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*Promoting choice and value for
all gas and electricity customers*

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Date: 29 August 2012

Dear Colleague

Improving the Reporting Transparency of Large Energy Suppliers

The Authority today published a decision modifying the standard licence conditions of the following three licenses:

- **The Electricity Supply Licence under Section 11A of the Electricity Act 1989,**
- **The Gas Supply Licence under Section 23 of the Gas Act 1986, and**
- **The Electricity Generation Licence under section 11A of the Electricity Act 1989**

Background

In January 2012 we published a set of recommendations to improve the transparency and cross-company comparability of the Consolidated Segmental Statements (the Statements)¹. This was followed by a second consultation in May (Reference 64/12) and an open letter in June. We have benefited from responses to both consultations and we thank all parties that have contributed.

On 13 July 2012, the Authority issued a statutory consultation (Reference 95/12) on our final proposals for amendments to the licence condition, which revises:

- Licence condition 19A of the electricity supply licence;
- Licence condition 19A of the gas supply licence;
- License condition 16B of the generation licence; and
- The guidelines document.

The statutory consultation also asked two specific questions, the first on our proposal to require reconciliation to only revenue and profits, but not costs, published in Group accounts, and the second asked whether companies should describe how Feed-in Tariff costs and Renewable Obligation costs are allocated across the segments.

On the first question, one respondent disagreed on the grounds that this makes the information supplied less transparent. Another respondent noted that reconciliation to revenues may give rise to additional complexity and that therefore reconciliation to profits only may be preferable. Having considered these responses, we continue to believe a

¹ Ofgem "Improving the Reporting Transparency of Large Energy Suppliers", Reference 09/12

reconciliation to at least two of the three items, namely revenue and profits, provides sufficient information for the purposes of the Statements.

There was no disagreement on question two, although one respondent noted that other third party costs, such as network costs, should also be allocated across segments. We are mindful of the link between the resource cost and the level of prescription we assign to the Statements. At this stage, we see stronger arguments for asking companies to separate Renewable Obligation and Feed in Tariff costs across the segments than other individual costs. Even so, we welcome transparency and companies may choose to present a wider range of individual costs than we have asked for.

Unrelated to the two questions in the statutory consultation, one respondent brought to our attention that the proposed titles of the columns in the table in Annex 2 of the Guidelines precludes companies from making more than one entry for any particular business function. We recognise that in some cases profits and losses may reside in more than one part of the business and that there are benefits to transparency of allowing companies the flexibility to make more than one entry for each business function if deemed appropriate.

As a consequence, we are amending the title to the third column in Annex 2 of the Guidelines from "Not included in CSS" to "Another part of the business" and replacing the second note below the table with the following text:

2. Entries in the column entitled "Another part of the business" should be made if the function resides within an entity of the Relevant Licensee or an Affiliate other than the Generation or Supply segments as reported in the CSS. If the function also resides within the Generation or Supply segments, the Licensee should tick the relevant boxes and provide a brief explanation.

As the amendment is for the purpose of further clarification and does not reflect a change in policy we decided not to reconsult. We have raised this change bilaterally with the relevant licensees ahead of this final decision document and did not receive any objections to our proposals.

Decision

The Authority has decided to proceed with the modifications to the licence condition proposed in the 13 July 2012 consultation. The modifications will take effect on and from 24 October 2012.

The Authority has decided to amend Note 2 of Annex 2 of the guidelines as described above in order to clarify how the table should be completed.

Statutory directions modifying the standard conditions of all electricity and gas supply licences, and all electricity generation licences have today been issued to all relevant licensees. A list of the relevant licensees and a copy of the statutory directions can be found on Ofgem's website.

Please contact Stefan Bojanowski (020 7901 7068: css@ofgem.gov.uk) should you have any queries.

