**Condition 44A. Regulatory financial reporting**

**Introduction**

44A.1 This condition requires the licensee to prepare and publish RIIO Accounts in respect of each Regulatory Year commencing with the Regulatory Year directed by the Authority and sets out:

1. arrangements with respect to Standard Condition 44. Regulatory Accounts, which will cease to have effect on the date directed by the Authority pursuant to paragraph 44A.6 of this condition;
2. a requirement for the licensee’s RIIO Accounts to be prepared under the Ofgem Regulatory Financial Reporting Standard (“ORFRS”) issued by the Authority for that purpose;
3. a requirement for the licensees to include in their RIIO Accounts a Regulatory Corporate Governance Statement (“RCGS”) based on the principles issued by the Authority for that purpose (the “RCGS Principles”);
4. a requirement for the licensee to have its RIIO Accounts audited; and
5. the dates by which the requirements of this condition must be satisfied. 44A.2 This condition also sets out the process under which the Authority will issue and

modify the ORFRS and/or RCGS Principles.

44A.3 This condition also makes provision for a review of and report on the prohibition of cross-subsidy and discrimination applicable to the licensee in accordance with the Agreed Upon Procedures.

44A.4 The purpose of RIIO Accounts is to provide materially accurate and meaningful information which is reflective of the licensee’s performance and regulatory financial position, in respect of each reported Regulatory Year, so as to promote clear and transparent reporting of the licensee’s financial and operational performance under the RIIO price control arrangements.

**Part A: Commencement of the duty to prepare RIIO Accounts**

44A.5 Subject to paragraph 44A.6 the licensee must prepare Regulatory Accounts in accordance with the requirements provided for in Standard Condition 44.

44A.6 The Authority may, by direction, require the licensee to prepare RIIO Accounts in accordance with this condition, in respect of Regulatory Years commencing with the Regulatory Year stated in that direction. From the date the licensee is required to prepare RIIO Accounts, Standard Condition 44 will cease to have effect in accordance with paragraph 44.1A of that condition.

44A.7 A direction issued by the Authority under paragraph 44A.6 will be of no effect unless:

1. before issuing it the Authority has:
	1. given Notice to all licensees in whose licence this condition has effect that it proposes to issue a direction requiring the licensee to prepare RIIO Accounts;
	2. specified in the Notice referred to in subparagraph (i) the period (which may not be less than 28 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposal; and
	3. considered any representations duly received in response to the Notice referred to in subparagraph (i); and
2. the Authority issues the direction on or before 31 March of the Regulatory Year in respect of which the licensee is required to prepare the first RIIO Accounts.

44A.8 The requirements for the giving of Notice under paragraph 44A.7(a) may be satisfied by actions taken by the Authority before as well as after the coming into effect of this condition.

**Part B: Licensee’s obligations under this condition**

44A.9 Subject to the arrangements set out in paragraphs 44A.5 to 44A.8, unless and so far as the Authority otherwise consents, the licensee must:

1. prepare RIIO Accounts in accordance with this condition in respect of each Regulatory Year by 30 September after the end of that Regulatory Year;
2. arrange for its RIIO Accounts to be audited in accordance with the provisions of Part F of this condition;
3. publish its audited RIIO Accounts on its Website by 30 September following the end of the Regulatory Year to which those RIIO Accounts relate; and
4. 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.

**Part C: Statements to be included in RIIO Accounts**

44A.10 The licensee must include, as a minimum, in its RIIO Accounts:

1. the statements specified in the ORFRS;
2. a commentary on the licensee’s operational performance and regulatory financial performance and position; and
3. a RCGS.

**Part D: Scope of the Ofgem Regulatory Financial Reporting Standard and Regulatory Corporate Governance Statement**

44A.11 The ORFRS contains requirements for:

1. the format and content of the statements set out in paragraph 44A.10(a);
2. the basis for ascertaining opening balance positions and relevant values referred to in the Regulatory Instructions and Guidance that are applicable to the licensee;
3. adjustments for the purpose of fairly presenting the licensee’s regulatory financial performance and position, for use in the preparation of the statements set out in Part C; and
4. additional statements and/or information.

