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12 January 2024

Andrew Milligan
Deputy Director Retail Market Intelligence and Stability
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Dear Andrew,

Re: Reviewing the Consolidated Segmental Statements Statutory Consultation – Final Proposals

E.ON welcomes the opportunity to respond to Ofgem's final proposals to revise the CSS licence conditions. We are supportive of the increased transparency provided by the broadening of the threshold proposals helping to promote a better understanding of the functioning and health of the energy market. We welcome the scope extension of the reporting obligation, creating a more consistent basis for reporting by suppliers which adequately reflects the structure changes (i.e. vertical integration is no longer a prevalent feature of the market) and events (i.e. supplier failures) in the retail energy market since introduction of this requirement.

We also welcome the removal of the audit requirement and additional financial information fields reducing the burden on obligated parties, however, Ofgem needs to continue to be mindful that producing the reports will still bear a recurring future cost. More clarity is needed in defining when a cause for concern would trigger a requirement for an audit to be conducted in order to ensure predictability of the associated material costs.

While the reporting timeline is reasonable, the licence wording needs to be amended to account for all deadlines for filing accounts and to allow for extensions in line with the legal and corporate requirements for submissions to Companies House where this is applicable.

The proposed guidelines attached to the licence requirements require additional clarifications and amendments relating to the publication of the CSS reports and draft templates. The introduction of additional pre-reconciliation and reconciling items tables requires further consideration and review as these are highly unlikely to match statutory accounts formats for all obligated licensees. Mandating standardised reconciliation templates is likely to increase administrative burden without providing any meaningful data to third parties reviewing reports. The reconciliation requirement needs to mirror existing guidelines showing how revenues and profits reconcile to audited figures in a format which aligns to each obligated licensee's individual reporting categorisation.

Auditing

We agree that removing the audit requirement has reduced associated costs significantly. However, Ofgem needs to be mindful that producing the reports will continue to carry an additional recurring future cost for licensees which should not be underestimated. Associated costs could be dependent on the company structure of licensees.

In line with our prior response 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 as sufficient notice is provided, and adequate guidance is in place on how this would operate. For example Ofgem needs to provide more predictability on this topic by including a detailed definition for what would constitute "cause of concern" in the guidelines and clarifying the typical scope of a potential requested audit. It would be helpful to know if an audit would be required for only certain concerning elements of the submission or for the entire report.

Reporting and Transition Period

We agree that the reporting timeline is reasonable, however, in the event where an entity has obtained an extension for submitting its annual financial statements to Companies House, licence wording should allow for flexibility to match the same extension to take place (e.g. such as the extensions granted during COVID-19).

The proposed license wording in 19.1.3. does not include all deadlines for filing accounts: private companies have 9 months, and public companies have 6 months to submit accounts to Companies House after the end of each accounting reference. The final licence wording and guidelines need to be updated to clarify that the CSS reporting deadline is 9 months after the end of the licensee's financial year for all CSS reporting regardless of statutory reporting deadlines in order to minimise any potential confusion or delays. There is no benefit in having multiple differing deadlines for CSS submission.

Draft revised Guidelines for submitting the CSS

The reconciliation of the CSS to statutory accounts is likely to be complex for some obligated licensees. The proposed revised guidelines which include two additional tables compared to existing guidance (i.e. a pre-reconciliation CSS report and a reconciliation table) are likely to increase administrative burden on obligated licensees without any corresponding benefit (i.e. without providing a meaningful set of data). A potential need to include a large amount of re-categorisation rows of data in order to reconcile back to statutory accounts formats could confuse third parties reviewing CSS reports.

The format of statutory accounts is likely to use different reporting categories compared to the CSS template. Companies could potentially categorise or aggregate their income and costs differently in the statutory accounts, leading to varying approaches which would be significantly challenging to capture in a single pre-defined template. As a result of these differences in reporting, standardised reconciliation tables are neither adequate nor beneficial for the purpose of the CSS leading to confusion in lieu of improved transparency.

The reconciliation requirement needs to mirror existing guidelines, requiring a clear and full explanation enabling an individual to understand how revenues and profits (not all CSS categories) reconcile to the licensee's audited statutory accounts figures. This should be possible in the form of a numerical table (including description and a written statement) designed by each obligated licensee in line with their individual statutory accounts reporting and specific organisational structure.

The guidelines document must clarify the details around website publication. If Ofgem maintains the requirement for the standardised reconciliation tables to be produced, a clear confirmation is needed as to whether publication is required for all three tables.