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Making a positive difference
for energy consumers

2014-15

Office of Gas and Electricity Markets (Ofgem)

Annual Report and Accounts

HC16

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Annual Report and Accounts

(For the year ended 31 March 2015)

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Section A
Introduction

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

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

Chairman's foreword
David Gray

The energy sector continues to be very much the focus of public and political attention – and so does our role as an independent regulator charged with protecting energy consumers.

We need to be clear about what our role is and how we are fulfilling it. With that in mind we undertook a thorough review of our strategy and in December last year published a corporate strategy explaining what we are trying to achieve and how we are going about it.

Our mission is to make a positive difference for all energy consumers both now and in the future. There are five outcomes we aim to deliver for consumers:

- Lower bills
- Reduced environmental damage
- Improved reliability and safety
- Better quality of service
- Benefits for society as a whole

These are not things that can be achieved by Ofgem on its own. They are things that the industry should deliver for its customers and are affected by government and global markets. But our strategy sets out what we will do to ensure that progress is made towards these objectives in our role as independent regulator.

We have also begun a review of how we work to ensure we are fully focused on our consumer outcomes and work as efficiently and cost-effectively as we can towards them. In early 2015, we launched our Strategic Transformation Programme, so we can deliver more for consumers, and make better use of our resources, knowledge and expertise.

2015-16 will be an important time. The new government will set out its objectives for the energy sector in its Strategy and Policy Statement in due course. The Competition and Markets Authority (CMA) will conclude its investigation of the sector and propose remedies for any features of the market that it finds are inhibiting competition.

I hope these developments will provide a clear framework to allow us to push forward with delivering our strategy and making a positive difference for consumers.

In March, we were very sad to learn of the death of David Harker, one of our non-executive directors. David had been a member of GEMA since 2009, and we benefited greatly from his advice and support. He will be greatly missed.

David Gray
Chairman

Chief executive's introduction
Dermot Nolan

I expected my first full year as the CEO of Ofgem to be an eventful one, and so it has proved. With energy at the centre of political debate, it could hardly be otherwise in the run-up to the General Election.

Since we referred the energy market for investigation by the Competition and Markets Authority (CMA), we have worked closely with the CMA, giving it information and analysis to support its investigation. This includes information on the impact of our measures to improve liquidity in the wholesale markets and to make the retail energy market simpler, clearer and fairer for individual consumers. We expect the CMA's findings to be published by Christmas and we stand ready to play our part in implementing any remedies it recommends.

Reversing the trend of previous years, the wholesale prices of gas and electricity fell significantly in 2014-15 under pressure from global prices. We were concerned that this was not reflected in retail prices and wrote to the companies asking why. Retail prices were subsequently reduced slightly but the relationship between wholesale costs and retail prices was one of the features of the energy market that concerned us when we referred it to the CMA – and it still is.

During 2014-15 we brought to a close a number of major projects – including the electricity distribution price control (ED1), the review of transmission charging (TransmiT), and the changes to gas emergency cash-out arrangements. An important feature of the regulatory regime is that our decisions can be challenged by the regulated companies and by other interested parties. ED1 has been challenged by one of the distribution network operators, arguing our decisions were too harsh, and by British Gas, arguing that we were too generous. The CMA is reviewing our decision and will give its verdict later this year. TransmiT is subject to judicial review and will be decided by the courts. Challenge is healthy – our decisions should be subject to scrutiny to ensure we continue to do our job effectively.

Customer service continues to be a major issue. The number of complaints continues to rise and there have been further examples of companies failing to deal effectively with them. We have continued to take enforcement action against companies we think are failing to meet their obligations. 2014-15 was the first year of operation of our new Enforcement Decision Panel – a panel of experts charged with making decisions on these important cases.

In all of this, our focus is on the consumer. Energy consumers deserve a properly competitive market in which companies treat their customers fairly. And we need to pay particular attention to vulnerable customers who may find it difficult to benefit from the market, or may suffer greater difficulties if they encounter problems with their energy supply.

With older, more polluting power stations closing, and a number of years before we see the benefit from the new capacity auctions, we agreed new tools for National Grid to balance supply and demand in the short term. The first capacity auctions took place under the new arrangements, which are expected to ensure sufficient generation in the long term.

We continue to work closely with government and industry on rolling out smart meters, which we expect to be installed in every household before the end of 2020. Smart meters have the potential to bring significant benefit to consumers, through new innovative ways of reducing bills and saving energy, to more reliable billing and quicker switching. We will play our part in making sure consumers realise the full benefit from this development.

Ofgem continues to deliver a wide range of social and environmental schemes on behalf of government. In 2014-15 we delivered more than ever before, but at a lower cost. The successful launch of the Domestic Renewable Heat Incentive in April 2014, ahead of time and budget, was a notable success. We have now received over 47,000 applications in the first year of operation. By administering the schemes efficiently and effectively and by providing input into DECC's ongoing development of the schemes, we are making a positive difference for consumers in vulnerable situations.

In early 2015, we reformed the governance of E-Serve to support more responsive decision-making and greater autonomy. We created a new E-Serve board as a committee of the Authority. E-Serve continues to deliver important environmental schemes to the public.

Finally, I should record my thanks to Bob Hull, Ian Marlee, and Hannah Nixon who all left Ofgem this year for new ventures. I wish them well.

Dermot Nolan
Chief executive

Section B
Strategic report

Our Strategy

Our strategic mission is for our independent regulation to make a positive difference to every energy consumer.

We need to make the most of our resources and our powers to make as much of a difference as we can. This means producing better outcomes for consumers through regulation as well as through the additional functions given to us by government to administer its social and environmental schemes.

It is critical to recognise that independent regulation doesn't only involve setting and enforcing rules and regulations. It also includes building trust and confidence in these arrangements so that consumers engage and companies invest. We also have an essential role in setting and enforcing standards that people expect from an essential service.

What are we looking to achieve?

Consumers are at the heart of everything we do. This is recognised explicitly in our strategy which outlines the key consumer outcomes we are aiming to achieve. These outcomes are:

- **Lower bills** than would otherwise have been the case
- **Reduced environmental damage** both now and in the future
- **Improved reliability and safety**
- **Better quality of service** appropriate for an essential service
- **Benefits for society as a whole** including support for those struggling to pay their bills

We also make a difference to consumers by implementing government social and environmental schemes through our delivery arm, E-Serve. These schemes include: the Domestic and Non-Domestic Renewable Heat Incentives, the Renewables Obligation, the Feed-in Tariff, the Energy Companies Obligation, the Warm Home Discount and the Government Electricity Rebate. We do this in partnership with the Department of Energy and Climate Change (DECC).

We should not forget in our drive to make a positive difference for consumers, that it is important we deliver value for money in our own activities. The financial year 2014-15 marked the end of our five-year RPI-3% cost control regime, during which we have delivered savings relative to inflation of £20.9m compared to the £12.5m target. We will continue to set challenging budgetary targets, make measurable commitments to reducing expenditure and continually evaluate our impact.

We have a duty to protect the interests of existing and future gas and electricity consumers, including their interests in reducing greenhouse gas emissions. In doing so we must have regard to the interests of particular consumers, including but not limited to those who are disabled, sick, pensioners, people living in rural areas or on a low income. We are also required to contribute to achieving sustainable development, and to take into account government guidance on social and environmental matters. Each year in our Annual Report we review our contributions in the energy sector.

How are we going to achieve it?

In this Annual Report and Accounts, we have grouped the description of our activities during 2014-15 around our six strategic outputs. These are the six ways that we can positively impact outcomes for consumers as an independent regulator.

- **Regulation** - designing strong, stable systems for regulating monopoly activities and the way markets operate
- **Competition** - promoting effective competition where it can benefit consumers by driving down costs and improving service quality
- **Standards** - ensuring results and protection for consumers meet the high standards expected of an essential service
- **Partnership** - engaging with government and others to make sure consumers get the greatest benefit from independent regulation
- **Trust and Confidence** - fostering trust and confidence across the energy market through transparency, accountability and good regulatory processes
- **Efficiency and effectiveness** - minimising the direct and indirect costs we impose on consumers and the industry.

In this way, we aim to make clear the contribution we have made during the year to delivering improved outcomes for electricity and gas consumers, both today and in the future.

Regulating monopolies and setting the rules for markets

Our strategy

We regulate electricity and gas networks and other monopoly parts of the business, by setting prices and incentivising efficiency and good levels of service. We also set the rules that enable competition in the electricity and gas systems and ensure a level playing field for all market participants.

Regulating monopolies

How this works in practice

Energy networks and some other parts of the industry are monopolies, so it's essential that they are regulated so that they work in consumers' interests. We design strong, stable systems for regulating companies' monopoly activities – including RIIO, our price control system for regulating networks. As a result of our regulation, consumers benefit from cheaper, more secure and more sustainable energy. Britain's energy network is now 17% cheaper than 26 years ago, £80 billion of investment has been secured, and reliability has increased by 30%.

What we have done this year

RIIO-ED1 price control

The RIIO-ED1 (RIIO stands for Revenue = Incentives + Innovation + Outputs) price control set the outputs that the 14 electricity distribution network operators (DNOs) must deliver for their customers, and the revenues they can collect for the eight-year period from 1 April 2015 to 31 March 2023.

It was the first electricity distribution price control to reflect our new model for network regulation. RIIO is designed to create real benefits for consumers. It gives companies strong incentives to step up and meet the challenges of delivering a low carbon, sustainable energy sector at value for money for existing and future consumers.

In February 2014, we published our decision to settle Western Power Distribution's price control early (termed 'fast-tracking'). In May, we issued the licence conditions that would implement this.

In July 2014 we consulted on our proposed settlements (draft determinations) for the 10 DNOs still in the process. We published our final settlements (final determinations) in November 2014, and issued the implementing licence conditions in February 2015. These arrangements will result in improved reliability, increased investment and lower distribution charges, which we would expect to be reflected in lower bills.

Elements of the settlements for all slow-track companies have been appealed by British Gas Trading to the Competition and Markets Authority (CMA). One DNO (Northern Powergrid) has also appealed elements of its settlement. The CMA is scheduled to make a decision on these appeals later this year.

Stimulating network innovation

Each year, we run innovation competitions to help Britain's energy networks become smarter and more cost-efficient.

Last year we awarded £46.4m of funding for eight projects through the Low Carbon Networks Fund and the Gas and Electricity Network Innovation Competitions. The selected projects help the electricity and gas networks meet the demands of the low carbon energy sector and deliver cost savings to consumers.

More interconnection to boost Great Britain's energy supply

Energy connections to neighbouring markets strengthen Britain's energy security and ensure it realises the full benefit of international trade in electricity and gas. This year, we have focused on establishing new regimes for developing new interconnection, which we expect to benefit Britain's consumers through lower prices and increased supply security.

We confirmed our cap and floor regulatory regime for near-term interconnector projects, and have been involved in some major new projects:

- Project Nemo – a new 1GW transmission cable from Belgium to Britain, due to complete in 2019
- The NSN project – a 700-km long, 1.4GW subsea electricity interconnector linking GB and Norway. It is expected to start operating in 2020

Together with the French energy regulator, CRE, we granted an exemption to the ElecLink project, which is a 1GW interconnector between Britain and France through the Channel tunnel.

We have consulted on whether or not to apply the cap and floor to four additional electricity interconnectors: two (FAB Link and IFA2) to connect Britain to France, one (Viking Link) to connect to Denmark, and one (Greenlink) to connect to Ireland.

Transmission charging reform

We are reforming transmission charging, under project TransmiT. We are setting fairer charges for generators that impose lower system costs on consumers. There were defects in the current transmission charging system, and in July 2014 we announced a new option that better reflects costs and best meets our statutory objectives to all GB consumers, wherever they live. This is currently subject to judicial review.

More renewables connection for Scotland

In December, we approved an expenditure allowance of £1.1 billion for SHE Transmission to build the Caithness Moray transmission project in north-east Scotland. The project involves a high-voltage direct current subsea cable between Caithness and Morayshire, which will deliver around 800MW of transmission capacity for renewable energy projects, helping the UK to meet its carbon reduction targets at a lower cost to consumers.

Longer-term transmission planning

We have concluded our integrated transmission planning and regulation project, which set out our framework for regulating onshore, offshore, and cross-border transmission assets at the best value for consumers. We recognise the benefits of greater coordination, and so will be enhancing National Grid's role as system operator to deliver this. We are also introducing competitive tendering for new, high-value and separable onshore transmission assets. This will bring capital and operational cost savings, and protect consumers from exposure to undue costs and risks.

The Data and Communication Company's first price control

The Data and Communication Company (DCC) links smart meters in homes and businesses with energy suppliers, network operators, and energy service companies. DCC is critical to making the smart meter rollout a success for consumers. Ofgem sets the level of revenues for the DCC so that it has the funds to perform its role well and is held to account for delivering high quality services, economically and efficiently.

This year we assessed DCC's costs, revenues and activities during its first six months, and published our decisions, significantly reducing the impact of the DCC on consumers' bills without reducing the DCC's capacity to carry out its important role.

Revising National Grid targets

Both the gas and electricity system operators are monopolies, and we set them incentives for cost targets. These have the effect of lowering bills. Incentive schemes expired at the end of March 2015, so we established new and more challenging targets, which will not only lower bills but also reduce environmental damage, and improve the system operator's services. We make sure everything the system operator does is in consumers' best interests, and that the costs incurred are optimal.

Setting the rules that make markets work

How this works in practice

Clear rules are necessary to allow competition to flourish in the electricity and gas markets without compromising the integrity of the whole system. For example, we are responsible for the rules for competing in and balancing the system, so that integrity is maintained and competition can thrive. By making these rules – and making sure people comply with them – we ensure companies do not take unfair advantage of their position, and that consumers can participate in the market.

Concluding the Gas Significant Code Review

In September, we published the final code and licence changes for the Gas Security of Supply Significant Code Review (Gas SCR). The Gas SCR's aim is to improve Britain's supply security in the least costly way. The reforms change the imbalance prices faced by gas shippers if there's a gas deficit emergency.

The funds collected would pay consumers whose gas supply is involuntarily interrupted. This transfers the risks of an interruption from consumers to shippers, and gives market participants the incentive to make the supply more secure.

Our reforms will reduce the likelihood, severity and duration of a gas deficit emergency, and bring net benefits to British consumers.

Cash-out reforms

Certain defects in the electricity wholesale market serve to dampen price signals, create inefficiencies, and inflate costs for consumers. Three years ago, we launched the Electricity Balancing Significant Code Review to address our longstanding concerns about this.

In May 2014, we published our conclusions and recommendations for reform. Industry has since modified the Balancing and Settlement Code. In April 2015, Authority made the final decision on the proposed code modifications that will help lower bills and improve system reliability.

"Joined-up thinking" on the future of electricity wholesale markets

Wholesale electricity markets are going through major change, as renewable generation technologies become more abundant, the policy landscape shifts, and as customers become increasingly involved. To help us understand more about these changes, and the stresses they might put on regulation, we worked with our Future Trading Arrangements Forum throughout the year. We discussed the way the wholesale market is designed and operates, and how to make it as competitive as possible for the future.

Dealing with tight margins through new balancing services

Margins are tightening between likely available generation and peak electricity demand forecast for the middle of this decade. We responded to this by approving the use of new balancing services by National Grid, the electricity system operator. This is important because the government's new capacity mechanism does not take effect until 2019. Introducing these services to deal with tightening mid-decade margins has improved reliability at a reasonable cost to consumers.

Gas network codes

We have been working on implementing three European network codes for gas for five transmission system operators. These are:

- Capacity allocation mechanisms for capacity sales
- Congestion management procedures for releasing unused capacity back to the market
- Balancing for gas transmission networks

We approved changes to the uniform network code regarding the start of the gas day, imbalance charging arrangements, and National Grid Gas' information provision. We also designated National Grid Gas as the forecasting party for Great Britain. We consulted on changes to the licence concerning the start of the gas day and implementing capacity allocation mechanisms, and issued our direction in February 2015 to split the Bacton entry point, the gas terminal on the Norfolk coast.

In December 2014 we approved Interconnector UK arrangements to implement congestion management procedures. For BBL, Premier Transmission Limited, and Gas Networks Ireland, we have continued our discussions on implementing the three network codes throughout 2014-15.

The increased competition in wholesale markets should lower the price for EU consumers, all else being equal. British consumers will also benefit, as we rely more on gas imported from wholesale markets on the continent over time, with the steady decline of North Sea gas.

Ensuring compliance with these rules

How this works in practice

For the rules and regulations that govern the industry to be effective, we need to ensure companies comply with them. We do this by working with the companies, monitoring the industry, and taking enforcement action where necessary.

Investigations, redress and enforcement

In 2014-15, we completed 13 investigations, compared to a total of 17 that we did between 2010-11 and 2013-14. The increase in activity coincided with the completion of the Enforcement Review, which was designed to raise the impact and efficiency of our work in this area. This increase in the number of investigations has led to an increase in the financial packages that we have secured. In 2014-15 we attained nearly £6 million in fines and £69.6 million in consumer compensation or redress. In addition, there were six cases where we secured a total of £11.5 million from companies using alternative enforcement action. This is where we reach an agreement with a company to ensure that it puts things right for consumers quickly without opening an investigation. This is a large increase from the penalties and redress secured in the four years from 2010-11 to 2013-14, when we secured on average £20.3 million per year.

As a result of our investigations into compliance with the Community Energy Saving Programme (CESP), £26 million worth of payments were made to National Energy Action. This will install energy efficiency measures to alleviate fuel poverty and increase energy efficiency in vulnerable homes. A number of other payments were also made to charities such as £850,000 to the Foundation Independent Living Trust, and £4.8 million to New Gorbals Housing Association to install measures in vulnerable households.

Our enforcement work also resulted in consumer redress worth £3.5 million being allocated to Citizens Advice to tackle fuel debt, energy efficiency and carbon emissions reductions by working with vulnerable consumers.

Benefits to consumers go wider than simply financial packages. We have secured changes to company behaviour, ensuring that no breaches are ongoing, before the investigations concluded. We used statutory and non-statutory tools alongside our formal investigative powers, to prevent harm to consumers while investigations are ongoing.

Enforcement Priorities

Our enforcement priorities this year were to:

1. Take a low-tolerance approach to all inaccurate, misreported and late data.
2. Show that not complying with deadlines is unacceptable.

This is important, because inaccurate data and missed deadlines make it harder for us to hold companies to account when they fail consumers. We have opened four cases related to these priorities.

Our use of redress has also increased. During the four years from 2010-11 to 2013-14, redress per year as a percentage of the total penalty and redress figure was 43.0%. In 2014-15 it was 92.5%. Nearly all of this redress went to affected or vulnerable consumers.

Administering and enforcing compliance with government schemes

For environmental schemes, government makes the rules and we administer and enforce them.

We have continued to work closely with government to improve the renewable heat and electricity schemes we administer on its behalf. These schemes stimulate investment in the renewable heat and electricity markets and encourage greater use of renewable technologies.

These incentives have encouraged take-up of low carbon technologies, increasing demand in the market for these products, and brought new entrants into the sector. Our work has effectively supported the Department of Energy and Climate Change's (DECC) strategy for growing the market for the mass rollout of renewable energy technologies.

Effective Competition

Our strategy

Effective competition brings benefits to consumers. It encourages consumers and new entrants to participate in the market. As a result it brings down costs and improves service quality. In well-functioning markets, competitive pressures will drive companies to outdo each other by improving what they offer. We promote competition wherever it brings advantages, and that includes extending it to areas currently subject to price regulation.

How this works in practice

We monitor competitive markets in the energy industry and will take action, either under competition law or under our own licence powers to improve the effectiveness of markets for the benefit of consumers. We can also refer markets to the competition authorities.

What we have done this year

Using our concurrent powers

Competition and Markets Authority investigation

In June, we referred the energy market for investigation by the Competition and Markets Authority (CMA). This followed our earlier five-month study conducted alongside the CMA and the Office of Fair Trading into how well competition is working in the energy markets, and whether it is serving households and businesses in Britain.

What we found in the study, and subsequently consulted on, showed that competition wasn't working as well as it should. The CMA's independent investigation will consider whether there are features of the market that harm competition, and whether there is anything that can be done to make it more effective.

We have worked closely with the CMA to make our data and expertise available to the enquiry panel. We are looking forward to an outcome that will promote competition and ensure it brings benefits for all energy consumers.

Enforcing under competition law

As a national competition authority , Ofgem also has concurrent powers with the Competition and Markets Authority (CMA) to enforce competition law in the energy sector in Great Britain, under the Competition Act 1998 (CA98).

Because of changes introduced by the Enterprise and Regulatory Reform Act 2013, there are now reinforced relationships between the CMA, Ofgem and other NCAs for exercising these powers. In the first year of these new arrangements, we launched two CA98 investigations.

UK Competition Network

Ofgem is also a member of the UK Competition Network (UKCN) along with the CMA and the other sector regulators with competition powers. Regular UKCN meetings act as a forum for discussing how best to promote competition, and for sharing insight.

Helping consumers engage

Embedding our retail market reforms

The reforms of the Retail Market Review (RMR) came into effect last year, so this year we have been monitoring the market closely to see what effect they are having. We designed them to make the retail energy market simpler, clearer and fairer, to make competition more effective, and to make the market work better for consumers. As part of this, we launched our Be An Energy Shopper campaign in 2014. It encourages more consumers to shop around for good deals, and empowers them to switch. Over half a million people have so far visited the campaign site, **www.goenergyshopping.co.uk**.

