

*ofgem*

Annual Report 2003-2004

Promoting choice and value

for all gas and

electricity customers







# Ofgem Annual Report 2003-2004

## **Office of Gas and Electricity Markets**

Report of the Gas and Electricity Markets Authority for the period 1 April 2003 to 31 March 2004 to the Secretary of State for Trade and Industry.

The document comprises a report made under section 5(1) of the Utilities Act 2000. It also sets out information on impact assessments as required by section 5A(9) of the Utilities Act 2000, as introduced by section 6 of the Sustainable Energy Act 2003.

## **Office of Gas and Electricity Markets**

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

Ofgem operates under the direction and governance of the Gas and Electricity Markets Authority which sets all major decisions and policy priorities.

Ofgem's powers and duties are provided for under the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998, the Utilities Act 2000 and other statutes.

## **Ofgem London**

9 Millbank, London SW1P 3GE  
Tel: 020 7901 7000

## **Ofgem Scotland**

Regent Court, 70 West Regent Street,  
Glasgow G2 2QZ  
Tel: 0141 331 2678  
  
[www.ofgem.gov.uk](http://www.ofgem.gov.uk)

Ordered by the House of Commons to be printed by  
15 July 2004

London: The Stationery Office £15.60  
HC786

# Contents

<b>1. Foreword by the Chairman</b>	<b>3</b>	<b>Appendix I</b>	<b>35</b>
		Ofgem's performance against 2003-2004 deliverables	
<b>2. The Gas and Electricity Markets Authority</b>	<b>4</b>	<b>Appendix II</b>	<b>46</b>
		Regulatory Impact Assessments undertaken - 2003-2004	
<b>3. Introduction by the Chief Executive</b>	<b>6</b>	<b>Appendix II(a)</b>	<b>48</b>
		Summary of decisions to which Regulatory Impact Assessments relate	
<b>4. Creating and sustaining competition</b>	<b>9</b>	<b>Appendix III</b>	<b>49</b>
		Investigations and enforcement action - 2003-2004	
<b>5. Regulating network monopolies</b>	<b>15</b>	<b>Appendix IV</b>	<b>51</b>
		Ofgem's financial statements (extracts) 2003-2004	
<b>6. Helping protect security of Britain's energy supplies</b>	<b>19</b>		
		<b>The Ofgem Resource Accounts for 2003-2004 are published separately.</b>	
<b>7. A leading voice in Europe</b>	<b>22</b>		
<b>8. Helping protect the environment</b>	<b>24</b>		
<b>9. Helping tackle fuel poverty</b>	<b>28</b>		
<b>10. Improving Ofgem's efficiency and effectiveness</b>	<b>31</b>		



# 1. Foreword by the Chairman

1.1 Ofgem has seen significant changes and many challenges over the past year. Key among these was the separation of roles between Chairman and Chief Executive which ensured a sharper distinction to be drawn between the Authority's strategic, governance and legal responsibilities and Ofgem's more immediate policy and investigation functions.

1.2 In the Corporate Strategy, we defined the broad themes we will be pursuing during the next three years. A more detailed Corporate Plan reflected those themes, bringing into sharper relief the priorities and workstreams that will be progressed during 2004-2005. Together, the Strategy and Corporate Plan demonstrate our commitment to independent regulation, combining an appropriate level of awareness and responsiveness to new developments with continuity, coherence and predictability in the way we regulate.

1.3 The review of Ofgem's organisational structure, and the application of an RPI-X approach to our budgetary arrangements, will

demonstrate our firm intention of doing things not only well but also cost effectively. If the Strategy's seven themes – which are reflected in this Report – are at the heart of our future work, so too are the principles of better regulation.

1.4 Therefore, we have regard for the need to consult and to listen to the views expressed; the importance of a proportional, consistent, transparent and targeted approach; and the need for us to be accountable for the decisions we take. They lie at the centre of our primary statutory objective to protect consumers, present and future, by promoting competition wherever appropriate.

1.5 I am strongly of the view that we must be a listening organisation that can act efficiently, effectively and quickly when necessary. We have regulatory powers - to introduce policy or to enforce it – and we shall not hesitate to use them.

1.6 But we can also avoid regulatory action if we are convinced that industry itself

can provide effective, just, solutions - as they have recently shown by tackling the issue of disconnections. Where regulation is called for, we will ensure that it is developed according to sound, better regulation guidelines.

1.7 As well as my predecessor, Callum McCarthy, three other members of the Authority left in 2003-2004. Thanks are extended not only to Callum but also to Richard Ramsay, Margaret Ford and Richard Farrant.

1.8 Finally, I should record my personal thanks to the many motivated and expert staff that have so readily adapted to the new team and the changes it has brought with them. Without such able staff, no regulator can ever succeed in making the best of a difficult job.

Sir John Mogg,  
Chairman

## 2. The Gas and Electricity Markets Authority

The Gas and Electricity Markets Authority has the ultimate responsibility for all that Ofgem does. It determines strategy and decides on major policy issues.

### Membership:

#### **Sir John Mogg**

Chairman

#### **John Belcher**

Non-executive (stands down December 2004)

#### **Dr Robin Bidwell**

Non-executive

#### **Alistair Buchanan**

Chief Executive

#### **David Gray**

Executive

#### **Miriam Greenwood**

Non-executive (joined June 2004)

#### **Judith Hanratty**

Non-executive (joins January 2005)

#### **Dr Boaz Moselle**

Executive

#### **John Neilson**

Executive

#### **Jayne Scott**

Non-executive (joined June 2004)

#### **Steve Smith**

Executive (joined June 2004)

#### **James Strachan**

Non-executive (stands down December 2004)

#### **Sir Keith Stuart**

Non-executive (re-appointed June 2004)

#### **Professor Len Waverman**

Non-executive

#### **John Wybrew**

Non-executive (joined June 2004)

### Members who stood down during the year:

#### **Richard Farrant**

Non-executive (stood down November 2003)

#### **Margaret Ford**

Non-executive (stood down December 2003)

#### **Callum McCarthy**

Chairman (stood down September 2003)

#### **Richard Ramsay**

Executive (stood down May 2003)



**Sir John Mogg**



**John Belcher**



**Dr Robin Bidwell**



**Alistair Buchanan**



**David Gray**



**Miriam Greenwood**



**Dr Boaz Moselle**



**John Neilson**



**Jayne Scott**



**Steve Smith**



**James Strachan**



**Sir Keith Stuart**



**Professor Len  
Waverman**



**John Wybrew**



## 3. Introduction by the Chief Executive



- 3.1 In my first Annual Report as Ofgem's Chief Executive, I want to take this opportunity to look back on what Ofgem has achieved in the last year and outline some of the plans we have for the future.
- 3.2 2003-2004 was shaped by three main issues. The need to:
- prepare for major milestones in April 2005, including 'go live' for a single GB-wide electricity wholesale market and start of the next five year electricity distribution price control
  - react to concerns raised over security of supply, and
  - respond as an organisation to the Energy White Paper published in February 2003.
- 3.3 Having worked at Ofgem now for over six months, I appreciate that we have a consistently full agenda. However, the main difference this year has been the fact that our activities have had a much higher public profile.
- This profile, I believe, has enabled us to demonstrate to consumers that they remain our top priority.
- 3.4 Ofgem has an important role in monitoring behaviour to make sure that the wholesale and retail markets stay competitive.
- 3.5 In the retail market, we issued a major report at the end of the year which highlighted that around half of all domestic customers have now switched at least once. Set against international standards, this is exceptionally high.
- 3.6 Even so, there remain occasions when Ofgem has to investigate certain behaviour. Sometimes this is high profile. During the year, we imposed penalties on a number of suppliers as well as National Grid Transco (NGT). In the wholesale market, we launched a probe into high gas prices in the latter part of 2003.
- 3.7 In the run up to last winter, there was considerable public concern over security of supply. These concerns were heightened by blackouts in London and the Midlands. Ofgem gave confidence at the time by providing information in a timely way. Because of the ongoing public interest, Ofgem asked for NGT's Winter Operations Report for 2004-2005 to be published early. I am pleased to say that this was published in May 2004, and will be followed up in the autumn.
- 3.8 On 1 April 2005, Scotland will join England and Wales in a single wholesale electricity market. All GB customers should benefit from the increase in competition. This project is one of the largest undertaken by Ofgem in recent years. The work carried out during 2003-2004 leaves us on schedule. Similarly, extensive preparatory work on the distribution price control review should ensure that we announce the results of that review well before they take effect on 1 April 2005.
- 3.9 We believe that customers want to know that we administer and audit



- ourselves as tightly as we do others. Internally, we have 'balanced the books'. A particular focus this year has been on risk management, and I am pleased to report that the internal audit review of our practices was strongly positive.
- 3.10 Tight administration is also required for an external audience, and this was illustrated by our role in administering the Renewables Obligation process. During the year, seven million Renewables Obligation Certificates were issued, or the equivalent of seven TWh of electricity.
- 3.11 Ofgem's approach to the future will be to try to practise what we preach. We are looking to be efficient users of energy. Ofgem itself changed its energy supplier and made a substantial saving from doing so in 2004-2005.
- 3.12 We look to withdraw from regulation where possible. For example, in the electricity distribution price review proposals, we have signalled
- that overall standards of service have become redundant.
- 3.13 From April 2005, we will place ourselves under a cost control formula, similar to that adopted for the pipes and wires we directly price regulate. We have agreed to operate under an RPI-X regime which will be set by our audit committee, with external audit review, toward the end of this year.
- 3.14 Ofgem will continue to value its relations with interested parties, whether it is the City, industry, politicians, interest groups, others in Whitehall, media, but especially consumers. That is why we remain committed to clear and regular communication.
- 3.15 Last year, we were in contact with all these bodies. We attended high profile meetings with, among others, the Trade and Industry Select Committee (security of supply and October 2002 storms), Scottish Executive (renewables) and House of Lords (European gas). We look forward to similar
- meetings in future where we can explain our work and how we approach it.
- 3.16 Future strategies cannot be achieved without the right people in the right place. As I have found since arriving, Ofgem is fortunate to have a committed group of professionals. The Energy Minister had a chance to experience this when he spent an informal day with Ofgem staff in March 2004, and we appreciated his interest in how we spend our days.
- 3.17 We also announced a new organisational structure in February 2004. Ofgem now has five divisions reporting to the Chief Executive: Markets (wholesale and retail), Networks, Corporate Affairs, Corporate Strategy and Operations. We believe that this approach will provide clarity of purpose both internally and to those with whom we work outside of Ofgem.
- 3.18 Finally, in our re-organisation we gave a clear signal of our commitment to our Scottish

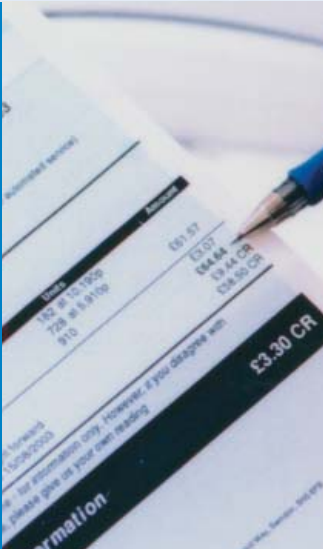
office. Based in Glasgow, we have a strong team working both on Scottish-related affairs and on a range of wider policy issues. We have since re-affirmed this by upgrading the senior management post in charge of the office.

