2012-13

Office of Gas and Electricity Markets (Ofgem)
Annual Report and Accounts

Making a positive difference
for energy consumers

HC30

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(For the year ended 31 March 2013)

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Section A
Introduction

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

We operate under the direction and governance of the Gas and Electricity Markets Authority which makes all major decisions and sets policy priorities.

The Authority's powers and duties are provided for under the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998, the Utilities Act 2000 and the Energy Acts 2004, 2008, 2010 and 2011, and other statutes.

Chairman's Foreword to Annual Report and Accounts

Lord Mogg

Over the past decade, few sectors can have witnessed such fundamental changes as has energy. The impact of each change – in policy, in technology, in generation and in demand to mention but a few – has brought continuing challenges for Ofgem in what we do, and how we do it. But one thing has not changed: Ofgem's principal concern remains to get the best results for, and look after, the interests of consumers, present and future.

This Foreword – my last – is not the place to list Ofgem's responses over the decade of my chairmanship. Instead my intention is to convey the changing emphasis and new demands to which Ofgem has needed to react and to respond over a sustained period. By its very nature, a regulator's task is to maintain as much stability, predictability and a well understood regulatory approach as is possible, not least to provide the confidence potential investors require to make their major long term decisions and commitments which benefit consumers.

This, I believe, Ofgem has clearly succeeded in doing - even if the inevitable public criticism may give a different impression. The Chief Executive's report that follows underlines the high degree of formal external scrutiny this organisation has witnessed. Most of this confirms the picture of an energy regulator which has the full confidence of those it regulates and of our stakeholders even if not every decision we are called on to take is welcomed!

Key decisions over the past year reflect this view. For two price reviews the successful development and (unchallenged) application for the coming eight years of the new RIIO (Revenue = Incentives + Innovation + Outputs) framework – replacing RPI-X regime – leaves only electricity distribution to be completed. The introduction and successful application of an Offshore electricity regime has brought a new, auction–based approach and yielded significant economic benefits for consumers. The fully researched retail market review has established a sound basis for the radical simplification of the accumulated complexity of energy tariffs. And our enforcement activities will further ensure that energy companies comply fully with their obligations and, as a result, improve the prospects of greater trust in them from their consumers.

For these, and many other reasons, Ofgem remains a highly respected and professional organisation that is well placed to meet the many challenges that lie ahead. We have a highly skilled and motivated staff who have continued to demonstrate their ability to produce evidence–based and fully consulted proposals. Our staff have enabled the Authority to make the best decisions we can within our statutory powers. The organisation has been formidably led by its Chief Executive, Alistair Buchanan, throughout my own period in office and I pay tribute to his energetic, expert and transformational role in leading Ofgem from a body that was essentially an economic regulator ten years ago to its current and far more multi dimensional purpose and activities.

I should also thank my non-executive colleagues – present and past – for their wise advice, remarkable expertise and above all dedicated commitment to tackle the highly complex issues that come before the Authority itself or one of its Committees.

Finally, I must again pay tribute to all the staff of the Office and in particular thank those who have been most closely involved in my own European Union and international work. Any organisation is only as good as the people who work for it and the generations of staff here have constantly confirmed my belief that Ofgem is very well equipped to meet the challenges it will face in the future.

The Lord Mogg, KCMG
Chairman

Chief Executive's Introduction to Annual Report and Accounts
Alistair Buchanan

At the end of a decade at the helm of Ofgem, it would be easy to turn this report into a valedictory (or justification) of the last ten years. I have, you will be pleased to read, resisted this temptation. Rather I want to use the many external reviews of Ofgem to give the last year's performance a stamp of objectivity!

As has become the norm, unique amongst regulators I believe, the National Audit Office (NAO) visits Ofgem not just for our annual audit but to produce an overview of Ofgem for Parliament. In the first year of this government the NAO's report commented that Ofgem 'was well managed, had sound systems of control…provided value for money…and had a proactive approach to consumer protection'. The latest publication from the NAO in November 2012, relating to 2011-12, had these five distinctions for Ofgem, and its staff:

1. 70% of Ofgem staff recommend it as a great place to work. That is 27% higher than the civil service average. On the 15 criteria judged, Ofgem's score was better than the civil service average in all but one.
2. Spending on Ofgem's regulatory activities was on budget.
3. £4.9 million has been saved against our RPI-X budget in the first two years of the five year cost control (2010-2015), and we are on track to hand back to licence-fee payers £12.5 million.
4. Consultant spend was down 19% year on year.
5. Ofgem continues to have sound systems of financial controls and reporting. It achieved all 18 of its Key Performance Indicator's.

The NAO did two other reports relevant to Ofgem in 2012. The first was on the introduction of the Offshore electricity regime. The NAO highlighted the benefits flowing from the innovative auction-based and competitive approach used to award companies licences to transmit electricity from offshore wind farms. We continually review the performance of the regime and take advice on possible improvements to the core regime that will ensure a continued flow of competitive investment in these projects and value for money for consumers.

The second NAO report was on the increasingly crucial issue of security of supply, and the consequences for affordability and low carbon. Ofgem has been in a leadership position on setting out the risk for consumers in relation to security of supply since 2009, when we published Project Discovery. Sadly much of that report has proved prophetic and we were very pleased to be of use to government in the last year by being commissioned by the Department of Energy and Climate Change (DECC) to publish two reports on security of supply – on electricity and gas respectively. Both of these reports are feeds into the Energy Bill (electricity market reform) and the evolving Gas Generation Strategy of government. We stand ready to assist both DECC and National Grid, on both policy matters and effective system operation respectively. As part of the process of consultation I have given two major lectures on security of supply (in London and Edinburgh) in the early part of 2013.

Away from these concerns Ofgem's main task in 2012-13 was to set the price controls for the transmission companies and the gas distribution companies. Apart from the stress of doing two sets of price controls at the same time, the Ofgem team had to manage the roll out of the new RIIO (Revenue = Incentives + Innovation + Outputs) methodology. This was an extremely satisfying achievement as we started the process to change away from the RPI-X approach in a Beesley lecture in 2007. We have now introduced a price control that is relevant to today's networks challenges, and this will enable us to develop and grow sustainable networks, encourage engineering leadership and innovation, and reward through incentives.

Some companies were public about finding the new RIIO regime challenging. Consumers would hope for no less! However, settlements were agreed with every company and National Grid summarised the process well on 16 May 2013 at their annual results; 'RIIO provides a very clear framework to focus on delivery of investment, customer service, and returns underpinned by an effective financing framework'.

Ofgem E-Serve continued to expand to handle yet more complex environmental subsidy programme work on behalf of government. During the year we were commissioned by DECC to manage the Energy Company Obligation (ECO) project and the RHI Domestic schemes. Critical to this relationship was the Memorandum of Understanding agreed in the year between Ofgem and DECC. E–Serve continues to operate at costs below 1 per cent of its managed funds, and the typical government run rate is 3-12 per cent. In addition, a continued vigilance on value for money savings, such as the £290 million from the offshore auction regime, is noteworthy.

The other significant organisational growth area was in Glasgow, where we have seen the office expand from just a handful of employees in 2003 to nearly 100 now. We have also got a presence in Cardiff, and we will review how we manage the growth of Ofgem in the light of new work and extra duties being given to us. Apart from the extra work already mentioned (ECO and RHI Domestic in E-Serve, and the Energy Bill work for Ofgem's regulatory core), there is also considerable work needed for the implementation of the regulation on wholesale energy market integrity and transparency (REMIT) monitoring energy trades conditions from the EU.

As ever many of our stakeholders did not focus on E-Serve or RIIO, or even security of supply. The focus for many understandably continued to be price, bills, and standards of care and service by the major supply companies. Since Ofgem showed the industry the 'red card' in late 2010 there has been real progress in retail market behaviours. We have seen an end to unpopular doorstep selling, many companies have paid fines and settled early with Ofgem in respect of their misdemeanours, and many retailers have contributed to the pace of change on simplicity of tariff and fairness. Ofgem has also checked their accounting methods through reviews by BDO, and latterly by PKF.

The retail market reform package will roll out from mid 2013 and the industry has to continue to rebuild trust and confidence, and widen the pool of those who can be engaged. There is a real chance that my successor can deliver a marked improvement in the 'trust agenda' if behaviours continue on this trend.

The 'trust agenda' also hinges on rapid and fair enforcement…or more crudely the effective policing of the sector. We are pushing ahead with our review of enforcement, and I believe there will be major improvements announced in 2013-14. This work has been assisted from the lessons we have learned from key cases in 2012-13 like the E.ON 'settled case' in December 2012 or the SSE landmark mis-selling case of March 2013. The latter carried the fine of £10.5 million.

As you can see the work of this institution and the excellent staff it has is both prodigious, and also extremely important with energy and environmental investment being at the centre of much national political debate. As a regulator we are bound by statute and the requirement to be rigorous and evidence-based in our work, which can sit uncomfortably in rapidly moving political debates. It is in this environment that our work is scrutinised and that the independence of a regulator, protected by our own Parliament and EU Directives, becomes so important.

My final comments are aimed at thanking the excellent 700 people located in our three offices. It is always unfair to pick out individuals but I would like to put on record both the senior management team's and my own huge appreciation of three long serving Non Executive Directors: Miriam Greenwood, Jayne Scott and John Wybrew. During their time at Ofgem they all brought huge insights into the workings of Ofgem, but also provided great protection and enthusiasm to the staff. From the senior management team, Stuart Cook has moved to PWC and I am sure they will benefit hugely from his wide range of skills. Critically, the Institution remains in excellent hands, with the accomplished Andrew Wright leading Ofgem on an Interim basis. Ofgem will continue to benefit from the leadership of Lord Mogg and the non-executive members, and the departures of a few folk, myself included, will not affect the rhythm of the organisation.

Alistair Buchanan, CBE
14 June 2013

Section B
Key activities and achievements

Theme 1: Building a low-carbon economy

Theme 2: Helping to maintain security of supply

Theme 3: Promoting quality and value for consumers

Theme 4: Timely and efficient delivery of government programmes

Theme 1: Building a low-carbon economy

RIIO – consumer and environmental aspects

Our groundbreaking RIIO (Revenue = Incentives + Innovation + Outputs) price-control strategies for electricity and gas transmission and gas distribution came into force in April 2013. They will run until March 2021. They create an incentive for network companies to meet targets on the environment, reliability and customer satisfaction, and to give consumers long-term value for money through efficiency and innovation.

The RIIO price controls require network companies to deliver various things over the eight years. As part of this companies will have to show us what their customers and other stakeholders think of their performance. RIIO also puts sustainability and environmental impact at the heart of what network companies do and gives them strong incentives to create a low carbon energy sector.

Assessing customer satisfaction

Starting in the 2013–14 financial year, all transmission and gas distribution companies will have to run annual customer satisfaction surveys. The surveys have to cover a range of domestic and business customers and an outside agency should be able to audit them. There will be financial rewards and penalties based on how the companies perform. We will also ask them to give evidence to an independent panel each year showing that they have engaged with wider stakeholders. A discretionary reward will be available based on the result of this engagement.

Protecting the environment and areas of natural beauty

Another of the output categories is environmental considerations, which is split into three areas. The first is about restricting carbon emissions stemming directly from maintaining, inspecting and developing the network. The second relates to the visual impact of infrastructure. We have allocated up to £500 million until 2021 for making improvements such as putting existing power cables underground in national parks and Areas of Outstanding Natural Beauty. It is the first time we have set aside a pot of money for this purpose. A further £470 million has been allocated for putting new infrastructure underground, and this amount could increase, depending on future planning decisions. The third environmental consideration involves change to the corporate culture of energy network companies.

Our new Environmental Discretionary Reward scheme will make £32 million available to electricity transmission companies from 2013 to 2021. The aim of the scheme is to encourage companies to achieve high standards in environmental management and help the industry move towards a low carbon energy system that gives consumers value for money. The companies' first applications are due by 30 June 2014, but we will be running a trial for the scheme in 2013.

Low Carbon Networks Fund

Incentivising innovation for a smarter future

The Low Carbon Networks Fund is designed to use innovation to move us more quickly towards a low carbon economy. It runs from April 2010 to March 2015. Network operators share what they have learned from funded projects and are collaborating on a single web portal to help them do that.

The fund will provide up to £500 million from 2010 to 2015. Distribution network operators (DNOs) can apply for funds through two tiers. The first tier lets them apply to get back a proportion of money they have already spent on small projects. The second tier involves an annual competition, which we run, for a share of up to £64 million. Each DNO can submit up to five projects.

Green light for flagship projects

In November 2012 we awarded £45.5 million through the second tier for five flagship projects. The biggest sum we awarded was £13.5 million to a project investigating how to make it quicker and cheaper to connect distributed generation (like local solar panels and wind turbines) to the grid. The other approved projects include looking for more cost-effective ways to store electricity using batteries, and exploring how reducing voltage on the distribution network can help reduce demand at peak times.

Smarter markets

By the end of the decade, the government wants all consumers to have smart meters for gas and electricity. Energy suppliers have an obligation to roll out smart meters to every home and small business in Great Britain by 2020.

The government is in charge of the roll-out, and has been putting arrangements in place to make it happen – for example, licence conditions for suppliers. We are advising the government on regulating smart meters. We are also taking on new responsibilities as the different parts of the regulatory framework are put in place.

The roll-out of smart metering has the potential to transform how energy retail markets operate. This could bring big benefits for consumers, but will mean changes to the arrangements that govern how industry participants, including suppliers and network operators, interact with each other and with consumers.

Our ambition is to create smarter markets that are more efficient and competitive, and make life easier for consumers.

After consulting with stakeholders, in July 2012 we published a work programme setting out four priority areas of reform. The areas identified and our longer-term objective in each area are as follows:

- **Change of supplier** – Developing a fast, reliable and cost-effective process for consumers to change energy supplier.

We have undertaken consumer research to test consumers' requirements for an improved transfer process. We have also set up a Change of Supplier Expert Group comprising experts from across the industry to test the potential scope and scale of reform in this area.

- **Electricity settlement** – Putting in place settlement arrangements that use smart-metering data to allocate electricity accurately and cost-effectively.

In March 2013, we published an open letter setting out the way forward on electricity settlement reform. Over the next year, we will scope out whether we need to reform the existing arrangements and how best to do it. This will include details of any next steps, including the process for identifying and assessing potential options for market reform.

- **Demand-side response** – Creating a market that supports efficient, system-wide use of demand-side management, which has the potential to reduce consumers' bills, enhance security of supply and contribute to sustainable development.

In April 2013 we published a consultation seeking stakeholder views on whether current regulatory and commercial arrangements are fit for purpose or may in some way constrain the development of demand-side response. As a next step we aim to identify whether further work is required in addition to that already being progressed across Ofgem, industry and government.

- **Consumer empowerment and protection** – Setting regulations that empower and protect consumers to participate in smarter retail energy markets.

To build our evidence base, a workshop was held in January 2013 to collect stakeholders' views on the risks and opportunities for the consumer from the deployment of smart meters. As a next step we intend to publish a consultation towards the end of 2013.

The Smart Grids Forum

In April 2010 we joined forces with the Department of Energy and Climate Change (DECC) to set up the Smart Grids Forum (SGF). It aims to lead the discussions around the role smart grids can play in a low-carbon future, and help shape policy.

The SGF worked on six workstreams last year.

Workstream 1: Assumptions and scenarios (led by DECC)

This stream is establishing the assumptions and scenarios the network companies need to produce strong business plans consistent with DECC's low-carbon transition plan. It also analyses the implications of the government's low-carbon policies.

Building on its work in year one, the workstream updated its analysis of the expected uptake of electric vehicles, heat pumps and distributed generation, and analysed the impact of energy efficiency policies. It also facilitated a discussion between the SGF and DECC's heat policy team. This discussion informed DECC's policy document on the future of heating.

Workstream 2: Smart-grid evaluation framework

This stream finished its work to create a framework to help suppliers assess the different smart-grid options. The framework was published in April.

Workstream 3: Developing networks for low carbon

The purpose of this workstream is to create a detailed model to show the costs and benefits of smart grids in Great Britain's distribution system. This year, the workstream has been developing that model.

The SGF published a report on the model's methodology and findings in August and hosted an event about the findings in November. The next phase focused on refining the model; the workstream is now analysing the findings from that work.

Workstream 4: Closing doors

The aim of this stream is to find out the challenges that upcoming policy decisions pose to the development of smart grids. This year, the stream has looked at the model that Workstream 3 has developed, and the Workstream 6 report on commercial and regulatory barriers has flagged up a number of issues. It has also looked at the government's major publications on electricity generation and pointed out the implications for the electricity distribution price control (RIIO ED1) business cases.

Workstream 5: Ways of working

This stream is looking at how the forum can work better in the future and how it can communicate better with its stakeholders. This year, the stream has been looking at how the forum can share knowledge more effectively across the industry. In particular, the stream has been thinking about how the Low Carbon Networks Fund can make better use of its data, and how Smart Grids GB can provide better information for its members and for the public domain.

Workstream 6: Overcoming commercial and regulatory barriers

This workstream looks into any potential commercial and regulatory challenges to putting smart-grid solutions in place (including demand-side response). The stream published its first report in August and Ofgem used it to inform the development of its RIIO-ED1 policy.

The stream is now in the process of scoping out a work programme to assess the options for developing smart grids, particularly in terms of how customers will engage with them.

New transmission charging structure

In May, we required National Grid to work up proposals for a new approach to transmission charging. The new approach will better reflect the cost of all forms of generation – particularly renewable generators like wind farms, which by their nature only generate power intermittently.

At the moment, generators are charged more the further they are from demand. The new approach will still be based on location, but will also take into account the type of generator and how much it uses the network to transmit power. We expect the proposals to make sure any changes to transmission costs will have a minimal impact on consumer bills.

Offshore transmission

Attracting investment in offshore transmission

Offshore wind power is playing a growing role in meeting the government's renewable energy targets and creating a low-carbon economy. The offshore transmission regulatory regime uses competitive tendering to make sure offshore wind farms are efficiently connected to the grid and keep costs down.

During 2012-13, we granted two new Offshore Transmission Owner (OFTO) licences to own and operate high-voltage transmission links with UK offshore wind farms. We have now secured £470m of new investment across six projects, connecting 961MW of offshore wind to the grid. A further £2 billion of offshore transmission tenders are under way, connecting a further 3GW of offshore wind. For more details of the regime, see Theme 4.

Supporting next generation offshore wind farms

Wind farms will become larger, more complex and further from the shore than those developed so far. This could mean more coordinated offshore transmission infrastructure and greater efficiency. We launched a consultation in December 2012 on how we can support co-cordinated investment in offshore transmission assets that will either help connect new phases of offshore generation, or provide wider network benefits.

Integrated Transmission Planning and Regulation

The Integrated Transmission Planning and Regulation project (ITPR) is our review of the network planning and delivery arrangements for transmitting electricity. The project looks at whether the current arrangements will help achieve a long-term, efficient, integrated network, bringing together onshore, offshore and cross-border transmission.

We launched the project with an open letter in March 2012, setting out its objectives and asking for views from our stakeholders. Since then, we have held an external workshop and discussions with stakeholders to explore the issues involved with creating an integrated network. We published another open letter in November asking for views on the four main barriers to success and how we can overcome them. We published our emerging thinking and initial analysis of options, to address those barriers, on 5 June 2013.

