

Reference

CA-1234/1

Date

6 December 2017

Cadent Gas Limited

Ashbrook Court, Prologis Park

Central Boulevard

Coventry CV7 8PE

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Mick Watson
RIIO Finance
9 Millbank
London
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Dear Mick

Cadent response to consultation Introduction of RIIO Accounts – further consultation on licence modification and feedback to Ofgem on 31 March 2017 RIIO Accounts process

This response is made on behalf of Cadent Gas Limited ("Cadent") and can be published by Ofgem.

Cadent is supportive of initiatives that promote clarity, transparency, consistency, and objectivity of information provision across energy networks and we recognise that this is the intent of the RIIO Accounts. We acknowledge that the stakeholders require additional transparency of returns, and they are entitled to receive information which is accurate, useful and clear. We have committed significant resources over the past 12 months to evaluate the proposals made by Ofgem and make constructive suggestions to aid the overall process. We have been working with our stakeholders both internally and externally to progress and advance the RIIO Accounts with the working groups and consequently have identified the following key concerns:

- Ofgem must consider the proportionality of the anticipated improved quality of information provided to stakeholders and the time, effort and cost of producing this information which will ultimately be borne by the customers. We recognise that information provision is an important and necessary cost, but have concerns about the efficiency of the RIIO Accounts process.
- In order for the RIIO Accounts to be of value to stakeholders, Ofgem must develop further guidance documents, continuing to progress the ORFRS, to ensure simplicity, objectivity and consistency of reporting across Network Operators ("NWO's").
- If the RIIO Accounts were to proceed in line with the current proposal this will lead to an overlap in wider Ofgem reporting requirements, resulting in duplication of published information at various times in the year (for instance RRP, and the recent Strategic Performance Overview initiative). As a result there may be opportunities to rationalise and integrate these reporting requirements if Ofgem were to consider an information provision framework more holistically. We propose that this is carried out before the RIIO Accounts are implemented.

In preparing an opening Statement of Financial Position (SOFP) for use in the first published RIIO Accounts for 2017/18, we have encountered some issues. Below we have provided further detail on the key messages highlighted above and a summary of the key issues we have found that would ultimately need to be resolved to allow the RIIO Accounts project to go ahead.

Cadent Gas Limited

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1. **Ofgem should ensure the cost to customers is proportional to the benefit of providing increased information to stakeholders**

Benefits to the reader

Cadent agree with the underlying aims behind the RIIO Accounts project that the current regulatory accounts are not fit for purpose in providing investors with relevant information about the regulatory performance and position of NWO's. As such the initial development of the RIIO Accounts was a positive step in providing stakeholders with relevant information on the regulatory performance.

However, in pursuing a "fairly presents" audit opinion, the RIIO Accounts have evolved into a standalone set of accounts that are both difficult to prepare and extremely difficult to understand even for industry professionals.

This has led to the question of whether the level of work involved in the RIIO Accounts is proportional to the benefit for the end user and whether investors' needs could be satisfied in a way that is simpler to understand.

NWOs raised this concern with Ofgem in the RIIO Accounts workshop on the 17th November and suggested an alternative solution of satisfying investors' needs with a series of KPI's. Whilst Cadent remain supportive of the aims behind the RIIO Accounts, we would be in favour of taking time to resolve issues and develop a more streamlined and measured approach.

Cost

The incremental cost involved in the production and audit of the RIIO accounts is significant given the level of management judgements involved. Such judgements were not present in the regulatory accounts as they essentially used information already audited within the statutory accounts.

An example of such judgements is the "enduring value" concept; this requires auditors to understand and audit forecasts to the end of the price control and obtain comfort over the judgements management have used. At present our Business Plans are not subject to audit. In making such judgements in the RIIO Accounts, it is envisaged that senior management will be involved, and auditing these judgements will require significant time resulting in increased costs to the customer. Ofgem should consider these costs in its evaluation of whether the project should go ahead.

Our auditors have reviewed the March 2017 balance sheet and noted there are some balances that are 'unauditable'. These balances would require company specific Ofgem representations to allow auditors to express an opinion on them. An example of such a balance is the opening Regulated Asset Value ('RAV'). We understand from our Auditors that this would be a prerequisite of any audit of the RIIO Accounts.

Ofgem, NWOs and their Auditors need to continue to work closely to ensure the level of audit is not too burdensome that it drives unnecessary costs to the consumer, but allows sufficient reliance to be placed on information that has been published or reviewed by Ofgem.