Making it easier for pre-payment meter customers to switch

We analysed data we receive from suppliers about the number of indebted pre-payment meter (PPM) customers who attempt to and successfully switch. We found that although many customers in debt try to switch, few succeed. As a result they were unable to take advantage of cheaper deals in the market. We reviewed the arrangements that allow these customers to switch, and concluded that urgent changes were needed to the Debt Assignment Protocol. This is the supplier-managed switching process system, and we agreed a voluntary commitment with nine of the largest suppliers to change the process so that more customers can complete their switch.

White labels

A white label provider is an organisation that doesn't hold a supply licence but partners with a licensed supplier to offer gas and electricity under its own brand. When we were developing our retail market reforms, we recognised that white labels can potentially benefit consumers but could make it harder to recognise a cheaper deal from the same supplier.

In September 2014, we consulted on proposals to allow suppliers to have as many new white labels as they want, provided they tell their customers about the cheapest tariff they offer, regardless of whether a white label brand is used. In February 2015, we consulted on changes to the supply licences to give effect to our proposals, with the aim of those applying from July 2015. This will help consumers take advantage of cheaper offers available from their supplier.

Green tariffs

Suppliers must now tell customers whether their tariff has any environmental benefits, and if it does, to show evidence. We introduced this as part of our drive to make the domestic energy market for green and renewable products simpler, clearer, and fairer, and to help consumers make decisions. We think these measures will increase consumer confidence in green tariffs and allow the market to evolve.

Progress on faster, more reliable switching

To make the switching process more reliable, we have changed suppliers' licences, including giving them new obligations to transfer consumers correctly. We have worked with industry to halve switching times, from five weeks to 17 days (including the 14-day cooling-off period for domestic consumers). Nearly all suppliers have now adopted these improvements, and consumers are benefiting.

In February, we published our decision to go further still and deliver reliable next-day switching by 2019. This will bring together the separate gas and electricity switching arrangements into a single central service run by the Data and Communications Company.

Making competition more effective

Improving settlement arrangements

In October, we approved a modification to the Balancing and Settlement Code (BSC) that will help larger business consumers to get the most from advanced meters. This will lower bills for some consumers, and improve competition and innovation.

New settlement arrangements will encourage suppliers to offer new time-of-use tariffs, where the price varies according to the time of day that electricity is used. Customers that choose a time-of-use tariff can lower their bills if they can use electricity when it is cheapest to supply. Time-of-use tariffs can also benefit all consumers, for example by strengthening security of supply and supporting low carbon generation.

Community Energy

We lead the Community Energy Grid Connections Working Group, which reported to DECC in July 2014. The group examines how community energy schemes fare in connecting to the grid, and has identified some things that government and others could do to improve how they do this.

We continue to advise DECC on the regulatory policy aspects of community energy.

We were a member of DECC's Community/Local Supply Working Group which looked at the options available to community energy groups wanting to supply electricity to their communities. We also advised on the practicalities of shared ownership and the growing evidence base in support of community energy.

We created a group to look at challenges facing community energy groups in implementing smart grids. We published documents intended to spark discussion about the market context that community energy schemes will operate in.

Non-traditional business models

We published a discussion paper on non-traditional business models, in order to start a conversation with a new wave of organisations using alternative models to enter the energy market. We wanted to better understand their motivations, benefits and potential, and how we as the regulator may need to respond.

We think some of these organisations could deliver better outcomes for consumers in new and innovative ways, and could ultimately transform the energy market. In summer 2015, we will publish a summary of responses and our next steps.

Licence Lite

Licence Lite helps new suppliers enter the electricity supply market. It lets a new supplier partner with an existing larger one, to take care of some of the more costly and technically challenging parts of a supply licence. When we published updated guidance on Licence Lite, we recognised that interest in it has diversified beyond the original objective to encourage distributed energy. Those with non-traditional business models are increasingly seeing it as a viable way to enter the market.

Improving the market for electricity distribution connections

Customers who are not yet connected to the electricity grid can choose who they get their electricity connection from. They don't have to select the local distribution company, but can instead choose an alternative independent connection provider.

Last year we reviewed this electricity connections market to identify how competitive it is. We found a number of problems limiting competition – most critically that local network companies remain the sole provider for many of the key parts of the connections process.

In response, we announced a package of reforms requiring network companies to commit to an enforceable Code of Practice. This will make sure they perform to a high standard in all aspects of the connections market. The code creates a fairer environment for competitors by making them less reliant on the local electricity network companies. Processes would also be standardised across the country, reducing problems for consumers.

Prohibiting insider trading and market manipulating in the EU

REMIT is a European regulation that prohibits insider trading and market manipulation in the EU's wholesale energy markets. It strengthens consumer trust and confidence in the market, which is important for reinforcing competition for the benefit of consumers.

We monitor this market and have made use of both the monitoring and investigation powers we have under REMIT. We consulted on new procedural guidelines and penalties. We have met individual stakeholders and held seminars on compliance, including with parties who are obliged to tell us about suspicious activity. We clarified inside information reporting, and opened a facility for those obliged to register.

We continue to work with financial authorities and international bodies such as the Agency for the Cooperation of Energy Regulators. We also fed into government's work to give Ofgem new REMIT powers, including making market manipulation and insider trading criminal offences.

Delivering electricity market reforms

We have played a key part in developing and delivering electricity market reforms (EMR). We advised DECC in developing legislation with a view to protecting consumers and complementing the current wholesale market.

From August, when EMR went live, we have worked with DECC and delivery partners to make it run as smoothly and successfully as possible to help achieve its decarbonisation and security of supply objectives. We also began our work on managing the capacity market rules, holding three stakeholder events, and analysing nearly 100 rule change requests alongside our own changes.

We will consult on changes to the capacity market rules soon, so that they're ready before pre-qualification opens in July this year.

Competition in offshore transmission

Completing tender round 1

We closed the first tender round of our offshore transmission owner (OFTO) regime with the grant to Thanet OFTO Limited a licence to own and operate the £164m transmission link to the Thanet offshore wind farm, off the Kent coast. As the ninth and final offshore transmission project to reach financial close, Thanet is a major milestone for the regime. The first tender round delivered over £1.1bn of transmission assets, connecting 1.5GW of offshore wind.

Independent consultants CEPA and BDO published a report into tender round one, which said that Ofgem's competitive tendering of offshore transmission assets had saved consumers between £200m and £400m. It said that competition led to more efficient operating strategies and costs, and better allocation of risk, which in turn led to lower market pricing of such risks. The consultants also indicated that they expected even greater potential savings from the second tender round.

Tender rounds 2 and 3

We completed the tender process and licence grant to two major OFTO projects: Lincs (asset value £308m) and Gwynt y Môr (£352m). The Gwynt y Môr OFTO project is the largest that has so far been financed through the capital markets, using a project bond credit facility. Innovative financing opens up investment in the OFTO regime to a wider range of investors, and combined with competitive tendering all help bring down costs for consumers of connecting offshore wind farms to the grid.

In July, we announced our preferred bidder to own and operate the transmission links to the West of Duddon Sands wind farm in the East Irish Sea. We have also shortlisted four bidders in our latest tender round, round three, for the Westermost Rough and Humber Gateway wind farm projects, both off the Yorkshire coast. These bidders were invited to the final tender stage.

To date the regime has:

- appointed 12 OFTO licensees
- attracted over £2.2bn of new investment
- connected over 3.6 GW of electricity generated by offshore wind farms to the onshore grid
- consistently delivered well above the target of 98% transmission asset availability
- delivered significant cost savings for consumers

OFTO build

We announced an update on our OFTO build option, and are introducing an extended OFTO build framework which incorporates more options. This is to create flexibility, to respond to both the current and future requirements of offshore generators, as well as adapt to specific project characteristics while protecting the interests of present and future consumers.

High standards of output and protection

Our strategy

We want companies to deliver the standards expected of an essential service. We want to ensure vulnerable consumers are protected, even if their situation changes over time. We expect companies to treat customers fairly. We want to move more towards regulating through principles, not detailed rules.

How this works in practice

Our enforceable Standards of Conduct for suppliers are an important step towards regulating through principles rather than being too prescriptive. But for now, when companies do not stick to the rules, we have powers to make sure they do, or to penalise them.

What we have done this year

Enforcing high standards

Improving the way suppliers treat consumers

In August 2013, Ofgem introduced enforceable Standards of Conduct (SOC) for energy suppliers as part of our Retail Market Review reforms. The Standards aim to improve how suppliers treat domestic and microbusiness consumers, raising trust and engagement in the energy market.

It's up to suppliers to ingrain the principle of fairness across their businesses. They are responsible for treating all consumers fairly, not least those that are vulnerable. With this in mind, Ofgem CEO Dermot Nolan chaired an independent, senior-level 'Challenge Panel' late last year to help us understand the progress energy suppliers are making.

We have also opened two investigations which are the first to look at compliance with the SOC. They are due to complete in 2015-16.

Raising standards and strengthening consumer protection

We have consulted on new proposals to reform the supplier Guaranteed and Overall Standards of Performance. These give suppliers specific requirements when interacting with their customers, such as when a customer reports a fault with their meter. Our reforms strengthen consumer protection and remove unnecessary regulatory burden. Under our proposals, there will be four performance standards. Suppliers will have to pay customers £30 if they fail to meet one of these standards, and will publish their performance against the standards on their websites.

Treating consumers fairly

Using consumer research to improve understanding

We work to understand consumer priorities, views and experiences in order to determine whether their experience of the industry matches their expectations of an essential service. Our Consumer Panel brings together around 100 people to represent the full diversity of consumers. It has been running for six years, and met four times in 2014-15. Members discussed how our reforms are working; energy affordability; how consumers will prefer to be billed in a smart meter world; and third party intermediaries such as price comparison sites.

We get a lot of information about how domestic and non-domestic consumers engage with the energy market through our surveys. For example, a survey with 6,000 energy consumers conducted in March and April 2014 established baseline consumer attitudes and behaviour before the RMR reforms came fully into effect.

Findings indicated an overall lack of engagement in the market, and barriers created by tariff complexity, unclear and incomplete information, and lack of trust and confidence in suppliers and the market.

We have also introduced new incentives on the network companies to ensure they understand their stakeholders' changing needs and deliver a good service to their customers. We use customer satisfaction surveys to measure this, and convene a panel of independent experts to assess how effective the companies are at engaging with stakeholders and using this to inform how they plan and run their business.

Consumer Vulnerability Strategy

The Consumer Vulnerability Strategy and work programme were published in July 2013. They were updated last year to reflect changes such as DECC's Fuel Poverty Strategy and the draft strategy and policy statement, as well as new research, activity and insight.

The strategy aims to:

- Protect and empower consumers in vulnerable situations – to reduce the likelihood and impact of vulnerability
- Ensure all consumers have access to market benefits

We will achieve this through:

- Consumer research and insight
- Promoting good practice and innovation
- Independent advice, guidance and information
- Targeted and effective regulatory obligations and enforcement
- Administering government programmes
- Generating discussion

We monitor how well suppliers comply with the rules over debt and disconnection, their network incentives to support vulnerability and affordability, and redress to benefit fuel poor customers. We have three new priority areas: prepayment, non-gas households, and helping to ensure all consumers can access key services and engage in the energy market. Our work helps protect and empower some of the poorest and most vulnerable households.

Updated Confidence Code

Price comparison sites and other third-party intermediaries play an increasingly important role in the energy market by helping consumers to make well-informed decisions. To do so, they must be clear in how they present information. Recognising this, we took over managing the Confidence Code from Consumer Focus in 2013. The Code is a voluntary code of practice that governs domestic energy price comparison sites. We consulted on changes to the Code, and in January 2015 published our decisions. They included:

- Banning a default partial view of the market
- Ending confusing language
- Making commission arrangements transparent

The revised Code – operative from 2015 – makes sure consumers get an independent, transparent, accurate and reliable service when using an accredited site, so they can compare tariffs and suppliers with confidence. The Confidence Code provides a gold standard for good practice across the sector.

Tackling poor complaint handling

If things go wrong, we make sure customers can get effective redress, at first from suppliers and if necessary, from Ombudsman Services.

Our work to get suppliers to publish complaints data has shone a light on their poor performance. The first two years' data shows complaints are increasing. Our research also showed that customers were increasingly dissatisfied with the way their complaints are handled by the supplier. We acted decisively, and told the large suppliers that this was unacceptable. We demanded they improve the way they handle and resolve complaints.

We are pleased that so far, they have committed to improve and have published their responses. We will monitor progress this year.

We are also addressing poor complaints handling through our enforcement work. We closed one case this year and have two ongoing cases in which we are investigating practice against the complaints handling regulations and Standards of Conduct.

Communicating with customers in debt

In September 2014, Ofgem reviewed the way domestic suppliers used different kinds of branding when communicating with customers in debt. Some letters did not clearly state that the brand was linked to the supplier, and others said that the debt had been passed to them by the supplier. We committed to a wider review of suppliers' communications with indebted customers. We will also look at suppliers' obligations under the Standards of Conduct, to ensure customers in financial difficulty are treated fairly.

Closed account balances

After pressure from Ofgem, the six largest suppliers have committed to return money held in domestic customer closed accounts either directly to customers themselves, or to funds that benefit energy customers. Suppliers have already committed £33 million to help vulnerable customers. A range of initiatives have been funded, including npower's 'Fuel Bank' to provide same-day help for pre-payment customers facing disconnection, and a project funded by SSE in the Western Isles for face-to-face help and energy advice for fuel poor customers.

Winter storms and power cuts

During the 2013-14 winter, much of Great Britain was affected by some of the worst storms for many years. They disrupted many consumers' power supplies. Over Christmas 2013, around a million consumers across Britain lost their power following a severe storm. Around 16,000 households had no power for more than 48 hours.

So we reviewed the performance of all the electricity distribution network companies, and found that the service level in restoring power and dealing with consumers was not good enough in UKPN and SSE. We succeeded during 2014-15 in securing an additional £3.3m of compensation from these companies, to bring the total payout to consumers and charities to over £8 million.

In July 2014, we improved the level of guaranteed payments that consumers will receive if they lose power for extended periods following severe weather. Initial and subsequent payments have increased from £27 to £70, up to a maximum of £700. We also asked the industry to review its processes and update plans to ensure power can be restored more quickly, and to manage consumer expectations better. These changes came into effect from 1 April 2015.

Preparing for 'smarter' markets

Smart meters are coming, and we are heavily involved in preparing for their arrival. The government wants every home and smaller business in Great Britain to have a smart meter. We consulted on what suppliers will need to do to prepare for this, and are now working to ensure consumers can make the most of smart metering's benefits, such as more accurate billing, and focusing particularly on benefits for pre-payment consumers. With any new technology comes new risks, so we are making sure that consumers remain protected as we move to a 'smarter' world.

We are also working with suppliers to get customers engaged, by establishing new obligations in their licences for Smart Energy GB and Smart Metering Installation Code of Practice (SMICOP). Ofgem maintains observer roles on the Smart Energy GB board and SMICOP governance board.

Smart meter rollout – supplier plan evaluation framework

We make sure consumers remain protected during the smart meter rollout and to monitor suppliers' compliance with their obligations, and enforce them if we need to. In October 2014, we published our decisions on what suppliers must report to us during the smart meter rollout. They must set annual milestones and meet the commitments they set themselves in the period to 2020. We asked them to show us their plans, so we can see what they've learned from the advanced meter rollout, and we can give them feedback.

Non-domestic work

Installing advanced meters – stepping up supplier progress

Rolling out advanced gas and electricity meters to larger non-domestic consumers was due to finish in April 2014. We were disappointed that only 75% of electricity meters and 86% of gas meters had been made advanced by then. We told suppliers that they must continue to work on installing advanced meters, and we have opened investigations into three suppliers' performance during the rollout. We are monitoring the progress of all suppliers, so that they improve their April 2014 completion rate.

Standards for non-domestic Third Party Intermediaries

We want to make sure business consumers trust third-party intermediaries (TPIs). We are working to improve their quality and service. In March 2015, we announced:

- that our work on developing a code of practice for TPIs in the non-domestic market will be linked to the findings of the CMA investigation into the energy markets
- our expectations of the standards that TPIs should stick to. These voluntary standards are aimed at improving the quality of the information provided to help businesses make their energy choices.

We will continue to monitor compliance with the Business Protection from Misleading Marketing Regulations to protect the interests of consumers.

Microbusiness contract renewals

We introduced new rules to simplify the contract renewal process for microbusiness consumers. From 30 April 2015, suppliers must:

- allow microbusinesses to end a contract without having to give more than 30 days' notice
- include current prices and annual consumption on renewal letters for fixed-term contracts
- acknowledge a customer's termination notice within five working days of receiving it.

Partnership with government and stakeholders

Our strategy

Strong stakeholder relationships are fundamental to achieving better outcomes for consumers. We cannot operate in a vacuum and the UK government is responsible for the statutory framework in which we operate. We are independent, but not isolated.

How this works in practice

To make sure consumers get the greatest benefit from regulation, we work with governments, European institutions, consumer bodies, and industry to find out more about the implications of our policies in an informed and expert way.

We work with both the UK government the European Union and the devolved administrations in Scotland and Wales to make sure they know about and understand the work we do to protect consumers' interests. We are not afraid to ask for changes in our power and duties if we believe this will benefit consumers.

Our work administering government environmental schemes helps stimulate investment and greater use of renewable technology.

What we have done this year

Working with the UK government

Ofgem works within a policy context set by the UK government. As the independent energy regulator for Great Britain, we work closely with the government to further its policy objectives to the benefit of energy consumers. We aim to be a trusted source of advice for government, using our expertise on the industry and its regulation to help them achieve better outcomes.

Trusted source of advice and information for government

We advise government, especially on decisions with long-term impacts. This year, we worked jointly with other regulators and HM Treasury to respond to PAC's recommendations on infrastructure investment and consumer bills. This informed the UKRN project on household affordability pressures.

We advised BIS on aspects of the Consumer Rights Act and on consumer protections in the non-domestic market, sharing our considerable experience. We also worked with Insolvency Service proposals on continuity of supply to insolvent businesses, to better understand costs and risks.

DECC is our main partner in government. We agreed a new MOU with DECC in March 2013 to help make the social and environmental schemes we deliver for DECC more efficient. We advised DECC's scoping work for the Strategy and Policy Statement (SPS) and will continue to assist on this. We worked closely with DECC on planning for post-Election outcomes, and the outcome of the CMA's investigation.

Help for new market entrants and smaller suppliers

We are part of the Challenger Business Programme, which was initiated by the government to help smaller companies enter markets – one of which was energy.

We developed a programme of work to help around 50 new entrants and independent energy suppliers compete on a level playing field with the legacy suppliers. This drew on existing policy, and engaged suppliers through events, workshops and digital media. They are free to talk to our chief executive or policy teams for advice. We have had good feedback from independent suppliers: they feel we are more accessible, and they appreciate the advice they have had from our chief executive or policy teams.

Preparing for the future

We continue to jointly chair the Smart Grid Forum with DECC, bringing stakeholders together to consider the challenges and opportunities for the electricity distribution networks in a low carbon world.

Working with the devolved administrations

The Scottish Parliament and the Welsh Assembly have a range of energy powers and distinct energy policies. In Scotland, we work with the Scottish Parliament and the Scottish Government to discuss the impact of our work in Scotland and its relationship to key energy goals. We give evidence to Scottish Parliamentary Committees on a range of issues – most recently on our role in security of energy supply. We sit as an observer on the Scottish Fuel Poverty Forum, which advises the Scottish Government on its fuel poverty strategy. We also attend the Scottish Islands Renewables Delivery Forum, jointly chaired by the UK Secretary of State and the Scottish energy minister. The Smith Agreement proposes further powers for Scotland including on energy and we stand ready to play a full and constructive part in implementing these changes.

In Wales, we regularly meet with Welsh government ministers, officials and Welsh Assembly members to brief them on our work. We've held several successful and well-attended events at the Senedd. We're active members of the Energy Wales Strategic Delivery group and have participated in the Wales Office's infrastructure group. We give evidence to the Environment and Sustainability Committee and inform the energy debate in Wales by engaging with Welsh think-tanks and speaking at various events. Our team in Wales has close relationships with consumer organisations such as Citizens Advice and NEA Cymru.

A leading voice in Europe

Influencing European developments

Ofgem continues to play a central role in the Council of European Energy Regulators (CEER) and the Agency for the Cooperation of Energy Regulators (ACER). Our work with these organisations and with our fellow energy regulators helps us to shape the development of European rules and policies to benefit British and European consumers.

Our participation in both CEER and ACER, including holding a number of senior positions, also gives us a leading voice in Europe. We work in partnership with the European Commission and other national regulatory authorities on common problems faced by consumers across European energy markets. We have contributed to recent CEER and Directorate-General for Justice and Consumers' reports, and hosted this year's Citizens' Energy Forum in London.

Partnering with other regulators

UK Regulators Network

The UK Regulators Network (UKRN) strengthens joint working between economic regulators to create coherence and consistency across sectors. We are one of the founder members, and since its March 2014 launch, we have made a strong contribution. We led high-profile projects on cross-sector infrastructure investment, and on understanding more about households that struggle to afford essential services like energy.

In December 2014, we helped publish a cross-sector Investor Guide to UK regulated infrastructure. It helps investors understand the assets and activities involved, how markets and regulatory regimes function, and their track record. Ensuring investors are properly informed about all regulated sectors will help drive down costs for consumers. In the area of cross-sector infrastructure, we have also led work on considering delivery issues for new projects, publishing an interim update in November 2014. In January 2015, the report from the project on understanding affordability was published. It focused on the energy, communications and water sectors, and looked at the role of regulators in addressing affordability problems.

As part of our UKRN work, we have also participated in ministerial and stakeholder meetings. And we ensure that cross-sector working is implemented in everything we do, where we can.

