

Retail Financial Monitoring Team
Ofgem
10 South Colonnade
London
E14 4PU

22 September 2023

Sent by email to: css@ofgem.gov.uk

Reviewing the Consolidated Segmental Statements: Centrica's Response to Ofgem's Initial Proposals.

Dear Retail Financial Monitoring Team,

Overall, we support the reforms for the Consolidated Segmental Statement (CSS) and see it as a necessary vehicle which promotes transparency across the energy supply industry and helps improve consumer confidence and awareness. Considering consultations on reviewing the CSS started in 2020, this has been a long time coming and we urge Ofgem to maintain momentum and implement these scaled back proposals as soon as possible. Had the proposals to remove the vertically integrated requirement and expand the CSS to all suppliers with more than 50k customers been implemented earlier, the CSS would have helped expose the precarious financial position of suppliers that failed in during the 2021 energy crisis. As we mentioned earlier, any further delay to implementing these proposals risks adding further costs to consumers if they and consumer representatives are unable to understand the financial health of retail suppliers in the market.

While we do support the reforms Ofgem have proposed, there are, however, two areas that we require further clarification on: other reporting lines and timescales. In previous CSS submissions, we have included other revenues and our current understanding is that 'other revenue' can be separated into two sections – other revenue that is included, and that is not included, in the CSS. We understand other revenues included in the CSS are linked to supply or generation revenue but not directly related. For example, in our 2022 submission, we identified and included other revenues such as those related to New Housing Connections and Capacity Market income (please see page 9 of our 2022 CSS submission). To reflect business functions that provide revenue that are completely unrelated to the CSS, we conduct a reconciliation to the Centrica plc Annual Report (page 13 of our 2022 CSS submission). This allows us to highlight any performance in areas unrelated to supply and generation, while also providing Ofgem with more context around how our CSS numbers correlate to the wider business.

With this in mind, we wish to understand what else Ofgem are looking to include in 'other' reporting lines. In particular, we would like further clarification on what Ofgem's rationale is for adding an 'other column' and what differences from the current reporting style there will be.

On the subject of timescales, Ofgem plans new CSS requirements to come into force in time for the financial year ending 31 December 2023, which we fully support. However, we would like Ofgem to explain why this will be the case considering that the new licence conditions are expected to come into force in March 2024.

Responses to specific consultation questions can be found in the Appendix at the end of this letter.

I hope that this response is useful to you. We look forward to Ofgem swiftly expanding the scope of the CSS to all residential suppliers with over 50k customers. If you have any questions, please do not hesitate to contact me.

Kind Regards

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Appendix: Responses to Consultation Questions

Question 1: What are your views on proposal to expand the market coverage of the CSS?

Overall, we support the reforms for the Consolidated Segmental Statement (CSS) and see it as a necessary vehicle which promotes transparency across the energy supply industry and helps improve consumer confidence and awareness. We strongly support the expansion of the CSS to include at least all suppliers with more than 50k customers. The energy market has changed significantly since the CSS was first introduced, and we agree that restricting the scope of the CSS to the former six large energy firms would no longer represent today's market. Expanding the scope also provides consumers and their representatives an improved view of suppliers to protect themselves from suppliers that may operate using unsustainable business models.

Question 3: 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.

We agree with the consideration that the current proposal will not impose disproportionate costs upon newly obligated suppliers. As an existing obligated supplier, we already bear these costs and note that the present proposals are substantially scaled back from the previous proposals from the 2021 consultation.

Question 4: What are your thoughts on our proposal to publish a list of obligated suppliers to our website in December each year?

We agree with and welcome Ofgem's plans to publish a list of obligated suppliers to the website in December each year, so long as new CSS requirements to come into force in time for the financial year ending 31 December 2023. However, we would like Ofgem to explain why this will be the case considering that the new licence conditions are expected to come into force in March 2024.

Question 5: Do you agree with our proposal remove the requirement for suppliers to be vertically integrated suppliers to submit a CSS?

As mentioned in our response to question 1, the UK energy retail market has changed drastically over the last 3 years. One of the biggest changes is that there are no longer several companies that engage in both supply and generation operations. We therefore fully support the proposal to remove the requirement for suppliers to be vertically integrated suppliers to submit a CSS. This, and expanding the CSS to include all suppliers with more than 50k customers will ensure transparency across the UK retail market. Another change that is not reflected in the current CSS is the change in which suppliers have the largest market share. Some suppliers have significantly increased their customer base but are not currently obligated to submit a CSS. It is for these reasons that we fully support Ofgem's proposals to expand market coverage through removing the vertically integrated requirement, alongside suppliers with more than 50k customers being obligated to submit a CSS.

Question 6: Do you agree with the proposal to lower thresholds for the domestic and nondomestic market?

Yes, we agree that thresholds should be lowered for domestic and non-domestic markets as it will expand the CSS scope, providing consumers and their representatives more oversight of the energy retail industry.

Question 7: What are your views on our proposal not to request additional financial information?

We strongly agree with the proposal to not request additional financial information. Publication of any data that is more granular than the current CSS requirements would inevitably reveal sensitive information which, as a result, risks affecting competition to the detriment of consumers and would have potentially breached public law duties. The existing CSS with a reconciliation to a company's annual report would be much more beneficial to all parties. If there are concerns about a supplier's data, Ofgem can request an audit.

Question 8: What are your thoughts on our proposal to include an additional column for reporting 'other' activities separate to the supply or generation business?

In previous CSS submissions to Ofgem on our operating costs and performance we have included other revenues, and our current understanding is that 'other revenue' can be separated into two sections – other revenue that is included, and that is not included, in the CSS.

We understand that other revenues included in the CSS are linked to supply or generation revenue but not directly related. For example, in our 2022 submission, we identified and included other revenues such as revenues related to New Housing Connections and Capacity Market income (please see page 9 of our 2022 CSS submission). To reflect business functions that provide revenue that are completely unrelated to the CSS, we conduct a reconciliation to the Centrica plc Annual Report (page 13 of our 2022 CSS submission). This allows us to highlight any performance in areas unrelated to supply and generation, while also providing Ofgem with more context around how our CSS numbers correlate to the wider business.

With this in mind, we wish to understand what else Ofgem are looking to include in 'other' reporting lines. In particular, we would like further clarification on what Ofgem's rationale is for adding an 'other column' and what differences from the current reporting style there will be.

Question 9: 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?

We agree that there should be no need for a transition period. Ofgem plans for new CSS requirements to come into force in time for the financial year ending 31 December 2023, and we fully support this. However, we would like Ofgem to explain why this will be the case considering that the new license conditions are expected to come into force in March 2024.

Question 10: Do you agree with our proposal to remove the audit requirement and instead propose the CSS must reconcile back to statutory accounts?

We agree with the proposal to remove the routine audit requirement and to have a reconciliation back to statutory accounts instead. A reconciliation is better placed to provide a high-level context for the CSS and is less costly and time-consuming for suppliers to carry out.

Question 11: Do you agree with the proposal that Ofgem retains the right to request an audit where there may be cause for concern?

Yes, we agree with Ofgem's proposal to request an audit should there be a cause for concern. This is a good balance between reducing time and costs for suppliers submitting a CSS as

well as ensuring consumers and their representatives are confident that suppliers are not engaging in unsustainable operations.