

Consultation

Reviewing the Consolidated Segmental Statement - Our initial proposals

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We 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.

The structure of the retail energy market has changed significantly since this requirement was first introduced in 2009. This means that the information collected through these licence conditions is no longer sufficient or effective in supporting our work in monitoring the market and providing appropriate transparency to the public. It has therefore become necessary for us to review the scope of the licence conditions and the content of the CSS to ensure it can continue to support our work in an evolving energy market.

This document sets out our proposals on changes to the CSS requirements in the financial reporting licence conditions, which have had some stakeholder input from workshops we held over the winter. Our proposals include future requirements that could apply to suppliers who are not currently captured by the existing licence conditions. We are keen to take a pragmatic approach by drawing, as far as possible, on information that already exists within firms. We also want to be proportionate in terms of volume of information requested and market coverage. We welcome feedback on whether we have got this right.

We are seeking views from all interested parties who would like to help shape changes to the CSS. Once the consultation is closed, we will consider all responses. In the interest of transparency, we will publish all non-confidential responses we receive alongside our consultation at [Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response and any personal data (eg email addresses) – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Executive Summary

1.1. Ofgem's principal objective is to protect the interests of present and future energy consumers. As part of this, we need to collect and publish financial information on revenues, costs and profits. This information allows us to effectively monitor and understand market health which is important context for our policy work as well as compliance and enforcement activities. We also need this information for transparency to support consumer confidence around energy prices, costs and profits.

1.2. Our Energy Supply Probe in 2008¹ identified a number of areas where competition could work more effectively. One of these areas was the need to improve the quality and accessibility of the information available to consumers so that they can make well-informed decisions about their energy supply and empower more consumers to engage effectively in the market. The Probe also argued in favour of promoting greater transparency between the activities of the major supply and generation businesses.

1.3. In response to the Probe, Ofgem introduced the 'Financial information reporting' licence condition, which came into force in 2009. It is set out in SLC 19A of the Gas and Electricity Supply Licences and SLC 16B of the Electricity Generation Licence.² Under the financial information reporting licence condition, the CSS is currently the only financial reporting requirement, and it is the key means through which we gather information from companies on an ongoing basis.

1.4. The market has changed since 2009 when the CSS was first introduced. The much lower market share of the obligated suppliers no longer gives us a representative view of profitability and it does not provide an accurate view of the now greater variety of competitors and business models in the sector. Although increasing transparency remains the

¹ 2008 Energy Supply Probe - Proposed Retail Market Remedies, Decision document, August 2009 - <https://www.ofgem.gov.uk/ofgem-publications/38335/retail-package-decision-document.pdf>

² Standard conditions of electricity supply licence - https://epr.ofgem.gov.uk/Content/Documents/Electricity_Supply_Standard_Licence_Conditions_Consolidated_-_Current_Version.pdf

Standard conditions of gas supply licence - https://epr.ofgem.gov.uk/Content/Documents/Gas_supply_standard_licence_conditions_consolidated_-_Current_Version.pdf

Standard conditions of electricity generation licence - https://epr.ofgem.gov.uk/Content/Documents/Electricity_Generation_Standard_Licence_Conditions_Consolidated_-_Current_Version.pdf

main aim, the purpose of the CSS has widened beyond this such as supporting our analysis in market assessments (eg State of the Market Report and Conditions for Effective Competition), and the impact of Covid-19 will make these assessments even more important. Furthermore, there has been increased political interest in how particular costs (eg environmental and social costs) are passed on to customers. This review presents an opportunity to make sure the aims of the CSS are aligned with the new realities of the market and the aims of our market monitoring and oversight.

1.5. This policy consultation sets out our proposals, including our preferred options, for improving the transparency of energy supplier profitability through the CSS. It follows on from feedback we received at our stakeholder workshops in January and February 2020. Subject to responses, we are minded to expand the CSS to include suppliers who are not vertically integrated and to lower the current customer threshold from 250,000 domestic or non-domestic customers to 50,000 domestic or non-domestic customers. We are also considering removing the annual audit requirement but reserving the right to require an audit when we have serious concerns. We have included a draft Impact Assessment (IA) of our proposals in Appendix 2.

1.6. This review is an opportunity for stakeholders to tell us what they think about our 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. We set these 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). Our recent experience in monitoring the impacts of Covid-19 has made us even more aware of the importance of this information. We recognise that some of this information could be commercially sensitive and we would like to understand this more fully through responses. We also recognise that we may need to allow a transition period to allow suppliers extra time, particularly those that are newly obligated, to comply with the first year submission.

1.7. The CSS review is part of Ofgem's programme of work that is considering new financial information reporting requirements for suppliers. Our proposals aim to ensure the information we collect from the CSS is relevant, robust, transparent, consistent, representative, pragmatic and proportionate. We believe our proposals will encourage confidence and

competition in the market by increasing transparency whilst reducing ad hoc information requests to suppliers.

1.8. Once we review responses to this consultation document, we aim to publish our policy decision (including final Impact Assessment or IA) and statutory consultation this autumn, and the modification decision in early 2021. Our deadline for responses to this consultation is 12 August 2020.

Foreword

We are consulting on changes to the financial information we require from suppliers, in line with changes to market structure.

The need to understand energy suppliers' costs, revenues and profits has become even more evident in recent months. This information is proving vital in understanding the impact of the Covid-19 virus on suppliers and their ability to support consumers. In the future, an updated CSS will provide us with the information we need to understand suppliers' costs and revenues across a wider and more diverse group. Overall, the changes we are proposing to make will inform our monitoring and ability to understand the financial health of the retail sector, provide transparency that supports public confidence, and ultimately help us protect the interests of consumers.

Since 2009, we have required vertically integrated suppliers to report their costs, revenues and profits. Changes in the market mean that we now have oversight of a much smaller proportion of the market than we previously did. As the market evolves, our requirements must also keep pace to ensure they continue to meet their intended purpose. In its current form, the CSS no longer achieves the breadth and depth of costs and revenue monitoring that we need. The stakeholders we have spoken to broadly agree with this.

So we are proposing changes to the CSS requirements to allow us to collect data from suppliers with at least 50,000 (domestic or non-domestic) customers regardless of whether they are vertically integrated or not. We also think there is benefit in requiring more in-depth reporting of existing categories and segments (eg by tariff types, between microbusiness customers and other business customers, analysis of indirect costs etc). With a wider coverage of the market and more detailed information, we will take a pragmatic approach to auditing, by proposing to remove this requirement but retain the right to request one if we have serious concerns.

These changes will put us in a better position to understand the impact of Covid-19 and the wider economic situation on the retail energy market in the coming months and years. We expect these changes to reduce the need to make ad hoc requests for financial information.

In the coming weeks and months, we will work with suppliers and other parties to shape and develop our proposals so that they achieve the aims of the CSS and do not place unnecessary burdens on suppliers. We recognise the challenges associated with Covid-19 and we will bear this in mind when considering timings for the first year submission under the revised CSS.

I want to be clear that protecting the interests of consumers is at the heart of why we want to make the proposed changes. It is imperative that we have the information we need to actively monitor the market and encourage transparency around costs, revenues and profits to promote healthy competition and consumer trust. With this information, we can help consumers better understand what they are paying for and keep a close eye on the financial health of the market overall.

A handwritten signature in black ink, appearing to read 'Paul', written in a cursive style.

Maureen Paul
Interim Chief Economic Advisor

1. Introduction

Chapter summary

This chapter provides a brief introduction on what we are consulting on and gives details on the consultation stages and how to respond.

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.

What are we consulting on?

1.1. Our principal duty is to protect the interests of Britain's current and future gas and electricity consumers, including those in vulnerable situations. We do this in a variety of ways including promoting competition. Increasing transparency of energy company profitability is key in monitoring whether the energy market is working well for consumers. It is also an important aspect of our efforts in building consumer confidence in the energy market and supporting efficient entry by new firms.

1.2. This policy consultation presents our proposals for revising the financial information reporting requirement under SLC 19A of the Gas and Electricity Supply Licences and SLC 16B of the Electricity Generation Licence called 'financial information reporting'. There is currently one requirement under the licence conditions which is the Consolidated Segmental Statement (CSS). The licence conditions and their requirements (currently the CSS only) will be referred to as the CSS licence requirement or condition for the purposes of this consultation.

1.3. The CSS licence condition requires vertically integrated suppliers (ie those that have either a gas or electricity supply licence and an electricity generation licence) that supply gas or electricity to more than 250,000 domestic or non-domestic customers to prepare and publish an independently audited CSS each year. Since the introduction of the CSS, the

requirements under the licence condition has applied only to the former six large energy firms until more recently.³ Appendix 1 provides further detail on what the CSS includes.

1.4. We have in the past made changes to the CSS licence condition. In 2014, we made changes which included: a) prompt publication of the CSS and no later than four months after the end of the financial year; b) reconciliation of revenues and profits to statutory accounts; c) appropriate transfer pricing methodology and notifying the Authority of any changes; d) an audit report from an Appropriate Auditor confirming the extent to which the statements have been prepared in accordance with the licence condition and the Guidelines; and e) more detailed cost breakdown and inclusion of non-financial information.⁴ In the same year, we commissioned management consultants BDO LLP to review the former six large energy firms' transfer pricing methodologies as reflected in their 2013 profit and loss accounts for generation and retail supply of gas and electricity.⁵

1.5. To carry out our duties and to monitor the market effectively, we want the information that we collect on energy retail market profitability to be transparent and robust, representative, accessible, useful, consistent, pragmatic and proportionate. Since 2009, we have collected this information through the CSS. However, the nature of the energy market in GB has changed significantly. We are reviewing the CSS licence requirements to ensure they remain relevant in an evolving energy market. In addition to proposals we are making on existing requirements within the CSS, we are proposing additional information requests. In this case, we may decide that only a subset of information should be published and other information that is commercially sensitive will be disclosed to Ofgem only.

