



3rd Floor North
200 Aldersgate Street
London EC1A 4HD
Tel: 03000 231 231

citizensadvice.org.uk

16 December 2015

RIIO Accounts: Citizens Advice Consultation Response

Dear Adanma,

Citizens Advice are pleased to have the opportunity to comment on the proposed framework for the RIIO accounts. While having a number of suggestions regarding how these accounts are framed and how they could be usefully supplemented, we regard them as a significant, welcome step forward in delivering greater transparency and accountability about the detail of networks' financial performance.

We believe it is also important to consider network companies' reporting and accountability framework holistically to ensure that the outputs form a coherent whole. When considering the myriad reporting outputs that networks are required to produce, it is difficult for stakeholders to form an overall picture of networks' performance. We hope that this will be looked at as part of developing the RIIO accounts as well as more generally in Ofgem's work plan. We have been in ongoing discussions with Ofgem regarding the RIIO performance reporting requirements and many of our suggestions here reflect similar themes.

On the principal question for consultation, we are broadly content with the proposal to be more flexible regarding the implementation of RIIO accounts (subject to the points discussed under the heading '**Consultation document clarity**') and support the aim of minimising regulatory burden by replacing rather than further developing the current Regulatory Accounts. Our main suggestion, discussed under the heading '**Proposed addition to RIIO accounts**', is to supplement this with a summary of key financial metrics.

We also support making the necessary licence modifications in advance of the regulatory year 2016-17 so that RIIO accounts can be implemented for the 2016-17 accounts. There would, we think, need to be compelling reasons to further delay the implementation of RIIO accounts.



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Context to our approach

The average household pays £300 a year for gas and electricity networks, while network companies frequently enjoy double-digit returns on investment in what are very low-risk assets. These returns may very well be justified for exceptional performance. But because networks' reporting on their performance is too often opaque, it is difficult for an informed observer to conclude that exceptional performance is occurring. Should political and media attention turn to the regulator-permitted rewards enjoyed by network companies, it will be reputationally important for both Ofgem and the networks to be able to transparently demonstrate that companies' performance justify these excellent returns. As the Energy and Climate Change Committee have commented:

*'We also heard that there is further scope to reduce complexity by standardising the reporting between network companies, to enable more 'like-with-like' comparisons...this lack of information makes it more complex to assess whether or not the price controls are providing value for money.'*¹

This is why Citizens Advice has increasingly focussed on the need for transparent reporting on networks' performance, most recently put forward in our report *'Beginning to see the light'*². It is these concerns that drive our response to this consultation. In the aforementioned report, we made the case that networks' reporting outputs should be:

- Non-whitewash - they should be an unbiased account of network performance that clearly links outputs to returns.
- Findable - reports should be prominent on both networks' and Ofgem's websites.
- Simple - reports should be concise and fully understandable by non-specialist readers.
- Comparable - Reports should be standardised across form and content.
- Timely - reports should be at regular, frequent intervals.

¹House of Commons Energy and Climate Change Committee. (2015) [Energy network costs: transparent and fair?: Government Response to the Committee's Sixth Report of Session 2014–15 - Seventh Special Report of Session](#) 2014-15. p.5.

²Citizens Advice. (2015) ['Beginning to see the light'](#).



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These are the principles by which we assess the adequacy of the RIIO accounts for a non-expert audience.

How the proposals meet this framework

The RIIO accounts make significant progress in meeting the benchmarks above. We welcome the annual reporting deadline for the accounts.

It is also encouraging that the accounts for all networks will meet a common specification. However, we are concerned that comparability among network companies will be hindered if special dispensation is granted for some networks to produce accounts under the old framework in 2016-17 (as proposed in 2.11, *ii.*). Excepting certain companies from producing accounts under the new framework strikes us as an unnecessary weakening of the proposed changes. All network companies should be expected to comply with the RIIO accounts framework from 2016-17.

We are also unclear about how findable the RIIO accounts will be. The draft proposed licence condition removes the requirement to publish accounts on a section of their website that is 'readily accessible' (Para 44.15 (c))³. Similarly, the requirement that the network companies 'secure adequate publicity' for their accounts has also been removed (Para 44.15 (d)). We would expect to see these conditions maintained in the new licence.

Proposed addition to RIIO accounts

Ofgem's proposal is for the RIIO accounts to comprise two primary financial statements of regulatory financial position and regulatory financial performance. Our principal suggestion is to require a third component of the accounts: a summary of the headline financial metrics that is comprehensible to the general public and stakeholders. This would help fulfil the simplicity criterion outlined above.

While it seems likely that the first two elements of the RIIO accounts will be typically advantageous to investors, and presentationally cater to an audience of professional accountants and auditors, they will be more difficult for a non-expert audience to parse and analyse. The efficacy of the price control system depends

³ References refer to Standard Condition 44 of the electricity distribution licence, on which your proposed licence change is based.



