Promoting choice and value
for all gas and electricity customers

Financial Information Reporting: Amended Guidance

Guidance

Reference: 69/11

Publication date: 23 May 2011

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Overview:

This document sets out guidelines for the Financial Information Reporting Standard Conditions: 19A of the Gas and Electricity Licences and 16B of the Electricity Generation Licence. These guidelines replace the previous set of guidelines published on 20 October 2009.

This guidance is not intended to be legally binding but rather intends to assist the licensee in preparing the relevant financial information.

Context

The Financial Information licence conditions require the large vertically integrated companies to publicly report separate financial results for generation and for domestic and non-domestic electricity and gas supply. The aim of this remedy is to provide better transparency regarding how company revenues, costs and profits are split across different parts of their business. These guidelines aim to improve the cross-comparability of the reporting from the relevant licensees, and to help readers interpret these results more clearly.

We published the first set of Financial Information Reporting results in March 2011. This publication noted the limitations of comparing the segmental statements across companies. It set out proposals to amend the guidelines with the aim of improving the transparency and cross comparability of the results. This document sets out amended guidance, and takes into account the consultation responses on our earlier proposals.

The Retail Market Review Consultation Document was also published in March 2011. This set out proposals to appoint a leading firm of accountants to review the transfer pricing and hedge accounting practices of the vertically integrated firms in the sector. Depending on the outcome of the review, we may need, in due course, to make further amendments to the guidance. These amendments would most likely focus on the treatment of trading profits and mark to market adjustments.

Associated documents

- Energy Supply Probe - Initial Findings Report (140/08), 6 October 2008
- Energy Supply Probe - Retail Package decision document (99/09), 7 August 2009
- Financial information reporting: Guidance, 20 October 2009
- Retail Market Review Consultation Document (34/11), 21 March 2011
- Financial Information Reporting: 2009 Results (41/11), 24 March 2011

1. Guidelines

1.1. These guidelines relate to Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (collectively referred to as 'the Conditions' for the purposes of these guidelines) which came into effect on 21 October 2009. These guidelines are intended to assist the reader in understanding the requirements of the Conditions.

1.2. The guidelines have been prepared by the Office of Gas and Electricity Markets ('Ofgem') pursuant to paragraph 6/19A.6 of the Conditions (throughout this document the first paragraph number relates to the generation licences and the second relates to the supply licences). This version of guidelines takes into account comments received as a result of the 24 March 2011 consultation.

Completing the Consolidated Segmental Statement

1.3. The guidelines for completing the Consolidated Segmental Statement referred to in the Conditions should be taken to mean completing the Table overleaf in Appendix 1. The Notes to the table provide further details.

Scope and Application of the Licence Condition

1.4. The Conditions only apply to entities that hold both supply and generation licences, and who supply electricity to more than 50,000 customers or gas to more than 50,000 customers ('Relevant Licensees').

Financial Year

1.5. Under paragraph 3/19A.3 of the condition, the financial year should be taken to mean the Relevant Licensee’s current financial reporting year. For the avoidance of doubt this may differ between companies.

Interpreting the Financial Information

1.6. Under paragraph 4(a)/19A.4(a) of the Conditions a clear and full explanation of how the Relevant Licensee defines the terms revenues, costs and profits should be set out, so as to enable understanding of what the information provided pursuant to paragraph 1/19A.1 does and does not represent. The licensee should describe how marketing, shared and corporate costs have been allocated across generation, supply and other activities. Where issues pertaining to the data are unexpected or unusually complex these issues should be set out in full.

1.7. Under paragraph 4(b)/19A.4(b) of the Conditions a clear and full explanation of the reconciliation should be provided, so as to enable an individual to understand as much as can be reasonably expected as to how revenues, costs and profits reconcile (or do not reconcile, as a result of complexities in the group’s financial reporting structure) to the Relevant Licensee's UK statutory or consolidated group accounts. If a licensee separately identifies a column which it attributes to trading or portfolio optimisation, the explanatory notes should contain a detailed description of its major component parts. Wherever this is feasible, a reasonable endeavours approach should be used to allocate the components to the business segments. An explanation of any reconciliation would be expected to take the form of a numerical table and a written statement.

