



Robyn Daniell  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Email to: [css@ofgem.gov.uk](mailto:css@ofgem.gov.uk)

11 December 2014

### **Representation to the proposed licence modifications to improve the transparency of energy company profits**

EDF Energy remains committed to rebuilding trust in energy markets. Recognising that energy company profits are a key thread of the trust debate, it is important that stakeholders have faith in the consolidated segmental statements (CSS) and see them as the source of authoritative profitability information. On this basis, we are committed to working with Ofgem and other stakeholders on possible measures to improve the CSS.

We welcome the fact that Ofgem has taken on board many of the comments in our November 2014 CSS consultation response. In particular, we are glad that Ofgem has decided not to proceed with the proposal to require the disclosure of interest and tax on a segmental basis. As highlighted in our November response, any attempt to disclose interest and tax on a segmental basis would not provide a meaningful insight due to the level of judgement required.

We are also glad that Ofgem has decided not to proceed with the proposal to separate certain costs (including notably losses) currently reported in 'direct fuel costs' and report them in 'other direct costs'. We agree with Ofgem's solution of splitting out purchased volumes and supplied volumes and the related adjustment to the methodology for calculating the weighted average cost of electricity and gas, and we foresee no issues with providing this information in our statement.

However, we are disappointed that Ofgem has not decided to roll out the CSS obligation more widely at this stage. This decision not only reinforces prejudices about the six large so-called 'vertically integrated' companies, for example that these companies make excess profits, but it also implies that there is some inherent concern over transparency of profits in relation to vertically integrated business models. This is particularly surprising considering that BDO has recently given the six large players a clean bill of health on their transfer pricing arrangements, which Ofgem itself stated has provided reassurance that the CSS present an accurate picture of generation and supply profitability.

In order to enhance the transparency of energy company profits, it is undoubtedly necessary to provide a view of profits across the sector. As the market share of medium

**EDF Energy**  
40 Grosvenor Place, Victoria  
London SW1X 7EN  
Tel +44 (0) 20 7752 2200

**edfenergy.com**  
*EDF Energy plc.  
Registered in England and Wales.  
Registered No. 2366852.  
Registered office: 40 Grosvenor Place,  
Victoria, London SW1X 7EN*

to small sized suppliers continues to grow<sup>1</sup>, it is surely appropriate for these companies to be captured in the CSS obligation. While Ofgem notes that some respondents voiced concerns that any such obligation could be burdensome, as stated in our November response, EDF Energy believes that the additional cost of preparing a statement is small compared with the relevant public interest issues. Transparency is essential in order to rebuild trust in the sector, and applying the CSS obligation more widely would not only provide a more accurate view of profitability across the sector, but it would also provide a benchmark for assessing the profitability of the six large suppliers.

Finally, applying the CSS obligation to other players could bolster competition in the market by reducing information barriers to entry, whereby many potential new entrants may struggle to see their business models reflected in those of the large vertically integrated companies.

Notwithstanding the above concerns, we have no further substantive comments on the proposed licence modifications to improve the transparency of energy company profits, with the exception of some typographical errors detailed in the annex to this letter.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact me on 0207 752 2187.

I confirm that this letter may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in blue ink that reads 'Paul Delamare'.

**Paul Delamare**  
**Head of Customers Policy and Regulation**

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<sup>1</sup> A recent report from Cornwall Energy showed that the share of medium to small sized suppliers in the residential supply market – of which a 9% share in dual fuel – is the highest since competition started in the late 1990s. Notes: Figures as at 31 July 2014. Cornwall Energy, *Competition in British household energy supply markets*, October 2014. <http://www.energy-uk.org.uk/publication.html?task=file.download&id=4886>

**Annex – Residual comments on the licence modifications to improve the transparency of energy company profits**

With regard to the Generation Licence Amendment Notice – Condition 16B, paragraph 4 – the reference to “paragraph 19A.3” should read “paragraph 3”.

With regard to the Guidelines – paragraph 1.2 – the reference to “paragraph 7/19A.9” should read “paragraph 9/19A.9”.