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Promoting choice and value
for all gas and electricity customers

Office of Gas and Electricity Markets (Ofgem)
Annual Report and Accounts 2011-12

HC31

Price: £21.25

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(For the year ended 31 March 2012)

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Section A
Introduction

Ofgem is the Office of Gas and Electricity Markets, regulating the gas and electricity industries in Great Britain.

We operate under the direction and governance of the Gas and Electricity Markets Authority which makes all major decisions and sets policy priorities.

The Authority's powers and duties are provided for under the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998, the Utilities Act 2000 and the Energy Acts 2004, 2008, 2010 and 2011, and other statutes.

Chairman's Foreword
to Annual Report and Accounts

Fundamental change is underway in our energy markets.

Rising energy costs remain a serious concern. We concluded in March last year that further changes were needed in the retail markets so that they meet the concerns of consumers, both domestic and industrial. Our draft proposals focus on radically simplifying tariffs, seeking better information on bills, and pressing for more competition and improved liquidity in the electricity wholesale markets. It is encouraging that the energy companies have begun to respond to the results of our review, making significant moves themselves – though there is more to do.

The Government has recently published its plans for electricity market reform, designed to encourage investment in low carbon generation and to promote security of supply. We will work closely with DECC on these measures; arguably, they represent the greatest change and challenge since the privatisation of the energy markets some 20 years ago.

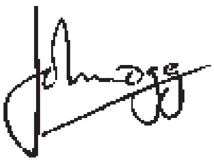
On price controls, we delivered a series of step changes in the regulation of gas and electricity networks. RIIO will address the way in which network companies engage with their customers and deliver their services. And our regimes will focus on bearing down on transmission and distribution costs, encouraging efficient investment and enabling environmental improvements, over longer periods.

The year also saw a big boost in renewable generation, which yielded almost 35,000 GWh in 2011. We believe that our innovative approach to priming the necessary investment for the connection of offshore wind farms to mainland networks, combining regulation and competitive tendering, will continue to deliver cost savings.

In the EU, last year's Third Package Directives have been transposed to our law. They require Ofgem – as the UK's designated "National Regulatory Authority (NRA)" – to promote an open, competitive, secure and environmentally sustainable single market for energy. We have been working closely with fellow NRAs throughout the Union principally through the Agency for Cooperation of Energy Regulators (ACER) to these ends. The goals are truly challenging, and it has long been evident that the scope, and depth, of these new instruments will increasingly drive our regulatory agenda here. My own involvement as chair of both the Board of regulators in ACER and President of the Council of European Energy regulators (CEER) provides a privileged position to influence and direct that debate.

During the year, DECC completed its review of Ofgem and of our delivery arm, E-Serve. The strong commitment to independent regulation has been re-affirmed, together with Ofgem's increasing role in helping to deliver substantial and still evolving environmental programmes.

Ofgem staff play an active and professional part in delivering these changes, as the outputs in this report make clear. We owe a great deal to them for their drive and commitment, and for all they do in their work to help energy consumers. Indeed we are more than well aware that there are real strains for many consumers in meeting energy costs, especially at a time of wider economic and financial stringency. Our principal and statutory duty - to protect energy consumers, present and future - could not be more relevant.



The Lord Mogg, KCMG
Chairman

Chief Executive's Introduction
to Annual Report and Accounts

We enter this year in a cautiously optimistic mood. Whilst there is still significant progress to be made, most of the major supply companies are responding positively to our retail market reform package (RMR). Furthermore, the new RIIO price control package has led to 'fast tracking' regulatory processes, and we are fully engaging with the Department of Energy and Climate Change (DECC) and the European Commission's Directorate General for Energy on the twin challenges of electricity market reform in GB and roll out of the Third Energy Directive respectively. In brief, the narrative is that progress is being made across a number of key areas.

Retail markets policy work – progress

Ofgem's flagship markets based project is the Retail Market Review (RMR). This time last year I had to characterise the performance of the major supply companies as poor – unacceptable misreporting, poor handling of consumer's complaints, weaknesses in the SME market, and a lacklustre response to Ofgem's 2008 Probe proposals. What a difference a year makes!

Today we are looking at an industry that has acknowledged its shortcomings and has begun to 'step up to the plate' : many of the major supply companies have unveiled new proposals on tariffs, improved customer engagement and committed to giving more accounting information. We are also seeing some companies seeking to settle enforcement cases brought against them early. In the last year we have seen several investigations completed this way, including into breaches of the complaints handling regulations and the marketing licence conditions. The latter was a landmark case, as we reached agreement for money to be given back to consumers.

Ofgem has led this 'sea change' in approach through strong actions and words. The actions sit in a package of reforms ranging from improving liquidity at a macro level, to simpler tariffs and better bills and annual statements at a personal level. Ofgem has increased transparency on the potential margins that can be made by suppliers by more regular publication of the data, and further consumer confidence was gained by the largely clean bill of health given by BDO's review of the industry's accounts. We are extremely aware of the 'power of our words' and we have both the confidence – and evidence – that when we use strong language it is meant and it works.

I would want to thank the consumer bodies for their support over the last year as we tackled these important issues, and also the DECC select committee. We welcome companies themselves taking the initiative in this area, and recently we have seen E.ON's 'project reset', and SSE announce further accounts disclosure. In 2012-13 we move on to enact the rest of the RMR package, but for now the words of Ian Marchant, Chief Executive of energy supplier SSE stand as a review of last year:

'Earlier this year Ofgem said that in a period of rising prices, suppliers have to transform the way they deal with customers. Ofgem was right.'

Network policy work – progress

The advances in network policy in 2011-12 are if anything more impressive than the RMR. The new year is a key year for network price controls as Ofgem sets the new look RIIO eight years price controls for both the supergrids (electricity and gas) and the local gas distribution businesses. So much progress from companies was made in 2011-12 using the new look price control methodology (RIIO) that two - ScottishPower and SSE – were awarded 'fast track' status for their transmission businesses. For Ofgem this meant that the companies were providing us with a much higher level of inputs than before and for the companies it means that they can waive nine months of red tape (in detailed discussion with Ofgem) and get back to running their businesses.

The scale of investment for GB networks is enormous – Bank of America Merrill Lynch estimates that National Grid alone could grow its electricity Regulatory Asset Value from £8bn to £23bn over the next eight years! Not only do large parts of the network need replacing but the network needs new build and reconfiguration to manage the new energy sources (wind/water/nuclear). This has consequences for consumers – both in terms of prices but also the need to ensure that the network companies give value for money, and are 'brought to book by consumers'. The RIIO model gives consumers more involvement in network regulation than ever before – consumer engagement is critical in the setting of network prices, and the 'O' of RIIO represents publishable output measurements.

Ofgem continued to review its network policy decisions in the light of three key criteria:

1. The new sustainability duty on Ofgem. This was a factor that continued to inform our decision-making and will be a consideration in the ruling on Project Transmit (the setting of annual transmission prices).
2. Ofgem's ruling on the new Belgian interconnector (project NEMO) reflected the EU's guidance on interconnections and transmission prices.
3. Ofgem reviewed the compatibility of different network pricing regimes and took time out in 2011-12 to review its offshore pricing approach, building in a degree of flexibility that was missing.

Institutional issues - progress

When I wrote last year's CEO annual report I did so as DECC was still to conclude on both its formal review on Ofgem and the delivery landscape review, which included E-Serve. I am pleased to report that DECC gave clearance to both parts of the GEMA business. For E-Serve functions this was particularly important: for many years Government had chosen, either in legislation or informally, to give GEMA many administrative functions. GEMA was given a clear mandate to continue last summer, and more recently DECC has asked GEMA if it can work more closely on the new ECO (Energy Company Obligation) programme that starts in 2012.

With so much going on in the energy space Ofgem has to continue its role of independent champion for the consumer and use our energy and sustainable development expertise to assist so many major Governmental projects. We have assisted DECC both in the EMR (electricity market reform package) but also in delivering to them in summer 2012 a gas markets report. We have been very involved in Europe both though ACER and directly with DG Energy. Closer to home we have also been committed to working with the Edinburgh and Cardiff administrations.

The consumer advocacy and representation landscape has been under review across Government and we have provided DECC and BIS with advice on their proposals for reform. We have sought to develop further our relations with Citizens Advice, building here on the successful partnership through Energy Best Deal – the initiative delivering advice to low income and vulnerable customers on how to keep energy bills as low as possible.

Ofgem internal business – progress

Given the scope of the policy work and the rapid growth of the E-Serve functions, I must make public my admiration and thanks to the Ofgem workforce in the last year. I am pleased to report that we are clearly getting things right internally and we had some very high ratings in the civil service staff survey which we conducted this year. Externally Ofgem is still seen as a highly desirable organisation to join, our graduate programme is massively oversubscribed and we have healthy levels of applications for most posts. The Board is alive to the risks that in time the lure of jobs in a vibrant sector and the continued stagnation in remuneration terms could lead to HR challenges, but for now staff turnover levels at 10% are manageable.

Ofgem continues to foster a desire to provide opportunities for its staff, both in learning and development needs but also in management training. We have programmes focused on both. We also provide opportunities for staff to move within Whitehall, and further afield. We have staff working in ACER's head office in Ljubljana on secondment, and we have reciprocal relations with other regulators.

Finally, I would like to thank a group of advisors who bring their considerable expertise to help us: in particular in Offshore networks to Sir Keith Stuart and Christopher Deacon, and in economics Professors Paul Grout (Bristol) and Michael Pollitt (Cambridge). To the many of you who help us through consumer groups and other organisations, such as the Fuel Poverty Advisory Group, can I also extend my thanks. This is a busy, complex and fast moving sector and your help – and good humour – is much appreciated.

Alistair Buchanan, CBE
Chief Executive

Section B
Key activities and achievements

Theme 1: Building a low-carbon economy

Theme 2: Helping to maintain security of supply

Theme 3: Promoting quality and value for consumers

Theme 4: Timely and efficient delivery of government programmes

Theme 1: Building a **low-carbon economy**

Great Britain still faces huge challenges in meeting the government's climate change targets. We estimate that meeting these targets could take up to £200 billion of new investment. So in 2011-12, we have continued to run initiatives to help build a low-carbon economy. This section looks at what we have achieved.

Our major initiatives include:

- developing the RIIO price controls approach
- the Low Carbon Networks Fund
- Project TransmiT
- Electricity connection issues and distributed generation (DG) forums
- Promoting smarter energy markets
- the Smart Grids Forum
- licensing and improving offshore transmission
- Environmental programmes delivered by E-Serve.

Developing the RIIO price controls approach

In October 2010 we introduced plans for our new price-control regime, RIIO (Revenue = Incentives + Innovation + Outputs). The aim is to make sure network companies can create the networks we need for a sustainable low-carbon energy sector while still giving customers a secure supply and good value.

Developing RIIO-T1 and RIIO-GD1

In March 2011 we published our RIIO price control strategies for the national gas and electricity transmission networks (RIIO-T1) and the local gas distribution networks (RIIO-GD1). The price controls will run from April 2013 to March 2021.

One of the first steps in RIIO-T1 and RIIO-GD1 is for network companies to develop detailed business plans. These plans show how they will deliver a more sustainable energy sector, how they will invest to meet the demands of their customers and the revenues they will need as a result.

Having assessed the plans, we have asked National Grid Electricity Transmission, National Grid Gas and the gas distribution networks to send us revised versions later in 2012. We broadly approved the plans from SP Transmission and Scottish Hydro Electric Transmission. We also decided in principle to fast-track these plans under the new RIIO framework.

In January, we opened a consultation on one of the main elements of these plans – a significant upgrade of Scotland's high-voltage network. Over £7 billion is now earmarked to overhaul its ageing infrastructure. This will help the UK reach its renewable targets, provide security of supply and help boost generation in Scotland.

RIIO price controls will support the move to a low-carbon energy sector in several other ways, too:

- They give incentives to network companies to connect up new sources of energy quickly, cut greenhouse gas emissions and reduce their business carbon footprints.

- They introduce the Network Innovation Competition, which will provide £240 million to support innovation in electricity transmission, and £160 million for innovation in gas transmission and distribution.

- RIIO's incentives also include a £32 million Environmental Discretionary Reward for electricity transmission companies. This is designed to sharpen companies' focus on strategic environmental considerations and to encourage corporate and operational culture change – change that will enable growth in low-carbon energy.

- In November, we extended the TPCR4 (Transmission Price Control Review 4) price controls by one year. This extension will take these price controls up to the time RIIO starts in 2013. It also incorporates measures to support the move to a low-carbon economy, including challenging targets for reducing potent greenhouse gases like sulphur hexafluoride (SF6).

Launching RIIO-ED1

In February, we also launched the start of the RIIO price controls process for the electricity distribution networks (RIIO-ED1). These will start in April 2015.

Over this period, we are likely to see a big increase in heat pumps, photovoltaic (PV) solar panels and small-scale wind farms. So making sure network companies have the right incentives to plug these new technologies into the network quickly and efficiently is one of RIIO-ED1's main goals.

Our next step is to publish a consultation document on the RIIO-ED1 policy framework. We will do this in autumn 2012, and finalise the framework early in 2013.

Low Carbon Networks Fund

Supporting innovation by the networks

The Low Carbon Networks Fund provides up to £500 million to help Distribution Network Organisations (DNOs) try out new technologies or new operating and commercial arrangements that could help the move to a low-carbon energy sector.

There are two tiers of funding. In the first tier money is automatically available for DNOs each year to fund smaller projects. The second tier is an annual competition run by Ofgem, and the prize is a share of up to £64 million to help fund a small number of flagship projects.

Six projects, £57 million

This is the second year the fund has been running. This year six projects will share £57 million of tier-two funding. These projects include trials to operate the network in different ways to increase the capacity of current network assets and make it easier to connect electric vehicles, heat pumps and PV micro-generation. There are also projects looking at how to provide quicker and more efficient connections for distributed generation, and what role demand-side response and electricity storage can play in the future.

Project TransmiT

Meeting the challenge of low-carbon network connections

Over the next decade the UK will need to connect a huge amount of new generation to the electricity networks. Project TransmiT is an independent and open review looking into whether electricity transmission charges and the connection arrangements related to them could be improved to help the energy sector meet this challenge. This year we have made good progress, and the aim is to have any changes in place by the end of 2013.

Transmission charging

In July 2011, we launched a Significant Code Review (SCR). Its aim was to assess a range of potential changes to the formula for setting transmission charges. We also set up and chaired a technical working group of industry experts to develop the technical details of the potential changes.

In December, we published our initial proposals. Our preferred option is to keep location-based charging (where generators pay more the further away they are from demand), but to improve the formula to take into account different types of generator and how often they are using the network. This will help many low-carbon generators (as the power produced by generators like wind farms is variable).

The aim is to make a final decision later in 2012. Following that, National Grid would table proposals to change the industry rules, meaning the new regime would be in place in 2013.

Electricity connection issues and distributed generation (DG) forums

We have also been looking at the other practical and commercial difficulties generators face when connecting to the networks, like the financial commitments they have to make before National Grid will begin work on their connection (these act as a guarantee to National Grid that the generator will use the link once it is there – avoiding unnecessary costs for other network users and consumers). We asked the industry to develop proposals to tackle the various issues with these and other electricity user commitments. We then announced our decisions on these proposals in March 2012.

In early 2012 we also finished our consultation into what reporting requirements should be in the electricity-transmission licence conditions to gather further information in support of arrangements that will make timely connections possible.

On the distribution side, we also held a number of meetings across the UK to discuss how best to connect distributed generation. Each of these 'DG forums' resulted in a lively discussion of the issues. We are now following up on these issues with DNOs and plan more forums this year.

Promoting smarter energy markets

Building on smart meters

Smart meters have a vital role to play in our transition to a low-carbon economy. They will give consumers the information they need to manage the energy they use, and help suppliers create new services to cut customers' bills. DECC is leading the government programme to put smart meters into GB homes over the next decade. Our role is to support and advise DECC as they create the necessary rules and regulations, and then to enforce them once they're in place.

Smart meters could also help create more efficient and competitive energy markets, and pave the way for smart grids. This year we suggested how that could be done, and sent the suggestions out for consultation in December. They went down well, and we are now developing more detailed recommendations. They will include what changes we need to make to current market arrangements so customers benefit and are protected as the market develops.

As smart meters are rolled out we also need to manage the process of replacing traditional meters. This year we finished our review of the market arrangements for traditional metering. We also finished our consultation on how to make sure this process happens efficiently – including whether we need to change to regulatory and commercial frameworks. We will make our recommendations later in 2012.

The Smart Grids Forum

In April we joined forces with DECC (Department of Energy and Climate Change) to establish the Smart Grids Forum (SGF). Its aim is to lead the discussions around the role smart grids can play in a low-carbon future, and help shape policy. The members of the SGF represent all stakeholders, including the networks, suppliers, generators, customers and manufacturers. We want the forum to give these stakeholders a shared direction when it comes to developing smart grids in the future.

The smart-grid agenda

This year the SGF agreed five workstreams to take forward, and in November we published an open-letter consultation to get feedback on the first stages of this work.

Workstream 1: Assumptions and Scenarios (led by DECC). This stream is establishing the assumptions and scenarios the network companies need to produce strong business plans consistent with DECC's low-carbon transition plan.

Workstream 2: Evaluation Framework (led by Ofgem). This stream is creating a framework that can be used to assess the different smart-grid options. We published the first version of this framework in November.

Workstream 3: Developing Networks for Low Carbon (led by the DNOs). This stream is assessing the network impacts of the assumptions and scenarios made by workstream 1, using the framework created by workstream 2.

Workstream 4: Closing Doors. The aim of this stream is to identify what risks upcoming policy decisions pose to the development of smart grids.

