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Office of Gas and Electricity Markets (Ofgem) Annual Report and Accounts 2010-11

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(For the year ended 31 March 2011)

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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 and 2010 and other statutes.

This is the Report of the Office of Gas and Electricity Markets for the period 1 April 2010 to 31 March 2011 to the Secretary of State for Energy and Climate Change.

Foreword

Despite the formidable challenges and uncertainties we have faced, and in many cases continue to face, Ofgem has recorded a remarkable year of delivery in 2010-11. International energy markets have seen renewed upward pressures on prices, with consequences for gas and electricity consumers. We and others have been challenging the working of the GB wholesale and retail markets. The country faces a major investment challenge to meet its low carbon and energy security goals and the government has been reviewing our own role and the role of its delivery vehicles, including Ofgem E-Serve.

In Europe, agreement on a range of market reforms (the "Third Package") was a major development which, among other things, confirmed the value of independent economic regulation. We face some uncertainty in relation to its implementation by all Member States and the speed of development of the new Agency for the Cooperation of Energy Regulators. A further challenge will be the development of the Framework Guidelines and codes which will govern cross border gas and electricity transmission within the European Union. We welcome these moves which should result in more effective markets across Europe. Given Ofgem's leadership in the European debates we are, I believe, well positioned to influence this on behalf of GB consumers.

There are also challenges and uncertainties in terms of gas supplies in continental Europe; the new and very different challenges in the US posed by the development of shale reserves; and, globally, the potential reorientation of Liquefied Natural Gas (LNG) deliveries. The events in Japan (and the continuing concerns about its nuclear plants) and the upheavals in the Middle East underline the potential risks GB's increasing reliance on global energy markets brings.

Against this difficult background, Ofgem has achieved a great deal in protecting consumers' interests, both as regulator and in helping to deliver the government's social and environmental programmes through Ofgem E-Serve.

At the end of March 2011, we published our strategy decision document on the new price control regime for gas and electricity transmission and gas distribution. This document follows our new approach to network regulation, RIIO (Revenue= Incentives+Innovation+Outputs), announced in October 2010. Under the RIIO approach we expect a step change in the way companies engage with their customers and deliver services to them. The year also saw major milestones in the new offshore transmission regime, culminating with our decision in March 2011 to licence the first Offshore Transmission Operator. Early experience suggests the new regime, with competitive tendering, is attracting large-scale investment and saving considerable sums for consumers and generators.

We published in March 2011 the findings of our Retail Market Review (RMR) with its radical recommendations to simplify tariffs and increase the liquidity of the electricity generation market. The industry must now respond to the RMR's recommendations but we believe that the companies can use them as a stepping stone to rebuild trust with their customers. In a period of rising prices this confidence that the companies are "playing straight" with consumers is even more vital.

With so many factors pulling in different directions, confidence and stability are vitally important to help create the climate to generate the investment Britain needs to deliver the low carbon agenda, and meet its future energy needs. We firmly believe that RIIO and RMR will help to achieve this.

E-Serve's performance has shown our ability to deliver the "nuts and bolts" of important government programmes in a high quality and cost effective manner, often at very short notice. The rapid introduction of the new Feed in Tariff, which now has more than 40,000 registered installations, is a leading example. We have also delivered all that has been asked of us by government in its roll-out of smart meters. All this has been done against a background of significant uncertainty for the organisation whilst delivering considerable savings in our operational budget.

Those aspects of our work that most immediately affect consumers, especially the more vulnerable, have elicited a favourable reaction from nearly all sides. That is particularly important. Our duty remains to present and future consumers, more and more of whom are finding it harder to cope as fuel bills rise on the back of higher global demand and the need for large scale investment in Great Britain. How much they have to pay for their energy or indeed their ability to meet their bills is often outside of a statutory regulator's scope. But we do, and will continue to, remind others of their responsibilities whilst focussing on our specific sustainable development duties.

We welcome the Department of Energy and Climate Change (DECC) announcement, on 19 May 2011, setting out the main conclusions to their Review of Ofgem which confirms its commitment to independent regulation and the critical role we will play to help realise the government's energy and climate change objectives. We also welcome DECC's announcement, on 19 May 2011, relating to its Delivery Landscape Review which impacts on E-serve activity along with the positive comments about the strong role E-Serve plays in delivering environmental programmes on behalf of DECC. We look forward to working with DECC in taking forward the recommendations of both reviews.

So what about the year ahead – will we face the same levels of uncertainty in the months to come? In areas where government is responsible – in particular in respect of our role and the government's own Electricity Market Reform – I expect to see greater clarity. We will know more, too, about the way the industry will react to our RMR proposals. And as Member States implement the legislation, we should have a progressive Third Package in Europe with, I expect, the new regulatory agency bedding down well.

Whilst we can look forward to some areas of greater clarity, there will still be difficult issues and uncertainties facing consumers and the energy supply industry at a European and global level. These include the impact – direct and indirect – of the nuclear disaster in Japan, increasing pressure on wholesale prices, and the major meteorological events associated with climate change which will present a serious challenge for energy regulators wanting to provide as much predictability and stability as possible.

Whatever the challenges and uncertainties, we have a strong governance structure which plays to the strengths, the breadth and depth of expertise, the enthusiasm and commitment of our staff to whom I offer the Authority's warmest thanks.

Nonetheless, providing the analysis and stability for effective independent regulation against the background set out above is difficult but essential. Despite the conflicting pressures which have meant we have found ourselves having to navigate through "a sea of troubles", we have held the ship stable, the course steady and achieved results very cost-effectively. That is no mean achievement in itself.

Lord Mogg
Chairman

Introduction

Three very different agendas dominated our work in 2010-11: the advocacy agenda, the change agenda and the collaborative agenda. As I illustrate below, the scope and scale of these three agendas fully reflects the importance and impact of our work in pursuing the best deal for present and future consumers.

The advocacy agenda

Over the last few years, through our Consumer First programme, we have made a step change in our consumer awareness. This was recognised by the Department of Energy and Climate Change (DECC) in its Ofgem Review document on 16 December: "Consumer groups welcomed Ofgem's more recent proactive approach to consumer protection". We are also pleased to report highly constructive relations with the Fuel Poverty Action Group (FPAG), Citizens Advice (CAB), and Consumer Focus. The 'Energy Best Deal' joint campaign with CAB and the 'Debt and disconnection review' with Consumer Focus are two good examples.

The advocacy agenda can be broadly categorised into three work streams:

- Advocacy through formal enforcement. Our role as 'industry policeman' has rarely been busier than in 2010-11 and important cases were successfully concluded against National Grid (in two separate areas). Outstanding cases include those against four of the "Big Six" companies (Scottish Power, npower, EDF Energy, Scottish and Southern Energy, E.ON and Centrica's British Gas) into misselling, and three of the Big Six into complaints handling. Particular note must be made of the £15 million fine against National Grid for abuse of dominance in the gas metering market. The case was upheld by the Competition Appeals Tribunal (CAT) and Court of Appeal, and was rejected for appeal by the Supreme Court in the summer 2010. This case is one of the most significant of its kind taken to date by any regulator under the Competition Act 1998.
- Advocacy through public pressure. A legitimate tool for Ofgem to use is the 'court of public opinion' and this was successfully adopted in getting the industry to accept the removal of the unpopular '65 day rule'. This means that now companies will give notice at least 30 days ahead of changing tariffs and not up to three months in arrears.
- Advocacy through evidence-based review. The last major review of the domestic market was the Probe in October 2008. In November 2010 we announced a 'quick-fire' review of retail markets. This review had a threefold remit: to assess the success of the six key elements of the Probe package, to review the newly received segregated accounts and to observe the pricing practices of the companies.

The change agenda

Over the last few years, our Smarter Grids and Governance (SG&G) division has been preparing the ground for a radical overhaul of the 20 year old regulatory regime. This came to fruition in 2010-11 and in July we announced the end of 'RPI-X' regulation and the creation of 'RIIO' regulation for the price controls. This new methodology is now being adopted for the price controls for both the high pressure gas transportation system and the high voltage electricity networks (RIIO-T1) and for the gas distribution companies (RIIO-GD1), both of which take effect from April 2013.

The SG&G Division has also opened up for review transmission charging and the practical arrangements for connecting to the transmission network. This work is drawn together in our project called 'TransmiT', which will come out with initial recommendations in 2011-12.

Collaborative agenda

It may seem counter-intuitive for an independent regulator to act in collaboration with any other party. An obvious exception would have to be our work in Europe, both in Brussels and Ljubljana (with the Commission and the Agency for the Cooperation of Energy Regulators (ACER) respectively). Many of the most progressive elements of the European agenda are being led by us, such as the regional hubs initiatives, and the North Sea grids plans. We have secured the vice-chairmanship of a critically important electricity committee. This in turn supports the leadership of Lord Mogg, who is the first Chair of the ACER Board of Regulators (the new European central regulatory body).

Working in isolation is not the answer for the consumer in the UK either. We are an active participant in assisting DECC in its ambitious plans to secure the UK's electricity supplies and hit carbon targets through its Electricity Market Reforms. We are also co-operating with DECC on its gas plans, notably on reforms to gas cash out mechanisms (the payments made to balance gas supply). Consumers are so affected by these events that we owe it to them to be representing their voice, especially with regard to affordability.

The more obvious area where we work as a partner with government is in the delivery functions of E-Serve. 2010-11 was a year of simply outstanding delivery by E-Serve: Offshore round 1, the Smart Meters Implementation Programme Prospectus and successful conclusion of smart meter project phase 1, and the continued delivery of environmental programmes such as the Renewables Obligation, Carbon Emissions Reduction Target and Community Energy Savings Programme regimes. The new Feed in Tariff scheme also went live on target on 1 April 2010. The teams are now working hard on the new Renewable Heat Incentive and Warm Homes Discount plans of DECC. Both the formal joint initiatives (eg regulatory regime designs for Offshore Transmission and smart metering) and the informal interactions (eg over the management of compact fluorescent lamps) were good examples of collaboration on highly technical and complex delivery programmes.

I am also pleased to report that our focus on Scotland, Wales and the regions has intensified. In December we held a forum with members at the Welsh Assembly and we have been frequent visitors to both Holyrood and the Senedd (which house the Scottish Parliament and the Welsh Assembly respectively).

Whilst we were delivering on our three agendas, we were also being scrutinised and audited as never before. In the last year we have been formally reviewed by DECC (separate reviews of Ofgem and E-Serve), by the National Audit Office (NAO) for the new Select Committee, by the NAO and Deloitte in their audit functions, and by the Office of Government Commerce (OGC) in respect of Smart Meters. We welcome these reviews, and their positive findings:

- "Ofgem has a sound system of financial controls and reporting. We found that only Ofgem (amongst economic regulators) was producing self contained impact assessments equivalent to those produced by government departments" (NAO, October 2010).
- "It was generally felt that Ofgem did provide value for money, and one group of respondents noted that Ofgem was well managed" (DECC, December 2010).

Such scrutiny provides real opportunities to learn and become a stronger organisation, and we are actively responding to some of the suggestions made. In particular, we are reviewing our consultation processes, assessing whether we have the appropriate powers to fulfil our roles, and working to improve our communications.

In seeking to meet the demands of austere times we imposed an external hiring freeze for part of 2010. That coincided with the departure of one of our most outstanding officers, Steve Smith, Senior Partner, Local Grids and RPI-X@20. We chose not to replace Steve and the Senior Management Team each took on additional functions. The demands on staff at both Ofgem, and particularly E-Serve, are intense.

As Chief Executive, I am concerned that we are capable of maintaining the high standards for which I believe we are respected. Clearly other commentators are concerned as well. In our Corporate Strategy and Plan 2011-2016 consultation, responses from CE Electric and Electricity North West raise such concerns, and these mirrored similar comments in the DECC December 2010 review of Ofgem. Our answer is to work smarter but we will also need to do some further recruitment in 2011. I can assure those who fund us that we will meet the Cabinet Office guidance before the recruitment of a staffing resource is agreed.

It is thanks to our highly talented and dedicated staff that we have been able to get through this ‘mountain of work’. The senior management are indebted to our teams, and we are conscious of the sacrifices made.

Alistair Buchanan
Chief Executive

Section B
Key activities and achievements

Our statutory duties are to protect the interests of present and future consumers. The Energy Act 2010 makes clear that consumers' interests include their interests in reducing greenhouse gas emissions and in security of supply.

Our mandate is grouped around four key themes: helping Britain build a low carbon energy sector, helping to maintain the security of Britain's energy supplies, promoting quality and value for all consumers and ensuring the timely and efficient delivery of government programmes for a sustainable energy sector through Ofgem E-Serve. These themes are reflected in the format of this year's annual report.

Theme 1: Building a low carbon economy

Major initiatives:

- Low Carbon Network Fund
- New price control regime for regulated networks - RIIO
- Offshore Transmission regime
- Project TransmiT
- Demand side response
- Reporting and engagement

First round of Low Carbon Network Fund

We made our first awards under the £500 million Low Carbon Networks Fund (LCNF) which is designed to speed up the development of smart grids to meet low carbon energy use. Under the initial awards four innovative projects are sharing £64 million from the LCNF.

Together with an independent panel of energy experts we chose as the winning projects those which particularly demonstrated the potential to kick-start the introduction of "smart grids" which are needed to help meet the government's 2020 targets for reducing carbon emissions. The companies sponsoring the projects showed they could take on and develop new and creative ways of working with suppliers, generators, universities, local councils and others.

The experience gained from these ground-breaking initiatives will be shared with all network companies and other interested parties, potentially benefitting millions of energy consumers across Britain. The funding will help develop the crucial investment programme needed in energy infrastructure to connect renewable generation and accommodate new technologies such as electric vehicles.

It will also help the companies understand how to run their networks in a more intelligent way to meet changing needs quickly and efficiently.

New price control regime for regulated networks - RIIO

At the end of March 2011, we published our strategy decision document. The publication of this document marked a key milestone in the development of our new price control regime for Britain's gas and electricity transmission and gas distribution networks. The price controls will be set for an eight-year period from 1 April 2013 to 31 March 2021.

The new regime RIIO (Revenue=Incentives+Inno vation+Outputs) is a radical departure from the traditional price control regime RPI-X. RPI-X served the industry well for two decades but, after detailed study, we decided that it would not be able to meet the challenges facing the energy networks in the coming years.

The proposals outlined in the strategy decision document are intended to drive the transition to a low carbon energy sector in a way that provides value for money for consumers. The proposals provide opportunities for companies that perform well against the RIIO objectives to earn significantly greater returns. To the extent that companies do not rise to this challenge, there is a risk of earning considerably lower returns. The proposals included the following elements:

- a requirement on network companies to develop well justified business plans outlining the strategy they will employ to play a full role in delivering a sustainable energy sector.
- a suite of environmentally focussed output measures to promote timely connection of new sources of energy, reduce greenhouse gas emissions, reduce the visual impact of the networks, and reduce the network companies' own business carbon footprints.
- the introduction of a time limited innovation stimulus known as the Network Innovation Competition (NIC). This will be similar to the LCNF in electricity distribution. It will provide innovation funding of £240 million for electricity transmission and £160 million for gas transmission and distribution over the next price control period. This will encourage network companies to invest in new ideas and practices that drive value for consumers and the environment.
- a reputational incentive on gas transmission and distribution and electricity transmission companies on promoting low carbon energy flows.
- for electricity transmission companies we are considering introducing a financial reward to facilitate a greater contribution to the UK's environmental objectives. We plan to consult further on the operation of this mechanism shortly.

Offshore Transmission regime

March 2011 saw the innovative Offshore Transmission regime – a joint initiative between Ofgem and DECC launched in 2009 – reach a major milestone with the award of the first licence to operate a high voltage link with an offshore wind farm in the UK. This is described more fully under Theme 4.

Project TransmiT

Britain is facing an unprecedented challenge driven by the need to connect large amounts of new and low-carbon generation to the electricity networks to meet climate change targets, while continuing to ensure value for money for consumers and security of supply.

As a result, electricity and gas networks are going through radical change. The current transmission charging regime has served consumers well by promoting the efficient use of the networks, and facilitating effective competition in generation and supply. However, the time is right for us to step back and consider whether the arrangements are fit to meet the challenges of the future.

Project TransmiT is our independent and open review of transmission charging and associated connection arrangements. The aim of the review is to ensure that we have in place arrangements that facilitate the timely move to a low carbon energy sector whilst continuing to provide safe, secure, high quality network services at value for money to existing and future consumers.

Demand side response

As part of our drive to support Britain's efforts to move to a low carbon economy we have been working hard to encourage demand side response, sometimes dubbed the fifth fuel after renewable, nuclear, coal and gas. Demand side response involves users varying demand due to changes in the balance between supply and demand, usually in response to prices.

Encouraging a demand side response delivers financial and environmental benefits, and is especially important in a world which places greater reliance on variable renewable generation. We have already published a discussion paper exploring some of the challenges involved and are encouraging greater interaction between consumers and the energy market.

One of the aims of the £500 million Low Carbon Network Fund is to foster the role of innovative demand side solutions in improving energy network usage. We are assessing the regulatory and consumer protection issues presented by the development of time-of-use tariffs and the role of demand side aggregators.

In Europe, Ofgem co-chairs the European Regulators' Sustainable Development task force which produced its conclusions on the integration of wind generation in European markets. Ofgem also co-authored the International Confederation of Energy Regulators (ICER) global study on the regulatory aspects of energy efficiency. The ICER is chaired by Lord Mogg.

Reporting and engagement

In November 2010, we published our annual review: 'Sustainable Development Focus 2009-10'. This highlights progress against our five sustainable development themes. Throughout the year we have been working to engage non-governmental organisations and sustainability groups in developing regulatory policy, as well as drawing on the views from our Environmental and Social Action advisory groups.

