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Making a positive difference
**for energy consumers**

# 2023-24

Office of Gas and Electricity Markets (Ofgem)

# Annual Report and Accounts

HC 321

ofgem

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## Annual Report and Accounts

(For the period 1 April 2023 to 31 March 2024)

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

This is part of a series of departmental publications which, along with the Main Estimates 2024-25 and the document Public Expenditure: Statistical Analyses 2024, present the government's outturn for 2023-24 and planned expenditure for 2024-25.

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# Chair and Chief Executive foreword

The last 12 months have been another year where protecting customers has been front and centre in the minds of everyone here at Ofgem.

After the unprecedented spikes in energy prices during 2022, the market has begun to stabilise, and we have been able to reflect this in the price cap, bringing down average bills for every household. The latest price cap of £1,690, which took effect on 1 April, was a fall of almost £700 for the average household from the same period last year.

While that represented a clear improvement on the unprecedented highs of the energy crisis, we know all too well that the wider cost of living crisis means that there continues to be a number of households struggling with their bills. To ensure customers in need of support were getting it, and that every energy consumer knows what they have the right to expect from their supplier, we introduced new consumer standards raising the bar on what we expected of suppliers, including requiring energy firms to be proactive in identifying consumers who might be at risk of falling into debt and offering them help to deal with it. Those new standards have been in place since the end of 2023, and we have started to publish customer satisfaction levels with individual energy suppliers, showing which suppliers are providing the best service. We are confident that we will continue to see improvements as a result, where we can take practical action as the regulator we have. In March 2024, we confirmed plans to maintain the equalisation of standing charges across payment methods that was previously funded by government.

Our compliance and enforcement team recovered a total of £77.2 million in fines, customer refunds, compensation and alternative action payments – up by £50.5 million compared to 2022's total of £27.3 million, and includes £5 million worth of fines. Along with this, our delivery and schemes programmes helped generate around 10 terawatt hours of low carbon electricity and heat as well as saving vulnerable customers £399 million on their energy bills.

It's not just about protecting consumers now, but in the future as well, and we also made significant strides in enabling the transition to a cleaner, affordable and more secure energy system. The publication of the Connections Action Plan in Autumn 2023 set out an ambition to reform the system that oversees the connection of new energy suppliers to the power grid. There are hundreds of gigawatts of new energy projects, many of which are renewable, waiting in the queue, and it is vital we get them connected as soon as possible. The role of the National Energy System Operator is crucial to that goal, as well as providing more strategic oversight of the development of a future-proof national and local energy system. In the past year, Ofgem has taken other direct actions to speed up that transition, such as streamlining the delivery of strategic energy projects via the Accelerated Strategic Transmission Investment (ASTI) framework. This process will enable more electricity generated by offshore wind to be delivered to British consumers. We were delighted to see the first two projects, which could help to power a combined four million homes, given the green light via this programme earlier this year.

However, one of the most significant developments of the past 12 months was the continued evidence that we have now moved beyond the unprecedented energy crisis that saw bills rocket. However, that crisis has a legacy and many consumers fell into debt when energy bills, along with other household costs, hit very high levels. And for too many the cost of living remains a challenge, which is why we have taken a step back to consider the issue of affordability across the energy sector and what we, government, suppliers and the whole sector can do to address this.

However, the stabilisation of the energy markets mean we can now look forward and consider how best to ensure consumers are protected and opportunities maximised as the pace of change accelerates on the journey to a net zero energy system.

The publication of our long-term, multiyear strategy saw us set out our vision for delivering this better, brighter energy system. A system where customer standards and trust are high, infrastructure is well planned and delivered on time, where our markets work to drive innovation and efficiency, bringing us to net zero at the lowest cost, with investors receiving fair but not excessive returns.

Alongside our regular annual Forward Work Programme, the strategy is about providing clarity and stability for the whole sector about how we get there, and how we will engage our partners to do so.

Looking to the future, we also recognise that Ofgem itself needs to change: doing more, moving faster, and becoming a much broader organisation. This will be essential both to fulfil our new net zero duty, directly linking our duty to protect consumers' interests to specific net zero targets, and our growth duty, requiring not only good regulatory decisions made in a timely fashion, but also providing the foundation for British business to prosper and grow.

At the same time, we must continue to work with the industry to rebuild public trust in the sector. Customers have a right to expect good customer service, bills that are fair and accurate, and a prompt response when they contact their supplier. It is essential that we carry the public with us, showing empathy and understanding for the genuine concerns of local communities, while not losing sight of the urgency of our net zero goals. This will become even more crucial as we build out the new energy system, and, as a regulator, we will be monitoring sector performance more closely and intervening robustly when standards and behaviours do not meet our expectations.

Like any annual report, this document is about our work during the past 12 months. The challenges we have confronted, the work we have done and continue to do to protect the interests of consumers. What matters now is how we move forward. We believe Ofgem has an incredibly important role to play as we all build towards a better energy system and we look forward to working with all our partners to deliver it.

**Mark McAllister**
Chair

**Jonathan Brearley**
Chief Executive

# Performance Report

Annual Report and Accounts | 2023-24

# Performance report

The purpose of the performance report is to provide an understanding of Ofgem and how it has performed during the financial year 2023-24. The performance overview gives a short summary of some of the key highlights and benefits delivered throughout the year.

## Performance overview

### Ofgem's purpose and structure

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

Ofgem's governing body is the Gas and Electricity Markets Authority and is referred to as GEMA, the Authority, or the Ofgem Board. The Senior Executive Committee (SEC) is chaired by our Chief Executive Officer (CEO) and is a management forum for constructive and collective ownership of Ofgem's overall performance and delivery. More details about the structure is provided in the director's report at page 43.

Ofgem's Key Performance Indicators are included at Appendix I. For more information on Ofgem's risks and how these have been mitigated please refer to the Risk Overview on page 54.

### Consumer benefits

Each year, Ofgem evaluates the value of decisions that were made which are quantifiable through impact assessments. This has been calculated to over £1.6 billion worth of consumer benefits generated by our activities in 2023-24. This means for every pound spent, there is approximately a benefit of £9 to the consumer. Some of the significant decisions include the modifications to the Grid Code, the decision to retain the System Operator Transmission Owner Optimisation output delivery incentive for the remainder of the RIIO-2 electricity transmission price control and the decisions surrounding the Price Cap reform. The majority of these initiatives have delivered direct benefits, but they have also created indirect and wider benefits.

**Methodology**

The analysis draws on the results of impact assessments (IA) and the robust analysis that informed each decision. Our approach strives to quantify impacts as thoroughly as possible and in monetary terms where we can, to ensure that there is consistency in how they are presented. There is a statutory requirement to publish IAs where there are significant impacts from policy changes. IAs provide a structural and transparent framework for understanding the estimated impacts of policies and enable comparisons between projects. Therefore, ex ante IAs are a good way to assess our policies' impact on consumers.

However, due to differences in the way benefits are calculated, we make some adjustments to enable comparability between results, eg inflation and net present value (NPV) adjustments.

As our analysis only covers decisions made using a formal impact assessment or above a value of £1million which is considered significant to GEMA, this means it will necessarily understate total benefits across Ofgem.

In addition:

- Social and environmental schemes that Ofgem administers for government provided around £10 billion of support through a combination of taxation and bill funding.
- Enforcement and Compliance work secured redress payments from companies of approximately £79.7 million.

For more information on Ofgem's investigations and enforcement action during 2023-24, please refer to Appendix II.

# Engaging with consumers and stakeholders

This year has been the beginning of a transition for consumers, businesses and the industry, with energy markets stabilising and energy prices starting to decrease. However, with debt growing to over £3 billion, as the cost-of-living crisis continues to impact consumers, stakeholder engagement has been more vital than ever.

## 'Consumer Voice' programme

Ofgem engages with a wide group of stakeholders, including industry groups and consumer representatives, and this year has stepped up efforts to have more direct engagement with energy consumers, both in the domestic and non-domestic sector, to improve understanding across the organisation of the current and changing needs and experiences of energy consumers. The programme supports members of Ofgem's board to focus on consumers – both domestic and non-domestic – in deep dive sessions with expert external speakers, as well as through a consumer interaction, to better understand their experiences. By making Ofgem's culture more consumer-focused, our aim is to ensure that consumers are considered throughout all of our work, leading to more effective policy and better consumer outcomes.

## Consumer groups and charities

Ofgem continued to build relationships with consumer groups and charities through our regular engagement channels, and increased senior level engagement by setting up a series of targeted workshops and round tables at Chair and CEO level. These workshops generate valuable consumer insight, helping shape our priorities and policy work.

Our Vulnerability Summit in the spring of 2023 brought together leaders from the utilities sector, consumer groups, charities, trade representatives and government, to reflect on the challenges of the previous winter. Ofgem also considered how to support households, which are struggling the most to access essential services ahead of this winter.

Ofgem held a series of webinars for frontline advice staff that support domestic consumers, offering guidance on what to expect from suppliers, including debt management and how to prepare for winter, by preparing for power cuts and using the new Priority Services Register.

## Winter preparedness and our Energy Aware Campaign

Ofgem continued to work with key industry stakeholders, to ensure that consumers are informed on what to expect in the event of a disruption to their power supply. In collaboration with industry bodies, Ofgem brought together key stakeholders to discuss the outlook for the upcoming winter.

Ofgem worked with stakeholders to actively support and promote the consumer-facing communications campaign, which championed consumer rights and provided actionable advice to help consumers. This included coordinating presentations to partners, providing campaign materials directly to those supporting some of the most vulnerable consumers, and taking part in the Ideal Home Show, where Ofgem colleagues provided advice directly to consumers on issues including energy efficiency, energy saving and the schemes that Ofgem administers.

## Protecting consumers and driving up standards

Throughout the year, Ofgem worked closely with consumer groups and suppliers to enhance protections and support for vulnerable consumers and to improve standards for consumers across the board. Using CEO forums, monthly Regulatory Directors calls, consumer groups and charities calls, as well as bespoke workshops and round tables, Ofgem worked with others to develop our Prepayment Meter Code of Practice, which has subsequently been written into licence conditions, and to inform the development of new customer service standards for suppliers, which came into effect in the autumn of 2023.

## Non-domestic consumers: Businesses and non-profit organisations

Non-domestic consumers continued to face challenges in their energy provision in the past year, despite some relative stability and lower prices returning to the market. Interest and concern about the level of energy prices, customer service of suppliers, clarity of guidance, and protections against bad service have continued at a significant level.

To respond to this, alongside routine activity, the stakeholder team supported the Non-Domestic Retail policy team on the engagement for their policy package, taking it through a Call for Input, Policy consultation and Statutory consultation process over the past twelve months. This led to a decision to expand protections to a larger group of businesses, and requiring more clarity on third-party intermediary fees for arranging non-domestic contracts.

## Net zero transition

As the net zero transition is entering a new, more challenging phase, with changing demand for energy requiring more infrastructure to be built than ever before, Ofgem strengthened our engagement with stakeholders across the networks sectors. Through better co-ordinated senior level-bilateral engagement with key stakeholders, as well as established new forums for engagement, such as the Generators Forum and Charging Futures Forum, Ofgem has been able to gather insights to inform our decisions and policies and to communicate key messages more efficiently and consistently.

## 'Sustainable Energy Futures Forum'

The 'Sustainable Futures Energy Forum' is a partnership between Ofgem and Sustainability First, supporting young people (aged 18-25) to share valuable insights and input into decision-making in the energy sector in Great Britain. The workshops held as part of the Forum provided an opportunity for young people to discuss, learn and advocate for sustainable and fair energy solutions that will shape our future.

## Environmental and social schemes

This year, as the number of renewable energy and social schemes that Ofgem administers has expanded, we set up several new stakeholder forums with participants and other groups to share information, to provide better access to support and guidance, as well as to gather insights. During the year, Ofgem organised ten scheme specific forums and seventeen one-to-one working-level meetings with stakeholders. We also issued twelve email campaigns to over 42,000 recipients, to provide updates on our schemes.

## Equity, Diversity and Inclusion ('EDI')

Improving EDI internally and across the energy sector remains a key priority for Ofgem. In September 2023, an update to our EDI strategy was published, which details the progress made and outlines Ofgem's plans for the future.

Ofgem continued to be an active partner in the 'Tackling Inclusion Diversity in Energy' (TIDE) Initiative, which is a key vehicle for us to support EDI improvements across the sector. Two new Co-Chairs for TIDE have been appointed and an EDI Health Index has been launched to track progress.

At this year's annual EDI in Energy Conference, there will be an opportunity to hear more on TIDE, challenge energy leaders on EDI, as well as learn more from good practice case studies.

# Performance analysis

The performance analysis section of this performance report details how Ofgem has delivered against the project milestones set out in its 2023-24 Forward Work Programme.

## Ofgem's Strategy 2022 to 2024

In December 2022, Ofgem identified six strategic priorities for its regulatory work – three short-term and three long-term – which are set out below. These six priorities were supported by twenty priority projects and programmes – and core regulatory work – which focused (short-term) on addressing current market conditions, and (long-term) enabling a low-cost transition to a net zero energy system. This structure was mirrored in the Forward Work Programme that has been used as a basis for Ofgem's delivery and reporting in 2023-24. Ofgem has since updated its strategic priorities – publishing a multiyear strategy in March 2024. This will be the basis of future performance analysis in our annual report.

### Short-term priorities

*Ensuring prices are fair*

With sustained gas price volatility driving up energy costs, Ofgem will work with government, acting fast to protect consumers, to help ensure that prices are fair across the energy value chain.

*Creating resilience across the energy sector*

Price volatility, geopolitical threats to European energy security, and global competition have increased the need for resilience across the sector. We will strengthen security of supply standards and further implement changes to deliver a reformed retail market, so that it can better withstand market shocks.

*Monitoring and enforcing quality and standards*

Recently, performance standards have been found to be lacking across parts of the sector. We will continue to monitor and enforce key consumer standards and protections, while implementing new standards where our remit expands. We expect the sector to go further to support consumers, especially for the most vulnerable.

### Long-term priorities

*Facilitating infrastructure investment*

Decarbonisation of energy will require a new range of technologies across the system, with shifting demand for electricity, gas and other energy sources. Ofgem will act as an enabler for infrastructure investment at pace, to facilitate a rapid, cost-effective transition to net zero.

*Developing and delivering market reforms*

A renewables-dominated power system requires development and delivery of market reforms to help ensure it is optimised, including enabling greater flexibility.

*Reforming governance arrangements*

The transition requires a more strategically planned energy system and reforms to existing governance arrangements and institutions.

### Ofgem's Multiyear Strategy

In December 2023, Ofgem consulted on its draft Forward Work Programme for 2024-25, which included details of a new strategic framework for its regulatory work. Agreed by Ofgem's board in early 2024 and published in late March, Ofgem's new Multiyear Strategy, 'Protect, Build, Change, Deliver', sets out Ofgem's long-term priorities across all its work for the next five years and beyond.

The strategic priorities are:

1. Shaping a retail market that works for consumers
2. Enabling infrastructure for net zero at pace
3. Establishing an efficient, fair and flexible energy system
4. Advancing decarbonisation through low carbon energy and social schemes
5. Strengthening Ofgem as an organisation.

These represent an evolution of the short- and long-term priorities discussed in this report – and should be considered aligned with them.

### *Ofgem's duties*

As set out in the Multiyear Strategy, Ofgem's principal objective, enshrined in legislation, is to protect the interests of current and future consumers. In 2023, Ofgem published a Consumer Interest Framework, which helps to explain what this duty means in practice.

During the year, Ofgem's duties were updated by government to include net zero and growth.

The new Net Zero Duty defines Ofgem's principal objective to include consumers' interests in meeting the 2050 net zero target and other associated targets. This means Ofgem will take decisions, using government's delivery plans as a baseline, that proactively enable net zero. Fulfilling this duty also requires Ofgem to better understand the full range of consumer interests in the transition to net zero, and to better help deliver a fair and cost-effective transition that works for them.

In addition, Ofgem has a new Growth Duty in 2024-25, to have regard to the promotion of sustainable economic growth through its regulatory activities. Ofgem's primary contribution to economic growth is through regulation that minimises energy costs, keeping supply resilient and energy markets functioning effectively. As Ofgem integrates the Growth Duty, details on how it will be incorporated into our regulatory approach will be clarified. It is expected that this will include developing metrics, to assess our contribution to growth across Ofgem's regulatory decision making, reviewing regulatory practices for pace, and doing more to understand the needs of business consumers.

## Short-term priority: Ensuring prices are fair

### Government Bill Support

#### *Energy Price Guarantee ('EPG')*

During the year, the EPG continued to run for domestic customers, superseding the Default Tariff Price Cap (the 'Price Cap' – see details below) by limiting the amount suppliers could charge per unit of energy, before transitioning to a government-funded reduction of the premium pre-payment meter customers were paying for energy compared to direct debit customers. On 1 April 2024, the EPG was replaced by pre-payment meter levelisation, which 'socialises' the cost of this reduction across domestic suppliers (see details below). Ofgem continues to ensure compliance of energy suppliers with these mechanisms, taking appropriate action where customer detriment or other non-compliance is identified.

#### *Energy Bill Support Scheme ('EBSS')*

During the year, Ofgem supported the delivery of the EBSS to domestic customers. Ofgem's role was to monitor compliance and take enforcement action where necessary. This helped to ensure eligible customers received a £400 discount on their energy bills, split into six monthly instalments from October 2022 to March 2023. Ofgem monitored the closing activity of suppliers, to ensure outstanding cheque payments had been closed out appropriately. The final closing report was published, along with the scheme closure letter to DESNZ, in November 2023.

#### *Alternative Fuel Payment Scheme ('AFP')*

The AFP scheme – which is now closed to new customers – provided a £150-200 one-off payment to certain off-grid customers who use alternative fuels. Ofgem's role was to provide enforcement action for the scheme and, by working with Department for Energy Security and Net Zero (DESNZ), to develop governance arrangements and to understand overall supplier compliance.

