ofgem

Making a positive difference
for energy consumers

2019-20

Office of Gas and Electricity Markets (Ofgem)

Annual Report and Accounts

HC 480

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Annual Report and Accounts

(For the year ended 31 March 2020)

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About us

Ofgem is Great Britain's independent energy regulator. We work to protect consumers, especially vulnerable people, by ensuring they are treated fairly and benefit from a cleaner, greener environment.

In order to do this our strategic vision commits us to:

- Protect consumers, especially the vulnerable, by stamping out sharp practice and ensuring fair treatment.
- Facilitate decarbonisation efforts to deliver a net zero economy at the lowest cost to consumers
- Enable competition and innovation, which drive down prices and result in new products and services

Chair's foreword
Martin Cave

The past twelve months have been exceptionally busy for the energy sector. No more so than recently as we have turned our attention to working closely with the sector and with our partners in government to ensure that consumers are protected through the Coronavirus (Covid-19) crisis. I would like to pass on my thanks for the way in which both staff at Ofgem and all those working across the sector, especially the engineers and other frontline staff, are rising to this challenge on behalf of the homes and businesses that rely on energy as an essential service during this difficult period.

Whilst the Covid-19 crisis has been our priority for the last few months, we look forward to supporting the recovery by returning our focus to the enduring challenges facing the energy sector. We set out our strategic approach to these challenges last July in our Strategic Narrative, covering the period 2019 to 2023. It set out Ofgem's three strategic priorities, putting decarbonisation on a level footing with protecting consumers, and enabling competition and innovation; it also set out our vision for a more agile organisation to deliver on these priorities.

I was delighted in February when Jonathan Brearley started his five-year as our new Chief Executive Officer (CEO), to guide us through the next five years by spearheading our immediate priority of protecting consumers today and helping the sector to build a low carbon energy system for future generations.

In his short time at the helm, Jonathan has already set out an ambitious programme, not just to ensure that Ofgem plays a full role in paving the way for the energy sector to decarbonise at the lowest cost to consumers, but also in modernising and improving our own ways of working as an organisation.

I am also delighted to welcome Myriam Madden and Barry Panayi to the Ofgem Board, both of whom are already proving to be invaluable additions. We are very pleased to have them as colleagues.

I am confident that this new leadership, at both board and executive level, will equip Ofgem well to deliver the outcomes we seek to achieve for consumers in this unprecedented time. In addition to ensuring consumers get good value and fair treatment from energy suppliers, we all share a determination to demonstrate how independent regulation can help tackle climate change, and to do so in a spirit of co-ordination and co-operation, the value of which has been clearly seen through the Covid-19 crisis.

I would also like to take this opportunity to thank Dermot Nolan on behalf of the board for the enormous contribution he made as our Chief Executive.

In the last year, Keith Lough also stepped down from the Board. In his seven years as a member of the Board, and as Chair of our Audit and Risk Assurance Committee, Keith made a tremendous contribution to the organisation. We thank him for this and wish him well for the future. I look forward to working with Ofgem colleagues, government, the energy sector and energy customers on the important challenges we face today and in the future.

Martin Cave

Martin Cave
Chair

Chief Executive Officer's Report
Jonathan Brearley

In February I started my five-year term as Ofgem Chief Executive. It is a huge privilege to be taking up the role, and a huge responsibility too, particularly at this critical time.

Over the past few months we have all seen the widespread impact that coronavirus is having on our lives and those around us. I would like to once again thank all those working in Ofgem and across the industry to respond to the crisis at this difficult time.

We have been working closely and collaboratively with government, the energy industry, consumer bodies and other stakeholders to protect consumers throughout this period. This has involved reprioritising our own work programme and working with industry to ensure they can focus on protecting customers, keeping staff safe and maintaining our world-class security and reliability of energy supplies.

Our principal objective – both in responding to coronavirus and in our wider work – remains the same: to protect the interests of consumers today and in the future.

There are a number of key actions we have taken to achieve this over the last year:

Facilitating net zero at lowest cost to consumers:

Protecting consumers includes helping to hit the net zero target. On my first day as CEO we published our first ever Decarbonisation Action Plan. It sets out the steps we are taking to help the energy sector deliver net zero and fairly spread the cost of a low carbon energy system between today's and tomorrow's consumers.

Over the last year, our delivery of renewable energy schemes on behalf of our partners in government, worth over £9bn annually, has also continued to make a significant contribution to the decarbonisation of energy, as well as to the cost of energy for some of the most vulnerable.

Maintaining security of supply:

Maintaining the security and reliability of our energy supply is fundamental for consumers. In August 2019, a power outage caused interruptions to over 1 million consumers' electricity supply. We used our powers to establish the circumstances and causes of the outage and the lessons that can be learned to improve the resilience of Great Britain's energy network.

To meet the demands of the future energy system, we have continued to develop reforms to electricity network charging so that networks are used efficiently and flexibly and allow consumers to benefit from new technologies and services. This year we have also confirmed the framework we will use to set the next price control for Great Britain's electricity distribution networks, as well as the methodology for calculating the next round of network price controls for the transmission and gas distribution networks. Together, these will enable network companies to continue to operate a safe and resilient network and help deliver a net zero economy at the lowest cost to consumers.

Protecting consumers:

Of course, protecting consumers by stamping out sharp practice and ensuring fair treatment, particularly for those in vulnerable situations, remains core to Ofgem's role. This year we published our updated Consumer Vulnerability Strategy, which sets out our priorities to ensure vulnerable consumers are supported and receive fair outcomes as the market continues to evolve.

We have also introduced automatic compensation for consumers who experience problems when switching supplier, brought in tough new entry tests for suppliers entering the market, and set out proposals for financial checks and tests for existing suppliers to drive up customer service standards and reduce the risk of supplier failure.

Where suppliers have ceased to trade, we have taken swift action to protect their customers and transfer them to a new supplier. And where energy companies have failed their customers, we have taken robust and decisive action – securing over £60 million in fines and redress for consumers.

Our ability to do any of this work depends on the efficiency, effectiveness and resilience of our systems, processes, resources and, most of all, our people. I am very proud to lead such a talented and committed group of colleagues. For them – and for the consumers we serve – I am determined to make Ofgem the most effective organisation it can be. There are a number of areas in which we must improve, not least in keeping apace with a sector that is changing at an incredible speed and ensuring that our internal systems and process are as robust as they can be. As Chief Executive, I am determined that we will do so.

As I look back over the last year, I must pay tribute to my predecessor Dermot Nolan who left Ofgem after six years as Chief Executive. He made an enormous contribution to Ofgem's work, particularly in ensuring that Ofgem was doing everything within our powers to support vulnerable consumers.

This year we have also said goodbye to our Chief Operating Officer Sarah Cox and our Chief Economist Joe Perkins. We thank them both for their outstanding service and wish them well for the future. We have been pleased to welcome Neil Kenward to Ofgem, as our new Director of Strategy and Decarbonisation.

The current crisis reminds us not just how fundamental the energy industry is to the welfare of customers today, but also its importance to the economic and environmental future of the UK, particularly as the country recovers from the coronavirus outbreak. I look forward to working with you all in the coming months and years on the incredible opportunities and challenges ahead of us.

Jonathan Brearley
Chief Executive

Performance Report

Overview

The purpose of our performance report is to describe the work we undertook during 2019-20 towards meeting our objectives, along with our strategic approach and the principal risks that we have faced.

As the independent energy regulator of Great Britain, our priorities are defined by our core objective to protect the interests of current and future energy consumers. This shapes the work that we do and helps consumers benefit from:

- **Lower bills**
- **Lower environmental impacts**
- **Improved reliability and safety**
- **Better quality of service**
- **Better social outcomes**

During 2019-20, we focused our work around four key priorities that deliver these positive outcomes for consumers. Our key priorities were:

- **Making retail markets work for all**
- **Enabling future markets and system arrangements**
- **Network preparedness and performance**
- **Excellence in our statutory and core functions**

In addition to these priorities, we had two further overarching priority in 2019-20. Firstly, we responded to the United Kingdom's (UK) planned withdrawal from the European Union (EU), with the aim of ensuring that our regulatory framework would be effective in a range of potential EU Exit scenarios. Secondly, we focused, and continue to focus on ensuring that the energy industry could effectively respond to the Covid-19 crisis. To do this, we worked collaboratively with government, the energy industry, consumer organisations and other stakeholders, to protect consumers, especially the vulnerable, and to maintain Britain's supply of electricity and gas.

Some of our key achievements and areas of progress during the year include:

- Continuing to **protect of 11 million consumers** with the default tariff price cap (page 14), saving families around **£75-£100** on dual fuel bills, in 2019, totalling around **£1 billion**
- Securing around **£60 million** through our enforcement activity, including our first ever penalty under the REMIT wholesale market rules, and a **record £44 million** from Cadent for leaving residents in high-rise tower blocks without gas
- Continuing to ensure that customers of failed suppliers had continuity of energy supply through nine **Supplier of Last Resort** processes (page 20), which working to improve suppliers' financial resilience and service quality through our supplier licensing review
- Publishing our **2025 Consumer Vulnerability Strategy**, with an aim to introduce new rules to help those at risk of self-disconnection (page 11)
- Assisting 85 different organisations to navigate the regulatory framework for the energy sector through our **Innovation Link service**, so that they could trial new products, services and business models (page 13)
- Confirming our approach to calculating the next round of network price controls, which should **save consumers £6 billion** over the course of RIIO-2 (page 18)
- Appointing three new bidders under our offshore transmission owners regime, which will result in around **£1.2 million** investment and **1.5 Gigawatts** in connected, renewable electricity generation
- Finalising a decision on our targeted charging review, which means the cost of maintaining the electricity grid will be spread more fairly and consumers will save **£300 million**, from 2021.
- Processing over **13,000 accreditations** for our Domestic Renewable Heat Incentive scheme and **1,299** for the non-domestic scheme, along with over **250,000** Energy Company measure (page 22).

We also launched our Smart Export Guarantee scheme, and through our assurance work, we prevented over **£600 million** of errors in scheme applications.

We published our **Strategic Narrative** in July 2019, identifying Ofgem's strategic priorities as: **protecting consumers; decarbonising at lowest cost;** and to help ensure effective delivery of these, **enabling competition and innovation**. These priorities are already driving our work, as set out for example in Ofgem's **Decarbonisation Action Plan**, which was published in February this year.

As part of our work towards the above consumer outcomes and key work priorities, we continued to monitor and mitigate risk to the delivery of our strategic and operational objectives. During a year in which Ofgem undertook an internal structure reorganisation, we saw concerted strains on our internal control mechanisms, which we are committed to improving. Further details on our risk management during the year can be found on page 42.

Our Key Performance Indicators (KPIs) can be found in Appendix I (see page 103).

Chapter 1: Making retail markets work for all

Our aim

Consumers engage with the energy system first and foremost through the retail market. Our aim is for the market to deliver good outcomes for all consumers – whether or not they engage to make active decisions to change their supplier or tariff. In practical terms, this means delivering a fair, functioning market, and driving significant improvements in protections for consumers.

There were two aspects of our work to making retail markets work for all, during 2019-20:

A. Improving current licensing arrangements to protect consumers and ensure that regulatory burdens are proportionate

Supplier licensing review

In June 2018, we announced our intention to review the energy supplier licensing arrangements to ensure appropriate protections are in place to minimise the likelihood and impact of disorderly supplier market exits and poor customer service. The Supplier Licensing Review (SLR) covers conditions for entering the market, ongoing requirements and exit arrangements. We consulted on changes to the licensing requirements for suppliers in the initial phase of the review, which was completed in 2019.

This resulted in new entry arrangements for energy suppliers coming into effect in July 2019, through the creation of new Gas and Electricity Applications Regulations. The new arrangements include enhanced requirements on new entrants to demonstrate that they can resource their plans to enter the market and prove that they understand the regulatory arrangements and their obligations. The new arrangements also include a strengthened 'fit and proper' test for licence applicants.

We have continued our work on ongoing and exit arrangements throughout the year, developing and consulting on a package of proposals intended to raise ongoing standards around financial resilience and customer service in the supplier market and to review our exit arrangements to ensure that they work in the interests of energy consumers. These proposals aim to ensure that suppliers have effective risk management processes in place; maintain appropriate governance and increased accountability and increase Ofgem's oversight of the market arrangements.

We expect to progress to statutory consultation to consider a comprehensive package of measures to benefit customers by raising standards in these areas.[1] We had planned to publish this consultation in March 2020 but it has been delayed as a result of Covid-19. We will aim to implement new arrangements quickly where we can and where possible, for new obligations and protections to be in place for winter this year, including a new high-level principle to drive suppliers towards taking action that mitigates the extent of costs to be mutualised in the event of failure. We will keep under review the timing of our further work on cost mutualisation protection proposals, and what additional measures may be appropriate to build on this proposed new high-level principle.

Microbusiness and the energy market

In May 2019, we announced a strategic review of the microbusiness energy market, to better understand and address the issues faced by microbusinesses, so that they are able to access a competitive retail markets and secure adequate levels of protection.

Complexity in the market – with its wide variety of contracts and lack of accessible information about pricing – means some microbusinesses find it hard and costly to engage in the market to find a better deal. Following contributions from stakeholders, we have been developing detailed policy proposals to address the key issues that we identified through the review. We intend to publish a policy consultation on these proposals following the Covid-19 crisis.

B. Understanding where consumers' needs are not being met and developing effective policy solutions to address them

[1] In light of Covid-19, we have taken the decision to delay the publication of the statutory consultation.

Vulnerable consumers

Vulnerable consumers can face barriers to accessing an affordable and stable energy supply for a variety of reasons. In October 2019, we published a new Consumer Vulnerability Strategy to replace our 2013 strategy. This strategy will guide our work until 2025. Our aim is that consumers in vulnerable situations do not lose out in the transition to a decarbonised system.

Building on our already extensive work delivered under the 2013 strategy, the new strategy focuses on five areas where, by 2025, we aim to drive strong improvements for consumers in vulnerable situations:

- Improving identification of vulnerability and smart use of data
- Supporting those struggling with their energy bills
- Driving significant improvements in customer service for vulnerable groups
- Encouraging positive and inclusive innovation
- Working with partners to tackles issues that cut across sectors.

Each of these five themes are underpinned by outcomes that we want to see realised throughout the lifespan of the strategy.

Consumer engagement in the energy market

During the year, we continued to develop initiatives for consumers to access and share their energy data in a safe and convenient way, which will enable new products and services to emerge.

We also continued to use information that we gain from research and trials to improve consumer engagement in the energy market. This included the encouraging results from the latest “collective switch” trials. These trials demonstrated that offering disengaged energy consumers an exclusive offer, via a series of personalised letters highlighting the individuals’ potential savings, significantly increased rates of consumers choosing to switch to a fixed tariff.

We are now conducting research looking at the key role consumers will play in the decarbonisation of the energy system. The majority of consumers will need to change their behaviour in some way in order to deliver net zero, and we are investigating how best this can be achieved.

Chapter 2: Enabling future markets and system arrangements

Our aim

During 2019-20, the energy system continued to go through rapid change – from both a planned perspective to achieve carbon reduction and manage increased diversity of energy sources – but also from more innovative forces such as new business models, new technological applications and the increasing digitalisation of consumer data.

As Great Britain's energy regulator, we continued to support and enable innovations that work in the consumer interest, whilst maintaining a focus on fair allocation of costs, consumer protections and system security.

There were four aspects of our work to enabling future markets and system arrangements:

A. Implementing new systems and rules for a smarter, more flexible energy system

B. Working with innovators and stakeholders to develop sustainable energy solutions and systems for future consumers

C. Developing improved network access, charging and system operation arrangements to enable efficient future energy markets

D. System stability and security

A. Implementing new systems and rules for a smarter, more flexible energy system

Smart metering

Smart meters are a vital upgrade to our national energy infrastructure, which will support a more flexible and resilient energy system. They are a critical tool in modernising the way we all use energy and aiding the transformation of the retail energy market. Because smart meters give consumers near real time information, they enable consumers to better manage their energy usage and they eliminate estimated billing, meaning consumers will only be billed for the energy they actually use.

Ofgem continues to provide regulatory oversight of the smart meter rollout. Our ongoing aim is to ensure that the rollout results in the best possible outcomes for consumers. We are monitoring supplier compliance with their smart metering licence obligations for both progress in delivering installations and the quality of the experience that they offer their customers.

To date, suppliers have installed 20.6 million smart and advanced meters in domestic and small non-domestic premises. In the last year, industry has been transitioning from installing SMETS1 meters to SMETS2 and over 4.3 million SMETS2 meters have now been installed.

During the year, the Department for Business, Energy & Industrial Strategy (BEIS) consulted on a new policy framework for the smart meter rollout, which would see the rollout continue beyond 2020 and we consulted on a new reporting framework in line with BEIS's proposals. In January, suppliers reported on progress against their rollout plans. The reports reflected the challenge suppliers had faced in transitioning from SMETS1 to SMETS2 meters. Failure by a supplier to achieve its binding annual milestones could result in Ofgem taking enforcement action.

We also continue to regulate the Data Communications Company (the "DCC"), which provides a monopoly licensed service for GB-wide smart metering communications services. We regulate DCC's revenue through an annual ex-post price control, which assesses DCC's performance, and whether its costs in the previous year were economic and efficient. In our 2018-19 price control decision, total costs for RY18/19 (excluding pass-through costs) were £375m. As a result of disallowances and other reductions to DCC's allowed revenues, consumers will benefit from pass through savings of £5.363m. In addition, we have also disallowed a total of £218.4m in forecast internal costs (RY21/22 onwards).

Progress was made on the design of new market-wide settlement reform arrangements, which will build on opportunities provided by the smart meter rollout. These will incentivise electricity suppliers to develop new tariffs and services, which will help consumers to take advantage of times when electricity is cheaper to generate or transport, which should generate savings for both consumers and the electricity system as a whole.

Ofgem has also published a consultation on the draft impact assessment for the implementation of market-wide half-hourly settlement, alongside proposals for the implementation and timetable for its introduction. The published Impact Assessment puts the likely benefit to consumers of the introduction of market-wide half hourly settlement at between £1.6 billion and £4.5 billion over 25 years.

B. Working with innovators and stakeholders to develop sustainable energy solutions and systems for future consumers

Decarbonisation Action Plan

In February 2020, we published our Decarbonisation Action Plan. The Plan sets out nine actions that will help the energy networks become ready to deliver net zero, support HM Government in tackling the question of how to decarbonise heat and transport and encourage innovation to provide new low carbon products and services for consumers. The plan recognises that there are trade-offs to overcome, such as fairly spreading the cost of a low carbon energy system between consumers now and in the future.

The nine actions are:

1. Build adaptability into our network price controls, to ensure network companies invest efficiently and are able to adapt to changes in technology and infrastructure.
2. Set up a regulatory fund to unlock investment in innovative solutions to tackle climate change.
3. Explore, with government and industry, opportunities for greater coordination to enable rapid expansion of an offshore grid at lowest cost.
4. Harness our existing knowledge and expertise to help government and the industry develop cost-effective and low risk options to decarbonise heating.
5. Continue to review how our energy systems are managed to ensure that they are fit for a net-zero future.
6. Create a more flexible electricity system, to ensure that consumers will benefit from the lowest cost transition to a reliable net-zero system.
7. Develop a regulatory strategy on electric vehicles, to support roll out and maximise the benefits to consumers.
8. Support innovation and experimentation, particularly in the retail market, to create low carbon products and services that will directly benefit consumers.
9. Respond to the need to take big decisions facing a deeply uncertain future by becoming more adaptive in the way we work and in our regulatory approaches.

We had originally planned to carry out these actions over eighteen months, starting in April 2020. Due to the Covid-19 crisis, some actions may now take slightly longer. To provide stakeholders with greater clarity for when we intend to deliver these decarbonisation actions, we will publish an update to our Forward Work Programme in due course.

Supporting innovation

We have continued to adapt our approach to regulation to better enable the innovation needed to create products and services that help consumers use energy in ways that support decarbonisation.

Through our Innovation Link, we continued to provide our "Fast, Frank Feedback" service, helping innovators to understand whether their idea is possible or not under existing rules and regulations. We have now supported over 350 innovators in the three years the Link has been running. Satisfaction with the Link's services remains high. Over the past year, we have seen several former clients enter the market and launch innovative new services.

