent skipped this question

Q38 Other Comments

Respondent skipped this question

Q39 We are interested in understanding what categories of responders are completing this survey. Could you tell us:1) Your role in your firm. For example Buy Side Analyst (equity or credit?); Buy Side Portfolio Manager; Sell Side Analyst (equity or credit?); Sell Side Sales (equity or credit); Sell Side Trading; Corporate finance (Advisory; DCM; ECM; Corporate broker)? Investor relations; Other.2) Something about your employer. For example: institutional investor; private wealth manager; stockbroker; integrated investment bank; corporate involved in the energy utility sector; service provider (e.g. investor relations, information provider); Other.3)What type of fund within your firm do you manage or advise (if applicable). For example: quoted equity long-only; quoted equity long-short; credit or debt; private assets (e.g. infrastructure – debt; infrastructure – equity; private equity; credit); Other or Not Applicable.4) Extent of your exposure to UK utility sector. Less than or equal to USD 100m; More than USD 100m but less than USD 1 billion; USD 1 billion or more; Not Disclosed.

- | | |
|---|--|
| 1 | Buy side equity analyst |
| 2 | Institutional investor |
| 3 | Quoted equity and debt |
| 4 | More than USD 100m but less than USD 1 billion |

#2

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Wednesday, March 06, 2019 4:16:35 PM
Last Modified: Wednesday, March 06, 2019 4:27:57 PM
Time Spent: 00:11:21

Page 1

Q1 FQ1. Do you support our proposal to retain full indexation as the methodology for setting cost of debt allowances?

Yes

Q2 FQ2. Do you agree with our proposal to not share debt out-or-under performance within each year?

Yes

Q3 FQ3. Do you have any views on the next steps outlined in Paragraphs 2.22 to 2.25 for assessing the appropriateness of expected cost of debt allowances for full indexation?

Respondent skipped this question

Q4 FQ4. Do you have a preference, or any relevant evidence, regarding the options for deflating the nominal iBoxx as discussed at Paragraph 2.14? Are there other options that you think we should consider?

Respondent skipped this question

Q5 FQ5. Do you agree with our proposal to index the cost of equity to the risk-free rate only (the first option presented in the March consultation)?

No, the cost of equity should be either fixed for the entire period or reopened fully annually

Q6 FQ6. Do you agree with using the 20-year real zero coupon gilt rate (Bank of England database series IUDLRZC) for the risk-free rate?

Respondent skipped this question

Q7 FQ7. Do you agree with using the October month average of the Bank of England database series IUDLRZC to set the risk-free rate ahead of each financial year?

The current unconventional policies have a substantial distortion on risk free rates. With a negative real risk free starting point, there is a punitive disadvantage to any calculation of RoRE

Q8 FQ8. Do you agree with our proposal to derive CPIH real from RPI-linked gilts by adding an expected RPI-CPIH wedge? **Respondent skipped this question**

Q9 FQ9. Do you have any views on our assessment of the issues stakeholders raised with us regarding outturn inflation, expected inflation, and the calculation of arithmetic uplift (from geometric returns)? **Respondent skipped this question**

Q10 FQ10. Do you have any views on our interpretation of the UKRN Study regarding the TMR of 6-7% in CPI terms and our 6.25% to 6.75% CPIH real working assumption range based on the range of evidence? **Respondent skipped this question**

Q11 FQ11. Do you have any views on our reconciliation of the UKRN Study to previous advice received on TMR as outlined at Appendix 2? **Respondent skipped this question**

Q12 FQ12. Do you have any views on our assessment of the issues that stakeholders raised regarding beta estimation, including the consideration of: all UK outturn data, different data frequencies, long-run sample periods, advanced econometric techniques, de-gearing and re-gearing, and the focus on UK companies? **Respondent skipped this question**

Q13 FQ13. What is your view on Dr Robertson's report? **Respondent skipped this question**

Q14 FQ14. What is your view on Indepen's report? **Respondent skipped this question**

Q15 FQ15. What is your view of the proposed Ofgem approach with respect to beta? **Respondent skipped this question**

Q16 FQ16. Do you agree with our proposal to cross-check CAPM in this way? **Respondent skipped this question**

Q17 FQ17. Do you agree that the cross-checks support the CAPM-implied range and lend support that the range can be narrowed to 4-5% on a CPIH basis? **Respondent skipped this question**

Q18 FQ18. Are there other cross-checks that we should consider? If so, do you have a proposed approach? **Respondent skipped this question**

Q19 FQ19. Do you agree with our proposal to distinguish between allowed returns and expected returns as proposed in Step 3?

If there is an embedded assumption of outperformance arbitrarily embedded in the return, resulting in a 50bps negative adjustment, this suggests that allowed costs opex, and financial costs are structurally too leniently set. This is clearly not the case in the current approach.

Q20 FQ20. Does Appendix 4 accurately capture the reported outperformance of price controls?

Respondent skipped this question

Q21 FQ21. Is there any other outperformance information that we should consider? We welcome information from stakeholders in light of any gaps or issues with the reported outperformance as per Appendix 4.

Respondent skipped this question

Q22 FQ22. What is your view on our proposed approach to assessing financeability? How should Ofgem approach quantitative and qualitative aspects of the financeability assessment? In your view, what are the relevant quantitative and qualitative aspects?

Respondent skipped this question

Q23 FQ23. Do you agree with the possible measures companies could take for addressing financeability? Are there any additional measures we should consider?

Respondent skipped this question

Q24 FQ24. Do you agree with the objectives and principles set out for the design of a cashflow floor?

Respondent skipped this question

Q25 FQ25. Do you support our inclusion of and focus on Variant 3 of the cashflow floor as most likely to meet the main objectives?

Respondent skipped this question

Q26 FQ26. Do you support our proposal that companies should seek to obtain the “Fair Tax Mark” certification?

Respondent skipped this question

Q27 FQ27. Is there another method to secure tax legitimacy other than the “Fair Tax Mark” certification? Could we build upon the Finance Acts (2016 and 2009) with regards to the requirement for companies to publish a tax strategy and appoint a Senior Accounting Officer?

Respondent skipped this question

Q28 FQ28. For Option A, how should a tax re-opener mechanism be triggered? Is there a materiality threshold that we should use when considering the difference between allowances and taxes actually paid to HMRC? If so – what might this be?

Respondent skipped this question

Q29 FQ29. What is your view on our proposal for an immediate switch to CPIH from the beginning of RIIO-2 for the purposes of RAV indexation and calculation of allowed return?

Respondent skipped this question

Q30 FQ30. Is there a better way to secure NPV-neutrality in light of the difficulties we identify with a true-up?

Respondent skipped this question

Q31 FQ31. Do you have any specific views or evidence relating to useful economic lives of network assets that may impact the assessment of appropriate depreciation rates?

Respondent skipped this question

Q32 FQ32. Do you agree with our proposed approach to consider capitalisation rates following receipt of company business plans?

Respondent skipped this question

Q33 FQ33. Do you have any comments on the working assumption for notional gearing of 60%, or on the underlying issues we identify above?

Respondent skipped this question

Q34 FQ34. Do you agree with our proposed approach to consider notional equity issuance costs in light of RIIO-2 business plans and notional gearing?

Respondent skipped this question

Q35 FQ35. Do you agree that for RIIO-2 we align transmission and gas distribution with electricity distribution and treat Admin and PPF costs as part of totex?

Respondent skipped this question

Q36 FQ36. Do you have any views on the categories of Directly Remunerated Services and their proposed treatment for RIIO-2?

Respondent skipped this question

Q37 FQ37. Do you have any views on the potential treatment of financial proceeds or fair value transfers of asset (including land) disposals for RIIO-2?

Respondent skipped this question

Q38 Other Comments

Ofgem is becoming highly punitive to all companies in the sector in order to rebalance the shortcomings of a number of industry players that have used excessive debt levels and an ability to minimise tax in order to boost equity returns and justify high prices. Tougher licence controls, focus on limiting financial windfalls and emphasis on genuine operating performance and customer delivery ought to be the priority.