Theme 2: Helping to maintain security of supply

We are actively involved in the work of the Agency for the Co-operation of Energy Regulators (ACER), created by the European Union's (EU) third package of energy reforms. Our Chairman, Lord Mogg, chairs the ACER Board of Regulators. We are involved in many working groups and task forces established by ACER and the voluntary Council of European Energy Regulators (CEER). CEER brings together national regulators from the EU and the European Economic Area and encourages working together and sharing best practice. Lord Mogg is also currently President of CEER.

More and more, British energy markets will involve supply and demand from Europe. We will work with ACER and European regulators to take away barriers to cross-border trade, promote market integration and enable interconnection with neighbouring markets. Several gas and electricity network codes are being drawn up to put in place a single energy market in Europe. We are working with neighbouring regulators to put these codes into practice in our markets and at our interconnection points. We have also published an open letter on how we expect to approach implementing the first European gas network code.

In October 2012, we wrote an open letter with the Belgian and Dutch energy regulators on the use of gas interconnectors on Great Britain's borders. The three countries' gas markets are joined by several transmission links, which help make sure each has sufficient supplies. But there are still sometimes inefficiencies in gas flows across borders. The letter called for views on how to make integration work better and make sure markets do not export when they should import, or vice-versa. We are due to announce our next steps in summer 2013.

REMIT

The EU regulation on wholesale energy market integrity and transparency (REMIT) came into force in December 2011. It prohibits insider trading and attempted or actual market manipulation in wholesale energy markets across the EU. REMIT also imposes obligations on market participants to register with a National Regulatory Authority (NRA) in the EU, which for Great Britain is Ofgem.

Under REMIT, market participants will have to give ACER the information it needs to monitor trading in wholesale energy markets and must publicly disclose inside information. Anyone arranging market transactions (brokers, for example) must tell us immediately if they suspect a wholesale energy market transaction might involve insider trading or market manipulation.

The UK Government is now introducing regulations that will give us extra powers to monitor, investigate and, if necessary, enforce REMIT. Any penalties we impose under REMIT must reflect how serious the infringement is, how long it has been going on, the damage caused to consumers and the potential gains from trading on the basis of inside information and market manipulation.

When the government introduces the regulations, we will consult on our approach to imposing penalties and the processes we will follow in using our investigatory and enforcement powers. We are also discussing with ACER, other NRAs and financial authorities (such as the Financial Conduct Authority) how best to co-operate. This will help us deal effectively with any cases that have a negative impact on wholesale energy markets in more than one EU country or which affect financial markets.

We think the REMIT regulations are a significant first step in dealing with market abuse in wholesale energy markets. We will be talking to DECC about how best to align the REMIT regime in Great Britain with what is happening across the EU to regulate market abuse.

Gas security of supply report

The Secretary of State for Energy and Climate Change asked us to look into risks to the medium and long-term security of gas supply in November 2011. This request was made in the context of declining UK gas production in the North Sea and increased reliance on international markets. This creates a higher risk of supply shortfall because of natural disasters, technical failures or geopolitical factors. We gave our report to government in November 2012. The report looks at:

- what the risks are to security of supply, given developments in the global gas market, and how serious they are
- the level of risk that remains after our proposed reform of emergency gas cash-out arrangements
- what potential measures could mitigate those risks
- the merits of those measures and how they could be put in place.

Our analysis found that only extreme circumstances would result in large-scale interruption to domestic customers and smaller businesses. Between 60 and 70 per cent of all gas sources (depending on the severity of winter) would need to be lost for there to be interruption of gas supplies to domestic consumers.

That level of disruption is highly unlikely, but the impact would be severe.

Considering further measures to secure supply

Great Britain has a broad diversity of gas supply but we also have less gas storage relative to consumption than any other major European economy. The cash-out reforms proposed under our gas Significant Code Review (SCR) should help to attract gas when supply is tight. But we concluded that market arrangements would still not reflect the value of security of supply to consumers.

Our report called for the government to consider other ways to keep gas supplies secure. It identified the need to strike a balance between greater security and the potential costs of market intervention, and called for more rigorous assessment of possible measures. They could include increasing provision of large-scale gas storage so consumers would be less exposed to price volatility. The government is considering whether to introduce obligations on suppliers, which could include requirements to set aside certain volumes of gas in storage or to introduce a regulated cap and floor regime to incentivise storage investment. The government is due to announce the next steps in the summer.

Gas Significant Code Review

We published our proposed decision for our Gas Security of Supply Significant Code Review (SCR) on 31 July 2012. We launched the SCR 18 months earlier to reform gas cash-out arrangements that prevail in the run up to a potential emergency.

Our main objectives with the SCR were to:

- make gas-deficit emergencies (GDE) less likely by encouraging gas shippers and suppliers to invest in keeping supply secure
- minimise the length and severity of any GDE that does happen by sharpening the incentives to attract gas into Great Britain
- compensate ‘firm’ customers (customers on non-interruptible contracts) if their supply is interrupted to balance the market.

Following publication of our proposed decision, a number of respondents raised concerns with our proposal to ‘unfreeze’ cash-out during emergencies and charge shippers short in their gas supplies into GB a cash-out based on an estimation of the value of lost load to domestic consumers of £20/therm. Respondents considered that this approach may act as a target price and as such have a negative impact on gas trading. As such, Ofgem have been working with respondents to develop alternative proposals; these include an auction process for industry participants to bid in the prices at which they will accept to reduce gas demand, which will feed into the calculation of cash-out. Ofgem intends to announce its proposed reforms in summer 2013.

Reflecting the true costs of an emergency

If shippers do not take the same amount of gas out of the system that they put in, they must pay imbalance penalties called cash-out charges. The charges reflect the costs to the system operator of having to balance supply and demand. Cash-out prices are currently frozen during emergencies and we were concerned that shippers would not face the true cost in these circumstances.

Under our proposed final decision, cash-out charges during an emergency would reflect the value of any lost gas supply to firm customers. The intention was that this would strengthen the incentive for gas shippers to make supplies more secure. Under these arrangements firm customers that were interrupted would be paid for the 'service' they are effectively providing to the system operator in balancing the system. These proposals were intended to make a GDE less likely, and would minimise the length and severity of a GDE if one did happen.

Our consultation on our proposed decision, which closed in October 2012, showed that the industry is concerned about the effect of these proposed changes in emergency cash-out arrangements. So we have held several workshops with the industry to explore how to address these concerns. We expect to publish our revised proposals later in the year.

Electricity capacity assessment

The Energy Act 2011 now requires Ofgem to carry out an Electricity Capacity Assessment every year for DECC. We produced an analysis based on joint modelling with National Grid, and published the results in October 2012. It was our first report of this kind.

We based the analysis on de-rated capacity margins, i.e. the amount of spare electricity capacity on the system going forward, taking into account the intermittent nature of wind power and the fact that conventional plants might not always be available. We estimated that de-rated electricity margins will fall from fourteen per cent in 2012–13 to four per cent in 2015–16. This is when the risk of a shortfall will be highest. Many coal-fired power stations have closed or face imminent closure because of EU environmental legislation. In addition, a number of older gas-fired power stations have been closed or mothballed.

Ofgem must submit the second annual assessment to government by 1 September 2013.

Electricity Balancing Significant Code Review

We launched our Electricity Balancing Significant Code Review (SCR) in August 2012. The aims of the project are to improve price signals for electricity balancing, to make the price signals more reflective of the costs of balancing, and to incentivise participants to balance and to improve overall efficiency of the balancing arrangements.

National Grid is responsible for balancing the market in real time. It takes account of short term variations in supply and demand, and imbalances caused by industry parties that do not generate or buy enough electricity to meet their contracted supply or demand. Companies responsible for these imbalances must pay cash-out penalties.

We have long standing concerns about cash-out prices. One concern is that they might not fully reflect scarcity at times of high demand and might not provide enough of an incentive for optimal security of supply. Another is that a lack of transparency and predictability in cash-out prices might put off potential market entrants.

In February 2013 we changed the scope of the SCR to prioritise the issues we think we need to look at immediately, such as ways we can help ensure cash-out prices are more cost reflective. We expect to publish a final policy decision early in 2014. We are working on a separate project to take forward other issues that were originally part of the SCR.

Strategic Wider Works

As the proportion of the country's electricity from renewable sources grows, it will pose new transmission challenges. Some large projects to reinforce the transmission network to accommodate renewables are likely to have high costs. Our Strategic Wider Works (SWW) mechanism began operating in 2012 to review these kinds of projects. It uses cost–benefit analysis to help us agree the best way forward with developers and make sure consumers get value for money.

SWW projects will help guarantee security of supply. They will also help make sure the network complies with the Security and Quality of Supply Standards, which set out criteria for transmission companies to use in their planning and operations. We have already started a small number of assessments under the SWW mechanism.

Electricity Market Reform

The government's Electricity Market Reform (EMR) programme aims to meet the long-term challenge of lower-carbon electricity, while maintaining secure and affordable supplies. Government analysis shows that around £75 billion of investment could be needed in this decade for new generation capacity.

DECC intends to make the system operator (National Grid Electricity Transmission plc) responsible for delivering EMR. In November 2012 we published a joint consultation document with DECC on potential conflicts of interest for National Grid arising from its new role and what we need to do about them.

The consultation closed on 29 January 2013 and we intend to publish a final report with our conclusions in spring 2013. We will aim to put our recommendations in place by mid-2014, when National Grid is likely to take on formal responsibility for delivering EMR.

New rules to fight gas theft

In January, we brought new rules into force to make sure energy suppliers do more to detect, prevent and investigate gas theft.

Gas theft puts lives at risk and increases the cost of gas for customers. Industry research estimates that theft may cost £138 million per year (around £6 per household).

The new regulations require gas suppliers to take more initiative on gas theft. Under the rules, suppliers will have to set up a new body, the Theft Risk Assessment Service, by March 2014. The new body will spot potential thefts and alert suppliers so they can investigate them (there are already similar bodies in the water, insurance and telecommunications sectors). We are also working with industry to make the incentives stronger for gas suppliers to detect theft.

We have worked with gas suppliers to establish standards for investigating suspected theft and approved a new code of practice in February 2013. This code of practice on how to investigate theft has been in effect from March 2013. We have also encouraged suppliers to look at a number of other ways to tackle gas theft, including:

- a stolen meters register to identify where meters have been illegally switched
- a 24-hour hotline so customers can report suspected theft
- a forum for suppliers to share best practice on tackling theft and co-ordinate better with other agencies.

We expect our package of reforms to at least double the number of thefts detected from 3,000 to 6,000 per year in the short term and for detection to increase as the new measures become established. We now want to apply similar, or equivalent, reforms to the electricity market.

Theme 3: Promoting quality and value for consumers

Retail market review

Putting consumers at the heart of the regulatory process

In 2011 and 2012, we commissioned and published a wide range of research and insight to inform our proposed policies to improve the functioning of the retail energy market. This put consumer perspectives at the heart of our regulatory processes. We listened to consumers through regular surveys and workshops, video research and focus groups.

In conducting our research we considered the needs of vulnerable groups by recruiting a range of different consumers or commissioning specific pieces of research focused on vulnerable groups.

Making the energy market simpler, clearer and fairer for consumers

In October 2012, we launched a further consultation on radical reforms to make the energy market simpler, clearer and fairer for consumers. In March, we published our final proposals for the reforms due to come into force in late summer 2013.

New rules for how suppliers treat domestic customers

Under the reforms, suppliers will be restricted to offering no more than four simple core tariffs per fuel type (electricity and gas) to domestic consumers. This will put an end to the complex and confusing range of offers consumers have to choose from at the moment.

Suppliers will have to produce clearer bills that show their cheapest tariffs. Consumers will also get fairer treatment, as suppliers will have to keep to strict standards of conduct. We will have powers to enforce these standards, and to impose fines where we find there has been a breach.

New rules for how suppliers treat small businesses

Our proposed reforms of the non-domestic retail market are designed to help businesses, particularly smaller businesses, get a better deal from the energy market with minimum hassle. They include:

- amending existing rules to bring more businesses under our micro business protections
- new rules to make processes clearer and simpler for smaller businesses
- new sanctions on energy suppliers who do not deal with smaller business customers fairly (for example, when communicating contractual information, when customers want to switch, when they have a deemed contract, or when billing).

Our proposals will mean suppliers now have to put contract end dates on consumer bills to help them avoid unwittingly rolling onto a new contract. We are also considering policy options around automatic rollovers, and will publish a call for evidence before the end of June 2013.

We are extending safeguards so that up to 160,000 more small businesses will get clearer information about their contracts. At the moment, these safeguards apply to businesses spending up to about £5,000 a year per fuel type. From the end of 2013, the definition of firms under the safeguards equates roughly to firms paying up to about £10,000 per year per fuel type.

Third party intermediaries

We have launched a review of the wider Third Party Intermediary (TPI) regulatory framework. This work examines a wide range of TPI related services, including those in both the domestic and non-domestic markets. We will consider whether the current regulatory frameworks - covering a wide spectrum of regulatory formats - are appropriate and able to deliver positive outcomes for current and future customers. As part of this, we have engaged with the Department of Energy and Climate Change (DECC) and sought an amendment to the Gas Act 1986 and Electricity Act 1989. This amendment would clarify the ability to use our powers to licensed TPI activities, provided such action was in the best interest of consumers. In parallel to work on the wider TPI framework we are undertaking a range of projects to promote and facilitate robust consumer interactions among TPIs operating in the energy market. This includes work on collective switching, coordination with TPIs operating in the non-domestic market and a review of the domestic comparison website code of practice (the Confidence Code). These specific areas of work will have important outcomes in their own right, but will also feed into and inform our consideration of the wider TPI framework. Further, we will ensure that all TPI related work is appropriately joined-up. Details of projects within the TPI work are below.

Collective switching

Collective switching is when consumers club together to negotiate better energy deals. It is a new development in the UK market, which could be an effective way to engage consumers.

The UK saw the first collective switch in May 2012, where 280,000 consumers registered with the 'Big Switch', organised by Which? and 38 Degrees. A number of smaller switches have followed, and we expect to see even more in 2013.

Ofgem has played a key role in the development of collective switching. We participated in DECC's collective purchasing working group, contributed to information leaflets DECC published for consumers and organisers of collective purchasing, and took part in the Secretary of State's roundtable discussions. We published an open letter in April to help suppliers, and others, wanting to take part in collective purchasing and switching schemes, understand the legal framework licensed suppliers have to operate within.

The Confidence Code

In March 2013, Ofgem took over management of the Confidence Code - a code of practice for household energy price comparison websites. Previously the code was managed by Consumer Focus. As signatories to the Confidence Code are TPIs, we will consider the ongoing regulatory framework provided by the code as part of our issues paper.

Non-domestic code of conduct

We want to tackle rogue brokers who are misselling energy contracts to businesses. We are working with suppliers and brokers to develop an industry-wide code of practice for brokers providing services to non-domestic consumers. We have also asked the government for certain powers under the Business Protections from Misleading Marketing Regulations 2008.

Liquidity

Our liquidity project aims to make sure there is effective competition in the wholesale electricity market. This will benefit consumers through increased competitive pressure on prices. We have been concerned that poor liquidity in the electricity wholesale market is posing a barrier to competition and to new companies entering the generation and supply markets.

In July 2012 we published an update on the progress the big six suppliers have made in opening up the wholesale market to improve retail competition. We found that liquidity was increasing, giving independent suppliers a better chance of a foothold in the retail market. But it was clear there was still room for improvement.

Securing and promoting a better market

In December 2012 we published a new consultation on how to improve liquidity in the wholesale market. We said that overall our objectives had still not been met. But there were positive signs that let us propose an approach we call Secure and Promote (S&P) that builds on that progress. It aims to safeguard positive developments so far through a licence condition, while still pushing for more improvements.

Companies would have to take various steps to support our liquidity objectives. For example, they would have to buy and sell at least 30 per cent of their generation at auctions for use the next day. We set out more high-level options for S&P and the consultation closed in February 2013.

We have also kept open the possibility of a Mandatory Auction (MA), which would mean the 'big six' would have to sell 25 per cent of their generation through a monthly open auction. We consulted on the MA option in February 2012 and still believe it offers a viable option instead of S&P if required. We have continued to refine the design of the MA accordingly.

We recognise that we need to move quickly to secure benefits for consumers and provide certainty to market participants. We aim to make a final decision before the summer. If we choose intervention, we would aim to modify licence conditions by the end of 2013.

RIIO (T1, GD1 and ED1)

We took the final decisions on the electricity transmission (RIIO-T1) and gas distribution (RIIO-GD1) price controls in 2012 and they came into effect in April 2013. They relate to the network companies operating Britain's high voltage electricity grid and high and low pressure gas networks, and will run until 2021.

RIIO was designed to encourage companies to meet the unprecedented challenges they will face in the next decade. They will need to find more than £30 billion of investment to upgrade and renew infrastructure to meet environmental targets and secure energy supplies. We created RIIO specifically to provide a stable framework to attract this investment while delivering long-term value for money for consumers.

We used our Consumer Challenge Group to make sure consumers' concerns were heard in drawing up both RIIO-T1 and RIIO-GD1. The group comprises a small number of consumer experts, who act as our 'critical friend' and offer challenging views that might not reach us through market research. We have also brought together a Consumer Challenge Group for electricity distribution (RIIO-ED1).

Getting a fair price for consumers

We cut more than £7 billion from the original spending plans submitted by network companies to make sure consumers get a fair price. The increased investment required will increase annual household bills by an estimated average of £9.60 each year. This is an average across the eight years and not cumulative. We estimate that at the end of the price control in 2021, bills will be around £12.70 higher than today. Of the total average bill impact, £6.20 is related to tax changes outside our control that will affect gas distribution network companies.

We published our final proposals relating to RIIO-T1 and RIIO-GD1 in December 2012.

RIIO-T1 relates to the transmission companies National Grid Electricity Transmission (NGET) and National Grid Gas (NGG). It earmarks £15.5 billion of investment for electricity and gas transmission networks. In return, companies will have to deliver a range of outputs across six categories: safety, reliability, availability, customer satisfaction, connections and environmental. A mix of financial incentives, reputational incentives and statutory requirements will encourage them to comply.

RIIO-GD1 relates to the eight gas distribution networks (GDNs) that transmit gas to homes and businesses. It provides around £8.7 billion to make sure Britain's low-pressure gas networks stay safe and reliable. We will require the GDNs to cut gas transport losses (which are 95 per cent of their carbon footprint) by 15 to 20 per cent by 2021. For the first time, they will have to demonstrate that public awareness of the risks of carbon monoxide poisoning has improved. We will also require improvements in customer service, rewarding or penalising companies according to their performance. GDNs will also have to connect 80,000 fuel-poor consumers to the network over the period.

Encouraging networks to engage with their stakeholders

To incentivise network companies to engage with their stakeholders, as part of RIIO we have set up an independent panel to judge how well network companies perform in this area. The panel is made up of senior stakeholder experts from other industries and backgrounds. The process includes an initial sift by Ofgem, then an assessment by the expert panel against an agreed set of criteria. The panel gives a score out of 10, which then translates into financial reward, which can be worth up to several million pounds. We undertook a dry run of this process (without financial incentives) for electricity distribution companies in 2012, and will be running it for real in 2013 together with a dry run for gas and transmission networks.

Encouraging delivery through RIIO-ED1

In September 2012 we launched a consultation on price-control proposals for 490,000 miles of low-voltage electricity network that delivers power to homes and businesses. The new control, known as RIIO-ED1, is due to run from 2015 to 2023. In that time we expect increased take-up of low-carbon technologies, including heat pumps, solar panels and other small-scale renewable generation. Networks will need to be flexible and smarter to allow connection of these new technologies.

