

European Financial Reporting Advisory Group
By email: commentletters@efrag.org

Emmanuel Fraser
National Grid plc

emmanuel.fraser@nationalgrid.com
Direct tel +44 (0)207 004 3025

www.nationalgrid.com

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Dear Sir/Madam

EFRAG RESPONSE TO THE IASB DISCUSSION PAPER – REPORTING THE FINANCIAL EFFECTS OF RATE REGULATION

National Grid welcomes the opportunity to comment on this important topic.

About National Grid plc

National Grid's principal activities involve the transmission and distribution of electricity and gas in Great Britain and northeastern United States.

We own and operate the electricity transmission network in England and Wales and we are the electricity system operator for Great Britain. We are the sole owner and operator of gas transmission infrastructure in Great Britain and of four regional gas distribution networks.

In the United States, we own and operate electricity transmission and distribution facilities, electricity generation units and gas distribution facilities. We also supply electricity and gas to our customers.

We are the largest utility in the United Kingdom and one of the largest in the United States. We are listed on both the London and New York stock exchanges and have a significant publicly held debt portfolio. Our equity and debt instruments are widely held with a mix of institutional and individual¹ investors spread across the globe.

95% of our revenues, representing over £14 billion², are generated through regulated activities and we work with 5 different regulators to establish 20 separate regulatory agreements.

The size and complexity of our business, along with our diversified investor base make it critical for us to provide high quality, clear and understandable financial information.

Our comments

Please accept our apologies for the delay in submitting our response. We have reviewed the 'draft final comment letter' as submitted to the EFRAG Board at paper 12.03 for their meeting of 14 January 2015.

¹ We have over 950,000 individual shareholders on our register as at 12 January 2015.

² For the year ended 31 March 2014.

Except as outlined below, we are broadly in agreement with the EFRAG comment letter as drafted.

Rate-regulated activities an entity needs to undertake to be entitled to the revenue requirement
Paragraph 52 of your response indicates that EFRAG does not support the view that revenue should be recorded when no goods or services have been provided to a customer.

We take the alternate view on this point, consistent with view 1 expressed in the EFRAG paper 12.02 to the EFRAG Board meeting of 14 January 2015. Many of the incentive mechanisms included within European rate-regulation, including the RIIO regulation that we are subject to in the UK, relate to our performance against criteria that does not involve the transfer of a good or service to a customer.

We believe that EFRAG's approach may lead to only 'volume' related variances being recognised as regulatory assets and liabilities, and that revenue associated with most incentive mechanisms and other performance obligations within the regulatory agreement would go unrecorded at the time the operational and economic performance occurs. As a result the underlying issue with IFRS financial statements, that they do not accurately represent the economic performance of the regulated business, would not be resolved.

Under our UK regulatory agreements, we are able to earn incentives or could incur penalties for measures of reliability, safety, environmental impact, and efficiency of operations. We maintain that revenue should be allocated to these performance obligations as they provide direct benefits to customers even if not via the transfer of a good or service. For example, we are required to maintain the asset health scores of our network, this underpins the reliability of the network (providing a benefit to customers through on demand services) and the cost efficiency of our operations (providing a benefit to customers through reduced cost of service). Therefore while no good or service is transferred to a customer, the performance obligation provides them a direct benefit.

The disclosures required in IFRS 14 provide a good starting point for comprehensive disclosures
This view is expressed in EFRAG's response to question 10. We disagree with this view. IFRS 14 disclosures were developed with a view to isolate the effects of recording regulatory balances with the goal of preserving some semblance of comparability. As such IFRS 14 required very granular and detailed disclosures, including separate disclosure on the face of the primary statements of any balances recognised.

Once appropriate recognition and measurement criteria are established and applied by relevant preparers, this level of detail would not be required or useful.

Such balances are part of the normal activities of a rate regulated entity and there is no reason to require preparers to report amounts separately from other amounts that also form part of normal business activity. We do not believe that regulation creates a new category of transaction, rather it is consistent with the existing concepts of accrued revenue and unearned revenue. As a result, the effect of transactions recognised under any new guidance should be reported with those items in revenue in the statement of profit or loss and in receivables and payables in the statement of financial position.

Adding lines to the primary statements adds to clutter and creates an artificial distinction in the nature of the transaction, which is less helpful to users. Additional disclosures in the notes to the accounts to differentiate the amounts recorded within the primary statements would be appropriate.

As regards the additional disclosures required by IFRS 14, we believe that the operational burden IFRS 14 places on preparers is not justified by the benefit to users of the accounts. Indeed, we believe any benefits to users are reduced by the degree of clutter created by the disclosures. Where an entity is involved in many rate regulated activities under the jurisdiction of different regulators, the disclosures would cover many pages. The resulting rate regulated activities disclosures would be out of proportion in the context of the financial statements as a whole and would not focus on the information users need.

We believe that disclosure requirements should be re-considered once an accounting model has been developed.

If you have any comments or questions on our response, please feel free to contact me.

Regards

A handwritten signature in black ink, appearing to read 'E. Fraser', with a long horizontal flourish extending to the right.

Emmanuel Fraser