Theme 2: Helping to maintain security of supply

Major initiatives:

- **Implementing the EU Third Package**
- **Code Governance Review**
- **Offshore Transmission**
- **Rough gas storage undertakings**
- **Monitoring winter energy supplies**
- **Project TransmiT**

Implementing the EU Third Package

The provisions of the European Union's Third Package of reforms, designed to further liberalise Europe's energy markets, have become increasingly important with full UK implementation due soon. We have advised DECC on the legislation which will be required in the UK to meet the provisions of the Third Package and we have played a leading role in the development of the Framework Guidelines which will provide the blue print for the development of a single market in energy across the European Union.

The Third Package covers unbundling, which allows greater separation of transmission interests from generation; production and supply; the setting up of independent national energy regulators; rules governing cross border flows of gas and electricity and the establishment of ACER, the Agency for the Cooperation of Energy Regulators, which is chaired by our chairman, Lord Mogg.

We have worked hard to keep stakeholders in the UK fully informed about the latest EU developments and their likely impact in the UK.

In February 2011, as part of the increasing development of cross border energy flows, we approved rules governing access to the BritNed interconnector, the first new electricity interconnector within continental Europe since privatisation. We are also working with other regulators, most intensively with the Belgian regulator, the Commission for the Regulation of Electricity and Gas (CREG), to develop the regulatory arrangements for the many other electricity interconnector schemes being put forward. In the gas market we are playing a leading role in the work on devising a new target model for market integration and transparency issues.

Code Governance Review

Many of the rules covering participation in the gas and electricity markets in Great Britain are set out in the industry codes. These codes also contain rules on their change management which govern how reforms to the codes can be made. We have completed a two-year review of the change management rules through the Code Governance Review (CGR). The aim has been to ensure the change management rules stay fit for purpose; especially given the challenges facing the industry in the next ten years.

Final proposals on the CGR were published in March 2010 setting out amendments to improve the change management of codes, such as the Uniform Network Code.

In order to give effect to our final proposals, we made changes to the relevant licences of National Grid and Gas Distribution Network Owners which came into force on 31 December 2010.

We launched our first Significant Code Review (SCR) under the new rules in January 2011. This started a process of considering whether changes were needed to the financial arrangements to balance supply and demand in the gas market to enhance security of supply. The SCR is due to conclude in 2011-12.

Offshore Transmission

The Offshore Transmission regulatory regime introduced by DECC and Ofgem is expected to result in some £20 billion of investment in transmission links to offshore wind farms, mainly in the North Sea, while ensuring value for money for consumers.

Our aim is to ensure that these transmission links can effectively connect new low carbon generation. Ofgem and DECC are currently looking at the potential for enhancing network co-ordination in the regime and are jointly chairing an industry advisory group. We have also recently taken on the chairmanship of the regulators' group which is looking at the construction of a North Sea super grid.

Rough gas storage undertakings

In April 2010, Centrica applied to have the undertakings imposed by the Competition Commission (CC) at the time of its acquisition of the Rough gas storage facility removed. The undertakings were put in place to prevent Centrica from using its ownership of Rough to discriminate when giving access to Rough capacity and from disadvantaging other market participants in a number of other ways through its operation of Rough. The provisions of the undertakings cover Centrica's operation of Rough, and include provisions relating to how access to Rough capacity is provided, and for the separation of Rough's management from the rest of Centrica.

Centrica argued that changes in the gas supply market through the addition of a number of new storage facilities and sources of supply since the undertakings were imposed coupled with the provisions of the European Union's Third Package rendered the conditions unnecessary.

We analysed the developments in terms of flexibility of the market and the potential impact of the Third Package. We concluded the Third Package provisions were likely to deal with some, but not all, of the issues currently covered by the undertakings and fed this into the CC's review.

Monitoring winter energy supplies

Every autumn since 2005-06 we have asked National Grid to provide an assessment of how they see supplies for the coming winter for both the gas and electricity markets. This helps us assess the security of supply risks for the coming winter. Before winter 2010, we also wrote to all gas shippers requesting information over their sources of supply and their anticipated demand levels, to understand better how they can meet demand even if the system experienced supply disruptions.

Over the course of the winter we continually monitor the levels and sources of supply, and consider the functioning of the market and the actions of National Grid in respect of security of supply. Last winter provided a stern test for GB energy markets as a prolonged cold spell occurred untypically early in the season. Nonetheless, all gas demands were met and there were comfortable margins in electricity generation.

In recent years as UK continental shelf gas supplies have been depleted, GB has had to increasingly rely on imports of gas. This inevitably makes GB more susceptible to global energy market changes. This increases the need to maintain vigilance over the GB energy system.

We continued to monitor the availability of energy supplies throughout the winter, including looking at supply and demand conditions globally.

Project TransmiT

The aim of Project TransmiT is to ensure that we have in place arrangements that allow the timely move to a low carbon energy sector whilst continuing to provide safe, secure, high quality network services at value for money to existing and future consumers.

Critically, we want to ensure that charging and connection arrangements do not present unnecessary barriers to the connection of new generation.

Theme 3: Promoting quality and value for consumers

Major initiatives:

- **Retail Market Review**
- **New price control regime for regulated networks - RIIO**
- **Enforcement**
- **Protecting vulnerable consumers**
- **Energy Ombudsman review**

Retail Market Review

In November 2010, Ofgem launched its Retail Market Review. The decision to do so reflected our ongoing concern that the market was not serving consumers as it should.

The findings of the review and our plans to address the failings uncovered were published in March 2011. The review concluded that a combination of tariff complexity, poor supplier behaviour and lack of transparency was reducing the effectiveness of competition. It also revealed that the response of the supply companies to our reforms which followed the 2008 Probe had been generally disappointing.

To tackle the concerns uncovered, we announced a combination of measures directly related to the way the retail market works and radical reforms of the wholesale electricity market. The Big Six (Scottish Power, npower, EDF Energy, Scottish and Southern Energy, E.ON and Centrica's British Gas) control almost three quarters of Great Britain's electricity generating capacity and dominate retail supply. This level of vertical integration (a presence in both wholesale and retail markets) could make it harder for others to compete.

Our proposal to make new entry easier is to improve the ability of the wholesale power market to meet independent participants' needs. We suggest intervention to improve liquidity, and outline what this would look like. Therefore our March 2011 consultation document is also an important next step in our ongoing liquidity work.

We propose that the Big Six make up to 20 per cent of their generation available through an open and transparent auction. We also propose that they act as market makers, continuously offering smaller products to help participants manage imbalance risk. We consider that, together, these proposals could be of significant benefit to generators and suppliers, as well as benefiting broader liquidity. However, we will be conducting a further full market assessment, an impact assessment and taking account of stakeholder responses.

To support domestic customer switching, we proposed measures to make it easier for consumers to be confident they were moving to a better deal. Our proposals to simplify the structure of tariffs would allow consumers to readily compare different deals on the basis of a single number - the unit price. We also announced that we are to ask independent accountants to investigate the company accounts of the Big Six energy suppliers. We want to provide consumers and stakeholders greater clarity on the level of profitability of these suppliers' retail market operations and the extent to which retail prices reflect underlying changes in the wholesale gas and electricity markets.

The energy companies were warned that we could refer the issue to the Competition Commission.

The findings of the review and the reforms proposed were generally welcomed by consumer groups and government.

New price control regime for regulated networks - RIIO

As set out above, in March 2011 we published our strategy decision document setting out the framework for the new transmission price control (RIIO-T1) and gas distribution price control (RIIO-GD1) that will run for the period April 2013 to March 2021.

The average domestic electricity bill is currently around £400 per annum and the average domestic gas bill is around £600 per annum. The network charges that we will be setting as part of RIIO-T1 and GD1 account for around 20 per cent of current bills.

In order to respond to the challenge of decarbonising Britain's energy sector we estimate that over £200 billion of investment will be required over the next decade, including over £30 billion of investment in the gas and electricity networks.

The arrangements we set out in our RIIO-T1 and GD1 strategy decision documents provide strong incentives for network companies to meet the challenges of delivering sustainable network services. They are intended to enable companies to raise the finance they need for this investment, while containing cost increases and ensuring that consumers get the best possible value for money. Our proposals will reward companies according to their delivery for consumers and will penalise them if they fail to deliver.

As part of the new price controls, we will introduce a range of output measures specifically focussed on the interests of consumers and whether those interests are being met. In both transmission and gas distribution, we will require companies to undertake a customer satisfaction survey, with an associated financial reward or penalty according to how the company performs. We are also providing the potential for a discretionary reward based on a qualitative assessment of companies' performance in engaging with their stakeholders and how this engagement is reflected in the way companies run their businesses. In gas distribution, we will also introduce a complaints metric which will incentivise companies to resolve consumers' complaints expediently, with a penalty for poor performers.

In addition to consumer focussed measures, we are also setting out output requirements in areas which consumers have told us they value, including safety and reliability. In aggregate over the price control period, network companies that perform well in delivering for consumers will be able to earn additional revenues of up to £300 million, and those that perform poorly will incur penalties of up to £460 million.

For RIIO-GD1, we will also require network companies to address two key social issues, fuel poverty, and incidents of carbon monoxide (CO) poisoning. We will continue with the fuel poor network extensions scheme building on the success of the current scheme introduced during the current price control. Under this scheme, we provide incentives for network companies to provide a gas connection to off-grid fuel poor households who currently use more expensive fuels to heat their homes and meet their hot water needs. We also intend to require companies to introduce schemes to address CO poisoning, such as the installation of CO alarms for vulnerable customers. Network companies are currently undertaking trials of CO schemes, and we will fund the roll-out of successful trials at RIIO-GD1.

Enforcement

Over the last year we have continued to show our determination to use all our regulatory powers under the Competition Act and the Electricity and Gas Acts to ensure companies do not abuse their positions and that customers are treated fairly.

In February 2011, we fined three local power grid companies a total of £1 million for failing to meet the time scales within which customers must be offered connections. Given the need to invest £200 billion in the energy industry in the next ten years, more than £30 billion of that in networks, it is important that customers get prompt connections. This is especially important given the need to expand local renewable generation schemes to deliver secure and sustainable energy supplies for consumers.

To improve the level of service customers receive from local power network companies when requesting a connection, we introduced compensation arrangements to cover instances when local power network companies do not meet targets for good customer service in connections.

In January 2011, we fined National Grid Gas £8 million for a breach of its obligations to provide accurate information to us. We made clear at the time that the proposed penalty would have been higher had it not been for the co-operation and corrective action by National Grid Gas in addressing the issue.

We used the announcement of our action against National Grid Gas to deliver a broader message to the industry, reinforcing the importance we attach to the provision of accurate information and warning all energy companies that misreporting will not be tolerated.

In June 2010, we found EDF Energy in breach of the complaint handling regulations between October 2008 and March 2009. EDF Energy had not maintained all its records in the way that consumer complaint handling standards require when handling and resolving customer complaints. No penalty was imposed in view of agreement by EDF Energy to contribute £200,000 to the Energy Best Deal campaign and the Money Advice Trust both of which offer frontline help and advice to consumers on energy bill matters.

Last August, the Supreme Court backed our 2009 decision under the Competition Act that National Grid had abused its dominant position and acted anti-competitively in the gas meter market. Britain's highest court refused the company permission to appeal against our decision. This followed earlier unsuccessful appeals against the substance of the decision at both the Competition Appeal Tribunal and Court of Appeal.

The £15 million fine on National Grid is one of the highest financial penalties for abuse of dominance imposed in the UK to date. The Supreme Court's decision brought the issue to a final close.

Separately we welcomed EDF Energy Networks' offer of goodwill payments to customers and to make a donation to the community affected by power cuts in the Dartford area in July 2009. The extent of the incident, the result of a fire at a cable bridge, caused significant local concern which we shared.

We also welcomed EDF Energy Networks' response to these concerns by making further payments in line with the regulatory requirements. We ruled the event to be exceptional and concluded that there is no evidence that any actions (or lack of actions) by EDF Energy Networks were to blame. However, the incident highlighted aspects of EDF Energy Networks' performance which appeared to fall short of best practice. We reviewed the regulatory framework to ensure companies have an incentive to keep under review the measures they are taking to protect the integrity of critical parts of their network.

We also showed that we are prepared to use our enforcement powers not only in established markets but in areas where a market is only just developing. Smart meters have already been installed in some homes in the UK ahead of the start of the official roll-out of the Department of Energy and Climate Change's (DECC) smart meter programme. These have scope to bring important benefits to consumers.

One effect of the introduction of smart meters is that companies can disconnect customers remotely, that is without actually visiting the customer's home. In December 2010, we took action against First Utility for failing to put in place sufficient measures to guard against vulnerable customer disconnections.

Misselling

In October 2009 and January 2010, we introduced tougher obligations to ensure suppliers took an active role in preventing misselling to customers both face–to-face and over the telephone. As part of this, suppliers selling contracts face-to-face were told they must provide customers with an estimate before any sales are concluded. In most circumstances customers should also receive a comparison of the new supplier's offer with their current deal. The obligations reflect the importance of these issues in the energy sector and are underpinned by tougher sanctions than those available under more general consumer protection law.

In autumn 2010, we launched investigations to establish whether four suppliers (npower, Scottish Power, Scottish and Southern Energy and EDF Energy) were complying with the new obligations to prevent misselling.

We set up a special hotline to allow consumers to report concerns about possible misselling. Together with Consumer Focus we also published a leaflet with practical information and advice for consumers when an energy salesperson calls at their door or telephones them at home.

For the avoidance of doubt, the fact that we have launched investigations should not in any way be taken as implying that any company has breached its obligations. As part of the investigation processes the evidence will be examined before conclusions are reached.

Energy Best Deal

Listening and responding to consumer views

We put the views, needs and interests of consumers at the heart of everything we do. This year we continued to invest in our successful Consumer First programme. Our panel of 100 householders around Great Britain has considered and given views on a range of issues, including smart metering, supply security and experience of energy suppliers and competition in the retail market. The expert Consumer Challenge Group set up to act as a critical friend to the Authority on its price control work has increased its membership and contributed to the development of the electricity transmission and gas distribution price controls being set up under the new RIIO framework. We have complemented this work with primary research on a range of consumer related issues. We also set up a Consumer Advisory Group to help inform our work on smart metering.

Over the year, we continued to enjoy valuable insight and advice from our two groups representing the interests of large industrial energy users, and smaller to medium sized business users and we are building on our work to help business consumers.

Over the last winter we maintained our commitment to Energy Best Deal – the campaign run jointly with Citizens Advice to help households struggling to meet higher energy bills. The campaign, which has also had the support of several energy suppliers, offers a package of energy related advice for consumers. Since Energy Best Deal began around 60,000 customers are estimated to have benefited from the help available.

An independent evaluation in 2010 showed that 98 per cent of consumers who received Energy Best Deal information found the sessions useful and more than a third went on to look into getting a better deal on their energy. The campaign continues this year due to funding from energy suppliers EDF Energy and E.ON. We are expanding the scheme into an online campaign with the provision of a series of six videos to help consumers with issues such as getting the best deal on their energy and understanding what other help they may be able to get from their suppliers.

Support for vulnerable consumers

New debt principles for suppliers

As part of our ongoing campaign to protect consumers, we have been investigating a growing trend towards companies demanding indebted customers repay those debts at a faster rate than has been the case in the past. We have reminded companies of their licence obligations to take account of customers' circumstances when drawing up repayment schedules or considering disconnection and have established new principles which we expect suppliers to take into account.

Social tariffs and rebates

Since 2008, we have monitored and reported on the commitments made by the Big Six under the Voluntary Agreement. This was an agreement between the government and the Big Six energy suppliers which set out a commitment for suppliers to provide direct and indirect support to customers likely to be in fuel poverty. It was agreed suppliers would spend £50 million in the first year of the agreement (2008-09), rising to £150 million in the last year of the agreement (2010-11). In September 2010, we reported on suppliers' performance for the second year of the agreement (2009-10). We will report on the final year of the agreement later in 2011.

At the end of March 2010, there were 1,010,382 customer accounts benefiting from social and discounted tariffs and contributions. With rebates included as well, almost 1.6 million customer accounts benefited from some form of reduction in their energy bills in 2009-10. 542,642 customers received some form of rebate from their supplier in 2009-10. Total rebates to customers were £15.2 million.

Government has recently mandated electricity suppliers to provide support through the Warm Home Discount (WHD) scheme. This is a new mandatory scheme that will replace the previous voluntary agreement with energy suppliers to provide further, better targeted support to those in or at risk of fuel poverty. Our role within the scheme is to monitor and assist supplier compliance with their new obligations under the scheme. The long term aim of the scheme is to move to fixed rebates. Under the scheme, suppliers have the option to continue to offer discounted/social tariffs or rebates to the types of customers who have previously benefited from these under the Voluntary Agreement. Suppliers will not be able to extend the eligibility criteria that they applied to their tariffs or rebates between 1 April 2010 and 31 March 2011. The number of customers who can be assisted with tariffs and rebates is limited by the scheme regulations to the number of customers who were assisted in the final year of the Voluntary Agreement.

Promoting consumers interests in developing energy markets

The rollout of smart meters will enable new tariffs, products and services to develop. These can bring benefits to consumers and help manage household and business energy costs.

Moves are being made now by suppliers to install smart meters and we anticipate around one million meters will be installed by the end of 2011 and ahead of the mass rollout which is expected to begin in 2014.

We have been anticipating the consumer issues that might be presented by smart metering with the view of modernising existing protections in advance of the roll-out of DECC's smart meter programme. In February 2011, we launched a consultation exercise to address the issue of remote disconnection. The consultation also covers other consumer protection measures including automated switching between payment methods and the safeguarding of consumers' right to switch supplier when they have a smart meter. We are proposing enforceable licence obligations to address these issues.

We will continue to regulate the market as it develops in the light of smart metering and will work with the DECC Smart Meter Implementation Programme to protect and promote consumers' interests.

Energy Ombudsman

The Energy Ombudsman scheme plays an important role in helping secure redress for energy consumers who remain dissatisfied with the way their energy company has handled their dispute.

