Accompanying information continued

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Thermal

Electricity generation

Revenue from the physical generation of electricity is recognised 'point in time' as generated and supplied to the national settlements body. Revenue is measured at either the spot price at the time of delivery, or trade price where that trade is eligible for 'own use' designation.

Gas storage

Revenue from gas storage trading activities is recognised 'point in time' as injected back into the gas network. Revenue is measured at either the spot price at the time of delivery, or trade price where that trade is eligible for 'own use' designation.

Thermal Generation contracted services

Revenue from national support schemes, such as the Capacity Market mechanism, is recognised at the point the performance obligation has been met. This is typically considered to be either at the point electricity has been physically generated or over the contractual period, depending on the underlying performance obligation. Revenue is measured either at the market rate at the point of generation, or at the fixed contractual consideration, depending on the individual scheme mechanic.

Revenue from other ancillary generation services is recognised 'over time' consistent with the customer receiving and consuming the benefits of those services across the expected contractual service period, and at the contracted consideration.

Customers

Supply of energy

Revenue on the supply of energy comprises sales to domestic (in Ireland) and business end-user customers (in GB and Ireland) based on actual energy consumption including an estimate of the value of electricity and gas supplied to customers between the date of the last meter reading and the year end. Revenue is recognised 'over time' consistent with the delivery of energy to the customer as we consider the receipt and consumption of the benefits of the energy to be simultaneous. Revenue is measured based on the applicable customer tariff rate and after deduction of any applicable contractual discounts.

Details of the judgements involved in the estimation process for the value of electricity and gas supplied to customers is given within note 4.1(iii).

Payments from customers may be received in advance of providing the contracted service and are deferred on balance sheet. Amounts received from customers in relation to energy management services provided by Third Party Intermediaries ('TPIs') are offset against payments to those TPIs, reflecting the responsibility for providing the energy management service.

Energy related services

Where the Group has an ongoing obligation to provide contracted energy related services, revenues are recognised 'over time' consistent with the customer receiving and consuming the benefits of that service across the expected contractual service period at the fixed contracted rate. Where the Group has an obligation to perform a specific service, revenues are recognised 'point in time', following performance of the service at the fixed contracted consideration. No extended warranty periods are offered.

Distributed Energy

Construction related services

Construction related service revenue related to the Contracting and Rail business, which was disposed on 30 June 2021. For construction related services, revenue was recognised for each identified performance obligation 'over time' by applying an input method to determine the proportion of total contract revenue (being fixed price consideration plus the latest estimate of variable consideration) that should be recognised. The input method applied was calculated by reference to the costs incurred to date on that performance obligation, relative to the total expected costs to satisfy that performance obligation, provided the contract outcome can be assessed with reasonable certainty. Revenue from non-contracted agreements or variations to contracted work was only recognised to the extent there is additional supporting evidence to their recoverability and may be subject to constraints on recognition. Revenue on contracts in customer dispute was recognised only to the extent it is considered to be highly probable that the revenue will be recovered.

Commissions in relation to acquisition of construction related contracts were expensed as incurred. No extended warranty periods were offered. Payments from customers were based on agreed billing schedules, with payment milestones typically aligned with delivery of performance obligations.

EPM & I

Commodity optimisation and other services

Income from sales commodity optimisation trading occurring in any business unit is presented net in cost of sales alongside purchase commodity optimisation trades. Revenue on physical power and gas supplies recognised 'point in time' as delivered to the national settlements body or third parties. Revenue is measured at either the spot price at the time of delivery, or trade price where that trade is eligible for 'own use' designation.

Revenue arising on commodities purchased in excess of the Group's requirements and recorded as inventory assets, such as Renewables Obligation Certificates, is recognised 'point in time' on disposal of these inventory assets to third parties.

Revenue from other ancillary services is recognised 'over time' consistent with the customer receiving and consuming the benefits of those services across the expected contractual service period, and at the contracted consideration.

