2015-16

Office of Gas and Electricity Markets (Ofgem)

Annual Report and Accounts

ofgem

Making a positive difference
for energy consumers

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(For the year ended 31 March 2016)

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David Gray

The second half of last year saw a shift in focus for Ofgem. The previous two years had been dominated by concerns about prices, customer service, and lack of competition. These led us to refer the energy market to the Competition and Markets Authority (CMA) in 2014.

At the same time, we were concluding a number of important regulatory projects, including the first round of network price controls under the new RIIO approach, reform of transmission charging, and introducing a new regulatory regime for interconnectors that link us to other national energy markets.

The conclusion of these projects and the publication of the CMA's initial findings last summer allowed us to move on to thinking about the future of energy regulation. I believe that two developments are driving much of our future activity.

The first is that fundamental changes to the nature of the energy business are being driven by technology and measures to combat climate change. These are creating innovation in generation, storage, transportation and supply.

The industry is changing more now than at any stage in the previous 50 years. Managing unpredictability, flexibility, and non-traditional business models will occupy us over the next few years. We'll facilitate these where it benefits consumers, and handle the associated risks.

The second, confirmed by the CMA's findings, demonstrates that retail regulation will continue to be at the heart of what we do over the next few years. To start with, we're removing the four tariff rule. Other changes will follow. We'll implement the CMA's remedies and, most importantly, move to a model of regulation that relies more on principles rather than detailed, prescriptive rules.

This is not intended to reduce our focus on achieving good outcomes for the consumer. We think this move fits with the wider changes happening in the market. We can't encourage people to be more flexible and innovative if our approach to regulation is rigid. We must instead facilitate new developments, while continuing to protect consumers.

During the year, I was pleased to welcome two new members to the Gas and Electricity Markets Authority – Rachel Fletcher, senior partner for competition and consumers, and Christine Farnish, who has a distinguished record of service in consumer organisations. We also said goodbye to Sarah Harrison and John Howard.

I wish them well and would like to thank them for their major contributions to the work of the Authority.

David Gray
Chairman

Chief executive's introduction
Dermot Nolan

I've now been in this role for just over two years. Over that time, most bills have plateaued or gone down and switching has gone up.

The two are not unrelated and have brought some relief to hard-pressed customers, but I should sound a note of caution: at some point they are likely to rise again and more switching cannot be taken for granted. There will be more challenges to the energy system – and the industry, the regulator, and everyone else have to be prepared.

We referred the market to the Competition and Markets Authority in 2014 for good reasons: we were concerned about lack of competition in the market and its adverse effects on consumers. By the time you read this, the CMA will have published its final report and recommendations, all of which are targeted at making the retail market more competitive.

We'll take the recommendations and run with them. The CMA is stepping back, and it's over to us now. We are committed to making the market work and delivering on behalf of consumers. We worked hard on helping to make the CMA's investigation a success and we're now looking ahead at how best to implement the remedies.

While we're doing this, we're also working with DECC on smart metering, faster switching and half-hourly settlement. These are all crucial for an energy market that works for all. Continuity of supply is vital for an effective energy system, and we will continue to work with DECC and National Grid, to ensure it has the tools it needs to match supply and demand in both gas and electricity.

There was an appeal to the CMA on our electricity distribution price control. This was long and complex, but in our view delivered a good outcome for consumers. It's appropriate and important for there to be a robust investigation into our processes – I believe it's good for us to be tested and scrutinised.

We currently have several projects looking at how we regulate in the future. Our work on non-traditional business models, and our new project on horizon-scanning are all focused on how we need to adapt as a regulator to the big shifts happening in the wider market.

Our delivery arm, E-Serve, is working extremely efficiently. Earlier in 2016, government decided in principle to separate it from the rest of the business. We will work with government to ensure that the process works well for everyone involved.

Our enforcement and complaints work continues to function effectively. We required npower to pay £26 million and ScottishPower £18 million for failing to treat customers fairly. There are signs that energy companies are starting to improve and complaints overall fell by 24 per cent in 2015, but more needs to be done.

With an industry more complex and intertwined than ever, old barriers are eroding. We believe it's important to reflect this in how we work and how we're structured. That's why this year we undertook a major restructuring and reformed our governance processes.

We believe these changes not only benefit staff – as they are more involved now – but we believe they make our organisation more agile too.

We know these kinds of things are easy to say but hard to do in practice, so we are learning a great deal as we go along.

During the year, we said goodbye to Sarah Harrison, our long-serving and outstanding senior partner for sustainable development, who left Ofgem to become chief executive of the Gambling Commission. I'd also like to welcome Sarah Cox as our new chief operating officer and Jonathan Brearley as our senior partner for networks.

Dermot Nolan
Chief executive

Our Strategy

We want our regulation to make a positive difference to every energy consumer.

This means making the most of our resources and our powers to create better outcomes for consumers through our regulatory work, as well as the work we do in administering government's social and environmental schemes.

Independent regulation doesn't only involve setting and enforcing rules. It also includes building trust and confidence so that consumers engage and companies invest. We also set and enforce 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 for 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. 2016-17 marks the start of a new Spending Review period, under which Ofgem is committed to reducing spending by 15% over the next five years. 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, living in rural areas or on a low income. We are also required to contribute to achieving sustainable development, 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 2015-16 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 deliver improved outcomes for electricity and gas consumers, both today and in the future.

Regulating monopolies and setting the rules for markets

We regulate electricity and gas networks and other monopoly businesses, by setting prices and incentives.

Energy networks and some other parts of the industry are monopolies. It's essential that they're regulated so that they work in consumers' best interests. We design strong, stable systems for regulating their activities, including RIIO, our price control system for networks. Consumers benefit from cheaper, more secure and more sustainable energy as a result.

Network price controls

Uncertainty mechanisms

The RIIO price controls provide uncertainty mechanisms to deal with costs that cannot be forecast at the start of the price control. In September 2015, we made decisions following applications from National Grid (NGET, NGGT and NGGD) and Scotia Gas Networks under the uncertainty mechanisms for electricity and gas transmission networks (RIIO-T1), and the gas distribution networks (RIIO-GD1). These were for additional costs of physical security upgrades, for sites the government considers to be critical national infrastructure, for street works, and for implementing the Industrial Emissions Directive. Following scrutiny of these applications we allowed £656m of the £833m requested.

RIIO-ED1 appeal

In March 2015, our decision on the latest price control for electricity distribution (RIIO-ED1) was appealed to the Competition and Markets Authority (CMA) by both British Gas and Northern Powergrid. In September the CMA published its conclusions. It found partially in favour of British Gas on one ground but dismissed the other five in Ofgem's favour. For Northern Powergrid, the CMA found in favour on one ground but dismissed the other two.

DPCR5 close out

The previous distribution price control (DPCR5) ran until the end of March 2015. We have been working on closing out this price control, adjusting the companies' allowances to take account of their performance through the price control. For example, because demand was lower than forecast at the start of the price control, companies' allowances are reduced. We have consulted on how we make these adjustments where they weren't already specified in the licence.

Mid-period review

As a result of moving to eight-year price control periods, the RIIO-T1 and GD1 controls made provision for a mid-period review to deal with any significant changes in the outputs required. We consulted on whether there had been changes that would merit a mid-period review and in April 2016 published our decision to conduct a review for Electricity Transmission and Gas Transmission, but not Gas Distribution.

Consultation on National Grid sale

In November 2015, National Grid publicly stated that it is planning to sell a majority stake in its UK gas distribution network business, presently owned by National Grid Gas plc (NGG). Currently, NGG owns four out of the eight gas distribution networks in the UK, delivering gas to around 10.9 million consumers. As the first stage in this process, NGG requested our consent to transfer gas distribution network assets outside its operational control into another subsidiary held by National Grid. We have consulted on the licence changes that will be needed.

Interconnectors

Energy connections to neighbouring markets strengthen Britain's energy security, and help us get the most from international trade in gas and electricity, particularly through lowering our energy prices.

We now expect to go from 4 GW of electricity interconnection today to approximately 11 GW in the early 2020s. In 2015, we offered support under the first window of our cap and floor regime, to five new interconnector projects, offering 5.3 GW of connections to France, Norway, Denmark and Ireland.

For the Nemo Link project to Belgium, the pilot for the cap and floor regime, we consulted on the implementation of the regime and changes to licence conditions, and the corresponding changes to the System Operator licence to support the regime.

We also consulted on changes to the licence for the IFA interconnector to France, to reflect our approval of National Grid Interconnectors' use of revenues statements. We launched a second window for electricity interconnector projects, engaged with the investor community on financing options, and worked with the proposed merchant interconnector, Eleclink, connecting to France, to ensure the rules governing use of the interconnector would be in consumers' interests.

We worked closely with government when talking to countries such as Iceland and Norway (which may offer greater interconnection potential in the future), and with regulators in the other countries that future interconnectors will connect to.

Data and Communications Company

The Data and Communications Company is the licensed monopoly we regulate, responsible for the communications between smart meters and market participants. Through the annual price control process, we continue to scrutinise its costs to ensure it provides value for money as the smart meter rollout moves closer. Its second annual price control concluded in early 2016. With DCC's systems expected to go live later this year, we are developing its incentive, so it is encouraged to provide a good service as its operations gradually become steadier.

System Operator incentives

In 2015-16 we introduced a new two-year Balancing Service Incentive Scheme on the electricity System Operator. Under this, National Grid Electricity Transmission (NGET) is encouraged to minimise the cost of balancing the system. This year, the models have been expanded to include in the target the impact that Solar PV has on how NGET operates the system.

A bigger role for the System Operator

We have made changes to the electricity System Operator's (SO's) licence, so that it now has a bigger role in identifying the system's long-term needs. It will also develop and assess options to meet these needs. The SO produced its first Network Options Assessment in March 2016. We have engaged with the SO and Distribution Network Operators (DNOs) to look at how to get all parties to better share information, and to help the networks develop efficiently. This is part of our work on how DNOs' roles will need to change in future.

Setting the rules for markets

Capacity Market rules

We took over managing the Capacity Market rules in January 2015. We consulted on over 90 rule change proposals from stakeholders and made the first set of rule changes in June 2015. We are now working on the second set. Through this, we are ensuring NGET delivers its Electricity Market Reform (EMR) roles, making EMR run smoothly, and helping it achieve its decarbonisation and supply security objectives.

Gas Significant Code Review

In 2015-16, the Gas Significant Code Review came into effect. This improves the incentives on gas shippers to meet expected demand. We are evaluating and monitoring its impact. It's still too early to draw conclusions, because conditions in the British gas market are currently benign.

We have also approved National Grid's centralised demand-side response platform, effective from October 2016.

Code governance reforms

We're aware of how challenging it is to implement changes to the industry framework, and of the extra complexity that new European laws can introduce. However over the next few years, many such changes will be needed.

In May 2015, we examined the reforms we introduced under our previous Code Governance Review. We held an industry workshop in July 2015, and in October 2015 consulted on proposals for further reforms. This was to ensure the code governance arrangements are fit for an industry whose pace, volume and complexity of change will grow over the coming years. We issued our final proposals in March 2016.

As part of its investigation of the energy market, the Competition and Markets Authority (CMA) identified that code governance arrangements were having an adverse effect on competition. We fed our views into the CMA on this aspect of its investigation.

Cash-out reforms

In April 2015, we approved reforms to electricity cash-out arrangements. This was to make balancing and supply more efficient by approving a change to the Balancing and Settlement Code. Those reforms were introduced into the market in November 2015, and our focus is now on ensuring that the changes have been implemented, and on monitoring how effective they are.

European network codes

We have continued our work on the European network codes. These are binding European laws which promote competition, using transmission capacity efficiently, integrating energy markets and harmonising rules for operating transmission and distribution networks.

We are working with DECC, industry and our fellow European regulators to implement the codes proportionately and promptly. This involves managing multiple changes to existing GB industry arrangements, licences and legislation, while communicating the changes clearly and giving stakeholders the opportunity to get involved with developing policy at European level.

Flexibility

We've been working on developing demand-side response (eg encouraging customers to use electricity outside peak times), and other forms of flexibility, along with DECC. This is linked to our smart grids work and our smarter markets agenda.

A more flexible energy system can reduce generation, network and supply costs. Our flexibility project looks at the whole system, and at how new and traditional sources of flexibility are used, and interact. As the regulator, we need to consider how the regulatory framework can support more flexibility too, such as for electricity storage.

We published our position paper in September 2015. It set out our five priorities:

- encouraging the transition from Distribution Network Operators to more proactive Distribution System Operators and examining, with other European regulators, the relationship between DSOs, the transmission networks and the System Operator
- investigating how distribution tariffs should change in light of time-of-use retail tariffs and flexibility more generally. This includes working with other European regulators to look at different approaches such as capacity or service-based charges
- clarifying the legal and commercial status of electricity storage
- enabling industrial and commercial consumers to use more demand-side response
- clarifying the role of aggregators of demand-side response and their regulatory and commercial status.

Effective competition

Effective competition benefits consumers. It brings new entrants into markets, costs come down, and service improves. In well-functioning markets, competitive pressures will drive companies to outdo each other by making their offering better. We promote competition wherever it brings advantages, and that includes extending it to areas currently subject to price regulation.

We do this by monitoring competitive markets in the energy industry, and taking action to make the markets more effective, where it is in consumers' benefit.

Competition and Markets Authority (CMA)

In March 2016, the CMA published its provisional decision on remedies to address the problems it identified over its two-year investigation of the energy market, which we instigated in 2014.

It found that consumers as a whole were overpaying for their energy and proposed a wide range of remedies to improve competition. The remedies include a safeguard cap for prepayment meters, and a database of disengaged consumers who've been on standard variable tariffs for over three years, to allow rival suppliers to market to them in the hope that they'll switch supplier.

We've now begun implementing these proposals, working most quickly on the areas that will benefit consumers the most. We will publish an implementation plan in the summer of 2016.

Switching and the retail market

Fast and reliable switching

When consumers switch supplier, the process should be reliable and fast. We believe it should meet or exceed consumer expectations, be simple and intuitive, and encourage consumers to engage in the market.

We've launched a major piece of work to improve consumers' experience of switching. They should be confident that switching supplier is reliable, fast and cost-effective. This means more will engage in the retail energy market, and in turn this will create competition, getting suppliers to deliver better outcomes for consumers.

We assembled workgroups to design a blueprint for the new arrangements, alongside a Significant Code Review to deliver the regulatory changes to implement them. Over 100 people from industry, government and consumer groups are working with us. We'll consult on this blueprint and the business case for the proposals.

Other things we're doing include designing a new, central service run by the Data and Communications Company that will underpin the new switching processes. The customer experience is central to our switching design principles.

Encouraging domestic consumers

Consumer engagement in the market through switching tariff or supplier is an important factor in making the market effective and competitive. Our 'Be an Energy Shopper' website was featured in October's Power to Switch campaign, which encouraged consumers to take control of their energy bills before winter. It has since received over one million unique visits.

Retail market developments

In September 2015, we published our annual report on the retail energy markets in Great Britain, regarding the main trends in retail markets, including how they are contributing to the outcomes for consumers that are part of our corporate strategy. The report described developments since our State of the Market report in 2014, and considered the impact of our reforms on consumer engagement and on the market.

Onshore network competition

We're working to introduce competition for constructing and operating high-value, new and separable onshore electricity transmission assets. We published a consultation on possible tender arrangements through which this might be achieved in October 2015, which received considerable interest from industry and potential investors. We will publish decisions and consult on further details during summer 2016, and aim to run the first competitive tender for onshore transmission assets in 2017.

Competition in offshore transmission

We run the competitive tender regime for transmission links to offshore wind farms. We engaged the independent consultants CEPA, to report on the overall benefits of the competitive tender process in offshore transmission.

The consultants looked at the first three tender rounds, and the savings that accumulate over the 20-year period over which the competitively appointed owners of offshore transmission links operate those links. The regime is cutting the costs for connecting offshore wind farms to the GB high voltage grid by over £700m.

To date the Offshore Transmission Owner (OFTO) regime has:

- appointed 14 OFTOs since the first offshore transmission licence was granted in 2011, with the 15th soon to be granted
- attracted over £2.7bn of new investment
- connected over 4.1 GW of electricity generated by offshore wind farms to the onshore grid
- delivered major cost savings for consumers.

Competition in connections

After we reviewed the market for new connections in the electricity distribution network, we found there were aspects of the distribution network operators' (DNOs') role that were limiting effective competition. We therefore decided to introduce a new licence condition, which puts a duty on DNOs to comply with an enforceable Code of Practice, and we introduced the Code of Practice itself, which specifies how the DNOs should provide services to competitors in the connections market.

Effective competition in this area should improve the quality of service that customers receive and reduce the cost of connecting businesses to the grid.

High standards of outputs and protection

Energy companies should deliver the standards expected of a provider of an essential service. Our role is to ensure the right requirements are set for energy companies, and that they comply with them. Many of our arrangements are aimed at providing the right protections for people in vulnerable situations. Over time, we are looking to regulate more through principles and less through detailed rules. We already have Standards of Conduct in place, which require suppliers to treat customers fairly.

