Making a positive difference
for energy consumers

We are here to make a positive difference for all energy consumers, now and in the future.

2018-19

Office of Gas and Electricity Markets (Ofgem)

Annual Report and Accounts

HC 2317

ofgem

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for energy consumers

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Annual Report and Accounts

(For the year ended 31 March 2019)

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About us

We are the Gas and Electricity Markets Authority (the Authority), the independent energy regulator of Great Britain, working to protect the interests of current and future energy consumers. We operate through the Office of Gas and Electricity Markets (Ofgem)[1].

Our core purpose is to ensure that all consumers can get good value and service from the energy market. We favour market solutions where practical, incentive regulation for monopolies, and an approach that seeks to enable innovation and beneficial change while protecting consumers.

Section 5 of the Utilities Act 2000 (under which we are established) requires that we publish this report each year and that certain elements are included. A note on these statutory requirements can be found at Appendix V (page 110).

This report summarises our progress against the projects described in our 2018-19 Forward Work Programme (FWP). It also assesses how our actions have contributed to protecting the interests of all current and future consumers – from domestic, including vulnerable consumers, to commercial businesses – and the strategic outcomes we seek to bring about, which are:

1. **Lower bills** than would otherwise have been the case.
2. **Reduced environmental damage** both now and in the future.
3. **Improved reliability and safety**.
4. **Better quality of service,** appropriate for an essential service.
5. **Benefits for society as a whole** including support for those struggling to pay their bills.

[1] For the purpose of this report the terms "Authority" and "Ofgem" are used interchangeably

Chairman's foreword
Martin Cave

In October 2018, I started my five-year term as Chair of Ofgem. Since then I have learnt a lot about the sector through numerous visits, meetings and events across Great Britain to see first-hand the immense challenges and opportunities the sector faces.

Importantly, I have also had the privilege of meeting directly with the people we serve to understand the many challenges people face accessing energy to meet their needs as an essential service.

Over the past eight months I have been here, seven new people have been added to Ofgem's board, bringing in expertise and experience from a range of sectors and backgrounds. I have been very impressed by the dedication and expertise demonstrated by Ofgem's staff in tackling the highly complex issues that the organisation seeks to respond to.

To help us meet the challenges of the future, in the past year we have been redesigning and reprioritising our work in order to become a more agile, effective organisation. This embraces our work both in regulation and in administration of government schemes supporting sustainability and vulnerabile customers. This has meant economising on some activities, and acting with greater speed and flexibility in response to rapid and sometimes unexpected changes.

At Ofgem, we think it's hugely important for us to put more effort and resources into becoming a more diverse organisation. So this year we launched our first Diversity and Inclusion Strategy which includes targets to improve how diverse we are as an organisation – including in terms of ethnicity, gender, and the number of staff with disabilities or who come from different backgrounds.

We have also challenged the sector to be more diverse itself, particularly at senior levels, as we firmly believe this will help them make better decisions and better serve their customers.

So what about the year ahead – and beyond?

In 2019, Ofgem's board will set out our strategic objectives in how we should change both the nature of the regulatory and other tasks we perform, and how we should change the way we work, as an organisation. The energy system is undergoing a fundamental transformation as the processes of decarbonisation, digitalisation and decentralisation accelerate.

We cannot know how the future will evolve, but we can be sure that the pace of change will continue and that we will have to be a more agile and responsive organisation to meet this challenge.

The Board itself is determined to change the nature of its own contribution, away from the details of economic regulation and scheme administration towards a more selective and strategic focus on the health of the organisation and on Ofgem's overall impact on providing benefits to our ultimate clients – who are all existing and future energy customers.

I am grateful to my predecessor as Chair, David Gray, who served Ofgem with distinction for five years.

I would also like to pay tribute to our outgoing CEO, Dermot Nolan, who over the past six years has steered Ofgem through a period of immense change. His legacy to Ofgem will be to have left an organisation with a clearer vision for the future and an enhanced capacity to fulfil our principal duty to protect consumers.

I look forward to working with you all on these important challenges in the future.

Martin Cave
Chairman

Chief Executive's Officer's Report
Dermot Nolan

It has been another important year for the sector as the energy transition picks up pace and the public's attention increasingly turns to how we can meet the carbon challenge.

Recently the energy sector reached another milestone on the path to decarbonisation with the first two weeks without using electricity from burning coal since the 1880s.

At Ofgem, we have been preparing ourselves internally to meet the complexity, pace of change and uncertainty facing the energy sector that has recently become the new norm.

At the beginning of the year we introduced a price cap on default tariffs which will save over £1 billion per year for consumers, and have continued to put in place reforms to help transform the energy market so that it works well for all consumers. This new system will be more complex, and so this year we updated our consumer vulnerability strategy to set out what we think is important for the next 5-6 years to make sure the most vulnerable are adequately protected in the future market.

We saw a number of suppliers exit the market over the past year. While this is to be expected in a properly functioning market, we have reviewed our approach to licensing and regulating suppliers in a way that we think will raise standards around financial resilience and customer service.

In May we announced our decision on the methodology that will apply to the RIIO-2 price controls for the energy network companies. This will drive better value for consumers by learning the lessons from the past, at the same time as preparing the networks for the energy system of the future.

The changes we are seeing to the energy system also mean we have had to consult on reforming the network charging systems to promote more efficient use of the existing system, reduce the need for expensive new wires and power stations, and minimise costs to consumers.

Our E-Serve directorate continued to efficiently deliver a diverse array of renewable energy and social schemes on behalf of the governments that we work with, and we have cooperated fully with the public inquiry into the Non-Domestic Renewable Heat Incentive Scheme in Northern Ireland.

This Foreword will be my last as CEO of Ofgem as my term comes to an end in February 2020. As I look to the future for Ofgem and the wider energy sector, whilst the challenges may be significant, it will also be an exciting time to work in a sector that can, and must, play a leading role in meeting the net zero challenge and ensuring no consumers are left behind in the transition.

In the last year a number of new appointments have been made to the executive team and board at Ofgem, including our new Chair, Martin Cave. This new strengthened leadership will undoubtedly equip Ofgem well to deliver on the outcomes we seek to achieve for consumers in the future.

I would finally like to pay tribute to all the staff at Ofgem, who I have immense respect for the professionalism and hard work they demonstrate as public servants. It has been a privilege to work with you to deliver improved outcomes for consumers during my time here – and I wish you all well for the future.

Dermot Nolan
CEO

Performance Report

Overview

The purpose of our performance report is to describe our work towards meeting our objectives, along with our strategic approach and the principal risks we have faced.

During 2018/19, we aimed to work towards five over-arching customer outcomes. These are: lower bills; lower environmental impacts; improved reliability and safety; better quality of service; and benefits for society as a whole.

In working towards these outcomes, we sought to derive maximum benefit for consumers through the following key priorities:

- **Enabling a better functioning retail market,** which works for all consumers, including those in vulnerable circumstances;
- **Facilitating change in the energy system,** supporting the transition to a lower-carbon, more decentralised, flexible and dynamic energy system, which benefits consumers;
- **Ensuring network companies deliver for consumers in a changing system,** as they respond to wider system changes across the sector;
- **Identifying opportunities and managing long-term risk on behalf of consumers,** through our core regulatory role and monitoring, compliance and enforcement work; as well as through consumer research, horizon scanning and maintaining our industry-specialist skills.

As part of our work towards the above priorities and outcomes, we have in place a robust approach to risk management, which aims to identify and address risks that may impact our effectiveness and efficiency in meeting these aspirations.

Detail of our Key Performance Indicators (KPIs) can be found in Appendix I (see page 101).

We have completed several important pieces of work during the year. For example, on 1st January 2019, the temporary tariff cap (or Price Cap) was introduced for customers on Standard Variable Tariffs (SVTs). We also introduced five new enforceable principles, which put an emphasis on allowing suppliers to communicate with customers in new and innovative ways. Separation between National Grid's Electricity System Operator (ESO) and Transmission Owner (TO) went live on 1st April 2019, clearing the way for the ESO to step up and take on enhanced system planning roles. Further detail can be found on these and other achievements below, along with our progress on work which is ongoing into 2019/20.

Enabling a better functioning retail market

Introducing temporary price protections

In July 2018, the Domestic Gas and Electricity (Tariff Cap) Act 2018 came into force, requiring the introduction of a temporary tariff cap (or **Price Cap**) for customers on Standard Variable Tariffs (SVTs). The Government had been concerned that energy suppliers had been overcharging customers who did not switch tariff or supplier, to find a cheaper deal that suited their needs. During the year, we carried out a statutory consultation to consider the design and implementation of a Price Cap, including how that Cap would be set and periodically adjusted.

Our decision was published in November, and **the Price Cap came into force on 1 January 2019.** The Cap level will be reviewed every six months to reflect changes in the underlying costs of supplying energy. In February, we set the level of the Cap for the second period, starting on 1 April 2019. The level increased, reflecting higher costs of wholesale energy. By introducing the Price Cap, customers on SVTs will save an estimated £1 billion on their energy bills each year.[2]

Improving retail market conduct

It is crucially important that suppliers give customers **the right information, in the right format at the right time** to enable customers to understand their costs and consumption, understand their options, and make good decisions. However, we recognised that the rules in place to secure this had become unnecessarily prescriptive.

We adopted a **principles-based approach to reform our rules for supplier-consumer communications**. By putting in place new requirements for suppliers, our aim has been to allow them to communicate with their customers in new innovative ways. In December 2018, we published a decision following extensive stakeholder engagement, confirming that we would **introduce five new enforceable principles**.

Changes to our rules, which came into effect in February 2019, allow us to hold energy suppliers to account for delivering good outcomes for consumers, while at the same time remove the burden of around 50 pages of licence conditions.

We began updating our 2013 **Consumer Vulnerability Strategy,** in which we intend to clarify the Authority's strategy for the next five to six years, as the energy market transitions to smarter technologies and new business models.

Our focus has been to **measure and track the impact on consumers in vulnerable situations** to ensure that they are not left behind, and **experience positive benefits from market change**. We took a whole system approach, to ensure that network companies and suppliers delivered their obligations to their vulnerable consumers. In December 2018, we published an open letter, setting out **five potential areas for us to focus on**. This has been the basis for the draft strategy that was reviewed by the Authority in February 2019. A final version of the Consumer Vulnerability Strategy will be published later in 2019.

The number of entrants to the retail energy markets has increased significantly in the last half decade. This has brought benefits to consumers through increased price competition and pressure on incumbent suppliers to improve their customer service offering. However, we have also seen an **increase in supplier failures and inadequate customer service provision in certain cases.** While our current arrangements have successfully protected consumers when a supplier fails, **failure is disruptive, and can impose costs on the industry**. Also, frequent supplier failures risk undermining consumers' confidence in the market.

Our **Supplier Licensing Review** aims to strengthen our licensing and regulatory regime to drive up standards in the sector and minimise the industry

[2] For further information on methodology, see: https://www.ofgem.gov.uk/system/files/docs/2018/11/appendix_11_-_final_impact_assessment.pdf

and consumers' exposure to financial risks and poor customer service. In June 2018, we published an open letter on the scope and the objectives of our review, and shortly afterwards, a consultation on our 'supplier of last resort' (SoLR) licence conditions.

A decision, to implement tougher entry requirements was published in April 2019 and the legal changes to implement the regime were made in June 2019. Under our new requirements, energy suppliers applying for a licence must demonstrate that they have the appropriate resources to enter the market, understand their regulatory obligations and have appropriate plans in place to meet them, and be 'fit and proper' to hold a supply licence. We are now focusing on the other work streams under our review, and will consult later this year on the ongoing requirements for suppliers operating in the market, as well as on potential improvements to exit arrangements.

Related to this work, we also consulted on changes to the Supplier of Last Resort Supply Licence conditions in June 2018, and the amended licence conditions came into effect on 1 January 2019.

Implementing new markets and systems to support consumer choice and innovation

Based on extensive stakeholder engagement, **we consider that the current 'supplier hub' arrangements are not fit for purpose for energy consumers over the longer-term,** and that there is a strong case for considering fundamental reforms to that model. The 'supplier hub' model came into play following liberalisation of the energy sector, when suppliers became the main interface between consumers and the energy market. We believe that the model has reinforced the dominance of larger suppliers in the retail market and stifled competition. In July 2018, we set out the evidence as part of our **Future Supply Market Arrangements** project, for what immediate steps we could take to address this.

This need for longer-term reform was echoed by the Secretary of State in November 2018, who announced a joint review with the Department for Business, Energy and Industrial Strategy (BEIS) **to consider how the future retail market could be designed**. The heart of this review is to identify reforms needed to ensure that the energy market is fit for the future, by promoting competition and driving innovation, while protecting consumers from harm, and in doing so, unlock benefits such as reduced energy costs and lower carbon emissions for all consumers.

In the summer of 2019, we will publish a joint consultation with BEIS, setting out a range of reforms to innovation, improve consumer protection and safeguard vulnerable customers in future retail market. The Government has indicated a willingness to legislate to drive progress if necessary.

Consumer energy data, such as how much they use and what tariff they are on is currently stored by energy suppliers in different formats and in varying quality. **Accessing this data on behalf of consumers is often cumbersome and time-consuming**, as there is no standard format for suppliers to export and share data with third parties such as price comparison websites.

Following a call for evidence and discussions with digital leads across Government, Ofgem agreed to take over leadership of the MiData project on the basis that a cross-Government, multi stakeholder approach would have the best chance of delivering success. We have been working with BEIS and other stakeholders to **develop an open data standard (MiData)**, to act as a set of rules for consistency across suppliers, as well as to develop an **accreditation framework**, so that consumer data can only be shared with trusted parties. **We also started to develop governance arrangements** that would allow us to monitor compliance with the standard and to allow it to evolve, once it is in place.

Engaging more consumers in energy

Through our **Faster, More Reliable Switching** programme, we continue develop a way for consumers to switch their energy supplier reliably and quickly, including by the end of the next working day if they choose.

Improving the quality of industry data is an important aspect of this project. By 2021, we intend to **simplify and harmonise the gas and electricity switching arrangements** in a cost-effective way, and to develop a package of new regulations to achieve these objectives. This includes the creation of a new, Central Switching Service (CSS).

In June 2018, we proposed new governance arrangements for switching, including a **new Retail Energy Code** to oversee interactions between the new CSS, other energy industry systems and CSS users.

In September 2018, we finalised these arrangements and issued a policy decision for the DCC and all energy suppliers to agree to and comply with the Retail Energy Code. In October, we issued a further decision to impose a 'duty to cooperate' in the DCC's licence, which came into effect in February 2019.

From May 2019, consumers will also benefit from our **Better Data, Better Switching** project, which will introduce automatic compensation for when things go wrong with energy supplier switching.
We believe that this will create strong incentives for suppliers to improve their switching performance and make switching more reliable. We estimated in 2017 that this would result in a transfer of £72 million between energy suppliers and consumers.

Automatic compensation for switching problems will be generated based on new Guaranteed Standards, which were signed into law by the Minister for Energy in February 2019. A second tranche of Guaranteed Standards will 'go live' later in 2019.

Following a review in 2016, the Competition and Markets Authority (CMA) proposed that Ofgem create a **database of disengaged customers** and share the details of these customers with rival suppliers to encourage competition through marketing. The review also proposed that we also **trial methods of prompting customers to switch tariff** by sending them letters with market-wide cheapest tariff offers.

During 2018/19, we continued to trial means of increasing consumer engagement, particularly amongst disengaged consumers. Following successful "nudge" trials, in August we published the results of a small-scale collective switch trial in which more than one in five disengaged customers on poor value deals switched, saving on average £300. We are running further trials building on this learning, the results of which will be published in Autumn 2019.

Facilitating change in the energy system

Evolving future arrangements

We have continued working with Government on the **Smart Systems and Flexibility Plan,** which aims to remove barriers to new technology, encouraging markets that work flexibly. Delivery has proceeded broadly as expected, with only minor delays.

The Electricity System Operator (ESO) balances electricity supply with real-time demand. We think that the ESO's role needs to evolve, to ensure it is best placed to help transform the electricity system over the coming decades.

Separation between National Grid's Electricity System Operator (ESO) and Transmission Owner (TO) functions is important if the ESO is to step up to take on enhanced system planning roles, and greater independence for the ESO will help avoid potential conflicts of interest. **ESO separation successfully went live on 1 April 2019.**

We have progressed well with **Access and Charging Reform**. This work aims to help meet the demands of the future energy system by changing rules on how energy companies access electricity networks, and also by making changes to the associated 'forward looking' charges that these companies pay. We launched our Significant Code Review (SCR) in December 2018, which aims to support this work.

Ofgem and Government launched a **review of industry codes and code governance** in November 2018. The industry codes underpin the energy markets, and energy companies are required to comply with them under the conditions of their licences. The review is in its early stages, and aims to ensure that codes and code governance will be fit for purpose in our transition to a future energy system.

We continued our work with Government on European Union **(EU) Exit implementation,** given the need for the regulatory structure to continue functioning appropriately after the United Kingdom's planned withdrawal from the EU.

We continued to offer our **'Free, Fast Frank'** feedback service to assist entrepreneurs to bring sustainable and affordable energy business models, products and services to the market, within existing regulations. Some of these entrepreneurs were offered to go on to test their services in **our 'Regulatory Sandbox'.**

Our 'Regulatory Sandbox' offered innovators the opportunity to run a trial where some rules were temporarily removed. Each trial was run for a set period of time, with a limited number of customers and explicit learning objectives to test the viability of a model. At the end of the trial, all normal rules were reinstated and the innovator reported to Ofgem on what they have learnt. Together, our 'Free, Fast Frank' feedback advice and 'Regulatory Sandbox' are our **Innovation Link.**

During 2018/19, we supported sixty-seven innovators through our feedback service and continued to receive regular, complex enquiries throughout the year. During two 'Regulatory Sandbox' windows, we worked with innovators to shape, direct and advise on how trials might be carried out. At the end of 2018/19, five of those products / services were preparing to enter the live trial phase.