Q39 We are interested in understanding what categories of responders are completing this survey. Could you tell us: 1) Your role in your firm. For example Buy Side Analyst (equity or credit?); Buy Side Portfolio Manager; Sell Side Analyst (equity or credit?); Sell Side Sales (equity or credit); Sell Side Trading; Corporate finance (Advisory; DCM; ECM; Corporate broker)? Investor relations; Other. 2) Something about your employer. For example: institutional investor; private wealth manager; stockbroker; integrated investment bank; corporate involved in the energy utility sector; service provider (e.g. investor relations, information provider); Other. 3) What type of fund within your firm do you manage or advise (if applicable). For example: quoted equity long-only; quoted equity long-short; credit or debt; private assets (e.g. infrastructure – debt; infrastructure – equity; private equity; credit); Other or Not Applicable. 4) Extent of your exposure to UK utility sector. Less than or equal to USD 100m; More than USD 100m but less than USD 1 billion; USD 1 billion or more; Not Disclosed.

1	Portfolio Manager
2	Institutional investor
3	Quoted equity
4	c.USD1 bn

#3

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Friday, March 08, 2019 3:14:26 PM
Last Modified: Friday, March 08, 2019 3:56:15 PM
Time Spent: 00:41:49

Page 1

Q1 FQ1. Do you support our proposal to retain full indexation as the methodology for setting cost of debt allowances?

Respondent skipped this question

Q2 FQ2. Do you agree with our proposal to not share debt out-or-under performance within each year?

Respondent skipped this question

Q3 FQ3. Do you have any views on the next steps outlined in Paragraphs 2.22 to 2.25 for assessing the appropriateness of expected cost of debt allowances for full indexation?

Respondent skipped this question

Q4 FQ4. Do you have a preference, or any relevant evidence, regarding the options for deflating the nominal iBoxx as discussed at Paragraph 2.14? Are there other options that you think we should consider?

Respondent skipped this question

Q5 FQ5. Do you agree with our proposal to index the cost of equity to the risk-free rate only (the first option presented in the March consultation)?

Respondent skipped this question

Q6 FQ6. Do you agree with using the 20-year real zero coupon gilt rate (Bank of England database series IUDLRZC) for the risk-free rate?

Respondent skipped this question

Q7 FQ7. Do you agree with using the October month average of the Bank of England database series IUDLRZC to set the risk-free rate ahead of each financial year?

Respondent skipped this question

Q8 FQ8. Do you agree with our proposal to derive CPIH real from RPI-linked gilts by adding an expected RPI-CPIH wedge?

Respondent skipped this question

Q9 FQ9. Do you have any views on our assessment of the issues stakeholders raised with us regarding outturn inflation, expected inflation, and the calculation of arithmetic uplift (from geometric returns)?

Respondent skipped this question

Q10 FQ10. Do you have any views on our interpretation of the UKRN Study regarding the TMR of 6-7% in CPI terms and our 6.25% to 6.75% CPIH real working assumption range based on the range of evidence?

The TMR of 6%-7% real looks too low.

Q11 FQ11. Do you have any views on our reconciliation of the UKRN Study to previous advice received on TMR as outlined at Appendix 2?

Respondent skipped this question

Q12 FQ12. Do you have any views on our assessment of the issues that stakeholders raised regarding beta estimation, including the consideration of: all UK outturn data, different data frequencies, long-run sample periods, advanced econometric techniques, de-gearing and re-gearing, and the focus on UK companies?

Respondent skipped this question

Q13 FQ13. What is your view on Dr Robertson's report?

Respondent skipped this question

Q14 FQ14. What is your view on Indepen's report?

Respondent skipped this question

Q15 FQ15. What is your view of the proposed Ofgem approach with respect to beta?

The beta would appear not to take in the higher risk for a transmission network, not to mention the UK political environment.

Q16 FQ16. Do you agree with our proposal to cross-check CAPM in this way?

Respondent skipped this question

Q17 FQ17. Do you agree that the cross-checks support the CAPM-implied range and lend support that the range can be narrowed to 4-5% on a CPIH basis?

This seems somewhat low compared to other regulated industries and particularly water.

Q18 FQ18. Are there other cross-checks that we should consider? If so, do you have a proposed approach?

Respondent skipped this question

Q19 FQ19. Do you agree with our proposal to distinguish between allowed returns and expected returns as proposed in Step 3?

Unlike the proposals in the rest of the document, it is surprising that there is no attempt to at least try to back this up with some theory or evidence. To my mind, it really doesn't make any sense to distinguish between allowed and expected returns.

Q20 FQ20. Does Appendix 4 accurately capture the reported outperformance of price controls?

Respondent skipped this question

Q21 FQ21. Is there any other outperformance information that we should consider? We welcome information from stakeholders in light of any gaps or issues with the reported outperformance as per Appendix 4.

Respondent skipped this question

Q22 FQ22. What is your view on our proposed approach to assessing financeability? How should Ofgem approach quantitative and qualitative aspects of the financeability assessment? In your view, what are the relevant quantitative and qualitative aspects?

Respondent skipped this question

Q23 FQ23. Do you agree with the possible measures companies could take for addressing financeability? Are there any additional measures we should consider?

Respondent skipped this question

Q24 FQ24. Do you agree with the objectives and principles set out for the design of a cashflow floor?

Respondent skipped this question

Q25 FQ25. Do you support our inclusion of and focus on Variant 3 of the cashflow floor as most likely to meet the main objectives?

Respondent skipped this question

Q26 FQ26. Do you support our proposal that companies should seek to obtain the "Fair Tax Mark" certification?

Respondent skipped this question

Q27 FQ27. Is there another method to secure tax legitimacy other than the "Fair Tax Mark" certification? Could we build upon the Finance Acts (2016 and 2009) with regards to the requirement for companies to publish a tax strategy and appoint a Senior Accounting Officer?

Respondent skipped this question

Q28 FQ28. For Option A, how should a tax re-opener mechanism be triggered? Is there a materiality threshold that we should use when considering the difference between allowances and taxes actually paid to HMRC? If so – what might this be?

Respondent skipped this question

Q29 FQ29. What is your view on our proposal for an immediate switch to CPIH from the beginning of RIIO-2 for the purposes of RAV indexation and calculation of allowed return?

Respondent skipped this question

Q30 FQ30. Is there a better way to secure NPV-neutrality in light of the difficulties we identify with a true-up?

Respondent skipped this question

Q31 FQ31. Do you have any specific views or evidence relating to useful economic lives of network assets that may impact the assessment of appropriate depreciation rates?

Respondent skipped this question

Q32 FQ32. Do you agree with our proposed approach to consider capitalisation rates following receipt of company business plans?

Respondent skipped this question

Q33 FQ33. Do you have any comments on the working assumption for notional gearing of 60%, or on the underlying issues we identify above?

Respondent skipped this question

Q34 FQ34. Do you agree with our proposed approach to consider notional equity issuance costs in light of RIIO-2 business plans and notional gearing?

Respondent skipped this question

Q35 FQ35. Do you agree that for RIIO-2 we align transmission and gas distribution with electricity distribution and treat Admin and PPF costs as part of totex?

Respondent skipped this question

Q36 FQ36. Do you have any views on the categories of Directly Remunerated Services and their proposed treatment for RIIO-2?

Respondent skipped this question

Q37 FQ37. Do you have any views on the potential treatment of financial proceeds or fair value transfers of asset (including land) disposals for RIIO-2?

