

SSE Consolidated Segmental Statement (CSS)

- year ending 31 March 2012

	Unit	Generation	Electricity Supply		Gas Supply		Aggregate Supply Business
			Domestic	Non-domestic	Domestic	Non-domestic	
		2012	2012	2012	2012	2012	2012
Total revenue	£M	1,190	2,504	2,644	1,828	129	7,105
Revenue from sales of electricity and gas	£M	1,160	2,500	2,644	1,828	129	7,101
Other Revenue	£M	30	4	0	0	0	4
Total Operating Costs	£M	542	2,410	2,641	1,671	127	6,849
Direct fuel costs	£M	*	1,383	1,810	998	91	4,282
Other direct costs	£M	93	787	763	477	24	2,051
Indirect costs	£M	449	240	68	196	12	516
WACOE/G	£/MWh,p/th	*	66.37	58.24	64.29	63.55	N/A
EBITDA	£M	648	94	3	157	2	256
DA	£M	182	1	0	0	0	1
EBIT	£M	466	93	3	157	2	255
Volume	TWh, Mtherms	39.9	20.8	31.1	1,552	143	N/A

*The cost of fuel in generation and the benefit of EUETS carbon allowances are contained within Energy Portfolio Management (wholesale energy trading) and are not in the CSS above. The cost of fuel (coal, biomass, oil and gas) in the year ending March 2012 was £1,364m, generating 33.8TWh of power at an average rate of £40.32/MWh. SSE utilised 19.6m tonnes of EUETS carbon allowances in the year ending March 2012. The closing market value of carbon tickets at 31 March 2012 was €7.01 for December 12 delivery.

DISCLOSURE NOTES

As a result of changes in SSE's management and reporting structure in 2011/12 and in the interests of improved transparency, SSE's financial statements for the year ending March 2012 were reported for the first time under three business segments - 'Wholesale', 'Retail' and 'Networks'. In its financial statements for the year ending March 2011, SSE reported the performance of its electricity generation and retail energy supply activities as part of an integrated Generation and Supply segment. This change also has the benefit of more closely aligning the operating segments in the statutory financial statements for the year ending March 2012 with the Consolidated Segmental Statement (CSS) for the same period. However it should be recognised that there are differences between the two disclosures, primarily driven by Ofgem's requirements - these are described in the notes below and shown in the table reconciling the CSS to the financial statements.

How the accounts are presented

The accounts presented in the CSS and in SSE's financial statements are based on a business model of an electricity generation business (Generation), a wholesale energy trading business (referred to in the financial statements and below as 'Energy Portfolio Management' (EPM)) and four retail supply businesses (referred to in the financial statements and below as 'Energy Supply').

Note - The electricity generation business and wholesale energy trading business are reported in SSE's financial statements as one combined segment called 'Energy Portfolio Management and Electricity Generation' which is within the 'Wholesale' business segment. 'Energy Supply' is a sub-segment of the 'Retail' business segment.

The Generation business sells capacity (in respect of coal and gas generation) and renewable energy to the EPM business. Generation also receives the benefit of Renewable Obligation Certificates (ROCs) and Levy Exempt Certificates (LECs) from wind and qualifying hydro and also ancillary services income.

The EPM business buys capacity from Generation and other Joint Venture, Associate or third party generators, it also procures fuel (coal, gas, oil and biomass) for Generation, purchases carbon tickets, buys power from contracts and over the counter trades; and procures gas for the Energy Supply gas business. EPM also sells power in the wholesale trading markets, sells power and gas to Energy Supply and participates in the balancing market.

Energy Supply procures gas and electricity from EPM. The transfer pricing arrangements for the Weighted Average Cost of Electricity (WACoE) and the Weighted Average Cost of Gas (WACoG) are detailed in the paragraphs below.

Note - Whilst SSE's Generation businesses is conducted by a number of separate legal entities, EPM and the electricity part of Energy Supply are held in the same legal entity, SSE Energy Supply Ltd. SSE supplies gas under a licence held by Southern Electric Gas Ltd, a subsidiary of SSE Energy Supply Ltd.

