

Adanma Joseph-Anyaegbu
SG&G Distribution
Ofgem
9 Millbank
London
SW1P 3GE

17 December 2015

Dear Adanma

RIO Accounts: Consultation on our proposed framework

Thank you for the opportunity to respond to the above consultation, dated 4 November. This letter should be treated as a collective response on behalf of UK Power Networks' three licensed distribution companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc – herein known as UK Power Networks.

As requested, we have used Ofgem's feedback questionnaire to provide detailed comments in response to the consultation questions; please see the appendix to this letter. We are pleased with the direction that this consultation is now taking. We strongly recommend that both the RFRS and RASM documents should be finalised before any license modifications are undertaken, so that licensees clearly understand the requirements that must be adhered to.

I hope that you will find our response helpful. If you have any questions, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Hope', with a stylized flourish at the end.

James Hope
Interim Head of Regulation
UK Power Networks

Copy Paul Measday, Regulatory Reporting & Compliance Manager, UK Power Networks

Appendix

Section 1 - About you	
Your name	James Hope
Job title	Interim Head of Regulation
Contact details	james.hope@ukpowernetworks.co.uk
Organisation name	UK Power Networks
Please state whether your response is confidential or not	Non-confidential

Questions	Response
Chapter 1 – Concept and content of RIIO accounts	
<p>1. Do you have any comments on the form and content of RIIO accounts illustrated in appendix 2?</p>	<p>We welcome the development of a set of statements that enables proper focus on the intentions of the consultation. We would like to see a comprehensive set of instructions issued that clarifies what is intended to be captured in each line of the statement, as well as a specific glossary of terms that may be used to enable the reader of the accounts to understand what each acronym refers to (TIM, MOD etc).</p> <p>We also note that the accounts do not cast correctly, which is probably a result of adding unrounded numbers and using formatting to round. We believe that this should be corrected in the final model.</p> <p>In terms of specific points of feedback:</p> <ul style="list-style-type: none"> • Measurement of enduring value <p>The current proposal requires DNOs to adjust their observed performance each year due to re-profiling of investment. It is our view that this should be limited to major schemes which have been specifically identified in the price control settlement. In general the price control settlement provides allowances by expenditure category and does not specifically identify the total allowed expenditure, or the associated phasing, by scheme or project. The adjustment would also need to consider that if an investment has been deferred then the customer</p>

benefit for that year is higher than it should be, and this would need to be adjusted for in the calculation of both the equity return and the RAV.

- Calculation of return on regulated equity

In calculating the totex incentive element of the equity return for an under/overspend, Ofgem allocates all of the additional return and depreciation attributable to the DNO to the year in which it occurs. However, it also attributes that additional return and depreciation to the RAV via the TIM uplift to RAV adjustment. Therefore, in calculating the Return on Regulated Equity (RORE), the additional return and depreciation is in both the numerator and denominator. To calculate the RORE, the TIM uplift should be removed from the RAV used to generate the regulatory equity.

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 RIIO accounts? If not, please suggest an alternative option.

We are of the view that no licence modification should be made until after the RFRS and RASM documents are finalised, as we do not believe it is appropriate for licensees to commit to a requirement which has not been finalised.

The licence condition would need to be amended to cater for this ordering of finalisation of documents.

We have no objection in principle to adopting the proposed revised framework for the regulatory year ended 31 March 2017 and welcome the proposed amended completion deadline to 30 September each year. However, Ofgem should consider whether a later deadline is more appropriate for the first year of operation, to enable teething problems to be resolved (notwithstanding the need for a dry run in the preceding year).

<p>3. Out of the four proposed implementation planning options we set out, which do you consider to be achievable and desirable?</p>	<p>Please see our answer to question 2.</p>
<p>4. Do you have any comments on the draft licence condition set out in appendix 3?</p>	<p>Our feedback on the draft condition is set out below; however, we believe that once Ofgem has consolidated feedback from all respondees, it would be beneficial to seek input from the DNO Licence Drafting Working Group (LDWG), to ensure the draft is fit for purpose before any statutory consultation.</p> <ul style="list-style-type: none"> • The section entitled “Purpose of RIIO Accounts” should be merged with the “Introduction” section for consistency with other conditions introduced at RIIO-ED1 • It is unclear what happens if the Authority does not issue a direction under 44.6(b). It appears that neither Regulatory Accounts nor RIIO Accounts need to be prepared • We are unclear as to the need for paragraph 44.7(d), which obliges us to keep a copy of the accounts at our principal place of business. In line with other licence conditions, the publishing of documents on the licensee website by a specific point in time is sufficient in this digital age to meet stakeholders’ requirements. • Bullet (d) in paragraph 44.9 should be removed as it allows for the scope of the RFRS to be extended to cover any items and does not restrict it to those which are appropriate for this subject matter.

Chapter 3 – The Regulatory Financial Reporting Standard	
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?	We note that Ofgem are in discussion with the main audit firms and it is for those firms to confirm that they may provide a fairly presented audit opinion at a cost to the business, and ultimately consumers, that is seen to be a net benefit.
Chapter 5 – Reporting on regulatory corporate governance	
6. Do you have further comments on the revised draft regulatory corporate governance principles?	We have no further comments.
Chapter 6 – Impact assessment	
7. Do you agree with our assessment of the possible impacts?	We generally agree with the impact assessment; however, we believe that Ofgem's assertion that a revised reporting framework will lead to more efficient financing is speculative. From the consultation it is not clear that investors or analysts have responded to the original consultation and therefore explicitly supported this position.
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 no further comments.