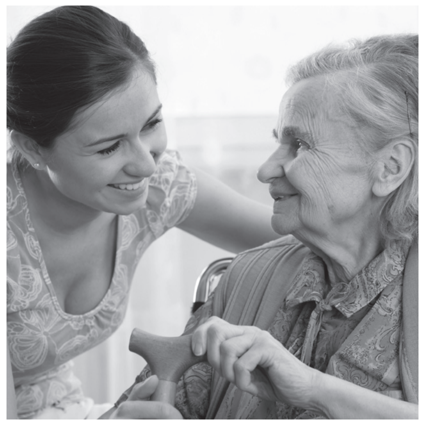
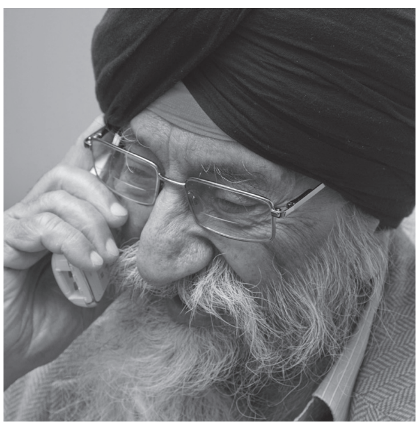
ofgem

Making a positive difference
for energy consumers



We are here to make a positive difference for all energy consumers, now and in the future.




2017-18

Office of Gas and Electricity Markets (Ofgem)

Annual Report and Accounts

HC 1107

ofgem

Making a positive difference
for energy consumers

2017-18

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

(For the year ended 31 March 2018)

Accounts presented to the House of Commons pursuant to section 6(4) of the Government Resources and Accounts Act 2000

Annual report presented to the House of Commons by Command of Her Majesty

Ordered by the House of Commons to be printed on 28 June 2018

HC 1107

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at Ofgem, 10 South Colonnade, Canary Wharf, London, E14 4PU.

ISBN 978-1-5286-0593-9

CCS0618756752 06/18

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

Contents

About us

We are the independent energy regulator of Great Britain, working to protect the interests of current and future energy consumers.

Our core purpose is to ensure that all consumers can get good value and service from the energy market. We favour market solutions where practical, incentive regulation for monopolies, and an approach that seeks to enable innovation and beneficial change while protecting consumers.

This report summarises our progress against the projects described in our 2017-18 Forward Work Programme (FWP). It also assesses how our actions have contributed to protecting the interests of all current and future consumers – from domestic, including vulnerable consumers, to commercial businesses – and the strategic outcomes we seek to bring about, which are:

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

Chairman's foreword
David Gray

It has been an exciting time to serve as Ofgem's Chairman, with such profound change taking place in the energy industry. As I write my final foreword to our Annual Report before I retire in September, I am struck by two themes that have dominated our work – and the energy debate – over the last five years.

The first is the lack of trust and engagement. Many customers still believe the energy market is difficult to navigate and do not trust it to deliver the best outcome for consumers. That was one reason we referred it to the Competition and Markets Authority (CMA) in 2014. More recently, we have seen real progress – with more new entrants, more choice for customers, and more switching. But these are only a means to an end. Our objective is a market in which customers feel confident, receive good service and pay competitive prices. And on this, we need to do more.

The second theme is change in the industry – driven by technological advances and the imperative of tackling climate change. The energy system is transitioning to one that is lower carbon, more decentralised, flexible, dynamic and responsive – and the pace, intensity and unpredictability of that change continues to increase.

Looking ahead, these two themes will converge. Together, smart metering, digital technology, low cost battery storage, and electric vehicles could offer more attractive and varied services to consumers – and more ways to reduce energy bills. Some of these changes are a way off yet, but they are genuinely exciting and could herald an energy market that is almost unrecognisable from today's.

Our work has involved laying the foundations for these changes. In the years ahead, it will be to secure the maximum consumer benefit from them, and to ensure that – whatever the future looks like – customers are protected.

More immediately, the Government has decided that more needs to be done now for customers on poor value default tariffs, and is passing legislation for a price cap. We will deliver this. We hope that it will provide immediate relief and peace of mind to customers, as well as an opportunity to fundamentally reset the entire energy system for the future.

In the longer term, we would hope that a wide-ranging price cap will not be necessary. But, as Dermot Nolan often says, energy is an essential service – and we recognise that there may be a need for ongoing protection for some customers, particularly those in vulnerable circumstances or those who can't engage effectively. Alongside the price cap, we will therefore need to work with the Government to tackle this.

In the last year, we have said goodbye to David Fisk, Jim Keohane, Nicola Hodson and Rachel Fletcher – and I wish to record my thanks for the experience, expertise and good humour they each brought to their roles. I will shortly be joining them in the ranks of former members of the Authority, and I add my thanks to all Authority members who have served alongside me over the last five years, as well as Ofgem's outstanding staff, who have been a source of tremendous support to me.

Our people truly are our greatest asset – hard-working, professional and committed to ensuring that the energy system works for all consumers. We are lucky to have them – and while the scale and pace of change in the energy industry is greater than at any time that I can remember, I have no doubt that my successor could not wish for a more dedicated or more talented group of colleagues to meet this challenge.

David Gray
Chairman

Chief Executive's Officer's Report

Dermot Nolan

One of the things I like most about this job is the chance to see our work in action. Earlier in 2018, I visited a consumer charity in Glasgow to listen and learn about how it supports local residents with their energy bills and needs. I met and chatted to some interesting people, and it was fantastic to see how the hands-on advice they provide, and our work, helps with the problems that people are facing.

It's easy for a regulator to get caught up in the bubble of economics and politics and lose sight of what it actually means to be in this unique position, at such an interesting time.

That's why, for me, it's also important to step outside the bubble, to listen and learn. And in Glasgow, and in many other places I've been lucky enough to visit this year, I was able to learn a lot and see the real difference we are making.

These occasions reinforce for me that, despite the challenges, we are on the right track and achieving results that are meaningful for consumers up and down the country.

Our work on price protection this year put us at the front of the newspapers, and the heart of the conversation about fairness for consumers in markets such as energy.

We introduced a **price cap** for people on prepayment meters, and extended this safeguard tariff to another one million vulnerable households in early 2018. We then started preparing to implement a wider price cap, working alongside the government.

We launched a number of trials to encourage more consumers to engage and switch, including sending a letter to over 130,000 customers on expensive deals, telling them about cheaper ones available to them and how they could switch. This resulted in a trebling of the switching rate and we will look to build on this in 2018-19.

We introduced an online switching service to help people on poor-value deals to switch quickly, simply and reliably. We have seen some good results so far and will widen it to include more people.

In **networks**, much of our work is about ensuring value for customers. This year we started developing the framework for our next price control, RIIO-2. The price control will be tougher on network companies, and deliver more for consumers. We will give consumers a stronger voice as we develop the framework over the next few years, to achieve fairness in returns and reliability.

On the theme of network costs, in June 2017, we approved modifications to remove some of the so-called "embedded benefit" payments that result from transmission network charges. We believe these payments distorted competition in favour of small-scale generators connected to the distribution network, and substantially increased costs to consumers. This decision was then appealed by some owners of small-scale generation through a judicial review, and is, as I write, under consideration at the High Court.

In October 2017, we rejected charging modification (CMP 261) proposed by some large-scale generators, which would have resulted in a rebate of up to £200m, paid for by consumers. This decision was successfully defended at the CMA after, again, being appealed.

Together, these decisions will save consumers hundreds of millions of pounds a year, while reducing distortions of competition in the market.

The reform of network charging is an important part of our preparations for regulating energy systems for a smart, flexible, low carbon future.

Much of our work involves looking ahead: at what will shape and shake up the energy market, and how we remove barriers to things like smart technologies and storage.

We want to level the playing field so that change benefits everyone, not just those who can afford the latest technology or who are the most engaged.

Our **Innovation Link** advised over 150 innovators with new business models this year. We believe that these innovators will drive the change in the energy system, and we want to facilitate this as much as we can.

Of course, things aren't perfect, and there are still many enormous challenges to be faced. We acknowledge these. There are no easy answers and quick fixes to network charging, the energy transition, price caps and controls.

But I believe at Ofgem, we have talented staff thinking creatively and with a long-term mindset about solutions to these, and what's next on the horizon. Always with the same interests at heart: to protect the consumer, now and in the future.

We want to do more. We want to go further, and we want to make a bigger difference, to more people. We will get there, but it won't be easy.

This year we said goodbye to Rachel Fletcher who left to take up the position of Ofwat Chief Executive, and Martin Crouch, Chris Poulton and Andrew Wright also announced their intentions to leave in 2018.

We will also shortly be saying goodbye to our chairman David Gray, who retires later this year. I have enjoyed working with all of them very much, especially David whose judgment and sound advice I have found of great value.

Our Glasgow and Cardiff teams settled into their new office spaces this year, and in April our London teams moved office from Westminster to Canary Wharf. We also restructured our organisation, moving from six divisions to three. We believe these changes will help us to deliver for consumers better than ever.

Dermot Nolan
CEO

Understanding the impact of our work and the benefits we deliver on behalf of consumers

In 2018 we will publish our first Consumer Impact Report alongside our Annual Report and Accounts. This report assesses quantifiable and non-quantifiable consumer benefits that we expect to result from the regulatory decisions we made in the financial year April 2017- March 2018. We intend to publish this report every year to look at the effects of our decisions on all types of consumers in Britain.

Based on our calculations, we expect **Ofgem's decisions in this financial year to result in direct consumer benefits of £7,800m.**

These are forecasted consumer benefits of decisions that will have impacts across multiple years. They may, in the future, differ from the actual amount realised. However, they give a good sense of the magnitude of the benefits that flow to consumers from the actions we take. In addition, we expect our work to have significant indirect and non-quantifiable benefits, which are summarised in pages 27 – 29.

Ofgem's administrative expenditure for the financial year April 2017 to March 2018 was £90.040 million. This gives a ratio of direct benefits to costs of 87, which means that for the decisions we took in the last financial year, we expect **every £1 we spent to deliver direct benefits of £87 to consumers.**

Performance Report

Enabling a better functioning retail market

In 2017-18, we continued our work to bring about a retail market that works for all consumers, where competition constrains prices, drives efficiency and delivers the range of services and products that customers need.

Our work to enable improved retail market functioning covered three main areas, which incorporated implementation of the Competition and Markets Authority (CMA)'s energy market remedies:

- **Supplier conduct** - Ensuring that the licence and our interactions with suppliers drive the standards of conduct and quality of service that we and consumers expect.
- **Supply-side competition** – Setting our regulations to facilitate innovation and vigorous, disruptive competition between suppliers and third-party intermediaries while maintaining consumer trust.
- **Consumer engagement** - Encouraging householders and small businesses to engage in the market and also to take the hassle out of switching.

Supplier conduct

During 2017-18, we continued to implement our move to enforceable principles rather than a reliance on detailed, prescriptive rules. Our **Future Retail Regulation** programme has strengthened protection for consumers while giving suppliers room to innovate and work out how best to put customers at the heart of their business.

In mid-2017 we strengthened the **Standards of Conduct** (the overarching rules requiring suppliers to treat each customer fairly) and the new rules went live in October 2017. The key changes included a specific responsibility on suppliers for vulnerable customers, and the importance of suppliers ensuring that all households have the information they need to engage with the market.

The Standards put responsibility on suppliers to determine how best to do this, and reinforce our expectation that they must put consumers at the heart of their businesses. In doing so, suppliers will need to monitor their customers' experiences, so that they can keep in touch with what their customers need.

To ensure suppliers maintain this focus, we also published our refocused **annual report on vulnerable consumers** in the retail energy market, as it was clear that suppliers could do more to identify and support consumers especially in the area of debt management. We took action to **require suppliers to carry out an external audit of their debt processes and approach to vulnerable consumers.**

We also took steps to protect vulnerable consumers in November 2017 by **introducing a cap on the amount suppliers can charge for installing prepayment meters (PPMs)** under a court warrant. This had the effect of forcing suppliers to engage more effectively with vulnerable customers facing debt, rather than force-fitting a PPM. For the most vulnerable consumers **we prohibited PPM installations altogether**.

In March we published **our decision to limit backbills to 12 months**, subject to limited exceptions. The new SLC (21BA) will apply to both domestic consumers and microbusinesses and will come into force on 1 May. Domestic consumers will be protected from 1 May and microbusinesses from 1 November. This follows our commitment made last summer to publish the decision in early 2018.

The move to overarching rules strengthens our focus on consumer protections, and we do not hesitate to take action where suppliers fall short. We have a range of measures to ensure **compliance**, ranging from monitoring and setting targets, gaining redress and opening formal investigations. Our continued focus on compliance in 2017-18 saw several investigations involving suppliers wrongly charging consumers. These cases were resolved promptly and without recourse to enforcement action, and saw consumers receive compensation and redress payments, while suppliers improved their processes.

Supply-side competition

We are now seeing significant opportunities for innovation across the energy system and have started examining the role that traditional suppliers play in the market, and the opportunities for consumers to access and manage their supply in new ways. In this context, we have been exploring whether the existing **'supplier hub'** market model is still fit for purpose or whether we should consider changes as the energy system evolves. In November 2017, we launched a call for evidence focusing on barriers to innovation and ways to better protect all consumers, regardless of how they access their energy supply.

2017-18 saw continued rapid **growth in the number of new suppliers entering the retail market.** This growth helped to increase consumer choice, exert downward pressure on prices and saw more innovative tariff and service offerings introduced.

As to be expected in a market, there have been a small number of supplier exits and consolidations over the past year. We have also used our Supplier of Last Resort (SoLR) processes to protect consumers when a small energy supplier ceased trading. Our processes were swift and effective, ensuring that customers' credit balances were protected and supplies remained secure. Some new entrants found operating conditions challenging and, in a minority of cases, customer services and supplier conduct standards dropped below what we expect. We carefully monitored this activity during 2017-18, and we **will be initiating a review of supply licence arrangements in 2018-19.**

As part of our wider programme to promote competition among Price Comparison Websites (PCWs) and respond to the CMA's recommendations, we **changed the rules of a voluntary code for PCWs** in July 2017 to make it easier for people to switch to cheaper deals.

Consumer engagement

Consumer engagement is vital to realising the benefits of a competitive retail market. However, engagement isn't just about switching supplier. It is also about understanding and making informed choices, including to opt for better tariffs with the same supplier.

We have built on CMA remedies and launched a number of trials to encourage increased customer engagement and switching behaviours. Learning from successful smaller trials in 2016-17, we launched a **'Cheaper Market Offers Letter' trial** involving over 130,000 customers on expensive deals receiving a letter from either their supplier or Ofgem telling them about three available cheaper deals from rival suppliers. This resulted in a trebling of the switching rate.

In early 2018, we launched a **simplified 'collective switch'** trial aimed at those consumers on poor value deals who have not switched for more than three years. The trial was conducted with 50,000 customers of one of the larger suppliers, and we are currently evaluating the responses. Depending on the findings, we may choose to roll out various messaging initiatives and simplified collective switches for less engaged customers in 2018-19.

We introduced **a new 'Check Your Energy Deal' trial online switching service**, to help customers who have been on poor value standard variable tariffs for three years or more to find cheaper deals. We want consumers to be able to switch energy supplier, quickly, simply and reliably. During 2017-18 we significantly progressed work in this area, introducing proposals to deliver next-day switching as a new industry standard and improve reliability of the switching process through better management and oversight of industry data.

We are now progressing with the Switching Programme Outline Business Case and introducing key reforms, which will require the Data Communications Company (DCC) to procure a new **Centralised Switching Service (CSS)** that will facilitate reliable and fast switching across gas and electricity markets.

Temporary and targeted retail price protections

The Competition and Markets Authority (CMA) price cap for pre-payment customers remedy was introduced in April 2017, and we performed an integral role in implementing the remedy through **setting the price level for the cap every October and April.**

During summer 2017 we gathered evidence which (taking into account the CMA energy market investigation findings) led us to conclude that introducing price regulation would better protect the interests of vulnerable consumers in the short term, and introduced a **Warm Home Discount safeguard tariff** (applying to those consumers in receipt of a WHD rebate from February 2018). In December 2017 we consulted on extending **this protection to cover an additional c. 2 million vulnerable customers with the introduction of the vulnerable safeguard tariff** from winter 2018. We explained our intention was to introduce such a cap only if a default cap were not to be introduced by winter 2018-19.

On 26 February, the Government introduced proposals for legislation to Parliament, to introduce a **temporary tariff cap for customers on Standard Variable (SVT) and default tariffs.** The proposed legislation places a duty on Ofgem to implement the price cap as soon as practical. Ofgem is committed to protecting energy customers and we are working with Government to ensure we can implement the price cap as soon as possible once the legislation has received Royal Assent.

Facilitating change in the energy system

The need to reduce carbon emissions, technological advancements and greater digitalisation are changing the way energy is produced, generated, transported, stored and supplied to consumers.

Our work in 2017-18 focused on facilitating this energy system transition for the benefit of consumers, structured under three themes:

- **Flexibility, strategy for regulating the future energy system and enhanced System Operation** - Our work on setting out our future-focused strategy, approach to flexibility and expectations for the enhanced electricity System Operator to ensure the system is responsive to a wide range of future outcomes.
- **Addressing how network charges are recovered** - In particular, how residual charges are recovered fairly and distortions reduced.
- **Facilitating key infrastructure as an enabler of the transition** - Ensuring the building blocks for the move to a smarter, more flexible and responsive system are put in place.

Flexibility, strategy for regulating the future energy system and enhanced System Operation

Electricity market and regulatory arrangements were designed for a system with very different characteristics to today and those we now expect in the future. For example, more than a quarter of all generation capacity is now connected to distribution rather than transmission networks. Much, but not all, is intermittent renewable generation, which only generates when the wind blows or the sun shines. In addition, an increasing proportion of generation is now located on consumer premises, partly driven by the growth of solar panels. New technologies are emerging and the costs of many of these technologies, such as storage, are falling rapidly.

We published two major papers to address these challenges in mid-2017 – The **Smart Systems and Flexibility Plan (published jointly with the Department for Business, Energy and Industrial Strategy (BEIS)** and our **Strategy for regulating the future energy system**. The former sets out **29 actions** Government and Ofgem are taking to deliver a smarter, more flexible energy system by removing barriers to smart technologies and storage, enabling smart homes and business, and making markets work for flexibility.

Alongside this, our Strategy work encompasses and aligns with this plan, but focuses on addressing the key challenges and opportunities that future changes could create for different aspects of the energy market and regulatory arrangements. These challenges include **cross-cutting platforms** to support the energy transition, **balancing supply and demand at all times, efficient locational management and development** of the energy system, **system coordination and the institutional framework** and **supporting innovation** while **ensuring good outcomes** for consumers.