To evolve future regulatory arrangements, we have also carried out work in **preparing for electric vehicles,** to understand the challenges and opportunities presented by a potentially rapid future uptake.

We engaged with industry, government and consumer bodies to ensure we were feeding into various cross-body initiatives. We have also been active in **engaging with local energy,** including discussing proposals for local energy models with stakeholders and holding a local energy conference to bring stakeholders together.

Network charging and cost recovery

We have continued with our **Targeted Charging Review** (TCR). The main focus of our TCR is to look into 'residual'[3] charges levied on energy companies who connect to electricity networks (such as generation, storage and supply businesses). The current system of residual charges has the potential to distort outcomes and increase charges for some consumers.

Ongoing structural changes to the Great Britain gas market, and EU legislation to harmonise transmission charges across Member States, prompted us to conduct the **Gas Charging Transmission Review**. This work considers changes to the charging regime that might benefit consumers. During 2018/19, we supported industry in taking forward the Review, although experienced some delays in working with industry to finalise proposals. Our support will continue through 2019/20.

Putting in place the critical smart infrastructure and arrangements

We are responsible for regulating suppliers' compliance with their smart metering installation obligations. Our role is to protect consumers' interests by monitoring energy suppliers' **compliance with their smart metering licence obligations,** and regulating the DCC, including through a price control (see 'Engaging more consumers in energy' above).

Based on a submission from the DCC, we developed proposals for, and a decision on **price controls for the 2017/18 regulatory year** in February 2019. This is the mechanism by which the DCC justifies and receives approval for its operating charges.

During 2018/19, energy suppliers began the transition to installing **new-generation smart meters** (SMETS1 to SMETS2), though some 2018 installation targets were not met. We took a compliance and enforcement approach with some suppliers to improve delivery, and worked with BEIS to address mismatches between targets and realistic delivery. **Target rollout plans for 2019** were also received, which showed a significantly reduced ambition for 2020. To address this, we engaged with suppliers on their plans, and BEIS on the design of the post-2020 regulatory delivery framework.

In October 2018, the role as authority for the **Smart Energy Code** transferred from BEIS to Ofgem. As well as issuing decisions on Code modifications, we are now responsible for monitoring compliance with and enforcing the Network and Information Security Regulations, as they relate to the Code.

One of the distinct benefits of smart meters, is their ability to effectively monitor live energy usage, which can be used to generate more accurate billing for consumers. To drive these efficiency gains, we put in place incentives for suppliers to buy energy to meet their customers' demand in each half hour of the day (electricity settlement reform). In July 2017, we launched a Significant Code Review, which set out a **timetable for market-wide half-hourly settlement,** to be delivered thorough a Target Operating Model (TOM).

Half-hourly settlement will place incentives on suppliers to help their consumers move energy consumption to times of day when electricity is cheaper to generate and transport. This will provide savings, both directly to consumers who are rewarded for their flexibility, and also system-wide due to avoided investment in new generation and transport capacity.

To advance this work, a **Design Working Group** led by ELEXON developed options for the TOM design and came to a preferred option. In July 2018, we published consultations on supplier access to half-hourly data for settlement purposes, and on a proposal that data agent functions should not be centralised. Findings from these will be published in early 2019/20, once agreed by the Authority. We also published a call for evidence on the **consumer impacts of electricity settlement reform**, to ensure we properly understand the impact of this reform on different consumer groups.

[3] Electricity networks charge companies (generators, storage businesses and suppliers) to connect to the system. This includes a 'forward looking charge' (designed to reflect users' impact on network costs, including current & future investment costs) and a 'residual charge' (designed to be a 'top up' charge, ensuring the network's costs can be covered after other charges have been levied).

Ensuring network companies deliver for consumers in a changing system – RIIO and wider competitive regime

Regulating monopoly network companies

Work on developing RIIO-2 has continued. RIIO (Revenue=Incentives+Innovation+Outputs) is Ofgem's performance-based framework to set price controls for companies running the gas and electricity networks. RIIO-2 will be the next set of price controls, succeeding the current RIIO1 controls from 2021. Our RIIO-2 Framework Consultation was issued in March 2018, with a decision being published in July 2018. In December we published our consultation on the sector methodologies we propose to apply for gas/electricity transmission sectors, the gas distribution sector and the electricity system operator.

We continued to issue decisions on **allowances for costs that were uncertain at the time of setting the current RIIO1 price controls.** 'Uncertainty mechanisms' allow changes to a network company's permitted revenues in light of such unforeseen costs arising. We also administered the package of **financial and reputational incentive mechanisms** put in place to ensure the efficient delivery of outputs for current and future consumers.

When we developed the RIIO price controls we recognised that there were uncertainties that could affect network companies' ability to deliver. To help address this uncertainty, we made provision for a review half-way through the price control; the **Mid-Period Review** (MPR), if deemed necessary. In Q1 2018, we issued our decision not to proceed with a Mid-Period Review of the current electricity distribution price control (RIIO-ED1), as this was not considered necessary.

When we introduced the RIIO price controls, we established the **Electricity Network Innovation Competition** (NIC), which has continued during 2018/19. The Electricity NIC is an annual opportunity for electricity network companies to compete for funding for the development and demonstration of new technologies, operating and commercial arrangements. We issued funding directions for successful 2018/19 projects during Quarter 4.

Driving competition where suitable

In the 2018/19 Forward Work Programme, we pledged to progress our plans for **introducing competitive-like forces to the delivery of major onshore transmission investments.** We have continued to develop alternative competition models, and apply them to new onshore transmission projects. During 2018/19, we made a decision on the delivery model for the Hinkley-Seabank project, and also consulted on needs cases and delivery models for transmission projects on Shetland and the Western Isles.

We have continued to successfully run tenders for ownership of new networks through the **offshore transmission owner (OFTO) regime**, with the aim of delivering good value for money for consumers. We carried out a periodic review of our OFTO tender processes. In addition, we granted a license for the Dudgeon offshore wind farm, and selected preferred bidders for the Race Bank, Galloper and Wesley Extension projects.

Over the course of 2018/19, Ofgem aimed to **assess the efficacy of the existing interconnector regime.** This work was paused during 2018/19, as it was not clear how many of the pipeline of proposed interconnectors would go ahead, and what trading arrangements will look like after EU Exit. More clarity is required before commencing any review.

Identifying opportunities and managing long-term risk on behalf of consumers

Proactively engaging, monitoring and managing markets

The capacity Market ensures that sufficient electricity capacity is available to meet demand. Our work to help procure the appropriate volume of capacity in capacity auctions, to monitor auction performance and bring about beneficial changes to capacity market rules has continued. However, **the Capacity Market was subject to a decision by the European Court in November, which meant that all future auctions and payments to Capacity Providers have been suspended**. This has impacted the scope of our work over quarters 3 and 4. Despite this, we continued our work on the Five Year Review of the Capacity Market rules, and are working with Government to help with the reinstatement of the Capacity Market.

We remain committed to emphasising to **energy companies their duty to put their consumers first** through our engagement and monitoring approach, in line with their regulatory obligations. We want to see increase of awareness across energy companies of their obligations to consumers, in their ability to **identify risks and manage them effectively**. Where things inevitability go wrong, consumers must be treated with respect, in good time, and where necessary **offered suitable redress**. To inform this, **we monitor both the wholesale and retail energy markets**.

Where energy companies have failed to act within their obligations, the Authority will carry out investigations which may require enforcement activity. **Appendix II** of this Annual Report and Accounts sets out the **investigation and enforcement activity** that we have carried out in 2018/19. Appendix II also contains a summary of actions taken as a result of our **wholesale and retail market monitoring**, as well as our compliance activity. In line with our statutory reporting obligations, this Appendix includes a summary of final and provisional orders made by the Authority in the 2018/2019 reporting year together with a summary of the penalties the Authority imposed during the same period.

To make our compliance and enforcement activity more **transparent**, we continued in 2018/19 to actively **communicate with our regulated community**. In June 2018, we published our fourth Annual Enforcement Overview, which detailed activity from April 2017 to March 2018. In September 2018, we held our Compliance and Enforcement Conference. In August 2018, we published emerging themes in our 'Retail Supplier Compliance and Enforcement Report; Spring / Summer 2018', and in October, an open letter on Ofgem's advanced meter rollout investigations and implications for the smart meter rollout.

Maintaining and enhancing our industry-specialist skills and capabilities

Many of the energy companies regulated by Ofgem have engineering at their core, and technology will be a major driver of change in the transition to a low-carbon future. In response to this challenge, we set up a **Centre of Excellence for Engineering and Technology** within Ofgem, recruiting staff from an engineering and technology background.

In May 2018, Ofgem and BEIS became the joint **Competent Authority for energy** when the EU Directive on security of **Network and Information Systems Regulations** 2018 (NIS Regulations) came into force. The NIS Regulations impose new duties on Operators of Essential Services (OESs) and gives us new powers and responsibilities to ensure OES are meeting those duties.

The intent of the NIS Regulations is to increase the overall **cyber-security and cyber resilience** of OESs, in relation to the network and information systems that support the delivery of essential services. OESs must take appropriate and proportionate technical and organisational cyber-security countermeasures to manage risks posed to the security of the network and information, on which their essential service relies, and to prevent and minimise the impact of incidents on the essential service.

In January 2019, we received our first self-assessments from 23 OESs. A further 24 OES submissions will be requested once a decision has been made regarding NIS Regulation equivalence to the Smart Energy Code (see 'Putting in place the critical smart infrastructure and arrangements' page 12). Internally, Ofgem also began developing its own plans to ensure that we have adequate systems or processes in place to be compliant with the NIS Regulations.

Continuing to provide an authoritative source of analysis and thought leadership

We published our second annual **State of the Energy Market report** in October 2018. The report assess how well energy markets are working for consumers in achieving these outcomes.

As part of our commitments to drive our research collaboration with industry and academia, Ofgem established a dedicated **Research Hub** during the year. Its goal is to develop a programme of research that supports our policy development, by maximising cross-sector policy interactions, facilitating the low-carbon economy transition and identifying the needs of future consumers and global trends. The Hub is driven by a steering committee, which agrees the research projects that we should deliver. During the year, the Hub developed:

- an electric vehicle future insights paper;
- reports looking at international examples of alternative default arrangements and disintermediation of supply;
- research to assist our policy development for the targeted charging review and a consultation on the second round of our network price controls (RIIO-2);
- an energy sector horizon scanning prioritisation exercise;
- a policy evaluation of the CMA's price transparency remedy;
- analysis of the 'cost pass through' tariff, for our future retail market design project; and
- the microbusiness consumer journey.

The Hub also began research into platforms for flexible services, and demand side response, which will be completed in early 2019/20.

We continued to deliver **quality assurance, impact assessment and evaluation**, in line with recommendations in the HM Treasury review of quality assurance and Government analytical models. Through this work, we support our policy teams to develop their analytical models and review their cost-benefit analysis and impact assessments, before it is published.

Ofgem delivery of renewable and social schemes

Ofgem delivers a portfolio of renewable energy and social programmes on behalf of our partners in government (BEIS, and the Northern Ireland Department for the Economy (DfE)). These schemes are worth in excess of £9bn annually and delivered by our operational directorate, E-Serve. The relationship we have with our partners is founded on the delivery of good value for taxpayers' money. It is underpinned by a clear objective to protect the interests of consumers.

In 2018/19, we overhauled our approach to the delivery of our schemes to improve the service we offer and increase the value for money we seek to deliver to our funding partners.

We achieved this through a comprehensive restructure that created four functional Hubs.

In this financial year, we have focussed on:

Delivery: Our core role, where focus is on efficiency and effectiveness. We brought the delivery and administration of all our schemes into a single and more agile specialist unit.

Assurance: We established a strengthened control environment to ensure robust decision making across our scheme portfolio, managed risks and investigated fraud.

Technology: We invested in people and systems, developing technology solutions to future-proof our delivery capabilities. We embraced concepts including machine learning, AI and data automation.

Relationships: We maintained and improved our relationships with our key partners in Government as well as providing real value by assisting in the development of policy.

Delivery

Renewable Electricity

During 2018/19 the Renewables Obligation and the Feed-In Tariff (FIT) schemes closed to new entrants, with FIT closure being managed in 2018/19. We continued to administer both schemes, which provide ongoing support for accredited generators that make up almost 30% of all electricity generation output. In 2018/19, the combined value of these schemes was £6.7bn.

The FIT scheme required participating licensed electricity suppliers to make payments on both generation and export from eligible installations, to promote the uptake of renewable and low-carbon electricity generation technologies. This was the eighth year of the FIT scheme, and the last following a decision in July 2018 by BEIS to consult on scheme closure. The total capacity deployed under the scheme grew from 5.65 GW in year seven to 6.02 GW in year eight, an increase of 6.6%. As a whole, 8,357 GWh of electricity was generated by FIT installations. In response to increasing interest in co-location of storage, we issued new guidance on co-locating storage with FIT installations.

The Renewables Obligation placed an obligation on UK electricity suppliers to source an increasing proportion of the electricity they supply from renewable sources. In 2018/19, we issued 103.2 million Renewables Obligation Certificates based on 75.2TWh of renewable generation. This was equivalent to 26.4% of the UK electricity supply market. When combined with the 8.4TWh generated by FIT installations, this figure rises to 29.3%.

In 2017/18, our most recently reported year, 14 suppliers did not meet their obligation and this resulted in an initial shortfall of £58.6m in the buy-out fund. This shortfall triggered mutualisation for the first time in the Renewables Obligation scheme's history. Mutualisation is when suppliers must make additional payments to make up a shortfall in scheme funds left by other suppliers not meeting their obligations under the scheme. Of those non-compliances, we took the appropriate enforcement action and recouped funds where possible.

Renewable Heat Incentive (RHI)

The RHI teams continued to support regulation change and manage both the Domestic and Non Domestic RHI schemes in Great Britain. In 2018/19 a number of major reforms were introduced to the RHI schemes. These included Tariff Guarantees, feedstock requirements, shared ground loops and eligible heat use changes to the Non-Domestic RHI and the introduction of Assignment of Rights and metering for performance to the Domestic RHI.

This was the fifth year of the Domestic RHI scheme, and since it launched, accredited systems have generated more than 3.5 million MWh of renewable heat. As of March 2019, we had made 67,738 accreditations since the launch of the scheme.

In our role as administrator of the Governments domestic and non-domestic renewable heat incentive schemes, Ofgem made payments to scheme participants totalling £817,898,169 in the financial year 2018/19.

Based on our sampling of the population and subject to our detailed assumptions, we can be 95% confident that the value of error for GB Renewable Heat Incentive scheme payments made or accrued in the financial year 2018/19 is between the upper and lower limits of £21,765,747 and £43,175,637. Based on the same assumptions, the most likely value of error for the same period is £32,470,692.

We continued to support the management of the Northern Ireland Non Domestic RHI scheme, including with their audit programme. New legislation was introduced in Parliament to manage the future value of Northern Ireland scheme payments. We supported changes to relevant regulations to enable payments to continue uninterrupted.

In 2018/19, we gave evidence to the Public Inquiry into the Northern Ireland RHI scheme and assisted the Inquiry with its investigations, which are due to conclude in 2019.

Energy Efficiency and Social Programmes

Our administration of these schemes continued to have a direct impact for consumers, achieving reductions to energy bills and protection for vulnerable consumers. Following the failure of several small suppliers in 2018/19, we collaborated with colleagues managing the SoLR process. We ensured consumers receiving Warm Home Discount (WHD) were not disadvantaged when successor suppliers were appointed for these customer groups.

Our administration of the Energy Company Obligation (ECO) continued throughout the year, with the closure of the ECO2 element of the scheme and the launch of ECO3. Throughout the lifetime of ECO2, the scheme contributed savings of more than 27 MtCO2. We launched ECO3 which refocused the scheme on life time bill savings for those at risk of fuel poverty, we also improved our service to obligated parties by managing the scheme through a more intelligent, automated platform.

Assurance

The management of our entire portfolio of schemes is underpinned by our commitment to achieving assurance on all our activities. Our Assurance Hub was created to deliver excellence in this field, by deploying a system of checks and controls.

We delivered an enhanced audit strategy and worked with Strathclyde University to ensure our statistical audit programme is robust and representative. We invested in data innovation and skills to investigate and probe areas where we suspected our schemes were being manipulated for unintended financial gains. We added further checks to the way we issue payments, reducing the risk of incorrect payments being made, and delivering assurance for consumers that public funds are being well managed.

We also responded to recommendations from the NAO to implement a number of changes within our administration of the RHI schemes. This work was a key element in our engagement with our own independently led Risk and Assurance Committee, which completed its first full year since being established in 2018.

Technology

As the schemes we deliver evolve, grow and in some cases reach their closure point, a key challenge in 2018/19 was to adapt and improve our system functionality and resilience. On ECO, this took the shape of delivering non-legislative functionality (e.g. automation of reporting). For NDRHI and the Renewable Electricity Register this involved starting a major project to look at how the technological architecture can be refreshed to support the needs of scheme in the future.

For the first time, we created and deployed scalable, re-usable modules (micro services) that allowed us to build and maintain a more consolidated code base and infrastructure across all our products. Further, we continued to deliver numerous products across the schemes. These included eight major legislative changes across the schemes: including ECO3, FIT Closure and NDRHI Package 2B.

We also committed to enabling a progressive digital culture for E-Serve by investigating and embracing new capabilities including data analytics products and automated reporting. We developed and implemented a new way of capturing and handling quantitative audit data that enables closer real time collaborative working with our audit partners. We introduced a new Counter Fraud analytics product to enhance our capabilities to detect and identify fraud across our portfolio of schemes.

Engagement

We agreed new administrative arrangements with the Department for the Economy in Northern Ireland and continued to engage regularly through a strategic forum organised with BEIS. We met our requirement to publish quarterly and annual reports on the schemes we administer, as well as providing applicants and participants with an array of advice and resources.

