citizens advice

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Dear Alban

We are writing in response to your consultation on initial proposals for reviewing the Consolidated Segmental Statements ('CSS'). This submission is entirely non-confidential and may be published on your website.

We are fully supportive of your proposals, which will improve transparency and oversight of the retail electricity and gas markets. This is very important at a time of rapid change within the sector, and with issues around financial sustainability coming to the fore as a result of a number of supplier failures in recent years and the continuing pandemic. There is significant public interest in the issues of fair pricing (sometimes referred to as the loyalty penalty) and in the costs associated with the delivery of social and environmental policies. Enhancing scrutiny and understanding of those areas would be beneficial. The material you propose to collect appears necessary to us to underpin both your annual assessments of whether the conditions exist for effective competition and for ongoing market monitoring. We agree that collecting it through a formalised CSS format is likely to reduce the need for, and scale of, ad hoc requests for information from suppliers.

You propose three key changes: broadening the scope of who is subject to the CSS to include standalone suppliers as well as vertically integrated ones; reducing the size threshold for who is subject to obligations; and relaxing the audit requirements. We support all three changes in principle, though we think the evidence underpinning the perceived burden of the audit requirement is currently relatively weak and should be further tested.

The first two of those key changes are clearly needed to reflect the evolution of the market since the CSS were introduced in 2009. At that time, ~99% of the domestic retail market was supplied by just 6 suppliers, all vertically integrated. Vertical integration is increasingly a market model of the past, and those same suppliers now serve only ~70% of households. The insight provided by the CSS is therefore becoming less reflective of wider market conditions and, without amendment, will only become even less so over time if those suppliers' market share continues to reduce.

Where the CSS can add value has also changed over time. On introduction, their principal use was perceived to be in providing understanding of whether vertical integration was distorting the market and on whether retail prices were fair. The former of those is no longer a source of public concern. The latter is, but public interests in retail pricing have expanded to also include issues around financial sustainability, cross-subsidy between customers (the loyalty penalty) and the costs of policy delivery. To facilitate understanding of those issues, it is appropriate that the coverage of the CSS is expanded to capture medium sized, and the largest smaller suppliers. Of the size options you identify, we are supportive of reducing the threshold to those suppliers with over 50,000 customers. This would bring the CSS back to a similar level of market coverage to the time of its introduction (~99% of customers served) and also maps well onto the supplier licensing review proposals that reaching that threshold would trigger a milestone review.

We understand your arguments for removing the requirement for the CSS to be audited. Consumers would (likely) ultimately pay for the costs of those audits and this could prove to be expensive as the number of suppliers subject to CSS obligations materially expands. In extremis, a requirement for audit could distort competition if a significant cost of doing so were combined with a low customer number threshold for that obligation being triggered.

Having noted that, we also recognise that the data you have provided suggests a very wide range of estimates for the cost of getting the CSS audited (between £10k and £250k per supplier). If the true figure is at the bottom end of that range, a requirement that the CSS were audited would appear to be reasonable - an implied total cost to consumers of several hundred thousand pounds across the sector would seem to be worth paying for the assurance that audit could bring. At the top end of that range, the justification for requiring audit would appear very much weaker.

We do not hold data that would allow us to understand where on that wide range of possible audit costs a realistic figure sits, and we note that you are seeking evidence from suppliers through this consultation to try and substantiate your decision. If this evidence does suggest that an audit requirement would result in excessive supplier (and therefore consumer) costs we recognise that you may wish to remove the current audit requirement. If that approach is taken, we would expect you to retain the right to require ad hoc audits of specified suppliers CSS if there are concerns around their veracity.

In section 4.18 of your consultation you identify a range of areas where you propose that new information that has not previously been included in the CSS (but that may possibly have been subject to ad hoc requests for information) would be added. We support all of these additions, and think that breaking down costs and profits between default and non-default tariffs, and of 'other revenue' - which may not relate to energy supply - would be particularly useful in understanding the potential for cross subsidy and consumer harm.

You raise a consideration of whether commercial sensitivity may mean that some CSS data cannot be published. Given the public interest in costs, cashflows and profits, we would encourage you to develop proposals that work on a presumption of publication unless there are compelling reasons not to. If there are genuine commercial confidentiality concerns in some cases, we would encourage you to consider ways in which insights can still be released while respecting those concerns (for example, by publishing anonymised data, or ranges of figures). Given Citizens Advice's own role in market monitoring, we would welcome further detail on what information can be shared with us if it is not made public.

Yours sincerely

Richard Hall
Chief Energy Economist