ofgem

Making a positive difference
for energy consumers

2016-17

Office of Gas and Electricity Markets (Ofgem)
Annual Report and Accounts

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(For the year ended 31 March 2017)

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Chairman's foreword
David Gray

It's an exciting time to be at Ofgem: 2016-17 was a year of challenge and change. I would like to thank everyone at Ofgem and the Authority for their clear-headed responses, and their ability to deal with the unexpected and get on with the job.

In June 2016 the Competition and Markets Authority completed its review of the energy sector and we are now implementing its remedies. Most of these involve engaging consumers in the retail market so that they can get a better, fairer deal. We look forward to seeing good results that will improve customer engagement as well as improve the way the market works for everyone.

An interesting new dynamic to our work this year was examining how we go about ensuring energy consumers are protected before, during, and after Brexit. We are working closely with government, advising on energy issues as it begins to negotiate our exit, and we have maintained productive relationships with our neighbouring regulators. It is important that we firmly establish GB energy consumers' interests at the heart of all stages of the negotiations.

Although still a few years away, we are already starting to plan for the next round of RIIO network price controls, using the lessons we have learned from RIIO1.

In the meantime, the industry changes around us. For instance, there are now over 25% more dual fuel suppliers in the market than a year ago and new renewable generators continue to connect to the networks at a rapid rate. We expect the process of change to continue and we have commenced a series of projects looking more deeply into the fundamentals of the energy system itself. It is these which will lay the foundations for the energy market of the future.

I am proud of our achievements this year, which you can read more about in this Annual Report. I look forward to working with my excellent team on tackling the many interesting and important challenges on the horizon.

David Gray
Chairman

Chief executive's report
Dermot Nolan

Just before I sat down to write this, National Grid announced that for a whole day, all of Britain's power had come from sources other than coal. This was for the first time since the Industrial Revolution.

Ofgem has talked about the degree of change in the energy system for a while now, but this felt like a significant moment. It made me wonder what other milestones we'll see over the next few years – and which ideas that seemed far-fetched even ten years ago would shortly become reality.

At Ofgem, preparing for and positioning ourselves for change has become business-as-usual. While the retail energy market debate continues, we are working on improving compliance, implementing the Competition and Markets Authority remedies, monitoring, and protecting vulnerable consumers. One important step was introducing a price cap for consumers on prepayment meters, saving them up to £80 a year in gas bills.

Our future retail regulation work gathered pace as we removed prescription from the licence, and consulted on regulating suppliers through outcomes-focused principles rather than detailed rules. We are continuing to work on smart metering and faster switching. We improved the safety net for consumers if their supplier becomes insolvent, successfully managed the transfer of customers from GB Energy to Co-operative Energy, and established compliance monitoring for many new entrants.

In networks, much of our work is about ensuring value for consumers, and we are developing our framework for the RIIO2 network price control so it can deliver. We have been examining the charging arrangements for small distribution-connected generators, otherwise known as embedded benefits.

With the Department for Business, Energy, and Industrial Strategy (BEIS) we published a call for evidence called A Smart, Flexible Energy System. This asked stakeholders for their views on the flexible energy system of tomorrow, and how we can make sure our regulatory regime enables it.

We published four Future Insights papers, building on our horizon-scanning work to identify future regulatory and policy challenges. We trialled the Innovation Link, advising informally on regulatory issues to about 60 innovators and receiving 30 proposals for our Regulatory Sandbox.

Our enforcement work included fines and alternative action, resulting in £27.75m worth of redress. This included £18m against ScottishPower for customer service failings, and £4.5m against British Gas for missing a deadline to install advanced meters.

E-Serve continues to efficiently deliver environmental schemes, and will remain integral to Ofgem for the foreseeable future. An independent public inquiry into the Renewable Heat Incentive scheme in Northern Ireland was launched in March, and we are engaging fully and transparently with the Inquiry as it gathers evidence and goes about its important work.

Internally, we launched the Office of the Chief Economist, strengthening our quality assurance and analysis. In London, we are shortly moving to a new office in Canary Wharf. We have leased new premises in Glasgow, and it is important to us that our offices not only provide good value for money but for our staff are attractive places to work, too.

Last year we said goodbye to Maxine Frerk, who left Ofgem after 15 years in senior roles in networks and retail markets. She made a tremendous contribution.

At the time of writing, we're on the cusp of a General Election. We will of course work with the new government to the best of our abilities, and always with consumers' interests at heart. With energy continuing to be high in the public interest and on the political agenda, we can expect even more milestones as time goes on.

Dermot Nolan
Chief executive

Enabling a better functioning retail market

Our role is to protect consumers, and to do that we want a retail energy market that works for all. We want a market where competition constrains prices, drives efficiency, delivers quality services and products, and one in which suppliers meet the needs of vulnerable people.

The market is working well for customers willing and able to change supplier or tariff to get a good deal. But around 70% of people are not benefitting from this competition. Vulnerable consumers on prepayment meters cannot access the best deals. Following the Competition and Markets Authority's (CMA) investigation, this was why in April we announced a temporary price cap which saw customers' gas bills fall by about 10-15% – or by around £80 per year.

The market is also not working for many small businesses, who face similar problems to householders.

Our work to improve how the retail market functions covers three areas:

- **Supplier conduct** – ensuring that the licence and our interactions with suppliers drive the conduct and service standards that we expect of them.
- **Supply-side competition** – our regulations need to facilitate vigorous and disruptive competition between suppliers. Price comparison websites should be competing with each other, and with suppliers, while maintaining consumer trust.
- **Consumer engagement** – we need to do all we can to encourage householders and small businesses to engage in the market and to take the hassle out of switching supplier. This is fundamental to making the market work better

Future retail regulation

This year, we began in earnest one of the biggest and most exciting projects we've ever taken on.

We're moving to regulating the retail energy market more through enforceable principles, and making less use of detailed prescriptive rules. This provides future-proof protection for consumers in a rapidly-changing market, and allows more room for suppliers to compete and innovate.

This year we worked closely with stakeholders on how to make the transition a success. We held workshops and events, and published papers to take stakeholders with us as we progressed our thinking.

We began removing big chunks of prescription from the supply licence, including 30 pages of detailed licence conditions, which should allow suppliers to innovate more in their tariff offerings. We issued a statutory consultation on how to enable consumers to make informed choices, and another on ensuring the Standards of Conduct achieve policy objectives, including consulting on a new principle to better protect vulnerable consumers.

We challenged suppliers to change how they operate, and to focus more on delivering good consumer outcomes. We worked to resolve hundreds of compliance issues through this engagement, to make sure consumers are protected and suppliers put things right quickly – and in the most egregious cases, we took enforcement action.

Customer complaints to energy suppliers have fallen to their lowest point in three years. The total number of complaints in 2016 was **3.5m**, down from **5m** in 2015.

Switching programme

We want consumers to be able to switch energy supplier quickly and reliably, and by the next day if they want. We're simplifying and harmonising the gas and electricity switching systems, while minimising the risk of erroneous transfers.

We believe more reliable and faster switching will help improve consumer engagement and trust in the market. The customer experience has been central to our designing of policy underpinning the entire programme.

This year, we shortlisted three reform packages: improving industry process, creating new central systems, and harmonising switching systems in gas and electricity.

7.7m gas or electricity switches took place in 2016, and that was a **28%** increase on the previous year. These were the highest switching rates since 2010. **Nearly half (47%)** were switches to small or medium suppliers.

CMA remedies

In summer 2016, the CMA published findings from its investigation into the energy market, which we had prompted two years previously.

It set out remedies for fixing the problems it saw – namely, a two-tier market: one where some consumers were engaged and got the best deals, and another where two-thirds of households rarely or never engage in the market and pay more for their energy than they need to.

We then began implementing the remedies around five objectives: regulation for effective competition, prompting greater consumer engagement, protecting and empowering those on non-standard meters, building industry systems and governance for the future, and a robust and independent regulator.

These remedies include:

- A price cap on prepayment meters, saving consumers around £80 per year on gas until 2020. It came into effect in April
- Trialling prompts for the 'stickiest' customers to engage in the market and shop around for cheaper tariffs. We have worked with suppliers to conduct these trials and issued guidance on good trialling
- A database which will lead to disengaged customers being contacted about better value deals. We've already run a small trial of different variants of the database service
- Removal of part of our Retail Market Review reforms so customers can enjoy a wider selection of deals
- Consulting on a system of code governance that allows strategic change to be delivered smoothly, efficiently, and in consumers' interests
- Consulting on the new Confidence Code rules for price comparison websites

We believe these initiatives will stimulate engagement in the market, and help make competition work for all consumers, as suppliers compete for them by driving down prices and improving service. For consumers, it'll be easier and quicker to get a better deal, as we head towards a smarter market.

Regulating price comparison websites and other third-party intermediaries

Third-party intermediaries are switching websites, energy brokers, and energy efficiency advisors who interact with consumers. They can offer advice and products to help consumers procure and manage their energy, and their business models and routes to market are proliferating all the time.

This year we have focused on CMA remedies affecting third-party intermediaries. We contributed to the CMA's study of the digital comparison tools market, and gathered compliance data on non-domestic intermediaries.

They have an important role in helping deliver the benefits of smart meters to consumers, and a strong, flexible regulatory framework will let them protect consumers and promote competition, consistent with our approach to future retail regulation.

Engaging consumers and understanding behaviour

Consumer research shapes our regulatory interventions and allows the consumer voice to be heard when we are considering policy options. Insight ensures that policy is driven by evidence that will withstand public scrutiny. Our Consumer First research programme helps us understand priorities, views and experiences, and we commission independent research and engage thousands of consumers through our regular surveys and workshops.

In 2016, we carried out surveys to track household and microbusiness consumer engagement with the energy markets. These will help us implement new measures to prompt consumers to seek better deals.

Designing interventions that work with the way consumers really behave rather than the way we think they ought to behave means that the interventions are more likely to be successful. We established a new Behavioural Insight unit to advance our work on randomised controlled trials. Behavioural scientists and volunteer energy suppliers helped design engagement remedies. They also laid the groundwork for Ofgem-led trials.

Consumer vulnerability

We believe that no consumer should be disadvantaged or receive a worse service as a result of being vulnerable.

The circumstances that can disadvantage people – for example: problems with reading and writing, disability, mental illness, financial crisis or sudden bereavement – vary as much as consumers themselves.

We want companies to take ownership of supporting vulnerable consumers. As we move to principles-based regulation, we are proposing a broad principle on vulnerability in our rulebook. This would require suppliers to have special regard for consumers in vulnerable situations – how they identify them, what their needs are, and how suppliers respond.

Working with other regulators

Through the UK Regulators Network, we have been working on how our respective industries can better share information about consumers' vulnerability in a sensitive, targeted, and proportionate way.

Hundreds of consumers in vulnerable situations benefit from free assistance from suppliers and network operators. This helps ensure they are not disadvantaged in participating in the energy market, that they are kept safe, and that they understand the communications they receive from energy suppliers.

Priority Services Register

In January 2017, new changes to the Priority Services Register (PSR) came to effect. These broadened the eligibility criteria, so more people can get access to these services, and so that distribution and supply companies can share data to support them.

To understand how well suppliers perform in meeting the needs of vulnerable consumers, we regularly collect social obligations data on debt, disconnection, prepayment and uptake of PSR services.

The Social Obligations Report, which we published last year, found that:

- There are fewer customers in debt, but the average amount they owe has risen
- Although fewer customers are in debt, the proportion of customers on prepayment meters remains disappointingly high
- Suppliers – particularly small and medium ones – should do more to support customers through debt repayment schemes
- Most suppliers no longer disconnect any customers because of debt, however there was an increase last year largely driven by two suppliers: Npower and Utility Warehouse.

Network companies and vulnerable consumers

Network companies are incentivised to support the vulnerable and fuel poor. We continued the Fuel Poverty Network Extension Scheme, where gas distribution network companies are required to connect over 91,000 fuel poor households by 2021, including an incentive to connect more. Since its introduction in 2008, more than 58,000 fuel poor households have been connected to the gas grid under the FPNES. Of these, over 39,000 connections have been in the first three years of GD1, which leaves 52,000 remaining until April 2021.

The Electricity Standards of Performance Regulations 2015 must be met by each distribution company. If it fails, it must make a payment to the customer.

Monitoring the market and explaining how it works

We continue to monitor the retail energy markets and in 2016 published our second annual Retail Energy Market report. This looked at retail market trends for 2015-16: market structure, prices and profits on the supply side, and developments in consumer engagement on the demand side. The report found some positive signs but some persistent problems.

This is one of many reports and other data we publish to explain how the market works, so people can understand whether it is working well. You can see more indicators in the Data Portal part of our website, www.ofgem.gov.uk/data-portal.

However, we know that just publishing the data is meaningless if it isn't put in context, so alongside the data, we publish insight on what the data shows, what may be driving the various patterns within it, how it affects consumers, and what it means for the industry. See the chapter entitled: Being an authoritative source of quality data.

Early in 2017, we started publishing a quarterly Supplier Cost Index. This tracks trends in wholesale and network costs, and the charges to suppliers of government programmes designed to help ensure security of supply, deliver low-carbon electricity, and financially support the fuel poor.

The Supplier Cost Index was 22% higher in February 2017 than a year earlier. This steep rise predominantly reflected the increase in wholesale gas and electricity prices for the next 12 months over the period.

Closed account credit balances

In 2016, we announced that large suppliers had returned almost £670m to customers who had closed their accounts since the start of 2014, when we urged the industry to act.

We had challenged large suppliers to do more to return money to former customers who still had credit on their account after it closed, typically when switching supplier.

Large suppliers have paid back around 90% of closed account balances outstanding since then, most payments of which were made to former customers within 14 days of issuing a final bill.

Sometimes it can be difficult to return longstanding credit balances, such as when a former customer has moved house and cannot be traced. If suppliers cannot find these customers, then they pay any outstanding credit balances to charitable funds.

Trends in the retail energy market

- New suppliers continue to enter the market at an increasing rate (there were **14** new domestic suppliers over the year, and **nine** non-domestic new suppliers)
- The combined market shares of small and medium-sized suppliers in the domestic market continued to grow to **14%** overall (up from 10% a year earlier). The six largest suppliers continued to lose customers in both the domestic and non-domestic markets
- Aggregate pre-tax profits for the large suppliers increased for gas, but fell in electricity. Average profit margins fell, although there were big differences between companies
- Domestic switching rates were up, and consumers' awareness and understanding of, and trust in the energy market rose slightly. But more than **one in five consumers** remained very disengaged, predominantly still on expensive standard variable tariffs
- Non-domestic switching rates rose in electricity and fell slightly in gas. Microbusinesses and small businesses are making more active choices at the end of fixed-term contracts, but many still do not understand contract terms
- The average dual fuel bill for a domestic customer of a large supplier fell by **2%**
- Weather-adjusted domestic energy consumption fell by **0.9%** in gas and **1.3%** in electricity.

Prepayment meter caps

There are four million households in Great Britain who prepay for their energy, mostly with traditional prepayment meters. They are less likely to benefit from competition: there are fewer tariffs available to them, and the ones that are available are generally more expensive. They are also more likely to be in vulnerable circumstances than those paying by other means.

So in early 2017, we announced a temporary price cap for prepayment, which although varying for electricity and gas and by meter type and region, will see customers' gas bills reduce by about 10-15% – or by around £80 per year.

The cap will expire in 2020, when the rollout of smart meters is complete.

In 2016, we proposed to cap charges for installing prepayment meters under warrant. This is to protect customers who are in debt, for whom a prepayment meter is often installed by their supplier as a last resort.

Facilitating the energy transition

The way energy is produced, generated, transported, stored and supplied is changing. The push to reduce carbon emissions and the deployment of new technology mean the energy system is in transition. It is becoming low-carbon, less centralised, smarter and more flexible.

New and potentially disruptive business models are entering the market. Some are based on new energy technologies, some are focused on local communities, and others are using technology innovatively.

All these changes are challenging the regulations and market rules that govern the industry. Arrangements designed for a system with passive demand and large-scale, centrally-dispatched power stations need to evolve. It is Ofgem's role to make sure this happens.

This transition will be helped by having smart meters in every household and business, connected through a communications network to a central data clearing house.

Although the Department for Business, Energy and Industrial Strategy (BEIS) owns the overall smart metering policy and regulatory framework, Ofgem is responsible for making the rollout of smart infrastructure timely, efficient, and beneficial to consumers. This includes making sure that the arrangements let industry make full use of the functionality.

Flexibility

Imperial College and the Carbon Trust estimate a smarter, more flexible energy system could save consumers between £17-40bn in total by 2050. We believe it can help make sure the UK continues to benefit from a secure, affordable energy system as we move towards a lower carbon future.

In November 2016, alongside BEIS we published a call for evidence called A Smart, Flexible Energy System. We asked stakeholders for their views on the flexible energy system of tomorrow, and how we can make sure our regulatory regime enables it.

This included:

- intelligently using new technology and services to make supplies more secure and support the move to a low-carbon energy system
- removing barriers for energy storage technologies such as batteries in homes, businesses and networks – these can hold energy for times when demand is high or energy is more expensive
- the changing role of network companies, to manage a system with more low carbon generation
- making it easier for businesses to provide voluntary demand-side response, ie turning down their electricity use at peak times in exchange for payment
- how Ofgem and government can create the environment for new ideas to flourish by removing barriers to innovation

Our work in this area attracted a lot of interest and we have received over 200 responses to the call for evidence.

Smarter Markets programme

We're leading a programme of work to make sure everyone benefits from smart energy meters and changes to industry processes.

This requires many fundamental changes to the underlying arrangements, to pave the way to involving consumers more in the market, and giving them more control over their energy use.

Smart meter rollout

Smart meters will transform the competitive energy markets and help create a smarter energy system fit for the future. Gas and electricity suppliers must take all reasonable steps to install smart meters to all domestic and small business premises by the end of 2020.

In 2016, we received energy suppliers' plans for the rollout. We monitored progress towards their installation targets, and in early 2017 suppliers had the opportunity to update their plans.

In parallel, we have focused on the consumer experience of the rollout, working with Citizens Advice and the Energy Ombudsman. This includes regulatory oversight of Smart Energy GB, which is responsible for the national communications campaign, and the Smart Metering Installation Code of Practice, to ensure that the consumer experience is positive.

The Data and Communications Company is the licensed monopoly responsible for linking smart meters in homes and small businesses with the systems of energy suppliers, network operators and energy service companies. We scrutinise its costs through the annual price control so that it provides value for money and, in February 2017, published our price control decision for the 2015-16 regulatory year. We consulted on introducing new incentives into the price control to reward good performance.

Consumer empowerment and protection in a smarter market

The Consumer Empowerment and Protection project aims to make sure that consumers can participate in a smarter retail energy market, recognising the opportunities and risks involved.

Last year we consulted on changes to Social Obligations Reporting for supplier performance regarding domestic customers. We decided to make changes to better prepare us for monitoring the smart prepayment market of the future.

Settlement

Settlement reconciles discrepancies between a supplier's contractual purchases of electricity and its customers' actual demand. Smart meters will record the exact amounts consumed in each half-hour rather than estimating patterns using profiles of average customers. This means suppliers are incentivised to help their customers use electricity at times when is cheaper to generate and transport.

Half-hourly settlement can help deliver a more flexible, innovative and efficient electricity market. The first stage of our work was to remove the barriers to cost-effective elective half-hourly settlement. We simplified, coordinated and accelerated the process for moving customers into and out of half-hourly settlement, created changes to reduce the cost of elective supplier agents, and provided a transitional measure to prevent customers that choose to be half-hourly settled from being charged twice for transmission costs.

As recommended by the CMA, we consulted on a plan for the second stage: moving to mandatory half-hourly settlement. We worked with ELEXON to monitor suppliers' compliance with their obligation in the Balancing and Settlement Code to settle medium and larger non-domestic consumers (profile classes 5-8) on a half-hourly basis by 1 April 2017.

Innovation Link

Last year we launched a six-month trial of Innovation Link. For any company looking to bring innovative products and services to the market, with realistic prospects of benefitting consumers, the Link helps them with aspects of energy regulation.

The trial explored whether innovators value fast, frank feedback on regulation. We also invited expressions of interest in a 'regulatory sandbox' – where innovators can trial business propositions that will benefit consumers without incurring all the usual regulatory requirements.

The trial was successful, and we decided to continue the Innovation Link. As well as helping potential innovators, it helps us understand emerging trends, and areas where our regulation may need to adapt.

These activities are in addition to the direct funding we provide to network companies to undertake innovation.

Future Insights

Following work over the first half of 2016-17 on horizon-scanning, including stakeholder workshops around the country, we published a series of future insights papers. These started by assessing the overall changes we expect to see in the energy sector, noting the degree of uncertainty and the implications for regulation.

We looked at the decarbonisation of heat, examining the potential changes in sectors we regulate, and some areas where extending regulation could be beneficial. We are now engaging with government and other stakeholders on the future of gas networks, the potential for hydrogen, and the framework for district heating.

We launched a paper exploring the world of local energy, to consider what impact its growth will have on the regulatory framework and implications for consumers' interests.

We found many different types of local energy models. We believe that consumers' interests are better served when they are part of an integrated system, with prices that reflect costs and system value, and with local markets improving access for smaller participants.

