



Ofgem consultation – Consolidated Segmented Statements

Consultation response by ENGIE Power Limited

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ENGIE Response

Thank you for the opportunity to respond to the consultation, please find our summary comments and our response to the questions set out below.

Executive summary

We do not support Ofgem's proposal to apply the Consolidated Segmental Statements (CSS) obligation to additional market participants. It is questionable whether the requirement for CSS remains valid for any market participant given the original rationale for introducing the CSS more than a decade ago was entirely to shed light on worries that at that time the transfer prices of vertically integrated business models were in some way harming domestic consumers. These types of VI business models rarely exist today and the subsequent introduction of the domestic market price caps have negated the previous concerns over transfer pricing.

Both the business models of suppliers and generators, and the depth of financial information provided to the regulator have changed significantly since that time and these factors combined render the CSS requirement to be outdated, if not entirely irrelevant today. There is a stronger argument in favour of retiring the CSS obligation entirely as opposed to extending it, and it is certainly not relevant to apply the obligation to non-domestic suppliers as neither the previous rationale or current circumstances require this.

Recently, the introduction of the Financial Responsibility Principal and numerous reports provided Ofgem with a wealth of financial information on an ongoing basis. The extent of the information provided to Ofgem already contains all and more of the information required by the CSS and is more up to date. To extend the CSS would be bureaucratic, duplicitous and of no real value.

It is crucial that Ofgem takes account of the regulatory burden placed on market participants, particularly during a stressed period for the sector, and that any additional requirements are proven to add significant value to consumers. It is very unlikely that extending the CSS will deliver any consumer benefits. The extent to which the CSS are accessed by consumers currently or the ability for the generality of consumers to understand the

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statements is questionable.

Consultation responses

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

The CSS market coverage should not be expanded because the statements themselves have become obsolete and offer no value to consumers.

The original purpose was to increase transfer price transparency of intercompany transactions between generation arms and domestic retail tariffs, and this is now redundant because of the introduction of the domestic price caps and the demise of the traditional VI business model. The CSS was never intended to apply to the non-domestic supply market because wholesale market transactions are already transparent via flexible contracts and market based hedging practices.

Further, the proposal to oblige affiliated generation businesses of the obligated supplier seems entirely unfounded given that these businesses operate entirely independently of the supplier, and have different routes to market.

Secondly, the level of financial information provided to Ofgem on a regular basis by energy suppliers under the FRP and other routine reporting (the monthly Shipper/Generator RFI for example) is more detailed and up to date than the CSS. Data provided through these routes can easily be assimilated by Ofgem to produce the energy bill breakdowns, these are not dependent on the CSS format.

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

Ofgem should consider retiring the requirement for CSS entirely as it places an unnecessary regulatory burden on market participants. The information is outdated, is duplicitous to company's own published accounts and provides no additional value to the generality of consumers.

Ofgem should ask which financial reporting is most useful, the ongoing reporting under the FRP? or the CSS statements? and choose which of the two approaches it deems most useful. The continued layering of regulations is unhelpful, inefficient and costly.

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.

No, this will add an unnecessary regulatory burden and costs. Compiling the relevant financial information for the affiliate companies would be extremely complex and time consuming given the diversity of the Group holdings, particularly where there are not wholly owned by ENGIE. We would be happy to discuss bi-laterally with Ofgem.

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

We see little or no value in the CSS statements as described above.

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?

The CSS obligation should be removed entirely as it is obsolete and duplicitous to both the FRP reporting and company's own published accounts.

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

No, Ofgem do not make a clear case for the inclusion of non-domestic supply, there is no rationale to support this given the depth of information that Ofgem already receive.

Additional Financial Information:

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

The depth of financial information provided to Ofgem via both the FRP and other regular financial reporting is entirely sufficient.

'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?

It is not clear what is meant by "other activities" as this is not well defined. We are not supportive of widening the CSS obligation but generally speaking the inclusion of "catch-all " segments is subject to interpretation and is likely to result in varying categorisations between parties, hence reduce the comparability.

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 do not support the proposed widening of the obligation but in any case we do not consider there is sufficient time for new parties to report in early 2024 given existing regulatory reporting obligations and the potential impact on company's own audit scope.

If implemented, the proposed timescales to publish CSS within 4 month's of financial year end are ambitious and probably unachievable given the complexities of the auditing process for statutory accounts which can take 9 months.

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?

As stated above it would prove difficult to meet the 4 month deadline given the timeline to produce audited company accounts takes longer. Hence the reconciliation of CSS to audited statements would need to follow-on later once company accounts have been finalised.

Q11. Do you agree with the proposal that Ofgem retains the right to request an audit where there may be cause for concern? you agree with our proposal to agree voluntary improved pricing transparency and if so, please include comments on the particular areas you would like to see made more transparent?

If implemented, there should not be a need for further Ofgem audit as the annual external audit of company accounts is comprehensive and by definition meets the required audit standards.

End of response.

If you have any questions or would like to discuss, please contact me as below.

P. Broom

Best regards

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