Our contribution to decarbonisation

Ofgem has worked to support the Government's Clean Growth Strategy and Industrial Strategy, through activities aimed at supporting decarbonisation of the economy. Reducing negative environmental impacts was one of the five over-arching consumer outcomes in our 2018/19 Forward Work Programme, and our work outlined above in areas from administration of renewable energy programmes to the running of tenders for offshore transmission owners (OFTOs) supports this aspiration. Our work to date around preparing for electric vehicles has helped lay the groundwork for lowering carbon emissions from transport in the future, and our efforts in areas such as system flexibility or engaging with local energy aim to facilitate the transition of the energy system to one that is lower carbon, more decentralised, more flexible, more dynamic and responsive.

Performance Report

Principal risks to delivery

In 2018/19, we worked towards delivering five outcomes to derive maximum benefit for consumers through our key priority work areas (see Performance Report – Introduction – page 7). During the year, we continued to manage and mitigate key risks and uncertainties that might affect our ability to deliver outcomes for consumers. Details on our risk and control arrangements can be found in our Governance Statement (risk and control – page 44)

Key risk area	Mitigation approach
Cyber security	
In an increasingly digitally interconnected world, the level of risk has increased from individual hackers, through to state sponsored aggression. Our reliance on digital technology is growing – from 'smart' homes to self-driving electric cars – and therefore the risk of an attack on our critical energy and energy-related infrastructure is also increasing.	With BEIS, Ofgem has agreed to be the UK joint Competent Authority (CA) to regulate cyber resilience for downstream gas and electricity, while maintaining our Competent Authority role for the UK Smart Energy Code (see Maintaining and enhancing our industry specialist skills and capabilities – page 14). Our strategy is to establish a consultative and collaborative partnership with the Operators of Essential Services (OES) and to build a foundation of people and processes, including strengthening our technical advisory, audit and research and development capability in cyber threat management in order to encourage engagement, innovation and improvement. In addition, as part of the RIIO2 programme Ofgem's CA will assist operators in developing long term strategic Cyber plans, which are proportionate and appriopriate against more advanced threats.
Operating effectively within our resource	
As with other public bodies, we agreed to rise to the challenge to work within incrementally smaller budgets following SR15. Where Ofgem is asked to take on additional responsibilities, funding conversations are held with HM Treasury.	Our Evolving Ofgem programme commenced in 2018 with the aim of ensuring we are set up to successfully regulate gas and electricity markets on behalf of consumers at a time of unprecedented change across the energy sector. To achieve this, we have adopted a more 'agile' approach to how we operate – rethinking how we work to be as efficient and effective at what we do as possible. In 2019/20 we completed a thorough prioritisation exercise to identify programmes and activities that deliver maximum benefit to consumers, prioritising these for progression. We will continue to prioritise our work over the course of the year as new opportunities and/or risks materialise.

Key risk area	Mitigation approach
EU exit	
The terms and timescales for the UK's departure from the EU are uncertain, but may have a significant impact on the sector that we regulate (e.g. consumer choice, investment, competition, cross-border energy trading), on our regulatory framework and on our ability to recruit and retain high quality people.	Although we do not presently anticipate EU exit causing significant disruption to the UK energy market, we continue to prepare for a range of EU exit scenarios through working closely with central government and stakeholders across industry to ensure that our regulatory framework is fit-for-purpose (see evolving future arrangements, page 11). The Ofgem Board receives regular reports from our EU exit co-ordination team on our risks.
Supplier exit and licensing	
Competitive pressure in the supplier market has increased over recent years, which has benefitted consumers through increased price competition and improved customer service. Our current arrangements successfully protect consumers when a supplier fails, but there is a risk that supplier failure could cause disruption and impose costs on consumers.	We have commenced a review of our supplier licensing arrangements, to assess if minimum licensee standards are robust enough to protect consumers in terms of supplier financial viability and service standards. With this work, we aim to ensure appropriate protections are in place against poor customer service and financial instability. (See improving retail market conduct, page 8.)
Next network price controls	
RIIO-2 is our next price control regime for network companies running gas and electricity transmission and distribution networks (see regulating monopoly network companies, page 13). It's vital that RIIO-2 reflects the lessons learnt from RIIO-1, and prepares the networks for the energy system transition over the next two decades. There is a risk we don't get the decisions necessary to achieve this right.	We have been engaging and consulting with key stakeholders on our RIIO-2 approach and proposals since 2016, and have made a number of decisions on aspects of the next price control, including our decision on the RIIO-2 framework published in 2018 and our sector specific methodology decision, published in May 2019.

Key risk area	Mitigation approach
Protecting the public purse	
We administer a number of environmental and social programmes (schemes) on behalf of Government that expend very substantial sums of public money (see delivery of renewable and social schemes – page 16). Whilst we have a zero tolerance for fraud, there is still a risk that undetected fraud and 'gaming' of these schemes by participants will be unacceptably high.	We have a dedicated counter fraud team who work closely in partnership with BEIS and other organisations to reduce fraud risk across the environmental or social programmes, taking action where fraud is detected to maintain the integrity of the schemes. Over the past year we have made a significant investment in assurance of scheme audit, risk, fraud and compliance functions, and have devised a detailed Audit Strategy covering all our UK and Northern Ireland schemes. We are committed to increasing the number of scheme audits undertaken.
Litigation	
Litigation by stakeholders can delay and potentially undermine decisions we make in the interests of consumers, and can deter innovation and investment.	In 2018, we restructured our legal function into a single Office of General Counsel, appointing a senior General Counsel to lead it.

Our GB stakeholders

Stakeholder engagement is at the heart of our work, helping to ensure that the views of our stakeholders are considered in the way we regulate the energy system.

Consumer and industry engagement

In 2018/19, we continued a successful events programme across Great Britain including hosting our first ever Ofgem Energy Conferences In London, Glasgow, Cardiff and Manchester, where we consulted on the Forward Work Programme as well as set out our vision for future energy. We have held events in more locations across Great Britain and we are reaching more stakeholders than ever before. Feedback for these events has improved year on year, with the Ofgem Energy Conferences receiving very positive feedback. We have also held more webinars to support policy development by reaching a wider range of stakeholders throughout Great Britain.

We have increased the programme of stakeholder engagement for our senior leaders, including an Authority Away Day to a local community centre in Tower Hamlets, visiting local charities who had successfully applied to the consumer redress scheme in Liverpool and Oldham, innovative schemes which had used the Ofgem innovation link service and a number of site visits in Wales and Scotland.

Ofgem was represented at many of the major energy conferences across Britain this year including policy forums, roundtables, major industry conferences and consumer summits. We spoke to our audiences about our work on regulating the energy networks, the future energy system, and protecting consumers.

We also continue to support key industry representative groups, such as the Large Users Group, Independent Suppliers Forum and the Sustainable Development Advisory Group.

See the speeches and presentations page on the Ofgem website for speeches from the range of events where we have spoken.

Government engagement

Our work involves regular engagement with government departments and ministers (including BEIS) and we've continued to share our insight and expertise as the energy regulator over the last year.

Ofgem is accountable to Parliament, and our external relations team act as a dedicated point of contact for elected representatives in Westminster and the devolved administrations. We work to ensure a regular dialogue on Ofgem's action to protect consumers, and the development of our Forward Work Programme. We have contributed written and oral evidence to relevant parliamentary inquiries, provided speakers at cross party groups, as well as holding meetings with individual parliamentarians on energy issues at a national and constituency level.

Consumer Impact Report (CIR)

We are committed to making a positive difference for consumers. As part of this, we want to communicate clearly how our work delivers value for money. It is also important that we earn the public's trust by demonstrating and communicating the benefits that Ofgem as an independent regulator brings to consumers and wider society.

As it states in Ofgem's Corporate Strategy:

"We would like to report on the cumulative costs and benefits to consumers of our regulation and how these results change with each intervention. In practice, this is very difficult. Many factors throughout the industry, including the actions of government, influence outcomes, and it can be hard to highlight the particular impact of our contribution. However, we aim to be as transparent and accountable as possible and we will explore what we might be able to provide."

To carry out this strategy, Ofgem has committed to assess annually the expected impacts that its regulatory activities have on consumers. Our Consumer Impact Report provides an assessment of the expected consumer benefits from Ofgem's recent regulatory decisions.

The costs of funding Ofgem's activities are ultimately passed to consumers through their energy bills or through the taxes that they pay. It is therefore essential that we understand the impact of our actions and decisions, to make sure that we are delivering value to consumers for the money that we spend.

We published our second Consumer Impact Report in June 2019, which assesses the benefits that some of Ofgem's regulatory activities and decisions undertaken between April 2018 and March 2019 are expected to have. We do not include E-Serve activities in this report, which is a division of Ofgem that runs government environmental and social schemes. To date, we have concentrated on assessing the impact of our regulatory decisions, but we are considering whether to include E-Serve activities in future years.

While many of our decisions are intended to benefit all consumers, such as those related to when or how companies should communicate with their customers, others target particular groups where we have identified that the market is not working well for them. For example, the default tariff price cap is expected to benefit more than 10 million consumers on standard variable tariffs, while our Supplier of Last Resort processes have ensured that more than 800,000 customers of failed suppliers have not had disruption to their service. We recognise that different consumers can have very different needs and personal circumstances, so we include specific consideration of how our decisions will affect consumers whose circumstances make them vulnerable to experiencing worse outcomes.

In a given year, Ofgem typically has over 100 specific regulatory decisions in progress and so it is not practical for this report to cover all our activities. For those we do report, not all of the benefits we deliver to consumers can reasonably be estimated and given a monetary value – the reported monetised estimates below represent only a fraction of our overall impact. For example, in terms of our enforcement and compliance actions, while compensation for past detriment suffered by consumers can be quantified, it is much harder to place a value on the avoided detriment that would have occurred in the absence of Ofgem's intervention. It is also difficult to quantify future harm that our decisions avoid by discouraging other parties from acting in the same way. These types of non-monetised benefits may outweigh the ones we can monetise. We have therefore set out some of the benefits to consumers resulting from our decisions through a combination of both qualitative and quantitative analysis.

Retail market interventions

- We implemented a cap on default and standard variable tariffs to protect consumers from unjustified price increases. Direct benefits to consumers are estimated to be £2,395 million over the two years of 2019-2020.
- We put in place a package of service level requirements on suppliers, such as automatic compensation for customers, to ensure that consumers have adequate financial protection in case something goes wrong with the switching process. The net benefits to consumers are expected to amount to £54m in 2019.
- We conducted a series of randomised controlled trials designed to test the impact of targeted communication interventions on switching behaviour. Consumers who participated in the trials generally saved money on their projected annual energy bills, with savings of around £10 million in 2019.
- We ran 10 Supplier of Last Resort processes during the 2018-19 financial year to protect customers of failed suppliers by guaranteeing them continuity of services and adequate protection of their credit balances.
- We introduced new principles relating to domestic supplier-customer communications. These changes should enable consumers to understand better their costs and consumption and make an informed choice about their tariff and supplier.
- We removed the requirement on price comparison websites to show all deals available in the market, allowing them instead to show only the deals that consumers can switch to directly through their websites. We expect this to encourage greater customer engagement and potentially competition.

Networks regulation and energy system measures

- We confirmed the final regulatory arrangements for the Hinkley-Seabank Project. Net direct benefits are expected to be around £89m over the period 2019-2069.
- We disallowed £136m of costs as part of our price control measures governing the operation of the Data and Communication Company (DCC).
- We decided not to launch a Mid Period Review of the outputs electricity distribution network operators must deliver as part of the current network price control. This should help to maintain regulatory confidence and avoid increases in bills resulting from higher costs.
- As part of the network price control reopener process, we accepted some of the funding requests from four transmission and distribution companies. We expect this to secure better compliance with emissions legislation and environmental benefits.
- We improved the incentives for network companies to engage with and meet the needs of their stakeholders through our Stakeholder Engagement Incentive (SEI) and Stakeholder Engagement and Consumer Vulnerability Incentive (SECVI) guidance.

Enforcement and compliance

- Our enforcement and compliance activities ensure that consumers can benefit from us stopping unlawful or anti-competitive conduct or activities in breach of licence conditions or other requirements; ensuring timely and proportionate redress to compensate customers for the detriment suffered because of breaches by suppliers; and improving the supplier-customer relationship.

- We estimate the direct consumer benefits from our enforcement actions to be £5.6 million in 2018-19, including compensation payments to consumers, fines, redress payments to charities and avoided costs to consumers. For compliance decisions taken over the same peiod, we estimate the direct benefits to be £1.2 million.
- Impacts on vulnerable consumers across our priority areas
- Supporting those struggling with their bills: we implemented a price cap which has led to energy savings for customers who are on default tariffs. We expect the cap to deliver savings of around £60m per annum over the period 2019-2020, for approximatively 800,000 customers previously protected by the safeguard tariff.
- Improving customer service for vulnerable consumers: we placed a requirement on suppliers to compensate customers when they fail to refund credit balances within two weeks of the final bill. This will benefit those who are vulnerable to financial shocks.
- Encouraging positive and inclusive innovation: we imposed a responsibility on suppliers to identify vulnerable consumers and adapt the type and frequency of communication to fit their circumstances.
- Improving identification of vulnerability and smarter use of data: we rewarded gas distribution network companies for developing energy solutions for the fuel poor through the Gas Discretionary Reward Scheme.

The benefits we were able to quantify for the decisions we made in 2018-19, amounted to estimated direct benefits of £2,555 million. These benefits are uncertain, and will be realised over a long time period (up to 50 years). Since they are largely forecasted consumer impacts, they may, in the future, differ from the actual amount realised. They are also only partially reflective of our impact but they give a strong indication of the positive impact that our decisions have for consumers.
In terms of the costs incurred in delivering these benefits, Ofgem's costs for the financial year April 2018 to March 2019 were £97 million. This gives a ratio of direct benefits to costs of 26:1, which means that, for the every £1 we spent in the last financial year, we deliver direct benefits to consumers worth at least £26.

Sustainability report[4]

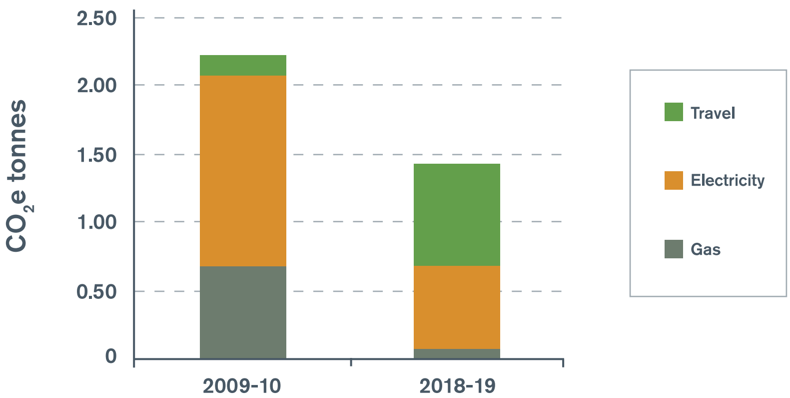
Over recent years, we have significantly reduced our carbon usage, water consumption and waste tonnage. In Summer 2018, we moved our London office to new accommodation within the Government Hub building at 10 South Colonnade, Canary Wharf. This new building is more environmentally efficient than our previous one, with a BREEAM rating of Very Good. Our accommodation footprint has reduced by around 45% as a result.

We remain committed to the Greening Government Targets, which challenge us to achieve the following against a 2009/10 baseline:

- **32% reduction in overall carbon**
- **Reduce landfill to 10% of total waste**
- **Increase the proportion of waste that is recycled**
- **Reduce paper consumption by 50%**
- **Reduce water consumption**

Building and activity related carbon emissions

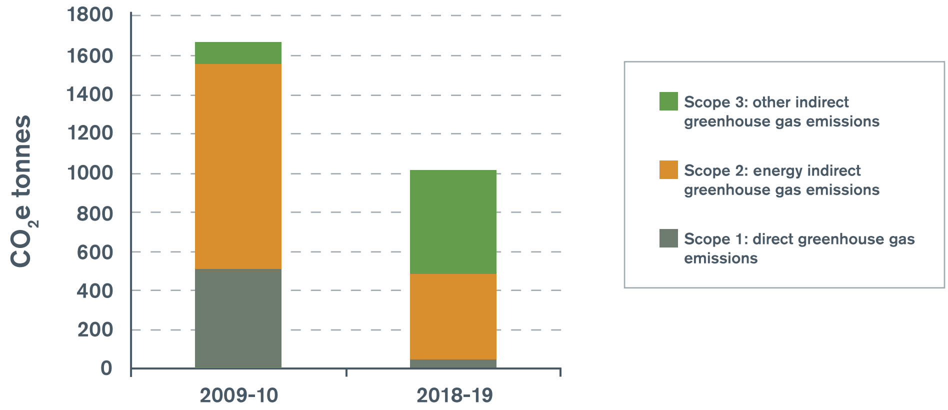
Carbon usage by FTE



Carbon usage per FTE has reduced by 36% since 2009/10.

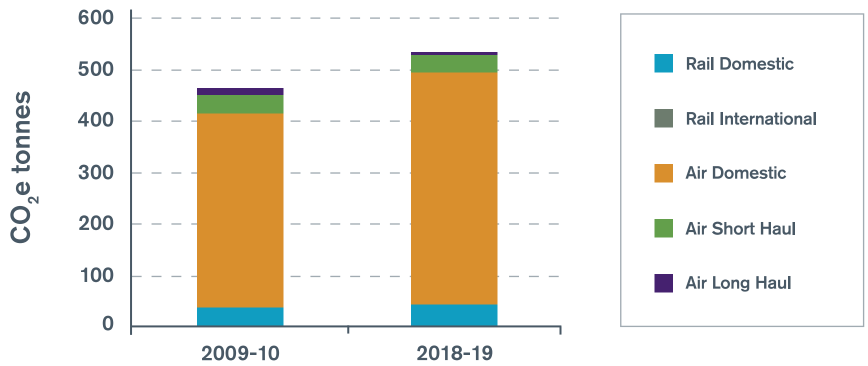
[4] Due to the recent move of our London office, and in accordance with the Sustainability Reporting Guidance 2018-19 (Paras 2.18 and 2.29) published by HM Treasury, we have changed our reporting boundaries. We have normalised our data to full-time equivalent (FTE) staff numbers for the baseline year and all years going forward. We are able to do this based on the 2009-10 FTE numbers multiplied by the number of FTE that moved to the new London office.