*Energy Bill Relief Scheme ('EBRS') and Energy Bill Discount Scheme ('EBDS')*

Between 1 October 2022 and 31 March 2023, the EBRS provided a discount off non-domestic customer bills, based on a proportion of the wholesale energy price. Ofgem's role was to monitor compliance with the 'Qualifying Financially Disadvantaged Customers' component of the scheme, which provided an additional price reduction to certain deemed contract customers. This helped ensure these customers received appropriate discounts. Ofgem was also responsible for enforcement of the EBRS scheme. Although this scheme is now closed, we continue to work closely with DESNZ during the scheme reconciliation phase, to identify cases where enforcement activity may be required.

The Energy Bill Discount Scheme ('EBDS') replaced the EBRS and ran from 1 April 2023 to 31 March 2024. Ofgem is responsible for the enforcement function, following referral from DESNZ. Ofgem continues to provide support and advice regarding compliance issues which have the potential to result in a referral for enforcement action.

## Vulnerable consumers

*Levelisation*

During the year, Ofgem continued to work with DESNZ to develop policy options to enable the 'levelisation' of pricing for customers on traditional pre-payment meters, and published their final decision on non-volumetric levelisation in February 2024. This implemented changes to levelise pre-payment meter standing charges. This was accompanied by Retail Energy Code modification, which implemented a reconciliation mechanism to minimise market impacts of levelisation. The processes to levelise and reconcile standing charges took effect on 1 April 2024. Going forward, Ofgem will monitor supplier compliance, to ensure levelisation occurs and will take action where necessary.

*Prepayment meters*

To enhance protections for pre-payment meter customers, Ofgem developed a supplier Code of Practice for meter installations. Published in April 2023, Ofgem consulted on the Code and supporting guidance, and published a final decision in September 2023, with new rules coming into effect in November 2023.

As part of the Code of Practice, Ofgem set out criteria that suppliers must meet before recommencing involuntary meter installations. The first suppliers were approved to restart meter installations in January 2024, which Ofgem has monitored closely.

*'Priority Services Register'*

Following a summit held in April 2023, working closely across energy and water regulated sectors, Ofgem launched a working group to enable sharing of 'Priority Service Register' data. Expected to be in operation by the end of 2024, the Register will enable data of vulnerable consumers to be shared more effectively, helping consumers receive the services that they need.

During the year, Ofgem also worked with stakeholders to consider a 'Tell us once' system, to identify customers with vulnerable circumstances, which has led to development of the definition of what a multi-sector register could be, and how it could work.

The Department for Business and Trade set out proposals for a multi-sector register in a recent consultation and will be publishing next steps for this imminently.

## Retail market reform

In parallel with our approach on consumer price protections and financial resilience and controls, Ofgem has developed non-price related consumer protection standards for domestic and non-domestic consumers.

*Consumer standards*

During the year, Ofgem reviewed consumer standards and how they are delivered by energy suppliers. In October 2023, we published a decision on new consumer standards, which took effect in December 2023. Since then, Ofgem has monitored supplier compliance with our new and existing rules.

*Non-domestic market review*

Ofgem also published a decision following a non-domestic market review in April 2024, following on from a 'Call-for-Input' and consultations throughout the year. Decision changes include:

- Expanding the 'Standards of Conduct' licence condition, to apply to all non-domestic customers, requiring suppliers to treat all customers fairly.
- Updates to the 'Complaints Handling Standards', to ensure that suppliers put in place suitable complaints processes for small business consumers and point them to the Energy Ombudsman when the customer does not feel the issue has been resolved.
- Introducing and expanding licence conditions, to require suppliers to:
    - only work with third-party intermediaries that are members of a redress scheme, when securing Small Business contracts
    - signpost micro and small business consumers to Citizens Advice for support: and
    - disclose third-party intermediary service fees in micro business contracts, to ensure all non-domestic customers have this transparency.

## Consumer price protections – Price Cap

Ofgem made a number of adjustments to the Price Cap during the year, to reflect changes in costs faced by suppliers, which will enable them to better support customers. This included adjustments for additional debt-related costs and revisions to the 'Earnings Before Interest and Tax' allowance. As noted above, Ofgem also introduced 'levelisation' of the standing charge between direct debit and prepayment meter customers to enhance support for prepayment meter customers.

Ofgem's updated Price Cap programme of work was published in March 2024, to cover the year. It sets out planned reviews across the Price Cap, including operating costs, wholesale allowance, debt allowances and cap derogations. It also sets out planned work for future price protection and the next phase of levelisation.

## Core regulation – Price Cap announcements

Price Cap level announcements during the year were as follows:

- May 2023, for the period of July to September 2023 £2,074.
- August 2023, for the period of October to December 2023 £1,923.
- November 2023, for the period of January to March 2024 £1,928.
- February 2024, for the period of April to June 2024 £1,690.

All Price Cap level publications were announced in line with Ofgem's statutory duties under the Domestic Gas and Electricity (Tariff Cap) Act (2018).

In February 2024, Ofgem announced the lowest level of the Price Cap since the wholesale crisis began. This represented a 12% decrease in bills compared to the previous January to March 2024 Price Cap levels. This was primarily due to steady and ongoing falls in the wholesale prices for contracts, used to calculate the level of the Price Cap.

## Our short-term priority: Creating resilience across the energy sector

### Financial resilience and controls – Regime development and implementation

*'Financial Responsibility Principle' and annual 'Adequacy Self-Assessments'*

Ofgem published a Decision in April 2023, to introduce an enhanced 'Financial Responsibility Principle'. The resulting new licence modifications require licensees to:

- notify Ofgem if certain financial events occur
- have sufficient capital and liquidity and manage mutualised costs; and
- submit an annual 'Adequacy Self-Assessment', which sets out their key risks and risk mitigations for both the previous year and year ahead.

These rules – which came into effect in June 2023 – aim to protect consumers by increasing the financial resilience of retail energy supply licensees.

*Minimum capital requirements*

Ofgem published a decision in July 2023, to introduce a common minimum capital requirement. This policy, along with the enhanced 'Financial Responsibility Principle', aims to protect consumers by improving the financial resilience of retail supply licensees and minimise mutualised costs in the event of failure. Supervisory engagement with suppliers has begun to understand their progress towards compliance with these requirements, which will come into force in March 2025.

*Customer Credit Balance*

The July 2023 decision also included measures to require suppliers to ring-fence a proportion of their credit balances (under certain conditions). These changes took effect in September 2023, and now form part of our overall approach to supplier financial resilience.

*Renewables Obligation*

Ofgem published a decision in April 2023 that requires suppliers to ringfence their 'Renewables Obligations' (see 'Renewable electricity schemes' section) on a quarterly basis using either 'Renewables Obligation' certificates and/or credit cover. These new licence conditions have taken effect – compliance with these obligations is being monitored.

### Core regulation – Financial resilience and controls

*'Supplier of Last Resort' process*

The 'Supplier of Last Resort' process was not used by Ofgem during the year. When a retail energy supplier is exiting the market (either voluntarily or through licence revocation), Ofgem work with them to ensure that the market exit is smooth, with the aim of minimising mutualised costs and adverse consumer and market impacts.

*'Special Administration Regime'*

The 'Special Administration Regime' ('SAR') process was not used by Ofgem during the year. The Regime is used in exceptional circumstances, when an administrator is appointed to run a retail energy supplier if it gets into financial difficulty, rather than to move its clients to a new supplier.

### Security of supply – Electricity and gas

During the year, Ofgem continued to produce analysis, modelling the medium-term capacity gap, which was shared and validated with DESNZ and the Electricity System Operator (the 'ESO'). Together, the three organisations worked together to raise awareness of security of supply issues, to identify and prioritise options for intervention and to maintain momentum.

Ofgem continued to approve gas transporter licence changes and 'Uniform Network Code' modifications during the year, in order to improve charging arrangements and ensure access arrangements provide adequate capacity for end-users.

### Wholesale power market liquidity

In December 2023, Ofgem published a 'Call-for-Input', setting out analysis and drivers of liquidity in wholesale electricity markets. A number of stakeholders identified changes to the 'Contract for Difference' methodology (managed by DESNZ) and Ofgem's Price Cap methodology, which could improve liquidity. An update with next steps will be published during 2024.

### Cyber Competent Authority Regulation

Through our joint Competent Authority role with DESNZ, Ofgem continued to protect consumers by driving an increase in the cyber and security resilience measures across regulated operators of essential services. This includes a programme of 'Network and Information Systems' regulation inspections, to assess the level of cyber resilience across the sector, as well as the use of guidance and proactive industry engagement, with a view to maintaining and improving standards.

## Our short-term priority: Setting, monitoring and enforcing quality and standards

### Heat network regulation development

During the year, Ofgem continued to prepare to regulate heat networks. A joint consultation was published in August 2023 with DESNZ, seeking views on consumer protection requirements that heat network operators and suppliers will need to comply with as a part of the new regulatory framework. Views were also sought on Ofgem's approach to regulating the sector, including through guidance, market monitoring, compliance and enforcement activity, as well as to the proposed approach to recovering the costs of regulating heat networks. A joint response was published in April 2024.

Ofgem also began 'beta phase' testing for the regulatory framework's data solution, and consultations on 'Complaints' and for 'Guaranteed Standards of Performance'.

### Core regulation – Proactive and robust compliance and enforcement

During the year, Ofgem carried out a series of Market Compliance Reviews, that were initiated in 2022-23, to assess if retail energy suppliers were compliant with their licence conditions. The review into forced installations of pre-payment meters was a priority over the past year.

Assessments of all other reviews have now been completed, and work is underway to close down and set appropriate redress and compensation levels for those suppliers where issues were discovered. Of those suppliers, seven have met restart conditions, which Ofgem is monitoring closely.

## Our long-term priority: Facilitating infrastructure investment

### Enable time-critical investment in infrastructure

#### *RIIO-2 Electricity Distribution Price Control ('ED2')*

Covering a five-year period, the RIIO-ED2 price control started in April 2023. Set by Ofgem, the price control fixes the outputs that fourteen electricity network distribution operators ('NDOs') need to deliver for their consumers and the associated revenues that they are allowed to collect. Ofgem's role is to ensure that network companies enable net zero by having sufficient funding to invest in network capacity, and by ensuring that low carbon technologies and the connection of new clean energy sources do not face installation or operational delays, while also protecting customers from unnecessary charges on bills.

#### *The 'Accelerated Strategic Transmission Investment' ('ASTI') framework*

The ASTI decision identifies 26 strategic transmission projects with an estimated cost of £20 billion which will be taken forward under a streamlined regulatory approval and funding process. This process represents a significant departure from the multiple regulatory assessment stage gates in the existing regulatory approval and funding process, known as the Large Onshore Transmission Investment (LOTI) regulatory framework.

Taking effect in August 2023, the ASTI framework was implemented through modifications to electricity transmission licences and will enable and incentivise the timely delivery of these large strategic transmission investment. This framework enables a programmatic approach to delivery, early construction funding and puts a tough incentive on the transmission owners to deliver on time. In March 2024, provisional funding of £2 billion was awarded to Eastern Green Link 1 and £3.4 billion to Eastern Green Link 2, which will transport four gigawatts of electricity for up to four million homes through subsea and underground electricity superhighways.

*Electricity network connections*

To address challenges with new connections to the electricity network, Ofgem published an 'Open Letter' on reforms to the connection process in May 2023. The letter set out that action must be taken now, for new sources of low carbon generation from new nuclear, solar and wind to deliver towards net zero generation targets for 2035 and 2050. Ofgem's objective is to see electricity connection offers with shorter average connection dates, which better meet customers' need and enable a timely transition to new zero. Following responses to the letter, Ofgem and DESNZ published a joint Connections Action Plan in November 2023, which included a framework of existing actions and further ambitions needed and established new governance to oversee, steer and coordinate connections reform. While reforms to the process have seen projects with 17 gigawatts offered earlier grid connection dates, there have been delays with the industry's ability to respond. The current focus to increase connections is driven by an ambitious proposal from the ESO, which proposes to shift all existing customers into a 'first-ready queue'.

*Offshore Hybrid Assets – pilot scheme and regulatory regime*

To enable and accelerate offshore infrastructure investment, Ofgem published two consultations in June 2023 – one on the regulatory regime for offshore hybrid assets (formerly the multi-purpose interconnector ('MPI') programme) and a joint consultation with DESNZ on market arrangements for MPIs. Cost benefit analysis for two pilot projects that applied to the 'Offshore Hybrid Asset' pilot scheme was also undertaken over the summer of 2023. Ofgem took a 'minded-to' decision in December 2023 to conditionally approve one project to the Netherlands – LionLink for a proposed 1.8 gigawatt connection. A subsequent decision was published in February 2024, in respect of the 'Non-Standard Interconnectors' in Ofgem's pilot scheme. Further policy work on market arrangements and 'Contracts for Difference', which are key aspects of a regime for MPIs, are being progressed by DESNZ and Ofgem. Any future 'Non-Standard Interconnectors' may have a different regulatory regime than those in the pilot, depending on how the 'Offshore Hybrid Asset' sector develops.

*Offshore coordination*

In May 2023, Ofgem published a consultation of the 'Early-Stage Assessment' ('ESA') process for anticipatory investment, to provide developers with confidence on the approach to anticipatory investment. Following a decision in December 2023, the ESA is now in place, with Ofgem awaiting applications. Given the high level of interest through initial enquiries, it is likely that the policy will expand and be used widely for coordinated designs for offshore wind assets identified as part of the 'Holistic Network Design and Follow-Up Exercise' ('HND/FUE').

*HND/FUE – Asset classification*

A decision on asset classification for the HND/FUE was published in April 2024. Ofgem has given developers and transmission operators assurance as to the licensing requirements for assets contemplated in the HND and HNDFUE. Asset classification for revisions to the HND was published in March 2024, and for ongoing work with the ESO.

*'Offshore Transmission Owner' ('OFTO') build model*

In March 2023, Ofgem published a decision on 'Pathways to 2030', regarding the delivery models for non-radial offshore transmission assets. That consultation gave developers the choice of either a very late competition generator build model or a late competition OFTO build model. Published in April 2023, a subsequent consultation builds on that initial proposal, and is seeking feedback on the development and implementation of the OFTO build model. Ofgem will published a 'minded-to' decision in the latter half of 2024.

## Core regulation – Enable time-critical investment in infrastructure

*Interconnectors*

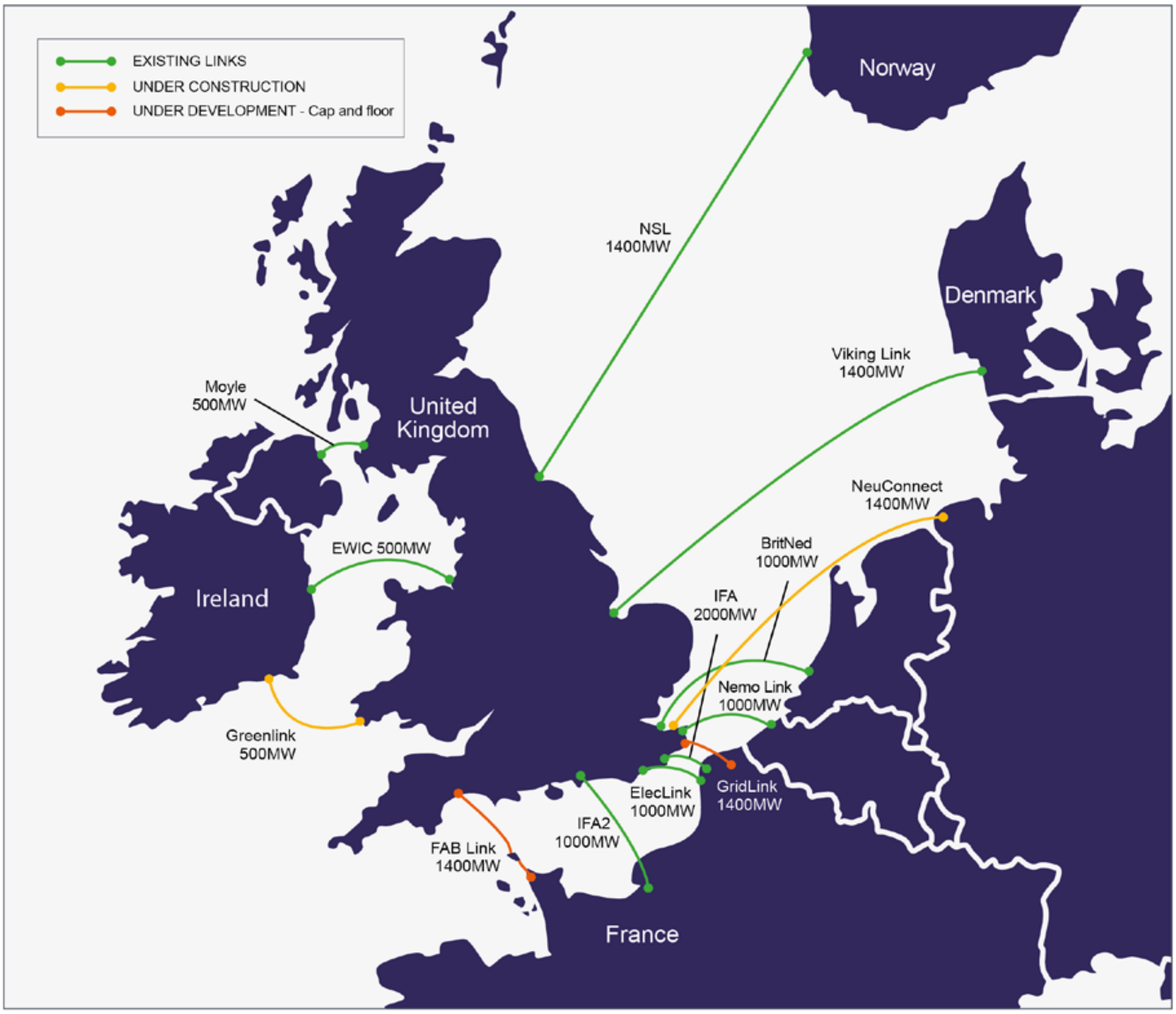
*Offshore Transmission Owner ('OFTO') Tender Round 10*

During the year, Ofgem continued to advance the tender processes for the ownership and operation of OFTO assets, to ensure that all construction costs offer value for money. All tender publications can be found on Ofgem's website.

During the year, Tender Round 10 was active. Launched in the previous financial year (January 2023), this tender round has considered three offshore wind farm projects: Dogger Bank A, Neart na Gaoithe, and Moray. All projects are at various stages of enhanced pre-qualification.

