

Geoff Randall  
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By email only

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Dear Geoff

### **Introduction of RIIO Accounts – further consultation on licence modification**

Thank you for the opportunity to comment on the above consultation. This letter should be treated as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc.

UK Power Networks continues to be supportive of Ofgem's drive to provide stakeholders with more detailed information that will help them to understand the regulatory performance of all network operators.

Since the circulation of the draft Ofgem Regulatory Financial Reporting Standards (ORFRS) to all network operators in September 2017, we have worked with our auditors to interpret the ORFRS to produce a draft set of RIIO Accounts. Our auditors have assessed the audit implications associated with producing a fairly presents opinion on these accounts and have highlighted a number of concerns. These include unauditible opening balances, the lack of supporting guidance to the ORFRS and the significant time it would take to audit the accounts.

At the meeting between Ofgem, the network companies and the audit community on 17 November 2017, the audit community feedback to Ofgem was that these concerns were common across all regulated gas and electricity companies. The collective view from Deloitte, KPMG and Ernst & Young, put forward at the meeting, was that it would be impossible to audit the RIIO Accounts to the required standard of fairly presents until the accounts have been published for two consecutive years. Even then, the calculations required to prepare RIIO Accounts require a detailed understanding of the RIIO-ED1 close out methodologies that are yet to be consulted on and published.

To resolve these issues, we believe that the project requires at least a further two years of resources and there is an increasing concern about the growing cost of the audit, largely resulting from the increasing complexity of the project. In our opinion, these issues mean that it would be timely for Ofgem to reconsider the intention to progress to the statutory consultation stage for the proposed RIIO Accounts licence condition, and to re-evaluate whether the project provides value for money for all customers.

In our opinion, there is an alternative approach which could meet the overarching aims of the project but at a lower cost to customers. We agree with Ofgem's view that the Regulatory Accounts have become superfluous to groups like ours which prepare Statutory Accounts to the same year end. We would like to propose the introduction of an exemption from preparing Regulatory Accounts for companies with a 31 March statutory year end. To facilitate this, the disclosures within the Statutory Accounts of affected licensees should be enhanced by way of a separate licence obligation to include:

- A cash flow statement where this is not currently included;
- Segmental analysis where this is not currently included;
- A number of regulatory performance measures to be included in the Strategic Report at the front of the accounts. These could include:
  - The RAV and a summary of the movements from the prior year RAV;
  - The RORE (stated post enduring value adjustments);
  - Incentive performance (£ million and percentage of total available) by incentive mechanism; and
  - Over/under recovery of income for that year.

Licensees who choose to continue to produce Statutory Accounts to any other date would need to include the above information in their Regulatory Accounts.

This information would be unaudited, but as it is included in the Strategic Report of the Statutory Accounts our auditors would be required to confirm that it is not inconsistent with their understanding gained from the audit. This is a similar approach to National Grid's current practice in relation to the regulatory performance information it currently includes within its published Statutory Accounts.

We have attached our detailed feedback on the draft licence condition as a separate marked-up file. However, as we have stated above, we believe that it would be inappropriate at this stage for Ofgem to proceed to the statutory consultation stage for this licence condition.

We hope that you will find our feedback helpful. If you have any questions, please do not hesitate to contact Nick Harnett in the first instance.

Yours sincerely



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UK Power Networks

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