Office of Gas and Electricity Markets (Ofgem)

# Annual Report and Accounts

# 2013-14

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Making a positive difference
for energy consumers

HC28

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**for energy consumers**

# 2013-14

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

(For the year ended 31 March 2014)

Accounts presented to the House of Commons pursuant to section 6(4) of the Government Resources and Accounts Act 2000

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# Section A
# **Introduction**

We're the Office of Gas and Electricity Markets, and we regulate the energy industry in Britain. Our sole aim is to protect the interests of electricity and gas consumers, in all their complexity. Because of the changing energy sector, the need for our organisation has never been greater. Making a positive difference for all energy consumers is, and will continue to be, what drives us and our staff.

For 2013-14 we have grouped our activities into four sections, under headings set by our Forward Work Plan 2013-14:

- Value for money
- Security of supply
- Sustainability
- Administering government programmes

The Forward Work Programme 2014-15 will retain these four themes, although the chairman has announced a Gas and Electricity Markets Authority review to set our forward strategy in 2014-15.

We are a non-ministerial government department, and our decisions and policy are directed by the Gas and Electricity Markets Authority. Its powers and duties come from the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998, the Utilities Act 2000, the Energy Acts 2004, 2008, 2010, 2011 and 2013, and other legislation.

# Chairman's foreword
## David Gray

During the last 12 months the energy sector has moved to the centre of public debate. Surveys indicate that some consumers regard energy prices as unjustifiably high. They also indicate that some consumers are not happy with the quality of service the energy companies provide. The economy is improving but affordability remains a concern for many people. Energy looks set to be an issue in next year's election.

Ofgem has for some time been concerned that competition in the energy sector isn't working as well as it should for consumers. That led to our Retail Market Review, which produced proposals for a simpler, clearer and fairer market, giving consumers the confidence to engage.

Last autumn the prime minister asked us to conduct an assessment of the state of competition in the energy market. We undertook this in conjunction with the Office of Fair Trading and the Competition and Markets Authority (CMA). This assessment confirmed that there may be issues preventing competition from being fully effective, and the Authority concluded that it is time for a more fundamental examination of how things work. We are therefore proposing to refer the energy market to the CMA for a full market investigation.

Although our other roles receive less public attention they continue to be important to energy consumers. Our new "RIIO" approach to price controls is being extended to the electricity distribution companies from April 2015. The new approach encourages the companies to engage fully with their stakeholders and produce business plans that reflect the needs of those stakeholders, rather than setting out a negotiating position with Ofgem.

I am very encouraged by the improvements we have seen. In December we felt able to "fast track" the plans of the companies owned by Western Power Distribution. This means the review has effectively now been concluded for those companies, a year ahead of the normal timetable.

We have also been reviewing our approach to enforcement activity against companies that breach the conditions of their licences.

We have appointed a panel to make enforcement decisions independently of investigations. We also intend to increase substantially the scale of fines and redress payments that we impose on companies that fall short of the expected standards.

Although it's been an eventful first few months in my role I have been helped enormously by excellent support from the Authority and from Ofgem staff.

I would in particular like to thank my predecessor, John Mogg, and the former chief executive, Alistair Buchanan, for leaving the Authority in such good shape. I'm very pleased to welcome our new chief executive, Dermot Nolan, who brings a wealth of experience of competition and regulation.
We're very glad to have him here.

**David Gray**
Chairman
**13 June 2014**

# Chief executive's introduction
## Dermot Nolan

I took up my place here in March, at a time of real challenge for Ofgem. Controversy over rising bills and concerns over security of supply mean energy is rarely out of the headlines. With the general election ahead, the pressure and scrutiny are unlikely to let up.

We fully understand why people are angry and frustrated. That's why we work tirelessly to make a positive difference. Our recognition of the scale of the problem lay behind our decision to introduce some of the biggest reforms to the market since competition was introduced. Simpler, clearer, fairer. Three words I think it is hard to argue with. I believe better treatment, more straightforward billing and more comprehensible choices will help us restore consumer confidence.

But we knew these changes alone wouldn't be enough, so we were determined to explore every avenue that could make the market work better for consumers. That's why we undertook this year's competition assessment, which in turn led to our proposal to refer the market to the Competition and Markets Authority. This is a firm step towards a newly invigorated competitive system.

It's just as important that our efforts focus on individuals. Behind the talk of markets, networks and companies we must not forget the vital role of gas and electricity in people's lives. Some consumers find it harder than most to get the best out of the market, and some are more at risk if things go wrong. Companies have a special obligation towards these customers. We have created a new strategy that focuses on people in these difficult situations, and the response from consumer organisations has been hugely heartening.

Of course it isn't just about those people who are most at risk: our role is to make a difference for *all* consumers. So this year we have been holding companies to account more stringently than ever. We've made them publish complaints data, we've demanded greater transparency about revenues and costs, and we've continued our enforcement work. In 2013-14 energy companies paid out more than £35 million for wrongdoing including mis-selling, dubious estimates and poor complaints handling. Customers deserve better, and we will make sure they get it.

We're interested in encouragement as well as penalty. That's why we fast-tracked Western Power Distribution. When companies sent us their business plans for the electricity distribution price control, we told them to try harder – with the exception of Western Power Distribution. Its fast-tracking will set an example for future price controls: be ingenious, be innovative, be frugal, and we'll let you get on with things.

Speaking of getting on with things, this has also been a milestone year for our work on government programmes. One highlight was the launch of the Domestic Renewable Heat Incentive. This is our biggest government scheme yet, and over 2013-14 we recruited, trained, planned and prepared to set it into motion. Which, I am pleased to say, we managed on time and on budget.

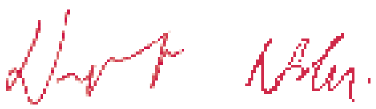
Finally, Europe – and another step closer to making the single market a reality. The success of market coupling, our new powers to act against market abuse under REMIT, and our involvement in the expanding European network codes have all strengthened Britain's position in the international energy market.

It has been a year when we have worked hard for consumers in the face of huge challenges. But there is much more that needs to be done. That includes building the confidence of the public and politicians, and persuading them that we are on the right track. So as a new CEO – alongside a new chairman, in the shape of David Gray – I want to grab this opportunity and make sure we are doing all we can to fight for the interests of energy consumers.

Britain's energy market is moving into a future that's low on certainty and high on challenge, but we can continue to make a tangible difference to people – and I am determined to make sure we do.

**Dermot Nolan**
Chief executive

**13 June 2014**



# Section B
# **Strategic report**

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# 1. Value for money

## Retail Market Review

### Domestic consumers

This year our reforms to the retail energy market finally came into force. These will make sure consumers can get the best from the energy market. We introduced them in three phases:

- **Simpler choices**. Our rules making the market simpler for consumers took effect on 31 December 2013. Suppliers can now offer domestic consumers no more than four tariffs, and unnecessarily complicated pricing structures are banned. This makes it much easier to survey the market, compare prices and find the best deal.
- **Clearer information**. The requirements for clearer information came into force on 31 March 2014. These help ensure suppliers are much clearer when they communicate with customers – helping them make informed choices. Suppliers must now tell their customers if there is a cheaper tariff available for them, and make personal projections of each customer's likely energy costs over the next 12 months.
- **Fairer treatment**. We activated new standards of conduct for domestic consumers on 26 August 2013. These will make suppliers treat customers more fairly.

Together, these changes will transform the way the market works for consumers. But we won't stop there. We will continue to explore ways to make the market work better, and we are already looking at "white label" providers and third-party intermediaries.

### Non-domestic consumers

In March 2013 we published final proposals for how we'd improve the energy market for non-domestic consumers. These came into effect in the summer.

Our main changes were:

- **Extending our consumer protection to larger businesses.**
- **Simpler processes for the end of contracts for smaller businesses.** As well as this, we're reviewing the rules on automatic rollovers: when a business reaches the end of a fixed-term contract and is moved to a new tariff automatically.
- **Fairer treatment for small businesses.** Since 26 August 2013, suppliers have had to follow new, enforceable standards of conduct. These demand fairness when dealing with contractual information, supplier switching, deemed contracts and billing.

### Third-party intermediaries

Some organisations, such as switching websites and energy brokers, advise consumers on energy contracts without being suppliers. These are third-party intermediaries (TPIs). We want to encourage TPIs, as they can help consumers find a better deal. But we want to do this while protecting consumers from poor practice. With this in mind, we have:

- Persuaded the government to grant us powers to address the mis-selling of energy contracts to business customers by TPIs.
- Developed a code of practice for non-domestic TPIs. We propose to prevent suppliers from contracting with any TPI that doesn't comply with this code.
- Taken over the running of the Confidence Code, an accreditation scheme that covers switching sites for domestic consumers.

## State of the Market assessment

On 27 March 2014 we published our first annual State of the Market report, in collaboration with the Office of Fair Trading (OFT) and the Competition and Markets Authority (CMA). Based on that assessment, we announced that we proposed to refer the energy market to the CMA. The reference has two aims. First, it will establish whether there are market features that harm competition. Second, if there are, it will identify whether there are reforms, including those outside our powers, that could make competition more effective.

Our assessment confirmed that competition is not as effective as it might be. While we have introduced remedies to address many of the problems identified, there remains a low level of consumer trust. This, combined with public concern over the sector, makes it harder to get consumers engaged.

The report was the culmination of a five-month study conducted alongside the OFT and CMA. Working to a shorter timescale than comparable studies, we investigated how well competition in the energy market is serving households and small businesses in Britain. This involved interviewing over 40 stakeholders, and analysing the latest market share, tariff, cost and profit information.

If this decision is confirmed it will lead to an in-depth review by the CMA. This could last up to two years. In the meantime we'll continue with the work described above to make the market work better for consumers.

## Protecting people in vulnerable situations

In summer 2013 we implemented our new approach to protecting vulnerable consumers. It's a leader in its field – consumer groups have called for other regulators to adopt a similar approach.

It involves a new way of thinking about vulnerability. Instead of defining it according to particular characteristics, we base it on how people interact with the energy market: do their circumstances make it harder for them to look after their own interests? Are they likely to be worse off? This recognises that a person's circumstances can change over time.

Alongside this, we're reviewing the Priority Services Register and suppliers' best practice for dealing with vulnerable consumers.

### Helping people pay their bills

The large rise in energy prices in the past few years has made it harder for many people to pay their bills. We don't have powers to help directly, but we're supporting those who do. For example, we're closely involved with the work of the Fuel Poverty Action Group, the Scottish Fuel Poverty Forum and the Essential Services Access Network.

We have a continuing interesting in supporting people who don't have a mains gas connection, although we don't regulate the heating oil or liquefied petroleum gas markets. As a direct result of our work, the Fuel Poverty Action Group has set up a group focused on helping these people. We're also now part of a ministerial discussion group on the same topic. We've used the RIIO price control to encourage creative new ways to help these consumers.

### Easier switching for debt-owing prepayment customers

In March 2014 we finished a review of changes we made in 2012 to allow prepayment consumers to switch supplier even if they have debts. Our review found that more prepayment consumers are now trying to switch, but that few are actually doing so. We have urged companies to make these customers more aware that they can change supplier, and to make that move easier.

## Consumer complaints

Thanks to our intervention, 2013 became the first full year in which suppliers released consistent quarterly data on complaints. We think this makes energy the best of all the regulated sectors at publishing complaints information.

The figures were damning. Complaint levels were high, and for one company involved more than one complaint for every four customers. The figures are an important demonstration of the lack of public trust in energy companies.

We've already begun work to improve things:

- We're conducting a survey of complainants' experiences. We'll publish this in summer 2015.
- We've researched why few consumers refer their complaints to the ombudsman.
- We've asked suppliers and the ombudsman to test new approaches to improve customer engagement.

The Energy Ombudsman, which we oversee, will also be publishing more company-by-company complaints data.

## Other action to help consumers

### Standards of service

We've been reviewing the Guaranteed and Overall Standards of Service, and aim to publish proposals early in 2014-15. These set what counts as an acceptable level of service for a supplier. In some cases they can lead to compensation if a supplier misses its targets.

### Backbilling

A backbill is an unexpected bill for energy a consumer has used but not previously been charged for. This year we published data on each supplier's level of backbilling for business customers. In doing this, our aim was to improve companies' performance and make sure they're held accountable in this area.

We want suppliers to make a voluntary commitment to limit backbilling to a year for microbusinesses, when the delay is the supplier's fault.

### Theft

Gas and electricity theft leads directly to higher energy bills. Interfering with meters or connections also creates safety hazards for consumers. We're therefore doing everything we can to cut down this kind of crime.

In 2013-14 we prepared to introduce the policies we finalised in March 2013. The new arrangements should be up and running by spring 2015. They'll encourage suppliers to do more to detect and deter theft.

## Enforcement

This year, our enforcement activity led to energy companies paying £35.5 million in compensation and penalties. We continue to use our powers to protect the interests of consumers and to discourage energy companies from behaving badly.

Notable investigations in 2013-14 include:

- March 2014: we confirmed an order against Economy Energy. The company must now improve its customer complaint procedures and must not unfairly prevent customers from switching to other suppliers.
- February 2014: Npower agreed to pay £3.5 million to consumers in fuel poverty after we found it had breached its licence condition on telesales and face-to-face marketing. It will also refund customers who lost money as a result of the breach.
- December 2013: Scottish Power returned £8.5 million to consumers after we finished an investigation into mis-selling. Its sales staff had given misleading information to consumers because the company hadn't adequately trained them or monitored what they were doing.
- August 2013: we imposed a £500,000 penalty on E.ON, and it agreed to pay a further £2.5 million to benefit people in fuel poverty. This was in recompense for the company's incorrect claims under the Carbon Emissions Reduction Target.
- May 2013: we confirmed our decision to penalise SSE £10.5 million for mis-selling.

We also have powers under the Competition Act 1998. Using these, we'd been investigating whether two trade associations and six suppliers had breached the Act. In June the parties amended an industry code of practice after we closed our investigation on the grounds of administrative priority.

## Price control strategy

RIIO is our method for setting the prices charged by the companies that own and run the electricity and gas networks. It runs for eight years, and stands for "revenue = incentives + innovation + outputs". It's designed to ensure consumers get value for money. It will also encourage efficiency and innovation, and make sure companies:

- have a safe, reliable network
- provide good customer service
- think about the needs of vulnerable customers
- help customers connect
- reduce the network's effect on the environment.

The electricity distribution companies responsible for 490,000 miles of local networks submitted business plans for our approval in July 2013. These plans had to be well-justified explanations of how each company would meet the needs of the consumers it serves. Companies had to:

- show how they'd perform well
- explain the costs involved
- take account of risk and uncertainty
- consider the views and needs of customers, suppliers and other interested parties
- show how they'd handle the move to a low-carbon economy.

We published our response to these plans in November 2013. The idea of RIIO is that better plans are rewarded with less regulatory scrutiny. This encourages companies to submit their best plans on the first try. Particularly high-quality plans can have their price control settled early – which we call "fast-tracking".

These incentives worked. Between them, the companies proposed costs £2 billion lower than previous forecasts for the eight-year period. One company, Western Power Distribution, which represents four local networks, qualified for fast-tracking. The other companies' plans were strong, but had areas for improvement. We therefore asked them to resubmit their plans in March 2014.

This year the new price controls began for the electricity and gas transmission networks (RIIO-T1) and the gas distribution networks (RIIO-GD1). These were agreed in 2012 and will continue until 2021.

## Improving performance on electricity distribution connections

Customers who need a new connection to the distribution network can choose the company that will attach the necessary wiring. This adds competition to the otherwise monopolistic distribution system. Competition should lead to more innovation, lower prices and better customer service.

2013-14 was the last year of a competition test we introduced in 2010. This was designed to encourage competition, show us how competition was developing around the country, and inspire companies to remove barriers to competition.

To reduce the effects of distribution monopolies, we limit the profit companies can make for providing connections. If a distribution company persuades us that customers have an effective choice of connection providers, we lift these restrictions.

We'll now use the results of these assessments to review the parts of the market that don't yet have effective competition, and work out what more we can do to protect customers in those areas.

## System operation incentives

We set incentives for National Grid Electricity Transmission, the electricity system operator, and National Grid Gas, the gas system operator. These are designed to make sure they run their systems economically and efficiently, in the interests of consumers. In April 2013 our new incentives took effect.

For electricity they include a cost target, followed by bonuses or penalties based on performance. They also include an incentive to encourage National Grid to improve its forecasting of wind generation, and a funding system for innovation. These will end in March 2015, and we're talking to the industry about a future framework.

Gas incentives include demand forecasting, pipeline management, maintenance planning and how National Grid Gas buys the gas it uses in the compressors that move gas around the system. These last till 2021, in line with the RIIO-T1 price control.

## The Enforcement Review

We've been reviewing how we can improve our enforcement methods to get the best results for consumers. In November 2013, we announced our vision for our enforcement work: to achieve a culture where businesses put energy consumers first and fulfil their obligations. We also declared our intention to appoint a specialised Enforcement Decision Panel to make decisions in enforcement cases.

## REMIT

REMIT is a European regulation which prohibits insider trading and market manipulation across the EU's wholesale energy markets. 2013-14 was a big year for our involvement in REMIT, as in June 2013 the government gave us new powers to monitor, investigate and act against those who try to abuse the market.

In November 2013 we finished a major review of allegations of gas market manipulation in Britain. We worked on this with the Financial Conduct Authority, and found no evidence to justify taking the investigation further. We don't think the interests of consumers were harmed.

This experience gives us a strong starting point for our new monitoring activity. REMIT is a powerful first step in dealing with market abuse, so to make sure we apply it effectively we'll remain in close contact with the government, with regulatory authorities across Europe, with financial authorities, and with international bodies such as the Agency for the Cooperation of Energy Regulators.

## Transparency of profits

Over the past four years, we have significantly improved the transparency of prices, costs and profits. Since 2009, we've required energy companies to report annually on their revenues, costs and profits, while separating their generation and supply activities. They do this through the Consolidated Segmental Statements (the statements).

In 2013 we consulted on changing the financial reporting requirements for companies. In February 2014 we published an open letter proposing improvements companies would have to make to their statements in the future. These improvements include requiring companies to procure an audit of their statements, publish them sooner, provide a greater cost breakdown, and give greater insight into their trading activities.

We have also published our Supply Market Indicator (SMI). This shows trends in costs and bills, and estimates the different costs that are likely to contribute to the average consumer bill over the coming year. We finished a review of the SMI in the first quarter of 2014, and relaunched it in March 2014. It's now based on an improved methodology, developed after extensive consultation.

## Liquidity reforms

We're worried that poor liquidity in the wholesale electricity market is harming competition. We consulted on this, and in January 2014 decided to introduce a new licence condition. As a result, two sets of changes came into force on 31 March 2014.

Six large companies both generate electricity and sell it to domestic consumers. These businesses will now have to publish the prices at which they'll buy and sell electricity. This will apply to a range of electricity products for delivery in the future (such as over the next quarter). These requirements will provide clear prices and regular opportunities to trade.

The eight largest generators now also have to follow supplier market access rules. These will help smaller suppliers get the products they need.

Companies are responding well to the changes, and we're now monitoring their effects. We're also studying the progress of liquidity and compliance with the new rules.

## European engagement

Europe's gas and electricity markets are becoming more deeply connected, and this makes cooperation between regulatory authorities increasingly important.

