Centrica plc
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Sabreena Juneja
Alban Asllani
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

12 August 2020

By email: css@ofgem.gov.uk

Dear Sabreena and Alban,

Thank you for the opportunity to provide comments on proposed changes to Consolidated Segmental Statements (CSS). The review of the CSS has been long overdue. The energy market has changed significantly since 2009 when the obligation was first introduced, with more active suppliers of various sizes now present, and it is no longer appropriate to only limit the requirement to publish segmental statements to the formerly six largest energy suppliers. To achieve transparency, we believe all suppliers should be obligated to produce the CSS, as long as the data required is meaningful and easy to obtain.

The new CSS requirement should be proportionate and within the scope of what Ofgem legitimately requires to undertake its duties. We do not agree that Ofgem has struck the right balance with the proposals outlined in the consultation and sufficiently justified the case for increased scope of the CSS. The cost of producing the CSS for obligated suppliers should be proportionate to the benefit it would bring to customers, yet, the requested additional information will come as a significant additional reporting burden to suppliers, irrespective of their financial stability or risk posed to the market. Ofgem's impact assessment does not account for the additional costs that will be incurred by **all** obligated suppliers, which would escalate rapidly the more CSS deviates from what is reported in the statutory accounts in content and reporting period.

We do not agree with Ofgem that the CSS would be the appropriate tool to collect all the information outlined in the consultation. The additional information proposed would undermine from the goals set for the CSS, such as improving transparency, providing good quality market intelligence or limiting regulatory burdens on the industry. Ofgem's proposals fail to meet best regulatory practice outlined in the consultation, namely on:

- *Proportionality*. The proposed requirement for additional information goes well beyond any detriment CSS is trying to address. Ofgem does not need a full income statement and a detailed balance sheet to achieve transparency and market monitoring.
- *Accountability and transparency.* Throughout the consultation period, Ofgem has not taken on board any feedback received from industry's policy and financial accounting experts. By consistently failing to address industry feedback, Ofgem is not running an accountable and transparent process.

- *Targeting*. Introducing a blanket requirement to all suppliers above its proposed threshold, Ofgem has failed to take into account different supplier business structures and the risks they pose to customers and the market.

More generally, we have a concern that Ofgem is failing to use the data it already has available to it efficiently, and that this should be addressed before Ofgem makes the case for even more data being provided. Specifically, it is unclear whether Ofgem is even using the current CSS data in performing its duties. For example, the latest [infographic on bills, prices and profits] published on 30 July 2020 only takes into account CSS data up to 2018, despite 2019 submissions already being available. In addition, suppliers already receive ad-hoc financial RFIs and we do not expect these requests to stop if the CSS was expanded to cover the additional information. Ofgem also explicitly says in the consultation that existing regular reporting also would not cease. Until Ofgem can demonstrate that it makes effective use of the data it already receives, we see no reason why the scope of financial reporting should be expanded or any evidence that Ofgem's approach is "proportionate and pragmatic".

Reporting on other revenue

The request for detailed financial information on other 'unregulated' revenues is not sufficiently justified and is not within the scope of Ofgem's information gathering powers. Energy suppliers are allowed to engage in activities outside of retail energy supply and are free to choose a suitable business structure. We understand the proposal would only cover activities undertaken within the same licensee company, yet, there is no explanation in the consultation why this particular business model requires further regulatory oversight and, presumably, has the potential to cause more detriment to the customer than choosing to undertake exact same activities across various companies within the same group.

We have serious concerns on how providing information on unregulated activity revenues could impact competition. By participating in other activities, suppliers have to compete with other providers that would not be under same reporting obligations, leaving them at competitive disadvantage of added reporting burden and potentially a distortion of competition, if the commercially sensitive data is published. Obtaining the data from the few suppliers that fall within the defined category will also not give Ofgem robust and timely market-wide intelligence or increase transparency. In this regard, Ofgem has failed to provide any evidence that this data if provided would help achieve the stated goals of the CSS or of Ofgem more generally.

Reporting on balance sheets

While the consultation does not ask a question on balance sheets, the draft templates shared with financial accountants make it clear that Ofgem is looking to introduce a requirement to submit a balance sheet. Based on our conversations with Ofgem, we understand the request for balance sheets solely relates to assessing the financial strength and viability of suppliers. We are concerned that such requirement would disproportionately affect more financially stable suppliers, rather than targeting specific suppliers that pose actual risk to consumers and the market.