Workstream 5: Ways of Working. This stream is looking at how the forum can work better in the future, and how it can communicate effectively with stakeholders.

Offshore transmission

Connecting new offshore wind farms

Offshore wind power is expected to play a big part in Britain's efforts to cut carbon emissions. So offshore wind farms need to be connected to the grid quickly and efficiently. In March 2011 we granted the first ever licence under the new Offshore Transmission Owner (OFTO) Scheme. In 2011-12 we granted licences to operate transmission links to three more offshore wind farms: Gunfleet Sands (July), Barrow (September) and Walney 1 (October).

These licences are all part of a first round of tenders, which involves £1.1 billion of offshore transmission links to nine wind farms. We will grant the remaining licences over the coming years as the rest of the farms get up and running.

Coordinating offshore and onshore transmission

As offshore energy generation continues to grow, there is an increasing need for a more coordinated offshore and onshore electricity network. In recognition of this, DECC and Ofgem established the Offshore Transmission Coordination Project in early 2011. There is more information on this project in Theme 4.

Better system planning

One of the Offshore Transmission Coordination Project's main findings was that strong system planning will be important if we are to develop a more efficient, coordinated transmission network. We may also need more coordinated system planning between countries, as network connections for offshore generation could be combined with cross-border links.

The need for strong system planning puts a significant responsibility on the National Electricity Transmission System Operator (NETSO). As a result, we have launched the Integrated Transmission Planning and Regulation (ITPR) project. It aims to review the UK's system planning process, and identify what needs to be done to make sure the NETSO can fulfil this increasingly important role. The project will look at whether the overall framework under which the NETSO and transmission-infrastructure investors operate is set up for the challenges ahead. This will include exploring how the onshore, offshore and interconnection investment regimes work together to continue to provide the right framework for investment. We plan to consult on our initial findings and the direction of the project in Autumn 2012.

Environmental Programmes Delivered by E-Serve

Through our delivery arm, E-Serve, we design and run several programmes with DECC. These include:

- the Renewable Heat Incentive
- Feed-in Tariffs
- the Renewables Obligation scheme
- the Warm Home Discount scheme
- the Carbon Emissions Reduction Target.

You can find more information on all these schemes and what we have achieved in Theme 4.

Theme 2: Helping to maintain **security of supply**

Britain is increasingly relying on gas imports, so we are more susceptible to fluctuations in the global energy markets. And new EU regulations are changing how the energy markets work. This section looks at the work we have done this year to help secure Britain's energy supply.

We have focused on three main areas:

- implementing the EU Third Energy Package
- securing the gas supply
- securing the electricity supply.

Implementing the EU Third Energy Package

In November, DECC brought into UK legislation the European Union's Third Package of energy reforms, which aim to further liberalise Europe's energy markets.

The package covers:

- unbundling of ownership
- production and supply
- rules governing the flow of gas and electricity across borders
- setting up independent national energy regulators
- creating the Agency for the Cooperation of Energy Regulators (ACER), which sets the direction for legally binding European network codes and resolves cross-border disputes.

Implementing the package

We have been heavily involved in implementing the package and the new regulatory framework it creates. Our chairman, Lord Mogg, chairs the Board of Regulators of ACER and senior members of our staff chair working groups and task forces within ACER. And we have taken an active role in developing the European network codes.

We have been instrumental in putting into practice the new rules for integrating energy markets. In June and December, we issued a consultation on a new regulatory framework for investment in electricity interconnectors. The consultation focused on project NEMO, the proposed interconnector between Great Britain and Belgium, as a case study. We also approved access rules on Britned, the interconnector with the Netherlands, which couples the British market with the Dutch market for the first time. And in February, we gave the European Commission our first thoughts on making sure transmission systems in Great Britain comply with the Third Package's unbundling requirements.

In March we also published two open letters. One asked for views on what the plans for integrating electricity markets may mean for the energy market in Great Britain. The other looked at planning for an integrated electricity transmission system within a single European market.

Securing the gas supply

Significant Code Review into the security of gas supply

In early 2011 we began a Significant Code Review (SCR) into the security of gas supply in Great Britain. The review had three main aims to:

- make gas-deficit emergencies (GDE) less likely by encouraging gas shippers and suppliers to invest in keeping supply secure
- minimise the length and severity of any GDE that does happen by sharpening the incentives to attract gas into Great Britain
- compensate 'firm' customers (customers on non-interruptible contracts) if their supply is ever interrupted. Under the current arrangements, interrupting customers is essentially a free option available to the industry and customers are not entitled to any compensation if this happens.

We published a consultation and held stakeholder events to set out the issues and potential policy options. Then we published a draft policy decision and an impact assessment in November, which suggested significant changes to the gas emergency arrangements.

We have now received responses to the draft policy decision and we are analysing these before publishing a final policy decision.

Reporting on medium to long-term gas supplies

In November, DECC asked us to look into whether we need to take further action to make sure medium to long-term gas supplies for consumers remain secure.

We are working to assess the risks to gas security. We are also looking at what else we could do to address these risks, and evaluating the options. We will give DECC our findings in summer 2012.

Securing the electricity supply

The capacity assessment report

From September 2012, we will have to provide a yearly report to the Secretary of State with our assessment of different electricity capacity margins for the next four years, and any risks to security of supply associated with each one.

To do this, we will need to develop a model that assesses these risks. We have delegated the development of this model to National Grid Electricity Transmission. We will oversee the development and building of the model, and we are responsible for the final report to the Secretary of State by 1 September 2012. DECC and National Grid will use the model as a predictive tool to plan supply and spot potential shortages as far in advance as possible.

In October, we ran a consultation on the methodology behind the model. It set out detailed proposals on how to measure and model the risk of supply shortfalls. In January, we published our decision document, which set out our views on how to go about building the model. We also consulted the industry through workshops (held in September and February), and we have spoken to academic groups and with other teams within Ofgem to get their views. There was strong support for our approach from these stakeholders.

Significant Code Review into electricity cash-out

In November we held a consultation to ask our stakeholders whether we should conduct a Significant Code Review (SCR) into the electricity cash-out arrangements. (These are the payments faced by market participants who consume or generate more or less energy than they are contracted for). We also asked for stakeholders' views on what the scope of any review should be.

In the consultation, we set out why we think the cash-out arrangements are vital to the security of the electricity supply in Great Britain. We said that we see electricity cash-out as a significant incentive for electricity suppliers and generators to meet customer demand in the short term, and for generators to invest in meeting future demand. We highlighted several areas where we think reform could make the system more efficient, and also suggested more radical options to completely redesign the system.

After analysing the responses to the consultation, we published a letter at the end of March announcing that we had decided to launch an SCR into the electricity cash-out arrangements. We will work with the industry and other stakeholders to decide how detailed this review will be.

Project TransmiT

As part of Project TransmiT (which we outline in more detail in 'Building a low-carbon economy' in Theme 1), we commissioned economic modelling looking at different charging options. One aspect of the modelling was to look at how each option affected security of supply.

Security of supply was similar for all the charging options our consultants considered.

Theme 3: Promoting quality **and value for consumers**

Our main priority is to protect consumers. We do this by promoting competition and regulating the companies that run the gas and electricity networks. This year we have continued to make sure all consumers get a high-quality, good-value service from their gas and electricity suppliers.

Our major initiatives included:

- following up on the Retail Market Review
- the new RIIO price controls
- enforcement
- protecting vulnerable customers
- working with stakeholders in the interests of consumers
- using consumer research to shape policy across Ofgem.

Retail Market Review

Making big changes in the retail energy market

In November and December we published our updated Retail Market Review proposals, ready for consultation. These proposals followed our initial findings, published in March and June 2011. In the interim we have done a large amount of consumer research to make sure our proposed changes will be as effective as possible (we also published this consumer research).

The Retail Market Review proposals describe in detail (down to draft legal text) the changes we think are needed to increase consumer engagement and effective competition in the retail energy market. They include changes in both the non-domestic and domestic sectors of the market. They will create a significant change to the regulatory framework of the industry and are designed to make the market more competitive, clearer and simpler for consumers.

In February we also consulted on proposals to extend the 'undue discrimination prohibition' licence condition for two years beyond its current sunset clause on 31 July 2012. This prohibition prevents customers in different parts of the country facing different terms and conditions without proper justification (particularly relevant in areas where customers have little choice of supplier). Extending it will give us time to understand how the market is operating after the Retail Market Review, and whether the prohibition is still necessary.

Increasing market competition

One of the Retail Market Review's main findings was that consumers remain at risk from low liquidity in the wholesale power market. This prevents independent participants not linked to the Big Six from entering the market, and reduces competition.

As a result, in February 2012 we published a consultation document outlining detailed proposals to make entry to the wholesale power market easier. The proposal is to strengthen and refine the Mandatory Auction (so the Big Six would need to sell up to 25% of their generation through an open and transparent auction). This would help to make sure everyone in the market can access the products they need to compete effectively, and that the market is generating useful longer-term price signals.

We're now in the process of consulting stakeholders on the proposal. If appropriate, we will publish final proposals in summer 2012.

Weekly energy price reporting

In December, we also announced plans to report on retail and wholesale energy prices every week instead of every three to four months. This is a further step to make the energy market more transparent for consumers.

RIIO price controls

Creating a low-carbon energy sector will take up to £200 billion of investment over the next decade, including over £30 billion of investment in the gas and electricity networks. One of the main aims of the new RIIO price controls is to create the incentives for that investment. But they are also there to protect the quality and value of the service customers get from their electricity and gas suppliers while these changes happen.

To do this, the RIIO framework rewards companies for providing good service at a good price. Our latest estimates show that, for RIIO-T1 and RIIO-GD1 alone, companies doing a good job could earn up to £300 million in extra revenue, while those performing badly could be penalised up to £460 million.

As a result of these incentives, the network companies' initial RIIO business plans have included some positive proposals.

Monitoring customer satisfaction

As part of RIIO-T1 and RIIO-GD1, all transmission and gas distribution companies have agreed to run an annual customer satisfaction survey, with financial rewards and penalties based on how they perform. They have put forward plans for a discretionary reward based on how well they are engaging with their stakeholders. Gas distribution companies have also supported the introduction of a standard complaints metric, complete with penalties for poor performers.

In their business plans, companies have also suggested measures to address areas consumers tell us they value. For example, for reliability, all transmission companies have proposed an incentive scheme measured on the number and length of supply interruptions on their networks. SHETL has also proposed a mechanism for directly compensating customers who have their supply interrupted.

The work we are doing with companies to develop their RIIO business plans is helping drive value for consumers. For example, the changes both Scottish transmission companies have made to their business plans since submission have meant they have been able to cut the amount of money they need to raise from consumers by around £600 million.

Equally, as part of RIIO-GD1, gas distribution companies have set out strong proposals to address two important social issues: fuel poverty and carbon monoxide (CO) poisoning. We are now funding companies to connect fuel-poor communities currently not connected to the gas networks. This is under the Fuel Poor Network Extensions Scheme. We are also funding companies to increase awareness of the dangers of CO through communications programmes.

We also finished putting arrangements in place to improve customer satisfaction in electricity distribution. These arrangements stem from the last price control (DPCR5), but we will revisit them in RIIO-ED1.

Engaging with stakeholders

Stakeholder engagement is an important part of the RIIO process. Over the course of the year, the companies affected by all of the RIIO price controls have used a variety of forms of stakeholder engagement to build their business plans – from working groups to social networks.

We have also been speaking to a variety of stakeholders to help develop the price controls. We have run technical working groups open to all our stakeholders. We have also run a Price Control Review Forum to bring together our stakeholder groups. And we have used a Consumer Challenge Group – a small group of consumer experts – to act as a sounding board, and to make sure we are taking consumers' views into account. The plan is to use the same arrangements for setting RIIO-ED1.

Providing quality and value for consumers in the lead-up to RIIO

This year, we finalised the rollover of the current price controls (TPCR4) for an extra year. This rollover will take us up to the start of RIIO, and will provide quality and value for consumers in a number of important ways:

- they reduce the allowed return to 4.75% compared with 5.05% before
- they provide network companies with enough funding to start investing in the UK's transmission infrastructure straight away
- they keep the existing incentive arrangements, which have helped drive efficiency, reliability and timely delivery over recent years.

Enforcement

This year we continued to take a tough stance on enforcement.

In March we found EDF in breach of its marketing licence conditions. We have agreed measures with EDF worth £4.5 million to help vulnerable consumers. This result means consumers will benefit directly from our investigation.

This year we completed two big investigations into complaints handling, fining RWE npower £2 million in October and British Gas £2.5 million in July.

We finished investigations into Northern Gas Networks and National Grid for breaches of their gas transporters' licences. Under these licences, companies need to meet set standards for how quickly and consistently they react to reports of gas leaks. For not hitting those standards we fined Northern Gas £900,000 and National Grid £4.3 million (the different amounts reflect in part the different number of networks the two companies own).

We also completed an investigation into British Gas for misreporting their Renewables Obligation (RO) figures. We found they had under-reported the amount of electricity supplied from 2002-09. This distorted the market for Renewables Obligation Certificates (ROCs) and meant their competitors had to pay more than their fair share under the scheme. As a result we fined British Gas £1 million, and British Gas retired ROCs to redress the impact they had had on the market.

Over the course of the year we worked with all suppliers to improve the way they structure and present bills, statements and contract information. The aim was to look across the sector and encourage suppliers to make sure they were fully complying with their obligations.

Aside from investigations, this year we also consulted on changes to our enforcement guidelines. These changes mean the guidelines will reflect our recently piloted procedure for settling cases. They also set out our enforcement powers and procedures – both for our work as sector and competition regulators, and also for our work with the Office of Fair Trading (OFT) to enforce consumer protection regulations. We have also started a full review of our enforcement policy, which will finish in 2013.

Protecting vulnerable consumers

Reducing debt and disconnection

This year we continued to meet regularly with the large suppliers to highlight areas of concern and drive improvements. Our view is that suppliers need to work proactively with customers to prevent and recover debt, using disconnection only as a last resort. We have seen progress in this area over the last few years, with the number of disconnections down from more than 8,000 in 2007 to about 1,300 in 2011.

We worked with suppliers to reduce the disparity between the weekly debt repayments they ask from prepayment-meter customers compared to the amounts asked from credit customers. We also wrote to all suppliers to remind them they must take ability to pay into account where relevant, and particularly when following up debt. At the same time we reminded them they needed to build and maintain a full picture of their customers' circumstances.

We also reviewed the data we collect to monitor debt and disconnection issues. As a result, we will now capture more data, for example on the number of gas and electricity customers in debt, by including data on consumers who are in arrears but have not yet set up a repayment arrangement. Extra information like this will help us better understand suppliers' practices and where they might need to improve.

During the year our investigation into British Gas' compliance with debt payment licence obligations resulted in important clarification for all energy suppliers on their approach to taking account of individual customers' circumstances in setting repayment rates. This clarification of the high standard required will inform Ofgem's future interpretation of these licence obligations to protect vulnerable consumers.

Increasing and improving social tariffs

In the 2008 budget the Chancellor announced that the Big Six had agreed to increase their collective spending on social programmes to at least £150 million a year by 2011. In the final year of this voluntary commitment (2010-11) they spent £178.7 million – almost £29 million above target. As a result, over 1.9 million customer accounts saw their energy bills reduced by a social or discounted tariff or through the Energy Rebate Scheme.

The Warm Home Discount scheme replaced the voluntary commitment. We are administering part of the scheme jointly with DECC, and it will run until April 2015. Under the scheme, domestic energy suppliers will give fuel-poor customers even more direct and indirect support. The spending target is about £1.1 billion over four years, starting with £250 million in 2011-12.

Monitoring complaints-handling standards

In March 2012 we published the findings of our latest research into customer satisfaction with suppliers' complaints handling. This is the third time we have done this research. The results show a steady improvement in overall customer satisfaction year-on-year. Two in five domestic customers said they were happy with the way their complaint was handled compared to one in four in 2010. But around half were dissatisfied.

The research identified a number of areas that cause customers most dissatisfaction. Suppliers now have the chance to focus on these areas and improve customer satisfaction before our next round of research.

At the same time as working collaboratively with suppliers, we are also responsible for enforcement when suppliers breach complaints-handling standards. See the section above on enforcement for more information.

Promoting consumers' interests in developing energy markets

To make sure we protect consumers as smart meters are rolled out, this year we put in place a range of measures as part of the 'Spring Package'. These included new protections for customers getting early smart meters, introduced in autumn 2011:

- we introduced licence-backed guidance for suppliers on how to decide if it is safe and reasonably practicable for a customer to use a prepayment meter. This includes where a customer is switched to prepayment remotely
- we introduced licence-backed guidance for suppliers around identifying vulnerability in households, and what they need to consider before they disconnect a customer (including before remote disconnection)
- we introduced a licence modification to ensure that load limiting (where a customer is restricted to a minimal flow of electricity) is not used as an alternative to disconnection.

As part of our Spring Package statement we set out the role we will play in smart data privacy issues. We reiterated our commitment to enforce existing consumer protection legislation in this area. We also commented on our investigation into the practices of one of the large suppliers. Our investigation led to the supplier in question making changes that will give customers getting early smart meters clearer information about their rights and choices.

Alongside the Spring Package, suppliers have also made several voluntary commitments. For example, suppliers committed to reconnect customers quickly if they have been wrongly disconnected (smart meters should speed this process up), and to compensate them for the mistake.

We have been working with DECC, industry and consumer groups to develop the Smart Meter Installation Code of Practice. The code sets out rules that suppliers must follow when installing smart meters. These rules are designed to help inform consumers about how their smart metering system works so that they can get the benefits of smart metering. The code is also designed to protect consumers during the installation process. For example, it will introduce rules around sales and face-to-face marketing. We will be responsible for approving the final version of the code, and for making sure suppliers comply with it.

