

## 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](mailto: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.

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| <b>Section 1 - About you</b>                                     |  |
| <b>Your name</b>   | Keith Mawson   |
| <b>Job title</b>   | Head of Regulatory Finance   |
| <b>Contact details</b>   | keith.mawson@northernpowergrid.com   |
| <b>Organisation name</b>   | Northern Powergrid Holdings Company on behalf of its two licensed entities |
| <b>Please state whether your response is confidential or not</b> | Not confidential   |

| Questions   | Response   |
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| <b>Chapter 1 – Concept and content of RIIO accounts</b>   |  |
| 1. Do you have any comments on the form and content of RIIO accounts illustrated in appendix 2? | <p>We support the introduction of RIIO Accounts and believe that the provision of more tailored, transparent regulatory performance information is appropriate. Asset and revenue recognition principles which more closely align with the regulatory settlement are likely to result in more useful information for stakeholders than the values presented in the current regulatory accounts under IFRS.</p> <p>As we suggested in our previous response there was very little feedback from the wider stakeholder community to the open letter so it would appear the audience is narrow.</p> <p>The implementation of the RIIO model has led to the annual publication of the Price Control Financial Model following the annual iteration process, which is a step forward for the investor community and provides some key elements of the proposed information.</p> |

A 'RIIO Accounts Lite' approach could improve investor information in a targeted way with the lowest possible reporting burden.

We would be very supportive of Ofgem ensuring new requirements are kept to those that the stakeholders value.

We look forward to supporting the process of developing and refining the RIIO Accounts. We were pleased to receive the RIIO accounts support module (RASM) recently issued by Ofgem and welcome the opportunity to attend the RASM workshop in January. We expect to be able to provide more detailed feedback on the proposed form of the accounts once more specific requirements are known, but have included some initial feedback below.

The presentation of reconciliations to statutory accounts for NWOs with a December statutory year end will need careful consideration, as there will be reconciling items caused by the different time period being reported and differences in presentation between statutory accounts and a regulatory/RRP view of revenues and costs (due to both the requirements of the RFRS and existing RIGs requirements). The segmental analysis currently included in the regulatory accounts is not required to be included in statutory accounts as this is a specific requirement of the current licence in relation to regulatory accounts. This will make it more difficult to reconcile total values for revenues and costs from the statutory accounts to the values in the RIIO Accounts which will generally be within price control values.

We are unsure at this stage how the mixture of regulatory balances (e.g. RAV) and historical cost accounting balances (e.g. working capital and net debt) will work in practice. We should

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|   | <p>be in a better position to assess and comment on this following Ofgem's RASM workshop.</p> <p>The provision of Appendix 2 as an example format is a useful start. We feel that care will need to be taken in the development of the format to enable stakeholders to understand the accounts. For example, adequate definition within the accounts of the terms used will be important to enable users to understand the statements.</p>   |
| <b>Chapter 2 – Timetable and licence modifications</b>  |   |
| <p>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 RIIO accounts? If not, please suggest an alternative option.</p> | <p>In our opinion, option iii "Delay licence modifications until after the RFRS and RASM are more or less finalised" is an appropriate approach. There is currently too much uncertainty in respect of the RFRS and audit sign-off to commit to licence drafting at this stage. This option would allow more definitive and straightforward licence drafting. It would be difficult to draft the licence condition adequately without an appropriate level of detail and confidence in requirements, which is likely to lead to further licence modifications being required at a later date.</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>Option iii is our preferred option, as described above. Options i and ii include potentially varying implementation dates at either Ofgem's or the licensee's discretion, neither of which we feel is desirable. Option iv is less risky but defers the formal introduction until 2017/18, which may not be necessary.</p>   |
| <p>4. Do you have any comments on the draft licence condition set out in appendix 3?</p>  | <p>Paragraph 44.3, describing the purpose of RIIO Accounts is not required in the licence condition and should be removed.</p> <p>In its current form, paragraph 44.5 allows the Authority to specify that the licensee must produce RIIO Accounts for 2016/17. We feel uncomfortable</p>   |

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|  | <p>about such uncertainty being built into the licence condition and strongly favour waiting until we are all in a better position to judge the appropriate date for the introduction of RIIO Accounts.</p> <p>44.8 (c) requires a Regulatory Cash Flow Statement to be included – we could not see a cash flow statement in Appendix 2 of the consultation. Instead there is a Net Debt note, which is an equivalent statement.</p> <p>44.9 “The RFRS may include” should be changed to “The RFRS includes”. The substance of the RFRS needs to be suitably developed before licence modification takes place.</p> <p>44.9 (b) (iv) Remove “well-reasoned” – not required.</p> <p>Part E – is an option for DNOs to propose changes to the RASM required? This could be done via a working group, such as the ED1 Price Control Financial Model Working Group.</p> |
| <b>Chapter 3 – The Regulatory Financial Reporting Standard</b>   |   |
| <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>We are unable to give an opinion at this stage on whether the accounts can be prepared on a ‘fairly presents’ basis.</p> <p>We believe that the involvement of audit firms in the evolution of the audit sign-off requirements and the RFRS is an important part of Ofgem’s approach.</p>  |
| <b>Chapter 5 – Reporting on regulatory corporate governance</b>  |   |
| <p>6. Do you have further comments on the revised draft regulatory corporate governance principles?</p>  | <p>We welcome Ofgem’s view that it is not necessary or helpful to require NWOs to report on their corporate governance as if they were listed companies. However, Ofgem goes on to comment that the regulatory corporate governance principles expand on the principles of corporate governance set out in the UK Corporate Governance Code, which appears to be</p>  |

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|  | <p>somewhat contradictory.</p> <p>In any event, we would agree that the approach to the regulatory governance statement and the application of the regulatory corporate governance principles should not be prescriptive so allowing boards of directors to have discretion and flexibility over the content of the regulatory governance statement.</p>  |
| <p><b>Chapter 6 – Impact assessment</b></p>  |   |
| <p>7. Do you agree with our assessment of the possible impacts?</p>  | <p>We are not sure that the introduction of RIIO accounts will help investors understand NWOs' earnings potential and risk levels better than they already do, so we are not convinced that this will materially benefit NWOs' ability to finance their businesses effectively. Accordingly, the 'benefits' may be overstated in Ofgem's 'costs and benefits' section of the 'impact assessment.'</p> |
| <p><b>ANY OTHER COMMENTS</b></p>   |   |
| <p>8. Please use this section to let us know of any other thoughts you might have on the further development of RIIO accounts.</p> | <p>Please see our covering letter.</p>  |