For example, in October 2019, Liberty Global (parent company of Virgin Media) announced a trial project that utilises the existing network infrastructure of Virgin Media to provide on-street electric vehicle charging points.

In addition, UrbanChain began to market software to local authorities and energy suppliers with Energy Company Obligation and Warm Home Discount obligations designed to detect potential and actual fuel poor households in the UK.

In February 2020, we set out our plans to offer an expanded and refreshed "Regulation Sandbox" service. The sandbox allows innovators to trial or launch new products and services without some of the usual energy sector rulebook applying.

Based on our experience of running two previous application rounds, the refreshed sandbox service will be better able to meet its users' needs. Unlike its predecessor, it will be an on-demand service, available when innovators want it rather than following strict application timetables.

The scope of the sandbox service will incorporate new capabilities in industry codes. Temporary relief will also be available from some of the rules in the Balancing and Settlement Code and the Distribution Connection and Use of System Agreement. In keeping with one-stop-shop principles, we are the single point of entry to all sandbox tools and will coordinate involvement from the code bodies. We also set out our intention to consult shortly on increasing the range of rules that Ofgem can provide relief from – in order to help experimentation, trialling and testing to flourish.

Through our feedback work, we often encounter similar issues facing innovators. In order to be more efficient and so that our service has a greater impact, we developed our "broadcast" service, where we speak to many innovators at once. We also published two new guidance pieces – one explaining the different routes to entering the retail electricity market, and the other, how regulations apply in different scenarios where electricity is sold to electric vehicle users.

Interest remains high in our services for innovators and our experiments in adaptive regulation. In the last year, we shared our insights with 15 regulators from different sectors and jurisdictions. Overall, we have now engaged with 27 bodies from 12 countries, covering five continents.

Default tariff price cap

Ofgem introduced the default tariff cap on 1 January 2019, protecting over 11 million customers on standard variable, or default tariffs from being overcharged for their energy. We adjust the level of the cap every six months to reflect changes in the underlying costs of supplying energy. In February 2020, we set the level of the cap for the fourth period, which came into effect on 1 April 2020.

The Competition and Markets Authority (CMA) conducted a review of the Prepayment Meter (PPM) cap, which protects customers with prepayment meters, and in July 2019 decided to adopt the majority of the default tariff cap methodology to set the PPM cap.

In October 2019, one component of the cap was contested in a judicial review brought by one of the suppliers. The supplier successfully challenged the allowance in cap for wholesale energy during the first 3 month cap period. The judge required Ofgem to reassess the allowance in the light of the new data available. We are currently consulting on the revised wholesale energy allowance and will make a decision following the consultation in August.

During the year, we also consulted on how to assess whether the domestic retail market is able to deliver effective competition, or whether price protection continues to be required. The Domestic Gas and Electricity (Tariff Cap) Act 2018 requires Ofgem to submit a report and recommendation to the Secretary of State by August 2020, on whether the cap should be extended by a further year.

Regulatory frameworks

During the year, Ofgem carried out a joint review with BEIS to consider the design of future retail market arrangements, to ensure that it is fit for the future. We published a consultation in July 2019, setting out the key challenges that we need to address and the outcomes we want the retail energy market to deliver, including:

- How the regulatory framework could be changed to better facilitate the launch of innovation products and services, that could support decarbonisation.

- Market distortions, and where implementing reforms could improve the functioning of the sector.
- How the retail market can deliver a good deal for all consumers, including fair prices and good levels of service.

Having carefully considered responses to the consultation, in February 2020, we announced a package of measures designed to promote innovations in the retail energy market. In addition, we stand ready to assist BEIS in developing possible legislative changes that support the needs of tomorrow's consumers and provide flexibility for innovators to develop new business models, products and services.

During the year, we also began consolidating and rationalising the Retail Energy Code, to put in place a third iteration, to be launched alongside the faster switching arrangements in 2021. Excellent progress was made on the Faster and More Reliable Switching Programme which has now entered the testing phase.

C. Developing improved network access, charging and system operation arrangements to enable efficient future energy markets

Networks

To meet the demands of the future energy system, we continued to develop reforms to our rules, which underpin industry access to electricity networks and the charges levied for using the system through our two closely linked Significant Code Reviews: the Access and Forward-Looking Charges Review and the Targeted Charging Review (TCR).

Working closely with a range of stakeholders, we developed reforms for access to the electricity network and Forward-Looking Charging arrangements. We also published working papers to outline our initial thinking on key options for these reforms, before setting out our shortlisted policy options. We expect to consult on our draft conclusions during 2020-21.

For our Targeted Charging Review, we sought views on proposals that we had refined, before publishing a decision in December 2019. The aims of these reforms are to ensure that residual charges are shared fairly amongst those who use the electricity network and to remove harmful distortions from the network charging regime. Proposed modifications will be assessed between 2020 and 2022.

In May 2019, new gas transmission charging proposals were submitted to Ofgem for consideration by industry, for reforms to reflect the changing use of the network and compliance with EU code harmonisation tariff structures (UNC0678). We then published proposals as part of a consultation that closed in late February 2020. We expect to make a final decision during 2020-21.

Systems

Following its legal separation from the National Grid in April 2019, the Electricity System Operator (the "ESO") is now responsible for balancing electricity supply and demand in real time, in a manner that avoids fluctuations or disruption of supply.

As part of our oversight role, we consulted on changes to refine the ESO's principles-based incentives framework and published a decision in March 2019. Shortly afterwards, the ESO Performance Panel published its first evaluation for the ESO's performance for the 2018-19 regulatory year. Ofgem also commented on the ESO's draft forward plan for 2020-21, encouraging it to develop a transparent and stretching plan to address stakeholder feedback.

We continued to monitor how distribution network operators actively managed their networks, to allow innovators and flexibility providers to play their role in delivering a more efficient energy system. Our aim is that this will be a key feature of the next electricity distribution network price control (see page 18).

D. System stability and security

Withdrawal from the EU

In the lead up to the UK's withdrawal from the EU on 31 January 2020, we worked with HM Government and industry to ensure that the regulatory structure would continue to work effectively after withdrawal and that any exit issues were properly understood and managed appropriately. Some of our key work streams included, and continue to include:

- Consequential changes to energy company licences
- Engaging with code administrators and panels to support their preparations
- Continued compliance with Regulation on Wholesale Energy Markets Integration and Transparency (REMIT) regulations (see page Appendix II)
- Engaging with interconnector operators and our regulatory counterparts
- Advising HM Government on the impact on regulatory Statutory Instruments.

The Capacity Market

The Capacity Market – part of HM Government's electricity market reform policy – ensures that sufficient electricity capacity is available to meet demand. It is intended to incentivise investment in more sustainable, low carbon electricity capacity at the least cost to consumers, and to ensure that our electricity supply is secure for the future. The Market is governed by the Electricity Capacity Market Regulations 2014 (the "rules"), which Ofgem manages though our rule change process. During the year, we continued our five-year review of the rules to improve the Capacity Market, by making participation simpler for providers, improving competition and liquidity in the mechanism, and for the benefit of consumers. In July 2019, we published a Forward Work Plan on our review and a follow up letter in October on the rule change process, particularly for changes to the governance process, including prequalification, secondary trading and systems development needed from the Delivery Body.

Electricity system stability

"Black Start" is the process used to recover from an event, which results in the full or partial shutdown of the electricity transmission system. When needed, isolated power stations are "started" individually without an external power supply, and gradually reconnected in order to re-energise the system. Following its submission from the ESO, Ofgem approved the "Black Start" strategy and procurement methodologies in July 2019. The strategy's aim is to ensure that there is an effective system security framework in place for restoring energy supply to homes and businesses in the event of such a total system failure.

Cyber Security and Resilience

In May 2018, Ofgem and BEIS became the joint Competent Authority under the Networks and Information Systems (NIS) Regulations 2018, which implements the 2016 EU Directive on the security of network and information systems. The goal of the NIS Regulations is to ensure Operators of Essential Services (OES) take appropriate and proportionate technical and organisational measures to manage risks posed to the security of the network and information systems on which their essential service relies, as well as prevent and minimise the impact of incidents. Our role is to monitor OES progress and where necessary through enforcement, ensure compliance with the regulation. As we have built out our team, we have taken on additional responsibilities, including monitoring Cyber aspects of the Smart Energy Code ("SEC") and provide expertise into the RIIO price control team. During this past year, we have engaged in over 100 energy company workshops and published Ofgem NIS Guidance, RIIO-2 Cyber Resilience Guidelines and a NIS Draft Inspection Framework for Downstream Gas and Electricity.

Chapter 3: Network preparedness and performance

Our aim

At a time of significant change for regulated networks, our aim has been to ensure network companies deliver system security, innovation and value for money for consumers. We did this through effective administration of existing price controls (RIIO-1), as well as by developing an approach to our new set of price controls (RIIO-2) and introducing more competition in network activities. Together, this can improve outcomes for consumers and deliver a resilient, cost-effective network, fit for the future.

There were two aspects of our work, to achieve the best value for the interest of current and future consumers by using competition to deliver value for money and to help prepare networks for the future.

A. Using competition to deliver value for money

A significant and rapidly growing share of UK electricity generation is coming from renewables, such as wind and solar power. Integrating these new power sources into the system requires a step change in network investment and a more dynamic approach to the development of the transmission network. We use competition where possible, to minimise costs to consumers.

Offshore competition

Ofgem runs a competitive tender process for granting offshore transmission operator ("OFTO") licences.

During the year:

- A transmission licence was granted for the Galloper Wind Farm as part of Tender Round 5.
- A "minded to" Notice for modifications to Walney Extension transmission licence was issued as part of Tender Round 5.
- A preferred bidder was selected during Tender Round 5 for the Rampion Wind Farm Project (the last for that Tender Round).
- Preferred bidders were also selected during Tender Round 6 for the Beatrice and Hornsea Offshore Wind Farm projects.

Onshore competition

We continued to assess how competition models could be applied to "strategic wider works" project proposals that are submitted to Ofgem, to create additional capacity in the network. These large onshore transmission investment projects are central to the development of our RIIO-2 electricity transmissions price control framework.

During the year:

- We consulted, and published our decisions in May 2020, on the regulatory delivery model and our assessment of capital costs for the Hinkley-Seabank transmission project – proposed by National Grid Electricity Transmission – was published.
- We consulted on our minded-to position to approve a new electricity transmission link to Shetland proposed by Scottish Hydro Electricity Transmission. We also agreed a proposal from Scottish Hydro Electric Powers Distribution to contribute financially towards the Shetland link, if it is built. That contribution would reflect the benefits (for example in terms of security of supply) that Shetland demand consumers would derive from the link.
- We asked the Electricity System Operator (ESO) to deliver detailed proposals, by February 2021, on how to develop and implement 'early competitions' to identify network or non-network solutions to issues on the electricity transmission system. This work started in October 2019 and the ESO is due to consult on arrangements in summer 2020.

B. Preparing networks for the future

Network price controls

During the year, we continued to work closely with stakeholders to develop our RIIO-2 framework – our next set of network price controls – that will succeed the current RIIO-1 framework, which will end in April 2021 for gas distribution, gas and electricity transmission and in 2023 for electricity distribution. RIIO (Revenue = Incentives + Innovation + Outputs) is Ofgem's performance-based framework to set price controls for companies running the gas and electricity networks. A more detailed explanation of our RIIO frameworks can be found on our website.

Our objective for RIIO-2 is to ensure that these regulated network companies deliver value for money services that both existing and future consumers want, giving due attention to mitigating the impact of networks on the environment, maintaining network resilience, safety and reliability; and designing networks that they can play a full role in addressing consumer vulnerability issues.

We have sought to achieve this objective by:

- Giving consumers a stronger voice in setting outputs, shaping and assessing business plans.
- Allowing network companies to earn returns that are fair and represent good value for consumers, reflecting the risks they face and prevailing market conditions.
- Incentivising network companies to respond in ways that benefit consumers to the risks and opportunities created by potentially dramatic changes in how networks are used.
- Using framework or competition to drive innovation and efficiency.
- Simplifying the price controls by focusing on items of greatest value to consumers.

As well as developing our new price controls for gas and electricity distribution including transmission, we have also been developing separate price controls for the ESO and National Grid Electricity Transmission, with the aim of promoting a whole-system approach to price controls.

During the year, to develop our RIIO-2 price controls, we:

- Published and consulted on sector-specific methodologies (for electricity and gas transmission, and gas distribution, and for the electricity system operator) and tools for cost assessment for the price controls.
- Published the framework for the electricity distribution price controls (ED-2)
- Held cross-sector working group workshops for decarbonisation, customer and social needs, asset management and costs assessment.
- Received initial business plans from network companies, which were reviewed by challenge groups and subject to "calls for evidence" that sought views from stakeholders.
- Received final business plans from network companies, before publishing our initial and final decisions, on how we would apply the RIIO-2 framework to each network.

Moving forward, we plan to publish draft determinations in July 2020 for the next gas distribution, gas and electricity transmission and for the ESO price controls, that are due to start in April 2021. We also plan to set out the detailed methodology in July 2020 for the electricity distribution price control that starts two years later.

Interconnectors

Increased interconnection will provide increased capacity, flexibility and resilience to our electricity system. Following the establishment of our Cap and Floor regime for new investment in electricity interconnectors, we have continued to work with developers to deliver regulatory approval for new interconnector links as these projects progress through construction and operation.

During the year:

- Following a consultation on our "minded to" position on Nemo Link's post-construction review for its electricity interconnector, we published a decision, specifying our determined values and setting the final Cap and Floor levels.
- We published a consultation paper on proposed changes to the electricity interconnector licence held by National Grid IFA2, to implement the Cap and Floor regime, between the GB and French transmission systems, jointly developed with Réseau de Transport d'Électricité. A decision is expected in 2020.

Network security

In line with our Decarbonisation Action Plan, we continued to provide advice to help HM Government decide on future funding models for low carbon sources of power. This includes a regulated asset base (RAB) funding model for nuclear power projects, and potentially other technologies such as carbon capture and storage.

Responding to network performance issues

Following a major power outage in August 2019 we carried out an investigation to establish the circumstances and causes and the lessons that can be learned to improve the resilience of Great Britain's energy network. The investigation also looked at the compliance of the licensed parties involved with their licence and code obligations. In January 2020 we set out our key findings, this included that the licensees below did not appear to have met their licence and code requirements and the event highlighted the importance of robust industry compliance processes.

- Hornsea 1 Limited and RWE Generation UK plc have each acknowledged the role they respectively played in contributing to the outage, and agreed to make voluntary payments of £4.5m each to the Energy Industry Voluntary Redress Scheme.
- Eastern Power Networks plc and South Eastern Power Networks plc have each acknowledged a technical breach of their requirements and agreed to make voluntary payments of £1.5m in aggregate to the Energy Industry Voluntary Redress Scheme.

In May 2019, we also concluded our investigation into Cadent Plc's misreporting and procedural shortcomings in relation to its management of High Rise Multiple Occupancy Buildings on its network. Cadent took steps to investigate and rectify the issues at a cost of £3.6m which they covered in full, and made a payment of £3m into the Energy Saving Trust Voluntary Redress Fund in recognition of its shortcomings.

Chapter 4: Excellence in statutory and core functions

Our aim

At a time of significant change and uncertainty, it is imperative that consumers can rely on the regulator to protect their interests and ensure good value and services from the energy market.

To ensure this level of protection is maintained, we remained committed to achieving excellence in the delivery of our core and statutory functions. These functions include market monitoring, compliance, enforcement and delivery of initiatives and schemes in partnership with HM Government.

There were four aspects of our work to ensure excellent across our statutory and core functions:

A. Ensuring effective licensing and market arrangements

B. Proactive market monitoring and consumer protection

C. Effectively delivering renewable energy and social programmes

D. Enhancing our industry-specialist skills and capabilities.

A. Ensuring effective licensing and market arrangements

Ofgem's licensing and market arrangements are in place to help ensure that the energy network remains reliable and safe to use, and that customers remain connected to an ever more efficient network, while being protected from poor practices.

As set out in on page 10, we carried out a review of retail supplier licencing arrangements, and brought new entry requirements into effect in July 2019. We also continued to consult on ongoing requirements and exit arrangements, to ensure that suppliers have effective risk management processes in place, maintain appropriate governance arrangements, increase their accountability, maintain market oversight and improve the Supplier of Last Resort (SoLR) experience for affected consumers.

For our wholesale market arrangements, we considered new gas transmission charging proposals from industry and published a responding proposal for comment, to reflect the changing use of the network and compliance with EU code harmonisation tariff structures (see page 16).

We also developed and published contingency arrangements for the REMIT investigations, should the UK leave the EU with no agreed deal. Whilst leaving the EU with an agreement remains HM Government's stated intention, as a responsible regulator, we have planned for all eventualities, including a 'no deal scenario'.

B. Proactive market monitoring and consumer protection

Through our ongoing monitoring of the retail energy market, our goal is to maintain an evidence-based understanding of market trends and the health of individual retail energy suppliers, so that we are able to respond effectively to protect consumers.

During the year, we remained committed to emphasising to energy companies their duty to put their consumers first – through our engagement and monitoring approach – in line with their regulatory obligations. Our aim was, as always, to see increased awareness of their obligations to consumers, and in their ability to identify risks and manage them effectively. When things go wrong, consumers must be treated with respect, in good time, and where necessary, offered suitable redress. To inform this, we continued to monitor both the wholesale and retail energy markets.

Where energy companies fail to act within their obligations, we carry out compliance casework, which in some cases, required enforcement activity. In 2019-20 we concluded 37 compliance and enforcement cases where money was paid back to customers as refunds and/or compensation, and / or money was paid as a penalty or to the voluntary redress fund. We also issued four Provisional Orders and nine Final Orders in this time period. The consumer benefits of this work was £71 million.

Appendix II sets out the enforcement activity that we carried out in 2019-20, a summary of actions taken as a result of our wholesale and retail market monitoring, and our compliance activity. In line with our statutory reporting obligations, this Appendix includes a summary of final and provisional orders made by the Authority in the 2019-20 reporting year together with a summary of the penalties the Authority imposed during the same period.

We also continued to ensure best value for consumers through the energy networks, including the effective delivery of the four price controls under our RIIO-1 framework. During the year, we received requests for new funding from all six electricity Distribution Network Operators ("DNOs") during the 2019 "reopener" window covering a range of projects within the electricity distribution price control. Our decisions in October 2019 confirmed that we would allow £64 million of funding for DNOs to invest in physical site security, street works and rail electrification projects, but refuse around £258 million for projects we considered to be poorly justified or provide insufficient value for money for consumers.

C. Effectively delivering renewable energy and social programmes

Ofgem delivers a portfolio of renewable energy schemes and social programmes on behalf of our partners in government. These schemes are worth over £9bn annually and over the last decade have made a significant contribution to the decarbonisation of energy and the cost of heating for some of the most vulnerable. The relationship we have with our government partners is founded on the delivery of good value for taxpayers' money, both in our administration and also ensuring that we protect public funds when we pay scheme participants. It is underpinned by a clear objective to protect the interests of consumers.

Given the scale of this work, we have grown our capacity and capability into a significant dedicated work hub that stretches across both our Glasgow and London offices.

We have worked closely with our government partners to establish our delivery priorities and our risk appetite. This resulted in a set of clear priorities which we worked towards over the last year

These are to:

- Protect the public purse:
  - o Investment in assurance across audit, risk, fraud and compliance
  - o Independently control and assure the landscape we manage.
- Deliver our legislative agenda:
  - o Engage the market and enable access to the schemes we administer
  - o Focus on robust and timely processing of applications.
- Make legally sound decisions:
  - o Apply our risk appetite to protect the public purse in ways which are lawful, but which may be tested.
- Ensure any legislative change is enacted:
  - o Managing any changes to regulation, preparing guidance and engaging our stakeholders
  - o Continuation of all scheme legislative reporting.
- Enable applicants and participants to access the schemes:
  - o Maintaining our systems to enable easy public access
  - o Rewrite two of our key registers.

Whilst we made considerable achievement against these priorities, we also faced considerable budget constraints, which meant that we had to de-prioritise our systems development, stakeholder engagement, and increase some of our processing times. In particular, we focused on the protection of the public purse, introducing a full statistical auditing programme on the renewable heat incentives (RHI) whilst also supporting the Northern Ireland Department of the Economy's work on inspecting RHI sites supported by their scheme.