Timing

A reasonable argument could be made to push back the publication of the RIIO accounts by 2 months to allow the use of the published PCFM which becomes available on 30th November. This would reduce the level of judgements which are required to be audited e.g. if using a published PCFM which could be represented on by Ofgem, rather than a company's own kept PCFM. This would also assist with integration of RIIO Accounts into other key processes.



2. Ofgem must develop further guidance documents to ensure consistency

ORFRS

The latest ORFRS, issued on 11th September 2017, were a significant improvement on the previous drafts and incorporated comments from the NWO's and auditors. However, given the principles based nature of the ORFRS we have noted a number of areas they are either still silent on or would require further clarity. This could result in NWO's interpreting the standards differently, and as a result this will reduce the comparability across the NWO's, which undermines a key purpose of RIIO Accounts.

The ORFRS would benefit from having appendices containing worked examples of best practice, similar to what exists within the IFRS. Such examples will assist in the understanding of the ORFRS and reduce the scope for different interpretations for key areas such as enduring value adjustments. This will add to the consistency across the NWO's presenting their RIIO Accounts. Further to this it shall assist the auditors in their process to be able to give a "fairly presents" opinion.

Please refer to appendix 1 and 2 for a more detailed analysis on the RIIO Accounts and the associated ORFRS. We propose that the ORFRS are adapted to address the specific issues raised in the appendix before re-issuing.

Audit Opinion

OFGEM's objective has been to obtain a "fairly presents" audit opinion on the RIIO Accounts. However, in working with our auditors it has become apparent, given the principles nature of the ORFRS, the lack of worked examples and guidance notes that such an opinion will be difficult, if not impossible, to obtain within the proposed timeline.

Upon the request of our auditor, we have prepared a detailed methodology statement detailing our interpretations of the ORFRS and key judgements made in coming to such interpretations. We could get to a position where by our 2018 RIIO Accounts are "properly prepared in accordance with the ORFRS, Company Methodology statement and the opening PCFM as opined on by Ofgem". However, our view is that there is still uncertainty over how we would reach a "fairly presents" opinion, as there would need to be sufficient worked examples and guidance notes accompanying the principles set out in the ORFRS, which could be challenging given the tight timelines. Given the planned submission of the first RIIO Accounts in September 2018, it is assumed such guidance notes will only be incorporated within the ORFRS, such that the first "fairly presents" opinion would be presented on the March 2020 RIIO Accounts.

We emphasise that caution must be exercised when considering this reduced level of audit assurance for the first published RIIO Accounts given that we would be committing ourselves to achieve a "fairly presents" opinion in the future, when there are still a number of issues outstanding. Failure to do so could raise concerns with the users of the accounts as to why it wasn't achieved and as a result call into question the confidence in the RIIO Accounts. We should consider whether this is the right thing to do in light of other more pressing concerns such as the development of the RIIO-GD 2 framework.

Further guidance

We note that the last set of illustrative accounts are significantly out of date and therefore no longer apply the latest ORFRS. There are also a number of differences between the illustrative accounts and the statements that are populated as part of the RIIO Accounts Support Module ('RASM'). A revised set of illustrative accounts should be published which apply the latest ORFRS to assist the preparers and auditors of the RIIO Accounts and reduce subjectivity.

To understand and interpret the RIIO Accounts the reader is required to have an understanding of the regulatory environment in which NWO's operate. At present there is no glossary of key terms in the ORFRS which would assist the reader of the accounts in their understanding of these non-standard accounting statements. Ofgem had previously noted the need for a glossary of terms and we believe that this would reduce the lengthy disclosures required in the accounts if this was not present. It would also help with the interpretation of the ORFRS, for example, a definition of



'regulated business' used within Section 1, paragraph 14 when describing the requirement for segmental reporting (further details in appendix 1).

3. Ofgem should consider the information provision framework holistically given wider reporting requirements

Other Information already reported

We note that reporting requirements have developed since the initial conception of the RIIO Accounts project, for example the recent requirement to produce the Strategic Performance Overview (SPO). Whilst at the time of conception the RIIO Accounts appeared to be the right solution to replace the regulatory accounts, with the time it has and will take until the first RIIO Accounts are published, Ofgem should consider if they are still fit for purpose, and also balance this against developing priorities for RIIO-GD2.