### Network codes

This year we've been helping develop Europe-wide regulations called "network codes". These are designed to harmonise European energy markets, reduce barriers to trade, promote cooperation, and support decarbonisation. Between them they make up the biggest change in British market arrangements for a decade.

### Market coupling

On 4 February 2014 the day-ahead electricity markets of 15 countries – including Britain – were coupled together for the first time. This involved adopting the same market design in each country to make it easier and more efficient to trade across borders.
The process means wholesale prices will differ only where insufficient transmission capacity exists. The markets will therefore be more open and will highlight where investment is needed most.

### European organisations

We sit on the Council of European Energy Regulators (CEER), so we can help shape the future of European policy, share best practice, and support the interests of British consumers. The council's president is Lord Mogg, our former chairman and now a senior adviser to the Gas and Electricity Markets Authority.

We're involved in various CEER working groups and task forces, such as the Customers and Retail Markets Working Group, the Distribution System Operators Working Group, the Retail Market Functioning Task Force, the Consumer Empowerment Task Force and our co-chairing of the council's Sustainable Development Task Force.

We're also involved in the work of the Agency for the Cooperation of Energy Regulators, the European energy regulator, and have been since its creation.

This year, we've influenced several notable pieces of work. For example, working with regulators in CEER, we responded to the European Commission's Renewable Energy Strategy communication and green paper on Climate Change and Energy. We also gave a regulatory perspective on two key developments: the Commission's proposed changes to state aid guidelines and its consultation on energy retail market arrangements.

We've also helped the council produce several major reports, including a status review on subsidies for renewable energy across Europe, and a major consultation on market and regulatory arrangements for demand-side flexibility.

We'll be showcasing a range of CEER work at the EU Sustainable Energy Week in June 2014. We'll also be involved in the Commission's planned review of the Energy Efficiency Directive.

# 2. Security of supply

## Electricity Capacity Assessment

Our annual electricity capacity assessment is designed to show the risk to the security of Britain's electricity supply over the next five years. The analysis is based on an assessment of the likely amount of spare electricity capacity available at times of peak demand.

This year we estimated that this margin would fall faster than previously expected. Our projection shows margins falling from 9% in 2012-13 to 4% in 2015-16, when our estimates show the risk of shortfall will be at its highest. This is because many coal- and oil-fired power stations have closed or face imminent closure because of EU environmental legislation.

Although it's highly likely that risks to security of supply are increasing, there are uncertainties involved in forecasting even a few years ahead. Our assessment therefore studies variation in key factors affecting future demand, generation capacity and flows on interconnections to other countries.

One of these factors is the variability of wind power. Another is the possible closure of many coal- and oil-fired power stations, and some older gas-fired facilities.

This was our second annual capacity assessment, as required by the Energy Act 2011. We'll submit our third report to the Secretary of State by 1 September 2014.

## Mid-decade balancing services

We've been working with National Grid (the system operator) to ensure it has the tools to manage tighter capacity margins. In December 2013 we approved the system operator's ability to buy two new balancing services. It applied to us for permission to procure the Supplemental Balancing Reserve and Demand-Side Balancing Reserve in November 2013. These are designed to give the electricity system operator new ways to balance the system in the middle of this decade – when we expect supply to be at its tightest.

Following our decision, we're developing arrangements to allow National Grid Electricity Transmission to recover the extra cost of these services. Our approach will focus on making sure both services provide value for money for consumers.

## Electricity Market Reform

The government has proposed roles for us in its Electricity Market Reform (EMR) programme, which is designed to encourage investment in low-carbon electricity and the security of the energy supply, while keeping prices low. We've been discussing the implications of our roles with the Department of Energy and Climate Change.

We have several functions in ensuring that two key EMR mechanisms are developed and delivered effectively. These mechanisms are:

- **The Capacity Market.** This is designed to incentivise the construction and availability of reliable forms of capacity to ensure a secure electricity supply. It is critical to ensuring secure electricity supplies in the future.
- **Contracts for Difference.** These contracts are designed to encourage investment in low-carbon technology. They do this by providing greater certainty of revenue. They're envisaged as a replacement for the Renewables Obligation, which closes to new entrants from 31 March 2017.

In 2011 the government announced that it intended to appoint the national system operator, National Grid Electricity Transmission, as the delivery body for EMR. We worked on a joint project with the Department of Energy and Climate Change to assess conflicts of interest and propose ways to mitigate them.

The project concluded this year, and April 2013 saw us publish our joint final report. This proposed several measures to manage potential conflicts of interest.

## Electricity Balancing Significant Code Review

Spring 2014 saw us publish our final policy decision for this review, which is designed to give suppliers a greater incentive to balance the amount of electricity they generate or buy with the amount they sell. This will support the security of the electricity supply by making suppliers more likely to take action to balance the system.

We also established a programme to take a wide view of the wholesale electricity market, to decide how best to address market developments and limit uncertainty. It considers factors such as the Electricity Market Reform programme, increased renewable generation, greater European integration and technological advances.

We set up a new Future Trading Arrangements Forum in May 2013. This lets us work with the industry and the Department of Energy and Climate Change to consider the course of the Future Trading Arrangements programme and the key principles of electricity trading.

## Gas Significant Code Review

Britain has never experienced a gas deficit emergency, and this stability is likely to continue. However, through the Gas Significant Code Review we're trying to make a gas supply emergency even less likely, by making sure suppliers have strong incentives to avoid shortages in the future. These changes will also reduce the severity and duration of any shortages that do occur.

In the past year we released a final policy decision, plus updated provisions, new consultations, draft business rules and draft licence changes for how we intend to do this. These build on our proposed decision from July 2012. We expect the changes to come into effect by winter 2015-16.

## Gas storage and third-party access

We're responsible for monitoring gas storage and liquefied natural gas facilities to make sure they comply with the regulations. This includes making sure they allow third parties to use their facilities.

We also consider when to permit exemptions from these requirements. This year we've been considering an application from Storengy UK to allow an exemption for phase two of its Stublach gas storage development. We expect to make our final decision in summer 2014.

## Gas interconnector flows

This year we revealed that Britain's transmission charges are limiting the flow of gas to and from other countries. We discovered this from research into the price responsiveness of our interconnector flows. This meant exploring whether we get gas from Belgium or the Netherlands when our price is higher than theirs or when it's lower. We published our findings in a June 2013 joint letter with the Dutch and Belgian regulators.

Since then, we've been reviewing gas transmission charges to make the interconnectors respond to price changes more effectively. This will make it easier for Britain to get gas from abroad when it's needed, improving security of supply. At the moment there are particular problems with the pipeline to the Netherlands, which doesn't respond to price changes as we'd expect.

As part of this, we're working with the Dutch and Belgian regulators to implement European codes on congestion management and transmission tariffs.

## Offshore transmission

Renewable energy and carbon reduction targets make offshore wind power a major part of the UK's energy network. It already accounts for 3.6GW of capacity, and the Department of Energy and Climate Change expects this to rise to 8-15GW by 2020. However, as well as investment in generation systems, this increase needs billions of pounds of investment in a new offshore transmission network. This is to ensure that electricity from offshore wind farms flows smoothly to homes and businesses.

As part of a regulatory regime that's been running since 2009, we manage a competitive tender process that makes sure the UK gets the right offshore transmission connections at the lowest long-term cost.

We also regulate the construction and operation of these offshore transmission systems, in pursuit of value for money for consumers and innovation from transmission developers and operators. The offshore transmission owners appointed through the tender process will receive a licence to own and operate the transmission system, as well as guaranteed revenue, for 20 years.

In the past year, we:

- met our 70-working-day target for granting offshore transmission owner licences for all projects that reached financial close
- selected all bidders within the 120-working-day target
- improved bidder efficiency – for example, the London Array assets were 25% cheaper than those from previous tenders.

In 2013-14 we granted offshore transmission owner licences for three projects. This brings the total up to nine licences, accounting for more than £1.4 billion of investment, and leading to considerable savings for consumers.

We expect to finish tenders for all remaining Tender Round One and Two projects in the coming financial year. This should bring the total from the first two tender rounds up to £2.5 billion of investment in offshore transmission, connecting 3.9GW of offshore wind.

In February 2014 we launched a third round of tenders. This third round is worth nearly £400 million in total, and involves competition for the transmission assets connecting two offshore wind farms: Westermost Rough (205MW) and Humber Gateway (220MW).

## TransmiT

TransmiT is our independent, open review of charges for use of the electricity transmission. It's been running since 2010, and aims to support the move towards low-carbon electricity while maintaining a safe, secure, high-quality supply and ensuring value for money.

As part of TransmiT, the industry developed ways to address shortcomings with the current charging arrangements. They submitted their options to us in June 2013 so we could decide whether to approve one of them. In August 2013 we published a consultation on the effect of these options.

The charges will continue to reflect the way costs vary for the transmission operator. They might be different for different regions and different types of generator, depending on our final decision. This approach to charging will help companies make informed decisions about where to build new generators. This supports the efficient development of the electricity system at the lowest possible cost to consumers.

We're now working towards a final decision. We have consulted again on our updated analysis, to make sure everyone has a chance to comment and to ensure our eventual decision is properly informed. After this consultation, we'll decide whether to approve one of the options or reject them all.

## Integrated Transmission Planning and Regulation

This is our review of the current arrangements for transmission planning and regulation. The project aims to make sure that the regulatory framework will support the efficient long-term development of Britain's transmission network. This combines onshore, offshore and cross-border connections (interconnectors).

We published 'Integrated Transmission Planning and Regulation Project: Emerging Thinking' in June 2013, and plan to release our draft conclusions this summer. The 2013 document explains our view that:

- There may be benefits to enhancing National Grid's role as system operator to include new responsibilities for system planning.
- Having the flexibility to use a competitive approach to investing in transmission assets could increase efficiency and so help consumers.

Since publishing this, we've developed our thinking on the treatment of interconnectors. We began consultation on our proposed approach in May 2014.

## Strategic Wider Works

In the business plans they submitted at the start of the recent price control period, electricity transmission companies identified that large investments could be needed to accommodate future power flows. However, they were uncertain how much investment would be efficient and exactly when it would be needed.

Transmission owners can apply to bring forward major investment (called "Strategic Wider Works") during the price control, to make sure projects that will help consumers go ahead in good time. We assess these applications based on the long-term interests of consumers, the timing and scale of the project, and its technical design, costs and plan.

This year saw our first three Strategic Wider Works applications.

- The Kintyre-Hunterston project. This will provide 270MW of transmission capacity, cost £197.4 million (in 2013 prices) and be completed in 2016.
- The Beauly-Mossford project will provide an extra 252MW of transmission capacity by the end of the third quarter of 2014-15. We have allowed £53.2 million (2013-14 prices) for this project, and will soon publish a statutory consultation on the necessary licence modifications.
- The Caithness-Moray project would significantly increase transmission capacity to cope with a possible large increase in renewable generation near Caithness. Scottish Hydro Electric Transmission has estimated costs at £1.3 billion. We consulted on its needs case in April 2014, and will make a decision this summer.

# 3. Sustainability

## Smart meters

The Data and Communications Company (DCC) is the organisation responsible for linking smart meters in homes and small businesses with the systems of energy suppliers, network operators and energy service companies. In September 2013 the government granted the new smart meter data and communication licence to Smart DCC.

This was a milestone in the government plan to install smart meters across Britain by 2020. It was also a milestone for our involvement, as we're now responsible for regulating Smart DCC's licence. Since September we've worked with Smart DCC to make sure it knows how it intends to maintain its financial stability and fulfil other licence requirements.

Now we're developing our approach to how Smart DCC will report its running costs under the price control. We consulted on our proposals in February. This reporting will allow us to assess the costs of running Smart DCC and make sure it's being economical and efficient. If it isn't, we may disallow costs or impose special measures to make the company manage its costs better.

## Smarter markets

Smart meters are a big opportunity to improve the energy market for consumers, but to make this happen we'll need to make regulatory changes. Our Smarter Energy Markets programme seeks to grasp this chance to make the market more efficient, more competitive and better at adapting to change. Our plans are already under way. In February 2014 we published our vision for how we want retail markets to become smarter, and so more dynamic, efficient and engaging for consumers.

### Supplier switching

We're helping to make it quicker and more reliable for consumers to change supplier. In December 2013 we published our plan to ensure faster switching by the end of 2014. The plan also noted that we would consult on proposals to bring in next-day switching, including new central registration arrangements, in the longer term.

### Settlement

We think all consumers will benefit from suppliers settling on a half-hourly basis, and smart meters are the best way to achieve this. We're developing options for half-hourly settlement on the 29 million domestic and smaller non-domestic sites. These ideas should be ready later this year.

Separately, the industry is leading a project to reform gas settlement arrangements. This is known as Project Nexus. On 21 February the Gas and Electricity Markets Authority directed the implementation of two modifications to the Uniform Network Code that emerged from Project Nexus. These alterations focus on improving data management and settlements. The new systems are scheduled to go live on 1 October 2015.

### Demand-side response

Paying people to use less energy at peak times can improve security of supply and cut prices for consumers. Smart meters also offer opportunities for smaller consumers to benefit from demand-side response.

For now, our priority is a project to formalise how the different parties involved – such as networks, suppliers, the system operator and consumers – would interact.

### Consumer protection and empowerment

In December 2013 we published our first consultation on how smart meters can protect and empower consumers. The aim was to make sure people can get the most out of smart meters and participate more actively in a dynamic future energy market.

## The Smart Grid Forum

To tackle uncertainty for network operators and reduce costs, we need a combination of new commercial arrangements and investment in new technology. That's what we mean by "smart grids". The Smart Grid Forum is a collaboration with the Department of Energy and Climate Change which addresses how smart grids can be involved in the UK's move to a low-carbon energy system.

The forum concentrates on how electricity network companies can deal with the challenges ahead. In its third year, the forum led work on:

- modelling the effect different investment strategies would have on smart grids
- a two-year study of how smart grids could become involved in customers' tariffs and commercial arrangements
- exploring the distribution network of the future.

In March 2014, with the Department of Energy and Climate Change, we decided to refresh our "Smart Grid Vision and Routemap", which we first published in 2009. The new version explains how we and the industry see the future of smarter networks, describes the challenges ahead, and proposes indicators we can use to track progress.

## Network innovation

The Low-Carbon Networks Fund encourages electricity distribution companies to test innovative projects that move us towards a low-carbon economy. It offers funding for a large number of small projects, and a competition to win funding for larger initiatives.

This was the competition's fourth year, and in November 2013 we awarded £26.5 million, split between four projects. These involved:

- managing voltage to help connect low-carbon technologies
- using new techniques to release capacity on the low-voltage network
- investigating energy efficiency to reduce strain on the network
- helping vulnerable customers benefit from energy efficiency and demand management.

2014 will be the competition's last year. To replace it, from 2015 the Network Innovation Competitions (created as part of the RIIO price control framework) will expand to allow entries from electricity distributors.

We've introduced further innovation competitions, which will run from 2013 as part of the RIIO price control for gas and electricity. They work in a similar way to the competition under the Low-Carbon Networks Fund, which is coming to a close.

There are two competitions: one for gas and one for electricity. Each year, companies compete for a share of £18 million (gas distribution and transmission) and £27 million (electricity transmission) to fund innovative projects. From 2015 the electricity competition will include distribution companies as well, and the amount available will change accordingly.

We have also introduced a discretionary reward that offers a share of up to £4 million in each year of the price control to electricity transmission companies that show high performance in their approach to environmental management and helping the industry move towards low-carbon energy.

## Community energy

Across the country, groups of people are coming together to reduce, manage, generate or buy energy. These community groups represent a different way of engaging with energy. We're therefore considering whether our practices and those of the energy companies are barriers to these groups – and if they are, whether it's in consumers' interests to remove these barriers.

In September 2013 we held our first event for the sector: a workshop to help community energy groups find out more about our role and duties. We wanted to clarify what we do and gather feedback on regulatory difficulties with consumer energy. Since then we've continued to talk to community energy groups to better understand how they interact with areas under our remit.

## Improving how we regulate

We're looking for ways to improve how we regulate, to make sure we maximise the benefit for the industry and reduce unnecessary burdens.

### Working with other regulators

We're part of the new UK Regulators' Network, which is designed to improve how we collaborate with regulators from other sectors, such as water, railways and telecoms. Launched on 19 March 2014, the network brings together the nine UK economic regulators to work on key topics. The network is currently delivering its first plan of work.

### Better impact assessment guidance

We released new guidance on impact assessments in October 2013. This fulfilled another Simplification Plan commitment. The new guidance reflects recent changes to EU and domestic legislation, and takes account of emerging best practice. We also wanted to reflect other changes to our regulatory framework, such as adjustments to our approach to long-term strategic and sustainability decisions. We consulted widely on the changes, and the new guidance reflects views from the industry, consumer bodies and impact assessment experts.

### Simplification Plan

We published our statutory Simplification Plan on 30 September 2013, after consultation and discussion with industry and consumer organisations. Since then we've been implementing the ideas it describes. These include:

- Releasing agendas for Gas and Electricity Markets Authority meetings in advance, to make our decision-making more transparent.
- Publishing a policy statement on data transparency. Our overall aim is to lead by example on the transparency of what we do.

# 4. Administering government programmes

On behalf of the government we administer a range of consumer and environmental schemes. Our E-Serve division carries out transactions and compliance work which covers renewable electricity, renewable heat, energy efficiency and social programmes, and offshore transmission (which is covered in detail on page 16 as part of "Security of supply"). Although these programmes were worth £5 billion in 2013-14, we administered them on a not-for-profit basis for just £32 million – less than 1% of their total value.

## Improving efficiency

E-Serve continues to build on its aim of "delivery excellence", with objectives that focus on fraud prevention, ensuring compliance, improving performance and becoming even more efficient. We introduced a new performance plan called a "Balanced Scorecard", which has helped to deliver E-Serve's many achievements over the past year. These include:

- processing over 100% of our forecast transactions for most schemes, including the Non-Domestic Renewable Heat Incentive, Feed-in Tariff, Renewables Obligation and Warm Home Discount
- introducing a Process Improvement Programme in July 2013, which has led to a 13% saving against our forecast budget
- meeting 100% of our target deadlines for stakeholder enquiries, and commissioning a survey of our stakeholders to understand how we can further improve
- reducing staff turnover and improving staff engagement.

We also take our fraud prevention and detection role very seriously, together with ensuring that scheme participants comply with legislation. We have begun enforcement proceedings where appropriate.

## Renewables Obligation

The Renewables Obligation requires UK electricity suppliers to buy a growing proportion of the electricity they supply from renewable sources. It's the main way the UK supports renewable electricity projects, and it's been running since 2002 (2005 in Northern Ireland). We're responsible for administering arrangements that show suppliers are complying with the obligation.

In 2013-14, as well as administering the scheme, we had to respond to many changes, most notably those contained in the Renewables Obligation Order 2013. This came into force on 1 April 2013 (1 May in Northern Ireland).

In the past year, we've:

- accredited 3,294 generating stations against a forecast of 2,200, with a total capacity of 2,168MW – 149% of the target
- sped up accreditation for generating stations from over nine months to around four months
- reduced the average cost of each transaction by 38%.

Next year will see us adapting to yet more new developments. These include the transition from the Renewables Obligation scheme to Contracts for Difference, as well revised sustainability criteria for biomass fuels, new bands for offshore wind in Scotland and changes for solar photovoltaic panels in Northern Ireland.

