ScottishPower Energy Retail Ltd

Consolidated Segmental Statement

for the year ended 31 December 2023

Required under Standard Condition 19A of Electricity
and Gas Supply Licences

Contents

Introduction

This CSS and associated regulatory information is presented in accordance with Standard Condition 19A of the Electricity and Gas Supply Licences ("the Conditions").

The CSS and supporting information has been prepared by the directors of Scottish Power Energy Retail Limited ("SPERL") in accordance with the Conditions stated above and the associated guidelines issued by Ofgem. The CSS has been derived from, and reconciled to, the Annual Report and Accounts of SPERL for the year ended 31 December 2023, which have been prepared in accordance with UK-adopted International Accounting Standards ("IAS").

The supply licences held within SPERL at 31 December 2023 were as follows:

Licensee	Licences	Business Division
ScottishPower Energy Retail Limited	Electricity Supply and Gas Supply	Customer – Licensed business ("Supply")

Glossary of Terms	
EBITDA	EBITDA represents earnings before interest, tax, depreciation and amortisation. It is calculated by subtracting total operating costs from total revenue. As per paragraph 1.6 of the Ofgem guidelines this excludes exceptional items (refer to definition below).
DA	Depreciation and amortisation.
EBIT	EBIT represents earnings before interest and tax and is calculated by subtracting depreciation and amortisation from EBITDA. As per paragraph 1.6 of the Ofgem guidelines this excludes exceptional items (refer to definition below).
Volume	Volume is supplier volumes at the meter point, i.e. net of losses.
WACOF/E/G	The WACOE/G represents the weighted average cost of procuring electricity and gas, shown as £/MWh (electricity) and p/therm (gas), and comprises the costs of wholesale gas and electricity, the cost of renewable electricity purchased under Renewable Power Purchase Agreements (PPAs), transmission and distribution losses, Unidentified Gas ("UIG") costs and the costs associated with balancing and shaping. This is calculated by dividing direct fuel costs by volume.
Customer numbers	Customer numbers are based on the average monthly number of Meter Point Administration Numbers for electricity customers and Meter Point Reference Numbers for gas customers during the year to 31 December 2023.
EBIT margin	EBIT profit margin as a percentage, calculated by dividing EBIT by total revenue and multiplying by 100.
Exceptional items	As per Ofgem's guidelines, exceptional items are defined as revenues, costs and profits that do not reflect a company's normal year of operations (e.g. profit or loss on disposal, restructuring costs and impairment charges). Certain remeasurements (e.g. mark to market) are also classed as exceptional items per Ofgem's guidelines. Exceptional items have been excluded from the CSS.
Price cap	The price cap is set by Ofgem and specifies the maximum unit rate and standing charge that suppliers can charge customers on a standard variable tariff (SVT).

Consolidated Segmental Statement for the year ended 31 December 2023

		SUPPLY				
		Electricity		Gas		
		Domestic	Non-domestic	Domestic	Non-domestic	Supply
Total revenue	**£m**	**3,616.9**	**1,807.6**	**2,088.0**	**52.2**	**7,564.7**
Revenue from sales of electricity and gas	£m	3,616.9	1,807.6	2,088.0	52.2	7,564.7
Other revenue	£m	-	-	-	-	-
Total operating costs	£m	**(3,099.0)**	**(1,748.6)**	**(2,061.5)**	**(39.6)**	**(6,948.7)**
Direct fuel costs	£m	(1,765.6)	(1,124.9)	(1,418.4)	(27.4)	(4,336.3)
Transportation costs	£m	(532.7)	(314.8)	(327.7)	(5.6)	(1,180.8)
Environmental and social obligation costs	£m	(442.1)	(265.9)	(61.7)	0.0	(769.7)
Other direct costs	£m	(33.9)	(3.9)	(16.6)	(0.2)	(54.6)
Indirect costs	£m	(324.7)	(39.1)	(237.1)	(6.4)	(607.3)
EBITDA	£m	**517.9**	**59.0**	**26.5**	**12.6**	**616.0**
DA	£m	(39.6)	(13.3)	(29.9)	(2.0)	(84.8)
EBIT	**£m**	**478.3**	**45.7**	**(3.4)**	**10.6**	**531.2**
Volume	TWh	8.3	6.5	N/A	N/A	N/A
	Mtherms	N/A	N/A	609.3	16.7	N/A
WACO F/E/G (calculated)	£/MWh	212.7	174.4	N/A	N/A	N/A
	p/th	N/A	N/A	232.8	164.3	N/A
Customer numbers	000s	2,594	159	1,849	18	4,620
EBIT margin		***13.2%***	***2.5%***	***-0.2%***	***20.3%***	***7.0%***
EBIT excluding price cap cost recovery	***£m***	***262.4***	***45.7***	***(128.9)***	***10.6***	***189.9***
(Prior period costs recovered in current year price cap period)						
EBIT margin (excluding price cap cost recovery)		***7.7%***	***2.5%***	***-6.6%***	***20.3%***	***2.6%***

