

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	
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Organisation name	SGN
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?

The draft licence condition requires a “fairly presents” audit opinion. At a recent feedback meeting between Ofgem, the networks and auditors, the audit firms highlighted that there are some significant challenges achieve this in the first year.

A key area of concern for the auditors is that the ORFRS does not provide sufficient clarity in many areas (e.g. treatment around the RAV, including the associated tax impact). This has also caused the networks some concern and SGN highlighted the key concerns in this area in a letter to Ofgem dated 15 November 2017.

The auditors have also stated that they would not be able to sign-off on several opening balances without Ofgem providing a confirmation of balances statement.

In addition, there are many areas that require judgement of forecast information, which presents further audit challenges.

Thus, the auditors stated that they would not be able to sign-off on a “fairly presents” opinion in the first year.

The auditors have stated that they could sign-off on a “properly prepared in accordance with” opinion in the first year, however this would require a significant amount of work from the networks to prepare methodology statements for the work performed. This does not seem feasible under current timescales and the cost-benefit balance would not seem appropriate for one year only.

The licence condition also outlines the process for Ofgem making changes to the ORFRS or RCGS, however there is limited procedure in place for providing networks and auditors with sufficient timescales to implement these changes. When accounting bodies make changes to standards there is usually a longer assessment period allowing for feedback on the proposed changes as well as time to implement any process and control changes required.

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

We are supportive of the proposal that the current Regulatory Accounts will no longer be required. However, there is still significant duplication across the number of different reports that networks are required to produce each year. As such, as part of

this exercise, SGN request that Ofgem review the full suite of reporting and requirements under each to provide simpler more transparent information for stakeholders (as outlined by Ofgem’s GD2 strategy and the CMA’s review of the proposed RIIO Accounts).

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

SGN are keen to progress Ofgem’s objective of providing simple, clear information, and on that basis, are supportive of including RCGS in the accounts but would suggest that these should not replicate information already provided in the company’s statutory accounts.

SGN echo the idea shared during the recent feedback meeting between Ofgem, the networks and their auditors. The accounts in their current form are becoming overly complex and, therefore, losing clarity. There is a significant risk that the current form of the accounts would not comply with the RCGS of being “understandable”. For example, adjustments for deferred tax will likely make these accounts less understandable for readers.

There is also further guidance required for the front half of the accounts, what information is required to be included.

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?

The recent feedback meeting between all networks, their auditors and Ofgem highlighted some significant issues in achieving current timetables and the relevance of producing the accounts in their current form.

In particular the audit firms stated that achieving a “fairly presents” audit opinion would not be possible in the first year. This, combined with the number of areas that still require clarification in the ORFRS presents a significant challenge in producing the numbers for 2017-18.

SGN consider a simpler more meaningful analysis could be produced from extending the current form of the SPO to include the key principles of more transparent information for stakeholders. This would outline RAV, Outperformance, RoRE, outputs, and incentive performance providing a simpler, clearer, and more meaningful report. This could be prepared in line with the current regulatory deadlines to provide more timely information.

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

Please see “Covering letter for RIIO Accounts licence modification feedback”.