## Feed-in Tariff (FIT)

This scheme is designed to encourage wider use of small-scale electricity generation using low-carbon technology. Under it, electricity supply companies pay people for the electricity they generate and any that they export.

As well as keeping a database of registered installations, called the Central FIT Register, we make sure the cost of the scheme is fairly shared between suppliers. We also accredit installations that use hydro or anaerobic digestion technology, and solar photovoltaic and wind installations that have a capacity above 50kW.

This year, we have:

- accredited 1,401 ROO-FIT installations against a forecast of 940 – 149% of the target
- increased the number of approvals in a quarter threefold
- reduced the average cost of each transaction by 33%
- saved £500,000 by introducing IT self-service and leaner processes.

As well as managing the programme, we've overseen the introduction of changes arising from the FIT Comprehensive Review carried out by the government. The review's initial changes came into force in 2012, and on 1 July 2013 the final phases took effect.

## Other renewable electricity schemes

We administer several other renewable electricity programmes: the Climate Change Levy renewable exemption, Renewable Energy Guarantees of Origin, the Non-fossil Fuel Obligation and the Scottish Renewables Obligation.

## Renewable Heat Incentive

This government programme encourages greater use of renewable heat by offering long-term incentive payments to reduce the use of fossil fuels for heating. We administer its domestic and non-domestic schemes on behalf of the Department of Energy and Climate Change. This will help the UK meet EU targets to reduce carbon emissions and improve its energy security.

### Non-domestic scheme

The Non-Domestic Renewable Heat Incentive supports the industrial, commercial and public sectors by providing a 20-year subsidy to eligible renewable heat generators and producers of biomethane in Britain.

In 2013 the Department of Energy and Climate Change made changes to the scheme. These included simplifying metering requirements and introducing air-quality requirements for biomass boilers. Further changes were made in spring 2014. We've updated, and continue to update, our guidance material in line with these changes.

In 2013-14, our achievements included:

- Accrediting 2,646 generators against a forecast of 2,633 – 100% of the target.
- Reducing the average cost of each transaction by 6% between the first and last quarters of the year. This was despite increased costs due to legislative changes.

### Domestic scheme

The Domestic Renewable Heat Incentive opened for business in spring 2014. It covers homes in England, Scotland and Wales, spanning people who live in homes they own, private landlords, social landlords and people who build their own homes.

Before the domestic incentive launched we ran events to raise awareness of the scheme and how it works. We have also made applications as easy as possible by building a web-based process that allows consumers to apply in a matter of minutes.

The scheme launched smoothly on 9 April, so we won't have our first year's results ready until April 2015. At that point, we'll release the programme's annual report.

## Energy Companies Obligation

This government scheme requires large energy suppliers to meet domestic energy-saving targets. Suppliers do this by helping customers install energy-efficiency improvements, such as loft insulation, wall insulation and more efficient heating. The scheme targets specific measures, low-income areas and consumers who receive particular benefits.

The government sets the scheme's policy and we administer it. Our involvement includes setting the targets for individual suppliers and monitoring whether they meet their targets. We also check that the right kind of improvements are being installed and reported correctly, taking enforcement action where necessary.

The scheme went live in January 2013, and in its first year suppliers installed nearly half a million energy-efficiency improvements. Our successes over the last year include:

- Reducing error rates in supplier information from 57% in April 2013 to 1% by March 2014. This is a direct result of us working with suppliers to improve the quality of the data they submit.
- Improving the proportion of energy-efficiency measures we approve from 4% to 69%.
- Cutting processing costs from around £15 to £2 per measure.

The government is considering major changes to this scheme, including an extension until March 2017. These changes will be determined during 2014, and we're investigating what adjustments we would need to make to our systems, processes and guidance publications to reflect them.

## Warm Home Discount

As part of the government's strategy for helping people in fuel poverty heat their homes, the Warm Home Discount offers direct rebates on some consumer energy bills. Participating suppliers have to provide around £1.1 billion of support, spread over the four years of the scheme.

Although policy and legislation for the scheme are set by the Department of Energy and Climate Change, we administer the programme and monitor suppliers' compliance. This includes producing an annual report on their performance.

The third year of the scheme saw two extra suppliers join, bringing the total to eight. This year, we expect those eight to spend a total of £300 million on the Warm Home Discount.

We're now moving into what was initially planned to be the final year of the scheme. We expect the budget to increase to around £310 million. The government has also approved an extension for 2015-16, with a budget of roughly £315 million. This will require new legislation, which is currently under consultation.

In the past year, our successes have involved:

- determining 100% of supplier notifications in the required 28-day period, in line with our key performance indicators
- reducing the average cost of each transaction by 7%.

## Carbon Emissions Reduction Target (CERT) and Community Energy Saving Programme (CESP)

These programmes both ended in 2012 and have been replaced by the Energy Companies Obligation. Although the programmes ended, our work continued. In May 2013 we published our findings on whether suppliers and generators had met their targets under both programmes. We found that some had failed to meet their targets.

We're running formal investigations into six of the ten energy suppliers and generators for apparent non-compliance with their CESP obligations. There is also one formal investigation into apparent non-compliance with the CERT obligation.

# 5. Financial and operating performance

## Income

In 2013-14, our income was £83.140 million. Of that, £52.960 million came from licence fees. The rest was mainly from environmental scheme funding (£21.934 million), and the Offshore Transmission Tender recharge (£4.218 million).

We collected £6.102 million from licence-fee payers for consumer advocacy delivered by Consumer Focus. We transferred this to the Department for Business, Innovation and Skills. We also collected £0.820 million and transferred it to the National Measurement Office (NMO) for metrology services carried out under the Consumers, Estate Agents and Redress Act 2007 (metrology services transferred from us to the NMO on 1 April 2009 under the Energy Act 2008).

As well as our £83.140 million operating income, we received £0.274 million of public money for monitoring exemptions from the Climate Change Levy.

In 2013-14 we saved £1.168 million on licence fees. We will offset these savings against future licence fee charges laid out in our RPI–3% cost regime, which limits increases to our spending to 3 percentage points below the Retail Price Index.

In addition, E-Serve achieved £4.0 million in budgetary savings. These arose chiefly from:

- the delay in starting offshore tender round three, due to developers' timings
- process improvement efficiency savings, as a result of design changes
- the Process Improvement Project
- the ongoing Continuous Improvement Project.

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

## Spending

Our total gross operating costs were £83.414 million.

Of this, 88.5% went on three areas:

- staff (66.2%)
- accommodation (12.3% of gross costs, though we recovered 2.9% from the Department for the Environment, Food and Rural Affairs, which shares the building)
- contractors (10.0%).

Capital expenditure was £1.430 million. We spent this on office equipment, information technology and leasehold improvements.

## Output

Our Forward Work Programme set 45 deliverables to achieve in 2013-14. We completed 43 of them. One target no longer applies and one has been deferred until 2014-15. See appendix I for the list of 2013-14 deliverables.

## Budgets and liquidity

Parliament approves our budget, after we have consulted with the industry and other interested parties. For 2013-14 parliament approved:

- a main estimate gross resource budget of £90.461 million
- a capital budget of £1.500 million
- a net cash requirement of £10.790 million.

A supplementary estimate allowed us to decrease our gross resource budget by £3.000 million and increase our net cash requirement by £6.362 million to cover working capital demands.

## Reconciliation between estimate and budget

| | 2013-14 | 2012-13 |
|---|---|---|
| | £000 | £000 |
| **Net resource outturn (estimate)** | 7,062 | 5,300 |
| Net operating costs (accounts) | 274 | 379 |
| **Resource budget outturn (budget)** | 274 | 3,657 |
| **Of which:** | | |
| Departmental expenditure limits | 274 | 3,657 |
| Annually managed expenditure | - | - |

We drew down a contingency fund advance of £15.0 million in April 2013 to provide short-term liquidity until we started receiving licence fees. We repaid this in full in August 2013.

The net cash requirement outturn of –£1.976 million is lower than the estimate net cash requirement of £17.152 million. Because of the need to repay £8.902 million relating to 2012-13 to the Consolidated Fund, our remaining net cash requirement was £8.250 million. Most of the difference between this and the net cash requirement outturn was due to us holding £16.859 million for the Offshore Transmission Tender Regime. We'll use this money on completion of individual tender rounds.

We'll hold back £19.128 million due to be paid to the Consolidated Fund and use it to fund operations in 2014-15 until we get enough income from licence fees.

## Finance and provisions

Total provisions amounted to £3.068 million as at 31 March 2014. We have provided for the ongoing costs of early retirements that have occurred in previous financial years, and for the estimated cost of dilapidations for our Millbank headquarters.

In 2003, we outsourced statutory examining and testing services to SGS UK Ltd (our laboratories at Leicester had provided those services until then). Some costs of this change, particularly redundancy and continuing pension liabilities, have fallen to us. We had to make provisions in 2003-04 that now total £0.217 million.

We've provided £0.207 million to cover the costs of pensions for people who have retired early. We've also set aside £0.744 million to cover unfunded pension liabilities for a previous chief executive and a previous director general.

The lease on our Millbank headquarters has a break point in June 2017. We've included a dilapidations provision (£1.900 million) in the accounts for the current estimated cost of returning the building to the landlord in the same condition it was in when we moved in. The estimate is based on cost indices published by the Royal Institution of Chartered Surveyors.

Our statement of financial position at 31 March 2014 shows positive taxpayer's equity of £4.067 million.

## Review of tax arrangements of public sector appointees

In May 2012 the government published a review of the tax arrangements of public sector appointees. The review identified the number of off-payroll engagements worth more than £58,200 a year across government. We reported five of these engagements as at 31 January 2012.

Between 31 January 2012 and 31 March 2013, one of these came onto payroll, two were renegotiated to include contractual clauses allowing us to seek assurance about their tax obligations, and two ended.

Between 1 April 2013 and 31 March 2014, we started no new off-payroll engagements that cost more than £220 per day and last longer than six months.

## Improving our supply chain

### Environmental procurement

Our Procurement team make most buying decisions based on value for money. But where contracts could affect areas covered by our environmental policy (such as catering, cleaning or other building services) we also score tenders using environmental criteria based on our ISO14001 policies.

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. We recertified in November 2013.

### Quicker creditor payment

We are signed up to the Better Payment Practice Code set by the Better Payment Practice Group, a forum of business community members and government representatives. This means we pay bills within 30 days (or another agreed period) of receiving either goods or services, or an invoice, whichever is later. In 2013-14 we paid all undisputed bills inside this time frame.

In 2008, the government challenged departments to pay all suppliers within ten working days. This year we paid 83.36% of undisputed bills inside this timeframe. For amounts contractually due and invoiced by 31 March 2014, the outstanding number of days' purchases is 11.5.

### Reports to the Parliamentary Ombudsman

In 2012-13 (the most recent year data is published for) the Parliamentary Ombudsman received seven complaints about the Gas and Electricity Markets Authority. None of these complaints were accepted for investigation by the ombudsman.

## Our people

### Employee involvement

This year our staff engagement survey received a response rate of 90%, with an engagement index of 65%. The engagement figure is one percentage point higher than 2012 and seven percentage points higher than the civil service average. This puts us in the upper quartile of civil service organisations.

In 2012-13 we put a management focus on leadership and change management, communication, diversity, objective setting and feedback. We saw improvement in all these areas in 2013-14.

Our staff also continue to find their roles interesting (91%) and challenging (79%), and would recommend Ofgem as a great place to work (75%).

### Single Equalities Scheme

In our dual role as an employer and a regulator, we are committed to meeting our legal obligations and promoting equality and diversity among our workforce, in the way we work and in the industry we regulate.

To this end, in 2013 we published our Single Equalities Scheme (SES). This sets our approach to our staff, internal processes, policy development and decision making. We'll review the scheme regularly.

In the past 12 months we have:

- Introduced an SES staff-awareness programme. This is part of our induction process. We've also created a dedicated microsite to tell staff about the SES.
- Reviewed our procurement practices to make sure we comply with our duties under the Equality Act 2010.
- Reviewed our stakeholder engagement and identified improvements which will be implemented in the coming year.
- Reviewed the Equality Act and our policymaking to give policymakers a greater understanding of the implications of the Equality Act for their work.

We'll soon publish an update to our SES on our website, and we'll continue to focus on fulfilling the SES plan.

## Equal opportunities

We promote equality and diversity at work – in employment, training and career development. Nobody should suffer discrimination because of age, disability, gender reassignment, pregnancy or maternity, race, religion or belief, sex or sexual orientation. We don't tolerate discrimination, bullying or harassment.

In 2013-14 all our staff took diversity training or refresher training. This is part of our commitment to ensuring that in everything they do our staff understand and fulfil their obligations under the Equality Act.

At the end of the financial year:

- 1.2% of staff were known to have a disability.
- 47% of staff were women.
- 45% of staff in managerial grades were women.
- 28% of Senior Civil Service members in Ofgem were women.
- 20% of staff were known to be of ethnic minority origin.
- 69% of staff known to be of ethnic minority origin were in managerial grades.

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

## Investing in learning and development

We really value our people. Giving them opportunities to learn new skills and develop their careers helps us retain them and attract new people. That's why we invested £1.027 million in learning and development this year (compared to £0.868 million in 2012-13).

As a reflection of this investment, our People Survey results placed us first in the civil service for learning and development in 2013.

In 2013-14, our areas of focus were:

- reducing the level of administration to enable us to add more value to the business
- developing management and leadership capability
- developing an inclusive culture
- developing our writing skills.

## Community engagement

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

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

We have teamed up with Career Academies UK and have 30 staff giving 16-19-year-olds one-to-one support and guidance through the Partners in Business mentoring scheme. We'll also be offering two six-week summer internship placements in 2014.

In addition, we're developing an apprenticeship scheme in 2014-15, starting with our Information Management and Technology team.

## Promoting health and safety at work

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

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

## Days lost because of absence

In 2013-14, we lost an average of eight days a year per employee (2012-13: five days). This compares favourably with the public sector average of 8.7 days a year per employee and is in line with the private sector average of 7.6 days.

# 6. Sustainability report

We're committed to limiting our environmental impact, and have a team dedicated to it. We hold ISO14001 – the environmental management standard – which covers our London headquarters and our Glasgow office.

Our sustainability targets are strongly influenced by the Greening Government Commitments. These are central government guidelines for how departments should reduce and report on their environmental impact.

As we're a growing organisation, reporting just our total figures wouldn't give a full picture. To fix this, we've also included graphs based on the number of staff. These show that, per person, our environmental performance continues to get better.

## Cutting greenhouse gas emissions

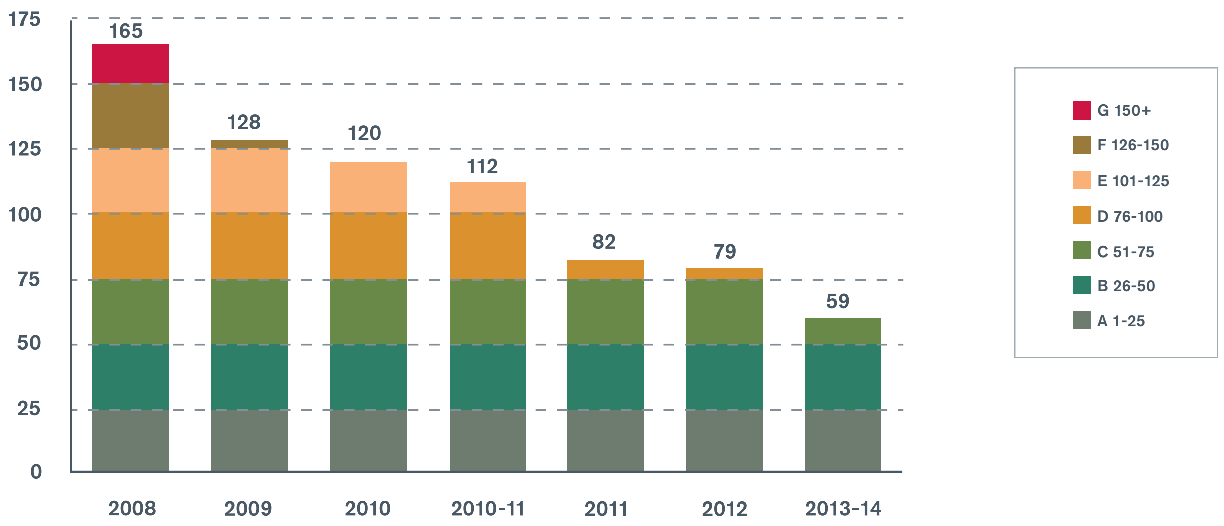
Display Energy Certificates are used to show the energy efficiency of public buildings. Our score for our Millbank headquarters has improved dramatically since the certificates were introduced in 2008. Then, we were ranked in band G, with a score of 165. Now we score 59, putting us in band C. For comparison, 100 is typical for this type of building.

This is despite the growth in staff – the certificates are calculated according to energy use per square metre, taking no account of the number of people.

We've achieved this by:

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

### 9 Millbank Display Energy Certificate



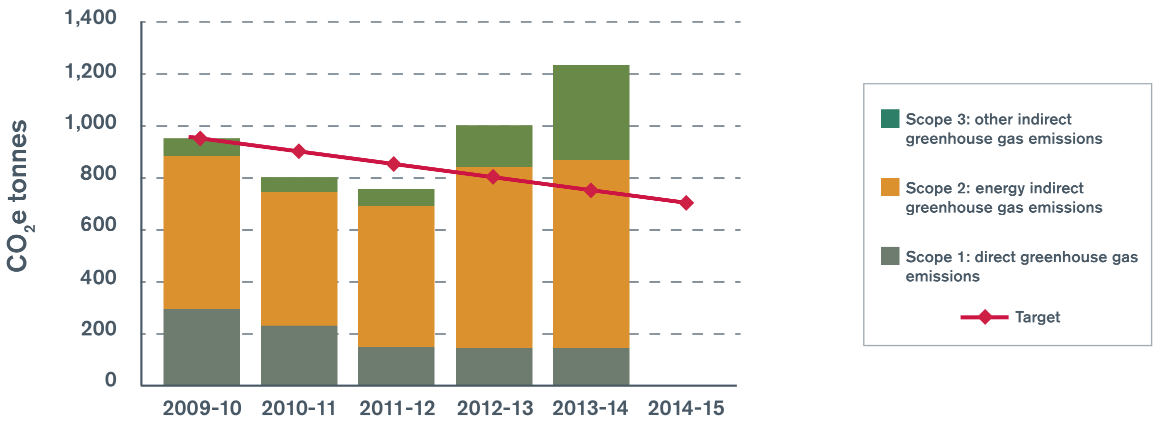
In the past year, we've:

- installed a more efficient uninterruptible power supply for our server room
- updated our building management system to give us more nuanced control
- introduced virtual desktop imaging units to replace old desktop computers.