Total Carbon



Total carbon has reduced by 39% since 2009/10, mainly due to the increased efficiency of our new London office when compared with our previous accommodation. This means we have achieved the Greening Government Target of a 32% reduction.

Travel Carbon



As noted above, we have significantly cut our carbon usage over recent years, meeting the Greening Government Target. We remain committed to lessening the need for staff travel, and have continued to step up our use of technologies such as video conferencing, aiming to cut down the need to travel between sites.

Since 2009/10, we have increased the number of staff based within our Glasgow office (from under 30 staff in 2009/10 to over 350 in 2018/19). This move towards a more 'dual site' model has led to an increased need to travel between sites, meaning our travel carbon has increased. However, we will continue striving to improve our use of technology and adopting smarter ways of working, in order to reduce the need for travel.

Reductions in Greenhouse Gas Emissions

Greenhouse gas emissions		2009-10	2018-19
Non-financial indicators (tCO_2e)	Total gross emissions	1,670	1,015
	Per FTE	2.23	1.43
	Total net emissions	1,671	1,015
	Scope 1: Direct GHG emissions	511	49
	Scope 2: Energy indirect GHG emissions	1,045	431
	Scope 3: Other indirect GHG emissions	115	535
Related consumption data (kWh)	Electricity: Renewable (k)	1,130	1,521
	Gas (k)	1,578	269
Financial indicators	Expenditure on energy	£138,240	£308,870
	Expenditure on official business travel	N/A	£523,530

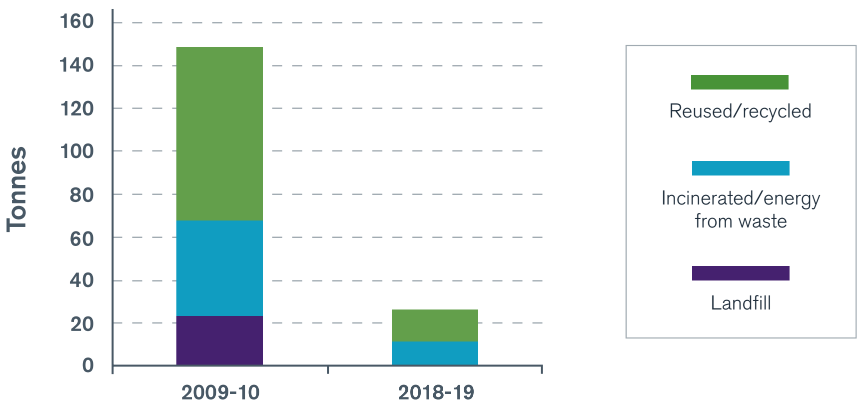
DEC & EPC performance

Usually in this section we would show our Display Energy Certificate (DEC) rating. This is not possible this year as our new London office will not seek a DEC until twelve months after full occupation (which is not until October 2019). Scotland does not participate in DEC ratings which excludes our Glasgow Office.

Energy Performance Certificates (EPC) provide potential buyers and tenants with an indication of the energy efficiency of a property. Our Glasgow office has an EPC of just 37, making it the second most efficient office in the government estate in the 2017/18 State of the Estate report. 10SC has an EPC of 72, mainly due to the building being fully air conditioned.

Eliminating waste

Total waste



Our waste has dropped 123 tonnes, or by 82%, since 2009/10 due to a number of factors including:

- Introducing a laptop/tablet as the standard IT kit, reducing the need to print documents
- Reducing office filing allocation to 0.75 linear metres per person
- Closing the onsite reprographics unit
- Reducing the number of printers in our offices by over half

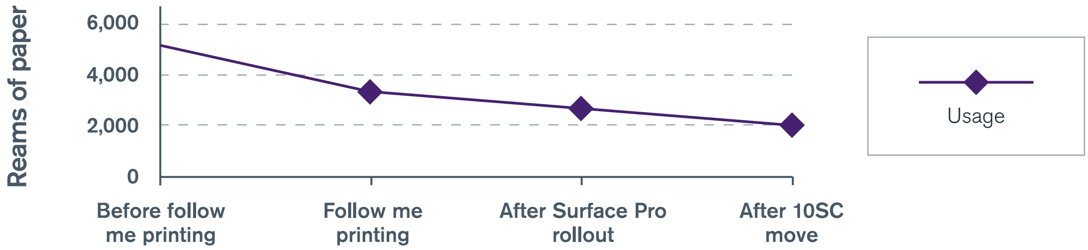
We have not sent waste to landfill since 2010, thereby meeting the Greening Government target to reduce the proportion of landfill waste to 10%.

Waste			2009-10	2018-19
Non-financial indicators (tonnes)	**Target**		-	-
	Total waste		149	26
	Total waste per FTE		0.2	0.04
	Hazardous waste		1	-
	Non-hazardous waste	Landfill	23	0
		Reused/Recycled	81	15
		Incinerated/ energy from waste	44	11
Financial indicators	Total disposal cost		£11,845	£9,798

Reducing paper use

We have reduced paper consumption by 60% since 2009/10, thereby meeting the Greening Government target to reduce by 50%. This has been due in large part to the roll-out of out 'follow me' printing system, which has reduced the number of printers in our offices. We have also introduced Surface Pro laptops as standard IT kit, further reducing the need to print documents.

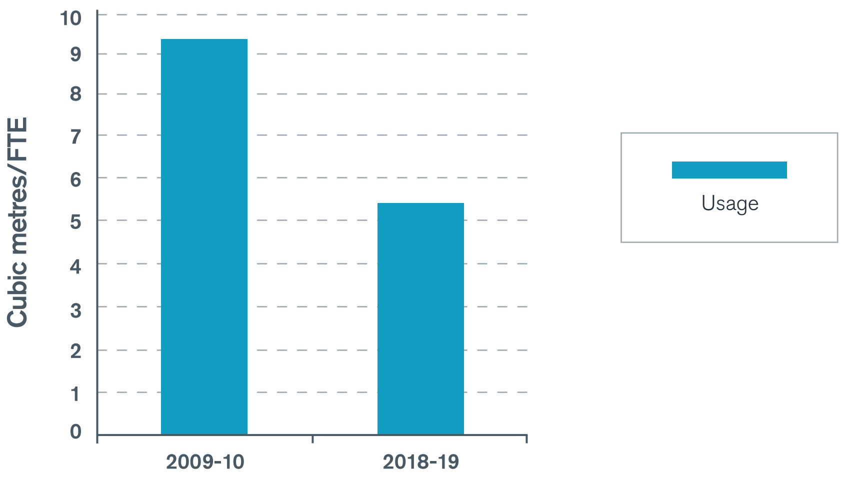
Annual paper use



Reducing water use

Our water use per FTE has almost halved since 2009/10. The reduction is principally due to our new London accommodation's Very Good BREEAM rating.

Water per FTE



Water			2009-10	2018-19
Non-financial indicators	**Target**			**6.00**
	Water consumption (m^3)	Supplied	7,116	3,608
		Per FTE	9.5	5.6
Financial indicators	Water supply costs		£9,026	£8,444

Dermot Nolan
Accounting officer

21 June 2019

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.

Sarah Cox, Chief Operating Officer, joined Ofgem in May 2016 and was appointed to GEMA in November 2018. She is a Vice Chair and Board Member of CSSC (Sports and Leisure) and an advisor to the Infrastructure and Projects Authority (Defence and International, serving for example as independent advisor on the Strategic Alliance Board with the MoD, Babcock and BAE Systems; and as high risk team leader).

Jonathan Brearley, Executive Director, System and Networks, joined Ofgem in May 2016 and was appointed to GEMA in November 2018. He did not hold any other company directorship.

Mary Starks, Executive Director, Consumer and Markets, joined Ofgem in September 2018 and was appointed to GEMA in November 2018. She is a Trustee for Working Families.

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

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

Martin Cave joined in September 2018, as non-executive chairman. He is a visiting Professor in the Department of Law at the London School of Economics, an advisor to the New Zealand Commerce Commission and an advisor to Chalmers University, Sweden.

Christine Farnish joined in January 2016. Her appointment ends in January 2021. She is a non-executive director of Ofwat, a non-executive on the Zopa Group Board and chair of Zopa ltd (Zopa's peer-to-peer lending business), and a consumer advisory board member at Fairer Finance.

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, is chair of the expert advisory group for National Lottery 4 at the Gambling Commission and is the Senior Advisor for Competition at the Bank of England.

Keith Lough joined in October 2012. His appointment ends in September 2022. He is the Chair of the Authority's Audit and Risk Assurance Committee. 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 director and SID of Hunting plc.

Ann Robinson joined in July 2018. Her appointment ends in July 2023. Anne does pro bono work with charities chairing and facilitating meetings, works with Ofwat on its Price Review and opening up the market to SMEs as well as Chairing a company owned by the Electricity Safety Council.

Lynne Embleton joined in July 2018. Her appointment ends in July 2023. She is chief executive for IAG Cargo, a management committee member for IAG, a non-executive director at BA Board and a director at Zenda.

John Crackett joined in December 2018. His appointment ends in December 2023. He has held non-executive roles at the Office of Nuclear Regulation and in a telecoms company. He has also been a member of the Army Board, he advises MOD on electricity generation and distribution, and is involved in housing and veterans' charities.

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

Keith Lough, having worked for energy companies in the past, is a member of a former employers' pension scheme. This scheme is administered in line with the rulings of the Pensions Regulator and is separate from the business of the regulated company.

Audit arrangements

The Comptroller and Auditor General, who has been appointed under statute and reports to Parliament, audits the resource accounts and trust statements. The notional cost of auditing the resource accounts and trust statement was £85,000 (2017/18: £64,000). 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 don't 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 2019.

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 2018/19 Parliament approved through the Main Estimate:

- a gross resource budget of £90.227 million (revised to £97.47 million in the Supplementary Estimate)
- a capital budget of £1 million (revised to £0.802 million in the Supllementary Estimate)
- a net cash requirement of £2.331 million (revised to £2.134 million in the Supplementary Estimate)

Reconciliation between estimate and budget

	2018-19 £000	2017-18 £000
Net resource outturn (estimate)	702	702
Net operating costs (accounts)	434	596
Resource budget outturn (budget)	434	596
Of which:		
Departmental expenditure limits	434	596
Annually managed expenditure	-	-

The difference between estimate and outturn is due to 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.

We drew down a contingency fund advance of £15.0 million in April 2018 to provide short-term liquidity until we started receiving licence fees. We repaid this in full in December 2018.

Finance and provisions

Total provisions amounted to £1.906 million as at 31 March 2019. We have provided for voluntary exit payments, dilapidations, and the ongoing costs of early retirements that have occurred in previous financial years.

In 2003, we outsourced statutory examining and testing services to SGS UK Ltd (our laboratories at Leicester had provided those services until then). Some costs of this change, particularly redundancy and continuing pension liabilities, have fallen to us. We had to make provisions in 2003/04 that now total £0.147 million.

A number of voluntary exit payments totalling £0.522 million have been agreed as a result of an internal reorganisation.

Ofgem has 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 £0.030 million. The agreement for the new Glasgow Commonwealth House lease states Ofgem will be liable for dilapidations cost. The provision totals £0.338 million.

In total we have provided £0.522 million during 2018/19. Our statement of financial position at 31 March 2018 shows taxpayer's equity of -£1.386 million.

Improving our supply chain

Environmental procurement

Our Procurement team makes buying decisions based on best value for money (which incorporates environmental sustainability criteria) and we continually search for ways in which we can buy sustainably.

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 align with the Standard of Excellence Certification of the Chartered Institute of Procurement and Supply.

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 2018/19 we paid 97% of all undisputed bills inside this timeframe.

In 2008, the government challenged departments to pay all suppliers within ten working days. This year we paid 88% of undisputed bills inside this timeframe. For amounts contractually due and invoiced by 31 March 2019, the outstanding number of days' purchases is 3 days.

Reports to the Parliamentary Ombudsman

In 2018/19, the Parliamentary and Health Service Ombudsman (PHSO) received 91 new enquiries about Ofgem, and accepted 1 complaint for investigation. The PHSO completed 1 investigation[5], which was not upheld or partly upheld. 1 further investigation was discontinued, and 4 resolved without the need to complete the investigation. As no investigations were upheld or partly upheld, there were no associated recommendations from the PHSO.

Dermot Nolan
Accounting officer

21 June 2019

[5] The number of complaints the Parliamentary Ombudsman accepts for investigation in a given Financial Year may differ from the number of investigations that are completed in that same Financial Year.

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.
- confirm that, as far as he is aware, there is no relevant audit information of which Ofgem's auditors are unaware, and that all steps have been taken to make himself aware of relevant audit information, and to establish that Ofgem's auditors are aware of that information.
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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 confirms that this Annual Report and Accounts as a whole are fair, balanced and understandable. The Accounting Officer takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

Governance statement

The Gas and Electricity Markets Authority 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 chair. 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 49.

How the Authority works

The Authority meets formally at least 10 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 2018/19, 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 will review his performance against these objectives.

The Authority reviews the activities, plans and performance of the organisation against its strategic objectives and reviews the activities and priorities of its principal support functions on a six-monthly basis. The activities and priorities of E-Serve are reviewed by the Authority, following a report from the E-Serve Board, three times a year. The Authority also reviews its strategic risks, that is, those risks most consequential to the Authority's strategy, on a twice-yearly basis.

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 corporate strategy every year, with a more fundamental review every five years or when needed 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 the extended period 2019-21 for consultation in November 2018 and published the final plan on 29 March 2019.

The Authority considers the joint executive review of the external factors every four months and a full review of the overall programme of medium and longer term work every six months alongside the capability and health of the organisation 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 chair 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	People and Remuneration Committee	RIIO 2 Committee
Christine Farnish	12/13	-	1/1	4/4	5/7
Dermot Nolan	13/13	3/3	3/3	-	7/7
Sarah Cox	12/13	3/3	3/3	-	-
Mary Starks	6/7	-	-	-	-
Jonathan Brearley	10/10	-	-	-	6/6
Martin Cave	10/10	1/1	-	2/2	-
David Gray	7/7	3/3	-	-	-
Ann Robinson	10/10	-	-	1/2	-
Keith Lough	13/13	3/3	-	-	-
Lynne Embleton	10/10	1/1	-	-	2/2
John Crackett	4/4	-	-	-	2/2
Paul Grout	13/13	2/2	2/2	-	7/7

[1] David Gray's term as Chair ended 30 September 2018.
[2] Martin Caves's term as Chair commenced 1 October 2018.
[3] Ann Robinson and Lynne Embleton were appointed Authority NEDs in June 2018. Also, Martin Cave was appointed as chair designate in June 2018.
[4] John Crackett was appointed an Authority NED in December 2018.

The Authority met in Scotland on 14 June 2018, and in Wales on 27 March 2019 using both occasions 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 – strives to assure us that there is robust governance throughout the organisation. We announced a new organisational structure in February 2018 and a new governance system for 2018/19 to reflect this and simultaneously seek to address governance issues identified through internal and external audit and other points raised by our Audit and Risk Assurance Committee (ARAC).

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 2018/19. Keith Lough chairs the committee, the other non-executive members of which are Paul Grout and Lynne Embleton.

This year the committee's work included:

- receiving reports from both internal and external audit. For example, we asked internal audit to review areas where we felt there were control weaknesses, and the committee discussed plans to address these. Plans put in place include continuing with our 'evolving Ofgem' organisational transformation; incorporating into financial delegation letters a range of terms, conditions and performance requirements to ensure robust, compliant management of funds; and establishing a Taskforce, chaired by Ofgem's Chair and including a number of non-Executive Directors, to oversee Ofgem's SR19 preparations, and effective utilisation of Ofgem's 2019/20 budget.

- 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 and cyber 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.

Our overall internal audit opinion for the year ended 31 March 2019 acknowledges that we had asked them to review areas where we felt there were control weaknesses, and that we have put in place plans to address these. The Internal Auditor has stated that they support the initiatives being undertaken by management to improve capabilities, transform processes and strengthen controls. On this basis, the Internal Auditor has given Ofgem Limited Assurance over the arrangements and systems for risk, control and governance necessary for effective and efficient achievement of its objectives.

E-Serve Board Committee

The E-Serve Board (ESB) acts on behalf of the Authority and monitors the effectiveness and efficiency of E-Serve in delivering its relevant activities and provides assurance to the Authority on the performance of those activities. The ESB also makes recommendations to the Authority on key decisions affecting E-Serve including significant policy, strategic and operational aspects of E-Serve's work. The main focus is to review and recommend E-Serve's strategy, annual business plans and overall budget in respect of the relevant activities and to agree the annual objectives and targets for E-Serve. The ESB meets three times a year and is chaired by the Chief Executive Officer.

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 comprise an expert panel who provide a visible separation between the investigation and decision making functions. Members of the panel play a crucial role in continuing to deliver our central duty to protect consumers, facilitate competition and ensure the integrity of the wholesale energy market. The chair of the EDP was John Swift QC[6]. Members of the EDP are appointed by the EDP Chair to hear and take decisions in individual cases. The EDP's decisions are independent from the investigating team and the Authority cannot change or over-rule EDP decisions. 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 chair of the Authority. For more details on the EDP please see the EDP pages on the Ofgem website[7].

People and Remuneration Committee

This committee, chaired by Christine Farnish, looks at the pay and performance of senior staff, organisational health, diversity and inclusion, human resources related topics, 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.

[6] John Swift QC retired from the EDP on 31st May 2019. Megan Forbes was appointed on 1st June 219 as EDP chair.
[7] 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 March 2018. It concluded that the Authority 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, Chief Executive and the board as a whole towards improvement.