In accordance with our role to approve redress schemes we commissioned an independent review of the first year of the operation of the Energy Ombudsman during which it handled 6,322 cases, secured redress for 3,965 consumers including awarding £687,840 in compensation.

The review concluded the Ombudsman's governance model delivers fair and independent redress and met most of the criteria laid down to cover its operations, but identified important areas for review where its operations could be improved. We expect to see those improvements over the next year.

Theme 4: Timely and efficient delivery of government programmes

Major initiatives:

- **Offshore Transmission regime: first project completed**
- **Paving the way for smart meters**
- **Launch of Feed-in Tariffs on time and on budget**
- **Developing Warm Homes Discount**
- **Renewable Heat Incentive and other programmes**

Offshore Transmission regime

In March 2011, the innovative Offshore Transmission regime – a joint initiative between Ofgem and the Department of Energy and Climate Change (DECC) – reached a major milestone with the grant of the first licence to operate a high voltage link with an offshore wind farm in the UK. Ofgem E-Serve operates the competitive tendering process to grant licences.

The newly created company will operate the £65 million link transporting renewable electricity from the 180 megawatt Robin Rigg wind farm to the onshore grid for a period of 20 years.

The acquisition of the transmission assets represents the first injection of an expected £20 billion of new capital into offshore transmission over the next decade. We view this level of investment as critical in ensuring sufficient investment to deliver the UK's energy infrastructure needs. We launched the Offshore Transmission regime in 2009 to deliver the high voltage links to offshore wind farms as cost effectively as possible: crucial if the government's renewable energy targets are to be met.

The licence award marks the success of the regime's first tender round for £1.1 billion of offshore transmission links to nine offshore wind farms. The tender round attracted almost £4 billion of investment bids and is expected to deliver savings of around £350 million for consumers. We expect to grant licences for the other eight links in the first round over the next year.

The second transitional round had eight bidders competing for three projects to link over 1.4 gigawatt of offshore wind, and a shortlist of four bidders has recently been announced. These projects are worth a further £1 billion, with billions more of investment opportunities to be tendered over the coming years.

The combination of competitive tendering and the long term nature of the investment has attracted interest from a range of investors including pension funds, investment funds and contracting companies.

Offshore Transmission co-ordination

As mentioned in Theme 2, the Offshore Transmission regulatory regime is expected to link offshore wind farms, mainly in the North Sea, and provide a major contribution to security of supply and low carbon targets.

While the regime currently enables co-ordination, and the benefits thereof to be realised, our aim is to ensure that it is maintained and enhanced where necessary. As such, a joint initiative has been launched with DECC to examine this issue, with the support of an industry advisory group, involving a broad mix of stakeholders.

Smart Meters

We have been working with DECC on the planned introduction of smart energy meters to Britain's 26 million households. We managed, on behalf of DECC, the policy design phase of the government programme to mandate the mass rollout of smart meters. That work included the publication last summer of the prospectus which sets out the regulatory framework governing the roll-out of smart meters over the next decade, and culminated in the government response in March 2011.

The benefits of smart meters include an end to estimated energy bills, giving consumers greater control over the way they use energy and making it easier for consumers who generate their own electricity through, for example solar panels to sell any excess into the national grid.

DECC has taken on responsibility for implementing the framework outlined in the prospectus response and we will continue to have a crucial role in the roll-out and operation of smart meters through our regulatory oversight role.

As part of implementing this regulatory regime aimed at providing a better service to consumers, DECC plans to set up a new regulated data communications company which will act as a clearing house for all the information sent to and collected from smart meters. The right to run it is expected to be put out to commercial tender next year.

Feed-in Tariffs

Last April saw the introduction of the Feed in Tariff (FIT) scheme designed to boost the generation of electricity from smaller sources of sustainable generation by providing financial support. Our key role is to maintain the Central FIT Register, which is a database of accredited installations to administer the levelisation. We are also responsible for ensuring that suppliers comply with the FIT scheme requirements. The launch of the scheme represented a significant challenge, requiring the development of special IT systems but was introduced on budget and on time. It has attracted considerable interest with more than 40,000 small scale generators successfully registered in the first year of the scheme, representing a significant uptake of small scale generation.

Warm Home Discount

As stated above, our role in the Warm Home Discount (WHD) scheme is to monitor and assist suppliers' compliance with their new obligations. A key role we will fulfil will be to pre-approve any broader group or industry initiative activity proposed by a supplier to meet all or part of its non-core spending obligation. We are supporting the introduction of the government's WHD scheme under which energy companies will provide discounts on fuel bills for their most vulnerable customers. Warm Home Discounts are expected to be worth some £1.1 billion over the next four years and replace the previous voluntary arrangements with a mandatory scheme.

Renewable Heat Incentive and other programmes

We have also been asked to administer the Renewable Heat Incentive (RHI) scheme which is being introduced by the government in 2011-12 to support the switch from oil and gas fired heating systems to sustainable sources such as bio-fuels, solar panels, heat pumps and renewable combined heat and power systems. Initially, the scheme will be used for large scale users but will be extended to include domestic heating systems in the future.

As well as supporting the development of new government schemes we continue to effectively and efficiently administer a number of existing schemes on the government's behalf, including the Renewables Obligation, the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP).

We continue to use the combination of the knowledge gained through our regulatory role and our compliance powers as well as our data handling ability to ensure value for money for consumers.

Value for money

Over recent years we have seen our work-load double with the development and administration of the Offshore Transmission tendering regime, the development of the Smart Metering Implementation Programme Prospectus, the addition of new government programmes to those already administered on its behalf by Ofgem, and now incremental work to protect consumers arising from the Electricity Market Reform and the Retail Markets Review.

Ofgem E-Serve continues to deliver environmental schemes for government at a cost averaging 0.27 per cent of scheme value.

Despite the additional workload we underspent our £78 million budget for 2010-11 by some £20 million. Part of the reduction is a result of some programmes being pushed back into the current year but a significant part results from direct cost savings, including a pay freeze for staff.

A saving of over £5 million from licence fees has been made during 2010-11. This is the first year of a further five year RPI-3 per cent cost control regime with planned savings of £12.5 million. During the previous five year cost control regime, total savings of £11.9 million were made and returned to licence fee payers. The cost control is set by our Audit Committee and is overseen by an independent accounting firm.

We continue to offer our expertise and resources to other regulators. We are providing back office support for the Charity Commission and for Postcomm.

In addition we are working with other regulators to achieve savings through shared purchasing arrangements and exploring with those regulators the scope for savings through shared back-office services.

We have worked hard to maintain close two-way links with consumers and their elected representatives in Scotland, Wales and the regions.

To facilitate this process we brought our communications with Westminster into the team responsible for providing a similar role in Holyrood and Cardiff. We now operate a well co-ordinated External Relations function providing support and information to parliamentarians throughout Great Britain.

As well as maximising the use of resources within a small team, this initiative ensures a consistent message from us and underlines our commitment to giving the agendas in the devolved nations of Great Britain our fullest attention.

We developed branded materials for the three political institutions, and have strengthened our Welsh Language Scheme with a clear commitment to provide Welsh language versions of all our consumer materials.

Section C
Corporate Governance

The Gas and Electricity Markets Authority

The Authority comprises executive and non-executive members. The Authority is the ultimate decision making body for all matters dealt with by Ofgem, setting overall strategy, policy, and deciding major issues.

Basis of appointment

The Chairman of the Authority, Lord Mogg KCMG, was appointed for a period of five years as non-executive Chairman on 1 October 2003 by the then Secretary of State for Trade and Industry following open competition. In February 2008 he was reappointed for a further five years on an increased level of hours arising from additional responsibilities until September 2013. Prior to taking up his role, he was appointed as a non-executive member of the Authority from May 2003. The other non-executive members of the Authority are also appointed by the Secretary of State in consultation with the Chairman of the Authority.

Alistair Buchanan CBE, was appointed Chief Executive and an executive member of the Authority on 1 October 2003. The appointment was made following open competition and the process was overseen by a Civil Service Commissioner.

The appointment of the other executive members of the Authority is undertaken in accordance with the Civil Service Management Code. They were appointed as members of the Authority so long as they hold their senior posts at Ofgem. These arrangements will be examined to ensure that they are in line with the adoption of the EU's Third Energy Package.

Details of the remunerations paid to Authority members can be found in the Remuneration Report.

Executive Members of the Authority who served during the year

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

Stuart Cook, Senior Partner, Smarter Grids and Governance, appointed to the Authority in November 2010.

Sarah Harrison, Senior Partner, Sustainable Development, appointed to the Authority in May 2005.

Steve Smith, Senior Partner, Local Grids and RPI-X@20, appointed to the Authority in May 2004. He left the Authority in October 2010.

Dr Andrew Wright, Senior Partner, Markets, appointed to the Authority in January 2008.

Non-Executive Members of the Authority who served during the year

Lord Mogg KCMG joined the Authority as a non-executive member in May 2003. He was appointed for a period of five years as non-executive Chairman on 1 October 2003 by the then Secretary of State for Trade and Industry and was reappointed for a further five years in February 2008 until September 2013.

Professor David Fisk CB, joined the Authority as a non-executive member in July 2009. Unless renewed, his current appointment ends in July 2012.

Miriam Greenwood OBE DL joined the Authority as a non-executive member in May 2004. She was reappointed from January 2010. Her appointment ends in January 2013.

David Harker CBE joined the Authority as a non-executive member in January 2009. Unless renewed, his current appointment ends in December 2011.

John Howard joined the Authority as a non-executive member in July 2009. Unless renewed, his current appointment ends in July 2012.

Jim Keohane joined the Authority as a non-executive member in January 2009. Unless renewed, his current appointment ends in December 2012.

Jayne Scott joined the Authority as a non-executive member in May 2004. She was reappointed from January 2010. Her appointment ends in January 2013.

John Wybrew OBE joined the Authority as a non-executive member in May 2004. In May 2009 he was reappointed. His appointment ends in May 2012.

The non-executive members are considered to be independent of management and comprise a majority of the Authority. Apart from the following issues in respect of shareholdings and their treatment, there were no company appointments or consultancy arrangements, or other significant interests, held by Authority members which could give rise to a conflict with their responsibilities as members of the Authority.

Jim Keohane, Andrew Wright and John Wybrew having served in the past on the staff of energy companies, are members of their former energy companies' 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.

A close family member of John Wybrew holds shares in Shell and BP. He has undertaken not to deal in these shares during the period in which he is a member of the Authority and for a period of 12 months thereafter.

Citizens Advice, of which David Harker was Chief Executive until the end of May 2010, received funding from two regulated companies for specific projects, which represented less than 1.5 per cent of its total funding.

Authority meetings and activities

Meetings and attendance records of non-executive members for the full Authority and Authority Committee meetings during the year were as follows:

	The Authority	Audit Committee	Offshore Electricity Transmission Committee	RIIO Transmission and Distribution Price Control Committee	Remuneration Committee
Lord Mogg	11/11	-	-	5/5	1/1
David Fisk	10/11	3/4	-	4/5	-
Miriam Greenwood	9/11	-	4/4	4/5	-
David Harker	11/11	3/4	-	4/5	-
John Howard	11/11	-	-	-	-
Jim Keohane	11/11	4/4	3/4	-	-
Jayne Scott	11/11	3/4	-	3/5	1/1
John Wybrew	11/11	-	3/4	-	1/1

Working closely with the European Commission, the European Parliament and others, the Chairman, Lord Mogg, has continued to contribute to the development of EU regulatory policy for energy in his role as President of the Council of European Energy Regulators (CEER); Chairman of the European Regulators' Group for Electricity and Gas (ERGEG) and Chairman of the Agency for the Cooperation of Energy Regulators (ACER). He is also Chairman of the International Confederation of Energy Regulators (ICER).

The Chairman and non-executives have continued to play a full part in Authority business through their attendance and contributions at Authority meetings and meetings of committees of the Authority as indicated above. The Authority met in Scotland in September 2010, using the occasion to host a meeting in Glasgow with senior energy interests from the public and private sectors.

The Authority held a meeting in June 2010, in part in closed session, involving the Chairman and non-Executives, to consider a detailed survey of its performance during the year, and a range of topics on Authority governance and procedures. These were designed to build on its overall efficiency and effectiveness. Meetings with interested parties, held after its main meetings, have been a regular feature of the Authority's work in 2010-11.

Non-executives have maintained their close and regular contacts with Ofgem teams dealing with those areas of special responsibility assigned to each of them by the Chairman. The Chairman reviewed these assignments and non-executives' membership of Committees of the Authority in light of changes in membership of the Authority and forthcoming business needs.

In addition to the work of the Audit and Remuneration Committees, and Offshore Electricity Transmission Committee, the Chairman and some non-executives have taken a major part in assessing and formulating price control proposals during the course of the year involving meetings with the electricity/gas transmission and gas distribution industry. Members have attended several additional briefing sessions organised for the Authority during the course of the year – for example on our investigations into market prices for energy and the RPI-X@20 project which considered new regulatory approaches for the future. Other studies and briefings have involved the EU's Third Package, the RIIO project, aspects of the DECC review of Ofgem and E-Serve and Smart Meters policy.

On governance issues, the Authority's corporate structure - with committees having clear terms of reference – continues to provide assurance that there is a strong framework of internal control throughout the organisation. In particular, the Audit Committee has been active in risk assessment and mitigation strategies across the organisation on both financial and policy matters, concentrating especially on administrative work undertaken by us for government, and in the development of our role in devising and implementing a new offshore electricity transmission regime and new environmental schemes.

In May 2010, the Authority reviewed and approved our strategic risks and mitigating actions. These had previously been discussed at an Audit Committee workshop in April 2010.

During the year, the Authority reviewed its rules and procedures in respect of the membership of committees.

Minutes of the Authority's meetings and also the Terms of Reference of Committees are published on our website and work has continued to improve further other aspects of communication of the Authority's activities.

Committees of the Gas and Electricity Markets Authority

Audit Committee

The Audit Committee is chaired by Jayne Scott. The non-executive members are David Fisk, David Harker and Jim Keohane. The Chief Executive, Group Finance Director, Group Secretary and other staff, the external auditors (National Audit Office) and the internal auditors (Deloitte) attend by invitation.

The Committee's role is to advise the Accounting Officer and the Authority on all matters affecting the financial health, probity, external reputation or wider risk management and internal controls of the organisation. The Committee also oversees our RPI-3 per cent cost control regime. The Committee met four times during 2010-11, including two workshop sessions which facilitated discussion on risk management and performance management.

Offshore Electricity Transmission Committee

The Authority set up the Committee in June 2008 to provide advice to the Authority and Ofgem on the development and implementation of the offshore electricity transmission regime. The Committee is chaired by Miriam Greenwood. The Committee met four times during 2010-11.

RIIO Transmission and Distribution Price Control Committee

The purpose of the Committee is to provide advice to the Transmission and Gas Distribution teams and directly to the Authority and where appropriate to scrutinise and advise the Authority on key areas of the development of our proposals for the next gas and electricity transmission price control review and the next gas distribution price control review. The Committee will also be asked to meet with the gas and electricity transmission companies and the gas distribution companies and challenge their proposals in a proactive forum. The Committee is chaired by Lord Mogg.

Enforcement Committees

Under the Rules of Procedure, the Authority in 2003 created two types of Enforcement Committee. One is established, when appropriate, to consider enforcement action in relation to possible licence and statutory obligation breaches. The second considers compliance by companies with the Competition Act 1998. Each Enforcement Committee is established with differing membership of Authority members, with a majority of non-executive members and a non-executive member as chair.

Remuneration Committee

The Committee's role relates to the pay and performance of senior Ofgem staff, and succession planning. Full details of the Committee's membership, role and senior staff salary and pension entitlements are given in the Remuneration Report on pages 32-36. The Committee is chaired by Lord Mogg.

Executive teams and audit arrangements

Senior Management Team

The Senior Management Team (SMT) comprises all the executive members shown in the Remuneration Report. Its role is to assist the Chief Executive in the day-to-day running of the business. It meets weekly and decides, subject to the overall direction and control of the Authority, on all matters relating to management and resources.

Management Committee – Ofgem E-Serve

As part of Ofgem's restructure, the Management Committee was set up to assist in the day-to-day running of the new business unit Ofgem E-Serve. It is chaired by the Managing Director E-Serve and members include the Group Finance Director, Managing Director Commercial, Group Secretary and all E-Serve team heads. Subject to the overall direction and control of the Authority, it decides on all operational matters relating to management and resources of the Ofgem E-Serve Business Unit. It meets weekly.

Risk Committee

The Risk Committee comprises all executive members shown in the Remuneration Report and the Legal Partner, Smarter Grids and Governance. Its role is to assist the Chief Executive in creating and maintaining a culture of effective management of risk in delivering our objectives. It meets quarterly.

Auditors

The Comptroller and Auditor General, who has been appointed under statute and reports to Parliament, has audited the Resource Accounts. The notional cost of providing audit services in respect of the Resource Accounts and Trust Statement was £51,000. 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 provides an independent appraisal service for management by measuring and evaluating the adequacy, reliability and effectiveness of management and financial control systems. Internal audit makes recommendations based on the appraisal of each system reviewed. An annual assurance report is provided to the Accounting Officer. We have chosen to outsource the provision of the internal audit service to ensure wholly independent and fully professional analysis and recommendations. For 2010-11, our provider is Deloitte, who were appointed on 1 April 2010, following a competitive tender.

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 are non-executives Jayne Scott, Chairman of the Audit Committee and John Wybrew. The Chief Executive attends as an observer and the Group Secretary provides a secretariat function.

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.

