

Consultation

Final proposals and statutory consultation - Reviewing the Consolidated Segmental Statement

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In May 2020, we published a [policy consultation](#) setting out our initial proposals to revise Standard Licence Condition (SLC) 19A of the Gas and Electricity Supply Licences and SLC 16B of the Electricity Generation Licence, 'Financial information reporting', which requires submission of a Consolidated Segmental Statement (CSS). This requirement applies to a 'Relevant Licensee' as a holder of an electricity or gas supply licence (or any Affiliates) granted, or treated as granted, who supplies electricity or gas to more than 250,000 domestic or non-domestic customers and is a holder of a generation licence (or any Affiliates). We invited views on our proposals and have since received responses to our policy consultation.

This document sets out our final proposals on various aspects of the CSS including scope, auditing and additional information. It also includes a final Impact Assessment (IA) and modifications to the licence conditions. Following this statutory consultation with our final proposals, we aim to publish the modification decision in the Autumn. The modifications will ensure that the CSS can continue to provide transparency to consumers and stakeholders and support our work in an evolving energy market.

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Executive summary

1.1. Ofgem’s principal objective is to protect the interests of present and future energy consumers. To help us meet this objective, it is important that we receive appropriate information on revenues, costs and profits from energy companies so we can monitor the market and, where appropriate, make some of this information available to the public. This information increases transparency and understanding of the sector and supports consumer confidence around energy prices, costs and profits.

1.2. One of the mechanisms we use to monitor the retail market is the Consolidated Segmental Statement (CSS) licence condition which was introduced in 2009. This condition requires certain suppliers to provide us with financial information on an annual basis, particularly with respect to the separation of accounts between vertically integrated parts of its businesses. Since 2009, the retail energy market has changed significantly. Vertical integration is no longer a significant feature of the market and the scope of the existing CSS means that it covers suppliers that now have significantly less market share, compared to when the CSS was first introduced.

1.3. In light of this, we consulted on changes to the CSS in May 2020. In this policy consultation¹, the key proposals included expanding coverage of the market, removing the audit requirement but reserving the right to request one if we have concerns, requesting additional information including a high-level balance sheet and changing the reporting year. Many stakeholders who responded agreed with expanding coverage while some stakeholders did not consider we should request information on generation assets from vertically-integrated suppliers. The majority of stakeholders welcomed the relaxation of the auditing requirement though they expressed concerns regarding our request for additional information and changes to the reporting year.

1.4. We are now consulting on final proposals to change the CSS, which reflect extensive stakeholder engagement. Our proposals would:

- expand the CSS to cover a greater number and type of suppliers.

¹ [Reviewing the Consolidated Segmental Statements - Our initial proposals | Ofgem](#)

- remove the requirement on suppliers to audit the information they provide under the CSS but retain the right to request one if we consider the CSS has not been prepared in accordance with the licence conditions, guidelines and/or template.
- request additional reporting of categories and segments and introduce a segmental balance sheet and customer numbers table. We have however simplified some aspects of our initial proposals on additional reporting.
- leave the reporting year unchanged; it will continue to be based on a company's financial year end. We also set out our final proposals on transition period and confidential information.

1.5. These proposals would ensure that the CSS applies to more suppliers operating in the market, reflecting changes that we have seen in the sector since the CSS was first introduced. They would also provide us with enhanced information, while reducing the burden of auditing costs. Taken together, the CSS would better meet its aims, including providing transparency and market intelligence, ensuring consumers are treated fairly and supporting policy development. The costs and benefits of our final proposals are set out in the final Impact Assessment (IA). Overall, we consider that the benefits outweigh the costs and have decided to proceed with revising the CSS.

1.6. Stakeholders are invited to submit responses to this statutory consultation by 11 August 2021. Subject to views from stakeholders, we are aiming to publish our modification decision to SLC 19A and 16B in the Autumn for implementation before the end of 2021.

1. Introduction

Chapter summary

This chapter provides background on the Consolidated Segmental Statement (CSS) and the CSS review. It also provides details on the decision-making stages and how stakeholders can respond to this statutory consultation with our final proposals.

Background

1.7. Our principal duty is to protect the interests of Britain's current and future gas and electricity consumers, including those in vulnerable situations. Increasing transparency of energy company profitability is key in monitoring whether the energy market is working well for consumers. It is also important in building consumer confidence in the energy market and supporting efficient entry by new firms. To carry out our duties and monitor the market effectively, we need information on energy market profitability that is transparent, robust, representative, accessible, useful, consistent, pragmatic and proportionate. Since 2009, one of the key ways we collect this information is through the Consolidated Segmental Statement (CSS).

1.8. This statutory consultation presents our final proposals for revising the CSS which sits under the 'financial information reporting requirement' within SLC 19A of the Gas and Electricity Supply Licences and SLC 16B of the Electricity Generation Licence.² The CSS will be referred to as the CSS licence requirement for the purposes of this statutory consultation.

1.9. The existing CSS licence requirement requires vertically integrated companies (ie those that have either a gas or electricity supply licence and an electricity generation licence) that supply gas or electricity to more than 250,000 domestic or non-domestic customers to prepare and publish an independently audited CSS each year.³ For the majority of the period since the CSS was introduced, it has applied to the former six large

² [Licence conditions | Ofgem](#)

³ Energy Companies' CSS - <https://www.ofgem.gov.uk/publications-and-updates/energy-companies-consolidated-segmental-statements-css>

energy firms.⁴ The CSS is based on audited accounts, providing a backward-looking picture of the energy firm's profitability split across supply and generation activities for the past year. The supply activities (and the costs, revenues and profitability) are then further split by domestic and non-domestic businesses. These statements are produced in line with our published Guidelines⁵ for preparing the CSS. The policy consultation published in May 2020 provides further detail on the CSS.⁶ The CSS of obligated suppliers are publicly available, and we discuss how we use them in Chapter 2.

Reviewing the CSS

1.10. Since 2009, the energy market in GB has changed significantly (namely, the obligated suppliers under the existing CSS have much less market share and vertical integration is no longer a significant market feature). These changes have had an impact on the quality and usefulness of the data we collect from the existing CSS. The information is no longer representative of the market, see Chapter 3 for further detail. For these reasons, we are reviewing the CSS so that it gives us a better overall view of the financial health in the market and that it remains relevant in an evolving energy market.

1.11. In our policy consultation, we set out options on reviewing the CSS, including our preferred option to revise the CSS. Under this preferred option, we proposed various changes to key aspects of the CSS; this related to vertical integration and generation activities, customer number thresholds, auditing, additional information and reporting year. These options are shown in Figure 2 in Chapter 3.

1.12. We received responses⁷ to our policy consultation from 23 stakeholders, including energy suppliers, trade bodies and a consumer group. Responses were all from suppliers with a customer base of 50,000 or over, representing almost 90% of market share. After considering all responses, we have made some changes to our initial proposals. In this document, we present our final proposals (which includes a final Impact Assessment (IA))

⁴ Although most of the former six large energy firms have divested some or all of their electricity generation assets, five of them still remain vertically integrated companies in the market. One of the former six large energy firms has also sold its retail activities.

⁵ Existing Guidelines for preparing the CSS - <https://www.ofgem.gov.uk/publications-and-updates/guidelines-preparing-consolidated-segmental-statements>

⁶ See Appendix 1 in <https://www.ofgem.gov.uk/publications-and-updates/reviewing-consolidated-segmental-statements-our-initial-proposals>

⁷ Responses to our policy consultation can be found here: <https://www.ofgem.gov.uk/publications-and-updates/reviewing-consolidated-segmental-statements-our-initial-proposals>

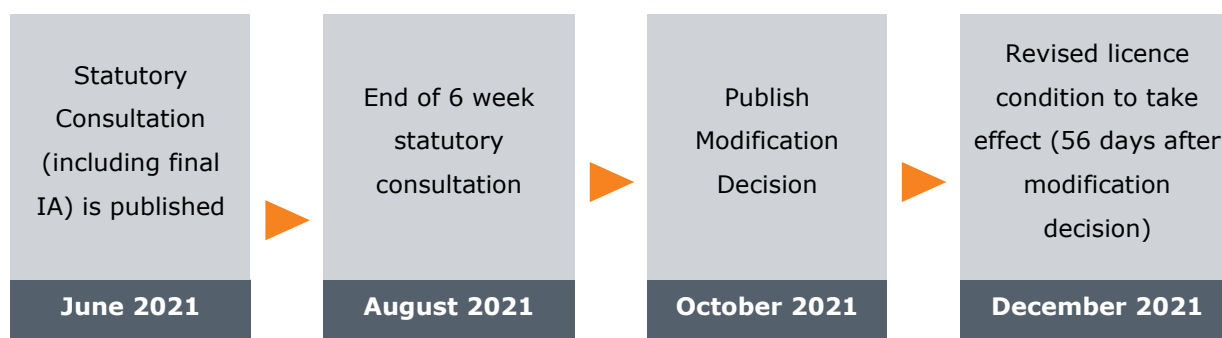
in these areas. We also discuss cost allocation methods, transition period and confidentiality issues associated with some of the additional information we have requested. We aim to publish the modification decision in the Autumn.

Decision-making stages

1.13. We ask stakeholders to respond to this statutory consultation by 12 pm on 11 August 2021. We would like to hear from stakeholders on any aspect of this statutory consultation document. In particular, we ask that respondents consider the final proposed modifications to the Standard Licence Condition (SLC) 19A of the Gas and Electricity Supply Licences and SLC 16B of the Electricity Generation Licence.

1.14. The next section provides details on how to respond. Once we receive and consider responses to our statutory consultation, we intend to publish our final modification decision this Autumn. We expect any revised licence conditions to take effect in by the end of the year and 56 days after the modification decision is published.

Figure 1: Decision-making stages



How to respond

1.15. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. In particular, we would like to hear from energy companies, consumer representatives and other users of information on energy company profitability.

1.16. Responses should be received by 12pm on 11 August and should be sent to: css@ofgem.gov.uk. Any questions on this document should, in the first instance, be directed to the email address above.

Your response, data and confidentiality

1.17. You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, the General Data Protection Regulation (GDPR), statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

1.18. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.19. If the information you give in your response contains personal data under the GDPR 2016/379 and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 6.

2. Main aims and uses of the CSS

Chapter summary

We outline and discuss the main aims of the CSS which are: to provide transparency and market intelligence and support external reporting; to ensure energy customers are treated fairly; and to support policy development. We also summarise and discuss stakeholders' responses to the aims.

2.1. As set out in our policy consultation, the CSS licence condition is aimed primarily at providing transparency on profits or losses, revenues and costs faced by suppliers in their key business activities so that Ofgem and stakeholders (eg government, consumer bodies, suppliers, investors and consumers) have an overview of profitability within the sector. This information, amongst other things, enables us to monitor and assess how retail and wholesale markets are working to support regulatory interventions, where appropriate. It also allows us to publish indicators⁸ which provide transparency and market intelligence to build consumer and investor confidence. These aims are consistent with the aims when the CSS was first introduced in 2009.⁹

2.2. The CSS also enables us to assess different costs that make up a consumer's energy bill to monitor whether the energy markets are working well and consumers are being treated fairly, as well as to inform policy development. In addition to Ofgem, the CSS is used by government, consumer bodies, investors, suppliers and other market participants to inform their policies and decisions.

2.3. We expect the changes we are proposing (as set out in Chapter 4), including additional information, will enable us to carry out detailed analysis as part of market assessments, provide greater transparency on costs and profits from other activities and the impact on bills, improve our understanding of whether there is cross-subsidisation, allow a broader range of returns to be considered via a high level balance

⁸ We use the CSS data to publish a number of energy indicators on our [Data Portal](#).

See Ofgem's Data Portal web page: <https://www.ofgem.gov.uk/data-portal/overview>, and State of the energy market 2019: <https://www.ofgem.gov.uk/publications-and-updates/state-energy-market-2019>

⁹ See Energy Supply Probe findings at <https://www.ofgem.gov.uk/sites/default/files/docs/2008/10/energy-supply-probe---initial-findings-report.pdf>, and the decision document with remedies at <https://www.ofgem.gov.uk/ofgem-publications/38335/retail-package-decision-document.pdf>

sheet and gather information outside of the regular CSS reporting period when necessary.

2.4. Our review of the CSS is intended to ensure that it continues to be fit for purpose. In particular, this means ensuring that it covers a sufficient proportion of the market and a range of information to give an accurate picture of the financial position of the sector as a whole.

Summary of stakeholder responses and our views

Summary of views

2.5. The majority of stakeholders who responded support Ofgem's aim of retaining a mechanism (not necessarily the CSS) to provide transparency and market intelligence in the energy market. A few stakeholders requested we clearly state what information in the CSS helps meet each of the stated aims, which we have shown in Table 1. Citizen's Advice agreed with the aims of the CSS and stated that our proposed requirements would benefit transparency and competition.

2.6. Most domestic suppliers broadly agreed with the stated aims but think the CSS is no longer the right vehicle for delivering them. They stressed that the proposed breakdown of revenues, costs and profits in different categories might not necessarily mean more transparency as suppliers will make assumptions about cost allocations differently. Some of these suppliers consider that questions around financial viability would be better addressed through targeted Requests for Information (RFI) where Ofgem identifies a clear concern.

2.7. Energy UK and a small number of other suppliers proposed that rather than a revised CSS, Ofgem should adopt an alternative mechanism to achieve its aims, whilst reducing unnecessary burden being placed on suppliers. They proposed that Ofgem should develop a more streamlined and standardised financial reporting RFI that will enable the more frequent collection of only the fundamental data/relevant information required to provide sufficient market insight.

2.8. The majority of non-domestic suppliers who responded to the consultation stated that the aims of the CSS should primarily focus on preventing cross-subsidy between supply and generation assets. They also argued that they are more financially stable than domestic suppliers so do not require the level of financial monitoring we are proposing.

Our views

2.9. We welcome the majority of stakeholders supporting the aims of the CSS. Following consideration of stakeholders' views, we have considered whether the CSS is the right vehicle for collecting information on energy company profitability. The CSS helps external stakeholders to see the level of profit or loss in each business segment as it is published on suppliers' websites and made available publicly, whereas a RFI provides information to Ofgem as the regulator. Furthermore, the CSS is a licence requirement, providing us with regular reporting and it is clear to licence applicants what the reporting requirements will be when they reach scale. The draft revised template has been carefully designed to be similar to the information requests that is essential for the board of directors of any company to monitor financial results that cover the level of regulatory burden necessary. The information we are requesting is information that follows good practice in terms of the minimum that an energy regulator should have in carrying out its duties and functions.

2.10. Additionally, the draft revised template provides a standard reporting layout that can be used to gather information through a RFI when this information is needed more frequently than on an annual basis. Having the CSS reporting procedures in place will enable companies to respond promptly to an RFI should the need arise. We also consider the CSS to be more cost effective and efficient than issuing an annual RFI over the long term, which we discuss in the final IA (Appendix 1).

2.11. While a RFI may allow for the scope to change the information requests as needed and depending on the circumstances, the information we collect via the CSS is the minimum level of financial reporting information that is needed to meet our aims; therefore the CSS will not need to be changed frequently. Overall, we consider that the CSS remains an appropriate mechanism to gather annual information on energy company profits and that RFIs will continue to play an important complementary role in collecting additional data, particularly for activities and in circumstances where we need a faster response.

2.12. Some suppliers considered that financial viability would be best assessed via RFIs; however, the aim of the CCS is not to enable us to assess individual suppliers' financial stability. As set out in paragraphs 2.1, we use the CSS to provide transparency and market intelligence on the overall profitability of the energy market. It also gives us information to assess the different costs that make up a consumer's energy bill and supports our policy development.

2.13. We have considered the views raised by non-domestic suppliers that the CSS should only apply to domestic suppliers. Our view is that as the energy regulator, it is appropriate for us to have a good understanding of profitability and risk in the business sector as well as the domestic sector. As such, we consider it appropriate to have coverage of suppliers with non-domestic customers in the CSS as well. Furthermore, obligating suppliers with non-domestic customers would contribute to market coverage and allow comparison with suppliers who have both domestic and non-domestic customers.

2.14. We acknowledge that some stakeholders expressed the view that the CSS should focus on preventing cross-subsidy between supply and generation assets. However, as set out above, the main purpose of the CSS is to have a general view of profitability in the sector, and so we think that a wider approach is appropriate.

2.15. Table 1 shows which aim each proposal will help meet.

Table 1: Linking our proposals to the CSS aims

	Main aims of the CSS		
	Providing transparency and market intelligence	Ensuring consumers are treated fairly	Supporting external monitoring and policy development
Final Proposal			
Reporting of generation activities and other revenue	√	√	
Breakdown of costs by tariff type for domestic market and number of customers	√	√	√
Breakdown of costs by non-domestic customer	√	√	√
Separating out indirect operating costs	√	√	√
Separating out costs to serve customers (eg Priority Service Register (PSR))	√	√	
Other revenues/incomes	√	√	
Inclusion of a balance sheet	√		√

3. Rationale and options to review the CSS

Chapter summary

We discuss rationale for reviewing the CSS, including how the market has changed since the CSS was first introduced in 2009. We also summarise the options set out in our policy consultation for reviewing the CSS, stakeholder views and our final proposal.

Changes in the market

3.1. Changes in the energy market have meant that the current CSS is no longer effective in achieving its aims, discussed in Chapter 2. Since the CSS was introduced in 2009, there have been significant changes in the energy retail market which we set out in our policy consultation and summarise below:

- ***vertical integration is no longer a significant feature in the market.*** Five of the former six large energy firms have divested some or all of their electricity generation assets, resulting in fewer vertically integrated companies in the market. One of the former six large energy firms has also sold its retail activities. The generation activity divestments have been primarily led by an increase in competition in the wholesale market and decreasing profits in conventional generation of the former six largest energy firms. However, we are aware of new entrants/medium-sized suppliers investing in the renewable generation sector.
- ***there have been significant market changes in the retail domestic market*** driven by a sustained net entry and expansion of small and medium sized suppliers. The market share of the former six large energy¹⁰ firms in the domestic retail energy market has fallen from around 94% in 2014¹¹ when we last reviewed the CSS to around 70 %¹² by Q2 2021. Medium-sized suppliers have expanded and increased their ability to exert competitive pressure on the former six large energy

¹⁰ The market share of the six largest energy companies was 99% when we first introduced the CSS in 2009.

¹¹ Market share figures are given in average terms based on the figures for each quarter of a given year. We calculate market shares every quarter, and this data is available in our [Data Portal site](#).

¹² We calculate market shares using the number of meter points on the gas distribution networks, as provided to us by Xoserve. We calculate market shares from the number of meter points on the electricity distribution networks, as provided to us by electricity distribution network operators.

firms. In 2014, the market share of the medium-sized suppliers increased from 6%¹³ to 21% by Q2 2021 as a combined domestic market share as a group. There has also been a significant increase in the number of small suppliers in the market. Their market share as a group increased from less than 1% in 2009, to 2% in 2014 and then to 8% by Q2 2021.

- ***there have been significant market changes in the non-domestic market as well.*** In the non-domestic gas market for small customers, the market share of the former six large energy firms has decreased from around 69% in 2014 to 46% in Q2 2021, while the market share of other suppliers has increased from 31% in 2014 to around 54% in 2021.¹⁴ Figures from the non-domestic electricity market follow a similar trend. For the segment of small customers with profile classes ¹⁵3 and 4, the market share of the former six large energy firms was around 81% in 2014 and this decreased to 72% by the end of 2019, while the market share of other suppliers increased from around 19% to 28% from 2014 to 2019. For large users with profile classes 5 to 8 and half-hourly (HH) customers, around 73% was supplied by the former six large energy firms in 2014. By Q2 2020, this figure fell to 50%, resulting in an increase in the market share of other suppliers from around 27% in 2014 to 50%.
- ***CMA retail energy market investigation.*** In June 2014, we referred the retail energy market to the Competition and Markets Authority (CMA) for investigation because we did not think competition was working as well as it could for consumers. The CMA published its final report on 24 June 2016,¹⁶ containing over 30 remedies. In relation to the CSS, the CMA recommended the following remedies¹⁷ which provide strong support of our proposals as set out in Chapter 4 and that would require larger suppliers to:

¹³ In 2009, the market share of the medium sized energy suppliers was less than 1%.

¹⁴ As measured in terms of meter points for businesses with gas consumption *under* 73,200 kWh. In terms of meter points for businesses with gas consumption *over* 73,200 kWh, market share has not significantly changed over the years. The former six large energy firms went from supplying 23% to 19% of the market share from 2014 to Q2 2020. Other suppliers supplied 77% of the market share in 2019, and this increased to 81% in Q2 2020.

¹⁵ Electricity profile classes' definitions are based on Elexon Guidance. Profile classes 3 & 4 are typically small businesses and market shares are measured in terms of meter points; profile classes 5 to 8 and half-hourly (HH) customers are typically larger and market shares are measured in terms of volume.

¹⁶ CMA Energy market investigation webpage: <https://www.gov.uk/cma-cases/energy-market-investigation>

¹⁷ CMA Energy market investigation final report, June 2016: <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf> (page 1330 to 1342) and CMA remedies implementation document, November 2016: https://www.ofgem.gov.uk/system/files/docs/2016/11/cma_remedies_implementation_plan.pdf, page 46 and 47

- report their generation and retail supply activities along market rather than divisional lines
- report balance sheets as well as profit and loss accounts for these activities
- disaggregate wholesale energy costs for retail supply across broad tariff types between a standardised purchase opportunity cost and a residual element, and
- report prior year figures prepared on the same basis as current period figures.

Summary of stakeholder responses

3.2. The vast majority of stakeholders agreed with the rationale we set out above for reviewing the CSS. Most agreed that the market has changed significantly with a reduction in the market power of the largest suppliers, creating a need for a review.

Reviewing the CSS – summary of options

3.3. In our policy consultation, we set out three options for reviewing the CSS, including:

- option 1 – No changes to the CSS requirement. Our 'do nothing' option and the counterfactual scenario in our draft impact assessment (IA).
- option 2 – Completely remove the CSS requirement from SLC 19A of the electricity and gas supply licences and SLC 16B of the electricity generation licence, and therefore no supplier would be obligated to publish a CSS. Instead, we would need to use frequent RFIs for our information needs, and we would expect this to be more costly and less efficient for suppliers than submitting a regular CSS each year.
- option 3 – Revise the CSS licence requirement. We considered three key changes related to vertical integration, domestic and non-domestic customer threshold levels and auditing. We also proposed to include more detailed reporting of existing categories and segments, a balance sheet and prior year figures as well as changes to the reporting year.

Our initial proposals

3.4. We stated that our preferred option was to revise the CSS licence requirement (Option 3) supported by our draft IA. As part of Option 3, we presented our initial proposals with respect to scope, auditing, reporting year and inclusion of additional information.

Summary of stakeholder responses

3.5. Stakeholder views on our options to review the CSS were mixed. The response from the consumer group fully supported our preferred option to revise and extend the CSS. The majority of domestic suppliers that responded agreed the CSS should be revised or replaced with some other vehicle for collecting similar data. However, if revising, most stakeholders indicated that more granularity, as proposed, would likely be too burdensome. Therefore, preferring no changes to the CSS requirement (ie Option 1 outlined above) but extending to include most or all suppliers. This in turn would ensure that there is a mechanism in place to provide transparency and market intelligence to Ofgem on the energy market.

3.6. Most non-domestic suppliers and some domestic suppliers also disagreed with some of our preferred proposals under the option to revise the CSS, particularly those around the request for additional information and the level of granularity for the breakdown of costs, revenues and profits. They argued that there is no significant justification for some of the proposed changes in relation to additional information which would have far-reaching and costly impacts on them, particularly if their size is small but within the proposed thresholds. ICoSS¹⁸ believes that this would introduce a disproportionate cost burden to smaller suppliers and would quickly become out of date as the market evolves rapidly.

Our final proposal

3.7. We are proposing to revise the CSS. The information we currently receive through the CSS is not reflective of the energy market in comparison to when it was first introduced. The market is also more dynamic and some of the features when the CSS was first introduced are now less prevalent (as discussed in paragraph 3.1). One of the key aims for revising the CSS is delivering a CSS that is representative in terms of market share and market structure and dynamics. We expect our proposals to achieve this by expanding the CSS obligation to include more suppliers, requesting more operating information and deepening the granularity of information.

3.8. On our proposals relating to the submission of more operating information, we discuss our rationale for specific proposals later in Chapter 4, including how we would use

¹⁸ ICoSS - The I&C Shippers and Suppliers (ICoSS) Group

the additional information proposed. We recognise that some suppliers may need to change or adapt reporting systems to accommodate some of our proposals. Our understanding from responses is that these costs will likely be one-off and that the information we are requesting is operating information that should be routinely captured by suppliers to monitor financial results. We also expect smaller suppliers to have a less complex structure which should ease reporting requirements under our proposals. We consider that requiring the very smallest suppliers to submit a CSS would be too onerous so we are proposing not to obligate this segment under the CSS licence requirement by lowering the customer number threshold, not removing it. We have carefully considered costs (including burden on suppliers) and benefits in our final IA, presented in Appendix 1.

4. Final proposals on changes to the CSS

Chapter summary

We discuss our final proposals, along with a summary of the initial proposals as set out in our policy consultation and stakeholder responses to them.

4.1. As discussed in Chapter 3, our final proposal is to revise the CSS (ie Option 3). In our policy consultation, we presented our initial proposals with respect to scope (supply and generation activities and customer number threshold), auditing requirements and inclusion of additional information. Figure 2 summarises our initial proposals under Option 3 in each of these areas. Our preferred proposal, as stated in the policy consultation for each area, is shown in bold. Our policy consultation also discussed issues around cost allocation, reporting year, transition period and confidential information.