*Cap and Floor regime*

In addition to advancing Tender Round 10, Ofgem continued to assess interconnector projects for suitability at the 'Initial Project Assessment' ('IPA') stage through our Cap and Floor regime. While interconnectors are no longer expected to predominantly be a source of cheap electricity imports as anticipated when the Cap and Floor regime was first established, they are expected to become a way of providing flexibility and enhancing security of supply in a renewables-dominated energy system. During the summer of 2023, cost benefit analysis was carried out for the seven 'Window 3' applicants. Ofgem published a 'minded-to' decision in December 2023, to approve one of the seven applicants build a high voltage cable link – Tarchon Energy Interconnector – for a proposed 1.4 gigawatt connection between Great Britain and Germany. A consultation for the IPA of all seven applications was published in March 2023, which closed in May.



*RIIO Price Control delivery*

Each year, distribution and transmission network owners provide Ofgem with annual reporting on their performance against annual outputs and incentives, innovation projects and overall financial performance. During the year, Ofgem assessed reports for the 2022-23 financial year – summaries of the findings can be found below.

*Electricity Distribution ('ED')*

Regulatory year 2022-23 was the last year of RIIO-ED1. The majority of DNO groups performed well against output targets, although the performance against targets related to environment and connections were varied. Half of the fourteen DNO networks were underspent against their annual allowance. The close-out process for ED1 is underway (see update for ED1 close-out below).

*Electricity Transmission ('ET')*

All transmission operators met or exceeded the annual output targets for 'Reliability and Availability' and 'Environment' in Year 2 of RIIO-ET2. NGET missed targets for 'Timely Connections', 'Quality of Connections', 'Survey' and 'Safety' (Injury Frequency Rate), which attracted a penalty. All transmission owners continued to underspend against their annual allowance in Year 2, though expect to largely meet their allowance over the whole of the RIIO-ET2 Price Control period.

*Gas Distribution ('GD')*

Gas distribution network ('GDN') groups mostly met their output targets, with a few exceptions, including for 'Connections' (in which all groups underperformed) and a few sub-categories of 'Customer Satisfaction' and 'Safety'. Three out of four GDN groups continued to underspend against their annual allowance in Year 2. Cadent has missed the emergency response targets for two of their four networks; SGN also missed the same target for their two networks.

*Gas Transmission ('GT')*

National Gas underperformed against a number of output targets in Year 2, but is forecast to recover from their current position over the Price Control period. The performance targets against, for example, Network Asset Risk ('NARM'), 'Quality of demand forecasting' and elements of 'Asset Health Delivery' were missed; and National Gas continued to underspend against its annual allowance in Year 2.

*RIIO-1 close-out for Electricity and Gas Transmission and Gas Distribution*

The previous Price Control period ended on 31 March 2021. Within the previous financial year, Ofgem reviewed and assessed company performance and published a decision on the value of revenue adjustments in each sector; 'closing-out' the RIIO-1 Price Control period. Consequential adjustments to the 'legacy' RIIO-1 Price Control Financial Model ('PCFM') have been taken into consideration and reflected as part of RIIO-2. In the case of electricity transmission, associated amendments to the RIIO-2 transmission licence were identified and published in December 2023.

In Electricity Distribution, the previous Price Control period ended on 31 March 2023. The assessment process was initiated in February 2024 and delivered a 'minded-to' position on the value of proposed revenue adjustments for consultation in June 2024, with a final decision expected in the autumn. Consequential adjustments to the 'legacy' RIIO-1 PCFM will be taken into consideration and reflected in the RIIO-2 (November 2024).

## Future Systems and Network Regulations ('FSNR')

In March 2023, Ofgem published a consultation setting out proposals on the framework for the next round of Price Controls. The regulation of energy networks will need to enable a transformation for future energy system needs, while continuing to maintain efficient network management and operations. As set out in the July 2023 'Open Letter', Ofgem took a decision not to introduce a short-term price control in the gas sectors, and instead to develop a medium-term ex-ante price control for the gas networks, starting in 2026. The FSNR Framework Decision (published October 2023) confirmed the next price controls for gas and electricity transmission (RIIO-3) would last five years and evolve from the current RIIO-2 framework.

### Nuclear power regulatory regime

During the year, Ofgem continued to advise and support DESNZ on the economic regulatory regime for the new Sizewell C nuclear plant, to support the government in its ambitious targets for decarbonising the electricity system. This included supporting DESNZ to draft the economic licence and responding to its consultation on modifications to the Sizewell C electricity generation licence. In November 2023, Ofgem published draft economic guidance, setting out the expected regulatory approach. Alongside DESNZ, Ofgem also developed a 'Price Control Framework Model' as well as requirements for regulatory reporting material. Following the 'Final Investment Decision', Ofgem is expected to begin regulation later in the year.

### Carbon Capture Utilisation and Storage ('CCUS') regulatory regime

During the year, Ofgem continued to advise and support DESNZ on the design and development of the CCUS economic regulatory regime, and prepared to undertake the role of economic regulator. This included advising DESNZ on economic policy for 'Track 1' and 'Transport and Storage Clusters', supporting the development of the 'Track 1' clustering sequencing process and the new CCUS Network Code.

### Hydrogen business model

During the year, Ofgem continued to advise and support DESNZ on the design and development of the economic regulatory regime for hydrogen transport. This included by providing advice on licensing arrangements, with respect to the Energy Act (2023), providing support on the business model design, including for allocation, network and regulated asset-based charging.

## Our longer-term priority: Developing and delivering market reforms

### Enabling markets for flexibility

For a net zero energy system with high renewables penetration and increasing electrification of heat and transport, flexibility is essential. Without it, renewable energy could be wasted, and peaks in energy use could increase bills for consumers. Following the publication of a 'Call for Input' into the future of distributed flexibility, Ofgem published a response in July 2023. In November, Ofgem published a decision on the reform to local governance arrangements, including:

- the introduction of 'Regional Energy Strategic Planners' accountable for effective strategic planning coordination at the sub-national level
- creating a 'Market Facilitator' role to a single entity, to deliver flexible markets
- keeping real-time operations with electricity Distribution Network Operators (DNOs), to ensure clear accountability for reliability and safety.

This decision was followed by a subsequent consultation on the delivery body for the 'Market Facilitator', which closed in February 2024. A decision was published in July 2024.

Throughout the year, Ofgem has provided policy advice to DESNZ, to support the development of the 'Smart and Secure Electricity Systems Programme' consultation, published in April 2024. The Programme aim was to create the technical and regulatory frameworks, to enable flexible use of domestic-scale energy to contribute to demand management across the electricity grid.

## Oversight regulation – Enabling markets for flexibility

### *Market-wide Half-hourly Settlement*

Ofgem continued to oversee and support the delivery of the industry-led, market-wide, half-hourly settlement ('MHHS') programme. As smart meters can record the amount of energy consumed or exported within every half-hour, this provides an opportunity to make the settlement process more accurate and timely, and act as an enabler for new products and services; for example, supporting use of electric vehicles or making use of smart appliances.

While Ofgem is the programme sponsor, it is managed by Elexon, the code administrator the for the 'Balancing and Settlement Code'. In April 2023, Ofgem published a decision approving revisions to Elexon's business plan to implement the programme. In March 2024, DESNZ approved the activation of the MHHS powers in the Smart Meters Act (2018), which came into force on 30 April 2024.

### *Smart meter roll-out*

Ofgem has a regulatory oversight role for the smart meter roll-out programme, which is implemented by retail energy suppliers. By the end of 2023, more than 61% of all smart meters in Great Britain were smart or advanced meters, with 30.8 million meters operating in smart mode (54%).

Following the introduction of a new target regime over two years ago, most suppliers missed their roll-out targets in 2023. As a result, Ofgem intends to publish an approach to compliance and enforcement.

In addition to this, as set out in a an 'Open Letter' to suppliers in January 2024, Ofgem raised concerns about the replacement of traditional prepayment meters and 'Radio Teleswitch Meters', with new smart pre-payment meters, which offer customers a large range of flexibility benefits that older meters do not. On these and other compliance issues, Ofgem will continue to take supplier obligations seriously – particularly those that require suppliers to support and protect customers in vulnerable situations.

### *Data Communications Company Price Control*

The Data Communications Company (the 'DCC') is licensed to deliver the Great Britain-wide smart meter communications network. Ofgem regulates the DCC as a monopoly provider with a Price Control, to ensure that it offers consumers value for money. In February 2024, Ofgem published its annual decision on DCC costs for the 2022-23 regulatory year. This followed Ofgem's assessment of DCC's price control submission (July 2023) and a public consultation published in November 2023.

In the decision, Ofgem disallowed a total of £14.962 million in costs incurred in 2022-23 which were found to be unacceptable. This was from total reported costs of £611 million. In addition, Ofgem disallowed a total of £229.341 million in forecast costs over the regulatory years 2023-24, 2024-25 and 2025-26.

### *DCC licence and regulatory model review*

In August 2023, Ofgem published a decision on the scoping phase of its review into the DCC's licence, concluding that the design of the new framework should be based on five key features:

- The DCC board should be majority stakeholder (customer) or independent controlled and include consumer representation.
- Its 'Core Mandatory Business' should be conducted on a not-for-profit basis.
- Costs of activities deemed to be sufficiently stable should be subject to an upfront approval by Ofgem, via an ex-ante price control or a budget-setting process.
- The operational model will remain primarily outsourced, with key contracts procured competitively on the market (decisions made by the Board subject to Licence limitations).
- DCC's 'Core Mandatory Business' will remain funded by charges on users.

The review for detailed design phase, to develop the new regulatory model, began with stakeholder workshops in November 2023.

## Wholesale market reforms and network charging arrangements

### *Wholesale market reform update*

In October 2023, Ofgem published an Assessment of Locational Marginal Pricing options for Great Britain, submitted to DESNZ alongside other input for its Review of Energy Market Arrangements ('REMA'). DESNZ published its second consultation in March 2024. We are continuing to provide input to policy development under REMA.

### *Distributional charging reform (DUoS)*

During the year, Ofgem restarted its work on the DUoS Significant Code Review. This included publishing an 'Open Letter' in April 2023 to industry stakeholders, setting out the scope of work for 2024-25. Options for reform are currently under development.

### *Electricity transmission charging reform (TNUoS)*

The TNUoS Task Force was restarted in 2023-24, providing strategic direction on near-term improvements for the transmission charging regime. An 'Open Letter' was published in September 2023, outlining our considerations of longer-term reform options in the context of REMA, with a summary of responses and next steps published in March 2024.

# Our longer-term priority: Reforming governance arrangements

## National Energy System Operator (the 'NESO')

Alongside DESNZ, Ofgem continued to progress NESO delivery, with NESO's launch expected in the summer of 2024. It will retain the name of the Electricity System Operator (the 'ESO') until that moment.

In September 2023, Ofgem published a consultation on draft licence conditions for the NESO. This was followed by a joint statutory consultation on NESO's new licence conditions in March 2024, alongside consequential changes to existing licence conditions.

Ofgem has also set up and ran a 'Code Change Programme' for code changes needed to establish the NESO. Ofgem has also made key regulatory decisions on the oversight and funding of separation and transformation activities being carried out by the ESO and the National Grid.

## Energy code governance reform

In May and June 2023, Ofgem hosted a series of stakeholder workshops on policy options for implementing energy code reform. Insights from this engagement supported further policy development and analysis, and following passage of the Energy Act 2023 in October, the consultation on the implementation of energy code reform was published in January. This consultation included a draft impact assessment on code consolidation. Ofgem has continued to work with DESNZ to publish a parallel consultation on code manager licensing and secondary legislation in March 2024.

## Energy sector digitalisation

### *'Data Best Practice Guidance'*

In August 2023, Ofgem published a consultation decision on updates to 'Data Best Practice Guidance', after broad industry approval on the changes. All decisions have been implemented by March 2024, with Distribution Network Operators publishing aggregated smart meter data and all networks publishing data catalogues.

An 'Open Letter' was published in March 2024, outlining Ofgem's approach to introducing 'Data Best Practice Guidance to Industry Codes'. This will be implemented throughout 2024-25.

*'Long-Term Development Statement' ('LTDS')*

Ofgem launched an informal consultation on updates to the LTDS in August 2023. Views set out by stakeholders informed a formal consultation on updates to the LTDS in January 2024. A decision on both the changes to the LTDS and associated governance of the 'Common Information Model' standard was published in April 2024.

*Digital Energy Strategy*

Ofgem continued to collaborate with DESNZ on multiple workstreams, aligning publications where necessary. Prior to the announcement of the July 2024 election, a joint consultation on the governance of the Data Sharing Infrastructure (a piece of digital infrastructure) was planned for publication in May 2024. Ofgem had also been working with DESNZ to test this governance and to input findings from their Digital Spine Feasibility Study innovation project.

## Delivering environmental and social schemes for government

Ofgem administers twelve energy efficiency, low carbon and affordability schemes for government. Our administration continued to deliver the transition towards decarbonisation of domestic and non-domestic energy generation, the adoption of renewable heat solutions, and helping vulnerable consumers through direct bill support and the installation of energy efficiency measures. We work with government and stakeholders to implement and deliver schemes which meet these objectives.

Our administration of the schemes is complementary to our core regulatory role and supports the key pillars of our consumer interest framework, in particular, by supporting customers to make greener choices in the low-cost transition. The schemes provide around £10 billion of support each year through a combination of taxation and bill funding.

Our core focus is to administer the schemes efficiently, provide an excellent user experience, deliver for government and ensure risks are well managed. The core schemes administration work programme is described under the three main categories below.

### Renewable heat schemes

*Boiler Upgrade Scheme*

Launched in May 2022, the Boiler Upgrade Scheme supports property owners to install low-carbon heating systems, to support the transition to net zero through upfront capital grants, for the installation of heat pumps and biomass boilers in homes and non-domestic buildings. Grant funding of £450 million is available between 2022 and 2025.

The grant levels for air source heat pumps and ground source heat pumps were increased by DESNZ from £5,000 and £6,000 to £7,500 in October 2023, and Ofgem has adapted its administration and delivered the changes accordingly. DESNZ has also consulted on potential changes to the scheme; publishing their response in March 2024. Prior to the announcement of the July 2024 election, DESNZ confirmed that changes would be made to the scheme, including the removal of the requirement for a property to have no outstanding recommendations for loft and cavity wall insulation on their Energy Performance Certificate. Over the course of the year, Ofgem has continually reviewed and improved its administration processes and digital systems, working closely with users of the scheme to ensure the Boiler Upgrade Scheme continues to meet their needs.

### *Green Gas Support Scheme & Green Gas Levy*

The Green Gas Support Scheme provides financial support for plants that produce biomethane via anaerobic digestion and inject it into the gas grid. The plants will receive a quarterly tariff for 15 years, assuming they continue to meet all relevant eligibility criteria. The scheme is funded by the Green Gas Levy, which places an obligation on licensed gas suppliers to make quarterly levy payments.

The government confirmed that the scheme would be extended by two years and four months, meaning it will be open to applicants until March 2028. DESNZ made changes to the Green Gas Levy regulations that came into force in November 2023, and Ofgem has adapted its administration accordingly. DESNZ has also consulted on potential changes to the Green Gas Support Scheme, with associated changes to the scheme legislation expected in 2024.

### *Renewable Heat Incentive*

While the domestic, non-domestic and Northern Ireland Renewable Heat Incentive schemes have now all closed to new entrants, in 2023-24 Ofgem continued to administer the schemes as per the regulations, including issuing associated payments to households, businesses, the public sector and non-profit organisations, and will ensure compliance with scheme rules.

**Renewable Heat Schemes:**

On the BUS scheme, **£138.9 million** has been paid supporting the installation of **23,871** low carbon heating systems.

On the GGSS scheme to the end of March 2024, green gas had been injected into the gas grid sufficient to generate **18,847 MWh** of heat and **£1.1 million** had been paid to the one registered participant.

Over the life of the Renewable Heat Incentive schemes to March 2024:

**87 TWh** thermal heat generated (NDRHI-GB and DRHI)

**6,090 MW** of thermal heat capacity accredited (NDRHI-GB)

266,629 payments issued worth around **£114 million** (DRHI) during 2023-24

71,753 payments issued, worth around **£932 million** (NDRHI-GB) during 2023-24

## Energy efficiency and social schemes

### *Energy Company Obligation ('ECO')*

ECO is a government energy efficiency scheme in Great Britain, designed to tackle fuel poverty and help reduce carbon emissions. Now in its fourth iteration (ECO4), the scheme obligates energy suppliers to promote measures that improve the ability of low-income, fuel-poor, and vulnerable households to heat their homes. ECO4 runs from April 2022 to March 2026, and focuses on improving the least energy efficient homes through a multi-measure, whole-house retrofit. During 2023-24, Ofgem monitored and reported on the progress suppliers are making towards meeting their targets and continued to develop the ECO register, making it easier for suppliers to report their progress.

### *Great British Insulation Scheme*

Launched in 2023, the Great British Insulation Scheme is an ECO scheme, that aims to deliver insulation measures to the least efficient homes in Great Britain. It aims to tackle fuel poverty and reduce energy bills. In December 2023, Ofgem launched the new register for the scheme which has streamlined our administration of the scheme and enabled energy suppliers to report their progress more efficiently.

### *Warm Home Discount*

The Warm Home Discount offers less well-off pensioners and low-income households a rebate for their electricity or gas account. Other assistance provided by energy suppliers can include industry initiatives, such as entitlement checks, debt assistance, energy and smart meter advice, and energy efficiency measures for low income and vulnerable households. In 2023-24, Ofgem continued to monitor and report on the progress energy suppliers are making towards meeting their obligations.

**Energy efficiency and social schemes:**

Over the life of the Energy Company Obligation schemes to March 2023:

**Over 3.59 million** measures installed in **2.42 million** households

Over the life of the Warm Home Discount scheme to March 2023:

**£3.95 billion** of support for customers in or at risk of fuel poverty

**28.1 million** energy bill rebates provided

## Renewable electricity schemes

### *Renewables Obligation ('RO')*

The Renewables Obligation scheme provides long-term support for the production of renewable electricity on a large scale. Certificates are issued to operators of accredited renewable generating stations for the electricity that they generate, and which are sold to, and can be traded with other suppliers. Electricity suppliers are required to present a specified number of Renewable Obligation Certificates ('ROCs'), in respect of each MWh of electricity supplied to customers. Those suppliers that do not meet their obligations are required to pay an equivalent amount into a buy-out fund. Improved financial resilience measures should mean a reduction in suppliers who fail to meet their obligations through either of the above routes. In 2023-24, Ofgem continued its administration of the scheme by issuing ROCs, monitoring suppliers' progress against their obligations, and developing a new digital system to streamline our ongoing administration of the scheme.

