

Consultation

Reviewing the Consolidated Segmental Statements - Our initial proposals

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We are consulting on 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 currently applies only if a 'Relevant Licensee' is 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 (or any Affiliates) is a holder of a generation licence.

The structure of the retail energy market has changed significantly since this requirement was first introduced in 2009. It has therefore become necessary for us to review the scope of the licence conditions to ensure it can continue to support our work in an evolving energy market. Our proposals include future requirements that could apply to suppliers who are not currently captured by the existing licence conditions.

We welcome stakeholder views on our proposals.

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Executive Summary

Ofgem's principal objective is to protect the interests of present and future energy consumers. As part of this, we need to collect and publish financial information on revenues, costs, and profits. This information allows us to effectively monitor and understand market health which is important context for our policy work as well as compliance and enforcement activities. This information provides transparency and delivers customer benefits in terms of legitimacy of profits and customer trust in the sector.

Compared with when it was introduced, the CSS covers fewer companies and therefore is less effective at providing a representative view of the sector's profitability. In recent years, our financial monitoring activity has increased on a confidential basis. The CSS has the potential to provide two important benefits; firstly, published figures to aid public understanding and transparency and secondly, reconciliation back to reported accounts and the assurance provided by them. Therefore, we consider the CSS, if expanded in its market coverage, will have a significant role in safeguarding these benefits.

We had previously undertaken a review in 2020¹ and 2021² which was placed on hold because of the energy crisis. We have now revised our proposals taking into consideration stakeholder feedback from the previous policy consultation and the new financial reporting obligations now in place for suppliers. This current review presents an opportunity to make sure the aims of the CSS are aligned with the new realities of the market.

This policy consultation sets out our proposals for improving the transparency of energy supplier profitability through the CSS. We intend to expand the CSS to include suppliers who are not vertically integrated and to lower the current customer threshold from 250,000 domestic or non-domestic customers to 50,000 meter point threshold for the domestic market and to cover at least 90% of the non-domestic market, based on meter points for the Small and Medium-sized Enterprises (SME) market and based on volume

¹ Ofgem (2020), Reviewing the Consolidated Segmental Statements - Our initial proposals: <https://www.ofgem.gov.uk/publications/reviewing-consolidated-segmental-statements-our-initial-proposals>

² Ofgem (2021), Final proposals and statutory consultation - Reviewing the Consolidated Segmental Statement: <https://www.ofgem.gov.uk/publications/final-proposals-and-statutory-consultation-reviewing-consolidated-segmental-statement>

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supplied for the Industrial and Commercial (I&C) market³. We are also proposing to add an additional column within the CSS template to record 'other' activities which do not form part of the supply or generation segment.

We have decided not to undertake an Impact Assessment in relation to the proposal to expand the CSS. A full Impact Assessment was undertaken in relation to review of the CSS in the statutory consultation in 2021 and is set out in Appendix 1 to that consultation². We do not consider that the current proposal will impose significant costs upon newly obligated suppliers. If you consider otherwise, then please let us know and provide any supporting evidence.

We believe that our proposals will improve market transparency and confidence, and ultimately support the better functioning of the retail energy market. This review is an opportunity for stakeholders to tell us what they think about our plans to increase the effectiveness of the CSS by widening the market coverage.

Once we review responses to this consultation document, we aim to publish our policy consultation and statutory consultation by November 2023 and publish the modification decision in early 2024. Our deadline for responses to this policy consultation is 22 September 2023.

³ We use proxy measures to define the SME and I&C market segments. Based on our analysis of electricity data provided by Elexon we use profile classes 3 & 4 as a proxy for SME customers and profile classes 5 to 8 and half-hourly (HH) customers are used as a proxy for I&C customers. Based on our analysis of gas data provided by Xoserve we define SME market as businesses with annual gas consumption under 73,200 kWh and we define I&C market as businesses with annual gas consumption over 73,200 kWh.

1. Introduction

Section summary

This chapter provides a brief introduction on what we are consulting on and gives details on the consultation stages and how to respond.

What are we consulting on?

