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## Main Estimate 2024-25: Estimate Memorandum

### 1 Overview

#### 1.1 Objectives

The Gas and Electricity Markets Authority (the 'Authority'), consists of non-executive and executive members, and a non-executive chair. The Authority operates through the Office of Gas and Electricity Markets ('Ofgem'), which is a non-ministerial government department. Ofgem carries out the Authority's day-to-day work and investigates matters on its behalf.

Ofgem's principal objective is to protect the interests of existing and future consumers. Ofgem's Multiyear Strategy<sup>1</sup> published in March 2024 set out five strategic priorities:

- Shaping a retail market that works for consumers
- Enabling infrastructure for net zero at pace
- Establishing an efficient, fair and flexible energy system
- Advancing decarbonisation through low carbon energy and social schemes and
- Strengthening Ofgem as an organisation

When making decisions, the Authority is guided by its Consumer Interest Framework, which helps it to identify trade-offs between complex consumer interests.

#### 1.2 Spending controls

Ofgem's regulatory work and supporting functions are funded by a licence fee which is paid by industry initially, and then passed to consumers through energy pricing. Ofgem schemes are either funded from government (for example, the Department for Energy Security and Net Zero (DESNZ) Ofgem's administration costs of the Renewable Heat Incentive scheme) or are funded by industry (for example, the Green Gas Support Scheme is funded by the Green Gas Levy). For most of these areas, Ofgem has a small net budget because the income will largely offset the expenditure.

Ofgem's net spending is broken down into different spending totals, for which Parliament's approval is sought.

The spending totals which Parliament votes are:

- Resource Departmental Expenditure Limit ("**Resource DEL**"): a net limit comprising day-to-day running costs, less income as set out in the ambit; and
- Capital Departmental Expenditure Limit ("**Capital DEL**"): investment in capital equipment and software such as IT and systems.

In addition, Parliament votes a net cash requirement, designed to cover the elements of the above budgets which require Ofgem to pay out cash in year.

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<sup>1</sup> [Ofgem's Multiyear strategy](#)

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### 1.3 Comparison of net spending totals sought

The table below shows how the net spending totals sought for OFGEM compared with last year:

	Net Spending total Amounts sought this year  (Main estimate 24-25)  £m	Difference (+/-) compared to final budget last year (Supplementary Estimate 23-24)  £m	Difference (+/-) compared to final budget last year (Supplementary Estimate 23-24)  %	Difference (+/-) compared to original budget last year (Main Estimate 23-24)  £m	Difference (+/-) compared to original budget last year (Main Estimate 23- 24)  %
Resource DEL	£52.3	£13.9	36%	£28.2	117%
Capital Del	£4.8	£2.0	71%	£2.3	92%

A breakdown of spending and income within the net total is shown in section 2.1.

### 1.4 Key drivers of spending changes in budget this year

The net Resource DEL has increased by £13.9 million (36%). This budget increase is primarily as a result of increased expenditure in 24-25 for Green Gas Support Scheme.

The net capital DEL proposed is an increase of £2 million (71%). The budget used last year benefitted from a gain on partial termination of one lease which is not anticipated in the current year.

Further detail is given in section 2.1.