1.8. Paragraph 5/19A.5 of the Conditions provide for further information pertaining to the interpretation of the financial information provided required pursuant to paragraph 1/19A.1. This further information should be sufficient to inform an industry stakeholder of the financial data's proper interpretation and context (eg any structure constraints the business operates within, such as tolling agreements). A description of how any of the licensee's Joint Ventures are treated in the segmental statement should be contained in the explanatory notes.

Transfer Pricing Methodology

1.9. Under paragraph 4(c)/19A.4(c) of the Conditions a clear and full explanation of the Relevant Licensee's and Affiliates' transfer pricing methodology should be provided, so as to enable an industry stakeholder to understand as much as can be reasonably expected about this transfer pricing methodology adopted. The transfer pricing methodology used to calculate WACOE and WACOG should reflect how each licensee actually acquires energy. This explanation should include:

- how the methodology relates to open market prices and/or a cost plus methodology;
- the treatment of allocated costs and corporate charges (eg head office charges); and
- The allocation of financial risk between group companies and or business segments (eg treatment of internal tolling agreements/capability payments).

Appendix 1: Template for the consolidated Segmental Statement

	Unit[1]	Generation	Electricity supply		Gas supply		Aggregate supply business[10]
			Domestic	Non-domestic	Domestic	Non-domestic	
		2010	2010	2010	2010	2010	2010
Total revenue	£M	£0	£0	£0	£0	£0	£0
Revenue from sales of electricity and gas[2]	£M	£0	£0	£0	£0	£0	£0
Other revenue[3]	£M	£0	£0	£0	£0	£0	£0
Total operating costs	£M	£0	£0	£0	£0	£0	£0
Direct fuel costs[4]	£M	£0	£0	£0	£0	£0	£0
Other direct costs[5]	£M	£0	£0	£0	£0	£0	£0
Indirect costs[6]	£M	£0	£0	£0	£0	£0	£0
WACO F/E/G[7]	£/MWh, p/th	0	0	0	0	0	NA
EBITDA[8]	£M	£0	£0	£0	£0	£0	£0
DA	£M	£0	£0	£0	£0	£0	£0
EBIT	£M	£0	£0	£0	£0	£0	£0
Volume[9]	TWh, therms	-	-	-	-	-	NA

Please see Notes for a description of these line items.

Notes

1. The financial data should be provided to the nearest £million, WACOE to the nearest pence in £/MWh, WACOG in p/therms to 1 decimal place and volumes to 1 decimal place in TWh. The gray shadings denote summations that can be calculated by using other information within the statement. Eg EBITDA can be calculated using the total revenue and total operating cost lines in the statement.
2. For the generation business segment this means revenue from sales of electricity output generated; or if the business operates in a tolling-agreements structure, the revenues received from the capability payments (an explanation/clarification of the later type of revenues should be provided). For the respective supply segments this means electricity and gas sales. Revenue for domestic supply should be less dual fuel discounts where applicable; that is these discounts should be deducted from revenue, with the discount split evenly between electricity and gas. Social tariff costs should also be deducted from domestic supply revenue directly.
3. This means other respective segmental revenues not covered in Note 2. Eg in the generation segment this would include capacity payments, other physical options and ancillary services.
4. Direct fuel costs for supply should include aggregate electricity and gas costs as outlined in Note 7.
5. Other direct costs for supply should include network costs, BSUOS, environmental costs (including ROCs, CESP and CERTs) and the transport element of Reconciliation-by-Difference (RBD) costs.
6. Indirect costs should be defined as licensees' own internal operating costs including sales and marketing costs, bad debt, costs to serve, IT, staffing costs, billing and all meter costs.
7. For generation this means the weighted average input cost of fuel (eg gas, coal, uranium, etc) used by the generation business, shown as £/MWh. For the supply businesses, WACOE/G should cover the wholesale energy cost, losses, the energy element of RBD costs, balancing and shaping costs incurred by supply licensees.
8. EBIT means earnings before interest and tax; and EBITDA means earnings before interest, tax, depreciation and amortisation.
9. Volumes should be supplier volumes at the meter point (ie net of losses). Generation volumes should be the volume of power that can actually be sold in the wholesale market ie generation volumes after the losses up to the point where power is received under the Balancing and Settlement Code but before subsequent losses.
10. The supply aggregation column (aggregation of domestic and non-domestic electricity and gas supply businesses) sums the horizontal supply figures and thereby helps facilitate reconciliation to group accounts.