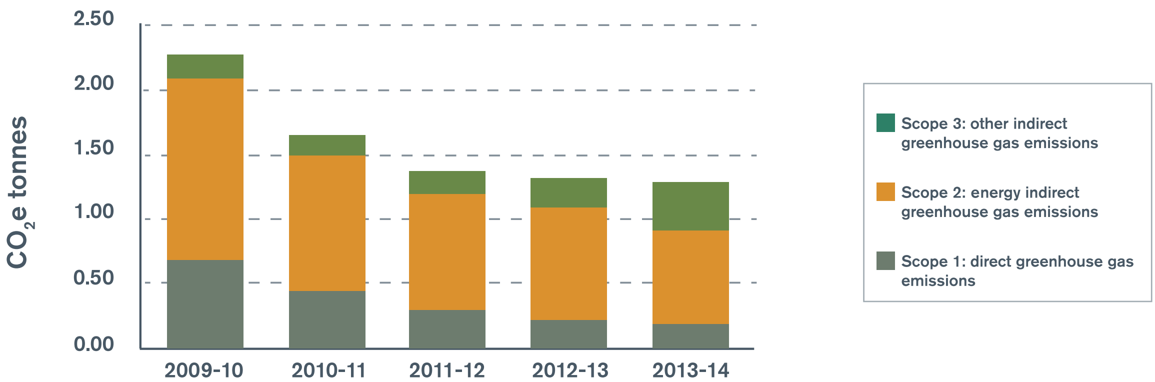
Changes like these mean that across 2013-14 our energy use has remained level despite staff increases.

On the downside, our carbon emissions have gone up. This is entirely due to business travel, which has increased because more of our teams are split between London and Glasgow, and because we're becoming more closely connected to Europe. We're trying to correct this, and as a first step have recently installed another 14 videoconferencing units.

## Carbon use




## Carbon use per person



| Greenhouse gas emissions | | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|---|
| | **(Target 25% reduction)** | **948** | **901** | **853** | **806** | **758** |
| **Non-financial indicators ($tCO_2e$)** | Total gross emissions | 948 | 804 | 759 | 1,010 | 1,228 |
| | Per person | 2.23 | 1.59 | 1.35 | 1.33 | 1.31 |
| | Total net emissions (ie less reductions – eg green tariffs) | 355 | 278 | 217 | 347 | 499 |
| | Scope 1: direct greenhouse gas emissions | 290 | 230 | 150 | 147 | 144 |
| | Scope 2: energy indirect greenhouse gas emissions | 593 | 526 | 542 | 685 | 729 |
| | Scope 3: other indirect greenhouse gas emissions* | 65 | 48 | 67 | 178 | 355 |
| **Related consumption data (kWh)** | Electricity: non-renewable (k) | – | – | – | 42 | 0 |
| | Electricity: renewable (k) | 1,130 | 1,002 | 1,033 | 1,274 | 1,636 |
| | Gas (k) | 1,578 | 1,240 | 816 | 795 | 783 |
| **Financial indicators** | Expenditure on energy | £138,240 | £122,836 | £140,556 | £185,177 | £244,291 |
| | Carbon Reduction Commitment licence expenditure | – | £1,200 | £1,200 | £1,290 | £1,290 |
| | Expenditure on official business travel | N/A | N/A | £140,905 | £296,684 | £491,551 |

* Scope 3 covers travel data based on travel bought through the approved travel provider; it does not include travel bought from other sources.

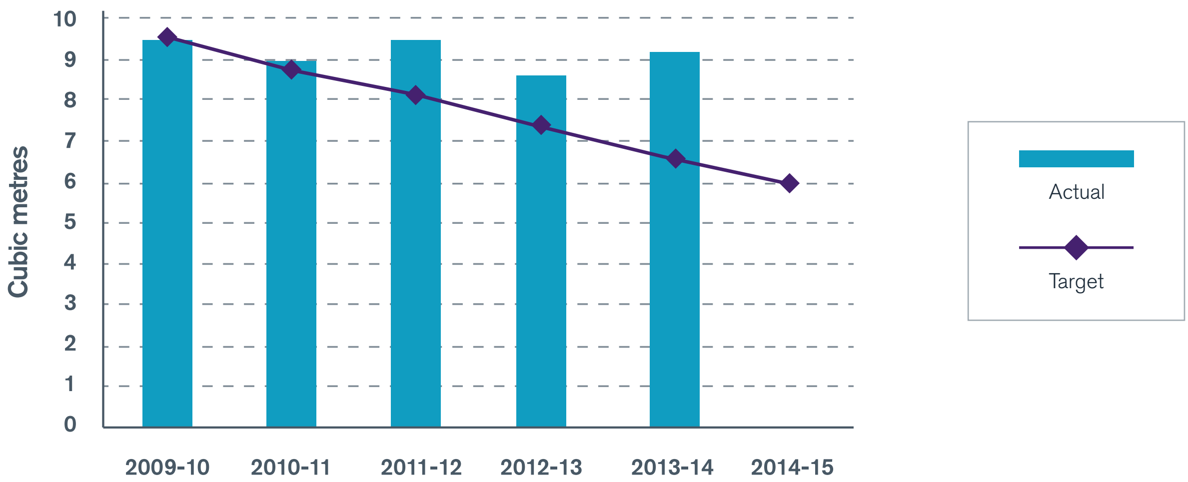
## Reducing water consumption

We aim to get our annual use below 6m$^3$ per person. This is in line with the Greening Government benchmark. This year our reduction efforts were hampered by a leak in our Glasgow office, leaving us at 9.2m$^3$ per person. Without the leak, however, we would have reached 7.6m$^3$ per person. In recognition of this water efficiency, we've been awarded the Carbon Trust Water Standard.

In London our improvement efforts have included replacing ladies' cisterns and bowls, which accounted for 15% of our water use. The new ones should halve this.

In Glasgow, we've introduced stricter monitoring of water use. This should make us quicker at finding and fixing any problems.

### Water per person



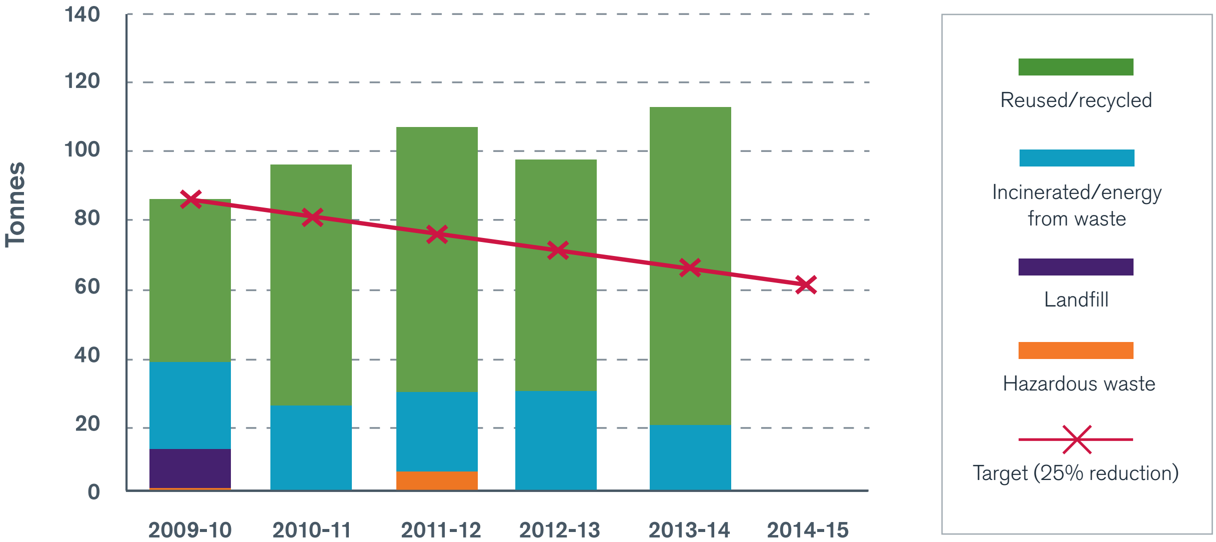

| Water | | | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|---|---|
| **Non-financial indicators** | Water consumption (m$^3$) | Supplied | 4,026 | 4,509 | 5,462 | 6,639 | 8,609 |
| | | Per person | 9.5 | 9.0 | 9.5 | 8.7 | 9.2 |
| | | **Target (37% reduction)** | 9.50 | 8.80 | 8.09 | 7.39 | 6.69 |
| **Financial indicators** | Water supply costs | | £9,026 | £9,271 | £10,562 | £12,208 | £20,517 |

## Eliminating waste

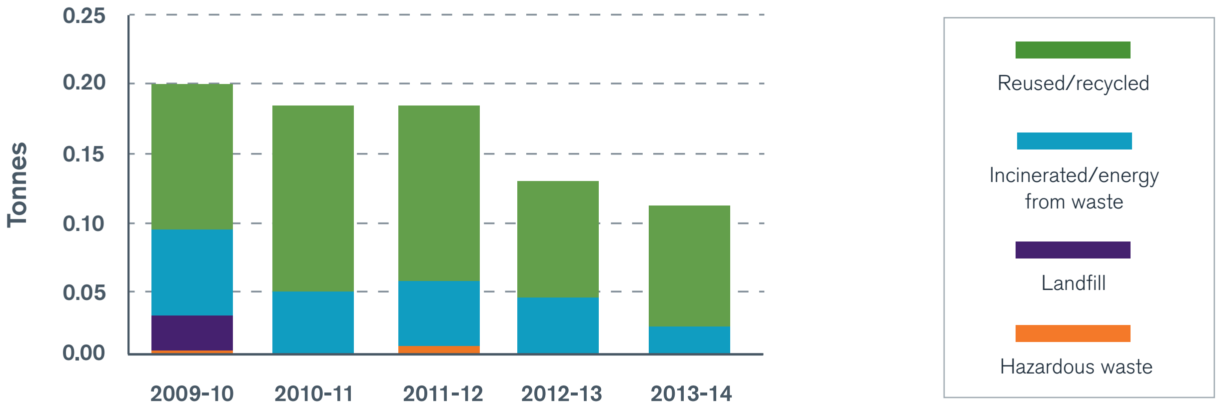
For the fourth year in a row, we sent no waste to landfill. Recycling has also improved, partly as a result of staff sorting more of their rubbish into the right bins. We're trying to reduce our waste further still, particularly in food and drink packaging and other consumables.

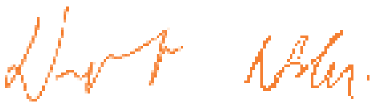
| Waste | | | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|---|---|
| Non-financial indicators (tonnes) | **Target** | | **85** | **80.75** | **76.5** | **72.25** | **68** |
| | Total waste | | 85 | 96 | 107 | 98 | 114 |
| | Total waste per person | | 0.2 | 0.19 | 0.19 | 0.13 | 0.12 |
| | Hazardous waste | | 1 | 0 | 6 | 0 | 0 |
| | Non-hazardous waste | Landfill | 13 | 0 | 0 | 0 | 0 |
| | | Reused/recycled | 46 | 69 | 76 | 65 | 93 |
| | | Incinerated/ energy from waste | 25 | 27 | 25 | 33 | 21 |
| Financial indicators | Total disposal cost | | £11,845 | £18,237 | £20,862 | £32,022 | £23,592 |

### Total waste breakdown



## Waste breakdown per person



**Dermot Nolan**
Accounting officer

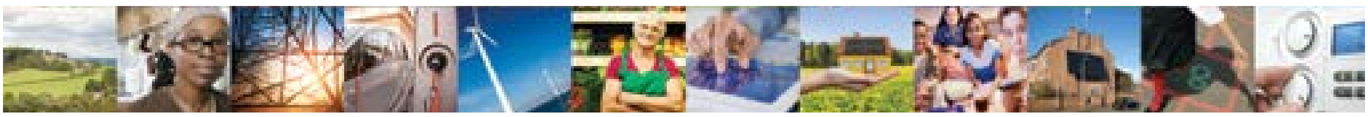
**13 June 2014**

# Section C
# **Directors' report**

The Gas and Electricity Markets Authority

Ofgem

Governance statement



# The Gas and Electricity Markets Authority

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

## Who's part of the Authority?

### How appointments are made

On 1 October 2013 the Secretary of State for Energy appointed David Gray non-executive chairman of the Authority for five years. The appointment was made after an open and competitive process. Lord Mogg KCMG had held this role since October 2003.

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

Dermot Nolan was appointed chief executive of Ofgem and an executive member of the Authority on 28 February 2014. A civil service commissioner oversaw the appointment, which was made after a fair and open competitive process. Dr Andrew Wright acted as interim chief executive from July 2013 to February 2014. This followed the departure of Alistair Buchanan CBE in June 2013. He had been chief executive since October 2003.

We arranged detailed briefings and induction for the new chairman and for Dr Nolan. Both were also able to observe Authority meetings before taking up their new roles.

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 are in line with the EU's Third Energy Package and its rules covering appointments to national regulatory authorities in member states.

Details of Authority members' remuneration and pension arrangements are shown in the remuneration report.

### Executive members of the Authority who served during the year

Dermot Nolan, chief executive, was appointed in February 2014.

Alistair Buchanan CBE, chief executive, was appointed in October 2003. His appointment ended in June 2013 when his second five-year term ended.

Sarah Harrison, senior partner, Sustainable Development, was appointed in May 2005.

Dr Andrew Wright, senior partner, Markets, was appointed in January 2008. He was interim chief executive between July 2013 and February 2014.

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

David Gray joined in October 2013 as non-executive chairman. His appointment ends in September 2018.

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

Professor David Fisk CB joined in July 2009. He was reappointed in June 2012 to serve until June 2017.

Professor Paul Grout joined in October 2012. His appointment ends in September 2017.

David Harker CBE joined in January 2009. He was reappointed in December 2011 and 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 in December 2012 and his appointment ends in December 2017.

Keith Lough joined in October 2012. His appointment ends in September 2017.

The non-executive members are considered to be independent of management and make up most of the Authority. Apart from the following disclosures, they have no company appointments, consultancy arrangements or other significant interests that conflict with their responsibilities as members of the Authority.

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

Keith Lough has shares and holds options to buy shares in an energy company he no longer works for. It isn't a company we regulate. When he joined, he agreed to restrict his dealings in these shares and options through trust agreements while he is a member of the Authority.

## What has the Authority done this year?

The chairman and other non-executive members play a full part in Authority business. They attended full Authority meetings and committee meetings as shown in the table below.

Working closely with the European Commission, the European Parliament and other bodies, Lord Mogg has continued to help develop EU regulatory policy for energy. This has included his roles as president of the Council of European Energy Regulators and chairman of the EU's Agency for the Cooperation of Energy Regulators. He is also chairman of the International Confederation of Energy Regulators. Lord Mogg has agreed to continue in these roles – which he was appointed to in a personal capacity – until mid-2015. He will also act as EU adviser to our new chairman and attend meetings of the Authority's new Europe Committee.

### Meeting attendance

| | Authority | Audit Committee | E-Serve Programmes Committee | Offshore Electricity Transmission Committee | RIIO-ED1 Electricity Distribution Price Control Committee | Remuneration Committee | Europe Committee |
|---|---|---|---|---|---|---|---|
| David Gray | 6/6 | - | - | - | 4/4 | - | 3/3 |
| Lord Mogg | 5/5 | - | - | - | - | - | - |
| David Fisk | 11/11 | 4/4 | - | - | 3/4 | - | 1/3 |
| Paul Grout | 11/11 | - | - | 4/4 | 4/4 | - | 3/3 |
| David Harker | 10/11 | 3/4 | 4/4 | - | - | 4/4 | - |
| John Howard | 11/11 | - | - | - | 4/4 | 3/4 | 3/3 |
| Jim Keohane | 10/11 | - | 4/4 | 4/4 | - | 4/4 | 3/3 |
| Keith Lough | 11/11 | 4/4 | - | 3/4 | - | - | - |

The Authority met in Scotland in September 2013, using the occasion to meet local energy stakeholders in the public and private sectors.

Meetings with interested parties took place after some of the main meetings, allowing the Authority to debate current topics with stakeholders.

The chairman has given each of the non-executives areas of special responsibility. They've kept in close contact with the Ofgem teams dealing with those areas. The chairman has reviewed these assignments and the membership of the Authority's committees in light of changes in the Authority's personnel and future business needs.

The chairman and some other non-executives have been considering and advising the Authority on price-control proposals under our RIIO processes. This has involved meetings with the transmission and distribution industries. Authority committees have looked at and advised the overall Authority on audit and risk issues, offshore electricity transmission, and the work of E-Serve and the programmes it administers for the Department of Energy and Climate Change.

Members have attended additional briefings and meetings to allow more detailed review of current topics. In accordance with the Authority's procedures for considering enforcement matters, some non-executives have been involved with the Enforcement Committee and Settlement Committees following companies' breaches of licence or other regulatory conditions.

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

In November 2013, the Audit Committee and Authority members held a workshop addressing the Authority's role in strategic risk management, including risk appetite.

The Authority reviewed the membership of its committees and their rules and procedures. It has agreed to set up a new committee to review key elements and developments in EU energy policy and their regulatory implications. It's also reviewed – with planned external involvement – our arrangements for enforcement activities.

We publish minutes of the Authority's meetings on our website, along with the committees' terms of reference. We now also publish provisional agendas for the main Authority meetings.

## How is the Authority's performance measured?

The Authority continued to assess its own performance and that of the chairman through a detailed questionnaire and debate. The performance review covered Authority procedures for meetings, papers, operational matters, committees and the conduct of business. The chairman again reviewed the individual performance of the non-executive members of the Authority, looking at their contributions to its work.

We sent both sets of analysis to ministers from the Department of Energy and Climate Change. In addition, our internal auditors continued to review and report on governance matters. We're following up their recommendations.

The Authority held an away day in June 2013, partly in closed session, involving the chairman and non-executives. It considered its performance during the year, and topics on its governance and procedures. There was feedback to executive members. The aim was to help the Authority become more efficient and effective.

## What committees does the Authority have?

### 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.

This year the committee's work included:

- overseeing the Authority and the Executive's consideration of risk appetite
- receiving reports from both internal and external audit
- reviewing our approach to managing the risk of fraud
- receiving a report on IT security in the organisation.

The committee also oversees our RPI–3% cost control regime, which limits increases to our spending to 3 percentage points below the Retail Price Index. It met four times in 2013-14, and also took part in a workshop session on risk management, along with other Authority members. Keith Lough 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 the Department of Energy and Climate Change (DECC). Governance arrangements were strengthened by signing a memorandum of understanding with DECC. The committee includes two observers from DECC. It meets quarterly, with Jim Keohane as chairman.

### Offshore Electricity Transmission Committee

This committee advises us and the Authority on developing and implementing the offshore electricity transmission regime. The committee met four times in 2013-14. It's chaired by Paul Grout.

### RIIO-ED1 Electricity Distribution Price Control Committee

This committee examines our proposals for the next electricity distribution price control review, and advises the Electricity Distribution team and the Authority on the main areas. The committee, chaired by David Gray, will also be asked to meet the electricity distribution companies and challenge their proposals.

### 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 one is made up of different Authority members, but always has a majority of non-executive members and a non-executive member as chair. The Authority has, in some cases, set up settlement committees to conclude investigations and make decisions on issues like compensation and redress.

### Europe Committee

This committee, set up in 2013, is led by the chairman of the Authority and usually meets four times a year. It's attended by non-executive directors, the chief executive, senior partners and the European adviser to the Authority. It considers and advises the Authority on:

- the EU's energy policies, particularly their regulatory aspects and their impact on the Authority's work
- how the Authority's aims and objectives, as both the GB regulator and the national regulatory authority, might be promoted
- how Ofgem's major projects relate to EU developments in the light of the Authority's role in furthering the aims of the single energy market.

### Remuneration Committee

This committee, chaired by David Harker, looks at the pay and performance of senior staff, and also succession planning. For details of the committee's members, its role, and senior staff salary and pension entitlements, see the remuneration report on pages 43 to 49.