Sharing intelligence on supply security

To make sure we are planning with the same forecasts, and are in the best possible position to respond to security of supply problems, we hold regular meetings with DECC and National Grid (NG). These allow us to share information and analysis about long- and short-term supply security risks. Funding we give to National Grid (as system operator) accounts for the resources and tools it will need to meet these challenges. Our partnership with DECC and NG will deliver improved reliability and safety.

Listening to consumer and environmental stakeholders

Consulting customers' representatives

Ofgem has worked in partnership with Citizens Advice (CA) over the last seven years on the Energy Best Deal programme. This helps low-income customers get help on switching, fuel debt, benefits and energy efficiency. CA estimates that by spring 2015, at least 350,000 consumers will have benefited since we commissioned the first pilot in 2008.

We continue to participate in the Fuel Poverty Advisory Group, the Scottish and Welsh Fuel Poverty Forums, and the Essential Services Access Network. We have also started participating in DECC's Consumer Vulnerability Taskforce. These groups help us understand more about customer vulnerability, and work in partnership to deliver better outcomes. We talk to industrial and commercial customers in our Large User Group, and explore initiatives to help small business customers.

We are in constant dialogue with consumer groups, those who represent households, businesses, and interest groups. We conduct our own research, and draw on others', to understand the attitudes, motivations, concerns and behaviour of consumers as well as to test policy thinking. We draw on this insight to inform and shape our actions. We also talk regularly with consumer representative groups and interest groups to make sure their concerns are heard. We do this through more formal arrangements, such as our user groups for small, medium and large business users and our Sustainable Development Advisory Group.

Delivering government social and environmental schemes

We continue to administer and deliver environmental and social schemes on behalf of government, including the Domestic and Non-Domestic Renewable Heat Incentives (RHI), the Renewables Obligation (RO), the Feed-in Tariff (FIT), the Energy Companies Obligation (ECO), the Warm Home Discount (WHD) and the Government Electricity Rebate (GER). We do this in partnership with DECC but we also work with a broad range of stakeholders, from scheme participants to suppliers and vulnerable consumers. We aim to uphold the high standards of customer service that we expect of industry.

Proactively detecting and preventing fraud is also a key area of our focus. Across the schemes, we have continued to pursue enforcement action, and where we have found evidence of fraud, we have involved the prosecuting authorities.

Over the last year we have:

- successfully implemented changes to the regulations for both the Domestic and Non-Domestic RHI, the RO and the FIT schemes. We worked closely with DECC to help make the regulations practical to implement, and liaised with stakeholders and customers to make sure they were clear on what the changes meant for them.
- worked successfully with DECC to limit scheme complexity and cost to consumers of policies emerging under the RO, such as financial enabling grace periods, solar close and sustainability. We also worked with National Grid to make sure that RO operators accessing the Contracts for Difference (CfD) scheme were not counted under both schemes. This work will continue until 2017, when the RO closes to new applications
- worked with DECC to ensure changes to legislation delivered policy intent and minimised risk to the FIT scheme. Community, school and charity applicants are now able to take advantage of additional scheme benefits as of 1 April 2015
- successfully implemented amendments to the ECO in 2014 and supported stakeholders with updated guidance. We have approved over one million measures to date, such as insulation and heating packages, which have benefited low income and vulnerable households. Energy efficiency measures like these have contributed to the general reduction in energy demand in recent years. We also consulted on and updated our guidance to support the administration of ECO from April 2015 to 2017. We have made suppliers carry out technical monitoring on the quality of energy efficiency measures that have been installed. We have published the findings and worked with stakeholders to improve installation quality
- engaged with stakeholders over updates to the WHD's supplier guidance documents, which reflect changes made to the scheme and legislation. We also engaged with independent suppliers to make sure that new entrants to the scheme successfully delivered on their obligations. We published research on the impact of some of the indirect support the WHD provides, and if and how energy advice services can benefit vulnerable consumers.

We expect this will lead to better engagement in future industry initiatives, making them more effective in reducing vulnerable consumers' bills. Every year, around two million vulnerable consumers are also benefiting from the WHD scheme, through electricity bill rebates, discounted tariffs and indirect support for low income consumers

- worked with DECC to implement a new scheme, the Offtaker of Last Resort (OLR), as part of the government's flagship Electricity Market Reform. The scheme, which will be available from 1 October 2015, will ensure that renewable electricity generators supported by the CfD scheme will be able to find an offtaker for the electricity that they generate. (The OLR is a government scheme designed to help eligible generators by providing an alternative route to the market for their electricity. It does this by facilitating a Backstop Power Purchase Agreement (BPPA) between the generator and a supplier via a competitive auction process. It is intended as a last resort to help these generators when they cannot get a power purchase agreement through the usual routes. The electricity generated under a BPPA is sold at a specified discount below the market reference price).
- supported the new Low Carbon Contracts Company (LCCC), set up by DECC to administer the CfD, by agreeing to perform certain administrative processes that we have particular expertise in. The work, which involves undertaking Fuel Measurement and Sampling assessments and providing data on Green Imports (renewable electricity imported from overseas) began on 1 April 2015.

Trust and confidence

Our strategy

The stability and predictability created by our regulatory frameworks, and our transparent, accountable processes all help build trust and confidence in what we do. But for the whole competitive energy market to work, it needs to be built on trust and confidence.

How this works in practice

Our rules mean that energy companies must be transparent about their prices, costs, profits and customer services. We publish authoritative, impartial, and accurate data on how suppliers meet their obligations and how they measure up to strict service standards. The more confidence that consumers and investors have in the market, the more likely they are to want to engage in it. We think it's important to tell consumers and investors how the market works, so they can decide for themselves whether it's working for them. It is important that our own regulatory decisions are transparent and accountable.

What we have done this year

Transparency in revenues, costs and profits

Since 2009 we have required large, vertically-integrated suppliers to publish annual Consolidated Segmental Statements (the CSS) on their websites. These break down suppliers' revenues, costs and profits and are reconcilable to audited accounts.

We require companies to audit their statements, publish them sooner, show greater cost breakdown, and give more insight into their trading activities. For further transparency, we commissioned an in-depth review of the large companies' transfer pricing policies, and this concluded that they were appropriate and in line with global accounting standards.

The CSS look backwards, while the Supply Market Indicator (SMI) is our 12-month forward look at cost trends. We have published the SMI regularly since 2009, and currently we do so each month.

It looks at the average annual bills for consumers, and estimates the annual cost per customer that a typical large supplier faces in delivering gas and electricity. Last year, we improved the methodology, such as including non-standard tariffs in our revenue estimate, and better aligning the SMI with the CSS. We are constantly reviewing the methodology, and we update our assumptions as circumstances change.

A more complete picture of the retail market

Throughout 2014, we worked on enhancing our approach to monitoring the retail market. We talked to suppliers and network operators, and collected data to help us report on how competition indicators evolve, and what they tell us about how well the market is working in consumers' interests. For example, we are now monitoring switching tariff with the same supplier alongside the more traditional indicator of switching between suppliers.

On the supply side, it looks at measures of market concentration, entry/expansion, and pricing. On the demand side, it considers switching activity and broader consumer engagement and satisfaction with the market. Its goal is to give a comprehensive view of market developments and any emerging problems. This helps us better develop policy that meets our strategic consumer outcomes: lower bills, better quality of service, and benefits for society as a whole.

This enhanced monitoring framework will feed into our main annual publications: the National Report to the European Commission and our next report on the state of the retail energy market. It will also help to inform our evaluation of the impact of the RMR reforms, building on the baseline we set out in July 2014.

Making the domestic market simpler, clearer and fairer

After RMR concluded, we introduced changes to the way energy retail markets worked. These made the domestic market simpler, clearer and fairer, thereby improving consumer engagement. We expect these changes to increase competitive pressure on suppliers, leading to lower bills than would otherwise have been the case, improving quality of service, and better social outcomes.

One of our priorities is to evaluate the impact of the RMR measures on consumer engagement to see whether they are working as expected. After consulting with stakeholders, in July 2014 we published our finalised framework for the domestic RMR evaluation project. We will report on the findings of our evaluation every year, and will do a full review of the RMR by 2017.

Capacity assessment

We published our third annual assessment of the adequacy of electricity generation capacity to meet demand. This is designed to show the risk to the security of Britain's electricity supply over the next five years. The analysis is based on the likely amount of spare electricity capacity available at times of peak demand – the margin.

This year we estimated that without the new measures that have been introduced, the margins would fall in the next two winters, because some coal- and oil-fired power stations are closing, but will improve after the middle of the decade, as more capacity becomes available. New measures from Ofgem, National Grid and government have reduced the probability of disconnections to consumers. This is broadly similar to the assessment in the previous report.

This capacity assessment was required by the Energy Act 2011. The obligation to produce this report was removed by the Electricity Capacity Regulations 2014.

Wholesale market assessment

We have created indicators to assess how well the wholesale energy market is functioning. We have used our analysis to inform our submissions to the Competition and Markets Authority. To help improve energy market transparency and understanding, we will publish the assessment and data on our website this summer. We will then be able to get a regular flow of market analysis and measurement, and this will help us to determine the impact on consumer bills, supply security and environmental impacts.

Social Obligations Reporting

Suppliers are obliged under their licence conditions to tell us about their dealings with domestic customers, in areas such as debt and disconnection. We call this Social Obligations Reporting. It provides information for policymakers in Ofgem and beyond, and helps us better protect vulnerable consumers. In 2014-15, the data fed into our review of the Priority Services Register, the switching process for indebted PPM customers, suppliers' communication with indebted customers, and PPM charges.

Publishing annual reports on network company performance

After the new RIIO framework was introduced, we said we would monitor network companies' performance over the price control period. The first two price controls for transmission (RIIO-T1) and gas distribution (RIIO-GD1) commenced in April 2013.

The companies reported against their first year performance at the end of July 2014. They also forecast how they would perform for the remainder of the price control period. For the first time we required the companies to publish performance summaries on their websites. We also published our initial view in October 2014.

We analysed these returns to understand how the network companies are performing and plan to deliver against their price control commitments. In March 2015, we published our first annual reports for RIIO-T1 and RIIO-GD1. The reports include our assessment of customer bill impact, companies' financial performance, delivery of outputs, how they are performing against incentives and innovation, and the cost of delivery compared with allowances set.

After the first year, we have seen that the companies are forecasting to outperform the allowances we set, and are broadly delivering the outputs they committed to.

Making sure government schemes are transparent and accountable

In the last year we have continued to improve trust and confidence in the schemes we deliver by making sure they are transparent and accountable. We have always published information about clean energy on our website, including scheme annual reports and supplier compliance reports. This year, we have also been looking at what we can do to improve and raise awareness of this information.

Over the last year we have:

- published reports on the take-up of the FIT and Domestic and Non-Domestic RHI to mark key milestones and to increase awareness of the schemes. Milestones include Domestic RHI accreditations reaching the 10,000 mark, over 1GW of capacity being installed under the Non-Domestic RHI, and over 3GW of capacity installed under the FIT.
- increased transparency under the Energy Companies Obligation by publishing regular reports on suppliers' compliance against their obligations.

Efficiency and effectiveness

Our strategy

We must work as effectively as we can, to minimise the costs on consumers and industry. Our aim is to deliver more benefit for consumers while minimising our costs. We must allocate our work to the areas we think will have the greatest impact on consumers. We must look to reduce the burden of regulation on industry where possible.

How this works in practice

We are constantly reviewing and refining the way we do things: we have a number of internal projects focused on making us work more efficiently, and a culture of challenging ourselves to make things better. And to make our work more effective in the wider world, we help create stability for investors, and improve the credibility of regulation.

But the powers we have can only go so far. They come from Parliament and won't stay fixed: external conditions change and regulation needs to remain fit for purpose.

What we have done this year

Internal transformation

As electricity and gas regulator, we must use our limited resources in a way that delivers the most value for consumers. Over the last 12 months, Ofgem has refined its corporate strategy and its overall strategic objectives and outputs. These are echoed in each of the different headings of this report. To help us better meet these objectives, we launched an internal transformation programme.

This programme covers a range of core business activities, resources and capabilities, with the aim of making us more efficient, agile and focused on making a positive difference for energy consumers. It will equip our people with the right skills, improve processes and technology, to be able to meet the challenges we face now and in the future.

Driven and led by our senior management team, the programme has the participation and engagement of hundreds of staff across Ofgem. It will continue for the majority of the next financial year as changes are embedded throughout the organisation.

Enforcement review

During 2014-15, we completed our Enforcement review. We have changed the way we carry out our enforcement work, so that we are more efficient, communicate better, and will deliver quicker and more effective outcomes.

We have a new vision for our Enforcement work: 'to achieve a culture where businesses put energy consumers first and act in line with their obligations'. This is underpinned by the strategic enforcement objectives:

- to deliver credible deterrence across the range of our functions
- to make sure there are visible and meaningful consequences for businesses who fail consumers and who do not comply
- to target enforcement resources and powers so they make the greatest impact

We have new guidance for staff and stakeholders on how we carry out enforcement work and determine penalties. The new Enforcement Oversight Board ensures we are investing in the right cases, using our resource effectively and delivering the expected impact. We have also established the Enforcement Decision Panel, an independent body to make decisions at the settlement and contested stages for sectoral, competition and REMIT cases. The Panel was established in June 2014 and has so far worked on 13 cases. It is chaired by John Swift QC, and has a wealth of experience in making informed and quick decisions.

We have new penalties guidance, which makes the settlement process better and speedier. The Authority recognises the benefits of settling cases, and of incentivising companies to settle. A system of penalty discounts recognises those cases that can reach agreement quickly.

Cost control

2014-15 is the last year of an RPI-3% cost control regime that started in 2010-11. It was a five-year scheme designed to save £12.5 million. Over the five years we saved £20.9 million – significantly more than the £12.5 million we planned. All savings are returned to licence fee-payers. We are working with HM Treasury to design and agree the next cost control regime.

Improving our regulation

We are always looking for ways to improve how we regulate. We should be transparent, accountable, proportionate, consistent and targeted in our decisions. Our better regulation function helps staff get to grips with how we regulate, and how we can improve outcomes for consumers.

We publish an annual Simplification Plan, showing how we will reduce regulatory burdens and make our regulation more effective. The 2014-15 Plan commits us to improving our engagement with smaller and more innovative organisations. We report on these commitments in our current Plan.

We continuously assess the impacts of our work and build on our Impact Assessment (IA) guidance. Staff can now more easily access best practice information on our intranet and we are improving our peer review of IAs.

In 2014, we published our policy statement on data transparency. Transparency helps strengthen accountability, and has some important regulatory benefits – it helps reassure market participants and investors that we are committed to clear, predictable requirements.

Our strategy commits us to being as transparent and accountable as possible, and to evaluate our activities where we can.

Maintaining excellence

In 2014-15 we successfully delivered a range of consumer and environmental schemes on behalf of government. We continued to build on our aim of 'delivery excellence', and focused on preventing fraud, ensuring compliance, improving performance, improving the customer experience, and making schemes more efficient. Our dedication to creating value for money for consumers and the industry has resulted in these schemes, worth around £5 billion in total, being delivered on a not-for-profit basis for just £27.9 million – less than 1% of their total value.
In our drive to achieve delivery excellence, we implemented a new initiative, the Operational Excellence Forum (OEF). It's on target to deliver 10% cost savings in its first year. The OEF is building on the success of our Continuous Improvement Programme which resulted in savings against budget of around 13% a year by the time it ended in July 2014. Under the OEF we are finding new ways to reduce transaction costs and cut overall spending, while enhancing the quality of service that scheme participants receive.

Here are some highlights of our efficiency improvements over the last year.

We have:

- improved the Domestic Renewable Heat Incentive scheme's IT systems and processes based on operational experience and customer feedback. This all helped to speed up the accreditation process, so that 90% of all applicants got a decision within 30 working days
- made process changes to make sure that beneficiaries of the Energy Companies Obligation, including those at risk of fuel poverty, receive the right quality of energy efficiency measures. The changes will also reduce the administrative burden for the supply chain, ultimately reducing costs for the billpayers
- administered the Warm Home Discount scheme efficiently, delivering it under budget and responding promptly to all notifications of activity by obligated suppliers
- streamlined accreditation processes across RO, Northern Ireland RO and FIT to reduce queue lengths, reduce cost per transaction and to improve customer service. Improvements include bulk accreditation processes for small installations, a move from a three-stage to two-stage review process for less risky accreditations, and improved management information reporting.

Our people

Employee involvement

This year our staff engagement survey received a response rate of 94%, and an engagement index of 63%. While the engagement figure is two percentage points lower than 2013, we are four percentage points higher than the Civil Service average.

Our staff also continue to find their roles interesting (89%) and challenging (76%), and would recommend Ofgem as a great place to work (70%).

Single Equalities Scheme

In our dual role as an employer and a regulator, we are committed to meeting our legal obligations and promoting equality and diversity among our workforce, in the way we work and in the industry we regulate. To this end, in 2013 we published our Single Equalities Scheme (SES). This sets our approach to our staff, internal processes, policy development and decision-making. We will review the scheme regularly.

Equal opportunities

We promote equality and diversity at work – in employment, training and career development. Nobody should suffer discrimination because of age, disability, gender reassignment, pregnancy or maternity, race, religion or belief, sex or sexual orientation. We don't tolerate discrimination, bullying or harassment. Our score for inclusion and fair treatment in the 2014 staff engagement survey was 81%, placing us in the upper quartile of Civil Service organisations.

In 2014-15 we provided diversity training to new staff and refresher training to existing staff that required it. This is part of our commitment to ensuring that in everything they do our staff understand and fulfil their obligations under the Equality Act. At the end of the financial year:

- 1.9% (2013-14: 1.2%) of staff were known to have a disability.
- 46% (2013-14: 47%) of staff were women.
- 44% (2013-14: 45%) of staff in managerial grades were women.
- 29% (2013-14: 28%) of Senior Civil Service members in Ofgem were women.
- 18% (2013-14: 20%) of staff were known to be of ethnic minority origin.
- 67% (2013-14: 69%) of staff known to be of ethnic minority origin were in managerial grades.

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

Investing in learning and development

We really value our people. Giving them opportunities to learn new skills and develop their careers helps us retain them and attract new people in a number of ways. As a reflection of this investment, our People Survey 2014 results placed us in the upper quartile of Civil Service organisations for Learning and Development.

In 2014-15, our areas of focus were:

- Reviewing how we provide greater access to quality Learning and Development resulting in a move to sourcing our requirements from Civil Service Learning from April 2015
- developing an inclusive culture.

Community engagement

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

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

We continue to work with Career Academies UK and have 51 staff giving 16 to 19 year-olds one-to-one support and guidance through the mentoring scheme. We offered three, six-week summer internship placements in 2014, and will be providing three further placements in London and two in Glasgow during the summer of 2015.

In addition, we recruited two IT apprenticeships in 2014-15.

Promoting health and safety at work

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

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

Days lost because of absence

In 2014-15, we lost an average of 5.1 days a year per employee (2013-14: 8.0 days). This compares favourably with the public sector average of 7.9 days a year per employee, and the private sector average of 5.5 days.

Dermot Nolan
Accounting officer

12 June 2015

Sustainability Report

Our approach to external sustainability

We promote sustainability, and in doing so our principal objective is to look after the interests of consumers. This includes reducing greenhouse gas emissions and, more generally, contributing to achieving sustainable development while taking note of government guidance on social and environmental matters.

Energy companies have a vital role in the transition to a low carbon economy. Our work in promoting sustainability includes initiatives to:

- protect vulnerable consumers
- promote energy saving and demand-side response
- support improvements in all aspects of the environment.

EU and UK targets for curbing greenhouse gas emissions and increasing renewable power provide the overall policy direction for the energy sector. With this as our guide, we focus on the challenges faced by the transmission and distribution companies that we regulate.

For example, as part of our RIIO price controls , we have annual Network Innovation Competitions, to address the challenges they face in moving to a low carbon economy.

It is also imperative that we address climate change in our work. Our role is to ensure that the energy sector assesses the risk that climate change poses and takes action in line with the regulatory frameworks, policies and initiatives.

Companies report to us how they are progressing, and we assess this against our regulatory tools and policies. These tools and policies give companies clear legal obligations on security of supply and reliability (with flexibility in how to meet these obligations). We also reviewed potential barriers, uncertainties and interdependencies related to adapting to climate change, and outlined measures to address them now and in the future.

We will publish an updated report towards the end of 2015, and we have been discussing plans for delivering it with Defra, the Environment Agency, other regulators and the industry.

Internal sustainability

We minimise our impact on the environment as much as we can. We hold ISO 14001 – the environmental management standard – which covers both our London headquarters and our Glasgow office.

Last year, we achieved the Carbon Trust's Triple Standard certificate. This recognises the reductions we have made in our water, waste, and carbon footprint through governance, measurement and management. We have reduced our waste per person by 30% since 2012, and reduced our carbon footprint by 28% per person over the same period. There are only a few other organisations who have the Triple Standard, and we are the first in government.