We have not had sufficient time to dry run the front half of the accounts at this stage as the principles have only been provided through the formal consultation on the licence on the 8th November 2017. Nevertheless, a number of work streams such as the Ofgem Annual Report, the RRP commentary and the SPO appear to have similar objectives to those of the front half of the RIIO Accounts. It does not seem to add any benefit by replicating similar information at various times in the year. Cadent therefore strongly suggests that Ofgem reviews the various work streams together and clarifies the individual requirements to assist with Ofgem's goals to simplify the control.

Given that the publication of the audited RIIO Accounts will be two months after the unaudited RRP submission; this carries a risk of providing inconsistent information due to timing and other adjustments that are made within the RIIO Accounts. This could adversely impact the credibility of published reports, and also confuse readers. At the time of the publication of the RIIO Accounts the annual iteration process (AIP) would have commenced, however given its finalisation at the end of November, the final published PCFM could also be inconsistent.


It is apparent from articles published by consumer groups and in the national press in recent months that there are fundamental misunderstandings around the nature of regulatory funding, and the financial performance of energy networks against regulatory frameworks. Whilst investor targeted financial information has an important role, we consider that a simple and clear approach to meaningful financial performance messaging to consumers should be our collective priority with regard to information provision coming into RIIO-2. It is clear that something simpler and clearer is required but we do not believe that RIIO Accounts in their current format meet these criteria. We believe that it would be more beneficial to focus on expressing our performance in a way that is meaningful to consumers.

We note that there are a number of outstanding issues that need to be resolved before we can achieve the desired position. To commit to resolving these issues could distract from working on the RIIO2 framework and making this a "Clearer, simpler, fairer" price control for consumers, Ofgem and NWOs'.

Conclusion

The purpose of RIIO Accounts, to provide materially accurate and meaningful information on the licensee's performance against the price control, must be balanced with the cost in doing so. We believe there are areas within the current standards that could be modified to lower the cost in production whilst maintaining the level of information provided to stakeholders and request that these areas are reviewed by Ofgem.

Production of the RIIO Accounts under ORFRS is extensive in scope with the introduction of regulatory balances and concepts not previously audited or disclosed. The disclosure of properly audited regulatory information is a positive step for investors and will lead to greater understanding of the regulatory environment in which we operate. However, given the complexities involved specific guidance and understanding is required, not only to ensure consistency for the production of the accounts, but also for the subsequent interpretation by

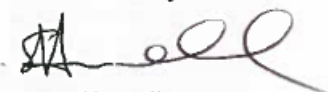


stakeholders. Such guidance needs to be further developed to allow the project to meet its original objectives.

Whilst Cadent are still very supportive of the aims and objectives of the project, we would consider that the above issues need to be resolved before determining if we should proceed with the RIIO Accounts. We would be in favour of a more streamlined approach with Ofgem considering information provision holistically, especially in light of the other information already prepared for Ofgem, the development of the RIIO-GD2 framework and current misconceptions on how networks are regulated and funded.

We have completed the feedback questionnaire for the Introduction of RIIO Accounts and have attached this below. If you require any further clarification on the above, please do not hesitate to contact me.

Yours sincerely



Steve Hurrell
Chief Financial Officer



Appendix 1

Comments noted on RIIO Accounts and ORFRS:

Additional disclosures required by local GAAP

The ORFRS mention that local GAAP applies when the ORFRS is silent on an area. Local GAAP requires additional disclosures such as employee numbers and director's emoluments. Would these be required under the RIIO Accounts? As it stands the ORFRS are silent on these disclosures so we would interpret that these disclosures are required, but does this add any benefit to the users of the accounts given these disclosures are already present in the statutory accounts.

Taxation

One of the key areas where the ORFRS lacks clarity is taxation. The ORFRS states that taxation should follow GAAP principles and whilst it is clear current tax should remain the same as in the statutory accounts, the adjustments to deferred taxation for regulatory balances and the recognition of a future tax allowance recoverable are not dealt with in detail within the ORFRS. The tax working group have developed different ways in which to model the taxation of regulatory balances, however to ensure consistency of reporting the ORFRS should be more prescriptive or include worked examples within an appendix.

There is also sensitivity around the disclosure of a future tax allowance recoverable from Ofgem which is grossed up for tax on tax, which to an uninformed reader could give rise to a question on what Ofgem are providing allowances for. This will require commentary from all NWOs to ensure the readers understand the principles behind this mechanism, and would therefore be useful if this was included in the glossary.

Statement of other comprehensive income (SOCI)

Items presented within the SOCI under GAAP are now required to be included in the Performance Statement; however the ORFRS is unclear on how such items would be presented. To sit them above the profit figure would result in increased volatility and a distorted equity return. If it were to sit below the profit line, this seems to be ambiguous and is essentially adding a SOCI line anyway.