How network charges are recovered from users

It is important that charges for access to and use of the energy networks are fair and provide the right incentives to market participants. During 2016 and through early 2017 we reviewed the 'embedded benefits' that smaller (sub-100MW) distribution-connected generators can receive, as we were concerned that the current set of rules could be preventing a level playing field. We concluded that the current level of payments going to these smaller generators were distorting the wholesale and capacity markets, and that the situation was set to worsen if action wasn't taken.

In March 2017 we **consulted on proposals to lower one type of payments that these smaller generators receive for producing electricity at peak times,** with the aim of reducing costs for consumers and preventing market distortions. In June 2017 we accepted a code modification that removes the ability for suppliers to use smaller embedded generation (EG) to reduce their contribution to the Transmission Network Use of System (TNUoS) demand residual. **A new cost reflective payment has been introduced through a three-year phased implementation, which began on 1 April 2018.** This decision has been challenged by industry participants and is currently subject to a judicial review (JR) process.

In addition, we have been examining a range of other network charging issues and considering how residual charges should be levied across gas and electricity networks. To this end, we consulted in Spring 2017 on proposals for a **Targeted Charging Review (TCR)** on electricity residual charges, and launched the TCR **Significant Code Review (SCR)** in August 2017. We have made substantial progress with the SCR, and in the latter half of 2017 started work on detailed assessments of residual recovery mechanisms, with a view to bringing forward a consultation on detailed policy options in the second half of 2018.

Another key development this year was the formation of the **Charging Futures Forum (CFF),** helping to facilitate stakeholder input into proposed changes and steer the various on-going reviews of electricity network access and charging.

We supported the gas industry in taking forward the conclusions of the Gas Transmission Charging Review (GTCR) and the implementation of the Gas Tariff European Network Code. This has now culminated in the **Gas Charging Review (GCR)** process that aims to consider and potentially approve changes to the gas transmission charging methodology in 2018-19.

Collectively, these strands of network charging work - across electricity and gas – have been coordinated to ensure a joined-up approach, and to facilitate consistency, predictability and a level playing field for all market participants.

Key enablers of the transition to ensure the critical infrastructure is in place

We have made considerable progress in 2017-18 with the building blocks for the move to a smarter, more flexible and responsive system. This work has included **monitoring and assessing supplier plans for the roll-out of smart metering** in early 2017 and 2018, and ensuring that the regulatory obligations on suppliers are driving the right mix of efficiency, cost-effectiveness and consumer engagement. As part of the overall smart meter infrastructure, we operate the price control for the Data Communications Company (DCC) and in 2017-18 we implemented the **DCC operational performance regime** and issued our **proposals for the DCC Price Control** in 2016-17.

The roll out of smart metering also offers the potential for more timely and efficient settlement processes (the process of charging suppliers for the difference between how much energy they purchase and how much their customers actually use).

In 2017, the changes we had made to enable half-hourly settlement on an elective basis came into effect, and we **launched a Significant Code Review for market-wide half-hourly settlement** for domestic and smaller non-domestic consumers. In the last quarter of 2017-18 we also issued the **strategic Business Case** and rationale for market-wide HHS and made progress on the design of the new system. The changes we are making to bring forward half-hourly settlement will put incentives on suppliers to help their customers move their consumption to periods when electricity is cheaper, with potentially substantial benefits from making better use of the electricity system and existing infrastructure. In doing so, we are helping to create the right environment for more demand-side response and a smarter, more flexible energy system, as well as promoting innovation and competition in the retail market by enabling new and innovative business models.

Alongside Xoserve and industry, we also successfully concluded **Project Nexus** in June 2017, ensuring that the settlement and administration systems for the GB gas market were upgraded in a way that ensured future benefits to consumers (such as using smart meter data in the settlement process) were incorporated.

In early 2017 we consulted on **potential reforms to industry code governance.** Prompted by the CMA's Energy Market investigation recommendations, the consultation explored the licensing of code managers and associated central delivery bodies, setting a strategic direction for code development and establishing a consultative board, with the aim of enabling strategic change to be delivered smoothly and efficiently. We held industry workshops in late 2017 to explore proposals for the strategic direction and consultative board, and will set out proposals for next steps in 2018-19.

Recognising that much of the innovation in the energy system is being driven by entrepreneurs and new entrants, our **Innovation Link's** advisory service engaged with over 150 different innovators in 2017-18, receiving 88% satisfaction ratings. We finalised the outcomes from the regulatory **sandbox 1** (awarding 3 sandboxes in November 2017) and **launched a second sandbox** call in October 2017, attracting over 30 potential innovations and novel business models. We also ran an **innovation outreach programme,** which included a 1 day seminar on blockchain in energy, as well as engaging with other relevant bodies including techUK, Energy Innovation Centre and Energy Systems Catapult.

Network regulation and RIIO

The networks that transport electricity and gas around the UK form the backbone of our overall energy system. Most are natural monopolies so their revenues and performance need to be regulated in order to provide good value for consumers. As well as administering price controls, we also design and manage the incentives and tendering processes for offshore transmission and interconnectors, and are driving competition into parts of the network where this is most suitable.

Our work in 2017-18 has focused on the following areas:

- **Learning from the first RIIO and developing RIIO-2** – Our RIIO (revenue = incentives + innovation + outputs) price control framework (for electricity and gas transmission and distribution) ensures that the network operators focus not just on cost efficiency, but that they also deliver the right levels of service for consumers.
- **Introducing competition into monopoly areas** – In recent years we have added two more regulated regimes for transmission networks, the first is for offshore transmission, connecting offshore generation to the mainland. The second is for interconnectors, allowing us to import and export power to neighbouring countries such as France and Norway. We are also working on introducing competition into the onshore networks.

Learning from the first RIIO and developing RIIO-2 - Key decisions and learning

In 2013 we set the first eight-year price controls for energy transmission and gas distribution, and this was followed by electricity distribution in 2015. Monitoring network company performance, both in terms of service delivery and financial performance, is a vital part of our work programme and we published our latest **Annual Reports (2016-17)** for each price control in December. This included an additional focus on presenting the key factors driving company performance.

At the start of the year we concluded our work on the **parallel issues identified as part of our mid-period review (MPR)** of the gas distribution (GD1) and transmission (T1) price controls. This covered a range of issues that did not meet the scope of the MPR but where we thought further clarity was required on how the GD and T1 settlements would operate. We set out our views on what constituted compliance with outputs relating to Industrial Emissions Directive compliance in gas transmission and voltage support in electricity transmission to ensure they were delivered in a way that best served consumers. We also set out our intention to delay allowances related to the late delivery of the £1bn subsea Western HVDC link so that the companies did not benefit from the delay.

We also consulted on a **potential MPR for electricity distribution** (RIIO-ED1) in December 2017, covering potential small-scale changes in scope due to government policy changes, and a potentially wider change of scope associated with financial and incentive performance and design. This consultation closed in February 2018, and our decision not to launch an MPR was published following the year-end in April 2018.

Also in 2017-18 we took the decision to remove £277.5 million from National Grid Gas Transmission (NGGT)'s allowance at the **Fleetwood Entry Point** as the works were no longer required. We also reduced NGGT's capacity obligation at the site to protect consumers from having to pay for additional investment at the site if another entry project connected.

In September, following a detailed review of the performance of the Distribution Network Operators (DNOs) in relation to key areas of the previous electricity distribution price control (DPCR5, 2010-2015), we also **returned around £200m to GB consumers.**

We are still keen to improve the quality and transparency of financial reporting by the RIIO-regulated network companies. We have engaged heavily with stakeholders on **potentially introducing revised regulatory accounts** (known as RIIO Accounts) and have received helpful feedback. We now need to consider this further to decide on the most appropriate course of action.

The RIIO-1 price controls for gas distribution and energy transmission networks are due to end on 31 March 2021 with the price control for electricity distribution ending on 31 March 2023. Under the existing RIIO price controls, we have seen considerable improvements in network operator performance and customer satisfaction: the networks are now more reliable and consumers are highly satisfied with the service provided by local network operators. The innovation stimulus - including the **Network Innovation Competition (NIC)** which saw funding decisions for 2017 published in November - has raised research and development spending and should result in significant benefits for consumers from nationwide rollout of successful schemes. Our incentives framework has encouraged greater deployment of lower cost operational solutions and competition is starting to take shape in the onshore sector.

However, we have also learned key lessons relating to company returns, operating assumptions and corrective mechanisms. We have used this learning during 2017-18 to inform our thinking for RIIO2, the next price controls which will apply from 2021 onwards. Our aim is to develop a framework that will be tough, but fair, for companies and investors, deliver good value for consumers, and allow networks to respond to the unfolding energy transition and changing customers' needs.

In July 2017 we published an open letter on our proposals, and used the stakeholder responses to this to inform the publication of our detailed **RIIO-2 Framework Consultation** in March 2018. In this, we set out our proposals in five key areas – giving consumers a stronger voice, responding to how networks are used, driving innovation and efficiency, simplifying the price controls and achieving fair returns and financeability. This stage marked the beginning of the formal consultation process for setting the next price controls, and we intend to publish our decision on the framework in summer 2018.

Introducing competition into monopoly areas

We have promoted competition in connections since 2000, and pioneered the use of competition (via tendering) for offshore networks through our offshore transmission owner (OFTO) regime. In July 2017, we took a major decision to appoint a preferred bidder to own and operate the offshore transmission link to the **Burbo Bank Extension windfarm** for the next 20 years. This completes the procurement process of Tender Round 4 of the OFTO regime, and the extension will see 230,000 UK homes powered using renewable energy.

Wherever possible and appropriate, we also identify opportunities **to deliver competition or competition-like forces within onshore energy networks**. In 2017-18 we planned to finalise the design and commercial arrangements for Competitively Appointed Transmission Owners (CATOs). However, constraints on the Parliamentary timetable meant that enabling primary legislation could not be introduced. We therefore paused the implementation of the CATO regime. In August 2017 we published a consultation setting out two potential alternative delivery models (the 'SPV model' and the 'Competition Proxy' model) that we consider would introduce a significant proportion of the benefits of competition that would have been realised through the CATO regime.

In January 2018 we consulted on applying the Competition Proxy delivery model to the **Hinkley-Seabank onshore electricity transmission project.** The savings that this model will deliver to consumers will depend on the allowed cost of capital (to be finalised in late 2018), but are anticipated to be at least £100m on a net present value basis over 25 years.

In our RIIO-2 framework consultation in March, we set out proposals to extend competition across the sectors (electricity and gas, transmission and distribution), where it is appropriate and provides better value for consumers. These will be developed further during 2018.

Our cap and floor regime encourages competition in the construction of electricity interconnectors, the physical links which allow the transfer of electricity across borders. To date we have granted five projects a cap and floor in principle and these projects are at various stages of the development cycle – once built they will result in significant savings for consumers. **In 2017-18 we made a further three decisions to grant projects a cap and floor, and now expect these projects to progress through the development cycle.**

In November, we rejected a proposal to build a subsea electricity distribution link from Shetland to mainland Great Britain. This decision was taken because a change made at EU level meant tougher emissions targets would not apply to Lerwick Power Station until 2030 and that the station could continue to operate until at least 2025 at a significantly lower cost than that of the proposed distribution solution. In addition, the UK Government announced that, subject to receiving State Aid approval, wind farms on remote islands such as Shetland will be eligible to compete for a Contract for Difference (CfD) in the auction now planned for 2019. This allows for the possibility of further savings being realised if a more integrated solution comes forward following the next CfD round.

An authoritative source of quality analysis

In order to protect consumers' interests and maintain trust in the energy market it is vital that the analysis underpinning our regulatory decision-making is robust, that we maintain our industry-facing expertise and that we drive insights in future regulatory developments.

Our work in 2017-18 has focused on the following areas:

- **Quality assurance, impact assessments and evaluation** – Led by the Office of the Chief Economist, we have focussed on strengthening the quality of our impact assessments and policy evaluations to help improve the robustness of our decisions.
- **Reports and research** – This includes our Regulatory Stances, horizon scanning and future energy system research and publishing trusted and authoritative reports into the functioning of the energy market.
- **Capability improvement** – Working through internal networks, we have prioritised training, development and capability building among our analytical staff.

Quality Assurance, Impact Assessments and evaluation

We have maintained our focus on improving the quality and increasing the number of Impact Assessments undertaken across the organisation. In 2017-18 we implemented a modelling Quality Assurance (QA) framework in line with the recommendations of the Macpherson review[1], which built on our rolling programme of model QA for our business-critical models.

Reports and research

As part of our commitment to making the energy market as transparent as possible, we have maintained and enhanced our **Data Portal** in 2017-18, ensuring that information on retail and wholesale markets, customer service and networks is as accessible and up-to-date as possible, so consumers, market participants and other interested parties can see how the sector is working. This portal gives direct access to all of our interactive data charts in a single location, alongside indicators we consider key to our performance monitoring.

Building on our previous horizon-scanning programme, the **Insights for Future Regulation (IFR)** project is designed to explore the current and future drivers of change and material impacts on consumers and regulation. This is delivered through stakeholder engagement, academic and industrial collaborations and publication of insight papers.

In early 2017 we published reports into **Local Energy,** which considered the current local energy landscape, the types of business models that are emerging and the implications for consumers and regulation, and the **Futures of domestic energy consumption**, which outlined some of the key changes to the energy landscape we could see for domestic consumers over the coming decade.

Research is an essential part of how we understand the energy market and its performance for consumers, and in September 2017 we published proposals to bring together our insights and horizon-scanning activity into a **dedicated Research Hub.** We were keen to explore how we might engage more effectively with research institutions on topics of common interest, and we received a high level of support for the Hub's four proposed priority areas: cross-sector policy interactions, facilitating the low-carbon energy transition, the future consumer, and global trends.

We have continued to develop work in these areas during the remainder of 2017-18, with the Research Hub helping us to develop and communicate our research priorities, improve our awareness of external research and stimulate external research activity.

Our 2014 referral of the energy market to the Competition and Markets Authority (CMA) was based on our assessment that the market was not operating as well as it could. Following the CMA's energy market investigation and in implementation of its remedies, we undertook a comprehensive review of energy markets and published our annual **State of the Market** report in October 2017.

Building on our previous Wholesale Energy Markets (2016) and Retail Energy Markets (2016) monitoring reports, the State of the Market report assessed market functioning against our consumer outcomes. Using this framework, the report concluded that: a two-tier market still exists, offering a good deal to consumers able and willing to shop around, but not for less active consumers; many consumers (particularly vulnerable consumers) are worried by and struggle with energy affordability; the need for more low-carbon generation makes it more important consumers get the best deal; and secure supplies have been maintained without out-of-market intervention, but consumers may, on average, have paid more than necessary.

We continue to use the insights from the State of the Market report to act in the best interests of consumers, and take forward a range of interventions ourselves and with companies and government.

Capability improvement

We have continued to build analytical capability throughout Ofgem during 2017-18, **conducting skills audits and using these insights to develop a targeted recruitment and training programme** for analytical professionals, as well as developing internal professional networks for economists.

Linked to our Research Hub initiative, we also re-instituted and refreshed the **Ofgem Academic Panel** in 2017, with the aim of enhancing our strategic and early stage thinking and building wider links with the academic research community.

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

Core business activities

In addition to our key priority work areas, we also work on a wide range of 'business-as-usual' yet still critical areas. Our achievements in these areas are described below:

- **Security of supply**
- **Compliance and enforcement**
- **Wholesale market monitoring**
- **European work**
- **UKRN**

Promoting security of supply

Our role is to make sure that the electricity and gas markets work properly and that there are no barriers to stop companies doing their job. In this way we ensure energy supplies are uninterrupted for GB homes and businesses and that energy is available on demand at all times. Many facets of our work help to ensure security of supply. For example, we incentivise network companies to keep interruptions to a minimum. Generation and supply companies are also incentivised to make sure that the energy put on to the system balances with the energy their customers consume.

Each year we:

- Scrutinise the costs incurred by National Grid for balancing winter demand, to ensure efficiency and value for consumers
- Manage and implement changes to the Capacity Market Rules
- Deliver our Electricity Market Reform roles and;
- Oversee the behaviour of participants in the Capacity Market.

Compliance and enforcement

We are committed to fostering a culture where energy companies put consumers first and act in line with their obligations. We want to see energy companies across the sector identifying risks that may arise, managing these effectively and putting things right quickly when they go wrong, including offering effective redress to consumers who have suffered.

Appendix III sets out the investigations and enforcement action undertaken in 2017-18, along with a summary of the redress arrangements. In these instances, companies made redress payments either directly to consumers and/or to programmes and funds that would benefit them.

In addition to the compliance activities set out on page 9, we also published the first in what will become a regular series of **'lessons learned' newsletters** in 2017-18 to encourage suppliers to maintain a focus on their own performance and to prevent consumer harm.

Wholesale market monitoring

We proactively monitor Britain's wholesale energy market to understand the trends, risks to and impacts on consumers. This helps us identify market design issues and develop policies. We also monitor the market to identify, and investigate, possible breaches of relevant licences and regulations, including the Regulation on Energy Market Integrity and Transparency (REMIT).

European work

During 2017-18 we have worked closely with government to provide advice and support over the planned UK withdrawal from the European Union. Our aim has been to ensure that the post-departure legal and regulatory framework applying to the energy industry is clear and stable, that appropriate contingency planning is undertaken where appropriate, and that systems operate effectively across borders. We have also continued to play a role in relevant European institutions, such as ACER and CEER to help shape policies in the interests of GB consumers.

UKRN

We continue to play a leading role in the UK Regulators Network (UKRN), including chairing the network during 2017-18. Over the last year, we have supported and provided expert input to a number of UKRN events and research publications, including a joint seminar on UK infrastructure regulation, mental health and vulnerable consumers and disruptive innovation. A good example of our collaborative practice is the joint 2017-18 Ofgem and Ofwat vulnerable consumers' data sharing pilot project. The insights from this project will enable other companies in the water and energy sector to share data in a meaningful and safe way, benefiting service design and delivery to vulnerable consumers.

E-Serve

Ofgem delivery of renewable and social schemes

Ofgem's operational E-Serve directorate delivers a diverse array of renewable and social schemes on behalf of the government. These schemes are worth in excess of £7bn. This relationship with Government makes us different to the regulatory part of Ofgem, However, our focus is still on protecting consumers' interests, while also ensuring public money is managed effectively and efficiently.