Our final paper in 2016-17 looked at the future of energy consumption. We looked at trends, such as demographics and digitalisation, and considered the sorts of business models that might emerge to meet consumer needs and desires. We also looked at the potential implications for the energy sector and how we regulate.

Overall, the Future Insights series so far has shown the huge potential for change in the energy sector, bringing great opportunity to improve outcomes for customers but also some risks and challenges. We know we need to regulate in different ways to maximise the potential, and we see initiatives we have already taken, such as principles-based regulation and the Innovation Link as important steps on that journey.

Network charging and embedded benefits

Electricity generation in Britain is moving away from using large fossil-fuelled plant, towards local renewable plant. More generation is connecting to the lower voltage distribution grids, instead of the high voltage grids.

This rapid change has meant that the arrangements currently in place may not allow large and small generators to compete on a level playing field. This is why we are looking at aspects of the charging arrangements (otherwise known as embedded benefits) for distribution-connected generators with a capacity of less than 100MW.

We opened a review into embedded benefits, and are concerned that one element of this is distorting the Capacity Market and wholesale markets, and driving up costs to consumers. We believe that users who benefit from the network should face charges that broadly reflect the costs that they impose as when faced with the true cost of their behaviour, they are more likely to make efficient choices. Where a payment is made, it should reflect the savings that users bring to the system.

We have consulted on replacing these arrangements and are currently considering the case for introducing new ones in phases.

Creating a more independent, future-proofed system operator

National Grid Electricity Transmission plc is the system operator (SO) for Great Britain's electricity transmission network.

It has a major role in the electricity system, and this has grown over the years. It is now more active in transmission network development and the capacity market, and is expected to take on new functions as competition for onshore transmission assets is introduced.

We regulate the SO to make sure it is aligned with consumers' interests. We sometimes incentivise it to innovate and improve its performance.

But we believe it needs to evolve to make sure it can respond to and facilitate the energy system's transformation over the next decades. The transformation is highlighting the need for a more coordinated, tailored approach to planning and operating the transmission and distribution systems.

We also believe there should be more separation between National Grid's SO and electricity transmission network functions, so that the SO truly acts in consumers' interests.

We recently consulted on the roles the SO should perform and the governance that ensures it acts independently, and on how the SO regulatory framework can be designed so it delivers the best possible outcomes for consumers. At the time of publishing, we are still gathering responses. However, we expect separation to be in place by April 2019 and consider that National Grid can begin the transition to its new role immediately.

Xoserve funding, governance and ownership reform

Xoserve provides essential data services to the gas industry, including billing, booking capacity, running gas settlement systems, and managing the change of supplier process.

From April 1 2017, Xoserve has been governed and funded directly by its users, following our review of its governance, ownership and funding arrangements. Changes we have made will let it become more responsive to its users, more transparent, and more innovative in its services.

Gas shippers told us that Xoserve was not positioned to deal with future industry changes, such as smart metering and faster switching, and was in need of reform.

We consulted with industry and decided that while Xoserve's ownership should remain with the gas transporters, a full cooperative governance model should be established to allow Xoserve's users to participate in its decision-making, and that users should directly fund service delivery.

Network regulation and RIIO

The networks that transport gas and electricity round the UK are the backbone of the whole energy system. By their very nature, most of the networks are monopolies, so their revenues and performance need to be regulated to make sure they deliver good consumer value. Our price controls provide a stable, long-term investment framework for networks, while minimising costs for consumers. We monitor networks' performance closely via the eight-year price controls, and limit what the transmission and distribution companies charge. We set them targets to encourage them to innovate in cutting costs for consumers, and to help the network meet Britain's future energy needs. We call our regulatory model RIIO, which stands for:

revenue = incentives + innovation + outputs

Mid-period review: Adjusting National Grid's allowances

In 2013, we set the eight-year price controls for energy transmission and gas distribution. We made provision to review companies' outputs midway through this period, if there were changes in government policy or changes to the needs of network users and consumers.

We decided to launch a mid-period review (MPR) into the 2013-2021 price controls, but limited to National Grid Electricity Transmission and National Grid Gas Transmission.

After considering stakeholder responses to our proposals to change outputs and funding, in February 2017 we decided to reduce National Grid's allowances across gas and electricity by £185m.

We decided to remove National Grid Gas Transmission's Avonmouth pipelines output and £168.8m in funding, as the pipelines are no longer required.

We decided to reduce National Grid Electricity Transmission's allowances by £16.6m. This reflects a reduced requirement to protect sites against rising fault levels (lowering allowances by £38.1m) and new activities relating to the new enhanced system operator role (increasing allowances by £21.5m).

Mid-period review parallel work

In deciding to do our mid-period review we identified areas we would like to look at further. We call this MPR parallel work, and it looks at both the transmission and gas distribution price controls.

In February 2017 we published a consultation paper on our proposals. First, we looked at two outputs where it is unclear how we will hold companies to account. Our proposal is to focus on consumer outcomes rather than the output detail.

Second, we identified two areas of the price controls where we think it is in consumers' interests to make adjustments. We intend to delay the allowances provided to National Grid Electricity Transmission and SP Transmission because of the late delivery of the Western HVDC, a £1bn subsea link. We also intend to accept National Grid Gas Distribution's offer to refund consumers £53.9m for medium pressure iron mains replacement work that has been delayed beyond this price control.

Regulatory financial reporting standards and RIIO accounts

We are consulting on regulatory financial reporting standards, as part of RIIO accounts. We believe this will make our incentive regimes more effective by providing a regulatory financial reporting framework consistent with and audited to a 'fairly presents' standard, and ultimately help ensure companies are more rigorously held to account for their performance under RIIO.

This year we worked with stakeholders to deliver a framework that meets this objective, giving network companies a requirement to prepare accounts in accordance with the regulatory financial reporting standard.

Code Governance Review 3

The rules underpinning the gas and electricity industry in Great Britain are set out in a number of industry codes, which include governance arrangements that define how the codes may be changed. We have previously reviewed these governance arrangements and introduced reforms to improve them.

But with the anticipated scale of change required in the coming years, we reviewed the code governance arrangements (CGR3) in March 2016, and consulted on and made changes to the licences to implement final proposals. We made decisions on related code changes brought forward by industry, to make sure our CGR3 reforms were in place from 1 April 2017.

Our code governance reforms are aimed at reducing unnecessary barriers and red tape. We consider that our CGR3 final proposals will make important incremental improvements while we are working to deliver the CMA remedies on code governance. The CGR3 changes we implemented this year will help code administrators and the wider industry prepare for the more fundamental changes proposed by the CMA.

RIIO innovation funding

Britain needs gas and electricity networks to become smarter so that the transition to a low-carbon economy can be managed at the lowest possible cost to consumers. Each year, Ofgem calls on network companies to compete for funding under our Network Innovation Competition. This lets them trial new approaches and technology which will pave the way for smarter grids, and more efficient and flexible networks.

In November 2016, we funded six projects. These included testing how ‘greener’ gas can be used on a university’s gas grid in Staffordshire, and examining how advanced software can help make more efficient use of locally-connected solar power. In total, we agreed funding of £44.6m.

In December 2016, we published an independent evaluation of the Low Carbon Networks Fund (our fund which allowed electricity distribution companies to trial technology and commercial arrangements on their networks). The review estimated net financial benefits between £4.8bn and £8.1bn by 2030, if all companies rolled out all applicable solutions. It also estimated that these projects could reduce emissions by up to 215m tonnes of CO2 over their lifetime.

In March 2017, we published our decision to introduce changes to our current Innovation Schemes: the Network Innovation Competition and Network Innovation Allowance. We want our innovation schemes to deliver value for money for consumers and change the internal culture of the network companies we regulate. The changes should increase non-network company involvement in the schemes by requiring network companies to issue an annual call for innovative ideas.

Assessing delivery and expenditure

After the fifth electricity distribution price control ended in 2015, we decided there were specific areas where we wanted more detail to help us assess output delivery and expenditure. We modified the RIIO-ED1 Financial Handbook to include the changes. These were for:

- Network output measures
- Load-related reopener
- High-value projects
- Traffic Management Act permit costs reopener
- Flood prevention reopener

Details on all these areas helped us to decide whether to adjust DNOs’ allowances upwards or downwards, depending on whether they deliver.

Interconnectors

We assess and regulate new electricity interconnectors through our cap and floor regime. In 2016-17 we undertook the licence changes to give effect to the cap and floor for the Nemo Link project to Belgium (our first cap and floor project) and we consulted on the Final Project Assessment for the NSL project to Norway. Both projects are now under construction, and the IFA2 project to France also took its investment decision in 2016-17. The other projects approved to date continue to progress towards Final Project Assessment stage.

In 2016-17 we ran our second cap and floor application window, which closed in October. We received three submissions and are currently assessing these to determine whether they are likely to benefit consumers and if they should be approved as part of our cap and floor regime.

The exemption route for new interconnector investment remains available. In 2016-17 we granted an extension to the existing regulatory exemption for the ElecLink project, which took its investment decision in late 2016. ElecLink wil begin construction between Britain and France later in 2017.

OFTOs

In late 2016, we published our report into offshore transmission owner (OFTO) revenues for the preceding year. It found that:

- Nearly £3bn had so far been committed to developing OFTOs
- In 2015-16, OFTOs enabled over 13TWh of electricity to be transmitted (1TWh can keep the UK rail network moving for over three months)
- Offshore wind currently contributes to 5% of annual UK electricity requirements
- The UK generates more electricity from wind than any other country

Offshore tenders

We continued to manage the offshore transmission competitive tender process to appoint offshore transmission owners. We completed the third tender round of OFTO projects, the first under the enduring regime, bringing the total investment to date to just under £3bn and connecting over 4.3GW of offshore wind generation to the onshore grid, and delivering £700m in savings.

Tender round four began in April 2016 and the fifth in October 2016 – with both rounds combined representing over £2bn of transmission investment and connecting over 2.3GW of offshore wind generating capacity – the biggest tender round to date. We choose the most competitive bids from companies to own and operate the links to offshore sites over 20 years.

We announced a shortlist of five bidders to own and run the £230m transmission link for the Burbo Bank Extension offshore windfarm in the Bay of Liverpool. In March 2017, we announced a shortlist of bidders competing to own and operate transmission links to the Dudgeon, Rampion, and Race Bank windfarms off the Norfolk and Sussex coasts, and invited companies to submit bids to own and run links to the Galloper windfarm off the east coast of England, and the Walney Extension windfarm in the Irish Sea.

Onshore transmission competition

We consulted on how to tender out new onshore electricity transmission infrastructure projects worth £100m or more. We consider that using tendering to select a party to construct and own some new onshore projects is likely to create cost savings for consumers. We continued to develop the design of the regime and proposals for changes to legislation and licences, working with BEIS. We also started assessing whether specific projects (North West Coast Connections and Hinkley-Seabank) should be competitively tendered.

Being an authoritative source of quality analysis

Ofgem can make a difference in explaining what's driving changes in prices and profits, by providing impartial and authoritative data about the energy market. So we publish information about the prices that households pay for their energy, the profits suppliers make, and the trends in the industry costs that suppliers face.

Last year, we worked hard to make this data easy to use, by launching our Data Portal and suite of market indicators.

We anticipate that by being transparent, we'll help make the market become more competitive and dynamic – with more engaged consumers. Over time, we want the changes we make to the retail markets to increase the competitive pressure that suppliers face, and help keep energy prices down.

We have a role to play in explaining how the market works, and inform the decisions that people make when they participate in it.

This year, we also turned our attention to making sure our internal decision-making was as smooth as possible, and that we're as efficient and reliable ourselves as we encourage others to be.

Office of the Chief Economist

Last year we launched the Office of the Chief Economist, to enhance decision-making across Ofgem. It has three aims:

- To strengthen our decisions on behalf of consumers, including improving the quality of our impact assessments and carrying out policy evaluations
- To build analytical capability throughout Ofgem, providing our people with the tools to make a difference
- To lead our research and horizon-scanning work that helps us to understand what's driving changes in the energy system, what the impact will be, and what our regulatory response should be

Data portal and indicators

We launched a Data Portal, www.ofgem.gov.uk/data-portal, where you can view interactive charts and indicators to show how well the energy market is working. We update it regularly to make sure the information is as fresh and accurate as possible. It includes information on the retail and wholesale markets, customer service, and networks.

Our aim in doing this is to provide reliable, clear information about the energy market, that is easily accessible and informative.

Company performance monitoring

We continue to publish information about suppliers' performance to let consumers make effective switching decisions. We work closely with the Energy Ombudsman and Citizens Advice to keep information relevant, comparable and consistent, and coordinate publication where we can.

Regulatory stances

The group launched our regulatory stances at the end of last year – these are five principles designed to help everyone at Ofgem when developing policy and making decisions. They help ensure we deliver our strategic outcomes for consumers. They are:

1) Promoting competitive markets to deliver for consumers

2) Driving value in monopoly activities through competition and regulation

3) Supporting innovation in technologies, systems and business models

4) Managing risk for efficient and sustainable energy

5) Protecting consumers in vulnerable situations

Our regulatory stances are primarily an internal tool to make sure our work supports the approach and outcomes in our strategy. They should also help our external stakeholders to better understand our approach. They do not override our statutory powers and duties.

Our core business activities

Our retail markets work may grab the headlines, and our networks and energy systems work pave the way for the future, but behind the scenes our colleagues work on "business as usual" areas that are nonetheless still highly complex, with a tireless focus on consumer needs. Here we outline some of them from the past year.

Compliance and enforcement

In 2016-17 we completed four investigations and concluded alternative enforcement action, resulting in £27.75m returned in compensation to consumers, or redress.

One investigation led to British Gas agreeing to pay £4.5m in redress to the Carbon Trust after it failed to meet the deadline to supply some larger business customers through advanced electricity meters. Another investigation led to ScottishPower agreeing to pay £18m, of which £15m went to vulnerable customers directly affected by its failings in complaints handling and billing.

We concluded our investigation of SSE under the Competition Act, which concerned essential services it provides when connecting new developments to its electricity network in the South of England. We found inconsistencies in how it provided these services, which are needed to allow competitors to compete effectively. It committed to improving IT systems to prevent inconsistent quotes, regular compliance training and third party audits and reporting.

Our compliance and enforcement approach goes beyond simply financially penalising companies. We secured changes to behaviours and processes, using our statutory and non-statutory tools to prevent harm to consumers.

For example, following our engagement with Co-operative Energy, the supplier agreed to pay £1.8m to consumers because customer complaints reported to us and Citizens Advice increased steeply following its IT billing system migration. Since then, the supplier has worked well with us to restore customer service levels, and has assured us it can now meet its obligations.

Changes to the redress process

When energy companies breach a requirement, they can redress the balance by making payments to help energy consumers, via charities, trusts and third parties, with our approval.

These payments are voluntary, and are instead of or in addition to a reduced financial penalty a company faces after enforcement action. Unlike financial penalties, which are paid to the Treasury, these voluntary redress payments let energy consumers benefit.

With more companies opting to make voluntary redress payments, we looked into whether this system was delivering the maximum benefit for energy consumers. After consulting, we decided to procure an independent service provider with expertise in granting funds to charitable projects to allocate the redress payments. This is to make sure the funding is well-targeted and maximises the payments' impact.

Supplier insolvencies

If suppliers become insolvent, there's now a safety net in place to protect its customers' credit balances.

The 'supplier of last resort' regime already guarantees that people will continue to receive their energy supply if their supplier goes out of business.

We appoint a replacement to ensure this, but in the past there was a risk to customers' money if their account was in credit – as unsecured creditors, they were unlikely to get their money back if the supplier went bust.

Now, however, Ofgem takes into account who can best protect customers' credit balances while it's appointing a replacement supplier.

This was put to the test last autumn when GB Energy Supply ceased trading and we appointed Co-operative Energy to take on its customers. This was the first time in eight years that the 'supplier of last resort' process was operated, and we achieved a good outcome for consumers.

We reacted quickly and over a single weekend. All customers were switched from GB to Co-op while remaining on the same tariff. Their credit balances were protected, and outstanding credit balances honoured.

We managed communications to customers, working closely with Citizens Advice to reassure them. Our successful handling of the incident was recognised by consumer groups, energy market commentators, government, and energy suppliers. It has given us confidence that there is a robust regime which can protect consumers in these events.

Monitoring guaranteed standards

We monitor suppliers' implementation of the guaranteed standards regime, ensuring that their performance under each of the standards is published consistently and transparently.

Last year, E.ON and Ovo both reported to us that they had failed to pay compensation (which is mandated by the standards) after missing or being late for appointments. In both cases, we worked with the companies to improve and agree redress packages, rather than take formal enforcement action. Both companies agreed to pay compensation to directly affected customers and/or charities to help energy consumers.

New standards came into force in 2016, with a new reporting framework. Suppliers are responsible for the actions of third parties acting on their behalf, and we encourage them to report to us any non-compliance with the Standards and to take strong remedial action.

Supplier objections

Last year we concluded our review of the circumstances in which suppliers might object to domestic and non-domestic customers switching ('objections'). We decided to retain the rules for switching objections for both domestic and non-domestic consumers but to step up our monitoring of suppliers' practices.

We noted that domestic objection rates had fallen over the last year and said suppliers should maintain downward pressure on the number of objections, especially at lower levels of customer debt. We wanted to see more internal switching by customers whose transfer has been objected to on grounds of debt. We urged suppliers to improve their communication with customers who fall into debt.

Supplier complaints

Customer complaints to energy suppliers have fallen to their lowest point in three years. The total number of complaints in 2016 was 3.5m, down from 5m in 2015.

Ofgem and the Energy Ombudsman published new figures in March 2017, which also showed that most large and medium suppliers are solving on average at least 90% of complaints within eight weeks – the deadline after which individuals can refer complaints to the Ombudsman.

However, consumers are less satisfied with how their supplier handles their complaints. More customers are no longer prepared to tolerate poor customer service, and 52% of all complainants surveyed had or were planning to switch as a result of their experience. Suppliers with the worst records of handling complaints faced the biggest exodus.

Some suppliers had improved but others could do better by keeping the customer informed about the progress of their complaint, and giving them information about other ways to resolve their problem, such as via the Ombudsman. The Ombudsman is acting to raise standards among suppliers, such as by imposing tougher penalties.

There's information about suppliers' customer service and complaints handling on the Data Portal section of our website, so consumers can compare the best and worst performers.

Improving the connection process

We asked DNOs to come forward and trial ways to build new capacity further in advance, to speed up connections. This is known as anticipatory investment.

In February, we published a report showing that the DNOs had made more than 3.7GW of capacity available through making smarter approaches to connections. Some of this involves flexible connection, where generators agree with DNOs not to run at times when the network is being fully used. In other cases, the DNOs were able to offer capacity where the generator gets continual access to the network. This reduces the need for costly grid reinforcement, meaning connections are quicker and cheaper.

Project Nexus

We continue to oversee Project Nexus, a major cross-industry programme to replace gas settlement systems. In 2016, we consulted on options for successful implementation, and set a new implementation date of 1 June 2017. We have successfully overseen and improved industry's efforts on the programme and industry is on track to meet the go-live date.

European work

Brexit: Supporting the government

Since the decision to leave the European Union, Ofgem has worked very closely with government to provide impartial, expert advice on energy issues. We have devoted considerable time to liaising with colleagues in BEIS and the Department for Exiting the European Union, as well as understanding the views of industry and maintaining productive working relationships with our neighbouring regulators. We expect this work to increase in volume and complexity now that Article 50 has been triggered and as the Great Repeal Bill is being formalised. Within Ofgem, we evaluated our approach on issues arising from European policy as a result of the Brexit vote to ensure we're focusing on the areas where benefits for customers are largest.

Engaging with the Clean Energy for All Europeans package

In December, the European Commission published wide-ranging proposals on the redesign of the European energy market called 'Clean Energy for All Europeans'. Ofgem has been working closely with our fellow regulators, via the Agency for the Cooperation of Energy Regulators (ACER) and the Council of European Energy Regulators (CEER), to make suggestions for refining and improving the Commission's proposals.

Sections, or even the entirety, of the final Clean Energy Package are likely to have entered the EU acquis before the end of the UK's Brexit negotiations, so it is important that we continue this engagement, developing market regulations that work in the best interests of consumers in Britain and across Europe.

Our engagement through CEER focuses on: the future role of DSOs; the development of smart grids, and on proposals for improving the functioning of retail markets. Our work in ACER makes sure wholesale markets are competitive, that governance frameworks are effective, and that infrastructure is developed and used efficiently.

Influencing and implementing approved laws

European Network Codes are a suite of binding laws which promote competition, efficient use of transmission capacity, integration of energy markets and the harmonisation of rules for the operation of transmission and distribution networks. Our work to implement them involved multiple changes to GB industry arrangements, licences and legislation.

We have seen four new Network Codes and Guidelines adopted in the last year. In gas, the tariff code has been adopted and in electricity, the System Operation Guideline has been adopted and balancing code extensively discussed.

Ofgem influenced the content of these documents while they were being developed. This involved discussions with fellow regulators and with the transmission system operator who draft these laws, and supporting BEIS during negotiations. We continued to work closely with industry to implement the Network Codes approved before this year.