Yours sincerely

Kersti Berge
Associate Partner
Energy Market Research and Economics

Electricity Act 1989
Sections 11A(1)(b) and 49A(1)(b)

**MODIFICATION OF THE STANDARD CONDITIONS OF ELECTRICITY SUPPLY
LICENCES GRANTED UNDER SECTION 6(1)(d) OF THE ELECTRICITY ACT 1989;**

**AND NOTICE OF REASONS FOR THE DECISION TO MODIFY THE LICENCE UNDER
SECTION 49A(1)(b) OF THE ELECTRICITY ACT 1989**

Whereas –

1. Each of the companies to whom this document is addressed (a “Licence Holder”) has been granted a licence (“a Licence”) under section 6(1)(d) of the Electricity Act 1989 (“the Act”) to supply electricity to premises subject to the conditions contained in its Licence.
2. In accordance with section 11A(2) of the Act the Gas and Electricity Markets Authority (“the Authority”) gave notice on 13 July 2012 (“the Notice”) that it proposed to make modifications to standard condition 19A of the Licence and by requiring any representations to the modification to be made on or before 10 August 2012.
3. In accordance with section 11A(4)(b) of the Act, the Authority gave such notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modification.
4. Prior to the close of the consultation period in respect of the Notice, the Authority received five responses. All non-confidential responses have been placed in the Ofgem library and on the Ofgem website.
5. The Authority has carefully considered in relation to the proposed modification all representations received.
6. In accordance with section 49A of the Act the Authority gives the following reasons for making the licence modifications.

The objective of the amended licence condition is to make it easier for stakeholders to understand the profitability of different components of the Great Britain energy market by providing greater transparency for independent market participants and other stakeholders.

7. The effect of the modification(s) will be that transparency and cross company comparability of the Consolidated Segmental Statements is improved. This is achieved by requesting the relevant Licensees to make changes to the way the financial information is reported. Further detail is set out in our document “Improving the Reporting Transparency of Large Energy Suppliers” dated 13 July 2012 (Reference 95/12).

Now therefore

In accordance with the powers contained in section 11A(1)(b) of the Act, the Authority hereby modifies the standard licence conditions for all electricity supply licences in the manner specified in attached Schedule 1. This decision will take effect on and from 24 October 2012.

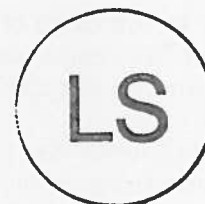
This document constitutes Notice of the reasons for the decision to modify the licence as required by section 4A(1)(b) of the Act.

**The Official Seal of the Gas and Electricity Markets Authority
here affixed is authenticated by the signature of**

Kersti Berge.....

**Kersti Berge, Associate Partner of Energy Markets Research and Economics.
Duly authorised on behalf of the Gas and Electricity Markets Authority**

Date



SCHEDULE 1: Standard Licence Condition 19A

1. The Relevant Licensee must prepare and publish on its Website a Consolidated Segmental Statement in respect of information relating to the revenues, costs and profits of its activities in the generation and supply of electricity and the supply of gas to any premises taking account of the Guidelines.
2. Where applicable, the Relevant Licensee must prepare and publish the Consolidated Segmental Statement referred to in paragraph 1 in conjunction with any Affiliates.
3. The Relevant Licensee must, in conjunction with any Affiliates, prepare and publish a Consolidated Segmental Statement
 - (a) no later than six months after the end of the Relevant Licensee's financial year; or
 - (b) no later than a date specified by the Authority, which can be no earlier than six months after the end of the Relevant Licensee's financial year.
4. Subject to complying with this paragraph the Relevant Licensee may, for the purpose of preparing the statement pursuant to paragraph 3, prepare and compile the information according to the licensee's annual accounting procedures. The Relevant Licensee must include in every such statement an explanation of:
 - (a) how it defines the terms revenues, costs and profits;
 - (b) how the revenues and profits can be reconciled with audited figures (prepared under International Financial Reporting Standards) published in Group accounts;
 - (c) or, if Group accounts are not prepared or published, how the revenues, costs and profits can be reconciled with its UK statutory accounts;
 - (d) its transfer pricing methodology and how this relates to the revenues, costs and profits information published; and
 - (e) where individual business functions are captured in the Consolidated Segmental Statement, as specified by Appendix 2 of the Guidelines.
5. The Relevant Licensee must ensure that the information prepared and made public pursuant to paragraph 3 includes the cost of fuel used to generate electricity and its share of revenues, costs, profits and volumes of Joint Ventures and Associates.
6. Subject to complying with Paragraph 5 the Relevant Licensee must ensure that all the information prepared and made public pursuant to paragraph 3 is in all material respects consistent with the information prepared pursuant to paragraph 4 and the information is presented with a clear and full explanation.
7. (a) The Authority shall prepare Guidelines in relation to the requirements of this condition and may modify, in whole or in part, the Guidelines following consultation with the Relevant Licensees.
 - (b) The Authority shall modify the definition of Consolidated Segmental Statement as described in Appendices 1 and 2 of the Guidelines in accordance with section 11A of the Act.
8. For the purposes of this condition:

"Affiliate" means any holding company or subsidiary of a holding company of the Relevant Licensee, in each case within the meaning of sections 1159 and 1160 of the Companies Act 2006.