Finally, we have continued to make sure existing regulatory arrangements are fit for purpose. In particular, we have set out final proposals for strengthening industry arrangements to tackle gas theft. This includes enforceable licence obligations on gas suppliers to detect and prevent theft.

Working with stakeholders in the interests of consumers

Consumer protection landscape reform

It's important that all consumers have a trusted source of independent help and advice – one that meets the different needs of different people and supports people who can't manage on their own. With that in mind we supported the government's recent consultation on streamlining the arrangements for providing consumer advice, information, education, advocacy and enforcement.

We also supported the government's proposal to create a Regulated Industries Unit (RIU) – a new technical unit to work with Citizens Advice and other consumer bodies. There are a number of key principles that the RIU will need to contain to represent the interests of energy consumers effectively with regulators and the industry. Our plan now is to work with government and the relevant consumer bodies to see how these principles can be incorporated into the RIU's design.

The Energy Best Deal

Launched in 2008, the Energy Best Deal is our initiative with Citizens Advice to give consumers impartial advice on how to keep their energy costs down. In the year, EBD online was launched with a series of consumer videos to help make advice more widely available. These covered topics such as energy efficiency and what to do if you fall into debt. In 2011, the materials were made available in Welsh and the campaign continues in Scotland. Between 2008 and 2011, 94,000 customers have benefitted directly from the campaign and there are plans for further expansion in 2012.

Working with the Energy Ombudsman

The Energy Ombudsman resolves complaints when an energy company hasn't been able to do so to their customer's satisfaction. Last year our independent review of its operations resulted in several recommendations to improve the redress scheme. So this year we worked closely with the Ombudsman to put these recommendations in place. So far it has made changes to its governance and funding structure, and introduced new processes to improve the speed and quality of handling complaints.

We will be working with the Ombudsman over the coming year to make sure it can maintain its performance. We will also be focusing on how better reporting of its case findings could help shape industry performance.

Using consumer research to shape policy across Ofgem

In 2007 Ofgem launched Consumer First, a programme of consumer engagement to help us improve our understanding of how consumers behave, their experiences and concerns, and to feed this into everything Ofgem does.

As part of Consumer First, we commission our own qualitative, quantitative and deliberative consumer research. This includes large-scale surveys, but also our regular Consumer First panel (made up of 100 people from six locations broadly representing GB consumers). Plus we examine external data from suppliers, the Energy Ombudsman, Consumer Focus, Citizens Advice, Consumer Direct and others.

This year we worked closely with teams across Ofgem to make sure this research informed all of our policies and initiatives. In particular, for the Retail Market Review proposals:

- we developed a consumer segmentation model that split consumers into five different types based on their experiences and attitudes towards switching. This model proved very useful for the team considering how the Retail Market Review proposals could have the biggest beneficial impact on as many people as possible
- we conducted consumer research into how people might react to clearer customer communications (e.g. bills and annual statements), better market information and a simplified market. This information has helped shape the Retail Market Review's proposals to improve tariff visibility and comparability for consumers – two of its main aims.

30 days' notice rule

At the end of April, our new rule, which says energy suppliers have to give consumers at least 30 days' notice if they put their prices up, took effect. Before that, energy suppliers had up to three months to let consumers know after putting their prices up.

Theme 4 : Timely and efficient delivery **of government programmes**

Through our delivery arm, Ofgem E-Serve, we implement and run regulatory programmes with the Department of Energy and Climate Change (DECC). We also develop and administer government environmental schemes through E-Serve on a not-for-profit basis. This section looks at the progress we have made with government programmes this year.

We have been focusing on:

- offshore transmission
- renewables
- energy efficiency.

Offshore transmission

Running the tender process

As part of the offshore transmission regime, which we run with DECC, we granted licences to three more Offshore Transmission Owners (OFTOs) to own and operate high-voltage transmission links with UK offshore wind farms (you can find more information about this project under ‘Building a low-carbon economy’ in Theme 1).

We successfully ran the competitive tender process, which will help drive down costs for consumers, create vital new infrastructure and allow new players to enter the market. The initial tender round is worth almost £1.1 billion. This is the first phase of around £17 billion of new investment into offshore transmission expected over the next ten years.

Identifying potential savings

With DECC, we analysed the potential costs, risks and benefits of developing a coordinated offshore and onshore electricity transmission network. Our analysis, part of the Offshore Transmission Coordination Project, showed that taking a more coordinated approach could cut the cost of offshore connections significantly.

This would contribute to the government’s target of cutting the cost of offshore wind to £100 per megawatt hour (MWh) by 2020. It could also pave the way for an offshore network in the North Sea, linking wind farms off Britain’s coast to other European countries.

Our report, which we published in March, outlined these potential savings, along with our proposals for overcoming any barriers to developing a coordinated network. The next step will be for us to assess whether we need more investment, whether there is enough demand, and what the benefits will be to consumers.

Renewables

Renewable Heat Incentive

In November, we launched the Renewable Heat Incentive (RHI), the first scheme of its kind in the world. It provides funding to help businesses switch from oil and gas-fired heating systems to sustainable ones. By March, we had received over 300 applications for funding from businesses ranging from a dairy to an umbrella factory.

We put together guidelines to explain what businesses need to do to be eligible for funding, and set up an enquiry line to answer their queries about how to take part. We also designed and built a secure IT system, which meant businesses could apply online, and which made it easy for us to process payments to successful applicants.

We met all our targets for responding to enquiries, despite having more than three times as many as we expected. So far, we have agreed to fund 15 organisations, and payments began in March.

Feed-in Tariffs

This was the second year of the Feed-in Tariffs (FITs) scheme, which aims to get more people using small-scale renewable and low-carbon technologies to generate electricity.

Under the scheme, licensed electricity suppliers (FIT licensees) pay tariffs to generators for any electricity they generate and export. Our role is to maintain the central FIT register (a database of all the registered installations), make sure suppliers comply with regulation, and accredit generating stations with a capacity over 50 kilowatts, plus all hydro and anaerobic digestion installations.

During the year, we analysed the data on the central FIT register and audited generating stations before accrediting them to help us spot any that were not complying with regulation.

At the end of the second year there were around 248,000 registered FIT installations, up from about 30,000 at the beginning of the financial year. Over 99 per cent were photovoltaic installations. This year the scheme also reached its first gigawatt of renewable capacity.

As well as the huge uptake, there have been an unprecedented number of legislative changes to the scheme, with three Amendment Orders coming into effect in less than six months. This has meant a busy year for us, as our teams have had to adjust quickly to these changes and adapt our systems and procedures accordingly.

New sustainability criteria for biofuels

In April 2011, DECC brought in new mandatory sustainability criteria for bioliquids used to generate renewable electricity. These fuels must meet certain sustainability requirements around land use and greenhouse gas emissions.

This year we published guidance on these criteria, which tells generators how to show they comply, and clarifies what independent auditors need to do to verify this. We then published a revised version, largely based on industry feedback, to give more guidance on some of the more complex areas.

In December, we published guidance on sustainability reporting for operators of biomass generating stations with a declared net capacity greater than 50 kilowatts. Operators now need to give us information on greenhouse gas emissions and prior land use for the biomass they use.

Renewables and combined heat and power

This year we put in place a number of system and guidance changes to reflect statutory changes to the Renewables Obligation (RO) scheme. These changes included making it possible to issue Renewables Obligation Certificates (ROCs) to registered offshore wind turbines. We also changed our system to capture dates and capacity information, so that we can set an end date for when accredited projects get RO support.

As well as this, we published specialist guidance for operators using biodiesel in their generating stations, as this fuel became eligible under the RO in April 2011.

Energy efficiency

Warm Home Discount scheme

We administer part of this new scheme to help customers who are in, or at risk of, fuel poverty. Our role is to check that energy suppliers are meeting their obligations. During the scheme's first year, we achieved our target, set out in the Warm Home Discount Regulations 2011, to assess all proposals from suppliers within 28 days.

Carbon Emissions Reduction Target

We continue to administer the Carbon Emissions Reduction Target (CERT) on behalf of DECC. Through this programme, gas and electricity suppliers have to reduce carbon emissions from homes by putting in energy-efficiency measures like insulation.

Through the CERT programme, suppliers have installed cavity-wall insulation in over 2 million homes, and insulated 2.9 million lofts. The scheme, which has been running since 2008, is now in its final year, and will be replaced by the Green Deal, a new government initiative. The element of CERT that requires energy suppliers to install energy-efficiency measures will be replaced by the Energy Company Obligation (ECO).

Community Energy Saving Programme

We also administer the Community Energy Saving Programme (CESP), which helps people in low-income areas make their homes more energy efficient.

The programme places a statutory obligation on energy suppliers and electricity generators in a similar way to the Carbon Emissions Reduction Target. It began in 2009 and is due to finish at the end of this year, when it will be replaced by the Green Deal and the ECO.

By the end of 2011, the programme had installed almost 59,000 carbon saving measures in more than 30,000 homes.

Value for money

We have continued to focus on managing our costs tightly. In this financial year, we have achieved savings against budget for the seventh year running. This year, savings of £4.640 million relating to licence-fee-funded regulation were made and we will be giving it back to licence-fee payers.

Keeping prices low for consumers

We have achieved these savings despite a big increase in our workload. Consumers have been facing energy price increases, which means more for us to do – both in making reforms to the retail markets and enforcing existing regulations. But keeping our costs under control is also vital to avoid adding to consumers' bills.

Freezing salaries, cutting staff pension costs and keeping our spending on specialist consulting under tight control have all contributed to the savings we have made this year.

Controlling our costs

In 2010, we made our second five-year commitment to an RPI-3 cost-control regime, which means we have to achieve real-terms savings of three per cent a year. The year to March is the second year of that commitment. So far, our savings add up to £4.9 million.

The RPI-3 cost-control regime allows us to increase or decrease the overall budget cap to reflect major new pieces of work (or major reductions in our workload). If we need to change our budget, we need approval from our Audit Committee.

In 2011-12, the cost-control regime saw our budget cap reduced. The next financial year will see an increase in the RPI cap because of the costs involved in two major new pieces of work: implementing our Retail Market Review and administering the government's new Energy Company Obligation scheme.

Cutting our overheads

Our overhead budgets have also been a big priority and we have made real-terms savings this year. For example, we have reduced our office rental costs from £10,899 to £10,506 per head (full-time equivalent) both by using space in our Millbank headquarters more efficiently, and by expanding our Glasgow office, which has a lower rental cost. We have cut office space per head (full-time equivalent) from 14.5m^2 to 13.3m^2.

Delivering government programmes efficiently

Designing and operating environmental programmes on behalf of government makes up around one-third of our costs. These are funded by a mix of charges to the programmes themselves and direct government funding.

We develop and administer around £5 billion of environmental schemes for just 0.38 per cent of the programme cost on a not-for-profit basis (a more normal benchmark for similar schemes is two per cent). Our regulatory powers are the main reason why we can administer these schemes so efficiently.

Government schemes are increasing in value and becoming more complex in the way they are structured, so it is likely that the costs of administering them will increase.

Practising what we preach

We are always looking for ways to cut our own energy consumption. We recently reduced the official Display Energy Certificate (DEC) rating in our Millbank headquarters from 165 (when it was first rated in 2008) to 82. We have achieved most of this reduction by analysing our internal metering data better. We also insulated the roof (a complex operation for a listed building), removed old electrical boards and circuits and installed gas-flow optimisation equipment.

We will keep striving for improvements to our DEC rating, although any future improvements are likely to be small steps, rather than the great strides we have made until now.

Section C
Corporate Governance

Governance **Statement**

The Gas and Electricity Markets Authority

We operate under the direction and governance of the Gas and Electricity Markets Authority, which makes all major decisions and sets policy priorities. The Authority is made up of executive and non-executive members.

How appointments are made

Lord Mogg KCMG was appointed non-executive Chairman of the Authority for five years on 1 October 2003 by the Secretary of State for Trade and Industry. The appointment was made after an open competitive process. Lord Mogg had been a non-executive member of the Authority since May 2003. In February 2008, he was reappointed for a further five years on an increased level of hours arising from additional responsibilities until September 2013.

The Secretary of State also appoints the other non-executive members of the Authority after consulting the Chairman of the Authority.

Alistair Buchanan CBE was appointed Chief Executive of Ofgem and an executive member of the Authority on 1 October 2003. A Civil Service Commissioner oversaw the appointment, which was made after a fair and open competitive process.

The other 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. These arrangements were checked to make sure they are in line with the EU's Third Energy Package.

Details of Authority members' remuneration are in the remuneration report later in this section.

Executive members of the Authority who served during the year

Alistair Buchanan CBE, Chief Executive, appointed in October 2003.

Stuart Cook, Managing Director, E-Serve, appointed in November 2010.

Sarah Harrison, Senior Partner, Sustainable Development, appointed in May 2005.

David Pimm, Group Finance Director, Corporate Functions, appointed in February 2012.

Dr Andrew Wright, Senior Partner, Markets, appointed in January 2008.

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

Lord Mogg KCMG joined in May 2003. He was appointed non-executive Chairman in October 2003 and was reappointed in February 2008. His appointment ends in September 2013.

Professor David Fisk CB joined in July 2009. He was reappointed in June 2012. His appointment ends in June 2017.

Miriam Greenwood OBE DL joined in May 2004. She was reappointed in January 2010. Her appointment ends in January 2013.

David Harker CBE joined in January 2009. He was reappointed in December 2011. His appointment ends in December 2016.

John Howard joined in July 2009. He was reappointed in June 2012. His appointment ends in June 2017.

Jim Keohane joined in January 2009. He was reappointed from December 2012. His appointment ends in December 2017.

Jayne Scott joined in May 2004. She was reappointed in January 2010. Her appointment ends in January 2013.

John Wybrew OBE joined in May 2004. He was reappointed in May 2009. His appointment ends in May 2012.

The non-executive members are considered to be independent of management and make up a majority of the Authority. Apart from the following disclosures, they do not have any company appointments, consultancy arrangements or other significant interests that could conflict with their responsibilities as members of the Authority.

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

A close family member of John Wybrew's has shares in Shell and BP. He has agreed not to deal in these shares during the period in which he is a member of the Authority and for a period of 12 months afterwards.

Citizens Advice, which David Harker was Chief Executive of until the end of May 2010, received funding from two regulated companies during 2010-11 for specific projects. The amount represented less than 1.5% of its total funding.

Authority meetings and activities

The Chairman and other non-executive members play a full part in Authority business. They attended full Authority meetings and committee meetings during the year as follows:

	The Authority	Audit Committee	E-Serve Programmes Committee	Offshore Electricity Transmission Committee	RIIO Transmission & Distribution Price Control Committee	Remuneration Committee
Lord Mogg	11/11	-	-	-	4/7	1/1
David Fisk	9/11	2/4	-	-	4/7	-
Miriam Greenwood	10/11	-	-	4/4	7/7	-
David Harker	9/11	3/4	3/3	-	6/7	-
John Howard	11/11	-	-	-	-	-
Jim Keohane	11/11	1/1	3/3	4/4	-	-
Jayne Scott	11/11	4/4	-	-	5/7	1/1
John Wybrew	11/11	-	-	4/4	-	1/1

Working closely with the European Commission, the European Parliament and other bodies, the Chairman, Lord Mogg, has helped develop EU regulatory policy for energy in his roles as president of the Council of European Energy Regulators and chairman of the EU's Agency for the Cooperation of Energy Regulators. He is also chairman of the International Confederation of Energy Regulators.

The Authority met in Scotland in September 2011, and in Wales in November 2011, using both occasions to meet local energy stakeholders in the public and private sectors.

On performance and evaluation, the Authority carries out a detailed yearly review, based on a questionnaire completed by all members, assessing the performance of the Chair and the Authority as a whole. This considers Authority procedures for its meetings, its papers, operational matters, its Committees and the conduct of business. The results are discussed by the Authority. The Chairman also carries out a review annually of the individual performance of non-executive members of the Authority, with an assessment of their contributions to its work. Both sets of analyses are provided to DECC Ministers. As appropriate, recommendations are also made on non-executives' suitability for re-appointment. In addition, there are regular reviews of corporate governance matters by Ofgem's internal Auditors.

The Authority had an away day in June 2011, partly in closed session, involving the Chairman and non-executives, to consider a detailed survey of its performance during the year, and a range of topics on Authority governance and procedures. They were designed to help the Authority improve its overall efficiency and effectiveness. Meetings with interested parties, held after the main meetings, have been a regular feature in 2011-12.

Non-executives have kept in close contact with the Ofgem teams dealing with the areas of special responsibility the Chairman has given each of them. The Chairman reviewed these assignments and the make-up of the committees in light of the make-up of the Authority as a whole and future business needs.

In addition to their work on the committees, the Chairman and some other non-executives have played a big part in drafting price control proposals under our RIIO processes, involving meetings with the transmission and distribution industry. Members have attended extra briefing sessions and meetings during the year – for example on the retail market review, risks and their management, consumer policies, and security of supply issues. A number of non-executives have been involved with the Enforcement Committee, chairing its consideration of alleged breaches of obligations. Some members visited the Isle of Grain LNG terminal facilities.

The Authority's corporate structure, with committees having clear terms of reference, continues to provide assurance that there is a strong framework of governance throughout the organisation.
In particular, the Audit Committee has actively looked at risk assessment and mitigation strategies across the organisation on both financial and policy matters. It has concentrated especially on the administrative work we do for government, and the development of our role in devising and implementing a new offshore electricity transmission regime and new environmental schemes.

In September 2011, the Authority held a workshop to review and agree our strategic risks. The Risk Committee had discussed them in June 2011.