Renewable Electricity

The Renewables Obligation (RO) and the Feed-In Tariff (FIT) schemes are now closed to new entrants, but will continue to provide support for eligible renewable electricity over the coming decades. We continue to administer both schemes, ensuring ongoing compliance, for the accredited generators that make up the equivalent of over 31% of all UK electricity supply in 2018-19. During 2018-19, the combined value of these schemes was £7.4bn.

This was the ninth year of the FIT scheme. The total capacity deployed under the scheme grew from 6.02 gigawatts in year eight to 6.21 gigawatts in year nine, an increase of 3%. Electricity generated by FIT installations totalled 8,454 gigawatt hours in total.

We issued 105.9 million RO certificates based on 79.1 terawatt hours of renewable generation. When combined with the 8.45 terawatt hours generated by FIT installations, this figure rises to 31.8% of the overall.

During 2018-19, 21 suppliers did not meet their obligations, which resulted in a shortfall of £97.5 million in the buy-out fund. This shortfall triggered mutualisation for the second time in the RO scheme's history.

In January 2020, HM Government introduced the Smart Export Guarantee, which ensures obligated suppliers provide generators, of under 5 megawatts, a positive price for the electricity that they export to the grid. Unlike previous electricity support schemes, this is a market-led scheme with Ofgem's role focused on supplier compliance, as such no accreditation information is recorded.

Renewable Heat Incentive

The Domestic RHI scheme was introduced in 2014 and as of 31 March 2020, we have made 76,000 accreditations since the scheme was launched. Since 2014, the scheme has generated more than 44,544 gigawatt hours of renewable heat.

As of December 2019, more than 19,800 participants were registered on the Non-Domestic RHI scheme, providing over £2.3 billion support for those transferring renewable heat.

Additionally, the Non-Domestic RHI scheme supports the injection of Biogas to grid. Over the last year, this has supported over 90 sites of injecting "green gas". To aid our registration of these sites and ensure that plants only receive support when they are eligible, we launched a "call for evidence" on the commissioning of biogas plants, in order to seek to identify common processes, to aid our registration of these sites and ensure that plants only receive support when they are eligible.

We continued to support the administration of the Northern Ireland RHI scheme, including the inspection programme. In the lead up to the Northern Ireland RHI inquiry report publication in March 2020, we worked closely with the Northern Ireland Government to address the concerns that had been raised through the course of the inquiry and are considering any implications for the future administration of our schemes and for Ofgem more widely.

Energy Efficiency and Social Programmes

Our administration of the Energy Company Obligation (ECO) continued throughout the year, providing support to vulnerable consumers and helping them to reduce the cost of heating their homes. After the launch of the third phase of this scheme, January 2020 saw a step-change in our delivery, to include a third-party stakeholder. TrustMark – a quality assurance body – will now be delivering compliance oversight of all retrofit measures delivered onto the scheme. We worked closely with TrustMark to ensure that we could rely on its processes in order to assume the consumer protection and quality standards we have introduced as part of our ECO scheme administration.

We have also worked with a panel of experts to assess 48 applications for additional support for innovation measures.

We continue to administer the Warm Home Discount, which provided £140 to each of over 2.2 million vulnerable consumers, in or at risk of fuel poverty. Over its lifetime, the scheme has provided over £2.45 billion of direct support to vulnerable consumers and industry initiatives.

Assurance

Our E-serve Assurance Hub has now implemented the system of checks and controls known as the "Three Lines of Defence", with the aim of ensuring our internal processes and decision-making are robust and that our risks are well managed.

During the year, we built our data analytical capability, deploying it to identify trends in non-compliance and to begin to understand the data that we collect from scheme participants more thoroughly. Our goal is for this to assist us separating errors from genuine non-compliance and fraudulent activities.

Over the last year, we conducted over 2500 audits on both scheme participants and also obligated suppliers. With a 20% increase in statistical audits on the domestic RHI and a 50% increase in targeted audits for FIT generators. Additionally, given some delays in the 2018-19 programme of audits this meant that we needed to progress these in parallel with our 2019-20 audits.

We report on the level of error and misrepresentation our administration detects and prevents. Over the last financial year, our work prevented over £601 million of error and detected over £4.4 million, which we can look to address with scheme participants. The largest amount of this comes from the RO (~£0.5 billion) and so prevents this from being passed on to bill payers. This overall error figure is mainly due to robust decisions to reject applications made in our operations hub and action taken by our assurance and compliance hub to correct errors, for example where participants in our schemes make mistakes in submitting data to us.

Technology

We have commenced work on the re-write of the IT system that underpins our administration of the renewable electricity schemes, which will eventually replace our register, which has now been in place for over ten years. This work has been in close engagement with HM Government's digital strategy team, which aims to produce a more user-centric product. By taking an "Agile" approach to this system's development, we should be able to reuse components designed for this system across other schemes, such as the system underpinning the non-domestic RHI scheme, the rebuild of which we had to de-prioritise in 2019-20.

D. Enhancing our industry-specialist skills and capabilities

During the year, we continued to deploy the expertise of our staff to ensure that our support and delivery services effectively contributed to our policy development. This included advice from legal, economic, engineering, behavioural research, data and cyber security specialist colleagues.

In particular, we continued to deliver quality assurance of business-critical models, impact assessment and evaluation, in line with recommendations in the HM Treasury review of quality assurance of Government analytical models[2] Through this work, we support our policy teams to develop their analytical models and review their cost-benefit analysis and impact assessments.

[2] https://www.gov.uk/government/publications/review-of-quality-assurance-of-government-models

Chapter 5: Our GB stakeholders

Stakeholder engagement remains at the heart of our work so that we consider a broad range of views in our work to regulate the energy system. Due to Covid-19, we reviewed our engagement to reduce burdens on the sector and shift remaining engagement to virtual platforms. The majority of engagement described below took place before the Covid-19 pandemic.

Consumer and stakeholder engagement

In 2019-20 we have continued to hold events and workshops across Great Britain to speak to different stakeholders as part of our decision making processes. This year we held four energy conferences in Port Talbot, Birmingham, Glasgow and London to consult on our Forward Work Programme and Decarbonisation Action Plan. These were well attended by the energy sector. We also proactively invited those groups that are sometimes under represented at our events such as smaller consumer and charity groups and large Industrial and Commercial customers to ensure they were part of the discussions.

As part of the decarbonisation action plan we invited future energy consumers through a young professional's panel to debate the challenges and trade-offs of decarbonisation in the energy sector. We also partnered with the educational charity 'Inspiring the Future' so that local school children presented at the events on their views on decarbonisation and were part of the table discussions.

We continued our engagement programme for our senior leaders with them visiting stakeholders and consumers across Great Britain. This included visits to rural Northumberland to hear of the challenges in rural fuel poverty. We saw some impressive, innovative projects in energy on Anglesey including the Morlais Marine Demonstration Zone. We've continued to meet regularly with Citizens Advice Scotland and their bureaus to hear directly from consumers about the challenges they are facing and we visited a convenience store in Surrey to discuss the microbusiness review.

As with previous years, the Authority held meetings in Cardiff, Glasgow and for the first time this year in the North East. As well as the board meetings, the members visited a number of local stakeholders to gain valuable insight into the work being done at community level. In Wales, they visited an innovative energy system solution - Llangattock Local Energy and on the same trip also visited the FREEDOM Hybrid Heating Project in Bridgend and the Penycymoedd Windfarm & Energy Park. In Sunderland, they met consumers who had benefited from energy schemes and saw another heat network in Loch Lomond, Scotland. We also held meetings for government officials and local stakeholders to discuss the local challenges in the energy sector.

This year we have been working with local charities in Glasgow and London through volunteering and fundraising. A number of consumer groups and charities have also presented to our staff about their work with consumers and the challenges they face as well as the successful implementation of Ofgem policies or delivery of environmental and social schemes.

We continue to run a number of working groups to meet key stakeholder groups such as large users and academics. We also speak at a large number of events across the country; keynote speeches from our senior team can be found on our website.

We have held a number of webinars over the year. Since Covid-19, we have significantly increased digital engagement and we will continue to engage virtually with stakeholders across Great Britain trialling new technology to improve interaction and discussions.

Government engagement

Our work involves regular engagement with government departments and ministers (most notably with BEIS) and we have continued to share our insight and expertise as the energy regulator over the last year. Ofgem is accountable to Parliament, and our external relations team act as a dedicated point of contact for elected representatives across Great Britain. We work to ensure a regular dialogue on Ofgem's action to protect consumers, and the development of our Forward Work Programme.
We have contributed written and oral evidence to relevant parliamentary inquiries, provided speakers at cross party groups, as well as holding meetings with individual MPs/MSPs/AMs and their staff on energy issues at a national and constituency level.

Chapter 6: Consumer Impact Report (CIR)

Demonstrating the benefits we deliver

As the sector regulator, Ofgem does everything it can to deliver good value for energy consumers and ensure that the energy market works as well as it can for everyone. We are funded by a licence fee that we levy on the energy industry and ultimately, consumers pay for this through their energy bills. Therefore, it is important that we earn consumers' trust by demonstrating the benefits that we bring for the money that they pay. Our third Consumer Impact Report (CIR) for the financial year 2019-20 was published in June 2020.

Our work spans the entire energy system. We consider hundreds of complex issues every year, and our decisions have a major influence on how the energy system works. **We are confident that overall, we deliver real value for energy consumers in Great Britain.**

Identifying and assessing the benefits we deliver for consumers

We follow a rigorous process to assess the expected net benefits of our major decisions. This follows a framework called Impact Assessment. It uses guidance from HM Treasury to ensure a consistent, high standard of analysis of the expected benefits and costs of our decisions. We aim to work out the net benefit in £ to consumers that the decision could generate compared to the costs of implementing it. However, it is often not possible to do so, and therefore we also consider these consumer benefits in a more qualitative way, looking beyond the financial numbers. This is just as important as the quantified benefits – and a prime example of this is our work for consumers in vulnerable situations, which delivers significant benefits, but they are difficult to quantify.

Another example is our monitoring and compliance work, where the direct benefits of action taken against companies may be modest, but the deterrence effect of our willingness to act is likely to generate considerably greater benefits. The process is not perfect. For example, some of our major decisions will last for years – in a fast moving energy sector, and a changing society, how can we be sure that the benefits we expect today will actually happen? And how can we be sure that decisions we have taken in the past are delivering benefits now? This is a challenge we recognise. That is why we work closely with academic experts and other stakeholders to make sure our assessment processes reflect current best practice. We also intend to conduct post-implementation reviews of some of Ofgem's key regulatory decisions to check that interventions delivered the benefits that were expected.

How much in £ is expected to be delivered for consumers?

Sometimes our decisions are of major significance following years of work (for example on the future of a network price control) and sometimes they are tweaks to how we already expect the market to operate. As the scale of the impact of our decision-making is lumpy, with the number of major regulatory decisions varying from one year to the next, but the benefits of these decisions are generally long-lasting , we assess the £ benefit of our decisions taken over a multi-year period. In this year's CIR, we assess decisions taken over the three year period from 2017-18 (when we first published the CIR) to 2019-20. We expect the decisions we have taken in these years to deliver on average £3,821.7 million of benefits to consumers. We do not expect these to occur solely within these three years, but will accrue over longer periods of time. Given Ofgem's average costs since 2017-18 of £99.8 million, this gives a benefit:cost ratio of 38.3.

An overview of the benefits we have delivered

During financial year 2019-20, Ofgem delivered the following quantifiable benefits for consumers.

In the **retail market**, we introduced the second tranche of the Guaranteed Standards of Performance, relating to delayed switches between energy suppliers, responsibility for erroneous switches, and failure to issue a final bill on a timely basis. We expect these standards to act as an incentive to improve suppliers' behaviour and contribute to further increasing consumers' willingness to engage with the market, while encouraging suppliers to improve their systems. We expect the measures will deliver consumer benefits of £63 million over one year along with other non-monetised benefits.

We launched a review of our approach to licensing and regulating suppliers in 2018 to raise standards around financial resilience and customer service. This will help to drive up standards for consumers, and potentially reduce disruptive exits by suppliers. The first stage of our review concluded in July 2019 with reforms to our licence application process, which will help us increase our scrutiny of potential new entrants. All of this helps our Strategic Narrative[3] priority of 'protecting consumers, especially those in vulnerable circumstances, by stamping out sharp practice and ensuring fair treatment', and '**enabling competition and innovation**, which drives down prices and result in new products and services.'

In **networks regulation and the wider energy system**, we disallowed around £5.6m of costs as a result of the price control on the Data and Communication Company (DCC). We reduced the revenue cap and floor on the Nemo Link GB-Belgium interconnector, by reducing consumer exposure to risk and increasing the chances of cap payments throughout the 25-year regulatory regime. In October 2019, we disallowed around £258m of funding requests by electricity distribution network companies for projects that we did not think were properly justified or provided poor value for money.

We suspended the Secure and Promote Market Making Obligation (MMO) which took effect on 18 November 2019 to avoid disproportionate and potentially unfair costs. These measures help our Strategic Narrative priorities of '**protecting consumers**' and '**enabling competition and innovation**. Our **enforcement and compliance** activities prevent and remedy unlawful or anticompetitive conduct and breaches of licence conditions. We want consumers to benefit from timely resolution of any harm to them from these breaches and an improved supplier-customer relationship. For the enforcement and compliance decisions we took between April 2019 and March 2020, we expect the consumer benefits to be about £71 million.

We also work to address **vulnerable consumers**' needs. We have a statutory duty to consider the needs of certain more vulnerable groups of consumers such as those with disabilities or long-term health conditions, of pensionable age, on low incomes or living in rural areas. We have expanded this to include a wider range of vulnerability, including transient vulnerability, such as job loss, bereavement or short term mental ill health.

We published our new **Consumer Vulnerability Strategy** in 2019 and it sets out our priorities until 2025 to ensure consumers in vulnerable situations are at the heart of our work.

Furthermore, we **administer green energy and social programmes** on behalf of the UK government which tackle fuel poverty in Great Britain and assist consumers in more vulnerable situations. The government extended the Warm Home Discount (WHD) scheme until March 2021 as part of its Fuel Poverty Strategy. The Energy Company Obligation (ECO) scheme will continue until March 2022 and obligates larger suppliers to deliver energy efficiency measures to households in Great Britain. Our work for vulnerable consumers also helps meet our Strategic Narrative priority of 'protecting consumers, especially those in vulnerable circumstances, by stamping out sharp practice and ensuring fair treatment.'

[3] Ofgem (2019) 'Strategic Narrative' p.8 https://www.ofgem.gov.uk/system/files/docs/2019/07/our-strategic-narrative-2019-23.pdf

Looking to next year

There are three additional areas of our work in 2019-20- 2020-21 that we expect to have a significant positive impact on our work for consumers in future years:

- Work on **networks and the energy system** (Targeted Charging Review, RIIO2 network price control, and cap and floor regime) that we could include in our assessment of consumer benefits.
- Our February 2020 **Decarbonisation Action Plan**, which sets out the initial action we will take to help achieve net zero greenhouse gas emissions by 2050.
- Our May 2020 **Distributional Impact Framework**, which will help us assess which groups of consumers may or may not benefit from particular decisions that we could take.

These are the main examples and there are likely to be more. We will aim to incorporate these, and any others, in our future assessment of consumer benefits.

Chapter 7: Sustainability Report

Highlights:

- Domestic air travel **dropped by 41%** from last year
- Building carbon use has **reduced by 15%** from last year
- In London our print volume is **less than 20%** of what it was before 2010

Our adoption of smarter working and upgrading our video conferencing capabilities has contributed greatly to these improvements.

We remain on track to achieving the Greening Government Targets, which include the following objectives (against a 2009-10 baseline):

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

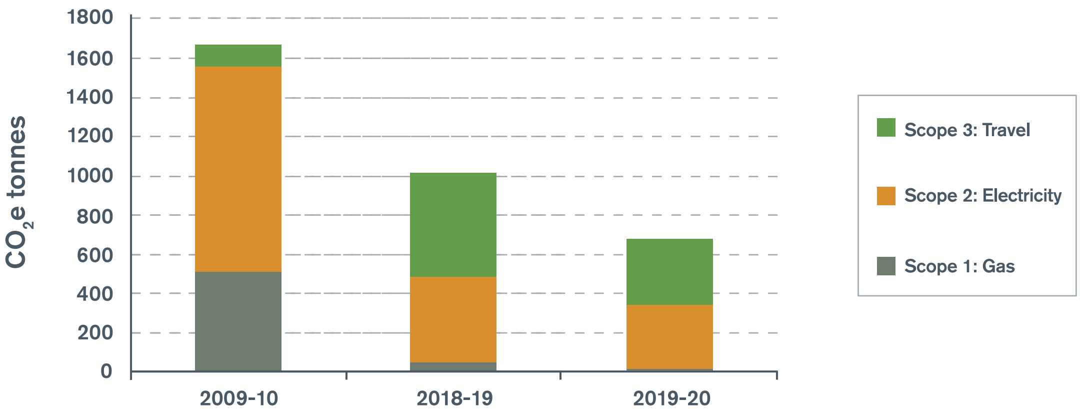
This year we have established a staff led Internal Sustainability Group (ISG). It is a collaborative network for staff interested in unleashing our potential as an organisation to demonstrate climate leadership.

The current areas of focus include:

- **Reviewing our environmental impact as an organisation and identifying areas for further improvement.**
- **Providing a mechanism for staff to contribute ideas for removing barriers to green behaviour and delivering on our decarbonisation objectives.**
- **Rolling out cultural initiatives to empower staff to contribute positively to sustainability through behaviour change, awareness raising and developing climate leaders.**

Most of the data relating to property below refers to our London office only, which is metered and apportioned to the building's tenants. The Landlord in our Glasgow office is less willing to share information and as we pay a fixed cost for our utility usage, we are unable to provide any data and therefore exclude Glasgow from our calculations where applicable.

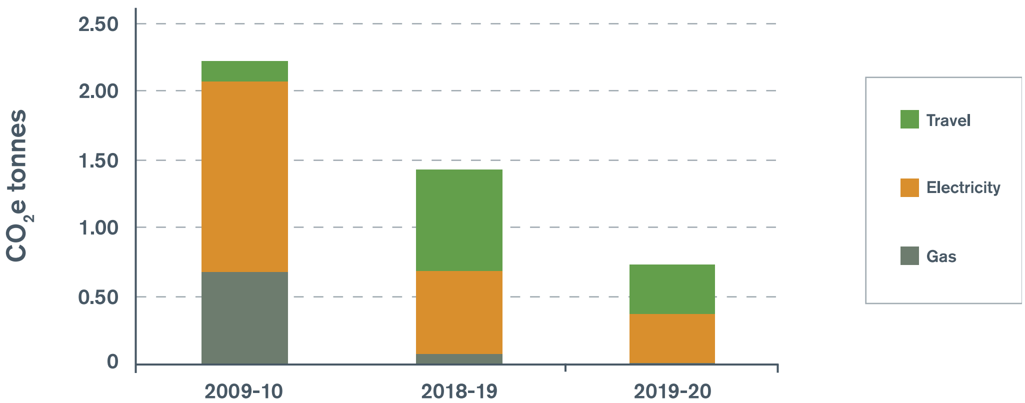
Total Carbon



Total carbon has been **reduced by 34%** from last year. This is made up of a **15% reduction** in building carbon and a **38% reduction** in travel carbon.

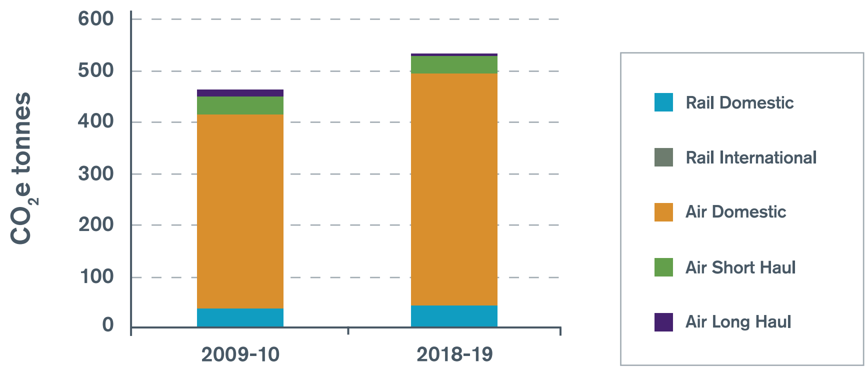
The building carbon reduction resulted from working with Management of our office in the Government Hub at Canary Wharf (10 South Colonnade, or "10SC") and the upgrade of the Building Management System. The ISG working in conjunction with 10SC Management are hoping to continue this arc of improvement.

