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Making a positive difference
for energy consumers

2022-23

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

ofgem

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Annual Report and Accounts

(For the period 1 April 2022 to 31 March 2023)

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Chair's foreword
Martin Cave

The last year has seen Ofgem take on the major task of supporting customers through an extraordinary energy crisis, and protecting the interests of domestic and non-domestic energy consumers, both now and in the future.

Our reliance on international gas markets that have been manipulated by an aggressive state means that geopolitics is playing a far stronger hand in our energy policy than is desirable, or we had planned for. In tandem, seismic changes in the economics of energy - with low carbon generation rapidly becoming not only a less costly but also a more resilient choice - mean we have had to rethink how to deliver a secure and reliable homegrown energy supply, so we are no longer at the mercy of international energy prices.

For this reason, the work of the Board this last year has included a fundamental shift in our approach to security of supply, strategic risks, and, assuming that price volatility will continue to feature for many years to come, how we interact with global energy markets. Ofgem has played a pivotal role in this agenda, taking on new responsibilities from the government, on both the regulatory and the delivery side of our operations.

In December, in order to accommodate these new functions, the Board agreed to refocus Ofgem's Strategy Framework around ensuring fair prices, quality service for consumers, and a resilient sector in the short term, and around enabling investment and reform of our market and governance procedures to facilitate the transition to a low-cost, decarbonised energy system in the long term.

This has involved developing fundamental changes in how we plan, build, and supervise the roll out of new energy infrastructure, at a pace not seen for decades, while also reshaping a retail market that is both resilient to financial risk, while also sufficiently innovate and dynamic to deliver new offers to customers.

This more flexible energy system has also involved a great deal of work to develop our thinking on consumer price protection, how to drive up supplier standards in a market where the role of people switching will not play the role once hoped for, and, above all at a time of very high energy bills, how to ensure that customers in vulnerable situations are treated fairly and properly.

An affordability crisis of this scale, generated by global conflict that is threatening the security of our energy supplies, and wider threats to the resilience of our energy system are, taken together, truly unprecedented. We have made and acknowledged mistakes, but I am proud to have been part of our role in discharging this very important mission, and I know my Board colleagues are too.

Ofgem has shown great dedication in stepping up to meet these unprecedented challenges and navigating the energy crisis, and on behalf of the Board I would like to sincerely thank Jonathan Brearley, our CEO, all the staff at Ofgem, and indeed all the staff associated in this task in the sector, for their dedicated and hard work to face up to these challenges and look after customers.

As a regulator, as my appointment draws to its close, I have found inspiration in our duty to protect the interests of all customers through the current crisis, to have particular concerns for the vulnerable, and to bridge to a future energy market that is both greener and less subject to volatile international energy prices. It is clear we are on a difficult road, but there are brighter days ahead. Ofgem is working hard to make a positive impact protecting consumers through the coming winter and beyond, and helping deliver a cheaper, greener, and more secure energy system in the long term.

Finally, I would like to thank all current board members and also Christine Farnish, for her years of valuable service on the Board from January 2016 to August 2022.

Martin Cave

Martin Cave
Chair

Chief Executive's Foreword
Jonathan Brearley

Throughout the next phase of the gas crisis, Ofgem has remained focused on protecting the interests of customers, both today and for the long term.

The last year has brought enormous challenges for the energy sector, and more importantly for the customers that we are here to serve. Driven largely by Russian invasion of Ukraine, the rise in energy prices that we have faced has no precedent since at least the oil price shocks of the 1970s.

As Britain's energy regulator, Ofgem's job is to do everything we can to support domestic and non-domestic consumers, and I would like to thank consumer groups and charities, the industry, government, and Ofgem staff for the enormous amount of hard work they have done to this end in a difficult and turbulent year.

We had to respond at pace, taking on new functions and responsibilities, as well as responding to rapidly changing circumstances during the crisis. This included work in relation to improving supplier resilience and avoiding costly failures, energy market reforms, and new additional regulatory roles. At the same time, we continued to deliver current and future government schemes, and more broadly to facilitate the government's 2035 net zero power system and 2050 net zero targets.

Equally, we have worked to embed lessons learned from the early stage of the crisis, such as developing a new consumer interest framework, introducing regulation to drive up supplier financial resilience, and adapting our structures and governance to fit the broader role we now play within the energy market.

The urgent need to respond to the energy crisis has meant it has not been possible to do everything we would ideally like, with certain planned activities, such as some updates to our wider retail work, being paused. However, by prioritising our most important work, ceasing non-essential activities, and in delivering significant efficiencies, we have been able to focus resources on our first priority which, as ever, is protecting all customers, and particularly vulnerable customers.

Protecting consumers today

I talk to customers, charities, and their representatives regularly, and I know how that even with the Energy Price Guarantee and other extensive support government put in place, delivered in partnership with Ofgem, this last year has been very tough for many households across Britain.

That is why we launched our consumer-focused 'Energy Aware' campaign to bring together advice to consumers on issues including what support is available and how to claim it, what to do if they are in debt, and how to save money on bills by making simple changes in their home.

For the longer term, we have continued to work with the government on options to tackle the wider affordability of energy.

Additionally, we have taken tough measures to ensure meet the high standards consumers expect, and stamping out bad practice wherever it exists. As part of our programme of Market Compliance Reviews of suppliers' behaviour, we uncovered significant weaknesses amongst some suppliers in the way they treated vulnerable customers and those in payment difficulty.

We have been crystal clear with suppliers that they must ensure the safety of their most vulnerable customers, and have undertaken compliance and enforcement activities in a range of areas, including using our powers to stop harm to consumers quickly, and ensuring millions of pounds was refunded or paid as compensation to customers.

We discovered serious problems around the forced installation of prepayment meters (PPMs). We launched an extensive review, and demanded improvements quickly, including compensation for customers where the rules were not followed, and removal of PPMs if wrongfully installed. We have also put in place a new Code of Practice, banning the installation of PPMs for the most vulnerable groups. This will be fully translated into regulations and guidance in the coming months.

Ofgem's remit is to protect the interests of all consumers – including business energy consumers.

So we are working hard to increase our monitoring across the non-domestic market, carrying out a compliance review to investigate high prices for non-domestic customers, and a review of the obligations of suppliers in this area.

Equally, we need a financially resilient, reasonably profitable sector that delivers good customer service. So we are reforming the retail energy market, building on the reforms of recent years to make the market more resilient to extreme market conditions so we do not see supplier failures we saw last winter which ultimately drive up bills.

Last year's gas crisis also led to risks to security of supply. We worked closely with the sector and the government to limit these risks, helping to ensure steady supplies of gas and electricity through the winter. Due to mild weather, replenished gas stores across Europe and East Asia, and more benign conditions for energy trading, the situation now looks more benign. However, we should not be complacent. Risks remain, both for the coming winter and beyond, and Ofgem, National Grid, and the government will continue to work closely together to mitigate these risks, and prepare for potential emergencies.

While energy prices are now falling, it seems unlikely that prices will return to those seen before 2020. In my view, while the energy crisis has not gone away, it is entering a different phase. So Ofgem is responding by shifting from crisis management to building a more resilient energy sector, with lower costs and reduced dependence on imported fossil fuels, as we accelerate the transition to net zero.

Protecting consumers for the long term

To enable this transition, Ofgem, through our price control settlement for the local electricity distribution networks, has approved the investment of billions of pounds to reinforce and expand those networks, enabling the connection of more renewables and the growing adoption of electric vehicles and heat pumps.

In the transmission network, we are consulting on shifting to a new 'invest and connect' policy, where infrastructure can be built and ready ahead of when it is needed. We have shown already that this can work through a new streamlined regulatory framework called the Accelerated Strategic Transmission Investment, or ASTI, which unlocked an unprecedented amount of anticipatory investment, totalling about £20 billion. What in business as usual might have taken Ofgem years to approve, iterating with each individual network company on each project, took a matter of months, once we had the confidence that this was already laid out in a holistic assessment of what is needed.

We are also delivering reforms that will put consumers in control of their energy use as never before, shaping an energy system which can deliver more flexibility in how we generate, use and store energy. These reforms go beyond the 'end-of-the-wire' changes and involve new opportunities for consumers.

By enabling smart gadgets and more effective storage systems that will make energy cheaper when there is less demand, or more supply, such as when it is windy or sunny, customers will be able use energy at different times and in smarter ways, using new technology enabled with better AI & data. This will mean not only lower bills, but reduce overall energy demand, meaning we will need less generation, creating less strain on the grid and helping to make the transition to net zero at lowest cost.

In my view, the diversity of perspective around the table when we are making big decisions, the inclusivity of our places of work, and the equality with which we treat each other, is one of the most fundamental factors for our success. Improving equity, diversity and inclusion is thus crucial, both for managing the energy crisis and reaching a different kind of energy sector in the future, and being an effective regulator. So in September, we launched our new EDI strategy, including prioritising driving change across the industry. Being part of Tackling Inclusion Diversity in Energy (TIDE) Taskforce is a key vehicle for us to support this ambition.

In a difficult year, Ofgem has supported consumers through the energy crisis, taken steps towards greater energy independence, and, above all have worked to ensure that customers are treated fairly and properly protected, particularly those in vulnerable situations. Working closely with the government, industry, consumer groups, and charities, I look forward to continuing this crucial work in the coming year.

Jonathan Brearley
Chief Executive

Performance report | 2022-23

Performance report

Engaging with our stakeholders

This has been a difficult year for consumers, businesses and the industry with turmoil and volatility in energy markets in Europe and beyond leading to energy prices rising to unprecedented heights. Consequently, stakeholder engagement has been more vital than ever.

Ongoing energy crisis and our response

Over the past 12 months we have continued to engage stakeholders to understand their challenges and needs and gathered insights to inform our decisions and policies. Martin Cave and Jonathan Brearley, along with other senior leaders in Ofgem have met with stakeholders such as charities and domestic and non-domestic consumer representatives to gain greater understanding of the challenges people are facing. Senior leaders have also continued to meet with supplier CEOs, as well as engaging with wider senior stakeholders to gather insight and hold open, transparent discussions.

Engagement with stakeholders

We have continued to meet regularly with our working groups including Community Groups and Charities, Large User Group, and the Small User Group for non-domestic consumers, enabling them to feedback on proposed policy changes and consultations, and share their concerns and priorities.

We have worked in partnership with these stakeholders to produce documents to help answer questions, provide advice and signpost people to where they can get help during this difficult period. We have produced documents for domestic consumers as well as non-domestic consumers.

Engagement with non-domestic consumers

Given the increased challenges on non-domestic energy consumers over the past 12 months we have developed a strategy to increase the frequency and scope of our engagement with this sector. We have increased the membership of the Small User Group, enabling us to reach across the various industry sectors which are struggling with energy market issues as well as building new strategic relationships between Ofgem and core non-domestic energy users/their trade associations.

Winter preparedness

To help alleviate consumer worry this winter and ensure that people were informed about potential energy disruptions we brought together government and industry partners to develop a messaging campaign to inform the public on what to expect if a rota disconnection were needed, and how they could prepare.

Energy Aware Campaign

We have worked with stakeholders to actively support and promote Ofgem's inaugural winter consumer-facing communications campaign which championed consumer rights and provided actionable advice to help consumers get through the winter. This included coordinating presentations to partners directly and participating in the Ideal Home Show where Ofgem staff provide advice directly to consumers on issues including energy efficiency, energy saving and the schemes that Ofgem administers.

Ofgem staff also volunteer at the Bromley by Bow Centre to provide free, impartial and confidential energy advice.

Sustainable Energy Futures Forum

The Sustainable Futures Energy Forum is a partnership between Ofgem and Sustainability First, supporting young people (aged 18-25) to share valuable insights and input into decision-making in the energy sector in Great Britain. This will provide an opportunity for our senior staff to engage with young people, gather insight and feedback which can feed into policy decision-making.

Pre-Payment Meters and Vulnerability

Interest and criticism of Ofgem's role on pre-payment meters (PPMs) and forced installations came into prominence this year. We have used our existing channels, including supplier CEO and regulatory director working groups and consumer group and charities working groups to update stakeholders on and promote our PPM workstreams. We also set up a series of targeted workshops and round tables at CEO level to get stakeholder buy-in in developing the Code of Practice.

We have arranged the Vulnerability Summit. Bringing together leaders from the utilities sector, consumer groups, charities, trade representatives and government, to reflect on the challenges of last winter. We also considered how we can support households who are struggling the most to access essential services ahead of this winter.

Equity, Diversity and Inclusion (EDI)

As mentioned in the foreword, improving EDI internally and across the energy sector is a key priority for the organisation. In September 2022, we launched our new Equity, Diversity and Inclusion strategy. As part of the third pillar of the strategy we are driving for change across industry. Being part of Tackling Inclusion Diversity in Energy (TIDE) Taskforce is a key vehicle for us to support this ambition.

TIDE

TIDE Taskforce was launched in June 2022 at the annual EDI Conference. It as a cross-industry group dedicated to improving Equity, Diversity and Inclusion across the energy sector and is spearheaded by Ofgem, the ENA, the Energy Institute and Energy UK and has representation from over 30 other organisations. The group's priorities were determined from input from Senior Leaders and EDI professionals at the conference – they include sharing practical tools for best practice, insight gathering and engaging with leaders to drive change.

At this year's conference, we will get an opportunity to hear about the progress that has been made and further plans for the future.

Performance overview

Consumer benefits

Ofgem have continued to monitor the value of decisions that were made by our Board during the year which are quantified through formal impact assessments. We have calculated the total consumer benefits in 2022-23 generated by our activities are £2.5 billion (2021-22: £1.5 billion). This means for every pound spent, there is a benefit of £13 to the consumer. Some of the major benefits include decisions from the Price Cap models, activities from the acceleration of onshore electricity transmission investment and benefits sought from the RIIO-ED2 Final Determinations. Most of these impacts are direct impacts, however there are also positive qualitative indirect impacts that have arisen from these activities.

Key highlights:

Of the **£2.5 billion** of consumer benefit, some key highlights are

- Consumer were protected from volatile energy prices over the year by Government schemes delivered in partnership with Ofgem:

The Energy Price Guarantee will have saved a typical household in Great Britain around £1,100 from October 2022 to end of June 2023, compared to undiscounted energy prices under the Defualt Tariff Price Cap.

  - The **Energy Bill Relief Scheme** saved non-domestic customers around **£6.9 billion** in charges
  - The **Energy Bill Support Scheme** delivered **£10 billion** of support to eligible domestic customers, through **£400 rebates** in six-monthly instalments
  - The **Alternative Fuel Payment Scheme** provided a total of around **£51 million** of one-off payments to off-grid customer who use alternative fuels
  - The domestic **Alternative Fuel Payment Schem**e is offering a **£200 payment** to eligible customers.

- **Compliance activity:** As a result of Ofgem action against companies for failing to meet licence conditions, total payments of **£11.4 million** were made by energy companies to over 230,000 customers.

These payments were made up of:

  - **£10.2million** of refunds to consumers
  - **£1.2 million** compensation payments to consumers, and

- **Enforcement activity**: As a result of completed enforcement investigations during the year, energy companies made payments directly to consumers that totalled **£11 million**.

There payments were made up of:

  - **£653,000** of refunds to consumers
  - **£10.3 million** compensation payments to consumers, and

For details on our enforcement activity, please refer to Appendix II

- Over **£23.7 million** was paid into the Energy Industry Voluntary Redress Scheme in total, resulting from Ofgem's Compliance and Enforcement activity.
- Concluding the funding settlement for the local electricity distribution networks (known as RIIO-ED2), an initial investment programme of over **£22 billion** for a five-year period was confirmed. This will help deliver the upgrades to the grid needed to accommodate increased demand from new sources like electric vehicles and heat pumps, as well as connecting new local low carbon generation assets.

All projects were approved for the Electricity System Operator (the 'ESO') Holistic Network Design ('HND'), worth over **£20 billion**, which put in place a new regulatory framework called Accelerated Strategic Transmission Investment ('ASTI') to get them built as rapidly as possible.

This will help ensure our offshore networks are ready to connect up to **50 GW of offshore wind** generation by 2030.

- Ofgem improved value for money in Great Britain's smart meter communication network by disallowing **£6.8 million** of incurred cost for the Data Communications Company, and **£281 million** of forecast costs
- Ofgem oversaw the installation of **3.7 million** additional smart and advanced meters in the 2022 calendar year (slightly down from 3.8 million in 2021), with **smart meter installations** now totalling **31.3 million**
- By year-end, **55% of all meters** in Great Britain were smart or advanced meters
- **Over 470 organisations** have now sought Free, Frank Feedback and 'sandbox' support from Ofgem's Innovation Hub service
- Funding innovation through the Strategic Innovation Fund (SIF). The SIF is a **£450 million** fund that Ofgem is using to find and fund innovative solutions, that will ensure that 2035 clean power is not only achievable but also affordable. **Interconnector capacity increased by 1000 MW to 8.4GW**, when the ElecLink interconnect went live.

For details on our Key Performance Indicators, please refer to Appendix I. For more information on the principal risks and how these have been mitigated please refer to the Risk Overview on page 60.

Performance Analysis

2020 Strategic Framework

During the year, we continued to monitor the delivery of our Strategic Framework, that was agreed by our Board in December 2020, which focused on delivering our principal objective: *to protect consumers' interests now and in the future.*

This Performance Report sets out our delivery achievements against our 2022-23 Forward Work Programme, which is structured around our Strategic Framework's five strategic change programmes and two enduring priorities.

Our strategic change programmes were identified as policy areas where we could shape the energy system to deliver real change in the interests of consumers and the climate. During the year, we have worked towards achieving these change programmes to make the greatest impact.

The strategic change programmes in 2022-23 were:

- Deliver a **future retail market** that works for all consumers and the environment
- Enable investment in **low carbon infrastructure** at a fair cost
- Deliver **full-chain flexibility** in how we generate, use and store energy
- Ensure the **energy system governance**, is fit for purpose, including Ofgem's role in it
- Unlock the benefits of **data and digitalisation**.

Our two enduring priorities are vital roles that we will continue to perform.

They are to:

- Deliver our core regulatory function of regulating the energy sector to ensure security of supply and to protect the interests of consumers
- Deliver current and future government schemes, to advance decarbonisation and to support vulnerable consumers.

2022 Strategy Refresh

In December 2022, our Board agreed to refresh our Strategic Framework, which now focuses on delivering:

- three short-term strategic priorities – to ensure consumers are protected and experience fair prices, quality service and a resilient sector
- three longer term strategic priorities – to enable a low-cost transition to a decarbonised energy system through enabling investment, and reforming markets and governance.

Sitting under these, we have planned to deliver twenty priority projects and programmes, which you can find in our **2023-24 Forward Work Programme**.

They are made up of a mix of core regulatory activities, and policy development activities.

We continue to set out all other remaining core regulatory activities, and our administration of environmental and social schemes for government.

Strategic Change programme: Future of Retail

Our **'Future of Retail' Strategic Change Programme** aimed to identify what reforms are required to best deliver net zero, to protect consumers, and to put forward our vision to provide them with safe, reliable energy. During 2022, we developed a Retail Market Strategy to focus our retail regulatory activity on delivering a post-crisis energy supply market that works better for consumers.

The Strategy has four objectives:

- deliver fair prices for consumers
- support the transition to net zero at lowest cost
- provide effective protection for consumers - in particular for those in vulnerable situations
- be resilient to variable wholesale market prices and attractive for long-term investment.

During the year, we have progressed the key activities (as set out below), which contribute towards this Strategy while continuing to monitor and assess the risks and issues facing consumers, and continuing respond to emerging priorities as required.

Financial Resilience and Controls

Outcome sought: A retail market that ensures suppliers are resilient to market shocks, and the sector is attractive to investment to drive the net zero transition.

Following a review to strengthen the financial regulatory regime for suppliers and to prioritise minimum financial standards and capital requirements, we updated our guidance in May 2022 and supplier licence conditions in August 2022.

In November 2022, we also consulted on introducing a capital adequacy regime, incorporating both an enhanced Financial Responsibility Principle ('FRP') and a common minimum capital requirement, and a market-wide obligation to ringfence Renewables Obligation ('RO') receipts attributable to domestic supply and powers to direct ringfencing of customer credit balances ('CCBs').

As set out in our recently published decision, the enhanced FRP and the proposed common minimum capital requirement will strengthen financial resilience by creating a more proactive reporting framework, so that supplies and can identify risk early and remedy them.

The capital requirement will set a minimum buffer that will make suppliers more resilient to future financial stress. Ringfencing RO means suppliers cannot rely on RO payments for working capital, which should reduce the moral hazard of excessive risk-taking with consumer money. For CCB ringfencing, we have taken into account concerned raised about the proposed powers and will seek further views on how these could be refined in further changes to licences.

Default Tariff Price Cap Policy (the 'Price Cap') and Level Setting

Outcome sought: A retail market that enables fair prices, provides quality and standards, and ensures resilience.

During the summer of 2022, we undertook a comprehensive review of the wholesale elements of the Price Cap, which no longer reflected the costs to suppliers of the high and volatile energy price environment, including the 'backwardation' element of wholesale prices. We changed the Cap level setting frequency to quarterly, so that costs would be more reflective of current market conditions and that they would allow the Cap to fall more quickly when prices ultimately came down.

We also made a number of technical changes to the Price Cap to reflect the costs of new and changed policies that impact supplier's costs and worked closely with Government to implement the Energy Price Guarantee (see Core Regulatory Functions – Government Schemes section) to protect customers from very high wholesale prices.

In our 2022-23 Forward Work Programme, we also undertook to implement a Green Tariff Policy and Price Cap Derogations. While these activities were paused to prioritise our resources on responding to the energy crisis, we published our Price Cap Programme of Work in November 2022, to consult with stakeholders on our prioritisation of workstreams. The Programme has since been confirmed, and is now being implemented.

Current Retail Market Policy

Outcome sought: A retail market that is resilient to price volatility and delivers outcomes for domestic and non-domestic consumers that protect their interests and promote net-zero choices.

During the year we continued to work with stakeholders to identify and implement measure to protect both domestic and non-domestic consumers. These were in three main policy areas.

Market Stabilisation Charge ('MSC') and Ban on Acquisition-only Tariffs ('BAT')

Given the volatility of the wholesale energy market during the year, and with prices well above historic norms, we took a decision in May 2022 to introduce the MSC, following earlier short-term protections for the BAT and other measures (February 2022), as temporary measures to help protect consumers against these costs until March 2023.

In February 2023, we made a subsequent decision to extend both measures until March 2024, aware that they were designed to stabilise the market for during an exception time, and that the MSC may have an effect on market competition.

Beyond March 2024, we have put in place licence mechanisms to enable the measures to be extended on an annual basis, following consultation with stakeholders.

Pre-Payment Meter ('PPM') Code of Practice

Following extensive research with consumers in early 2023, we worked with domestic energy suppliers to update a Code of Practice, to protect vulnerable consumers from involuntary PPM installations. The code builds on Ofgem's existing licence rules and guidance, by setting out more specific high-risk categories, where involuntary installations should be banned. It also clarifies that every single involuntary installation is always the last resort, which should only be considered once all other options have been exhausted – and only where it is safe and practicable to do so.

During the year, we had also planned to carry out a general review of our Consumer Vulnerability Strategy, but instead focused these resources into updating the PPM Code of Practice.

Non-Domestic Market Review

Through our monitoring and stakeholder engagement, we identified a broader range of concerns in the non-domestic market, beyond simply affecting microbusiness customers, that were reportedly raising costs and may reflect low levels of competition in the market during the energy crisis.

As well as starting compliance reviews in late 2022, we have been gathering further evidence, to understand where we may need to implement new measures to protect and support non-domestic customers.

We provided an update on this work to the Chancellor of the Exchequer in March 2023, and have made commitments to publish a full report and proposed solutions in the summer of 2023.

Market-wide Half-hourly Settlement ('MHHS')

Outcome sought: MHHS delivers objectives against agreed plans and costs.

Ofgem oversees Exelon as the project manager, which coordinates the delivery of MHHS. In December 2022, we published our policy decision on 'Event Driven Architecture' governance as planned in April 2022, with Elexon taking forward the detailed code development. This work is expected to be completed in 2024.

The physical design for MHHS was baselined in February 2023, which was later than expected, due to industry delays in clarifying the detailed design specification. MHHS code changes are dependent on the baselining, which has created knock-on effects to delayed code change development work. Code drafting by industry is now expected to be completed in 2024 and implemented in early 2025.

Central system design and build has commenced and parties are concluding their system upgrade and pre-integration testing. Similarly, due to the design baselining delay, central systems design and build is not complete and will 'go live' six months later than expected.
As a result of these delays, the MHHS programme is currently being replanned, with a change request expected from Exelon.

Switching Programme

Outcome sought: Faster, more reliable switching arrangements operate in accordance with Service Level Agreements.

The new faster switching arrangements were delivered on time and took effect during July 2022, which was followed by Ofgem closing this programme in October 2022. Its objective was to introduce a new 'Central Switching Service' that would enable domestic consumers to switch suppliers within 36 hours and non-domestic consumers within 48 hours, and also to increase the volume of switches that the system can handle.

The Central Switching Service was delivered by the Data Communications Company (see Core Regulatory Functions - Regulatory Oversight: Data Communications Company section), as was a new governance framework, via the Retail Energy Code. As part of this framework, a Performance Assurance Board has been established to ensure compliance with Code obligations and to monitor the take-up of faster switching by consumers.

Strategic Change programme:
Low Carbon Infrastructure

The transition to net zero requires a major transformation of the energy sector: the continued decarbonisation of power, the electrification of most surface transport, and the moving to low carbon energy sources for heating our homes and workplaces. In some areas, there is broad consensus on the direction of travel, such as the accelerating deployment of renewable power and electric vehicles. However, there remains some uncertainty on key questions such as the role of hydrogen in heat, and how much nuclear power and carbon capture, usage and storage will be needed.

Through our 'Low Carbon Infrastructure' Strategic Change Programme, we aim to ensure that the necessary enablers are in place to facilitate a more coordinated approach to the transition of Great Britain's network infrastructure to meet net zero and protect energy security. This includes playing an active role in ensuring timely and efficient investment in the networks, while keeping costs to consumers as low as possible.

Our 'Low Carbon Infrastructure' Strategic Change Programme addresses three key strategic themes:

- **Network planning –** Ensuring there is a system-wide strategic network plan in place, which forms the basis for needs cases for investment in network infrastructure and guides decisions on capacity and location of interconnectors and major new supply and demand.
- **Network investment and disinvestment -** Delivering necessary investment at best value for money for consumers, high levels of network reliability, while connecting new sources of generation, meeting new sources of demand and managing the impacts of climate change. We will continue to do this through competition, where possible, and, where not, using an efficient regulatory model such as price control or the cap and floor regime.
- **New technologies -** Enabling new technologies that could lower the cost of the net zero transition for consumers in the future. This includes providing funding for innovation in network technology, evidencing new development on hydrogen, and developing new regulatory models for CCUS and nuclear generation infrastructure.

During the year, we have progressed the key activities (as set out below), which contribute to these three key objectives.

Electricity Transmission Network Planning Review

Outcome sought: Securing efficient major investment in electricity transmission network assets – relative to the past 20 years - to more efficiently connect new generation to demand centres in line with net zero targets.

In November 2022, Ofgem came to a decision that the Future System Operator (the 'FSO' – see Full Chain Flexibility section) should deliver the new Centralised Strategic Network Plan (the 'CSNP'); a key finding of the Electricity Transmission Network Planning Review.

The CSNPS's aim is to provide an independent, holistic and coordinated approach to network planning across Great Britain, focused, at first on the electricity transmission network (onshore, offshore and interconnectors). It will help ensure that network investment decisions are made more quickly to support the continued growth in the connection of new renewables. It will also help keep costs of this investment as low as possible, for example, by supporting the implementation of competition in onshore network design and delivery.

Development of Future Price Controls

Outcome sought: Initial design of future network funding framework/mechanisms to enable net zero. We published an Open Letter in September 2022, setting out the context for the development of future network price controls and to begin the process of looking at how we regulate electricity and gas network companies from 2026. A consultation was also published in March 2023, setting out options for the overarching framework design for these network price controls. Finding from this consultation will in-form the final structure of the framework and sector specific methodologies.