Our delivery work in 2017-18 has focussed on the following areas:

- **Delivery:** Led by our E-Serve Management Committee, our focus has been on improving the quality of our core function of scheme delivery and ensuring our decisions are robust and in line with Government and legislative requirements.
- **Assurance:** We established a new, wide-ranging assurance function to add additional strength to our risk management, compliance oversight and audit functions across our delivery portfolio.
- **Improvement:** We completed the first year of a two-year improvement strategy to transform our operational capabilities, and to embrace digital solutions wherever possible.

Delivery

Renewable Electricity

We continued to administer both the Renewable Obligation (RO) and Feed-in Tariff (FIT) schemes. **The continued growth of these schemes was the main driver for the sharp increase in the take-up of renewables in GB, which now makes up nearly 30% of all generation output.** The combined annual value of these schemes is more than £6.5bn.

During the year, the team surpassed its target for the number of RO accreditations, with more than 5,887 MW of renewable generation capacity accredited across 662 renewable generating stations. We also issued 89.8m Renewable Obligation Certificates (ROCs) for 67,191 GWh of renewable generation (as of March 2018).

We oversaw the creation and launch of a new Central FIT Register that has streamlined the registration and amendment of installations for both Ofgem and FIT licensees. The annual levelisation process for the 2016 – 17 period was completed in late 2017. A total of 7,500 GWh of electricity was generated by FIT installations during 2016-17 – an increase on the previous year from 5,594 GWh. In its lifetime, the FIT has resulted in 10.4 million tonnes of CO_2 being saved (as of 31 March 2017).

Over the course of the year, we worked with BEIS on a range of amendments to the schemes and a number of other changes that reflected the changing landscape in which the renewable schemes operate. **In particular, we consulted on the co-location of electricity storage facilities with renewable generation supported under the Renewables Obligation or Feed-in Tariff schemes.**

Renewable Heat Incentive (RHI)

The RHI teams continued to support regulation change throughout the year. In September, this resulted in changes to heat demand limits for Domestic RHI. In Non Domestic RHI, tariff rates were levelled for all biomass capacities to ensure the scheme continued to incentivise at appropriate levels. We carried out extensive audit campaigns to detect and prevent fraud. In the latter part of the year, the teams worked extensively with BEIS to develop further regulations packages. These included a significant number of changes to both the Domestic and Non Domestic schemes.

More than 62,000 participants are accredited currently on the Domestic scheme, resulting in 63,167 installations receiving payments.

More than 18,000 participants are on the Non-Domestic scheme, with 17,739 installations receiving payments. **In total, 25,444 GWh of renewable heat has been generated across the GB NDRHI and DRHI since these schemes began.**

In addition, the teams have continued to support the Northern Ireland RHI Scheme with ongoing amendments, payments and their audit programme. Our teams worked with colleagues across Ofgem to provide information to the NI RHI Public Inquiry.

Energy Efficiency and Social Programmes

Our delivery of government social programmes during 2017-18 has directly contributed to us achieving our corporate priorities of making direct contributions to reducing consumers' energy bills and protecting vulnerable customers. Under the **Warm Home Discount (WHD)** there was more than £323 million of support provided to vulnerable consumers, despite non-compliance by one obligated supplier. This included individual rebates of £140 to nearly 2.2 million vulnerable consumers. Our administration of the **Energy Company Obligation (ECO)** has continued through the year. This saw the closedown of one sub-obligation, the Carbon Saving Community Obligation, which has contributed more than 7.28 MtCO2 lifetime carbon savings in total to the UK's energy efficiency targets. The remainder of the scheme was also due to end, but the Government decided to extend the overall ECO for 18 months. This extension saw **Ofgem publish deemed carbon and cost scores ahead of legislative inception in order to assist BEIS's policy setting, and enable suppliers and the supply chain to be ready for the change in requirements.**

Assurance

During 2017-18, we focussed on assurance, putting this at the forefront of all of E-Serve's activities. At our core, we are determined to achieve value for public money. **Our broad-ranging Assurance Review Improvement Programme implemented a new Three Lines of Defence approach to ensure all our work is robust, of a high quality and stands up to independent scrutiny.**

As part of our First Line of Defence, an initial fast track programme of work saw us strengthen our existing Counter Fraud, Strategic Risk and Vendor Management practices. We delved into our current practices and made a raft of improvements including standardising our method of recording Operating Process documents and developing enhanced staff training. To underpin this activity, we went on to develop a strategic Second Line of Defence to augment the controls we already had in place. This included creating a Central Assurance Team to manage and control activity, including "spot check" audits on work already being conducted internally. Finally, we delivered a strategic Third Line of Defence with the introduction of our own, independent-led Risk and Assurance Committee (which reports into the Audit and Risk Assurance Committee of Ofgem's governing Authority).

Improvement

We introduced a new IT Product Board governance process, and delivered 36 products and started a further six for completion in 2018/19. Of the 36 delivered products, 20 enabled priority legislative changes to scheme registers. The others delivered support, continuous improvement, and other enabling products.

We introduced a Cloud-based development and testing environment. A GDPR review of the IT systems used by our schemes was conducted which enabled us to take action in readiness for the new requirements.

We established a partnership with the Cabinet Office Centre of Excellence for Robotic Process Automation (RPA) and began a pilot project to pave the way ahead for this innovative technology.

Data Analysis tools were developed to enable fraud prevention for our Counter fraud team and to optimise value from our operational audits.

We had planned to introduce a geospatial data tool to give stakeholders a transparent view of scheme installations across GB. As we developed our digital and data capabilities in 2017-18, we opted against this work in favour of deploying other, more sophisticated data models that can track this information better. Achieving progress in this area will be a priority in 2018-19.

We began re-writing the IT system needed to support the ECO3 Legislation, planned to be in place by October 2019. We also began the first phase of implementing a single Customer Relationship Management (CRM) system to support a single enquiries process across Ofgem.

We continued to engage with our stakeholders, and tracked their satisfaction with our administration of the schemes. We saw a steady improvement in this metric across the year, reaching a peak of 87.2% in December 2017. We launched four new surveys to understand our stakeholders' experience of making applications to our schemes. Feedback we received resulted in significant changes and improvements. Scheme websites now carry additional signposting and use simpler language. We publish 'how to' guides and FAQs

Our GB stakeholders

Stakeholder engagement is at the heart of our work, helping to ensure that the views of our stakeholders are considered in the way we regulate the energy system.

Consumer and industry engagement

We doubled the number of Ofgem events held across Great Britain in 2017-18, with over 1000 people attending one or more of our events. This represents a step change in our events programme – and we're really pleased with the positive feedback we've received.

We've also run a programme of stakeholder engagement for our senior leaders, including visits to National Trust's Dyffryn Gardens site in the Vale of Glamorgan, Wales, local energy schemes in South London, and a debt charity and Citizens Advice Extra Help Unit in Glasgow.

Ofgem was represented at many of the major energy conferences across Britain this year including policy forums, roundtables, major industry conferences and consumer summits. We spoke to our audiences about our work on regulating the energy networks, the future energy system, and protecting consumers.

We also continue to support key industry representative groups, such as the Large Users Group and the Sustainable Development Advisory Group.

Government engagement

Our work involves regular engagement with government departments and ministers (including those from BEIS) and we've continued to share our insight and expertise as the energy regulator over the last year.

We've also continued to ensure our work is visible to the UK Parliament, as well as the Scottish Parliament and National Assembly for Wales. To do this, we've met a number of Members of Parliament, Members of the Scottish Parliament and Members of the Welsh Assembly, as well as speaking at cross-party groups about our work. We've given evidence – in person and in writing – to parliamentary committees on topics including price protection in the retail energy market, smart meters, electric vehicles, low carbon housing and the Renewable Heat Incentive Scheme.

Overall, our stakeholder engagement work in 2017-18 has aimed to engage with stakeholders in ways that better suit them. We've reviewed the way we consult, focusing on doing fewer consultations, making them shorter and getting more responses from a more diverse range of stakeholders. This approach has been endorsed by positive feedback on clarity and accessibility of our State of the Market and Forward Work Programme workshops.

A Welsh language version of this report is available alongside the English language version. This report satisfies the Parliamentary reporting requirements under the Utilities Act (2000).

Consumer Impact Report (CIR)

We are committed to making a positive difference for consumers. As part of this, we want to communicate clearly how our work delivers value for money. It is also important that we earn the public's trust by demonstrating and communicating the benefits that Ofgem as an independent regulator brings to consumers and wider society.

As it states in Ofgem's Corporate Strategy:

"We would like to report on the cumulative costs and benefits to consumers of our regulation and how these results change with each intervention. In practice, this is very difficult. Many factors throughout the industry, including the actions of government, influence outcomes, and it can be hard to highlight the particular impact of our contribution. However, we aim to be as transparent and accountable as possible and we will explore what we might be able to provide."

To carry out this strategy, Ofgem has committed to assess annually the expected impacts that its regulatory activities have on consumers, and in the case of compliance and enforcement actions, have delivered to consumers. Our first **Consumer Impact Report** provides an assessment of the expected consumer benefits from Ofgem's recent regulatory decisions.

This report shows that Ofgem's regulatory activities and decisions undertaken in April 2017 to March 2018 are expected to create many significant benefits to consumers.

Based on our calculations, Ofgem's decisions in this financial year will result in:

- **Net present value of direct benefits: £7,800m**
- **Net present value of indirect benefits: £8,800m**
- **Additionally £540m of reduced funding for network companies**

In terms of the costs incurred in delivering these benefits, Ofgem's administrative expenditure for the financial year April 2017 to March 2018 was £90.040 million. This gives a benefit to cost ratio of 87, which means that for the decisions we took in the last financial year, we expect every £1 to deliver benefits of £87 to consumers.

Our approach

Ofgem typically has over 100 specific regulatory decisions in progress at any one time, so it is not practical for this report to cover all of our activities. This is why we assess only the most significant decisions, determined largely by the legal complexity and / or financial impact. As such, the expected consumer benefits shown in this report are only a subset of the benefits that Ofgem's regulatory activities bring to consumers.

Where practical, we quantify the benefits to consumers, and where it is difficult to do so, we describe the expected consumer benefits in a qualitative way. The benefits of a lot of the work we do cannot be easily expressed in financial terms but are nonetheless very important in protecting the interests of consumers.

We have therefore adopted a mixed approach that includes:

- Quantitative assessment: aggregating the financial benefits that are set out in formal impact assessments and those resulting from enforcement and compliance actions;
- Qualitative assessment: for decisions without formal impact assessments, using case studies to demonstrate the likely impact of regulatory decisions.

Quantified consumer impacts

For some of our decisions, we can use impact assessments to analyse and forecast direct and indirect effects on consumers over a long period. Impact assessments are a transparent framework for understanding the estimated impacts of policies and comparing projects with one another, and are prepared according to our guidance.[2] Quantified impact assessments provide the net present value (NPV) of consumer benefits that we expect to result from a decision.

Our approach to quantifying financial benefits is similar to the one adopted by the Competition and Markets Authority to assess the direct financial benefits to consumers of its decisions.

Table 1 summarises the expected financial benefits from some of the decisions made this year.[3] The financial benefits are expected to be realised over different time horizons, ranging from 2018 to 2063.

We define **direct impacts** here as those where we compel companies in the industry to act in a particular way (eg capping the amount they can charge for a service). **Indirect impacts** are those where we enable companies in the industry to act (eg creating the right regulatory regime for companies that want to build an interconnector). **The additional financial benefits** are mainly produced from changes to network companies' funding allowances, which are shown as a cash amount rather than a net present value.

Table 1 - Summary of expected monetised consumer benefits (2018 price year, £millions)

Benefits and breakdown by decision	Central case
a. Total direct impacts	**7,787**
New switching arrangements	40
Safeguard tariff for consumers in vulnerable circumstances	128
New licence conditions for installation of prepayment meters under warrant	18
Charging arrangements for Smaller Embedded Generators	7,582
Enforcement cases	11
Compliance cases	8
b. Total indirect Impacts	**8,776**
Interconnector cap and floor decisions	8,776
c. Total additional financial benefits	**542**
Transmission and gas distribution price controls – Mid-Period Review parallel work	197
Fleetwood entry point in gas transmission	345
d. Aggregate expected benefits (a+b+c)	**17,105**

Note: See the full report for further details on the methodology and expected benefits in different scenarios.

[2] https://www.ofgem.gov.uk/system/files/docs/2016/10/impact_assessment_guidance_0.pdf
[3] Those supported by a formal impact assessment showing a monetised net benefit for consumers.

Qualitative consumer impacts

Many of Ofgem's decisions benefit consumers in ways that are difficult to express in financial terms or monetise. Some of the decisions we have made this year are:

- **Increased protection for consumers in vulnerable circumstances**
  - Capping charges on suppliers for installing a prepayment meter under warrant
  - A safeguard tariff, capping the price consumers in vulnerable circumstances pay for energy
  - Changing the criteria used to prioritise gas network connections for those in fuel poverty, so that they better reflect actual drivers of fuel poverty.
- **Increased protection for consumers against excessive network investment costs**
  - Reducing the entry capacity obligation for National Grid Gas Transmission (NGGT)
  - Setting a cap and floor mechanism to regulate the returns private developers earn from operating interconnectors, thus lowering network charges by allowing access to cheaper generation.
- **Increased security of supply and decarbonisation of the energy system**
  - Connecting new providers of balancing services to the GB System Operator (SO), and helping enhance balancing arrangements between the GB SO and the SO of the connecting country.
  - Introducing a regulatory framework and a procurement methodology which the System Operator has to comply with, to ensure adequate energy provision after a Black Start event.
- **Better aligning the incentives and rules faced by companies in the industry with consumers' interests**
  - Prohibiting electricity generators from paying or seeking to pay or be paid excessively high or low amounts by the System Operator during transmission constraints
  - Limiting the distortions created by the ability of a supplier to use sub-100MW (smaller) embedded generator to reduce transmission use of system charges, and for smaller embedded generators to be paid to help others avoid them.
- **Increased transparency and competition in energy markets:**
  - Changing the rules that Price Comparison Websites must follow to be accredited by Ofgem, making them easier to use and encouraging them to grow
  - Introducing more reliable and faster switching, to unlock innovation, creating more competitive pressure among energy suppliers, which should encourage lower prices, improved customer service and a wider offering of innovative products and services.

This is the first time we have published a Consumer Impact Report alongside our Annual Report. We intend to publish a similar report every year, building on experience and feedback. We expect our methodology to evolve over time. For instance, to reduce the impact of any single decision on our assessment, we plan to report a three-year moving average of the benefits in future.

Sustainability report

Display Energy Certificates are used to show the energy efficiency of public buildings. Our score for our London headquarters has improved dramatically since the certificates were introduced in 2008. Then, we were ranked in band G, with a score of 165. Now we score 62, putting us in band C.

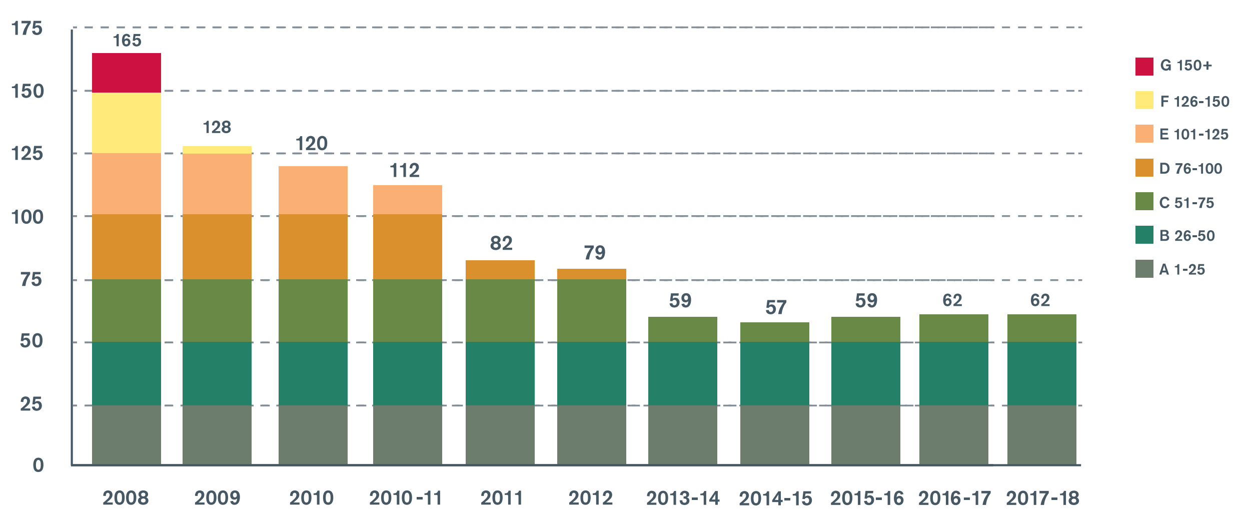
We have achieved this by:

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

Our scheduled move to new premises in Canary Wharf will result in continued sustainability performance.

The new premises are rated BREEAM Very Good and incorporate a range of energy saving measures (e.g. LED lighting, intelligent lighting zones, all fixtures and fittings have been optimised for efficiency). In addition, we will be occupying a smaller office area which will reduce overall demand for heating/cooling, lighting and water.

Ofgem Millbank DEC performance

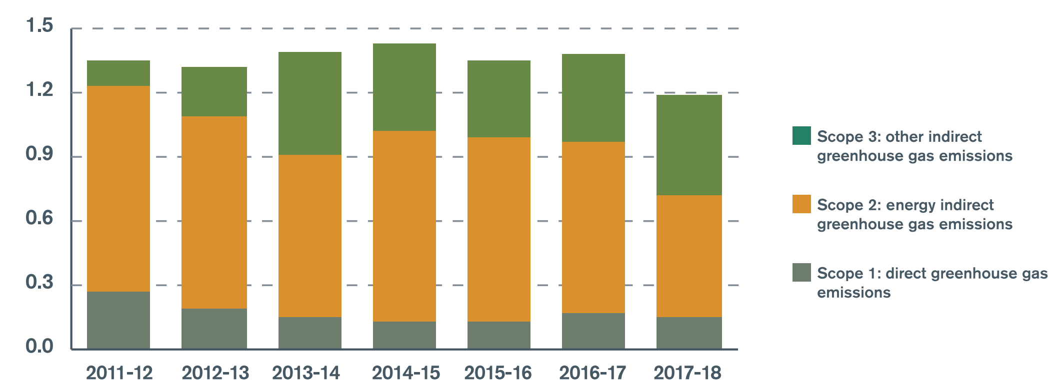


Building and activity related carbon emissions

In the past year, we've reduced our reportable building-related carbon by 179 tonnes. This is mostly attributable to our office move to more efficient premises in Glasgow.