Government issued a 'Call for Evidence' on moving the RO to a fixed-price certificate approach from 2027 onwards, as generation capacity reaches the end of its support through the scheme. Ofgem has engaged in this process offering advice and expertise to government on the administrative implications of these potential changes. We expect a consultation to lead on from this in the coming year, which may fundamentally change how the scheme is administered.

### *Feed-in-Tariffs*

Smaller-scale renewable and low-carbon electricity generation is supported through the Feed-in-Tariffs scheme, in which suppliers make payments to participants that install electricity generating installations, such as solar photovoltaic panels. The scheme is closed to new generators and, in 2023-24, Ofgem continued its administration of the scheme, including ensuring that suppliers comply with their obligations.

### *Renewable Energy Guarantees of Origin*

The REGO scheme provides transparency to consumers about the proportion of electricity that suppliers source from renewable electricity.

This scheme provides certificates called REGOs, which demonstrate electricity has been generated from renewable sources. Suppliers then present these to validate environmental claims made on their tariffs through the Fuel Mix Disclosure ('FMD'). The current year is the first where European Guarantees of Origin (equivalent to REGOs) can no longer be presented for FMD. In 2023-24, Ofgem continued to monitor and report on the annual fuel mix disclosure requirements for the scheme.

REGO usage has expanded beyond FMD, and is potentially being used across multiple schemes, including some outside Ofgem's remit. Government has announced a review of REGOs and further details are expected.

### *Smart Export Guarantee ('SEG')*

The SEG requires some electricity suppliers, known as SEG licensees, to pay small-scale generators, known as SEG generators, for low-carbon electricity, which they export back to the National Grid, as a replacement for the Feed-in-Tariff. We have seen an increase in the number of generators participating in SEG, and there are no current plans to reform the scheme. In 2023-24, Ofgem continued its monitoring and reporting on the scheme.

**Renewable Electricity Schemes:**

**26,609 generating stations** on the scheme as of March 2023

**35.4 GW** of renewable electricity capacity accredited as of March 2023

**80.3 TWh** of total electricity from renewable sources generated[1] on the Renewables Obligation scheme during 2022-23

Over the life of the Feed-in-Tariff scheme, to March 2023:

**870,063 accredited installations**

**£14.34 billion** payments made to generators

Since launch of the SEG in 2020 to the end of March 2023, **104.3 GWh** of low carbon electricity has been exported to the grid, against which payments have been made to generators of **£8.97 million**

[1] Equivalent to 29.5% of UK supply

# Sustainability Report

## Sustainability and internal environmental impact

As the government's energy regulator, climate change and sustainability are at the forefront of our objectives, embedded in everything from our policies, strategy, and operational delivery, to the day-to-day running of the estate. In line with the Greening Government Commitments, Ofgem is working towards net zero by 2050, and we continue to review our environmental impact, to ensure that our operations and procurement support are delivered in advance of the government's targets.

This enables us to act in the best interest of energy consumers while promoting a fair and equitable energy transition.

### Changes to our estate and sustainability reporting parameters

This year, we have re-calculated our floorspace in our London office to correct for an over-estimation in occupation. This means our apportioned emissions figures are marginally lower than that of previous years. We have also consolidated our Cardiff presence from two locations to one, expanding into a modern, purpose-built government hub that has achieved a BREEAM "Excellent" rating and is aligned with Cardiff City Council's carbon reduction strategy. Our expanded presence in Cardiff means that in future, we will be able to report on all three of our office locations for the first time, having previously reported on our London and Glasgow offices only.

While the estate has undergone several changes over the past financial year, we remain ambitious with our sustainability goals. We use the Greening Government Commitments (GGCs) as the main measure of our progress – these commitments span the period from 2021-2025 and set out a sustainability framework for government departments, outlining actions that must be taken in order to minimise environmental impacts. Our targets encompass critical areas of sustainability, including greenhouse gas emissions reduction, decreasing water consumption, minimising waste and promoting resource efficiency.

### Our GGC performance against the 2017-18 baseline

| GGC | Target | 2023-24 performance | Progress commentary | Related UN Sustainable Development Goal |
|---|---|---|---|---|
| **Greenhouse gas emissions** | **Reduce overall greenhouse gas emissions by 62%*** | ▼ -77% per FTE | We have exceeded the headline GGC emissions target, reducing our total emissions by over two-thirds per staff member. | Climate Action |
| **Greenhouse gas emissions** | Reduce direct greenhouse gas emissions by 30%* | ▼ -99% per FTE | Our reduction in direct greenhouse gas emissions has been accelerated by the move towards heat decarbonisation, with plans for our London office to completely remove gas from use. | Climate Action |

| GGC | Target | 2023-24 performance | Progress commentary | Related UN Sustainable Development Goal |
|---|---|---|---|---|
| **Greenhouse gas emissions** | Reduce emissions from domestic flights by at least 30%* | ▼ -82% per FTE | We have updated our travel policy to further encourage low-carbon travel options as a first choice. | Climate Action |
| **Waste** | **Reduce the overall amount of waste generated by 15%*** | ▼ -92% | We provide reusable utensils and appliances in our offices, reducing the need for single-use materials. We consider reuse before disposal, and donation schemes are promoted amongst staff. | Sustainable Consumption and Reduction |
| **Waste** | Reduce the amount of waste going to landfill to 5%* of overall waste | ▼ 0% | Ofgem has been landfill-free since 2010 and our offices continue to run on a zero-to-landfill operating model, turning to energy-from-waste solutions instead. | Sustainable Consumption and Reduction |
| **Waste** | Increase the proportion of recycled waste to 70%* of overall waste | ● 47% | Pilot behavioural interventions through improved signage have been proposed to strengthen our recycling rates. | Sustainable Consumption and Reduction |
| **Waste** | Reduce paper use by at least 50%* | ▼ -81% | We encourage paperless work and continue to optimise our file storage and sharing processes using cloud-based solutions. | Sustainable Consumption and Reduction |
| **Water** | **Reduce water consumption by at least 8%*** | ▼ -90% | Water-efficient appliances in our offices include sensor taps and dishwashers. | Clean Water and Sanitation |

*Target figures as set by the Department for Environment, Food, and Rural Affairs (DEFRA) for the DESNZ GGC family, which Ofgem forms part of.

### Mitigating climate change: working towards Net Zero by 2050


This year, we continued to keep our emissions below baseline figures despite our workforce more than doubling since 2018. We have seen a 97% decrease in Scope 1 (direct) emissions, and it is expected that our London estate will phase out the current gas boilers in favour of air source heat pumps over the coming years. We do not own, hire, or lease car fleets. Staff are encouraged to use public transportation where possible and our offices are well-connected by rail and bus networks. Active travel is encouraged through the provision of cycle storage and shower/changing room facilities in our London and Cardiff offices. This year, an organisation-wide active travel challenge saw staff cover a total of 73,000 km – saving an equivalent of 2.5 tonnes of $CO_2e$ when compared to travelling by train.

Our reported Scope 2 emissions remained stable when compared to last year. Our London office is on a zero-carbon energy tariff, meaning actual Scope 2 emissions may be lower than reported figures.

While we have previously kept our overall emissions under the target, we have exceeded it this year due to an increase in indirect emissions. Indirect (Scope 3) emissions were 2.5 times higher this year compared to last year, resulting in an additional 221 tonnes of $CO_2e$ emissions. Contributing factors to this change are a growth in staff numbers and business travel behaviour changes. A return to pre-pandemic levels of travel has been coupled with a growth in team size and spread, where most teams are spread across two or three office locations. Domestic air travel in particular is a significant contributor to our indirect – and total – operational emissions, and paths to reducing these emissions are a key focus for the organisation. We do not offset our carbon emissions – while offsetting initiatives may have their merits, we believe it is crucial to take proactive action by prioritising direct emission reduction strategies. The majority of our reported journeys are the result of inter-office travel, and we are committed to improving the ways in which we work together as an organisation based across three different locations. This year, we have:

a) Improved the provision of hybrid working tools (such as video conferencing software) to ensure a seamless hybrid collaboration experience for staff, reducing the need for unnecessary business travel.

b) Refined our expense and travel policy – a sustainability statement has been added and staff are expected to avoid domestic air travel as it is up to seven times more carbon intensive than rail travel (based on GGC carbon conversion factors). Any necessary air travel should only be booked through our verified travel provider system, which is expected to strengthen the accuracy and quality of our reporting over the next financial year.

Next year, we plan to:

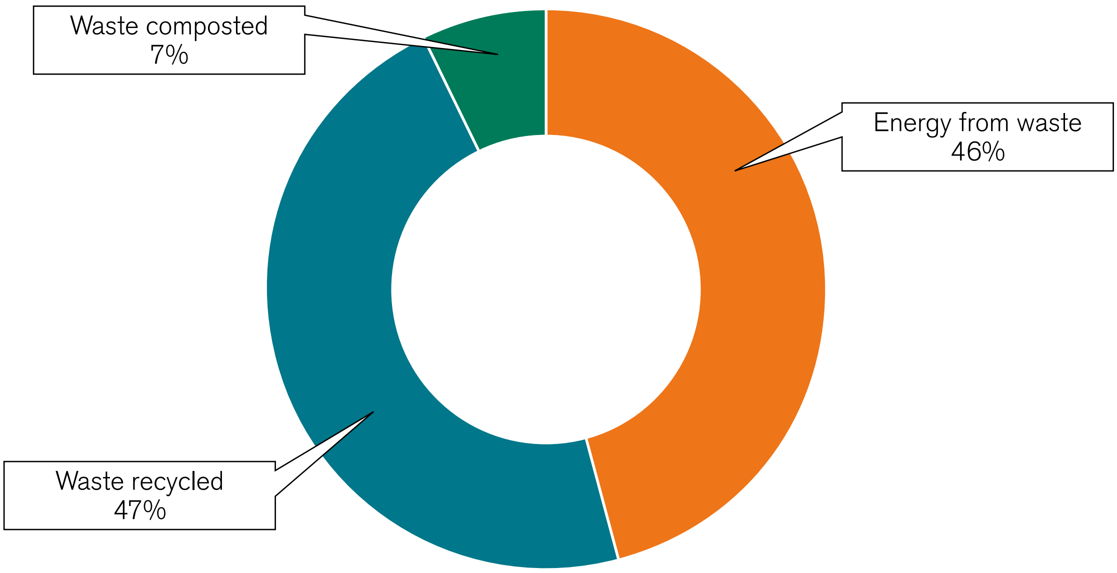
a) Carry out quarterly internal carbon reporting to Ofgem's senior executive committee. The reporting is to be apportioned by directorate, enabling us to identify specific areas for improvement.

b) Internally publish league tables of carbon footprints to encourage sustainable behaviour modelling.

c) Work with our travel booking provider to promote low carbon travel routes to staff, recognising that psychological nudges can complement policy.

### Minimising waste and promoting resource efficiency

Composition of office waste as a weight percentage

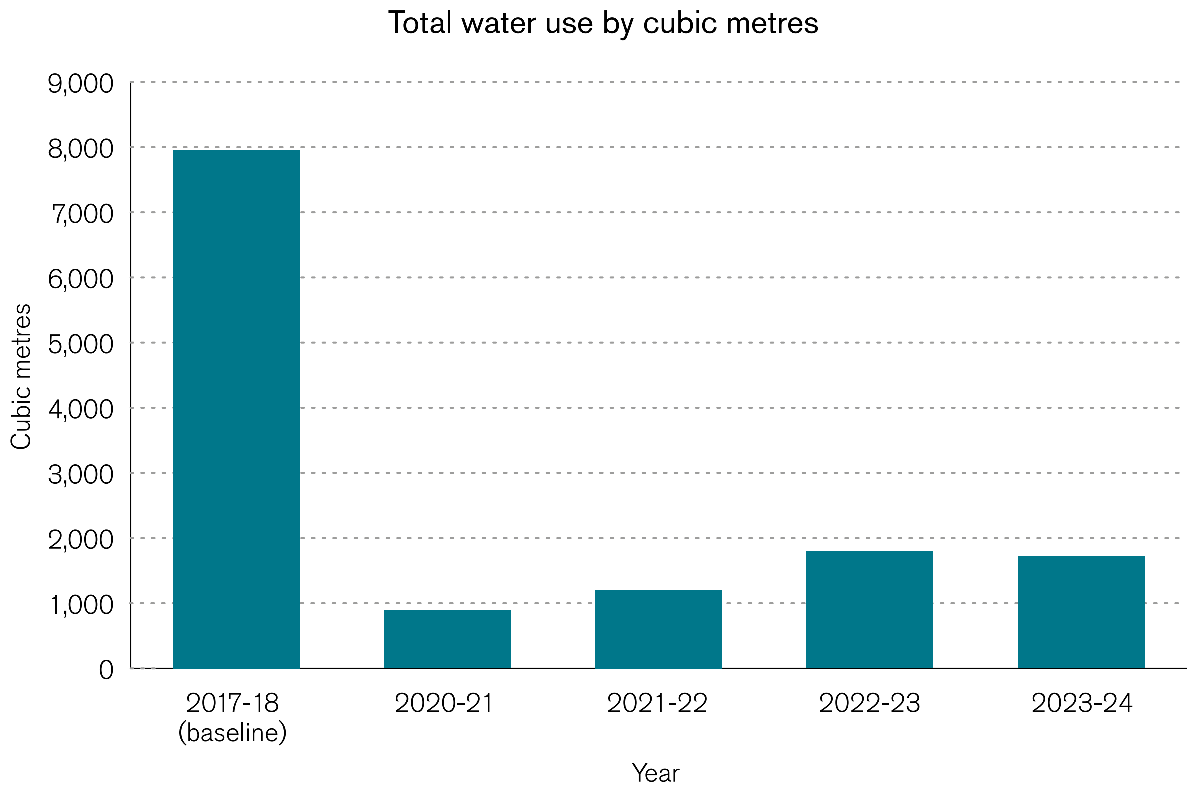



We have seen a slight increase in waste figures compared to last year, but continue to generate under a tenth of the waste amounts seen in 2017-18. We are yet to achieve the recycling rate target, as current recycling rates remain under 50%. This may be attributed to waste contamination, and there are plans in place to address awareness of recyclable materials through a behavioural intervention pilot in the coming year.

We discourage the use of Consumer Single Use Plastics (CSUPs) where possible by providing reusable cutlery and crockery in our office spaces. Our kitchen facilities are equipped with microwaves, fridges, and filtered water taps to further minimise the need for staff to bring CSUPs into the office. In addition to operating a discounted reusable mug scheme, our London building restaurant provides compostable takeaway containers and utensils. In the coming year, there are plans for the restaurant to introduce a new range of low climate impact dishes, aiming for a 38% reduction in carbon emissions compared to the current meal offering. In the office rest rooms, building management have replaced standard brand menstrual products with plastic-free, organic products. Paper towels have also been removed from most rest rooms to decrease toilet blockages and reduce unnecessary paper waste.

This year, a new thermal comfort policy was introduced in our Cardiff office location. By defining new standard temperature ranges across the estate and optimising heating, ventilation, and air conditioning technology, the policy is configured to reduce carbon emissions and maximise energy efficiency.

## Reducing our water use




Our water use is attributed to purchased water for the estate as we do not directly own or control any reserves of water. This year, we have exceeded our baseline water use targets and have reduced last year's peak by 4%. We have experienced several leaks this year, but these were quickly rectified and affected pipework was reinforced to prevent future occurrences. Water saving appliances in our offices include dishwashers, which are only run once full, reducing the need to hand-wash individual items. Most bathroom taps are activated by sensors and drinking water taps must be pressed down in order to dispense water. A waterless, enzyme-based solution has been implemented in urinals across our Cardiff office, reducing the need for excessive flushing and the use of harsh chemicals for cleaning. This is projected to conserve 12.1 million litres of water and save up to 12.77 tonnes of $CO_2e$ emissions across the building over the next three years.

## Procuring sustainable products and services

We align our procurement practices with the Government Buying Standards, and procure goods and services through the Crown Commercial Services (CCS) frameworks where possible. CCS suppliers are held to a set of strict environmental, social, and economic criteria, and by procuring through these frameworks, we ensure that the values of our suppliers align with our own internal sustainability values.

In the process of awarding contracts, Ofgem apportions 10% weighting on social value questions. Where relevant, this question is used as a means to determine how, through the delivery of contracts, suppliers aim to reduce carbon emissions within the life cycle of their products, as well as how they prepare guidance for Ofgem as a buyer to minimise the environmental impact of the product usage.

## Nature recovery and biodiversity action planning

Ofgem does not have natural capital, so it is not within the scope of our operations to develop a biodiversity action plan. However, we still support and strive for promoting biodiversity where possible. Our London office has a vibrant "green" roof, which is covered in sedum moss and other pollinator-friendly plants that help to promote biodiversity and conserve energy. While the roof is primarily designed to sustain insects, it has also been known to attract nesting birds for repeat seasons.

Furthermore, we incorporate biophilic design principles within our office spaces by adding plants to open-plan areas, which aligns with the Government Property Agency (GPA)'s Government Workplace Design Guide best practices. Having plants in office environments has been shown to reduce stress, improve oxygen levels, and create a "green" identity, which helps to raise awareness and appreciation of biodiversity among staff.

## Adapting to climate change

Consideration for climate change adaptation is embedded throughout our governance, decision-making and assurance processes. Our Multiyear Strategy outlines our climate resilience priorities, which include the development of a regulatory network that is informed by the costs and benefits of climate action, and a consistent economic framework that accounts for high-impact, low-probability climate events. We continue to work closely with government and the National Energy System Operator (NESO), to inform, support and influence climate decisions. This year, we consulted with stakeholders and energy consumers around the approach to standing charges, which was an important step in helping us shape an efficient, fair and flexible energy system in the face of an uncertain climate future.