Respondent skipped this question

Q38 Other Comments

Respondent skipped this question

Q39 We are interested in understanding what categories of responders are completing this survey. Could you tell us: 1) Your role in your firm. For example Buy Side Analyst (equity or credit?); Buy Side Portfolio Manager; Sell Side Analyst (equity or credit?); Sell Side Sales (equity or credit); Sell Side Trading; Corporate finance (Advisory; DCM; ECM; Corporate broker)? Investor relations; Other. 2) Something about your employer. For example: institutional investor; private wealth manager; stockbroker; integrated investment bank; corporate involved in the energy utility sector; service provider (e.g. investor relations, information provider); Other. 3) What type of fund within your firm do you manage or advise (if applicable). For example: quoted equity long-only; quoted equity long-short; credit or debt; private assets (e.g. infrastructure – debt; infrastructure – equity; private equity; credit); Other or Not Applicable. 4) Extent of your exposure to UK utility sector. Less than or equal to USD 100m; More than USD 100m but less than USD 1 billion; USD 1 billion or more; Not Disclosed.

1	Other
2	Other
3	Other
4	Not disclosed

#4

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Wednesday, March 13, 2019 6:02:07 PM
Last Modified: Wednesday, March 13, 2019 6:41:42 PM
Time Spent: 00:39:34

Page 1

Q1 FQ1. Do you support our proposal to retain full indexation as the methodology for setting cost of debt allowances?

Fair

Q2 FQ2. Do you agree with our proposal to not share debt out-or-under performance within each year?

No view

Q3 FQ3. Do you have any views on the next steps outlined in Paragraphs 2.22 to 2.25 for assessing the appropriateness of expected cost of debt allowances for full indexation?

No view

Q4 FQ4. Do you have a preference, or any relevant evidence, regarding the options for deflating the nominal iBoxx as discussed at Paragraph 2.14? Are there other options that you think we should consider?

No view

Q5 FQ5. Do you agree with our proposal to index the cost of equity to the risk-free rate only (the first option presented in the March consultation)?

Respondent skipped this question

Q6 FQ6. Do you agree with using the 20-year real zero coupon gilt rate (Bank of England database series IUDLRZC) for the risk-free rate?

Fair

Q7 FQ7. Do you agree with using the October month average of the Bank of England database series IUDLRZC to set the risk-free rate ahead of each financial year?

No view

Q8 FQ8. Do you agree with our proposal to derive CPIH real from RPI-linked gilts by adding an expected RPI-CPIH wedge?

The most accurate method is preferable and a wedge is an estimate.

Q9 FQ9. Do you have any views on our assessment of the issues stakeholders raised with us regarding outturn inflation, expected inflation, and the calculation of arithmetic uplift (from geometric returns)?

No view.

Q10 FQ10. Do you have any views on our interpretation of the UKRN Study regarding the TMR of 6-7% in CPI terms and our 6.25% to 6.75% CPIH real working assumption range based on the range of evidence?

The returns must be competitive with developed market returns in regions such as northeast US, Florida and California.

Q11 FQ11. Do you have any views on our reconciliation of the UKRN Study to previous advice received on TMR as outlined at Appendix 2?

No view

Q12 FQ12. Do you have any views on our assessment of the issues that stakeholders raised regarding beta estimation, including the consideration of: all UK outturn data, different data frequencies, long-run sample periods, advanced econometric techniques, de-gearing and re-gearing, and the focus on UK companies?

In my view the risk has moved up in UK for several reasons which makes investors hesitant to invest. Either way you look at it, the beta must reflect this heightened risk. Furthermore, one could argue that with significant investments required in large scale offshore wind and corresponding network investments through the next decade, returns must be attractive enough to compete for capital in other markets that have similar ambitions as UK. Spain, northeast US, Florida and California to mention a few regions. You can end up with many different numbers based on various approaches but in the end of the day one has to recognize that risk has increased in UK and much investment is required ahead. Returns must be attractive.

Q13 FQ13. What is your view on Dr Robertson's report?

No view.

Q14 FQ14. What is your view on Indepen's report?

No view.

Q15 FQ15. What is your view of the proposed Ofgem approach with respect to beta?

In my view the risk has moved up in UK for several reasons which makes investors hesitant to invest. Either way you look at it, the beta must reflect this heightened risk. Furthermore, one could argue that with significant investments required in large scale offshore wind and corresponding network investments through the next decade, returns must be attractive enough to compete for capital in other markets that have similar ambitions as UK. Spain, northeast US, Florida and California to mention a few regions. You can end up with many different numbers based on various approaches but in the end of the day one has to recognize that risk has increased in UK and much investment is required ahead. Returns must be attractive.

Q16 FQ16. Do you agree with our proposal to cross-check CAPM in this way?

You should make sure that there is continuity in your regulatory process and to introduce too many changes in methodology may lower investor confidence. Cost of capital moves up.

Q17 FQ17. Do you agree that the cross-checks support the CAPM-implied range and lend support that the range can be narrowed to 4-5% on a CPIH basis?

Cross-check can be argued is arbitrary. In my view the risk has moved up in UK for several reasons which makes investors hesitant to invest. Either way you look at it, the returns must reflect this heightened risk. Furthermore, one could argue that with significant investments required in large scale offshore wind and corresponding network investments through the next decade, returns must be attractive enough to compete with capital in other markets that have similar ambitions as UK. Spain, northeast US, Florida and California to mention a few regions. You can end up with many different numbers based on various approaches but in the end of the day one has to recognize that risk has increased in UK and much investment is required ahead. Returns must be attractive.

Q18 FQ18. Are there other cross-checks that we should consider? If so, do you have a proposed approach?

Be pragmatic, there is a difference between setting regulatory returns and to look at market returns, in my view. The lower return you set the higher is the likelihood that risk increases for your system and longer term. This is a time when significant investments are required in renewable energy infrastructure that in the end will make the energy systems increasingly affordable. Don't be too harsh near term to risk the long term security of capital and a strong leading clean energy system is UK.

Q19 FQ19. Do you agree with our proposal to distinguish between allowed returns and expected returns as proposed in Step 3?

No. This is arbitrary. What is the purpose with incentives if you reduce the effectiveness of them. In the end customers benefit from the incentives.

Q20 FQ20. Does Appendix 4 accurately capture the reported outperformance of price controls?

No view.

Q21 FQ21. Is there any other outperformance information that we should consider? We welcome information from stakeholders in light of any gaps or issues with the reported outperformance as per Appendix 4.

What I can say is that the communication have lacked clarity which increases risk. You have historically communicated that you want to see outperformance and at the same that it is too high atm. You have to be clear about what players have too high outperformance and what you view is unjust. You have to target the unjust outperformance specifically. Your approach is now to penalize company in the next regulatory period. IN the end you risk to lose investors for a long period of time.

Q22 FQ22. What is your view on our proposed approach to assessing financeability? How should Ofgem approach quantitative and qualitative aspects of the financeability assessment? In your view, what are the relevant quantitative and qualitative aspects?

Attractive return that attracts capital and the right operators.

Q23 FQ23. Do you agree with the possible measures companies could take for addressing financeability? Are there any additional measures we should consider?

If the return is attractive you address finance ability.

Q24 FQ24. Do you agree with the objectives and principles set out for the design of a cashflow floor?

No view

Q25 FQ25. Do you support our inclusion of and focus on Variant 3 of the cashflow floor as most likely to meet the main objectives?

No view

Q26 FQ26. Do you support our proposal that companies should seek to obtain the “Fair Tax Mark” certification?

We expect that companies pay fair tax.

Q27 FQ27. Is there another method to secure tax legitimacy other than the “Fair Tax Mark” certification? Could we build upon the Finance Acts (2016 and 2009) with regards to the requirement for companies to publish a tax strategy and appoint a Senior Accounting Officer?

Respondent skipped this question

Q28 FQ28. For Option A, how should a tax re-opener mechanism be triggered? Is there a materiality threshold that we should use when considering the difference between allowances and taxes actually paid to HMRC? If so – what might this be?

Respondent skipped this question

Q29 FQ29. What is your view on our proposal for an immediate switch to CPIH from the beginning of RIIO-2 for the purposes of RAV indexation and calculation of allowed return?

No view.

Q30 FQ30. Is there a better way to secure NPV-neutrality in light of the difficulties we identify with a true-up?