Transitioning to principles in the retail market

Over the past year, we have talked to suppliers, to understand what they have done to embed the Standards of Conduct. We are working with consumer bodies to monitor progress in adopting the Standards, and have spoken to companies about what they could be doing to be more consumer-centred. We have concluded two enforcement cases using the Standards, and given record penalties to those that failed to treat customers fairly.

Our corporate strategy commits us to exploring how we could rely more on principles in regulating the retail energy market. Our aim is to better protect consumers, promote innovation and competition, and push suppliers to think for themselves about how best to serve their customers. We've researched and talked to stakeholders, and published a consultation in December 2015. We've worked with other regulators and academics to understand their approaches too.

Now we're working through which areas would benefit most from the shift to principles and related removal of unnecessary prescription. We are examining how best to operate this new regime to make the transition a success.

Compliance and enforcement

Enforcement

In 2015-16, we completed 13 investigations (the same as the previous year). Since we published our Enforcement Guidelines in September 2014, the average length of a case has been less than one year.

Our closed investigations resulted in nearly £43 million in consumer compensation or redress (along with £15 in nominal fines), with an additional £3 million secured through alternative action[1]. Of the compensation and redress money, £26.4 million will be paid to affected customers. Any unclaimed consumer compensation will be paid to charities, in addition to the £16.3 million redress being paid directly to charities.

In January 2016, we concluded our investigation into npower's billing and complaint handling issues, which was the first case to be concluded under Ofgem's domestic Standards of Conduct. The investigation resulted in npower paying a consumer redress package to some of the worst-affected customers and to charity. In July 2015, we secured free energy for over 1,000 npower customers whose Energy Ombudsman remedies had not been implemented in time by npower. These consumers' energy use was free until npower had completed implementing the remedies.

Our enforcement work has resulted in consumer redress payments being made to charities or third sector beneficiaries such as: Citizens Advice Scotland, Citizens Advice England and Wales (includes funding for Citizens Advice programmes such as Energy Best Deal Extra and Energy Best Deal Extra Prepayment meter project), the Carbon Trust, StepChange, and Business Debtline.

We have been considering whether we could improve our enforcement tools so they remain effective for the future. We engaged with DECC on its December 2015 consultation on proposed changes to our enforcement powers.

We also published guidance on allocating voluntary redress payments, explaining the process of allocating them to suitable charities, trusts and organisations.

[1] Alternative action gives a company a chance to put things swiftly right without us finding a breach

Enforcement priorities

We want energy companies to act in line with their obligations. When we decide whether to open an enforcement investigation, we apply our annual enforcement priorities which help us focus on specific problems and learning from our work.

Our enforcement priorities this year were to:

1. Ensure companies provide accurate information and deliver benefits to consumers on time
2. Act when company behaviour is likely to stand in the way of consumer choice or trust in the market
3. Act when we see serious shortcomings in a company's culture and attitude towards compliance

All of the cases we opened this year related to one or more of these priorities.

Compliance

We monitor compliance, and approach it proportionately, as we do when deciding whether to take enforcement action. In the domestic retail market alone, we identified and managed over 400 compliance matters over the last year. This has led to better consumer outcomes through improved supplier performance.

We like to give stakeholders the opportunity to help advance our compliance and enforcement work. We are committed to sharing good practice, to help companies understand their obligations. In summer 2015, we held our third annual enforcement conference. Energy suppliers, network companies and consumer groups all attended, and we reflected on some of our recent enforcement decisions, considered what we could learn from them, and what the regulatory and enforcement environment will be like in coming years.

We have also considered our approach to compliance as part of our wider project looking at how to rely more on principles than on detailed rules to regulate the retail market (see 'Regulation' chapter).

Complaints and customer service

We wrote to suppliers to see if they're improving how they look after their customers, and how they evaluate success. We are going to repeat the research we did into whether customers are satisfied with how their supplier handles complaints. This will discover what effect these changes have had. We'll publish our findings later this year. We also published customer service indicators to help consumers see how suppliers are performing.

Ombudsman/alternative dispute resolution

Last year we commissioned an independent review of the Energy Ombudsman. The review found that the scheme is good at delivering core case-handling, but could improve strategic insight and collaboration. We will work with the Ombudsman to implement the findings so that consumers can continue to benefit from this effective way to redress unresolved disputes. We also implemented the requirements of the Alternative Dispute Resolution (ADR) Directive, and as the Competent Authority we appointed the Ombudsman an ADR entity in the energy sector.

Closed account balances

Last year, we examined how suppliers were returning credit balances to customers when they closed accounts. We found that many of them had processes that were flawed, leaving customers out of pocket. Suppliers committed to returning money and making sure it didn't happen again. We asked suppliers to report regularly on progress and will see if further intervention is needed during 2016.

Telephone services

We reviewed how suppliers are providing telephone services to customers. We identified some good practice, but also some smaller suppliers using high-cost telephone numbers. We ensured that these numbers were phased out.

Guaranteed Standards of Performance

We revised the supplier Guaranteed Standards of Performance, strengthening consumer protections in important service areas like appointments and fixing faulty prepayment meters. We raised the level of automatic payment to £30, which means a supplier must pay a customer if it fails to perform a certain service. We also removed some unnecessary regulatory burden, helping to increase efficiency and save cost.

UK Regulators Network: affordability and vulnerability

We led the UK Regulators Network work on affordability and vulnerability, and published a new report on these. The report looked at what might affect bills and fares for essential services in energy, water, communications and rail over the next ten years. It examined the factors affecting both prices and future demand for essential services and compared drivers across the sector. It also considered the impact on different consumer groups, and how household income might change in relation to bills and fares in future.

Consumer Vulnerability Strategy

The Consumer Vulnerability Strategy and work programme were published in July 2013. It aims to protect and empower consumers in vulnerable situations, to make vulnerability less likely to arise, lessen its impact if it does, and ensure all consumers can access market benefits.

In September 2015, we published an update on the Consumer Vulnerability Strategy and our focus areas:

1. Prepayment
2. Non-gas households
3. Inclusive markets and services
4. Affordability
5. Debt and disconnection
6. Innovation and support

Here's some of the work we've done on protecting consumers in vulnerable situations this year.

Prepayment review and proposals: in June 2015 we published our review into suppliers' practices in this area. This showed that there are barriers preventing prepayment meter (PPM) customers from accessing better deals in the market, such as difficulties in engagement, and limited innovation. In December 2015, we consulted on improving things for these consumers, with proposals designed to help PPM customers access more competitive tariffs and get treated fairly by their energy providers.

Making switching easier for PPM customers in debt: following our review of the Debt Assignment Protocol, 11 suppliers voluntarily implemented changes to the Protocol to make the switching process better for indebted PPM customers. So far, more switches have been completed since the change.

Non-gas households: we published an insights paper into households with electric heating and other non-gas heating. We also fulfilled our commitment to the Energy and Climate Change Committee by publishing options to better protect consumers in other non-gas sectors, where there are currently no direct sectoral regulators, ie heating oil, LPG, solid fuel and district heat.

Free services for those with additional needs: under our current protections, suppliers and electricity distribution networks are required to hold a Priority Services Register of customers who have additional needs, and offer them specific free services. In December 2015, we published our Final Proposals for the Priority Services Register Review for consultation, which contained draft licence conditions. These proposals aim to ensure that those customers who have problems with safety, communication and access get the help they need in the energy market. Our draft licence conditions set out our expectations for how industry should identify and support customers in vulnerable situations. The focus is on promoting more flexible and innovative approaches to ensure positive outcomes for all customers.

Advice: we continued our partnership with Citizens Advice to deliver the Energy Best Deal and Energy Best Deal Extra programmes. Evaluation of the 2014-15 programme showed that over half of the 9,060 consumers directly helped had looked for a better energy tariff, and 57% took at least one kind of energy saving action or sought advice. In addition, Energy Best Deal Extra advice appointments providing one-to-one support were held with 6,047 consumers who were predominantly in vulnerable situations.

Working with other regulators: As part of our role in the UK Regulators Network, we led a cross-regulator team producing guidance material for consumers in vulnerable circumstances. It helps consumers to access vulnerability support services in the energy, water, telecoms and transport sectors.

Fuel Poor Network Extensions

In September 2015, we finished reviewing changes to the Fuel Poor Network Extension Scheme. The scheme is being delivered as part of the RIIO-GD1 price control, and helps reduce the number of households in fuel poverty by encouraging gas network companies to connect more eligible households to their grids. The changes, including revisions to the scheme, came into effect from 1 April 2016. They will deliver over 90,000 fuel poor connections before 2021 – this is 14,000 more than originally planned.

Third-party intermediaries

Price comparison sites and other third-party intermediaries play an important role in helping consumers make good choices, especially about their energy deal. Consumers must be able to trust them, so it's vital that the information they provide is clear and accurate.

We continue to administer the Confidence Code, a voluntary code of practice for domestic price comparison sites. It ensures consumers get an independent, transparent, accurate and reliable service, so they can compare tariffs and suppliers with confidence.

For business consumers, we monitor third-party intermediaries using our powers under the Business Protection from Misleading Marketing regulations. We take action if we think consumers are losing out.

We are also working closely with other regulators through the UK Regulators Network, and supporting the Competition and Markets Authority. Through this work, we are considering the future role played by price comparison sites and intermediaries, including encouraging innovation and fostering competition between sites. This will help more consumers participate in the market.

White label decision

From October 2015, there have been consistent rules for white label partnerships in the domestic market. We gave all suppliers the chance to create white label partnerships, and at the same time made sure consumers could make an informed choice about the best deal for them.

Suppliers must let customers know on their bills whether there is a cheaper tariff for them, from either the parent supplier or the white label partner. We let suppliers have multiple white label arrangements to encourage into the market trusted partners from outside energy, as well as new entrants.

By giving companies without a supply licence a simpler route into the market, we are helping get suppliers to compete and innovate more – and this gives consumers more choice. They can also create specialist social tariffs for vulnerable consumers.

Partnership with government and stakeholders

Strong relationships are crucial for us. The UK government is responsible for energy policy and setting our statutory framework, but we depend on our relationships with European institutions, consumer bodies, and industry too. They help show us the implications of our policy and thinking, so we can understand more about how to improve what we do. We're independent, but not isolated.

Listening to consumer and environmental stakeholders

We continue to partner with Citizens Advice to deliver the Energy Best Deal and Energy Best Deal Extra programmes. Citizens Advice estimates that by spring 2016, at least 400,000 consumers had benefited since we commissioned the first pilot in 2008.

We 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 constantly talking to 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 have more formal arrangements, such as our user groups for small, medium and large business users and our Sustainable Development Advisory Group.

Partnerships with other regulators

We remain committed to working effectively with other regulators, through the UK Regulators Network (UKRN) and in joint arrangements where there are clear shared interests with others.

Through 2015-16 we played a leading role in the UKRN work programme. In September 2015, the second phase report from the Affordability project was published, which looks at what might affect consumer bills in energy and other sectors over the next ten years.

Also in September 2015, UKRN published the final part of the Infrastructure project. These are measures which make it easier for developers to engage with network operators in utilities when building new infrastructure.

In early 2016, we led work on consumer vulnerability across sectors, including securing support from energy and water companies voluntarily to highlight support services.

We have also looked at sharing resources and services. We committed in the Budget to review the business case feasibility of co-locating and sharing back-office functions with other regulators.

Non-traditional businesses

We're engaging more with a range of existing, new and potential market participants through our work on non-traditional business models and challenger businesses.

Many of them have environmental or social outcomes at the heart of their business models. Our approach has been broad and inclusive, recognising many stakeholders – businesses, think tanks, academics, NGOs, government (including Wales and Scotland), funders and others. Their input has been valuable and varied, whether through formal responses, discussion, or social media. It has helped shape our forward work programme, including new projects on horizon-scanning and local energy. We look forward to doing more of this in 2016-17.

Smart metering

We are working closely with the Department for Energy and Climate Change on the Smart Meter programme.

Throughout 2015, we scrutinised suppliers' plans to roll out smart meters by 2020, an obligation set by government. This was a dry-run exercise, in which we wanted to see whether suppliers' plans to meet their targets were good enough. In February 2016, we received suppliers' final plans which included formal targets, which we're currently assessing.

We also regulate how suppliers deliver government's arrangements to engage consumers during the smart meter rollout. These include delivering Smart Energy GB and the Smart Metering Installation Code of Practice obligations in licence conditions. We have continued our observer role on the Smart Energy GB Board and SMICOP Governance Board.

We are working with the network operators to understand how to use consumers' smart meter data to better manage the distribution networks. As part of the Smart Grid Forum, we focused on removing the commercial, regulatory and technical barriers to realising an efficient smart grid in Great Britain.

Working with government

Ofgem is an independent economic regulator, but it works with a range of government departments to ensure policy and regulation function cohesively together. The greatest number of links are with DECC, including areas such as the delivery of schemes and the Smart Metering project. However, we also work with HM Treasury and the Department for Business, Innovation and Skills on a range of issues, including ensuring that there is good two-way communication on improved regulatory practices, measuring the costs and benefits of regulatory interventions, and on clarifying the role of economic regulators as they relate to policy formation.

A leading voice in Europe

We play a central role in the two European regulatory organisations: the Council of European Energy Regulators and the Agency for the Cooperation of Energy Regulators.

The effective partnerships we've built through these two organisations allow us to influence the direction of European energy policy developments so that they benefit British consumers. We have seen new policy initiatives from the European Commission, regarding security of supply in gas and the creation of an Energy Union, as well as expecting further initiatives in retail market competition which we will seek to positively influence. We are continuing our work implementing the Third Energy Package and the suite of network codes, making changes to existing British market rules as necessary.

Helping new market entrants

We've worked to help around 50 new entrants and independent energy suppliers engage with us on a level playing field with the legacy suppliers. This drew on existing policy, and engaged suppliers through events, workshops and social media. They are free to talk to us 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 us.

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In the last year we continued to administer and deliver a range of social and environmental schemes on behalf of government. This has involved working alongside the Department of Energy and Climate Change to ensure that the changes it makes to the schemes were implemented effectively and cost as little as possible. In delivering the schemes, we worked with a broad range of stakeholders, from scheme participants to suppliers and vulnerable consumers.

Here are some highlights.

We have:

- built upon the memorandum of understanding we agreed with the Department of Energy and Climate Change in March 2013, which has resulted in us finding more ways to improve our relationship and make the environmental schemes more efficient.
- worked with suppliers and the ECO supply chain to drive improvements in the quality of energy efficiency measures and in the customer experience. We've also approved over 1.6 million energy efficiency measures to date, including insulation and heating packages, many of which are benefitting low income and vulnerable households.
- worked closely with suppliers under the Warm Home Discount, on a new type of initiative that is providing the Warm Home Discount rebate to consumers living in park homes who are not normally eligible for the rebate.
- successfully implemented changes to the regulations relating to sustainability under the Domestic and Non-Domestic Renewable Heat Incentive schemes. We worked closely with the Department of Energy and Climate Change to make sure that the regulations were practical to implement. We also communicated with stakeholders and customers to make it clear what they would need to do differently.
- we also worked with the Department of Energy and Climate Change to pause the Feed-in Tariff scheme and introduce the capped scheme, all against extremely tight timelines. We responded to stakeholders' and government's wishes and produced a weekly report on the capacity remaining in each cap.
- worked closely with government on legislative changes under the Renewables Obligation, including early closure of the scheme to large-scale solar photovoltaics, new rules for solid and gaseous sustainability and changes in Renewable Obligations Certificates rates for micro-generators.
- started work with the Low Carbon Contracts Company, assessing fuelling procedures on its behalf, under the Contracts for Difference scheme.

Trust and confidence

We have an important role to play in making sure consumers trust and have confidence in the energy market. Building this trust is a big part of our work as independent regulator. We want energy suppliers to foster trust among their customers. We use stable and predictable regulatory frameworks and transparent, accountable processes to give the sector confidence in our own regulation.

But we can only do so much. After the CMA publishes its final report on the operation of the market, we will work with it and industry to implement the recommendations. We hope this will form the basis of rebuilding consumer trust.

In the meantime, we've continued to ensure consumers and their representatives can access good, honest advice and information. We publish data ourselves, partnering with other organisations, or by requiring industry to be more transparent.

Surveying the market

Market monitoring is a crucial part of our role. It helps stakeholders keep up to date, helps us develop new policy, and assess the impact that existing regulations are having.

In September, we launched new interactive charts showing how different aspects of the retail and wholesale markets are working, and suppliers' customer service performance. We'll update these charts regularly, and we want them to be useful for anyone wanting an up-to-date picture of key developments in the energy markets.

We also published our annual monitoring updates on the retail and wholesale energy markets (the Retail Energy Market Report and the Wholesale Energy Market Report). These were our view of the most important developments in the markets over the previous year. They also report on whether the markets are delivering the outcomes for consumers that we set out in our strategy.