Despite the strides we have taken to help the energy sector adapt to climate change, we are mindful that challenges persist within our own estate. The below table outlines our current and future climate adaptation considerations.

## Current Action

In the process of considering a potential new office location, we have prioritised buildings with excellent environmental credentials – preferably those that have already achieved net zero at an operational level. This embeds environmental sustainability with our Places for Growth strategy while future-proofing our estate.

A Building Management System (BMS) improvement is currently underway at our London office location. Once complete, this will have potential to improve energy efficiency in the building, as well as regulating temperature and air quality to maintain a comfortable working environment.

We offer staff learning sessions to encourage awareness of the energy market's function and Ofgem's impact on the UK's net zero transition. This includes policy seminars, guest speaker sessions, and formalised learning and development training on topics related to renewable energy, net zero strategies, and biodiversity. Learning opportunities are supported by guidance and documentation on our intranet.

## Planned Action

Establish a sustainability-focused staff network and working group to strengthen collaboration and environmental championing within our offices.

As tenants in buildings managed by the Government Property Agency (GPA), we do not produce separate climate change adaptation plans for our estates. GPA have carried out a preliminary Climate Change Adaptation Risk Assessment, which identified that our London building is at risk of climate change impacts, including surface water flooding, overheating, and water scarcity. Future adaptation solutions to be implemented by GPA include:

- Raising or protecting key electrical equipment in the basement, which could be vulnerable to flooding
- Additional glazing and roof insulation to reduce solar gain and overheating
- Improved HVAC systems
- Improved water efficiency standards

GPA plans to publish their Action Plan for implementing Climate Change Adaptations this financial year, which will establish a clearer line of accountability for us as occupiers.

## Reducing environmental impacts from ICT and Digital

Ofgem's strategic use of cloud-powered technologies is a crucial enabler for our sustainability goals. Our digital transformation and investment in leading edge GenAI, machine learning, and cloud data platforms are critical for achieving decarbonisation goals swiftly and efficiently. This strategy allows us to actively manage our energy consumption and contribute to the wider sustainability goals of the business, including operating sustainably, driving digital enablement, and improving the lives of our people and the communities in which Ofgem operates.

Sustainable life cycle considerations are embedded within our service design and service ownership model. Within our ICT supply chain, we work with a strategically aligned set of suppliers whose credentials fulfil the expectations set out in the Government Buying Standards. We have sourced hardware for staff which minimises energy usage wherever possible, from production and supply chain through to day-to-day usage and, finally, disposal. Across our estate, Waste Electrical and Electronic Equipment (WEEE) is processed by our building service provider, and personal electronic devices, such as laptops, are recycled through a circular IT solution partner.

Additionally, we are in the process of reviewing our cloud usage and analysing where greater efficiencies can be identified – we are also developing comprehensive reporting and action projects to implement recommendations. These continuous improvement activities will further enhance the benefits and reduced energy usage we have achieved through our recent cloud adoption on a wider scale.

## Financial and Non-Financial Indicators of Sustainable Performance

As part of the tenant arrangements in the buildings we occupy, we rely on apportioned accounts of gas, electricity, water use, and waste amounts as provided by the building management company. This is calculated by tenant floor space, so any improvements are dispersed across the whole building and not attributed to specific tenants. Non-financial data available to us includes:

- Energy – London and Glasgow offices only
- Water – London office only
- Waste – London office only

We continue to work towards improving the breadth and quality of the data we can report on, and this year, we have been able to source financial figures for our gas, electricity, and water use in our London office. Using these unit rates, we have extrapolated cost estimates for our Glasgow office gas and electricity use. As we did not expand fully into our Cardiff office until autumn of this year, we have not been able to source accurate or estimated sustainability figures for this office – we will continue to work with the landlord and building management company to source this data for the upcoming year.

## Energy

| | | 2017-18 (baseline) | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
|---|---|---|---|---|---|---|
| Non-financial indicators (MWh) | Total energy consumption | 2,397 | 1,200 | 847 | 1,189 | 1,052 |
| | Gas | 797 | 30 | 28 | 143 | 117 |
| | Electricity | 1,600 | 1,170 | 819 | 1,046 | 935 |
| Financial indicators (£000) | Total energy costs | 241 | - | - | - | 262 |
| | Gas | - | - | - | - | 6* |
| | Electricity | - | - | - | - | 256* |

## Water

| | | 2017-18 (baseline) | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
|---|---|---|---|---|---|---|
| Non-financial indicators ($m^3$) | Water consumption | 7,959 | 896 | 1,207 | 1,795 | 1,718 |
| Financial indicators (£000) | Water supply costs | 33 | 2* | 3 | 5* | 8 |

## Waste

| | | 2017-18 (baseline) | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
|---|---|---|---|---|---|---|
| Non-financial indicators (tonnes) | Total waste | 49 | 14 | 19 | 6 | 8 |
| | Energy from waste | 9 | 3 | 4 | 3 | 4 |
| | Recycled | 40 | 11 | 15 | 3 | 4 |
| | Composted | 0 | - | - | - | <1 |
| | ICT | - | - | - | - | - |
| Financial indicators (£000) | Total disposal cost | 29 | - | - | - | - |

## Travel

| | | 2017-18 (baseline) | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
|---|---|---|---|---|---|---|
| Non-financial indicators (000 km) | Total distance travelled | 2,610 | 2 | 335 | 1,607 | 4,348 |

| | | 2017-18 (baseline) | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
|---|---|---|---|---|---|---|
| Non-financial indicators (000 km) | Domestic rail travel | 859 | 2 | 285 | 1,160 | 3,385 |
| | International rail travel | 57 | 0 | 2 | 6 | 31 |
| | Domestic air travel | 1,408 | 0 | 35 | 354 | 463 |
| | Continental air travel | 201 | 0 | >1 | 37 | 68 |
| | International rail travel | 52 | 0 | 12 | 50 | 400 |
| Financial indicators (£000) | Total expenditure | 747 | - | - | - | 652 |

## Greenhouse gas emissions

| | | 2017-18 (baseline) | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
|---|---|---|---|---|---|---|
| Non-financial indicators (tonnes $CO_2e$) | Scope 1: direct | 147 | 6 | 5 | 4 | 4 |
| | Scope 2: energy indirect | 563 | 273 | 174 | 223 | 211 |
| | Scope 3: other indirect | 466 | 0 | 23 | 143 | 364 |

## Paper use

| | | 2017-18 (baseline) | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
|---|---|---|---|---|---|---|
| Non-financial indicators (reams) | | 2,090 | - | - | - | 402 |

1 Estimated figures in the table are denoted by "*".
2 Where historical data was not available and a reasonable estimate could not be provided, this is denoted by "-". The latter is the case for ICT waste (currently not quantified due to the outsourcing of laptop recycling), past paper use (paper was previously provided by building management rather than being procured directly), and financial data that our landlords were unable to supply due to the nature of our multi-tenancy agreements.

## Task Force on Climate-related Financial Disclosure (TCFD) Compliance Statement

Ofgem has reported on climate-related financial disclosures consistent with HM Treasury's TCFD-aligned disclosure application guidance, which interprets and adapts the framework for the UK public sector. Ofgem does not consider climate to be a separate principal risk but considers climate to be a factor in one principal risk ("environmental and social scheme delivery") which is described in more detail in the risk section of the governance statement, and in two strategic risks around infrastructure. Ofgem has therefore complied with the TCFD recommendations and contains disclosures around:

- Governance – as one of Ofgem's key priority areas, included in the governance statement, performance report and sustainability report. The Chief Operating Officer is responsible for corporate sustainability. As climate is cross-cutting it is often discussed at Senior Executive and Board level.
- Metrics and Targets – we have continued to report in line with the Greening Government Commitments 2021-2025.

This is in line with the central government's TCFD-aligned disclosure implementation timetable for Phase 1, which requires disclosure only where available from existing reporting processes. Ofgem plans to provide recommended disclosures for Risk Management and other areas of Metrics & Targets in future reporting periods, in line with the central government guidance.

**Jonathan Brearley**
Chief Executive
13 January 2025

# Accountability Report

Annual Report and Accounts | 2023-24

# Accountability Report

The purpose of the accountability section of the annual report is to meet key accountability requirements to Parliament, who are the primary user of the annual report and accounts, explain Ofgem's corporate governance – similar to the requirements of Companies Act for medium-large groups and companies.

## Financial Review

Ofgem's budgets are approved by Parliament as part of the Supply Estimates process. Ofgem's regulatory work and supporting functions are funded by a licence fee which is paid by industry initially, and then passed to consumers through energy bills. Ofgem schemes are either funded by transfers from government (for example, for the Renewable Heat Incentive scheme) or are funded by industry (for example, the Green Gas Support Scheme is funded by the Green Gas Levy). In most areas, Ofgem has a small net budget because the income received through the licence fee and other sources offsets most costs.

Capital budget, which is incurred in areas which hold value over longer periods such as property leases, IT hardware and developing bespoke IT systems, is usually provided by the Exchequer (taxpayer funding) and then recovered from the licence (and other funding sources) over time. HM Treasury also approved a budget for the potential cost of financial provisions relating to legal challenge, which was not funded by the licence fee.

During the year, Ofgem used its budget to support the 2023-24 Forward Work Programme and spent within approved budget limits (referred to as 'control totals'). An overview of Ofgem's costs and income (on a resource budgets basis), measured against approved budgets is presented below:

| Activity | Total income (£000) | Total cost (£000) | Net spend (£000) | Net budget (£000) | Net underspend (£000) |
|---|---|---|---|---|---|
| Core regulation and supporting activities | 132,259 | (125,754) | 6,505 | 31,350 | 24,845 |
| Schemes, excluding Green Gas | 47,993 | (45,400) | 2,593 | 4,502 | 1,909 |
| Green Gas scheme | 9,627 | (12,374) | (2,747) | 2,531 | 5,278 |
| Total (resource) | 189,879 | (183,528) | 6,351 | 38,383 | 32,032 |

The Statement of Parliamentary Supply (SOPS) and its supporting notes on pages 79 to 87 present a formal summary of Ofgem's performance against approved budgets. These show that Ofgem spent £183.5 million on administration costs to perform its regulatory work and operate environmental schemes. Income of £189.9 million was collected in relation to these activities, leaving a cost of £9.1 million against exchequer approved budgets. In addition, programme costs related to disbursement of Green Gas Levy payments amounted to £6.0 million and these offset against Green Gas Levy income of £8.8 million. Bringing all of these costs and revenues together, the overall net resource expenditure (outturn) for the year was £6.4 million (2022-23: £57.9 million net income).

The resource outturn represents a £32.0 million underspend (2022-23: £64.9 million underspend) on an approved budget estimate of £38.4 million (2022-23: £6.9 million), mainly due to the value of financial legal provisions and Green Gas expenditure being lower than estimated.

- Ofgem's decisions may be subject to legal challenge, and, as part of Ofgem's budget setting process, each year there is an estimation of the potential financial impact of anticipated challenge to current and future decisions. The budget was higher than outturn this year because some of the decisions were not challenged, but some of the challenges were successfully defended, (including some recovery of costs) or the likelihood of successful defence looks sufficiently high, and some of the decisions were delayed into future financial years.
- Green Gas Support Scheme (GGSS) payments are demand-driven (dependent on registrations and biomethane injections). Any in-year surplus will be factored into the calculation of the following year's levy rate; funds will remain available for GGSS payments and reduce obligated suppliers' future payments.

The Statement of Comprehensive Net Income (SOCNE) on page 94 presents Ofgem's income and expenditure on an accruals accounting basis. These are prepared in accordance with the relevant accounting standards adopted in the Government Financial Reporting Manual. The figures presented in the SOCNE differ from the SOPS because the accounting treatment for some items such as the valuation of assets and financial instruments is different from the way these items are treated in government budgeting. SOPS note 2 reconciles the budgetary outturn shown in the SOPS to the net operating income of £2.2 million shown in the SOCNE.

Ofgem's main source of income is licence fees collected from consumers through energy bills. Any surplus (over recovery of fees, where spend is less than budget) is repaid to the consumers. There is a £4.3 million surplus from the 2023-24 licence fee charged to the sector (2022-23 – £4.0 million surplus) and this will be returned. The majority of Ofgem's costs are staff costs. Overall Ofgem operating expenditure was £47.1 million (33%) higher in 2023-24 (£189.3 million) compared to 2022-23 (£142.2 million), primarily due to increased staff numbers to support Ofgem's new duties and increased regulatory measures introduced following the energy crisis, and to deliver new renewable energy schemes.

Capital spend mainly consisted of IT equipment, leases and the development of bespoke software, to support Ofgem administered schemes, and net spend was £1.2 million compared to a budget of £2.8 million.

Over the last three years, the cost of Ofgem's work on regulation of energy markets has increased as a result of our work to strengthen protection of energy consumers through the energy crisis. In addition, supporting the development of energy infrastructure including new connections to the grid and increased grid capacity as we work towards net zero means there is an upwards trend in the cost of regulating energy networks. The performance report section covers Ofgem's new responsibilities in more detail.

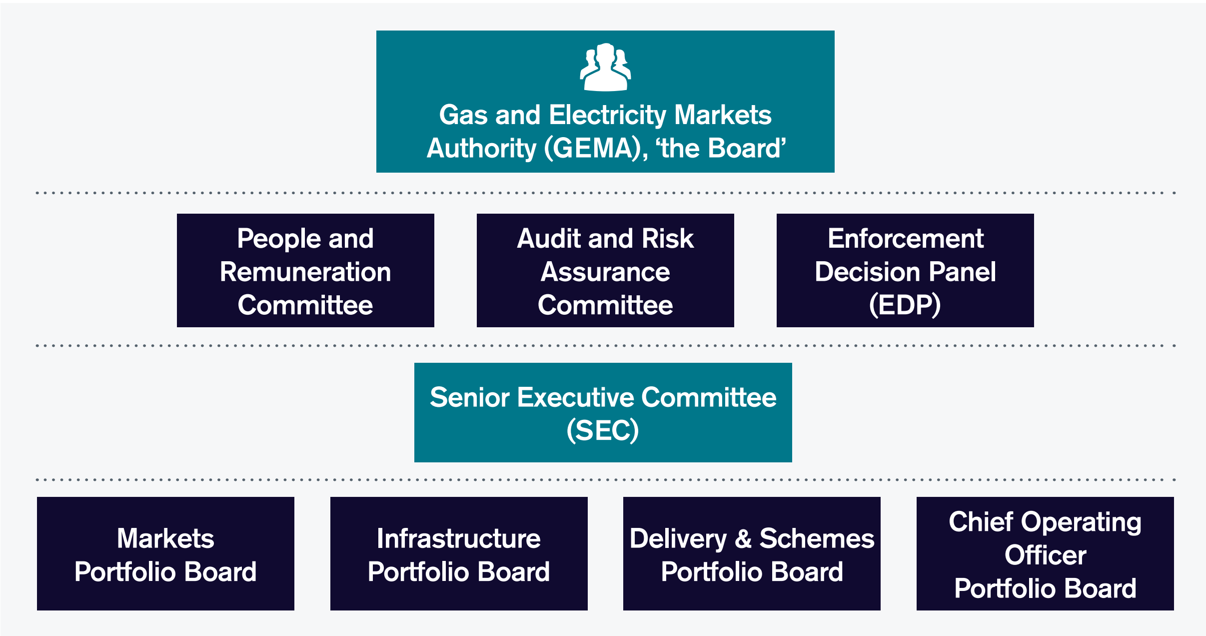
# Corporate Governance Report

## Directors' Report

In November 2023, GEMA welcomed its new Chair and five new non-executive members to its Board. Mark McAllister and Warren Buckley declared potential conflicts of interest regarding their transitionary roles as the Chair of the Office of Nuclear Regulation and Chair of Citizens Advice respectively. These conflicts of interest were reported and managed in the period of November to December 2023.

Other registers of interest for Ofgem's Board and Executive team are published on our website.

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




## The Ofgem Board

### Role of the Board

The Gas and Electricity Markets Authority (GEMA) is Ofgem's Board. It is currently made up of eight non-executive members, including a non-executive Chair, and one executive member in the Chief Executive. The Senior Executive Team also attend all Board meetings, and other Ofgem staff attend for specific items, as required. Details of the members of the Ofgem Board are provided on the Ofgem website Our structure and leadership | Ofgem.

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.

### GEMA appointments

The Secretary of State for the Department of Energy Security and Net Zero 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.

During 2023-24, there have been changes to membership of GEMA. In November 2023, Martin Cave's tenure as Chair of Ofgem ended; Lynne Embelton's tenure, as a non-executive member of GEMA ended; and John Crackett's tenure as a non-executive member of GEMA came to an end in May 2024.

Mark McAllister was appointed as the Chair of Ofgem in November 2023. In addition, GEMA welcomed five new non-executive members to its Board in November 2023.

## 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' and have been delegated to members of staff.

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, chaired by Myriam Madden, the People and Remuneration Committee, chaired by Warren Buckley, and the Enforcement Decision Panel, chaired by David Ashbourne.

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

## Board meetings

The Board meets approximately ten times a year for formal meetings. In addition, ad hoc meetings and decisions by correspondence are used when urgent matters arise between meetings.

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, a non-exhaustive list of the matters the Board has considered include the following:

- Ofgem's continued response to supporting consumers following the gas crisis, for example, through introducing consumer standards policies, retail price protections, affordability and debt in the retail market, and levelising payments in the Price Cap.
- Approving Ofgem's multiyear strategy
- Reviewing Ofgem's strategic risks and risk appetite statement
- Approving Ofgem's Forward Work Programme
- Providing steers or taking a number of significant regulatory decisions in line with our Consumer Interest Framework, including for example: in relation to financial resilience requirements on retail companies, the future systems and networks regulation (RIIO-3), reforming the electricity connections process, energy code reform, and decisions regarding changes to the Price Cap.

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 for example, representatives from Oxera, the Department for Energy Security and Net Zero, Citizens Advice, Money Advice trust, and The UK's Electricity Networks Commissioner Nick Winser.

