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Making a positive difference
for energy consumers

2021-22

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

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Annual Report and Accounts

(For the period 1 April 2021 to 31 March 2022)

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Chair's foreword
Martin Cave

The changes we have seen in gas prices are a once-in-a-generation event. We at Ofgem know from our frequent contacts with consumers what a tough situation this creates for them, especially for vulnerable households, where we are already seeing worrying evidence of self-rationing of energy. This presents formidable challenges to support customers which government, Ofgem and the energy sector have had to step up to meet, both at pace and scale.

On behalf of the Ofgem Board, as well as personally, I would like to pay tribute to the frontline staff in the sector who are doing their best to help customers every day, and making a difference in very difficult circumstances.

For its part, Ofgem has done all we can to ensure that customers are treated fairly and pay no more than a fair price for their energy, chiefly through our robust licencing regime, credible deterrence mechanisms, and price controls.

As is good practice in corporate governance, we received early in the year an independent Board Effectiveness Review. While this highlighted much that works well in our current governance, it has also underlined some areas for improvement, which we have been making over the last year.

In January, we commissioned an independent review into the root causes of the recent supplier failures and how regulation played a part, and have a full action plan to implement its recommendations, many of which are already in train.

In addition to overseeing the organisation's response to the crisis, the Board is also very aware of the importance of a robust strategy to support Ofgem in delivering an affordable, reliable, and low carbon energy system for the future that delivers the transition to net zero at the lowest cost in the interests of consumers.

Against this challenging backdrop, we have focussed on our five strategic programmes where we believe can have the greatest impact in enabling the net zero transition in the interests of energy consumers, and two enduring priorities to protect consumers and play our part in delivering renewable electricity, heat, energy efficiency, and social schemes.

In support of this the Ofgem Board, through its People and Remuneration Committee, has continued to plan an active role in the ongoing organisational transformation, including our commitment to achieving 50% women and 9% BAME women across our senior management and senior leadership positions by 2025, as well as in the strengthening of its governance, compliance and risk management through its Audit and Risk Assurance Committee.

I am delighted that the Board has recently been able to resume face-to-face engagement with stakeholders around Great Britain, in addition to important meetings with the UK and devolved governments, and I look forward to continuing these discussions over the year ahead.

I would also like to thank Paul Grout, who stepped down from the Board this year. His contribution over almost a decade of service, and in chairing the Board's RIIO Committee, has been invaluable and we wish him well for the future.

As we look forward, we will continue to support consumers through this challenging time – and to seize the opportunities in the crucial year ahead.

Working closely with government and industry, I look forward to continuing Ofgem important work to protect consumers in a difficult market, shape a modern energy system that is cleaner and more responsive to changing demand, and deliver a secure supply of electricity and gas at the least cost to consumers.

Martin Cave

Martin Cave
Chair

Chief Executive Officer's Report

Jonathan Brearley

In a difficult year, and with complex trade offs to make, Ofgem has been doing everything in our power to support customers.

I am acutely aware of what a challenging time this has been for colleagues across Ofgem, the energy sector, and the consumers we serve. I talk to customers on a regular basis, and I know how tough rising energy prices are for many households and businesses who are also facing other big financial pressures.

Ofgem has always needed make complex trade offs on behalf of consumers and will need to continue to get the balance right between different consumer needs. For example, between current and future consumers, different income groups and different geographic areas. This has always been the case, but the scale and pace of decision making has needed to significantly increase as we have responded to the crisis this year. Given the energy market continues to face big challenges, we expect this to continue and will adapt our work to respond.

Protecting consumers

Our job as the energy regulator is to do everything we can to protect customers. In this crisis, this has meant changing a significant part of our planned 2021/22 Forward Work Programme activities, and I would like to thank the industry, government, NGOs, and Ofgem staff for the hard work they are doing to support people.

Our Default Tariff Price Cap has protected 23 million households, while our supplier exit processes ensured that more than four million consumers were transferred to a new supplier with their credit balances, and no disruption to their energy supply, when their existing supplier exited the market.

We also recognise that there are lessons that need to be learnt, and we continue to work at pace to strengthen Ofgem's regulatory regime to tighten financial regulation in the retail market, reform of the price cap to make it more adaptable, and enhance supervision of energy suppliers to ensure they are fulfilling their licence obligations.

Now more than ever, we expect customer service standards to be maintained and customer to be treated fairly, and ensure companies are held to higher standards for overall performance on customer service.

In October we set out further actions to move the retail market to a position that is more resilient, protects consumers' interests, and is better able to adapt to a changing wholesale market.

We have also launched a series of rigorous compliance reviews, starting with a thorough assessment as to whether customer Direct Debits are being set appropriately, with other reviews to follow to assess other aspects of vulnerability, affordability and customer service.

Delivering Net Zero

This gas crisis and Russia's invasion of Ukraine has changed the economic fundamentals of the energy sector. Many forms of low carbon generation had already become cheaper than conventional generation, but with the volatility we now see in gas prices, the economic case is far stronger.

This underlines the importance of transitioning to generating cheaper, cleaner power here at home. Delivering this change reliably and securely at the least cost to customers remains a key priority for Ofgem, and we will continue to work with the industry, government, and NGOs, to make the changes to the market needed to deliver this transition at pace and in customers' interests.

This will require rethinking how we plan, operate, and have the right regulation and structures in place to deliver a smarter, more strategic system. We have continued to develop our settlement with electricity distribution network companies, RIIO-ED2, aimed at improving customer service and resilience to prevent power outages, such as those seen last winter, delivering a major expansion of our transmission network to get energy where it is needed, and preparing the way for increases in the generation of cheaper, greener, home-grown energy to bring down bills in the long-term.

We are also working to make power supplies more resilient to more frequent storms, including taking lessons from the response to Storm Arwen.

In partnership with Innovate UK, Ofgem is playing an active role in fostering the new technologies and breakthroughs needed through our flagship Strategic Innovation Fund, making £450 million of resources available to address four major strategic challenges, including whole system - or 'plant to plug' - integration, data and digitalisation, heat, and transport.

Transforming Ofgem

Meeting the formidable challenges ahead also means Ofgem itself has to change.

That is why we are continuing to deliver an ambitious internal transformation plan, including by continuing our efforts to become more representative of the consumers we serve. We have recruited a dedicated Diversity and Inclusion team to drive this forward and will publish a new D&I strategy in the coming months.

We have also continued to make progress in strengthening Ofgem's own governance, compliance and assurance work. There is further work to be done to mature and embed this, particularly in risk management, and we will continue to strengthen this over the course of the year ahead.

The look ahead

Looking ahead, we are launching Net Zero Britain, our thinking on the energy reforms that we think need to be made by 2030 to ensure the power sector is both resilient and delivers a net zero power sector by 2035 at the lowest cost to consumers, looking at system management, improving consumer protection and participation, and ways to make the system more efficient.

This includes rolling out market-wide half-hourly settlement to enable a smarter, more flexible grid, giving consumers more control and enabling them to draw energy from the grid at cheaper rates when demand is low.

A smarter, more strategic system that can shift demand will reduce the need for costly new generating and grid capacity, saving customers up to £10 billion a year in the long term, helping keep costs down and achieving our climate change goals at the same time.

This will require a fundamentally different system for our demand and supply of energy - and we will work closely with the government on its comprehensive Review of Electricity Market Arrangements (REMA).

We are pleased the UK Government has accepted our recommendation to establish an independent Future System Operator (FSO), to oversee the network at a national level, and we have launched a review into arrangements that may be needed at a local level to drive local ownership and accountability.

We are also likely to need wider changes to our wholesale electricity market to reflect different local conditions, alongside a different way of regulating our retail market, and we will come forward with further thinking on this in the coming months.

Finally, in light of the events in the energy market over the last year and in recognition of the challenges many households face, the Executive Committee (ExCo) has voluntarily decided to donate any performance-related bonuses they may receive for 2021-22 to a charity supporting vulnerable energy consumers.

In a difficult year, Ofgem has been doing everything in our power to support customers, and I look forward to continue working with government, industry and other stakeholders to deliver a more diverse, cheaper, and low carbon energy system that protects and works for consumers.

Jonathan Brearley
Chief Executive

Performance report

Strategic framework overview

This Performance Report sets out delivery achievements against the activities in Ofgem's 2021-22 Forward Work Programme, structured around our Strategic Framework.

In December 2020, Ofgem published its Strategic Framework. The framework helped inform our internal business planning for the 2021-22 year and was published externally in our Forward Work Programme. The framework, which received a high level of support from stakeholders during the year, focuses Ofgem's resources on activities that support five **Strategic Change Programmes** and two **Enduring Priorities**.

Ofgem's Enduring Priorities capture our core regulatory responsibilities to protect current and future consumers, and effectively deliver government environmental and social schemes. The Strategic Change Programmes focus on where Ofgem can deliver the greatest impact for consumers, including delivering the transition to net zero at lowest cost. Ofgem's strategic change programmes aim to:

Future of Retail

deliver a **future retail market** that works for all consumers and the environment.

Low Carbon Infrastructure

enable investment in **low-carbon infrastructure** at a fair cost.

Full-chain Flexibility

deliver **full-chain flexibility** in how we generate, use and store energy.

Energy System Governance

ensure **energy system governance**, including Ofgem, is fit for the future.

Data & Digitalisation

unlock the benefits of **data and digitalisation.**

Responding to the gas crisis

2021-22 saw an unprecedented rise in gas and electricity prices in response to tight global markets and later the Russian invasion of Ukraine, putting energy markets under severe strain and driving up prices for energy consumers. Ofgem responded quickly to this situation and set out the key elements of its response in October.

Working with government, the energy industry and consumer bodies, we introduced measures to protect the interests of consumers, to provide greater certainty for investors, and to strengthen resilience in the sector. To address the changed situation, Ofgem made changes to both its core regulatory activities and the Future of Retail Strategic Change Programme, including:

- managing the Supplier of Last Resort process, that sees customers transferred to a new energy supplier, when companies exit the market
- enhancing monitoring, compliance and enforcement of energy supplier licence obligations, to ensure that suppliers pursue a sustainable business model, and minimise risks to consumers and the market
- adapting the price cap methodology to allow it to adapt to the more volatile market circumstances.

Responding to these unprecedented rises in electricity and gas prices necessitated a reprioritisation of Ofgem's resources, to focus on these and other urgent reforms, as set out below.

As a result, some activities in our 2021-22 Forward Work Programme were paused in the autumn of 2021. Ofgem's 2022-23 Forward Work Programme was published in late March 2022, which takes account of these changes and sets out our updated priorities for the year ahead.

Value delivered in 2021-22

Ofgem's core priority is to protect and deliver value to energy consumers. The benefits to consumers from the decisions made by Ofgem are not always easily quantifiable and estimates are based on assumptions made, but we do so to better understand the impact of the major decisions Ofgem takes. Hence, Ofgem has calculated total consumer benefits for this financial year to be ~ £1.5 billion. This includes both direct and indirect impacts of a range of decisions made.

Most of the major decisions made this year have been quantified through formal impact assessments, which has captured all benefits where applicable. This has given Ofgem further insight into where greater value can be generated.

Key highlights:

- Since August 2021, Ofgem's supplier exit processes have **protected more than four million consumers**, making sure that even when a supplier fails, customers are transferred to a new energy supplier with no disruption to their energy supply, and household credit balances are honoured.
- On average, customers on the **price cap** saved an estimated **£647** during winter of 2021-22, and compensation of **£1.9 million** was paid to customers affected by non-compliance, with a total redress value of **£4.57 million**.
- More than **£50 million** of funding was made available to energy projects by the **Energy Savings Trust**, including **£11 million** for over **200,000 fuel vouchers**.
- Ofgem oversaw the installation of **3.8 million** additional **smart and advanced smart meters** in the 2021 calendar year (up from **3.2 million** in 2020), with smart meter installations now totalling **27.8 million**, helping to enhance consumer engagement and reduce consumers' bills and carbon emissions.
- **80 innovators** used Ofgem's 'Fast, Frank Feedback' service, to develop new products and services.
- Ofgem disallowed **£1.16 million** of the Data Communication Company's incurred costs and **£317.22m** of its forecast costs, which will be transferred back to industry, and in turn to consumers.
- To help support economic recovery and stimulate innovation, Ofgem made **£300 million** funding available via its electricity distribution price control for **Green Recovery Scheme Projects**.
- The new **Strategic Innovation Fund** invested in forty projects in the transmission and distribution sectors, to accelerate the transition to net zero.
- Ofgem's policies and programmes helped deliver an increase in interconnector capacity to almost **10 gigawatts** for electricity, helping to reduce carbon emissions and consumer costs.
- The introduction of market wide half-hourly settlement in 2025 is estimated to deliver **£1.6 - £4.6 billion** in benefits for domestic and microbusiness by 2045.
- By reducing harmful investment and operational distortions, **Targeted Charging Review** changes are expected to save consumers ~ **£300m** per year, with anticipated ~ **£5bn consumer savings** in total over the period to 2040, as we move to net zero.

New responsibilities in 2021-22

As well as responding to the gas crisis, and setting out reforms for the retail energy market, Ofgem took on or prepared to take on new regulatory and scheme responsibilities.

Regulation

Heat networks

In December 2021, the Department for Business, Energy & Industrial Strategy (BEIS) announced its intention to appoint Ofgem as the economic regulator for Heat Networks through the passage of the Energy Security Bill. Ofgem will design and implement a regulatory framework for heat networks to ensure that heat network consumers – particularly the vulnerable – receive a fair price and reliable supply for heat for their homes.

New nuclear electricity generation

In March 2022, the Nuclear Energy (Financing) Act came into force, which formalised Ofgem's role as the economic regulator for new nuclear electricity generation. Through the implementation of a Regulatory Asset Based (RAB) model, Ofgem will work to deliver the greatest value for money for consumers.

Carbon dioxide storage and transport networks

In January 2022, BEIS announced its intention to appoint Ofgem as the economic regulator for carbon dioxide storage and transport networks, which is expected to be confirmed by the passage of relevant legislation.

Ofgem remains focused on delivery of its current objectives for the energy sector, as set out in the Energy White Paper and Energy Security Strategy, while being responsive to future changes, including the government's planned Strategy and Policy Statement for Ofgem.

Environmental schemes

Boiler upgrade scheme

Launched in October 2021, the scheme will offer grants from May 2023, to reduce the upfront capital costs to customers and small businesses to support the installation of low carbon heating technologies.

Green gas support

Scheme Launched in November 2021, the scheme will provide financial support to gas suppliers wishing to increase the proportion of renewable gas in the gas grid, and to encourage innovation in the renewable heat sector.

Energy company obligation – ECO4

First introduced in 2013, the fourth iteration of the scheme was developed during the year, to replace ECO3, which closed to new applicants on 31 March 2022. The ECO schemes place legal obligations on larger energy suppliers to deliver energy efficiency measures to domestic premises.

Enduring Priorities

A critical part of our Strategic Framework, our Enduring Priorities – which run throughout the delivery year – comprise:

1. Our core regulatory functions to regulate the sector and protect the interests of consumers
2. The delivery of current and new government schemes to support vulnerable consumers and advance decarbonisation.

Core regulatory functions delivery

During 2021-22, we delivered against our principal objective and statutory objectives by ensuring that:

- Consumers continue to pay a fair price for their energy through the effective running of the default tariff price cap
- Consumers, particularly the vulnerable, are treated fairly by suppliers
- When suppliers exit the market, consumers are protected by Ofgem's safety net, including through our Supplier of Last Resort process or a Special Administration Regime
- Through our price controls, competition models and tender processes, energy networks continue to offer consumers value for money
- Net zero goals are supported through increased operational flexibility in the energy system
- Through our enforcement activity, we provide a credible deterrent to non-compliance
- Changes to the energy codes benefit consumers and our licensing is robust
- Network operators are resilient to cyber threats, through our joint Competent Authority role with BEIS, engaging and inspecting Operators of Essential services.

In addition, and following the end of the Transition Period, we worked with the government and energy stakeholders domestically and in Europe on implementing the EU-UK Trade and Cooperation Agreement as it relates to energy.

Details of delivery against our core regulatory activities can be found throughout this Performance Report, within the associated Strategic Change Programme sections.

Environmental and Social Scheme delivery

In addition to Ofgem's five strategic change programmes and its core regulatory activities, Ofgem administers a range of environmental and social schemes on behalf of government, which are collectively worth £9 billion per annum. The schemes fall into three main categories.

Renewable Heat schemes

Boiler Upgrade Scheme

Ofgem was named as the administrator of the Boiler Upgrade Scheme in October 2021, as part of the Government's wider package of policies to encourage low carbon heating. The scheme has a budget of £450 million over three years, which will support low carbon heating technologies in up to 90,000 homes across England and Wales. The scheme will offer grants from May 2023, to reduce the upfront capital costs to customers and small businesses. It is also intended to help reduce the United Kingdom's dependency on fossil fuels and exposure to global price spikes. The scheme is mainly focused on the installation of heat pumps, and will continue the development of the market for these proven alternatives to fossil fuel heating systems – previously supported by Ofgem's Renewable Heat Incentives scheme.

Green Gas Support Scheme and Levy

The Green Gas Support Scheme was launched in November 2021, to provide financial support to gas suppliers wishing to increase the proportion of renewable gas in the gas grid and to encourage innovation in the renewable heat sector. The scheme is expected to yield carbon savings of 8.2 million tonnes of greenhouse gases over its lifetime. The scheme is funded by a levy on fossil fuel gas suppliers, known as the Green Gas Levy, and the first payment was due in May 2022. Suppliers providing solely green gas are exempt from this levy.

Closed (to new entrants) Renewable Heat Schemes

Over the life of the Renewable Heat Incentive schemes to March 2022:

Payments made to scheme participants worth around **£155 million** (Northern Ireland RHI)

6.65 MtCO2 forecast carbon savings (DRHI)

63 TWh thermal heat generated (NHRHI-GB and DRHI)

5,481 MW of thermal heat capacity accredited (NDRHI-GB)

Over 335 thousand payments issued worth around **£145 million** (DRHI) during 2021-22

Over 75 thousand payments issued, worth around **£800 million** (NDRHI-GB) during 2021-22

2,841 GWh heat generated (Northern Ireland RHI – over the life of the scheme to March 2021, scheme closed to new applicants February 2016)

Renewable Heat Incentive (RHI) schemes were established to help consumers – both domestic (DRHI) and non-domestic (NDRHI) – to overcome the costs involved with installing renewable heating systems, compared to more conventional fossil fuel heating systems. The schemes have helped early adopters contribute to the UK's net zero goals, by installing technologies such as heat pumps and biogas injection.

Domestic Renewable Heat Incentive

- This scheme was closed to new applications on 31 March 2022
- Received 36,384 applications during 2021-21
- Ofgem will continue to support participants and make payments where appropriate for their eligibility period (which is up to seven years).

Non-Domestic Renewable Heat Incentive

- Whilst the scheme has now closed, legislative extensions were granted in recognition of the issues faced by industry due to the COVID-19 pandemic, which were further extended in 2021
- Ofgem will continue to support participants and make payments where appropriate for their eligibility period. Participants using extensions will receive support up to 31 March 2041.

Energy Efficiency and Social Schemes

Over the life of the Energy Company Obligation schemes to March 2022:

Over 3.48m measures installed in **2.39 million** households

An estimated contribution of **58.31 $MtCO_2$** in carbon savings

An estimated **£19.3 billion** in lifetime bills savings deliverable to vulnerable households

Over the life of the Warm Home Discount scheme to March 2021:

£3.15 billion of support for customers in or at risk of fuel poverty

23.1 million energy bill rebates provided

Energy Company Obligation

First introduced in 2013, the Energy Company Obligation (ECO) is an energy efficiency scheme. ECO places legal obligations on larger energy suppliers to deliver energy efficiency measures to domestic premises. It focuses on insulation and heating measures and supports low income and vulnerable consumer groups, helping to meet the Government's fuel poverty commitments. The ECO3 scheme opened in 2018, and closed on 31 March 2022, delivering over 930,000 measures in this time.

During the year, Ofgem worked with government to develop ECO4, with the obligation planned to run from April 2022 to March 2026. Whilst the scheme has been delayed, Ofgem has drafted interim delivery guidance, which was published in April 2022. ECO4 has a change in focus (compared with ECO3), with a 'whole house' approach ensuring properties are improved to a minimum energy efficiency rating.

Warm Home Discount

The Warm Home Discount also continues to provide assistance with energy costs to those who are in fuel poverty or are at risk of it, largely in the form of a £150 rebate (increased from £140 this year).

Renewable Electricity Schemes

Renewables Obligation scheme:

26,599 generating stations on the scheme as of March 2021

35.4 GW of renewable electricity capacity accredited as of March 2021

80.3 TWh of total supply from renewable sources generated[1] during 2020-21

Over the life of the Feed-in-Tariff scheme, to March 2021:

869,976 accredited installations

£11.08 billion payments made to generators

Renewables Obligation

The Renewables Obligation, was launched in 2002, as one of the main support mechanisms for large-scale renewable electricity projects in the UK. Currently, the scheme supports ~30% of renewable electricity supplied in the UK; significantly above the 3% when it began. Smaller-scale renewable and low-carbon generation is mainly supported through the Feed-in-Tariff ('FIT') scheme, which makes payments to participants that install electricity generating installations, such as photovoltaic panels.

While both schemes are now closed to new applicants, Ofgem will continue to operate them until all eligible payments and certificates have been issued. RO certificates will continue to be issued until March 2037, while FIT payments will be made until March 2040.

[1] Equivalent to 31% of UK supply

Ofgem's Strategic Change Programmes

Future of Retail - Change programme and associated core regulatory delivery

Consumers engage with the energy system first and foremost through the retail market. Ofgem's aim is for the retail market to deliver good outcomes for all consumers – whether or not they make active decisions to change their supplier or tariff. In practical terms, this means delivering a fair, functioning market with products that meet their needs, and driving significant improvements in protections for consumers. During 2021-22, this aim was challenged by the impact of rapidly rising wholesale gas prices, which caused significant market disruption and supplier exits, and exacerbated price pressures on energy consumers.

Ofgem rapidly reviewed and reprioritised its 2021-22 work programme to focus on consumer protection and market integrity in response to these unprecedented rises in energy prices. The revised activities included a raft of new measures to boost financial resilience in the energy sector, including development of new stress testing for suppliers, and developing market-wide compliance assessments that began in January 2022.