- 1.1 Our principal duty is to protect the interests of Britain’s current and future gas and electricity consumers, including those in vulnerable situations. We do this in a variety of ways including promoting competition. Increasing transparency of energy company profitability is key in monitoring whether the energy market is working well for consumers. It is also an important aspect of our efforts in building consumer confidence in the energy market.
- 1.2 We began a review to revise the CSS requirements with our policy consultation published in May 2020. The statutory consultation was published in June 2021; however, a decision was not concluded due to the energy crisis at the time and therefore the consultation was not finalised. We believe the CSS requires revision as it no longer serves its purpose of providing transparency on profitability in the market. Due to the time elapsed and current market conditions, we are now undertaking a new policy consultation.
- 1.3 We have decided not to undertake an Impact Assessment in relation to the proposal to expand the CSS. A full Impact Assessment was undertaken in relation to review of the CSS in the statutory consultation in 2021 and is set out in Appendix 1 to that consultation⁴. We do not consider that the current proposal will impose significant costs upon newly obligated suppliers. If you consider otherwise, then please let us know and provide any supporting evidence.
- 1.4 This policy consultation presents our proposals for revising the financial information reporting requirement under SLC 19A of the Gas and Electricity Supply Licences and SLC 16B of the Electricity Generation Licence called ‘financial information reporting’. The licence conditions and their requirements will be

⁴ Ofgem (2021), Final proposals and statutory consultation - Reviewing the Consolidated Segmental Statement:
<https://www.ofgem.gov.uk/publications/final-proposals-and-statutory-consultation-reviewing-consolidated-segmental-statement>

referred to as the CSS licence requirement or condition for the purposes of this consultation.

- 1.5 The CSS licence condition requires vertically integrated suppliers (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. Initially, the information collected from the CSS provided a broad overview of profitability in the sector. However, changes in market conditions have resulted in a reduction in the number of suppliers that are obligated to submit a CSS under the current licence requirements. Appendix 1 provides further detail about the introduction of the CSS and its contents.
- 1.6 To carry out our duties and to monitor the market effectively, we want the information that we collect on energy retail market profitability to be transparent and representative. Since 2009, we have collected information through the CSS and have previously made changes to the CSS licence conditions. The nature of the energy market in GB has changed significantly. We are reviewing the CSS licence requirements to ensure they remain relevant in an evolving energy market.
- 1.7 The next chapter discusses our proposals to revise the CSS licence requirement.

Our Proposals

- 1.8 We propose to revise the CSS requirement. We are considering four key changes which are relating to vertical integration, domestic and non-domestic threshold levels, changes to the audit requirement and reporting on 'other' activities.
- 1.9 In our previous statutory consultation⁴ we proposed to include more detailed reporting of existing categories and segments. However, considering feedback from stakeholders and following the development of further RFIs, we have decided not to request this additional information via the CSS. We are also proposing to remove the audit requirement for the CSS and instead propose the CSS must reconcile back to statutory accounts which have an audit requirement (unless suppliers fall under audit exemption⁵). We discuss each of our proposals in more detail below.

⁵ Audit Exemptions for private limited companies
<https://www.gov.uk/audit-exemptions-for-private-limited-companies>

Context and related publications

1.10 Previous CSS Policy and Statutory Consultation:

- Policy Consultation (2020): <https://www.ofgem.gov.uk/publications/reviewing-consolidated-segmental-statements-our-initial-proposals>
- Statutory Consultation (2021): <https://www.ofgem.gov.uk/publications/final-proposals-and-statutory-consultation-reviewing-consolidated-segmental-statement>

1.11 Published guidelines on preparing the CSS:

<https://www.ofgem.gov.uk/publications/guidelines-preparing-consolidated-segmental-statements>

1.12 Energy companies' Consolidated Segmental Statements under current SLC 19A condition:

<https://www.ofgem.gov.uk/publications/energy-companies-consolidated-segmental-statements-css>

Consultation stages

1.13 We ask that respondents consider the questions listed at the beginning of each chapter and to respond on any aspect of this consultation by 22 September 2023.

1.14 Once we receive and consider responses, we intend to publish our statutory consultation in November 2023. We will then publish our modification decision by early 2024.