⁴ Consultation, Oct 2014, Actions to improve the transparency of energy company profits: <https://www.ofgem.gov.uk/publications-and-updates/actions-improve-transparency-energy-company-profits-0>
Decision Letter, Dec 2014, Modification of gas supply and electricity supply and generation licences: <https://www.ofgem.gov.uk/ofgem-publications/92228/decisionletter.pdf>

⁵ Spring 2014 – Ofgem commissioned BDO to review transfer pricing policies for large energy companies: <https://www.ofgem.gov.uk/publications-and-updates/actions-improve-transparency-energy-company-profits-0>

Consultation stages

1.6. We ask stakeholders to respond to this consultation by 12 August 2020. We would like to hear from stakeholders on any aspect of this consultation document. In particular, we ask that respondents consider the questions listed at the beginning of each chapter, also set out in Chapter 6.

1.7. The next section provides details on how to respond. During this consultation period, we will hold a technical workshop with suppliers’ financial accountants and experts. Details on how to register are available on our website.

1.8. Once we receive and consider responses, we intend to publish our policy decision (and final IA) and statutory consultation in the autumn. We will then publish our modification decision in early 2021.

1.9. We expect any revised licence conditions to take effect from April 2021, and we will consider a transition period, particularly for suppliers who have not submitted a CSS before. We would like to hear your views on how a transition period could work.

Figure 1: Consultation stages



How to respond

1.10. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. In particular, we would like to hear from energy companies, consumer representatives and other users of information on energy company profitability. We would especially welcome responses to the specific questions which we have set out at the

beginning of each chapter and the full list of questions is also provided in Chapter 6. Please respond to each one as fully as you can.

1.11. Responses should be received by 12 August 2020 and should be sent to the contact below:

Alban Asllani
Economist, Office for Research and Economics
css@ofgem.gov.uk

1.12. Any questions on this document should, in the first instance, be directed to the contact above.

Your response, data and confidentiality

1.13. You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, the General Data Protection Regulation (GDPR), statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

1.14. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.15. If the information you give in your response contains personal data under the GDPR 2016/379 and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 6.

2. Main aims of the CSS and this review

Chapter summary

We outline and discuss the main aims of the CSS which are: to provide transparency and market intelligence; to ensure energy customers are treated fairly; and to support policy development while limiting regulatory burdens on industry.

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

Main aims of the CSS

2.1. The CSS licence requirement was originally introduced to provide transparency on profitability in the energy sector, particularly profits of the large vertically integrated suppliers as they represented the majority of the market share in the retail energy market. Providing transparency of energy company profitability to the public and monitoring costs and revenues is important in promoting competition, building consumer confidence and ensuring that the energy market is working well for consumers. The CSS is one of our main initiatives for promoting transparency of energy company profitability and this level of transparency did not exist before its introduction in 2009.

2.2. Initially, the information collected from the CSS covered over 90% of the retail supply market, giving us a broad overview of profitability in the sector. This has supported our work in protecting consumers and encouraging confidence and competition in the energy market. However, the energy market has changed significantly and continues to evolve. We discuss these changes in Chapter 3. These changes have meant that the current CSS is no longer effective in achieving its aims of providing transparency and market intelligence, ensuring consumers are treated fairly and supporting policy development. This review is an opportunity to rearticulate the aims of the CSS to match the new realities of the energy market. We discuss these aims in more detail below.

2.3. Through this review, we are committed to putting in place new requirements that deliver a CSS that achieves its aims and is:

- *Representative* – captures the overall market and reflects the market structure and its dynamics
- *Robust* – provides confidence that the reported figures are derived correctly
- *Consistent* – provides consistency in figures to enable aggregation and comparison
- *Useful* – provides information that is relevant, meaningful and timely
- *Accessible* – presented in a way that can be understood by interested parties
- *Pragmatic* – requests information that already exists within firms, as far as possible, and
- *Proportionate* – balances volume of information and market coverage.

Providing transparency and market intelligence

2.4. As the energy regulator, transparency and market intelligence enable us to be proactive in protecting the interest of consumers. This means having reliable information that is comparable and consistent to help inform our monitoring, respond to questions at pace and inform public debate with independent, transparent and robust information.

2.5. There are several outputs we produce which provide transparency and market intelligence. Our annual summary document⁶ summarises the results from all of the submissions and compares them to previous years to help identify trends. There is no other source for this type of information. Financial statements available on most energy company websites and Companies House⁷ provide information on the general profitability or loss of companies but do not report consistently on costs, revenues and profits by energy business segment.

2.6. We also publish indicators and monitor profitability in the market to help identify any concerns. This is vital in our role to protect the interests of consumers. We use the CSS data to publish a number of energy indicators on our Data Portal⁸ and to carry out analysis for our

⁶ All CSS submissions can be found at: <https://www.ofgem.gov.uk/publications-and-updates/energy-companies-consolidated-segmental-statements-css>

⁷ Companies House: <https://www.gov.uk/government/organisations/companies-house>

⁸ Ofgem's Data Portal web page: <https://www.ofgem.gov.uk/data-portal/overview>

annual State of the Market Report (SoMR)⁹, helping the public and Ofgem to understand how the energy market is functioning. Finally, we use the CSS to support analysis as part of market assessments such as the report on Conditions for Effective Competition (CfEC)¹⁰, which will require information on the costs suppliers face and how they pass these on to consumers.

2.7. The CSS gives us information to support our duties in monitoring supplier compliance with licence conditions, encouraging fair competition and ensuring that enforcement actions are taken in relation to any actions which could have substantial intended / unintended or anticipated / unanticipated negative consequences for consumers. It also provides evidence in supporting merger and other energy market investigations by the CMA, and informs the work of other governmental bodies and regulators.

Ensuring consumers are treated fairly

2.8. Providing an energy bill breakdown is a crucial part of our role in ensuring consumers are informed and have access to information regarding all the components that make up their bills. Concerns about the costs that make up consumers bills are ever present and we need independent and accessible information to publish a breakdown of energy bills¹¹ (eg environmental and social costs). This helps consumers to understand what they are paying for and how much, and to ensure suppliers are held to account by justifying their prices.

2.9. We have seen a gradual increase in the 'other income' portion reported to us in the CSS submissions. Over the years, the 'other income' portion reported by the former six large energy firms has hovered between 1% and 6% of total revenues from generation and supply or between 0% and 2% of supply activities. Even though the 'other income' figures from supply activities is not high, we have noticed a steady increase over the years. As a regulator, we are currently unclear how this may impact on companies' supply businesses; potentially

⁹ State of the energy market 2019: <https://www.ofgem.gov.uk/publications-and-updates/state-energy-market-2019>

¹⁰ Framework on conditions for effective competition in domestic supply contracts, October 2019: <https://www.ofgem.gov.uk/publications-and-updates/framework-conditions-effective-competition-domestic-supply-contracts>

¹¹ See Breakdown of an electricity bill at <https://www.ofgem.gov.uk/data-portal/breakdown-electricity-bill> and Understand your gas and electricity bills at <https://www.ofgem.gov.uk/consumers/household-gas-and-electricity-guide/understand-your-gas-and-electricity-bills>

impacting consumers' bills or cost mutualisation if these 'other income' activities become unprofitable. Our proposals include additional information reporting requirements as part of the CSS to help us understand the 'other income' portion being reported by suppliers in their statements.

Supporting policy development and limiting regulatory burdens on industry

2.10. The CSS improves our understanding of market developments and dynamics. This helps in designing policies that are effective in ensuring that consumers are protected. As discussed in paragraph 2.6, the CfEC assessments will be supported by a revised CSS which will be its principle source of data. We also use the CSS as part of a suite of packages to monitor the impact of the default tariff cap on suppliers' revenues and, ultimately, on their profits. This is particularly important for monitoring the impact of the default tariff cap on customers and the market. We set the default tariff cap to protect customers, and in doing so have regard to suppliers incentive to improve their efficiency and finance their activities efficiently.¹²(footnote) Information in the CSS helps us assess whether the cap works as intended, or requires modification.

2.11. The government is committed to a continuous reduction in the regulatory burdens on businesses, known as the Business Impact Target (BIT).¹³ With this in mind, a revised CSS could reduce the burdens on business by decreasing the number of financial information requests made on an ad-hoc basis to suppliers and by providing a standard template for reporting annually or in response to interim financial information requests.

¹² We set the default tariff cap to achieve the objective set out in Section 1(6) of the Domestic Gas and Electricity (Tariff Cap) Act 2018 <http://www.legislation.gov.uk/ukpga/2018/21/section/1/enacted>

¹³ See Business Impact Target: Statutory guidance at <https://www.gov.uk/government/publications/business-impact-target-statutory-guidance> and Ofgem's Business Impact Target reports at <https://www.ofgem.gov.uk/about-us/corporate-policy-planning-and-reporting/annual-report-and-accounts>

3. The retail market has changed

Chapter summary

We discuss how the market has changed since the CSS was first introduced in 2009, including key structural changes. We also provide a summary of the recommendations in the CMA retail energy market investigation relating to financial reporting. Lastly, we present stakeholder feedback we have received from recent workshops.

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

Key retail market structure changes

3.1. Since the CSS was introduced in 2009, there have been significant changes in the energy market. There are two in particular that are most relevant to the CSS, and are largely why we are carrying out this review. The first one is related to vertical integration. Five of the former six large energy firms have divested some or all of their electricity generation assets, resulting in fewer vertically integrated companies in the market. One of the former six large energy firms has also sold its retail activities. The generation activity divestments have been primarily led by an increase in competition in the wholesale market and decreasing profits in conventional generation of the former six largest energy firms. This means that vertical integration is no longer a significant feature in the market.

3.2. Second, there have been significant market share changes in the retail domestic and non-domestic markets driven by a sustained net entry and expansion of small and medium sized suppliers. The market share of the former six large energy firms in the domestic retail energy market was 99% when we first introduced the CSS in 2009. It has fallen from around

92% in 2014¹⁴ when we last reviewed the CSS to around 70%¹⁵ at the end of 2019. Medium-sized suppliers have expanded and increased their ability to exert competitive pressure on the former six large energy firms. In 2014, the market share of the medium-sized suppliers was just over 6%.¹⁶ As a group their combined domestic market share reached 23% by the end of Q3 2019. This is a significant market structure change. The composition of both the large six and medium-sized suppliers has changed significantly in light of the sale of SSE's domestic customer book to Ovo Energy in January 2020, and the announced acquisition of npower's parent company (Innogy) from E.ON in September 2019. There has also been a significant increase in the number of small suppliers in the market. Their market share as a group increased from less than 1% in 2009, to 2% in 2014 and then to 7% by the end of 2019.