Companies that have an investment grade credit rating as well as being part of a wider listed Group address any issues of financial strength and viability by the credit rating and their financial state is best considered as part of the wider Group. Reporting on detailed balance sheets for licensee companies within such organisations will not bring any meaningful insight on their financial state. Indeed, such reporting could be misleading. Questions of financial viability would be better dealt with through targeted RFIs, where Ofgem identifies a clear concern.

Next steps

We do not think the proposals in their current form should proceed to a statutory consultation and more industry engagement is needed.

With retail energy market changing, Ofgem should have an objective of introducing a financial reporting requirement that brings transparency for the whole of the market at the least cost to suppliers. We do not agree that simply providing more information would increase transparency, if the information requested does not give any meaningful insight. As a starting point, Ofgem should look at the current CSS to determine which information is still relevant and consider additional fields where it would bring most value and could be easily obtained by all suppliers. This would enable Ofgem to improve transparency by getting suppliers to publish this data in a consistent form on areas of greatest significance to consumers. Where a specific need for more granular data arises, requests should be targeted and reported at the right time and frequency, without jeopardising the confidential nature of the data requested.

If you have any questions about this response, please do not hesitate to contact me on 07557 615 743 or on Justina.Miltienyte@centrica.com.

Yours sincerely,

Justina Miltienyte

Regulatory Manager, Retail Market Policy

Annex 1: response to consultation 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?

A transition period should apply to all suppliers obligated to produce the CSS and to allow for sufficient time to build new reporting and to gather robust data. The less the CSS deviates from the data suppliers already hold and report in statutory accounts, the less time it will take for the new reporting to be ready.

If the CSS is simplified, suppliers should be able to report on the data at the end of their financial year. However, it will take longer to put in place reporting requirements for the more complex additional information reporting in a standardised format that Ofgem is currently proposing, which does not follow the same format or reporting period as statutory accounts. Any requirement on annual or backwards looking information that currently does not form other regulatory reporting should be given a year before the report is submitted to give suppliers time to put relevant reporting in place and gather robust data, in line with best practice. We therefore suggest that suppliers are given until 2022 to publish the new format CSS, with comparative data starting from 2023 onwards.

Currently obligated suppliers should also not be required to submit two versions of the CSS during the transition period and Ofgem should confirm that only one annual submission will be expected from suppliers.

Chapter 2 questions:

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

We agree with the main aims of the CSS, as stated in the consultation. The primary aim should be providing transparency on the overall state of the retail sector. However, the proposals of including the additional information, as presented in the consultation, and maintaining the customer threshold for reporting would not achieve the aims of the CSS. Proving additional detail does not automatically equal transparency, especially where suppliers will have to make assumptions around cost allocations that may be incorrect and applied inconsistently across the market, just to follow Ofgem’s standardised cost allocation template.

The potential issues being addressed by the CSS have also changed since it was first introduced, and the aims must reflect how the market evolved. The requirement for transparency was originally aimed at vertically integrated companies and the years of reporting has proven that the original concerns of cross-subsidisation and hiding excessive profits are not present in the market. However, some of the proposed data requirements, for example, relating to vertical integration and other revenue still reflect the original, already disproven, concern. Ofgem must take into account the lessons learnt about the market and tie the information requested clearly to the aims of CSS.

Chapter 3 questions:

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

We agree with the three considerations identified for reviewing the CSS. Energy supply market has changed significantly since CSS was introduced in 2009 and Ofgem's considerations clearly identify the need to extend the requirement to publish CSS to more suppliers and remove generation part of the publication at least for those suppliers who are no longer vertically integrated.

Ofgem should also consider retail market changes in the last few years, most notably, the number of supplier failures. As the CSS looks at the profitability of the energy supply business, Ofgem should use the publication as consistent timeseries to identify adverse changes to suppliers' financial health. If the current version of the CSS is simplified to include just key pieces of information on retail supply, we see no reason why Ofgem could not extend the obligation to all suppliers in the market. It would incentivise all suppliers to plan their finances responsibly and give a true market-wide oversight of supplier profitability.

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.