Figure 2. A summary of initial proposals for revising the CSS

Scope- supply and generation activities	Scope-customer threshold	Audit requirement	Additional info
<ul style="list-style-type: none"> • Obligate suppliers who are vertically integrated (ie hold supply and generation licences) and suppliers who are not (ie hold a supply licence only). Where a supplier is vertically integrated, it must provide accounts on the generation business of its affiliate generation licensee. • Obligate suppliers who hold a supply licence. Vertically integrated companies will only be required to report in respect of their supply business. 	<ul style="list-style-type: none"> • Only apply to suppliers with more than 250,000 customers. • Lower the customer number threshold to 150,000. • Lower the customer number threshold to 50,000. • Use a target of a minimum of 90% market share and reserve the right to periodically review this threshold level. 	<ul style="list-style-type: none"> • Leave the audit requirement in to cover all obligated suppliers. • Remove the auditing requirement for all obligated suppliers. • Remove the annual audit requirement for all obligated suppliers but reserve the right to require an audit when we have serious concerns. • Have a two-tier requirement in which the largest suppliers (eg customers over 250,000) are required to undertake an annual CSS audit, while we retain the right to compel other suppliers to undertake an independent audit when we have significant concerns. 	<ul style="list-style-type: none"> • Breakdown of revenue, costs and profit by tariff types and domestic customer numbers by tariff type. • Breakdown of business revenue, cost and profit between microbusiness and other business customers. • Analysis of indirect operating costs. • Separating out costs to serve customers. • Breakdown of 'Other revenue' into its main revenue streams. • Inclusion of balance sheet with 'outstanding customer credit account balance position', income statement and possibly further information about the financial position of the company. • Number of domestic customers split by payment method.

4.2. This chapter sets out our final proposals in each of the key areas (ie scope, auditing and additional information), along with our initial proposals and a summary of stakeholder responses. We also discuss other issues that have been raised in stakeholder responses, including cost allocation, reporting year, transition period and confidentiality issues. In the appendices, we present draft revised guidelines and draft templates on how to prepare and submit the draft revised CSS as well as our final IA. The appendices also set out draft changes to the licence conditions reflecting our proposals as well as stakeholder views we received after sharing our draft modifications in November 2020.

4.3. In summary, our final proposals are:

- **scope** - lower the customer number threshold (for domestic customers, this will be at least 50,000. For non-domestic customers, this will be a number equivalent to capturing a minimum of 90% of the non-domestic market) and extend the obligation to include companies who have a supply licence only, in addition to companies who have both a supply and generation licence.
- **auditing** - remove the auditing requirement but reserve the right to request one when we consider the CSS has not been prepared in accordance with the licence conditions, guidelines and/or template.
- **additional information** -
 - more granular information on breakdown of revenue, cost and profit by tariff type (applying to the domestic supply segment only) and on the basis of microbusiness, Small & Medium Enterprises (SME) and Industrial & Commercial (I&C).
 - breakdown of indirect costs, including separating out costs to serve PSR customers for the domestic market only.
 - continue to request information on revenue from other business activities as a line item and propose to add a column to show the revenue, costs and profit from activities other than the sale of electricity and gas.
 - request a high level segmental balance sheet and a separate customer number table (draft templates to both can be found in Appendix 4).
- **cost allocation** - continue with the existing requirement of requiring suppliers to describe their cost allocation methods. We will review suppliers' allocation methods and, in the future, may suggest a standard allocation method going forward.
- **reporting year** - continue to allow companies to report their CSS based on their own reporting year, enabling suppliers to reconcile their CSS to their annual statutory accounts and making it easier to apply any adjustments.

- **transition period** - allow a transition period of six months from a company's year-end, applicable to all obligated suppliers under the revised CSS licence requirement but subject to the first year only.
- **confidentiality issues** -where a supplier has a specific concern, they should notify us in advance of publication and we will advise whether we consider it can be redacted.

4.4. To develop our proposals, we have engaged with stakeholders, including through a number of workshops. Two workshops were organised prior to the publication of our policy consultation, with the aim of gathering feedback on our thinking behind revising the CSS. We took this feedback into account when outlining our initial proposals in the policy consultation. We organised two further workshops after publication of our policy consultation to discuss the technical and financial detail and implications of our proposals. More recently, we submitted our draft modifications to the licence conditions for stakeholder feedback and a summary can be found in Appendix 2.

4.5. We expect the changes we are proposing will enable us to:

- 4.5.1. carry out detailed analysis (eg cost efficiency of different suppliers) when we are carrying out market assessments. It will also allow us to assess profitability in different business segments (eg microbusinesses) to understand supply margins.
- 4.5.2. increase transparency on overall level of profit from other activities suppliers are involved in to understand how this may impact their supply businesses and hence consumer bills.
- 4.5.3. improve our understanding of the extent of justifiable cross-subsidisation that would benefit particular customer groups.
- 4.5.4. allow us to monitor which tariffs for different customer types are justified on the basis of costs and where there are any cross-subsidies between these groups.
- 4.5.5. allow a broader range of returns to be considered (eg return on capital as well as margins) through a high level balance sheet and cash flow information, and

- 4.5.6. provide a template to allow us to gather information outside of the regular CSS reporting period to identify and assess any issues emerging from particular supplier(s), working together with measures put in place as part of the supply licensing review.

Scope- supply and generation activities

Our initial proposal

4.6. In our policy consultation, our preferred option was to obligate suppliers who are vertically integrated (ie hold supply and generation licences) and suppliers who are not (ie hold a supply licence only) to submit a CSS. In addition to information on supply activities, we would continue to ask vertically integrated companies to provide information on the generation business of its affiliate generation licensee. We also stated that we are minded to consult on a new CSS requirement for generators and would provide further details in due course.

Summary of stakeholder responses

4.7. Smaller suppliers (based on customer numbers) who responded to the consultation agreed with our proposals on vertical integration and generation activity reporting. However, most vertically integrated companies and large suppliers argued that they should not be required to report on their generation activities as vertical integration is no longer a significant market feature hence issues around transfer pricing are not as prevalent. Some of the non-domestic suppliers who responded did not agree that they should be obligated and monitored in the way we have proposed, arguing that most supplier failures have been in the domestic market.

Our final proposal

4.8. As discussed in Chapter 3, we recognise that vertical integration has less presence in the market than when the CSS was first introduced and concerns around transfer pricing have been eased by the rules and the transparency the CSS has provided. However, our duties require us to monitor the market even when things appear to be working better. Providing a split of profits between generation and supply allows companies to be transparent about the allocation of profits between the two activities. Government, consumer bodies and Ofgem expect this information to understand whether it is indicative of fair cost allocation.

4.9. Furthermore, as part of our monitoring work, we use information on both supply and generation activities and profits to understand sources of generator profits, and to understand how well the wholesale market is functioning as a whole. This helps inform our policies aimed at improving outcomes for consumers. However, given changing market dynamics since the start of the CSS, we need to ensure we are collecting information from a wide range of generators, representative of the market, so that we have meaningful information on profits. Therefore, we are considering whether it is necessary to broaden the definition of “relevant licence” in SLC 16B to capture a greater level of licenced generators and will propose changes if we deem it necessary. We will review how vertically integrated companies report generation activities if and when a separate CSS licence requirement is implemented. We will however ensure it does not lead to duplication or unnecessary regulatory burden.

4.10. With respect to concerns raised by non-domestic suppliers, we have addressed these in paragraph 2.12, where we state the purpose of the CSS is not to assess the financial viability of suppliers but to capture a general overview of profitability in the sector. With this in mind, we are proposing to extend the CSS licence requirement to include more suppliers, including suppliers with non-domestic customers, so that we cover a similar level of market share as when the CSS was first introduced.

4.11. Our final proposal is consistent with what we set out in our initial proposal and described in paragraph 4.6. Under these proposals, companies who meet the revised customer threshold, set out in the section on scope, and either hold a supply and generation licence or hold a supply licence only would be obligated. Companies who are engaged in generation activities only (ie hold a generation licence only and do not hold a supply licence) would not be obligated under our proposals.

Scope- Customer number threshold

Our initial proposal

4.12. In our policy consultation, our preferred option was to lower the customer number threshold to 50,000 domestic or non-domestic customers.¹⁹ One of the aims of this review is to increase market coverage of the CSS so that we can capture a fuller picture of

¹⁹ Customers are defined as meter points (MPANs and MPRNs).

profitability in the retail energy sector. Lowering the threshold to 50,000 would mean that we are capturing more than 99% of the market.²⁰ It is also consistent with the level at which the requirement to offer a variety of payment terms begins, as well as when milestone assessments will be required as set out in the decision document for the Supplier Licensing Review (SLR): Ongoing and exit arrangements.²¹

Summary of stakeholder responses

4.13. Responses on the threshold level were mixed. Several stakeholders said we should remove the customer number threshold altogether or lower it as far as possible to capture the smallest suppliers who are of most concern given that most exits in recent years have been by this group.

4.14. Non-domestic suppliers supported reducing the threshold level to 150,000 customers as this is in line with other industry standards such as the Supplier Export Guarantee, Warm Home Discount (WHD), Energy Company Obligation (ECO) and a number of other smart metering obligations. Some of these non-domestic suppliers also argued that if the aim is to cover at least 90% of the market then a customer threshold of 150,000 will achieve that in the non-domestic sector.

4.15. A couple of suppliers stated that there should be a two-tier approach depending on the size of the supplier – a lighter version of CSS for smaller suppliers and a more granular CSS for large suppliers. Their rationale for this approach is that small suppliers/new market entrants are structured and are run differently than large suppliers, and that the request for additional information would be particularly more burdensome for smaller suppliers and would not add significant additional value to the market overview data.

4.16. A number of suppliers sought clarity on when reporting requirements apply, particularly considering how customer numbers fluctuate throughout the financial year. There was a suggestion about aligning with Ofgem's annual customer number notification

²⁰ Market share figures are given in average terms based on the figures for each quarter of a given year. We calculate market shares every quarter, and this data is available in our [Data Portal site](#). We calculate market shares using the number of meter points on the gas distribution networks, as provided to us by Xoserve. We calculate market shares from the number of meter points on the electricity distribution networks, as provided to us by electricity distribution network operators.

²¹ Decision – Supplier Licensing Review: Ongoing requirements and exit arrangements, 26 November 2020: [Supplier Licensing Review: Ongoing requirements and exit arrangements - Decision \(ofgem.gov.uk\)](#), page 15

process for WHD, ECO, etc. One supplier has made assumptions that suppliers would need to produce a CSS for the year in which the threshold was exceeded. Another supplier sought clarity on whether the threshold would be based on the number of customers or the number of supply points a supplier has in their portfolio, and on whether this applies to a supplier's individual or aggregate portfolio (eg gas, electricity, and domestic/non-domestic).

Our final proposal

4.17. Removing the threshold would increase resource costs considerably for Ofgem (eg if we were to remove the 50,000 threshold, the remaining 1% of customers represents 80 suppliers). It would also be disproportionately burdensome on the smallest of suppliers. On the suggestion of a lighter version of CSS for smaller suppliers and a more granular CSS for large suppliers, the CSS contains a summary income statement and our proposals include a high level summary balance sheet and cash flow information, in which a supplier (regardless of their size) should be able to fill in with information that would be routinely collected. One of our aims is to collect data for market intelligence and oversight. As such, we would also need to understand the overall market and therefore we would need to aggregate figures from all obligated suppliers in different categories. Having two separate versions of CSS is likely to jeopardise this aim. It is not feasible to aggregate all figures with different versions of the CSS. Having one version of CSS improves comparability and transparency in the market.

4.18. Furthermore, suppliers will only need to provide information that is relevant to their business activity. For example, there are some suppliers who specialise in gas sales to business customers only, therefore they will only need to report on that and no other categories. We expect the CSS to capture all variations of businesses.

4.19. Our final proposal is to have separate thresholds for domestic and non-domestic customers, measured in meter points, MPANs and MPRNs. For domestic customers, we propose the threshold to be consistent with our initial proposal of 50,000. For non-domestic customers, we propose to adopt the option consistent with a minimum target of 90% market share and reserve the right to periodically review this threshold level. We are proposing to have separate thresholds for domestic and non-domestic customers because while suppliers tend to have fewer non-domestic customers than domestic customers, their energy consumption is normally greater than the average domestic customer. If we apply the same threshold across both customer types, we would capture fewer non-domestic suppliers. Hence, we would not meet our aim of collecting CSS data, which is representative of the market and, specifically, capturing a similar level of market share to

when the CSS was first introduced. In achieving representative coverage, including in terms of market share and different business models, the right measure in the domestic market is number of customers and in the non-domestic it is by market share due to the larger volumes typically consumed by non-domestic customers.

4.20. As such, our final proposal is for the following thresholds to apply (subject to the decision document):

- domestic - suppliers would have at least 50,000 gas or electricity customers, measured in meter points; or
- non-domestic - to capture a minimum of 90% share in the non-domestic market, suppliers would have at least 17,000 gas or 29,000 electricity non-domestic customers (measured in meter points) in the first reporting year under the revised CSS licence requirement. This minimum number of meter points is subject to change annually in the guidance so that it represents at least 90% market share each year.

These thresholds are to be calculated separately based on a supplier's individual portfolio (gas, electricity, domestic, and non-domestic).

4.21. For the 2021 submission in 2022, a 90% market share in the non-domestic gas and electricity markets is equivalent to non-domestic customer thresholds of 17,000 and 29,000 respectively.

4.22. Under our proposals, we will publish the non-domestic customer number threshold by mid-January each year, along with a list of obligated suppliers, and notify newly obligated suppliers. A supplier obligated under the CSS licence requirement will be required to continue to submit a CSS unless otherwise agreed by the Authority.

4.23. To calculate the non-domestic threshold, we will use the latest data on gas and electricity meter points from network operators, Elexon and Xoserve. We will calculate suppliers' individual market shares using this data on meter points. We will then order suppliers from largest to smallest market share until we reach a target of 90%.

4.24. The table below provides an illustration of the combined number of suppliers that would be obligated now under each threshold level, along with the combined number of domestic or non-domestic customers and the market share that would be covered by the data from these suppliers. These customer numbers are based on meter points. In response to the view that we should lower the threshold to 150,000 customers, if the aim

is to meet at least 90% of market share, the table shows that, in fact, a threshold of 150,000 covers just under 80% in the non-domestic market, not 90%, of the market.

Table 2: Combined market shares and number of suppliers at different threshold levels (illustrative)²²

Threshold	Domestic			Non-domestic		
	Number of suppliers	Number of customers	Market share	Number of suppliers	Number of customers	Market Share
250k customers	17	51,158,584	97.2	5	2,374,297	68.3%%
200k customers	19	51,611,508	98.0%	6	2,597,919	74.8%
150k customers	22	52,098,481	99.0%	7	2,771,502	79.8%
50k customers	26	52,540,378	99.8%	10	2,999,348	86.3%
90% of market share	10	47,887,786	91%	14	3,406,688	98.0%
Final proposal (hybrid option)	24	52,246,494	99%	15	3,144,016	90.5%

4.25. The table shows that by setting a domestic customer number threshold of 50,000, 26 suppliers would be eligible under the CSS licence requirement in order to cover 99.8% of the market. The non-domestic market typically has fewer customer meter points than the domestic market. Therefore, the 50,000 threshold would not cover a sufficient market share in the non-domestic market (as illustrated in the above table to be 86.3%). Hence, in order to cover at least 90%, a customer number threshold of 17,000 gas or 29,000 electricity customers in the non-domestic market would need to be set for the 2021 CSS submissions in 2022. This implies a total of 15 suppliers would be eligible under the non-domestic threshold. As the non-domestic threshold would likely change from year to year, we set out procedures for communicating which suppliers will be eligible each year in the draft revised guidelines, also summarised in paragraphs 4.20 to 4.22. However, responsibility for meeting the revised CSS licence requirement ultimately rests with licensees.

²² This table uses February 2021 data, and supplier failures and acquisitions have also been taken into account.

4.26. We want changes to the CSS to be enduring and we want to capture information that is representative and proportionate in terms of the number and type of suppliers. Our proposals will achieve this and allow us to collect data on suppliers as they grow and, at the same time, strike the right balance between the burden placed upon smaller suppliers and market coverage.

Auditing

Our initial proposal

4.27. Our preferred option in our initial proposals with respect to the auditing requirement was to remove the annual audit requirement for all suppliers but reserve the right to require an audit when we have significant concerns. Such concerns may arise if we identify any inconsistencies in reporting across suppliers and our engagement with suppliers to clarify these inconsistencies is not successful. We would then request that supplier(s) complete an audit of their CSS for a particular year and we will allow 6 months for the supplier to schedule and complete the audit.

Summary of stakeholder responses

4.28. The vast majority, with a couple of exceptions, preferred the option to remove the audit requirement. Most also preferred that Ofgem retains the right to propose an audit where there may be cause for concern. Two suppliers, on the other hand, argued that an audit requirement provides greater confidence to stakeholders that the financial data is robust and provides greater clarity to suppliers on their obligations, as well as benefiting management with external assurance and testing. They also said that if the granularity of the CSS is increased then auditing becomes even more of a necessity.

4.29. Some also indicated that an ad-hoc audit would likely cost more than a recurring audit planned in advance, and that audit costs also vary greatly depending on the size of the suppliers and the complexity of their ownership and organisation structure. According to responses, audit costs range between £10,000 and £213,000, although the majority of figures were closer to £10,000. Some indicated that the audit costs would be higher if the reporting year changed and did not align with individual company's year-end. Some responses indicated that audit costs would be higher if the proposed increase in detail required from submissions and the additional information requested is taken forward.

4.30. Most non-domestic suppliers indicated that they have no prior experience on the audit costs as they did not have to audit a CSS before but estimated that it will cost about £50,000 on average. Other suppliers indicated that audit costs would be lower if CSS was provided at the same time as company accounts, the timing of which varies between suppliers.

4.31. The majority of suppliers agreed that removing the auditing requirement would reduce the time needed to prepare and submit the CSS by a small amount (eg 2 to 4 weeks); this is because most of their processes are tied together and accounts are audited anyway and the CSS cannot be submitted until group level accounts have been published. Expanded reporting requirements however would make it take longer overall. Others indicated no change as the CSS publication is tied to their company accounts.

Our final proposal

4.32. After carefully considering responses and cost estimates, a general auditing requirement may be unduly burdensome for suppliers (partly or fully borne by consumers), particularly suppliers new to the CSS licence requirement that may already be capable of providing accurate information. Suppliers are required to provide us with information that is accurate and reliable through Standard Licence Condition 5 (SLC 5) in the electricity and gas supply licences.²³ As such, our final proposal is consistent with the preferred proposal we set out in our policy consultation; we propose to remove the annual audit requirement for all suppliers but reserve the right to require an audit when we consider the CSS has not been prepared in accordance with the licence conditions, revised guidelines and/or revised templates.

4.33. To help reduce the risk of inappropriate cost allocations or inconsistencies in reporting, we propose to ask suppliers to submit the CSS based on the revised template (shown in Appendix 4) and follow the guidance on allocating costs in our draft revised guidelines (Appendix 3). Furthermore, we propose to ask suppliers to continue to submit the CSS based on their year-end so that the CSS figures can be reconciled back to the company's main statutory annual accounts which are audited. Our expectation is that this

²³ See Condition 5 in the Standard conditions of electricity supply licence- https://epr.ofgem.gov.uk/Content/Documents/Electricity_Supply_Standard_Licence_Conditions_Consolidated_-_CurrentVersion.pdf. Also see Condition 5 in the Standard conditions of gas supply licence: https://epr.ofgem.gov.uk/Content/Documents/Gas_supply_standard_licence_conditions_consolidated_-_Current_Version.pdf

would ensure consistency across CSS submissions and can help to alleviate any reconciliation issues. We consider our proposals strike the right balance between collecting reliable and accurate information and the burden on suppliers in providing information that we can trust given the auditing costs set out above. However, we recognise that some companies may want to voluntarily publish a CSS which is audited so that it is in line with their company standards, and we would welcome this.

Additional financial information requirements

Our initial proposals

4.34. In our policy consultation, we recognised that this review is an opportunity to consider whether Ofgem and stakeholders could benefit from more reporting of categories and segments in the CSS, while at the same time weighing the burden this may place on suppliers.

4.35. Through our experience from monitoring the impact of the COVID-19 virus, we found that it can take many weeks for a supplier to set up reporting systems to respond to a RFI. Suppliers would be able to respond much more quickly with the CSS template as a basis for reporting. We considered what information would be useful and, in our policy consultation, we sought views on which information should be given priority.

4.36. In particular, we consulted on the inclusion of the information outlined below.

4.36.1. ***Breakdown of revenue, cost and profit by tariff type which would apply to both domestic and microbusiness supply segments.*** In addition, we proposed to collect domestic customer numbers split by tariff type (ie, default, non-standard variable tariffs and fixed tariffs). The primary purpose of requesting a breakdown and customer number split by tariff type would be to monitor the extent to which tariffs for different customer categories (eg engaged and disengaged) are justified on the basis of costs and whether there is any cross-subsidisation between these groups.

4.36.2. ***Breakdown of business revenue, cost and profit between microbusiness and other business customers.*** We proposed this breakdown to be between microbusiness, Small & Medium Enterprises (SME), Industrial & Commercial (I&C) and non-profit organisations. We also requested the number of each type of non-domestic customers. We would use this information to

monitor how the market is working for these customers and, in particular, assess profitability in the different business segments to understand supply margins.

4.36.3. ***Separating out indirect operating costs.*** To date, this cost item has been reported as a single item. We proposed to separate this out into customer service, bad debts, metering, sales and marketing, central service and other. That would facilitate review of cost allocation. We seek this granularity to inform our work in market assessments (eg efficiency cost consideration is part of the CfEC assessment²⁴, price cap and other regulatory interventions).

4.36.4. ***Separating out costs to serve customers.*** We consulted on separating out costs to serve customers (eg those registered on the Priority Services Register (PSR) having a Prepayment Meter (or other features that make them more likely to be considered vulnerable) to understand cost efficiency of different suppliers and to understand whether there is cross-subsidisation (through higher prices charged to other users), and if so, whether it is justifiable.

4.36.5. ***Other revenue.*** We consulted on a breakdown of 'other revenue' into its main activities and transparency on the overall level of profit from other activities that the licensee company is involved in to understand how this may impact their supply business and hence consumer bills. For generation, we suggested the following line item split: ancillary services, balancing payments, capacity market income, Renewable Obligation Certificates (ROCs) and other. For supply, we suggested that specific activities of interest may be Energy Company Obligation (ECO), energy services and metering. We asked how feasible it would be to split other revenue into specific categories and what those specific categories should be.

4.36.6. ***Inclusion of a balance sheet*** (with comparative figures and a standard layout) showing a supplier's outstanding customer credit account balance position and comparative figures for the previous year in the income

²⁴ Framework on conditions for effective competition in domestic supply contracts:
<https://www.ofgem.gov.uk/publications-and-updates/framework-conditions-effective-competition-domestic-supply-contracts>

statement in the existing CSS. Such a requirement was also recommended by the CMA in their final report on 24 June 2016²⁵ in which they stated that suppliers should be required to report their balance sheet as well as profit and loss accounts for these activities in the CSS submissions. We also discussed possibly requesting further information about the financial position of the company (eg information about key investors in the company and group, lines of available credit, other sources of financial stability, and funds set aside for RO payments).

4.36.7. Number of domestic customers by payment method (ie PPM, direct debit and standard credit) to understand the split of domestic customers between payment methods. We collect data on quarterly customer numbers by payment and tariff type. However, we are asking for this information to accompany the CSS submission for the latest quarter to help us capture a full picture when assessing profitability and economic conditions on different customer groups on the basis of payment.

4.37. The following sections summarise responses to each of the additional information requests listed above, along with our final proposals.

Breakdown of revenue, cost and profit by tariff type and number of domestic customers split by tariff type

Summary of stakeholder responses

4.38. A large consumer organisation supported the proposal, saying that breaking down costs between default and non-default tariffs would be particularly useful in understanding the potential for cross subsidy and consumer harm.

4.39. The majority of other stakeholders agreed that it is possible to split revenues but not costs by tariff type. They stated that their reporting systems do not allow for reporting in the way we have proposed and changing their systems would be costly and the allocation arbitrary. Several have asked us to provide detailed guidance and definitions, as well as a

²⁵ CMA Energy market investigation final report, June 2016: <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf> (page 1330 to 1342) and CMA remedies implementation document, November 2016: https://www.ofgem.gov.uk/system/files/docs/2016/11/cma_remedies_implementation_plan.pdf, page 46 and 47

standard method of allocating costs for those suppliers who need the guidance to ensure consistency.

4.40. For some suppliers, our suggested breakdowns are possible but not at the level of granularity proposed. For others, costs are aggregated at a group level. Therefore, any apportionment can only be done by apportioning group costs based on a metric in order for reporting to be both consistent and practical. One supplier argued that Ofgem should show flexibility for suppliers to provide information in line with the accounting standards they use in their financial accounts. Some suppliers use Generally Accepted Accounting Principles (GAAP) and some International Financial Reporting Standards (IFRS) accounting standards, and this means that breakdown of costs could differ.

Our final proposal

4.41. We are proposing to request a breakdown of revenue, cost and profit by tariff type, applying to the domestic supply segment only. The tariff categories we would like to see are pre-payment meter, default and active choice.²⁶ These categorisations are based on what we publish on our website and should be familiar to suppliers. We are not requesting a tariff split in the microbusiness segment. Our final proposal also requests the number of domestic customers split by tariff type

4.42. We note concerns raised by some suppliers about difficulties in splitting costs by tariff type however suppliers would have had some experience in doing this under the COVID-19 RFI. We recognise that some suppliers may need new or modified reporting processes and systems to capture the information we are requesting, while others may be able to use existing systems. We have considered the costs associated with providing a breakdown by tariff type and the other additional requests and expect the majority of costs to be one-off which we have considered in our final IA. We note however that suppliers have been providing similar summary income statement and balance sheet information under the COVID-19 RFI.