3.3. In the non-domestic gas market, the market share of the former six large energy firms has decreased from around 69% in 2014 to 53% in 2019, while the market share of small and medium sized suppliers has increased from 31% in 2014 to around 47% in 2019.¹⁷ Figures from the non-domestic electricity market follow a similar trend. For profile classes¹⁸ 5 to 8 and half-hourly (HH) customers, around 73% was supplied by the former six large energy firms in 2014. By 2019, this figure fell to 57%, resulting in an increase in the market share of other suppliers from around 27% in 2014 to 43%.¹⁹

¹⁴ Market share figures are given in average terms based on the figures for each quarter of a given year. We calculate market shares every quarter, and this data is available in our [Data Portal site](#).

¹⁵ We calculate market shares using the number of meter points on the gas distribution networks, as provided to us by Xoserve. We calculate market shares from the number of meter points on the electricity distribution networks, as provided to us by electricity distribution network operators.

¹⁶ In 2009, the market share of the medium sized energy suppliers was less than 1%.

¹⁷ As measured in terms of meter points for businesses with gas consumption *under* 73,200 kWh. In terms of meter points for businesses with gas consumption *over* 73,200 kWh, market share has not significantly changed over the years, with small and medium sized suppliers supplying between 77% to 82% of the market, while the former six large energy firms supplying between 23% and 18% of market share from 2014 to end of 2019, respectively.

¹⁸ Electricity profile classes' definitions are based on Elexon Guidance. Profile classes 3 & 4 are typically small businesses and market shares are measured in terms of meter points; profile classes 5 to 8 and half-hourly (HH) customers are typically larger and market shares are measured in terms of volume.

¹⁹ For profile classes 3 and 4, the market share of the former six large energy firms was around 81% in 2014 and this decreased to 74% by the end of 2019. While the market share of other suppliers increased from around 13% to 26% from 2014 to 2019.

CMA retail energy market investigation

3.4. In June 2014, we referred the retail energy market to the Competition and Markets Authority (CMA) for investigation because we did not think competition was working as well as it could for consumers. The CMA published its final report on 24 June 2016,²⁰ containing over 30 remedies. The CMA concluded that there was no mechanism to assess the cost of wholesale energy to suppliers on a comparable basis (ie excluding losses or gains arising from trading activities). In this regard, the CMA recommended that financial information needs to be relevant and reliable and have a clear and accessible basis for preparation.

3.5. In relation to the CSS, the CMA recommended the following remedies²¹ that would require large suppliers to:

- report their generation and retail supply activities along market rather than divisional lines
- report balance sheets as well as profit and loss accounts for these activities
- disaggregate wholesale energy costs for retail supply across broad tariff types between a standardised purchase opportunity cost and a residual element, and
- report prior year figures prepared on the same basis as current period figures.

These remedies provide strong support of our proposals as set out in Chapter 4.

²⁰ CMA Energy market investigation webpage: <https://www.gov.uk/cma-cases/energy-market-investigation>

²¹ CMA Energy market investigation final report, June 2016: <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf> (page 1330 to 1342) and CMA remedies implementation document, November 2016: https://www.ofgem.gov.uk/system/files/docs/2016/11/cma_remedies_implementation_plan.pdf, page 46 and 47

Stakeholder feedback so far

3.6. We have had discussions with stakeholders reinforcing our view that the CSS would benefit from revision as the energy market has evolved. We held workshops in January and February in which stakeholders expressed the following views:

- The information gathered is limited in providing a robust understanding of profitability and, more specifically, costs and revenues in the domestic retail market in light of market structure changes. Stakeholders agree that a review is necessary.
- Although stakeholders consider the CSS to be useful in understanding the market, benchmarking and making investment decisions, they asked us to review and restate the purpose of the CSS as part of our review.
- Suppliers favoured removing the auditing requirement as it is costly and they think it is unnecessary. Suppliers, however, agree that Ofgem could retain the right to require audited statements in certain circumstances.
- Large suppliers argued in favour of extending the CSS to all suppliers. However, this could be burdensome for smaller suppliers and the costs need to be carefully considered.
- Stakeholders want us to justify any additional information requirements via the CSS. Some stakeholders were more amenable to this if it leads to fewer ad hoc information requests and if the auditing requirement is removed.
- Any additional information that is commercially sensitive could not be published, so it would need to be reported to Ofgem for collating and aggregating.
- Ofgem must ensure there is no duplicate financial reporting requirements across its various workstreams and reviews.

- Any revision to the financial reporting requirement should allow for a transition period in its implementation, particularly for suppliers who are submitting this information for the first time.

We have considered these views when developing our options in Chapter 4 and our preferred approach in Chapter 6.

4. Proposals for changes to the CSS licence requirement

Chapter summary

We discuss in detail our proposals for revising the CSS licence requirement.

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?

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

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?

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?

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?

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

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?

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

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?

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

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?

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

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

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?

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

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?

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

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

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?

4.1. We have developed our options in line with the better regulation framework guidance²² and the HMT Green Book²³ guidance, which recommends that we:

- Concisely summarise the impacts, including the qualitative and quantitative costs and benefits
- Maintain a transparent process
- Ensure comparability with other assessments, without unnecessary detail or duplication, and
- Follow best practice by ensuring that the basic tests of whether any regulation is fit for purpose (such as proportionality, accountability, consistency, transparency and targeting) are considered.

4.2. Appendix 2 provides a draft IA of the options. There are three main options which we are considering as part of our CSS review, including:

- Option 1 - No changes to the CSS requirement
- Option 2 - Completely remove the CSS requirement from the licences, or
- Option 3 - Revise the CSS licence requirement.

Each of these options is discussed in some detail below. The next chapter discusses our preferred option.

²² Better Regulation Framework:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/872342/better-regulation-guidance.pdf (pages 11 - 18)

²³ The Green Book: appraisal and evaluation in central government:

<https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government> (page 6 - 8)

Option 1

4.3. Option 1 is to keep the CSS requirement as it is, which is our 'do nothing' option and the counterfactual scenario in our draft IA.

4.4. The increasing market share of small and medium-sized suppliers, coupled with the reduced degree of vertical integration in the market, suggests that the CSS cannot continue in its current form if it is to retain its relevance in the changing energy market, and to continue to meet its aims and uses as discussed in Chapter 2. Stakeholders have also told us that the current requirements are no longer fit for purpose.

Option 2

4.5. Option 2 is to remove the CSS requirement from SLC 19A of the electricity and gas supply licences and SLC 16B of the electricity generation licence, and therefore no supplier would be obligated to publish a CSS. Instead, we would use frequent information requests or RFIs to maintain the same level of market transparency, and we would expect this to be more costly and less efficient for suppliers than submitting a regular CSS each year. As the UK's energy regulator, it is essential that we have access to regular, representative, robust and accessible information on retail energy market profitability and related information. Without this, we would not be able to fulfil our duties to the degree expected of us. The revenue, cost and profit data collected from the CSS is vital in providing transparency, market intelligence, protecting consumers and supporting policy development. This, in turn, helps in promoting competition and encouraging consumer confidence.

4.6. The CSS is currently the only source of comparable segmented financial information available to Ofgem and external parties (such as prospective suppliers, policy makers and investors). Therefore, removing the CSS financial reporting requirement would lead to the loss of significant benefits to the market, including providing transparency of profits and encouraging competition and consumer confidence. Given public interest and desire for information around energy costs and profits, if we do not collect this information regularly we would need to collect it through ad hoc RFIs. Transparency is important in terms of assuring the public that prices are fair and reasonable. We would like to understand the average costs to a supplier of preparing a RFI for detailed financial information..

Option 3

4.7. Option 3 is to revise the CSS requirement. We are considering three key changes which are relating to vertical integration, domestic and non-domestic customer threshold levels and auditing. We are also proposing to include more detailed reporting of existing categories and segments as well as changes to the reporting year. We discuss each of these areas below.

Vertical Integration

4.8. As vertical integration has become less of a feature in the energy market, there are fewer suppliers captured under the CSS licence requirements, which no longer gives us an adequate coverage of profitability in the sector. With this in mind, we are proposing two sub-options relating to vertical integration in terms of who should provide information under any new requirements:

- **Option 3A:** Obligate suppliers who are vertically integrated (ie hold supply and generation licences) and suppliers who are not (ie hold a supply licence only). Where a supplier is vertically integrated, it must provide accounts on the generation business of its affiliate generation licensee. If and when we put in place a new licence condition requiring generation licensees to provide a CSS, vertically integrated suppliers will no longer be required to submit accounts on their generation business under this CSS. Separate to this review, we are considering whether we should consult on a new CSS requirement for generators. We will provide further details in due course.
- **Option 3B:** Obligate suppliers who hold a supply licence. Vertically integrated suppliers will only be required to report in respect of their supply business. As mentioned in Option 3A, we are considering a CSS for firms with generation licences which is separate to this review.

Under these options, a customer number threshold (discussed in the next section) would also apply.

4.9. Of the two sub-options listed above, **our preferred option is 3A**. We want to make the CSS robust and collect information that will help us to identify and understand any

emerging / re-emerging issues (eg transfer pricing or cross-subsidisation) in the market. To achieve this, we need transparency on suppliers' business activities (including generation) as each activity affects overall profitability and consumer costs. It is also important that we have continuity in our data particularly if we decide to put in place a CSS for generation licensees.

Customer threshold level

4.10. Suppliers are required to submit a CSS if they supply electricity or gas to over 250,000 domestic or non-domestic customers. Together with this threshold and the vertical integration requirement, the information we collect from the CSS captures about 70% of the domestic retail energy market (and between 53% and 57% in the non-domestic gas and electricity markets, respectively), in comparison to 99% (around 70% in the gas and electricity non-domestic market) when the CSS was first introduced.

