Alban Asllani,
Office for Research and Economics,
Ofgem,
10 South Colonnade,
London,
E14 4PU

4th August 2020

Dear Alban,

Consultation on Consolidated Segmental Statement

Thank you for the invitation to respond to the above consultation. Bristol Energy is a national gas and electricity supplier that is making a positive difference by building a sustainable energy company that has social value at its heart. Bristol Energy has delivered over £12m in social value, since launch, and is committed to working with city partners to help Bristol hit ambitious social and environmental goals as set out in the Council's One City Plan.

<u>Executive Summary</u>

Bristol Energy fully understands Ofgem's requirement to improve its overview of supplier finances, but is disappointed that Ofgem, in seeking to develop a solution that works for all parties, is proposing to utilise a system that has effectively become out dated not just because the market has changed considerably in both structure and variety of business models, but also in using a historical financial device rather than seeking to utilise the latest available data via a data exchange. It is in our view an analogue solution for a digital age and Ofgem should be more imaginative in seeking to achieve its aims at least cost to consumers.

That said, if this is the way forward, Bristol Energy does not object to providing the information set out in the current CSS spreadsheet, provided it is required in line with our own financial reporting timescales as it is likely to be a "cut & paste" from our own audited accounts. We do however have grave concerns about the more complex and detailed requirements as the level of detail go beyond our own internal reporting, for example, we hold account balances, and bill dual fuel customers at an account rather than fuel level. A practice which is common amongst suppliers outside the old incumbents.

The cost of collecting much of this more detailed data will be the same for a supplier with 50,000 customers or 5m customers, indeed, it may even be higher for smaller parties as they may have to engaged 3rd party system providers to develop solutions rather than utilising in-house expertise. The level of granularity required will require significant changes to our CRM, reporting and financial systems running costing several hundred thousand pounds. This at a time we are trying to complete a smart rollout, faster switching programme and an impending move to market wide HH settlement.

The way forward we believe is for Ofgem as a single entity to understand the routine data it requires, the frequency it requires it and whether there is any additional benefit of receiving it from all suppliers or just those above a threshold that provides 90% coverage. (noting that 90% of domestic market is different from 90% of the whole market). This could then be developed into a secure data exchange that suppliers can keep up to date, and Ofgem can extract from as required.

We have answered your specific the questions below, expanding our response where necessary.

Q. What are your views on how the transition period could work if and when revised CSS licence conditions come into effect?

This would be very much dependent on the final proposals, things that would require a greater degree of transition would be the amount of additional data Ofgem seeks to collect that is not currently provided and whether the request is timed to align with companies own reporting cycle. As a supplier not currently obligated, we would need enough time to design a process for collating the data, and possibly in some cases to start collecting the data. The latter could mean some of the data is not available for the period before the licence obligation is enacted, so the transition would need to allow for the fact. i.e. assuming 1st April 2021 enactment date, that data for the period prior to that date may not be capable of being provided.

If the level of granularity proposed is requested, then this will require significant system changes to CRM, reporting and financial systems, at a time we are pushed for resource to complete smart meter rollout and deliver faster switching. We believe it would be 2-3 years before we could make such a system operational.

Q. What are your views on the aims of the CSS?

In our view the aims of the CSS are laudable, but the CSS is not the optimum route to meeting them. Taking each in turn;

Representative – The CSS was designed for a different market and based on suppliers of roughly equal size with similar business models. Most of today's market players have a different business model, are there are many different metrics that businesses use to run their business that do not align with the CSS, for example most new players work at an account or customer level rather than fuel level, do not have a generation business, but some have other significant non-energy related businesses.

Robust & Consistent – The current CSS meets this aim, but some of the additional information being considered is open to interpretation or may be collated or defined by different businesses in different ways. If this was required to be standardised, then this would increase costs as two different sets of data would be required for the same item. One for managing the business and one for the CSS.

Useful – We believe the time lag in preparing a CSS is too long given the high level of competitive pressure and market volatility. Its only use would be historical narrative, but of limited use for day to day oversight of the market. As a result, we expect it could increase the number of ad-hoc RFIs to get more dynamic data. As a supplier it is the ad-hoc requests that are painful rather than routine enduring RFIs (assuming they are not tweaked frequently), which once set-up, tend to run smoothly and require less resource to deliver.

Accessible – We have grave concerns about allowing confidential data into the public domain, unless it is anonymised or aggregated given the highly competitive nature of the market. As a business owned by a public authority, we have had some occasions where business data was considered for release by the council under Freedom of Information requests which would have caused us problems with trading counterparties, and customers. We also have concerns that if Ofgem proceed to standardise reporting timelines, then data may be release before it has been shared with shareholders.

Pragmatic – Many of the additional items may not be already in existence, or as mentioned above may be collected to a different definition, so the proposals fail substantially to meet this aim.

