

Appendix 10.2: Financial reporting remedy – views of stakeholders

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Introduction

1. In our Remedies Notice we set out that this remedy would comprise a recommendation that Ofgem develop a comprehensive ‘market-orientated’ regulatory accounting framework under which the large domestic and SME energy generators and retail suppliers should report.¹
2. In that notice we asked the following consultation questions:²
 - (a) Should the scope of the individual areas reported on align with the scope of the markets as set out for generation and retail supply in our provisional findings? For example, should a requirement to report wholesale energy costs on the basis of standard products traded on the open wholesale markets be imposed? (‘reporting on market lines’/‘reporting of wholesale energy costs’)
 - (b) What regulatory reporting principles would be particularly relevant to the preparation of regulatory financial information in this sector?
 - (c) Would summary profit and loss account and balance sheet information for each area be sufficient to enable the effective regulation of the sector and the development of appropriate policies? Or should the large domestic and SME energy suppliers be required to collect and submit additional, more granular financial information?

¹ Remedies Notice, paragraph 108.

² *ibid*, paragraph 109.

- (d) Should Ofgem require that the summary profit and loss and balance sheet information be audited in accordance with the regulatory reporting framework?
 - (e) Should this remedy apply to the firms that are currently under an obligation to provide Ofgem with Consolidated Segmental Statements (CSS)? Or should it apply to a larger or narrower set of firms? ('Scope of coverage')
 - (f) What would be the costs of imposing such a remedy? We note that some firms' reporting systems are not currently capable of providing information on such a 'market-orientated' basis and that our remedy could require significant additional system requirements.
 - (g) Should the CMA implement this remedy by way of licence modifications or by way of a recommendation to Ofgem?
 - (h) To what extent should this financial information on performance be published?
3. The views of stakeholders relate not just to the formal responses to the Remedies Notice but also any comments relevant to the development of the remedy in hearings we held with the Six Large Energy Firms and Ofgem after we published our provisional findings. We also requested information from two of the Six Large Energy Firms (SSE and E.ON) and the relevant points are also summarised here.
 4. In this appendix we first provide both a high-level summary of these views and then a detailed summary of the views of each party, stakeholder-by-stakeholder.
 5. We demonstrate how these views have influenced or not the development of our remedy in Section 10 (impact on four key design enhancements that we are now proposing) and in Appendix 10.3 (further detail of proposals).

High level summary

6. We first summarise the views of stakeholders at a high level grouped by type of stakeholder (Six Large Energy Firms, Ofgem, independent suppliers, independent generators and consumer advocates and academics). For the Six Large Energy Firms we have also summarised their views thematically.

Six Large Energy Firms

Reporting on market lines

7. Regarding the proposal to report on market lines rather than on divisional lines, Six Large Energy Firms were of the view that either they already reported on this basis in any case or that it was more important that any financial information produced directly reconciled to their statutory financial information. In their view it was particularly important that any measure did not constrain how firms chose how to organise their own businesses across the energy value chain.

Reporting of wholesale energy costs

8. Many of the Six Large Energy Firms strongly objected to the proposal that wholesale energy within retail supply should be costed exclusively on the basis of wholesale standard products. This approach ignored commercial reality and would not allow them to report the costs that they had actually incurred, a measure, as Centrica pointed out, that would lead to confusion and less trust in the sector.³
9. SSE told us that the effectiveness of any purchasing strategy could not be judged simply based on what subsequently happened to wholesale prices between the point of purchase and the point of delivery. SSE cautioned against any short term universal benchmark as that would result in less differentiation and less competition on price.⁴
10. Centrica cautioned against us imposing a common notional purchasing strategy for retail supply such as buying at spot prices. It highlighted that there was a strong link between the products that firms supply (eg fixed-term products and SVT) and their purchasing strategies for each of these products. It would be difficult to focus on wholesale energy costs without also looking at product structure and pricing at the same time.⁵
11. RWE advised that commodity transfer pricing should be audited at the forward curve vector at the point of sale or purchase, and not using 'spot' prices at the point of delivery. This approach reflected the way firms managed commodity risks and would result in firms reporting the costs they had incurred.⁶

³ Paragraph 53.

⁴ Paragraph 43.

⁵ Paragraph 54.

⁶ Paragraph 61.

12. Regarding the differential impact of individual Six Large Energy Firms' purchasing strategies on their retail supply wholesale energy costs, RWE told us that it was very risky for retail suppliers to come into the market and adopt a short strategy. Although it had been the case that spot prices had turned out to have been consistently lower for a period than the corresponding forward prices, this might not have been the case. When markets had previously turned, some small suppliers had gone bust because they had adopted a short-term strategy and not purchased in the forward energy markets the commitments to supply they had taken on.⁷
13. Scottish Power suggested two ways in which we could improve transparency and trust in the market. First it said in relation to segmental reporting that commodity purchases and sales should reflect the actual transactions entered into by the firm rather than transfer charges based on notional pricing. Scottish Power pointed out that unless firms like itself accounted for the transactions at actual market prices, they wouldn't know whether or not they had actually made money on the products they had sold.⁸
14. The other suggestion that Scottish Power had to improve transparency and trust in the market was designed to forestall the question that constantly arose regarding why retail prices did not reflect wholesale prices more quickly. Were we minded to accept Scottish Power's proposal to replace the default tariff with a fixed rate one-year fixed-term (SVT) tariff, then this would lead to firms setting a new price for this tariff every month. This in turn would lead to retail prices faster reflecting what was happening to wholesale energy prices in the wholesale market. This dynamic in turn would affect what the segmental accounts reported.⁹

Provision of balance sheets

15. Most of the Six Large Energy Firms were content to provide a balance sheet as well as profit and loss account for both generation and retail supply as a whole. This was the case even though many of them doubted the value of a balance sheet when analysing the performance of retail supply. Furthermore some of the Six Large Energy Firms (RWE¹⁰ and EDF Energy¹¹) doubted the value of routine production of balance sheets without also routinely updating asset carrying values onto a current basis.

⁷ Paragraph 62.

⁸ Paragraph 71.

⁹ Paragraph 72.

¹⁰ Paragraph 63.

¹¹ Paragraph 94.

16. However to provide balance sheets further segmented eg by customer type would, in the view of many of the Six Large Energy Firms, be a step too far, potentially involving subjective attributions of costs that were unlikely to add value.

Scope of coverage

17. The Six Large Energy Firms all believed that there was a strong case for extending the coverage of reporting obligations beyond themselves. Some of the Six Large Energy Firms saw this in terms of the public and Ofgem being able to compare the performance of the Six Large Energy Firms to other independent players, whereas others saw no justification of the obligations being centred on them given that we had provisionally found no issue with vertical integration.

Cost/feasibility of implementation

18. Many of the Six Large Energy Firms pointed out that our proposals were not sufficiently well specified for them to cost their implementation in other than general terms. Some of the Six Large Energy Firms pointed out that we needed to consider the ability of audit firms to issue audit opinions on some aspects of our proposals and there would inevitably be additional costs if the extent of the audit increased.