Physical energy production

The Group's Gas production business was disposed on 14 October 2021 and was presented as a discontinued operation within the prior year financial statements.

Revenue from the physical production of natural gas, crude oil and condensates arose from the Group's interest in various joint ventures and associates and was based on the entitlement method; whereby the Group's share of interest and production sharing terms were used to determine the allocation of production to each party in the arrangement. Revenue was recognised 'point in time' based on the production delivered to the customer at the specified delivery point and measured based on the applicable market price as specified in the customer contracts.

Aside from where specifically noted above, consideration is due when the performance obligation has been satisfied. As the period between satisfaction of the performance obligation and receipt of consideration from the customer is expected to be less than a year, the Group has applied the practical expedient not to adjust revenue for the effect of any financing components.

Revenue from sources other than the Group's contracts with customers principally comprise meter rental income within the Distributed Energy business, and Contract for Difference income within certain Joint Venture arrangements.

Income on meter rental agreements, which are classified as operating leases, are presented as revenue where they relate to the core operating activities of that business. Lease payments are recognised as income on a straight-line basis over the lease term.

Other operating income – Government Grants (note 6)

During the year ended 31 March 2023, the UK and Irish governments introduced customer support schemes under which licensed energy suppliers are required to provide a discount on gas and electricity prices to customers. The level of discount applied to each customer varied dependent upon energy tariff and support scheme applicable to each customer. Where SSE provided a discount to customer through reduction of energy bill, the cost of applying these discounts was recovered from the Government. The amounts reclaimed under this scheme are recognised as government grant income within Other Operating Income in the consolidated income statement.

The most significant customer support scheme administered by the Group during the year was the Energy Bill Relief Scheme, applicable to GB commercial gas and electricity customer usage during the period 1 October 2022 to 31 March 2023. This scheme impacts GB Business Energy with discounts made to SSE's billings to customers and unbilled income accrual and a separate asset recognised in respect of claimed or to-be-claimed receipts from the UK government.

Contract for Differences ('CfD') are agreements between a low-carbon electricity generator and the Low Carbon Contracts Company ('LCCC'), a UK Government owned entity responsible for delivering support mechanisms for low-carbon electricity generation. These agreements are not considered to be contracts with a customer, as the LCCC does not receive any goods or services from the generator. These arrangements are instead considered to be Government Grants, with income arising from these grants recognised in the income statement in the period in which generation takes place. In the year, the Group recognised no income or expense related to Contracts for Difference with the LCCC within its wholly owned subsidiaries. The Group's joint venture investment, Beatrice Offshore Windfarm Limited, has a CfD with the LCCC which resulted in payments from the LCCC of £25.6m in the year (SSE share of £12.8m recognised within share of profit). The Group's wholly owned Viking windfarm and joint venture investment Seagreen Wind Energy Limited also have a CfD arrangements in place with LCCC, however these agreements have not yet commenced and no income or cost was recognised during the year.

Where the CfD strike price falls below the spot price of generation and payments are made to the LCCC, these payments are expensed as incurred within operating costs.

The Group has commercial CfD arrangements in place where the Group has agreed to provide a revenue support contract. Where the Group has entered into these arrangements and there is no relationship with a government entity, the instruments are classified as derivatives and accounted for under IFRS 9. The Group has assessed that due to the valuation complexity of these arrangements, they are Level 3 financial instruments in the fair value hierarchy. On day 1, the Group recognises no gain or loss arising from the instrument, but instead defers this gain or loss and recognises it progressively over the life of the instrument. At each balance sheet date the fair value of the instrument is assessed with any movement in fair value recognised in the income statement in the period it arises. None of these contracts were active at 31 March 2023.

Cost of sales (note 6)

Cost of sales includes fuel and energy purchases, direct employee benefits, and depreciation of property, plant and equipment.

The net result from sales and purchases of commodity optimisation trades – comprising both realised and unrealised gains and losses arising from optimisation trading activities – is also presented within cost of sales, reflecting the underlying economic purpose of this trading activity.