Salary and pension entitlements

The following information 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 2010-11 were as follows:

	2010-11			2009-10		
Remuneration	**Salary**	**Bonus Payments**	**Benefits in kind**	**Salary**	**Bonus Payments**	**Benefits in kind**
	£000	£000	Nearest £100	£000	£000	Nearest £100
Senior executive members of Ofgem						
Alistair Buchanan Chief Executive	205-210	15-20	-	250-255*[1]	40-45	-
Stuart Cook Senior Partner (from January 2010)	145-150	10-15	-	30-35*[2]	-	-
Roy Field Group Secretary	135-140	15-20	-	135-140	20-25	-
Sarah Harrison Senior Partner	135-140	15-20	-	135-140	20-25	-
Steve Smith Senior Partner (to October 2010)	140-145*[3]	15-20	-	180-185	20-25	-
Dr Andrew Wright Senior Partner	180-185	15-20	-	180-185	30-35	-

Remuneration	2010-11 Salary	2010-11 Bonus Payments	2010-11 Benefits in kind	2009-10 Salary	2009-10 Bonus Payments	2009-10 Benefits in kind
	£000	£000	Nearest £100	£000	£000	Nearest £100
Senior executive members of Ofgem E-Serve						
Paul McIntyre Managing Director (from May 2010)	85-90*3	-	-	-	-	-
Robert Hull Managing Director (from December 2009)	125-130	10-15	-	30-35*2	-	-
David Pimm Group Finance Director (from January 2010)	140-145	10-15	-	30-35*2	-	-
Non- executive members of the Authority						
Lord Mogg	210-215	-	8,400	210-215	-	9,400

*1Whilst Alistair Buchanan received no increase to his basic salary, a one-off incentive retention arrangement was proposed by the Remuneration Committee and approved by the Cabinet Office in 2006.
*2Annual equivalent basic salary (excluding performance pay): Stuart Cook: 130-135, Robert Hull: 125-130, David Pimm: 140-145
*3Annual equivalent basic salary (excluding performance pay): Paul McIntyre: 100-105, Steve Smith: 180-185

'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 members 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 2010-11 relate to performance in 2009-10 and the comparative bonuses reported for 2009-10 relate to performance in 2008-09.

'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 2010-11	Honorarium 2009-10
Robin Bidwell	-	£24,916
David Fisk	£25,000	£18,750*
Miriam Greenwood	£28,000	£28,000
Judith Hanratty	-	£19,750*
David Harker	£25,000	£25,000
John Howard	£25,000	£18,750*
Jim Keohane	£25,500	£25,000
Jayne Scott	£28,000	£28,000
John Wybrew	£25,000	£25,000
George Yarrow	-	£2,083*

* part-year pro-rata

	Real increase in pension and related lump sum at age 60	Accrued pension at age 60 at 31 March 2011 and related lump sum	CETV at 31 March 2011	CETV at 31 March 2010	Real increase in CETV	Employers contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Senior executive members of Ofgem						
Alistair Buchanan Chief Executive	0-2.5	15-20	205	169	18	N/A
Stuart Cook Senior Partner	N/A	N/A	N/A	N/A	N/A	N/A
Roy Field Group Secretary	0–2.5	70-75 plus 215-220 lump sum	1,692	1,580	0	N/A
Sarah Harrison Senior Partner	0-2.5	20-25	267	230	13	N/A
Steve Smith Senior Partner	0-2.5	20-25	175	157	4	N/A
Dr Andrew Wright Senior Partner	2.5-5.0	10-15	133	86	36	N/A
Senior executive members of Ofgem E-Serve						
Paul McIntyre Managing Director	N/A	N/A	N/A	N/A	N/A	N/A
Robert Hull Managing Director	2.5-5.0	10-15	208	148	43	N/A
David Pimm Group Finance Director	5.0-7.5	5-10	71	5	23	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

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 which 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 three 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 which commenced on 1 October 2003 for five years. In February 2008, he was reappointed for a further five years until September 2013.

The following salary and pension details are provided in accordance with the 2010-11 Government Financial Reporting Manual issued by HM Treasury and EPN notice 296 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 changes in the Retail Prices Index (RPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium, classic plus and nuvos. 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' 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 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with RPI. 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 individual 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 calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 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.

The factors used in the CETV calculation have been revised during this year, mainly to account for the change from the use of RPI to CPI to calculate future pensions increase. This means that the opening CETV value shown in the 2010-11 report differs to the amount shown as the closing CETV value in the 2009-10 report.

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
Accounting Officer

17 June 2011

Statement of 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, and of its net resource outturn, income and expenditure, changes in taxpayers' equity 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.

Statement on Internal Control

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Ofgem's policies, aim and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

Ofgem is a Non-Ministerial Government Department governed by the Gas and Electricity Markets Authority. In fulfilling its obligations, we work closely with the Department of Energy and Climate Change (DECC), Department for Business, Innovation and Skills (BIS), Department for Environment, Food and Rural Affairs (DEFRA) and the consumer bodies, Consumer Direct and Consumer Focus.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level as determined by the Authority's risk appetite, rather than to eliminate all risk of failure to achieve policies, aim and objectives. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aim and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in Ofgem for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

Our risk management strategy sets out why risk management is important, the mechanisms in place to enable us to manage risk, information on how to identify, assess and manage risks, and details of the roles and responsibilities individuals have to ensure risks are managed effectively.

Under the strategy, risk is embedded in policymaking, planning and delivery. Partners/Directors are responsible for ensuring the proper management of risks within their own directorates and cascading implementation of the risk management strategy within their directorates. The strategy was updated in April 2010 and is available to all staff via the intranet.

4. The risk and control framework

Our current work is being undertaken at a time of profound change at both European Union and national level. The EU's Third Energy Liberalisation Package came into effect in March 2011 and has established an Agency in Ljubljana and created greater powers and independence for national regulators.

In Britain, the government has been consulting on its proposals for the reform of the electricity market and has reviewed Ofgem and its own energy and climate change delivery landscape, in which Ofgem's E-Serve plays a prominent role.

A strong theme of energy regulation has been the need to maintain continuity in our approach and we believe that future changes will not fundamentally affect the four policy areas below where we will protect the interests of consumers:

- contributing to the achievement of a low carbon energy sector

- helping to maintain the security of Britain's energy supplies
- promoting quality and value for all consumers
- ensuring the timely and efficient delivery of government programmes for a sustainable energy sector.

In order to respond effectively to these challenges, we recognise and embrace the key role risk management can play in assisting the organisation in delivery of complex objectives, all of which are subject to risk. A separate top risks profile has been prepared by the Management Committee to cover Ofgem E-Serve risks.

Our stated aim is to implement best practice risk management procedures in all areas of our work to ensure that our strategy is kept up-to-date with current good practice. We seek to embed risk management into the culture of our organisation by embracing best practice in the way we work. Managers view risk management as an integral part of their job and the Senior Management Team and Management Committee keep the top risks faced by the organisation under regular strategic review. Our basic principles can be summarised as follows:

- a proactive stance to risk management
- consistency in how we assess and manage risks
- cross-cutting risks will be identified, with risk owners empowered to manage risks across internal boundaries
- proportionate actions will be taken when managing risks
- a robust approach to risk management will be taken
- appropriate risk-taking will be encouraged with an innovative approach to policy making and service delivery.

The key elements of our risk management strategy for identifying, evaluating and controlling risk are as follows:

- project, policy and programme managers create and maintain a risk register (a bottom-up approach)
- risks are assessed and given a risk rating using a combination of their likelihood and impact
- all risks identified in quarterly reports are reviewed by senior managers during the quarterly review process
- Audit Committee considers risk on a regular basis, including in April 2010, a review of our strategic risks
- Executive Risk Committee, Senior Management Team, Management Committee and Partners/ Directors review strategic risks and update, where necessary, our risk framework (a top-down approach)
- annually, the Authority identify top risks based on the risk framework
- in all cases, all risks, once identified, are managed by a risk owner who will be responsible for applying practical and proportionate countermeasures.

5. Personal data related incidents

There were no protected personal data related incidents reportable to the Information Commissioner's Office in 2010-11. Neither were there any centrally recorded protected personal data related incidents not formally reported to the Information Commissioner's Office in 2010-11.

6. Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within Ofgem who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Authority, the Audit Committee and a plan to address weaknesses identified through internal or external audit, and ensure continuous improvement of the system is in place. Of the 18 recommendations made by internal audit and due for implementation by 31 December 2010, 13 have been fully implemented, 4 have been partially implemented, and 1 remains outstanding.

During the year, a number of key activities have been undertaken to monitor and enhance our internal control environment:

- the Executive Risk Committee met quarterly during 2010-11. Our strategic top risks were discussed and agreed
- our strategic risks were reviewed by the Senior Management Team, Management Committee and the Audit Committee
- two separate top risk profiles were approved, one for each of our business units, Ofgem (excluding E-Serve) and Ofgem E-Serve
- the risk management strategy was updated to reflect new processes in April 2010
- a new Risk Manager role was created to further enhance our risk management. An appointment was made in August 2010
- an Audit Committee workshop was undertaken in September 2010. The workshop facilitated discussion and review of performance management proposals for Ofgem
- in December 2010, Deloitte, our outsourced internal audit service provider, undertook a risk management assurance audit. The report gave an overall opinion of 'Satisfactory Assurance'
- regular one to one meetings were held between the Group Finance Director and Senior Partners/ Managing Directors to review resources, progress towards set objectives and to identify and evaluate associated risks
- in November 2010, an independent risk review was undertaken on the planned Renewable Obligation Sustainability Criteria
- updated internal control statements require all Partners/Directors to consider and report on all aspects of financial and risk management, and other governance control issues in their own area
- a review of financial loss on payroll, procurement, and expenses was undertaken
- business continuity plans have been updated, ensuring that key activities can continue effectively following a disruption.

In maintaining and reviewing the effectiveness of the system of internal control the role of Ofgem's bodies which inform my review are detailed below:

The **Authority,** which I am a member of, meets at least ten times a year to consider the plans and overall strategic direction of Ofgem. During the year, the Authority reviewed its rules and procedures in respect of the membership of its committees. The top risks to Ofgem are reviewed, based on the risk framework, on an annual basis.

The **Senior Management Team**, which I am a member of, meets on a weekly basis to manage all resource and operational issues. SMT is corporately responsible for owning our risk management strategy. The top risks are agreed, owned and addressed by SMT members.

The **Management Committee**, was set up to assist the Chief Executive in the day to day running of the business unit Ofgem E-Serve. Subject to the overall direction and control of the Authority it decides on all operational matters relating to management and resources of Ofgem E-Serve.

An **Audit Committee**, which I am invited to, comprising non-executive members of the Authority which reports directly to the Authority is responsible for advising the Authority as to the adequacy of risk management procedures and processes in Ofgem.

The **Executive Risk Committee**, which I am a member of, meets quarterly to assist the Executive to fulfil its corporate governance responsibilities in relation to risk management.

Internal Audit (provided under contract) offers an independent assurance on the managerial, financial and operational controls. They are independent of management and work to standards defined in the government Internal Audit Standard. Internal audit reports are a key element of the Accounting Officer's review of the effectiveness of the system of internal control. The Audit Committee agrees a rolling programme of audit for each forthcoming year according to the Committee's priorities.

The **Head of Internal Audit** presents a yearly review of the audit programme, including an assessment of general risk, and an opinion on the adequacy and effectiveness of our system of internal control together with recommendations for improvement. Overall assurance levels available are Reasonable, Limited and None. The report for the year ended 31 March 2011 has an overall opinion of 'Reasonable Assurance'.

Partners/Directors are responsible for ensuring that risks have been properly identified and assessed across all their work areas, paying particular attention to cross-cutting risks. They are responsible for agreeing their key risk return for their work areas and for ensuring that each policy/project/programme manager is actively addressing the risks in their command and escalating risks up to Partners/Director-level as appropriate. A signed internal control statement is provided annually to the Accounting Officer by each Partner/Director to report on all aspects of control within their own area.

No significant internal control problems have arisen during the financial year.

Alistair Buchanan
Accounting Officer

17 June 2011

Section D
Management commentary

Nature of our business, and our aim and objectives

We are a Non-Ministerial Government Department. We are governed by the Gas and Electricity Markets Authority. The Authority's responsibilities are set out in statute (such as the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998, the Utilities Act 2000 and the Energy Act 2004, 2008 and 2010) as well as arising from directly effective European Community legislation.

The Authority's principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipelines and electricity conveyed by distribution or transmission systems.

In particular, the Corporate Strategy 2010-2015 identified four themes:

1. contribute to the achievement of a low carbon energy sector
2. help to maintain the security of Britain's energy supplies
3. promote consumer choice and value and protect vulnerable customers
4. via Ofgem E-Serve, ensure the timely and efficient delivery of government programmes for a sustainable energy sector.

Financial and operating performance

Income Generation

In 2010-11, income of £58.068 million was received in respect of licence fees (£30.367 million) and other income (£27.701 million). The main sources of other income were from the Offshore Transmission Tender recharge (£7.155 million), and new environmental scheme funding (£15.575 million). In addition, £5.085 million was received from licence fee payers in respect of consumer advocacy arrangements, relating to Consumer Focus and Consumer Direct. This amount was transferred to the Department for Business, Innovation and Skills (BIS). £1.095 million was collected and transferred to the National Measurement Office (NMO) in respect of metrology services carried out under the Consumers Estate Agents and Redress Act 2007. A full transfer of responsibility from Ofgem to NMO for metrology services took place on 1 April 2009 under the Energy Act 2008.

In addition to operating income of £58.068 million, public funds were provided to meet the cost of work undertaken in respect of the Climate Change Levy (£0.697 million).

A saving of £5.291 million from licence fees has been made during 2010-11, arising from expenditure being lower than planned, particularly on staff costs and consultancy costs. This will be offset against future licence fee charges as determined under our RPI-3 per cent cost control regime.

2010-11 is the first year of a further five year RPI-3 per cent cost control regime with planned savings of £12.5 million. During the previous five year cost control regime, total savings of £11.9 million were made and returned to licence fee payers. This significantly exceeded the original planned savings of £5.3 million.

Spending

Total gross operating costs amounted to £58.765 million. Two areas of expenditure absorbed 75.4 per cent of the total, staff costs (55.4 per cent) and contractors (20.0 per cent). Further information is provided in Notes 10 and 11. Accommodation totalled 15.3 per cent of gross costs but 6.9 per cent is recovered from DEFRA with whom the building is shared. Capital expenditure in the year totalled £0.742 million in respect of office equipment and information technology.

Output

Our financial performance in pursuit of our themes is detailed in the Analysis of Operating Costs by Departmental Segment on page 68. In terms of deliverables, 38 deliverables were met on target, 3 were met in a subsequent period during 2010-11, 4 were superseded, and 3 have been deferred until 2011-12. A list of the 2010-11 deliverables can be found in appendix I.

Budgets and Liquidity

Our budget is approved by Parliament following a consultation process with industry and other interested parties. For 2010-11, Parliament approved a main estimate gross resource budget of £78.701 million, a capital budget of £1.0 million and a net cash requirement of £5.684 million. A Spring Supplementary Estimate allowed us to increase both our net cash requirement by £4.001 million to cover working capital requirements, and our gross resource budget by £0.001 million.

Reconciliation between resource outturn and the resource budget outturn

	2010-11 £000	2009-10 £000
Net Resource Outturn (Estimates)	697	483
Net Operating Costs (Accounts)	697	483
Resource Budget Outturn (Budget)	**697**	**483**
Of which:		
Departmental Expenditure Limits (DEL)	686	483
Annually Managed Expenditure (AME)	11	-

Two additional amounts were collected via licence fees. BIS directed that a sum of £5.085 million should be collected on behalf of Consumer Focus and Consumer Direct. NMO directed that £1.095 million should be collected to recover their costs arising from metrology services. Both amounts were transferred in full.

A Contingency Fund advance of £15.0 million was drawn down in April 2010 to provide short term liquidity until the first receipt of licence fees. This was fully repaid in August 2010.

The net cash requirement outturn of £1.447 million is lower than the Estimate net cash requirement of £9.685 million due to lower than budgeted expenditure for the year, and a significant increase in the level of accrued income at year-end.

An amount of £4.237 million due to be surrendered to the Exchequer will be retained to fund operations in 2011-12 until adequate licence fee income is received.

Finance and Provisions

Statutory examining and testing services provided by our laboratories at Leicester were outsourced to SGS UK Ltd. in January 2003. Some costs of this change, particularly redundancy and continuing pension liabilities, have fallen to us and these required provisions to be made in 2003-04 which now total £0.279 million. From 1 April 2006, we transferred our metrology activities to the National Measurement Office (formerly National Weights and Measures Laboratory) under an administrative arrangement. A full transfer of responsibility to NMO took place on 1 April 2009 under the Energy Act 2008.

Other early retirement provisions totalling £0.514 million relate to the cost of pensions for individuals who have retired early from Ofgem.

A provision of £0.629 million is included within the accounts in respect of the unfunded pension liabilities which fall to Ofgem for a previous Chief Executive, and a previous Director General.

The Statement of Financial Position at 31 March 2011 shows positive Taxpayers' Equity of £4.887 million.

Ways of Working: issues emerging from the DECC review of Ofgem

In December 2010 the Department of Energy and Climate Change (DECC) published a response to its 'Call for Evidence' on the review of Ofgem. DECC noted that Ofgem's role as the independent regulator of the gas and electricity markets continued to be critical to meeting the government's energy and climate change objectives. DECC also highlighted a number of operational issues emerging from the review on Ofgem's ways of working. These included how we consult, whether we are striking the right balance on risk management and whether we provide sufficient transparency in our decision making and value for money.

DECC noted that these issues were a matter for Ofgem to consider. In response, we established a number of internal working groups to review these issues and report back to senior management.

We are now looking in detail at the outcome of our internal review and will be responding to DECC over the next few months.

Suppliers

Environmental Procurement

The evaluation criteria for all procurements undertaken by the Procurement Team are based on best value for money, with the contract awarded to the most economically advantageous tender. However, where contracts have possible implications on areas covered by our environmental policy such as catering, cleaning or other building type services, additional criteria based on our own ISO14001 policies and suitability of the tenderer's own environmental policy will be included.