Offshore Transmission Infrastructure

Outcome sought: Development of diverse competitive markets to drive major investments in transmission network assets, in line with net zero targets.

The activities delivered in 2022-23 have been a major step towards our intended outcome. The publication of 'minded-to' decisions on three policy areas: Multi-Purpose Interconnectors ('MPIs') – Interim framework; Offshore coordination – Early Opportunities for anticipatory investment; and Pathways to 2030 have introduced radical changes to the way that offshore networks are designed and delivered.

2022-23 saw the first blueprint for coordinated and strategically-planned offshore infrastructure, with the publication of the Holistic Network Design ('HND'). Our decisions set out the classification for the assets included in the HND, which was supported by a further decision in October 2022 for a new anticipatory investment policy and new delivery models for these assets.

Working in tandem, these changes will mean that new offshore networks can be delivered at pace to meet government's ambitious offshore wind targets, and will enable new tender opportunities for coordinated assets. In 2023-24, we will continue our work to set up and implement the new frameworks, enabling and unlocking billions of pounds of new investment.

Hydrogen Policy

Outcome sought: Development of diverse competitive markets to drive major investments in transmission network assets, in line with net zero targets.

During the year, we continued to support government in developing an evidence base for policy decisions on the future of hydrogen to understand the feasibility, costs, and convenience of using hydrogen for heat in domestic properties.

In May 2022, a hydrogen village secured over £9m RIIO funding (gas distribution), which directly supports that ambition. The 'detailed design studies' are being used to inform a government decision on the location of the village trial and joint funding decisions by Ofgem and BEIS.

Project Union Feasibility Phase funding will be used to consider the feasibility of repurposing National Gas Transmission assets from natural gas to form a hydrogen transmission network, to support future government decisions.

Nuclear Generation

Outcome sought: Developing a nuclear RAB (regu-lated asset base) regime to enable investment in local low carbon generation. Supporting BEIS to achieve Final Investment Decision in April/May 2023.

Ofgem continues towards delivering the outcome of a Final Investment Decision during this parliamentary session, with revenue collection regulations passing into law in March 2023. Ofgem has remained a crucial 'senior advisor' to the programme, working across the regulatory, legal, financing, governance and strategy elements to develop the regulatory regime. We have also added an independent voice to the policy design process, ensuring the interests of consumers are being represented, as best publicly demonstrated by our response to the Sizewell C designation decision.

Interconnector development

Outcome sought: Enabling major investment in transmission network assets, to connect new generation to demand centres in line with net zero targets.

As mentioned above, we continued to develop the MPI regulatory regime during the year, although our consultation was delayed due to the redeployment of resources to the energy crisis response. The MPI pilot framework was published in October 2022, and two pilot projects were selected. Work will continue into 2023-24 to assess these projects and to develop the MPI regulatory framework.

RIIO-2 Electricity Distribution Price Control (ED2) Development

Outcome sought: Decisions which support networks to support the delivery of net zero, at least cost to consumers.

Through all the RIIO-2 price controls Ofgem has set out a flexible, adaptable regulatory framework that will help speed up building of our network infrastructure. The RIIO-ED2 price control commenced as scheduled on 1 April 2023, following the confirmation of Final Determinations in November 2022 and licence modifications in February 2023. This settlement confirmed an initial £22bn plus investment programme for the local electricity distribution networks over the five-year period to 2028, which includes over £3bn on network upgrades to support more electric vehicles, heat pumps as well as connecting new local generation assets – almost doubling investment against previous RIIO-ED1 spend.

Flexible and adaptive regulation will also allow investment to align the changes that the networks actually see over time, ensuring that customers are paying for work that is necessary. The settlement will also ensure the delivery of more reliable and resilient network services for consumers, while encouraging new approaches to managing local systems which avoid unnecessary increased network charges on people's bills.

Carbon Capture, Usage and Storage (CCUS) Networks

Outcome sought: CCUS regulatory framework for Transport and Storage is mature and capable of regulating and incentivising growing CCUS sector in a sustainable way.

As with new nuclear, we continue to develop a new regulatory regime for CCUS, working with BEIS/DESNZ, and across government. As such, we remain a crucial component of the DESNZ delivery model, advising across legislation, codes, market and sector design, regulations, future sector requirements, and commercial interactions.

Climate Resilience

Outcome sought: Greater understanding of energy infrastructure resilience requirements under a changing climate and with the additional demands of net zero.

Work to scope a strategic programme on priorities for climate resilience action began in late 2022. A final proposal for this programme was delayed, and will now be reviewed in the spring of 2023. This work is informed by the recommendations in the Ofgem and (then) BEIS Storm Arwen reviews, as well as recommendations from government advisors such as Climate Change Committee statutory progress report on adaptation and the National Infrastructure Committee's report on Resilient Infrastructure Systems. During the year, we have continued to steer the BEIS research programme on enhancing resilience in Great Britain energy networks.

Future of Gas Policy

Outcome sought: Initial design of future network funding framework/mechanisms to enable net zero.

Resources planned for this activity were redeployed to respond to the energy crisis during the year, though we have recently restarted this work.

Competition in Networks

Outcome sought: Development of diverse competitive markets to deliver network investments.

In late March 2022, we published a decision, which confirmed our intention to progress an early competition model for network investment. Alongside this, we published an updated Impact Assessment that considered the case for further developing early competition, so it could be ready to be used in design and delivery, to meet electricity transmission needs. While resources for this activity were redeployed to support our response to the energy crisis in May 2022, the Electricity System Operator received funding to develop the commercial model. This complementary work has kept the broader package of work on course.

Strategic Change programme:
Full Chain Flexibility

A smart and flexible energy system is essential to hitting the UK's net zero climate goals, while keeping energy bills affordable for everyone. Being smart and flexible in how we generate, use, and store energy will support the decarbonisation of power, heat, transport, and industry sectors.

As we change the way we fuel our cars and heat our homes, demand for electricity will increase from millions of new electric vehicles and heat pumps. Being more flexible in when we use electricity will help avoid the need to build new generating and grid capacity to meet this demand, resulting in significant savings on energy bills, estimated as up to £10 billion per year to 2050. Consumers will also be able to play an active role, taking up new tariffs and smart appliances like smart electric vehicle chargers, enabling them to save money by using electricity at cheaper times.

In summer 2021, Ofgem and BEIS published the Smart Systems and Flexibility Plan ('SSFP') setting out a vision, analysis, and work programme for delivering a smart and flexible electricity system that will underpin our energy security and the transition to net zero. The 'Full Chain Flexibility' Strategic Change Programme encompasses Ofgem's actions from the SSFP.

The Plan sets out reforms to:

- remove barriers to flexibility on the grid for storage and interconnectors
- support the markets and signals needed to bring forward and reward flexibility
- improve how we facilitate flexibility from consumers (including products, tariffs, and how we regulate smart appliances load controllers)
- support the data and digital architecture required to underpin planning and markets (including greater network visibility and monitoring, cyber and data privacy).

During the year, we have progressed the key activities (as set out below), which contribute to Plan.

Wholesale Market Reform

Outcome sought: Market arrangements enable all flexible supply and demand energy resources to contribute their full potential, responding efficiently to available energy and network resources.
We continued to work with government and the Electricity System Operator (the 'ESO') to consider options for market design reforms, to ensure that market arrangements are fit for net zero.

While an increase of scope delayed the start of this work, we completed detailed economic modelling for locational pricing models.

The wider socio-economic assessment was delayed (the scope increase), which will be delivered in the summer of 2023.

Key findings from modelling shared with BEIS and the ESO will inform a market reform review. Evidence to date indicates a strong case that locational pricing could deliver significant consumer benefits.

Interconnector Arrangements and Engagement with European Stakeholders

Outcome sought: Interconnector arrangements utilise the full potential of flexibility, allowing interconnectors to become an essential part of the solution for an increasingly decarbonised flexible grid.

The Specialised Committee on Energy – a joint forum between the United Kingdom and the European Union – published a recommendation in February 2023, which included a request for transmission system operators to undertake further analysis on the options for new cross-border electricity trading arrangements. We continue to support the progress of this work by providing technical advice to government, engagement with ACER and relevant European regulatory authorities, as well as supporting the United Kingdom transmission system operators in delivery.

Distribution Charging Reform

Outcome sought: Distribution charging arrangements enable all flexible supply and demand energy resources to contribute to their full potential, responding efficiently to available energy and network resources.

Following the publication of a final decision and direction on Access and Forward Looking Charges in May 2022, we approved all code modifications to give effect to the Significant Code Review ('Access SCR'), which was fully implemented by April 2023. The objective of the Access SCR is to ensure that electricity networks are used efficiently and flexibly, reflecting users' needs and allowing consumers to benefit from new technologies and services, while avoiding unnecessary costs on energy bills.

Further development of options for Distribution Use of Systems ('DUoS') charging reforms were deprioritised during the year to respond to the energy crisis. We are currently restarting our work on develop our options for DUoS charging reforms for 2023-24.

Electricity Transmission Charging

Outcome sought: Transmission network charging arrangements enable all flexible supply and demand energy resources to contribute their full potential, responding efficiently to available energy and network resources.

The Transmission Network Use of System ('TNUoS') Task Force was launched in February 2022 to understand the root cause of unpredictability of TNUoS charges, and to consider how charges remain cost effective. While Ofgem deprioritised this work in May 2022 to focus resources on our response to the energy crisis, ongoing analytical work was delivering by the ESO, which will be used by the Task Force, when it reconvenes in the spring of 2023. Ongoing work on other aspects of transmission charging was undertaken in the interim, with a focus on affordability, market stability and security of supply.

Large-scale & Long Duration Electricity Storage (LLES)

Outcome sought: Barriers to flexibility on the grid from storage are removed and investable arrangements bring forward the right low-carbon flexible capability, at the right time and in the right locations.

Resources planned for this activity were redeployed to respond to the energy crisis. This activity has been paused while BEIS/DESNZ develops its policy position.

Electric Vehicles

Outcome sought: Ofgem's regulatory policies enable a least cost rapid EV deployment - consumers have the opportunity and appropriate incentive to provide flexibility to the system through smart EV charging.

Resources planned for this activity were redeployed to respond to the energy crisis. This activity will recommence in 2023-24.

Local Flexible Markets

Outcome sought: Unlocked full chain flexibility, meaning that all flexible supply and demand energy resources can contribute to their full potential, responding efficiently to available energy and network resources.

Throughout the year, we gathered evidence and engaged with stakeholders, to understand how we could develop flexibility markets at a local level.

This included:

- gathering evidence through a 'Request for Information' on Distribution Network Operators approaches to driving low carbon technology uptake, including approaches to flexibility services
- considered concepts for multi-sided flexibility markets, which are coordinated and accessible
- publishing a 'Call for Input' on the Future of Distributed Flexibility, to consider stakeholder responses and inform further development of this work.

This evidence and engagement will allow us to develop and progress reforms for a coordinated and accessible multi-sided flexibility markets, which are digital by design and enable the participation of low carbon technologies.

Strategic Change programme: **Energy System Governance**

This Stratgic Change Programme set out to explore the institutional and governance structures in the energy sector - including Ofgem's own role - and consider whether those structures were fit for purpose as the energy system transitions to net zero.

The scope of the programme was narrowed last year to focus on the core aspects within it, namely the well-established projects delivering, alongside Government, the Future System Operator and reform to the Energy Codes; while we also sought to review the governance of Distribution System Operation.

In our Forward Work Programme, we also added that through this Change Programme we sought to ensure that Ofgem's medium and longer-term goals drive our organisational shape and the functions we undertake. Given the strategic implications for the organisation as a whole, this instead forms part of the broader work to deliver Ofgem's strategic outcomes (as opposed to a project in its own right).

During the year, we have progressed the key activities (as set out below), for this Strategic Change Programme.

Future System Operator (FSO) Proposals Reforms

Outcome sought: Support institutional arrangements in support of System Operator reforms.

In April 2022, with Government, we published our response to a consultation that was published in July 2021, that set out proposals for an expert, impartial body with responsibility across the electricity and gas systems, to drive progress towards net zero, while maintaining energy security and minimising costs to consumers.

In our response, we confirmed our decision to proceed with the creation of a new independent FSO. During the year, we have been working closely with Government on the necessary implementation steps, including:

- design of the FSO and its roles
- the FSO's new licence obligations
- industry code change, and
- the transition from the current ESO/GSO regulatory frameworks (see Core Regulatory Functions – Institutions for Net Zero section).

Distribution System Operator (DSO) Governance

Outcome sought: Support institutional arrangements in support of DSO reforms.

In April 2022, we launched our review into the effectiveness of local energy institutional and governance arrangements at a sub-national level, through the publication of a 'Call for Input'. Responses from stakeholders validated our case for change, which led us to publish a consultation on proposed reforms in March 2023.

In addition, through the RIIO-ED2 (see Core Regulatory Functions - DSO Regulation – Price Control Development section) Draft and subsequent Final Determinations, we implemented a DSO re-opener, to ensure that the price control could be amended to reflect any change to the roles, responsibilities, and governance arrangements for distribution system operation.

Code Governance Reform

Outcome sought: Support more effective governance of the energy system through strategic code reforms.

Following publication of the joint BEIS, Ofgem (government) response on Energy Code Reform in April 2022, we worked closely with BEIS to develop the primary legislation for licensing and code arrangements. Provisions to reform the governance of gas and electricity industry codes were introduced in the Energy Bill in July 2022.

In December 2022, we published a 'Call for Input', which focussed on code consolidation and the regulatory framework for code managers. We have since worked with BEIS on the development of secondary legislation.

Strategic Change programme: **Data and Digitalisation**

The energy transition will continue to drive increasing complexity as the number of energy markets, assets, services and market participants proliferate, and the need for clear communication and data sharing grows. As such, the smart creation, collection, sharing, and use of energy system data is fundamental to managing this complexity, and for unlocking new services and value for all energy stakeholders, including improved consumer protection.

The associated digital infrastructure services also need to integrate with equivalent data and services from other sectors. This will enhance opportunities for new and emerging markets, improve consumer protection, and facilitate the visibility and coordination of economy-wide efforts to deliver decarbonisation.

Ofgem is an instigator, proponent, supporter and beneficiary of data transformation. Through our 'Data and Digitalisation' Strategic Change Programme, we have encouraged cross-industry energy data transformation, and committed to using and sharing data effectively as a core component of our operations and regulatory decisions. Through this leadership and collaboration, we have:

- sought to increase industry data sharing, to enable new and more efficient markets, better investment and clearly communicated regulatory decisions
- enabled data to be more visible, secure, accessible, and interoperable for the benefit of market participants and consumers
- continued to enhance Ofgem's data and digital capability through:
  - effective regulation for a changing energy market, with increased use of digital tools and data science, and by
  - building the foundations for the use of advanced analytics to conduct regulatory focused predictive market analysis.

During the year, we have progressed these key activities (as set out below), for this Strategic Change Programme.

Data sharing

Outcome sought: Drive greater use of data and digitalisation in the UK Energy sector to provide increased benefits for consumers and key industry players - facilitate improved decision making and increase digitalisation of the sector/system so that it operates more efficiently, accurately and with more agility.

During the year, we continued to work with government and industry to identify barriers to data sharing, data accessibility and interoperability, while considering opportunities for innovation. We published a joint response with BEIS and Innovate UK, to respond to a report published by the Energy Digitalisation Taskforce ('EDiT') in January 2022, committing us to our next steps and individual roles and responsibilities.

EDiT was commissioned by Ofgem, BEIS and Innovate UK to continue our focus on modernising the energy system, to unlock flexibility and to drive clean growth towards net zero emission by 2050.

In its report, EDiT made six recommendations; one of which was to create a 'digital spine' for the energy system. In response to this, Ofgem and BEIS developed key innovation programmes to better understand the technical options, trade-offs and risks.

As well as the digital spine feasibility study, we have also supported Phase 1 of the Automatic Asset Registration Programme, (and technically reviewed Phase 2, commencing shortly), which will support secure data exchange process for registering, collecting and accessing small-scale energy asset data.

Our second focus during the year was to established best practices for data and digitalisation, by working with electricity distribution network operators, to embed 'Digitalisation Licence Conditions' into their RIIO-ED2 licences. By doing this, their licence conditions were brought into line with those of all other network and system operators.

We also published a consultation on the specifics and application of data best practice in February 2022, in which we are proposing to make changes to the guidance. This is in response to developments in the digital energy sector, some gaps identified in the initial guidance and follows a robust response to the 'Call for Input' that we published in September 2022.

Throughout the year, we continued to work with industry to develop a network data standard, with the initial version competed in April 2023; this will be implemented during 2023-24.

Effective Regulation and enhancing our capabilities

Outcome sought: Drive greater use of data and digitalisation of the UK Energy sector to facilitate greater insight into energy products and services and monopolistic behaviours - this will help inform Ofgem and BEIS decision-making for their Energy Ecosystem and Regulatory regime activities and will facilitate improved agility.

With a goal of improving our analytic insights to support our regulatory decision, this year saw the creation and growth of a central analytics team for the first time at Ofgem. That new team built new technology architecture, set ways of working and started to deliver a wide range of dashboard and reporting content that are now being widely used.

A key underlying piece of capability was our Microsoft Cloud Data Platform. The delivery of this was delayed during the year, but it did go live in March 2023. This will now enable us to automatically load and prepare data at a larger scale to enable a greater volume of metrics to be monitored and to generate alerts for decision makers.

In addition, we began to deliver more advanced mathematical and data science models, that will deliver large-scale and/or more detailed analysis than had previously been possible. We will start to embed this into more core processes across in the year ahead, now that the team is in place and the platform is live.

During the year, our tactical CRM platform gave all staff a central view of key licence and contact data for the first time. In the year ahead, we will procure a dedicated Customer Relationship Management (CRM) platform to house this data and intelligence more safely, and embed this intelligence into inboxes, so that this can inform how people work on a daily basis.

Enduring Priority: Core Regulatory Functions

Government Schemes

During the year, we have supported the Government in the delivery of a number of schemes to help consumers with the rising cost of bills. Our role has primarily been compliance and enforcement for each scheme, working with the Department for Business, Energy and Industrial Strategy ('BEIS') to protect consumers. The schemes are as follows.

Energy Price Guarantee ('EPG')

The EPG protects customers from increases in energy costs by limiting the amount suppliers can charge per unit of energy used. Bills are reduced from October 2022 to April 2024 reflecting the discount required between the calculated default tariff cap and the target support level. The target level of a typical household bill was set at the following levels: October 2022-June 2023 (£2,500); and July 2023 - March 2024 (£3,000).

Energy Bill Support Scheme ('EBSS')

We supported the delivery of over £10 billion to eligible domestic customers through the EBSS. Our role was to monitor compliance and take enforcement action where necessary. This helped to ensure eligible consumers received £400 off their bills in six-monthly instalments. The scheme ran from October 2022 to March 2023 and was previously known as the Energy Market Rebate as planned for in our 2022-23 Forward Work Programme.

Alternative Fuel Payment Scheme ('AFP')

The AFP provided a £200 one-off payment to certain off-grid customers who use alternative fuels. This is being delivered by suppliers in February 2023. Our role is to provide enforcement action for the scheme, by working with BEIS to develop governance arrangements and to understand overall supplier compliance.

Energy Bill Relief Scheme ('EBRS')

Between 1 October 2022 and 31 March 2023, the EBRS provided a discount off non-domestic customer bills, based on a proportion of the wholesale energy price. Our role was to monitor compliance with the 'Qualifying Financially Disadvantaged Customers' component of the scheme, which provided an additional price reduction to certain deemed contract customers. This helped ensure these customers received appropriate discounts.

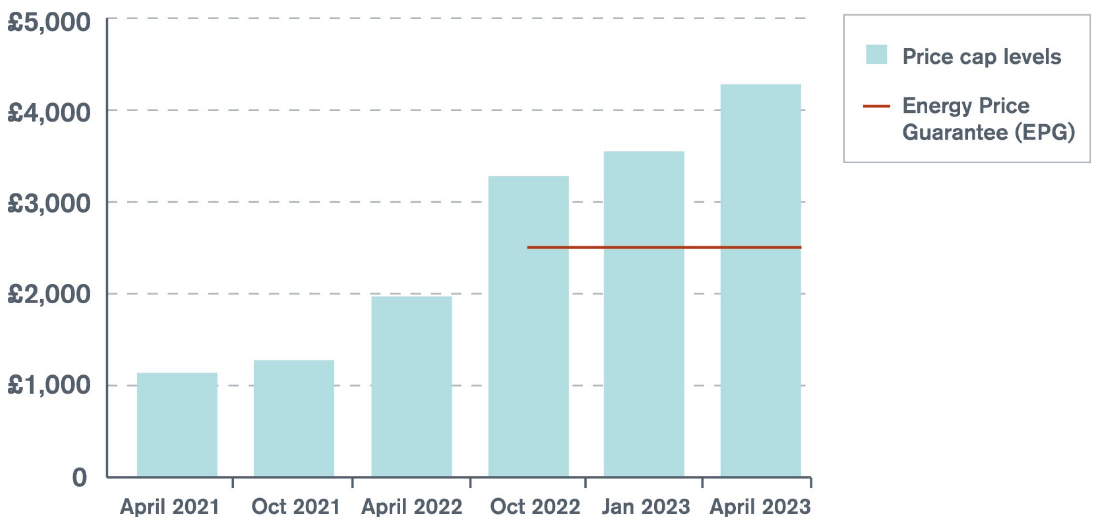
We are also responsible for enforcement of the EBRS scheme, and have put in place processes for enforcement cases to be passed to us by BEIS. The Energy Bill Discount Scheme replaced the EBRS from 1 April 2023. We are currently working with the new Department for Energy Security and Net Zero ('DESNZ') to clarify Ofgem's role and responsibilities to help deliver this scheme.

Default Tariff Price Cap Level Setting

The default tariff price cap protects domestic energy consumers from paying excessive energy tariffs by capping the amount that energy suppliers can charge. We updated the Default Tariff Price Cap (the 'Price Cap') three times in 2022-23. One six-monthly update and two quarterly updates, following our decision to change the frequency in August 2022. The Price Cap levels we announced were primarily driven by very high wholesale prices experienced during the year, but from October 2022, the impact of this was mitigated by the Government's EPG policy, which limited the headline cap to £2,500. We worked closely with government, suppliers and consumer groups to implement the EPG at speed to ensure that customers were protected, and that public funds were used effectively.

The price cap announcements were:

- August 2022: £3,549 from October 2022, an increase of 80%, driven by high wholesale prices, including the decision to include an explicit allowance for the 'backwardation' element of wholesale prices. This was subsequently limited to £2,500 by the EPG.
- November 2022: £4,279 from January 2023, an increase of 21%, driven by high wholesale prices. This was limited to £2,500 by the EPG.
- February 2022: £3,280 from April 2023, a decrease of 23%, driven by falling wholesale prices. This was limited to £2,500 by the EPG.



Consumer Debt and Vulnerability

We continued to deliver our 'Complex Case' process, working with consumer groups and charities on the most complex issues that consumers face with their retail energy suppliers. Considering 62 cases during the year, we established strong links with the consumer groups and charities across the Great Britain market and had good results from this process this year. The majority of the 40 cases that were escalated to suppliers to be resolved related to billing and metering. Intelligence from the cases was also passed to our compliance and enforcement teams, to consider alongside our Market Compliance Reviews (see below) and the British Gas investigation.

Retail Intelligence and Market Stability

We have continued to engage with market participants to monitor and ensure the resilience of energy supply participants. This activity included market stability and financial assessments against enhanced licence conditions for 'Financial Resilience and Controls' (please refer to the Future of Retail section for further details).

Where suppliers did not meet supply licence requirements, we took appropriate action, which included compliance or enforcement engagement, or market exit. When a supplier is exiting the market (either voluntarily or through licence revocation) we work with them to ensure that the market exit is smooth, through the appropriate market exit regime (e.g Supplier of Last Resort ('SoLR'), Special Administration Regime or Trade sale processes) with the aim of minimising mutualised costs, and adverse consumer and market impacts. In July 2022, we used the SoLR process when appointing Octopus Energy as the SoLR for UK Energy Incubator Hub's 3,000 domestic customers. This was the only use of the process during 2022-23, down from 2.3 million domestic, and 64,000 non-domestic customers in 2021-22.

Industry Codes and Licensing

During the year, we continued to facilitate competition and innovation through issuing licences in line with our published criteria, and performing our role of approving beneficial modifications to the industry codes, in line with our performance framework targets.

Retail Compliance

We continued to hold retail energy suppliers to account for non-compliance, with the aim of keeping the market fair for consumers. This year we conducted a series of Market Compliance Reviews ('MCRs') to provide us with relevant data, so we could assure ourselves that energy suppliers continued to fulfil their licence conditions.

The MCRs covered the following topics:

- setting customer direct debits correctly
- supporting customers in payment difficulty or in debt
- identifying and supporting customers in vulnerable situations
- providing good customer service and complaint handling
- ensuring senior staff at suppliers are fit and proper
- having adequate control of all the assets suppliers need to operate and deliver for consumers
- forced installation of pre-payment meters and remote mode switching.

As a result of the MCRs, we investigated 125 instances of potential non-compliance; 33 of which have been concluded. The MCRs have also contributed to two 'Provisional Orders' which were issued to suppliers. These orders were issued where there was a high risk of immediate poor consumer outcomes, where we considered that suppliers needed to improve their practices rapidly.

Separately, we continued to engage with suppliers, gather intelligence, intervene where necessary and promote good practice.

Throughout 2022-23, Ofgem investigated 34 instances of potential non-compliance. We have secured refunds, compensation, and redress payments of £12.8 million for over 238,000 affected customers (this excludes funds secured from our enforcement activities).

Regulatory Oversight: Data Communications Company

The Data Communications Company (the 'DCC') is contracted to deliver the Great Britain-wide smart meter communications network. Ofgem regulates the DCC as a monopoly provider with a price control to ensure that it offers consumers value for money. In February 2023, we published our annual decision on DCC costs, which disallowed £6.8 million of incurred costs and £281 million of forecast costs. These will be transferred back to industry, and in turn to consumers. We also put in place a new switching incentive regime, and decided on a lower margin of 7% for switching internal costs.

In September 2022, we published a major consultation on the future (post 2025) regulatory framework for the DCC. Responses from the consultation are currently being analysed and we aim to publish the decision on the new regulatory framework and extension period in the summer of 2023.

Regulatory Oversight: Smart Meter Rollout

Ofgem has regulatory oversight of the smart meter roll-out carried out by energy suppliers. Smart meters bring significant benefits to consumers and are a key part of the transition to a more flexible energy market and the cost effective delivery of net zero emissions by 2050. At the end of 2022, 55% of all meters in Great Britain were smart or advanced meters.

In January 2022, a new four-year smart metering framework began, which sets binding installation targets in the gas and electricity supplier licences. Suppliers have several licence obligations on smart metering, for example to take all reasonable steps to ensure their customers' meters operate in smart mode, and to enrol their meters with the Data Communications Company. During the year, Ofgem continued to monitor supplier compliance with these licence obligations. In December 2022, we published a letter to suppliers, setting out a robust approach to non-compliance.

Cyber Competent Authority

Through a joint Competent Authority role with the BEIS/DESNZ, we continue to protect consumers by driving an increase in the cyber and security resilience measures across companies regulated by Ofgem. This includes a programme of Network and Information Systems (NIS) Regulation inspections to assesses the level of cyber resilience across the sector, as well as the use of guidance and proactive industry engagement, with a view to maintaining and improving standards.

Heat Network Regulation

We continued our joint working with BEIS and engagement with a wide range of stakeholders on the design of the market and regulatory framework for heat networks. We also engaged with the Scottish Government on the approach to licensing of heat networks. We provided advice and input to BEIS on the provisions in the Energy Bill, which is needed to introduce this new regulatory framework. We advanced our preparation to deliver the new authorisation, compliance and monitoring frameworks, including the development of the digital tools that will underpin the authorisation and licensing processes.

Supporting Innovation

Ofgem utilises a number of incentives to encourage and promote innovation, as means to achieve the government's 2035 target for clean power, along with lowest energy bills in Europe.