In March 2013 we published our strategy decision for RIIO-ED1. This detailed the outputs distribution network operators (DNOs) will need to deliver, including safety, reliability and customer satisfaction, with strong incentives for delivering them efficiently. We are also providing strong incentives to make sure DNOs work to identify and help vulnerable and fuel-poor customers. For an average DNO, the rewards for good performance and the total value of penalties could both be up to £300 million over the eight years.

We also set out how we will assess companies' business plans and the importance of innovation. DNOs can use the document to develop well-justified business plans, which they must submit to us by 1 July 2013. We will then start initial assessments of the plans and consider whether any company merits having its price-control settlement fast-tracked. We will set out our findings at the end of September 2013.

Protecting vulnerable consumers

Energy Best Deal

2012 was the fifth year of our successful partnership with Citizens Advice (a charity that provides free and independent advice to consumers). Together, we deliver the Energy Best Deal consumer advice campaign, with funding support from energy suppliers. The campaign gives Citizens Advice advisers and other front line advice workers the training they need to give face-to-face advice to lower income households on their energy rights and how to get the best from their energy deal.

8,473 consumers and 6,105 frontline workers came to Energy Best Deal sessions in 2011–12. An independent evaluation of Energy Best Deal in this period found that:

- consumers found the session useful and 36 per cent (of 153 consumers interviewed) had taken action to get a better deal on their energy bills since the session
- frontline workers felt better informed following the session (on average, three months following the session, frontline workers had passed on information from the session to an average of eight clients).

Consumer vulnerability strategy

In September, we launched a consultation on our proposed Consumer Vulnerability Strategy, which aims to help us develop a more sophisticated understanding of consumer vulnerability. This understanding will have an impact on what we expect from suppliers and distributors. Our proposals have been welcomed by many who consider a fresh perspective on vulnerability is both necessary and timely.

Understanding this issue better will inform all our work. There are many different factors that might make someone at risk of being vulnerable – their individual characteristics or circumstances – and the actions of the energy companies can make this worse. By understanding these factors we can better support consumers in vulnerable situations.

The strategy aims to build on other work we have done to protect vulnerable people, for example our Social Action Strategy, and our Retail Market Review, which aims to make the energy market simpler for everyone.

The consultation also asked for views on our proposed 2013 plan on consumer vulnerability, including:

- Looking at how the potential benefits of collective switching could be extended to cover vulnerable consumers.
- A review of the Priority Services Register (PSR) which provides services for customers who are of pensionable age, disabled or chronically sick, or have hearing or sight impairments. They are eligible for certain free services – for example a password protection scheme and free meter reads if they cannot read their meter. The purpose of the review is to make sure the Priority Services Register is providing the right type of support to consumers in vulnerable situations. As part of the review we have already commissioned research into consumers' views and experiences of the PSR.
- Setting up a Consumer Vulnerability Network. This could be made up of grassroots organisations that have direct contact with vulnerable consumers. The group could contribute to developing policy, help find new ways to engage consumers and make sure Ofgem stays connected to the real experience of the consumers we are trying to help through our strategy.

Helping customers in debt

We reviewed the Debt Assignment Protocol and in September 2012 we announced measures to increase the number of prepayment meter customers switching supplier. The main six suppliers voluntarily agreed to:

- make more customers aware that they can switch and improve the switching process
- increase the debt limit from 1 November, which means prepayment meter consumers with a debt of up to £500 can switch supplier if they want to.

These measures are part of our efforts to encourage suppliers to proactively resolve debt problems and use disconnection only as a last resort. They will help tens of thousands of people who were previously above the debt threshold.

We also published an open letter setting out suppliers' approaches and our good practice expectations in relation to non-domestic debt and disconnection. We will monitor the number of non-domestic customers they are disconnecting through regular information from suppliers. If we see evidence that suppliers are not acting in accordance with our expectations we may consider the case for further intervention.

Better supplier complaints data

In the last year, British Gas, EDF, E.ON, npower, Scottish Power and SSE all published better, more accessible information on how many complaints they each get and how quickly they handle them. This was in response to our Retail Market Review.

To make it easier for customers to compare suppliers, we have introduced a common format that all suppliers are now using to present their complaints information. They will update the information quarterly.

We have encouraged suppliers to give consumers information on how well they are performing and what they are doing to improve. Many suppliers responded by publishing a 'top five' reasons for complaints, with an explanation of what they are doing about them.

We have also told suppliers that their complaints data should be no more than two clicks away from their homepage and be easily searchable.

As well as suppliers publishing their own complaints data, the Energy Ombudsman has agreed to publish information showing the number of complaints referred to them by supplier.

Enforcement

This year we continued to take a tough stance on enforcement.

Investigations

In the past 12 months we completed several investigations.

In March 2013, we announced our proposal to impose a financial penalty on SSE for misselling. This followed an intense investigation launched in September 2010. The case was heard in December 2012 by a panel of three authority members.

SSE had put more than 20,000 customers on more expensive tariffs. It gave misleading scripts to its sales agents and most of their monitoring activity was carried out by line managers who received commission on the sales their reportees brought in. SSE's senior management did not pay enough attention to what its people were doing on the ground. We fined SSE £10.5m.

In November 2012, as a result of one of our investigations, E.ON committed to pay back around £1.4 million to about 94,000 customers who were wrongly charged exit fees or overcharged after price rises. E.ON also agreed to make an extra goodwill payment of around £300,000 to a consumer fund they run with Age UK.

In September 2012, we finished an investigation into Opus Energy Limited for misreporting how much electricity they had supplied under the government's Renewables Obligation (RO). We fined the company £125,000 and asked them to retire a total of 7,016 RO certificates, worth around £360,000. Opus Energy have also agreed to do a yearly audit of their RO reporting procedures as a result of the investigation.

In May 2012, we confirmed our decision on EDF, which we originally made in March 2012. EDF had acted in breach of its marketing licence conditions. We agreed measures with EDF worth £4.5 million to help vulnerable consumers.

In July 2012, we finished an investigation into Wales & West Utilities (WWU), which found the company had misreported how quickly they were decommissioning and replacing their iron gas pipes. We fined WWU £375,000.

In May 2012, we accepted commitments offered by Electricity North West Limited (ENW) in relation to a competition law investigation. Our investigation looked into the charges ENW imposed on Independent Power Networks Limited (IPNL) for connection into ENW's distribution service area.

Broader enforcement work

Aside from investigations, we are continuing our Enforcement Review, which takes a close look at our enforcement policies and procedures to maximise the impact and efficiency of our enforcement work.

In June 2012, we completed the first phase of the review, updating our Enforcement Guidelines to take account of current procedures. In March 2013 we published an open letter to our external stakeholders consulting on proposals for our strategic framework and for decision makers. Our proposals include:

- establishing a vision for our enforcement work and strategic objectives to make it clearer how we will approach that work
- looking at Ofgem's strategic enforcement priorities every year to identify areas of particular concern
- adapting our decision-making processes to delineate our final decision making from our investigation work more clearly, and help us increase our capacity to make more enforcement decisions
- public guidance to be applied by our decision makers in contested and settlement cases.

Our proposed vision is: 'To achieve a culture where businesses put energy consumers first and act in line with their obligations.' The vision is part of our overall review of the enforcement regime.

The review's scope includes our approach to penalties, and Ofgem's new consumer redress powers, which we expect to come into force around the end of the year. These powers will enable Ofgem to order a company to make redress if we find they have breached a licence condition or other regulatory requirement. This will apply to cases where one or more consumers have suffered loss or damage or been caused inconvenience as a result of the breach.

This year we also set out why we need more powers from the government to tackle the misselling of energy deals to businesses. This is part of our wider work to protect small business customers. We are seeking powers to enforce the Business Protection from Misleading Marketing Regulations (BPMMRs). This would mean we can take direct action against 'rogue' brokers that missell energy to businesses. It would add to the new package of tougher rules we have proposed for how suppliers should treat their business customers, following our investigation of the retail market. We are also developing a code of practice for brokers.

System operator incentives

System operator (SO) incentive schemes are designed to encourage National Grid Electricity Transmission (NGET) and National Grid Gas (NGG) to operate the electricity and gas transmission systems efficiently, and to effectively manage the costs of operating them.

The schemes set cost targets that NGET and NGG have to meet. If their actual costs are under target, NGET and NGG get an incentive payment; if they are over target, they face an incentive penalty. We set the incentives every one to two years.

In December, we published our final proposals for the new gas incentives. They took effect from April 2013 and will last for eight years. In May 2013 we published our final proposals for electricity SO incentives.

Theme 4: Timely and efficient delivery of government programmes

Offshore transmission tenders

We granted two Offshore Transmission Owner (OFTO) licences to own and operate offshore wind farm transmission links in 2012–13. We awarded the licence for the connection to the Ormonde farm in July 2012 and the licence for the connection to the Walney 2 farm in September 2012. They add to the four we granted the year before, which means we have now licensed the six fully constructed projects out of the nine in the first round of tenders. The round has so far connected 961 MW of offshore wind power to the grid.

We also appointed preferred bidders for two of the four projects in the second tender round, and launched the process for the West of Duddon Sands project, which attracted considerable investor interest. Once all licences are granted, we estimate the first two tender rounds will have attracted around £2.5 billion of investment. They will connect 3.9 GW of offshore wind. We also certified six OFTOs in line with new European unbundling legislation during 2012–13.

Bringing forward tender enhancements

Our competitive tenders attract new investment in vital new infrastructure, allow new players to enter the market and keep down costs for consumers. This approach has attracted £470 million of investment into the offshore transmission sector so far. This money enables wind farm developers to invest in new wind farm projects. The National Audit Office (NAO) has noted that the competitive tendering regime has delivered benefits by attracting new market participants and finance with competition holding down tender prices.

Although the offshore regime is now well established, we continue to look at areas for improvement. As well as the enhancements to investment coordination described in Theme 1, we worked with DECC to implement new secondary legislation which established the tender processes for all future offshore transmission projects. In February 2013 we introduced new regulations on tenders for offshore transmission licences. They set out how we will run tenders and whether the generator or the offshore transmission owner (OFTO) does the initial building work.

Licences granted so far were awarded under a transitional regime drawn up in 2010. We expect the new enduring regime to be used in several tenders in the next decade. The third-round tender, the first under the enduring regime, is likely to start in the second half of 2013. Future tender rounds could attract investment of more than £15 billion.

Energy-efficiency schemes

We administered two schemes aiming to help people make their homes more energy efficient. Both ended in December 2012. The Carbon Emissions Reduction Target (CERT) put a statutory obligation on gas and electricity suppliers to reduce carbon emissions from homes by putting in energy efficiency measures like insulation. The Community Energy Saving Programme (CESP) required energy suppliers and electricity generators to help people on low incomes make their homes more energy efficient.

We published our findings on whether the suppliers and generators have met their obligations under both schemes at the start of May 2013.

Energy Company Obligation

The Energy Company Obligation (ECO) is the government's new domestic energy efficiency programme, which has replaced the Carbon Emissions Reduction Target and Community Energy Saving Programme and works alongside the Green Deal. We will administer the scheme until it ends in March 2015.

ECO places a legal obligation on the major energy suppliers to help make households more energy efficient. The suppliers have to report to us on their progress each month, and we had the first reports back in March 2013. Our role is to:

- check that measures are compliant and being properly reported to us
- approve alternative methods for calculating carbon savings
- monitor the suppliers' progress against their obligations
- report to the Secretary of State for Energy and Climate Change on the suppliers' progress
- decide at the end of the programme whether or not they have met their obligations and take enforcement action where necessary.

Warm Home Discount Scheme

We administer part of this scheme to help customers who are in, or at risk of, fuel poverty. Our role is to check that energy suppliers are meeting their obligations.

This was the scheme's second year. We achieved our target, set out in the Warm Home Discount Regulations 2011, to assess all proposals from suppliers within 28 days.

Feed-in Tariffs

This was the third year of the Feed-in Tariffs scheme, which aims to get more people using small-scale renewable and low-carbon technologies to generate electricity. Licensed electricity suppliers (FIT licensees) pay tariffs, at a set rate for each kWh, to anyone who generates their own electricity. We maintain a database of all registered installations known as the Central FIT Register, make sure suppliers comply with regulation, and accredit generating stations with a capacity of more than 50 kilowatts, plus all hydro and anaerobic digestion installations.

At the end of the third year there were 379,822 registered FIT installations, up from around 248,000 already registered 12 months earlier. The vast majority were solar photovoltaic (PV) installations (98.54 per cent). We recorded a slight increase in the proportion of wind installations to 1.24 per cent, compared with 0.99 per cent at the end of year two. Having reached its first Gigawatt (GW) of renewable capacity during its second year, the scheme progressed to a total capacity of 1.79GW at 31 March 2013.

A stable future for FITs

Alongside the continued uptake of Feed-in Tariffs, Phase 2a of DECC's Comprehensive Review of FITs came into effect in August 2012, and Phase 2b in December 2012. Phase 2a set out the government's final decisions on solar PV tariffs in line with a reduction in costs for the technology. It also made us responsible for setting solar PV tariffs quarterly from 1 October 2012 via a degression mechanism to periodically reduce the level according to the rate of deployment. This approach is consistent with a stable, predictable future for FITs that should avoid any need for emergency reviews.

Phase 2b relates to non-PV technologies and administration issues. It established new tariff levels for anaerobic digestion, hydro (except for installations in the range of 100–500 kW), micro CHP and wind. A degression mechanism for non-PV technologies is planned to come into effect from April 2014.

Renewable Heat Incentive

The first scheme of its kind globally, the Renewable Heat Incentive (RHI) provides funding to help businesses and public sector organisations switch from oil and gas-fired heating systems to sustainable ones. We received 1,650 applications in the year to 31 March 2013. Since RHI's launch in November 2011, we have accredited 1,243 heating systems, and are making payments in respect of those which continue to comply with their ongoing obligations and for which periodic data is submitted to Ofgem. As of 31 March 2013, we were reviewing another 167 applications, with 571 incomplete applications back with applicants after we asked for more details.

We run an enquiry line for businesses with queries about how to take part. We received 24,778 calls and we dealt with a similar number of emails. We strongly encouraged organisations to use our secure online IT system and almost all applications for the RHI came through it. We also extended the RHI scheme to Northern Ireland in November 2012.

Schools, farms, poultry sheds, piggeries, housing associations, garden nurseries, holiday cottages and even a giraffe house have all successfully applied for accreditation.

Extending the benefits to domestic customers

In September 2012 DECC published proposals to launch a domestic RHI providing subsidies to householders for installing sustainable heating. DECC plans to publish its new policy in summer 2013 and expects the scheme to open for payments from spring 2014.

The government is proposing to support the following technologies:

- air-source heat pumps that heat water
- biomass boilers
- ground-source heat pumps
- solar thermal systems.

Amending the Renewable Obligation and banding

The Renewable Obligation (RO) is the main support mechanism for renewable electricity projects in the UK. It came into effect in 2002 in England, Wales and Scotland and in 2005 in Northern Ireland. It means electricity suppliers have to source an increasing proportion of power they generate from renewable sources. DECC sets the figure by 1 October in the year before it comes into effect.

Each month generators tell us how much renewable electricity they generated. We then issue them with Renewables Obligation Certificates (ROCs) in line with the amount of renewable electricity they generated. Generators can then sell their ROCs to suppliers, who ultimately have to present them to us to show they met their obligation. If they don't present enough ROCs they have to pay a penalty known as a 'buy-out price', with the money going back on a pro-rata basis to suppliers who presented ROCs.

New bands to be introduced this year

DECC introduced banding to guide how we issue ROCs in 2009. The change recognised the fact that cheaper renewable technologies were being taken up much faster than more expensive technologies. Banding means the number of ROCs issued per MWh of electricity generated varies between different generation methods.

The Secretary of State for Energy and Climate Change must review the bands every four years. From 1 April 2013 the new bands were in force in England, Wales and Scotland, with a start date of 1 May in Northern Ireland. With some technologies, small-scale schemes will receive proportionately bigger rewards. For example, onshore wind farms with capacity above 5MW will receive 0.9 ROCs for every MWh of electricity generated, but this will rise to four ROCs for onshore wind plants of up to 250kW.

We prepared for the 1 April 2013 banding changes by making and testing the necessary administration process and IT system changes before the system was due to go live on 1 April, also evaluating how we could keep administration costs down.

Delivering government programmes efficiently

Designing and operating offshore transmission tenders, together with environmental and social programmes on behalf of government is now approaching one-half of our costs. These are funded by a mix of charges to the programme participants and direct government funding.

We develop and administer around £5 billion of environmental schemes for under 1 per cent of the programme cost on a not-for-profit basis (a more normal benchmark for similar schemes is 2 per cent). Our regulatory powers are a key reason why we can administer these schemes so efficiently.

Government schemes are increasing in value and becoming more complex in the way they are structured, so it is likely that the costs of administering them will increase.

This year we have also started a Process Improvement Programme. The programme consists of 12 initiatives to improve the way we deliver our processes now, and bring in new ways of working to help us perform better in the future.

MOU between Ofgem and DECC

On 25 March 2013 Ofgem and DECC signed a Memorandum of Understanding (MoU), which sets out how DECC and Ofgem E-Serve will work together on the environmental and social schemes Ofgem delivers. Ofgem is an independent regulator but also has a statutory role in a number of schemes for which DECC has policy responsibility. The MoU does not affect Ofgem's independence but it sets a clear framework for how the two organisations work together.

Ofgem and DECC have worked together for a number of years now on several schemes. We have a good working relationship, and the MoU captures this in a written document, which clarifies expectations, communications and funding.

Value for money

We are still managing our finances tightly. This financial year, we have achieved savings against budget for the eighth year running. We have saved £1.4 million on licence-fee-funded costs and we will be giving this money back to licence-fee payers.

This is despite the fact that, once again, our workload has increased: reforming the retail markets, putting in place new price controls, keeping the market in check and delivering government programmes have all been on the agenda this year. We try to strike the right balance between doing our regulatory duties as well as we can, and keeping our costs down.

Controlling our costs

In 2010, we made our second five-year commitment to an RPI-3 cost-control regime, which means we have to achieve real-term savings of three per cent a year, totalling £12.5 million. The year to March is the third year of that commitment and we are on track to make those savings.

The RPI cost-control regime allows us to increase or decrease the overall budget cap to reflect major new pieces of work (or major reductions in our workload). It is set by our Audit Committee and overseen by independent assurance.

This financial year saw our budget cap increase because of the costs involved in two major new pieces of work: putting in place our Retail Market Review and administering the government's new Energy Company Obligation scheme.

Cutting our operational costs

We are in the process of simplifying administration processes (for example, HR and finance) and bringing them online to keep costs down. By using online recruitment, we have more than halved our costs per recruit.

Our employees saw below-inflation pay rises this year after a two-year salary freeze. They are also contributing more to their pensions.

We continue to tighten our spending on specialist consultants and so decreased our consulting spend in 2012-13 by 8.8 per cent.

Using our buildings efficiently

We are continuing to use our office space efficiently through hot-desking, home working and using smaller desks. We have invested in videoconferencing technology for meetings and training sessions, which saves money on travel. We have cut office space per head (full-time equivalent) from 14.5 m^2 in 2010–11 to 12.8 m^2 in 2012–13.

This year our official Display Energy Certificate (DEC) rating went down to 79, compared to 165 when we first rated it in 2008.

