



Bulb response to Ofgem policy consultation on Consolidated Segmental Statements

12 August 2020

We agree that it is right for Ofgem to review the utility and scope of the Consolidated Segmental Statements (CSS). As Ofgem sets out in its consultation, the current CSS is no longer fit for purpose, focussing on too small a part of the energy retail market. New technology companies such as Bulb have entered the market and successfully grown. The original objective of the CSS - to provide assurance on transfer pricing - is less relevant as fewer suppliers are vertically integrated.

All suppliers should be transparent about their finances - and their carbon emissions. We recognise that transparency is important to consumers and stakeholders. We can see the benefit in Ofgem collecting data about suppliers' finances and recognise the importance of comparability in that information. Ofgem should understand the costs and margins associated with standard variable tariffs and squeeze and tease tariffs. We also expect some smaller energy suppliers to struggle financially because of the economic effects of Covid-19 and Ofgem should have up-to-date information to intervene to protect consumers where necessary.

If up-to-date financial information is important, it is possible that the CSS may not be the right tool to achieve the objectives set out above. We are very open to sharing financial information with Ofgem and it may be that quarterly or six-monthly RFIs may be more proportionate.

As well as financial transparency, we need transparency on carbon emissions. Energy suppliers of all sizes should publish their scope 1 and scope 2 emissions. The energy sector is responsible for 25.6% of UK carbon emissions. Ofgem has an important role to play in tackling climate change and supporting net zero.

If you have any questions, please contact tomlowe@bulb.co.uk or email regulatory@bulb.co.uk

This response is non confidential and can be published on the Ofgem website.



Questions

Chapter 1 questions:

Question: What are your views on how a transition period could work if and when revised CSS licence conditions come into effect? We would like to understand whether any transition period should apply to all obligated suppliers or only to those suppliers who have not previously submitted a CSS?

We agree that a transition period is necessary for suppliers who have not previously submitted a CSS. This will allow time for those suppliers to work with Ofgem and their auditors to produce comparable data that is useful to Ofgem. During the transition period, Ofgem should continue to collect data from those suppliers that currently provide CSS data.

Chapter 2 questions:

Question: What are your views on the aims of the CSS?

We would welcome further clarity from Ofgem on the objective of collecting the CSS data. We understand Ofgem's objective as understanding energy supplier finances in more detail than is possible by analysing published accounts. If so, that is a sensible objective for the energy regulator.

If Ofgem's objective is moving away from a focus on vertically integrated suppliers, then the name "consolidated segmental statement" no longer seems to be relevant.

Chapter 3 questions:

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

As we are not currently required to provide CSS data to Ofgem, we have not undertaken a detailed review of Ofgem's considerations around reviewing the current CSS.

Chapter 4 questions:

Vertical integration and threshold:

Question 1: Do you agree with our proposal to require vertically integrated suppliers and suppliers who hold only a supply licence to submit a CSS.

It would be simpler to require only suppliers with a supply licence to submit financial statements to Ofgem. This would capture the whole energy retail market, including both suppliers with and without vertically integrated generation.



If an energy supplier is vertically integrated, then Ofgem may wish to request additional data from the company with a generation licence.

Question 2: Do you agree with the proposal to lower the customer base threshold from 250k to 50k?

As a supplier with over 1.6 million members, we have no strong view on this.

Information on costs:

Question 3: Do you agree with the proposed cost categories, and the detailed allocation of cost items between these categories? Do you agree with the additional information to be disclosed?

We recommend that Ofgem shows sufficient flexibility for suppliers to provide information in line with the accounting standards they use in their financial accounts. Bulb and other suppliers will report under UK GAAP accounting standards. We recognise some suppliers may report to IFRS accounting standards. The allocation of costs across these standards may differ.

Question 4: How feasible would it be to break down costs, revenues and profits by tariff type? How can we ensure consistency? What would be the one-off and ongoing costs of this?

To keep things simple, Bulb currently plans to only offer variable tariffs. Based on the information provided by Ofgem, we would not need to split out our costs, revenues and profits by tariff type as we only have one tariff type.

