

Adama Joseph-Anyaegbu
Smarter Grids and Governance
Ofgem
9 Millbank
London
SW1P 3GE

16 December 2015

Dear Adama

Second consultation on the development and introduction of RIIO Accounts

Thank you for the opportunity to respond to the second consultation document. We have responded to your specific questions in the attachment to this letter, but also have some more general observations which are set out below.

In summary, at this stage we do not consider the key dependencies are sufficiently developed to support an early licence amendment. We encourage Ofgem to set out a clear timetable, including scheduled workshops to progress matters.

We would like to reiterate that we understand Ofgem's reasons for questioning the relevance of the Regulatory Accounts, and agree that the current basis, for those NWOs with a 31 March year end, adds little extra value to the statutory accounts and omits RIIO based metrics.

Our viewpoints on the framework and process for implementation of RIIO Accounts were expressed in the first consultation, so we will limit this response to the development of the process in the intervening three months. We support and want to work with Ofgem to get this right and we still remain firmly of the opinion that for this to be meaningful and successful appropriate time needs to be taken to address stakeholder concerns.

We welcome some positive developments in the process, most notably Ofgem's willingness to consider and act upon respondent's concerns about the timetable. We can also see that the process is now underway to develop the RIIO Accounts Supporting Module (RASM) and to scope a framework for the Regulatory Financial Reporting Standard (RFRS). One of our other main concerns regarding potential overlap and confusion with RIIO performance reporting has also been partially allayed with the extra information now available to us.

However, we note with some concern, that despite the aforementioned developments, there is still a considerable lack of detail available to us, most notably around the assumed inputs to the RFRS. In order for us to respond effectively on the key components within this consultation, we will need time to consider drafts of the RASM (Excel model) and RFRS.

We acknowledge that the first draft of the RASM Excel model has now been provided to us on the 3rd December and Ofgem held the first explanatory conference call on 15th December. However we have had insufficient time to adequately review and raise any issues in this consultation response; especially as we need to understand these in the context of the RFRS.

We look forward to contributing to the development at the initial workshop now arranged for the 25 January 2016.

However at this stage, it is difficult to respond to the principal question in any other way than to delay the licence modification until after the RFRS and RASM are more or less finalised (Option iii) which will provide the extra time needed to develop the framework such that we have more confidence in the requirements. Given the current stage of development, it seems unlikely that RIIO Accounts could be prepared instead of Regulatory Accounts for 2016-17. We don't yet see a credible timetable to sufficiently develop both the RASM and the RFRS by 1 April 2016.

This development of meaningful and useful RIIO accounts is important to us and our stakeholders. As stated in our response to the first consultation we are committed to positively engage with all stakeholders in this area and would like to be a part of the process to bring a relevant and transparent Regulatory reporting environment to fruition. We believe that delivering a meaningful framework needs careful and detailed consultation if it is ever to achieve its objectives. We therefore recommend taking the appropriate length of time to develop the framework and thereby avoid sub-optimal outcomes.

We look forward to working constructively with Ofgem on the RIIO Accounts project. In the meantime, please do not hesitate to contact me or Dave Ball on 08433 114174 to discuss any part of this response.

Yours sincerely,



Rob O'Malley
Head of Strategic Planning & Investor Relations

Appendix 5- FEEDBACK QUESTIONNAIRE (word format)

Thank you for taking the time to respond to our questions

We hope all the questions are understandable, If you have any difficulties please email Reg.finance@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 17 December 2015.

Section 1 - About you	
Your name	Rob O'Malley
Job title	Head of Strategic Planning & Investor Relations
Contact details	Rob.o'malley@enwl.co.uk
Organisation name	ENWL
Please state whether your response is confidential or not	No

Questions	Response
Chapter 1 – Concept and content of RIIO accounts	
1. Do you have any comments on the form and content of RIIO accounts illustrated in appendix 2?	We have a number of questions arising out of the form and content in appendix 2. Although the first draft of the RASM has been made available in recent days, it is still very difficult at this stage to understand what the framework means and how the proposals will work without the full detail of the expected inputs to the RASM and the draft of the RFRS. This has timetable implications; particularly for the proposed change to the licence. Given its late publication on the 3rd December of the first draft RASM, we have insufficient time to adequately review and raise any issues we may have in this consultation response; especially as we need to understand these in the context of the RFRS
Chapter 2 – Timetable and licence modifications	
2. Do you agree that the four implementation planning options set out in this chapter would allow for necessary flexibility in the timetable for implementing	We do agree that the four options do allow for flexibility in the timetable.

