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17<sup>th</sup> December 2015

## **Ofgem RIIO Accounts: Consultation on Proposed Framework**

Dear Adanma,

Wales & West Utilities Ltd (WWU) is a licensed Gas Distribution Network (GDN) providing gas transportation services for all major shippers in the UK. We cover 1/6<sup>th</sup> of the UK land mass and transport gas to over 2.5 million supply points.

We continue to welcome the ongoing engagement by Ofgem on their proposal to replace the current annual regulatory accounts, as required under standard special condition A30 of our licence, with a more simplified set of RIIO regulatory financial statements which better fit with the wider stakeholders' requirements.

As you are aware, the current regulatory accounts are required to be prepared as if the Network Operators (NWOs) were a listed company and contain the majority of the disclosures required by a UK listed company. This includes significant disclosure notes which we perceive to have little value to either Ofgem or our wider stakeholder community.

Simplifying these regulatory accounts to show two primary statements (i) a statement of regulatory financial performance, and (ii) the statement of regulatory financial position, along with a governance statement and explanatory notes, as suggested by Ofgem, would increase their usefulness, focus effort on information stakeholders require and reduce the time taken to prepare.

However, it is important that the information that these new statements contain can be readily sourced and that the content is understandable to the reader, whether informed or casual.

We note that significant levels of detail are currently provided by the NWOs to Ofgem annually, notably through the RRP process. If Ofgem considers it is this information which they require to ensure that the NWOs act in the interest of consumers, then it is likely that the new RIIO regulatory financial statements will largely be formed from this same information, but at a more consolidated level. It is unlikely that any additional, newly collected, information should be required.

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The RIIO regulatory financial statements should meet the general requirements of a broad cross-section of stakeholders rather than the needs of any individual stakeholder group. We also note that certain specific stakeholder groups, for example rating agencies and Pension Scheme Trustees, already have access to alternative sources for the information they require.

The content of the new reporting framework is therefore likely to continue to develop through the consultation process as views from stakeholders are obtained and evolve.

Further detailed discussion is required on the precise content and application of the new reporting framework, both with companies and auditors. We would therefore welcome further opportunity to formally comment before Ofgem make any minded to decision on the introduction of RIIO regulatory financial statements and associated assurance requirements.

In our view, keeping this information straight forward will aid its usefulness. There are obvious complexities in pulling disparate information together under one framework, one example of which is building RAV balances into a statement of regulatory position which largely represents historic cost positions for most reported assets and liabilities. This is likely to add complexity to the regulatory financial performance statement in reconciling from one statement of regulatory position to the next.

In addition, if the work the auditors undertake is performed as agreed upon procedures, this could limit the type of opinion which they are able to provide on the RIIO regulatory financial reporting when compared to the regulatory accounts prepared under the Companies Act 2006.

We look forward to continuing to discuss the proposals for new RIIO regulatory financial reporting with Ofgem.

Yours sincerely,



Steve Edwards  
Head of Regulation  
Wales & West Utilities Ltd

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## 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.

Section 1 - About you	
<b>Your name</b>	Steve Edwards
<b>Job title</b>	Head of Regulation
<b>Contact details</b>	Steven.j.edwards@wwutilities.co.uk
<b>Organisation name</b>	Wales & West Utilities Ltd
<b>Please state whether your response is confidential or not</b>	Our response is not confidential

Questions	Response
<b>Chapter 1 – Concept and content of RIIO accounts</b>	
<b>1.</b> Do you have any comments on the form and content of RIIO accounts illustrated in appendix 2?	<p>Wales &amp; West Utilities Ltd (WWU) has a healthy relationship with a broad spectrum of stakeholders.</p> <p>We note that we are not aware that any of our stakeholders have requested further information beyond that which we have provided publically or, for specific stakeholder groups, in individual meetings; for example with bodies such as Trustees, rating agencies and debt investors.</p> <p>Before we can comment in detail on the example accounts we would need to understand in more detail how a number of the line items are proposed to be calculated.</p> <p>In particular Ofgem's view of:</p> <ul style="list-style-type: none"><li>• Materiality in relation to the preparation of RIIO accounts;</li><li>• the impact of over or under achievement of outputs in any particular year;</li><li>• treatment of asset disposals; and</li><li>• how periodic allowances should be treated in years between their award, such as DRS.</li></ul> <p>Previously we understood that the RIIO</p>

