Ofgem Consultation - Reviewing the Consolidated Segmented Statement

Consultation Response by ENGIE

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About ENGIE

ENGIE is a leading energy and services company focused on three key activities: production and supply of energy, facilities management and regeneration. Our 17,000 employees combine these capabilities for the benefit of individuals, businesses and communities throughout the UK & Ireland.

We enable customers to embrace a lower carbon, more efficient and increasingly digital world. Our customers benefit from our energy efficient and smart building solutions, the provision of effective and innovative services, the transformation of neighbourhoods through regeneration projects, and the supply of reliable, flexible and renewable energy.

ENGIE improves lives through better living and working environments. We help to balance performance with responsibility, enabling progress in a harmonious way.

Globally, the ENGIE Group employs 150,000 people worldwide and achieved revenues of €60 billion in 2019.

Executive Summary

Thank you for the opportunity to respond to the consultation, please find our main points set out below:

- We are not convinced of the need to expand the CSS requirement further given the more frequent, monthly market monitoring currently in place for the retail market. The production of annual consolidated segmented statements is likely to be costly, become quickly out of date and may serve only to duplicate existing information.
- Should Ofgem decide to implement a revised CSS then it would be more cost effective to apply a 150k domestic customer account threshold in line with existing licence definitions and other significant regulatory obligations such as the ECO and WHD. Applying an obligation to the non-domestic sector is neither justified nor cost effective.
- We would welcome further clarification and discussion of Ofgem's thinking in relation to the potential introduction of a CSS reporting obligation for vertically integrated suppliers.

<u>Response to questions:</u>

Please find below our detailed response to questions.

Note that we have not had enough opportunity to assess many of the finance related questions because our finance SMEs have been fully occupied at this time with consolidating half year results and business re-planning due to Covid impacts. Ofgem's consultation is therefore poorly timed for ENGIE to be able to provide a full response.

<u>Chapter 1 questions:</u>

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?*

Should the proposals be implemented the transition should apply to those suppliers who have not previously submitted a CSS to enable preparations. The transition period should consider the existing financial reporting timelines of that firm. So, for example where firms report on a calendar year basis this should be considered for their implementation start date, obligations should not be retrospective or apply part year.

<u>Chapter 2 questions:</u>

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

We are not convinced that the adoption of the CSS framework for monitoring the current market is the right approach. The initial purpose of the CSS was to track the internal transfer prices (akin to a wholesale price equivalent) in vertically integrated (VI) generator/supplier models. The VI model is largely redundant in today's retail market and this remains true for ENGIE where generation and retail arms exist in the same organisation. We are not convinced of the rationale to include a CSS obligation on companies who have both. This does not seem to be justified and needs further discussion.

The revised purpose of the CSS, going forwards seems to be a way to track retail market profitability and identify where there might be concerns around consumer detriment; such as supplier failure. We are not convinced that this objective is relevant to the non-domestic supply market. In the non-domestic market, most supplier exits are voluntary and evolve in a managed via a customer book transaction. It is rare for involuntary supplier exits in the non-domestic sector and hence customer detriment is minimised, and it is unusual for industry costs to be mutualised as a result. Customer book transfers are generally smoother and do not leave behind industry costs and cross-subsidy such as those resulting from consumer credit balances seen in SoLR events in the domestic market.

Additionally, we do not fully understand any interaction in Ofgem's CSS proposals to the current RFIs which gather both financial and operational impacts on a segmented basis. How would an annual CSS report offer additional cost benefits to the industry? We are not convinced of the benefits of this because it is likely that similar annual information is already submitted via financial statements to Companies House and this type of retrospective information becomes out of date quickly.

Chapter 3 questions:

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

No further comments.

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.

The requirement is unclear for suppliers who also have generation interests within the group. We would be grateful if Ofgem could clarify their thinking and rationale in this area because it is not clear in the consultation. For example – is the proposed requirement that any supplier who also have generation interests should report? or only suppliers who are above the customer number threshold and have generation interests should report?

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

We consider that if these proposals are progressed then a threshold of 150k Domestic Customer accounts is used. This aligns with other similar onerous obligations such as the Energy Company Obligation and Warm Homes Discount. A 150k Domestic Customer accounts threshold is simplest to implement because it aligns with existing licence definitions and is most efficient in terms of market coverage. A lower threshold would risk significant incremental costs for little benefit could prove a disincentive to growth or market entry.

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 have had insufficient opportunity to assess these.

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 have had insufficient opportunity to assess 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?*

This would mean a significant change as our financial information is not currently segmented in this way. If required, this could only be provided on a prospective basis leaving sufficient lead time for the segmentation to be implemented.

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 have had insufficient opportunity to assess this.

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?*

Not relevant – non-domestic only supplier.

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

We have had insufficient opportunity to assess this.

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 have had insufficient opportunity to assess this.

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

We have had insufficient opportunity to assess this.

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?*

We have had insufficient opportunity to assess this.

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

We have had insufficient opportunity to assess this.

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

We have had insufficient opportunity to assess this.

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 had insufficient opportunity to assess this.

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

We have had insufficient opportunity to assess this.

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?*

It seems more efficient only to propose an audit where there may be cause for concern, for example, due to significant inconsistencies with the information provided to Companies House.

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

Yes, this is likely to save some time, but we have not been able to assess in detail.

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

We have not had opportunity to assess the detailed requirements of the CSS.

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 have not had time to fully assess this but there are likely to be significant costs and effort required as ENGIE operates on a calendar year-end, not a fiscal one. This is due to ENGIE Group reporting requirements.

Please get in touch if you have any questions or wish to discuss further.

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