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 |
|---|---|---|---|
| Alena Kozakova | 5/5 | | 1/1 |
| Barry Panayi | 10/11 | 1/1 | 4/4 |
| Graham Mather | 5/5 | 1/1 | |
| John Crackett | 11/11 | 4/4 | |
| Jonathan Brearley | 11/11 | 3.5/4 | 4/4 |
| Jonathan Kini | 5/5 | | 1/2 |
| Lynne Embleton | 7/7 | | 3/3 |
| Mark McAllister | 5/5 | 1/1 | 2/2 |
| Martin Cave | 5/6 | 2/2 | 2/2 |
| Myriam Madden | 11/11 | 4/4 | |
| Tony Curzon-Price | 5/5 | 1/1 | |
| Warren Buckley | 5/5 | | 1/1 |

**Notes:**

The committee memberships were reviewed and changed following GEMA welcoming its new Board members.

In addition to the regularly scheduled meetings listed above, the Board met on a number of occasions at short notice to address urgent and strategic issues.

## Board and Governance Evaluation

Last year an internal review was conducted into the effectiveness of Ofgem's wider governance structure, including the governance processes and structures to support the Board's ability to discharge its functions effectively. This review was conducted in reference to the reports published by Oxera, the House of Commons Business, Energy and Industrial Strategy Committee; House of Commons Committee of Public Accounts and National Audit Office value for money study; and Mazar's Internal Audit report, which identified weaknesses in Ofgem's governance structures and impacted Ofgem's ability to fulfil its duties as Great Britain's independent energy regulator.

Following the governance review, a series of recommendations and actions were developed to reform Ofgem's governance framework and systems. Over 2023-24, the recommendations and actions which have been implemented included, structural changes to our Executive governance through the introduction of new Portfolio Boards responsible for the strategic and technical decisions relevant to their portfolio directorate; a new Senior Executive Committee which oversees the strategic direction and cross cutting issues; new management controls and decision delegation guidance; and refreshed terms of reference to the People and Remuneration committee, and the Audit and Risk Assurance Committee. There is further work to be done to mature and embed the Governance changes over 2024-25, particularly in ensuring the Board and executive remain focused on the strategic issues, and to continue to strengthen its Governance systems at a sub executive level.

Ofgem will be conducting an independent Board effectiveness review in 2024-25. An independent review of Ofgem's Board effectiveness was due to take place in 2023-24, but given the arrival of new Board members in 2023 it was felt that it would be more effective to hold the review in 2024-25.

## Identifying and managing conflicts of interests

Ofgem has a conflict of interest policy, which is published on the Ofgem website. Further guidance to staff is also available on the Ofgem staff intranet. The policy is reviewed annually. Under the policy, all staff are required to notify us of any potential conflicts when they join the organisation and annual declarations thereafter, or where there has been a change in circumstances which could lead to potential conflicts.

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

Any potential conflicts are assessed by the Business Assurance 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.

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.

## The Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (ARAC) currently comprises five non-executive members of the Board. From April to November 2023, the committee was made up of Myriam Madden (Chair), Martin Cave and John Crackett. Following the appointment of GEMA's new Chair and members in November 2023, the ARAC was made up of Myriam Madden (Chair), John Crackett, Tony Curzon Price, Graham Mather and Mark McAllister, with John Crackett leaving in May 2024.

The ARAC has four substantive meetings a year, as well as a dedicated meeting to review the annual report and accounts in draft. The Chief Executive, Chief Operating Officer, General Counsel, Director of Finance, Performance and Planning, Deputy Director of Finance, Procurement and Risk, and Head of Business Assurance and Risk 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 and External Auditors have regular discussions and direct access to the Chair of the ARAC.

## Purpose and responsibilities

The ARAC has terms of reference, which are reviewed each year and published on the Ofgem website. 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 makes recommendations in relation to the annual programme of audit reviews covering key financial and control processes, taking into account the current risks facing Ofgem. This includes advising on the accounting policies, the accounts, including the process for reviewing the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors.

### Activities during the year

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

- Monitoring the progress of Internal Audit plan for 2022-23, and the continued challenge to Ofgem to enhance and embed outcomes from the programme of internal audit.
- Reviewing Internal Audit reports, and other assurance reports commissioned by management, and management responses on topics, including for example: enterprise programme management, financial resilience of suppliers, counter fraud, interconnectors, and safeguarding vulnerable consumers.
- Reviewing the Internal Audit plan for 2024-25.
- Continuing to challenge Ofgem to enhance, embed and review progress against its improvements to risk management framework.
- Undertaking several thematic deep dives into Security of Supply, renewable obligations scheme, counter-fraud strategy, and Ofgem's IT infrastructure.
- Reviewing updates to Ofgem's various governance policies, including Anti-Fraud and Bribery and corruption policy, and the Declaration of Interest policy.
- Scrutinising information security and reviewing the Health and Safety Officers annual report.
- Review of the Ofgem Annual Report & Accounts 2022-23 document and oversight of the planning for the 2023-24 document.
- Consideration of the NAO audit plan and audit completion report.

### Reporting

The minutes and a summary of proceedings of the Committee are shared with the Board at subsequent meetings, and the Chair of the Committee is provided with an opportunity to update the Board on any matters they wish to raise.

### The People and Remuneration Committee

The People and Remuneration Committee (PRC) comprises five non-executive members of the Board, namely Warren Buckley (Chair), Barry Panayi, Jonathan Kini, Alena Kosakova, and Mark McAllister. Prior to their departure in November 2023, Lynne Embleton chaired the committee, and Martin Cave was a member as the previous Chair of Ofgem and it has four substantive meetings a year.

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

### Purpose and responsibilities

The PRC terms of reference were reviewed and refreshed in 2023-24. The terms of reference are published on the Ofgem website.

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.

The PRC amended terms of reference include a requirement on PRC to approve the new Ofgem Workforce Strategy. The Workforce Strategy will provide for the strategic themes relating to people and organisational health for Ofgem for 2024-25. Further work is underway for PRC to develop, approve and embed the Workforce Strategy next year.

### Activities during the year

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

- Approving the Ofgem executive team's remuneration and annual objectives
- Approving the Board members' expenses policy
- Approving applications made under the Business Appointment Rules, by SCS2 or SCS3 staff, or any other application from a Senior Civil Servant
- Reviewing the performance and remuneration of the Ofgem executive team
- Examining Ofgem's approach to talent retention and succession planning
- Reviewing the approach to Executive recruitment
- Reviewing Ofgem's Board size structure and composition
- Undertaking a number of thematic deep dives on people issues, including the draft workforce strategy, diversity and inclusion, pay reform and hybrid working
- This year PRC welcomed some of Ofgem's staff networks to its meetings, which have included the Public and Commercial Services Union representatives and Ofgem's Woman's Network.

### Reporting

The minutes and a summary of proceedings of the Committee are shared with the Board at its subsequent meeting, and the Chair of the Committee is provided with an opportunity to update the Board on any matters they wish to raise.

### Enforcement Decision Panel

The Enforcement Decision Panel (EDP) is a committee of the Board. In February 2024, the Board welcomed the chair to the EDP, David Ashbourne. The Panel's members and its secretariat are employees of Ofgem who are independent from the case team. The EDP meet on a case-by-case basis, in order to make decisions on case specific matters. They also meet quarterly to discuss a range of policy and enforcement issues and to discuss lessons learned from closed cases.

### Purpose and responsibility

The EDP 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 terms of reference of the EDP are published on the Ofgem website.

The key responsibilities of the EDP are to take decisions on behalf of GEMA as to whether there has been a breach of obligation, competition laws, or REMIT regulations, and whether a penalty or redress package should be imposed and if so what level of penalty or redress.

### Activities during the year

This year, the previous two quarterly meetings have been attended by the new Ofgem chair, Mark McAllister, who introduced himself and gave his GEMA updates to the panel. Other matters that were covered at the Quarterly meetings were:

- Updates from GEMA chair on GEMA's priorities and the key discussions taking place at GEMA meetings.
- Discussions on policy matters, including options to apply to enforcement penalties and Market Compliance Review for Pre-Payment Meters.
- Reflections on the panel skills matrix and succession planning.
- Reflections and lessons learned on cases over each of the last quarters and recently completed cases, including on Outfox and Hudson energy.

### Reporting

The EDP chair must provide an annual report to the Board, providing a commentary on cases considered in the previous year. The most recent report covered 2021-23. This report is for internal use only.

## The Executive Committee Role and responsibilities

Following the 2023-24 Ofgem Governance transformation, a new Senior Executive Committee (SEC) and four Portfolio Boards (Markets, Infrastructure, Delivery and Schemes, and Chief Operating Officer Portfolio board) were introduced.

The SEC and Portfolio Boards (and previously the Executive Committee – ExCo) support the Chief Executive in the running of the organisation. These committees and boards are not formal Committees of the Board.

The SEC is chaired by the Chief Executive and meets monthly. It also has an informal weekly catch-up and ad hoc meetings as required. The members of the SEC are listed on the Ofgem website; other Ofgem staff are invited to attend the SEC meetings as required.

SEC provides a management forum for constructive and collective ownership of Ofgem's overall performance and delivery. It primarily provides guidance, oversight and strategic direction and advises the Chief Executive on specific matters set out in its terms of reference and the Management Controls. The Portfolio Boards are chaired by the relevant Director General or Director to that portfolio, meeting at least monthly and providing regular updates to SEC on decisions taken. Membership is at SCS 1 and 2 level depending on the structure of the group.

The Portfolio Boards are management forums for constructive and collective ownership of the areas for which the chair is responsible, including oversight of performance and delivery, group strategy development, risk management and assurance. Key issues which fall within the Portfolio Boards remit are discussed allowing for cross group understanding of the impact on the groups work.

## Activities during the year

SEC, and previously ExCo, provides a single forum to discuss both regulatory issues and organisational matters.

During the year, SEC's, and previously ExCo's, main areas of activity were advising the Chief Executive in respect of:

- Consideration of management responses to, and monitor progress in implementing recommendations from, Internal Audit and other assurance reports.
- Reviewing and implementing a new principled risk structure and horizon scanning process 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, the organisation's diversity and inclusion strategy and policies, and hybrid working policies.
- Reviewing significant or crosscutting policy or regulatory proposals, or significant matters relating to Ofgem's delivery of environmental and social schemes.
- Reviewing relevant 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 SEC and the Directorate Portfolio Boards as appropriate. Quarterly, the CEO reports on Ofgem's Strategic key performance indicators on organisational health and delivery.

## Ofgem's presence in Scotland

Ofgem continued to play an integral role across the Scottish energy landscape over the past year with Scottish colleagues providing a diverse range of skills and services, both internally and externally, alongside industry leading policy development. Our commitment to investing in Scotland is demonstrated by the growth of our Glasgow office which is reaching close to 800 staff boasting nearly half of all Ofgem's employees across Great Britain. Given the importance of our Glasgow office, GEMA held a strategy meeting in Glasgow in June 2023 and one of our new chair, Mark McAllister's first actions was to visit Glasgow and meet the different teams who are based in Commonwealth House.

This year we have met with many consumer organisations across Scotland, including Consumer Scotland, Citizens Advice Scotland, and Advice Direct Scotland. Our CEO, Jonathan Brearley, also visited a Glasgow based warm hub, sponsored by SGN, that works in one of Scotland's most deprived communities. Visits like these allow us to hear directly about frontline experiences, enabling improved support for consumers in Scotland who may be struggling to pay for their energy.

Ofgem had developed strong working relations with the Scottish Government and their officials, working collegially across a range of issues from discussions around navigating the path to net zero, to best supporting consumers who face the significant challenge of fuel poverty.

## Ofgem's presence in Wales

Our presence in Wales continues to strengthen. We have continued to expand our Cardiff office in Ty William Morgan civil service hub offices, and as a result have significantly increased the number of colleagues we employ from across Wales and the Bristol and Gloucester area.

Mark McAllister visited Cardiff in his first months in the role, meeting with Minister for Social Justice Jane Hutt and engaging with a diverse range of stakeholders across Wales. Jonathan Brearley has also visited our Cardiff office, taking the opportunity to listen to the voices of consumers and those experiencing poverty by visiting Splott Community Centre and Citizens Advice in Barry. He also met with the Minister for Climate Change Julie James. Our directors and deputy directors continue to engage with a variety of stakeholders, and have spoken at several events in Wales, including the Renewable UK Cymru conference in Newport that took place in November 2023.

## Statement of Accounting Officer's responsibilities

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

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

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

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

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

# Governance Statement

The Governance Statement sets out Ofgem's internal control arrangements, which align to HM Treasury and Cabinet Office guidance. The composition and organisation of the governance structures, and how they support the achievement of the department's priority outcomes, are set out in the section above headed "Corporate Governance Report" while financial, audit, risk and assurance matters are covered below.

As explained above, Ofgem implemented significant changes to its governance framework during the year. These changes were designed to enhance the achievement of several key objectives: stronger consumer protection, effective issue management, collaborative, informed and transparent decision-making, improved internal control and risk management and enhanced accountability, by creating a modern, agile, and valued regulator.

## Business Assurance, Risk Management and Internal Control in 2023-24

The Business Assurance Framework we implemented last year has continued to develop and embed across the organisation. This is built upon the three lines of defence approach recommended by HM Treasury for all HM Government departments. Ofgem Directors and Directors General are responsible for ensuring effective internal control across first line activities and this is supported, monitored and challenged through corporate oversight within directorates and Ofgem's central support functions. The approach is outlined below.

**BOARD/AUDIT COMMITTEE**

**SENIOR MANAGEMENT**

**1st LINE**

**Management Control**

**Internal Control Measures**

- Identify, assess, own and manage risks
- Design, implement and maintain effective internal control measures
- Supervise execution and monitor adherence
- Implement corrective actions to address deficiencies.

**2nd LINE**

**Functions that oversee or specialise in risk management**

- Set the boundaries for delivery through the definition of standards, policies, procedures and guidance
- Assist management in developing controls in line with good practice.
- Monitor compliance and effectiveness
- Agree any derogation from defined requirements
- Identify and alert senior management, and where appropriate governing bodies, to emerging issues and changing risk scenarios.

**3rd LINE**

**Internal audit**

- Provide an objective evaluation of the adequacy and effectiveness of the framework of governance, risk management and control
- Provide proactive evaluation of controls proposed by management
- Advise on potential control strategies and the design of controls.

The Framework prompts management to think about risks in a simple and pragmatic way, to ensure that they are effectively identified and managed. It also sets out clear roles, responsibilities and support mechanisms for risk management. This has led to better discussions about risk across the organisation, and more effective management and mitigation.

The introduction of the new Chief Operating Officer, Chief Data and Information Officer, and Chief People Officer has enhanced experience and leadership, and enabled improvement in the customer service, support, monitoring and challenge provided by Corporate Functions. We plan to build on this in the coming year with a range of activities, to further strengthen the effectiveness of support and internal control across the organisation.

The CEO and ARAC have set out a clear expectation for further improvement to Ofgem governance, and for this to be demonstrated through the evidence gathered by the internal Business Assurance function and also the independent opinions provided by Internal Audit. Delivering the Assurance and Risk management strategy for 2024/25 is fundamental to achieving this and significant work is underway to support this, including:

- **Data Management Strategy:** We are actively working on implementing a fresh data management strategy. The introduction of Data Stewards has facilitated more direct support for data owners. Recognising that this process requires time to mature and embed across the organisation, we have identified this as a key focus for 2024/25.
- **Employee Well-Being and Attrition:** The staff survey highlighted critical people risks within the organisation. The energy crisis has created a challenging work environment for employees throughout the year. Coupled with salary inflation in the sectors in which we operate, there is an increased risk of attrition. Addressing these issues is a priority in the upcoming Ofgem Workforce Plan, scheduled for launch in 2024.
- **Customer-Centric Approach to Second Line of Defence:** We are shifting toward a more customer-centric approach for the second line of defence. Updated ways of working are being established to provide internal customers with a more service-focused second line. The primary purpose of this second line is to support, monitor and positively challenge Ofgem in continuously improving their work.
- **Structured Risk Horizon Scanning:** We are establishing a structured approach to risk horizon scanning. The improved framework aims to enhance Ofgem's agility and informed decision-making regarding future risks and issues. This work will continue to evolve throughout 2024/25.
- **Conflict of Interest Oversight:** This year we implemented an annual declaration of interest requirement for all employees. This process ensures impartiality and integrity by effectively identifying potential conflicts of interest. Going forward, an annual report on declarations of interest will be submitted to the Senior Executive Committee and the Audit and Risk Assurance Committee.
- **Further development of the Assurance Framework:** We monitored the operation of the new assurance framework throughout the year and made some substantial improvements. These will continue to develop in the coming year, with more established first-line assurance and risk teams embedding further within each Director General portfolio.

The assurance framework serves as a diagnostic tool, identifying significant areas of both strength and challenge within Ofgem. Fostering a culture of accountability requires deliberate effort and commitment. We are seeking to create a further cultural shift in 2024/25, and work is underway to deliver that tone from the top, to create an engaged and accountable corporate culture that resonates at every level.

Our second line of defence identified that a new entity had been created during 2023-24 without securing the necessary internal approvals and prior consultation with HM Treasury. Immediate action was taken to identify and mitigate any potential risks and engage HM Treasury retrospectively so that their approval was obtained. Policies and processes have been reviewed and plans are in place to strengthen the first line controls and governance requirements for setting up new entities to ensure that this does not happen in future, including re-training staff and enhancements to the supplier set up process. Second line controls will be further strengthened to extend audit testing over transactions. Senior Civil Servants have a performance objective around compliance, so this is measured and tracked.

Our governance arrangements include the definition of clear responsibilities for specific Senior Civil Servants to ensure compliance with the mandatory control requirements set out in Cabinet Office Functional Standards. Adherence to these requirements is overseen by the central Ofgem assurance function. Work is underway to enhance this oversight in the coming year to include closer monitoring of both mandatory and non-mandatory controls.

## Risk overview

Ofgem's Risk Framework provides a pragmatic and straightforward approach to capturing risk across the organisation. The framework is focused on ensuring Ofgem comprehensively identifies and addresses risks that could impede our strategic goals and operational efficiency.

Throughout the year, we have routinely updated the Risk Register to reflect our evolving duties and further developed our Risk Management Framework, to ensure it fully supports the organisation in capturing and mitigating risk.