Ofgem remains committed to identifying what further reforms are required to best deliver a retail market that will deliver fair prices for consumers, support the transition to net zero at lowest cost, provide effective protection for consumers and be resilient to change.

Strategic change programme delivery

Suppliers provide consumers with a stable energy supply and effective service; and consumers, particularly the vulnerable, are treated fairly by suppliers

Ofgem published an open letter to the energy industry in October 2021, setting out imminent changes to licence conditions and broader reforms of the regulatory frameworks. This was followed by the publication of an action plan for financial resilience in December.

To respond to these unprecedented energy price rises, Ofgem has reformed the economic and business model of suppliers without sufficient capital reserves.

Liberalising the regulatory model for energy supplier licensing from 2010 achieved its goal of facilitating new entry and increased competition in the retail market, but too many of the new entrants pursued unsustainable business models and committed insufficient capital to withstand shocks.

Recent pressure on the market has led to exits for a number of suppliers that were inadequately capitalised. Ofgem's reforms include proposals to ring-fence renewables levies and customer credit balances (subsuming recommendations from the ongoing Supplier Licensing Review) with a view to developing broader financial resilience and controls, to be implemented in 2022-23. Ofgem also responded by:

- introducing a requirement for suppliers to make all tariffs available to new and existing customers
- introducing a market stabilisation charge, to incentivise responsible hedging by suppliers and to reduce the risk of costly supplier exits when prices fall
- temporarily pausing the entry of new energy suppliers into the market, and
- extending the assessment period of new licence applications, to allow for more rigorous assessment of applicants' business models, resources, and fitness to enter and operate in the market.

Developed and implemented a robust financial regulatory framework

Ofgem has introduced top-down financial regulations to ensure that energy suppliers:

- have adequate risk management and available capital to manage reasonable market risks
- have suitable governance processes in-place
- are run by fit and proper leaders.

Ofgem has moved to a more proactive regulatory and compliance stance, developing stress tests and market-wide compliance assessments that will be implemented in 2022-23, to regularly test suppliers' financial health and whether they are meeting their obligations to consumers. This will allow Ofgem to respond more quickly with compliance activity, and where appropriate enforcement action. In January 2022, Ofgem also took decisions to strengthen assessments and to require additional reporting from suppliers that are considering significant commercial activities, such as trade sales or changes in senior personnel, to ensure they are fit and proper.

Reformed the price cap to strengthen its resilience in the face of high and volatile energy prices

After consultation, we proposed in May 2022 moving to quarterly price cap updates rather than twice a year. This second consultation closed in June, and we will announce our decision later this year. Further reforms and adjustments may be required to ensure that the price cap methodology can continue to protect consumers at times of price volatility, as Ofgem monitors and responds to changes in the energy market participants.

Consumers engage and take advantage of a competitive retail market and technological change to support decarbonisation

Heat Networks

BEIS announced in December 2021 that it intended to appoint Ofgem as the Heat Networks regulator, and has since committed to introducing legislation that will introduce the regulatory framework for heat networks.

This will support the heat network sector to grow and decarbonise, and at the same time ensure consumers are protected from poor standards and disproportionate prices. Since the December 2021 announcement, Ofgem has begun to develop our regulatory approach, considering how a modern, digital approach to regulation can best regulate the growing heat network sector, and worked closely with BEIS and the Scottish Government to define interactions between the Scottish licensing regime and the BEIS framework.

Faster, more reliable switching

The switching programme aims to reduce the time it takes to switch energy supplier, and reduce the number of failed switches through improvements to central industry systems. During the year, the switching programme completed system integration testing, user testing, and end-to-end process testing. In March 2022 the programme entered its transition phase, ahead of planned go-live in July 2022. During 2021-22, Ofgem concluded all outstanding consultations, and developed the code and license changes to support implementation.

Core Regulatory Delivery

Suppliers provide consumers with a stable energy supply and effective service

Throughout 2021-22, Ofgem closely monitored the financial position of retail energy suppliers at risk of leaving the market and deployed our supplier exit processes to protect more than four million consumers.

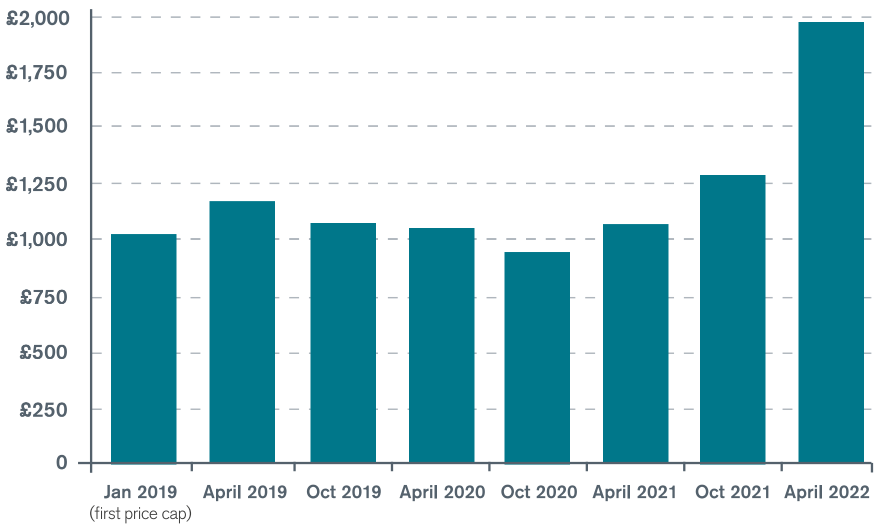
From August 2021, twenty-eight smaller suppliers exited the market, precipitated by large increases in the cost of wholesale energy prices, affecting around 2.4 million customers.

One large supplier, Bulb, also failed, which required Ofgem, working closely with government, to use its Special Administration Regime (SAR) powers to protect 1.6 million customers.

These processes have ensured that, even when suppliers fail, customers have been transferred to a new energy supplier with no disruption to their energy supply, and household credit balances have been honoured.

Consumers pay a fair price for energy and benefit from rights and protections

Default tariff price cap



Price Cap Levels
April 2022 - £1,971
Oct 2021 - £1,277
1 Oct 2020 - £1,042
1 April 2020 - £1,126
1 Oct 2019 – £1,143
1 April 2019 - £1,217
1 Jan 2019 - £1,104 (first price cap)

The price cap ensures that energy suppliers can only charge consumers on their default tariff a fair price, based on the true cost of supplying electricity and gas – and no more. The price cap has saved consumers ~£1 billion per year since its introduction in 2019. The price cap has also delayed and smoothed the impact of the rise in energy prices, but has nevertheless risen to record levels. Price cap changes during the last twelve months were as follows:

- 1 April 2021: the price cap rose by 9% to £1,138[2] to reflect increased wholesale costs, network and policy costs, and an adjustment for COVID-19
- 1 October 2021: the price cap rose by 12% to £1,277. Wholesale costs rose due to a combination of lower gas supply due to the global COVID-19 recovery, increased demand in Asia and protracted cold spells over the winter
- 1 April 2022: the price cap rise by 54% to £1,971. This rise was driven by wholesale costs due to strong demand to refill low levels of gas storage across Europe, additional costs incurred by suppliers, and increased network costs, driven by the recovery of the Supplier of Last Resort levy costs.

[2] The level of the cap shown is for a dual fuel, direct debit customer, calculated using the latest Typical Domestic Consumption Values (TDCVs)

Retail Compliance

Ofgem has continued to hold retail energy suppliers to account, to ensure that the energy market remains fair for consumers. We do this by engaging with suppliers through effective account management, and also with other parties to gather intelligence on supplier performance, intervening where necessary and by promoting good practice. When risks or issues are identified, Ofgem issues formal 'Requests for Information'. For the period 2021-22 Ofgem has:

- Investigated 69 new instances of potential non-compliance, of which 25 were progressed to compliance engagement with suppliers
- Concluded 29 compliance engagements across 25 different suppliers that involved either compensation payments to customers, redress payments into the Energy Industry Voluntary Redress Fund, or both
- Secured refunds, compensation and redress payments for over £1.9 million affected customers, with total redress value of £4.57 million
- Had close engagement with all suppliers appointed through the Supplier of Last Resort (SoLR) process to ensure that new customers were onboarded as promptly and efficiently as possible, and to resolve any consumer issues, arising from the SOLR appointment.

Details of investigations and enforcement activity is set out in Appendix II of this report.

More consumers manage their energy use flexibly through smart metering

Market-wide half-hourly settlement

Market-wide half-hourly settlement (MHHS) will be a vital enabler of flexibility by incentivising suppliers to offer new tariffs and products that encourage more flexible use of energy and help consumers to lower their bills. Following the publication of Ofgem's decision to proceed with the MHHS operating model April 2021, the regulatory basis for implementing the programme was published in August and licence and code obligations were updated by October 2021.

Smart meter rollout oversight

Ofgem has regulatory oversight of the smart meter roll-out carried out by energy suppliers. Smart meters are a key building block to meeting the objectives of the joint Ofgem / BEIS Smart Systems and Flexibility Plan, that will enable consumers to change their consumption patterns to match when cheaper and low-carbon electricity is available, by giving them greater control over their energy use. Given the disruption in the energy market during the year, BEIS allowed a further extension to introduce new rollout requirements, which will now commence in the 2022 reporting year.

DCC annual price control and price control review

The Data Communications Company (DCC) is contracted to deliver the Great Britain-wide smart meter communications network. Ofgem regulates the DCC as a monopoly provider with a price control to ensure value for money. During 2021, Ofgem engaged with stakeholders on potential changes to the DCC's regulatory framework, though this was also paused due to the market disruption. Ofgem's annual decision on DCC costs was published in October 2021, which disallowed £1.16 million of incurred costs and £317.22 million of forecast costs. These will be transferred back to industry, and in turn to consumers.

Low Carbon Infrastructure - Strategic Change programme and associated core regulatory delivery

The transition to net zero requires a major transformation of the energy sector, including in the physical infrastructure that carries heat and power to our homes and industries. This transformation will require major investment. In addition to £30 billion of investment recently approved in Ofgem's electricity transmission and gas network price controls, a range of new mechanisms were introduced, providing the flexibility to approve more than £10 billion of additional net zero expenditure over the next five years. Additional expenditure will also be required in electricity distribution networks, new power generation and the deployment of low carbon technologies, such as heat pumps; and in electricity networks beyond Ofgem's price controls, such as offshore wind links and interconnectors.

During 2021-22, Ofgem took an active role in facilitating this investment and ensuring that it was efficiently spent. The Low Carbon Infrastructure programme delivered the first year of a three-year programme to:

- efficiently transform the onshore electricity network, connecting and enabling new sources of low carbon generation (e.g. offshore wind generation) to meet net zero targets
- support the expansion of the offshore network and interconnectors, including enabling a coordinated approach to offshore network development
- provide advice and develop regulatory mechanisms to enable investment in carbon capture, usage and storage (CCUS), transport and storage and new nuclear power, where requested by government
- prepare gas networks for a transition to a low carbon future, helping understand the feasibility and costs of hydrogen in the gas grid
- develop new regulatory approaches and best practices to manage cyber risks to energy infrastructure.

The activities Ofgem has undertaken in 2021-22 have achieved the following deliverables and contributed to our strategic framework outcomes as follows:

Strategic change programme delivery

Effective onshore network price controls are put-in-place

During 2021-22, Ofgem continued to develop the next price control for electricity distribution (RIIO-2 ED), which will set the outputs for the UK's fourteen Distribution Network Operators (DNOs). The price control sets out what DNOs will need to deliver for their consumers and the revenue that they will be allowed to collect.

Following independent challenge by the RIIO-2 Challenge Group and Consumer Engagement Groups (CEGs), DNOs submitted their final business plans for assessment in December 2021. Final CEG reports on these plans were published in January 2022 followed by the final report of the RIIO-2 Challenge Group in February 2022.

These reports and wider stakeholder evidence on the final plans informed the series of public Open Hearings held with each of the DNOs in March 2022. Ofgem will set out its Draft Determinations in summer 2022 and, following a period of consultation, its Final Determinations by December 2022.

Future network investment offers value for money and drives net zero outcomes

Interconnector policy review

Over the summer of 2021, Ofgem consulted on recommendations and proposals for its approach to new electricity interconnectors, to meet government's ambition for 18GW (gigawatts) of interconnection by 2030, and to help facilitate net zero ambitions of up to 50GW of offshore wind by 2030.

A decision, published in December 2021, sets out how such targeted investment for interconnectors, including multi-purpose interconnectors (MPIs), will need to be informed by analysis that is integrated within whole-system planning processes. Ofgem has committed to running a third Cap and Floor application window and an MPI pilot programme in 2022.

Offshore Transmission Network Review

Launched in July 2020, the Offshore Transmission Network Review (OTNR) seeks to deliver increased coordination of offshore transmission and interconnection, with a view to finding a better balance between environmental, social and economic costs, to support the delivery of 50GW of offshore wind by 2030. Ofgem published a consultation in July 2021 to seek views on greater levels of coordination to meet OTNR objectives, focusing on three workstreams:

- early opportunities, to facilitate anticipatory investment
- pathway to 2030, focusing on business models to coordinate offshore transmission assets for Scotwind and Crown Estate Leasing Round Four projects
- how the existing licencing framework can be adapted to take advantage of MPIs.

Following the publication of an update on the consultation in January 2022, Ofgem issued a 'minded-to' decisions on each workstream in June 2022, and will finalise and implement decisions from summer 2022 onwards.

Electricity Transmission Network Planning Review

In November 2021, Ofgem also published a consultation[3] to consider the need for improvement in electricity transmission network planning, to help deliver decarbonisation targets. The consultation included a proposal to introduce a new Centralised Strategic Network Planning model, to be led by the independent System Operator. A decision will be published during the new financial year.

Support net zero transition

New nuclear electricity generation

Ofgem continued to provide advice on the design and implementation of a regulated asset base (RAB) model for new nuclear projects. A RAB model will provide the basis for an economic regulatory framework for investment in new nuclear electricity generation. In March 2022, the Nuclear Energy (Financing) Bill passed into law, which will make the implementation of a RAB model possible, and confirmed Ofgem's role as the economic regulator for the sector. Ofgem will continue to work with BEIS to develop a workable implementation model for a RAB regime into 2022-23.

Carbon capture, usage and storage

Ofgem also continued to work with BEIS to provide advice on the design and implementation of RAB models for CCUS transport and storage networks, to enable BEIS's ambition to establish at least two CCUS industrial clusters by the mid-2020s. In January 2022, BEIS identified Ofgem as the entity best suited to take on the role of the economic regulator role. BEIS is expected to lay new legislation in the summer of 2022, to establish a new economic regulatory framework for the transport and storage of carbon dioxide.

Hydrogen

Ofgem published a 'minded-to' decision in March 2022, to fund two detailed design studies, to help create a hydrogen-heated village by 2025. If approved, the studies will help gather the evidence needed for government to decide whether to promote hydrogen, transported through the existing gas network to decarbonise heat in buildings.

[3] Consultation on the initial findings of our Electricity Transmission Network Planning Review | Ofgem

Core Regulatory Delivery

Existing onshore networks offer value for money and drive net zero investment

RIIO-2 Implementation and Monitoring

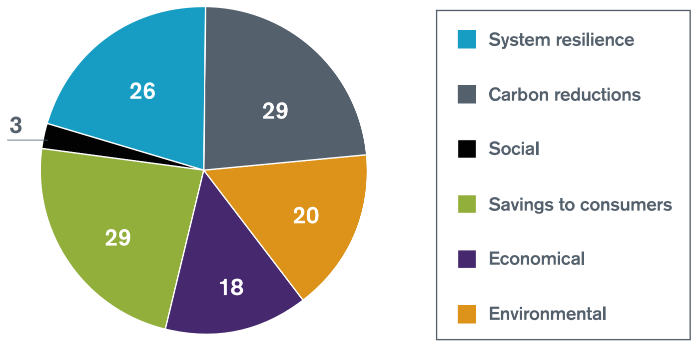
The Competition and Markets Authority published its Final Determinations on the RIIO-2 appeals for Gas Distribution and Transmission Price Controls in October 2021, upholding a majority of the matters under appeal, with the findings implemented within the final RIIO-2 settlement.

Network owners and the Electricity System Operator (the ESO), regulated through RIIO-2, will report on their performance against the price controls, for the year 2021-22, to Ofgem for the first time in 2022.

RIIO-1 Closedown and Monitoring

Given the uncertain nature of some elements of the price controls, some areas can only be settled once all costs and actual performance is known. In all sectors, Ofgem published consultations on how RIIO-1 would be closed out. Annual performance summaries were also published, covering areas such as performance against outputs, network company investment and bill impacts.

Strategic Innovation Fund



During the year, Ofgem partnered with Innovate UK, part of UK Research & Innovation, to introduce the Strategic Innovation Fund to support the ESO, electricity transmission, gas transmission and distribution sectors to develop innovative projects with the potential to accelerate the transition of energy networks to net zero.

The Fund is expected to invest up to £450 million in energy network innovation between 2021-26. In the new financial year, projects will be assessed to receive up to £500,000 to develop their ideas.

Network companies are cyber resilient

Cyber Competent Authority

Through a joint Competent Authority role with BEIS, Ofgem continued a programme of Network and Information Systems (NIS) Regulation inspections to assesses the level of cyber resilience across the sector, with a view to maintaining and improving standards.

In October, Ofgem published a call for input on a revised version of NIS guidance for downstream gas and electricity operators, and a consultation on draft NIS enforcement guidance and penalty policy. The guidance provides information on the processes and procedures Ofgem will apply when taking enforcement action under the NIS Regulations. The updated guidelines came into effect in March 2022.

Existing offshore networks offer value for money and drive net zero investment

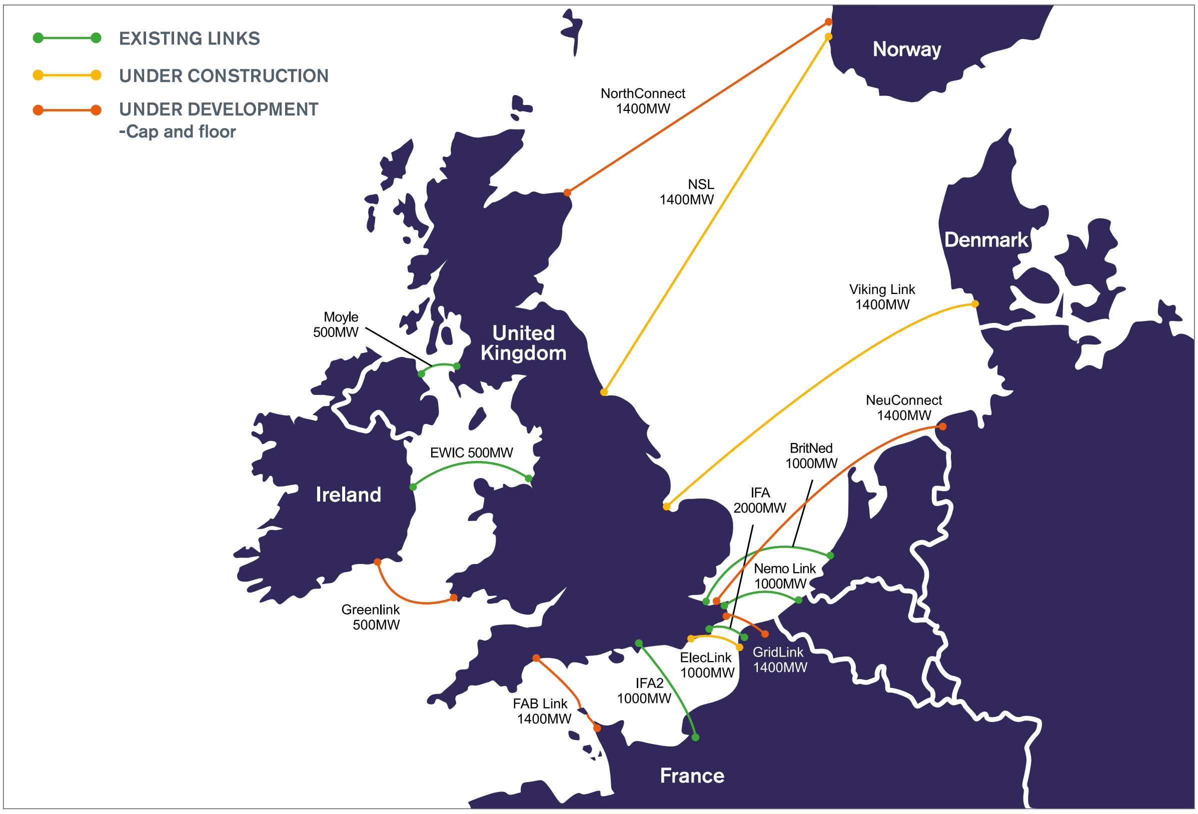
Offshore Electricity Transmission Owner (OFTO) tenders

Ofgem's offshore transmission regime underpins the UK's renewable energy targets, by connecting offshore electricity generation to the onshore grid. A competitive tender process manages the sale of offshore transmission assets and the granting of generation licences, to deliver new infrastructure at low costs.

In June 2021, Ofgem launched Tender Round Eight for prospective bidders to connect the Hornsea Project 2 Wind Farm (installed capacity 1,368 MW), expected to be worth more than £1.2 billion. In January 2022, Tender Round Nine was launched for Seagreen Phase 1 transmission assets, expected to be worth between £0.5-1.0 billion.

Interconnectors

Great Britain (GB) is connected to neighbouring countries by an undersea network of cables – interconnectors – which allow us to exchange electricity internationally, helping to reduce wholesale prices and to access a wider range of low-carbon electricity sources.