4.43. Allocating costs across business activities is routine management accounting, normally undertaken to enable board of directors to monitor profitability of the sectors in

²⁶ See our Data Portal site:

<https://www.ofgem.gov.uk/data-portal/retail-price-comparison-company-and-tariff-type-domestic-gb>
and <https://www.ofgem.gov.uk/data-portal/cheapest-tariffs-payment-method-typical-domestic-dual-fuel-customer-gb>

which a company operates. However, we have provided some guidance on cost allocation in the draft revised guidelines. We will update this once we receive information on cost allocation from suppliers after the first year of submissions in the revised template. We discuss cost allocation in a separate section below. On the concerns around accounting standards, we advise suppliers to report using the accounting standards under GAAP. In order to comply with GAAP, suppliers should follow the same accounting standards used in their statutory accounts so that figures can be reconciled. If a supplier applies IFRS in its statutory accounts then it should apply the same version of IFRS for preparation of the CSS.

Breakdown of business revenue, cost and profit between microbusiness and other business customers

Summary of stakeholder responses

4.44. Stakeholders indicated that breakdown of revenue, cost and profit split by customer type would be challenging because it is not how they currently allocate and would require costly changes to their processes and systems. They also stated that assumptions will need to be made which may or may not be similar to those made by other suppliers, therefore there would be a level of inconsistency.

4.45. Most suppliers indicated that they do not distinguish between microbusiness and SMEs, but suggest that if definition of microbusiness is broadened to include SMEs then some might be able to breakdown information between microbusiness and non-microbusiness customers. However, this would require changes to current systems to provide data for input into a new tool for allocation, and represents a disproportionate cost given a small portfolio of non-domestic customers.

4.46. Non-domestic suppliers argued that they do not operate separate SME, I&C and not-profit reporting streams and therefore this will result in significant business disruption and require significant time to develop and deliver. Since there is no universal definition of SME, I&C or non-for profit customer, a common definition would need to be developed and systemised which would involve significant time and material costs.

Our final proposal

4.47. We are proposing to request a breakdown of revenue, cost and profit on the basis of microbusiness, SME and I&C, and the number of non-domestic customers for each of these customer types. We have chosen this categorisation as there are industry standard

definitions for these categories. The definitions for microbusiness and I&C²⁷ are set out in the supply licence and the definition for SME is set out in the COVID-19 RFI guidelines.²⁸ These definitions are as follows:

- Microbusiness - a non-domestic consumer:
 - which is a “relevant consumer” (in respect of premises other than domestic premises) for the purposes of article 2(1) of The Gas and Electricity Regulated Providers (Redress Scheme) Order 2008 (S.I. 2008/2268); or
 - which has an annual consumption of not more than 100,000 kWh; or
 - which has an annual consumption of gas of not more than 293,000 kWh.
- SME: customers with electricity profile classes 3-4 and/or annual gas consumption below 73,200kWh.
- I&C: customers with electricity profile classes 5-8, and half hourly import OR annual gas consumption above 73,200kWh.

4.48. As discussed in paragraph 4.42, we recognise that additional resources may need to be incurred by suppliers to change reporting systems and processes to accommodate these information requests. We have taken this into account in our final IA and expect most of these to be one-off costs. The information we have requested is not new information and it should already be captured by suppliers. We are aware that some of the information has previously been provided by some suppliers through RFIs to us and to the CMA and so will likely have experience in reporting information in this way. In our draft revised guidelines to accommodate our final proposals²⁹, we have provided some guidance on cost allocation to help increase consistency in reporting across suppliers.

²⁷ [Electricity Supply Standard Licence Conditions](#) (Condition 7A), and [Gas Supplier Standard Licence Conditions](#) (Condition 7A). All current consolidated licence conditions are saved here: <https://www.ofgem.gov.uk/licences-industry-codes-and-standards/licences/licence-conditions>

²⁸ As part of this RFI we have asked suppliers to submit non-domestic customer numbers broken down according to this definition.

²⁹ See Appendix 3

Separating out indirect operational costs

Summary of stakeholder responses

4.49. Most suppliers indicated that it is possible to allocate indirect costs at a supplier level although, in some cases, it may be subjective and suppliers may allocate different costs to different streams. To ensure consistency however, it was suggested that Ofgem should provide a detailed breakdown of what operational activities would fit into each category. Feasibility of Ofgem's proposals depends on the definitions of costs categories and flexibility for suppliers to make assumptions.

Our final proposal

4.50. Our final proposal is consistent with our initial proposal. We would like to expand indirect costs from one line to showing the main categories separately (ie customer service, bad debts, metering, sales and marketing, central service and other). In addition, we would like to see a line item of Research & Development (R&D) and innovation costs incurred during the period to allow us to monitor and track R&D and innovation to support our wider policy development work on net zero.

4.51. We do not consider it necessary to provide a detailed breakdown of what should be included in each category. As noted above, we consider cost allocation across business activities to be routine management accounting, and licensees should apply existing accounting rules to summarise costs into the reporting lines.

Separating out costs to serve PSR customers

Summary of stakeholder responses

4.52. Responses were mixed. Some stakeholders were supportive of providing the number of customers by type and further cost breakdowns, but required clear definitions and guidelines on apportionment. Non-domestic suppliers who responded stated that they do not separate out the costs to serve for different types of customers because many costs are incurred regardless of customer type. Further, as suppliers operating only in the non-domestic market are not obliged to track or provide services to vulnerable customers, it is impractical to require this. Some stakeholders (including domestic and non-domestic suppliers) view that reconciling PSR customers with the cost categories proposed would be an expensive and time consuming exercise which would not bring Ofgem the required detail on how much it costs to serve different groups of customers

Our final proposal

4.53. Having reviewed responses, we are proposing to request information on the aggregate value for costs to serve PSR customers for the domestic market only. We would like this to be reported as a line item under indirect costs. The analysis of costs to serve customers will give us insights into whether there is cross-subsidisation (through higher prices charged to other users), and if so, whether it is justifiable. It will also be used in our annual assessment in making a recommendation to the Secretary of State as to whether the Default Tariff Cap (price cap) should remain in place.

Information on other revenue (ie revenue in the licensee companies from activities other than sale of electricity and gas)

Summary of stakeholder responses

4.54. A large organisation representing consumer interests was supportive of all our proposals for additional information as they would improve transparency and oversight of the electricity and gas markets. They considered that information about revenue not related to energy supply would be particularly useful in understanding the potential for cross subsidy and consumer harm.

4.55. Most suppliers indicated that the feasibility to collect and provide information on other revenue varies between suppliers due to different ownership and operational structures. However, some of these suppliers said it is feasible to split other revenue into other categories and disclose these figures but clear definitions and guidelines are needed to ensure that there is consistency across all suppliers. A small number of suppliers proposed that we should continue to collect aggregate level of other revenue as per existing guidelines but not further granularity.

4.56. Suppliers that were unsupportive of disclosing revenue and costs allocated to non-licenced activity questioned if Ofgem had the statutory powers to request such information, and considered the information to most likely be commercially sensitive. Furthermore, they argued that request for detailed financial information on other 'unregulated' revenue is not sufficiently justified and is not within the scope of Ofgem's information gathering powers. They considered this reporting to be unnecessary and are unclear as to why this would be requested. Furthermore, they indicated that the increased granularity proposed would be detrimental to consistency and comparability of data, which would make market monitoring at an aggregated level less robust.

4.57. Almost all suppliers who responded to our consultation document indicated that more clarification is required on categorisation from Ofgem to ensure any extra data collected is comparable and consistent (and therefore of any use).

Our final proposal

4.58. We already request information on revenue from other business activities in our current CSS guidelines³⁰ and we will continue to request this information as a line item. Our current guidelines also require a reconciliation of revenue and profit from the sale of electricity and gas to figures in the company's accounts. The current guidelines state that this reconciliation should provide "a clear and full explanation to enable an individual to understand as much as can be reasonably expected on how revenues and profits reconcile to the Relevant Licensee's audited figures" and that "the explanatory notes should contain a detailed description of its significant component parts. An explanation of any reconciliation would be expected to take the form of a numerical table and a written statement".³¹

4.59. In our policy consultation, we consulted on a breakdown of significant categories of other revenue. We propose that the description of revenue from significant other activities should continue to be provided in a footnote, not on the face of the income statement. We also propose that the CSS income statement has a column to show the revenue, costs and profit from activities other than the sale of electricity and gas. The total value of 'other revenue' will be entered in this 'other activities' column. Similarly, expenditure allocated to other activities will be entered in the other activities' column allowing the profit or loss from other activities to be derived. We only propose disclosure of the unregulated activities carried out in the licensee company, not those in another group company where the bulk of those activities commonly are.

4.60. The reporting of 'other activities' will provide transparency on the allocation of costs between the sale of electricity and gas versus other activities. The revenue and profit from other activities are in the public domain as the difference between the totals for the company and the sub-total of the sale of electricity and gas published in the CSS. This

³⁰ Existing CSS Guidelines:
https://www.ofgem.gov.uk/sites/default/files/docs/2015/05/css_guidelines_jan_2015.pdf, page 5.

³¹ Existing CSS Guidelines:
https://www.ofgem.gov.uk/sites/default/files/docs/2015/05/css_guidelines_jan_2015.pdf, page 1 and 2

information will allow us to monitor any emerging issues that may need further investigation, akin to previous issues around transfer pricing.

4.61. As we set out in our policy consultation, our reasons for requesting information on 'other activities' are based on ensuring transparency from suppliers on the revenues and costs associated with activities that impact on the energy costs for consumers. The profits reported for the retail business segments depends on the allocation of costs between sale of energy versus other activities. We have the power to request this information under section 47(1)(b) of the Electricity Act 1989 and section 34(2)(b) of the Gas Act 1986. We expect that most unregulated activities will be in another group company and the scope of the CSS will be limited to unregulated activity in the supplier licensee only.

Inclusion of a balance sheet

Summary of stakeholder responses

4.62. Most stakeholders indicated that a high-level balance sheet is reasonable and achievable but they require detailed definitions for comparability and consistency. Other stakeholders did not consider that Ofgem needs a detailed balance sheet to achieve transparency and market monitoring. They argued that retrospective financial data which is provided in the balance sheets is insufficient for policymaking and at best it only captures a snapshot of a company's financial position not the firm's dynamics and its overall financial situation over the year.

4.63. Some stakeholders also questioned its added value over the annual accounts they provide with Companies House. They also proposed that in the first year of submitting the balance sheet they only provide previous year's figures on voluntary basis if easily obtainable. They argued that if there is a standard reporting year which is different to the company's year-end and the auditing requirement remained (even on an ad-hoc basis), then this is likely to create additional costs, as accounts would need to be audited twice – one for the company accounts and one for CSS purposes.

Our final proposal

4.64. We are proposing to request a high level summary balance sheet with comparative figures and a standard layout shown separately for Generation and Supply activities (a draft template can be found in Appendix 4). Our rationale is that the generation business has significant generation assets while the supply business typically has fewer fixed assets. Our assessment of supply balance sheets indicates that they are comprised mainly of working capital items such as cash, debtors and creditors. As such, the results in the

income statement need to be considered in the context of the balance sheet financial situation of generation and supply. In practice, the generation and supply licensees are separate companies, so the licensees will have separate company balance sheets available.

4.65. Furthermore, while the income statement tells us whether the company made a profit or loss in the year, the balance sheet tells us the cumulative results of profits or losses over the years. It indicates whether a company is still solvent after making a loss or whether a profit has made it solvent as liquidity ratios can be measured.

4.66. As discussed in Chapter 2, the primary purpose of the CSS is to provide transparency and market intelligence on the profits or losses, revenues and costs faced by suppliers in their key business activities so that Ofgem and stakeholders have an overview of profitability in the sector. To draw reliable conclusions from this financial information, it would need to be interpreted in the context of the financial situation of the licensee. With this in mind, in the balance sheet, we would like to see a supplier's outstanding customer credit account balance position to understand how these funds are being used and how much of it may be at risk. This information is important to help Ofgem understand the market and develop policies which will help protect consumers. We are also proposing that suppliers state the value of any investment innovation under fixed assets, in a separate confidential notes template to the balance sheet. Along with information on R&D and innovation costs in the income statement, this information in the balance sheet would inform our work on tracking progress towards net zero targets and decarbonisation policy.

4.67. The balance sheet template we have included in the draft guidelines is high level and should not be burdensome to complete, particularly for smaller suppliers who typically have fewer complex activities. Our proposed balance sheet template attempts to provide comparable analysis across companies and this is why it has a highly aggregated structure. It is true that the annual accounts are submitted to Companies House but companies are given many months to file accounts, and figures are sometimes overdue or out of date for analytical purposes. The CSS is required to be published promptly and we are clear of when we will receive this important information.

4.68. The CSS template sets out a standard summary balance sheet which facilitates aggregation of figures. By contrast suppliers are not consistent in their reporting in the statutory accounts. For example, a key balance sheet figure is the value of 'customer credit balances'. In the notes to the balance sheet in the statutory accounts, some suppliers show that as 'deferred income', whilst others include it in 'trade creditors' or 'other creditors'. Hence it takes time to trace and collate those important figures. The CSS is submitted as

an excel workbook which facilitates aggregating figures. By contrast, the accounts filed on Companies House are still allowed to be a low resolution scanned image of a printed document. In short the revised CSS will provide prompt reporting of an income statement and balance sheet with standard rows in machine-readable format.

4.69. We acknowledge the concerns expressed regarding additional costs created if we were to propose a standard year end which is different to a company's year-end. We are proposing no changes to reporting year so that suppliers can continue to align reporting with their company year-end. This is discussed in a separate section on reporting year below.

Customer number table

4.70. In addition to the CSS income statement and balance sheet templates, we are proposing to include a separate (confidential) customer number table, and we present a draft of this template in Appendix 4. In this table, we would like to see the number of domestic customers broken down by tariff type and the number of non-domestic customers broken down by business type. We discussed these proposals in paragraphs 4.41 and 4.47.

4.71. We are also proposing to include the number of domestic customers by payment type (ie PPM, direct debit and standard credit) in the customer number table. This was summarised in paragraph 4.36 as part of the proposals set out in our policy consultation, including our rationale for this request. We did not have any stakeholder responses in respect of this proposal.

Standard method for cost allocation

Our initial proposal

4.72. In our policy consultation, we stated that in order to help reduce the risk of inappropriate cost allocations or inconsistencies in reporting, we would like to ask suppliers to submit a statement describing the method they apply to allocate costs. We also indicated that an agreed standard method for allocating costs, or at least a template for a default standard would help achieve some consistency and alleviate some of the risk of inappropriate cost allocations. Our expectation is that suppliers should not change their cost allocation method every year and consistently use a default standard allocation method.

Summary of stakeholder responses

4.73. Generally, of those that responded, there was majority agreement for Ofgem to develop a standard method for cost allocation in order to avoid any manipulation/misinterpretation when breaking down costs and profits. This method could be developed by taking a metric into consideration (eg based on customer numbers). This method would ensure comparability across suppliers and provide for more meaningful conclusions drawn through comparison. To achieve this, however, most suppliers recommended clear and comprehensive prescriptive guidelines with some practical examples to be developed by Ofgem in consultation and engagement with suppliers. These principles or guidelines should be as detailed as reasonably possible, but also allow for faithful representation of the results of the business. Whatever approach Ofgem adopts should be aligned to existing accounting practice as far as possible. Defining the expected accountancy standards (ie should IFRS or UK GAAP be applied) would also be required.

4.74. A minority of suppliers argued that a standard method for allocating costs might be beneficial for Ofgem but would not reduce the costs for suppliers. They considered that the costs should be apportioned on a basis deemed appropriate by the individual supplier. Some do not want to be constrained by a standard method of cost allocation and that this standardised model would likely run in parallel on how businesses allocate costs. Some suppliers argued that any standard method should be available to suppliers who may need the guidance; it should not be mandatory.

Our final proposal

4.75. The existing guidelines obligate suppliers to describe their cost allocation methods. We currently have limited detailed information on current allocation methods so this requirement will continue. As such, we expect suppliers to continue to use their own method of allocation and we request that they clearly indicate on each expenditure item within the CSS template the cost allocation used. We have provided some guidance in the draft revised guidelines which we expect suppliers to follow and, after the first year under the revised CSS draft template, we will review suppliers' allocation methods and may suggest a standard allocation method going forward.

Reporting Year

Our initial proposal

4.76. We currently require licensees to link their CSS submissions with their annual accounts for reconciliation purposes. Having the CSS figures reconciled to figures in the annual accounts, which are audited, provides added assurance. However, for vertically integrated companies, the figures from the affiliated generation licensee come from another company and may well be only part of the revenue of that company.³²

4.77. In our initial proposal, we sought views on whether we should change the reporting year to a standard year ending on 31 March, particularly if we extend the scope of the CSS to include more suppliers. In this case, we would be able to collate all the figures at the same time.

Summary of stakeholder responses

4.78. Most suppliers raised concerns with moving to a standard reporting year of 31 March. Suppliers have indicated that there will be implications around the data being commercially sensitive if reported outside of their reporting period.

4.79. Most suppliers also indicated that changing the year end will lead to increasing costs in submitting a CSS as they would have run two reporting processes in parallel – a duplication of their annual reporting process and creation of two sets of statements, one for CSS and one for their own use.

Our final proposal

4.80. We understand that there are two main issues that arise if we were to take the option to standardise the reporting year to a March year-end. First, there is the cost involved in reporting CSS outside a company's year-end. If the standardised year-end is different from that of the company, then this would require companies to prepare two sets of financial statements, one for their shareholders and directors with their company's year-

³² For instance, the supply figures originate from one company while the generation figures originate from another. There might also be other business activities in the Affiliate, so the CSS total revenue might not simply be the total revenue of the supplier licences and generator licensee.

end, and the other for the CSS based on the standardised year-end. Second, there are commercial sensitivity issues of reporting outside of a company's reporting year. It would also mean that we would need to remove the requirement to reconcile the aggregate figures to the annual statutory accounts.

4.81. Having considered the merits of this proposal and the responses received, we are proposing no changes so that companies can continue to report their CSS based on their own reporting year. This would allow suppliers to reconcile their CSS to their annual statutory accounts and would make it easier to apply any adjustments. This in turn would mean that the submitted figures are reliable as they would have gone through auditing processes when a company submits their annual statutory accounts.

4.82. However, having a year-end that is not standardised across suppliers implies we would lose some ability to aggregate results and compare them for companies with different year-ends. Once obligated suppliers have established their reporting processes based on the revised CSS, we will reconsider whether it is preferable and practical to move to a standard reporting year which would address the issues around aggregation, comparability and seasonality.

The transition period

Our initial proposal

4.83. In our policy consultation, we noted that we will be considering whether to implement a transition period, particularly for newly obligated suppliers, and we asked for stakeholder views on how a transition period could work once the revised CSS licence requirements come into effect.

Summary of stakeholder responses

4.84. The vast majority of suppliers welcomed a transition period and thought this should be between 6 to 18 months and apply to suppliers new to the requirement, if not all. If the revised CSS includes the provision of additional information then the transition period is important for all obligated suppliers to set up processes and systems and test them. If the CSS does not include the requests for additional information then a transition period should apply to only new suppliers.

4.85. The transition period should consider the existing financial reporting timelines of that company. Some suppliers also argued that there should not be a requirement of prior year comparison for the first submission in the new draft template.

Our final proposal

4.86. After careful consideration of stakeholder views and Ofgem's information needs, we propose to allow a transition period of 6 months from the end of a company's reporting year. For example, if a company has a December year-end, we would expect to receive their submission in the following June. This transition period would apply to all obligated suppliers under the revised CSS licence requirement, and subject to the first year only. After the first year of CSS submissions, companies would submit the revised CSS no later than 4 months after a company's year, which is already set out in the current SLC 19A, for electric and gas, and 16B for generation.

4.87. In the first year of reporting under the revised CSS licence requirement (ie 2021 submission in 2022), we will not require a prior year comparison. We propose that this requirement takes effect from the following year's submission (ie 2022 submission in 2023).

Confidentiality issues

Summary of stakeholder responses

4.88. The vast majority of suppliers who responded to our policy consultation stated that the provision of additional financial information is commercially sensitive. Such information could only be published at the aggregated level and not at individual supplier level. It is information that competitors could use to their advantage - therefore Ofgem should refrain from publishing any data/financial information at a supplier level.

4.89. Furthermore, contrary to large suppliers, small suppliers are not currently required to publish financial information in the public domain. As such, it can be considered that any and all of the information required to be put into the public domain by the CSS process to be commercially sensitive as it will provide information on the fundamental financial workings of a supplier.

Our final proposal

4.90. The majority of suppliers are registered companies and they are obliged by law to submit their financial statements to Companies House on a yearly basis. This financial information is available in the public domain as all companies' accounts are open and accessible. We note suppliers concerns around confidentiality; we consider the information that we require to be published is limited and not confidential. However, where a supplier has a specific concern, they should notify us in advance of publication and we will advise whether we consider it can be redacted.

5. Conclusion and next steps

Chapter summary

We provide a summary of our final proposals for revising the CSS. We also outline next steps following this statutory consultation.

Summary of our final proposals

5.1. In the following table, we summarise our final proposals for revising the CSS. The changes we are proposing fall into three main areas: scope (supply and generation activities and customer number threshold), auditing requirement and additional information. We also set out our proposals on reporting year, transition period, cost allocation and confidentiality issues.

Areas of change	Our final proposals
Scope	<p>Supply and generation activities:</p> <ul style="list-style-type: none"> companies who meet the revised customer threshold and either hold a supply and generation licence or a supply licence only, will be obligated. companies who are engaged in generation activities only (ie hold a generation licence only and do not hold a supply licence) will not be obligated under the revised CSS licence requirement.
	<p>Customer number threshold:</p> <ul style="list-style-type: none"> our final proposal is to have separate thresholds for domestic and non-domestic customers (measured in meter points, MPANs and MPRNs). for the domestic market, suppliers should have at least 50,000 customers, or. for the non-domestic market, our aim is to capture a minimum of 90% share in the non-domestic market. Currently, this is equivalent to a supplier having at least 17,000 gas or 29,000 electricity non-domestic customers (measured in meter points). This minimum number of meter points is subject to change so that it represents at least 90% market share each year. We have outlined our methodology in paragraph 4.23 and in the draft revised guidelines for calculating the non-domestic market shares.
Auditing requirement	<ul style="list-style-type: none"> remove the annual audit requirement for all suppliers but reserve the right to request one when we consider the CSS has not been prepared in accordance with the licence conditions, guidelines and/or template. to help reduce the risk of inappropriate cost allocations or inconsistencies in reporting, we ask suppliers to submit the CSS based on the revised draft template (Appendix 4) and follow the guidance

	on allocating costs in our draft revised CSS guidelines.
Additional information	
<i>Breakdown of revenue, costs and profits by tariff type in the domestic market</i>	<ul style="list-style-type: none"> request a breakdown of revenue, costs and profits by tariff type in the domestic market only. the tariff categories we would like to see are pre-payment meter, default and active choice.
<i>Breakdown of business revenue, costs and profits between microbusiness and other business customers</i>	<ul style="list-style-type: none"> request a breakdown of revenue, costs and profits on the basis of customer types split by microbusiness, SME and I&C, as defined in paragraph 4.47 and in the draft revised guidelines.
<i>Separating out indirect operational costs</i>	<ul style="list-style-type: none"> request a breakdown of indirect costs into customer service, bad debts, metering, sales and marketing, central service and other. In addition, we are proposing a new line item of Research & Development (R&D) and innovation costs incurred during the period to allow us to monitor and track R&D and innovation.
<i>Separating out costs to serve PSR customers</i>	<ul style="list-style-type: none"> request information on the aggregate value for costs to serve PSR customers for the domestic market only. We would like this to be reported as a line item under indirect costs.
<i>Information on other revenue</i>	<ul style="list-style-type: none"> continue to request information on other revenue from business activities as a line item; the description should continue to be provided in a footnote, not on the face of the income statement. request a column to show revenue, costs and profit from activities other than the sale of electricity and gas; the total value of 'other revenue' should be entered in this 'other activities' column. Expenditure allocated to other activities should be entered in the other activities column allowing the profit or loss from other activities to be derived. we only propose disclosure of the unregulated activities carried out in the licensee company.
<i>Inclusion of a Balance Sheet</i>	<ul style="list-style-type: none"> request a high level summary balance sheet with comparative figures and a standard layout shown separately for Generation and Supply activities (as per the draft template which can be found in the draft revised Guidelines in Appendix 3).
<i>Customer numbers information</i>	<ul style="list-style-type: none"> inclusion of a separate (confidential) customer numbers table, including number of domestic customers by tariff type, number of non-domestic customers by business type and number of domestic customers by payment type (ie PPM, direct debit and standard credit). We present a draft of this template in Appendix 4.
Other Considerations	
<i>Standard Method for cost allocation</i>	<ul style="list-style-type: none"> continue requesting a description of cost allocation methods. we have provided some guidance in the revised draft guidelines and, after the first year under the revised CSS licence requirement, we will review

	suppliers' allocation methods and may suggest a standard allocation method going forward.
<i>Reporting Year</i>	<ul style="list-style-type: none"> companies can continue to report their CSS based on their own reporting year.
<i>The Transition Period:</i>	<ul style="list-style-type: none"> allow a transition period of six months from the end of a company's reporting year. this transition period will apply to all obligated suppliers under the revised CSS licence requirement and will be subject to the first year only. After the first year of CSS submissions there will be the usual four months after company's year-end which already is set out in the SLC 19A. in the first year of reporting under the revised CSS licence requirement (ie 2021 submission in 2022), we will not require a prior year comparison. This requirement will commence for the following submission (ie 2022 submission in 2023).
<i>Confidentiality issues:</i>	<ul style="list-style-type: none"> we consider the information that we require to be published is limited and not confidential. where a supplier has a specific concern, they should notify us in advance of publication and we will advise whether we consider it can be redacted.