Carbon usage by FTE



The overall reduction in carbon means that we achieved a **35% reduction** in carbon usage per FTE compared with last year.

Travel Carbon



There has been a **39% reduction** in total journeys this financial year compared with last year. While some of that reduction is due to Covid-19 we were only restricting travel from February onwards, so the impact of the pandemic is relatively low. The main reason that travel carbon has reduced is that **domestic air travel dropped by 41%**, partly enabled by an increase in train travel of 33%. Domestic rail travel is six times more carbon efficient than air. This has resulted in a **38% reduction** in total travel carbon.

An upgrade to our video conferencing capabilities to support a reduction in the incidence of face to face meetings contributed greatly to the reduction in travel carbon compared with 2018-19.

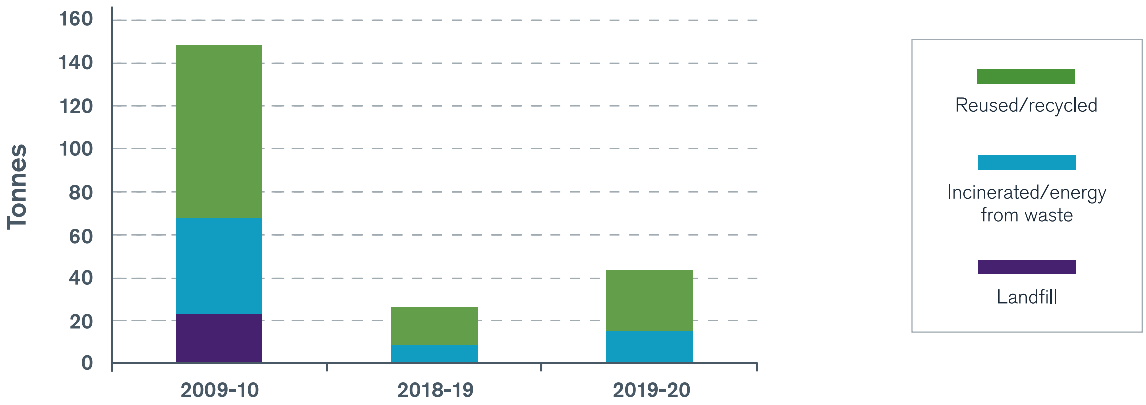
We are still working to make further improvements and are encouraging better use of technology and smarter working to reduce future travel.

Greenhouse gas emissions		2009-10	2018-19	2019-20
Non-financial indicators (tCO_2e)	Total gross emissions	1,670	1,015	671
	Per FTE	2.23	1.43	0.92
	Total net emissions	1,671	1,015	860
	Scope 1: Direct GHG emissions	511	49	7
	Scope 2: Energy indirect GHG emissions	1,045	431	330
	Scope 3: Other indirect GHG emissions	115	535	334
Related consumption data (kWh)	Electricity: Renewable (k)	1,130	1,521	1,292
	Gas (k)	1,578	269	35
Financial indicators	Expenditure on energy	£138,240	£308,870	-
	Expenditure on official business travel	N/A	£523,530	-

Energy efficiency in our buildings

Display Energy Certificates are used to show the energy efficiency of public buildings. The Display Energy Certificate (DEC) rating for the entire 10SC building is F-143. We believe this could be improved and will be working with 10SC management to better understand where energy is being used and consider opportunities for better control measures for our building systems, in particular lighting.

Total waste



Our waste over the past year has risen by 17 tonnes.

This increase is offset by how waste was accounted for during the previous year. We moved to 10SC in Apr 18 as the first occupants and not until late summer did the building start to fill up achieving full occupancy in October 2018. As waste is apportioned across building occupancy, last year's increase extrapolates roughly to 2018-19 levels and it is not until the next reporting year that will we be able to accurately compare.

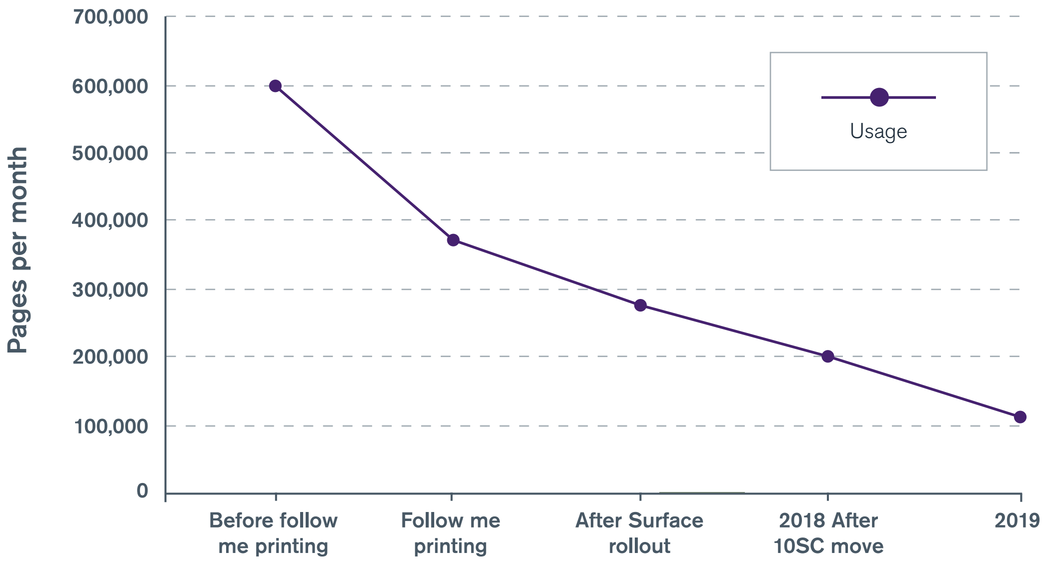
We have not sent waste to landfill since 2010, one of the Government Targets achieved and maintained since 2010.

Waste			**2009-10**	**2018-19**	**2019-20**
Non-financial indicators (tonnes)	**Target**		-	-	-
	Total waste		149	26	43
	Total waste per FTE		0.2	0.04	0.05
	Hazardous waste		1	-	-
	Non-hazardous waste	Landfill	23	0	0
		Reused/Recycled	81	15	28
		Incinerated/ energy from waste	44	11	16
Financial indicators	Total disposal cost		£11,845	£9,798	-

Paper Consumption

The stated goal is to reduce paper consumption by 50% from the baseline year.

Decline in monthly printing in London

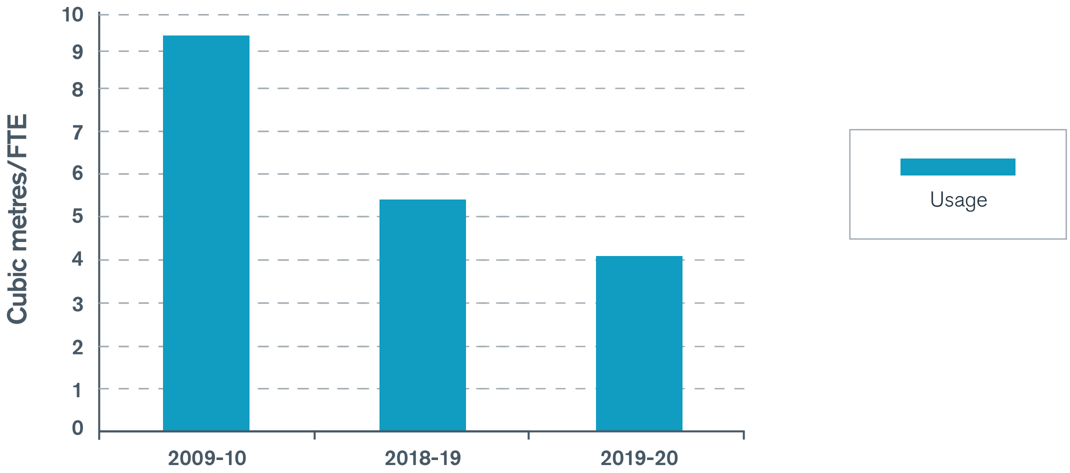


In our London office, print volume is **less than 20%** of what it was before 2010. Our Glasgow office has remained largely the same for the last three years. This is due to the need to print documents in our Glasgow office to meet statutory requirements of the environmental schemes that Ofgem oversees.

Water

Our water use per FTE has marginally decreased from last year and is under our previously stated goal of 6m³.

Water per FTE



Water			2009-10	2018-19	2019-20
Non-financial indicators	**Target**			**6.00**	
	Water consumption (m^3)	Supplied	7,116	3,608	3,875
		Per FTE	9.5	5.6	4.2
Financial indicators	Water supply costs		£9,026	£8,444	

Jonathan Brearley
Chief Executive

15 July 2020

Accountability Report

Financial review

Ofgem's Key Performance Indicators are set out in Appendix I.

During the year, Ofgem utilised its budget to support its Forward Work Plan and ended the year with an overall underspend of £53,000 on resource budget (an outturn of £648,000 compared to the estimate of £701,000). This was mainly driven by some larger projects moving more slowly than originally planned. Ofgem was not able to fully utilise the capital budget that had been set aside for IT refresh purposes, spending £682,000 less than the estimate. This was caused by delays in production due to the impact of Covid-19.

Ofgem's main source of income is license fees payable by the sector. Any surplus (over recovery of fees, where spend is less than budget) is used to reduce the fees charged the following year. The 2019-20 license fee payable was reduced by the 2018-19 surplus of £2.995 million.

Income of £76.149 million was received from the sector in 2019-20, which was £3.955 million more than spend. The 2020-21 license fee charged to the sector will therefore be reduced by the £3.955 million surplus.

The majority of Ofgem's costs are staff costs. Overall staff costs were £3.655 million (6%) higher in 2019-20 compared to 2018-19, primarily reflecting increased pension contributions. There was also an increase in staff numbers, reflecting increased regulatory and scheme delivery requirements, alongside an effort to reduce reliance on agency staff, with Ofgem's spend on agency staff falling by £3.993 million (50%) over the year.

There was a net increase of £2.077 million in financial provisions (where Ofgem have set aside budget now for a likely future payment). The main driver was an increase of £1.531 million to recognise a potential future cost associated with Ofgem's London office space.

Impairment of £0.515 million was recognised in the year to reflect a change in the expected life of some of the assets.

Corporate Governance Report

Directors Report

The Gas and Electricity Markets Authority ("the Authority") makes all major decisions and sets policy priorities. The Authority is made up of executive and non-executive members.

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. He left Ofgem on 31 January 2020.
- Jonathan Brearley, Executive Director, System and Networks, joined Ofgem in May 2016 and was appointed to the Authority in November 2018. He was appointed Chief Executive and took over the position on 1 February 2020.
- Sarah Cox, Chief Operating Officer, joined Ofgem in May 2016 and was appointed to the Authority in November 2018. She is a Vice Chair and Board Member of CSSC (Sports and Leisure) and an advisor to the Infrastructure and Projects Authority (Defence and International, serving for example as independent advisor on the strategic alliance Board with the MoD, Babcock and BAE Systems; and as high risk team leader). She left Ofgem on 31 March 2020.
- Mary Starks, Executive Director, Consumer and Markets, joined Ofgem in September 2018 and was appointed to the Authority in November 2018. She is a Trustee for Working Families.

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

- Martin Cave joined in July 2018 as non-executive director, and was appointed Chair in October 2018 for a five-year period. He is a visiting Professor in the Department of Law at the London School of Economics, an advisor to the New Zealand Commerce Commission, an advisor to Chalmers University, Sweden and a board member of the Centre on Regulation in Europe (CERRE), a Brussels-based think tank.
- Christine Farnish joined in January 2016. Her appointment ends in January 2021. She is a non-executive director of Ofwat, a non-executive on the Zopa Group Board and Chair of Zopa ltd (Zopa's peer-to-peer lending business), and a consumer advisory board member at Fairer Finance.
- Professor Paul Grout joined in October 2012. His appointment ends in September 2022. He has a Chair in Political Economy at the University of Bristol, is Chair of the expert advisory group for National Lottery 4 at the Gambling Commission and is the Senior Advisor for Competition at the Bank of England.
- Keith Lough joined in October 2012. He was the Chair of the Authority's Audit and Risk Assurance Committee. He is a non-executive director, and the Senior Independent Director, of Rockhopper Exploration Ltd. He is also a non-executive director of Cairn Energy plc, and non-executive director and SID of Hunting plc. He left the Board on 31 July 2019.
- Ann Robinson joined in July 2018. Her appointment ends in July 2023. Ann does pro bono work with charities chairing and facilitating meetings, works with Ofwat on its Price Review and opening up the market to SMEs as well as chairing a company owned by the Electricity Safety Council.

- Lynne Embleton joined in July 2018. Her appointment ends in July 2023. She is Chief Executive for IAG Cargo, a management committee member for IAG, a non-executive director at BA Board and a director at Zenda.
- John Crackett joined in December 2018. His appointment ends in December 2023. He has held non-executive roles at the Office of Nuclear Regulation and in a telecoms company. He has also been a member of the Army Board, he advises MOD on electricity generation and distribution, and is involved in housing and veterans' charities.
- Myriam Madden joined in January 2020 as non executive director and Chair of the Audit and Risk Assurance Committee. Her appointment ends in January 2025. She has held senior executive finance and operational positions in global technology companies, financial services in the UK, US and Europe, as well as the public sector.
- Barry Panayi joined the Board in March 2020. His appointment ends in March 2025. He is Chief Data Officer for Lloyds Banking Group.

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

Keith Lough, having worked for energy companies in the past, is a member of a former employers' pension scheme. This scheme is administered in line with the rulings of the Pensions Regulator and is separate from the business of the regulated company.

Audit arrangements

The Comptroller and Auditor General, and was appointed under statute and reports to Parliament, audits the resource accounts and trust statements. The notional cost of auditing the resource accounts and trust statement was £100,000 (2018-19: £85,000). 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. Deloitte performed the Internal Audit function for part of the year, until its contract ended on 30 June 2019. A competitive procurement process took place in 2019 and Mazars was appointed to provide the service from 26 September 2019 for an initial period until 31 March 2021.

As part of our project delivery assurance process, we get separate independent assurance at key stages of a project. We outsourced this service to Deloitte, Mazars and other companies available through our procurement framework during the year.

Statement of the Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed Ofgem to prepare for each financial year resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Ofgem and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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

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

Governance statement

Who's part of the Authority?

How appointments are made

The Secretary of State for Business, Energy and Industrial Strategy appoints the non-executive members of the Authority after consulting the Chair. The executive members of the Authority are appointed by the Secretary of State in line with the Civil Service Management Code. They hold their positions for as long as they hold their senior posts at Ofgem, subject to maximum periods of tenure 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 49).

How the Authority works

The Authority meets formally a minimum of 10 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 2019-20, the Chairman 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 will review his performance against these objectives.

The Authority reviews the activities, plans and performance of the organisation against its strategic objectives and reviews the activities and priorities of its principal support functions. The activities and priorities of E-Serve are also reviewed by the Authority. The Authority also considers the capability and health of the organisation and takes decisions on specific major regulatory issues that have not been delegated.

We aim to make the most of our resources and powers to make a positive difference for current and future consumers over the coming years. Every year we publish our Forward Work Programme following consultation and stakeholder engagement. We published our draft Forward Work Programme for the extended period 2020-22 for consultation in December 2019. In March 2020, we confirmed that in light of the impact of Covid-19, the consultation published in December 2019 is the best representation of Ofgem's planned projects and that we will publish a fuller account of our planned work in due course.

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 Chair and other non-executive members play a full part in Authority business. They attended full Authority meetings and committee meetings as follows:

Members	The Authority	Audit and Risk Assurance Committee	E-Serve Board	People and Remuneration Committee	RIIO 2 Committee
Christine Farnish	10/10	-	1/1	4/4	5/7
Dermot Nolan	8/8	2/2	2/2	4/4	4/5
Sarah Cox	10/10	3/3	3/3	5/5	-
Mary Starks	9/10	-	-	-	-
Jonathan Brearley	10/10	1/1	1/1-	1/1	5/5
Martin Cave	10/10	2/3	-	5/5	5/5
Ann Robinson	8/10	-	-	4/5	-
Keith Lough	4/4	1/1	-	-	-
Lynne Embleton	10/10	3/3	1/1	-	2/4
John Crackett	10/10	1/1	-	-	5/5
Paul Grout	10/10	-	1/1	5/5	5/5
Myriam Madden[1]	2/2	1/1	-	-	-
Barry Panayi[2]	1/1	-	-	-	-

[1] Myriam Madden was appointed an Authority NED in January 2020.
[2] Barry Panayi was appointed an Authority NED in March 2020.

The Authority met in Glasgow on 26 June 2019, and in Durham on 31 July 2019 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 structure, supported by committees with clear terms of reference, strives to support effective governance.

Audit and Risk Assurance Committee

This committee advises the Authority and the Accounting Officer on:

- assurance processes and actions in relation to the management of risks;
- strategic processes for risk, control and governance;
- the accounting policies, the accounts and the annual report of the organisation;
- the planned activity and results of both internal and external audit;
- the adequacy of management response to issues identified by audit activity;
- anti-fraud policies, whistleblowing processes and arrangements for special investigations.

The Committee met three times in 2019-20. Until July 2019 Keith Lough chaired the committee. John Crackett was interim chair for the October 2019 meeting. Myriam Madden was appointed committee Chair when she joined the Board in January 2020. Martin Cave and Lynne Embleton are also non-executive members of the committee.

This year the committee's work included:

- receiving reports from both internal and external audit – including, for example, areas where we felt there were control weaknesses, which innernal audit were asked to review; monitoring actions taken to address weaknesses arising from assurance reports, which have been brought to the attention of the Committee by any other Authority Sub-Committee or the Executive; and

- receiving reports on matters such as IT and cyber security in the organisation, as well as anti-fraud and whistleblowing policies and processes, and the actions taken by the organisation in response to adverse incidents.

E-Serve Board Committee

The E-Serve Board (ESB) acts on behalf of the Authority and monitors the effectiveness and efficiency of E-Serve in delivering its relevant activities and provides assurance to the Authority on the performance of those activities. The ESB also makes recommendations to the Authority on key decisions affecting E-Serve including significant policy, strategic and operational aspects of E-Serve's work. Its main focus is to review and recommend E-Serve's strategy, annual business plans and overall budget in respect of the relevant activities and to agree the annual objectives and targets for E-Serve. The ESB meets three times a year and is chaired by the Chief Executive.

Enforcement Decision Panel

The Enforcement Decision Panel (EDP) is in place to take 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. At the beginning of the year, the chair was John Swift QC. From June 2019, Megan Forbes became chair of the EDP. Members of the EDP also chair Enforcement Settlement Committees (see next section). For more details on the EDP please see the EDP pages on the Ofgem website https://www.ofgem.gov.uk/about-us/how-we-work/our-approach-regulation/enforcement-decision-panel.

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 generally comprise two members of the EDP nominated by the chair of the EDP as well as a Senior Civil Servant nominated by the Chair of the Authority.

RIIO 2 Committee

The Committee meets at least three times a year to ensure that the Authority's decision-making process in respect of RIIO-2 runs efficiently and effectively by considering the policy detail and making recommendations on specific issues before they are put to the Authority meeting for decision. It also gives additional guidance to the team and will engage with stakeholders at appropriate times during the price control delivery process.

People and Remuneration Committee

This committee, chaired by Christine Farnish, looks at the pay and performance of senior staff, succession planning, organisational health, diversity and inclusion, and other people issues. For details of the committee's members, its role, and senior staff salary and pension entitlements, see the remuneration report later in this section.

Board Taskforce

Last year, the Board also established a Ta skforce, chaired by Ofgem's Chair and including a number of non-Executive Directors, to oversee effective utilisation of Ofgem's 2019-20 budget and preparations for the Spending Review.

