Andrew Milligan
Office of Gas and Electricity Markets
By email to: css@ofgem.gov.uk

Date: 22nd September 2023 SEFE Energy Licence number: 03904624

Dear Andrew,

Re: Reviewing the Consolidated Segmental Statements

Thankyou for your consultation dated 25th August 2023. We welcome the opportunity to comment on the issues set out therein. In the UK, SEFE Group is active via its wholly owned subsidiary SEFE Marketing & Trading Limited ("SM&T"), SEFE LNG Limited and SEFE Energy Limited ("SEFE UK")

We have operated in the UK retail energy markets since 2007 and since then we have grown our retail business both in the UK and across Europe. As of today we remain one of the largest non-domestic energy suppliers in the UK. In addition we also provide shipping services to third party Suppliers supporting sustainable market innovation and diversity. We pride ourselves on our customer-focused, sustainable, risk adverse business model.

As we have previously stated in the initial review of scope of the CSS, we do not agree with the proposals set out by Ofgem to extend CSS reporting to the non-domestic market. We believe imposing this reporting requirement on Industrial and Commercial Suppliers is detrimental as it introduces a disproportionate cost burden to smaller suppliers as the work required to provide this information is significantly more onerous and fixed whilst in contrast the savings suggested from not issuing RFIs is marginal and not comparable.

In addition since the initial review the market has significantly changed. **Additional monitoring which Ofgem have implemented** in the form of an expanded suite of RFIs and the introduction of the annual adequacy assessment **will provide the information Ofgem require** to populate the bill breakdown, on a more regular basis, and provide more relevant monitoring of the health of the market.

Please find below our specific responses to the consultation questions. We hope you find our comments helpful and would be happy to discuss any aspect of these further. If you have any immediate questions, please could you contact Steve Mulinganie (in Cc) who is our Senior Regulatory Manager.

Your Sincerely,

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Appendix 1 – SEFE Energy responses to consultation questions

Section: General Questions

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

SEFE Energy response: The original aim of the CSS reporting regime was to ensure that vertically integrated companies do not use their generation assets to subsidise their retail market offering. Whilst we understand that Ofgem has used this information to inform other activities, we do not see that repurposing the CSS reporting regime to achieve unrelated goals is justified simply as it is convenient.

Organisations that currently provide information under the CSS regime are all large companies who are required by legislation to publish account information. By contrast, many of the smaller suppliers are not currently required to put such detailed financial information into the public domain.

We consider 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 the supplier.

In addition since the initial review the market has significantly changed. Additional monitoring which Ofgem have implemented in the form of an expanded suite of RFIs and the introduction of the annual adequacy assessment will provide the information Ofgem require to populate the bill breakdown, on a more regular basis, and provide more relevant monitoring of the health of the market.

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

SEFE Energy response: As with other financial data requests the data included in the CSS could be open to interpretation based on how the company prepares it financial reporting. If the goal is to compare like for like data, then further definitions are required. To avoid optimisation of costs and profits through beneficial interpretations, it would be necessary therefore to standardise cost treatments and formal definitions will need to be developed. Such areas would include:

- Gas and Power fuel/commodity costs are commonly hedged as a portfolio and therefore the final actual cost can be optimised through hedging however there is limited ability to apportion such optimisation between segments.
- Many transportation costs and other direct costs are invoiced at a portfolio level and may not be agreed and apportioned to the consumption at a meter level so allocation may be arbitrary on volumes whereas charges might have uneven weighting factors such as different peak/non-peak spreads or charge types.
- Internal resources may not be easily apportioned as direct teams may be flexible to work between segments, indirect teams might not require the same level of effort for every customer (i.e. key accounts, payments type, geographical location, industry type) and if the supplier does not maintain detailed timesheet data for all employees, then an arbitrary allocation would be made.
- Some direct and indirect costs such as postage, payment processing, IT licence use, rates, travel etc. cannot be easily allocated to segments and products.
- Defining the expected accountancy treatments (i.e. should IFRS or UK GAAP be applied) would also be required.

The guidance document for the CSS was published in 2015. With the change in scope to include non-vertically integrated suppliers we would expect an updated version of the guidance would be required to be published for review alongside any revised Licence conditions. This should also cover the criteria for when suppliers would become liable for the report.

In addition since the initial review the market has significantly changed. Additional monitoring which Ofgem have implemented in the form of an expanded suite of RFIs and the introduction of the annual adequacy assessment will provide the information Ofgem require to populate the bill breakdown, on a more regular basis, and provide more relevant monitoring of the health of the market.

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.

SEFE Energy response: Any new request to provide information will incur costs. While the removal of the audit requirement has eased the financial burden it has not been completely removed.

While the data may be available for other reports there are costs involved in creating a new statement and changes make the data publicly available.