Audit, publication and implementation mechanism

19. The Six Large Energy Firms understood the importance of audit and publication of this financial information to fostering understanding and trust in the sector. They were broadly happy with the current publication arrangements but wanted us to consider the tension between extra publication on the one hand and commercial confidentiality and any potential impact on competition, including to facilitate tacit coordination on the other.
20. All but one of the Six Large Energy Firms favoured that we implemented this by way of a recommendation to Ofgem rather than by an order.¹² They pointed out that these changes were being grafted onto an existing remedy for which there was already a proper consultation process.

¹² Only EDF Energy was neutral on this point. See paragraph 99.

Ofgem

21. Ofgem explained to us that it had sought to level the playing field in terms of the requirements for segmental financial reporting of GB activities between the Six Large Energy Firms which were UK-quoted and those that weren't. Ofgem had been pressed by the Energy and Climate Change Select Committee in particular to go much further than this, largely because it suspected that there was a black hole into which the money was going and that consumers were being overcharged as a result. Ofgem had not accepted this argument at the time.¹³
22. Ofgem was unsure about whether it would be appropriate to require reporting on market lines given that it didn't regulate the prices of either generators or retailers. Furthermore BDO, the accountancy firm it had commissioned to review the Six Large Energy Firms' transfer pricing practices, had stated that an arm's length standard had been applied. Ofgem, like the Six Large Energy Firms, emphasised the importance of firms being able to report their actual wholesale energy costs.
23. On the question of balance sheets, Ofgem saw value in having them only if they replicated the customer type segmentation it mandated for retail supply.
24. Ofgem told us that it had actively considered the issue of whether the Six Large Energy Firms' activities as trading intermediaries¹⁴ should also be reported alongside generation and retail supply. This would be problematic to implement not least because Ofgem did not have general powers to compel production of information on this trading activity for regulatory purposes. In addition, some of the Six Large Energy Firms' trading divisions (which carried out this trading activity) are located outside GB and, in any case, it might be difficult for some of the Six Large Energy Firms to distinguish intermediary trading activities from proprietary trading activities.
25. Ofgem advised us, were we minded to require the reporting of intermediary trading activities, our order powers might need to be utilised to mandate this. It therefore advised us to consider whether an order on our part might be a more appropriate mechanism to implement this remedy than a recommendation to it.
26. Ofgem noted that many stakeholders were dissatisfied with the financial information currently published and that more information might help hold the industry to account. Ofgem, however, was keenly aware of the tension

¹³ Paragraph 102.

¹⁴ This is where a Six Large Energy Firm acts as an intermediary between buyers of commodities (eg retail suppliers) and sellers (eg generators). See Appendix 10.3, paragraphs 25–28 for further discussion.

between ever more publication and the impact further disclosure might have on firms' ability and incentive to compete vigorously with one another.

Independent suppliers

27. Views were mixed on whether the possible remedy should also apply to independent suppliers. Ovo Energy thought that it would be valuable for Ofgem to be able to compare its efficiency with that of the Six Large Energy Firms. Utility Warehouse, a multi-utility provider, however thought that there was little value to be gained from requiring firms with innovative business models like itself to also report, not least because it would require it to arbitrarily attribute costs across the quite different retail services it provided to its customers. Good Energy however pointed out that in the eyes of the public the performance of retail suppliers as a whole was being conflated with that of the Six Large Energy Firms.
28. A couple of independent suppliers, Ecotricity and the Co-operative Energy pointed out what they saw as similarities between our proposal that wholesale energy should be costed on the basis of standard wholesale products and the reporting requirements under EU energy market integrity and transparency regulations.
29. Most of the independent suppliers emphasised the importance of comparability across the firms to which the obligation would be applied. The Co-operative Energy went so far as advocating a common reporting year end for the Six Large Energy Firms for regulatory reporting purposes and suggesting a single audit firm to ensure consistency of audit approach across the Six Large Energy Firms.

Independent generators

30. Drax pointed out that it already separated out generation and retail supply (Haven Power) using well-established transfer pricing rules in its annual report and saw no reason why any reporting obligation should apply to it. It also pointed out that Haven Power did not have legacy customers to give it an incumbency advantage.
31. The three other independent generators that submitted responses on this remedy, Engie (formerly GDF SUEZ), Eggborough Power and ESB, all called for greater standardisation of, and comparability in, the reporting of the Six Large Energy Firms to provide a clear separation between the various segments of their businesses.

Consumer advocates and academics

32. Citizens Advice thought we had identified a major deficiency in the way some of the Six Large Energy Firms didn't report on market lines, not least by not reflecting the way stand-alone generators and retail suppliers would buy and sell in the marketplace.
33. Citizens Advice thought that the reporting obligations should remain focused on the Six Large Energy Firms. The debate about the profitability and energy prices was closely linked to the extent which the Six Large Energy Firms used their incumbency in retail markets and vertical integration to their advantage.
34. Citizens Advice advocated that there should be a presumption towards full publication of the financial information to be produced under the obligation. It pointed out that this market investigation was prompted in large part by a breakdown in trust in the energy sector and a lack of confidence by the public that the prices they pay were fair. Resolving this issue would need to involve communicating where firms were making their money.
35. Citizens Advice told us that we should not focus exclusively on ex post financial reporting and there was also a need for current analysis/forward looking projection of the costs of supply which would help consumers understand the drivers between a contemporaneous price rise or price cut. This had been provided by Ofgem's Supply Market Indicator (SMI) but which was currently suspended. In the view of Citizens Advice the SMI had provided insight about the direction of energy bills and had incentivised retail suppliers to try and better justify their pricing decisions. Citizens Advice was concerned if this suspension became protracted or was replaced with a less detailed or less frequently produced product.
36. Which?, National Energy Action and the Energy Policy Group at the University of Exeter welcomed our financial reporting proposals.

Summary of the views of each party/stakeholder

37. In contrast to the high-level summary, we now set out the views of each set of stakeholders (Six Large Energy Firms, Ofgem, independent suppliers, independent generators and consumer advocates and academics) stakeholder by stakeholder.

