

Press Release

Tuesday 31st January 2012

OFGEM PROPOSES MORE TRANSPARENCY FOR SUPPLIERS' ENERGY ACCOUNTS

- **Ofgem proposes changes to the way energy companies publish their financial information to increase transparency in the energy market**
- **Independent accountants BDO found the methodologies used by energy companies are broadly fair and appropriate, but identified a lack of consistency reflecting differing business models**
- **These changes are part of a raft of reforms aimed at making the retail market simpler, clearer and more competitive**

An independent review of suppliers' energy accounts by accountancy and business advisory firm BDO LLP has identified a number of reforms to increase transparency in the energy market. These changes are part of Ofgem's wider drive to make energy prices, bills and annual statements easier for consumers to understand.

Ofgem required companies to publish annual energy accounts, known as segmental statements, which show the profitability of generation and supply businesses following its Probe in 2008. The first full set of statements, covering 2009, contained a number of accounting adjustments which made the information more difficult to interpret. As a result, Ofgem commissioned an independent review by BDO.

BDO has recommended several changes in the way suppliers prepare their statements to improve transparency and cross-company comparability. But it found the methodologies used by suppliers to compile the financial information in their segmental statements were broadly fair and appropriate and consistent with their official numbers.

Ofgem's Chief Executive Alistair Buchanan said: "Energy has got to become more open and transparent and our reforms will make suppliers' financial information much clearer. The fact that independent accountants BDO have found suppliers' financial information to be fair and appropriate should also give consumers a degree of reassurance.

"Suppliers now need to build on this report and make the radical changes needed to restore consumer trust in energy suppliers. The real win for consumers will be when suppliers provide consumers with simple tariffs and clearer bills and annual statements as proposed by Ofgem.

"There are clear signs that some suppliers are alive to this challenge and we are looking for full engagement by all suppliers with our reform package."

As a result of the review, Ofgem is looking to introduce three changes:

1. standardising how the companies account for generation fuel costs to improve the comparability of the information they provide

2. ensuring that companies are using the same accounting standards and methodologies when producing their profit measures, and
3. proposing a checklist of functions to increase transparency on which ones are reported in the information.

Today's report forms part of Ofgem's wider review of the retail market which aims to improve transparency of the Big 6 in other areas. Ofgem is proposing simpler tariffs, new rules to improve bills, annual statements and clearer price increase notifications. Ofgem will now consult on its proposals which have emerged from the BDO findings.

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Notes to editors

1. Four key areas were analysed by BDO and the top level findings included:

Transfer pricing methodologies by the Big 6

- Methodologies correspond to recognised financial guidelines
- No evidence of distortions of company profitability

How the Big 6 account for long term hedges

- Review found accounting for notional profits and losses on long term hedges was appropriate

How each firm represents energy trading activities

- Significant differences found in business functions of different companies, making comparability difficult
- Ofgem proposes companies produce an additional checklist of business functions in their Consolidated Segmental Statement (CSS), to show which functions are being performed in which business areas

How each company treats exceptional items

- Lack of consistency across companies (number and type of items vary significantly)
 - Recommend all the companies' CSSs should be reconciled to numbers prepared on the same basis.
 - Independent assessment of statements for the first year after implementation of changes and review whether ongoing requirement needed.
2. Ofgem has updated its supply market indicators today. Ofgem announced in December that it was to move towards publishing this information weekly in the New Year. This is the first step in moving towards this goal and it is hoped to move to a weekly publication by the end of February. The report shows that suppliers net margin on supplying typical, standard tariff dual fuel customer is now approximately £100 per customer a year. The average dual fuel bill for January 2012 is now £1,345, down £10 from December.
 3. The supply market indicators are available from the Ofgem website at:

<http://www.ofgem.gov.uk/Markets/RetMkts/rmr/smr/Pages/indicators.aspx>

4. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's functions are set out mainly in the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 and the Utilities Act 2000. In this note, the functions of the Authority under all the relevant Acts are, for simplicity, described as the functions of Ofgem.

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