Section C
Corporate Governance

Governance Statement

The Gas and Electricity Markets Authority

We operate under the direction and governance of the Gas and Electricity Markets Authority, which makes all major decisions and sets policy priorities. The Authority is made up of executive and non-executive members.

How appointments are made

Lord Mogg KCMG was appointed non-executive Chairman of the Authority for five years on 1 October 2003 by the Secretary of State for Trade and Industry. The appointment was made after an open competitive process. Lord Mogg had been a non-executive member of the Authority since May 2003. In February 2008, he was reappointed for a further five years, with a higher number of hours reflecting extra responsibilities, until September 2013.

The search by DECC for a new Chairman of the Authority is in progress. The appointment will be made by the Secretary of State for Energy and Climate Change, with the approval of the Prime Minister.

The Secretary of State also appoints the other non-executive members of the Authority after consulting the Chairman of the Authority.

Alistair Buchanan CBE was appointed Chief Executive of Ofgem and an executive member of the Authority on 1 October 2003. A civil service commissioner oversaw the appointment, which was made after a fair and open competitive process.

On 13 December 2012, Alistair Buchanan announced that he will leave in June 2013 when his second five-year term comes to an end. The new Chairman and the Authority will appoint a new Chief Executive.

The other executive members of the Authority are appointed in line with the Civil Service Management Code. They hold their positions for as long as they hold their senior posts at Ofgem. These arrangements are in line with the EU's Third Energy Package and its rules covering appointments to National Regulatory Authorities in member states.

For details of Authority members' remuneration, see the remuneration report later in this section.

Executive members of the Authority who served during the year

Alistair Buchanan CBE, Chief Executive, was appointed in October 2003.

Stuart Cook, Managing Director, E-Serve, was appointed in November 2010. His appointment ended in February 2013 when he resigned from Ofgem.

Sarah Harrison, Senior Partner, Sustainable Development, was appointed in May 2005.

David Pimm, Group Finance Director, Corporate Functions, was appointed in February 2012. His appointment ended in May 2012 when he resigned from Ofgem.

Dr Andrew Wright, Senior Partner, Markets, was appointed in January 2008.

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

Lord Mogg KCMG joined in May 2003. He was appointed non-executive Chairman in October 2003 and reappointed in February 2008. His appointment ends in September 2013.

Professor David Fisk CB joined in July 2009. He was reappointed in June 2012 to serve until June 2017.

Miriam Greenwood OBE DL joined in May 2004. She was reappointed in January 2010 and her appointment ended in January 2013.

Professor Paul Grout joined in October 2012. His appointment ends in September 2017.

David Harker CBE joined in January 2009. He was reappointed in December 2011 and his appointment ends in December 2016.

John Howard joined in July 2009. He was reappointed in June 2012. His appointment ends in June 2017.

Jim Keohane joined in January 2009. He was reappointed in December 2012 and his appointment ends in December 2017.

Keith Lough joined in October 2012. His appointment ends in September 2017.

Jayne Scott joined in May 2004. She was reappointed in January 2010 and her appointment ended in January 2013.

John Wybrew OBE joined in May 2004. He was reappointed in May 2009 and his appointment ended in May 2012.

The non-executive members are considered to be independent of management and make up a majority of the Authority. Apart from the following disclosures, they have no company appointments, consultancy arrangements or other significant interests that conflict with their responsibilities as members of the Authority.

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

Keith Lough has shares and options to buy shares in an energy company he does not work for any more and that Ofgem does not regulate. When he joined, he agreed to restrict his dealings in these shares and options by putting a trust agreement in place while he is a member of the Authority.

A close family member of John Wybrew's has shares in Shell and BP. He had agreed when Mr Wybrew was originally appointed not to deal in these shares while Mr Wybrew was a member of the Authority and for 12 months afterwards.

Authority meetings and activities

The Chairman and other non-executive members play a full part in Authority business. They attended full Authority meetings and committee meetings during the year as follows:

	The Authority	Audit Committee	E-Serve Programmes Committee	Offshore Electricity Transmission Committee	RIIO-T1 Transmission & Distribution Price Control Committee	RIIO-ED1 Electricity Distribution Price Control Committee	Remuneration Committee
Lord Mogg	11/11	-	-	-	4/4	3/3	2/2
David Fisk	11/11	4/5	-	-	3/4	2/3	-
Miriam Greenwood	9/9	-	-	3/3	4/4	3/3	-
Paul Grout	6/6	-	-	2/2	2/2	3/3	-
David Harker	11/11	5/5	4/4	-	3/4	-	1/1
John Howard	11/11	-	-	-	-	2/3	-
Jim Keohane	11/11	-	4/4	4/4	-	-	1/1
Keith Lough	6/6	2/2	-	2/2	-	-	-
Jayne Scott	8/8	3/3	-	-	4/4	3/3	1/1
John Wybrew	2/2	-	-	-	-	-	1/1

Working closely with the European Commission, the European Parliament and other bodies, the Chairman, Lord Mogg, has continued to help develop EU regulatory policy for energy in his roles as president of the Council of European Energy Regulators and chairman of the EU's Agency for the Cooperation of Energy Regulators. He is also chairman of the International Confederation of Energy Regulators.

The Authority met in Scotland in September 2012, and in Wales in November 2012, using both occasions to meet local energy stakeholders in the public and private sectors.

As it does each year, the Authority asked all members to fill in a detailed questionnaire so it could assess the performance of the Chairman and the Authority as a whole. The review covered Authority procedures for its meetings, its papers, operational matters, its committees and the conduct of business. The Authority discussed the results. The Chairman also reviewed the individual performance of each of the non-executive members of the Authority, looking at their contributions to its work. DECC Ministers got both sets of analyses. In addition, our internal auditors continued to review governance matters.

The Authority had an away day in June 2012, partly in closed session, involving the Chairman and non-executives. It considered a detailed survey of its performance during the year, and a range of topics on Authority governance and procedures. It was designed to help the Authority improve its overall efficiency and effectiveness. Meetings with interested parties happened after the main meetings.

Non-executives have kept in close contact with the Ofgem teams dealing with the areas of special responsibility the Chairman has given each of them. The Chairman has reviewed these assignments and the membership of the committees of the Authority in light of changes in the make-up of the Authority as a whole and its future business needs.

The Chairman and a number of other non-executives have played a substantial role in considering and advising the Authority on price-control proposals under our RIIO processes, involving meetings with the transmission and distribution industry. Committees of the Authority have looked at and advised it on audit and risk issues, offshore electricity transmission, and the work of E-Serve and the programmes it administers for DECC.

Members have attended other briefing sessions and meetings during the year – for example on the Retail Market Review, risk management, consumer policies, security of supply issues and the government's proposals for electricity market reform. In accordance with the Authority's procedures for considering enforcement matters, a number of non-executives have been involved with Enforcement Committees and/or Settlement Committees as required.

The Authority's corporate structure, with committees having clear terms of reference, continues to provide assurance that there is a strong framework of governance throughout the organisation. In particular, the Audit Committee has looked at risk assessment and mitigation strategies across the organisation on both financial and policy matters. It has concentrated especially on the administrative work we do for government and the development of our role in devising and implementing a new offshore electricity transmission regime and new environmental schemes.

In November 2012, Audit Committee and Authority members held a workshop addressing cyber security and managing the risk of fraud.

During the year, the Authority reviewed both the membership of its committees and their rules and procedures.

We publish minutes of the Authority's meetings on our website, along with the committees' terms of reference. The Authority remains interested in finding new ways to highlight its work.

The Authority's committees

Audit Committee

This committee advises the Authority and the Accounting Officer where it concerns them, on anything that affects our financial health, financial reporting, probity, reputation or wider risk management and governance system. The committee also oversees our RPI–3% cost control regime. It met five times in 2012–13. Jayne Scott chaired the committee until the end of her appointment. Keith Lough has taken over this role.

E-Serve Programmes Committee

This committee, set up in October 2011, advises the Authority on the effectiveness and efficiency of Ofgem E-Serve in delivering a range of energy programmes for DECC. The committee includes two observers from DECC. It meets quarterly, with Jim Keohane as Chairman.

Offshore Electricity Transmission Committee

This committee advises us and the Authority on developing and implementing the offshore electricity transmission regime. The Committee met four times in 2012–13. Miriam Greenwood chaired it until her appointment ended. Paul Grout has taken over this role.

RIIO Transmission and Distribution Price-Control Committee

This committee scrutinises our proposals for the gas and electricity transmission price-control reviews and the gas distribution price-control review, and advises the Transmission and Gas Distribution teams and the Authority on the main areas. The committee, chaired by Lord Mogg, will also be asked to meet the gas and electricity transmission companies and the gas distribution companies and challenge their proposals in a proactive forum.

RIIO Electricity Distribution Price-Control Committee

This committee scrutinises our proposals for the next electricity distribution price control review, and advises the Electricity Distribution team and the Authority on the main areas. The committee, chaired by Lord Mogg, will also be asked to meet the electricity distribution companies and challenge their proposals in a proactive forum.

Enforcement Committees

Under the Rules of Procedure, the Authority created two types of enforcement committee in 2003. One is set up, whenever it is necessary, to consider enforcement action concerning possible breaches of licence and statutory obligations. The second considers companies' compliance with the Competition Act 1998. Each one is made up of different Authority members, but always has a majority of non-executive members and a non-executive member as chairman. The Authority has, in some cases, set up settlement committees to conclude investigations and make decisions on issues like compensation and redress.

Remuneration Committee

This committee, chaired by Lord Mogg, looks at the pay and performance of senior staff, and also succession planning. For details of the committee's members, its role, and senior staff salary and pension entitlements, see the remuneration report later in this section.

Our executive teams and audit arrangements

Senior Management Team

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

The Executive

The Executive is responsible for considering and providing advice or instruction on all policy issues and advice on (including recommendations for inclusion in) papers prior to their submission to the Authority. It seeks to ensure that Ofgem/E-Serve policies have been fully thought through and are consistent across Ofgem. It is made up of all the executive members shown in the remuneration report and is chaired by the Chief Executive. It meets weekly.

Management Committee (for E-Serve)

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

Executive Risk Committee

This committee helps the Chief Executive maintain a culture of effective risk management. It is made up of all the executive members shown in the remuneration report and the Legal Partner, Smarter Grids and Governance: Transmission. It meets quarterly.

Audit arrangements

The Comptroller and Auditor General, who has been appointed under statute and reports to parliament, has audited the resource accounts. The notional cost of auditing the resource accounts and trust statement was £52,500 (2011–12: £52,500). There was no auditor remuneration, actual or notional, for non-audit work.

The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that our auditors are aware of that information. So far as he is aware, there is no relevant audit information of which our auditors are unaware.

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 chosen to outsource the internal audit function to make sure that we get completely independent and fully professional analysis and recommendations. We appointed Deloitte on 1 April 2010 to provide internal audit services after a competitive tender.

Our governance system and risk management

Our governance system is designed to bring the risk of failing to meet targets in our four policy areas down to a level the Authority is comfortable with, but not to eliminate it completely. So it can only provide reasonable, and not total, assurance of effectiveness.

The governance system has been in place for the year ended 31 March 2013 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Enterprise risk management strategy

Our enterprise risk management strategy sets out:

- why managing risk is important
- the mechanisms we have in place to manage risk
- information on how to identify, assess and manage risk
- details of people's roles and responsibilities so we make sure we manage risk effectively.

As part of the strategy, we have made risk management an integral part of policy-making, planning and delivery. Partners and directors are responsible for making sure everyone in their area knows about the risk management strategy and for putting it in place. We updated the strategy in November 2011 and the Audit Committee approved it. All staff can see it on our intranet.

Risk and control environment

Major influences are shaping the energy sector. They include the new Energy Bill, Electricity Market Reform, and the need to attract investment in energy infrastructure, as well as the fast-evolving EU agenda for energy regulation, the creation of a single market in energy, and the impact of these on the UK. Our programme of projects recognises and responds to these issues appropriately and on time.

The Forward Work Programme 2012–13, published in March 2012, included four strategic priorities to protect the interests of consumers:

- building a low-carbon economy
- helping to keep energy supply secure
- providing quality and value for consumers
- delivering government programmes efficiently and on time.

Because of the changing energy sector, the need for our organisation, with its single objective to protect consumers' interests in all their complexity, has never been greater. Making a positive difference for all energy consumers has been, and will continue to be, what drives us and our staff. For 2013–14, we have grouped our activities around four themes:

- promoting value for money
- promoting security of supply
- promoting sustainability
- ensuring efficient delivery of the government's consumer and environmental programmes.

All these challenges come with risks, and we recognise and embrace the crucial role risk management plays in helping us tackle them. The Management Committee has prepared a separate top risks profile to cover E-Serve.

Our aim is to put sensible enterprise risk management procedures in place in all areas of our work. Managers see risk management as an integral part of their job, and the Senior Management Team and Management Committee keep the top risks we face under review.

Personal data incidents

We have a data security policy to keep all official information private and secure. There were no recorded incidents of losses of personal data in 2012–13.

The Accounting Officer's review of effectiveness

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

Of the 27 recommendations that internal audit made and expected us to implement by 31 December 2012, we have fully implemented 13. We are currently implementing another 13, and 1 is outstanding.

This year, we took a number of steps to monitor and improve our governance system.

- The Risk Committee agreed our strategic risks.
- The Senior Management Team, the Management Committee (for E-Serve) and the Audit Committee reviewed our strategic risks.
- E-Serve's Fraud Management Group met each month to initiate and review work related to fraud prevention and detection, and to make sure we were properly managing suspected cases of fraud, misreporting or money laundering.
- We updated our fraud policy and fraud response plan in June 2012.
- We reviewed the way we tackle cyber security and manage the risk of fraud at a workshop in November 2012.
- The Associate Director Finance and Risk Management regularly met Senior Partners and Managing Directors individually to review resources, review progress made towards objectives, and identify and evaluate the associated risks.
- We updated our governance statements to require all Partners and Directors to consider and report on all aspects of financial and risk management and other governance control issues in their own area.
- We updated our business continuity plans, particularly in preparation for the Olympics, making sure we could carry on our main work if there was a disruption.

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

Alistair Buchanan, CBE
Accounting Officer

14 June 2013

Remuneration report

Remuneration Committee

The Remuneration Committee comprises of non-executive members of the Authority who are appointed by ordinary resolution of the Authority for a term of not more than one year. Members may be reappointed. The Remuneration Committee is chaired by Lord Mogg, Chairman of the Authority. Other members were non-executives Jayne Scott, the previous Chair of the Audit Committee and John Wybrew. When their term of office on the Authority expired, they were replaced by Keith Lough, the new Chair of the Audit Committee, and David Harker. The Chief Executive attends as an observer.

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

Remuneration (including salary) and pension entitlements

The information set out 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 members of Ofgem (not all of whom are Authority members) during 2012–13 were as follows:

Remuneration	2012-13 Salary	2012-13 Bonus Payments	2012-13 Benefits in kind	2011-12 Salary	2011-12 Bonus Payments	2011-12 Benefits in kind
	£000	£000	Nearest £100	£000	£000	Nearest £100
Senior executive members of Ofgem						
Alistair Buchanan Chief Executive	205-210	15-20	-	205-210	15-20	-
Sarah Harrison Senior Partner	135-140	15-20	-	135-140	15-20	-
Ian Marlee Senior Partner and Director Communications (from March 2012)	125-130	10-15	-	5-10*2	-	-
Hannah Nixon Senior Partner (from March 2012)	105-110	15-20	-	5-10*2	-	-
David Pimm Group Finance Director (to July 2012)	45-50*1	-	-	140-145	-	-
Dr Andrew Wright Senior Partner	180-185	15-20	-	180-185	15-20	-

Remuneration	Salary	2012-13 Bonus Payments	Benefits in kind	Salary	2011-12 Bonus Payments	Benefits in kind
	£000	£000	Nearest £100	£000	£000	Nearest £100
Senior executive members of Ofgem E-Serve						
Stuart Cook Managing Director	155-160	-	-	155-160	-	-
Robert Hull Managing Director	130-135	-	-	125-130	15-20	-
Non-executive members of the Authority						
Lord Mogg	210-215	-	5,900	210-215	-	9,300
Highest Earner's Total Remuneration			£224,715			£224,715
Median Total Remuneration			£38,165			£35,910
Ratio			5.89			6.26

*[1]Annual equivalent basic salary (excluding performance pay) for David Pimm: 140-145
*[2]Annual equivalent basic salary (excluding performance pay) for Hannah Nixon: 130-135, Ian Marlee: 130-135

'Salary' includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

In addition to the honoraria paid to the non-executive directors, which are included in salaries, they are also entitled to receive actual expenses evidenced by receipts.

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

'Bonus payments' are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2012–13 relate to performance in 2011–12 and the comparative bonuses reported for 2011–12 relate to performance in 2010–11.

'Benefits in kind' covers any monetary benefits provided by the employer and treated by Her Majesty's Revenue and Customs (HMRC) as a taxable emolument. Payments outlined above were net of tax and the tax amounts were paid over to HMRC. Travel arrangements for Lord Mogg fell into this category.

Other non-executive members of the Authority who were remunerated by payment of an honorarium	Honorarium 2012-13	Honorarium 2011-12
David Fisk	£25,000	£25,000
Miriam Greenwood	£22,731	£28,000
Paul Grout	£10,564	-
David Harker	£25,000	£25,000
John Howard	£25,000	£25,000
Jim Keohane	£28,000	£26,750
Keith Lough	£10,564	-
Jayne Scott	£22,731	£28,000
John Wybrew	£3,629	£25,000

	Real increase in pension and related lump sum at age 60	Accrued pension at age 60 at 31 March 2013 and related lump sum	CETV at 31 March 2013	CETV at 31 March 2012	Real increase in CETV	Employer's contribution to partnership pension account
Pension Benefits	**£000**	**£000**	**£000**	**£000**	**£000**	**Nearest £100**
Senior executive members of Ofgem						
Alistair Buchanan Chief Executive	2.5-5.0	20-25	331	271	37	N/A
Sarah Harrison Senior Partner	2.5-5.0	25-30	417	352	38	N/A
Hannah Nixon Senior Partner	2.5-5.0	15-20	167	114	40	N/A
Ian Marlee Senior Partner and Director Communications	2.5-5.0	10-15	120	85	20	N/A
David Pimm Group Finance Director	0-2.5	15-20	191	159	23	N/A
Dr Andrew Wright Senior Partner	2.5-5.0	20-25	273	207	39	N/A
Senior executive members of Ofgem E-Serve						
Stuart Cook Managing Director	N/A	N/A	N/A	N/A	N/A	£24,000
Robert Hull Managing Director	2.5-5.0	15-20	330	267	41	N/A
Non-executive member of the Authority						
Lord Mogg	N/A	N/A	N/A	N/A	N/A	N/A

The remaining information has not been subject to external audit.

Service contracts

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

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

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

Remuneration of senior members is set out in their contracts and subject to annual review in line with awards recommended by the Senior Salaries Review Body. Senior members of Ofgem, apart from Lord Mogg, are all permanent members of staff. The notice period for all senior members of Ofgem does not exceed six months.

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

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

Non-executive members, apart from the Chairman of the Authority, have fixed-term appointments normally for up to five years. These appointments are renewable. Remuneration and appointments are set by the Secretary of State for Energy and Climate Change after consulting the Chairman. Their remuneration is by payment of an honorarium of £25,000 per annum plus an additional allowance where any Authority committee-chairing duties are undertaken. They have no entitlement to performance related pay or pension entitlements. Compensation in the event of early termination is at the discretion of the Secretary of State. The non-executive Chairman of the Authority, Lord Mogg, has an appointment that commenced on 1 October 2003 for five years. In February 2008, he was reappointed for a further five years until September 2013. In 2010–11, the Secretary of State decided that, given his considerable additional responsibilities at the EU level, as President of the Council of European Energy Regulators (CEER) and Chairman of the European Regulators' Group for Electricity and Gas (ERGEG), Lord Mogg's part-time hours should be increased.