Six Large Energy Firms

SSE

38. SSE told us that it believed the overall transparency of generators' and retail suppliers' revenues, costs and profits was currently fit for purpose and advanced against other comparable¹⁵ markets.¹⁶ SSE would, however, have no objection to the inclusion of the trading function on the face of the segmental statements.¹⁷
39. SSE argued that reporting for generation and retail supply must substantially align with the energy firms' published accounts. To impose any other requirement would be unreasonable and disproportionate.¹⁸ SSE also noted that the ability to fully reconcile back to group accounts was important for transparency for all Six Large Energy Firms, both those UK based and those not UK based and which operated central trading desks.
40. SSE also emphasised the importance of reporting actual numbers, not theoretical numbers. SSE wanted us to be clear whether the policy intention was to deliver *transparency* of profits actually earned by firms or *comparability* of profits based on a stylised assessment of a notional stand-alone business.¹⁹
41. SSE criticised the proposals as seeking to mandate comparability across the firms on the basis of a theoretical stand-alone firm.²⁰ It pointed out that both BDO and Ofgem had found that the current reporting regime including the transfer pricing arrangements to be broadly fit for purpose and transparent, presenting an accurate picture of generation and supply profitability.²¹
42. SSE thought the proposal to cost wholesale energy for retail supply exclusively on the basis of standard wholesale energy products ignored commercial reality. Some purchases related to non-standard products including power purchase agreements. In addition, the proposal to standardise cost in this way would not improve transparency because it would involve a highly complex and contrived reconciliation to its actual numbers.²²

¹⁵ Such as international energy markets and other competitive markets, particularly where there is an element of vertical integration.

¹⁶ SSE [response to provisional findings and Remedies Notice](#), paragraph 3.20.1.

¹⁷ SSE response to Remedies Notice, paragraph 3.20.4.

¹⁸ SSE response to Remedies Notice, paragraph 3.20.4.

¹⁹ SSE response to Remedies Notice, paragraph 3.20.3.

²⁰ SSE response to Remedies Notice, paragraph 3.20.7.

²¹ SSE response to Remedies Notice, paragraph 3.20.9.

²² SSE response to Remedies Notice, paragraph 3.20.5 & 3.20.6.

43. SSE told us that the effectiveness of any purchasing strategy could not be judged simply based on what subsequently happened to wholesale prices between the point of purchase and the point of delivery. For example, SSE's domestic customers would have been completely protected under its price freeze commitment had wholesale prices in fact gone up. A realistic benchmark purchasing strategy would also take into account each firm's risk appetite and the volatility of the market. SSE cautioned against any short term universal benchmark as that would result in less differentiation and less competition on price.
44. SSE told us that the current (CSS) requirement to prepare segmental profit and loss accounts was a proportionate response to the issue of transparency but that the provision of balance sheets as well, other than for generation and retail supply as a whole, would be difficult to achieve and of uncertain benefit.²³ SSE submitted that ROCE was not an appropriate profitability measure for retail supply. It noted that we had had to make several adjustments to reported balance sheet values in any case.²⁴
45. SSE also advised us (or Ofgem) to engage with audit firms experienced in the energy sector to establish the basis on which they would issue an audit opinion, should the reporting regime significantly change.²⁵ SSE noted that more onerous audit processes would result in increased costs.
46. SSE argued that extending the scope of the reporting obligation to stand-alone suppliers and generators and to vertically integrated firms operating in the large end of the non-domestic market would provide results against which the Six Large Energy Firms could be benchmarked, thereby enhancing public understanding of the energy market.²⁶
47. SSE noted that during 2014/15 it had revised its transfer pricing arrangements onto a more market orientated pricing basis. This change had been enabled by its investment in an energy trading risk management system.²⁷ [X].²⁸
48. SSE told us that the investment in its energy trading risk management system had been prompted by its desire to improve its purchasing and selling decisions across generation and retail supply and the associated financial reporting. [X]. For its 2014/15 segmental statements SSE had been able to report its generation and retail supply activities on the basis of how they had interacted with the external market rather than on the basis of tolling

²³ SSE response to Remedies Notice, paragraph 3.20.10, 3.20.13 & 3.20.15.

²⁴ SSE response to Remedies Notice, paragraph 3.20.14.

²⁵ SSE response to Remedies Notice, paragraph 3.20.17.

²⁶ SSE response to Remedies Notice, paragraph 3.20.19.

²⁷ SSE response to Remedies Notice, paragraph 3.20.21.

²⁸ SSE response to Remedies Notice, paragraph 3.20.23.

agreements within an integrated group. For example, generation was now reported on a full function rather than on a toll-generator basis. [✂].

49. SSE believed it would be more appropriate to implement this remedy by way of recommendation to Ofgem. That way Ofgem would be able to consider the reporting modifications it was planning in tandem.²⁹
50. SSE warned against more detailed publication of segmental financial information beyond the current arrangements to avoid the risk of publishing commercially sensitive information. There was a balance to be struck between transparency and confidentiality.³⁰

Centrica

51. Centrica believed that the current segmental statements provided a transparent and audited view of its generation and retail supply businesses, which gave stakeholders assurance that the stated profits earned upstream and downstream were accurate.³¹
52. Centrica noted that regulatory financial reporting was usually only applied to markets where prices were set by regulators (in order to enable over/under recovery of costs) rather than as the outcome of a market process.³² Centrica noted it was important to understand what problem was being solved when considering/assessing regulatory reporting.
53. Centrica emphasised the importance of firms being able to report their actual wholesale energy costs for retail supply rather than on a theoretical basis which assumed that all firms procured their wholesale energy exclusively in the form of standard wholesale products.³³ The latter approach, based on past experience, would lead to confusion and less trust in the sector.
54. Centrica cautioned against us imposing a common notional purchasing strategy for retail supply such as buying at spot prices. It highlighted that there was a strong link between the products that firms supply (eg fixed-term products and SVT) and their purchasing strategies for each of these products. It would be difficult to focus on wholesale energy costs without also looking at product structure and pricing at the same time.
55. Centrica believed that a summary balance sheet alongside the profit and loss account would be sufficient for effective regulation provided that they

²⁹ SSE response to Remedies Notice, paragraph 3.20.24.

³⁰ SSE response to Remedies Notice, paragraph 3.20.25 & 20.20.26.

³¹ Centrica [response to Remedies Notice](#) (redacted version), paragraph 224.

³² Centrica response to Remedies Notice, paragraph 398 b).

³³ Centrica response to Remedies Notice, paragraph 400 a).

reconciled to group annual accounts and were subject to a full financial audit.³⁴ Centrica pointed out that the existing reporting requirements already imposed a significant cost burden on licensees. This would increase materially were we to require firms to recalculate their wholesale energy purchases.³⁵

56. Centrica proposed that enhanced reporting requirements be focused on the default tariff it had proposed, rather than on generation and retail supply, and be introduced by way of a recommendation to Ofgem.³⁶
57. Centrica told us that it saw publication of financial information as serving a wider transparency purpose. Confidence in the sector could, however, also be achieved by Ofgem assessing the submitted financial information and then issuing a statement stating whether it had confidence in that information.³⁷

RWE

58. RWE told us that it supported the clear segmentation of retail supply and generation performance and transparency of profitability in these business areas.³⁸
59. RWE told us that all commodity purchases and sales within both generation and retail supply should be reported on the basis on which the firms actually buy and sell regardless of whether this was in the form of standard wholesale products or not. It cautioned against any approach that might discourage the use of innovative products to manage risk that in turn would reduce cost efficiency to customers.³⁹ With respect to generation, RWE also cautioned that, as many commodity costs such as illiquid coal and weather hedges did not relate to traded standard wholesale products, there was a risk of losing transparency about how the real business was being managed thereby removing an important competitive element of the market.
60. RWE noted that it reported its retail supply activities on a market basis in that it transferred wholesale energy into retail supply almost entirely using standard wholesale products priced at market prices.⁴⁰ It also reported generation on a market basis in that all profits related to its generation business ended up in the generation profit and loss account.⁴¹ RWE also told

³⁴ Centrica response to Remedies Notice, paragraph 398 c).