44A.12 The licensee must set out its overall approach to its governance arrangements in the RCGS and prepare the RCGS based on the RCGS Principles issued by the Authority, as modified from time to time, in accordance with Part E of this condition.

**Part E: Process to issue and modify the Ofgem Regulatory Financial Reporting Standard and the Regulatory Corporate Governance Statement Principles**

44A.13 The Authority will issue the ORFRS and RCGS Principles, and may modify either or both of them, by issuing a direction for that purpose to the licensee in whose licence this condition has effect.

44A.14 A direction issued by the Authority under paragraph 44A.13 will be of no effect unless, before issuing it, the Authority has:

1. 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;
2. specified in the Notice the reasons for the Authority's proposals;
3. specified in the Notice the date on which it proposes that the ORFRS and/or RCGS Principles or modifications to the ORFRS and/or RCGS Principles should take effect;
4. specified in the Notice the period (which may not be less than 28 days from the date of the Notice) within which the licensee may make representations to the Authority about its proposals; and
5. considered any representations duly received in response to the Notice.

44A.15 The requirements for the giving of Notice under paragraph 44A.14 may be satisfied by actions taken by the Authority before as well as after the coming into effect of this condition.

44A.16 No modification to the ORFRS and/or RCGS Principles may have effect with respect to RIIO Accounts for a Regulatory Year unless the direction giving effect to the modification is issued before 31 March of that Regulatory Year.

**Part F: Requirement for audit of RIIO Accounts**

44A.17 Unless the Authority otherwise consents, the licensee must at its own expense procure an audit by an Appropriate Auditor of its RIIO Accounts and a report by the Appropriate Auditor for inclusion in the licensee’s published RIIO Accounts.

44A.18 Unless the Authority otherwise consents, the Auditor’s report under paragraph 44A.17 must state whether, in the Auditor’s opinion the licensee’s RIIO Accounts fairly present

its regulatory financial performance and position under the ORFRS in respect of the Regulatory Year under report.

**Part G: Agreed Upon Procedures in relation to the prohibition of cross-subsidy and discrimination applicable to the licensee**

44A.19 The licensee must at its own expense appoint an Appropriate Auditor to conduct a review and prepare a report in respect of the licensee's compliance with its obligations in relation to the prohibition of cross-subsidy and discrimination generally in accordance with Agreed Upon Procedures. The report should specifically comment on compliance with: paragraph 9 of Standard Condition 4 (No abuse of the licensee’s special position); Standard Conditions 19 (Prohibition of discrimination under chapters 4 and 5); and Standard Condition 39 (Prohibition of discrimination under chapter 9).

44A.20 The contract of appointment with the Appropriate Auditor must require that a review and report under paragraph 44A.19 prepared in accordance with Agreed Upon Procedures is completed each Regulatory Year and that the Appropriate Auditor addresses a report to the Authority by 31 July following the end of each Regulatory Year that:

1. states that he has, in a manner consistent with the relevant auditing standards, completed the review and prepared the report in accordance with the Agreed Upon Procedures issued by the Authority in respect of the Regulatory Year under report ; and
2. sets out his findings.

44A.21 If the Authority is satisfied that the report referred to in paragraph 44A.20 demonstrates that the licensee has complied with the obligation to avoid discrimination and cross- subsidies that is specified in Article 31 of Directive 2009/72/EC of the European Parliament and of the European Council of 13 July 2009 and is imposed on the licensee by the standard conditions of this licence referred to in paragraph 44A.19, the report will be deemed to represent the results of an audit of that obligation, as required by the Article.

**Part H: Interpretation**

44A.22 For the purposes of this condition:

|  |  |
| --- | --- |
| Ofgem Regulatory Financial Reporting Standard | means the document of that name issued by the Authority, as modified from time to time, in accordance with this condition. |
| Regulatory Corporate Governance Statement | means the statement of that name which the licensee is required to include in its RIIO Accounts in accordance with the requirements of this condition. |

|  |  |
| --- | --- |
| Regulatory Corporate Governance Statement Principles | means the document of that name issued by the Authority, as modified from time to time, in accordance with this condition. |
| RIIO Accounts | means the accounts prepared by the licensee in accordance with the requirements of this condition. |