- 3.19 I would like to thank all Ofgem staff for their hard work during the year. Not only have the teams had to handle a range of challenging policy and procedural issues, but they have also had to show flexibility in working with a new 'Higgs-friendly' corporate structure, reflected by the appointment of both a

Chairman and Chief Executive. I look forward to working with them during the forthcoming year to meet the many challenges that await us.

A handwritten signature in black ink on a light beige background. The signature reads "Alistair Buchanan" in a cursive, flowing script.

Alistair Buchanan  
Chief Executive



## 4. Creating and sustaining competition

### Key achievements for 2003-2004

---

#### Wholesale markets

##### Electricity

- Ofgem worked to complete the legal and policy framework to achieve GB-wide trading and transmission arrangements
- Electricity wholesale market and arrangements responded effectively to tighter winter margins

##### Gas

- A new regulatory framework was developed to help bring new imported gas to Britain
- An extensive probe into high wholesale gas prices in October/November 2003 was undertaken

## Introduction

- 4.1 Competition provides the best protection for Britain's energy consumers. It is established in both wholesale and retail markets and has brought considerable benefits to consumers. This has meant that Ofgem has been able to stop regulating prices.
- 4.2 Ofgem has dedicated resources to monitoring market developments taking enforcement and other necessary action to protect consumers' interests and to enable competition to work effectively.
- 4.3 Reflecting the emphasis placed on creating and sustaining competition, Ofgem combined its wholesale and retail markets activities into one division to ensure a consistent approach and provide more effective and efficient market monitoring.

## Wholesale markets

- 4.4 The costs of wholesale gas and electricity account for around 40 per cent of domestic consumers' bills -

more for large business consumers. The effective operation of the gas and electricity wholesale markets is also important in maintaining reliable energy supplies. A great deal of Ofgem's work is, therefore, focused on ensuring that the wholesale markets remain competitive.

## Electricity

- 4.5 The wholesale electricity market in England and Wales now operates much like many other commodity markets, on the basis of bilateral trading. Only a small proportion of power is bought and sold through the balancing mechanism.
- 4.6 The balancing mechanism is governed by a set of rules contained in the Balancing and Settlement Code (BSC) which is administered by Elexon.
- 4.7 Ofgem's continuing role is to consider and approve changes to the BSC.
- 4.8 However, competition is not established fully in the electricity wholesale market in

Scotland. That is why Ofgem's priority during the year was to continue its work with the Department of Trade and Industry (DTI) on the joint programme to create a single electricity market for Great Britain.

- 4.9 British-wide trading and transmission arrangements will bring more competitive prices and greater choice to all electricity consumers, particularly those in Scotland, and will help tackle fuel poverty which affects 13 per cent of Scottish households (see 'Helping tackle fuel poverty', page 28).
- 4.10 In November 2003, Ofgem welcomed the Government's Energy Bill which sets out the legal framework for a single electricity market. At the time of publication, the Bill was close to being finalised. Royal Assent will represent a major milestone on the path to achieving greater competition in the British electricity market and a better deal for consumers.
- 4.11 In parallel, Ofgem worked to complete the legal and operating framework needed

to implement new trading and transmission arrangements, including:

- new GB-wide trading, balancing and settlement arrangements
- new GB-wide connection and use of system arrangements, and
- creating an independent British-wide system operator function and new licensing arrangements.

## Gas

- 4.12 During the period covered by this report, Ofgem worked with the DTI, pipeline operator Transco, and the producers to improve the transparency of operations in the offshore gas industry. This will help both Transco and the market to react more quickly to developments offshore and help ensure better security of supply.
- 4.13 In November 2003, the offshore producers made a voluntary commitment to improving the information available. Ofgem

acknowledged that this commitment improved information flows, although it would still prefer statutory arrangements.

- 4.14 In April 2003, Ofgem completed work to review the balancing arrangements on the high-pressure national gas transmission system. Its conclusions set aside plans for further reforms at that stage but recommended improved monitoring against a new set of performance indicators.
- 4.15 In June 2003, Ofgem and the DTI set out initial views on a regulatory framework for all new Liquefied Natural Gas (LNG) import terminals and interconnector pipelines (see 'Helping protect security of Britain's energy supplies', page 19).

## Market surveillance and enforcement

- 4.16 In both wholesale electricity and gas markets, and for related activities such as gas entry capacity and storage, Ofgem continued to monitor market developments for any

anti-competitive behaviour.

- 4.17 In November 2003, Ofgem received allegations about possible gas market manipulation after wholesale gas prices increased by 80 per cent in October and November 2003. Ofgem was concerned that these prices might not reflect changes to underlying market conditions.
- 4.18 Ofgem launched a probe into the allegations to assess whether formal regulatory action was needed. In May 2004, Ofgem announced that it had closed enquiries on five of the seven suggested causes of the high prices. Further questions have since been put to producers and interconnector shippers on two outstanding issues. Ofgem will make a further announcement later in 2004.

## Retail markets

### Key achievements for 2003-2004



- Ofgem-backed industry schemes to improve customer experience of the competitive market led to complaints falling
- Ofgem continued to develop competition in the retail markets, with 50 per cent of consumers now having switched supplier and traditional suppliers continuing to lose market share
- Ofgem progressed plans to improve rules governing direct selling
- Financial penalties totalling £600,000 were imposed on three companies for incorrectly objecting to consumers switching suppliers

4.19 The gas and electricity retail markets have been open fully to competition since 1999. Since then, around 50 per cent of all consumers have changed their energy supplier at least once. This compares well with similar markets - in fixed line telecoms, BT still retains 70 per cent of its market share after 20 years of competition.

4.20 Ofgem's priority during 2003-2004 was to enable competition to work

effectively so that it can provide continuing benefits for all consumers. Ofgem worked to ensure that consumers had increasing confidence in the competitive offering. This included:

- improving the transfer process
- with energywatch, promoting awareness about the benefits of switching, and

- promoting honest marketing by energy supply companies.

#### Customer transfers

4.21 A joint Ofgem and energywatch summit on the customer transfer process was held in June 2003 which laid down a challenge to industry to put its house in order. Weak industry processes led to problems in switching, suppliers failing to issue bills and considerable

unnecessary cost - perhaps up to £200 million a year. These problems inconvenience consumers and hamper competition.

4.22 Industry, under the auspices of the Energy Retail Association (ERA), accepted the challenge and began to look at how better to co-ordinate and streamline customer transfer processes across the different supply companies. A second summit was held in January 2004 to report on progress. The ERA will be coming back during 2004 to set out plans to improve the transfer processes.

4.23 In the meantime, Ofgem welcomed a suppliers' decision in June 2003 to agree to pay compensation under a voluntary scheme when they fail to meet their commitments under the Erroneous Transfer Customer Charter. This Charter lays down minimum standards needed to ensure that consumers who have been mistakenly transferred are returned to their original supplier with the minimum of fuss.

4.24 The impact of measures to improve the customer transfer process contributed to a 75 per cent fall in complaints.

### Switching

4.25 In June 2003, Ofgem published research into the competitive energy retail market which found that competition in gas and electricity supply remained vigorous but, in some areas, was not yet mature.

4.26 The research showed that competition for domestic consumers is strong and benefiting vulnerable consumers as well as those who are well-off. It highlighted continued high levels of switching. Also, millions more claimed they were likely to switch in the next year. Market shares of ex-monopoly suppliers continued to decline.

4.27 In response to the research, Ofgem set out a work programme to tackle remaining barriers to competition to help ensure that markets continue to work effectively and that

consumers are well aware of the benefits of switching.

4.28 In October 2003, Ofgem welcomed the decision by suppliers to accept a licence obligation which allows many prepayment customers who are in debt to switch suppliers and save money on their bills (see 'Helping tackle fuel poverty', page 28).

4.29 Ofgem continued its targeted work to improve awareness of choice in the competitive market. As well as regular media campaigns, Ofgem worked with Camden Council to pilot advice to customers for whom English is not their first language.

4.30 It also developed a unique educational resource - 'Switched On' - to be used as part of the National Curriculum to develop students' awareness of the choices available in the energy market and how to make the best use of them. The resource was taken up by more than half of all secondary schools throughout the country.



4.31 Ofgem also published the results of a review into the non-domestic supply market. It found that industrial and commercial customers continued to benefit from competition, with a significant number continuing to change supplier successfully and prices reflecting the vigour of competition.

### Marketing

4.32 In May 2003, Ofgem welcomed a new industry code to tackle misselling as an important step towards increasing customer confidence in retail competition. The code was developed by the Association of Energy Suppliers (AES), in consultation with Ofgem and energywatch.

4.33 Ofgem published research in August 2003 which looked at consumers' experience of direct selling, either on the doorstep, by telephone or in public places. It showed that most people accept that direct selling is the normal way for gas and electricity companies to win new

customers. Ofgem noted that while complaints about direct selling have fallen by 60 per cent since 2002, suppliers still have considerable scope to improve how they approach customers.

