Consultation response - reviewing Consolidated Segmental Statements

22 September 2023

Ofgem's general intention to expand the remit of the Consolidated Segmental Statements (CSS) reporting requirement goes back a number of years, to a very different retail energy market environment, and has been postponed previously on the basis of it not being a regulatory priority.

It is difficult to envisage that resurrecting the proposal is a priority now and the case for change laid out in the consultation document is notably tentative. This would be a bureaucratic overlay to an already very full reporting schedule and to our mind does not meet the threshold for a sensible regulatory intervention.

It would be more appropriate to consider retiring the existing CSS obligation, in order to focus on streamlining and improving the processes - such as the Request for Information reporting formats and schedule - already employed at considerable effort to provide Ofgem with the financial data it needs.

Specifically, referring to **questions 1 and 2** ("what are your views on the proposal to expand the market coverage of the CSS and do you have any other thoughts on the CSS?"), the consultation document fails to identify a clear justification for action. It acknowledges that the previous rationale of needing to monitor supplier failure risk is *"no longer the case as we now have mechanisms in place for scrutinising licence applications and ensuring ongoing capital adequacy and financial resilience."* (3.7) That would leave the perceived benefit of enabling financial analysis of suppliers as operational companies, of the type that already exists as the product of professional analysts and consultants, to which Ofgem can add little value.

It is welcome, referring to **question 7** ("what are your views on our proposal not to request additional financial information?"), that the resurrected proposal has dropped the spurious detail that the additional financial information categories would have entailed, with the added concern that suppliers' may have employed different methodologies to arrive at the data splits, limiting the comparison value of the output.

However, referring to **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?”), it remains unclear what legitimate insight can be gained from including non-licensed costs and revenues. There would be no direct causation from such reporting that would provide Ofgem with *“oversight of whether customers’ money is being used to finance other business activities.”* (3.40) It would also appear to be readily open to challenge as to whether the gas and electricity acts do provide Ofgem with the power to mandate such information from non regulated activities.

Finally it remains the case, as explained by a number of suppliers in previous incarnations of this proposal, that the lead time would have to be 18 months, referring to **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?”).

It is out of the question that suppliers would be in a position to report within four months of implementation, as such a requirement would be, in effect, a retrospective decision, in that it would require suppliers to change the governance and reporting schedules already set out for their current financial reporting years. An 18 month transition period would enable all suppliers to factor in the additional reporting obligation and its timing at the outset of their new financial years, which would be a minimum requirement.