Next steps

5.2. This statutory consultation will remain open for six weeks, closing on 11 August 2021 by 12pm. We welcome stakeholder views on any aspect of this document and, in particular, on our final proposals. Following consideration of responses, we intend to publish our licence modification decision in the Autumn. The licence modification will take effect not less than 56 days after the decision is published.

5.3. The Appendix includes further relevant information including a final IA of our proposals.

Appendices

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Appendix 1 – Final Impact Assessment

Case for change

1.1. The case for reviewing SLC 19A of the Gas and Electricity Supply Licences and SLC 16B of the Electricity Generation Licence, 'Financial information reporting', which requires submission of a CSS, is set out in the policy consultation and the main document of this statutory consultation.

Our initial proposals

1.2. We considered three initial options for reviewing the CSS:

- Option 1 - No changes to the CSS requirement
- Option 2 - Completely remove the CSS requirement from the licences, or
- Option 3 - Revise the CSS licence requirement.

We assessed Options 2 and 3 against Option 1, which is our counterfactual.

Assumptions - NPV Calculations:

1.3. We made the following assumptions in our calculations:

- all prices are in 2020 prices, unless indicated otherwise
- net benefits are discounted using a 3.5% real discount rate per annum³³
- 2021 was the base year for discounting-this is the first year when we expect the policy to be in place, and
- the net benefits and costs were calculated over a ten-year period.³⁴

1.4. We calculated costs and benefits in two scenarios- a low cost scenario and a high cost one. The low cost scenario uses low audit cost estimates from the policy consultation responses. It also uses Ofgem resource cost estimates in the event that part of CSS processing is automated (rather than performed manually by Ofgem staff). The high cost scenario uses high audit cost estimates from the consultation responses and assumes no part of CSS processing by Ofgem is automated.

³³ In accordance with the HMT Green Book Guidance:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf.

³⁴ We expect the impacts of the changes we are making to remain in place for 10 years, and consider that a ten-year period is suitable to ensure our calculations reflect the longevity of the impacts. A ten-year period is also a typical time horizon recommended by the Green Book, paragraph 5.14,
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf.

Option 2: Remove the CSS requirement

Benefits

- 1.5. The main benefits from removing the CSS requirement are avoided costs incurred in preparing and auditing the CSS. These would accrue only to the suppliers who currently submit the CSS. With respect to suppliers' ongoing resource costs of compiling the CSS, stakeholders have told us this is low as the process is now part of business as usual. As such, we expect these avoided costs from not preparing the CSS to be low.
- 1.6. With respect to audit costs, in the policy consultation responses, we received nine estimates in total. We used £10,000 for our low cost estimate and £213,000 for our high cost estimate for the CSS in its current form.³⁵ Multiplying the five³⁶ suppliers, who are currently obligated³⁷ under the CSS requirement, by the estimated audit cost per supplier gives the total avoided audit costs from removing the CSS to be between £50,000 and £1,065,000 per annum (2020 prices).
- 1.7. There would also be a benefit from fewer resources required by Ofgem in processing the CSS submissions. These are detailed in Table 1 below.

Table 1. Avoided Ofgem resource costs from removing the CSS

Avoided Ofgem resource costs	No automation of CSS submissions & processing	Part automation of CSS submissions & processing
Full Time Equivalent (FTE) days per year processing each submission ³⁸	2.3 ³⁹	1.3 ⁴⁰

³⁵ There were higher estimates of £280,000 and £400,000 for auditing a revised CSS under our proposals.

³⁶ At the time of the publication of this document, Option 1 involves 5 obligated suppliers.

³⁷ Due to E.ON's acquisition of Npower, there are now five obligated suppliers.

³⁸ This means inputting data from the submission into our system, cross-checking the submission with Companies House data, carrying out a final review of the submission, and liaising with suppliers if we have any questions or have noted any issues.

³⁹ This is based on the assumption that it takes one member of staff 2.3 days to review each of the current submissions. This time would be split between two people with different levels of seniority. This figure has changed since the draft IA as we used further discussions with internal staff who are experienced in processing CSS submissions to fine-tune the FTE estimate. We also concluded that the time taken to process each CSS submission would be the same regardless of size of supplier as they would all use the same template.

⁴⁰ This is based on the assumption that inputting data from the CSS submissions into our system could be automated.

FTE days per year for analysis in aggregate over all submissions ⁴¹	22.5 ⁴²	12.5 ⁴³
Estimated avoided cost by Ofgem per year for five currently obligated suppliers (2020 prices)	£7,143	£3,992

- 1.8. The total estimated benefits per year in the form of avoided audit and resourcing costs for suppliers and Ofgem are £53,992 and £1,072,143, in the low and high cost scenarios respectively. In present value (PV) terms over a ten-year period, these estimated avoided audit and resourcing costs equate to approximately £505,746 and £9,228,671 for the low and high cost scenarios respectively (£2020, 2022 PV).⁴⁴
- 1.9. In the draft impact assessment, the PV estimates for removing the CSS were approximately £529,000 and £11,869,000 for low and high audit costs respectively (£2020, 2021 PV). Our final estimates are lower as we assumed part automation in the low cost scenario and as we generally received lower audit cost estimates in the policy consultation responses. The low audit cost estimate we used in the draft impact assessment was £10,979 and the high estimate was £274,477, both in 2020 prices. These came out of the workshops Ofgem held in January and February 2020. At the time, we considered that £274,477 may be an overestimate. The lower estimates in the policy consultation responses support this, especially as most of these estimates are closer to £10,000 than £213,000 (the average of the estimates when £213,000 is removed is £56,250).

Costs

- 1.10. The CSS requirement is a valuable source of information on revenues, costs and profits of a company's different business segments. We use this information for providing transparency and market intelligence to understand market health, ensuring consumers are treated fairly and supporting policy development. Providing transparency of energy company profitability and information to prepare breakdown of energy bills also helps build consumer confidence.

⁴¹ This means aggregating and publishing links to the CSS submissions, publishing retail market indicators using the CSS, and dealing with CSS enquiries for other workstreams across Ofgem.

⁴² This time would be split between two people with different levels of seniority. This figure has changed since the draft IA as we used further discussions with internal staff who are experienced in processing CSS submissions to fine-tune the FTE estimate.

⁴³ This is based on the assumption that aggregation of the data from the CSS submissions could be automated.

⁴⁴ PV was calculated by discounting the values per year over ten years (2021-2030 inclusive), using the 3.5% real discount rate per annum.

Without the CSS, including any alternative, these benefits would not arise. We have not quantified these lost benefits but expect them to be significant.

- 1.11. If we remove the CSS requirement, we would need to send out multiple RFIs for our information needs. We would expect this to be more costly over the long run and less efficient for suppliers and Ofgem than submitting and processing a regular CSS each year, especially as currently obligated suppliers already have the systems in place to submit a CSS. Furthermore, suppliers may not be able to plan for RFIs as easily. Only three stakeholders provided estimates for the cost of compiling, processing and submitting the data for an RFI. These ranged from £6,000 to £20,000.
- 1.12. Overall, we consider the benefits Ofgem and consumers would lose from removing the CSS requirement and the costs associated with multiple RFIs to outweigh the auditing and resource costs that would be avoided by suppliers and Ofgem.

Distributional impact

- 1.13. The CSS requirement currently applies to suppliers that are vertically integrated and have a customer base of at least 250,000 domestic or non-domestic customers. The benefits from any reduced supplier resource and audit costs arising from removing the CSS would accrue to these suppliers only and, ultimately, to consumers. Other suppliers would not benefit.

Option 3: Revise the CSS requirement

- 1.14. When assessing Option 3, we have estimated the impact of each of our proposals to revise the CSS separately. At the end, we have also assessed the impact of our proposals as a whole.

Scope (supply and generation activities and customer number threshold)

- 1.15. Our final proposal is to obligate suppliers who are vertically integrated and suppliers who are not. Where a supplier is vertically integrated, it must provide accounts on the generation business of its affiliate generation licensee.
- 1.16. For the domestic customer number⁴⁵ threshold, we are proposing to lower the threshold to 50,000 in the domestic market.⁴⁶ For the non-domestic customer number threshold, we are

⁴⁵ Customer number is measured in terms of meter points. We assume one meter point is one customer..

⁴⁶ Fifty-thousand is the level at which the requirement to offer a variety of payment terms begins.

proposing to target companies in descending order (in terms of meter points) that make up a minimum of 90% share in the non-domestic market (we reserve the right to periodically review this threshold level).⁴⁷

- 1.17. This is a hybrid of two of our initial options that ensures we take into account the differing characteristics of the domestic and non-domestic markets. In the non-domestic market, suppliers typically have fewer customer meter points than in the domestic market, so using the same threshold for both may mean we miss some suppliers with a large market share. Our final proposal will increase the number of companies required to submit a CSS, and it will increase the coverage of the CSS of both the retail (domestic and non-domestic) and generation markets. It also allows us to adapt obligations in the non-domestic market to market share changes.

Benefits to consumers

- 1.18. By including non-vertically integrated suppliers and by lowering the threshold to 50,000 domestic customers and targeting 90% of the market share for the non-domestic market, there will be greater market coverage in comparison to the other policy options on customer number threshold. This will give us market oversight as far as practical and to a level similar to when the CSS was first introduced, increase transparency and provide more accurate and representative data on revenues, costs and profits. As detailed in Chapter 2, this information will allow us to conduct more detailed and deeper analysis, which will in turn support trust in the market and help build consumer confidence.
- 1.19. Although it is difficult to quantify these benefits, we consider these impacts to be significant. The market coverage of the current CSS has been decreasing over time, and is now at only 57.8%. Lowering the threshold according to our final proposal will increase coverage to 99%, similar to when the CSS was first introduced.
- 1.20. It is not only market coverage that brings benefits, but also capturing different types/sizes of suppliers. Lowering the threshold to cover suppliers who are not vertically integrated and who are smaller should help us understand market dynamics more fully without putting undue burden on the smallest of suppliers by obligating them to submit a CSS.

⁴⁷ To capture a minimum of 90% share in the non-domestic gas and electricity markets, all suppliers with at least 17,000 gas non-domestic customer meter points or 29,000 electricity non-domestic customer meter point would be eligible under our proposals using current data we have. This minimum number of meter points is subject to change annually so that it represents at least 90% market share each year.

Costs to obligated parties

- 1.21. There will be an increase in costs for newly obligated suppliers due to the resource requirements of submitting the CSS. This would consist of both costs to set-up the systems needed to collect relevant data to report it in the CSS template, as well as the ongoing costs of submitting every year (eg costs of identifying data and filling in the CSS template).
- 1.22. We received some estimates for the ongoing costs of meeting all of our initial proposals as a whole, which were used to assess the overall cost impact of our proposals as detailed below. These estimates include the costs of proposals such as requesting additional information. This means that we cannot use them to estimate the ongoing cost impact of the proposal to expand the CSS obligation to more suppliers, independently of other proposals. We however expect long-term ongoing costs of this proposal to be minimal. Suppliers who currently submit the CSS have told us that the ongoing resource costs of preparing the CSS is low as the process is now part of business as usual, so we expect most of the costs to be one-off set up costs.

Costs to Ofgem

- 1.23. There is a resource cost for Ofgem in receiving and processing more CSS submissions under a revised CSS.
- 1.24. Furthermore, a target of a 90% minimum non-domestic market share means that the obligated suppliers in this market would be subject to change each year. Ofgem would need to reassess which suppliers meet the target threshold each year and notify parties. The extra FTE required for this has been taken into account in our cost assessment of the two threshold options that use a 90% target.
- 1.25. We estimate Ofgem resource costs to increase by about £8,194 per annum if there is automation and by £14,497 if there is no automation (2020 prices) under our final proposals for customer number thresholds.⁴⁸ These costs are higher in comparison to the other threshold options. However, we expect the benefits from collecting information from a wider section and proportion of the market to outweigh these costs. These benefits are discussed in Chapter 2;

⁴⁸ Based on the assumption that it takes one member of staff 2.3 days to review each of the submissions. This time would be split between two people with different levels of seniority and then aggregated up to the number of suppliers that would be obligated under the new thresholds. We have updated this figure since the draft IA based on further discussions with internal staff who are experienced in processing CSS submissions.

not only will increased coverage help us meet the overall CSS aims better, it will also enable more in-depth analysis to support policy development and market assessments.

Assessment of costs

1.26. The table below assesses our proposals on scope (supply and generation activities and customer thresholds), in the scenario in which the audit requirement is removed but all other aspects of the existing CSS requirement are the same. It shows the number of suppliers that would be obligated under each option, along with the number of domestic and non-domestic customers and the market share that would be covered by the data from these suppliers. It also shows the present value (PV) estimates of each option in the low and high cost scenarios, taking into account Ofgem resource costs.

Table 2. Assessment of the threshold options⁴⁹

Supply & generation activities	Customer threshold Options	Number of suppliers obligated ⁵⁰	Number of customers ⁵¹	Market share covered ⁵²	Low cost PV estimate (£2020, 2021 base year)	High cost PV estimate (£2020, 2021 base year)
Vertically integrated and supply only	250k customers	19	53,790,575	96%	-£58,231	-£73,916
	200k customers	22	54,467,121	97%	-£70,712	-£80,965
	150k customers	25	54,979,719	98%	-£83,193	-£88,015
	50k customers	31	55,506,135	99%	-£102,123	-£108,147
	90% of market share	21	51,137,922	91%	-£66,555	-£78,616
	Final proposal	35	55,592,697	99%	-£111,531	-£124,786

⁴⁹ Customer refers to gas and electricity, domestic and non-domestic.

⁵⁰ The number of suppliers obligated by each customer threshold was calculated by identifying all suppliers who served equal to or more meter points in total than the threshold in at least one of four markets-electricity domestic, electricity non-domestic, gas domestic, and gas non-domestic.

⁵¹ Customer numbers were estimated using meter point data-we assumed each meter point was a customer. We used the total of meter points from electricity domestic, electricity non-domestic, gas domestic, and gas non-domestic for each supplier. The share of gas and electricity meter points in the total can be very different, as some suppliers have a much greater presence in one fuel than another. The data is from February 2021, with supplier failures and acquisitions taken into account.

⁵² Market share is calculated as a percentage of customer accounts across gas and electricity for domestic and non-domestic combined, using data from Xoserve and electricity distribution network operators. The data is from February 2021, with supplier failures and acquisitions taken into account.

Risks

- 1.27. By setting a threshold, we are excluding the smallest suppliers from the CSS requirement. Although they represent a small proportion of the market, these suppliers can play a role in influencing market outcomes such as tariff levels and have made up many of the recent market exits. However, we consider the cost the CSS requirement would place on these suppliers to outweigh the risk from not having this information. Smaller suppliers are unlikely to have the resources, including in terms of staff, to meet all of our final proposals. We have therefore chosen the lowest threshold option instead of removing the threshold completely.

Audit requirement

- 1.28. Our final proposal is to remove the audit requirement but reserve the right to require an audit where we consider the supplier has not properly prepared the CSS in accordance with the licence requirement, guidelines and/or template. Suppliers are required to provide us with accurate information and a general audit requirement may place unnecessary costs on suppliers (partly or fully borne by consumers) that may already be capable of providing accurate information. This option will reduce the cost burden on obligated suppliers (and ultimately consumers), particularly in light of our final proposal to expand the number of suppliers under the revised CSS.
- 1.29. Table 3 uses our low and high estimates of audit costs (ie £10,000 and £213,000 in 2020 prices). The benefits shown in Table 2 represent avoided audit costs. For some customer threshold options, this is positive (and therefore a benefit), for others it is negative (and therefore represents a cost). For this assessment, we have assumed that all aspects of the current CSS licence requirement other than the audit requirement remain unchanged for each threshold option.
- 1.30. These Present Value (PV) estimates are different from the ones in our draft impact assessment, because we are using lower audit cost estimates for both the low and high cost scenarios, and as the number of suppliers captured by each threshold has changed.

Table 3. Assessment of the audit options

Audit options (as per policy consultation)	Customer Threshold ⁵³	Number of suppliers affected ⁵⁴	Low estimate of avoided audit costs per year (£2020)	High estimate of avoided audit costs per year (£2020)	PV low estimate (£2020, 2021 base year)	PV high estimate (£2020, 2021 base year)
Remove the audit requirement	N/A (currently obligated suppliers)	5	£50,000	£1,065,000	£430,384	£9,167,186
Retain audit requirement for all obligated suppliers	250k	19	-£140,000	-£2,982,000	-£1,246,076	- £25,668,121
	200k	22	-£170,000	-£3,621,000	-£1,504,307	- £31,168,433
	150k	25	-£200,000	-£4,260,000	-£1,762,537	- £36,668,745
	50k	31	-£260,000	-£5,538,000	-£2,278,998	- £47,669,368
	90% market share	21	-£160,000	-£3,408,000	-£1,418,230	- £29,334,996
	Final proposal	35	-£300,000	-£6,390,000	-£2,623,306	- £55,003,117
Remove audit requirement but reserve the right to request one ⁵⁵	N/A (currently obligated suppliers)	Depends on number of periodic or ad hoc requests to audit.	£50,000* (at most)	£1,065,000* (at most)	£430,384* (at most)	£9,167,186* (at most)

Notes. (1) Positive numbers refer to estimated avoided audit costs (ie, benefits). Negative numbers refer to estimated audit costs that are expected to be incurred under each option.

(2) * denotes that the estimate represents the avoided audit costs from removing the audit requirement. It does not include costs of periodic or ad hoc audits. Therefore, any estimated benefits will be lower and estimated costs higher if ad hoc audit costs materialise.

⁵³ Customer refers to gas and electricity, domestic and non-domestic.

⁵⁴ The number of suppliers obligated by each customer threshold was calculated by identifying all suppliers who served more meter points in total than the threshold in at least one of four markets-electricity domestic, electricity non-domestic, gas domestic, and gas non-domestic.

⁵⁵ Does not include costs of periodic or ad hoc audits. We are unable to estimate number of ad hoc audits we may request (as this depends on if and when we consider the CSS has not been prepared in accordance with the licence condition, guidelines and/or template).

Assessment of impacts

1.31. We expect our final proposal to result in benefits from avoided audit costs. These benefits would accrue to the current obligated suppliers and would result in a benefit to consumers if audit costs are currently passed onto them. However, we recognise that the total benefits of this option will be reduced by the costs of any audits we request when we consider the supplier has not properly prepared a CSS in accordance with the licence condition, guidelines and/or template. We are unable to quantify how often we would request an audit, with any reasonable degree of certainty.

Distributional impact

1.32. In calculating the impacts above, we have used estimates provided to us from policy consultation responses, and applied them to all suppliers that would be obligated under the different thresholds. This was because we received very few estimates, and if we were to split them according to supplier characteristics, such as size, there would often be just one estimate available per group. We cannot be certain that one estimate would be representative of the whole group, especially as one of the ways we check the accuracy of the estimates is by comparing them. However, we did check for patterns in the nine audit cost estimates that we received, and there were no strong correlations in relation to supplier size or type.

1.33. Auditing costs may be lower for smaller suppliers as their accounts would hold less data and be less complex than for larger suppliers. However, the costs may be proportionately larger for smaller suppliers compared to the size of their revenues. This means it is difficult to know whether smaller suppliers would experience a greater or smaller benefit from removing the audit requirement relative to larger suppliers.

Additional information to be included in the CSS submission

1.34. Our final proposals on the additional information to be submitted in the CSS are:

- request a breakdown of revenue, cost and profit by tariff type in the domestic segment only, as well as the number of domestic customers split by tariff type
- request a breakdown of revenue, cost and profit on the basis of microbusiness, SME and I&C, and the number of each type of non-domestic customer
- request a breakdown of indirect operating cost information, including costs to serve Priority Services Register (PSR) customers for the domestic market only
- continue to request information on revenue from other business activities as a line item, and request a column to show revenue, costs and profit from other business activities. other activities, alongside that of 'Generation and Supply Activities'. This

includes providing information with aggregated values on revenue, costs and profit from activities other than the sale of electricity and gas as outlined in the draft revised guidelines and in Chapter 4, and

- request a high level segmental summary balance sheet and a customer numbers table.

Benefits to consumers

- 1.35. Reporting on revenues, costs, and profits by tariff type would result in a fuller picture of the operation of different segments in the domestic market. Splitting reporting by tariff type would allow us to understand the extent to which tariffs for different customer categories are justified by costs and whether there is any cross-subsidy between these groups.
- 1.36. Non-domestic customers are diverse, and increased granularity of information in the form of a breakdown of data along the lines of microbusiness, SME and I&C would allow us to understand the operation of the market for particular business sizes. This will allow us to, for example, understand the bills of microbusinesses, compare microbusiness customers with other non-domestic customers, and carry out profitability assessments.
- 1.37. Reporting indirect operating costs and separating out costs to serve customers will give us a clearer understanding of key elements making up customers' bills. This will support our analysis on the conditions for effective competition and in protecting consumers, particularly vulnerable customers.

Costs to obligated parties

- 1.38. Most stakeholders said that they are able to provide information that is already published by Companies House, but that most of the additional information would require extra resources to provide it. They stated that there would be significant one-off costs, mainly for making internal system changes and setting up processes. Once these are in place however, most obligated suppliers do not expect ongoing costs to be significantly higher than for submitting the current CSS, which existing obligated suppliers have said is minimal.
- 1.39. Two stakeholders provided a view on the audit costs to suppliers if additional information is requested. One stated that the proposals on additional information would push audit costs to the upper end of the £10,000 to £280,000 range of audit costs for the current CSS that was used in our draft IA. The other response provided an estimate of £400,000 (both estimates are in 2020 prices). We therefore used £280,000 and £400,000 to construct our low and high cost scenarios respectively.

- 1.40. The estimate of £400,000 is much higher than, not only the estimate in the low cost scenario, but also the cost estimates we received in policy consultation responses for auditing a CSS without the additional information. This is most likely because the respondent assumed in their calculation that Ofgem would require a standardised reporting year-end across all suppliers, which is not part of our final proposals.
- 1.41. We therefore think £400,000 may be an overestimate even for the high auditing cost scenario. However, we included it in our calculations as, without it, we would only have an estimate from one response, which may not be representative of most suppliers.

Costs to Ofgem

- 1.42. We estimate the incremental cost to Ofgem of processing more data to be marginal, up to an extra 10% of staff time.⁵⁶ For the current five obligated suppliers, this equates overall to an extra £715 (without automation) or £399 (with automation) per year in 2020 prices. If the CSS is extended to all suppliers who would be covered by our final proposal on scope (ie customer number thresholds and generation and supply activities), it would equate to an extra £16,661 (no automation) or £9,412 (automation) per year in 2020 prices.
- 1.43. Table 4 below assesses our additional information proposals as a whole, in the scenario that all other aspects of the CSS licence requirement, other than scope, are kept the same. It shows the Net Present Value (NPV) estimates in the low and high cost scenarios at each threshold option.

Table 4. Assessment of the additional information proposals

Additional information option	Customer Threshold ⁵⁷	Number of suppliers obligated ⁵⁸	Additional costs per year in low cost scenario (£2020)	Additional costs per year in high cost scenario (£2020)	NPV estimate for low cost scenario (£2020, 2021 base year)	NPV estimate for high cost scenario (£2020, 2021 base year)
Request additional information	N/A (currently)	5	-£1,350,000	-£935,000	-£8,048,187	-£11,620,377

⁵⁶ This staff time includes aggregating and publishing links to the CSS submissions, publishing retail market indicators using the CSS, and responding to CSS enquiries for other work streams across Ofgem.

⁵⁷ Customer refers to gas and electricity, domestic and non-domestic.

⁵⁸ The number of suppliers obligated by each customer threshold was calculated by identifying all suppliers who served more meter points in total than the threshold in at least one of four markets-electricity domestic, electricity non-domestic, gas domestic, and gas non-domestic.

from all obligated suppliers	obligated suppliers)					
	250k	19	-£5,274,206	-£6,542,441	- £45,439,712	-£56,315,281
	200k	22	-£6,115,107	-£7,744,036	- £52,677,924	-£66,658,234
	150k	25	-£6,956,009	-£8,945,630	- £59,916,145	-£77,001,179
	50k	31	-£8,637,811	- £11,348,820	- £74,392,569	-£97,687,085
	90% market share	21	-£5,834,807	-£7,343,504	- £50,265,189	-£63,210,580
	Final proposal	35	-£9,759,013	- £12,950,946	- £84,043,525	-£111,477,683

Distributional impact

1.44. We expect that larger suppliers are more likely to collect most of this data already, and the costs are likely to be proportionately smaller for them compared to the size of their revenues. However, the information may be less onerous to collect for smaller suppliers, as their smaller customer base should make the required data analysis less complicated.

Overall assessment of final proposals

1.45. We received four estimates of the ongoing cost of meeting our initial preferred options as a whole from consultation responses. The lowest ongoing annual cost estimate was £30,000 and the highest was £150,000. Most of the estimates were closer to the lower estimate than the higher (the average of the three lower estimates was £46,000), but we have used £150,000 for the high cost scenario to ensure we capture the estimated upper bound of CSS costs for suppliers.

1.46. These estimates were used to assess the overall impact of our initial preferred options, with the results presented in Table 5. These results can also be used as an estimate of the overall impact of our final proposals. The caveat is that our initial and final proposals are not exactly the same. For example, we have decided not to take forward the proposals for a standardised reporting year and we have simplified some of the granular information we are proposing to request. This

means that the costs of meeting our final proposals may be lower than the estimates from the consultation responses. However, we also acknowledge that there are likely to be set-up costs that have not been included in this assessment as we do not have any estimates.