During the year, the Authority reviewed its committee membership rules and procedures.

We publish minutes of the Authority's meetings on our website, along with the committees' terms of reference, and we're always looking for new ways to highlight the Authority's work.

The Authority's **committees**

Audit 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 oversees our RPI-3% cost control regime. The committee met four times in 2011-12, once to take part in a workshop session on risk management. Jayne Scott chairs the committee.

E-Serve Programmes Committee

This committee, set up in October 2011, advises the Authority on the effectiveness and efficiency of Ofgem E-Serve in delivering a range of energy programmes for DECC. The committee includes two observers from DECC. Jim Keohane chairs the committee, which meets quarterly.

Offshore Electricity Transmission Committee

This committee, chaired by Miriam Greenwood, advises us and the Authority on developing and implementing the offshore electricity transmission regime. The committee met four times during 2011-12.

RIIO Transmission and Distribution Price Control Committee

This committee scrutinises our proposals for the next gas and electricity transmission price control review and the next gas distribution price control review, and advises the Transmission and Gas Distribution teams and the Authority on the main areas. The committee will also be asked to meet the gas and electricity transmission companies and the gas distribution companies and challenge their proposals in a proactive forum. Lord Mogg chairs the committee.

Enforcement Committees

Under the Rules of Procedure, the Authority created two types of Enforcement Committee in 2003. One is set up, whenever it is necessary, to consider enforcement action concerning possible breaches of licence and statutory obligations. The second considers companies' compliance with the Competition Act 1998. Each Enforcement Committee has different Authority members, but always has a majority of non-executive members and a non-executive member as the chair. The Authority has, in some cases, set up Settlement Committees to conclude investigations and take decisions about things like next steps and compensation.

Remuneration Committee

This committee looks at the pay and performance of senior staff, and also succession planning. There are details of the committee's members, its role, and senior staff salary and pension entitlements in the remuneration report later in this section. Lord Mogg chairs the committee.

Our executive teams **and audit arrangements**

Senior Management Team

The Senior Management Team helps the Chief Executive with the day-to-day running of the business. It is made up of all the executive members shown in the remuneration report. It meets weekly and decides on all matters relating to management and resources, subject to the Authority's overall control.

Management Committee (for E-Serve)

This committee helps with the day-to-day running of the E-Serve business unit. It is chaired by the Managing Director E-Serve and its members include the Managing Director Commercial and all E-Serve team heads. It decides on all operational matters relating to management and resources of E-Serve, subject to the Authority's overall control. It meets weekly.

Operations Committee

The role of the Operations Committee is to promote excellence and value for money in all of Ofgem's delivery, with a focus on driving change and reform. It is chaired by the Group Finance Director and its members include the Senior Partner Sustainable Development, Managing Director E-Serve and all Corporate Functions team heads.

Risk Committee

This committee helps the Chief Executive maintain a culture of effective risk management. It is made up of all the executive members shown in the remuneration report and the Legal Partner, Smarter Grids and Governance: Transmission. It meets quarterly.

Audit arrangements

The Comptroller and Auditor General, who has been appointed under statute and reports to Parliament, has audited the resource accounts. The notional cost of auditing the resource accounts and trust statement was £52,500 (2010-11: £51,000). There was no auditor remuneration, actual or notional, for non-audit work.

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

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 chosen to outsource the internal audit function to ensure that we get wholly independent and fully professional analysis and recommendations. We appointed Deloitte on 1 April 2010 to provide internal audit services after a competitive tender.

Our governance system
and risk management

Our governance system is designed to bring the risk of failing to meet targets in our four policy areas down to a level the Authority is comfortable with, but not to eliminate it completely. So it can only provide reasonable, and not total, assurance of effectiveness.

The governance system has been in place for the year ended 31 March 2012 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Enterprise risk management strategy

Our enterprise risk management strategy sets out:

- why managing risk is important
- the mechanisms we have in place to manage risk
- information on how to identify, assess and manage risk
- details of people's roles and responsibilities to make sure we manage risk effectively.

As part of the strategy, we have made risk management an integral part of policy-making, planning and delivery. Partners and Directors are responsible for making sure everyone in their area knows about the risk management strategy and for putting it in place. We updated the strategy in November 2011 and the Audit Committee approved it. All staff can see it on our intranet.

Risk and control environment

We are operating at a time of change at both European Union and national level. The EU's Third Energy Liberalisation Package came into effect in March 2011, establishing an agency in Ljubljana and creating more powers and independence for national regulators, including us.

In May 2011, the British government published its review of Ofgem and its own energy and climate change proposals, in which E-Serve plays a prominent role. In July 2011, the government's White Paper set out its proposals for reforming the electricity market.

Because of these changes we are reviewing our approach and will be consulting on our forward work programme during the current financial year. In 2011-12, the four policy areas where we protected the interests of consumers were:

- building a low-carbon economy
- helping to keep energy supply secure
- providing quality and value for consumers
- delivering government programmes efficiently and on time.

All these challenges come with risks, and we recognise and embrace the crucial role risk management plays in helping us tackle them. The Management Committee has prepared a separate top risks profile to cover E-Serve.

Our aim is to put good practice enterprise risk management procedures in place in all areas of our work. Managers see risk management as an integral part of their job, and the Senior Management Team and Management Committee keep the top risks we face under review.

Personal data incidents

We have a data security policy to keep all official information private and secure. There was no recorded loss of personal data incidents during 2011-12.

The Accounting Officer's review of effectiveness

As the Accounting Officer, I am 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, and on the comments the external auditors make in their management letter and other reports. The Authority and the Audit Committee have told me about the implications of the result of my review, and a plan to address the weaknesses we find and to make sure we continuously improve the system is in place.

Of the 27 recommendations internal audit made and expected us to implement by 31 December 2011, we have fully implemented 21, we are currently implementing another five, and one is outstanding.

This year, we took a number of steps to monitor and improve our governance system.

- The Risk Committee agreed our strategic risks.
- The Senior Management Team, the Management Committee (for E-Serve) and the Audit Committee reviewed our strategic risks.
- We reviewed our strategic risks in an Audit Committee workshop in May 2011.
- We reviewed our strategic risks in an Authority workshop in September 2011.
- We updated our risk management strategy to reflect new processes in November 2011.
- The Group Finance Director regularly met Senior Partners and Managing Directors individually to review resources, review progress made towards objectives, and identify and evaluate the associated risks.
- We updated our governance statements to require all Partners and Directors to consider and report on all aspects of financial and risk management and other governance control issues in their own area.
- We carried out a risk of financial loss review.
- We updated our business continuity plans, making sure we could carry on our main work if there was a disruption.

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

Alistair Buchanan, CBE
Accounting Officer

15 June 2012

Remuneration **report**

Remuneration Committee

The Remuneration Committee comprises of non-executive members of the Authority who are appointed by ordinary resolution of the Authority for a term of not more than one year. Members may be reappointed. The Remuneration Committee is chaired by Lord Mogg, Chairman of the Authority. Other members are non-executives Jayne Scott, Chairman of the Audit Committee and John Wybrew. The Chief Executive attends as an observer and the Group Secretary provides a secretariat function.

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

Remuneration (including salary) and pension entitlements

The following information has been subject to external audit.

The salary, bonus payments and the value of any taxable benefits in kind of the most senior members of Ofgem (not all of whom are Authority members) during 2011-12 were as follows:

	2011-12			2010-11		
Remuneration	**Salary**	**Bonus Payments**	**Benefits in kind**	**Salary**	**Bonus Payments**	**Benefits in kind**
	£000	**£000**	**Nearest £100**	**£000**	**£000**	**Nearest £100**
Senior executive members of Ofgem						
Alistair Buchanan Chief Executive	205-210	15-20	-	205-210	15-20	-
Roy Field (to September 2011) Group Secretary	65-70*1	-	-	135-140	15-20	-
Sarah Harrison Senior Partner	135-140	15-20	-	135-140	15-20	-
Ian Marlee Senior Partner and Director Communications (from March 2012)	5-10*1	-	-	-	-	-
Hannah Nixon Senior Partner (from March 2012)	5-10*1	-	-	-	-	-
David Pimm Group Finance Director	140-145	-	-	140-145	10-15	-

Remuneration	2011-12 Salary £000	2011-12 Bonus Payments £000	2011-12 Benefits in kind Nearest £100	2010-11 Salary £000	2010-11 Bonus Payments £000	2010-11 Benefits in kind Nearest £100
Senior executive members of Ofgem						
Steve Smith Senior Partner (to October 2010)	-	-	-	140-145*2	15-20	-
Dr Andrew Wright Senior Partner	180-185	15-20	-	180-185	15-20	-
Senior executive members of Ofgem E-Serve						
Stuart Cook Managing Director	155-160	-	-	145-150	10-15	-
Paul McIntyre (from May 2010 to November 2011) Managing Director	65-70*1	-	-	85-90*2	-	-
Robert Hull Managing Director	125-130	15-20	-	125-130	10-15	-
Non-executive members of the Authority						
Lord Mogg	210-215	-	9,300	210-215	-	8,400
Highest Earner's Total Remuneration			£224,715			£224,715
Median Total Remuneration			£35,910			£38,845
Ratio			6.26			5.78

*1Annual equivalent basic salary (excluding performance pay): Roy Field: 135-140, Paul McIntyre: 100-105, Hannah Nixon: 130-135, Ian Marlee: 130-135
*2Annual equivalent basic salary (excluding performance pay) for Paul McIntyre: 100-105, Steve Smith: 180-185

'Salary' includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

In addition to the honoraria paid to the non-executive directors, which are included in salaries, they are also entitled to receive actual expenses evidenced by receipts.

Roy Field, working for Claygate Management Consultancy Limited (CMC), provided strategic consultancy advice to Ofgem following his departure. The total paid to CMC in the reporting period was £87,905 (excluding VAT). This arrangement was concluded on 4 May 2012.

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

'Bonus payments' are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2011-12 relate to performance in 2010-11 and the comparative bonuses reported for 2010-11 relate to performance in 2009-10.

'Benefits in kind' covers any monetary benefits provided by the employer and treated by Her Majesty's Revenue and Customs (HMRC) as a taxable emolument. Payments outlined above were net of tax and the tax amounts were paid over to HMRC. Travel arrangements for Lord Mogg fell into this category.

	Honorarium 2011-12	Honorarium 2010-11
Other non-executive members of the Authority who were remunerated by payment of an honorarium		
David Fisk	£25,000	£25,000
Miriam Greenwood	£28,000	£28,000
David Harker	£25,000	£25,000
John Howard	£25,000	£25,000
Jim Keohane	£26,750	£25,000
Jayne Scott	£28,000	£28,000
John Wybrew	£25,000	£25,000

	Real increase in pension and related lump sum at age 60	Accrued pension at age 60 at 31 March 2012 and related lump sum	CETV at 31 March 2012	CETV at 31 March 2011[1]	Real increase in CETV	Employer's contribution to partnership pension account
Pension Benefits	**£000**	**£000**	**£000**	**£000**	**£000**	**Nearest £100**
Senior executive members of Ofgem						
Alistair Buchanan Chief Executive	0-2.5	15-20	271	222	27	N/A
Roy Field Group Secretary	0	75-80 plus 220-225 lump sum	1,732	1,661	0	N/A
Sarah Harrison Senior Partner	0-2.5	25-30	352	299	24	N/A
Hannah Nixon Senior Partner	0-2.5	10-15	114	103	7	N/A
Ian Marlee Senior Partner and Director Communications	0-2.5	5-10	56	55	1	N/A
David Pimm Group Finance Director	5.0-7.5	10-15	119	59	13	N/A
Dr Andrew Wright Senior Partner	2.5-5.0	15-20	150	110	25	N/A

Pension Benefits	Real increase in pension and related lump sum at age 60	Accrued pension at age 60 at 31 March 2012 and related lump sum	CETV at 31 March 2012	CETV at 31 March 2011[1]	Real increase in CETV	Employer's contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Senior executive members of Ofgem E-Serve						
Stuart Cook Managing Director	N/A	N/A	N/A	N/A	N/A	£20,500
Paul McIntyre Managing Director	N/A	N/A	N/A	N/A	N/A	N/A
Robert Hull Managing Director	0-2.5	15-20	267	214	32	N/A
Non-executive member of the Authority						
Lord Mogg	N/A	N/A	N/A	N/A	N/A	N/A

The remaining information has not been subject to external audit.

1. The actuarial factors used to calculate CETVs were changed in 2011-12. The CETVs at 31 March 11 and 31 March 12 have both been calculated using the new factors, for consistency. The CETV at 31 March 11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

Service contracts

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

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

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

Remuneration of senior members is set out in their contracts and subject to annual review in line with awards recommended by the Senior Salaries Review Body. Senior members of Ofgem, apart from Lord Mogg, are all permanent members of staff. The notice period for all senior members of Ofgem does not exceed six months.

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

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

Non-executive members, apart from the Chairman of the Authority, have fixed-term appointments normally for up to five years. These appointments are renewable. Remuneration and appointments are set by the Secretary of State for Energy and Climate Change after consulting the Chairman. Their remuneration is by payment of an honorarium of £25,000 per annum plus an additional allowance where any Authority Committee chairing duties are undertaken. They have no entitlement to performance related pay or pension entitlements. Compensation in the event of early termination is at the discretion of the Secretary of State. The non-executive Chairman of the Authority, Lord Mogg, has an appointment which commenced on 1 October 2003 for five years. In February 2008, he was reappointed for a further five years until September 2013. In 2010-11, the Secretary of State decided that, given his considerable additional responsibilities at the EU level, as President of the Council of European Energy Regulators (CEER) and Chairman of the European Regulators' Group for Electricity and Gas (ERGEG), Lord Mogg's part time hours should be increased. His remuneration details are set out in the remuneration report.

The following salary and pension details are provided in accordance with the 2011-12 Government Financial Reporting Manual issued by HM Treasury and EPN notice 327 issued by Cabinet Office.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). 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 and nuvos are increased annually in line with Pensions Increase legislation. 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 set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2012.

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 or her 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 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for 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 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of four 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 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent 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 and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website **www.civilservice-pensions.gov.uk**

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

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

Reporting of Civil Service and other compensation schemes – exit packages 2011-12 (2010-11 in brackets)

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
£10,000-£25,000	1 (1)	0 (0)	1 (1)
£25,000-£50,000	2 (0)	0 (0)	2 (0)
£150,000-£200,000	0 (2)	0 (0)	0 (2)
Total number of exit packages	3 (3)	0 (0)	3 (3)
Total cost	£74,095 (£340,748)	0 (0)	£74,095 (£340,748)

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Alistair Buchanan, CBE
Accounting Officer

15 June 2012

Statement of the Accounting **Officer's responsibilities**

Under the Government Resources and Accounts Act 2000, we are required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by us during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Ofgem at the year-end and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Treasury has appointed the Chief Executive as our Accounting Officer with responsibility for preparing our accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the resource accounts, the Accounting Officer is required to comply with the Government Financial Reporting Manual prepared by the Treasury and, in particular, to:

- observe all 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 financial statements on a going concern basis.

The relevant responsibilities of the Accounting Officer (including his responsibility for the propriety and regularity of public finances for which an Accounting Officer is answerable, for the keeping of proper records and for safeguarding our assets) are set out in Managing Public Money published by the Treasury.

Section D
Management commentary

Our business: what we do, and our aims and objectives

We protect the interests of consumers who get their electricity and gas from the mainstream networks.

We are a Non-Ministerial Government Department and our priorities are set by our governing body, the Gas and Electricity Markets Authority. The Authority's responsibilities are defined by EU and UK laws such as: the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998, the Utilities Act 2000 and the Energy Act 2004, 2008, 2010 and 2011.

We divide our work into four themes, outlined in our Corporate Strategy 2011-16.

Appendix I shows our deliverables and performance indicators for each one.

Financial and **operating performance**

Income

In 2011-12, our income was £61.364 million. Of that, £39.970 million came from licence fees. The rest was mainly from the Offshore Transmission Tender recharge (£5.244 million), and new environmental scheme funding (£12.039 million).

We collected £6.794 million from licence fee payers for consumer advocacy delivered by Consumer Focus and Consumer Direct which we transferred to the Department for Business, Innovation and Skills (BIS). We also collected and transferred £0.785 million to the National Measurement Office (NMO) for metrology services carried out under the Consumers Estate Agents and Redress Act 2007 (metrology services transferred from Ofgem to NMO on 1 April 2009 under the Energy Act 2008).

As well as our £61.364 million operating income, we also received £0.674 million of public money for monitoring exemptions from the Climate Change Levy.

In 2011-12 we saved £4.640 million on licence fees. We did this by reducing expenditure, particularly on staff and consultancy costs. We will offset these savings against future licence fee charges laid out in our RPI-3% cost regime.

We started the RPI-3% cost regime in 2010-11. It is a five-year scheme designed to save £12.5 million. In our last five-year cost regime, we saved £11.9 million – significantly more than the £5.3 million we planned – and we returned these savings to licence fee payers.

Spending

Total gross operating costs were £62.038 million.

Of this, 89.6% went on three main areas: staff costs (58.2%), accommodation (16.1% of gross costs, but we recovered 6.0% from DEFRA who share the building) and contractors (15.3%). For more details see Note 10.

Capital expenditure was £0.815 million. We spent this on office equipment, furniture, information technology and leasehold improvements.

Output

We have outlined how we performed financially against our strategic themes in Note 10.2 on page 73. We met forty-four deliverables on time and three with a delay. One target no longer applies and three have been deferred until 2012-13. See Appendix I for the list of 2011-12 deliverable targets.