Through the Strategic Innovation Fund (the 'SIF') we look to find and fund key innovations that will enable a cheaper and cleaner energy system. The SIF is a £450 million programme that will run until 2026. Currently, we are funding innovations ranging from making hydrogen scalable and cost effective to ensuring that the networks are able to use flexibility as a resource in meeting demand.

We also support innovators to trial or bring new products, services, business models, and methodologies to market. Our Innovation Link offers innovators two main services:

- The 'sandbox', which reduces normal regulatory rules, where we are persuaded that a proposition has potential for consumer benefit.
- Fast, Frank Feedback ('FFF') gives tailored advice, helping innovators navigate the sector and understand the regulatory implications of their propositions.

To date we have supported over 470 organisations through FFF and the sandbox.

Wholesale Markets

During the winter of 2022-23, we actively supported government to manage wholesale market risks created by the energy crisis. This included through our participation in fora like the HM Treasury's Energy Market Stability Group, and by working closely with the Bank of England and HM Treasury on set-up and design of the Energy Markets Financing Scheme. The scheme was put in place to encourage banks to offer lending to energy companies if needed to avoid cash liquidity risks. We also monitored key security of supply market data, to track market resiliency risks and shared these across government.

Ensuring Domestic and Cross-Border Arrangements are Efficient

During the year, we continued to develop and implement arrangements, code modifications and reforms, to facilitate an effective operation of energy markets. These included:

- developing and consulting on the Inflexible Offers Licence Condition ('IOLC'), including:
  - a 'Call for Evidence' on a range of options to tackle concerns regarding behaviours in the Balancing Mechanism, and
  - a consultation on the design of the new IOLC licence condition
- resolving Capacity Market disputes, including appeals from GridBeyond and Kiwi Power
- making urgency and modification decisions on industry codes to address market risks that could impact participant solvency and security of supply (P448 and GC0160)
- continuing our multi-purpose interconnector pilot (see Low Carbon Infrastructure section), and assessing interconnector access rules for decision and other core regulatory decisions related to interconnector trading arrangements, and
- granting approval for the modification of the Nemo Link interconnector Access Rules.

We also made over 45 decisions across gas and electricity network charging, to ensure that methodology was fit for purpose and functioning, including for:

- balancing charges reform
- implementing of the Targeted Charging Review
- assessing how costs for the 'Supplier of Last Report' process should be levied (see Retail Intelligence and Market Stability section), and address unintended consequences
- developing market and charging arrangement changes to support gas security, and
- providing an update on the Transmission Network Use of System Charges ('TNUoS') Task Force.

While some of our cross-border work was deprioritised during the year, these resources were redeployed to power market liquidity and security of supply, to respond to the energy crisis.

Maintaining Security of Supply

In addition to ensuring that energy markets remained effective during the energy crisis, we also significantly increased resources to maintain security of supply, responding to the scale of the crisis. Throughout the year, we delivered a series of interventions to enhance electricity and gas resilience across the Great Britain market, including by:

- increasing our market monitoring, to identify and address potential risks to security of supply
- refreshing our processes for emergency response, and
- engaging with industry planning and testing of emergency protocols.

Ensuring system resilience

Storm Arwen saw nearly one million homes in Great Britain lose power in November 2021, with nearly 4,000 homes having to cope without power in challenging conditions for over a week. In June 2022, we published our findings following a six-month review to establish what went wrong, and what the industry needed to change to provide a more effective response to severe weather events. The review identified 20 actions to ensure more resilient networks and better customer service when severe weather strikes, with the Distribution Network Operators paying out over £44 million in total over the storm.

Institutions for net zero

Through our oversight of the operation of the electricity and gas systems, our ongoing aims are to: ensure security of supply; value for money through price controls; and to facilitate the delivery of net zero objectives.

Electricity System Operator ('the 'ESO') Regulation

In March we published the Final Determination on the ESO's second RIIO-2 business plan, which covers the period of 2022-23, as well as a range of regulatory decisions related to the ESO's balancing services markets. These included a decision required to implement the ESO's Winter Contingency Service and Demand Flexibility Service, which were new tools for the system operator, to ensure security of supply during the energy crisis.

Gas System Operator (the 'GSO') Regulation

In response to winter security of supply risks, we reviewed and clarified individual roles and responsibilities between the GSO, BEIS and Ofgem, and while some of our planned GSO work programme was deprioritised to support this and other security of supply activities, we continued to deliver our core GSO functions. This included completing quarterly assessments of GSO's performance against its RIIO-2 incentives and publishing regulatory code modifications and approvals. In particular, a decision for an urgent code modification to increase participation in the 'Gas Demand Side Response' tool was published in December 2022.

Distribution System Operation (DSO) Regulation

To meet our energy goals we also need to move to that smarter more integrated energy system, including greater planning, coordination and market making at a regional and local level. In June 2022 we started a review of the local institutional framework and governance arrangements, examining the wider roles of markets and institutions at a local level to achieve net zero at lowest cost. The RIIO-ED2 price control commenced as scheduled on 1 April 2023, following the confirmation of Final Determinations in November 2022.

This included a new regulatory and incentive framework for DSO, which will drive distribution network operators to more efficiently develop and use their networks, including considering how flexible and smart alternatives could reduce the need for network investment and ultimately reduce consumer bills.

This included upfront funding of ~£800 million, with performance subject to a financial reward or penalty based on an assessment of delivery.

Onshore Price Control Delivery

Each year, transmission and distribution network owners provide Ofgem with annual reports on their performance against agreed outputs and incentives, their innovative activities and overall financial performance. Electricity distribution ('ED') network owners reported their last RIIO-ED1 year performance, while electricity transmission ('ET') and gas network owners, as well as the ESO, reported on their performance against the RIIO-2 price controls for the first time in 2022. A summary of the findings is set out below.

Electricity Distribution

Annual outputs: All distribution network operator ('DNO') groups continued to perform strongly against output targets and are on track to meet or exceed these by the end of RIIO-ED1.

RIIO-ED1 performance: During 2021-22, three of the six DNO groups overspent against their annual allowance and, across the price control to date, three DNO groups have overspent against their allowance. Three DNO groups expect to meet or exceed their allowance over the whole of RIIO-ED1.

Electricity Transmission

Annual outputs: All transmission operators met or exceeded the annual output targets in Year 1 of RIIO-2. An exception is NGET, which has so far missed the target for 'Timely Connections', which attracted a penalty.

RIIO-2 performance: In 2021-22, all transmission owners underspent against their annual allowance in Year 1, but expect to roughly meet their allowance over the whole of RIIO-2.

Gas Distribution

Annual outputs: All gas distribution network groups met most of the output targets, with a few exceptions, including for 'Connections' (in which all groups underperformed) and a few sub-categories of 'Customer Satisfaction'.

RIIO-2 performance: In 2021-22, all groups underspent against their annual allowance in Year 1.

Gas Transmission

Annual outputs: National Gas (formerly 'National Grid Gas Transmission') underperformed against a number of output targets in Year 1 of RIIO-2, but is forecast to recover from current position over RIIO-2. The performance targets against, for example, 'NARM', 'Physical Resilience' and elements of 'Asset Health Delivery' were missed.

RIIO-2 performance: In 2021-22, National Gas underspent against its annual allowance in Year 1.

RIIO-1 Close-out

During the year, we published decisions for RIIO-1 price controls close-out methodologies for electricity and gas transmission, and gas distribution. Final performance assessments were paused during the year to focus Ofgem's resources on the energy crisis. These performance assessments will take plan in the first half of 2023-24. Consequential adjustments to the price control financial model and licence amendments will be made in the second half of 2023-24.

Offshore Transmission Infrastructure

Offshore Transmission Owner ('OFTO') Assets

During the year, we continue to carry out tender processes for the ownership and operation of OFTO assets, to ensure that construction costs for proposed projects offer value for money. All of our tender publications can be found on here. All of our tender publications can be found here. During 2022-23, two Tender Rounds were active.

Tender Round 9 – Connecting generation of 1075 MW

While this tender round was launched in the previous financial year (January 2022), the evaluation process concluded June 2022, when the shortlisted bidders were announced. The 'Invitation to Tender' was launched for Seagreen Phase 1 in January 2023 and will conclude in 2023-24.

Tender Round 10 – Connecting a combined generation of 2.53 GW

Launched in January 2023, this tender round consists of three projects: Dogger Bank A Offshore Wind Farm Phase 1; Moray West Offshore Wind Farm; and Neart na Gaoithe Offshore Wind Farm. The 'Enhanced Pre-Qualification' stage was started in January 2023 with submissions due in April 2023.

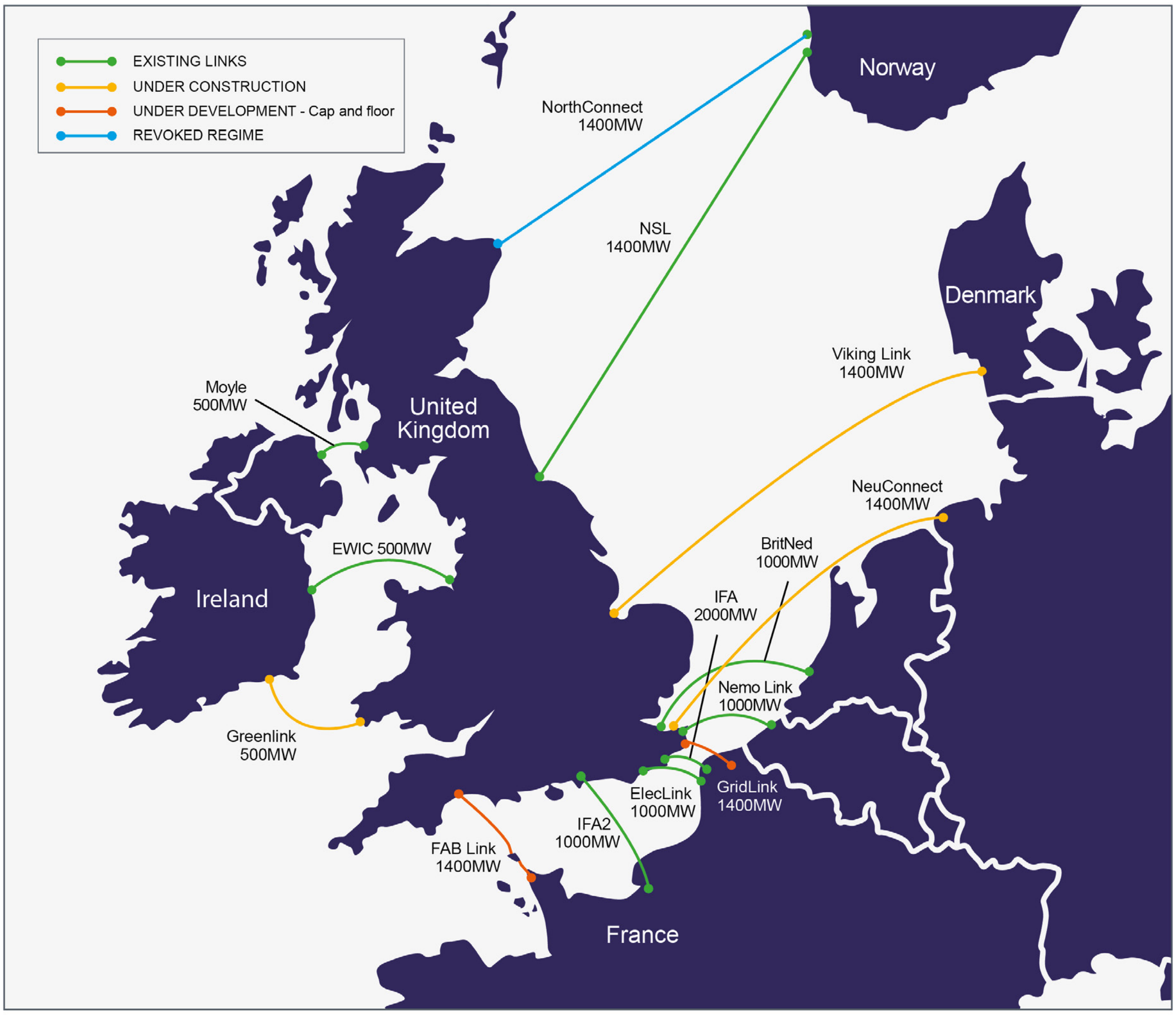
Interconnectors

In addition to advancing our tender rounds, we agreed new interconnectors projects through our Cap and Floor regime in 2022-23. Interconnectors are a network of undersea cables, which allow us to exchange electricity with neighbouring countries.

Guidance for the third Cap and Floor window was publish in July 2022, followed by the eligibility requirements for the initial project assessment submission, which was open between September 2022 and January 2023; seven applications were received. These applications will be reviewed over the summer of 2023, with the 'Initial Project Assessment' consultation expected in autumn 2023.

We took a number of decisions during the year, as interconnector projects move through development and construction. We also saw a major milestone in May 2022 when the ElecLink interconnector to France went live, increasing our interconnector capacity to 8.4GW. Two further projects, NeuConnect and Greenlink, took final investment decisions in 2022-23.

This represented a further ~£2.5bn in investment in the sector and both projects are now under construction. Key information and publications including for interconnector activities can be found here, on our website.



Enduring Priority: Delivering Environmental and Social Schemes for Government

Renewable Electricity Schemes

Renewables Obligation

The Renewables Obligation ('RO'), was launched in 2002, as one of the main support mechanisms for large-scale renewable electricity projects in the UK. Currently, the scheme supports ~30% of renewable electricity supplied in the UK; significantly above the 3% when it began. While the scheme is now closed to new applicants, we will continue to operate the RO until March 2037, when the period of support will have ended for all accredited installations.

Please find the 2021-22 RO annual report here.

Feed-In Tariff

Smaller-scale renewable and low-carbon generation has mainly been supported through the Feed-in-Tariff ('FIT') scheme, which makes payments to participants that install electricity generating installations, such as photovoltaic panels. While the scheme is now closed to new applicants, we will continue to operate the FIT until March 2040, when all eligible payments will have been made.

Please find the FIT annual report here.

Renewable Electricity Scheme:

26,609 generating stations on the scheme as of March 2022

35.4 GW of renewable electricity capacity accredited as of March 2022

78.0 TWh of total electricity from renewable sources generated[1] on the Renewables Obligation scheme during 2021-22

Over the life of the Feed-in-Tariff scheme, to March 2022:

869,956 accredited installations

£12.63 billion payments made to generators

[1] Equivalent to 29.5% of UK supply

Renewable Heat Schemes

Boiler Upgrade Scheme

Launched in May 2023, the Boiler Upgrade Scheme ('BUS') supports the decarbonisation of heat in buildings. The scheme has a budget of £450 million over three years; helping to support low carbon heating technologies in up to 90,000 homes across England and Wales. It provides upfront capital grants to support the installation of heat pumps and biomass boilers in homes and non-domestic buildings.

The scheme offers grants to reduce the upfront capital costs to customers and businesses to support the installation of low carbon heating technologies. As of 31 March 2023, 15,768 voucher applications had been received and 11,996 BUS vouchers had been issued. A further 10,249 applications to redeem BUS vouchers have been submitted; 9,981 of these had been approved. £50,157,000 in grants have been paid out during 2022-23.

On 31 March 2023, the Department for Energy Security & Net Zero announced its intention to extend BUS by a further three years, until 2028.

BUS guidance can be found here for installers and for property owners. BUS monthly scheme updates can be found here.

Green Gas Support Scheme and Levy

Launched in November 2021 and running for four years, the scheme provides financial support to biomethane producers wishing to increase the proportion of green gas in the gas grid, through a levy on licenced gas suppliers. Registered participants will receive quarterly payments over a period of 15 years and payments are based on the amount of eligible biomethane that a participant injects into the gas grid. The scheme is expected to yield carbon savings of 8.2 million tonnes of greenhouse gases over its lifetime. The first participant was registered onto the scheme in August 2022.

The Green Gas Support Scheme guidance, Quarter Five report, and levy guidance can be found here.

Domestic and non-domestic Renewable Heat Incentive schemes

Renewable Heat Incentive ('RHI') schemes were established to help consumers – both domestic and non-domestic – to overcome the costs involved with installing renewable heating systems, compared to more conventional fossil fuel heating systems. The schemes have helped early adopters contribute to the UK's net zero goals, by installing technologies such as heat pumps and biogas injection.

Domestic Renewable Heat Incentive

This scheme was closed to new applications on 31 March 2022. It exceeded forecast applications in 2021-22 by 33% (38,800 unique applications). We will continue to support participants and make payments where appropriate for their eligibility period (which is up to seven years).

Non-Domestic Renewable Heat Incentive

While the scheme has now closed, legislative extensions were granted in recognition of the issues faced by industry due to the COVID-19 pandemic in 2021. These were further extended for the commissioning of eligible tariff guarantee and extension applications from 31 March 2022 to 31 March 2023.

These extensions were only applicable to applicants who already had a tariff guarantee or who had successfully made an extension application (or applied on or before 31 March 2021, and were still being assessed and have since gained approval or budget has become available).

We will continue to support participants and make payments where appropriate for their eligibility period. Participants using extensions will receive support up to 31 March 2041.

Closed (to new entrants) Renewable Heat Schemes

Renewable Heat Scheme:

In the first year of the BUS scheme, over **£50 million** has been paid supporting the installation of almost **10,000** low carbon heating systems

Over the life of the Renewable Heat Incentive schemes to March 2023:

Payments made to scheme participants worth around **£134.3 million** (Northern Ireland RHI)

74.7 TWh thermal heat generated (NDRHI-GB and DRHI)

5,980MW of thermal heat capacity accredited (NDRHI-GB)

316,793 payments issued worth around **£124 million** (DRHI) during 2022-23

78,953 payments issued, worth around **£886 million** (NDRHI-GB) during 2022-23

3,114 GWh heat generated (Northern Ireland RHI – over the life of the scheme to March 2022, scheme closed to new applicants February 2016)

Energy Efficiency and Social Schemes

Energy Company Obligation - ECO4

First introduced in 2013, the fourth iteration of the scheme was open to applicants on 1 April 2022, and replaced ECO3 (which applied to measures installed between 1 October 2018 and 31 March 2022). The ECO schemes place legal obligations on larger energy suppliers to deliver energy efficiency measures to domestic premises.

ECO4 was launched on 1 April, mandating deep retrofits for fuel poor households. During this period we consulted on and set up our scheme administration, following the BEIS publication Design of the Energy Company Obligation ECO4: 2022-2026 - GOV.UK (www.gov.uk) of the government response to the scheme design.

We initiated a significant project to update the supplier register for processing measures during this period with key deliverables enabling Interim Delivery to ECO3 rules and notifications to the new ECO4 ruleset along with measure processing. Over 50,000 measures have been notified across over 14,000 projects before the end of the financial year, with over 90% of ECO3 Interim Delivery measures approved.

Introduction of the Great British Insulation Scheme

The Great British Insulation Scheme is a new government energy efficiency scheme (formerly known as ECO+) that will be administered by Ofgem. It is designed to deliver improvements to the least energy-efficient homes in Great Britain, to tackle fuel poverty and help reduce energy bills. The scheme complements the Energy Company Obligation (ECO4) scheme, yet unlike ECO4's 'whole house' approach, this scheme will mostly deliver single insulation measures.

As well as supporting low-income and vulnerable households, it will also be available to those living in homes with an Energy Performance Certificate rating of D-G, and within Council Tax bands A-D in England and A-E in Scotland and Wales. The scheme will work by placing an obligation on medium and large energy companies to deliver measures that result in reduced energy usage, and is intended to run from around April 2023 until March 2026.

Warm Home Discount

The Warm Home Discount ('WHD') also continues to provide assistance with energy costs to those who are in fuel poverty or are at risk of it, largely in the form of a £150 rebate. From scheme year 2022 onwards, there are two separate WHD schemes; one for England and Wales and a separate one for Scotland. Guidance has been developed for both schemes, with a review period for comment by stakeholders.

Energy Efficiency and Social Schemes

Over the life of the Energy Company Obligation schemes to March 2022:

Over 3.54 million measures installed in **2.41 million** households

An estimated contribution of **58.15 $MtCO_2$** in carbon savings

An estimated **£19.3 billion** in lifetime bills savings deliverable to vulnerable households

Over the life of the Warm Home Discount scheme to March 2022:

£3.5 billion of support for customers in or at risk of fuel poverty

25.4 million energy bill rebates provided

Sustainability report

Internal Environmental report 2022 -23

Greening Government Targets which include the following objectives (against a 2009-10 baseline):

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

Ofgem remains committed to the Greening Government Commitments (GGCs) which have been updated with a new baseline, new targets and sub targets. The new targets are for the period 2021 to 2025. Below are the targets and what the department is doing to achieve them.

Key changes to the GGCs compared to 2016 to 2020 are:

- Changing the target baseline year from 2009 to-2010 to 2017-2018, to accurately reflect the current government estate and ensure the government builds on the progress it has already achieved
- Setting more stretching targets on the core areas of emissions, water, waste and domestic flights
- Reorganising the targets into headline commitments and sub-commitments, so that departments can commit to common overall objectives, with sub-commitments which contribute to the overall aims.

This year's figures include data for Ofgem's Glasgow office (previously only the London office data was available). The reported building energy usage has increased because the 2017-18 data has not been re-baselined, but the figures now incorporate almost double the floor space which was previously reported on. The gas emissions (Scope 1) have not grown, as the Glasgow office has electricity and heat meters. The growth in scope 2 emissions from last year is entirely due to the availability of the Glasgow office data.

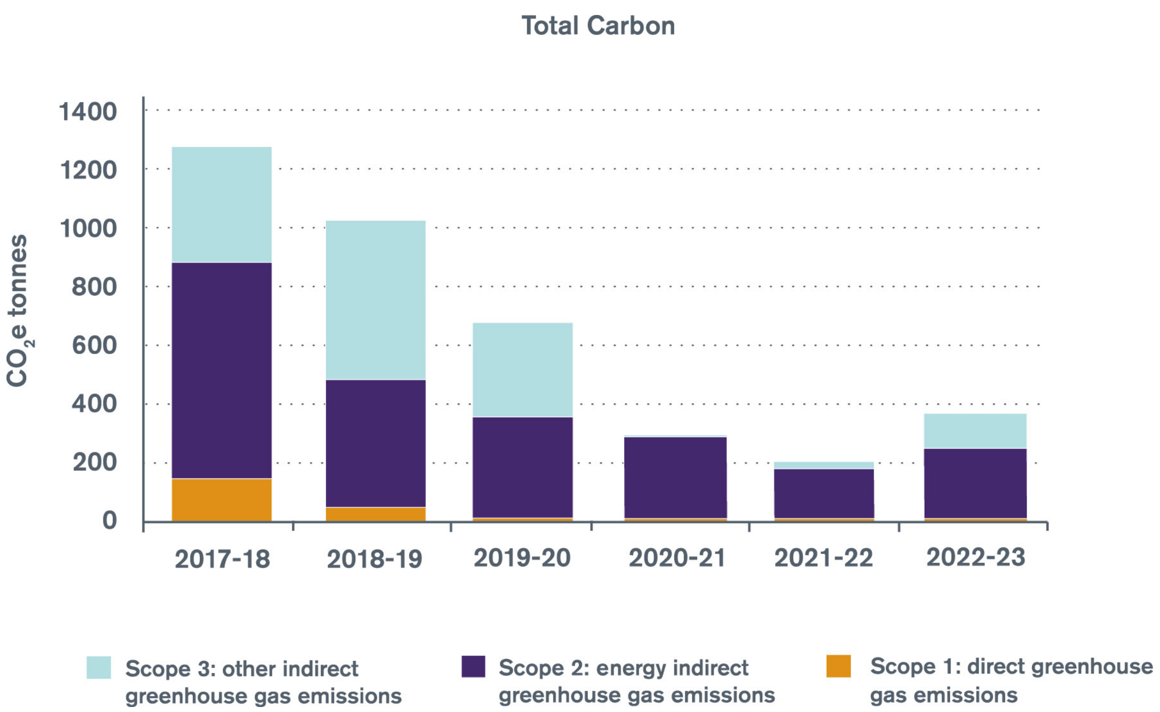
We've chosen not to re-baseline as this is the first year we've had Glasgow data. Our reported building energy usage and subsequently our reported scope 2 emissions have increased due to this new data. Ofgem spent £0.2 million on energy cost during the year. Most of the cost relates to electricity usage.

In 2022-23 there was a considerable decrease in overall carbon and other measures compared to pre-pandemic levels. There are two key drivers for this:

- Hybrid working – although Ofgem has more staff than in 2019-20, those staff came into the office around 80% of the time. In 2022-23, staff came into the office around 20% of the time. This has not just impacted Ofgem, as there has been a significant drop across the entire London office building (which is shared with other government departments of which we account for less than 8%) therefore Ofgem's apportioned share has also fallen.
- Floor space – Ofgem reduced its leased space in London in 2020-21 by 24% due to accommodation efficiencies which significantly benefits Ofgem's environmental footprint even though staff numbers have increased. In addition, the landlord re-surveyed the floor in 2022-23 and found that it was less than previously thought. Data for shared elements for the entire building is apportioned to departments based on floor space. Reducing floor space reduces Ofgem's allocation of shared building carbon, water and waste.

Mitigating climate change: working towards net zero by 2050

Headline target: Reduce the overall greenhouse gas emissions from a 2017-2018 baseline and also reduce direct greenhouse gas emissions from estate and operations from a 2017-2018 baseline.



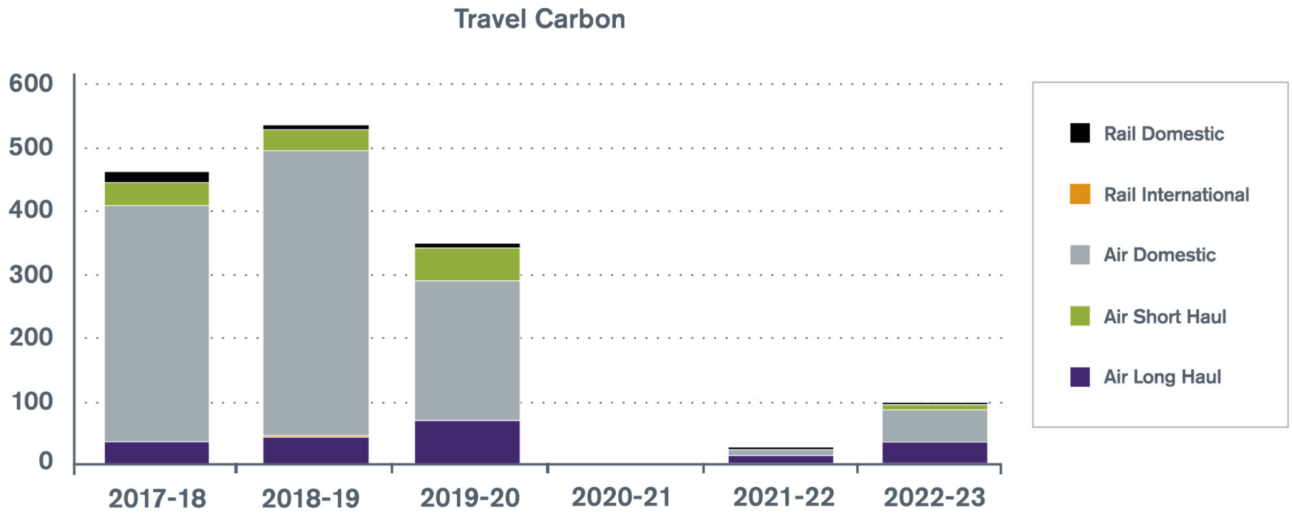
With people back in offices and visiting other offices the overall carbon usage has gone up considerably compared to the pandemic years. However, with a 20% increase in staff, the carbon per full time equivalent member of staff (FTE) remains consistent.

Greenhouse gas emissions		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Non-financial indicators (tCO_2e)	Total emissions	1176	1015	671	278	179	243
	Per FTE	1.28	1.43	0.09	0.23	0.14	0.15
	Scope 1: Direct GHG emissions	153	49	7	6	5	4
	Scope 2: Energy indirect GHG emissions	736	431	330	273	174	141
	Scope 3: Other indirect GHG emissions	382	535	334	0	23	99

Sub-targets:

- Reduce the emissions from domestic business flights by at least 30% from a 2017-2018 baseline, and report the distance travelled by international business flights, with a view to better understanding and reducing related emissions where possible.

