**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.

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| **Section 1 - About you**  |
| **Your name**  | Danny Clarke |
| **Job title**  | Head of Corporate Finance and Investor Relations |
| **Contact details**  | danny.clarke@enwl.co.uk; 0843 311 4988 |
| **Organisation name**  | ENWL |
| **Please state whether your response is confidential or not**  | Not confidential |

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| **Response**  |
| **Question 1: Do you have any comments on the draft licence condition set out in Appendix 1?** |
| **Part A and 44A.18*** The Ofgem Regulatory Financial Reporting Standard (ORFRS) should be capable of satisfying and supporting the reporting requirement and audit sign-off, as set out in the proposed licence condition. This should be in place prior to the commencement of a switch-over from Regulatory Accounts to RIIO Accounts. This is crucial in ensuring that licensees are not in a potential breach of licence position.
* For the avoidance of doubt, we believe the current ORFRS is not currently capable of supporting the level of audit sign-off prescribed in the licence condition for the reasons set out in the General Response section below.
* 44A.18 states that the Authority can provide consent for the fairly presents Audit opinion to be omitted from the Audit report. Ofgem should provide further guidance on this process, as well as clarifying the wording of the Audit report.

The draft licence condition reflects the current RIIO Accounts framework. Unfortunately, for the reasons set out below, we believe the current RIIO Accounts proposal has significant flaws. The scope and complexity of the reporting requirements have grown substantially, increasing the regulatory burden and ultimately increasing costs to consumers. The supporting framework presents issues, with ambiguous ORFRS, absent guidance notes and lack of interpretation in key areas such as close-out mechanisms, threatening the comparability of the results being presented. As a result, we are concerned that the insistence on a ‘fairly presents’ audit opinion may result in a qualified audit report and risk potential licence breaches in network companies, which could ultimately undermine confidence in the framework.Our conclusion is that we do not believe RIIO Accounts, in their current form, either represents good value for customers or meets the perceived deficiency in investor information.We believe a significant overhaul of the proposal is needed for it to continue. The process should be simplified, with a focus on clear and comparable measures of performance. A phased implementation would also allow the supporting framework and outputs to develop over time, at a pace that satisfies the requirements of all stakeholders. Furthermore, the requirement for information to be audited will lead to a significant increase in work and higher costs for consumers. We question the benefit of this audit requirement to consumers and suggest that unaudited reporting will meet the objectives at a lower cost.We would recommend that any initial reporting requirements be focused solely on a selection of unaudited key regulatory measures and ratios. This would satisfy immediate investor needs, while representing good value to consumers. |
| **Question 2: Do you have any comments on consequential modifications required to other licence conditions set out in Appendix 2?** |
| We have the following comments:1. There is currently a definition for Regulatory Accounts under Standard Condition 1 but not one for RIIO Accounts. For consistency, we would suggest:

RIIO Accounts - means the accounts of the licensee produced in accordance with standard condition 44A (Regulatory financial reporting)1. Section 29.9 (Limitations of De Minimis Business not to be exceeded). It should be made clear that this should refer to 2.5% of the statutory number or 2.5% of Distribution Revenue which needs further definition in the licence if this is retained.
2. Section 29.10 In the RIIO accounts the share capital and reserves (net assets) will be significantly reduced from the net assets reported in the statutory accounts. In light of this, the De Minimis restriction of 2.5% needs reviewing.
3. There is also additional reference to the Regulatory Accounts in the Financial Handbook that will need to be addressed:
	1. Section 4.29
	2. Appendix 1 – Glossary. For consistency, this will also need a reference to the RIIO Accounts as well as the Regulatory Accounts.
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| **Question 3: Do you have any comments on the proposed RCGS Principles set out in Appendix 3?** |
| We would like to highlight the following points in regard to the RCGS principles:1. It is not clear if we need to provide a standard UK corporate governance report as we currently do in the statutory accounts. Further guidance and structure is required in this area to clarify the front-end requirements and avoid unnecessary duplication with other reporting requirements.
2. Allowing companies to set its own reporting format or be guided by a consultation with their primary users will create inconsistencies between DNO groups which may not be helpful and does not provide comparability.
3. Under the section “Summary of changes to the draft modification of the existing licence condition since the last consultation” of the consultation letter, reference is made to “...we consider it appropriate that the NWOs engage with the anticipated primary users of RIIO Accounts to understand what they would expect from published RIIO Accounts”. In its current form, we are concerned that:
	1. it is unclear who the primary users would be; and
	2. given the reporting deadlines, there will be insufficient time to conduct any meaningful and effective engagement.
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| **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?** |
| We do not agree that licenced NWOs should report RIIO Accounts for the Regulatory Year 2017-18 for the reasons outlined in Question 1 and the section below. Such a switch-over at this point in time is likely to lead to a situation whereby the RIIO Accounts would need qualification and place us in a potential licence breach position as a direct result of the current drafting of the ORFRS.We are unclear of the consumer benefit case for Electricity North West customers. A full impact assessment of the current RIIO Accounts framework should be conducted by Ofgem before any decision is made to continue, particularly for 2017-18 reporting. |
| **General response to our further consultation for the Introduction of RIIO Accounts** |
| We support Ofgem’s desire to see regulated entities publish performance measures that are meaningful, clear and consistent, allowing stakeholders to easily compare performance against allowances and to reflect actual performance. If provided through a cost effective process, and constructed appropriately, we agree this initiative would provide value to both investors and other stakeholders.At this stage we do not believe the current format of RIIO Accounts meets the original remit for the following reasons:1. **Investors don’t want or need the information in this form**. Current investor information requirements are being satisfied by existing public and internal management reporting. The proposal, with all its complexity, means that any information being prepared is not delivered in a timely manner.
2. **Delivery of information in this format represents very poor value for money to customers.** There will be a significant audit cost to this process and an additional expensive internal resource requirement. We estimate it is likely to cost consumers and investors in excess of £4m across licensees; the consumer benefits case needs to reflect these additional costs and the audit costs in particular.
3. **Complexity of the current requirement is unhelpful.** The expected reporting requirements have grown exponentially, driven in particular by the requirement to satisfy a ‘fairly presents’ audit opinion. Meaningful information will be lost in the detail and the time and resource required to prepare the new regulatory accounts is now expected to be in excess of statutory reporting.
4. **Comparability of outputs across licensees.** ORFRS are ambiguous and open to interpretation. Supporting documents such as ‘guidance notes for application’ and worked examples (typically available for existing GAAP) are required. In addition, Ofgem need to provide explicit guidance on, or support for, opening balances and certainty around close-out mechanisms. This additional detail and support is essential to ensure the consistent application across licensees and provide comparable measures of performance.
5. **Potential licence breach.** The licence modification requires a clean ‘fairly presents’ audit opinion. As a result of the issues noted above, our auditors have indicated that they intend to sign-off only as “properly prepared in accordance with the ORFRS and a company methodology statement”. We are concerned that requiring a ‘fairly presents’ audit opinion could result in a breach of licence under the current proposed licence drafting.
6. **Regulatory burden.** The reporting requirements associated with RIIO accounts are comparable to statutory accounts, requiring a full ‘front-end’ and methodology statement. This will be a significant increase in the regulatory reporting and place a further demand on limited resources. These requirements are well beyond that needed by investors, for whom the timely reporting of a few key performance indicators will represent better value.

Given the issues above, we suggest that now is an appropriate time to take a fresh look at assessing information deficiencies for all stakeholders. This will allow a clear, consistent, and efficient reporting framework to be developed.We believe reporting on a small number of key regulatory measures will deliver this objective. Some examples of key regulatory measures:* 1. **Totex against outputs delivered.**
	2. **Totex against allowances.** Adjusted for enduring value.
	3. **RoRE.** Adjusted to include all performance components, including debt, so as to provide a true reflection of performance.
	4. **RAV**
	5. **Cost per customer**
	6. **Net return to investors per customer.**

This approach would have the following benefits:1. **It would satisfy investor information needs**. It focuses on key regulatory measures without the need for a complex and difficult to understand reporting framework.
2. **It engages stakeholders.** Information is more transparent under a simplified framework which will encourage interest and uptake.
3. **It represents good value for money**. It doesn’t incur the high audit and overhead costs that the current form of RIIO Accounts certainly will.
4. **It will avoid duplication**. A simplified process would eliminate overlap and significantly enhance value with other reporting, such as the SPO.
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