4.34 Ofgem pledged to use the findings of the research to help develop a more effective way of regulating companies' use of direct selling to win new business and, in December 2003, announced plans to improve the rules governing direct sales.

### Market surveillance and enforcement

4.35 An important focus of Ofgem's work is to ensure that the supply markets remain competitive. To this end, Ofgem continued market surveillance and took enforcement action where necessary to ensure company compliance. Ofgem also worked closely with energywatch whose complaint handling provided important consumer experience and evidence to underpin enforcement action.

4.36 During the year, enforcement actions were taken against British Gas Trading, npower and ScottishPower for incorrectly objecting to customers switching to another gas or electricity supplier. All three companies received financial penalties of £200,000.



## 5. Regulating network monopolies

### Key achievements for 2003-2004

- Initial views on the forthcoming electricity distribution price control review were published
- Substantial work was carried out to assess the impact on customers of plans by National Grid Transco (NGT) to sell off its regional gas networks
- Ofgem completed an investigation into allegations of poor service in Transco's gas connections business
- Almost 20,000 electricity customers were compensated following the storms of October 2002, and improved compensation arrangements were put in place

## Introduction

- 5.1 Where competition is not practicable, or is not sufficiently well developed, Ofgem protects consumers' interests by regulating through price controls and incentive schemes. This helps ensure that consumers receive value for money and a secure and reliable service.
- 5.2 These price controls and incentives apply to the monopoly businesses that run the pipes and wires bringing gas and electricity to homes and businesses.
- 5.3 Traditional RPI-X price regulation has served Britain's gas and electricity consumers well. It has led to lower prices and improved standards of service, while enabling the network owners to raise finance and increase network investment.
- 5.4 However, Ofgem has done much to develop and refine this form of price regulation. It has introduced new incentive regimes for efficient investment, new quality of supply standards, guaranteed

outputs for consumers and arrangements to improve environmental performance and reporting.

## Transmission

- 5.5 In November, Ofgem announced that it intends to align the timing of the gas and electricity transmission price controls. Under the new arrangements, the current Scottish electricity transmission price controls will be extended by two years, and National Grid Company's (NGC) electricity transmission price control for one year. The new price controls will begin simultaneously - alongside Transco's gas transmission price control - in April 2007.
- 5.6 Aligning the price controls will allow for greater consistency of treatment of costs and of incentive arrangements, with less need to duplicate work on common issues. Ofgem places a high priority on ensuring a smooth transition to these new arrangements. As part of this transition, Ofgem recognised the need

to consider carefully the interactions with existing projects such as the introduction of GB-wide electricity trading and transmission arrangements and work resulting from increased connection of renewable generation.

- 5.7 Ofgem later announced that it will extend the gas distribution price control by one year to April 2008, allowing gas transmission and distribution issues to be considered separately, as is the case in electricity.
- 5.8 The issues surrounding cost-reflective transmission charging remained high on Ofgem's agenda during the year. In February 2004, Ofgem expressed regret over Government plans to consider amending the Energy Bill so cross-subsidies can be provided on transmission charges for smaller generators located in remote parts of Scotland.

## Electricity distribution

- 5.9 Substantial progress was made during the year on the build-up to the next electricity distribution price control which will take effect in April 2005. A number of consultation documents were issued during the period of this report. Much of the work carried out focused on company projections for investment over the five year period of the price control. Alongside this, Ofgem worked to develop the policy framework for the review which was published in March 2004.
- 5.10 It is widely acknowledged that companies may need to increase network investment above existing levels. However, projections published by Ofgem in March 2004 on what companies believe is required varied enormously, with some companies predicting little or no increase and others increases in excess of 50 per cent.
- 5.11 The price control, therefore, will be aimed at balancing the need for future

investment with the case for continuing efficiency - both of which are key to protecting consumers' interests.

## Gas distribution

- 5.12 The proposed sell-off by NGT of one or more of its local gas distribution networks represents one of the biggest changes to the gas industry since privatisation in 1986. NGT announced their intentions in May 2003.
- 5.13 There followed a number of Ofgem consultations and consideration of detailed proposals in Ofgem-led work groups, comprising industry, consumer representatives and other interested parties.
- 5.14 In April 2004, the Authority considered the potential costs and benefits to consumers arising from a sale and decided that there was potential for consumers to benefit. The Authority also agreed in principle to the creation of a compensation safety net which would protect consumers' interests in the event that these benefits were not realised.

- 5.15 Following this, it gave the go-ahead for the next phase of work on the project to ensure that commercial and regulatory arrangements following a network sale would safeguard consumers' interests. As part of this, Ofgem will also look at the implications for security of supply and competition.

## Investigations and enforcement

- 5.16 August and September 2003 saw power cuts in central London and the Midlands which prompted an investigation by Ofgem into their causes (see 'Helping protect security of Britain's energy supplies, page 19).
- 5.17 Following this extensive investigation, Ofgem's Authority found in June 2004 that the NGC did not breach its legal obligations as a result of the blackouts. However, the Authority's wider conclusions did not give NGC a clean bill of health.
- 5.18 This led to the Authority announcing plans for a new scheme to complement existing legal obligations on

NGC, and strengthen the incentives on the company to improve system performance. Under the new scheme, NGC will, in future, be penalised automatically in the event of blackouts of the kind seen in London and the Midlands, with costs that could run into millions of pounds.

5.19 Since 1999, Transco has been subject to an Ofgem enforcement order which set performance targets for its gas connections business. Compensation arrangements were also put in place for certain customers. Between March and December 2003, Transco paid out around £2.6 million under this order.

5.20 Despite this, Ofgem found in March 2004 that Transco had continued to perform poorly when providing its customers with new gas connections. A wide range of customers were affected, including gas suppliers acting on behalf of new home owners wanting a new gas connection, competing connections firms and building contractors.

5.21 Therefore, in March 2003, Ofgem proposed imposing a financial penalty of £1 million on Transco for poor service in its gas connections business. This penalty was confirmed in May 2004.

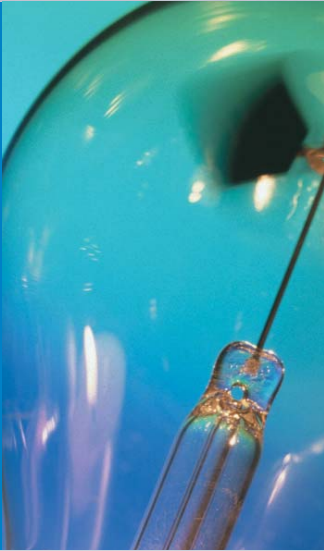
5.22 In September 2003, Ofgem announced that companies running the local electricity networks should pay around £260,000 to more than 2,700 consumers among the worst affected by the storms in October 2002, which left two million people without power. This move followed determinations made by Ofgem on compensation claims.

5.23 In a move welcomed by Ofgem, the companies also agreed to make compensation payouts totalling £1.6 million to about 18,000 consumers who complained within one month of their power being restored but did not seek determinations by Ofgem.

5.24 Following its determinations, Ofgem agreed with the companies revised arrangements for

compensation which are designed to ensure that, as far as possible, the process will be more quicker and simpler in future.





## 6. Helping protect security of Britain's energy supplies

### Key achievements for 2003-2004

---

- Ofgem initiated new reporting arrangements by NGT to improve the information it provides to the market, enabling the market to respond more effectively
- A new regulatory framework was developed to accommodate the development of new LNG terminals and interconnectors to help Britain when it becomes a larger gas importer
- Ofgem continued to participate in the Joint Energy Security of Supply (JESS) working group

## Introduction

- 6.1 Ofgem has important statutory duties relating to security of supply which informs everything it does. The need to maintain high levels of security of supply influences all aspects of Ofgem's work and continued to be a priority during 2003-2004.
- 6.2 The Energy White Paper published in 2003 described the duties of Ofgem and the Government in relation to security of supply. Ofgem is doing even more to promote better understanding of security of supply considerations, including reporting retrospectively every six months on the performance of the gas and electricity industries in delivering a secure supply.
- 6.3 This work complements Ofgem's contribution, alongside the Department of Trade and Industry (DTI) and other relevant Government departments, to the Joint Energy Security of Supply (JESS) group. JESS was set up in 2001 to assess risks to the UK's future gas and electricity supplies and reports twice

yearly to the Secretary of State for Trade and Industry and Ofgem's Authority.

- 6.4 During the year, Ofgem also began to describe explicitly the security of supply impacts of its major proposals. These are included wherever relevant in its Regulatory Impact Assessments (RIAs).
- 6.5 Security of supply came sharply into focus during the year following incidents involving both gas and electricity. Unprecedented interruptions to major consumers' gas supply, power cuts and a reduction in the 'safety cushion' electricity generation for winter 2003-2004 all raised the spectre of blackouts.

## Electricity

- 6.6 The power cuts in London and the Midlands during August and September 2003 prompted an investigation by Ofgem into their causes (see 'Regulating network monopolies', page 15).
- 6.7 These blackouts were followed swiftly by the publication of National Grid Transco's (NGT's) winter

operations report which stated that it did not anticipate power cuts during the 2003-2004 winter - but that it would have liked a larger cushion of reserve power in case of exceptional circumstances.

- 6.8 This report also published against a backdrop of rises in wholesale electricity prices - which saw prices increase by 25 per cent. This led to market participants responding by returning mothballed plant to the system.
- 6.9 As a result, the margin of reserve generation rose from about 16 per cent in the summer to 21 per cent in December 2003.
- 6.10 In order to consider the issues from winter 2003-2004 and give the market plenty of time to respond and consider improvements to cope with any exceptional winter conditions during winter 2004-2005, Ofgem asked NGT to bring forward its forecasts by almost six months and these were published in May 2004.



6.11 These showed that, under all credible scenarios, there will be enough gas and electricity to meet demand for the coming winter and there is a winter electricity 'safety cushion' forecast at around 20 per cent. It also concluded that, even in extreme 'Siberian' weather conditions, the market was likely to be able to respond to secure supplies.