How is the Authority's performance measured?

A review of board effectiveness was conducted by the Secretariat in October 2019. This was a light touch review. The review concluded that the Authority board was functioning in an efficient manner, 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 a clear commitment from the Chair who has had a positive impact on the board.

The Board was strengthened in 2019-20 with the appointment of two new non-executive directors, bringing accountancy, finance and data acumen to the Authority.

The next review of board effectiveness will be more in depth and review will be undertaken in the latter part of 2020.

Executive governance framework

Senior Leadership Team

The Senior Leadership Team support the Chief Executive in the day-to-day running of Ofgem. During 2019-20, the Senior Leadership Team (SLT) was made up of all the executive members shown in the Remuneration Report, as well as the General Counsel, the Chief Economist and the Interim Executive Director for Systems and Networks, following Jonathan Brearley's appointment as Chief Executive. They meet weekly and decide on everything relating to management and resources, subject to the Authority's overall control.

Governance Framework

Our executive governance framework focuses on leadership and strategy, high quality and fast decision making and ensuring we use our resources to benefit consumers efficiently and effectively. Following his appointment as Chief Executive, Jonathan Brearley has initiated a review of executive governance, in order to support robust and high-quality decision making and effective oversight of the organisation as a whole, including effective oversight of operational and strategic risks. This will take place in 2020-21. The following executive boards were in place in 2019-20 and generally met on a monthly basis.

Performance and Delivery Board

The Performance and Delivery Board (PDB) oversees the organisation's high level performance and holds teams to account for performance and delivery across the organisation, considering and taking those most significant operational decisions. The PDB ensures that we have in place, and operating effectively, appropriate and robust procedures and business processes that facilitate high quality delivery. PDB monitors and challenges progress in achieving our work programme and makes recommendations to the Authority on the achievement of outcomes of the work programme and any corrective actions required to achieve planned objectives and maintain organisational efficiency. In 2019-20, it generally met monthly and was chaired by the Chief Operating Officer.

Regulatory Board

The Regulatory Board ensures the appropriate scrutiny of regulatory decision-making in the organisation, provides early stage guidance on policy matters and provides an SLT view on matters going to the Authority. The Board does not make regulatory decisions- these will be for the Authority, or individuals with delegated authority. The Board is chaired on an alternating basis by the Executive Director, Consumers and Markets and the Executive Director, Systems and Networks. In 2019-20, it generally met monthly.

Governance and Delivery Committee (for E-Serve)

The purpose of this Committee is to ensure that E-Serve governance, scheme delivery and development are carried out effectively and efficiently and in line with E-Serve's objectives and strategy, as set out by the Authority and the E-Serve Board. The Committee has executive decision-making powers for matters falling within its scope but does not have the power to take decisions for any E-Serve scheme or programme which are Authority functions under the relevant legal framework. The Committee meets weekly and is chaired by the Director of E-Serve.

Risk and Control

Our Risk Management strategy sets out how risk management should be embedded across Ofgem; how we should identify, administer and manage risks. We recognise that exposure to risk can bring negative outcomes but also positive ones: our task is to manage not only the risks which lead to consumer detriment but also those opportunities which could expose consumers to the positive outcomes from better competition and regulation.

The Board has overall responsibility for the Risk Management Framework and setting our risk appetite. The Audit and Risk Assurance Committee (ARAC) considers the priority risks facing Ofgem and discusses internal audit reports on specific issues. During the year, it agreed the priority areas for review by the internal audit function and considered the progress of the audit plan overall and progress in implementing recommendations made by internal audit.

Our executive team sets risk tolerance for their areas of responsibility, reviews mitigation plans for major risk areas within their remit and monitors risk movements. The executive also has an overall responsibility for monitoring and directing operational risk management within the organisation.

Independent audits of our risk management processes are carried out by our Internal Audit function on a two to three year cycle.

Whilst our approach to risk management is operational across the department, there are some weaknesses and inconsistencies in how it works in practice and we recognise that the approach needs to be strengthened. Our internal assessments identify a number of specific areas that require improvement and we have set out and committed to a plan to improve our risk maturity by introducing more formal risk management framework and supporting this with strong communications and training to ensure that standardised best practices work effectively across all parts of the Department.

During the year, the most significant risks identified and mitigations taken were as follows.

Retail energy supplier failures

The increased number of suppliers in the energy market in recent years has brought benefits to consumers through increased price competition and pressure on incumbents to improve their customer service offering. However, we have also seen an increase in supplier failures. We have powers to appoint a supplier of last resort (SoLR) to ensure consumers are protected if their energy supplier fails. During the year, we acted quickly to appoint a SoLR to protect around 200,000 customers of seven suppliers that exited the market.

Our SoLR process ensures that all energy supplies and credit balances of domestic customers are protected, and that unpaid industry bills are minimised. Nonetheless, failure can be disruptive and confusing for consumers. They can also impose costs on competitors and risk undermining consumers' confidence in the market.

Through our ongoing Supplier Licensing Review, we aim to strengthen our licensing and regulatory regime to drive-up standards among poor performing suppliers and minimise competitors' and consumers' exposure to financial risks and poor customer service. As a result of our review, in July 2019, we implemented tougher requirements for obtaining a supply licence and in Autumn 2019 we consulted on new ongoing and exit requirements for suppliers, which we are aiming to finalise in the coming year.

Network Price Controls

Ofgem's Network Price Controls programme continued to track its two highest level risks during the year. We manage these risks through our "three lines of defence" approach. Assurance focuses on making sure all decisions are based on sound reasoning and evidence, legal risks are identified and proactively mitigated, and all analysis, numbers and models are thoroughly quality-assured.

The three lines of defence consist of:

- Internal assurance by those overseeing policy and analysis in the sectors
- Internal assurance from functional experts (ORE; legal; engineering; and Finance)
- External assurance from Government-accredited assurance reviewers (IPA Gateway Reviews).

Our first high-level risk is that our determinations do not meet required quality and are not legally defensible. This risk is mitigated as follows:

- A consistent approach is taken to the implementation of sector-specific methodologies in determinations, reflecting the overarching objectives and consolidated design principles underpinning RIIO-2 framework

- The evidence and analysis that supports policy and draft and final determinations is tested and assured through internal and external review
- Key programme board members have assurance roles in assuring technical, finance, engineering, legal and analytical aspects of the control.

Our second high-level risk is that we do not have the necessary capacity or capability to deliver the price control. We have built a strong internal team with the required expertise and have engaged three strategic consultancy partners providing specific expertise during peaks of activity in the price control lifecycle.

Social and environmental scheme delivery

Ofgem is responsible for social and environmental schemes with a value of more than £9 billion. As such, we have operated a separate risk and assurance committee, E-Serve Risk and Assurance Committee ("ERAC") since 2017. ERAC meets to seek formal updates on key projects, such as the work to address the findings of the National Audit Office's "value for money" review of our Renewable Heat Incentive schemes.

The Committee also routinely checks progress on agreed actions from audits and assurance reviews undertaken in different parts of Ofgem's E-Serve activities.

One of its key duties is to scrutinise the top risks and issues facing E-Serve and offer guidance to the owners of the risks on how to tackle them and determine where risks need to be escalated to Ofgem's Chief Executive. ERAC's Chair provides routine updates on the risks and issues faced by our schemes to Ofgem's Audit and Risk Assurance Committee and to the E-Serve Board.

In 2018, E-Serve overhauled its approach to risk management to bring it into line with the principles and guidelines outlined in British standard IS031000 and has invested in dedicated staff to support the business to identify and mitigate the risks involved with successful administration of our social and environmental schemes. This work involves the monthly scrutiny of tactical and strategic risks and their escalation within Ofgem, when required. It involves open and transparent discussions with our funding partners about the risks and issues we face. ERAC continues to consider risks, by type, to ensure that the quantification of them is accurate and consistent. As a result of this work a number of key risks that had stagnated have been reduced with additional resource or attention.

During the year, E-Serve created single registers of E-Serve risks and issues to improve visibility and these are presented to different audiences on an agreed cycle, to ensure effective oversight and management. New controls were also introduced to mitigate known and emerging risks as a result.

In late 2019, work was completed to reconsider E-Serve's risk appetite and to consider our known and emerging risks in the context of that revised appetite.

Supporting decarbonisation

During the year, we published a Decarbonisation Action Plan, to ensure that we could effectively respond to the Government's net zero carbon emissions targets by 2050. By putting in place this action plan, we are showing how we are responding to the challenges set out in Ofgem's Strategic Narrative document. In addition, we have revised our internal Impact Assessment guidance to improve transparency and consistency in how we assess the policy effects on net zero pathways and the costs of decarbonisation for consumers and thus reinforce the requirement to fully account for the carbon impacts in our decision-making.

Covid-19

The Covid-19 outbreak has brought significant uncertainties and a range of rapidly changing challenges that will require agility and significant effort to ensure that essential operations continue and that risks are understood and managed within a dynamic environment.

In addition to requiring flexibility and pace in identifying and responding to risks, signalling and demonstrating an appropriate risk culture remains essential. More than the processes established, maintaining expected values and behaviours at all levels supports the appropriate environment in which to continue to make pragmatic and sensible decisions.

Rapid decisions have been required to determine and assess the nature and extent of the risks that the organisation is exposed to, with a dynamic and continually evolving approach used to achieve optimised outcomes.

While the initial focus for Ofgem was inevitably and necessarily on near-term risks/issues and responses, attention will subsequently be focussed on the more medium-term and long-term, including those to effect recovery successfully.

Potential areas of work that Covid-19 is likely to particularly impact include:

- Supplier Financing & Stability
- Prepayment Customers
- Market Impact and contagion

We have been assessing the impacts of these risks and implementing appropriate mitigations.

To support decision-making during this period of uncertainty, we have used scenario planning to identify and consider the nature of the emerging risks over time and through differing assumptions in terms of the scale and scope of stabilisation and the return to normality.

Ofgem Internal Security, Privacy and Resilience

We continue to focus on maintaining appropriate and proportionate levels of security, privacy and resilience – in order to protect; citizens & business data, our people and operations from harm. During the year, we have increased our resource capacity to mitigate these harms. We developed a strategy around consolidation of security controls, which has improved security monitoring and produced annual savings of £191,000. Ofgem experienced a number of low risk events and responded with associated training and awareness to improve our processes and procedures. There has been one breach notification to the Information Commissioner's Officer ("ICO"), affecting a single individual, which led Ofgem to undertake a "lessons learnt" exercise, which allowed us to follow up with the ICO on improvement activities.

Over the coming year, we will also focus on improving our integration with the National Cyber Security Centre (the "NCSC") systems and tools and supporting the security improvement aspects of planned IT upgrades.

Energy Industry Cyber and System improvement

In May 2018, Ofgem and BEIS became the joint Competent Authority under the Networks and Information Systems ("NIS") Regulations 2018, which implements the 2016 EU Directive on the security of network and information systems. For our sector, the intent of the NIS Regulations is to increase the overall cyber-security and resilience of downstream gas and electricity Operators of Essential Services ("OES") – 55 at the time of writing.

Our role is to assess if the OESs are taking appropriate and proportionate cyber-security and system resilience countermeasures, and through monitoring, compliance and enforcement, minimise the impact of incidents on the essential service. In addition, Ofgem has security assurance monitoring of the Smart Energy Code, which underpins the Smart Metering programme.

Over the last year, Ofgem has built our cyber security and systems capabilities, to focus on industrial control systems within the energy sector. We engaged in over 100 workshops with the energy companies, including the analysis and review of OES self-assessment and improvement plans.

Over the coming year, we will continue to engage directly with all of the energy companies, individually and through community events and to focus on NIS improvement plans, review and monitoring price control programmes for Cyber Resilience and conduct inspections on energy companies. Cross Government activities will underpin Ofgem's programme, specifically working closely with BEIS, the Health and Safety Executive and the NCSC, both in terms of Competent Authority responsibilities, as well as the security aspects of smart metering and switching.

Corporate Services

A Corporate Services transformation programme continued in 2019-20 to develop the Human Resources, Finance, Procurement, Risk Management and Digital, Data & Technology functions to form closer partnerships with all Ofgem departments to support strategic decisions and to ensure a strong response to emerging priorities.

Significant changes that took place during the year include:

- Establishing strategic business partnering teams across Human Resources, Finance and Procurement teams to align with Ofgem departments to enable better management of people and budgets.
- Setting up centres of excellence in Finance and Human Resources to ensure efficient and effective control over transactional activity.
- Building new Procurement and Learning & Development teams to support Ofgem departments in areas where there had previously been gaps.
- Commencing recruitment into a new organisational structure in Digital, Data and Technology to enable the evolution from an IT support facility towards a business enabling function and driving more agile and adaptive ways of working across the organisation

Corporate Services suffered a high level of staff turnover during the reorganisation. This led to gaps in the team for much of the year and the loss of institutional knowledge in key areas. As a result, management information and some essential controls such as balance sheet reconciliations were not as effective as they should have been for part of the year. The integrity of financial records was scrutinised in detail in advance of the financial year end to mitigate the risk of error, and our controls are being strengthened further as the Corporate Services transformation continues.

The next steps in the programme are to strengthen finance, people management and digital capabilities across Ofgem and to develop better processes, guidance and systems to maximise the impact Corporate Services has in supporting the rest of the Department to enable deployment of a skilled and flexible workforce and to maximise value for money from available budgets.

EU-Exit impacts

Ofgem continued to manage risks relating to its interconnector, cross-border activities, in the context of the UK's departure from the EU (see page 16). While no "Day One" risks materialised following the UK's departure on 31 January this year, we remain mindful that future challenges may arise and continue to monitor the situation.

Whistleblowing

Ofgem internal whistleblowing policy is a process for staff to raise any whistleblowing concerns and supports a culture where employees feel confident to speak up about issues of concern. It aligns with the recommendations and good practice published by the Civil Service and Public Concern at Work.

An annual review of our policy was completed in September 2019 and additional actions were taken to make the policy more visible to staff and ensure lines of communication were clear and available to all staff. During 2019-20, two issues were submitted under this policy. Following an investigation, these were found not to fall under the category of whistleblowing.

Complaints to the Parliamentary Ombudsman

There was one case referred to the Parliamentary Ombudsman in relation to an RHI customer, which was closed in September 2019. Ofgem reviewed the case and agreed to take action without requiring a full investigation. Further information can be found in the Ombudsman's Casework Report 2019.

Internal Audit Assurance Opinion

Mazars LLP was appointed as Internal Auditor in September 2019 and completed an agreed schedule of reviews between December 2019 and April 2020, identified through risk based Internal Audit planning and interviews with Ofgem management and the Audit and Risk Assurance Committee. This resulted in some areas of high priority being targeted.

Based on its work, Mazars' assurance opinion over the framework of governance, risk management, and control is Limited in its overall adequacy and effectiveness.

It highlighted certain weaknesses and exceptions through its audit work, although none were considered fundamental.

Additional sources of assurance

In addition to the Annual Assurance Opinion from Internal Audit, we also perform an internal assessment of Ofgem's control environment. Each Director is responsible for signing off an annual Statement of Assurance, providing assurance that Ofgem's management systems are being applied consistently and effectively across their respective departments.

The Statement of Assurance process covers 18 key internal controls. This year, the priorities identified for improvement were as follows:

- Development of an enhanced risk management framework to generate a more consistent approach to identifying, recording, mitigating and escalating risks.
- The continuation of work on Corporate Services transformation to strengthen the support offered to the rest of Ofgem and to build stronger financial, people management and digital capabilities across the Department
- Addressing some basic deficiencies in finance and HR systems and processes.
- An improved and more consistent approach to ensuring effective control over data.

Conclusion

I am satisfied with Ofgem's governance arrangements in terms of safeguarding the use of its budgets. However, I believe that further improvement is needed. I intend to lead a refresh of our risk management and executive governance to ensure Ofgem is best placed to manage the fast paced emerging issues that will occur in the British energy market. We will continue to strengthen governance arrangements over the coming year to ensure achievement of value for money from the resources available to us and to achieve our key objective to protect the interests of consumers.

Jonathan Brearley
Chief Executive

15 July 2020

Remuneration and Staff Report

Remuneration and staff report

People and Remuneration Committee

This committee comprises executive and non-executive members of the Authority who are appointed by ordinary resolution of the Authority. The committee is chaired by Christine Farnish. The other members during 2019-20 were Paul Grout, Ann Robinson, Martin Cave (Ofgem Chair), Dermot Nolan (CEO until January 2020), Jonathan Brearley (CEO from February 2020) and Sarah Cox (COO until 31 March 2020). The committee's role is to review and approve the annual pay award and level of any bonus for Senior Leadership Team employees. It also considers other matters involving the pay and performance of senior Ofgem staff. Performance pay and bonus awards are made within parameters set by the Cabinet Office, and the Senior Salaries Review Body for Senior Civil Service pay. The committee also reviews succession planning and talent management of senior staff.

Remuneration policy

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

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

Service contracts

The Constitutional Reform and Governance Act 2010 requires civil service appointments to be made on merit and on the basis of fair and open competition. 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 by Ofgem, 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 **https://civilservicecommission.independent.gov.uk**

Remuneration (including salary) and pension entitlements

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

The salary, bonus payments and the value of any taxable benefits in kind of the most senior employees of Ofgem in 2019-20 are shown in the table overleaf:

Single total figure of remuneration

	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000)‡		Total (£000)	
	2019-20	2018-219	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
Senior executive members of Ofgem										
Dermot Nolan Chief Executive (left 29/02/20)	180-185	190-195	5-10	-	-	–	32,000	36,000	220-225	230-235
***Jonathan Brearley** Executive Director (ended 31 January 2020)/ Chief Executive Officer (from 1 February 2020)	155-160*	145-150	5-10	15-20	-	-	92,000	57,000	255-260	215-220
Sarah Cox Chief Operating Office	145-150	135-140	5-10	15-20	-	-	73,000	52,000	225-230	185-190
****Mary Starks** Executive Director (started 10/09/18)	165-170	90-95**	0-5	-	-	-	64,000	36,000	235-240	125-130
Non-executive members of the Authority										
****Martin Cave** Chair Started (01/10/18)	160-165	80-85**	0-5	-	-	-	-	-	160-165	80-85

* Annual equivalent basic salary in 2019-20 for Executive Director role (excluding performance pay) is £150,000 -155,000 and for Chief Executive role (excluding performance pay) is £180,000 - £185,000.

** Annual equivalent basic salary in 2018-19 (excluding performance pay) for Mary Starks was £165,000 – £170,000 and for Martin Cave was £160,000 - £165,000.

‡ 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	2019-20		2018-19	
	Honorarium	Allowance	Honorarium	Allowance
Christine Farnish	£20,000	£3,000	£20,000	£3,000
Paul Grout	£20,000	£3,000	£20,000	£3,000
Lynne Embleton	£20,000	-	£15,000	-
Keith Lough (left July 2019)*	£6,667	£1,000	£20,000	£3,000
Ann Robinson	£20,000	-	£15,000	-
John Crackett	£20,000	£3,000	£6,667	-
Myriam Madden (from Jan 2020)*	£5,000	-	-	-
Barry Panayi (from Mar 2020)*	£860	-	-	-

* Annual equivalent £20,000

Non-executive members have fixed-term appointments, normally for up to five years. These appointments are renewable. Information on appointment dates is on page 36. Remuneration and appointments are set by the Secretary of State for Business, Energy and Industrial Strategy after consulting the Chair. Their remuneration is by payment of an honorarium plus an additional allowance for chairing any Authority committees. They are not entitled to performance-related pay or a pension. Compensation for early termination is at the discretion of the Secretary of State. The non-executive Chair of the Authority, Martin Cave, has an appointment that started on 1 October 2018 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 employees 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

In 2019-20 there were 697 staff (2018-19 there were 621) who received a bonus. The average bonus payment was £1,277.84 (in 18/19 it was £1,527.74) and the total amount paid in bonuses equalled £890,651.12 (2018-19 £948,727.30). 3 individuals received the largest bonus of £12,500 (2018-19: one received the largest bonus payment which was £17,500)

Bonuses are based on performance levels and assessed as part of the appraisal process. The bonuses reported in 2019-20 relate to performance in 2018-19. The bonuses reported for 2018-19 relate to performance in 2017-18.