The Board was strengthened in 2018-19 with the appointment of three new Non Executive Directors, bringing additional engineering, consumer protection and commercial acumen to the Authority.

The next review of board effectiveness is due to be conducted in September 2019 which will correspond with, Martin Cave, our new chair being in post for one full year.

Executive governance framework

Senior Leadership Team

The Chief Operating Officer and Executive Directors support the Chief Executive in the day-to-day running of Ofgem. The Senior Leadership Team (SLT) is made up of all the executive members shown in the remuneration report, as well as General Counsel and Chief Economist. 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.

Performance and Delivery Board

The Performance and Delivery Board (PDB) oversees the organisation's high level performance and holds teams to account for performance and delivery across the organisation, considering and taking those most significant operational decisions. The PDB ensures that we have in place, and operating effectively, appropriate and robust procedures and business processes that facilitate high quality delivery. PDB monitors and challenges progress in achieving our work programme and makes recommendations to the Authority on the achievement of outcomes of the work programme and any corrective actions required to achieve plan objectives and maintain organisational efficiency. The PDB meets monthly and is chaired by the Chief Operating Officer. The Chief Executive, Executive Directors, General Counsel, Chief Economist and E-Serve Director attend.

Regulatory Board

The Regulatory Board ensures the appropriate scrutiny of regulatory decision-making in the organisation, provides early stage guidance on policy matters and provides an SLT view on matters going to the Authority. The Board does not make regulatory decisions- these will be for the Authority, or individuals with delegated authority. The Board is chaired on an alternating basis by the Executive Director, Consumers and Markets and the Executive Director, Systems and Networks. It meets monthly with meetings focusing on papers for the following month's Authority meeting.

Governance and Delivery Committee (for E-Serve)

The purpose of this Committee is to ensure that E-Serve governance, scheme delivery and development are carried out effectively and efficiently and in line with E-Serve's objectives and strategy, as set out by the Authority and the E-Serve Board. The Committee has executive decision-making powers for matters falling within its scope but does not have the power to take decisions for any E-Serve scheme or programme which are Authority functions under the relevant legal framework. The Committee meets weekly and is chaired by the Director of E-Serve.

Risk Management Framework

Our risk management framework sets out how risk management should be embedded across Ofgem; 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.

Risk management is integral to our policymaking, planning and delivery. Senior management members have specific objectives for risk management in their area.

Executive Directors 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 can't 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

Our risk management framework is designed around the principle of ensuring that the right people are having the right conversations about risk. To achieve this, and manage risks appropriately, it's important we identify key risks for the organisation and agree how we want to respond to them, bearing in mind our statutory objectives and the resources we have.

The board has overall responsibility for the risk management framework, setting our risk appetite and agreeing our corporate risk themes. Twice yearly, the Authority undertakes a strategic review of risk information from across the organisation to support an analysis for each theme.

The Audit and Risk Assurance Committee (ARAC) undertakes similar reviews in advance of the Authority review, as well as carrying out "deep dives" – involving detailed discussion about particular risks or issues, to ensure they get to the heart of the issues concerned. The committee produces an annual report to the Authority setting out how they have discharged their responsibilities.

Our executive team sets risk tolerance for their areas of responsibility, reviews mitigation plans for major risk areas within their remit and monitors risk movements. Our Performance and Delivery Board (PDB) receive regular reports from our most salient areas of activity and maintains an overarching view of specific and thematic risk and associated risk mitigation plans. This risk information facilitates the right people to have the right conversations, so we can evolve mitigation plans in a timely way, and is especially useful when risks emerge that cut across different policy areas. The PDB also has an overall responsibility for monitoring and directing operational risk management within the organisation.

Independent audits of our risk management processes are carried out by our Internal Audit function on a 2-3 year cycle.

During 2018/19, energy policy again remained high on the political and consumer agenda. Consumers are understandably concerned about increases to their energy bills and a major focus of risk for the Board during the year was **on implementing the default tariff cap** following Parliament passing the Government's Domestic Gas and Electricity (Tariff Cap) Act 2018, which became law in July 2018. We formed a cross-divisional team and established a highly-structured programme of work to implement the Price Cap, with a strong governance and reporting regime up to Board level. After working closely with government and consulting widely with stakeholders, we successfully implemented the cap on 1st January 2019 and subsequently successfully navigated our way through the first review of the cap in April 2019.

One of our most important responsibilities is the regulation those areas of the UK gas and electricity industry where companies retain an effective monopoly and where it may not be possible to introduce competition. We do this via price controls. **Our next price control, RIIO2,** will run from 2021 and we recognise it as an area of both high risk, but also opportunity, for consumers. This year the Authority have been very considerably engaged in scrutinising and assessing proposals from our RIIO2 team with a number of very important RIIO2 decisions, following extensive consultation, made in 2018/19 including in July decisions on the overall RIIO2 framework and in December on sector-specific methodologies. Our RIIO2 programme is on track for implementation in April 2021 and the Authority will continue to very closely monitor and steer the programme as we move towards the next major milestones of draft and final determinations in 2020.

During 2018 **we relocated our London offices** from Westminster to a London Government Property Unit hub in Canary Wharf Docklands. This is in line with Government's The Way We Work (TW3) strategy – creating a decent working environment for all staff, with modern workplaces enabling flexible working, substantially improving IT tools and streamlining security requirements to be less burdensome for staff. Smarter working has become common in recent years across both the private and public sector. TW3 is a Cabinet Office led programme and all Government departments have started smarter working strategies. We have now relocated our staff in Glasgow and London to alternative properties in line with Government occupancy guidelines, improving our working practices and ensuring we have fit-for-purpose technology.

During 2018 we also started in earnest our **major organisational restructure,** 'Evolving Ofgem' to ensure our organisation is set up to successfully regulate gas and electricity markets on behalf of consumers, at a time of unprecedented change across the energy sector, and to maximise our impact given the likely reducing financial resources available to us in the future. Both the relocation and restructure initiatives carried considerable risk and opportunity at a particularly challenging time for us. Both initiatives were tightly programme and project managed by dedicated teams with close monitoring by the Authority. Our relocation to Canary Wharf has brought benefits of more collaborative and agile working across the organisation and restructure of our regulatory directorates is complete with the remaining divisions to be completed in summer 2019.

As we reported last year, in January 2017 the Minister for Finance of the Northern Ireland Executive established a public inquiry to consider the **Northern Ireland Non-Domestic Renewable Heat Incentive scheme** (NI NDRHI) to consider the design, governance, implementation and operation, and efforts to control the costs of the scheme[8].
As scheme administrator, the inquiry has significance for us and we have a dedicated cross-Ofgem team that has engaged extensively with the Inquiry on the issues raised that related to our role in the administration of the NI NDRHI scheme. We expect the Inquiry report to be published in summer 2019.

Subsequent to the establishment of the NI NDRHI Inquiry, in 2017 the National Audit Office reported[9] on the value for money of the **Great Britain Renewable Heat Incentive** (GB RHI) schemes which are also administered by Ofgem. The NI NDRHI scheme does not fall within the scope of this report. The NAO report was published in February 2018 and concludes that the Department of Business, Energy and Industrial Strategy (BEIS) showed flexibility in rolling out the scheme, adjusting scheme objectives to respond to a changing strategy and over optimistic initial planning assumptions. Measures introduced to control the scheme's costs avoided problems that arose in the Northern Ireland scheme. However, the report concluded overall that the GB RHI schemes fell short of their primary objective and have not achieved value for money. We welcomed the NAO's report and both Ofgem and BEIS incorporated the NAO's findings, which contributed to the government reforms made to the Renewable Heat Incentive schemes passed through Parliament in May 2018, introducing changes in three key areas: metering, assignment of rights and changes to the scheme's degression rules.

Much of the work that we do on behalf of consumers is often very challenging and carries inherent risk, but also opportunity, for consumers. Business models, technology and consumer preferences are all evolving rapidly – but we cannot predict the nature of these changes with certainty. In carrying out our work we continually assess the potential benefits and risks for consumers, and the implications for us as a regulator. We will continue our work on 'horizon scanning' (identifying potential threats, risks, emerging issues and opportunities) throughout 2019-21, recognising and embracing systematic and proportionate risk management as a means to mitigate risks and exploit opportunities for consumers. We have established 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 regular review.

[8] https://www.rhiinquiry.org/
[9] https://www.nao.org.uk/report/low-carbon-heating-of-homes-and-businesses-and-the-renewable-heat-incentive/

Corporate Governance Code

We recognise the value of good corporate governance and comply with the principles of the Corporate Governance Code[10]. 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. We will continue to work to always ensure that our own behaviours as a regulator are as practically consistent with the Nolan principles of ethical standards for public bodies as possible and with best practice recommendations for regulatory bodies.

Data quality

Having good quality data is becoming ever-more important to making effective decisions. If the data we use is not robust, secure, accessible and accurate, decision-making can be impaired. 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 Authority considers that this information is generally of good quality. In 2016/17 we made changes to the presentation of internal management information, to improve its usefulness in monitoring the efficiency of the organisation in delivering our strategic objectives. In 2017 we established a dedicated multi-disciplinary team with a mission to deliver incremental improvements to our data management. Our Data Services team has continued to evolve throughout 2018/19, collaborating with different people and teams throughout Ofgem, testing out new ways of managing data and strengthening our internal capabilities for data governance and protection. Data used to inform regulatory decisions is kept under constant review against a background of continuing change in the relevant markets. In order to promote better outcomes for consumers, we are collaborating and sharing lessons/ approaches through joint UKRN research groups, including projects on sharing data on vulnerable customers, and working together to improve the quality and accessibility of infrastructure and consumer data.

In line with our leading the joint Cyber Competent Authority role (with BEIS) for the Network and Information Systems Regulations, as well as our increasing role for ensuring security of smart metering, during the year we have expanded our specialist team to assess, advise and monitor the operators of essential services. Additionally, we are strengthening our internal capabilities for data governance and protection, cyber operations, assurance and architecture.

Whistleblowing arrangements

Ofgem's whistleblowing policy is available to our people on our intranet, along with advice showing managers how to deal with whistleblowing concerns. For external whistleblowers, contact details of our Whistleblowing Desk are published on the Ofgem external-facing website, along with associated guidance. There were 101 incidents of whistleblowing during the year.

Personal data incidents

All Ofgem employees have a role in keeping information safe, and there are published Policies available on the organisation's intranet site. In line with these Policies, there are data breach notification processes and for the 2018/19 Financial Year, where incidents have been raised, none have reached the threshold for ICO notification.

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 2018/19 and prior years, our internal auditors made 42 recommendations that had a due date for

[10] https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017

implementation before 31st December 2018. Of these, as at April 2019, satisfactory progress had been made with 17 out of the 42 recommendations either implemented or substantially complete, a further 21 recommendations in progress, with 2 recommendations outstanding and 2 recommendations where management have accepted the risk.

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

- The Authority reviewed our strategic risks in July and December 2018
- The Senior Leadership Team, the Management Committee (for E-Serve) and the Audit and Risk Assurance Committee reviewed our strategic risks in July 2018 and December 2018.
- Assurance: Both Ofgem and E-Serve have established and wide-ranging assurance functions which adds additional strength to our risk management, compliance oversight and audit functions across our delivery portfolio and environmental scheme administration.
- Key senior roles in Corporate Services were appointed, including the Director of Resources and Deputy Director for Digital & Technology. An exercise to appoint permanently to the position of Deputy Director of People & Estates is underway.
- The Chief Operating Officer and Director of Resources delivered a budget prioritisation exercise in quarter 4 to ensure Ofgem finalised an operating plan for 2019/20 which is deliverable within our financial envelope for the period. This exercise resulted in a transparent dialogue across organisational directorates to prioritise resources.
- We have updated our governance statements to require all of our Senior Civil Servants to consider and report on all aspects of financial and risk management and other governance control issues in their area.

In 2018/19 we asked our internal audit provider to review specific areas where my management team and I felt there were control weaknesses. In line with our expectations, a number of control weaknesses were identified and the Head of Internal Audit has concluded an overall inadequate opinion in 2018/19. Each internal audit report has been discussed by Ofgem's Audit, Risk & Assurance Committee and plans have been put in place to address the control weaknesses identified. Notable mitigations in progress include the following:

- Our 'Evolving Ofgem' transformation continues and in 2018/19, has started focusing on Corporate Services, in particular People & Estates, Finance and Digital & Transformation. Under new senior leadership, these teams will complete restructure in 2019/20 resulting in significantly transformed team structures, roles and responsibilities to deliver a higher level of performance and capability. Work will continue to refine processes and embed more efficient ways of working. The Corporate Services restructure will also enable investment in critical systems for Ofgem including the introduction of purchase ordering, and a digital procurement & contract management system. Further work will then be required to embed new ways of working using these systems, including to ensure the business understand and comply with these ways of working.
- Given the scale of financial pressures faced in 2018/19 and expected in 2019/20, I have incorporated into financial delegation letters a range of terms, conditions and performance requirements to ensure robust, compliant management of funds. For example, budget-holders have been allocated performance targets to measure the accuracy of their in-year forecasting, and every Ofgem Senior Civil Servant will be required to attend financial awareness and management training.
- Ofgem's Board has established a Taskforce, chaired by Ofgem's Chair and including a number of non-Executive Directors, to oversee Ofgem's SR19 preparations, and effective utilisation of Ofgem's 2019/20 budget. Although the Taskforce has no formal decision-making authority, it acts as a further source of assurance and challenge on robust financial planning and management in the organisation in the run-up to the Government spending round.

I am confident that these measures will contribute to addressing the control weaknesses identified, and strengthen Ofgem's governance and control environment.

Dermot Nolan
Accounting officer

21 June 2019

Remuneration and Staff Report

Remuneration and staff report

People and 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 Christine Farnish. The other members during 2018-19 were Paul Grout and Ann Robinson. Martin Cave (Ofgem Chairman), Dermot Nolan (CEO), Sarah Cox (COO) attend as observers with Andrea Armstrong (HR) providing HR/People insight and Stella Denny providing Secretariat support. The committee's role is to review and approve the annual pay award and level of any bonus for Senior Leadership Team employees. 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, and the Senior Salaries Review Body for Senior Civil Service pay. The committee also reviews succession planning and talent management of senior staff.

Remuneration policy

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

Each Senior Leadership Team employee is eligible to participate in a bonus scheme that is in line with Cabinet Office guidelines. The bonus is based on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

Service contracts

The Constitutional Reform and Governance Act 2010 requires civil service appointments to be made on merit and on the basis of fair and open competition. 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 by Ofgem, 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, bonus payments and the value of any taxable benefits in kind of the most senior employees of Ofgem (not all of whom are Authority members) in 2018-19 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)	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Senior executive members of Ofgem										
Dermot Nolan Chief Executive	190-195	195-200	-	-	-	-	36,000	36,000	230-235	230-235
Jonathan Brearley Executive Director	145-150	140-145	15-20	-	-	-	57,000	56,000	215-220	200-205
Sarah Cox Chief Operating Office	135-140	135-140	15-20	-	-	-	52,000	67,000	185-190	200-205
Martin Crouch Senior Partners (left 08/06/18)	75-80*	140-145	-	-	-	-	20,000	45,000	95-100	185-190
Rob Salter-Church Interim Executive Director	120-125*	30-35*	15-20	-	-	-	55,000	46,000	195-200	75-80
Dr Andrew Wright Senior partner (left 31/08/18)	85-90*	190-195	2-3	-	-	-	12,000	29,000	100-105	215-220
Chris Poulton Acting managing director (left 30/04/18)	70-75*	135-140	-	-	-	-	5,000	49,000	75-80	185-190
Mary Starks Executive Director (started 10/09/18)	90-95*	-	-	-	-	-	36,000	-	125-130	-
Non-executive members of the Authority										
David Gray Chairman (Left 30/09/18)	80-85*	160-165	-	-	-	-	-	-	80-85	160-165
Martin Cave Chairman Started (01/10/18)	80-85*	-	-	-	-	-	-	-	80-85	-

*Senior Partners was an old title for Executive directors.

* Annual equivalent basic salary (excluding performance pay):

Mary Starks:	165-170
Martin Cave:	160-165
Martin Crouch:	140-145
Dr Andrew Wright:	190-195
Chris Poulton:	135-140
David Gray:	160-165
Rob Salter-Church:	120-125

‡ 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	2018-19		2017-18	
	Honorarium	Allowance	Honorarium	Allowance
Christine Farnish	£20,000	£3,000	£20,000	-
Paul Grout	£20,000	£3,000	£20,000	-
Lynne Embleton (from July 2018) *	£15,000	-	-	-
Keith Lough	£20,000	£3,000	£20,000	£3,000
Ann Robinson (From July 2018) **	£15,000	-	-	-
John Cracket (From Dec 2018) ***	£6,667	-	-	-

* Annual equivalent £20,000
** Annual equivalent £20,000
*** 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 35. 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 aren't 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, Martin Cave, has an appointment that started on 10 July 2018 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 employees 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 2018/19 there were 621 staff (2017-18 there were 697) who received a bonus. The average bonus payment was £1,527.74 (in 17/18 £1,238) and the total amount paid in bonuses equalled £948,727.30 (2017-18 £862,907). One individual received the largest bonus of £17,500 (2017-18: four received the largest bonus payment which was £12,500)

Bonuses are based on performance levels and assessed as part of the appraisal process. The bonuses reported in 2018-19 relate to performance in 2017-18 The bonuses reported for 2017-18 relate to performance in 2016-17.

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 2018-19 was £195,000-£200,000 (2017-18: £195,000-£200,000). This was 4.69 times (2017-18: 4.73) the median remuneration of the workforce, which was £41,818 (2017-18: £41,782).

In 2018-19 none (2017-18: none) of Ofgem's employees received remuneration in excess of the highest-paid director. Remuneration ranged from £10,000 to £197,500 (2017-18: £10,000 to £195,757).

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 2018-19, as shown in the staff report below.