Respondent skipped this question

Q31 FQ31. Do you have any specific views or evidence relating to useful economic lives of network assets that may impact the assessment of appropriate depreciation rates?

Respondent skipped this question

Q32 FQ32. Do you agree with our proposed approach to consider capitalisation rates following receipt of company business plans?

Respondent skipped this question

Q33 FQ33. Do you have any comments on the working assumption for notional gearing of 60%, or on the underlying issues we identify above?

Respondent skipped this question

Q34 FQ34. Do you agree with our proposed approach to consider notional equity issuance costs in light of RIIO-2 business plans and notional gearing?

Respondent skipped this question

Q35 FQ35. Do you agree that for RIIO-2 we align transmission and gas distribution with electricity distribution and treat Admin and PPF costs as part of totex?

Respondent skipped this question

Q36 FQ36. Do you have any views on the categories of Directly Remunerated Services and their proposed treatment for RIIO-2?

Respondent skipped this question

Q37 FQ37. Do you have any views on the potential treatment of financial proceeds or fair value transfers of asset (including land) disposals for RIIO-2?

Respondent skipped this question

Q38 Other Comments

Respondent skipped this question

Q39 We are interested in understanding what categories of responders are completing this survey. Could you tell us:1) Your role in your firm. For example Buy Side Analyst (equity or credit?); Buy Side Portfolio Manager; Sell Side Analyst (equity or credit?); Sell Side Sales (equity or credit); Sell Side Trading; Corporate finance (Advisory; DCM; ECM; Corporate broker)? Investor relations; Other.2) Something about your employer. For example: institutional investor; private wealth manager; stockbroker; integrated investment bank; corporate involved in the energy utility sector; service provider (e.g. investor relations, information provider); Other.3)What type of fund within your firm do you manage or advise (if applicable). For example: quoted equity long-only; quoted equity long-short; credit or debt; private assets (e.g. infrastructure – debt; infrastructure – equity; private equity; credit); Other or Not Applicable.4) Extent of your exposure to UK utility sector. Less than or equal to USD 100m; More than USD 100m but less than USD 1 billion; USD 1 billion or more; Not Disclosed.

1	Buyside PM
2	Institutional investor
3	Equity long-only, global
4	More than USD 100m but less than USD 2 billion

#5

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Wednesday, March 13, 2019 8:03:46 PM
Last Modified: Wednesday, March 13, 2019 8:21:48 PM
Time Spent: 00:18:02

Page 1

Q1 FQ1. Do you support our proposal to retain full indexation as the methodology for setting cost of debt allowances?

yes

Q2 FQ2. Do you agree with our proposal to not share debt out-or-under performance within each year?

yes

Q3 FQ3. Do you have any views on the next steps outlined in Paragraphs 2.22 to 2.25 for assessing the appropriateness of expected cost of debt allowances for full indexation?

No

Q4 FQ4. Do you have a preference, or any relevant evidence, regarding the options for deflating the nominal iBoxx as discussed at Paragraph 2.14? Are there other options that you think we should consider?

No

Q5 FQ5. Do you agree with our proposal to index the cost of equity to the risk-free rate only (the first option presented in the March consultation)?

Yes

Q6 FQ6. Do you agree with using the 20-year real zero coupon gilt rate (Bank of England database series IUDLRZC) for the risk-free rate?

No. The entire approach to cost of equity is flawed in my view. In simple terms, you are not assessing the cost of equity that I (or other long term equity investors) use and require. I disagree with many elements of this. But a starting point of artificially depressed bond yields is the first area I disagree with

Q7 FQ7. Do you agree with using the October month average of the Bank of England database series IUDLRZC to set the risk-free rate ahead of each financial year?

No strong view

Q8 FQ8. Do you agree with our proposal to derive CPIH real from RPI-linked gilts by adding an expected RPI-CPIH wedge?

Yes, the wedge must be added. And it must be clear that this adjustment will persist. Otherwise the cost of equity has again been increased by regulatory changes

Q9 FQ9. Do you have any views on our assessment of the issues stakeholders raised with us regarding outturn inflation, expected inflation, and the calculation of arithmetic uplift (from geometric returns)?

No

Q10 FQ10. Do you have any views on our interpretation of the UKRN Study regarding the TMR of 6-7% in CPI terms and our 6.25% to 6.75% CPIH real working assumption range based on the range of evidence?

Yes, I simply do not believe that this is an appropriate return for the risk (operational, construction, regulatory, political) that we as investors are asked to assume.

Q11 FQ11. Do you have any views on our reconciliation of the UKRN Study to previous advice received on TMR as outlined at Appendix 2?

No

Q12 FQ12. Do you have any views on our assessment of the issues that stakeholders raised regarding beta estimation, including the consideration of: all UK outturn data, different data frequencies, long-run sample periods, advanced econometric techniques, de-gearing and re-gearing, and the focus on UK companies?

Yes, I believe that the method you use to degear and regear the beta understates the equity beta markedly. This simply must be corrected, and adjusted for. Its a simple mathematical/formulaic mistake

Q13 FQ13. What is your view on Dr Robertson's report? **Respondent skipped this question**

Q14 FQ14. What is your view on Indepen's report? **Respondent skipped this question**

Q15 FQ15. What is your view of the proposed Ofgem approach with respect to beta?

See above - the calculation is flawed

Q16 FQ16. Do you agree with our proposal to cross-check CAPM in this way?

I believe that the CAPM cross check is a sensible idea in practice. First though, you must fix the mistakes in the CAPM approach (see beta comment). However on top of this, the cross check approach uses anecdotal estimates of required returns that are simply too low. Investors can choose any competing investment, and the range you set out, and justify by cross check is not sufficient

Q17 FQ17. Do you agree that the cross-checks support the CAPM-implied range and lend support that the range can be narrowed to 4-5% on a CPIH basis?

No, as set out above, this is too low. I do not support this range, and do not feel it is remotely sufficient

Q18 FQ18. Are there other cross-checks that we should consider? If so, do you have a proposed approach?

Yes, look at the returns that one is able to access by investing in US utilities. I have passed this on to Ofgem but it has been ignored. It is clear to me that some of the team at Ofgem are simply looking for the lowest possible range. A decent US utility offers a return that is markedly higher than you are proposing

Q19 FQ19. Do you agree with our proposal to distinguish between allowed returns and expected returns as proposed in Step 3?

No, this is guesswork on your part. It is unacceptable and another example of Ofgem tinkering and, inadvertently, increasing the cost of capital

Q20 FQ20. Does Appendix 4 accurately capture the reported outperformance of price controls?

Respondent skipped this question

Q21 FQ21. Is there any other outperformance information that we should consider? We welcome information from stakeholders in light of any gaps or issues with the reported outperformance as per Appendix 4.

Respondent skipped this question

Q22 FQ22. What is your view on our proposed approach to assessing financeability? How should Ofgem approach quantitative and qualitative aspects of the financeability assessment? In your view, what are the relevant quantitative and qualitative aspects?

Respondent skipped this question

Q23 FQ23. Do you agree with the possible measures companies could take for addressing financeability? Are there any additional measures we should consider?

Respondent skipped this question

Q24 FQ24. Do you agree with the objectives and principles set out for the design of a cashflow floor?

No

Q25 FQ25. Do you support our inclusion of and focus on Variant 3 of the cashflow floor as most likely to meet the main objectives?

Respondent skipped this question

Q26 FQ26. Do you support our proposal that companies should seek to obtain the “Fair Tax Mark” certification?

Respondent skipped this question

Q27 FQ27. Is there another method to secure tax legitimacy other than the “Fair Tax Mark” certification? Could we build upon the Finance Acts (2016 and 2009) with regards to the requirement for companies to publish a tax strategy and appoint a Senior Accounting Officer?

Respondent skipped this question

Q28 FQ28. For Option A, how should a tax re-opener mechanism be triggered? Is there a materiality threshold that we should use when considering the difference between allowances and taxes actually paid to HMRC? If so – what might this be?