In 2021-22 the NSL interconnector to Norway started operating, increasing GB's interconnector capacity from 6GW to 7.4GW. Ofgem regulates new interconnectors through its Cap and Floor regulatory framework. During the past year, the following progress was made to increase interconnector capacity:

- In April 2022, Ofgem published a consultation for the Final Project Assessment for the NeuConnect interconnector development
- In March 2022, Ofgem also published a consultation on its Post Construction Review of the IFA2 interconnector to France, which sets the final regulatory regime for the project
- In October 2021, Ofgem published a decision on the Final Project Assessment of the Greenlink project to Ireland, which enabled that project to take a final investment decision and begin construction in spring 2022. When completed, Greenlink will be the third connection to the Irish electricity market
- In 2015, Ofgem granted a Cap and Floor regime in principle for the FAB Link interconnector development, which was subsequently postponed in 2020. Ofgem has recently published a decision in March 2022, setting out the needs case reassessment of the development, indicating – on condition – that the link is likely to still be in the interests of current and future GB consumers.

Full Chain Flexibility - Strategic Change programme and associated core regulatory delivery

The potential for energy flexibility to reduce costs as we transition to a net zero system is widely acknowledged. As the share of variable renewable generation rises, and electricity demand from heat and transport grows, the electricity system will need to become more flexible if system costs are to be minimised. In July 2021, Ofgem and BEIS jointly published the Smart Systems and Flexibility Plan. The Plan sets out that in a fully flexible electricity system, every connected resource could contribute its full potential to meet system needs and deliver cost savings of up to £10 billion per year in 2050, primarily from avoided investment in generation plant and network capacity.

Enabling and supporting this increase in flexibility will require widespread smart metering (see the Future of Retail Core Regulatory Delivery section) and implementation of market wide half-hourly settlement to support flexible tariffs and new consumer products.

To help bring about a more flexible system, in 2021-22 **Ofgem delivered against the following aims:**

- publishing an updated Smart Systems and Flexibility Plan with BEIS, identifying the actions required across four key areas: facilitating flexibility from consumers, removing barriers to flexibility on the grid, reforming markets to reward flexibility and digitalising the system
- taking forward actions to integrate smaller, distributed energy sources (including EVs and heat pumps) to help bring the demand-side into a flexible energy system
- aligning charging reforms (Access and Forward-Looking Charging) with the requirements of a more flexible system
- encouraging whole-system approaches to flexibility among regulated parties.

The activities Ofgem has undertaken in 2021-22 have achieved the following deliverables and contributed to our strategic framework outcomes as follows:

Strategic change programme delivery

Cost effective net zero is supported through flexibility, while maintaining security of supply

Flexible, wholesale market reform

Two key elements of the Smart Systems and Flexibility Plan were taken forward, with the publication in April 2022 of a call for evidence on Large-scale and Long Duration Electricity Storage, and supporting BEIS on their Review of Electricity Market Arrangements, to consider whether wholesale market arrangements are fit for net zero.

Distribution System Operator and whole system regulations

Ofgem has worked with industry to develop architypes on the roles and functions of Distribution System Operators (DSOs) and local governance, recently setting out options for consideration in a call for input. This feedback will help us develop the right institutions to coordinate and manage local system operation and flexibility services.

In April 2021, we published our decision to implement the Whole Electricity System licence condition, requiring all Distribution Network Operators (DNOs), Independent DNOs and onshore electricity Transmission Owners to coordinate in the interests of energy consumers.

This was followed with DNO workshops in the summer of 2021 to help develop appropriate metrics and incentives for the RIIO-2 price control electricity distribution (ED2) submissions, and a consultation on an updated set of proposals for assessing CLASS (Customer Load Active System Service) as a balancing service in ED2.

Electric vehicles

In September 2021, Ofgem published our priorities for how we will support the rollout of electric vehicles in Britain, and how we will ensure the electric vehicle rollout unlocks the full benefits for consumers and the environment, as well as reduces the cost of the energy system.

This document set out four areas of priority activity:

- ensuring the network is ready for electric vehicle adoption
- reducing barriers to network connection
- the deployment of smart charging
- Vehicle-to-Grid and supporting consumer participation and protection.

Ofgem also continued to work with colleagues from across government, including the Office for Zero Emission Vehicles (OZEV), the Department for Transport and BEIS, to support the rollout of charging infrastructure across the country at both a localised level (Local Electric Vehicle Infrastructure Scheme) and across the Strategic Road Network (Project Rapid).

European coordination

Following the United Kingdom's departure from the European Union, Ofgem is no longer a member of the Agency for the Cooperation of Energy Regulators (ACER). A Memorandum of Understanding was agreed with ACER and Northern Ireland's Utility Regulator which, subject to approval by the United Kingdom Government and the European Commission, will allow Ofgem to cooperate, provide mutual assistance and exchange information with ACER, on topics including security of supply, gas decarbonisation, offshore energy, and preventing market abuse.

Ofgem continued to work with other National Regulatory Authorities across Europe - through the Council of European Energy Regulators (CEER) - on matters of mutual interest, including issues relating to supporting net zero and ensuring continued cross-border and whole system arrangements.

Core Regulatory Delivery

Efficient network charging arrangements are in place

Implementing the Targeted Charging Review and action on transmission charging

Every year, consumers pay over £10 billion to cover the costs of new and existing electricity network assets and to keep the complex electricity system in balance. To manage this, Ofgem initiated the Targeted Charging Review (TCR) to ensure the residual charges needed to cover the costs of operating, maintaining and upgrading the electricity grid are spread fairly. The TCR decision confirmed that residual network charges, including the Transmission Demand Residual charges that recover much of the cost of the transmission network, should be recovered through fixed charges on Final Demand consumers.

In the autumn of 2021, Ofgem opened a call for evidence on the extent to which reform of transmission network use of system charges is needed. Ofgem provided an update in February 2022, which set out a commitment to a significant programme of work on the longer-term purpose and structure of transmission charges in a net zero energy system. The ESO has been tasked with leading Task Forces under the Charging Futures arrangements, to improve charging under the current framework.

Access Significant Charing Review decision

Ofgem developed further Charging and Access reforms in 2021-22, and in May 2022, published our Final Decision and Direction on the Access Significant Codes Review (SCR). The decision sets out changes, which will reduce the costs borne by connecting customers whose connection to the distribution network requires wider network upgrades, such as electric vehicle rapid charging hubs, fleet or bus depots by moving some of the costs of additional network reinforcements into the network charges paid by all electricity consumers in the area. Ofgem has directed industry to implement the changes in line with the next price control period for distribution network operators, coming into effect in April 2023.

Distribution Charging SCR

Following consultation in November 2021, we created a separate SCR to review Distribution Use of System (DUoS) charges. Work on DUoS reforms is expected to take place throughout the year, with the expected implementation being from 2026.

Capacity market delivers cost effective net zero delivery and security of supply

The Capacity Market is at the heart of the government's strategy for ensuring secure electricity supplies, at least cost to consumers. It is technology-neutral, with existing generators competing against a range of other technologies to ensure that our electricity supply is secure for the future.

Following a consultation in May 2021 for outstanding rule change proposals, Ofgem published 'minded-to' decisions for several policy areas to amend the Capacity Market Rules. This covered relevant balancing services, the Capacity Market register, relevant planning and consents, as well as the maximum obligation period. Ofgem also published a call for input requesting stakeholder views on the set up of the Capacity Market Advisory Group. Once established, the Group will work closely with Ofgem to prioritise and optimise the timings of Capacity Market Rules change proposals.

Net zero transition goals are met through effective system operation

In April 2021, the RIIO-2 price control commenced for the ESO, which was set by Ofgem. The price control period runs from 2021 to 2026. The ESO has a central role in our energy system, delivering the real-time operation of the electricity transmission system, market development, managing connections, and shaping network investment.

The ESO Performance Panel and Ofgem monitor performance delivery on a six-monthly basis. By providing feedback on performance to the ESO, Ofgem ensures that it will be able to act and make any necessary improvements during its two-year business plan period. A final decision on the ESO's performance scores will be made by Ofgem by August 2023, with a maximum reward under the incentives scheme of £30 million and a maximum penalty of £12 million.

Data and Digitalisation - Change programme delivery

As the energy transition continues, the energy sector is becoming more complex, and the benefits of clear communication and data sharing are growing. The smart creation, collection and use of energy system data is fundamental to managing this complexity, and for unlocking new sources of value for all energy stakeholders, including lower costs and improved consumer protection.

During 2021-22, Ofgem committed to using and sharing data effectively as a core component of our internal operations and regulatory decisions. Looking outward, the data and digitalisation Strategic Change Programme developed activities to ensure better regulatory decisions are taken through the improved use of data, and that data is used more effectively by the market, through modern data regulations.

Ofgem's key aims in 2021-22 were to:

- provide leadership and collaboration to deliver the scale of change required
- establish new data and digital defaults, and ensure the sector is incentivised and coordinated to adopt them
- enable the sector through new and existing shared infrastructure to grow and develop future data and digital solutions that work for consumers.

The activities Ofgem has undertaken in 2021-22 have achieved the following deliverables and contributed to our strategic framework outcomes as follows:

Strategic change programme delivery

Increased data sharing, to enable new and more efficient markets and for consumers to be able to take greater advantage of this data

In June 2021, Ofgem formally consulted on two sets of guidance as part of the RIIO-2 price control, setting out obligations for energy network companies to comply with data best practice and 'Digitalisation Strategy and Action Plan' guidance. This was followed by a final decision in November 2021, setting out best practice and an action plan, and confirming that the data and digitalisation standards would apply to regulated parties as well as Ofgem, with the aim of opening-up energy systems data. Looking ahead to 2022, these standards are now embedded in the draft licence conditions for the RIIO-2 electricity distribution price control (ED2), which will be included in the Draft Determinations in June 2022.

Improve planning and management of energy data, including reviewing the digital energy market

Ofgem completed a digital markets review, to:

- help identify and understand existing and emerging data and digital service providers in the energy sector
- identify implications for energy consumers
- be aware of monopolistic risks
- to inform future regulatory solutions in this space.

The review was completed in March 2022, which will be followed- up with a call for evidence in summer of 2022.

Ofgem also developed the approach for a forthcoming compliance review of the digitalisation standards of the RIIO-2 licence conditions, as described above.

Improve regulatory decisions, through Ofgem making greater use and sharing of data

Throughout 2021-22, Ofgem built the capacity and capability of our Data and Digital insights Team and developed clear implementation plans for the Data and Digitalisation Strategic Change Programme. We also undertook a best-practice review of global regulatory approaches for data sharing, consent and digital regulation in order to inform the development of this Strategic Change Programme.

Ofgem's Data Best Practice guidance was implemented in March 2021. We will be undertaking a review of its progress in the summer of 2022, to assess how relevant organisations are managing their obligations.

This capability building has led to the team supporting the wider gas crisis activities through offering insights generated from Ofgem's internal use of data, and by improving our approach to regulation through applying analytical techniques to complex and high-volume data, such as our approach to market monitoring. This included assuring consumer protections for time of use tariffs, analysis of 20,000 price cap consultation responses, and improving complaints monitoring reporting.

Energy System Governance - Change programme and associated core regulatory delivery

To facilitate the transition to a more flexible, data enabled, net zero energy system, Ofgem considers that there is a case for stronger strategic oversight and better whole systems coordination, which will likely require changes to existing governance (institutions, procedures, codes, standards and licensing arrangements).

During 2021-22, Ofgem – working closely with BEIS – began the process of reviewing the institutional and governance landscape to consider whether those structures remained fit for purpose. This included reviewing the current energy codes and their governance arrangements, and supporting wider government thinking on options for a 'whole system' Great Britain system operator.

Ofgem has delivered substantial progress against the following aims:

- establishing (with government) a clear, integrated vision for energy system governance
- developing and implementing important reforms, particularly those arising from the Energy Codes Review
- identifying Ofgem's medium and long-term goals as the energy regulator, and beginning to change its shape, functions and regulatory model to align with these goals.

The activities Ofgem has undertaken in 2021-22 have achieved the following deliverables and contributed to our strategic framework outcomes as follows:

Strategic change programme delivery

Net zero transition goals are met through system operation

Future System Operator

In April 2022, Ofgem and BEIS published a joint response to a consultation that was held during the year, setting out a commitment to proceed with the creation of an expert, impartial Future System Operator (FSO). The FSO will be established as a public corporation, with all the main existing Electricity System Operator roles and longer-term planning, forecasting and markets roles of the Gas System Operator. Introducing the FSO is intended to enable more coordinated, strategic and whole systems planning.

Distribution System Operator Governance - Call for Input

During the year, Ofgem reviewed the effectiveness of institutional and governance arrangements at the sub-national level, to achieve the most cost-effective and reliable integration of distributed low carbon generation and flexible demand.

In April 2022, Ofgem set out its initial views on the challenges and opportunities for the distribution-level institutional framework, and called for input on various reform options.

In September 2021, Ofgem published the business plan guidance for RIIO-2 electricity distribution price control, which introduced a distribution system operator baseline expectation that distribution network operators (DNOs) address actual and perceived conflicts relating to investment decisions on flexibility and traditional network solutions. This supports DNOs having in place executive-level accountability and board level visibility, clear and separate decision-making frameworks, and independent oversight such as external auditing.

Codes benefit consumers and licensing is robust

Energy Code Governance Reform

As part of the above activity, in July 2021, Ofgem jointly initiated with BEIS a consultation on Energy Code Reform, which closed in September.

In April 2022 Ofgem and BEIS published a joint response which set out a package of reforms to the energy code framework to facilitate more effective governance of the energy system. This includes giving Ofgem a new strategic oversight role for the energy codes, and the introduction of licensing for code managers. These reforms are expected to be implemented through legislation, and Ofgem will undertake preparatory activities in the new financial year, alongside the legislative process.

A parallel exercise also saw Ofgem review the future governance of engineering standards. In July 2021, BEIS published its response to the engineering standards review, setting out how it intended to respond to the recommendations, and indicated that the engineering standards should not be included in the Energy Bill, but rather reforms taken forward through code governance reform, giving Ofgem strategic oversight as the Strategic Codes Body.

Core Regulatory Delivery

Robust industry codes and licensing benefit consumers

Throughout the year, Ofgem carried out its statutory functions to process licensing applications, support organisations in making changes to codes and licenses, and oversee industry code governance arrangements, including leading stakeholder engagement with the industry code bodies and panels. Ofgem also updated the licence application guidance. As such, Ofgem continued to deliver licensing decisions in line with key performance indicators (see Appendix I for more details).

Ofgem published a joint consultation with BEIS to consider the design and delivery of Energy Code reform in July 2021. This was followed by a joint response to the consultation published in early April 2022 (see Energy Systems Governance section for details).

Engaging with our stakeholders

With energy prices rising to unprecedented heights and the cost of living increasing, our stakeholders have experienced one of the most challenging years yet. Consequently, stakeholder engagement has been more important than ever.

Over the past 12 months we have engaged our stakeholders to understand their challenges and needs and gathered insights to inform our decisions and policies. High-profile events over the year such as the energy crisis and COP26 resulted in our CEO and the senior leadership team taking part in a record number of speaking engagements and media interviews.

Energy crisis and our engagement response

Since the energy crisis started, we have engaged intensively across the sector. Martin Cave and Jonathan Brearley, along with our Director of Retail, Neil Lawrence have been on visits across the country, speaking to organisations, charities and consumers to gain greater insight into the real impacts of the crisis and the challenges that people are experiencing. Our senior leaders have also held meetings with supplier CEOs throughout the crisis, as well as engaging with wider senior stakeholders to gather insight and hold open, transparent discussions. We have continued to meet regularly with our working groups such as the Large User Group and the Small User Group for non-domestic consumers, enabling them to feedback on proposed policy changes and consultations, and share their concerns and priorities.

D&I 50:50

At Ofgem, we are prioritising diversity and inclusion more than ever. We are moving closer to 50% female representation at both Board and Exec level and planning significant further action as part of our bold new Diversity and Inclusion strategy, recognising that we still have a long way to go.

In April 2021 we held a cross sector Equality, Diversity and Inclusion virtual event with Energy UK on the theme of ‘from intention to action’ to convene and learn from best practice to improve diversity and inclusion across the energy sector.

We also became one of the first energy sector and civil service organisations to join the BBC 50:50 Equality Project. The project supports organisations to create content that better reflects the world around us by monitoring representation and tracking progress towards a 50:50 gender split. We have made significant improvements throughout the year and in Q4 we reached 50:50 for the first time. Our notable successes included improved representation of females across Ofgem events and external speaking engagements and increased awareness of our commitments across Ofgem.

COP26

In November we took part in the 26th UN Conference of Parties in Glasgow (COP26), where Ofgem launched the Regulatory Energy Transition Accelerator (RETA), together with the International Energy Agency (IEA), the International Renewable Energy Agency (IRENA) and the World Bank. This global initiative aims to accelerate the energy transition to provide clean, secure, and affordable supplies to everyone. Twenty-two international energy regulators signed up to the RETA ahead of COP26 and it has continued to grow.

As part of Ofgem’s “Green, fair future” engagement and communications campaign in the run up to COP26, we hosted a series of energy related events and webinars which focused on some common issues faced by regulators in enabling energy-related decarbonisation. This programme of events brought together international regulatory representatives and wider stakeholders to share ideas, best practice and challenges to help step up the pace of change which will be crucial to achieve global climate goals.

Sustainability report

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

32% reduction in overall carbon

Reduce landfill to 10% of total waste

Increase the proportion of waste that is recycled

Reduce paper consumption by 50%

Reduce water consumption

Internal Environmental report 2021-22

Ofgem remains committed to the Greening Government Commitments which have been updated with a new baseline, new targets and sub targets. The new targets are for the period 2021 to 2025. Below are the targets and what we are doing to achieve them.

Key changes to the GGCs compared to 2016 to 2020 are:

- Changing the target baseline year from 2009 - 2010 to 2017 - 2018, to accurately reflect the current government estate and ensure the government builds on the progress it has already achieved
- Setting more stretching targets on the core areas of emissions, water, waste and domestic flights
- Reorganising the targets into headline commitments and sub-commitments, so that departments can commit to common overall objectives.

We are only ably to get utility data for our London office so that is what we report on.

Mitigating climate change: working towards net zero by 2050.

Headline target: Reduce the overall and direct greenhouse gas emissions from the Ofgem estate and its operations from a 2017 - 2018 baseline.

Since February 1st 2022 our headquarters office building, which we share with several government bodies, has been supplied with carbon free electricity. We are working with building management to change the hot water boilers, which account for 3% or total energy use, from gas to air source heat pumps which would make us carbon neutral.

Our Glasgow office was, at the time we occupied it the second most efficient office in the government estate (taken from the 2017-18 State of the Estate report) based on its energy performance certificate (EPC). Glasgow City Council, who own the building, have recently installed energy meters on our floor, and we expect that we will be able to account for our energy usage from this office in this report next year.

The lack of staff working in our offices and next to no travel has obviously reduced energy usage over the past two years. We have however not been idle over this period having introduced more energy saving measures into our offices such as lighting and lighting control upgrades and BMS upgrades, so we do not expect usage to return to previous levels.

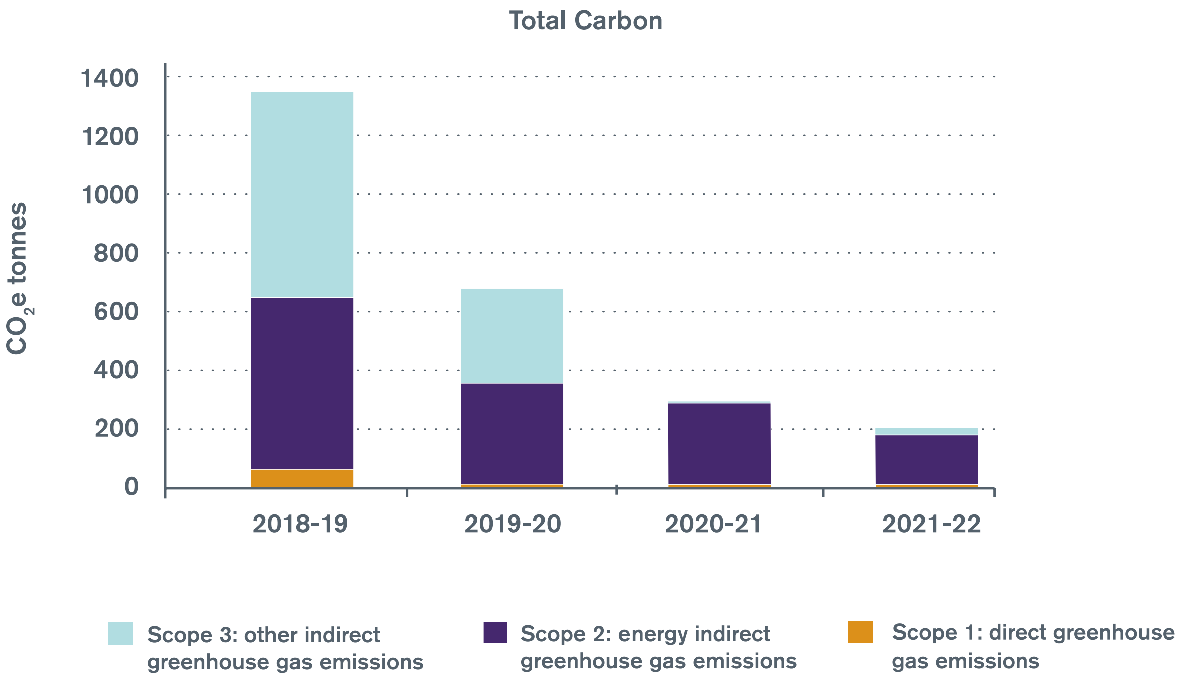
Sub-targets:

- Reduce the emissions from domestic business flights by at least 30% from a 2017 - 2018 baseline, and report the distance travelled by international business flights, with a view to better understanding and reducing related emissions where possible.

As with energy usage, travel carbon has been negligible during the past two years. We do not expect the travel carbon to reach its previous volumes. We do expect that our total carbon will be an almost 50:50 split between office energy and travel carbon.

Sub-targets:

- Update organisational travel policies so that they require lower carbon options to be considered first as an alternative to each planned flight
- We've updated our travel and expenses policy and made it very clear that lower carbon options such as rail are to be considered before higher carbon options, such as air travel, are used.