Budgets and liquidity

After consultation with industry and other interested parties, Parliament approves our budget. For 2011-12 it approved: a main estimate gross resource budget of £72.046 million, capital budget of £1.0 million and a net cash requirement of £7.101 million. A Supplementary Estimate allowed us to increase our net cash requirement by £10.0 million to cover working capital demands.

Reconciliation between estimate and budget

	2011-12	2010-11
	£000	£000
Net Resource Outturn (Estimate)	674	697
Net Operating Costs (Accounts)	674	697
Resource Budget Outturn (Budget)	674	697
Of which:		
Departmental Expenditure Limits (DEL)	674	686
Annually Managed Expenditure (AME)	-	11

We drew down a Contingency Fund advance of £15.0 million in April 2011 to provide short term liquidity until we had started receiving licence fees. We repaid this in full in August 2011.

The net cash requirement outturn of -£1.023 million is lower than the Estimate net cash requirement of £17.101 million. This is because we spent less money than budgeted and accrued significantly more expenditure at the end of the financial year.

We will hold back £8.124 million due to be paid to the Exchequer and use it to fund operations in 2012-13 until we receive enough income from licence fees.

Finance and provisions

In 2003, we chose to outsource statutory examining and testing services previously provided by our laboratories at Leicester to SGS UK Ltd. Some costs of this change, particularly redundancy and continuing pension liabilities, have fallen to us and we had to make provisions in 2003-04 which now total £0.248 million. From 1 April 2006, we transferred our metrology activities to the National Measurement Office (formerly National Weights and Measures Laboratory) under an administrative arrangement. Responsibility transferred to NMO in full on 1 April 2009 under the Energy Act 2008.

We have made a provision of £0.397 million to cover the costs of pensions for people who have retired early. We have also set aside £0.658 million to cover unfunded pension liabilities for a previous Chief Executive, and a previous Director General.

Our Statement of Financial Position at 31 March 2012 shows positive Taxpayer's Equity of £3.233 million.

Improving our supply chain

Environmental procurement

Our Procurement Team make most buying decisions based on best value for money. But where contracts potentially affect areas covered by our environmental policy like catering, cleaning or other building services, we also use environmental criteria based on our ISO14001 policies to score tenders.

In March 2010, we were awarded the Standard of Excellence Certification by the Chartered Institute of Purchasing and Supply. This is a global accreditation for excellence in procurement through policies, procedures and strategies.

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. This means we pay bills within 30 days (or other agreed credit terms) of receiving goods or services, or invoice, whichever is later. During 2011-12 we paid 100% of undisputed bills inside this time frame (we also achieved 100% in 2010-11).

In 2008, the government challenged departments to pay all suppliers within ten working days. This year we paid 98.73% (against 96.06% in 2010-11) of undisputed bills inside this timeframe.

For amounts contractually due and invoiced by 31 March 2012, the outstanding number of days' purchases is 0.1 days (31 March 2011: 15.0 days).

Our people

Investing in learning and development

We really value our people. Offering them opportunities to learn new skills and develop their career helps us retain them for longer. And it helps us attract new people. This is why we invested £0.687 million in learning and development this year (compared to £0.538 million in 2010-11).

Our Learning and Development Strategy helps us to keep activities in tune with what the business needs. In 2011-12, the Learning and Development team:

- re-tendered training contracts to get the best quality and value for money
- re-focused our management development programme to help managers apply what they have learned when they are back at work
- introduced an internal mentoring programme to help staff develop skills and knowledge
- introduced a 360-degree feedback system for newly promoted Senior Civil Service members – this will help to shape their individual development programmes.

Employee involvement

We believe it is vital to use best practice when managing, developing and training our people. Our Staff Consultative Committee helps us to do that. We also undertook a staff engagement survey with a response rate of 95%.

Promoting health and safety at work

We take our legal responsibility for the health, safety and welfare of our employees seriously – including 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 objectives in more detail and is available to all employees.

Equal opportunity

We actively promote equality and diversity at work – in employment, training and career development, and in our dealings with stakeholders. Nobody should suffer discrimination because of age, disability, gender re-assignment, pregnancy or maternity, race, religion or belief, sex and sexual orientation.

At the end of the financial year:

- 1.0% (0.9% in 2010-11) of staff were known to be disabled
- 46% (46% in 2010-11) of staff were women
- 43% (43% in 2010-11) of staff in managerial grades were women
- 32% (35% in 2010-11) of Senior Civil Service members in Ofgem were women
- 19% (20% in 2010-11) of staff were known to be of ethnic minority origin
- 14% (14% in 2010-11) of staff known to be of ethnic minority origin were in managerial grades.

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

Days lost because of absence

Good attendance is something we expect and value. But we recognise that, from time to time, people need to take time off work for medical reasons. We aim to treat people who are ill with sympathy and fairness and, where we can, support them to recover and get back to their usual working hours.

In 2011-12, we lost an average of 7.0 days a year per employee. This compares favourably to the public sector average of 8.6 days a year per employee and is in line with the private sector average of 7.1 days.

Communities

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

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

Sustainability **Report**

Helping to achieve sustainable development

One of our objectives is helping to achieve sustainable development – something we have actively supported for some time. The nature of what we do means economic, social and environmental sustainability is at the heart of our work.

While other government departments lead on sustainable development, we want to use our legal powers to make a difference and our independent voice to influence the debate. The Energy Act 2010 will help make sure the UK's energy and climate change strategy becomes a long-term reality.

We run a number of the government's Climate Change Programme schemes, including:

- Renewables Obligation (RO) – creating obligations for electricity suppliers
- Feed in Tariff (FIT) – creating obligations for electricity suppliers
- Carbon Emissions Reduction Target (CERT) – creating obligations for both gas and electricity suppliers
- Community Energy Saving Programme (CESP) – creating obligations for gas and electricity suppliers as well as electricity generators.

We also administer the Renewable Energy Guarantees of Origin arrangements, and exemptions from the Climate Change Levy for renewables and CHP generators.

The knowledge we have gained from running these schemes has been helpful when discussing other planned initiatives with government, changes to the RO, FIT and CERT programme. It will also be useful in discussions about the new Renewable Heat Incentive.

Our own environmental performance

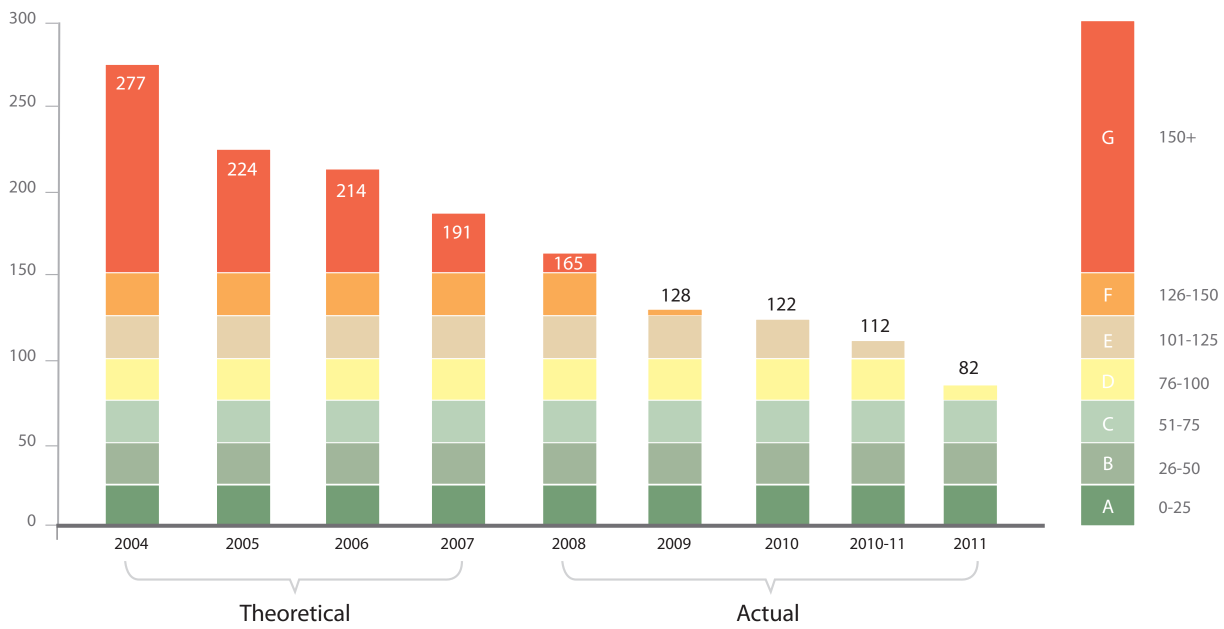
As a governmental body we have to improve and measure our environmental performance through initiatives including:

- Building Display Energy Certificate (DEC)
- Carbon Reduction Commitment
- Greening Government.

Building Display Energy Certificate (DEC)

Our hard work to cut building emissions has paid off, with our London office rising from an E-122 to a D-82 rating last year (shown in the Display Energy Certificate chart overleaf).

Display Energy Certificate ratings 9 Millbank



A number of projects have helped us achieve this rating and shrink our environmental footprint. These include: insulating a listed (and complex) roof, removing old electrical boards and circuits, and installing specialist equipment to improve gas flow. The single thing that has made the most difference has been better analysis of data from our meters. We have identified inefficient equipment, cut running time for major machinery and re-set the building management system to emulate days when energy efficiency has been at its best.

We will continue to improve our DEC, but the improvements will be more incremental than the great strides we have made so far.

Carbon Reduction Commitment

The Carbon Reduction Commitment graded us equal first in its first league table for Carbon trading readiness in 2011 – thanks to our having both half-hour metering and the Carbon Trust Standard (22 others were ranked first with us, out of 2,102 participants).

Environmental Management System (EMS)

We are in the process of certifying our Environmental Management System (EMS) to ISO14001:2004 standard. To get certified, we have had to write or change many of our processes and documentation, including updating our environmental policy and switching our Sustainable Development Action Plan (SDAP) to an Environmental Management Plan (EMP). A certified EMS will help us manage and reduce our environmental impact more effectively.

Greening Government

Announced in October 2011, Greening Government focuses on four main areas:

- cutting greenhouse gas emissions by 25%
- reducing water consumption
- reducing waste by 25%
- procuring more sustainably and reducing the impact of the supply chain.

Cutting greenhouse gas emissions by 25%

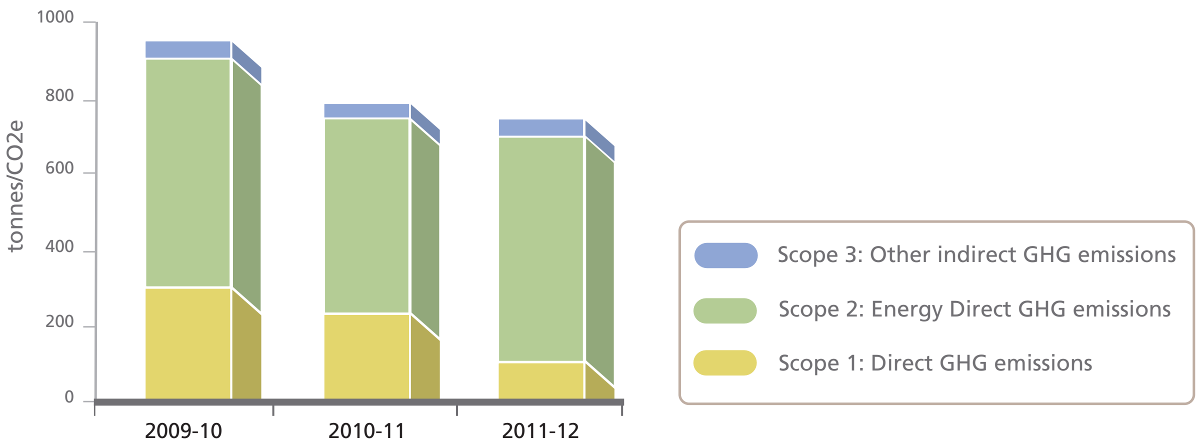
Greenhouse Gas Emissions		2009-10	2010-11	2011-12
Non Financial Indicators	Total gross emissions	948	804	759
(tCO2e) *	Total net emissions (ie less reductions – eg green tariffs)	355	278	217
	Scope 1: Direct GHG emissions	290	230	150
	Scope 2: Energy indirect GHG emissions	593	526	542
	Scope 3: Other indirect GHG emissions**	65	48	67
Related Consumption Data (kWh)	Electricity: Non-Renewable (k)	-	-	-
	Electricity: Renewable (k)	1,130	1,002	1,033
	Gas (k)	1,578	1,240	816
	LPG	-	-	-
	Other	-	-	-
Financial Indicators	Expenditure on energy	£138,240	£122,836	£140,556
	CRC Licence Expenditure	-	£1,200	£1,200
	Expenditure on official business travel	N/A	N/A	£140,905

* The data we reported in this table prior to 2011-12 was mistakenly based on CO2 rather than the required CO2e. Comparative amounts have therefore been restated.
** Scope 3 covers travel data based on travel bought through the approved travel provider; it does not include travel bought from other sources.

Greenhouse gas emissions

Our target is to cut our carbon emissions by at least 25% (to 711 tonnes) by March 2015 from our 2009-10 levels. We are currently showing a 21% reduction to 753 tonnes, just 42 tonnes above our 2015 target.

We have also influenced our supply chain's emissions through better procurement specifications. This success was recognised with a Gold Standard award from the Mayor of London in 2010.



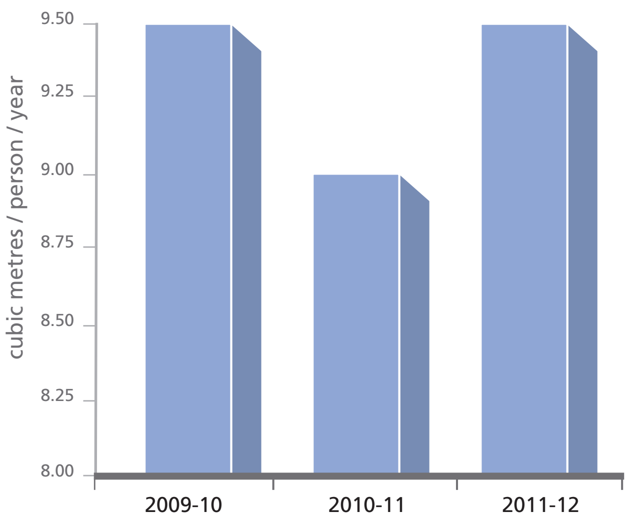
Reducing water consumption

The Greening Government target is to reduce water consumption per Full Time Equivalent (FTE) staff member, but it doesn't specify by how much. We have settled on a good practice target value of six cubic meters per FTE per year.

This is a new area for us, as initially we concentrated on cutting carbon emissions because they delivered the best cost savings. We have now installed a number of water sub-meters so we can see where we are using water and so make changes that will have the biggest impact. We are trying out water-saving fittings in one of our toilet facilities, and if they make proven savings we will roll them out. We are also looking at rainwater and grey water harvesting.

Water			2009-10	2010-11	2011-12
Non Financial Indicators	Water Consumption (m^3)	Supplied	4,026	4,509	5,462
		Per FTE	9.5	9.02	9.48
Financial Indicators	Water Supply Costs		£9,026	£9,271	£10,562

Water Usage

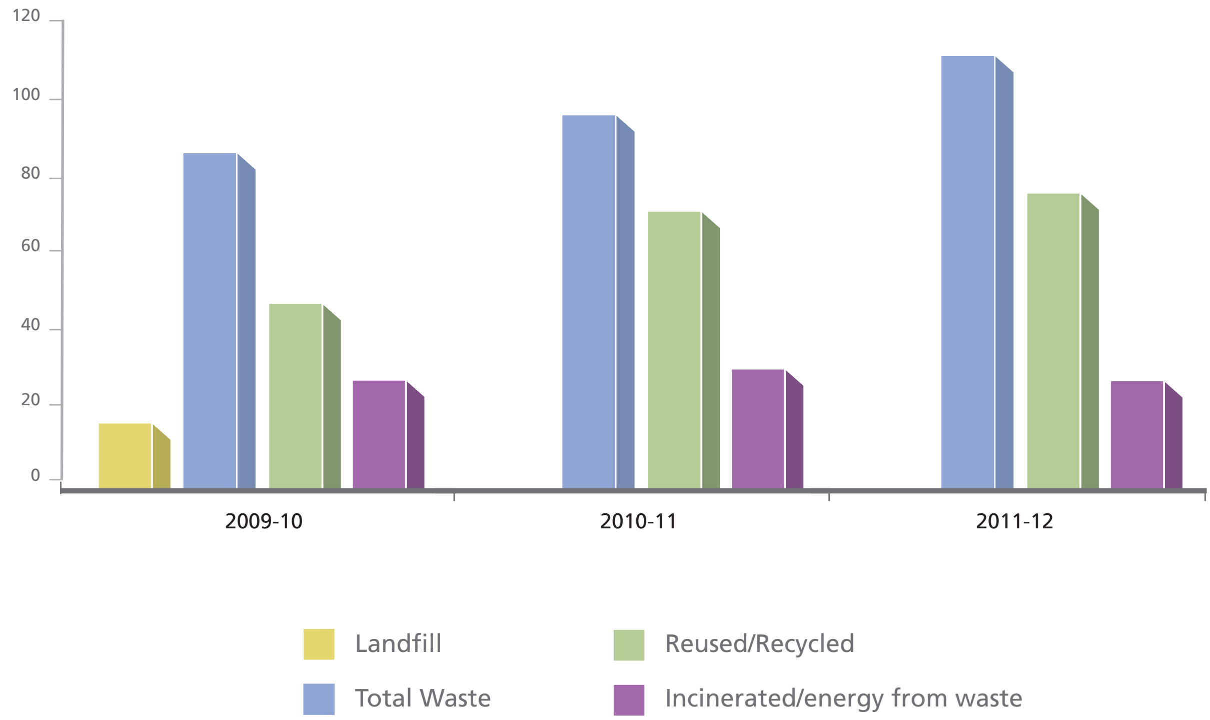


Reducing waste by 25%

Our Greening Government target is to reduce total waste by 25% by March 2015 using 2009-10 as a baseline. We have already worked hard with positive results: in the last two years we have sent no waste to landfill, and our total waste per FTE has gone down from 0.20 to 0.19.