**Key Aims of Ofgem's Risk Management Framework:**

1. **Protect Resources:** Safeguard public funds and departmental assets under Ofgem's stewardship, ensuring their prudent and effective use.
2. **Inform Decision-Making:** Utilise the Risk Register to guide the execution of Ofgem's policies, objectives, and strategic directives.
3. **Clarify Risk Principles:** Clearly articulate Ofgem's approach to risk management, fostering an environment of transparency and understanding.
4. **Cultivate Risk Awareness:** Encourage a culture that recognises the value of appropriate and managed risk-taking as a catalyst for innovation and progress.
5. **Integrate Risk Management:** Seamlessly incorporate risk management practices into Ofgem's business processes, laying the foundation for robust corporate governance.

By enhancing the Risk Management Framework, Ofgem can better anticipate challenges, protect its interests, and continue to serve the public effectively. Following HM Treasury guidance, we can confirm that we comply with the 5 Principles of Risk management, as per the Orange Book.

This year we introduced a number of additional measures to further embed robust risk management across Ofgem, and have detailed the most significant improvements below:

- **Risk Spotlight Programme**: We established a spotlight programme that focuses on specific risk and issue areas requiring heightened attention from the first line of defence. This programme periodically highlights critical risks, emerging threats, or areas needing immediate action.
- **Compulsory risk overview on Board Papers**: Mandated that all Board papers include a dedicated risk section. This section clearly identified which of Ofgem's risks the paper impacts. Additionally, we provide board members with information on whether the outcome of the discussed risk is likely to change because of the proposed actions. This transparency ensures that the Board understands the risk context and potential implications.
- **Active Participation in Risk Profession**: By participating more actively in HM Government Risk Profession, we benefited from collaborative discussions and learning, the sharing of best practice from the community, and increased information on the latest risk management insights.
- **Revised Risk Hierarchy**: We reviewed and updated the risk hierarchy to ensure more effective prioritisation of key risks. A revised risk hierarchy to allow for more effective prioritisation on where risks should be overseen, managed, and escalated. We continued to apply our risk appetite to individual risks and report to the executive any risks outside of appetite, to ensure appropriate resources are applied to bring these within appetite.

Detailed below is an overview of Ofgem's most significant risks and the key actions that have been undertaken to control and mitigate these:

## Principal Risks

### *Consumer Protection*

Failure to sufficiently protect consumer's interests in delivering fair pricing and fair treatment, leading to decreased consumer satisfaction, unfair pricing, and consumer detriment.

**Controls/Mitigant**

- We have proactively identified and implemented policy updates related to consumer standards. These updates address critical aspects, such as product quality, safety, and fair pricing.
- Recognising the importance of data sharing, we've initiated better collaboration across government departments. This enhances our understanding of vulnerable consumers and contributed to improving the Priority Services Register.
- We've taken proactive steps to engage with network companies, encouraging them to go beyond existing incentives. Our goal is to provide better support to vulnerable customers during challenging times.
- We conducted regular Market Compliance Reviews to ensure suppliers are complying with consumer protection rules, and we focused additional effort on protecting consumers in debt.
- Throughout this year, we've actively engaged with Energy UK, consumer groups, charities and the public. Our aim is to fully understand the issues affecting vulnerable customers and advocate for their concerns within the government. We're also exploring additional industry measures to support consumers effectively.

### *Resilience of the energy sector*

Failure to ensure that the sector and Ofgem are sufficiently prepared for and respond effectively to shocks including extreme weather, market/financial shocks, and cyber attacks.

**Controls/Mitigant**

- We meticulously analysed data and provided comprehensive market intelligence to HM Government. Our insights were instrumental in shaping a new version of the Energy Markets Financing Scheme for the upcoming winter season.
- We actively supported the DESNZ Security of Supply Taskforce. Our collaborative efforts explored innovative options to boost domestic gas production in Great Britain and strategically revise the UK's gas procurement approach.
- Our commitment to excellence extended to the realm of cybersecurity. We successfully delivered on the Revenue, Incentives, Innovation & Outputs (RIIO) investment, fortifying the industry against cyber threats.
- Our ongoing programme involved rigorous inspections of Network Information Systems across all Essential Service Operators. By doing so, we ensured the reliability and resilience of critical services.

*Wholesale Pricing volatility*

Failure to control or restrict the impact of sudden and significant changes in energy costs at the wholesale level, leads to higher energy bills for consumers, and financial instability for energy suppliers. The risk can vary depending on market conditions and regulatory environments.

**Controls/Mitigant**

- Regular Directorate horizon scanning, crisis management strategy & process.
- Procedures for supply emergencies in place, updated and tested.
- Collaboration with DESNZ and System Operators
- Improvements to demand side response (DSR) tool.
- Supplier stress testing and regular monitoring of capital and liquidity.
- SOLR/SAR plans in place.
- Consumer standards customer service rules are in place as of December 2023.
- Debt pathways project – seeking to minimise and provide clearer rules on use of county court judgements and high court enforcement in supplier debt collection.
- Compliance work on ASC/self-disconnections to tackle poor supplier practice. Additional temporary allowance in Price Cap.
- Levelised Pre-Paid Meters and Direct Debt charges through the price cap and additional temporary allowance in Price Cap to support customers in debt and arrears.
- Increased oversight of market and data, to better understand impacts and inform HM Government to influence their response.

*Robust Regulatory Decisions*

Failure to take appropriate, evidence-based, and legally defensible regulatory action, leads to the Energy Market not achieving the appropriate standards and levels of compliance.

**Controls/Mitigant**

- We continued to make robust decisions based on our responsibilities for non-domestic energy consumers obligations.
- We sought internal and external legal advice to ensure we use our new powers under The Energy Act appropriately.
- Before making any regulatory decisions, we conduct thorough risk analyses. We weigh potential benefits against risks, considering factors like costs (including legal and third-party costs) and organisational capacity. By doing so, we strive to strike a balance that serves both our mission and the public interest.

*Environmental and social scheme delivery*

Failure to deliver social and environmental schemes efficiently, effectively and compliantly leads to lack of uptake of the schemes, fraud, loss of reputation and government trust.

**Controls/Mitigant**

- We regularly assessed and reported our performance against agreed KPIs, including Net Zero KPIs, to ensure schemes are operating as planned.
- We delivered a highly effective internal assurance programme to confirm we are complying with agreed processes and practices.
- We developed and delivered a strategic plan specifically related to Delivery and Schemes, which was thoroughly aligned to Ofgem's Strategy.
- Over the year, we operated agreed escalation protocols with DESNZ, enhancing the working relationship and achieving effective performance outcomes.
- This year we have enhanced our financial and risk management activities. Introducing more regular horizon scanning work allowed us to be more proactive in managing and mitigating emerging risk.

*Infrastructure Investment*

Failure to enable time critical investment in industry infrastructure to meet future system needs, prioritise and accelerate necessary infrastructure investment, leading to delays in the development of future market capacity, increased economic dependency on foreign capacity and poor return on investment, further reducing future investment.

**Controls/Mitigant**

- Working closely with HM Government, we have established effective processes to monitor and implement the recommendations outlined in the Winser report. These measures aim to improve industry practices and enhance consumer experiences.
- Our commitment to supply chain reform has led us to engage proactively with both HM Government and industry partners. By encouraging improvements, we contribute to a more resilient and efficient supply chain.
- We have prioritised the development of our future market strategy and collaborated with industry experts to ensure that our approach is well-informed and collaborative. As the landscape evolves, we remain adaptable and forward-thinking
- Regular horizon scanning sessions have been instrumental in keeping us informed about industry developments. We use this information to assess emerging risks and prioritise our work effectively.

*People and Culture*

Failure to recruit and retain talent with the appropriate skills, background diversity and attitude, leading to Ofgem being unable to deliver our ongoing forward work plan.

**Controls/Mitigant**

- We changed our approach to staff recruitment recruiting by profession, to allow us to effectively fill the high number of vacancies created to support the delivery of our forward work plan and additional duties.
- We expanded our Learning & Organisational Development offering for staff, increasing accessibility and variety to provide better personal development support.
- Our people networks continued to support an inclusive and engaging culture at Ofgem, and support the work completed to allow people to be their whole self at work.
- This year we recruited a new Chief People Officer, providing Ofgem with dedicated senior expertise to drive forward the Ofgem Workforce plan.

*Changes in Technologies*

Failure to keep pace with digital transformation in the energy industry.

**Controls/Mitigant**

- We created a Taskforce to develop and implement additional guidance for industry around the use of Artificial Intelligence, and to support and inform future policy decisions and regulatory guidance.
- We completed a review of use of technology in the energy market.
- We consulted with technology experts to develop valuable and pragmatic regulations for the development of new technologies in the market.

### 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.

On the basis of their audit work, Mazars' opinion on the framework of governance, risk management and control is Moderate in its overall adequacy and effectiveness. Overall, 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 Mazars' audit work, where they raised three Priority 1 recommendations. These matters have been discussed with management, to whom we have made recommendations. All recommendations have been, or are in the process of being addressed, as detailed in the individual reports.

Mazars noted that there were three Limited assurance opinions in 2023-24; however, most of the opinions in the year were Moderate and one audit received Substantial assurance. Mazars most recent follow-up activity was able to verify the status of all recommendations marked by Ofgem as 'implemented' or proposed to close as 'superseded'.

Mazars noted four recurring themes across the audits completed in 2023-24. These relate to training, policies and procedures, strategy implementation, and resourcing.

## Quality Assurance of analytical models

Ofgem continued to subject the department's analytical work to quality assurance. This involves supporting policy teams to develop and review their analytical work, including business critical models, other models, evaluation, cost-benefit analysis, and impact assessments. Ofgem's quality assurance procedures follow the guidance issued by HM Treasury in their 2013 review. This continues to ensure Ofgem's analytical work is accurate, robust, and produced to the highest standards.

## Internal whistleblowing cases in Ofgem

Ofgem's internal whistleblowing policy is a process for staff to raise any whistleblowing concerns and supports our culture of employees feeling confident to speak up about issues of concern in a safe and supportive environment. Our policy aligns with the recommendations and good practice published by the Civil Service and Protect. No issues were raised under this policy during the year.

### Complaints to the Parliamentary Ombudsman

There were 29 primary investigation cases accepted by the Parliamentary and Health Service Ombudsman during 2023-24, with no cases remaining open from the previous year. No cases were upheld in part or in full. 19 cases were not upheld. Ten primary investigation cases are still ongoing in 2024.

### Independent reviews

There were no independent reviews in the period 2023-24.

Over 2021-22, 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. In addition, the National Audit Office and the BEIS Select Committee and Public Accounts Committee published reports in 2022 into the energy supplier market following the supplier failures that occurred in the autumn and winter of 2021-22.

The recommendations for Ofgem in the various reviews focused on the same broad themes, these were; the introduction of a consumer interest framework to guide decisions, improvements and changes to Ofgem's senior governance and improvements to Ofgem's capability and resources (particularly to monitor financial resilience.) These recommendations have been implemented over 2022-23 and into 2023-24. In particular we have:

- Developed and implemented a consumer interest framework.
- Developed and published a four-pillar retail strategy to align with the consumer framework.
- Conducted a full review of our governance and implemented the changes (see the Directors' Report for more information).
- Created a new Directorate, focused on financial resilience and developed a policy package for capital adequacy in the retail sector.
- Developed and published a Compliance and Enforcement strategy, and
- Expanded and increased the capabilities of our retail, compliance and enforcement teams.

## Conclusion

The internal control system has been in place for the year under review and up to the date of approval of the annual report and accounts.

I have considered the evidence that supports this Governance statement, including from the department's governance structures and the independent advice provided by the ARAC and Internal Audit. I conclude that Ofgem has satisfactory governance and risk management systems in place with effective plans to ensure continuous improvement to address weaknesses identified.

I am committed to ensuring that our governance and risk management is further strengthened in 2024-25.

**Jonathan Brearley**
Chief Executive
13 January 2025

# Remuneration and Staff Report

## Remuneration 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 Financial Resilience and Controls, 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)

| | Salary (£000) 2023-24 | Salary (£000) 2022-23 | Bonus payments (£000) 2023-24 | Bonus payments (£000) 2022-23 | Benefits in kind (to nearest £100) 2023-24 | Benefits in kind (to nearest £100) 2022-23 | Pension benefits (to nearest £1,000) 2023-24** | Pension benefits (to nearest £1,000) 2022-23** | Total (£000) 2023-24 | Total (£000) 2022-23 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Members of the Executive & Senior Executive Committee (Note 1)** | | | | | | | | | | |
| Jonathan Brearley Chief Executive | 200-205 | 190-195 | 5-10 | 10-15* | - | - | 116,000 | 46,000 | 320-325 | 250-255 |
| Akshay Kaul | 140-145 | 120-125 | 5-10 | 0-5* | - | - | 55,000 | 47,000 | 200-205 | 175-180 |
| Melinda Johnson | 115-120 | - | - | - | - | - | 60,000 | - | 175-180 | - |
| Neil Kenward | 120-125 | 110-115 | 10-15 | 10-15* | - | - | 72,000 | 20,000 | 200-205 | 140-145 |
| Neil Lawrence | 150-155 | 140-145 | 5-10 | 0-5* | - | - | 58,000 | 56,000 | 215-220 | 200-205 |
| Priya Brahmbhatt-Patel | 120-125 | 110-115 | 5-10 | - | - | - | 70,000 | 30,000 | 195-200 | 155-160 |
| Sinead Murray | 130-135 | 120-125 | 10-15 | 10-15* | - | - | 56,000 | 50,000 | 195-200 | 185-190 |
| Tim Jarvis | 80-85 | - | - | - | - | - | 70,000 | - | 150-155 | - |
| **Members of the Executive Committee (Note 2)** | | | | | | | | | | |
| Anna Rossington | - | 5-10 | - | - | - | - | - | 3,000 | - | 10-15 |
| Cathryn Scott | 50-55 | 120-125 | - | - | - | - | 76,000 | 6,000 | 130-135 | 130-135 |
| Charlotte Ramsay | - | 30-35 | - | - | - | - | - | - | - | 30-35 |

| | Salary (£000) 2023-24 | Salary (£000) 2022-23 | Bonus payments (£000) 2023-24 | Bonus payments (£000) 2022-23 | Benefits in kind (to nearest £100) 2023-24 | Benefits in kind (to nearest £100) 2022-23 | Pension benefits (to nearest £1,000) 2023-24** | Pension benefits (to nearest £1,000) 2022-23** | Total (£000) 2023-24 | Total (£000) 2022-23 |
|---|---|---|---|---|---|---|---|---|---|---|
| Eleanor Warburton | 30-35 | 85-90 | - | 5-10 | - | - | 27,000 | -5,000 | 60-65 | 90-95 |
| Peter Bingham | 45-50 | 110-115 | - | - | - | - | 18,000 | 42,000 | 65-70 | 155-160 |
| Philippa Pickford | 25-30 | 95-100 | - | 0-5* | - | - | 79,000 | 1,000 | 105-110 | 105-110 |
| Rebecca Barnett | 45-50 | 100-105 | 5-10 | - | - | - | 15,000 | 27,000 | 65-70 | 135-140 |
| Richard Smith | 55-60 | 115-120 | - | - | - | - | 31,000 | 44,000 | 85-90 | 155-160 |
| Simon Wilde | - | 120-125 | - | 10-15* | - | - | - | 46,000 | - | 180-185 |
| Stuart Okin | 35-40 | - | 0-5 | - | - | - | 20,000 | - | 60-65 | - |
| **Non executive members of the Authority (Note 3)** | | | | | | | | | | |
| Martin Cave<br>Chair | 95-100 | 160-165 | - | - | - | - | - | - | 95-100 | 160-165 |
| Mark McAllister<br>Chair | 65-70 | - | - | - | - | - | - | - | 65-70 | - |

* Members of ExCo awarded a bonus for 2021-22 (receivable in 2022-23) donated their bonuses to charity. However, these bonuses are still shown in the table above for completeness.

**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.

**Notes to the single total figure of remuneration table:**

*Note 1:*
During 2023-24, a new governance structure was implemented. The Executive Committee (ExCo) was in place until the end of August 2023 and replaced by the Senior Executive Committee (SEC) from 1 September 2023. Further details on the boards is provided within the Directors' Report.

During 2022-23, a new senior structure was announced, introducing three new SCS 3 roles. Akshay Kaul was acting as Interim Director of Infrastructure and Security of Supply from July 2022 until 7 June 2023, when he was appointed as Director General, Infrastructure.

Melinda Johnson was appointed as Chief Operating Officer from August 2023. Tim Jarvis was appointed as Director General, Markets from September 2023.

- Melinda Johnson joined on 7 August 2023, with a full year equivalent salary of £180,000-£185,000.
- Tim Jarvis joined on 4 September 2023, with a full year equivalent salary of £135,000-£140,000.

*Note 2:*
The following directors were in post throughout 2023-24, but their remuneration and pension benefits shown in the table is reported only for the periods where they were serving on the ExCo (from 1 April 2023 until 30 August 2023).

- Cathryn Scott has a full year equivalent salary of £130,000-£135,000.
- Eleanor Warburton has a full year equivalent salary of £100,000-£105,000.
- Peter Bingham has a full year equivalent salary of £110,000-£115,000.
- Rebecca Barnett has a full year equivalent salary of £105,000-£110,000.
- Stuart Okin became a member of ExCo on 1 June 2023 with a full year equivalent salary of £130,000-£135,000.
- Philippa Pickford left on 16 July 2023, with a full year equivalent salary of £110,000-£115,000.
- Richard Smith left on 1 November 2023, with a full year equivalent salary of £130,000-£135,000.

Two members of ExCo were seconded or on loan from other organisations. The home departments make pension contributions for these employees, and therefore they have been excluded from Ofgem's pension table.

- Christina Duncan was a member of ExCo from 14 November 2022 until 31 March 2023, and Ofgem made payments of £75,000-£80,000 for costs to Department for Transport. The full year salary this is based on is £115,000-£120,000. This excludes pension contributions, taxes and benefits.
- Rohan Churm was a member of ExCo from 13 March 2023 until 30 August 2023 and Ofgem has made payments of £105,000-£110,000 for costs to the Bank of England relating to the period where he served on ExCo in the financial year. The full year salary this is based on is £125,000-130,000, this excludes pension contributions, taxes and benefits.

Chris O'Connor left on 31 July 2022 and was paid £105,000-£110,000 for the period, which is a full year equivalent salary of £325,000-£330,000.

*Note 3:*
During 2023-24, there was a change of Chair.