We support the removal of a blanket obligation on suppliers to report on generation. However, we think Ofgem's stated aim for market-wide intelligence would be better achieved by option 3B and link financial reporting obligation to the relevant licence. Ofgem's preferred option of only asking vertically integrated suppliers to report on generation profits disproportionately impacts a small subset of suppliers without giving Ofgem the desired market wide view.

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

While the proposed threshold change will bring the CSS to the same market coverage as when it was originally introduced, we think Ofgem should more ambitious. The market has changed since 2009, so just covering a similar market share is not enough to provide market oversight. Smallest suppliers present different risks to the industry and would benefit from more transparency. We agree that the proposed template would be too burdensome for the smallest suppliers. However, if Ofgem was to simplify the CSS to only cover key metrics that all suppliers should already record and allow for publication in line with company year end, the costs of producing the CSS would be small enough to allow the obligation to be extended to all suppliers in the market.

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 do not agree with the proposed cost categories, as additional cost reporting would increase the costs for suppliers without addressing any customer detriment. The prescriptive additional information does not allow Ofgem to meet the main purpose of the CSS any better than the information already present in the CSS and would create more confusion in the market and amongst customers, leading to further distrust.

Detailed cost allocation will be particularly complex for larger group organisations and the detriment from publishing data that does not accurately reflect company position is not acknowledged in the consultation. Based on the draft income statement template shared with financial accountants, we had the following observations on the cost categories proposed:

- We understand there is a desire to match the data to a chart of accounts margin/opex split. Indirect cost categories do not align to Centrica's view of operating costs so reporting line by line would create a longer, not easily comparable template. For example, environmental/social and metering have elements of both Cost of Goods Sold and opex. We do not expect other suppliers to follow the same cost allocations between margin & opex, therefore, Ofgem is unlikely to achieve consistency by asking for more detail. The existing CSS template combines all of cost of goods sold and operating costs as operating costs, which makes reporting easier.
- We are concerned about the proposal to include a gross profit subtotal under direct costs in the new template. We do not refer to gross profit, as defined by Ofgem, in external reporting and see no benefit in disclosing, as Ofgem has not made a clear case, why gross profit in the current definition is needed. We note that Ofgem's own reporting on price cap only refers to EBIT, not gross profit.
- Based on our conversations with Ofgem, we understand that Ofgem is looking to infer that direct costs are cost of goods sold. This would not align with our own financial reporting, which would lead to more confusion in the market if this data was reported. Data in the CSS should not give a different picture to what suppliers report in statutory accounts.
- There is no accurate way in allocating interest and tax costs, if these costs are managed at the group level. If Ofgem were to request this data for the licensee company only, it is unlikely that it will show an accurate picture of the costs, potentially leading to more detriment to companies by disclosing information that does not reflect in their accounts.

We are concerned that Ofgem is looking to obtain comparative cost data on suppliers to conduct a comparison of their cost bases. CMA has previously acknowledged that a like-for-like cost analysis is not possible, as suppliers structure their businesses differently. To comply with cost allocation categories, suppliers will have to adopt assumptions and any comparability would be artificial and unsuitable to be used for policy making. With further diversification of business models in the future, the requirement to provide cost data will become increasingly burdensome and data will unlikely to serve the desired purpose.

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?

We question Ofgem's rationale for requesting tariff level data. Ofgem seems concerned that disengaged customers might subsidise the costs for those more engaged. The rationale is fundamentally flawed by assuming that all customers on non-fixed (or variable) tariffs are disengaged and/or vulnerable. The choice of tariff does not necessarily reflect customer engagement level or whether they are vulnerable, as there are various reasons why customers choose not to select fixed term tariffs and instead opt in for a more flexible variable tariff. In addition, the presence of the Default Tariff Cap already ensures that customers on default tariffs get a fair price.

The tariff level cost allocation will not be consistent across the market. Suppliers are unlikely to allocate costs to specific tariff types in the same way and some of the costs are better managed on an aggregate level, for example network costs that are managed by region not tariff. Standardised reporting would have to be done on a wide set of assumptions, which would not provide Ofgem with meaninful market-wide information and data could not be used as a robust base for regulatory decisions.

Based on the draft template shared with financial accountants and our conversations with Ofgem, we understand that Ofgem is looking to combine costs for domestic and non-domestic customers by tariff type. Domestic and non-domestic costs should not be grouped together. We expect almost all suppliers to split their domestic and non-domestic businesses, given the differences in customer requirements, so creating combined cost reporting would be unnecessarily burdensome. In addition, as costs for domestic and non-domestic supply businesses would be very different, we question the benefit for obtaining such data in a combined format, as it would not provide any insight into the market.