The following salary and pension details are provided in accordance with the 2012–13 Government Financial Reporting Manual issued by HM Treasury and EPN notice 359 issued by Cabinet Office.

Civil Service Pensions

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

Employee contributions are salary-related and range between 1.5 per cent and 3.9 per cent of pensionable earnings for classic and 3.5 per cent to 5.9 per cent for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2013. 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 or her 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 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.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 that 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, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Alistair Buchanan, CBE
Accounting Officer

14 June 2013

Statement of the Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, we are required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by us during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Ofgem at the year-end and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Treasury has appointed the Chief Executive as our Accounting Officer with responsibility for preparing our accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the resource accounts, the Accounting Officer is required to comply with the Government Financial Reporting Manual prepared by the Treasury and, in particular, to:

- observe all 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 financial statements on a going concern basis.

The relevant responsibilities of the Accounting Officer (including his responsibility for the propriety and regularity of public finances for which an Accounting Officer is answerable, for the keeping of proper records and for safeguarding our assets) are set out in Managing Public Money published by the Treasury.

Section D
Management commentary

Our business: what we do, and our aims and objectives

We protect the interests of consumers who get their electricity and gas from the mainstream networks.

We are a non-ministerial government department and our priorities are set by our governing body, the Gas and Electricity Markets Authority. The Authority's responsibilities are defined by EU and UK laws such as: the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998, the Utilities Act 2000 and the Energy Acts 2004, 2008, 2010 and 2011.

We divide our work into four themes, outlined in our Forward Work Programme 2012–13.

Appendix I shows our deliverables and performance indicators for each one.

Financial and operating performance

Income

In 2012–13, our income was £73.333 million. Of that, £49.239 million came from licence fees. The rest was mainly from the Offshore Transmission Tender recharge (£4.338 million), and new environmental scheme funding (£16.512 million).

We collected £4.860 million from licence-fee payers for consumer advocacy delivered by Consumer Focus which we transferred to the Department for Business, Innovation and Skills (BIS). We also collected £0.720 million and transferred it to the National Measurement Office (NMO) for metrology services carried out under the Consumers, Estate Agents and Redress Act 2007 (metrology services transferred from us to the NMO on 1 April 2009 under the Energy Act 2008).

As well as our £73.333 million operating income, we also received £0.379 million of public money for monitoring exemptions from the Climate Change Levy.

In 2012–13 we saved £1.362 million on licence fees. We did this by reducing expenditure, particularly on staff and consultancy costs. We will offset these savings against future licence fee charges laid out in our RPI-3% cost regime.

In addition, £5.4m budgetary savings were achieved in E-Serve arising primarily from three areas: during implementation of the domestic Renewable Heat Incentive, awaiting completion of transmission assets in the Offshore Transmission tender, and process improvement efficiency savings.

We started the current RPI-3% cost regime in 2010–11. It is a five-year scheme designed to save £12.5 million. In our last five-year cost regime, we saved £11.9 million – significantly more than the £5.3 million we planned – and we returned these savings to licence-fee payers.

Spending

Total gross operating costs were £73.712 million.

Of this, 84.2 per cent went on three main areas: staff costs (58.8 per cent), accommodation (13.7 per cent of gross costs, but we recovered 3.9 per cent from DEFRA who share the building) and contractors (11.7 per cent). For more details see Note 8.

Capital expenditure was £1.222 million. We spent this on office equipment, furniture, information technology and leasehold improvements.

Output

We have outlined how we performed financially against our strategic themes in Note 8.2. We met forty-five deliverables on time and eight with a delay. One target no longer applies and nine have been deferred until 2013-14. See Appendix I for the list of 2012–13 deliverable targets.

Budgets and liquidity

Parliament approves our budget, after we have consulted with industry and other interested parties. For 2012–13 it approved: a main estimate gross resource budget of £82.247 million, a capital budget of £1.490 million and a net cash requirement of £6.135 million. A Supplementary Estimate allowed us to increase our net cash requirement by £10.866 million to cover working capital demands.

Reconciliation between estimate and budget

	2012-13	2011-12
	£000	£000
Net Resource Outturn (Estimate)	5,300	674
Net Operating Costs (Accounts)	379	674
Resource Budget Outturn (Budget)	3,657	674
Of which:		
Departmental Expenditure Limits (DEL)	3,657	674
Annually Managed Expenditure (AME)	-	-

We drew down a Contingency Fund advance of £15.0 million in April 2012 to provide short term liquidity until we had started receiving licence fees. We repaid this in full in August 2012.

The net cash requirement outturn of £3.417 million is lower than the Estimate net cash requirement of £17.001 million. As a result of the need to repay to the Consolidated Fund, an amount of £8.124 million relating to 2011–12, our remaining net cash requirement was £8.877 million. The difference between this and the net cash requirement outturn was due to our total expenditure being less than budgeted, and our accrued expenditure being significantly higher at the end of the financial year than we had anticipated at the time of the production of the Estimate.

We will hold back £8.902 million due to be paid to the Exchequer and use it to fund operations in 2013–14 until we get enough income from licence fees.

Finance and provisions

In 2003, we chose to outsource statutory examining and testing services to SGS UK Ltd (our laboratories at Leicester had provided those services up to then). Some costs of this change, particularly redundancy and continuing pension liabilities, have fallen to us and we had to make provisions in 2003–04 that now total £0.231 million.

We have made a provision of £0.282 million to cover the costs of pensions for people who have retired early. We have also set aside £0.690 million to cover unfunded pension liabilities for a previous Chief Executive, and a previous Director General.

The lease on our Millbank headquarters has a break point in June 2017. We have included a dilapidations provision in the accounts for the estimated cost, at this date, of returning the building to the landlord in the same condition as it was when we moved in. The estimated cost is based on cost indices published by the Royal Institution of Chartered Surveyors.

Our Statement of Financial Position at 31 March 2013 shows positive Taxpayer's Equity of £6.307 million

Review of tax arrangements of Public Sector appointees

In May 2012, the government published a review of the tax arrangements of public sector appointees. The review identified the number of off-payroll engagements worth more than £58,200 per annum across government. Ofgem reported five such engagements as at 31 January 2012.

Between 31 January 2012 and 31 March 2013, one of these has come onto payroll, two have been renegotiated to include contractual clauses allowing Ofgem to seek assurance as to their tax obligations, and two have come to an end.

Between 23 August 2012 and 31 March 2013, zero new off-payroll engagements, for more than £220 per day and lasting longer than six months were initiated.

Improving our supply chain

Environmental procurement

Our Procurement Team make most buying decisions based on best value for money. But where contracts potentially affect areas covered by our environmental policy like catering, cleaning or other building services, we also use environmental criteria based on our ISO14001 policies to score tenders.

In March 2010, we were awarded the Standard of Excellence Certification by the Chartered Institute of Purchasing and Supply. This is a global accreditation for excellence in procurement through policies, procedures and strategies.

Quicker creditor payment

We are signed up to the Better Payment Practice Code set by the Better Payment Practice Group, a forum of business community members and government representatives. This means we pay bills within 30 days (or another agreed period) of receiving goods or services, or invoice, whichever is later. During 2012–13 we paid 100 per cent of undisputed bills inside this time frame (we also achieved 100 per cent in 2011–12).

In 2008, the government challenged departments to pay all suppliers within ten working days. This year we paid 92.32 per cent (against 98.73 per cent in 2011–12) of undisputed bills inside this timeframe.

For amounts contractually due and invoiced by 31 March 2013, the outstanding number of days' purchases is 10.3 days (31 March 2012: 0.1 days).

Reports to the Parliamentary Ombudsman

During 2011–12, the most recent year data is published for; the Parliamentary Ombudsman received three complaints about the Gas and Electricity Markets Authority. None of these complaints were accepted for investigation by the Ombudsman.

Our people

Investing in learning and development

We really value our people. Offering them opportunities to learn new skills and develop their careers helps us keep them for longer and attract new people. That is why we invested £0.868 million in learning and development this year (compared to £0.687 million in 2011–12).

Our Learning and Development Strategy helps us keep activities in tune with what the business needs. In 2012–13, the Learning and Development team:

- Introduced a transparent secondment process to provide staff with the opportunity to develop their skills and knowledge linked to their development plans and the needs of the organisation
- Worked with the organisation to build the feedback culture through 360 degree feedback and team sessions
- Further developed the culture of inclusion within Ofgem by introducing a new Diversity training programme for all staff which includes annual refresher training and regular updates to SMT
- Began work with E Serve to further define the capabilities which are key to their success as part of the Process Improvement Project (PIP). We will use this information to define an E Serve focused learning and development plan in early 2013–14 and build this into business as usual
- Began work to introduce an electronic system to allow staff to book themselves onto training courses

Employee involvement

Our Staff Consultative Committee helps us manage, develop and train our people effectively.

This year we sent out a staff engagement survey, which received a response rate of 64 per cent.

Promoting health and safety at work

We take our legal responsibility for the health, safety and welfare of our employees seriously – including 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 objectives in more detail and is available to all employees.

Equal opportunity

We actively promote equality and diversity at work – in employment, training and career development, and in our dealings with stakeholders. Nobody should suffer discrimination because of age, disability, gender re-assignment, pregnancy or maternity, race, religion or belief, sex or sexual orientation.

At the end of the financial year:

- 1.2 per cent (1.0 per cent in 2011–12) of staff were known to be disabled
- 47 per cent (46 per cent in 2011–12) of staff were women
- 43 per cent (43 per cent in 2011–12) of staff in managerial grades were women
- 43 per cent (32 per cent in 2011–12) of Senior Civil Service members in Ofgem were women
- 33 per cent (19 per cent in 2011–12) of staff were known to be of ethnic minority origin
- 12 per cent (14 per cent in 2011–12) of staff known to be of ethnic minority origin were in managerial grades.

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

Single Equalities Scheme

Ofgem's principal objective is to protect the interests of existing and future gas and electricity consumers. In our dual role as an employer and regulator, we are committed to meeting our legal obligations and promoting equality and diversity amongst our workforce and our ways of working to the industry we regulate. To this end, we have recently published our Single Equalities Scheme (SES) which sets out our approach to both our staff and internal processes, and our policy development and decision making. The SES sets out a clear action plan for the coming year. We are committed to reviewing the SES on a regular basis.

Days lost because of absence

In 2012–13, we lost an average of 5 days a year per employee (2011–12: 7 days). This compares favourably with the public sector average of 7.9 days a year per employee and is in line with the private sector average of 5.7 days.

Communities

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 or employment-tribunal panel member.

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

Sustainability Report

Sustainable development in policymaking

Our duty to contribute to the achievement of sustainable development is a statutory responsibility (on an equal footing with our duties to meet reasonable demand and to enable licensed companies to finance their authorised activities) and a central part of our role.

Our approach to sustainable development must take account of factors impacting greenhouse gas emissions, security of supply, affordability and local environmental impacts.

Though we cannot influence everything needed to deliver a sustainable energy sector, we see it as part of our duties to facilitate change in the energy industry. So our commitment to sustainable development means that we engage in the debate, use our powers to regulate where necessary and contribute information and expertise. We do this in a number of ways.

Improving assessment of strategic and long-term sustainability factors

Sustainability considerations are often complex and hard to assess in purely monetary terms due to being both long-term and highly uncertain. In July 2012 we published a discussion paper entitled 'Strengthening strategic and sustainability considerations in Ofgem decision making' which set out a structured approach to accounting for mid-term strategic effects and long-term sustainability effects. We proposed to assess the potential implications of decisions by first using a stress and security assessment. This test would look at possible effects on security of supply, the risk of extreme prices and the impact on the UK's legal obligations. Secondly, we would use a natural asset and greenhouse gas assessment to consider longer-term implications. This would look at possible effects on total greenhouse gas emissions, the UK's 2050 greenhouse gas emissions target and on environmental assets such as biodiversity, water quality, air quality, marine habitats and landscapes.

The discussion paper formed the basis for a series of five workshops at which we developed our proposals with input from industry, government officials and NGOs. We used this exercise to inform our proposals to update our approach to Impact Assessment.

Updating our approach to Impact Assessment

We have a statutory duty to carry out and publish Impact Assessments (IAs) on our policy decisions that represent a major change or have a significant impact on consumers or regulated businesses. In 2012 we committed to review our guidance on IAs, and sustainability considerations were one of the key areas of this review.

We proposed to take account of the considerations outlined above in our IA processes, to:

- support well-informed, evidence-based decision making
- provide a systematic approach to considering issues with long-term or hard-to-monetise strategic and sustainability implications
- provide a transparent assessment method on which to base decisions that help to protect the interests of present and future consumers.

We published a consultation on the various revisions we are proposing to our IA guidance in March 2013. The consultation is clear that, in the context of our work, strategic considerations include contributing to the government's work on tackling fuel poverty, ensuring security of supply and aiding the transition to a low carbon economy. Longer-term sustainability considerations include consistency with carbon reduction targets and resilience to potential threats such as climate change.

Listening to expert advice on sustainability

Our Sustainable Development Advisory Group (SDAG) helps guide us on environmental and consumer issues and reinforces our commitment to sustainability. It is an independent panel made up of policy experts from government, industry and interest groups, and is chaired by Lord Mogg.

Members advise us on our priorities in all areas of our work that relate to sustainable development: in 2012–13 this included (for example) our Consumer Vulnerability Strategy, RIIO-ED1, Integrated Transmission Planning and Regulation and Demand-Side Response. The Group meets three times a year and senior executives attend the meetings to hear first hand the discussions, different considerations and any conclusions drawn. This ensures the views of the group are taken into account when high-level decisions are made. SDAG will continue its work in the coming year.

Our own environmental performance

British Standards Institution accreditation

In July, the British Standards Institution (BSI) awarded us the ISO 14001 Environmental Management Standard for our London office. The standard recognises our commitment to sustainability and the quality of our environmental management system (EMS), which is how we manage and reduce our environmental impact more effectively.

In March, BSI also recommended our Glasgow office for accreditation.

Cutting greenhouse gas emissions

This year our official Display Energy Certificate (DEC) rating went down to 79 (a D rating), compared to 165 when we first rated it in 2008. We have now beaten the target we set ourselves in our energy-reduction plan to move our rating from a G rating in 2008 to an E rating. We are now aiming for a C rating in 2013-14.

We have achieved this by:

- fitting motion sensors and 6-watt LED lamps in our stairwells
- doing a full review of our heating policy, including changing how we run our combined heat and power system
- setting up our heating and air conditioning to automatically respond to the temperature in the office, and putting temperature limits in place
- continuing to install energy-efficient lighting and taking out electrical equipment we no longer need.

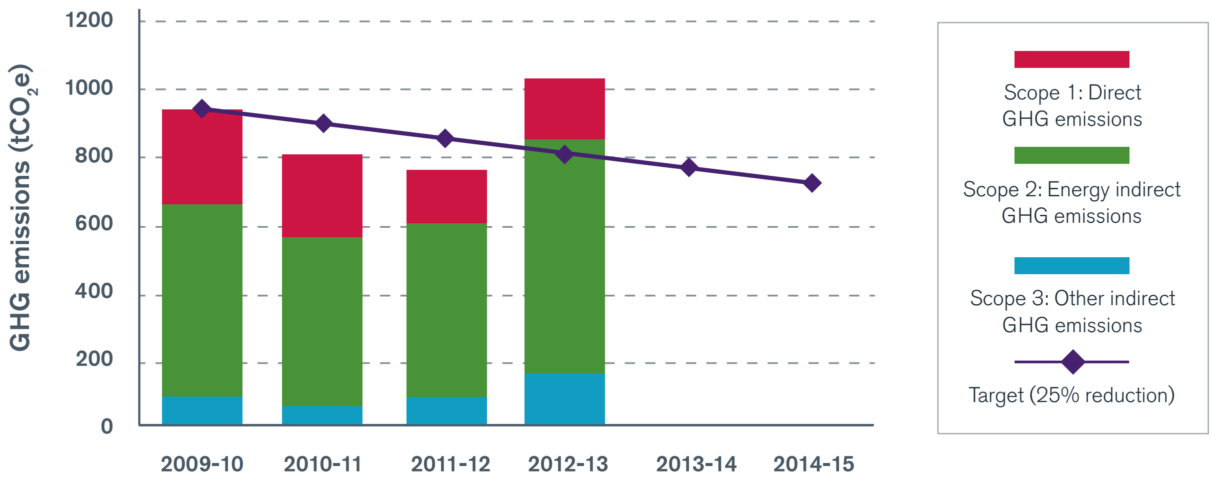
We look at our energy consumption every day and act quickly if we need to change anything. We have weekly meetings to keep on top of our environmental performance. And we do regular out-of-hours ‘walk rounds’ to spot any problems and put them right.

This financial year, travel and energy usage increased as did our headcount, although emissions per Full Time Equivalent (FTE) continue to fall year on year. At the same time we have doubled our videoconference units in our London office.

Greenhouse Gas Emissions		2009-10	2010-11	2011-12	2012-13
Non Financial Indicators (tCO_2e)	Total gross emissions	948	804	759	1,010
	Total net emissions (i.e. less reductions – e.g. green tariffs)	355	278	217	347
	Scope 1: Direct GHG emissions	290	230	150	147
	Scope 2: Energy indirect GHG emissions	593	526	542	685
	Scope 3: Other indirect GHG emissions*	65	48	67	178
Related Consumption Data (kWh)	Electricity: Non-Renewable (k)	–	–	–	42
	Electricity: Renewable (k)	1,130	1,002	1,033	1,274
	Gas (k)	1,578	1,240	816	795
	LPG	–	–	–	-
	Other	–	–	–	-
Financial Indicators	Expenditure on energy	£138,240	£122,836	£140,556	£185,762
	CRC Licence Expenditure	–	£1,200	£1,200	£1,290
	Expenditure on official business travel	N/A	N/A	£140,905	£296,684

* Scope 3 covers travel data based on travel bought through the approved travel provider; it does not include travel bought from other sources. For 2012-13, a higher level of travel reflects, in part, enhance usage of the travel provider.