Respondent skipped this question

Q29 FQ29. What is your view on our proposal for an immediate switch to CPIH from the beginning of RIIO-2 for the purposes of RAV indexation and calculation of allowed return?

This is OK as long as the additional CPI vs RPI wedge is (1) guaranteed, and (2) is not used to justify financeability. In other words my fair return is neutral to whether you use CPI or RPI

Q30 FQ30. Is there a better way to secure NPV-neutrality in light of the difficulties we identify with a true-up?

Respondent skipped this question

Q31 FQ31. Do you have any specific views or evidence relating to useful economic lives of network assets that may impact the assessment of appropriate depreciation rates?

Respondent skipped this question

Q32 FQ32. Do you agree with our proposed approach to consider capitalisation rates following receipt of company business plans?

Respondent skipped this question

Q33 FQ33. Do you have any comments on the working assumption for notional gearing of 60%, or on the underlying issues we identify above?

Respondent skipped this question

Q34 FQ34. Do you agree with our proposed approach to consider notional equity issuance costs in light of RIIO-2 business plans and notional gearing?

Respondent skipped this question

Q35 FQ35. Do you agree that for RIIO-2 we align transmission and gas distribution with electricity distribution and treat Admin and PPF costs as part of totex?

Respondent skipped this question

Q36 FQ36. Do you have any views on the categories of Directly Remunerated Services and their proposed treatment for RIIO-2?

Respondent skipped this question

Q37 FQ37. Do you have any views on the potential treatment of financial proceeds or fair value transfers of asset (including land) disposals for RIIO-2?

Respondent skipped this question

Q38 Other Comments

Respondent skipped this question

Q39 We are interested in understanding what categories of responders are completing this survey. Could you tell us:1) Your role in your firm. For example Buy Side Analyst (equity or credit?); Buy Side Portfolio Manager; Sell Side Analyst (equity or credit?); Sell Side Sales (equity or credit); Sell Side Trading; Corporate finance (Advisory; DCM; ECM; Corporate broker)? Investor relations; Other.2) Something about your employer. For example: institutional investor; private wealth manager; stockbroker; integrated investment bank; corporate involved in the energy utility sector; service provider (e.g. investor relations, information provider); Other.3)What type of fund within your firm do you manage or advise (if applicable). For example: quoted equity long-only; quoted equity long-short; credit or debt; private assets (e.g. infrastructure – debt; infrastructure – equity; private equity; credit); Other or Not Applicable.4) Extent of your exposure to UK utility sector. Less than or equal to USD 100m; More than USD 100m but less than USD 1 billion; USD 1 billion or more; Not Disclosed.

1	Buy side analyst
2	Institutional Investor
3	Quoted equity long only
4	USD 1 billion or more

#6

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Wednesday, March 13, 2019 6:19:43 PM
Last Modified: Wednesday, March 13, 2019 9:59:35 PM
Time Spent: 03:39:51

Page 1

Q1 FQ1. Do you support our proposal to retain full indexation as the methodology for setting cost of debt allowances?

Yes

Q2 FQ2. Do you agree with our proposal to not share debt out-or-under performance within each year?

Yes

Q3 FQ3. Do you have any views on the next steps outlined in Paragraphs 2.22 to 2.25 for assessing the appropriateness of expected cost of debt allowances for full indexation?

The trailing average period for cost of debt assessment should be the same as the trailing average period for cost of equity input parameter (Rf, TMR, and beta) assessment.

Q4 FQ4. Do you have a preference, or any relevant evidence, regarding the options for deflating the nominal iBoxx as discussed at Paragraph 2.14? Are there other options that you think we should consider?

No

Q5 FQ5. Do you agree with our proposal to index the cost of equity to the risk-free rate only (the first option presented in the March consultation)?

Yes

Q6 FQ6. Do you agree with using the 20-year real zero coupon gilt rate (Bank of England database series IUDLRZC) for the risk-free rate?

Yes, but also open to a change.

Q7 FQ7. Do you agree with using the October month average of the Bank of England database series IUDLRZC to set the risk-free rate ahead of each financial year?

No!! The risk-free rate should be averaged over the period that is used to determine TMR and beta (and cost of debt and inflation).

Q8 FQ8. Do you agree with our proposal to derive CPIH real from RPI-linked gilts by adding an expected RPI-CPIH wedge?

Yes

Q9 FQ9. Do you have any views on our assessment of the issues stakeholders raised with us regarding outturn inflation, expected inflation, and the calculation of arithmetic uplift (from geometric returns)?

The downward adjustment to the arithmetic uplift by UKRN does not appear to be justified, based on the text quoted in 3.59(c) -- it cited a 10-year (or longer) horizon while RIIO-2 is setting returns for the next 5 years. The second UKRN quote is basically deriving the required uplift from the 6-7% range set by UKRN. This does not make sense as it does not provide a real justification for the lower uplift (77bps).

Q10 FQ10. Do you have any views on our interpretation of the UKRN Study regarding the TMR of 6-7% in CPI terms and our 6.25% to 6.75% CPIH real working assumption range based on the range of evidence?

The interpretation presented in Figure 18 of Appendix 2 (page 87 of Finance Annex) is confusing and attempts to hide the switch from RPI to CPI, by introducing a third inflation measure (DMS inflation). It was cleverly done by introducing DMS inflation in Figure 17 first. In my view, the true starting point in Figure 17 is actually the fifth bar - the predetermined 5.5% real return (in RPI terms!). You then worked backwards (to the left) to reconcile with the nominal returns. The second bar in Figure 17 should be RPI inflation and the fourth bar (non-UK focus, a plug) would become a different number. This plug should be used again in figure 18. In Figure 18, the second bar should be replaced by CPI, which is BoE's inflation data. Because the BoE inflation data is used, the original fourth bar (-0.25%) is no longer needed and should be replaced with the same non-UK Focus number mentioned above. This will result in a new number for the real return (fifth bar). A consistent and justified arithmetic uplift should be added to arrive at a number for 2018 (which is likely to be higher than the 6%).

Q11 FQ11. Do you have any views on our reconciliation of the UKRN Study to previous advice received on TMR as outlined at Appendix 2?

Yes. When switching from RPI to CPI, the previous (2003/2006) TMR of 6.5-7.5% in RPI terms should become 7.5-8.5% in CPI terms. Your interpretation did not provide the reasons for reaching the new TMR of 6.0-7.0% in CPI terms. A waterfall chart explaining the factors contributing to the transition from the 7.5-8.5% to 6.0-7.0% (both in CPI terms) would be very helpful. I am interested in knowing if the long-run TMR would actually come down by 150bps with the addition of 16 more years of data.

Q12 FQ12. Do you have any views on our assessment of the issues that stakeholders raised regarding beta estimation, including the consideration of: all UK outturn data, different data frequencies, long-run sample periods, advanced econometric techniques, de-gearing and re-gearing, and the focus on UK companies?

Yes. The use of higher frequency data may be necessary and justified if a shorter period is used to assess beta. However, I am not advocating for shorter period or longer period. For consistency, the time period used to assess beta should be the same as the time period used to derive TMR and risk-free rates, because all three parameters in the same formula should capture and reflect the same macro factors (social, economic, political, etc.) that determined their values in the history. If 116 years of data is used to determine TMR, then we should have beta and risk-free rates determined by 116 years of matching data. If 10 years of data is used to set beta, then assign TMR and Rf from the same 10-yr period. Otherwise, using 116-yr TMR, 10-yr beta, and 1-month risk-free is like adding apples, oranges, and kiwis together. While CAPM is not perfect, given that we have decided to use it, we should be as rigorous and consistent as possible. Taking one step further, we should apply the same rigor to allow debt return, as it goes into the WACC calculation.

Q13 FQ13. What is your view on Dr Robertson's report? **Respondent skipped this question**

Q14 FQ14. What is your view on Indepen's report? **Respondent skipped this question**

Q15 FQ15. What is your view of the proposed Ofgem approach with respect to beta?

See FQ12.