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 2019-20 was £185,000-190,000 (2018-19: £195,000-£200,000). This was 4.7 times (2018-19: 4.69) the median remuneration of the workforce, which was £40,009 (2018-19: £41,818).

In 2019-20 none (2018-19: none) of Ofgem's employees received remuneration in excess of the highest-paid director. Remuneration ranged from £18,182 to £190,000 (2018-19: £10,000 to £195,500).

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 increased in 2019-20, as shown in the staff report on page 54.

Pension Benefits

Pension benefits	Accrued Pension at pension age as at 31 March 2020 £000	Real Increase in pension and related lump sum at pension age £000	Cash equivalent transfer value at 31 March 2020 £000	Cash equivalent transfer value at 31 March 2019 £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 (left 29/02/20)	-	-	-	-	-	32,000
Jonathan Brearley Executive Director (ended 31 January 2020) Chief Executive (from 1 February 2020)	35-40 plus a lump sum of 65-70	5-7.5 plus a lump sum of 2.5-5	540	456*	52	-
Sarah Cox Chief Operating Officer	35-40	2.5-5	645	564	46	-
Mary Starks Executive Director	0-5	0-2.5	67	23	29	-

* Re-calculation of 2018-19 cash equivalent transfer value to include linked final salary benefits for Jonathan Brearley. Amount disclosed in 2018-19 accounts was £104,000.

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

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

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

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits 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 (audited)

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

			2019-20	2018-19
	Permanently employed staff	Others	Total	Total
Regulatory	355	37	**392**	**369**
E-Serve	255	33	**288**	**261**
Delivery	209	41	**250**	**221**
Total	**819**	**111**	**930**	**851**

There was an average of 45 whole-time equivalent people in the SCS grade during the year. Of these 27 were in payband 1, 15 in payband 2, and 3 in payband 3. No staff were redeployed in 2019-20 in relation to Covid-19.

Staff Costs (audited)

Staff costs comprise			2019-20 £000	2018-19 £000
	Permanently employed staff	Others	Total	Total
Wages and salaries	41,434	6,799	48,233	48,646
Social security costs	4,591	310	4,901	4,523
Other pension costs	10,315	708	11,023	7,936
Other staff costs	610	-	610	20
Apprenticeship Levy (tax expense)	199	-	199	186
Total	**57,149**	**7,817**	**64,966**	**61,311**

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme in which Ofgem is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2020. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation **(https://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/).**

For 2019-20, employers' contributions of £10,806,569 were payable to the PCSPS (2018-19: £7,665,084) at one of four rates in the range 26.6% to 30.3% per cent (2018-19: 20.0% to 24.5%) of pensionable pay, based on salary bands.

The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2019 and will remain unchanged until 2020. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £214,435 (2018-19: £270,916) were paid to three appointed stakeholder pension providers.

Employer contributions are age-related and range from 8% to 14.75% (2018-19: 8% to 14.75%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £8,217, 0.8 per cent; (2018-19: £10,454, 0.8 per cent) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

Zero people (2018-19: zero people) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to nil (2018-19: nil).

Consultancy expenditure

Our expenditure on other consultancy services in 2019-20 was £ 15.83 million, per note 3 of the accounts (2018-19: £18.04 million; 2017-18: £12.37 million). We attempt to minimise our reliance on external support by running targeted recruitment campaigns for the skills required to deliver our strategy. We continue to use professional service support to obtain access to specialists who provide professional or legal advice in relation to the delivery of our portfolio of work, as well as those that provide specialist delivery support where it is not economical to maintain this expertise in-house.

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

Exit package cost band	2019-2020			2018-2019		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,001	0	1	1	0	3	3
£10,001 - £25,000	1	10	11	0	3	3
£25,001 - £50,000	0	11	11	0	5	5
£50,001 - £100,000	0	5	5	0	5	5
£100,001 - £150,000	0	0	0	0	2	2
£150,001 - £200,000	0	0	0	0	0	0
Total number of exit packages	1	27	28	0	18	18
Total cost £000	**16**	**868**	**884**	**0**	**921**	**921**

Redundancy and other departure costs have been paid in accordance with the provision of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972.

Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Employee involvement

This year our staff engagement survey received a response rate of 85%, and an engagement index of 64%, an increase of three percentage points on the previous year. Our staff continue to find their roles interesting (89%), believing their work gives them a sense of personal accomplishment (76%), and would recommend Ofgem as a great place to work (67% - up six percentage points from the previous year).

Equal opportunities policy

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

This ensures fair and open competition, regardless of:

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

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

Diversity and Inclusion

In our dual role as an employer and a regulator, we are committed to meeting our legal obligations and promoting equality and diversity among our workforce, in the way we work and in the industry we regulate. During 2019/20 we appointed a Head of Diversity and Inclusion who is helping us challenge our organisational aspirations and driving forward the implementation of our Diversity and Inclusion strategy.

We promote equality and diversity at work – in recruitment, employment, training and career development. Nobody should suffer discrimination because of age, disability, gender reassignment, pregnancy or maternity, race, religion or belief, sex or sexual orientation. We don't tolerate discrimination, bullying or harassment. Our score for inclusion and fair treatment in the 2019 staff engagement survey was 83%.

In 2019, Ofgem has continued to support our diversity networks covering women, LGBT+, ethnicity and disability.

In 2019-20 we continued to provide diversity and unconscious bias training to staff. This is part of our commitment to ensuring that in everything they do our staff understand and fulfil their obligations under the Equality Act. As at the 31 March 2020:

- 3.1% (2018-19:3.3%) of staff were known to have a disability.
- 47% (2018-19:46%) of staff were women.
- 43% (2018-19:42%) of staff in managerial grades (Band D to SCS3) were women.
- 46% (2018-19:44%) of Senior Civil Service members in Ofgem were women.
- 19% (2018-19:19%) of staff were known to be of ethnic minority origin.
- 35% (2018-19:30%) of staff known to be of ethnic minority origin were in managerial grades (Band D to SCS3).

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. Our budget allocation process provides an amount per employee for learning and development activity. These activities range from e-learning through to support towards professional and academic qualifications.

Community engagement

We actively support employees who commit their own time or money to help charities, or other community or voluntary activities. For example, we might grant special leave to someone acting as a school governor, magistrate, employment-tribunal panel member, or someone with regular volunteering activity. We continue to work with Career Ready and have staff giving 16-19 year-olds one-to-one support and guidance through a mentoring scheme. In 2018 we also trialled working with the Princes Trust in our Glasgow office. The success of this trial has seen E-Serve commit to a continued relationship by providing mentoring and work experience to those seeking opportunities through the work of the Princes Trust.

In London, we have continued to develop our community engagement work with the Bromley-by-Bow Centre (BBC). The BBC is a local charity providing community support, learning and wellbeing to residents within Tower Hamlets. In Glasgow, we have engaged with the Simon Community. The Simon Community focusses on combatting the causes and effects of homelessness.

Promoting health and safety at work

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

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

Within our offices in Commonwealth House and Canary Wharf, we have been able to provide working environments to support the wellbeing of staff. This includes the provision of different working environments, sit/stand desks and other specialist equipment.

Days lost because of absence

In 2019-20, we lost an average of 4.6 days a year per employee (2018-19: 5.1 days). This compares favourably with the public sector average of 8.4 days a year per employee.

Review of tax arrangements of public sector appointees

In May 2012 the Government published a review of the tax arrangements of public sector appointees. The review identified the number of off-payroll engagements worth more than £58,200 a year across government.

Information on current off-payroll appointees is at Appendix III. Information on trade union facility time can be found in Appendix IV.

Jonathan Brearley
Chief Executive

15 July 2020

Parliamentary Accountability and Audit Report

Statement of Parliamentary Supply

Summary of resource and capital outturn 2019-20

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

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

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

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SoPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

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

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

	2019-20 £000							2018-19 £000
	Outturn			Estimate				Outturn
	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with estimate: saving	Total
Departmental expenditure limit								
Resource	648	-	648	701	-	701	53	434
Capital	318	-	318	1,000	-	1,000	682	688
Annually managed expenditure								
Resource		-			-			-
Capital		-			-			-
Total budget	966	-	966	1,701	-	1,701	735	1,122
Non-budget								
Resource		-			-		-	-
Total	**966**	**-**	**966**	**1,701**	**-**	**1,701**	**735**	**1,122**
Total resource	648	-	648	701	-	701	53	434
Total capital	318	-	318	1,000	-	1,000	682	688
Total	**966**	**-**	**966**	**1,701**	**-**	**1,701**	**735**	**1,122**

	2019-20 £000			2018-19 £000
	Outturn	Estimate	Outturn compared with estimate: saving	Outturn
Net cash requirement	(8,746)	3,523	12,269	(6,902)

	2019-20 £000			2018-19 £000
Administration costs	Outturn	Estimate	Saving	Outturn
	648	701	53	434

Explanations of variances between estimate and outturn are given in the Financial Review on page 35.

SoPS1 Net outturn

SoPS1.1 Analysis of net resource outturn by section

	2019-20 £000						2018-19 £000
	Outturn – Administration			Estimate			
	Gross	Income	Net total	Net total	Net total compared to estimate	Net total compared to Estimate adjusted for virement	Total
Spending in Departmental Expenditure Limits							
A Gas and Electricity Markets Authority: administration	75,350	(75,350)	-	701	701	-	-
B Ofgem E-Serve: administration	24,443	(23,795)	648	-	(648)	-	434
Total	**99,793**	**(99,145)**	**648**	**701**	**53**	-	**434**

SoPS1.2 Analysis of net capital outturn by section

	2019-20 £000					2018-19 £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	318	-	318	1,000	682	688
B Ofgem E-Serve: administration	-	-	-	-	-	0
Total	**318**	**-**	**318**	**1,000**	**682**	**688**

Explanations of variances between estimate and outturn are given in the Financial review on page 35.

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

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

SoPS2 is not required as the total resource outturn in the SoPS is the same as the net operating expenditure within the SoCNE.

SoPS3 Reconciliation of net resource outturn to net cash requirement

		Outturn	Estimate	Net total outturn compared with estimate: saving/(excess)
	Note	£000	£000	£000
Resource outturn	SoPS1.1	**648**	**701**	**53**
Capital outturn	SoPS1.2	**318**	**1,000**	**682**
Accruals to cash adjustments:				
▪ Depreciation and impairment	3	(1,488)	(1,500)	(12)
▪ New provisions and adjustments to provisions	3	(2,615)	-	2,615
▪ Other non-cash items	3	9	(85)	(93)
Movement in working capital:				
- Debtors		513	2,206	1,693
- Creditors		(6,675)	1,051	7,726
▪ Use of provision	11	544	150	(394)
Net cash requirement		**(8,746)**	**3,523**	**12,269**

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

SoPS4 Analysis of income payable to the consolidated fund

We collected no consolidated fund income in 2019-20. 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 (audited)

Regularity of expenditure

Expenditure of Ofgem was applied for the purposes intended by parliament.
Ofgem has nothing to report in respect of the following:

- Losses and special payments;
- Fees and charges disclosures;
- Remote contingency liabilities; and
- Long term expenditure trends.

Jonathan Brearley
Chief Executive

15 July 2020

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

Opinion on financial statements

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets for the year ended 31 March 2020 under the Government Resources and Accounts Act 2000.The financial statements comprise: the Department's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. 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 disclosures that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2020 and of the Department's comprehensive net expenditure 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 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 2020 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Office of Gas and Electricity Markets in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Office of Gas and Electricity Markets use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Office of Gas and Electricity Markets have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Office of Gas and Electricity Markets' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

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

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

As part of an audit in accordance with ISAs (UK), I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office of Gas and Electricity Markets' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude on the appropriateness of the Office of Gas and Electricity Market's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office of Gas and Electricity Market's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause Office of Gas and Electricity Market's to cease to continue as a going concern.

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

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.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, but does not include parts of the Remuneration of Staff Report and Parliamentary Accountability disclosures described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Remuneration of Staff Report and Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Office of Gas and Electricity Markets and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 of Staff Report and Parliamentary Accountability disclosures 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.

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

17 July 2020

Resource Accounts

Statement of comprehensive net expenditure for the year ended 31 March 2020

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

	Note	2019-20 £000	2018-19 £000
Operating income	4	(99,145)	(96,728)
Total Operating Income		**(99,145)**	**(96,728)**
Staff cost	3	64,966	61,311
Other operating expenditure	3	34,827	35,851
Total operating expenditure		**99,793**	**97,162**
Net operating expenditure for the period	2	**648**	**434**
Other comprehensive net expenditure			
Actuarial gain/(loss) on pension liabilities	11	-	(15)
Comprehensive net expenditure for the year		**648**	**419**

The notes on pages 73 to 87 form part of these accounts.

Statement of financial position as at 31 March 2020

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

		2019-20		2018-19	
	Note		**£000**		**£000**
Non-current assets:					
Property, plant and equipment	5	1,502		2,677	
Total non-current assets			**1,502**		**2,677**
Current assets:					
Trade and other receivables	9	7,702		7,189	
Cash and cash equivalents	8	12,269		9,036	
Total current assets			**19,971**		**16,225**
Total assets			**21,473**		**18,902**
Current liabilities:					
Trade and other payables	10	(28,290)		(18,382)	
Provisions	11	(1,131)		(570)	
Total current liabilities			**(29,421)**		**(18,952)**
Total assets less current liabilities			**(7,948)**		**(50)**
Non-current liabilities:					
Provisions	11	(2,853)		(1,336)	
Total non-current liabilities			**(2,853)**		**(1,336)**
Total assets less total liabilities			**(10,801)**		**(1,386)**
Taxpayers' equity:					
General fund		(10,801)		(1,386)	
Total taxpayers' equity			**(10,801)**		**(1,386)**

Jonathan Brearley
Chief Executive

15 July 2020

The notes on pages 73 to 87 form part of these accounts.

Statement of cash flows for the year ended 31 March 2020

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

	Note	2019-20 £000	2018-19 £000
Cash flows from operating activities			
Net operating expenditure	SoCNE	(648)	(434)
Adjustments for non-cash transactions	3	4,095	1,903
(Increase)/Decrease in trade and other receivables	9	(513)	11,179
Increase/(Decrease) in trade payables	10	9,908	(2,158)
less movements in payables relating to items not passing through the SoCNE	10	(3,233)	(2,475)
Use of provisions	11	(544)	(425)
Net cash flow from operating activities		**9,064**	**7,590**
Cash flows from investing activities		-	-
Purchase of property, plant and equipment	5	(318)	(688)
Net cash outflow from investing activities		**(318)**	**(688)**
Cash flows from financing activities			
From the Consolidated Fund (supply) – current year	SOCiTE	1,389	-
From the Consolidated Fund (Supply) – prior year			
Advances from the Contingencies Fund		20,000	15,000
Payments to the Contingencies Fund		(20,000)	(15,000)
Net financing		**1,389**	**-**
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**10,135**	**(6,902)**
Payments of amounts to the Consolidated Fund		(6,902)	(4,427)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**3,233**	**2,475**
Cash and cash equivalents at the beginning of the period	8	9,036	6,561
Cash and cash equivalents at the end of the period	8	**12,269**	**9,036**

The notes on pages 73 to 87 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2020

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

		General fund
	Note	**£000**
Balance at 31 March 2018		**5,880**
Auditors remuneration	3	85
Comprehensive net expenditure for the year	SoCNE	(434)
Losses relating to pension liabilities	11	(15)
Net Parliamentary Funding - deemed		2,134
Net Parliamentary Funding - drawn down		-
Supply payable adjustment		(9,036)
Balance at 31 March 2019		**(1,386)**
Non-cash charges - auditor's remuneration	3	100
Net operating cost for the year	SoCNE	(648)
Gains relating to pension liabilities	11	-
Net Parliamentary Funding - deemed		2,134
Net Parliamentary Funding - drawn down		1,389
Supply payable adjustment		(12,269)
Cash receipts from 2018-19 not due to the consolidated fund		(121)
Balance at 31 March 2020		**(10,801)**

The notes on pages 73 to 87 form part of these accounts.

Notes to the departmental resource accounts

1. Statement of accounting policies

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

As well as the primary statements prepared under IFRS, the FReM requires the department to prepare one additional primary statement. The Statement of Parliamentary Supply (SoPS) and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement, and are included in the Parliamentary Accountability and Audit Report section starting on page 60.

1.1 Accounting convention

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

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 2020-21has 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.

1.2 Operating income

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

- **Licence fees** - In each financial year, Ofgem is required to balance its expenditure with its income. Ofgem is required to raise income from the sector it regulates such that it covers the costs to be incurred by Ofgem in regulating that sector. Therefore, Legislation provides the enforceability on both parties to enable Ofgem to recover its costs from third parties. The performance obligations relate to the underlying work to be undertaken by Ofgem as regulator of the Gas & Electricity Market, and as set out in the published Forward Work Programme. The charges are calculated through the recovery of costs as set out in the Ofgem budget and adjusted for any under or over recoveries in the previous year. Revenue is recognised in the year the performance obligation (cost) is incurred. Any under or over recovery of revenue is accrued or deferred and future charges are adjusted accordingly.

- **Scheme funded recharges** - Under service level agreements/ contracts with the Department of Business, Energy and Industrial Strategy and other government bodies, Ofgem administers energy and environmental schemes on their behalf. These services are provided on a full-cost basis. Income is recognised on an accruals basis as the performance obligations outlined within the service level agreements/ contracts are satisfied over time.

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

1.3 Pensions

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

A former chief executive and director general have separate pension arrangements that are broadly analogous with the PCSPS. The arrangements provide for an unfunded defined-benefit scheme. However, unlike the PCSPS, a pension liability is included in the accounts as required under IAS37 (note 11).

1.4 Early departure costs

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

1.5 Property, plant, equipment and depreciation

Property, plant and equipment are held at depreciated historical cost as a proxy for current value, as this realistically reflects consumption of the asset. Revaluations would not cause a material difference.

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

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

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

1.6 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. This will change in 2020-21, please see note 1.14.

1.7 Cash and Cash equivalents

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

1.8 Provisions

Where Ofgem has a legal or constructive obligation to meet certain costs, Ofgem will make a provision based on a management estimate of the value, probability and timing of future payments.

Where the time-value of money is material, the provision is discounted to its present value using a discount rate of 0.29%, 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.

1.9 Value added tax

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.

1.10 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.

1.11 Financial risks

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

1.12 Contingent liabilities

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

1.13 Assets belonging to third parties

Assets belonging to third parties as disclosed in Note 14 (such as money held in relation to the Renewables Obligation and Feed-In Tariff schemes) are not recognised in the Statement of Financial Position since Ofgem have no beneficial interest in them.

1.14 Adoption of new and revised accounting standards

- **IFRS 16**

IFRS 16 Leases is applicable from 1st April 2021 for FReM bodies and replaces IAS 17 Leases. IFRS 16 Leases provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset meets the IFRS 16 criteria to be classified as of “low value”.

IFRS 16 requires that assets and liabilities will be recognised initially at the discounted value of the minimum lease payments, and that the assets, to be described as “right of use” assets, will be presented under Property, Plant and Equipment. Therefore, implementation of IFRS 16 will increase the value of property, plant and equipment assets and the value of lease liabilities.

After initial recognition, right-of-use assets will be amortised on a straight-line basis and interest will be recognised on the liabilities. As a result, the timing of the recognition of the total costs of leasing will change, as interest costs will be higher at the start of a lease. The expected impact is expected to be material, but has not yet been quantified due to anticipated changes in leases taking place before the implementation date.

- **IFRS 17**

IFRS 17 Insurance contracts is not likely to be adopted by the public sector until 2020-21 or later. The impact is not expected to be material for the department.

1.15 Accounting Policy on Critical Accounting Judgements and Estimation Uncertainty

- **Provisions**

Provisions rely on the application of professional judgement, historical experience and other factors expected to influence future events. Where the likelihood of a liability crystallising is deemed probable and can be measured with reasonable certainty, a provision is recognised. Further information is disclosed in note 11.

