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Ofgem’s final proposals for changes to CSS requirements

Headline assessment

Document:	<u>Ofgem</u>
Consultation dates:	30/11/23 – 12/01/24
Impact classification:	Medium: Domestic Suppliers, Non-Domestic Suppliers Low: Generators
Action if desired:	Respond to the consultation

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1. Assessment and recommendation

On 30 November, Ofgem published a [statutory consultation seeking views on changes to the Consolidated Segmental Statement](#) (CSS). The final proposals include:

- Reducing the domestic supplier threshold from 250,000 customer accounts to 50,000 meter points.
- Reducing the non-domestic supplier threshold to 10 meter points.
- Amendments to the CSS template, specifically removing the 'generation' and 'other' columns.
- Removing the requirement for auditing the CSS, and instead reconciling back to the statutory accounts which undergo a separate audit process.

These changes will require modifications to Standard Licence Condition (SLC) 19A of the electricity and supply licences, as well as requiring the removal of SLC 16B of the electricity generation licence. The draft modifications form part of this statutory consultation. Responses to the consultation are requested by 12 January 2024. We recommend that suppliers note the proposals and respond accordingly, with a decision expected early next year.

Cornwall Insight comment: The changes being made to the CSS will provide greater coverage of supplier financials across both the domestic and non-domestic sectors, enabling increased transparency and comparison of supplier positioning within the market.

2. Background

Ofgem is currently reassessing the scope of the CSS to provide a more representative review of the sector's profitability, as the market has changed significantly since the requirement was introduced in 2009. The two key changes cited by the regulator are the lack of presence that vertical integration now has in the market, meaning there are suppliers with significant market share that are not currently required to provide a CSS, and the effect of the large number of Supplier of Last Resort (SoLR) events that occurred in late 2021. As a result, Ofgem now considers that the CSS requirements do not capture a representative proportion of the market, as under current requirements only four suppliers are required to produce a CSS.

Reviews were undertaken in [2020](#) and [2021](#), but were then placed on hold due to the energy crisis. The regulator has since revisited its proposals, and in August 2023 set out its [initial proposals](#). These included:

- Reducing the threshold from 250,000 customer accounts to 50,000 meter points for domestic suppliers.
- For non-domestic suppliers, the regulator proposed that 90% of market share should be covered, with the method involving listing suppliers in order of largest to smallest, then selecting those that take up the initial 90% of the non-domestic market for both meter points and volume.
- Removing the requirement to also hold a generation supply licence to produce a CSS.
- Removing the requirement for an external audit of the CSS.
- To add an additional column within the CSS template to record "other" activities separate to the supply or generation segment.

In the statutory consultation, Ofgem has maintained many of its initial proposals, however some changes have been made following feedback. These are discussed in Section 3 below.

3. Final proposals

Ofgem confirms that it will take forward its initial proposal to reduce the domestic supplier threshold to 50,000 meter points. For non-domestic suppliers, Ofgem has set out an alternative proposal to its position in August. Instead of attempting to cover 90% of the sector by selecting those with the largest proportion of market share in meters and volume and selecting the top 90% of that, it is proposing to lower the threshold to 10 meter points. This approach would also mean approximately 90% of the market at present would be covered, and Ofgem noted that using a static threshold measure preserves the confidentiality of supplier pricing unlike using volume of supply to calculate market share.

This threshold would be periodically reviewed by Ofgem to ensure it remains appropriate for the market. It proposes that suppliers will become obligated to submit a CSS if they reach the threshold in the last month of their financial year. Under the new proposals, Ofgem estimates that 14 domestic suppliers and 61 non-domestic suppliers would be captured by the new thresholds.

In addition, it is proposing to remove the auditing requirement and request the CSS to be reconciled back to statutory accounts, though Ofgem is still proposing that it retains the right to request an audit should there be cause for concern.

Following feedback from stakeholders, the regulator is proposing to align CSS submission timelines with the publishing of statutory accounts, which is nine months after the supplier's year-end, as this will enable suppliers to keep their auditing processes in place and provide assurance that the CSS submission is accurate. Furthermore, it is proposing not to allow any transition period, as aligning the CSS report with statutory accounts should provide sufficient time to prepare the report.

The regulator is also moving forward with its proposal to remove 'generation' activities from the CSS template, meaning it will only report on supply activities. Ofgem had previously proposed to introduce an 'other' column for suppliers to set out any additional activities that may impact on the energy costs for consumers, however it has opted to remove this to keep the CSS template simple.

The proposed changes will mean modifications to SLC 19A in the electricity and gas supply licences, as well as the removal of SLC 16B of the electricity generation licence, as these SLCs focus on the financial reporting requirements of licensees. The consultation contains a draft version of the revised guidelines for submitting the CSS.

4. Next steps

The statutory consultation closes on 12 January 2024, with a decision expected in early 2024.

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