1.15 We expect any revised licence conditions to take effect from March 2024.

Figure 1: Consultation stages

Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
Policy Consultation open	Consultation closes. Deadline for responses to Policy Consultation	Responses reviewed and Statutory Consultation published	Consultation closes (awaiting decision). Deadline for responses to Statutory Consultation	Publish modification decision	Revised licence modification to take effect (56 days after the modification decision)
25/08/2023	22/09/2023	Nov 2023	Dec 2023	Jan 2024	Mar 2024

How to respond

- 1.16 We want to hear from anyone interested in this consultation. Please send your responses to the email address css@ofgem.gov.uk with the subject line 'CSS Policy Consultation 2023' by **22 September 2023**.
- 1.17 We've asked for your feedback in a list of questions. Please respond to each one as fully as you can.
- 1.18 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

- 1.19 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, 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.
- 1.20 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'll 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.
- 1.21 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), 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 4.
- 1.22 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

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General feedback

1.16. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

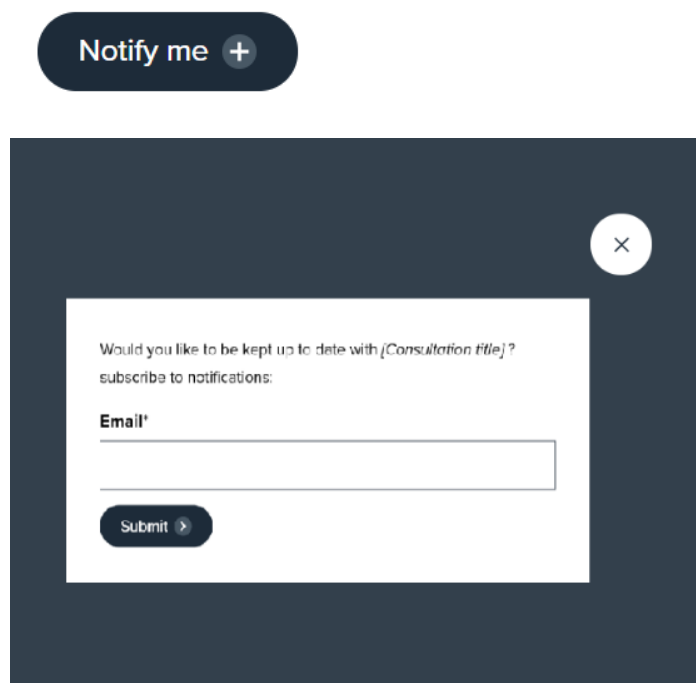
1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

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)



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:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

2. Main aims of the CSS and this review

Section summary

We outline and discuss the main aims of the CSS which are to provide transparency and market intelligence, ensure energy customers are treated fairly and promoting competition.

- 2.1. This review is an opportunity to rearticulate the aims of the CSS to match the new realities of the energy market. We discuss these aims in more detail below.
- 2.2. Since the CSS was introduced in 2009, there have been significant changes in the energy market. There are two changes which have meant the current CSS is no longer effective in achieving its aims of providing transparency and market intelligence, ensuring consumers are treated fairly and promoting competition. Firstly, vertical integration is no longer a significant feature in the market. Secondly, following several Supplier of Last Resort (SoLR) events and supplier mergers, the CSS no longer captures a representative proportion of the supply market.

Providing transparency and market intelligence on profitability

- 2.3. As the energy regulator, having reliable information that is transparent, comparable, and consistent will help to inform our monitoring and protect the interest of consumers. Financial statements available on most energy company websites and Companies House⁶ provide information on the general profitability or loss of companies but do not report consistently on costs, revenues, and profits by energy business segment.
- 2.4. Previously the CSS data had been used to monitor profitability in the market and was published within several indicators on our Data Portal⁷. Due to changes in market structure, the CSS data is no longer representative of the market, and we had to pause the publication of these indicators. Therefore, we are proposing to expand the market coverage of the CSS to re-instate publication of these indicators. A broader view of profitability in the market will be beneficial for informing any future reports on market competition.

⁶ Companies House:

<https://www.gov.uk/government/organisations/companies-house>

⁷ Ofgem Data Portal:

<https://www.ofgem.gov.uk/data-portal/overview>

Ensuring consumers are treated fairly

- 2.5. Providing an energy bill breakdown is a crucial part of our role in ensuring consumers are informed and have access to information regarding all the components that make up their bills. Concerns about the costs that make up consumers bills are ever present and, whilst the Price Cap represents the breakdown of a notional efficient supplier, we need independent and accessible information to publish a breakdown of energy bills. The CSS provides a breakdown of actual supplier costs which better serves customers.
- 2.6. We are proposing to expand the scope of the CSS so that we can re-instate the publication of energy bill breakdowns on our Data Portal⁷. This helps consumers to understand what they are paying for and how much, and to ensure suppliers are held to account by justifying their prices.