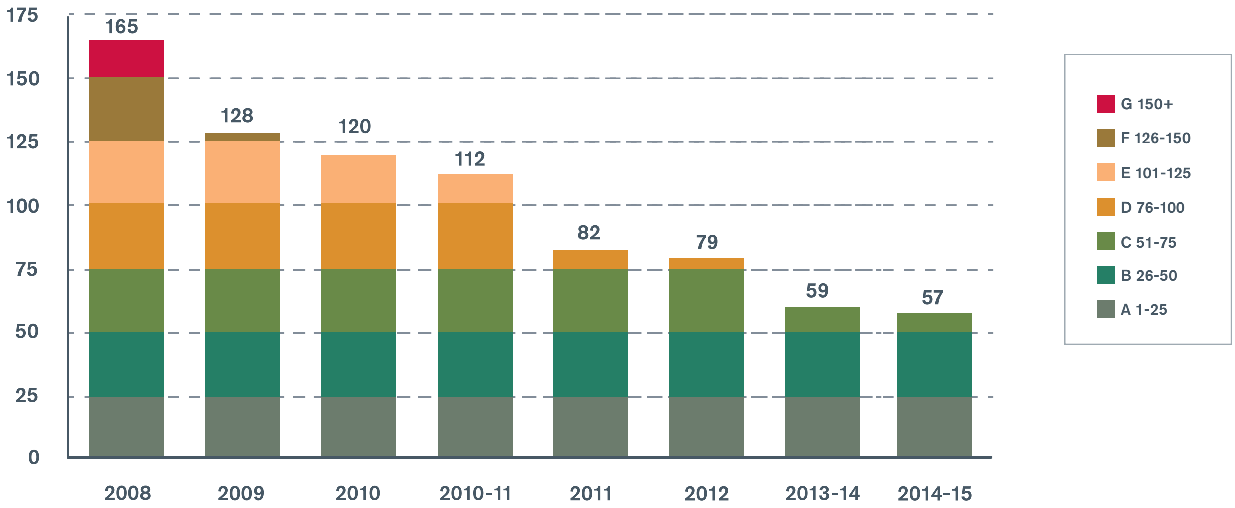
The Greening Government Commitments strongly influence our sustainability targets. These are central government guidelines for how departments should reduce and report on their environmental impact.

We are a growing organisation, so just reporting our total figures would not give a complete or accurate picture. So we have also included graphs based on the number of full-time-equivalent staff. These show that, per person, our environmental performance is continuing to improve.

Cutting greenhouse gas emissions

Display Energy Certificates are used to show the energy efficiency of public buildings. Our score for our Millbank headquarters has improved dramatically since the certificates were introduced in 2008. Then, we were ranked in band G, with a score of 165.

9 Millbank Display Energy Certificate



We now score 57, putting us in band C. As a comparison, 100 is typical for this type of building. This is despite the growth in staff – the certificates are calculated according to energy use per square metre, taking no account of the number of people.

We have achieved this by:

- increasing the building's automation
- improving our controls for heating and cooling
- using free cooling where possible
- adjusting the allowable temperature range
- monitoring energy consumption daily
- removing or mothballing equipment we no longer use.

In the past year, we have:

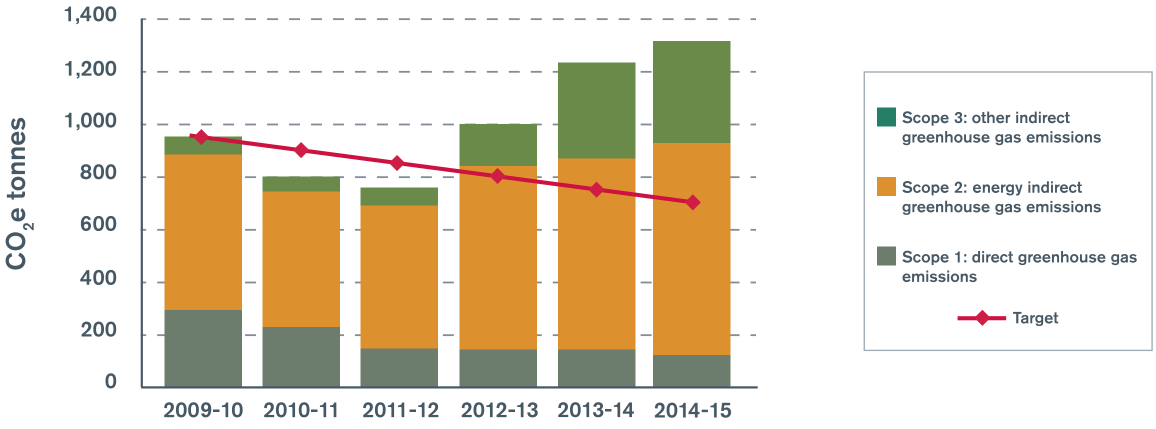
- upgraded our boilers
- continued to update our building management system to give us more nuanced control

Changes like these mean that across 2014-15 our energy use has decreased, despite staff increases.

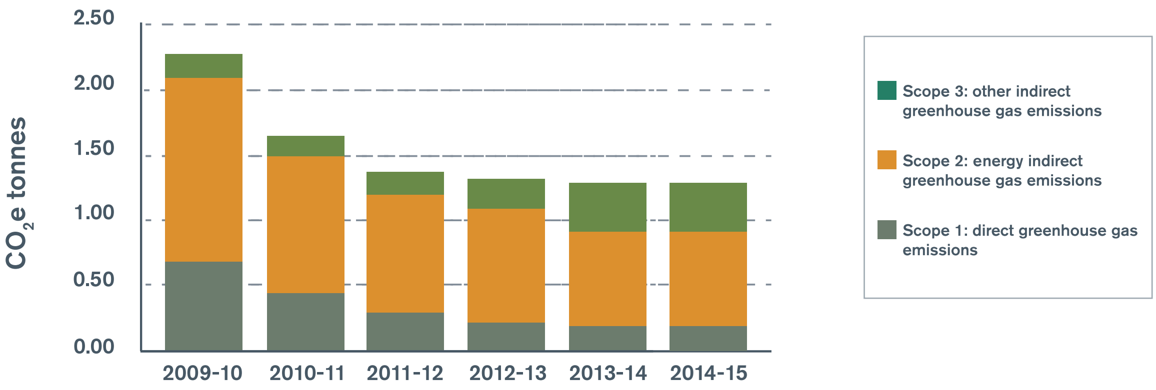
On the downside, our carbon emissions have gone up marginally. This is due to building operations, mainly increasing staff, and business travel, which has increased by 7% because more of our teams are split between London and Glasgow.

Our videoconferencing usage has increased from 2,000 calls in 2013-14, to almost 7,000 in 2014-15.

Carbon use



Carbon use per person



Greenhouse gas emissions		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	(Target 25% reduction)	**948**	**901**	**853**	**806**	**758**	**711**
Non-financial indicators (tCO_2e)	Total gross emissions	948	804	759	1,010	1,228	1,307
	Per person	2.23	1.59	1.35	1.33	1.31	1.27
	Total net emissions (ie less reductions – eg green tariffs)	355	278	217	347	499	496
	Scope 1: direct greenhouse gas emissions	290	230	150	147	144	121
	Scope 2: energy indirect greenhouse gas emissions	593	526	542	685	729	811
	Scope 3: other indirect greenhouse gas emissions*	65	48	67	178	355	375
Related consumption data (kWh)	Electricity: non-renewable (k)	–	–	–	42	0	-
	Electricity: renewable (k)	1,130	1,002	1,033	1,274	1,636	1,613
	Gas (k)	1,578	1,240	816	795	783	656
Financial indicators	Expenditure on energy	£138,240	£122,836	£140,556	£185,177	£244,291	£233,375
	Carbon Reduction Commitment licence expenditure	–	£1,200	£1,200	£1,290	£1,290	£1,290
	Expenditure on official business travel	N/A	N/A	£140,905	£296,684	£491,551	£378,818

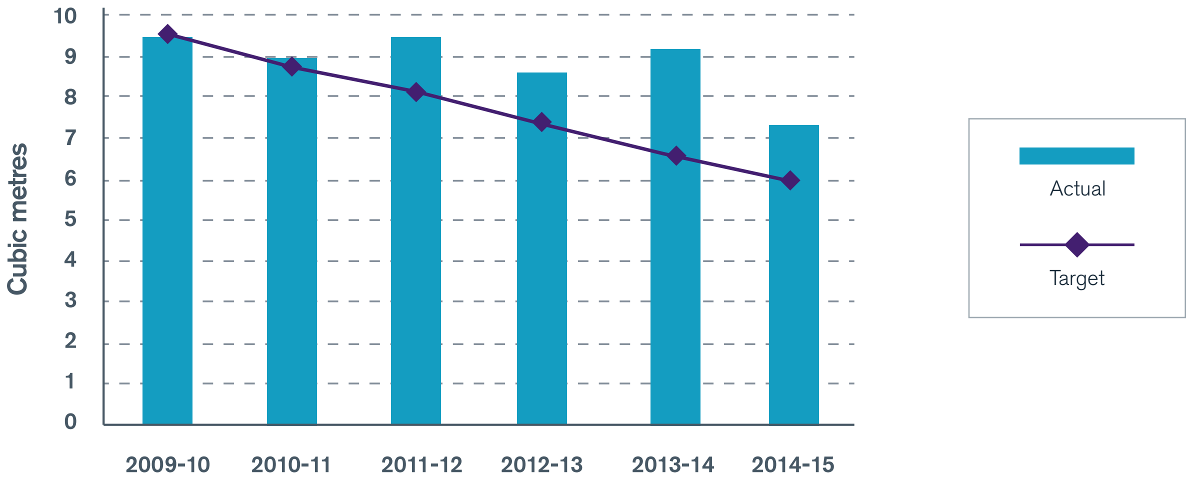
* Scope 3 covers travel data based on travel bought through the approved travel provider; it does not include travel bought from other sources.

Reducing water consumption

We aim to get our annual use below 6m³ per person. This is in line with the Greening Government benchmark. This year we were able to reduce our consumption down to 7.3m³. This is still above our aim, but as you can see in the graph a vast improvement over last year.

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

Water per person



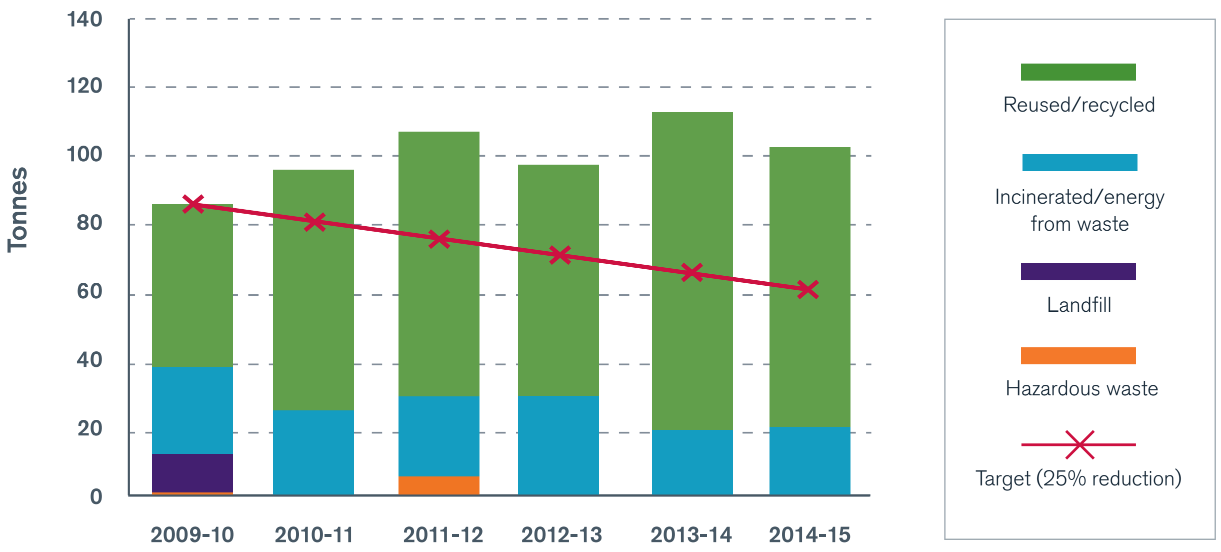
Water			2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Non-financial indicators	Water consumption (m^3)	Supplied	4,026	4,509	5,462	6,639	8,609	7,553
		Per person	9.5	9.0	9.5	8.7	9.2	7.3
Financial indicators	Water supply costs		£9,026	£9,271	£10,562	£12,208	£20,517	£18,977

Eliminating waste

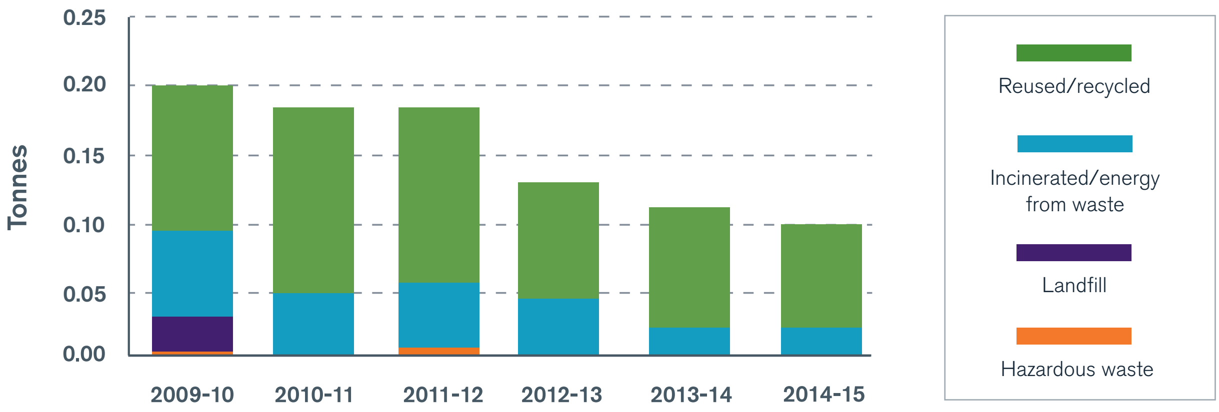
We have halved our waste per person since the baseline year of 2009-10. For the fifth year in a row, we sent no waste to landfill. We are trying to reduce our waste further still, particularly in food and drink packaging and other consumables.

Waste			2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Non-financial indicators (tonnes)	**Target**		**85**	**80.75**	**76.5**	**72.25**	**68**	**63.8**
	Total waste		85	96	107	98	114	102
	Total waste per person		0.2	0.19	0.19	0.13	0.12	0.10
	Hazardous waste		1	0	6	0	0	0
	Non-hazardous waste	Landfill	13	0	0	0	0	0
		Reused/recycled	46	69	76	65	93	81
		Incinerated/ energy from waste	25	27	25	33	21	23
Financial indicators	Total disposal cost		£11,845	£18,237	£20,862	£32,022	£23,592	£24,477

Total waste breakdown



Waste breakdown per person



Dermot Nolan
Accounting officer

12 June 2015

Section C
Directors' report

The Gas and Electricity Markets Authority

Ofgem

The Gas and Electricity Markets Authority

Executive members of the Authority who served during the year

Dr Dermot Nolan, chief executive, was appointed in February 2014. He has no other company directorships.

Sarah Harrison, senior partner, Sustainable Development, was appointed in May 2005. She has no other company directorships.

Dr Andrew Wright, Group Finance Director, Corporate Functions, was appointed in January 2008. He has no other company directorships.

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

David Gray joined in October 2013 as non-executive chairman. His appointment ends in September 2018. He is a non-executive director of the Civil Aviation Authority, and a governor of the Central School of Ballet. He was non-executive chairman of Pitkin Petroleum plc until 31 January 2015.

Professor David Fisk CB joined in July 2009. He was reappointed in June 2012 to serve until June 2017. He is a Council Member of the Chartered Institution of Building Services Engineers.

Professor Paul Grout joined in October 2012. His appointment ends in September 2017. He is the senior advisor for competition at the Bank of England.

David Harker CBE joined in January 2009. He was reappointed in December 2011. He passed away in March 2015. His contribution to the work of the Authority was greatly appreciated and his input will be missed.

Dr Nicola Hodson joined in March 2015. Her appointment ends in February 2020. She is a board member at Tech UK, and a council member of City University. She is general manager of Marketing and Operations at Microsoft UK.

John Howard joined in July 2009. He was reappointed in June 2012. He resigned with effect from 30 April 2015. He is a non-executive director of the National Counties Building Society, a trustee of the Thalidomide Trust, a member of the With Profits Committee and the Independent Governance Committee of Lloyds Banking Group, and a director of Quayviews Limited.

Jim Keohane joined in January 2009. He was reappointed in December 2012 and his appointment ends in December 2017. He is the chairman of the Theatre Royal Foundation, the senior independent director of the Low Carbon Contracts Company, and the senior independent director of the Electricity Settlements Company.

Keith Lough joined in October 2012. His appointment ends in September 2017. He is a non-executive director of Rockhopper Exploration Limited, a non-executive director of Rock Solid Images, a non-executive director of Papua Mining plc, and a director of Stavanger Petroleum SA.

The non-executive members are considered to be independent of management and make up a majority of the members of the Authority.

Other significant interests held by Authority members

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

Office of Gas and Electricity Markets

Income

In 2014-15, our income was £86.786 million. Of that, £55.6816 million came from licence fees. The rest was mainly from environmental scheme funding (£24.758 million), and the Offshore Transmission Tender recharge (£3.378 million).

We collected £7.059 million from licence fee-payers for consumer advocacy delivered by Consumer Focus. We transferred this to the Department for Business, Innovation and Skills. We also collected £0.986 million and transferred it to the National Measurement Office (NMO) for metrology services carried out under the Consumers, Estate Agents and Redress Act 2007 (metrology services transferred from us to the NMO on 1 April 2009 under the Energy Act 2008).

As well as our £86.786 million operating income, we received £0.500 million of public money for monitoring exemptions from the Climate Change Levy.

In 2014-15 we saved £0.465 million on licence fees. We will offset these savings against the 2015-16 licence fee.

Spending

Our total gross operating costs were £87.286 million.

Of this, 89.2% went on three areas:

- staff (68.0%)
- accommodation (11.4% of gross costs, though we recovered 2.6% from the Department for the Environment, Food and Rural Affairs, which shares our London building)
- contractors (9.8%).

Capital expenditure was £1.239 million. We spent this on office equipment, information technology and leasehold improvements.

Output

Our Forward Work Programme set 49 deliverables to achieve in 2014-15. We completed 44 of them. Two targets no longer apply and three have been deferred until 2015-16. See appendix I for the list of 2014-15 deliverables.

Budgets and liquidity

Parliament approves our budget, after we have consulted with the industry and other interested parties. For 2014-15 parliament approved:

- a main estimate gross resource budget of £90.022 million
- a capital budget of £1.500 million
- a net cash requirement of £10.690 million.

A supplementary estimate allowed us to increase our net cash requirement by £6.168 million to cover working capital demands.

Reconciliation between estimate and budget

	2014-15 £000	2013-14 £000
Net resource outturn (estimate)	6,868	7,062
Net operating costs (accounts)	500	274
Resource budget outturn (budget)	500	274
Of which:		
Departmental expenditure limits	500	274
Annually managed expenditure	-	-

The difference between estimate and outturn is due to an HM Treasury budgeting requirement, to treat the release of the deferred licence fee that we maintain on the Statement of Financial Position, as vote funding rather than operating income. During 2014-15, none of this balance was released.

We drew down a contingency fund advance of £20.0 million in April 2014 to provide short-term liquidity until we started receiving licence fees. We repaid this in full in August 2014.

The net cash requirement outturn of –£4.320 million is lower than the estimate net cash requirement of £16.858 million. Because of the need to repay £19.128 million relating to 2013-14 to the Consolidated Fund, our remaining net cash requirement was -£2.270 million. Most of the difference between this and the net cash requirement outturn was due to us holding £17.271 million for the Offshore Transmission Tender Regime. We will use this money on completion of individual tender rounds.

We will hold back £21.178 million due to be paid to the Consolidated Fund, and use it to fund operations in 2015-16 until we get enough income from licence fees.

Finance and provisions

Total provisions amounted to £3.011 million as at 31 March 2015. We have provided for the ongoing costs of early retirements that have occurred in previous financial years, and for the estimated cost of dilapidations for our Millbank headquarters.

In 2003, we outsourced statutory examining and testing services to SGS UK Limited (our laboratories at Leicester had provided those services until then). Some costs of this change, particularly redundancy and continuing pension liabilities, have fallen to us. We had to make provisions in 2003-04 that now total £0.209 million.

In total we have provided £0.332 million including the Leicester provision, to cover the costs of pensions for people who have retired early. We have also set aside £0.779 million to cover unfunded pension liabilities for a previous chief executive and a previous director general.

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

Our statement of financial position at 31 March 2015 shows negative taxpayers' equity of £0.726 million.

Review of tax arrangements of public sector appointees

In May 2012 the government published a review of the tax arrangements of public sector appointees. The review identified the number of off-payroll engagements worth more than £58,200 a year across government. Information on current off-payroll appointees is at Appendix V on page 119.

Improving our supply chain

Environmental procurement

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

In March 2010 we were awarded the Standard of Excellence Certification by the Chartered Institute of Purchasing and Supply. This is a global accreditation for excellence in procurement. We re-certified in November 2013. The Standard includes a reference that Ofgem has achieved level five of the flexible framework which indicates that we are a 'lead' organisation in relation to sustainable procurement.

Quicker creditor payment

We are signed up to the Better Payment Practice Code set by the Better Payment Practice Group, a forum of business community members and government representatives. This means we pay bills within 30 days (or another agreed period) of receiving either goods or services, or an invoice, whichever is later. In 2014-15 we paid 99.54% of all undisputed bills inside this timeframe.

In 2008, the government challenged departments to pay all suppliers within ten working days. This year we paid 88.39% of undisputed bills inside this timeframe. For amounts contractually due and invoiced by 31 March 2015, the outstanding number of days' purchases is 0.398.

Reports to the Parliamentary Ombudsman

In 2013 (the most recent year that data is published for) the Parliamentary Ombudsman received no complaints about the Gas and Electricity Markets Authority.

