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Our ref

Your ref

Date

6 December 2017

Dear Mick,

### **RIIO Accounts further consultation on licence modification**

This letter provides feedback in relation to the above consultation. We note that a template was provided by Ofgem for feedback but WPD wishes to make some more high level comments concerning the RIIO accounts in this letter. The completed template is attached as an appendix.

This letter echoes many of the issues raised at Ofgem's RIIO accounts workshop on Friday 17<sup>th</sup> November 2017, where Network Operators and auditors provided feedback to Ofgem on dry run work done so far to prepare and audit an opening balance sheet as at March 2017 under the ORFRS (Ofgem Regulatory Financial Reporting Standard).

There are two key points of feedback which network operators have raised throughout the RIIO accounts process, and which we would like to underline again:

- 1) Ofgem's requirement for a fairly presents audit opinion has resulted in a step change in the length and level of complexity of the RIIO accounts, which does not add value for users; and
- 2) The principles based ORFRS, and a lack of guidance notes, will result in differing interpretations across the industry, resulting in a lack of comparability, one of the fundamental drivers for RIIO accounts in the first place.

WPD remains supportive of the overall intention of the RIIO accounts project and we have tried to work with Ofgem to overcome the issues above. Our intention has always been to work positively with Ofgem and its consultants to develop a format of RIIO accounts that presented the required information in a helpful way that users could understand. We have input considerable resources to industry sub-groups which have spent a lot of time and effort discussing issues with Ofgem, trying to improve the clarity of the ORFRS and formulate interpretation notes for Ofgem to include in the ORFRS. Further, we have questioned the value and feasibility of the fairly presents audit opinion, and proposed at several stages that an Agreed Upon Procedures approach may provide an acceptable level of assurance whilst reducing the level of complexity of the RIIO

accounts. It is disappointing to reach this stage, where RIIO accounts produced under the current ORFRS would not be as valuable to users as they could have been if these issues had been resolved.

The issues above have further consequences for the audit of the RIIO accounts. Given the level of complexity the ORFRS currently requires, a significant amount of auditor time is required to audit these. In addition to the cost of internal resources preparing RIIO accounts, this will result in a significant increase to audit fees, which will be passed on to customers. At the meeting on 17 November, Ofgem confirmed that the RIIO accounts should be addressed to shareholders. It was questioned whether these costs of preparing a report for shareholders, which add up to a substantial amount across the industry, represent value for customers.

From auditor feedback raised in the meeting on 17 November it also seems that, without more guidance notes in ORFRS, the auditors will not be able to audit the RIIO accounts to a fairly presents standard. It would seem that, following any publication of RIIO accounts in September 2018, that it may take up to two years for guidance notes to be written, consulted on, and included in the ORFRS in time for RIIO accounts to be prepared and audited to a fairly presents standard.

It would therefore seem an appropriate time for Ofgem to reconsider its approach to RIIO accounts. We urge Ofgem to re-evaluate whether a fairly presents audit opinion is required, and whether more detailed guidance could be included in the ORFRS. We would welcome the opportunity to work with Ofgem to develop a more user-friendly format for the RIIO accounts, and the implementation guidance the industry and the auditors require, and which would result in concise, meaningful RIIO accounts that would be comparable across the industry.

As we stated in our detailed written feedback to Ofgem on the dry run process, until the issues above are addressed, we do not believe it is appropriate or justifiable for Ofgem to make licence changes that would require network operators to prepare RIIO accounts.

We hope that you find this response helpful. In the meantime please feel free to contact us if there is anything further we can do to assist.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Paul Branston', written over a light blue horizontal line.

**PAUL BRANSTON**  
Regulatory Finance Manager