- 1.47. The NPV estimates take into account the ongoing costs for obligated suppliers as well as the resource costs for Ofgem. They also include the avoided costs from removing the audit requirement for the five currently obligated suppliers, but exclude other benefits that could not be quantified. If they could, the NPV of our final proposal would be positive.

Table 5. Quantitative assessment of all initial proposals

	Customer Threshold ⁵⁹	Number of suppliers obligated ⁶⁰	NPV low estimate (£2020, 2021 base year)	NPV high estimate (£2020, 2021 base year)
Put in place initial proposals on vertical integration, audit requirement and additional information proposals	N/A (currently obligated suppliers)	5	-£860,769	£2,711,421 ⁶¹
	250k	19	-£4,553,201	-£15,428,770
	200k	22	-£5,335,648	-£19,315,958
	150k	25	-£6,118,104	-£23,203,138
	50k	31	-£7,682,999	-£30,977,514
	90% market share	21	-£5,074,835	-£18,020,226
	Final proposal	35	-£8,726,268	-£36,160,426

Impacts on consumers

- 1.48. The benefits of our proposals to consumers will arise from the positive impact of transparency on consumer confidence and trust. We also expect some benefits to accrue to currently obligated suppliers and be passed onto consumers, from avoided audit costs.
- 1.49. There may also be some increase in costs to consumers from our final proposals. Suppliers who were not previously required to submit the CSS will incur resource costs and Ofgem will incur additional costs in managing more submissions. Current obligated suppliers may also face

⁵⁹ Customers refers to gas and electricity.

⁶⁰ The number of suppliers obligated by each customer threshold was calculated by identifying all suppliers who served more meter points in total than the threshold in at least one of four markets-electricity domestic, electricity non-domestic, gas domestic, and gas non-domestic.

⁶¹ In our high cost scenario, applying our final proposals, other than the threshold proposal, to the 4 currently obligated suppliers would result in a cost saving. This is due to how high the avoided audit cost estimate is in our high cost scenario.

increased costs from additional information reporting requirements. We expect most of these costs to be passed onto consumers.

Impacts on competition

- 1.50. We have used the CMA's in-depth competition checklist⁶² to ensure that we have considered all of the key possible positive and negative impacts on competition from our proposals.
- 1.51. Our proposals, taken as a package, should improve transparency and provide more accurate information to Ofgem, stakeholders and consumers, strengthening trust and confidence in the market. Lowering the threshold customer number for the CSS requirement will increase transparency by ensuring that the data reported under the CSS covers at least 90% of the market.
- 1.52. Removing the audit requirement but retaining the right to request an audit when we consider the CCS has been prepared in accordance with the licence conditions, guidelines and/or template will reduce the burden on suppliers, while providing appropriate reassurances about the accuracy of the reported figures when needed.
- 1.53. Finally, additional information reporting requirements will provide better understanding of the functioning of specific areas of the market. One stakeholder stated that the cost of our initial preferred option would be fixed, and so would be proportionately greater for smaller suppliers. Though we have remained mindful of this, we have concluded that the additional information from all obligated suppliers will allow improved transparency of supplier activities and provide better market intelligence to support market oversight and policy development.
- 1.54. Though our proposals will create some costs for suppliers, in particular for the newly obligated, we believe that these will be smaller than if we were to replace the CSS with multiple RFIs that require the same level of detail as our additional information proposals would achieve. The low RFI cost estimates of £6,000 that we received in the policy consultation responses were based on past RFIs which asked for less information than we would be asking for in our revised CSS. The £20,000 was the estimate for an RFI that requested more financial information than suppliers are currently obligated to provide in the CSS, but still less than we are requesting through our final proposals. Therefore, we think the revised CSS will put less cost pressure on suppliers than alternative solutions, and is unlikely to cause suppliers to leave the market.

⁶² Competition Impact Assessment:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/460784/Competition_impact_assessment_Part_1_-_overview.pdf

Impacts on decarbonisation

1.55. We do not think our final proposals will have any impact on decarbonisation at this stage. The costs of implementing our proposals for suppliers and Ofgem are not large enough to impact any decarbonisation plans. However, in order to support our wider policy development work on net zero and decarbonisation and track the progress that suppliers are making in this area, we are proposing that suppliers report the value of any investment on R&D and innovation as well. Our proposals are aimed at improving transparency over supplier information, rather than directly changing the way suppliers behave.

Interaction with the price cap

- 1.56. We recognise that our final proposals may increase costs to suppliers not currently obligated. However, having taken into account the estimates we received from suppliers for the ongoing costs of meeting our initial proposals, we have concluded that the costs of meeting our final proposals are likely to be covered by the headroom allowance⁶³ included in the default tariff cap level.
- 1.57. Moreover, the suppliers with the most default tariff customers are already obligated to submit a CSS. As we do not expect it to be much more costly for them to submit the revised CSS, we do not think our final proposals would require an adjustment to the cap.

Conclusion

- 1.58. We are revising the CSS to better meet its aims: providing transparency and market intelligence, ensuring consumers are treated fairly and supporting policy development. We believe that our final proposals will achieve this.
- 1.59. These benefits cannot be easily quantified. For example, the benefits from the revised CSS allowing us to carry out a wider range of analysis, in greater depth, as detailed in Chapter 2, cannot be easily quantified.
- 1.60. Quantification of the benefits was made harder by the likelihood that different consumer groups would be affected differently. For example, vulnerable consumers may benefit more due to our proposal to collect additional information such as separating out costs to serve PSR customers for the domestic market. We also received very few estimates for all cost types, other than audit costs, in the policy consultation responses, and the ones we did receive had a wide range.

⁶³ The headroom allowance is one of the ways in which we recognise that uncertainties could add cost pressures to suppliers which are not included in the assessed efficient cost used for the price cap. This allowance is added on top of the efficient cost figure when setting the cap, and acts as a buffer in the event that uncertain costs increase the costs of efficient suppliers beyond the efficient cost level.

This made it difficult to judge accuracy, especially as all the estimates came from suppliers who would incur the costs of our proposals and no other stakeholders.

- 1.61. Even if we cannot estimate the benefits of achieving the CSS aims, it would bring large benefits. Improved market understanding, analysis and policy development by Ofgem would result in a better-functioning market and fairer outcomes for consumers in general. As many consumers would benefit, based on the information from the policy consultation responses and our own analysis, we consider these benefits would outweigh the costs of our proposals to the obligated suppliers and Ofgem.
- 1.62. As a result, we have decided to move forward with Option 3 including changes to scope, auditing requirement and additional information.

Appendix 2 – Summary of views and draft modifications to Standard Licence Condition (SLC) 19A of the Gas and Electricity Supply Licences and SLC 16B of the Electricity Generation Licence

In this appendix, we set out the changes we are proposing to Standard Licence Condition (SLC) 19A of the Gas and Electricity Supply Licences and SLC 16B of the Electricity Generation Licence, 'Financial information reporting', which requires submission of a Consolidated Segmental Statement (CSS). These changes reflect our final proposals as set out in the main document.

Prior to the publication of our CSS final proposals and statutory consultation document, we contacted stakeholders seeking their views on our proposed changes to SLC 19A and SLC 16B. We received 14 responses from suppliers and other stakeholders. In this appendix, we also summarise and discuss these responses and provide our views in a table below.

Proposed drafting for SLC 19A and 16B

The table below includes, where relevant, the current drafting of SLC 19A and SLC 16B, the revised drafting, and a brief explanation of the reason for the proposed change. The table uses the same numbering of paragraphs found in the respective SLCs. Proposed additional wording to the licence conditions is underlined with double lines, and deletions are denoted with a strikethrough.

The full text of the proposed licence conditions is set out in the statutory notices and the statutory consultation document.

Note on licence drafting:

- Proposed text to be added is doubled underscored
- ~~Proposed text to be removed is strikethrough~~

SLC 19A: Gas Supply Licences

Condition 19A. Financial information reporting

The Gas and Electricity Markets Authority ('the Authority')⁶⁴ proposes to modify the standard conditions of all gas supply licences granted or treated as granted under section 7A(1) of the Gas Act 1986 by amending standard licence condition 19A (Financial information reporting also known as the Consolidated Segmental Statements (CSS)) under section 23.

Existing SLC drafting	New proposed SLC drafting	Reason for change
19A.1. The Relevant Licensee must prepare and publish on its Website a Consolidated Segmental Statement in respect of information relating to the revenues, costs and profits of its activities in the generation and supply of electricity and the supply of gas to any premises taking account of the Guidelines.	19A.1. The Relevant Licensee must prepare and publish on its Website a <u>the Consolidated Segmental Statement (which includes an income statement and a Segmental Balance Sheet)</u> in respect of information relating to the revenues, costs and profits of its activities in the generation and supply of electricity and/or the supply of gas to any premises <u>and of its generation activities (if applicable)</u> taking account of the Guidelines.	Proposed wording has been amended to: <ul style="list-style-type: none"> better reflect our proposal to request a high level Balance Sheet with comparative figures and a standard layout shown separately for generation and supply activities. We propose this to be a Segmental Balance Sheet because vertically integrated suppliers would need to submit the figures for both Generation and Supply. Supply only licensees would need to submit Supply only figures. We will be
19A.2. Where applicable, the Relevant Licensee must prepare and publish the Consolidated Segmental Statement referred to in paragraph 1 in conjunction with any Affiliates.	19A.2. Where applicable, the Relevant Licensee must prepare and publish the Consolidated Segmental Statement referred to in paragraph 1 in conjunction with any Affiliates.	

⁶⁴ The terms "the Authority", "we" and "us" are used interchangeably in this document.

19A.3. The Relevant Licensee must, in conjunction with any Affiliates, prepare and publish a Consolidated Segmental Statement	19A.3. The Relevant Licensee must, in conjunction with any Affiliates, prepare and publish a Consolidated Segmental Statement ₂	providing clear Guidelines on how to prepare the Segmental Balance Sheet.
(a) as soon as reasonably practicable and no later than four months after the end of the Relevant Licensee's financial year; or	(a) as soon as reasonably practicable and no later than four months after the end of the Relevant Licensee's financial year; or	<ul style="list-style-type: none"> reflect our proposal on requiring licensees who are vertically integrated (have supply and generation licences) and those who are not (with a supply licence only) to submit the CSS.
(b) no later than a date specified by the Authority, which can be no earlier than four months after the end of the Relevant Licensee's financial year.	(b) no later than a date specified by the Authority, which can be no earlier than four months after the end of the Relevant Licensee's financial year.	
19A.4. Subject to complying with this paragraph the Relevant Licensee may, for the purpose of preparing the statement pursuant to paragraph 3, prepare and compile the information according to the licensee's annual accounting procedures. The Relevant Licensee must include in every such statement an explanation of:	19A.4. Subject to complying with this paragraph the Relevant Licensee may, for the purpose of preparing the statement pursuant to paragraph 3, prepare and compile the information according to the licensee's annual accounting procedures. The Relevant Licensee must include in every such statement an explanation of:	<p>Proposed wording has been amended to:</p> <ul style="list-style-type: none"> better reflect the policy intent of our proposals. extend 19A.4 so that the Relevant Licensees are obligated to send in a statement on how they allocate revenues, costs and profits to the different categories and we will outline these in the draft revised Guidelines. <p>We are proposing that the CSS should be prepared under Generally Accepted Accounting Principles (GAAP). In order to comply with GAAP, the Relevant Licensee</p>
(a) how it defines the terms revenues, costs and profits;	(a) how it defines the terms revenues, costs and profits;	
(b) how the revenues and profits can be reconciled with its UK statutory accounts;	(b) how the revenues and profits can be reconciled with its UK statutory accounts;	
(c) or, if UK statutory accounts are not prepared or published, how the revenues and profits can be reconciled with audited figures (prepared	(c) or, if UK statutory accounts are not prepared or published, how the revenues and profits can be reconciled with audited figures (prepared under	

under International Financial Reporting Standards) published in Group accounts;	International Financial Reporting Standards <u>Generally Accepted Accounting Principles (GAAP)</u> published in Group accounts;	is required to follow the same accounting standards applied in preparing their statutory accounts. International Financial Reporting Standards (IFRS) are a form of GAAP.
(d) its transfer pricing methodology and how this relates to the revenues, costs and profits information published; and	(d) its transfer pricing methodology and how this relates to the revenues, costs and profits information published; and	The existing Guidelines obligate suppliers to describe their cost allocation methods.
(e) where individual business functions are captured in the Consolidated Segmental Statement, as specified by Appendix 2 of the Guidelines.	(e) where individual business functions are captured in the Consolidated Segmental Statement, as specified by Appendix 2 of <u>in</u> the Guidelines; and	We currently have very little information on current allocation methods so this requirement will continue.
	<u>(f) how it allocates the revenues, costs and profits to Different Categories as outlined in the Guidelines and the Template.</u>	As such, we expect suppliers to continue to use their own method of allocation and we request that they clearly indicate on each expenditure item within the CSS Template the cost allocation used. We will be providing some guidance in the draft revised Guidelines which we expect suppliers to follow and, after the first year under the revised CSS draft revised Template, we will review suppliers' allocation methods and may suggest a standard allocation method going forward.

19A.5. The Relevant Licensee must ensure that the information prepared and made public pursuant to paragraph 19A.3 includes the cost of fuel used to generate electricity and its share or revenues, costs, profits and volumes of Joint Ventures and Associates.	19A.5. <u>If the The Relevant Licensee or any Affiliate also holds an electricity generation licence then it</u> must ensure that the information prepared and made public pursuant to paragraph 19A.3 includes the cost of fuel used to generate electricity and its share or revenues, costs, profits and volumes of Joint Ventures and Associates.	Proposed wording has been amended to better reflect our proposals on: <ul style="list-style-type: none"> • eligibility of licensees. • requiring licensees who are vertically integrated (have supply and generation licences) to submit the CSS in accordance with our proposals.
19A.6. Subject to complying with Paragraph 19A.5 the Relevant Licensee must ensure that all the information prepared and made public pursuant to paragraph 19A.3 is in all material respects consistent with the information prepared pursuant to paragraph 19A.4 and the information is presented with a clear and full explanation.	19A.6. Subject to complying with Paragraph 19A.5 the Relevant Licensee must ensure that all the information prepared and made public pursuant to paragraph 19A.3 is in all material respects consistent with the information prepared pursuant to paragraph 19A.4 and the information is presented with a clear and full explanation.	No changes are proposed to the existing wording for 19A.6.
19A.7. The Relevant Licensee must, for the purposes of ensuring the transfer pricing methodology is appropriate and up to date:	19A.7. <u>If the The Relevant Licensee holds an electricity generation licence it</u> must, for the purposes of ensuring the transfer pricing methodology is appropriate and up to date:	Proposed wording has been amended to better reflect:
(a) keep transfer pricing policies and procedures under review; and	(a) keep transfer pricing policies and procedures under review; and	<ul style="list-style-type: none"> • the intent of our proposals. • our proposal on requiring licensees with both supply and generation licences to review and report on transfer pricing policies.
(b) ensure that the supporting information that supports the transfer pricing policies remains appropriate and up to date.	(b) ensure that the supporting information that supports the transfer pricing policies olicies <u>policies</u> remains appropriate and up to date.	

19A.8. The Relevant Licensee must notify the Authority as soon as reasonably practicable of any material changes to transfer pricing policies.	19A.8. If applicable the The Relevant Licensee must notify the Authority as soon as reasonably practicable of:	Proposed wording has been amended to better reflect our expectations as a regulator to be notified by the licensee on changes to their transfer pricing and allocation methodologies.
	<u>(a) any material changes to transfer pricing policies;</u>	
	<u>(b) any material changes to the allocation methodology for revenues, cost and profits for the Different Categories.</u>	
19A.9. (a) The Authority shall prepare Guidelines in relation to the requirements of this condition and may modify, in whole or in part, the Guidelines following consultation with the Relevant Licensees.	19A.9. (a) The Authority shall prepare Guidelines <u>and Templates</u> in relation to the requirements of this condition and may modify, in whole or in part, the Guidelines <u>and Templates</u> following consultation with the Relevant Licensees.	Proposed wording has been amended to better reflect: <ul style="list-style-type: none"> our proposed draft revised Guidelines that Ofgem has prepared. our proposal to present the Template as an accompanying document, rather than as part of the draft revised Guidelines. The accompanying Template will be in editable excel format file or in another format directed by us.
(b) The Authority shall modify the definition of Consolidated Segmental Statement as described in Appendices 1 and 2 of the Guidelines in accordance with section 23 of the Act.	(b) The Authority shall modify the definition of Consolidated Segmental Statement as described in Appendices 1 and 2 of the Guidelines in accordance with section 23 of the Act.	
19A.10. Except and to the extent that the Authority otherwise consents, the Relevant Licensee must include in the Consolidated Segmental Statement a report from an Appropriate Auditor that gives an audited opinion	19A.10. Except and to the extent that the Authority otherwise consents, the Relevant Licensee must include in the Consolidated Segmental Statement a report from an Appropriate Auditor that gives an audited opinion as to the extent to which the	Proposed wording has been amended to better reflect our policy intent to remove the auditing requirement.

<p>as to the extent to which the Relevant Licensee has properly prepared the Consolidated Segmental Statement in accordance with this licence condition and the Guidelines.</p>	<p>Relevant Licensee has properly prepared the Consolidated Segmental Statement in accordance with this licence condition and the Guidelines. <u>Where the Authority considers that the Relevant Licensee has not properly prepared the Consolidated Segmental Statement in accordance with this licence condition and the Guidelines and Template, it may require the Relevant Licensee to commission and submit a report from an Appropriate Auditor or to submit a report from an Appropriate Auditor which it has already commissioned.</u></p>	<p>We are proposing to remove the annual audit requirement for all suppliers but reserve the right to require an audit by an Appropriate Auditor when we have concerns.</p> <p>To help reduce the risk of inappropriate cost allocations or inconsistencies in reporting, we propose to ask suppliers to submit the CSS based on the draft revised Guidelines and accompanying draft revised Template.</p> <p>We propose to ask obligated licensees to follow the guidance on allocating costs in our draft revised Guidelines.</p> <p>Furthermore, we propose to ask suppliers to continue to submit the CSS based on their company year-end so that the CSS figures can be reconciled back to the company's main statutory annual accounts which are audited.</p> <p>Our expectation is that this would ensure consistency across CSS submissions and</p>
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		<p>can help to alleviate any reconciliation issues.</p> <p>However, we recognise that some companies may want to voluntarily publish a CSS which is audited so that it is in line with their company standards, and we would welcome this. In cases where the Relevant Licensee has already audited the CSS, they can send that to us.</p>
19A.11. For the purposes of this condition:	19A.11. For the purposes of this condition:	No changes are proposed to these definitions
“ Affiliate ” means any holding company or subsidiary of a holding company of the Relevant Licensee, in each case within the meaning of sections 1159 and 1160 of the Companies Act 2006.	“ Affiliate ” means any holding company or subsidiary of a holding company of the Relevant Licensee, in each case within the meaning of sections 1159 and 1160 of the Companies Act 2006	
“ Appropriate Auditors ” means	“ Appropriate Auditors ” means	
(a) in the case of a licensee which is a company within the meaning of section 1 of the Companies Act 2006, a person appointed as auditor under Chapter 2 of Part 16 of that Act;	(a) in the case of a licensee which is a company within the meaning of section 1 of the Companies Act 2006, a person appointed as auditor under Chapter 2 of Part 16 of that Act;	
(b) in the case of any other licensee which is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to	(b) in the case of any other licensee which is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to Chapter 2 of Part 16 of the Companies Act 2006, a person so appointed;	

Chapter 2 of Part 16 of the Companies Act 2006, a person so appointed;		
(c) in any other case, a person who is eligible for appointment as a company auditor under sections 1212 and 1216 of the Companies Act 2006, or in relation to auditors appointed for financial years beginning before 6 April 2008, a person who is eligible for appointment as a company auditor under sections 25 and 26 of the Companies Act 1989	(c) in any other case, a person who is eligible for appointment as a company auditor under sections 1212 and 1216 of the Companies Act 2006, or in relation to auditors appointed for financial years beginning before 6 April 2008, a person who is eligible for appointment as a company auditor under sections 25 and 26 of the Companies Act 1989	
"Associate" means an entity, including an unincorporated entity such as a partnership, over which the Relevant Licensee has significant influence and that is neither a subsidiary nor an interest in a joint venture.	"Associate" means an entity, including an unincorporated entity such as a partnership, over which the Relevant Licensee has significant influence and that is neither a subsidiary nor an interest in a joint venture.	
"Consolidated Segmental Statement" means a statement as described in Appendices 1 and 2 of the Guidelines.	"Consolidated Segmental Statement" means a statement as described in Appendices 1 and 2 of the Guidelines <u>and the Template which includes an income statement, the Segmental Balance Sheet and the customer number table.</u>	<p>Proposed wording has been amended to:</p> <ul style="list-style-type: none"> • better reflect the draft revised Guidelines and Template which will be published along with the statutory consultation. • ask licensees to submit the CSS (which is proposed to include an income statement, a Segmental Balance Sheet and the customer number table where customer

		numbers should be provided) in the excel format file or in another format directed by us.
	<u>"Different Categories"</u> means the breakdown of revenues, costs and profits as set out in the Guidelines and the Template.	Proposed wording has been added as we are proposing the inclusion of additional information and breakdown of revenues costs and profits. These different categories will be described in more detail in the draft revised Guidelines and statutory consultation.
	<u>"Guidelines"</u> means the guidance and procedures in place for preparing the Consolidated Segmental Statements.	Proposed wording has been added to provide a definition of Guidelines.
"Joint Venture" means a contractual arrangement whereby the Relevant Licensees and one or more parties undertake an economic activity that is subject to joint control.	"Joint Venture" mean a contractual arrangement whereby the Relevant Licensees and one or more parties undertake an economic activity that is subject to joint control.	No changes are proposed on this definition
"Relevant Licensee" means the holder of a supply licence granted or treated as granted under section 7A(1) of the Act if	<u>"Relevant Licensee"</u> means (a) the holder of a gas supply licence granted or treated as granted under section 7A (1) of the Act; or (b) the holder of a gas supply licence granted or treated as granted under section 7A(1) of the Act and where it is, or an of its Affiliates are, the holder of an electricity generation licence granted or treated as granted under section 6(1) of the Electricity Act 1989; the holder of a supply	Proposed wording has been amended to better reflect the policy intent with our proposals on customer number threshold and vertical integration. Our proposal with respect to the customer number threshold is to have separate thresholds for domestic and non-domestic

	licence granted or treated as granted under section 7A(1) of the Act if	<p>customers (measured in meter points, MPANs and MPRNs).</p> <ul style="list-style-type: none"> For the domestic market, suppliers should have at least 50,000 customers, or. For the non-domestic market, our aim is to capture a minimum of 90% share in the non-domestic market. This minimum number of meter points is subject to change so that it represents at least 90% market share each year. Ofgem proposes to publish the non-domestic customer number threshold by mid-January each year, along with a list of obligated suppliers each year. We will also notify newly obligated suppliers each year. We are proposing that a supplier obligated under the CSS licence requirement should continue to submit a CSS unless otherwise agreed by the Authority. This is set out in the draft revised Guidelines. We have provided a definition of the Relevant Minimum Number below.
(a) it supplies, or it and any of its Affiliates jointly supply:	(a) it supplies, or it and any of its Affiliates jointly supply:	
i. electricity to more than 250,000 domestic customers; or	i. electricity to more than 250,000 <u>50,000 or more</u> domestic customers <u>based on meter points</u> ; or	
ii. gas to more than 250,000 domestic customers; or	ii. gas to more than 250,000 <u>50,000 or more</u> domestic customers <u>based on meter points</u> ; or	
iii. electricity to more than 250,000 non-domestic customers; or	iii. electricity to more than 250,000 <u>the Relevant Minimum Number of</u> non-domestic customers; or	
iv. gas to more than 250,000 non-domestic customers, respectively; and	iv. gas to more than 250,000 <u>the Relevant Minimum Number of</u> non-domestic customers, respectively; and	
(b) it or any of its Affiliates is a holder of an electricity generation licence granted or treated as granted under section 6(1)(a) of the Electricity Act 1989.	(b) it or any of its Affiliates is a holder of an electricity generation licence granted or treated as granted under section 6(1)(a) of the Electricity Act 1989.	

		<p>Our proposal with respect to vertical integration is that companies who meet the revised customer threshold and either hold a supply and generation licence or a supply licence only, will be obligated.</p> <p>We are proposing that companies who hold a generation licence only will not be obligated under the revised CSS licence requirement.</p>
	<p><u>(b) once a Relevant Licensee becomes obligated under the CSS licence condition as described in (a) above, they should continue to submit a CSS unless otherwise agreed by the Authority.</u></p>	<p>This proposed wording has been added to better reflect our policy intent with our proposals to ensure that, suppliers who meet the eligibility criteria set out in part (a) and (b) on the definition of the Relevant Licensee, will continue to be obligated under the CSS licence condition unless otherwise agreed by Ofgem.</p>
	<p><u>“Relevant Minimum Number” means the number of non-domestic customers based on meter points, published by the Authority, representing at least a 90% share of the non-domestic market each year. The Guidelines set out the methodologies for</u></p>	<p>This proposed wording has been added to better reflect our policy intent on our proposals and provide clarity on what the Relevant Minimum Number means in</p>

	<u>calculating the Relevant Minimum Number each year, as well as publication process.</u>	relation to the threshold for non-domestic customers.
	<u>"Segmental Balance Sheet" means a balance sheet for generation and supply as described and presented in the Guidelines and the Template, respectively.</u>	Proposed wording has been added to provide a definition of Segmental Balance Sheet referred to throughout the proposed drafting for this SLC.
	<u>"Template" means the template accompanying the Guidelines. It refers to the template for the Consolidated Segmental Statement (which includes an income statement and a Segmental Balance Sheet Template).</u>	<p>Proposed wording has been added to provide a definition of the Template referred to throughout the proposed drafting for this SLC.</p> <p>The proposed draft revised Template will be a standalone excel format file or in a format directed by us to be populated as per the proposed draft revised Guidelines. We are proposing that the submission of the Template by the Relevant Licensee is in line with the Guidelines and in an excel format file or in a format directed by us. An explanation of items listed in 19A.4 should be provided separately in an accessible PDF file.</p>
"Website" means a website controlled and used by the Relevant Licensee or an Affiliate for	"Website" means a website controlled and used by the Relevant Licensee or an Affiliate for the purposes of providing information and communication.	No changes are proposed here.

the purposes of providing information and communication.		
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SLC 19A: Electricity Supply Licences

Condition 19A. Financial information reporting

The Gas and Electricity Markets Authority ('the Authority')⁶⁵ proposes to modify the standard conditions of all electricity supply licences granted or treated as granted under section 6(1)(d) of the Electricity Act 1989 by amending standard licence condition 19A (Financial information reporting also known as the Consolidated Segmental Statements (CSS)) under section 11A (2).