Proportionate – Given the proposals are to collect the same information from all suppliers from 50,000 customers to several million customers we do not believe this is proportionate. We believe this could be resolved though if Ofgem scaled the data request to only collect data from suppliers as their size becomes meaningful for that data item. For example, data that is required to get an overall market view is unlikely to get benefit from including smaller parties, whereas data required to monitor suppliers' financial robustness should be required from all parties with no threshold.

To this end we believe a better, more dynamic approach is required to meet these aims rather than relying on an updated CSS. Ofgem needs to move the way it collects data from party participants away from the disaggregated approach of requesting data in spread sheets and reports to a more dynamic data exchange system which provide Ofgem with continuous up to date information sent electronically by suppliers without the need for manual intervention. This would improve the quality of data Ofgem has to carry out its duties and relieve the pressure on suppliers to keep Ofgem informed.

Q. Do you agree with the considerations we have identified for reviewing the CSS? Have we missed anything in our analysis?

We agree with the analysis that vertical integration is no longer a significant feature of the market. This has been demonstrated by Ofgem's recent decision to suspend the secure and promote obligations on VI suppliers. As this was the primary reason for the CSS we believe the CSS is no longer needed.

We acknowledge that Ofgem has identified the change in the market players and the reduced dominance of the former big6. However, its analysis seems to be centred on its ability to monitor the market without acknowledgement that the increase in competition has weakened the ability of the big6 to work against the customer interest thus diminishing the need for regulation in place of competition element of Ofgem's work.

Ofgem also seems to underestimate the divergence on reporting that current suppliers do. The CSS was set-up based on the fact that all the participants were public limited companies, or UK subsidiaries of multinational public limited companies, and therefore had similar financial reporting requirements as befits organisations of that size. Smaller suppliers have, as a general rule, less management data as by default the management are closer to the front line and need less data to run the business. They make decisions on what they see and hear rather than what the data tells them.

Q1. Do you agree with our proposal to require vertically integrated suppliers and suppliers who only hold a supply licence to submit a CSS?

As stated above, we do not see that such a requirement meets the aims of the CSS as set out in chapter 2. We support the view that Ofgem has a requirement to see financial information for market monitoring purposes, both from an individual supplier level, and from the perspective of overall market oversight, but believe the CSS as proposed is the wrong vehicle to deliver the stated aims.

To this end we support option 2, then option 1.

Q2. Do you agree with the proposal to lower the customer base threshold from 250k to 50k?

Firstly, the wording in the consultation is unclear as to what the threshold is. Whether it is Customer or metering point, and if it is customer does a dual fuel customer count as one or two customers or is there a separate threshold for electricity and gas. Nor is it clear how this translate into the non-domestic sector. If there is a threshold, then we would propose moving it to a GWh supplied approach as this is less subjective.

If Ofgem was sticking with the current CSS as set out in the template in appendix 3, then, provided it could be submitted in line with a company's own reporting cycle, it would be a simple cut and paste from their annual accounts. To this end there would be no need for any threshold.

However, if Ofgem requires suppliers to submit the additional data it is proposing then this will be a significant undertaking by all suppliers, and the smaller the supplier the greater the requirement as a proportion of their business. Given that some of the data proposed is there for market overview, to which smaller supplier submissions would add little additional value, then Ofgem should consider whether to taper the required CSS so that those above 250k (or a GWh equivalent) submit in full, those between 100k & 250k (or GWh equivalent) submit a shorter CSS, and those above 50k but below 100k, submit the basic CSS as it is currently. We also believe that suppliers below 50,000 should be required to submit some basic information so that Ofgem is not blind to their financial situation.

Q3. Do you agree with the proposed cost categories, and the detailed allocation of cost items between the categories? Do you agree with the additional information to be disclosed?

Whilst it is possible to breakdown revenue by tariff, the allocation of actual costs and profit would be complex as many costs are not directly traceable to back to tariff level. For example, wholesale costs are incurred by the business trading its whole portfolio. Tracing back imbalance costs, which may be fluid over the 14-month reconciliation process would be impossible. It should also be noted that a supplier's customer portfolio by tariff type changes daily.

In direct operating costs, by their nature do not always align with the number of customers as they are fixed. This applies to cost to serve as well. For example, we know the cost of maintaining our call centre, but do not track which tariffs callers are on, to distribute costs across them.

Providing customer numbers by payment type is possible, but it would need to be a snapshot on an agreed date, as it can vary over time.

Finally, we believe a balance sheet is achievable, but propose that for the first year of delivery the previous year data is voluntary and only provided if easily obtainable, but question its value above and beyond that most companies provide in their annual accounts.

Q4. How feasible would it be to breakdown costs, revenue and profit by tariff type? How can we ensure consistency? What would be the one-off and ongoing costs of this?

