

By E-mail

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Your ref

Our Ref

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Date

17th December 2015

Contact / Extension

Allan Hendry

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Dear Ian,

Proposals to develop RIIO Accounts

SP Distribution plc, SP Manweb plc. and SP Transmission plc. are the companies holding Scottish Power's regulated assets and distribution and transmission licences. Further to your consultation issued on 4th November 2015 on proposals to develop RIIO Accounts, please find attached the response on behalf of all three licensees.

In summary, we are supportive of the aim to provide stakeholders with more transparent and informative regulatory financial information, and to simplify the number of regulatory documents which surround reporting for electricity networks.

The move away from internationally recognised accounting standards (IFRS) to regulatory financial reporting standards (RFRS) for RIIO Accounts is a major undertaking and as such we support the more extended timescales suggested by Ofgem to allow engagement with the audit community, and trials of the RFRS reporting, before formal publication.

We agree that RIIO Accounts to 31st March are not published any sooner than 30th September each year.

We would urge Ofgem to consider options to avoid duplication across our various reporting obligations. We must also be mindful of stakeholders' calls to make RIIO more comprehensible to those not necessarily familiar in detail with the UK regulatory framework.

If you have any queries on this response or any further questions, please do not hesitate to contact either myself or Chris Elderfield.

Yours sincerely,



Allan Hendry
Head of Licence & Revenue
SP Energy Networks

FEEDBACK QUESTIONNAIRE

Section 1 - About you	
Your name	Allan Hendry
Job title	Head of Licence & Revenue
Contact details	Allan.Hendry@ScottishPower.com
Organisation name	SP Energy Networks, including: <ul style="list-style-type: none"> • SP Transmission • SP Distribution • SP Manweb
Please state whether your response is confidential or not	Not confidential

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?	<p>We concur with respondents to the previous Open Letter that RIIO Accounts to 31st March each year are published by 30th September, given the complexities involved in their preparation.</p> <p>We are keen to avoid any duplication of reporting and would suggest that RIIO Accounts, and the proposed RIIO-ED1 Annual Performance Report are considered for combining into a single report to aid accessibility and navigation for stakeholders.</p> <p>Alignment with any other reporting under Regulatory Instructions and Guidance (RIGS) would also aid stakeholders and the wider industry by providing simpler and more transparent information. In particular it is key that Return on Regulatory Equity calculations are prescribed clearly and consistently across all sectors if these appear in more than one report.</p> <p>We feel that the mix of actual and notional values in the RIIO Accounts could pose a challenge for readers. Consideration should be given to highlighting values that are notional.</p> <p>The example RIIO Accounts include a significant</p>

number of notes to the accounts. Whilst some explanatory text will be useful to stakeholders, we question whether all of the detailed reconciliations will be comprehensible and worthy of publication.

Much of the draft RIIO Accounts terminology uses wording directly from the licence or supporting spreadsheets (such as the Price Control Financial Model). It may be more appropriate to revisit these terms to make the accounts more accessible for stakeholders.

The proposal to remove Regulatory Accounts, in favour of RIIO Accounts, raises a number of practical issues for Licensees with a 31st December year-end. We note that accounts, in some form, to 31st March are still likely to be required in addition to the RIIO Accounts.

The numbers from the Regulatory Accounts are currently used to populate certain RRP reporting tables prepared to 31st March including: Distribution "Financial Issues" pack (tables F1 to F9), and the Transmission Cost and Output pack (Finance tables 1.1 to 1.13). The Regulatory Accounts also support (for example) the actual debt numbers used in the tax clawback calculations for the PCFM Annual Iteration Process.

If these numbers cannot be sourced from the new RASM, then a separate preparation and audit exercise may still be required to 31st March. A detailed analysis of data flows may be necessary to understand the risks and dependencies currently inherent in the Regulatory Reporting framework.