Ofgem's travel data for the past year reflects the pandemic becoming endemic and things returning to normal, as well as increased headcount. To prevent our travel carbon returning to the 2018-19 peak, the Travel and Expenses Policy has been updated with more stringent rules for travel and types of travel.



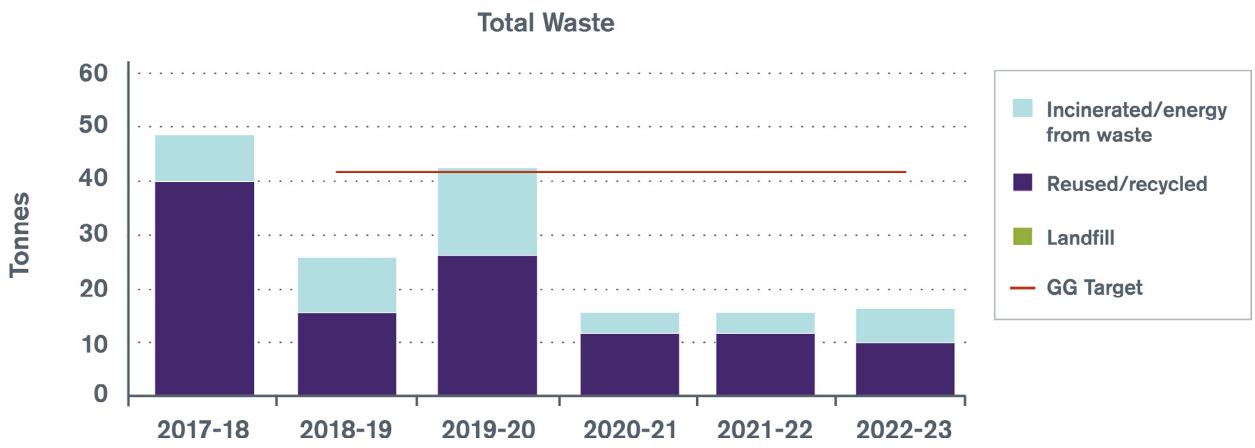
Total air travel distance (in kilometres) for 2022-23 was:

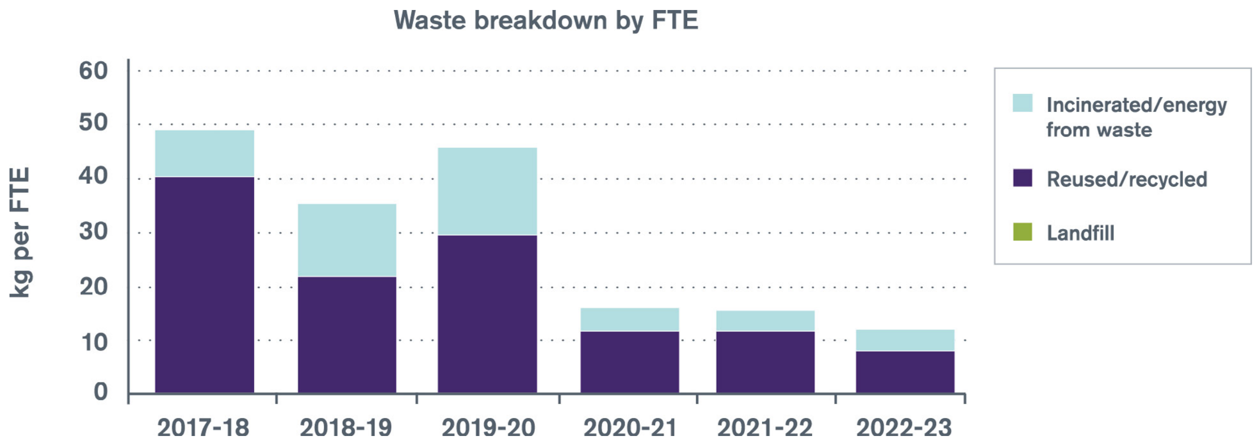
- *Domestic 220,101 miles*
- *International 53,880 miles*

- Update organisational travel policies so that they require lower carbon options to be considered first as an alternative to each planned flight.
  Air travel now requires approval at Deputy Director level. Although rail travel is the preferred option, the impact of rail disruption led to more flights being taken in 2022-23 when trains were unavailable.

Minimising waste and promoting resource efficiency

Headline target: Reduce the overall amount of waste generated by 15% from the 2017-2018 baseline.





Ofgem have already achieved more than 75% reduction in waste. This was partly due to the impact of the pandemic and some was partly due to the switch from estimated weights to actual weights in February 2023. Waste to energy remained the same, but recycled waste reduced from 12 tonnes to 3 tonnes in a month.

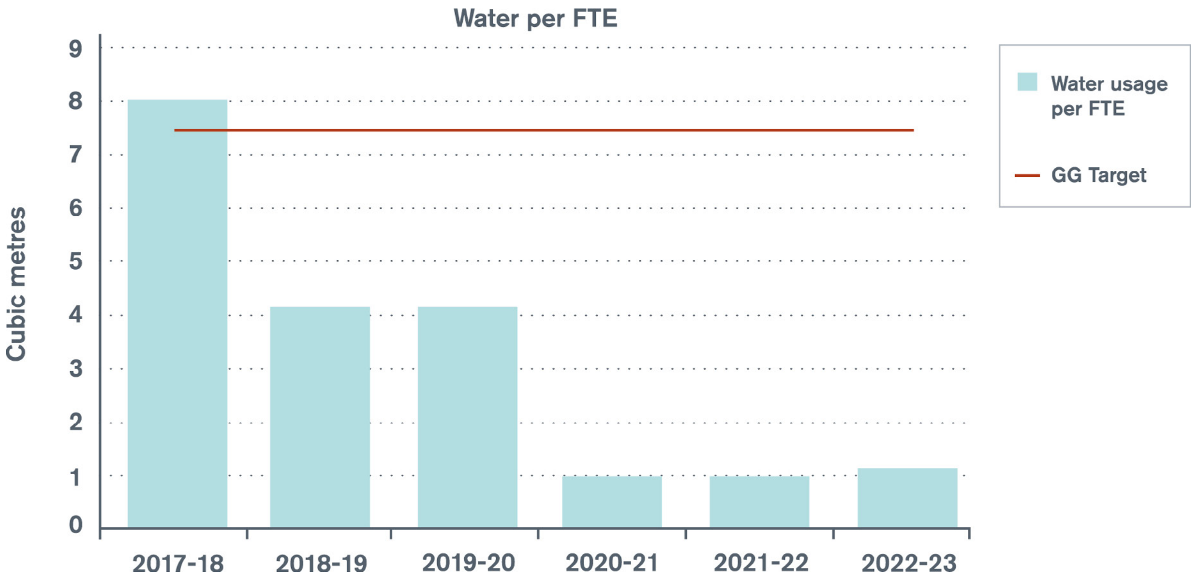
Waste			2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Non-financial indicators (tonnes)	Total waste		63.75	26	42	14	19	15
	Total waste per FTE		0.05	0.04	0.05	0.02	0.02	0.01
	Hazardous waste		0	-	-	-	-	-
	Non-hazardous waste	Landfill	0	0	0	0	0	0
		Reused/Recycled	40	15	28	11	15	10
		Incinerated/ energy from waste	9	11	15	3	4	5

Sub-targets:

- Reduce the amount of waste going to landfill to less than 5% of overall waste.
  Ofgem has been landfill- free since 2010.
- Increase the proportion of waste which is recycled to at least 70% of overall waste.
  The data since our waste has been weighed rather than estimated suggests that our recycling is less than half of our total waste. We are limited in reporting our waste usage as our waste is calculated as percentage of total waste generated by the entire government hub.
- Remove consumer single use plastic (CSUP) from the central government office estate.
  Ofgem avoid single use plastic in all our offices; dish-washable plastic drinking glasses and ceramic mugs for hot beverages are used instead.
- *10SC (the location of our London Office) does not provide any plastic cups to its users. The catering team are offering a £4 cup loan scheme in all the cafes and restaurants in the building for guests who do not bring their own recyclable cups, this is refundable on return of the cup.*
- Report on the introduction and implementation of reuse schemes.
  Because of the nature of Ofgem's working environment, there are limited opportunities to use reuse schemes. We have looked at circular paper in the past, but it is difficult to implement as not all paper products are compatible.
- Reduce government's paper use by at least 50% from a 2017-2018 baseline.
  Paper usage has not returned to pre-pandemic levels which shows that staff have adapted to new ways of working and the technology is suitable for hybrid working. Ofgem has reduced paper use by 80% compared to 2017-18.

Reducing our water use

Headline target: Reduce water consumption by at least 8% from the 2017-2018 baseline.



As the graph shows, Ofgem achieved the **8% goal** prior to the pandemic. This is not expected to return to pre-covid levels of usage. The slight increase last year is due to the increase in people going into the offices, which is tempered by the **20% increase** in staff over the same period. **£0.02 million** was spent on water during the year (comparable information is not available).

Water			2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Non-financial indicators	Water consumption (m^3)	Supplied	3608	3608	3875	896	896	1795
		Per FTE	5.6	5.6	4.2	1.0	1.0	1.1
		Target	**7.36**	**7.36**	**7.36**	**7.36**	**7.36**	**7.36**

Sub-targets:

- Ensure all water consumption is measured.
  Already in place.
- Provide a qualitative assessment to show what is being done to encourage the efficient use of water.
  As Ofgem are in a government hub, the maintenance contractors for the building are working on all sustainability issues including a qualitative assessment.

Procuring sustainable products and services

Headline commitment: Continue to buy more sustainable and efficient products and services with the aim of achieving the best long-term, overall value for money for society.

Departments will report on the systems they have in place and the action taken to buy sustainably, including to:

- embed compliance with the Government Buying Standards in departmental and centralised procurement contracts, within the context of government's overarching priorities of value for money and streamlining procurement processes; and
- understand and reduce supply chain impacts and risks.

As Ofgem buy the goods and services that apply to the minimum mandatory Government Buying Standard from the CCS framework agreements, then compliance with these standards are being met as the suppliers will have to have demonstrated meeting these standards as a minimum to be part of the CCS framework.

Ofgem will also include additional sustainability questions in relevant tenders where possible.

Climate change Adaptation Strategy

Ofgem's strategic vision is for an energy system to be on track for net-zero, delivered in the interests of consumers, by 2025 and so consideration of climate impact is embedded into decision making and policy setting.

Ofgem continuously looks at options to improve the sustainability of the estate, and sustainability factors will be a key consideration for any future office locations.

Reducing environmental impacts from Information Communication Technology (ICT) and digital

Headline commitment: Departments should report on the adoption of the Greening Government: ICT and Digital Services Strategy and associated targets and ensure they provide membership to the Sustainable Technology Advice and Reporting team, who manage and deliver the Greening Government Commitments ICT reporting.

In summary, this will include delivering an annual ICT and digital footprint, waste and best practice data for each department and their partner organisations.

Digital Service remain committed to delivering a sustainable service and reducing our carbon footprint, both via optimisation of IT Infrastructure, and via sustainability criteria in procurement of goods and services within the ICT supply-chain. This year Ofgem has closed down the aged co-located physical infrastructure, moving data to either a Virtual Data Centre or the Cloud. In the Cloud space, the internal audit review noted the department's best practice Cloud optimisation, which has reduced waste through lean consumption. Ofgem is currently out to tender to replace our Laptop devices, and have included sustainability of the product in the evaluation criteria. The current laptop estate is comprised of HP Dragonflies, made from recycled materials.

Jonathan Brearley
Chief Executive

6 July 2023

Accountability report | 2022-23

Financial review

During the year, Ofgem used its budget to support its 2022-23 Forward Work Programme with total operating expenditure of £142.2 million against total operating income of £206.2 million. Ofgem therefore ended the year with an overall net income of £63.8 million net income (2021-22: £12.9 million net income). The net operating income of £64.0 million is reconciled to resources outturn in SOPS note 2.

This mainly comprises a net operating income of £49.7 million (2021-22: £13.7 million) for Green Gas Levy. This outturn is an underspend of £64.9 million (2021-22: £88.5 million underspend) on resource budget estimate of £6.9 million (2021-22: £78 million), mainly due to the value of financial provisions being significantly lower than estimated and Green Gas Levy income being higher than estimated. The Green Gas Levy places obligations on licensed gas suppliers, including a requirement to make quarterly levy payments to fund the Green Gas Support Scheme (GGSS). Income and expenditure for Green Gas is shown in a separate line of Ofgem's Statement of Outturn against Parliamentary Supply. Levy income is based on estimates, and Support Scheme payments are demand driven (dependent on registrations and biomethane injections).

Any in-year surplus will be factored into the calculation of the following year's levy rate; funds will remain available for GGSS payments and reduce obligated suppliers' future payments. Ofgem's main source of income is licence fees payable by the sector. Any surplus (over recovery of fees, where spend is less than budget) is repaid to the sector. There is a £4.0 million surplus from the 2022-23 licence fee charged to the sector (2021-22 was a: £6.9 million surplus).

The majority of Ofgem's costs are staff costs. Overall Ofgem operating expenditure was £12.4 million (10%) higher in 2022-23 (£142.2 million) compared to 2021-22 (£129.9 million), primarily due to increased staff numbers and consultancy spend to respond to the gas markets crisis and deliver new renewable energy schemes. Capital spend mainly consisted of IT equipment and the development of bespoke software to support Ofgem administered schemes, and net spend was £2.2 million compared to a budget of £5.1 million (including the capital income transferred from BEIS).

Corporate Governance Report

Directors Report

There are no company directorships or other significant interests held by members of the management board which may conflict with their management responsibilities.

No personal data related incidents were formally reported to the Information Commissioner's Office (ICO) during the year.

The Ofgem Board

The Board, and its sub-committees, in 2022-23 has continued to focus on protecting customers during an unprecedented cost of living crisis. This period saw a particular focus on the regulation of retail markets, and on infrastructure and security of supply.

In Retail markets, we worked with government to ensure effective delivery of their consumer support programmes, we required suppliers to review direct debits and correct any that were increased unreasonably, we reviewed supplier customer contact service levels and processes for consumers in payment difficulty requiring dozens of improvements, we have announced our intention to remove the premium paid by PPM customers for their energy, and we are reviewing the treatment of non-domestic customers to ensure rules have been followed.

As part of our focus on security of supply, we set up cross-agency working arrangements and governance across Government, the ESO and GSO and Ofgem to assess the risks to security of supply of gas and electricity; put in place measures to mitigate risks on both the demand and supply side; and prepare for any emergency responses in the event of a supply shortage.

Role of the Board

The Gas and Electricity Markets Authority (GEMA) is Ofgem's Board. The Authority is referred to as the Board in this document. It is currently made up of five non-executive members, including a non-executive Chair, and one executive member in the Chief Executive. The members of the Ofgem Board are provided on the Ofgem website. Three further executive members also attend all Board meetings, and other Ofgem staff attend for specific items, as required.

The Board's powers and duties are largely provided for in statute. The statute speaks of Ofgem as 'the Authority' and when it refers to the Authority it means the Chair and the other members of the Ofgem Board. This means that whenever legislation gives Ofgem a particular power, it is the Board of Ofgem who must exercise that power, unless there is a valid delegation in place.

How appointments are made

The Secretary of State for the Department of Energy Security and Net Zero appoints the non-executive members of the Authority after consulting the Chair. The executive members of the Authority are appointed by the Secretary of State in line with the Civil Service Management Code. They hold their positions for as long as they hold their senior posts at Ofgem, subject to maximum periods of tenure.

No appointments to the Board were made to the Board in 2022-23. One non-executive Board member, Christine Farnish, stood down from the Board.

Division of responsibilities

The Board has reserved certain decisions for itself. These are set out in a schedule to the Board's Rules of Procedure and are known as the 'Reserved Functions'.

Decisions relating to any of these Reserved Functions must be decided by the Board, unless the Board specifically delegates that decision to an employee of Ofgem, or to one of the Committees of the Board.

A delegation by the Board may be subject to any conditions. Any additional Board delegation is recorded in the Board's minutes. The only exception to this is the making of a Statutory Instrument, which – by law – the Board cannot delegate. All functions of the Board which are not Reserved Functions, delegated to a Committee of the Board, or delegated by HM Treasury to the Accounting Officer, are referred to as 'General Functions'.

Following on from its update of Reserved Functions the previous year, in July 2022 the Board provided additional guidance to the executive on how and when to consult the Board on delegated matters particularly those with significant impact upon consumers.

The Board's Rules of Procedure, including its Reserved Matters, are published on the Ofgem website.

Board Committees

The Board has established a number of sub-committees to support its work. These are: the Audit and Risk Assurance Committee, the People and Remuneration Committee, the RIIO-2 Committee, and the Enforcement Decision Panel.

Further information about the responsibilities and work of the Audit and Risk Assurance Committee and the People and Remuneration Committee are provided in a later section of this report.

The RIIO-2 Committee met six times during the year to ensure that the Board's decision-making process in respect of RIIO-2, which sets price controls for the companies that operate the gas and electricity networks in Great Britain, runs efficiently and effectively. With the RIIO-2 price controls adopted, the Committee was dissolved on 30 November 2022.

The Enforcement Decision Panel is a committee of the Board, which has been in place since June 2014 to take enforcement decisions on the Board's behalf. It was established to take decisions in enforcement cases by dedicated specialists so that there is a visible separation between the investigation and decision-making functions. The Panel's members and its secretariat are employees of Ofgem who are independent from the case team. The Enforcement Decision Panel publishes its own annual report, which is available on the Ofgem website.

In March 2023 the Terms of Reference for the Enforcement Decision Panel were revised to provide greater discretion to the Director of Enforcement on what matters to refer to the Panel, allowing routine matters to be dealt with rapidly by the executive and focusing the Panel's resources on significant and contentious decisions.

The terms of reference for the Board's Committees are published on the Ofgem website.

Board meetings

The Board meets approximately ten times a year for formal meetings. In addition, ad hoc meetings and decisions by correspondence are used when urgent matters arise between meetings.

In its meetings, the Board typically considers a range of matters. This normally includes updates from the Chair and Chief Executive, updates from the Chairs of its Committees on any recent meetings, discussions on Ofgem's strategy, strategic objectives and the wider landscape, organisational matters, including diversity and inclusion, and decisions on specific matters that have not been delegated.

In the last year, the matters the Board has considered included the following:

- Ofgem's response to the gas crisis, including consideration of various external reviews
- Reviewing Ofgem's strategic risks and risk appetite statement
- Approving Ofgem's Forward Work Programme
- Reviewing organisational performance, including resource prioritization over winter
- Adopting a consumer interest framework
- Taking a number of significant regulatory decisions, including in relation to financial resilience requirements on retail companies, the default tariff cap, the ED-2 price controls for networks and a number of measures to protect consumers in the energy market.

In addition, and normally preceding each formal meeting, the Board has a less formal briefing session. This provides the Board with an opportunity to discuss emerging issues, to have briefings on particular aspects of Ofgem's work, and to hear from stakeholders on topical issues. This year the Board was pleased to welcome a number of stakeholders to its meetings, including Citizen's Advice, Energy System Catapult, the Department for Energy Security and Net Zero, and the Welsh Government.

The Board minutes and agendas are published on the Ofgem website.

Board attendance

The Chair and other members play a full part in Board business. They attended full Board meetings and Committee meetings as follows:

Members	Gas and Electricity Markets Authority	Audit and Risk Assurance Committee	People and Remuneration Committee	RIIO 2 Committee
Barry Panayi	9/10	-	4/4	-
Christine Farnish	4/5	-	2/2	1/2
John Crackett	10/10	2/2	-	6/6
Jonathan Brearley	10/10	4/5	4/4	5/6
Lynne Embleton	10/10	3/3	4/4	4/5
Martin Cave	10/10	5/5	4/4	6/6
Myriam Madden	10/10	5/5	-	5/6

Notes:

Christine Farnish stood down as a Board member in August 2022. This led to a rearrangement of Committee membership.

In addition to the regularly scheduled meetings listed above, the Board met on a number of occasions at short notice to address urgent issues.

Board evaluation

The effectiveness of the Board is reviewed annually. It is good practice in corporate governance to undertake an externally facilitated Board Effectiveness Review at least once every three years and Ofgem is due to undertake one in 2023/24. Reports on Ofgem's response to the energy price crisis, including by Oxera, the National Audit Office and the BEIS Select Committee, made recommendations on Board Governance.

Ofgem is tracking its response to those actions and in January 2023 began an internal review into Governance, including Board effectiveness.

Identifying and Managing Conflicts of Interests

Ofgem has a conflict of interest policy, which is published on the Ofgem website. Further guidance to staff is also available on the Ofgem staff intranet. Under the policy, all staff are required to notify us of any potential conflicts when they join the organisation and of any changes thereafter.

The policy applies to all staff, whether they are permanent, casual, fixed-term, agency or contractor.

Any potential conflicts are assessed by the Business Assurance team, who consider whether a conflict exists - and if there is one, what to do about it, and a timescale for action. The policy also states that disciplinary action will be taken against any member of staff who is found not to have complied with these arrangements.

A register of interests for our Board members is published on the Ofgem website.

When staff leave the organisation, we have a process in place to consider whether an application under the Business Appointments Rules is required before they accept a new appointment outside the Civil Service.

This is to ensure that when a former member of staff takes up an outside appointment or employment there should be no cause for justified public concern, criticism or misinterpretation.

The Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (ARAC) comprises three non-executive members of the Board, namely Myriam Madden (Chair), Martin Cave and John Crackett who replaced Lynne Embleton from the December 2022 meeting onwards. It has four substantive meetings a year, as well as a dedicated meeting to review the draft annual report and accounts. The Chief Executive, Director of Corporate Services, General Counsel, Deputy Director of Finance, Procurement and Risk, and Head of Assurance are invited to attend Committee meetings, as are other staff as required.

Representatives of Ofgem's External Auditors, the National Audit Office, and representatives of Ofgem's Internal Auditors, Mazars, are also invited to attend all meetings of the ARAC. As is good practice, the non-executive members of the Committee generally have a private session with the auditors at the end of each meeting. In addition, both the Internal Auditors and External Auditors have regular discussions and direct access to the Chair of the ARAC.

Role and responsibilities

The ARAC has terms of reference, which are published on the Ofgem website. Its key responsibilities are to advise the Accounting Officer and Board in relation to the effectiveness of Ofgem's internal controls, risk management and governance. It will examine the manner in which Ofgem ensures and monitors the adequacy of the financial control systems and recommend any necessary improvements.

The ARAC advises the Board and makes recommendations in relation to the programme of audit reviews covering key financial and control processes, taking into account risks facing Ofgem. This includes advising on the accounting policies, the accounts, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors.

Activities during the year

During the year, the ARAC's main areas of activity were:

- Monitoring the progress of Internal Audit plan for 2022-23, including considering and approving in-year changes to the programme of audits
- Reviewing Internal Audit reports, and other assurance reports commissioned by management, and management responses on topics including: programme management improvements and the retail sector.
- Reviewing the Internal Audit plan for 2023-24
- Reviewing the progress made to Ofgem's risk management framework and actions taken to embed risk, monitoring progress against the plan to improve maturity
  - Undertaking a number of thematic deep dives into areas of Ofgem's work or strategic risks, including winter preparedness, Legal Risk and Cyber Security Risk
  - Scrutinising information security and reviewing the Health and Safety Officers annual report
- Review of the Ofgem Annual Report & Accounts 2021-22 document and oversight of the planning for the 2022-23 document.
- Consideration of the NAO audit plan and audit completion report.

Reporting

The minutes of the Committee are shared with the Board at its next meeting, and the Chair of the Committee is provided with an opportunity to update the Board on any matters she wishes to raise.

The People and Remuneration Committee

The People and Remuneration Committee (PRC) comprises three non-executive members of the Board, namely Lynne Embleton (Chair), Barry Panayi and Martin Cave. Prior to her departure in August 2022 Christine Farnish chaired the committee. It has four substantive meetings a year.

The Chief Executive, Director of Corporate Services and Deputy Director of People and Estates are also invited to attend the PRC, as are other staff as required

Role and responsibilities

The PRC has terms of reference, which are published on the Ofgem website. The key responsibilities of the PRC are to advise the Board and Chief Executive in relation to Senior Civil Service remuneration, and strategic approaches to and policies on people-related issues that impact Ofgem's performance and success.

Activities during the year

During the year, the PRC's main areas of activity were:

- Approving the Ofgem executive team's annual objectives
- Reviewing the performance and remuneration of the Ofgem executive team
- Monitoring and advising the Ofgem executive team on the ongoing organisational Transformation Programme
- Examining Ofgem's approach to talent retention and succession planning
- Undertaking a number of thematic deep dives on people issues, including pay reform and hybrid working.

Reporting

The minutes of the Committee are shared with the Board at its next meeting, and the Chair of the Committee is provided with an opportunity to update the Board on any matters she wishes to raise.

The Executive Committee Role and responsibilities

ExCo supports the Chief Executive in the running of the organisation and is not a formal Committee of the Board. It is chaired by the Chief Executive and meets monthly. It also has an informal weekly catch-up. The members of the ExCo are listed on the Ofgem website. Other Ofgem staff are invited to attend ExCo as required.

Activities during the year

ExCo provides a single management forum to discuss both regulatory issues and organisational matters.

During the year, ExCo's main areas of activity were advising the Chief Executive in respect of:

- Consideration of management responses to, and monitor progress in implementing recommendations from, Internal Audit and other assurance reports
- Reviewing strategic risks creating a risk sub-group to advise on the appropriateness of risks, the mitigation actions and improvements needed to the wider risk management framework
- Consideration of significant people-related issues, and the organisation's diversity and inclusion strategy and policies
- Reviewing significant or crosscutting policy or regulatory proposals, or significant matters relating to Ofgem's delivery of environmental and social schemes
- Reviewing management papers to be submitted to the Board or one of the Board's sub-committees.

Reporting

The CEO provides a monthly report to the Board, summarising high-profile and topical issues facing the organisation, including the activities of ExCo as appropriate. Quarterly the CEO reports on organizational delivery and health.

Ofgem's presence in Scotland

Our team in Scotland is in its strongest position to date with over 600 members operating out of Glasgow, resulting in almost half of all Ofgem staff being based north of the border. Our refurbished base of Commonwealth House continues to offer a modern and collegial environment for our teams to come together, encouraging regular in office working. Our Scottish colleagues provide a diverse range of services, both internally and externally, with key teams such as Delivery and Schemes working to deliver sustainable energy and environmental schemes to consumers across Great Britain. Ofgem has also maintained a high level of engagement with stakeholders and consumer groups across Scotland.

Ofgem appeared in front of the Scottish Parliament's Committee on Net Zero, Energy and Transport to provide expert evidence as to the current status of the national grid in Scotland and how it can best meet the challenge of achieving Scotland's statutory net zero targets. Following the election of a new First Minister several new Ministers are in post who have aspects of energy within their portfolios.

This provided our External Affairs team the ideal opportunity to build on Ofgem's existing good relations with Scottish Government departments, promoting our shared ambitions on the energy sector, net zero, and a just transition with the new Ministers. Senior members of our team also continue to regularly engage with energy experts, industry, innovators and consumer groups across Scotland.

Ofgem's presence in Wales

Ofgem's Chief Executive and Chair, visited the Cardiff office at the end of 2022. The growing workforce situated in Cardiff further reiterates Ofgem's commitment in Wales and with roles now being routinely advertised based in Cardiff Ofgem hope to welcome even more colleagues in the coming weeks and months. The expertise and skills possessed by our Welsh team are a huge benefit to Ofgem's work and efforts to understand consumers across GB, a clear demonstration of this work was with the implementation of a Welsh Language provision designed to ensure that communications in Wales are available in both languages.

For the first time since the coronavirus pandemic GEMA held a board meeting in Cardiff in February 2023, which also allowed for a site visit in South Wales where the board met with Tata Steel in Port Talbot to learn about their move towards greener technology. The board also took the opportunity to meet with elected representatives, the Minister for Social Justice Jane Hutt MS and the leader of Bridgend County Council.