Net Debt

The current ORFRS requires a reconciliation of opening and closing regulatory net debt split into regulatory and non-regulatory balances which appears overly complex and involves significant reconciliation. This could create confusion to the users of the accounts. The RASM tries to calculate this reconciliation but doesn't appear to have all the fields required given the complexity involved. We believe that a reconciliation similar to that required in GAAP showing in year movements split by debt category, with the closing position reconciled to the Statutory account position would be more insightful to investors.

RAV Disposals

RAV disposal proceeds per the Price Control Financial Handbook are "deducted directly from the licensee's RAV balance, but only after a five year deferral under the associated incentive mechanism. Asset disposal levels have been forecast for the RIIO-GD1 Price Control Period; a true up to outturn levels will be taken into account in the calculation of base revenue allowances for the RIIO-GD2 price control." We have requested clarity as to whether the deduction is a straight line per RRP submission in table 1.6 or a RAV written down value after 5 years given disposal proceeds will be deducted from the RAV in the year of disposal in the RIIO Accounts. We also consider that these could be reflected annually via the Annual Iteration Process going forwards to ensure timely adjustment to base revenue, and avoiding unnecessary logged up adjustments at the end of a price control.

Enduring Value

The concept of enduring value is difficult to assess due to the significant judgement required in order to make these adjustments. To make valid adjustments it requires forecast information over the whole price control as well as insight into the close out process for GD1, which at the moment is very uncertain. From discussions with our auditors it is also extremely difficult to prove completeness of any enduring value adjustments in the accounts. Given this is a fundamental



principle in the production of the RIIO Accounts, we believe that there should be further guidance either within the ORFRS or within an appendix which will assist with the calculation and audit of any such adjustments.

Other Points

- Clarification is required on the Section 3 – Regulatory Assets – RAV, paragraph 32(c), as this requests that accumulated RAV depreciation is to be disclosed. Does this mean the depreciation charge in the year (as per the illustrative accounts whereby the movement in RAV is shown) or does this mean all depreciation ever charged? The latter could be a lengthy process and provide little added value.
- The wording is still in such a format that in some cases, line items are required for disclosures that are not applicable, for example, equity issuance – in normal circumstances this would be zero, which means that there will frequently be a blank line in the statements. Is it acceptable to leave lines out that are not applicable or would we be required to repeatedly report this even if it was blank?
- Segmental Reporting - Currently within the ORFRS the terms “licensee” and “regulated business” are used interchangeably. Given Cadent only has one licence; the current ORFRS wording implies segmental analysis by network is not required. This would seem to reduce the comparability of the RIIO Accounts between NWO’s and therefore clarity over the exact requirements is essential.
- The total earned regulatory revenue line on the performance statement is on a revenue accounting basis whereas the rest of the statement is on a return accounting basis. Should its inclusion be omitted to avoid any confusion in interpretation in the performance statement. The figure is disclosed in the notes, so would not be omitted from the accounts if removed from the face of the statement.
- Clarification of where the handback to customers of monies recovered from theft of gas should this go into the accounts? Would we use the “misc reg true ups” line in other regulatory balances?



Appendix 2

Comments noted on RASM:

The RIIO Accounts Support Module (RASM) was initially produced by a contractor on behalf of Ofgem to support the production of the RIIO Accounts. The RASM was designed for electricity transmission NWO's, and the gas distribution model which was subsequently developed continues to have a validation error where the two performance statements do not agree. The gas distribution NWO's have been unable to resolve the validation error in the working group. We believe that Ofgem should provide a working RASM for the primary statements as a minimum to support the production of the RIIO Accounts.

The model in its current form is also out of date given the developments in the ORFRS since its original production. The statements and related notes that are populated in the RASM are in a different format to both the illustrative accounts and the requirements in the latest ORFRS. Whilst we agree the model will ultimately need to be tailored for individual NWOs, we believe Ofgem should provide a model with an output that is consistent with the final ORFRS and illustrative accounts to the extent that is possible. Such a model could be audited centrally and as such auditors could place reliance on the mechanics and calculations within the model, and focus audit attention on inputs and NWO specific adjustments to the model.