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on effective scrutiny of network companies' performance - both by Ofgem and by relevant stakeholders. However, most stakeholders will not have the relevant accounting expertise to trawl through lengthy accounts to identify the most salient information. Ensuring that network companies provide key financial performance information in a digestible format will substantially aid this essential scrutiny process.

In *'Beginning to see the light'*, we have outlined a suggested template for a summary of networks' performance to accompany the annual RIIO Performance report that network companies publish (which was highlighted in your consultation *'How we report on electricity distribution company performance'*). We envisage a similar summary would be useful for the RIIO accounts, including key financial indicators such as companies' RORE, TOTEX, RAV, rewards and penalties, and allowed revenues. This should be accompanied by a glossary of terms, providing details on what each of these terms mean.

All of this information could be drawn from the RIIO accounts and other network reporting outputs - in our view, it would therefore not place additional reporting burdens on networks.

Other comments

Paragraph 1.11 of the consultation document states that '[Ofgem] have a strong sense from investors - who are our main intended audience of these accounts - that there is limited value in the current regulatory accounts'. While we share your view that investor confidence is an essential component of bringing long-term benefits for consumers, we do not believe that investors should be the only audience for the accounts - and the utility of these accounts for other audiences will be constrained if they are developed on the basis of this assumption. We hope our proposal, above, will go some way to addressing this concern.

In our response to your prior accounts consultation, we argued that consumer welfare should be taken into account in the regulatory corporate governance principles. We therefore welcome the additional governance obligation for networks to demonstrate how their participation in industry code governance arrangements promotes the interests of consumers and stakeholders. There remains scope to extend this - in our view, promoting the interests of consumers



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and stakeholders should permeate all network companies' activities and it would be appropriate to further consider including a separate section on consumer welfare.

Consultation document clarity

The consultation document is, on the whole, commendably clear. However, it would have been useful for Ofgem to have summarised the differences between the licence condition for the Regulatory Accounts (taken from the electricity distribution licence) and the proposed RIIO accounts, to allow respondents to easily comprehend the differences between the two conditions.

As identified under the heading '**How the proposals meet this framework**', some aspects of the current licence requirements have not been migrated to the proposed licence condition. While the omissions we identify there are - in the scheme of things - relatively minor, they are not made clear in the consultation document. For stakeholders to be able to effectively interrogate Ofgem's proposals, all proposed changes need to be described as clearly as possible and we would hope to see greater explanatory detail in the statutory consultation on licence modifications in January 2016.

This response is not confidential. If you would like to discuss any of the points made in this consultation response, please do not hesitate to contact me.

Yours sincerely,

Morgan Wild
Senior Policy Researcher
Citizens Advice



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About Citizens Advice Service in England, Wales and Scotland

The Citizens Advice Service provides free, confidential and impartial advice to help people resolve their problems. As the UK's largest advice provider, the Citizens Advice Service is equipped to deal with any issue, from anyone, spanning debt and employment to housing and immigration plus everything in between. We value diversity, promote equality and challenge discrimination.

The service aims:

- to provide the advice people need for the problems they face.
- to improve the policies and practices that affect people's lives.

Citizens Advice Bureaux deliver advice services from over 3,500 community locations in England and Wales, run by 382 independent registered charities. Citizens Advice itself is also a registered charity, as well as being the membership organisation for these 382 member bureaux.

Citizens Advice Scotland, its 61 member bureaux, consumer helpline and Extra Help Unit form Scotland's largest independent advice network. CAB advice services are delivered using over 250 service points throughout Scotland, from the islands to city centres, and through our helplines. Together, the Citizens Advice Service in Scotland helped 300,000 people with nearly 1 million issues in 2013/14.

Consumer Futures transferred to Citizens Advice and Citizens Advice Scotland in April 2014 as part of the UK Government's consumer landscape changes, and is a GB-wide service.

Consumer Advocacy in Citizens Advice

Citizens Advice and Citizens Advice Scotland represent consumers across essential regulated markets. We are the statutory consumer advocate for energy and postal services in Great Britain and for water in Scotland. We use compelling evidence and expert analysis to put consumer interests at the heart of policy-making and market behaviour. We have a number of



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responsibilities, including unique powers to require private and public bodies to disclose information.

We tackle issues that matter to consumers, working with people and a range of different organisations to champion creative solutions that make a difference to consumers' lives.

Patron HRH The Princess Royal

Chief Executive Gillian Guy

Citizens Advice is an operating name of the National Association of Citizens Advice Bureaux

Charity registration number 279057 VAT number 726 0202 76 Company limited by guarantee Registered number 1436945 England

Registered office: 3rd Floor North, 200 Aldersgate Street, London EC1A 4HD