4.11. One of the aims of this review is to increase market coverage of the CSS so that we can capture a fuller picture of profitability in the retail energy sector. There are a number of customer threshold levels we are considering. Some of these thresholds are linked to particular supplier obligations:

- Keep the customer number threshold at 250,000 to align with the Feed-in Tariffs and Green Deal Obligations
- Lower the customer number threshold to 150,000 to align with suppliers' Energy Company Obligation (ECO) and Warm Home Discount obligations (from 1 April 2020, this will be the new threshold)
- Lower the customer number threshold to 50,000 to align with the requirement to offer a variety of payment terms. As part of the Supplier Licencing Review (SoLR), the 50,000, 250,000 and 150,000 customer number thresholds are being

considered in terms of determining when some of the milestone assessments would be required, or²⁴

- Use a target of a minimum of 90% market share and reserve the right to review this threshold level. This would mean that some suppliers may be required to submit a CSS in some years but not in others.

4.12. The table below shows the combined number of suppliers that would be obligated under each threshold level, along with the combined number of domestic or non-domestic customers and the market share that would be covered by the data from these suppliers. These numbers assume we proceed with Option 3A which is discussed in paragraphs 4.8 to

Table 1: Combined market shares and number of suppliers at different threshold levels

Vertical Integration	Threshold	Number of suppliers	Number of customers	Market share
Option 3A: Vertically integrated and supply only	250k customers	16	51,012,422	91.60%
	150k customers	19	52,010,735	93.40%
	50k customers	36	54,763,776	98.40%
	90% of market share	14	50,133,345	90.00%

4.13. **Our preferred option** is to lower the customer threshold level to 50,000 customers (ie at the level at which the requirement to offer a variety of payment terms applies) as it would enable us to have oversight, as far as practical, of profitability in the market. We want

²⁴ Supplier Licensing Review: Ongoing requirements and exit arrangements, 22 October 2019: https://www.ofgem.gov.uk/system/files/docs/2019/10/slr_policy_consultation_new_updated.pdf, page 24

changes to the CSS to be enduring and we want to capture information that is representative in terms of the number and type of suppliers. We think expanding the requirements to cover suppliers with a customer base of over 50,000 will achieve this, and allow us to collect data on suppliers as they grow. However, we welcome views, particularly those relating to the impact of our proposal on supplier costs and resources.

Auditing

4.14. The current obligated suppliers must externally audit the CSS before it is submitted and published. We understand these auditing costs to be somewhere in the range of £10,000 to £280,000²⁵ (some or all of which will be ultimately borne by consumers). We would like to understand from stakeholders how accurate these figures are. We are considering the following options relating to the audit requirement:

- Leave the audit requirement in to cover all obligated suppliers, including any new suppliers captured by the new requirements
- Remove the auditing requirement for all obligated suppliers
- Remove the annual audit requirement for all obligated suppliers but reserve the right to require an audit when we have serious concerns
- Have a two-tier requirement in which the largest suppliers (eg over 250,000 customers) are required to undertake an annual CSS audit, while we reserve the right to require other suppliers (depending on the customer number threshold level) to undertake an audit when we have concerns.

4.15. The CSS is widely used and the information we collect through it underpins several programmes of work, such as general monitoring and oversight, market entry assessments,

²⁵ Based on the evidence we have, an audit may cost between £10,979 and £274,477 in 2020 prices per company per year, depending on individual company circumstances. More information on auditing costs can be found in our draft IA in Appendix 2. We have asked for views and evidence on these costs and will update our final IA accordingly.

SoLR processes and CfEC. We need information that is accurate and reliable. Suppliers are required to provide us with information that is accurate²⁶ and we are aware that a general auditing requirement may place additional costs on suppliers (partly or fully borne by consumers) that may already be capable of providing accurate information. As such, **our preferred option** is to remove the annual audit requirement for all suppliers but reserve the right to require an audit when we have significant concerns. These concerns may arise if we identify any inconsistencies in reporting across suppliers and our engagement with suppliers to clarify these is not successful. We may then request some suppliers to have their CSS audited for a particular year.

4.16. To help reduce the risk of inappropriate cost allocations or inconsistencies in reporting, we will ask suppliers to submit a statement describing the method they apply to allocate costs. We may agree a standard method for allocating costs, or at least a template for a default standard. Our expectation is that suppliers should not change their cost allocation method every year.

Additional financial information requirements

4.18. 4.17. This review is an opportunity to consider whether Ofgem and stakeholders could benefit from more detailed reporting of existing categories and segments in the CSS. Our experience from monitoring and assessing the impact of the Covid-19 virus on the businesses of energy retail suppliers has made us aware that it is useful to have some key financial information. We have also found that it can take many weeks for a supplier to respond to a formal RFI because the supplier needs to set up its reporting systems and management review procedures in order to gather and review the information. If the annual CSS reporting template formed the basis of any future RFI, a supplier would be able to respond much more quickly. The importance of having more detailed information has become increasingly evidence in recent months from the Covid-19 impact, and the CMA's recommendations provide further support. The additional information we are consulting on is listed below followed by a discussion of why we think capturing this information would be useful now,

²⁶ Please see Condition 5 in the Standard conditions of electricity supply licence: https://epr.ofgem.gov.uk/Content/Documents/Electricity_Supply_Standard_Licence_Conditions_Consolidated_-_CurrentVersion.pdf

particularly in light of recent events. It is possible that we may not request all of this information, and we are looking for comments on which, of those listed below, should be given priority. We will also consider whether this information is commercially sensitive, in which case, we would not require publication of the data. The information we would like to capture includes the following:

- Breakdown of revenue, cost and profit by tariff types (eg default tariffs, non-standard variable tariffs and fixed tariffs) and number of domestic customers split by tariff type
- Breakdown of business revenue, cost and profit between microbusiness and other business customers
- Analysis of indirect operating costs
- Separating out costs to serve customers
- Breakdown of 'Other revenue' into its main revenue streams
- Inclusion of a balance sheet (with comparative figures and a standard layout) which shows a supplier's outstanding customer credit account balance position , comparative figures for the previous year in the income statement in the existing CSS and possibly further information about the financial position of the company, and
- Number of domestic customers split by payment method (ie, PPM, direct debit and standard credit).

4.19. We believe that understanding the year ahead monthly cash flow forecast of suppliers is an important part of our aims to build consumer confidence, support policy development and reduce regulatory burdens. However, we are not proposing to request this as part of the regular CSS submission. However we will reserve the right to require this information when we have significant concerns.

Tariff type

4.20. The breakdown of revenue, costs, and profits by tariff type would apply to both domestic and microbusiness supply segments. The main distinction for both segments is between default tariffs, non-standard variable tariffs and fixed tariffs (also known as acquisition/retention contracts). We are also proposing to collect domestic customer numbers split by tariff type (ie, default, non-standard variable tariffs and fixed tariffs).

4.21. The primary purpose of requesting a breakdown by tariff type is to understand the extent to which tariffs for different customer categories (eg engaged and disengaged) are justified on the basis of costs and whether there is any cross-subsidisation between these groups. These concerns have been raised in the policy sphere and among consumer groups where there have been calls to understand better how supplier costs, including environmental and social obligation costs, are passed onto customers, particularly vulnerable customers on default tariff contracts. We collect customer numbers broken down by tariff type on a quarterly basis however we are requesting that the latest quarter figures accompany the CSS to give us a complete picture and enable us to identify any issues relating to cross-subsidisation.

4.22. Collecting this information through the CSS may avoid the need to issue ad hoc requests for information which is currently the only way we can gather data on costs, revenues and profits by tariff contract. This information will be especially pertinent in a post tariff cap market, and in enforcement cases.

4.23. The Council for European Energy Regulators (CEER) has recommended reporting costs, revenues and profits based on tariff types. In its handbook on how to assess retail market functioning, CEER advises regulators to request information from suppliers on price data differentiated between different types of contracts offered to households and consumers.²⁷

²⁷ [Handbook for National Energy Regulators from CEER: https://www.ceer.eu/documents/104400/-/-/840b4ce7-9e4a-5ecc-403a-fad85d6ba268](https://www.ceer.eu/documents/104400/-/-/840b4ce7-9e4a-5ecc-403a-fad85d6ba268), page 18

Microbusinesses and other non-domestic customers

4.24. The non-domestic market is made up very diverse customers. We need more transparency in this market as it is currently only possible to assess profitability for the non-domestic market as a whole. We would like to request the number of each type of non-domestic customers, including Small & Medium Enterprises (SME), large Industrial & Commercial (I&C) and non-profit organisations. Moreover, separating out microbusinesses from the rest of the SME customers²⁸ from other business or public sector customers would allow us to carry out a competition assessment of the profitability of the microbusiness segment similar to what the CMA did as part of its energy market investigation.²⁹ This sort of analysis would help us to understand supplier margins in this market.

Indirect operating costs

4.25. Indirect operating costs are currently reported in the CSS as a single item. We are seeking further granularity to support our annual assessment under the CfEC framework³⁰ to make a recommendation to the Secretary of State as to whether the price cap on default supply tariffs should remain in place until 2023. The costs suppliers face and how they pass these onto consumers are part of this assessment.

4.26. We also anticipate using more granular information on indirect costs for future market assessments as well as assessments around the price cap or other regulatory interventions. We are proposing to separate indirect operating costs into customer service, metering, sales & marketing, central services, bad debts and other. Alternatively, we could issue a request for information each year and in advance of our annual CfEC assessment or any other relevant assessment we are conducting in the future.

²⁸ We would like to split this segment into <5 MW/h, 5-10 MW/h, 10-30 MW/h, 30-50 MW/h, and 50-100 MW/h.

²⁹ State of competition in the energy market assessment: <https://www.ofgem.gov.uk/gas/retail-market/market-review-and-reform/implementation-cma-remedies/state-competition-energy-market-assessment>

³⁰ Framework on conditions for effective competition in domestic supply contracts: <https://www.ofgem.gov.uk/publications-and-updates/framework-conditions-effective-competition-domestic-supply-contracts>

Costs to serve consumers

4.27. We would like to identify the costs associated with different types of customers and, in particular, for those registered on the Priority Services Register (PSR)³¹, having a prepayment meter or other features that make them more likely to be considered vulnerable (eg being on a low income, living with physical health issues or mental illness).³² This information will help us to understand the cost efficiency of different suppliers in serving these customers which is necessary as part of our annual assessment in making a recommendation to the Secretary of State as to whether the price cap should remain in place. As part of this assessment, we will measure efficiency using data on operating costs and customer base numbers, controlling for factors such as costs to serve.