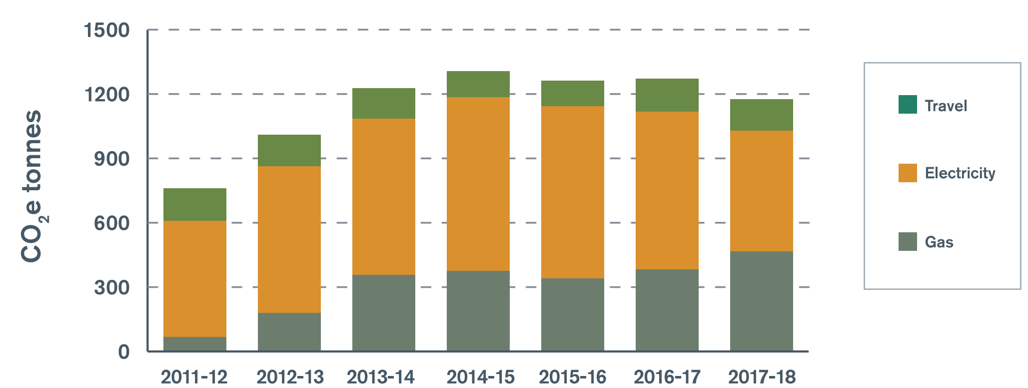
Our travel carbon has increased by 84 tonnes. This is mainly due to a slight decrease in train travel, and increases in the size of our Glasgow office and therefore domestic air travel.

Carbon Usage



Carbon emissions (Scope 1, 2 and 3) per FTE has reduced by 14% again mostly due to the Glasgow office arrangements.

Carbon usage by FTE



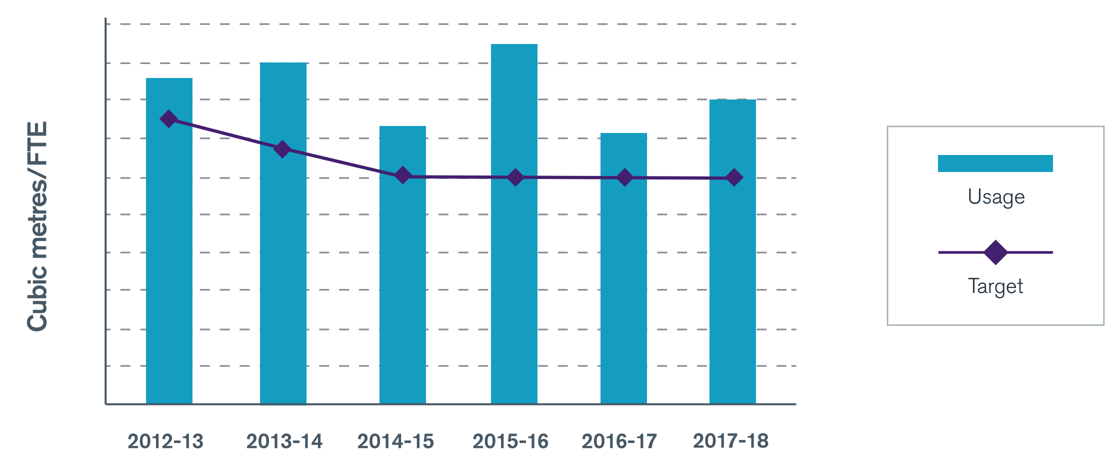
Reductions in Greenhouse Gas Emissions

Greenhouse gas emissions		2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	(Target 25% reduction)	**806**	**758**	**711**	**672**	**672**	**646**
Non-financial indicators (tCO_2e)	Total gross emissions	1,010	1,228	1,307	1,263	1,272	1176
	Per FTE	1.33	1.31	1.27	1.34	1.39	1.28
	Total net emissions (ie less reductions – eg green tariffs)	347	499	496	458	535	613
	Scope 1: direct GHG emissions	147	144	121	118	153	147
	Scope 2: energy indirect GHG emissions	685	729	811	805	736	563
	Scope 3: other indirect GHG emissions	178	355	375	339	382	466
Related consumption data (kWh)	Electricity: non-renewable (k)	42	-	-	-	-	-
	Electricity: renewable (k)	1,274	1,636	1,641	1,742	1,747	1600
	Gas (k)	795	783	656	640	749	797
	LPG	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Financial indicators	Expenditure on energy	£185,177	£244,291	£233,275	£275,616	£239,325	£240,573
	CRC licence expenditure	£1,290	£1,290	£1,290	£1,290	£1,290	£1,290
	Expenditure on official business travel	£296,684	£491,551	£772,248	£661,581	£824,023	£746,596

Reducing water use

We aim to get our annual water use below 6m3 per person. We increased our water usage this year due to a burst pipe in the heating system. We had to drain the system to repair the pipe and re-fill the system once the repair was made.

Water per FTE

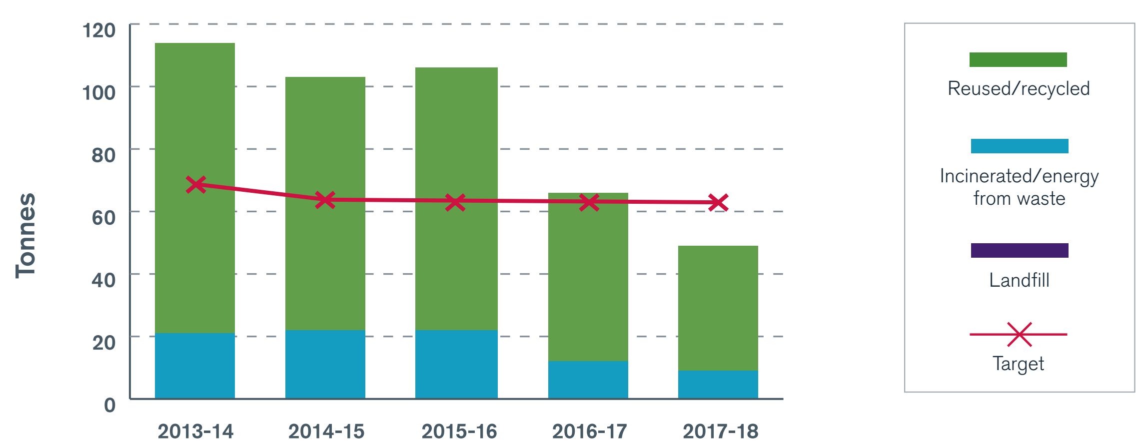


Water			2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Non-financial indicators	**Target (37% reduction)**		**7.39**	**6.69**	**6.00**	**6.00**	**6.00**	**6.00**
	Water consumption (m^3)	Supplied	6,639	8,609	7,553	8,359	6,564	7959
		Per FTE	8.7	9.0	7.3	9.5	7.1	8.0
Financial indicators	Water supply costs		£12,208	£20,517	£18,977	£17,601	£20,271	£33,309

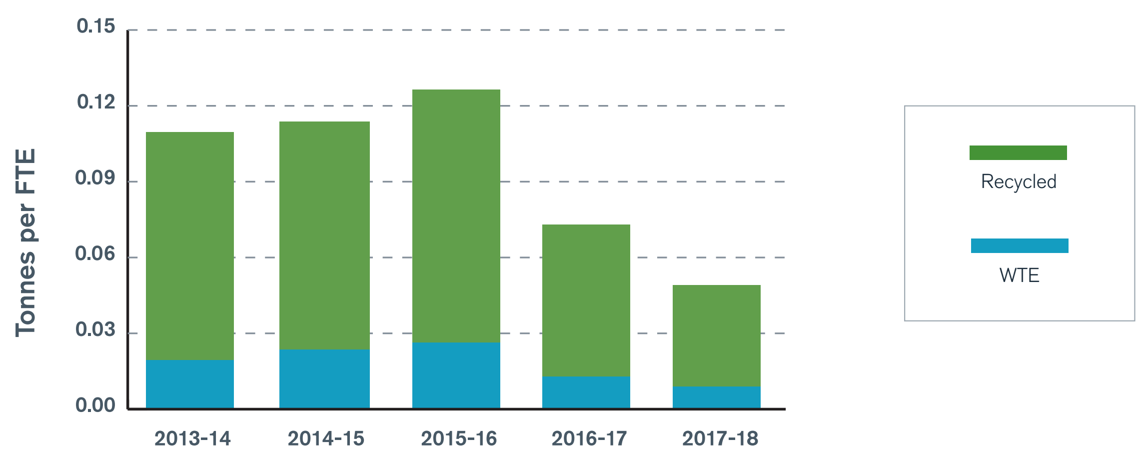
Eliminating waste

Our total waste has significantly reduced due to better monitoring and measuring, and staff engagement with waste diversion and recycling initiatives.

Total waste breakdown



Total waste breakdown by FTE



Waste			2013-14	2014-15	2015-16	2016-17	2017-18
Non-financial indicators (tonnes)	**Target**		**68**	**63.75**	**63.75**	**63.75**	**63.75**
	Total waste		114	102	106	65	49
	Total waste per FTE		0.12	0.10	0.11	0.07	0.05
	Hazardous waste		-	-	1	-	-
	Non-hazardous waste	Reused/ recycled	93	81	84	54	40
		Incinerated/ energy from waste	21	21	21	11	9
Financial indicators	Total disposal cost		£23,592	£24,477	£21,985	£19,442	£29,486

Accountability Report

Corporate Governance Report

Directors Report

Executive members of the Authority who served during the year

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

Rachel Fletcher, senior partner, Consumers and Competition, was appointed in January 2016 and left Ofgem and the Authority in January 2018. Dr Andrew Wright, senior partner, Energy Systems, was appointed in January 2008. He is an advisory board member of Durham University Energy Institute. Dr Wright will be departing Ofgem in 2018.

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

David Gray joined in October 2013 as non-executive chairman. His appointment ends in September 2018. He is a non-executive director of the Civil Aviation Authority, and a Governor of the Central School of Ballet.

Christine Farnish joined in January 2016. Her appointment ends in January 2021. She is a non-executive director of Ofwat, a non-executive on the Zopa Group Board and chair of Zopa ltd (Zopa's peer-to-peer lending business), a consumer advisory board members at Fairer Finance and a panel member on the Advisory Panel representative action case against google.

Professor David Fisk CB joined in July 2009. He was reappointed in June 2012 and his appointment ended in May 2017. He is Emeritus Professor of Systems Engineering and Innovation at Imperial College, London and is a Council Member of the Chartered Institution of Building Services Engineers.

Professor Paul Grout joined in October 2012. His appointment ends in September 2022. He has a Chair in Political Economy at the University of Bath, is chair of the expert advisory group for National Lottery 4 at the Gambling Commission and is the Senior Advisor for Competition at the Bank of England.

Dr Nicola Hodson joined in March 2015. She left the Authority in June 2017. She is Vice President of Global Sales and Marketing – Field Transformation at Microsoft UK. In addition, she is a board member at Tech UK, and a council member of City University.

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

Keith Lough joined in October 2012. His appointment ends in September 2022. He is a non-executive director, and the Senior Independent Director, of Rockhopper Exploration Ltd. He is also a non-executive director of Cairn Energy plc, and non-executive chairman of Gulf Keystone Petroleum plc.

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

Other significant interests held by Authority members

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

Audit arrangements

The Comptroller and Auditor General, who has been appointed under statute and reports to Parliament, has audited the resource accounts. The notional cost of auditing the resource accounts and trust statement was £64,000 (2016-17: £56,000). There was no auditor remuneration, actual or notional, for non-audit work.

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

Our internal audit service independently measures and evaluates how adequate, reliable and effective our management and financial control systems are. It makes recommendations and gives the accounting officer an assurance report each year. We have outsourced the internal audit function to make sure we get independent and professional analysis and recommendations. We re-appointed Deloitte to this role on 1 April 2015, after a competitive tender. The current contract is due to end on 30 June 2019.

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

Budgets and liquidity

Parliament approves our budget, after we have consulted with the industry and other interested parties. For 2017-18 Parliament approved through the Main Estimate:

- a gross resource budget of £93.4 million
- a capital budget of £5.239 million
- a net cash requirement of £7.130 million (revised to £10.660 million in the Supplementary Estimate).

Reconciliation between estimate and budget

	2017-18 £000	2016-17 £000
Net resource outturn (estimate)	702	15,207
Net operating costs (accounts)	596	630
Resource budget outturn (budget)	596	630
Of which:		
Departmental expenditure limits	596	630
Annually managed expenditure	-	-

We drew down a contingency fund advance of £20.0 million in April 2017 to provide short-term liquidity until we started receiving licence fees. We repaid this in full in September 2017.

The net cash requirement outturn of £0.569 million is lower than the estimate net cash requirement of £10.660 million. The difference between estimate and outturn is due to capital expenditure being below anticipated and additional income from licence fees & other income streams.

Finance and provisions

Total provisions amounted to £1.068 million as at 31 March 2018. We have provided for voluntary exit payments, dilapidations, and the ongoing costs of early retirements that have occurred in previous financial years.

In 2003, we outsourced statutory examining and testing services to SGS UK Ltd (our laboratories at Leicester had provided those services until then). Some costs of this change, particularly redundancy and continuing pension liabilities, have fallen to us. We had to make provisions in 2003-04 that now total £0.164 million.

A number of voluntary exit payments totalling £0.504 million have been agreed as a result of an internal reorganisation.

The agreement for the Lower Ground Glasgow Cornerstone states Ofgem will be liable for dilapidation cost. The provision totals £0.029 million. The agreement for the new Glasgow Commonwealth House lease states Ofgem will be liable for dilapidations cost. The provision totals £0.368 million.

A provision for onerous lease of £0.032 million was recognised for lower floor Glasgow Cornerstone.

In total we have provided £0.754 million during 2017-18. Our statement of financial position at 31 March 2018 shows taxpayer's equity of £5.880 million.

Improving our supply chain

Environmental procurement

Our Procurement team makes buying decisions based on best value for money (which incorporates environmental sustainability criteria) and we continually search for ways in which we can buy sustainably.

Our processes conform to the Standard of Excellence Certification of the Chartered Institute of Procurement and Supply having achieved certification previously.

Quicker creditor payment

We are signed up to the Better Payment Practice Code set by the Better Payment Practice Group, a forum of business community members and government representatives. This means we pay bills within 30 days (or another agreed period) of receiving either goods or services, or an invoice, whichever is later. In 2017-18 we paid 99.93% of all undisputed bills inside this timeframe.

In 2008, the government challenged departments to pay all suppliers within ten working days. This year we paid 95% of undisputed bills inside this timeframe. For amounts contractually due and invoiced by 31 March 2018, the outstanding number of days' purchases is 3.0 days.

Reports to the Parliamentary Ombudsman

In 2017/18, the Parliamentary and Health Service Ombudsman (PHSO) received 41 new enquiries about Ofgem, and accepted 9 complaints for investigation. The PHSO completed 11 investigations[4], of which 4 were upheld and 7 partly upheld. 3 further investigations were discontinued, and 1 resolved without the need to complete the investigation.

Dermot Nolan
Accounting officer

21 June 2018

[4]The number of complaints the Parliamentary Ombudsman accepts for investigation in a financial year differs from the number of investigations that are completed in that same year.

Statement of the accounting officer's responsibilities

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

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going-concern basis.
- confirm that, as far as he is aware, there is no relevant audit information of which Ofgem's auditors are unaware, and that all steps have been taken to make himself aware of relevant audit information, and to establish that Ofgem's auditors are aware of that information.
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

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

Governance statement

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

Who's part of the Authority?

How appointments are made

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

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

How the Authority works

The Authority meets formally 10 times a year. In addition, Authority members also attend regular informal briefing sessions to allow high level review of developing issues and serve on the Authority's committees, details of which are below.

In 2017-18, the chair again reviewed the individual performance of Authority members, looking at their contributions to the Authority's work. The other non-executive members set objectives for the chair after discussion with him and reviewed his performance against these objectives.

The Authority reviews the activities, plans and performance of the organisation against its strategic objectives and reviews the activities and priorities of its principal support functions on a six-monthly basis.

The activities and priorities of E-Serve are reviewed by the Authority, following a report from the E-Serve Board, three times a year. The Authority also reviews Ofgem's strategic risks, that is, those risks most consequential to Ofgem's strategy, on a twice-yearly basis.

In December 2014 we published our corporate strategy setting out how we aim to make the most of our resources and powers to make a positive difference for current and future consumers over the following few years. We review our strategy every year, with a more fundamental review every five years or so to make sure it is flexible enough to adapt to changes in the world around us. Every year we publish our Forward Work Programme following consultation and stakeholder engagement. We published our draft Forward Work Programme for 2018-19 in November 2017 for consultation and published the final plan in March 2018.

Following a review of the Authority in 2017 the Authority decided to refocus some of its discussions to enable more holistic and cross cutting issues to be discussed. This has resulted in the removal of the individual divisional reports every six months. Instead the Authority considers the joint executive review of the external factors driving the landscape every four months and a full review of the overall programme of medium and longer term work every six months alongside the capability and health of the organisation every six months. In addition, the Authority takes decisions on specific major regulatory issues that have not been delegated to committees or executives.

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

Members	The Authority	Audit and Risk Assurance Committee	E-Serve Board	Remuneration Committee	RIIO 2 Committee
Christine Farnish	9/10	-	1/1	4/4	1/1
David Fisk	2/2	-	-	-	-
David Gray	10/10	-	-	-	-
Jim Keohane	7/8	1/1	3/3	3/3	-
Keith Lough	10/10	4/4	-	-	-
Nicola Hodson	3/3	-	1/1	-	-
Paul Grout	10/10	4/4	-	4/4	1/1

The Authority met in Cardiff on 15 March 2018, using the occasion to meet local political representatives, consumer groups and energy stakeholders in the public and private sectors.

Meetings with interested parties took place the day before the main meeting, allowing the Authority to debate current topics such as the future of local energy in Wales with stakeholders.

What committees does the Authority have?

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

Audit and Risk Assurance Committee

This committee advises the Authority and the accounting officer, where it concerns them, on anything that affects our financial health, financial reporting, probity, reputation or wider risk management and governance system. The committee also looks at any aspect of the business that may impinge on the strategic objectives and effective functioning of Ofgem and oversees our Spending Review 2015 cost control regime.

This year the committee's work included:

- receiving reports from both internal and external audit
- receiving reports and monitoring actions taken to address weaknesses arising from assurance reports, that have been brought to the attention of the Committee by any other Authority Sub-Committee or the Executive
- receiving reports on IT security in the organisation, in particular to review and advise as to the adequacy of cyber-security, anti-fraud and whistleblowing policies and processes, and the actions taken by the organisation in response to adverse incidents.