Promoting competition

- 2.7. The CSS is currently the only source of comparable segmented financial information available to external parties such as prospective suppliers and investors. This review aims to increase the market coverage of the CSS to a similar level as when it was first introduced, to provide a broad overview of profitability in the sector which encourages fair competition.

3. Proposals for changes to the CSS licence requirement

Section summary

We discuss our amendments following the initial policy and statutory consultations, our consideration of stakeholder feedback and our current proposals for revising the CSS licence requirement.

Summary of stakeholder feedback from previous consultations and our current proposals

- 3.1. Following an initial policy and statutory consultation in 2020⁸ and 2021⁹, we received stakeholder feedback on our proposals to amend the CSS licence requirement. After considering feedback received from previous consultations and wider considerations, we have since amended some of our proposals for this consultation as described below. We welcome stakeholder feedback on each of our current proposals.

Supplier Threshold Levels

2021 Statutory Consultation Proposal following 2020 Policy Consultation stakeholder feedback

- 3.2. We proposed separate thresholds for the domestic and non-domestic market. The domestic market threshold was proposed to reduce from 250,000 domestic customers to 50,000 meter points. For the non-domestic market, our proposal was to capture 90% market share using meter point numbers and therefore the minimum number of meter points was subject to change annually. We proposed to publish the non-domestic meter number threshold by mid-January each year along with a list of obligated suppliers.

Previous Consultation Stakeholder Feedback

⁸ Ofgem (2020), Reviewing the Consolidated Segmental Statements - Our initial proposals: <https://www.ofgem.gov.uk/publications/reviewing-consolidated-segmental-statements-our-initial-proposals>

⁹ Ofgem (2021), Final proposals and statutory consultation - Reviewing the Consolidated Segmental Statement: <https://www.ofgem.gov.uk/publications/final-proposals-and-statutory-consultation-reviewing-consolidated-segmental-statement>

- 3.3. 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.
- 3.4. 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.
- 3.5. Some non-domestic suppliers supported a proposal at the policy consultation of 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 several 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.
- 3.6. Suppliers 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 whether this applies to a supplier's individual or aggregate portfolio (eg gas, electricity, and domestic/non-domestic).

Our Current Proposal

- 3.7. Where suppliers proposed all suppliers should submit a CSS, stating smaller suppliers are more at risk of failure, this is no longer the case as we now have mechanisms in place for scrutinising licence applications and ensuring ongoing capital adequacy and financial resilience. Therefore, we are proposing not to expand the scope of the CSS to all suppliers, to remove the burden for the smallest suppliers.
- 3.8. Regarding concerns raised by non-domestic suppliers that they should not be obligated to submit a CSS, 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.
- 3.9. We are proposing to reduce the thresholds to increase coverage of both the domestic and non-domestic markets to achieve our aim of fulfilling the purposes of transparency, profitability and promoting competition. We are remaining with our previous proposal to lower the threshold to 50,000 meter points for the

domestic market, as this means we are capturing more than 99% of the domestic market.

- 3.10. For the non-domestic market, we propose to capture at least 90% market share. To ensure we are capturing suppliers who have a smaller number of customers but supply high volumes, we have amended our proposal to split the thresholds for the SME and I&C markets. The threshold for the SME market will be based on 90% market share of meter points and the threshold for the I&C market will be based on 90% market share of volume supplied.
- 3.11. We have taken stakeholder feedback onboard to make the thresholds clearer by stating that a supplier will be required to submit a CSS where they reach the threshold criteria, in at least one of four market segments; gas SME, gas I&C, electricity SME and electricity I&C. We also note that where a supplier holds both a domestic and non-domestic business and reaches the threshold criteria for any market segment, they are required to submit a complete CSS reporting on both their domestic and non-domestic business.
- 3.12. We will also publish a list of suppliers who are required to submit a CSS ahead of time. For more details on how we will determine who is obligated to submit a CSS see 'Our Proposals' section below.

Vertical integration and generation activity reporting

2021 Statutory Consultation Proposal following 2020 Policy Consultation stakeholder feedback

- 3.13. We proposed to obligate both 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 proposed to continue to ask vertically integrated companies to provide information on the generation business of its affiliate generation licensee.