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

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

2. Statement of operating costs by operating segment

2019-20				
	Regulatory Activities £000	Ofgem E-Serve £000	Corporate Services £000	Total £000
Gross expenditure	36,117	24,443	39,233	99,793
Income	(36,117)	(23,795)	(39,233)	(99,145)
Net expenditure	**-**	**648**	**-**	**648**

2018-19				
	Regulatory Activities £000	Ofgem E-Serve £000	Corporate Services £000	Total £000
Gross expenditure	33,812	25,227	38,123	97,162
Income	(33,812)	(24,793)	(38,123)	(96,728)
Net expenditure	**-**	**434**	**-**	**434**

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

3. Expenditure

	Note	2019-20 £000	2018-19 £000
Staff costs:*		**64,966**	**61,311**
Wages and Salaries		48,233	48,646
Social Security Costs		4,901	4,523
Other Pension Costs		11,023	7,936
Other Staff Costs		610	20
Apprenticeship levy		199	186
Rental under operating leases:		**3,479**	**3,309**
Operating leases	6	3,479	3,309
Non-cash items (see below):		**1,588**	**1,458**
Auditors' remuneration and expenses**		100	85
Depreciation	5	973	1,373
Loss on impairment of fixed assets	5	515	-
Other expenditure:		**27,145**	**30,639**
Contractors		15,829	18,039
Accommodation costs		1,945	2,806
Recruitment and training		1,350	1,390
Travel and subsistence		984	1,232
Office supplies and equipment		4,649	5,872
Professional Services		1,352	319
Staff related costs		366	322
Other expenditure		670	659
Provisions (non-cash):		**2,615**	**445**
Provided in year	11	2,615	425
Interest cost	11	-	20
Total		**99,793**	**97,162**

* Further analysis of staff costs is located in the Staff Report on page 54

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

4. Operating income analysis

			2019-20 £000			2018-19 £000
	Income	Full costs	Deficit	Income	Full costs	Deficit
Licence fees	72,194	72,194	-	69,143	69,143	-
Other	26,951	27,599	(648)	27,585	28,019	(434)
Total	**99,145**	**99,793**	**(648)**	**96,728**	**97,162**	**(434)**

		2019-20	2018-19
Other income includes:	**Note**	**£000**	**£000**
Offshore Transmission Tender Recharge		2,629	2,385
Department for Business, Energy and Industrial Strategy (relating to environmental programmes and staff transfers)	13	16,806	19,138
Scheme-funded recharges		6,105	5,655
Department for Environment, Food and Rural Affairs (relating to shared accommodation costs and staff transfers)		-	(6)
Other departments		180	137
Miscellaneous*		1,231	276
		26,951	**27,585**

* Miscellaneous income includes licence application fees, and other minor items. In 2019-20, £0.8 million was received from Innovate UK to cover the costs of a project which began in 2018-19.

5. Property, plant and equipment

	Furniture	Office equipment	IT	Leasehold	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2019	332	1,999	7,162	7,533	17,026
Additions	47	121	109	41	318
Disposals	(150)	(1,999)	(5,889)	(1,536)	(9,574)
Impairments	-	-	-	-	-
At 31 March 2020	**229**	**121**	**1,382**	**6,038**	**7,770**
Depreciation					
At 1 April 2019	211	1,997	6,022	6,119	14,349
Charged in year	52	73	632	216	973
Disposals	(150)	(2,062)	(5,827)	(1,530)	(9,569)
Impairments	-	-	-	515	515
At 31 March 2020	**113**	**8**	**827**	**5,320**	**6,268**
Carrying amount at 31 March 2020	**116**	**113**	**555**	**718**	**1,502**
Carrying amount at 31 March 2019	121	2	1,140	1,414	2,677

	Furniture	Office equipment	IT	Leasehold	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2018	306	1,999	6,535	7,498	16,338
Additions	26	-	627	35	688
Impairments	-	-	-	-	-
At 31 March 2019	**332**	**1,999**	**7,162**	**7,533**	**17,026**
Depreciation					
At 1 April 2018	180	1,976	5,249	5,571	12,976
Charged in year	31	21	773	548	1,373
Impairments	-	-	-	-	-
At 31 March 2019	**211**	**1,997**	**6,022**	**6,119**	**14,349**
Carrying amount at 31 March 2019	**121**	**2**	**1,140**	**1,414**	**2,677**
Carrying amount at 31 March 2018	126	23	1,286	1,927	3,362

The useful life of leasehold assets for Glasgow was reassessed during the year, resulting in an impairment charge of £514,856.

During the year, fixed assets originally with a cost of £9,569,365 were disposed of. The assets were obsolete, fully written down and had an overall carrying value of nil.

6. Operating leases

£3.5m (2018-19: £3.3m) was included as an expense on operating leases in the Statement of Comprehensive Net Expenditure.

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

	2019-20	2018-19
	£000	£000
Obligation under operating leases comprise:		
Buildings:		
Not later than one year	2,194	2,134
Later than one year and not later than five years	8,095	8,502
Later than five years	16,292	23,626
	26,581	**34,262**

London office space is contracted up to June 2032.

Glasgow office space is leased until 2026-27 with annual breaks from 2021-22.

Cardiff office is expected to move to a government hub during 2020-21.

7. Financial instruments

As the cash requirements of the department are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with Ofgem's expected purchase and usage requirements and Ofgem is therefore usually exposed to little credit, liquidity or market risk.

8. Cash and cash equivalents

	2019-20	2018-19
	£000	£000
Balance at 1 April	9,036	6,561
Net change in cash and cash equivalents	3,233	2,475
Balance at 31 March	**12,269**	**9,036**
The following balances at 31 March were held at:		
Government Banking Service	1,996	9,036
Commercial banks and cash in hand	10,273	-
Balance at 31 March	**12,269**	**9,036**

In addition to the cash and cash equivalents disclosed above, Ofgem holds third party assets of cash and letters of credit relating to offshore tender developer securities, the Renewables Obligation, the Feed-in Tariffs funds and Renewable Heat Incentive schemes. These are described in note 14.

9. Trade receivables and other current assets

	2019-20	2018-19
Amounts falling due within one year:	£000	£000
Accrued fees (Income)	5,787	5,277
Trade debtors (receivables)	564	565
Prepayments	639	806
HM Customs and Excise (VAT)	660	411
Other receivables	52	130
Balance at 31 March	**7,702**	**7,189**

Other receivables represent staff loans outstanding, such as season ticket loans and through the cycle to work scheme.

10. Trade payables and other current liabilities

	2019-20	2018-19
Amounts falling due within one year:	**£000**	**£000**
Amounts issued from the Consolidated Fund for supply but not spent at year end	3,523	2,134
Excess cash payable to the consolidated fund	8,746	6,902
Deferred licence fees	3,955	2,995
Accruals	6,845	3,319
Other payables	1,799	1,599
Taxation and Social Security Creditor	2,497	1,314
Trade payables	925	119
Balance at 31 March	**28,290**	**18,382**

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

11. Provisions for liabilities and charges

	Early retirement	Pension liabilities	Voluntary exit	Dilapidations	Other	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2019	147	838	522	368	32	1,907
Provided in the year	-	-	6	1,531	1,116	2,653
Provisions not required written back	-	-	-	-	(32)	(32)
Provisions utilised in the year	(16)	-	(528)	-	-	(544)
Balance at 31 March 2020	**131**	**838**	**-**	**1,899**	**1,116**	**3,984**

	Early retirement	Pension liabilities	Voluntary exit	Dilapidations	Other	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2018	164	803	504	368	32	1,871
Provided in the year	-	-	522	-	-	522
Provisions not required written back	-	-	(97)	-	-	(97)
Provisions utilised in the year	(17)	-	(407)	-	-	(424)
Interest cost	-	20	-	-	-	20
Actuarial (gain)/loss	-	15	-	-	-	15
Balance at 31 March 2019	**147**	**838**	**522**	**368**	**32**	**1,907**
Analysis of expected timings of discounted flows						
Not later than one year	16	-	-	-	1,116	1,132
Later than one year and not later than five years	62	-	-	368	-	430
Later than five years	53	838	-	1,531	-	2,422
Balance at 31 March	**131**	**838**	**-**	**1,899**	**1,116**	**3,984**

Early retirement

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

Pension liabilities

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.

An actuarial valuation was carried out by the Government Actuary's Department at 31 March 2019. The department judged that the movement in the provision in 2019-20 would be immaterial and so no valuation was carried out as at 31 March 2020. The major assumptions used by the actuary at 31 March 2019 were:

	At 31 March 2019
	% (per annum)
Inflation assumption - CPI	2.60
Rate of increase for pensions in payment and deferred income	2.60

	2018-19
Analysis of actuarial loss	**£000**
Experience (gain)/loss arising on the scheme liabilities	8
Changes in assumptions underlying the present value of scheme liabilities	7
Per statement of changes in taxpayers' equity	15

From 31 March 2018, the discount rate for pension scheme liabilities is 0.29%. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2019.

Voluntary exit

A number of voluntary exit payments were agreed with the Cabinet Office and individuals. These were the result of an internal reorganisation within the Corporate Services division.

Dilapidations

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

Other provisions

The tax calculation for a small number of individuals for several years was calculated incorrectly.

The 2019-20 provision is an estimate of the taxes and interest likely to be due to HMRC and a restructuring provision for a restructure which has been announced but not yet implemented.

The 2018-19 provision related to a lease which Ofgem exited in 2019-20 and was released.

12. 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 2020 there were no contingent liabilities that required disclosure.

13. Related party transactions

During the year, we transferred £10.448 million to the Department for Business, Energy and Industrial Strategy (BEIS). £9.338 million of this was for the energy-sector-related costs of Consumer Focus (operating as Consumer Futures) and Citizens Advice. The remaining £1.110 million was transferred for metrology services.

We administer environmental programmes on behalf of the BEIS, and second staff to BEIS. Total income from BEIS recognised in year amounted to £16.806 million.

We administer the Northern Ireland Renewable Heat Incentive on behalf of the Department for the Economy (DfE), and administer the Northern Ireland Renewables Obligation on behalf of the Northern Ireland Authority for Utility Regulation (NIAUR). Costs of £1.134 million and income of £0.856 million was recognised from the NIAUR, and £0.721 million of income from DfE.

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

None of the Authority members, key managerial staff or other related parties has undertaken any material transactions with Ofgem during the year except for remuneration which is included on page 50.

14. Third-party assets

Offshore Tender Developer Securities

Government have established the competitive offshore transmission regulatory regime to appoint an Offshore Transmission owner through competitive tendering.

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

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

Part of Ofgem's risk management strategy for the competitive tender process is to hold securities for the purposes of recovering costs in the event of an incomplete tender process. These securities are in the form of a letter of credit or cash. At 31 March 2020 Ofgem held £9.05m in letters of credit (2018-19: £11.750m) and nil in cash (2018-19: £0.702m).

Renewables Obligation

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

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

Total cash held in these bank accounts as at 31 March 2020 was £54.18m (31 March 2019: £0.1m)

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

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

The amount held in the levelisation funds as at 31 March 2020 was £2.33m (31 March 2019: £3.27m).

Domestic and non-domestic renewable heat incentive (RHI)

The Domestic RHI is a government financial incentive to encourage a switch to renewable heating systems. It's a way to help the UK reduce carbon emissions and is for households both off and on the gas grid.

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

Ofgem administers both schemes on behalf of BEIS in Great Britain, and administers Non-Domestic RHI in Northern Ireland on behalf of DfE. Bank balances held in relation to the schemes at 31 March 2020 were: Domestic RHI: £4.118m; Non-domestic RHI Great Britain: £19.448m; Non-domestic RHI Northern Ireland: £0.014m (31 March 2019: £2.739m; £0.354m; £0.027m)

15. Events after the reporting period

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

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, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Acts of 2004, 2008, 2010, 2011 and 2013 and related legislation.

The Authority is responsible for taking enforcement action (including imposing financial penalties) in respect of 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 2019-20. These amounts are collected by us for payment into the consolidated fund[3].

This statement is also prepared to disclose any material expenditure or income that has not been applied for 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 2019-20.

Background

Penalties

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

No penalty imposed by the Authority under the Gas Act 1986 and the Electricity Act 1989 may exceed 10% of the turnover of the regulated party.

We also have powers under The Electricity and Gas (Market Integrity and Transparency) (Enforcement etc) Regulations 2013 to monitor, investigate and impose penalties in respect of against breaches of the Regulations on Wholesale Energy Market Integrity and Transparency (REMIT). We also have powers under the Network and Information Systems Regulations 2018 to impose penalties in respect of breaches of those Regulations. We have also have concurrent powers with the Competition and Markets Authority (CMA) to enforce the prohibitions on anti-competitive agreements and abusing positions of dominance in the Competition Act 1998 and in articles 101 and 102 of the of the Treaty on the Functioning of the European Union. Where an infringement is found, we may decide to impose a financial penalty up to 10% of the company's applicable turnover if we are satisfied that the infringement was committed intentionally or negligently.

Any sums imposed by the Authority by way of a formal legislative penalty are paid into the consolidated fund. In 2019-20 the penalties imposed which were payable to the consolidated fund amounted to approximately £3 million[4]. We give notice to the regulated party that we propose to impose a penalty on and consult on this.

[3] We collect the fines, penalties and fossil fuel levies for Scotland, England & Wales. This was reviewed by the auditors and signed off for 2019-20.
[4] This includes a penalty of £200,000 imposed on Economy Energy which is now in administration.

Financial review

This year we imposed penalties on companies. This financial review covers penalties that resulted in the imposition of penalties payable to the consolidated fund.

Engie Global Market

We investigated Engie Global Market (EGM) for breach of the Regulation on Energy Market Integrity and Transparency (REMIT). We found that EGM had breached Article 5 of REMIT. Article 5 provides that "any engagement in, or attempt to engage in, market manipulation on wholesale energy markets shall be prohibited'

We found that between the period 1 June 2016 and 31 August 2016 a trader working in the name, and on behalf, of EGM, contravened Article 5 on a number of occasions. EGM was liable for this breach.

We found that EGM engaged in market manipulation in relation to the month ahead contract for the delivery of natural gas at the National Balancing Point on the Over-the-counter wholesale energy market. Transactions or orders were issued that gave, or were likely to give, false or misleading signals as to the supply of, or demand for, or price of wholesale energy products or that secured or were likely to secure the price of wholesale energy products at an artificial level.

EGM admitted the breach of Article 5 of REMIT and agreed to settle during the early settlement window. We discounted the penalty by 30% in accordance with the REMIT Penalties Statement published on 23 June 2015. We considered that it was appropriate to reduce the financial penalty due from EGM in respect of the contraventions of Article 5 to £2,128,236.

E (Gas and Electricity) Limited

We had opened an investigation in September 2016 to establish if there had been an infringement of Chapter I of the Competition Act 1998 ("CA98"). The investigation concerned a suspected anti-competitive agreement between Economy Energy Trading Limited ("Economy Energy"), E (Gas and Electricity) Ltd ("EGEL") and Dyball Associates ("Dyball") ("the Parties"). On 29 May 2018, we issued a statement of objections to the three Parties to the investigation.

We found that Economy Energy, EGEL and Dyball entered into an agreement and/or concerted practice to share markets and/or allocate customers between Economy and EGEL in relation to the supply of gas and electricity to domestic customers in Great Britain. Under the infringement, Economy, EGEL and Dyball agreed that neither Economy and EGEL, nor their sales agents, would actively target customers already supplied with gas and/or electricity by the other, but each other's existing customers would be allowed to switch between the two businesses if they pro-actively sought to do so. The infringement was supported by the Parties sharing commercially sensitive and strategic information, in the form of details of their current customers. This agreement and/or concerted practice had as its object the prevention, restriction or distortion of competition.

We found that the Parties committed the Infringement intentionally or negligently and decided to impose financial penalties of £650,000 on EGEL

Economy Energy

Economy Energy was also one of the parties being investigated for an infringement of Chapter I of the Competition Act 1998 ("CA98"). We found that the Parties committed the Infringement intentionally or negligently and we decided to impose a financial penalty of £200,000 on Economy Energy. Economy Energy is now in administration.

Dyball

Within this investigation, Dyball was party to the infringement and intended to contribute, and did contribute, to the common objectives pursued by Economy and EGEL. Dyball did this by facilitating the sharing of markets and allocation of customers between Economy Energy and EGEL, through its own conduct, in designing, implementing and maintaining software systems that allowed the acquisition of certain customers to be blocked and customer lists to be shared; and by, itself, sharing customer lists and instructions to block particular customers from switching between Economy Energy and EGEL. Dyball was aware of the actual conduct planned and/or put into effect by Economy Energy and EGEL in pursuit of the objective of sharing markets and/or allocating customers. Therefore, Dyball participated as a facilitator in the infringement.

We found that Dyball committed the Infringement intentionally or negligently and we decided to impose a financial penalty of £20,000 on Dyball.

The level of the penalties reflected the seriousness of this infringement, the need to ensure Economy Energy, EGEL and Dyball, and other undertakings, are deterred from engaging in this kind of collusive conduct, and the need for a penalty to be proportionate.

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

Under section 7 of the Government Resources and Accounts Act 2000, the 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. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Ofgem and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

- In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:
- observe the Accounts Direction issued by the 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 financial statements;
- prepare the financial statements on a going concern basis; and
- confirm that the trust statement as a whole is fair, balanced and understandable and take personal responsibility for the trust statement and the judgements required for determining that it is fair, balanced and understandable.

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

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

Governance statement

Ofgem's governance statement, covering both the resource accounts and the trust statement, is on pages 36 to 47.

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

Opinion on financial statements

I certify that I have audited the financial statements of Office of Gas and Electricity Markets Trust Statement for the year ended 31 March 2020 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the financial statements gives a true and fair view of state of affairs of the Office of Gas and Electricity Markets Trust Statement as at 31 March 2020 and of the 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 regularity

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Office of Gas and Electricity Markets in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Office of Gas and Electricity Markets use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Office of Gas and Electricity Markets have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Office of Gas and Electricity Markets' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Accounting Officer for the audit of the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

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

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

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office of Gas and Electricity Markets' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report and Accounting Officer's foreword to the trust statement, but does not include the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

17 July 2020

Statement of revenue, other income and expenditure for the year ended 31 March 2020

	2019-20	2018-19
	£000	£000
Revenue		
Fines and penalties		
Penalties imposed	3,006	2,400
Fossil Fuel Levy		
Fossil Fuel Levy (England and Wales)	-	1,818
Fossil Fuel Levy (Scotland)	-	540
Finance Income		
Interest on bank deposits (England and Wales)	205	183
Interest on bank deposits (Scotland)	280	253
Total revenue and other income	**3,491**	**5,194**
Expenditure		
Administration and wind up costs associated with Fossil Fuel Levy	(186)	(11)
Credit losses	(200)	-
Total expenditure	**(386)**	**(11)**
Net Revenue for the Consolidated Fund	**3,105**	**5,183**

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 2020

	2019-20	2018-19
	£000	£000
Current assets		
Receivables and accrued fees	24	307
Cash at bank – UK consolidated fund	31,947	31,671
Cash at bank – Scottish consolidated fund	43,657	43,352
Net current assets	75,628	75,330
Current liabilities		
Payables	-	(2)
Total net assets	**75,628**	**75,328**
Represented by:		
Balance on UK consolidated fund account	31,971	31,884
Balance on Scottish consolidated fund account	43,657	43,444
	75,628	**75,328**

Jonathan Brearley
Chief Executive

15 July 2020

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

Statement of cash flows for the year ended 31 March 2020

	2019-20	2018-19
	£000	£000
Net cash flow from operating activities	580	2,917
Cash paid to the consolidated funds	-	(3,003)
Increase/ (decrease) in cash in the period	**580**	**(86)**

Notes to the cash flow statement

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

	2019-20	2018-19
	£000	£000
Net revenue for the consolidated fund	3,105	5,183
(Increase)/ decrease in non-cash assets	283	134
Increase/ (decrease) in liabilities	(2)	-
Non-cash outflow to consolidated fund	(2,806)	(2,400)
Net cash flow	580	2,917

Note B: Analysis of changes in net funds

	2019-20	2018-19
	£000	£000
Increase/ (decrease) in cash in this period	580	(86)
Net funds at 1 April	75,024	75,110
Net funds at 31 March	75,604	75,024

Notes to the trust statement

Closure of the Fossil Fuel levy scheme

On 31 March 2019, the fossil fuel levy schemes closed and both of the companies set up to administer the schemes, NFPA and NFPA Scotland, are in the process of being liquidated. During 2020-21, the remaining cash balances will be transferred to the Consolidated Fund (England and Wales scheme) and the Scottish Consolidated Fund (Scotland scheme).