Waste			2009-10	2010-11	2011-12
Non Financial Indicators (tonnes)	Total Waste		85	96	107
	Total Waste per FTE		0.20	0.19	0.19
	Hazardous Waste		1	0	6
	Non Hazardous Waste	Landfill	13	0	0
		Reused/Recycled	46	69	76
		Incinerated/energy from waste	25	27	25
Financial Indicators	Total Disposal Cost		£11,845	£18,237	£20,862

Waste



Section E
Resource Accounts and Trust Statement

Resource Accounts

These Resource Accounts have been prepared and published by the Office of Gas and Electricity Markets (Ofgem). The Accounts have been prepared under a direction issued by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000. The accounts demonstrate the resources that have been used in an efficient and effective manner to deliver our objectives. These Resource Accounts have been prepared in accordance with the guidance set out in the Government Financial Reporting Manual.

Contents

The Certificate and Report of the **Comptroller and Auditor General to the House of Commons**

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on Regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2012 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration 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.

Amyas C E Morse

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

18 June 2012

Accounting **schedules**

Statement of Parliamentary Supply
Summary of Resource and Capital Outturn 2011-12 (£000)

	2011-12							2010-11
	Estimate			Outturn				Outturn
	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with estimate: saving/(excess)	Total
Departmental Expenditure Limit								
Resource	701	-	701	674	-	674	27	686
Capital	950	-	950	815	-	815	135	742
Annually Managed Expenditure								
Resource	-	-	-	-	-	-	-	11
Capital	-	-	-	-	-	-	-	-
Total Budget	1,651	-	1,651	1,489	-	1,489	162	1,439
Non-Budget								
Resource	-	-	-	-	-	-	-	-
Total	1,651	-	1,651	1,489	-	1,489	162	1,439
Total Resource	701	-	701	674	-	674	27	697
Total Capital	950	-	950	815	-	815	135	742

Net Cash Requirement (£000)	**Note**	**2011-12 Estimate**	**2011-12 Outturn**	**2011-12 Net total outturn compared with estimate: saving/(excess)**	**2010-11 Outturn**
Net cash requirement	4	17,101	(1,023)	18,124	1,447

Administration Costs (£000)	**2011-12 Estimate**	**2011-12 Outturn**	**2011-12 Net total outturn compared with estimate: saving/(excess)**	**2010-11 Outturn**
	701	674	27	697

Explanations of variances between Estimate and Outturn are given in the Management Commentary on page 44.

Statement of Comprehensive Net Expenditure for the year ended 31 March 2012

			2011-12 £000		2010-11 £000
	Note	**Staff costs**	**Other Costs**	**Income**	
Administration costs					
Staff costs	9	36,102			32,571
Other administration costs	10		25,936		26,194
Operating income	8			(61,364)	(58,068)
Totals				674	697
Net operating cost	2			**674**	**697**
Total Expenditure				62,038	58,765
Total Income				(61,364)	(58,068)
Net operating cost				**674**	**697**

All income and expenditure are derived from continuing operations.
There is no other comprehensive net expenditure.
The notes on pages 62 to 82 form part of these accounts.

Statement of Financial Position as at 31 March 2012

	Note	31 March 2012 £000		31 March 2011 £000	
Non-current assets:					
Property, Plant and Equipment	11	3,110		3,306	
Total non-current assets:			3,110		3,306
Current assets:					
Trade receivables and other current assets	13	21,598		18,490	
Cash and cash equivalents	14	8,124		4,237	
Total current assets:			29,722		22,727
Total assets:			**32,832**		**26,033**
Current liabilities					
Trade and other payables	15	(26,955)		(18,067)	
Total current liabilities			**(26,955)**		**(18,067)**
Non-current assets plus/ less net current assets/liabilities			**5,877**		**7,966**
Non-current liabilities					
Provisions	16	(1,303)		(1,422)	
Other payables	15	(1,341)		(1,657)	
Total non-current liabilities			**(2,644)**		**(3,079)**
Assets less liabilities			**3,233**		**4,887**
Taxpayers' equity:					
General fund			3,233		4,887
Total taxpayers' equity			**3,233**		**4,887**

Alistair Buchanan, CBE
Accounting Officer

15 June 2012

The notes on pages 62 to 82 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2012

	Note	2011-12 £000	2010-11 £000
Cash flows from operating activities			
Net operating cost	2	(674)	(697)
Adjustments for non-cash transactions	10	1,115	1,282
Increase in trade and other receivables	13	(3,108)	(5,688)
less movements in receivables relating to items not passing through the OCS		-	-
Increase in trade payables	15	8,572	5,743
less movements in payables relating to items not passing through the OCS	15	(3,887)	(1,002)
Use of provisions	16	(180)	(343)
Net cash outflow from operating activities		1,838	(705)
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(815)	(742)
Proceeds of disposal of property, plant and equipment		-	-
Net cash outflow from investing activities		(815)	(742)
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		2,864	2,449
Advances from the Contingencies Fund		15,000	15,000
Payments to the Contingencies Fund		(15,000)	(15,000)
Net financing		2,864	2,449
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		3,887	1,002
Cash and cash equivalents at the beginning of the period	14	4,237	3,235
Cash and cash equivalents at the end of the period	14	8,124	4,237

The notes on pages 62 to 82 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2012

		General Fund
	Note	**£000**
Balance at 31 March 2010		**4,068**
Changes in taxpayers' equity for 2010-11		
Non-cash charges – auditor's remuneration	10	51
Net operating cost for the year	2	(697)
Gains relating to pension liabilities	16	18
Total recognised income and expense for 2010-11		**(628)**
Net Parliamentary Funding – drawn down		2,449
Net Parliamentary Funding – deemed		3,235
Supply payable adjustment		(4,237)
Balance at 31 March 2011		**4,887**
Changes in taxpayers' equity for 2011-12		
Non-cash charges – auditor's remuneration	10	53
Net operating cost for the year	2	(674)
Gains relating to pension liabilities	16	(10)
Total recognised income and expense for 2011-12		**(631)**
Net Parliamentary Funding – drawn down		2,864
Net Parliamentary Funding – deemed		4,237
Supply payable adjustment		(8,124)
Balance at 31 March 2012		**3,233**

Notes to the departmental **resource accounts**

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2011-12 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Ofgem for the purpose of giving a true and fair view has been selected. The particular policies adopted by us are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires us to prepare one additional primary statement. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

1.2 Property, Plant, Equipment and depreciation

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

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

Leasehold improvements	Life of the lease
Office equipment, furniture and fittings	5 years
IT equipment	3 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 only.

1.3 Provisions

We make provision for liabilities and charges where, at the balance sheet date, a legal or constructive liability exists (i.e. a present obligation from past events exists), where the transfer of economic benefits is probable and a reasonable estimate can be made.

Where the time value of money is material, we discount the provision to its present value using a discount rate of 2.8 per cent, the government's standard rate. Each year the financing charges in the Operating Cost Statement include the adjustments to amortise one year's discount and restate liabilities to current price levels.

1.4 Operating income

Operating income is income that relates directly to the operating activities of Ofgem. It comprises principally 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) which are described at Note 9. The PCSPS is both non-contributory, and unfunded. Departments, agencies and other bodies covered by the PCSPS 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 PCSPS. There is a separate scheme statement for the PCSPS 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 a defined benefit, unfunded 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 in respect of employees who retire early. We provide in full for this cost when the early retirement programme has been announced and is binding on Ofgem.

1.8 Value Added Taxation

Value Added Tax (VAT) is accounted for in the accounts, in that amounts are shown net of VAT except:

- irrecoverable VAT is charged to the Operating Cost Statement and included under the heading relevant to the type of expenditure, and
- 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 in respect of VAT is included in Receivables within the Statement of Financial Position.

1.9 The Statement of Parliamentary Supply

The information contained in the Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.10 Operating leases

Rentals due under operating leases are charged to the Operating Cost Statement over the lease term on a straight-line basis, or on the basis of actual rentals payable which fairly reflects the usage. Future payments, disclosed at Note 18, 'Commitments under leases', are not discounted.

1.11 Going concern

The Statement of Financial Position at 31 March 2012 shows a positive taxpayer's equity of £3.233 million. In common with other government departments, the future financing of our liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2012-13 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.12 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, we disclose for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.13 Assets belonging to third parties

Assets belonging to third parties (such as money held in relation to the Offshore Tender Developer's security and the Renewables Obligation) are not recognised in the Statement of Financial Position since we have no beneficial interest in them.

2. Net Outturn

2.1 Analysis of net resource outturn by section

	2011-12 Outturn				2011-12 Estimate		2010-11 Outturn
	Admin	Gross Total	Income	Net total	Net total	Net total outturn compared with Estimate	Net total
	£000	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limits (DEL)							
A Gas and Electricity Markets Authority: Administration	26,631	26,631	(26,631)	-	1	1	(11)
B OFGEM E-Serve: Administration	35,407	35,407	(34,733)	674	700	6	697
Spending in Annually Managed Expenditure (AME)							
C Provisions	-	-	-	-	-	-	11
Resource outturn	**62,038**	**62,038**	**(61,364)**	**674**	**701**	**7**	**697**

2.2 Analysis of net capital outturn by section

	2011-12 Outturn			2011-12 Estimate		2010-11
	Gross	Income	Net total	Net total	Net total outturn compared with Estimate	Outturn
	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limits (DEL)						
A Gas and Electricity Markets Authority: Administration	815	-	815	950	135	742
B OFGEM E-Serve: Administration	-	-	-	-	-	-
Spending in Annually Managed Expenditure (AME)						
C Provisions	-	-	-	-	-	-
Total	**815**	**-**	**815**	**950**	**135**	**742**

3. Reconciliation of Net Resource Outturn to Net operating cost and against Administration Budget

3(a) Reconciliation of net resource outturn to net operating cost

		2011-12	2010-11
	Note	£000	£000
Net Resource Outturn	2	674	697
Net operating cost		**674**	**697**

3(b) Outturn against final Administration Budget and Administration net operating cost

		2011-12	2010-11
	Note	£000	£000
Estimate - Administration costs limit	2	701	701
Outturn – Gross Administration Costs		62,038	58,765
Outturn – Gross Income relating to administration costs		(61,364)	(58,068)
Outturn – Net administration costs	2	674	697

4. Reconciliation of Net Cash Requirement to increase in cash

	2011-12	2010-11
	£000	£000
Net Cash Requirement	1,023	(1,447)
From the Consolidated Fund (Supply) – current year	2,864	2,449
Net Increase in cash held	**3,887**	**1,002**

5. Analysis of income payable to the Consolidated Fund

No Consolidated Fund Extra Receipts were collected by Ofgem during 2011-12.

6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

		2011-12	**2010-11**
	Note	**£000**	**£000**
Operating Income	8	61,364	58,068
Income authorised to be appropriated in aid		(61,364)	(58,068)
Operating Income payable to the Consolidated Fund		-	-

7. Non-operating income

	2011-12	2010-11
	£000	£000
Proceeds on disposal of property, plant and equipment	-	-
Allowable Income	(50)	(50)
Excess Income	-	-

8.1 Operating income

	2011-12	2010-11
	£000	£000
Administrative income:		
Fees and charges to external customers	49,321	37,659
Fees and charges to other departments	12,043	20,409
Total	**61,364**	**58,068**

8.2 Operating income analysis

	2011-12			2010-11		
	Income	Full costs	(Deficit)	Income	Full costs	(Deficit)
Administration income	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Gas and Electricity:						
Licence fees (external)	(39,970)	40,644	674	(30,367)	31,064	697
Other	(21,394)	21,394	-	(27,701)	27,701	-
Total	**(61,364)**	**62,038**	**674**	**(58,068)**	**58,765**	**697**

	2011-12	2010-11
Other income includes:	**£000**	**£000**
Offshore Transmission Tender Recharge	5,244	7,155
Department of Energy and Climate Change (DECC) (relating to environmental programmes and secondments)	8,042	12,876
Scheme Funded Recharges	3,997	2,699
Department for Environment, Food and Rural Affairs (DEFRA) (relating to shared accommodation costs)	3,695	4,066
Other departments	306	863
Miscellaneous	110	42
	21,394	**27,701**

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

9. Staff numbers and related costs

	2011-12			2010-11
Staff costs comprise:	**£000**	**£000**	**£000**	**£000**
	Permanently employed staff	Others	Total	Total
Wages and salaries	24,357	4,680	**29,037**	26,203
Social security costs	2,336	-	**2,336**	1,950
Other pension costs	4,616	-	**4,616**	3,868
Other staff costs	113	-	**113**	550
Total	**31,422**	**4,680**	**36,102**	**32,571**
Less recoveries in respect of outward secondments	(236)	-	(236)	(108)
Total net costs*	**31,186**	**4,680**	**35,866**	**32,463**

* Of the total, no charge has been made to capital

The Principal Civil Service Pension Scheme (**PCSPS**) is an unfunded multi-employer defined benefit scheme but we are unable to identify our share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (**www.civilservice-pensions.gov.uk**).

For 2011-12, employers' contributions of £4,391,339 were payable to the PCSPS (2010-11 £3,709,000) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. The contribution rates reflect benefits accruing during 2011-12 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 £174,527 (2010-11 £119,384) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £12,722 (2010-11 £8,833), 0.8 per cent of pensionable pay, were payable to the PCSPS 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 balance sheet date amounted to zero.

Average number of persons employed

The average number of whole-time equivalent persons employed during the year is shown in the table below.

	2011-12			2010-11
Objective	Permanently employed staff	Others	Total	Total
Contributing to the achievement of a low carbon energy sector	83	7	**90**	**84**
Helping to maintain the security of Britain's energy supplies	109	8	**117**	**104**
Promoting consumer choice and value and protecting vulnerable consumers	159	15	**174**	**118**
Ensuring the timely and efficient delivery of government programmes for a sustainable energy sector	194	18	**212**	**175**
Total*	**545**	**48**	**593**	**481**

*With effect from 2011-12, nine members of staff have been transferred on loan to DECC for smart meter activities.

10.1 Other administration costs

	Note	2011-12 £000	2010-11 £000
Rental under operating leases:			
Hire of office equipment		2	5
Other operating leases		5,775	5,634
		5,777	5,639
Non-cash items (see below):			
Auditors' remuneration and expenses*		53	51
Depreciation	11	1,011	1,220
Loss on disposal of property, plant and equipment		-	-
		1,064	1,271
Other expenditure:			
Contractors:			
• Environmental schemes and projects		1,987	5,374
• Smarter Grids and Governance (including RIIO price controls)		2,759	2,290
• Gas security of supply		639	-
• Retail Market Review		380	-
• Other		3,726	4,093
Other accommodation costs		4,184	3,386
Office supplies and services			
• Office equipment and furniture		489	516
• Computer software		441	273
• Other		567	337
Travel and subsistence		468	372
Training		687	538
Recruitment		819	512
Telecoms		402	356
Media and Communications		235	188
Library Services		185	186
Hospitality		71	104
Other expenditure		1,005	748
		19,044	**19,273**
Provisions (non-cash):			
Provided in year	16	16	34
Interest cost	16	35	29
Past service cost	16	-	(51)
Borrowing Costs	16	-	(1)
Movement in provision		51	11
		25,936	**26,194**

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

10.2 Net Operating Costs by theme

	2011-12 (£000)			2010-11 (£000)		
Theme	**Gross**	**Income**	**Net total**	**Gross**	**Income**	**Net total**
1. Contributing to the achievement of a low carbon energy sector	9,357	(9,357)	-	9,403	(9,403)	-
2. Helping to maintain the security of Britain's energy supplies	13,332	(13,332)	-	12,270	(12,270)	-
3. Promoting quality and value for consumers	18,133	(18,133)	-	13,004	(13,004)	-
4. Ensuring the timely and efficient delivery of government programmes for a sustainable energy sector	21,216	(20,542)	674	24,088	(23,391)	697
Net operating cost	**62,038**	**(61,364)**	**674**	**58,765**	**(58,068)**	**697**

11. Property, Plant and Equipment

	Furniture	Office equipment	Information Technology	Leasehold works	Total
	£000	**£000**	**£000**	**£000**	**£000**
Cost or valuation					
At 1 April 2011	423	2,167	2,611	4,819	10,020
Additions	61	163	399	192	815
Disposals	-	-	(403)	-	(403)
At 31 March 2012	484	2,330	2,607	5,011	10,432
Depreciation					
At 1 April 2011	378	1,684	1,847	2,805	6,714
Charged in year	19	245	491	256	1,011
Disposals	-	-	(403)	-	(403)
At 31 March 2012	397	1,929	1,935	3,061	7,322
Carrying amount at 31 March 2012	87	401	672	1,950	3,110
Carrying amount at 31 March 2011	45	483	764	2,014	3,306
Asset financing:					
Carrying amount of owned assets					
at 31 March 2012	87	401	672	1,950	3,110

12. 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. The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little credit, liquidity or market risk.