Previous Consultation Stakeholder Feedback

- 3.14. Smaller suppliers (based on customer numbers) who responded to the policy consultation agreed with our proposals on vertical integration and generation activity reporting. Most 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.
- 3.15. 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.

Our Current Proposal

- 3.16. We are consistent with our previous proposal to require both suppliers who are vertically integrated and suppliers who are not to submit a CSS. This is because vertical integration has less presence in the market than when the CSS was first introduced and therefore this requirement means the information provided does not offer sufficient market coverage.
- 3.17. We also stay consistent with our proposal that vertically integrated suppliers continue to report on their generation activity, in addition to their supply business. This is because providing a split of profits between generation and supply allows companies to be transparent about the allocation of costs between the two activities. Government, consumer bodies and Ofgem expect this information to understand whether cost allocation is fair.

Additional Financial Information

2021 Statutory Consultation Proposal following 2020 Policy Consultation stakeholder feedback

- 3.18. We proposed to include the following additional financial information:
- Breakdown of revenue, cost and profit by tariff type which would apply to both domestic and microbusiness supply segments
 - Breakdown of business revenue, cost and profit between microbusiness and other business customers.
 - Separating out indirect operating costs
 - Separating out costs to serve customers.
 - Other revenue
 - Inclusion of a balance sheet
 - Number of domestic customers by payment method (ie, PPM, direct debit, and standard credit)
 - Breakdown of revenue, cost and profit by tariff type and number of domestic customers split by tariff type

Previous Consultation Stakeholder Feedback

- 3.19. Some supplier's raised concerns of the proposed changes, in particular the request for additional financial information. Their view is that this information is commercially valuable and would require justification and a properly conducted

impact assessment as making this information public could have anti-competitive effects.

- 3.20. 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.

Our Current Proposal

- 3.21. Since the time of our initial policy⁸ and statutory consultation⁹, there have been significant market changes and we have implemented standardised RFI's that include but are not limited to financial reporting. As we now have separate reporting channels where we receive this information and following stakeholder concerns that this is potentially commercially valuable information, we have decided to remove the additional financial information request previously proposed. This will also reduce the financial burden placed on smaller suppliers. Subsequently, we will not be proposing submission of cost allocation methods.

Auditing Requirement

2021 Statutory Consultation Proposal following 2020 Policy Consultation stakeholder feedback

- 3.22. We proposed to remove the external audit requirement for all suppliers but reserved the right to require an audit when we have significant concerns. This was because we considered the auditing requirement could be unduly burdensome on suppliers who would be required to submit a CSS for the first time, especially smaller suppliers.

Previous Consultation Stakeholder Feedback

- 3.23. Many suppliers favoured removing the auditing requirement as it is costly, and they think it is unnecessary. Suppliers, however, agreed that Ofgem could retain the right to require audited statements where there may be cause for concern. Some also indicated that an ad-hoc audit would likely cost more than a recurring audit which is planned, and that audit costs also vary depending on the size of the suppliers and the complexity of their ownership and organisation structure.
- 3.24. A small number of 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.

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- 3.25. Most 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.

Our Current Proposal

- 3.26. We have considered the cost burden on newly obligated suppliers and remain with our proposal to remove the auditing requirement. Instead, we propose the CSS must reconcile back to the statutory accounts which undergo a separate audit process. We consider this to alleviate the burden for suppliers as the CSS will be provided to that supplier's financial year and we believe this will provide adequate confidence in the data submitted.
- 3.27. We propose to retain the right to request an audit on an ad-hoc basis where there is cause for concern. We do not believe the costs involved in an ad-hoc audit should be a deterrent for further investigation to ensure financial information submitted to Ofgem is accurate and robust.

Reporting Year

2021 Statutory Consultation Proposal following 2020 Policy Consultation stakeholder feedback

- 3.28. We proposed to make no change to the reporting year and companies could continue to report their CSS based on their own financial year. We also proposed that, once obligated suppliers have established their reporting processes, we could reconsider whether it is preferable and practical to move to a standard reporting year.

Previous Consultation Stakeholder Feedback

- 3.29. Most suppliers did not agree with moving to a standard reporting year of 31 March. They indicated that changing the year end will lead to increasing costs in submitting a CSS due to having to run two reporting processes. There were also concerns of the data being commercially sensitive if reported outside of their reporting period.