Q16 FQ16. Do you agree with our proposal to cross-check CAPM in this way? **Respondent skipped this question**

Q17 FQ17. Do you agree that the cross-checks support the CAPM-implied range and lend support that the range can be narrowed to 4-5% on a CPIH basis? **Respondent skipped this question**

Q18 FQ18. Are there other cross-checks that we should consider? If so, do you have a proposed approach? **Respondent skipped this question**

Q19 FQ19. Do you agree with our proposal to distinguish between allowed returns and expected returns as proposed in Step 3? **Respondent skipped this question**

Q20 FQ20. Does Appendix 4 accurately capture the reported outperformance of price controls? **Respondent skipped this question**

Q21 FQ21. Is there any other outperformance information that we should consider? We welcome information from stakeholders in light of any gaps or issues with the reported outperformance as per Appendix 4. **Respondent skipped this question**

Q22 FQ22. What is your view on our proposed approach to assessing financeability? How should Ofgem approach quantitative and qualitative aspects of the financeability assessment? In your view, what are the relevant quantitative and qualitative aspects? **Respondent skipped this question**

Q23 FQ23. Do you agree with the possible measures companies could take for addressing financeability? Are there any additional measures we should consider?

No. If the companies are not provided with adequate allowed returns, they could get into a downward spiral that financeability cannot be addressed by these measures.

Q24 FQ24. Do you agree with the objectives and principles set out for the design of a cashflow floor?

No. The scheme is complex and implementation will add cost to the system. If I understand it correctly, for companies that are not under-performing, cash flow available to the shareholders will be taken away to support the under-performer. This is against the spirit of RIIO-2.

Q25 FQ25. Do you support our inclusion of and focus on Variant 3 of the cashflow floor as most likely to meet the main objectives?

No.

Q26 FQ26. Do you support our proposal that companies should seek to obtain the “Fair Tax Mark” certification?

Respondent skipped this question

Q27 FQ27. Is there another method to secure tax legitimacy other than the “Fair Tax Mark” certification? Could we build upon the Finance Acts (2016 and 2009) with regards to the requirement for companies to publish a tax strategy and appoint a Senior Accounting Officer?

Respondent skipped this question

Q28 FQ28. For Option A, how should a tax re-opener mechanism be triggered? Is there a materiality threshold that we should use when considering the difference between allowances and taxes actually paid to HMRC? If so – what might this be?

Respondent skipped this question

Q29 FQ29. What is your view on our proposal for an immediate switch to CPIH from the beginning of RIIO-2 for the purposes of RAV indexation and calculation of allowed return?

Respondent skipped this question

Q30 FQ30. Is there a better way to secure NPV-neutrality in light of the difficulties we identify with a true-up?

Respondent skipped this question

Q31 FQ31. Do you have any specific views or evidence relating to useful economic lives of network assets that may impact the assessment of appropriate depreciation rates?

Respondent skipped this question

Q32 FQ32. Do you agree with our proposed approach to consider capitalisation rates following receipt of company business plans?

Respondent skipped this question

Q33 FQ33. Do you have any comments on the working assumption for notional gearing of 60%, or on the underlying issues we identify above?

Respondent skipped this question

Q34 FQ34. Do you agree with our proposed approach to consider notional equity issuance costs in light of RIIO-2 business plans and notional gearing?

Respondent skipped this question

Q35 FQ35. Do you agree that for RIIO-2 we align transmission and gas distribution with electricity distribution and treat Admin and PPF costs as part of totex?

Respondent skipped this question

Q36 FQ36. Do you have any views on the categories of Directly Remunerated Services and their proposed treatment for RIIO-2?

Respondent skipped this question

Q37 FQ37. Do you have any views on the potential treatment of financial proceeds or fair value transfers of asset (including land) disposals for RIIO-2?

Respondent skipped this question

Q38 Other Comments

Long-term shareholders do not like to see income stream from dividend reduced or ownership diluted. Dividend continuity is very important. If the transition to RIIO-2 causes a dividend reduction for a network company (*ceteris paribus*), long-term investors will lose their confidence. RIIO-2 outcome has implications for RIIO-3 and so forth. It will be very hard to invest again if shareholders are hurt by RIIO-2, because no one wants see the dividend income stream trimmed at each regulatory review period. Long-term investors would simply stay away.

That said, we have long considered the U.K. regulatory environment (OFGEM specially) as transparent and constructive. As a long-term investor, we are investing the time to understand the framework and provide feedback.

Q39 We are interested in understanding what categories of responders are completing this survey. Could you tell us:1) Your role in your firm. For example Buy Side Analyst (equity or credit?); Buy Side Portfolio Manager; Sell Side Analyst (equity or credit?); Sell Side Sales (equity or credit); Sell Side Trading; Corporate finance (Advisory; DCM; ECM; Corporate broker)? Investor relations; Other.2) Something about your employer. For example: institutional investor; private wealth manager; stockbroker; integrated investment bank; corporate involved in the energy utility sector; service provider (e.g. investor relations, information provider); Other.3)What type of fund within your firm do you manage or advise (if applicable). For example: quoted equity long-only; quoted equity long-short; credit or debt; private assets (e.g. infrastructure – debt; infrastructure – equity; private equity; credit); Other or Not Applicable.4) Extent of your exposure to UK utility sector. Less than or equal to USD 100m; More than USD 100m but less than USD 1 billion; USD 1 billion or more; Not Disclosed.

1	Buy-side equity analyst
2	Institutional investor based in NYC
3	Fund focuses on dividend and dividend growth; long-only low-turnover
4	Between US\$100m and USD\$1B

#7

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Thursday, March 14, 2019 10:34:47 AM
Last Modified: Thursday, March 14, 2019 10:39:33 AM
Time Spent: 00:04:45

Page 1

Q1 FQ1. Do you support our proposal to retain full indexation as the methodology for setting cost of debt allowances?

yes

Q2 FQ2. Do you agree with our proposal to not share debt out-or-under performance within each year?

no

Q3 FQ3. Do you have any views on the next steps outlined in Paragraphs 2.22 to 2.25 for assessing the appropriateness of expected cost of debt allowances for full indexation?

no

Q4 FQ4. Do you have a preference, or any relevant evidence, regarding the options for deflating the nominal iBoxx as discussed at Paragraph 2.14? Are there other options that you think we should consider?

Respondent skipped this question

Q5 FQ5. Do you agree with our proposal to index the cost of equity to the risk-free rate only (the first option presented in the March consultation)?

no

Q6 FQ6. Do you agree with using the 20-year real zero coupon gilt rate (Bank of England database series IUDLRZC) for the risk-free rate?

yes

Q7 FQ7. Do you agree with using the October month average of the Bank of England database series IUDLRZC to set the risk-free rate ahead of each financial year?

yes

Q8 FQ8. Do you agree with our proposal to derive CPIH real from RPI-linked gilts by adding an expected RPI-CPIH wedge?

yes

Q9 FQ9. Do you have any views on our assessment of the issues stakeholders raised with us regarding outturn inflation, expected inflation, and the calculation of arithmetic uplift (from geometric returns)?

Respondent skipped this question

Q10 FQ10. Do you have any views on our interpretation of the UKRN Study regarding the TMR of 6-7% in CPI terms and our 6.25% to 6.75% CPIH real working assumption range based on the range of evidence?

Respondent skipped this question

Q11 FQ11. Do you have any views on our reconciliation of the UKRN Study to previous advice received on TMR as outlined at Appendix 2?

Respondent skipped this question

Q12 FQ12. Do you have any views on our assessment of the issues that stakeholders raised regarding beta estimation, including the consideration of: all UK outturn data, different data frequencies, long-run sample periods, advanced econometric techniques, de-gearing and re-gearing, and the focus on UK companies?

we would favour long run sample periods of UK companies

Q13 FQ13. What is your view on Dr Robertson's report?

Respondent skipped this question

Q14 FQ14. What is your view on Indepen's report?

Respondent skipped this question

Q15 FQ15. What is your view of the proposed Ofgem approach with respect to beta?