UK Regulators Network

We continued to participate in the UK Regulators Network's projects during 2016-17. We led the first peer review of another regulator's cost of capital decision, for the Northern Ireland utility regulator's Gas Distribution price control. We have been working with the UKRN and Ofwat to identify the potential benefits, opportunities and challenges to improving the exchange of information about consumers' vulnerable circumstances in the water and energy sectors. In September 2016, the UKRN published a report on price comparison websites, led by the Financial Conduct Authority with contributions from us and Ofcom.

Security of supply

Security of supply, in both electricity and gas, is a priority for both Ofgem and government. In 2016-17, work in this area included:

- Ensuring National Grid's new balancing services costs for winter 2015-16 were thoroughly scrutinised and only efficient and economic costs incurred in line with the methodologies were recovered
- Managing changes to the Capacity Market Rules to ensure consumers are protected and objectives delivered
- Delivering our mandatory Electricity Market Reform roles: dealing with disputes on Contracts for Difference and the capacity market; publishing reports on National Grid Electricity Transmission's delivery of its Electricity Market Reform delivery body role and the operation of the capacity market; receiving and logging price maker memorandums
- Overseeing the behaviour of participants in the capacity market and referring to enforcement, and taking part in BEIS's operational and policy boards.

Last winter saw several interconnector outages. We monitored the impact of these on security of supply, from a minute-to-minute level out to winter peak impacts on Loss of Load Expectation. From this, we were able to give internal and external stakeholders confidence that there was sufficient supply to meet demand even in tight winter periods.

Wholesale market monitoring

We proactively monitor Britain's wholesale energy market, to understand the trends, risks to and impacts on consumers. This helps us identify market design issues, and develop policies. We also monitor the market to identify compliance breaches of relevant licences and regulations, including the Regulation on Energy Market Integrity and Transparency (REMIT).

One important part of this is working with National Grid on assessing security of supply risks for both gas and electricity. We use our market monitoring outputs and understanding to challenge its assessment on behalf of consumers. We monitor other aspects of the market, such as competition, and publish quarterly market indicators to gauge how effective our wholesale energy markets are.

If market activity challenges the integrity of wholesale markets, it can be a detriment to consumers and can increase bills. Monitoring the markets and investigating potential breaches deters those who may be tempted to manipulate wholesale energy markets. An example of this is the Transmission Constraint Licence Condition, which we estimate has saved consumers roughly £150m since its introduction. We have recently decided to extend this licence condition permanently.

Liquidity in the wholesale markets

For the GB market to be competitive, suppliers and generators need to be confident that they can buy and sell wholesale energy at a fair price. We monitor the GB wholesale markets, and although the gas market is highly liquid, the electricity side is less so. Liquid markets are important because they ensure prices are accurate and reflect market value, which means that customers are better off too.

We introduced liquidity reforms to the power market in 2014, and since then we have seen trends like higher churn (the number of times electricity is traded before being used), and falling bid-offer spreads (the difference in prices generators will sell power at and how much suppliers will pay), which indicated that liquidity was improving. The annual report we published in 2016 showed that suppliers have been buying more, which has improved trust in the prices provided by the large companies when they 'make the market'.

The reforms have also made it easier for smaller suppliers to buy wholesale power products as they have clearer information about trading terms.

E-Serve

In January, the Minister for Finance of the Northern Ireland Executive established a public inquiry to consider the Non-Domestic Renewable Heat Incentive Scheme, in particular the design, governance, implementation and operation, and efforts to control scheme costs. As we were responsible for administering the scheme, our role in these areas is also being examined. We have established a dedicated team to engage with the inquiry.

Throughout this period we have continued to focus on our core job – to administer environmental schemes and consumer and social programmes on behalf of government. These schemes include the Domestic and Non-Domestic Renewable Heat Incentive (RHI), the Renewables Obligation (RO), the Feed in Tariff (FIT), the Energy Companies Obligation (ECO) and the Warm Homes Discount (WHD). We've continued to work hard to enhance the quality of service received by scheme participants, while ensuring value for money for consumers and the industry. Here are some of our key achievements over the year.

Initiatives we have delivered

In 2016-17 we continued to monitor and enforce compliance by scheme participants and suppliers with the obligations that apply to them. This has helped ensure that government policy targets are met, that consumers are protected, and that schemes are delivering value for money.

Government Electricity Rebate

For the Government Electricity Rebate (GER), we reviewed the final year of the scheme and whether suppliers achieved their obligations. The scheme successfully delivered rebates to all but a small number of domestic customers. For rebates that could not be delivered, we ensured suppliers accounted for these in their returns to us and to BEIS, which allocated funds for the rebate. Although the scheme was shortlived, it was unique for us to administer as it involved all domestic suppliers. This required us to establish new relationships with smaller suppliers and additional support for newer market entrants.

Warm Home Discount

Under the Warm Home Discount, we ensured that domestic energy suppliers met their obligations, by helping nearly 2.2m vulnerable customers a year, through the provision of £140 electricity bill rebates and indirect support for consumers at risk of fuel poverty. We worked with industry and BEIS to set up an industry initiative that enabled energy suppliers to provide support to more than 5,000 residents of park homes, who had not previously benefitted under the scheme. To date, this represents over £700,000 of energy bill rebates support.

Energy Company Obligation

Under the Energy Company Obligation, we engaged with the Each Home Counts Review, which independently reviewed consumer advice on home energy efficiency and renewable energy measures. We hope its recommendations will better protect and support consumers benefitting from the installation of energy efficiency and renewable energy measures, and that we can reflect the improvements in our compliance and monitoring.

Feed-in Tariffs

Under the Feed-in Tariffs scheme, we embedded the deployment caps regime and published draft guidance for sustainability and feedstock restrictions. We improved customer service satisfaction, by introducing new approaches to processing applications and easy-to-read guides.

Renewables Obligation

We oversaw the closure of the Renewables Obligation scheme to new applicants on 31 March 2017, although there are grace periods available for various special circumstances. Before that, we provided guidance explaining the different rules for grace periods in Great Britain and Northern Ireland, consulting with stakeholders and holding workshops over the course of the year.

Counter fraud and audit

We continued to review and update our audit strategies, to make sure we are rigorously auditing scheme participants' compliance. We carried out a successful round of site audits for micro-scale stations under the Renewables Obligation in Northern Ireland. For the Non-Domestic Renewable Heat Incentive, we continued to measure both targeted and statistically sampled audits to gather a more realistic view of non-compliances across the schemes.

Improving the security and efficiency of our application processes under the renewable heat and electricity schemes was a priority in 2016-17. We ensured a quality customer experience while minimising the risk of fraud.

Across all schemes, proactively detecting and preventing fraud remained, and will always remain, a key area of focus. Where we found evidence of fraud we used our administrative tools to pursue action and liaised with prosecuting authorities and certification bodies.

Working with stakeholders

We've worked with a range of stakeholders, including energy companies, consumer groups, and scheme participants. Through meetings, consultations, workshops, webinars and surveys, we've provided them with the opportunity to give us feedback while keeping them informed about latest developments. Acting on their feedback has often helped us improve our administration, enabling us to deliver schemes in the most economical and consumer-conscious ways possible.

We continued to work closely with the bodies that fund the schemes we administer, including BEIS and Northern Ireland's Department for the Economy, to make sure the changes to the schemes were implemented easily and administered cost-effectively.

We worked with BEIS to streamline the memorandum of understanding we agreed in March 2013. As well as helping us collaborate to deliver the government's policy objectives, this has helped us understand more about the information it needs us to report on.

We also worked with BEIS to improve the renewable electricity schemes, including successfully moving the FIT from being a demand-led to a capacity-led scheme. Under the Renewables Obligation, we provided guidance and workshops to explain eligibility changes, and the closure of the RO and related grace periods. Our work to support the Low Carbon Contracts Company on suitability and fuel measurement also continued.

Under the ECO scheme, we worked with the supply chain to reduce the administrative burden and to prepare for changes under the extended ECO scheme. From 1 October 2018 the scheme will be replaced with a new supplier obligation to reduce carbon emissions and focus on the fuel poor.

Across our renewable heat schemes, we sought feedback from stakeholders to help us to improve our administration. Under the Non-Domestic and Domestic RHI, we acted on feedback from customers and stakeholders to meet their needs and simplify processes wherever possible. We also worked with authorities to protect consumers from substandard traders and installers.

Improving transparency

We've been working hard to improve trust and confidence in the schemes we deliver by making sure they are transparent and accountable. Our strong transaction and regulatory processes and our communication with stakeholders have made this possible.

We improved the E-Serve section of the Ofgem website, to make it easier for stakeholders to find the information they want. This included making the information simpler and easier to understand, and adding guidance and resources sections. We updated our libraries for each of the schemes to help users search for documents and continued to publish interactive charts, which stakeholders have found really useful. We continued to send newsletters for each of the schemes, to keep subscribers up to date.

Behind the scenes, we've been improving stakeholder access to the data we hold. This has included developing an interactive online mapping tool. It's been designed to provide regional and constituency-level information for schemes on metrics as diverse as technology type installed, installed capacity and energy efficiency measure type installed.

In May 2016, we launched our customer satisfaction measurement tool for transaction-based schemes. The surveys we sent to scheme applicants, enabled them to give feedback on their application experience, helping us to improve it for future applicants. We have seen a general upward trend in our customer satisfaction ratings during the year, and so have rolled out surveys to cover more touchpoints, such as payments and annual declarations, and to non-transaction-based schemes.

We reviewed the data we publish about the performance of E-Serve, and the schemes we administer, to see how we could improve it. As a result, we're now publishing our customer satisfaction scores, as well as how well we've performed against our key performance indicators, on our website. We're publishing information about the number of applications we receive and process for each scheme, every month, as well as the overall application queue length. This is so that stakeholders can have a clearer idea of how quickly their application is likely to be processed.

Ensuring we deliver continuous improvement and value for money

Our aim is to achieve delivery excellence in all that we do. During 2016-17, our Operational Excellence Forum continued to coordinate cross-scheme projects to share best practice, deliver savings, and optimise our processes. Examples include developing and implementing data retention policies, organising LEAN training and updating and using our skills matrix. As well as enhancing the quality of service received by scheme participants, this work ensured that we delivered value for money for consumers and the industry.

One example of the improvements we've made over the last year is our ROOFIT application processing. By changing the way we approach application reviews, we've overseen a dramatic fall in the queue length from nearly 3,000 applications at the end of 2015, to below 500 at the end of the last financial year. We started a project to redevelop the Central FIT Register to make it easier for suppliers to use.

Under the Domestic RHI, we improved our customer focus and internal knowledge. We automated the Annual Declaration process, improved the bank details verification, and redesigned the application form to make it easier for applicants to complete. A lot of this work has been designed to help achieve a higher automatic processing rate by reducing the number of applications that need to be reviewed manually.

We've delivered projects under the Non-Domestic RHI scheme to improve the periodic data submission and call handling and enquiry processes, while working with our IT team to implement an agile approach to system changes. We have focused heavily on making the accreditation and amendments processes more responsive and efficient.

Our Energy Efficiency and Social Programmes have made major administrative improvements during 2016-17. These included updating standard operating procedures to reflect scheme changes, and a cross-scheme working project to enable staff to work flexibly across the three programmes.

Our stakeholders

Scotland

Since the May 2015 elections, we have focused on establishing relationships with the new Scottish Parliament, ensuring we are visible and accessible, and engaged in discussions about protecting consumers.

We briefed the new Economy, Jobs and Fair Work Committee, participated in a roundtable, and gave oral evidence as part of its scrutiny of the Scottish Government's Draft Climate Change Plan and Energy Strategy. We've been keen to meet MSPs on an individual basis, both at Parliament, and hosting them at our Glasgow office.

This year we also gave evidence to Westminster's Scottish Affairs Committee Inquiry into the future of renewable energy in Scotland, and further written evidence to the Public Audit and Post-Legislative Scrutiny Committee on the Scotland Bill. 2016-17 was the first year that we laid our Annual Report at the Scottish Parliament under the Scotland Act, formalising a practice we have followed for a number of years on a non-statutory basis.

As well as ensuring we have strong relationships with Parliament, we frequently met the Scottish Government and Scottish Ministers. Minister for Business, Energy and Innovation, Paul Wheelhouse, was guest of honour at our annual stakeholder event hosted by our chairman in Edinburgh, and we participated in discussions of the Scottish Energy Advisory Board and the Convention of the Highlands and Islands. We supported the Scottish Government's Utility Summit in December by speaking about our work monitoring suppliers' social obligations, and continue to engage in these discussions.

We've continued to participate as observers in the Scottish Fuel Poverty Forum, including presenting at a seminar on changes in the retail energy market and the outcomes of the CMA's investigation. The Rural Fuel Poverty Taskforce presented its report to Scottish Ministers, and building on our participation in the work of the taskforce, we provided a written response to this report.

This year, we trialled some new ways to engage with stakeholders in Scotland, so that our consultations and policy development benefit from a wide range of input, and that we give stakeholders opportunities to hear directly from senior staff about trends in the market and work we are doing to protect consumers. For example, we hosted a roundtable event for frontline energy advisors with our senior partner for Consumers and Competition, and held a consultation event on our Forward Work Programme in Glasgow. We ran two workshops on our Future Insights programme in Scotland, moving outside the central belt and running an event in Inverness.

Recognising that our consultation events and briefings will sometimes attract a more specialised audience, we also provided video conference facilities for Scottish-based stakeholders to join meetings in London, an innovation which was welcomed by attending stakeholders. This included briefings on the Supplier Cost Index and Social Obligations. We reached out to a wide range of stakeholders in the summer when we consulted on options for improving the allocation of voluntary redress, attracting many participants from the voluntary and public sectors.

Stakeholders have told us that they want statistics that show trends in the market for Scottish consumers, and we developed the range of material we published this year, including for the first time, a breakdown of Warm Home Discount rebates and switching by nation. We are keen to hear from stakeholders about other material we can usefully provide.

As well as arranging our own events and meetings, we took the opportunity to speak at established conferences, with flexibility being a key theme.

We've also participated in events and discussions hosted by the Scottish Government, most notably on its work on the devolution of consumer advocacy and advice, and on its energy strategy. Innovation has also been a key theme and we have contributed our expertise to the Scottish Government Low Carbon Demonstrator panel and engaged with interested parties in our Innovation Link and regulatory sandbox work.

Wales

We have met and briefed a wide range of political representatives about Ofgem's role to protect consumers. In November, our CEO met the new cabinet secretary for Environment and Rural Affairs and the Assembly's new Environment and Rural Affairs Committee chairman to discuss our work and the committee's priorities. Separately, we have met energy spokespeople from each of the political parties to talk about our work to protect consumers and promote competition.

We have met political representatives from Anglesey on a number of occasions to discuss the proposed route to connect the new nuclear power station and we continue to work with the group set up by the Secretary of State for Wales and Cabinet Secretary for Economy and Infrastructure to explore potential solutions for a third crossing on Anglesey.

We hold regular meetings with a cross-section of Welsh Government officials to discuss Ofgem's work and Welsh energy issues, and we are pleased to have Welsh government represented on our Sustainable Development Forum and the Large User Group for energy intensive businesses. We continue to provide advice on the regulatory framework as part of Welsh government's Smart Living Technical Forum. In January we spoke at an event hosted by Welsh government aimed at facilitating an all-Wales official response to the joint BEIS and Ofgem consultation on flexibility in the energy system, and in March we attended events across Wales to explore the proposition of a not-for-profit energy company for Wales.

There have been a number of other successful events. In the summer, our senior partner for Consumers and Competition held a roundtable event where representatives from Wales's Fuel Poverty Coalition group and other consumer organisations shared their views and ideas on engaging consumers in the energy market, and how to better protect vulnerable ones. She also met frontline advisers from Citizens Advice bureaux in Wales to hear first-hand about the problems energy consumers are experiencing. As part of our ambition to better understand which drivers of energy system change will have the greatest potential impact on consumers and regulation, we held workshops where stakeholders had the opportunity to influence our work. We ran a similar event in February requesting input into our Forward Work Programme.

Ofgem was represented at many of the major energy conferences in Wales this year, and we took the opportunity to speak to audiences about our work on regulation, innovation and growth and what we're doing to protect vulnerable consumers and to promote competition.

Our senior partner for Improving Regulation visited the SPECIFIC knowledge centre in Swansea Bay to look at some of the innovations taking place there to generate low carbon electricity and heat by enabling buildings to generate, store and release their own energy, in one system, using only the energy from the sun.

Welsh Language Scheme

We are proud of our Welsh language scheme, and when it's appropriate and practical to do so we treat the English and Welsh languages equally. Although we deal mainly with industry and consumer groups, we are committed to ensuring that Welsh speakers receive the same high standards of service as English speakers when corresponding with us. We have published a Welsh language version of our Annual Report and Accounts which will be laid before the Welsh Assembly, together with the English language version. They are available for download on our website.

This year, we have continued to work with the Welsh Language Commissioner, The Cabinet Secretary for Lifelong Learning and his officials in response to the move towards Welsh Language Standards for both public bodies and energy companies. We've also used our membership of the UK Regulators Network to highlight the forthcoming changes to Welsh language legislation.

Westminster

Both our Scotland and Wales teams work closely with our external relations team in Westminster, which handles our interactions with political stakeholders. The team frequently meets with ministers to discuss energy matters.

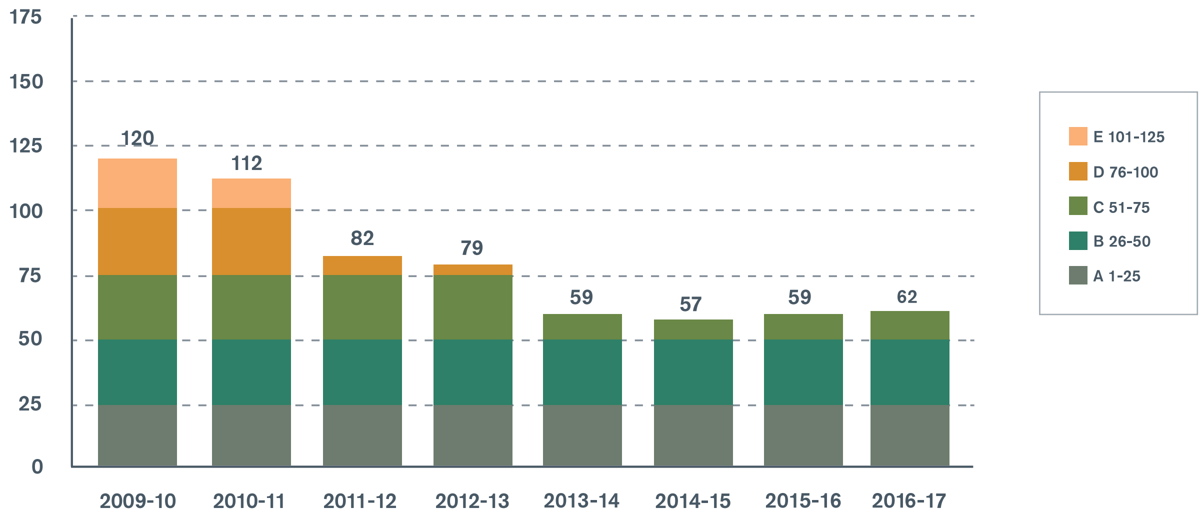
In the past year, CEO Dermot Nolan gave evidence to the House of Lords Economic Affairs Committee as part of its inquiry into the economics of UK energy policy. Dermot and Consumers and Competition senior partner Rachel Fletcher also gave evidence to the BEIS Select Committee on competition in the energy market. We made a submission to the BEIS Select Committee for its inquiry into leaving the EU: priorities for UK energy and climate change policy, and regularly attend all-party group meetings (APPG) – including Rachel Fletcher's meeting with the APPG on energy costs.

Outside the political sphere, we run events with external stakeholders, such as the Forward Work Programme event in February, and carry out a survey every other year of stakeholder opinions of Ofgem, which helps inform Ofgem's priorities and focus for the next few years.

Sustainability report

Display Energy Certificates are used to show the energy efficiency of public buildings. Our score for our London headquarters has improved dramatically since the certificates were introduced in 2008. Then, we were ranked in band G, with a score of 165. Now we score 62, putting us in band C. Any investment in improvement is on hold until we move into the new building in Canary Wharf.