In March 2010, we were awarded the Standard of Excellence Certification by the Chartered Institute of Purchasing and Supply. This is a recognised global accreditation for achieving procurement excellence through an organisation's procurement and supply chain policies, procedures and strategies.

Creditor Payment, Policy and Performance

Ofgem is signed up to the Better Payment Practice Code. The Code is laid down by the Better Payment Practice Group, a cooperative forum of representatives of the business community and government that seeks to help to improve the payment culture in the UK. In line with the Code, we make payment within 30 days or other agreed credit terms, following receipt of goods or services or valid invoice, whichever is the later. During 2010-11 we paid 100 per cent (100 per cent in 2009-10) of undisputed bills within these deadlines.

In October 2008, the government set a new challenge to departments to pay all suppliers within 10 working days with effect from 1 December 2008. During 2010-11 we paid 96.06 per cent (2009-10: 97.59 per cent) of undisputed bills within this deadline.

In respect of amounts both contractually due and invoiced as at 31 March 2011, the outstanding number of days purchases is 15.0 days (31 March 2010: 4.8 days).

Employees

Training and Development

Our most important investment are our staff. Learning and development is a key tool for us in attracting and retaining staff and building our long-term capability.

Our learning and development strategy focuses on ensuring that all learning and development activities are aligned to the needs of the business and support key processes. In 2010-11, the Learning and Development team:

- supported the Great Written Communication initiative, helping to develop our ability to write clear, succinct documents by providing workshops for senior managers, Champions and key writers
- focused on career development, introducing workshops to prepare line managers and staff for career development conversations and developing a microsite to promote the opportunities available for staff to develop their skills and knowledge
- worked with teams to develop their capability
- focused on senior management development, with all SCS members being assessed against the SCS competencies and receiving a tailored development report. The information from this exercise will be used to further enhance SCS capability.

This commitment is reflected in expenditure: £0.538m (£0.480 million in 2009-10) was spent on learning and development in 2010-11.

Employee Involvement

We attach great importance to managing, developing and training our staff in accordance with best practice and have a Staff Consultative Committee.

Health and Safety

We recognise and accept our legal responsibility in relation to the health, safety and welfare of our employees and for all other people using our premises. We comply with the Health and Safety at Work Act 1974 and all other relevant legislation as appropriate. We are committed to the positive promotion of accident prevention and the elimination of incidents involving personal injury, illness or damage.

The Health and Safety policy statement describes our responsibilities and objectives and is available to all employees.

Personal Data

Our data security policy aims to ensure that all official information is safeguarded and kept securely. There was no recorded loss of personal data incidents during the 2010-11 financial year.

Pensions

The main pension scheme for employees is the Principal Civil Service Pension Scheme (PCSPS). The pension liabilities arising from our employees' membership of the PCSPS are not provided for in these accounts in accordance with HM Treasury's instructions, and are described in the Remuneration Report and Note 1.6 to the financial statements

Equal Opportunities

We are committed to promoting equality and diversity in the workplace in respect of employment, training, career development and external stakeholders. We aim to ensure that no-one will receive less favourable treatment, particularly on the grounds of age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

At the end of the financial year:

- 0.9 per cent (0.2 per cent in 2009-10) of all staff were known to be disabled
- 46 per cent (44 per cent in 2009-10) of all staff were women
- 43 per cent (39 per cent in 2009-10) of staff in managerial grades were women
- 35 per cent (32 per cent in 2009-10) of Senior Civil Service members in Ofgem were women
- 20 per cent (23 per cent in 2009-10) of staff were known to be of ethnic minority origin
- 14 per cent (15 per cent in 2009-10) of staff known to be of ethnic minority origin were in managerial grades.

The policy statement describing our equal opportunity framework is available to provide guidance for all employees.

Days lost due to absence

We encourage a culture where good attendance is expected and valued. However, it recognises that from time to time absences for medical reasons may be unavoidable. We aim to treat our staff who are ill with sympathy and fairness and where possible to provide them with support which will enable them to recover their health and attend work regularly.

In 2010-11, the percentage of working days lost was 1.52 per cent or 7 days per annum per employee. This compares favourably to the public sector average of 8.9 days per annum per employee.

Communities

We seek to support our employees who commit personal time or funds to help charities, community activities or voluntary public activities. For example, special leave may be requested for acting as a school governor, a magistrate or an employment tribunal panel member.

A number of events, organised by charities, have also taken place at Ofgem.

Sustainability Report

Helping to achieve sustainable development

One of our main objectives is helping to achieve sustainable development. Ofgem has had secondary duties in relation to the environment and certain groups of consumers (future as well as present) for some time.

We are committed to sustainable development and our economic, social and environmental duties put sustainability at the centre of our work. While other government departments have the lead responsibility for sustainable development, we are committed to use our legal powers to make a difference and our independent voice to influence the debate. The Energy Act 2010 will help ensure the long term delivery of the UK's energy and climate change strategy.

We administer a number of schemes and arrangements established by the government under its Climate Change Programme. The main schemes are the Renewables Obligation (RO), the Feed-in Tariff (FIT), which create obligations for electricity suppliers, the Carbon Emissions Reduction Target (CERT), which creates obligations for both gas and electricity suppliers and the Community Energy Saving Programme (CESP), which creates obligations for gas and electricity suppliers as well as electricity generators. We also administer the Renewable Energy Guarantees of Origin arrangements, and exemptions from the Climate Change Levy for renewables and CHP generators.

We have gained extensive knowledge of the environmental programmes we administer. We have used this experience to inform the discussions across a wide range of environmental and other issues as well as in relation to the long-term reforms of the RO and FIT and the development of amendments to the CERT programme. We are also working with government on new environmental programmes. These include schemes such as the Renewable Heat Incentive.

Sustainable Development Action Plan (Internal Ofgem Operations)

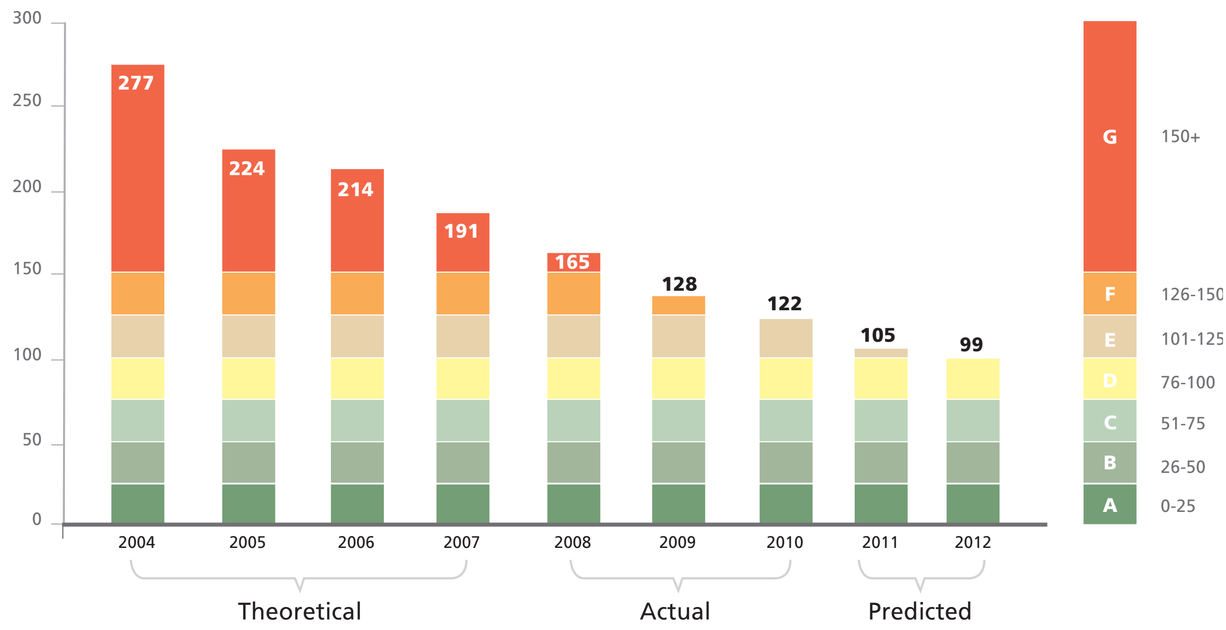
We are committed to reducing our impact on the environment. In September 2007 we introduced an internal Sustainable Development Action Plan (SDAP) focusing on four key areas of climate change and energy efficiency, waste management and recycling, procurement and travel.

As a public body, we are subject to a number of central government initiatives. These include:

- Sustainable Operations on the Government Estate (SOGE)
- Building Display Energy Certificate (DEC)
- The Prime Minister's commitment that all Departments cut their carbon emissions by 10 per cent within a year of May 2010.

Highlights of the year include:

- Carbon emissions – total carbon emissions have fallen by 16 per cent last year from 986 tonnes to 826 tonnes. The total reduction since 2004 has been 42 per cent
- Display Energy Certificate – we have improved our DEC rating from F to E on our Millbank headquarters building thus continuing the downward trend as shown by the bar chart overleaf.



- The Prime Minister's 10 per cent Carbon Saving commitment - we are forecasting a twelve month saving of 15 per cent.
- SOGE - The table below shows that we have met all the 2010 targets and have already met 5 of the 7 targets for 2020.

SOGE Target Description	Baseline	2010 Target	2020 Target	Ofgem 2010-11
Reduce Carbon Emissions	2001-02	12.5%	30%	42%
Increase energy efficiency per m²	2001-02	15%	30%	58%
Electricity from renewable supply	-	10%	10%	82%
Electricity generated by CHP	-	15%	15%	18%
Reduce water consumption	2004-05	No Target	25%	1%
Reduce total waste	2004-05	5%	25%	44%
Waste that is recycled	-	40%	75%	73%

Target exceeded **On course**

How did we get where we are in 2010-11

Climate change and energy efficiency

We have undertaken several projects this year designed to further improve our energy efficiency, these include:

- to assist early identification of erroneous equipment we have upgraded the gas and electricity sub-meters as well as enhancing the energy analysis and reporting data. We are looking at the feasibility of publishing our energy and carbon performance in real time
- a small domestic hot water system was installed to provide hot water in the kitchens and toilets. This means that the main boiler system can be shut down over the summer eliminating over capacity
- office lighting on the First to Fourth floors of our Millbank headquarters, the last large area of lighting yet to be addressed, has been reduced by a third
- the Building Management System was optimised to provide a more efficient system of control, allowing amongst other things, for the building to be put into weekend running mode during bank holidays.

Waste management and recycling

- Whilst total waste has increased compared to the previous year due to an increase in staff, recycled waste has increased from 56 per cent to 73 per cent, in part due to the segregation of metal, wood and glass to recycling. The remaining 27 per cent is sent to South East London Combined Heat and Power, the first energy recovery facility in the UK. As such this is the first full year that no waste was sent to landfill.

Travel

- Carbon produced through travel has decreased by 54 per cent
- Savings have occurred through an overall reduction in travel, but more significantly a decrease in air travel in favour of rail

Sustainability report tables detailing our performance during the last three years are shown in Appendix VI.

Going forward - 2011 energy reduction plan

To evidence yet further our commitment to carbon reduction, we have been certified in April 2011 to the Carbon Trust Standard.

We have and will continue to look at new technologies. We commissioned a report identifying opportunities for the use of renewable energy technologies and have considered a biomass boiler. We will also continue to look at possibilities such as solar photovoltaic (PV) cells in light of the FIT scheme.

Our over-riding priority is the reduction of our DEC rating on the Millbank headquarters building. We will be targeting a further ten per cent improvement in energy consumption for 2011-12.

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

- Certificate and Report of the Comptroller and Auditor General
- Accounting Schedules
- Notes to the Accounts

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 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, Statement of Comprehensive Net Expenditure and the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the 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 Department; 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.

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

Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions 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 2011 and of its net cash requirement, net resource outturn and 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 "introduction", "Key activities and achievements", "Corporate Governance" and "Management commentary" sections of the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse

21 June 2011

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria, London, SW1W 9SP

Accounting schedules

Statement of Parliamentary Supply
Summary of Resource Outturn 2010-11 (£000)

	2010-11 Estimate			2010-11 Outturn				2009-10
	Gross expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net total outturn compared with estimate: saving/ (excess)	Net total
Request for Resources 1								
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry, and expenditure in connection with environmental programmes								
Spending in Departmental Expenditure Limits (DEL)								
A: Gas and Electricity Markets Authority: Administration	24,442	24,691	(249)	18,248	18,259	(11)	(238)	-
B: Ofgem E-Serve: Administration	54,009	53,309	700	40,506	39,809	697	3	483
Spending in Annually Managed Expenditure (AME)								
C: Provisions	251	-	251	11	-	11	240	-
Total resources	78,702	78,000	702	58,765	58,068	697	5	483
Non-operating cost A in A			(50)			-	50	-

Net Cash Requirement 2010-11

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/ (excess)	Prior year outturn
Net cash requirement	4	9,685	1,447	8,238	6,898

Summary of income payable to the Consolidated Fund.
In addition to appropriations in aid, the following income relates to Ofgem and is payable to the Consolidated Fund (cash receipts being shown in italics and figures in £000s)

		Forecast 2010-11		Outturn 2010-11	
	Note	Income	Receipts	Income	Receipts
Total	6	-	-	-	-

Explanations of variances between Estimate and Outturn are given in the Management Commentary on pages 42.

Statement of Comprehensive Net Expenditure
for the year ended 31 March 2011

			2010-11 £000		Restated 2009-10 £000
	Note	Staff costs	Other Costs	Income	
Administration costs					
Staff costs	9	32,571			26,199
Other administration costs	10		26,194		24,834
Operating income	8			(58,068)	(50,550)
Totals		32,571	26,194	(58,068)	483
Net operating cost	2			697	483

All income and expenditure are derived from continuing operations.

The notes on pages 58 to 75 form part of these accounts.

Statement of Financial Position
as at 31 March 2011

	Note	31 March 2011 £000		31 March 2010 £000 Restated		31 March 2009 £000 Restated	
Non-current assets:							
Property, Plant and Equipment	12	3,306		3,784		3,865	
Total non-current assets:			3,306		3,784		3,865
Current assets:							
Trade receivables and other current assets	14	18,490		12,802		4,604	
Cash and cash equivalents	15	4,237		3,235		133	
Total current assets:			22,727		16,037		4,737
Total assets:			**26,033**		**19,821**		**8,602**
Current liabilities							
Trade and other payables	16	(18,067)		(12,008)		(6,821)	
Total current liabilities			**(18,067)**		**(12,008)**		**(6,821)**
Non-current assets plus net current assets			**7,966**		**7,813**		**1,781**
Non-current liabilities							
Provisions	17	(1,422)		(1,772)		(1,778)	
Other payables	16	(1,657)		(1,973)		(2,290)	
Total non-current liabilities			**(3,079)**		**(3,745)**		**(4,068)**
Assets less liabilities			**4,887**		**4,068**		**(2,287)**
Taxpayers' equity:							
General fund			4,887		4,068		(2,287)
Total taxpayers' equity			**4,887**		**4,068**		**(2,287)**

Alistair Buchanan

Alistair Buchanan
Accounting Officer
17 June 2011

The notes on pages 58 to 75 form part of these accounts.

Statement of Cash Flows
For the year ended 31 March 2011

	Note	2010-11 £000	2009-10 £000 Restated
Cash flows from operating activities			
Net operating cost	2	(697)	(483)
Adjustments for non-cash transactions	10	1,282	1,277
Increase in trade and other receivables	14	(5,688)	(8,198)
less movements in receivables relating to items not passing through the OCS		-	-
Increase in trade payables	16	5,743	4,870
less movements in payables relating to items not passing through the OCS		(1,002)	(3,102)
Use of provisions	17	(343)	(356)
Net cash outflow from operating activities		(705)	(5,992)
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(742)	(906)
Proceeds of disposal of property, plant and equipment		-	-
Net cash outflow from investing activities		(742)	(906)
Cash flows from financing activities			
From the Consolidated Fund (Supply) - current year		2,449	10,000
Advances from the Contingencies Fund		15,000	15,000
Payments to the Contingencies Fund		(15,000)	(15,000)
Net Financing		2,449	10,000
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		1,002	3,102
Cash and cash equivalents at the beginning of the period	15	3,235	133
Cash and cash equivalents at the end of the period	15	4,237	3,235

The notes on pages 58 to 75 form part of these accounts.

Statement of Changes in Taxpayers' Equity
For the year ended 31 March 2011

	Note	General Fund £000
Balance as at 31 March 2009		**(2,389)**
Changes in taxpayers' equity for 2009-10		
Non-cash charges - auditor's remuneration	10	46
Non-cash charges - cost of capital		28
Net operating cost for the year	2	(483)
Losses relating to pension liabilities	17	(106)
Total recognised income and expense for 2009-10		**(515)**
Net Parliamentary Funding - drawn down		10,000
Net Parliamentary Funding - deemed		133
Supply payable adjustment		(3,235)
Balance at 31 March 2010		**3,994**
Change in accounting policy		74
Revised Balance at 31 March 2010		**4,068**
Changes in taxpayers' equity for 2010-11		
Non-cash charges - auditor's remuneration	10	51
Net operating cost for the year	2	(697)
Gains relating to pension liabilities	17	18
Total recognised income and expense for 2010-11		**(628)**
Net Parliamentary Funding - drawn down		2,449
Net Parliamentary Funding - deemed		3,235
Supply payable adjustment		(4,237)
Balance at 31 March 2011		**4,887**

The note on pages 58 to 75 form part of these accounts.

Notes to the department resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2010-11 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 2.2 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 9. 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 IAS37.

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 associated notes are based on the Request for Resources information that forms part of parliamentary approval processes.

1.10 Operating leases

Rentals due under operating leases are charged to the Operating Cost Statement 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 19, "Commitments under leases", are not discounted.