³⁵ Centrica response to Remedies Notice, paragraph 398 f).

³⁶ Centrica response to Remedies Notice, paragraph 398 f).

³⁷ Centrica response to Remedies Notice, paragraph 398 h).

³⁸ RWE [response to Remedies Notice](#), remedy 14, paragraph 2.1.

³⁹ RWE response to Remedies Notice, remedy 14, paragraph 2.2.

⁴⁰ RWE response to Remedies Notice, remedy 14, paragraph 2.3.

⁴¹ RWE response to Remedies Notice, remedy 14, paragraph 2.4.

us that any netting of power between its generation and retail supply business related to very small amounts, which were then recorded for internal reporting purposes. All these netting deals were done at market prices. RWE believed that such an approach to ring-fencing should be required across the marketplace but it understood that not all Six Large Energy Firms did this.

61. RWE advised that commodity transfer pricing should be audited at the forward curve vector at the point of sale or purchase, and not using 'spot' prices at the point of delivery. This approach reflected the way firms managed commodity risks and would result in firms reporting the costs they had incurred.⁴²
62. Regarding the impact of the Six Large Energy Firms' individual purchasing strategies on retail supply wholesale energy costs, RWE told us that it was very risky for retail suppliers to come into the market and adopt a short strategy. Although it had been the case that spot prices had turned out to have been consistently lower over the recent past than the corresponding forward prices, this might not have been the case. When markets had previously turned, some small suppliers had gone bust because they had adopted a short-term strategy and not purchased in the forward energy markets the commitments to supply they had taken on.
63. RWE saw the existing publication requirements as sufficiently granular to provide transparency of business performance.⁴³ RWE cautioned against imposing a requirement to disaggregate the retail supply balance sheet. It would only be possible to compare profitability across retail segments if the carrying values for assets were to be restated onto an economic basis.⁴⁴
64. RWE thought that the reporting obligation should be extended to smaller retail suppliers because consumers might want to factor in their financial performance when contemplating switching.⁴⁵ It also noted that for retail supply the existing requirements were already at the point of revealing strategic and competition sensitive information and that further transparency of granular information would put competition at risk, particularly where only some suppliers needed to report the information.⁴⁶
65. Regarding costs of implementation, RWE noted that our proposals were not sufficiently detailed for it to specifically cost them out. However, RWE did indicate that such a remedy would result in increased costs which would be proportionally greater for larger firms. The cost stack would typically comprise

⁴² RWE response to Remedies Notice, remedy 14, paragraph 2.7.

⁴³ RWE response to Remedies Notice, remedy 14, paragraph 2.11.

⁴⁴ RWE response to Remedies Notice, remedy 14, paragraph 2.12.

⁴⁵ RWE response to Remedies Notice, remedy 14, paragraph 2.18.

⁴⁶ RWE response to Remedies Notice, remedy 14, paragraph 2.19.

system development costs, potentially further employees in accounting and regulatory departments and increased audit fees.⁴⁷

66. RWE advocated that we implement this remedy by way of recommendation to Ofgem.⁴⁸ Any reporting changes should be taken up within the existing regulatory reporting framework of the CSS.⁴⁹

Scottish Power

67. Scottish Power told us that it supported transparent and robust financial reporting of the industry and it itself had reported its profit and loss account across the value chain of generation, trading and retail supply.⁵⁰
68. Scottish Power noted that the purpose of the regulatory financial information was to facilitate regulatory policy making, principally monitoring competition in GB energy markets. It emphasised the importance of full capture of all of a firm's activities in each relevant market, the need for transfers to be at market prices and the desirability of alignment with statutory reporting at the group level.⁵¹
69. Scottish Power stated that individual areas within the financial statements should broadly align with the economic markets we had provisionally formally determined. However it did not believe they should be identical. For example I&C, which was outside the scope of the reference, was in its view appropriately included in the non-domestic segment for retail supply.⁵²
70. Scottish Power noted that it already prepared its generation and retail supply activities on a market basis in that internal trades were at the prevailing market prices for the tenor of the trade at the time that it was agreed. It argued that the financial statements would not reflect commercial reality if they reflected an approach to purchasing other than the one that had been actually employed.⁵³
71. Scottish Power suggested two ways in which we could improve transparency and trust in the market. Firstly it said that in relation to segmental reporting, commodity purchases and sales should reflect the actual transactions entered into by the firm rather than transfer charges based on notional pricing. Scottish Power contrasted its situation with some of the Six Large Energy

⁴⁷ RWE response to Remedies Notice, remedy 14, paragraph 2.20.

⁴⁸ RWE response to Remedies Notice, remedy 14, paragraph 2.22.

⁴⁹ RWE response to Remedies Notice, remedy 14, paragraph 2.17.

⁵⁰ [Scottish Power response to Remedies Notice](#), remedy 14, paragraph 14.1.

⁵¹ Scottish Power response to Remedies Notice, remedy 14, paragraph 14.7.

⁵² Scottish Power response to Remedies Notice, remedy 14, paragraph 14.3 & 14.4.

⁵³ Scottish Power response to Remedies Notice, remedy 14, paragraph 14.6

Firms where all the money it made in GB from energy markets was in the segmental results. For these Six Large Energy Firms the segmental accounts reflected transfer charges from their trading division, which meant that these accounts did not necessarily fully reflect the external transactions the firms had entered into. This was a point that it had previously made to Ofgem. Scottish Power pointed out that unless firms like itself accounted for the transactions at actual market prices, they wouldn't know whether they had actually made money on the products they had sold or not.

72. The other suggestion that Scottish Power had to improve transparency and trust in the market was designed to forestall the question that constantly arose regarding why retail prices do not reflect wholesale prices more quickly. Were we minded to accept Scottish Power's proposal to replace the default tariff with a fixed rate one-year fixed term (SVT) tariff, then this would lead to firms setting a new price for this tariff every month. This in turn would lead to retail prices faster reflecting what was happening to wholesale energy prices in the wholesale market. This dynamic in turn would affect what the segmental accounts reported.
73. With regard to wider transparency considerations Scottish Power pointed out that it had been first among the Six Large Energy Firms to voluntarily publish the profit and loss account for its trading activities.⁵⁴
74. Scottish Power wanted to better understand our thinking about the proposal to require a balance sheet. Producing a balance sheet at a more granular level than generation and retail supply as a whole was likely to require at least some judgemental allocations.⁵⁵ Scottish Power noted that during the course of our investigation it had supplied us with granular balance sheet information, much of which it had sourced and developed specifically for our requests.⁵⁶
75. Scottish Power told us that stakeholders gained confidence in the financial information from the fact that it was reconciled to firms' statutory accounts and that stakeholders valued the audit mainly because it verified the reconciliation to statutory accounts.⁵⁷
76. Scottish Power pointed out that any increase in the scope of the audit would entail extra cost and recommended that we consider the views of leading audit firms on what they would be able to audit appropriately.⁵⁸

⁵⁴ Scottish Power response to Remedies Notice, paragraph 14.5.

