

Ofgem,  
Office of Research and Economics,  
10 South Colonnade,  
Canary Wharf,  
London, E14 4PU,

12th August 2020

**ICoSS Consultation Response Regarding Reviewing the Consolidated Segmental Statement**

The Industrial and Commercial Shippers and Suppliers (ICoSS) group is the trade body representing non-domestic industrial and commercial (I&C) suppliers in the GB energy market. Our members collectively supply three-quarters of the gas needs of the non-domestic sector as well as half of the electricity provided by non-domestic independent suppliers<sup>1</sup>.

We are writing to provide, as requested, feedback on Ofgem's consultation on Reviewing the Consolidated Segmental Statement (CSS) reporting.

**Executive Summary**

As we have communicated previously, we do not agree with the proposals set out by Ofgem to extend CSS reporting to the non-domestic market. Imposing this reporting requirement on Industrial and Commercial Suppliers is not required to understand the risks facing the domestic retail market and will represent a disproportionate burden to smaller suppliers, as the work required to provide this information is significant. The resources saved from not issuing RFIs by comparison is marginal.

This programme also jeopardises the delivery of other industry programmes, such as Faster Switching, by creating a substantial and unanticipated system change in middle of delivery of these other programmes. These proposals are poorly timed, coming as suppliers start to recover from the COVID-19 pandemic. The financial impact from the pandemic have been





significant and suppliers are currently spending considerable resources re-evaluating their financial position; assessing these proposals creates an added burden on suppliers at this critical time.

If Ofgem wishes to implement this process we suggest that a threshold of 150,000 customers should be applied, to avoid disproportionate costs being imposed on smaller suppliers

Should you wish to discuss any aspect of this response please get in touch.

Regards,

A handwritten signature in black ink, appearing to read "G. Evans".

Gareth Evans

ICoSS

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## Appendix 1 – ICoSS response to the questions in the consultation document

### Chapter 1.

**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?**

To deliver the new reporting framework, our members need to develop new processes from scratch with significant system changes. Suppliers are also currently developing several other significant changes mandated by Ofgem (Faster Switching, Mandatory Half-Hourly Settlement, Microbusiness Review) and BEIS (Smart Metering Rollout programme, CEP directive implementation). Suppliers are currently spending considerable time and resources re-evaluating their financial position as a result of the COVID-19 pandemic and this additional reporting creates an added burden during this critical time. The current implementation date is therefore impossible to deliver without jeopardising delivery of these other programmes in 2020/21.

We do not see any value in extending this reporting requirements to smaller suppliers, but any implementation of these proposals should be aligned with these other critical industry changes and so not implemented until at least 2022. Alternatively, a derogation regime for smaller suppliers should be considered to give time for a robust implementation.

### Chapter 2.

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

The original aim of the CSS reporting regime was to ensure that vertically integrated companies do not use their generation assets to subsidise their retail market offering. Whilst we understand that Ofgem has used this information to inform other activities, we do not see that repurposing the CSS reporting regime to achieve unrelated goals is justified simply as it is convenient.

The aims of the CSS should therefore be kept as they currently are, preventing cross-subsidy between supply and generation assets.

### Chapter 3.

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

We have no comments on this section.

### Chapter 4.

**1. Do you agree with our proposal to require vertically integrated suppliers and suppliers who hold only a supply licence to submit a CSS.**

No. We do not see any justification as to why non-domestic suppliers with comparatively small overall market share should be required to provide this detailed and commercially sensitive information.

In contrast to the domestic sector, no significant non-domestic suppliers have exited the market in an uncontrolled fashion – exits have been achieved through trade sales of viable businesses. The non-domestic market does not need the level of monitoring proposed to watch out for market issues and therefore there does not seem to be a requirement to collate this information in a regular fashion for non-domestic suppliers.

In addition, the information required by Ofgem focusses on domestic issues and built around domestic concerns, such as tariff pricing being deliberately uneconomic to win market share. Such concerns do not exist in the non-domestic market. We have summarised the differences between the two markets below:

| <b>Domestic</b>   | <b>Non Domestic</b>                                      |
|---|--|
| Budget Schemes prevalent due to seasonal nature of costs                          | Majority of customer pay on receipt of monthly bill      |
| Credit Balances protected (mutualisation risk)                                    | Credit Balances not protected (no mutualisation risk)    |
| Consumers can build up large credit balances during summer to offset winter costs | Customers pay on receipt of monthly bill                 |
| Billed Quarterly  | Billed Monthly   |
| Low prevalence of Smart Meters enabling remote meter reads                        | High Prevalence of AMR Meter enabling remote meter reads |
| Seasonal use (heating)  | Non seasonal more diverse use                            |
| Tariffs   | Contract Price   |
| Price Control   | No Price Control   |

|                      |                         |
|----------------------|-------------------------|
| Obligation to supply | No obligation to supply |
|----------------------|-------------------------|

These proposals will simply add significant resource burdens onto non-domestic suppliers and so should be limited to large suppliers in the domestic market.

