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By email only to: Sabreena Juneja and Alban Asllani, Office for Research and Economics, Ofgem

Dear Sabreena and Alban,

Reviewing the Consolidated Segmental Statement - Pure Planet's Response to Initial Proposals

Pure Planet is pleased to respond to the policy consultation on proposals to review the Consolidated Segmental Statement (CSS) financial reporting obligations.

We agree with Ofgem's principal aim to enhance the regulator's market monitoring activities, and we note recent moves to put mechanisms in place, such as the Covid-19 monitoring RFI and measures in the recent Supplier Licensing Review, to achieve the same aim. However upon review of the proposals and draft report template we do not believe that the data sought will provide an accurate and consistent view of suppliers' financial position to facilitate good market monitoring, and enable Ofgem to identify at-risk parts of the market. We'd encourage Ofgem to think again about the proposals and underlying policy intent, and work with industry to develop a more effective framework to monitor suppliers' financial health and position in the market.

As a supplier that is likely to be newly obligated to produce this report, we'd furthermore urge Ofgem to provide all suppliers with a full draft reporting template, methodology and guidance for proper consultation before implementing any change to regulatory reporting.

Pure Planet's high-level views on the CSS reporting proposals and implementation are outlined below. Please do not hesitate to get in touch if you require further information.

Best wishes,

Katie Davies
Regulatory Lead



Response to policy consultation proposals

Pure Planet's response is as follows:

1. Scope and eligibility
2. Reporting requirements
3. Implementation and transition period
4. Our views on the aims of the CSS

1. Scope and Eligibility

Supply licence basis

We support Ofgem's minded position to extend reporting obligations to suppliers who hold only a supply licence and as well as all vertically integrated suppliers. In principle, we think this will ensure Ofgem has a comprehensive view of the market.

Supplier threshold

We think the threshold for this report should be for suppliers with 250,000 customers, minimum. This aligns with increased reporting obligations including annual Smart reporting and mandatory responses to Ofgem's ad hoc data RFIs. It would be far more efficient for suppliers to dedicate resources to build reporting systems for multiple reports required at the 250,000 customer mark at the same time, rather than taking a piecemeal approach.

We also note that Ofgem's Supplier Licensing Review (ongoing and exit requirements) proposes to conduct Milestone Assessments which will include financial reporting for suppliers reaching 50,000 and 200,000 customers. We feel the options of 50,000 and 150,000 customer thresholds will duplicate the efforts of the Milestone Assessment, which would provide a better and more holistic view of suppliers' status at key stages of growth.

We believe that lowering the threshold to 50,000 would cause significant operational and resourcing difficulties for suppliers at an early stage of growth. To adequately and accurately provide a report of this nature and size, suppliers will need to have well-resourced finance, regulatory and project management functions.

We'd also like clarification on the following to aid practical implementation:

- **Defining customer thresholds** - it is not clear if the threshold is related to absolute customer account numbers or meter points. We'd recommend Ofgem opts for absolute customer account numbers. The industry is moving towards recognising dual fuel customers as a single customer account (a fundamental precept of the Switching Programme), and therefore considering thresholds based on meter points or supply based on fuel (leading to double counting of dual fuel customers) only serves to perpetuate outdated industry thinking.
- **Timeframe for suppliers to reach this threshold** - we'd recommend that suppliers' customer thresholds are assessed on 31 December the year preceding the reporting year (assuming a reporting year of 1 April to 31 March). This aligns thresholds for ECO, FiT and SEG.

2. Reporting requirements

We do not believe that the proposed reporting metrics will feasibly provide Ofgem the market insight it seeks.

On review of the draft reporting template, we feel that a number of the required datasets will be difficult to accurately obtain, and expect that suppliers will adopt vastly different methodologies to obtain them. We don't think this approach is in the spirit of Ofgem's aims for the CSS report.

