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 9/19A.9 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. Appendix 1 provides further information on the scope of information required.

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 how it defines domestic and non-domestic supply business segments;
- describe how it defines conventional and renewable generation business segments;
- describe the methodology or methodologies used to allocate marketing, shared and corporate costs across generation, supply and other activities;
- report all the material individual cost items included in each of the cost categories in the template in appendix 1 and describe how each of these 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 *Exceptional items:* we 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. *Reconciliation:* 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. 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 weighted average cost of electricity (WACOE) and weighted average cost of gas (WACOG) should reflect how each licensee actually acquires energy. This explanation should include:

- the allocation of financial risk between group companies and / or business segments (eg treatment of internal tolling agreements or capability/capacity payments);
- how the methodology relates to an arm's length measure, for example open market prices and/or comparable third party costs such as broker fees; and
- the treatment of allocated costs and corporate charges (eg head office charges).

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 Earnings Before Interest and Taxes(EBIT) and Earnings Before Interest, Taxes, Depreciation and Amortisation (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 Appendix 1 and 2.

Appendix 1

	Unit[1]	Electricity generation		Aggregate generation business[13]	Electricity supply		Gas supply		Aggregate supply business[13]
		Conventional	Renewable		Domestic	Non-domestic	Domestic	Non-domestic	
		20xx	20xx	20xx	20xx	20xx	20xx	20xx	20xx
Total revenue	£M	£0	£0	£0	£0	£0	£0	£0	£0
Revenue from sales of electricity and gas[2]	£M	£0	£0	£0	£0	£0	£0	£0	£0
Other revenue[3]	£M	£0	£0	£0	£0	£0	£0	£0	£0
Total operating costs	£M	£0	£0	£0	£0	£0	£0	£0	£0
Direct fuel costs[4]	£M	£0	£0	£0	£0	£0	£0	£0	£0
Transportation costs[5]	£M	£0	£0	£0	£0	£0	£0	£0	£0
Env. & social obligation costs[6]	£M	£0	£0	£0	£0	£0	£0	£0	£0
Other direct costs[7]		£0	£0	£0					
Indirect costs[8]	£M	£0	£0	£0	£0	£0	£0	£0	£0
EBITDA[9]	£M	£0	£0	£0	£0	£0	£0	£0	£0
DA	£M	£0	£0	£0	£0	£0	£0	£0	£0
EBIT	£M	£0	£0	£0	£0	£0	£0	£0	£0
Volume [10]	TWh, m therms	-	-	-	-	-	-	-	NA
WACO F/E/G[11]	£/MWh, p/th	0	0	0	0	0	0	0	NA
Customer numbers[12]	000s	NA	NA	NA	'000	'000	'000	'000	'000

Notes

Presentation of information

1. The financial data should be provided to the nearest £million to one decimal place, WACOE and WACOF to the nearest pence in £/MWh, WACOG in p/therms to one decimal place, volumes to 1 decimal place in TWh, and customer numbers rounded to the nearest 1,000. The grey shadings denote summations that can be calculated by using other information within the statement, eg adjusted EBITDA can be calculated using the total revenue and total operating cost lines in the statement.

Revenue

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. Government-mandated social tariffs and discounts, such as the Warm Home Discount (WHD), should also be deducted from domestic supply revenues directly. For the avoidance of doubt, the Government Electricity Rebate (GER) should be neutral on revenues.

3. Other revenues not covered in Note 2, eg in the generation segment may include capacity payments, other physical options and ancillary services.

Direct fuel costs

4. Generation should include the delivered 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. Relevant Licensees should exclude all emission costs such as Emissions Trading System (EU ETS) and Carbon Price Floor (CPF) from this category.

Supply should include aggregate electricity and gas costs, including the wholesale energy cost, losses, the energy element of RBD costs, balancing and shaping costs. Relevant Licensees should not make any adjustments for the costs associated with emissions (eg EU ETS and CPF). It is assumed that these costs are reflected in the wholesale price of electricity.

Transportation costs

5. Transportation costs for generation should include all network costs and Balancing Services Use of System (BSUoS) charges relating to generation. Supply should include all network costs and Balancing Services Use of System (BSUoS) charges relating to supply and in addition include the transport element of Reconciliation-by-Difference (RBD) costs. For the avoidance of doubt, metering costs should not be included in this cost category.

Environmental and social obligation costs

6. Generation should include all emission costs (eg EU ETS and CPF). The licensee should specify in a footnote the volume of any granted free carbon allowances.

Supply should include the costs associated with:

- Renewable Obligation Certificates (ROCs);
- Feed-in Tariffs (FITs);
- Contracts for Difference (CfD) under Electricity Market Reform (EMR);
- Capacity Market (CM) under EMR;
- Energy Company Obligation (ECO);
- Administering government social schemes such as the GER and the WHD;
- Levy Exemption Certificates (LECs);
- Assistance for Areas with High Electricity Distribution Costs (AAHEDC).

Other direct costs

7. Generation should include market participation costs, including Elexon/Xoserve admin costs. Supply should in addition include, brokers' costs and intermediaries' sales commissions and any 'wider' smart metering programme costs (eg Data Communications Company (DCC)-related costs).

Indirect costs

8. 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, including smart meter costs (eg linked to rollout or asset rental, not DCC).

EBITDA

9. EBIT means earnings before interest and tax; and EBITDA means earnings before interest, tax, depreciation and amortisation.

Volumes

10. 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.

Weighted average cost of fuel/electricity/gas (WACO F/E/G)

11. For both generation and supply, WACO F/E/G means the "Direct fuel costs" line divided by the "Volume" line, shown as £/MWh or p/th. For generation, the costs of emissions (eg EU ETS and CPF) should be added to "Direct fuel costs" before dividing by "Volume".

Customer numbers

12. Customer numbers should be the average number of electricity and gas, domestic and non-domestic meter points (MPANs and MPRNs) during the reporting year. This should be calculated by adding monthly customer numbers and dividing by 12.

Aggregate supply and generation business

13. The generation and supply aggregation columns (aggregation of conventional and renewable generation, and domestic and non-domestic electricity and gas supply businesses) sums the horizontal generation and supply figures and thereby helps facilitate reconciliation to group accounts.

Appendix 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.