Market liquidity

We published our first annual assessment on the impact of Secure and Promote in September 2015. Secure and Promote was introduced as a special licence condition in the obligated parties' generation licences, to improve access to the wholesale electricity market and to ensure the market provides the products and price signals needed to compete effectively.

The report showed the results over the first five quarters. We have seen more smaller, independent suppliers able to access the market. Liquidity in the wholesale market improved in the first year, but declined in the last half of 2015.

Many factors could have contributed to the results we've seen so far, making it too early to draw conclusions. But we'll be able to understand the impact of intervening when we've got more data from monitoring in the coming quarters. We'll publish our views this summer.

We've also been tracking proposed changes in EU financial regulations that may affect energy market liquidity. As part of the Council of European Energy Regulators, we have engaged closely with other energy and financial regulators, the Parliament, and the Commission, on potential negative impacts on energy market liquidity.

Security of supply

We monitor market fundamentals every day, analysing implications of any market movements on supply security of both gas and electricity. If we spot problems, we address them with DECC and National Grid.

We also monitored supply security to ensure that our market arrangements are delivering secure supplies for British consumers.

Over the last year, we continued our work to understand the electricity security of supply outlook for the coming years. This is taking into account areas including how interconnectors could contribute at times of tight margins. We also worked with other regulators on responding to network resilience issues.

Reporting on network company performance

Under the RIIO framework, we committed to monitoring 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 third, for electricity distribution (RIIO-ED1), started in April 2015.

The companies reported against their second year of performance at the end of July 2015. We analysed these returns to understand how they are performing and plan to deliver against their price control commitments.

In our second annual reports for transmission and gas distribution, we highlighted that the companies continued to outperform the allowances we set, and were meeting their commitments. We found some potential discrepancies in the reporting of outputs, which we are investigating.

The electricity distribution network and the environment

2015 was the first year of the new RIIO-ED1 price control (see the 'Regulation' chapter). RIIO-ED1 has brought in several new environmental outputs and incentives. It has also updated some existing ones, such as giving Distribution Network Operators (DNOs) an allowance to pay for putting network cables underground in Areas of Outstanding Natural Beauty and National Parks. This is now set at just over £100m for the next eight years.

This year, a new licence obligation came into force requiring DNOs to keep their distribution losses as low as possible. DNOs can also take part in our new Losses Discretionary Reward scheme, designed to encourage them to better understand and manage electricity losses on their networks. The first of these, worth £8m, has just started and will conclude this summer.

We have also introduced new reporting requirements for DNOs. This is so we can understand more about their actions and plans for managing losses and wider environmental issues, and hold them to account if they don't. DNOs must publish an Environment Report to show what they've done on environmental matters (such as reducing their carbon footprints) in the preceding regulatory year. In February 2016, we published revised guidance on the requirements of the Environmental Report, and DNOs will have to submit their first report on or before 31 October 2016.

Data Assurance Guidance for network companies

In April 2015, we implemented the Data Assurance Guidance (DAG). The DAG requires network companies to risk assess the data they submit to us, and make sure it is accurate. Under the DAG, network companies must report to the regulator each year setting out their risk score, details of assurance work done and future data insurance plans. We received the first reports by 29 February and have assessed them, taking into consideration past DAG submissions and the quality of the data submitted.

Monitoring suppliers' compliance

We've been more proactive about monitoring suppliers' compliance with their licence obligations. This ensures consumers are protected, and benefit from efficient, well-functioning energy markets. We are monitoring consumer outcomes under the Standards of Conduct, to ensure suppliers are complying with their obligations to treat consumers fairly. The 'Standards' chapter shows we have taken enforcement action where necessary.

Extending the range of OFTO build options

We updated our regulatory and policy framework to introduce more offshore transmission owner (OFTO) build options. This will help meet current and future requirements of offshore generators, as well as adapt to specific project characteristics.

REMIT implementation

We are committed to making the wholesale energy market more transparent to strengthen competition. We have used our monitoring and investigation powers to check compliance with REMIT, the European regulation on wholesale energy market integrity and transparency, and we continue to investigate areas that need it.

We also received new powers to pursue criminal sanctions against market manipulation and insider trading. Our prosecution policy statement was consulted on and implemented this year.

We have worked on improving companies' compliance, individually and through representative forums. We published an open letter to clarify our views on certain issues we noticed in the market. To ensure the rules are interpreted consistently across Europe, we meet frequently with the Agency for the Cooperation of Energy Regulators and other European energy regulators. Locally, we have welcomed the close working relationships we have with the Financial Conduct Authority, in particular.

This year there were key milestones under REMIT. We registered applicants in advance of the first reporting deadline on 7 October. We also continued to support those market participants who needed to register by 7 April.

Regional network charges

In October 2015, we published a paper explaining why network charges differ across regions in Great Britain. These charges recover the costs incurred by those operating the electricity and gas transmission and distribution networks.

We looked at how customer bills from supply companies reflect these regional differences and considered evidence as to how the differences might have an impact on customers in vulnerable situations. We looked at how other countries either let regional costs be reflected in bills or opt for uniform national charges.

We outlined the rationale for the current arrangements in Great Britain, but also illustrated the potential effects of moving to GB-wide network charges.

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In 2015-16 we continued to improve trust and confidence in the schemes we deliver by making them even more transparent and accountable. We made our transaction and regulatory processes stronger, and combined them with effective engagement with stakeholders. We've also improved our website to make the wealth of information we publish there easier to find and assess.

Here are some highlights of how we worked to improve trust and confidence in 2015-16.

We have:

- improved our website to help stakeholders to find the information they want. This included introducing website publication libraries for each of the schemes to help users search for documents, and interactive charts to make scheme data more accessible.
- set up E-Serve Twitter and LinkedIn accounts, to give us new ways to connect with our stakeholders. We use them to communicate important news and updates, and make our engagement more open and transparent.
- issued our final report for the first phase of the Energy Company Obligation in September, which showed that all suppliers met their obligations in full.

Efficiency and effectiveness

We must work as effectively as we can, to minimise the costs to consumers and burden on industry. We must do more while costing less, prioritising the areas where we think we can make the most impact. And we must try to lessen the burden on industry wherever we can, without compromising consumer interests.

We therefore constantly review and refine the way we work – internally we have projects focusing on working more efficiently, and challenge ourselves to do things better. Externally, we strive to create stability for investors, and make regulation more credible.

But we can only go so far – our powers come from Parliament and are not fixed for ever: external conditions change and regulation needs to keep up.

Internal transformation

We launched an internal transformation programme in January 2015, the "Strategic Transformation Programme". This has changed the way we work, from improving processes at a local level, to wider initiatives which will help develop an organisation which is agile, efficient and focused on making a positive difference for energy consumers.

We have a central portfolio team providing a link between our strategy and delivery of our core business activities and projects. This enables us to better plan and monitor our work, and to respond to new requirements or areas of focus.

We have restructured our divisions to allow us to ensure that we are better placed to fulfil the organisation's strategy and to be more responsive to consumers' needs, and work in a more agile way. We are now arranged into the following divisions: Corporate Affairs, Improving Regulation, Consumers and Competition, Energy Systems, Networks, Corporate Functions and E-Serve.

These structural changes include a revised governance framework. This ensures everyone is clear about direction, lines of ownership and accountability, and that there are the right levels of delegation and empowerment. The revised governance framework was implemented from February 2016.

In 2016, we will continue to develop our knowledge management capability and build our body of corporate knowledge so that information across the organisation is easier to retrieve and access, and the lessons we've learned from past work are applied to future initiatives.

We will also continue to plan for an office move to more cost-effective premises, responding to the Budget announcement in March 2016 to work with other economic regulators to review the business case for co-locating and sharing back office functions, in order to drive efficiencies. As part of this, we will focus on achieving smarter working practices across the business, seeking to use technology which will reduce costs and make us even more efficient.

Star Chamber

In February 2016, the chairman and chief executive officer discussed how we regulate with the Secretary of State for Energy and Climate Change, the Secretary of State for Business, Innovation and Skills, a senior Cabinet Office minister and a senior HM Treasury official. This meeting was a 'Star Chamber', announced in the government's Competition Plan in November 2015. The session was challenging, as it was meant to be, but also gave a clear sense that government recognises the efforts we are making to deliver good outcomes for households and business consumers, while keeping down burdens on business.

The Budget announced that E-Serve functions will be split from Ofgem, alongside wider changes to DECC's energy policy delivery. This important further step builds on the autonomy we have put in place for E-Serve's governance and operations. We welcomed this development.

Echoing concerns expressed by the CMA, the Budget confirmed that government intends to amend our statutory duties to ensure that, wherever appropriate, we consider competition levers first. This recognises that, in the long term, the right lever to make markets work well is effective competition. Another CMA proposal picked up in the Budget is licensing the administrators of industry codes. Ministers share our concern that industry governance arrangements and difficulties in coordination across codes have slowed down key reforms. By giving us additional powers in this area, government is ensuring that consumers' interests in strategic change can be met effectively.

The Budget also confirms the significance of our ongoing programmes to slim down the supply licence with less reliance on detailed rules, and to look for opportunities to support and open up space for innovation.

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In 2015-16 we successfully delivered a range of consumer and environmental schemes on behalf of government. These included 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).

Through our Operational Excellence Programme, we continued to embed our aim of 'delivery excellence' into all our core activities, focusing on preventing fraud, ensuring compliance, improving performance, improving the customer experience and making schemes more efficient.

We have met our target saving of 10% across the year. Our efficient processes have allowed us to deliver £6 billion worth of schemes on a not-for-profit basis for just 0.5% of their total value. This demonstrates how our dedication to operational excellence is providing real value for money for consumers and the industry, while ensuring that stakeholders continue to receive the high levels of service they've come to expect.

Improvements we've made over the last year include:

- We've reduced costs across our Energy Efficiency and Social Programmes, through administrative process improvements.
- We've improved IT systems and processes, under the Domestic RHI, based on operational experience and customer feedback. This has helped increase the applications which are automatically approved on to the scheme from approximately 24.1% to 52.5% since April 2015.
- We've simplified the periodic data submission process for participants under the Non-Domestic RHI. It's reduced the amount of time participants spend on submitting their periodic data, as they no longer have to calculate and add their own heat output data.
- We've streamlined the accreditation process for certain types of applications under the FIT scheme. This has let us exceed our accreditation targets in 2015-16.
- We've launched a number of initiatives during the year, under the Renewables Obligation, including a simplified application process for renewable electricity micro-scale applicants in Northern Ireland. These changes allow more people to access our systems, and it reduces the number of approval steps.

Scotland and Wales

The gas and electricity markets we regulate operate across Great Britain as a whole. While the integrated nature of these markets necessarily shapes how we regulate and how we report, we recognise there is growing interest in what the performance of the energy market means for consumers in Scotland and in Wales.

As part of our ongoing work, we publish reports on the gas and electricity markets. Where it is practical and meaningful, these reports include data on Scotland and on Wales. This includes, for example, information on how energy suppliers have met social obligations to customers who are in debt, who may have been disconnected from their gas or electricity supply or who are otherwise in vulnerable circumstances, and on uptake in Scotland and in Wales under the UK Government's social and environmental schemes.

Some stakeholders would like us to publish more information – and more detailed information – on Scotland and Wales and see our Annual Report and Accounts as an opportunity to do so. As a public body, we are keen to promote understanding of our work. Our Annual Report and Accounts shows how we have performed and used our resources against the objectives in our annual Forward Work Plan, on which we consult each year.

There is a particular interest in Scotland and Wales on the effectiveness of support regimes for renewable energy and energy efficiency. As aspects of energy policy, these are matters for government. The Department of Energy and Climate Change publishes regular information on the production, consumption and cost of energy in Great Britain, including at the level of the nations.

We want to explore how we can go beyond what we currently publish for Scotland and Wales, but because there is a single GB energy market it is not always meaningful or possible to disaggregate cost or performance information in this way. For example, building or upgrading new transmission lines in one part of Great Britain can have a positive impact on the stability and performance of the wider GB transmission network. As a result, a new or upgraded transmission line in Scotland can benefit British consumers as a whole. We are able, however, to include in this chapter a snapshot of activity under renewable energy, renewable heat and energy efficiency schemes delivered by E-Serve in Scotland and in Wales.

Looking forward, we will discuss with stakeholders, including the Scottish Parliament and Scottish Government, what information we can publish that would be meaningful and the most appropriate way in which to do so.

Scotland

In April 2015 we submitted written evidence to the Public Audit Committee on how public bodies operating in Scotland should report on their activities. In June 2015 we gave evidence to the Economy, Energy and Tourism Committee inquiry into Security of Supply and responded to the Committee's report in June.

Each year, the UK Energy and Climate Change Committee invites Ofgem's chief executive to give evidence based on our Annual Report and Accounts. We would be pleased, in addition to other calls for evidence, to appear at such an annual review session in the Scottish Parliament.

In addition to our ongoing programme of briefing individual MSPs, we also took the opportunity in September 2015 to exhibit at the Scottish Parliament. Our aim was to highlight our work to protect the interests of vulnerable consumers, especially on prepayment meters and to update MSPs on the uptake in Scotland under the social and environmental schemes administered by Ofgem E-Serve, including the Warm Home Discount and the Energy Company Obligation. We were grateful that individual MSPs tweeted details of our exhibition and issued press releases to tell their constituents about the schemes we were promoting.

We continued our role as observers at the Scottish Fuel Poverty Forum, which advises the Scottish Government on the effectiveness of its fuel poverty programmes. We also sat as observers on the Scottish

Rural Fuel Poverty Taskforce. Established by the Scottish Government, the taskforce is working to develop a set of actions to make it easier and more affordable for those living in rural and remote Scotland to keep their homes warm, and to feed into the further development of fuel poverty policy and energy efficiency programmes in Scotland.

In addition, we met regularly with Scottish Government officials to inform them of our work and to exchange information on issues of shared interest. A key theme in our discussions has been the devolution of further powers under the Scotland Act 2016, specifically on consumer advocacy and advice and on the design and implementation of social and environmental schemes. We remain committed to using our expertise to support the implementation of these new powers, where we can.

Building on existing links with the academic community in Scotland, we joined the Advisory Group for the newly-established Strathclyde University Centre for Energy Policy, which aims to inform the design and delivery of policies on energy production, sustainability, security of supply and on the economic and environmental impacts of energy policies.

In November 2015, the Gas and Electricity Markets Authority hosted its annual Scotland stakeholder event in Edinburgh. It is an opportunity for the Authority to listen to the views of senior representatives in Scotland from the Scottish Parliament, industry, consumer groups, business, environmental organisations and academia. We are considering how we can extend the range of opportunities for more stakeholders to meet with members of the Authority in Scotland.

Wales

Ofgem's objective in Wales is to ensure that our stakeholders are fully informed and consulted on Ofgem's work and that Ofgem understands key developments in Welsh politics and energy and consumer policy. To do this, we regularly interact with many energy, consumer, political and government stakeholders.

We hold regular bi-monthly meetings with a cross-section of Welsh Government officials from relevant departments to discuss Ofgem's work, Welsh energy issues of significant concern, and determine mutual priorities. As a result, some of our work this year has involved meeting Welsh DNOs and the Welsh Government to help solve grid capacity problems in Wales, meetings to discuss the impact of regional charging, and partnering up to deliver five workshops across Wales on new emerging non-traditional business models.

Throughout the year, we have had several briefing meetings with stakeholders from across Wales to talk about key Welsh energy issues and update them on our work. These have included meeting Natural Resources Wales to talk about proposals for future retail regulation, we've engaged with Citizens Advice Cymru and NEA Cymru on supporting vulnerable consumers.

We continue to sit on various energy-related fora as observers, including the Energy Wales Strategic Delivery Group and its subsidiary Rural Economy Development task and finish group, with whom we've been investigating what's stopping renewable energy from developing in rural areas. We continue to support the Welsh Assembly's Cross-Party Group on fuel poverty, and have presented to the group several times this year on issues including our consumer vulnerability strategy, prepayment meters and consumer redress. We're members of the newly-formed Welsh Government Smart Living Technical Group.

We've worked closely with the Assembly's Environment and Sustainability committee in support of its enquiry into a smarter energy future for Wales, providing regulatory and technical advice and evidence.

We've run several events for our stakeholders including:

- Events to publicise our Be an Energy Shopper campaign in Wales, which encourages consumers to shop around for their energy. We've developed materials in Welsh for this campaign too.
- Our 'E-serve in numbers for Wales' booklet was launched in the Pierhead in January and explains the uptake across Wales of the environmental schemes we administer.
- We continue to partner with Citizens Advice Cymru on the Energy Best Deal programme and we evaluated this with an event in Tŷ Hywel, which included a panel debate with politicians.

- We've also taken opportunities to speak at many of our stakeholders' events including speaking to the Policy Forum for Wales audience on energy infrastructure and energy efficiency. We've spoken extensively on community energy and non-traditional business models with organisations such as Community Housing Wales, Community Energy Wales and we also joined a panel at Hay Festival to discuss how consumers feel about where their energy comes from.