Our executive teams and audit arrangements

Senior Management Team

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

The Executive

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

Management Committee (for E-Serve)

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

Executive Risk Committee

This committee helps the chief executive maintain effective risk management. It is made up of all the executive members shown in the remuneration report and the legal partner of Smarter Grids and Governance: Transmission. It meets quarterly.

Audit arrangements

The Comptroller and Auditor General, who has been appointed under statute and reports to parliament, has audited the resource accounts. The notional cost of auditing the resource accounts and trust statement was £52,500 (2013–14: £52,500). There was no auditor remuneration, actual or notional, for non-audit work.

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

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

Following a competitive tender exercise undertaken in March 2015, a new internal audit contract was awarded to Deloitte for a period of three years.

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

Dermot Nolan
Accounting officer

12 June 2015

Section D
Remuneration report

Remuneration Report

Remuneration committee

This committee comprises non-executive members of the Authority who are appointed by ordinary resolution of the Authority for a term of up to a year. Members may be reappointed. The committee was chaired by David Harker until December 2014 and thereafter by Jim Keohane, both non-executive members of the Authority. The other member is non-executive John Howard. The chief executive and chairman are normally in attendance.

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

Remuneration policy

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

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

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

Service contracts

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

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

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

Remuneration (including salary) and pension entitlements

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

The salary, the bonus payments and the value of any taxable benefits in kind of the most senior members of Ofgem (not all of whom are Authority members) in 2014-15 are shown in the table on the next page.

Single total figure of remuneration

	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000)‡		Total (£000)	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
Senior executive members of Ofgem										
Dermot Nolan Chief executive (from February 2014)	185-190	15-20**	-	-	-	-	29,000	6,000	215-220	20-25
Martin Crouch Senior partner (from May 2014***)	125-130*	-	10-15	-	-	-	39,000	-	175-180	-
Rachel Fletcher Senior partner (from April 2014) (Acting senior partner from September 2013 to April 2014)	130-135	65-70**	-	-	-	-	80,000	10,000	210-215	75-80
Maxine Frerk Acting Senior partner (from June 2014***)	100-105*	-	10-15	-	-	-	26,000	-	135-140	-
Sarah Harrison Senior partner	140-145	140-145	15-20	-	-	-	50,000	35,000	205-210	175-180
Ian Marlee Senior partner and director of communications (to April 2014)	5-10*	140-145	-	-	-	-	12,000	55,000	20-25	190-195
Hannah Nixon Senior partner (to June 2014)	25-30*	110-115	-	-	-	-	6,000	48,000	30-35	160-165
Dr Andrew Wright Group Finance Director (from February 2014)	185-190	195-200	15-20	15-20	-	-	68,000	71,000	265-270	280-285
Senior executive members of Ofgem E-Serve										
Robert Hull Managing director (to January 2015)	135-140*	145-150	15-20	15-20	-	-	41,000	37,000	190-195	195-200
Chris Poulton Acting managing director (from December 2014***)	45-50*	-	-	-	-	-	5,000	-	50-55	-
Non-executive members of the Authority										
David Gray Chairman (from October 2013)	160-165	80-85**	-	-	-	-	-	-	160-165	80-85

* Annual equivalent basic salary (excluding performance pay):

Ian Marlee:	140-145
Hannah Nixon:	140-145
Martin Crouch:	125-130
Maxine Frerk:	120-125
Robert Hull:	145-150
Chris Poulton:	125-130

** Annual equivalent basic salary (excluding performance pay):

Dermot Nolan:	185-190
Rachel Fletcher:	115-120
David Gray:	160-165

*** remuneration during the period of which they were a member of the senior management team

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

Other non-executive members of the Authority who were paid an honorarium	2014-15	2013-14
David Fisk	£25,000	£25,000
Paul Grout	£23,000	£23,000
David Harker (until 2 March 2015)	£25,817	£25,000
Nicola Hodson (from March 2015)	£1,667	-
John Howard	£25,000	£25,000
Jim Keohane	£28,000	£28,000
Keith Lough	£23,000	£23,000

Non-executive members, apart from the chairman of the Authority, have fixed-term appointments, normally for up to five years. These appointments are renewable. Information on appointment dates is on page 42. Remuneration and appointments are set by the Secretary of State for Energy and Climate Change after consulting the chairman. Their remuneration is by payment of an honorarium plus an additional allowance for chairing any Authority committees. They aren't entitled to performance-related pay or a pension. Compensation for early termination is at the discretion of the Secretary of State. The non-executive chairman of the Authority, David Gray, has an appointment that started on 1 October 2013 and lasts for five years.

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

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

Salary

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

Bonuses

Bonuses are based on performance levels and are made as part of the appraisal process. The bonuses reported in 2014-15 relate to performance in 2013-14. The bonuses reported for 2013-14 relate to performance in 2012-13.

Pay multiples

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

The banded remuneration of our highest-paid director in 2014-15 was £200,000-205,000 (2013-14: £210,000-215,000). This was 5.28 times (2013-14: 5.51) the median remuneration of the workforce, which was £38,001 (2013-14: £38,326).

In 2014-15 no (2013-14: none) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £8,840 to £200,486 (2013-14: £16,900 to £211,290).

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

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

Pension benefits	Real increase in pension and related lump sum at age 60 £000	Accrued pension at age 60 at 31 March 2015 and related lump sum £000	Cash equivalent transfer value at 31 March 2015 £000	Cash equivalent transfer value at 31 March 2014 £000	Real increase in cash equivalent transfer value £000	Employer's contribution to partnership pension account Nearest £100
Senior executive members of Ofgem						
Dermot Nolan Chief executive (from February 2014)	-	-	-	4	-	29,500
Martin Crouch Senior partner (from May 2014)	2.5-5.0	25-30	330	287	20	-
Rachel Fletcher Senior partner (from April 2014)	2.5-5.0	20-25	319	239	59	-
Maxine Frerk Acting Senior partner (from June 2014)	0-2.5 and 2.5-5.0 lump sum	15-20 and 50-55 lump sum	357	327	21	-
Sarah Harrison Senior partner	2.5-5.0	35-40	540	474	34	-
Ian Marlee Senior partner (to April 2014)	0-2.5	15-20	164	158	6	-
Hannah Nixon Senior partner (to June 2014)	0-2.5	15-20	220	208	3	-
Dr Andrew Wright Group Finance Director	2.5-5.0	30-35	412	338	37	-
Senior executive members of Ofgem E-Serve						
Robert Hull Managing director (to January 2015)	2.5-5.0	20-25	457	393	37	-
Chris Poulton Acting managing director (from December 2014)	-	-	-	-	-	5,100

The remaining information has not been subject to external audit.

The following salary and pension details are provided in accordance with the 2014-15 Government Financial Reporting Manual issued by the Treasury and Employer Pensions Notice 430 issued by the Cabinet Office.

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a final-salary scheme (classic, premium or classic plus), or a whole-career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by money voted by Parliament each year. Pensions payable under Classic, Premium, Classic Plus or nuvos are increased annually in line with pensions increase legislation. Members joining from October 2002 may opt for either the appropriate defined-benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account.

Employee contributions are salary-related and range between 1.5% and 6.85% of pensionable earnings for classic and 3.5% and 8.85% for premium, classic plus and nuvos.

Benefits

In classic, benefits accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement.

For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum.

Classic plus is essentially a hybrid, with benefits for service before 1 October 2002 calculated broadly as per classic, and benefits for service from October 2002 worked out as in premium.

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

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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill-health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about civil service pension arrangements can be found at www.civilservice.gov.uk/pensions

New career average pension arrangements will be introduced from 1 April 2015 and the majority of classic, premium, classic plus and nuvos members will join the new scheme. Further details of the new scheme are available at http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/

Cash equivalent transfer values

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

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

Real increase in CETV

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

Dermot Nolan
Accounting officer

12 June 2015

Statement of the accounting officer's responsibilities

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

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

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

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

Governance statement

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

Who's part of the Authority?

How appointments are made

The Secretary of State for Energy and Climate Change appoints the non-executive members of the Authority after consulting the chairman. In accordance with this procedure, the Secretary of State for Energy and Climate Change appointed Dr Nicola Hodson a non-executive member of the Authority for five years with effect from 1 March 2015. The appointment was made after an open and competitive process.

We arranged detailed briefings and induction for Dr Hodson. She was also able to observe an Authority meeting before taking up her new role.

The executive members of the Authority are appointed in line with the Civil Service Management Code. They hold their positions for as long as they hold their senior posts at Ofgem, subject to maximum periods of tenure set out in the EU's Third Energy Package and its rules covering appointments to national regulatory authorities in member states.

Details of Authority members' remuneration, and their pension arrangements are shown in the remuneration report starting on page 48.

How the Authority works

The Authority meets formally 11 times a year. In addition, Authority members also attend regular informal briefing sessions to allow high level review of developing issues and serve on the Authority's committees, details of which are set out below. The Authority has reviewed the way it plans and manages its business during the year and also commissioned an external review of its methods of working and effectiveness. It has decided to give greater emphasis to consideration of strategic issues and monitoring of effective policy delivery.

The Authority now reviews the activities, plans and performance of its five main divisions against its strategic objectives on a four-monthly cycle and reviews the activities and priorities of its principal support functions on a six- or twelve-monthly basis. The Authority agreed a new strategy during the year and will review the strategy, and the Forward Work Programme derived from it, on an annual cycle. The Authority has also agreed to review its proposed overall programme of medium and longer term work every six months. In addition, the Authority takes decisions on specific major regulatory issues that have not been delegated to committees or executives.

We publish minutes of the Authority's meetings on our website, along with the committees' terms of reference. We also provide provisional agendas for the main Authority meetings. The chairman and other non-executive members play a full part in Authority business. They attended full Authority meetings and committee meetings as follows:

	The Authority	Audit and Risk Assurance Committee	E-Serve Programmes Committee	Offshore Electricity Transmission Committee	RIIO-ED1 Electricity Distribution Price Control Committee	Remuneration Committee	Europe Committee	E-Serve Board Committee
David Gray	11/11	-	-	-	5/5	-	3/3	-
David Fisk	11/11	4/4	-	-	5/5	-	3/3	-
Paul Grout	11/11	-	-	2/2	5/5	1/1	-	-
David Harker*	8/8	3/3	3/3	-	-	1/1	-	-
Nicola Hodson	1/1	-	-	-	-	-	-	-
John Howard	11/11	-	-	-	2/5	3/3	2/3	-
Jim Keohane	11/11	-	3/3	2/2	-	3/3	3/3	1/1
Keith Lough	11/11	4/4	-	2/2	-	-	-	1/1

* David Harker was considered to be on leave of absence because of ill health from November 2014 until his death in March 2015

The Authority met in Scotland in November 2014, using the occasion to meet local energy stakeholders in the public and private sectors.

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

The chairman and some other non-executives considered and advised the Authority on price-control proposals under our RIIO processes. This involved meetings with the distribution industry.

In accordance with the Authority's procedures for considering enforcement matters commencing prior to the establishment of the Enforcement Decision Panel in June 2014, some non-executives have been involved with the Enforcement Committee and Settlement Committees following companies' breaches of licence or other regulatory conditions.

What committees does the Authority have?

The Authority reviewed its committee structure during the year in the light of developing priorities and changes in the structure of Ofgem. It was decided that E-Serve should be given greater autonomy and an E-Serve Board was established as a committee of the Authority, chaired by the chief executive, to serve as the main oversight body for E-Serve administrative matters. The E-Serve Programmes Committee was dissolved following the establishment of the E-Serve Board.

The Authority's Offshore Electricity Transmission Committee played a valuable role in developing an effective and efficient offshore transmission tender management regime. The Authority concluded during the year that, as the regime and process is now well established, there was no continuing need for this committee and it was discontinued with effect from March 2015.

Following a review in 2013-14, the Authority established a new committee, the Enforcement Decision Panel, to take decisions in important enforcement matters. The members of the Panel, who are independent experts appointed specifically to carry out this role, were appointed during the early part of 2014-15 and the Panel became effective from the end of June 2014.

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

Audit and Risk Assurance Committee

This committee, previously the Audit Committee, advises the Authority and the accounting officer, where it concerns them, on anything that affects our financial health, financial reporting, probity, reputation or wider risk management and governance system. Its Terms of Reference were expanded during the year to enable the committee to look at any aspect of the business that may impinge on the strategic objectives and effective functioning of Ofgem.

This year the committee's work included:

- overseeing the Authority and the Executive's consideration of a new risk management framework, including our risk appetite, to support the published strategy for Ofgem
- receiving reports from both internal and external audit
- receiving a report on IT security in the organisation.

The committee also oversees our RPI–3% cost control regime. It met four times in 2014-15, and also took part in a workshop session on risk management, along with other Authority members.

Keith Lough chairs the committee.

E-Serve Board Committee

This committee, set up in January 2015 to replace the E-Serve Programmes Committee, advises the Authority on the effectiveness and efficiency of E-Serve in delivering its relevant activities. It is chaired by Dermot Nolan and its members include the managing director of E-Serve and three non-executives. It meets at least six times a year.

Offshore Electricity Transmission Committee

This committee advised the Authority on developing and implementing the offshore electricity transmission regime. The Committee met twice in 2014–15. Paul Grout chaired the committee, which was discontinued in March 2015 as described above.

RIIO Electricity Distribution Price Control Committee

This committee examined our proposals for the electricity distribution price control review which was concluded during the year (subject to appeal), and advised the Electricity Distribution team and the Authority on the main areas. The committee, chaired by David Gray, met the electricity distribution companies and challenged their proposals in a proactive forum.

Enforcement Decision Panel

The Enforcement Decision Panel (EDP) has been established to take important decisions in contested enforcement cases on behalf of the Authority. The Chair of the EDP is John Swift QC. Members of the EDP also chair Settlement Committees (see next section).

Enforcement Settlement Committees

Enforcement Settlement Committees may be established to decide whether to authorise a settlement procedure in respect of an investigation under the Competition Act 1998 or in respect of alleged contraventions under various sections of the Gas Act 1986, the Electricity Act 1989 and other legislation. Committees are appointed separately for each case and comprise one member of the EDP as chair and an executive of the Authority nominated by the chairman of the Authority. Settlement Committees have made decisions on 11 cases since the EDP was established on 1 June 2014. For more details on the first year of the EDP, see the EDP annual report on the EDP pages of the Ofgem website.

Europe Committee

This committee is chaired by David Gray and usually meets four times a year. It comprises non-executive directors, senior partners for Markets and Electricity Transmission and the Partner responsible for EU coordination.

The Committee advises the Authority on key EU energy and regulatory policy developments, and on how the Authority's aims and objectives, as both the GB regulator and as the National Regulatory Authority, might be promoted.

Working closely with the European Commission, the European Parliament and other bodies, Lord Mogg, the previous chairman of the Authority, has remained an adviser to the Authority and has continued to help develop EU regulatory policy for energy. This has included his roles as president of the Council of European Energy Regulators and chairman of the EU's Agency for the Cooperation of Energy Regulators. He is also chairman of the International Confederation of Energy Regulators. During the year, Lord Mogg was re-appointed to continue in these roles – which he was appointed to in a personal capacity – until late 2017. He continues to act as EU adviser to our chairman and to be an adviser to the Europe Committee.

Remuneration Committee

This committee, chaired by Jim Keohane, looks at the pay and performance of senior staff, and also succession planning. For details of the committee's members, its role, and senior staff salary and pension entitlements, see the remuneration report starting on page 48.

How is the Authority's performance measured?

The Authority held an away day in July 2014, partly in closed session, involving the chairman and non-executives. It considered its performance during the year, and topics on its governance and procedures. There was feedback to executive members. The aim was to help the Authority become more efficient and effective.

Later in the year, the Authority commissioned an external review of its performance and effectiveness by a specialist corporate governance consultant. The consultant conducted an anonymous survey of members of the Authority and senior executives and held one-to-one interviews with a similar group and with representatives of the internal and external auditors. He also attended a Board meeting, an informal Board briefing session and meetings of the Audit and Risk Assurance Committee and the Remuneration Committee. He then discussed his conclusions and recommendations with Authority members collectively.

The consultant concluded that the Board of the Authority was functioning in a healthy way, with active and purposefully engaged non-executive members bringing diverse contributions; a good relationship involving both challenge and listening between executives and non-executives; and clear commitment from the chair, chief executive and the Board as a whole towards further improvement. The consultant made a number of recommendations on changes to methods of working to improve effectiveness further, which were accepted. Progress in implementing these recommendations will be reviewed at an away day in July 2015.

In addition, the chairman again reviewed the individual performance of the non-executive members of the Authority, looking at their contributions to its work. For the first time, the other non-executive members set objectives for the chairman after discussion with him and they will review his performance against these objectives.

Finally, our internal auditors continued to review and report on governance matters. We are following up their recommendations.

Governance System

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

The governance system existed for the year ending on 31 March 2015 and has continued up to the date of approval of the Annual Report and Accounts. It accords with Treasury guidance.

Risk management framework

Our risk management framework sets out how risk management should be embedded across Ofgem; how we identify, administer and manage risks.

This framework describes:

- why managing risk is important
- the mechanisms we have to manage risk

- how to identify, assess and manage risk
- how our risk appetite is important to deliver positive outcomes for consumers
- details of roles and responsibilities that make sure we manage risk effectively
- contacts for advice and guidance on risk management.

As part of the risk management framework, we have made risk management integral to policymaking, planning and delivery. Each senior management member has a personal objective to seek to implement the strategy in their area.

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

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

Risk and control

During 2014-15, energy policy remained high on the political and consumer agenda. Consumers are understandably concerned about increases to their energy bills.

To ensure that all of our work is focused on delivering better outcomes for consumers, we have reviewed our strategy. We have completed this work, and in December 2014, we published our strategy and draft forward work programme for 2015-16. Our strategic mission is to make a positive difference for energy consumers through independent regulation.

A strategic transformation programme has been initiated so that we focus on taking Ofgem forward and to successfully meet all future regulatory challenges.

We will focus on delivering better outcomes for consumers, including lower bills, reduced environmental damage, improved reliability and safety, better quality of service and benefits for society as a whole.

We have divided our planned work into six themes to show how it contributes to the six strategic outputs of our independent regulation:

- regulation
- competition
- standards
- partnerships
- trust and confidence
- efficiency and effectiveness

These challenges come with risks, and we recognise and embrace risk management as a way to tackle them. Our aim is to establish sensible risk management procedures in all areas of our work. Managers see risk management as an integral part of their job, and the Senior Management Team and Management Committee keep our top risks under review.

The Management Committee has prepared a separate top risks profile to cover E-Serve. In late March 2013 we signed a memorandum of understanding with the Department of Energy and Climate Change (DECC)[1]. This establishes a framework for how we liaise with DECC when administering government schemes.

Our governance arrangements reflect senior management changes in 2014-15. Examples include induction training, briefing, and updating the delegation of financial control to reflect each new senior executive appointment.

Corporate Governance Code

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

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

Data quality

The Authority receives a wide range of financial and other data, both to facilitate its oversight of the performance of the Authority's functions and to inform its regulatory decisions. The board considers that this information is generally of good quality, although changes are being made to the presentation of internal management information, with effect from the beginning of the 2015-16 financial year, to improve its usefulness in monitoring the efficiency of the organisation in delivering its strategic objectives. Data used to inform regulatory decisions is kept under constant review against a background of continuing change in the relevant markets.

Personal data incidents

We have a data security policy to keep all official information private and secure. There were no recorded losses of personal data in 2014-15.

The accounting officer's review of effectiveness

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

Internal audit made 18 recommendations that it expected us to implement by 31 December 2014. Of these, we have fully implemented five, substantially completed five and a further eight were in progress. None were outstanding.

This year, we took steps to monitor and improve our governance system:

- A new risk management framework was launched in January 2015
- The Risk Committee agreed our strategic risks.
- The Senior Management Team, the Management Committee (for E-Serve) and the Audit and Risk Assurance Committee reviewed our strategic risks
- E-Serve's Fraud Management Group met each month to initiate and review work related to fraud prevention and detection, and to make sure we were properly managing suspected cases of fraud, misreporting or money laundering
- We reviewed the Authority's role in strategic risk management, including risk appetite
- The Associate Director Finance and Risk Management regularly met senior partners and managing directors individually to review resources and progress towards objectives, and to identify and evaluate the associated risks
- We updated our governance statements to require partners and directors to consider and report on all aspects of financial and risk management and other governance control issues in their area
- We updated our business continuity plans, making sure we could continue our main work if there was a disruption.

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

Dermot Nolan
Accounting officer

12 June 2015

[1] https://www.ofgem.gov.uk/ofgem-publications/50660/mou-published-version-final.pdf

Section E
Resource accounts and trust statement

Resource accounts

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

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

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements.