9 Millbank Display Energy Certificate

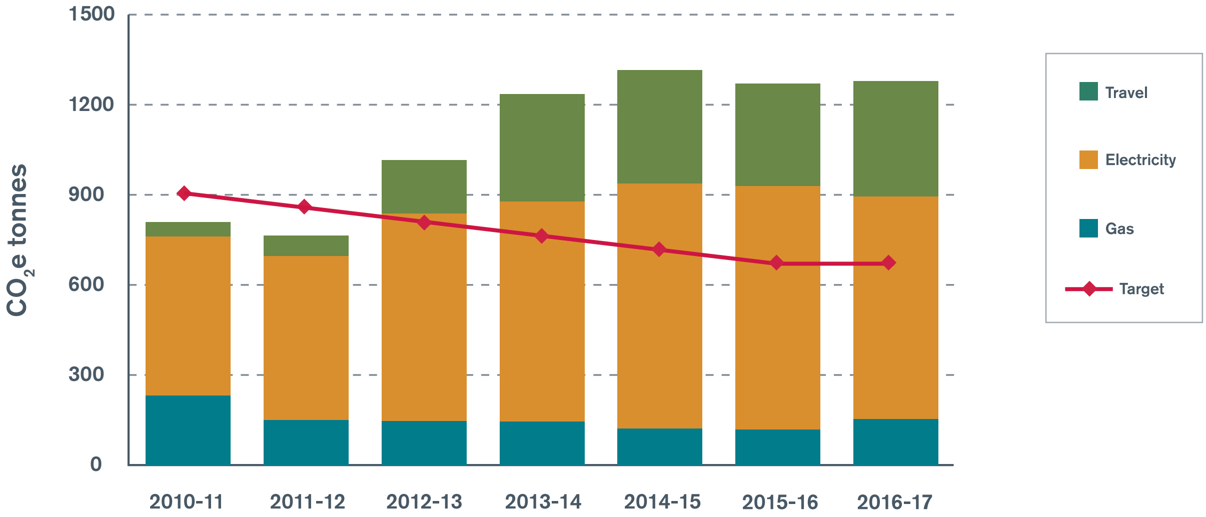


We have achieved this by:

- increasing the building's automation
- improving our controls for heating and cooling
- using free cooling where possible
- monitoring energy consumption daily
- correcting problems quickly
- installing more energy-efficient lighting
- removing or mothballing equipment we no longer use.

Cutting greenhouse gas emissions

Total carbon



In the past year, we've reduced our building-related carbon by 32 tonnes.

Our travel carbon has increased by 43 tonnes. This is mainly due to a 5% decrease in domestic rail travel and a 16% increase in domestic air travel.

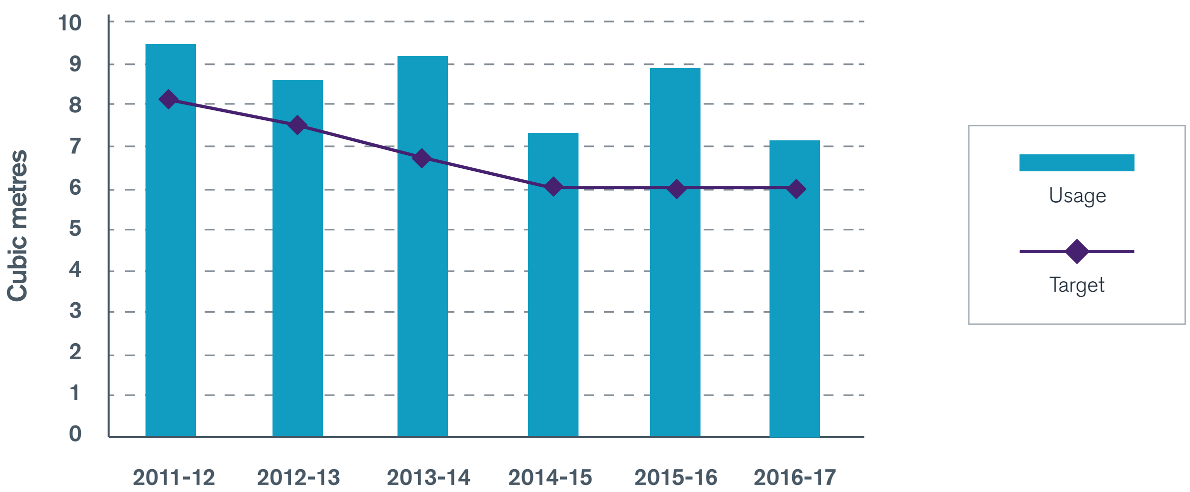
Greenhouse gas emissions		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	(Target 25% reduction)	**853**	**806**	**758**	**711**	**672**	**672**
Non-financial indicators (tCO_2e)	Total gross emissions	759	1,010	1,228	1,307	1,263	1,272
	Per FTE	1.35	1.33	1.31	1.27	1.34	1.39
	Total net emissions (ie less reductions – eg green tariffs)	217	347	499	496	458	535
	Scope 1: direct GHG emissions	150	147	144	121	118	153
	Scope 2: energy indirect GHG emissions	542	685	729	811	805	736
	Scope 3: other indirect GHG emissions	67	178	355	375	339	382
Related consumption data (kWh)	Electricity: non-renewable (k)	-	42	-	-	-	-
	Electricity: renewable (k)	1,033	1,274	1,636	1,641	1,742	1,747
	Gas (k)	816	795	783	656	640	749
	LPG	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Financial indicators	Expenditure on energy	£140,556	£185,177	£244,291	£233,275	£275,616	£239,325
	CRC licence expenditure	£1,200	£1,290	£1,290	£1,290	£1,290	£1,290
	Expenditure on official business travel	£140,905	£296,684	£491,551	£772,248	£661,581	£824,023

Reducing water consumption

We aim to get our annual water use below 6m³ per person. This year we have reduced our water consumption to our lowest level yet.

Water			2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Non-financial indicators	**Target (37% reduction)**		**8.09**	**7.39**	**6.69**	**6.00**	**6.00**	**6.00**
	Water consumption (m^3)	Supplied	5,462	6,639	8,609	7,553	8,359	6,564
		Per FTE	9.5	8.7	9.0	7.3	9.5	7.1
Financial indicators	Water supply costs		£10,562	£12,208	£20,517	£18,977	£17,601	£20,271

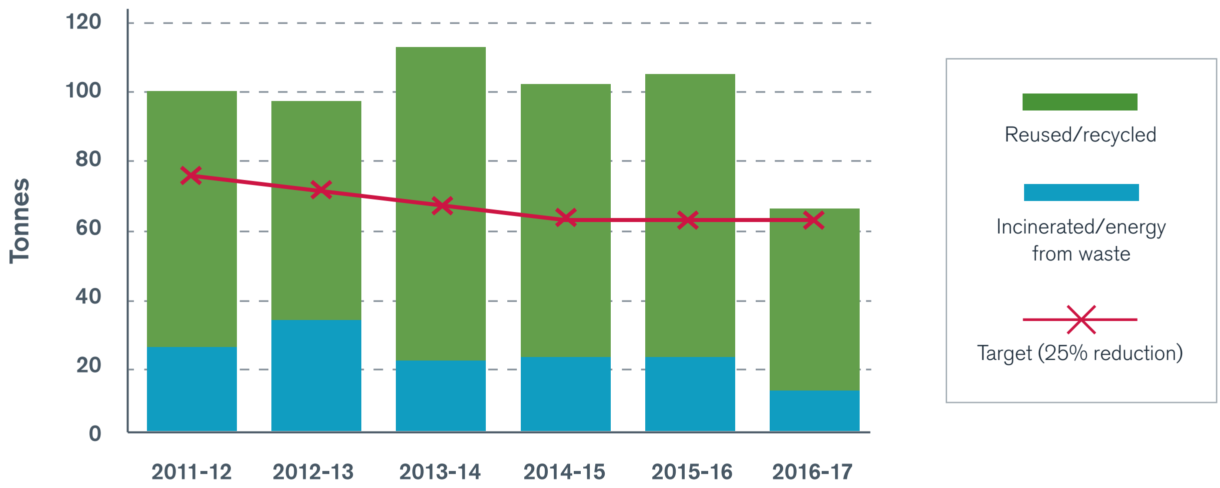
Water per FTE



Eliminating waste

For the seventh year in a row, we sent no waste to landfill. In the past year we have produced almost 40% less waste.

Total waste breakdown



Waste			2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Non-financial indicators (tonnes)	**Target**		**76.5**	**72.25**	**68**	**63.75**	**63.75**	**63.75**
	Total waste		107	98	114	102	106	65
	Total waste per FTE		0.19	0.13	0.12	0.10	0.11	0.07
	Hazardous waste		6	-	-	-	1	-
	Non-hazardous waste	Landfill	-	-	-	-	-	-
		Reused/ recycled	76	65	93	81	84	54
		Incinerated/ energy from waste	25	33	21	21	21	11
Financial indicators	Total disposal cost		£20,862	£32,022	£23,592	£24,477	£21,985	£19,442

Accountability Report

Corporate Governance Report

Directors Report

Executive members of the Authority who served during the year

Dermot Nolan, chief executive, was appointed in February 2014. He has no other company directorships.

Rachel Fletcher, senior partner, Consumers and Competition, was appointed in January 2016. She has no other company directorships.

Dr Andrew Wright, senior partner, Energy Systems, was appointed in January 2008. He is an advisory board member of Durham University Energy Institute.

Non-executive members of the Authority who served during the year

David Gray joined in October 2013 as non-executive chairman. His appointment ends in September 2018. He is a non-executive director of the Civil Aviation Authority, and a Governor of the Central School of Ballet.

Christine Farnish joined in January 2016. Her appointment ends in January 2021. She is the Chairman of Peer 2 Peer Finance Association and non-executive director of Ofwat. During the year she has also held the following positions: non-executive director at ABTA, Brighton and Sussex University Hospitals Trust and a member of the AXA stakeholder advisory panel.

Professor David Fisk CB joined in July 2009. He was reappointed in June 2012 to serve until June 2017. He is Emeritus Professor of Systems Engineering and Innovation at Imperial College, London and is a Council Member of the Chartered Institution of Building Services Engineers.

Professor Paul Grout joined in October 2012. His appointment ends in September 2022. He has a Chair in Political Economy at the University of Bath and is the Senior Advisor for Competition at the Bank of England.

Dr Nicola Hodson joined in March 2015. Her appointment ends in February 2020. She is Vice President of Global Sales and Marketing – Field Transformation at Microsoft UK. In addition, she is a board member at Tech UK, and a council member of City University.

Jim Keohane joined in January 2009. He was reappointed in December 2012 and his appointment ends in December 2017. He is the chairman of the Theatre Royal Foundation and Harwich Haven Authority, the senior independent director of the Low Carbon Contracts Company, and the senior independent director of the Electricity Settlements Company.

Keith Lough joined in October 2012. His appointment ends in September 2022. He is a non-executive director, and the Senior Independent Director, of Rockhopper Exploration Ltd. He is also a non-executive director of Cairn Energy plc, and non-executive chairman of Gulf Keystone Petroleum plc, and a director of Stavanger Petroleum SA. During the year he also held the position of non-executive director of Rock Solid Images and non-executive director of Papua Mining plc.

The non-executive members are considered to be independent of management and make up a majority of the members of the Authority.

Other significant interests held by Authority members

Jim Keohane, Keith Lough, Andrew Wright and Nicola Hodson's husband, having worked for energy companies in the past, are members of their former employers' pension schemes. These schemes are administered in line with the rulings of the Pensions Regulator and are separate from the business of the regulated companies.

Audit arrangements

The Comptroller and Auditor General, who has been appointed under statute and reports to Parliament, has audited the resource accounts. The notional cost of auditing the resource accounts and trust statement was £55,500 (2015-16: £52,500). There was no auditor remuneration, actual or notional, for non-audit work.

The accounting officer has done everything he should to make himself aware of any relevant audit information and to establish that our auditors are aware of that information. He is not aware of any relevant audit information that our auditors do not have access to.

Our internal audit service independently measures and evaluates how adequate, reliable and effective our management and financial control systems are. It makes recommendations and gives the accounting officer an assurance report each year. We have outsourced the internal audit function to make sure we get independent and professional analysis and recommendations. We re-appointed Deloitte to this role on 1 April 2015, after a competitive tender. The current contract is due to end on 30 June 2018.

As part of our project delivery assurance process, we get separate independent assurance at key stages of a project. We have outsourced this service to either Deloitte or other companies available through our procurement framework.

Budgets and liquidity

Parliament approves our budget, after we have consulted with the industry and other interested parties. For 2016-17 Parliament approved through the Main Estimate:

- a gross resource budget of £90.801 million
- a capital budget of £6.000 million (revised to £3.730 million in the Supplementary Estimate)
- a net cash requirement of £16.098 million (revised to £29.034 million in the Supplementary Estimate).

The increase in the capital budget and net cash requirement in the Main Estimate was due to the planned move to Canary Wharf during 2016-17. This is now expected to take place in 2017-18.

Reconciliation between estimate and budget

	2016-17 £000	2015-16 £000
Net resource outturn (estimate)	15,207	6,165
Net operating costs (accounts)	630	654
Resource budget outturn (budget)	630	654
Of which:		
Departmental expenditure limits	630	654
Annually managed expenditure	-	-

The difference between estimate and outturn is due to a HM Treasury budgeting requirement to treat the release of the deferred licence fee (which is held on the Statement of Financial Position) as vote funding in the estimates rather than as operating income in the accounts. The deferred licence fee released in 2016-17 was £14.506 million.

We drew down a contingency fund advance of £20.0 million in April 2016 to provide short-term liquidity until we started receiving licence fees. We repaid this in full in August 2016.

The net cash requirement outturn of £7.729 million is lower than the estimated net cash requirement of £29.034 million. This is partly due to the excess cash receipts not due to the consolidated fund from 2015-16 of £9.6 million.

We will hold back £21.305 million due to be paid to the Consolidated Fund and use it to fund operations in 2017-18, until we get enough income from licence fees.

Finance and provisions

Total provisions amounted to £1.419 million as at 31 March 2017. We have provided for voluntary exit payments, dilapidations, and the ongoing costs of early retirements that have occurred in previous financial years.

This year a number of voluntary exit payments totalling £0.340 million have been agreed as a result of an internal reorganisation.

Ofgem has also signed an agreement to cut short the lease agreement for the Glasgow Cornerstone office with the Health and Safety Executive (HSE) taking over the premises. This agreement states that dilapidations costs will be apportioned 50:50 between Ofgem and HSE. The provision totals £0.050 million.

In total we have provided £0.446 million during 2016-17.

Our statement of financial position at 31 March 2017 shows taxpayer's equity of £5.800 million.

Improving our supply chain

Environmental procurement

Our Procurement team makes buying decisions based on best value for money; we maintain a detailed record of the cashable savings we achieve which are usually derived from exploiting supplier frameworks (our own and those set up by Crown Commercial Service).

Our processes conform with the Standard of Excellence Certification of the Chartered Institute of Procurement and Supply having achieved certification previously.

Quicker creditor payment

We are signed up to the Better Payment Practice Code set by the Better Payment Practice Group, a forum of business community members and government representatives. This means we pay bills within 30 days (or another agreed period) of receiving either goods or services, or an invoice, whichever is later. In 2016-17 we paid 99.93% of all undisputed bills inside this timeframe.

Per a former government directive, Ofgem aims to pay all suppliers within ten working days. This year we paid 93.80% of undisputed bills inside this timeframe. For amounts contractually due and invoiced by 31 March 2017, the outstanding number of purchase days is 3.0 days.

Reports to the Parliamentary Ombudsman

The Parliamentary & Health Service Ombudsman (PHSO) received the following complaints about the Office of Gas and Electricity Markets

Dermot Nolan
Accounting officer

16 June 2017

Year	Enquiries received[1]	Complaints assessed	Complaints accepted for investigation	Investigations upheld or partly upheld
2016-17	96	41	12	2
2015-16	40	8	6	1

Year	Investigations not upheld	Investigations resolved without a finding[2]	Investigations discontinued[3]	Uphold rate
2016-17	3	1	1	28.6%
2015-16	1	0	1	33.3%

[1] Because of the introduction of a new PHSO casework management system and new recording methodology, data for the number of enquiries received and the number of complaints assessed in 2016-17 cannot be compared to data in 2015-16.
[2] These are complaints where PHSO start an investigation but are able to resolve the complaint without having to formally complete the investigation.
[3] These are complaints where PHSO end the investigation for a variety of reasons, for example, because the complainant asked them to.

Statement of the accounting officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed us to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year, and our use of resources during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Ofgem and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the accounting officer must comply with the requirements of the Government Financial Reporting Manual. In particular, he must:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going-concern basis.

HM Treasury has designated the chief executive as our accounting officer. The responsibilities of our accounting officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, for keeping proper records and for safeguarding our assets, are set out in Managing Public Money, published by HM Treasury.

The Accounting Officer is required to confirm that, as far as he is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

The Accounting Office is required to confirm that the annual report and accounts as whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance statement

We are directed and governed by the Gas and Electricity Markets Authority, which makes all major decisions and sets policy priorities. The Authority is made up of executive and non-executive members.

Who's part of the Authority?

How appointments are made

The Secretary of State for Business, Energy and Industrial Strategy appoints the non-executive members of the Authority after consulting the chairman. The executive members of the Authority are appointed in line with the Civil Service Management Code. They hold their positions for as long as they hold their senior posts at Ofgem, subject to maximum periods of tenure set out in the EU's Third Energy Package and its rules covering appointments to national regulatory authorities in member states.

Details of Authority members' remuneration, and their pension arrangements are shown in the remuneration report starting on page 51.

How the Authority works

The Authority meets formally 11 times a year. In addition, Authority members also attend regular informal briefing sessions to allow high level review of developing issues and serve on the Authority's committees, details of which are set out below.

In 2016-17, the chairman again reviewed the individual performance of Authority members, looking at their contributions to the Authority's work. The other non-executive members set objectives for the chairman after discussion with him and reviewed his performance against these objectives.

The Authority reviews the activities, plans and performance of its four main regulatory divisions against its strategic objectives on a four-monthly cycle, and reviews the activities and priorities of its principal support functions on a six-monthly or yearly basis. The activities and priorities of E-Serve are reviewed by the Authority on a six-monthly cycle. From 2015-16, the Authority also reviews Ofgem's strategic risks, that is, those risks most consequential to Ofgem's strategy, on a twice-yearly basis.

In December 2014 we published our corporate strategy setting out how we aim to make the most of our resources and powers to make a positive difference for current and future consumers over the following few years. We review our strategy every year, with a more fundamental review every five years or so to make sure it is flexible enough to adapt to changes in the world around us. Every year we publish our Forward Work Programme following consultation and stakeholder engagement. We published our draft Forward Work Programme for 2017-18 in December 2016 for consultation and published the final plan in March 2017. The Authority reviews its overall programme of medium and longer term work every six months. In addition, the Authority takes decisions on specific major regulatory issues that have not been delegated to committees or executives.

We publish minutes of the Authority's meetings on our website, along with the committees' terms of reference. We also provide provisional agendas for the main Authority meetings. The chairman and other non-executive members play a full part in Authority business. They attended full Authority meetings and committee meetings as follows:

Members	The Authority	Audit and Risk Assurance Committee	E-Serve Board	Remuneration Committee	Europe Committee
Christine Farnish	9/10	-	-	3/3	-
David Fisk	8/10	3/4	-	-	3/4
David Gray	10/10	-	-	3/3	4/4
Jim Keohane	10/10	-	4/4	3/3	3/4
Keith Lough	8/10	4/4	1/1	-	-
Nicola Hodson	7/10	-	1/3	-	-
Paul Grout	9/10	4/4	-	3/3	-

The Authority met in Scotland on 10 November 2016, using the occasion to meet local political representatives and energy stakeholders in the public and private sectors. Meetings with interested parties took place after some of the main meetings, allowing the Authority to debate current topics with stakeholders.

What committees does the Authority have?

The Authority's corporate structure – with committees having clear terms of reference – continues to assure us that there is strong governance throughout the organisation.

Audit and Risk Assurance Committee

This committee advises the Authority and the accounting officer, where it concerns them, on anything that affects our financial health, financial reporting, probity, reputation or wider risk management and governance system. The committee also looks at any aspect of the business that may impinge on the strategic objectives and effective functioning of Ofgem and oversees our Spending Review 2015 cost control regime.

The Committee met four times in 2016-17. Keith Lough chairs the committee, the other non-executive members of which are David Fisk and Paul Grout.

This year the committee's work included:

- receiving reports from both internal and external audit
- receiving reports and monitoring actions taken to address weaknesses arising from assurance reports, that have been brought to the attention of the Committee by any other Authority Sub-Committee or the Executive
- receiving reports on IT security in the organisation, in particular to review and advise as to the adequacy of cyber-security, anti-fraud and whistleblowing policies and processes, and the actions taken by the organisation in response to adverse incidents.

During the year, in addition to the planned internal audit work, the committee commissioned internal audit to carry out a number of investigations into the operation of a number of undertakings. These investigations included:

- NI Non-Domestic RHI Scheme fraud allegations
- Domestic RHI Scheme review of process
- RHI Schemes financial controls

These reviews highlighted certain shortfalls in governance, risk management and control in the administration of the RHI Schemes which contributed to operational issues, with the NI Non-Domestic RHI Scheme now subject to a formal legal process via an Independent Public Inquiry (see Risk and control section of the Governance statement page 48). As a result of these investigations, a number of areas for improvement were identified and lessons learned from identified failures.

In response to the audit findings and the broader issues identified, Ofgem has put in place a detailed action plan to address deficiencies and vulnerabilities with nominated senior members of staff responsible for key actions. The committee is monitoring the implementation of these remedial plans to ensure management actions effectively mitigate the risks identified.

Our overall internal audit opinion for the year ended 31 March 2017 states that, “except for the RHI Schemes administered by E-Serve, we can provide Ofgem with a reasonable level of assurance that the arrangements and systems for risk, control and governance provide for the effective and efficient achievement of Ofgem’s objectives”.