⁵⁵ Scottish Power response to Remedies Notice, paragraph 14.8.

⁵⁶ Scottish Power response to Remedies Notice, paragraph 14.9.

⁵⁷ Scottish Power response to Remedies Notice, paragraph 14.11.

⁵⁸ Scottish Power response to Remedies Notice, paragraph 14.12.

77. Given that we had provisionally found that no AECs arose out of vertical integration between generation and retail supply, Scottish Power saw no reason for the obligations to be targeted only at VI firms.⁵⁹
78. Scottish Power considered a recommendation to Ofgem rather than an order by ourselves to be the better approach. Alongside, Ofgem might want to implement other changes and strike a balance between timeliness of production of the accounts (now down to four months after the year-end) and the extent of any new reporting requirements.⁶⁰ Scottish Power also advised that extending the current reporting requirements could well lead to commercially sensitive information being included that was not appropriate for publication.⁶¹

E.ON

79. E.ON told us that it supported Ofgem's efforts to continuously improve the segmental reporting for generation and retail supply. It thought, however, that the current reporting regime already gave a high degree of transparency and assurance around the profitability of the Six Large Energy Firms.⁶²
80. E.ON told us that it believed its current reporting was on a 'market-orientated' basis and that BDO in its 2012 review of the Six Large Energy Firms transfer pricing practices had endorsed its approach.⁶³
81. E.ON told us that current reporting for generation excluded small scale⁶⁴ and local supply⁶⁵ generation and for retail supply some very small scale supply associated with local generation. These activities had been exempted by Ofgem. E.ON, however, pointed out that, because of the increasing importance of these generation and retail supply activities, this was leading to an incomplete picture of financial performance in these markets. E.ON, therefore, suggested that all generation and retail supply activities, including exempted activities, undertaken by a firm be reported.⁶⁶
82. E.ON thought that requiring firms to report wholesale energy costs on the basis of standard wholesale products might risk limiting firms to purchasing

⁵⁹ Scottish Power response to Remedies Notice, paragraph 14.14.

⁶⁰ Scottish Power response to Remedies Notice, paragraph 14.16 and 14.17.

⁶¹ Scottish Power response to Remedies Notice, paragraph 14.18.

⁶² [E.ON response to Remedies Notice](#), paragraph 376.

⁶³ E.ON response to Remedies Notice, paragraph 362.

⁶⁴ Supply that is authorised by exemption through either the Electricity (Class Exemption from the Requirement for a Licence) Order 2001 No. 3270 Schedule 4 Class A: Small suppliers, or the Electricity (Class Exemption from the Requirement for a Licence) Order 2001 No. 3270 Schedule 4 Class B: Resale.

⁶⁵ Supply that is authorised by exemption through the Electricity (Class Exemption from the Requirement for a Licence) Order 2001 No. 3270 Schedule 4 Class C: On-site supply.

⁶⁶ E.ON response to Remedies Notice, paragraph 362.

only these products and in any case would not reflect the commercial decisions firms had made to manage their business risks.⁶⁷

83. E.ON emphasised the importance that transfer charges reflecting the price that a corresponding external trade would have taken place.⁶⁸ This reporting measure would support other regulatory measures it was advocating elsewhere, namely to prohibit cross-subsidy between the different businesses of a licensee and to prohibit discrimination in the trading of gas or electricity.⁶⁹
84. E.ON advocated balance sheet information only in relation to generation. It also recommended that firms should also report their investment in generation over the previous 12 month period.⁷⁰
85. E.ON noted that the current audit opinion related to whether the relevant licensee had prepared the (CSS) profit and loss account in accordance with the licence condition and Ofgem's reporting guidelines. E.ON believed that this opinion provided adequate assurance over the validity of this information.⁷¹
86. In the interests of wider transparency E.ON suggested that all retail suppliers (both electricity and gas) should produce and publish a profit and loss account to Ofgem's specification with suppliers with less than 250,000 accounts being exempt from the audit requirement.⁷² For generation, however, E.ON suggested that for the moment at least the reporting requirements should be limited to operators vertically integrated across retail supply and generation.⁷³
87. E.ON strongly supported that any changes to reporting requirements be effected by way of a recommendation to Ofgem. E.ON pointed to the 'due-process' governance arrangements that surrounded any licence modification. If we were to effect any changes by an order it removed Ofgem's ability to input into the process and the licensees' ability to appeal against any decision to the CMA.⁷⁴
88. In the interests of transparency E.ON believed that all the financial information prepared should be published.⁷⁵

⁶⁷ E.ON response to Remedies Notice, paragraph 363.

⁶⁸ E.ON response to Remedies Notice, paragraphs 368.

⁶⁹ E.ON response to Remedies Notice, paragraphs 364 & 365.

⁷⁰ E.ON response to Remedies Notice, paragraphs 362.

⁷¹ E.ON response to Remedies Notice, paragraphs 370 & 371.

⁷² E.ON response to Remedies Notice, paragraphs 373.

⁷³ E.ON response to Remedies Notice, paragraphs 374.

⁷⁴ E.ON response to Remedies Notice, paragraph 377.

⁷⁵ E.ON response to Remedies Notice, paragraph 378.

89. Regarding its plans to split E.ON into two, E.ON told us that this would not happen until its shareholders had voted to approve the split intended to take place in June 2016, with the spin-off most likely becoming effective in the second half of 2016. [REDACTED]. E.ON told us that the intention was that the two businesses would be working towards full commercial independence and that in the fullness of time E.ON would fully divest its remaining minority share in what had been its conventional generation and commodity trading house businesses. E.ON [REDACTED].

EDF Energy

90. EDF Energy said that we had rightly identified the difficulty in obtaining comparable market-based information for generation and retail supply across firms, in particular in terms of how firms treat the optimisation of their generation fleets and the divide between selling and purchasing for generation and retail supply on the one hand and acting as trading intermediary on the other.⁷⁶ EDF Energy said that it already organised itself on the market lines we envisaged but felt that other firms should not be forced to change their legal or organisation structure to comply with any new requirements.⁷⁷
91. EDF Energy told us that there could be no real trust in the sector without both transparency in the financial reporting and credibility in the narrative that accompanied that reporting.
92. EDF Energy told us that it would not object to reporting SME customers as a separate segment using a workable definition that would be common across all suppliers. As this change would likely entail system changes for EDF Energy it would be important to allow sufficient time to implement it properly.⁷⁸
93. EDF Energy recommended an approach to regulatory reporting that was in line with the financial reporting standards that applied to all large firms for external reporting purposes. Adhering to such an approach would reduce the potential for users to misinterpret financial information and avoid the maintaining of multiple sets of books.⁷⁹
94. EDF Energy told us that it did not consider balance sheet information to be necessary for the market to understand profitability as profits in the supply industry were not driven by capitalised assets. EDF Energy pointed out that significant and subjective alterations needed to be made to the balance sheet

⁷⁶ [EDF Energy response to Remedies Notice](#), paragraph 14.4.