“Associate” means an entity, including an unincorporated entity such as a partnership, over which the Relevant Licensee has significant influence and that is neither a subsidiary nor an interest in a joint venture.

“Consolidated Segmental Statement” means a statement as described in Appendices 1 and 2 of the Guidelines.

“Joint Venture” means a contractual arrangement whereby the Relevant Licensees and one or more parties undertake an economic activity that is subject to joint control.

“Relevant Licensee” means the holder of an electricity supply licence granted or treated as granted under section 6(1)(d) of the Act if it or any of its Affiliates:

- i. jointly supply electricity to more than 250,000 domestic customers; or
- ii. jointly supply gas to more than 250,000 domestic customers; or
- iii. jointly supply electricity to more than 250,000 non-domestic customers; or
- iv. jointly supply gas to more than 250,000 non-domestic customers, respectively.

“Website” means a website controlled and used by the Relevant Licensee or an Affiliate for the purposes of providing information and communication.

Gas Act 1986
Sections 23(1)(b) and s38A(1)(b)

**MODIFICATION OF THE STANDARD CONDITIONS OF GAS SUPPLY LICENCES
GRANTED UNDER SECTION 7A(1) OF THE GAS ACT 1986; AND
NOTICE OF REASONS FOR THE DECISION TO MODIFY THE LICENCE UNDER
SECTION 38A(1)(b) OF THE GAS ACT 1986**

Whereas –

1. Each of the companies to whom this document is addressed (a “Licence Holder”) has been granted a licence (“a Licence”) under section 7A(1) of the Gas Act 1986 (“the Act”) to supply gas to any premises subject to the conditions contained in its Licence.
2. In accordance with section 23(2) of the Act the Gas and Electricity Markets Authority (“the Authority”) gave notice on 13 July 2012 (“the Notice”) that it proposed to make modifications to standard condition 19A of the Licence and by requiring any representations to the modification to be made on or before 10 August 2012.
3. In accordance with section 23(4)(b) of the Act, the Authority gave such notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modification.
4. Prior to the close of the consultation period in respect of the Notice, the Authority received five responses. All non-confidential responses have been placed in the Ofgem library and on the Ofgem website.
5. The Authority has carefully considered in relation to the proposed modification all representations received.
6. In accordance with section 38A of the Act the Authority gives the following reasons for making the licence modifications.

The objective of the amended licence condition is to make it easier for stakeholders to understand the profitability of different components of the Great Britain energy market by providing greater transparency for independent market participants and other stakeholders.

7. The effect of the modification will be that transparency and cross company comparability of the Consolidated Segmental Statements is improved. This is achieved by requesting the relevant Licensees to make changes to the way the financial information is reported. Further detail is set out in our document “Improving the Reporting Transparency of Large Energy Suppliers” dated 13 July 2012 (Reference 95/12).

Now therefore

In accordance with the powers contained in section 23(1)(b) of the Act, the Authority hereby modifies the standard licence conditions for all electricity supply licences in the manner specified in attached Schedule 1. This decision will take effect on and from 24 October 2012.

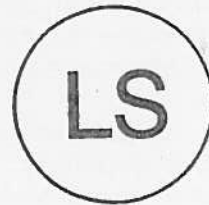
This document constitutes Notice of the reasons for the decision to modify the licence as required by section 38A(1)(b) of the Act.

**The Official Seal of the Gas and Electricity Markets Authority
here affixed is authenticated by the signature of**

.....*746 [Signature]*.....

**Associate Partner of Energy Markets Research and Economics. Duly authorised
on behalf of the Gas and Electricity Markets Authority**