Alongside this, the Chief Executive has been in regular contact over the past year with the Ministers for Climate Change and the Minister for Social Justice regarding the crisis in the energy market, particularly in the face of challenges experienced by vulnerable consumers around PPMs.

Whether it be engaging with Welsh stakeholders on PPMs, ED2, ASTI, obstacles facing projects in the Celtic Sea, or how Ofgem is working with the Welsh government and its partners to assist facilitate climate change targets, the visibility and constructive approach taken by our team in Wales and the senior members who attend meetings regularly with Ministers and Members of the Senedd in order to offer updates, clarity and solutions where possible in the consumer interest are all vital to achieving Ofgem's goals in Wales.

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed Ofgem to prepare for each financial year resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department 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 income and expenditure, Statement of Financial Position and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by 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; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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

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

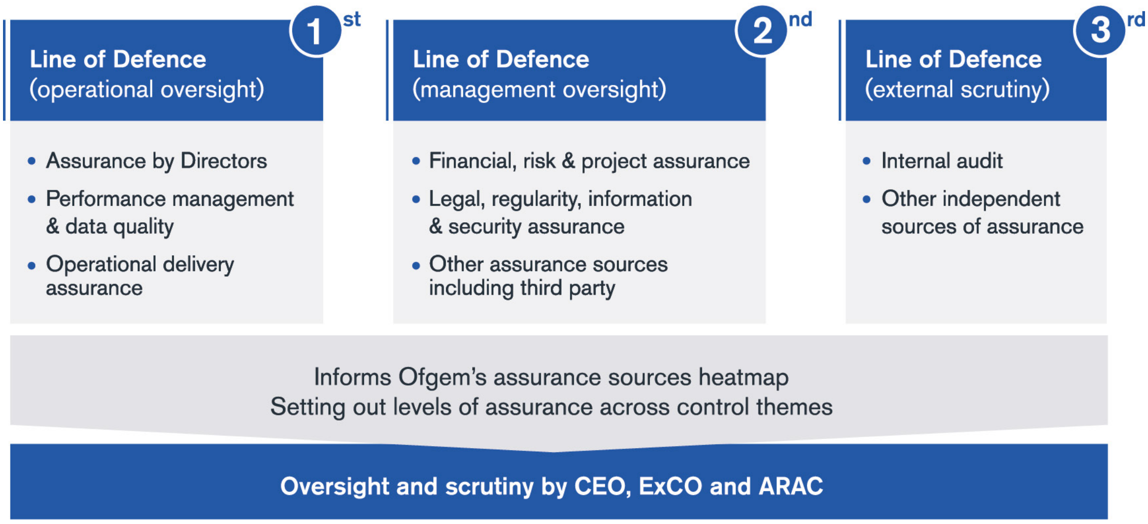
Governance statement

The governance statement sets out Ofgem's risk management and internal control arrangements, which follow principles of good governance set out in HM Treasury and Cabinet Office guidance. We continue to evaluate our governance and introduce changes to support more effective management of the Department, enhance collective decision making and improve the effectiveness of our systems of internal control, risk management and accountability. Our vision for corporate governance is to create an efficient and effective decision-making structure that is inclusive, accountable, and transparent.

Business Assurance, Risk Management and Internal Control

In 2022-23, Ofgem introduced a Business Assurance function to provide the executive with a comprehensive view of the available assurance over the effectiveness of arrangements in place to ensure that business objectives are met in a controlled way. The focus so far has been on assurance over the achievement of a range of key internal control themes such as compliance with corporate policies in Risk Management, Finance, Procurement, People, Information Management, Project and Programme Management and a range of management control themes. Further development will see the approach extended to include more specific assurance over the achievement of key Ofgem business objectives.

Significant components of the Business Assurance Framework are illustrated below :



This applies a clear and comprehensive framework, reflecting the approach recommended by HM Treasury for all HM Government departments. It sets out the principles, policies and practice Ofgem adopts to ensure adequate Business Assurance and Risk Management across the Department. It provides clear roles and accountabilities for those engaged in front line delivery and related corporate oversight and builds on Government Functional Standards.

The assurance gathered from a wide range of sources including corporate oversight and regular reviews with directors is summarised in an Assurance Sources Heatmap which uses the 3 Lines of defence model to articulate the available assurance over the effectiveness of governance, risk and compliance across a range of key internal control themes.

Whilst the assurance activities concluded that internal control was adequate across all internal control themes, significant areas for improvement identified through the 2022/23 assurance reviews include:

- A need for corporate policy owners to build a stronger focus on supporting, monitoring, and challenging directorates to comply with internal controls.
- A small number of policy breaches were identified during the year and directors took appropriate action in response. These included some issues with the use of commercial contracts, which are described in the Parliamentary Accountability report on page 87.
- Information management controls and appropriate governance structures were in place during the year but need to be better embedded across the organisation in order to operate more smoothly and consistently.
- The energy crisis presented a difficult working environment for employees during the year. Employee retention was challenging and the staff survey identified some priority areas for the organisation to improve on this. An action plan has been developed to respond to these.
- Programme and project management is identified as an important theme for improvement we developed an improved range of policies and support facilities in response to this. These were operating for part of the year but need to be embedded more fully in 2023/24.

Whilst the Assurance Framework provides better visibility of areas of strength and weakness in internal control and management arrangements across the department, a culture shift is needed to underpin this: to see assurance as a way of working, linking it to values, embedded in what teams do and not being seen as a competing priority.

Ofgem's risk framework

Ofgem's risk framework is key to delivering the ambitions in our strategy. It helps the organisation plan and prioritise, and strengthens our ability to be agile to emerging challenges. Ofgem continues to build on what is already in place to take its approach to risk management to a greater level of maturity. We invested in a bigger and stronger risk management capability across the organisation this year, through development of a stronger community of risk managers supported by better policies, guidance and tools. This has enabled better leadership discussions about risk, including regular oversight by senior management in each directorate, monthly ExCo discussions and quarterly reviews by ARAC.

Work on risks and assurance throughout the past year continues to highlight that the scenarios Ofgem face are generally complicated and ambiguous, with no simple or definitive solutions. The risk environment continues to evolve rapidly. The risk management framework has been developed to support whole system thinking, good risk-based decision making and promotes collaboration, innovation, and agility.

Risk appetite

Ofgem's risk appetite is set by GEMA and is reviewed every year. It is reflected in the Board's consideration of the effectiveness of risks and opportunities management. It is considered in assessing and managing risks and taking decisions.

Ofgem measures risks against the stated risk appetite and the executive places careful attention to the resolution of any which are deemed to sit outside of the agreed tolerance.

Ofgem has a minimalistic appetite for risks that impact on consumer protection, and we do what we are reasonably able to do to mitigate the likelihood or impact of this happening. The department is not averse to taking risks ourselves (even to our reputation) if it appears we can benefit or prevent harm to energy consumers. We take an adverse approach to risks associated with our ability to perform our regulatory functions.

Risk overview

Strategic risks are those that can obstruct Ofgem's ability to achieve strategic goals and ambitions. The organisation's success depends on focusing activities that will make the greatest difference for consumers and the environment and on managing their delivery well. Through focused and effective management response, Ofgem can ensure that we manage ourselves well in meeting legal, financial, ethical and public accountability responsibilities.

The three broad areas of risk on which we focused throughout the year were as follows:

Our regulatory approach	External relationships and other factors	The way we work
Risks related to whether our regulatory approach, framework and tools are effective, relevant and adaptive to long term challenges important to energy consumers, society and the environment. Effective management of these risks is vital to maintain trust in Ofgem and our ability to deliver effective regulation. We need to have a relentless focus on the outcomes we are seeking to achieve and what we expect companies and their investors to do.	Risks related to whether we are proactively anticipating and analysing information, data and trends, and responding effectively to external events that may have a significant impact on Ofgem's performance and our ability to deliver, even events not in our direct control. Our ability to advance our strategy is dependent on our ability to work collaboratively and in partnership with a range of stakeholders, in particular the government, but also the industry itself, other regulators and stakeholders.	Risks related to our effectiveness as a high performing organisation. We need to deliver our strategy, so that we can be an agent for change and a great place to work. Our culture, behaviors and values need to be aligned to delivery of our strategic goals, focusing on outcomes, empowering our people, encouraging collaboration and efficiency and providing resilience now and in the future.

These risks are interdependent so they are managed in an integrated way across the portfolio. The management of regulatory risks and issues arising from EU Exit and the war in Ukraine with the resultant threat to security of supply were also integral to our approach to risk management throughout the year.

A summary of the principal risks faced during 2022-23 is set out below:

Regulatory approach

Risk	Mitigating actions
Failure to protect vulnerable consumers through policy changes or enforcement of existing rules leading to consumer financial detriment and/ or physical and mental health impacts.	Engagement with HM Government on its work on affordability interventions Continued work on Ofgem's responsibilities for non-domestic energy consumers obligations. Published a regulatory expectations letter, setting out how companies should treat customers in payment difficulty, alongside good practice information that suppliers could use to inform their approaches to treating these customers. Subsequently published a letter on the unacceptable practices seen regarding suppliers remotely switching smart credit meters to prepayment without full regard to the licence conditions. In January 2023 we agreed a pause in Involuntary PPM installations with suppliers, and launched a call for evidence on prepayment meters, which informed the Involuntary PPM Code of Practice that we launched in April 2023.

Risk	Mitigating actions
Failure to enforce regulation of the UK market leads to unsustainable costs to domestic and non-domestic consumers, leading to increased consumer costs, detriment and damage to the UK economy.	Supported BEIS in developing and delivering government energy bill support for both domestic and non-domestic consumers in Great Britain. For domestic consumers, delivered the Energy Bills Support Scheme (EBSS) and Energy Price Guarantee (EPG). Monitored compliance with EBSS and EPG scheme obligations and taken enforcement action where necessary in relation to the EPG scheme. Implemented the domestic Alternative Fuel Payment (AFP) scheme and will take forward enforcement action for breaches of scheme guidance. For non-domestic consumers, delivered the Energy Bill Relief Scheme (EBRS) scheme, its replacement the Energy Bill Discount Scheme, as well as the non-domestic AFP. For EBRS, established a compliance team to assess suppliers' compliance with delivering additional support to Qualifying Financially Disadvantaged Customers. This has resulted in 11 active cases where suppliers have been asked to make payments to the Voluntary Redress Fund and notify customers of the discount they have received. Similar enforcement role to ensure supplier compliance with EBDS. For the non-domestic AFP similar to the domestic scheme, engaged with BEIS on compliance activities and enforcement action where necessary. Established enduring enforcement teams to take on anticipated case load for these schemes. We have also stood up a compliance monitoring team and a tariff compliance team to assess compliance in the EPG scheme. Consultants are undertaking monthly monitoring of supplier implementation of the EBSS and assessing voucher redemption rates. Continual engagement with BEIS and suppliers to deliver the correct policy and enforcement resource support, developing guidance for the schemes, and ensure compliance where necessary.
Inadequate Financial Resilience of regulated parties	We hired Senior Finance Specialists in order to carry out a high-level strategic overview of Ofgem's governance of financial resilience in all areas of the energy supply chain to identify risk status of each sector. We conducted a winter preparedness exercise ahead of winter 22 / 23 to examine the financial resilience of key energy market participants. We delivered new Financial Resilience regulations improved the information collection and analysis in sectors of concern and engaged with HM government on risk and policy where relevant. We continue to consult with stakeholders on strengthening financial resilience in the retail energy market and have a new interim Director of Financial Resilience and Controls to run that process.

External factors

Risk	Mitigating actions
A minor or major cyber incident occurs which has national interest and creates a perception that Ofgem has failed to appropriately regulate cyber, causing reputational damage to Ofgem	We operate a range of measures to respond to the risk of cyber incidents. These include mandatory self assessments and action planning by industry participants and regulatory inspections to assure the effectiveness of these. We engage proactively across the sector to maintain and improve standards and engage in the development and enhancement of new methods and solutions, including with UK Government agencies and academic research resources.
Threats to security of supply	We worked with Government and the System operators to: improve the balance of supply and demand; increase energy system capability; enhance wholesale market and market participant monitoring; reduce market participant risk profile; and ensure emergency protocols were clear and well-rehearsed in the event they were needed. Given similar level of risk for winter ahead, we have developed and agreed work programme for preparations ahead of winter 23/24.
Increase in the frequency and severity of weather events caused by climate change, reducing security of supply and causing increased consumer disruption and unacceptable restoration times	Ensuring appropriate and proportional climate resilience measures are funded in network price controls Ensuring output targets are in place for network companies to deliver improvements to network resilience Working with BEIS and Cabinet Office to develop standards for the resilience of critical national infrastructure against climate change
Government policy or actions negatively impact on regulatory and/or scheme delivery objectives; or lead to public disagreement with Ofgem on a major regulatory/policy issue, leading to potential harm to energy consumers	Continued engagement and collaboration across government on areas of shared interest and preparation in advance of policy changes and announcements. Established a cross-scheme delivery team to manage and identify risks across the schemes we are engaged with. This team is coordinating our activity, identifying issues, and making sure these are being discussed with BEIS. Governance structures are in place to update SCS colleagues on progress with the schemes, identifying risks and mitigating actions. This includes a Scheme Governance Board that meets fortnightly and weekly submission to Retail Programme Board. Engaged in regular bilateral meeting with BEIS for the different schemes and attend BEIS governance boards.
The volume and nature of current and anticipated legal challenge is significant	We assess the potential for legal challenge to upcoming decisions and develop plans to mitigate the risks identified. This can include proactively managing the timing and scope of decisions and we manage our resources to ensure that legal expertise is deployed where needed and we engage with the Ofgem finance team and HM Treasury to ensure access to the funding needed to enable this.

The way we work

Risk	Mitigating actions
Ofgem fails to enable a low-cost transition to net zero in the interests of energy consumers	We have developed plans to ensure we understand how we can help to deliver a least cost transition, and that this is embedded in Ofgem strategy and programmes of work. We engaged across UK Government and devolved administrations as well as industry to support delivery of least cost transition. We routinely assessed greenhouse gases reduction or alignment with and enabling of net zero transition in relevant policy papers.
Poor data quality and lack of data controls and governance across Ofgem's data estate	We developed a data governance framework that looks to deploy a Data Stewardship model across Ofgem. Drafted Terms of Reference (ToR) for a Data Governance Pulse Check and agreed processes to be audited in 23-24
Budget Failure: Overspend of Ofgem's agreed budget resulting in qualified accounts	We adopt a wide range of financial management practices to ensure that Ofgem budgets are allocated to the right priorities and to manage costs within available funding.

Further work is planned for 2023/24 to enhance and embed Business Assurance and Risk Management more fully across the organisation. This will include further development of capability across our teams and enhancements to the accountability of senior management for control and compliance.

The expansion of the scope of Business Assurance towards wider operational objectives whilst continuing to report on the internal control activities covered by the current approach, will provide more holistic assurance across all of our activities.

Quality Assurance of analytical models

Ofgem continued to subject the department's analytical work to quality assurance. This involves supporting policy teams to develop and review their analytical work, including business critical models, other models, evaluation, cost-benefit analysis, and impact assessments. Ofgem's quality assurance procedures follow the guidance issued by HM Treasury in their 2013 review (https://www.gov.uk/government/publications/review-of-quality-assurance-of-government-models). This continues to ensure the department's analytical work is accurate, robust, and produced to the highest standards.

Internal whistleblowing cases in Ofgem

Ofgem internal whistleblowing policy is a process for staff to raise any whistleblowing concerns and supports a culture where employees feel confident to speak up about issues of concern. It aligns with the recommendations and good practice published by the Civil Service and Protect. No issues were raised under this policy during the year.

Complaints to the Parliamentary Ombudsman

Three cases were accepted by the Parliamentary Ombudsman for investigation during the year, and one case remained open from a previous year. None were upheld in full, three cases were not upheld, and one case was partially upheld where Ofgem issued a letter of apology due to the participant not being signposted the complaint process during his statutory review outcome.

Independent reviews

The Ofgem Board commissioned a review into the root causes of the supplier failures that occurred in the autumn and winter of 2021-22 and specifically, into how regulation of the industry played a part.

The findings of the review, which was conducted by an independent firm of consultants, Oxera, were published in May 2022.

The National Audit Office also undertook a study into the energy supplier market, following the supplier failures that occurred in the autumn and winter of 2021-22. Its report was published in June 2022. The reports were followed up with a BEIS Select Committee report Energy pricing and the future of the energy market - Business, Energy and Industrial Strategy Committee (parliament.uk) in July 2022 and Public Accounts Committee hearing in November 2022.

The reports recommended a number of measures, many of which were already being implemented at the time the reports were published and which the improvements we made this year on risk management and business assurance further embeds. Some of the ways in which Ofgem has responded to the recommendations include:

- Improving the correlation between risk and the cost of failure by aligning risks to objectives to ensure they remain relevant and embedded.
- Establishing better flows of information (both vertically and horizontally) across Ofgem through clearer roles & responsibilities and points of escalation.
- Developing approaches to ensure assurance is more evidence based using a HM Treasury and 3 Lines of Defence model.

In addition to its study on the supplier failures, the National Audit Office did three value for money reviews with links to the energy markets in 2022-23;

- Energy Bills Support Scheme – completed in February 2023
- Bulb Special Administration Regime – completed in March 2023
- Smart Meter Roll Out – completed in June 2023

The key recommendations from the two completed reviews focused on Government, with one joint recommendation and one recommendation for Ofgem.

Ofgem is reviewing its governance to ensure it is fit for purpose as the organisation grows and makes changes to the way it operates.

This review is also in line with the requirement in the House Of Commons Business, Energy and Industrial Strategy Committee report into Energy pricing and the future of the energy market.

Three new Director General positions will be introduced to Ofgem's governance structure during 2023-24.

Internal Audit Assurance Opinion

Our Internal Auditor, Mazars LLP, completed an agreed schedule of reviews throughout the year. These were identified through risk based Internal Audit planning and interviews with Ofgem management and the Audit and Risk Assurance Committee.

The Internal Audit programme comprised 12 audits and two reviews to follow up on the status of previous actions. 11 reports provided 'Moderate Assurance' and one set of "agreed upon procedures" which did not contain an opinion, but didn't note any priority recommendations within the findings. The reviews recommended a total of 1 high priority recommendation and 75 other recommendations. We monitored implementation of the resulting actions and the majority of the actions open during the year had either been satisfactorily addressed by 31st March 2023 remained within due-dates agreed in the audit reports (or within approved extension dates), although a small number were partly implemented with action plans to fully implement them in an appropriate timeframe. This includes the high priority action, which is partially implemented at the end of the year.

On the basis of Mazars' audit work, their opinion on the framework of governance, risk management, and control is Moderate in its overall adequacy and effectiveness and there is therefore no change from the previous year. Overall, improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

Certain weaknesses and exceptions were highlighted by their audit work, where they raised Priority 2 recommendations. These matters have been discussed with management, to whom they have made recommendations. All recommendations have been, or are in the process of being addressed.

There were no Unsatisfactory or Limited assurance opinions in 2022/23, which represents an improvement on the previous 2021/22 year, where Mazars provided one Unsatisfactory opinion and four Limited opinions and provided an overall Moderate assurance opinion for the year. They followed up the recommendations made in the 2021/22 Network Price Controls Unsatisfactory opinion report via the ED2 audit report, which provided a Moderate assurance opinion and confirmed action was in progress to implement these recommendations. Although the most recent follow up activity has not been able to verify all recommendations have now been implemented, there are no outstanding Priority 1 recommendations.

Project management controls have been a previous concern for Ofgem and Mazars note that the Transformation Programme audit verified all previous project management recommendations had been implemented, alongside a 'moderate' assurance opinion for our project assurance review of Ofgem's ePMO.

Conclusion

The internal control system has been in place for the year under review and up to the date of approval of the annual report and accounts.

I have considered the evidence that supports this Governance statement, including from the department's governance structures and the independent advice provided by the ARAC and Internal Audit. I conclude that Ofgem has satisfactory governance and risk management systems in place with effective plans to ensure continuous improvement to address weaknesses identified.

I am committed to ensuring that our governance and risk management is further strengthened in 2023/24.

Jonathan Brearley
Chief Executive

6 July 2023

Remuneration report

Service contracts

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

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

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

Remuneration Policy

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

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

Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of the most senior management (i.e. Board members) of the department.

Single total figure of remuneration (audited)

Officials	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000)**		Total (£000)	
	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22
Members of the Executive of Ofgem										
Jonathan Brearley Chief Executive	190-195	185-190	10-15*	10-15	-	-	46,000	63,000	250-255	260-265
Anna Rossington	5-10	90-95	-	5-10	-	-	3,000	37,000	10-15	135-140
Akshay Kaul	120-125	115-120	0-5*	10-15	-	-	47,000	46,000	175-180	175-180
Cathryn Scott	120-125	120-125	-	-	-	-	6,000	41,000	130-135	160-165
Charlotte Ramsay	30-35	70-75	-	-	-	-	-	28,000	30-35	100-105
Eleanor Warburton	85 - 90	-	5-10	-	-	-	(5,000)	-	90-95	-
Euan McVicar	-	10-15	-	-	-	-	-	6,000	-	20-25
Jonathan Spence	-	85-90	-	-	-	-	-	35,000	-	120-125
Neil Kenward	110-115	100-105	10-15*	-	-	-	20,000	32,000	140-145	135-140
Neil Lawrence	140-145	95-100	0-5*	-	-	-	56,000	38,000	200-205	135-140
Peter Bingham	110-115	105-110	-	-	-	-	42,000	38,000	155-160	140-145
Philippa Pickford	95-100	85-90	0-5*	-	-	-	1,000	25,000	105-110	110,115
Priya Brahmbhatt-Patel	110-115	100-105	-	-	-	-	30,000	116,000	155-160	220-225
Rebecca Barnett	100-105	-	-	-	-	-	27,000	-	135-140	-
Richard Smith	115-120	70-75	-	-	-	-	44,000	29,000	155-160	100-105
Sinead Murray	120-125	75-80	10-15*	-	-	-	50,000	71,000	185-190	145-150
Simon Wilde	120-125	155-160	10-15*	-	-	-	46,000	60,000	180-185	215-220
Stephanie Broadribb	-	40-45	-	-	-	-	-	18,000	-	60-65
Non-executive members of the Authority										
Martin Cave Chair	160-165	160-165	-	-	-	-	-	-	160-165	160-165

Notes to the single total figure of remuneration table:

* Members of ExCo awarded a bonus for 2021-22 (receivable in 2022-23) donated their bonuses to charity. However, these bonuses are still shown in the table above for completeness.

**The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

Two members of ExCo were seconded or on loan from other organisations. The home departments make pension contributions for these employees and therefore they have been excluded from Ofgem's pension table.

- Christina Duncan was a member of ExCo from 14 November 2022 and Ofgem has accrued £45,000-£50,000 to Department for Transport relating to the financial year. The full year salary this is based on is £115,000-120,000. This excludes pension contributions, taxes and benefits.
- Rohan Churm was a member of ExCo from 13 March 2023 and Ofgem has accrued £10,000-£15,000 for costs to Bank of England relating to the financial year. The full year salary this is based on is £125,000-130,000. This excludes pension contributions, taxes and benefits.

During the year, a new senior structure was announced, introducing three new SCS 3 roles. Akshay Kaul has been acting as Interim Director of Infrastructure and Security of Supply since July 2022. Simon Wilde was Interim Director for Markets and Gas Crisis from July 2022 to January 2023 and Neil Kenward has been acting as Interim Director for Markets since November 2022, in addition to his ongoing role as Director of Strategy & Decarbonisation. Rebecca Barnett has served on ExCo since October 2022 and Eleanor Warburton has served on ExCo since December 2022; comparative figures have not been included because they were not members of ExCo in 2020-21.

- Anna Rossington left Ofgem on 30 April 2022, with a full year equivalent salary of £90,000-£95,000.
- Charlotte Ramsay left Ofgem on 31 July 2022, with a full year equivalent salary of £125,000-£130,000.
- Chris O'Connor left on 31 July 2022 and was paid £105,000-£110,000 for the period (2021-22: paid £225,000 - £230,000), which is a full year equivalent salary of £325,000 - £330,000.
- Simon Wilde started a career break on 1 January 2023, with a full year equivalent salary of £155,000-£160,000.

Remuneration of other non-executive members of the Authority	2022-23		2021-22	
	Honorarium	Allowance	Honorarium	Allowance
Lynne Embleton	£20,000	£3,000	£20,000	-
John Crackett	£20,000	£2,000	£20,000	£1,250
Myriam Madden	£20,000	£3,000	£20,000	£3,000
Barry Panayi	£20,000	-	£20,000	-
Christine Farnish	£6,827	£1,000	£20,000	£3,000

Christine Farnish resigned from the board on 3 August 2022, the full time equivalent figures are £20,000 honorarium and £3,000 allowance.

Remuneration of members of the Enforcement Decision Panel	2022-23 (£'000)	2021-22 (£'000)
Megan Forbes	15-20	20-25
Peter Hinchliffe	20-25	0-5
Amelia Fletcher	0-5	5-10
Andrew Long	0-5	5-10
Dr Ulrike Hotopp	5-10	0-5
Ali Nikpay	0-5	0-5
Dr Philip Marsden	0-5	0-5
Elizabeth France	0-5	0-5
Andrew Ellam	0-5	-

The terms for Amelia Fletcher, Andrew Long and Elizabeth France all came to an end in May 2022. Andrew Ellam joined the panel in March 2023. In addition to remuneration shown in the table above, Megan Forbes received pension benefits of £6,000 (to the nearest £1000).

Salary

"Salary" includes gross salary; overtime; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Department and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument.

Bonuses (audited)

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2022-23 relate to performance in 2021-22 and the comparative bonuses reported for 2021-22 relate to the performance in 2020-21.

In 2022-23 there were 972 staff (2021-22: 910 staff) who received a bonus. The average bonus payment was £1,484 (2021-22: £1,301) and the total amount paid in bonuses equaled £1,442,699 (2021-22: £1,184,060). Four individuals received the largest bonus of £13,000 (2021-22: two individuals received the largest bonus of £14,000).

Pay multiples (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce. The banded full year equivalent remuneration of the highest-paid director in the financial year 2022-23 was £325,000-330,000 (2021-22: £325,000-330,000). In 2021-22 and 2022-23 the highest-paid director was a contractor and not an employee. Refer to the Off-Payroll Appointees section on page 74 for further information). The below table shows the ratios of the mid-point of the banded remuneration of the highest-paid director, to the pay and benefits figures of the employees whose pay and benefits are on the 25th, 50th and 75th percentiles of Ofgem employees.

	25th Percentile (Lower Quartile) Pay Ratio	50th Percentile (Median) Pay Ratio	75th Percentile (Upper Quartile) Pay Ratio
2022-23	10.58:1	7.55:1	5.53:1
2021-22	11.18:1	8.54:1	5.95:1

The 2022-23 total pay and benefits and the salary component of total pay and benefits, of the employees on the 25th, 50th and 75th percentiles are shown below:

		25th Percentile (Lower Quartile) £	50th Percentile (Median) £	75th Percentile (Upper Quartile) £
Total pay and benefits	2022-23	30,950	43,398	59,212
	2021-22	29,298	38,357	55,067
Salary component of total pay and benefits	2022-23	30,950	42,473	57,120
	2021-22	29,035	37,229	53,751

In 2022-23, there was no change from 2021-22 in the full year equivalent salary and allowances of the highest-paid director. The average percentage change from 2021-22 in the salary and allowances of Ofgem employees taken as a whole was an increase of 0.8%, and in performance pay and bonuses payable, an increase of 14.1%.

In 2022-23, none (2021-22: none) of Ofgem's employees received remuneration in excess of the highest-paid director. Employee remuneration ranged from £19,047 to £204,227 (2021-22: £18,182 to £202,477).

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.