Generation

Generation receives its income from providing capacity to EPM through Power Purchase Agreements (PPAs). The PPA charges are based on market rates multiplied by the amount of availability during the year plus a variable cost charge based on output. Actual output for renewable energy (wind and hydro) is charged at market rates. Income includes the benefit of ROCs and LECs. Other income includes ancillary services and other miscellaneous income. As stated above, Generation procures no fuel and therefore the CSS does not have a cost of fuel charge. Other direct costs include Use of System charges and other sundry direct costs. Indirect costs include salaries and other people costs, asset maintenance, rates, corporate costs and IT charges.

The depreciation shown in the CSS is the amount recognised as a 'Business as Usual' charge and excludes exceptional generation asset impairments made at March 2012 (see paragraph below). Generation volumes are the volume of power that can actually be sold in the wholesale market.

Energy Portfolio Management and transfer pricing

Note - EPM does not form part of the CSS but is included in the table below which shows the reconciliation to the SSE Financial Statements.

In the CSS and in the financial statements, power in respect of Non Half Hourly (NHH) metered customers (domestic and non domestic) is transferred to Energy Supply from EPM at WACoE (at cost). The WACoE is made up of fuel (coal, gas, oil and biomass), internal and external PPAs, power purchases from contracts and trades, carbon tickets net of free allowances, market participation costs and other miscellaneous costs. For Half Hourly (HH) metered customers, the shaped energy cost at the point of sale is recorded, so this has been used as the energy cost in the CSS and the financial statements. The energy costs for domestic and non domestic NHH and HH Energy Supply include a risk premium to take into account marked to market volume risk, volatility and shape risk.

Gas is transferred to Energy Supply at actual WACoG which is made up of over the counter gas trades, purchase contracts and gas storage costs. The gas costs for domestic and non domestic Energy Supply includes a risk premium to take into account marked to market volume risk, volatility and shape risk.

The approach described above for WACoE and WACoG is consistent with Ofgem's requirement that the transfer pricing methodology reflects the way SSE acquires energy.

The remaining balance for EPM shown in the reconciliation to SSE's financial statements below, relates to activities which are not considered part of the WACoE and WACoG calculations (which are transferred out to Energy Supply). This includes participation in the balancing market and non related activities such as wholesaling to other suppliers, trading with Ireland, CHP steam sales and oil sales.

Energy Supply

Revenues are the value of electricity and gas supplied during the year and include an estimate of the value of units supplied between the date of the last meter reading and the year end. Total sales volumes are based on national external settlements data. Revenue is expressed net of discounts, loyalty products and social tariff costs.

Direct costs include: electricity distribution use of system costs; gas transportation; ROCs; LECs; market participation costs; and government schemes such as Feed In Tariff, Carbon Emissions Reduction Target (CERT) and Community Energy Saving Programme (CESP). The cost of the ROCs and the Feed in Tariff liabilities are allocated between the domestic and non domestic electricity segments based on reported volume at customer meter.

Indirect costs include: sales and marketing, customer service, bad debts, supply costs, corporate recharges - including information technology and telecoms costs, metering asset and meter reading costs. Where costs cannot be directly allocated to a particular customer segment (domestic/non domestic) or fuel (electricity and gas), they have been allocated using costing models based on activity, customer billings or customer numbers - whichever is most appropriate.

The basis for the WACoE and WACoG costs are described above. The energy costs of 'Reconciliation by Difference' in retail gas are also included in this cost line.

Retail volumes are expressed at customer meter point net of transmission and distribution losses.

Business Functions

The business functions in SSE have been described already in this document. The column headed 'another part of the business' principally relates to EPM.

Business Function	Generation	Supply	Another part of the business	Note
Operates and maintains generation assets	P			
Responsible for scheduling decisions	P/L	P/L	P/L F	
Responsible for interactions with the Balancing Market			P/L F	
Responsible for determining hedging policy	P/L F	P/L F	P/L F	1
Responsible for implementing hedging policy	P/L F	P/L F	P/L F	1
Interacts with wider market participants to buy/sell energy		P/L	P/L F	
Holds un-hedged positions (either long or short)		P/L	P/L F	2
Procures fuel for generation		P/L	P/L F	2
Procures allowances for generation		P/L	P/L F	2
Holds volume risk on positions sold (either internal or external)		P/L	P/L F	2
Matches own generation with own supply		P/L	P/L F	2
Forecasts total demand		P		
Forecasts wholesale price		P/L	P/L F	2
Forecasts customer demand		P		
Determines retail pricing and marketing strategies		P		
Bears shape risk after initial hedge until market allows full hedge		P/L	P/L F	2
Bears short term risk for variance between demand and forecast		P/L	P/L F	2

Key:

- P function and P&L impacting that area;
- P/L financial impact of function recorded in that area;
- F function performed in that area.