Whilst all suppliers will allocate forecast costs when designing tariffs, it is not common practice to reallocate all actual costs, revenue and profit back to tariff level, or even between domestic and business customers. As a result, providing this information would be a new requirement and require significant investment in both systems and processes to deliver and would often be subjective. As the cost of developing these systems will be a fixed cost irrespective of size of business, then costs will fall disproportionately on smaller/medium suppliers. We therefore strongly disagree with paragraph 1.31 of the Impact Assessment that states most of the data is already recorded by suppliers, because this is not the case.

Reporting at tariff level may also be difficult as most suppliers review fixed tariffs frequently, so over 12 months can have issued and withdrawn well over a hundred tariffs, even if the tariff offering to new and renewing customers is small on any particular day.

As an example, if a supplier has one SVT tariff, one PPM tariff and one fixed rate tariff then you could say they have three tariffs. However, each tariff has 14 regional tariffs, and in our case (excluding PPM) a rate for DD and a rate for payment on receipt of bill. So, this becomes 28 SVT tariffs, 28, fixed tariffs and 14 PPM tariffs. If a supplier then over 12 months withdraws and re-issues its fixed tariff 10 times, then on any particular day, customers could be on anyone of 28 SVT tariffs, 14 PPM tariffs or 280 fixed tariffs. A total of 322 tariffs. If you separate by fuel, then that becomes 644 tariffs.

Payment methods also change over the period, so a customer cannot be considered as being on a fixed payment method. This payment method switching will also increase as more smart meters are installed and customers can be easily switched between PPM and credit.

Finally, like most suppliers we record customer account balances at account level, not at an individual fuel level, so splitting information about revenue, account balances and other items cannot be done per fuel.

Consistency would also be difficult as different business models work in different ways. For example, Bristol Energy bills at account level, whereas some suppliers bill at fuel level. Allocation of fixed costs that are not dependent on customer numbers, would be subjective.

In our view, reallocating costs and profit to tariff level would be a herculean task for all suppliers, both as a one-off cost and ongoing in developing a financial system for the simple purpose of providing data to Ofgem as it would be of limited use to supplier themselves. We do not believe this cost can be justified, even on the largest supplier, never mind those lower down the scale, where the cost per customer would be significantly higher. It would also take several years to design, build and implement at a time resources are already stretched by other regulatory programmes.

Q5. How feasible would it be to breakdown non-domestic costs, revenue and profits into microbusiness and other? What would be the one-off cost and ongoing costs of this?

Our business team are an integral part of our operation and separate costs and profit into domestic and business would be challenging, never mind a subset of business types. All the challenges we have highlighted in answering Q4. Apply equally here.

Q6. How feasible would it be to breakdown indirect operating costs into customer service, bad debt, metering, sales and marketing, central services and other?

This should be achievable at a supplier level although in some cases may be subjective and suppliers may allocate different costs to different streams. It is the breakdown between business and domestic and to tariff level that is the issue.

Q7. How feasible would it be to report costs associated with serving different types of customers, such as those on PSR? What would the one-off costs and ongoing costs of this?

As stated above we do not collate costs by customer type. We could provide the costs of providing additional services to PSR customers such as braille bills, gas safety checks etc, but we would not be able to say if they had a higher cost to serve in their use of normal services. i.e. Whether they call more often or are more likely to require financial support to pay bills.

As we stated in Q4. Reallocation of costs to different customers or tariffs would require new CRM, reporting and financial systems, the costs of which would fall disproportionately on smaller suppliers and their customers.

Q8. Should we put in place a standard method for allocating costs?

We believe this would be difficult given the different business models in the market and interpretation of which individual costs belong where would still be subjective. If Ofgem did put in place a standardise method, then it is likely to be run parallel to how businesses allocate costs requiring two financial reporting methodology.

Q9. How feasible would it be to split "other revenue" into more specific revenue categories (i.e., beside income from energy generation and retail supply)? What would be the one-off and ongoing costs of this?

Without a full appreciation of what other revenue would be, then this is difficult to answer, but if we are only referring to significant other revenue then it should be achievable. However, we do not agree that activities carried out by sister or parent companies could not cause the failure of a supplier. Most noticeably, if a parent company is in difficulty it may not be able to provide parental guarantees or may revoke them causing a supplier failure. The excessive level of credit collateral required by suppliers means the health of a parent company is often equally important to the health of the supply company.

Q10. What specific categories should the "other revenue" item be separated out into?

We need to be careful that in seeking this information that Ofgem does not extend its vires into areas beyond its remit or that it is not well versed. As the market develops, then it may be that companies in other markets may move into energy supply, but as a small part of their business. For example, a car manufacturer who becomes a supplier to supply drivers of its EVs. Ofgem should not be seeking details of the car manufacturers revenue, cost and profit for its manufacturing business, although equally, if the car manufacturer fails, then it will impact its supply customers.

