Reviewing the Consolidated Segmental Statements - initial proposals; E.ON & npower joint response

General

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.

If Ofgem proceeds with the collection of the additional data and also changing to a fixed financial year, we would expect that most suppliers, including those that are already obligated would need additional time to make changes to their reporting.

In addition, we would not expect suppliers to have to provide comparable data for the previous year when submitting the first revised CSS in 2021. Doing so would mean suppliers effectively having to do two year's submissions, which we feel is unduly onerous.

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

E.ON agrees with the aims of the CSS and advocates transparency in the energy market. We also agree that the current CSS no longer fulfils the original aims and so welcome the review.

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

E.ON agrees.

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?

Yes, E.ON agrees with this proposal; as well as ensuring that data is captured from a wider number of suppliers that cover a larger proportion of the market, we also believe that it helps levels the playing field in terms of the obligations that suppliers have to meet.

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

Yes, E.ON agrees with this proposal. Although the mechanism for this is not mentioned in the consultation, we assume that suppliers would need to produce a CSS for the year in which the threshold was exceeded.

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?

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?

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?

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

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?

Here we answer questions 3-7 collectively:

[redacted]

Providing a full balance sheet in the CSS for a "Supply" business would be an onerous task as the "Supply" business does not correspond to an individual legal entity and so balances would need to be analysed for inclusion/exclusion, it also does not necessarily provide insight into the financial position of a Company or Group as it is an incomplete picture of that entity in which the "Supply" business sits. We have provided a suggested alternative balance sheet form, please see appendix 1.

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

E.ON believes that the costs should be apportioned on a basis deemed appropriate by the individual supplier. This would then ensure that the 'cost stack' used to generate a bottom-up view on pricing is consistent with the methodology used for the accounts and therefore consistent with the commercial view used when looking at a more product-based allocation. However, if the aim is to provide more consistency and comparability between suppliers then a standard method for allocating costs may be more appropriate.

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?

E.ON already provides an explanation as to what is included in the "other" revenue for the generation segment within the notes for this section, but acknowledges that the revenues are not currently split out into each category. This is primarily Renewable Obligation Certificates (ROCS) and ancillary services which we would expect to be the same for other generators. We do not expect to report any "other" revenue for retail supply.

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

As above, ROCS, ancillary services.

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?

Please see our answer to questions 3-7**.**

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

We believe it is for Ofgem to assign priority, taking into consideration the reasoning behind each item being requested.

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

Our opinion is that the additional information should be provided confidentially to Ofgem as a separate submission and not published in the CSS. Some of the information is commercially sensitive particularly the breakdown of revenue, costs and profit by tariff type, analysis of operating costs and separating out costs to serve.

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?

[redacted]

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

[redacted]

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, E.ON agrees with the proposal to remove the audit requirement. We believe that the best reconciliation to ensure the statements are robust is the ability to link to financial year end reporting. If the reporting year were to be changed, this would mean the inclusion of two financial years in the CSS which makes it more difficult to verify, and therefore the audit cost would be prohibitive.

If removing the automatic requirement to audit the CSS, we agree that Ofgem should retain the right to request one where it has concerns that are serious enough to justify one.

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

No. For E.ON, and possibly those other suppliers who are part of a corporate group, we would still not be able to submit until group level accounts had been published.

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

E.ON is not in a position to provide an average cost as it depends on the content, scope and timescales attached to an RFI.

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?

Pros

- Comparability and consistency across suppliers
- Limits the impact of seasonality

Cons

- Additional work and cost
- If the audit requirement were retained, it would be more expensive to audit
- No validation against statutory accounts

Additional technical questions:

- Should suppliers agree standard methods for allocating costs?

E.ON believes that the costs should be apportioned on a basis deemed appropriate by the individual supplier. This would then ensure that the 'cost stack' used to generate a bottom-up view on pricing is consistent with the methodology used for the accounts and therefore consistent with the commercial view used when looking at a more product-based allocation.

- How much would segment profits vary if different methods were applied?

Without going into the detail of the modelling, E.ON believes that material variances could occur – for example customer numbers versus year end customer accounts. Even using customer numbers as opposed to the number of accounts, to the split of the volumes into the call centres. The core question is this to be used as a comparison of the individual companies within the industry, or is it to be used to review the commercial perspective of the industry?

- Should overheads be apportioned by Revenue or by Gross Margin?

No, overheads should be apportioned on an appropriate basis in the first instance. The cost is not linked to either revenue or margin but would more likely be linked to the number of customer accounts and the nature of those accounts.

- Do suppliers normally set tariffs to cover costs or to compete?

E.ON expects that in a competitive market there would be elements of both taken into account. Looking back at the significant number of suppliers that have crashed out of the market in the past few years, many offered very cheap tariffs so it is reasonable to conclude that they did not set the level of their tariffs to meet their costs. This is further evidenced by the number of suppliers that have failed to meet the costs of Government schemes, for instance the Renewable Obligation.

- Can customer service costs be allocated to customer types by volume?

Only if there is not a more accurate allocation key.

- Can some marketing costs be identified by tariff type or do they all need to be allocated?

The work associated in splitting marketing cost by tariff would be disproportionate. There is also the challenge of brand awareness to retain customers as opposed to attracting new customers. If there are specific campaigns to bring customers onto specific products then it should be directly allocated, otherwise a method using numbers of accounts could be used.

- Does the accounting system enable you to extract monthly figures?

E.ON is configured to close the accounting records eight times a year. It does not close the records for the month after quarter end.

E.ON would be able to switch to a March year end for the regulatory accounts but these could not then be reconciled to the E.ON SE published accounts.

- How much work is needed to report by calendar year or for the year ended March if the company year-end is different?

Clearly moving away from the standard financial year will create extra work. The full impact of this aspect would not be known until the level of detail for the reports has been established. It is expected that the change of reporting period would have a lower impact than the level of detail being requested by account and customer payment type.

Questions/thoughts on draft templates

- On each of the income statement templates, there is a row for "Interest and other financial costs" included in the EBIT when by its very nature, if interest is included then it is not an EBIT.
- We are assuming that Prepayment also includes smart meters operating in prepayment mode?
- It would be our recommendation to remove non-profit organisations from non-domestic customers. We are not sure of the value of its inclusion and we would not be able to accurately obtain this information.
- On slide 16, what is the final "total" column a total of?
- We would like to clarify that suppliers are not expected to provide comparable data (for the previous year) in the first year of completing the amended CSS. This would be unduly onerous, and in the first year we need to ensure that our systems and processes are set up to be able to deliver the information requested.
- We propose that the definition for Cash Balance is changed by Ofgem to reflect the position whereby the cash balance also includes any inter-company funding which is similar to cash in nature (i.e. not a long-term loan), this could be called "Cash and Financial receivables". Within the current definition proposed by Ofgem, the request is using statutory account definitions for the balance sheet and income statements; we believe that for large groups this will not provide a truly reflective amount for Cash. Commercially, it is more efficient to sweep all of the bank accounts in a group to a single company on a daily basis for managing treasury positions, this means that the 'cash' balance will be close to zero at any point in time (taking account of outstanding payments and lodgements). Ultimately figures will not be reflective of a true financial position for E.ON under the proposed definitions.