Note 1: Hedging policy decisions are made by the Risk and Trading Committee (a committee of the Management Board). Energy Supply is responsible for determining the likely customer demand and EPM is responsible for securing the appropriate level of hedge. Hedging risk is shared between Generation, EPM and Energy Supply.

Note 2: The functions of fuel procurement, the management of the energy position and the optimisation of the energy position are performed by EPM. The methodology used for the WACoE and WACoG calculations (described in the earlier paragraph headed 'Energy Portfolio Management and transfer pricing') means that the risk of those functions and their financial impact affects both EPM and Energy Supply'.

Reconciliation of CSS to SSE Financial Statements 2011/12

There are some differences between SSE's financial statements and the CSS. There are items which are in the financial statements and not in the CSS, and also there are items which Ofgem has requested be included in the CSS which are not in the financial statements. The table below shows the differences and reconciles the CSS to the revenue and earnings before interest and tax (EBIT) in SSE's financial statements for year ending March 2012 (pages 112 and 113 of SSE's audited financial statements):

Reconciliation of CSS to SSE Financial Statements	Revenue	EBIT	Note
	£m	£m	
Energy Supply			
CSS Supply	7,105	255	
Non GB Supply not in CSS	705	17	1
Total Reported (pages 112 & 113)	7,810	272	
Energy Portfolio Management and Electricity Generation			
CSS Generation	1,190	466	
Non Generation JVs not in CSS		-5	2
Non UK Generation not in CSS	106	33	3
JVs/Associate revenue in CSS but not in financial statements	-163		4
Inter segmental revenue in CSS but not in financial statements	-794		5
EPM not in CSS	26,773	16	6
Marchwood lease adjustment		32	7
Total Reported (pages 112 & 113)	27,112	542	

Notes

1. Non GB supply relates mainly to SSE's Energy Supply business, Airtricity, which sells gas and electricity to customers in the Republic of Ireland and Northern Ireland.
2. Non generation JVs but allocated to the 'Energy Portfolio Management and Electricity Generation' segment.
3. Non GB generation activities principally in Ireland.
4. SSE equity accounts in its financial statements for JVs and associates (which means it only includes its share of the profits/losses), in accordance with International Financial Reporting Standards (IFRS). The basis of preparation of the CSS requires that the share of revenue, costs and profits are shown in the CSS. The revenue shown in the CSS for JVs and associates is not present in the financial statements and is therefore a reconciling item. The share of profits however are present in both CSS and financial statements, therefore no reconciliation is necessary.
5. The internal PPAs between Generation and EPM are in the same reporting segment in the financial statements and therefore the revenue is eliminated on consolidation, whereas that is not the case in the CSS.
6. This business activity has been described in the paragraphs above.
7. Marchwood finance lease adjustment – this adjustment relates to the accounting treatment of SSE's PPA with Marchwood Power Ltd. The CSS (and SSE's internal management accounts) reflect the PPA capacity charges in cost of sales and these are therefore a relevant component of the WACoE. The statutory accounting treatment recognises this contract as a finance lease and therefore these payments are effectively charged as depreciation and finance costs. Because the CSS is prepared at EBIT level rather than profit before tax (PBT), the finance charge would be excluded which would be misleading. It has therefore been shown as a reconciling item.

Exceptional items and certain re-measurement. SSE focuses its internal and external reporting on 'adjusted profit before tax' which excludes exceptional items, re-measurements arising from IAS 39 and removes taxation on profits of joint ventures and associates, because this reflects the underlying profits of SSE, reflects the basis on which it is managed and avoids the volatility that arises out of IAS 39. Therefore exceptional items have been excluded from the CSS.