**Gas**

6.12 As outlined in 'Creating and sustaining competition' (see page 9), Ofgem has pledged to consider appropriate changes to the market rules and industry codes to help the market respond efficiently to becoming a net importer of gas.

6.13 As the UK's gas reserves decline, the gap will be met by new Liquefied Natural Gas (LNG) and pipeline projects which are due to come on-stream as early as January 2005.

6.14 In June 2003, Ofgem and the DTI set out initial views on a regulatory framework for all new LNG import terminals and interconnector pipelines.

6.15 The proposals were published in advance of the second European gas directive coming into effect in July 2004 – which means that developers must offer third parties access to new infrastructure projects, such as interconnectors, LNG import terminals and storage facilities. However, the directive also allows relevant regulatory bodies to grant exemptions from having to give third party access.

6.16 Ofgem's proposals provided guidance on how such exemptions would be operated – and allowed developers to seek informal guidance on whether their respective projects would be eligible for exemption.

6.17 This guidance was first followed in November 2003 for developers building a pipeline between Britain and Holland. Other exemptions have, or are set to be, applied to LNG terminals on the Isle of Grain and in Milford Haven, South Wales.

6.18 At the time of publication, new LNG, interconnector and storage facilities have been proposed which will see up to 60 billion cubic metres of gas

becoming available which represents almost 50 per cent of British demand.

6.19 In June 2003, Ofgem sought urgent views on the reason behind a series of interruptions of major consumers' gas supplies by pipeline operator Transco. The consumers affected all had interruptible contracts which mean they pay a lower price for their energy on the understanding that they will be interrupted if Transco needs gas to balance the system.

6.20 Following submissions by customers, industry and others, Ofgem concluded in August 2003 that the interruptions were caused by a combination of problems offshore. While there was no case for a formal investigation, the report called for improvements in information flows to market participants from both the onshore and offshore industries (see 'Creating and sustaining competition', page 9).

## 7. A leading voice in Europe



### Key achievements for 2003-2004

- Ofgem continued to contribute to the liberalisation debate in Europe
- Sir John Mogg, was appointed Vice-Chairman of the Council of European Energy Regulators (CEER) and the new European Regulators Group for Electricity and Gas (EREGG)
- A Liquefied Natural Gas (LNG)/interconnector exemptions regime was introduced, appropriate to GB needs



## Introduction

- 7.1 The operation of gas and electricity markets across Europe directly affects developments in the British markets and, ultimately, British consumers.
- 7.2 During the year, Ofgem continued to support the UK Government, and worked with the European Commission, and other European regulators, to promote the development of effective Europe-wide trading and transportation arrangements.

## The liberalisation debate

- 7.3 During the year, Ofgem strengthened its commitment to helping shape the debate on liberalisation of energy markets in Europe.
- 7.4 In both gas and electricity, EU regulation increasingly affects the GB markets. Ofgem has an important role to play in helping to frame this regulation and preventing a "one-size-fits-all" approach.
- 7.5 Through the Belgium interconnector, Britain is

already part of the European energy market and GB gas prices are driven by those on the continent for much of the year. Competition in the European gas market is not effective and GB customers face higher prices as a result.

- 7.6 More effective regulation of access to European gas networks will become increasingly important to maintain secure supplies to customers as Britain becomes a net importer of gas.
- 7.7 A more integrated Europe will provide added reassurance that secure supplies in Britain can be maintained. This will help protect the interest of GB customers and provide value for money on their energy bills.

## European regulators' group

- 7.8 Ofgem continued to work closely with fellow energy regulators through the Council of European Energy Regulators (CEER) and the newly-formed European Regulators Group for Electricity and Gas (ERGEG). Through these bodies, Ofgem provided advice to the

European Commission and engaged industry players in dialogue, including at the regular Florence and Madrid fora.

- 7.9 Ofgem Chairman, Sir John Mogg, was voted Vice Chairman of the CEER in February 2004 and Vice-Chairman of ERGEG in March 2004.

## New regulatory framework

- 7.10 Commercial and physical links between Britain and Europe will be strengthened significantly by plans for major new gas pipelines and LNG import terminals.
- 7.11 Ofgem agreed to exempt a number of pipeline and terminal developers from direct regulation which will help Britain prepare to become a future gas importer. (see 'Helping to protect security of Britain's energy supplies,' page 19).

## 8. Helping protect the environment



### Key achievements for 2003-2004

- During the year, Ofgem issued 10 million renewable Levy Exemption Certificates (LECs), 7 million Renewable Obligation Certificates (ROCs) and, for the first time, 15 million Combined Heat and Power (CHP) LECs
- Ofgem developed guidelines for carrying out environmental appraisals, as part of its Regulatory Impact Assessment requirements
- Ofgem worked with suppliers to deliver energy saving targets under the Energy Efficiency Commitment 2002-2005 - suppliers have already met 47 TWh out of the target of 62 TWh
- Ofgem launched a trial to test the overlap between customer retention and the take-up of energy service offerings

## Introduction

- 8.1 The Government's Climate Change Programme was established to ensure the UK meets, and for CO<sub>2</sub> exceeds, its commitments under the Kyoto Climate Change Protocol. The 2003 Energy White Paper went much further and set the UK on a path to reduce carbon dioxide emissions by 60 per cent by 2050.
- 8.2 An important contribution to hitting this target will be made by the EU's greenhouse gas emissions trading scheme. Ofgem has advised Government on implementing this scheme in the electricity generating sector.
- 8.3 Ofgem also has statutory duties to have regard to the impact of the gas and electricity industries on the environment, to promote the efficient use of energy and to secure a diverse and viable long-term energy supply. Ofgem must also have regard to the social and environmental guidance which was re-issued by the

Secretary of State for Trade and Industry in February 2004.

- 8.4 Ofgem continued to administer major Government programmes to promote renewable energy and CHP as well as to improve domestic energy efficiency.
- 8.5 Internally, the environment was placed within the new Corporate Strategy division, reflecting the importance that environmental issues have on the development of policy.

## Environmental Action Plan

- 8.6 Ofgem published its first Environmental Action Plan, a framework within which to fulfil its environmental responsibilities, in 2001. The Plan has been reviewed each year since then. The third annual review was published in June 2004.

## Environmental appraisal

- 8.7 To fulfil its obligations under the Sustainable Energy Act 2003, and increase transparency and openness in the policy-making process,

Ofgem produced guidance on carrying out environmental appraisals, and consulted widely with other Government departments and regulators on best practice. Environmental appraisals have to be included in the Regulatory Impact Assessments that must be produced for all important new Ofgem proposals.

## Energy efficiency

- 8.8 2003-2004 was the second year of the Energy Efficiency Commitment (EEC), the first phase of which runs between 2002 and 2005. The programme places an obligation on electricity and gas suppliers to install measures in customers' homes to improve energy efficiency. The programme recognises both the social benefits of energy efficiency and the contribution this can make to the reduction of carbon emissions from households.
- 8.9 Ofgem's role in administering the EEC is to approve each energy efficiency scheme set

up by suppliers and to monitor progress. To date, Ofgem has assessed and approved about 120 schemes, achieving savings of 47 TWh out of the target of 62 TWh.

8.10 In January 2004, Ofgem announced the results of a 'mystery shopping' study examining the quality of energy efficiency advice provided to consumers by suppliers. It looked at how the quality of advice had improved since Ofgem's first such study in January 2002.

8.11 The study showed that there had been real improvements in the quality of energy efficiency advice being provided to consumers. However, there was room for further improvement, in particular, to better train call centre staff to identify consumers in need of help and advice.

8.12 To test the overlap between customer retention and the take-up of energy service offerings, Ofgem announced in January 2004 plans for a trial to relax the '28 day rule' which means all energy

supply contracts can be terminated by customers on 28 days' notice. This trial, which began in June 2004, will allow consumers to sign up to longer-term contracts where suppliers provide energy efficiency services.

### Renewables

8.13 The Renewables Obligation and Renewables Obligation (Scotland), which came into force in April 2002, require licensed electricity suppliers to source at least part of their electricity from renewable generation.

8.14 During the year, Ofgem continued to administer the Renewables Obligation and the Climate Change Levy (CCL) exemption for renewables. The 2003-2004 year was the second full year of administering the Renewables Obligation and the third year of the CCL exemption. More than seven million ROCs were issued and more than 10 million LECs were issued.

8.15 In September 2003, Ofgem issued provisional enforcement orders to the

administrators of TXU Ltd (in administration) and to Maverick Energy Ltd (in administrative receivership) for being likely to breach the Renewables Obligation.

8.16 Breaches of the Renewables Obligation were subsequently confirmed in March 2004. TXU's obligation fell short by £22 million and Maverick's by £500,000. However, the specific circumstances in these cases made the imposition of a penalty inappropriate.

### Combined Heat and Power (CHP)

8.17 On 1 April 2003, the exemption from the CCL or direct supplies of CHP-generated electricity was extended to include indirect supplies, ie those supplies exported to the grid.

8.18 Ofgem worked closely with Customs and Excise and the Department for Environment, Food and Rural Affairs (Defra) to introduce the revised scheme in order to issue CHP LECs successfully. To date, Ofgem has issued approximately 15 million CHP



LECs to 170 complying CHP schemes, while over three million CHP LECs have been successfully transferred.

### Electricity distribution issues

- 8.19 Work on the distribution price control during the year involved two key strands of work to secure maximum value and benefit to consumers from the growth of distributed generation.
- 8.20 Firstly, reforms were made to the charges levied on new generators for connection to the networks. Secondly, the regulatory framework was developed to improve incentives on the distribution companies to invest efficiently and quickly in network capacity for new renewable connections.
- 8.21 The price control review is also considering incentives for companies to reduce electricity losses. Electricity is lost as heat as it travels along the wires and even a small reduction in losses can have economic benefits and reduce the amount of carbon emissions.
- 8.22 Work was also carried out on looking at how to provide incentives for companies to use innovative techniques to connect generation, particularly renewable and other low-carbon generation sources, more efficiently and cost-effectively. These are the Innovation Funding Initiative, a mechanism to encourage companies to invest in appropriate research and development, and Registered Power Zones, a mechanism to encourage companies to develop new and more efficient ways of connecting distributed generation.
- 8.23 In March 2004, Ofgem and DTI published the second annual report of the Distributed Generation Co-ordinating Group (DGCG), and the Technical Steering Group that sits alongside it. The report showed that at least half of the 24 barriers to the development of small scale distributed generators identified by the DGCG when it was founded have been removed.