Date



SCHEDULE 1: Standard Licence Condition 19A

1. The Relevant Licensee must prepare and publish on its Website a Consolidated Segmental Statement in respect of information relating to the revenues, costs and profits of its activities in the generation and supply of electricity and the supply of gas to any premises taking account of the Guidelines.
2. Where applicable, the Relevant Licensee must prepare and publish the Consolidated Segmental Statement referred to in paragraph 1 in conjunction with any Affiliates.
3. The Relevant Licensee must, in conjunction with any Affiliates, prepare and publish a Consolidated Segmental Statement
 - (a) no later than six months after the end of the Relevant Licensee's financial year; or
 - (b) no later than a date specified by the Authority, which can be no earlier than six months after the end of the Relevant Licensee's financial year.
4. Subject to complying with this paragraph the Relevant Licensee may, for the purpose of preparing the statement pursuant to paragraph 3, prepare and compile the information according to the licensee's annual accounting procedures. The Relevant Licensee must include in every such statement an explanation of:
 - (a) how it defines the terms revenues, costs and profits;
 - (b) how the revenues and profits can be reconciled with audited figures (prepared under International Financial Reporting Standards) published in Group accounts; or
 - (c) if Group accounts are not prepared or published, how the revenues, costs and profits can be reconciled with its UK statutory accounts;
 - (d) its transfer pricing methodology and how this relates to the revenues, costs and profits information published; and
 - (e) where individual business functions are captured in the Consolidated Segmental Statement, as specified by Appendix 2 of the Guidelines.
5. The Relevant Licensee must ensure that the information prepared and made public pursuant to paragraph 3 includes the cost of fuel used to generate electricity and its share of revenues, costs, profits and volumes of Joint Ventures and Associates.
6. Subject to complying with Paragraph 5 the Relevant Licensee must ensure that all the information prepared and made public pursuant to paragraph 3 is in all material respects consistent with the information prepared pursuant to paragraph 4 and the information is presented with a clear and full explanation.
7. (a) The Authority shall prepare Guidelines in relation to the requirements of this condition and may modify, in whole or in part, the Guidelines following consultation with the Relevant Licensees.
 - (b) The Authority shall modify the definition of Consolidated Segmental Statement as described in Appendices 1 and 2 of the Guidelines in accordance with section 23 of the Act.
8. For the purposes of this condition:

"Affiliate" means any holding company or subsidiary of a holding company of the Relevant Licensee, in each case within the meaning of sections 1159 and 1160 of the Companies Act 2006.

"Associate" means an entity, including an unincorporated entity such as a partnership, over which the Relevant Licensee has significant influence and that is neither a subsidiary nor an interest in a joint venture.

"Consolidated Segmental Statement" means a statement as described in Appendices 1 and 2 of the Guidelines.

"Joint Venture" means a contractual arrangement whereby the Relevant Licensees and one or more parties undertake an economic activity that is subject to joint control.

"Relevant Licensee" means the holder of a supply licence granted or treated as granted under section 7A(1) of the Act if it or any of its Affiliates:

- i. jointly supply electricity to more than 250,000 domestic customers; or
- ii. jointly supply gas to more than 250,000 domestic customers; or
- iii. jointly supply electricity to more than 250,000 non-domestic customers; or
- iv. jointly supply gas to more than 250,000 non-domestic customers, respectively.

"Website" means a website controlled and used by the Relevant Licensee or an Affiliate for the purposes of providing information and communication.

Electricity Act 1989
Sections 11A(1)(b) and 49A(1)(b)

**MODIFICATION OF THE STANDARD CONDITIONS OF ELECTRICITY GENERATION
LICENCES GRANTED UNDER SECTION 6(1)(a) OF THE ELECTRICITY ACT 1989;
and
NOTICE OF REASONS FOR THE DECISION TO MODIFY THE LICENCE UNDER
SECTION 49A(1)(b) OF THE ELECTRICITY ACT 1989**

Whereas –

1. Each of the companies to whom this document is addressed (a “Licence Holder”) has been granted a licence (“a Licence”) under section 6(1)(a) of the Electricity Act 1989 (“the Act”) to generate electricity for the purposes of giving a supply to any premises subject to the conditions contained in its Licence.
2. In accordance with section 11A(2) of the Act the Gas and Electricity Markets Authority (“the Authority”) gave notice on 13 July 2012 (“the Notice”) that it proposed to make modifications to standard condition 16B of the Licence and by requiring any representations to the modification to be made on or before 10 August 2012.
3. In accordance with section 11A(4)(b) of the Act, the Authority gave such notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modification.
4. Prior to the close of the consultation period in respect of the Notice, the Authority received five responses. All non-confidential responses have been placed in the Ofgem library and on the Ofgem website.
5. The Authority has carefully considered in relation to the proposed modification all representations received.
6. In accordance with section 49A of the Act the Authority gives the following reasons for making the licence modifications.

The objective of the amended licence condition is to make it easier for stakeholders to understand the profitability of different components of the Great Britain energy market by providing greater transparency for independent market participants and other stakeholders.