1.11 Comparative amounts

Comparative amounts are restated where necessary to conform to current presentation. One of the impacts of the HM Treasury "alignment" project to closer align budgets, estimates and accounts has been the removal of cost of capital. Therefore from 2010-11 Ofgem is no longer required to reflect a notional cost of capital within its accounts. The prior year totals have been restated in the accounts to reflect this change in treatment.

1.12 Going concern

The Statement of Financial Position at 31 March 2011 shows a positive taxpayer's equity of £4.887 million. This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of supply approved annually by Parliament, to meet our Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from our income, are surrenderable to the Fund.

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 2011-12 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.

1.13 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.

1.14 Assets belonging to third parties

Assets belonging to third parties (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. Note 24 provides detail on third party monies held at year-end.

2. Analysis of net resource outturn by section

	2010-11 Outturn					2010-11 Estimate		2009-10
	Admin £000	Other current £000	Gross Total £000	A in A £000	Net total £000	Net total £000	Net total outturn compared with estimate £000	Prior-year outturn £000
Request for Resources 1								
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry, and expenditure in connection with environmental programmes								
Spending in Departmental Expenditure Limits (DEL)								
A: Gas and Electricity Markets Authority: Administration	18,246	-	18,246	18,257	(11)	(249)	(238)	1
B: OFGEM E-Serve: Administration	40,508	-	40,508	39,811	697	700	3	482
Spending in Annually Managed Expenditure (AME)								
C: Provisions	-	11	11	-	11	251	240	-
Resource outturn	**58,754**	**11**	**58,765**	**58,068**	**697**	**702**	**5**	**483**

3. Reconciliation of Outturn to Net Operating Cost and against Administration Budget

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

	Note	2010-11	2009-10
		£000	£000
Net Resource Outturn	2	697	483
Prior period adjustments		-	-
Non supply income (CFERs)		-	-
Non supply expenditure		-	-
Net operating cost		**697**	**483**

3 (b) Outturn against final Administration Budget

	Note	2010-11 Budget £000	2010-11 Outturn £000	2009-10 Outturn £000 Restated
Gross Administration Budget	2	78,702	58,765	51,033
Income allowable against the Administration Budget	2	(78,000)	(58,068)	(50,550)
Net outturn against the Administration Budget		702	697	483

4. Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate: saving/ (excess) £000
Resource Outturn	**2**	**702**	**697**	**5**
Capital:				
• Acquisition of property, plant and equipment	12	1,000	742	258
Non-operating A in A:				
• Proceeds of property, plant and equipment disposals		(50)	-	(50)
Accruals adjustments:				
• Depreciaton	12	(1,000)	(1,220)	220
• New provisions and adjustments to provisions	17	(251)	(11)	(240)
• Other non-cash items	10	(45)	(51)	6
• Movement in working capital		8,629	947	7,682
• Use of provision	17	700	343	357
Net cash requirement		**9,685**	**1,447**	**8,238**

5. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to Ofgem and is payable to the Consolidated Fund (cash receipts being shown in italics)

		Forecast 2010-11		Outturn 2010-11	
	Note	Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts - excess A in A		-	-	-	-
Other operating income and receipts not classified as A in A		-	-	-	-
Non operating income and receipts - excess A in A	7	-	-	-	-
Surplus supply surrenderable to the Consolidated Fund	16	-	-	4,237	*4,237*
Other amounts collectable on behalf of the Consolidated Fund		-	-	-	-
Excess cash surrenderable to the Consolidated Fund		-	-	-	-
Total income payable to the Consolidated Fund		-	-	4,237	*4,237*

6. Reconciliation of income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund

	Note	2010-11 £000	2009-10 £000 Restated
Operating Income	8	58,068	50,550
Income authorised to be appropriated in aid		(58,068)	(50,550)
Operating Income payable to the Consolidated Fund		-	-

7. Non-operating income – Excess appropriations in aid

	2010-11 £000	2009-10 £000
Proceeds on disposal of property, plant and equipment	-	-
Allowable A in A	(50)	(50)
Excess A in A	-	-

8. Income and appropriations in aid

8.1 Operating income

Operating income not appropriated in aid (i.e. surrenderable to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 6). In 2010-11, there was no operating income not classified as A in A.

An analysis of income from services provided to external and public sector customers is as follows:

	2010-11		2009-10 Restated	
	A in A £000	**Income £000**	**A in A £000**	**Income £000**
Administration income:				
Fees and charges to external customers	37,659	37,659	41,271	41,271
Fees and charges to other departments	20,409	20,409	9,279	9,279
Total	**58,068**	**58,068**	**50,550**	**50,550**

8.2 Operating income analysis

	2010-11			2009-10 Restated		
	Income **£000**	Full costs **£000**	(Deficit) **£000**	Income **£000**	Full costs **£000**	(Deficit) **£000**
Administration income:						
Gas and Electricity Licence fees (external)	(30,367)	31,064	697	(35,191)	35,674	483
Other	(27,701)	27,701	-	(15,359)	15,359	-
Total	**(58,068)**	**58,765**	**697**	**(50,550)**	**51,033**	**483**

All of the above operating income was appropriated in aid. Appropriations in Aid represent income due to Ofgem that can be retained to offset against other public expenditure. This contrasts with Consolidated Fund Extra Receipts, which are remitted by us to the Consolidated Fund.

Other incomes includes:	**2010-11**	**2009-10**
	£000	**£000**
Offshore Transmission Tender Recharge	7,155	6,037
Department of Energy and Climate Change (DECC) (relating to environmental programmes)	15,575	5,220
Department for Environment, Food and Rural Affairs (DEFRA) (relating to shared accommodation costs)	4,066	3,450
Other departments	863	609
Miscellaneous	42	43
	27,701	**15,359**

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

9. Staff numbers and related costs

Staff costs comprise

	2010-11 £000			2009-10 £000
	Permanently employed staff	Others	Total	Total
Wages and salaries	20,975	5,228	**26,203**	20,730
Social security costs	1,950	-	**1,950**	1,634
Other pension costs	3,868	-	**3,868**	3,306
Other staff costs	550	-	**550**	529
Total	**27,343**	**5,228**	**32,571**	**26,199**
Less recoveries in respect of outward secondments	(108)	-	(108)	(102)
Total net costs*	**27,235**	**5,228**	**32,463**	**26,097**

* 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 we are unable to identify our share of the underlying assets and liabilities. A full actuarial valuation was carried out 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 2010-11, employers' contributions of £3,709,000 were payable to the PCSPS (2009-10 £3,187,000) at one of four rates in the range 16.7 per cent to 24.3 per cent (2009-10 16.7 to 24.3 per cent) of pensionable pay, based on salary bands. The contribution rates reflect benefits accruing during 2010-11 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 £119,384 (2009-10 £82,284) 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 of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £8,833 (2009-10 £6,649), 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 balance sheet date amounted to zero.

Average number of persons employed

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

	2010-11			2009-10
Theme	Permanently employed staff	Others	Total	Total
Contributing to the achievement of a low carbon energy sector	75	9	**84**	**109**
Helping to maintain the security of Britain's energy supplies	91	13	**104**	**65**
Promoting consumer choice and value and protecting vulnerable customers	103	15	**118**	**123**
Ensuring the timely and efficient delivery of government programmes for a sustainable energy sector	141	34	**175**	**106**
Total*	**410**	**71**	**481**	**403**

*With effect from 2011-12, nine members of staff have been transferred on loan to DECC for smart meter activities. Further details of the change in responsibilities are provided in the section entitled Key activities and achievements.

Reporting of Civil Service and other compensation schemes - exit packages 2010-11

Exit package cost band (including any special payment element)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)	Number of compulsory redundancies and other departures agreed where special payments have been made (special payment element (totalled))
<£20,001	1	0	1	0
£150,000 -£200,000	2	0	2	0
Total number of exit packages by type (total cost)	**3 (£340,748)**	**0**		
			Total number (and cost) of exit packages	**Total number of special payments (and total cost of special payment element)**
			3 (£340,748)	0

2009-10

Exit package cost band (including any special payment element)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)	Number of compulsory redundancies and other departures agreed where special payments have been made (special payment element (totalled))
£20,001-£40,000	1	0	1	0
£60,001-£80,000	1	0	1	0
£100,001 -£150,000	2	0	2	0
Total number of exit packages by type (total cost)	**4 (£366,165)**	**0**		
			Total number (and cost) of exit packages	**Total number of special payments (and total cost of special payment element)**
			4 (£366,165)	0

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.

10. Other administration costs

	Note	2010-11	2009-10
		£000	**£000** **Restated**
Rental under operating leases:			
Hire of office equipment		5	4
Other operating leases		5,634	5,551
		5,639	5,555
Non-cash items (see below):			
Auditors' remuneration and expenses*			
• Audit of Resource Accounts		45	46
• Audit of Trust Statements		6	-
Depreciation	12	1,220	987
Loss on disposal of property, plant and equipment		-	-
		1,271	1,033
Other expenditure:			
Contractors:			
• New environmental schemes		4,961	1,526
• Offshore tender		2,687	3,146
• Other		4,109	4,405
Other accommodation costs		3,386	3,482
Office supplies and services			
• Office equipment and furniture		516	491
• Computer software		273	584
• Other		337	864
Travel and subsistence		372	485
Training		538	480
Recruitment		512	919
Telecoms		356	223
Media and Communications		188	161
Library Services		186	194
Hospitality		104	138
Other expenditure		748	904
		19,273	18,002
Provisions (non-cash):			
Provided in year	17	34	244
Interest cost	17	29	-
Past service cost	17	(51)	-
Unwinding of the discount	17	(1)	-
Movement in provision		11	244
		26,194	24,834

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

11. Analysis of Operating Costs by Departmental Segment

Theme	2010-11 £000			2009-10 £000		
	Gross	Income	Net total	Gross	Income	Net total
1. Contributing to the achievement of a low carbon energy sector	9,403	(9,403)	-	13,522	(13,522)	-
2. Helping to maintain the security of Britain's energy supplies	12,270	(12,270)	-	8,029	(8,029)	-
3. Promoting quality and value for consumers	13,004	(13,004)	-	14,277	(14,277)	-
4. Ensuring the timely and efficient delivery of government programmes for a sustainable energy sector	24,088	(23,391)	697	15,205	(14,722)	483
Net operating cost	**58,765**	**(58,068)**	**697**	**51,033**	**(50,550)**	**483**

12. Property, Plant and Equipment

	Furniture	Office equipment	Information Technology	Leasehold works	Total
	£000	**£000**	**£000**	**£000**	**£000**
Cost or valuation					
At 1 April 2010	423	2,243	2,477	4,469	9,612
Additions	-	4	387	351	742
Disposals	-	(80)	(253)	(1)	(334)
At 31 March 2011	423	2,167	2,611	4,819	10,020
Depreciation					
At 1 April 2010	362	1,436	1,586	2,444	5,828
Charged in year	16	325	518	361	1,220
Disposals	-	(77)	(257)	-	(334)
At 31 March 2011	378	1,684	1,847	2,805	6,714
Net book value at 31 March 2011	45	483	764	2,014	3,306
Net book value at 31 March 2010	61	807	891	2,025	3,784
Asset financing:					
Net book value of owned assets at 31 March 2011	45	483	764	2,014	3,306

13. 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.

14. Trade receivables and other current assets

	2010-11	2009-10
	£000	£000
Amounts falling due within one year:		
Trade receivables	3,321	3,560
Accrued income	11,696	6,133
Prepayments	2,843	2,567
HM Revenue and Customs (VAT)	487	388
Staff receivables	143	154
At 31 March	**18,490**	**12,802**

Staff receivables include loans outstanding, of which £118,000 relates to season ticket loans for 147 employees; and £19,000 relates to housing advances in respect of 4 employees.

Staff receivables due after more than one year: The balance of £19,000 (2009-10: £30,000) relating to housing advances comprises £9,000 (2009-10: £19,000) which is repayable in instalments after one year.

14.1 Intra-government balances

	2010-11	2009-10
	£000	£000
Balances with other central government bodies	3,839	3,610
Balances with local authorities	1,237	1,021
Balances with bodies external to government	13,414	8,171
Total receivables at 31 March	**18,490**	**12,802**

15. Cash and cash equivalents

	£000
Balance at 1 April 2010	3,235
Net change in cash and cash equivalents	1,002
Balance at 31 March 2011	4,237

The following balances were held at:	31 March 2011	1 April 2010
	£000	£000
Office of HM Paymaster General and Government Banking Service	4,237	3,231
Commercial banks and cash in hand	-	4
Total	**4,237**	**3,235**

16. Trade payables and other current liabilities

	2010-11	2009-10
	£000	£000 Restated
Amounts falling due within one year:		
Other Taxation and Social Security	641	572
Trade payables	1,027	310
Staff payables	1,027	820
Deferred licence fees	5,291	1,355
Leasehold reverse premium	316	316
Accruals and other deferred income	5,528	5,400
Amounts issued from the Consolidated Fund for supply but not spent at year end	4,237	3,235
Excess cash receipts	-	-
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund:		
received	-	-
receivable	-	-
Balance at 31 March	**18,067**	**12,008**

	2010-11	2009-10
	£000	£000
Amounts falling due after more than one year:		
Leasehold reverse premium	1,657	1,973
Balance at 31 March	**1,657**	**1,973**

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 £1.973m 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.

16.1 Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2011 £000	31 March 2010 £000 Restated	31 March 2011 £000	31 March 2010 £000
Balances with other central government bodies	5,513	4,877	-	-
Balances with local authorities	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Subtotal: intra-government balances	5,513	4,877	-	-
Balances with bodies external to government	12,554	7,131	1,657	1,973
Total creditors at 31 March	**18,067**	**12,008**	**1,657**	**1,973**

17. Provisions for liabilities and charges

17.1 Early Retirement

	£000
Balance at 31 March 2010	**1,087**
Provided in the year	34
Unwinding of discount	(1)
Provisions not required written back	-
Provisions utilised in the year	(327)
Balance at 31 March 2011	**793**

Analysis of expected timings of discounted flows

	£000
2011-2012	146
2012-2013/2017-2018	460
2018-2019/2023-2024	173
Thereafter	14
Balance at 31 March 2011	**793**

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 2.2 per cent in real terms.

17.2 Pension liabilities

	2010-11	2009-10
	£000	£000 Restated
Provision at 1 April	**685**	**562**
Interest cost	29	33
Actual benefit payments	(16)	(16)
Actuarial (gain)/loss	(18)	106
Past service cost	(51)	-
Provision at 31 March	**629**	**685**
Net movement in year (excluding actuarial (gain)/loss)	(38)	17

History of experience losses

	2010-11 £000	2009-10 £000
Experience losses arising on the scheme liabilities	4	12
Amount recognised as a percentage of present value of scheme liabilities	0.7%	1.8%
Total amount recognised in statement of Changes in Taxpayers' Equity	(18)	106

The pensions 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 2011. The major assumptions used by the actuary were:

	At 31 March 2011 % (per annum)	At 31 March 2010 % (per annum)
Inflation assumption -RPI	-	2.75
Inflation assumption -CPI	2.65	-
Rate of increase in salaries	4.90	4.29
Rate of increase for pensions in payment and deferred income	2.65	2.75

Analysis of Actuarial Gain/(Loss)

	2010-11	2009-10	2008-09
	£000	£000	£000
Changes in assumptions underlying the present value of scheme liabilities	(22)	94	(41)
Experience losses arising on the scheme liabilities	4	12	10
Per statement of Changes in Taxpayers' Equity	(18)	106	(31)

From 31 March 2011, the discount rate for pension scheme liabilities changed from 1.8 per cent to 2.9 per cent. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2011.

18. Capital commitments

	2010-11	2009-10
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	-	-

19. 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.

	31 March 2011	31 March 2010
	£000	£000
Obligation under operating leases comprise:		
Buildings:		
Not later than one year	5,958	5,828
Later than one year and not later than five years	24,195	23,592
Later than five years	7,637	13,404
	37,790	**42,824**
Other:		
Not later than one year	2	2
Later than one year and not later than five years	3	5
Later than five years	-	-
	5	**7**

20. Other financial commitments

Ofgem had not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2011.

21. 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 2011 there were no contingent liabilities requiring disclosure.

22. Related Party Transactions

During the year, we transferred £5.085m to the Department for Business, Innovation and Skills in respect of the energy sector related costs of Consumer Focus and Consumer Direct. Additionally, £1.095m was transferred to the National Measurement Office in respect of metrology services.

We administer environmental programmes on behalf of DECC. Income from DECC recognised in year amounted to £15.575m.

We sublet part of our Millbank premises to DEFRA, provide financial and payroll services to Postcomm, administer the Northern Ireland Renewables Obligation on behalf of the NI Authority for Utility Regulation, and host the Charity Commission's accounting system. Income recognised in year was £4.066m from DEFRA, £71k from Postcomm, £353k from the NI Authority for Utility Regulation, and £18k 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.

23. Events after the reporting period

There were no reportable events between the end of the reporting period, and 21 June 2011, the authorised for issue date. The financial statements do not reflect events after this date.

24. 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 2011 was £33,521. The balance on this account was due to a supplier making, with our prior agreement, a buy-out payment to meet its 2010-11 Northern Ireland obligation early.

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 Climate Change Act 2008 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 2010-11. 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.

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.

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 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.

Cash receipts can also be treated as hereditary revenue when they are received by virtue of statutory authority. Section 1 of the Civil List Act 1952 requires hereditary revenues to be paid into the Consolidated Fund. On 19 July 2010, 16 December 2010 and 23 March 2011, £22 million, £26 million and £26 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. No such direction has yet been made. Until such a direction is made, the levy funds remain in the Scottish FFL account.

Financial Review

During 2010-11 we imposed fines on regulated companies on two occasions: A penalty of £8 million on National Grid Gas as a result of a breach of obligations to provide accurate information to Ofgem; and penalties totalling £1 million on three local power network companies (Scottish Hydro Electric Power Distribution £500,000, Central Networks £400,000 and Electricity North West Limited £100,000) for failing to provide timely offers for connections to the local electricity network.