The Committee met four times in 2017-18. Keith Lough chairs the committee; the other non-executive member is Paul Grout.

E-Serve Board Committee

This committee advises the Authority on the effectiveness and efficiency of E-Serve in delivering its relevant activities. In particular, it reviews and makes recommendation to the Authority on E-Serve's strategy and overall budget, significant new activities to be performed by E-Serve and major changes to existing activities. It provides assurance to the Authority on performance of those activities. It is chaired by the chief executive and its members include the managing director of E-Serve, non-executive directors. The Board met four times in 2017-18.

Enforcement Decision Panel

The Enforcement Decision Panel (EDP) is in place to take important decisions in contested enforcement cases on behalf of the Authority. EDP members are dedicated specialists, who provide a visible separation between the investigation and decision-making functions. The chair of the EDP is John Swift QC. Members of the EDP also chair Enforcement Settlement Committees (see next section).

Enforcement Decision Panel (EDP) Remuneration

Panel members are remunerated to the value of £1000 pd. The Chair of the Panel receives £1500pd. As employees of Ofgem, they are only entitled to claim expenses related to business activity.

Each member is guaranteed a minimum of five days' payment in each year, although commitments vary according to caseload.

Enforcement Settlement Committees

Enforcement Settlement Committees may be established to decide whether to authorise a settlement procedure in respect of an investigation under the Competition Act 1998 or in respect of alleged contraventions under various sections of the Gas Act 1986, the Electricity Act 1989 and other legislation. Committees are appointed separately for each case and comprise two members of the EDP nominated by the chair of the EDP as well as a Senior Civil Servant nominated by the chair of the Authority. For more details on the EDP please see the EDP pages on the Ofgem website https://www.ofgem.gov.uk/about-us/how-we-work/our-approach-regulation/enforcement-decision-panel.

Europe Committee

The Authority has become more strategic and considers more issues in the round. As most significant European issues are integral to Ofgem's work it was felt that they should be treated as such by the Authority and that there was no longer a need for a separate Europe Committee. A number of issues, such as the impact of Brexit preparations, progress of new European legislation and interconnector developments were discussed by the Authority.

Lord Mogg completed his tenure as president of the Council of European Energy Regulators and chairman of the EU's Agency for the Cooperation of Energy Regulators and left Ofgem's employ as EU adviser at the end of 2017. The Chairman wishes to thank Lord Mogg for his significant contribution to Ofgem.

Remuneration and People Committee

This committee, chaired by Christine Farnish, advises the Authority on performance and reward issues of members of the Senior Civil Service within Ofgem and considers and advises on other people related issues as required by the Authority. For details of the committee's members, its role, and senior staff salary and pension entitlements, see the remuneration report later in this section.

How is the Authority's performance measured?

Following the external review of the Board in early 2017, the Board has looked to incorporate more time for strategic discussions and reviewing progress in a more holistic manner than previously. An internal review of board effectiveness was conducted in March 2018 and showed an increase in overall effectiveness.

Executive governance framework

Senior Leadership Team

The Senior Leadership Team supports the chief executive in the day-to-day running of Ofgem. It is made up of all the executive members shown in the remuneration report. They meet weekly and decide on everything relating to management and resources, subject to the Authority's overall control.

Governance Framework

Our executive governance framework focuses on leadership and strategy, high quality and faster decision making and ensuring we use our resources to benefit consumers efficiently and effectively. There was a review of Ofgem's governance in 2017 and from 1 September a new more streamlined structure of boards was put in place.

Regulatory Board

The Regulatory Board ensures the appropriate scrutiny of regulatory decision-making in the organisation, provides early stage guidance on policy matters and provides an SLT view on matters going to the Authority. The board is chaired by the chief executive.

Performance and Delivery Board

The Performance and Delivery Board assists the chief operating officer in determining how Ofgem is performing against its strategic objectives and enables the SLT to discuss the most strategic operational matters.

The Board is chaired by the chief operating officer.

Management Committee (for E-Serve)

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

E-Serve Risk Assurance Committee (ERAC)

This is a new committee chaired by a non-executive from the E-Serve Board. It meets monthly and its members are from E-Serve. It is there to manage risk in E-Serve and give an additional layer of assurance to ARAC and the E-Serve board.

E-Serve Operations Board

This is chaired by the chief operating officer of E-Serve and its members include all E-Serve team heads. It meets once a month and decides on everything relating to operations in in E-Serve subject to the Authority's overall control.

Risk management framework

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

This framework describes:

- the mechanisms we employ to manage risk
- how we identify, assess and manage risk
- the importance of risk management in delivering positive outcomes for consumers
- details of roles and responsibilities for managing risk
- guidance and resources on risk management.

Risk management is integral to our policymaking, planning and delivery. Senior management have specific objectives for risk management in their area.

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

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

Risk and control

During 2017-18, energy policy again remained high on the political and consumer agenda; consumers are understandably concerned about increases to their energy bills.

To ensure that all of our work is focused on delivering better outcomes for consumers, we published our strategy in December 2014 and, following consultation, our Forward Work Programme for 2018-19 was published on 28 March 2018. Protecting and making a positive difference for British energy consumers is our central objective, and everything we do feeds into this. Our focus is on delivering better outcomes for consumers, including lower bills, reduced environmental damage, improved reliability and safety, better quality of service and benefits for society as a whole.

As well as our core business activities which are central to us fulfilling our role as regulator and continuing to deliver government environmental schemes effectively and efficiently, over the course of the year we oriented our planned work towards five key objectives:

1. **enabling a better functioning retail market**
2. **facilitating change in the energy system**
3. **learning from the first RIIO framework and setting up RIIO-2 for success**
4. **introducing competition into monopoly areas**
5. **being an authoritative source of quality analysis**

We recognised and embraced risk management as a way to tackle the challenges that these objectives presented and we have sought to establish sensible and proportionate risk management procedures in all areas of our work. Our managers see risk management as an integral part of their job, and the Senior Leadership Team keep Ofgem's top risks under review.

As reported last year, in January 2017 the Minister for Finance of the Northern Ireland Executive established a public inquiry[5] to consider the Northern Ireland Non-Domestic Renewable Heat Incentive scheme (NI NDRHI) to consider the design, governance, implementation and operation, and efforts to control the costs of the scheme. As scheme administrator, we continue to engage with the Inquiry on any issues raised that relate to our role in the NI NDRHI scheme.

Subsequent to the establishment of the NI NDRHI Inquiry, in 2017 the National Audit Office assessed[6] the value for money of the Great Britain Renewable Heat Incentive (GB RHI) schemes which are also administered by Ofgem. The NI NDRHI scheme does not fall within the scope of this report. The NAO report was published in February 2018 and concluded that the Department for Business, Energy and Industrial Strategy (BEIS) showed flexibility in rolling out the scheme, adjusting scheme objectives to respond to a changing strategy and overly optimistic initial planning assumptions. Measures introduced to control the scheme's costs avoided problems that arose in the Northern Ireland scheme. However, the report concluded overall that the GB RHI schemes have not achieved value for money. BEIS does not have a reliable estimate of the amount it has overpaid to participants that have not complied with the regulations, nor the impact of participants gaming them, which could accumulate to reduce the scheme's value significantly.

We welcome the NAO's report and both Ofgem and BEIS are learning lessons for the future which will contribute to a government decision on a successor policy to the RHI due to be announced in 2018.

On 26th February 2018 the Minister of State for Energy and Clean Growth introduced a Domestic Gas & Electricity (Tariff Cap) Bill[7] to Parliament. The Bill makes provision for the imposition of a cap on rates charged to domestic customers for the supply of gas and electricity and requires Ofgem to put in place an absolute cap on Standard Variable Tariffs (SVT) until at least 2020, when we'll then recommend to Government whether the cap should be extended on an annual basis up to 2023. The cap will apply to 11 million households in England, Scotland and Wales and the Government hopes it will be in place by winter 2018. Our number one priority is to protect consumers and we share the Government's concern that the market is not working for all consumers, especially the vulnerable. We also share the government's ambition to better protect consumers on poor value deals. We worked extensively with Government on the draft Bill's design and pre-legislative scrutiny and will continue to work with Government as the Bill makes its legislative passage through Parliament and comes into force.

It should be noted that these significant developments took place during a period when three members of the Authority left, with replacements not yet appointed. This situation has placed additional weight on the current non-executives. We are confident that this situation will be rectified shortly as a recruitment campaign is in progress.

Internal risks and mitigations

Sir Nicholas Macpherson's 2013 review of quality assurance of government analytical models recommended that the Accounting Officer's governance statement within the annual report should confirm that an appropriate QA framework is in place and is used for all business-critical models. We can confirm that Ofgem has implemented a modelling QA framework in line with the recommendations of the Macpherson review and has a rolling programme of model QA for its business-critical models.

Following a pilot in 2016 and in anticipation of our office relocations in both London and Glasgow in 2018, in 2017 we commenced implementation of our Greater Working Environment (GWE) programme. This is in line with Government's The Way We Work strategy (TW3) – creating a decent working environment for all staff, with modern workplaces enabling flexible working, substantially improving IT tools and streamlining security requirements to be less burdensome for staff. Smarter working

[5] https://www.rhiinquiry.org/
[6] https://www.nao.org.uk/report/low-carbon-heating-of-homes-and-businesses-and-the-renewable-heat-incentive/
[7] https://services.parliament.uk/bills/2017-19/domesticgasandelectricitytariffcap.html

has become common in recent years across both the private and public sector. TW3 is a Cabinet Office led programme and all government departments have started smarter working strategies. Our GWE programme has allowed us to relocate our operations to alternative properties in London and Glasgow in line with government occupancy guidelines, improve our working practices and ensure we have fit-for-purpose technology.

During August 2017, a physical relocation of Ofgem I.T. hardware equipment & data servers between two off-site facilities was carried out. A significant I.T. outage occurred when the hardware was restarted. This led to disruption to key business systems and services between 12-18 August 2017. An internal review was conducted and enhancements have been implemented to our IM&T and Business Continuity processes.

The HMT document on managing public money says that it is good practice for Arm's Length Bodies (ALBs) to include a professionally qualified finance director on their Board. The Chair of ARAC is a professionally qualified accountant, and the Chief Operating Officer, who is supported by a professionally qualified finance team, is also on the Board. We are content that these arrangements ensure that the view of finance is well represented at Board level and there are sufficient senior voices to provide oversight and who understand the importance of driving value by putting finance at the heard of decision making.

HMT and Cabinet Office Corporate Governance Code

We recognise the value of good corporate governance and comply with the principles of the HMT and Cabinet Office Corporate Governance Code[8] for central government departments. The only exception is that the Code requires boards to be chaired by the lead minister. As a non-ministerial government department and an independent national regulatory authority, with Authority members appointed by the Secretary of State, the Authority has a non-executive chairman instead.

Last year, we contributed to the Committee on Standards in Public Life (CSPL) report "Striking the Balance" on the upholding of the Seven Principles of Public Life in Regulation (the so-called Nolan principles). Throughout the year we have continued to work to ensure that our own behaviours as a regulator are as practically consistent with the committee's best practice recommendations for regulatory bodies.

The Government published the first UK Anti-Corruption Plan in 2014 and has since published a bribery and corruption risk assessment for Government departments, aligned with the Cabinet Office fraud risk assessments. We have completed it. The Authority and Ofgem senior management are committed to preventing bribery and corruption by everyone associated with Ofgem and to fostering a culture in which bribery and corrupt activity are never acceptable.

In 2018 we signed a Cabinet Office Memorandum of Understanding on internal fraud policy which is agreed between participating departments and seeks to reduce losses from internal fraud in government. The memorandum sets out our approach to the Cabinet Office Internal Fraud Policy. Its purpose is to protect the civil service and the public purse against loss caused by internal fraud and to introduce a strong deterrent against this form of misconduct.

Data quality

We collect and analyse a lot of financial and other data to inform our regulatory decisions and to create transparency on the workings of the energy market to consumers, market participants, and other interested parties.

The Authority considers that this information is generally of good quality. Data used to inform regulatory decisions is kept under constant review against a background of continuing change in the relevant markets, and quantitative analysis undergoes quality assurance by the Office of the Chief Economist.

During 2017 we established a Data Services project to transform how we manage and exchange data with our data users and stakeholders to ultimately benefit consumers and reduce the regulatory burden on industry. The project will also examine our governance, processes and policies on data capture and exchange. This is an exciting piece of work for us to transform the way we operate in the energy industry.

Personal data incidents

We have a data security policy to keep all official information private and secure. During 2017, four minor erroneous data disclosure incidents occurred as part of our administration of the Energy Company Obligation scheme. The data was very limited in volume but shared within a secure and closed environment. The suppliers concerned were immediately informed and deleted the data from their systems. As an outcome of our internal review, we have updated and further strengthened our standard operating procedures and are looking to implement further enhancements to our IT solutions for administering the scheme.

The General Data Protection Regulation (GDPR) 2016 has applied from 25 May 2018 and, along with the Data Protection Act 2018, forms a new data protection regime superseding the Data Protection Act 1998. In preparation, we examined what the changes mean for us, conducted a data audit and review of our privacy notices and policies, and established a staff training and communication programme to help staff understand their responsibilities under the new regime.

The accounting officer's review of effectiveness

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

In internal audit reviews undertaken during 2017-18 and prior years, the internal auditors made 32 recommendations that had a due date for implementation before 31 December 2017. Of these, as at April 2018, satisfactory progress had been made with 20 out of the 32 recommendations either implemented or substantially complete, a further eight recommendations in progress, with three recommendations outstanding and one recommendation where management have accepted the risk.

On the basis of the work completed in the internal audit plan for the year ended 31 March 2018 as approved by the Audit and Risk Assurance Committee internal auditors provided Ofgem with a reasonable level of assurance that the arrangements and systems for risk, control and governance provide for the effective and efficient achievement of Ofgem's objectives.

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

- The Authority reviewed our strategic risks in July 2017 and February 2018
- The Senior Leadership Team, the Management Committee (for E-Serve) and the Audit and Risk Assurance Committee reviewed our strategic risks.
- E-Serve's Risk and Fraud Management Group met each month to initiate and review work related to fraud prevention and detection, and to make sure we were properly managing suspected cases of fraud, misreporting or money laundering
- Assurance: We established a new, wide-ranging assurance function to add additional strength to our risk management, compliance oversight and audit functions across our delivery portfolio.
- The chief operating officer and associate director of finance and risk management regularly met senior partners and managing directors individually to review resources and progress towards objectives, and to identify and evaluate the associated risks
- We updated our governance statements to require partners and directors to consider and report on all aspects of financial and risk management and other governance control issues in their area

No significant problems with our governance system came up during the financial year. We announced a new organisational structure in February 2018 and the governance system for 2018-19 will be amended to reflect this.

Dermot Nolan
Accounting officer

21 June 2018

[8] https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017

Remuneration and staff report

Remuneration and People Committee

The Committee's role includes agreeing the performance objectives of the Chairman of the Authority, and advising on objective setting and performance issues for the CEO and SLT members. It also considers and approves the remuneration, bonus and compensation packages payable, beyond standard, to the CEO and SLT members.

Wider roles performed by the Committee include reviewing the performance and reward structures for senior level staff, and having regard to succession planning, conflicts of interest, expense policy approvals and compliance with Civil Service Business Appointment Rules. The Committee also provides advice to the Chairman and Chief Executive, as appropriate, on people-related issues.

Remuneration policy

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

Each senior level employee is eligible to participate in a bonus scheme that is in line with Senior Salaries Review Body recommendations. The bonus is based on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

During 2016-17 we considered the feasibility of introducing clawback provision of senior level bonuses. It was decided, owing to the size of the bonus payments and the lack of such provision across the wider civil service, to keep this under annual review.

Service contracts

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

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

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

Remuneration (including salary) and pension entitlements

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

The salary, the bonus payments and the value of any taxable benefits in kind of the most senior members of Ofgem (not all of whom are Authority members) in 2017-18 are shown in the table overleaf.

Single total figure of remuneration

	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000)‡		Total (£000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Senior executive members of Ofgem										
Dermot Nolan Chief Executive	195-200	190-195	-	15-20	-	–	36,000	34,000	230-235	240-245
Jonathan Brearley Senior Partner (from May 2016)	140-145	115-120	-	-	-	-	56,000	45,000	200-205	160-165
Sarah Cox Chief Operating Office from May 2016	135-140	110-115	-	-	-	-	67,000	46,000	200-205	155-160
Martin Crouch Senior Partner	140-145	140-145	-	-	-	-	45,000	74,000	185-190	215-220
Rachel Fletcher Senior Partner to January, 2018*	115-120*	140-145	-	15-20	-	–	34,000	42,000	150-155	200-205
Rob Salter-Church Acting Senior Partner from January 2018*	30-35*	-	-	-	-	-	46,000	-	75-80	-
Dr Andrew Wright Senior Partner	190-195	195-200	-	-	-	–	29,000	28,000	215-220	220-225
Chris Poulton Acting Managing Director	135-140	140-145	-	15-20	-	-	49,000	17,000	185-190	175-180
Patricia Dreghorn Director	120-125	-	-	-	-	-	47,000	-	165-170	-
Non-executive members of the Authority										
David Gray Chairman	160-165	160-165	-	–	-	–	-	–	160-165	160-165

* Annual equivalent basic salary (excluding performance pay):

Rachel Fletcher	145-150
Rob Salter-Church:	105-110

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

Other non-executive members of the Authority who were paid	2017-18		2016-17	
	Honorarium	Allowance	Honorarium	Allowance
Christine Farnish	£20,000	£3,000	£20,000	-
David Fisk (to May 2017) *	£3,000	-	£25,000	-
Paul Grout	£20,000	-	£20,000	-
Nicola Hodson (to July 2017) *	£7,000	-	£20,000	-
Jim Keohane (to January 2018) **	£21,000	-	£25,000	-
Keith Lough	£20,000	£3,000	£20,000	£3,000

* Annual equivalent £20,000 ** Annual equivalent £20,000

Non-executive members have fixed-term appointments, normally for up to five years. These appointments are renewable. Information on appointment dates is on page 36. Remuneration and appointments are set by the Secretary of State for Business, Energy and Industrial Strategy after consulting the chairman. Their remuneration is by payment of an honorarium plus an additional allowance for chairing any Authority committees. They aren't entitled to performance-related pay or a pension. Compensation for early termination is at the discretion of the Secretary of State. The non-executive chairman of the Authority, David Gray, has an appointment that started on 1 October 2013 and lasts for five years.