Greenhouse gas emissions		2017-18	2018-19	2019-20	2020-21	2021-22
Non-financial indicators (tCO_2e)	Total gross emissions	1176	1015	671	278	179
	Per FTE	1.28	1.43	0.92	0.23	0.14
	Total net emissions	613	1015	860	278	179
	Scope 1: Direct GHG emissions	153	49	7	6	5
	Scope 2: Energy indirect GHG emissions	736	431	330	273	174
	Scope 3: Other indirect GHG emissions	382	535	334	0	23
Related consumption data (kWh)	Electricity: Non-Renewable (k)	-	1,521	1,292	1,170	-
	Electricity: Renewable (k)	1,775	0	0	0	0
	Gas (k)	798	269	35	30	30

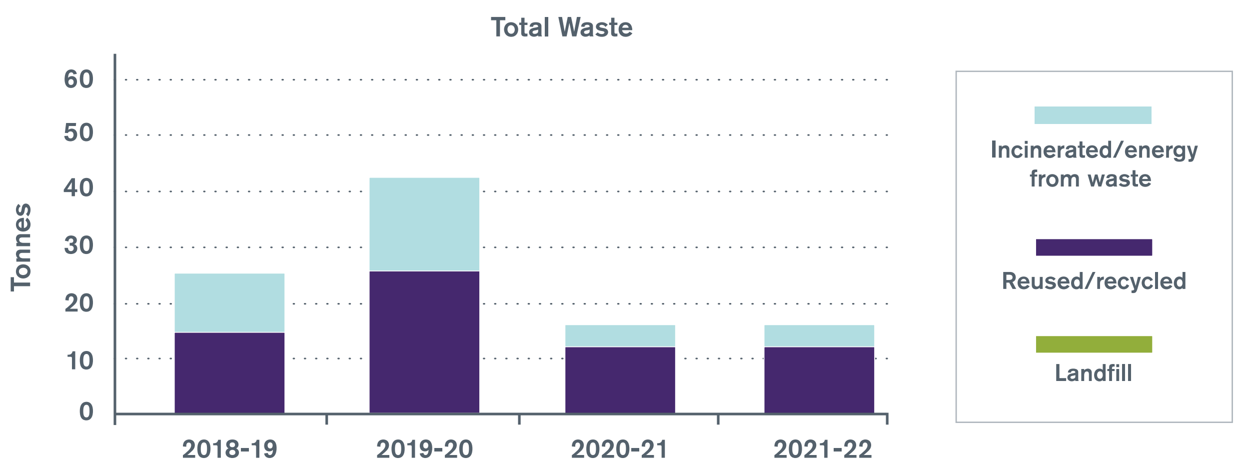
Minimising waste and promoting resource efficiency

Headline target:

Reduce the overall amount of waste generated by 15% from the 2017 - 2018 baseline. As can be seen by the graphs we have already achieved more than 50% reduction in waste. This reduction is mainly due to the pandemic, so we anticipate a sharp increase next year especially as staff numbers have significantly increased but softened by hybrid working pattern.

Sub-targets:

- Reduce the amount of waste going to landfill to less than 5% of overall waste
- Ofgem has been landfill free since 2010
- Increase the proportion of waste which is recycled to at least 70% of overall waste
- Ofgem achieved this target pre pandemic. We will be working to maintain it
- Remove consumer single use plastic (CSUP) from the central government office estate
- There are no single use plastic cups in any of our offices
- Measure and report on food waste by 2022, for estates with over 50 FTE (full time equivalent staff) and or over 500m2 floor area offering a food service
- No food waste was produced during the reporting period
- Report on the introduction and implementation of reuse schemes
- We are committed to a reuse furniture policies and are looking at circular paper
- Reduce government's paper use by at least 50% from a 2017 to 2018 baseline
- During covid there was almost no printing, but we do not expect to return to pre-covid print levels as we anticipate hybrid working will reduce the need to print. We have also reduced the number of printers available by 25%.



Waste			2017-18	2018-19	2019-20	2020-21	2021-22
Non-financial indicators (tonnes)	Total waste		63.75	26	42	14	14
	Total waste per FTE		0.05	0.04	0.05	0.02	0.02
	Hazardous waste		0	-	-	-	-
	Non-hazardous waste	Landfill	0	0	0	0	0
		Reused/Recycled	40	15	28	11	11
		Incinerated/ energy from waste	9	11	15	3	3
Financial Indicators	Total Disposal Cost		£11,845	£9,798	-	-	-

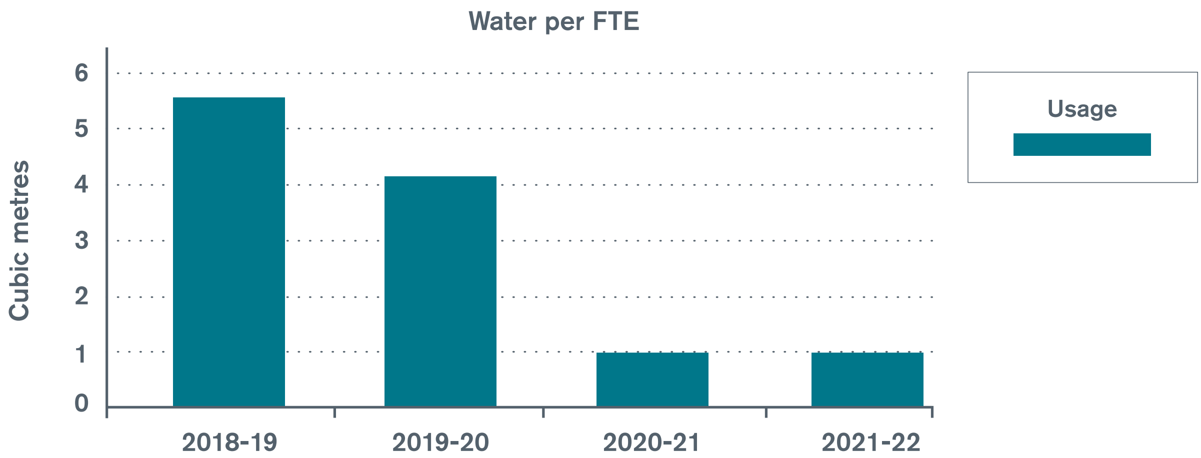
Reducing our water use

Headline target: Reduce water consumption by at least 8% from the 2017 - 2018 baseline.

As the graphbelow shows we achieved the **8% goal** prior to the pandemic. In our last non-covid year we had reduced our consumption by **47%**. We aim to continue to improve to less than **4 cubic meters** when everything returns to normal.

Sub-targets: Ensure all water consumption is measured.

- Already in place and reflected in the graph below
- Provide a qualitative assessment to show what is being done to encourage the efficient use of water
- Our London Office building has scheduled a water audit in early 2022 - 2023. Building management will be working with the results from that audit to further drive down water consumption.



Water			2017-18	2018-19	2019-20	2020-21	2020-22
Non-financial indicators	Target		7.36	7.36	7.36	7.36	7.36
	Water consumption (m^3)	Supplied	7959	3608	3875	896	896
		Per FTE	8.0	5.6	4.2	1.0	1.0
Financial Indicators	Water Supply Costs		£25,466	£8,444	-	-	-

Procuring sustainable products and services

Headline commitment: Continue to buy more sustainable and efficient products and services with the aim of achieving the best long-term, overall value for money for society.

Departments will report on the systems they have in place and the action taken to buy sustainably, including to:

- embed compliance with the Government Buying Standards in departmental and centralised procurement contracts, within the context of government's overarching priorities of value for money and streamlining procurement processes
- understand and reduce supply chain impacts and risks.

As Ofgem buy the goods and services that apply to the minimum mandatory Government Buying Standard from the CCS framework agreements, then compliance with these standards are being met as the suppliers will have to have demonstrated meeting these standards as a minimum to be part of the CCS framework. Ofgem will also include additional sustainability questions in relevant tenders where possible.

Reducing environmental impacts from Information Communication Technology (ICT) and digital

Headline commitment: Departments should report on the adoption of the Greening Government: ICT and Digital Services Strategy and associated targets and ensure they provide membership to the Sustainable Technology Advice and Reporting team, who manage and deliver the Greening Government Commitments ICT reporting.

In summary, this will include delivering an annual ICT and digital footprint, waste and best practice data for each department and their partner organisations.

Accountability Report

Financial review

Ofgem's Statement of Outturn against Parliamentary Supply is set out on page 69.

During the year, Ofgem used its budget to support its 2021-22 Forward Work Plan with total operating expenditure of £129.9 million against total operating income of £142.8 million. Ofgem therefore ended the year with an overall resource outturn of £12.9 million net income, which is reconciled to resources outturn in SOPS note 2.

This mainly comprises a net operating income of £13.0 million for Green Gas Levy.

This outturn is an underspend of £88.5 million on resource budget estimate of £78.6 million, mainly due to the value of financial provisions being significantly lower than estimated and Green Gas Levy income being higher than estimated.

The Green Gas Levy places obligations on licensed gas suppliers, including a requirement to make quarterly levy payments, to fund the Green Gas Support Scheme. Both commenced in November 2021, but Support Scheme payments did not begin until 2022-23. Set up costs were funded by a budget transfer from BEIS. Income and expenditure for Green Gas is shown in a separate line of Ofgem's Statement of Outturn against Parliamentary Supply. Levy income is based on several estimates, and Support Scheme payments will be demand driven so the future net income will be inherently uncertain.

Ofgem's main source of income is licence fees payable by the sector. Any surplus (over recovery of fees, where spend is less than budget) is repaid to the sector. There is a £6.9 million surplus from the 2021-22 licence fee charged to the sector (2020-21 was a £0.7 million surplus).

The majority of Ofgem's costs are staff costs. Overall Ofgem expenditure was £8.8 million (7%) higher in 2021-22 (£129.9 million) compared to 2020-21 (£121.1 million), primarily due to increased staff numbers and consultancy spend to respond to the gas markets crisis and deliver new renewable energy schemes.

Capital spend mainly consisted of IT equipment and the development of bespoke software to support Ofgem administered schemes, and net spend was £3.6 million compared to a budget of £3.8 million (including the capital income transferred from BEIS).

Corporate Governance Report

Directors Report

There are no company directorships or other significant interests held by members of the management board which may conflict with their management responsibilities.

No personal data related incidents were formally reported to the Information Commissioner's Office (ICO) during the year.

Statement of the Accounting Officer's responsibilities

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

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

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

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

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

The Ofgem Board

The key focus of the Board, and its sub-committees, in 2021-22 has been to protect customers during an unprecedented cost of living crisis.

In particular: security of supply, supplier of last resort and the gas crisis response.

Role of the Board

The Gas and Electricity Markets Authority (GEMA) is Ofgem's Board. The Authority is referred to as the Board in this document. It is currently made up of six non-executive members, including a non-executive Chair, and one executive member in the Chief Executive. The members of the Ofgem Board are provided on the Ofgem website. Three further executive members also attend all Board meetings, and other Ofgem staff attend for specific items, as required.

The Board's powers and duties are largely provided for in statute. The statute speaks of Ofgem as 'the Authority' and when it refers to the Authority it means the Chair and the other members of the Ofgem Board. This means that whenever legislation gives Ofgem a particular power, it is the Board of Ofgem who must exercise that power, unless there is a valid delegation in place.

How appointments are made

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

No appointments to the Board were made to the Board in 2021-22. One non-executive Board member, Paul Grout, stood down from the Board.

Division of responsibilities

The Board has reserved certain decisions for itself. These are set out in a schedule to the Board's Rules of Procedure and are known as the 'Reserved Functions'.

Decisions relating to any of these Reserved Functions must be decided by the Board, unless the Board specifically delegates that decision to an employee of Ofgem, or to one of the Committees of the Board. A delegation by the Board may be subject to any conditions. Any additional Board delegation is recorded in the Board's minutes. The only exception to this is the making of a Statutory Instrument, which – by law – the Board cannot delegate.

All functions of the Board which are not Reserved Functions, delegated to a Committee of the Board, or delegated by HM Treasury to the Accounting Officer, are referred to as 'General Functions'.

In March 2022, the Board updated its Reserved Matters, to reflect best practice in corporate governance, as well as to codify existing Ofgem custom and practice. As a result, the following were added to the Board's Reserved Matters:

- Approval of proposals for new functions to be performed by Ofgem
- Approval of overall Ofgem organisational strategy, strategic aims or objectives
- Approving the response to any consultation on a draft Strategy and Policy Statement to be designated by the Secretary of State under the Energy Act 2013
- Approval of any Ofgem organisational purpose statement or values
- Approval of any significant change to Ofgem's funding arrangements
- Approval of Ofgem's risk management framework
- Approval of Ofgem's risk appetite statement
- Approval of the appointment of the internal audit provider, following a recommendation from the Audit and Risk Assurance Committee.

In addition, to reflect the organisation's new grading structure, the Board also passed an ordinary resolution which authorised its General Functions to be delegated to any Ofgem employee at Level 2 or above. Two particular enforcement functions remain delegated to all employees.

During 2022-23, further work is also planned to update the regulatory and policy matters that are reserved to the Board.

The Board's Rules of Procedure, including its Reserved Matters, are published on the Ofgem website.

Board Committees

The Board has established a number of sub-committees to support its work. These are: the Audit and Risk Assurance Committee, the People and Remuneration Committee, the RIIO-2 Committee, and the Enforcement Decision Panel.

Further information about the responsibilities and work of the Audit and Risk Assurance Committee and the People and Remuneration Committee are provided in a later section of this report.

The RIIO-2 Committee met five times during the year to ensure that the Board's decision-making process in respect of RIIO-2, which sets price controls for the companies that operate the gas and electricity networks in Great Britain, runs efficiently and effectively. It considers the policy detail and makes recommendations on specific issues before they are put to the Board for decision. It benefits from the independent advisors to the committee, gives additional guidance to the RIIO-2 team and engages with stakeholders at appropriate times during the price control delivery process.

The Enforcement Decision Panel is a committee of the Board, which has been in place since June 2014 to take enforcement decisions on the Board's behalf. It was established to take decisions in enforcement cases by dedicated specialists so that there is a visible separation between the investigation and decision-making functions. The Panel's members and its secretariat are employees of Ofgem who are independent from the case team. The Enforcement Decision Panel publishes its own annual report, which is available on the Ofgem website.

The terms of reference for the Board's Committees are published on the Ofgem website.

Board meetings

The Board meets approximately ten times a year for formal meetings. In addition, over the autumn and winter of 2021-22, the Board met more frequently in order to oversee and support the organisation in responding to the global gas price crisis, and to approve specific decisions.

In its meetings, the Board typically considers a range of matters. This normally includes updates from the Chair and Chief Executive, updates from the Chairs of its Committees on any recent meetings, discussions on Ofgem's strategy, strategic objectives and the wider landscape, organisational matters, including diversity and inclusion, and decisions on specific matters that have not been delegated.

In the last year, the matters the Board has considered included the following:

- Ofgem's response to the gas crisis
- Reviewing Ofgem's strategic risks and risk appetite statement
- Approving Ofgem's Forward Work Programme
- Reviewing organisational performance, including considering a new organisational performance dashboard
- Undertaking a number of deep dives, including into diversity and inclusion, data and digitalisation, and cyber security
- Taking a number of significant regulatory decisions, including in relation to the the default tariff cap and a number of measures to protect consumers in the energy market.

In addition, and normally preceding each formal meeting, the Board has a less formal briefing session. This provides the Board with an opportunity to discuss emerging issues, to have briefings on particular aspects of Ofgem's work, and to hear from stakeholders on topical issues. This year the Board was pleased to welcome a number of stakeholders to its meetings, including National Energy Action, the Centre for Sustainable Energy, the Financial Conduct Authority, and the Department for Business, Energy and Industrial Strategy.

Following the integration of Delivery and Schemes within the same governance process as the rest of Ofgem, its activities and work have begun to be reviewed more regularly by the Board itself. This now includes a monthly information report on Delivery and Schemes' activities, as well as a new quarterly deep-dive, where the Board has an opportunity to discuss strategic issues relating to Delivery and Schemes.

The Board minutes and agendas are published on the Ofgem website.

Board attendance

The Chair and other members play a full part in Board business. They attended full Board meetings and Committee meetings as follows:

Members	Gas and Electricity Markets Authority	Audit and Risk Assurance Committee	People and Remuneration Committee	RIIO 2 Committee
Barry Panayi	10/10	-	4/4	-
Christine Farnish	10/10	-	4/4	4/5
John Crackett	10/10	-	-	5/5
Jonathan Brearley	10/10	4/5	4/4	4/5
Lynne Embleton	10/10	5/5	4/4	5/5
Martin Cave	10/10	5/5	4/4	5/5
Myriam Madden	10/10	5/5	-	5/5
Paul Grout	7/7	-	-	3/3

Notes:

1. Paul Grout stood down as a Board member in November 2021
2. Paul Grout stood down as Chair of the RIIO 2 Committee in November 2021. John Crackett was subsequently appointed as Chair of the RIIO 2 Committee.

Board evaluation

The effectiveness of the Board is reviewed annually. It is good practice in corporate governance to undertake an externally facilitated Board Effectiveness Review at least once every three years. Last year, following a competitive procurement process, Campbell Tickell was appointed to undertake a Board Effectiveness Review. Their report is published alongside the annual report and accounts.

Identifying and Managing Conflicts of Interests

Ofgem has a conflict of interest policy, which is published on the Ofgem website. This policy was reviewed and updated in 2021-22. Further guidance to staff is also available on the Ofgem staff intranet. Under the policy, all staff are required to notify us of any potential conflicts when they join the organisation and of any changes thereafter.

The policy applies to all staff, whether they are permanent, casual, fixed-term, agency or contractor.

Any potential conflicts are assessed by the Finance, Procurement and Risk team, who consider whether a conflict exists - and if there is one, what to do about it, and a timescale for action. The policy also states that disciplinary action will be taken against any member of staff who is found not to have complied with these arrangements. In line with good practice, for regular policy reviews, this policy is currently in the process of being reviewed and is expected to be updated shortly.

A register of interests for our Board members is published on the Ofgem website.

When staff leave the organisation, we have a process in place to consider whether an application under the Business Appointments Rules is required before they accept a new appointment outside the Civil Service.

This is to ensure that when a former member of staff takes up an outside appointment or employment there should be no cause for justified public concern, criticism or misinterpretation.

This year we have reviewed and updated our arrangements for considering applications made under the Business Appointment Rules.

The Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (ARAC) comprises three non-executive members of the Board, namely Myriam Madden (Chair), Lynne Embleton and Martin Cave. It has four substantive meetings a year, as well as a dedicated meeting to review the draft annual report and accounts. The Chief Executive, Director of Corporate Services, General Counsel, Deputy Director of Finance, Procurement and Risk, and Head of Assurance are invited to attend Committee meetings, as are other staff as required.

Representatives of Ofgem's External Auditors, the National Audit Office, and representatives of Ofgem's Internal Auditors, Mazars, are also invited to attend all meetings of the ARAC. As is good practice, the non-executive members of the Committee generally have a private session with the auditors at the end of each meeting. In addition, both the Internal Auditors and External Auditors have regular discussions and direct access to the Chair of the ARAC.

Role and responsibilities

The ARAC has terms of reference, which are published on the Ofgem website. They were updated in 2021-22, to align with good practice in corporate governance.

Its key responsibilities are to advise the Accounting Officer and Board in relation to the effectiveness of Ofgem's internal controls, risk management and governance. It will examine the manner in which Ofgem ensures and monitors the adequacy of the financial control systems and recommend any necessary improvements.

The ARAC advises the Board and make recommendation in relation to the programme of audit reviews covering key financial and control processes, taking into account risks facing Ofgem. This includes advising on the accounting policies, the accounts, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors.

This year the ARAC has continued to focus on embedding in the organisation good practice in assurance and compliance. As part of this, the ARAC has continued to monitor closely the completion of audit recommendations.

In addition, the ARAC has continued to oversee a programme of improvements to Ofgem's risk management framework and, in particular, how this has been embedded in the organisation.

Activities during the year

During the year, the ARAC's main areas of activity were:

- Monitoring the progress of Internal Audit plan for 2021-22, including considering and approving in-year changes to the programme of audits
- Reviewing Internal Audit reports, and other assurance reports commissioned by management, and management responses on topics including: the Transformation programme, network price controls, risk management and external communications
- Reviewing the Internal Audit plan for 2022-23
- Reviewing Ofgem's risk management framework, considering actions to strengthen practices, monitoring progress against the plan to improve maturity

- Undertaking a number of thematic deep dives into areas of Ofgem's work or strategic risks, including governance arrangements put in place to manage the response to the gas crisis, security of supply and a review of the Supplier of Last Resort (SoLR) levy claim process, as well as the assurance framework in Delivery and Schemes
- Scrutinising information security, reviewing the Data Protection officers annual report and considering a deep dive into Cyber Security risk.

Reporting

The minutes of the Committee are shared with the Board at its next meeting, and the Chair of the Committee is provided with an opportunity to update the Board on any matters she wishes to raise.

The People and Remuneration Committee

The People and Remuneration Committee (PRC) comprises three non-executive members of the Board, namely Christine Farnish (Chair), Lynne Embleton and Barry Panayi. Martin Cave, the Chair of the Board, also attends. It has four substantive meetings a year, and during 2021-22 it generally held meetings every month to support the ongoing organisational Transformation Programme.

The Chief Executive, Director of Corporate Services and Deputy Director of People and Estates are also invited to attend the PRC, as are other staff as required.

Role and responsibilities

The PRC has terms of reference, which are published on the Ofgem website. They were updated in 2021-22, with a number of minor amendments made, including in relation to the PRC's responsibilities in respect of applications made under the Business Appointment Rules.

The key responsibilities of the PRC are to advise the Board and Chief Executive in relation to Senior Civil Service remuneration, and strategic approaches to and policies on people-related issues that impact Ofgem's performance and success.

Activities during the year

During the year, the PRC's main areas of activity were:

- Approving the Ofgem executive team's annual objectives
- Reviewing the performance and remuneration of the Ofgem executive team
- Monitoring and advising the Ofgem executive team on the ongoing organisational Transformation Programme
- Reviewing the annual People Survey results and considering areas for improvement
- Undertaking a number of thematic deep dives on people issues, including diversity and inclusion
- Reviewing a refreshed HR dashboard, with key metrics on people issues.

Reporting

The minutes of the Committee are shared with the Board at its next meeting, and the Chair of the Committee is provided with an opportunity to update the Board on any matters she wishes to raise.

