

Appendix One

Question 1: Do respondents have any further comments on our unchanged proposals on recommendation 1?

No. We remain comfortable with Ofgem's decision not to take this recommendation forward.

Question 2: Do respondents have any further comments on our unchanged proposals on recommendation 2?

No. We are pleased Ofgem are proposing to seek an independent assessment on the statements provided, and agree that this does not necessarily need to be from an auditor.

Question 3: Do respondents have any comments on our updated proposals on recommendations 3, 7 and 8?

Changing the process so the CSS was reconciled to the IFRS income statement would have been time consuming for suppliers and would not have improved comparability or transparency. We are therefore pleased that Ofgem have amended their proposals in this area, and agree that reconciling the Consolidated Segmental Statement (CSS) to the result published in the respective Group accounts – the most transparent profit measure in the UK - is a pragmatic solution which will help Ofgem achieve their aims.

Question 4: Do respondents have any further comments on our unchanged proposals on recommendation 4?

We continue to agree with Ofgem's proposal to obligate suppliers to produce a checklist identifying where functions are undertaken.

Question 5: Do respondents have any further comments on our unchanged proposals on recommendation 5?

We welcome BDO's confirmation that current transfer pricing methodologies are fit for purpose. We also agree with BDO's conclusion that no incentives exist on companies to manipulate their transfer pricing and that in any case sufficient barriers exist to prevent such manipulation. We therefore agree a comparison of current methodologies to other potential models is unnecessary, and support Ofgem's proposal not to take forward the recommendation in this area.

Question 6: Do respondents have any comments on our updated proposals on recommendation 6?

We agree with Ofgem's proposals to capture all fuel costs associated with generation activities. However we continue to believe that the inclusion of WACOE for the generation business is not a comparable measure given the varying fuel costs for wind (nil), hydro, nuclear and thermal generation activities.

Question 7: Do respondents have any comments on our proposal to not take forward work on publishing capital employed as part of the Statements?

While we appreciate the difficulty of ensuring a consistent calculation of capital employed, we believe that the inclusion of a capital employed measure would aid comparability of generation activities. At a time when power generation is becoming more capital intensive because of the shift to renewable and nuclear generation, it is essential that there is an understanding of the need for returns on capital. Focussing on profits and margins is not sufficient.

Question 8: Do respondents have any further comments on our unchanged proposals to increase the customer number threshold?

As a point of principle, if the CSS is to genuinely fulfil its purpose both today and tomorrow we believe that its scope should be targeted at all energy companies with both generation and supply interests, regardless of the number of customers they supply.

Question 9: Do respondents have any views on the usefulness of further breakdown of the non-domestic segment in future Statements?

No. We would not be minded to further breakdown the non-domestic sector. We expect all suppliers to have different non-domestic business models. Providing specific information on Ofgem defined sectors based on Ofgem defined cost allocations, which could be very different to how each supplier manages their non-domestic business, would result in significant management costs. This approach may also have implications on the reporting of other parts of the business and may reduce the transparency of the CSS as they may no longer agree to the audited annual accounts.

Question 10: Do respondents have views on the usefulness of further clarity on how third party costs are recovered across the segments?

We are comfortable with Ofgem's decision to include a description of how third party costs are recovered across the segments.