E-Serve Board Committee

This committee advises the Authority on the effectiveness and efficiency of E-Serve in delivering its relevant activities. In particular, it reviews and makes recommendation to the Authority on E-Serve's strategy and overall budget, significant new activities to be performed by E-Serve and major changes to existing activities. It provides assurance to the Authority on performance of those activities. It is chaired by the chief executive and its members include the managing director of E-Serve, non-executive directors and a representative from BEIS. The Board met four times in 2016-17.

Enforcement Decision Panel

The Enforcement Decision Panel (EDP) is in place to take important decisions in contested enforcement cases on behalf of the Authority. EDP members are dedicated specialists, who provide a visible separation between the investigation and decision making functions. The chair of the EDP is John Swift QC. Members of the EDP also chair Enforcement Settlement Committees (see next section).

Enforcement Settlement Committees

Enforcement Settlement Committees may be established to decide whether to authorise a settlement procedure in respect of an investigation under the Competition Act 1998 or in respect of alleged contraventions under various sections of the Gas Act 1986, the Electricity Act 1989 and other legislation. Committees are appointed separately for each case and comprise two members of the EDP nominated by the chair of the EDP as well as a Senior Civil Servant nominated by the chairman of the Authority. For more details on the EDP please see the EDP pages on the Ofgem website[4].

Europe Committee

This committee is chaired by the Ofgem chairman and usually meets four times a year. It comprises non-executive directors, the senior partner for Energy Systems and the partner for Wholesale Markets. Other senior partners have a standing invitation to attend and are expected to do so when an item of particular significance to their division is to be discussed.

The Committee advises the Authority on key EU energy and regulatory policy developments, their impact on GB energy regulation, and on how the Authority’s aims and objectives, as both the British regulator and as the National Regulatory Authority, might be promoted.

Working closely with the European Commission, the European Parliament and other bodies, Lord Mogg, the previous chairman of the Authority, has remained an adviser to the Authority and has continued to help develop EU regulatory policy for energy. This has included his roles as president of the Council of European Energy Regulators and chairman of the EU’s Agency for the Cooperation of Energy Regulators. He was also chairman of the International Confederation of Energy Regulators. He will hold these roles in a personal capacity until late 2017. He continues to act as EU adviser to our chairman and to be an adviser to the Europe Committee.

Remuneration Committee

This committee, chaired by Jim Keohane, looks at the pay and performance of senior staff, and also succession planning. For details of the committee’s members, its role, and senior staff salary and pension entitlements, see the remuneration report later in this section.

[4] https://www.ofgem.gov.uk/about-us/how-we-work/our-approach-regulation/enforcement-decision-panel

How is the Authority's performance measured?

A review of board effectiveness was conducted by an external consultant in 2016-17. He concluded that the Ofgem board was functioning in a healthy way, with active and purposefully engaged non-executive members bringing diverse contributions; a good relationship involving both challenge and listening between executives and non-executives; a good foundation in risk management; and a clear commitment from the chairman, CEO and the board as a whole towards improvement. Challenge could and should be developed further. The review was discussed at an informal meeting of Authority members and senior executives and subsequent to this a small taskforce is considering how to further improve the strategic direction-setting of the board. This task force comprises two non-executive directors and two members of the executive and is supported by the Secretary to the Authority. This will be discussed again by the Authority before summer 2017.

Executive governance framework

Senior Leadership Team

The Senior Leadership Team supports the chief executive in the day-to-day running of Ofgem. It is made up of all the executive members shown in the remuneration report. They meet weekly and decide on everything relating to management and resources, subject to the Authority's overall control.

Governance Framework

Our executive governance framework focuses on leadership and strategy, high quality and faster decision making and ensuring we use our resources to benefit consumers efficiently and effectively. The following boards are in place and meet on a monthly basis.

GEMA Gateway Board

The GEMA Gateway Board is responsible for managing the agenda and clearing papers for GEMA Wednesday briefing sessions and Thursday meetings. This board also ensures the appropriate scrutiny of policy decision making in the organisation. The board is chaired by the chief executive.

Regulation and Policy Board

The Regulation and Policy Board assists the chief executive in determining the policy direction of Ofgem and makes decisions on matters relating to regulatory stances, and provides early stage guidance on policy matters.

The Board is chaired by the senior partner for Improving Regulation.

Operations Board

The Operations Board supports the chief executive in the day to day management and effective running of Ofgem. This Board considers all operational matters around management and resources including our operational performance. It is chaired by the chief operating officer.

Strategy and Risk Board

The Strategy and Risk Board is accountable for delivering the strategy, and considering the risks to the delivery of our strategic outcomes. The Board assumes the responsibilities of the previous Executive Risk Committee, reviewing strategic risk and ensuring that mitigations are appropriate. The Board owns the Forward Work Programme, and is also responsible for project and programme funding, administered by the Portfolio Investment Board (a sub-board of the Strategy and Risk Board). The board is chaired by the chief executive.

Management Committee (for E-Serve)

This committee supports the day-to-day running of the E-Serve business unit. It is chaired by the managing director of E-Serve and its members include all E-Serve team heads. It decides on everything relating to E-Serve's management and resources, subject to the Authority's overall control and it meets on a weekly basis.

Risk management framework

Our risk management framework sets out how risk management should be embedded across Ofgem; it sets out how we identify, administer and manage risks.

This framework describes:

- the mechanisms we employ to manage risk
- how we identify, assess and manage risk
- the importance of risk management in delivering positive outcomes for consumers
- details of roles and responsibilities for managing risk
- guidance and resources on risk management.

As part of the risk management framework, we have made risk management integral to policymaking, planning and delivery. Each senior management member has specific objectives for risk management in their area.

Partners and directors are responsible for implementing the framework and making sure everyone knows about it. All staff can see the framework on our intranet.

We have established a risk appetite that is set in the context of our mission to make a positive difference to energy consumers. We cannot operate without taking risk, so this framework helps us identify and evaluate these risks in a structured way that relates them to our mission and strategy.

Risk and control

During 2016-17, energy policy again remained high on the political and consumer agenda. Consumers are understandably concerned about increases to their energy bills.

To ensure that all of our work is focused on delivering better outcomes for consumers, we published our strategy in December 2014 and, following consultation, our Forward Work Programme for 2017-18 was published in March 2017. Our strategic mission is to make a positive difference for energy consumers through independent regulation.

On 24 January 2017 the Minister for Finance of the Northern Ireland Executive established a public inquiry under the Public Inquiries Act 2005 to consider the Non-Domestic Renewable Heat Incentive Scheme. The Inquiry will be chaired by Sir Patrick Coghlin. The Inquiry will consider under its terms of reference the design, governance, implementation and operation, and efforts to control the costs of the scheme. As Ofgem was responsible for administering the scheme, its role in respect of these areas will be examined by the Inquiry. We have established a dedicated team to engage with the Inquiry.

In 2014 we launched our Strategic Transformation Programme (STP), designed to take Ofgem forward as an organisation and successfully meet all future regulatory challenges. The transformation programme was designed to ensure that we have the right people, processes and technology in place to deliver our objectives successfully and the agility to meet future challenges. The second and final phase of the programme completed in September 2015. Since then, we have been working to ensure that changes made are sustainable and become the new, accepted way of doing business in Ofgem and also to build on the STP successes by adapting and evolving Ofgem on a continual basis so we are best placed to meet the existing and anticipated challenges we face.

Sir Nicholas Macpherson's 2013 review of quality assurance of government analytical models recommended that the Accounting Officer's governance statement within the annual report should confirm that an appropriate QA framework is in place and is used for all business critical models. We can confirm that Ofgem is implementing a new modelling quality assurance framework, focussing in particular on its business critical models. This is in line with the Macpherson review, and will provide greater confidence in the accuracy of our modelling work.

We will focus on delivering better outcomes for consumers, including lower bills, reduced environmental damage, improved reliability and safety, better quality of service and benefits for society as a whole.

We have divided our planned work into six themes to show how it contributes to the six strategic outputs of our independent regulation:

- regulation
- competition
- standards
- partnerships
- confidence

- efficiency

These challenges come with risks, and we recognise and embrace risk management as a way to tackle them. Our aim is to establish sensible and proportionate risk management procedures in all areas of our work. Managers see risk management as an integral part of their job, and the Senior Leadership Team and Management Committee (for E-Serve) keep Ofgem's top risks under review. The Management Committee prepares a separate top risks profile to cover E-Serve.

Corporate Governance Code

We recognise the value of good corporate governance and comply with the principles of the Corporate Governance Code ('Corporate governance in central government departments: code of good practice 2011').

The only exception is that the Code requires boards to be chaired by the lead minister. As a non-ministerial government department and an independent national regulatory authority, with Authority members appointed by the Secretary of State, the Authority has a non-executive chairman instead.

During the year, we also contributed to the Committee on Standards in Public Life (CSPL) report "Striking the Balance" on the upholding of the Seven Principles of Public Life in Regulation (the so-called Nolan principles). We will consider the report and work to ensure that our own behaviours as a regulator are consistent with the committee's best practice recommendations for regulatory bodies.

Data quality

The Authority receives a wide range of financial and other data, both to facilitate its oversight of the performance of the Authority's functions and to inform its regulatory decisions. The board considers that this information is generally of good quality. Changes were made to the presentation of internal management information, with effect from the beginning of the 2016-17 financial year, to improve its usefulness in monitoring the efficiency of the organisation in delivering its strategic objectives. Data used to inform regulatory decisions is kept under constant review against a background of continuing change in the relevant markets.

Personal data incidents

We have a data security policy to keep all official information private and secure. We experienced a data breach that resulted from a business user transferring some data via a secure collaboration portal; however it transpired that the data sent was to a different recipient. This was quickly retracted and re-issued correctly.

A review by the Information Commissioner's Office (ICO) deemed that whilst this was a breach no significant impact was experienced and the revised process controls were appropriate. The case was closed with no further action required. There were no other personal data incidents which required reporting to the ICO.

The accounting officer's review of effectiveness

As the accounting officer, I'm responsible for reviewing the effectiveness of our governance system. I base my review on the work of the internal auditors and the executive managers who are responsible for developing and maintaining the governance system. I also take into account the comments the external auditors make in their management letter and other reports. The Authority and the Audit and Risk Assurance Committee have told me about the implications of the result of my review, and a plan exists to address the weaknesses we find and make sure we continuously improve the system.

In internal audit reviews undertaken during 2016-17 and prior years, our internal auditors made 32 recommendations that had a due date for implementation before 31 December 2016. Of these, as at April 2017, satisfactory progress had been made with 20 out of the 32 recommendations (either implemented or substantially complete), a further eight recommendations in progress, three recommendations outstanding and one recommendation wherein management have accepted the risk.

This year, we took steps to monitor and improve our governance system:

- The Authority reviewed our strategic risks in April and October 2016

- The Senior Leadership Team, the Management Committee (for E-Serve) and the Audit and Risk Assurance Committee reviewed our strategic risks
- E-Serve's Risk and Fraud Management Group met each month to initiate and review work related to fraud prevention and detection, and to make sure we were properly managing suspected cases of fraud, misreporting or money laundering
- The chief operating officer and associate director of finance and risk management regularly met senior partners and managing directors individually to review resources and progress towards objectives, and to identify and evaluate the associated risks
- We updated our governance statements to require partners and directors to consider and report on all aspects of financial and risk management and other governance control issues in their area

No significant problems with our governance system came up during the financial year.

Dermot Nolan
Accounting officer

16 June 2017

Remuneration and staff report

Remuneration committee

This committee comprises non-executive members of the Authority who are appointed by ordinary resolution of the Authority. The committee is chaired by Jim Keohane. The other members are Paul Grout and Christine Farnish. The chairman and chief executive attend as observers.

The committee's role is to review and approve the annual pay award and level of any bonus for Senior Leadership Team members. It also considers other matters involving the pay and performance of senior Ofgem staff. Performance pay and bonus awards are made within the parameters set by the Cabinet Office for the Senior Civil Service following recommendations by the Senior Salaries Review Body. The committee also reviews succession planning.

Remuneration policy

Remuneration of senior members is set out in their contracts and is subject to annual review in line with awards recommended by the Senior Salaries Review Body. Apart from the chairman, all our senior members are permanent members of staff. None of them have a notice period longer than six months.

The arrangements for early termination of senior members are made in accordance with the service contract of the individual. Each contract provides for a payment in lieu of notice on early termination based on the provisions of the Civil Service Compensation Scheme.

Each executive member is eligible to participate in a bonus scheme that is in line with Senior Salaries Review Body recommendations. The bonus is based on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

During 2016-17 we considered the feasibility of introducing a clawback provision of senior level bonuses. It was decided, owing to the size of the bonus payments and the lack of such a provision across the wider Civil Service, not to adopt this feature but to keep it under annual review.

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission specify when appointments may be made otherwise.

Unless otherwise stated, the officials covered by this report hold appointments that are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk.

Remuneration (including salary) and pension entitlements

The information in the following tables has been subject to external audit.

The salary, the bonus payments and the value of any taxable benefits in kind of the most senior members of Ofgem (not all of whom are Authority members) in 2016-17 are shown in the table overleaf.

Single total figure of remuneration

	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000)‡		Total (£000)	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Senior executive members of Ofgem										
Dermot Nolan Chief Executive	190-195	190-195	15-20	15-20	-	-	34,000	32,000	240-245	235-240
Martin Crouch Senior Partner	140-145	135-140	-	-	-	-	74,000	85,000	215-220	220-225
Rachel Fletcher Senior Partner	140-145	140-145	15-20	-	-	-	42,000	69,000	200-205	205-210
Maxine Frerk Acting Senior Partner (to November 2016)	95-100**	125-130	-	-	-	-	17,000	46,000	110-115	170-175
David Gillies Acting Chief Operating Officer (from January 2016 to May 2016***)	20-25*	25-30*	-	-	-	-	4,000	8,000	25-30	30-35
Sarah Harrison Senior Partner (to July 2015)	-	45-50*	-	15-20	-	-	-	30,000	-	90-95
Anthony Pygram Acting Senior Partner (from July 2015 to December 2015***)	-	60-65*	-	-	-	-	-	40,000	-	100-105
Dr Andrew Wright Group Finance Director (to December 2015), Senior Partner (from January 2016)	195-200	185-190	-	-	-	-	28,000	71,000	220-225	255-260
Sarah Cox Chief Operating Officer (from June 2016)	110-115**	-	-	-	-	-	46,000	-	155-160	-
Jonathan Brearley Senior Partner (from May 2016)	115-20**	-	-	-	-	-	45,000	-	160-165	-
Senior executive members of Ofgem E-Serve										
Chris Poulton Acting Managing Director	140-145	130-135	15-20	10-15	-	-	17,000	16,000	175-180	160-165
Non-executive members of the Authority										
David Gray Chairman	160-165	160-165	-	-	-	-	-	-	160-165	160-165

* Annual equivalent basic salary (excluding performance pay):

David Gillies: 115-120
Sarah Harrison: 140-145
Anthony Pygram: 125-130

** Annual equivalent basic salary (excluding performance pay):

Maxine Frerk: 120-125
Sarah Cox: 125-130
Jonathan Brearley: 140-145

*** remuneration during the period of which they were a member of the senior management team

‡ The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, less the contributions made by the individual. The real increase excludes increases or decreases due to a transfer of pension rights.

Other non-executive members of the Authority who were paid	2016-17		2015-16	
	Honorarium	Allowance	Honorarium	Allowance
Christine Farnish (from January 2016)	£20,000	-	£3,333*	-
David Fisk	£25,000	-	£25,000	-
Paul Grout	£20,000	-	£20,000	£2,081
Nicola Hodson (from March 2015)	£20,000	-	£20,000	-
Jim Keohane	£25,000	-	£25,000	£3,000
Keith Lough	£20,000	£3,000	£20,000	£3,000

* Annual equivalent £20,000

Non-executive members have fixed-term appointments, normally for up to five years. These appointments are renewable. Information on appointment dates is on page 39. Remuneration and appointments are set by the Secretary of State for Business, Energy and Industrial Strategy after consulting the chairman. Their remuneration is by payment of an honorarium plus an additional allowance for chairing any Authority committees. They are not entitled to performance-related pay or a pension. Compensation for early termination is at the discretion of the Secretary of State. The non-executive chairman of the Authority, David Gray, has an appointment that started on 1 October 2013 and lasts for five years.

As well as honoraria, which are included in salaries, non-executive directors are entitled to actual expenses, evidenced by receipts.

Expenses claimed by our senior members and non-executive directors are published on our website (www.ofgem.gov.uk).

Salary

"Salary" includes gross salary and any other allowance to the extent that it is subject to UK taxation.

Bonuses

In 2016-17 there were 679 (2015-16: 751) staff who received a bonus. The average bonus payment was £1,357 (2015-16: £1,260) and the total amount paid in bonuses equalled £921,403 (2015-16: £946,589). Three individuals (2015-16: two) received the largest bonus payment which was £15,000 (2015-16: £15,000).

Bonuses are based on performance levels and are made as part of the appraisal process. The bonuses reported in 2016-17 relate to performance in 2015-16. The bonuses reported for 2015-16 relate to performance in 2014-15.

Pay multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of our highest-paid director in 2016-17 was £205,000-£210,000 (2015-16: £205,000-£210,000). This was 5.22 times (2015-16: 5.21) the median remuneration of the workforce, which was £40,000 (2015-16: £39,701).

In 2016-17 no (2015-16: none) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £8,840 to £208,819 (2015-16: £8,840-£206,900).

Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

The average number of permanently employed staff increased in 2016-17, however, the current year pay multiple has stayed similar to that of the prior year. This reflects the fact that the increase in staff is across many grades and has not, therefore, significantly affected the median.

Pension Benefits

Pension benefits	Real increase in pension and related lump sum at age 60 £000	Accrued pension at age 60 at 31 March 2017 and related lump sum £000	Cash equivalent transfer value at 31 March 2017 £000	Cash equivalent transfer value at 31 March 2016 £000	Real increase in cash equivalent transfer value £000	Employer's contribution to partnership pension account Nearest £100
Senior executive members of Ofgem						
Dermot Nolan Chief executive	-	-	-	-	-	34,400
Martin Crouch Senior partner	2.5-5.0	35-40	477	415	36	-
Rachel Fletcher Senior partner	2.5-5.0	25-30	469	409	35	-
Maxine Frerk Acting Senior partner (to November 2016)	0-2.5 and 2.5-5.0 lump sum	20-25 and 60-65 lump sum	468	432	16	-
David Gillies Acting chief operating officer (from January 2016 to May 2016)	0-2.5	15-20	351	345	4	-
Dr Andrew Wright Group Finance Director (to December 2015), Senior partner (from January 2016)	-	-	-	-	-	27,700
Sarah Cox Chief Operating Officer (from June 2016)	2.5-5.0	25-30	402	369	22	-
Jonathan Brearley Senior partner (from May 2016)	2.5-5.0	0-5	25	0	17	-
Senior executive members of Ofgem E-Serve						
Chris Poulton Acting managing director (from December 2014)	-	-	-	-	-	16,800

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate in 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Staff report

The information in the staff report has been subject to external audit.

Average number of people employed

The average number of whole-time equivalent people employed during the year was:

			2016-17 £000	2015-16 £000
	Permanently employed staff	Others	Total	Total
Regulatory	426	8	**434**	**440**
E-Serve	308	49	**357**	**312**
Corporate Services	152	28	**180**	**155**
Total	**886**	**85**	**971**	**907**

There was an average of 41.3 whole-time equivalent people in the SCS grade during the year. Of these 21.7 were in payband 1, 16.6 in payband 2, and 3.0 in payband 3.

Staff Costs

			2016-17 £000	2015-16 £000
	Permanently employed staff	Others	Total	Total
Total	**53,327**	**5,966**	**59,293**	**53,711**

Reporting of civil service and other compensation schemes – exit packages

There have been no redundancies made during either 2016-17 or 2015-16. A provision has been recognised in the Resource Accounts for a number of expected voluntary exit payments which have been agreed with the Cabinet Office and the individuals. These are expected to be paid in 2017-18.

Employee involvement

This year our staff engagement survey received a response rate of 88% (2015-16: 94%), and an engagement index of 61%. The engagement figure is three percentage points higher than 2015 and we are two percentage points higher than the Civil Service average.

89% (2015-16: 88%) of our staff continue to find their roles interesting and 76% describe it as challenging (2015-16: 71%). 65% would recommend Ofgem as a great place to work (2015-16: 61%).

Single Equalities Scheme

In our dual role as an employer and a regulator, we are committed to meeting our legal obligations and promoting equality and diversity among our workforce, in the way we work and in the industry we regulate. To this end, in 2013 we published our Single Equalities Scheme (SES). This sets out our approach to our staff, internal processes, policy development and decision-making. We will review the scheme in 2017.

Equal opportunities

We promote equality and diversity at work – in employment, training and career development. Nobody should suffer discrimination because of age, disability, gender reassignment, pregnancy or maternity, race, religion or belief, sex or sexual orientation. We do not tolerate discrimination, bullying or harassment. Our score for inclusion and fair treatment in the 2016 staff engagement survey was 80% (2015-16: 77%).

