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Reviewing the Consolidated Segmental Statement – Initial proposals

EDF is the UK's largest producer of low carbon electricity. We operate low carbon nuclear power stations and are building the first of a new generation of nuclear plants. We also have a large and growing portfolio of renewable generation, including onshore and offshore wind, as well as coal and gas stations and energy storage. We have around five million electricity and gas customer accounts, including residential and business users. EDF is committed to building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

We welcome Ofgem's review of the Consolidated Segmental Statement (CSS) and initial proposals consultation. The energy industry has changed radically since the CSS were introduced and the original policy objectives that led to the introduction of the CSS obligation no longer remain valid. Current requirements, which only obligate a vertically integrated supplier with more than 250,000 domestic or non-domestic customers, are clearly out of date in today's market. It is positive that Ofgem recognises this, and the need for more effective market monitoring of suppliers to increase financial transparency.

We also believe that the financial information that Ofgem obtains through the CSS requirements will enable Ofgem to be better informed on the costs that suppliers face in operating in the market and the impact on those costs that arise from exceptional events such as COVID-19. This will allow Ofgem to better monitor such impacts and be better placed to intervene where appropriate, including for instance in terms of the Default Tariff Cap and the cost impacts on bad debt that have arisen through the current pandemic.

The main points in our response are as follows:

- We agree that some form of routine financial reporting obligation for suppliers should be retained within the supply licence and should, in the absence of any robust justifiable reason, be extended to all suppliers.
- The requirement for vertically integrated suppliers to also report on their generation activity should be suspended, pending the review of generation reporting referred to in the consultation. Given the original CSS policy objectives are no longer valid in today's market, no justification has been provided regarding why generation reporting in its current format should continue for the very limited number of parties it would apply to.

- We do not agree that suppliers should be required to report to a standard year ending in March. This will increase costs, and will risk providing a different view of supplier finances than is shown in statutory reporting. These very reasons led to the current CSS requirements being linked to each individual licensee's financial reporting year.
- We foresee significant challenges in splitting financial reporting by tariff type. This would require subjective decision making around how costs are allocated, such as corporate recharges, customer operations and marketing, and would require detailed guidance to be provided by Ofgem in order for the resulting analysis to be consistent, robust and comparable.
- In terms of better meeting Ofgem's stated CSS aims, we are currently minded to support the continuation of the audit requirements. However, should the audit requirement be removed, then the case for developing clear and comprehensive prescriptive guidelines to ensure that reporting is consistent and comparable across suppliers is even more important.
- In terms of reporting on "other revenues" It is not clear on what legal basis Ofgem can mandate financial reporting of a supplier's non-licensable activities.
- While it is helpful for Ofgem to have articulated its perspective on the value and use of the CSS, we question whether the form of the proposed CSS will in fact fulfil Ofgem's aims, particularly in terms of market intelligence and policy making, given the infrequency and the lag of data provided in the CSS and the potential for incomparable data in the absence of any prescriptive guidance.

We agree with broadening the scope of suppliers covered by the CSS to provide the greatest transparency of supplier finances to Ofgem, and to ensure that the reporting requirements continue to be fit for purpose in an evolving market. In order to protect customers it is important that the regulator has visibility of the financial status of all kinds of market participants, both individually and collectively, including to assess the impact of its own policy implementation on suppliers and the market in general. However, the information available to Ofgem through the CSS will need to be supplemented by additional more frequent monitoring including that proposed through the supplier licensing review, particularly in circumstances where significant concerns arise regarding the financial solvency of individual parties.

Challenger brands and new entrants can have significant influence in the market even when they have small customer numbers, for example by lowering the market price floor. It is appropriate that there is greater transparency of their financial sustainability. Including the widest possible range of suppliers and therefore business models is essential to meet Ofgem's aim of using this information for transparency, market intelligence and for policy making. On this basis, any revised financial reporting obligation should, in the absence of any robust justifiable reason, be extended to all suppliers.

We do not expect that the proposed CSS will provide Ofgem with adequate information for the purposes of policy making, and anticipate there will continue to be a need for the types of information currently gathered through separate Requests For Information (RFIs), including those that include forecast costs and projections. Given that the CSS provides an annualised backward

view of costs, it is not clear that the impact assessment accompanying this consultation should include any reduction in RFI information gathering.

Regarding the continuity arrangements for vertically integrated suppliers, Ofgem's proposals require reporting for supply and generation, which would introduce a two-tier CSS within the market and not meet Ofgem's stated aim that CSS reporting is consistent. Given the original CSS policy objectives are no longer valid in today's market, no justification has been provided why generation reporting in its current format should continue for the very limited number of parties it would apply to. In the interests of comparability and efficiency, Ofgem should concentrate this reporting on financial aspects directly related to energy supply.

It is conceivable that, in the future, new market entrants who adopt non-traditional supplier business models may generate significant revenues through energy supply as well as through other unlicensed activities. Ofgem needs to provide additional clarity as to the form of "other revenue" streams it is attempting to capture under the scope of the reporting obligation (i.e. activities direct or indirectly linked to the supply of energy) and clarify how such reporting is consistent with its statutory powers.

The requirement to audit the CSS should only be removed if Ofgem commits to providing suppliers with clear and comprehensive prescriptive reporting guidelines so that the reporting from each licensee is robust, reliable and comparable across the market. We have concerns that some of the additional data items proposed are likely to result in individual suppliers exercising judgement, such as how costs of corporate recharge are split between tariff or customer types. Suppliers would need to rely on Ofgem establishing very specific guidelines about these, to enable Ofgem to use the resulting information to meet its aims for transparency and market monitoring. Ofgem should look to work with suppliers to develop suitable guidance that achieves these aims prior to implementation of any new obligations.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Steven Eyre or myself.

Please note that this letter is not confidential and may be published. However, the content of the attachment is confidential and should not be published without our express consent.

Yours sincerely

A handwritten signature in black ink that reads "R. Beresford". The signature is written in a cursive, slightly stylized font.

Rebecca Beresford
Head of Customers Policy and Regulation