# Ofgem

## 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 everything relating to management and resources, subject to the Authority's overall control.

### The Executive

The Executive is responsible for considering and providing advice and instruction on all policy issues. It also advises on papers before their submission to the Authority. It seeks to ensure that our policies are consistent and fully thought through. It is made up of all the executive members shown in the remuneration report and is chaired by the chief executive. It meets weekly.

### 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 of E-Serve and its members include the deputy managing director of E-Serve and all E-Serve team heads. It decides on everything relating to E-Serve's management and resources, subject to the Authority's overall control. It meets weekly.

### Executive Risk Committee

This committee helps the chief executive maintain effective risk management. It is made up of all the executive members shown in the remuneration report and the legal partner of 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 (2012-13: £52,500). There was no auditor remuneration, actual or notional, for non-audit work.

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

Our internal audit service independently measures and evaluates how adequate, reliable and effective our management and financial control systems are. It makes recommendations and gives the accounting officer an assurance report each year. We have outsourced the internal audit function to make sure we get independent and professional analysis and recommendations. We appointed Deloitte to this role on 1 April 2010, after a competitive tender. The current contract is due to end on 30 June 2015.

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

**Dermot Nolan**
Accounting officer

**13 June 2014**

# Governance statement

Our governance system is designed to reduce the risk of failing to meet targets in our four policy areas. It keeps this risk to a level the Authority is comfortable with, but doesn't eliminate it completely. It can provide only reasonable, not total, assurance.

The governance system existed for the year ending on 31 March 2014 and has continued up to the date of approval of the Annual Report and Accounts. It accords with Treasury guidance.

## Risk management strategy

This strategy describes:

- why managing risk is important
- the mechanisms we have to manage risk
- how to identify, assess and manage risk
- details of roles and responsibilities that make sure we manage risk effectively
- contacts for advice and guidance on risk management.

As part of the risk management strategy, we've made risk management integral to policy-making, planning and delivery. Each senior management member has a personal objective to seek to implement the strategy in their area.

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

This year, we've established a risk appetite framework that is set in the context of our mission to make a positive difference to energy consumers. We can't operate without taking risk, so this framework helps us identify and quantify these risks in a structured way that relates them to our mission and strategy.

## Risk and control

2013-14 has been a challenging year for consumers, who are understandably concerned about increases to their energy bills. Ensuring an affordable, secure and sustainable energy system has been our priority for several years. How we do this has changed over time to reflect the challenges of the day and our increased responsibilities. The challenges are considerable and the case for independent regulation to influence, enforce and increase confidence has never been stronger.

The Energy Act received royal assent on 18 December 2013. The legislation changes electricity market reform, consumer protection and redress powers, and sets a 2030 decarbonisation target designed to ensure security of supply. It also introduces a strategy and policy statement which brings greater clarity and coherence to our role and that of the government.

These challenges come with risks, and we recognise and embrace risk management as a way to tackle them. Our aim is to establish sensible risk management procedures 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 our top risks under review.

The Management Committee has prepared a separate top risks profile to cover E-Serve. In late March 2013 we signed a memorandum of understanding with the Department of Energy and Climate Change (DECC). This establishes a framework for how we liaise with DECC when administering government schemes.

Our governance arrangements reflect senior management changes in 2013-14. Examples include induction training, briefing, and updating the delegation of financial control to reflect each new senior executive appointment.

### Corporate Governance Code

We recognise the value of good corporate governance and comply with the principles of the Corporate Governance Code ('Corporate governance in central government departments: code of good practice 2011'). However, as we are a non-ministerial government department and an independent national regulatory authority, with Authority members appointed by the Secretary of State, some sections are not appropriate.

For example, the code requires boards to be chaired by the lead minister, but the composition of the Authority means it has a non-executive chairman instead.

### Whistleblowing

This year we updated our internal and external whistleblowing policies. These updates were supplemented by mandatory training for all staff on how to deal with whistleblowing concerns.

### Personal data incidents

We have a data security policy to keep all official information private and secure. There were no recorded losses of personal data in 2013-14.

### Disabilities and employee consultation

See page 28, in the strategic report, for details of our policies on people with disabilities and the way we consult with employees.

## The Accounting Officer's review of effectiveness

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

Internal audit made 30 recommendations that it expected us to implement by 31 December 2013. Of these, we have fully implemented 20. We are currently implementing another nine, and one is outstanding.

This year, we took 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.
- E-Serve's Fraud Management Group met each month to initiate and review work related to fraud prevention and detection, and to make sure we were properly managing suspected cases of fraud, misreporting or money laundering.
- We signed a memorandum of understanding with the Department of Energy and Climate Change for the government schemes we administer.
- We reviewed the Authority's role in strategic risk management, including risk appetite, at a workshop in November 2013.
- The associate director of finance and risk management regularly met senior partners and managing directors individually to review resources and progress towards objectives, and to identify and evaluate the associated risks.
- We updated our governance statements to require partners and directors to consider and report on all aspects of financial and risk management and other governance control issues in their area.
- We updated our business continuity plans, making sure we could continue our main work if there was a disruption.

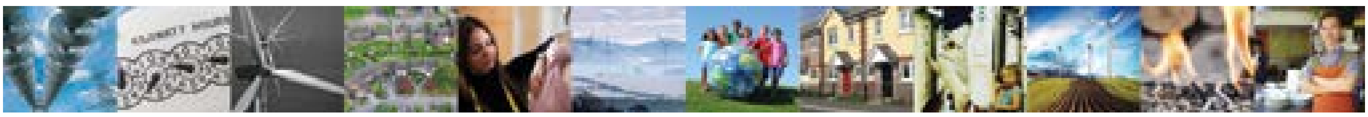
No significant problems with our governance system came up during the financial year.

**Dermot Nolan**
Accounting officer

**13 June 2014**

# Section D
# **Remuneration report**





## Service contracts

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

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

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

## Remuneration Committee

This committee comprises non-executive members of the Authority who are appointed by ordinary resolution of the Authority for a term of up to a year. Members may be reappointed. The committee is chaired by David Harker, a non-executive member of the Authority. The other members are non-executives John Howard and Jim Keohane. The chief executive attends as an observer.

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

## Remuneration policy

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

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

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

## Remuneration (including salary) and pension entitlements

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

The salary, the bonus payments and the value of any taxable benefits in kind of the most senior members of Ofgem (not all of whom are Authority members) in 2013-14 are shown in the table on the next page.

## Single total figure of remuneration

| | Salary (£000) | | Bonus payments (£000) | | Benefits in kind (to nearest £100) | | Pension benefits (to nearest £1,000)‡ | | Total (£000) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013-14 | 2012-13 | 2013-14 | 2012-13 | 2013-14 | 2012-13 | 2013-14 | 2012-13 | 2013-14 | 2012-13 |
| **Senior executive members of Ofgem** | | | | | | | | | | |
| **Dermot Nolan** Chief executive (from February 2014) | 15-20* | – | – | – | – | – | 6,000 | – | 20-25 | – |
| **Dr Andrew Wright** Interim chief executive (from July 2013 to February 2014) | 195-200** | 180-185 | 15-20 | 15-20 | – | – | 71,000 | 72,000 | 280-285 | 265-270 |
| **Alistair Buchanan** Chief executive (to June 2013) | 105-110* | 205-210 | 15-20 | 15-20 | – | – | 17,000 | 52,000 | 135-140 | 275-280 |
| **Rachel Fletcher** Acting senior partner (from September 2013) | 65-70* | – | – | – | – | – | 10,000 | – | 75-80 | – |
| **Sarah Harrison** Senior partner | 140-145 | 135-140 | – | 15-20 | – | – | 35,000 | 57,000 | 175-180 | 210-215 |
| **Ian Marlee** Senior partner and director of communications | 140-145 | 125-130 | – | 10-15 | – | – | 55,000 | 52,000 | 190-195 | 190-195 |
| **Hannah Nixon** Senior partner | 110-115 | 105-110 | – | 15-20 | – | – | 48,000 | 79,000 | 160-165 | 200-205 |
| **Senior executive members of Ofgem E-Serve** | | | | | | | | | | |
| **Stuart Cook** Managing director (to May 2013) | 15-20* | 155-160 | – | – | – | – | 3,000 | 24,000 | 15-20 | 175-180 |
| **Robert Hull** Managing director (from May 2013) | 145-150 | 130-135 | 15-20 | – | – | – | 37,000 | 48,000 | 195-200 | 180-185 |
| **Non-executive members of the Authority** | | | | | | | | | | |
| **Lord Mogg** (to September 2013) | 90-95† | 180-185 | – | – | 4,500 | 5,900 | – | 30,000 | 95-100 | 220-225 |
| **David Gray** (from October 2013) | 80-85* | – | – | – | – | – | – | – | 80-85 | – |

* Annual equivalent basic salary (excluding performance pay):

| | |
|---|---|
| **Alistair Buchanan:** | 205-210 |
| **Dermot Nolan:** | 190-195 |
| **Rachel Fletcher:** | 115-120 |
| **Stuart Cook:** | 155-160 |
| **David Gray:** | 160-165 |

** Andrew Wright was a senior executive member of Ofgem for the entire year.

† Annual equivalent basic salary (excluding performance pay) for Lord Mogg: 180-185. When his appointment as chairman of the Authority ended, he agreed to act as EU adviser to the new chairman and attend the Authority's new Europe Committee. Salary in role as EU adviser: 45-50.

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

| Other non-executive members of the Authority who were paid an honorarium | 2013-14 | 2012-13 |
|---|---|---|
| David Fisk | £25,000 | £25,000 |
| Paul Grout | £23,000 | £10,564 |
| David Harker | £25,000 | £25,000 |
| John Howard | £25,000 | £25,000 |
| Jim Keohane | £28,000 | £28,000 |
| Keith Lough | £23,000 | £10,564 |

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 plus an additional allowance for chairing any Authority committees. They aren't entitled to performance-related pay or a pension. Compensation for early termination is at the discretion of the Secretary of State. The non-executive chairman of the Authority, David Gray, has an appointment that started on 1 October 2014 and lasts for five years.

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

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

## Salary

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

## Bonuses

These are based on performance levels and are made as part of the appraisal process. The bonuses reported in 2013-14 relate to performance in 2012-13. The bonuses reported for 2012-13 relate to performance in 2011-12.

## Pay multiples

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

The banded remuneration of our highest-paid director in 2013-14 was £210,000-215,000 (2012-13: £220,000-225,000). This was 5.51 times (2012-13: 5.89) the median remuneration of the workforce, which was £38,326 (2012-13: £38,165).

In 2013-14 no (2012-13: none) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £16,900 to £211,290 (2012-13: £16,900 to £224,715).

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

The decrease in the pay multiple reflects an increase in staff being employed at the lower grades.

| Pension benefits | Real increase in pension and related lump sum at age 60 £000 | Accrued pension at age 60 at 31 March 2014 and related lump sum £000 | Cash equivalent transfer value at 31 March 2014 £000 | Cash equivalent transfer value at 31 March 2013 £000 | Real increase in cash equivalent transfer value £000 | Employer's contribution to partnership pension account Nearest £100 |
|---|---|---|---|---|---|---|
| **Senior executive members of Ofgem** | | | | | | |
| **Dermot Nolan** Chief executive (from February 2014) | 0-2.5 | 0-5 | 4 | – | 3 | – |
| **Dr Andrew Wright** Interim chief executive (from July 2013 to February 2014) | 2.5-5.0 | 25-30 | 347 | 279 | 39 | – |
| **Alistair Buchanan** Chief executive (to June 2013) | 0-2.5 | 20-25 | 368 | 331 | 12 | – |
| **Rachel Fletcher** Acting senior partner (from September 2013) | 0-2.5 | 15-20 | 239 | 214 | 5 | – |
| **Sarah Harrison** Senior partner | 0-2.5 | 30-35 | 474 | 417 | 22 | – |
| **Ian Marlee** Senior partner | 2.5-5.0 | 15-20 | 162 | 123 | 21 | – |
| **Hannah Nixon** Senior partner | 2.5-5.0 | 15-20 | 208 | 167 | 23 | – |
| **Senior executive members of Ofgem E-Serve** | | | | | | |
| **Stuart Cook** Managing director (to May 2013) | – | – | – | – | – | 2,600 |
| **Robert Hull** Managing director (from May 2013) | 0-2.5 | 20-25 | 393 | 330 | 32 | – |

The remaining information hasn't been subject to external audit.

The following salary and pension details are provided in accordance with the 2013-14 Government Financial Reporting Manual issued by the Treasury and Employer Pensions Notice 380 issued by the 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. The cost of benefits is met by money voted by parliament each year. Pensions under all four 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 salary-related and range between 1.5% and 6.25% of pensionable earnings for classic and 3.5% and 8.25% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2014.

## Benefits

In classic, benefits 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 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 pensionable earnings during their scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year, and the accrued pension is uprated in line with pensions increase legislation.

In all cases members may opt to give up (commute) their pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) to a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% 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 when they reach pension age, or as soon as they cease 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 civil service pension arrangements can be found at www.civilservice.gov.uk/pensions

## 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, an arrangement to secure pension benefits in another pension scheme or an 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 the individual has accrued as a result 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 buying additional pension benefits at their own cost. CETVs are worked out in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

## Real increase in CETV

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

**Dermot Nolan**
Accounting officer

**13 June 2014**

# Statement of the accounting officer's responsibilities

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

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

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

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

# Section E
# **Resource accounts and trust statement**

## Resource accounts

These resource accounts have been prepared and published by Ofgem. The accounts have been prepared under a direction issued by the Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000. They've also been prepared in accordance with the guidance in the Government Financial Reporting Manual. The accounts show the resources that have been used in an efficient and effective manner to deliver our objectives.

# 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 2014 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 and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

## Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2014 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 2014 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 and Accounts 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.

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

**17 June 2014**

# Statement of Parliamentary Supply

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

## Summary of resource and capital outturn 2013-14

| | | | | | | | 2013-14 £000 | 2012-13 £000 |
|---|---|---|---|---|---|---|---|---|
| | Estimate | | | Outturn | | | | Outturn |
| | Voted | Non-Voted | Total | Voted | Non-Voted | Total | Voted outturn compared with estimate: saving | Total |
| **Departmental expenditure limit** | | | | | | | | |
| Resource | 7,062 | - | 7,062 | 274 | - | 274 | 6,788 | 3,657 |
| Capital | 1,500 | - | 1,500 | 1,430 | - | 1,430 | 70 | 1,222 |
| **Annually managed expenditure** | | | | | | | | |
| Resource | - | - | - | - | - | - | - | - |
| Capital | - | - | - | - | - | - | - | - |
| **Total budget** | 8,562 | - | 8,562 | 1,704 | - | 1,704 | 6,858 | 4,879 |
| **Non-budget** | | | | | | | | |
| Resource | - | - | - | - | - | - | - | - |
| Total | 8,562 | - | 8,562 | 1,704 | - | 1,704 | 6,858 | 4,879 |
| Total resource | 7,062 | - | 7,062 | 274 | - | 274 | 6,788 | **3,657** |
| Total capital | 1,500 | - | 1,500 | 1,430 | - | 1,430 | 70 | **1,222** |
| Total | 8,562 | - | 8,562 | 1,704 | - | 1,704 | 6,858 | **4,879** |

| **Net cash requirement** | | 2013-14 £000 | | 2013-14 £000 | 2012-13 £000 |
|---|---|---|---|---|---|
| | Note | Estimate | Outturn | Net total outturn compared with estimate: saving | Outturn |
| | SoPS4 | 17,152 | (1,976) | 19,128 | 3,417 |

| **Administration costs** | 2013-14 £000 | | 2013-14 £000 | 2012-13 £000 |
|---|---|---|---|---|
| | Estimate | Outturn | Net total outturn compared with estimate: saving | Outturn |
| | 7,062 | 274 | 6,788 | 3,657 |

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

## SoPS1 Statement of accounting policies

The statement of parliamentary supply and supporting notes have been prepared in accordance with the 2013-14 FReM issued by the Treasury. The SoPS accounting policies contained in the FReM are consistent with the requirements in the 2013-14 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

## SoPS1.1 Accounting convention

The SoPS and related notes are presented consistently with Treasury budget control and supply estimates. The aggregates across government are measured using national accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system, and the consequential presentation of supply estimates and the SoPS and related notes, has different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant parliamentary authority, in support of the government's fiscal framework. The system provides incentives to departments to manage spending well, to provide high-quality public services that offer the taxpayer value for money.

The government's objectives for fiscal policy are described in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

## SOPS1.2 DEL treatment of provisions

Under the Treasury's Consolidated Budgeting Guidance, regulators that are wholly or substantially funded from income will exceptionally score all provisions in departmental expenditure limits. Ofgem is such a regulator.

## SOPS1.3 Treatment of deferred licence fee

Under our RPI–X cost control regime, any excess cash received from licence-fee payers is offset against their licence fees for the rest of the five-year period. In accordance with the FReM, our accounts treat this cash as deferred income.

Under the Treasury's Consolidated Budgeting Guidance, any excess cash must be paid back to the Consolidated Fund annually. A reserve claim must be made in subsequent years to enable us to recover and use the money.

SOPS3.1 shows the reconciliation between the treatment under the FReM and the Consolidated Budgeting Guidance.

# SoPS2 Net outturn

## SoPS2.1 Analysis of net resource outturn by section

| | | | | | | 2013-14 £000 | 2012-13 £000 |
|---|---|---|---|---|---|---|---|
| | Outturn - Administration | | | Estimate | | | |
| | Gross | Income | Net total | Net total | Net total compared with estimate | Total |
| **Spending in departmental expenditure limits** | | | | | | |
| A Gas and Electricity Markets Authority: administration | 33,766 | (33,766) | - | 6,362 | 6,362 | 3,278 |
| B Ofgem E-Serve: administration | 49,648 | (49,374) | 274 | 700 | 426 | 379 |
| **Total** | **83,414** | **(83,140)** | **274** | **7,062** | **6,788** | **3,657** |

## SoPS2.2 Analysis of net capital outturn by section

| | | | | | 2013-14 £000 | 2012-13 £000 |
|---|---|---|---|---|---|---|
| | Outturn | | | Estimate | | Outturn |
| | Gross | Income | Net total | Net total | Net total outturn compared with estimate | |
| **Spending in departmental expenditure limits** | | | | | | |
| A Gas and Electricity Markets Authority: administration | 1,430 | - | 1,430 | 1,500 | 70 | 1,222 |
| B Ofgem E-Serve: administration | - | - | - | - | - | - |
| **Total** | **1,430** | **-** | **1,430** | **1,500** | **70** | **1,222** |

# SoPS3 Reconciliation of outturn to net operating cost and against administration budget

## SoPS3.1 Reconciliation of net resource outturn to net operating cost

| | | 2013-14 | 2012-13 |
|---|---|---|---|
| | Note | £000 | £000 |
| Total resource outturn in Statement of Parliamentary Supply | SoPS2.1 | 274 | 3,657 |
| Adjustment in respect of deferred licence fee | | - | (3,278) |
| **Net operating costs in Statement of Comprehensive Net Expenditure** | | **274** | **379** |

## SoPS3.2 Outturn against final administration budget and administration net operating cost

| | | 2013-14 | 2012-13 |
|---|---|---|---|
| | Note | £000 | £000 |
| Estimate – administration costs limit | SoPS2.1 | 7,062 | 5,300 |
| Outturn – gross administration costs | | 83,414 | 73,712 |
| Outturn – gross income relating to administration costs | | (83,140) | (70,055) |
| Outturn – net administration costs | SoPS2.1 | 274 | 3,657 |

## SoPS4 Reconciliation of net resource outturn to net cash requirement

| | | Estimate | Outturn | Net total outturn compared with estimate: saving/ (excess) |
|---|---|---|---|---|
| | Note | **£000** | **£000** | **£000** |
| **Resource outturn** | SoPS2.1 | **7,062** | **274** | **6,788** |
| **Capital outturn** | SoPS2.2 | 1,500 | 1,430 | 70 |
| Accruals adjustments: | | | | |
| ▪ Depreciation | 6 | (1,500) | (1,092) | (408) |
| ▪ New provisions and adjustments to provisions | 13 | - | (58) | 58 |
| ▪ Other non-cash items | 4 | (60) | (58) | (2) |
| ▪ Movement in working capital | | 10,000 | (2,608) | 12,608 |
| ▪ Use of provision | 13 | 150 | 136 | 14 |
| **Net cash requirement** | | **17,152** | **(1,976)** | **19,128** |

## SoPS5 Analysis of income payable to the Consolidated Fund

We collected no Consolidated Fund income in 2013-14. This does not include any amounts we collected while acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in our trust statement, published alongside these financial statements.