In 2016-17 we continued to provide diversity and unconscious bias training to staff that required it. This is part of our commitment to ensuring that in everything they do our staff understand and fulfil their obligations under the Equality Act. At the end of the financial year:

- 2.4% (2015-16:1.9%) of staff were known to have a disability
- 47% (2015-16:46%) of staff were women
- 45% (2015-16:45%) of staff in managerial grades were women.
- 35% (2015-16:29%) of Senior Civil Service members in Ofgem were women.
- 18% (2015-16:19%) of staff were known to be of ethnic minority origin
- 62% (2015-16:64%) of staff known to be of ethnic minority origin were in managerial grades.

Our policy statement on equal opportunity is available to all employees.

Investing in learning and development

We really value our people. Giving them opportunities to learn new skills and develop their careers helps us retain them and attract new people in a number of ways. As a reflection of this investment, our People Survey 2016 results placed us four percentage points above the Civil Service average for learning and development.

Community engagement

We actively support employees who commit their own time or money to help charities, or other community or voluntary activities. For example, we might grant special leave to someone acting as a school governor, magistrate, employment-tribunal panel member, or someone with regular volunteering activity.

We have also allowed a number of charities to run events at our offices.

We continue to work with Career Ready and have four staff giving 16-19 year-olds one-to-one support and guidance through the mentoring scheme. In 2016, we offered three, six-week summer internship placements in London and two four-week summer internship placements in Glasgow.

We will be providing three further placements in London and two in Glasgow during the summer of 2017.

In addition, we recruited one IT apprentice in 2016-17.

Promoting health and safety at work

We take our legal responsibility for the health, safety and welfare of our employees seriously. This includes those working with or for us, and anyone else using our premises. We aim to prevent any accident involving personal injury, illness or damage.

We comply with the Health and Safety at Work Act 1974 and other relevant legislation. Our health and safety policy statement describes our responsibilities and aims in more detail. This is available to all employees.

Days lost because of absence

In 2016-17, we lost an average of 4.6 days a year per employee (2015-16: 6.1 days). This compares favourably with the public sector average of 7.9 days a year per employee, and the private sector average of 5.5 days.

Review of tax arrangements of public sector appointees

In May 2012 the government published a review of the tax arrangements of public sector appointees. The review identified the number of off-payroll engagements worth more than £58,200 a year across government and made recommendations to improve the tax transparency of these kinds of arrangements.

Information on current off-payroll appointees is at Appendix V on page 113.

Dermot Nolan
Accounting officer

16 June 2017

Parliamentary Accountability and Audit Report

Statement of Parliamentary Supply

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FReM) requires us to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show resource outturn against the supply estimate presented to Parliament, for each budgetary control limit. The information in the Statement of Parliamentary Supply has been subject to external audit.

Summary of resource and capital outturn 2016-17

	2016-17 £000							2015-16 £000
	Estimate			Outturn				Outturn
	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with estimate: saving	Total
Departmental expenditure limit								
Resource	15,207	-	15,207	630	-	630	14,577	654
Capital	3,730	-	3,730	1,498	-	1,498	2,232	542
Annually managed expenditure								
Resource	-	-	-	-	-	-	-	-
Capital	-	-	-	-	-	-	-	-
Total budget	18,937	-	18,937	2,128	-	2,128	16,809	1,196
Non-budget								
Resource	-	-	-	-	-	-	-	-
Total	**18,937**	**-**	**18,937**	**2,128**	**-**	**2,128**	**16,809**	**1,196**
Total resource	15,207	-	15,207	630	-	630	14,577	654
Total capital	3,730	-	3,730	1,498	-	1,498	2,232	542
Total	**18,937**	**-**	**18,937**	**2,128**	**-**	**2,128**	**16,809**	**1,196**

	SoPS Note	2016-17 £000 Estimate	2016-17 £000 Outturn	Outturn compared with estimate: saving	2015-16 £000 Outturn
Net cash requirement	SoPS3	29,034	7,729	21,305	(9,600)

	2016-17 £000 Estimate	2016-17 £000 Outturn	Saving	2015-16 £000 Outturn
Administration costs	15,207	630	14,577	654

Explanations of variances between estimate and outturn are given in the Directors report

SoPS1 Net outturn

SoPS1.1 Analysis of net resource outturn by section

	2016-17 £000					2015-16 £000
			Outturn	Estimate		
	Gross	Income	Net total	Net total	Net total compared with estimate	Total
Spending in Departmental Expenditure Limits						
A Gas and Electricity Markets Authority: administration	42,217	(42,217)	-	14,507	14,507	-
B Ofgem E-Serve: administration	44,395	(43,765)	630	700	70	654
Total	**86,612**	**(85,982)**	**630**	**15,207**	**14,577**	**654**

SoPS1.2 Analysis of net capital outturn by section

	2016-17 £000					2015-16 £000
			Outturn	Estimate		Outturn
	Gross	Income	Net total	Net total	Net total outturn compared with estimate	Total
Spending in Departmental Expenditure Limits						
A Gas and Electricity Markets Authority: administration	1,498	-	1,498	3,730	2,232	542
B Ofgem E-Serve: administration	-	-	-	-	-	-
Total	**1,498**	**-**	**1,498**	**3,730**	**2,232**	**542**

SoPS2 Reconciliation of outturn to net operating cost

		2016-17	2015-16
	Note	£000	£000
Total resource outturn in Statement of Parliamentary Supply	SoPS1.1	630	654
Net operating costs in Statement of Comprehensive Net Expenditure		**630**	**654**

SoPS3 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate: saving/(excess) £000
Resource outturn	SoPS1.1	**15,207**	**630**	**14,577**
Capital outturn	SoPS1.2	**3,730**	**1,498**	**2,232**
Accruals to cash adjustments:				
▪ Depreciation	4	-	(1,452)	1,452
▪ New provisions and adjustments to provisions	4	-	(473)	473
▪ Other non-cash items	4	(53)	(56)	3
▪ Movement in working capital		10,000	17,071	(7,071)
▪ Cash receipts from 2015-16 not due to the consolidated fund		-	(9,600)	9,600
▪ Use of provision	13	150	111	39
Net cash requirement		**29,034**	**7,729**	**21,305**

During 2016-17 HM Treasury granted Ofgem permission to retain the prior year excess cash balance instead of requesting additional cash through the Supplementary Estimate.

SoPS4 Analysis of income payable to the consolidated fund

We collected no consolidated fund income in 2016-17. This does not include any amounts we collected while acting as agent of the consolidated fund rather than as principal. Full details of income collected as agent for the consolidated fund are in the department's trust statement, published separately from but alongside these financial statements.

Other areas of Parliamentary Accountability

Ofgem has nothing to report in respect of:

- Loses and special payments
- Fees and charges disclosures
- Remote contingency liabilities, and
- Long term expenditure trends.

Dermot Nolan
Accounting officer

16 June 2017

The certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Department's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2017 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2017 and of the Department's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP

22 June 2017

Resource Accounts

Statement of comprehensive net expenditure for the year ended 31 March 2017

This account summarises the expenditure and income generated and consumed on an accruals basis. It also details other comprehensive income and expenditure, which includes changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

				2016-17 £000	2015-16 £000
	Note	Staff costs	Other costs	Income	
Administration costs					
Staff costs	3	59,293			53,711
Other costs	4		27,319		23,342
Income	5			(85,982)	(76,399)
Net operating costs	SoPS1.1			**630**	**654**
Total expenditure				86,612	77,053
Total income				(85,982)	(76,399)
Net operating expenditure				**630**	**654**
Other comprehensive net expenditure					
Items that will not be reclassified to net operating costs:					
Actuarial gain/(loss) on pension liabilities		13		(56)	26
Total comprehensive net expenditure for the year ended 31 March 2017				**574**	**680**

Statement of financial position as at 31 March 2017

This statement presents our financial position. It has three main components: assets owned or controlled, liabilities owed to other bodies, and equity, the remaining value of the entity.

	Note		2017 £000		2016 £000
Non-current assets:					
Property, plant and equipment	6	2,524		2,478	
Other non-current assets	11	-		1,977	
Total non-current assets			**2,524**		**4,455**
Current assets:					
Trade receivables and other current assets	11	15,590		8,919	
Cash and cash equivalents	10	21,305		25,355	
Total current assets			**36,895**		**34,274**
Total assets			**39,419**		**38,729**
Current liabilities:					
Trade and other payables	12	(32,200)		(48,094)	
Total current liabilities			**(32,200)**		**(48,094)**
Total assets less current liabilities			**7,219**		**(9,365)**
Non-current liabilities:					
Provisions	13	(1,419)		(1,001)	
Other payables	12	-		(535)	
Total non-current liabilities			**(1,419)**		**(1,536)**
Total assets less total liabilities			**5,800**		**(10,901)**
Taxpayers' equity:					
General fund		5,800		(10,901)	
Total taxpayers' equity			**5,800**		**(10,901)**

Dermot Nolan
Accounting officer

16 June 2017

The notes on pages 70 to 86 form part of these accounts.

Statement of cash flows for the year ended 31 March 2017

The Statement of Cash Flows shows our changes in cash and cash equivalents during the reporting period. The statement shows how we generate and use cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the department's future public-service delivery. Cash flows arising from financing activities include parliamentary supply and other cash flows, including borrowing.

	Note	2016-17 £000	2015-16 £000
Cash flows from operating activities			
Net operating cost	SoPS1.1	(630)	(654)
Adjustments for non-cash transactions	4	1,981	1,574
(Increase)/Decrease in trade and other receivables	11	(4,694)	1,948
Increase/(Decrease) in trade payables	12	(16,429)	13,469
less movements in payables relating to items not passing through the SoCNE	12	4,050	(4,177)
Use of provisions	13	(111)	(2,018)
Net cash outflow from operating activities		**(15,833)**	**10,142**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(1,498)	(542)
Net cash outflow from investing activities		**(1,498)**	**(542)**
Cash flows from financing activities			
From the Consolidated Fund (supply) – current year		13,281	15,755
Advances from the contingencies fund		20,000	20,000
Payments to the contingencies fund		(20,000)	(20,000)
Net financing		**13,281**	**15,755**
Payments of amounts to the consolidated fund		-	(21,178)
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the consolidated fund		**(4,050)**	**4,177**
Cash and cash equivalents at the beginning of the period	10	25,355	21,178
Cash and cash equivalents at the end of the period	10	**21,305**	**25,355**

The notes on pages 70 to 86 form part of these accounts

Statement of changes in taxpayers' equity for the year ended 31 March 2017

		General fund
	Note	**£000**
Balance at 31 March 2015		**(726)**
Net parliamentary funding – drawn down		15,755
Net parliamentary funding – deemed		-
Supply payable adjustment		(25,355)
Comprehensive net expenditure for the year		(654)
Auditor's remuneration	4	53
Gains relating to pension liabilities	13.2	26
Balance at 31 March 2016		**(10,901)**
Net parliamentary funding – drawn down		13,281
Net parliamentary funding – deemed		15,755
Supply payable adjustment		(21,305)
Cash receipts from 2015-16 not due to the consolidated fund		9,600
Comprehensive net expenditure for the year		(630)
Auditor's remuneration	4	56
Gains relating to pension liabilities	13.2	(56)
Balance at 31 March 2017		**5,800**

Notes to the departmental resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM) issued by the Treasury. The accounting policies contained in the FReM apply IFRS as adapted or interpreted for the public sector. Where the FReM permits a choice of accounting policy, we have selected the accounting policy which is judged to be most appropriate to our particular circumstances for the purpose of giving a true and fair view. The particular policies we have adopted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

As well as the primary statements prepared under IFRS, the FReM requires us to prepare one additional primary statement. The SoPS and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement, and are included in the Parliamentary Accountability and Audit Report section starting on page 59.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

1.2 Property, plant, equipment and depreciation

Property, plant and equipment are no longer revalued annually using indices. Per the FReM, depreciated historical cost is now used as a proxy for current value as this realistically reflects consumption of the asset. Revaluations would not cause a material difference.

Depreciation is provided at rates calculated to write off property, plant and equipment by equal instalments over their estimated useful lives, after allowance for residual value. Asset lives are within the following ranges:

Leasehold improvements	Life of the lease
Office equipment, furniture and fittings	Five years
IT equipment	Three years

The minimum level for the capitalisation of property, plant and equipment is £2,000. The grouping of assets below the threshold has been restricted to IT equipment and furniture.

1.3 Provisions

Where Ofgem has a legal or constructive obligation to meet certain costs Ofgem will make a provision based on a management estimate of the value, probability and timing of future payments.

Where the time-value of money is material, we discount the provision to its present value using a discount rate of 0.24%, the government's standard rate. Each year the financing charges in the statement of comprehensive net expenditure include the adjustments to amortise one year's discount and restate liabilities to current price levels. In this year's accounts, only the early retirement provision has been discounted as the impact of discounting the dilapidations and voluntary exit provisions is not material.

1.4 Operating income

Operating income is income that relates directly to our operating activities. It principally comprises licence fees and fees and charges for services provided on a full-cost basis.

Since all licence costs are recovered via the licence fees, and these are invoiced in two tranches during the year based on estimated costs, any over recovery is treated as deferred income within payables and any under recovery as accrued income within receivables.

1.5 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction.

1.6 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Civil Servants and Others Pension Scheme (CSOPS). These are described at Note 3. Both schemes are non-contributory and unfunded. Departments, agencies and other bodies covered by both schemes meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. Liability for payment of future benefits is a charge on the schemes. There is a separate scheme statement for the PCSPS and the CSOPS as a whole.

Our former chief executive and director general have separate pension arrangements that are broadly analogous with the PCSPS. The arrangements provide for an unfunded defined-benefit scheme. However, unlike the PCSPS, a pension liability is included in the accounts as required under IAS37.

1.7 Early departure costs

We are required to meet the additional cost of benefits beyond the normal PCSPS benefits for employees who retire early. We provide for this cost in full when the early retirement programme has been announced and binds us.

1.8 Value added tax

In our accounts, amounts are shown net of value-added tax (VAT), except:

- irrecoverable VAT is charged to the statement of comprehensive net expenditure and included under the heading relevant to the type of expenditure
- irrecoverable VAT on the purchase of an asset is included in the capitalised purchase cost of the asset.

The amount due from HM Revenue and Customs for VAT is included in receivables within the Statement of Financial Position.

1.9 Operating leases

Rentals due under operating leases are charged to the statement of comprehensive net expenditure over the lease term on a straight-line basis, or on the basis of actual rentals payable which fairly reflects the usage. Future payments, disclosed at Note 7, 'Commitments under leases', are not discounted.

1.10 Going concern

The Statement of Financial Position at 31 March 2017 shows a taxpayers' equity of £5.8 million. In common with other government departments, the future financing of our liabilities is to be met by future grants of supply and the application of future income, both to be approved annually by Parliament. Approval for amounts required for 2017-18 has already been given and there is no reason to believe that future approvals will not be granted. We have therefore considered it appropriate to adopt a going-concern basis for the preparation of these financial statements.

1.11 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), for parliamentary reporting and accountability purposes we report certain statutory and non-statutory contingent liabilities. We do this where management deems the likelihood of a transfer of economic benefit as remote, but where the liabilities have been reported to Parliament in accordance with the requirements of Managing Public Money.

Where the time-value of money is material, contingent liabilities that we have to disclose under IAS 37 are stated at discounted amounts and the amount reported to Parliament is noted separately. Contingent liabilities reported under Managing Public Money are stated at the amounts reported to Parliament.

1.12 Assets belonging to third parties

Assets belonging to third parties as disclosed in Note 16 (such as money held in relation to the Renewables Obligation and Feed-In Tariff schemes) are not recognised in the Statement of Financial Position since we have no beneficial interest in them.

1.13 IFRS Issued but not yet effective

Changes to IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) will become effective for accounting periods beginning on or after 1 January 2018. We do not expect these to have a significant impact to Ofgem's financial statements.

2. Statement of operating costs by operating segment

2016-17				
	Regulatory Activities £000	Ofgem E-Serve £000	Corporate Functions £000	Total £000
Gross expenditure	42,217	20,534	23,861	86,612
Income	(42,217)	(19,904)	(23,861)	(85,982)
Net expenditure	**-**	**630**	**-**	**630**

2015-16				
	Regulatory Activities £000	Ofgem E-Serve £000	Corporate Functions £000	Total £000
Gross expenditure	37,257	19,770	20,026	77,053
Income	(37,257)	(19,116)	(20,026)	(76,399)
Net expenditure	**-**	**654**	**-**	**654**

Segmental reporting is undertaken on an activity basis, in line with monthly reporting to decision makers within the organisation.

3. Staff costs

Staff costs comprise			2016-17 £000	2015-16 £000
	Permanently employed staff	Others	Total	Total
Wages and salaries	40,458	5,966	46,424	42,821
Social security costs	4,544	-	4,544	3,522
Other pension costs	7,995	-	7,995	7,481
Other staff costs	330	-	330	(113)
Total	**53,327**	**5,966**	**59,293**	**53,711**

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as “alpha” are unfunded multi-employer defined-benefit schemes, but Ofgem is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservicepensionscheme.org.uk).

For 2016-17, employers' contributions of £7,040,371 were payable to the PCSPS and CSOPS (2015-16: £7,215,006) at one of four rates in the range 20.0% to 24.5% (2015-16: 20.0% to 24.5%) of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016-17 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £279,807 (2015-16: £254,465) were paid to three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% (2015-16: 3% to 12.5% up to 30 September 2015 and 8% to 14.75% from 1 October 2015). Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £11,087 (2015-16: £11,205), 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015, were payable to the PCSPS and CSOPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the reporting period date amounted to zero. Contributions prepaid at that date were zero.

Zero people (2015-16: zero people) retired early on ill-health grounds.

Staff numbers can be seen in the Remuneration and Staff report on page 57.

4. Other administration costs

	Note	2016-17 £000	2015-16 £000
Rental under operating leases:		**3,807**	**3,195**
Operating leases		3,807	3,195
Non-cash items:		**1,508**	**1,540**
Auditors' remuneration and expenses*		56	53
Depreciation	6	1,452	1,487
Other expenditure:		**21,531**	**18,573**
Contractors		9,448	7,230
Accommodation costs		3,866	4,638
Office supplies and equipment		3,234	2,189
Recruitment and training		1,739	1,562
Professional services		886	761
Travel and subsistence		855	658
Staff-related costs		429	365
Other administration costs		1,074	1,170
Provisions (non-cash):			
Provided in year	13	446	16
Interest cost	13	27	27
Writeback of provision	13	-	(9)
Movement in provision		**473**	**34**
Total		**27,319**	**23,342**

* There was no auditor remuneration for non-audit work.

5. Operating income

	2016-17 £000			2015-16 £000		
	Income	Full costs	Deficit	Income	Full costs	Deficit
Licence fees	(59,572)	59,572	-	(49,119)	49,119	-
Other	(26,410)	27,040	630	(27,280)	27,934	654
Total	**(85,982)**	**86,612**	**630**	**(76,399)**	**77,053**	**654**

	2016-17	2015-16
Other income includes:	**£000**	**£000**
Offshore Transmission Tender Recharge	1,842	2,170
Department for Business, Energy and Industrial Strategy (relating to environmental programmes and staff transfers)	19,038	18,528
Scheme-funded recharges	2,590	3,134
Department for Environment, Food and Rural Affairs (relating to shared accommodation costs and staff transfers)	1,378	1,673
Other departments	1,344	1,256
Miscellaneous*	218	519
	26,410	**27,280**

*Miscellaneous income includes licence application fees and other minor items.

6. Property, plant and equipment

	Furniture	Office equipment	Information technology	Leasehold works	Assets Under Construction[5]	Total
	£000	£000	£000	£000		£000
Cost or valuation						
At 1 April 2016	167	2,344	5,579	5,817	-	13,907
Additions	168	-	1,191	77	62	1,498
Reclassifications	-	145	-	(145)	-	-
At 31 March 2017	**335**	**2,489**	**6,770**	**5,749**	**62**	**15,405**
Depreciation						
At 1 April 2016	154	2,161	4,288	4,826	-	11,429
Charged in year	12	135	815	490	-	1,452
At 31 March 2017	**166**	**2,296**	**5,103**	**5,316**	**-**	**12,881**
Carrying amount at 31 March 2017	**169**	**193**	**1,667**	**433**	**62**	**2,524**
Carrying amount at 31 March 2016	13	183	1,291	991	-	2,478
Asset financing:	169	193	1,667	433	62	2,524
Carrying amount of owned assets at 31 March 2017	169	193	1,667	433	62	2,524

	Furniture	Office equipment	Information technology	Leasehold works	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2015	167	2,527	5,190	5,767	13,651
Additions	-	5	487	50	542
Disposals	-	(188)	(98)	-	(286)
At 31 March 2016	**167**	**2,344**	**5,579**	**5,817**	**13,907**
Depreciation					
At 1 April 2015	149	2,204	3,534	4,341	10,228
Charged in year	5	145	852	485	1,487
Disposals	-	(188)	(98)	-	(286)
At 31 March 2016	**154**	**2,161**	**4,288**	**4,826**	**11,429**
Carrying amount at 31 March 2016	**13**	**183**	**1,291**	**991**	**2,478**
Carrying amount at 31 March 2015	18	323	1,656	1,426	3,423
Asset financing:					
Carrying amount of owned assets at 31 March 2016	13	183	1,291	991	2,478

[5] Assets under construction relates to costs for the 3rd floor of Glasgow Commonwealth House prior to the lease agreement being signed.