The RASM currently tries to populate a movement table from opening to closing regulatory net debt taking various regulatory and non-regulatory values within the RASM. This roll forward is currently incomplete and based on discussions in the working groups none of the NWO's have been able to get this note to work in the way the current ORFRS requires. As mentioned in section 1 of this letter, we believe that the requirement to produce a roll forward table separately identifying regulatory and non-regulatory cash flows is overly onerous and is ultimately not beneficial to the user of the accounts.



Appendix 5 - Feedback Questionnaire for Introduction of RIIO Accounts – further consultation on licence modification

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

mick.watson@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 5 December 2017.

Section 1 - About you	
Your name	Steve Hurrell
Job title	Chief Financial Officer
Contact details	steve.hurrell@cadentgas.com
Organisation name	Cadent Gas Limited
Please state whether your response is confidential or not	Not Confidential

Response

Question 1: Do you have any comments on the draft licence condition set out in Appendix 1?

Overall Cadent has three key comments on the draft licence condition detailed below:

1. The direction to prepare the RIIO Accounts can be issued on or before the 31st March of the Regulatory Year in respect of which the licensee is required to prepare the first RIIO Accounts (44A.7 b).


This lead time is too short for NWOs to plan resources to prepare the accounts. In the first year we could be preparing Regulatory Accounts (due 31 July) or RIIO Accounts and we may not know until 31 March 2018. This would be the first year of the RIIO Accounts so additional preparation is required and also we would need to engage auditors early on in the process given that the scope of audit will be much more extensive than currently involved with the regulatory accounts. We believe the decision to prepare RIIO Accounts should be brought forward as early as possible to allow NWOs to effectively plan for either scenario.

2. Similarly changes to the ORFRS can be made up to 31st March of the Regulatory Year for which RIIO Accounts are being prepared (44A.16). Whilst we acknowledge NWOs would have been made aware of any changes well in advance of the modification and any amendments would not alter the underlying principles, the current lead time stipulated in the licence is too short.

Changes in the ORFRS could result in changes in requirements to capture data, so any significant changes should be communicated well in advance of the year end and ideally before the regulatory year begins to allow NWOs sufficient time to redesign systems or processes.

3. As part of the front end requirements of the RIIO Accounts “A commentary on licensee’s regulatory financial and operating performance” is required (44A.10 b).

At present this provides insufficient guidance on the format and content of such commentary. Ofgem should provide minimum requirements and core principles or consider issuing a proforma template to guide NWOs on what level of information should be presented in order to drive consistency in reporting.



We also note that there is currently no mention of a Strategic Report or a Directors report which were previously a requirement within the Regulatory Accounts. These requirements should be outlined by Ofgem if they are required.

Further minor points and wording points have been summarised below:

44A.1 requires the licensee to prepare and publish RIIO Accounts in respect of each Regulatory Year commencing with the regulatory year directed by the Authority: There is a need to define Regulatory Year in Part H or refer to "financial year" which is already a defined term in the licence.

44A.9(c) requires the licensee to publish its audited RIIO Accounts on its Website by 30 September following the end of the Regulatory Year to which those RIIO Accounts relate; Website is capitalised however, there is no definition in the current draft.

44A.9 (d) requires the licensee to keep a copy of its most recent RIIO Accounts at the disposal of members of the public at its principal place of business and upon request provide a copy free of charge. Guidance is required on how long to retain records. Should this be defined with reference to the companies act - as per the current licence part c section 7?

44A.14(a) states "by Notice to all licensees in whose licence this condition has effect, set out the form of or, as applicable, the modifications to the ORFRS and/or RCGS Principles". Notice is capitalised however, there is no definition in the current draft.

44A.19 Regulatory Corporate Governance Statement Principles: Incorrect cross reference – should be 44A.1 (C)

44A.19 RIIO Accounts: Definition should include exactly what is intended to be in the accounts which appears to be defined in 44A.10

Question 2: Do you have any comments on consequential modifications required to other licence conditions set out in Appendix 2?

Whilst Appendix 2 correctly identifies consequential modifications required to the Gas Transporter licence, additional thought should be given to licence condition A40 – Regulatory Instructions and Guidance.

Whilst this condition will not need to be modified, the RIGs themselves will need to be amended as they require certain RRP information to be reconciled to regulatory accounts. Table 1.4 Reconciliation to Regulatory accounts and the reconciliation within the revenue RRP are examples of such requirements. Furthermore, many of the definitions within the RIGs cross refer to the Regulatory Accounts, which will not exist if the direction to prepare RIIO Accounts is issued, and as such will need to be amended.