Our Current Proposal

- 3.30. Our proposal is to make no change to the reporting year 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.

- 3.31. We are also remaining with the licence condition whereby companies would submit the revised CSS no later than 4 months after the end of a company's year, which is already set out in the current SLC 19A, for electric and gas, and 16B for generation. We would aim to publish a list of suppliers required to submit a CSS according to the thresholds in December each year.
- 3.32. We no longer propose that we could at a later date reconsider changing reporting to a standardised period, due to our proposal that the CSS must reconcile back to statutory accounts.

Transition Period

2021 Statutory Consultation Proposal following 2020 Policy Consultation stakeholder feedback

- 3.33. We had proposed to allow a transition period of 6 months from the end of a company's reporting year. This transition period would apply to all obligated suppliers under the revised CSS licence requirement, and subject to the first year only.

Previous Consultation Stakeholder Feedback

- 3.34. Most suppliers welcomed a transition period, particularly as we were consulting on the provision of additional information, the transition period was considered important for all obligated suppliers to set up processes and systems and test them. Suppliers suggested anywhere from 6 to 18 months transition period for newly obligated suppliers.
- 3.35. However, some suppliers noted if the CSS does not include the requests for additional information, then a transition period should apply to only new suppliers.

Our Current Proposal

- 3.36. Following stakeholder responses, and our decision to remove the additional financial information request, it is our view this reduces the time needed for suppliers to set up reporting processes and systems. We are therefore proposing not to have a transition period and remain with the 4 months reporting from the end of a company's reporting year for the first year onwards.

- 3.37. This means for the first year of reporting under the revised CSS licence requirement (ie submission of 2023 accounts in 2024), if a company has a December year-end, we expect to receive their submission by 30 April 2024. If a company has a March year-end, we expect to receive their submission by 31 July 2024.

Our Proposals

Scope - Vertical Integration

- 3.38. As vertical integration has become less of a feature in the energy market, there are fewer suppliers captured under the CSS licence requirements, which no longer gives us an adequate coverage of profitability in the sector.
- 3.39. The new requirements are to 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, we are keeping the requirement that it must provide accounts on the generation business of its affiliate generation licensee.

'Other' Activities

- 3.40. We have seen an increase in the other revenue item reported to us over the years. We need transparency on the extent to which companies are making profits in any other activities they are involved in to understand how this may impact their supply businesses and hence consumer bills. Specifically, under their licences, companies can choose to conduct other activities, in the company or in another company. As the regulator, we need to monitor performance, particularly if the activities mean there is a risk that the business will fail because of losses in those other activities. Through the SoLR process, costs arising from a failed supplier are recovered from GB energy consumers, so we need to have oversight of whether customers' money is being used to finance other business activities.
- 3.41. Subsequently, we are proposing to add an additional column within the CSS template for 'other' activities which are not related to the supply or generation segment. 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.

Scope - Supplier threshold level

- 3.42. Our current proposal will lower the threshold level for domestic market and ensure at least 90% market coverage of the non-domestic market. This will enable us to have oversight, as far as practical, of profitability in the market. Expanding the requirements to cover suppliers with a domestic customer base of over 50,000 meter points and covering at least 90% of the non-domestic market will achieve this and allow us to collect data on suppliers as they grow.
- 3.43. To determine who is obligated to submit under the domestic thresholds, we will use data on gas and electricity meter points which we regularly source from Xoserve and Distribution Network Operators (DNOs). A supplier will fall under the domestic threshold if they hold 50,000 meter points or more in either gas or electricity. Meter point figures are taken as the last day of the month.
- 3.44. For non-domestic suppliers the threshold will aim to achieve at least 90% market share, however there will be different parameters for the SME and I&C market¹⁰. To achieve 90% market share for the SME market we will use meter point numbers and for the I&C market we will use the volume of supply. If a non-domestic supplier reaches the threshold conditions for either market, for either gas or electricity, they will be required to submit a CSS. This would mean that some suppliers may be required to submit a CSS in some years but not in others.
- 3.45. To determine who is obligated to submit under the non-domestic thresholds we will use data on gas and electricity meter points and volume which we regularly source from Xoserve and Elexon. We will calculate suppliers' individual market shares in four market segments; gas SME, gas I&C, electricity SME and electricity I&C, then order suppliers from largest to smallest. The threshold will be met by all suppliers whose share contributes to the initial 90% of the total of meter points in the SME market and initial 90% of the total volume supplied in the I&C market.