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

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

Salary

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

Bonuses

In 2017-18 there were 697 (2016-17: 679) staff who received a bonus. The average bonus payment was £1,238 (2016-17: £1,357) and the total amount paid in bonuses equalled £862,907 (2016-17: £921,403). Four individuals (2016-17: three) received the largest bonus payment which was £12,500 (2016-17: £15,000).

Bonuses are based on performance levels and are made as part of the appraisal process. The bonuses reported in 2017-18 relate to performance in 2016-17. The bonuses reported for 2016-17 relate to performance in 2015-16.

Pay multiples

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

The information below has been subject to external audit.

The banded remuneration of our highest-paid director in 2017-18 was £195,000-£200,000 (2016-17: £205,000-210,000). This was 4.73 times (2016-17: 5.22) the median remuneration of the workforce, which was £41,782 (2016-17: £40,000).

In 2017-18 no (2016-17: none) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £10,000 to £195,757 (2016-17: £8,840 to £208,819).

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

The average number of permanently employed staff decreased in 2017-18. The increase in the pay multiple reflects the fact that this decrease was concentrated in staff at the lower grades, resulting in a higher median remuneration compared to 2016-17.

Pension Benefits

	Real increase in pension and related lump sum at age 60	Accrued pension at age 60 at 31 March 2018 and related lump sum	Cash equivalent transfer value at 31 March 2018	Cash equivalent transfer value at 31 March 2017	Real increase in cash equivalent transfer value	Employer's contribution to partnership pension account
Pension benefits	**£000**	**£000**	**£000**	**£000**	**£000**	**Nearest £1000**
Senior executive members of Ofgem						
Dermot Nolan Chief executive	-	-	-	-	-	36
Jonathan Brearley Senior partner (from May 2016)	2.5-5	5-10	58	25	21	-
Sarah Cox Chief Operating Officer (from June 2016)	2.5-5	30-35	470	402	37	-
Martin Crouch Senior partner	2.5-5	35-40	529	477	15	-
Rachel Fletcher Senior partner	0-2.5	30-35	516	469	27	-
Rob Salter-Church Acting Senior Partner from January 2018	2.5-5	25-30	286	252	13	-
Dr Andrew Wright Senior partner	-	-	-	-	-	29
Senior executive members of Ofgem E-Serve						
Chris Poulton Acting managing director	22.5-25	20-25	193	-	9	-
Patricia Dreghorn Director	2.5-5	0-5	46	16	20	-

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher).

From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

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

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

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

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

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

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

Staff report

(The information below has been subject to external audit)

Average number of people employed

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

			2017-18 £000	2016-17 £000
	Permanently employed staff	Others	Total	Total
Regulatory	366	35	**401**	**434**
E-Serve	241	32	**273**	**357**
Corporate Services	117	25	**142**	**180**
Total	**724**	**92**	**816**	**971**

There was an average of 43 whole-time equivalent people in the SCS grade during the year. Of these 24 were in payband 1, 15 in payband 2, and 4 in payband 3.

Staff Costs

Staff costs comprise			2017-18 £000	2016-17 £000
	Permanently employed staff	Others	Total	Total
Wages and salaries	38,767	5,453	44,220	46,424
Social security costs	4,389	-	4,389	4,544
Other pension costs	7,723	-	7,723	7,995
Other staff costs	21	-	21	330
Apprenticeship Levy (tax expense)	170	-	170	-
Total	**51,070**	**5,453**	**56,523**	**59,293**

Reporting of civil service and other compensation schemes – exit packages

(The information below has been subject to external audit)

Exit package cost band	2017-2018			2016-2017		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,001	0	3	3	0	0	0
£10,001 - £25,000	0	3	3	0	0	0
£25,001 - £50,000	0	2	2	1	0	1
£50,001 - £100,000	0	7	7	1	0	1
£100,001 - £150,000	0	1	1	0	0	0
£150,001 - £200,000	0	0	0	0	0	0
Total number of exit packages	0	16	16	2	0	2
Total cost £000	**0**	**808**	**808**	**116**	**0**	**116**

We have paid redundancy and other departure costs in accordance with the provision of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. We account for exit costs in full when the early retirement programme becomes binding but actual dates of departure may fall in the following reporting period. Where we have agreed early retirements we, not the Civil Service Pension Scheme, meet the additional costs. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Employee involvement

This year our staff engagement survey received a response rate of 88%, and an engagement index of 59%, a decrease of two percentage points on 2017.

Our staff also continue to find their roles interesting (87%) and challenging (77%), and would recommend Ofgem as a great place to work (50%).

Single Equalities Scheme

In our dual role as an employer and a regulator, we are committed to meeting our legal obligations and promoting equality and diversity among our workforce, in the way we work and in the industry we regulate. To this end, in 2013 we published our Single Equalities Scheme (SES). This sets out our approach to our staff, internal processes, policy development and decision-making. We are reviewing the scheme during 2018.

Equal opportunities

We promote equality and diversity at work – in employment, training and career development. Nobody should suffer discrimination because of age, disability, gender reassignment, pregnancy or maternity, race, religion or belief, sex or sexual orientation. We don't tolerate discrimination, bullying or harassment. Our score for inclusion and fair treatment in the 2017 staff engagement survey was 77%.

In 2017, Ofgem has continued to support our diversity networks covering women, LGBT+, ethnicity and disability.

In 2017-18 we continued to provide diversity and unconscious bias training to staff. This is part of our commitment to ensuring that in everything they do our staff understand and fulfil their obligations under the Equality Act. At the end of the financial year:

- 2.1% (2016-17:2.4%) of staff were known to have a disability.
- 45% (2016-17:47%) of staff were women.
- 46% (2016-17:45%) of staff in managerial grades were women.
- 35% (2016-17:35%) of Senior Civil Service members in Ofgem were women.
- 18% (2016-17:18%) of staff were known to be of ethnic minority origin.
- 71% (2016-17:62%) of staff known to be of ethnic minority origin were in managerial grades.

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

Investing in learning and development

We really value our people. Giving them opportunities to learn new skills and develop their careers helps us retain them and attract new people in a number of ways.

In 2017-18, our areas of focus were on developing leadership and line management skills.

Community engagement

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

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

We continue to work with Career Ready and have staff giving 16-19 year-olds' one-to-one support and guidance through the mentoring scheme. In 2017, we offered three, six-week summer internship placements in London and two four-week summer internship placements in Glasgow.

Promoting health and safety at work

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

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

Days lost because of absence

In 2017-18, we lost an average of 4.9 days a year per employee (2016-17: 4.6 days). This compares favourably with the central government sector average of 7.9 days a year per employee, and the all sector average of 5.5 days.

Review of tax arrangements of public sector appointees

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

Information on current off-payroll appointees is at Appendix IV on page 107.

Dermot Nolan
Accounting officer

21 June 2018

Parliamentary Accountability and Audit Report

Statement of Parliamentary Supply

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

Summary of resource and capital outturn 2017-18

	2017-18 £000							2016-17 £000
	Estimate			Outturn				Outturn
	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with estimate: saving	Total
Departmental expenditure limit								
Resource	702	-	702	596	-	596	106	630
Capital	5,239	-	5,239	2,325	-	2,325	2,914	1498
Annually managed expenditure								
Resource		-			-			-
Capital		-			-			-
Total budget	5,941	-	5,941	2,921	-	2,921	3,020	2,128
Non-budget								
Resource		-			-			-
Total	**5,941**	**-**	**5,941**	**2,921**	**-**	**2,921**	**3,020**	**2,128**
Total resource	702	-	702	596	-	596	106	630
Total capital	5,239	-	5,239	2,325	-	2,325	2,914	1498
Total	**5,941**	**-**	**5,941**	**2,921**	**-**	**2,921**	**3,020**	**2,128**

		2017-18 £000	2017-18 £000		2016-17 £000
		Estimate	Outturn	Outturn compared with estimate: saving	Outturn
Net cash requirement	**SopS3**	10,660	569	10,091	7,729

	2017-18 £000	2017-18 £000		2016-17 £000
Administration costs	Estimate	Outturn	Saving	Outturn
	702	596	106	630

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

SoPS1 Net outturn

SoPS1.1 Analysis of net resource outturn by section

	2017-18 £000					2016-17 £000
	Outturn			Estimate		
	Gross	Income	Net total	Net total	Net total compared with estimate	Total
Spending in Departmental Expenditure Limits						
A Gas and Electricity Markets Authority: administration	42,156	(42,156)	-	-	-	-
B Ofgem E-Serve: administration	47,884	(47,288)	596	702	-	630
Total	**90,040**	**(89,444)**	**596**	**702**	**-**	**630**

SoPS1.2 Analysis of net capital outturn by section

	2017-18 £000					2016-17 £000
	Outturn			Estimate		Outturn
	Gross	Income	Net total	Net total	Net total outturn compared with estimate	Total
Spending in Departmental Expenditure Limits						
A Gas and Electricity Markets Authority: administration	2,325	-	2,325	5,239	2,914	1498
B Ofgem E-Serve: administration	-	-	-	-	-	-
Total	**2,325**	**-**	**2,325**	**5,239**	**2,914**	**1498**

SoPS2 Reconciliation of outturn to net operating cost

		2017-18	2016-17
	Note	£000	£000
Total resource outturn in Statement of Parliamentary Supply	SoPS1.1	596	630
Net operating costs in Statement of Comprehensive Net Expenditure		**596**	**630**

SoPS3 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/(excess)
		£000	£000	£000
Resource outturn	SoPS1.1	**702**	**596**	**106**
Capital outturn	SoPS1.2	**5,239**	**2,325**	**2,914**
Accruals to cash adjustments:				
▪ Depreciation	4	(2,400)	(1,292)	(1,108)
▪ New provisions and adjustments to provisions	4	-	(773)	773
▪ Other non-cash items	4	(53)	(259)	206
▪ Movement in working capital		7,022	(306)	7,328
▪ Use of provision	13	150	278	(128)
Net cash requirement		**10,660**	**569**	**10,091**

SoPS4 Analysis of income payable to the consolidated fund

We collected no consolidated fund income in 2017-18. This does not include any amounts we collected while acting as agent of the consolidated fund rather than as principal. Full details of income collected as agent for the consolidated fund are in the department's trust statement, published separately from but alongside these financial statements.

Other areas of Parliamentary Accountability

(The information below has been subject to external audit)

Ofgem has nothing to report in respect of:

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

Dermot Nolan
Accounting officer

21 June 2018

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

Opinion on financial statements

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Department's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability disclosures that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2018 and of the Department's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

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

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration and Staff report and Parliamentary Accountability disclosures described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am

required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

27 June 2018

Resource Accounts

Statement of comprehensive net expenditure for the year ended 31 March 2018

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

				2017-18 £000	2016-17 £000
	Note	Staff costs	Other costs	Income	
Administration costs					
Staff costs	3	56,523			59,293
Other administration costs	4		33,517		27,319
Operating Income	5			(89,444)	(85,982)
Totals				**596**	**630**
Net operating costs	2			**596**	**630**
Total expenditure				90,040	86,612
Total income				(89,444)	(85,982)
Net operating cost				**596**	**630**
Other comprehensive net expenditure					
Actuarial gain/(loss) on pension liabilities	13			43	(56)
Total comprehensive net expenditure				**639**	**574**

Statement of financial position as at 31 March 2018

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

	Note	2017-18	£000	2016-17	£000
Non-current assets:					
Property, plant and equipment	6	3,362		2,524	
Total non-current assets			**3,362**		**2,524**
Current assets:					
Trade and Other Receivables	11	18,368		15,590	
Cash and Cash Equivalents	10	6,561		21,305	
Total current assets			**24,929**		**36,895**
Total assets			**28,291**		**39,419**
Current liabilities:					
Trade and other payables	12	(20,540)		(32,200)	
Total current liabilities			**(20,540)**		**(32,200)**
Total assets less current liabilities			**7,751**		**7,219**
Non-current liabilities:					
Provisions	13	(1,871)		(1,419)	
Total non-current liabilities			**(1,871)**		**(1,419)**
Total assets less total liabilities			**5,880**		**5,800**
Taxpayers' equity:					
General fund		5,880		5,800	
Total taxpayers' equity			**5,880**		**5,800**

Dermot Nolan
Accounting officer

21 June 2018

Statement of cash flows for the year ended 31 March 2018

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

	Note	2017-18 £000	2016-17 £000
Cash flows from operating activities			
Net operating cost	SoPS1.1	(596)	(630)
Adjustments for non-cash transactions	4	2,324	1,981
(Increase)/Decrease in trade and other receivables	11	(2,778)	(4,694)
Increase/(Decrease) in trade payables	12	(11,660)	(16,429)
less movements in payables relating to items not passing through the SoCNE	12	14,744	4,050
Use of provisions	13	(278)	(111)
Net cash outflow from operating activities		**1,756**	**(15,833)**
Cash flows from investing activities		-	-
Purchase of property, plant and equipment	6	(2,325)	(1,498)
Proceeds of disposal of property, plant and equipment	6	-	-
Net cash outflow from investing activities		**(2,325)**	**(1,498)**
Cash flows from financing activities			
From the Consolidated Fund (supply) – current year		-	13,281
Advances from the Contingencies Fund		20,000	20,000
Payments to the Contingencies Fund		(20,000)	(20,000)
Net cash flow from financing activities		**-**	**13,281**
Net decrease in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(569)**	**(4,050)**
Payments of amounts to the Consolidated Fund		(14,175)	-
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(14,744)**	**(4,050)**
Cash and cash equivalents at the beginning of the period	10	21,305	25,355
Cash and cash equivalents at the end of the period	10	**6,561**	**21,305**

Statement of changes in taxpayers' equity for the year ended 31 March 2018

		General fund
	Note	£000
Balance at 31 March 2016		**(10,901)**
Non-cash charges - auditor's remuneration	4	56
Net operating cost for the year		(630)
Losses relating to pension liabilities	13	(56)
Net Parliamentary Funding - drawn down		13,281
Net Parliamentary Funding - deemed		15,755
Supply payable adjustment		(21,305)
Cash receipts from 2016-17 not due to the consolidated fund		9,600
Balance at 31 March 2017		**5,800**
Non-cash charges - auditor's remuneration	4	64
Net operating cost for the year		(596)
Gains relating to pension liabilities	13	43
Net Parliamentary Funding - drawn down		-
Net Parliamentary Funding - deemed		7,130
Supply payable adjustment		(6,561)
Cash receipts from 2017-18 not due to the consolidated fund		-
Balance at 31 March 2018		**5,880**

Notes to the departmental resource accounts

1. Statement of accounting policies

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

As well as the primary statements prepared under IFRS, the FReM requires us to prepare one additional primary statement. The SoPS and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement, and are included in the Parliamentary Accountability and Audit Report section starting on page 57.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

1.2 Property, plant, equipment and depreciation

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

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

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

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

1.3 Provisions

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

Where the time-value of money is material, we discount the provision to its present value using a discount rate of 0.1%, 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.

In this year's accounts, only the early retirement provision has been discounted as the impact of discounting the dilapidations and voluntary exit provisions is not material. 0.1% is the discount rate for post employment benefits.

1.4 Operating income

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

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

1.5 Foreign exchange

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

1.6 Pensions

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

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

1.7 Early departure costs

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

1.8 Value added tax

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

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

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

1.9 Operating leases

Rentals due under operating leases are charged to the statement of comprehensive net expenditure over the lease term on a straight-line basis, or on the basis of actual rentals payable which fairly reflects the usage.

Resource Accounts

1.10 Going concern

The Statement of Financial Position at 31 March 2018 shows a taxpayers' equity of £5.880 million. In common with other government departments, the future financing of our liabilities is to be met by future grants of supply and the application of future income, both to be approved annually by parliament. Approval for amounts required for 2018-19 has already been given and there is no reason to believe that future approvals will not be granted. We have therefore considered it appropriate to adopt a going-concern basis for the preparation of these financial statements.

1.11. Contingent liabilities

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

Where the time-value of money is material, contingent liabilities that we have to disclose under IAS 37 are stated at discounted amounts and the amount reported to parliament is noted separately. Contingent liabilities reported under Managing Public Money are stated at the amounts reported to Parliament.

1.12. Assets belonging to third parties

Assets belonging to third parties as disclosed in Note 16 (such as money held in relation to the Renewables Obligation and Feed-In Tariff schemes) are not recognised in the Statement of Financial Position since we have no beneficial interest in them.

1.13. IFRS Issued but not yet effective

IFRS 9 Financial Instruments was issued in July 2014, effective for periods beginning on or after 1 January 2018. The standard will be implemented in the FReM from 2018-19. Ofgem does not hold any complex financial instruments and IFRS 9 is not expected to have a material impact on the financial statements.

IFRS 15 Revenue from Contracts with Customers was issued in May 2014, effective for periods beginning on or after 1 January 2018. In addition to licence fee income, Ofgem has other income arising from the administration of Government schemes set out in note 5 (page 74). Management assessed the legislations and contracts underpinning these income streams, and consider that there are no specific obligations which would result in material change in revenue recognition in future periods.

IFRS 16 Leases was issued in January 2016, effective for periods beginning on or after 1 January 2019. Management's initial assessment is that IFRS 16 will have a material impact in future years. This is subject to guidance to be issued by HM Treasury.

1.14 Accounting Policy on Critical Accounting Judgements and Estimation Uncertainty

IAS 1.122 requires disclosure of the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements.

IAS 1.125 requires disclosure of information about the assumptions the entity makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes to the financial statements include details of their: nature; and carrying amount at the end of the reporting period.

Ofgem has nothing to report in respect of accounting judgements and estimation uncertainty.

2. Statement of operating costs by operating segment

2017-18				
	Regulatory Activities £000	Ofgem E-Serve £000	Corporate Services £000	Total £000
Gross expenditure	42,156	24,398	23,486	90,040
Income	(42,156)	(23,802)	(23,486)	(89,444)
Net expenditure	**-**	**596**	**-**	**596**

2016-17				
	Regulatory Activities £000	Ofgem E-Serve £000	Corporate Services £000	Total £000
Gross expenditure	42,217	20,534	23,861	86,612
Income	(42,217)	(19,904)	(23,861)	(85,982)
Net expenditure	**-**	**630**	**-**	**630**

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

3. Staff costs

Staff costs comprise			2017-18 £000	2016-17 £000
	Permanently employed staff	Others	Total	Total
Wages and salaries	38,767	5,453	44,220	46,424
Social security costs	4,389	-	4,389	4,544
Other pension costs	7,723	-	7,723	7,995
Other staff costs	21	-	21	330
Apprenticeship Levy (tax expense)	170	-	170	-
Total	**51,070**	**5,453**	**56,523**	**59,293**

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

For 2017-18, employers' contributions of £7,409,372 were payable to the PCSPS and CSOPS (2016-17: £7,040,371) at one of four rates in the range 20.0% to 24.5% (2016-17: 20.0% to 24.5%) of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 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 £312,823 (2016-17: £279,807) were paid to three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% (2016-17: from 8% to 14.75%). Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £12,395 (2016-17: £11,087), 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015, were payable to the PCSPS and CSOPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

Zero people in 2017-18 (2016-17: zero people) retired early on ill-health grounds.

