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22 September 2023

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Andrew Milligan
Deputy Director Retail Market Intelligence and Stability
Ofgem
10 South Colonnade
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Dear Andrew,

Re: Reviewing the Consolidated Segmental Statements Consultation

E.ON welcomes the opportunity to respond to Ofgem’s consultation reviewing the Consolidated Segmental Statements.

We are supportive of the increased transparency which would aid a better understanding of the functioning and health of the energy market, promoting better consumer and stakeholder confidence.

We welcome an update and extension of the scope of the Consolidated Segmental Statements Reporting Obligation, creating a more equal and consistent basis for reporting by suppliers and reflecting the changes in the structure of the retail energy market since introduction of this requirement in 2009.

Further consideration is needed in respect to the consumer benefits assessment for some of the proposals (e.g. the addition of a column for “other” activities) to ensure that all requirements are proportional to the value they bring, and do not create any competitive disadvantages to any specific licence holders.

While an Impact Assessment was undertaken in relation to the review of the CSS in the statutory consultation in 2021, it did not include a transparent quantified benefit of some of the proposals, and did not take into account the potential disadvantage of the CSS application to only a part of the market in some instances (i.e. disadvantaging vertically integrated generators against other generators and companies with specific business models in which “other” activities are carried out in the supply licensed legal entity). A further review of these topics is necessary.

We welcome the removal of the audit requirement and introduction of additional financial information fields which would carry additional material costs. At the same time Ofgem needs to continue to be mindful of associated recurring costs to licenced entities in scope.

Yours sincerely

Appendix 1

Q1. What are your views on proposal to expand the market coverage of the CSS?

We are in favour of expanding the market coverage of the CSS to ensure data is captured from a wider number of suppliers covering a larger, more reflective proportion of the market. This helps ensure a wider category of suppliers adhere to the same obligations creating a more level playing field.

Q2. Do you have any other thoughts on the CSS?

We agree with the aims of the CSS and support transparency in the market. This is key in order to ensure consumer confidence.

At the same time we would welcome more clarity on the purpose of some of the proposals (i.e. the additional column within the CSS template for 'other' activities and keeping the requirement for reporting on the generation business for vertically integrated suppliers) alongside a quantified assessment of consumer benefits. This should consider the potential competitive impact for suppliers with additional activities captured by the current proposals (such as generation), given that competitors in those other markets without a supplier business will not be required to comply with the CSS and the increased transparency it brings.

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.

We agree that removing the audit requirement has reduced associated costs significantly. As a result, we see no issue for newly obligated suppliers of any size in complying with the condition. To achieve the aims of the CSS, it is important that all suppliers are covered by it.

Q4. What are your thoughts on our proposal to publish a list of obligated suppliers to our website in December each year?

We support the proposal of a published list of obligated suppliers which would provide additional public transparency.

Vertical integration and threshold:

Q5. Do you agree with our proposal to remove the requirement for suppliers to be vertically integrated suppliers to submit a CSS?

We agree with the proposal to remove the requirement for suppliers to be vertically integrated in order to fall within scope of the CSS submission obligation. This helps ensure a wider category of suppliers adhere to the same obligations providing a representative view of the market.

However, the wider coverage aims and consistent application of the obligation across the market is not achieved in the generation market, where the reporting requirement would only be applicable

to vertically integrated generators. Ofgem should consider whether it is still adequate to retain existing reporting obligations on the generation business for vertically integrated suppliers only or proceed to consult and analyse whether removing this initial requirement would be better suited to the existing market.

Q6. Do you agree with the proposal to lower thresholds for the domestic and nondomestic market?

Please see our response to Q1, we agree with the proposals to lower thresholds.

We want to highlight that the previous impact assessment referenced within the consultation uses particular criteria¹ to define SME and I&C market segments. We recommend that any future analysis and scope proposals are aligned to the outcome of the Ofgem non-domestic market review consultation, which incorporates classification of the non-domestic sector or include the whole market for complete transparency. In respect of these options we favour whole market inclusion (i.e. expanding the scope to all suppliers).

Additional Financial Information:

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

We agree with the proposal to not proceed with requesting additional information which would bear a material cost for licensed entities, and which would require extensive development and longer implementation lead times. Ofgem is able to review more detailed reporting through RFIs. This approach minimises the risk of unnecessary duplication.

'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?

More clarity is needed on the scope, purpose and costs versus benefits of the proposal to include an additional column for reporting "other" activities separate to licenced activities.

The data captured by the "other activities" column would provide a partial view of the market, for companies who have decided to follow a particular business structure (i.e. carrying out "other" activities in the licensed legal entity). This could result in adverse effects on public understanding and transparency creating more confusion rather than a better understanding of the market.

We are mindful of Ofgem's concerns relating to whether customers' money is being used to finance other business activities, however, this would not be mitigated by adding an additional column in

¹ Executive summary; footnote 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."

CSS which is not a risk-based obligation. This requirement would place undue burden on a specific business model without a quantifiable consumer benefit.

While Ofgem has 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 a proportionate reporting requirement needs to be actioned on a case-by-case basis, where Ofgem has concerns of poor behaviour, through targeted requests for information. This alternative could adequately address concerns and aid monitoring without placing an additional blanket obligation on all licenced entities without providing any meaningful transparency to consumers and other stakeholders.

In prior CSS submissions E.ON provided an explanation as to what was included in the “other” revenue for the generation segment within the notes for this section.

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?

We have no concerns on the proposals to not include a transition period due to removal of the additional information and audit requirements.

We agree with the proposed reporting timelines, however, if any additional requirements will be considered in future consultations this view might change.

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?

We agree with the proposal to remove the audit requirement. We believe that reconciling against financial year end reporting provides sufficient assurance.

Existing licence conditions allow the reconciliation of the CSS to parent company group accounts, not only local statutory accounts. If any changes are due to be implemented in this area further industry engagement and an extended notice period before implementation are necessary.

Q11. Do you agree with the proposal that Ofgem retains the right to request an audit where there may be cause for concern?

We agree with the proposal that Ofgem retains the right to request an audit in case there are justifiable and evidential concerns with a submission as long a sufficient notice is provided, and adequate guidance is in place. Ofgem needs to clarify the scope of any potential requested audit (i.e. certain concerning elements or a full-scale audit).