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Dear Robyn

Consolidated Segmental Statements

Thank you for your letter setting out Ofgem's proposed revisions to Standard Licence Condition (SLC) 19 and the guidance relating to the annual Consolidated Segmental Statements (CSS). This response is provided on behalf of Centrica Group, excluding Centrica Storage, and is non-confidential.

We welcome the changes that Ofgem has made since the previous round of consultation. In particular, we support the decision to defer allocating interest and tax by business unit and the sensible amendments to the transfer pricing requirements. Following these amendments, we will publish our 2014 CSS largely on the same basis and timescale as our 2013 CSS.

We are, however, disappointed that Ofgem has not further developed their thinking on the potential tension between transparency and competition. Ofgem's rationale for publishing the CSS should be clear and we believe Ofgem should explain how the transparency brought about by the CSS does not negatively impact competition or demonstrate that the CSS delivers benefits to competition that outweigh any potential harm. There may be alternative ways of providing transparency on costs and profits and Ofgem should demonstrate consideration of these alternatives.

With this in mind, we believe Ofgem needs to be particularly cautious in developing the CSS while the Competition and Markets Authority (CMA) undertake their market investigation. The 2014 CSS should avoid additional cost breakdowns or the provision of information which is not already in the public domain.

While we are pleased with many of the amendments, we hold significant concerns with some of Ofgem's proposals, in particular the new proposal to publish purchased volumes. We would highlight the following issues:

- **The proposal to publish purchased volumes would introduce information into the market which is not published elsewhere, could harm competition and confuse consumers**. Since the previous consultation closed, Ofgem has proposed that companies publish "purchased volumes", i.e. volumes purchased from the wholesale market without adjustment for losses. We take this to refer to net purchased volumes, i.e. the deemed position of shippers before losses are taken into account. We do not believe this information should be published. The deemed figure is not currently published elsewhere (e.g. in company accounts) and may be of commercial interest to competitors. The figure also represents an industry estimate which may be revised and reconciled up to 4 years after publication and is liable to misunderstanding and misinterpretation. The figure is therefore not helpful, and may prove confusing, to Ofgem and consumers. If Ofgem wishes to explore the publication of this information, it should only do so after undertaking an impact assessment and full consultation. Therefore, we propose to provide supplied volumes in our 2014 CSS, as per the 2009 to 2013 CSS, but not purchased volumes.

- **We remain concerned that Ofgem propose to require that exceptional items are allocated to business segments.** As highlighted in our previous response, allocating exceptional items to business segments involves further work which seems unwarranted given the purpose of the CSS financial data is to report true business performance for that year of operation. While we can create a methodology to allocate exceptional items in the way proposed, it is does not reflect how we consider these exceptional items in our Annual Reports and Accounts (ARA). For consistency with our accounting treatment, we propose that exceptional items are included as a separate line item at the end of the Annex 1 template and are disclosed in aggregate for both the Supply and Generation business.

- **Ofgem's proposed treatment of broker commissions and costs may not align with how we treat these costs.** Where there is a link to revenue generation, British Gas will classify sales commissions paid to brokers or agents as direct costs. We are happy to include these costs within "Other Direct Costs" as per Ofgem's proposal. However, where this is no specific link to revenue generation, e.g. in the form of lead generation, the amounts paid to these third parties are classified as indirect costs. This is how we treat these costs in the ARA and we intend to continue with this approach in the 2014 CSS. We would welcome Ofgem's views on this approach.

- **Our support for further environmental and social cost breakdowns is contingent on Ofgem showing that publication will not harm competition.** In the summary of responses to the previous consultation, Ofgem stated that "all respondents agreed with our proposals to require further breakdowns of environmental and social obligation costs". This is not quite correct. We would like to reiterate that our support is heavily dependent on Ofgem showing that a further breakdown of costs can be achieved without harming competition.

- **The transfer pricing requirements should be extended to appropriate small suppliers.** In our previous response, we highlighted that some small suppliers, e.g. those with generation licences or part of international groups, should be captured by the new transfer pricing requirements. All UK companies are subject to the same transfer pricing standards and it seems illogical for only the policies of the largest suppliers to be subject to additional scrutiny from Ofgem. We therefore recommend that the scope of SLC 19A.7 is widened to cover these suppliers.

We hope the above is helpful. If you have any questions, please contact me on 07769 548 906.

Yours sincerely

Thomas Lowe

Regulatory Manager
British Gas