Respondent skipped this question

Q16 FQ16. Do you agree with our proposal to cross-check CAPM in this way?

Respondent skipped this question

Q17 FQ17. Do you agree that the cross-checks support the CAPM-implied range and lend support that the range can be narrowed to 4-5% on a CPIH basis?

Respondent skipped this question

Q18 FQ18. Are there other cross-checks that we should consider? If so, do you have a proposed approach?

Respondent skipped this question

Q19 FQ19. Do you agree with our proposal to distinguish between allowed returns and expected returns as proposed in Step 3?

no, we fundamentally disagree with the view that expected returns will be different to allowed returns

Q20 FQ20. Does Appendix 4 accurately capture the reported outperformance of price controls?

Respondent skipped this question

Q21 FQ21. Is there any other outperformance information that we should consider? We welcome information from stakeholders in light of any gaps or issues with the reported outperformance as per Appendix 4.

Respondent skipped this question

Q22 FQ22. What is your view on our proposed approach to assessing financeability? How should Ofgem approach quantitative and qualitative aspects of the financeability assessment? In your view, what are the relevant quantitative and qualitative aspects?

Respondent skipped this question

Q23 FQ23. Do you agree with the possible measures companies could take for addressing financeability? Are there any additional measures we should consider?

Respondent skipped this question

Q24 FQ24. Do you agree with the objectives and principles set out for the design of a cashflow floor?

Respondent skipped this question

Q25 FQ25. Do you support our inclusion of and focus on Variant 3 of the cashflow floor as most likely to meet the main objectives?

Respondent skipped this question

Q26 FQ26. Do you support our proposal that companies should seek to obtain the “Fair Tax Mark” certification?

Respondent skipped this question

Q27 FQ27. Is there another method to secure tax legitimacy other than the “Fair Tax Mark” certification? Could we build upon the Finance Acts (2016 and 2009) with regards to the requirement for companies to publish a tax strategy and appoint a Senior Accounting Officer?

Respondent skipped this question

Q28 FQ28. For Option A, how should a tax re-opener mechanism be triggered? Is there a materiality threshold that we should use when considering the difference between allowances and taxes actually paid to HMRC? If so – what might this be?

Respondent skipped this question

Q29 FQ29. What is your view on our proposal for an immediate switch to CPIH from the beginning of RIIO-2 for the purposes of RAV indexation and calculation of allowed return?	Respondent skipped this question
Q30 FQ30. Is there a better way to secure NPV-neutrality in light of the difficulties we identify with a true-up?	Respondent skipped this question
Q31 FQ31. Do you have any specific views or evidence relating to useful economic lives of network assets that may impact the assessment of appropriate depreciation rates?	Respondent skipped this question
Q32 FQ32. Do you agree with our proposed approach to consider capitalisation rates following receipt of company business plans?	Respondent skipped this question
Q33 FQ33. Do you have any comments on the working assumption for notional gearing of 60%, or on the underlying issues we identify above?	Respondent skipped this question
Q34 FQ34. Do you agree with our proposed approach to consider notional equity issuance costs in light of RIIO-2 business plans and notional gearing?	Respondent skipped this question
Q35 FQ35. Do you agree that for RIIO-2 we align transmission and gas distribution with electricity distribution and treat Admin and PPF costs as part of totex?	Respondent skipped this question
Q36 FQ36. Do you have any views on the categories of Directly Remunerated Services and their proposed treatment for RIIO-2?	Respondent skipped this question
Q37 FQ37. Do you have any views on the potential treatment of financial proceeds or fair value transfers of asset (including land) disposals for RIIO-2?	Respondent skipped this question
Q38 Other Comments	Respondent skipped this question

Q39 We are interested in understanding what categories of responders are completing this survey. Could you tell us:1) Your role in your firm. For example Buy Side Analyst (equity or credit?); Buy Side Portfolio Manager; Sell Side Analyst (equity or credit?); Sell Side Sales (equity or credit); Sell Side Trading; Corporate finance (Advisory; DCM; ECM; Corporate broker)? Investor relations; Other.2) Something about your employer. For example: institutional investor; private wealth manager; stockbroker; integrated investment bank; corporate involved in the energy utility sector; service provider (e.g. investor relations, information provider); Other.3)What type of fund within your firm do you manage or advise (if applicable). For example: quoted equity long-only; quoted equity long-short; credit or debt; private assets (e.g. infrastructure – debt; infrastructure – equity; private equity; credit); Other or Not Applicable.4) Extent of your exposure to UK utility sector. Less than or equal to USD 100m; More than USD 100m but less than USD 1 billion; USD 1 billion or more; Not Disclosed.

1	buy side portfolio manager
2	institutional investor
3	quoted equity long only
4	less than \$100m

#8

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Thursday, March 14, 2019 1:11:26 PM
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Time Spent: 00:05:59

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Q1 FQ1. Do you support our proposal to retain full indexation as the methodology for setting cost of debt allowances?

Respondent skipped this question

Q2 FQ2. Do you agree with our proposal to not share debt out-or-under performance within each year?

Respondent skipped this question

Q3 FQ3. Do you have any views on the next steps outlined in Paragraphs 2.22 to 2.25 for assessing the appropriateness of expected cost of debt allowances for full indexation?

Respondent skipped this question

Q4 FQ4. Do you have a preference, or any relevant evidence, regarding the options for deflating the nominal iBoxx as discussed at Paragraph 2.14? Are there other options that you think we should consider?

Respondent skipped this question

Q5 FQ5. Do you agree with our proposal to index the cost of equity to the risk-free rate only (the first option presented in the March consultation)?

Respondent skipped this question

Q6 FQ6. Do you agree with using the 20-year real zero coupon gilt rate (Bank of England database series IUDLRZC) for the risk-free rate?

Respondent skipped this question

Q7 FQ7. Do you agree with using the October month average of the Bank of England database series IUDLRZC to set the risk-free rate ahead of each financial year?

Respondent skipped this question

Q8 FQ8. Do you agree with our proposal to derive CPIH real from RPI-linked gilts by adding an expected RPI-CPIH wedge?

Respondent skipped this question

Q9 FQ9. Do you have any views on our assessment of the issues stakeholders raised with us regarding outturn inflation, expected inflation, and the calculation of arithmetic uplift (from geometric returns)?	Respondent skipped this question
Q10 FQ10. Do you have any views on our interpretation of the UKRN Study regarding the TMR of 6-7% in CPI terms and our 6.25% to 6.75% CPIH real working assumption range based on the range of evidence?	Respondent skipped this question
Q11 FQ11. Do you have any views on our reconciliation of the UKRN Study to previous advice received on TMR as outlined at Appendix 2?	Respondent skipped this question
Q12 FQ12. Do you have any views on our assessment of the issues that stakeholders raised regarding beta estimation, including the consideration of: all UK outturn data, different data frequencies, long-run sample periods, advanced econometric techniques, de-gearing and re-gearing, and the focus on UK companies?	Respondent skipped this question
Q13 FQ13. What is your view on Dr Robertson's report?	Respondent skipped this question
Q14 FQ14. What is your view on Indepen's report?	Respondent skipped this question
Q15 FQ15. What is your view of the proposed Ofgem approach with respect to beta?	Respondent skipped this question
Q16 FQ16. Do you agree with our proposal to cross-check CAPM in this way?	Respondent skipped this question
Q17 FQ17. Do you agree that the cross-checks support the CAPM-implied range and lend support that the range can be narrowed to 4-5% on a CPIH basis?	Respondent skipped this question
Q18 FQ18. Are there other cross-checks that we should consider? If so, do you have a proposed approach?	Respondent skipped this question
Q19 FQ19. Do you agree with our proposal to distinguish between allowed returns and expected returns as proposed in Step 3?	Respondent skipped this question
Q20 FQ20. Does Appendix 4 accurately capture the reported outperformance of price controls?	Respondent skipped this question

Q21 FQ21. Is there any other outperformance information that we should consider? We welcome information from stakeholders in light of any gaps or issues with the reported outperformance as per Appendix 4.