13. Trade receivables and other current assets

	2011-12	2010-11
Amounts falling due within one year:	**£000**	**£000**
Trade receivables	2,499	3,321
Accrued income	15,515	11,696
Prepayments	2,993	2,843
HM Revenue and Customs (VAT)	408	487
Staff receivables	183	143
At 31 March	**21,598**	**18,490**

Staff receivables include loans outstanding, of which £166,000 relates to season ticket loans for employees; and £9,200 relates to housing advances in respect of employees.

Staff receivables due after more than one year: The balance of £9,200 (2010-11: £19,000) relating to housing advances comprises £3,700 (2010-11: £9,000) which is repayable in instalments after one year.

13.1 Intra-government balances

	2011-12	2010-11
	£000	**£000**
Balances with other central government bodies	3,730	3,839
Balances with local authorities	1,453	1,237
Balances with bodies external to government	16,415	13,414
Total receivables at 31 March	**21,598**	**18,490**

14. Cash and cash equivalents

	£000
Balance at 31 March 2011	4,237
Net change in cash and cash equivalents	3,887
Balance at 31 March 2012	**8,124**

The following balances were held at:	**31 March 2012**	**31 March 2011**
	£000	**£000**
Office of HM Paymaster General and Government Banking Service	8,124	4,237
Commercial banks and cash in hand	-	-
Total	**8,124**	**4,237**

15. Trade payables and other current liabilities

	2011-12	2010-11
Amounts falling due within one year:	**£000**	**£000**
Other Taxation and Social Security	805	641
Trade payables	(2)	1,027
Staff payables	1,005	1,027
Deferred licence fees	9,640	5,291
Leasehold reverse premium	316	316
Accruals and other deferred income	7,067	5,528
Amounts issued from the Consolidated Fund for supply but not spent at year end	8,124	4,237
Excess cash receipts	-	-
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund:		
received	-	-
receivable	-	-
Balance at 31 March	**26,955**	**18,067**

	2011-12	2010-11
Amounts falling due after more than one year:	**£000**	**£000**
Leasehold reverse premium	1,341	1,657
Balance at 31 March	**1,341**	**1,657**

When we entered into the lease on our Millbank headquarters in 2000, we received a leasehold reverse premium from the landlord. The remainder of the reverse premium is £1.657million and will be utilised on a straight-line basis over the lease term up to the first break in the lease, being 23 June 2017.

15.1 Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011
	£000	£000	£000	£000
Balances with other central government bodies	9,659	5,513	-	-
Balances with local authorities	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Subtotal: intra-government balances	9,659	5,513	-	-
Balances with bodies external to government	17,296	12,554	1,341	1,657
Total creditors at 31 March	**26,955**	**18,067**	**1,341**	**1,657**

16. Provisions for liabilities and charges

16.1 Early Retirement

	£000
Balance at 31 March 2011	**793**
Provided in the year	16
Borrowing Costs	-
Provisions not required written back	-
Provisions utilised in the year	(164)
Balance at 31 March 2012	**645**

Analysis of expected timings of discounted flows	**£000**
2012-13	136
2013-14/2018-19	397
2019-20/2024-25	99
Thereafter	13
Balance at 31 March 2012	**645**

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts monthly to the PCSPS over the period between early departure and normal retirement date. The department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.8 per cent in real terms.

16.2 Pension liabilities

	2011-12	2010-11
	£000	£000
Provision at 1 April	**629**	**685**
Interest cost	35	29
Actual benefit payments	(16)	(16)
Actuarial loss/(gain)	10	(18)
Past service cost	-	(51)
Provision at 31 March	**658**	**629**
Net movement in year (excluding actuarial gain/loss)	19	(38)

	2011-12	2010-11
History of experience losses	£000	£000
Experience losses arising on the scheme liabilities	11	4
Amount recognised as a percentage of present value of scheme liabilities	1.7%	0.7%
Total amount recognised in statement of Changes in Taxpayers' Equity	10	(18)

The pension provision is in respect of the unfunded pension liabilities which fall to Ofgem for the 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. Actuarial advice has been sought to ensure that the provision is set at a realistic level.

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2012. The major assumptions used by the actuary were:

	At 31 March 2012	At 31 March 2011
	% (per annum)	% (per annum)
Inflation assumption -CPI	2.00	2.65
Rate of increase in salaries	4.25	4.90
Rate of increase for pensions in payment and deferred income	2.00	2.65

	2011-12	2010-11	2009-10
Analysis of Actuarial Gain/(Loss)	£000	£000	£000
Changes in assumptions underlying the present value of scheme liabilities	11	(22)	94
Experience losses arising on the scheme liabilities	(1)	4	12
Per statement of Changes in Taxpayers' Equity	10	(18)	106

From 31 March 2012, the discount rate for pension scheme liabilities changed from 2.2 per cent to 2.8 per cent. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2012.

17. Capital commitments

	2011-12	2010-11
	£000	**£000**
Contracted capital commitments at 31 March for which no provision has been made	-	-

18. 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.

	31 March 2012	31 March 2011
Obligations under operating leases comprise:	**£000**	**£000**
Buildings:		
Not later than one year	6,038	5,958
Later than one year and not later than five years	24,436	24,195
Later than five years	1,781	7,637
	32,255	**37,790**
Other:		
Not later than one year	2	2
Later than one year and not later than five years	1	3
Later than five years	-	-
	3	**5**

19. Other financial commitments

Ofgem had not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2012.

20. 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 judgements could give rise to liabilities for legal costs but these cannot be quantified as the outcome of proceedings would be unknown and there is therefore considerable uncertainty as to the nature and extent of any subsequent liability.

As at 31 March 2012 there were no contingent liabilities requiring disclosure.

21. Related Party Transactions

During the year, we transferred £6.794 million to the Department for Business, Innovation and Skills in respect of the energy sector related costs of Consumer Focus and Consumer Direct. Additionally, £0.785 million was transferred to the National Measurement Office in respect of metrology services.

We administer environmental programmes on behalf of DECC, and second staff to DECC. Total income from DECC recognised in year amounted to £8.042 million.

We sublet part of our Millbank premises to DEFRA, provide financial and payroll services to Postcomm, administer the Northern Ireland Renewables Obligation on behalf of the NI Authority for Utility Regulation, and host the Charity Commission's accounting system. Income recognised in year was £3.695 million from DEFRA, £624k from the NI Authority for Utility Regulation, £43k from Postcomm, and £12k from the Charity Commission.

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.

22. Events after the reporting period

There were no reportable events between the end of the reporting period, and 15 June 2012, the authorised for issue date. The financial statements do not reflect events after this date.

23. Third-Party Assets

Renewables Obligation

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

All buy-out payments go into Ofgem's buy-out 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 buy-out fund is normally of a small nominal value at the end of each financial year.

The amount held in the buy-out Funds as at 31 March 2012 was £223.

Offshore Transmission Tender Regime Developer's Securities

The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2009 require a developer to provide security and payments to Ofgem in respect of Ofgem's tender costs. This security is a financial commitment from the offshore developer to secure Ofgem's potential liability for running a tender process. Ofgem has the right to draw down from this security if the offshore developer withdraws from the process or causes the tender process to be cancelled. As at 31 March 2012 the amount held as securities was £3,019,589.

Accounting Officer's Foreword **to the Trust Statement**

Scope

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

It is responsible for enforcing and collecting fines and penalties imposed on the energy companies that it regulates, and collecting the England and Wales, and Scotland Fossil Fuel Levies.

The Trust Statement reports the revenues and expenditures and assets and liabilities related to fines, penalties and the Fossil Fuel levies for the financial year 2011-12. These amounts are collected by us for payment into the Consolidated Fund.

This statement is also prepared so as to provide disclosure of 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.

Background

Fines and Penalties

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

No penalty imposed by the Authority may exceed 10 per cent of the turnover of the licence holder. Any sums received by the Authority by way of a penalty shall be paid into the Consolidated Fund.

The Authority gives notice to the licence holder that it proposes to impose a penalty. The licence holder has 21 days to make representations or objections with respect to the penalty. Once the penalty has been imposed, the licence holder has 42 days to either pay the penalty or make an application for appeal to the court.

The court will impose a date by which payment must be made should an appeal be unsuccessful.

Fossil Fuel Levy

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

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

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

We set the rate of the FFL. Suppliers purchasing output from NFFO generators are entitled to the associated ROCs. There is currently a shortage of ROCs, therefore, the average auction price of output from NFFO contracts currently exceeds the average price guaranteed to the generators under NFFO contracts. Hence, the current levy rate, which is set by us, is zero. Where the auction price of output exceeds the guaranteed price any surplus is paid into our FFL accounts. There is a similar arrangement for the administration of the Scotland Fossil Fuel Levy.

The Sustainable Energy Act 2003 created a mechanism by which the FFL surplus could be transferred from the England and Wales levy account to the Consolidated Fund. The Secretary of State for Business, Innovation and Skills is under a duty to spend the amount for the purpose of promoting the use of energy from renewable sources. A parallel provision has been included in the Energy Bill for the Scottish Executive relating to the Scotland levy account.

Cash receipts can also be treated as hereditary revenue when they are received by virtue of statutory authority. Section 1 of the Civil List Act 1952 requires hereditary revenues to be paid into the Consolidated Fund. On 18 July 2011, 14 November 2011 and 21 March 2012, £26 million, £24 million and £37 million respectively, were transferred to the Consolidated Fund from the England and Wales account on this basis.

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

Under Section 187 of the Energy Act 2004, the Scottish Government may direct Ofgem to pay an amount from the Scottish Levy account to the Scottish Consolidated Fund. No such direction has yet been made. Until such a direction is made, the levy funds remain in the Scottish FFL account.

Financial Review

In February 2008, the Authority reached its findings of competition law breach by National Grid plc in respect of abusing its dominant position in the market in Great Britain for the provision of installed domestic-sized gas meters, and the ancillary service of meter maintenance. This was an infringement of Section 18 of the Competition Act 1998 and Article 82 of the EC Treaty. National Grid plc initiated appeal proceedings but the Court of Appeal upheld our findings and confirmed that National Grid should face a financial penalty of £15 million to be paid to Ofgem. This was received and then transferred to the Exchequer in September 2010.

On 6 January 2011, it was announced that we intended to impose a penalty of £8 million and to find National Grid Gas in breach of licence obligations on providing accurate information to the energy regulator. This was received and then transferred to the Exchequer in June 2011.

On 7 February 2011, financial penalties were imposed on three local power network companies totalling £1 million for failing to provide timely offers for connections to the local electricity network. Scottish Hydro Electric Power Distribution (SHEPD) and Central Networks (CN) were fined £500,000 and £400,000 respectively for failing to meet the three month deadline for providing connection offers in a number of cases, and for not having systems and processes sufficient to monitor provision of their connections service. Electricity North West Limited (ENWL) was fined £100,000 for failing to meet the three month deadline in a number of cases. All payments were received and then transferred to the Exchequer in May 2011.

On 1 July 2011, a financial penalty of £1 million was imposed on British Gas Trading Ltd for misreporting under the Renewables Obligation. This was received and then transferred to the Exchequer in November 2011.

On 27 July 2011 and 31 October 2011 respectively, financial penalties of £2.5 million and £2.0 million were imposed on British Gas and RWE npower for failing to comply with complaints handling regulations. Both amounts were received and then transferred to the Exchequer in February 2012.

On 21 December 2011, financial penalties of £4.3 million and £0.9 million were imposed on National Grid Gas plc and Northern Gas Networks respectively for failing to comply with gas escape licence conditions. Both amounts were received and then transferred to the Exchequer in March 2012.

During 2011-12, we collected £87.090 million in respect of the England and Wales levy, and £16.338 million in respect of the Scotland levy. £87 million from the England and Wales levy was paid over to the Consolidated Fund during 2011-12. The costs associated with administering the two levies are recovered from the levy by us and are shown as income within our resource accounts.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 7 of the Government Resources and Accounts Act 2000. The audit opinion is on pages 88 to 89. The auditor's notional remuneration for this is included in our Resource Accounts.

There were no fees in respect of non-audit work.

Basis for preparation

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

Accounting judgements

As Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement. Revenues are recognised in the month to which the levy relates.

Events after the reporting period

There were no events after the reporting period.

Alistair Buchanan, CBE
Accounting Officer

15 June 2012

Statement of the Accounting Officer's **Responsibilities in respect of the Trust Statement**

Under section 7 of the Government Resources and Accounts Act 2000, 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.

HM Treasury has appointed the Chief Executive as Accounting Officer of Ofgem with overall responsibility for preparing the Trust Statement and for transmitting it to the Comptroller and Auditor General.

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

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

In preparing the Trust Statement, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual prepared by the Treasury and, in particular, to:

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

Governance Statement

Ofgem's Governance Statement, covering both the Resource Accounts and the Trust Statement, is shown on pages 29 to 35.

The Certificate and Report of the **Comptroller and Auditor General to the House of Commons**

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets' Trust Statement for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The financial statements comprises the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on Regularity

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

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the Office of Gas and Electricity Markets' Trust Statement affairs as at 31 March 2012 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion, the information given in the Annual Report for the financial year in which the financial statements are prepared is consistent with the financial statements.

Matters for 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.

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

18 June 2012

Statement of Revenue and Expenditure for the Year Ended 31 March 2012

	Note	2011-12 £000	2010-11 £000
Revenue			
• Fines and Penalties			
Penalties imposed	2.1	10,700	24,810
• Fossil Fuel Levy			
Fossil Fuel Levy (England & Wales)		87,590	73,834
Fossil Fuel Levy (Scotland)		15,734	15,142
• Other Revenue			
Interest on Fossil Fuel Levy (England & Wales)		127	119
Interest on Fossil Fuel Levy (Scotland)		619	569
Total Revenue		114,770	114,474
Expenditure			
Administration of the Fossil Fuel Levy		(105)	(96)
Total Expenditure		(105)	(96)
Net Revenue for the Consolidated Fund		114,665	114,378

There were no recognised gains or losses accounted for outside the above Statement of Revenue and Expenditure.

The notes at pages 93 to 95 form part of this statement.

Statement of Financial Position as at 31 March 2012

		2011-12	2010-11
	Note	£000	£000
Current Assets			
Cash at Bank – UK Consolidated Fund		29,296	29,138
Cash at Bank – Scottish Consolidated Fund		215,462	198,519
Trade Receivables and accrued income	3	17,918	27,023
Current Liabilities			
Net Current Assets		262,676	254,680
Trade Payables	4	(37)	(6)
Total Net Assets		262,639	254,674
Represented by:			
Balance on the UK Consolidated Fund Account	5	44,803	53,170
Balance on Scottish Consolidated Fund Account		217,836	201,504
		262,639	254,674

Alistair Buchanan, CBE
Accounting Officer

15 June 2012

The notes at pages 93 to 95 form part of this statement.

Statement of Cash Flows for the year ended 31 March 2012

	2011-12	2010-11
	£000	**£000**
Net Cash Flow from Operating Activities	123,801	104,556
Cash paid to the consolidated fund	(106,700)	(89,810)
Increase in cash in the period	17,101	14,746

Notes to the Cash Flow Statement

A: Reconciliation of Net Cash Flow to Movement in Net Funds

		2011-12	2010-11
	Note	**£000**	**£000**
Net revenue for the Consolidated Fund		114,665	114,378
Decrease/(Increase) in non-cash assets	3	9,105	(9,820)
Increase/(Decrease) in liabilities	4	31	(2)
Net Cash Flow from operating activities		123,801	104,556

B: Analysis of changes in Net Funds

	2011-12	2010-11
	£000	**£000**
Increase in cash in the period	17,101	14,746
Net Funds at 1 April	227,657	212,911
Net Funds at 31 March	244,758	227,657

The notes at pages 93 to 95 form part of this statement.

Note to the trust statements
1. Statement of Accounting Policies

1.1 Basis of Accounting

The Trust Statement is prepared in accordance with the accounts direction issued by HM Treasury under section 7 of the Government Resources and Accounts Act 2000. The Trust Statement is prepared in accordance with the accounting policies detailed below. These have been agreed between the Office of Gas and Electricity Markets and HM 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 the Office of Gas and Electricity Markets 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 £000

1.2 Accounting Convention

The Trust Statement has been prepared in accordance with the historical cost convention.

1.3 Revenue Recognition

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

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

2. Revenue

2.1 Fines and Penalties

	2011-12	2010-11
	£000	**£000**
Penalty imposed on National Grid Gas – Principal	-	15,000
Penalty imposed on National Grid Gas – Interest	-	810
Penalty imposed on National Grid Gas	4,300	8,000
Penalty imposed on Scottish Hydro Electric Power Distribution	-	500
Penalty imposed on Central Networks	-	400
Penalty imposed on Electricity North West Limited	-	100
Penalty imposed on British Gas Trading	1,000	-
Penalty imposed on British Gas	2,500	-
Penalty imposed on RWE npower	2,000	-
Penalty imposed on Northern Gas Networks Ltd	900	-
Total	**10,700**	**24,810**

3. Debtors and Accrued Revenue Receivable

	Debtors as at 31 March 12	Accrued revenue receivable at 31 March 12	Total as at 31 March 12	Total as at 31 March 11
	£000	**£000**	**£000**	**£000**
Fines and Penalties	-	-	-	9,000
Fossil Fuel Levy	-	17,918	17,918	18,023
Total	**-**	**17,918**	**17,918**	**27,023**

Debtors 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

4. Creditors and Accrued Expenditure Liabilities

	Creditors as at 31 March 12	Accrued expenditure liabilities at 31 March 12	Total as at 31 March 12	Total as at 31 March 11
	£000	£000	£000	£000
Fines and Penalties	-	-	-	-
Fossil Fuel Levy	-	37	37	6
Total	**-**	**37**	**37**	**6**

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

5. Balance on the Consolidated Fund Account

	2011-12	2010-11
	£000	£000
Balance on the Consolidated Fund Account	254,674	230,106
Net revenue for the Consolidated Fund Account	114,665	114,378
Less amount paid to the Consolidated Fund	(106,700)	(89,810)
Balance on Consolidated Fund Account as at 31 March	**262,639**	**254,674**

Appendix I : Performance against **2011-12 deliverables**

Our Corporate Strategy and Plan for 2011-12 included a number of key deliverables to be achieved in each quarter.