In 2007-08, we reached our findings of competition law breach by National Grid plc in respect of abusing its dominant position in the market in Great Britain for the provision of installed domestic-sized gas meters and the ancillary service of meter maintenance. This was an infringement of Section 18 of the Competition Act 1998 and Article 82 of the EC Treaty. National Grid plc initiated appeal proceedings but the Court of Appeal upheld our findings and confirmed that National Grid should face a financial penalty of £15 million to be paid to Ofgem. The penalty and associated interest was received and then transferred to the Consolidated Fund during 2010-11.

During 2010-11, we collected £73 million in respect of the England and Wales levy, and £15 million in respect of the Scotland levy. £74 million from the England and Wales levy was paid over to the Consolidated Fund during 2010-11. 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 80 to 81. 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. As the NFPA collects levy payments two months in arrears, Fossil Fuel Levy revenue for the final two months of the year are an estimate based on the trend emerging from the previous ten months of the year.

Events after the reporting period

There were no events after the reporting period.

Reporting for 2010-11

This is the first Trust Statement produced by Ofgem as required by HM Treasury and is in line with the Accounts Direction. The income and expenditure related to the Fossil Fuel Levy was previously brought to account in our 2009-10 Resource Accounts. This statement is prepared on an accruals basis.

The trust statement has been prepared with comparative data for 2009-10 reporting period and the resource accounts are adjusted according.

Alistair Buchanan
Accounting Officer

17 June 2011

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.

Statement on Internal Control

Ofgem's Statement on Internal Control, covering both the Resource Accounts and the Trust Statement, is shown on pages 38 to 41.

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 2011 under the Government Resources and Accounts Act 2000. The Trust Statement comprises the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. The 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 in respect of the Trust Statement, 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 Trust Statement

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 Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; 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.

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

Opinion on Regularity

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

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of affairs relating to the collection of fines and penalties of energy companies regulated by the Office of Gas and Electricity Markets and the collection and administration of the fossil fuel levies as at 31 March 2011 and of its net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion, the information given in the Accounting Officer's Foreword to the Trust Statement for the financial year in 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
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

21 June 2011

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria, London, SW1W 9SP

Statement of Revenue, Other Income and Expenditure for the Year Ended 31 March 2011

	Note	2010-11 £000	2009-10 £000
Income			
• Fines and Penalties			
Penalties imposed	2.1	24,810	2,000
• Fossil Fuel Levy			
Fossil Fuel Levy (England & Wales)		73,834	94,451
Fossil Fuel Levy (Scotland)		15,142	22,310
• Other Income			
Interest on Fossil Fuel Levy (England & Wales)		119	179
Interest on Fossil Fuel Levy (Scotland)		569	506
Total Income		114,474	119,446
Expenditure			
Administration of the Fossil Fuel Levy		(96)	(150)
Total Expenditure		(96)	(150)
Net Revenue for the Consolidated Fund		114,378	119,296

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

The notes at pages 85 to 87 form part of this statement.

Statement of Financial Position
As at 31 March 2011

	Note	2010-11	2009-10	2008-09
		£000	£000	£000
Current Assets				
Cash at Bank – UK Consolidated Fund		29,138	30,193	29,275
Cash at Bank – Scottish Consolidated Fund		198,519	182,718	153,154
Debtors and accrued income	3	27,023	17,203	57,409
		254,680	230,114	239,838
Current Liabilities				
Creditors	4	(6)	(8)	(28)
Net Current Assets		254,674	230,106	239,810
Represented by:				
Balance on the UK Consolidated Fund Account		53,170	44,293	76,783
Balance on Scottish Consolidated Fund Account		201,504	185,813	163,027
	5	254,674	230,106	239,810

Alistair Buchanan
Accounting Officer
17 June 2011

The notes at pages 85 to 87 form part of this statement.

Statement of Cash Flows
for the year ended 31 March 2011

	2010-11	2009-10
	£000	£000
Net Cash Flow from Operating Activities	104,556	159,482
Cash paid to the consolidated fund	(89,810)	(129,000)
Increase in cash in the period	14,746	30,482

Notes to the Cash Flow Statement

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

		2010-11	2009-10
	Note	£000	£000
Net revenue for the Consolidated Fund		114,378	119,296
(Increase)/Decrease in non-cash assets	3	(9,820)	40,206
Decrease in liabilities	4	(2)	(20)
Net Cash Flow from operating activities		104,556	159,482

B: Analysis of changes in Net Funds

	2010-11	2009-10
	£000	£000
Increase in cash in the period	14,746	30,482
Net Funds at 1 April	212,911	182,429
Net Funds at 31 March	227,657	212,911

The notes at pages 85 to 87 form part of this statement.

Notes 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 £1000

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 and Other Income

2.1 Fines and Penalties

	2010-11	2009-10
	£000	£000
Penalty imposed on EDF Energy Networks	-	2,000
Penalty imposed on National Grid Gas – Principal	15,000	-
Penalty imposed on National Grid Gas – Interest	810	-
Penalty imposed on National Grid Gas	8,000	-
Penalty imposed on Scottish Hydro Electric Power Distribution	500	-
Penalty imposed on Central Networks	400	-
Penalty imposed on Electricity North West Limited	100	-
Total	**24,810**	**2,000**

3. Debtors and Accrued Income Receivable

	Debtors as at 31 March 2011	Accured revenue receivable at 31 March 2011	Total as at 31 March 2011	Total as at 31 March 2010	Total as at 31 March 2009
	£000	£000	£000	£000	£000
Fines and Penalties	9,000	-	9,000	-	-
Fossil Fuel Levy	-	18,023	18,023	17,203	57,409
Total	**9,000**	**18,023**	**27,023**	**17,203**	**57,409**

Debtors 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. Creditors

	Creditors as at 31 March 2011	Total as at 31 March 2011	Total as at 31 March 2010	Total as at 31 March 2009
	£000	£000	£000	£000
Fines and Penalties	-	-	-	-
Fossil Fuel Levy	6	6	8	28
Total	**6**	**6**	**8**	**28**

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

5. Balance on the Consolidated Fund Account

	2010-11	2009-10	2008-09
	£000	£000	£000
Balance on the Consolidated Fund Account	230,106	239,810	166,401
Net revenue for the Consolidated Fund	114,378	119,296	298,209
Less amount paid to the Consolidated Fund	(89,810)	(129,000)	(224,800)
Balance on Consolidated Fund as at 31 March	**254,674**	**230,106**	**239,810**

Extract from DAO(GEN)02/1

ANNEX D

ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SECTION 7(2) OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000.

1. This direction applies to those government departments listed in appendix 2.
2. The Department shall prepare a Trust Statement ("the Statement") for the financial year ended 31 March 2011 for the revenue and other income collected by the department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ("FReM") which is in force for 2010-11.
3. The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties by the Department as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.
4. The statement shall also be 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.
5. When preparing the Statement, the Department shall comply with the guidance given in the FReM (Chapter 13). The Department shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.
6. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.
7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to ensure compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.
8. The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 7(2) of the Government Resources and Accounts Act 2000 shall be laid before Parliament, at the same time as the Department's Resource Accounts for the year, unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Chris Wobschall

Head, Assurance and Financial Reporting Policy
HM Treasury

22 December 2010

Appendix 1 to Annex D

Trust Statement for the year ended 31 March 2011

1. The Trust Statement shall include:

- a Foreword by the Principal Accounting Officer;
- a Statement of the Principal Accounting Officer's Responsibilities;
- a Statement on Internal Control;
- a Statement of Revenue and Expenditure;
- a Statement of Financial Position;
- a Cash Flow Statement; and
- such notes as may be necessary to present a true and fair view.

2. The Notes shall include among other items:

- the accounting policies, including the policy for revenue recognition and estimation techniques and forecasting techniques together with statements explaining any significant uncertainty surrounding estimates and forecasts;
- a breakdown of material items within the accounts;
- any assets, including intangible assets and contingent liabilities;
- summaries of losses, write-offs and remissions;
- post balance sheet events; and
- any other notes agreed with HM Treasury and the National Audit Office.

Appendix 2 to Annex D

No	Sponsoring Department	Income stream	Responsible Entity
01	DCLG	National Non-Domestic Rates	DCLG
02	DECC	Petroleum licenses	DECC
03	Office of Fair Trading	Competition Act penalties	OFT
04	Ofgem	Fossil Fuel Levy	Ofgem
		Fines and penalties	
05	Water Services Regulatory Authority	Fines and penalties	OFWAT
06	DWP	Financial Assistance Scheme	DWP

Appendix I: Performance against 2010-11 deliverables

Our Corporate Strategy and Plan for 2010-11 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 Corporate Plan	Total achieved			Deferred to 2011-12	No longer apply
		Met in Qtr	Met in later Qtr	Met in year		
Full year						
Year total	48	38	3	41	3	4
Year %		80%	6%	86%	6%	8%
1st Quarter						
Quarter total	13	12	1	13	-	-
2nd Quarter						
Quarter total	18	14	2	16	-	2
3rd Quarter						
Quarter total	5	4	-	4	1	-
4th Quarter						
Quarter total	12	8	-	8	2	2

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

Activity	Action	Period	Achieved	No longer applicable
European Strategy	Publish the Council of European Energy Regulators' conclusions on the integration of wind generation	Q2	Q2	-
Transmission	Agree funding for further transmission investments	Q2	Q2	-
	Publish decision on the disposal of assets to facilitate the transportation of CO2 for Carbon Capture and Storage	Q2	Q2	-
Sustainable Development	Publish Sustainable Development Report	Q3	Q3	-

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

Activity	Action	Period	Achieved	Note
Energy Economics	Host Winter to date seminar	Q1	Q1	-
	Global and European gas markets seminar	Q2	Q3	-
Transmission	Consultation on the effects of gas entry substitution	Q2	-	No longer relevent
Energy Economics	Host Winter outlook seminar	Q3	Q3	-
	Publish 2010 Energy Markets Outlook report	Q4	Q4	-
Transmission	Decision on gas exit substitution methodology	Q4	Q4	-
Local Grids	Publish gas and electricity distribution cost reports for 2008-09 and 2009-10	Q4	Q4	-

Theme 3 – Promoting choice and value and protecting vulnerable consumers

Activity	Action	Period	Achieved	Note
Consumers and demand side insight	Publish research on complaint handling	Q1	Q1	-
Retail markets	Publish consultation on the current obligations on suppliers to notify price changes	Q1	Q1	-
	Publish consultation on (non-smart) metering issues	Q1	Q1	-
European Strategy	Approve access rules for Britned	Q1	Q1	-
Sustainable development	Publish review of Energy Ombudsman arrangements	Q1	Q1	-

Theme 3 – Promoting choice and value and protecting vulnerable consumers

Activity	Action	Period	Achieved	Note
Transmission	Consultation on the scope of the price control roll-over	Q1	Q1	-
RPI-X@20	Publish consultation on our approach to mergers between energy network companies	Q1	Q1	-
Code Governance	Consult on licence modifications to implement the conclusions of the Code Governance Review	Q1	Q1	-
Retail Markets	Publish final report on (non-smart) metering issues	Q2	Q3	-
European Strategy	Submit National Report to European Commission	Q2	Q2	-
Transmission/ Gas distribution/ RPI-X@20	Consultation on the implications of RPI-X@20 for the next transmission price control review	Q2	Q2	-
RPI-X@20	Consultation on conclusions and recommendations from the RPI-X@20 review	Q2	Q2	-
	Publish conclusions on our approach to mergers between energy network companies	Q2	Q2	-
	Publish consultation on Olympics issues	Q2	-	Superseded by companies decision
Industry Codes and Licensing	Consult on potential Significant Code Review initiatives (if agreed by the Authority)	Q2	Q2	-
Local Grids	Consultation on the DNO proposals for the common charging methodology for EHV customers	Q3	-	Deferred to 2011-12
	Publish initial consultation on gas distribution licence review	Q4	Q3	

Theme 3 – Promoting choice and value and protecting vulnerable consumers

Activity	Action	Period	Achieved	Note
European Strategy	Decide on transmission system operator certification under 3rd package	Q4	-	Deferred to 2011-12
Sustainable development	Probe follow-up: vulnerable customer switching	Q4	Q4	-
Consumers and demand side insight	Review of consumer protection issues in context of potential licence changes for smart metering	Q4	Q4	-
Local Grids	Publish initial consultation on the regulatory arrangements for IDNOs and IGTs	Q4	-	Superseded by Ofgem decision
Energy Economics	Publish energy supply markets report	Quarterly	Quarterly	-

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

Activity	Action	Period	Achieved	Note
Environmental Programmes	Feed-in Tariffs scheme launched	Q1	Q1	-
	Publish annual report on the Community Energy Saving Programme	Q1	Q1	-
Offshore transmission	Announcement of Preferred Bidders for Transitional Round 1 projects	Q1	Q2	-
	Appointment of Preferred Bidders for Transitional Round 1 projects *two projects expected in Q3-Q4	Q2	Q2	-
	Commencement of second offshore transmission tender round	Q2	Q2	-
Environmental Programmes	Publish annual report on the Carbon Emissions Reduction Target	Q2	Q2	-

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

Activity	Action	Period	Achieved	Note
Smart meters	Publish, with DECC, smart meters scoping document (Phase 1 of the programme)	Q2	Q2	-
Environmental Programmes	First Feed In Tariffs levelisation process completed	Q2	Q2	-
Finance and Risk Management	Set the Fossil Fuel Levy Rate for 2011-12	Q3	Q3	-
Carbon capture and storage	Publish guidance on CCS levy	Q4	-	Superseded by government decision
Renewable Heat Incentive	Publish guidance on the RHI application	Q4	-	Deferred to 2011-12
Environmental Programmes	Publish annual report on Renewables Obligation	Q4	Q4	-

Appendix II: Performance Indicators 2010–11

Ofgem performance indicators

Activity	Measure	Target	Actual	Comments
Trading Arrangements	Consult on and carry out consultations about applications made for exemption from Third Party Access arrangements under Article 22 by prospective storage and interconnector operators	100%	100%	Target delivered
	Submit decisions on Article 22 exemptions to the European Commission within the prescribed timescales if adequate information has been provided	100%	100%	Target delivered
	Assess and make decisions in relation to any Income Adjusting Event within three months of it being raised if adequate information has been provided	100%	100%	Target delivered
Consumers and demand side insight	Protect consumers by responding substantively to customer contacts within 10 working days	93%	93%	Target delivered
Enforcement	Respond to complaints on enforcement matters confirming whether we will investigate within 4 weeks	90%	75%	Due to workload of formal cases and resource difficulties the target was not achieved
Industry Codes and Licensing	70% of industry codes decisions made within 25 working days	70%	79%	Target delivered
	Grant competitive licence applications within 45 working days of receipt	100%	100%	Target delivered

Ofgem E-Serve performance indicators

Activity	Measure	Target	Actual	Comments
Feed-in Tariff	Levelisation process to be completed in a timely manner after receipt of data from suppliers within 20 working days	100%	100%	Target delivered
Environmental Programmes	Respond to suppliers who have submitted CESP schemes for approval within 10 days of submission deadline	100%	100%	Target delivered
	Respond to suppliers who have submitted CERT schemes for approval within 10 days of submission deadline	100%	100%	All schemes were responded to in the timeline of the KPI. However, a number had to be put on hold while guidance was amended following a change in legislation
	Follow up with generators outstanding issues in their applications for accreditation within 10 working days	100%	91%	The large number of microgenerator applications at the end of the previous reporting year looking to migrate from the Renewables Obligation to the Feed in Tariff caused a slight dip in our performance at the beginning of the year.

Ofgem E-Serve performance indicators

Activity	Measure	Target	Actual	Comments
Environmental Programmes				However, in the second half of the year as the number of applications fell back, our performance improved and the overall picture for the year is that we just missed our target
	Complete reconciliation of CHP Levy Exemption Certificates after receipt of accurate data from DEFRA within 20 working days	100%	100%	Target delivered
	Recycle the Renewables Obligation buy out funds within one month	100%	100%	Target delivered
Finance and Risk Management	Pay undisputed bills within 10 days	98%	96%	Target just missed primarily due to some invoice approvers not being available during January 2011
Research and Information Centre	Respond to inquiries under the Freedom of Information Act within 20 days of receipt	90%	90%	Target delivered

Appendix III: Impact Assessments undertaken 2010-11

Ofgem published 8 impact assessments (IAs) between 1 April 2010 and 31 March 2011. Further information on the following documents can be found at www.ofgem.gov.uk and searching using the appropriate reference number.

Date	Title and reference number
15/06/2010	**Electricity distribution charging methodologies Reference number: 72/10)** This consultation, which included an IA, sought views on defining the boundary to be used to determine whether customers should be subject to the common charging methodology for the extra high voltage or for lower voltages.
24/06/2010	**Review of National Transmission System entry charge setting (Reference number: 77/10)** National Grid proposed to remove discounts for short-term gas entry capacity and restrict availability of use-it-or-lose-it capacity. This document set out our analysis of the impact of the proposals and gave our initial views.
26/07/2010	**Regulating Energy Networks for the Future: RPI-x@20 Recommendations (Reference number: 91/10)** This document set out our recommendations for a new regulatory framework for electricity and gas transmission and distribution network companies. It included an IA.
01/12/2010	**Period for suppliers to notify customers of unilateral contract variations (Reference number: 149/10)** This draft IA identified a wide range of impacts, costs and benefits of the proposed supply licence modifications along with other proposed consequential and clarificatory amendments.
24/01/2011	**Fixed term offers in the domestic energy market (Reference number: 09/11)** We considered suppliers' communication with customers on Fixed Term Offers and the practice of automatic contract rollover. We assessed the impact of policy options and sought views on our preliminary recommendations.
09/02/2011	**Period for suppliers to notify customers of unilateral contract variations (Reference number: 14a/11)** This final IA built on the information gathered in previous consultations including an information request to provide an assessment of the expected impact of our proposals on consumers and on competition.
09/02/2011	**Gas Transmission Exit Capacity Substitution and Revision Methodology (Reference number: 17/11)** The purpose of this consultation is to assess the impact of implementing a methodology submitted by National Grid Gas.
25/03/2011	**Proposed Modifications to the 'Ring Fence' Conditions in Network Operator Licences (Reference number: 42/11)** This document and appendices set out our proposals for updating the ring fence conditions in network operator licenses. It covers our view of the impacts, costs and benefits of the proposed measures and seeks responses from stakeholders.

