

Ofgem Request for Information

Reviewing the Consolidated Segmental Statement - Our initial proposals

Ofgem are consulting on proposals to revise Standard Licence Condition (SLC) 19A of the Gas and Electricity Supply Licences and SLC 16B of the Electricity Generation Licence, 'Financial information reporting', which requires submission of a Consolidated Segmental Statement (CSS). This requirement currently applies only if a 'Relevant Licensee' is a holder of an electricity or gas supply licence (or any Affiliates) granted, or treated as granted, who supplies electricity or gas to more than 250,000 domestic or non-domestic customers and (or any Affiliates) is a holder of a generation licence.

As detailed, this is People's Energy's response to tell Ofgem what we think about the plans to increase the effectiveness of the CSS by widening the coverage of suppliers and requiring more detailed reporting of existing cost and revenue categories and segments. These are set out in the consultation document (eg breakdown of revenue, costs and profit by tariff types, outstanding customer credit account balance position and funds set aside for RO payments).

People's Energy Response

Chapter 1 questions:

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?

- ⚡ People's Energy would propose that the transition period should apply to all obligated suppliers but that those who have not previously submitted a CSS be given a longer extension or lead in time for this to be practicable.

Chapter 2 questions:

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

- ⚡ One of the key aims of the CSS is to increase market coverage, which is an understandable. People's Energy feel the comparison of small suppliers/new market entrants to larger ones/the Big Six is infeasible due to the resource implications and differences in the way in which these organisations are structured.
- ⚡ The better way of approaching this is to have a lighter version of CSS for small suppliers (from 50k – 500k customers).

Chapter 3 questions:

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

- ⚡ People's Energy agree with these considerations.

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.

- ⚡ Any supplier should be obligated to submit a CSS whether integrated or a Supply License only.

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

- ⚡ People's Energy propose that there be two different levels of CSS, with smaller suppliers having to submit a more streamlined version

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?

- ⚡ People's Energy believe that a combination of the below would provide the required level of oversight for each customer type
 - Cost per domestic customer, split by payment method
 - Cost per SME customerThis would include cost to serve and all direct costs

To get to any further level of breakdown would be based on assumptions rather than offering any specific value.

- ⚡ People's Energy would be able to include a balance sheet, depending on the layout and type of information required. Any information contained would be commercially sensitive and confidential and could not be published under any circumstances.

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?

- ⚡ This would prove complicated but possible to set up and would involve significant resource. Actual costs will depend on the specific requirements. We are in the process of establishing the systems and processes to facilitate this type of breakdown.

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 be possible, based on a number of assumptions, which may, or may not be similar to those made by other suppliers, therefore a level of inconsistency would apply.
- ⚡ This would require resource, both for set up and on an ongoing basis.
- ⚡ We are in the process of establishing the systems and processes to facilitate this type of breakdown.
- ⚡ We monitor gross margin on a daily basis for our non domestic customers.

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

- ⚡ Overhead costs are already broken down into the relevant sections. All costs are separately identified and analysed. Central costs are also broken down further.

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?

- ⚡ These costs could be shown as additional to the average cost to serve, however People's Energy integrate all costs across the customer base to ensure that no individual segment is disadvantaged.
- ⚡ This would be possible, based on a number of assumptions, which may, or may not be similar to those made by other suppliers, therefore a level of inconsistency would apply.
- ⚡ Comparability would be less valuable in this instance.
- ⚡ This would require resource, both for set up and on an ongoing basis.

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

- ⚡ This would depend upon the required resource, both for set up and on an ongoing basis, and People's Energy would propose that this link to existing accountancy practices and is not a burden to Suppliers.
- ⚡ As a commercial organisation, we make decisions based on our own cost allocation so we can reach our aim of returning profits to Members.
- ⚡ We would not want to be constrained by a standard method of cost allocation as we will always do what is best for running our business.

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?

- ⚡ People's Energy trading operation does not currently have any 'other' revenues.
- ⚡ All 'other revenue' should be clearly defined and clear guidance provided on what must be included to avoid any discrepancies or differences in interpretation.

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

- ⚡ It will depend on what you would do with this data. People's Energy believe that this should not be a detailed breakdown, as this would be subject to commercial confidentiality.
- ⚡ People's Energy would prefer to comment on provisional categories rather than propose these to limit the data shared with other suppliers.
- ⚡ Certain types of other revenue could be grouped and presented this way.

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?

- ⚡ The consultation paper states that all suppliers who currently submit CSS do not incur any cost with regards to data preparation. This could not be said about small supplier who are neither familiar with the process nor have appropriate resources to respond. Most small suppliers have small finance teams and sometimes lack the specific knowledge required to support the CSS and therefore additional training would be required. This would also potentially mean that a separate person would need to be hired to do this job. Although the CSS submission is yearly, the data needed for it would have to be collected monthly, hence the work required is ongoing and not just a one off.

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

- ⚡ All should be submitted as part of the CSS to provide an holistic overview.

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

- ⚡ All information requested has a level of detail which could be viewed/used by competition. People's Energy operate as transparently as possible so commercial sensitivity will depend on the information requested.

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?

- ⚡ £30k-£45k per year, based on one full time employee (FTE)

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

- ⚡ People's Energy would recommend that the CSS be audited in line with the Financial Accounts so that any additional cost could be offset.

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?

- ⚡ People's Energy agree in principle.
- ⚡ People's Energy would recommend that the information provided via the statements are as close to current accounting practices as practicable.

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

- ⚡ People's Energy would prefer that the CSS is delivered in conjunction with the Company Accounts as these are intrinsically linked.
- ⚡ We would propose to align this to the deadline timeframes for submission of accounts to Companies House.

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

- ⚡ These are RFI specific. The 2020 Ofgem RFIs have cost, on average, 8 FTE days to interpret, design and respond / 1 FTE day per week to update, if weekly returns were required.
- ⚡ Estimated average cost £6k per RFI.
- ⚡ More complex and bespoke financial information will require significantly more resource.

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?

- ⚡ From People's Energy perspective, there are almost no positive aspects to moving the date to March but a number of significant detrimental impacts.
- ⚡ If the requirement to reconcile the figures to the annual statutory accounts is to be removed, then changing the reporting year to March would be feasible.
- ⚡ For most businesses, the reporting year end date is a calendar year, and the actual statutory accounts submission date is 9 months later.
- ⚡ In practice, the final figures are only available around September the year after, so any reconciliation of data to the annual accounts is not possible if the date changed to March.
- ⚡ This would impact the robustness of any additional data requests as these could not be tied to annual audit.