# Statement of comprehensive net expenditure for the year ended 31 March 2014

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

| | | | | 2013-14 £000 | 2012-13 £000 restated |
|---|---|---|---|---|---|
| | **Note** | **Staff costs** | **Other costs** | **Income** | |
| **Administration costs** | | | | | |
| Staff costs | 3 | 55,220 | | | 43,596 |
| Other costs | 4 | | 28,194 | | 30,116 |
| Income | 5 | | | **(83,140)** | **(73,333)** |
| **Net operating costs** | SoPS2.1 | | | **274** | **379** |
| Total expenditure | | | | 83,414 | 73,712 |
| Total income | | | | (83,140) | (73,333) |
| **Net operating costs** | | | | **274** | **379** |

There is no other comprehensive net expenditure.

The notes on pages 62 to 77 form part of these accounts.

# Statement of financial position as at 31 March 2014

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

| | Note | 2014 | 2014 | 2013 | 2013 |
|---|---|---|---|---|---|
| | | | £000 | | £000 |
| Non-current assets: | | | | | |
| Property, plant and equipment | 6 | 3,555 | | 3,222 | |
| ***Total non-current assets*** | | | **3,555** | | **3,222** |
| Current assets: | | | | | |
| Trade receivables and other current assets | 11 | 21,361 | | 25,214 | |
| Cash and cash equivalents | 10 | 19,128 | | 8,902 | |
| ***Total current assets*** | | | **40,489** | | **34,116** |
| **Total assets** | | | **44,044** | | **37,338** |
| Current liabilities: | | | | | |
| Trade and other payables | 12 | (36,201) | | (26,904) | |
| ***Total current liabilities*** | | | **(36,201)** | | **(26,904)** |
| **Non-current assets plus net current assets** | | | **7,843** | | **10,434** |
| Non-current liabilities: | | | | | |
| Provisions | 13 | (3,068) | | (3,103) | |
| Other payables | 12 | (708) | | (1,024) | |
| ***Total non-current liabilities*** | | | **(3,776)** | | **(4,127)** |
| **Total assets less liabilities** | | | **4,067** | | **6,307** |
| Taxpayers' equity: | | | | | |
| General fund | | | 4,067 | | 6,307 |
| **Total taxpayers' equity** | | | **4,067** | | **6,307** |

**Dermot Nolan**
Accounting officer

**13 June 2014**

The notes on pages 62 to 77 form part of these accounts.

# Statement of cash flows for the year ended 31 March 2014

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

| | Note | 2013-14 £000 | 2012-13 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net operating cost | SoPS2.1 | (274) | (379) |
| Adjustments for non-cash transactions | 4 | 1,208 | 3,119 |
| Increase in trade and other receivables | 11 | 3,853 | (3,616) |
| *less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure* | | – | – |
| Increase in trade payables | 12 | 8,981 | (368) |
| *less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure* | 12 | (10,226) | (778) |
| Use of provisions | 13 | (136) | (173) |
| **Net cash outflow from operating activities** | | **3,406** | **(2,195)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 6 | (1,430) | (1,222) |
| Proceeds of disposal of property, plant and equipment | | – | – |
| **Net cash outflow from investing activities** | | **(1,430)** | **(1,222)** |
| **Cash flows from financing activities** | | | |
| From the Consolidated Fund (supply) – current year | | 8,250 | 4,195 |
| Advances from the contingencies fund | | 15,000 | 15,000 |
| Payments to the contingencies fund | | (15,000) | (15,000) |
| **Net financing** | | **8,250** | **4,195** |
| **Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund** | | **10,226** | **778** |
| **Cash and cash equivalents at the beginning of the period** | 10 | **8,902** | **8,124** |
| **Cash and cash equivalents at the end of the period** | 10 | **19,128** | **8,902** |

The notes on pages 62 to 77 form part of these accounts.

# Statement of changes in taxpayers' equity for the year ended 31 March 2014

| | | General fund |
|---|---|---|
| | Note | £000 |
| **Balance at 1 April 2012** | | **3,233** |
| **Changes in taxpayers' equity for 2012-13** | | |
| Non-cash charges – auditor's remuneration | 4 | 53 |
| Net operating cost for the year | SoPS2.1 | (379) |
| Losses relating to pension liabilities | 13 | (17) |
| **Total recognised income and expense for 2012-13** | | **(343)** |
| Net parliamentary funding – drawn down | | 4,195 |
| Net parliamentary funding – deemed | | 8,124 |
| Supply payable adjustment | 12 | (8,902) |
| **Balance at 31 March 2013** | | **6,307** |
| **Changes in taxpayers' equity for 2013-14** | | |
| Non-cash charges – auditor's remuneration | 4 | 53 |
| Net operating cost for the year | SoPS2.1 | (274) |
| Losses relating to pension liabilities | 13 | (43) |
| **Total recognised income and expense for 2013-14** | | **(264)** |
| Net parliamentary funding – drawn down | | 8,250 |
| Net parliamentary funding – deemed | | 8,902 |
| Supply payable adjustment | 12 | (19,128) |
| **Balance at 31 March 2014** | | **4,067** |

The notes on pages 62 to 77 form part of these accounts.

# Notes to the resource accounts

## 1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2013-14 FReM issued by the Treasury. The accounting policies contained in the FReM apply IFRS as adapted or interpreted for the public sector. Where the FReM permits a choice of accounting policy, we've selected the accounting policy which is judged to be most appropriate to our circumstances for the purpose of giving a true and fair view. The particular policies we've adopted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

As well as the primary statements prepared under IFRS, the FReM requires us to prepare one additional primary statement. The SoPS and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement.

### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

### 1.2 Property, plant, equipment and depreciation

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

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

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

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

### 1.3 Provisions

We make provision for liabilities and charges where, at the balance sheet date, a legal or constructive liability exists (ie there is a present obligation from past events), and 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 1.8%, the government's standard rate. Each year the financing charges in the statement of comprehensive net expenditure include the adjustments to amortise one year's discount and restate liabilities to current price levels.

### 1.4 Operating income

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

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

### 1.5 Foreign exchange

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

### 1.6 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). These are described at Note 3. The PCSPS is 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 an unfunded defined-benefit scheme. However, unlike the PCSPS, a pension liability is included in the accounts as required under IAS37.

### 1.7 Early departure costs

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

### 1.8 Value added tax

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

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

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

### 1.9 Operating leases

Rentals due under operating leases are charged to the statement of comprehensive net expenditure over the lease term on a straight-line basis, or on the basis of actual rentals payable, where this fairly reflects the usage. Future payments, disclosed at Note 8, 'Commitments under leases', are not discounted.

## 1.10 Going concern

The Statement of Financial Position at 31 March 2014 shows a positive taxpayers' equity of £4.067 million. In common with other government departments, the future financing of our liabilities is to be met by future grants of supply and the application of future income, both to be approved annually by parliament. Approval for amounts required for 2014-15 has already been given and there is no reason to believe that future approvals will not be granted. We've therefore considered it appropriate to adopt a going-concern basis for the preparation of these financial statements.

## 1.11 Contingent liabilities

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

Where the time-value of money is material, contingent liabilities that we have to disclose under IAS 37 are stated at discounted amounts and the amount reported to parliament is noted separately. Contingent liabilities that IAS 37 doesn't require us to report are stated at the amounts reported to parliament.

## 1.12 Assets belonging to third parties

Assets belonging to third parties as disclosed in Note 16 (such as money held in relation to the 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. Statement of operating costs by operating segment

| | 2013-14 £000 | | | 2012-13 £000 | | |
|---|---|---|---|---|---|---|
| **Divisions** | **Gross** | **Income** | **Net total** | **Gross** | **Income** | **Net total** |
| 1. Smarter Grids and Governance | 19,030 | (19,030) | - | 17,037 | (17,037) | - |
| 2. Markets | 19,963 | (19,963) | - | 16,136 | (16,136) | - |
| 3. Sustainable Development | 12,229 | (12,229) | - | 10,221 | (10,221) | - |
| 4. Scotland, Wales and the regions | 1,862 | (1,862) | - | 1,797 | (1,797) | - |
| 5. Ofgem E-Serve | 30,330 | (30,056) | 274 | 28,521 | (28,142) | 379 |
| **Net operating cost** | **83,414** | **(83,140)** | **274** | **73,712** | **(73,333)** | **379** |

## 3. Staff numbers and related costs

| **Staff costs comprise** | | | **2013-14 £000** | **2012-13 £000 restated** |
|---|---|---|---|---|
| | **Permanently employed staff** | **Others** | **Total** | **Total** |
| Wages and salaries | 34,575 | 10,522 | **45,097** | 35,269 |
| Social security costs | 3,270 | - | **3,270** | 2,808 |
| Other pension costs | 6,328 | - | **6,328** | 5,440 |
| Other staff costs | 525 | - | **525** | 79 |
| **Sub-total** | **44,698** | **10,522** | **55,220** | **43,596** |
| Less recoveries in respect of outward secondments | (108) | - | (108) | (235) |
| **Total net costs** | **44,590** | **10,522** | **55,112** | **43,361** |

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. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2013-14, employers' contributions of £6,122,348 were payable to the PCSPS (2012-13: £5,193,639) at one of four rates in the range 16.7% to 24.3% (2012-13: 16.7% to 24.3%) of pensionable pay, based on salary bands. The scheme actuary usually reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2013-14 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, which is a stakeholder pension with an employer contribution. Employers' contributions of £189,746 (2012-13: £200,431) were paid to three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% (2012-13: 3% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £15,920 (2012-13: £15,762), 0.8% 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 reporting period date amounted to zero. Contributions prepaid at that date were zero.

Zero people (2012-13: zero people) retired early on ill-health grounds.

## Average number of people employed

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

| | | | 2013-14 | 2012-13 |
|---|---|---|---|---|
| | Permanently employed staff | Others | Total | Total |
| Smarter Grids and Governance | 157 | 12 | **169** | **159** |
| Markets | 178 | 8 | **186** | **159** |
| Sustainable Development | 100 | 11 | **111** | **90** |
| Scotland, Wales and the regions | 13 | 13 | **26** | **31** |
| E-Serve | 313 | 73 | **386** | **275** |
| **Total** | **761** | **117** | **878** | **714** |

## 3.1 Reporting of civil service and other compensation schemes – exit packages 2013-14

We paid no exit packages in 2013-14 or 2012-13. This includes compulsory redundancies and other agreed departures.

## 4. Other administration costs

| | Note | 2013-14 £000 | 2012-13 restated £000 |
|---|---|---|---|
| **Rental under operating leases:** | | | |
| Hire of office equipment | | - | - |
| Other operating leases | | 5,824 | 5,843 |
| | | 5,824 | 5,843 |
| **Non-cash items:** | | | |
| Auditors' remuneration and expenses* | | 53 | 53 |
| Depreciation | 6 | 1,092 | 1,109 |
| Loss on disposal of property, plant and equipment | | 5 | 1 |
| | | 1,150 | 1,163 |
| **Other expenditure:** | | | |
| Contractors: | | | |
| ▪ Environmental schemes and projects | | 1,947 | 3,835 |
| ▪ Smarter Grids and Governance (including RIIO price controls) | | 2,169 | 734 |
| ▪ Gas security of supply | | – | 226 |
| ▪ Retail Market Review | | 169 | 79 |
| ▪ Other | | 4,053 | 3,783 |
| Accommodation costs | | 4,418 | 4,355 |
| Office supplies and equipment | | 3,009 | 3,087 |
| Recruitment and training | | 2,250 | 1,919 |
| Professional services | | 1,189 | 1,231 |
| Travel and subsistence | | 908 | 739 |
| Staff-related costs | | 236 | 348 |
| Other administration costs | | 814 | 818 |
| | | 21,162 | 21,154 |
| **Provisions (non-cash):** | | | |
| Provided in year | 13 | 30 | 1,924 |
| Interest cost | 13 | 28 | 32 |
| Past service cost | 13 | - | - |
| Borrowing costs | 13 | - | - |
| Movement in provision | | 58 | 1,956 |
| **Total** | | **28,194** | **30,116** |

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

## 5. Operating income

| | | | 2013-14 £000 | | | 2012-13 £000 |
|---|---|---|---|---|---|---|
| | Income | Full costs | Deficit | Income | Full costs | Deficit |
| Licence fees | (52,960) | 52,960 | - | (49,239) | 49,239 | - |
| Other | (30,180) | 30,454 | 274 | (24,094) | 24,473 | 379 |
| **Total** | **(83,140)** | **83,414** | **274** | **(73,333)** | **73,712** | **379** |

| | 2013-14 | 2012-13 |
|---|---|---|
| **Other income includes:** | **£000** | **£000** |
| Offshore Transmission Tender Recharge | 4,218 | 4,338 |
| Department of Energy and Climate Change (relating to environmental programmes and secondments) | 18,173 | 12,538 |
| Scheme-funded recharges | 3,761 | 3,187 |
| Department for Environment, Food and Rural Affairs (relating to shared accommodation costs) | 2,447 | 2,894 |
| Other departments | 1,474 | 1,077 |
| Miscellaneous | 107 | 60 |
| | **30,180** | **24,094** |

Miscellaneous income includes licence application fees and other minor items.

## 6. Property, plant and equipment

| | Furniture | Office equipment | Information technology | Leasehold works | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Cost or valuation** | | | | | |
| At 1 April 2013 | 414 | 2,387 | 3,386 | 5,262 | 11,449 |
| Additions | - | 3 | 938 | 489 | 1,430 |
| Disposals | (265) | (47) | (154) | - | (466) |
| **At 31 March 2014** | **149** | **2,343** | **4,170** | **5,751** | **12,413** |
| **Depreciation** | | | | | |
| At 1 April 2013 | 402 | 1,953 | 2,438 | 3,434 | 8,227 |
| Charged in year | 9 | 141 | 502 | 440 | 1,092 |
| Disposals | (265) | (45) | (151) | - | (461) |
| **At 31 March 2014** | **146** | **2,049** | **2,789** | **3,874** | **8,858** |
| **Carrying amount at 31 March 2014** | 3 | 294 | 1,381 | 1,877 | 3,555 |
| **Carrying amount at 31 March 2013** | 12 | 434 | 948 | 1,828 | 3,222 |
| **Asset financing:** | | | | | |
| Carrying amount of owned assets at 31 March 2014 | 3 | 294 | 1,381 | 1,877 | 3,555 |

| | Furniture | Office equipment | Information technology | Leasehold works | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Cost or valuation** | | | | | |
| At 1 April 2012 | 484 | 2,330 | 2,607 | 5,011 | 10,432 |
| Reclassification | (57) | (50) | 50 | 57 | - |
| Additions | - | 282 | 746 | 194 | 1,222 |
| Disposals | (13) | (175) | (17) | - | (205) |
| **At 31 March 2013** | **414** | **2,387** | **3,386** | **5,262** | **11,449** |
| **Depreciation** | | | | | |
| At 1 April 2012 | 397 | 1,929 | 1,935 | 3,061 | 7,322 |
| Charged in year | 18 | 198 | 520 | 373 | 1,109 |
| Disposals | (13) | (174) | (17) | - | (204) |
| **At 31 March 2013** | **402** | **1,953** | **2,438** | **3,434** | **8,227** |
| **Carrying amount at 31 March 2013** | 12 | 434 | 948 | 1,828 | 3,222 |
| **Carrying amount at 31 March 2012** | 87 | 401 | 672 | 1,950 | 3,110 |
| **Asset financing:** | | | | | |
| Carrying amount of owned assets at 31 March 2013 | 12 | 434 | 948 | 1,828 | 3,222 |

## 7. Capital commitments

| | 2013-14 | 2012-13 |
|---|---|---|
| | **£000** | **£000** |
| Contracted capital commitments at 31 March not otherwise included in these financial statements | - | - |

## 8. 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.

| | 2013-14 | 2012-13 |
|---|---|---|
| **Obligations under operating leases for the following periods comprise:** | **£000** | **£000** |
| Buildings: | | |
| Not later than one year | 6,100 | 6,063 |
| Later than one year and not later than five years | 14,151 | 25,900 |
| Later than five years | 34 | 220 |
| | **20,285** | **32,183** |
| Other: | | |
| Not later than one year | - | - |
| Later than one year and not later than five years | - | - |
| Later than five years | - | - |
| | **-** | **-** |

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 £1.024 million. This will be used on a straight-line basis over the lease term up to the first break in the lease, which is 23 June 2017. This is disclosed in Note 12.

### 8.1. Other financial commitments

As at 31 March 2014, we hadn't entered into any non-cancellable contracts (which are not operating leases).

## 9. Financial instruments

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

## 10. Cash and cash equivalents

| | £000 |
|---|---|
| Balance at 1 April 2013 | 8,902 |
| Net change in cash and cash equivalents | 10,226 |
| **Balance at 31 March 2014** | **19,128** |
| **The following balances at 31 March were held at:** | |
| Government Banking Service | 19,128 |
| Commercial banks and cash in hand | – |
| Short-term investments | – |
| **Balance at 31 March 2014** | **19,128** |

## 11. Trade receivables and other current assets

| | 2013-14 | 2012-13 |
|---|---|---|
| | £000 | £000 |
| Trade receivables | 4,114 | 1,716 |
| Accrued income | 14,861 | 19,691 |
| Prepayments | 1,835 | 3,147 |
| HM Revenue and Customs (VAT) | 325 | 480 |
| Staff receivables | 226 | 180 |
| **At 31 March** | **21,361** | **25,214** |

Staff receivables include loans outstanding, of which £220,000 relates to season ticket loans for employees, and £4,000 relates to a housing advance for an employee.