The Executive Committee

Role and responsibilities

ExCo supports the Chief Executive in the running of the organisation and is not a formal Committee of the Board. It is chaired by the Chief Executive and meets monthly. It also has an informal weekly catch-up. The members of the ExCo are listed on the Ofgem website. Other Ofgem staff are invited to attend ExCo as required.

Activities during the year

ExCo provides a single management forum to discuss both regulatory issues and organisational matters. During the year, ExCo's main areas of activity were advising the Chief Executive in respect of:

- Set up of temporary governance arrangements with twice-weekly meetings of relevant directors to coordinate work, stakeholder engagement and shaping of policy in response to the energy crisis.

- Consideration of management responses to, and monitor progress in implementing recommendations from, Internal Audit and other assurance reports
- Reviewing strategic risks creating a risk sub-group to advise on the appropriateness of risks, the mitigation actions and improvements needed to the wider risk management framework
- Consideration of significant people-related issues, and the organisation's diversity and inclusion strategy and policies
- Reviewing significant or crosscutting policy or regulatory proposals, or significant matters relating to Ofgem's delivery of environmental and social schemes
- Reviewing management papers to be submitted to the Board or one of the Board's sub-committees.

Reporting

The CEO provides a monthly report to the Board, summarising high-profile and topical issues facing the organisation, including the activities of ExCo as appropriate.

Ofgem's presence in Wales and Scotland

Ofgem's presence in Scotland continues to grow with over 500 members of our team working from our Glasgow office. As we move into a new hybrid way of working following the pandemic, the office refurbishment was completed in autumn 2021 to provide our Glasgow based colleagues with a new, modern workplace. Many of our colleagues in the Glasgow office work to deliver sustainable energy and environmental schemes to consumers across Great Britain as part of our Delivery and Schemes division. We frequently engage with stakeholders across Scotland, and helped the Scottish Parliament's Committee on Net Zero, Energy and Transport form some of its initial thinking of the new Parliament following the May 2021 elections. On top of that, Ofgem's leaders often meet with energy experts, industry, innovators and consumer groups across Scotland, whilst we continue to maintain a strong working relationship with a number of divisions of the Scottish Government.

Our presence in Wales continues to strengthen. We are pleased to have secured additional capacity in the new Tŷ William Morgan civil service hub offices in central Cardiff which has helped us to widen our recruitment in Cardiff and increase the numbers of colleagues we employ from across Wales.

Building strong collaborative relationships is central to understanding our stakeholders' needs and in his role as senior board level point of contact for Wales, our Chair, Martin Cave has continued to engage with a diverse range of stakeholders across Wales to listen to Welsh consumers voices, as well as hearing the perspectives of energy experts and influential figures - including Welsh Government, industry, innovators, and community groups. One of the direct outputs of this enhanced partnership work is that Ofgem's Chief Engineer, Peter Bingham is collaborating with Welsh Government and network companies in Wales to develop a long-term plan for energy networks in Wales.

Risk Management

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

The Board draws on advice and support from the ARAC to meet its overall responsibility for the Risk Management Framework and to set our risk appetite. Our Audit, Risk and Assurance Committee examines our strategic risks and identified mitigations at each meeting. Our Board approved a revised Risk Appetite Statement in April 2022.

In late 2021 we established an Executive Committee Sub Group on risk to meet monthly to review our strategic risks and challenge their quantification and the identified mitigations to ensure consistency in scoring and that emerging strategic risks received the appropriate level of scrutiny.

On a monthly basis ExCo reviewed our strategic risks and issues and considered the quantification of these and whether the identified mitigations were sufficient to manage our risks within the risk appetite tolerances set by the Board. During the year they participated in horizon scanning workshops which allowed them to identify emerging risks and to consider what mitigations Ofgem should own and which had to be transferred to other parties to ensure effective management.

During 2021-22 we established a Risk Managers Network which meets monthly to ensure consistency in our approach and to share best practice. We have delivered a targeted training programme for this cohort and have identified ongoing professional development opportunities to increase their confidence and competence to lead our risk management work in individual business units.

Internal audit conducted two reviews of the Risk Management and Assurance Framework during 2021-22. Part 1 was completed in June 2021, focusing on the design of the controls in respect of the risk management framework, whilst Part 2 was completed in January 2022 and focused on the effectiveness of the risk management control framework, as well as a review the design of the controls in relation to the Assurance Framework.

The first review secured Moderate assurance and confirmed it was evident that Ofgem had made positive progress with regards to the design of its risk management framework. The second review secured Limited assurance and concluded that there was more work needed to embed risk management practices throughout Ofgem. This assessment was accepted and Ofgem has committed to strengthen its risk management practices.

Our risk assessment

During the year, the most significant strategic risks identified and mitigated were as follows:

Risk	Response
Further disruption in the energy market because of geopolitical forces and wholesale price volatility. Resulting from the Russian invasion of Ukraine, including high and volatile gas prices and the possible impact of sanctions, leading to further exits from the UK market.	We are part of a cross-government task force looking at this issue. We are engaging with the market where an exit strategy is required to ensure there is a managed exit causing minimal disruption. We are encouraging preparedness of critical institutions and European regulators.
Energy price increases worsen vulnerable customers' ability to afford energy	We are regularly engaging with network companies, suppliers, Energy UK, consumer groups and charities to fully understand the issues affective vulnerable customers and to explore and assess what more can be done by industry and government to support customers at risk from rising prices. We also regularly discuss affordability issues with Government, including in relation to Government support for consumers.
Inadequate Financial Resilience & Governance of regulated parties, leading to customer disruption, increased cost to consumers, contagion effects on other energy companies/networks, potential security of supply issues.	We are building on the monitoring already in place to identify other measures which can be introduced across the industry to identify and respond to potential issues earlier. These include ringfencing customer credit and applying financial resilience and control requirements for new and existing suppliers.

Risk	Response
Threats to security of supply. This is a complex risk with multiple components and causes including whether there is enough supply to meet demand, whether the pipes and wires are functioning properly and geopolitical factors.	We engaged with BEIS and system operators on identifying specific concerns and options for mitigation. Options included: ▪ Minimum storage requirements ▪ Joint European gas supply contracts ▪ Alternative gas imports ▪ Review of critical infrastructure ownership ▪ Increased production of biogas and acceleration of hydrogen ▪ Roll out of renewables This material risk has been subjected to a deep dive by our ExCo, ARAC and examination by GEMA during the past year.
Cyber incident causes a localised, multi-regional or national supply outage.	Critical organisations in the electricity and gas sub-sectors are legally required to have appropriate and proportionate measures to manage security risks. Ofgem is a joint-Competent Authority with BEIS, which grants enforcement rights. Similar requirements exist for Smart Metering organisations. We used Ofgem's RIIO process to fund a sub-set of the energy sector organisations' cyber security activities. With BEIS, we set the benchmark for organisations to meet on cyber risks and provide guidance on the regulations. We pro-actively engaged energy sector organisations, at all levels of seniority, to ensure that they recognise their regulatory requirements and to keep-up the pace of change. We undertook an inspection programme to assess the suitability of cyber controls in the sector.
Increase in the frequency and severity of **weather events caused by climate change** resulting in increased disruption to energy supplies.	We worked with BEIS and Cabinet Office to develop standards for the resilience of critical national infrastructure against climate change, and are engaging with networks on ways to drive improvements in network resilience.
Net zero transition is slower and/or higher cost than necessary.	We undertook a number of actions, including: a) ensuring we understand how to deliver a least cost transition, and that it is embedded in Ofgem strategy and programmes of work - decarbonisation at lowest cost is explicitly part of our strategic priorities, and our strategic change programmes. b) engaged with HMG and Devolved Administrations (DA) where we can help them to deliver least cost transition, or we require their support (e.g., legislation) for Ofgem to deliver a least cost transition - good engagement with HMG on the key net zero policy issues, need continued investment (e.g., in REMA) to ensure alignment on long term reforms/destination and further engagement with DAs. c) ensured CO_2 impacts and transformative change was routinely covered in relevant policy papers and IAs.

Risk	Response
Misalignment between Ofgem's independent regulation and scheme delivery, and wider Government policy or actions, leading to negative outcomes for consumers or scheme users.	We worked closely with Government and industry bodies at all levels, ensuring that we met regularly with Ministers and officials at BEIS, HMT, No 10 and others.
Insufficient resource to deliver key work.	We continued to deliver on an ambitious transformation programme, including a simpler structure and a more diverse and inclusive workforce. We requested and secured additional budget in 2021-22 and 2022-23 to respond to market events. We are recruiting additional staff to ensure sufficient internal expertise.
Aged or not fit-for-purpose IT systems and hardware leading to IT service interruption for Ofgem staff and external parties using our systems.	We undertook a comprehensive refresh and replace programme to deliver predictability and stability in our core infrastructure services, finance system and government scheme registers. We have replaced the majority of older user devices with new hardware and are on track to migrate server based applications to the cloud.
Information/Data Stewardship and Regulatory Compliance. Unauthorised and/or inappropriate control or exposure of information or data bringing adverse impact on Ofgem, consumers, and other industry stakeholders.	We have implemented strong policies and practices for data handling and support these with clear roles, responsibilities and training. We have enhanced monitoring of data handling activities to identify and address areas of vulnerability. We have established a network of Senior Information Asset Owners for each directorate and reviewed our information assets. We report monthly on data breaches and their root cause to drive down instances.

Internal Audit Assurance Opinion

Our Internal Auditor, Mazars LLP, completed an agreed schedule of reviews throughout the year. These were identified through risk based Internal Audit planning and interviews with Ofgem management and the Audit and Risk Assurance Committee.

The Internal Audit programme comprised 8 audits, and delivered 3 reports providing 'Moderate Assurance', 4 with 'Limited Assurance' and 1 with 'Unsatisfactory Assurance'. The reviews recommended a total of 8 high priority recommendations and 57 other recommendations. We monitored implementation of the resulting actions and all of the actions open during the year had either been satisfactorily addressed by 31st March 2022 or remained within due-dates agreed in the audit reports.

Mazars' Annual Audit Opinion provided moderate assurance over the overall adequacy and effectiveness of the framework of governance, risk management, and control. Overall, some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

Certain weaknesses and exceptions were highlighted by the audit work, where Mazars raised Priority 1 and 2 recommendations. There was one unsatisfactory assurance opinion (Network Price Controls) and Mazars noted that Ofgem will need to ensure it continues its positive trajectory in implementing recommendations to ensure known risks are mitigated, particularly where fundamental/significant recommendations have been raised.

However, they noted that the rate of implementation of Ofgem's recommendations has improved this year, and they have been provided with detailed information in relation to planned transformation activity relating to risk management. Mazars also confirmed that fundamental recommendations raised within their report have since been implemented during the year.

Similarly, project management controls remain a key theme for improvement at Ofgem and Mazars had the opportunity to review and discuss plans with Ofgem relating to what changes will be made in this area.

Whilst Mazars agreed with Ofgem for the scale of their assurance activity to be amended to reflect additional significant assurance activity sought by the organisation in relation to the supplier energy crisis, they were satisfied with the coverage performed.

They also had the opportunity to review the scope of the assurance work performed and were able to assess key areas of risk via ARAC papers, such as procurement risk relating to single tender actions.

All recommendations have been or are in the process of being addressed.

Additional sources of assurance

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

The Statement of Assurance assessment covers 38 key internal controls. This year, the main conclusions of the review included:

- Substantial improvement in Ofgem's approach to information management, recognising a surge towards the end of the year. Further work needed to maintain and build on this foundation, particularly to try to be more proactive rather than reactive
- The well-designed risk management framework and related tools, which have been implemented across all directorates – but in some cases were still a minimum viable product to be built on
- The gas crisis led to significant work pressure on many Ofgem teams, which meant that there was not always a consistently high standard of compliance with corporate processes
- Corporate teams carefully managed work supporting fast deployment of resource where required to respond to the gas crisis, whilst maintaining an adequate level of control.

Overall, adequate mitigations were in place to identify and control risk across the organisation.

In addition, the Ofgem Board commissioned a review into the root causes of the supplier failures that occurred in the autumn and winter of 2021-22 and specifically, into how regulation of the industry played a part.

Following a competitive procurement process, Oxera, the economics and finance consultancy, was appointed in January 2022 to conduct and deliver the review at pace, with a commitment from the Board that as soon as it was finalised it would be published.

The final report and recommendations were presented to Ofgem and published in May 2022.

The Board has accepted the recommendations in the report, many of which were already being implemented. The Board will also ensure all recommendations are carried out to further strengthen the regulatory regime, building on work by colleagues across the organisation.

The National Audit Office also undertook a study into the energy supplier market, following the large number of supplier failures that occurred in the autumn and winter of 2021-22. Its report was published in June 2022. It concluded that while Ofgem and BEIS ensured that the vast majority of consumers faced no disruption to their energy supply when their provider failed, Ofgem's historic approach to the financial regulation of energy suppliers increased the risk and cost of them failing, and allowed a market to develop that was vulnerable to shocks. It recommended a number of measures to Ofgem and BEIS to ensure that the supplier market works effectively for consumers which we are now taking forward.

Whistleblowing

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

No issues were raised under this policy during the year.

Complaints to the Parliamentary Ombudsman

No cases were referred to the Parliamentary Ombudsman during the year.

Conclusion

Significant work took place over the year to transform the organisation whilst also responding to an unprecedented gas crisis, and I am pleased that we have managed to maintain a moderate Internal Audit Assurance Opinion in challenging circumstances.

However, the prioritisation required across the organisation to respond to the crisis meant that less progress was made on corporate objectives then planned. The policies, processes and tools are improving but there is further work to do to, particularly on risk and programme management, to communicate some of the changes and embed a culture of compliance, demonstrating evidence of embedding controls across the organisation. Further progress will be necessary to maintain, and then improve upon a Moderate Assurance Opinion in future years. I am confident that the planned improvements will ensure we continue to strengthen our capability to deliver value for money for, and protect the interests of, consumers.

Jonathan Brearley
Chief Executive

11 July 2022

Remuneration and Staff Report

Remuneration and staff report

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit through fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which 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 Policy

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

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

Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of the most senior management (i.e. Board members) of the department.

Single total figure of remuneration (audited)

Officials	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000)		Total (£000)	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
Members of the Executive of Ofgem[5]										
Jonathan Brearley Chief Executive	185-190	185-190	10-15	15-20	-	-	63,000	108,000	260-265	305-310
Akshay Kaul	115-120	115-120	10-15	10-15	-	-	46,000	46,000	175-180	170-175
Amana Humayun[6]	-	85-90	-	-	-	-	-	36,000	-	120-125
Anna Rossington[7]	90-95	-	5-10	-	-	-	37,000	-	135-140	-
Anthony Pygram[8]	-	70-75	-	-	-	-	-	36,000	-	105-110
Cathryn Scott	120-125	120-125	-	15-20	-	-	41,000	64,000	160-165	195-200
Charlotte Ramsay[9]	70-75	0-5	-	-	-	-	28,000	2,000	100-105	5-10
Chris O'Connor[10]	225-230	-	-	-	-	-	-	-	225-230	-
Euan McVicar[11]	10-15	130-135	-	-	-	-	6,000	52,000	20-25	180-185
Frances Warburton[12]	-	85 - 90	-	-	-	-	-	34,000	-	120-125
Jonathan Spence[13]	85-90	-	-	-	-	-	35,000	-	120-125	-
Mark Wiltsher[14]	-	95-100	-	5-10	-	-	-	38,000	-	140-145
Mary Starks[15]	-	70-75	-	-	-	-	-	29,000	-	100-105
Neil Kenward	100-105	100-105	-	-	-	-	32,000	133,000[16]	135-140	230-235
Neil Lawrence[17]	95-100	-	-	-	-	-	38,000	-	135-140	-
Patricia Dreghorn[18]	-	105-110	-	15-20	-	-	-	42,000	-	160-165
Peter Bingham[19]	105-110	-	-	-	-	-	38,000	-	140-145	-
Philippa Pickford	85-90	85-90	-	-	-	-	25,000	34,000	110,115	115-120

[4] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.
[5] Where directors were in post in 2020-21 but were not considered part of the management structure at that time, comparative figures are not required to be disclosed.
[6] Left Ofgem in January 2021
[7] Served on ExCo between February 2021 and July 2021
[8] Left Ofgem in November 2020, and received a total compensation payment of £230,000 - £235,000
[9] Joined Ofgem in February 2021
[10] Chris O'Connor joined Ofgem in August 2021 and is covering two roles: Director of Corporate Services and Director of Transformation. He is a specialist contractor employed through a limited company for a fixed term to deliver an ambitious change programme. He is not a member of the available pension schemes, and his role has been assessed as being within scope of the IR35 regulations; more details are shown on page 63. The full year equivalent salary is £325,000 - £330,000
[11] Left Ofgem in May 2021, full year equivalent salary is £130,000 - £135,000
[12] Left Ofgem in December 2020, and received a total compensation payment of £55,000 - £60,000
[13] Served on ExCo between April 2021 and July 2021, left Ofgem December 2021, full year equivalent salary is £115,000 - £120,000
[14] Served on ExCo between April 2020 and January 2021
[15] Left Ofgem in September 2020, and received a total compensation payment of £45,000 - £50,000
[16] 2020-21 value impacted by pay rise due to promotion
[17] Joined Ofgem in July 2021, full year equivalent salary is £135,000 - £140,000
[18] Left Ofgem in January 2021
[19] Served on ExCo from January 2022

Officials	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000)		Total (£000)	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
Members of the Executive of Ofgem										
Priya Brahmbhatt-Patel[20]	100-105	15-20	-	-	-	-	116,000	29,000	220-225	45-50
Richard Smith[21]	70-75	10-15	-	-	-	-	29,000	5,000	100-105	15-20
Simon Wilde[22]	155-160	150-155	-	5-10	-	-	60,000	20,000	215-220	175-180
Sinead Murray[23]	75-80	-	-	-	-	-	71,000	-	145-150	-
Stephanie Broadribb[24]	40-45	95-100	-	10-15	-	-	18,000	39,000	60-65	145-150
Non-executive members of the Authority										
Martin Cave Chair	160-165	160-165	-	-	-	-	-	-	160-165	160-165

Remuneration of other non-executive members of the Authority	2021-22		2020-21	
	Honorarium	Allowance	Honorarium	Allowance
Paul Grout[25]	£13,500	£2,000	£20,000	£3,000
Christine Farnish	£20,000	£3,000	£20,000	£3,000
Lynne Embleton	£20,000	-	£20,000	-
John Crackett	£20,000	£1,250[26]	£20,000	-
Ann Robinson[27]	-	-	£10,500	-
Myriam Madden	£20,000	£3,000	£20,000	£3,000
Barry Panayi	£20,000	-	£20,000	-

Remuneration of members of the Enforcement Decision Panel	2021-22 (£'000)	2020-21 (£'000)
Megan Forbes	20-25	40-45
Amelia Fletcher	5-10	5-10
Elizabeth France	0-5	0-5
Andrew Long	5-10	0-5
Dr Ulrike Hotopp	0-5	10-15
Ali Nikpay	0-5	0-5
Dr Philip Marsden	0-5	5-10
Peter Hinchliffe	0-5	5-10

[20] Joined Ofgem in January 2021
[21] Joined Ofgem in February 2021
[22] Joined ExCo in December 2020
[23] Joined Ofgem in August 2021, full year equivalent salary is £115,000 - £120,000
[24] Left Ofgem in September 2021, full year equivalent salary is £95,000 to £100,000
[25] Left Ofgem in November 2021, full year equivalent of £20,000/£3,000
[26] Chaired RIIO2 committee from November 2021, full year equivalent of £3,000
[27] Left Ofgem in September 2020

Salary

"Salary" includes gross salary; overtime; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Department and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument.

Bonuses (audited)

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2021-22 relate to performance in 2020-21 and the comparative bonuses reported for 2020-21 relate to the performance in 2019-20.

In 2021-22 there were 910 staff (2020-21: 777 staff) who received a bonus. The average bonus payment was £1,301 (2020-21: £1,336) and the total amount paid in bonuses equalled £1,184,060 (2020-21: £1,038,277). Two individuals received the largest bonus of £14,000 (2020-21: three individuals received the largest bonus of £15,000).

Pay multiples (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce. The banded full year equivalent remuneration of the highest-paid director in the financial year 2021-22 was £325,000-330,000 (2020-21: £200,000-205,000). The below table shows the ratios of the mid-point of the banded remuneration of the highest-paid director, to the pay and benefits figures of the employees whose pay and benefits are on the 25th, 50th and 75th percentiles of Ofgem employees for 2021-22:

25th Percentile (Lower Quartile) Pay Ratio	50th Percentile (Median) Pay Ratio	75th Percentile (Upper Quartile) Pay Ratio
11.18:1	8.54:1 (2020-21: 5.3:1)	5.95:1

The 2021-22 total pay and benefits and the salary component of total pay and benefits, of the employees on the 25th, 50th and 75th percentiles are shown below:

	25th Percentile (Lower Quartile) £	50th Percentile (Median) £	75th Percentile (Upper Quartile) £
Total pay and benefits	29,298	38,357	55,067
Salary component of total pay and benefits	29,035	37,229	53,751

In 2021-22, the percentage change from 2020-21 in the full year equivalent salary and allowances of the highest-paid director was an increase of 74%[28], and in performance pay and bonuses payable, a decrease of 100%. The average percentage change from 2020-21 in the salary and allowances of Ofgem employees taken as a whole was a decrease of 0.1%, and in performance pay and bonuses payable, a decrease of 1.3%.

In 2021-22, none (2020-21: none) of Ofgem's employees received remuneration in excess of the highest-paid director. Employee remuneration ranged from £18,182 to £202,477 (2020-21: £18,182 to £205,000).

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.

[28] In 2021-22 the highest-paid director was a contractor and not an employee. Refer to the Off-Payroll Appointees section on page 63 for further information.