As suppliers already provide information on revenues and customer numbers to Ofgem on a confidential basis and Ofgem states in the consultation that the regular reporting would remain, it is unclear how including more information in the CSS would reduce the reporting burden to suppliers or add value. Instead of introducing further reporting obligation within the CSS, Ofgem should review current regular reporting to ensure it is still fit for purpose.

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?

Reporting on non-domestic costs by customer type would be particularly problematic as suppliers do not group non-domestic customers in the same way. For example, British Gas

Business treats all SME customers as microbusiness and customers are classed as I&C, if they spend approximately £300,000 or more on energy per year. Other suppliers use other metrics for the SME/I&C customer split, such as consumption bands. Reporting on a comparative basis by customer type in the non-domestic market would essentially be unachievable without changing definitions in the Supply Licence, which would create significant costs to the whole of the industry. Splitting SME customers into a granular consumption bands will be burdensome and it is unclear what additional insight that level of detail would bring.

We question requirement to introduce not for profit organisations as a non-domestic customer type. Ofgem offers no explanation in the consultation for this arbitrary request. Suppliers do not record specific customer types, as they do not need that information to serve the non-domestic customers. Not for profit customers are not a specific customer group defined in the Supply Licence and it is unclear what perceived benefit would there be to provide information specifically on them. Introducing new customer descriptions that do not reflect how suppliers structure their non-domestic business will substantially increase reporting costs and timelines, as it would require customised reporting.

Suppliers already report on microbusiness customers and revenues by consumption bands and to date we have not seen any output from this regular reporting. There is no indication in the consultation that reporting would cease. Without a clear customer detriment identified, we do not agree that the request for such granular non-domestic customer data is justified. As a starting point, we suggest Ofgem reviews whether current reporting is fit for purpose before moving forward with added reporting requirements.

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

The feasibility of Ofgem's proposals depends on the definitions of costs categories and flexibility for suppliers to make assumptions. Reporting on data in the categories proposed by Ofgem would unlikely be comparable, as suppliers vary in their business models and how they apportion indirect costs. Indirect costs rarely link directly to a specific customer or tariff type. For example, suppliers rarely run marketing campaigns or dedicate specific customer service teams to a particular tariff and, depending on their business model, might move more costs to IT than direct customer service.

It is unclear how information on indirect operating costs reported in the CSS would help inform Ofgem's annual assessment of conditions for effective competition (CfEC), as suggested in the consultation document. We note that Ofgem has already completed its first assessment of CfEC this year without the data on indirect operating costs from suppliers, so it is unclear why the additional data is needed going forward.

We note that Ofgem undertook a similar exercise to apportion indirect costs to create a benchmark for suppliers during initial price cap consultation. Given the burden of responding to the RFI and little year on year change in operating costs, Ofgem arrived at a conclusion that the benchmarking will be a one-off exercise. We think this was a proportionate decision. Indirect costs are unlikely to change annually and reporting on them would not give Ofgem any further insight in supplier businesses. Instead, CSS should continue to include a row indirect costs without the added granularity. To supplement the data in a cost efficient way, Ofgem would get a richer understanding by engaging with suppliers bilaterally on specific issues of concern.

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?

Similar to indirect costs, suppliers are unlikely to allocate costs for specific customer types, such as PSR, in a consistent way across the market. Reconciling PSR customers with cost categories proposed will be an expensive and time consuming exercise that would not bring Ofgem the required detail on how much it costs to serve different groups of customers.

Ofgem's proposals are aiming to group all the costs and categories of customers into narrow categories, while the reality of how the customers are served is more intricate. We agree that Ofgem should look at costs of serving different types of customers but the detail required to make the assessment is more than what could be delivered via the CSS. A tailored RFI would be better suited for such assessment and suppliers can engage with Ofgem separately on what could be suitable and reasonable metrices.

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

Standard method for allocating costs might be beneficial for Ofgem but would not reduce the costs for suppliers in building CSS reporting. Instead, Ofgem should aim to produce high-level guidance for suppliers on financial reporting, giving them discretion in how to allocate more granular costs.

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?