1. Statement of accounting policies

1.1 Basis of accounting

The trust statement is prepared in accordance with the accounts direction issued by the Treasury under section 7 of the Government Resources and Accounts Act 2000 and 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 £'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 IFRS 15. 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

During 2019-20 only nominal penalties were received by Ofgem other than those disclosed in Appendix II.

E (Gas and Electricity) Ltd paid the imposed penalty of £650,000 and £7,921.89 of interest.

3. Receivables and accrued revenue receivable

	Accrued revenue receivable at 31 March 2019	Total as at 31 March 2019	Total as at 31 March 2018
	£000	**£000**	**£000**
Fines and penalties	200	200	-
Fossil fuel levy income	0	0	280
Bank interest income	24	24	27
Total before estimated impairments	224	224	307
Less estimated impairments (see note 3.1)	(200)	(200)	-
Total	**24**	**24**	**307**

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.

Fossil fuel levy revenue receivable as at 31 March 2019 related to the remaining levy payments before the scheme was closed. However, pension costs and other costs of wind up were incurred when the companies began liquidation and the amount actually received was lower than what was accrued. The fossil fuel levy revenue for 2019-20 was therefore an overall expense..

3.1 Expected credit losses

As noted in the Accounting officer's foreword to the trust statement, during the year a financial penalty of £200,000 was imposed on Economy Energy. Economy Energy is now in administration. The likelihood of recovering the penalty is uncertain and therefore expected credit losses have been recognised for the full amount.

4. Payables and accrued expenditure liabilities

	Payables as at 31 March 2019	Total as at 31 March 2019	Total as at 31 March 2018
	£000	£000	£000
Fossil Fuel Levy	-	-	2
Total	**-**	**-**	**2**

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

	2019-20	2018-19
	£000	£000
Balance on the consolidated fund accounts as at 1 April	75,329*	75,548
Net revenue for the consolidated fund accounts	3,105	5,183
Less amount paid to the consolidated funds	(2,806)	(5,403)
Balance on consolidated fund accounts as at 31 March	**75,628**	**75,328**

* Opening balance adjusted for rounding.

Appendices

Appendix I
Key Performance Indicators

Effective Competition			
Metric (KPI's)	**Details of what is being measured**	**Annual targets for 2019-20**	**Actual**
Offshore transmission processing	Licence grants within 70 days of commencement of Section 8A[5] consultations	70 days	39 days (average)
Offshore transmission processing	Preferred Bidder selection within 120 days of the "Invitation to Tender" submission (excluding "Best" and "Final" offer)	120 days	96 days (average)
Licence applications	Make decisions on Licence Applications within 45 days	100%	100%[6]
Code modifications	Made code modification decisions within 25 days (or three months, if "minded to" consultation / impact assessment is needed)	90%	29%[7]
Customer contacts	Time taken for first response to customer contacts	93% - 10 working days	96%
Whistle-blowers	Time taken for first response to whistle-blower contacts	100% - 1 working day to receive initial engagement	99%

Key performance indicators for our environmental and social schemes are set with the Department for Business, Energy and Industrial Strategy and the Northern Ireland Department for the Economy, for whom they are delivered. Every year, Ofgem commits to upholding specific service levels for the GB Domestic and Non-Domestic RHI, Feed-In-Tariffs, Renewables Obligation, Energy Company Obligation and Warm Home Discount schemes. Results against these for 2019-20 are set out below.

[5] Section 8A – Electricity Act 1989
[6] The specified time periods vary for different application types and are published in the guidance for gas and electricity licence applications https://www.ofgem.gov.uk/system/files/docs/2019/07/applying_for_a_gas_or_electricity_licence_-_2019_guidance_document_1.0_0.pdf
[7] This figure is a result of a number of factors including competing priorities within Ofgem, for example work on Significant Code Reviews, and a number of complex decisions that required additional time.

Environmental and Social Scheme KPIs			
Metric (KPI's)	**Details of what is being measured**	**Annual targets for 2019-20**	**Actual**
Domestic Renewable Heat Incentive (DRHI)	Responding to enquiries within 10 working days	100%	79%
Northern Ireland DRHI	Responding to enquiries within 10 working days	64%	63%
Renewable Obligation	Responding to enquiries within 10 working days	80%	70%
Feed in Tariffs (FIT)	Responding to enquiries within 10 working days	83%	69%
Energy Company Obligation (ECO)	Responding to enquiries within 10 working days	58%	83%
Warm Home Discount	Responding to obligated party submitted Warm Homes Discount	100%	100%
DRHI	Maintaining system availability during business hours	99.74%	99.82%
Northern Ireland DRHI	Maintaining system availability during business hours	100%	99.92%
RO	Maintaining system availability during business hours	99.97%	99.76%
FIT	Maintaining system availability during business hours	99.80%	99.89%
ECO	Maintaining system availability during business hours	100%	99.91%
DRHI	Making payments within 30 working days	99.08%	97.28%
Northern Ireland DRHI	Making payments within 40 working days	90.85%	88.45%
RO	Issuing the main batch of Renewables Obligations Certificates following the generators' output data reporting deadline, within 17 working days (Apr-Jun) and 12 working days (Jul-Mar)	98.57%	97.44%
FIT	Completing the “levelisation" process within 22 working days	95%	100%
ECO	Processing the measures submitted in one calendar month by the endof the following month	100%	100%

Appendix II - **Investigations and Enforcement Action 2019-20**

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 cases relating to the Regulation[11] on Wholesale Energy Market Integrity and Transparency (REMIT).[12]

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 the voluntary redress fund, administered by the Energy Savings Trust (EST).[13]

Company	Issue	Decision	Date of decision
UKPN	Power cut on 9 August 2019. UK Power Networks began reconnecting customers without being asked to by the ESO, which could have potentially jeopardised recovery of the system. This was a technical breach.	Alternative action, UKPN to pay £1.5 million into Ofgem's voluntary redress fund for a technical breach.	June 2018
RWE	Generation loss on 9 August 2019, following power cut.	Alternative action, RWE agree to pay to pay £4.5 million into Ofgem's voluntary redress fund.	January 2020
Hornsea One Ltd	Generation loss on 9 August 2019, following power cut.	Alternative action, Hornsea One Ltd agree to pay £4.5 million into Ofgem's voluntary redress fund.	January 2020
Economy Energy, E(Gas and Electricity) and Dyball Associates	Investigation into whether there has been an infringement of Chapter I of the Competition Act 1998 in relation to possible anti-competitive agreements and concerted practices	We found that the Parties committed the Infringement intentionally or negligently and we decided to impose financial penalties of £650,000 on EGEL, £200,000 on Economy Energy Trading Limited and £20,000 on Dyball. Economy Energy has since gone into administration.	July 2019
Engie Global Markets	Investigation into whether Engie Global Markets had breached Article 5 (prohibition on market manipulation) of Regulation (EU) No 1227/2011 ('REMIT')	EGM admitted the breach of Article 5 of REMIT and has agreed to early settlement. EGM will pay a penalty of £2,128,236.	September 2019
EPEX Spot SE	Breach of Competition Act (Chapter II)	EPEX Spot SE agreed commitments for improvement to be implemented. No formal findings found	June 2019
Cadent	Investigation into Cadent Gas Limited and its compliance with its obligations under its gas transporter licence (Standard Special Conditions A40, A50 and A55) and as a consequence section 9 of the Gas Act 1986	No formal finding of breach; case closed by way of alternative action. Cadent paid £3 million to the Voluntary Redress Fund and pay £3.6m in costs associated with the investigation and putting right the issues associated with the investigation.	May 2019

[8] https://www.ofgem.gov.uk/investigations

[9] https://www.ofgem.gov.uk/system/files/docs/2017/10/enforcement_guidelines_october_2017.pdf

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

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

[12] Our Remit Procedural Guidelines can be found at: https://www.ofgem.gov.uk/publications-and-updates/consultation-decision-remit-penalties-statement-andprocedural-Guidelines

[13] https://energyredress.org.uk/

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

Company	Issue	Decision	Date of decision
Utility Warehouse	Price cap overcharging	Alternative action taken, approximately £150,000 paid in refunds, £300,000 paid to consumers as compensation. Utility Warehouse also paid £200,000 into Ofgem's voluntary redress fund.	January 2020
I-Supply	Price cap overcharging/ Standards of Conduct.	Closed through alternative action. I-Supply refunded £37,193 for the period 1 overcharge, and £54 for period 2 overcharge. They also issued £5 goodwill payments totalling £30,475 and paid £1.5 million into Ofgem's voluntary redress fund.	December 2019
Utilita Energy	Under delivery of the ECO3 obligation.	Closed through alternative action. Utilita paid £175,000 into the Voluntary Redress Fund.	July 2019
Green Star Energy	Compliance with Standard Licence Conditions 0 on Standards of Conduct and Standard Licence Condition 7.7, on information for customers about deemed contracts	Closed through alternative action. Green Star Energy have paid £350,000 to the Voluntary Redress Fund.	July 2019
Shell Energy	Price cap overcharging	Closed through alternative action taken. Shell agreed to take various remedial actions. Shell refunded the overcharge to their customers of £100,736.63. They also paid £62,000 in compensation to customers who were on tariffs that were not compliant with the price cap. Another group of customers experienced a delay in their energy price being reduced under the price cap after they requested to change to a cheaper one. Shell has agreed to refund these customers and pay £29,000 in compensation and pay £200,000 to the Voluntary Redress Fund	June 2019
Cadent	Cadent left customers without gas for longer period than they should have been. Compensation not paid to all effected customers.	Alternative action taken. No formal finding of breach. Closed through alternative action. Cadent paid £20 million to a community energy fund, £5.9 million to the Voluntary Redress Fund, they are due to spend £4.8 million on costs to improve performance in blocks of flats, and an estimated £6.7m in compensation costs.	May 2019
SSE	SSE missed its target to install smart meters for its customers last year (2018).	Closed through alternative action, SSE paid £700,000 to the Voluntary Redress Fund	April 2019

Company	Issue	Decision	Date of decision
Shell Energy Retail (then trading as First Utility)	Charging customers for a paper bill (SLC21B.8)	Alternative action taken, Shell Energy paid £100,000 to the Voluntary Redress Fund.	July 2019
Shell Energy Retail (then trading as First Utility)	Provision of an annual statements to customers (SLC 31A.9), and if consequences customers not being able to make informed choices (Standards of Conduct), late final bills (SLC27.17) and deficient customer service arrangements (SoC).	Alternative action taken, £224,864.82 was paid in refunds, £116,330 was paid as additional payments to customers and £198,106 was paid to the Voluntary Redress Fund.	July 2019
Ovo Energy	Following the Spark Energy SoLR, we became aware that Ovo had taken security deposit payments from some former Spark customers (those on standard credit, paying in arrears rather than by Direct Debit). Customers did not realise that their latest payments were being used for this purpose rather than to pay their energy bill and were subsequently being treated as in debt.	Alternative action taken, £469,081.36 paid in refunds with a further £173,310 paid in compensation to customers	July 2019

In addition to this, other a further 20 compliance issues were resolved involving refunds, compensation and/or redress, resulting in the following; (note that there is a minor variance due to rounding)

Type of impact	Value
Refunds paid to customers	£101,000
Compensation payments to consumers	£169,000
Redress payments to the Voluntary Redress Fund	£6,000
Total	**£275,000**

Open cases

Below are the open investigations as at the end of March 2020. Please note, the opening of an investigation does not imply that we have made any finding(s) about non-compliance. Ofgem does not publish information on all open investigations, in particular when Ofgem is conducting investigations into potential failures to comply with REMIT requirements. 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	Date Opened	Issue
Western Power Distribution	February 2020	Investigation into Western Power Distribution plc and its compliance with obligations relating to the Priority Services Register.
National Grid Electricity Transmission plc and SP Transmission plc	January 2020	Investigation into whether National Grid Electricity Transmission plc and SP Transmission plc breached licence conditions and statutory obligations relating to the delivery and operation of the Western High Voltage Direct Current ("WHVDC") subsea link between Scotland and Wales.
Utilita	January 2020	Investigation into whether Utilita breached licence condition 28A, relating to the price cap for pre-payment meter customers.
National Grid Electric Systems Operator (ESO)	August 2019	Investigation into 9 August 2019 power outage.
National Grid	May 2018	Investigation into National Grid Electricity Transmission (NGET) and its compliance with its obligations under the Standard Licence Condition 16 of the Transmission Licence
Utility Warehouse	June 2018	Investigation into Utility Warehouse's compliance with Standard Licence Conditions (SLCs) 25C/0, 27.5, 27.8 and 28B of the Electricity Supply Licence and the Gas Supply Licence. We expanded the scope of the case to include SLC 32A in October 2019.
Not disclosed	July 2017	Investigation into whether there has been an infringement of Chapter II of the Competition Act 1998 and/or Article 102 of the Treaty on the Functioning of the European Union, concerning potential abuse of a dominant position by a company providing services to the energy industry.
Ovo Energy	February 2018	Investigation into whether Ovo has complied with SLCs 31A and 25C/0 in respect of information on Bills, statements of account and Annual Statements. The investigation was expanded in October 2018 to include SLC 22C, SLC 26, and SLC 27 and expanded again in August 2019 to include SLC 28A.

Provisional Orders (PO)

Provided below are the details of the provisional orders imposed during the year from April 2019 to March 2020, we issued 4 provisional orders for Foxglove, Breeze Energy Nabuh Energy and Solarplicity Supply Ltd. We saw a rise in the instances of non-compliance on the E-Serve schemes Feed In Tariff and Renewable Obligation.

Provisional Order issued	Company	Concern
February 2020	Foxglove	Foxglove indicated that they would fail to comply with the Authority's instruction to make its Feed In Tariff (FIT) levelisation Payment and contravene SLC 33.
October 2019	Breeze Energy	Failure to make Renewables Obligation (RO) payment.
October 2019	Nabuh Energy	Failure to make RO payment.
May 2019	Solarplicity Supply Ltd	Failure to make payments to FIT generators.

We have also detailed the outcomes of the PO ended during this period. There were 2 POs (npower and Solarplicity Supply Ltd) which were imposed in the previous reporting year that concluded this year.

Provisional Order (PO) ended	Company	Outcome from PO
February 2020	Foxglove	Foxglove made the FIT Year 10 Quarter 3 Levelisation Payment, in full, by the deadline. PO revoked as Foxglove paid the outstanding sum.
January 2020	Breeze Energy	Breeze ceased trading. We revoked Breeze's license 22 December 2019. As a result, the provisional order issued to Breeze Energy is no longer in effect.
November 2019	Nabuh Energy	PO revoked as Nabuh paid the outstanding payment to discharge their renewable obligation.
August 2019	Solarplicity Supply Ltd	Solarplicity ceased trading. We revoked Solarplicity's license 17 August 2019. As a result, the PO issued to Solarplicity Supply Limited is no longer in effect. Solarplicity had not made their FIT payment. We will look to claim the FITs payment through the administrator. Solarplicity ceased trading. We revoked Solarplicity's license 17 August 2019. As a result, the PO issued to Solarplicity Supply Limited is no longer in effect. Solarplicity had not made their FIT payment. We will look to claim the FITs payment through the administrator.
May 2019	npower	PO revoked, npower demonstrated that they have complied with SLC 32A.
May 2019	Solarplicity Supply Ltd	We decided not to confirm the PO due to Solarplicity's improved performance and the undertaking to take further steps.

Final Orders

Below you can find details of the final orders imposed during the year from April 2019 to March 2020, we issued 7 final orders for the suppliers detailed below

Final Order issued	Company	Concern
January 2020	Symbio	Failure to become a DCC User.
January 2020	Euston Energy (trading as Northumbria Energy)	Failure to become a DCC User.
January 2020	Entice Energy	Failure to become a DCC User.
January 2020	Daligas Ltd	Failure to become a DCC User.
January 2020	Enstroga Ltd	Failure to become a DCC User.
October 2019	Gnergy Ltd	Failure to make Renewables Obligation (RO) payment.
April 2019	Avro Energy	Failure to become a DCC User.

In addition to this, details of the notices of consultation for a FO where we did not proceed to issue a FO are listed below.

Provisional Order (PO) ended	Company		Outcome from PO
January 2020	UK National Gas Ltd	Failure to become a DCC User.	UK National Gas had completed the SEC provisions for the DCC User Entry Process as of 28 January 2020.
January 2020	Better Energy	Failure to become a DCC User.	Better Energy requested the revocation of their electricity and gas licences.
January 2020	Ampower Ltd	Failure to become a DCC User.	Ampower had completed the SEC provisions for the DCC User Entry Process as of 16 January 2020.
January 2020	Green Supplier Ltd	Failure to become a DCC User.	Green Supplier had completed the SEC provisions for the DCC User Entry Process as of 17 February 2020.
October 2019	Toto Energy	Failure to meet its Renewables Obligations (RO)	TOTO Energy Ltd ceased trading on 23 October 2019, the Authority has taken the decision not to proceed with issuing a FO.
October 2019	Delta Gas and Power Limited	Failure to meet its RO	Delta Gas and Power Ltd made full payment of its RO for 2018-19, including all applicable interest, thus ensuring compliance with its RO for 2018-19. FO was not issued as they complied with obligation.
October 2019	Robin Hood Energy Limited	Failure to meet its RO	Robin Hood Energy Ltd made full payment of its RO for 2018-19, including all applicable interest, thus ensuring compliance with its RO for 2018-19. On 29 October 2019, we made a decision not to make a FO

We have also detailed the outcomes of the FOs that have concluded during this year. The Final Orders for URE and Avro were issued during the previous year but concluded within this year.

Final Order (FO) ended	Company	Outcome from FO
October 2019	URE Energy Ltd	URE did not make the outstanding RO payment. We issued a Notice of failure to comply with a final order, which gave URE 3 months to comply. We revoked their license on 14 September 2019.
August 2019	Avro Energy	Avro completed all the required steps to become a DCC user. They met the requirements set out in the Final Order. We revoked the FO.

Appendix III
Off-payroll appointees

Off-payroll engagements as of 31 March, for more than £245 per day and that last for longer than six months.

The following table summarises the situation on off-payroll engagements as at 31 March 2020.

No. of existing engagements as of 31 March 2020	16
Of which:	
No. that have existed for less than one year at time of reporting.	16
No. that have existed for between one and two years at time of reporting.	0
No. that have existed for between two and three years at time of reporting.	0
No. that have existed for between three and four years at time of reporting.	0
No. that have existed for four or more years at time of reporting.	0

New off-payroll engagements, or those that reached six months in duration between 1 April 2019 and 31 March 2020, for more than £245 per day and that last for longer than six months.

No. of new engagements, or those that reached six months in duration, between 1 April 2019 and 31 March 2020	16
Of which:	
No. assessed as caught by IR35	1
No. assessed as not caught by IR35	15
No. engaged directly (via PSC contracted to department) and are on the departmental payroll	0
No. of engagements reassessed for consistency / assurance purposes during the year	0
No. of engagements that saw a change to IR35 status following the consistency review	0

Off-payroll engagements of board members and / or, senior officials with significant financial responsibility, between 1 April 2019 and 31 March 2020.

No. of off payroll engagements of board members, and / or, senior officials with significant financial responsibility, during the financial year.	0
Total no. of individuals on payroll and off-payroll that have been deemed "board members, and / or, senior officials with significant financial responsibility, during the year.	2

Appendix IV
Trade union facility time

Table 1
Relevant union officials

What was the total number of your employees who were relevant union officials during the relevant period?

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
16	930

Table 2
Percentage of time spent on facility time

How many of your employees who were relevant union officials employed during the relevant period spent a) 0%, b) 1%-50%, c) 51%-99% or d) 100% of their working hours on facility time?

Percentage of time	Number of employees
0%	0
1-50%	16
51-99%	0
100%	0

Table 3
Percentage of pay bill spent on facility time

Provide the figures requested in the first column of the table below to determine the percentage of your total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period.

Total cost of facility time	£13,697
Total pay bill	£64,966K
Percentage of the total pay bill spent on facility time	0.02%

Table 4
Paid trade union activities

As a percentage of total paid facility time hours, how many hours were spent by employees who were relevant union officials during the relevant period on paid trade union activities?

Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ total paid facility time	25%

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

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

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

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

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

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

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

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

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

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

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

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