### Electricity transmission issues

- 8.24 The growth of renewable energy may require significant investment in the transmission network, particularly in Scotland. In response to this, in October 2003, Ofgem issued a consultation on ways of allowing early efficient investment in the high voltage electricity network.
- 8.25 As consumers will ultimately pay for this investment, Ofgem stressed its determination to make sure that any investment is carried out as efficiently as possible. Ofgem wants to ensure that the necessary investment is made to meet demand from renewable generators but is not made where it is not needed.

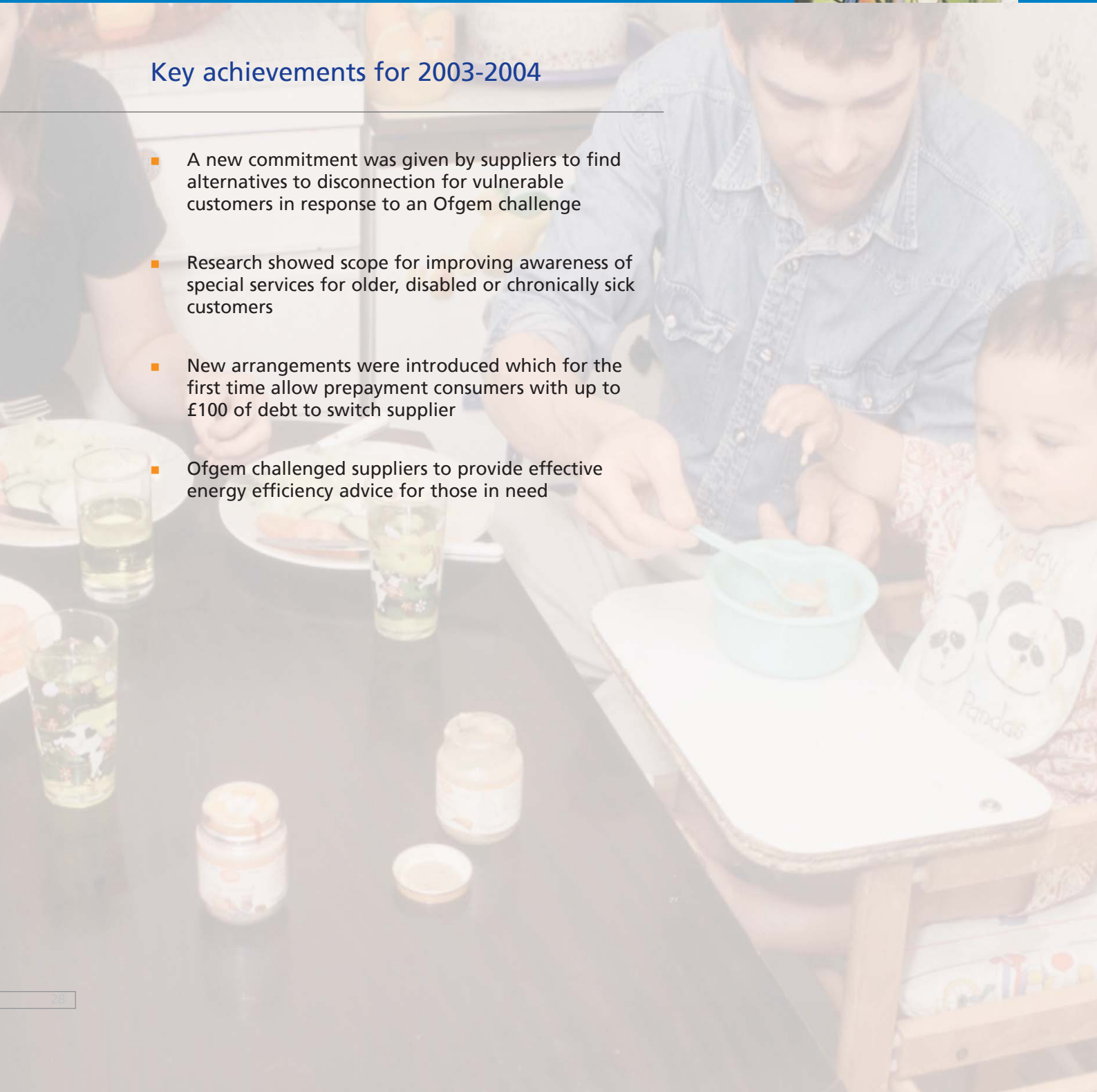


## 9. Helping tackle fuel poverty



### Key achievements for 2003-2004

- A new commitment was given by suppliers to find alternatives to disconnection for vulnerable customers in response to an Ofgem challenge
- Research showed scope for improving awareness of special services for older, disabled or chronically sick customers
- New arrangements were introduced which for the first time allow prepayment consumers with up to £100 of debt to switch supplier
- Ofgem challenged suppliers to provide effective energy efficiency advice for those in need



## Introduction

- 9.1 The Government has set a target to end the blight of fuel poverty for vulnerable households by 2010 and a Fuel Poverty Strategy is in place to meet this target.
- 9.2 Since 1996, the number of UK households in fuel poverty - defined as needing to spend more than 10 per cent of household income to keep satisfactorily warm - has fallen from 5.5 million to 2.25 million. It is estimated that about half this reduction resulted from lower gas and electricity prices.
- 9.3 Ofgem's biggest contribution to tackling fuel poverty is by working to help reduce household energy costs. It acts on three key fronts: keeping up pressure on energy prices by promoting competition and regulating effectively, promoting access to cheaper ways to pay for gas and electricity and by encouraging more efficient use of energy.

## Social action

- 9.4 In March 2004, Ofgem reported on the progress it had made in contributing to reducing fuel poverty through its Social Action Plan. The review - the fourth of its kind - covered two important research projects.
- 9.5 The first looked into the quality of energy efficiency advice provided by energy suppliers. It showed that significant improvements had been made since an initial survey in 2002 (see 'Helping protect the environment', page 24).
- 9.6 The second focused on the services which each energy supplier has to provide to older, disabled and chronically sick customers through the Priority Service Register. The findings raised concerns about the level of awareness among eligible customers. Ofgem subsequently challenged suppliers to do more to promote these services. Progress will be reviewed at the end of 2004.
- 9.7 Other work included a review of the progress made by

companies in improving best practice on debt prevention - in line with guidance issued jointly with energywatch. Work was also carried out to remove barriers to innovative prepayment meters and improvements to Fuel Direct for people on benefits.

- 9.8 During the year, Ofgem acknowledged that in a climate of rising energy prices - which could, in the absence of other action, increase the number of households in fuel poverty - measures such as energy efficiency and debt prevention will play an increasingly important role.
- 9.9 Accordingly, in its Social Action Plan annual review, Ofgem encouraged the Government to make available the appropriate resources to enable the EEC, Warm Front and other schemes to work effectively together. Ofgem noted that the Government's target of eliminating fuel poverty in vulnerable households by 2010 was extremely challenging and to achieve it would require a clear Government plan.

9.10 The message was also set out in February 2004 when Ofgem confirmed at the All-Party Warm Homes Group its commitment to working with Government on tackling the causes of fuel poverty - and called for better targeting of help under the Government's Warm Front Scheme for those in fuel poverty.

### **Debt and debt prevention**

9.11 Ofgem welcomed, in October 2003, an agreement by energy suppliers to introduce permanent arrangements which will allow many prepayment consumers who are in debt to switch suppliers and save money on their bills.

9.12 These changes were built on a protocol agreed and implemented by supply companies which widens the opportunities available to consumers to switch supplier. The protocol was developed following a three month trial.

9.13 The arrangements came into effect in February 2004 and allow gas and electricity consumers with a debt of up to £100 who use a prepayment meter to transfer

to another supplier, taking their debt with them. In the past, this had been a barrier to switching.

9.14 During the year, Ofgem challenged the industry to review their approach to disconnecting vulnerable customers. This resulted in industry proposals being published by Ofgem in April 2004 which mean companies will make greater effort to identify their vulnerable customers so that support can be targeted effectively.

9.15 Suppliers made a new commitment to find alternatives to disconnection for vulnerable consumers. Ofgem facilitated the publication of new guidance on data protection issues to help suppliers get help from third parties in appropriate circumstances. This is a good example of where industry-led action in a particularly difficult policy area was used rather than reaching for regulation.

### **Alternative payment methods**

9.16 Now that new arrangements for payment of benefits into

bank accounts are being implemented, Ofgem wants to help consumers benefit from the option of a new form of payment which could operate more effectively than the Fuel Direct scheme.

9.17 Ofgem will be encouraging the parties who would need to implement such arrangements, including the Department of Work and Pensions (DWP) and suppliers, to collaborate to find a more efficient deductions payment scheme.



## 10. Improving Ofgem's efficiency and effectiveness

### Key achievements for 2003-2004

- A five year RPI-X cost control regime from April 2005 was announced by Ofgem
- A major resource review to accommodate new strategic themes was undertaken
- Ofgem achieved Investors in People accreditation

## Introduction

- 10.1 Developing Ofgem as an efficient and effective regulator is important in instilling confidence in those on whom its work has an impact. Ofgem continues to improve the way in which it works, building on the progress that has been made since it was created in 1999.
- 10.2 Since then considerable progress has been made to improve working practices and manage costs efficiently. These efficiencies were delivered by effective resource management and careful cost control.
- 10.3 Ofgem continued to improve the way it works with a focus on setting out its proposals and the reasons behind them as clearly as possible. To support this, Ofgem, at the beginning of April 2003, committed to carrying out Regulatory Impact Assessments (RIAs) on all new major policies.
- 10.4 Ofgem also committed to ensuring that the decisions it takes will continue to be fully informed by the views of all affected parties. It particularly

welcomes new evidence and arguments that challenge its policies. Ofgem is committed to testing policies in an open and rigorous fashion against the evidence and arguments provided, and to explaining fully the approach it has chosen.