The feasibility of splitting "other revenue" into specific categories would depend on the definitions and supplier business structures. As suppliers vary in which activities they choose to engage and how they split their businesses, it is unlikely for Ofgem to achieve consistency and proving such data would only be detrimental. We suggest Ofgem maintains other revenue category in the CSS, to ensure total revenue figures are reconciled, but excludes the proposal of more granular income statement.

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

We do not agree that ‘other revenue’ should be separated into further categories. The proposal is disproportionate to the perceived customer detriment, which, we do not think is present at all. By only requesting information on other revenue from suppliers who undertake other activities under the same licensee company, Ofgem is implying that those supplier business models are somehow more detrimental to customers than alternative arrangements. There is no evidence to support this hypothesis. Ofgem’s analysis states that, while ‘other revenue’ has grown in recent years for some suppliers, it accounts for 0-2% of supply revenue (or between 1-6% of total from supply and generation). Such proportion of revenue is not high enough to impact company’s supply business overall profitability and, therefore, reporting on other revenue in more granular detail will not give Ofgem an indication on whether suppliers are in financial difficulty over engaging in other activities outside of energy supply.

In addition, we do not agree with Ofgem that other revenue streams might impact customer bills. Large parts of the retail market are covered by price caps intended to guarantee ‘fair’ prices, and elsewhere retail competition should be making sure that it is not possible for the costs of those other activities to be loaded on to energy customers. If synergy benefits from other activities reduce the consumer bills, then suppliers are getting the competitive benefit of entering adjacent markets to energy supply, which in turn benefits consumers.

Finally, any concerns over cost mutualisation from other activities in the event of supplier failure should not be addressed via monitoring and instead by regulatory intervention, through the ongoing supplier licensing review (SLR)[1]. More data will not help to stop supplier failure in the first place or exclude the costs from mutualisation in an event of failure. Only by introducing a prescriptive licence condition requiring suppliers to prevent mutualisation of 100% of costs, as part of the SLR, will supplier mutualisation be prevented. If Ofgem can prove a real case of non-energy cost mutualisation, then the focus should be on tightening those rules to ensure that non-energy supply costs cannot be recovered through that route. Changes would then be more proportionate, as they would then only apply to failed suppliers and not the whole market.

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?

The proposals in the consultation go beyond what the CMA proposed in the financial reporting remedy, where it was clear that the proposals are only for consideration and the benefits of reporting should be proportionate to the costs it will introduce for suppliers. The market has further evolved since the CMA’s report was published in 2016, so the CMA’s proposals should be assessed with present state of the market in mind. Suppliers face further financial pressures under a Default Tariff Price Cap and any added costs of reporting should be justified and bring clear benefits to customers and the market. We cannot see a clear benefits case for more prescriptive, granular information to be included in the CSS.

The additional information would allow Ofgem to gather more information on energy suppliers than it would be possible to obtain through commercial processes, such as in

[1] Ofgem statutory consultation: https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-supplier-licensing-review-ongoing-requirements-and-exit-arrangements

mergers and acquisitions. Ofgem should be mindful of listing requirements some suppliers have to adhere to and ensure its proposals do not put suppliers at odds with their obligations outside of the Supply Licence. Suppliers should not be required to publish any information as a regulatory requirement that they would not normally share with their investors beforehand.

There needs to be a clear rationale for providing additional information and we do not think there is a case to use the CSS as a central financial reporting tool, rather than considering alternative means (where necessary). If the focus of the CSS is to increase transparency on the overall financial health of the sector, Ofgem should select key metrics from existing CSS that would best achieve this goal and extend the requirement to publish them to as the widest population of suppliers possible. The additional information that might be needed for Ofgem to achieve its other regulatory objectives and we would support Ofgem obtaining the data they need to fulfil their duties through targeted, well planned RFIs.

The costs of introducing the new CSS reporting would be high for all suppliers, not just the newly obligated ones. Existing CSS already requires manual data manipulation, as it does not run directly from our financial report system. The new requirements will make reporting even more complex. We would have to build a new reporting system, with separate senior sign off, that would have significant initial costs and a higher ongoing cost than for the current CSS.

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

CSS should only include information that helps achieve transparency for customers and market participants, without compromising confidentiality of supplier commercial decisions. We suggest Ofgem concentrates in identifying what high level financial information would be most beneficial to present in the CSS and of least cost for suppliers to report on.