### 11.1 Intra-government balances

| | 2013-14 | 2012-13 |
|---|---|---|
| | £000 | £000 |
| Balances with other central government bodies | 7,603 | 5,326 |
| Balances with local authorities | - | 1,493 |
| *Subtotal:* intra-government balances | 7,603 | 6,819 |
| Balances with bodies external to government | 13,758 | 18,395 |
| **Total receivables at 31 March** | **21,361** | **25,214** |

## 12. Trade payables and other current liabilities

| | 2013-14 | 2012-13 |
|---|---|---|
| **Amounts falling due within one year:** | £000 | £000 |
| Other taxation and social security | 1,813 | 935 |
| Trade payables | 892 | 855 |
| Staff payables | 1,479 | 1,106 |
| Deferred licence fees | 6,168 | 6,362 |
| Leasehold reverse premium | 316 | 316 |
| Accruals and other deferred income | 6,405 | 8,428 |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 19,128 | 8,902 |
| Excess cash receipts | - | - |
| Consolidated Fund extra receipts due to be paid to the Consolidated Fund: | | |
| received | - | - |
| receivable | - | - |
| **Balance at 31 March** | **36,201** | **26,904** |

| | 2013-14 | 2012-13 |
|---|---|---|
| **Amounts falling due after more than one year:** | £000 | £000 |
| Leasehold reverse premium | 708 | 1,024 |
| **Balance at 31 March** | **708** | **1,024** |

### 12.1 Intra-government balances

| | Amounts falling due within one year | | Amounts falling due after more than one year | |
|---|---|---|---|---|
| | 2013-14 | 2012-13 | 2013-14 | 2012-13 |
| | £000 | £000 | £000 | £000 |
| Balances with other central government bodies | 21,402 | 10,325 | - | - |
| Balances with local authorities | - | - | - | - |
| *Subtotal:* intra-government balances | 21,402 | 10,325 | - | - |
| Balances with bodies external to government | 14,799 | 16,579 | 708 | 1,024 |
| **Total payables at 31 March** | **36,201** | **26,904** | **708** | **1,024** |

## 13. Provisions for liabilities and charges

### 13.1 Early retirement

| | 2013-14 | 2012-13 |
|---|---|---|
| | £000 | £000 |
| **Balance at 1 April** | **513** | **645** |
| Provided in the year | 30 | 57 |
| Borrowing costs | - | - |
| Provisions not required written back | - | (33) |
| Provisions utilised in the year | (119) | (156) |
| **Balance as at 31 March** | **424** | **513** |

| | 2013-14 | 2012-13 |
|---|---|---|
| **Analysis of expected timings of discounted flows** | **£000** | **£000** |
| Not later than one year | 170 | 108 |
| Later than one year and not later than five years | 140 | 308 |
| Later than five years | 114 | 97 |
| **Balance at 31 March** | **424** | **513** |

We meet the additional costs of benefits beyond the normal PCSPS benefits for employees who retire early by paying the required amounts monthly to the PCSPS over the period between early departure and normal retirement date. The department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 1.8% in real terms.

## 13.2 Pension liabilities

| | 2013-14 | 2012-13 |
|---|---|---|
| | £000 | £000 |
| **Provision at 1 April** | **690** | **658** |
| Interest cost | 28 | 32 |
| Actual benefit payments | (17) | (17) |
| Actuarial loss | 43 | 17 |
| Past service cost | - | - |
| **Provision at 31 March** | **744** | **690** |
| Net movement in year (excluding actuarial loss) | 11 | 15 |

| | 2013-14 | 2012-13 |
|---|---|---|
| **History of experience losses** | £000 | £000 |
| Experience losses arising on the scheme liabilities | 8 | 1 |
| Amount recognised as a percentage of present value of scheme liabilities | 1.1% | 0.1% |
| Total amount recognised in Statement of Changes in Taxpayers' Equity | 43 | 17 |

The pension provision is for the unfunded pension liabilities which fall to us 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. We've sought actuarial advice to ensure that the provision is set at a realistic level.

An actuarial valuation was carried out by the Government Actuary's Department at 31 March 2014. The major assumptions used by the actuary were:

| | At 31 March 2014 | At 31 March 2013 |
|---|---|---|
| | % (per annum) | % (per annum) |
| Inflation assumption - Consumer Price Index | 2.50 | 1.70 |
| Rate of increase in salaries | 4.50 | 3.95 |
| Rate of increase for pensions in payment and deferred income | 2.50 | 1.70 |

| | 2013-14 | 2012-13 | 2011-12 |
|---|---|---|---|
| **Analysis of actuarial loss** | £000 | £000 | £000 |
| Experience loss arising on the scheme liabilities | 8 | 1 | 11 |
| Changes in assumptions underlying the present value of scheme liabilities | 35 | 16 | (1) |
| Per Statement of Changes in Taxpayers' Equity | 43 | 17 | 10 |

From 31 March 2014, the discount rate for pension scheme liabilities changed from 2.35% to 1.8%. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2014.

### 13.3 Dilapidations

| | 2013-14 |
|---|---|
| | £000 |
| **Provision at 1 April** | 1,900 |
| Increase in dilapidations | - |
| **Provision at 31 March** | **1,900** |

## 14. Contingent liabilities disclosed under IAS 37

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

As at 31 March 2014 there were no contingent liabilities that required disclosure.

## 15. Related party transactions

During the year, we transferred £6.102 million to the Department for Business, Innovation and Skills for the energy-sector-related costs of Consumer Focus. We also transferred £0.820 million to the National Measurement Office for metrology services.

We administer environmental programmes on behalf of the Department of Energy and Climate Change (DECC), and second staff to DECC. Total income from DECC recognised in year amounted to £18.173 million.

We sublet part of our Millbank premises to the Department for Environment, Food and Rural Affairs (DEFRA). We administer the Northern Ireland Renewable Heat Incentive on behalf of the Department of Enterprise, Trade and Investment, and administer the Northern Ireland Renewables Obligation on behalf of the NI Authority for Utility Regulation. Income recognised in year was £2.447 million from DEFRA, £0.790 million from the NI Authority for Utility Regulation, and £0.514 million from the Department of Enterprise, Trade and Investment.

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.

## 16. Third-party assets

### Renewables Obligation

The Renewables Obligation, the Renewables Obligation (Scotland) and the Northern Ireland Renewables Obligation are designed to incentivise renewable generation in the electricity generation market. These schemes were introduced by the Department of Trade and Industry (now the Department 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, whose day-to-day functions are performed by Ofgem. The schemes are provided for in secondary legislation and require licensed electricity suppliers to source a certain portion of the electricity they supply from renewable sources or make a payment into the buyout fund, or a combination of both. A Renewables Obligation Certificate (ROC) is evidence that a supplier has sourced its electricity from renewable sources.

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

The amount held in the buyout funds as at 31 March 2014 was £5,500.

### 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 us for our tender costs. This security is a financial commitment from the offshore developer to secure our potential liability for running a tender process. We have 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 2014 the amount held as securities was £14.180 million.

## 17. Events after the reporting period

There were no reportable events between the end of the reporting period and 13 June 2014, the authorised for-issue date. The financial statements do not reflect events after this date.

# Accounting officer's foreword to the trust statement

## Scope

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

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

The trust statement reports the revenues, expenditures, assets and liabilities related to fines, penalties and the fossil fuel levies for the financial year 2013-14. We collect these amounts for payment into the Consolidated Fund.

This statement is also prepared to disclose any material expenditure or income that has not been applied to the purposes intended by parliament, or material transactions that have not conformed to the authorities which govern them. There was no such expenditure or income during 2013-14.

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

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

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

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

The Sustainable Energy Act 2003 created a mechanism by which the FFL surplus, up to a maximum of £60 million, could be transferred from the England and Wales levy account to the Consolidated Fund. The Secretary of State for Business, Innovation and Skills has 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.

Since the £60 million limit has been exceeded, all further FFL receipts are treated as hereditary revenue, as they are non-statutory receipts. Section 1 of the Civil List Act 1952 requires hereditary revenues to be paid into the Consolidated Fund. On 30 September 2013 and 26 March 2014, £25 million and £32 million, respectively, were transferred to the Consolidated Fund from the England and Wales account on this basis.

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

Under section 187 of the Energy Act 2004, the Scottish government may direct us to pay an amount from the Scottish levy account to the Scottish Consolidated Fund. No such direction was received during 2013-14. In 2012-13, £206 million was paid over to the Scottish Consolidated Fund.

## Financial review

This year we imposed penalties on companies that required them to make restitution to affected customers. This financial review covers penalties that resulted in funds flowing to the Consolidated Fund.

On 3 May 2013 we issued a notice confirming our decision to impose a penalty of £10.5 million on SSE for numerous breaches of its obligations relating to telephone, in-store and doorstep sales activities. The penalty was received in July 2013 and transferred to the Consolidated Fund in the same month.

On 9 July 2013 we issued a notice confirming our decision to impose a penalty of £3 million on E.ON after it was found to have breached its reporting obligations under the government's Carbon Emissions Reduction Target programme over inaccurate reporting of energy-saving lightbulbs.

Of the penalty, £2.5 million was paid to E.ON customers who are eligible to receive Warm Home Discount Broader Group payments. This meant that around 18,500 customers received £135 to help with their 2013-14 winter bills. The remaining £500,000 was paid as a penalty. The penalty was received in August 2013 and transferred to the Consolidated Fund in the same month.

On 4 December 2013 we issued a notice confirming our decision to impose a penalty of £8.5 million on Scottish Power Energy Retail Ltd in the form of compensation and payments to vulnerable customers, for breaches of obligations relating to telephone and face-to-face sales activities.

We considered that the payments offered by Scottish Power to aid consumers were of greater benefit to energy customers than a penalty. Accordingly, we considered that a nominal penalty of £1 should be imposed. This was received in December 2013 and transferred to the Consolidated Fund in January 2014.

On 25 February 2014 we issued a notice confirming our decision to impose a penalty of £3.5 million on npower for breaches of its obligations in relation to the marketing of gas and electricity to domestic customers, and the provision of information to customers who pay by direct debit. The £3.5 million was to be used to fund a fuel poverty package.

Given the fuel poverty package, we considered that a nominal penalty of £1 should be imposed. This was received in February 2014 and transferred to the Consolidated Fund in March 2014.

During 2013-14, we collected £59.1 million in respect of the England and Wales Fossil Fuel Levy, and £7.0 million in respect of the Scotland Fossil Fuel Levy. £57 million from the England and Wales levy was paid over to the Consolidated Fund. 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 82 to 83. The auditor's notional remuneration for this is included in our resource accounts.

There were no fees for non-audit work.

## Basis for preparation

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

## Accounting judgements

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

## Events after the reporting period

There were no events after the reporting period.

**Dermot Nolan**
Accounting officer

**13 June 2014**

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

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

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

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

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

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

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

## Governance statement

Ofgem's governance statement, covering both the resource accounts and the trust statement, is on pages 41 to 42.

# 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 Office of Gas and Electricity Markets' Trust Statement for the year ended 31 March 2014 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 in respect of the Trust Statement, 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 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 Ofgem's Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Ofgem and the overall presentation of the financial statements.

In addition I read all of the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

## Opinion on regularity

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

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Office of Gas and Electricity Markets' Trust Statements affairs as at 31 March 2014 and of its 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 Accounting Officer's foreword to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

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

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

## Report

I have no observations to make on these financial statements.

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

**17 June 2014**

## Statement of revenue, other income and expenditure for the year ended 31 March 2014

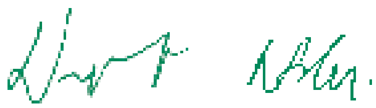
| | | 2013-14 | 2012-13 |
|---|---|---|---|
| | Note | £000 | £000 |
| **Revenue** | | | |
| ▪ **Fines and penalties** | | | |
| Penalties imposed | 2.1 | 11,000 | 500 |
| ▪ **Fossil Fuel Levy** | | | |
| Fossil Fuel Levy (England and Wales) | | 62,227 | 49,810 |
| Fossil Fuel Levy (Scotland) | | 7,727 | 5,582 |
| ▪ **Other income** | | | |
| Interest on Fossil Fuel Levy (England and Wales) | | 128 | 135 |
| Interest on Fossil Fuel Levy (Scotland) | | 59 | 320 |
| **Total revenue and other income** | | **81,141** | **56,347** |
| **Expenditure** | | | |
| Administration of the Fossil Fuel Levy | | (132) | (88) |
| **Total expenditure** | | **(132)** | **(88)** |
| **Net revenue for the Consolidated Fund** | | **81,009** | **56,259** |

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

The notes on pages 87 to 89 form part of this statement.

## Statement of financial position as at 31 March 2014

| | Note | 2013-14 £000 | 2012-13 £000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash at bank – Consolidated Fund | | 29,227 | 27,117 |
| Cash at bank – Scottish Consolidated Fund | | 23,983 | 16,994 |
| Receivables and accrued revenue receivable | 3 | 12,216 | 8,317 |
| Net current assets | | 65,426 | 52,428 |
| **Current liabilities** | | | |
| Payables and accrued expenditure liabilities | 4 | (19) | (30) |
| Total net assets | | 65,407 | 52,398 |
| **Represented by:** | | | |
| Balance on the Consolidated Fund account | | 39,929 | 34,678 |
| Balance on Scottish Consolidated Fund account | | 25,478 | 17,720 |
| | 5 | 65,407 | 52,398 |



**Dermot Nolan**
Accounting officer

**13 June 2014**

The notes on pages 87 to 89 form part of this statement.

## Statement of cash flows for the year ended 31 March 2014

| | 2013-14 | 2012-13 |
|---|---|---|
| | £000 | £000 |
| Net cash flow from operating activities | 77,099 | 65,853 |
| Cash paid to the consolidated funds | (68,000) | (266,500) |
| Increase/(decrease) in cash in the period | 9,099 | (200,647) |

## Notes to the cash flow statement

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

| | | 2013-14 | 2012-13 |
|---|---|---|---|
| | Note | £000 | £000 |
| Net revenue for the Consolidated Fund | | 81,009 | 56,259 |
| (Increase)/decrease in non-cash assets | 3 | (3,899) | 9,601 |
| Decrease in liabilities | 4 | (11) | (7) |
| Net cash flow from operating activities | | 77,099 | 65,853 |

### B: Analysis of changes in net funds

| | 2013-14 | 2012-13 |
|---|---|---|
| | £000 | £000 |
| Increase/(decrease) in cash in the period | 9,099 | (200,647) |
| Net funds at 1 April | 44,111 | 244,758 |
| Net funds at 31 March | 53,210 | 44,111 |

The notes on pages 87 to 89 form part of this statement.

# Notes to the trust statement

## 1. Statement of accounting policies

### 1.1 Basis of accounting

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

The income and associated expenditure in these statements are those flows of funds which we handle on behalf of the Consolidated Fund and where we act as agent rather than as principal.

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

### 1.2 Accounting convention

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

### 1.3 Revenue recognition

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

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

# 2. Revenue

## 2.1 Fines and penalties

| | 2013-14 | 2012-13 |
|---|---|---|
| | £000 | £000 |
| Penalty imposed on SSE | 10,500 | – |
| Penalty imposed on E.ON | 500 | – |
| Penalty imposed on Wales and West Utilities | – | 375 |
| Penalty imposed on Opus Energy | – | 125 |
| **Total** | **11,000** | **500** |

# 3. Receivables and accrued revenue receivable

| | Receivables as at 31 March 2014 | Accrued revenue receivable at 31 March 2014 | Total as at 31 March 2014 | Total as at 31 March 2013 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Fines and penalties | – | – | – | – |
| Fossil Fuel Levy | 6,466 | 5,750 | 12,216 | 8,317 |
| **Total** | **6,466** | **5,750** | **12,216** | **8,317** |

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

## 4. Payables and accrued expenditure liabilities

| | Payables as at 31 March 2014 | Accrued expenditure liabilities at 31 March 2014 | Total as at 31 March 2014 | Total as at 31 March 2013 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Fines and penalties | – | – | – | – |
| Fossil Fuel Levy | 19 | – | 19 | 30 |
| **Total** | **19** | **–** | **19** | **30** |

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

## 5. Balance on the Consolidated Fund accounts

| | 2013-14 | 2012-13 |
|---|---|---|
| | £000 | £000 |
| Balance on the Consolidated Fund accounts | 52,398 | 262,639 |
| Net revenue for the Consolidated Fund accounts | 81,009 | 56,259 |
| Less amount paid to the consolidated funds | (68,000) | (266,500) |
| **Balance on Consolidated Fund accounts as at 31 March** | **65,407** | **52,398** |

# Appendix I
# Performance against 2013-14 deliverables

Our Forward Work Programme for 2013-14 included key deliverables to be achieved in each quarter. The table below and detail on the following pages show the deliverables we met.

| | Number in Forward Work Programme | Total achieved | | | Deferred to 2014-15 | No longer apply |
|---|---|---|---|---|---|---|
| | | Met in quarter | Met in later quarter | Met in year | | |
| **Full year** | | | | | | |
| Year total | **45** | **39** | **4** | **43** | **1** | **1** |
| Year % | | 87% | 9% | 96% | 2% | 2% |
| **First quarter** | | | | | | |
| Quarter total | 11 | 8 | 3 | 11 | 0 | 0 |
| **Second quarter** | | | | | | |
| Quarter total | 10 | 8 | 1 | 9 | 0 | 1 |
| **Third quarter** | | | | | | |
| Quarter total | 11 | 10 | 0 | 10 | 1 | 0 |
| **Fourth quarter** | | | | | | |
| Quarter total | 13 | 13 | 0 | 13 | 0 | 0 |

## E-Serve

| Deliverable | Outcome | Due | Met in quarter | Comments |
|---|---|---|---|---|
| Go live with enduring IT system for the Energy Companies Obligation | Through excellence in administration improve energy efficiency of domestic households | Q1 | Q1 | Initial go-live has been completed |
| Complete annual report on the Community Energy Saving Programme | Meet deadlines and close schemes | Q1 | Q1 | |
| Complete annual report on the Carbon Emissions Reduction Target | Meet deadlines and close schemes | Q1 | Q1 | |
| Go live with Renewables Obligation banding changes | Through excellence in administration increase the proportion of electricity from renewable sources | Q1 | Q1 | |
| Go live with licensee-facing changes from phase 2B of the comprehensive review of the Feed-in Tariff | Through excellence in administration increase the uptake of small-scale renewable generation | Q1 | Q1 | |
| Publish updated regulatory position on coordination and future tenders | Through excellence in administration ensure offshore renewable generation is connected to GB electricity grid economically and efficiently | Q1 | Q2 | |
| Publish regulatory report on offshore transmission owner revenues | Through excellence in administration ensure offshore renewable generation is connected to GB electricity grid economically and efficiently | Q1 | Q4 | Report in Q4 for two years covering revenues and costs (with comparatives where available) |
| Complete annual report on the Renewable Heat Incentive | Through excellence in administration reduce carbon emissions and meet EU renewable targets | Q2 | Q2 | |
| Consult on revisions to tender process | Through excellence in administration ensure offshore renewable generation is connected to GB electricity grid economically and efficiently | Q2 | N/A | No longer applicable |
| Complete annual report on the Warm Home Discount | Through excellence in administration support fuel-poor customers | Q3 | Q3 | |
| Go live with the Renewable Heat Incentive phase 3 changes | Through excellence in administration reduce carbon emissions and meet EU renewable targets | Q3 | Deferred to Q1 2014-15 | The Department of Energy and Climate Change has delayed the introduction of these changes until April 2014 |
| Complete annual report on the Feed-in Tariff | Through excellence in administration increase the uptake of small-scale renewable generation | Q4 | Q4 | |
| Complete annual report on the Renewables Obligation | Through excellence in administration increase the proportion of electricity from renewable sources | Q4 | Q4 | |
| Complete revised guidance for biosolids and biogas sustainability requirements | Through excellence in administration increase the proportion of electricity from renewable sources | Q4 | Q4 | |