Existing SLC drafting	New proposed SLC drafting	Reason for change
19A.1. The Relevant Licensee must prepare and publish on its Website a Consolidated Segmental Statement in respect of information relating to the revenues, costs and profits of its activities in the generation and supply of electricity and the supply of gas to any premises taking account of the Guidelines.	19A.1. The Relevant Licensee must prepare and publish on its Website a <u>the Consolidated Segmental Statement (which includes an income statement and a Segmental Balance Sheet)</u> in respect of information relating to the revenues, costs and profits of its activities in the generation and supply of electricity and <u>/or</u> the supply of gas to any premises <u>and of its generation activities (if applicable)</u> taking account of the Guidelines.	Proposed wording has been amended to: <ul style="list-style-type: none"> better reflect our proposal to request a high level Balance Sheet with comparative figures and a standard layout shown separately for generation and supply activities. We propose this to be a Segmental Balance Sheet because vertically integrated suppliers would need to submit the figures for both Generation and Supply. Supply only licensees would need to submit Supply only figures. We will be providing clear Guidelines on how to
19A.2. Where applicable, the Relevant Licensee must prepare and publish the Consolidated Segmental Statement referred to in paragraph 19A.1 in conjunction with any Affiliates.	19A.2. Where applicable, the Relevant Licensee must prepare and publish the Consolidated Segmental Statement referred to in paragraph 19A.1 in conjunction with any Affiliates.	

⁶⁵ The terms "the Authority", "we" and "us" are used interchangeably in this document.

19A.3. The Relevant Licensee must, in conjunction with any Affiliates, prepare and publish a Consolidated Segmental Statement	19A.3. The Relevant Licensee must, in conjunction with any Affiliates, prepare and publish a Consolidated Segmental Statement;	prepare the Segmental Balance Sheet.
(a) as soon as reasonably practicable and no later than four months after the end of the Relevant Licensee's financial year; or	(a) as soon as reasonably practicable and no later than four months after the end of the Relevant Licensee's financial year; or	<ul style="list-style-type: none"> reflect our proposal on requiring licensees who are vertically integrated (have supply and generation licences) and those who are not (with a supply licence only) to submit the CSS and the Segmental Balance Sheet.
(b) no later than a date specified by the Authority, which can be no earlier than four months after the end of the Relevant Licensee's financial year.	(b) no later than a date specified by the Authority, which can be no earlier than four months after the end of the Relevant Licensee's financial year.	
19A.4. Subject to complying with this paragraph the Relevant Licensee may, for the purpose of preparing the statement pursuant to paragraph 19A.3, prepare and compile the information according to the licensee's annual accounting procedures. The Relevant Licensee must include in every such statement an explanation of:	19A.4. Subject to complying with this paragraph the Relevant Licensee may, for the purpose of preparing the statement pursuant to paragraph 19A.3, prepare and compile the information according to the licensee's annual accounting procedures. The Relevant Licensee must include in every such statement an explanation of:	Proposed wording has been amended to:
(a) how it defines the terms revenues, costs and profits;	(a) how it defines the terms revenues, costs and profits;	<ul style="list-style-type: none"> better reflect the policy intent of our proposals. extend 19A.4 so that the Relevant Licensees are obligated to send in a statement on how they allocate revenues, costs and profits to the different categories as outlined in the draft revised Guidelines.
(b) how the revenues and profits can be reconciled with its UK statutory accounts;	(b) how the revenues and profits can be reconciled with its UK statutory accounts;	
(c) or, if UK statutory accounts are not prepared or published, how the revenues and profits can be reconciled with audited figures	(c) or, if UK statutory accounts are not prepared or published, how the revenues and profits can be reconciled with audited figures (prepared under	
		The existing Guidelines obligate suppliers to describe their cost allocation methods.
		We are proposing that the CSS should be prepared under Generally Accepted

(prepared under International Financial Reporting Standards) published in Group accounts;	International Financial Reporting Standards <u>Generally Accepted Accounting Principles (GAAP)</u> published in Group accounts;	Accounting Principles (GAAP). In order to comply with GAAP, the Relevant Licensee is required to follow the same accounting standards applied in preparing their statutory accounts. International Financial Reporting Standards (IFRS) are a form of GAAP. We currently have very little information on current allocation methods so this requirement will continue.
(d) its transfer pricing methodology and how this relates to the revenues, costs and profits information published; and	(d) its transfer pricing methodology and how this relates to the revenues, costs and profits information published; and	
(e) where individual business functions are captured in the Consolidated Segmental Statement, as specified by Appendix 2 of the Guidelines.	(e) where individual business functions are captured in the Consolidated Segmental Statement, as specified by Appendix 2 of <u>in</u> the Guidelines; and	
	<u>(f) how it allocates the revenues, costs and profits to Different Categories as outlined in the Guidelines and the Template.</u>	As such, we expect suppliers to continue to use their own method of allocation and we request that they clearly indicate on each expenditure item within the CSS Template the cost allocation used. We will be providing some guidance in the draft revised Guidelines which we expect suppliers to follow and, after the first year under the revised CSS draft revised Template, we will review suppliers' allocation methods and may suggest a standard allocation method going forward.

19A.5. The Relevant Licensee must ensure that the information prepared and made public pursuant to paragraph 19A.3 includes the cost of fuel used to generate electricity and its share of revenues, costs, profits and volumes of Joint Ventures and Associates.	19A.5. <u>If the</u> The Relevant Licensee <u>or any Affiliate also holds an electricity generation licence then it</u> must ensure that the information prepared and made public pursuant to paragraph 19A.3 includes the cost of fuel used to generate electricity and its share of revenues, costs, profits and volumes of Joint Ventures and Associates.	Proposed wording has been amended to better reflect our proposals on: <ul style="list-style-type: none"> • eligibility of licensees. • requiring licensees who are vertically integrated (have supply and generation licences) to submit the CSS in accordance with our proposals.
19A.6. Subject to complying with Paragraph 19A.5 the Relevant Licensee must ensure that all the information prepared and made public pursuant to paragraph 19A.3 is in all material respects consistent with the information prepared pursuant to paragraph 19A.4 and the information is presented with a clear and full explanation.	19A.6. Subject to complying with Paragraph 19A.5 the Relevant Licensee must ensure that all the information prepared and made public pursuant to paragraph 19A.3 is in all material respects consistent with the information prepared pursuant to paragraph 19A.4 and the information is presented with a clear and full explanation.	No changes are proposed to the existing wording for 19A.6.
19A.7. The Relevant Licensee must, for the purposes of ensuring the transfer pricing methodology is appropriate and up to date:	19A.7. <u>If the</u> The Relevant Licensee <u>holds an electricity generation licence it</u> must, for the purposes of ensuring the transfer pricing methodology is appropriate and up to date:	Proposed wording has been amended to better reflect: <ul style="list-style-type: none"> • the intent of our proposals. • our proposal on requiring licensees with both supply and generation
(a) keep transfer pricing policies and procedures under review; and	(a) keep transfer pricing policies and procedures under review; and	

(b) ensure that the supporting information that supports the transfer pricing policies remains appropriate and up to date.	(b) ensure that the supporting information that supports the transfer pricing policies remains appropriate and up to date ; <u>.</u>	licences to review and report on transfer pricing policies.
19A.8. The Relevant Licensee must notify the Authority as soon as reasonably practicable of any material changes to transfer pricing policies.	19A.8. <u>If applicable the</u> The Relevant Licensee must notify the Authority as soon as reasonably practicable of ; <u>.</u>	Proposed wording has been amended to better reflect our expectations as a regulator to be notified by the licensee on changes to their transfer pricing and allocation methodologies.
	<u>(a) any material changes to transfer pricing policies;</u> <u>.</u>	
	<u>(b) any material changes to the allocation methodology for revenues, cost and profits for the Different Categories.</u>	
19A.9. (a) The Authority shall prepare Guidelines in relation to the requirements of this condition and may modify, in whole or in part, the Guidelines following consultation with the Relevant Licensees.	19A.9. (a) The Authority shall prepare Guidelines <u>and Templates</u> in relation to the requirements of this condition and may modify, in whole or in part, the Guidelines <u>and Templates</u> following consultation with the Relevant Licensees.	Proposed wording has been amended to: <ul style="list-style-type: none"> • better reflect the proposed draft revised Guidelines that Ofgem has prepared. • address that the Template is now an accompanying document to the proposed draft revised Guidelines and not an Appendix.
(b) The Authority shall modify the definition of Consolidated Segmental Statement as described in Appendices 1 and 2 of the Guidelines in accordance with section 11A of the Act.	(b) The Authority shall modify the definition of Consolidated Segmental Statement as described in Appendices 1 and 2 of the Guidelines in accordance with section 23 of the Act.	
		Our proposal to present the Template as an accompanying document, rather than as part of the Guidelines. The accompanying draft revised Template will be in editable

		excel format file or in another format directed by us.
19A.10. Except and to the extent that the Authority otherwise consents, the Relevant Licensee must include in the Consolidated Segmental Statement a report from an Appropriate Auditor that gives an audited opinion as to the extent to which the Relevant Licensee has properly prepared the Consolidated Segmental Statement in accordance with this licence condition and the Guidelines.	<p>19A.10. Except and to the extent that the Authority otherwise consents, the Relevant Licensee must include in the Consolidated Segmental Statement a report from an Appropriate Auditor that gives an audited opinion as to the extent to which the Relevant Licensee has properly prepared the Consolidated Segmental Statement in accordance with this licence condition and the Guidelines. Where the Authority considers that the Relevant Licensee has not properly prepared the Consolidated Segmental Statement in accordance with this licence condition and the Guidelines and Template, it may require the Relevant Licensee to commission and submit a report from an Appropriate Auditor or to submit a report from an Appropriate Auditor which it has already commissioned.</p>	<p>Proposed wording has been amended to better reflect our policy intent of to remove the auditing requirement.</p> <p>We are proposing to remove the annual audit requirement for all suppliers but reserve the right to require an audit by an Appropriate Auditor when we have concerns.</p> <p>To help reduce the risk of inappropriate cost allocations or inconsistencies in reporting, we propose to ask suppliers to submit the CSS based on the draft revised Guidelines and accompanying draft revised Template.</p> <p>We propose to ask obligated licensees to follow the guidance on allocating costs in our draft revised Guidelines.</p> <p>Furthermore, we propose to ask suppliers to continue to submit the CSS based on their company year-end so that the CSS figures can be reconciled back to the</p>

		<p>company's main statutory annual accounts which are audited.</p> <p>Our expectation is that this would ensure consistency across CSS submissions and can help to alleviate any reconciliation issues.</p> <p>However, we recognise that some companies may want to voluntarily publish a CSS which is audited so that it is in line with their company standards, and we would welcome this. In cases where the Relevant Licensee has already audited the CSS, they can send that to us.</p>
19A.11. For the purposes of this condition:	19A.11. For the purposes of this condition:	
" Affiliate " means any holding company or subsidiary of a holding company of the Relevant Licensee, in each case within the meaning of sections 1159 and 1160 of the Companies Act 2006.	" Affiliate " means any holding company or subsidiary of a holding company of the Relevant Licensee, in each case within the meaning of sections 1159 and 1160 of the Companies Act 2006.	No changes are proposed to these definitions

<p>“Appropriate Auditors” means</p>	<p>“Appropriate Auditors” means</p>	
<p>(a) in the case of a licensee which is a company within the meaning of section 1 of the Companies Act 2006, a person appointed as auditor under Chapter 2 of Part 16 of that Act;</p>	<p>(a) in the case of a licensee which is a company within the meaning of section 1 of the Companies Act 2006, a person appointed as auditor under Chapter 2 of Part 16 of that Act;</p>	
<p>(b) in the case of any other licensee which is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to Chapter 2 of Part 16 of the Companies Act 2006, a person so appointed;</p>	<p>(b) in the case of any other licensee which is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to Chapter 2 of Part 16 of the Companies Act 2006, a person so appointed;</p>	
<p>(c) in any other case, a person who is eligible for appointment as a company auditor under sections 1212 and 1216 of the Companies Act 2006, or in relation to auditors appointed for financial years beginning before 6 April 2008, a person who is eligible for appointment as a company auditor under sections 25 and 26 of the Companies Act 1989.</p>	<p>(c) in any other case, a person who is eligible for appointment as a company auditor under sections 1212 and 1216 of the Companies Act 2006, or in relation to auditors appointed for financial years beginning before 6 April 2008, a person who is eligible for appointment as a company auditor under sections 25 and 26 of the Companies Act 1989.</p>	
<p>“Associate” means an entity, including an unincorporated entity such as a partnership, over which the Relevant Licensee has significant</p>	<p>“Associate” means an entity, including an unincorporated entity such as a partnership, over which the Relevant Licensee has significant influence</p>	

influence and that is neither a subsidiary nor an interest in a joint venture.	and that is neither a subsidiary nor an interest in a joint venture.	
<p>"Consolidated Segmental Statement" means a statement as described in Appendices 1 and 2 of the Guidelines.</p>	<p>"Consolidated Segmental Statement" means a statement as described in Appendices 1 and 2 of the <u>Guidelines and the Template which includes an income statement, the Segmental Balance Sheet and the customer number table.</u></p>	<p>Proposed wording has been amended to:</p> <ul style="list-style-type: none"> • better reflect the draft revised Guidelines and Template which will be published along with the statutory consultation. • ask licensees to submit the CSS (which is proposed to include an income statement, a Segmental Balance Sheet and the customer number table where customer numbers should be provided) in the excel format file or in another format directed by us.
	<p>"Different Categories" <u>means the breakdown of revenues, costs and profits as set out in the Guidelines and the Template.</u></p>	<p>Proposed wording has been added as we are proposing the inclusion of additional information and breakdown of revenues costs and profits. These different categories will be described in more detail in the draft revised Guidelines and statutory consultation.</p>
	<p>"Guidelines" <u>means the guidance and procedures in place for preparing the Consolidated Segmental Statements.</u></p>	<p>Proposed wording has been added to provide a definition of Guidelines as they</p>

		will be playing important role in our proposals.
"Joint Venture" means a contractual arrangement whereby the Relevant Licensees and one or more parties undertake an economic activity that is subject to joint control.	"Joint Venture" means a contractual arrangement whereby the Relevant Licensees and one or more parties undertake an economic activity that is subject to joint control.	No changes are proposed on this definition
"Relevant Licensee" means the holder of an electricity supply licence granted or treated as granted under section 6(1)(d) of the Act if:	"Relevant Licensee" means (a) the holder of an electricity supply licence granted or treated as granted under section 6(1)(d) of the Act if:; <u>or (b) the holder of an electricity supply licence granted or treated as granted under section 6(1)(d) of the Act and where it is, or an of its Affiliates are, the holder of an electricity generation licence granted or treated as granted under section 6(1) of the Electricity Act 1989;</u>	Proposed wording has been amended to better reflect the policy intent with our proposals on customer number threshold and vertical integration. Our proposal with respect to the customer number threshold is to have separate thresholds for domestic and non-domestic customers (measured in meter points, MPANs and MPRNs). <ul style="list-style-type: none"> For the domestic market, suppliers should have at least 50,000 customers, or.
(a) it supplies, or it and any of its Affiliates jointly supply:	(a) it supplies, or it and any of its Affiliates jointly supply:	
i. electricity to more than 250,000 domestic customers; or	i. electricity to more than 250,000 <u>50,000 or more</u> domestic customers <u>based on meter points</u> ; or	
ii. gas to more than 250,000 domestic customers; or	ii. gas to more than 250,000 <u>50,000 or more</u> domestic customers <u>based on meter points</u> ; or	

iii. electricity to more than 250,000 non-domestic customers; or	iii. electricity to more than 250,000 <u>the Relevant Minimum Number of</u> non-domestic customers; or	<ul style="list-style-type: none"> For the non-domestic market, our aim is to capture a minimum of 90% share in the non-domestic market. Ofgem proposes to publish the non-domestic customer number threshold by mid-January each year, along with a list of obligated suppliers each year. We will also notify newly obligated suppliers each year. We are proposing that a supplier obligated under the CSS licence requirement should continue to submit a CSS unless otherwise agreed by the Authority. This is set out in the draft revised Guidelines. We have provided a definition of the Relevant Minimum Number below. <p>Our proposal with respect to vertical integration is that companies who meet the revised customer threshold and either hold a supply and generation licence or a supply licence only, will be obligated.</p>
iv. gas to more than 250,000 non-domestic customers, respectively: and	iv. gas to more than 250,000 <u>the Relevant Minimum Number of</u> non-domestic customers, respectively: and	
(b) it or any of its Affiliates is a holder of an electricity generation licence granted or treated as granted under section 6(1)(a) of the Act.	(b) it or any of its Affiliates is a holder of an electricity generation licence granted or treated as granted under section 6(1)(a) of the Act.	

		We are proposing that companies who hold a generation licence only will not be obligated under the revised CSS licence requirement.
	<u>(b) once a Relevant Licensee becomes obligated under the CSS licence condition as described in (a) above, they should continue to submit a CSS unless otherwise agreed by the Authority.</u>	This proposed wording has been added to better reflect our policy intent with our proposals to ensure that suppliers who meet the eligibility criteria set out in part (a) and (b) on the definition of the Relevant Licensee, will continue to be obligated under the CSS licence condition unless otherwise agreed by Ofgem.
	<u>"Relevant Minimum Number" means the number of non-domestic customers based on meter points, published by the Authority, representing at least a 90% share of the non-domestic market each year. The Guidelines set out the methodologies for calculating the Relevant Minimum Number each year, as well as publication process.</u>	This proposed wording has been added to better reflect our policy intent on our proposals and provide clarity on what the Relevant Minimum Number means in relation to the threshold for non-domestic customers.
	<u>"Segmental Balance Sheet" means a balance sheet for generation and supply as described and presented in the Guidelines and the Template, respectively.</u>	Proposed wording has been added to provide a definition of Segmental Balance Sheet referred to throughout the proposed drafting for this SLC.
	<u>"Template" means the template accompanying the Guidelines. It refers to the template for the Consolidated Segmental Statement which includes an</u>	Proposed wording has been added to provide a definition of the Template

	<u>income statement and a Segmental Balance Sheet Template.</u>	<p>referred to throughout the proposed drafting for this SLC.</p> <p>The proposed draft revised Template will be a standalone excel format file or in a format directed by us to be populated as per the proposed draft revised Guidelines. We are proposing that the submission of the Template by the Relevant Licensee is in line with the draft revised Guidelines and in an excel format file or in a format directed by us. An explanation of items listed in 19A.4 should be provided separately in an accessible PDF file.</p>
" Website " means a website controlled and used by the Relevant Licensee or an Affiliate for the purposes of providing information and communication.	" Website " means a website controlled and used by the Relevant Licensee or an Affiliate for the purposes of providing information and co	No changes are proposed here.

SLC 16B: Electricity Generation Licences

Condition 16B. Financial information reporting		
The Gas and Electricity Markets Authority ('the Authority') ⁶⁶ proposes to modify the standard conditions of all electricity generation licences granted or treated as granted under section 6(1)(a) of the Electricity Act 1989 by amending standard licence condition 16B (Financial information reporting also known as the Consolidated Segmental Statements (CSS)) under section 11A (2).		
Existing SLC drafting	New proposed SLC drafting	Reason for change
1. The Relevant Licensee must prepare and publish on its Website a Consolidated Segmental Statement in respect of information relating to the revenues, costs and profits of its activities in the generation and supply of electricity and the supply of gas to any premises taking account of the Guidelines.	19A.1. The Relevant Licensee must prepare and publish on its Website a <u>the Consolidated Segmental Statement (which includes an income statement and a Segmental Balance Sheet)</u> in respect of information relating to the revenues, costs and profits of its activities in the generation and supply of electricity and/or the supply of gas to any premises <u>and of its generation activities (if applicable)</u> taking account of the Guidelines.	Proposed wording has been amended to: <ul style="list-style-type: none"> better reflect our proposal to request a high level Balance Sheet with comparative figures and a standard layout shown separately for generation and supply activities. We propose this to be a Segmental Balance Sheet because vertically integrated suppliers would need to submit the figures for both Generation and Supply. Supply

⁶⁶ The terms "the Authority", "we" and "us" are used interchangeably in this document.

2. Where applicable, the Relevant Licensee must prepare and publish the Consolidated Segmental Statement referred to in paragraph 1 in conjunction with any Affiliates.	2. Where applicable, the Relevant Licensee must prepare and publish the Consolidated Segmental Statement referred to in paragraph 1 in conjunction with any Affiliates.	<p>only licensees would need to submit Supply only figures. We will be providing clear Guidelines on how to prepare the Segmental Balance Sheet.</p> <ul style="list-style-type: none"> reflect our proposal on requiring licensees who are vertically integrated (have supply and generation licences) and those who are not (with a supply licence only) to submit the CSS and the Segmental Balance Sheet. correct any typographical errors.
3. The Relevant Licensee must, in conjunction with any Affiliates, prepare and publish a Consolidated Segmental Statement.	3. The Relevant Licensee must, in conjunction with any Affiliates, prepare and publish a Consolidated <u>Consolidated</u> Segmental Statement.	
(a) as soon as reasonably practicable and no later than four months after the end of the Relevant Licensee's financial year; or;	(a) as soon as reasonably practicable and no later than four months after the end of the Relevant Licensee's financial year; or	
(b) no later than a date specified by the Authority, which can be no earlier than four months after the end of the Relevant Licensee's financial year.	(b) no later than a date specified by the Authority, which can be no earlier than four months after the end of the Relevant Licensee's financial year.	
4. Subject to complying with this paragraph the Relevant Licensee may, for the purpose of preparing the statement pursuant to paragraph 19A.3, prepare and compile the information according to the licensee's annual accounting procedures. The Relevant Licensee must include in every such statement an explanation of:	4. Subject to complying with this paragraph the Relevant Licensee may, for the purpose of preparing the statement pursuant to paragraph 19A.3, prepare and compile the information according to the licensee's annual accounting procedures. The Relevant Licensee must include in every such statement an explanation of:	<p>Proposed wording has been amended to:</p> <ul style="list-style-type: none"> better reflect the policy intent of our proposals. extend 19A.4 so that the Relevant Licensees are obligated to send in a statement on how they allocate revenues, costs and profits to the

(a) how it defines the terms revenues, cost and profits;	(a) how it defines the terms revenues, costs and profits;	<p>different categories as outlined in the draft revised Guidelines.</p> <p>The existing Guidelines obligate suppliers to describe their cost allocation methods.</p> <p>We are proposing that the CSS should be prepared under Generally Accepted Accounting Principles (GAAP). In order to comply with GAAP, the Relevant Licensee is required to follow the same accounting standards applied in preparing their statutory accounts. International Financial Reporting Standards (IFRS) are a form of GAAP.</p> <p>We currently have very little information on current allocation methods so this requirement will continue.</p> <p>As such, we expect suppliers to continue to use their own method of allocation and we request that they clearly indicate on each expenditure item within the CSS Template the cost allocation used.</p>
(b) how the revenues and profits can be reconciled with its UK statutory accounts;	(b) how the revenues and profits can be reconciled with its UK statutory accounts;	
(c) or, if UK statutory accounts are not prepared or published, how the revenues and profits can be reconciled with audited figures (prepared under International Financial Reporting Standards) published in Group accounts;	(c) or, if UK statutory accounts are not prepared or published, how the revenues and profits can be reconciled with audited figures (prepared under International Financial Reporting Standards <u>Generally Accepted Accounting Principles (GAAP)</u>) published in Group accounts;	
(d) its transfer pricing methodology and how this relates to the revenues, costs and profit information published; and	(d) its transfer pricing methodology and how this relates to the revenues, costs and profits information published; and	
(e) where individual business functions are captured in the Consolidated Segmental Statement, as specified by Appendix 2 of the Guidelines.	(e) where individual business functions are captured in the Consolidated Segmental Statement, as specified <u>specified by Appendix 2 of in the Guidelines; and</u>	
	<u>(f) how it allocates the revenues, costs and profits to Different Categories as outlined in the Guidelines and the Template.</u>	