Pension Benefits

Pension benefits	Accrued Pension at pension age as at 31/03/19	Real Increase in pension and related lump sum at pension age	Cash equivalent transfer value at 31 March 2019	Cash equivalent transfer value at 31 March 2018	Real increase in cash equivalent transfer value	Employer's contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Senior executive members of Ofgem						
Dermot Nolan Chief executive	-	-	-	-	-	35,800
Jonathan Brearley Executive Director (from May 2016)	5-10	2.5-5	104	58	26	-
Sarah Cox Chief Operating Officer (from June 2016)	35-40	2.5-5	564	470	27	-
Martin Crouch Senior partner (left 08/06/18)	40-45	0-2.5	545	529	11	-
Mary Starks Executive Director	0-5	0-2.5	23	-	16	-
Rob Salter-Church Interim Executive Director	30-35	2.5-5	371	286	22	-
Dr Andrew Wright Senior partner (left 31/08/2018)	-	-	-	-	-	11,700
Chris Poulton Acting managing director	20-25	0-2.5	196	193	1	-

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 or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement). It uses common market valuation factors for the start and end of the period.

Staff report

Average number of people employed (audited)

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

			2018-19	2017-18
	Permanently employed staff	**Others**	**Total**	**Total**
Regulatory	329	40	**369**	**401**
E-Serve	230	31	**261**	**273**
Delivery	191	30	**221**	**142**
Total	**750**	**101**	**851**	**816**

There was an average of 45 whole-time equivalent people in the SCS grade during the year. Of these 26 were in payband 1, 14.5 in payband 2, and 4.5 in payband 3.

Staff Costs (audited)

Staff costs comprise			**2018-19 £000**	**2017-18 £000**
	Permanently employed staff	**Others**	**Total**	**Total**
Wages and salaries	40,627	8,019	48,646	44,220
Social security costs	4,523	-	4,523	4,389
Other pension costs	7,936	-	7,936	7,723
Other staff costs	20	-	20	21
Apprenticeship Levy (tax expense)	186	-	186	170
Total	**53,292**	**8,019**	**61,311**	**56,253**

Consultancy expenditure

Our expenditure on other consultancy services in 2018-19 was £18.04m, per note 4 of the accounts (2017-18: £12.37m; 2016-17: £9.45m). We attempt to minimise our reliance on external support by running targeted recruitment campaigns for the skills required to deliver our strategy. We continue to use professional service support to obtain access to specialists who provide professional or legal advice in relation to the delivery of our portfolio of work, as well as those that provide specialist delivery support where it is not economical to maintain this expertise in-house. Increase in consultancy spend in 18-19 was mainly due specialist professional support required for the introduction of price cap on default tariffs which will save over £1 billion per year for consumers.

Reporting of civil service and other compensation schemes – exit packages (audited)

Exit package cost band	2018-2019			2017-2018		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,001	0	3	3	0	3	3
£10,001 - £25,000	0	3	3	0	3	3
£25,001 - £50,000	0	5	5	0	2	2
£50,001 - £100,000	0	5	5	0	7	7
£100,001 - £150,000	0	2	2	0	1	1
£150,001 - £200,000	0	0	0	0	0	0
Total number of exit packages	0	18	18	0	16	16
Total cost £000	**0**	**921**	**921**	**0**	**808**	**808**

We have paid redundancy and other departure costs in accordance with the provision of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. We account for exit costs in full when the early retirement programme becomes binding but actual dates of departure may fall in the following reporting period. Where we have agreed early retirements we, not the Civil Service Pension Scheme, meet the additional costs. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Employee involvement

This year our staff engagement survey received a response rate of 77%, and an engagement index of 61%, an increase of two percentage points on the previous year. Our staff continue to find their roles interesting (87%), believing their work gives them a sense of personal accomplishment (74%), and would recommend Ofgem as a great place to work (61% - up 11% from the previous year).

Equal opportunities policy

We recruit staff on merit through fair and open competition, in line with the Civil Service recruitment principles governed by the Civil Service Commission. This ensures fair and open competition, regardless of:

- race;
- sex;
- sexual orientation;
- age;
- marital status;
- disability;
- religion and belief;
- gender reassignment;
- pregnancy and maternity; or
- working pattern.

All recruitment activity is subject to audit by the Civil Service Commission to ensure that we comply with the guidance set out in the recruitment principles.

Diversity and Inclusion

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, we launched our Diversity and Inclusion strategy in 2019. We are also appointing our first Diversity & Inclusion Officer (role advertised in April 2019). This post will help us to challenge our organisational aspirations, developing our Single Equalities Scheme and driving forward the implementation of our Diversity and Inclusion strategy.

We promote equality and diversity at work – in recruitment, 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 don't tolerate discrimination, bullying or harassment. Our score for inclusion and fair treatment in the 2017 staff engagement survey was 79%.

In 2018, Ofgem has continued to support our diversity networks covering women, LGBT+, ethnicity and disability.

In 2018-19 we continued to provide diversity and unconscious bias training to staff. This is part of our commitment to ensuring that in everything they do our staff understand and fulfil their obligations under the Equality Act. As at the 31 March 2019:

- 3.3% (2017-18:2.1%) of staff were known to have a disability.
- 46% (2017-18:45%) of staff were women.
- 42% (2017-18:46%) of staff in managerial grades (Band D to SCS3) were women.
- 44% (2017-18:35%) of Senior Civil Service members in Ofgem were women.
- 19% (2017-18:18%) of staff were known to be of ethnic minority origin.
- 31% (2017-18:71%) of staff known to be of ethnic minority origin were in managerial grades (Band D to SCS3).

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. Our budget allocation process provides an amount per employee for learning and development activity. These activities range from e-learning through to support towards professional and academic qualifications.

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 continue to work with Career Ready and have staff giving 16-19 year-olds one-to-one support and guidance through a mentoring scheme. In 2018 we also trialled working with the Princes Trust in our Glasgow office. The success of this trial has seen E-Serve commit to a continued relationship by providing mentoring and work experience to those seeking opportunities through the work of the Princes Trust.

In London, we have started to develop our community engagement work with the Bromley-by-Bow Centre (BBC). The BBC is a local charity providing community support, learning and wellbeing to residents within Tower Hamlets.

Promoting health and safety at work

We take seriously 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.

Since moving to our new offices in Commonwealth House and Canary Wharf, we have been able to provide greater working environments to support the wellbeing of staff. This includes the provision of different working environments, sit/stand desks and other specialist equipment.

Days lost because of absence

In 2018-19, we lost an average of 5.1 days a year per employee (2017-18: 4.9 days). This compares favourably with the public sector average of 8.4 days a year per employee.

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.

Information on current off-payroll appointees is at Appendix III on page 108. Information on trade union facility time can be found in Appendix IV, on page 109.

Dermot Nolan
Accounting officer

21 June 2019

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 2018-19

	2018-19 £000							2017-18 £000
	Estimate			Outturn				Outturn
	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with estimate: saving	Total
Departmental expenditure limit								
Resource	702	-	702	434	-	434	268	596
Capital	802	-	802	688	-	688	114	2,325
Annually managed expenditure								
Resource		-			-			-
Capital		-			-			-
Total budget	1,504	-	1,504	1,122	-	1,122	382	2,921
Non-budget								
Resource		-			-		-	-
Total	**1,504**	**-**	**1,504**	**1,122**	**-**	**1,122**	**382**	**2,921**
Total resource	702	-	702	434	-	434	268	596
Total capital	802	-	802	688	-	688	114	2,325
Total	**1,504**	**-**	**1,504**	**1,122**	**-**	**1,122**	**382**	**2,921**

	2018-19 £000	2018-19 £000		2017-18 £000
	Estimate	Outturn	Outturn compared with estimate: saving	Outturn
Net cash requirement	2,134	(6,902)	9,036	569

	2018-19 £000	2018-19 £000		2017-18 £000
Administration costs	Estimate	Outturn	Saving	Outturn
	702	434	268	596

Figures in the areas outlined in bold are voted totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

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

	2018-19 £000						2017-18 £000
	Outturn – Administration			Estimate			
	Gross	Income	Net total	Net total	Net total compared with estimate	Net total compared to Estimate adjusted for virements	Total
Spending in Departmental Expenditure Limits							
A Gas and Electricity Markets Authority: administration	71,935	(71,935)	-	(4,350)	(4,350)	-	-
B Ofgem E-Serve: administration	25,227	(24,793)	434	-	(434)	268	596
C GEMA Great Working Environment	-	-	-	1,900	1,900	-	-
D Energy Market Investigation Remedies	-	-	-	3,152	3,152	-	-
Total	**97,162**	**(96,728)**	**434**	**702**	**268**	**268**	**596**

SoPS1.2 Analysis of net capital outturn by section

	2018-19 £000					2017-18 £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	688	-	688	802	114	2325
Total	**688**	**-**	**688**	**802**	**114**	**2325**

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

SoPS2 is not required as the total resource outturn in the SoPS is the same as the net operating expenditure within the SoCNE.

SoPS3 Reconciliation of net resource outturn to net cash requirement

		Estimate	Outturn	Net total outturn compared with estimate: saving/(excess)
	Note	£000	£000	£000
Resource outturn	SoPS1.1	**702**	**434**	**268**
Capital outturn	SoPS1.2	**802**	**688**	**114**
Accruals to cash adjustments:				
▪ Depreciation	4	(700)	(1,373)	673
▪ New provisions and adjustments to provisions	4	-	(445)	445
▪ Other non-cash items	4	(60)	(85)	25
▪ Movement in working capital:				
- Debtors		1000	(11,179)	12,179
- Creditors		390	4,633	(4,243)
▪ Use of provision	13	-	425	(425)
Net cash requirement		**2,134**	**(6,902)**	**9,036**

SoPS4 Analysis of income payable to the consolidated fund

We collected no consolidated fund income in 2018-19. 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 (audited)

Regulatory of expenditure

Expenditure of Ofgem was applied for the purposes intended by pariliament.

Ofgem has nothing to report in respect of the following:

- Losses and special payments;
- Fees and charges disclosures;
- Remote contingency liabilities; and
- Long term expenditure trends.

Dermot Nolan
Accounting officer

21 June 2019

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

Opinion on financial statements

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets for the year ended 31 March 2019 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, including the significant accounting policies. 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 that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2019 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 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 2019 and shows that those totals have not been exceeded; and
- the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Office of Gas and Electricity Markets in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

We are required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office and Gas and Electricity Markets' ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Department to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office of Gas and Electricity Markets' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration of Staff Report and Parliamentary Accountability disclosures described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and 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;
- in the light of the knowledge and understanding of the Office of Gas and Electricity Markets and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports 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 Accountability Report 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.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP

1 July 2019

Resource Accounts

Statement of comprehensive net expenditure for the year ended 31 March 2019

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.

		2018-19 £000	2017-18 £000
Operating income	5	(96,728)	(89,444)
Total Operating Income		**(96,728)**	**(89,444)**
Staff cost	3	61,311	56,523
Other administration cost	4	35,851	33,517
Total operating expenditure		**97,162**	**90,040**
Net operating expenditure for the year	**2**	**434**	**596**
Other comprehensive net expenditure			
Actuarial gain/(loss) on pension liabilities	13	(15)	43
Comprehensive net expenditure for the year		**419**	**553**

Statement of financial position as at 31 March 2019

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.

		2018-19		2017-18	
	Note		£000		£000
Non-current assets:					
Property, plant and equipment	6	2,677		3,362	
Total non-current assets			**2,677**		**3,362**
Current assets:					
Trade and Other Receivables	11	7,189		18,368	
Cash and Cash Equivalents	10	9,036		6,561	
Total current assets			**16,225**		**24,929**
Total assets			**18,902**		**28,291**
Current liabilities:					
Trade and other payables	12	(18,382)		(20,541)	
Provisions -amounts due within a year	13	(570)		-	
Total current liabilities			**(18,952)**		**(20,541)**
Total assets less current liabilities			**(50)**		**7,750**
Non-current liabilities:					
Provisions	13	(1,336)		(1,870)	
Total non-current liabilities			**(1,336)**		**(1,870)**
Total assets less total liabilities			**(1,386)**		**5,880**
Taxpayers' equity:					
General fund		(1,386)		5,880	
Total taxpayers' equity			**(1,386)**		**5,880**

Dermot Nolan
Accounting officer

21 June 2019

The notes on pages 71 to 87 form part of these accounts.

Statement of cash flows for the year ended 31 March 2019

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	2018-19 £000	2017-18 £000
Cash flows from operating activities			
Net operating cost	SoPS1.1	(434)	(596)
Adjustments for non-cash transactions	4	1,903	2,324
(Increase)/Decrease in trade and other receivables	11	11,179	(2,778)
Increase/(Decrease) in trade payables	12	(2,158)	(11,659)
less movements in payables relating to items not passing through the SoCNE	12	(2,475)	14,744
Use of provisions	13	(425)	(278)
Net cash outflow from operating activities		**7,590**	**1,757**
Cash flows from investing activities		-	-
Purchase of property, plant and equipment	6	(688)	(2,325)
Net cash outflow from investing activities		**(688)**	**(2,325)**
Cash flows from financing activities			
From the Consolidated Fund (supply) – current year		-	-
Advances from the Contingencies Fund		15,000	20,000
Payments to the Contingencies Fund		(15,000)	(20,000)
Net cash flow from financing activities		**-**	**-**
Net decrease in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**6,902**	**(569)**
Payments of amounts to the Consolidated Fund		(4,427)	(14,175)
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**2,475**	**(14,744)**
Cash and cash equivalents at the beginning of the period	10	6,561	21,305
Cash and cash equivalents at the end of the period	10	**9,036**	**6,561**

The notes on pages 71 to 87 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2019

		General fund
	Note	£000
Balance at 31 March 2017		**5,800**
Non-cash charges - auditor's remuneration	4	64
Net operating cost for the year		(596)
Losses relating to pension liabilities	13	43
Net Parliamentary Funding - drawn down		-
Net Parliamentary Funding - deemed		7,130
Supply payable adjustment		(6,561)
Balance at 31 March 2018		**5,880**
Non-cash charges - auditor's remuneration	4	85
Net operating cost for the year		(434)
Gains relating to pension liabilities	13	(15)
Net Parliamentary Funding - drawn down		-
Net Parliamentary Funding - deemed		2,134
Supply payable adjustment		(9,036)
Cash receipts from 2018-19 not due to the consolidated fund		-
Balance at 31 March 2019		**(1,386)**

Notes to the departmental resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 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 60.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention. The accounts are presented to the nearest £'000.

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 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 0.29%, 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. 0.29% is the discount rate for post-employment benefits.

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.

1.10 Going concern

The Statement of Financial Position at 31 March 2019 shows a taxpayers' equity of negative £1.386 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 2019-20 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. Adoption of new and revised accounting standards

IFRS 9 Financial Instruments applicable from 1st January 2018 – replaces IAS 39 Financial Instruments: Recognition and Measurement. Its core principle is to simplify the classification and measurement of financial assets, but it also considers impairment, classification and measurement of liabilities and hedge accounting. Ofgem has no significant exposure to liquidity, interest rate or currency risks. Because of the nature of its activities and the way in which Ofgem is financed, it is not exposed to the degree of financial risk faced by business entities. The adoption of IFRS 9 has no material impact to Ofgem's results.

IFRS 15 Revenue from Contracts with Customers applicable from 1st January 2018.

- IFRS 15 introduces a new five step model for the recognition of revenue from contracts with customers. The core principle is to recognise revenue so that it depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Ofgen have considered the five-step process and have determined no change to the revenue recognition approach.

- **Licence fees** - In each financial year, Ofgem is required to balance its expenditure with its income. Ofgem is required to raise income from the sector it regulates such that it covers the costs to be incurred by Ofgem in regulating that sector. Therefore, Legislation provides the enforceability on both parties to enable Ofgem to recover its costs from third parties. The performance obligations relate to the underlying work to be undertaken by Ofgem as regulator of the Gas & Electricity Market, and as set out in the published Forward Work Programme. The charges are calculated through the recovery of costs as set out in the Ofgem budget and adjusted for any under or over recoveries in the previous year. Revenue is recognised in the year the performance obligation (cost) is incurred. Any under or over recovery of revenue is accrued or deferred and future charges are adjusted accordingly.

- **Scheme-funded recharges** – Under service level agreements/contracts with the Department of Business, Energy and Industrial Strategy and other government bodies Ofgem administers energy and environmental schemes] on their behalf. These services are provided on a full-cost basis. Income is recognised on an accruals basis as the performance obligations outlined within the service level agreements/contracts are satisfied over time.
- **Other Income** - Other income is accounted for on an accruals basis.

IFRS 16 Leases applicable from 1st April 2020 for FreM bodies– replaces IAS 17 Leases and fundamentally changes the accounting treatment of leases for lessees.. The current IAS 17 model which requires entities to distinguish between finance leases (on balance sheet) and operating leases (off balance sheet) will be replaced by a 'right of use' model that requires lessees to recognise nearly all leases on balance sheet with their associated liability. This will also necessitate review of existing and new contracts to identify lease and non-lease (i.e. service) elements. Ofgem will undertake an impact assessment of their lease exposure and create a project team to manage the transition to IFRS 16. Ofgem will assess current contracts to assess whether sufficient information exists to enable the assessment under IFRS 16 criteria.

1.14 Accounting Policy on Critical Accounting Judgements and Estimation Uncertainty

IAS 1.122 requires disclosure of the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements. IAS 1.125 requires disclosure of information about the assumptions the entity makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes to the financial statements include details of their: nature; and carrying amount at the end of the reporting period.

Ofgem has nothing to report in respect of accounting judgements and estimation uncertainty.

1.15 Holiday Accrual

Ofgem encourages staff to use their full holiday entitlement for each year. However, staff can carry over up to ten days of untaken leave into the next year. Amounts untaken as at the 31st March are accrued.

1.16 Cash and Cash Equivalent

Cash and cash equivalent in the statement of financial position and statement of cash flow comprises of cash at bank and in hand.

1.17 General Fund

The general fund in the statement of financial position represents the total assets less liabilities of Ofgem.