Pension Benefits (audited)

Officials	Accrued pension at pension age as at 31/3/23 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/3/23 £000	CETV at 31/3/22 £000	Real increase in CETV £000
Jonathan Brearley Chief Executive	50 - 55 plus a lump sum of 75 - 80	2.5 - 5 plus a lump sum of 0	804	705	14
Akshay Kaul	15 - 20	2.5 - 5	194	154	24
Anna Rossington	25 - 30	0 - 2.5	403	394**	2
Cathryn Scott	45 - 50	0 - 2.5	765	695	-10*
Eleanor Warburton	25 - 30 plus a lump sum of 40 - 45	0 - 2.5 plus a lump sum of 0	354	328	-13*
Neil Kenward	35 - 40 plus a lump sum of 55 - 60	0 - 2.5 plus a lump sum of 0	601	535**	3
Neil Lawrence	5 - 10	2.5 - 5	64	25	27
Peter Bingham	10 - 15	0 - 2.5	188	146	25
Philippa Pickford	30 - 35 plus a lump sum of 45 - 50	0 - 2.5 plus a lump sum of 0	470	430	-11*
Priya Brahmbhatt-Patel	30 - 35	0 – 2.5	426	373**	6
Rebecca Barnett	15 - 20	0 - 2.5	218	192	14
Richard Smith	0 - 5	2.5 - 5	58	24	24
Simon Wilde	15 - 20	2.5 - 5	199	164	25
Sinead Murray	35 - 40 plus a lump sum of 65 - 70	2.5 - 5 plus a lump sum of 0 - 2.5	603	511	27

*Taking account of inflation, the CETV funded by the employer has decreased in real terms.

**CETV at 31 March 2022 has been re-presented following receipt of updated information from MyCSP.

CETV figures are calculated using the guidance on discount rates for calculating unfunded public service pension contribution rates that was extant at 31 March 2023. HM Treasury published updated guidance on 27 April 2023; this guidance will be used in the calculation of 2023-24 CETV figures.

Civil service pensions

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

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. Because the Government plans to remove discrimination identified by the courts in the way that the 2015 pension reforms were introduced for some members, it is expected that, in due course, eligible members with relevant service between 1 April 2015 and 31 March 2022 may be entitled to different pension benefits in relation to that period (and this may affect the Cash Equivalent Values shown in this report – see below). All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a defined contribution (money purchase) pension with an employer contribution (partnership pension account).

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

The partnership pension account is an occupational defined contribution pension arrangement which is part of the Legal & General Mastertrust. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member). The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

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

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

Compensation for loss of office (audited)

No members of ExCo received compensation for loss of office during 2022-23 (2021-22: none).

Staff report

Average number of people employed (audited)

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

			2022-23	2021-22
	Permanently employed staff	**Others**	**Total**	**Total**
Regulatory	465	30	495	371
Delivery & Schemes	498	48	546	477
Operations	377	67	444	398
Total	**1,340**	**145**	**1,485**	**1,246**

There was an average of 60 whole-time equivalent people in the SCS grade during the year. Of these 49 were in payband 1, 10 in payband 2, and 1 in payband 3.

Staff costs (audited)

Staff costs comprise			**2022-23 £000**	**2021-22 £000**
	Permanently employed staff	**Others**	**Total**	**Total**
Wages and salaries	64,811	14,259	79,070	64,811
Social security costs	7,555	299	7,854	6,405
Other pension costs	16,652	741	17,393	14,551
Other staff costs	143	31	174	90
Apprenticeship Levy (tax expense)	324	-	324	268
Total	**89,485**	**15,330**	**104,815**	**86,125**

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as “alpha” – are unfunded multi-employer defined benefit schemes but Ofgem is unable to identify its share of the underlying assets and liabilities.

The scheme actuary valued the PCSPS as at 31 March 2016. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation.

For 2022-23, employers’ contributions of £17,404,994 were payable to the PCSPS (2021-22: £14,375,547) at one of four rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands.

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2022-23 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers’ contributions of £218,039 (2021-22: £180,587) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and ranged from 8% to 14.75%.

Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £8,133 (2021-22: £7,023) 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the **partnership** pension providers at the balance sheet date were £23,050 (2021-22: £21,795). Contributions prepaid at that date were nil (2021-22: nil).

Zero persons (2021-22: zero persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to nil (2021-22: nil).

Consultancy expenditure

Our expenditure on other consultancy services in 2022-23 was £29.6 million, per note 3 of the accounts (2021-22: £23.4 million; 2019-20: £18.7 million). We attempt to minimise our reliance on external support by running targeted recruitment campaigns for the skills required to deliver our strategy. We continue to use professional service support to obtain access to specialists who provide professional or legal advice in relation to the delivery of our portfolio of work, as well as those that provide specialist delivery support where it is not economical to maintain this expertise in-house.

Off-payroll appointees

Highly paid off-payroll worker engagements as at 31 March 2023, earning £245 (note 1) per day or greater:

	Number
No. of existing engagements as of 31 March 2023	1
Of which, no. that existed:	
less than one year	1
for between one and two years	-
for between two and three years	-
for between three and four years	-
for four or more years	-

All highly paid off-payroll workers engaged at any point during the year ended 31 March 2023, earning £245 per day or greater:

	Number
No. of temporary off-payroll workers engaged during the year ended 31 March 2023	4
Of which:	
Not subject to off-payroll legislation	-
Subject to off-payroll legislation and determined as in-scope of IR35 (note 2)	4
Subject to off-payroll legislation and determined as out-of-scope of IR35	-
No. of engagements reassesses for compliance or assurance purposes during the year	-
Of which: No. of engagements that saw a change to IR35 status following review	-

For any off-payroll engagement of board members, and/or senior officials with significant financial responsibility between 1 April 2022 and 31 March 2023:

	Number
No. of off-payroll engagements of board members and/or senior officials with significant financial responsibility, during the financial year (note 3)	1
Total no. of individuals on payroll and off-payroll that have been deemed 'board members and/or senior officials with significant financial responsibility', during the financial year	1

Note 1: The £245 threshold is set to approximate the minimum point of the pay scale for a Senior Civil Servant.

Note 2: A worker that provides their services through their own limited company or another type of intermediary to the client will be subject to off-payroll legislation and the entity must undertake an assessment to determine whether that worker is in-scope of Intermediaries legislation (IR35) or out- of-scope for tax purposes.

Note 3: The recruitment campaigns to appoint a Director of Corporate Services and a Director of Transformation with the necessary skills and experience were unsuccessful. A value for money assessment concluded that appointing a specialist contractor to cover both roles would deliver a long-term saving and enable Ofgem to deliver a critical and ambitious transformation programme. The contract ran from 1 April 2021 to 31 July 2022).

Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017. These regulations place a legislative requirement on relevant public sector employers to collate and publish, on an annual basis, a range of data on the amount and cost of facility time within their organisation.

Relevant union officials

Total number of employees who were relevant union officials between 1 April 2022 and 31 March 2023:

	Number
Employees who were relevant union officials during the relevant period	19
Full-time equivalent employee number	18.65

Percentage of time spent on facility time

For employees who were relevant union officials employed between 1 April 2022 and 31 March 2023, percentage of their working hours on spent on facility time:

	Number
0%	-
1-50%	19
51-99%	-
100%	-

Percentage of pay bill spent on facility time

For employees who were relevant union officials employed between 1 April 2021 and 31 March 2022, percentage of pay bill spent on facility time:

	£ / %
Total cost of facility time	£18,315
Total pay bill	£104,815 million
Percentage of the total pay bill spent on facility time	0.02%

Paid trade union activities

For employees who were relevant union officials employed between 1 April 2022 and 31 March 2023, percentage of time spent on paid trade union activities.

	Percentage
Time spent on paid trade union activities as a percentage of total paid facility time hours (%)	1.98%

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

Exit package cost band	2022-23			2021-22		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	-	-	1	1
£25,000 - £50,000	-	-	-	-	3	3
£50,000 - £100,000	-	3	3	-	9	9
£100,000 - £150,000	-	-	-	-	3	3
£150,000 - £200,000	-	-	-	-	-	-
£200,000 - £250,000	-	-	-	-	-	-
Total number of exit packages	-	3	3	-	16	16
Total cost £000	**-**	**247**	**247**	**-**	**1,269**	**1,269**

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), a statutory scheme made under the Superannuation Act 1972. The table above shows the total cost of exit packages agreed and accounted for in 2022-23 (2021-22 comparative figures are also given).

Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Staff composition	Women		Men	
All employees	688	46%	808	54%
SCS Payband 1	23	48%	26	52%
SCS Payband 2	5	47%	5	53%
SCS Payband 3	0	0%	1	100%

Employee involvement

This year our staff engagement survey received a response rate of 92%, and an engagement index of 58%, a decrease of 1 percentage point on the previous year. Our staff continue to find their roles interesting (88%), believing their work gives them a sense of personal accomplishment (76%), and are sufficiently challenged by their work (80%).

In response to the People Survey, a sub group of colleagues from across the organisation has been created to explore and address the key areas of priority. This work will become embedded in Ofgem, with regular employee pulse surveys conducted to assess its impact and effectiveness, allowing more timely interventions where relevant.

Equal opportunities policy

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

This ensures fair and open competition, regardless of:

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

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

Ofgem is proud to be an equal opportunity employer. We embrace diversity and are committed to creating an inclusive environment for all employees. All employment is decided on the basis of open and fair competition, merit and business need.

Ofgem run, as part of the recruitment process, a Disability Confident Scheme (DCS) for candidates with disabilities who meet the minimum selection criteria.

Vacancies are also part of the Civil Service 'Great Place to Work for Veterans' initiative.

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. Our budget allocation process provides an amount per employee for learning and development activity.

We have recently launched a new Learning and Organisational Development strategy with the aim of fundamentally changing the way Ofgem approaches learning and organisational development (L&OD) by creating, operationalising, delivering and embedding an L&OD Strategy which is aligned to Ofgem's Transformation ambition and outcomes.

This will ensure our leaders and managers have the skills, capability and confidence to build high performing teams who deliver at pace, and that our people have the skills, capability and confidence to deliver Ofgem's strategic goals.

Community engagement

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

We continue to work with Career Ready and have staff giving 16–19-year-olds one-to-one support and guidance through a mentoring scheme.
In London, we have continued to develop our community engagement work with the Bromley-by-Bow Centre (BBC). The BBC is a local charity providing community support, learning and wellbeing to residents within Tower Hamlets.

Diversity and Inclusion

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

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

Our score for inclusion and fair treatment in the 2021 staff engagement survey was 79%. In 2022-23 we refreshed our Equity, [Diversity and Inclusion Strategy] and one of the key priorities of this has been a focus on building a diverse and inclusive workforce and inclusive culture. We have moved to anonymised recruitment and diverse interview panels. We have launched a comprehensive social mobility plan and continued with a reverse mentoring and coaching programme for women and Black and Ethnic minority colleagues. Our score for inclusion and fair treatment has risen to 83% in 2022.

We have made good progress against our aspirational targets for a gender balanced workforce, and to increase representation of black and ethnic minorities. We have also introduced a new aspirational target to increase representation of people with a disability at senior levels.

In addition, Ofgem has continued to support our diversity networks covering women, LGBT+, ethnicity, disability, mental health and carers In 2022-23 we continued to provide diversity and inclusion training to staff. This is part of our commitment to ensuring that in everything they do our staff understand and fulfil their obligations under the Equality Act. As at the 31 March 2023:

- 8% (2021-22: 6%) of staff were known to have a disability
- 46% (2021-22: 46%) of staff were women
- 45% (2021-22: 44%) of staff in managerial grades (Level 3 to SCS3) were women
- 47% (2021-22: 43%) of Senior Civil Service members in Ofgem were women
- 25% (2021-22: 22%) of staff were known to be of ethnic minority origin
- 14% (2021-22: 30%) of staff in managerial grades (Level 3 to SCS3) are from an ethnic minority background.

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

Ofgem's gender pay gap data can be found at www.ofgem.gov.uk/sites/default/files/2022-10/DI%20Dashboard%20accessible_0.pdf

Diversity and inclusion formed a key aspect of our engagement this year. We continued our partnership with the BBC's 50/50 Equality Project, monitoring and embedding equality in representation across our content and engagement and reached our 50:50 target by Q4.

In June 2022, we proudly partnered with Energy UK, Energy Networks Association and the Energy Institute to host the second annual Diversity, Equality and Inclusion conference, culminating in the creation of an industry-wide initiative to improve inclusion and diversity across the energy sector - 'Tackling Inclusion and Diversity in Energy (TIDE)'. Its aim is to combine cross-sector EDI insights and evidence to inform robust outcomes, building on experience and expertise to share best practice and support industry-wide changes.

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.

Within our offices in Commonwealth House and Canary Wharf, we have been able to provide working environments to support the wellbeing of staff.

This includes the provision of different working environments, sit/stand desks and other specialist equipment.

Days lost because of absence

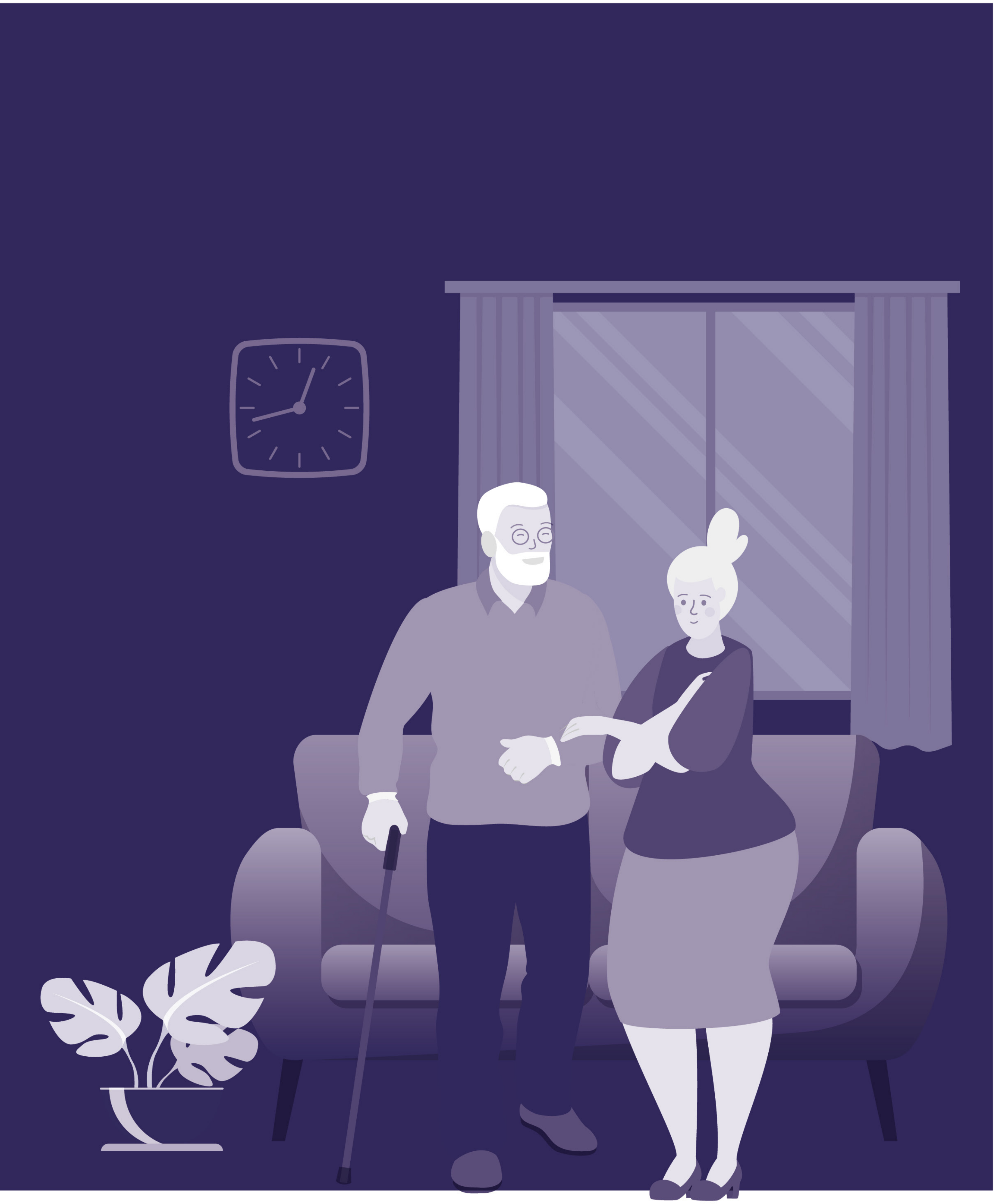
In 2022-23, we lost an average of 4.2 days a year per employee (2021-22: 3.1days). This compares favourably with the public sector average of 6.1 days a year per employee.

Staff turnover

In 2022-23, staff turnover was 24% (2021-22: 26%).

Jonathan Brearley
Chief Executive

6 July 2023



Parliamentary Accountability and Audit report | 2022-23

Statement of Outturn against Parliamentary Supply (SOPS)

Summary of resource and capital outturn 2022-23

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires the department to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes.

The SOPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SOPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion. The format of the SOPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SOPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn won't exactly tie to cash spent) and administration.

The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (note 1); a reconciliation of outturn to net operating income in the SOCNE, to tie the SOPS to the financial statements (note 2); a reconciliation of outturn to net cash requirement (note 3); and, an analysis of income payable to the Consolidated Fund (note 4).

The SOPS provides a detailed view of financial performance, in a form that is voted on and recognised by Parliament. The financial review, in the Accountability Report, provides a summarised discussion of outturn against estimate and functions as an introduction to the SOPS disclosures.

Further information on the Public Spending Framework and the reasons why budgeting rules are different to IFRS can also be found in chapter 1 of the Consolidated Budgeting Guidance, available on gov.uk.

Summary tables - mirrors part 1 of the Estimates

Summary table, 2022-23, all figures presented in £000's										
		Outturn			Estimate			Outturn vs Estimate, saving		
Type of Spend	SOPS note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted	Total	Prior Year Outturn Total 2021-22
Departmental expenditure limits										
Resource	1.1	(57,936)	-	(57,936)	6,949	-	6,949	64,885	64,885	(9,807)
Capital	1.2	2,163	-	2,163	5,130	-	5,130	2,967	2,967	3,567
Total budget expenditure		**(55,773)**	**-**	**(55,773)**	**12,079**	**-**	**12,079**	**67,852**	**67,852**	**(6,240)**
Non-budget expenditure										
Prior period adjustment		-	-	-	1	-	1	1	1	
Total budget and Non-budget		**(55,773)**	**-**	**(55,773)**	**12,080**	**-**	**12,080**	**67,853**	**67,853**	**(6,240)**

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

Net cash requirement 2022-23, all figures presented in £000's

Type of spend	SOPS note	Outturn	Estimate	Outturn vs Estimate, saving	Prior Year Outturn Total 2021-22
Net cash requirement	**3**	(32,368)	49,494	81,862	(10,762)

Administration costs 2022-23, all figures presented in £000's

Type of spend	SOPS note	Outturn	Estimate	Outturn vs Estimate, saving	Prior Year Outturn Total 2021-22
Administration costs	**1.1**	(8,203)	47,577	55,780	(10,449)

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

The Department has Prior Period Adjustments (PPAs) resulting from recognition of imputed tax and spend in relation to the Supplier of Last Resort (SoLR) levy.

It is proper for the department to seek Parliamentary authority for PPAs arising from the decision by the Office of National Statistics to change the classification of SoLR levy decisions. PPAs have been included in the 2022-23 SOPS as set out below, which have been included within voted Supply in Ofgem's Estimate.

SoLR levy decisions made by Ofgem were classified as a form of imputed tax and spend during 2022-23 by the Office for National Statistics. SoLR levy claims of £1.8 billion were approved by Ofgem in December 2021, but are not recognised in the voted Supply because the SoLR levy claim decision was made prior to the classification change.

SoLR levy claim decisions made by Ofgem in December 2022 have been reflected in the Department's Supply. £405 million of the claims approved in December 2022 were a "true up" to the previous December 2021 decision. The imputed tax and spend related to the "true up" claims have been included as a PPA to the 2021-22 budgets (with a net impact of nil, shown as a token £1,000 to enable Parliament to vote on the PPA).

£94 million of the claims approved in December 2022 were initial or single claims. The imputed tax and spend related to the initial and single claims has been recognised in the 2022-23 budgets (with a net impact of nil). This had no impact on the financial statements it is purely a budgetary (outturn) adjustment as described in SOPS 2.

SoLR levy claims are classified as tax and spend for Ofgem in the year which the decision relates to, which means that any future "true up" adjustments to the December 2022 initial claims will be treated as PPAs.

Resource Outturn 21-22 (£000's) (restated)							
	Administration			Programme			
Type of Spend (Resource)	**Gross**	**Income**	**Net total**	**Gross**	**Income**	**Net total**	**Total**
Spending in departmental expenditure limits (DEL)							
Voted expenditure							
A Gas and Electricity Markets Authority: administration	96,398	(94,574)	1,824	405,407	(404,765)	642	2,466
B Ofgem Delivery & Schemes: administration	31,571	(30,885)	686	-	-	-	686
C Ofgem Green Gas: administration	1,261	(14,220)	(12,959)	-	-	-	(12,959)
Total resource	**129,230**	**(139,679)**	**(10,449)**	**405,407**	**(404,765)**	**642**	**(9,807)**

Before restatement, Programme Gross totalled £642,000 and Programme Income totalled £nil. The table prior to restatement can be found in the 2021-22 published accounts: https://www.ofgem.gov.uk/publications/ofgem-annual-report-and-accounts-2021-22

Notes to the Statement of Outturn against Parliamentary Supply, 2022-23 (£000's)

SOPS1. Outturn detail, by Estimate Line

SOPS1.1 Analysis of resource outturn by Estimate Line

	Resource Outturn						
	Administration			Programme			
Type of Spend (Resource)	Gross	Income	Net total	Gross	Income	Net total	Total
Spending in departmental expenditure limits (DEL)							
Voted expenditure							
A Gas and Electricity Markets Authority: administration	101,304	(111,107)	(9,803)	94,031	(94,031)	-	(9,803)
B Ofgem Delivery & Schemes: administration	38,186	(36,586)	1,600	-	-	-	1,600
C Ofgem Green Gas: administration	2,618	(2,618)	-	302	(50,035)	(49,733)	(49,733)
Total resource	**142,108**	**(150,311)**	**(8,203)**	**94,333**	**(144,066)**	**(49,733)**	**(57,936)**

	Estimate				
Type of Spend (Resource)	Total	Virements	Total including vire-ments	Outturn vs Estimate, Saving	Prior Year Outturn Total 2021-22
Spending in departmental expenditure limits (DEL)					
Voted expenditure					
A Gas and Electricity Markets Authority: administration	44,974	-	44,974	54,777	2,466
B Ofgem Delivery & Schemes: administration	2,603	-	2,603	1,003	686
C Ofgem Green Gas: administration	(40,628)	-	(40,628)	9,105	(12,959)
Total resource	**6,949**	-	**6,949**	**64,885**	**(9,807)**

SOPS1.2 Analysis of capital outturn by Estimate Line

	Outturn			Estimate				
Type of Spend (Capital)	Gross	Income	Net total	Total	Virements	Total including virements	Outturn vs Estimate, Saving	Prior Year Outturn Total 2021-22
Spending in departmental expenditure limits (DEL)								
Voted expenditure								
A Gas and Electricity Markets Authority: administration	1,234	-	1,234	3,830	-	3,830	2,596	2,049
B Ofgem Delivery & Schemes: administration	5,910	(5,910)	-	-	-	-	-	-
C Ofgem Green Gas: administration	929	-	929	1,300	-	1,300	371	1,518
Total capital	**8,073**	**(5,910)**	**2,163**	**5,130**	**-**	**5,130**	**2,967**	**3,567**

The total Estimate columns include virements. Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury). Further information on virements are provided in the Supply Estimates Manual, available on gov.uk.

The outturn vs estimate column is based on the total including virements. The estimate total before virements have been made is included so that users can tie the estimate back to the Estimates laid before Parliament.

SOPS2 Reconciliation of outturn to net operating income

		Outturn Total	Prior Year Outturn Total, 2021-22
		£000	**£000**
Total Resource Outturn	SOPS1.1	**(57,936)**	**(9,807)**
Add: Capital income from BEIS	SOPS1.2	(5,910)	(3,133)
Less: Lease interest expense	7.3	(177)	-
Other		1	-
Net Operating Income in Statement of Comprehensive Net Income	SOCNE	**(64,022)**	**(12,940)**

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, which is similar to, but different from, IFRS. Therefore, this reconciliation bridges the resource outturn to net operating income, linking the SOPS to the financial statements.

Capital income is budgeted as capital DEL but accounted for as income on the face of the SOCNE and therefore is a reconciling item between total resource outturn and net operating income.

The Supplier of Last Resort (SoLR) levy was classified as a form of imputed tax and spend during 2022-23 by the Office for National Statistics. SoLR levy claims approved by Ofgem after date of the classification decision are recognised in budgets. However, there are no economic inflows or outflows to Ofgem because of the SoLR levy. Under IFRS, the SoLR levy claims do not meet the recognition criteria to be income and expenditure for Ofgem and so the claims are not recognised in Ofgem's Statement of Comprehensive Net Income or the associated notes.

SOPS3 Reconciliation of net resource outturn to net cash requirement

Item	Reference	Outturn total	Estimate	Outturn vs Estimate, saving/ (excess)
	Note	£000	£000	£000
Total resource outturn	SOPS1.1	**(57,936)**	**6,949**	**64,885**
Total capital outturn	SOPS1.2	**2,163**	**5,130**	**2,967**
Adjustments to remove non-cash items:				
▪ Depreciation and amortisation	3	(4,923)	(7,111)	(2,188)
▪ New provisions and adjustments to previous provisions	3	12,001	(42,500)	(54,501)
▪ Other non-cash items		572	(107)	(679)
Adjustments to reflect movements in working balances:				
▪ Increase in receivables	10	6,141	61,660	55,519
▪ Decrease in payables	11	7,526	13,473	5,947
▪ Use of provisions	12	325	12,000	11,675
▪ Capital element of payments in respect of leases	7.4	1,763	-	(1,763)
Net cash requirement		**(32,368)**	**49,494**	**81,862**

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

SOPS4 Analysis of income to the consolidated fund

We collected no Consolidated Fund income in 2022-23.

Parliamentary Accountability Disclosures (audited)

Regularity of expenditure

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

Special payments	2022-23	2021-22
Total number of special payments	7	2
Total value of special payments (£000)	1,725	61

Details of special payments over £300,000:

- An extra-contractual payment for £0.9 million for professional services advice to support RIIO2 price controls work which relied on a framework agreement, but had no call-off order form.
- An extra contractual payment of £0.7 million for the cost of IT licences which exceeded the £4.3m contract cap.

Ofgem has nothing to report in respect of the following:

- Losses;
- Fees and charges disclosures;
- Remote contingent liabilities; and
- Long term expenditure trends.

Jonathan Brearley
Chief Executive

6 July 2023

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

Opinion on financial statements

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets (Ofgem) for the year ended 31 March 2023 under the Government Resources and Accounts Act 2000. The financial statements comprise:

- Ofgem's Statement of Financial Position as at 31 March 2023;
- Statement of Comprehensive Net Income, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted international accounting standards.

In my opinion, the financial statements:

- give a true and fair view of the state of Ofgem's affairs as at 31 March 2023 and its net operating income for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Outturn against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2023 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I am independent of Ofgem in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that Ofgem's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Ofgem's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for Ofgem is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the Annual Report, but does not include the financial statements and my auditor's certificate and report thereon. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of Ofgem and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Report.

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

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of the Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within Ofgem from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- ensuring that the annual report, which includes the Remuneration and Staff Report, is prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- assessing Ofgem's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by Ofgem will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

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

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion.

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

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of Ofgem's accounting policies, key performance indicators and performance incentives.
- inquired of management, Ofgem's Head of Internal Audit, and those charged with governance, including obtaining and reviewing supporting documentation relating to Ofgem's policies and procedures on:
    - o identifying, evaluating and complying with laws and regulations;
    - o detecting and responding to the risks of fraud; and
    - o the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including Ofgem's controls relating to Ofgem's compliance with the Government Resources and Accounts Act 2000 and Managing Public Money.
- inquired of management, Ofgem's Head of Internal Audit, and those charged with governance whether:

  - o they were aware of any instances of non-compliance with laws and regulations;
  - o they had knowledge of any actual, suspected, or alleged fraud,

- discussed with the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within Ofgem for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, and bias in management estimates. In common with all audits under ISAs (UK), I am required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of Ofgem's framework of authority and other legal and regulatory frameworks in which Ofgem operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Ofgem. The key laws and regulations I considered in this context included Government Resources and Accounts Act 2000, Managing Public Money, Supply and Appropriation (Main Estimates) Act 2022 and relevant employment law and tax legislation.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board; and internal audit reports; and
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

I am required to obtain appropriate evidence sufficient to give reasonable assurance that the Statement of Outturn against 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 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.

