TOTAL GAS & POWER

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Total Gas & Power Ltd response to the Ofgem review of the Consolidated Segmental Statement consultation issued 21st May 2020

Total Gas & Power (TGP) is one of the largest non-domestic gas and electricity suppliers in the UK and we therefore welcome the opportunity to represent our views regarding Ofgem's 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).

We support the aspiration of market integrity which ultimately protects consumers and we must ensure that suppliers are financially secure to avoid mutualisation of industry costs and this is recognised by Ofgem's supplier licence review workstream. There does however need to be a risk-based balanced approach applied to the threshold of suppliers that could be caught by an onerous reporting obligation.

At present this is set at 250,000 domestic or non-domestic customers and we would support a reduction to 150,000 customers which is in line with other industry standards such as Supplier Export Guarantee, Warm Home Discount, ECO and a number of other smart metering obligations. Anything less than this number would provide an unnecessary burden on smaller suppliers, particularly in the non-domestic sector where there have been very few instances of Supplier failure.

As a member of ICoSS, the non-domestic energy supplier trade association, we also fully support the response that has been submitted by them.

TGP response to the consultation questions

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.

We request that a long lead time is allowed for suppliers not previously mandated under this reporting regime to prepare resource and systems. This is particularly the case due to customer and industry stress from the global Covid 19 pandemic and the other major industry change programmes such as faster switching, HH settlement, MBC review and others. We would therefore suggest implementation of any change to be 2023 as a minimum.

Chapter 2:

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

We understand that the original intention of CSS reporting was to police vertically integrated companies to ensure that generation assets were not used to subsidise energy supply We therefore do not see the benefit from the CSS reporting regime being extended, particularly into the non-domestic market where companies are more financially stable.

Chapter 3.

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

No comment

Chapter 4

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?

We do not agree for the reasons previously mentioned. The non-domestic market has operated much more efficiently and does not require the same oversight. There have been very few supplier failures in the non-domestic market compared with the domestic market.

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

Whilst we support the concept of more rigorous oversight of market participants, we believe that there needs to be a balanced approach. As such we would suggest moving to the new benchmark standard of 150,000 customers would be sensible and proportionate.

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?

As previously stated, we believe that there should be a proportionate, risk-based approach and that should not be extended to smaller domestic and all non-domestic suppliers.

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?

It would not be feasible in the non-domestic sector. Tariffs are not generally applicable to the non-domestic market. Contracts are usually negotiated on a bilateral basis dependent on market conditions at the time of the contract being struck and other considerations such as credit worthiness.

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?

The industry, through licence arrangements does not differentiate between SME, I&C and non-profit customer. TGP does not operate separate SME, I&C and non-profit reporting streams but we do define and service Microbusiness customers in accordance with our licence conditions. If we were to have to segment customers differently it would be at significant cost.

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

As previously stated, in the non-domestic sector tariffs are not standard with bespoke contractual arrangements being the common practice. However, we would be able to segment costs as described.

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?

Non-domestic suppliers are not required to track or provide additional services to Vulnerable Customers as defined by domestic licence conditions. However we are always mindful of potentially vulnerable situations with customers such as care homes.

Question 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.

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?

No Comment on this question

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

We do not believe it is appropriate for such information to be requested and any reporting framework should not seek to capture this information.

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 do not believe this should apply to the non-domestic market for reasons previously stated.

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

TGP does not believe that the CSS reporting framework should be extended to include suppliers that are not vertically integrated. We do not believe that the CSS will result in a net reduction in resource requirements from reducing the need for RFI requests, which have a comparatively low resource burden in comparison to what would be required under CSS.

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

Companies that currently provide information under the CSS regime are all large organisations who are required by legislation to publish accounts. If CSS were to be expanded to smaller / non-domestic suppliers, we would expect that information to be treated as confidential.

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 would expect to require 1 FTE accountant to meet these obligations

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

Unknown at this stage.

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 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. Retaining the right to request an audit seems reasonable.

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

Not able to comment at this stage

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

That depends on whether the RFI is in line with our current financial reporting structure and timing.

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

TGP operates a calendar financial reporting year ending 31st December so to change this for CSS purposes would be disruptive (expensive).

Please don't hesitate to get in touch if you wish to discuss any of the above in more detail.

Kind Regards

Andrew Green

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