### 1.5 New policies and programmes; ambit changes

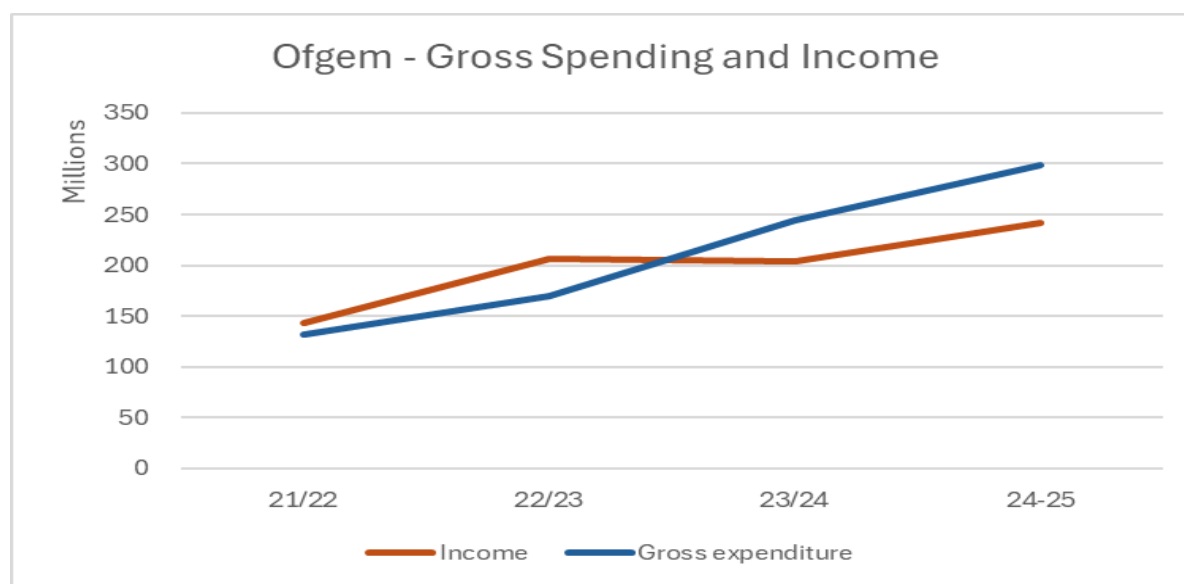
Levelisation, the mechanism by which the total cost of the Feed-In-Tariffs scheme is apportioned across electricity suppliers, is included in the ambit following Ofgem's decision<sup>2</sup> to adjust the standing charge element of payment method differentials from 1 April 2024. This is delivered using a reconciliation mechanism to transfer money between suppliers. HM Treasury has designated reconciliation payments as imputed tax and spend and this is represented in Ofgem's main estimate at £70 million of notional income (invoiced amounts) offset by expenditure (credit note payments).

### 1.6 Spending and income trends

The chart below shows overall DEL spending and income trends for the last three years, plans presented in Estimates for 23-24, and plans sought for 24-25. The growth in income and expenditure reflects the introduction of new schemes such as Green Gas (21-22), Boiler Upgrade Scheme (22-23), Heat Networks (23-24) and other increases in the licence fee, primarily to support scaling up the organisation for additional work that Ofgem has been asked to undertake since the start of the energy crisis. Ofgem's

<sup>2</sup> [Decision on adjusting standing charges for Prepayment customers \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/decision-on-adjusting-standing-charges-for-prepayment-customers)

Multiyear Strategy set out further detail, including on a new net zero duty and a new growth duty linking to the principal objective of protecting consumer interests.



### 1.7 Administration costs and efficiency plans

Administration costs have reduced by £27.7 million (77%) since Supplementary Estimate because there is no current provision for legal costs (see section 2.1).

	Net Spending Total Amounts sought this year	Difference compared to final budget last year	Difference compared to final budget last year	Difference compared to original budget last year	Difference compared to original budget last year
	Main estimate (24- 25)	Supplementary Estimate (23- 24)	Supplementary Estimate (23-24)	Main Estimate (23-24)	Main Estimate (23- 24)
	£m	£m	%	£m	%
Administration costs	£8.1	-£27.7	-77%	£3.5	77%

A key component of Ofgem's strategy is constantly reviewing and prioritising work. This ensures that resources are deployed on activities that are most closely aligned to the Forward work programme and supports strategic objectives.

### 1.8 Funding: Spending Review and Budgets

Through the last Spending Review (SR21) Ofgem received approval for a core net budget in 24-25 of £1.3 million Resource DEL and £2.5 million Capital DEL, given expenditure is largely funded through income. Additional funding allocated to Ofgem since SR21 includes budget for green gas support scheme (see section 2.2) as well as depreciation budget (see section 2.3).

## 2. Spending and income detail

### 2.1 Explanations of changes in spending and income

The table below shows how spending plans compare with last year's estimates.

	This year (24-25 Main estimate budget sought)	Last year (24-25 Supplementary estimate)	Change	Change	See explanation note number
Voted	£ million	£million	£million	%	
Expenditure: GEMA, D&S and Green Gas	£298.7	£244.7	£54.0	22%	1
Expenditure: Levelisation	£70.0	£0.0	£70.0		2
<b>Gross Expenditure</b>	<b>£368.7</b>	<b>£244.7</b>	<b>£124.0</b>	<b>51%</b>	
Income: GEMA, D&S and Green Gas	-£241.5	-£203.5	-£38.0	19%	1
Income: Levilsation	-£70.0	£0.0	-£70.0		2
<b>Gross Income (RDEL and CDEL)</b>	<b>-£311.5</b>	<b>-£203.5</b>	<b>-£108.0</b>	<b>53%</b>	
<b>Total Net RDEL</b>	<b>£52.3</b>	<b>£38.4</b>	<b>£13.9</b>	<b>36%</b>	
<b>Total Net CDEL</b>	<b>£4.8</b>	<b>£2.8</b>	<b>£2.0</b>	<b>74%</b>	