The modification to A36 – Restriction on Activity and Financial Ring Fencing replaces Regulatory Accounts with RIIO Accounts. It is not obvious given the accounting treatment and presentation of the RIIO Accounts under the ORFRS that such a statement would hold true. For example the accounting treatment for revenue on an "expected outcomes" basis under the ORFRS requires adjustments for enduring value which will distort the revenue figure that is being compared. The wording of this licence condition requires further thought to ensure the modification does not fundamentally change the restriction as currently stated.

The modification to A37 – Availability of resources – requires that the auditors need to submit a report which states whether or not the auditors are aware of inconsistencies between the



certificate 1F required in A37 paragraph 3a and the RIIO Accounts to be submitted on the 31 July. However the RIIO Accounts would not have been produced for that year until 30 September. The date mentioned in paragraph 2 and 4 would have to be amended to 30 September for the check to the RIIO Accounts to work.

Impact on other licence conditions, not included in Appendix 2

In the guidance provided by Ofgem on how tax clawback is calculated it refers to taking certain figures from the regulatory accounts. We would like to highlight that following the introduction of the RIIO Accounts these will no longer be prepared; therefore Ofgem will need to provide further guidance on how the clawback should be calculated in future.

Question 3: Do you have any comments on the proposed RCGS Principles set out in Appendix 3?

It is not directly clear from the licence or the RCGS principles what the auditors requirements will be in relation to the RCGS. The audit opinion under SSC A30 Regulatory Accounts stated that the auditors “are required to report if, in our opinion a corporate governance statement has not been prepared by the company.”

Will this level of audit be extended to say the principles have been followed and if not, adequate disclosure has been made under the “comply and explain” approach for any departures from the principles?

Ofgem will need to provide clarity and guidance on their intent for this provision, particularly noting the reference to ‘NWOs engage with the anticipated primary users’, this leaves the guidance open to interpretation, losing comparability of information across networks. As such we feel Ofgem should provide more guidance if they consider the additional principle items to be so critical.

Question 4: Considering the one-year delay in introducing RIIO Accounts and potential impact on consumer benefit it may have for RIIO2, do you agree that licenced NWOs should report RIIO Accounts for the Regulatory Year 2017-18?

Whilst Cadent are still very supportive of the aims and objectives of the project, we would consider that the outstanding issues need to be resolved before determining if we should proceed with the RIIO Accounts. We would be in favour of a more streamlined approach with Ofgem considering information provision holistically, especially in light of the other information already prepared for Ofgem, the development of the RIIO-GD2 framework and current misconceptions on how networks are regulated and funded. Please refer to attached open letter which details the outstanding issues, we have outlined below the key points in this letter:

1. Ofgem must consider the proportionality of the anticipated improved quality of information provided to stakeholders and the time, effort and cost of producing this information which will ultimately be borne by the customers. We recognise that information provision is an important and necessary cost, but have concerns about the efficiency of the RIIO Accounts process.
2. In order for the RIIO Accounts to be of value to stakeholders, Ofgem must develop further guidance documents, continuing to progress the ORFRS, to ensure simplicity, objectivity and consistency of reporting across Network Operators (NWO).

We could get to a position where by our 2018 RIIO Accounts are “properly prepared in accordance with the ORFRS, Company Methodology statement and the opening PCFM as opined on by Ofgem”. However, our view is that there is still uncertainty over how we would reach a “fairly presents” opinion, as there would need to be sufficient worked examples and



guidance notes accompanying the principles set out in the ORFRS, which could be challenging given the tight timelines. We emphasise that caution must be exercised when considering this reduced level of audit assurance for the first published RIIO Accounts given that we would be committing ourselves to achieve a “fairly presents” opinion in the future

3. If the RIIO Accounts were to proceed in the current format this will lead to an overlap in wider reporting requirements, resulting in duplication of published information at various times in the year (for instance RRP commentary, the annual report and the recent Strategic Performance Overview initiative). As a result there may be opportunities to rationalise and integrate these reporting requirements if Ofgem were to consider an information provision framework more holistically. We propose that this is carried out before the RIIO Accounts are implemented.

It is apparent from articles published by consumer groups and in the national press in recent months that there are fundamental misunderstandings around the nature of regulatory funding, and the financial performance of energy networks against regulatory frameworks. Whilst investor targeted financial information has an important role, we consider that a simple and clear approach to meaningful financial performance messaging to consumers should be our collective priority with regard to information provision coming into RIIO-2.

General response to our further consultation for the Introduction of RIIO Accounts

For our full view on the RIIO Accounts please see our covering letter attached to this appendix.