

30 July 2014

Dear Chief Executive

### **PR14 June business plan: Concerns regarding quality of data and assurance**

Thank you for sending us your revised business plan submission by 27 June. Since then we have been assessing your plan and, where necessary, raising queries. We appreciate the significant efforts made by companies to provide responses against tight deadlines.

I wanted to write to you today because, as our assessment of your plan has progressed, we have become increasingly concerned over the quality of some of the information provided to us. This in turn raises questions about the assurance processes that you have undertaken.

We think this is of sufficient importance for us to publicly raise concerns in your Draft Determination to be published on 29 August. I wanted to tell you this now because we consider these to be important issues that you need to address but we recognise the period between Draft Determinations and the deadline for making representations on these (3 October) is tight.

I therefore wanted to give you as much time as possible to arrange for appropriate third party assurance in the areas listed below and to include this in any representations you wish to make by 3 October. The Draft Determination itself will set out the specific questions we will be seeking full third party assurance on.

#### **Financeability**

We have some concerns over the information you have provided in relation to the financeability of your plan. As you will be aware we published an Information Notice (IN14/11), providing more guidance on our approach to assessing financeability and held workshops with companies on this issue. Given our statutory duty to enable efficient companies to finance their functions, we place a significant weight on company ownership of business plans and Board assurance of actual and notional financeability.

.../...

Through the query process we have identified substantive issues with the calculations underpinning your assessment of actual and/or notional financeability. These issues have had a significant impact on the calculation of financeability ratios, which raises serious concerns over your Board assurance of financeability. This reduces the weight that we can place on your assurance as a whole and makes interventions to the business plan more likely.

### **Cost allocation**

We also have some concerns over your allocation of costs in your revised business plan. As you will be aware we issued new cost allocation guidance and held a number of workshops and bilateral discussions with companies over the past few months. Your business plan submission is still not in line with that revised guidance and/ or the cost drivers used are not appropriate.

It is also not evident that your company has undertaken adequate and transparent assurance in line with our revised guidance.

### **Your licence obligations and our risk based approach to regulatory reporting**

The regulatory framework recognises the importance of good quality information, with licence conditions which place obligations on companies to provide the information that we need and which is reliable, accurate and complete. Failure to do so could ultimately lead to the imposition of a significant financial penalty.

More immediately, we need to be able to trust companies and be confident that they are managed in a way that ensures they will meet their obligations and deliver the outcomes that their customers want and are willing to pay for. Our PR14 methodology emphasises company ownership of plans. If your company fails to demonstrate a strong track record of consistently meeting your obligations, including obligations to provide us with reliable, accurate and complete information, we may need to consider how this influences the way we monitor your compliance during the forthcoming regulatory period.

Consistent with a proportionate and risk based approach, we may put in place more onerous regulatory reporting requirements and/or a more onerous assurance regime from 2015-16 for companies where concerns remain at Final Determination. We will be consulting on our revised approach to regulatory reporting from 2015-16 in September.

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Please do not hesitate to contact me or your Portfolio Lead if you have any questions about this letter.

Yours sincerely

**Sonia Brown**  
**Chief Regulation Officer**