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

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2015 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2015 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

16 June 2015

Statement of Parliamentary Supply

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

Summary of resource and capital outturn 2014-15

							2014–15 £000	2013–14 £000
	Estimate			Outturn				Outturn
	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with estimate: saving	Total
Departmental expenditure limit								
Resource	6,868	-	6,868	500	-	500	6,368	274
Capital	1,500	-	1,500	1,239	-	1,239	261	1,430
Annually managed expenditure								
Resource	-	-	-	-	-	-	-	-
Capital	-	-	-	-	-	-	-	-
Total budget	8,368	-	8,368	1,739	-	1,739	6,629	1,704
Non-budget								
Resource	-	-	-	-	-	-	-	-
Total	8,368	-	8,368	1,739	-	1,739	6,629	1,704
Total resource	6,868	-	6,868	500	-	500	6,368	**274**
Total capital	1,500	-	1,500	1,239	-	1,239	261	**1,430**
Total	8,368	-	8,368	1,739	-	1,739	6,629	**1,704**

	SoPS Note	2014-15 £000 Estimate	Outturn	2014-15 £000 Outturn compared with estimate: saving/(excess)	2013-14 £000 Outturn
Net cash requirement	SoPS4	16858	(4,320)	21,178	(1,976)

Administration costs	2014-15 £000 Estimate	Outturn	2014-15 £000 Saving	2013-14 £000 Outturn
	6,868	500	6,368	274

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

SoPS1 Statement of accounting policies

The statement of parliamentary supply and supporting notes have been prepared in accordance with the 2014-15 FReM issued by the Treasury. The SoPS accounting policies contained in the FReM are consistent with the requirements in the 2014-15 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

SoPS1.1 Accounting convention

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

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

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

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

SoPS1.2 DEL treatment of provisions

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

SoPS1.3 Treatment of deferred licence fee

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

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

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

SoPS2 Net outturn

SoPS2.1 Analysis of net resource outturn by section

						2014-15 £000	2013-14 £000
	Outturn - Administration			Estimate			
	Gross	Income	Net total	Net total	Net total compared with estimate	Total
Spending in Departmental Expenditure Limits						
A Gas and Electricity Markets Authority: administration	35,737	(35,737)	–	6,168	6,168	–
B Ofgem E-Serve: administration	51,549	(51,049)	500	700	200	274
Total	**87,286**	**(86,786)**	**500**	**6,868**	**6,368**	**274**

SoPS2.2 Analysis of net capital outturn by section

					2014-15 £000	2013-14 £000
			Outturn	Estimate		Outturn
	Gross	Income	Net total	Net total	Net total outturn compared with estimate	Total
Spending in Departmental Expenditure Limits						
A Gas and Electricity Markets Authority: administration	1,239	-	1,239	1,500	261	1,430
B Ofgem E-Serve: administration	-	-	-	-	-	-
Total	**1,239**	**-**	**1,239**	**1,500**	**261**	**1,430**

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

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

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

	Note	2014-15 £000	2013-14 £000
Total resource outturn in Statement of Parliamentary Supply	SoPS2.1	500	274
Adjustment in respect of deferred licence fee		-	-
Net operating costs in Statement of Comprehensive Net Expenditure		**500**	**274**

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

	Note	2014-15 £000	2013-14 £000
Estimate – administration costs limit	SoPS2.1	6,868	7,062
Outturn – gross administration costs		87,286	83,414
Outturn – gross income relating to administration costs		(86,786)	(83,140)
Outturn – net administration costs	SoPS2.1	500	274
Reconciliation to operating costs:			
Adjustment in respect of deferred licence fee		-	-
Administration net operating cost		**500**	**274**

SoPS4 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/ (excess)
		£000	**£000**	**£000**
Resource outturn	SoPS2.1	**6,868**	**500**	**6,368**
Capital outturn	SoPS2.2	**1,500**	**1,239**	**261**
Accruals to cash adjustments:				
▪ Depreciation	6	(1,600)	(1,371)	(229)
▪ New provisions and adjustments to provisions	13	-	(43)	43
▪ Other non-cash items	4	(60)	(53)	(7)
▪ Movement in working capital		10,000	(4,718)	14,718
▪ Use of provision	13	150	121	29
▪ Other adjustment		-	5	(5)
Net cash requirement		**16,858**	**(4,320)**	**21,178**

SoPS5 Analysis of income payable to the Consolidated Fund

We collected no consolidated fund income in 2014-15. This does not include any amounts we collected while acting as agent of the consolidated fund rather than as principal. Full details of income collected as agent for the consolidated fund are in the department's trust statement, published alongside these financial statements.

Statement of comprehensive net expenditure for the year ended 31 March 2015

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

	Note	Staff costs	Other costs	2014-15 £000 Income	2013-14 £000
Administration costs					
Staff costs	3	59,378			55,220
Other costs	4		27,908		28,194
Income	5			**(86,786)**	**(83,140)**
Net operating costs	SoPS2.1			**500**	**274**
Total expenditure				87,286	83,414
Total income				(86,786)	(83,140)
Net operating costs				**500**	**274**

There is no other comprehensive net expenditure.

Statement of financial position as at 31 March 2015

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

	Note	2015 £000	2015 £000	2014 £000	2014 £000
Non-current assets:					
Property, plant and equipment	6	3,423		3,555	
Total non-current assets			**3,423**		**3,555**
Current assets:					
Trade receivables and other current assets	11	12,844		21,361	
Cash and cash equivalents	10	21,178		19,128	
Total current assets			**34,022**		**40,489**
Total assets			**37,445**		**44,044**
Current liabilities:					
Trade and other payables	12	(34,768)		(36,201)	
Total current liabilities			**(34,768)**		**(36,201)**
Non-current assets plus net current assets			**2,677**		**7,843**
Non-current liabilities:					
Provisions	13	(3,011)		(3,068)	
Other payables	12	(392)		(708)	
Total non-current liabilities			**(3,403)**		**(3,776)**
Total assets less liabilities			**(726)**		**4,067**
Taxpayers' equity:					
General fund			(726)		4,067
Total taxpayers' equity			**(726)**		**4,067**

Dermot Nolan
Accounting officer

12 June 2015

The notes on pages 72 to 87 form part of these accounts.

Statement of cash flows for the year ended 31 March 2015

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

	Note	2014-15 £000	2013-14 £000
Cash flows from operating activities			
Net operating cost	SoPS2.1	(500)	(274)
Adjustments for non-cash transactions	4	1,467	1,208
Decrease in trade and other receivables	11	8,517	3,853
less movements in receivables relating to items not passing through the SoCNE		-	-
(Decrease)/Increase in trade payables	12	(1,749)	8,981
less movements in payables relating to items not passing through the SoCNE	12	(2,050)	(10,226)
Other adjustment		(5)	-
Use of provisions	13	(121)	(136)
Net cash outflow from operating activities		**5,559**	**3,406**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(1,239)	(1,430)
Proceeds of disposal of property, plant and equipment		-	-
Net cash outflow from investing activities		**(1,239)**	**(1,430)**
Cash flows from financing activities			
From the Consolidated Fund (supply) – current year		16,858	8,250
Advances from the contingencies fund		20,000	15,000
Payments to the contingencies fund		(20,000)	(15,000)
Net financing		**16,858**	**8,250**
Payments of amounts to the consolidated fund		(19,128)	-
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**2,050**	**10,226**
Cash and cash equivalents at the beginning of the period	10	**19,128**	**8,902**
Cash and cash equivalents at the end of the period	10	**21,178**	**19,128**

The notes on pages 72 to 87 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2015

	Note	General fund £000
Balance at 31 March 2013		**6,307**
Changes in taxpayers' equity for 2013-14		
Non-cash charges – auditor's remuneration	4	53
Net operating cost for the year	SoPS2.1	(274)
Losses relating to pension liabilities	13	(43)
Total recognised income and expense for 2013-14		**(264)**
Net parliamentary funding – drawn down		8,250
Net parliamentary funding – deemed		8,902
Supply payable adjustment	12	(19,128)
Balance at 31 March 2014		**4,067**
Changes in taxpayers' equity for 2014-15		
Non-cash charges – auditor's remuneration	4	53
Net operating cost for the year	SoPS2.1	(500)
Other adjustment		(5)
Losses relating to pension liabilities	13	(21)
Total recognised income and expense for 2014-15		**(473)**
Net parliamentary funding – drawn down		16,858
Net parliamentary funding – deemed		-
Supply payable adjustment	12	(21,178)
Balance at 31 March 2015		**(726)**

Notes to the departmental resource accounts

1. Statement of accounting policies

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

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

1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

1.2 Property, plant, equipment and depreciation

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

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

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

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

1.3 Provisions

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

Where the time-value of money is material, we discount the provision to its present value using a discount rate of 1.8%, the government's standard rate. Each year the financing charges in the statement of comprehensive net expenditure include the adjustments to amortise one year's discount and restate liabilities to current price levels.

1.4 Operating income

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

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

1.5 Foreign exchange

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

1.6 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). These are described at Note 3. The PCSPS is non-contributory and unfunded. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. There is a separate scheme statement for the PCSPS as a whole.

Our former chief executive and director general have separate pension arrangements that are broadly analogous with the PCSPS. The arrangements provide for an unfunded defined-benefit scheme. However, unlike the PCSPS, a pension liability is included in the accounts as required under IAS37.

1.7 Early departure costs

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

1.8 Value added tax

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

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

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

1.9 Operating leases

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

1.10 Going concern

The Statement of Financial Position at 31 March 2015 shows a negative taxpayers' equity of £0.726 million. In common with other government departments, the future financing of our liabilities is to be met by future grants of supply and the application of future income, both to be approved annually by Parliament. Approval for amounts required for 2015-16 has already been given and there is no reason to believe that future approvals will not be granted. We've therefore considered it appropriate to adopt a going-concern basis for the preparation of these financial statements.

1.11 Contingent liabilities

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

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

1.12 Assets belonging to third parties

Assets belonging to third parties as disclosed in Note 16 (such as money held in relation to the Offshore Tender Developer's security and the Renewables Obligation) are not recognised in the Statement of Financial Position since we have no beneficial interest in them.

2. Statement of operating costs by operating segment

2014-15						
	Smarter Grids and Governance £000	Markets £000	Sustainable Development £000	Scotland, Wales and the regions £000	Ofgem E-Serve £000	Total £000
Gross expenditure	19,715	19,830	11,487	1,760	34,494	87,286
Income	(19,715)	(19,830)	(11,487)	(1,760)	(33,994)	(86,786)
Net operating cost	**-**	**-**	**-**	**-**	**500**	**500**

2013-14						
	Smarter Grids and Governance £000	Markets £000	Sustainable Development £000	Scotland, Wales and the regions £000	Ofgem E-Serve £000	Total £000
Gross expenditure	19,030	19,963	12,229	1,862	30,330	83,414
Income	(19,030)	(19,963)	(12,229)	(1,862)	(30,056)	(83,140)
Net operating cost	**-**	**-**	**-**	**-**	**274**	**274**

Segmental reporting is undertaken on a divisional basis, in common with the reporting of budgets in the Ofgem Forward Work Programme.

3. Staff numbers and related costs

Staff costs comprise			**2014-15 £000**	**2013-14 £000**
	Permanently employed staff	**Others**	**Total**	**Total**
Wages and salaries	39,444	9,030	**48,474**	45,097
Social security costs	3,671	-	**3,671**	3,270
Other pension costs	7,354	-	**7,354**	6,328
Other staff costs	(121)	-	**(121)**	525
Sub-total	**50,348**	**9,030**	**59,378**	**55,220**
Less recoveries in respect of outward secondments	-	-	-	(108)
Total net costs	**50,348**	**9,030**	**59,378**	**55,112**

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined-benefit scheme, but Ofgem is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2014-15, employers' contributions of £7,092,650 were payable to the PCSPS (2013-14: £6,122,348) at one of four rates in the range 16.7% to 24.3% (2013-14: 16.7% to 24.3%) of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014-15 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £188,263 (2013-14: £189,746) were paid to three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% (2013-14: 3% to 12.5%) of pensionable earnings. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £18,805 (2013-14: £15,920), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the reporting period date amounted to zero. Contributions prepaid at that date were zero.

Zero people (2013-14: zero people) retired early on ill-health grounds.

Average number of people employed

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

			2014-15	2013-14
	Permanently employed staff	Others	Total	Total
Smarter Grids and Governance	170	20	**190**	**169**
Markets	210	9	**219**	**186**
Sustainable Development	123	9	**132**	**111**
Scotland, Wales and the regions	15	-	**15**	**26**
Ofgem E-Serve	378	98	**476**	**386**
Total	**896**	**136**	**1,032**	**878**

3.1 Reporting of civil service and other compensation schemes – exit packages

There have been no redundancies made during either 2014-15 or 2013-14.

4. Other administration costs

	Note	2014-15 £000	2013-14 £000
Rental under operating leases:			
Operating leases		5,897	5,824
		5,897	5,824
Non-cash items:			
Auditors' remuneration and expenses*		53	53
Depreciation	6	1,371	1,092
Loss on disposal of property, plant and equipment		–	5
		1,424	1,150
Other expenditure:			
Contractors:			
▪ Environmental schemes and projects		3,231	1,947
▪ Smarter Grids and Governance (including RIIO price controls)		2,748	2,169
▪ Retail Market Review		218	169
▪ Other		2,341	4,053
Accommodation costs		4,177	4,418
Office supplies and equipment		3,291	3,009
Recruitment and training		1,844	2,250
Professional services		476	1,189
Travel and subsistence		772	908
Staff-related costs		468	236
Other administration costs		978	814
		20,544	21,162
Provisions (non-cash):			
Provided in year	13	11	30
Interest cost	13	32	28
Movement in provision		43	58
Total		**27,908**	**28,194**

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

5. Operating income

			2014-15 £000			2013-14 £000
	Income	Full costs	Deficit	Income	Full costs	Deficit
Administration income Gas and Electricity:						
Licence fees	(55,686)	55,686	-	(52,960)	52,960	–
Other	(31,100)	31,600	500	(30,180)	30,454	274
Total	**(86,786)**	**87,286**	**500**	**(83,140)**	**83,414**	**274**

	2014-15	2013-14
Other income includes:	**£000**	**£000**
Offshore Transmission Tender Recharge	3,378	4,218
Department of Energy and Climate Change (relating to environmental programmes and staff transfers)	21,914	18,173
Scheme-funded recharges	2,553	3,761
Department for Environment, Food and Rural Affairs (relating to shared accommodation costs and staff transfers)	2,020	2,447
Other departments	976	1,474
Miscellaneous	259	107
	31,100	**30,180**

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

6. Property, plant and equipment

	Furniture	Office equipment	Information technology	Leasehold works	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2014	149	2,343	4,170	5,751	12,413
Additions	18	184	1,021	16	1,239
Disposals	-	-	(1)	-	(1)
At 31 March 2015	**167**	**2,527**	**5,190**	**5,767**	**13,651**
Depreciation					
At 1 April 2014	146	2,049	2,789	3,874	8,858
Charged in year	3	155	746	467	1,371
Disposals	-	-	(1)	-	(1)
At 31 March 2015	**149**	**2,204**	**3,534**	**4,341**	**10,228**
Carrying amount at 31 March 2015	18	323	1,656	1,426	3,423
Carrying amount at 31 March 2014	3	294	1,381	1,877	3,555
Asset financing:					
Carrying amount of owned assets at 31 March 2015	18	323	1,656	1,426	3,423

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

7. Capital commitments

	2014-15	2013-14
	£000	£000
Contracted capital commitments at 31 March not otherwise included in these financial statements	-	-

8. Commitments under leases

Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	2014-15	2013-14
Obligation under operating leases for the following periods comprise:	**£000**	**£000**
Buildings:		
Not later than one year	6,160	6,100
Later than one year and not later than five years	8,027	14,151
Later than five years	-	34
	14,187	**20,285**
Other:		
Not later than one year	-	-
Later than one year and not later than five years	-	-
Later than five years	-	-
	-	**-**

When we entered into the lease on our Millbank headquarters in 2000, we received a leasehold reverse premium from the landlord. The remainder of the reverse premium is £0.708 million. This will be used on a straight-line basis over the lease term up to the first break in the lease, which is 23 June 2017. This is disclosed in Note 12.

8.1. Other financial commitments

As at 31 March 2015, we hadn't entered into any non-cancellable contracts (which are not operating leases).

9. Financial instruments

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

10. Cash and cash equivalents

	2014-15	2013-14
	£000	£000
Balance at 1 April	19,128	8,902
Net change in cash and cash equivalents	2,050	10,226
At 31 March	**21,178**	**19,128**
The following balances at 31 March were held at:		
Government Banking Service	21,178	19,128
Commercial banks and cash in hand	–	–
Balance at 31 March	**21,178**	**19,128**

11. Trade receivables and other current assets

	2014-15	2013-14
	£000	£000
Trade receivables	1,165	4,114
Accrued income	7,645	14,861
Prepayments	3,480	1,835
HM Revenue and Customs (VAT)	340	325
Staff receivables	214	226
At 31 March	**12,844**	**21,361**

Staff receivables include loans outstanding, of which £222k relates to season ticket loans for employees, and £3k relates to a housing advance for an employee.

11.1 Intra-government balances

	2014-15	2013-14
	£000	£000
Balances with other central government bodies	4,234	7,603
Balances with local authorities	1,831	-
Subtotal: intra-government balances	6,065	7,603
Balances with bodies external to government	6,779	13,758
Total receivables at 31 March	**12,844**	**21,361**

12. Trade payables and other current liabilities

	2014-15	2013-14
Amounts falling due within one year:	£000	£000
Other taxation and social security	1,088	1,813
Trade payables	30	892
Staff payables	1,339	1,479
Deferred licence fees	5,465	6,168
Leasehold reverse premium	316	316
Accruals and other deferred income	5,352	6,405
Amounts issued from the Consolidated Fund for supply but not spent at year end	16,858	19,128
Excess cash receipts	4,320	-
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
received	-	-
receivable	-	-
Balance at 31 March	**34,768**	**36,201**

	2014-15	2013-14
Amounts falling due after more than one year:	£000	£000
Leasehold reverse premium	392	708
Balance at 31 March	**392**	**708**

12.1 Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2014-15	2013-14	2014-15	2013-14
	£000	£000	£000	£000
Balances with other central government bodies	22,328	21,402	-	-
Balances with local authorities	-	-	-	-
Subtotal: intra-government balances	22,328	21,402	-	-
Balances with bodies external to government	12,440	14,799	392	708
Total payables at 31 March	**34,768**	**36,201**	**392**	**708**

13. Provisions for liabilities and charges

13.1 Early retirement

	2014-15	2013-14
	£000	£000
Balance at 1 April	**424**	**513**
Provided in the year	11	30
Borrowing costs	-	-
Provisions not required written back	-	-
Provisions utilised in the year	(103)	(119)
Balance at 31 March	**332**	**424**

	2014-15	2013-14
Analysis of expected timings of discounted flows	**£000**	**£000**
Not later than one year	95	170
Later than one year and not later than five years	115	140
Later than five years	122	114
Balance at 31 March	**332**	**424**

The department meets the additional costs of benefits beyond the normal PCSPS benefits for employees who retire early by paying the required amounts monthly to the PCSPS over the period between early departure and normal retirement date. The department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 1.3 per cent in real terms.

13.2 Pension liabilities

	2014-15	2013-14
	£000	£000
Provision at 1 April	**744**	**690**
Interest cost	32	28
Actual benefit payments	(18)	(17)
Actuarial loss	21	43
Past service cost	-	-
Provision at 31 March	**779**	**744**
Net movement in year (excluding actuarial loss)	14	11

	2014-15	2013-14
History of experience losses	£000	£000
Experience (gain)/loss arising on the scheme liabilities	(3)	8
Amount recognised as a percentage of present value of scheme liabilities	(0.4%)	1.1%
Total amount recognised in Statement of Changes in Taxpayers' Equity	21	43

The pension provision is for the unfunded pension liabilities which fall to us for a previous chief executive and a director general. The pension provision is unfunded, with the benefits being paid as they fall due and guaranteed by Ofgem. There is no fund, and therefore no surplus or deficit. We've sought actuarial advice to ensure that the provision is set at a realistic level.

An actuarial valuation was carried out by the Government Actuary's Department at 31 March 2015. The major assumptions used by the actuary were:

	At 31 March 2015	At 31 March 2014
	% (per annum)	% (per annum)
Inflation assumption - Consumer Price Index	2.20	2.50
Rate of increase in salaries	4.20	4.50
Rate of increase for pensions in payment and deferred income	2.20	2.50

	2014-15	2013-14	2012-13
Analysis of actuarial loss	£000	£000	£000
Experience (gain)/loss arising on the scheme liabilities	(3)	8	1
Changes in assumptions underlying the present value of scheme liabilities	24	35	16
Per Statement of Changes in Taxpayers' Equity	21	43	17

From 31 March 2015, the discount rate for pension scheme liabilities changed from 1.80% to 1.30%. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2015.

13.3 Dilapidations

	2014-15
	£000
Provision at 1 April	1,900
Increase in dilapidations	-
Provision at 31 March	**1,900**

14. Contingent liabilities disclosed under IAS 37

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

As at 31 March 2015 there were no contingent liabilities that required disclosure.

15. Related party transactions

During the year, we transferred £7.059 million to the Department for Business, Innovation and Skills for the energy-sector-related costs of Consumer Focus (operating as Consumer Futures) and Citizens Advice. Additionally, £0.986 million was transferred to the National Measurement Office for metrology services.

We administer environmental programmes on behalf of the Department of Energy and Climate Change (DECC), and second staff to DECC. Total income from DECC recognised in year amounted to £21.914 million.

We sublet part of our Millbank premises to the Department for Environment, Food and Rural Affairs (DEFRA). We administer the Northern Ireland Renewable Heat Incentive on behalf of the Department of Enterprise, Trade and Investment, and administer the Northern Ireland Renewables Obligation on behalf of the NI Authority for Utility Regulation. Income recognised in year was £2.020 million from DEFRA, £0.626 million from the NI Authority for Utility Regulation, and £0.302 million from the Department of Enterprise, Trade and Investment.

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

None of the Authority members, key managerial staff or other related parties has undertaken any material transactions with Ofgem during the year.

16. Third-party assets

Renewables Obligation

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

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

The amount held in the buyout funds as at 31 March 2015 was £3,147.

Feed-in Tariffs levelisation fund

The Feed-in Tariff (FIT) scheme is a government programme introduced on 1 April 2010 designed to promote the uptake of small-scale renewable and low-carbon electricity generation technologies. Ofgem administers the scheme on behalf of the Department of Energy and Climate Change (DECC), who is responsible for the FIT scheme policy and legislation, while Licensed Electricity Suppliers (FIT Licensees) operate the front-facing aspect of the scheme. If a householder, community or business has an eligible installation, they are paid a tariff for the electricity they generate and a tariff for the electricity they export back to the grid by their FIT Licensee.