In March we held our Gas and Electricity Markets Authority meeting in Cardiff, which was preceded by an evening event where we brought together many of our key stakeholders from across Wales to discuss issues including the challenges of a rapidly-changing energy world, network issues and the serious and continuing problems of fuel poverty.

Welsh Language Scheme

We have adopted the principle that in conducting public business in Wales, we will treat the English and Welsh languages equally, when it's appropriate and practical to do so. Although we deal mainly with industry and consumer groups, we are committed to ensuring that Welsh speakers receive the same high standards of service as English speakers when corresponding with us. We have published a Welsh language version of our Annual Report and Accounts which will, together with the English language version, be presented to the Welsh Assembly, and be available for download on our website.

This year, we provided evidence to the Welsh language Commissioner in response to the Welsh Language Standards investigation, which is a statutory part of the process in setting standards applicable to Ofgem and replacing our current Welsh language scheme. We also set up an internal Welsh language steering group made up of members across Ofgem.

E-Serve in Scotland

Snapshot of cumulative activity under renewable energy, renewable heat and energy efficiency schemes until end March 2016.*

Feed-in Tariff**

506,028 installed capacity (kW)

54,087 installations

FIT installations as a % of GB - **7.1%**

FIT capacity as a % of GB - **11.5%**

Share of GB installed capacity in Scotland:

Anaerobic Digestion	4.1%
Hydro	81.1%
Micro-CHP	5.6%
Photovoltaic	5.9%
Wind	39.0%

Renewables Obligations**

6,066 capacity (MW)

415 installations

RO installations as a % of UK	16.7%
RO capacity as a % of UK	26.1%
Share of UK Onshore wind capacity	60.5%
Share of UK Hydro capacity	85.6%

Domestic Renewable Heat Incentive

9,707 installations

180,638 heat output MWh

	Installations	Heat Output (MWh)
Air Source Heat Pump	4,546	37,869
Biomass	3,301	124,476
Ground Source Heat Pump	885	16,509
Solar Thermal	975	1,784

20% of all Domestic RHI installations in GB

Energy Company Obligation

234,507 measures installed

12% of total measures

Non-Domestic Renewable Heat Incentive

459,357 installed capacity (kW)

2,663 accredited applications

18.6% of GB accredited applications

19.5% of GB installed capacity

* The snapshot is not a full record of E-Serve's delivery work in Scotland and does not, for example, include information on the Warm Home Discount Scheme.

** Based on data downloaded from the Renewables and CHP Register on 27 April 2016.

E-Serve in Wales

Snapshot of cumulative activity under renewable energy, renewable heat and energy efficiency schemes until end March 2016.*

Feed-in Tariff**

292,767 capacity (kW)

50,187 installations

FIT installations as a % of GB - **6.6%**
FIT capacity as a % of GB - **6.6%**

Share of GB installed capacity in Wales:

Anaerobic Digestion	2.9%
Hydro	7.6%
Micro-CHP	3.8%
Photovoltaic	6.4%
Wind	9.2%

Renewables Obligations**

1,695 capacity (MW)

158 installations

RO installations as a % of UK	6.4%
RO capacity as a % of UK	7.3%
Share of UK Onshore wind capacity	6.6%
Share of UK Hydro capacity	10.7%

Domestic Renewable Heat Incentive

3,312 installations

58,037 heat output MWh

	Installations	Heat Output (MWh)
Air Source Heat Pump	1,009	12,027
Biomass	1,005	34,735
Ground Source Heat Pump	625	9,692
Solar Thermal	673	1,584

7% of all Domestic RHI installations in GB

Energy Company Obligation

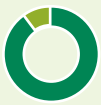
101,584 measures installed

5% of total measures

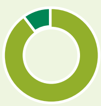
Non-Domestic Renewable Heat Incentive

196,931 installed capacity (kW)

1,395 accredited applications



9.8% of GB accredited applications



8.3% of GB installed capacity

* The snapshot is not a full record of E-Serve's delivery work in Scotland and does not, for example, include information on the Warm Home Discount Scheme.
** Based on data downloaded from the Renewables and CHP Register on 27 April 2016.

Sustainability Report

Our approach to external sustainability

We promote sustainability, and this includes reducing greenhouse gas emissions and contributing to achieving sustainable development while following 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.

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.

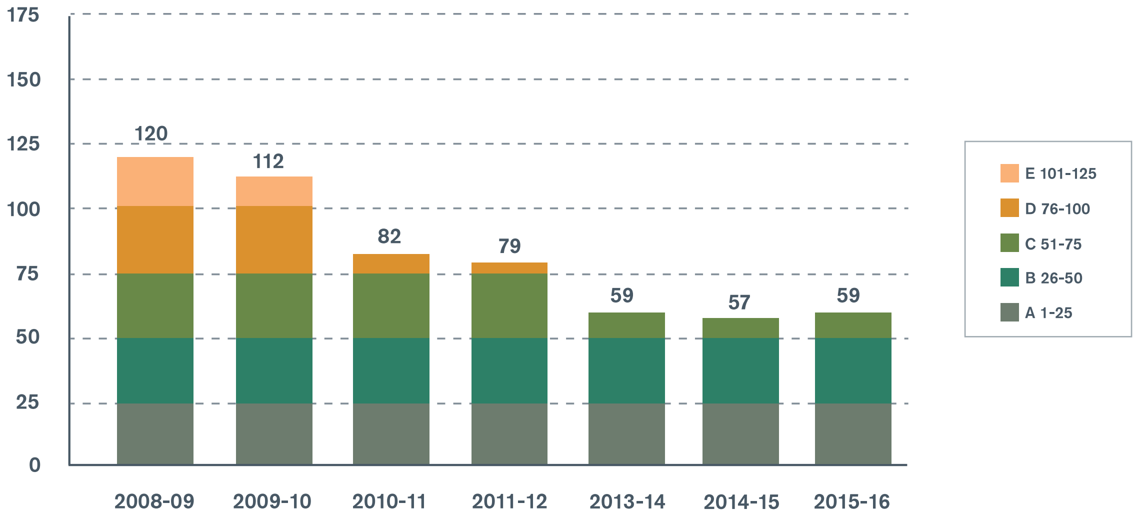
This year, we are renewing our Carbon Trust's Triple Standard certification. This recognises the reductions we've made in our water, waste, and carbon footprint through governance, measurement and management. We've reduced our waste by 23% since 2012, and reduced our carbon footprint by 29% over the same period.

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.

Cutting greenhouse gas emissions

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

9 Millbank Display Energy Certificate



We have achieved this by:

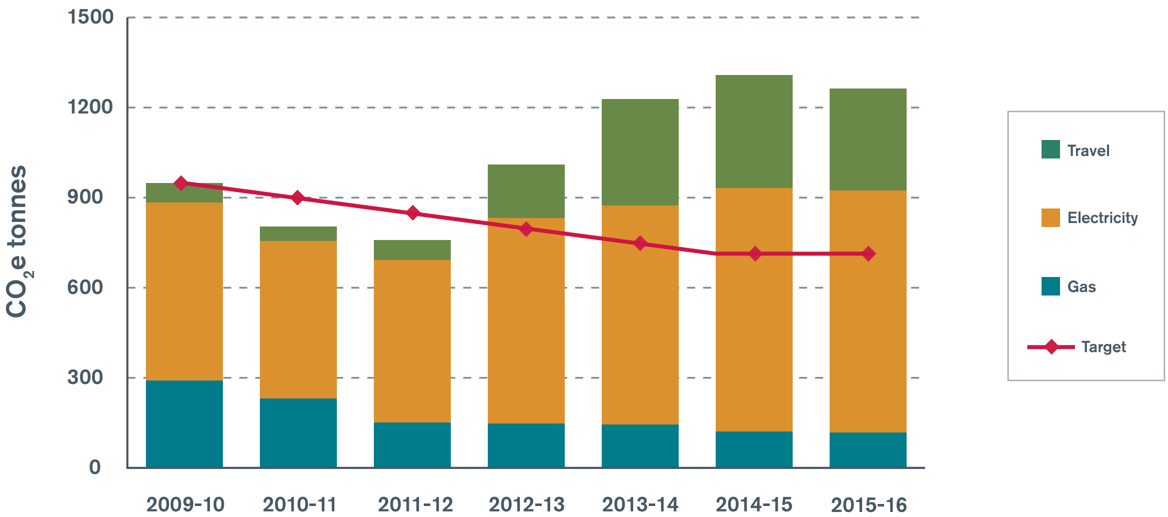
- increasing the building's automation
- improving our controls for heating and cooling
- using free cooling where possible
- monitoring energy consumption daily
- correcting problems quickly
- installing more energy-efficient lighting
- removing or mothballing equipment we no longer use.

In the past year, we've:

- updated our building management system to give us more nuanced control
- increased the number of virtual desktop imaging units to replace old and inefficient desktop computers
- changed the building operating parameters to increase our optimal temperature range

Changes like these mean that across 2015-16 our carbon due to energy use has reduced by 1%.

Total carbon



Business travel which was a major concern last year has reduced by more than 10%, thanks in part to an increase in the use of videoconferencing facilities.

- Short haul air travel went down by 33%
- Domestic air travel went down by 10%
- Rail went up by 20%

Our total carbon including both buildings and travel has reduced by 3.5%

Greenhouse gas emissions		2011-12	2012-13	2013-14	2014-15	2015-16
	(Target 25% reduction)	**853**	**806**	**758**	**711**	**711**
Non-financial indicators (tCO_2e)	Total gross emissions	759	1,010	1,228	1,307	1,263
	Per person	1.35	1.33	1.31	1.27	1.34
	Total net emissions (ie less reductions – eg green tariffs)	217	347	499	496	458
	Scope 1: direct greenhouse gas emissions	150	147	144	121	118
	Scope 2: energy indirect greenhouse gas emissions	542	685	729	811	805
	Scope 3: other indirect greenhouse gas emissions*	67	178	355	375	339
Related consumption data (kWh)	Electricity: non-renewable (k)	-	42	-	-	-
	Electricity: renewable (k)	1,033	1,274	1,636	1,613	1,707
	Gas (k)	816	795	783	656	640
Financial indicators	Expenditure on energy	£140,556	£185,177	£244,291	£233,375	£275,616
	Carbon Reduction Commitment licence expenditure	£1,200	£1,290	£1,290	£1,290	£1,290
	Expenditure on official business travel	£140,905	£296,684	£491,551	£772,248	£661,581

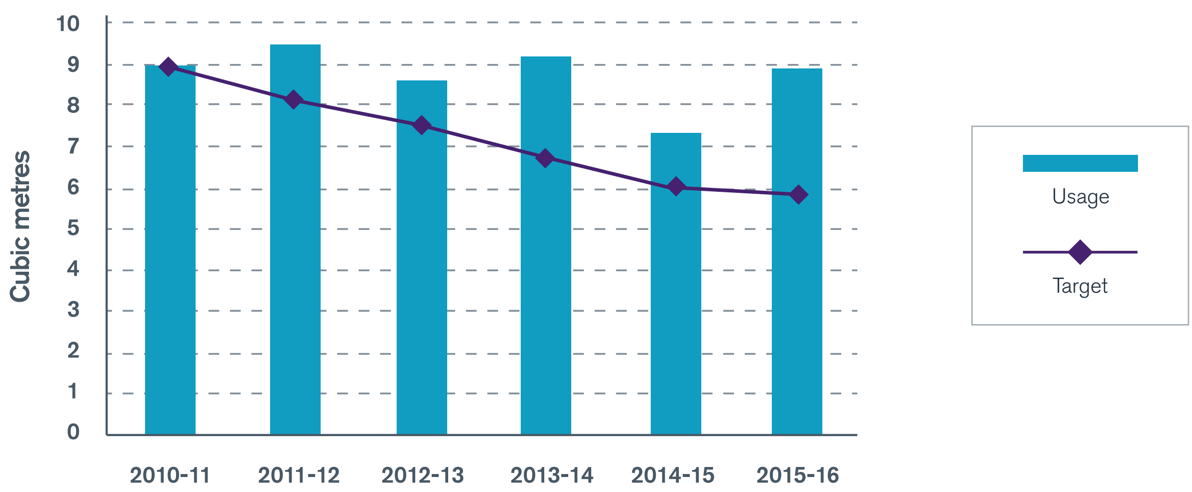
* Scope 3 covers travel data based on travel bought through the approved travel provider; it does not include travel bought from other sources.

Reducing water consumption

We aim to get our annual water use below 6m^3 per person. This is in line with the Greening Government benchmark.

This year we found a leak in our 100,000 litre thermal storage tank. Fixing the leak required draining and refilling the tank which is why our water usage is higher than last year. However since the fix, our monthly water usage has decreased by 7% when compared to the previous 12 months.

Water per staff member

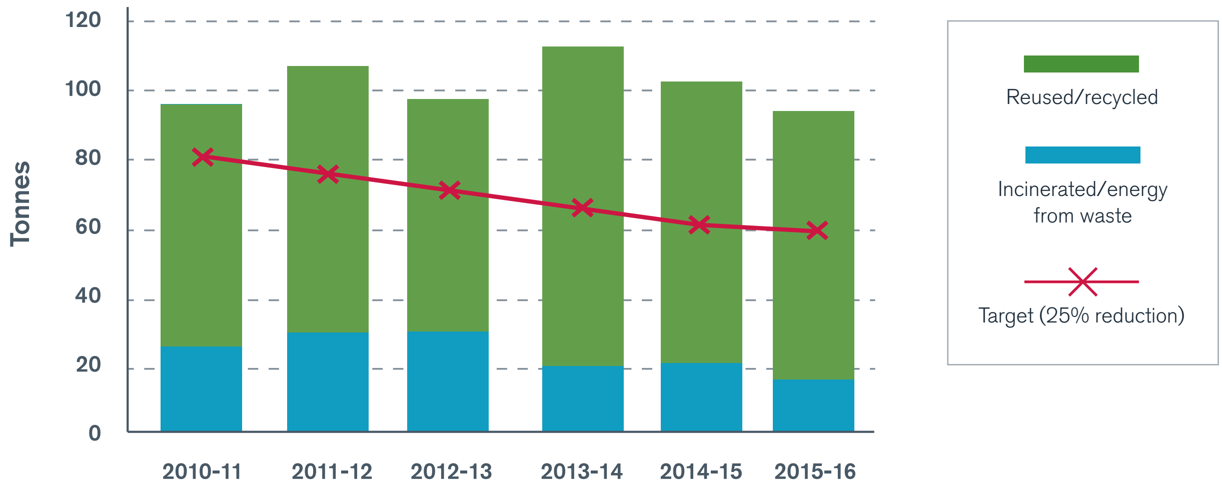


Water			2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators	Water consumption (m^3)	Supplied	4,509	5,462	6,639	8,609	7,553	8,359
		Per FTE	9.0	9.5	8.7	9.2	7.3	8.9
Financial indicators	Water supply costs		£9,271	£10,562	£12,208	£20,517	£18,977	£17,601

Eliminating waste

For the sixth year in a row, we sent no waste to landfill. Recycling has also improved, partly as a result of staff sorting more of their rubbish into the right bins.

Total waste breakdown



Waste			2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (tonnes)	**Target**		**76.5**	**72.25**	**68**	**63.8**	**63.8**
	Total waste		107	98	114	102	106
	Total waste per person		0.19	0.13	0.12	0.10	0.11
	Hazardous waste		6	-	-	-	1
	Non-hazardous waste	Landfill	-	-	-	-	-
		Reused/recycled	76	65	93	81	79
		Incinerated/ energy from waste	25	33	21	23	17
Financial indicators	Total disposal cost		£20,862	£32,022	£23,592	£24,477	£21,985

Dermot Nolan
Accounting officer

13 June 2016

Accountability Report

Corporate Governance Report

Directors Report

Executive members of the Authority who served during the year

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

Rachel Fletcher, senior partner, Consumers and Competition, was appointed in January 2016. She has no other company directorships.

Sarah Harrison, senior partner, Sustainable Development, left in July 2015. She had no other company directorships.

Dr Andrew Wright, senior partner, Energy Systems, was appointed in January 2008. He is an advisory board member of Durham University Energy Institute.

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.

Christine Farnish joined in January 2016. Her appointment ends in January 2021. She is the Chairman of Peer 2 Peer Finance Association, non-executive director of Ofwat, ABTA, Brighton and Sussex University Hospitals Trust, a member of the AXA stakeholder advisory panel, and non-executive director and chair of Consumer Focus.

Professor David Fisk CB joined in July 2009. He was reappointed in June 2012 to serve until June 2017. He holds the Laing O'Rourke Chair in Systems Engineering at Imperial College, London and 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.

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

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 and Harwich Haven Authority, 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 Ltd, a non-executive director of Rock Solid Images, a non-executive director of Papua Mining plc, Cairn Energy plc, and Gulf Keystone 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.

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 (2014–15: £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 re-appointed Deloitte to this role on 1 April 2015, after a competitive tender. The current contract is due to end on 30 June 2018.