4.28. The analysis of costs to serve customers will also give us insight into the extent of justifiable cross-subsidisation (through higher prices charged to other users) that would benefit these customers. Furthermore, some stakeholders argue that there is an unsustainable trend of new entrants getting more low-cost-to-serve consumers while incumbents end up with an increasing proportion of high cost to service customers, threatening viability. The market can handle many additional customer service needs consumers can have – with some suppliers looking to meet these needs in increasingly innovative and cost-effective ways. Ofgem is currently working on reforms to enable this kind of specialisation.³³ Understanding costs to serve will be important for determining how to ensure inclusive innovation.

Other revenue

4.29. As discussed in Chapter 2, we have seen an increase in the other revenue item reported to us over the years (eg other revenue figures of the former six large energy firms have hovered between 0% and 6% since 2009 for generation and supply activities). We need transparency on the extent to which companies are making profits in any other activities they

³¹ Priority Services Register: <https://www.ofgem.gov.uk/consumers/household-gas-and-electricity-guide/extra-help-energy-services/priority-services-register-people-need>

³² The latest consumer vulnerability strategy publication can be found at: <https://www.ofgem.gov.uk/publications-and-updates/consumer-vulnerability-strategy-2025>

³³ Supporting retail market innovation for net zero: <https://www.ofgem.gov.uk/news-blog/our-blog/supporting-retail-market-innovation-net-zero>

are involved in to understand how this may impact their supply businesses and hence consumer bills. Specifically, under their licences, companies can choose to conduct other activities, in the company or in another company. If these activities are within the licensee company, as the regulator, we need to monitor performance, particularly if the activities mean there is a risk that the business will fail because of losses in those other activities. Through the SoLR process, costs arising from a failed supplier are recovered from GB energy consumers, so we need to have oversight of whether customers' money is being used to finance other business activities.

4.30. We are interested in understanding how this reporting item could be separated. For instance, for generation we could request the following line items: ancillary services; balancing payments; capacity market income; Renewables Obligations Certificates (ROCs); and other. For supply, we could set a threshold; for example, any businesses or technologies that comprise more than 5 or 10% of total revenue should be reported. Specific activities of interest may be ECO, energy services (eg boilers, solar panels etc) and metering for example.

Balance sheet with customer credit account balance and other information about financial position

4.31. To help us get a full view of the financial health of the retail energy market, information about the financial position and health of suppliers will be beneficial. The type of information that would be important in this regard would be a balance sheet with comparative figures and a standard layout, and including a supplier's outstanding customer credit account balance position to understand how these funds are being used and how much of it may be at risk. In addition, we would like to request comparative figures for the previous year in the income statement in the existing CSS (which has standard lines of reporting specified in the CSS template).

4.32. As the energy sector is undergoing changes in structure, it would be useful to have comparatives consistent with the current reporting year. Finally, we are considering whether the scope of the CSS should include information about the key investors in the company and group; lines of credit available; other sources of financial stability; and funds set aside for RO payments. Part of the rationale for collecting this information would be to reduce the burden of ad-hoc RFIs by enabling suppliers to put procedures in place to report standard information.

Number of domestic customers by payment method

4.33. We want to understand the split of domestic customers on the basis of payment method (ie, direct debit, PPM and standard credit). We collect data on quarterly customer numbers by payment and tariff type. However, we propose that this information should accompany the CSS submission for the latest quarter. This will help us form a complete picture when assessing profitability and impacts of supplier performance and economic conditions on different customer groups.

Reporting year

4.34. We currently require companies to link their CSS submissions with their annual accounts for reconciliation purposes. Having the CSS figures reconciled to figures in the annual accounts, which are audited, provides added assurance. However, for vertically integrated suppliers, the figures from the affiliated generation licensee come from another company and may well be only part of the revenue of that company.³⁴ We are considering whether we should change the reporting year to a standard year ending in March, particularly if we extend the scope of the CSS to include more suppliers. In this case, we would be able to collate all the figures at the same time. However, we recognise that we may need to remove the requirement to reconcile the aggregate figures to the annual statutory accounts.

4.35. Our preference is to change the reporting year to standard year ending in March but we are interested in hearing your views on the pros and cons.

³⁴ For instance, the supply figures originate from one company while the generation figures originate from another. There might also be other business activities in the Affiliate, so the CSS total revenue might not simply be the total revenue of the supplier licences and generator licensee.

5. Links and dependencies with other financial information reporting

Chapter summary

We consider other work streams with financial information reporting requirements and discuss links and dependencies with the CSS.

5.1. Since the introduction of the CSS, we have significantly improved transparency of revenues, costs and profits, which has promoted trust in the market, stakeholder engagement and competition. This level of transparency helps to support prospective suppliers make decisions about market entry, and we have seen several new entrants since 2009. More recently, we have seen an increase in market exits and, due to Covid-19, there is an even greater need for more comprehensive oversight of financial viability of suppliers in the market. In addition to the CSS review, there are a number of other workstreams considering policy on financial reporting to address information and oversight gaps that we have identified. We discuss the Supplier Licensing Review and the Covid-19 supplier financial monitoring work below.

Supplier Licensing Review

5.2. In June 2018, we announced our intention to review energy supplier licensing arrangements to ensure appropriate protections are in place against financial instability and poor customer service. The review covers conditions for entering the market, ongoing requirements and exit arrangements. We consulted on changes to the new entry requirements in the initial phase of the review. These new requirements came into effect in July 2019.³⁵ ³⁶ In October 2019, we published a consultation with a proposed package of

³⁵ Supplier Licensing Review: Final proposals on entry requirements: <https://www.ofgem.gov.uk/publications-and-updates/supplier-licensing-review-final-proposals-entry-requirements>

³⁶ Decisions on new Applications Regulations and guidance document: <https://www.ofgem.gov.uk/publications-and-updates/decision-new-applications-regulations-and-guidance-document>

reforms to strengthen ongoing requirements on suppliers and arrangements for market exit.³⁷ The statutory consultation is due to be published shortly.

Covid-19 supplier financial monitoring exercise

5.3. Ofgem has recently undertaken other monitoring work in light of the Covid-19 virus. The purpose of this workstream is to monitor the current state of supplier finances to understand whether some suppliers are at risk of failure and to inform our efforts to minimise any consumer harm that might arise during the current crisis. As part of this, we are looking at the impact (eg via cost mutualisation) from larger supplier failures.

5.4. This workstream will then enable us to engage with suppliers at early stages of potential financial stress and inform the mobilisation of our SoLR or Special Administration Regime (SAR) plans. This will help us to understand suppliers' business better and support our wider market monitoring activities.

How we are working together

5.5. For clarity, the requirements covered by the CSS, SLR and Covid-19 supplier financial monitoring exercise complement each other. In particular:

- The revised CSS will improve transparency of the overall financial health of the sector by collecting financial information from a representative proportion of the market on an annual basis. The intention is not to duplicate the ongoing monitoring we do on the financial viability of suppliers.
- The SLR will reduce the likelihood and impact of disorderly supplier exit by taking a risk-based approach to oversight of suppliers' financial position. It requires information from specific suppliers when a) we have cause for concern that they have poor risk-management practices; or b) at times of particularly risky growth.

³⁷ Supplier Licensing Review: Ongoing requirements and exit arrangements, 22 October 2019: https://www.ofgem.gov.uk/system/files/docs/2019/10/slr_policy_consultation_new_updated.pdf

- The Covid-19 supplier financial monitoring exercise will help us understand the current financial health of suppliers and their risk of failure. This will inform our work in minimising consumer impacts from the crisis. We will look to learn lessons from this exercise to help us shape future supplier financial monitoring.

5.6. Furthermore, in the course of our duties we gather information about the financial status of suppliers. This includes our work to be prepared should a SoLR process ever be needed, and our ongoing retail monitoring activities. We will use the outputs of the CSS as part of these activities and, again, ensure consistency. Finally, as we discuss in Chapter 2, the CSS provides us with invaluable information in designing and supporting policies (eg default and PPM price caps) and market assessments (eg CfEC).

5.7. We are committed to ensuring that we are coordinated across all of these workstreams. We will carefully consider the implications and whether all of these requirements taken together would be unduly burdensome to suppliers. We aim to minimise burden and duplication and encourage consistency (eg in reporting formats, thresholds, definitions) as far as possible.

6. Summary of preferred options and consultation questions

Chapter summary

We summarise our preferred option for revising the CSS. This includes obligating suppliers who are vertically integrated and those that are not, reducing the customer number threshold to 50,000 domestic or non-domestic customers and removing the auditing requirement but retain the right to request an audit when we have serious concerns. In this chapter, we also include a list of all of the consultation questions we have set out throughout the document.

6.1. With the discussion in Chapter 4 in mind, our preferred option is to revise the CSS (Option 3), and we discuss our preferences with respect to vertical integration, customer number threshold and auditing in the following section. We present a draft IA in Appendix 2.

Revising the CSS - Option 3

6.2. As the CSS has a number of requirements, we set out our preferences for each as follows:

- **Vertical integration** - obligate suppliers who are vertically integrated (ie hold supply and generation licences) and suppliers who are not (ie hold a supply licence only). Where a supplier is vertically integrated, it must provide accounts on the generation business of its affiliate generation licensee. If and when we put in place a new licence condition requiring generation licensees to provide a CSS, vertically integrated suppliers will no longer be required to submit accounts on their generation business under this CSS. Separate to this review, we are considering whether we should consult on a new CSS requirement for generators. We will provide further details in due course.
- **Customer number threshold** - lower the customer number threshold to 50,000 domestic or non-domestic customers.

- **Auditing** - remove the annual audit requirement but reserve the right to require an audit when we have serious concerns.