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

The amount held in the Levelisation funds as at 31 March 2015 was £60,373.

17. Events after the reporting period

There were no reportable events between the end of the reporting period and 16 June 2015, the authorised for-issue date. The financial statements do not reflect events after this date.

Accounting officer's foreword to the trust statement

Scope

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

The Authority is responsible for enforcing and collecting fines and penalties imposed on the energy companies that it regulates, and collecting the England and Wales, and Scotland fossil fuel levies.

The trust statement reports the revenues and expenditures and assets and liabilities related to fines, penalties and the fossil fuel levies for the financial year 2014-15. These amounts are collected by us for payment into the consolidated fund.

This statement is also prepared to disclose any material expenditure or income that has not been applied to the purposes intended by parliament, or material transactions that have not conformed to the authorities which govern them. There was no such expenditure or income during 2014-15.

Background

Fines and penalties

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

No penalty imposed by the Authority may exceed 10% of the turnover of the licence holder. Any sums received by the Authority by way of a penalty shall be paid into the consolidated fund. In 2014-15 this amounted to £5,925,014 plus interest of £4,186.

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

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

Fossil Fuel Levy

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

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

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

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

The Sustainable Energy Act 2003 created a mechanism by which the FFL surplus, up to a maximum of £60 million, could be transferred from the England and Wales levy account to the consolidated fund. The Secretary of State for Business, Innovation and Skills has a duty to spend the amount for the purpose of promoting the use of energy from renewable sources. A parallel provision has been included in the Energy Bill for the Scottish Executive relating to the Scotland levy account.

Since the £60 million limit has been exceeded, all further FFL receipts are treated as hereditary revenue, as they are non-statutory receipts. Section 1 of the Civil List Act 1952 requires hereditary revenues to be paid into the consolidated fund. On 2 October 2014 and 27 March 2015, £24 million and £19 million, respectively, were transferred to the consolidated fund from the England and Wales account on this basis.

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

Under section 187 of the Energy Act 2004, the Scottish government may direct us to pay an amount from the Scottish levy account to the Scottish consolidated fund. No such direction was received during 2014-15.

Financial review

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

ScottishPower

On 20 May 2014 we issued a notice confirming our decision to impose a penalty of £750,000 on ScottishPower for breaches of its requirements under Standard Licence Condition 27.2A with respect to cost reflective price differentials.

The Authority considered it appropriate to impose a penalty on ScottishPower. However, ScottishPower agreed to pay £750,000 in payments to Energy Best Deal. The Authority considered that the payments offered by ScottishPower to aid consumers will be of greater benefit to energy customers than if a substantial penalty was imposed. Accordingly, the Authority decided that a nominal penalty of £1 should be imposed. The penalty was received in July 2014 and transferred to the Exchequer in the same month.

British Gas

On 20 May 2014 we issued a notice confirming our decision to impose a penalty of £800,000 on British Gas following an investigation into the company's compliance with Standard Licence Conditions 7A and 14 of its electricity and gas supply licences with respect to non-domestic customer transfer blocking and renewals.

In deciding the level of penalty the Authority paid particular regard to the fact that BG agreed to pay redress in the sum of £3.2 million for the purpose of providing energy efficiency measures to micro-business consumers.

The penalty of £800,000 was to be made by British Gas by 1 July 2014. British Gas missed this deadline and made payment on 23 July 2014. British Gas paid an additional sum of £3,857.53 in interest payments to reflect the late payment of the penalty. The penalty and interest was transferred to the Exchequer in July.

npower

On 27 June 2014 we issued a notice confirming our decision to impose a penalty of £125,000 on npower following our conclusion that the licensees, npower Limited, npower Northern Limited, npower Direct Limited, and npower Yorkshire Limited breached their reporting requirements under s.32J of the Electricity Act 1989 for the reporting of electricity supply data to Ofgem for the 2010-11 and 2011-12 reporting periods.

The penalty was due to be paid by 11 August 2014. npower missed this deadline and made payment on 21 August 2014. Npower paid an additional sum of £328.77 in interest payments to reflect the late payment of the penalty. The penalty and interest was transferred to the Exchequer in August.

E.ON

On 2 July 2014 we issued a notice confirming our decision to impose a penalty of £12 million on E.ON following the investigation into its compliance with Standard Licence Conditions 23 and 25 of its electricity and gas supply licences with respect to telephone and face-to-face sales activities.

The Authority considered it appropriate to impose a penalty on E.ON. However, E.ON agreed to pay £12 million in payments to vulnerable customers. The Authority considered that the payments offered by E.ON to aid consumers will be of greater benefit to energy customers than if a substantial penalty is imposed. Accordingly, the Authority decided that a nominal penalty of £1 should be imposed. The penalty was received in July 2014 and transferred to the Exchequer in the same month.

EDF Energy

On 9 October 2014 we issued a notice confirming the conclusion of our investigation into whether EDF Energy's customer contact centre had complied with the requirements of the Gas and Electricity (Consumer Complaints Handling Standards) Regulations (CHSR) 2008.

The Authority concluded that EDF Energy had breached regulations 7 (1) (a), 4 and 5 of the CHSR between May 2011 and January 2012.

EDF Energy agreed to make a £3 million contribution to Citizens Advice Energy Best Deal Extra and Plymouth Citizen's Advice Bureau. The Authority considered that the £3 million payment offered by EDF Energy to aid consumers will be of greater benefit to energy customers than if a substantial penalty was imposed. Accordingly, the Authority decided that a nominal penalty of £1 should be imposed. The penalty was received in October 2014 and transferred to the Exchequer in the same month.

ScottishPower

On 5 March 2015 we issued a notice confirming our decision to impose a financial penalty on ScottishPower following an investigation into the company's compliance with its obligations under Article 14(1) of the Electricity and Gas (Community Energy Saving Programme) Order 2009.

The Authority found that ScottishPower breached Article 14(1) of the CESP Order having failed to achieve its carbon emissions reduction obligations by promoting qualifying actions to domestic energy users by 31 December 2012. ScottishPower as a whole delivered 69.96% of its obligation and had a shortfall of 554,373 tCO_2.

The particular ScottishPower licensees which failed to meet their obligations were ScottishPower Energy Retail Limited and ScottishPower Generation Limited.

The Authority noted that ScottishPower undertook mitigation activity by April 2013 to mitigate its carbon saving shortfall in full. ScottishPower also over-delivered which resulted in additional households receiving measures. The Authority had regard to this in setting the final level of penalty.

A payment of £2.4 million (less a nominal £1 penalty on each of the nine ScottishPower licensees) will be made by ScottishPower to the ScottishPower Energy People Trust. The nominal penalties were received in March 2015 and transferred to the Exchequer in the same month.

SSE

On 5 March 2015 we issued a notice confirming our decision to impose a financial penalty on SSE following an investigation into the company's compliance with its obligations under Article 14(1) of the Electricity and Gas (Community Energy Saving Programme) Order 2009.

The Authority found that SSE breached Article 14(1) of the CESP Order having failed to achieve its carbon emissions reduction obligations by promoting qualifying actions to domestic energy users by 31 December 2012. SSE as a whole delivered 90.9% of its obligation and had a shortfall of 252,168 tCO_2. SSE's shortfall as a percentage of its obligation (9.1%) was smaller than any other Obligated Party under CESP.

The particular SSE licensees which failed to meet their obligations were SSE Energy Supply Limited, Southern Electric Gas Limited, SSEPG (Operations) Limited, Medway Power Limited, Keadby Generation Limited, Greater Gabbard Offshore Windfarm Limited, Uskmouth Power Company Limited, Clyde Wind Farm (Scotland) Limited and Griffin Wind Farm Limited.

The Authority noted that SSE undertook mitigation activity by May 2013 to mitigate its carbon saving shortfall in full. SSE also over-delivered which resulted in 346 more households receiving measures. The Authority had regard to this in setting the final level of penalty.

A payment of £1.75 million (less a nominal £1 penalty on each of the SSE licensees) will be made by SSE to vulnerable consumers, through the Foundations Independent Living Trust, Energy Action Scotland and the Citizen's Advice Bureau for use in Wales. The nominal penalty was to be paid by 17 April 2015.

GDF Suez

On 5 March 2015 we issued a notice confirming our decision to impose a financial penalty on GDF Suez following an investigation into the company's compliance with its obligations under Article 14(1) of the Electricity and Gas (Community Energy Saving Programme) Order 2009.

The Authority found that GDF Suez/IPM breached Article 14(1) of the CESP Order having failed to achieve its carbon emissions reduction obligations by promoting qualifying actions to domestic energy users by 31 December 2012. GDF Suez/IPM as a whole delivered 38.6% of its reduced obligation and had a shortfall of 177,928 tCO2.

The particular GDF Suez/IPM licensees which failed to meet their obligations were Saltend Cogeneration Company Limited, Deeside Power Limited and Rugeley Power Generation Limited.

The Authority noted that GDF Suez/IPM undertook mitigation activity by March 2013 to mitigate its carbon saving shortfall in full. GDF Suez/IPM also delivered mitigation in excess of the level required to address the harm associated with its breach. The Authority had regard to this in setting the final level of penalty.

A payment of £450,000 (less a nominal £2 penalty on GDF Suez/IPM licensees) was made to Age UK. The nominal penalty was to be paid by 17 April 2015.

British Gas

On 5 March 2015 we issued a notice confirming our decision to impose a financial penalty on British Gas following an investigation into the company's compliance with its obligations under Article 9(1) and Article 9(1A) of the Electricity and Gas (Carbon Emissions Reduction) Order 2008 (as amended).

The Authority noted that British Gas initially had an obligation to promote carbon savings equivalent to 96,279.607 ktCO2. Under Article 9(1), as a group, British Gas delivered 98.9% of its overall CERT target and had a shortfall of 1,075.111 ktCO2 at 31 December 2012. Under Article 9(1A), as a group, it delivered 95.5% of its Insulation Obligation target of 24,119.192 ktCO2 and had a shortfall of 1,089.622 ktCO2 at 31 December 2012. The shortfall of British Gas's overall CERT target was incurred entirely against its Insulation Obligation. British Gas accepts that it breached Articles 9(1) and 9(1A) of the CERT Order.

The Authority noted that British Gas undertook mitigation action equivalent to the volume of its shortfall associated with not achieving the carbon reduction target promptly by February 2013 (for both the overall CERT obligation and Insulation Obligation). British Gas also over-delivered during CERT mitigation. The Authority had regard to this in setting the level of penalty.

A payment of £500,000 (less a nominal £1 penalty) was made by British Gas to the British Gas Energy Trust (BGET). The nominal penalty was to be paid by 17 April 2015.

British Gas

On 5 March 2015 we issued a notice confirming our decision to impose a financial penalty on British Gas following an investigation into the company's compliance with its obligations under Article 14(1) of the Electricity and Gas (Community Energy Saving Programme) Order 2009.

The Authority found that British Gas breached Article 14(1) of the CESP Order having failed to achieve its carbon emissions reduction obligations by promoting qualifying actions to domestic energy users by 31 December 2012. British Gas ultimately delivered 62.4% of its obligation and had a shortfall of 2,129.700 ktCO2. British Gas's shortfall in absolute terms was greater than that of any other obligated party under CESP.

The Authority noted that British Gas undertook mitigation activity by August 2013 to mitigate its carbon saving shortfall in full. British Gas also over-delivered which resulted in 674 more households receiving measures. The Authority had regard to this in setting the final level of penalty.

A payment of £10.6 million (less a nominal £1 penalty) was made by British Gas to the British Gas Energy Trust (BGET). The nominal penalty was to be paid by 17 April 2015.

Drax

On 16 March 2015 we issued a notice confirming our decision to impose a financial penalty on Drax following an investigation into the company's compliance with its obligations under Article 14(1) of the Electricity and Gas (Community Energy Saving Programme) Order 2009.

The Authority found that Drax breached Article 14(1) of the CESP Order having failed to achieve its carbon emissions reduction obligations by promoting qualifying actions to domestic energy users by 31 December 2012. Drax delivered 37.1% of its obligation and had a significant shortfall of 562,826 tCO2 or 62.9% of its obligation.

Drax will pay a penalty of £5 million. They will also pay £20 million in consumer redress to National Energy Action. The penalty was to be paid by 30 April 2015.

InterGen

On 26 March 2015 we issued a notice confirming our decision to impose a financial penalty on InterGen following an investigation into the company's compliance with its obligations under Article 14(1) of the Electricity and Gas (Community Energy Saving Programme) Order 2009.

The Authority found that InterGen breached Article 14(1) of the CESP Order having failed to achieve its carbon emissions reduction obligations by promoting qualifying actions to domestic energy users by 31 December 2012. InterGen failed to meet by 31 December 2012, its carbon emissions reduction obligation mandated under Article 14(1) of the CESP Order. The particular InterGen licensees which failed to meet their obligations were Rocksavage Power Company Limited, Coryton Energy Company Limited, and Spalding Energy Company Limited. InterGen as a whole delivered 6.4% of its obligation and had a shortfall of 489,776 tCO2. InterGen's shortfall as a percentage of its obligation (93.6%) was greater than any other Obligated Party under CESP.

The Authority noted that although InterGen undertook some mitigation activity by May 2013 to mitigate its carbon saving shortfall, InterGen did not mitigate its shortfall in full. InterGen had 203,276 tCO2 (38.8% of its obligation) still undelivered. The Authority had regard to this in setting the level of penalty.

A nominal financial penalty of £1 each will be paid by Rocksavage Power Company Limited, Coryton Energy Company Limited and Spalding Energy Company Limited on the basis that InterGen will pay £11 million (less the £3 financial penalties) in consumer redress. The nominal penalties were to be paid by 8 May 2015.

Fossil Fuel Levy

During 2014-15, we collected £43.3 million in respect of the England and Wales levy, and £6.9 million in respect of the Scotland levy. £43 million from the England and Wales levy was paid over to the consolidated fund. The costs associated with administering the two levies are recovered from the levy by us and are shown as income within our resource accounts.

Auditors

The trust statement is audited by the comptroller and auditor general under section 7 of the Government Resources and Accounts Act 2000. The audit opinion is on pages 96 to 97. The auditor's notional remuneration for this is included in our resource accounts.

There were no fees for non-audit work.

Basis for preparation

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

Accounting judgements

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

Events after the reporting period

There were no events after the reporting period.

Dermot Nolan
Accounting officer

12 June 2015

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

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

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

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

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

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

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

Governance statement

Ofgem's governance statement, covering both the resource accounts and the trust statement, is on pages 54 to 59.

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

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets' Trust Statement for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue and Expenditure, other income and expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. This financial statement has been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Office and Gas Electricity Markets trust statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Office and Gas Electricity Markets; and the overall presentation of the financial statements.

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the department as at 31 March 2015 and of the statement of revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Annual Report Accounting Officer's foreword to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

16 June 2015

Statement of revenue, other income and expenditure for the year ended 31 March 2015

	Note	2014-15 £000	2013-14 £000
Revenue			
Fines and penalties			
Penalties imposed	2.1	5,925	11,000
Fossil Fuel Levy			
Fossil Fuel Levy (England and Wales)		37,545	62,227
Fossil Fuel Levy (Scotland)		6,804	7,727
Other income			
Interest on penalties		4	-
Interest on Fossil Fuel Levy (England and Wales)		126	128
Interest on Fossil Fuel Levy (Scotland)		81	59
Total revenue and other income		**50,485**	**81,141**
Expenditure			
Administration of the Fossil Fuel Levy		(80)	(132)
Total expenditure		**(80)**	**(132)**
Net revenue for the consolidated fund		**50,405**	**81,009**

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

The notes at pages 101 to 103 form part of this statement.

Statement of financial position as at 31 March 2015

	Note	2014-15 £000	2013-14 £000
Current assets			
Cash at bank – UK consolidated fund		29,597	29,227
Cash at bank – Scottish Consolidated Fund		30,993	23,983
Receivables and accrued revenue receivable	3	11,305	12,216
Net current assets		71,895	65,426
Current liabilities			
Payables and accrued expenditure liabilities	4	(12)	(19)
Total net assets		71,883	65,407
Represented by:			
Balance on the Consolidated Fund account		39,534	39,929
Balance on Scottish Consolidated Fund account		32,349	25,478
	5	71,883	65,407

Dermot Nolan
Accounting officer

12 June 2015

Statement of cash flows for the year ended 31 March 2015

	2014-15	2013-14
	£000	£000
Net cash flow from operating activities	51,309	77,099
Cash paid to the consolidated funds	(43,929)	(68,000)
Increase in cash in the period	7,380	9,099

Notes to the cash flow statement

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

		2014-15	2013-14
	Note	£000	£000
Net revenue for the consolidated fund		50,405	81,009
Decrease/(Increase) in non-cash assets	3	911	(3,899)
Decrease in liabilities	4	(7)	(11)
Net cash flow from operating activities		51,309	77,099

B: Analysis of changes in net funds

	2014-15	2013-14
	£000	£000
Increase in cash in the period	7,380	9,099
Net funds at 1 April	53,210	44,111
Net funds at 31 March	60,590	53,210

The notes at pages 101 to 103 form part of this statement.

Notes to the Trust Statement

1. Statement of accounting policies

1.1 Basis of accounting

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

The income and associated expenditure contained in these statements are those flows of funds which Ofgem handles on behalf of the consolidated fund and where it is acting as agent rather than as principal.

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

1.2 Accounting convention

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

1.3 Revenue recognition

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

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

2. Revenue

2.1 Fines and penalties

	2014-15	2013-14
	£000	£000
Penalty imposed on npower	125	-
Penalty imposed on BG	800	-
Penalty imposed on Drax	5,000	-
Penalty imposed on SSE	-	10,500
Penalty imposed on E.ON	-	500
Total	**5,925**	**11,000**

Nominal penalties receivable do not show due to roundings.

3. Receivables and accrued revenue receivable

	Receivables as at 31 March 2015	Accrued revenue receivable at 31 March 2015	Total as at 31 March 2015	Total as at 31 March 2014
	£000	£000	£000	£000
Fines and penalties	5,000	-	5,000	-
Fossil Fuel Levy	-	6,305	6,305	12,216
Total	**5,000**	**6,305**	**11,305**	**12,216**

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

Nominal penalties receivable do not show due to roundings.

4. Payables and accrued expenditure liabilities

	Payables as at 31 March 2015	Accrued expenditure liabilities at 31 March 2015	Total as at 31 March 2015	Total as at 31 March 2014
	£000	£000	£000	£000
Fines and penalties	-	-	-	-
Fossil Fuel Levy	12	-	12	19
Total	**12**	**-**	**12**	**19**

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

5. Balance on the Consolidated Fund accounts

	2014-15	2013-14
	£000	£000
Balance on the consolidated fund accounts	65,407	52,398
Net revenue for the consolidated fund accounts	50,405	81,009
Less amount paid to the consolidated funds	(43,929)	(68,000)
Balance on consolidated fund accounts as at 31 March	**71,883**	**65,407**

Section F
Appendices

Appendix I: Performance against 2014-15 deliverables

Appendix II: Performance indicators 2014-15

Appendix III: Impact assessments undertaken in 2014–15

Appendix IV: Investigations and enforcement action 2014-15

Appendix V: Off-payroll appointees

Appendix I
Performance against 2014-15 deliverables

Our Forward Work Programme for 2014-15 included deliverables to be achieved in each quarter. The Forward Work Programme for 2014-15 structured deliverables by theme, which is what we have reported against.

The Forward Work Programme for 2015-16 structures deliverables by the six strategic outputs. We will in the future report on deliverables by strategic output.