## Governance

- 10.5 Ofgem is governed by the Gas and Electricity Markets Authority which sets all major decisions and policy priorities. The Authority is made up of non-executive and executive members, with a majority of non-executives.
- 10.6 The term of office of Callum McCarthy, former Chairman and Chief Executive, came to an end in 2003. New Chairman, Sir John Mogg, and new Chief Executive, Alistair Buchanan, took up their respective posts on the same day, 1 October 2003.

## Resource review

- 10.7 A review of the organisation was undertaken during the year which resulted in a re-alignment of Ofgem's structure and activities.

10.8 Ofgem confirmed it would be cutting its overall budget by six per cent during 2004-2005 – as well as establishing a new structure which would accommodate the new strategic themes announced in the Corporate Strategy proposed in January 2004.

10.9 The organisation also announced it would be undertaking a major audit of costs with a view to living under an RPI-X cost control regime for five years from April 2005. This is the same discipline that Ofgem imposes on the monopoly pipes and wires companies.

10.10 The new structure established five new divisions:

- Corporate affairs which covers enforcement, fuel poverty, consumer and Parliamentary liaison, governance of industry code arrangements and Ofgem's office in Scotland
- Corporate strategy which accommodates the Europe, Environment and Technical Directorates and gives emphasis to strategic thinking and policy formation

- Markets which oversees work on competitive wholesale, retail and metering markets
- Networks which brings together transmission and distribution of gas and electricity to aid knowledge retention, work planning and relationships with the industry, and
- Operations which is responsible for supporting the day-to-day running of the organisation.

These divisions report to the Chief Executive as does the Communications team.

### Staff development

- 10.11 Continued emphasis was placed during the year on retaining, recruiting and developing staff to ensure the organisation remains well-equipped to deliver the policy priorities set by the Authority. In recognition of its commitment to developing staff, Ofgem achieved Investors in People accreditation in 2003.

10.12 In 2003-2004, average staff numbers were 291, slightly lower than the previous year. Turnover figures were reduced from 28 per cent four years ago to 12.6 per cent in 2003-2004, below the Government average.

10.13 Staff profile broke down as follows: 44 per cent female, 37 per cent female in managerial grades (C and D), 31 per cent female staff in the senior civil service, 16 per cent staff of ethnic origin and 15 per cent of staff of ethnic origin in managerial grades (C and D).

10.14 Ofgem recruits on the basis of fair and open competition and selection on merit, in accordance with the Recruitment Code laid down by the Civil Service Commissioners. Between April 2003 and March 2004, Ofgem did not use any of the exceptions to fair and open competition permitted under the recruitment code.

### Financial review

10.15 Ofgem's costs need to be seen in the context of what it achieves. The range of activities remains as wide as

ever. The benefits that Ofgem brings are correspondingly large and outweigh its costs significantly. Ofgem's costs represent around 0.1 per cent of gas and electricity industry turnover, which stands at almost £37 billion a year.

10.16 In 2003-2004, Ofgem received income of £52.1 million, of which £46.1 million was received from licence fees. Of this, £12.4 million was collected on behalf of the Department of Trade and Industry (DTI) to meet energywatch and other DTI costs. Other Ofgem income, mainly from property, totalled £4.0 million.

10.17 Operating costs in 2003-2004 amounted to £37.3 million, compared with £38.5 million in 2002-2003. 2003-2004 operating costs included £3.5 million accommodation costs recharged to tenants. Payroll (44 per cent), contractors (23 per cent) and accommodation (18 per cent) accounted for 85 per cent of the total.

10.18 Ofgem's budget is approved by Parliament following a consultation process with industry and other interested parties. For 2003-2004,



Parliament approved a resource budget of £40.2 million. In addition, DTI directed that a sum of £12.4m should be collected on behalf of energywatch. This amount was transferred to the DTI in full. Ofgem's performance against its deliverables is detailed in Appendix I.

10.19 In April 2003, £10.0 million was drawn from the Contingency Fund to provide short term liquidity until first receipt of licence fees. This was fully repaid in September 2003. Financial penalties of £200,000 each were imposed on three companies, British Gas Trading, npower and ScottishPower. Penalties of £400,000 received in 2003-2004 were paid over to the Exchequer.

10.20 The balance sheet at 31 March 2004 shows Negative Taxpayer's Equity of £9.4 million. This reflects the inclusion of liabilities falling due in future years which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from Grants of Supply approved annually by Parliament to meet

Ofgem's Net Cash Requirement.

10.21 Statutory examining and testing services provided by Ofgem laboratories at Leicester were outsourced to SGS UK Ltd. in January 2003. Some costs of this change, particularly redundancy and continuing pension liabilities, have fallen to Ofgem. These have required additional provisions to be made which now total £0.525 million. A contingent liability for costs that might have arisen up to 31 January 2004 did not materialise - under the terms of the transfer contract. Ofgem has no continuing liability after this date. A review of the contract's first year identified that there had been a seamless transition with improved efficiency. Outsourcing has also allowed sale of assets and this process culminated in the sale of the second and final Leicester site for £0.875 million in January 2004.

10.22 On 2 July 2004, Ofgem surrendered its lease of Hagley House, floors 10-16, for a cash consideration of £5.4 million. This has been treated as a post balance

sheet event and has resulted in a reduction of £1.3 million in the existing provision which has been written back to the Operating Cost Statement.

10.23 Extracts from Ofgem's financial statements are shown in Appendix IV. More detailed information on costs can be found in Ofgem's Resource Accounts, published separately.

### 'Greening' Ofgem

10.24 Ofgem continues to take account of the Government's Sustainable Development Framework for improving the performance of the UK Government Estate. During the year, Ofgem gained re-accreditation under the environmental management system ISO 4001 in recognition of continuous improvement in the areas of building management, recycling and resource consumption. Ofgem's own CHP plant, which generates its baseload electricity supply, saved 1,506 tonnes of carbon as well as 5 tonnes of nitrous oxide and 2.4 tonnes of sulphur dioxide.



# Appendix I

## Ofgem's performance against 2003-2004 deliverables

Ofgem's Plan and Budget for 2003-2004 published a number of key deliverables to be achieved in each quarter. Listed below are details of Ofgem's performance in meeting those deliverables, excluding ongoing deliverables which do not have specific target dates. The deliverables are listed by the quarters in which they were due to be completed. Each deliverable is recorded as either achieved early or on target, achieved late, delayed (will not be achieved in 2003-2004) or no longer applicable (an explanation is provided in the following table where this applies).

	<b>Number</b>	<b>Achieved early/ on target</b>	<b>Achieved late</b>	<b>Delayed</b>	<b>n/a</b>
Q1	17	11 (65 per cent)	6 (35 per cent)	-	-
Q2	6	3 (50 per cent)	3 (50 per cent)	-	-
Q3	18	10 (56 per cent)	2 (11 per cent)	4 (22 per cent)	2 (11 per cent)
Q4	11	7 (64 per cent)	-	2 (18 per cent)	2 (18 per cent)
<b>Total</b>	<b>52</b>	<b>31 (60 per cent)</b>	<b>11 (21 per cent)</b>	<b>6 (12 per cent)</b>	<b>4 (8 per cent)</b>

## Creating and sustaining competition

### Wholesale markets

Activity	Action	Delivery period	Completed
British-wide trading and transmission arrangements	Delivery of relevant consultation papers (listed on Ofgem website)	Q4	Achieved
	Delivery of key documents, necessary for the implementation of British-wide trading and transmission arrangements (listed on Ofgem website)	Q4	Achieved Q1/04-5
Market surveillance	Monitor the wholesale electricity and gas markets. Replaced in Q1 by the following deliverable: Monitor the wholesale electricity markets and take appropriate enforcement action when there is evidence of licence or competition law infringements	Ongoing	n/a
Gas and electricity markets across Europe	Provide policy proposals on interconnectors to the Department of Trade and Industry (DTI)	Q1	Achieved
Gas trading arrangements	Manage the process and provide policy input and take decisions on modifications to the Network Code	Ongoing	n/a
	Review of gas storage and related areas	Q3	Achieved
Electricity trading arrangements	Manage the process, provide policy input and take decisions on modifications to the Balancing and Settlement Code (BSC), Connection and Use of System Code (CUSC), Transco's network codes and independent gas transporters' network codes	Ongoing	n/a

## Creating and sustaining competition

### Retail markets

Activity	Action	Delivery period	Completed
Compliance	Monitor and, where necessary, investigate misselling under new enforcement procedures finalised in August 2002	Ongoing	n/a
	Publish final proposals for improvements to the marketing licence condition	Q3	Expected Q2 2004-2005
Market infrastructure	Start review of problems and possible solutions in industry processes supporting customer transfers and billing	Q1	Achieved
	Publish report on effectiveness of industry arrangements for dealing with Erroneous Transfers	Q3	Achieved
	Publish final proposals for solutions to problems with industry processes supporting customer transfers and billing	Q4	Removed during Q2 as customer transfer process is now industry-led
Supply competition and deregulation	Publish results of Industrial and Commercial competitive market review	Q1	Achieved Q2
	Commence new review of Industrial and Commercial markets	Q4	Removed in Q1 as decided not to proceed
	Publish review - competition in domestic markets	Q4	Achieved Q1/04-5

## Creating and sustaining competition

### Industry structures

Activity	Action	Delivery period	Completed
Connections	Implement National Registration Scheme for Electricity	Q1	Achieved
	Start national roll-out of 'live' working relating to new connections on greenfield housing estates	Q3	Achieved
	Publish yearly market reviews	Q3	Achieved Q2
Corporate transactions	Consult interested parties and provide advice to the Office of Fair Trading (OFT) within the relevant statutory timetable	Ongoing	n/a
Metering	Industry implement business processes that support a competitive metering market	Q3	Expected Q2/04-5

## Regulating monopoly networks

### General

Activity	Action	Delivery period	Completed
Developing monopoly price controls	Publish document outlining principles for monopoly regulation	Q1	Achieved
Finance and compliance	Resolving finance and compliance disputes and determinations.	Ongoing	n/a

### Gas (transmission)

Activity	Action	Delivery period	Completed
Transco NTS	Provide policy input and take decisions on modifications relating to Transco's NTS connection/use of system policy	Ongoing	n/a
	Consider any further proposals for unbundling Liquefied Natural Gas (LNG) arrangements	Q1	Achieved
	Commence development of Transco's NTS new exit regime	Q2	Achieved Q1
	Consult on Transco's System Operator (SO) incentives and consider other incentive initiatives	Q2	Achieved Q4
	Publish conclusions documents on review of Transco's capital expenditure programme	Q3	Not necessary as Transco has not initiated any incremental capacity proposals.