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

	Number in Corporate Plan	Total Achieved			Deferred to 2012-13	No longer apply
		Met in Qtr	Met in later Qtr	Met in year		
Full year						
Year total	**51**	**44**	**3**	**47**	**3**	**1**
Year %		*86%*	*6%*	*92%*	*6%*	*2%*
1st Quarter						
Quarter total	8	8	0	8	0	0
2nd Quarter						
Quarter total	6	6	0	6	0	0
3rd Quarter						
Quarter total	20	15	3	18	2	0
4th Quarter						
Quarter total	17	15	0	15	1	1

Theme 1 – Contributing to the achievement of a low carbon energy sector

Action	Period	Achieved	Expected	No Longer Applicable	Comments
1st Half-yearly reports to the Secretary of State on the Connect and Manage grid access regime	Q2	Q2			
Publish Project Transmit consultation	Q2	Q2			
RIIO T1 initial consultations on fast track licence drafting	Q3	Q3			
Funding decision for anticipatory investment under Transmission Operator incentives	Q3	Q3			
RIIO T1 consultation on potential fast track companies	Q3	Q3			
RIIO GD1 initial consultations on fast track licence drafting	Q3		Q1 12-13		Delayed due to Health & Safety Executive decision on Iron Mains Replacement Programme changes. Expected Q1 12-13
RIIO GD1 consultation on potential fast track companies	Q3	Q4			Delayed due to Health & Safety Executive decision on Iron Mains Replacement Programme changes
Publish Electricity Distribution Charging EHV Methodology for demand customer	Q3	Q3			
Publish Electricity Distribution structure of charges decision for generators	Q3	Q4			We have delayed a decision in relation to EHV generator charges in response to industry feedback.

Theme 1 – Contributing to the achievement of a low carbon energy sector (contd.)

Action	Period	Achieved	Expected	No Longer Applicable	Comments
Publish decision on further innovative projects to receive Low Carbon Network Fund monies	Q3	Q3			
2nd Half-yearly reports to the Secretary of State on the Connect and Manage grid access regime	Q4	Q4			
RIIO T1 statutory consultations on fast track licence drafting	Q4	Q4			
RIIO T1 decision on potential fast track companies	Q4		Q1 12-13		Delayed due to allowing Transmission Companies to resolve outstanding issues in their plans. Expected Q1 12-13
Funding decision for anticipatory investment under Transmission Operator incentives	Q4	Q4			
Publish findings from the first year of the Smart Grid Forum	Q4	Q4			
RIIO GD statutory consultations on fast track licence drafting	Q4	Q4			
RIIO GD decision on potential fast track companies	Q4			N/A	None Fast tracked

Theme 2 - Helping to maintain the security of Britain's energy supplies

Action	Period	Achieved	Expected	No Longer Applicable	Comments
Develop security of supply model	Q3	Q3			
Consult on licence changes in response to the Dartford lessons learned exercise	Q4	Q4			

Theme 3 - Promoting value and quality for all consumers

Action	Period	Achieved	Expected	No Longer Applicable	Comments
Finalise 'Spring Package' of smart metering consumer protection measures	Q1	Q1			
Publish annual report on the Community Energy Saving Programme	Q1	Q1			
Publish TPCR4 rollover initial proposals	Q2	Q2			
Submit National Report to European Commission	Q2	Q2			
Publish TPCR4 rollover final proposals	Q3	Q3			
Changes to network companies' ring-fence licence conditions	Q3		Q1 13-14		Implementation deferred by Authority to April 2013
Publish Sustainable Development report and letter to Secretary of State	Q3	Q3			
Publish climate change adaptation report	Q3	Q3			
Consult on revised Enforcement Guidelines	Q3	Q3			
Make decision on next steps in relation to the Retail Market Review	Q3	Q3			
Publish Electricity Distribution Annual Report	Q4	Q4			
Launch review of undue discrimination sunset clause	Q4	Q4			
Decide whether to certify TSOs as compliant with EU Third Package unbundling provisions	Q4	Q4			
Publish discussion paper on affordable energy	Q4	Q4			
Publish complaints handling research	Q4	Q4			
Publish research on vulnerable customer engagement with the market	Q4	Q2/Q3			

Theme 4- Ensuring the timely and efficient delivery of Government programmes for a sustainable energy sector

Action	Period	Achieved	Expected	No Longer Applicable	Comments
Set Warm Home Discount supplier obligations	Q1	Q1			
Publish revised register for Feed-in tariffs	Q1	Q1			
Publish revised register for Renewables Obligation	Q1	Q1			
Renewables Obligation sustainability criteria: publish bioliquids guidance	Q1	Q1			
Issue first licences under Tender Round 1	Q1	Q1			
Complete shortlist of bidders for Tender Round 2a	Q1	Q1			
Commence administration of the Renewable Heat Incentive	Q2	Q2			
Publish annual report on the Carbon Emissions Reduction Target	Q2	Q2			
Make first Renewable Heat Incentive payments to commercial participants	Q3	Q4			Delayed by DECC, first payment made in Q4
Renewables Obligation sustainability criteria: publish bio solids reporting guidance	Q3	Q3			
Publish annual report on the Feed in Tariffs scheme	Q3	Q3			
Select preferred bidders for Tender Round 2a	Q3	Q3			
Set the Fossil Fuel Levy Rate for 2012-13	Q3	Q3			
Publish annual report on Renewables Obligation	Q4	Q4			
Issue final licences under Tender Round 1	Q4	Q4			
Implement refinements to existing enduring offshore transmission regime	Q4	Q4			

Appendix I I :
Performance Indicators **2011-12**

Division	Measure	Target	Actual	Comments
Smarter Grids & Governance	Make code modification decisions within 25 working days of receiving the Final Modification Report (or, where applicable, final responses to a Final Impact Assessment or other Ofgem consultation)	90%	98.5%	Target delivered
Smarter Grids & Governance	Publish code modification Impact Assessments within 3 months of receiving the Final Modification Report	90%	100%	Target delivered
Smarter Grids & Governance	Grant competitive licence applications within 45 days of receipt of a duly made application	100%	100%	Target delivered
Markets	Consult on and carry out consultations regarding any applications made for exemption from Third Party Access arrangements under Article 22 by prospective storage and interconnector operators	100%	100%	No applications have been made during the year
Markets	Send decisions on Article 22 exemptions to the European Commission within prescribed timescales if adequate data has been provided	100%	100%	No decision needed during the year
Markets	Assess and make decisions about any Income Adjusting Event within three months of it being raised if adequate information has been provided	100%	100%	No events raised
Sustainable Development	Protect consumers by responding substantively to customer contacts	93%	93%	Target delivered
Sustainable Development	Respond to complaints on enforcement matters confirming whether we will investigate	90%	96.75%	Target delivered

E-Serve performance indicator

Division	Measure	Target	Actual	Comments
Environmental Programmes	Process supplier applications for Warm Home Discount activity after receiving adequate information	90% within 20 working days of the submission deadline	90%	Target delivered
Offshore	Conduct timely and robust tender process for 20 year licences	Achievement of timetables and publication of relevant data		Target delivered
Environmental Programmes	Issue the main batches of renewable certificates	95% within 17 working days of the generators' reporting deadline of their output data April-June and within 12 days July-March	95%	Target delivered
Feed in Tariff	Follow up with the generators' outstanding issues on their applications for accreditation on FIT	90% within 10 working days	94%	Target delivered
Renewable Heat Incentive	Follow up with the generators' outstanding issues on their applications for accreditation on RHI	90% within 10 working days	90%	Target delivered
Environmental Programmes	Respond to obligated party CERT and CESP schemes for approval	90% within 10 working days of the submission deadline	90%	Target delivered
Environmental Programmes	Feed-in Tariffs levelisation process to be completed in a timely manner after receipt of data from suppliers	95% within 20 working days	95%	Target delivered
Environmental Programmes	Recycle the Renewables Obligation buy-out funds by 1 October (within one month of the deadline for the supplier payments)	95%	100%	Target delivered
Environmental Programmes	Complete reconciliation of CHP Levy Exemption Certificates after receiving accurate data from DECC	95% within 25 working days	99%	Target delivered

Corporate functions performance indicator

Division	Measure	Target	Actual	Comments
Information management	Respond to enquiries under the Freedom of Information Act	90%	90%	Target delivered

Appendix I I I : Impact Assessments **undertaken 2011-12**

Ofgem published 19 impact assessments (IAs) between 1 April 2011 and 31 March 2012. Further information on the following documents can be found at **www.ofgem.gov.uk** by searching using the appropriate reference number.

Date	Title and reference number
09/05/2011	Charges for pre-2005 distributed generators' use of Distributed Network Operators' (DNOs) distribution systems (Reference number: 58/11)
20/05/2011	Asset value adjusting event for the transmission investment project 'Beauly-Denny' (Reference number: 66/11)
23/05/2011	RWE Proposal P229 – seasonal zonal transmission losses scheme (Reference number: 68/11)
05/08/2011	Shetland Northern Isles New Energy Solutions (NINES) Project (Reference number: 100/11)
12/08/2011	Minimum transmission capacity requirements in the Security and Quality of Supply Standard (Reference number: 105/11)
31/08/2011	Tackling Gas Theft (Reference number: 112/11)
21/10/2011	Distribution use of system charging: a time-limited exemption for pre-2005 generators (Reference number: 17/11)
08/10/2011	Gas Security of Supply Significant Code Review (Reference number: 146/11)
23/11/2011	The Retail Market Review : Non-domestic Proposals (Reference number: 157/11)
01/12/2011	The Retail Market Review : Domestic Proposals (Reference number: 166/11)
20/12/2011	Supporting effective switching for domestic customers with smart meters (Reference number: 187/11)
20/12/2011	Project TransmiT – Electricity transmission charging: assessment of options for change (Reference number: 188/11)
31/01/2012	Improving Reporting Transparency (Reference number: 09/12)
07/02/2012	RIIO-T1: Initial Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd (Reference number: 16/12)
13/02/2012	Investment in electricity generation: Impact Assessment on National Grid proposal CMP192: enduring user commitment (Reference number: 19/12)
22/02/2012	Retail Market Review: Intervention to enhance liquidity in the GB power market (Reference number: 21/12)

Impact Assessments undertaken 2011-12 (contd.)

Date	Title and reference number
01/03/2012	Offshore Transmission – Consultation on potential measures to support efficient network coordination (Reference number: 26/12)
28/03/2012	Conflicts in the Distribution Losses Incentive Mechanism and data to be used in calculating its components (Reference number: 39/12)
29/03/2012	Supporting effective switching for domestic customers with smart meters : further statutory consultation and notice (Reference number: 41/12)

Summary of actions taken to which IAs relate

The following sets out the decisions taken during the 2011-12 financial year in relation to proposals for which IAs were previously carried out.

- On 4 April 2011 we approved the Gas Exit Capacity Substitution and Revision Methodology Statement pursuant to paragraphs 4(b) and 4(c) of Special Condition C8E of NGG's Gas Transporter Licence for implementation with effect from 1 July 2011
- On 19 April 2011 we concluded that implementation of modification proposal UNC 339 and rejection of modification proposals UNC 339A, UNC 340 and UNC 366 will better facilitate the achievement of the relevant objectives of the UNC
- On 31 May 2011 we published draft guidance on sub-paragraphs 3(a) and (b) of Standard Licence Condition 23 of the gas and electricity supply licences (SLC23)
- On 28 September 2011 we rejected the introduction of a seasonal Zonal Transmission Losses scheme (P229)
- On 1 November 2011 we decided to approve the changes proposed by GSR009
- On 26 March 2012 we rejected proposals UNC 277 Creation of Incentives for the Detection of Theft of Gas and UNC 346 An alternative to the Supplier Energy Theft Scheme based on throughput
- On 30 March 2012 we directed that the alternative modification proposal WACM 5 of the CMP 192 'National Grid proposal for enduring user commitment arrangements' be made.

Appendix IV : Investigations and enforcement **action 2011-12**

Details of Ofgem's formal investigations are available on our website[1] in accordance with our policy as set out in our Enforcement Guidelines[2]. We will publish brief details of the fact and nature of the investigation on the Ofgem website (except in cases where this may adversely affect the investigation).[3]

Company	Issue	Decision	Date of decision
National Grid Gas plc	Compliance with Standard Special Condition (SSC) D10 paragraph 2(g) of its gas transporters licence (Standards for attending controlled and uncontrolled gas escapes).	Settlement. Breach and £4.3 million penalty	February 2012
Northern Gas Networks Limited	Compliance with Standard Special Condition (SSC) D10 paragraph 2(g) of its gas transporters licence (Standards for attending controlled and uncontrolled gas escapes).	Settlement. Breach and £900,000 penalty	February 2012
British Gas Trading Limited	Compliance with Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008	Breaches and £2.5 million penalty	January 2012
RWE npower plc	Compliance with Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008	Settlement. Breaches and £2 million penalty	January 2012
British Gas Trading Limited	Compliance with Standard Licence Condition 27.8 of the gas and electricity supply licences (Ascertaining a domestic customer's individual ability to pay and taking this into account when calculating instalments).	Investigation closed on administrative priority grounds, on the basis of changes in British Gas's approach, the apparent historic nature of the problems initially examined, and Ofgem's ongoing monitoring work in this area.	November 2011
British Gas Trading Limited (BG)	Investigation into compliance with reporting requirements under the Renewables Obligation for England & Wales and Scotland, as set out by various statutory instruments.	Settlement. £1 million penalty plus action taken by BG to redress the impact on the market, by retiring Renewables Obligations Certificates.	November 2011

[1] http://www.ofgem.gov.uk/About%20us/enforcement/Investigations/CurrentInvest/Pages/CurrentInvstgtns.aspx
[2] http://www.ofgem.gov.uk/ABOUT%20US/ENFORCEMENT/Documents1/Enforcement%20Guidelines%20post%20consultation.pdf
[3] The fact that some investigations are ongoing should not in any way be taken as implying that the companies involved have breached licence conditions or otherwise broken the law.

Company	Issue	Decision	Date of decision
EDF Energy plc	Investigation into potential breach of the Consumer Protection from Unfair Trading Regulations 2008 (CPRs), in particular Regulation 3(4) read together with Regulation 6(1) of the CPRs which prohibit commercial practices which amount to misleading omissions.	Case closed and customers who were financially disadvantaged were recompensed, with interest. (Total detriment estimated at £200,000).	August 2011
National Grid Gas plc	Investigation into compliance with Special Conditions E2B, E6 and E20, and Standard Special Conditions D9 and A40 of its gas transporter licence in respect of its Distribution Networks (Regulatory reporting of mains decommissioning work)	Settlement. Breach and £8 million penalty	May 2011
Scottish Hydro Electric Power Distribution plc	Investigation into compliance with Standard Licence Condition (SLC) 4D, SLC 30 and SLC 12 of the electricity distribution licence (Offers of connections).	Settlement. Breach and £500,000 penalty	April 2011
Central Networks East plc and Central Networks West plc	Investigation into compliance with Standard Licence Condition (SLC) 4D, SLC 30 and SLC 12 of the electricity distribution licence (Offers of connections).	Settlement. Breach and £400,000 penalty	April 2011
Electricity North West Limited	Investigation into compliance with SLC 4D and SLC 12 of the electricity distribution licence (Offers of connections).	Settlement. Breaches and £100,000 penalty	April 2011
Companies in the E.ON Group	Investigation into compliance with Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008	No breach found	April 2011
ScottishPower Energy Retail Ltd	Investigation into compliance with Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008	No breach found	April 2011
SSE Energy Ltd and SSE Energy Supply Ltd	Investigation into compliance with Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008	No breach found	April 2011

Company	Issue	Decision	Date of decision
EDF Energy plc	Investigation into compliance with marketing licence conditions on doorsteps and telesales	Consultation on proposed settlement held in March 2012. Breach and £1 penalty. EDF Energy has also agreed to make payments of £4.5 million as an acknowledgment that it did not reach the required standards	May 2012
Electricity North West	Investigation into abuse of dominant position by imposing a margin squeeze	Binding commitments from Electricity North West accepted May 2012	May 2012
SSE	Investigation into misselling on doorstep and telesales	Ongoing	N/A
Scottish Power	Investigation into misselling on doorstep and telesales	Ongoing	N/A
npower	Investigation into misselling on doorstep and telesales	Ongoing	N/A
EDF Energy	Investigation into compliance with Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008	Ongoing	N/A
MA Energy	Investigation into compliance with obligations under its licence and industry codes in relation to the purchase of electricity and other matters.	Ongoing	N/A
Scottish Power	Investigation into the significant difference between Scottish Power's standard and direct debit tariffs	Ongoing	N/A
E.ON	Investigation into misreporting of the distribution of compact fluorescent lamps (CFLs) (Article 16(1)(a) of the Electricity and Gas (Carbon Emissions Reduction) Order 2008)	Ongoing	N/A
Wales and West Utilities	Investigation into compliance with obligations on regulatory reporting under the gas transporter licence	Ongoing	N/A
Opus Energy Limited	Investigation into misreporting of electricity supply data under the Renewables Obligation	Ongoing	N/A
Scottish Power	Investigation into compliance with the requirements of the Consumer Protection from Unfair Trading Regulations 2008 (CPRs) in relation to its online tariff, ScottishPower Direct – October 2012 Offer.	Ongoing	N/A

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