⁷⁷ EDF Energy response to Remedies Notice, paragraph 14.6.

⁷⁸ EDF Energy response to Remedies Notice, paragraph 14.7 & 14.8.

⁷⁹ EDF Energy response to Remedies Notice, paragraph 14.10.

for balance sheet information to be used to assess profitability. Some of these had been made by the CMA during this investigation. The degree of subjectivity surrounding these alterations, particularly if done individually by each firm, would inevitably lead to a lack of comparability across firms.⁸⁰

95. EDF Energy thought that the current audit requirement was appropriate to help increase stakeholder confidence in the statements.⁸¹
96. EDF Energy considered it counterintuitive that the current reporting requirements only applied to the Six Large Energy Firms. Subject to some de minimis thresholds, it thought that the requirements should apply to all generation and supply firms. Current coverage of the generation market was only two-thirds. Were smaller suppliers, many of whom have different business models, to provide statements, then this would facilitate further new entry.⁸²
97. EDF Energy viewed the additional cost to it of preparing the current statements (profit and loss account only) as relatively small compared to the wider public interest. EDF Energy also noted that an independent supplier had voluntarily published an equivalent profit and loss account.⁸³
98. EDF Energy commented that it had only been able to cost each of the outlined enhancements outlined in the Remedies Notice at a very high level but had attempted to provide estimates for each enhancement including any associated increase in audit fees.⁸⁴
99. EDF Energy considered any changes should be implemented through licence conditions but was neutral regarding whether this should be initiated by the CMA (ie an order) or by Ofgem (ie a recommendation).⁸⁵
100. Regarding publication EDF Energy's view was that care should be taken to ensure that the presentation remained clear and concise. It was also important to consider the appropriate balance between transparency (ie publication) and commercial confidentiality and any potential impact on competition, including to facilitate tacit coordination.⁸⁶

⁸⁰ EDF Energy response to Remedies Notice, paragraph 14.12.

⁸¹ EDF Energy response to Remedies Notice, paragraph 14.16 & 14.17.

⁸² EDF Energy response to Remedies Notice, paragraph 14.16 & 14.17.

⁸³ EDF Energy response to Remedies Notice, paragraph 14.19.

⁸⁴ EDF Energy response to Remedies Notice, paragraph 14.20.

⁸⁵ EDF Energy response to Remedies Notice, paragraph 14.21.

⁸⁶ EDF Energy response to Remedies Notice, paragraph 14.22 & 14.14.

Regulators (Ofgem)

101. Ofgem told us that it saw improving financial transparency as an important objective. It had itself done a lot of work to understand cost drivers and profits both through its SMI and the segmental statements (CSS).⁸⁷
102. Ofgem explained to us that it had sought to level the playing field in terms of the requirements for segmental financial reporting of GB activities between the Six Large Energy Firms which were UK-quoted and those that weren't. Ofgem had been pressed by the Energy and Climate Change Select Committee in particular to go much further than this, largely because it suspected that there was a black hole into which the money was going and that consumers were being overcharged as a result. Ofgem had not accepted this argument at the time.
103. Ofgem was not sure whether reporting on market lines would be appropriate given that it did not price regulate either generators or suppliers.⁸⁸ Ofgem saw some value in the firm reporting their activities in line with the way they ran their business, not least because to do otherwise might impose constraints on their structure. It also believed that the statements should reflect the cost of wholesale energy based on each firm's sourcing decisions.⁸⁹
104. Ofgem was also unsure whether there was an issue with the Six Large Energy Firms' transfer pricing given that it had commissioned three independent reviews by accountancy firms to improve the transparency and comparability of the segmental statements, the most recent of which (by BDO in 2014) was on transfer pricing and had found that the Six Large Energy Firms had used the arm's length standard.⁹⁰
105. Ofgem pointed to the reporting principles it had developed for the distribution and transmission businesses that it price regulated as possibly relevant to regulatory financial information in the energy sector.⁹¹
106. Ofgem saw value in having balance sheet information for retail supply only if it could replicate the granularity it mandated for the profit and loss account ie split by gas and electricity and domestic/non-domestic.⁹² Naturally any

⁸⁷ [Ofgem response to Remedies Notice](#), remedy 14, paragraph 1.1.

⁸⁸ [Ofgem response to Remedies Notice](#), remedy 14, paragraph 1.6.

⁸⁹ [Ofgem response to Remedies Notice](#), paragraph 109 a).

⁹⁰ [Ofgem response to Remedies Notice](#), paragraph 1.3.

⁹¹ [Ofgem response to Remedies Notice](#), paragraph 109 b).

⁹² [Ofgem response to Remedies Notice](#), paragraph 109 c).

balance sheet information provided should be audited in line with the current requirements for the profit and loss account in order to increase confidence.⁹³

107. Ofgem believed that if our concern was the transparency of the vertically integrated players then the reporting requirements should focus on them, at least for the time being.⁹⁴
108. Ofgem felt that the firms affected would be best able to comment on the additional costs but noted that there might be additional costs for it, for example employing a team of accountants to implement and monitor the obligation.⁹⁵
109. Ofgem told us that it had considered whether the activities undertaken by the Six Large Energy Firms in their role as intermediaries between buyers of commodities (eg retail suppliers) and sellers (eg generators) ought also to be reported in its own right by the Six Large Energy Firms. This activity fell into the trading market, which, unlike for generation and retail supply, it did not have general powers to compel the production of information for regulatory purposes.⁹⁶
110. Ofgem explained that this intermediary activity, although relating to the trading of commodities (to be) produced by generators or upstream gas producers in GB or delivered to customers in GB, might be transacted and then reported on outside the UK depending on where firms had chosen to locate their trading function. In addition, some of the Six Large Energy Firms might have difficulty isolating this type of (intermediary) trading activity from any proprietary trading activity they undertook on their own account.⁹⁷
111. Ofgem advised us that were we minded to require Six Large Energy Firms to report intermediary trading activities, our legal powers⁹⁸ would be more effective in achieving this outcome than its own.⁹⁹ Therefore an order on our part rather than a recommendation to it might be the appropriate implementation mechanism.¹⁰⁰
112. Ofgem noted that many stakeholders were dissatisfied with the financial information currently published and that more information might help hold the

⁹³ Ofgem response to Remedies Notice, paragraph 109 d).

⁹⁴ Ofgem response to Remedies Notice, paragraph 109 e).

⁹⁵ Ofgem response to Remedies Notice, paragraph 109 f).