## Regulating monopoly networks

### Electricity (transmission)

Activity	Action	Delivery period	Completed
National Grid's NTS	Review and develop system operator incentive scheme and consult on developments	Ongoing	n/a
	Provide policy input and take decisions on amendments relating to NGC's connection/use of system policy, including transmission access arrangements. Replaced during Q1 by the following deliverable: manage the process, provide policy input and take decisions on modifications to statements provided in accordance with AA4, C7, C7a and C7b of NGC's transmission licence	Ongoing	n/a
	Manage the process and provide policy input and take decisions on modifications to the CUSC	Ongoing	n/a
	Manage the process, provide policy input and take decisions on modifications to the BSC. Introduced in Q1 to better describe work being done	Ongoing	n/a

## Regulating monopoly networks

### Gas (distribution)

Activity	Action	Delivery period	Completed
Distribution - gas	Publish final proposals - IGT charging	Q1	Achieved Q2
	Publish final proposals - LDZ separation	Q1	Achieved
	Publish consultation paper on structure of gas distribution charges	Q3	Achieved Q1/04-5
Quality of service - gas transporters	Resolving GT disputes and determinations	Ongoing	n/a
	Publish annual report on GTs' quality of service	Q3	Achieved Q4

### Electricity (distribution)

Activity	Action	Delivery period	Completed
Distribution policy	Publish consultation document on distribution losses	Q1	Achieved
	Publish structure of electricity distribution charges update document	Q1	Achieved
	Publish final proposals on distribution losses	Q2	Achieved Q3
	Publish decision document on framework of electricity distribution charges for use of system	Q2	Achieved Q3



## Regulating monopoly networks

### Electricity (distribution) continued

Activity	Action	Delivery period	Completed
Distribution price control review	Publish initial consultation on distribution price control review	Q1	Achieved Q2
	Publish distribution price control review update document	Q3	Achieved
	Publish initial policy document on distribution price control review	Q4	Achieved
Quality of service - DNOs	Resolving DNO disputes and determinations	Ongoing	n/a
	Carry out survey of customers' views on quality of telephone response	Ongoing	n/a
	Publish customer survey results on customers' willingness to pay/changes to standards and output measures	Q2	Achieved
	Publish annual report on DNOs' measurement systems and accuracy of reporting	Q3	Achieved Q4
	Publish annual report on DNOs' quality of service	Q3	Achieved Q2 2004-2005
	Publish initial thoughts on revised standards of performance and changes to outputs/incentives	Q3	Achieved
	Publish update on revised standards/outputs/incentives	Q4	Achieved

## Helping to protect security of Britain's energy supplies

### Gas (distribution)

Activity	Action	Delivery period	Completed
Security of supply	Monitoring long-term security of supply issues, such as reviewing barriers that may prevent the market from operating effectively.	Ongoing	n/a
	Security of supply - six monthly retrospective reports	Ongoing	n/a

## Helping protect the environment

Activity	Action	Delivery period	Completed
Combined Heat and Power (CHP)	Issue GQCHP LECs monthly	Ongoing	n/a
	Finalise procedures for administering exemption for Good Quality Combined Heat and Power (GQCHP) from the Climate Change Levy (CCL)	Q1	Achieved Q3
Distributed Generation	Publish a clear work programme for incorporating Technical Steering Group (TSG) workstream recommendations into Government and Ofgem policy where appropriate	Q1	Achieved
	Present an annual report on the activities of the Distributed Generation Co-ordinating Group (DGCG) to Ministers and the Authority.	Q4	Achieved

(Helping protect the environment continued)

Activity	Action	Delivery period	Completed
Energy efficiency	Issue quarterly updates on EEC schemes submitted and approved and the progress of suppliers against the target	Ongoing	n/a
	Publish evaluation reports on aspects of Energy Efficiency Standards of Performance (EESoP) 1, 2 and 3 with Energy Savings Trust (EST)	Q1	Achieved Q2
	Issue first annual report on EEC	Q2	Achieved
	Publish follow-up monitoring report on energy efficiency advice	Q3	Achieved
Environmental Action Plan (EAP)	Participate regularly, as agreed, in the DTI/Defra/Ofgem joint working group on the environmental issues	Ongoing	n/a
	Include environmental impacts in Regulatory Impact Assessments for all significant new Ofgem policies	Q1	Achieved
	Publish EAP annual review	Q1	Achieved
	Issue decision document on fuel mix and consumption data disclosure on bills/websites etc.	Q3	Removed as DTI now taking this work forward
Fossil Fuel Levy	Collect the levy-associated income. Replaced during Q1 by the following deliverable: Collect the levy-associated income for England and Wales (monthly)	Ongoing	n/a
	Set the Fossil Fuel Levies annually at the end of March, and communicate them to the public. Replaced during Q1 by the following deliverable: Review the Fossil Fuel Levy for England and Wales at least annually and communicate it to the public	Q4	Achieved Q3

**(Helping protect the environment continued)**

Activity	Action	Delivery period	Completed
Renewables	Continue to issue Renewables Obligation Certificates (ROCs) and Levy Exemption Certificates (LECs) monthly	Ongoing	n/a
	Complete the first annual settlement of the Renewables Obligation (RO) and Renewables Obligation Scotland (ROS)	Q3	Achieved
	Calculate and collect the RO/ROS 'buy-out' funds, and recycle them to suppliers in GB	Q3	Achieved
	Issue the first annual report on the RO/ROS	Q4	Achieved

**Helping tackle fuel poverty**

Activity	Action	Delivery period	Completed
Social Action Plan (SAP)	Publish quarterly statistical monitoring reports on social obligations	Ongoing	n/a
	Publish monitoring report on Priority Service Register (PSR)	Q3	Achieved
	Publish SAP Annual Review	Q4	Achieved

**Ofgem's efficiency and effectiveness**

Activity	Action	Delivery period	Completed
Regulatory Impact Assessment	Implement Regulatory Impact Assessment for all new policies	Q1	Achieved Q2

# Appendix II

## Regulatory Impact Assessments undertaken - 2003-2004

### Impact Assessments pursuant to the Utilities Act 2000

Section 6 of the Sustainable Energy Act 2003 amended the Utilities Act 2000 by placing a duty on the Authority to carry out Impact Assessments on important policies. Since 30 December 2003 the Authority has had a duty to produce an Impact Assessment where it is making a proposal concerned with the carrying out of its functions under or by virtue of Part 1 of the Gas Act 1986 or Part 1 of the Electricity Act 1989, and where it appears to the Authority that the proposal is important. The list below sets out the Impact Assessments that have been carried out since 30 December 2003.

<b>12/04</b>	Testing domestic consumer take-up of energy services: trial suspension of 28 day rule
<b>21/04</b>	Transco's National Transmission System Review of System Operator incentives 2002-2007: proposals document
<b>39/04</b>	NGC System Operator Incentive scheme from April 2004: proposals and statutory licence consultation
<b>50/04</b>	Gas retail governance: final proposals
<b>62/04</b>	Electricity Distribution Price Control Review: policy document
<b>62c/04</b>	Regulatory Impact Assessment for distributed generation and structure of distribution charges
<b>62d/04</b>	Regulatory Impact Assessment for Registered Power Zones and the Innovation Funding Incentive

In June 2003 Ofgem committed itself to produce Regulatory Impact Assessments, including Environmental Impact Assessments, for all new significant policies. The list below sets out the Impact Assessments, and summary Impact Assessments, that Ofgem carried out before 30 December 2003.

### Impact Assessments

<b>43/03</b>	Structure of electricity distribution charges: initial conclusions
<b>44/03</b>	Electricity distribution losses: initial proposals
<b>68/03</b>	Electricity Distribution Price Control Review: initial consultation
<b>77/03</b>	National Grid Transco: potential sale of network distribution businesses
<b>87/03</b>	Making markets work for consumers: the regulation of gas and electricity sales and marketing: a review of standard licence condition 48
<b>124/03</b>	Electricity Distribution Price Control Review: update paper

<b>142/03</b>	Structure of electricity distribution charges: initial decision
<b>170/03</b>	National Grid Transco - potential sale of network distribution businesses: next steps (The RIA contained in this document was produced by ILEX, under commission from Ofgem and did not represent Ofgem's position)
<b>179/03</b>	Making markets work for consumers - the regulation of gas and electricity sales and marketing: proposals for the amendment of standard licence condition 48

### Summary Impact Assessments

<b>63/03</b>	Guidance on modifying the standard licence conditions of gas and electricity licences: consultation document
<b>69/03</b>	National Grid Company's interest in Lattice Energy Services
<b>70/03</b>	Making markets work for customers: Ofgem's approach to securing compliance with supply licence obligations and consumer protection legislation
<b>85/03</b>	National Grid Company's interest in Lattice Energy Services
<b>92/03</b>	Guidance on modifying the standard licence conditions of gas and electricity licences: consultation document
<b>105/03</b>	Rates on gas meters: decision document
<b>127/03</b>	Restriction on self supply: final proposals
<b>155/03</b>	Electricity distribution rebates to suppliers: decision document
<b>158/03</b>	NGC system operator incentive scheme from April 2004
<b>169/03</b>	The provision of metering services by new electricity distribution network operators: initial thoughts
<b>172a/03</b>	Competition in gas metering services: proposed licence amendments

Ofgem will in the forthcoming year publish guidance on Impact Assessments. This guidance will set out, among other things, the circumstances in which we will produce Impact Assessments, the areas that an Impact Assessment will cover, and how we will assess Environmental Impacts.