Basis of Preparation

The CSS presents a segmental analysis of SPERL's supply licensed activities within UK ("Supply"). It provides information relating to the revenues, costs and profits of these activities in order to enhance the transparency within the energy market for both consumers and other stakeholders.

These statements have been prepared, by the directors of SPERL and its Licensees, in accordance with Standard Condition 19A of the Electricity and Gas Supply Licences ("the Conditions") and the associated guidelines issued by Ofgem and the basis of preparation contained herein.

The financial data provided has been taken from the Relevant Licensees' (as defined in the Conditions) financial information for the year ended 31 December 2023, included within the Annual Report and Accounts of SPERL for the year ended 31 December 2023, which has been prepared in accordance with International Accounting Standards ("IAS") in conformity with the requirements of the Companies Act 2006.

For clarity, the following should be noted:

- The financial results have been included for all UK activities which require a supply licence.
- The domestic supply segments represent the revenues and associated costs in supplying gas and electricity to premises in UK which are supplied on a domestic tariff and whose meter is not registered as non-domestic in central industry systems. The non-domestic supply segments represent the revenue and associated costs in supplying gas and electricity to premises in UK which are not in the domestic supply segments.
- Revenue from sales of electricity and gas for the Supply segment includes revenues ultimately due from the following government support schemes: Energy Price Guarantee (EPG), Energy Bill Relief Scheme (EBRS), Energy Bill Discount Scheme (EBDS).
- Revenue received for the year ended 31 December 2023 in respect of the EPG, EBRS, and EBDS schemes (accounted for as government grants) was £1,322.8 million (2022 £513.6 million), £91.3 million (2022 £77.9 million), and £12.1 million (2022 £nil) respectively.
- Revenue received in relation to the Energy Bill Support Scheme and Alternative Fuel Payment scheme was £509.1 million offset by an equal amount being the consideration paid to customers, resulting in a net nil impact on revenue.
- The financial results relating to Smart Solutions and non-licensed metering activities, including smart meter asset provision, have been excluded

Pricing for electricity and gas

Within the ScottishPower Group, internal agreements are in place for all transfers between group companies and are subject to bi-annual review to ensure that they are appropriate and up to date. In addition, there are measures in place to notify Ofgem should there be any material changes to the transfer pricing methodology.

All other internal transactions are priced at the prevailing market price for the relevant period at the point the transaction is made. All external transactions are priced at the price transacted with the market. The market prices at the time of procurement may differ from the price prevailing at the time of supply.

Revenues

'Revenue from sales of electricity and gas' comprises the amount to which Supply has a right to invoice based on the volume of units supplied during the year and the tariff agreed with the customer. Supply operates in the UK energy market, whose nature is such that revenue recognition is subject to a degree of estimation. Revenue includes an estimate of the units supplied to customers between the date of their last meter reading and the year end. This estimate is based on external data supplied by the electricity and gas market settlement process and internal data relating to energy purchases where settlement data is not yet available. Where volumes are yet to reach final settlement, a provision is made against unbilled revenue recognised in respect of those volumes. The provision is determined by considering the current unbilled position, historical trends, and any other known factors. The value assigned to these estimated volumes is based on a weighted average price per unit derived from the billing systems.

Revenue for domestic supply is stated after deducting dual fuel discounts where applicable. The discount is allocated equally between electricity and gas. All revenue is earned wholly within UK and revenue for domestic supply is stated after deducting the impact of the Government mandated discount given to customers under the Warm Home Discount programme. This deduction is charged specifically to each fuel.