2. Statement of operating costs by operating segment

2018-19				
	Regulatory Activities £000	Ofgem E-Serve £000	Corporate Services £000	Total £000
Gross expenditure	33,812	25,227	38,123	97,162
Income	(33,812)	(24,793)	(38,123)	(96,728)
Net expenditure	**-**	**434**	**-**	**434**

2017-18				
	Regulatory Activities £000	Ofgem E-Serve £000	Corporate Services £000	Total £000
Gross expenditure	42,156	24,398	23,486	90,040
Income	(42,156)	(23,802)	(23,486)	(89,444)
Net expenditure	**-**	**596**	**-**	**596**

Segmental reporting is undertaken on an activity basis, in line with monthly reporting to decision makers within the organisation. Corporate Services is now part of Delivery Directorate which includes Office of Research and Economists, Office of General Counsel, Cyber & Data services previously included in Regulatory Activities.

3. Staff costs

Staff costs comprise			2018-19 £000	2017-18 £000
	Permanently employed staff	Others	Total	Total
Wages and salaries	40,627	8,019	48,646	44,220
Social security costs	4,523	-	4,523	4,389
Other pension costs	7,936	-	7,936	7,723
Other staff costs	20	-	20	21
Apprenticeship Levy (tax expense)	186	-	186	170
Total	**53,292**	**8,019**	**61,311**	**56,523**

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.civilservice-pensions.gov.uk)**.

For 2018-19, employers’ contributions of £7,665,084 were payable to the PCSPS and CSOPS (2017-18: £7,409,372) at one of four rates in the range 20.0% to 24.5% (2017-18: 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 2017-18 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 £270,916 (2017-18: £312,823) were paid to three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% (2016-17: from 8% to 14.75%). Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £10,454 (2017-18: £12,395), 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 in 2018-19 (2017-18: zero people) retired early on ill-health grounds.

Staff numbers can be seen in the Remuneration and Staff report on page 55.

Apprenticeship levy is accounted for as a cost. The training cost & funding have not been recognised in the accounts as the apprentice can move jobs to another employer and therefore the apprenticeship training is of no benefit to Ofgem.

4. Other administration costs

	Note	2018-19 £000	2017-18 £000
Rental under operating leases:		**3,309**	**4,147**
Operating leases		3,309	4,147
Non-cash items (see below):		**1,458**	**1,551**
Auditors' remuneration and expenses*		85	64
Depreciation	6	1,373	1,292
Loss on impairment of fixed assets		-	195
Other expenditure:		**30,639**	**27,046**
Contractors		18,039	12,366
Accommodation costs		2,806	3,380
Recruitment and training		1,390	1,327
Travel and subsistence		1,232	1,021
Office supplies and equipment		5,872	6,302
Professional Services		319	1,512
Staff related costs		322	260
Other expenditure		659	878
Provisions (non-cash):		**445**	**773**
Provided in year	13	425	754
Interest cost	13	20	19
Total		**35,851**	**33,517**

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

5. Operating income

			2018-19 £000			2017-18 £000
	Income	Full costs	Deficit	Income	Full costs	Deficit
Licence fees	69,143	69,143	-	61,193	61,193	-
Other	27,585	28,019	(434)	28,251	28,847	(596)
Total	**96,728**	**97,162**	**(434)**	**89,444**	**90,040**	**(596)**

	2018-19	2017-18
Other income includes:	**£000**	**£000**
Offshore Transmission Tender Recharge	2,385	2,206
Department for Business, Energy and Industrial Strategy (relating to environmental programmes and staff transfers)	19,138	18,788
Scheme-funded recharges	5,655	3,503
Department for Environment, Food and Rural Affairs (relating to shared accommodation costs and staff transfers)	(6)	2,053
Other departments	137	1,458
Miscellaneous*	276	243
	27,585	**28,251**

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

6. Property, plant and equipment

	Furniture	Office equipment	IT	Leasehold	Assets Under Construction	Total
	£000	£000	£000	£000		£000
Cost or valuation						
At 1 April 2018	306	1,999	6,535	7,498	-	16,338
Additions	26	-	627	35	-	688
Reclassifications	-	-	-	-	-	-
At 31 March 2019	**332**	**1,999**	**7,162**	**7,533**	**-**	**17,026**
Depreciation						
At 1 April 2018	180	1,976	5,249	5,571	-	12,976
Charged in year	31	21	773	548	-	1,373
Impairments	-	-	-	-	-	-
At 31 March 2019	**211**	**1,997**	**6,022**	**6,119**	**-**	**14,349**
Carrying amount at 31 March 2019	**121**	**2**	**1,140**	**1,414**	**-**	**2,677**
Carrying amount at 31 March 2018	126	23	1,286	1,927	-	3,362
Asset financing:						
Carrying amount of owned assets at 31 March 2019	**121**	**2**	**1,140**	**1,414**	**-**	**2,677**

	Furniture	Office equipment	IT	Leasehold	Assets Under Construction	Total
	£000	£000	£000	£000		£000
Cost or valuation						
At 1 April 2017	335	2,489	6,770	5,749	62	15,405
Additions	-	5	633	1,687	-	2,325
Impairments	(29)	(495)	(868)	-	-	(1,392)
Reclassifications	-	-	-	62	(62)	-
At 31 March 2018	**306**	**1,999**	**6,535**	**7,498**	**-**	**16,339**
Depreciation						
At 1 April 2017	166	2,296	5,103	5,316	-	12,881
Charged in year	29	110	898	255	-	1,292
Impairments	(15)	(430)	(752)	-	-	(1,197)
At 31 March 2018	**180**	**1,976**	**5,249**	**5,571**	**-**	**12,976**
Carrying amount at 31 March 2018	**126**	**23**	**1,286**	**1,927**	**-**	**3,362**
Carrying amount at 31 March 2017	169	193	1,667	433	62	2,524
Asset financing:						
Carrying amount of owned assets at 31 March 2018	**126**	**23**	**1,286**	**1,927**	**-**	**3,362**

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.

	At March 31 2019	At March 31 2018
	£000	£000
Obligation under operating leases comprise:		
Buildings:		
Not later than one year	2,134	2,733
Later than one year and not later than five years	8,502	8,409
Later than five years	23,626	25,904
	34,262	**37,046**

Ofgem's headquarter has moved from Millbank to Canary Wharf in April 2018. Future minimum lease payments in column '2018-19' mainly relate to lease obligations under the new rent agreement for 10 South Colonnade at Canary Wharf. New office space is contracted up to June 2032.

7.1 Other financial commitments

As at 31 March 2019, we hadn't entered into any material non-cancellable contracts (which are not operating leases).

8. Future income due under non-cancellable operating leases

	At March 31 2019	At March 31 2018
	£000	**£000**
Buildings:		
Not later than one year	-	165
Later than one year and not later than five years	-	-
	-	**165**

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

	2018-19	2017-18
	£000	£000
Balance at 1 April	6,561	21,305
Net change in cash and cash equivalents	2,475	(14,744)
Balance at 31 March	**9,036**	**6,561**
The following balances at 31 March were held at:		
Government Banking Service	9,036	6,561
Commercial banks and cash in hand	-	-
Balance at 31 March	**9,036**	**6,561**

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

	2018-19	2017-18
Amounts falling due within one year:	£000	£000
Accrued fees (Income)	5,277	7,506
Accrued Lease Incentive	-	4,859
Trade debtors (receivables)	565	3,653
Prepayments	806	1,607
HM Customs and Excise (VAT)	411	624
Staff debtors	130	119
Balance at 31 March	**7,189**	**18,368**

In February 2015 Ofgem signed an agreement to waive its rights under the Landlord and Tenant Act 1954, in respect of its Millbank headquarters. 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). Ofgem directed that the payment be made to the agents who negotiated the deal. The lease incentive was accrued in 2017-18 and payment was received in 2018-19.

Staff receivables include loans outstanding, of which £0.121 million relates to season ticket loans for employees.

12. Trade payables and other current liabilities

	2018-19	2017-18
Amounts falling due within one year:	**£000**	**£000**
Amounts issued from the Consolidated Fund for supply but not spent at year end	9,036	6,561
Deferred licence fees	2,995	6,571
Accruals	3,319	4,666
Staff payables (holiday pay accrual)	1,599	1,538
Taxation and Social Security Creditor	1,314	1,139
Trade payables	119	13
Leasehold Incentive	-	52
Balance at 31 March	**18,382**	**20,540**

Staff payables represent the holiday pay accrual towards holidays to be provided to staff in 2018-19 financial year.

13. Provisions for liabilities and charges

13.1 Early retirement

	2018-19	2017-18
	£000	£000
Provision at 1 April	**164**	**202**
Provided in the year	-	-
Provisions not required written back		(21)
Provisions utilised in the year	(17)	(17)
Provision at 31 March	**147**	**164**

	2018-19	2017-18
Analysis of expected timings of discounted flows	£000	£000
Not later than one year	16	16
Later than one year and not later than five years	62	64
Later than five years	69	84
Provision at 31 March	**147**	**164**

The department meets the additional costs of benefits beyond the normal PCSPS benefits for employees, who worked in Leicester office of Ofgem, by paying the required amounts monthly to the PCSPS.

13.2 Pension liabilities

	2018-19	2017-18
	£000	£000
Provision at 1 April	**803**	**827**
Interest cost	20	19
Actual benefit payments	-	-
Actuarial (gain)/loss	15	(43)
Past service cost	-	-
Provision at 31 March	**838**	**827**
Net movement in year (excluding actuarial gain/loss)	35	19

	2018-19	2017-18
History of experience losses	**£000**	**£000**
Experience gain arising on the scheme liabilities	8	(5)
Amount recognised as a percentage of present value of scheme liabilities	0.95%	-0.01%
Total amount recognised in statement of changes in taxpayers' equity	15	(43)

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 2018. The major assumptions used by the actuary were:

	At 31 March 2019	At 31 March 2018
	% (per annum)	% (per annum)
Inflation assumption - CPI	2.60	2.45
Rate of increase for pensions in payment and deferred income	2.60	2.45

	2018-19	2017-18	2016-17
Analysis of actuarial (gain)/loss	**£000**	**£000**	**£000**
Experience (gain)/loss arising on the scheme liabilities	8	(5)	(2)
Changes in assumptions underlying the present value of scheme liabilities	7	(38)	58
Per statement of changes in taxpayers' equity	15	(43)	56

From 31 March 2018, the discount rate for pension scheme liabilities is 0.29%. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2019.

13.3 Voluntary Exit Provisions

	2018-19	2017-18
	£000	£000
Provision at 1 April	**504**	**340**
Provided in the year	522	504
Provision not required written back	(97)	(79)
Provision utilised in year	(407)	(261)
Provision at 31 March	**522**	**504**

	2018-19	2017-18
Analysis of expected timings of outflows	£000	£000
Not later than one year	522	504
Later than one year and not later than five years	-	-
Later than five years	-	-
Balance at 31 March	**522**	**504**

13.4 Dilapidation Provisions

	2018-19	2017-18
	£000	£000
Provision at 1 April	**368**	**50**
Provided in the year	-	368
Provision not required written back	-	(50)
Provision at 31 March	**368**	**368**

	2018-19	2017-18
Analysis of expected timings of outflows	£000	£000
Not later than one year	-	81
Later than one year and not later than five years	368	287
Later than five years	-	-
Balance at 31 March	**368**	**368**

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 2019 there were no contingent liabilities that required disclosure.

15. Related party transactions

During the year, we transferred £9.462million to the Department for Business, Energy and Industrial Strategy (BEIS). £8.537 million of this was for the energy-sector-related costs of Consumer Focus (operating as Consumer Futures) and Citizens Advice. The remaining £0.925 million was transferred for metrology services.

We administer environmental programmes on behalf of the BEIS, and second staff to BEIS. Total income from BEIS recognised in year amounted to £19.137 million.

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 was £0.872 million from the NIAUR, and £0.805 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 50.

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 2019 Ofgem held £11.750m in letters of credit (2017-18 £7.30m) and £0.702m in cash (2017-18 £1.550m).

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 (now the Scottish Government) 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 Renewable Obligation Cerificate (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 2019 was £163,173 (31 March 2018: £162,987).

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 2019 was £3,268,361 (31 March 2018: £141,504).

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, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Acts of 2004, 2008, 2010, 2011 and 2013 and related legislation.

The Authority is responsible for taking enforcement action (including imposing financial penalties) in respect of 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 2018-19. These amounts are collected by us for payment into the consolidated fund[11].

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 2018-19.

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 regulated party (e.g. licence-holders) has contravened or is contravening any relevant condition or requirement, or has failed or is failing to achieve any prescribed standard of performance.

No penalty imposed by the Authority may exceed 10% of the turnover of the regulated party. Any sums imposed by the Authority by way of a statutory penalty are paid into the consolidated fund. In 2018-19, this amounted to £2,400,000. The Authority gives notice to the regulated party that it proposes to impose a penalty and consults on this publicly.

[11] We collect the fines, penalties and fossil fuel levies for Scotland, England &Wales. This was reviewed by the auditors and signed off for 2018-19.

Financial review

This year we imposed penalties on companies and required them to make redress 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[12].

Npower

On 17 September 2018 we issued a notice confirming our decision to impose a single joint penalty of £2.4 million on npower Direct Limited, npower Limited, npower Northern Limited and npower Yorkshire Limited, following an investigation by Ofgem into npower's compliance with Standard Licence Conditions (SLCs) 12.18 and SLC 12.21 of the Electricity Supply Licence.

Our Standard Licence Condition 12.18 required suppliers to replace electricity meters only with "Advanced Meters" at 'relevant premises' (defined in SLC 12.17) from April 2009. We found that npower replaced electricity meters at defined relevant premises with meters which were not advanced meters, in contravention of SLC 12.18.

SLC 12.21 requires that as from 6 April 2014, a licensee must not supply electricity to any relevant premises other than through an advanced meter except in any instances where the licensee was unable to install or arrange for the installation of any advanced meter at the relevant premises in question despite taking all reasonable steps to do so. We also found the npower had failed to take all reasonable steps to install or arrange for the installation of an advanced meter at relevant premises.

[12] Companies may volunteer to pay a sum of money to the Voluntary Redress Fund in lieu of, or in addition to a financial penalty for breaches of licence conditions. Companies may also volunteer these payments to remedy any harm to consumers, in addition to compensation to those directly affected, where Ofgem has not conducted a formal investigation. Details of the fund can be found at https://www.ofgem.gov.uk/system/files/docs/2017/08/authority_guidance_on_the_allocation_of_redress_funds.pdf

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 HM 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 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 income and expenditure, Statement of Financial Position and cash flows for the financial year.

- In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:
    - observe the Accounts Direction issued by the Government Financial Reporting Manual, 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 financial statements;
    - prepare the financial statements on a going concern basis; and
    - confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has appointed the Chief Executive as Accounting Officer of Ofgem. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the [name of entity]'s assets, are set out in Managing Public Money published by the HM Treasury.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that Ofgem's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

Governance statement

Ofgem's governance statement, covering both the resource accounts and the trust statement, is on pages 40 to 47.

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

Opinion on financial statements

I certify that I have audited the financial statements of Office of Gas and Electricity Markets Trust Statement for the year ended 31 March 2019 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Office of Gas and Electricity Markets Trust Statement as at 31 March 2019 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 regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Office of Gas and Electricity Markets in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office of Gas and Electricity Markets Trust Statement's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the audit of the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office of Gas and Electricity Markets' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure 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.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report and Accounting Officer's foreword to the Trust Statement, but does not include the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the information given in the Annual Report and 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.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP

1 July 2019

Statement of revenue, other income and expenditure for the year ended 31 March 2019

	Note	2018-19 £000	2017-18 £000
Revenue			
Fines and penalties			
Penalties imposed	2.1	2,400	-
Fossil Fuel Levy			
Fossil Fuel Levy (England and Wales)		1,818	2,583
Fossil Fuel Levy (Scotland)		540	850
Finance Income			
Interest on penalties		-	-
Interest on bank deposits (England and Wales)		183	75
Interest on bank deposits (Scotland)		253	100
Total revenue and other income		**5,194**	**3,608**
Expenditure			
Administration of the Fossil Fuel Levy		(11)	(38)
Total expenditure		**(11)**	**(38)**
Net revenue for the consolidated fund		**5,183**	**3,570**

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 99 form part of this statement.

Statement of financial position as at 31 March 2019

	Note	2018-19 £000	2017-18 £000
Current assets			
Receivables and accrued revenue receivable	3	307	440
Cash at bank – UK consolidated fund		31,671	32,500
Cash at bank – Scottish consolidated fund		43,352	42,610
Net current assets		75,330	75,550
Current liabilities			
Payables and accrued expenditure liabilities	4	(2)	(2)
Total net assets		**75,328**	**75,548**
Represented by:			
Balance on UK consolidated fund account		31,884	32,895
Balance on Scottish consolidated fund account		43,444	42,653
	5	**75,328**	**75,548**

Dermot Nolan
Accounting officer

21 June 2019

Statement of cash flows for the year ended 31 March 2019

	2018-19	2017-18
	£000	£000
Net cash flow from operating activities	2,917	4,149
Cash paid to the consolidated funds	(3,003)	-
Increase in cash in the period	**(86)**	**4,149**

Notes to the cash flow statement

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

		2018-19	2017-18
	Note	£000	£000
Net revenue for the consolidated fund		5,183	3,570
Decrease in non-cash assets	3	134	579
Non-cash outflow to consolidated fund		(2,400)	-
Net cash flow from operating activities		2,917	4,149

B: Analysis of changes in net funds

	2018-19	2017-18
	£000	£000
Increase in cash in the period	(86)	4,149
Net funds at 1 April 2018	75,110	70,961
Net funds at 31 March 2019	75,024	75,110

The notes at pages 98 to 99 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 IFRS 15. 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 2018-19 only nominal penalties were received by Ofgem other than the £2.4m fine for Npower disclosed in Appendix II.

