

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).

1.2. The guidelines have been prepared by the Office of Gas and Electricity Markets ('Ofgem') pursuant to paragraph 8/19A.8 of the Conditions (throughout this document the first paragraph number relates to the generation licence and the second relates to the supply licences).

Scope and Application of the Licence Condition

1.3. The Conditions only apply to those companies that are "Relevant Licensees" as defined in the Conditions. Where information required under the Conditions is held by an Affiliate the Relevant Licensee is required to obtain and publish the information. Annex 1 provides further information on the scope of information required (eg the requirement for which generation volumes should be included in note 9).

Financial Year

1.4. 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

1.5. 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 published pursuant to paragraph 1/19A.1 does and does not represent. The licensee should describe the methodology or methodologies used to allocate marketing, shared and corporate costs across generation, supply and other activities. The licensee should also describe how individual costs such as Feed in Tariff costs and Renewable Obligation costs, are allocated across the segments. Where issues pertaining to the data are unexpected or unusually complex these issues should be set out in full.

1.6 We would only expect the revenues, costs and profits to reflect company activities relating to that year of operations. Examples of financial items we would not expect to be included are, but are not limited to, mark to market adjustments, profit or losses on disposal, restructuring costs that have been identified as such in the Group's annual report and impairment charges. Where the Relevant Licensee has included any such items for the purpose of reconciliation, or otherwise, a clear and full explanation must be provided.

1.7. Under paragraphs 4(b) & (c) /19A.4(b) & (c) and 6/19A.6 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 and profits reconcile to the Relevant Licensee's audited figures. For the avoidance of doubt, the companies that published Consolidated Segmental Statements in 2009 and 2010 would fall under paragraph 4(b) / 19A.4(b) and not 4(c) / 19A.4(c) 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

significant component parts. An explanation of any reconciliation would be expected to take the form of a numerical table and a written statement.

1.8. Paragraph 6/19A.6 of the Conditions provide for the information required pursuant to paragraph 1/19A.1 to be presented with a clear and full explanation. This clear and full explanation should be sufficient to inform an industry stakeholder of the financial data's proper interpretation and context (eg any structural constraints the business operates within, such as tolling agreements).

Transfer Pricing Methodology

1.9. Under paragraph 4(d)/19A.4(d) 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 the 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).

Treatment of Joint Ventures and Associates

1.10. Under paragraph 5 of the Conditions the Relevant Licensee must ensure that the information provided in the CSS includes its share of revenues, costs, profits and volumes of any Joint Venture and Associates. In preparing the CSS, the Relevant Licensee should account for Joint Ventures and Associates (which hold a generation or supply licence relating to the generation or supply of gas or electricity in the UK) as follows:

- the share of revenues of Joint Ventures and Associates to be included within revenue;
- the share of the profit before tax of Joint Ventures and Associates to be included with EBIT and EBITDA; and
- the share of the generation volumes of Joint Ventures and Associates to be included within the generation volumes.

1.11. For each of the items, the Relevant Licensee's share of the income and expenses of a Joint Venture or Associate should be combined line by line with similar items in the Relevant Licensee's CSS or reported as separate line items in the Relevant Licensee's CSS.

1.12. The remainder of the guidelines consist of Annex 1 and 2.

Annex 1

	Unit ¹	Generation	Electricity supply		Gas supply		Aggregate supply business ¹⁰
			Domestic	Non-domestic	Domestic	Non-domestic	
		20xx	20xx	20xx	20xx	20xx	20xx
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

Notes

1. The financial data should be provided to the nearest £million, WACOE and WACOF to the nearest pence in £/MWh, WACOG in p/therms to 1 decimal place and volumes to 1 decimal place in TWh. The grey 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 or capacity payments including any account of associated fuel costs (an explanation/clarification of the latter 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. Other respective segmental revenues not covered in Note 2, eg in the generation segment may 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. Direct fuel costs for generation should include an associated input cost for fuel, irrespective of the business model of the Relevant Licensee or its Affiliate. If the business operates in a tolling-agreements structure the direct fuel costs for generation may be presented in the form of a footnote to the template. The footnote should include a description of the volume, total cost, and average cost. It should also specify the volume of granted free carbon allowances.
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. This should reflect the delivered cost of fuel. 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.

Annex 2

Business function	Generation	Supply	Not included in CSS
Operates and maintains			

generation assets			
Responsible for scheduling decisions			
Responsible for interactions with the Balancing Market			
Responsible for determining hedging policy			
Responsible for implementing hedging policy / makes decisions to buy/sell energy			
Interacts with wider market participants to buy/sell energy			
Holds unhedged positions (either short or long)			
Procures fuel for generation			
Procures allowances for generation			
Holds volume risk on positions sold (either internal or external)			
Matches own generation with own supply			
Forecasts total system demand			
Forecasts wholesale price			
Forecasts customer demand			
Determines retail pricing and marketing strategies			
Bears shape risk after initial hedge until market allows full hedge			
Bears short term risk for variance between demand and forecast			

Notes

1. Companies should indicate where functions reside by way of a tick in the appropriate cell of the table. If profits or losses are not recorded in the same area, then an "F" should be used to indicate where the function resides and a "P/L" should be used to indicate where the profits or losses are recorded. If a payment is made or received by either generation or supply in lieu of a profit or loss this should be referenced by way of a footnote.
2. "Not included in CSS" should include entries if neither the Generation nor Supply Segments as reported in the CSS are responsible for a particular function, but that function is undertaken by the Relevant Licensee or an Affiliate. If a function is not undertaken then no entry should be recorded.

Glossary of terms:

- "Scheduling decisions" means the decision to run individual generation units
- "Responsible for interactions with the Balancing Market" means interactions with the Balancing Mechanism in electricity.
- "Interacts with wider market participants to buy/sell energy" means the business unit responsible for interacting with wider market participants to buy/sell energy, not the entity responsible for the buy/sell decision itself, which falls under "Responsible for implementing hedging policy /makes decisions to buy/sell energy".

- "Matches own generation with own supply" means where there is some internal matching of generation and supply before either generation or supply interact with the wider market. For the avoidance of doubt, if an entry is provided in this row, a footnote explanation of the scale of volumes involved is permitted.
- "Forecasts total system demand" means forecasting total system electricity demand or total system gas demand.
- "Forecasts customer demand" means forecasting the total demand of own supply customers.
- "Bears shape risk after initial hedge until market allows full hedge" means the business unit which bears financial risk associated with hedges made before the market allows fully shaped hedging.
- "Bears short term risk for variance between demand and forecast" means the business unit which bears financial risk associated with too little or too much supply for own customer demand.