Direct fuel costs

'Direct fuel costs' comprise the cost of wholesale electricity and gas, the energy component of Unidentified Gas ("UIG") costs and imbalance costs. Direct fuel costs secured on any given day, for any delivery period, are allocated to the domestic and non-domestic supply segments based on their requirements for that delivery period.

The pricing for wholesale electricity and gas is outlined on page 5.

Supply purchases electricity, together with the associated ROCs and REGOs under internal and external Renewable Power Purchase Agreements.

Balancing costs and the energy element of UIG costs and the impact of actions to hedge CfD levy costs are allocated as incurred by ScottishPower.

Transportation costs

'Transportation costs' comprise BSUoS costs, gas transportation charges, electricity transmission and distribution network charges and the transport element of UIG costs. These costs are allocated to the segment to which they relate based on volume consumption band or settlement profile class as appropriate.

Environmental and social obligation costs

'Environmental and social obligation costs' comprise the costs associated with the following and are allocated across the supply segments as described in the table below.

Environmental and Social Obligation Costs	Allocation Methodology
Renewable Obligations	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Feed-in Tariffs	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Contracts for Difference under Electricity Market Reform (EMR)	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Capacity Market under EMR	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Energy Company Obligation (ECO) and Great British Insulation Scheme (GBIS)	Allocated to the domestic electricity and gas supply segments based on their UK market share of (non-exempt) domestic volumes (TWh) for electricity and gas; this obligation only applies to domestic customers.
Administering the Warm Home Discount (WHD)*	Allocated to the domestic electricity and gas supply segments based on customer numbers; this obligation only applies to domestic customers.
Assistance for Areas with High Electricity Distribution Costs (AAHEDC)	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes.

* The WHD provides some households who are living in, or at risk of, fuel poverty a rebate on their fuel bill. It is a Government mandated scheme administered by SPERL.

Other direct costs

'Other direct costs' include brokers' costs and the non-capital elements of intermediaries' sales commissions when the costs have given rise directly to revenue i.e. producing a sale. In the 2023 CSS other direct costs include DCC, RECCO and DCUSA costs which were previously included in Indirect costs.

Indirect costs

'Indirect costs' are the costs of billing, metering (including smart meter roll out costs), customer service, bad debt and debt collection, support services, sales and marketing, staff costs, the costs of centralised services[1] provided by Iberdrola group companies and operating costs recharged from within the ScottishPower Group.

Where it is not possible to allocate these costs directly to a particular customer segment (domestic/non-domestic) or fuel category (gas/electricity), they are allocated using a costing model based on customer numbers, transaction volumes and employee activity. In the 2023 CSS DCC, RECCO and DCUSA costs have been reallocated from Indirect Costs to Other Direct Costs.

Depreciation and amortisation

'Depreciation and amortisation costs' are allocated to the segments based on customer numbers. Items that have been capitalised include smart meter development costs including Data Communications Company (DCC) development costs and the incremental costs of obtaining certain customer contracts.

Exceptional items

In line with Ofgem's guidelines, mark to market adjustments, restructuring costs (and related reversals), impairment charges and non-current asset write-offs that have been disclosed in the Annual Report and Accounts of SPERL have been excluded from the CSS. Additional exceptional items such as costs and income from the settlement of contractual disputes have also been excluded in line with Ofgem's guidelines, as the directors believe that these items do not reflect the Company's activities relating to its operations in 2023.

Reconciliation to audited Accounts

A reconciliation of the Revenue and EBIT in the CSS to the Annual Report and Accounts of SPERL has been provided on page 7.

1. Centralised services are HR, IT, finance and legal costs and other head office costs. Where these costs can be identified as being directly attributable to a business division those costs are recharged directly to that business division. Non-directly attributable costs are allocated across ScottishPower's business divisions using costing models based on employee numbers, personnel costs, gross margin and fixed assets.

Reconciliation of CSS Revenue and EBIT
to the Annual Report and Accounts of Scottish Power Energy Retail Ltd (SPERL)
for the year ended 31 December 2023

	SUPPLY
	£m
Revenue per SPERL Annual Report and Accounts	**7,610.6**
Warm Home Discount reallocation	(38.8)
Exclude non licensed activity	(7.1)
Revenue per CSS	**7,564.7**
EBIT per SPERL Annual Report and Accounts	**525.6**
Exceptional Items reallocation	0.9
Exclude non licensed activity	4.7
EBIT per CSS	**531.2**