## 2. Do you agree with the proposal to lower the customer base threshold from 250k to 50k? Information on costs:

No. Ofgem state their target is for the regulatory requirement to capture 90% of the market. Ofgem's own analysis demonstrates that reducing the threshold below 150,000 supply points is unnecessary to achieve 90% market coverage.

| Vertical integration                  | Threshold           | Number of suppliers | Number of customers | Market share |
|---------------------------------------|---------------------|---------------------|---------------------|--------------|
| Vertically integrated and supply only | 250k customers      | 16                  | 51,012,422          | 91.6%        |
|                                       | 200k customers      | 16                  | 51,012,422          | 91.6%        |
|                                       | 150k customers      | 19                  | 52,010,735          | 93.4%        |
|                                       | 50k customers       | 36                  | 54,763,776          | 98.4%        |
|                                       | 90% of market share | 14                  | 50,133,345          | 90.0%        |

The proposed cut-off of 50,000 customers will more than double the number of suppliers caught by the scheme, significantly increasing the cost to the market.

By comparison over 93% of the market is covered by the 150,000 limit, which we note is the limit for a number of industry schemes (Supplier Export Guarantee, Warm Home Discount, ECO and a number of smart metering obligations).

The costs of developing and implementing a compliant CSS reporting framework for a supplier is relatively fixed, and so the costs be disproportionately higher for smaller suppliers and will increase the costs for their customers, up to £1 per customer per year (see below for our members' assessment of these costs) if the target threshold of 50,000 customers is imposed.

To strike an appropriate balance between cost to the industry and provision of useful information, moving to the industry standard 150,000-customer limit would seem appropriate were Ofgem to move forward with these proposals.

**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?**

In line with the rest of our response we do not agree with the CSS reporting regime being extended to smaller suppliers.

**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?**

Tariff is a defined term in the supplier licences and currently only applies to domestic suppliers. There is no legal concept of "Tariff" in the non-domestic market. Non-domestic suppliers do not develop tariffs for customers. Instead a contract for a non-domestic customer is developed from several price components (such as the credit worthiness of the customer) and commodity prices which change daily (and commonly within-day).

At present therefore non-domestic suppliers would be unable to complete the table to align with the Tariff split. It would be necessary to split reporting out by contract type if visibility of price composition is required. This would result in significant cost as it would require thousands of reporting lines.

**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?**

At present we are not aware of a universally applied definition of SME/I&C/Non-profit customer. I&C Suppliers do not operate separate SME, I&C and Non-profit reporting streams and therefore this will result in significant business disruption and require significant time to develop and deliver. If Ofgem required information on such a defined level, it would also require suppliers to develop and implement a common classification process. To ensure consistency we would expect that a common definition would need to be developed and systemised, which will believe would be very difficult to do in the aggressive timescales proposed considering the disruption and cost this would entail.

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



Unlike domestic suppliers who incur relatively constant costs from each customer supplied (owing to similarity in energy use, metering and transportation costs), the costs for a non-domestic customer widely varies, owing to;

- variations in the number of sites in a contract,
- significant variations in consumption at a site,
- differing transportation rates for the site,
- differing metering costs,
- variations in wholesale price costs depending on specific treatment of energy prices (based on exchange prices, basket of forward prices, etc) for customers and when energy is bought/sold to cover customer demand.
- credit worthiness.

Many of these costs are fixed for a certain period and then vary according to market conditions or reconciled from initial estimates. The wide variability of these costs within the proposed customer brackets will make meaningful comparison between prices very difficult, even with standardised treatments

To create the artificial split by customer type would require development of standard methodology to ensure consistent treatment of costs. Implementing a new methodology will be a cumbersome and cost intensive process.

**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?**

Non-domestic suppliers are not obliged to track or provide services to Vulnerable Customers and so do not have any way of identifying such customers; it is impractical to require this. Please see our comments to questions 5 & 6 regarding our concerns splitting out costs by non-domestic customer type.