		<p>We will be providing some guidance in the draft revised Guidelines which we expect suppliers to follow and, after the first year under the revised CSS draft revised Template, we will review suppliers' allocation methods and may suggest a standard allocation method going forward.</p>
<p>5. The Relevant Licensee must ensure that the information prepared and made public pursuant to paragraph 3 includes the cost of fuel used to generate electricity and its share of reveues, costs, profits and volumes of Joint Ventures and Associates.</p>	<p>5. The Relevant Licensee <u>or any Affiliate</u> must ensure that the information prepared and made public pursuant to paragraph 3 includes the cost of fuel used to generate electricity and its share of reveues <u>revenues</u>, costs, profits and volumes of Joint Ventures and Associates.</p>	<p>Proposed wording has been amended to:</p> <ul style="list-style-type: none"> • better reflect the policy intent of our proposals by including and Affiliate as we recognise that if there is a generation licensee, it can be and normally is, an Affiliate of a supply licensee. • correct typographical errors.
<p>6. Subject to complying with Paragraph 5 the Relevant Licensee must ensure that all the information prepared and made public pursuant to paragraph 3 is in all material respects consistent with the information prepared pursuant to paragraph 4 and the</p>	<p>6. Subject to complying with Paragraph 5 the Relevant Licensee must ensure that all the information prepared and made public pursuant to paragraph 3 is in all material respects consistent with the information prepared</p>	<p>No changes are proposed to the existing wording here.</p>

information is presented with a clear and full explanation.	pursuant to paragraph 4 and the information is presented with a clear and full explanation.	
7. The Relevant Licensee must, for the purposes of ensuring the transfer pricing methodology is appropriate and up to date:	7. The Relevant Licensee must, for the purposes of ensuring the transfer pricing methodology is appropriate and up to date:	Proposed wording has been amended to better reflect: <ul style="list-style-type: none"> the intent of our proposals. our proposal on requiring licensees with both supply and generation licences to review and report on transfer pricing policies.
(a) keep transfer pricing policies and procedures under review; and	(a) keep transfer pricing policies and procedures under review; and	
(b) ensure that the supporting information that supports the transfer pricing policies remains appropriate and up to date.	(b) ensure that the supporting information that supports the transfer pricing policies remains appropriate and up to date.	
8. The Relevant Licensee must notify the Authority as soon as reasonably practicable of any material changes to transfer pricing policies.	8. The Relevant Licensee must notify the Authority as soon as reasonably practicable of any material changes to transfer pricing policies.	Proposed wording has been amended to better reflect our expectations as a regulator to be notified by the licensee on changes to their transfer pricing methodologies.
9. (a) The Authority shall prepare Guidelines in relation to the requirements of this condition and may modify, in whole or in part, the Guidelines following consultation with the Relevant Licensees.	9. (a) The Authority shall prepare Guidelines <u>and Templates</u> in relation to the requirements of this condition and may modify, in whole or in part, the Guidelines <u>and Templates</u> following consultation with the Relevant Licensees.	Proposed wording has been amended to: <ul style="list-style-type: none"> better reflect the proposed draft revised Guidelines that Ofgem has prepared. address that the draft revised Template is now an accompanying document to the proposed draft revised Guidelines and not an Appendix.
(b) The Authority shall modify the definition of Consolidated Segmental Statement as described in Appendices 1 and 2 of the	(b) The Authority shall modify the definition of Consolidated Segmental Statement as described in Appendices 1 and 2 of the	

<p>Guidelines in accordance with section 11A of the Act.</p>	<p>Guidelines in accordance with section 11A of the Act.</p>	<p>Our proposal is to present the Template as an accompanying document, rather than as part of the Guidelines. The accompanying draft revised Template will be in editable excel format file or in another format directed by us.</p>
<p>10. Except and to the extent that the Authority otherwise consents, the Relevant Licensee must include in the Consolidated Segmental Statement a report from an Appropriate Auditor that gives an audited opinion as to the extent to which the Relevant Licensee has properly prepared the Consolidated Segmental Statement in accordance with this licence condition and the Guidelines.</p>	<p>10. Except and to the extent that the Authority otherwise consents, the Relevant Licensee must include in the Consolidated Segmental Statement a report from an Appropriate Auditor that gives an audited opinion as to the extent to which the Relevant Licensee has properly prepared the Consolidated Segmental Statement in accordance with this licence condition and the Guidelines. <u>Where the Authority considers that the Relevant Licensee has not properly prepared the Consolidated Segmental Statement in accordance with this licence condition and the Guidelines and Template, it may require the Relevant Licensee to commission and submit a report from an Appropriate Auditor or to submit a report from an Appropriate Auditor which it has already commissioned.</u></p>	<p>Proposed wording has been amended to better reflect our policy intent of to remove the auditing requirement.</p> <p>We are proposing to remove the annual audit requirement for all suppliers but reserve the right to require an audit by an Appropriate Auditor when we have concerns.</p> <p>To help reduce the risk of inappropriate cost allocations or inconsistencies in reporting, we propose to ask suppliers to submit the CSS based on the draft revised Guidelines and accompanying draft revised Template.</p> <p>We propose to ask obligated licensees to follow the guidance on allocating costs in our draft revised Guidelines.</p> <p>Furthermore, we propose to ask suppliers to continue to submit the CSS based on their company year-end so that the CSS figures can</p>

		<p>be reconciled back to the company's main statutory annual accounts which are audited. Our expectation is that this would ensure consistency across CSS submissions and can help to alleviate any reconciliation issues. However, we recognise that some companies may want to voluntarily publish a CSS which is audited so that it is in line with their company standards, and we would welcome this. In cases where the Relevant Licensee has already audited the CSS, they can send that to us.</p>
11. For the purposes of this condition:	11. For the purposes of this condition:	No changes are proposed to these definitions
" Affiliate " means any holding company or subsidiary of a holding company of the Relevant Licensee, in each case within the meaning of sections 1159 and 1160 of the Companies Act 2006.	" Affiliate " means any holding company or subsidiary of a holding company of the Relevant Licensee, in each case within the meaning of sections 1159 and 1160 of the Companies Act 2006.	
" Appropriate Auditors " means	" Appropriate Auditors " means	
(a) in the case of a licensee which is a company within the meaning of section 1 of the Companies Act 2006, a person appointed as auditor under Chapter 2 of Part 16 of that Act;	(a) in the case of a licensee which is a company within the meaning of section 1 of the Companies Act 2006, a person appointed as auditor under Chapter 2 of Part 16 of that Act;	

(b) in the case of any other licensee which is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to Chapter 2 of Part 16 of the Companies Act 2006, a person so appointed;	(b) in the case of any other licensee which is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to Chapter 2 of Part 16 of the Companies Act 2006, a person so appointed;	
(c) in any other case, a person who is eligible for appointment as a company auditor under sections 1212 and 1216 of the Companies Act 2006, or in relation to auditors appointed for financial years beginning before 6 April 2008, a person who is eligible for appointment as a company auditor under sections 25 and 26 of the Companies Act 1989.	(c) in any other case, a person who is eligible for appointment as a company auditor under sections 1212 and 1216 of the Companies Act 2006, or in relation to auditors appointed for financial years beginning before 6 April 2008, a person who is eligible for appointment as a company auditor under sections 25 and 26 of the Companies Act 1989.	
"Associate" means an entity, including an unincorporated entity such as a partnership, over which the Relevant Licensee has significant influence and that is neither a subsidiary nor an interest in a joint venture.	"Associate" means an entity, including an unincorporated entity such as a partnership, over which the Relevant Licensee has significant influence and that is neither a subsidiary nor an interest in a joint venture.	
"Consolidated Segmental Statement" means a statement as described in Appendices 1 and 2 of the Guidelines.	"Consolidated Segmental Statement" means a statement as described in Appendices 1 and 2 of the Guidelines <u>and the Template which includes an income statement, the</u>	Proposed wording has been amended to: <ul style="list-style-type: none"> • better reflect the draft revised Guidelines and Template which will be published along with the statutory consultation.

	<u>Segmental Balance Sheet and the customer number table.</u>	<ul style="list-style-type: none"> ask licensees to submit the CSS (which is proposed to include an income statement, a Segmental Balance Sheet and the customer number table where customer numbers should be provided) in the excel format file or in another format directed by us.
	<u>"Different Categories" means the breakdown of revenues, costs and profits as set out in the Guidelines and the Template.</u>	Proposed wording has been added as we are proposing the inclusion of additional information and breakdown of revenues costs and profits. These different categories will be described in more detail in the draft revised Guidelines and statutory consultation.
	<u>"Guidelines" means the guidance and procedures in place for preparing the Consolidated Segmental Statements.</u>	Proposed wording has been added to provide a definition of Guidelines as they will be playing important role in our proposals.
"Joint Venture" means a contractual arrangement whereby the Relevant Licensees and one or more parties undertake an economic activity that is subject to joint control.	"Joint Venture" means a contractual arrangement whereby the Relevant Licensees and one or more parties undertake an economic activity that is subject to joint control.	No changes are proposed on this definition
"Relevant Licensee" means the holder of an electricity generation licence granted or treated as granted under section 6(1)(a) of the	"Relevant Licensee" means the holder of an electricity generation licence granted or treated as granted under section 6(1)(a) of the Act if:	Proposed wording has been amended to better reflect the policy intent with our proposals on

Act if it supplies or any of its Affiliates supply, either jointly or severally:	(a) it supplies or any of its Affiliates supply, either jointly or severally:	customer number threshold and vertical integration.
i. electricity to more than 250,000 domestic customers; or	i.electricity to more than 250,000 <u>50,000 or more</u> domestic customers <u>based on meter points</u> ; or	<p>Our proposal with respect to the customer number threshold is to have separate thresholds for domestic and non-domestic customers (measured in meter points, MPANs and MPRNs).</p> <ul style="list-style-type: none"> For the domestic market, suppliers should have at least 50,000 customers, or. For the non-domestic market, our aim is to capture a minimum of 90% share in the non-domestic market. Ofgem proposes to publish the non-domestic customer number threshold by mid-January each year, along with a list of obligated suppliers each year. We will also notify newly obligated suppliers each year. We are proposing that a supplier obligated under the CSS licence requirement should continue to submit a CSS unless otherwise agreed
ii. gas to more than 250,000 domestic customers; or	ii.gas to more than 250,000 <u>50,000 or more</u> domestic customers <u>based on meter points</u> ; or	
iii. electricity to more than 250,000 non-domestic customers; or	iii. electricity to more than 250,000 <u>the Relevant Minimum Number of</u> non-domestic customers; or	
iv. gas to more than 250,000 non-domestic customers.	iv. gas to more than 250,000 <u>the Relevant Minimum Number of</u> non-domestic customers; and <u>/ or</u>	

		<p>by the Authority. This is set out in the draft revised Guidelines.</p> <ul style="list-style-type: none"> • We have provided a definition of the Relevant Minimum Number below. <p>Our proposal with respect to vertical integration is that companies who meet the revised customer threshold and either hold a supply and generation licence or a supply licence only, will be obligated.</p> <p>We are proposing that companies who hold a generation licence only will not be obligated under the revised CSS licence requirement.</p>
	<p><u>(b) once a Relevant Licensee becomes obligated under the CSS licence condition as described in (a) above, they should continue to submit a CSS unless otherwise agreed by the Authority.</u></p>	<p>This proposed wording has been added to better reflect our policy intent with our proposals to ensure that suppliers who meet the eligibility criteria set out in part (a) on the definition of the Relevant Licensee, will continue to be obligated under the CSS licence condition unless otherwise agreed by Ofgem.</p>
	<p><u>"Relevant Minimum Number" means the number of non-domestic customers based on</u></p>	<p>This proposed wording has been added to better reflect our policy intent on our proposals</p>

	<u>meter points, published by the Authority, representing at least a 90% share of the non-domestic market each year. The Guidelines set out the methodologies for calculating the Relevant Minimum Number each year, as well as publication process.</u>	and provide clarity on what the Relevant Minimum Number means in relation to the threshold for non-domestic customers.
	<u>"Segmental Balance Sheet" means a balance sheet for generation and supply as described and presented in the Guidelines and the Template, respectively.</u>	Proposed wording has been added to provide a definition of Segmental Balance Sheet referred to throughout the proposed drafting for this SLC.
	<u>"Template" means the template accompanying the Guidelines. It refers to the template for the Consolidated Segmental Statement which includes the income statement and the Segmental Balance Sheet template.</u>	<p>Proposed wording has been added to provide a definition of the Template referred to throughout the proposed drafting for this SLC.</p> <p>The proposed draft revised Template will be a standalone excel format file or in a format directed by us to be populated as per the proposed draft revised Guidelines.</p> <p>We are proposing that the submission of the Template by the Relevant Licensee is in line with the draft revised Guidelines and in an excel format file or in a format directed by us. An explanation of items listed in 19A.4 should</p>

		be provided separately in an accessible PDF file.
"Website" means a website controlled and used by the Relevant Licensee or an Affiliate for the purposes of providing information and communication.	"Website" means a website controlled and used by the Relevant Licensee or an Affiliate <u>Affiliate</u> for the purposes of providing information and communication.	Proposed wording has been amended to correct typographical errors.

Summary of stakeholders' views and our views

Summary of stakeholders' views	Our views
Eligibility – Most suppliers who responded sought greater clarity with reference to 19A.1, and 16B.1 as the current drafting obligates vertically generated companies regardless of their threshold. In relation to the definition of the relevant licensee, they also considered that, as currently drafted, it appears that any supplier who holds a supplier licence and has an affiliate with a generation licence would be required to provide this information, even if the number of sites they have is extremely small.	We recognise that the proposed drafting of the working paper did not reflect our final proposals and policy intent. We have amended the drafting so that it now does. The drafting changes we are now proposing better reflect our policy intent on requiring a CSS from licensees who are vertically integrated (have supply and generation licences) and those who are not (with a supply licence only) and who meet the customer number threshold levels.
Reporting Timeframes – There was concern in relation to the drafting of 19A.3 (a) (16B.3). In particular, stakeholders who responded consider that, while 4 months from the year end is correct for listed companies and is in line with the requirement for submitting their statutory accounts with the Companies House, it does not taking into account that different business models (such as private companies) have different statutory publication deadlines – for example 9 months from the year-end for	In order to meet the aims of the CSS, we need timely information. However, we recognise that companies (particularly those new to the obligation) have different business models and reporting structures and will therefore need some time to make changes to their reporting systems and processes to meet the requirements under the revised CSS. As such, we are proposing to allow a

<p>private companies. They said that since Ofgem is proposing to lower the threshold and extend the CSS requirements to more suppliers, they should take account of different business models. Although part (b) of this paragraph might offer solution to this, it is believed that better and clearer drafting should be included in this overall paragraph. They seek to see clear guidance that supports the use of part (b).</p>	<p>transition period in the first year to all companies obligated under the revised CSS, as discussed in our final proposals.</p>
<p>Accounting standards – The majority of stakeholders who responded sought more clarity on our proposed changes to 19A.4. In particular, they asked us to recognise that many listed companies will prepare their financial information according to IFRS (a form of GAAP) and that the proposed licence drafting implies that this would no longer be possible. The assumption is that Ofgem are including IFRS in the broad definition of GAAP. Excluding IFRS from the definition would require suppliers to make burdensome and costly changes to produce a CSS using accounting principles that differ from those used in their audited accounts.</p>	<p>Our proposal is to broaden paragraph 19A.4 by including GAAP. We agree that the IFRS is a form of GAAP with several sub categories. In the proposed Guidelines, we have clarified that the Relevant Licensee should use the same accounting standards as they do in their statutory accounts.</p> <p>If a Licensee applies a version of IFRS in its statutory accounts, then it should apply the same version of IFRS for preparation of the CSS. Likewise, if a Licensee applies FRS101 (reduced disclosure under IFRS) or FRS102, it should apply the same standard in preparing the CSS. This will facilitate reconciliation to the statutory accounts.</p>
<p>Some stakeholders did not agree with submitting a generation balance sheet. They considered that the request for a balance sheet for generation activities was not part of the policy consultation published in May. They stated that a segmental balance sheet is disproportionate in terms of requirements for larger entities, particularly those with a strong credit rating. Some also argued that a requirement to produce a</p>	<p>In our policy consultation, we did not specify that the request for a balance sheet would be for supply activities only. We have provided our rationale for requesting a balance sheet for both supply and generation activities in the statutory consultation document, in Chapter 4.</p>

segmental balance sheet is highly impractical given different legal and entity ownership structures.	
Generation activities – There were views that vertically integrated (VI) companies should no longer be submitting information on their generation activities, particularly as the CMA concluded that VI does not pose adverse effect to competition.	We have addressed these concerns in the statutory consultation document. Please refer to paragraph 4.8 and 4.9.
Threshold –Some of the stakeholders who responded stated that we are now proposing a lower threshold than previously consulted on for non-domestic suppliers, and that it should not be based on meter points. They suggested that a clear definition, such as that currently used in SLC 19A, without the reference to meter points should be considered.	<p>One of the aims of the CSS review is to increase market coverage of the CSS so that we can capture a fuller picture of profitability in the retail energy sector. Having information from 90% of the market, or above, was one of the options proposed in our policy consultation. A 50,000 customer number threshold does not currently achieve that target in the non-domestic market. In order to capture at least 90% of the non-domestic market, we are proposing to publish a customer number threshold annually as explained in greater detail in the statutory consultation and the Guidelines.</p> <p>As per the existing Guidelines, customer numbers should be based on meter points (MPANs and MPRNs)⁶⁷ for both domestic and non-domestic suppliers. Our proposal on customer number thresholds, based on meter points, is not different to what we proposed in our</p>

⁶⁷ See existing Guidelines: https://www.ofgem.gov.uk/sites/default/files/docs/2015/05/css_guidelines_jan_2015.pdf

	policy consultation published in May 2020 and the existing Guidelines. The analysis in Table 1 (page 30) of the policy consultation published in May was based on meter points. Also, the analysis in Table 2 in Chapter 4 of this document is based on meter points.
Clarity on when would this requirement start – Some stakeholders sought greater clarity in their responses on when would the revised CSS requirement start.	This is set out in paragraph 4.84 and 4.85 in the main document above.

Appendix 3 – Draft revised guidelines for submitting the CSS

1. Licence Condition

- 1.1. These Guidelines relate to Standard Licence Condition (SLC) 19A of the Gas and Electricity Supply Licences and Standard Licence Condition (SLC) 16B of the Electricity Generation Licences, 'Financial information reporting'. There is currently one requirement under these conditions, which is the Consolidated Segmental Statement (CSS) and will be referred to as the CSS licence requirement for the purposes of the Guidelines.
- 1.2. The Guidelines have been prepared by the Office of Gas and Electricity Markets, ('Ofgem'), pursuant to SLC 19A and 16B.
- 1.3. These Guidelines are accompanied by a spreadsheet with Templates (see Section 9). The Guidelines and Templates will be published on the Ofgem website.

2. Scope and Application of the Licence Conditions

- 2.1. The requirement to submit a CSS only apply to those companies that are 'Relevant Licensees' as defined in the CSS licence requirement. Where information required under the CSS licence requirement is held by an Affiliate, the Relevant Licensee is required to obtain and publish the information.

Minimum Threshold for Suppliers

- 2.2. To be obligated under the CSS, the following thresholds will apply for Relevant Licensees (as set out in the CSS licence requirement):
 - domestic: suppliers must have at least 50,000 domestic gas customers (measured in meter points, MPANs and MPRNs); or
 - domestic: suppliers must have at least 50,000 domestic electricity customers (measured in meter points, MPANs and MPRNs); or
 - non-domestic: to capture a minimum of 90% share in the non-domestic gas market, suppliers must have at least the Relevant Minimum Number of non-domestic gas customers (measured in meter points, MPANs and MPRNs). This the Relevant Minimum Number is subject to change and will be published in Ofgem's website annually; or

- non-domestic: to capture a minimum of 90% share in the non-domestic electricity market, suppliers must have at least the Relevant Minimum Number of non-domestic electricity customers (measured in meter points, MPANs and MPRNs). This the Relevant Minimum Number is subject to change and will be published on Ofgem's website annually.

2.3. These thresholds are to be calculated separately based on a supplier's individual portfolio (gas, electricity, domestic, non-domestic).

2.4. We will publish the non-domestic customer number threshold by mid-January each year, along with a list of obligated suppliers each year. We will also notify newly obligated suppliers each year. A supplier obligated under the CSS licence requirement should continue to submit a CSS unless otherwise agreed by the Authority.

2.5. To calculate the non-domestic threshold, we will use the latest data on gas and electricity meter points from network operators, Elexon and Xoserve. We will calculate suppliers' individual market shares using this data on meter points. We will then order suppliers from largest to smallest market share until we reach a target of 90%.

Financial Year

2.6. As per the CSS licence requirement, the financial year should be interpreted as the Relevant Licensee's current financial reporting year. For the avoidance of doubt, this may differ between companies.

Transition Period

2.7. A transition period of six months will be allowed from the end of a company's reporting year. For example, if a company has a January to December year-end, we would expect to receive their submission in June. This transition period will apply to all obligated suppliers under the revised CSS licence requirement for the first submission year only (ie 2021 CSS submission in 2022).

2.8. After the first year of CSS submissions, there will be the usual four months after a company's year-end which is already set out in the CSS licence requirement.

3. Publication and Submissions

Publication

- 3.1. The majority of suppliers are registered companies and they are obliged by law to submit their financial statements to Companies House on a yearly basis. This financial information is available in the public domain as all companies' accounts are open and accessible. The information that we require to be published is limited and not confidential. However, where a supplier has a specific concern, they should notify us in advance of publication and we will advise whether we consider it can be redacted.
- 3.2. We expect that the 'Results after Adjustments' table within the income statement template to be published.
- 3.3. The Template should be fully completed as applicable to the Relevant Licensee with all the information.
- 3.4. The Template contains the income statement with the reconciliation table, the Segmental Balance Sheet and customer information table. The Segmental Balance Sheet and customer information table are intended to be published on the Relevant Licensee's website and would be regarded as non-confidential.
- 3.5. The Authority may revise the CSS Guidelines in a direction to the licensee after consulting with the licensee as follows:
- Stating the reasons for revising the Guidelines;
 - Setting out the text of the Guidelines to be issued;
 - Giving notice to allow consultations with the licences; and
 - Consideration of responses.

Submissions

- 3.6. The completed templates (see Templates for Submitting the CSS and the Segmental Balance Sheet below) should be submitted in a spreadsheet. Other explanations, analysis and commentary should be submitted in a searchable pdf format, and not an image.

4. Interpreting the Financial Information

- 4.1. Under the CSS licence requirement, a clear and full explanation of how the Relevant Licensee defines the terms revenues, costs and profits should be set out, so as to enable understanding of what the information published pursuant to the conditions does and does not represent.
- 4.2. The Relevant Licensee should describe the methodology or methodologies used to allocate marketing, shared and corporate costs across generation, supply and other activities. The licensee should also describe how, for example, individual costs such as Feed- in-Tariff costs (classified in the income statement as 'Other Direct costs') and Renewable Obligation costs (classified as 'Environmental and Social Obligation costs'), are allocated across the segments. Where issues pertaining to the data are unexpected or unusually complex these issues should be set out in full.
- 4.3. We would only expect the revenues, costs and profits to reflect company activities relating to that year of operations.
- 4.4. Examples of financial items we would not expect to be included are, but are not limited to mark to market adjustments; profit or losses on disposal; restructuring costs that have been identified as such in the Group's annual report; and impairment charges.
- 4.5. Where the Relevant Licensee has included any such items for the purpose of reconciliation, or otherwise, a clear and full explanation and calculation must be provided in the input to income statement within 'Adjustments for Exceptional Items'. A clear and full explanation of the reconciliation to the company accounts of the Relevant licensee(s) can be provided, as to how revenues and profits reconcile to the Relevant Licensee's audited figures.
- 4.6. If a Relevant Licensee separately identifies a column which it attributes to trading or portfolio optimisation, the explanatory notes should contain a detailed description of its significant component.
- 4.7. In the income statement template, an explanation of any reconciliation can be undertaken separately for 'Generation and Supply Activities' on 'Revenue and Profit'.
- 4.8. Within the income statement template in the Results before Adjustments table, there is a column relating to 'Other Activities' alongside that of 'Generation and Supply Activities'. The aggregate values for each of the 'other revenue' and

expenditure items should be reported in this column. A clear and full explanation should be sufficient to inform an industry stakeholder of the financial data's proper interpretation and context (eg any structural constraints the business operates within, such as tolling agreements). Revenue and costs for the financial year should be stated on the accruals basis, following Generally Accepted Accounting Practice (GAAP). In order to comply with GAAP, the Relevant Licensee is required to follow the same accounting standards applied in preparing their statutory accounts. If a Licensee applies a version of International Financial Reporting Standards (IFRS) in its statutory accounts, then it should apply the same version of IFRS for preparation of the CSS.

- 4.9. Likewise, if a Licensee applies FRS101 (reduced disclosure under IFRS) or FRS102, it should apply the same standard in preparing the CSS.
- 4.10. The explanation of accounting terms can be based on the accounting standards used in the company accounts and needs to clarify where the figures differ due to the scope of the CSS being limited to operations during the year.

5. Hedging

- 5.1. The hedging policy of the Relevant Licensee should be described.
- 5.2. The description should include an explanation of the hedging applied to default and active choice tariffs.
- 5.3. The description should also include an explanation of who bears the volume risk - whether that is the Relevant Licensee, an Affiliate, and the Trading Counterparty or a third party to a financial instrument.

6. Transfer Pricing Methodology

- 6.1. Where an obligated supplier has a generation affiliate, a clear and full explanation of the Relevant Licensee's and Affiliates' transfer pricing methodology should be provided, so as to enable an industry stakeholder to understand as much as can be reasonably expected about the transfer pricing methodology adopted.

6.2. The transfer pricing methodology used to calculate Weighted Average Cost of Energy (WACOE) and Weighted Average Cost of Gas (WACOG) should reflect how each Relevant Licensee acquires energy. This explanation should include:

- how the methodology relates to open market prices and/or a cost plus methodology
- the treatment of allocated costs and corporate charges (eg head office charges), and
- the allocation of financial risk between group companies and / or business segments (eg treatment of internal tolling agreements/capability payments).

7. Treatment of Joint Ventures and Associates

7.1. Under the CSS licence requirement, the Relevant Licensee must ensure that the information provided in the CSS includes its share of revenues, costs, profits and volumes of any Joint Ventures and Associates.