3. Receivables and accrued revenue receivable

	Accrued revenue receivable at 31 March 2019	Total as at 31 March 2019	Total as at 31 March 2018
	£000	£000	£000
Fines and penalties	-	-	-
Fossil Fuel Levy	307	307	440
Total	**307**	**307**	**440**

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 2019	Total as at 31 March 2019	Total as at 31 March 2018
	£000	£000	£000
Fossil Fuel Levy	2	2	2
Total	**2**	**2**	**2**

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

	2018-19	2017-18
	£000	£000
Balance on the consolidated fund accounts	75,548	71,978
Net revenue for the consolidated fund accounts	5,183	3,570
Less amount paid to the consolidated funds	(5,403)*	-
Balance on consolidated fund accounts as at 31 March	**75,328**	**75,548**

*Includes £3,003 paid from trust statement and £2,400 fine into paid to Ofgem Resource account which was paid directly to Consolidated fund.

Appendices

Appendix I
Key Performance Indicators

Effective Competition			
Metric (KPI's)	**Details of what is being measured**	**Annual target 2018-19**	**Actual**
Offshore Transmission Processing	Licence grants within 70 days of commencement of Section 8a consultation	70 working days	43.5 working days
Offshore Transmission Processing	Preferred Bidder selection within 120 days of ITT submission (excluding Best & Final Offer)	120 working days	97.3 working days
Licence Applications	Make decisions on Licence Applications within 45 days	100%	100%
Code Modifications	Make code modification decisions within 25 working days (or 3 months if 'minded to' consultation / Impact Assessment is needed).	90%	55%
Customer Contacts	Time taken for first response to customer contacts	93% - 10 working days	91%
Whistle-blowers	Time taken for first response to whistle-blower contacts	100% to receive initial engagement within 1 working day.	92%

E-Serve KPIs 2018/19			
Metric	**What is being measured**	**Target**	**Actual**
DRHI	Responding to enquiries about applications within 10 working days	90%	76.4%[13]
NDRHI	Responding to queries within 10 working days	90%	95.1%
RO	Responding to enquiries about applications within 10 working days	90%	86.8%[14]
FIT	Responding to enquiries about applications within 10 working days	90%	93.5%
ECO	Responding to queries within 10 working days	90%	96.2%
WHD	Responding to obligated party submitted Warm Homes Discount schemes for approval, within 28 days	100%	100.0%
DRHI	Maintaining system availability during business hours	99%	99.99%
NDRHI	Maintaining system availability during business hours	99%	99.97%
RO	Maintaining system availability during business hours	99%	99.82%
FIT	Maintaining system availability during business hours	99%	99.90%
ECO	Maintaining system availability during business hours	99%	99.85%
DRHI	Making payments within 30 working days	95%	98.0%
NDRHI	Making payments within 40 working days	95%	88.0%[15]
RO	Issuing the main batch of Renewables Obligations Certificates following the generators' output data reporting deadline, within 17 working days (Apr-Jun) and 12 working days (Jul-Mar)	95%	98.8%
FIT	Completing the levelisation process within 22 working days	95%	100.0%
ECO	Processing the measures submitted in one calendar month by the end of the following month	100%	100.0%

[13] We flexed resources across operational teams to meet a 37% increase in application demand in the last six months of the financial year. This prioritisation resulted in a reduced enquiries service.

[14] Due to the complex nature of remaining scheme applications, including those received during grace periods, a number of queries took longer than usual to resolve. This resulted in the overall KPI falling below the target.

[15] Payments for the first half of the year fell below KPI due to a number of aged data queries being counted within this metric incorrectly. This was reviewed and the metric adjusted to reflect only activity sitting with Ofgem

Appendix II
Investigations and enforcement action 2018-19

Details of our cases are available on our website[16] in accordance with our policy as set out in our Enforcement Guidelines.[17] We will usually publish brief details of the facts and nature of the investigations on our website,[18] although policy is different for cases relating to the Regulation[19] on Wholesale Energy Market Integrity and Transparency (REMIT).[20]

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 the voluntary redress fund, administered by the Energy Savings Trust (EST).[21]

Company	Issue	Decision	Date of decision
SSE	Compliance with SLC 25C and SLC 31A – not treating customers fairly by providing incorrect information to customers on their annual statements.	No formal finding of breach. SSE has accepted non-compliance; case resolved via alternative action; remedial actions taken and voluntary redress of £1m paid to the voluntary redress fund.	June 2018
British Gas	Compliance with SLC 24 and SLC 25C - not treating customers fairly by issuing incorrect terms and conditions to some customers, incorrectly charging some customers termination fees and failing to apply fixed term supply contract prices to some customers' final bills in the protected period following a switch.	No formal finding of breach. BG gas accepted non-compliance; case resolved via alternative action; remedial actions taken, a total sum of £1.8m paid (compensation paid direct to customers affected; and a sum paid in voluntary redress to the voluntary redress fund).	August 2018

[16] https://www.ofgem.gov.uk/investigations

[17] https://www.ofgem.gov.uk/system/files/docs/2017/10/enforcement_guidelines_october_2017.pdf

[18] The fact that we have opened an investigation does not imply that the companies involved have breached licence conditions or other obligations.

[19] Regulation No 1227/2011 of the European Parliament and of the Council of 25 October 2011

[20] Our Remit Procedural Guidelines can be found at: https://www.ofgem.gov.uk/publications-and-updates/consultation-decision-remit-penalties-statement-andprocedural-Guidelines

[21] https://energyredress.org.uk/

Company	Issue	Decision	Date of decision
npower	Compliance with SLC 12 – failures in relation to the installation of advanced meters.	Formal finding of breach. Penalty of £2.4m imposed.[22]	August 2018
Iresa	Compliance with SLCs 14, 23, 25C (SLC 0 from October 2017), 27 and the CHSR 2008 – concerns relating to complaints handling, customer service, switching, issuing refunds and debt recovery and considering ability to pay.	No formal finding of breach. Investigation closed when Iresa Limited ceased trading in July 2018 and its licences were revoked.	August 2018
Spark Energy	Compliance with Article 68 of the Renewables Obligation Order 2015 (as amended) and Article 44 of the Renewables Obligation Order (Scotland) 2009 - failure to make RO payment.	No formal finding of breach. Investigation closed when Spark Energy ceased trading in November 2018 and its licences were revoked.	December 2018
Extra Energy	Compliance with SLCs 7B, 14, 21B, 25C, 27, 31A and with the CHSR 2008 - Concerns relating to treating customers fairly, frequency of billing, timely provision of final bills, provision of annual statements, return of credit balances, handling meter readings appropriately, transfer blocking, and complaints and call handling.	No formal finding of breach. Investigation closed when Extra Energy ceased trading November 2018 and its licences were revoked.	December 2018
Economy Energy	Compliance with SLC 25 - concerns relating to sales and marketing practices.	No formal finding of breach. Investigation closed when Economy Energy ceased trading in January 2019 and its licences were revoked.	January 2019
Economy Energy	Compliance with Article 68 of the Renewables Obligation Order 2015 (as amended) and Article 44 of the Renewables Obligation Order.	No formal finding of breach. Investigation closed when Economy Energy ceased trading in January 2019 and its licences were revoked.	January 2019

[22] This was a contested hearing with a formal finding of breach by the Enforcement Decision Panel on behalf of the Authority. On a contest, the penalty imposed goes to the consolidated fund.

Below are details of redress that the Authority has secured through alternative action or compliance work. This gives a company a chance to put things right for consumers swiftly, without us exercising our statutory enforcement powers.

Company	Issue	Decision	Date of decision
Cadent	Compliance with Guaranteed Standards of Performance 2 and 12 – concerns relating to reinstatement of customer premises.	Closed through alternative action. Cadent paid £1,660,050 in compensation to customers affected; and paid £278,050 in voluntary redress to the voluntary redress fund (sum totalling £1,938,100).	June 2018
NGN	Compliance with Guaranteed Standards of Performance 2 – concerns relating to reinstatement of customer premises.	Closed through alternative action. NGN paid £247,440 in compensation to customers affected; and paid £15,000 in voluntary redress to the voluntary redress fund (sum totalling £262,440).	June 2018
EDF	Compliance with SLC 44.4 of the Electricity Supply Licence and SLC 38.4 of the Gas Supply Licence - EDF missed its 2017 targets to install smart meters for its customers.	Closed through alternative action. EDF paid £350,000 in voluntary redress to the voluntary redress fund.	June 2018
Green Star Energy	Compliance with SLCs 25 and 31A – concerns relating to Informed Choices and the provision of annual statements.	Closed through compliance action. Green Star paid £361,415 in compensation to customers affected; and paid £317,868 in voluntary redress to the voluntary redress fund (sum totalling £679,283).	September 2018
SSE	Compliance with Standard Licence Condition 33 A, Part 3, Paragraph 3. SSE had overstated generation payments in their Feed-in Tariff (FIT) annual levelisation submission for 2016/17 by £9.88m.	Closed through alternative action. The overpayment paid to SSE was repaid to the levelisation fund. SSE paid an additional £455,705 to the FIT levelisation fund and made a payment of £250,000 in voluntary redress to the voluntary redress fund.	February 2019
Foxglove	Compliance with Standard Licence Condition 33 A, Part 3, Paragraph 3 and the Feed-in Tariff Order 2012 Foxglove had failed to make its Feed-in Tariff payment.	Closed through alternative action. Foxglove paid £497,691.80 to pay off its outstanding Feed-in Tariff debt, which was used to reduce the mutualisation amount due from other suppliers.	February 2019
Eversmart	Compliance with Article 68 of the Renewables Obligation Order 2015 (as amended) and Article 44 of the Renewables Obligation Order (Scotland) 2009 - failure to make RO payment.	Closed through alternative action. Eversmart paid £439,149.82 to pay off its outstanding Renewables Obligations debt, which was used to reduce the mutualisation amount due from other suppliers.	March 2019

Provisional Orders

Below you can find details of the provisional orders made during the report period (April 2018 to March 2019).

Provisional Order issued	Company	Concern
September 2018	npower	Compliance with SLC 32A - the behaviour of concern giving rise to the provisional order was that npower refused to comply with a direction from Ofgem requiring npower's participation in the Active Choice Collective Switch Autumn Trial. (These trials were introduced by Ofgem in response to the recommendations made by the CMA following the Energy Market Investigation).
January 2019	Economy Energy	Compliance with SLCs 0, 27 and the CHSR 2008 – concerns relating to treating customers fairly, customer service, complaints handling and billing and payment issues.
January 2019	E (Gas and Electricity) Ltd (EGEL)	Compliance with SLC 14A and SLC 0.3a, - concerns relating to the transfer of customers from Economy Energy to EGEL, with the likelihood of such transfer to EGEL causing potential confusion to affected customers, who would have anticipated an orderly transfer to OVO instead via the Supplier of Last Resort Process.
February 2019	Solarplicity	Compliance with SLCs 0, 14, 22, 27 and the CHSR 2008 – concerns relating to treating customers fairly, customer service, complaints handling and debt recovery/ability to pay and treatment of vulnerable consumers.

Of the four orders made, 2 ceased to have effect within this reporting period.

The provisional order issued to Economy Energy ceased to have effect by reason of the company ceasing to trade on 8 January 2019 and its supply licences being revoked on 12 January 2019.

Having established that the transfers of former customers of Economy Energy to EGEL were properly cancelled and were not completed, the Authority revoked the provisional order issued to EGEL on 25 February 2019.

Ofgem successfully applied to the High Court for an injunction compelling npower to comply with the provisional order issued to npower, the first time Ofgem has used these powers. Also, Ofgem successfully defended a legal challenge to the direction and statutory challenge to the provisional order in the High Court.

The provisional order issued to Iresa issued in March 2018 (i.e. during the previous report year) was confirmed in June 2018 but ended in July 2018 when Iresa ceased trading and its licenses were revoked.

Final Orders

In March 2019, Enforcement issued a final order on URE Energy.[26] The final order relates to URE's non-compliance with its obligations under Article 7 of the Renewables Obligation Order 2015. The order required URE to pay its outstanding Renewables Obligation debt of £209,000 by 31 March 2019.

Final Notices

There were no final notices issued by the Authority under the Electricity and Gas (Market Integrity and Transparency) (Enforcement etc.) Regulations 2013 in this reporting year.

Open cases

Below are the open investigations as at the end of March 2019. The opening of an investigation does not imply that we have made any finding(s) about non-compliance.

Company	Date opened	Issue
Economy Energy, E(Gas and Electricity) and Dyball Associates	September 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
Not disclosed	February 2017	Investigation into whether there has been a breach of REMIT.
Not disclosed	April 2017	Investigation into whether there has been a breach of REMIT.
Undisclosed	April 2017	Investigation into whether there has been a breach of REMIT.
Undisclosed	May 2017	Investigation into whether there has been a breach of REMIT.
Undisclosed	May 2017	Investigation into whether there has been a breach of REMIT.
Not disclosed	August 2017	Investigation into whether there has been an infringement of Chapter II of the Competition Act 1998 and/or Article 102 of the Treaty on the Functioning of the European Union, concerning potential abuse of a dominant position by a company providing services to the energy industry.
Ovo	February 2018	Investigation into whether Ovo has complied with SLCs 31A and 25C/0 in respect of information on Bills, statements of account and Annual Statements. In September 2018 this was expanded to include SLCs 22C, 26, and 27
Cadent	April 2018	Investigation into Cadent Gas Limited and its compliance with its obligations under its gas transporter licence (Standard Special Conditions A40, A50 and A55) and as a consequence section 9 of the Gas Act 1986.
National Grid	May 2018	Investigation into National Grid Electricity Transmission (NGET) and its compliance with its obligations under the Standard Licence Condition 16 of the Transmission Licence.
Utility Warehouse	June 2018	Investigation into Utility Warehouse's compliance with Standard Licence Conditions (SLCs) 25C/0, 27.5, 27.8 and 28B of the Electricity Supply Licence and the Gas Supply Licence.
Not disclosed	December 2018	Investigation into whether there has been an infringement of Chapter II of the Competition Act 1998 and/or Article 102 of the Treaty on the Functioning of the European Union, concerning potential abuse of a dominant position in relation to wholesale trading activities.

Appendix III
Off-payroll appointees

Off-payroll engagements as of 31 March 2019, for more than £245 per day and that last for longer than six months.

The following table summarises the situation on off-payroll engagements as at 31 March 2019:

No. of existing engagements as of 31 March 2019	**2**
Of which:	
No. that have existed for less than one year at time of reporting.	2
No. that have existed for between one and two years at time of reporting.	0
No. that have existed for between two and three years at time of reporting.	0
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.	0

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 2018 and 31 March 2019, for more than £245 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 2018 and 31 March 2019	**2**
Of which:	
No. assessed as caught by IR35	0
No. assessed as not caught by IR35	2
No. engaged directly (via PSC contracted to department) and are on the departmental payroll	0
No. of engagements reassessed for consistency / assurance purposes during the year	0
No. of engagements that saw a change to IR35 status following the consistency review	0

Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2018 and 31 March 2019

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

Appendix IV
Trade union facility time

Table 1
Relevant union officials

What was the total number of your employees who were relevant union officials during the relevant period?

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
12	816

Table 2
Percentage of time spent on facility time

How many of your employees who were relevant union officials employed during the relevant period spent a) 0%, b) 1%-50%, c) 51%-99% or d) 100% of their working hours on facility time?

Percentage of time	Number of employees
0%	0
1%-50%	12
51%-99%	0
100%	0

Table 3
Percentage of pay bill spent on facility time

Provide the figures requested in the first column of the table below to determine the percentage of your total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period

Provide the total cost of facility time	£8,367
Provide the total pay bill	£53,292k
Provide the percentage of the total pay bill spent on facility time, Calculated as: (total cost of facility time ÷ total pay bill) x 100	0.016%

Table 4
Paid trade union activities

As a percentage of total paid facility time hours, how many hours were spent by employees who were relevant union officials during the period on paid trade union activities?

Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ total paid facility time hours) x 100	100%

Appendix V
Statutory arrangements under Section V of the Utilities Act 2000

Section 5(1) of the Utilities Act 2000 requires that the Authority makes a report to the Secretary of State each year on:

- the activities of the Authority during the year; and
- the activities of the CMA during that year in respect of any reference made to it by the Authority.

The activities of the Authority during the year are reported on throughout this report. [There have been no references made by the Authority to the CMA on which to report]

Section 5(2) of the Utilities Act 2000 requires that the annual report of the Authority includes the following:

- A general survey of developments in respect of matters falling within the Authority's functions, including in particular developments in competition between persons engaged in, or in commercial activities connected with:
  - the shipping, transportation or supply of gas conveyed through pipes; and
  - the generation, transmission, distribution or supply of electricity;
    (These developments are referred to in the Performance Report)
- A report on the progress of the projects described in the forward work programme for that year;
  (Progress is reported on page 7)
- A summary of final and provisional orders made by GEMA in that year;
  (This can be found in Appendix II)
- A summary of the penalties imposed by GEMA during that year;
  (This can be found in Appendix II)
- A summary of any final notices given by GEMA under REMIT in that year;
  (This can be found in Appendix II)
- A report on such other matters as the Secretary of State from time to time may require.

Section 5(2A) of the Utilities Act 2000 requires the Authority to include in its annual report a report on

(a) the ways in which the Authority has carried out its duties under section 132(1) and (2) of the Energy Act 2013 in relation to a strategy and policy statement designated by the Secretary of State (so far as the statements designation was in effect during the whole or any part of the year); and

(b) the extent to which the Authority has done the things set out in a forward work programme or other document as the things the Authority proposed to do during that year in implementing its strategy for furthering the delivery of the policy outcomes contained in the strategy and policy statement.

(The Secretary of State has not designated a strategy and policy statement applicable to this reporting year)

Section 5(3) of the Utilities Act requires the Authority to set out in its annual report any general directions given by the Secretary of State under s34(3) of the Gas Act 1986 or s47(2) of the Electricity Act 1989.

(The Secretary of State has not made any such general directions)