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

Report

I have no observations to make on these financial statements.

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

12 July 2022

Resource accounts | 2022-23

Statement of Comprehensive Net Income for the year ended 31 March 2023

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

	Note	2022-23 £000	2021-22 £000
Operating income	4	(206,255)	(142,812)
Total Operating Income		**(206,255)**	**(142,812)**
Staff costs	3	104,815	86,125
Other operating expenditure	3	37,418	43,747
Total operating expenditure		**142,233**	**129,872**
Net operating income	2	**(64,022)**	**(12,940)**
Finance expense	7.3	177	-
Net income for the year		**(63,845)**	**(12,940)**
Comprehensive net income for the year		**(63,845)**	**(12,940)**

The notes on pages 97 to 114 form part of these accounts.

Statement of Financial Position as at 31 March 2023

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

	Note		2022-23 £000		2021-22 £000
Non-current assets:					
Property, plant and equipment	5	2,565		2,999	
Right of use assets	7.1	17,022		-	
Intangible assets	6	10,199		4,651	
Total non-current assets			**29,786**		**7,650**
Current assets:					
Trade and other receivables	10	29,872		23,731	
Cash and cash equivalents	9	72,833		14,366	
Total current assets			**102,705**		**38,097**
Total assets			**132,491**		**45,747**
Current liabilities:					
Trade and other payables	11	(94,798)		(43,857)	
Lease liabilities	7.2	(1,899)		-	
Provisions	12	(2,871)		(15,278)	
Total current liabilities			**(99,568)**		**(59,135)**
Total assets less current liabilities			**32,924**		**(13,388)**
Non-current liabilities:					
Lease liabilities	7.2	(15,170)		-	
Provisions	12	(1,872)		(1,791)	
Total non-current liabilities			**(17,042)**		**(1,791)**
Total assets less total liabilities			**15,881**		**(15,179)**
Taxpayers' equity:					
General fund		15,881		(15,179)	
Total equity			**15,881**		**(15,179)**

Jonathan Brearley
Chief Executive

6 July 2023

The notes on pages 97 to 114 form part of these accounts.

Statement of cash flows for the year ended 31 March 2023

The Statement of Cash Flows shows the changes in cash and cash equivalents of the department during the reporting period. The statement shows how the department generates and uses 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.

	Note	2022-23 £000	2021-22 £000
Cash flows from operating activities:			
Net operating income	SoCNE	64,022	12,940
Adjustments for non-cash transactions	SoPS3 SoCNE	(7,827)	6,223
Increase in trade and other receivables	10	(6,141)	(8,156)
Increase in trade and other payables	11	50,941	20,720
less movements in payables relating to items not passing through the SoCNE	11	(58,467)	(10,762)
Use of provisions	12	(325)	(3,503)
Net cash inflow from operating activities		**42,203**	**17,462**
Cash flows from investing activities:			
Purchase of property, plant and equipment	5	(1,234)	(2,049)
Purchase of intangible assets	6	(6,839)	(4,651)
Net cash outflow from investing activities		**(8,073)**	**(6,700)**
Cash flows from financing activities:			
From the Consolidated Fund (supply) current year	SOCiTE	40,466	-
From the Consolidated Fund (Supply) – prior year		-	-
Capital element of payments in respect of leases	7.4	(1,763)	-
Advances from the Contingencies Fund		30,000	37,600
Payments to the Contingencies Fund		(30,000)	(37,600)
Net financing		**38,703**	**-**
Net increase in cash and cash equivalents in the period before adjustment for payments to the Consolidated Fund		**72,833**	**10,762**
Payments of amounts to the Consolidated Fund	SOCiTE	(14,366)	-
Net increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	9	**58,467**	**10,762**
Cash and cash equivalents at the beginning of the period	9	14,366	3,604
Cash and cash equivalents at the end of the period	9	**72,833**	**14,366**

The notes on pages 97 to 114 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2023

This statement shows the movement in the year on the different reserves held by the department, analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). The General Fund represents the total assets less liabilities of a department, to the extent that the total is not represented by other reserves and financing items.

		General fund
	Note	**£000**
Balance at 31 March 2021		**(18,279)**
Auditors remuneration	3	107
Comprehensive net income for the year	SoCNE	12,940
Net Parliamentary Funding - deemed		3,604
Net Parliamentary Funding - drawn down		-
Supply payable adjustment		(14,366)
Deferred income released to the general fund		442
Other reserve movements		373
Balance at 31 March 2022		**(15,179)**
Auditors remuneration	3	145
Comprehensive net income for the year	SoCNE	63,845
Net Parliamentary Funding - deemed		-
Net Parliamentary Funding - drawn down		40,466
Supply payable adjustment		(72,833)
Other reserve movements		(563)
Balance at 31 March 2023		**15,881**

The notes on pages 97 to 114 form part of these accounts.

Notes to the departmental resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. Where the FReM permits a choice of accounting policy, Ofgem have selected the accounting policy which is judged to be most appropriate to the particular circumstances for the purpose of giving a true and fair view. The particular policies 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 the department to prepare one additional primary statement. The Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement, and are included in the Parliamentary Accountability and Audit Report section starting on page 81.

1.1 Accounting convention

These accounts have been prepared on a going concern basis under the historical cost convention.
The accounts are presented to the nearest £'000.

Going concern

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 2023-24 has already been given and there is no reason to believe that future approvals will not be granted. We expect to continue to deliver services into the future. We have therefore considered it appropriate to adopt a going-concern basis for the preparation of these financial statements.

1.2 Operating income

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

- **Licence fees -** In each financial year, Ofgem is required to balance its expenditure with its income. Ofgem is required to raise income from the sector it regulates such that it covers the costs to be incurred by Ofgem in regulating that sector. Therefore, Legislation provides the enforceability on both parties to enable Ofgem to recover its costs from third parties. The performance obligations relate to the underlying work to be undertaken by Ofgem as regulator of the Gas & Electricity Market, and as set out in the published Forward Work Programme. Revenue is recognised in the year the performance obligation (cost) is incurred.

- **Income from BEIS and Scheme funded recharges -** Under service level agreements/ contracts with the Department for Business, Energy and Industrial Strategy and other government bodies, Ofgem administers energy and environmental schemes on their behalf. These services are provided on a full-cost basis. Income is recognised on an accruals basis as the performance obligations outlined within the service level agreements/ contracts are satisfied over time. Administration costs funded directly by BEIS, rather than by the scheme itself or by other governments, is separated out in Note 4 and explained in Note 14.

- **Green gas levy -** The Green Gas Levy places obligations on licensed gas suppliers, including a requirement to make quarterly levy payments, in order to fund the Green Gas Support Scheme, a government environmental scheme that provides financial incentives for new anaerobic digestion biomethane plants to increase the proportion of green gas in the gas grid. There are no obligations to transfer goods or services to those who pay the levy (it is treated as a type of taxation), because those funds will be used to pay for Green Gas Support Scheme payments and running costs. The FReM adapts IFRS 15 to require that taxation revenue received which is wholly non-refundable and leads to no obligations should be recognised when: an equivalent to a taxable event has occurred; the revenue can be measured reliably; and it is probable that the assisted economic benefits from the taxable event will flow to the collecting entity. These criteria are considered to be met for the Green Gas Levy when the meter point data is provided by gas suppliers to Ofgem.

- **Other income -** Other income is accounted for on an accruals basis.

1.3 Pensions

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

1.4 Early departure costs

Ofgem are required to meet the additional cost of benefits beyond the normal PCSPS and CSOPS benefits for employees who retire early. The full cost is provided for when the early retirement programme has been announced and is binding.

1.5 Property, plant, equipment and depreciation

Property, plant and equipment are held at depreciated historical cost 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	Four years
IT equipment	Three years

The minimum level for the capitalisation of property, plant and equipment is £2,000. IT equipment and furniture, where individual assets may cost less than £2,000, are capitalised on a grouped basis.

1.6 Intangible assets and amortisation

Intangible assets relating to bespoke software developed by Ofgem for use in the running of various schemes, are recognised at historic cost and amortised over the life of the scheme or four years, whichever is lower. Whilst being developed, they are classified as assets under construction and are not amortised until they are commissioned. Development costs that are directly attributable to the design and testing of the bespoke software are capitalised when they meet the criteria specified in IAS 38 Intangible Assets (as adapted by the FReM). Expenditure which does not meet the criteria is expensed as incurred.

1.7 Leases

IFRS 16 Leases has been adopted from 1 April 2022 (delayed from 1 April 2021) for FReM bodies and replaces IAS 17 Leases. IFRS 16 Leases provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset meets the IFRS 16 criteria to be classified as of "low value". Ofgem has determined low value to be in line with the capitalisation threshold for property, plant and equipment of £2,000.

For both leases of 12 months or less duration and leases of low value assets, the lease payments are recognised as an expense on a straight line basis over the lease term.

IFRS 16 requires that assets and liabilities will be recognised initially at the discounted value of the minimum lease payments over the applicable lease term. Therefore, implementation of IFRS 16 will increase the value of assets (right of use assets) and liabilities (lease liabilities) on the Statement of Financial Position. Ofgem applies HM Treasury's discount rate as the incremental borrowing rate when calculating the discounted value (0.95%).

After initial recognition, right of use assets are depreciated on a straight-line basis over the expected lease term and interest is recognised on the liabilities. As a result, the timing of the recognition of the total costs of leasing will change, as interest costs will be higher at the start of a lease. Lease payments are offset against the outstanding lease liabilities.

IFRS 16 has been implemented using the cumulative catch-up method, which means that comparatives for 2021-22 are not re-stated, and the adjustment to net assets has been made with effect from 1 April 2022. This approach is mandated by HM Treasury. Ofgem's material leases relate to property rentals for office space. Implementation increased assets by £19.0 million and liabilities by £18.7 million on 1 April 2022. The total charged to the Statement of Comprehensive Net Income in relation to IFRS 16 was £2.2 million during 2022-23.

1.8 Cash and Cash equivalents

Cash and cash equivalents in the statement of financial position comprises of cash at bank and in hand. For the purpose of the cash flow statement, cash and cash equivalents consist of cash only.

1.9 Provisions

Where Ofgem has a legal or constructive obligation to meet certain costs, Ofgem will make a provision based on a management estimate of the value, probability and timing of future payments. Although there is a higher degree of estimation uncertainty associated with legal provisions, management will make their best estimate based on information available.

Where the time-value of money is material, the provision is discounted to its present value using the government's standard discount rate (currently a nominal rate of 4.15% for post-employment benefit liabilities and a nominal rate of 3.27% for short term general provisions). Each year the financing charges in the statement of comprehensive net income include the adjustments to amortise one year's discount and restate liabilities to current price levels.

1.10 Value added tax

Amounts are shown net of value-added tax (VAT), except:

- irrecoverable VAT is charged to the statement of comprehensive net income 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.

1.11 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.

1.12 Financial risks

Ofgem has no significant exposure to liquidity, interest rate or currency risks. Due to the nature of its activities and the way in which Ofgem is financed, it is not exposed to the degree of financial risk faced by business entities.

1.13 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, certain statutory and non-statutory contingent liabilities are reported for parliamentary reporting and accountability purposes. This occurs where management deem the likelihood of a transfer of economic benefit as remote, but where the liabilities have been reported to parliament in accordance with the requirements of Managing Public Money.

1.14 Assets belonging to third parties

Assets belonging to third parties as disclosed in Note 15 (such as money held in relation to the Renewables Obligation and Feed-In Tariff schemes) are not recognised in the Statement of Financial Position since Ofgem have no beneficial interest in them.

1.15 Adoption of new and revised accounting standards

- **IFRS 16**

IFRS 16 Leases was adopted from 1 April 2022. Further details are provided in Note 1.7 Leases.

- **IFRS 17**

IFRS 17 Insurance contracts is not likely to be adopted by the public sector until 2023 or later. The impact is not expected to be material for the department.

1.16 Critical Accounting Judgements and Estimation Uncertainty

- **Provisions**

Provisions rely on the application of professional judgement, historical experience and other factors expected to influence future events. Where the likelihood of a liability crystallising is deemed probable and can be measured with reasonable certainty, a provision is recognised. Further information is disclosed in Notes 1.9 and 12.

- **Useful lives of non-current assets**

There is uncertainty in relation to estimated useful lives of non-current assets; these are reviewed as at the reporting date and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence or legal or other limits on their use.

- **Lease Terms**

Under IFRS 16, Ofgem assesses the likelihood of exercising break clauses or extension options within lease terms. This estimate determines the length of the lease term impacting the lease liabilities and right of use assets. Such assessments are reviewed if there is a significant event or significant change of circumstances.

2. Statement of operating expenditure/(income) by operating segment

2022-23				
	Regulatory Activities £000	Delivery & Schemes £000	Corporate Services £000	Total £000
Gross expenditure	64,070	41,106	37,057	142,233
Income	(61,880)	(95,148)	(49,227)	(206,255)
Net operating expenditure/(income)	**2,190**	**(54,042)**	**(12,170)**	**(64,022)**

2021-22				
	Regulatory Activities £000	Delivery & Schemes £000	Corporate Services £000	Total £000
Gross expenditure	46,120	32,832	50,920	129,872
Income	(44,055)	(48,238)	(50,519)	(142,812)
Net operating expenditure/(income)	**2,065**	**(15,406)**	**401**	**(12,940)**

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

3. Expenditure

	Note	2022-23 £000	2021-22 £000
Staff costs:*			
Wages and salaries		79,070	64,811
Social security costs		7,854	6,405
Other pension costs		17,393	14,551
Other staff costs		174	90
Apprenticeship levy		324	268
		104,815	**86,125**
Rental under operating leases:			
Operating leases (land and buildings)		286	2,294
		286	**2,294**
Scheme payments:			
Green Gas Support Scheme		333	-
		333	-
Non-cash items:			
Auditors' remuneration and expenses**		145	107
Depreciation - property, plant and equipment	5	1,668	1,337
Depreciation - right of use assets	7	1,964	-
Amortisation - intangible assets	6	1,291	-
Holiday pay accrual adjustment		292	(490)
		5,360	**954**
Other expenditure:			
Consultancy		29,638	23,364
Accommodation costs		2,417	2,762
Recruitment and training		1,333	1,504
Travel and subsistence		909	196
Office supplies and equipment		6,804	5,993
Professional Services		1,462	1,817
Staff related costs		333	233
Other expenditure		544	664
		43,440	**36,533**
Provisions:			
Movement in provisions	12	(12,001)	3,966
Total		**142,233**	**129,872**

* Further analysis of staff costs is located in the Remuneration and Staff Report on page 73.

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

4. Income

			2022-23			2021-22
	Income	Full costs	Surplus	Income	Full costs	Deficit
	£000	£000	£000	£000	£000	£000
Licence fees (external)	103,875	103,875	-	91,284	91,284	-
Other	102,380	38,535	63,845	51,528	38,588	12,940
Total	**206,255**	**142,410**	**63,845**	**142,812**	**129,872**	**12,940**

		2022-23	2021-22
Other income includes:	**Note**	**£000**	**£000**
Offshore Transmission Tender Recharge		2,487	2,442
Department for Business, Energy and Industrial Strategy (BEIS)	14	39,446	27,685
Scheme-funded recharges		7,387	6,258
Green Gas Levy		52,653	14,220
Miscellaneous*		407	923
		102,380	**51,528**

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

5. Property, plant and equipment

	Furniture	Office equipment	IT	Leasehold improvements	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2022	229	265	3,740	3,288	7,522
Additions	2	5	1,227	-	1,234
At 31 March 2023	**231**	**270**	**4,967**	**3,288**	**8,756**
Depreciation					
At 1 April 2022	212	97	2,256	1,958	4,523
Charged in year	8	66	1,222	372	1,668
At 31 March 2023	**220**	**163**	**3,478**	**2,330**	**6,191**
Carrying amount at 31 March 2023	**11**	**107**	**1,489**	**958**	**2,565**
Carrying amount at 31 March 2022	17	168	1,484	1,330	2,999

	Furniture	Office equipment	IT	Leasehold improvements	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2021	229	443	3,193	6,104	9,969
Additions	-	44	937	1,068	2,049
Reclassification	-	(222)	-	222	-
Disposals	-	-	(390)	(4,106)	(4,496)
At 31 March 2022	**229**	**265**	**3,740**	**3,288**	**7,522**
Depreciation					
At 1 April 2021	180	50	1,704	5,750	7,684
Charged in year	32	47	944	314	1,337
On disposals	-	-	(392)	(4,106)	(4,498)
At 31 March 2022	**212**	**97**	**2,256**	**1,958**	**4,523**
Carrying amount at 31 March 2022	**17**	**168**	**1,484**	**1,330**	**2,999**
Carrying amount at 31 March 2021	49	393	1,489	354	2,285

All property, plant and equipment is owned by Ofgem.

6. Intangible assets

Intangible assets are internally generated bespoke computer software assets for use in the running of various Ofgem schemes. They are initially classified as assets under construction and are not amortised until they are available for use.

	Computer Software	Assets under construction	Total
	£000	£000	£000
Cost			
At 1 April 2022	-	4,651	4,651
Additions	-	6,839	6,839
Re-classifications	8,222	(8,222)	-
At 31 March 2023	**8,222**	**3,268**	**11,490**
Amortisation			
At 1 April 2022	-	-	-
Charged in year	1,291	-	1,291
At 31 March 2023	**1,291**	**-**	**1,291**
Carrying amount at 31 March 2023	**6,931**	**3,268**	**10,199**
Carrying amount at 31 March 2022	-	4,651	4,651

	Assets under construction	Total
	£000	£000
Cost		
At 1 April 2021	-	-
Additions	4,651	4,651
At 31 March 2022	**4,651**	**4,651**
Amortisation		
At 1 April 2021	-	-
Charged in year	-	-
At 31 March 2022	**-**	**-**
Carrying amount at 31 March 2022	**4,651**	**4,651**
Carrying amount at 31 March 2021	-	-

7. Leases

7.1 Right of use assets

As explained in Note 1.7, the department adopted IFRS 16 'Leases' from 1 April 2022. As required by the Government Financial Reporting Manual, we have implemented it using the cumulative catch-up method, without re-statement of prior year figures.

The majority of leases, treated as operating leases until 31 March 2022, have now been recognised in the Statement of Financial Position as right of use assets and lease liabilities. As a result, we recognised £19.0 million of right of use assets and £18.7 million of lease liabilities on adoption of IFRS 16.

Ofgem's lease contracts comprise leases of operational buildings.

	Buildings
	£000
Cost	
At 1 April 2022	-
Initial recognition on adoption of IFRS 16	18,986
At 31 March 2023	**18,986**
Depreciation	
At 1 April 2022	-
Charged in year	1,964
At 31 March 2023	**1,964**
Carrying amount at 31 March 2023	**17,022**
Carrying amount at 31 March 2022	-

7.2 Lease liabilities

	Buildings 2022-23	**Buildings 2021-22**
Analysis of expected timing of discounted cash flows:	**£000**	**£000**
Not later than one year	1,899	-
Later than one year and not later than five years	7,549	-
Later than five years	7,621	-
Balance at 31 March	**17,069**	**-**

7.3 Amounts recognised in the Statement of Comprehensive Net Income

	2022-23 £000	2021-22 £000
Depreciation	1,964	-
Interest expense	177	-
Non-recoverable VAT	45	-
Total charged to the Statement of Comprehensive Net Income	**2,186**	**-**

7.4 Amounts recognised in the Statement of Cash Flows

	2022-23 £000	2021-22 £000
Repayment of principal on leases	1,763	-
Total cash outflow for leases	**1,763**	**-**

7.5 Reconciliation from IAS 17 to IFRS 16

The table below reconciles the amounts of Ofgem's lease commitments as at 31 March 2022 to the lease liabilities as at 1 April 2022 immediately following adoption of IFRS 16.

	£000
Closing operating leases disclosed at 31 March 2022	**23,753**
Adjustments from IAS 17 to IFRS 16	
Non-recoverable VAT	(54)
Assessment of lease extension periods and break clauses	846
Assessment of rent payable	(4,890)
Impact of discounting	(1,000)
Opening IFRS 16 lease liability at 1 April 2022	**18,655**

8. 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 would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore usually exposed to little credit, liquidity or market risk.

The securities and letters of credit described in Note 15 are held to manage risk in the Offshore tender auction process and Green Gas Levy which Ofgem undertakes on behalf of government. Ofgem has no risk exposure to the securities it holds in relation to this process.

9. Cash and cash equivalents

	2022-23	2021-22
	£000	£000
Balance at 1 April	14,366	3,604
Net change in cash balances:	58,467	10,762
Balance at 31 March	**72,833**	**14,366**
The following balances at 31 March were held at:		
Government Banking Service	72,833	14,366
Balance at 31 March	**72,833**	**14,366**

In addition to the cash and cash equivalents disclosed above, Ofgem holds third party assets of cash and letters of credit relating to offshore tender developer securities, the Renewables Obligation, the Feed-in Tariffs funds, the Renewable Heat Incentive, the Green Gas Support schemes and the Boiler Upgrade Scheme.

These are described in note 15.

10. Trade receivables and other current assets

	2022-23	2021-22
Amounts falling due within one year:	£000	£000
Accrued income	22,940	20,395
Trade receivables	4,590	549
Prepayments	2,028	2,034
VAT	299	735
Other receivables	15	18
Balance at 31 March	**29,872**	**23,731**

Other receivables represent staff loans outstanding, such as those relating to the cycle to work scheme.

11. Trade payables and other current liabilities

	2022-23	2021-22
Amounts falling due within one year:	**£000**	**£000**
Excess cash due to the Consolidated Fund	72,833	14,366
Deferred licence fees	3,993	6,880
Other deferred income	1,956	2,233
Accruals	9,006	13,749
Other payables	2,911	2,618
Taxation and social security	3,907	3,475
Trade payables	192	536
Balance at 31 March	**94,798**	**43,857**

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

12. Provisions for liabilities and charges

	Early retirement	Voluntary exit	Dilapidations	Legal	VAT	Other	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2022	103	208	1,705	14,798	-	255	17,069
Provided in the year	-	-	105	-	-	-	105
Provisions not required written back	-	-	-	(11,973)	-	(127)	(12,100)
Provisions utilised in the year	(19)	(208)	-	-	-	(98)	(325)
Changes in discount rate	(6)	-	-	-	-	-	(6)
Balance at 31 March 2023	**78**	**-**	**1,810**	**2,825**	**-**	**30**	**4,743**

	Early retirement	Voluntary exit	Dilapidations	Legal	VAT	Other	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2021	130	400	2,184	10,064	2,521	1,307	16,606
Provided in the year	-	208	-	4,734	-	225	5,167
Provisions not required written back	-	-	(479)	-	(405)	(305)	(1,189)
Provisions utilised in the year	(15)	(400)	-	-	(2,116)	(972)	((3,503)
Changes in discount rate	(12)	-	-	-	-	-	(12)
Balance at 31 March 2022	**103**	**208**	**1,705**	**14,798**	**-**	**255**	**17,069**

Analysis of expected timings of discounted flows as at 31 March 2023							
Not later than one year	16	-	-	2,825	-	30	2,871
Later than one year and not later than five years	45	-	338	-	-	-	383
Later than five years	17	-	1,472	-	-	-	1,489
Balance at 31 March 2023	**78**	**-**	**1,810**	**2,825**	**-**	**30**	**4,743**
Analysis of expected timings of discounted flows as at 31 March 2022							
Not later than one year	17	208	-	14,798	-	255	15,278
Later than one year and not later than five years	61	-	1,705	-	-	-	1,766
Later than five years	25	-	-	-	-	-	25
Balance at 31 March 2022	**103**	**208**	**1,705**	**14,798**	**-**	**255**	**17,069**

Early retirement

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

Dilapidations

Dilapidations provisions are an anticipation of the future cost to return the department's leased properties to their condition as at the commencement of the lease.

Legal

A number of our RIIO-2 price control decisions for the gas distribution and transmission sectors were subject to appeal before the Competition and Markets Authority (CMA). A final determination and order was published on 1 November 2021, but costs continue to be discussed and there is still no final cost settlement agreed at 31 March 2023.

A number of legal risks arose as a result of Ofgem's responses to the gas market crisis during 2021-22 and 2022-23. This includes, but is not limited to, impacts on the price cap and legal challenges in relation to the Supplier of Last Resort process. The provision value has been estimated based on the assessment by legal professionals of both the likelihood of challenge and potential success of a challenge. The cost estimate considers factors such as the level of complexity and estimated resource involved in responding to a challenge.

13. Contingent liabilities disclosed under IAS 37

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

We are not aware of any contingent liabilities requiring disclosure under IAS 37.

14. Related party transactions

During the year, we transferred £14.810 million to the Department for Business, Energy and Industrial Strategy (BEIS) (2021-22: £12.303 million). £13.892 million of this was for advocacy services (2021-22: £11.440 million). The remaining £0.918 million was transferred for metrology services (2021-22: £0.863 million). These funds are collected by Ofgem through the licence fee, on behalf of BEIS.

We administer environmental programmes on behalf of the BEIS, and second staff to BEIS. Total income from BEIS recognised in year amounted to £39.446 million, of which £9.353 million was accrued at 31 March 2023 (£27.685 million income in 2021-22 with £4.834 million accrued at 31 March 2022).

We administer the Northern Ireland Renewable Heat Incentive on behalf of the Department for the Economy (DfE), and administer the Northern Ireland Renewables Obligation on behalf of the Northern Ireland Authority for Utility Regulation (NIAUR). Income of £1.459 million was recognised in year from the NIAUR (£1.084 million in 2021-22), and £0.923 million of income from DfE (£1.240 million in 2021-22). This income is included within the Scheme Funded Recharges figure in Note 4.

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

None of the Authority members, key managerial staff or other related parties has undertaken any material transactions with Ofgem during the year except for remuneration which is included on page 67.

15. Third-party assets

Offshore Tender Developer Securities

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

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

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

Part of Ofgem's risk management strategy for the competitive tender process is to hold securities for the purposes of recovering costs in the event of an incomplete tender process. These securities are in the form of a letter of credit or cash. At 31 March 2023 Ofgem held £13.00 million in letters of credit and £nil in cash (31 March 2022: £10.95 million in letters of credit, £nil in cash)

Renewables Obligation

The Renewables Obligation is one of the main support mechanisms for large-scale renewable electricity projects in the UK, and the scheme is administered by Ofgem. The scheme closed to applicants in 2017. More about the Renewables Obligation can be found at https://www.ofgem.gov.uk/environmental-programmes/ro/about-ro

Several bank accounts are used to administer the scheme:

- Buyout funds – Suppliers can meet their renewables obligation by paying into the buyout fund. The proceeds of the buy-out fund are paid back pro-rata to those suppliers who discharged their obligation in full.
- Late payments – Any payments received after 31 August will be late payments. These are subject to an annualised daily interest penalty (5% + Bank of England base rate).
- Mutualisation – Where there is an overall shortfall in the obligation amount, suppliers are required to make payment towards mutualisation. The mutualisation funds are redistributed to suppliers who discharged their obligation in full.

Total cash held in these bank accounts as at 31 March 2023 was £53.17 million (31 March 2022: £14.84 million). Income of £5.01 million was recognised in 2022-23 in relation to RO schemes, of which £0.47 million was accrued at 31 March 2023 (£6.96 million income in 2021-22 with £1.06 million accrued at 31 March 2022). This income is included within the Scheme Funded Recharges figure in Note 4.

Feed-in Tariff levelisation funds

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

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

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

Bank balances held in relation to FIT at 31 March 2023 totalled £0.94 million (31 March 2022: £0.05 million).

Domestic and non-domestic renewable heat incentive (RHI)

The Domestic RHI is a government financial incentive to encourage a switch to renewable heating systems.

It's a way to help the UK reduce carbon emissions and is for households both off and on the gas grid.