7.2. The Relevant Licensee should account for Joint Ventures and Associates (which hold a generation or supply licence relating to the generation or supply of gas or electricity in the UK) as follows:

- the share of revenues of Joint Ventures and Associates to be included within revenue
- the share of the profit before tax of Joint Ventures and Associates to be included with Operating Profit (Earnings before Interest, Tax and Depreciation) and Net Profit Before Tax, and
- the share of the generation volumes of Joint Ventures and Associates to be included within the generation volumes.

7.3. For each of the items, the Relevant Licensee's share of the income and expenses of a Joint Venture or Associate should be combined line by line with similar items in the Relevant Licensee's CSS or reported as separate line items in the Relevant Licensee's CSS.

8. Auditing

8.1. The Relevant Licensee is not obligated to submit a report from an Appropriate Auditor. However, Ofgem reserves the right to ask for the submission of a report

from an Appropriate Auditor where it considers that the Relevant Licensee has not properly prepared the CSS in accordance with the licence conditions, Guidelines and Template.

8.2. Where an audit is required, the Relevant Licensee should engage an Appropriate Auditor, as stated in the CSS licence requirement, to review whether the figures in the CSS can be reconciled with the figures in the statutory accounts and that costs are fairly allocated on a basis that, the Auditor is satisfied, is fair to customers in the various business segments. Alternatively, the Relevant Licensee may send us a copy of an audit report from an Appropriate Auditor if they have previously prepared one in relation to the CSS submission in question. The Appropriate Auditor will be engaged by the Relevant Licensee only and will report to the Relevant Licensee only; the Appropriate Auditor will have no contract with Ofgem and will have no liability to Ofgem or any other third party.

8.3. The CSS must be reconciled to the figures in the audited statutory accounts. A table has been added in the Template for that reconciliation. It follows that the same GAAP accounting standards applied in the statutory accounts should be applied in the CSS in order to facilitate reconciliation.

9. Template for submitting the CSS

9.1. The Template is to be filled in annually by the Relevant Licensee. This Template will be in an Excel format or in another format directed by us and contains an:

a) income statement (for Supply and/or Generation). The income statement requires the separation of revenues, costs and profits as set out in the Template, by:

- fuel types – separate figures for electricity and gas
- domestic and non-domestic customers – separation of costs, revenues, and profits by domestic and non-domestic customers
- tariff types for domestic customers - separation of costs, revenues and profits by tariff types for the domestic market as per the Template
- customer types for non-domestic market - separation of costs, revenues and profits by customer types for the non-domestic market as per the Template and,

- 'other activities' undertaken by the Relevant Licensee – the provision of information for 'other activities' as outlined in the Template and in paragraph 4.8.
- b) Segmental Balance Sheet (for Supply and/or Generation). The Segmental Balance sheet requires the separation of assets and liabilities for Supply and/or Generation activities as set out in the Template:
- in cases where the Relevant Licensee has both an electricity and/or gas supply licence and an electricity generation licence, then a income statement and a Segmental Balance Sheet are required for both Generation and supply business.
 - in cases where the Relevant Licensee has only an electricity and/or gas supply licence, a income statement and a Balance Sheet are required for only the supply business.
- c) customer information table. Relevant Licensees are required to provide information on customer numbers as set out in the Template.
- customers are defined as meter points (MPANs and MPRNs). Customer numbers therefore should be based on meter points.

General Presentation

- 9.2. All financial figures should be stated in millions of pounds sterling (GBP £m) and rounded to no more than one decimal place.
- 9.3. WACOE should be reported to the nearest pence in £/MWh and WACOG reported to one decimal place in p/kWh. Volumes for electricity to one decimal place in TWh and for gas to one decimal place in MThms
- 9.4. All revenues, costs and depreciation should be entered as positive values with only 'Operating Profit (Earnings before Interest, Tax and Depreciation)' and 'Net Profit Before Tax' displaying negative values in the event of a loss.
- 9.5. Those suppliers who are involved only in the provision of gas and/or electricity supply activities should leave the generation section of the income statement blank. Likewise, if they are engaged solely in gas or electricity supply then they should leave the other section blank.

9.6. Values for the income statement should be entered initially for the Table 'Results before Adjustments'

Cost Allocation

9.7. The Relevant Licensee should describe the methodology or methodologies used to allocate all costs in the specified column within the income statement across generation, supply and other activities. When deciding their methodology, the Relevant Licensee should take into account that the allocation should be fair to different consumer groups. Where the Relevant Licensee methodology has changed from the previous year's CSS submission, a clear explanation and impact of the changes should be reported.

Income and Expenditure line items for Supply

9.8. 'Revenue from sale of electricity and gas' means electricity and gas sales for the respective retail supply segments. Revenue for domestic supply should be less dual fuel discounts where applicable; that is these discounts should be deducted from revenue, with the discount split evenly between electricity and gas. Social tariff costs should also be deducted from domestic supply revenue directly.

9.9. 'Other Revenue' not covered above means revenue from other activities in the licensee company that is revenue that is not defined in paragraph 9.8. This is to be included in the 'Other Revenue' row of the income statement below the 'Revenue' row. The description of 'other revenue' should continue to be provided in a footnote, not on the face of the income statement.

9.10. 'Direct fuel costs' for supply should include aggregate electricity and gas costs. For the supply businesses, WACOE/G should cover the wholesale energy cost, losses, the energy element of Reconciliation by Difference (RBD) costs, balancing and shaping costs incurred by supply licences.

9.11. 'Other direct costs' for supply should include network costs, Balancing Services use of System charges (BSUOS), environmental costs (including Renewable Obligation Certificates (ROCs), Carbon Emissions Reduction Targets (CERTs) and the Community Energy Savings Programme (CESP) and the transport element of RBD costs.

9.12. 'Indirect costs' should be defined as Relevant licensees' own internal operating costs including sales and marketing costs, bad debt, central services, customer

service, costs to serve Priority Services Register (PSR) customers⁶⁸ and all metering costs. With Indirect Costs the licensee should also highlight R&D and Innovation costs incurred during the period.

9.13. 'Other Indirect costs' include IT, staffing costs, and billing costs.

9.14. 'Operating Profit' means earnings before interest, tax, depreciation and amortisation.

9.15. Volumes should be supplier volumes at the meter point (ie net of losses).

9.16. The supply aggregation column (aggregation of domestic and non-domestic electricity and gas supply businesses) sums the horizontal supply figures and thereby helps facilitate reconciliation to group accounts.

Income and Expenditure line items for Generation

9.17. For the generation business segment, "Revenue from sale of electricity" is defined as sales of electricity output generated; or if the business operates in a tolling-agreements structure, the revenues received from the capability or capacity payments including any account of associated fuel costs (an explanation/clarification of the latter type of revenues should be provided).

9.18. 'Other Revenue' not covered above means revenue in the generation licensee company from activities other than the sale of electricity. In the generation segment, 'other revenue' may, for example, include capacity payments, other physical options and ancillary services. This is to be included in the 'Other Revenue' row of the income statement.

9.19. 'Direct fuel costs' for generation should include an associated input cost for fuel, irrespective of the business model of the Relevant Licensee or its Affiliate. If the business operates in a tolling-agreements structure, the direct fuel costs for generation may be presented in the form of a footnote to the template. The footnote should include a description of the volume, total cost, and average cost. It should also specify the volume of granted free carbon allowances.

⁶⁸ The costs to serve PSR customers only needs to be reported as an aggregate figure in the template.

9.20. For generation, this means the weighted average input cost of fuel (eg gas, coal, uranium, etc.) used by the generation business, shown as £/MWh. This should reflect the delivered cost of fuel.

9.21. Generation volumes should be the volume of power that can actually be sold in the wholesale market, ie generation volumes after the losses up to the point where power is received under the Balancing and Settlement Code but before subsequent losses.

9.22. 'Indirect costs' should be defined as the Relevant licensees' own internal operating costs including sales and marketing costs, bad debt, and central services. Within 'Indirect Costs', the Relevant licensee should also highlight R&D and Innovation costs incurred during the period.

9.23. 'Other Indirect costs' include IT, staffing costs, and billing costs.

9.24. 'Operating Profit' means earnings before interest, tax, depreciation and amortisation.

Reconciliation

9.25. The income statement allows for 'Reconciliation Adjustments' to be inserted separately for 'Generation and Supply Activities'. The table allows for reconciliation for 'Revenue and Net Profit Before Tax' for each of the Relevant licensee companies.

9.26. Examples of revenue reconciling items could be adjustments for exceptional items, consolidation adjustments, and trading function operations.

Segmental Balance Sheet

9.27. A Segmental Balance Sheet will be provided at the end of the financial year for each of the Generation and Supply Activities (if applicable) of the Relevant Licensee company or companies.

9.28. The Segmental Balance Sheet will be at the financial year-end of the Relevant licensee and will show comparable numbers from the year before (except in the first year of reporting).

9.29. The line items in the balance sheet of the statutory accounts should be allocated to the available lines in the summary balance sheet following normal accounting principles.

- 9.30. 'Fixed Assets' may include Tangible and Intangible Assets, accumulated depreciation of tangible assets and amortisation of intangible assets. We have decided to retain only one line in the balance sheet for fixed assets. In future years, if a Licensee invests in innovation, that should be described in a note to the Segmental Balance Sheet.
- 9.31. 'Short-term debt' includes all bank overdrafts and other forms of short-term lending.
- 9.32. 'Other Current Assets' are current assets for which there is not a specific line item and may include other debtors (apart from Customer Arrears), Prepayments, Inventories and Short term investments.
- 9.33. 'Other Current Liabilities' are current liabilities for which there is not a specific line item and may include accruals and other payables (apart from Customer Credit Balances), any short term provisions, taxes and social security.
- 9.34. 'Other long term liabilities' are long term liabilities other than loans and may include leases, provisions for pensions and deferred tax liabilities.

Table of Customer Numbers

- 9.35. Customer numbers should be calculated by determining monthly averages for each category over the 12 months.
- 9.36. For the domestic market, customer numbers are to be entered for the specified categories which relate to the following tariff types: Pre Payment Meter (PPM), Default, Active Choice and customers on PSR.
- 9.37. For the non-domestic market, customer numbers are to be entered for the specified categories which relate to customer types: Microbusinesses, Small to Medium Enterprises (SMEs) and Industrial and Commercial (I&Cs). The definitions for microbusiness and I&C⁶⁹ are set out in the supply licence and the definition for SME is set out in the COVID-19 RFI guidelines.⁷⁰ The definitions are as follows:
- Microbusiness - a non-domestic consumer:

⁶⁹ [Electricity Supply Standard Licence Conditions](#) (Condition 7A), and [Gas Supplier Standard Licence Conditions](#) (Condition 7A). All **current consolidated licence conditions** are saved here: <https://www.ofgem.gov.uk/licences-industry-codes-and-standards/licences/licence-conditions>

⁷⁰ As part of this RFI we have asked suppliers to submit non-domestic customer numbers broken down according to this definition.

- which is a “relevant consumer” (in respect of premises other than domestic premises) for the purposes of article 2(1) of The Gas and Electricity Regulated Providers (Redress Scheme) Order 2008 (S.I. 2008/2268); or
 - which has an annual consumption of not more than 100,000 kWh; or
 - which has an annual consumption of gas of not more than 293,000 kWh.
- SME: customers with electricity profile classes 3-4 and/or annual gas consumption below 73,200kWh.
- I&C: customers with electricity profile classes 5-8, and half hourly import OR annual gas consumption above 73,200kWh.

Annex 1: Business Functions

- Companies should indicate where functions reside by way of a tick in the appropriate cell of the table. If profits or losses are not recorded in the same area, then an “F” should be used to indicate where the function resides and a “P/L” should be used to indicate where the profits or losses are recorded.
- If a payment is made or received by either generation or supply in lieu of a profit or loss this should be referenced by way of a footnote.
- “Not included in CSS” should include entries if neither the Generation nor Supply Segments as reported in the CSS are responsible for a particular function, but that function is undertaken by the Relevant Licensee or an Affiliate. If a function is not undertaken then no entry should be recorded.

Table 1: Business functions

Business function	Generation	Supply	Not included in CSS
Operates and maintains generation assets			
Responsible for scheduling decisions			
Responsible for interactions with the Balancing Market			
Responsible for determining hedging policy			
Responsible for implementing hedging policy / makes decisions to buy/sell energy			
Interacts with wider market participants to buy/sell energy			
Holds unhedged positions (either short or long)			
Procures fuel for generation			
Procures allowances for generation			
Holds volume risk on positions sold (either internal or external)			
Matches own generation with own supply			
Forecasts total system demand			
Forecasts wholesale price			
Forecasts customer demand			
Determines retail pricing and marketing strategies			
Bears shape risk after initial hedge until market allows full hedge			
Bears short term risk for variance between demand and forecast			

Glossary of terms for Business Functions

- “Scheduling decisions” means the decision to run individual generation units

- “Responsible for interactions with the Balancing Market” means interactions with the Balancing Mechanism in electricity.
- “Interacts with wider market participants to buy/sell energy” means the business unit responsible for interacting with wider market participants to buy/sell energy, not the entity responsible for the buy/sell decision itself, which falls under “Responsible for implementing hedging policy /makes decisions to buy/sell energy”.
- “Matches own generation with own supply” means where there is some internal matching of generation and supply before either generation or supply interact with the wider market. For the avoidance of doubt, if an entry is provided in this row, a footnote explanation of the scale of volumes involved is permitted.
- “Forecasts total system demand” means forecasting total system electricity demand or total system gas demand.
- “Forecasts customer demand” means forecasting the total demand of own supply customers.
- “Bears shape risk after initial hedge until market allows full hedge” means the business unit which bears financial risk associated with hedges made before the market allows fully shaped hedging.
- “Bears short term risk for variance between demand and forecast” means the business unit which bears financial risk associated with too little or too much supply for own customer demand.

Appendix 4 – Draft proposed templates

Proposed template for income statement

Income Statement by business segment for Supply Licensee and affiliated Generation Licensee																				
Results After adjustments																				
		CSS	Electricity Generation				ELECTRICITY Supply						GAS Supply						Unregulated	
	Unit	Total	Nuclear	Conventional	Renewable	Aggregate Generation Business	Domestic			Non-domestic			Domestic			Non-domestic			Other activities	Aggregate Supply Business
							PPM	Default	Active Choice	Micro	SME	I&C	PPM	Default	Active Choice	Micro	SME	I&C		
Revenue	£M																			
Other Revenue	£M																			
Cost of Sales:																				
Direct fuel costs	£M																			
Network Transportation costs	£M																			
Environmental and social obligations costs	£M																			
Other direct costs	£M																			
Total Cost of Sales	£M																			
Gross Profit	£M																			
Operating costs:																				
Metering	£M																			
Sales and Marketing	£M																			
Bad debts	£M																			
Central services	£M																			
Customer service	£M																			
Costs to Serve PSR customers	£M																			
Innovation research and development costs	£M																			
Other indirect costs	£M																			
Total operating costs	£M																			
Operating profit	£M																			
Depreciation and amortisation	£M																			
Interest and other financial costs	£M																			
Net profit before tax	£M																			
Volume	TWh																			
WACO E/G	£/MWh																			

Adjustments for Reconciling items							Generation													Supply	
#	Item	Unit					Adjust in CSS?														Adjust in CSS?
#1		£m																			
#2		£m																			
#3		£m																			
#4		£m																			
#5		£m																			
#6		£m																			
#7		£m																			
#8		£m																			
#9		£m																			
#10		£m																			

Results before adjustments																					
Revenue	£M																				
Other Revenue	£M																				
Cost of Sales:																					
Direct fuel costs	£M																				
Network Transportation costs	£M																				
Environmental and social obligations costs	£M																				
Other direct costs	£M																				
Total Cost of Sales	£M																				
Gross Profit	£M																				
Operating costs:	£M																				
Metering	£M																				
Sales and Marketing	£M																				
Bad debts	£M																				
Central services	£M																				
Customer service	£M																				
Innovation research and development costs	£M																				
Costs to Serve PSR customers	£M																				
Other indirect costs	£M																				
Total operating costs	£M																				
Operating profit	£M																				
Depreciation and amortisation	£M																				
Interest and other financial costs	£M																				
Net profit before tax	£M																				
Volume	TWh																				
WACO E/G	£/MWh																				

Reconciliation from Accounts of Licensee Companies to CSS	
2019	2018
2018	2017
2017	2016
2016	2015
2015	2014
2014	2013
2013	2012
2012	2011
2011	2010
2010	2009
2009	2008
2008	2007
2007	2006
2006	2005
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1997	1996
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A Revenue reconciliation

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B Net Profit reconciliation

	Generation Licensee Net Profit before tax	Unit
#1	Generation Licensee #1	£m
#2	Generation Licensee #2	£m
#3	Generation Licensee #3	£m
#4	Generation Licensee #4	£m
#5	Generation Licensee #5	£m
#6	Generation Licensee #6	£m
#7	Generation Licensee #7	£m
#8	Generation Licensee #8	£m
#9	Generation Licensee #9	£m
Sum	Generation Licensees Total	£m

[illegible]

Supply Licensee Net Profit before tax		Unit
#1	Supply Licensee #1	£m
#2	Supply Licensee #2	£m
#3	Supply Licensee #3	£m
#4	Supply Licensee #4	£m
#5	Supply Licensee #5	£m
#6	Supply Licensee #6	£m
#7	Supply Licensee #7	£m
#8	Supply Licensee #8	£m
#9	Supply Licensee #9	£m
Sum	Supply Licensees Total	£m

Reconciling items		Unit
Adjustments for Exceptional Items		
#1	Reconciling item #1	£m
#2	Reconciling item #2	£m
#3	Reconciling item #3	£m
#4	Reconciling item #4	£m
Other Reconciling Items		
#5	Reconciling item #5	£m
#6	Reconciling item #6	£m
#7	Reconciling item #7	£m
#8	Reconciling item #8	£m
#9	Reconciling item #9	£m
Sum	Supply Licensees Total	£m

[illegible]

Net Profit before Tax to be reported in CSS	£m
Unreconciled difference	£m

0.00
0.00

[illegible][illegible]

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0.00

Proposed template for Segmental Balance Sheet

		Generation		Supply	
Balance Sheet	£m	At End of Year	At End of Previous Year	At End of Year	At End of Previous Year
Gross Fixed Assets	£m				
less Accumulated Depreciation	£m				
Net Fixed Assets	£m				
Current Assets:					
Cash	£m				
Customer Arrears	£m				
Other Current Assets	£m				
Total Current Assets	£m				
Current Liabilities:					
Trade Creditors	£m				
Short Term Debt	£m				
Deferred Income (customer credit balances)	£m				
Provision for Doubtful Debts	£m				
Other Creditors	£m				
Total Current Liabilities	£m				
Long Term Liabilities:					
Long Term Loans	£m				
Other Long Term Liabilities	£m				
Total Long Term Liabilities	£m				
Net Assets	£m				
Share Capital and Premium	£m				
Accumulated Profit/Loss	£m				
Other Reserves	£m				
Net Assets	£m				

Notes on the Balance Sheet		Extend as Required.
<i>Insert Commentary</i>		

Proposed customer number table

Customer Number Table						
Customer Information	Unit	Supply				
		Electricity supply		Gas supply		Aggregate Supply Business
		Domestic	Non-domestic	Domestic	Non-domestic	
Customer numbers						
Total customers	000s					
Domestic Customers	000s					
Pre Payment Meter (PPM) customers	000s					
Default tariff customers	000s					
Active choice customers	000s					
Priority Service Register (PSR) customers	000s					
Non-Domestic customers						
Microbusinesses	000s					
Small & Medium Entreprises (SME)	000s					
Large Industrial & Commercial (I&C)	000s					

Confidential Notes

Confidential Narrative			
Headings	Description	Generation £m	Supply £m
Interpreting the Financial Information	As required by the licence condition provide a clear and full explanation of the definition of the terms revenues, costs and profits. The licensee should: •describe how it defines domestic and non-domestic supply business segments; •describe how it defines conventional and renewable generation business segments; •describe the methodology or methodologies used to allocate marketing, shared and corporate costs across generation, supply and other activities; •report all the material individual cost items included in each of the cost categories in the template in appendix 1 and describe how each of these costs, such as Feed in Tariff costs and Renewable Obligation costs, are allocated across the segments.		
Basis of Preparation	State the basis of the accounting standards applied in the statutory accounts of the licenced company used to prepare the CSS		
Income Statement Notes			
Research and Development	Provide a description of research and development costs in respect of energy innvation (if any)		
Other Indirect Costs	State the other types of indirect costs in your business		
Costs to Serve PSR Customers	For Costs to Serve PSR customers please <u>only supply an aggregate figure</u> in Column W Row 70 Results before adjustments and Column W Row 24 Results after adjustments		
Balance Sheet Notes			
Investment in Innovation	<i>State the value of any investment in Innovation included in Fixed Assets in the Balance Sheet</i>		
Generation Notes			
Transfer Pricing	As required by the licence condition provide a full and clear explanation of the transfer pricing method so as to enable an industry stakeholder as much as can be reasonably about the transfer pricing method		
Calculation of WACOE and WACOG	Please explain how the transfer pricing methodology used to calculate Weighted Average Cost of Energy (WACOE) and Weighted Average Cost of Gas (WACOG) reflects how each Relevant Licensee acquires energy. This explanation should include: •how the methodology relates to open market prices and/or a cost plus methodology •the treatment of allocated costs and corporate charges (eg head office charges), and •the allocation of financial risk between group companies and / or business segments (eg treatment of internal tolling		
Treatment of Joint Ventures and Associates	As required by the licence condition describe how the CSS accounts for joint ventures and associates as follows: •the share of revenues of Joint Ventures and Associates to be included within revenue; •the share of the profit before tax of Joint Ventures and Associates to be included with Earnings Before Interest and Taxes (EBIT) and Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA); and •the share of the generation volumes of Joint Ventures and Associates to be included within the generation volumes.		

Appendix 5 – Associated documents

All documents are available at www.ofgem.gov.uk

- **Latest publication of the State of the Market Report 2019** - <https://www.ofgem.gov.uk/publications-and-updates/state-energy-market-2019>
- **2008 Energy Supply Probe** - Proposed Retail Market Remedies – Decision document published Aug 2009 - <https://www.ofgem.gov.uk/ofgem-publications/38335/retail-package-decision-document.pdf>
- **2013 Consultation** - Rebuilding consumer confidence: Improving the transparency of energy company profits, 31 October 2013 - <https://www.ofgem.gov.uk/publications-and-updates/improving-transparency-energy-company-profits>
- **October 2014 Open letter** – [open letter: actions to improve the transparency of energy company profits](https://www.ofgem.gov.uk/open-letter-actions-to-improve-the-transparency-of-energy-company-profits): <https://www.ofgem.gov.uk/ofgem-publications/86322/actionstoimprovethe Transparency of energy company profits.pdf>
- **Referral of retail energy market to CMA** - <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf> and <https://www.ofgem.gov.uk/gas/retail-market/market-review-and-reform/implementation-cma-remedies/state-competition-energy-market-assessment>
- **CMA remedies published June 2016**- <https://www.ofgem.gov.uk/electricity/retail-market/market-review-and-reform/implementation-cma-remedies>
- **Energy companies’ Consolidated Segmental Statements** under current SLC 19A condition - https://www.ofgem.gov.uk/system/files/docs/2019/09/energy_companies_individual_consolidated_segmental_statements_2018_v1.pdf
- **Standard conditions of electricity supply licence** - https://epr.ofgem.gov.uk/Content/Documents/Electricity_Supply_Standard_Licence_Conditions_Consolidated_-_Current_Version.pdf
- **Standard conditions of gas supply licence** - https://epr.ofgem.gov.uk/Content/Documents/Gas_supply_standard_licence_conditions_consolidated_-_Current_Version.pdf
- **Standard conditions of electricity generation licence** - https://epr.ofgem.gov.uk/Content/Documents/Electricity_Generation_Standard_Licence_Conditions_Consolidated_-_Current_Version.pdf

- **Guidelines for preparing the CSS** - <https://www.ofgem.gov.uk/publications-and-updates/guidelines-preparing-consolidated-segmental-statements>
- **May 2020 Consultation document with initial proposals** - <https://www.ofgem.gov.uk/publications-and-updates/reviewing-consolidated-segmental-statements-our-initial-proposals>

Appendix 6 – Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case, we would be keen to get your answers to the following questions:

- Do you have any comments about the overall process that was adopted for this consultation?
- Do you have any comments about the overall tone and content of the report?
- Was the report easy to read and understand? Could it have been better written?
- To what extent did the report's conclusions provide a balanced view?
- To what extent did the report make reasoned recommendations for improvement?
- Do you have any further comments?

1.2. Please send your comments to:

Alban Asllani
Economist, Office for Research and Economics
css@ofgem.gov.uk

How to track the progress of the consultation

1.3. You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

[Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations).

Notifications

Would you like to be kept up to date with *Domestic supplier-customer communications rulebook reforms*? subscribe to notifications:

Notify me +


Email *

CAPTCHA

Check the box below to verify you're human

☐

I'm not a robot

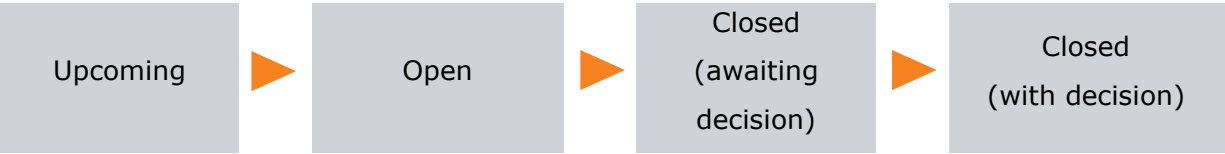


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Privacy - Terms

Submit

1.4. Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:



Appendix 7 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk.

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest, ie a consultation.

4. With whom we will be sharing your personal data

(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be as specific as possible.)

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for ***(be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time eg 'six months after the project is closed')***

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- To lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

10. More information for more information on how Ofgem processes your data, click on the link to our “[Ofgem privacy promise](#)”.