Overview of current emmisions with reduction target



Reducing water consumption

We brought in specialist consultants to look at ways to reduce how much water we use at our London office. In early October, we started introducing water-saving measures, including:

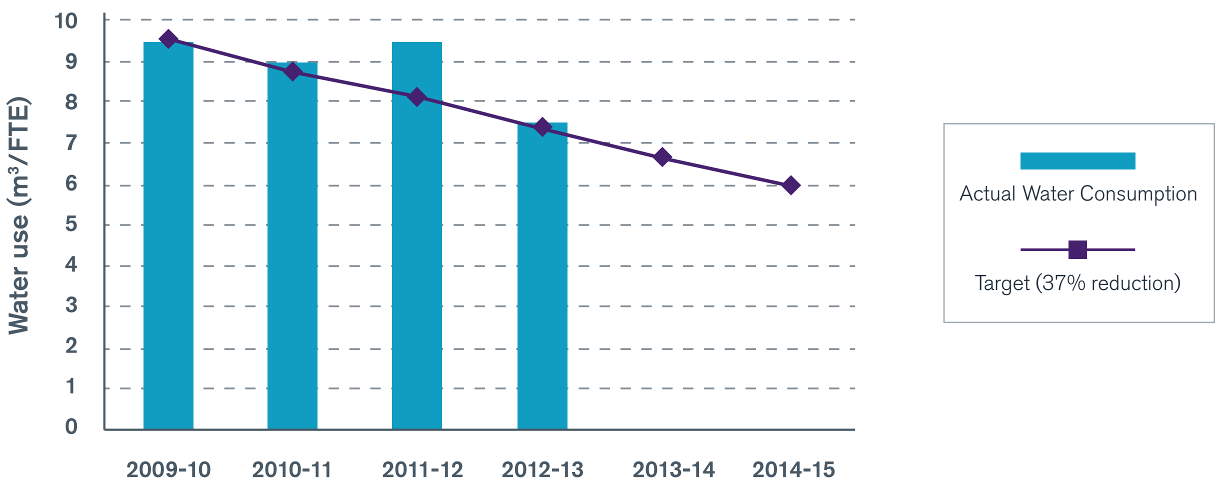
- installing infra-red sensors on urinals so they only flush when they have been used, rather than automatically flushing every half-hour
- halving water pressure in the showers (from 16 litres per minute to 8) and reducing pressure in the taps from 9 litres per minute to 4
- installing 16 water meters to better identify and control where we use our water

These simple measures have seen our weekday water use drop from 45m³ to an average of 32m³. Our weekend water consumption has halved.

Our target, in line with the Greening Government benchmark, is to reduce our annual usage down to 6m³ per FTE or below. The next step will be to look at the toilets on each of the floors to see how we can make them more efficient.

Water			2009-10	2010-11	2011-12	2012-13
Non-Financial Indicators	Water Consumption (m^3)	Supplied	4,026	4,509	5,462	5,974
		Per FTE	9.5	9.02	9.48	7.5
Financial Indicators	Water Supply Costs		£9,026	£9,271	£10,562	£18,426

Comparison of actual water use with reduction target

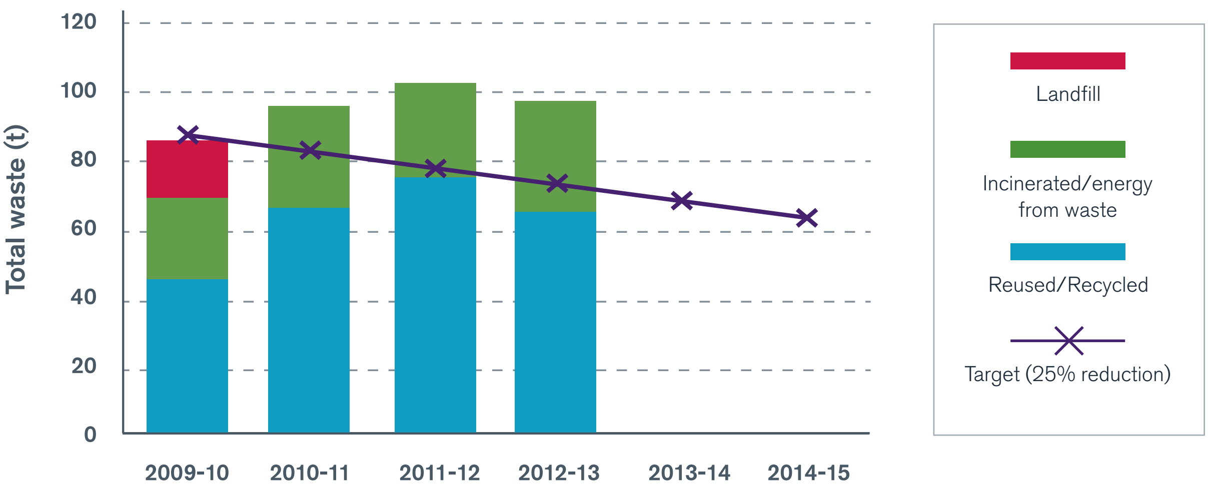


Reducing waste

Despite increased staff numbers the total amount of waste has decreased slightly in the last year. The amount of waste per FTE has dropped by 37%. We sent zero waste to landfill for the third year running.

Waste			2009-10	2010-11	2011-12	2012-13
Non-Financial Indicators (tonnes)	Total Waste		85	96	107	98
	Total Waste per FTE		0.20	0.19	0.19	0.13
	Hazardous Waste		1	0	6	0
	Non Hazardous Waste	Landfill	13	0	0	0
		Reused/Recycled	46	69	76	65
		Incinerated/energy from waste	25	27	25	33
Financial Indicators	Total Disposal Cost		£11,845	£18,237	£20,862	£34,831

Comparison of actual waste with reduction target



Section E
Resource Accounts and Trust Statement

Resource Accounts

These Resource Accounts have been prepared and published by the Office of Gas and Electricity Markets (Ofgem). The Accounts have been prepared under a direction issued by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000. The accounts demonstrate the resources that have been used in an efficient and effective manner to deliver our objectives. These Resource Accounts have been prepared in accordance with the guidance set out in the Government Financial Reporting Manual.

Contents

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2013 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2013 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse

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

17 June 2013

Accounting schedules

Statement of Parliamentary Supply
Summary of Resource and Capital Outturn 2012-13

	2012-13							2011-12
	Estimate			Outturn				Outturn
	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with estimate: saving/(excess)	Total
Departmental Expenditure Limit								
Resource	5,300	-	5,300	3,657	-	3,657	1,643	674
Capital	1,490	-	1,490	1,222	-	1,222	268	815
Annually Managed Expenditure								
Resource	-	-	-	-	-	-	-	-
Capital	-	-	-	-	-	-	-	-
Total Budget	6,790	-	6,790	4,879	-	4,879	1,911	1,489
Non-Budget Resource	-	-	-	-	-	-	-	-
Total	6,790	-	6,790	4,879	-	4,879	1,911	1,489

Total Resource	5,300	-	5,300	3,657	-	3,657	1,643	674
Total Capital	1,490	-	1,490	1,222	-	1,222	268	815

Net Cash Requirement (£000)	Note	2012-13 Estimate	2012-13 Outturn	2012-13 Net total outturn compared with estimate: saving/(excess)	2011-12 Outturn
Net cash requirement	4	17,011	3,417	13,584	(1,023)

Administration Costs (£000)	2012-13 Estimate	2012-13 Outturn	2012-13 Net total outturn compared with estimate: saving/(excess)	2011-12 Outturn
	5,300	3,657	1,643	674

Explanations of variances between Estimate and Outturn are given in the financial and operating performance note.

Statement of Comprehensive Net Expenditure for the year ended 31 March 2013

			2012-13 £000		2011-12 £000
	Note	**Staff costs**	**Other Costs**	**Income**	
Administration costs					
Staff costs	7	43,322			36,102
Other costs	8		30,390		25,936
Income	6			(73,333)	(61,364)
Totals				379	674
Net operating cost for the year ended 31 March 2013	3			**379**	**674**
Total Expenditure				73,712	62,038
Total Income				(73,333)	(61,364)
Net operating cost for the year ended 31 March 2013				**379**	**674**

There is no other comprehensive net expenditure.

Statement of Financial Position as at 31 March 2013

	Note	31 March 2013 £000		31 March 2012 £000	
Non-current assets:					
Property, Plant and Equipment	9	3,222		3,110	
Total non-current assets:			3,222		3,110
Current assets:					
Trade receivables and other current assets	11	25,214		21,598	
Cash and cash equivalents	12	8,902		8,124	
Total current assets:			34,116		29,722
Total assets:			**37,338**		**32,832**
Current liabilities:					
Trade and other payables	13	(26,904)		(26,955)	
Total current liabilities			**(26,904)**		**(26,955)**
Total assets less current liabilities			**10,434**		**5,877**
Non-current liabilities					
Provisions	14	(3,103)		(1,303)	
Other payables	13	(1,024)		(1,341)	
Total non-current liabilities			**(4,127)**		**(2,644)**
Assets less liabilities			**6,307**		**3,233**
Taxpayers' equity:					
General fund			6,307		3,233
Total taxpayers' equity			**6,307**		**3,233**

Alistair Buchanan, CBE
Accounting Officer

14 June 2013

The notes on pages 63 to 82 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2013

		2012-13	2011-12
	Note	£000	£000
Cash flows from operating activities			
Net operating cost	3	(379)	(674)
Adjustments for non-cash transactions	8	3,119	1,115
Increase in trade and other receivables	11	(3,616)	(3,108)
less movements in receivables relating to items not passing through the SoCNE		-	-
Increase in trade payables	13	(368)	8,572
less movements in payables relating to items not passing through the SoCNE	13	(778)	(3,887)
Use of provisions	14	(173)	(180)
Net cash outflow from operating activities		(2,195)	(1,838)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(1,222)	(815)
Proceeds of disposal of property, plant and equipment		-	-
Net cash outflow from investing activities		(1,222)	(815)
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		4,195	2,864
Advances from the Contingencies Fund		15,000	15,000
Payments to the Contingencies Fund		(15,000)	(15,000)
Net financing		4,195	2,864
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		778	3,887
Cash and cash equivalents at the beginning of the period	12	8,124	4,237
Cash and cash equivalents at the end of the period	12	8,902	8,124

The notes on pages 63 to 82 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2013

		General Fund
	Note	£000
Balance at 31 March 2011		**4,887**
Changes in taxpayers' equity for 2011-12		
Non-cash charges – auditor's remuneration	8	53
Net operating cost for the year	3	(674)
Losses relating to pension liabilities	14	(10)
Total recognised income and expense for 2011-12		**(631)**
Net Parliamentary Funding – drawn down		2,864
Net Parliamentary Funding – deemed		4,237
Supply payable adjustment		(8,124)
Balance at 31 March 2012		**3,233**
Changes in taxpayers' equity for 2012-13		
Non-cash charges – auditor's remuneration	8	53
Net operating cost for the year	3	(379)
Losses relating to pension liabilities	14	(17)
Total recognised income and expense for 2012-13		**(343)**
Net Parliamentary Funding – drawn down		4,195
Net Parliamentary Funding – deemed		8,124
Supply payable adjustment		(8,902)
Balance at 31 March 2013		**6,307**

Notes to the departmental Resource Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2012-13 Government 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 context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Ofgem for the purpose of giving a true and fair view has been selected. The particular policies adopted by us are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires us to prepare one additional primary statement. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

1.2 Property, Plant, Equipment and depreciation

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

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

Leasehold improvements	Life of the lease
Office equipment, furniture and fittings	5 years
IT equipment	3 years

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

1.3 Provisions

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

Where the time value of money is material, we discount the provision to its present value using a discount rate of 2.35 per cent, the government's standard rate. Each year the financing charges in the Statement of Comprehensive Net Expenditure include the adjustments to amortise one year's discount and restate liabilities to current price levels.

1.4 Operating income

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

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

1.5 Foreign exchange

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

1.6 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described at Note 7. The PCSPS is both non-contributory, and unfunded. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. There is a separate scheme statement for the PCSPS as a whole.

Our former Chief Executive and Director General have separate pension arrangements that are broadly analogous with the PCSPS. The arrangements provide for a defined benefit, unfunded scheme. However, unlike the PCSPS, a pension liability is included in the accounts as required under IAS 37.

1.7 Early departure costs

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

1.8 Value Added Taxation

Value Added Tax (VAT) is accounted for in the accounts, in that amounts are shown net of VAT except:

- irrecoverable VAT is charged to the Statement of Comprehensive Net Expenditure and included under the heading relevant to the type of expenditure, and
- 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 in respect of VAT is included in Receivables within the Statement of Financial Position.

1.9 The Statement of Parliamentary Supply

The information contained in the Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.10 Operating leases

Rentals due under operating leases are charged to the Statement of Comprehensive Net Expenditure over the lease term on a straight-line basis, or on the basis of actual rentals payable which fairly reflects the usage. Future payments, disclosed at Note 16, 'Commitments under leases', are not discounted.

1.11 Going concern

The Statement of Financial Position at 31 March 2013 shows a positive taxpayer's equity of £6.307 million. In common with other government departments, the future financing of our liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2013-14 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.12 Contingent liabilities

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

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.13 Assets belonging to third parties

Assets belonging to third parties as disclosed in Note 21 (such as money held in relation to the Offshore Tender Developer's security and the Renewables Obligation) are not recognised in the Statement of Financial Position since we have no beneficial interest in them.

2. Net Outturn

2.1 Analysis of net resource outturn by section

					2012-13	2011-12
			Outturn - Administration	Estimate		Outturn
	Gross	Income	Net total	Net total	Net total compared with Estimate	
	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limits (DEL)						
A Gas and Electricity Markets Authority: Administration	28,735	25,457	3,278	4,600	(1,322)	-
B Ofgem E-Serve: Administration	44,977	44,598	379	700	(321)	674
Spending in Annually Managed Expenditure (AME)						
C Provisions	-	-	-	-	-	-
Total	**73,712**	**70,055**	**3,657**	**5,300**	**(1,643)**	**674**

2.2 Analysis of net capital outturn by section

					2012-13	2011-12
			Outturn	Estimate		Outturn
	Gross	Income	Net total	Net total	Net total outturn compared with Estimate	
	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limits (DEL)						
A Gas and Electricity Markets Authority: Administration	1,222	-	1,222	1,490	(268)	815
B Ofgem E-Serve: Administration	-	-	-	-	-	-
Spending in Annually Managed Expenditure (AME)						
C Provisions	-	-	-	-	-	-
Total	**1,222**	**-**	**1,222**	**1,490**	**(268)**	**815**

3. Reconciliation of Outturn to Net operating cost and against Administration Budget

3(a) Reconciliation of net resource outturn to net operating cost

		2012-13	2011-12
	Note	£000	£000
Total resource outturn in Statement of Parliamentary Supply	2	3,657	674
Adjustment in respect of deferred licence fee		(3,278)	-
Net Operating Costs in Statement of Comprehensive Net Expenditure		**379**	**674**

3(b) Outturn against final Administration Budget and Administration net operating cost

		2012-13	2011-12
	Note	£000	£000
Estimate - Administration costs limit	2	5,300	701
Outturn – Gross Administration Costs		73,712	62,038
Outturn – Gross Income relating to administration costs		(70,055)	(61,364)
Outturn – Net administration costs	2	3,657	674

4. Reconciliation of net resource outturn to net cash requirement

		Estimate	Outturn	Net total outturn compared with estimate: saving/ (excess)
	Note	£000	£000	£000
Resource Outturn	2	**5,300**	**3,657**	**1,643**
Net Capital Requirement	9	1,490	1,222	268
Accruals adjustments:				
▪ Depreciation	9	(1,400)	(1,109)	(291)
▪ New provisions and adjustments to provisions	14	(1,900)	(1,956)	56
▪ Other non-cash items	8	(55)	(54)	(1)
▪ Movement in working capital		13,416	1,484	11,932
▪ Use of provision	14	150	173	(23)
Net cash requirement		**17,001**	**3,417**	**13,584**

5. Analysis of income payable to the Consolidated Fund

No Consolidated Fund Extra Receipts were collected by Ofgem during 2012-13.

6.1 Operating income

	2012-13	2011-12
	£000	£000
Administrative income:		
Fees and charges to external customers	53,716	49,321
Fees and charges to other departments	19,617	12,043
Total	**73,333**	**61,364**

6.2 Operating income analysis

	2012-13			2011-12		
	Income £000	Full costs £000	Deficit £000	Income £000	Full costs £000	Deficit £000
Administrative income						
Gas and Electricity: Licence fees (external)	(49,239)	49,239	-	(39,970)	40,644	674
Other	(24,094)	24,473	379	(21,394)	21,394	-
Total	**(73,333)**	**73,712**	**379**	**(61,364)**	**62,038**	**674**

	2012-13	2011-12
Other income includes:	£000	£000
Offshore Transmission Tender Recharge	4,338	5,244
Department of Energy and Climate Change (DECC)	12,538	8,042
(relating to environmental programmes and secondments)		
Scheme Funded Recharges	3,187	3,997
Department for Environment, Food and Rural Affairs (DEFRA)	2,894	3,695
(relating to shared accommodation costs)		
Other departments	1,077	306
Miscellaneous	60	110
Total	**24,094**	**21,394**

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

7. Staff numbers and related costs

	2012-13			2011-12
Staff costs comprise:	**£000**	**£000**	**£000**	**£000**
	Permanently employed staff	Others	Total	Total
Wages and salaries	29,304	5,691	**34,995**	29,037
Social security costs	2,808	-	**2,808**	2,336
Other pension costs	5,440	-	**5,440**	4,616
Other staff costs	79	-	**79**	113
Sub total	**37,631**	**5,691**	**43,322**	**36,102**
Less recoveries in respect of outward secondments	(235)	-	(235)	(236)
Total net costs*	**37,396**	**5,691**	**43,087**	**35,866**

* Of the total, no charge has been made to capital

The Principal Civil Service Pension Scheme (**PCSPS**) is an unfunded multi-employer defined benefit scheme but Ofgem is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2012-13, employers' contributions of £5,193,639 were payable to the PCSPS (2011-12 £4,391,339) at one of four rates in the range 16.7 per cent to 24.3 per cent (2011-12 16.7 to 24.3 per cent) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the costs of the benefits accruing during 2012-13 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £200,431 (2011-12 £174,527) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (2011-12: 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £15,762 (2011-12 £12,722), 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 amounted to zero. Contributions prepaid at that date were zero.

Zero people (2011-12: zero people) retired early on ill-health grounds.

Average number of persons employed

The average number of whole-time equivalent persons employed during the year is shown in the table below.

	2012-13			2011-12
Objective	Permanently employed staff	Others	Total	Total
Contributing to the achievement of a low-carbon energy sector	93	6	**99**	**90**
Helping to maintain the security of Britain's energy supplies	97	11	**108**	**117**
Promoting consumer choice and value and protecting vulnerable consumers	160	32	**192**	**174**
Ensuring the timely and efficient delivery of government programmes for a sustainable energy sector	287	43	**330**	**212**
Total*	**637**	**92**	**729**	**593**

* With effect from 2011-12, nine members of staff have been transferred on loan to DECC for smart meter activities.

7.1 Reporting of Civil Service and other compensation schemes - exit packages 2012-13 (2011-12 in brackets)

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
£10,000-£25,000	0(1)	0(0)	0(1)
£25,000-£50,000	0(2)	0(0)	0(2)
£150,000-£200,000	0(0)	0(0)	0(0)
Total number of exit packages	0(3)	0(0)	0(3)
Total cost	**£0(£74,095)**	**£0(£0)**	**£0(£74,095)**

Redundancy and other departure costs have been paid in accordance with the provisions 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.