As such we recommend Ofgem work with suppliers to explore alternative methods and criteria to facilitate robust market monitoring. Our views on the proposed datasets are as follows:

Direct and indirect costs by domestic and non-domestic customers -

As a domestic only supplier we would be able to provide an annual or monthly view of our direct costs, and a breakdown of indirect costs as outlined in the draft template provided to suppliers at the July workshops. However, to ensure consistency between suppliers and reporting periods, we'd ask Ofgem to provide a detailed breakdown of what operational activities would fit into each category.

Given the volume and rising costs of regulatory change and industry programmes in the coming years to further protect customers and achieve net zero, such as Smart rollout, Faster Switching and settlement reform, we'd also recommend that Ofgem include a line for Policy Costs. This will provide Ofgem an accurate and up to date view of the cost burdens of industry and regulatory change on suppliers, and improve the regulator's Impact Assessments in future policy-making.

Costs for 'other' business segments -

We do not agree that this is an appropriate metric to gather data on, and we don't see the benefit of disclosing costs for activities outside Ofgem's regulatory remit for its intended purposes. Suppliers are all uniquely structured - and are likely to diversify yet further as the industry evolves - so it's unlikely data reported in this section will be consistent or comparable across the market.

Breakdown of costs by tariff type or payment method -

The policy consultation implies the CSS report could be used to understand if different tariff types or payment methods have different costs to serve. We don't agree that this is a useful area for Ofgem to collect and compare suppliers across the market. As consumer needs evolve and suppliers bring innovative products and services to the market, such as Time of Use tariffs and out of home EV charging bundled with domestic supply, Ofgem's approach to market monitoring needs to be more flexible and future-proofed than outlined in this consultation.

We're concerned about Ofgem's assumption that higher cost to serve customers should be proportionately spread across all supplier types (p.36) (though we note this was not reflected in the draft template shared at the July workshop). This claim that smaller suppliers have proportionately lower numbers of customers of this type, leading to lower costs to serve, is unsubstantiated. Ofgem should be supporting suppliers to innovate to reduce the costs associated with particular customer groups, and take a principles based approach to encourage this, rather than making assumptions about the future of the market to justify the value of collecting this data.

We'd urge Ofgem to reassess its underlying intentions for this part of the CSS report, working with suppliers to understand the usefulness of reporting different costs to serve. On close assessment of the draft template we do not feel that suppliers will sufficiently be able to provide this information in an accurate, transparent and consistent manner. For instance, we don't hold cost-base data broken down by tariff type and payment method as we do not operate customer service, metering and central operational activities in silos according to tariff type. Our best approach to obtaining this information would be to apportion total costs for each activity according to the number of customers on each tariff or payment method at the time of reporting. We do not believe that this would meet Ofgem's intentions as set out.

Balance sheet and monthly cashflow forecast -

We note that the consultation document suggests Ofgem seeks monthly future cashflow forecasts as well as annualised balance sheets for the current and coming year, but only the latter was presented at the July workshops.

With regard to annualised balance sheets, we do not think that the policy proposals clearly outline the value of this to meet Ofgem's policy aims. There's no evidence in Ofgem's proposals that this will 'build consumer confidence' and enable identification of suppliers at risk of failure. Forecast balance sheets are by nature subjective, and suppliers are likely to have different approaches to forecasting growth and contingency for external factors including industry change and wider economic challenges.

Ofgem should also provide further detail as to the nature and intended outcomes of the inclusion of a balance sheet and 'possibly further information about the financial position of the company' (p. 33). Ofgem should also clarify under what circumstances it may ask suppliers to provide this information and how the use of CSS reporting coincides with existing engagement with suppliers in difficulty, such as via account managers.

3. Implementation and transition period

This requirement would be new for Pure Planet. As such, we'd require a transition period of at least 6 months to implement any new regulatory reporting requirement of this nature. This would ensure we can build and test the financial reporting systems required.