¹⁰ We use proxy measures to define the SME and I&C market segments. Based on our analysis of electricity data provided by Elexon we use profile classes 3 & 4 as a proxy for SME customers and profile classes 5 to 8 and half-hourly (HH) customers are used as a proxy for I&C customers. Based on our analysis of gas data provided by Xoserve we define SME market as businesses with annual gas consumption under 73,200 kWh and we define I&C market as businesses with annual gas consumption over 73,200 kWh.

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3.46. We would aim to publish a list of domestic and non-domestic suppliers required to submit a CSS according to the thresholds in December each year. This means we will use October data to decide if a supplier falls under the threshold for that year. However, responsibility for meeting the revised CSS licence requirement ultimately rests with licensees.

3.47. The table below shows the number of suppliers obligated under our proposals.

Table 1: Estimated market shares and number of suppliers captured at threshold levels¹¹

Market	Threshold	Number of suppliers ¹²	Market share
Domestic	50,000 meter points	14	99.8%
Non-Domestic SME	90% market share based on meter points	21	>90.0%
Non-Domestic I&C	90% market share based on volume supplied		

Auditing

3.48. We are proposing to remove the requirement for an external audit of the CSS. Instead, we propose the CSS must reconcile back to statutory accounts which undergo a separate audit process (unless suppliers fall under audit exemption¹³).

3.49. We propose to retain the right to request an audit on an ad-hoc basis where there is cause for concern.

Reporting

3.50. We are proposing to keep the reporting period to the companies' own reporting year. This would allow suppliers to reconcile their CSS to their annual statutory accounts and would make it easier with one set of financial statements so the required adjustments can be applied for the CSS.

¹¹ This table uses June 2023 data, supplier failures and acquisitions have been taken into account.

¹² The list of suppliers which underlie the figures shown have been determined using different criteria for the domestic and non-domestic market, and therefore some suppliers may be captured in both lists.

¹³ Audit Exemptions for private limited companies

<https://www.gov.uk/audit-exemptions-for-private-limited-companies>

- 3.51. We propose to keep the reporting timeline as already set out in the current SLC 19A, for electric and gas, and 16B for generation, whereby a supplier would submit the revised CSS no later than 4 months after a company's year-end.

Transition Period

- 3.52. We propose not to allow a transition period and that for the first year of reporting onwards suppliers are to submit the CSS 4 months after the end of a company's reporting year.

Questions on our proposals to revise the CSS

- Q1. What are your views on proposal to expand the market coverage of the CSS?
- Q2. Do you have any other thoughts on the CSS?
- Q3. Do you agree with our consideration that the current proposal will not impose significant costs upon newly obligated suppliers? If you consider otherwise, then please let us know and provide any supporting evidence.
- Q4. What are your thoughts on our proposal to publish a list of obligated suppliers to our website in December each year?

Vertical integration and threshold:

- Q5. Do you agree with our proposal remove the requirement for suppliers to be vertically integrated suppliers to submit a CSS?
- Q6. Do you agree with the proposal to lower thresholds for the domestic and non-domestic market?

Additional Financial Information:

- Q7. What are your views on our proposal not to request additional financial information?

'Other' Activities

- Q8. What are your thoughts on our proposal to include an additional column for reporting 'other' activities separate to the supply or generation business?

Transition Period

- Q9. What are your thoughts on our proposal not to include a transition period for the first year of reporting now that the additional financial information and the audit requirement have been removed?

Audit Requirement

- Q10. Do you agree with our proposal to remove the audit requirement and instead propose the CSS must reconcile back to statutory accounts?
- Q11. Do you agree with the proposal that Ofgem retains the right to request an audit where there may be cause for concern?

Appendices

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Appendix 1 – Background on the CSS

A1.1 Our Energy Supply Probe in 2008¹⁴ (the Probe) highlighted the need for more transparency about the relationship between the generation and supply activities of the large, vertically integrated undertakings. The Probe identified several areas where competition could work more effectively. One of these areas was the need to improve the quality and accessibility of the information available to consumers so that they can make well-informed decisions about their energy supply and empower more consumers to engage effectively in the market. The Probe argued in favour of promoting greater transparency between the activities of the major supply and generation businesses.