8.1 Other administration costs

	Note	2012-13 £000	2011-12 £000
Rental under operating leases:			
Hire of office equipment		-	2
Other operating leases		5,843	5,775
		5,843	5,777
Non-cash items (see below):			
Auditors' remuneration and expenses*		53	53
Depreciation	9	1,109	1,011
Loss on disposal of property, plant and equipment		1	-
		1,163	1,064
Other expenditure:			
Contractors:			
▪ Environmental schemes and projects		3,835	1,987
▪ Smarter Grids and Governance (including RIIO price controls)		734	2,759
▪ Gas security of supply		226	639
▪ Retail Market Review		79	380
▪ Other		3,783	3,726
Other accommodation costs		4,257	4,184
Office supplies and services			
▪ Office equipment and furniture		649	489
▪ Computer software		750	441
▪ Other		822	567
Travel and subsistence		739	468
Training		868	687
Recruitment		1,050	819
Telecoms		612	402
Media and Communications		328	235
Library Services		255	185
Hospitality		133	71
Professional Services		1,202	563
Other expenditure		1,106	442
		21,428	19,044
Provisions (non-cash):			
Provided in year	14	1,924	16
Interest cost	14	32	35
Past service cost	14	-	-
Borrowing Costs	14	-	-
Movement in provision		1,956	51
Total		**30,390**	**25,936**

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

8.2 Net Operating Costs by theme

	2012-13			2011-12		
Theme	Gross £000	Income £000	Net total £000	Gross £000	Income £000	Net total £000
1. Contributing to the achievement of a low carbon energy sector	9,823	(9,823)	-	9,357	(9,357)	-
2. Helping to maintain the security of Britain's energy supplies	11,590	(11,590)	-	13,332	(13,332)	-
3. Promoting quality and value for consumers	18,513	(18,513)	-	18,133	(18,133)	-
4. Ensuring the timely and efficient delivery of government programmes for a sustainable energy sector	33,786	(33,407)	379	21,216	(20,542)	674
Net operating cost	**73,712**	**(73,333)**	**379**	**62,038**	**(61,364)**	**674**

9. Property, Plant and Equipment

	Furniture	Office equipment	Information Technology	Leasehold works	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2012	484	2,330	2,607	5,011	10,432
Reclassification	(57)	(50)	50	57	-
Additions	-	282	746	194	1,222
Disposals	(13)	(175)	(17)	-	(205)
At 31 March 2013	414	2,387	3,386	5,262	11,449
Depreciation					
At 1 April 2012	397	1,929	1,935	3,061	7,322
Charged in year	18	198	520	373	1,109
Disposals	(13)	(174)	(17)	-	(204)
At 31 March 2013	402	1,953	2,438	3,434	8,227
Carrying amount at 31 March 2013	12	434	948	1,828	3,222
Carrying amount at 31 March 2012	87	401	672	1,950	3,110
Asset financing:					
Carrying amount of owned assets at 31 March 2013	12	434	948	1,828	3,222

	Furniture	Office equipment	Information Technology	Leasehold works	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2011	423	2,167	2,611	4,819	10,020
Additions	61	163	399	192	815
Disposals	-	-	(403)	-	(403)
At 31 March 2012	484	2,330	2,607	5,011	10,432
Depreciation					
At 1 April 2011	378	1,684	1,847	2,805	6,714
Charged in year	19	245	491	256	1,011
Disposals	-	-	(403)	-	(403)
At 31 March 2012	397	1,929	1,935	3,061	7,322
Carrying amount at 31 March 2012	87	401	672	1,950	3,110
Carrying amount at 31 March 2011	45	483	764	2,014	3,306
Asset financing:					
Carrying amount of owned assets at 31 March 2012	87	401	672	1,950	3,110

10. Financial Instruments

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

11. Trade receivables and other current assets

	2012-13	2011-12
Amounts falling due within one year:	**£000**	**£000**
Trade receivables	1,716	2,499
Accrued income	19,691	15,515
Prepayments	3,147	2,993
HM Revenue and Customs (VAT)	480	408
Staff receivables	180	183
At 31 March	**25,214**	**21,598**

Staff receivables include loans outstanding, of which £176,000 relates to season ticket loans for employees; and £2,300 relates to housing advances in respect of an employee.

11.1 Intra-government balances

	2012-13	2011-12
Amounts falling due within one year:	**£000**	**£000**
Balances with other central government bodies	5,326	3,730
Balances with local authorities	1,493	1,453
Balances with public corporations and trading funds	-	-
Subtotal: intra-government balances	6,819	5,183
Balances with bodies external to government	18,395	16,415
Total receivables at 31 March	**25,214**	**21,598**

12. Cash and cash equivalents

	£000
Balance at 31 March 2012	8,124
Net change in cash and cash equivalents	778
Balance at 31 March 2013	8,902

The following balances were held at:	**31 March 2013**	**31 March 2012**
	£000	**£000**
Government Banking Service	8,902	8,124
Commercial banks and cash in hand	-	-
Total	**8,902**	**8,124**

13. Trade payables and other current liabilities

	2012-13	2011-12
Amounts falling due within one year:	**£000**	**£000**
Other Taxation and Social Security	935	805
Trade payables	855	(2)
Staff payables	1,106	1,005
Deferred licence fees	6,362	9,640
Leasehold reverse premium	316	316
Accruals and other deferred income	8,428	7,067
Amounts issued from the Consolidated Fund for supply but not spent at year end	8,902	8,124
Excess cash receipts	-	-
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund:		
received	-	-
receivable	-	-
Balance at 31 March	**26,904**	**26,955**

	2012-13	2011-12
Amounts falling due after more than one year:	**£000**	**£000**
Leasehold reverse premium	1,024	1,341
Balance at 31 March	**1,024**	**1,341**

When we entered into the lease on our Millbank headquarters in 2000, we received a leasehold reverse premium from the landlord. The remainder of the reverse premium is £1.340 million and will be utilised on a straight-line basis over the lease term up to the first break in the lease, being 23 June 2017.

13.1 Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
	£000	£000	£000	£000
Balances with other central government bodies	10,325	9,659	-	-
Balances with local authorities	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Subtotal: intra-government balances	10,325	9,659	-	-
Balances with bodies external to government	16,579	17,296	1,024	1,341
Total payables at 31 March	**26,904**	**26,955**	**1,024**	**1,341**

14. Provisions for liabilities and charges

14.1 Early Retirement

	£000
Balance at 31 March 2012	**645**
Provided in the year	57
Borrowing Costs	-
Provisions not required written back	(33)
Provisions utilised in the year	(156)
Balance at 31 March 2013	**513**

Analysis of expected timings of discounted flows	**£000**
2013-14	108
2014-15/2018-19	308
2019-20/2023-24	97
Thereafter	-
Balance at 31 March 2013	**513**

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts monthly to the PCSPS over the period between early departure and normal retirement date. The department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.35 per cent in real terms.

14.2 Pension liabilities

	2012-13	2011-12
	£000	£000
Provision at 1 April	**658**	**629**
Interest cost	32	35
Actual benefit payments	(17)	(16)
Actuarial loss	17	10
Past service cost	-	-
Provision at 31 March	**690**	**658**
Net movement in year (excluding actuarial loss)	15	19

	2012-13	2011-12
History of experience losses	**£000**	**£000**
Experience losses arising on the scheme liabilities	1	11
Amount recognised as a percentage of present value of scheme liabilities	0.1%	1.7%
Total amount recognised in statement of Changes in Taxpayers' Equity	17	10

The pension provision is in respect of the unfunded pension liabilities which fall to Ofgem for the 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. Actuarial advice has been sought to ensure that the provision is set at a realistic level.

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2013. The major assumptions used by the actuary were:

	At 31 March 2013	At 31 March 2012
	% (per annum)	% (per annum)
Inflation assumption -CPI	1.70	2.00
Rate of increase in salaries	3.95	4.25
Rate of increase for pensions in payment and deferred income	1.70	2.00

	2012-13	2011-12	2010-11
Analysis of Actuarial Loss/(Gain)	**£000**	**£000**	**£000**
Experience loss/(gain) arising on the scheme liabilities	1	11	(22)
Changes in assumptions underlying the present value of scheme liabilities	16	(1)	4
Per statement of Changes in Taxpayers' Equity	17	10	(18)

From 31 March 2013, the discount rate for pension scheme liabilities changed from 2.8 per cent to 2.35 per cent. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2013.

14.3. Dilapidations

	2012-13
	£000
Provision at 1 April	**-**
Increase in dilapidations	1,900
Provision at 31 March	**1,900**

15. Capital commitments

	2012-13	2011-12
	£000	£000
Contracted capital commitments at 31 March not otherwise included in these financial statements	-	-

16. Commitments under leases

Operating leases

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

	2012-13	2011-12
Obligations under operating leases for the following periods comprise:	**£000**	**£000**
Buildings:		
Not later than one year	6,063	6,038
Later than one year and not later than five years	25,900	24,436
Later than five years	220	1,781
	32,183	**32,255**
Other:		
Not later than one year	-	2
Later than one year and not later than five years	-	1
Later than five years	-	-
	-	**3**

17. Other financial commitments

Ofgem had not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2013.

18. 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 judgements could give rise to liabilities for legal costs but these cannot be quantified as the outcome of proceedings would be unknown and there is therefore considerable uncertainty as to the nature and extent of any subsequent liability.

As at 31 March 2013 there were no contingent liabilities requiring disclosure.

19. Related Party Transactions

During the year, we transferred £4.860 million to the Department for Business, Innovation and Skills in respect of the energy sector related costs of Consumer Focus. Additionally, £0.720 million was transferred to the National Measurement Office in respect of metrology services.

We administer environmental programmes on behalf of DECC, and second staff to DECC. Total income from DECC recognised in year amounted to £12.538 million.

We sublet part of our Millbank premises to DEFRA, administer the Northern Ireland Renewables Obligation on behalf of the NI Authority for Utility Regulation and the Northern Ireland Renewable Heat Incentive on behalf of the Department of Enterprise, Trade and Investment, and host the Charity Commission's accounting system. Income recognised in year was £2.894 million from DEFRA, £497k from the Department of Enterprise, Trade and Investment, £483k from the NI Authority for Utility Regulation, and £12k from the Charity Commission.

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.

20. Events after the reporting period

There were no reportable events between the end of the reporting period, and 14 June 2013, the authorised for issue date. The financial statements do not reflect events after this date.

21. Third-Party Assets

Renewables Obligation

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

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

The amount held in the buy-out Funds as at 31 March 2013 was £97.

Offshore Transmission Tender Regime Developer's Securities

The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2009 require a developer to provide security and payments to Ofgem in respect of Ofgem's tender costs. This security is a financial commitment from the offshore developer to secure Ofgem's potential liability for running a tender process. Ofgem has the right to draw down from this security if the offshore developer withdraws from the process or causes the tender process to be cancelled. As at 31 March 2013 the amount held as securities was £11,250,000.

Accounting Officer's Foreword to the Trust Statement

Scope

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

It is responsible for enforcing and collecting fines and penalties imposed on the energy companies that it regulates, and collecting the England and Wales, and Scotland Fossil Fuel Levies.

The Trust Statement reports the revenues and expenditures and assets and liabilities related to fines, penalties and the Fossil Fuel levies for the financial year 2012-13. These amounts are collected by us for payment into the Consolidated Fund.

This statement is also prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by parliament or material transactions that have not conformed to the authorities which govern them. There was no such expenditure or income during 2012–13.

Background

Fines and Penalties

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

No penalty imposed by the Authority may exceed 10 per cent of the turnover of the licence holder. Any sums received by the Authority by way of a penalty shall be paid into the Consolidated Fund. During 2012–13 this amounted to £500,000.

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

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

Fossil Fuel Levy

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

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

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

We set the rate of the FFL. Suppliers purchasing output from NFFO generators are entitled to the associated ROCs. There is currently a shortage of ROCs, therefore, the average auction price of output from NFFO contracts currently exceeds the average price guaranteed to the generators under NFFO contracts. Hence, the current levy rate, which is set by us, is zero. Where the auction price of output exceeds the guaranteed price any surplus is paid into our FFL accounts. There is a similar arrangement for the administration of the Scotland Fossil Fuel Levy.

The Sustainable Energy Act 2003 created a mechanism by which the FFL surplus, up to a maximum of £60,000,000, could be transferred from the England and Wales levy account to the Consolidated Fund. The Secretary of State for Business, Innovation and Skills is under a duty to spend the amount for the purpose of promoting the use of energy from renewable sources. A parallel provision has been included in the Energy Bill for the Scottish Executive relating to the Scotland levy account.

Since the £60,000,000 limit has been exceeded, all further Fossil Fuel Levy receipts are treated as hereditary revenue, as they are non-statutory receipts. Section 1 of the Civil List Act 1952 requires hereditary revenues to be paid into the Consolidated Fund. On 16 August 2012, and 27 March 2013, £25 million, and £35 million respectively, were transferred to the Consolidated Fund from the England and Wales account on this basis.

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

Under Section 187 of the Energy Act 2004, the Scottish Government may direct Ofgem to pay an amount from the Scottish Levy account to the Scottish Consolidated Fund. On 22 August 2012, £206 million was transferred to the Scottish Consolidated Fund.

Financial Review

On 17 October 2012 we issued a notice confirming our decision to impose a penalty of £375,000 on Wales and West Utilities Ltd as a result of our investigation into misreporting by them relating to its iron gas pipes decommissioning and associated replacement programme. The penalty was received in November 2012 and then transferred to the Exchequer in December 2012.

On 29 October 2012 we issued a notice confirming our decision to impose a penalty of £125,000 on Opus Energy Limited (Opus Energy) after Ofgem identified that the company had misreported the amount of electricity supplied under the government's Renewables Obligation. In addition to the penalty, Opus Energy retired a total of

7,016 ROCs, with an estimated value of £360,000. Opus Energy also agreed to undertake an annual independent audit of its procedures for reporting under the Renewables Obligation. The penalty was received and then transferred to the Exchequer in December 2012.

During 2012-13, we collected £57.8 million in respect of the England and Wales levy, and £7.2 million in respect of the Scotland levy. £60 million from the England and Wales levy was paid over to the Consolidated Fund, and £206 million to the Scottish Consolidated Fund during 2012-13. The costs associated with administering the two levies are recovered from the levy by us and are shown as income within our Resource Accounts.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 7 of the Government Resources and Accounts Act 2000. The audit opinion is on pages 87 to 88. The auditor's notional remuneration for this is included in our Resource Accounts.

There were no fees in respect of non-audit work.

Basis for preparation

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

Accounting judgements

As Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement. Revenues are recognised in the month to which the levy relates.

Events after the reporting period

There were no events after the reporting period.

Alistair Buchanan, CBE
Accounting Officer

14 June 2013

Statement of the Accounting Officer's Responsibilities in respect of the Trust Statement

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

HM Treasury has appointed the Chief Executive as Accounting Officer of Ofgem with overall responsibility for preparing the Trust Statement and for transmitting it to the Comptroller and Auditor General.

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

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

In preparing the Trust Statement, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual prepared by the Treasury 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 account, and
- prepare the Trust Statement on a going concern basis.

Governance Statement

Ofgem's Governance Statement, covering both the Resource Accounts and the Trust Statement, is shown on pages 32 to 38.

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the Office of Gas and Electricity Markets' Trust Statement for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The trust statement comprises the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. This trust statement has been prepared under the accounting policies set out within the notes to the statement.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

In addition I read all of the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on Regularity

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

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the department as at 31 March 2013 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 other matters

In my opinion, the information given in the Accounting Officers' foreword to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for 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
- 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.

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

17 June 2013

Statement of Revenue, Other Income and Expenditure for the Year Ended 31 March 2013

		2012-13	2011-12
	Note	£000	£000
Revenue			
▪ **Fines and Penalties**			
Penalties imposed	2.1	500	10,700
▪ **Fossil Fuel Levy**			
Fossil Fuel Levy (England & Wales)		49,810	87,590
Fossil Fuel Levy (Scotland)		5,582	15,734
▪ **Other Income**			
Interest on Fossil Fuel Levy (England & Wales)		135	127
Interest on Fossil Fuel Levy (Scotland)		320	619
Total Revenue and other income		56,347	114,770
Expenditure			
Administration of the Fossil Fuel Levy		(88)	(105)
Total Expenditure		(88)	(105)
Net Revenue for the Consolidated Fund		56,259	114,665

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes at pages 92 to 94 form part of this statement.

Statement of Financial Position as at 31 March 2013

		2012-13	2011-12
	Note	£000	£000
Current Assets			
Cash at Bank – UK Consolidated Fund		27,117	29,296
Cash at Bank – Scottish Consolidated Fund		16,994	215,462
Receivables and accrued revenue receivable	3	8,317	17,918
Net Current Assets		52,428	262,676
Current Liabilities			
Payables and accrued expenditure liabilities	4	(30)	(37)
Total Net Assets		52,398	262,639
Represented by:			
Balance on the UK Consolidated Fund Account		34,678	44,803
Balance on Scottish Consolidated Fund Account		17,720	217,836
		52,398	262,639

Alistair Buchanan, CBE
Accounting Officer

14 June 2013

Statement of Cash Flows for the year ended 31 March 2013

	2012-13	2011-12
	£000	£000
Net Cash Flow from Operating Activities	65,853	123,801
Cash paid to the consolidated funds	(266,500)	(106,700)
(Decrease)/Increase in cash in the period	(200,647)	17,101

Notes to the Cash Flow Statement

A: Reconciliation of Net Cash Flow to Movement in Net Funds

		2012-13	2011-12
	Note	£000	£000
Net revenue for the Consolidated Fund		56,259	114,665
Decrease in non-cash assets	3	9,601	9,105
(Decrease)/Increase in liabilities	4	(7)	31
Net Cash Flow from operating activities		65,853	123,801

B: Analysis of changes in Net Funds

	2012-13	2011-12
	£000	£000
(Decrease)/Increase in cash in the period	(200,647)	17,101
Net Funds at 1 April	244,758	227,657
Net Funds at 31 March	44,111	244,758

The notes at pages 92 to 94 form part of this statement.

Note to the trust statements
1. Statement of Accounting Policies

1.1 Basis of Accounting

The Trust Statement is prepared in accordance with the accounts direction issued by HM Treasury under section 7 of the Government Resources and Accounts Act 2000. The Trust Statement is prepared in accordance with the accounting policies detailed below. These have been agreed between the Office of Gas and Electricity Markets 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 the Office of Gas and Electricity Markets 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 IAS 18. They are measured at the fair value of amounts received or receivable. Income is recognised when:

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

2. Revenue

2.1 Fines and Penalties

	2012-13	2011-12
	£000	£000
Penalty imposed on Wales and West Utilities	375	-
Penalty imposed on Opus Energy	125	-
Penalty imposed on National Grid Gas	-	4,300
Penalty imposed on British Gas Trading	-	1,000
Penalty imposed on British Gas	-	2,500
Penalty imposed on npower	-	2,000
Penalty imposed on Northern Gas Networks Ltd	-	900
Total	**500**	**10,700**

3. Receivables and Accrued Revenue Receivable

	Receivables as at 31 March 13	Accrued revenue receivable at 31 March 13	Total as at 31 March 13	Total as at 31 March 12
	£000	£000	£000	£000
Fines and Penalties	-	-	-	-
Fossil Fuel Levy	-	8,317	8,317	17,918
Total	**-**	**8,317**	**8,317**	**17,918**

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.

4. Payables and Accrued Expenditure Liabilities

	Payables as at 31 March 13	Accrued expenditure liabilities at 31 March 13	Total as at 31 March 13	Total as at 31 March 12
	£000	£000	£000	£000
Fines and Penalties	-	-	-	-
Fossil Fuel Levy	-	30	30	37
Total	**-**	**30**	**30**	**37**

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

	2012-13	2011-12
	£000	£000
Balance on the Consolidated Fund Accounts	262,639	254,674
Net revenue for the Consolidated Fund Accounts	56,259	114,665
Less amount paid to the Consolidated Funds	(266,500)	(106,700)
Balance on Consolidated Fund Accounts as at 31 March	**52,398**	**262,639**

Appendix I
Performance against 2012-13 deliverables

Our Forward Plan Programme for 2012-13 included a number of key deliverables to be achieved in each quarter.