Reporting year

We'd recommend that Ofgem aligns the CSS reporting process with suppliers' other financial reporting by allowing suppliers to submit this report after their financial Year End. This would

make the process more manageable, and significantly reduce the operational burden on suppliers.

Commercial sensitivity

We believe that Ofgem should treat the entire CSS report as commercially sensitive and refrain from publicly sharing the results of individual suppliers.

Ofgem's claims in the consultation document are not enough to demonstrate the value of publishing individual suppliers' financial information, costs and health. There may however be some benefit in aggregating the results, either across the market or divided between small, medium and large suppliers, for example to support policy development.

Auditing requirement

We would strongly argue against the requirement for all suppliers to audit the CSS every year. Suppliers already have audit processes in place for annual financial statements, and we feel it's unnecessary to duplicate efforts. An annual auditing requirement for the CSS would not only double the costs of hiring a reputable auditor organisation, but also the FTE required to manage the process.

We would also like Ofgem to provide clear guidance about the scenarios in which suppliers' reported position would be considered a 'serious concern' and leave suppliers open to compliance investigation. Ofgem needs to be clear about its intentions for the audit process; to ensure reporting is kept to a high standard, or to investigate suppliers who have reported data that is concerning to Ofgem.

4. Aims of the CSS

Market monitoring

We support Ofgem's aim to establish a comprehensive view of the market. As with the Covid-19 monitoring RFI, we feel the CSS report in principle will be most beneficial for Ofgem's internal analysis and market assessment purposes.

Reducing the regulatory burden on suppliers

In theory we'd support Ofgem's aim to use the CSS report to reduce the number of ad hoc financial RFIs to assess the market and effectiveness of existing and new policies. In the past we've found the lack of standardisation, for example in cost categories, means policy Impact Assessments rarely reflect the true cost impact of the policy. However as above, we'd recommend Ofgem works with suppliers to understand the best, most consistent approach to understanding suppliers' costs and the cost of future policy change.

Customer protection

We're not convinced the outcomes of the CSS will protect customers or boost consumer confidence. Ofgem already does well to communicate to consumers the average breakdown of their energy bill on its website, as a representation of supplier costs. It seems unnecessary for consumers to understand how this is broken down between each supplier.

We're also concerned about Ofgem's policy intention to use the report to '[hold] suppliers to account to justify their prices' (p.17). We do not think that the CSS report will provide enough information on suppliers' viability, particularly as the retail market is necessarily diverse in terms of supplier size and offer. This could lead to unintended consequences such as customers unnecessarily concerned about a supplier undergoing significant growth, for instance, if they do not report annual profits.

We'd argue that Ofgem has already established effective mechanisms to protect consumers from unfairly high energy tariffs (i.e. Price Cap), and has boosted competitiveness in the market through switching initiatives (i.e. Faster Switching, GSOP compensations), and encouraging innovation and new entrants. We feel that using the CSS report for this aim would be a reversal of Ofgem's commitment to principles based regulation.

Avoiding supplier failure and supporting enforcement activity

We're not convinced from Ofgem's proposals that the CSS will provide adequate or timely enough information to reduce the risk of supplier failure.

The drivers of supplier failure are highly complex, and Ofgem should look at existing regulatory reports, including complaints and GSOP compensations, to obtain a full picture of suppliers' health. Furthermore, we're aware that increasing industry costs, including RO payments and DCC fees, have been significant drivers of the recent spate of supplier failures. We'd recommend Ofgem conduct a full cost analysis of this before proceeding with this line of argument.

Ofgem should provide further detail to support this intended outcome. Specifically, Ofgem should provide a clear indication of the areas and thresholds where supplier performance would be considered concerning, and proposed remedies for this. This should reflect the existing compliance principles which underwrite other regulatory reports such as GSOP and Smart rollout progress. In these instances, suppliers have some clarity on the standard of performance that is acceptable, having been agreed in consensus with industry.

SUBMISSION ENDS.