There is an opportunity to avoid duplication and confusion by removing certain tables from the RRP packs (e.g. the Financial Issues tables), and referring directly to the newly created RIIO Accounts.

Chapter 2 – Timetable and licence modifications

1. Do you agree that the four implementation planning options set out in this chapter

We agree that the licence drafting as proposed (option 1) appears to provide flexibility for the

<p>would allow for necessary flexibility in the timetable for implementing RIIO accounts? If not, please suggest an alternative option.</p>	<p>timing of the switch from Regulatory Accounts to RIIO Accounts.</p>
<p>2. Out of the four proposed implementation planning options we set out, which do you consider to be achievable and desirable?</p>	<p>The move away from internationally recognised accounting standards (IFRS) to regulatory financial reporting standards (RFRS) for RIIO Accounts is a major undertaking – we support the extended timescales suggested by Ofgem to allow engagement with the audit community, and trials of the RFRS reporting, before formal publication.</p>
<p>3. Do you have any comments on the draft licence condition set out in appendix 3?</p>	

Chapter 3 – The Regulatory Financial Reporting Standard

<p>1. 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 welcome Ofgem's engagement with the accounting and audit community in the development of the RFRS, and believe that they are well placed to comment on the 'fairly presents' requirements.</p> <p>We would highlight that 'agreed upon procedures' may be more achievable if RFRS development becomes protracted, and that continued engagement with the audit community will be essential to progress the 'fairly presents' objective.</p> <p>We believe that adherence to the RFRS should be compulsory and prescribed by Ofgem – otherwise this would introduce inconsistencies of reporting across energy distribution businesses, in contrast to the comparability which they seek to encourage, for the benefit of investors and stakeholders.</p>
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Chapter 5 – Reporting on regulatory corporate governance

<p>1. Do you have further comments on the revised draft regulatory corporate governance principles?</p>	<p>We note Ofgem's comment in the consultation that "<i>network companies are not listed companies... and we believe it is not necessary or helpful to require them to report on their corporate governance as if they were</i>"</p> <p>We refer to our previous submission to Ofgem's Open Letter on RIIO Accounts for details of how the SPEN group of companies complies with</p>
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	<p>significant existing corporate governance requirements and disclosures.</p> <p>We also highlight the potential conflict with Directors Duties under the Companies Act 2006 ("CA 2006"). In particular S172(1) of the CA 2006 provides that "[a] director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole". Section 172 of the CA 2006 is therefore clear that directors must promote the success of the company for the benefit of its shareholders.</p> <p>The proposals set out in this consultation would require directors to formally give weight to the interests of consumers and in particular, report on the benefit consumers have received from the company's performance. SPEN is fully aware of consumer interests. Equally, their directors are aware of their duties to shareholders under the CA 2006. Although it does not follow that consumer and shareholder interests will always be different, it is also clear that they will not always be aligned and therefore the possibility of conflict may arise</p>
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Chapter 6 – Impact assessment

<p>1. Do you agree with our assessment of the possible impacts?</p>	<p>As well as the legislation mentioned at paragraph 6.2 of the consultation, we believe the Authority should take into account the regulations and guidance which it imposes as a result of that primary legislation. For example, the Regulatory Instructions and Guidance applicable under various or Licence Conditions.</p> <p>In addition, other directly relevant legislation such as Statutory Instruments should be included. For example "<i>Statutory Instrument 2015 No.699 Electricity - The Electricity (Standards of Performance) Regulations 2015</i>" coming into force 1st April 2015, as made by GEMA.</p>
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ANY OTHER COMMENTS

<p>1. Please use this section to let us know of any other thoughts you might have on the further development of</p>	<p>We note that the proposed licence condition and Accounts examples are relevant for Distribution only. We appreciate that these are illustrative examples and presume that an equivalent</p>
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RIIO accounts.

licence condition will be created for Transmission (SLC B1) as well as equivalent notes to the accounts as these will also vary due to differing incentives/licenced terms.