Pension Benefits (audited)

Officials	Accrued pension at pension age as at 31/3/22 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/22	CETV at 31/3/21	Real increase in CETV
	£000	£000	£000	£000	£000
Jonathan Brearley Chief Executive	45 - 50 plus a lump sum of 70 - 75	2.5 - 5 plus a lump sum of 0	705	633	28
Akshay Kaul	10 - 15	2.5 - 5	154	120	22
Anna Rossington	25 - 30	0 - 2.5	387	346	22
Cathryn Scott	40 - 45	0 - 2.5	695	636	22
Charlotte Ramsay	0 - 5	0 - 2.5	19	1	12
Chris O'Connor	-	-	-	-	-
Euan McVicar	5 - 10	0 - 2.5	96	93	3
Jonathan Spence	20 - 25	0 - 2.5	243	220	17
Neil Kenward	30 - 35 plus a lump sum of 55 - 60	0 - 2.5 plus a lump sum of 0	543	499	13
Neil Lawrence	0 - 5	0 - 2.5	25	-	18
Peter Bingham	10 - 15	0 - 2.5	146	111	22
Philippa Pickford	25 - 30 plus a lump sum of 45 - 50	0 - 2.5 plus a lump sum of 0	430	396	9
Priya Brahmbhatt-Patel	30 - 35	5 - 7.5	412	323	66
Richard Smith	0 - 5	0 - 2.5	24	3	15
Simon Wilde	10 - 15	2.5 - 5	164	115	33
Sinead Murray	30 - 35 plus a lump sum of 60 - 65	2.5 - 5 plus a lump sum of 5 - 7.5	511	436	51
Stephanie Broadribb	0 - 5	0 - 2.5	55	42	9

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. Because the Government plans to remove discrimination identified by the courts in the way that the 2015 pension reforms were introduced for some members, it is expected that, in due course, eligible members with relevant service between 1 April 2015 and 31 March 2022 may be entitled to different pension benefits in relation to that period (and this may affect the Cash Equivalent Values shown in this report – see below). 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 defined contribution (money purchase) pension with an employer contribution (**partnership** pension account).

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

The **partnership** pension account is an occupational defined contribution pension arrangement which is part of the Legal & General Mastertrust. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member). 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 c**lassic 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, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Compensation for loss of office (audited)

No members of ExCo received compensation for loss of office during 2021-22 (2020-21: refer to footnotes on page 56).

Staff report

Average number of people employed (audited)

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

			2021-22	2020-21
	Permanently employed staff	**Others**	**Total**	**Total**
Regulatory	349	22	371	395
Delivery & Schemes	429	48	477	423
Operations	326	72	398	369
Total	**1,104**	**142**	**1,246**	**1,187**

There was an average of 51 whole-time equivalent people in the SCS grade during the year. Of these 37 were in payband 1, 13 in payband 2, and 1 in payband 3.

Staff costs (audited)

Staff costs comprise			**2021-22 £000**	**2020-21 £000**
	Permanently employed staff	**Others**	**Total**	**Total**
Wages and salaries	53,617	11,194	64,811	57,516
Social security costs	6,032	373	6,405	5,630
Other pension costs	13,649	902	14,551	12,911
Other staff costs	74	16	90	257
Apprenticeship Levy (tax expense)	266	2	268	234
Total	**73,638**	**12,487**	**86,125**	**76,548**

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 PCSPS as at 31 March 2016. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation.

For 2021-22, employers' contributions of £14,375,547 were payable to the PCSPS (2020-21: £12,729,324) at one of four rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands.

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2021-22 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 £180,587 (2020-21: £175,202) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and ranged from 8% to 14.75%.

Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £7,023, (2020-21: £6,798) 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the **partnership** pension providers at the balance sheet date were £21,795 (2020-21: nil). Contributions prepaid at that date were nil (2020-21: nil).

Zero persons (2020-21: zero persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to nil (2020-21: nil).

Consultancy expenditure

Our expenditure on other consultancy services in 2021-22 was £23.4 million, per note 3 of the accounts (2020-21: £18.7 million; 2019-20: £15.8 million). We attempt to minimise our reliance on external support by running targeted recruitment campaigns for the skills required to deliver our strategy. We continue to use professional service support to obtain access to specialists who provide professional or legal advice in relation to the delivery of our portfolio of work, as well as those that provide specialist delivery support where it is not economical to maintain this expertise in-house.

Off-payroll appointees

Highly paid off-payroll worker engagements as at 31 March 2022, earning £245[29] per day or greater:

	Number
No. of existing engagements as of 31 March 2022	1
Of which, no. that existed:	
less than one year	1
for between one and two years	-
for between two and three years	-
for between three and four years	-
for four or more years	-

All highly paid off-payroll workers engaged at any point during the year ended 31 March 2022, earning £245 per day or greater:

	Number
No. of temporary off-payroll workers engaged during the year ended 31 March 2022	1
Of which:	
Not subject to off-payroll legislation	-
Subject to off-payroll legislation and determined as in-scope of IR35[30]	1
Subject to off-payroll legislation and determined as out-of-scope of IR35	-
No. of engagements reassesses for compliance or assurance purposes during the year	-
Of which: No. of engagements that saw a change to IR35 status following review	-

For any off-payroll engagement of board members, and/or senior officials with significant financial responsibility between 1 April 2021 and 31 March 2022:

	Number
No. of off-payroll engagements of board members and/or senior officials with significant financial responsibility, during the financial year[31]	1
Total no. of individuals on payroll and off-payroll that have been deemed 'board members and/or senior officials with significant financial responsibility', during the financial year	2

[29] The £245 threshold is set to approximate the minimum point of the pay scale for a Senior Civil Servant.

[30] A worker that provides their services through their own limited company or another type of intermediary to the client will be subject to off-payroll legislation and the entity must undertake an assessment to determine whether that worker is in-scope of Intermediaries legislation (IR35) or out-of-scope for tax purposes.

[31] The recruitment campaigns to appoint a Director of Corporate Services and a Director of Transformation with the necessary skills and experience were unsuccessful. A value for money assessment concluded that appointing a specialist contractor to cover both roles would deliver a long-term saving and enable Ofgem to deliver a critical and ambitious transformation programme. A contract was signed in August 2021 for an 18 month contract. The contract was for an initial period of 3 months with an option to extend by 15 months (and the option was exercised in November 2021).

Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017. These regulations place a legislative requirement on relevant public sector employers to collate and publish, on an annual basis, a range of data on the amount and cost of facility time within their organisation.

Relevant union officials

Total number of employees who were relevant union officials between 1 April 2021 and 31 March 2022:

	Number
Employees who were relevant union officials during the relevant period	9
Full-time equivalent employee number	8.7

Percentage of time spent on facility time

For employees who were relevant union officials employed between 1 April 2021 and 31 March 2022, percentage of their working hours on spent on facility time:

	Number
0%	-
1-50%	9
51-99%	-
100%	-

Percentage of pay bill spent on facility time

For employees who were relevant union officials employed between 1 April 2021 and 31 March 2022, percentage of pay bill spent on facility time:

	£ / %
Total cost of facility time	£8,257
Total pay bill	£85.767 million
Percentage of the total pay bill spent on facility time	0.01%

Paid trade union activities

For employees who were relevant union officials employed between 1 April 2021 and 31 March 2022, percentage of time spent on paid trade union activities.

	Percentage
Time spent on paid trade union activities as a percentage of total paid facility time hours (%)	19.92%

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

Exit package cost band	2021-22			2020-21		
	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
<£10,000	-	-	-	-	1	1
£10,000 - £25,000	-	1	1	1	1	2
£25,000 - £50,000	-	3	3	-	1	1
£50,000 - £100,000	-	9	9	-	2	2
£100,000 - £150,000	-	3	3	-	-	-
£150,000 - £200,000	-	-	-	-	-	-
£200,000 - £250,000	-	-	-	-	1	1
Total number of exit packages	-	16	16	1	6	7
Total cost £000	**-**	**1,269**	**1,269**	**16**	**413**	**429**

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), a statutory scheme made under the Superannuation Act 1972. The table above shows the total cost of exit packages agreed and accounted for in 2021-22 (2020-21 comparative figures are also given).

Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Staff composition	Women		Men	
All employees	587	47%	674	53%
SCS Payband 1	17	46%	20	54%
SCS Payband 2	8	53%	7	47%
SCS Payband 3	0	0%	1	100%

Employee involvement

This year our staff engagement survey received a response rate of 76%, and an engagement index of 59%, a decrease of 6 percentage points on the previous year. Our staff continue to find their roles interesting (78%), believing their work gives them a sense of personal accomplishment (72%), and would recommend Ofgem as a great place to work (61% - down 6 percentage points from the previous year).

Equal opportunities policy

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

This ensures fair and open competition, regardless of:

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

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

Diversity and Inclusion

In our dual role as an employer and a regulator, we are committed to meeting our legal obligations and promoting equality and diversity among our workforce, in the way we work and in the industry we regulate.

We promote equality and diversity at work: in recruitment, employment, training and career development. Nobody should suffer discrimination because of age, disability, gender reassignment, pregnancy or maternity, race, religion or belief, sex or sexual orientation. We do not tolerate discrimination, bullying or harassment. Our score for inclusion and fair treatment in the 2021 staff engagement survey was 79%. In 2021-22 there has been focus on building a diverse and inclusive workforce. We have moved to blind recruitment and diverse interview panels. We have delivered a women in leadership programme, and coaching programme for Black and Ethnic minority colleagues.

We have made good progress against our aspirational targets for a gender balanced workforce, and to increase representation of black and ethnic minorities.

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

In 2021-22 we continued to provide diversity and inclusion training to staff. This is part of our commitment to ensuring that in everything they do our staff understand and fulfil their obligations under the Equality Act. As at the 31 March 2022:

- 6% (2020-21: 4.3%) of staff were known to have a disability
- 46% (2020-21: 46%) of staff were women
- 44% (2020-21: 43%) of staff in managerial grades (Band D to SCS3) were women
- 43% (2020-21: 45%) of Senior Civil Service members in Ofgem were women
- 22% (2020-21: 19%) of staff were known to be of ethnic minority origin
- 30% (2020-21: 35%) of staff known to be of ethnic minority origin were in managerial grades (Band D to SCS3).

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

Ofgem's gender pay gap data can be found at https://gender-pay-gap.service.gov.uk/Employer/LkjznjGE/2020

Diversity and inclusion formed a key aspect of our engagement this year. We continued our partnership with the BBC's 50/50 Equality Project, monitoring and embedding equality in representation across our content and engagement and reached our 50:50 target by Q4.

In April 2021, we proudly partnered with Energy UK to host our first annual Diversity, Equality and Inclusion conference with the aim of driving positive changes across the energy sector and one of the outputs being the creation of a cross-sector Taskforce.

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. Our budget allocation process provides an amount per employee for learning and development activity.

We have recently launched a new Learning and Organisational Development strategy with the aim of fundamentally changing the way Ofgem approaches learning and organisational development (L&OD) by creating, operationalising, delivering and embedding an L&OD Strategy which is aligned to Ofgem's Transformation ambition and outcomes. This will ensure our leaders and managers have the skills, capability and confidence to build high performing teams who deliver at pace, and that our people have the skills, capability and confidence to deliver Ofgem's strategic goals.

Community engagement

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

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

Promoting health and safety at work

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

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

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

Days lost because of absence

In 2021-22, we lost an average of 3.1 days a year per employee (2020-21: 2.7 days). This compares favourably with the public sector average of 6.1 days a year per employee.

Jonathan Brearley
Chief Executive

11 July 2022

Parliamentary Accountability and Audit Report

Statement of Outturn against Parliamentary Supply

Summary of resource and capital outturn 2021-22

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

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

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

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

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

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

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

The SoPS provides a detailed view of financial performance, in a form that is voted on and recognised by Parliament. The financial review, in the Accountability Report, provides a summarised discussion of outturn against estimate and functions as an introduction to the SoPS disclosures.

Summary tables - mirrors part 1 of the Estimates

Summary table, 2021-22, all figures presented in £000's										
		Outturn			Estimate			Outturn vs Estimate, saving		
Type of Spend	SoPS note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted	Total	Prior Year Outturn Total 2020-21
Departmental expenditure limits										
Resource	1.1	(9,807)	-	(9,807)	78,645	-	78,645	88,452	88,452	11,994
Capital	1.2	3,567	-	3,567	3,791	-	3,791	224	224	2,199
Total budget expenditure		**(6,240)**	**-**	**(6,240)**	**82,436**	**-**	**82,436**	**88,676**	**88,676**	**14,193**
Non-budget expenditure		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,388**
Total budget and Non-budget		**(6,240)**	**-**	**(6,240)**	**82,436**	**-**	**82,436**	**88,676**	**88,676**	**16,581**

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

Net cash requirement 2021-22, all figures presented in £000's

Type of spend	SOPS note	Outturn	Estimate	Outturn vs Estimate, saving	Prior Year Outturn Total 2020-21
Net cash requirement	**3**	(10,762)	24,316	35,078	6,812

Administration costs 2021-22, all figures presented in £000's

Type of spend	SOPS note	Outturn	Estimate	Outturn vs Estimate, saving	Prior Year Outturn Total 2020-21
Administration costs	**1.1**	(10,449)	77,111	87,560	11,994

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

Notes to the Statement of Outturn against Parliamentary Supply, 2021-22 (£000's)

SOPS1. Outturn detail, by Estimate Line

SOPS1.1 Analysis of resource outturn by Estimate Line

	Resource Outturn – Administration			Programme			
Type of Spend (Resource)	Gross	Income	Net total	Gross	Income	Net total	Total
Spending in departmental expenditure limits (DEL)							
Voted expenditure							
A Gas and Electricity Markets Authority: administration	96,398	(94,574)	1,824	642	-	642	2,466
B Ofgem E-Serve: administration	31,571	(30,885)	686	-	-	-	686
C Ofgem Green Gas: administration	1,261	(14,220)	(12,959)	-	-	-	(12,959)
Total resource	**129,230**	**(139,679)**	**(10,449)**	**642**	**-**	**642**	**(9,807)**

	Estimate			Outturn vs Estimate, Saving	Prior Year Outturn Total 2020-21
Type of Spend (Resource)	Total	Virements	Total including virements		
Spending in departmental expenditure limits (DEL)					
Voted expenditure					
A Gas and Electricity Markets Authority: administration	76,600*	-	76,600	74,134	11,296
B Ofgem E-Serve: administration	1,266	-	1,266	580	698
C Ofgem Green Gas: administration	779	-	779	13,738	-
Total resource	**78,645**	-	**78,645**	**88,452**	**11,994**

* Comprises £77,111,000 of administration and £1,534,000 of programme budget estimates

SoPS1.2 Analysis of capital outturn by Estimate Line

Type of Spend (Capital)	Outturn			Estimate			Outturn vs Estimate, Saving	Prior Year Outturn Total 2020-21
	Gross	Income	Net total	Total	Virements	Total including virements		
Spending in departmental expenditure limits (DEL)								
Voted expenditure								
A Gas and Electricity Markets Authority: administration	2,049	-	2,049	2,100	-	2,100	51	2,199
B Ofgem E-Serve: administration	3,133	(3,133)	-	-	-	-	-	-
C Ofgem Green Gas: administration	1,518	-	1,518	1,691	-	1,691	173	-
Total capital	**6,700**	**(3,133)**	**3,567**	**3,791**	**-**	**3,791**	**224**	**2,199**

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

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

SoPS2 Reconciliation of outturn to net operating (income)/expenditure

		Outturn Total	Prior Year Outturn Total, 2020-21
		£000	£000
Total Resource Outturn	SoPS1.1	**(9,807)**	**11,994**
Add: Capital income from BEIS	SoPS1.2	(3,133)	-
Net Operating (Income)/Expenditure in Statement of Comprehensive Net (Income)/ Expenditure	SOCNE	**(12,940)**	**11,994**

As noted in the introduction to the SoPS above, outturn and the Estimates are compiled against the budgeting framework, which is similar to, but different from, IFRS. Therefore, this reconciliation bridges the resource outturn to net operating (income)/expenditure, linking the SoPS to the financial statements.

Capital income is budgeted as capital DEL but accounted for as income on the face of the SOCNE and therefore is a reconciling item between total resource outturn and net operating (income)/expenditure.

SoPS3 Reconciliation of net resource outturn to net cash requirement

Item	Reference	Outturn total	Estimate	Outturn vs Estimate, saving/(excess)
	Note	£000	£000	£000
Total resource outturn	SoPS1.1	**(9,807)**	**78,645**	**88,452**
Total capital outturn	SoPS1.2	**3,567**	**3,791**	**224**
Adjustments to remove non-cash items:				
▪ Depreciation and impairment	3	(1,337)	(2,094)	(757)
▪ New provisions and adjustments to provisions	3	(3,966)	(74,500)	(70,534)
▪ Other non-cash items		(920)	(85)	835
Adjustments to reflect movements in working balances:				
▪ Increase/(decrease) in receivables	10	8,156	5,505	(2,651)
▪ (Increase)/decrease in payables	11	(9,958)	1,000	10,958
▪ Use of provision	12	3,503	12,054	8,551
Net cash requirement		**(10,762)**	**24,316**	**35,078**

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

SoPS4 Analysis of income to the consolidated fund

We collected no Consolidated Fund income in 2021-22.

Parliamentary Accountability Disclosures (audited)

Fees and charges

Ofgem's regulatory activity is funded by taxation, in the form of a licence fee paid by the industry. Costs and income for the year for taxation related to licence fee were £91.3 million.

The cost administering energy schemes and environmental schemes on behalf of governments is funded either by government bodies, or by the schemes themselves. Income for the year for schemes and other services was £51.5 million and costs were £38.6 million.

Analysis of costs and income for the year is shown in note 4, on page 89. There were no subsidies or overcharging.

Regularity of expenditure

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

- Losses and special payments;
- Remote contingent liabilities; and
- Long term expenditure trends.

Jonathan Brearley
Chief Executive

11 July 2022

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 (Ofgem) for the year ended 31 March 2022 under the Government Resources and Accounts Act 2000. The financial statements comprise: Ofgem's

- Statement of Financial Position as at 31 March 2022;
- Statement of Comprehensive Net (Income)/ Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted international accounting standards.

In my opinion, the financial statements:

- give a true and fair view of the state of Ofgem's affairs as at 31 March 2022 and its net operating income for the year then ended; and
- 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 Outturn Against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2022 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law 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 2019*. I have also elected to apply the ethical standards relevant to listed entities. I am independent of Ofgem in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that Ofgem's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Ofgem's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for Ofgem is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the Annual Report, but does not include the financial statements nor my auditor's certificate and report. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- 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 and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of Ofgem and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Reports.

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

- I have not received all of the information and explanations I require for my audit; or
- adequate accounting records have not been kept by Ofgem 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 Accountability Report subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the Remuneration and Staff Report to be audited is not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of the Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records;
- the preparation of the financial statements and Annual Report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- ensuring that the Annual Report and accounts as a whole is fair, balanced and understandable;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error; and
- assessing Ofgem's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by Ofgem will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I considered the following:

- the nature of the sector, control environment and operational performance including the design of the Ofgem's accounting policies
- Inquiring of management, Ofgem's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Ofgem's policies and procedures relating to:
    - o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - o the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including Ofgem's controls relating to Ofgem's compliance with the Government Resources and Accounts Act 2000 and Managing Public Money.
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Ofgem for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I also obtained an understanding of Ofgem's framework of authority as well as other legal and regulatory frameworks in which Ofgem operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of Ofgem. The key laws and regulations I considered in this context included Government Resources and Accounts Act 2000, Managing Public Money and relevant employment law and tax legislation.

In addition, I considered compliance with HMT controls over the approval of senior remuneration and Cabinet Office controls over contracts for expenditure.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- obtaining evidence of HMT approval for senior remuneration and compliance with Cabinet Office controls over contracts.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

I am required to obtain appropriate evidence sufficient to give reasonable assurance that the Statement of Outturn against 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.

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.

Report

I have no observations to make on these financial statements.

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

12 July 2022

Resource Accounts

Statement of Comprehensive Net (Income)/ Expenditure for the year ended 31 March 2022

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

	Note	2021-22 £000	2020-21 £000
Operating income	4	(142,812)	(109,119)
Total Operating Income		**(142,812)**	**(109,119)**
Staff costs	3	86,125	76,548
Other operating expenditure	3	43,747	44,565
Total operating expenditure		**129,872**	**121,113**
Net operating (income)/ expenditure for the year	2	**(12,940)**	**11,994**
Comprehensive net (income)/expenditure for the year		**(12,940)**	**11,994**

The notes on pages 83 to 99 form part of these accounts.

Statement of Financial Position as at 31 March 2022

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

	Note		2021-22 £000		2020-21 £000
Non-current assets:					
Property, plant and equipment	5	2,999		2,285	
Intangible assets	6	4,651		-	
Total non-current assets			**7,650**		**2,285**
Current assets:					
Trade and other receivables	10	23,731		15,575	
Cash and cash equivalents	9	14,366		3,604	
Total current assets			**38,097**		**19,179**
Total assets			**45,747**		**21,464**
Current liabilities:					
Trade and other payables	11	(43,857)		(23,137)	
Provisions	12	(15,278)		(14,308)	
Total current liabilities			**(59,135)**		**(37,445)**
Total assets less current liabilities			**(13,388)**		**(15,981)**
Non-current liabilities:					
Provisions	12	(1,791)		(2,298)	
Total non-current liabilities			**(1,791)**		**(2,298)**
Total assets less total liabili-ties			**(15,179)**		**(18,279)**
Taxpayers' equity:					
General fund		(15,179)		(18,279)	
Total equity			**(15,179)**		**(18,279)**

Jonathan Brearley
Chief Executive

11 July 2022

The notes on pages 83 to 99 form part of these accounts.