<p>RIIO accounts? If not, please suggest an alternative option.</p>	
<p>3. Out of the four proposed implementation planning options we set out, which do you consider to be achievable and desirable?</p>	<p>We do not believe that option (i) and (ii) are achievable at this stage. To agree to either options (i) or (ii) would require us to take a leap of faith in early January that the RASM and RFRS documents will have made the significant progress necessary to be in a "good" state for 1 April 2016. It is our understanding from the auditors that the RFRS still requires "considerable work" for it to satisfy the audit hurdle of "fairly presents" and with a first draft of the RASM Excel model only issued on 3rd December, we don't yet see a credible timetable to achieve this by 1 April 2016. As a consequence we view the only viable options as being (iii) or (iv). Our preferred option is to delay the licence modification until after the RFRS and RASM are more or less finalized (Option iii) which will provide the extra time needed to develop the framework such that we have more confidence in the requirements.</p>
<p>4. Do you have any comments on the draft licence condition set out in appendix 3?</p>	<p>As currently drafted, this could facilitate an instruction to produce RIIO Accounts instead of Regulatory Accounts for 2016-17 reporting. For the reasons outlined above, we do not believe this is realistic in the context of constructing a meaningful, relevant and accurate reporting framework.</p>
<p>Chapter 3 – The Regulatory Financial Reporting Standard</p>	
<p>5. Do you agree that the high level principles and prescribed regulatory framework set out in chapter 3 mean that RIIO accounts can be prepared on a 'fairly presents' basis?</p>	<p>It is our understanding that in its current stage of development the RFRS requires considerable further development to allow an audit on a fairly presents basis. Again, we need to see an initial draft before we can comment in detail and would be keen to understand from engagement with the audit firms the likely audit cost associated with compliance with the new RIIO accounts.</p> <p>It will be interesting to see how the balance between the high-level</p>

	<p>principles and the fairly presents basis is reached. A framework without the consistency and detail necessary for NWO comparability is likely to fall short in its relevance to the investor community. Likewise a mechanism that, for a large part, becomes notional in basis will have a similar outcome. We would be interested to understand in more depth how the investor community perceive the current framework.</p>
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Chapter 5 – Reporting on regulatory corporate governance

<p>6. Do you have further comments on the revised draft regulatory corporate governance principles?</p>	<p>Overall the updated guidance provided is useful and provides the focus necessary for stakeholders.</p> <p>Our only slight concern is that we have reported against the Code in a standard way at Ofgem’s request for some time and our shareholders, in their stewardship commitments to their fund investors, state that they expect the companies in which they invest to comply with the Code. We need to ensure that the development of the guidance aligns with investor expectations.</p>
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Chapter 6 – Impact assessment

<p>7. Do you agree with our assessment of the possible impacts?</p>	<p>We agree with the broad categories that the impact assessment addresses but at this early stage in the framework development would have to challenge several of the conclusions:</p> <p><u>Risks and unintended consequences</u> We note Ofgem’s awareness of some important risks surrounding the implementation of RIIO Accounts and would like to highlight our concerns in this area. Risks, both known and unknown, to the development and implementation of a brand new accounting framework may not simply be mitigated by options addressing the implementation process. As we have made clear elsewhere in this response, engaging with stakeholders and taking</p>
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the right length of time to introduce the framework are very important and will go some way to mitigate the risk issues, but we also need ongoing monitoring and flexibility to acknowledge and respond to unintended consequences and issues post implementation.

Cost and benefits

We are not yet convinced that RIIO Accounts will have a broadly neutral effect on regulatory compliance costs. Our Regulatory Accounts only differ from our Statutory Accounts in a requirement for segmental analysis; the marginal audit costs are therefore limited. However, we expect the ongoing audit for RIIO Accounts, given its specialist nature, to incur significantly higher costs than the current Regulatory format.

We also have one additional suggestion for possible impact assessment: we would also like to see how ongoing relevance of the new framework is likely to be assessed. How will uptake be regularly monitored? How will the investor community be engaged on an ongoing basis to ensure that what the RIIO Accounts delivers is relevant and useful to them? This is essential if the RIIO Accounts is to avoid the same path as the Regulatory Accounts.

ANY OTHER COMMENTS

8. Please use this section to let us know of any other thoughts you might have on the further development of RIIO accounts.

We have a number of detailed questions arising out of the RASM reports set out in Appendix 2. However, given a first draft of the model was only issued on 3rd December and that these need to be set within the context of an RFRS, we will raise any questions during the January workshop once we have had time to review the model, and hopefully, the RFRS adequately. .