6.3. For the additional information requirements and reporting year, we would like to hear your views and responses to our consultation questions before finalising our proposals on both. As part of this, we are considering whether the additional information reporting should apply to some, not all, suppliers (eg above a threshold of 250,000 domestic or non-domestic customers).

6.4. We recognise that new suppliers who are captured under the revised CSS as a result of our proposed changes will face new costs and resource requirements and we would like to understand these better. Based on what we have heard from stakeholders, the segmental reporting that we are considering is likely to be information that the directors of a supplier already uses in order to manage the company effectively. However, we are considering whether we should implement a transition period, particularly for newly obligated suppliers which we discussed in Chapter 1.

6.5. We also recognise that there are additional financial requirements likely to be placed on suppliers as part of various work streams including the SoLR. We will carefully consider the implications and whether all of these requirements, taken together, would be unduly burdensome. As discussed in Chapter 5, to minimise burden and duplication, we will also consider whether there are opportunities to align our reporting requests and to format separate reporting requests consistently.

6.6. We are planning a workshop during the consultation period with financial accountants of interested suppliers to discuss the feasibility of reporting additional information as well as other areas discussed in this consultation document. Further details are available on our website.

Consultation questions

6.7. Throughout the consultation document, we have set out questions we would like to hear views on. These questions are repeated below.

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?

Chapter 2 questions:

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

Chapter 3 questions:

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

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.

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

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?

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?

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?

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

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?

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

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?

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

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?

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

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

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?

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

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?

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

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

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?

7. Next Steps

7.1. As discussed in the above chapters, we consider that there is an immediate need to modify the 'Financial information reporting' requirement set out in Standard Licence Condition (SLC) 19A of the Gas and Electricity Supply Licences and (SLC) 16B of the Electricity Generation Licence, which requires submission of a Consolidated Segmental Statement (CSS). We therefore propose to modify these SLCs and we welcome views on the information presented in this consultation document, in particular in response to the specific questions asked at the beginning of Chapters 2 to 4.

7.2. The consultation will remain open for 12 weeks, closing on 12 August 2020. Please provide responses by 11pm. Following this consultation, we intend to publish our policy decision (including final IA) and statutory consultation in November 2020. Responses to this policy consultation will inform the proposals we present in the policy decision and statutory consultation. Our decision will be made following consideration of any representations received. The proposed licence modification will take effect not less than 56 days after the decision is published. However, we will consider a transition period, particularly for newly obligated suppliers.

7.3. The Appendix includes further relevant documentation including a draft IA of our proposals.

Appendices

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Appendix 1 – Background on the CSS

1.1. Our Energy Supply Probe in 2008³⁸ (the Probe) highlighted the need for more transparency about the relationship between the generation and supply activities of the large, vertically integrated undertakings. The Probe identified a number of areas where competition could work more effectively. One of these areas was the need to improve the quality and accessibility of the information available to consumers so that they can make well-informed decisions about their energy supply and empower more consumers to engage effectively in the market. The Probe argued in favour of promoting greater transparency between the activities of the major supply and generation businesses.

1.2. At the time, the large vertically integrated suppliers represented the majority of market share in the retail sector (about 99%). As not all large suppliers produced separate segmental accounts (for gas supply, electricity supply and electricity generation), it was difficult for current and potential market participants to assess the profitability of these different activities. In addition, there was little transparency regarding the transfer pricing used by the supply and generation business to exchange wholesale energy, giving rise to concerns about cross-subsidisation and comparability.

1.3. In response, Ofgem introduced the 'Financial information reporting' licence condition, which came into force in 2009. It is set out in SLC 19A of the Gas and Electricity Supply Licences and SLC 16B of the Electricity Generation Licence.³⁹ The CSS is currently the only financial reporting requirement under these licence conditions.

1.4. Vertically integrated suppliers (ie those that have either a gas or electricity supply licence and an electricity generation licence/affiliate) supplying gas or electricity to more than

³⁸ 2008 Energy Supply Probe - Proposed Retail Market Remedies – Decision document published Aug 2009 - <https://www.ofgem.gov.uk/ofgem-publications/38335/retail-package-decision-document.pdf>

³⁹ Standard conditions of electricity supply licence - https://epr.ofgem.gov.uk/Content/Documents/Electricity_Supply_Standard_Licence_Conditions_Consolidated_-_Current_Version.pdf

Standard conditions of gas supply licence - https://epr.ofgem.gov.uk/Content/Documents/Gas_supply_standard_licence_conditions_consolidated_-_Current_Version.pdf

Standard conditions of electricity generation licence - https://epr.ofgem.gov.uk/Content/Documents/Electricity_Generation_Standard_Licence_Conditions_Consolidated_-_Current_Version.pdf

250,000 domestic or non-domestic customers are obligated to publish an independently audited CSS each year. Since the introduction of the CSS, it has been the former six large energy firms who have been obligated under the licence condition.

1.5. The CSS is based on the audited accounts, providing a backward-looking picture of the energy firm's profitability split across supply and generation activities for the past year. The supply activities (and the costs, revenues and profitability) are then further split by domestic and non-domestic businesses. These statements are produced in line with our published Guidelines⁴⁰ for preparing the CSS.

1.6. The CSS is broken-down into the following business segments:

- Electricity generation – conventional , renewable & aggregate
- Electricity Supply – domestic & non-domestic
- Gas Supply - domestic & non-domestic, and
- Aggregate of Electricity & Gas Supply business.

1.7. The CSS captures the following information:

- Revenue from sales of electricity and gas
- Other revenue
- Total revenues (from the sale of electricity, gas, other)
- Direct fuel costs
- Transportation costs
- Environmental & Social Obligation Costs
- Other direct costs
- Other indirect costs
- Total operating costs (including network costs, environmental and social obligations)
- Earnings Before Interest Tax Depreciation & Amortisation (EBITDA)

⁴⁰ Guidelines for preparing the CSS - <https://www.ofgem.gov.uk/publications-and-updates/guidelines-preparing-consolidated-segmental-statements>

- Depreciation & Amortisation
- Earnings before interest and tax (EBIT)
- Volumes (in TWh or million therms)
- Weighted Average Cost Of Fuel/Electricity/Gas (WACO F/E/G), and
- Customer numbers - average number of electricity and gas, domestic and non-domestic meter points (MPANs and MPRNs).

Appendix 2 – Draft Impact Assessment

Case for change

1.1. The case for reviewing the financial information requirement under SLC 19A of the Gas and Electricity Supply Licences and SLC 16B of the Electricity Generation Licence (known as CSS) is set out in the main document.

Our proposals

1.2. As stated in Chapter 4, we are considering three options, including:

- Option 1 - No changes to the CSS requirement
- Option 2 - Completely remove the CSS requirement from the licences, or
- Option 3 - Revise the CSS licence requirement.

1.3. We are assessing Options 2 and 3 against Option 1, which is our counterfactual.

Assumptions - NPV Calculations:

1.4. We are making the following assumptions for our calculations:

- All prices are in 2020 prices, unless indicated otherwise
- Net benefits are discounted using a 3.5% real discount rate per annum⁴¹
- We use 2021 as the base year for discounting. This is the first year when we expect the policy to be in place, and
- We calculate the net benefits and costs over a ten-year period.⁴²

⁴¹ In accordance with the HMT Green Book Guidance:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf.

⁴² We expect the impacts of the changes we are making to remain in place over 10 years, and consider that a ten-year period is suitable to ensure our calculations reflect the longevity of the impacts. A ten-year period is also a typical time horizon recommended by the Green Book, paragraph 5.14,

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf

Option 2: Remove the CSS requirement

Benefits

1.5. The main benefits from removing the CSS requirement are the avoided costs suppliers incur in preparing and auditing the CSS. However, suppliers who currently submit the CSS have told us that the resource cost of preparing the CSS is low as the process is now part of business as usual. As such, we expect any avoided costs from not preparing the CSS to be low. With respect to auditing costs, in conversations with suppliers in 2016, one supplier reported that the cost of the audit was “in the tens of thousands of pounds”, and another reported that it was around £250,000. Based on this information, we use £10,000 as our low audit cost estimate and £250,000 as our high audit cost estimate in our analysis.⁴³

1.6. In the main document, we ask stakeholders for feedback on these estimates and any other estimates on the costs. Converting the estimates in 2020 prices gives us a range of between £10,979 and £274,477. Multiplying the five suppliers who are currently obligated under the CSS requirement by the estimated audit cost per supplier⁴⁴, gives the total avoided costs from removing the audit requirement to be between £55,000 and £1,372,000 per annum (2020 prices).

1.7. There would also be a benefit from fewer resources required by Ofgem in processing and monitoring the CSS submissions. We estimate this to be about 1.5 FTE days per year per supplier,⁴⁵ plus 23.5 days per year⁴⁶ reporting on the data and providing analysis. This represents a total avoided cost to Ofgem of £6,513 per year over 5 suppliers (2020 prices).

⁴³ This cost range was confirmed at the workshops Ofgem held in January and February 2020. However, we consider that 250k may be an overestimate and are requesting audit cost information as part of the consultation.

⁴⁴ For the 2020 submission, if there are no changes to the CSS (ie Option 1), there would be 5 obligated suppliers in light of the sale of SSE's domestic customer book to Ovo Energy in January 2020, and the announced acquisition of npower's parent company (Innogy) by E.ON in September 2019.

⁴⁵ This is based on the assumption that it takes one member of staff 1.5 days to review each of the current submissions. This time would be split between two people with different levels of seniority.

⁴⁶ We have assumed 23.5 days per year for aggregating and reporting CSS submissions, publishing links to the submissions, and providing analysis on the results for other workstreams across Ofgem. This time would be split between two people with different levels of seniority.

1.8. In NPV terms over a ten-year period, the avoided audit and resourcing costs for both suppliers and Ofgem equates to approximately £529,000 and £11,869,000 for low and high audit costs respectively (£2020, 2021 NPV).

Costs

1.9. The CSS requirement is a valuable source of information on profitability. We use it for monitoring and understanding market health, compliance and enforcement, policy development and market assessments. The CSS also encourages transparency by supporting consumer confidence around energy prices, costs and profits and it is useful to prospective suppliers and investors. Without the CSS, including any alternative, these benefits would not arise.