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.

Budgets and liquidity

Parliament approves our budget, after we have consulted with the industry and other interested parties. For 2015-16 Parliament approved through the Main Estimate:

- a gross resource budget of £89.500 million
- a capital budget of £1.000 million
- a net cash requirement of £10.290 million.

A supplementary estimate allowed us to increase our net cash requirement by £5.465 million to £15.755 million to cover working capital demands.

Reconciliation between estimate and budget

	2015-16 £000	2014-15 £000
Net resource outturn (estimate)	6,165	6,868
Net operating costs (accounts)	654	500
Resource budget outturn (budget)	654	500
Of which:		
Departmental expenditure limits	654	500
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 of £5.0 million that we maintain on the Statement of Financial Position, as vote funding rather than operating income. During 2015-16 none of this balance was released.

We drew down a contingency fund advance of £20.0 million in April 2015 to provide short-term liquidity until we started receiving licence fees. We repaid this in full in August 2015.

The net cash requirement outturn of -£9.600 million is lower than the estimate net cash requirement of £15.755 million. Of the £25.355 million difference, £22.837 million is held in deposit for the Offshore Transmission Tender Regime. We will use this money on completion of individual tender rounds.

We will hold back £25.355 million due to be paid to the Consolidated Fund and use it to fund operations in 2016-17, until we get enough income from licence fees.

Finance and provisions

Total provisions amounted to £1.001 million as at 31 March 2016. We have provided for the ongoing costs of early retirements that have occurred in previous financial years.

In 2003, we outsourced statutory examining and testing services to SGS UK Ltd (our laboratories at Leicester had provided those services until then). Some costs of this change, particularly redundancy and continuing pension liabilities, have fallen to us. We had to make provisions in 2003-04 that now total £0.193 million.

In total we have provided £0.238 million including the Leicester provision, to cover the costs of pensions for people who have retired early. We have also set aside £0.763 million to cover unfunded pension liabilities for a previous chief executive and a previous director general.

Our statement of financial position at 31 March 2016 shows negative taxpayer's equity of £10.901 million.

Improving our supply chain

Environmental procurement

Our Procurement team makes most buying decisions based on value for money. However 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 ISO 14001 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 2015-16 we paid 99.53% of all undisputed bills inside this time frame.

In 2008, the government challenged departments to pay all suppliers within ten working days. This year we paid 91.59% of undisputed bills inside this timeframe. For amounts contractually due and invoiced by 31 March 2016, the outstanding number of days' purchases is 2.0.

Reports to the Parliamentary Ombudsman

In 2013 (the most recent year in respect of which data is published) the Parliamentary Ombudsman received no complaints about the Gas and Electricity Markets Authority.

Dermot Nolan
Accounting officer

13 June 2016

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 Christine Farnish as a non-executive member of the Authority for five years with effect from 22 January 2016. The appointment was made after an open and competitive process.

We arranged briefings and induction for Christine before she took up her new role. Christine attended her first Authority meeting in February 2016.

Also on 22 January 2016, the Secretary of State appointed Rachel Fletcher, senior partner for Ofgem's Consumers and Competition division, as an executive member of the Authority for a period of seven years. Rachel attended her first Authority meeting as an executive member in February 2016. 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 54.

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.

In 2015-16, the chairman again reviewed the individual performance of Authority members, looking at their contributions to the Authority's work. The other non-executive members set objectives for the chairman after discussion with him and reviewed his performance against these objectives.

The Authority reviews the activities, plans and performance of its four main regulatory divisions against its strategic objectives on a four-monthly cycle, and reviews the activities and priorities of its principal support functions on a six-monthly or yearly basis. The activities and priorities of E-Serve are reviewed by the Authority on a six-monthly cycle. From 2015-16, the Authority also reviews Ofgem's strategic risks, that is, those risks most consequential to Ofgem's strategy, on a twice-yearly basis.

In December 2014 we published our corporate strategy and associated draft Forward Work Programme for 2015-16. Following consultation and stakeholder engagement, we published the final Forward Work Programme in March 2015. The Authority reviews its overall programme of medium and longer term work every six months. In addition, the Authority also 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 Board	Remuneration Committee	Europe Committee
David Gray	11/11	-	-	-	4/4
David Fisk	11/11	4/4	-	-	3/4
Paul Grout	11/11	4/4	-	3/3	-
Nicola Hodson	10/11	-	-	-	-
Christine Farnish*	2/2	-	-	-	-
Jim Keohane	10/11	-	5/5	3/3	3/4
Keith Lough	11/11	4/4	5/5	-	-

*Christine Farnish was appointed on 22 January 2016.

The Authority met in Scotland in November 2015, and in Wales in March 2016, using both occasions to meet local political representatives and 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.

What committees does the Authority have?

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 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. The committee also looks 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:

- receiving reports from both internal and external audit
- receiving reports on IT security in the organisation

The committee also oversees our RPI–3% cost control regime. It met four times in 2015-16, and also took part in a workshop session on risk management, along with other Authority members. Keith Lough chairs the committee, the other members of which are David Fisk and Paul Grout.

E-Serve Board Committee

This committee advises the Authority on the effectiveness and efficiency of E-Serve in delivering its relevant activities. In particular, it reviews and makes recommendations to the Authority on E-Serve's strategy and overall budget, significant new activities to be performed by E-Serve and major changes to existing activities. It provides assurance to the Authority on performance of those activities. It is chaired by the chief executive and its members include the managing director of E-Serve, non-executive directors and a representative from DECC. The Board met five times in 2015-16.

The Budget 2016 policy paper confirmed that E-Serve functions will be split off from Ofgem as part of the government's efforts to streamline the economic regulators. The document stated: "The Department of Energy and Climate Change (DECC) is committed to consolidating its delivery providers and will set out the future of consumer-facing functions, including those currently undertaken by E-Serve." The government said this would ensure that Ofgem could focus on its core functions of economic regulation and promoting effective competition in the energy market.

Enforcement Decision Panel

The Enforcement Decision Panel (EDP) is in place to take important decisions in contested enforcement cases on behalf of the Authority. EDP members are dedicated specialists, who provide a visible separation between the investigation and decision making functions. The chair of the EDP is John Swift QC. Members of the EDP also chair Enforcement 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 made decisions on eight cases in 2015-16. For more details on the EDP please see the EDP pages on the Ofgem website.

Europe Committee

This committee is chaired by the Ofgem chairman and usually meets four times a year. It comprises non-executive directors, the senior partner for Energy Systems and the Partner, Wholesale Markets. Other senior partners have a standing invitation to attend and are expected to do so when an item of particular significance to their division is to be discussed.

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. He holds these roles 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 later in this section.

How is the Authority's performance measured?

As reported last year, a review of the Authority's performance and effectiveness carried out by a specialist consultant in 2014-15 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. In July 2015 and again in December 2015, the Authority reviewed progress in implementing changes to methods of working recommended by the consultant to improve effectiveness further. It was agreed that good progress had been made in a number of areas, including arrangements for more systematic planning of Board business and periodic review of potential longer term developments in the energy markets. Other areas, such as improving assessment of the impact the Board created throughout the organisation, needed further development. It was noted that the broader changes to governance within Ofgem being implemented as part of the Strategic Transformation Programme should reduce the volume of routine business coming to the Board, giving it greater scope to devote time to consideration of strategic matters.

It was agreed that Authority members and senior executives who regularly attended Board meetings would complete an assessment questionnaire on Board effectiveness during the final quarter of 2015-16 and that the external consultant who had conducted the 2014-15 review would be asked to undertake a follow-up review during the winter of 2016-17. The responses to the assessment questionnaire were discussed at an informal meeting of Authority members and senior executives in May 2016 and it was concluded that Board effectiveness was generally satisfactory. A number of possible changes to methods of working were considered and it was agreed that these would be reviewed further at an away day in July 2016.

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

Executive governance framework

Senior Management Team

Prior to February 2016, the Senior Management Team supported the chief executive in the day-to-day running of Ofgem. It was made up of all the executive members shown in the remuneration report. It met weekly and decided on everything relating to management and resources, subject to the Authority's overall control.

The Executive

Prior to February 2016, the Executive was responsible for considering and providing advice and instruction on all policy issues. It also advised on papers before their submission to the Authority. It sought to ensure that our policies were consistent and fully thought through. It was made up of all the executive members shown in the remuneration report and was chaired by the chief executive. It met weekly.

New Governance Framework

A new executive governance framework was launched in February 2016, focusing on leadership and strategy, high quality and faster decision making and ensuring we use our resources to benefit consumers efficiently and effectively.

Four new boards were created to replace the Senior Management Team and Executive meetings. Each board meets on a monthly basis:

GEMA Gateway Board

The GEMA Gateway Board is responsible for managing the agenda and clearing papers for GEMA Wednesday briefing sessions and Thursday meetings. This board also ensures the appropriate scrutiny of policy decision making in the organisation. The board is chaired by the chief executive.

Regulation and Policy Board

The Regulation and Policy Board assists the chief executive in determining the policy direction of Ofgem and makes decisions on matters relating to regulatory stances, and provides early stage guidance on policy matters.

The Board is chaired by the senior partner for Improving Regulation.

Operations Board

The Operations Board supports the chief executive in the day-to-day management and effective running of Ofgem. This Board considers all operational matters around management and resources including our operational performance. It is chaired by the chief operating officer.

Strategy and Risk Board

The Strategy and Risk Board is accountable for delivering the strategy, and considering the risks to the delivery of our strategic outcomes. The Board owns the Forward Work Programme, and is also responsible for project and programme funding, administered by the Portfolio Investment Board (a sub-board of the Strategy and Risk Board). The board is chaired by the chief executive.

Management Committee (for E-Serve)

This committee supports 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, and was unaffected by the new governance framework.

Executive Risk Committee

This committee supported the chief executive to maintain effective risk management. It was made up of all the executive members shown in the remuneration report and the legal partner of the Networks division. It met quarterly. Under the new executive governance framework, the committee forms part of the Strategy and Risk Board from May 2016.

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 policy-making, planning and delivery. Each senior management member has a personal objective to seek to implement the strategy in their area.

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

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 2015-16, energy policy again 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 published our strategy in December 2014. Following consultation, our Forward Work Programme for 2015-16 was published in March 2015. Our strategic mission is to make a positive difference for energy consumers through independent regulation.

Our Strategic Transformation Programme was initiated in 2014 so that we focus on taking Ofgem forward and successfully meet all future regulatory challenges. The transformation programme is designed to ensure that we have the right people, processes and technology in place to deliver our objectives successfully and the agility to meet future challenges. The second and final phase of the programme completed in September 2015 and we are now engaged in follow-on work to ensure that changes are sustainable and become the new, accepted way of doing business in Ofgem and to build on programme successes.

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
- confidence
- efficiency

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 Leadership Team and Management Committee (for E-Serve) keep Ofgem's top risks under review. The Management Committee has prepared a separate top risks profile to cover E-Serve.

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').

The only exception is that the Code requires boards to be chaired by the lead minister. As a non-ministerial government department and an independent national regulatory authority, with Authority members appointed by the Secretary of State, the Authority 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 2016-17 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 2015-16.

The accounting officer's review of effectiveness

As the accounting officer, I'm responsible for reviewing the effectiveness of our governance system. I base my review on the work of the internal auditors and the executive managers who are responsible for developing and maintaining the governance system. I also take into account the comments the external auditors make in their management letter and other reports. The Authority and the Audit 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.

In internal audit reviews undertaken during 2015-16 and prior years, our internal auditors made 57 recommendations that had a due date for implementation before 31 December 2015. Of these, as at January 2016, satisfactory progress had been made with 39 out of the 57 recommendations either implemented or substantially complete, a further 15 recommendations in progress, and three recommendations where management have accepted the risk.

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

- The Risk Committee agreed our strategic risks
- The Senior Management Team, the Management Committee (for E-Serve) and the Audit and Risk Assurance Committee reviewed our strategic risks
- E-Serve's Risk and 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 of finance and risk management regularly met senior partners and managing directors individually to review resources and progress towards objectives, and to identify and evaluate the associated risks

- We updated our governance statements to require partners and directors to consider and report on all aspects of financial and risk management and other governance control issues in their area
- There was an internal audit of risk management in Ofgem in January 2016. The review found satisfactory assurance
- In January 2016 we conducted a simulated crisis management exercise observed by a firm of consultants specialising in business continuity. Our response was considered extremely successful compared to peer organisations.

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

Dermot Nolan
Accounting officer

13 June 2016

Remuneration and staff report

Remuneration committee

This committee comprises non-executive members of the Authority who are appointed by ordinary resolution of the Authority. The committee is chaired by Jim Keohane. The other members are Paul Grout and (from March 2016) Christine Farnish. The chief executive attends as an observer.

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

Remuneration policy

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

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

Each executive member is eligible to participate 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.

During 2016-17 we are considering the feasibility of introducing clawback provision of senior level bonuses for future years.

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 2015-16 are shown in the table opposite.

Single total figure of remuneration

	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000)‡		Total (£000)	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Senior executive members of Ofgem										
Dermot Nolan Chief executive	190-195	185-190	15-20	-	-	-	32,000	29,000	235-240	215-220
Martin Crouch Senior partner (from May 2014***)	135-140	125-130**	-	10-15	-	-	85,000	39,000	220-225	175-180
Rachel Fletcher Senior partner	140-145	130-135	-	-	-	-	69,000	80,000	205-210	210-215
Maxine Frerk Acting Senior partner (from June 2014***)	125-130	100-105**	-	10-15	-	-	46,000	26,000	170-175	135-140
David Gillies Acting chief operating officer (from January 2016***)	25-30*	-	-	-	-	-	8,000	-	30-35	-
Sarah Harrison Senior partner (to July 2015***)	45-50*	140-145	15-20	15-20	-	-	30,000	50,000	90-95	205-210
Anthony Pygram Acting Senior partner (from July 2015 to December 2015***)	60-65*	-	-	-	-	-	40,000	-	100-105	-
Dr Andrew Wright Group Finance Director (to December 2015), Senior partner (from January 2016)	185-190	185-190	-	15-20	-	-	71,000	68,000	255-260	265-270
Senior executive members of Ofgem E-Serve										
Chris Poulton Acting managing director (from December 2014***)	130-135	45-50**	10-15	-	-	-	16,000	5,000	160-165	50-55
Non-executive members of the Authority										
David Gray Chairman	160-165	160-165	-	-	-	-	-	-	160-165	160-165

* Annual equivalent basic salary (excluding performance pay):

David Gillies:	105-110
Sarah Harrison:	140-145
Anthony Pygram:	125-130

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

Martin Crouch:	125-130
Maxine Frerk:	120-125
Chris Poulton:	125-130

*** 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	2015-16		2014-15	
	Honorarium	Allowance	Honorarium	Allowance
Christine Farnish (from January 2016)	£3,333*	-	-	-
David Fisk	£25,000	-	£25,000	-
Paul Grout	£20,000	£2,081	£20,000	£3,000
Nicola Hodson (from March 2015)	£20,000	-	£1,667	-
John Howard (until April 2015)**	-	-	£25,000	-
Jim Keohane	£25,000	£3,000	£25,000	£3,000
Keith Lough	£20,000	£3,000	£20,000	£3,000

* Annual equivalent £20,000
**John Howard received no remuneration during April 2015

Non-executive members have fixed-term appointments, normally for up to five years. These appointments are renewable. Information on appointment dates is on page 40. 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 2015-16 relate to performance in 2014-15. The bonuses reported for 2014-15 relate to performance in 2013-14.

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 2015-16 was £205,000-210,000 (2014-15: £200,000-205,000). This was 5.21 times (2014-15: 5.28) the median remuneration of the workforce, which was £39,701 (2014-15: £38,001).

In 2015-16 no (2014-15: none) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £8,840 to £206,900 (2014-15: £8,840 to £200,486).

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 average number of permanently employed staff decreased in 2015-16. The reduction in the pay multiple reflects the fact that this decrease was concentrated in staff at the lower grades, resulting in a higher median remuneration compared to 2014-15.

Pension benefits	Real increase in pension and related lump sum at age 60 £000	Accrued pension at age 60 at 31 March 2016 and related lump sum £000	Cash equivalent transfer value at 31 March 2016 £000	Cash equivalent transfer value at 31 March 2015 £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	-	-	-	-	-	31,900
Martin Crouch Senior partner (from May 2014)	2.5-5.0	30-35	415	330	42	-
Rachel Fletcher Senior partner	2.5-5.0	20-25	409	319	55	-
Maxine Frerk Acting Senior partner (from June 2014)	0-2.5 and 5.0-7.5 lump sum	20-25 and 60-65 lump sum	432	358	42	-
David Gillies Acting chief operating officer (from January 2016)	0-2.5	15-20	345	327	7	-
Sarah Harrison Senior partner (to July 2015)	0-2.5	35-40	575	540	22	-
Anthony Pygram Acting senior partner (from July 2015 to December 2015)	0-2.5 and 5.0-7.5 lump sum	30-35 and 90-95 lump sum	587	533	30	-
Dr Andrew Wright Group Finance Director (to December 2015), Senior partner (from January 2016)	2.5-5.0	35-40	500	412	27	-
Senior executive members of Ofgem E-Serve						
Chris Poulton Acting managing director (from December 2014)	-	-	-	-	-	16,000

Civil service pensions

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

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (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 up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

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

Cash Equivalent Transfer Values

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

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

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation 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.