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

As set out in the rest of the consultation, little of the proposed information is collated in the form proposed in the CSS reporting framework and so no default ways of working exist. To avoid manipulation of costs and profits through beneficial interpretations, it would be necessary therefore to standardise cost treatments and formal definitions will need to be developed. Such areas would include:

- Gas and Power fuel/commodity costs are commonly hedged as a portfolio and therefore the final actual cost can be optimised through hedging however there is limited ability to apportion such optimisation between segments
- Many transportation costs and other direct costs are invoiced at a portfolio level and may not be agreed and apportioned to the consumption at a meter level so allocation may be arbitrary on volumes whereas charges might have uneven weighting factors such as different peak/non-peak spreads or charge types
- Internal resources may not be easily apportioned as direct teams may be flexible to work between segments, indirect teams might not require the same level of effort for every customer (i.e. key accounts, payments type, geographical location, industry type) and if the supplier does not maintain detailed timesheet data for all employees then an arbitrary allocation would be made
- Some direct and indirect costs such as postage, payment processing, IT licence use, rates, travel etc. cannot be easily allocated to segments and products

In addition, defining the expected accountancy treatments (i.e. should IFRS or UK GAAP be applied) would also be required.

- 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?**
- 10. What specific categories should the ‘other revenue’ item be separated out into?**

Unregulated income is nothing to do with energy supply. We would expect many companies to create separate companies to operate this function and therefore we believe it would be impossible to maintain reporting consistency in this area. It is also outside of Ofgem’s remit to oversee unregulated activities by energy suppliers. We do not believe it is appropriate for such information to be requested and any reporting framework should not seek to capture this information.

We also believe it is unnecessary. As we stated elsewhere in this response, if our members are compelled to provide this information it will be a specific report to meet these requirements as reporting timescales will not align with the standard reporting cycles and so such information could be omitted.

- 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?**



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

In line with our other questions we do not believe that the CSS reporting framework should be extended in scope, either to capture suppliers that are not vertically integrated, or to be expanded to cover other areas. We do not believe that the CSS will result in a net reduction in resource requirements from reducing the need for RFI request, which have a comparatively low resource burden.

We therefore do not see any value in providing the additional information suggested as part of this process.

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

Organisations that currently provide information under the CSS regime are all large companies who are required by legislation to publish account information. By contrast, many of the smaller suppliers are not currently required to put such detailed financial information into the public domain.

We consider any and all of the information required to be put into the public domain by the CSS process to be commercially sensitive as it will provide information on the fundamental financial workings of the supplier.

**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?**

Initial assessment by ICoSS members of the proposals have *indicated* an annual ongoing cost of £50,000 per supplier per year to provide this information. This excludes start-up costs with initial development costs being higher. Please note that this is a conservative estimate assuming that information is not required to for every contract (see above). This is significantly higher than comparable annual costs for relevant RFI requests from Ofgem.

As the costs of supporting the request are fixed, irrespective of size of the supplier, the costs will be proportionately higher for smaller suppliers. Based on the proposed threshold this will incur a cost of circa £1 per customer per year to provide this data and so will introduce a cost distortion into the market for smaller suppliers.

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

As we have stated above the proposed CSS framework will require the development of new processes to collate the information in the form currently proposed. As the audit would be for an entirely new process, it is not possible for us to meaningfully assess the costs for auditing the CSS.

**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 support any proposal that manages regulatory burdens on suppliers and if the CSS reporting regime is extended to small suppliers, then not imposing a requirement for an audit as part of that will reduce the overall increase in regulatory obligations.

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

As we have stated above, this new requirement will require smaller suppliers to undertake a significant work programme every year to develop processes to collate and verify this information. An additional obligation to audit the results of that work will not significantly increase the timescales for delivery.

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

A suitable comparison would be with the recent COVID-RFI reporting request that requested financial information at very short notice. Though the costs of this activity were intensive in terms of resource and costs, we estimate that the provision of the information took no more than five workdays. This is a fraction of the ongoing annual resource costs that would be required to operate the CSS reporting framework.

**19. What are the pros and cons of changing the reporting year to the year ending March instead of the company year end?**

Many ICoSS members have European parent companies and operate a calendar (1 Jan - 31 Dec) financial year. They also work in line with the standard accounting practice of the country of the parent company, with differing account treatment for certain costs and



incomes. Moving to the UK reporting standard for this process will require effective duplication of the annual reporting process and creation of two sets of statements.