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Policy Consultation – Reviewing the Consolidated Segmental Statement

We're Green Network Energy, part of a vibrant Italian energy company that supplies gas and electricity to homes and businesses in Italy. We started supplying customers in Great Britain 2016 and are now supplying ca. 400k domestic customers and have 4k non-domestic meter points.

Response summary

We are strongly supportive of the need for suppliers to provide data to Ofgem to enable it to monitor and regulate the market effectively. However, we're disappointed with the method that Ofgem has taken with this review. We believe it isn't the right approach to start with a previous tool designed for the specific purpose of providing transparency for vertically integrated companies and retrofitting it to today's market. Ofgem should be undertaking a full review of all the information that we currently submit on a regular basis. The starting point should then be "how can we determine if this market is operating well" and build up from here what metrics are required from suppliers.



We have set out our response to the consultation in the annex below. In summary:

- All suppliers should be required to submit information.
- There needs to be a long lead time (at least six months) to enable suppliers to get the systems and processes in place for the first reporting year.
- Ofgem need to consider the frequency of CSS to ensure that it is providing them with timely information that enable them to intervene.
- The reporting date should be aligned across industry to ensure consistent data across suppliers that can be easily compared.

I trust this response is clear. If you have any questions, or wish to discuss anything further, please contact Samuel Arnold (s.arnold@greennetwork.co.uk).

Yours sincerely

Pietro Di Maria

Chief Operating Officer

Chapter 1 questions

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?

The revised CSS obligations will need to come into force at least six months in advance of the first reporting period i.e. if the new obligations applied for reporting year April 2021- March 2022, then the obligations would have to be in force by 1 November 2020. This is to give suppliers time to develop systems and processes to record the information required for the first reporting period.

Chapter 2 questions

What are your views on the aims of the CSS?

We believe that the aim of “*providing transparency and market intelligence*” is too broad and enables Ofgem to use this as a catch-all justification for any data it requires for the CSS. This aim should be more focussed on outcomes or the specific areas where transparency is needed. This would then create a clearer justification for capturing certain data points.

We also believe that this aim cannot be met based upon the current frequency. Currently, these are produced on annual basis and released months after year end. By this point, any concerns identified would have become significantly worse. Increasing the frequency of certain data points will help Ofgem to identify issues sooner and intervene at an earlier data.

We do not consider that an aim of the CSS should be to support policy development. Data should be collected for specific purposes. So if information is required for certain policy programmes, this should be separate from the CSS. If this data request is included in the CSS then when the policy programme has finished, suppliers will still be reporting the data representing an unnecessary cost. It's best to have a separate RFI that is repeated.

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 reasons for reviewing the 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.

Yes.

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

We agree that the threshold should be lowered, but we believe that this needs to be applied to all suppliers including those with <50k customers. The aim of the CSS is to provide transparency across the market and this cannot be achieved if not all suppliers are submitting the same information.

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?

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

We're supportive of the detailed allocation of cost items in principle. However, there is a greater risk of inconsistency between suppliers. Therefore, Ofgem needs to produce detailed guidance that sets out expectations of what needs to be allocated and where. This will ensure that the data is useful and Ofgem can make cross market comparisons. For the detailed allocation of cost items, Ofgem will need to ensure that suppliers have plenty of lead time to develop the relevant processes and systems to enable them to capture this data from the start of the reporting period.

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?

This is feasible. The cost of implementing this would be negligible as we already have separate reporting lines in our accounts.

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

Some categories could be Financial Revenue (interest etc.), insurance services, telecommunication services and sales commissions.

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?

Some of the additional information reporting requirements are very detailed. This will require significant resources in order to compile them correctly into the format required from Ofgem. There would be a large cost to setting up the initial report. There would also be significant ongoing costs to manage the submission as the data items would require detailed review.

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

We consider that all of these items are important for providing a broad picture of a supplier's business. Most of these data items on their own would not provide much insight and would fail to meet the aims set out in the consultation. Therefore, the priority for Ofgem should be to create a mechanism that makes it easy for suppliers to provide information that is consistent across industry so that comparisons can be made and insights drawn.

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

Portfolio level information is suitable at the end of the reporting year (such as the draft income statement). Should Ofgem increase the frequency of the CSS e.g. quarterly, it would make sense for Ofgem to reconcile this data annually, but only publish six months after the closure of the reporting period.

More detailed allocations of costs and revenues should be kept commercially sensitive.

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?

The building of our processes and systems to complete the template will require several FTE. Once in place, it should only require one FTE to meet new requirements.

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

For a Limited Review, depending on the auditor it would probably be around £10,000.00 for the type of audit required. As a result of this, we feel that external audit is an essential part of this reporting.

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 disagree that the audit requirements should be remove. The more granular data required by the new CSS leaves greater room for interpretation by suppliers. Therefore, auditing is required to ensure consistency and comparability of data. The cost of a limited audit is relatively low but adds a great deal of certainty to the data being provided to Ofgem.

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. There would still be a rigorous internal review process that would need to be completed before the CSS could be submitted. Quarterly submissions could provide rapidity of data, with annual reconciliations fully audited.

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

In terms of resources, it is only the labour of an FTE to complete the RFI. Depending on the frequency of the RFI will give more insight into how much resources need to be allocated to it.

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 strongly consider that all suppliers should have the reporting year ending in March. This would ensure consistency and comparability of data. This is particularly useful if Ofgem is using for policy making. For example, this be useful when assessing SVT headroom and allocation of costs as part of the Price Cap.