Q11. What are your views on providing the additional information reporting requirements that we have listed? What would be the one-off and ongoing costs of this?

We see no issue in providing Ofgem with information that is already published by Companies House. We do believe Ofgem should be aware of how much credit collateral a supplier has posted and the nature of that collateral (cash, Letter of credit, PCG). It should be mindful that suppliers approach funding in different ways and Ofgem should be careful not to impose how it thinks suppliers should be funded as the only safe funding approach.

Q12. Of the additional financial information requirements discussed, which ones should be given priority in submitting as part of CSS?

We believe understanding suppliers credit collateral position is probably the most important, but as stated above, we are not convinced reporting this annually in a CSS would be sufficient in meeting the aims of the CSS, in this case the financial health of the supplier.

Q13. Please state if any of the additional information reporting requirements we have listed are commercially sensitive and why.

In a highly competitive retail market, all information about competitors is useful, and is also useful to other financial institutions, including trading counterparties. We do not believe Ofgem should release at a supplier level any information, not in the public domain through suppliers own financial reporting. Releasing aggregated data about the health of the market would however be supported.

Q14. How much would you expect it to cost in terms of FTE staff to meet new CSS reporting requirements based on our preferred options?

If the CSS was the same as present and provided over the same period as our own financial reporting, then the cost of providing the CSS at the same time would be marginal. If the timescales are standardised so that the CSS is delivered outside our own reporting timescales, then we would expect between 1 to 2 FTE for a six-week period.

Putting aside the development lead time of systems for delivery, If the additional information is also requested, then we would expect that would significantly increase the FTE required during the reporting time, whether required in line with our own reporting or separately. We would probably need to set it up as a project using a project manager co-ordinating delivery across the business and would significantly disrupt the day to day financial and operational management of the business for that period.

Q15. How much does it cost, or would it cost to audit the CSS? Please provide the evidence

As we have not provided a CSS, then we cannot comment, but we would point out that the costs would be lower if the CSS was provided at the same time as our own company accounts were being audited, rather than being done as a separate exercise at a different time..

Q16. Do you agree with the proposal to remove the audit requirement but for us to retain the right to request an audit when we have concerns? Do you have any views on how best to ensure that information provided to us via the statements are robust?

We agree with this proposal although we would hope that where Ofgem had concerns it would request an audit on the figures it had concerns with rather than the entire CSS, unless it felt the whole CSS was suspect. If the CSS is required at the same time as a supplier is preparing its company accounts, then Ofgem can have confidence that most of the figures have been audited for the company accounts and are thus robust. The CSS should also be sent to Ofgem having been approved by the suppliers Board as a true and correct statement**.**

Q17. Would removing the requirement to audit the CSS on a regular basis enable suppliers to submit the CSS earlier? How much earlier?

As we have not submitted a CSS before we cannot comment but would like to highlight that the proposed additional information may make delivery later as more data would need to be processed, validated and signed off**.**

Q18. What are the average costs of preparing a RFI with detailed financial information?

This is impossible to answer as each RFI is different. Routine reporting is easier to do as it is expected, and data can be collected in advance to deliver as the requirement is known. Ad-hoc RFIs are the most resource intensive as the need for the data was not known before the request, and its extraction needs queries to be written, validated and delivered, usually in short time frames.

There have been several occasions where ad-hoc RFIs have requested historical data that was not collected, is required for a snapshot date, which cannot be replicated, or the extracted data appears to be incomplete or uses a different definition to the one requested. This leads to data integrity problems, or a lot of effort put into improving quality to the detriment to work those involved should have been doing. To this end the cost of delivering ad-hoc RFIs is not just the actual cost, but also the impact on the work those engaged should have been doing.

As an example, the initial Covid-19 RFI involved over twenty people in the business in quantifying, identifying, extracting, checking and delivering the data. This for a business of just 170 FTE in total, so over 10% of staff.

Q19. What are the pros and cons of changing the reporting year to the year ending March instead of the company year end?

Whilst we can see the merit of standardising the reporting year for CSS in terms of allowing Ofgem to make comparisons between suppliers, we can see several issues with this. Firstly, there is the issue of costs as suppliers would lose the economies gained running the provision of CSS and company accounts at the same time. If Ofgem agrees to remove the audit requirement, then knowing that the company accounts are being audited for the same period would bring benefit.

Ofgem would also have to respect confidentiality more as a company could be providing financial information for part of its own accounting year, which should by right published first on the stock exchange for public limited companies and to Companies House for all companies.

Finally, if the CSS was not in sync with a company's reporting period it would make it harder to sense check the figures against the company accounts as listed at Companies House.

I hope you find this response useful. If you have any queries, please do not hesitate to contact me.

Kind regards,

Chris Welby

Chris Welby
Head of Regulation