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

All of the additional information reporting requirements listed are confidential and should remain so.

Any information that relates to supplier commercial pricing decisions (such as tariff margins or cost allocation) should not be made public. There is no customer benefit in allowing competitors to see how suppliers choose to price their products and would in fact negatively impact competition, while customers would find the information confusing and easy to misinterpret.

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?

It is difficult to predict accurately how much would it cost in terms of FTE staff to meet the new CSS requirements but it will certainly take more time and require more teams to be involved in reporting to prepare and review the more granular information proposed in the consultation. Some of the additional information proposed sits outside of our financial reporting systems, so it will have to be sourced from other teams, increasing the number of FTE involved in producing the CSS. Moving CSS reporting period in March would add to our internal quality assurance costs because we do not ordinarily do a robust close in March.

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

We have previously disclosed to Ofgem the costs of the CSS audit that are within the range quoted in the consultation document.

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?

Yes, we agree with the proposal to remove routine audit requirements and reserve the possibility of an audit for cases where Ofgem can demonstrate a clear and proportionate need for it based on serious concerns. The audit requirement is unnecessary, as suppliers are already required to provide accurate data to Ofgem. It should be up to them to decide the best way to ensure they meet the requirements.

The easiest way to ensure the data provided is robust is to align CSS publication with company year end. Most suppliers will already have assurance processes in place to make sure their financial accounts are accurate and the CSS could benefit from that assurance without further increasing the costs. Suppliers should also be given sufficient time to build reporting capability and collect benchmark data, if any new data requirements are introduced. For an annual report, we think suppliers should be given at least one year to put together reporting, as discussed in our answer on the transition period.

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

Audit requirement does not change the timing for our reporting, as it is tied with our year end financial audit in December. However, if Ofgem chooses to introduce additional information requirement and move reporting year end to March, it will take us longer to publish the CSS than it takes currently. We estimate the extraction of the balance sheet alone to add at least two months to the reporting timeline and the move of reporting year would further delay the CSS submission as we could not rely on any data we normally produce for financial accounts, making CSS an entirely standalone exercise.

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

RFIs are very resource intensive. Costs depend on the RFI questions, how many parts of the business they relate to and the time given to respond. Taking Covid-19 RFI as an example, financial submission required input from 6 different teams in Centrica, across Finance, Trading and Regulation, with more engaged to consult and sign off. These costs could be reduced if the RFI is anticipated and done via a standard template.

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?

We see no benefit to the industry or the customer in changing the reporting year to year ending March instead of company year. Allowing currently obligated suppliers to report at the end of their company year allows for the data to be robust and go through the same level of scrutiny as their statutory accounts, without significantly increasing costs of reporting. Moving to reporting year end in March will only add costs to majority of suppliers who do not have a company year end at the same time. To ensure the data provided to Ofgem is robust, suppliers will have to undertake further quality assurance processes at the time of reporting, adding further to the cost. In addition, moving reporting period to March would have an impact to listed companies, such as Centrica. Our external reporting is done in December and June, so March year end reporting would be done specifically for Ofgem and would not be timed with our other announcements. As data proposed for the CSS is price sensitive, we may have to add more external announcements, creating further costs and having implications for our investors and the wider market.

The only benefit we see of moving reporting year end is that Ofgem will receive all the data at the same time. Given the stated aims of CSS, we do not think changing the reporting year end will add any actual value to the report, aside from having a more standardised data gathering process for Ofgem. Standardised reporting framework will not add to comparability and would impact the quality of the data. As stated earlier in our response, a like for like comparison of suppliers is not possible and Ofgem should allow for variations in supplier business model, as per CMA’s conclusions. We also understand that Ofgem is concerned about the effects of seasonality that could potentially be accounted for with this change. Seasonality is a well known aspect of the industry and can be caveated. We do not see these benefits outweighing the costs of moving the reporting year end.

When increasing the number of obligated suppliers to produce CSS, it will be even more important to ensure the data provided is accurate and reflects the true picture of their financial state. Allowing suppliers to produce the CSS at the same time of company year end will allow suppliers to provide a transparent picture of their profitability at the lowest cost to themselves and the customers. Therefore, it is more beneficial to maintain the requirement to align the CSS with the company year end than to move to a standardised year end in March for all.