
Centrica plc

Response to Ofgem consultation

Improving Reporting Transparency

27 March 2012

Comment on BDO's findings

Do stakeholders agree with, or have any comments on, BDO's findings on the transfer pricing methodologies employed by the Big 6?

Do stakeholders agree with, or have any comments on, BDO's findings on how the Big 6 account for long term hedges?

Do stakeholders agree with, or have any comments on, BDO's findings on how each firm represents energy trading activities?

Do stakeholders agree with, or have any comments on, BDO's findings on how each company treats exceptional items?

Do stakeholders agree with, or have any comments on, BDO's findings on the consistency of treatment regarding Joint Ventures and Associates?

We have no comments in relation to BDO's findings on each of the above areas.

Comment on BDO's recommendations

Do stakeholders agree with, or have comments on, our proposal to not take forward recommendation 1 i.e. to require the Big Six to publish their CSS at the same time and to the same year-end?

We concur with Ofgem's proposal.

Do stakeholders agree with, or have comments on, our proposal to take forward recommendation 2 i.e. obtaining an independent opinion, at least for the first year, but not necessarily from an auditor?

We concur with Ofgem's proposal.

Do stakeholders agree with, or have comments on, our proposal to take forward recommendation 3 i.e. to instruct the Big Six to reconcile their CSS to an audited IFRS Income Statement?

We consider that the extension of the scope of the reconciliation of the CSS to the IFRS income statement would not increase comparability and transparency. We, along with a number of other entities, reconcile our CSS to the segmental accounting notes in our financial statements. In accordance with GAAP, the segmental notes in our financial statements already include reconciliations to the IFRS income statement, therefore we consider that to extend the reconciliation would add unnecessary extra lines. We estimate that on a columnar line by line basis as proposed this could result in excess of 10 separate reconciling items and make the reconciliation unnecessarily long.

Do stakeholders agree with, or have comments on, our proposed way forward on recommendation 4 i.e. for companies to complete a checklist to identify where functions are undertaken?

We concur with Ofgem's proposal.

Do stakeholders agree with, or have comments on, our proposal to not take forward recommendation 5 i.e. to not undertake BDO's recommendation to perform further work to assess current transfer pricing policies?

We concur with Ofgem's proposal.

Do stakeholders agree with, or have comments on, our proposal to include generation fuel costs in all the segmental statements (recommendation 6)?

We concur with Ofgem's proposal.

Do stakeholders agree with, or have comments on, our proposal to introduce uniform reporting treatments for generation fuel costs and free EU ETS allowances (recommendation 6)?

We concur with Ofgem's proposal.

Do stakeholders agree with, or have comments on, our proposal to take forward Recommendations 7 and 8 i.e. to provide more detailed guidance on the scope and definition of exceptional items and to instruct the Big Six to reconcile the CSS to the same starting point?

We consider that the selective inclusion and exclusion of exceptional items will not result in improved comparability and transparency. The accounting standards adequately deal with what is defined as an exceptional item to assist the user of the accounts to compare separate period results and so specifically selecting items which can be included will reduce the comparability of the year on year results. On this basis we consider the recommendation to include asset write downs in the Statement will distort the year on year and cross company comparability of the generation businesses.

If exceptional items are included, we recommend that all such items are included and separately identified to assist the comparability and transparency of the statements.

We concur with Ofgem's proposal to reconcile the CSS to the same starting point.

Do stakeholders have comments on our proposal to request the provision of information on capital employed?

We consider that the calculation of WACOE for the generation business should be excluded from the CSS. The WACOE for generation activities is not a comparable measure given the varying fuel costs for wind, hydro, nuclear and thermal generation activities. Furthermore we recommend the inclusion of a return on capital employed for generation activities which we consider a more comparable measure.

Do stakeholders have any comments on, or additional evidence related to, our draft impact assessment in Appendix 6?

We concur with the conclusions of the draft impact assessment.

Do stakeholders have any comments on our proposed increase in the customer threshold in the draft licence condition?

Whilst the focus of the segmental statements remains on ensuring that vertically integrated company's profit statements accurate, we accept it is reasonable to restrict the scope of the licence conditions to those companies who are vertically integrated. The extent of vertical integration a typical supplier has however is not related to the number of retail customers a supplier has. We therefore believe that Ofgem should take this opportunity to revise the definition so that it obligates any vertically integrated supplier to provide Segmental Statements each year.