7. Commitments under leases

Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	2016-17	2015-16
	£000	£000
Obligation under operating leases for the following periods comprise:		
Buildings:		
Not later than one year	6,300	6,203
Later than one year and not later than five years	1,932	7,803
Later than five years	-	-
	8,232	**14,006**

Ofgem's headquarters are expected to move from Millbank to Canary Wharf during 2017-18. As the lease agreement has not been signed operating lease commitments comprises Millbank and Glasgow (Cornerstone and Commonwealth House Buildings) only.

When we entered into the lease on our Millbank headquarters in 2000, we received a leasehold reverse premium from the landlord. The remainder of the reverse premium is £75,000. This will be used on a straight-line basis over the lease term up to when we vacate Millbank in 2017-18. This is disclosed in Note 12.

7.1 Other financial commitments

As at 31 March 2017, we had not entered into any material non-cancellable contracts (which are not operating leases).

8. Future income due under non-cancellable operating leases

	2016-17	2015-16
	£000	**£000**
Buildings:		
Not later than one year	1,583	1,583
Later than one year and not later than five years	364	1,948
	1,947	**3,531**

The lease information above relates to the sub-letting of floors in our London headquarters building to the Department for Environment, Food and Rural Affairs under a Memorandum of Terms of Occupation (MOTO) agreement.

9. Financial instruments

As the cash requirements of the department are met through the estimates process, financial instruments play a more limited role in creating and managing risk than might apply to a non-public sector body of a similar size. Most financial instruments relate to contracts for non-financial items in line with the department's expected purchase and use requirements. We are therefore exposed to little credit, liquidity or market risk.

10. Cash and cash equivalents

	2016-17	2015-16
	£000	**£000**
Balance at 1 April	25,355	21,178
Net change in cash and cash equivalents	(4,050)	4,177
At 31 March	**21,305**	**25,355**
The following balances at 31 March were held at:		
Government Banking Service	21,305	25,355
Commercial banks and cash in hand	-	-
Balance at 31 March	**21,305**	**25,355**

In addition to the cash and cash equivalents disclosed above, Ofgem holds third party assets of cash and letters of credit relating to offshore tender developer securities, the Renewables Obligation, and the Feed-in Tariffs levelisation fund. These are described in note 16.

11. Trade receivables and other current assets

	2016-17	2015-16
Amounts falling due within one year:	**£000**	**£000**
Trade receivables	3,246	656
Accrued income	3,605	4,062
Accrued lease incentive	3,514	-
Prepayments	4,454	3,581
HM Revenue and Customs (VAT)	540	389
Staff receivables	231	231
Balance at 31 March	**15,590**	**8,919**

	2016-17	2015-16
Amounts falling due after more than one year:	**£000**	**£000**
Accrued lease incentive	-	1,977
Balance at 31 March	**-**	**1,977**

Staff receivables include loans outstanding, of which £217k relates to season ticket loans for employees, and £7k relates to the cycle to work scheme.

12. Trade payables and other current liabilities

	2016-17	2015-16
Amounts falling due within one year:	**£000**	**£000**
Other taxation and social security	1,180	1,035
Trade payables	43	133
Staff payables	1,599	1,285
Deferred licence fees	3,529	14,506
Leasehold reverse premium	75	316
Leasehold incentive	565	689
Accruals and other deferred income	3,904	4,775
Amounts issued from the consolidated fund for supply but not spent at year end	21,305	15,755
Excess cash receipts	-	9,600
Balance at 31 March	**32,200**	**48,094**

	2016-17	2015-16
Amounts falling due after more than one year:	**£000**	**£000**
Leasehold reverse premium	-	75
Leasehold incentive	-	460
Balance at 31 March	**-**	**535**

In February 2015 Ofgem signed an agreement to waive its rights under the Landlord and Tenant Act 1954, in respect of its Millbank headquarters. Under the agreement Ofgem will vacate the building by 23 June 2018 at the latest, rather than exercise its right to continue the lease at the next break point in June 2017.

In consideration of Ofgem waiving its rights, Berkeley Homes, whom the landlord has entered into a contract with to redevelop Millbank, agreed to pay Ofgem £5.25 million.

The £5.25 million comprises a £0.25 million deposit payable on signing (February 2015). The agreement required that this deposit should be paid by Berkeley Homes to whoever Ofgem directed. Ofgem directed that the payment be made to the agents who negotiated the deal. No payment was received by Ofgem.

The remaining £5.0 million will be received by Ofgem on vacation of Millbank, and has been treated as a lease incentive over the expected period to vacation of Millbank. The amount accrued during 2016-17 is disclosed in note 11.

During 2016-17 HM Treasury granted Ofgem permission to retain the prior year excess cash receipts of £9.6m instead of requesting additional cash through the Supplementary Estimate.

13. Provisions for liabilities and charges

13.1 Early retirement

	2016-17	2015-16
	£000	£000
Balance at 1 April	**239**	**332**
Provided in the year	56	16
Provisions not required written back	-	(9)
Provisions utilised in the year	(93)	(100)
Provision at 31 March	**202**	**239**

	2016-17	2015-16
Analysis of expected timings of discounted flows	£000	£000
Not later than one year	18	64
Later than one year and not later than five years	90	87
Later than five years	94	88
Balance at 31 March	**202**	**239**

The department meets the additional costs of benefits beyond the normal PCSPS benefits for employees who retire early, by paying the required amounts monthly to the PCSPS over the period between early departure and normal retirement date. The department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 0.24 (2015-16: 1.37) per cent in real terms.

13.2 Pension liabilities

	2016-17	2015-16
	£000	£000
Provision at 1 April	**762**	**779**
Interest cost	27	27
Actual benefit payments	(18)	(18)
Actuarial (gain)/loss	56	(26)
Past service cost	-	-
Provision at 31 March	**827**	**762**
Net movement in year (excluding actuarial gain/loss)	9	9

	2016-17	2015-16
History of experience losses	**£000**	**£000**
Experience gain arising on the scheme liabilities	(2)	(8)
Amount recognised as a percentage of present value of scheme liabilities	(2.2%)	(1.0%)
Total amount recognised in statement of changes in taxpayers' equity	56	(26)

The pension provision is for the unfunded pension liabilities which fall to us for a previous chief executive and a director general. The pension provision is unfunded, with the benefits being paid as they fall due and guaranteed by Ofgem. There is no fund, and therefore no surplus or deficit. We have sought actuarial advice to ensure that the provision is set at a realistic level.

An actuarial valuation was carried out by the Government Actuary's Department at 31 March 2017. The major assumptions used by the actuary were:

	At 31 March 2017	At 31 March 2016
	% (per annum)	% (per annum)
Inflation assumption -CPI	2.55	2.20
Rate of increase for pensions in payment and deferred income	2.55	2.20

	2016-17	2015-16	2014-15
Analysis of actuarial loss	**£000**	**£000**	**£000**
Experience (gain)/loss arising on the scheme liabilities	(2)	(8)	(3)
Changes in assumptions underlying the present value of scheme liabilities	58	(18)	24
Per statement of changes in taxpayers' equity	56	(26)	21

From 31 March 2017, the discount rate for pension scheme liabilities changed from 1.37% to 0.24%. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2017.

13.3 Dilapidations

	2016-17
	£000
Provision at 1 April	**-**
Provided in the year	50
Provision at 31 March	**50**

	2016-17
Analysis of expected timings of outflows	**£000**
Not later than one year	32
Later than one year and not later than five years	18
Later than five years	-
Balance at 31 March	**50**

In May 2017 Ofgem signed an agreement to cut short the lease agreement for the Glasgow Cornerstone office. Under this agreement Ofgem will vacate the second and third floors by 29 August 2017. As of this date the Health and Safety Executive (HSE) will enter a new lease agreement for the vacant space.

HSE's willingness to accept the administrative transfer of the property is conditional on dilapidations costs being apportioned at a 50:50 split between Ofgem and HSE.

13.4 Voluntary Exit Provision

	2016-17
	£000
Provision at 1 April	**-**
Provided in the year	340
Provision at 31 March	**340**

	2016-17
Analysis of expected timings of outflows	**£000**
Not later than one year	340
Later than one year and not later than five years	-
Later than five years	-
Balance at 31 March	**340**

A number of voluntary exit payments have been agreed with the Cabinet Office and individuals. These are the result of an internal reorganisation within the Corporate Services division.

14. Contingent liabilities disclosed under IAS 37

From time to time we will be subject to legal challenge and judicial review of decisions made in the normal course of our business as regulator of the gas and electricity markets. Legal judgments could give rise to liabilities for legal costs but these cannot be quantified as the outcome of proceedings would be unknown. There is therefore considerable uncertainty about the nature and extent of any subsequent liability.

As at 31 March 2017 there were no contingent liabilities that required disclosure.

15. Related party transactions

During the year, we transferred £6.525 million to the Department for Business, Energy and Industrial Strategy (BEIS). £5.670 million of this was for the energy sector-related costs of Consumer Focus (operating as Consumer Futures) and Citizens Advice. The remaining £0.855 million was transferred for metrology services.

We administer environmental programmes on behalf of BEIS, and second staff to BEIS. Total income from BEIS recognised in year amounted to £19.038 million.

We sublet part of our Millbank premises to the Department for Environment, Food and Rural Affairs (DEFRA). We administer the Northern Ireland Renewable Heat Incentive on behalf of the Department for the Economy (DfE), and administer the Northern Ireland Renewables Obligation on behalf of the Northern Ireland Authority for Utility Regulation (NIAUR). Income recognised in year was £1.378 million from DEFRA, £0.126 million from the NIAUR, and £0.280 million from DfE.

In addition, we have had a small number of transactions with other government departments and central government bodies.

None of the Authority members, key managerial staff or other related parties has undertaken any material transactions with Ofgem during the year except for remuneration which is included on page 52.

16. Third-party assets

Offshore Tender Developer Securities

Along with the government, we have established the competitive offshore transmission regulatory regime to appoint an Offshore Transmission owner through competitive tendering.

We are responsible for managing the competitive tender process through which offshore transmission licences are granted.

Granting licences to operate new offshore transmission assets via a competitive tender process means that generators are partnered with the most efficient and competitive players in the market. This should result in lower costs and higher standards of service for generators and, ultimately, consumers.

Part of Ofgem's risk management strategy for the competitive tender process is to hold securities for the purposes of recovering costs in the event of an incomplete tender process. These securities are in the form of a letter of credit or cash. At 31 March 2017 Ofgem held £9.950m in letters of credit (2015-16 £5.315m) and £1.550m in cash (2015-16 £nil).

Renewables Obligation

The Renewables Obligation (RO), the Renewables Obligation (Scotland) (ROS) and the Northern Ireland Renewables Obligation (NIRO) are designed to incentivise renewable generation in the electricity generation market. These schemes were introduced by the Department of Trade and Industry (now the Department for Business, Energy and Industrial Strategy (BEIS)), the Scottish Executive and the Department of Enterprise, Trade and Investment respectively and are administered by the Gas and Electricity Markets Authority, whose day-to-day functions are performed by Ofgem. The schemes are provided for in secondary legislation and require licensed electricity suppliers to source a certain portion of the electricity they supply from renewable sources or make a payment into the buyout fund, or a combination of both. A Renewables Obligation Certificate (ROC) is evidence that a supplier has sourced its electricity from renewable sources.

All buyout payments go into our buyout funds for a particular compliance period. These payments (including late payments) are then redistributed to suppliers by mid-November following the end of the compliance period (which runs from April to March each year) to those that have presented ROCs. The balance in the buyout fund is normally a small nominal value at the end of each financial year.

The amount held in the buyout funds as at 31 March 2017 was £30 (31 March 2016: £362).

Feed-in Tariff levelisation funds

The Feed-in Tariff (FIT) scheme is a government programme introduced on 1 April 2010 designed to promote the uptake of small-scale renewable and low-carbon electricity generation technologies.

Ofgem administers the scheme on behalf of the Department for Business, Energy and Industrial Strategy (BEIS), who is responsible for the FIT scheme policy and legislation, while Licensed Electricity Suppliers (FIT Licensees) operate the front-facing aspect of the scheme. If a householder, community or business has an eligible installation, they are paid a tariff for the electricity they generate and a tariff for the electricity they export back to the grid by their FIT Licensee.

The levelisation process operated by Ofgem redistributes the cost of the scheme amongst all Licensed Electricity Suppliers, based on their share of the GB Electricity Market and any FIT Payments they have made to accredited installations. This is a quarterly process, with an annual reconciliation process that is completed by September each year. The balance in the levelisation fund is typically a small value at the end of each financial year.

The amount held in the levelisation funds as at 31 March 2017 was £109,337 (31 March 2016: £93,289).

17. Events after the reporting period

The Accounting Officer duly authorised the issue of these financial statements on the date of the Comptroller and Auditor General's audit certificate. The financial statements do not reflect events after this date.

Trust Statement

Accounting officer's foreword to the trust statement

Scope

Ofgem is governed by the Gas and Electricity Markets Authority. The Authority's responsibilities are set out in the Gas Act 1986, the Electricity Act 1989 as amended by the Utilities Act 2000, the Energy Act 2004, the Energy Act 2008, the Energy Act 2010, the Energy Act 2011, the Energy Act 2013, the Energy Act 2016 and related legislation.

The Authority is responsible for enforcing and collecting fines and penalties imposed on the energy companies that it regulates, and collecting the England and Wales, and Scotland fossil fuel levies.

The trust statement reports the revenues and expenditures and assets and liabilities related to fines, penalties and the fossil fuel levies for the financial year 2016-17. These amounts are collected by us for payment into the consolidated fund.

This statement is also prepared to disclose any material expenditure or income that has not been applied to the purposes intended by Parliament, or material transactions that have not conformed to the authorities which govern them. There was no such expenditure or income during 2016-17.

Background

Penalties

Under the Gas Act 1986 and the Electricity Act 1989 the Authority may impose a statutory penalty where it is satisfied that a licence holder has contravened or is contravening any relevant requirement or condition, or has failed or is failing to achieve any standard of performance prescribed.

No penalty imposed by the Authority may exceed 10% of the turnover of the licence holder. Any sums imposed by the Authority by way of a statutory penalty shall be paid into the consolidated fund. In 2016-17, this amounted to £2 in nominal penalties. Nominal penalties are used where cases settle and redress is provided.

The Authority gives notice to the licence holder that it proposes to impose a penalty and consults on this publicly.

Fossil Fuel Levy

The aim of the Non-Fossil Fuel Obligation Orders (England and Wales) was to create an initial market for established renewable generating technologies, in the hope that they would eventually be able to compete without financial support. The NFFO Orders required the former public electricity suppliers (PESs) to purchase a specified amount of electricity from renewable sources. The PESs' additional costs incurred in purchasing electricity from renewable sources were met by means of the Fossil Fuel Levy.

With changes to the Utilities Act 2000 (ie the introduction of New Electricity Trading Arrangements (NETA)) and the introduction of the NFFO Saving Orders, the Non-Fossil Purchasing Agency (NFPA) became the purchaser of output for these NFFO generators at the guaranteed contract price. NFPA sells the output to electricity suppliers (via online auctions) and is entitled to receive levy funds to make up any shortfall.

The Fossil Fuel Levy funded the difference between the contract prices guaranteed to the renewable generators and the market price of electricity. While market price remained below the guaranteed price, the shortfall was made up from Fossil Fuel Levy (FFL) revenues. Licensed electricity suppliers collected FFL from customers, at the rate we fixed, and paid these funds to us for redistribution to qualifying generators.

Suppliers purchasing output from NFFO generators are entitled to the associated Renewables Obligation Certificates (ROCs). There is currently a shortage of ROCs, so the average auction price of output from NFFO contracts currently exceeds the average price guaranteed to the generators under NFFO contracts. Hence the current levy rate which we set is zero. Where the auction price of output exceeds the guaranteed price any surplus is paid into our FFL accounts. There is a similar arrangement for the administration of the Scotland FFL.

Due to the remaining NFFO contracts terminating over the next two years, the level of income from both FFL schemes will continue to reduce.

The Sustainable Energy Act 2003 created a mechanism by which the FFL surplus, up to a maximum of £60 million, could be transferred from the England and Wales levy account to the consolidated fund. The Secretary of State for Business, Energy and Industrial Strategy (BEIS) has a duty to spend the amount for the purpose of promoting the use of energy from renewable sources. A parallel provision was included in the Energy Bill for the Scottish Executive relating to the Scotland levy account.

Since the £60 million limit has been exceeded, all further FFL receipts are treated as hereditary revenue, as they are non-statutory receipts. Section 1 of the Civil List Act 1952 requires hereditary revenues to be paid into the consolidated fund. On 30 March 2017, £8.6 million was transferred to the consolidated fund from the England and Wales account on this basis.

In agreement with the Treasury, approximately £30 million is maintained as a minimum balance on the England and Wales FFL account. This amount represents levy paid by consumers before the rate was reduced to 0% on 1 April 2002, and which it is agreed should remain in the account, as a reserve against the contingency that we should again be obliged to make payments to qualifying generators.

Under section 187 of the Energy Act 2004, the Scottish government may direct us to pay an amount from the Scottish levy account to the Scottish consolidated fund. No such direction was received during 2016-17.

Financial review

This year we imposed penalties on companies that required them to make restitution to affected customers or otherwise support the interests of energy consumers. This financial review covers penalties that resulted in the distribution of funds to the consolidated fund.

ScottishPower

On 8 June 2016 we issued a notice confirming our decision to impose a statutory penalty of £1, and by way of redress of £18 million (less £1), on ScottishPower following an investigation by Ofgem into ScottishPower's compliance with a number of relevant conditions and requirements set out in the Supply Standard Licence Conditions (SLCs) and the Consumer Complaints Handling Regulations (CHRs). The SLCs set out the rules on how licensees can operate within the terms of their gas and electricity supply licences. The CHRs prescribe the minimum standards regulated providers are required to meet in the handling of consumer complaints.

ScottishPower agreed to pay £17,999,999 in consumer redress payments. Of the proposed redress, up to £15 million is to go to vulnerable customers directly affected by ScottishPower's failings. At least £3 million is to go to National Energy Action and Energy Action Scotland, working in conjunction with MacMillan Cancer.

British Gas

On 27 January 2017 we issued a notice confirming our decision to impose a statutory penalty of £1, and by way of redress of £4.5 million (less £1) on British Gas following an investigation by Ofgem into British Gas' compliance with Standard Licence Condition 12 of the Electricity Supply Standard Licence Conditions (SLC 12), in relation to advanced meters for non-domestic premises.

British Gas agreed to pay £4,499,999 in consumer redress payments to the Carbon Trust. These monies are to be used to help businesses across Great Britain save energy via energy saving audits and advice, and installation of energy efficiency measures.

Fossil Fuel Levy

During 2016-17, we collected cash totalling £9.4 million in respect of the England and Wales levy, and £3.7 million in respect of the Scotland levy. £8.6 million from the England and Wales levy was paid over to the consolidated fund. The decrease in the amounts collected compared to 2015-16 reflects a decrease in the number of NFFO contracts. This decrease will continue until 2018-19 when the last contracts will end. The costs associated with administering the two levies are recovered from the levy by us and are shown as income within our resource accounts.

Auditors

The trust statement is audited by the comptroller and auditor general under section 7 of the Government Resources and Accounts Act 2000. The audit opinion is on pages 93 to 94. The auditor's notional remuneration for this is included in our resource accounts.

There were no fees for non-audit work.

Basis for preparation

The HM Treasury Accounts Direction, issued under section 7(2) of the Government Resources and Accounts Act 2000, requires us to prepare the trust statement to give a true and fair view of the state of affairs relating to the receipt and payover of the FFL, and fines and penalties. Regard is given to all relevant accounting and disclosure requirements given in Managing Public Money and other guidance issued by the Treasury.

Accounting judgements

As accounting officer, it is my responsibility to apply suitable accounting policies in the preparation of the trust statement. Revenues are recognised in the month to which the levy relates.

Events after the reporting period

There were no events after the reporting period.

Dermot Nolan
Accounting officer

16 June 2017

Statement of the accounting officer's responsibilities in respect of the trust statement

Under section 7 of the Government Resources and Accounts Act 2000, the Treasury has directed the Office of Gas and Electricity Markets (Ofgem) to prepare for each financial year a trust statement in the form and on the basis set out in the Accounts Direction.

The Treasury has appointed the chief executive as accounting officer of Ofgem, with overall responsibility for preparing the trust statement and for transmitting it to the comptroller and auditor general.

The responsibilities of an accounting officer, including responsibility for the propriety and regularity of the public finances for which an accounting officer is answerable, for keeping proper records and for safeguarding our assets, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in Managing Public Money.

The trust statement is prepared on an accruals basis and must give a true and fair view of the state of affairs of fines and penalties imposed by Ofgem, and the Fossil Fuel Levy for England, Wales and Scotland collected by us, together with the net amounts surrendered to the consolidated fund.

In preparing the trust statement, the accounting officer must comply with the requirements of the Government Financial Reporting Manual prepared by the Treasury and, in particular, should:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the account
- prepare the trust statement on a going-concern basis.

Governance statement

Ofgem's governance statement, covering both the resource accounts and the trust statement, is on pages 44 to 50.

The certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets Trust Statement for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Office of Gas and Electricity Markets Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Office of Gas and Electricity Markets; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report and the Accounting Officer's foreword to the Trust Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Office of Gas and Electricity Markets Trust Statement as at 31 March 2017 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Annual Report and the Accounting Officer's foreword to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP

22 June 2017

Statement of revenue, other income and expenditure for the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
Revenue			
Fines and penalties			
Penalties imposed	2.1	-	-
Fossil Fuel Levy			
Fossil Fuel Levy (England and Wales)		6,721	20,529
Fossil Fuel Levy (Scotland)		3,622	5,595
Other income			
Interest on penalties		-	-
Interest on Fossil Fuel Levy (England and Wales)		60	124
Interest on Fossil Fuel Levy (Scotland)		66	102
Total revenue and other income		**10,469**	**26,350**
Expenditure			
Administration of the Fossil Fuel Levy		(57)	(67)
Total expenditure		**(57)**	**(67)**
Net revenue for the consolidated fund		**10,412**	**26,283**

There were no recognised gains or losses accounted for outside the above statement of revenue, other income and expenditure.

The notes at pages 98 to 100 form part of this statement.

Statement of financial position as at 31 March 2017

		2016-17	2015-16
	Note	£000	£000
Current assets			
Receivables and accrued revenue receivable	3	1,020	3,773
Cash at bank – UK consolidated fund		29,915	29,111
Cash at bank – Scottish consolidated fund		41,045	37,291
Net current assets		71,980	70,175
Current liabilities			
Payables and accrued expenditure liabilities	4	(2)	(9)
Total net assets		**71,978**	**70,166**
Represented by:			
Balance on UK consolidated fund account		30,268	32,134
Balance on Scottish consolidated fund account		41,710	38,032
	5	71,978	70,166

Dermot Nolan
Accounting officer

16 June 2017

Statement of cash flows for the year ended 31 March 2017

	2016-17	2015-16
	£000	£000
Net cash flow from operating activities	13,159	33,812
Cash paid to the consolidated funds	(8,600)	(28,000)
Increase in cash in the period	**4,559**	**5,812**

Notes to the cash flow statement

A: Reconciliation of net cash flow to movement in net funds

		2016-17	2015-16
	Note	£000	£000
Net revenue for the consolidated fund		10,412	26,283
Decrease in non-cash assets	3	2,754	7,532
Decrease in liabilities	4	(7)	(3)
Net cash flow from operating activities		13,159	33,812

B: Analysis of changes in net funds

	2016-17	2015-16
	£000	£000
Increase in cash in the period	4,559	5,812
Net funds at 1 April 2016	66,402	60,590
Net funds at 31 March 2017	70,961	66,402

The notes at pages 98 to 100 form part of this statement.

Notes to the trust statement

1. Statement of accounting policies

1.1 Basis of accounting

The trust statement is prepared in accordance with the accounts direction issued by the Treasury under section 7 of the Government Resources and Accounts Act 2000 and in accordance with the accounting policies detailed below. These have been agreed between Ofgem and the Treasury and have been developed with reference to International Financial Reporting Standards and other relevant guidance. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The income and associated expenditure contained in these statements are those flows of funds which Ofgem handles on behalf of the consolidated fund and where it is acting as agent rather than as principal.

The financial information contained in the statements and in the notes is rounded to the nearest £1,000.

1.2 Accounting convention

The trust statement has been prepared in accordance with the historical cost convention.

1.3 Revenue recognition

Fines, penalties and levies are measured in accordance with IAS 18. They are measured at the fair value of amounts received or receivable. Income is recognised when:

- a fine or penalty is validly imposed and an obligation to pay arises
- a levy payment becomes due.

2. Revenue

2.1 Fines and penalties

During 2016-17 and 2015-16 only nominal penalties were received by Ofgem.

3. Receivables and accrued revenue receivable

	Accrued revenue receivable at 31 March 2017	Total as at 31 March 2017	Total as at 31 March 2016
	£000	**£000**	**£000**
Fines and penalties	-	-	-
Fossil Fuel Levy	1,020	1,020	3,773
Total	**1,020**	**1,020**	**3,773**

Receivables represent the amounts due from those on whom financial penalties have been imposed or a levy assessed at the balance sheet date, but where receipt is made subsequently.

Nominal penalties receivable do not show due to roundings.

4. Payables and accrued expenditure liabilities

	Payables as at 31 March 2017	Total as at 31 March 2017	Total as at 31 March 2016
	£000	**£000**	**£000**
Fossil Fuel Levy	2	2	9
Total	**2**	**2**	**9**

Payables are the amounts established as due at the balance sheet date, but where payment is made subsequently.

5. Balance on the consolidated fund accounts

	2016-17	2015-16
	£000	£000
Balance on the consolidated fund accounts	70,166	71,883
Net revenue for the consolidated fund accounts	10,412	26,283
Less amount paid to the consolidated funds	(8,600)	(28,000)
Balance on consolidated fund accounts as at 31 March	**71,978**	**70,166**

Appendices

Appendix I
Performance against 2016-17 deliverables

Our Forward Work Programme for 2016-17 included deliverables to be achieved in each quarter. The Forward Work Programme for 2016-17 structured deliverables by our strategic outputs.

The table below and detail on the following pages show the deliverables we met.

	Number in Forward Work Programme	Total achieved (excluding quarterly actions)		Deferred to 2017-18
		Met in quarter	Met in later quarter	
Full year				
Year total	**34**	**27**	**4**	**3**
First quarter				
Quarter total	4	2	2	-
Second quarter				
Quarter total	9	9	-	-
Third quarter				
Quarter total	12	10	2	-
Fourth quarter				
Quarter total	9	6	-	3

Regulation of network companies and other monopolies		
Action	**Quarter Due**	**Actual Quarter**
Complete Annual Iteration Process	Q3	Q3
Publish RIIO T1, GD1 and ED1 annual reports	Q4	Q4
Publish Distribution Price Control Review 5	Q3	Q3
Publish the review of the Low Carbon Network Fund	Q3	Q4
Publish the RIIO mid-period review	Q3	Q3
Publish decision on form of regulatory financial reporting standard for RIIO accounts	Q4	Deferred to 2017-18
Implement changes to NEMOlink interconnector licence for cap and floor	Q1	Q3
Publish consultation on initial project assessment of second window cap and floor applications	Q4	Deferred to 2017-18
Publish regulatory report on offshore transmission owners (OFTO) revenues	Q3	Q3
Implement changes to the National Grid Electricity Transmission (NGET) licence for cross border electricity interconnector regimes	Q1	Q3
Publish Interconnector Use of Revenue statement approvals	Q2	Q2

Effective Competition		
Action	**Quarter Due**	**Actual Quarter**
Publish first design baseline on Switching Programme blueprint phase	Q4	Q4
Publish third annual 'enforcement scorecard'	Q1	Q1
Publication of our annual non-domestic consumer survey	Q4	Q1 (2017-18)
Publish consultation on detailed arrangements for introducing competitive tenders for onshore transmission	Q2	Q2
Publish annual review of interest during construction for generator build offshore transmission projects	Q4	Q3

High Standards of Outputs and Protection		
Action	**Quarter Due**	**Actual Quarter**
Publish domestic suppliers' social obligations annual report	Q2	Q2
Publish our research of customers' satisfaction with suppliers' complaints handling	Q2	Q2
Publication of consultation on supply licence principles	Q3	Q4

Trust and Confidence		
Action	**Quarter Due**	**Actual Quarter**
Publish annual Liquidity Report	Q3	Q3
Publish our second annual Retail Energy Market Report	Q2	Q2
Publish an updated Wholesale Energy Market report	Q3	Q3
Publish liquidity metrics on our website for both gas and electricity	Quarterly	Quarterly
Publish annual report on the FIT scheme	Q3	Q3
Publish annual report on the RO scheme	Q4	Q4
Publish annual report on the Domestic Renewable Heat Incentive (RHI) Scheme	Q2	Q2
Publish annual report on the Non-Domestic RHI scheme	Q2	Q2
Publish annual report on the WHD scheme	Q3	Q3
Publish FIT annual levelisation process	Q2	Q2
Publish quarterly report on Domestic RHI scheme	Quarterly	Quarterly
Publish quarterly report on Non-Domestic RHI scheme	Quarterly	Quarterly
Publish compliance progress reports against ECO	Quarterly	Quarterly

Efficiency and Effectiveness		
Action	**Quarter Due**	**Actual Quarter**
Publish the 2015-16 Annual Report and Accounts	Q2	Q1
Publish consultation on the 2017-18 Forward Work Programme	Q3	Q3
Publish final 2017-18 Forward Work Programme	Q4	Q4
Publish Simplification Plan 2017-18	Q4	Q4
Publish regulatory stances	Q3	Q3

Setting the rules for markets		
Action	**Quarter Due**	**Actual Quarter**
Publish letter outlining our intention to launch a Significant Code Review following publication of a joint consultation with DECC/BEIS on the plan for mandatory Half Hourly Settlement	Q1	Q1

Appendix II
Key Performance Indicators 2016-17

Effective Competition			
Metric (KPIs)	**Details of what is being measured**	**Annual target 2016-17**	**Actual**
RMR Derogation requests	Make decisions on RMR derogation requests within 60 working days of receiving a request (unless formal consultation is needed)	90%	100%
Offshore Transmission processing	Licence grant within 70 days of commencement of Section 8a consultation	70 working days	100%
Offshore Transmission processing	Preferred bidder selection within 120 days of ITT submission (excluding Best And Final Offer)	120 working days	67%[6]

High Standards of Outputs and Protection			
Metric (KPIs)	**Details of what is being measured**	**Annual target 2016-17**	**Actual**
Licence Applications	Make decisions on licence applications within 45 days	100%	100%
Code Modifications	Make code modification decisions within 25 working days of receiving the Final Modification Report (or, where applicable, final responses to a Final Impact Assessment or other Ofgem consultation) and, where applicable, publish code modification Impact Assessment (or other Ofgem consultation) within 3 months of receiving the Final Modification Report.	90%	83%[7]
Domestic Renewable Heat Incentive (RHI) processing	Applicants to receive an automatic decision on the day of application	60%	51%[8]
Domestic Renewable Heat Incentive (RHI) processing	On-line application system availability during supported business hours of 08:00-17:30 Monday to Friday excluding bank holidays (excluding planned down time)	99% availability	99.7%

[6] There were three in total during the year - one of which took 39 days longer than the target of 120 days to select the preferred bidder.
[7] Figure is rolling throughout the year - falling to 83% by the end of the year due to a high volume of code modifications related to embedded benefits issues, which have been consulted on, resulting in a larger number of decisions being made beyond 25 working days.
[8] During 2016-17 our 'Responding to stakeholders key performance indicator (KPI) was based on a target of 60% of applications receiving an automatic decision on the day of application. This KPI was an aim based on the expected market segmentation and technology mix for 2016/17. In reality, there were significantly reduced levels in some market segments and technologies, which meant that the anticipated auto-accreditation rate was not achievable.

High Standards of Outputs and Protection			
Metric (KPIs)	**Details of what is being measured**	**Annual target 2016-17**	**Actual**
Non-Domestic Renewable Heat Incentive (RHI) processing	On-line application system availability during supported business hours of 08:00-17:30 Monday to Friday excluding bank holidays (excluding planned down time)	99% availability	99.5%
Non-Domestic Renewable Heat Incentive (RHI) processing	Responses to email enquiries and follow up with generators on outstanding issues with their applications for accreditation	90% within 10 working days	95.5%
Energy Company Obligation (ECO)	Responses to email enquiries within 10 working days	90%	95.9%
Energy Company Obligation (ECO)	On-line application system availability during supported business hours of 08:00-17:30 Monday to Friday excluding bank holidays (excluding planned down time)	99% availability	99.9%
Renewables Obligation (RO) processing	Follow up with the generators outstanding issues on their applications for accreditation	90% within 10 working days	99.3%
Renewables Obligation (RO) processing	On-line application system availability during supported business hours of 08:00-17:30 Monday to Friday excluding bank holidays (excluding planned down time)	99% availability	99.7%
Feed-in Tariff (FIT) processing	Follow up with the generators outstanding issues on their applications for accreditation	90% within 10 working days	98.6%
Feed-in Tariff (FIT) processing	On-line application system availability during supported business hours of 08:00-17:30 Monday to Friday excluding bank holidays (excluding planned down time)	99% availability	99.7%
Warm Home Discount (WHD) processing	Respond to obligated party Warm Home Discount schemes for approval	100% within 28 days	100%

Trust and Confidence			
Metric (KPIs)	**Details of what is being measured**	**Annual target 2016-17**	**Actual**
Customer Contacts	Time taken for first substantive response to customer contacts	93% - 10 working days	92.8%
Whistle-blowers	Time taken for first response to whistle-blower contacts	90% to receive initial engagement within 1 working day	100%

Efficiency and Effectiveness			
Metric (KPIs)	**Details of what is being measured**	**Annual target 2016-17**	**Actual**
Non-Domestic Renewable Heat Incentive (RHI) processing	Payments made following accurate quarterly periodic data submission	95% within 30 working days	97.2%
Domestic Renewable Heat Incentive (RHI) processing	Timely Domestic RHI payments	Pay 95% of payments within 5 working days of due payment date	98.5%
Renewables Obligation (RO) processing	Issue the main batches of ROCs following the generators' reporting deadline of their output data	95% within 17 working days (April - June) 95% within 12 working days (July -March)	98.8%
Feed-in Tariff (FIT) processing	Feed-in Tariffs levelisation process to be completed in a timely manner after receipt of data from suppliers	95% within 22 working days	100%
Energy Company Obligation (ECO)	Processing measures submitted within one calendar month	95%	97.6%

Appendix III
Impact assessments undertaken in 2016–17

We published 13 impact assessments between 1 April 2016 and 31 March 2017. Further information on the following documents can be found at **www.ofgem.gov.uk.**

Date	Title
28 July 2016	Impact assessment on review of domestic objections
28 July 2016	Impact assessment on review of non-domestic objections
14 September 2016	Prepayment meters installed under warrant draft impact assessment
1 December 2016	RIIO innovation review
1 March 2017	Embedded Benefits: Consultation on CMP264 and CMP265 minded to decision and draft Impact Assessment
12 January 2017	Future arrangements for the electricity system operator: Its role and structure
27 May 2016	Extending competition in electricity transmission (updated impact assessment)
12 May 2016	Decision on a mid-period review for RIIO-T1
24 February 2017	MPR parallel work - output accountability
24 February 2017	MPR parallel work - connections volume driver
24 February 2017	Late delivery of wider work outputs
3 February 2017	Impact Assessment on a proposed licence condition to prohibit potential abuse of transmission constraints by generators in the balancing mechanism
3 August 2016	Impact Assessment on a proposed licence condition to prohibit potential abuse of transmission constraints by generators in the balancing mechanism

Appendix IV
Investigations and enforcement action 2016-17

Details of our cases are available on our website[9] in accordance with our policy as set out in our Enforcement Guidelines[10]. We will usually publish brief details of the facts and nature of the investigations on our website[11], although policy is different for the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT).

Below you can find details of the investigations that we have completed this year. In investigations where we secured redress, the companies made payments either directly to consumers and/or to programmes and funds that would benefit them.

Company	Issue	Decision	Date of decision
British Gas	Compliance with Standard Licence Condition 12 in relation to installation of advanced meters for non-domestic premises.	Settlement. British Gas has agreed to pay a £1 penalty and £4.5 million (less £1) in redress to the Carbon Trust to help businesses save energy via energy saving audits and advice, and the installation of energy efficiency measures.	January 2017
SSE	Compliance with Chapter II of the Competition Act 1998 and/or Article 102 Treaty on the Functioning of the European Union in relation to points of connection.	Closed. The Authority has accepted binding commitments from SSE to improve services needed for competitors to connect customers to its distribution networks.	November 2016
Not disclosed	Compliance with Chapter I of the Competition Act 1998 and/or Article 101 Treaty on the Functioning of the European Union in relation to use of third party intermediaries/price comparison websites.	Closed. The Authority transferred its Competition Act investigation to the Competition and Markets Authority (the CMA). The CMA has closed this investigation.	June 2016
Scottish Power	Compliance with Standards of Conduct for domestic customers (Standard Licence Condition 25C), Standard Licence Condition 27 in relation to the provision of final bills, and the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008.	Settlement. ScottishPower agreed to pay a £1 penalty and £18 million (less £1) in redress to customers affected by its failings, and made payments to National Energy Action and Energy Action Scotland working in partnership with Macmillan Cancer Support to offer energy related assistance to individuals and households living with cancer.	June 2016

[9] https://www.ofgem.gov.uk/investigations
[10] https://www.ofgem.gov.uk/ofgem-publications/89753/enforcementguidelines12september2014publishedversion.pdf
[11] Regarding open cases, the fact that we have opened an investigation, does not imply that the companies involved have breached licence conditions or other obligations.

Below are details of redress that Ofgem has secured through alternative action or compliance work. This gives a company a chance to swiftly put things right for consumers without us finding a breach.

Company	Issue	Outcome	Date
Ovo	Failure to meet the Guaranteed Standards[12] after its agents missed appointments with customers, or turned up late, and then failed to compensate them as required by Ofgem.	OVO Energy agreed to pay £58,000 to charity Step Change to help indebted energy consumers.	December 2016
Co-operative Energy	Co-operative Energy let customers down in its complaints resolution, call handling and billing processes.	Co-operative Energy has agreed to pay £1.8 million to customers affected by its issues.	October 2016
E.ON	Failure to meet the Guaranteed Standards after its agents missed appointments with customers and then failed to compensate them as required by Ofgem.	E.ON agreed to pay £1.2 million to affected customers and £1.9 million to charity to help customers in need including service personnel through National Energy Action's 'Heat for Heroes' scheme.	September 2016
Western Power Distribution (WPD)	Error in application of charging methodologies. Request for derogations to enable corrections.	WPD agreed to make a goodwill payment of £300,000 to charities (Energy Savings Trust and Centre for Sustainable Energy) to help vulnerable and/or fuel poor customers, in addition to making sure no one lost out as a result of the error in the charging calculations.	March 2017

[12] https://www.ofgem.gov.uk/publications-and-updates/supplier-guaranteed-and-overall-standards-performance-reforms-final-decision-and-statutory-instrument

Below are the open investigations as at the end of March 2017. Please note, the opening of an investigation does not imply that we have made any finding(s) about non-compliance. Ofgem does not publish information on all open investigations. In particular, Ofgem is conducting investigations into potential failures to comply with REMIT requirements. However, as a general rule, we do not comment further on these investigations, including who we are investigating, unless we consider it necessary to do so in the interests of consumers or market confidence.

Company	Date Opened	Issue
Not disclosed	October 2016	Investigation into whether there has been an infringement of Chapter I of the Competition Act 1998 in relation to possible anti-competitive agreements and concerted practices.
E (Gas and Electricity)	September 2016	Investigation into whether E (Gas and Electricity) has complied with the relevant conditions set out in Standard Licence Condition 25 in relation to its sales and marketing obligations.
Economy Energy	September 2016	Investigation into whether Economy Energy has complied with the relevant conditions set out in Standard Licence Condition 25 in relation to its sales and marketing obligations.
SSE	July 2016	Investigation into whether SSE has complied with Standard Licence Conditions 25C, 27.1, 28.1, 27.5, 27.6 and 27.8 in relation to treating its customers fairly when switching them to pre-payment meters under the gas and electricity supply licences.
Extra Energy	July 2016	Investigation into whether Extra Energy has complied with its obligations under Standard Licence Condition 7B, 14, 21B, 25C, 27, 31A and with the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008 in relation to billing, customer service and complaints handling.
British Gas	October 2015	Investigation into whether British Gas has complied with the Standards of Conduct for Micro Business Consumers (Standard Licence Condition 7B) and Standard Licence Conditions 7A, 14, 14A and 21B in relation to Micro Business contracts, transfer blocking, customer transfers and billing, and with the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008.
Npower	September 2014	Investigation into whether Npower has complied with Standard Licence Condition 12 in relation to taking all reasonable steps to install, and supply electricity through advanced meters at the premises of its larger non-domestic customers

Appendix V
Off-payroll engagements

Off-payroll engagements as of 31 March 2017, for more than £220 per day and that last for longer than six months

The following table summarises the situation on off-payroll engagements as at 31 March 2017:

Number of existing engagements as of 31 March 2017	21
Of which:	
No. that have existed for less than one year at time of reporting.	13
No. that have existed for between one and two years at time of reporting.	6
No. that have existed for between two and three years at time of reporting.	1
No. that have existed for between three and four years at time of reporting.	0
No. that have existed for four or more years at time of reporting.	1

All existing off-payroll engagements, outlined above, have at some point been subject to a risk-based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

New off-payroll engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017, for more than £220 per day and that last for longer than six months

No. of new engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017	14
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	13
No. for whom assurance has been requested	10
Of which:	
No. for whom assurance has been received	10
No. for whom assurance has not been received	0
No. that have been terminated as a result of assurance not being received.	0

Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2016 and 31 March 2017

No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	0
No. of individuals that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year. This figure should include both off-payroll and on-payroll engagements.	2

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