Statement of cash flows for the year ended 31 March 2022

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

	Note	2021-22 £000	2020-21 £000
Cash flows from operating activities:			
Net operating income/(expenditure)	SoCNE	12,940	(11,994)
Adjustments for non-cash transactions	SoPS3	6,223	12,432
Increase in trade and other receivables	10	(8,156)	(7,873)
Increase/(decrease) in trade and other payables	11	20,720	(5,153)
less movements in payables relating to items not passing through the SoCNE	11	(10,762)	8,665
Use of provisions	12	(3,503)	(690)
Net cash inflow/(outflow) from operating activities		**17,462**	**(4,613)**
Cash flows from investing activities:			
Purchase of property, plant and equipment	5	(2,049)	(2,199)
Purchase of intangible assets	6	(4,651)	-
Net cash outflow from investing activities		**(6,700)**	**(2,199)**
Cash flows from financing activities:			
From the Consolidated Fund (supply) current year	SOCiTE	-	6,893
Advances from the Contingencies Fund		37,600	27,000
Payments to the Contingencies Fund		(37,600)	(27,000)
Net financing		**-**	**6,893**
Net increase in cash and cash equivalents in the period before adjustment for payments to the Consolidated Fund		**10,762**	**81**
Payments of amounts to the Consolidated Fund		-	(8,746)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**10,762**	**(8,665)**
Cash and cash equivalents at the beginning of the period	9	3,604	12,269
Cash and cash equivalents at the end of the period	9	**14,366**	**3,604**

The notes on pages 83 to 99 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2022

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

		General fund
	Note	**£000**
Balance at 31 March 2020		**(13,189)**
Auditors remuneration	3	100
Comprehensive net expenditure for the year	SoCNE	(11,994)
Net Parliamentary Funding - deemed		3,523
Net Parliamentary Funding - drawn down		6,893
Supply payable adjustment		(3,604)
Cash receipts from 2019-20 not due to the Consolidated Fund		(8)
Balance at 31 March 2021		**(18,279)**
Auditors remuneration	3	107
Comprehensive net income for the year	SoCNE	12,940
Net Parliamentary Funding - deemed		3,604
Net Parliamentary Funding - drawn down		-
Supply payable adjustment		(14,366)
Deferred income released to the general fund		442
Other reserve movements		373
Balance at 31 March 2022		**(15,179)**

The notes on pages 83 to 99 form part of these accounts.

Notes to the departmental resource accounts

1. Statement of accounting policies

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

As well as the primary statements prepared under IFRS, the FReM requires the department to prepare one additional primary statement. The Statement of Outturn against Parliamentary Supply (SoPS) and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement, and are included in the Parliamentary Accountability and Audit Report section starting on page 69.

1.1 Accounting convention

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

Going concern

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 2022-23 has already been given and there is no reason to believe that future approvals will not be granted. We expect to continue to deliver services into the future. We have therefore considered it appropriate to adopt a going-concern basis for the preparation of these financial statements.

1.2 Operating income

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

- **Licence fees -** In each financial year, Ofgem is required to balance its expenditure with its income. Ofgem is required to raise income from the sector it regulates such that it covers the costs to be incurred by Ofgem in regulating that sector. Therefore, Legislation provides the enforceability on both parties to enable Ofgem to recover its costs from third parties. The performance obligations relate to the underlying work to be undertaken by Ofgem as regulator of the Gas & Electricity Market, and as set out in the published Forward Work Programme. Revenue is recognised in the year the performance obligation (cost) is incurred.

- **Income from BEIS and Scheme funded recharges -** Under service level agreements/ contracts with the Department for Business, Energy and Industrial Strategy and other government bodies, Ofgem administers energy and environmental schemes on their behalf. These services are provided on a full-cost basis. Income is recognised on an accruals basis as the performance obligations outlined within the service level agreements/ contracts are satisfied over time. Administration costs funded directly by BEIS, rather than by the scheme itself or by other governments, is separated out in Note 4 and explained in Note 14.

- **Green gas levy -** The Green Gas Levy places obligations on licensed gas suppliers, including a requirement to make quarterly levy payments, in order to fund the Green Gas Support Scheme, a government environmental scheme that provides financial incentives for new anaerobic digestion biomethane plants to increase the proportion of green gas in the gas grid. There are no obligations to transfer goods or services to those who pay the levy (it is treated as a type of taxation), because those funds will be used to pay for Green Gas Support Scheme payments and running costs. The FReM adapts IFRS 15 to require that taxation revenue received which is wholly non-refundable and leads to no obligations should be recognised when: an equivalent to a taxable event has occurred; the revenue can be measured reliably; and it is probable that the assisted economic benefits from the taxable event will flow to the collecting entity. These criteria are considered to be met for the Green Gas Levy when the meter point data is provided by gas suppliers to Ofgem.

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

1.3 Pensions

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

1.4 Early departure costs

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

1.5 Property, plant, equipment and depreciation

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

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

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

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

1.6 Intangible assets and amortisation

Intangible assets relating to bespoke software developed by Ofgem for use in the running of various schemes, are recognised at historic cost and amortised over the life of the scheme or four years, whichever is lower. Whilst being developed, they are classified as assets under construction and are not amortised until they are commissioned. Development costs that are directly attributable to the design and testing of the bespoke software are capitalised when they meet the criteria specified in IAS 38 Intangible Assets (as adapted by the FReM). Expenditure which does not meet the criteria is expensed as incurred.

1.7 Operating leases

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

This will change in 2022-23, please see note 1.15.

1.8 Cash and Cash equivalents

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

1.9 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. Although there is a higher degree of estimation uncertainty associated with legal provisions, management will make their best estimate based on information available.

Where the time-value of money is material, the provision is discounted to its present value using the government's standard discount rate (currently a nominal rate of 0.47% for up to the first five years, 0.70% from after five years and up to and including ten years, and 0.95% from after ten years and up to and including forty years). Each year the financing charges in the statement of comprehensive net (income)/expenditure include the adjustments to amortise one year's discount and restate liabilities to current price levels.

1.10 Value added tax

Amounts are shown net of value-added tax (VAT), except:

- irrecoverable VAT is charged to the statement of comprehensive net (income)/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.

1.11 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.

1.12 Financial risks

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

1.13 Contingent liabilities

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

1.14 Assets belonging to third parties

Assets belonging to third parties as disclosed in Note 15 (such as money held in relation to the Renewables Obligation and Feed-In Tariff schemes) are not recognised in the Statement of Financial Position since Ofgem have no beneficial interest in them.

1.15 Adoption of new and revised accounting standards

- **IFRS 16**

IFRS 16 Leases is applicable from 1 April 2022 (delayed from 1 April 2021) for FReM bodies and replaces IAS 17 Leases. IFRS 16 Leases provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset meets the IFRS 16 criteria to be classified as of "low value".

IFRS 16 requires that assets and liabilities will be recognised initially at the discounted value of the minimum lease payments. Therefore, implementation of IFRS 16 will increase the value of assets (right of use assets) and liabilities (lease liabilities) on the Statement of Financial Position.

After initial recognition, right of use assets will be amortised on a straight-line basis and interest will be recognised on the liabilities. As a result, the timing of the recognition of the total costs of leasing will change, as interest costs will be higher at the start of a lease.

IFRS 16 will be implemented using the cumulative catch-up method, which means that comparatives for 2021-22 will not be re-stated, and the adjustment to net assets will be made with effect from 1 April 2022. This approach is mandated by HM Treasury. Ofgem's material leases relate to property rentals for office space. The effect of implementation is estimated to be an increase in assets and liabilities of approximately £24million on 1 April 2022 and an increase in charges to the Statement of Comprehensive Net (Income)/ Expenditure of approximately £0.9million during 2022-23 (based on 2021-22 assumptions, interest rates and discount rates).

- **IFRS 17**

IFRS 17 Insurance contracts is not likely to be adopted by the public sector until 2023 or later. The impact is not expected to be material for the department.

1.16 Critical Accounting Judgements and Estimation Uncertainty

- **Provisions**

Provisions rely on the application of professional judgement, historical experience and other factors expected to influence future events. Where the likelihood of a liability crystallising is deemed probable and can be measured with reasonable certainty, a provision is recognised. Further information is disclosed in note 12.

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

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

2. Statement of operating expenditure/(income) by operating segment

2021-22				
	Regulatory Activities £000	Ofgem Delivery & Schemes* £000	Corporate Services £000	Total £000
Gross expenditure	46,120	32,832	50,920	129,872
Income	(44,055)	(48,238)	(50,519)	(142,812)
Net expenditure/(income)	**2,065**	**(15,406)**	**401**	**(12,940)**

2020-21				
	Regulatory Activities £000	Ofgem Delivery & Schemes* £000	Corporate Services £000	Total £000
Gross expenditure	44,340	29,100	47,673	121,113
Income	(44,340)	(28,402)	(36,377)	(109,119)
Net expenditure	**-**	**698**	**11,296**	**11,994**

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

*Ofgem E-Serve is now named Ofgem Delivery & Schemes.

3. Expenditure

	Note	2021-22 £000	2020-21 £000
Staff costs:*			
Wages and salaries		64,811	57,516
Social security costs		6,405	5,630
Other pension costs		14,551	12,911
Other staff costs		90	257
Apprenticeship levy		268	234
		86,125	**76,548**
Rental under operating leases:			
Operating leases (land and buildings)	7	2,294	2,792
		2,294	**2,792**
Non-cash items:			
Auditors' remuneration and expenses**		107	100
Depreciation	5	1,337	1,416
Holiday pay adjustment		(490)	1,310
		954	**2,826**
Other expenditure:			
Consultancy		23,364	18,689
Accommodation costs		2,762	2,594
Recruitment and training		1,504	1,132
Travel and subsistence		196	31
Office supplies and equipment		5,993	4,831
Professional Services		1,817	929
Staff related costs		233	254
Other expenditure		664	484
		36,533	**28,944**
Provisions:			
Movement in provisions	12	3,966	10,003
Total		**129,872**	**121,113**

* Further analysis of staff costs is located in the Staff Report on page 62.
** There was no auditor remuneration for non-audit work.

4. Operating income analysis

			2021-22			2020-21
	Income	Full costs	Surplus	Income	Full costs	Deficit
Licence fees (external)	91,284	91,284	-	77,301	77,301	-
Other	51,528	38,588	12,940	31,818	43,812	(11,994)
Total	**142,812**	**129,872**	**12,940**	**109,119**	**121,113**	**(11,994)**

		2021-22	2020-21
Other income includes:	**Note**	**£000**	**£000**
Offshore Transmission Tender Recharge		2,442	2,638
Department for Business, Energy and Industrial Strategy (BEIS)	14	27,685	24,269
Scheme-funded recharges		6,258	4,045
Green Gas Levy		14,220	-
Miscellaneous*		923	866
		51,528	**31,818**

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

5. Property, plant and equipment

	Furniture	Office equipment	IT	Leasehold improvements	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2021	229	443	3,193	6,104	9,969
Additions	-	44	937	1,068	2,049
Reclassification	-	(222)	-	222	-
Disposals	-	-	(390)	(4,106)	(4,496)
At 31 March 2022	**229**	**265**	**3,740**	**3,288**	**7,522**
Depreciation					
At 1 April 2021	180	50	1,704	5,750	7,684
Charged in year	32	47	944	314	1,337
On disposals	-	-	(392)	(4,106)	(4,498)
At 31 March 2022	**212**	**97**	**2,256**	**1,958**	**4,523**
Carrying amount at 31 March 2022	**17**	**168**	**1,484**	**1,330**	**2,999**
Carrying amount at 31 March 2021	49	393	1,489	354	2,285

	Furniture	Office equipment	IT	Leasehold im-provements	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2020	229	121	1,382	6,038	7,770
Additions	-	322	1,811	66	2,199
At 31 March 2021	**229**	**443**	**3,193**	**6,104**	**9,969**
Depreciation					
At 1 April 2020	114	8	827	5,319	6,268
Charged in year	66	42	877	431	1,416
At 31 March 2021	**180**	**50**	**1,704**	**5,750**	**7,684**
Carrying amount at 31 March 2021	**49**	**393**	**1,489**	**354**	**2,285**
Carrying amount at 31 March 2020	116	113	555	718	1,502

All property, plant and equipment is owned by Ofgem.

6. Intangible assets

Intangible assets are internally generated bespoke computer software assets for use in the running of various Ofgem schemes. They are initially classified as assets under construction and are not amortised until they are commissioned.

	Assets under construction	Total
	£000	£000
Cost		
At 1 April 2021	-	-
Additions	4,651	4,651
At 31 March 2022	**4,651**	**4,651**
Amortisation		
At 1 April 2021	-	-
Charged in year	-	-
At 31 March 2022	**-**	**-**
Carrying amount at 31 March 2022	**4,651**	**4,651**
Carrying amount at 31 March 2021	-	-

7. Operating leases

£2.3m (2020-21: £2.8m) was included as an expense on operating leases in the Statement of Comprehensive Net (Income)/Expenditure. Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	2021-22	2020-21
	£000	£000
Buildings:		
Not later than one year	2,139	2,218
Later than one year and not later than five years	8,192	8,222
Later than five years	13,422	14,014
	23,753	**24,454**

London office space is contracted up to June 2032. During 2021-22, there was a reduction in office space leased by Ofgem, and lease expenditure has reduced accordingly.

Glasgow office space is leased until 2026-27 with annual breaks from 2021-22. Only payments up to 2022-23 have been included in the minimum lease payments figure above.

Cardiff is contracted until March 2026 with an option to extend to 2045.

8. Financial instruments

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

The securities and letters of credit described in Note 15 are held to manage risk in the Offshore tender auction process which Ofgem undertakes on behalf of government. Ofgem has no risk exposure to the securities it holds in relation to this process.

9. Cash and cash equivalents

	2021-22	2020-21
	£000	£000
Balance at 1 April	3,604	12,269
Net change in cash balances:	10,762	(8,665)
Balance at 31 March	**14,366**	**3,604**
The following balances at 31 March were held at:		
Government Banking Service	14,366	3,604
Balance at 31 March	**14,366**	**3,604**

In addition to the cash and cash equivalents disclosed above, Ofgem holds third party assets of cash and letters of credit relating to offshore tender developer securities, the Renewables Obligation, the Feed-in Tariffs funds, the Renewable Heat Incentive and the Green Gas Support schemes. These are described in note 15.

10. Trade receivables and other current assets

	2021-22	2020-21
Amounts falling due within one year:	**£000**	**£000**
Accrued income	20,395	12,987
Trade receivables	549	793
Prepayments	2,034	1,309
VAT	735	468
Other receivables	18	18
Balance at 31 March	**23,731**	**15,575**

Other receivables represent staff loans outstanding, such as those relating to the cycle to work scheme.

11. Trade payables and other current liabilities

	2021-22	2020-21
Amounts falling due within one year:	**£000**	**£000**
Amounts issued from the Consolidated Fund for supply but not spent at year end	14,366	3,604
Deferred licence fees	6,880	745
Accruals	13,749	5,502
Other deferred income	2,233	5,477
Other payables	2,618	3,108
Taxation and social security	3,475	2,952
Trade payables	536	1,749
Balance at 31 March	**43,857**	**23,137**

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

12. Provisions for liabilities and charges

	Early retirement	Voluntary exit	Pension liabilities	Dilapidations	Legal	VAT	Other	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2021	130	400	-	2,184	10,064	2,521	1,307	16,606
Provided in the year	-	208	-	-	4,734	-	225	5,167
Provisions not required written back	-	-	-	(479)	-	(405)	(305)	(1,189)
Provisions utilised in the year	(15)	(400)	-	-	-	(2,116)	(972)	(3,503)
Changes in discount rate	(12)	-	-	-	-	-	-	(12)
Balance at 31 March 2022	**103**	**208**	**-**	**1,705**	**14,798**	**-**	**255**	**17,069**

	Early retirement	Voluntary exit	Pension liabilities	Dilapidations	Legal	VAT	Other	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2020	131	-	838	1,899	-	2,388	1,116	6,372
Provided in the year	-	400	-	285	10,064	133	1,298	12,180
Provisions not required written back	-	-	(838)	-	-	-	(435)	(1,273)
Provisions utilised in the year	(18)	-	-	-	-	-	(672)	(690)
Changes in discount rate	17	-	-	-	-	-	-	17
Balance at 31 March 2021	**130**	**400**	**-**	**2,184**	**10,064**	**2,521**	**1,307**	**16,606**

Analysis of expected timings of discounted flows as at 31 March 2022								
Not later than one year	17	208	-	-	14,798	-	255	15,278
Later than one year and not later than five years	61	-	-	1,705	-	-	-	1,766
Later than five years	25	-	-	-	-	-	-	25
Balance at 31 March 2022	**103**	**208**	**-**	**1,705**	**14,798**	**-**	**255**	**17,069**

Analysis of expected timings of discounted flows as at 31 March 2021								
Not later than one year	16	400	-	-	10,064	2,521	1,307	14,308
Later than one year and not later than five years	62	-	-	2,184	-	-	-	2,246
Later than five years	52	-	-	-	-	-	-	52
Balance at 31 March 2021	**130**	**400**	**-**	**2,184**	**10,064**	**2,521**	**1,307**	**16,606**

Early retirement

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

Voluntary exit

Severance provisions relate to voluntary exits which have been discussed with the impacted member of staff prior to 31 March 2022 but are not expected to happen until 2022-23.

Dilapidations

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

Pension liabilities

The pension provision related to unfunded pension liabilities for a previous chief executive and director general. During 2020-21, it was confirmed that this potential liability is no longer required and the provision could be released in full.

Legal

A number of our RIIO-2 price control decisions for the gas distribution and transmission sectors were subject to appeal before the Competition and Markets Authority (CMA). A final determination and order was published on 1 November 2021, and we now have a starting position of claimants costs but there continues to be some uncertainty around this estimate and we believe the existing provision is still relevant to the prevalent position as at 31st March 2022.

A number of legal risks arose as a result of Ofgem's responses to the gas market crisis during 2021-22. This includes, but is not limited to, impacts on the price cap and legal challenges in relation to the Supplier of Last Resort process. The provision value has been estimated based on the assessment by legal professionals of both the likelihood of challenge and potential success of a challenge. The cost estimate considers factors such as the level of complexity and estimated resource involved in responding to a challenge.

Other provisions

Other provisions include historic property costs relating to the lease for the 10SC office which have not yet been agreed with the Government Property Agency and provision for outstanding costs relating to a historic shortfall in pension contributions for some members of staff and former staff.

13. 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.

We are not aware of any contingent liabilities requiring disclosure under IAS 37.

14. Related party transactions

During the year, we transferred £12.303 million to the Department for Business, Energy and Industrial Strategy (BEIS) (2020-21: £10.498 million). £11.440 million of this was for advocacy services (2020-21: £9.489 million). The remaining £0.863 million was transferred for metrology services (2020-21: £1.009 million). These funds are collected by Ofgem through the licence fee, on behalf of BEIS.

We administer environmental programmes on behalf of the BEIS, and second staff to BEIS. Total income from BEIS recognised in year amounted to £27.685 million, of which £4.834 million was accrued at 31 March 2022 (£24.269 million income in 2020-21 with £7.921 million accrued at 31 March 2021).

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 of £1.084 million was recognised in year from the NIAUR (£0.447 million in 2020-21), and £1.240 million of income from DfE (£1.811 million in 2020-21). This income is included within the Scheme Funded Recharges figure in Note 4.

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 55.

15. 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 2022 Ofgem held £10.95 million in letters of credit and £nil in cash (31 March 2021: £8.85 million in credit, £nil in cash).

Renewables Obligation

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

Several bank accounts are used to administer the scheme:

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

Total cash held in these bank accounts as at 31 March 2022 was £14.84 million (31 March 2021: £25.43 million). Income of £6.96 million was recognised in 2021-22 in relation to RO schemes, of which £1.06 million was accrued at 31 March 2022. This income is included within the Scheme Funded Recharges figure in Note 4.

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 2022 was £0.05 million (31 March 2021: £0.85 million).

Domestic and non-domestic renewable heat incentive (RHI)

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

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

Ofgem administers both schemes on behalf of BEIS in Great Britain, and administers Non-Domestic RHI in Northern Ireland on behalf of DfE. Bank balances held in relation to the schemes at 31 March 2022 were: Domestic RHI: £4.540 million; Non-domestic RHI Great Britain: £9.673 million ; Non-domestic RHI Northern Ireland: £0.021 million (31 March 2021: £4.919 million; £3.077 million; £0.168 million).

Green Gas Support Scheme

The Green Gas Support Scheme (GGSS) is a government environmental scheme that provides financial incentives for new anaerobic digestion biomethane plants to increase the proportion of green gas in the gas grid. The scheme opened to participants on 30 November 2021 and will be open to applications for four years. Registered participants are paid quarterly payments over a period of 15 years, which are based on the amount of eligible biomethane that a participant injects into the gas grid.

Under the Green Gas Support Scheme Regulations 2021, the Green Gas Levy (GGL) places obligations on licensed gas suppliers, including a requirement to make quarterly levy payments to Ofgem in order to fund the GGSS. Licensed gas suppliers must also provide credit cover, either in the form of cash or by lodging a valid letter of credit, to help ensure funds are collected in a timely manner and to reduce the likelihood of mutualisation events being required.

Credit cover must be provided for a minimum duration of a quarter and the following four weeks. Once in place, suppliers' credit cover may be drawn down on by Ofgem in instances where a supplier fails to pay whole or part of a levy or mutualisation payment by the relevant due date. Unused credit cover remains lodged and is taken into account in confirming whether additional credit cover needs to be lodged for the following quarter. In future years any excess cash credit cover held beyond required levels for each supplier will be routinely returned to suppliers in March. As at 31 March 2022, Ofgem held £5.958 million in cash credit cover and £11.171 million in letters of credit.

The GGSS, and associated GGL, policy is set by BEIS but the scheme is administered by Ofgem.

16. Fossil fuel levies and financial penalties

Ofgem are no longer required to prepare a Trust Statement in respect of the fossil fuel levies and financial penalties imposed.

a) Fossil fuel levies

The fossil fuel levy schemes were closed in 2019. During 2021-22, the residual cash balances of £31.995 million and £43.724 million were transferred to the UK Consolidated Fund (England and Wales levy balance) and the Scottish Consolidated Fund (Scotland levy balance) respectively.

b) Financial penalties

Ofgem is governed by the Gas and Electricity Markets Authority. The Authority is responsible for taking enforcement action, including imposing financial penalties, in respect of the energy companies it regulates. These amounts are collected by us for payment into the Consolidated Fund. A summary of investigations and enforcement action for the year is included at Appendix II.

	2021-22	2020-21
	£000	£000
Penalties imposed	-	26,560
	-	**26,560**

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. The financial statements do not reflect events after this date.

On 29 April 2022, the Office for National Statistics published a classification assessment for Last Resort Supply Payments (also known as the Supplier of Last Resort (SOLR) levy) and has concluded that Last Resort Supply Payments will be classified as a type of tax. This means that future Ofgem budgets and Estimates will include Last Resort Supply Payments, although the effective date for implementing is still to be determined by the Office for National Statistics. Last Resort Supply Payments cover certain costs associated with transferring customers through the SOLR process and are recovered through allowances for network costs. Last Resort Supply Payment costs have increased over the past year due to the rise in wholesale gas prices, causing a number of suppliers to leave the market. The total Last Resort Supply Payment costs for 2022-23 are £1.84 billion. No funds will pass through Ofgem directly, and Ofgem will not reflect the tax in budgets and estimates until the effective date has been determined.