1.10. If we remove the CSS requirement, we would need to increase the number of ad hoc RFIs in order to maintain the same level of market transparency needed for monitoring, consumer protection and policy development. Consequently, suppliers would need to increase resources to respond to them and they would not be able to plan for ad hoc RFIs. We would like to understand costs associated with responding to RFIs and welcome estimates. Overall, we consider the benefits we would lose from removing the CSS requirement and costs associated with ad hoc RFIs outweigh the avoided costs (ie audit and resources).

Distributional impact

1.11. The CSS requirement currently applies to suppliers that are vertically integrated and have a customer base of at least 250,000 domestic or non-domestic customers. The benefits from any reduced supplier resource and audit costs arising from removing the CSS would accrue to these suppliers only and, ultimately, to consumers. Other suppliers would not benefit.

Option 3: Revise the CSS requirement

Areas for change

1.12. Figure 1 summarises the options in each of the areas where we are considering changes. Our preferred option in each area is shown in bold. We will come to a view on additional information requirements once we receive responses to this consultation.

Figure A1. Options for changing the CSS in each area.

Vertical integration	Threshold	Audit requirement	Additional info
<ul style="list-style-type: none"> • Obligate suppliers who are vertically integrated (ie hold supply and generation licences) and suppliers who are not (ie hold a supply licence only). Where a supplier is vertically integrated, it must provide accounts on the generation business of its affiliate generation licensee. • Obligate suppliers who hold a supply licence. Vertically integrated suppliers will only be required to report in respect of their supply business. 	<ul style="list-style-type: none"> • Keep the customer number threshold at 250,000. • Lower the customer number threshold to 150,000. • Lower the customer number threshold to 50,000. • Use a target of a minimum of 90% market share and reserve the right to periodically review this threshold level. 	<ul style="list-style-type: none"> • Leave the audit requirement in to cover all obligated suppliers. • Remove the auditing requirement for all obligated suppliers. • Remove the annual audit requirement for all obligated suppliers but reserve the right to require an audit when we have serious concerns. • Have a two-tier requirement in which the largest suppliers (eg customers over 250,000) are required to undertake an annual CSS audit, while we retain the right to compel other suppliers to undertake an independent audit when we have significant concerns. 	<ul style="list-style-type: none"> • Breakdown of revenue, costs and profit by tariff types (eg default tariffs, non-standard variable tariffs and fixed tariffs) and domestic customer numbers by tariff type. • Breakdown of business revenue, cost and profit between microbusiness and other business customers. • Analysis of indirect operating costs. • Separating out costs to serve customers. • Breakdown of 'Other revenue' into its main revenue streams. • Inclusion of balance sheet with 'outstanding customer credit account balance position', income statement and possibly further information about the financial position of the company. • Number of domestic customers split by payment method.

Criteria for determining which suppliers submit the CSS (vertical integration and customer number threshold)

1.13. Our preference is to obligate suppliers who are vertically integrated and suppliers who are not. Where a supplier is vertically integrated, it must provide accounts on the generation business of its affiliate generation licensee. Our preference on customer number threshold is

to lower it to 50,000 domestic or non-domestic customers. This will increase the number of companies required to submit a CSS, and it will increase the scope of suppliers covered by the CSS data for both the retail (domestic and non-domestic) and generation markets.

1.14. The table below assesses our preferred option on vertical integration with each of the customer threshold options. It demonstrates the number of suppliers that would be obligated under each option, along with the number of domestic or non-domestic customers and the market share that would be covered by the data from these suppliers. It also shows incremental costs (and NPV estimates) to Ofgem under each option.

Table A1. Assessment of the threshold options⁴⁷

Vertical integration	Threshold	Number of suppliers	Number of customers	Market share	Incremental cost to Ofgem per annum (£2020) ⁴⁸	NPV estimate (£2020, 2021 base year)
Vertically integrated and supply only	250k customers	16	51,012,422	91.6%	£1,156	-£9,950
	200k customers	16	51,012,422	91.6%	£1,156	-£9,950
	150k customers	19	52,010,735	93.4%	£1,471	-£12,662
	50k customers	36	54,763,776	98.4%	£3,256	-£28,027
	90% of market share	14	50,133,345	90.0%	£945	-£8,134

⁴⁷ Customer refers to gas and electricity, domestic and non-domestic; market share is calculated as a percentage of customer accounts across gas and electricity for domestic and non-domestic combined.

⁴⁸ Assumes 1.5 days for the current submissions and half a day per supplier for any new submissions.

Benefits to consumers

1.15. Submission of information on generation activities will improve transparency between the supply and generation businesses for those suppliers that are vertically integrated, and enable us to identify any issues that may emerge between different business activities.

1.16. By including non-vertically integrated suppliers and by lowering the threshold to 50,000 customers, there will be a greater market coverage in comparison to the other threshold options giving us oversight as far as practical. This will increase transparency and provide more accurate and representative data on financial performance, supporting trust in the market and enabling competition. Although it is difficult to quantify these benefits, we consider these impacts on market transparency and competition to be significant.

Costs to obligated parties

1.17. There will be an increase in costs for newly obligated suppliers due to the resource requirements of identifying relevant data and filling in the CSS template. We welcome estimates of these costs from stakeholders.

Costs to Ofgem

1.18. There is also a resource cost for Ofgem in receiving more CSS submissions. We estimate these resource costs to increase by about £3,256 (2020 prices) per annum under the 50,000 customer number threshold.⁴⁹ These costs are higher in comparison to the other threshold options. We are also researching costs associated with automating CSS submissions to Ofgem and will include an estimate in the final IA. However, we expect the benefits from collecting information from a wider section of the market to outweigh these costs.

⁴⁹ Based on the assumption that it takes one member of staff 1.5 days to review each of the current submissions, and our estimate that it will take half a day per supplier for all other submissions. This time would be split between two people with different levels of seniority and is then aggregated up to the number of suppliers that would be obligated under the new thresholds.

1.19. A target of 90% minimum market share would have a greater resource cost for Ofgem. As suppliers' market shares constantly change, we would also need to regularly reassess which suppliers meet the target threshold and should therefore be obligated. This increases the resource costs to Ofgem, on top of the resource costs already accounted for in processing more submissions.

Risks

1.20. By setting a threshold, we are excluding the smallest suppliers from the CSS requirement. Although they represent a small proportion of the market, these suppliers can play a role in influencing market outcomes such as tariff levels (eg they may be new entrants offering innovative tariff products). However, we consider the burden the CSS requirement would place on the smallest suppliers to outweigh this.

Audit requirement

1.21. Our preferred option is to remove the auditing requirement but reserve the right to require an audit when we have serious concerns. Suppliers are required to provide us with accurate information and a general audit requirement may place unnecessary costs on suppliers (partly or fully borne by consumers) that may already be capable of providing accurate information.

1.22. This option will reduce the cost burden on obligated suppliers (and ultimately consumers), particularly in light of our preference to expand the number of suppliers who will be obligated under the revised CSS. Table A2 uses the same assumptions (as in paragraph 1.5) for our low and high estimates of audit costs (ie £10,979 and £274,477 in 2020 prices). The benefits shown in Table 2 represent avoided audit costs. For some options, this is positive (and therefore a benefit), for others it is negative (and therefore represents a cost).

Table A2. Assessment of the threshold options⁵⁰

Audit option	Customer Threshold	Number of suppliers affected	Low estimate of avoided audit costs (£2020)	High estimate of avoided audit costs (£2020)	NPV low estimate (£2020, 2021 base year)	NPV high estimate (£2020, 2021 base year)
Remove the audit requirement	n/a	5	£54,895	£1,372,386	£472,523	£11,813,069
Leave audit requirement for all obligated suppliers	250k	16	-£120,770	-£3,019,249	-£1,039,550	-£25,988,752
	200k	16	-£120,770	-£3,019,249	-£1,039,550	-£25,988,752
	150k	19	-£153,707	-£3,842,681	-£1,323,064	-£33,076,593
	50k	36	-£340,352	-£8,508,794	-£2,929,642	-£73,241,027
	90% market share	14	-£98,812	-£2,470,295	-£850,541	-£21,263,524
Two tier requirement ⁵¹	250k	16	-£120,770*	-£3,019,249*	-£1,039,550*	-£25,988,752*
Remove audit requirement but reserve the right to request one if we have serious concerns ⁵²	n/a	Depends on number of periodic or ad hoc requests to audit.	£54,895* (at most as it does not include costs of periodic or ad hoc costs)	£1,372,386* (at most as it does not include costs of periodic or ad hoc costs)	£472,523* (at most as it does not include costs of periodic or ad hoc costs)	£11,813,069* (at most as it does not include costs of periodic or ad hoc costs)

Notes. (1) Positive numbers refer to estimated avoided audit costs (ie, benefits). Negative numbers refer to estimated audit costs that are expected to be incurred under each option.

(2) * denotes the estimate represents the avoided audit costs from removing the audit requirement. It does not include costs of periodic or ad hoc audits. Therefore, any estimated benefits will be lower and estimated costs higher if ad hoc audit costs materialise.

⁵⁰ Customer refers to gas and electricity, domestic and non-domestic; market share is calculated as a percentage of customer accounts across gas and electricity for domestic and non-domestic combined.

⁵¹ Does not include costs of periodic or ad hoc audits.

⁵² Does not include costs of periodic or ad hoc audits. We are unable to estimate number of ad hoc audits we may request (as this depends on if and when we have serious concerns).

Assessment of impacts

1.23. We expect our preferred option to result in benefits from avoided audit costs. These benefits would accrue to the current obligated suppliers and should be equivalent to the benefit calculated under option 1 (remove the audit requirement). Assuming that audit costs are passed onto consumers, this would result in a benefit to them. However, we recognise that the total benefits of this option will be reduced by the costs of any audits we request when we have serious concerns. We are unable to quantify this as it is difficult to estimate, with any reasonable degree of certainty, how often we would request an audit when we have serious concerns.

Distributional impact

1.24. In calculating the impacts above, we have used estimates provided to us from some of the current obligated suppliers, and applied this to all suppliers that would be obligated under the different thresholds. However, we would expect auditing costs to be lower for smaller suppliers as their accounts would hold less data and be less complex than larger suppliers.