7. The effect of the modification will be that transparency and cross company comparability of the Consolidated Segmental Statements is improved. This is achieved by requesting the relevant Licensees to make changes to the way the financial information is reported. Further detail is set out in our document “Improving the Reporting Transparency of Large Energy Suppliers” dated 13 July 2012 (Reference 95/12).

Now therefore

In accordance with the powers contained in section 11A(1)(b) of the Act, the Authority hereby modifies the standard licence conditions for all electricity supply licences in the manner specified in attached Schedule 1. This decision will take effect on and from 24 October 2012.

This document constitutes Notice of the reasons for the decision to modify the licence as required by section 4A(1)(b) of the Act.

**The Official Seal of the Gas and Electricity Markets Authority
here affixed is authenticated by the signature of**

Kersti Berge.....

**Kersti Berge Associate Partner of Energy Markets and Economics.
Duly authorised on behalf of the Gas and Electricity Markets Authority**

Date



SCHEDULE 1: Standard Licence Condition 16B

1. The Relevant Licensee must prepare and publish on its Website a Consolidated Segmental Statement in respect of information relating to the revenues, costs and profits of its activities in the generation and supply of electricity and the supply of gas to any premises taking account of the Guidelines.

2. Where applicable, the Relevant Licensee must prepare and publish the Consolidated Segmental Statement referred to in paragraph 1 in conjunction with any Affiliates.

3. The Relevant Licensee must, in conjunction with any Affiliates, prepare and publish a Consolidated Segmental Statement
(a) no later than six months after the end of the Relevant Licensee's financial year; or
(b) no later than a date specified by the Authority, which can be no earlier than six months after the end of the Relevant Licensee's financial year.

4. Subject to complying with this paragraph the Relevant Licensee may, for the purpose of preparing the statement pursuant to paragraph 3, prepare and compile the information according to the licensee's annual accounting procedures. The Relevant Licensee must include in every such statement an explanation of:

(a) how it defines the terms revenues, costs and profits;

(b) how the revenues and profits can be reconciled with audited figures (prepared under International Financial Reporting Standards) published in Group accounts;

(c) or, if Group accounts are not prepared or published, how the revenues, costs and profits can be reconciled with its UK statutory accounts

(d) its transfer pricing methodology and how this relates to the revenues, costs and profits information published; and

(e) where individual business functions are captured in the Consolidated Segmental Statement, as specified by Appendix 2 of the Guidelines.

5. The Relevant Licensee must ensure that the information prepared and made public pursuant to paragraph 3 includes the cost of fuel used to generate electricity and its share of revenues, costs, profits and volumes of Joint Ventures and Associates.

6. Subject to complying with Paragraph 5 the Relevant Licensee must ensure that all the information prepared and made public pursuant to paragraph 3 is in all material respects consistent with the information prepared pursuant to paragraph 4 and the information is presented with a clear and full explanation.

7. (a) The Authority shall prepare Guidelines in relation to the requirements of this condition and may modify, in whole or in part, the Guidelines following consultation with the Relevant Licensees.

(b) The Authority shall modify the definition of Consolidated Segmental Statement as described in Appendices 1 and 2 of the Guidelines in accordance with section 11A of the Act.

8. For the purposes of this condition:

"Affiliate" means any holding company or subsidiary of a holding company of the Relevant Licensee, in each case within the meaning of sections 1159 and 1160 of the Companies Act 2006.

“Associate” means an entity, including an unincorporated entity such as a partnership, over which the Relevant Licensee has significant influence and that is neither a subsidiary nor an interest in a joint venture.

“Consolidated Segmental Statement” means a statement as described in Appendices 1 and 2 of the Guidelines.

“Joint Venture” means a contractual arrangement whereby the Relevant Licensees and one or more parties undertake an economic activity that is subject to joint control.

“Relevant Licensee” means the holder of an electricity generation licence granted or treated as granted under section 6(1)(a) of the Act if it or any of its Affiliates:

- i. jointly supply electricity to more than 250,000 domestic customers; or
- ii. jointly supply gas to more than 250,000 domestic customers; or
- iii. jointly supply electricity to more than 250,000 non-domestic customers; or
- iv. jointly supply gas to more than 250,000 non-domestic customers, respectively.

“Website” means a website controlled and used by the Relevant Licensee or an Affiliate for the purposes of providing information and communication.