Summary of actions taken to which IAs relate

The following sets out the decisions taken during the 2010-11 financial year in relation to proposals for which IAs were previously carried out.

- On 26 May 2010 we published a letter setting out our decisions on Uniform Network Code modification proposals 194, 194A, 228, 228A and 229 on the identification and apportionment of costs of Unidentified Gas. We rejected them all except for UNC229. We did not consider it necessary to conduct a formal review of the effects of UNC229 but stated that the industry should give further consideration to the requirements for a post-implementation review as part of the contract awarded to the AUGE. Our view is that the success of this modification does not correlate to the amount of money that is reallocated per se but to the degree of assurance that shippers have over the accuracy and equitability of that reallocation. More accurate targeting of costs should sharpen incentives on shippers to identify and tackle the causes of unidentified gas.
- On 3 June 2010 we rejected proposals to modify the Uniform Network Code (0246/246A/246B) in relation to Quarterly NTS Entry Capacity User Commitment.
- On 5 July 2010 we directed licence modifications to give effect to the final proposals of the Codes Governance Review. The proposals included the introduction of Significant Code Reviews (SCRs), changes to the role of code administrators and to the governance of changes to network charging methodologies. Consequentially, modifications were made to the relevant industry codes with effect from 1 January 2011. Whilst we will carry out a lessons learnt exercise after each SCR, we will undertake a review of the SCR regime itself after three years of operating the new arrangements. The review will seek to establish whether the benefits of any SCR related proposals could have been delivered through an alternative procedure and, to the extent they are available, the relative costs and timeliness of those alternatives procedures. Whilst we do not intend to conduct a formal post-implementation review of changes to the role of code administrators, they will be required to report against new key performance indicators (KPIs) on a regular basis. These KPIs will be based around the principles set out in the Code Administrators Code of Practice. Where we consider that performance is deficient or should be brought into line with best practice identified elsewhere, we may modify the Code of Practice. The relevant licensees are required to ensure that they or (to the extent they are a different party) the Code Administrator carry out their functions with regard to and in a manner that is consistent with the Code of Practice. We will review the effects of changes to charging methodology governance after a sufficient number of modifications have been through the process. The review will consider the nature and number of proposals, the efficiency and effectiveness of code process, and review the number of proposals raised by non-network parties.
- On 4 October 2010 we published our conclusions to the RPI-x@20 review. We have since consulted on and made decisions relating to the strategy for implementing the conclusions in the RIIO-T1 and RIIO-GD1 price controls.
- On 22 October 2010 we confirmed that, in light of the Secretary of State's decision to bring about Transmission Access Reform using powers under the Energy Act 2008, we had rejected all modification proposals superseded by that decision (CAP148, CAP161, CAP162, CAP163, CAP164, CAP165, CAP166, CAP167 and CAP168).
- On 5 November 2010 we rejected CAP170, which proposed to amend the Connections and Use of System Code to introduce an administered price for intertrips behind particular transmission system boundaries.
- On 28 March 2011 we confirmed our decision to modify standard condition 23 of the gas and electricity supply licences to require suppliers to give customers 30 days' notice of price rises or other changes in their contract that leave them significantly worse off. This will help customers decide whether they wish to remain with their current supplier and give them a better chance to budget for any price rises that occur. The decision took effect on 28 April 2011. We will evaluate the impact of the changes through our ongoing market monitoring activities and investigations into specific complaints.

Appendix IV: Investigations and enforcement action 2010-11

Company	Issue	Decision	Date of decision
EDF Energy	Investigation into recording of complaints under the Gas and Electricity complaints Handling Regulations	Breach and no penalty in view of £200,000 payment to two consumer funds	N/A
National Grid Gas	Investigation into misreporting of regulatory information	Breach and £8m penalty	January 2011
National Grid	Investigation into abuse of dominant position in terms of metering contracts	Breach and £15m penalty	September 2011 (date that Supreme Court refused appeal)
Scottish Hydro Electric Power Distribution	Investigation into licence obligations regarding breaches of time limits for providing customers with connection offers and having inadequate resources to secure compliance with licence	Penalty of £500,000	February 2011
Central Networks	Investigation into licence obligations regarding breaches of time limits for providing customers with connection offers and having inadequate resources to secure compliance with licence	Penalty of £400,000	February 2011
Electricity North West	Investigation into licence obligations regarding breaches of time limits for providing customers with connection offers	Penalty of £100,000	February 2011
First Utility	Investigation into compliance with obligations under standard licence condition 27 with respect to disconnections and customers in payment difficulty	Provisional order	December 2010

Company	Issue	Decision	Date of decision
MA Energy	Investigation into compliance with obligations under its licence and industry codes in relation to the purchase of electricity and other matters	Provisional order	February 2011
Scottish and Southern Energy	Investigation into misselling on doorstep and telesales	Ongoing	N/A
Scottish Power	Investigation into misselling on doorstep and telesales	Ongoing	N/A
EDF Energy	Investigation into misselling on doorstep and telesales	Ongoing	N/A
npower	Investigation into misselling on doorstep and telesales	Ongoing	N/A
npower	Investigation into compliance with the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008	Ongoing	N/A
EDF Energy	Investigation into compliance with the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008	Ongoing	N/A
British Gas	Investigation into compliance with the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008	Ongoing	N/A
British Gas	Investigation into failure to take account of ability to pay in setting debt repayment levels	Ongoing	N/A
British Gas Trading	Investigation into misreporting of electricity supply data under the Renewables Obligation	Ongoing	N/A
Electricity North West	Investigation into abuse of dominant position by imposing a margin squeeze	Ongoing	N/A
Scottish Power	Investigation into the significant difference between Scottish Power's standard and direct debit tariffs	Ongoing	N/A

Appendix V: Simplification Plan

Each year, during the corporate planning process, we consider whether there are any regulations that impose burdens that could, in the context of our duties generally, be considered unnecessary. In March 2011 we published our latest Simplification Plan, which set out the activities that we would undertake to reduce or remove those burdens.

The Regulatory Enforcement and Sanctions Act 2008 requires the Authority to report on the progress we have made in removing burdens that we consider unnecessary. The updated Simplification Plan sets out the progress that we have made on our activities to remove unnecessary burdens since March.

Process initiatives

Initiative	Outcome	Current Status
The new RPI-3% internal cost control for 2010-15	The previous cost control increased our efficiency and licensees' fees were reduced substantially. The new control maintains the pressure for efficiencies. Cost reductions will be passed on to licensees.	The current internal cost control came into effect on 1 April 2010 and commits Ofgem to save at least £12.5 million in 5 years. For 2010-11, savings of £5.3 million were achieved.
Consumer First - improving our understanding of domestic consumers' priorities	The project has led to improved decisions that take proper account of consumers' views. Consumer First will continue to embed consumer insight into our policy making.	We have published research and other data to facilitate debate including most recently the findings from our Panel workshop on smart meters. The Consumer Challenge Group is now playing an important role in influencing the development of the RIIO price controls. We are looking to improve our website and call handling services.

Ofgem policy initiatives

Initiative	Outcome	Current Status
Retail Market Review – financial reporting	The deadline for responses to our proposals is 1 June 2011. We are seeking greater clarity for consumers on how retail prices relate to suppliers' wholesale costs. In doing so we will ensure that burdens on suppliers are no higher than necessary to protect consumers' interests.	We propose to appoint a leading firm of accountants to review the transfer pricing and hedge accounting practices of the vertically integrated companies and report to us on the likely impact of these practices on reported profits and transparency. We propose to ask them to make recommendations to us on how to improve company reporting in future years.
Retail Market Review – tariff simplification	Responses to our proposals are due in June. We are seeking to make it easier for domestic consumers to compare prices and choose a better deal.	We propose to restrict the number of tariffs for standard evergreen products from each supplier to one per payment method with suppliers competing on a single 'per unit' price. Suppliers may offer an unrestricted number of fixed term products quoting prices readily comparable to their evergreen tariff unit price.
Retail Market Review – consumers' access to tariff information	We are considering the information that suppliers must provide to consumers about tariff information. We will take steps to improve transparency while ensuring that any burdens we impose on suppliers are proportionate.	We are monitoring the progress of the Energy Bill, which may add new obligations for suppliers about tariff information. In the meantime, we are considering whether suppliers should provide more standardised information on bills and annual statements. We may also take steps to improve consumer trust in switching sites.
Rolling out the RIIO conclusions	The transmission and gas distribution price controls will be the first time the new regime is used (including potentially a new fast-track process).	We have begun work on these price controls and published strategy documents on 31 March 2011 setting out our decisions on the key elements of the regulatory framework.

Ofgem policy initiatives

Initiative	Outcome	Current Status
Reviewing the gas transmission licence	Consider the scope for simplifying the licence held by National Grid Gas.	We will take this work forward as part of revising the transmission licence for the price control roll over and RIIO-T1.
Reviewing gas distribution licences (focusing on the elements of the licence relating to Gas Distribution Networks)	We aim to improve the clarity of the Standard and Special Standard Conditions without making substantive changes to underlying policies and obligations. We will concentrate on restructuring and consolidation, including removal of redundant conditions and simplifying and redrafting to improve clarity and certainty.	On 31 March we published an open letter setting out the way forward for this project and how it will dovetail with licence changes to address the implementation of the 3rd package and licence drafting associated with RIIO-GD1. The letter confirmed our decision to revise the structure of the gas transporter licence to separate out the elements of the licence relating to gas distribution. We are reconvening the Working Group to discuss the detail and we intend to issue a statutory consultation on the licence restructure after the Third Package has been implemented.
Networks regulatory reporting requirements	We will carry out a review of the reporting requirements that we place on the transmission and distribution companies.	We have launched this review and have appointed consultants to advise us on a risk-based and proportionate approach.

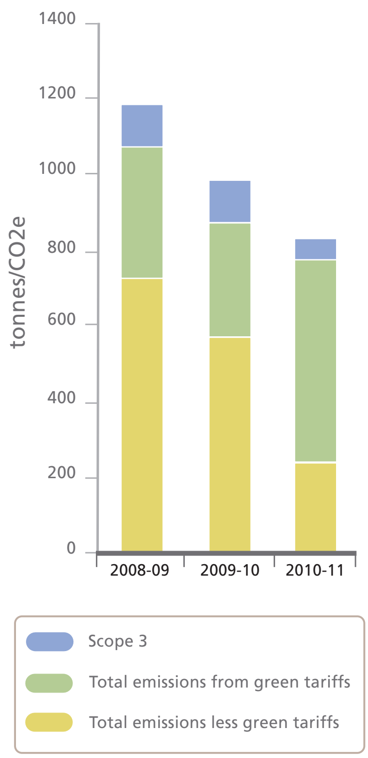
Ofgem E-Serve initiatives

Initiative	Outcome	Current Status
Updating procedures for administering the existing environmental programmes including the Renewables Obligation, the Feed in Tariff, the Carbon Emissions Reduction Target and the Community Energy Saving Programme.	More effective application and efficient administration. Effective use of business process design techniques and compliance powers	Carry out risk reviews at least three times per year feeding back into changes to our processes. Reviews are also under way to take account of revised government requirements.
Introducing new government environmental programmes including Renewable Heat Incentive and Warm Home Discount	We intend to administer these schemes cost effectively and efficiently, drawing on our experience, facilities and teams from existing environmental programmes and social tariff schemes. We will use business process design techniques and compliance powers effectively.	We are advising DECC in relation to the Renewable Heat Incentive, undertaking detailed design of our administration and compliance processes. We have recently launched our compliance activities for the Warm Home Discount scheme.
Developing the offshore transmission regulatory regime	Less onerous regulatory burden at start and during life of projects	The competition for nine projects in the first round – covering £1billion worth of transmission links – is now at the granting licence stage. The second round (six projects) – also covering up to £2 billion worth of transmission links – has attracted a good response for tranche A (three projects).

Appendix VI: Sustainability report tables for the year ended 31 March 2011

Greenhouse gas emissions		2008-09	2009-10	2010-11
Non Financial Indicators (tCO2e)	Total Gross Emissions for Scopes 1 & 2	1075	871	773
	Total Net Emissions for Scopes 1 & 2. (i.e. less reductions – e.g. green tariffs).	731	566	229
	Gross emissions Scope 3 business travel	115	115	53
	Other Scope 3 emissions measured	0	0	0
Related Energy Consumption (KWh)	Electricity: Non-Renewable (k)	2,523	1,926	1,855
	Electricity: Renewable	-	-	-
	Gas (k)	3,437	3,075	2,296
	LPG	-	-	-
	Other	-	-	-

Graphical analysis



Performance commentary (incl targets)

Ofgem has, in line with SOGE, a target to reduce its carbon emissions by at least 12.5% (to 1,243 tonnes) by March 2011 from our 2001 levels. We are currently showing a 42% reduction to 826 tonnes, some 164 tonnes below our 2020 target. New targets are currently being considered for the period beyond 2011 and in line with SDiG, this will be disclosed in the 2011-12 sustainability plan.

Controllable impacts commentary

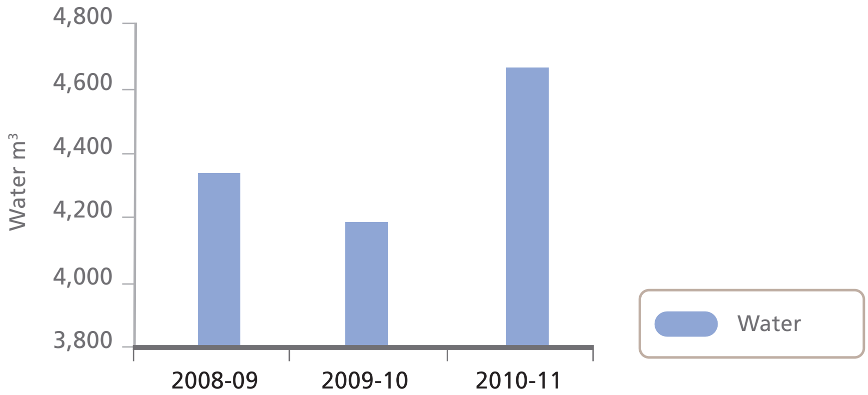
The main direct impact for Ofgem is in its electricity and gas consumption. Strategies have been prepared to reduce these direct impacts through efficiency programmes.

Overview of influenced impacts

Ofgem is able to influence the emissions of its supply chain through procurement specifications, which were recognised in 2010 through the award of a Gold Standard from the Mayor of London.

Finite resource consumption			2008-09	2009-10	2010-11
Non Financial Indicators (m^3)	Water consumption	Supplied	4,336	4,190	4,666
		Abstracted	0	0	0

Graphical analysis



Performance commentary (incl targets)

In line with SOGE targets, Ofgem intended to reduce its water consumption by 25% from 2004-05 levels to 6,569m^3. However, consumption has increased largely due to increased staff numbers. This equates to 9m^3 per person which is well above best practice. Revised targets will be disclosed in the 2011-12 sustainability plan once an action plan has been agreed.

Controllable impacts commentary

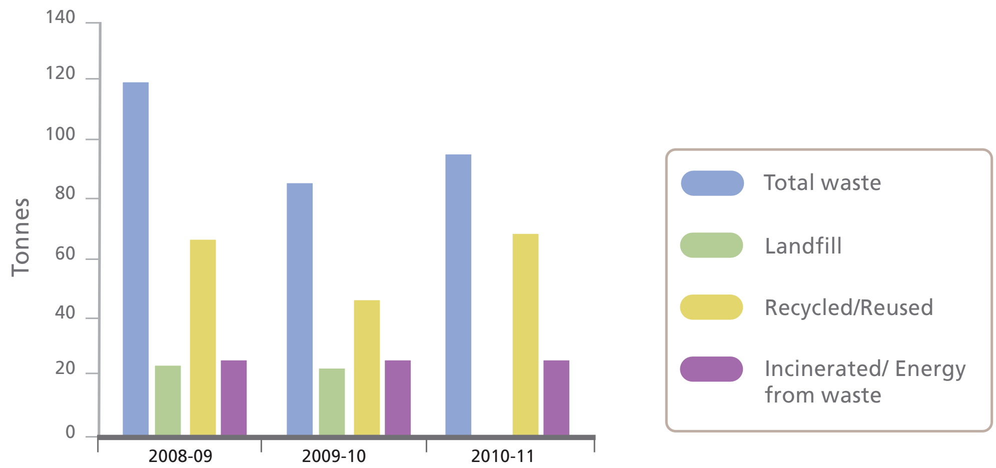
Our main impact in terms of water consumption is one of general office and restaurant usage.

Overview of influenced impacts

We are working with our site engineers to reduce water consumption through equipment usage.

Waste			2008-09	2009-10	2010-11
Non Financial Indicators (t)	Total waste (minimum requirement)		119	85	96
	Hazardous waste	Total	0.5	0.5	0.05
	Non-hazardous waste	Landfill	24	13	0
		Reused/Recycled	69	46	69
		Incinerated/ energy from waste	26	26	27

Graphical analysis



Performance commentary (incl targets)

No waste was sent to landfill in 2010-11. Recycling as a percentage of overall waste rose from 56% to 73%.

Controllable impacts commentary

The direct impacts of waste for us are in relation to increasing the amount of recycled building waste whilst reducing overall waste. Better results are expected over time as more recyclable items are purchased then disposed off.

Overview of influenced impacts

We are working alongside our suppliers to improve both the culture (staff attitudes) and actual performance in relation to waste management and disposal. Staff are utilising recycling options provided with minimal non compliance.

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