Staff report

Average number of people employed

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

			2015-16	2014-15
	Permanently employed staff	Others	Total	Total
Regulatory	437	3	**440**	481
E-Serve	270	42	**312**	385
Corporate Functions	127	28	**155**	166
Total	**834**	**73**	**907**	**1,032**

There was an average of 41.0 whole-time equivalent people in the SCS grade during the year. Of these 21.7 were in payband 1, 15.0 in payband 2, and 4.3 in payband 3.

Reporting of civil service and other compensation schemes – exit packages

There have been no redundancies made during either 2015-16 or 2014-15.

Employee involvement

This year our staff engagement survey received a response rate of 94%, and an engagement index of 58%. While the engagement figure is four percentage points lower than 2015, we are in line with the civil service average.

Our staff also continue to find their roles interesting (88%) and challenging (71%), and would recommend Ofgem as a great place to work (61%).

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 out our approach to our staff, internal processes, policy development and decision-making. We will review the scheme in 2016.

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 2015 staff engagement survey was 77%.

In 2015-16 we continued to provide diversity and unconscious bias training to 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% (2014-15:1.9%) of staff were known to have a disability
- 46% (2014-15:46%) of staff were women
- 45% (2014-15:44%) of staff in managerial grades were women
- 29% (2014-15:29%) of Senior Civil Service members in Ofgem were women
- 19% (2014-15:18%) of staff were known to be of ethnic minority origin
- 64% (2014-15:67%) 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 2015 results placed us five percentage points above the Civil Service average for Learning and Development.

In 2015-16, 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, or someone with regular volunteering activity.

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

We continue to work with Career Ready and have 60 staff giving 16-19 year-olds one-to-one support and guidance through the mentoring scheme. In 2015, we offered three, six-week summer internship placements in London and two four-week summer internship placements in Glasgow.

We will be providing three further placements in London and two in Glasgow during the summer of 2016.

In addition, we recruited two IT apprentices in 2015-16.

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 2015-16, we lost an average of 6.1 days a year per employee (2014-15: 5.1 days). This compares favourably with the central government sector average of 9.0 days a year per employee, and the all sector average of 6.9 days.

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 engagements is at Appendix V on page 115.

Dermot Nolan
Accounting officer

13 June 2016

Parliamentary Accountability and Audit Report

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 2015-16

	2015–16 £000							2014–15 £000
	Estimate			Outturn				Outturn
	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with estimate: saving	Total
Departmental expenditure limit								
Resource	6,165	-	6,165	654	-	654	5,511	500
Capital	1,000	-	1,000	542	-	542	458	1,239
Annually managed expenditure								
Resource	-	-	-	-	-	-	-	–
Capital	-	-	-	-	-	-	-	–
Total budget	7,165	-	7,165	1,196	-	1,196	5,969	1,739
Non-budget								
Resource	-	-	-	-	-	-	-	–
Total	**7,165**	**-**	**7,165**	**1,196**	**-**	**1,196**	**5,969**	**1,739**
Total resource	6,165	-	6,165	654	-	654	5,511	500
Total capital	1,000	-	1,000	542	-	542	458	1,239
Total	**7,165**	**-**	**7,165**	**1,196**	**-**	**1,196**	**5,969**	**1,739**

		2015-16 £000	2015-16 £000		2014-15 £000
	SoPS Note	**Estimate**	**Outturn**	**Outturn compared with estimate: saving**	**Outturn**
Net cash requirement	SoPS3	15,755	(9,600)	25,355	(4,320)

	2015-16 £000	2015-16 £000		2014-15 £000
	Estimate	**Outturn**	**Saving**	**Outturn**
Administration costs	6,165	654	5,511	500

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

SoPS1 Net outturn

SoPS1.1 Analysis of net resource outturn by section

	2015-16 £000					2014-15 £000
			Outturn	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	37,238	(37,238)	-	5,465	5,465	-
B Ofgem E-Serve: administration	39,815	(39,161)	654	700	46	500
Total	**77,053**	**(76,399)**	**654**	**6,165**	**5,511**	**500**

SoPS1.2 Analysis of net capital outturn by section

	2015-16 £000					2014-15 £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	542	-	542	1,000	458	1,239
B Ofgem E-Serve: administration	-	-	-	-	-	-
Total	**542**	**-**	**542**	**1,000**	**458**	**1,239**

SoPS2 Reconciliation of outturn to net operating cost

		2015-16	2014-15
	Note	£000	£000
Total resource outturn in Statement of Parliamentary Supply	SoPS1.1	654	500
Net operating costs in Statement of Comprehensive Net Expenditure		**654**	**500**

SoPS3 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	SoPS1.1	**6,165**	**654**	**5,511**
Capital outturn	SoPS1.2	**1,000**	**542**	**458**
Accruals to cash adjustments:				
▪ Depreciation	4	(1,500)	(1,487)	(13)
▪ New provisions and adjustments to provisions	4	-	(34)	34
▪ Other non-cash items	4	(60)	(53)	(7)
▪ Movement in working capital		10,000	(11,240)	21,240
▪ Other adjustment		-	-	-
▪ Use of provision	14	150	2,018	(1,868)
Net cash requirement		**15,755**	**(9,600)**	**25,355**

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

SoPS4 Analysis of income payable to the consolidated fund

We collected no consolidated fund income in 2015-16. 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 separately from but alongside these financial statements.

Other areas of Parliamentary Accountability

The following areas are not applicable to Ofgem:

- Loses and special payments
- Fees and charges disclosures
- Remote contingency liabilities, and
- Long term expenditure trends.

Dermot Nolan
Accounting officer

13 June 2016

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 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosure that is described in those reports 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 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 2016 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 2016 and of the Department's 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 parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosure to be audited have 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 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 parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosure 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

28 June 2016

Resource Accounts

Resource Accounts

Statement of comprehensive net expenditure for the year ended 31 March 2016

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	Income 2015-16 £000	2014-15 £000
Administration costs					
Staff costs	3	53,711			59,378
Other costs	4		23,342		27,908
Income	5			(76,399)	(86,786)
Net operating costs	SoPS1.1			**654**	**500**
Total expenditure				77,053	87,286
Total income				(76,399)	(86,786)
Net operating costs				**654**	**500**
Other comprehensive net expenditure					
Items that will not be reclassified to net operating costs:					
Actuarial gain/(loss) on pension liabilities		14		26	(21)
Total comprehensive net expenditure for the year ended 31 March 2016				**680**	**479**

The notes on pages 71 to 86 form part of these accounts.

Statement of financial position as at 31 March 2016

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		2016 £000		2015 £000
Non-current assets:					
Property, plant and equipment	6	2,478		3,423	
Other non-current assets	12	1,977		-	
Total non-current assets			**4,455**		**3,423**
Current assets:					
Trade receivables and other current assets	12	8,919		12,844	
Cash and cash equivalents	11	25,355		21,178	
Total current assets			**34,274**		**34,022**
Total assets			**38,729**		**37,445**
Current liabilities:					
Trade and other payables	13	(48,094)		(34,768)	
Total current liabilities			**(48,094)**		**(34,768)**
Total assets less current liabilities			**(9,365)**		**2,677**
Non-current liabilities:					
Provisions	14.1,14.2	(1,001)		(3,011)	
Other payables	13	(535)		(392)	
Total non-current liabilities			**(1,536)**		**(3,403)**
Total assets less total liabilities			**(10,901)**		**(726)**
Taxpayers' equity:					
General fund			(10,901)		(726)
Total taxpayers' equity			**(10,901)**		**(726)**

Dermot Nolan
Accounting officer

13 June 2016

The notes on pages 71 to 86 form part of these accounts.

Statement of cash flows for the year ended 31 March 2016

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	2015-16 £000	2014-15 £000
Cash flows from operating activities			
Net operating cost	SoPS1.1	(654)	(500)
Adjustments for non-cash transactions	4	1,574	1,467
Decrease in trade and other receivables	12	1,948	8,517
less movements in receivables relating to items not passing through the SoCNE		-	-
Increase/(Decrease) in trade payables	13	13,469	(1,749)
less movements in payables relating to items not passing through the SoCNE	13	(4,177)	(2,050)
Other adjustment		-	(5)
Use of provisions	14	(2,018)	(121)
Net cash outflow from operating activities		**10,142**	**5,559**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(542)	(1,239)
Proceeds of disposal of property, plant and equipment		-	-
Net cash outflow from investing activities		**(542)**	**(1,239)**
Cash flows from financing activities			
From the Consolidated Fund (supply) – current year		15,755	16,858
Advances from the contingencies fund		20,000	20,000
Payments to the contingencies fund		(20,000)	(20,000)
Net financing		**15,755**	**16,858**
Payments of amounts to the consolidated fund		(21,178)	(19,128)
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the consolidated fund		**4,177**	**2,050**
Cash and cash equivalents at the beginning of the period	11	21,178	19,128
Cash and cash equivalents at the end of the period	11	**25,355**	**21,178**

The notes on pages 71 to 86 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2016

	Note	General fund £000
Balance at 31 March 2014		**4,067**
Net parliamentary funding – drawn down		16,858
Net parliamentary funding – deemed		-
Supply payable adjustment		(21,178)
Comprehensive net expenditure for the year		(500)
Auditor's remuneration	4	53
Losses relating to pension liabilities	14	(21)
Other adjustment		(5)
Balance at 31 March 2015		**(726)**
Net parliamentary funding – drawn down		15,755
Net parliamentary funding – deemed		-
Supply payable adjustment		(25,355)
Comprehensive net expenditure for the year		(654)
Auditor's remuneration	4	53
Gains relating to pension liabilities	14.2	26
Balance at 31 March 2016		**(10,901)**

The notes on pages 71 to 86 form part of these accounts.

Notes to the departmental resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the FReM issued by HM 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, and are included in the Parliamentary Accountability and Audit Report section starting on page 60.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

1.2 Property, plant, equipment and depreciation

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

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

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

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

1.3 Provisions

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

Where the time-value of money is material, we discount the provision to its present value using a discount rate of 1.37%, 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) and the Civil Servants and Others Pension Scheme (CSOPS). These are described at Note 3. Both schemes are non-contributory and unfunded. Departments, agencies and other bodies covered by both schemes meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. Liability for payment of future benefits is a charge on the schemes. There is a separate scheme statement for the PCSPS and the CSOPS as a whole.

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 IAS 37.

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 2016 shows a negative taxpayers' equity of £10.901 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 2016-17 has already been given and there is no reason to believe that future approvals will not be granted. We have 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 17 (such as money held in relation to the Renewables Obligation and Feed-inTariff schemes) 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

2015-16				
	Regulatory Activities £000	Ofgem E-Serve £000	Corporate Functions £000	Total £000
Gross expenditure	37,257	19,770	20,026	77,053
Income	(37,257)	(19,116)	(20,026)	(76,399)
Net expenditure	**-**	**654**	**-**	**654**

2014-15				
	Regulatory Activities £000	Ofgem E-Serve £000	Corporate Functions £000	Total £000
Gross expenditure	36,101	26,255	24,930	87,286
Income	(36,101)	(25,755)	(24,930)	(86,786)
Net expenditure	**-**	**500**	**-**	**500**

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

3. Staff costs

Staff costs comprise			2015-16 £000	2014-15 £000
	Permanently employed staff	Others	Total	Total
Wages and salaries	37,991	4,830	42,821	48,474
Social security costs	3,522	-	3,522	3,671
Other pension costs	7,481	-	7,481	7,354
Other staff costs	(113)	-	(113)	(121)
Total	**48,881**	**4,830**	**53,711**	**59,378**

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as “alpha” are unfunded multi-employer defined-benefit schemes, but Ofgem is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the 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 2015-16, employers’ contributions of £7,215,006 were payable to the PCSPS and CSOPS (2014-15: £7,092,650) at one of four rates in the range 20.0% to 24.5% (2014-15: 16.7% to 24.3%) of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 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 £254,465 (2014-15: £188,263) were paid to three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% (2014-15: 3% to 12.5%) of pensionable earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earnings from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £11,205 (2014-15: £18,805), 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015, were payable to the PCSPS and the CSOPS 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 (2014-15: zero people) retired early on ill-health grounds.

Staff numbers can be seen in the Remuneration and Staff report on page 58.

4. Other administration costs

	Note	2015-16 £000	2014-15 £000
Rental under operating leases:			
Operating leases		3,195	5,897
		3,195	5,897
Non-cash items:			
Auditors' remuneration and expenses*		53	53
Depreciation	6	1,487	1,371
Loss on disposal of property, plant and equipment		-	-
		1,540	1,424
Other expenditure:			
Contractors		7,230	8,538
Accommodation costs		4,638	4,177
Office supplies and equipment		2,189	3,291
Recruitment and training		1,562	1,844
Professional services		761	476
Travel and subsistence		658	772
Staff-related costs		365	468
Other administration costs		1,170	978
		18,573	20,544
Provisions (non-cash):			
Provided in year	13	16	11
Interest cost	13	27	32
Writeback of provision		(9)	-
Movement in provision		34	43
Total		**23,342**	**27,908**

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

5. Operating income

			2015-16 £000			2014-15 £000
	Income	Full costs	Deficit	Income	Full costs	Deficit
Licence fees	(49,119)	49,119	-	(55,686)	55,686	–
Other	(27,280)	27,934	654	(31,100)	31,600	500
Total	**(76,399)**	**77,053**	**654**	**(86,786)**	**87,286**	**500**

	2015-16	2014-15
Other income includes:	**£000**	**£000**
Offshore Transmission Tender Recharge	2,170	3,378
Department of Energy and Climate Change (relating to environmental programmes and staff transfers)	18,528	21,914
Scheme-funded recharges	3,134	2,553
Department for Environment, Food and Rural Affairs (relating to shared accommodation costs and staff transfers)	1,673	2,020
Other departments	1,256	976
Miscellaneous*	519	259
	27,280	**31,100**

*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 2015	167	2,527	5,190	5,767	13,651
Additions	-	5	487	50	542
Disposals	-	(188)	(98)	-	(286)
At 31 March 2016	**167**	**2,344**	**5,579**	**5,817**	**13,907**
Depreciation					
At 1 April 2015	149	2,204	3,534	4,341	10,228
Charged in year	5	145	852	485	1,487
Disposals	-	(188)	(98)	-	(286)
At 31 March 2016	**154**	**2,161**	**4,288**	**4,826**	**11,429**
Carrying amount at 31 March 2016	**13**	**183**	**1,291**	**991**	**2,478**
Carrying amount at 31 March 2015	18	323	1,656	1,426	3,423
Asset financing:					
Carrying amount of owned assets at 31 March 2016	13	183	1,291	991	2,478

	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

7. Capital commitments

	2015-16	2014-15
	£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.

	2015-16	2014-15
	£000	£000
Obligation under operating leases for the following periods comprise:		
Buildings:		
Not later than one year	6,203	6,160
Later than one year and not later than five years	7,803	8,027
Later than five years	-	-
	14,006	**14,187**

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 £0.391 million. This will be used on a straight-line basis over the lease term up to when we vacate Millbank in 2017-18. This is disclosed in Note 12.

8.1 Other financial commitments

As at 31 March 2016, we hadn't entered into any non-cancellable contracts (which are not operating leases).

9. Future income due under non-cancellable operating leases

	2015-16	2014-15
	£000	**£000**
Buildings:		
Not later than one year	1,583	1,583
Later than one year and not later than five years	1,948	1,948
	3,531	**3,531**

The lease information above relates to the sub-letting of floors in our London headquarters building to the Department for Environment, Food and Rural Affairs under a Memorandum of Terms of Occupation (MOTO) agreement.

10. 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.

11. Cash and cash equivalents

	2015-16	2014-15
	£000	£000
Balance at 1 April	21,178	19,128
Net change in cash and cash equivalents	4,177	2,050
At 31 March	**25,355**	**21,178**
The following balances at 31 March were held at:		
Government Banking Service	25,355	21,178
Commercial banks and cash in hand	-	-
Balance at 31 March	**25,355**	**21,178**

12. Trade receivables and other current assets

	2015-16	2014-15
Amounts falling due within one year:	£000	£000
Trade receivables	656	1,165
Accrued income	4,062	7,645
Prepayments	3,581	3,480
HM Revenue and Customs (VAT)	389	340
Staff receivables	231	214
Balance at 31 March	**8,919**	**12,844**

	2015-16	2014-15
Amounts falling due after more than one year:	£000	£000
Accrued lease incentive	1,977	-
Balance at 31 March	**1,977**	**-**

Staff receivables include loans outstanding, of which £218k relates to season ticket loans for employees, and £3k relates to a housing advance for an employee.