Additional information to be included in the CSS submission

1.25. For illustrative purposes, we assess the impacts of requiring obligated suppliers to submit all of the extra information we have specified in the consultation document. However, our final decision will be based on consultation responses and it is unlikely we will request all of the additional information.

Benefits to consumers of requesting additional information

1.26. Reporting on revenues, costs, and profits by tariff type would result in a fuller picture of the operation of different areas in the market. Default tariff customers are often less engaged than those on other tariffs. Splitting reporting by tariff type would allow us to understand the extent to which tariffs for different customer categories, such as engaged and disengaged, are justified on the basis of costs and whether there is any cross-subsidy between these groups. Collecting this information from the CSS may avoid some ad hoc RFIs.

1.27. Non-domestic customers are diverse, and increased granularity of information in this sector will allow us to understand the operation of the market for particular business sizes. This will allow us to understand the bills of microbusinesses, make comparisons with other businesses and carry out profitability assessments.

1.28. Reporting indirect operating costs and separating out costs to serve customers will give us a clearer understanding of key elements making up customers' bills. This will support our analysis on the conditions for effective competition and in protecting consumers, particularly vulnerable customers.

1.29. Including a breakdown of 'other revenue streams' will give us a greater understanding of the nature of other business that suppliers are engaged in, and allow us to understand how other activities may impact their supply business. Including balance sheet information on outstanding customer credit account balance positions will help us to understand how these funds are being used, and how much of customers' credit may be at risk. Collecting the additional information would reduce the burden of some ad hoc RFIs.

Costs to obligated parties of requesting additional information

1.30. We do not currently have quantitative information on the additional costs suppliers would incur in reporting the additional information. The consultation questions request this information from suppliers.

1.31. We expect suppliers to already record most of the data that we are requesting for their own internal purposes. We therefore do not believe that there would be a significant cost. However, we recognise there may be some costs to suppliers from the need to reformat internal data into the CSS template. Where the data is not already collected, we recognise there may be a cost associated with introducing new reporting procedures.

Costs to Ofgem of requesting this additional information

1.32. We estimate the incremental cost to Ofgem of processing more data to be marginal, up to an extra 10% of staff time⁵³. For the current five obligated suppliers, this equates to an extra £651 in 2020 prices. If the CSS is extended to all suppliers with over 50,000 customers, this would equate to an extra £977 in 2020 prices.

Distributional impact

1.33. We expect that larger suppliers are more likely to collect most of this data already. However, the information may be less onerous to collect for smaller suppliers, as their smaller customer base should make the required data analysis less complicated.

Assessment of preferred option

Impacts on consumers

1.34. The benefits of our proposals to consumers will arise from the positive impact of transparency on competition and consumer confidence and trust. We also expect some benefits to accrue to current obligated suppliers and, passed onto consumers, from avoided audit and resource costs. Our proposals may also reduce the number of RFIs we issue.

1.35. We also expect some increase in costs to consumers from our preferred proposal. Suppliers who were not previously required to submit the CSS will incur resource costs and Ofgem will incur additional costs in managing more submissions. Current obligated suppliers may also face increased costs from any additional information reporting requirements. We expect most of these costs to be passed onto consumers.

⁵³ This staff time includes reviewing the submissions from suppliers and also providing analysis and using this data to input into other workstreams across Ofgem.

Impacts on competition

1.36. Our proposals, taken as a package, should improve transparency and provide enhanced information to Ofgem, stakeholders and consumers, strengthening the effectiveness of competition and confidence in the market. Lowering the threshold customer number for the CSS requirement will increase transparency by ensuring that the data reported under the CSS covers most of the market. Removing the audit requirement but retaining the right to request an audit when we have serious concerns will reduce the burden on suppliers and provide appropriate reassurances about the accuracy of the figures reported when needed.

1.37. Finally, additional information reporting requirements will provide better understanding of the functioning of specific areas of the market. This will allow better scrutiny of supplier activities and provide better information to support regulatory monitoring and policy-making.

Impacts on decarbonisation

1.38. We do not envisage any impacts on decarbonisation plans at this stage.

Interaction with the price cap

1.39. We recognise that there may be an increase in costs to suppliers not currently obligated with our preferred options. We welcome feedback from suppliers on this.

Risks and unintended consequences

1.40. We invite views from stakeholders on possible risks and unintended consequences.

Overall, we consider the benefits of our proposals to outweigh the costs. We will consider responses to our consultation, including any evidence provided on costs and benefits, when developing the final IA.

Appendix 3 – Template of the CSS submissions

	Unit ¹	Electricity generation		Aggregate generation business ¹³	Electricity supply		Gas supply		Aggregate supply business ¹³
		Conventional	Renewable		Domestic	Non-domestic	Domestic	Non-domestic	
		20xx	20xx		20xx	20xx	20xx	20xx	
Total revenue	£M	£0	£0	£0	£0	£0	£0	£0	£0
Revenue from sales of electricity and gas ²	£M	£0	£0	£0	£0	£0	£0	£0	£0
Other revenue ³	£M	£0	£0	£0	£0	£0	£0	£0	£0
Total operating costs	£M	£0	£0	£0	£0	£0	£0	£0	£0
Direct fuel costs ⁴	£M	£0	£0	£0	£0	£0	£0	£0	£0
Transportation costs ⁵	£M	£0	£0	£0	£0	£0	£0	£0	£0
Env. & social obligation costs ⁶	£M	£0	£0	£0	£0	£0	£0	£0	£0
Other direct costs ⁷	£M	£0	£0	£0	£0	£0	£0	£0	£0
Indirect costs ⁸	£M	£0	£0	£0	£0	£0	£0	£0	£0
EBITDA ⁹	£M	£0	£0	£0	£0	£0	£0	£0	£0
DA	£M	£0	£0	£0	£0	£0	£0	£0	£0
EBIT	£M	£0	£0	£0	£0	£0	£0	£0	£0
Volume ¹⁰	TWh, m therms	-	-	-	-	-	-	-	NA
WACO F/E/G ¹¹	£/MWh, p/th	0	0	0	0	0	0	0	NA
Customer numbers ¹²	000s	NA	NA	NA	'000	'000	'000	'000	'000

The above table is the current CSS submission template which can be found in Appendix 1 (page 3) in the CSS Guidelines -

https://www.ofgem.gov.uk/sites/default/files/docs/2015/05/css_guidelines_jan_2015.pdf

This template is subject to change. We will be revising the guidelines and template as part of our policy decision and statutory consultation.

Appendix 4 – Associated documents

All documents are available at www.ofgem.gov.uk

- **Latest publication of the State of the Market Report 2019** - <https://www.ofgem.gov.uk/publications-and-updates/state-energy-market-2019>
- **2008 Energy Supply Probe** - Proposed Retail Market Remedies – Decision document published Aug 2009 - <https://www.ofgem.gov.uk/ofgem-publications/38335/retail-package-decision-document.pdf>
- **2013 Consultation** - Rebuilding consumer confidence: Improving the transparency of energy company profits, 31 October 2013 - <https://www.ofgem.gov.uk/publications-and-updates/improving-transparency-energy-company-profits>
- **October 2014 Open letter** – [open letter: actions to improve the transparency of energy company profits](https://www.ofgem.gov.uk/ofgem-publications/86322/actionstoimprovethe Transparency of energy company profits): <https://www.ofgem.gov.uk/ofgem-publications/86322/actionstoimprovethe Transparency of energy company profits.pdf>
- **Referral of retail energy market to CMA** - <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf> and <https://www.ofgem.gov.uk/gas/retail-market/market-review-and-reform/implementation-cma-remedies/state-competition-energy-market-assessment>
- **CMA remedies published June 2016**- <https://www.ofgem.gov.uk/electricity/retail-market/market-review-and-reform/implementation-cma-remedies>
- **Energy companies' Consolidated Segmental Statements** under current SLC 19A condition - https://www.ofgem.gov.uk/system/files/docs/2019/09/energy_companies_individual_consolidated_segmental_statements_2018_v1.pdf
- **Standard conditions of electricity supply licence** - https://epr.ofgem.gov.uk/Content/Documents/Electricity_Supply_Standard_Licence_Conditions_Consolidated_-_Current_Version.pdf
- **Standard conditions of gas supply licence** - https://epr.ofgem.gov.uk/Content/Documents/Gas_supply_standard_licence_conditions_consolidated_-_Current_Version.pdf

- **Standard conditions of electricity generation licence -**
[https://epr.ofgem.gov.uk/Content/Documents/Electricity Generation Standard Licence Conditions Consolidated - Current Version.pdf](https://epr.ofgem.gov.uk/Content/Documents/Electricity%20Generation%20Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf)
- **Guidelines for preparing the CSS -** <https://www.ofgem.gov.uk/publications-and-updates/guidelines-preparing-consolidated-segmental-statements>

Appendix 5 – Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case, we would be keen to get your answers to the following questions:

- Do you have any comments about the overall process that was adopted for this consultation?
- Do you have any comments about the overall tone and content of the report?
- Was the report easy to read and understand? Could it have been better written?
- To what extent did the report’s conclusions provide a balanced view?
- To what extent did the report make reasoned recommendations for improvement?
- Do you have any further comments?

1.2. Please send your comments to:

Alban Asllani
Economist, Office for Research and Economics
css@ofgem.gov.uk

How to track the progress of the consultation

1.3. You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

[Ofgem.gov.uk/consultations.](https://www.ofgem.gov.uk/consultations)

Notifications

Would you like to be kept up to date with *Domestic supplier-customer communications rulebook reforms*? subscribe to notifications: 

Email *

CAPTCHA

Check the box below to verify you're human

I'm not a robot 
reCAPTCHA
Privacy - Terms

1.4. Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:



Appendix 6 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk.

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest, ie a consultation.

4. With whom we will be sharing your personal data

(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be as specific as possible.)

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for ***(be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time eg 'six months after the project is closed')***

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- To lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

10. More information for more information on how Ofgem processes your data, click on the link to our [“Ofgem privacy promise”](#).