## Smarter Grids and Governance

| Deliverable | Outcome | Due | Met in quarter | Comments |
|---|---|---|---|---|
| Decisions on Network Innovation Competitions and Low-Carbon Networks Fund | Ensure value for money and consumer protection | Q3 | Q3 | |
| RIIO-ED1: initial assessment of business plan published | Output, incentive and innovation arrangements to enable efficiently run companies to provide the network services required for the ED1 period | Q3 | Q3 | |
| Progress work on removing barriers to and supporting the development of smart grids. | Understand how the role of the distribution network operator may need to develop as smart grids evolve | Q4 | Q4 | |
| Code Governance Review phase 2 conclusions | Ensuring effective and efficient licence and code regulations | Q4 | Q1 | Published in March 2013 |

## Markets

| Deliverable | Outcome | Due | Met in quarter | Comments |
|---|---|---|---|---|
| Continue work on wholesale electricity market liquidity. Following consultation on the "secure and promote" option, we aim to decide the way forward by summer 2013 | Ensure sufficient electricity wholesale market liquidity to facilitate effective competition | Q1 | Q1 | Minded-to decision Q1 |
| Third-party intermediaries regulation – publish issues paper | Increase customer engagement in the energy market | Q1 | Q1 | |
| Develop and take forward electricity balancing and significant code review | Improve market signals for electricity security of supply, and further the effective implementation of the EU single market in the interests of GB customers | Q1 | Q2 | Consultation document Q1, final Q2 |
| Capacity assessment report to Secretary of State | Highlight capacity issues for government and industry action | Q1 | Q1 | |
| Submit national report to EU Commission | Advise the Commission of developments in the regulation and performance of GB energy markets | Q3 | Q2 | |
| Implement Retail Market Review reforms | New obligations in place and working | Q3 | Q3 | |
| Smarter Markets: demand-side response. Conclude regulatory issues consultation | Increased effectiveness of competition in retail markets | Q3 | Q3 | |
| Electricity theft reform – final proposals plus licence changes | Increased effectiveness of competition in retail markets | Q4 | Q4 | |
| Smarter Markets: change of supplier reform. Consultation on policy options | Increased effectiveness of competition in retail markets | Q4 | Q3 | |
| Statutory security of supply report | To fulfil statutory duty and highlight security of supply issues for government and industry action | Q3 | Q1 | |
| Continue input into the government's Electricity Market Reform | Market design that meets objectives of security of supply, government low-carbon goals and value for money for GB customers | Q4 | Q4 | Ongoing and reflective of government Electricity Market Reform timings |

## Sustainable Development

| Deliverable | Outcome | Due | Met in quarter | Comments |
|---|---|---|---|---|
| Better Regulation simplification plan | Delivery of Better Regulation duties | Q2 | Q2 | |
| Consultation on proposals following Enforcement Review | Effective consumer engagement and protection | Q2 | Q2 | |
| Non-domestic backbilling data review | Reduction in number and scale of backbilling cases | Q2 | Q2 | |
| Debt and disconnection annual report | Scrutiny of trends and identification of issues requiring further investigation | Q2 | Q2 | |
| Smart metering consumer protection and empowerment issues paper | Effective regime for consumers | Q3 | Q3 | |
| Publish consultation paper on the review of the Green Tariff | Greater consumer confidence | Q2 | Q2 | |
| Establish a Consumer Vulnerability Network | To gather insight on vulnerable consumers and help inform our future thinking | Q2 | Q4 | Work on this is under way but was not completed by the end of Q2. The Priority Services Register review was prioritised, given the strong stakeholder interest in this project |
| Finalise consumer vulnerability strategy | Framework for considering consumer vulnerability in our work | Q2 | Q1 | |
| Complete annual Sustainable Development reporting | Fulfil statutory duty and contribute to sustainable development policy and activity | Q3 | Q1 | |
| Publish decision on conclusion of Enforcement Review | Effective consumer engagement and protection | Q4 | Q4 | |
| Debt Assignment Protocol review of progress | Effective competition and choice for consumers on prepayment meters | Q4 | Q4 | |
| Conduct Environmental Discretionary Reward assessment and panel meetings as part of the transmission price control RIIO-T1 | Improved industry performance on strategic environmental considerations | Q4 | Q3 | |
| Ofgem-specific National Adaptation Programme actions delivered | Involvement in and constructive influence over the National Adaptation Programme | Q4 | Q2 | |

## Corporate functions

| Deliverable | Outcome | Due | Met in quarter | Comments |
|---|---|---|---|---|
| Publish 2012-13 annual report and accounts | Financial propriety, transparency and accountability | Q2 | Q1 | |
| Publish the Fossil Fuel Levy Rate for 2014-15 | Levy set | Q3 | Q3 | |
| Publish the Forward Work Programme 2014-15 | Transparency | Q4 | Q4 | |

# Appendix I I
# Performance indicators 2013-14

| Division | Measure | Target | Actual |
|---|---|---|---|
| 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% |
| Markets | Send decisions on Article 22 exemptions to the European Commission within prescribed timescales if adequate data has been provided. | 100% | 100% |
| Sustainable Development | Protect consumers by responding substantively to customer contacts. | 93% within ten working days | 85%[1] |
| Sustainable Development | Respond to complaints on enforcement matters confirming whether we will investigate. | 90% within 20 working days | 100% |
| Sustainable Development | Produce statement of case or inform party under investigation of what action we propose to take. | 100% within nine months of formal investigation | 100% |
| Smarter Grids and 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% | 95% |
| Smarter Grids and Governance | Publish code modification impact assessments (or other consultations) within three months of receiving the final modification report. | 90% | 67%[2] |
| Smarter Grids and Governance | Grant competitive licence applications within 45 days of receipt of a duly made application. | 100% | 100% |
| Smarter Grids and Governance | Competition test decisions to be made within four months of receipt. | Four months | Achieved |
| Smarter Grids and Governance | Determinations to be progressed to decision within three months, as applicable. | Three months | Ongoing |
| Smarter Grids and Governance | Announcements of Network Innovation Competition/ Low-Carbon Networks Fund initial screening process decisions within one month of initial screening process submission. | One month | Achieved |

1. Unavoidable absences coincided with an unexpected increase in contacts in October.

2. We released three modification proposal consultations in 2013-14. Two were issued within the three-month target.

## E-Serve performance indicators

| Scheme | Measure | Target | Actual |
|---|---|---|---|
| Feed-in Tariff | Follow up with generators about outstanding issues on their applications for accreditation. | 90% within ten working days | 86%[1] |
| Feed-in Tariff | Feed-in Tariff levelisation process to be completed in a timely manner after receipt of data from suppliers. | 95% within 22 working days | 100% |
| Renewables and combined heat and power | Issue the main batches of renewable certificates following the generators' reporting deadline for their output data. | 95% within 17 working days (April to June)<br>95% within 12 working days (July to March) | Renewables Obligation Certificates: 97%<br>Levy Exemption Certificates: 96% |
| Renewables and combined heat and power | Complete reconciliation of combined heat and power Levy Exemption Certificates after receiving accurate data from Combined Heat and Power Quality Assurance. | 95% within 25 working days | N/A |
| Renewables Obligation | Follow up with generators about outstanding issues on their applications for accreditation. | 90% within ten working days | 90% |
| Warm Home Discount | Respond to obligated party Warm Home Discount schemes for approval. | 100% within 28 days | 100% |
| Renewable Heat Incentive | Enquiries to be answered within ten working days. | 90% within ten working days | 98% |
| Renewable Heat Incentive | Follow up with generators about outstanding issues with their applications for accreditation. | 90% within ten working days | 98% |
| Renewable Heat Incentive | Payments to be made within 30 working days of quarterly periodic data submission. | 95% within 30 working days | 99% |
| Renewable Heat Incentive | The online application system will be available for at least 99% of the supported business hours (excluding planned downtime). These hours are 8am to 5.30pm Monday to Friday, excluding bank holidays. | 99% availability | 100% |
| Offshore | Licence grant within 70 days of the start of the section 8a consultation | 70 days | 100% |
| Offshore | Preferred bidder selection within 120 days of invitation to tender submission (excluding best and final offer) | 120 days | 100% |

1. Due to an unprecedented number of applications received in December, the team was not able to meet its target for that month.

# Appendix I I I
# Impact assessments undertaken in 2013-14

We published 15 impact assessments between 1 April 2013 and 31 March 2014. Further information on the following documents can be found at **www.ofgem.gov.uk.**

| Date | Title |
|---|---|
| 12 June 2013 | Wholesale power market liquidity: final proposals for a 'Secure and Promote' licence condition |
| 3 July 2013 | Tackling electricity theft – consultation |
| 18 July 2013 | Statement on the proposed framework to enable coordination: an update to our December consultation |
| 30 July 2013 | Electricity Balancing Significant Code Review – draft policy decision |
| 1 August 2013 | Project TransmiT: industry proposals (CMP213) to change the electricity transmission charging methodology |
| 21 October 2013 | Further consultation on restatement of 2009-10 data and closing out the DPCR4 losses incentive mechanism |
| 29 October 2013 | Balancing and Settlement Code modification proposal 272 |
| 8 November 2013 | CMP201 – proposal to remove balancing charges from generators |
| 20 November 2013 | Wholesale power market liquidity: statutory consultation on the 'Secure and Promote' licence condition |
| 22 November 2013 | National Grid's proposed new balancing services |
| 12 December 2013 | Cap and floor regime for application to project NEMO |
| 12 February 2014 | Gas Significant Code Review final policy decision |
| 14 February 2014 | Proposals for regulating non-domestic third-party intermediaries |
| 4 March 2014 | Tackling electricity theft – the way forward |
| 21 March 2014 | Decision on restatement of 2009-10 data and closing out the DPCR4 losses incentive mechanism |

## Summary of actions impact assessments relate to

This table shows the decisions taken in the 2013-14 financial year that involve proposals for which impact assessments were previously carried out.

| Date | Decision | Comments |
|---|---|---|
| 28 June 2013 | Implementation of the Retail Market Review non-domestic proposals – decision to make licence modifications | 'Retail Market Review – impact assessment for the final non-domestic proposals' (22 March 2013) |
| 28 June 2013 | Implementation of the domestic Standards of Conduct – decision to make licence modifications | 'Retail Market Review – final impact assessment for domestic proposals' (27 March 2013) |
| 12 July 2013 | Decision on the process to follow for closing out the losses incentive mechanism for the fourth distribution price control (DPCR4) | 'Consultation on restatement of 2009-10 data and closing out the DPCR4 losses incentive mechanism' (16 November 2012) |
| 18 July 2013 | Offshore electricity transmission: statement on future generator build tenders | 'Offshore transmission – consultation on potential measures to support efficient network coordination' (1 March 2012) |
| 23 July 2013 | Gas Security of Supply Significant Code Review – updated proposed final decision | 'Gas Security of Supply Significant Code Review – impact assessment for the proposed final decision' (31 July 2012) |
| 29 July 2013 | Request from National Grid Gas for direction regarding pass-through of theft investigation costs for 2012-13 | 'Tackling gas theft: final impact assessment' (26 March 2012) |
| 16 August 2013 | Balancing and Settlement Code (BSC) P291: REMIT Inside Information Reporting Platform for GB Electricity | In relation to Elexon produced IA: P291, 'REMIT Inside Information Reporting Platform for GB Electricity' (21 March 2013) |
| 27 August 2013 | The Retail Market Review – implementation of simpler tariff choices and clearer information | 'Retail Market Review – final impact assessment for domestic proposals' (27 March 2013) |
| 10 September 2013 | Cost assessment report for the London Array transmission assets | 'Offshore transmission – consultation on potential measures to support efficient network coordination' (1 March 2012) |
| 25 September 2013 | Distribution Connection and Use of System Agreement (DCUSA) DCP054 – Revenue Protection: Unrecorded Units into Settlements | 'Tackling electricity theft – consultation' (3 July 2013). Also in relation to Elexon produced 'IA: Standing issue 39: options for improving how unrecorded units are entered into settlement under the BSC' (4 February 2011) |
| 26 September 2013 | Direction in relation to the RIIO-GD1 gas distribution price control – regulatory instructions and guidance | 'RIIO-GD1: final proposals – overview' (17 December 2012) |
| 26 September 2013 | Direction in relation to the RIIO-T1 electricity transmission price control – regulatory instructions and guidance | 'RIIO-T1: final proposals for National Grid Electricity Transmission and National Grid Gas' (17 December 2012) |

| Date | Decision | Comments |
|---|---|---|
| 26 September 2013 | Direction in relation to the RIIO-T1 gas transmission price control – regulatory instructions and guidance | 'RIIO-T1: final proposals for National Grid Electricity Transmission and National Grid Gas' (17 December 2012) |
| 10 October 2013 | Supply point administration agreement (SPAA) change proposal 13/239 Theft Risk Assessment Service (TRAS) arrangements: TRAS product | 'Tackling gas theft: final impact assessment' (26 March 2012) |
| 27 November 2013 | Offshore transmission: cost assessment for the Greater Gabbard transmission assets | 'Offshore transmission – consultation on potential measures to support efficient network coordination' (1 March 2012) |
| 23 January 2014 | Wholesale power market liquidity: decision | 'Wholesale power market liquidity: final proposals for a "Secure and Promote" licence condition' (12 June 2013) and 'Wholesale power market liquidity: statutory consultation on the "Secure and Promote" licence condition' (20 November 2013) |
| 6 February 2014 | Balancing and Settlement Code (BSC) P272: direction to the BSC panel to consult on a revised implementation date for P272 | 'Balancing and Settlement Code modification proposal 272' (29 October 2013) |
| 4 March 2014 | Tackling electricity theft – the way forward | 'Tackling electricity theft – consultation' (3 July 2013) |
| 21 March 2014 | Decision on restatement of 2009-10 data and closing out the DPCR4 losses incentive mechanism | 'Further consultation on restatement of 2009-10 data and closing out the DPCR4 losses incentive mechanism' (21 October 2013) |
| 26 March 2014 | Distribution Connection and Use of System Agreement (DCUSA) DCP201 – provisions for the Theft Risk Assessment Service (TRAS) | 'Tackling electricity theft – consultation' (3 July 2013) |

# Appendix IV
# Investigations and enforcement action 2013-14

Details of our 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 facts and nature of the investigations on our website (except where this may adversely affect the investigation).[3]

| Company | Issue | Decision | Date of decision |
|---|---|---|---|
| Economy Energy | Compliance with standard conditions of the gas and electricity supply licences and the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008 | Published our intention to confirm a provisional order against Economy Energy. Final decision pending. | March 2014 |
| npower | Compliance with Standard Licence Condition 25 on telephone and face-to-face sales activities | Settlement. npower agreed to pay £3.5 million to consumers in fuel poverty, and refund customers who lost money as a result of the breach. | February 2014 |
| Scottish Power | Compliance with Standard Licence Condition 25 on giving customers accurate information about annual charges and how much they would or would not save if they switched supplier | Settlement. Scottish Power agreed to pay £8.5 million to consumers. | December 2013 |
| Scottish Power | Compliance with the Consumer Protection Regulations 2008 involving the tariff "ScottishPower Direct – Oct 2012 Offer" | Investigation closed on administrative priority grounds, taking into account Scottish Power's swift removal of the tariff from sale and assurances given about setting new tariffs in the future. | October 2013 |
| E.ON | Compliance with article 16(1)(a) of the Electricity and Gas (Carbon Emissions Reduction) Order 2008, on misreporting of the distribution of compact fluorescent lamps | Settlement. E.ON paid a £500,000 penalty, as well as a further £2.5 million to benefit people in fuel poverty. | August 2013 |

[1] www.ofgem.gov.uk/About%20us/enforcement/Investigations/CurrentInvest/Pages/CurrentInvstgtns.aspx
[2] www.ofgem.gov.uk/ABOUT%20US/ENFORCEMENT/Documents1/Enforcement%20Guidelines%20post%20consultation.pdf
[3] The fact that some investigations are still going should not imply that the companies involved have breached licence conditions or otherwise broken the law.

| Company | Issue | Decision | Date of decision |
|---|---|---|---|
| Association of Energy Suppliers, British Gas, EDF Energy, Energy Retail Association, E.ON, npower, Scottish Power, SSE | To determine whether third-party intermediaries had been prevented or restricted from engaging in face-to-face marketing, in breach of Chapter I of the Competition Act 1998 | Investigation closed on administrative priority grounds, having made the decision to direct our resources to further work on the regulatory environment applicable to third-party intermediaries seeking to engage in face-to-face marketing of energy supply. | June 2013 |
| British Gas | Compliance with Standard Licence Condition 22.7 on calculation of calorific value | We welcomed British Gas's announcement that it had made a £10 million payment to directly benefit energy consumers in financial hardship. | June 2013 |
| SSE | Compliance with Standard Licence Condition 25, concerning telephone and face-to-face sales activities | We confirmed our decision to penalise SSE £10.5 million for mis-selling | May 2013 |
| MA Energy | Compliance with Standard Licence Condition 11 of the Electricity Supply Licence (Compliance with Industry Codes) | Investigation closed on administrative priority grounds, taking into account MA Energy's change of ownership, the end of the breach, and compliance for a significant period | May 2013 |
| npower | Investigation into the reporting of electricity supply data under the Renewables Obligation and Feed-in Tariff | Ongoing | N/A |
| Spark Energy | Investigation into compliance with the gas and electricity supply licences and the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008 | Ongoing | N/A |
| British Gas | Investigation into compliance with the Electricity and Gas (Carbon Emissions Reduction) Order 2008 | Ongoing | N/A |
| British Gas | Investigation into compliance with the Electricity and Gas (Community Energy Saving Programme) Order 2009 | Ongoing | N/A |

| Company | Issue | Decision | Date of decision |
|---|---|---|---|
| Drax | Investigation into compliance with the Electricity and Gas (Community Energy Saving Programme) Order 2009 | Ongoing | N/A |
| GDF Suez / IPM Power | Investigation into compliance with the Electricity and Gas (Community Energy Saving Programme) Order 2009 | Ongoing | N/A |
| Intergen | Investigation into compliance with the Electricity and Gas (Community Energy Saving Programme) Order 2009 | Ongoing | N/A |
| Scottish Power | Investigation into compliance with the Electricity and Gas (Community Energy Saving Programme) Order 2009 | Ongoing | N/A |
| SSE | Investigation into compliance with the Electricity and Gas (Community Energy Saving Programme) Order 2009 | Ongoing | N/A |
| E.ON | Investigation into mis-selling on doorstep and telesales (Standard Licence Condition 25 of the gas and electricity supply licences) | Ongoing | N/A |
| British Gas Business | Investigation into compliance with obligations on non-domestic customer transfer blocking (Standard Licence Condition 14 of the gas and electricity supply licences) | Ongoing | N/A |
| Scottish Power | Compliance with obligations under Standard Licence Condition 27.2A of the gas and electricity supply licences, in relation to the significant difference between Scottish Power's standard and direct debit tariffs | Ongoing | N/A |
| EDF Energy | Investigation into compliance with the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008 | Ongoing | N/A |

[1] www.ofgem.gov.uk/About%20us/enforcement/Investigations/CurrentInvest/Pages/CurrentInvstgtns.aspx
[2] www.ofgem.gov.uk/ABOUT%20US/ENFORCEMENT/Documents1/Enforcement%20Guidelines%20post%20consultation.pdf
[3] The fact that some investigations are still going should not imply that the companies involved have breached licence conditions or otherwise broken the law.

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