13. Trade payables and other current liabilities

	2015-16	2014-15
Amounts falling due within one year:	**£000**	**£000**
Other taxation and social security	1,035	1,088
Trade payables	133	30
Staff payables	1,285	1,339
Deferred licence fees	14,506	5,465
Leasehold reverse premium	316	316
Leasehold incentive	689	-
Accruals and other deferred income	4,775	5,352
Amounts issued from the consolidated fund for supply but not spent at year end	15,755	16,858
Excess cash receipts	9,600	4,320
Balance at 31 March	**48,094**	**34,768**

	2015-16	2014-15
Amounts falling due after more than one year:	**£000**	**£000**
Leasehold reverse premium	75	392
Leasehold incentive	460	-
Balance at 31 March	**535**	**392**

In February 2015 Ofgem signed an agreement to waive its rights under the Landlord and Tenant Act 1954, in respect of its Millbank headquarters. Under the agreement Ofgem will vacate the building by 23 June 2018 at the latest, rather than exercise its right to continue the lease at the next break point in June 2017.

In consideration of Ofgem waiving its rights, Prudential, the landlord of the property agreed to waive the requirement for Ofgem to pay dilapidation costs on exit. £1.9 million that had previously been provided for dilapidations has been reversed, and treated as a lease incentive which will be utilised over the expected period to vacation of Millbank.

In addition to the waiving of dilapidation costs, Berkeley Homes, whom the landlord has entered into a contract with to redevelop Millbank, agreed to pay Ofgem £5.25 million.

The £5.25 million comprises a £0.25 million deposit payable on signing (February 2015). The agreement required that this deposit should be paid by Berkeley Homes to whoever Ofgem directed. Ofgem directed that the payment be made to the agents who negotiated the deal. No payment was received by Ofgem.

The remaining £5.0 million will be received by Ofgem on vacation of Millbank, and has been treated as a lease incentive over the expected period to vacation of Millbank. The amount accrued during 2015-16 is included within accrued income in note 12.

14. Provisions for liabilities and charges

14.1 Early retirement

	2015-16	2014-15
	£000	£000
Balance at 1 April	**332**	**424**
Provided in the year	16	11
Borrowing Costs	-	-
Provisions not required written back	(9)	-
Provisions utilised in the year	(100)	(103)
Balance at 31 March	**239**	**332**

	2015-16	2014-15
Analysis of expected timings of discounted flows	£000	£000
Not later than one year	64	95
Later than one year and not later than five years	87	115
Later than five years	88	122
Balance at 31 March	**239**	**332**

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 1.37% in real terms.

14.2 Pension liabilities

	2015-16	2014-15
	£000	£000
Provision at 1 April	**779**	**744**
Interest cost	27	32
Actual benefit payments	(18)	(18)
Actuarial (gain)/loss	(26)	21
Past service cost	-	-
Provision at 31 March	**762**	**779**
Net movement in year (excluding actuarial gain/loss)	9	14

	2015-16	2014-15
History of experience losses	**£000**	**£000**
Experience gain arising on the scheme liabilities	(8)	(3)
Amount recognised as a percentage of present value of scheme liabilities	(1.0%)	(0.4%)
Total amount recognised in statement of changes in taxpayers' equity	(26)	21

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 have 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 2016. The major assumptions used by the actuary were:

	At 31 March 2016	At 31 March 2015
	% (per annum)	% (per annum)
Inflation assumption -CPI	2.20	2.20
Rate of increase in salaries	4.20	4.20
Rate of increase for pensions in payment and deferred income	2.20	2.20

	2015-16	2014-15	2013-14
Analysis of actuarial loss	**£000**	**£000**	**£000**
Experience (gain)/loss arising on the scheme liabilities	(8)	(3)	8
Changes in assumptions underlying the present value of scheme liabilities	(18)	24	35
Per statement of changes in taxpayers' equity	(26)	21	43

From 31 March 2016, the discount rate for pension scheme liabilities changed from 1.30% to 1.37%. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2016.

14.3 Dilapidations

	2015-16
	£000
Provision at 1 April	**1,900**
Dilapidations provision reversal	(1,900)
Provision at 31 March	**-**

In February 2015 Ofgem signed an agreement to waive its rights under the Landlord and Tenant Act 1954, in respect of its 9 Millbank office. Under the agreement Ofgem will vacate the building by 23 June 2018 at the latest, rather than exercise its right to continue the lease.

In consideration of Ofgem waiving its rights, the landlord of the property waived the requirement for Ofgem to pay dilapidation costs on exit. The dilapidations provision was consequently reversed, and treated as a lease incentive spread over the period to when it is expected that Millbank will be vacated.

15. 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 2016 there were no contingent liabilities that required disclosure.

16. Related party transactions

During the year, we transferred £5.8372 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, £0.964 million was transferred to the National Measurement and Regulation Office for metrology services.

We administer environmental programmes on behalf of the Department of Energy and Climate Change (DECC), and second staff to DECC. Total income from DECC recognised in year amounted to £18.528 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 (DETI), and administer the Northern Ireland Renewables Obligation on behalf of the NI Authority for Utility Regulation (NIAUR). Income recognised in year was £1.727 million from DEFRA, £0.620 million from NIAUR, and £0.327 million from DETI.

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.

17. 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, 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 2016 was £362 (31 March 2015: £3,147).

Feed-in Tariff levelisation funds

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 2016 was £93,289 (31 March 2015: £60,373).

18. Events after the reporting period

There were no reportable events between the end of the reporting period and 28 June 2016, the authorised for issue date. The financial statements do not reflect events after this date.

Following the EU referendum on 23 June 2016, we will be reviewing the implications of the result for the organisation.

Trust Statement

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 2015-16. 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 2015-16.

Background

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 2015-16, this amounted to £5 million and £15 in nominal penalties. Nominal penalties are used where cases settle and redress is provided.

The Authority gives notice to the licence holder that it proposes to impose a penalty and consults on this publicly.

Fossil Fuel Levy

The aim of the Non-Fossil Fuel Obligation Orders (England and Wales) (NFFO) 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 (ie 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.

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.

Due to the remaining NFFO contracts terminating over the next three years, the level of income from both FFL schemes will continue to reduce.

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

Since the £60 million limit has been exceeded, all further FFL receipts are treated as hereditary revenue, as they are non-statutory receipts. Section 1 of the Civil List Act 1952 requires hereditary revenues to be paid into the consolidated fund. On 30 March 2016, £23 million was transferred to the consolidated fund from the England and Wales account on this basis.

In agreement with HM Treasury, approximately £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 2015-16.

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.

Spark Energy Supply

On 21 April 2015 we issued a notice confirming our decision to impose a penalty of £1 and redress payments of £249,999 on Spark Energy Supply following an investigation by Ofgem into Spark's compliance with a number of relevant conditions and requirements set out in the Standard Licence Conditions (SLC) and the Consumer Complaints Handling Regulations (CHRs). The SLCs set out the rules on how licensees can operate within the terms of their gas and electricity supply licences. The CHRs prescribe the minimum standards regulated providers are required to meet in the handling of consumer complaints.

Spark acknowledged that its practices fell short of requirements in relation to objections, transfers of customers, refunds, billing and complaints handling. Spark made significant improvements in these areas during the investigation and improved its performance as a consequence.

Further, Spark offered to pay £250,000 (less £1) to appropriate consumer organisations by way of settlement.

Having considered all the circumstances of the case, the Authority considered this redress payment would be of greater benefit to consumers than if a significant financial penalty was to be imposed.

The payment of consumer redress was made to Citizens Advice Scotland and to Citizens Advice (the latter covering England and Wales) on 15 April 2015 to provide advice and support to energy consumers. This redress of £250,000 (less the £1 financial penalty) was split equally between these two charities.

E.ON

On 22 May 2015 we issued a notice confirming our decision to impose a financial penalty of £1 and redress payments of £7,749,999 on E.ON following an investigation into the company's compliance with Standard Licence Conditions 23.6 (unilateral disadvantageous variations of contract (including price increases)) and 24.3 (termination fees) of its electricity and gas supply licences.

The Authority took into account that E.ON agreed to settle this investigation by making a payment of £7,750,000 (less £1) in consumer redress; £1,400,000 was in respect of the breaches of SLCs 23.6 and 24.3 in relation to the January 2013 price increase and £6,350,000 was in respect of the breach of SLC 23.6 in relation to the January 2014 price increase.

The payment of £7,750,000 (less £1) was made on 20 May 2015 for the benefit of Citizens Advice Energy Best Deal Extra and will be used to provide one-to-one energy advice to vulnerable consumers across Scotland, England and Wales.

Utilita Energy

On 12 November 2015 we issued a notice confirming our decision to impose a financial penalty of £1 and redress payments of £449,999 on Utilita Energy for breaches on its requirements under Standard Licence Condition 14 which governs when a supplier may block a domestic customer's request to transfer to another supplier.

The payment of £449,999 was made to the charity StepChange.

Economy Energy

On 17 December 2015 we issued a notice confirming our decision to impose a financial penalty of £1 and redress payments of £249,999 on Economy Energy for breaches on its requirements under Standard Licence Conditions 23 and 25 which requires compliance with all the relevant requirements relating to contractual terms, the notification of price increases and the marketing of energy to domestic customers.

The payment of consumer redress was made to Citizens Advice Energy Best Deal Extra Prepayment Meter Project. The aim of the project is to provide advice and information to vulnerable consumers with prepayment meters who live in Housing Association or social housing accommodation to enable them to manage and understand how to use their prepayment meters.

E.ON

On 17 December 2015 we issued a notice confirming our decision to impose a financial penalty of £2 and redress payments of £6,999,998 to the Carbon Trust on E.ON UK plc and E.ON Energy Solutions Ltd following an investigation into the companies' compliance with Standard Licence Condition 12 of its electricity and gas supply licences, in relation to advanced meters for non-domestic premises.

In addition to the above, E.ON also agreed to pay a further £7 million if it does not achieve an interim target, specified by the Authority, for its outstanding meter points by 2 November 2016.

BES

On 18 December 2015 we issued a notice confirming our decision to impose a financial penalty on BES Commercial Electricity Ltd and Business Energy Solutions Ltd of £2 and redress payments of £979,998, comprising £311,000 to consumers affected by the breaches, and the remainder to an appropriate consumer charity identified by BES and approved by the Authority.

This was for numerous breaches of Standard Licence Conditions, and the Consumer Complaints Handling Standards Regulations.

A payment of £669,000 (less £2) in consumer redress was made on 17 December 2015 to the charity The Money Advice Trust (Business Debtline). The redress payment will be used to fund a specific project in which Business Debtline will provide debt advice services to business customers who are experiencing difficulties in paying their energy bills. BES has agreed to make a second payment to this charity following completion of its arrangements for contacting and paying compensation to customers.

npower

On 27 January 2016 we issued a notice confirming our decision to impose a financial penalty of £1 each on npower Direct Ltd, npower Ltd, npower Northern Ltd, npower Northern Supply Ltd, npower Yorkshire Supply Ltd, npower Yorkshire Ltd and npower Gas Ltd for breaches of Standard Licence Conditions (SLCs) 25C – Standards of Conduct (SoC), and 27.17 of the Gas and Electricity Supply Licence and the relevant requirements under regulations 3-7 and 10 of the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008, and to make redress payments of £25,999,993 to a third sector organisation nominated by npower and approved by the Authority.

Fossil Fuel Levy

During 2015-16, we collected £22.4 million in respect of the England and Wales levy, and £6.2 million in respect of the Scotland levy. £23 million from the England and Wales levy was paid over to the consolidated fund. The decrease in the amounts collected compared to 2014-15 reflects a decrease in the number of NFFO contracts. This decrease will continue until 2018-19 when the last contracts will end. 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 94 to 95. 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 HM 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 year to which the levy relates.

Events after the reporting period

There were no events after the reporting period.

Dermot Nolan
Accounting officer

13 June 2016

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

Under section 7 of the Government Resources and Accounts Act 2000, HM 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.

HM 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. These are set out in the Accounting Officers' Memorandum issued by HM 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 HM 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 45 to 51.

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 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of the Accounting Officer's Responsibilities, 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 of Gas and Electricity Markets Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Office of Gas and Electricity Markets; and the overall presentation of the financial statements.

In addition I read all 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 affairs of the Office of Gas and Electricity Markets Trust Statement as at 31 March 2016 and of its net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Annual Report and the Accounting Officers' 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

28 June 2016

Statement of revenue, other income and expenditure for the year ended 31 March 2016

	Note	2015-16	2014-15
		£000	**£000**
Revenue			
Fines and penalties			
Penalties imposed	2.1	-	5,925
Fossil Fuel Levy			
Fossil Fuel Levy (England and Wales)		20,529	37,545
Fossil Fuel Levy (Scotland)		5,595	6,804
Other income			
Interest on penalties		-	4
Interest on Fossil Fuel Levy (England and Wales)		124	126
Interest on Fossil Fuel Levy (Scotland)		102	81
Total revenue and other income		**26,350**	**50,485**
Expenditure			
Administration of the Fossil Fuel Levy		(67)	(80)
Total expenditure		**(67)**	**(80)**
Net revenue for the consolidated fund		**26,283**	**50,405**

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

The notes at pages 99 to 101 form part of this statement.

Statement of financial position as at 31 March 2016

	Note	2015-16 £000	2014-15 £000
Current assets			
Receivables and accrued revenue receivable	3	3,773	11,305
Cash at bank – UK consolidated fund		29,111	29,597
Cash at bank – Scottish consolidated fund		37,291	30,993
Net current assets		70,175	71,895
Current liabilities			
Payables and accrued expenditure liabilities	4	(9)	(12)
Total net assets		**70,166**	**71,883**
Represented by:			
Balance on UK consolidated fund account		32,134	39,534
Balance on Scottish consolidated fund account		38,032	32,349
	5	70,166	71,883

Dermot Nolan

Dermot Nolan
Accounting officer

13 June 2016

The notes at pages 99 to 101 form part of this statement.

Statement of cash flows for the year ended 31 March 2016

	2015-16	2014-15
	£000	£000
Net cash flow from operating activities	33,812	51,309
Cash paid to the consolidated funds	(28,000)	(43,929)
Increase in cash in the period	5,812	7,380

Notes to the cash flow statement

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

		2015-16	2014-15
	Note	£000	£000
Net revenue for the consolidated fund		26,283	50,405
Decrease in non-cash assets	3	7,532	911
Decrease in liabilities	4	(3)	(7)
Net cash flow from operating activities		33,812	51,309

B: Analysis of changes in net funds

	2015-16	2014-15
	£000	£000
Increase in cash in the period	5,812	7,380
Net funds at 1 April	60,590	53,210
Net funds at 31 March	66,402	60,590

The notes at pages 99 to 101 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 HM 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 HM 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

	2015-16	2014-15
	£000	**£000**
Penalty imposed on npower	-	125
Penalty imposed on BG	-	800
Penalty imposed on Drax	-	5,000
Total	**-**	**5,925**

Nominal penalties receivable do not show due to roundings.

3. Receivables and accrued revenue receivable

	Accrued revenue receivable at 31 March 2016	Total as at 31 March 2016	Total as at 31 March 2015
	£000	**£000**	**£000**
Fines and penalties	-	-	5,000
Fossil Fuel Levy	3,773	3,773	6,305
Total	**3,773**	**3,773**	**11,305**

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 2016	Total as at 31 March 2016	Total as at 31 March 2015
	£000	£000	£000
Fossil Fuel Levy	9	9	12
Total	**9**	**9**	**12**

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

	2015-16	2014-15
	£000	£000
Balance on the consolidated fund accounts	71,883	65,407
Net revenue for the consolidated fund accounts	26,283	50,405
Less amount paid to the consolidated funds	(28,000)	(43,929)
Balance on consolidated fund accounts as at 31 March	**70,166**	**71,883**

Appendices

Appendix I
Performance against 2015-16 deliverables

Our Forward Work Programme for 2015-16 included deliverables to be achieved in each quarter. The Forward Work Programme for 2015-16 structured deliverables by our strategic outputs.

The table below and detail on the following pages shows performance against deliverables.