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

	Number in Forward Work Programme	Total achieved		Deferred to 2015-16	No longer apply
		Met in quarter	Met in later quarter		
Full year					
Year total	**49**	**37**	**7**	**3**	**2**
Year %		76%	14%	6%	4%
First quarter					
Quarter total	7	6	1	-	-
Second quarter					
Quarter total	15	12	3	-	-
Third quarter					
Quarter total	19	14	3	1	1
Fourth quarter					
Quarter total	8	5	-	2	1

Theme 1 – Promoting Value for Money				
Activity	**Action**	**Outcome**	**Target Period**	**Actual Period**
Distribution	RIIO ED1 non-fast track Draft Determination published	Value/Environment	Q2	Q2
Distribution	RIIO ED1 non-fast track Final Determination published	Value/Environment	Q3	Q3
Distribution	ED1 Regulatory Instructions and Guidance (RIGs) review published	Value/Environment	Q4	N/A[1]
Distribution	DPCR5/RIIO-TI/RIIO-GD1 annual reports published	Value/Environment	Q4	Q4[2]
Markets	Submit national report to EU Commission	Reliability	Q2	Q2
Markets	Review of Typical Domestic Consumption Values	Value/Trust/Transparency	Q4	Q4
Markets	Change of supplier decision document	Value/Reliability/Trust/ Environment	Q2	Q4
Markets	Report on framework for Demand Side Response - Progress Report	Value/Reliability/Trust/ Environment	Q3	Q4
Markets	Arrangements for regulation of Third Party Intermediaries (TPIs) in the non-domestic retail market	Value/Trust/Transparency	Q2	Q2
Markets	Annual report on Consolidated Segmental Statements	Value/Trust/Transparency	Q3	Q3
Markets	Annual State of the Market Report	Value/Trust/Transparency	Q1	Q1
Markets	Publish decision on improving transparency of energy company profits	Value/Trust/Transparency	Q2	Q3
Markets	Publish decision on White Label suppliers	Value/Trust/Transparency	Q3	N/A[3]
Sustainable Development	Publish revised Enforcement Guidelines	Trust	Q3	Q2
Sustainable Development	Publish revised statement of penalties	Trust	Q3	Q3
Sustainable Development/ Markets	Confidence Code Review	Trust/Transparency	Q2	Q2
Sustainable Development	Protection and empowerment of SME's - stakeholder engagement event	Trust/Transparency	Q3	Q4
Sustainable Development	Review of supplier complaints handling	Value/Trust	Q3	Q3
Sustainable Development	Review of domestic suppliers direct debit practices	Value	Q4	N/A[4]

[1] We have delayed this into Q1 2015-16, so that we could have another informal review by the companies.
[2] We published the RIIO—T1 and GD1 annual reports on 19 March. We had to cancel the DPCR5 annual report due to the RIIO-ED1 appeal.
[3] The final decision on White Label suppliers will now be made in Q1 2015-16
[4] The work on domestic suppliers direct debit practices has been reprioritised to 2015-16

Theme 2 – Promoting Security of Supply				
Activity	**Action**	**Outcome**	**Target Period**	**Actual Period**
Markets	Capacity assessment report to Secretary of State	Reliability/Environment	Q3	Q1
Markets	Statutory Security of Supply Report	Reliability	Q3	Q3
Markets	Electricity Balancing Significant Code Review final policy decision and directions	Reliability	Q2	Q1
Markets	Electricity Balancing Significant Code Review licence change consultations	Reliability	Q3	N/A[5]
Markets	Gas Significant Code Review code and licence changes	Reliability	Q3	Q3
Transmission	Integrated Transmission Planning and Regulation proposals	Value/Environment	Q2	Q2

Theme 3 – Promoting Sustainability				
Activity	**Action**	**Outcome**	**Target Period**	**Actual Period**
Sustainable Development	Annual letter to Secretary of State	Environment	Q2	Q2
Sustainable Development	Publish final proposals for green supply guidance	Transparency	Q1	Q1
Sustainable Development	Publish updated Licence Lite guidance	Stakeholder confidence	Q3	Q4
Sustainable Development	Publish Environmental Discretionary Reward scheme results (for 2013-14 scheme year)	Environment	Q3	Q3
Sustainable Development	Better regulation simplification plan	Business Capability	Q1	Q1
Sustainable Development/ Markets	Report on responses to Consumer Empowerment and Protection consultation paper, including workplan for Phase 1	Value/Trust/Transparency	Q1	Q2
Sustainable Development	Priority Services Register consultation	Value/Trust	Q1	Q1
Sustainable Development	Social obligations report	Value/Trust	Q3	Q3
Sustainable Development	Consumer Vulnerability referrals guidance	Value/Trust	Q4	N/A[6]
Sustainable Development	Consumer Vulnerability Strategy review	Value/Trust	Q3	Q3
Sustainable Development	Guaranteed and Overall Standards of Performance consultation	Value/Reliability	Q1	Q1
Distribution	Decisions on Network Innovations and Low Carbon Networks Fund competitions	Environment	Q3	Q3

[5] Licence change will not be undertaken
[6] Work subsumed into other vulnerability work

Theme 4 – Ensuring efficient delivery of government's consumer and environmental programmes				
Activity	**Action**	**Outcome**	**Target Period**	**Actual Period**
Offshore	Publish regulatory report on OFTO revenues	Through excellence in administration ensure offshore renewable generation is connected to GB electricity grid economically and efficiently	Q3	Q3
Offshore	Implement licence changes for the Generator Commissioning Clause in Energy Bill	Through excellence in administration ensure offshore renewable generation is connected to GB electricity grid economically and efficiently	Q2	Q1
RHI	Complete annual report on the Renewable Heat Incentive scheme	Through excellence in administration reduce carbon emissions and meet EU renewable targets	Q2	Q2
FIT	Complete annual report on the Feed-in Tariffs scheme	Through excellence in administration, increase the uptake in small scale renewable generation	Q4	Q3
FIT	Complete annual levelisation process	Through excellence in administration, increase the uptake in small scale renewable generation	Q2	Q2
RO	Complete annual report on Renewables Obligation	Through excellence in administration to increase proportion of electricity from renewable sources	Q4	Q4
WHD	Complete annual report on the Warm Home Discount scheme	Through excellence in administration to support fuel poor customers	Q2	Q3

Organisational Health				
Activity	**Action**	**Outcome**	**Target Period**	**Actual Period**
Finance and Risk Management	Publish 2013-14 Annual report and accounts	Business Capability	Q2	Q1
Finance and Risk Management	Publish the Fossil Fuel Levy Rate for 2015-16	Business Capability	Q3	Q3
Project Management	Publish the Forward Work Programme 2015-16	Business Capability	Q4	Q4

Appendix II
Performance indicators 2014-15

Activity	Metric (KPI's)	Details of what is being measured	Outcome	Frequency	Annual target 2014-15	Actual
Theme 1 – Promoting value for money						
Markets	Third party access	Consult on and carry out consultations regarding any applications made for exemption from Third Party Access arrangements under Article 22 by prospective storage and interconnector operators	Business Capability/ Reliability	Ongoing (as applications are received)	100%	100%
Markets	Third party access	Send decisions on Article 22 exemptions to the European Commission within prescribed timescales if adequate data has been provided	Business Capability/ Reliability	Ongoing (as applications are received)	100%	100%
Sustainable Development	Customer service	Protect consumers by responding substantively to customer contacts	Business Capability/ Trust	Quarterly	93% - 10 working days	98%
Sustainable Development	Enforcement	Produce statement of case or inform party under investigation of what action we propose to take.	Business Capability/ Trust	Quarterly	100% within 9 months of formal investigation	100%

Activity	Metric (KPI's)	Details of what is being measured	Outcome	Frequency	Annual target 2014-15	Actual
Theme 2 – Promoting Security of Supply						
SG & G Distribution	Licensing	Make code modification decisions within 25 working days of receiving the Final Modification Report (or, where applicable, final responses to a Final Impact Assessment or other Ofgem consultation) and, where applicable, publish code modification Impact Assessment (or other Ofgem consultation) within 3 months of receiving the Final Modification Report.	Business Capability/ Trust	Quarterly	90%	93%
SG & G Distribution	Licensing	Grant competitive licence applications within 45 days of receipt of a duly made application	Business Capability/ Trust	Quarterly	100%	100%
Theme 3 – Promoting Sustainability						
SG & G Distribution	Determinations	Determinations to be progressed to decision within 3 months, as applicable.	Business Capability/ Reliability	Quarterly	3 months	Achieved
SG & G Distribution	LCNF	Announcements of NIC/ LCNF Initial Screening Process (ISP) decisions within one month of ISP submission.	Business Capability/ Reliability	Quarterly	1 month	Achieved

Activity	Metric (KPI's)	Details of what is being measured	Outcome	Frequency	Annual target 2014-15	Actual
Theme 4 – Ensuring efficient delivery of government's consumer and environmental programmes						
E-Serve	Non-Domestic RHI processing	Enquiries to be answered within 10 working days.	Through excellence in administration reduce carbon emissions and meet EU renewable targets	Quarterly	90% within 10 working days	98%
E-Serve	Non-Domestic RHI processing	Follow up with generators on outstanding issues with their applications for accreditation.	Through excellence in administration reduce carbon emissions and meet EU renewable targets	Quarterly	90% within 10 working days	54%[1]
E-Serve	Non-Domestic RHI processing	Payments to be made within 30 working days of quarterly periodic data submission.	Through excellence in administration reduce carbon emissions and meet EU renewable targets	Quarterly	95% within 30 working days	97%
E-Serve	Non-Domestic RHI processing	The on-line application system will be available for a minimum of 99% of the supported business hours (excluding planned down time). Supported business hours are 08:00-17:30 Monday to Friday excluding bank holidays.	Through excellence in administration reduce carbon emissions and meet EU renewable targets	Ongoing	99% availability	100%
E-Serve	Offshore processing	Licence grant within 70 days of commencement of Section 8a consultation	Through excellence in administration ensure offshore renewable generation is connected to GB	Quarterly	70 working days	Achieved
E-Serve	Offshore processing	Preferred Bidder selection within 120 days of ITT submission (excluding BAFO)	Through excellence in administration ensure offshore renewable generation is connected to GB electricity grid economically and efficiently	Quarterly	120 working days	Achieved
E-Serve	FIT processing	Follow up with the generators outstanding issues on their applications for accreditation.	Through excellence in administration, increase the uptake in small scale renewable generation	Monthly	90% within 10 working days	83%[2]

[1] Unexpected announcements on degression, lead to a higher number of applications than forecast
[2] Surges in the volumes of applications, driven by degression of tariffs

Activity	Metric (KPI's)	Details of what is being measured	Outcome	Frequency	Annual target 2014-15	Actual
Theme 4 – Ensuring efficient delivery of government's consumer and environmental programmes						
E-Serve	FIT processing	Feed-in Tariffs levelisation process to be completed in a timely manner after receipt of data from suppliers.	Through excellence in administration, increase the uptake in small scale renewable generation	Quarterly	95% within 22 working days	100%
E-Serve	RO processing	Issue the main batches of renewable certificates following the generators' reporting deadline of their output data.	Through excellence in administration to increase proportion of electricity from renewable sources	Monthly	95% within 17 working days (Apr - Jun) 95% within 12 working days (July -Mar)	95%
E-Serve	RO processing	Follow up with the generators outstanding issues on their applications for accreditation.	Through excellence in administration to increase proportion of electricity from renewable sources	Monthly	90% within 10 working days	98%
E-Serve	WHD processing	Respond to obligated party Warm Home Discount schemes for approval.	Through excellence in administration to support fuel poor customers	Monthly	100% within 28 days	100%

Appendix III
Impact assessments undertaken in 2014-15

We published 10 impact assessments between 1 April 2014 and 31 March 2015. Further information on the following documents can be found at **www.ofgem.gov.uk.**

Date	Title
25/04/2014	Project TransmiT: Further consultation on proposals to change the electricity transmission charging methodology
15/05/2014	Electricity Balancing Significant Code Review: Impact Assessment for final policy decision
16/06/2014	Moving to reliable next-day switching
30/07/2014	RIIO-ED1: Draft determinations for the slowtrack electricity distribution companies
26/08/2014	CMP222: User commitment for non-generation users
17/12/2014	Cap and floor regime: Initial Project Assessment for the NSN interconnector to Norway
30/01/2015	Gas transmission charging review: Part II – our assessment of potential impact
20/02/2015	Final proposals on the treatment of white label providers in the domestic retail market
06/03/2015	Cap and floor regime: Initial Project Assessment of the FAB Link, IFA2, Viking Link and Greenlink interconnectors
17/03/2015	Integrated Transmission Planning and Regulation (ITPR) project: final conclusions

Summary of actions impact assessments relate to

This table shows the decisions taken in the 2014-15 financial year that involve proposals for which impact assessments were previously carried out.

Date	Decision	Title and date of previous Impact Assessment
15/05/2014	Electricity Balancing Significant Code Review - Final policy decision	Electricity Balancing Significant Code Review - Draft policy decision Impact Assessment (30/07/2013)
16/06/2014	Gas security of supply Significant Code Review – statutory consultation	Gas Significant Code Review Impact Assessment for final policy decision (12/02/2014)
25/07/2014	Project TransmiT: Decision on proposals to change the electricity transmission charging methodology	Project TransmiT: Further consultation on proposals to change the electricity transmission charging methodology (25/04/2014)
06/08/2014	Decision to roll out a cap and floor regime to near-term electricity interconnectors	Cap and floor regime for application to project NEMO (12/12/2013)
28/11/2014	RIIO-ED1: Final determinations for the slowtrack electricity distribution companies	RIIO-ED1: Draft determinations for the slowtrack electricity distribution companies (30/07/2014)
30/01/2015	Confidence Code Review – Decision	Proposals for regulating non-domestic Third Party Intermediaries (14/02/2014)
10/02/2015	Decision on moving to reliable next-day switching	Moving to reliable next-day switching (16/06/2014)
12/03/2015	Decision on the Initial Project Assessment of the NSN interconnector to Norway	Cap and floor regime: Initial Project Assessment for the NSN interconnector to Norway (17/12/2014)

Appendix IV
Investigations and enforcement action 2014-15

Details of our cases are available on our website[1] in accordance with our policy as set out in our Enforcement Guidelines.[2] We will usually publish brief details of the facts and nature of the investigations on our website, although policy is different for the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT).[3]

Below you can find details of the penalty and redress payments we have secured as a result of an investigation finding a breach. The companies made payments either directly to consumers or to programmes and funds that would benefit them.

Company	Issue	Decision	Date of decision
British Gas	Compliance with Article 9(1) and Article 9(1A) of the Electricity and Gas (Carbon Emissions Reduction) Order 2008.	Settlement. British Gas agreed to pay a £1 fine and consumer redress in the form of £499,999 to the British Gas Energy Trust.	March 2015
British Gas	Compliance with Article 14(1) Electricity and Gas (Community Energy Saving Programme) Order 2009.	Settlement. British Gas agreed to pay a £1 fine and consumer redress in the form of £10.6 million to the British Gas Energy Trust.	March 2015
Drax	Compliance with Article 14(1) Electricity and Gas (Community Energy Saving Programme) Order 2009.	Settlement. Drax agreed to a £5 million fine and consumer redress in the form of £20 million to National Energy Action. Drax has also arranged delivery of energy efficiency measures to the value of £3 million by 31 October 2016.	March 2015

[1] https://www.ofgem.gov.uk/investigations
[2] https://www.ofgem.gov.uk/ofgem-publications/89753/enforcementguidelines12september2014publishedversion.pdf
[3] In regard to open cases, the fact that we have opened an investigation, does not imply that the companies involved have breached licence conditions or other obligations.

Company	Issue	Decision	Date of decision
GDF Suez/IPM	Compliance with Article 14(1) Electricity and Gas (Community Energy Saving Programme) Order 2009.	Settlement. GDF Suez/IPM agreed to pay a £2 penalty and consumer redress in the form of £449,998 to Age UK.	March 2015
InterGen	Compliance with Article 14(1) Electricity and Gas (Community Energy Saving Programme) Order 2009.	Settlement. InterGen agreed to pay a £3 penalty and redress in the form of £4.8 million to New Gorbals Housing Association, £6.2 million to National Energy Action.	March 2015
ScottishPower	Compliance with Article 14(1) Electricity and Gas (Community Energy Saving Programme) Order 2009.	Settlement. ScottishPower agreed to pay a £2 fine and consumer redress in the form of £2,399,398 to the ScottishPower Energy People Trust.	March 2015
SSE	Compliance with Article 14(1) Electricity and Gas (Community Energy Saving Programme) Order 2009.	Settlement. SSE agreed to pay a £1 fine on each of its operations and consumer redress in the form of £849,997 to the Foundations Independent Living Trust, £749,997 to Energy Action Scotland and £149,999 to the Citizen's Advice Bureau for use in Wales.	March 2015
UK Capacity Reserve	Compliance with the requirements of Rule 5.13.1(b) of the Capacity Market Rules.	The 11 non-compliant generating units are excluded from submission for capacity auctions taking place in the next two years.	March 2015
EDF	Compliance with the Gas and Electricity Consumer Complaints Handling Standards (CHSR) Regulations 2008	Settlement. EDF paid a £1 fine and consumer redress in the form of £3 million to Citizens Advice Energy Best Deal Extra and Plymouth Citizen's Advice Bureau.	October 2014
E.ON	Compliance with Standard Licence Conditions 23 and 25 of its electricity and gas supply licence with respect to telephone and face-to-face sales activities.	Settlement. E.ON paid a £1 fine and consumer redress in the form of £12 million to vulnerable customers.	July 2014
ScottishPower	Compliance with Standard Licence Conditions 27.2A of its electricity and gas supply licence with respect to cost reflective price differentials.	Settlement. ScottishPower paid a £1 fine and consumer redress in the form of £750,000 to Energy Best Deal.	July 2014
Npower	Compliance with its reporting of electricity supply data under the Renewables Obligation and Feed-in Tariff scheme.	Settlement. Npower paid a £125,000 fine plus an additional sum of £328.77 in interest to reflect the late payment of the penalty. Redress was made to the market in the form of ROCs amounting to an estimated value of £896,900 (includes 5.5% interest for late payment) and £63,000 to the Annual Levelisation process.	June 2014
British Gas	Compliance with Standard Licence Conditions 7A and 14 of its electricity and gas supply licences with respect to non-domestic customer transfer blocking and renewals.	Settlement. British Gas paid an £800,000 fine plus an additional sum of £3,857.53 in interest to reflect the late payment of the penalty. Redress was paid in the form of £3.2 million for the purpose of providing energy efficiency measures to micro-business consumers.	May 2014

Below are details of redress that Ofgem has secured through alternative action. This gives a company a chance to swiftly put things right for consumers without us finding a breach.

Company	Issue	Decision	Date of decision
SSE	Compliance with Standard Licence Condition 20 (SLC20) of the electricity generation licence.	SSE will make a £100,000 payment direct to Energy Action Scotland.	March 2015
BG	Compliance with Standard Licence Conditions 23 and 25 of its electricity and gas supply licence with respect to telephone and face-to-face sales activities.	British Gas paid £566,000 direct to customers and a £434,000 charitable donation to the BG Energy Trust.	July 2014
SSE	Timely restoration of supply and communication with customers following winter storms	SSE paid £2.3 million in consumer redress and a further £2.3 million to organisations that have an important role in helping vulnerable customers during power cuts and severe storms (British Red Cross, Age UK, National Energy Action, Macmillan Cancer Support and establishment of a new community fund).	July 2014
UKPN	Timely restoration of supply and communication with customers following winter storms	UKPN paid £2.4 million in consumer redress and a further £1 million to organisations that have an important role in helping vulnerable customers during power cuts (British Red Cross, Royal Association for Deaf People, Carers Trust and Citizen's Advice)	July 2014
British Gas Business	Compliance with obligations on non-domestic customer transfer blocking (Standard Licence Condition 14 of the gas and electricity supply licences).	British Gas Business paid £1.4 million in consumer redress and a further £250,000 paid into an Energy Efficiency Fund.	May 2014
SSEPD	Compliance with Standard Licence Condition 12 of its electricity distribution licence with respect to failing to give connection offers on time.	SSEPD has paid £750,000 to Scottish Hydro Electric Community Trust.	May 2014

Below are the currently open investigations. Please note, the opening of an investigation does not imply that we have made any finding(s) about non-compliance.

Company	Issue
BES	Investigation into compliance with Standard Licence Conditions 7A, 7B, 7, 14 and 21B of their gas and electricity supply licences.
British Gas	Investigation into whether British Gas took all reasonable steps to install, and supply electricity through, advanced meters at the premises of its larger non-domestic customers (Standard Licence Condition 12 of the gas and electricity supply licences).
Economy Energy	Investigation into compliance with standard conditions of the gas and electricity supply licences and the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008.
Economy Energy	Investigation into compliance with Standard Licence Conditions 23, 24 and 25 of the gas and electricity supply licences.
E.ON	Investigation into whether E.ON took all reasonable steps to install, and supply electricity through, advanced meters at the premises of its larger non-domestic customers (Standard Licence Condition 12 of the gas and electricity supply licences).
E.ON	Investigation into E.ON's January 2013 and 2014 price rises (Standard Licence Condition 23.6 and 24.3 of the gas and electricity supply licences).
N/A	Investigation under Chapter I of the Competition Act 1998 and/or Article 101 Treaty on the Functioning of the European Union.
npower	Investigation into compliance with Standards of Conduct (Standard Licence Condition 25C), Standard Licence Condition 27 (provision of final bills), and the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008.
npower	Investigation into whether Npower took all reasonable steps to install, and supply electricity through, advanced meters at the premises of its larger non-domestic customers (Standard Licence Condition 12 of the gas and electricity supply licences).
ScottishPower	Investigation into compliance with Standards of Conduct (Standard Licence Condition 25C), Standard Licence Condition 27 (provision of final bills), and the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008.
Spark	Compliance with the Standard Supply Licence Conditions 14, 21B, 22, 22C, 23, and 27 of its gas and electricity supply licence, and with the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008.
SSEPD	Investigation into whether SSE has infringed the requirements of Chapter II of the Competition Act 1998 and/or Article 102 Treaty on the Functioning of the European Union in respect of points of connection.
Utilita Energy Limited	Investigation into whether Utilita Energy Limited has prevented domestic customers from transferring to a new supplier (Standard Licence Condition 14 of the gas and electricity supply licences).

Appendix V
Off-payroll appointees

Off-payroll engagements as of 31 March 2015, for more than £220 per day and that last for longer than six months.

The following table summarises the situation on off-payroll engagements as at 31 March 2015

Number of existing engagements as of 31 March 2015	**1**
Of which:	
Number that have existed for less than one year at time of reporting	0
Number that have existed for between one and two years at time of reporting	0
Number that have existed for between two and three years at time of reporting	0
Number that have existed for between three and four years at time of reporting	0
Number that have existed for four or more years at time of reporting	1

All existing off-payroll engagements, outlined above, have at some point been subject to a risk based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

New off-payroll engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015, for more than £220 per day and that last for longer than six months

Number of new engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015	**0**
Number of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	0
Number for whom assurance has been requested	0
Of which:	
Number for whom assurance has been received	0
Number for whom assurance has not been received	0
Number that have been terminated as a result of assurance not being received.	0
Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2014 and 31 March 2015	**0**
Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	0
Number of individuals that have been deemed “board members, and/or, senior officials with significant financial responsibility”, during the financial year. This figure includes both off-payroll and on-payroll engagements.	0

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