#### Note 1

The expenditure increase of £54 million (22%) is partially offset by a £38 million (19%) increase to income. £2m of the increase is in CDEL (section 1.4). The remaining £14m million increase in net RDEL budget is because of:

A £42 million increase in net budget for Green Gas Support Scheme expenditure in 24-25. The Green Gas Support Scheme provides tariff-based support for generation to the grid. This is a demand led scheme and the budget increase from last financial year is based on budget caps set and published<sup>3</sup> by DESNZ, based on their analysis and forecasts for deployment on the scheme. The scheme is funded over its lifetime by the Green Gas Levy, which applies to all licensed fossil fuel gas suppliers. Partially offset by a reduction of £28 million in relation to the 23-24 legal budget. The accounting provision for potential legal costs will be reassessed at the 2024-25 Supplementary Estimate.

#### Note 2

Following introduction of Levelisation on 1 April 2024, a £70.0 million increase in expenditure is offset by £70.0 million increase in notional income (See section 1.5) on levelisation.

### 2.2 Restructuring

There is a new estimate row (D) for Levelisation (see section 1.5).

<sup>3</sup> [GGSS budget caps, production factors, and inflation forecasts for 2024-2025 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/ggss-budget-caps-production-factors-and-inflation-forecasts-for-2024-2025)

## 2.3 Ring fenced budgets

Within the expenditure totals, the following elements are ring fenced i.e. savings in these budgets may not be used to fund pressures on other budgets. The £4.5 million (48%) increase since last year is largely as a result of depreciation associated with system development costs – these assets were still under construction during 23-24 and are now being brought into useful life with associated depreciation costs during 24-25. Of the £13.8 million current year gross depreciation budget, £6.8m is funded by income.

	Gross Spending total Amounts sought this year  (Main estimate 24-25) £m	Difference compared to final budget last year (Supplementary Estimate 23-24) £m	Difference compared to final budget last year (Supplementary Estimate 23-24) %	Difference compared to original budget last year (Main Estimate 23-24) £m	Difference compared to original budget last year (Main Estimate 23-24) %
Depreciation	£13.8	£4.5	48%	£4.5	48%

## 3. Priorities and performance

### 3.1 How spending relates to objectives

Each year, the Authority has a statutory duty under the Utilities Act (2000) to publish a Forward Work Programme to set out priority projects for the financial year ahead. Ofgem's Forward Work Programme<sup>4</sup> published in March 2024, set out the use of resources in 24-25 to deliver against Ofgem's Multiyear Strategy, which was published at the same time. Existing priority outcomes are presented as set in the previous Parliament.

The table below shows how expenditure against each subhead contributes to the Forward Work Programme strategic priorities.

Strategic Priorities>  Estimates subheads v	Shaping a retail market that works for consumers	Enabling infrastruct ure for net zero at pace	Establishin g an efficient, fair and flexible energy system	Advancing decarbonis at-ion through low carbon energy and social schemes	Strengthen ing Ofgem as an organisatio n
A - GEMA	X	X	X		X
B – D&S				X	
C – Green Gas				X	
D – Levelisation	X				

<sup>4</sup> [Forward Work Programme 2024-25](#)

### **3.2 Measures of performance against each priority**

Ofgem publishes performance against the priorities set out in the Forward Work Programme within the performance report section of the Annual Report and Accounts<sup>5</sup>. Once available, the 2023-24 Annual Report and Accounts will provide performance against the previous strategy framework, for which details can be found in the 2023-24 Forward Work Programme<sup>6</sup>. Performance against the 2024-25 Forward Work Programme will be reported within the 2024-25 Annual Report and Accounts.

## **4. Other information**

4.1 Additional specific information required by the select committee  
No other information has been requested by the Select Committee.

## **5. Accounting Officer Approval**

This memorandum has been prepared according to the requirements and guidance set out by HM Treasury and the House of Commons Scrutiny Unit, available on the Scrutiny Unit website.

The information in this Estimates Memorandum has been approved by myself as Departmental Accounting Officer.



Jonathan Brearley  
Accounting Officer  
Office of Gas and Electricity Markets  
11 July 2024

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<sup>5</sup> [Ofgem Annual Report and Accounts 2022-23](#)

<sup>6</sup> [Forward Work Programme 2023-24](#)

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