A1.2 At the time, the large vertically integrated suppliers represented the majority of market share in the retail sector (about 99%). As not all large suppliers produced separate segmental accounts (for gas supply, electricity supply and electricity generation), it was difficult for current and potential market participants to assess the profitability of these different activities. In addition, there was little transparency regarding the transfer pricing used by the supply and generation business to exchange wholesale energy, giving rise to concerns about cross-subsidisation and comparability.

A1.3 In response, Ofgem introduced the 'Financial information reporting' licence condition, which came into force in 2009. It is set out in SLC 19A of the Gas and Electricity Supply Licences and SLC 16B of the Electricity Generation Licence.¹⁵

A1.4 Vertically integrated suppliers (ie those that have either a gas or electricity supply licence and an electricity generation licence/affiliate) supplying gas or electricity to more than 250,000 domestic or non-domestic customers are obligated to publish an independently audited CSS each year. Since the introduction of the CSS, the number of obligated suppliers has significantly reduced and is not representative of the market.

A1.5 We have in the past made changes to the CSS licence condition. In 2014, we made changes which included: a) prompt publication of the CSS and no later than four

¹⁴ Energy Supply Probe (2008), Proposed Retail Market Remedies:

<https://www.ofgem.gov.uk/ofgem-publications/38335/retail-package-decision-document.pdf>

¹⁵ Standard conditions of electricity supply licence:

[https://epr.ofgem.gov.uk/Content/Documents/Electricity Supply Standard Licence Conditions Consolidated - Current Version.pdf](https://epr.ofgem.gov.uk/Content/Documents/Electricity%20Supply%20Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf)

Standard conditions of gas supply licence:

[https://epr.ofgem.gov.uk/Content/Documents/Gas supply standard licence conditions consolidated - Current Version.pdf](https://epr.ofgem.gov.uk/Content/Documents/Gas%20supply%20standard%20licence%20conditions%20consolidated%20-%20Current%20Version.pdf)

Standard conditions of electricity generation licence:

[https://epr.ofgem.gov.uk/Content/Documents/Electricity Generation Standard Licence Conditions Consolidated - Current Version.pdf](https://epr.ofgem.gov.uk/Content/Documents/Electricity%20Generation%20Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf)

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months after the end of the financial year; b) reconciliation of revenues and profits to statutory accounts; c) appropriate transfer pricing methodology and notifying the Authority of any changes; d) an audit report from an Appropriate Auditor confirming the extent to which the statements have been prepared in accordance with the licence condition and the Guidelines; and e) more detailed cost breakdown and inclusion of non-financial information.

A1.6 The CSS is based on the 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 Guidelines¹⁶ for preparing the CSS.

A1.7 The CSS is broken-down into the following business segments:

- Electricity generation – conventional, renewable & aggregate
- Electricity Supply – domestic & non-domestic
- Gas Supply - domestic & non-domestic, and
- Aggregate of Electricity & Gas Supply business.

A1.8 The CSS captures the following information:

- i) Revenue from sales of electricity and gas
- ii) Other revenue
- iii) Total revenues (from the sale of electricity, gas, other)
- iv) Direct fuel costs
- v) Transportation costs
- vi) Environmental & Social Obligation Costs
- vii) Other direct costs
- viii) Other indirect costs
- ix) Total operating costs (including network costs, environmental and social obligations)
- x) Earnings Before Interest Tax Depreciation & Amortisation (EBITDA)
- xi) Depreciation & Amortisation
- xii) Earnings before interest and tax (EBIT)
- xiii) Volumes (in TWh or million therms)

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- xiv) Weighted Average Cost of Fuel/Electricity/Gas (WACO F/E/G), and
- xv) Customer numbers - average number of electricity and gas, domestic and non-domestic meter points (MPANs and MPRNs).

Appendix 2 – Associated Documents

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

- Energy companies' Consolidated Segmental Statements under current SLC 19A condition:

<https://www.ofgem.gov.uk/publications/energy-companies-consolidated-segmental-statements-css>

- 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/guidelines-preparing-consolidated-segmental-statements>

Appendix 3 – 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

Ofgem will continue to publish links to supplier’s websites where CSS reports are publicly available.

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 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

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- 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

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.

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