⁹⁶ Ofgem response to Remedies Notice, remedy 14 paragraph 1.5.

⁹⁷ Ofgem response to Remedies Notice, remedy 14 paragraph 1.5.

⁹⁸ For example, under part 4 of the Enterprise Act 2002 the CMA can make orders or accept binding undertakings on non-licensed entities, eg another subsidiary or the parent company of the corporate group. A licence can only require the licence holder to do something.

⁹⁹ Ofgem response to Remedies Notice, remedy 14 paragraph 1.5.

¹⁰⁰ Ofgem response to Remedies Notice, paragraph 109 g).

industry to account. Ofgem, however, was keenly aware of the tension between ever more publication and the impact further disclosure might have on firms' ability and incentive to compete vigorously with one another.¹⁰¹

Other retail suppliers

Ovo Energy¹⁰²

113. Ovo Energy advised that we use the current reporting framework as our starting point and that there would be merit in extending the scope of retail reporting to cover all domestic suppliers with excess of 250,000 accounts. It itself had voluntarily produced and published a profit and loss account for its (supply) business modelled on the existing requirements.
114. Ovo Energy saw value in independent retail suppliers being able to demonstrate to Ofgem, their customers and investors, that their businesses were better managed than the Six Large Energy Firms in terms of the level of their indirect costs. Ofgem would also gain insight from comparing the margins of the independent retail supplier margins with the Six Large Energy Firms.
115. Ovo Energy also advocated that suppliers should report their domestic customer numbers on each of their tariff types on a quarterly basis.

Utility Warehouse¹⁰³

116. Utility Warehouse pointed out that the original justification of the current reporting obligations was grounded in the hypothesis that vertical integration was leading to negative consequences for retail customers. As we had provisionally concluded that no competitive harm arose from vertical integration, Utility Warehouse argued that the reasons for these obligations had now disappeared.
117. As a multi-service utility provider Utility Warehouse would have real problems in reporting its performance in retail supply on a stand-alone basis given that it had completely integrated many of its business functions across its energy, mobile and phone & broadband services. New entrants with innovative business models would also likely face similar cost allocation issues to isolate their performance in retail supply.

¹⁰¹ Ofgem response to Remedies Notice, paragraph 109 h).

¹⁰² [Ovo Energy response to Remedies Notice](#), remedy 14.

¹⁰³ [Utility Warehouse response to Remedies Notice](#), remedy 14, p15.

118. Utility Warehouse argued that there would be very little value in extending the reporting obligations to suppliers like it. The (non-financial) reporting burden on all retail suppliers was already bordering excessive and any additional costs placed on smaller retail suppliers would make it more difficult for them to provide good value to their customers.

First Utility¹⁰⁴

119. First Utility told us that it had not focused on this possible remedy at this point in time but reserved the right to do so later.

Ecotricity¹⁰⁵

120. Ecotricity told us that we should prioritise improving the transparency of cross-border wholesale energy transfer charges. It was concerned that our proposal to mandate the use of standard wholesale traded products for transfer charging purposes would not achieve this aim as, in its view, internal trades would not be captured. Ecotricity pointed out that under REMIT, the EU regulation on energy market integrity and transparency, firms were already required to report all (external) gas and electricity trades to the Agency for the Cooperation of Energy (ACER) as standard wholesale products even if the trade had been structured on a bespoke basis.
121. Ecotricity urged us to maximise comparability across the Six Large Energy Firms through standardising what is reported, particularly in relation to wholesale energy. It acknowledged that flexibility might be required for certain contracts.
122. Ecotricity thought that reporting obligations should apply to the Six Large Energy Firms alone. It justified this through a combination of these firms' market dominance, their vertical integration and their operation across multiple jurisdictions. Little could be gained from extending the requirements to smaller market participants.
123. Ecotricity advocated that we should implement this remedy by way of recommendation to Ofgem so that it could go through its normal consultation process.

¹⁰⁴ [First Utility response to Remedies Notice](#), remedy 14, p52.

¹⁰⁵ [Ecotricity response to Remedies Notice](#), remedy 14.

The Co-operative Energy

124. The Co-operative Energy pointed out that the reporting requirements under REMIT paralleled the requirements to report on a market basis. It believed that the reporting systems of the Six Large Energy Firms should already be capable of reporting on a market basis.¹⁰⁶
125. The Co-operative Energy advocated that, in the interests of clarity and transparency, all Six Large Energy Firms should report to the same year end.¹⁰⁷
126. The Co-operative Energy put forward two suggestions for us to consider, firstly the use of a single audit firm to ensure consistency in audit approach across the Six Large Energy Firms and secondly that guidance might be issued regarding the conduct of the audit.
127. The Co-operative Energy believed that this remedy should be implemented by way of a change to licence obligations and that the information produced under it should be published.

Haven Power

128. Haven Power, a subsidiary of Drax (an independent generator) which specialises in providing power to business customers, doubted whether retail suppliers would be able to satisfactorily separately identify the financial performance of SMEs beyond the level of gross margins.¹⁰⁸

Gazprom

129. Gazprom had no comments to make on this possible remedy beyond pointing out that smaller challenger retail suppliers like itself should not be burdened with such a reporting requirement.¹⁰⁹

Good Energy

130. Good Energy highlighted the use in the media of Six Large Energy Firm financial performance to proxy that of the industry as a whole. If all suppliers were also required to report, then Ofgem would be able to compare and

¹⁰⁶ [Co-operative Energy response to Remedies Notice](#), remedy 14, p24, a) and f).

¹⁰⁷ [Co-operative Energy response to Remedies Notice](#), remedy 14, p24, b).

¹⁰⁸ [Haven Power response to Remedies Notice](#), remedy 14.

¹⁰⁹ [Gazprom response to Remedies Notice](#), remedy 14.

contrast the profit margins of the Six Large Energy Firms with the independent retail suppliers.¹¹⁰

Generators

Drax¹¹¹

131. Drax, which owns both a generation and a retail supply business (Haven Power), pointed out that in its group accounts it already separately reported the financial performance (profit and loss account only) of these two businesses in line with international accounting standards and well-established arm's length transfer pricing rules. This allowed its competitors, both current and potential, as well as commentators, Ofgem and other stakeholders as well as its own investors, to assess the profits of its electricity generation and retail supply business separately.
132. Drax observed that, unlike all of its SLEF competitors, its retail supply business did not have any inactive legacy customers. Instead it had won all these customers on its own merits. Therefore, it saw no justification for extending the reporting obligation to itself.
133. Drax also pointed out that any regulatory reporting obligations on it could lead to differences between its group and regulatory accounts. This might well cause confusion for some users. Drax would then need to devote resources explaining these differences.