The issue around comparability is especially important i.e. suppliers with difference basis of prep (IFRS vs GAAP) cannot be compared on a like-for-like basis. For example if we would need to start reporting on a GAAP basis, this could increase our costs of the reporting significantly.

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

SEFE Energy response: With the CSS reporting date not fixed to a specific time during the year (based on the supplier's financial year) this would result in a shorter notice period to prepare the CSS for some suppliers.

With the proposal to take a data cut in October the number of qualifying suppliers could fluctuate through the month due to this month being a key renewal date.

Section: 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?

SEFE Energy response: Please see our response to question 1.

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

SEFE Energy response: We do not see any justification as to why non-domestic suppliers with comparatively small overall market share should be required to provide this detailed and commercially sensitive information. In contrast to the domestic sector, no significant non-domestic suppliers have exited the market in an uncontrolled fashion. Instead exits have been achieved through trade sales of viable businesses. Therefore the non-domestic market does not need the level of monitoring proposed to watch out for market issues.

To aid understanding we have summarised the differences between the two markets below:

Domestic	**Non Domestic**
Budget Schemes prevalent due to seasonal nature of costs	Majority of customer pay on receipt of monthly bill
Credit Balances protected (mutualisation risk)	**Credit Balances not protected (no mutualisation risk)**

Consumers can build up large credit balances during summer to offset winter costs	Customers pay on receipt of monthly bill
Billed Quarterly	Billed Monthly
Low prevalence of Smart Meters enabling remote meter reads	High Prevalence of AMR Meter enabling remote meter reads
Seasonal use (heating)	Non seasonal more diverse use
Tariffs	Contract Price
Price Control	No Price Control
Obligation to supply	No obligation to supply

At present we are not aware of a universally applied definition of SME/I&C/Non-profit customer so if Ofgem required information on such a defined level, it would also require suppliers to develop and implement a common classification process. To ensure consistency we would expect that a common definition would need to be developed and systemised, which will believe would be very difficult to do in the timescales proposed considering the disruption and cost this would entail.

These proposals will simply add significant resource burdens onto non-domestic suppliers and so should be limited to large suppliers in the domestic market.

Section: Additional Financial Information

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

SEFE Energy response: Since the initial proposal there have been a number of new requests for information introduced into the market which would provide sufficient information for Ofgem to use in their analysis.

Feedback has been given to Ofgem from the market on a number of occasions regarding duplication of data requests so we welcome the proposal to not request any additional information via the CSS.

Since the original CSS report was introduced, the market has significantly changed and the volume of data submitted by suppliers to Ofgem has increased.

When reviewing the information requested via the CSS the majority of the data is already provided by suppliers as part of the financial responsibility RFI (monthly) and the stress test (quarterly). Both of these reports provide a more up to date view of market health and could be used to produce the bill breakdown metrics on a more regular basis without additional resource requirement and cost from the suppliers.

In addition a new regular RFI for market monitoring is anticipated following the non-domestic market review and the newly implemented Annual adequacy statement will also provide monitoring of the market.

Section: ‘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?

SEFE Energy response: Unregulated income is not relevant to regulated energy supply.

We might expect companies to create separate companies to operate this function if these proposals were implemented and therefore, we believe it would be impossible to maintain reporting consistency in this area.

It is also outside of Ofgem's remit to oversee unregulated activities by energy suppliers.

We do not believe it is appropriate for such information to be requested and any reporting framework should not seek to capture this information.

We also believe it is unnecessary. As we stated elsewhere in this response, if suppliers are compelled to provide this information it will be a specific report to meet these requirements as reporting timescales will not align with the standard reporting cycles and so such information could be omitted.

An unintended consequence maybe to reduce the number of additional services suppliers may seek to offer customers if additional financial information was requested.

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?

SEFE Energy response: As per our response to question 4 the nature of the non-fixed date nature of the scheme with a fixed point for notification would result in different notice periods for suppliers. As a result suppliers that previously had not been within the scope of the CSS would still need to set up the report in addition to their existing audit requirements.

At the same time Suppliers are also currently developing several other significant changes mandated by Ofgem & DESNZ including: -

- Mandatory Half-Hourly Settlement
- Non Domestic Market Review
- Smart Metering Rollout programme
- DSR

Whilst we do not see any value in extending this reporting requirements to smaller suppliers any implementation of these proposals must be considered alongside these other critical industry changes and scheduled in accordingly.

Section: 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?

SEFE Energy response: We support any proposal that manages regulatory burdens on suppliers and if the CSS reporting regime is extended to small suppliers, then not imposing a requirement for an audit as part of that will reduce the overall increase in regulatory obligations.

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

SEFE Energy response: The criteria for concern would need to be expanded on to justify the costs of the audit. We would note our annual audit costs are circa £100,000. Since the full company financials are being taken into account in CSS reporting this figure could be taken as a proxy. Fees might depend on the level of audit materiality to be applied in such a reporting process.