

Wednesday 12 August 2020

To: Office for Research and Economics, Ofgem
css@ofgem.gov.uk

Consultation response: initial proposals for Consolidated Segmental Statements

Ofgem Research and Economics Team -

We have studied the initial proposals with close interest and attended one of the well-organised workshop events in July. This has all been presented clearly and we appreciate this consultation opportunity.

From the sector engagement so far, we are aware that a frequent question put to Ofgem asks that the purpose of gathering this information is better defined. We have sympathy with this point, particularly when considering, for example, how much tariff information is already provided. But for the purpose of responding to this consultation precisely, we can set this ambiguity aside and focus on the one area where the proposals could be of tangible benefit: namely, for assessing the financial resilience of suppliers.

Overall, we welcome the direction of travel within the wider Supplier Licensing Review and agree with many in the sector that adding a Financial Responsibility Principle to the licence is overdue. We therefore understand why Ofgem is also minded to utilise the existing device of Consolidated Segmental Statements (CSS) as a key tool for assessing the financial status of suppliers. However, we think that the initial proposals are unlikely to achieve their aims and that Ofgem could better achieve the oversight it needs with periodic, or even consistently scheduled, Requests for Information (RFIs).

The constraining factor to acknowledge in the lead up to the statutory consultation is that cost-splitting methodologies will have to be employed, particularly for preparing the additional information. The only way for suppliers to allocate a split of their operating costs at this level of granularity will be with their own assumptions, meaning that much of the comparison value will be lost, and more so for the growing number of suppliers like us who retail services other than energy.

The same issue exists to a much lesser degree for RFIs because they are more narrowly focussed and are taken to be discrete each time. In contrast, the initial proposals for CSS appear to be striving to set up an overarching industry data set in its own right; and for this aspiration the data quality requirement would fall short.

RFIs, particularly when combined with available market and consumer information, can readily identify suppliers whose relative financial weakness exposes the sector and its customers to mutualisation risk. For example, the well-trodden Credit Balances RFI identifies suppliers utilising customer credit balances as a significant source of working capital. The experience of the many Supplier of Last Resort events of the past three years confirms that regulatory intervention would be best targeted to suppliers with a high percentage of credit balance utilization (and few other lines of available capital or credit), and with a position at the lowest end of the price comparison range (and therefore furthest removed from the Price Cap's robust assessment of true costs).

In summary, the use and development of existing RFIs would provide the better tool, whilst avoiding the risk of working with a supposedly consistent CSS central data set that is unlikely to be so in practice.

To cover the specific questions raised, we support 'option 2' to remove the CSS requirement from licence condition 19A, as we agree that it is no longer fit for its original purpose. Should that option not be chosen, we agree that it is too onerous to include a CSS audit requirement (except for Ofgem reserving the right); and that the threshold should be at the lowest possible (although see the argument to cover all suppliers as much stronger than the proposed >50k bracket). This last point is something of a given, when the typical size of a collapsed supplier is considered. Even the smallest suppliers, if they are serious market entrants, should have at least one person on their staff with the skills to prepare this information.

Finally, we would appreciate clarification of how a transition timeline would look, both for the reporting submission and the reporting period itself. Our intuitive take on this would be that if the obligation applied from April 2021, it would make sense to start compiling the information live, throughout the 2021/22 financial year. This would provide a natural transition period leading up to a first annual submission window in April 2022. Without such a forward-looking timeline it could be argued that the new obligation would, in effect, apply retrospectively.

This is important research and we look forward to contributing further to the project as may be helpful.

Kind regards, on behalf of Utility Warehouse,

Ben Sheehy
Head of Energy Compliance and Regulation