Engie

134. Engie (formerly GDF SUEZ) advocated the standardisation of the reporting for firms subject to the reporting obligation but noted that a regulatory reporting requirement should not drive how firms organise themselves internally.¹¹² The obligation should remain focused on the Six Large Energy Firms, not least because for smaller businesses this would duplicate the financial information they would report externally anyway.¹¹³
135. Engie suggested that we implement the remedy by way of recommendation to Ofgem, which could then draft the necessary licence changes. If the rationale

¹¹⁰ [Good Energy response to Remedies Notice](#), remedy 14, p10.

¹¹¹ [Drax response to Remedies Notice](#), remedy 14.

¹¹² [Engie response to Remedies Notice](#), remedy 14, p13.

¹¹³ [Engie response to Remedies Notice](#), remedy 14, p14.

of the remedy was to improve transparency, then the information should be published in line with the current (CSS) practice.¹¹⁴

Eggborough Power

136. Eggborough Power agreed that we should make improvements to standardise the segmental reporting for the larger vertically integrated business to improve transparency in the wholesale and retail markets.¹¹⁵

ESB

137. ESB, an Irish utility also operating in the GB generation market, supported a more transparent and consistent regime for financial reporting, which should ensure a clear separation between the various segments of a business. It believed that it should only apply to the Six Large Energy Firms given the relevant provisional findings (lack of clear and relevant information ultimately leading to an AEC) and our articulated aim for the remedy (improving robustness and transparency of regulatory decision making).¹¹⁶

Consumer advocates

Citizens Advice

138. Citizens Advice thought that we had identified a major deficiency in current reporting where financial information was segmented on internal divisional lines rather than based on the way stand-alone generators and retail suppliers ('notional market actors') would buy and sell in the marketplace. It supported our proposed approach to resolve this issue.¹¹⁷
139. Citizens Advice, however, was unclear whether this meant that the Six Large Energy Firms' transfer pricing policies could now be considered 'fit for purpose and transparent' as BDO, the accounting firm that Ofgem had commissioned to conduct a review, had concluded. In its review BDO had used the OECD transfer pricing guidelines as the relevant benchmark. These guidelines governed transfer pricing between different legal entities, rather than between notional market actors.¹¹⁸

¹¹⁴ Engie response to Remedies Notice, remedy 14, p14.

¹¹⁵ [Eggborough response to Remedies Notice](#), remedy 14, p5.

¹¹⁶ ESB views on specific remedies, Accounting Framework for energy generators and retail suppliers. [ESB response to provisional findings and Remedies Notice](#).

¹¹⁷ [Citizens Advice response to Remedies Notice](#), remedy 14, 14a).

¹¹⁸ Citizens Advice response to Remedies Notice, remedy 14, 14a).

140. Citizens Advice saw no reason for changing the coverage of the existing reporting obligation. The debate about the profitability and energy prices was closely linked to the extent which the Six Large Energy Firms used their incumbency in retail markets and vertical integration to their advantage.¹¹⁹
141. Citizens Advice believed that the Six Large Energy Firms should continue to be required to report financial information on a reasonably granular basis. Citizens Advice emphasised the importance of consumers being able to understand what was driving the make-up of their bills, foremost environmental and social policy costs as well as network costs. Any reduction in the granularity of publication here would lead to a less informed public debate.¹²⁰
142. Given the low level of trust in the Six Large Energy Firms, Citizens Advice advocated that all the financial information should be audited in line with the trend to more extensive external verification. Ofgem had recently enhanced the level of independent scrutiny of the existing financial reporting in response to previous calls from stakeholders.¹²¹
143. Furthermore Citizens Advice advocated that there should be a presumption towards full publication of the financial information to be produced under the obligation. It pointed out that this market investigation had been prompted in large part by a breakdown in trust in the energy sector and a lack of confidence by the public that the prices they pay were fair. Resolving this issue would need to involve communicating where firms were making their money.¹²²
144. In relation to environmental and social policy costs, Citizens Advice advocated that there should be sufficient granularity in publication to allow analysts such as Policy Exchange to be able to investigate the linkage to customer bills.¹²³
145. Citizens Advice pointed out that we should not focus exclusively on ex post financial reporting as this approach inevitably looked backwards with the information published sometime after. Citizens Advice told us that there also needed to be a current analysis/forward looking projection of the costs of supply, which would help consumers understand the drivers between a contemporaneous price rise or price cut. This had been provided by Ofgem's SMI but which was currently suspended. In the view of Citizens Advice the SMI had provided insight about the direction of energy bills and had

¹¹⁹ Citizens Advice response to Remedies Notice, remedy 14, 14e).

¹²⁰ Citizens Advice response to Remedies Notice, remedy 14, 14c).

¹²¹ Citizens Advice response to Remedies Notice, remedy 14, 14d).

¹²² Citizens Advice response to Remedies Notice, remedy 14, 14h).

¹²³ Citizens Advice response to Remedies Notice, remedy 14, 14h).

incentivised retail suppliers to try and better justify their pricing decisions. Citizens Advice would be concerned if this suspension became protracted or was replaced with a less detailed or less frequently produced product.¹²⁴

146. Citizens Advice pointed to two potential interactions with other remedies we had put forward in the Remedies Notice. Regarding the ‘cost plus approach’ to a safeguard transitional price cap for certain domestic and microbusiness customers (remedy 11), there would be a need for close to real-time financial performance information, possibly monthly and no less than quarterly. Otherwise there would be a real risk of a price cap being locked in to an unreasonably high or low level for too long.¹²⁵
147. The other remedy Citizens Advice highlighted was remedy 15 regarding the trade-offs between policy objectives and communication of the impact of policies on prices and bills. A new independent body or an existing body through an expansion of its role would need access to the financial information collected under this remedy.¹²⁶

Which?

148. Which? welcomed the financial reporting remedy as outlined if it could deliver greater transparency of the profitability across energy suppliers. However, it thought that we should ensure that the cost to firms of implementing the remedy would not be significant, otherwise the measure would have a negative impact on consumers’ bills.¹²⁷

National Energy Action

149. National Energy Action told us it was important that Ofgem and therefore customers had confidence in the Six Large Energy Firms’ financial reporting but it had no comment on the precise way it should be done.¹²⁸

Academics

Energy Policy Group

150. Energy Policy Group, the Energy Policy Group at the University of Exeter which provides an academic hub for the interdisciplinary study of energy policy, told us that it strongly supported this remedy but that it did not have the

¹²⁴ Citizens Advice response to Remedies Notice, remedy 14, 14h).

¹²⁵ Citizens Advice response to Remedies Notice, remedy 14, 14h).

¹²⁶ Citizens Advice response to Remedies Notice, remedy 14, 14h).

¹²⁷ [Which? response to provisional findings/response to Remedies Notice](#), p8.

¹²⁸ [National Energy Action response to provisional findings/response to Remedies Notice](#), p11.

expertise to make detailed suggestions to us. Energy Policy Group felt that it should be possible for both other interested stakeholders like itself and Ofgem to keep track of the profits of the energy firms in all areas of their business.¹²⁹

¹²⁹ [Energy Policy Group response to provisional findings/response to Remedies Notice](#), paragraph 53.