Ofgem will need to consider how much guidance to provide to suppliers to ensure they treat costs in a way that allows comparison.

Question 5: How feasible would it be to breakdown non-domestic costs, revenue and profits into microbusinesses and other? What would be the one-off and ongoing costs of this?

We recommend that Ofgem requires a split between microbusinesses and non-microbusinesses only where a supplier reaches a certain scale of non-domestic electricity and gas supplied. This could be measured in the annual MWh supplied. Bulb's non-domestic supply business is currently small and largely focused on microbusinesses. While we could split out costs, revenue and profits for microbusinesses and non-microbusinesses, we would only be doing this for the CSS.

Question 6: How feasible would it be to breakdown indirect operating costs into customer service, bad debts, metering, sales & marketing, central service and other?



We could provide this level of detail, though we consider metering to be a direct cost.

Question 7: How feasible would it be to report costs associated with serving different types of customers, such as those on the PSR? What would be the one-off and ongoing costs of this?

We do not separate out the costs to serve for different types of members because many costs are incurred regardless of member type. For that reason, separating out this data for different member types would be of limited value.

Question 8: Should we put in place a standard method for allocating costs?

Whatever approach Ofgem adopts should be aligned to existing accounting practice as far as possible while ensuring sufficient comparability to make the provision of financial information useful.

Other information:

Question 9: How feasible would it be to split “other revenue” into more specific revenue categories (ie, beside income from energy generation and retail supply)? What would be the one-off and ongoing costs of this?

We could do this fairly easily and without significant cost. We would welcome further clarification from Ofgem about the objectives achieved by suppliers providing this information. If this clearly leads to better member outcomes, then we could support Ofgem’s proposal.

Question 10: What specific categories should the ‘other revenue’ item be separated out into?

The answer to this depends on the purpose of Ofgem seeking the information. Please see our previous answer.

Question 11: 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?

See answer to question 13.

Question 12: Of the additional financial information requirements discussed, which ones should be given priority in submitting as part of the CSS?

See answer to question 13.



Question 13: Please state if any of the additional information reporting requirements we have listed are commercially sensitive and why.

While we could provide the information requested, there would be additional cost to us reporting and providing this to Ofgem. In some cases, for example on microbusiness versus other business customers, we would create reporting to satisfy Ofgem's requirements rather than to drive any business decisions. We are open to doing this if we can better understand the value Ofgem will derive from that information.

Much of the information Ofgem is asking for is commercially sensitive and some is beyond Ofgem's remit. For instance, information relating to Bulb's non-energy supply activity. While we are open to sharing this information with Ofgem on a voluntary basis, it is important for regulatory certainty that Ofgem's requests are clearly based on their statutory powers.

Cost to suppliers:

Question 14: How much would you expect it to cost in terms of FTE staff to meet new CSS reporting requirements based on our preferred options?

We have no prior experience of submitting the CSS so it is difficult to answer this question. We expect some additional staff time would be required to provide the CSS each year.

Question 15: How much does it cost, or would cost, to audit the CSS? Please provide evidence.

We have no prior experience of submitting the CSS so it is difficult to answer this question. We expect that an audit of the CSS could cost less than £100,000.

Question 16: 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 recommend keeping the audit requirement as it provides greater confidence to stakeholders that the financial data is robust and provides greater clarity to suppliers on their obligations.

Question 17: Would removing the requirement to audit the CSS on a regular basis enable suppliers to submit the CSS earlier? How much earlier?

We recommend keeping the audit requirement.

Question 18: What are the average costs of preparing a RFI with detailed financial information?



The cost of preparing ad hoc RFIs is both the cost of people's time and the opportunity cost of work they are unable to do. The benefits of providing the information are increasing Ofgem's understanding of energy suppliers and the market in general, aiding policy development and achieving Ofgem's statutory duties.

The detailed financial RFI requested by Ofgem in response to Covid-19 takes 1 person around 3-5 days to complete.

Reporting year:

Question 19: What are the pros and cons of changing the reporting year to the year ending March instead of the company year end?

Bulb reports to the end of March, so this requirement would align with our business practice. For Ofgem to compare suppliers, we see merit in requiring all suppliers to report at the same time.