

Mick Watson
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Richard Allman
UK Financial Controller

Richard.Allman@nationalgrid.com
Direct tel +44 (0)1926 656354

www.nationalgrid.com

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Dear Mick,

Re: Introduction of RIIO accounts – further consultation on licence modification

This letter sets out our response on behalf of National Grid Electricity Transmission plc (NGET) and National Grid Gas plc (NGG) - herein known as National Grid - to Ofgem's consultation issued on 8th November 2017 on the introduction of RIIO Accounts.

National Grid welcomes the opportunity to respond to this consultation. We have been discussing the proposed new RIIO reporting framework with Ofgem and other industry colleagues within the working group meetings since the initial consultation in November 2015. We would like to acknowledge the co-operative and productive nature of these working groups and Ofgem's leadership in that regard.

Whilst a lot of progress has been made in agreeing how this framework will work in practice, including significant progress on the development of the Ofgem Regulatory Financial Reporting Standards (ORFRS) National Grid has significant concerns remaining over the timing of the implementation, the scope of the audit opinion and the benefits case. As you are aware we prepared dry-run accounts for 2015/16 and have also prepared similar accounts for 2016/17 in-line with the timetable agreed by Ofgem and the working group. This demonstrates our commitment to the concepts and aims of consultations to date and that we are well positioned for the introduction of RIIO Accounts.

Our primary concern relates to the ability of the networks to secure a fairly presents audit opinion and the implications of not achieving this. Our own auditors have commenced their review of the March 2017 statement of financial position. However, this work is not yet complete and should not be considered to constitute a full audit. Even so, the work completed to date has identified a number of conceptual audit issues which they have brought to your attention and were discussed at a working group meeting on 17th November 2017. Our auditor concerns were echoed by all the audit firms present at that meeting. The concerns include:

- Balances that are 'unauditable' without Ofgem providing certain representations
- The potential need to audit historical information from the start of the RIIO price control period and not just the current year in order to fully understand enduring value adjustments
- The further work still to be performed may identify additional issues that will need resolving ahead of any publication date
- The ORFRS are principles based and do not include practical examples and guidance notes. These would normally be provided when new IFRS are introduced to ensure preparers of accounts treat items on a comparable basis. Without such

examples and guidance being provided it raises concerns whether the accounts would be truly comparable across all companies.

As well as potential cost implications for the audits across the industry, the concerns raised by the auditors could have implications for the scope of the audit opinion they are able to provide. At this stage they consider achieving a 'fairly presents' opinion as not being possible, but something that could be achieved over a period of time. This is a consequence of the level of assurance needed for a 'fairly presents' audit opinion rather than a failing on behalf of any of the network companies in preparing the accounts. Any such qualifications or caveats in the audit opinion could undermine investor confidence in the RIIO mechanisms. This could lead to the consumer benefits RIIO Accounts are intended to bring not being realised and may well increase costs for consumers. We believe Ofgem need to consider and resolve the concerns raised by all the audit firms before the introduction of RIIO Accounts can become a licence condition.

We remain committed to the principles of RIIO Accounts in providing comparable and transparent regulatory performance and balance sheet information to investors. National Grid currently publishes externally, on an annual basis, an operational returns metric, regulatory financial performance results (including a reconciliation to IFRS operating profit) and key regulatory balance sheet values (RAV and other regulatory balances, net of enduring value adjustments). Our investors value this information but have not indicated to us that they are seeking any additional assurance or information to be made available. The issuing of key metrics rather than a full set of RIIO Accounts could meet investor needs but at a significantly lower cost to investors and consumers than the current RIIO Accounts proposal. It would also keep the performance metrics more focused and less confusing for the reader. To gain comparability across companies, these metrics could be prepared using the principles included in the ORFRS.

Given our significant concerns we urge Ofgem to review the benefits case for the introduction of RIIO Accounts ahead of making any licence modifications.

We have provided our detailed responses to all the questions in the consultation in the appendix to this response in the format requested.

This response is not confidential.

Should you wish to discuss any matter within this letter, please contact Jo Weston on 01926 655491 or email joanne.weston@nationalgrid.com.

Yours sincerely

Richard Allman (by email)

cc Geoffrey.randall@ofgem.gov.uk