	Number in Forward Work Programme	Total achieved		Deferred to 2016-17
		Met in quarter	Met in later quarter	
Full year				
Year total	**44**	**39**	**3**	**2**
First quarter				
Quarter total	10	10	-	-
Second quarter				
Quarter total	18	14	3	1
Third quarter				
Quarter total	8	8	-	-
Fourth quarter				
Quarter total	8	7	-	1

Regulation of monopolies		
Action	**Quarter Due**	**Actual Quarter**
Publish new electricity System Operator Incentive Scheme (2015-2017)	Q1	Q1
Publish replacement maintenance, forecasting and GHG emissions incentive for Gas System Operator (2015-2018)	Q1	Q1
Publish annual report into National Grid's performance on the Capacity Mechanism	Q1	Q1
Publish annual report on the operation of the Capacity Mechanism	Q1	Q1
Publish consultation to review code governance reforms	Q1	Q1
Publish flexibility strategy	Q2	Q2
Publish decisions on initial Cap and Floor project assessment for Greenlink, Viking Link, IFA2 and FAB	Q2	Q2
Publish decision letter on enhanced System Operator licence changes	Q2	Q2
Publish final proposals on improving cross-sector infrastructure interactions (UKRN deliverable)	Q2	Q2
Publish decision on DPCR5 close out methodology	Q2	Deferred to 2016-17
Issue 2014-15 Interruptions Incentive Scheme Direction	Q2	Q3
Issue Connect and Manage letter to Secretary of State	Q3	Q3
Complete Annual Iteration Process	Q3	Q3
Publish RIIO-GD1 year 2 company reported actuals on website	Q3	Q3
Publish end of DPCR5 review	Q4	Deferred to 2016-17
Publish RIIO-GD1 year 2 annual report	Q4	Q4

Effective Competition		
Action	**Quarter Due**	**Actual Quarter**
Implementation of auto rollover project remedies	Q1	Q1
Publish consultation response to non-traditional business models discussion paper	Q2	Q2
Publish State of the Market report 2015	Q2	Q2
Issue the liquidity report	Q2	Q2
Publish consultation on extending competition in transmission tender framework	Q3	Q3
Publish Adaptation report in response to second Adaptation Reporting Power by end of 2015	Q3	Q3
Publish update relating to supplier objections	Q3	Q3
Publish regulatory report on Offshore Transmission Owner (OFTO) revenues	Q3	Q3
Decision on obligations for consumer empowerment and protection	Q4	Q4

High Standards of Outputs and Protection		
Action	**Quarter Due**	**Actual Quarter**
Complete initial review of telephone services accessibility	Q1	Q1
Publish findings and next steps on pre-payment meter removal charges	Q1	Q1
Approval of new balancing services for winter 2015-16	Q1	Q1
Publish Social Obligation Report on debt, disconnection and pre-payment	Q2	Q2
Publish cross-sector assessment of future bill impacts (UKRN deliverable)	Q2	Q2
Consult on new draft licence conditions for Priority Service Register following Spring 2015 update on policy	Q3	Q3
Publish vulnerability strategy update	Q4	Q4
Publish update on aligning vulnerability strategies (UKRN deliverable)	Q4	Q4

Partnership		
Action	**Quarter Due**	**Actual Quarter**
Report on regional distribution charges	Q2	Q3
Complete consultation on Simpler Clearer Protections guide on pre-payment meters for advice providers	Q4	Q4

Trust and Confidence		
Action	**Quarter Due**	**Actual Quarter**
Establish model for regular publication of key indicators on each supplier's customer service	Q1	Q1
Complete annual report on the Domestic Renewable Heat Incentive (RHI) scheme	Q2	Q2
Complete annual report on the Non-Domestic Renewable Heat Incentive (RHI) scheme	Q2	Q2
Complete FIT annual levelisation process	Q2	Q2
Complete annual report on the Warm Home Discount (WHD) scheme	Q2	Q3
Publish final determination report for Energy Companies Obligation 1 (ECO)	Q2	Q2

Efficiency and Effectiveness		
Action	**Quarter Due**	**Actual Quarter**
Publish the 2014-15 Annual Report and Accounts	Q2	Q1
Complete REMIT Registration as required by REMIT	Q4	Q4
Publish Simplification Plan 2016-17	Q4	Q4

Appendix II
Key Performance Indicators 2015-16

Effective Competition			
Metric (KPI's)	**Details of what is being measured**	**Annual target 2015-16**	**Actual**
RMR Derogation requests	Make decisions on RMR derogation requests within 60 working days of receiving a request (unless formal consultation is needed)	90%	100%
Offshore Transmission processing	Licence grant within 70 days of commencement of Section 8a consultation	70 working days	N/A[1]
Offshore Transmission processing	Preferred Bidder selection within 120 days of ITT submission (excluding Best And Final Offer)	120 working days	N/A[2]

High Standards of Outputs and Protection			
Metric (KPI's)	**Details of what is being measured**	**Annual target 2015-16**	**Actual**
Licence Applications	Make decisions on licence applications within 45 days	100%	100%
Code Modifications	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	90%	88%[3]
Domestic Renewable Heat Incentive (RHI) processing	Applicants to have a decision within 30 working days	90% of customers to receive a decision within 30 working days of submitted application	68%[4]
Domestic Renewable Heat Incentive (RHI) processing	Deliver high quality customer service to Domestic RHI applicants	Achieve a Net Promoter Score (NPS) of +50%	46.8%[5]

[1] No OFTO licences issued during 2015-16
[2] No OFTO licences issued during 2015-16
[3] KPI missed on nine code modification decisions, mainly as a result of delays related to Project Nexus
[4] A significant increase in applications as the scheme closed to legacy applications resulted in applications taking longer to process
[5] The longer time to process resulted in a decrease in customer satisfaction

High Standards of Outputs and Protection			
Metric (KPI's)	**Details of what is being measured**	**Annual target 2015-16**	**Actual**
Non-Domestic Renewable Heat Incentive (RHI) processing	On-line application system availability during supported business hours of 08:00-17:30 Monday to Friday excluding bank holidays (excluding planned down time)	99% availability	99.9%
Non-Domestic Renewable Heat Incentive (RHI) processing	Responses to email enquiries and follow up with generators on outstanding issues with their applications for accreditation	90% within 10 working days	87.7%[6]
Renewables Obligation (RO) processing	Follow up with the generators outstanding issues on their applications for accreditation	90% within 10 working days	97.5%
Feed-in Tariff (FIT) processing	Follow up with the generators outstanding issues on their applications for accreditation	90% within 10 working days	75.5%[7]
Warm Home Discount (WHD) processing	Respond to obligated party Warm Home Discount schemes for approval	100% within 28 days	100%

Trust and Confidence			
Metric (KPI's)	**Details of what is being measured**	**Annual target 2015-16**	**Actual**
Customer Contacts	Time taken for first substantive response to customer contacts	93% within 10 working days	99.7%
Whistle-blowers	Time taken for first response to whistle-blower contacts	90% to receive initial engagement within 1 working day	100%
Energy Companies Obligation (ECO) processing	Publish monthly compliance progress reports against ECO obligations	100% within 28 days	100%

[6] Government announcements of quarterly tariff degressions generated unplanned peaks in application volumes, resulting in the KPI being missed
[7] A doubling of applications following the government removing the ability for generators to apply for preliminary accreditation under the FIT scheme, resulted in the KPI being missed

Efficiency and Effectiveness			
Metric (KPI's)	**Details of what is being measured**	**Annual target 2015-16**	**Actual**
Non-Domestic Renewable Heat Incentive (RHI) processing	Payments made following accurate quarterly periodic data submission	95% within 30 working days	97.8%
Domestic Renewable Heat Incentive (RHI) processing	Timely Domestic RHI payments	Pay 95% of payments within 5 working days of due payment date	97.8%
Renewables Obligation (RO) processing	Issue the main batches of ROCs following the generators' reporting deadline of their output data	95% within 17 working days (April - June) 95% within 12 working days (July -March)	98.4%
Feed-in Tariff (FIT) processing	Feed-in Tariffs levelisation process to be completed in a timely manner after receipt of data from suppliers	95% within 22 working days	100%

Appendix III
Impact assessments undertaken in 2015–16

We published 6 impact assessments between 1 April 2015 and 31 March 2016. Further information on the following documents can be found at **www.ofgem.gov.uk.**

Date	Title
20/05/2015	Impact assessment of UNC modifications 0501V, 0501AV, 0501BV and 0501CV Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations
23/07/2015	Reforming suppliers' meter inspection obligations
23/07/2015	Cap and floor regime: Update on our Initial Project Assessment of the Greenlink interconnector
15/09/2015	Connection and Use of System Code (CUSC) modification 227 (CMP227): Change the generation to demand split of Transmission Network Use of System (TNUoS) charges, for example to 15:85
17/12/2015	Priority Services Register Review – Final Proposals
17/12/2015	Proposals to improve outcomes for prepayment customers

Summary of actions Impact Assessments relate to

This table shows the decisions taken in the 2015-16 financial year that involve proposals for which impact assessments were previously carried out.

Date	Decision	Title and date of previous Impact Assessment
02/04/2015	Balancing and Settlement Code (BSC) P305: Electricity Balancing Significant Code Review Developments	Electricity Balancing Significant Code Review: Impact Assessment for Final Policy Decision (15/05/2014)
15/05/2015	Further review of industry code governance	Code Governance Review – Final Proposals (31/03/2010)
29/05/2015	Criteria for onshore transmission competitive tendering	Integrated Transmission Planning and Regulation (ITPR) project: final conclusions (17/03/2015)
03/06/2015	Treatment of white label providers in the domestic retail market	Final proposals on the treatment of white label providers in the domestic retail market (20/02/2015)

Date	Decision	Title and date of previous Impact Assessment
07/07/2015	Decision on the Statutory consultation on amendments to the Capacity Market Rules	Electricity Market Reform – Capacity Market – DECC Impact Assessment (23/06/2014)
21/07/2015	Decision on the Initial Project Assessment of the FAB Link, IFA2 and Viking Link interconnectors	Cap and floor regime: Initial Project Assessment of the FAB Link, IFA2, Viking Link and Greenlink interconnectors (06/03/2015)
03/09/2015	Decision on licence modifications to enhance the role of the System Operator	Integrated Transmission Planning and Regulation (ITPR) project: final conclusions (17/03/2015)
30/09/2015	Decision on the Initial Project Assessment of the Greenlink interconnector	Cap and floor regime: Update on our Initial Project Assessment of the Greenlink interconnector (10/08/2015)
17/11/2015	Moving to reliable and fast switching: updated Target Operating Model and Delivery Approach	Decision on moving to reliable next-day switching (10/02/2015)
23/11/2015	Decision to continue the Supplemental Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR) cost recovery arrangements for 2016-17 and 2017-18	Decision to accept National Grid Electricity Transmission plc (NGET) application to introduce two new balancing services and subsequent informal consultation on funding arrangements (19/12/2013)
04/02/2016	Decision on reforming suppliers' meter inspection obligations	Reforming suppliers' meter inspection obligations (23/07/2015)

Appendix IV
Investigations and enforcement action 2015-16

Details of our cases are available on our website[8] in accordance with our policy as set out in our Enforcement Guidelines.[9] We will usually publish brief details of the facts and nature of the investigations on our website[10], although policy is different for the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT).

Below you can find details of the investigations that we have completed this year. In investigations where we secured redress, the companies made payments either directly to consumers and/or to programmes and funds that would benefit them.

Company	Issue	Decision	Date of decision
N/A	Compliance with Chapter I of the Competition Act 1998 and/or Article 101 Treaty on the Functioning of the European Union.	Closed. The Authority decided to close this investigation on administrative priority grounds and sent advisory letters to the relevant companies.	March 2016
npower	Compliance with Standards of Conduct for domestic customers (Standard Licence Condition 25C), Standard Licence Condition 27 in relation to the provision of final bills, and the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008.	Settlement. npower agreed to pay a £7 penalty and £26 million (less £7) in redress to customers affected by npower's failings, and to charitable organisations for the benefit of domestic energy customers.	January 2016
BES	Compliance with Standards of Conduct for Micro Business Consumers (Standard Licence condition 7B), Standard Licence Conditions 7A, 7.6A(c) and 14 in relation to Micro Business contracts and transfer blocking, and the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008.	Settlement. BES agreed to pay a £2 penalty, compensation to customers totalling £311,000[11] and redress of £669,000 (less £2) to The Money Advice Trust (Business Debtline).	December 2015
Economy Energy	Compliance with Standard Licence Conditions 23, 24 and 25 in relation to domestic supply contract terms, charging of exit fees and the marketing of gas and electricity to domestic customers.	Settlement. Economy Energy agreed to pay a £1 penalty and redress of £250,000 (less £1) to Citizens Advice Energy Best Deal Extra Prepayment Meter project.	December 2015

[8] https://www.ofgem.gov.uk/investigations
[9] https://www.ofgem.gov.uk/ofgem-publications/89753/enforcementguidelines12september2014publishedversion.pdf
[10] 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.
[11] Note that this figure of £311,000, as stated in the penalty notice, has been revised to £648,379 following a review of the compensation payments by BES.

Company	Issue	Decision	Date of decision
E.ON	Compliance with Standard Licence Condition 12 in relation to installation of advanced meters for non-domestic premises.	Settlement. E.ON agreed to pay a £2 penalty and redress of £7 million (less £2) to the Carbon Trust.	December 2015
Adret Ltd and Berangere Ltd	Compliance with the requirements of Rule 5.13.1(b) of the Capacity Market Rules in relation to the submission of information that is false or misleading.	Settlement. The Authority issued a direction to the Delivery Body to terminate the capacity agreement awarded in relation to one of Berangere's generating units: G15MAT. Additionally, G15MAT is disqualified from participating in capacity auctions taking place in the next two delivery years.	December 2015
Utilita Energy	Compliance with Standard Licence Condition 14 in relation to transfer blocking.	Settlement. Utilita Energy agreed to pay a £1 penalty and redress of £450,000 (less £1) to StepChange. Utilita will also refund up to £110,000 to customers who lost out financially from an incorrect transfer block. Any unclaimed money will go to StepChange.	November 2015
Alkane Energy UK	Compliance with the requirements of Rule 5.13.1(b) of the Capacity Market Rules in relation to the submission of information that is false or misleading.	Closed. Alkane Energy UK provided Ofgem with information which confirms that there was not a breach of 5.13.1 (b) the Capacity Market Rules.	November 2015
Economy Energy	Compliance with Standard Licence Conditions 14 and 14A in relation to transfer blocking, Standard Licence Condition 22 in relation to its duty to supply, and the Gas and electricity (Consumer Complaints Handling Standards) Regulations 2008.	Closed. The confirmed Provisional Order is no longer in place.	June 2015
GF Power Peaking	Compliance with the requirements of Rule 5.13.1(b) of the Capacity Market Rules in relation to the submission of information that is false or misleading.	Closed. GF Power Peaking Ltd provided Ofgem with information which confirms that there was not a breach of 5.13.1 (b) the Capacity Market Rules.	May 2015
Power Balancing Services	Compliance with the requirements of Rule 5.13.1(b) of the Capacity Market Rules in relation to the submission of information that is false or misleading.	Closed. Power Balancing Services Ltd provided Ofgem with information which confirms that there was not a breach of 5.13.1 (b) the Capacity Market Rules.	May 2015
E.ON	Compliance with Standard Licence Conditions 23.6 and 24.3 in relation to price rises and charging of termination fees.	Settlement. E.ON agreed to pay a £1 penalty and redress of £7.75 million (less £1) to Citizens Advice Energy Best Deal Extra.	May 2015
Spark Energy Supply	Compliance with Standard Licence Conditions 14, 21B, 22, 22C, 23, and 27 in relation to transfers, billing and complaints handling, and the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008.	Settlement. Spark Energy Supply Ltd agreed to pay a £1 penalty and £250,000 (less £1) in equal shares to Citizens Advice Scotland and Citizens Advice (covering England and Wales).	April 2015

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. In addition to this we have resolved other compliance matters without finding of a breach or payment to redress.

Company	Issue	Decision	Date of decision
National Grid	National Grid failed to achieve the Safety Repair Risk target, as set out in the RIIO-GD1 Price Control, over two consecutive years (2013-14 and 2014-15).	National Grid paid £3 million to fuel poor charity National Energy Action.	March 2016

Below are the open investigations as at the end of March 2016. Please note, the opening of an investigation does not imply that we have made any finding(s) about non-compliance. Ofgem does not publish information on all open investigations. In particular, Ofgem is conducting investigations into potential failures to comply with REMIT requirements. However, as a general rule, we do not comment further on these investigations, including who we are investigating, unless we consider it necessary to do so in the interests of consumers or market confidence.

Company	Issue
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).
British Gas Trading Ltd	Investigation into compliance with Standards of Conduct for Micro Business Consumers (Standard Licence Condition 7B, Standard Licence Conditions 7A, 14, 14A and 21B in relation to Micro Business contracts, transfer blocking, customer transfers and billing).
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).
SSE	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.
N/A	Investigation under Chapter I of the Competition Act 1998 and/or Article 101 Treaty on the Functioning of the European Union: Paid online search advertising.
Scottish Power	Investigation into compliance with Standards of Conduct for domestic customers (Standard Licence Condition 25C), Standard Licence Condition 27 in relation to the provision of final bills, and the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008.

Appendix V
Off-payroll engagements

Off-payroll engagements as at 31 March 2016, 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 2016:

Number of existing engagements as at 31 March 2016	**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 2015 and 31 March 2016, 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 2015 and 31 March 2016	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
For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2015 and 31 March 2016	
Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	0
Number of individuals both on and off-payroll that have been deemed “board members, and/or, senior officials with significant financial responsibility”, during the financial year.	2

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