Staff numbers can be seen in the Remuneration and Staff report on page 48-56.

Apprenticeship levy is accounted for as a cost. The training cost & funding have not been recognised in the accounts as the apprentice can move jobs to another employer and therefore the apprenticeship training is of no benefit to Ofgem.

4. Other administration costs

	Note	2017-18 £000	2016-17 £000
Rental under operating leases:		**4,147**	**3,807**
Operating leases		4,147	3,807
Non-cash items (see below):		**1,551**	**1,508**
Auditors' remuneration and expenses*		64	56
Depreciation	6	1,292	1,452
Loss on impairment of fixed assets		195	-
Other expenditure:		**27,046**	**21,531**
Contractors		12,366	9,448
Accommodation costs		3,380	3,866
Recruitment and training		1,327	1,739
Travel and subsistence		1,021	855
Office supplies and equipment		6,302	3,234
Professional Services		1,512	886
Staff related costs		260	429
Other expenditure		878	1,074
Provisions (non-cash):		**773**	**473**
Provided in year	13	754	446
Interest cost	13	19	27
Total		**33,517**	**27,319**

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

5. Operating income

	2017-18 £000 Income	Full costs	Deficit	2016-17 £000 Income	Full costs	Deficit
Licence fees	61,193	61,193	-	59,572	59,572	-
Other	28,251	28,847	(596)	26,410	27,040	(630)
Total	**89,444**	**90,040**	**(596)**	**85,982**	**86,612**	**(630)**

Other income includes:	2017-18 £000	2016-17 £000
Offshore Transmission Tender Recharge	2,206	1,842
Department for Business, Energy and Industrial Strategy (relating to environmental programmes and staff transfers)	18,788	19,038
Scheme-funded recharges	3,503	2,590
Department for Environment, Food and Rural Affairs (relating to shared accommodation costs and staff transfers)	2,053	1,378
Other departments	1,458	1,344
Miscellaneous*	243	218
	28,251	**26,410**

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

Resource Accounts

6. Property, plant and equipment

	Furniture £000	Office equipment £000	IT £000	Leasehold £000	Assets Under Construction	Total £000
Cost or valuation						
At 1 April 2017	335	2,489	6,770	5,749	62	15,405
Additions	-	5	633	1,687	-	2,325
Impairments	(29)	(495)	(868)	-	-	(1,392)
Reclassifications	-	-	-	62	(62)	-
At 31 March 2018	**306**	**1,999**	**6,535**	**7,498**	**-**	**16,338**
Depreciation						
At 1 April 2017	166	2,296	5,103	5,316	-	12,881
Charged in year	29	110	898	255	-	1,292
Impairments	(15)	(430)	(752)	-	-	(1,197)
At 31 March 2018	**180**	**1,976**	**5,249**	**5,571**	**-**	**12,976**
Carrying amount at 31 March 2018	**126**	**23**	**1,286**	**1,927**	**-**	**3,362**
Carrying amount at 31 March 2017	169	193	1,667	433	62	2,524
Asset financing:						
Carrying amount of owned assets at 31 March 2018	**126**	**23**	**1,286**	**1,927**	**-**	**3,362**

	Furniture £000	Office equipment £000	IT £000	Leasehold £000	Assets Under Construction	Total £000
Cost or valuation						
At 1 April 2016	167	2,344	5,579	5,817	-	13,907
Additions	168	-	1,191	77	62	1,498
Reclassifications	-	145	-	(145)	-	-
At 31 March 2017	**335**	**2,489**	**6,770**	**5,749**	**62**	**15,405**
Depreciation						
At 1 April 2016	154	2,161	4,288	4,826	-	11,429
Charged in year	12	135	815	490	-	1,452
At 31 March 2017	**166**	**2,296**	**5,103**	**5,316**	**-**	**12,881**
Carrying amount at 31 March 2017	**169**	**193**	**1,667**	**433**	**62**	**2,524**
Carrying amount at 31 March 2016	13	183	1,291	991		2,478
Asset financing:						
Carrying amount of owned assets at 31 March 2017	**169**	**193**	**1,667**	**433**	**62**	**2,524**

7. 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.

	At March 31 2018	At March 31 2017
	£000	£000
Obligation under operating leases comprise:		
Buildings:		
Not later than one year	2,733	6,300
Later than one year and not later than five years	8,409	1,932
Later than five years	25,904	-
	37,046	**8,232**

Ofgem's Headquarters has moved from Millbank to Canary Wharf in April 2018. Future minimum lease payments mainly relate to lease obligations under the new rent agreement for 10 South Colonnade at Canary Wharf. New office space is contracted up to June 2032.

7.1 Other financial commitments

As at 31 March 2018, Ofgem had not entered into any material non-cancellable contracts (which are not operating leases).

Resource Accounts

8. Future income due under non-cancellable operating leases

	At March 31 2018	At March 31 2017
	£000	£000
Buildings:		
Not later than one year	165	1,583
Later than one year and not later than five years	-	364
	165	**1,947**

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

9. Financial instruments

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

10. Cash and cash equivalents

	2017-18	2016-17
	£000	£000
Balance at 1 April	21,305	25,355
Net change in cash and cash equivalents	(14,744)	(4,050)
Balance at 31 March	**6,561**	**21,305**
The following balances at 31 March were held at:		
Government Banking Service	6,561	21,305
Commercial banks and cash in hand	-	-
Balance at 31 March	**6,561**	**21,305**

In addition to the cash and cash equivalents disclosed above, Ofgem holds third party assets of cash and letters of credit relating to offshore tender developer securities, the Renewables Obligation, and the Feed-in Tariffs levelisation fund. These are described in note 16.

11. Trade receivables and other current assets

	2017-18	2016-17
Amounts falling due within one year:	£000	£000
Accrued fees	7,506	3,605
Accrued Lease Incentive	4,859	3,514
Trade debtors	3,653	3,246
Prepayments	1,607	4,454
HM Customs and Excise (VAT)	624	540
Staff debtors	119	231
Balance at 31 March	**18,368**	**15,590**

In February 2015 Ofgem signed an agreement to waive its rights under the Landlord and Tenant Act 1954, in respect of its Millbank headquarters. In consideration of Ofgem waiving its rights, Berkeley Homes, whom the landlord has entered into a contract with to redevelop Millbank, agreed to pay Ofgem £5.25 million.

The £5.25 million comprises a £0.25 million deposit payable on signing (February 2015). Ofgem directed that the payment be made to the agents who negotiated the deal. The remaining £5.0 million was received by Ofgem on vacation of Millbank, and has been treated as a lease incentive over the expected period to vacation of Millbank.

Staff receivables include loans outstanding, of which £0.111 million relates to season ticket loans for employees, and £0.008 million relates to the cycle to work scheme.

12. Trade payables and other current liabilities

	2017-18	2016-17
Amounts falling due within one year:	£000	£000
Amounts issued from the Consolidated Fund for supply but not spent at year end	6,561	21,305
Deferred licence fees	6,571	3,529
Accruals	4,666	3,904
Staff payables (holiday pay accrual)	1,538	1,599
Taxation and Social Security Creditor	1,139	1,180
Trade payables	13	43
Leasehold reverse premium	-	75
Leasehold Incentive	52	565
Balance at 31 March	**20,540**	**32,200**

Staff payables represent the holiday pay accrual towards holidays to be provided to staff in 2018-19 financial year.

13. Provisions for liabilities and charges

13.1 Early retirement

	2017-18	2016-17
	£000	£000
Provision at 1 April	**202**	**239**
Provided in the year	-	56
Provisions not required written back	(21)	-
Provisions utilised in the year	(17)	(93)
Provision at 31 March	**164**	**202**

	2017-18	2016-17
Analysis of expected timings of discounted flows	£000	£000
Not later than one year	16	18
Later than one year and not later than five years	64	90
Later than five years	84	94
Provision at 31 March	**164**	**202**

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

13.2 Pension liabilities

	2017-18	2016-17
	£000	£000
Provision at 1 April	**827**	**762**
Interest cost	19	27
Actual benefit payments	-	(18)
Actuarial (gain)/loss	(43)	56
Past service cost	-	-
Provision at 31 March	**803**	**827**
Net movement in year (excluding actuarial gain/loss)	19	9

	2017-18	2016-17
History of experience losses	£000	£000
Experience gain arising on the scheme liabilities	(5)	(2)
Amount recognised as a percentage of present value of scheme liabilities	-0.01%	2.20%
Total amount recognised in statement of changes in taxpayers' equity	(43)	56

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

An actuarial valuation was carried out by the Government Actuary's Department at 31 March 2018. The major assumptions used by the actuary were:

	At 31 March 2018	At 31 March 2017
	% (per annum)	% (per annum)
Inflation assumption -CPI	2.45	2.55
Rate of increase for pensions in payment and deferred income	2.45	2.55

	2017-18	2016-17	2015-16
Analysis of actuarial loss	£000	£000	£000
Experience (gain)/loss arising on the scheme liabilities	(5)	(2)	(8)
Changes in assumptions underlying the present value of scheme liabilities	(38)	58	(18)
Per statement of changes in taxpayers' equity	(43)	56	(26)

From 31 March 2018, the discount rate for pension scheme liabilities changed from 1.37% to 0.24%. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2018.

13.3 Voluntary Exit Provisions

	2017-18
	£000
Provision at 1 April	**340**
Provided in the year	504
Provision not required written back	(79)
Provision utilised in year	(261)
Provision at 31 March	**504**

In 2017-18 this provision was not utilised and written back as not required.

	2017-18
Analysis of expected timings of outflows	**£000**
Not later than one year	504
Later than one year and not later than five years	-
Later than five years	-
Balance at 31 March	**504**

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

13.4 Dilapidation Provisions

	2017-18
	£000
Provision at 1 April	**50**
Provided in the year	368
Provision not required written back	(50)
Provision at 31 March	**368**

	2017-18
Analysis of expected timings of outflows	**£000**
Not later than one year	81
Later than one year and not later than five years	287
Later than five years	-
Balance at 31 March	**368**

13.5 Onerous Lease Provision

	2017-18
	£000
Provision at 1 April	**-**
Provided in the year	32
Provision at 31 March	**32**

	2017-18
Analysis of expected timings of outflows	**£000**
Not later than one year	32
Later than one year and not later than five years	-
Later than five years	-
Balance at 31 March	**32**

14. Contingent liabilities disclosed under IAS 37

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

As at 31 March 2018 there were no contingent liabilities that required disclosure.

15. Related party transactions

During the year, we transferred £7.516 million to the Department for Business, Energy and Industrial Strategy (BEIS). £6.659 million of this was for the energy-sector-related costs of Consumer Focus (operating as Consumer Futures) and Citizens Advice. The remaining £0.857 million was transferred for metrology services.

We administer environmental programmes on behalf of the BEIS, and second staff to BEIS. Total income from BEIS recognised in year amounted to £18.788 million.

We sublet part of our Millbank premises to the Department for Environment, Food and Rural Affairs (DEFRA). We administer the Northern Ireland Renewable Heat Incentive on behalf of the Department for the Economy (DfE), and administer the Northern Ireland Renewables Obligation on behalf of the Northern Ireland Authority for Utility Regulation (NIAUR). Income recognised in year was £1.699 million from DEFRA, £0.582 million from the NIAUR, and £0.430 million from DfE.

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

None of the Authority members, key managerial staff or other related parties has undertaken any material transactions with Ofgem during the year except for remuneration which is included on page 48.

16. Third-party assets

Offshore Tender Developer Securities

Along with the government, we have established the competitive offshore transmission regulatory regime to appoint an Offshore Transmission owner through competitive tendering.

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

Part of Ofgem's risk management strategy for the competitive tender process is to hold securities for the purposes of recovering costs in the event of an incomplete tender process. These securities are in the form of a letter of credit or cash. At 31 March 2018 Ofgem held £7.30m in letters of credit (2016-17 £9.950m) and £1.550m in cash (2016-17 £1.550m).

Renewables Obligation

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

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

The amount held in the buyout funds as at 31 March 2018 was £162,987.30 (31 March 2017: £30).

Feed-in Tariff levelisation funds

The Feed-in Tariff (FIT) scheme is a government programme introduced on 1 April 2010 designed to promote the uptake of small-scale renewable and low-carbon electricity generation technologies.

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

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

The amount held in the levelisation funds as at 31 March 2018 was £141,504.06 (31 March 2017: £109,337).

17. Events after the reporting period

The Accounting Officer duly authorised the issue of these financial statements on the date of the Comptroller and Auditor General's audit certificate. No events after the period have been identified.

Trust Statement

Accounting officer's foreword to the trust statement

Scope

Ofgem is governed by the Gas and Electricity Markets Authority. The Authority's responsibilities are set out in the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Acts of 2004, 2008, 2010, 2011 and 2013 and related legislation.

The Authority is responsible for taking enforcement action (including imposing financial penalties) in respect of the energy companies that it regulates, and collecting the England and Wales, and Scotland fossil fuel levies.

The trust statement reports the revenues and expenditures and assets and liabilities related to fines, penalties and the fossil fuel levies for the financial year 2017-18. These amounts are collected by us for payment into the consolidated fund[9].

This statement is also prepared to disclose any material expenditure or income that has not been applied to the purposes intended by parliament, or material transactions that have not conformed to the authorities which govern them. There was no such expenditure or income during 2017-18.

Background

Penalties

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

No penalty imposed by the Authority may exceed 10% of the turnover of the licence holder. Any sums imposed by the Authority by way of a statutory penalty shall be paid into the consolidated fund. In 2016-17, this amounted to £2 in nominal penalties. Nominal penalties are used where cases settle and redress is provided.

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

[9] We collect the fines, penalties and fossil fuel levies for Scotland, England &Wales.

Financial review

This year we imposed penalties on companies and required them to make redress to affected customers or otherwise support the interests of energy consumers. This financial review covers penalties that resulted in the distribution of funds to the consolidated fund.

British Gas

In June 2017 we issued a notice confirming our decision to impose a statutory penalty of £1, and by way of redress £9.5m (less £1) on British Gas Trading Limited (British Gas) following an investigation by Ofgem into British Gas' compliance with Standard Licence Conditions (SLCs) 7A, 7B, 14A and 21B of the gas and electricity supply licence and Regulations 3 and 7 of the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008 (CHRs).

Our Standards of Conduct licence conditions (SLC 7B) require suppliers to take all reasonable steps to ensure that each microbusiness consumer is treated fairly. We found that British Gas customers experienced a drop in customer service following the implementation of a new billing system. This included failing to provide customers with quarterly bills and failing to provide information on the end date of the customers' fixed term contract on their bill. We also found that customers did not always have their complaints opened and closed properly and that British Gas did not act promptly to put things right.

British Gas agreed to pay £9,499,999 in payments to directly affected microbusiness and other non-domestic customers, and to the Money Advice Trust. The redress payments to the Money Advice Trust's Business Debt line will be used to provide debt advice services to small business customers experiencing difficulties in paying their energy bills.

E (Gas and Electricity)

In January 2018 we issued a notice confirming our decision to impose a statutory penalty of £1, and by way of redress of £260,000 (less £1) on E (Gas and Electricity) Limited (E) following an investigation by Ofgem into E's compliance with SLC 25.2 (sales and marketing objective) and 13.1 (arrangements for site access). We found that E failed to take all reasonable steps to ensure that information provided by E or its representatives did not mislead customers and was fair in terms of content and how it was presented. E also failed to ensure that its representatives who visited customers' premises could be readily identified as representatives of the licensee and were fit and proper persons to visit and enter customers' premises.

In January 2018 E agreed to pay £259,999 in voluntary redress. The redress was paid in to Ofgem's Voluntary Redress Fund[10] (administered by the Energy Savings Trust) and the money will be used to benefit energy customers.

[10] Companies may volunteer to pay a sum of money to the Voluntary Redress Fund in lieu of, or in addition to a financial penalty for breaches of licence conditions. Companies may also volunteer these payments to remedy any harm to consumers, in addition to compensation to those directly affected, where Ofgem has not conducted a formal investigation. Details of the fund can be found at https://www.ofgem.gov.uk/system/files/docs/2017/08/authority_guidance_on_the_allocation_of_redress_funds.pdf

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

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

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

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

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

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the account
- prepare the trust statement on a going-concern basis and confirm that there is no relevant audit information for which the auditor isn't aware, and that the accounts are fair, balances and understandable (as per the bullets in the disclosure in the Resource Accounts)
- confirm that, as far as he or she is aware, there is no relevant audit information of which the entities auditors are unaware, and the Accounting Officer has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the entities auditors are aware of that information
- confirm that the annual report and accounts as a whole is fair, balanced and understandable and that he or she takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable

Governance statement

Ofgem's governance statement, covering both the resource accounts and the trust statement, is on pages 41 to 47.

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

Opinion on financial statements

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets Trust Statement for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Office of Gas and Electricity Markets Trust Statement as at 31 March 2018 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

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

Basis of opinions

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

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of 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.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Other Information

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

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

27 June 2018

Statement of revenue, other income and expenditure for the year ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
Revenue			
Fines and penalties			
Penalties imposed	2.1	-	-
Fossil Fuel Levy			
Fossil Fuel Levy (England and Wales)		2,583	6,721
Fossil Fuel Levy (Scotland)		850	3,622
Other income			
Interest on penalties		-	-
Interest on Fossil Fuel Levy (England and Wales)		75	60
Interest on Fossil Fuel Levy (Scotland)		100	66
Total revenue and other income		**3,608**	**10,469**
Expenditure			
Administration of the Fossil Fuel Levy		(38)	(57)
Total expenditure		**(38)**	**(57)**
Net revenue for the consolidated fund		**3,570**	**10,412**

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

Statement of financial position as at 31 March 2018

	Note	2017-18 £000	2016-17 £000
Current assets			
Receivables and accrued revenue receivable	3	440	1,020
Cash at bank – UK consolidated fund		32,500	29,915
Cash at bank – Scottish consolidated fund		42,610	41,045
Net current assets		75,550	71,980
Current liabilities			
Payables and accrued expenditure liabilities	4	(2)	(2)
Total net assets		**75,548**	**71,978**
Represented by:			
Balance on UK consolidated fund account		32,895	30,268
Balance on Scottish consolidated fund account		42,653	41,710
	5	**75,548**	**71,978**

Dermot Nolan
Accounting officer

21 June 2018

Statement of cash flows for the year ended 31 March 2018

	2017-18	2016-17
	£000	£000
Net cash flow from operating activities	4,149	13,159
Cash paid to the consolidated funds	-	(8,600)
Increase in cash in the period	**4,149**	**4,559**

Notes to the cash flow statement

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

		2017-18	2016-17
	Note	£000	£000
Net revenue for the consolidated fund		3,570	10,412
Decrease in non-cash assets	3	579	2,754
Decrease in liabilities	4	-	(7)
Net cash flow from operating activities		4,149	13,159

B: Analysis of changes in net funds

	2017-18	2016-17
	£000	£000
Increase in cash in the period	4,149	4,559
Net funds at 1 April 2017	70,961	66,402
Net funds at 31 March 2018	75,110	70,961

Trust Statement

Notes to the trust statement

1. Statement of accounting policies

1.1 Basis of accounting

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

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

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

1.2 Accounting convention

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

1.3 Revenue recognition

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

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

2. Revenue

2.1 Fines and penalties

During 2017-18 and 2016-17 only nominal penalties were received by Ofgem.