Respondent skipped this question

Q22 FQ22. What is your view on our proposed approach to assessing financeability? How should Ofgem approach quantitative and qualitative aspects of the financeability assessment? In your view, what are the relevant quantitative and qualitative aspects?

Respondent skipped this question

Q23 FQ23. Do you agree with the possible measures companies could take for addressing financeability? Are there any additional measures we should consider?

Respondent skipped this question

Q24 FQ24. Do you agree with the objectives and principles set out for the design of a cashflow floor?

Respondent skipped this question

Q25 FQ25. Do you support our inclusion of and focus on Variant 3 of the cashflow floor as most likely to meet the main objectives?

Respondent skipped this question

Q26 FQ26. Do you support our proposal that companies should seek to obtain the “Fair Tax Mark” certification?

Respondent skipped this question

Q27 FQ27. Is there another method to secure tax legitimacy other than the “Fair Tax Mark” certification? Could we build upon the Finance Acts (2016 and 2009) with regards to the requirement for companies to publish a tax strategy and appoint a Senior Accounting Officer?

Respondent skipped this question

Q28 FQ28. For Option A, how should a tax re-opener mechanism be triggered? Is there a materiality threshold that we should use when considering the difference between allowances and taxes actually paid to HMRC? If so – what might this be?

Respondent skipped this question

Q29 FQ29. What is your view on our proposal for an immediate switch to CPIH from the beginning of RIIO-2 for the purposes of RAV indexation and calculation of allowed return?

Respondent skipped this question

Q30 FQ30. Is there a better way to secure NPV-neutrality in light of the difficulties we identify with a true-up?

Respondent skipped this question

Q31 FQ31. Do you have any specific views or evidence relating to useful economic lives of network assets that may impact the assessment of appropriate depreciation rates?

Respondent skipped this question

Q32 FQ32. Do you agree with our proposed approach to consider capitalisation rates following receipt of company business plans?

Respondent skipped this question

Q33 FQ33. Do you have any comments on the working assumption for notional gearing of 60%, or on the underlying issues we identify above?

Respondent skipped this question

Q34 FQ34. Do you agree with our proposed approach to consider notional equity issuance costs in light of RIIO-2 business plans and notional gearing?

Respondent skipped this question

Q35 FQ35. Do you agree that for RIIO-2 we align transmission and gas distribution with electricity distribution and treat Admin and PPF costs as part of totex?

Respondent skipped this question

Q36 FQ36. Do you have any views on the categories of Directly Remunerated Services and their proposed treatment for RIIO-2?

Respondent skipped this question

Q37 FQ37. Do you have any views on the potential treatment of financial proceeds or fair value transfers of asset (including land) disposals for RIIO-2?

Respondent skipped this question

Q38 Other Comments

Having been an investor in utilities and infrastructure assets for more than 4 decades, we must first rightly acknowledge the contribution of RIIO I in setting the UK as the model for many other regulated frameworks around the world. It is not by coincidence that several other countries explicitly refer to the UK as the model they aspire to. Today, we hope that such a progressive and compelling approach is maintained as we go into RIIO 2. Core investors in utilities like us truly look at long-term business and regulatory dynamics in assessing the merits of investing in a specific country and company, rather than quarterly performance or purely dislocations in public markets. As such, stability, clarity, pragmatism and focus on outcomes are seen by us as some of the key features for any regulatory framework. While monopoly positions are always more tricky to regulate, history proves that the biggest risk for these companies is having limited incentives to work efficiently and effectively. This is bigger than the perceived risk of abuse of monopoly position, because the lack of incentives/upside results in a very vicious cycle. Stagnant monopoly or duopoly players tend to reduce their investments behind innovation and R&D; delay heavy capex programmes and, most importantly, over time they fail to attract talent and ambitious people. Interestingly, these negative dynamics do not materialize immediately, but over the medium- to long-term. When the negatives become evident, it is probably too late to turn the situation (and culture) around without dramatic structural changes. These structural changes tend also to result in high implementation costs.

As an investor, we shy away from companies and jurisdictions in which these risks are more likely, and tend to strongly support companies that boasts a strong culture and operate in a virtuous regulatory framework that rewards all stakeholders: consumers, local communities, environment, innovation agencies, employees and shareholders. RIIO I successfully meets this criteria, and this is why it has been hailed globally as the 'model' framework. In reviewing Ofgem's RIIO 2 Framework Consultation, however, we believe the pendulum has swung too far, and the ingredients that make RIIO I so successful are no longer there in the entirety. Our concerns are threefold: (i) the proposed base level of return of 3% is too low; (ii) the perception by Ofgem that the market will be content with a lower total market return; and (iii) the incentivization scheme has been dialed down. It is no surprise, therefore, that on the day the consultation framework was announced on December 18, 2018, National Grid's share price declined by c. 10%. The share price reaction was justified in so far that serious doubt was placed as to whether National Grid would be entering into a new framework that would ensure the ability to attract patient capital (both equity and debt) and, simultaneously, provide for the necessary incentives to improve performance / outcomes. Offering investors in the sector the opportunity to earn a compelling and stable return is the basis by which companies are able to attract the highest possible quality capital. Return of Equity is one of the most used investment criteria for any investor: setting this too low will inevitably force investors to question if the risk-reward profile of a specific company/country is balanced and justified. In today's highly globalized and connected capital markets, investment decisions are benchmarked on a regular basis across numerous countries / sectors / asset classes, with investors having endless investment options. Secondly, we have learnt that, without clear and achievable incentives, no team performs at its best. While sharing outperformance is probably the best way to fully align interests, it is important that these incentives/allowances are always visible to the team because they are a major motivating factor. Capping these opportunities too much or assuming that a company will structurally outperform its targets clearly goes in the opposite direction. Lastly, the drastic shift between RIIO I and RIIO 2 raises further concerns over whether or not the new regime and the lead up to it jeopardizes what has always been a key selling point of the UK – a stable and predictable environment. Big swings, and big changes, go against this philosophy and will, in turn, increase the risk profile of National Grid, including its cost of capital. This is neither in the long-term interest of investors nor consumers, and will only serve to increase short-term volatility.

Based on our experience as a global investor (across all asset classes and sectors), one of the sectors that is changing the most is energy. Environmental concerns, structural flow bottlenecks, ever increasing demand for flexible and least invasive solutions, while at the same time, ensuring stable and reliable, cheap and affordable access to energy even in the most remote locations, indicate to us that there will be the need for ambitious, complex and long-term driven capex plans for decades to come. We view ourselves as socially conscious, environmentally aware investors, and place a high value in doing our part to encourage, promote and effect change for the betterment of society. As we have done so over the last 4 decades, we would like to continue being part of the evolution we are seeing in the energy space and part of being able to do so, is by having a stable and predictable framework by which we can rely on.

Kind regards

Q39 We are interested in understanding what categories of responders are completing this survey. Could you tell us:1) Your role in your firm. For example Buy Side Analyst (equity or credit?); Buy Side Portfolio Manager; Sell Side Analyst (equity or credit?); Sell Side Sales (equity or credit); Sell Side Trading; Corporate finance (Advisory; DCM; ECM; Corporate broker)? Investor relations; Other.2) Something about your employer. For example: institutional investor; private wealth manager; stockbroker; integrated investment bank; corporate involved in the energy utility sector; service provider (e.g. investor relations, information provider); Other.3)What type of fund within your firm do you manage or advise (if applicable). For example: quoted equity long-only; quoted equity long-short; credit or debt; private assets (e.g. infrastructure – debt; infrastructure – equity; private equity; credit); Other or Not Applicable.4) Extent of your exposure to UK utility sector. Less than or equal to USD 100m; More than USD 100m but less than USD 1 billion; USD 1 billion or more; Not Disclosed.

1	Buy Side
2	Institutional Investor
3	Long-only Public Equity + Private Equity + Real Estate + Credit
4	Not disclosed