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

	Number in Forward Work Programme	Total Achieved			Deferred to 2013-14	No longer apply
		Met in Qtr	Met in later Qtr	Met in year		
Full year						
Year total	**63**	**47**	**7**	**54**	**8**	**1**
Year %		*75%*	*11%*	*86%*	*12%*	*2%*
1st Quarter						
Quarter total	12	12	0	12	0	0
2nd Quarter						
Quarter total	15	13	2	15	0	0
3rd Quarter						
Quarter total	20	14	3	17	3	0
4th Quarter						
Quarter total	16	8	2	10	5	1

Theme 1 – Contributing to the achievement of a low carbon energy sector

Action	Period	Achieved	Expected	No Longer Applicable	Comments
RIIO-T1 - Complete final proposals for fast-tracked companies (if appropriate following consultation)	Q1	Q1			
RIIO-T1 Complete initial proposals for non-fast-tracked companies	Q2	Q2			
Complete decision on further innovation projects to receive Low Carbon Networks Fund monies	Q3	Q3			
RIIO-T1 Complete final proposals for non-fast-tracked companies	Q3	Q3			
RIIO-T1 - Modification direction of the licence conditions	Q4	Q4			
Complete annual Sustainable Development report	Q3	Q2			
Discussion paper on sustainability impacts	Q3	Q2			
Consult on Impact Assessment guidelines	Q4	Q4			
Conclude on proposals to support commercial interoperability of 'early' smart meters	Q1	Q1			
Conclude scoping of strategy for promoting smarter energy markets	Q2	Q2			
Proposals to reform regulation of 'traditional' gas meter provision	Q2	Q2			
Amend price regulation for National Grid metering in context of transition to smart metering	Q3		Q2 2013-14		NG's initial proposals have been delayed to mid May 2013. Our decision will now be published in Q2 2013-14

Theme 2 - Helping to maintain the security of Britain's energy supplies

Action	Period	Achieved	Expected	No Longer Applicable	Comments
Complete RIIO-ED1 strategy consultation paper	Q3	Q3			
Complete RIIO-ED1 strategy decision	Q4	Q4			
Gas security of supply report to DECC	Q1	Q1			
Decision on whether to launch electricity cash-out significant code review	Q1	Q1			
Statutory Security of Supply Report	Q3	Q3			

Theme 3 - Promoting quality and value for all consumers

Action	Period	Achieved	Expected	No Longer Applicable	Comments
Project Transmit: Decision on next steps for the Significant Code Review	Q1	Q1			
Western HVDC: Consultation on the specifics of funding and outstanding conditions	Q1	Q1			
CMP 192: Decision whether to approve enduring user commitment proposals	Q1	Q1			
Complete initial proposals RIIO-GD1	Q2	Q2			
Consult on Code Governance Review Part II	Q2	Q2			
Western HVDC: Decision on the specifics of funding and outstanding conditions	Q2	Q2			
Complete final proposals RIIO-GD1	Q3	Q3			
Connect and Manage: Report to the Secretary of State	Q3	Q3			

Theme 3 - Promoting quality and value for all consumers (continued)

Action	Period	Achieved	Expected	No Longer Applicable	Comments
Complete initial findings of DPCR5 network investment outputs review	Q4			N/A	Review superseded by further development of Network Outputs Methodology for RIIO-ED1. The DPC5R outputs will be monitored and reported against in the ED1 Annual Report and updated by DNOs in their July 2013 business plan submissions for RIIO-ED1
Complete updates to existing enforcement guidelines	Q1	Q1			
Complete simplification plan	Q1	Q1			
Initial thinking on vulnerable consumer strategy	Q2	Q2			
Review of PPM Debt Assignment Protocol	Q2	Q2			
Initial thinking on enforcement policy review	Q4	Q4			
Discussion paper on consumer empowerment	Q4	Q4			Roundtable discussion with range of stakeholders, followed by publication of note of meeting and presentations made by external speakers
Research on vulnerable customer engagement in retail energy market	Q4	Q4			Series of research projects undertaken for Retail Market Review included consumers in vulnerable situations. Research project looking at awareness and experiences of the Priority Services Register and attitudes towards it.
Segmental Statements - new guidance or licence conditions	Q1	Q1			

Theme 3 - Promoting quality and value for all consumers (continued)

Action	Period	Achieved	Expected	No Longer Applicable	Comments
Submit National report to Commission	Q2	Q2			
Conclude on current reforms to gas theft arrangements	Q2	Q3			Additional time allowed for consultation and further legal analysis.
Finalise review of Undue Discrimination Licence Condition Sunset clause	Q2	Q2			
Liquidity - 'Minded to' Decision	Q3	Q3			Condoc published in December 2012 stating a "strong preference" for intervention and consulting on proposals for a 'Secure and Promote licence condition'
Decide final proposals on System Operator incentives – Gas	Q3	Q3			
Decide final proposals on System Operator incentives – Electricity	Q3		Q1 2013–14		The delay results from the assessment of new material information submitted by National Grid received in December 2012 in response to our consultation in October 2012
Transmission Constraint Licence Condition (TCLC) guidelines finalised	Q3	Q3			
Final proposals on reforms to electricity theft arrangements	Q3		Q4 2013-14		Consulted on our high level electricity theft proposals in September 2012. We expect to consult on more detailed proposals in September 2013 and set out our final proposals in Q4 2013
Complete RMR Final Proposals	Q3	Q3			

Theme 4 - Ensuring the timely and efficient delivery of government programmes for a sustainable energy sector

Action	Period	Achieved	Expected	No Longer Applicable	Comments
Complete annual report on the Community Energy Saving Programme	Q1	Q1			
Go live with Comprehensive Review Phase 1 changes	Q1	Q1			
Complete annual report on the Carbon Emissions Reduction Target	Q2	Q2			
Implement enhanced co-ordination proposals	Q2	Q3			
Go live with Comprehensive Review Phase 2 changes	Q3	Q3			
Go-live of NI RHI	Q3	Q3			
Introduction of enduring tender regime	Q3	Q4			Regulations approved and in force 22 February 2013 – regulatory framework now in place to run first enduring tenders. First enduring tenders expected to commence in Q3 2013, although contingent on developer timescales
Set Fossil Fuel Levy Rate for 2013–14	Q3	Q3			
Complete annual report on the WHD scheme	Q3	Q3			
Complete annual report on the Feed in Tariffs scheme	Q4	Q3			
Issue final licences for completed Tender Round 1 projects	Q4	Q4			Two licences granted during the period. Four remaining licence grants delayed due to transmission systems not being completed

Theme 4 - Ensuring the timely and efficient delivery of government programmes for a sustainable energy sector (continued)

Action	Period	Achieved	Expected	No Longer Applicable	Comments
Licence grant for completed TR2a projects	Q4		Q4 2013–14		Awaiting completion of transmission assets
Commencement Tender Round 2b	Q4	Q3			
Go-live with RHI Phase 2A changes	Q4		Q1 2013–14		Implementation can only happen once DECC regulation changes in place
Complete annual report on Renewables Obligation	Q4	Q4			
Complete preparatory work for RO Banding changes	Q4		Q1 2013-14		Pending State Aid and Parliamentary approval of the draft legislation – legislation does not come into place until 1 April 2013
Complete revised guidance for biosolids and biogas sustainability requirements	Q4		Q2 2013-14		DECC will now be introducing the RO solid and gaseous biomass sustainability criteria into legislation from 1 October 2013. The previous proposal had been to introduce the amendments alongside the banding review amendments which came into force 1 April 2013. As the sustainability criteria amendments have been moved back, we now propose to run a consultation on the expected updates to the sustainability guidance documents in June/July (Q2) 2013-14 rather than March 2013 as originally planned.
IT Go live on RO version 6	Q4		Q1 2013-14		

Appendix I I
Performance Indicators 2012-13

Division	Measure	Target	Actual	Comments
Markets	Consult on and carry out consultations regarding any applications made for exemption from Third Party Access arrangements under Article 22 by prospective storage and interconnector operators	100%	100%	
Markets	Send decisions on Article 22 exemptions to the European Commission within prescribed timescales if adequate data has been provided	100%	100%	
Markets	Assess and make decisions about any Income Adjusting Event within three months of it being raised if adequate information has been provided	100%	None received	
Smarter Grids and Governance – Distribution	Make code modification decisions within 25 working days[1] of receiving the Final Modification Report (or, where applicable, final responses to a Final Impact Assessment or other Ofgem consultation)	90%	98%	
Smarter Grids and Governance – Distribution	Publish code modification Impact Assessments and/or other Ofgem consultations where applicable within 3 months of receiving the Final Modification Report	90%	83%[2]	
Smarter Grids and Governance – Distribution	Grant competitive licence applications within 45 days of receipt of a duly made application	100%	100%	
Sustainable Development	Protect consumers by responding substantively to customer contacts	93%	94%	
Sustainable Development	Respond to complaints on enforcement matters confirming whether we will investigate	90%	97%	

[1] Ofgem may take into account publishing moratorium periods (for example over the Christmas period) in setting KPIs. We will communicate this as required with relevant industry Panels.

[2] Ofgem consulted on 6 code modification decisions in 2012-13, 5 within KPI target timescales.

E-Serve performance indicators

Scheme	Measure	Target	Actual	Comments
RHI	90% of all enquiries answered within 10 working days.	90% Response	92%	
RHI	95% of accreditation, preliminary accreditation and registration decisions within 30 working days of application submission.	95%	60%	
RHI	95% of payments paid within 30 working days of quarterly periodic data submission.	95%	99%	
RHI	The on-line application system will be available for a minimum of 99% of the supported business hours (excluding planned down-time). Supported business hours are 08:00–17:30 Monday to Friday excluding bank holidays.	99% System Availability	100%	
Renewables and CHP	Issue the main batches of renewable certificates 95% within 17 working days of the generators' reporting deadline of their output data April-June and 12 days July-March	95%	97%	
Renewables and CHP	Complete reconciliation of Combined Heat and Power Levy Exemption Certificates after receiving accurate data from CHPQA 95% within 25 working days	95%	None received	
Renewables and CHP	Follow up with the generators outstanding issues on their applications for accreditation 90% within 10 working days	90%	91%	
CERT and CESP	Respond to obligated party Carbon Emissions Reduction Target and Community Energy Saving Programme schemes for approval 90% within 10 working days of the submission deadline	90%	100%	
FIT and RO	Follow up with the generators outstanding issues on their applications for accreditation 90% within 10 working days	90%	94%	
FIT	Feed-in Tariffs levelisation process to be completed in a timely manner after receipt of data from suppliers 95% within 22 working days	95%	100%	
WHD	Respond to obligated party Warm Home Discount schemes for approval 100% within 28 days	100%	100%	
Offshore	Licence grant within 70 days of commencement of Section 8a consultation	Ongoing	100%	
Offshore	Preferred Bidder selection within 120 days of ITT submission (excluding BAFO)	Ongoing	100%	

Corporate functions performance indicators

Division	Measure	Target	Actual	Comments
Finance and Risk Management	Pay undisputed bills	90% in 10 working days	92%	
Research and Information Centre	Respond to inquiries under the Freedom of Information Act	90% in 20 days from receipt	91%	

Appendix I I I
Impact Assessments undertaken 2012-13

Ofgem published 14 Impact Assessments (IAs) and a consultation related to a DECC Impact Assessment between 1 April 2012 and 31 March 2013. Further information on the following documents can be found at **www.ofgem.gov.uk** by searching using the appropriate reference number.

Date	Title and reference number
19/06/2012	Supporting effective switching for domestic customers with smart meters: additional statutory consultation (79/12)
06/07/2012	Distribution Losses Incentive Mechanism in the Fifth Distribution Price Control (87/12)
27/07/2012	RIIO-GD1: Initial Proposals for Gas Distribution (103/12)
27/07/2012	RIIO-T1: Initial Proposals for National Grid Electricity Transmission and National Grid Gas (104/12)
31/07/2012	Gas Security of Supply Significant Code Review (112/12)
17/08/2012	Charging methodology for higher voltage distributed generation (115/12)
28/09/2012	Strategy consultation for the RIIO-ED1 electricity distribution price control (122/12)
26/10/2012	The Retail Market Review – updated proposals for businesses (134a/12)
26/10/2012	The Retail Market Review – updated domestic proposals (135b/12)
16/11/2012	Restatement of 2009–10 data and closing out the DPCR4 losses incentive mechanism (150/12)
30/11/2012	Offshore Electricity Transmission: licence policy for future tenders (159/12)
07/12/2012	Proposed framework to enable coordination of offshore transmission (164/12) – updates IA published on 1 March 2012 (26/12)
17/12/2012	RIIO-GD1: Final Proposals for Gas Distribution (168/12) – updates IA published on 27 July 2012 (103/12)
17/12/2012	RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas (169/12) – updates IA published on 27 July 2012 (104/12)
08/02/2013	Consultation on the Smart Metering Installation Code of Practice (19/13) – relates to IAs produced by DECC (4 May 2012 and 1 March 2011)

Summary of actions taken to which IAs relate

The following sets out the decisions taken during the 2012–13 financial year in relation to proposals for which IAs were previously carried out.

- On 23 April 2012 we published our Final Proposals for the transmission price controls for SP Transmission Ltd (SPTL) and Scottish Hydro Electric Transmission Ltd (SHETL) from 1 April 2013 to 31 March 2021 (58/12). The IA on the proposals was published in February 2012.
- On 4 May 2012 we concluded our Significant Code Review on electricity transmission charging arrangements (65/12) as part of Project TransmiT. The IA on the proposals was published in December 2011.
- On 11 May 2012 we approved National Grid Gas plc's National Transmission System Exit Capacity Substitution and Revision Methodology Statement. Our IA on implementing the proposed methodology was published in February 2011.
- On 22 May 2012 we updated our proposals on the tender arrangements for both Generator build and Offshore Transmission Owner build options under the enduring regime for offshore transmission (72/12). The IA on potential measures to support efficient network coordination in Offshore Transmission was published in March 2012 (26/12).
- On 3 July 2012 we set out our position on changes to the ring fence conditions in Network Operator Licences (85/12). The IA on modifications to ring fence conditions was published in March 2011.
- On 25 July 2012 we published our decision on Questions 9 and 12 of the consultation on whether to activate the losses incentive mechanism in the fifth distribution price control (DPCR5). The IA was published on 6 July 2012.
- On 28 August 2012 we decided to introduce new licence obligations for gas and electricity suppliers designed to protect domestic customers who have Advanced Domestic Meters (118/12). The IA was published on 19 June 2012 (79/12).
- On 17 October 2012 we outlined our decision in relation to measures to mitigate network charging volatility arising from the price control settlement under RIIO. This related to IAs published on 27 July 2012 and 28 September 2012.
- On 31 October 2012 we decided to introduce new licence obligations in relation to theft of gas (137/12). The IA on tackling gas theft was published on 26 March 2012.
- On 16 November 2012 we decided not to activate the losses incentive mechanism in the Fifth Distribution Price Control (DPCR5) (149/12). The IA on whether to activate the Distribution Losses Incentive Mechanism in the Fifth Distribution Price Control was published on 6 July 2012.
- On 16 November 2012 we approved the EHV Distribution Charging Methodology for export, subject to a condition and directed on our intention to impose that condition. The IA on the charging methodology for higher voltage distributed generation was published on 17 August 2012.
- On 3 January 2013 we decided on the methodology for closing out the DPCR4 losses incentive mechanism (01/13) in light of our decision not to activate the distribution losses incentive mechanism in the fifth distribution price control (DPCR5) (149/12). The IA on closing out the DPCR4 losses incentive mechanism was published on 16 November 2012 (150/12).
- On 4 March 2013 we set out an overview of our decision on the approach to the next electricity distribution price control (RIIO-ED1) (26/13). The price control will set the outputs that the 14 electricity distribution companies (DNOs) need to deliver for their consumers and the associated revenues they are allowed to collect for the eight-year period from 1 April 2015 to 31 March 2023. The IA was published as part of the Strategy Consultation suite of documents on 28 September 2012 (122/12).

Appendix IV
Investigations and enforcement action 2012-13

Details of Ofgem's formal investigations are available on our website[1] in accordance with our policy as set out in our Enforcement Guidelines[2]. We will publish brief details of the fact and nature of the investigation on the Ofgem website (except in cases where this may adversely affect the investigation).[3]

Company	Issue	Decision	Date of decision
SSE	Compliance with Standard Licence Condition 25 with respect to telephone and face-to-face sales activities.	Announcement of a proposal to impose a financial penalty of £10.5m on SSE for misselling.	March 2013[4]
Opus Energy Limited	Failure to report accurate electricity supply data under the Renewables Obligation for England & Wales and Scotland, as set out in legislation.	Settlement. Breach and £125,000 penalty	October 2012
Wales and West Utilities Limited	Compliance with Standard Special Conditions A40(5), D9(2), D9(5)(c), and Special Conditions E2B(8)(3)(b), E20(3)(a) and (b) and E20(7)(a) of its gas transporter licence.	Settlement. Breaches and £375,000 penalty	October 2012
All suppliers	Compliance with the Code of Practice for Accurate Bills. Relating to billing and apportionment of price increases.	Open letter to Energy UK	August 2012
EDF Energy plc	Compliance with Standard Licence Conditions 23, 25 and 27 of the gas and electricity supply licences.	Settlement. EDF has agreed to make payments amounting to £4.5million which will benefit customers.	May 2012
Electricity North West Limited	Compliance with Chapter II of the Competition Act 1998 and/or Article 102 of the Treaty on the Functioning of the European Union. Relating to high Distribution Use of System charges levied on other distribution system operators.	Decision to accept binding commitments from Electricity North West Limited over connection charges	May 2012
E.ON	Investigation into misselling on doorstep and telesales (Standard Licence Condition 25 of the gas and electricity supply licences).	Ongoing	N/A

[1] http://www.ofgem.gov.uk/About%20us/enforcement/Investigations/CurrentInvest/Pages/CurrentInvstgtns.aspx
[2] http://www.ofgem.gov.uk/ABOUT%20US/ENFORCEMENT/Documents1/Enforcement%20Guidelines%20post%20consultation.pdf
[3] The fact that some investigations are ongoing should not in any way be taken as implying that the companies involved have breached licence conditions or otherwise broken the law.
[4] This was the date of our proposal to impose a financial penalty.

Company	Issue	Decision	Date of decision
British Gas Business	Investigation into compliance with obligations on non-domestic customer transfer blocking (Standard Licence Condition 14 of the gas and electricity supply licences).	Ongoing	N/A
Scottish Power	Compliance with the Consumer Protection from Unfair Trading Regulations 2008.	Ongoing	N/A
E.ON	Investigation into misreporting of the distribution of compact fluorescent lamps. Compliance with Article 16(1)(a) of the Electricity and Gas (Carbon Emissions Reduction) Order 2008.	Ongoing	N/A
Scottish Power	Compliance with obligations under Standard Licence Condition 27.2A of the gas and electricity supply licences. In relation to the significant difference between Scottish Power's standard and direct debit tariffs.	Ongoing	N/A
npower	Investigation into misselling on doorstep and telesales (Standard Licence Condition 25 of the gas and electricity supply licences).	Ongoing	N/A
Scottish Power	Investigation into misselling on doorstep and telesales (Standard Licence Condition 25 of the gas and electricity supply licences).	Ongoing	N/A
SSE	Investigation into misselling on doorstep and telesales (Standard Licence Condition 25 of the gas and electricity supply licences).	Ongoing	N/A
EDF Energy	Investigation into compliance with Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008.	Ongoing	N/A

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