# Appendix II (a)

## Summary of decisions to which Regulatory Impact Assessments relate

The following sets out the decision which has been taken in the period between 30 December 2003 and 31 March 2004 in relation to proposals for which an impact assessment has been carried out.

### **39/04 NGC System Operator Incentive Scheme from April 2004: proposals and statutory licence consultation**

On 29 March 2004, In accordance with the powers contained in section 11(1) of the Electricity Act 1989, and with the consent of National Grid Company plc ("NGC"), the Gas and Electricity Markets Authority ("the Authority") directed a modification to the transmission licence granted to National Grid Company under section 6(1)(b) of the Act with effect on and from 1 April 2004 (document 69/04).

The incentive scheme had two components. The first component was introduced to improve the incentives for timely investment in the National Grid in response to its customers' needs. The second component was introduced to improve the incentives on National Grid Company to carry out its role of operating the Grid economically and efficiently.

Full details of this decision can be found on the Ofgem website [www.ofgem.gov.uk](http://www.ofgem.gov.uk).

## Appendix III

### Investigations and enforcement action - 2003-2004

Company	Issue	Decision	Date of decision	Comment
<b>Transco plc</b>	Compliance with section 9(1a) Gas Act in relation to its provision services.	Finding of breach, penalty of £1,000,000 proposed	23 March 2004	Penalty confirmed 19 May 2004
<b>TXU (UK) Ltd (in administration)</b>	Compliance with the Orders, in respect of the first Renewables Obligation period (1 April 2002 to 31 March 2003)	Finding of breach, no penalty proposed.	9 March 2004	Provisional order issued 25 September 2003
<b>Maverick Energy Ltd (in administrative receivership)</b>	Compliance with the Orders, in respect of the first Renewables Obligation period (1 April 2002 to 31 March 2003)	Finding of breach, no penalty proposed.	9 March 2004	Provisional order issued 25 September 2003
<b>RWE:</b>				
<b>Npower Yorkshire Supply Ltd</b>	Incorrect objections to the transfer of consumers, on the grounds of debt	Finding of breach, penalty of £50,000 proposed	4 December 2003	Penalty confirmed 19 February 2004
<b>Npower Gas Ltd</b>	Incorrect objections to the transfer of consumers, on the grounds of debt	Finding of breach, penalty of £50,000 proposed	4 December 2003	Penalty confirmed 19 February 2004
<b>YE Gas Ltd</b>	Incorrect objections to the transfer of consumers, on the grounds of debt	Finding of breach, penalty of £50,000 proposed	4 December 2003	Penalty confirmed 19 February 2004
<b>Scottish Power Energy Retail Ltd</b>	Incorrect objections to the transfer of consumers, on the grounds of debt, gas supply licence	Finding of breach, penalty of £75,000 proposed	4 December 2003	Penalty confirmed 19 February 2004

Company	Issue	Decision	Date of decision	Comment
<b>Scottish Power Energy Retail Ltd</b>	Incorrect objections to the transfer of consumers, on the grounds of debt, electricity supply licence	Finding of breach, penalty of £125,000 proposed	4 December 2003	
<b>British Gas Trading Ltd</b>	Compliance with Standard Licence Conditions 17, 40(1), 40(5), 21 and 27(7)(b) of its gas suppliers licence and Standard Licence Conditions 40(1), 40(4), 21 and 27(7)(b) of its electricity supply licence.	No finding of breach of SLC 17  Finding of breach of Standard Licence Conditions 40(1), 40(5), 21 and 27(7)(b) of its gas suppliers licence and Standard Licence Conditions 40(1), 40(4), 21 and 27(7)(b) of its electricity supply licence. No penalty proposed.	16 September 2003	
<b>British Gas Trading</b>	Incorrect objections to the transfer of consumers, on the grounds of debt, gas suppliers licence	Finding of breach, penalty of £50,000 proposed	16 April 2003	Penalty confirmed 18 June 2003

# Appendix IV

## Ofgem's financial statements (extracts) 2003-2004

### Operating cost statement for the year ended 31 March 2004

	2003-2004 £000	<sup>1</sup> Restated 2002-2003 £000
<b>Administration costs</b>		
<b>Request for resources 1:</b>		
Staff costs	16,262	15,961
Non-staff administration costs	<u>20,285</u>	<u>22,181</u>
	<b>36,547</b>	38,142
<b>Request for resources 2:</b>		
Non-staff administration costs	<u>680</u>	<u>220</u>
	<b>680</b>	220
<b>Gross administration costs</b>	<b>37,227</b>	38,362
Operating income	<b>(36,545)</b>	(38,141)
<b>Net administration costs</b>	<b>682</b>	221
<b>Programme costs</b>		
<b>Request for resources 1</b>		
Expenditure	12,497	13,207
Less income	<u>(12,497)</u>	<u>(13,207)</u>
<b>Net programme cost</b>	-	-
<b>Net operating cost</b>	<b>682</b>	221
<b>Net resource outturn</b>	<b>682</b>	221

All income and expenditure are derived from continuing operations.

<sup>1</sup> Comparative amounts are restated to conform to current presentation of seconded and agency staff.

**Statement of recognised gains and losses**  
for the year ended 31 March 2004

	2003–2004 £000	2002–2003 £000
Net operating cost	<b>(682)</b>	(221)
Net loss on revaluation of tangible fixed assets	<b>(10)</b>	(174)
<b>Total recognised losses for the financial year</b>	<b>(692)</b>	(395)

**All activities are continuing**

## Balance sheet

as at 31 March 2004

	31 March 2004 £000	31 March 2004 £000
<b>Fixed assets</b>		
Tangible assets	<u>4,679</u>	<u>5,999</u>
	4,679	5,999
<b>Current assets</b>		
Debtors	4,137	4,998
Cash at bank and in hand	<u>2,272</u>	<u>1,277</u>
	6,409	6,275
<b>Creditors (amounts falling due within one year)</b>	<u>(8,170)</u>	<u>(7,423)</u>
<b>Net current (liabilities)/assets</b>	<u>(1,761)</u>	<u>(1,148)</u>
<b>Total assets less current liabilities</b>	<u>2,918</u>	<u>4,851</u>
<b>Provisions for liabilities and charges</b>	<u>(12,318)</u>	<u>(15,252)</u>
	<u>(12,318)</u>	<u>(15,252)</u>
	<u>(9,400)</u>	<u>(10,401)</u>
<b>Taxpayers equity</b>		
General fund	(9,425)	(10,463)
Revaluation reserve	<u>25</u>	<u>62</u>
	<u>(9,400)</u>	<u>(10,401)</u>



## Cash flow statement

for the year ended 31 March 2004

	2003-2004 £000	2002-2003 £000
Net cash (outflow)/ inflow from operating activities (see a below)	<b>(2,182)</b>	1,694
Capital expenditure and financial investment (see b below)	<b>419</b>	11
Payments of amounts due to the Consolidated Fund	<b>(1,277)</b>	(8,398)
Financing (see c overleaf)	<b>4,035</b>	265
<b>Increase/(decrease) in cash in the period</b>	<b>995</b>	(6,428)
<b>Reconciliation of operating cost to operating cash flows</b>		
<b>Net operating cost</b>	<b>682</b>	221
Adjust for non-cash transactions	<b>(600)</b>	(252)
Adjust for movements in working capital other than cash	<b>(834)</b>	(385)
Use of provisions	<b>2,934</b>	(1,278)
<b>Net cash outflow/(inflow) from operating activities (a)</b>	<b>2,182</b>	(1,694)
<b>Analysis of capital expenditure and financial investment</b>		
Tangible fixed asset additions	<b>481</b>	707
Proceeds of disposal of fixed assets	<b>(900)</b>	(618)
Repayment of deposits	<b>-</b>	(100)
<b>Net cash (inflow)/outflow from investing activities (b)</b>	<b>(419)</b>	(11)

**Analysis of financing and reconciliation to net cash requirement**

	2003-2004 £000	2002-2003 £000
From the Consolidated Fund (Supply) current year (1)	<b>3,814</b>	-
From the Consolidated Fund (Supply) prior year (2)	<b>221</b>	265
Advances from the Contingency Fund	<b>10,000</b>	5,000
Repayment to the Contingency Fund	<b>(10,000)</b>	(5,000)
<b>Net financing (c)</b>	<b>4,035</b>	265
(Increase)/decrease in cash	<b>(995)</b>	6,428
<b>Net cash flows other than financing</b>	<b>3,040</b>	6,693
<b>Adjustment for payments and receipts not related to Supply:</b>		
Amounts due to the Consolidated Fund received in prior year and paid over	<b>(1,277)</b>	(8,398)
Amounts due to the Consolidated Fund received and not paid over	-	1,926
Amounts collected in year (3)	<b>12,792</b>	15,728
Amounts paid over in year (3)	<b>(12,792)</b>	(15,728)
<b>Net Cash Requirement (Schedule 1)</b>	<b>1,763</b>	221

## Notes

(1) Amount of grant actually issued to support the net cash requirement = £3,814,000.00

(2) Amount of grant actually issued to support the prior year net cash requirement = £221,000.00

(3) Amounts paid over relate to energywatch costs (£12,392m) paid to DTI and fines levied (£0.4m)



Promoting choice and value

for all gas and

electricity customers

**Published by TSO (The Stationery Office)**

and available from:

**Online**

[www.tso.co.uk/bookshop](http://www.tso.co.uk/bookshop)

**Mail, Telephone, Fax & E-mail**

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline Lo-call 0845 7 023474

E-mail [book.orders@tso.co.uk](mailto:book.orders@tso.co.uk)

Textphone 0870 240 3701

**TSO Shops**

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9-21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

18-19 High Street, Cardiff CF10 1PT

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

**The Parliamentary Bookshop**

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders 020 7219 3866

**TSO Accredited Agents**

(see Yellow Pages)

and through good booksellers

ISBN 0-10-292879-7



9 780102 928792