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	<p>accounts would only look at regulated activities. From the illustration included in the consultation it now appears that non-regulated activities are also captured.</p> <p>We wish to continue working with Ofgem to achieve a satisfactory outcome for all.</p>
<p><b>Chapter 2 – Timetable and licence modifications</b></p>	
<p><b>2.</b> 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>The four options do provide flexibility.</p> <p>We continue to request that the RIIO accounts are subject to a “dry run” before being issued more generally.</p>
<p><b>3.</b> Out of the four proposed implementation planning options we set out, which do you consider to be achievable and desirable?</p>	<p>We prefer option iv) “defer formal requirement for RIIO accounts until 2017-18”.</p> <p>This would allow for a dry run in 2016-17 based off a fully laid out Regulatory Financial Reporting Standard (RFRS) and RIIO Accounts Support Module (RASM), enabling the NWOs to sign up to licence changes which are fully understood.</p> <p>The other options could result in NWOs agreeing to licence changes prior to a full understanding of the RFRS and RASM and therefore not being aware of all consequences.</p> <p>It is important that adjustments and differences between the statutory accounts and the RIIO accounts are well understood by stakeholders such that incorrect conclusions are not drawn.</p>
<p><b>4.</b> Do you have any comments on the draft licence condition set out in appendix 3?</p>	<p>The current draft licence condition appears to increase Ofgem’s ability to change the scope and coverage of the RFRS and RASM more easily after it has been first implemented than was possible with the existing regulatory accounts under licence condition SSC A30.</p> <p>The RFRS can be issued and modified by direction from Ofgem, the only constraint is that Ofgem is required to consult in advance of such a change.</p> <p>There is also no regard to the materiality of</p>

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	<p>costs the licensee may incur in complying with any changed requirements under the RFRS.</p> <p>This causes concerns as the effect is that of modifying a licence condition, but without the right of appeal to the CMA, which is inherent in licence condition changes.</p> <p>To ensure appropriate governance and safeguards for both Ofgem and the NWOs, changes to the RFRS or the RASM should be subject to the same rigor and requirements as changes to licence conditions.</p>
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### Chapter 3 – The Regulatory Financial Reporting Standard

<p><b>5.</b> 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 will defer to the audit firms who audit the various NWOs in answering the question.</p> <p>Our understanding from discussions with our auditors, is that to achieve a ‘fairly presents’ opinion, the RFRS will need to provide a high level of guidance and prescription for the treatment of certain items and the line item presentation and calculation within the RIIO accounts. In order to assess whether this can be achieved, the detail of the RFRS will need to be reviewed and understood, as well as the high level principles.</p>
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### Chapter 5 – Reporting on regulatory corporate governance

<p><b>6.</b> Do you have further comments on the revised draft regulatory corporate governance principles?</p>	<p>All Boards of UK companies are required to report on their corporate governance in accordance with the Companies Act 2006, having regard to the size and type of entity reporting.</p> <p>The narrative disclosures included within the strategic report, report of the directors and the corporate governance statement could be produced as a standalone governance document in modified form, which would not require separate RIIO accounts. However, the specific information to be included within the corporate governance statement requires clarification.</p> <p>These could be subject to examination under agreed upon procedures.</p> <p>We are in general agreement with the draft corporate governance principles, and note that these largely reflect the existing corporate governance code for listed companies in the UK, extended to incorporate the regulated nature of the businesses.</p>
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	<p>We are also of the opinion that the level of corporate governance disclosure in the current regulatory accounts is sufficient to meet the requirements of the new proposed RIIO accounts.</p>
<p><b>Chapter 6 – Impact assessment</b></p>	
<p><b>7.</b> Do you agree with our assessment of the possible impacts?</p>	<p>There are likely to be a number of adjustments required to move from Companies Act compliant accounts of the regulated entities onto the proposed basis for RIIO accounts.</p> <p>It is important that such adjustments are well understood by stakeholders such that incorrect conclusions are not drawn.</p> <p>It is difficult to reach a view on possible impacts until the detailed composition of the RIIO accounts is set out and understood.</p>
<p><b>ANY OTHER COMMENTS</b></p>	
<p><b>8.</b> Please use this section to let us know of any other thoughts you might have on the further development of RIIO accounts.</p>	<p>We remain keen to ensure that the introduction of a further set of accounts shouldn't lead to confusion amongst NWOs stakeholders.</p> <p>It is important that any reasonable requirements of a broad cross section of stakeholder groups, which are not currently met, are duly considered and that targeted information is produced as appropriate.</p> <p>Careful consideration should be given to the timing of the submission of these new accounts and their interaction with other returns/ information provided to Ofgem. An example is the interaction with the PCFM, which is not finalised until later in the year. This may lead to inconsistent data being published. We acknowledge Ofgem's approach to deferring publication of the RIIO accounts to 30 September, however, the PCFM is finalised after this date and therefore inconsistent information may still be published.</p> <p>Given the uncertainties identified above, we consider that further discussions are required between the NWOs, Ofgem and other interested parties before a minded to position is issued.</p>

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