Appendices (unaudited)

Appendix I
Key Performance Indicators

Effective Competition			
Metric (KPI's)	**Details of what is being measured**	**Annual targets for 2021-22**	**Actual**
Offshore transmission processing	Licence grants within 70 days of commencement of Section 8A5 consultations	70 days	47.5 days
Offshore transmission processing	Preferred Bidder selection within 120 days of the "Invitation to Tender" submission (excluding "Best" and "Final" offer)	120 days	78.5 days
Licence applications	Make decisions on Licence Applications within 45 days	100%	100%[31]
Code modifications	Made code modification decisions within 25 days (or three months, if "minded to" consultation / impact assessment is needed)	90%	
Customer contacts	Time taken for first response to customer contacts	80% - 10 working days	85.47%
Whistle-blowers	Time taken for first response to whistle-blower contacts	100% - 1 working day to receive initial engagement	100%

Key performance indicators for our environmental and social schemes are set with the Department for Business, Energy and Industrial Strategy and the Northern Ireland Department for the Economy, for whom they are delivered. Every year, Ofgem commits to upholding specific service levels for the GB Domestic and Non-Domestic RHI, Feed-In-Tariffs, Renewables Obligation, Energy Company Obligation and Warm Home Discount schemes. Results against these for 2021-22 are set out below.

[31] The specified time periods vary for different application types and are published in the guidance for gas and electricity licence applications. The specified time period for supply licence applications was amended during the year. The specified time period for individual applications may be extended by Ofgem once when justified by the complexity of the issue.

Environmental and Social Scheme KPIs			
Metric (KPI's)	**Details of what is being measured**	**Annual targets for 2021-22**	**Actual**
Domestic Renewable Heat Incentive (DRHI)	Responding to enquiries within 10 working days	80%	99%
Non domestic RHI	Responding to enquiries within 10 working days	80%	98.7%
Renewable Obligation	Responding to enquiries within 10 working days	80%	99.7%
Feed in Tariffs (FIT)	Responding to enquiries within 10 working days	80%	99.7%
Energy Company Obligation (ECO)	Responding to enquiries within 10 working days	80%	99.3%
Warm Home Discount	Responding to enquiries within 10 working days	80%	95.1%
Warm Home Discount	Responding to obligated party submitted Warm Homes Discount	100%	100%
DRHI	Maintaining system availability during business hours	99%	99.9%
Non domestic RHI	Maintaining system availability during business hours	99%	99.4%
RO	Maintaining system availability during business hours	99%	99.8%
FIT	Maintaining system availability during business hours	99%	99.8%
ECO	Maintaining system availability during business hours	99%	99.8%
DRHI	Making payments within 30 working days	95%	98.20
Non domestic RHI	Making payments within 40 working days	90%	96.5%
Northern Ireland non domestic RHI	Making payments within 40 working days	95%	93.4%
RO	Issuing the main batch of Renewables Obligations Certificates following the generators' output data reporting deadline, within 17 working days (Apr-Jun) and 12 working days (Jul-Mar)	95%	98.3%
FIT	Completing the "levelisation" process within 22 working days	100%	100%
ECO	Processing the measures submitted in one calendar month by the end of the following month	100%	100%

The value of payments made in error during 2021-22 under the GB Renewable Heat Incentive Schemes is estimated at £10.4 million (1.1 per cent of total payments) within a 95 per cent confidence interval of £6.2 million to £14.6 million. This will also be disclosed in BEIS's 2021-22 annual report and accounts.

Appendix II - Investigations and Enforcement Action 2021-22

Details of our cases are available on our website[32] in accordance with our policy as set out in our Enforcement Guidelines.[33] We will usually publish brief details of the facts and nature of the investigations on our website,[34] although policy is different for cases relating to the Regulation[35] on Wholesale Energy Market Integrity and Transparency (REMIT)[36] and the Network and Information Systems Regulations 2018.[37] 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 consumers.

Company	Issue	Decision	Date of decision
Utility Warehouse Ltd	Investigation into Utility Warehouse's compliance with Standard Licence conditions 25C/0, 27.5, 27.8, 28B and 32.	No formal finding of breach, closed through alternative action, redress of £1.5m paid to the Voluntary Redress Fund. Utility Warehouse took satisfactory improvement actions during the course of the investigation.	November 2021
PayPoint plc	Investigation into whether there had been an infringement of Chapter II of the Competition Act 1998, concerning potential abuse of a dominant position by a company providing services to the energy industry.	No formal finding of breach, closed through the acceptance of commitments, including the removal of exclusivity clauses. Redress of £12.5m paid to the Voluntary Redress Fund.	November 2021
National Grid Electricity Transmission plc (NGET) and Scottish Power Transmission plc (SPT)	Investigation into whether NGET and SPT breached licence conditions and statutory obligations relating to the delivery and operation of the Western High Voltage Direct Current ("WHVDC") subsea link between Scotland and Wales.	No formal finding of breach, closed through alternative action. NGET and SPT agreed to a redress package totalling £158m, £15m of which was paid into the Voluntary Redress Fund. The remainder will be returned to consumers via reduced transmission charges.	November 2021

[32] Compliance and enforcement - Investigations, orders and penalties | Ofgem ; Compliance and enforcement - Compliance and enforcement - REMIT compliance and enforcement | Ofgem

[33] The Enforcement Guidelines | Ofgem

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

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

[36] Our Remit Procedural Guidelines can be found at: Decision on changes to REMIT Penalties Statement and REMIT Procedural Guidelines | Ofgem

[37] Consultation on Ofgem's proposed new NIS Enforcement Guidelines and Penalty Policy | Ofgem

Company	Issue	Decision	Date of decision
National Grid Electricity Transmission plc (NGET) / National Grid Electricity System Operator (NGESO)* *NGESO legally separated from NGET on 1 April 2019.	Investigation into NGET and its compliance with its obligations under the Standard Licence Condition 16 of the Transmission Licence.	Case closed, formal finding of breach. We imposed a fine of £1 on National Grid Electricity System Operator (NGESO). This in addition to a payment of £1,499,999 made by NGESO to the Voluntary Redress Fund.	May 2021
Symbio Energy Ltd	Investigation into Symbio Energy's compliance with Standard Licence Condition ("SLC") 33 of the Electricity Supply Licence, the Feed-In Tariff (FIT) Order 2012, Articles 68 and 74 of the Renewable Obligation Order 2015 (as amended) (ROO) and Article 49 of the Renewable Obligation (Scotland) Order 2009 (ROS).	Case closed, formal finding of breach. We imposed a financial penalty of £100,000 on Symbio. However Symbio ceased trading on 29 September 2021 and did not make this payment prior to exiting the market and entering Administration.	May 2021

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
EDF Energy	Supplier Licence Conditions (SLCs) 0 and 25.4 require suppliers (and their representatives) to not mislead consumers when marketing or selling their products, in order to allow customers to make informed (switching) choices and decisions. Selectra is a representative of supplier, EDF Energy, and it sells EDF Energy supply products. Concerns in relation to SLC 0 and 25.4 were raised to EDF Energy, regarding Selectra's selling processes implemented between June 2020 and March 2021.	Alternative action, no formal finding of breach. EDF implemented requested improvements to sales processes and agreed to provide £163,500 to the Energy Industry Voluntary Redress fund, in recognition of possible financial detriment to customers.	October 2021
ESB Independent Generation Trading Ltd and Carrington Power Ltd	Submission of inaccurate data to National Grid Electricity System Operator ('NGESO') on Carrington power plant's 'dynamic parameters', which gave false or misleading signals as to the supply of wholesale energy.	Alternative action. ESB Independent Generation Trading and Carrington Power admitted to inadvertently breaching Article 5 REMIT and Grid Code obligations to submit accurate data to NGESO. The companies acknowledged that their actions sometimes led to NGESO purchasing a larger volume of power and spending higher amounts to balance the system than was necessary and agreed to make a £6m collective payment to the Voluntary Redress Fund.	August 2021

Company	Issue	Decision	Date of decision
Green Star Energy Ltd (Shell Energy UK Ltd)	As part of Shell's business review, Shell uncovered that approximately 97,000 customers had not been sent statements of account and/or Final Bills, or, if sent, these had been inaccurate.	Alternative action, no formal finding of breach. Shell has offered a package of redress totalling £1,532,000. Shell paid £1,215,000 as refunds to customers and £317,000 as compensation to customers.	August 2021
SSE Energy Services (now part of Ovo Energy Ltd)	SSE (now Ovo) identified some provisional status 'pending accounts', where accounts were set up and direct debits were taken, however, no energy had been supplied. This was identified as a historic issue following an audit of the system.	Alternative action, no formal finding of breach. SSE (now Ovo) offered a package of redress totalling £589,754.84. Ovo paid £281,085.73 as direct refunds to customers; £77,845.93 in compensation to customers; and £230,823.18 was paid to the Voluntary Redress Fund.	July 2021
Utilita Energy Ltd	Utilita self-reported that they had overcharged some gas customers due to applying the wrong calorific value as a result of a calculation fix not being automatically applied.	Alternative action, no formal finding of breach. Utilita offered a package of redress totalling £821,560.36. Utilita paid £776,607.54 as direct refunds to customers; £775 was paid in compensation to customers; and £44,177.82 was paid to the Voluntary Redress Fund.	June 2021
EON UK plc	EON took Direct Debit payments earlier than agreed from 1.6 million customers. Payments were due to be taken in early January but E.ON erroneously took these Direct Debit payments on 24 December 2020. E.ON self-reported this issue.	Alternative action, no formal finding of breach. E.ON told us that they had made redress and goodwill payments totalling £55,039 to customers who suffered additional bank charges or expenses as a result of their error. E.ON estimated the maximum detriment that this error could have caused customers and paid the equivalent amount of £427,312 into the Voluntary Redress Fund. E.ON also paid £200,000 into the fund in recognition of its failure to address underlying system and governance weaknesses. The total payment made to the Voluntary Redress Fund payment was £627,312.	April 2021

In addition to the cases shown in the table, other compliance engagements resulted in the following.

Type of impact	Value
Refunds paid to customers	£115,000
Compensation payments to consumers	£51,000
Redress payments to the Voluntary Redress Fund	£91,000
Total	**£257,000**

Open cases

Below are the open investigations as at the end of March 2022. Please note, the opening of an investigation does not imply that we have made any finding(s) about non- compliance. Ofgem does not publish information on all open investigations, in particular when Ofgem is conducting investigations into potential failures to comply with REMIT requirements and the Network and Information Systems Regulations 2018. 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
National Grid Electricity Transmission plc (NGET)	March 2022	Investigation into NGET and its compliance with section 9 of the Electricity Act 1989 and SLC B7 of its Electricity Transmission Licence in relation to the Harker substation.
Energetický a průmyslový South Humberside Bank (EP SHB)	October 2021	Investigation into whether EP SHB has failed to comply with the requirements of condition 20A of the Electricity Generation Standard Licence Conditions (referred to as the Transmission Constraint Licence Condition, or "TCLC").
SSE Generation Ltd	October 2021	Investigation into whether SSE Generation Ltd has failed to comply with the requirements of condition 20A of the Electricity Generation Standard Licence Conditions (referred to as the Transmission Constraint Licence Condition, or "TCLC").
Community Energy Scheme (CES) UK Ltd	August 2021	Investigation into whether CES has contravened consumer protection legislation through its sales and customer service practices.
Scottish Power Ltd	November 2020	Investigation into Scottish Power's compliance with Standard Licence Conditions ("SLC") 38 of the Gas Supply Licence and SLC 44 of the Electricity Supply Licence. These SLCs require a licensee to set and achieve Annual Milestones for the installation of Smart Meters.
United Gas and Power Ltd	July 2020	Investigation into United Gas and Power Ltd's billing and communications activities.
Hudson Energy Supply UK Ltd	July 2020	Investigation into whether Hudson Energy Supply UK Ltd breached rules around billing, meter reading and communications in relation to the actions taken on its behalf by United Gas and Power Ltd.
Western Power Distribution plc	February 2020	Investigation into Western Power Distribution plc and its compliance with obligations relating to the Priority Services Register.

Final orders

Below you can find details of the final orders imposed during the year from April 2021 to March 2022. We issued two final orders for the suppliers detailed below.

Final Order issued	Company	Concern
October 2021	Whoop Energy Ltd	Failure to make Renewables Obligation (RO) payment for the obligation period of 1 April 2020 to 31 March 2021, for the sum of £56,306.25.
October 2021	AmpowerUK Ltd	Failure to make an RO payment for the obligation period of 1 April 2020 to 31 March 2021, for the sum of £3,590,236.65.

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

Date consultation raised	Company	Concern	Outcome
October 2021	Colorado Energy Ltd	Failure to make RO payment for the obligation period from 1 April 2020 to 31 March 2021, for the sum £858,357.50 in relation to its RO and £24,824.80 in relation to its ROS.	Colorado Energy ceased trading on 13 October 2021 and its licences were revoked. The RO payment remains outstanding.
October 2021	GoTo Energy Ltd	Failure to make RO payment for the obligation period from 1 April 2020 to 31 March 2021, for the sum of £2,124,372.25 in relation to its RO and £347,997.65 in relation to its ROS.	GoTo Energy Ltd ceased trading on 18 October 2021 and its licences were revoked. The RO payment remains outstanding.
October 2021	Home Energy Trading Ltd	Failure to make RO payment for the obligation period from 1 April 2020 to 31 March 2021, for the sum of £2,202.20 in relation to its RO and £50.05 in relation to its ROS.	Home Energy made full payment of its RO 2020-21 obligation on 5 October 2021. The Authority[38] made the decision not to make a final order.
August 2021	Symbio Energy Ltd	Symbio refused to provide financial information requested by Ofgem under SLC 5. SLC 5 gives the Authority the power to request information from licensees.	Symbio Energy ceased trading on 29 September 2021 and its licences were revoked.

[38] Ofgem's governing body - the Gas and Electricity Markets Authority (GEMA; "The Authority").

Final Order (FO) ended	Company	Outcome from FO
October 2021	Whoop Energy Ltd	Failure to make Renewables Obligation (RO) payment for the obligation period of 1 April 2020 to 31 March 2021, for the sum of £56,306.25. Whoop Energy ceased trading on 18 February 2022 and its licence to supply electricity was subsequently revoked. As a result, the final order issued to Whoop Energy on 28 October 2021 ceased to have effect. The RO payment remains outstanding (plus interest accrued).
September 2021	Nabuh Energy Ltd	Failure to make RO payments for the obligation period from 1 April 2019 to 31 March 2020, for the sum of £2,683,631.70. Nabuh Energy transferred all its customers to Centrica PLC. The Authority revoked Nabuh Energy's licences on 17 September 2021. As a result the final order ceased to have effect. The RO payments remain outstanding (plus interest accrued).
April 2021	Robin Hood Energy Ltd	Failure to make RO payment for the obligation period from 1 April 2019 to 31 March 2020, for the sum of £12,057,879.42 and to make the Annual Levelisation Payment for FIT Year 10 in the sum of £33,945.51. Robin Hood ceased trading on 5 January 2021 and their licences were revoked on 12 April 2021. As result the final order ceased to have effect. The RO payment remains outstanding (plus interest accrued).
November 2021	AmpowerUK Ltd	Failure to make an RO payment for the obligation period of 1 April 2020 to 31 March 2021, for the sum of £3,590,236.65. Ampower ceased trading on 8 November 2021 and its licences were revoked. As result the final order ceased to have effect. The RO payment remains outstanding (plus interest accrued).

We have also detailed the outcomes of the final orders that have concluded during this year. The final orders for Nabuh Energy and Robin Hood were issued during the previous year but concluded within this year.

Provisional orders

Below you can find details of the provisional orders imposed during the year from April 2021 to March 2022. We issued 18 provisional orders. We saw a continuation in the instances of non-compliance with the Feed In Tariff (FIT) and the Renewables Obligation (RO), with a number of suppliers who subsequently ceased to trade and left the market.

Provissional order issued	Company	Concern
March 2022	UK Energy Incubator Hub Ltd	UK Energy Incubator Hub Ltd failed to provide information requested by Ofgem under SLC 5. SLC 5 gives Ofgem the power to request information from licensees.
November 2021	Delta Gas and Power Ltd	Failure to make FIT Year 12 Quarter 2 Levelisation Payment, for the sum of £46,701.23. Delta made payment of its FIT Year 12 Quarter 2 payment in full on 17 January 2022. As a result, the Authority has taken the decision not to confirm the provisional order.
November 2021	Social Energy Supply Ltd	Failure to make FIT Year 12 Quarter 2 Levelisation Payment, for the sum of £28,735.97. Social Energy Supply Ltd ceased trading on 16 November 2021 and its licences to supply gas and electricity were subsequently revoked. As a result, the provisional order issued to Social Energy Supply Ltd on 12 November 2021 ceased to have effect.
November 2021	Whoop Energy Ltd	Failure to make FIT Year 12 Quarter 2 Levelisation Payment, for the sum of £19,013.51. Whoop Energy ceased trading on 18 February 2022 and its licence to supply electricity was subsequently revoked. As a result, the provisional order issued to Whoop Energy on 12 November 2021 ceased to have effect. The FIT levelisation payment remains outstanding.
October 2021	Entice Energy Supply Ltd	Failure to make RO payment for the obligation period from 1 April 2020 to 31 March 2021, for the sum of £152,252.10 for its RO; and £21,671.65 for its ROS. Entice Energy ceased trading on 25 November 2021 and its licences to supply gas and electricity were subsequently revoked. As a result, the provisional order issued to Entice on 28 October 2021 ceased to have effect.
October 2021	Simply Your Energy Ltd (trading as Entice Energy Supply Ltd)	Failure to make FIT Year 12 Quarter 2 Levelisation Payment of £28,353.75 by the deadline of 10 November 2021. Simply Your Energy Ltd (trading as Entice Energy Supply Ltd) ceased trading on 25 November 2021 and its licences to supply gas and electricity were subsequently revoked. As a result, the provisional order issued to Entice on 12 November 2021 ceased to have effect.
October 2021	Orbit Energy Ltd	Failure to make FIT Year 12 Quarter 2 Levelisation Payment, for the sum of £451,296.14. Orbit Energy ceased trading on 25 November 2021 and its licences to supply gas and electricity were subsequently revoked. As a result, the provisional order issued to Orbit Energy on 12 November 2021 ceased to have effect.
October 2021	Neon Reef Ltd	Failure to make RO payment for the obligation period from 1 April 2020 to 31 March 2021, for the sum of £349,148.80. Neon Reef Ltd ceased trading on 16 November 2021 and its licences to supply gas and electricity were subsequently revoked. As a result, the provisional order issued to Neon Reef Ltd on 28 October 2021 ceased to have effect.

Provisional order issued	Company	Concern
October 2021	MA Energy Ltd	Failure to make RO payment for the obligation period from 1 April 2020 to 31 March 2021, for the sum of £941,835.25. MA Energy Ltd ceased trading on 8 November 2021 and its licences to supply gas and electricity were subsequently revoked. As a result, the provisional order issued to MA Energy Ltd on 28 October 2021 ceased to have effect.
October 2021	Together Energy (Retail) Ltd	Failure to make RO payment for the obligation period from 1 April 2020 to 31 March 2021, for the sum of £11,440,979.55 in relation to its RO obligation and the sum of £961,410.45 in relation to its ROS obligation. Together ceased trading on 18 January 2022 and its licence to supply electricity was subsequently revoked. As a result the Authority took the decision not to confirm the provisional order.
October 2021	Igloo Energy Supply Ltd	Failure to make FIT Year 12 Quarter 2 Levelisation Payment, for the sum of £316,582.44. Igloo ceased trading on 29 September 2021 and its licences to supply gas and electricity were revoked as of 3 October 2021. As a result, the provisional order issued to Igloo on 21 September 2021 ceased to have effect.
October 2021	Delta Gas and Power Ltd	Failure to pay the RO payment for the obligation period of 1 April 2020 to 31 March 2021, for the outstanding amount of £78,664.29. Delta Gas and Power made the payment, and the provisional order is to be revoked shortly.
October 2021	Symbio Energy Ltd	Failure to make its FIT Year 11 annual Levelisation Payment of £146,238.66 by the deadline of 17 September 2021. Symbio Energy ceased trading on 29 September 2021 and its licences were revoked. As a result, the provisional order issued to Symbio Energy on 21 September 2021 ceased to have effect.
September 2021	Colorado Energy Ltd	Failure to make FIT Year 11 Levelisation Payment, for the sum of £261,406.12. Colorado ceased trading on 13 October 2021 and subsequently its licences to supply gas and electricity were revoked. As a result, the provisional order issued to Colorado on 21 September 2021 ceased to have effect.
September 2021	Avro Energy Ltd	Failure to provide information under SLC 5. Avro ceased trading on 22 September 2021 and its licences to supply gas and electricity were revoked as of 26 September 2021. As a result, the provisional order issued to Avro on 14 September 2021 ceased to have effect.
September 2021	Whoop Energy Ltd	Failure to make FIT Year 11 Annual Levelisation Payment, for the sum of £3,780.22. Whoop Energy ceased trading on 18 February 2022 and its licence to supply electricity was subsequently revoked. As a result, the provisional order issued to Whoop Energy on 21 September 2021 ceased to have effect. The FIT annual levelisation payment remains outstanding.
September 2021	Neon Reef Ltd	Failure to make its FIT Year 11 Annual Levelisation Payment of £37,350.76 by the deadline of 17 September 2021. Neon Reef paid the outstanding sum and consequently the requirements of the provisional order are no longer in place.
August 2021	Symbio Energy Ltd	Failure to make FIT Year 12 Quarter 1 Levelisation Payment, for the sum of £449,025.79. Symbio Energy ceased trading on 29 September 2021 and its licences were revoked. As a result, the provisional order issued to Symbio Energy on 18 August 2021 ceased to have effect.

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

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

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

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

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

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

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

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

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

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

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

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

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