3. Receivables and accrued revenue receivable

	Accrued revenue receivable at 31 March 2018	Total as at 31 March 2018	Total as at 31 March 2017
	£000	£000	£000
Fines and penalties	-	-	-
Fossil Fuel Levy	440	440	1,020
Total	**440**	**440**	**1,020**

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

Nominal penalties receivable do not show due to roundings.

4. Payables and accrued expenditure liabilities

	Payables as at 31 March 2018	Total as at 31 March 2018	Total as at 31 March 2017
	£000	£000	£000
Fossil Fuel Levy	2	2	2
Total	**2**	**2**	**2**

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

5. Balance on the consolidated fund accounts

	2017-18	2016-17
	£000	£000
Balance on the consolidated fund accounts	71,978	70,166
Net revenue for the consolidated fund accounts	3,570	10,412
Less amount paid to the consolidated funds	-	(8,600)
Balance on consolidated fund accounts as at 31 March	**75,548**	**71,978**

Appendices

Appendix I
Performance against 2017-18 deliverables

Our Forward Work Programme for 2017-18 included deliverables to be achieved in each quarter.

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

FWP 2017-18 Deliverables: End of Year status	Delivery status	Planned Quarter	Actual Quarter	Met in Quarter?	Met in later quarter?	Deferred to 2018/9
Amend the broad principles in gas and electricity supply licenses, including a new vulnerability principle – Q2	√	Q2	Q2	Y	n/a	n/a
Publish Social Obligations report – Q2	√	Q2	Q3	N	Y	n/a
Publish decision on intermediate proposals for amendments to Confidence Code and, if appropriate, make Code amendments outlined in our consultation – Q1	√	Q1	Q2	N	Y	n/a
Outline our proposed next steps for our review of Confidence Code	√	Q3	Q3	Y	n/a	n/a
Publish Blueprint decision document (Design Baseline 3) on Switching programme – Q3	√	Q3	Q4	N	Y	n/a
Complete Detailed Level Specification Phase and publish Design Baseline 4 on switching programme – Q4	Moved to 2018-19	Q4	n/a	N	n/a	Y
Publish plan for enabling a smart, flexible energy system jointly with the BEIS – Q1	√	Q1	Q2	N	Y	n/a
Publish proposed high-level strategic approach to market and regulatory reform in response to the energy systems transition – Q2	√	Q2	Q2	Y	n/a	n/a
Publish final decision on current industry code modifications that relate to aspects of embedded benefits – Q1	√	Q1	Q1	Y	n/a	n/a

FWP 2017-18 Deliverables: End of Year status	Delivery status	Planned Quarter	Actual Quarter	Met in Quarter?	Met in later quarter?	Deferred to 2018/9
Publish our approach to the proposed Targeted Charging Review – Q2	√	Q2	Q3	N	Y	n/a
Modification of National Grid Gas transporter licence to ensure compliance with Tariff Network Code – Q3	√	Q3	Q4	N	Y	n/a
Implement Data and Communications Company operational performance regime – Q1	√	Q1	Q2	N	Y	n/a
Publish Data and Communications Company price control decision for 2016-17 – Q4	√	Q4	Q4	Y	n/a	n/a
Publish revised mandatory HHS plan – Q1	√	Q1	Q2	N	Y	n/a
Launch Significant Code Review – Q1	√	Q1	Q2	N	Y	n/a
Update letter on timelines for implementation of CMA code governance remedies – Q1	√	Q1	Q2	N	Y	n/a
Review the Innovation Link based on our experience in delivering the services – Q2	√	Q2	Q2	Y	n/a	n/a
Implement a requirement for companies to prepare accounts in accordance with the regulatory financial reporting standard for 2017-18 – Q4	√	Q4	Q4	Y	n/a	n/a
Make initial decision on need for the North West Coast Connections transmission project as well as deciding whether to tender that project – Q2	x[11]	Q2	n/a	n/a	n/a	n/a
Make final decision on need for the Hinkley-Seabank transmission project as well as deciding whether to tender the project – Q3	√	Q3	Q4	N	Y	n/a

[11] Cancelled - external principal withdrew proposal.

FWP 2017-18 Deliverables: End of Year status	Delivery status	Planned Quarter	Actual Quarter	Met in Quarter?	Met in later quarter?	Deferred to 2018/9
Select a Preferred Bidder for the Burbo Bank project in offshore transmission owner Tender Round 4 – Q1	√	Q1	Q2	N	Y	n/a
Select Preferred Bidders for the Dudgeon, Rampion and Race Bank projects in offshore transmission owner Tender Round 5 – Q4	Partly met, partly deferred to 2018-19	Q4	Partly achieved	Partly achieved	n/a	Y
Publish State of the Market Report – Q3	√	Q3	Q3	Y	n/a	n/a
Publish our Enforcement Overview on our performance exercising our enforcement powers	√	Q1	Q1	Y	n/a	n/a
Submit Business Impact Target report - Q1	√	Q1	Q1	Y	n/a	n/a
Host an Annual Enforcement Conference to share our experience and learnings in exercising our powers - Q2		Q2	Q2	Y	n/a	n/a
Procure a third party, with expertise in consumer charities, to effectively allocate funds from voluntary redress - Q2	√	Q2	Q2	Y	n/a	n/a
Decision on review of Fleetwood Regulatory Asset Value for National Grid Gas Transmission - Q2	√	Q2	Q2	Y	n/a	n/a
Publish decision on adjustments to licensees revenue - Q2	√	Q2	Q2	Y	n/a	n/a
Publish annual report on Domestic Renewable Heat Incentive scheme	√	Q2	Q2	Y	n/a	n/a
Publish annual report on the Non-Domestic Renewable Heat Incentive Scheme	√	Q2	Q2	Y	n/a	n/a
Complete Feed-in Tariff annual levelisation process	√	Q2	Q2	Y	n/a	n/a
Complete final determination on ECO2 Carbon Saving Community Obligation	√	Q2	Q2	Y	n/a	n/a
Publish enforcement guidelines and our approach to opening investigations - Q3	√	Q3	Q3	Y	n/a	n/a

FWP 2017-18 Deliverables: End of Year status	Delivery status	Planned Quarter	Actual Quarter	Met in Quarter?	Met in later quarter?	Deferred to 2018/9
Make a decision on which projects to fund in relation to the Network Innovation Competition - Q3	√	Q3	Q3	Y	n/a	n/a
Publish annual report on the Feed-in Tariff Scheme	√	Q4	Q3	Y	n/a	n/a
Publish annual report on the Renewables Obligation scheme	√	Q4	Q4	Y	n/a	n/a
Publish Annual Report on the Warm Home Discount scheme	√	Q4	Q4	Y	n/a	n/a
Publish compliance progress reports against the Energy Company Obligation	√	n/a	n/a	Y	n/a	n/a
Publish E-Serve performance web charts	√	n/a	n/a	Y	n/a	n/a
Publish quarterly report on Domestic Renewable Heat Incentive Scheme	√	ALL	ALL	Y	n/a	n/a
Publish quarterly report on Non-Domestic Renewable Heat Incentive Scheme	√	ALL	ALL	Y	n/a	n/a

Appendix II
Key Performance Indicators 2017-18

Effective Competition			
Metric (KPIs)	**Details of what is being measured**	**Annual target 2017-18**	**Actual**
RMR Derogation Requests	Make decisions on RMR derogation requests within 60 working days of receiving a request (unless formal consultation is needed)	90%	100%
Offshore Transmission Processing	Licence grants within 70 days of commencement of Section 8a consultation	70 working days	34 working days
Offshore Transmission Processing	Preferred Bidder selection within 120 days of ITT submission (excluding Best & Final Offer)	120 working days	79 working days
Licence Applications	Make decisions on Licence Applications within 45 days	100%	100%
Code Modifications	Make code modification decisions within 25 working days of receiving the Final Modification Report (or, where applicable, final responses to a Final Impact Assessment or other Ofgem consultation)	90%	67%[12]
Code Modifications	Where applicable, publish code modification Impact Assessment (or other Ofgem consultation) within 3 months of receiving the Final Modification Report	90%	67%[13]
Customer Contacts	Time taken for first response to customer contacts	93% - 10 working days	82%[14]
Whistle-blowers	Time taken for first response to whistle-blower contacts	100% to receive initial engagement within 1 working day	100%

[12] Figure is rolling throughout the year – falling to 67% by the end of the year due to a number of complex decisions requiring additional time and competing priorities within Ofgem

[13] As above

[14] The achieved annual KPI is below target primarily due to limited resources. Over the last six months processes have been overhauled and additional resources have been put in place which has resulted in a recent upturn in the monthly KPI. It is expected that this will continue to improve throughout next year, as processes are embedded and experience builds across the team.

E-Serve KPIs 2017-18			
Metric	**What is being measured**	**Annual Target 2017-18**	**Actual 2017-18**
Domestic RHI processing	Responding to enquiries about applications within 10 working days	90%	92.90%
Non-Domestic RHI processing	Responding to queries within 10 working days	90%	98.90%
Renewables Obligation (RO) processing	Responding to enquiries about applications within 10 working days	90%	82.80%[15]
Feed-In Tariff (FIT) processing	Responding to enquiries about applications within 10 working days	90%	98.80%
Energy Company Obligation (ECO)	Responding to queries within 10 working days	90%	100%
Warm Home Discount (WHD) processing	Responding to obligated party submitted Warm Homes Discount schemes for approval, within 28 days	100%	100%
Domestic RHI processing	Maintaining system availability during business hours	99% or above	99.42%
Non-Domestic RHI processing	Maintaining system availability during business hours	99% or above	99.11%
Renewables Obligation (RO) processing	Maintaining system availability during business hours	99% or above	99.60%
Feed-In Tariff (FIT) processing	Maintaining system availability during business hours	99% or above	99.70%
Energy Company Obligation (ECO)	Maintaining system availability during business hours	99% or above	99.30%
Domestic RHI processing	Making payments within 5 working days	95%	98.10%
Non-Domestic RHI processing	Making payments within 30 working days	95%	90.60%[16]
Renewables Obligation (RO) processing	Issuing the main batch of Renewables Obligations Certificates following the generators' output data reporting deadline, within 17 working days (Apr-Jun) and 12 working days (Jul-Mar)	95%	98.10%
Feed-In Tariff (FIT) processing	Completing the levelisation process within 22 working days	95%	100%
Energy Company Obligation (ECO)	Processing the measures submitted in one calendar month by the end of the following month	95%	100%
E-Serve performance	Publishing updated E-Serve performance web charts every month	100%	100%

[15] At the start of the year we saw a very high volume of email which was primarily driven by the closure of the scheme on 31 March 2017. This resulted in us missing our 'Responding to stakeholders' KPI target of responding to 90% of application enquiries within 10 working days for three months. The bulk of the correspondence concerned prospective participants submitting supplementary evidence to us in respect of accreditation applications made in the previous month. The volume of emails started to ease in June, and has remained at just over 1000 each month. The KPI target was met every month since June 2017.

[16] During Q1-Q2, we consistently achieved our target YTD KPI; however an increase in the number of aged cases being accredited to the scheme consequentially affected the overall Payments KPI in the latter stages of 17/18.

Appendix III
Investigations and enforcement action 2017-18

Details of our cases are available on our website[17] in accordance with our policy as set out in our Enforcement Guidelines[18]. We will usually publish brief details of the facts and nature of the investigations on our website[19], although policy is different for cases relating to the Regulation[20] on Wholesale Energy Market Integrity and Transparency (REMIT)[21].

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

Company	Issue	Decision	Date of decision
British Gas	Compliance with SLCs 7A, 7B, 14A and 21B in relation to billing and customer service to microbusiness and non-domestic consumers.	Settlement. British Gas has agreed to pay a £1 penalty and redress of £9.5 million (less £1).	June 2017
E	Compliance with SLC 25 (sales and marketing) and 13 (arrangements for site access).	Settlement. E has agreed to pay a £1 penalty and redress of £260,000 (less £1).	January 2018

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

Company	Issue	Decision	Date of decision
British Gas	Guaranteed Standards for suppliers set specific customer service standards.	Closed through alternative action. British Gas agreed to pay redress of £1.1m and has taken action to change its customer service processes.	July 2017
SSE	Switching customers to Prepayment meters.	Closed through alternative action. SSE agreed to implement improvement actions to address the concerns identified.	November 2017
Utilita	Prepayment Charge restrictions – usage thresholds.	Closed. We reviewed this issue and were satisfied that appropriate remedial action had been taken and affected customers appropriately compensated.	December 2017
SSE	Switching customers to dead tariffs.	Closed through compliance action. We reviewed the issue and were satisfied that affected customers were appropriately compensated. SSE agreed to pay redress of £670,000.	September 2017
E.On & Npower	Switching window for customers on fixed term tariffs.	Closed through compliance action. Both suppliers updated their processes and paid redress to affected customers for a combined total of over £21,000.	November 2017

[17] https://www.ofgem.gov.uk/investigations
[18] https://www.ofgem.gov.uk/system/files/docs/2017/10/enforcement_guidelines_october_2017.pdf
[19] The fact that we have opened an investigation does not imply that the companies involved have breached licence conditions or other obligations.
[20] Regulation No 1227/2011 of the European Parliament and of the Council of 25 October 2011
[21] Our Remit Procedural Guidelines can be found at: https://www.ofgem.gov.uk/publications-and-updates/consultation-decision-remit-penalties-statement-and-procedural-guidelines

In March 2018 we issued a provisional order banning Iresa from taking on new customers, increasing existing customers' direct debits, and asking them for one-off-payments, for up to three months until it resolves customer service issues. A provisional order may be used, if considered necessary, to require a regulated person to do or not do something to prevent loss or damage that might arise before a final order can be made.

We have ordered Iresa to:

- extend call centre hours, bring down average call waiting times to below 5 minutes and respond to customers who request a call back by the end of the next working day;
- respond to customer emails within 5 working days;
- clear a backlog of customer emails;
- log and record all expressions of customer dissatisfaction; and
- act to identify and manage all of its vulnerable customers, including offering to put them on a priority services register (PSR).

If Iresa fails to take these steps within the next three months, we could take further action which includes, ultimately, revoking the supplier's licence. A wider investigation into Iresa's compliance is ongoing.

Below are the open investigations as at the end of March 2018. Please note, the opening of an investigation does not imply that we have made any finding(s) about non-compliance. Ofgem does not publish information on all open investigations, n particular when Ofgem is conducting investigations into potential failures to comply with REMIT requirements. As a general rule, we do not comment further on these investigations, including who we are investigating, unless we consider it necessary to do so in the interests of consumers or market confidence.

Company	Date Opened	Issue
Npower	September 2014	Investigation into whether npower has complied with SLC 12 in relation to taking all reasonable steps to install, and supply electricity through advanced meters at the premises of its larger non-domestic customers.
Extra Energy	July 2016	Investigation into whether Extra Energy has complied with its obligations under SLCs 7B, 14, 21B, 25C, 27 and 31A and with the CHRs in relation to billing, customer service and complaints handling.
Economy Energy	September 2016	Investigation into whether Economy Energy has complied with the relevant conditions set out in SLC 25 in relation to its sales and marketing obligations.
Economy Energy, E(Gas and Electricity) and Dyball Associates	October 2016	Investigation into whether there has been an infringement of Chapter I of the Competition Act 1998 in relation to possible anti-competitive agreements and concerted practices.
British Gas	June 2017	Investigation into whether British Gas has complied with its obligations under SLCs 24 and 25C, in relation to termination of domestic supply contracts.
SSE	October 2017	Investigation into whether SSE has complied with SLCs 31A and 25C in relation to provision of information on Annual Statements to domestic customers.
Ovo	February 2018	Investigation into whether Ovo has complied with SLCs 31A and 25C/0 in respect of information on Bills, statements of account and Annual Statements.
Iresa	February 2018	Investigation into whether Iresa has complied with SLCs 14, 23.3, 23.4, 25C/0, 27.5 to 27.8, 27.16 and the CHRs.
Not disclosed	July 2017	Investigation into whether there has been an infringement of Chapter II of the Competition Act 1998 and/or Article 102 of the Treaty on the Functioning of the European Union, concerning potential abuse of a dominant position by a company providing services to the energy industry.

Appendix IV
Off-payroll appointees

Off-payroll engagements as of 31 March 2018, for more than £245 per day and that last for longer than six months

The following table summarises the situation on off-payroll engagements as at 31 March 2018:

No. of existing engagements as of 31 March 2018	8
Of which:	
No. that have existed for less than one year at time of reporting.	4
No. that have existed for between one and two years at time of reporting.	2
No. that have existed for between two and three years at time of reporting.	2
No. that have existed for between three and four years at time of reporting.	0
No. that have existed for four or more years at time of reporting.	0

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

New off-payroll engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018, for more than £245 per day and that last for longer than six months

No. of new engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018	10
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	4
No. for whom assurance has been requested	3
Of which:	
No. for whom assurance has been received	3
No. for whom assurance has not been received	0
No. that have been terminated as a result of assurance not being received.	0

Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2017 and 31 March 2018

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

Appendix V
Trade Union Facility Time

Table 1
Relevant union officials

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

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
10	816

Table 2
Percentage of time spent on facility time

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

Percentage of time	Number of employees
0%	1
1-50%	9
51%-99%	0
100%	0

Table 3
Percentage of pay bill spent on facility time

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

Provide the total cost of facility time	11,232
Provide the total pay bill	51,071,000
Provide the percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100	0.022%

Table 4
Paid trade union activities

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

Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ total paid facility time hours) x 100	24%