The Non-Domestic RHI is a government environmental programme that provides financial incentives to increase the uptake of renewable heat by businesses, the public sector and non-profit organisations.

Ofgem administers both schemes on behalf of BEIS in Great Britain, and administers Non-Domestic RHI in Northern Ireland on behalf of DfE. Bank balances held in relation to the schemes at 31 March 2023 were: Domestic RHI: £5.113 million; Non-domestic RHI Great Britain: £2.918 million ; Non-domestic RHI Northern Ireland: £0.023 million (31 March 2022: £4.540 million; £9.673 million; £0.021 million)

Green Gas Support Scheme

The Green Gas Support Scheme (GGSS) is a government environmental scheme that provides financial incentives for new anaerobic digestion biomethane plants to increase the proportion of green gas in the gas grid. The scheme opened to participants on 30 November 2021 and will be open to applications for four years. Registered participants are paid quarterly payments over a period of 15 years, which are based on the amount of eligible biomethane that a participant injects into the gas grid.

Under the Green Gas Support Scheme Regulations 2021, the Green Gas Levy (GGL) places obligations on licensed gas suppliers, including a requirement to make quarterly levy payments to Ofgem in order to fund the GGSS. Licensed gas suppliers must also provide credit cover, either in the form of cash or by lodging a valid letter of credit, to help ensure funds are collected in a timely manner and to reduce the likelihood of mutualisation events being required. Credit cover must be provided for a minimum duration of a quarter and the following four weeks. Once in place, suppliers' credit cover may be drawn down on by Ofgem in instances where a supplier fails to pay whole or part of a levy or mutualisation payment by the relevant due date. Unused credit cover remains lodged and is taken into account in confirming whether additional credit cover needs to be lodged for the following quarter. In future years any excess cash credit cover held beyond required levels for each supplier will be routinely returned to suppliers in March. As at 31 March 2023, Ofgem held £6.125 million in cash credit cover and £10.188 million in letters of credit (31 March 2022: £5.958 million in letters of credit, £11.171 million in cash).

The GGSS, and associated GGL, policy is set by BEIS but the scheme is administered by Ofgem.

Boiler Upgrade Scheme

The Boiler Upgrade Scheme (BUS) is a government environmental scheme which supports the decarbonisation of heat in buildings. It provides upfront capital grants to support the installation of heat pumps and biomass boilers in homes and non-domestic buildings in England and Wales. The scheme opened in 2022, with £450 million of grant funding available until 2025. On 30 March 2023 the government announced that the scheme will be extended for three years until 2028. Ofgem is the scheme administrator, whilst BEIS is responsible for the scheme policy and legislation set out in the Boiler Upgrade Scheme (England and Wales) Regulations 2022. The bank balance held in relation to the scheme at 31 March 2023 was £1.364 million.

16. Financial penalties

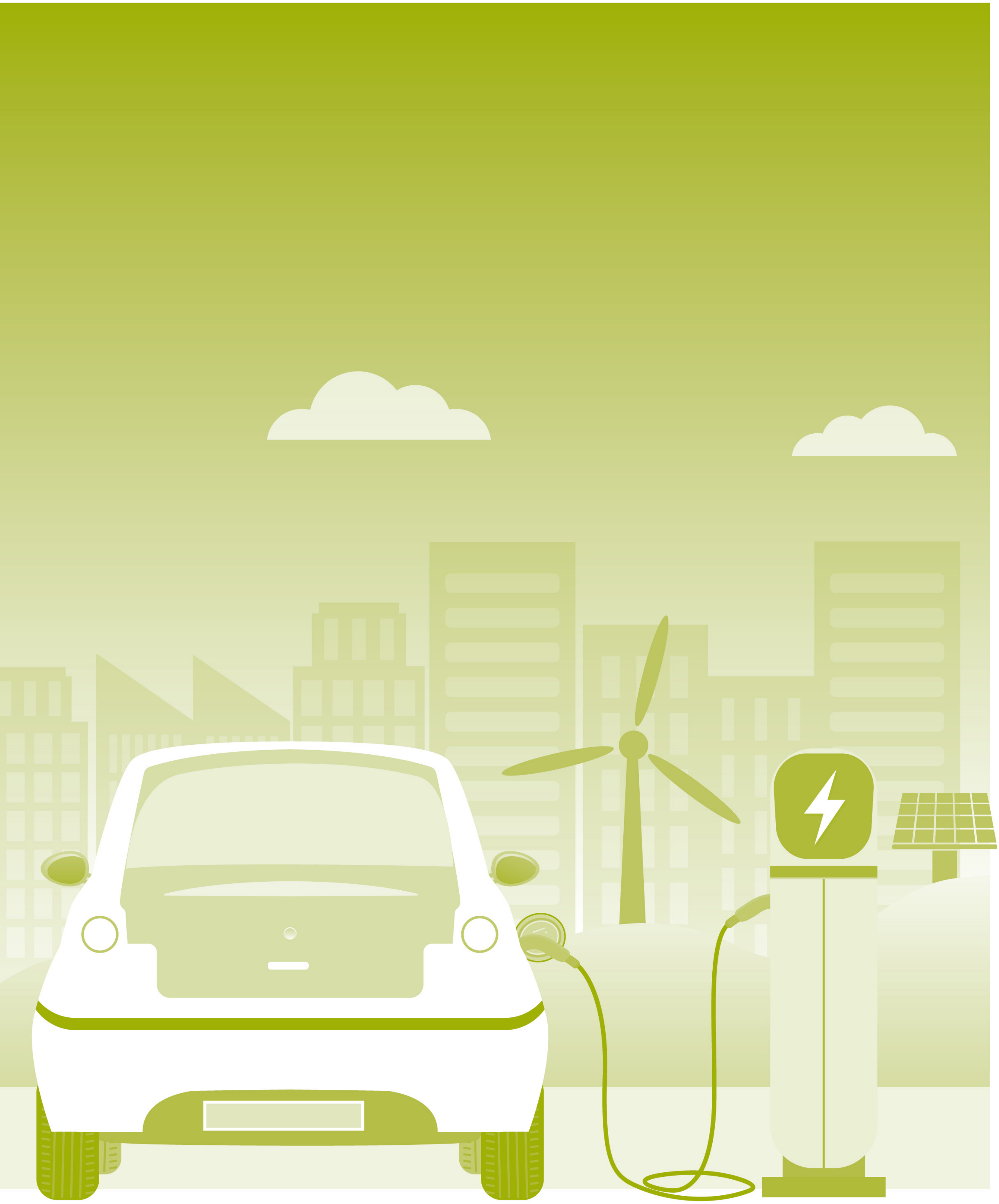
Ofgem is governed by the Gas and Electricity Markets Authority. The Authority is responsible for taking enforcement action, including imposing financial penalties, in respect of the energy companies it regulates. These amounts are collected by us for payment into the Consolidated Fund. A summary of investigations and enforcement action for the year is included at Appendix II.

	2022-23	2021-22
	£000	£000
Penalties imposed	70	-
	70	**-**

Penalties imposed during the year amounted to £70,005 (of which £70,001 was a receivable).

17. Events after the reporting period

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



Appendices | 2022-23

Appendix I
Key Performance Indicators

Industry Regulatory and Stakeholder Processes			
Metric (KPI's)	**Details of what is being measured**	**Annual targets for 2022-23**	**Actual**
Offshore transmission processing	Licence granted from commencement of Section 8A5 consultations	70 days	44 days
Offshore transmission processing	Preferred Bidder selection of the 'Invitation to Tender' submission (excluding 'Best' and 'Final' Offers)	120 days	66 days
Licence applications	Decisions on licence applications made within the specific time period *	100%	100%
Code modifications	Meeting the expected decision date	90%	73%
Customer contacts	Time taken for first response to customer contacts	80% within 10 working days	89.35%
Whistle blowers	Time taken for first response to whistleblowers (external)	100% - 1 working day to receive initial engagement	100%

* The specified time periods vary for different application types and are published in the guidance for gas and electricity licence applications. The specified time period for individual applications may be extended by Ofgem once when justified by the complexity of the issue.

Environmental and Social Scheme KPIs			
Metric (KPI's)	**Details of what is being measured**	**Annual targets for 2022-23**	**Actual**
Domestic Renewable Heat Incentive (DRHI)	Responding to enquiries within 10 working days	80%	98.7%
Non-domestic Renewable Heat Incentive (NDRHI)	Responding to enquiries within 10 working days	80%	99.5%
Renewable Obligation (RO)	Responding to enquiries within 10 working days	80%	100%
Feed in Tariffs (FIT)	Responding to enquiries within 10 working days	80%	100%
Energy Company Obligation (ECO)	Responding to enquiries within 10 working days	80%	95.8%
Warm Home Discount (WHD)	Responding to enquiries within 10 working days	80%	97.4%
Boiler Upgrade Scheme (BUS)	Responding to enquiries within 10 working days	90%	99.1%
Domestic Renewable Heat Incentive (DRHI)	Complaints resolved within 20 working days	80%	99.5%
Non-domestic Renewable Heat Incentive (NDRHI)	Complaints resolved within 20 working days	80%	95.2%
Renewable Obligation (RO)	Complaints resolved within 20 working days	80%	100%
Feed in Tariffs (FIT)	Complaints resolved within 20 working days	80%	100%
Domestic Renewable Heat Incentive (DRHI)	Disputes resolved within 20 working days	50%	77.9%
Non-domestic Renewable Heat Incentive (NDRHI)	Disputes resolved within 20 working days	50%	68.6%
Non-domestic Renewable Heat Incentive (NDRHI)	Abandoned call rate not exceeding 15%	15%	3.2%
Domestic Renewable Heat Incentive (DRHI)	Abandoned call rate not exceeding 15%	15%	2.6%
Renewable Obligation (RO)	Abandoned call rate not exceeding 15%	15%	1.6%
Feed-in Tariffs (FIT)	Abandoned call rate not exceeding 15%	15%	1.6%
Energy Company Obligation (ECO)	Complaints resolved within 20 working days	80%	100%
Warm Home Discount (WHD)	Complaints resolved within 20 working days	80%	100%
Warm Home Discount (WHD)	Responding to obligated party submitted Warm Homes Discount within 20 WD	100%	100%
Domestic Renewable Heat Incentive (DRHI)	Maintaining system availability during business hours	99%	99.9%
Non-domestic Renewable Heat Incentive (NDRHI)	Maintaining system availability during business hours	99%	99.9%

Environmental and Social Scheme KPIs			
Metric (KPI's)	**Details of what is being measured**	**Annual targets for 2022-23**	**Actual**
Renewable Obligation (RO)	Maintaining system availability during business hours	99%	99.9%
Feed in Tariffs (FIT)	Maintaining system availability during business hours	99%	99.9%
Energy Company Obligation (ECO)	Maintaining system availability during business hours	99%	99.9%
Domestic Renewable Heat Incentive (DRHI)	Making payments within 30 working days	95%	96.5%
Non-domestic RHI	Making payments within 40 working days	90%	98.0%
Northern Ireland non-domestic RHI	Making payments within 40 working days	95%	99.0%
Boiler Upgrade Scheme BUS	Payments made within 12 working days (based on redemption submission date)	80%	94.2%
Green Gas Support Scheme GGSS	Making payments within 40 working days	95%	100%
Domestic RHI	Amendments queue – percentage over 6 months old	12%	3.6%
Non-domestic RHI	Amendments queue – percentage over 6 months old	13%	9.2%
Renewable Obligation (RO)	Issuing the main batch of Renewables Obligations Certificates following the generators' output data reporting deadline, within 17 working days (Apr-Jun) and 12 working days (Jul-Mar)	95%	97.7%
Energy Company Obligation (ECO)	Processing the measures submitted in one calendar month by the end of the following month	100%	100%
Boiler Upgrade Scheme BUS	ASHP customer consent requests issued within 10 WD of receiving the voucher application for the property	90%	92.7%

Fraud and error in schemes

Ofgem has a zero-tolerance approach to fraud on the environmental and social schemes it administers and Ofgem has a dedicated Counter Fraud team to detect, prevent and deter fraud on the schemes. The most effective way to reduce the fraud on the schemes is prevention so Ofgem works closely with the policy writers to assess fraud risks and apply robust controls to make it even tougher for fraudsters to go undetected.

To detect fraud more effectively, the Counter Fraud team monitor risks and trends and use data analytics, allowing the team to target resource into high-risk areas, and to identify emerging areas of concern as early as possible. This creates a strong deterrent for other fraudsters in the areas where we are seeing most fraud at that time, and to prevent emerging issues become future high-risk areas.

We monitor trends in non-compliance and the level of error in participant schemes through our audit programmes. The value of payments made in error during 2022-23 under the Boiler Upgrade Scheme is estimated at £1.7 million (3.3% of total payments) within a 95% confidence interval of £0.8 million to £2.5 million. The value of payments made in error during 2022-23 under the GB Renewable Heat Incentive Schemes is estimated at £7.2 million (0.7% of total payments) within a 95% confidence interval of £5.1 million to £9.3 million (2021-22: £10.4 million (1.1% of total payments) within a 95% confidence interval of £6.2 million to £14.6 million). This will also be disclosed in BEIS's 2022-23 annual report & accounts.

Appendix II - Investigations and Enforcement Action 2022-23

Details of our cases are available on our website[1] in accordance with our policy as set out in our Enforcement Guidelines.[2] We will usually publish brief details of the facts and nature of the investigations on our website,[3] although policy is different for cases relating to the Regulation[4] on Wholesale Energy Market Integrity and Transparency (REMIT)[5] and Network and Information Systems(NIS).[6] Below you can find details of the investigations[7] that we have completed this year. In investigations where we secured redress, the companies made payments either directly to consumers and/or to programmes and funds that would benefit consumers.

Company	Issue	Decision	Date of decision
Western Power Distribution Plc.	Investigation into Western Power Distribution Plc's failure to comply with SLCs 9, 10 and 30 of its Electricity Distribution Licences.	Formal finding of breach. A statutory penalty of £4 was imposed. This was in addition to £14,909,560 (less £4) that WPD has agreed to pay in voluntary redress.	June 2022
UK Energy Incubator Hub (UKEIH) Ltd	Investigation into UK Energy Incubator Hub Ltd's compliance with multiple licence conditions.	Case closed. No formal finding of breach. UKEIH Ltd ceased trading on 9 July 2022, and its licences to supply gas and electricity were revoked on 9 July 2022.	July 2022
Delta Gas and Power Ltd.	Investigation into Delta Gas and Power Ltd for its failure to comply with Article 68 of the Renewables Obligation Order 2015 (as amended) (ROO).	Formal finding of breach. A statutory penalty was imposed of £70,000.00	March 2023

[1] Compliance and enforcement - Investigations, orders and penalties | Ofgem ; Compliance and enforcement - Compliance and enforcement - REMIT compliance and enforcement | Ofgem

[2] The Enforcement Guidelines | Ofgem

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

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

[5] Our Remit Procedural Guidelines can be found at: Decision on changes to Decision on changes to REMIT Penalties Statement and REMIT Procedural Guidelines | Ofgem

[6] NIS Directive and NIS Regulations 2018: Ofgem guidance for Operators of Essential Services | Ofgem

[7] We use the term investigations here to describe investigations where we have used our formal powers.

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

Company	Issue	Decision	Date of decision
Electricity North West Ltd	Storm Arwen caused nearly 1 million homes in Britain to lose power in November 2021, with nearly 4,000 homes having to cope in appalling conditions without power for over a week. On 9 June 2022 Ofgem published its findings following a six-month review to establish what went wrong and what industry needed to change to provide a more effective response to severe weather events.	Alternative action, no formal finding of breach. ENW agreed to pay £290,000.00 in redress, with an additional £2,089,645.00 in compensation paid to consumers.	June 2022
Northern Powergrid Ltd.	This case forms part the Storm Arwen case mentioned above.	Alternative action, no formal finding of breach. NPg agreed to pay £7,690,000 in redress, with an additional £2,600,645 in voluntary compensation to consumers and £9,790,000 in mandatory compensation under Ofgem's Guaranteed Standards.	June 2022
Scottish and Southern Electricity Networks	This case forms part the Storm Arwen case mentioned above.	Alternative action, no formal finding of breach. SSEN agreed to pay £2,300,000 in redress, with an additional £4,800,000 in voluntary compensation to consumers and £8,300,000 in mandatory compensation under Ofgem's Guaranteed Standards.	June 2022
Shell Energy UK	Shell Energy Retail Limited discovered that due to operational errors with the implementation of its default tariffs, it had overcharged 11,275 prepayment customers above the level of the price cap for periods between January 2019 and September 2022.	Alternative action, no formal finding of breach. The total amount of customer detriment to be refunded was £106,000. In addition, the supplier paid £400,000 to Ofgem's voluntary consumer redress fund and £30,970 in goodwill payments to affected customers, making a total payment of £536,970.	August 2022
Good Energy Ltd	Good Energy Limited (GE) charged an unauthorised administration fee to Feed-In Tariff (FIT) customers.	Alternative action, no formal finding of breach. In addition to the refunds to affected customers, GE paid an additional £200,000 in goodwill payments. The total redress payment made was £653,000.	November 2022
F&S Energy Ltd	F&S Energy Limited (F&S) charged an unauthorised administration fee to Feed-In Tariff (FIT) customers.	Alternative action, no formal finding of breach. In addition to the refunds to affected customers, F&S paid an additional £50,000 in goodwill payments. The total redress payment made was £144,040.	November 2022
Utilita Gas and Power Ltd	On 9 September 2022, the Authority issued a Provisional Order to Utilita under section 25(2) of the Electricity and Act 1989 and section 28(2) of the Gas Act 1986 concerning the application of Additional Support Credit and treatment of customers in debt and on the Priority Services Register. After cooperation with Ofgem by Utilita the Order was not confirmed.	As part of the engagement on this issue, Utilita agreed to pay £830,000 - £508,260 of this was paid directly to consumers directly affected by the breach and £321,740 paid to the Voluntary Redress Fund.	December 2022

Company	Issue	Decision	Date of decision
Drax Pumped Storage Limited	This compliance engagement related to excessive payments Drax secured from National Grid Electricity System Operator ('NGESO') in the Balancing Mechanism ('BM'). Ofgem considers that Drax obtained the payments by submitting excessively expensive bid prices to curtail its generation during times of transmission constraint, with the effect of increasing balancing costs which are ultimately borne by consumers. The Transmission Constraint Licence Condition (TCLC) prohibits such behaviour. Drax has admitted to inadvertently breaching the TCLC and has cooperated fully with the Authority.	Drax has informed Ofgem that it has implemented a revised bid pricing methodology designed to ensure that any such breaches do not happen again and agreed to pay £6,120,000 to the Voluntary Redress Fund.	January 2023
Bulb	Bulb self-reported that it had erroneously collected two direct debit payments from some customers. On 5 August 2022, Bulb sent in a second self-report related to direct debits. Bulb's systems were affected by an unplanned outage on 19 July. Bulb had to revert to a manual process in place of its automated processes. As a result of human error, some direct debit amounts were not correct.	Alternative Action, no formal finding of breach. Refunds were issued to the affected customers in the amount of £2.2 million. Bulb compensated the affected customers totalling £71,620.	December 2022
Bulb	Bulb self-reported multiple compliance issues related to customer final account balance exceptions; smart PAYG final statements; repayment of accounts with credit backlogs; and backlogs in refunds being issued to consumers.	Alternative Action, no formal finding of breach. To correct the issues Bulb issued £2,234,230.38 in refunds to affected customers and made payments totalling £10,474.25 into Ofgem's voluntary redress fund.	June 2022
E.On Next	E.On Next self-reported that some 'Standard' and 'Additional Standard' compensatory payments to customers were missed or significantly delayed during 2020/21, under the Guaranteed Standards of Performance (GSOP) Regulations.	E.On Next implemented process and system changes to mitigate the problem. In addition, they provided £1,330,910 to the Energy Industry Voluntary Redress Scheme in recognition of the inconvenience to customers due to the late provision of GSOP compensation, because of final billing process failings. In addition, E.On made payment of all delayed GSOP compensation to customers, totalling £5,534,310.	August 2022
E.On Next	E.On Next self-reported that hat they had overestimated gas consumption for 74,098 customers and underestimated gas consumption for 92,579 customers over an average period of 6 to 9 months.	All corrective action has been taken to re-bill customers and reduce customer direct debit payments as required. E.On issued refunds to the affected customer in the amount of £8,067,000. Customers that received overestimated bills or had increases to their monthly direct-debit payments, received in total £839,272.23 in compensation and goodwill payments. E.On also agreed to make a payment of £287,197.77 to Energy Industry Voluntary Redress Scheme.	January 2023

In addition to this, other compliance engagements resulted in the following.

Type of impact	Value
Redress payments to the Voluntary Redress Fund	£55,000
Total	**£55,000**

Open cases

Below are the open investigations as of the end of March 2023. Please note, the opening of an investigation does not imply that we have made any finding(s) about non-compliance. Ofgem does not publish information on all open investigations, in particular when Ofgem is conducting investigations into potential failures to comply with REMIT requirements or NIS Regulations. As a general rule, we do not comment further on these investigations, including whom we are investigating, unless we consider it necessary to do so in the interests of consumers or market confidence.

Date Opened	Company	Issue
February 2023	British Gas Trading Ltd	Investigation into British Gas Trading Ltd's ('BG's) compliance with Standard Licence Conditions ("SLC") 0, 13.1 (a) and (d), 27, 28 and 28B.1 of the Gas and Electricity Supply Licences.
March 2022	National Grid Electricity Transmission plc	Investigation into National Grid Electricity Transmission plc and its compliance with section 9 of the Electricity Act 1989 and SLC B7 of its Electricity Transmission License concerning the Harker substation.
October 2021	Energetický a průmyslový South Humberside Bank (EP SHB)	Investigation into whether EP SHB has failed to comply with the requirements of condition 20A of the Electricity Generation Standard Licence Conditions (referred to as the Transmission Constraint Licence Condition, or "TCLC").
October 2021	SSE Generation Limited	Investigation into whether SSE Generation Ltd has failed to comply with the requirements of condition 20A of the Electricity Generation Standard Licence Conditions (referred to as the Transmission Constraint Licence Condition, or "TCLC").
August 2021	Community Energy Scheme (CES) UK Limited	Investigation into whether CES has contravened consumer protection legislation through its sales and customer service practices.
November 2020	Scottish Power	Investigation into Scottish Power's compliance with Standard Licence Conditions ("SLC") 38 of the Gas Supply Licence and SLC 44 of the Electricity Supply Licence. SLCs 38 and 44 require a licensee to set and achieve Annual Milestones for the installation of Smart Meters.
July 2020	Hudson Energy Supply UK Ltd	Investigation into whether Hudson Energy Supply UK Ltd breached rules around billing, meter reading and communications concerning the actions taken on its behalf by United Gas and Power Ltd. We widened the scope of investigation in March 2021 to include SLC 7A.1.
July 2020	United Gas and Power Ltd	Investigation into United Gas and Power Ltd's billing and communications activities. We widened the scope of the investigation in March 2021 to include SLC 7A.1.

Final orders

Below you can find details of the final order imposed during the year from April 2022 to March 2023. We issued one final order to the supplier detailed below.

Final Order issued	Company	Concern	Outcome
October 2022	Delta Gas and Power Ltd	Failure to make payment to the Authority in full settlement of its RO for the obligation period of 1 April 2021 to 31 March 2022, the sum of £530,809.20, plus accrued interest, by no later than 31 October 2022.	On 25 November 2022, Delta paid its remaining RO balance for the 2021/22 year. On 3 February 2023, the Final Order was revoked.

In addition to this, the details of the Notices of Proposal to make a FO where we did not proceed to issue a FO are listed below.

Date consultation raised	Company	Concern	Outcome
September 2022	Logicor Energy Limited	Logicor Energy Ltd failed to meet its Renewables Obligations (RO), by failing to produce Renewables Obligation Certificates (ROC) to the Authority by 1 September 2022, or to make payments as an alternative by 31 August 2022, sufficient to discharge its RO.	Logicor Energy Ltd made full payment of its RO for 2021-22, including all applicable interest, thus ensuring compliance with its RO for 2021-2022.
July 2022	UK Energy Incubator Hub Ltd	The Order was proposed to UKEIH to comply with Standard Licence Condition ("SLC") 4C (ongoing fit and proper requirement).	On 9 July 2022, UKEIH ceased trading and its licence was revoked shortly thereafter. As such, it was decided not to proceed with issuing the Final Order.

Provisional orders

Below you can find details of the provisional orders imposed during the year from April 2022 to March 2023. We issued 11 provisional orders.

Date consultation raised	Company	Concern	Outcome
February 2023	British Gas Trading Ltd	There are concerns that British Gas is contravening or is likely to contravene Standard Licence Conditions 0, 13.1 (a) and (d), 27.11A, 28.1A, 28.1B and 28B.1.	Ongoing
February 2023	E.ON Next Ltd	There are concerns that E.ON is contravening or is likely to contravene SLCs 0.3(c)(i) and (iii).	Ongoing
November 2022	Delta Gas and Power Ltd	There were concerns that Delta was contravening or was likely to contravene SLC5. Delta took the necessary remedial actions, and the PO was revoked on 21 December 2022.	Delta took the necessary remedial actions, and the PO was revoked on 21 December 2022.
November 2022	Delta Gas and Power Ltd	There were concerns that Delta was in breach of SLC 33.	Delta took the necessary remedial actions, and the Authority revoked the PO on 13 December 2022
November 2022	Delta Gas and Power Ltd	There are concerns that Delta is contravening or is likely to contravene SLC 4A and 4B. On 6 February 2023, the Authority confirmed the Provisional Order, based on Delta's contravention or likely contravention of SLC4A only.	On 27 March 2023 the Authority issued Delta Gas and Power Ltd ("Delta") with a Notice of failure to comply with a confirmed Provisional Order.
September 2022	Scottish Power	There were concerns that Scottish Power was contravening or was likely to contravene SLC 27.8A(b), 27.8A(c) and 27.8A(d).	Scottish Power took the appropriate remedial actions to secure compliance and the PO was revoked on 9 December 2022.
September 2022	Utilita Energy Limited	There were concerns that Utilita was contravening or was likely to contravene SLCs 26.4, 26.5(d), 27.8(b), 27A.5, 27A.6 and 27A.7. Utilita took appropriate steps to secure compliance.	Therefore, the Authority decided not to confirm the PO and the PO lapsed and ceased to have effect on 9 December 2022.
July 2022	Tru Energy Limited	There were concerns that Tru Energy was contravening or was likely to contravene SLC 4A.1 and SLC 27.15. Tru Energy took the appropriate remedial actions.	The Authority decided not to confirm the PO. The PO therefore lapsed and ceased to have effect on 28 October 2022.

Date consultation raised	Company	Concern	Outcome
July 2022	Foxglove Energy Supply Limited	There are concerns that Foxglove is contravening or is likely to contravene SLC 4B.	On 5 December 2022, the Authority issued Foxglove with a Notice of failure to comply with a confirmed Provisional Order.
June 2022	UK Energy Incubator Hub Ltd (UK Energy)	There were concerns that UK Energy was contravening or was likely to contravene SLC 5.	UKEIH ceased to trade on 8 July 2022, licences were revoked on 9 July 2022 and the PO ceased to have effect at that point.
May 2022	UK Energy Incubator Hub Ltd (UK Energy)	There were concerns that UK Energy was contravening or was likely to contravene SLC 0.3(a), 0.3(c), Consumer Complaints Handling Standards Regulations 3, 6, 7(1)(a) and 7(1)(b) and section 47 of the Consumers, Estate Agents and Redress Act 2007.	UKEIH ceased to trade on 8 July 2022, licences were revoked on 9 July 2022 and the PO ceased to have effect at that point.

We have also detailed the outcome of the PO that ended during this period, but where the PO was issued during the previous report period and concluded during this reporting period.

Provisional Order (“PO”) ended	Company	Outcome from PO
May 2022	UK Energy Incubator Hub Ltd (UK Energy)[8]	UK Energy provided the requested information, as required under SLC 5 on May 2022. A revocation order for the PO was made on 28 May 2022.

[8] The PO in this case was issued in the previous reporting period, with the matter being concluded during the current reporting period.

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

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

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

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

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

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

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

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

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

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

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

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

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