- Martin Cave was Chair until 15 November 2023, with a full year equivalent salary of £160,000-165,000.
- Mark McAllister joined as Chair on 6 November 2023, with a full year equivalent salary of £170,000-175,000.

## Remuneration of other non-executive members of the Authority

| | Honorarium 2023-24 | Allowance 2023-24 | Honorarium 2022-23 | Allowance 2022-23 |
|---|---|---|---|---|
| Lynne Embleton | £13,333 | £3,250 | £20,000 | £3,000 |
| John Crackett | £20,000 | - | £20,000 | £2,000 |
| Myriam Madden | £20,000 | £3,000 | £20,000 | £3,000 |
| Barry Panayi | £20,000 | - | £20,000 | - |
| Christine Farnish | - | - | £6,827 | £1,000 |
| Warren Buckley | £8,055 | £448 | - | - |
| Tony Curzon Price | £8,055 | - | - | - |
| Jonathan Kini | £8,055 | - | - | - |
| Alena Kozakova | £8,055 | - | - | - |
| Graham Mather | £8,055 | - | - | - |

Lynne Embleton ended her term on 30 November 2023, the full-time equivalent figures are £20,000 honorarium and £3,000 allowance.

Five new non-executive directors and a new Chair were appointed during the year, from 6 November 2023. The full-time equivalent figures for the other non-executive members are £20,000 honorarium (plus a £3,000 allowance for Warren Buckley).

Christine Farnish resigned from the Board on 3 August 2022, the full-time equivalent figures are £20,000 honorarium and £3,000 allowance.

## Remuneration of members of the Enforcement Decision Panel

| | 2023-24 (£000) | 2022-23 (£000) |
|---|---|---|
| Megan Forbes | 10-15 | 15-20 |
| Peter Hinchliffe | 30-35 | 20-25 |
| Amelia Fletcher | - | 0-5 |
| Andrew Long | - | 0-5 |
| Dr Ulrike Hotopp | 5-10 | 5-10 |
| Ali Nikpay | 0-5 | 0-5 |
| Dr Philip Marsden | 0-5 | 0-5 |
| Elizabeth France | - | 0-5 |
| Andrew Ellam | 0-5 | 0-5 |
| Juliet Lazarus | 0-5 | - |
| David Ashbourne | 0-5 | - |

The terms for Amelia Fletcher, Andrew Long and Elizabeth France all came to an end in May 2022 and Dr Philip Marsden's term ended in May 2023. Andrew Ellam joined the panel in March 2023. Juliet Lazarus joined the panel in January 2024. David Ashbourne joined the panel in February 2024.

The Enforcement Decision Panel (EDP) operates with authority delegated from the Authority; therefore, members of the EDP are appointed as Ofgem employees.

The Members of the EDP will be appointed for terms ranging between 3 and 5 years. The total time commitment is expected to be in the region of up to 25 days per year, depending on the number of contested cases. Members are remunerated based on hours worked (but earning at least £1,000 per year). As employees, EDP members automatically join the civil service Alpha pension scheme (with the option to opt out). There are no minimum earnings requirements to be a member of the Alpha pension scheme.

In addition to remuneration shown in the table above, Megan Forbes received pension benefits of £4,000 (to the nearest £1,000) and Juliet Lazarus received pension benefits of £1,000 (to the nearest £000).

## 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 as 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 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 2023-24 relate to performance in 2022-23, and the comparative bonuses reported for 2022-23 relate to the performance in 2021-22.

In 2023-24, there were 1,233 staff (2022-23: 972 staff) who received a bonus. The average bonus payment was £1,157 (2022-23: £1,484), and the total amount paid in bonuses equaled £1,426,913 (2022-23: £1,442,699). Two individuals received the largest bonus of £10,500 (2022-23: four individuals received the largest bonus of £13,000).

## 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 2023-24 was £200,000-£205,000 (2022-23: £325,000-330,000). In 2022-23, the highest-paid director was a contractor and not an employee. Refer to the Off-Payroll Appointees section on page 71 for further information. 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.

| | 25th Percentile (Lower Quartile) Pay Ratio | 50th Percentile (Median) Pay Ratio | 75th Percentile (Upper Quartile) Pay Ratio |
|---|---|---|---|
| 2023-24 | 6.21:1 | 4.42:1 | 3.45:1 |
| 2022-23 | 10.58:1 | 7.55:1 | 5.53:1 |

The 2023-24 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 2023-24 | 31,921 | 48,074 | 62,378 |
| Total pay and benefits 2022-23 | 30,950 | 43,398 | 59,212 |
| Salary component of total pay and benefits 2023-24 | 29,411 | 45,614 | 58,634 |
| Salary component of total pay and benefits 2022-23 | 30,950 | 42,473 | 57,120 |

In 2023-24, there was a decrease from 2022-23 in the full year equivalent salary and allowances of the highest-paid director. The average percentage change from 2022-23 in the salary and allowances of Ofgem employees taken as a whole was an increase of 3.89%, and in performance pay and bonuses payable, an increase of 5.99%.

In 2023-24, none (2022-23: none) of Ofgem's employees received remuneration in excess of the highest-paid director. Employee remuneration ranged from £23,069 to £182,000 (2022-23: £19,047 to £204,227).

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.

## Pension benefits (audited)

| | Accrued pension at pension age as at 31/3/24 and related lump sum (£000) | Real increase in pension and related lump sum at pension age (£000) | CETV at 31/3/24 (£000) | CETV at 31/3/23 (£000) | Real increase in CETV (£000) |
|---|---|---|---|---|---|
| Jonathan Brearley Chief Executive | 50-55 plus a lump sum of 125-130 | 5-7.5 plus a lump sum of 5-7.5 | 1,082 | 902 | 87 |
| Akshay Kaul | 20-25 | 2.5-5 | 303 | 231 | 35 |
| Melinda Johnson | 55-60 | 2.5-5 | 1,191 | 1,059 | 61 |
| Neil Kenward | 35-40 plus a lump sum of 95-100 | 2.5-5 plus a lump sum of 2.5-5 | 814 | 690 | 55 |
| Neil Lawrence | 5-10 | 2.5-5 | 133 | 76 | 36 |
| Priya Brahmbhatt-Patel | 40-45 | 2.5-5 | 676 | 574 | 45 |
| Sinead Murray | 45-50 plus a lump sum of 70-75 | 2.5-5 plus a lump sum of 0-2.5 | 859 | 739 | 40 |
| Tim Jarvis | 50-55 | 2.5-5 | 1,061 | 936 | 69 |
| Cathryn Scott | 45-50 | 2.5-5 | 973 | 858 | 73 |
| Eleanor Warburton | 25-30 plus a lump sum of 45-50 | 0-2.5 plus a lump sum of 0-2.5 | 483 | 443 | 19 |
| Peter Bingham | 15-20 | 0-2.5 | 244 | 212 | 12 |
| Philippa Pickford | 30-35 plus a lump sum of 80-85 | 2.5-5 plus a lump sum of 7.5-10 | 634 | 552 | 71 |
| Rebecca Barnett | 20-25 | 0-2.5 | 293 | 260 | 10 |
| Richard Smith | 5-10 | 0-2.5 | 99 | 68 | 20 |
| Stuart Okin | 10-15 | 0-2.5 | 209 | 176 | 14 |

## 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.

# Staff report

## Average number of people employed (audited)

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

| | Permanently employed staff 2023-24 | Others 2023-24 | Total 2023-24 | Total 2022-23 |
|---|---|---|---|---|
| Regulatory | 526 | 32 | 558 | 495 |
| Delivery & Schemes | 608 | 63 | 671 | 546 |
| Operations | 587 | 69 | 656 | 444 |
| **Total** | **1,721** | **164** | **1,885** | **1,485** |

There was an average of 69 whole-time equivalent people in the SCS grade during the year. Of these, 55 were in pay band 1, 11 in pay band 2, and 3 in pay band 3.

## Staff costs (audited)

Staff costs comprise:

| | Permanently employed staff 2023-24 (£000) | Others 2023-24 (£000) | Total 2023-24 (£000) | Total 2022-23 (£000) |
|---|---|---|---|---|
| Wages and salaries | 83,456 | 13,175 | 96,631 | 79,070 |
| Social security costs | 9,587 | 570 | 10,157 | 7,854 |
| Other pension costs | 21,848 | 1,364 | 23,212 | 17,393 |
| Other staff costs | 9 | 24 | 33 | 174 |
| Apprenticeship Levy (tax expense) | 437 | - | 437 | 324 |
| **Total** | **115,337** | **15,133** | **130,470** | **104,815** |

## Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. Before 1 April 2015, the only scheme was the Principal Civil Service Pension Scheme (PCSPS), which is divided into a few different sections – **classic**, **premium**, and **classic plus** provide benefits on a final salary basis, whilst **nuvos** provides benefits on a career average basis. 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. All newly appointed civil servants, and the majority of those already in service, joined the new scheme.

The PCSPS and **alpha** are unfunded statutory schemes. Employees and employers make contributions (employee contributions range between 4.6% and 8.05%, depending on salary). The balance of the cost of benefits in payment is met by monies voted by Parliament each year. Pensions in payment are increased annually in line with the Pensions Increase legislation. Instead of the defined benefit arrangements, employees may opt for a defined contribution pension with an employer contribution, the **partnership** pension account.

In **alpha**, pension builds up at a rate of 2.32% of pensionable earnings each year, and the total amount accrued is adjusted annually in line with a rate set by HM Treasury. Members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004. All members who switched to **alpha** from the PCSPS had 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 accrued pensions shown in this report are the pension the member is entitled to receive when they reach normal pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over normal pension age. Normal pension age is 60 for members of **classic**, **premium**, and **classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. The pension figures in this report show pension earned in PCSPS or **alpha** – as appropriate. Where a member has benefits in both the PCSPS and **alpha**, the figures show the combined value of their benefits in the two schemes but note that the constituent parts of that pension may be payable from different ages.

When the Government introduced new public service pension schemes in 2015, there were transitional arrangements which treated existing scheme members differently based on their age. Older members of the PCSPS remained in that scheme, rather than moving to alpha. In 2018, the Court of Appeal found that the transitional arrangements in the public service pension schemes unlawfully discriminated against younger members.

As a result, steps are being taken to remedy those 2015 reforms, making the pension scheme provisions fair to all members. The public service pensions remedy is made up of two parts. The first part closed the PCSPS on 31 March 2022, with all active members becoming members of alpha from 1 April 2022. The second part removes the age discrimination for the remedy period, between 1 April 2015 and 31 March 2022, by moving the membership of eligible members during this period back into the PCSPS on 1 October 2023. This is known as "rollback".

For members who are in scope of the public service pension remedy, the calculation of their benefits for the purpose of calculating their Cash Equivalent Transfer Value and their single total figure of remuneration, as of 31 March 2023 and 31 March 2024, reflects the fact that membership between 1 April 2015 and 31 March 2022 has been rolled back into the PCSPS. Although members will in due course get an option to decide whether that period should count towards PCSPS or alpha benefits, the figures show the rolled back position i.e., PCSPS benefits for that period.

For 2023-24, employers' contributions of £22,940,594 were payable to the PCSPS (2022-23: £17,404,994) at one of four rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands.

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). Employers' contributions of £270,140 (2022-23: £218,039) were paid to one or more of the panel of three appointed stakeholder pension providers.

Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £11,255 (2022-23: £8,133) 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. Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk.

Contributions due to the partnership pension providers at the balance sheet date were £34,783 (2022-23: £23,050). Contributions prepaid at that date were nil (2022-23: nil).

Zero persons (2022-23: zero persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to nil (2022-23: nil).

## Consultancy expenditure

Our expenditure on other consultancy services in 2023-24 was £18.8 million, per note 3 of the accounts (2022-23: £29.6 million; 2021-22: £23.4 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 2024, earning £245 (note 1) per day or greater:

| | Number |
|---|---|
| No. of existing engagements as of 31 March 2024 | - |
| Of which, no. that existed: | |
| less than one year | - |
| 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 2024, earning £245 per day or greater:

| | Number |
|---|---|
| No. of temporary off-payroll workers engaged during the year ended 31 March 2024 | - |
| Of which: | |
| Not subject to off-payroll legislation | - |
| Subject to off-payroll legislation and determined as in-scope of IR35 (note 2) | - |
| 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 2023 and 31 March 2024:

| | Number |
|---|---|
| No. of off-payroll engagements of board members and/or senior officials with significant financial responsibility, during the financial year | - |
| 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 |

Note 1: The £245 threshold is set to approximate the minimum point of the pay scale for a Senior Civil Servant.

Note 2: 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.

## 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 2023 and 31 March 2024:

| | Number |
|---|---|
| Employees who were relevant union officials during the relevant period | 17 |
| Full-time equivalent employee number | 16.55 |

## Percentage of time spent on facility time

For employees who were relevant union officials employed between 1 April 2023 and 31 March 2024, percentage of their working hours spent on facility time:

| | Number |
|---|---|
| 0% | - |
| 1-50% | 17 |
| 51-99% | - |
| 100% | - |

## Percentage of pay bill spent on facility time

For employees who were relevant union officials employed between 1 April 2023 and 31 March 2024, percentage of pay bill spent on facility time:

| | £/% |
|---|---|
| Total cost of facility time | £17,151 |
| Total pay bill | £130.5 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 2023 and 31 March 2024, percentage of time spent on paid trade union activities.

Time spent on paid trade union activities as a percentage of total paid facility time hours was nil.

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

| Exit package cost band | Number of compulsory redundancies 2023-24 | Number of other departures agreed 2023-24 | Total number of exit packages by cost band 2023-24 | Number of compulsory redundancies 2022-23 | Number of other departures agreed 2022-23 | Total number of exit packages by cost band 2022-23 |
|---|---|---|---|---|---|---|
| <£10,000 | - | - | - | - | - | - |
| £10,000-£25,000 | - | - | - | - | - | - |
| £25,000-£50,000 | - | - | - | - | - | - |
| £50,000-£100,000 | - | 2 | 2 | - | 3 | 3 |
| £100,000-£150,000 | - | - | - | - | - | - |
| £150,000-£200,000 | - | - | - | - | - | - |
| £200,000-£250,000 | - | - | - | - | - | - |
| Total number of exit packages | - | 2 | 2 | - | 3 | 3 |
| Total cost £000 | - | 133 | 133 | - | 247 | 247 |

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 2023-24 (2022-23 comparative figures are also given).

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

| Staff composition | Total women | Percentage | Total men | Percentage |
|---|---|---|---|---|
| All employees | 865 | 46% | 1,019 | 54% |
| SCS Payband 1 | 27 | 48% | 29 | 52% |
| SCS Payband 2 | 5 | 44% | 6 | 56% |
| SCS Payband 3 | 1 | 33% | 2 | 78% |

## Employee involvement

Employee Engagement Index (EEI) is a measure used to ensure that employees are committed to their organisation's goals and values, and are motivated to contribute to organisational success. The Civil Service People Survey uses five questions to measure employee engagement, and combine all responses (positive, neutral and negative) into a summary index score, to tell departments where they sit on a scale of very disengaged (0%) through to very engaged (100%)

Our overall engagement score is 59%, which is compared to 58% in 2022. The Civil Service benchmark for 2023 is 64%.

A breakdown of Ofgem's result against the five areas is as follows:

## Key People Policies

Our Hybrid Working policy was updated during this year. All employees must work a minimum of one day per week on average within their designated office, allowing flexibility to meet requirements over a calendar month (i.e., 20% office attendance on average), with encouragement to do more. This is supported by new monitoring arrangements that have been introduced to understand office usage and ensure compliance with policy.

The policy is designed to be fair, inclusive, and productive for all, and strikes a reasonable balance between organisational needs and personal preferences expressed through the staff engagement programme. The aim of the policy is to help people to attend the office as expected, and we trust all colleagues will work together to implement this policy effectively.

Changes were made to the Employee Data Privacy notice to include information around how office attendance will be monitored via a dashboard, and that a desk usage monitoring system is utilised across all Ofgem offices.

## 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. No one 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 2023 staff engagement survey was 84%, an increase of 1% compared to 2022. In 2022-23, we refreshed our Equity, Diversity and Inclusion Strategy, and one of the key priorities of this has been a focus on building a diverse and inclusive workforce, and an inclusive culture. Since the launch of the strategy, we have developed a robust data dashboard to report on our workforce representation by protected characteristics and improved data declaration rates via an internal campaign. We have also started collecting data on the socio-economic background of our staff.

We continue to make good progress against our aspirational targets for a gender balanced workforce, and to increase representation of ethnic minorities. We have achieved both Carer Confident Level 1 and Disability Confident Leader (Level 3) accreditations, demonstrating our commitment and support for those with disabilities and carers.

We have undertaken a number of activities to improve social mobility at Ofgem, including a pilot work experience scheme with Tower Hamlets council, collaborating with the Ministry of Justice on mentoring schemes and student placements with City, University of London.

We launched policies on Menopause and Transitioning at work to raise awareness and highlight support for individuals experiencing such changes in their lives. In addition, Ofgem has continued to support our diversity networks covering women, LGBT+, ethnicity, disability, mental health and carers, and have new networks set up on age and for Muslim staff. In 2023, 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 31 March 2024:

- 9% (2022-23: 8%) of staff were known to have a disability
- 46% (2022-23: 46%) of staff were women
- 43% (2022-23: 45%) of staff in managerial grades (Level 3 to SCS3) were women
- 47% (2022-23: 47%) of Senior Civil Service members in Ofgem were women
- 29% (2022-23: 25%) of staff were known to be of ethnic minority origin
- 18% (2022-23: 14%) of staff in managerial grades (Level 3 to SCS3) are from an ethnic minority background.

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

Ofgem's gender pay gap data can be found at: Gender pay gap reports for Ofgem – Gender pay gap service (gender-pay-gap.service.gov.uk).

Diversity and inclusion formed a key aspect of our external engagement with the wider energy sector this year. In June 2023, we proudly partnered with Energy UK, Energy Networks Association and the Energy Institute, to host the third annual Diversity, Equality and Inclusion conference.

The 'Tackling Inclusion and Diversity in Energy' (TIDE) group was established in 2022. Ofgem launched the group with Energy-UK and the ENA at the 2022 EDI Conference, as a cross-industry group to improve Equity, Diversity, and Inclusion across the energy sector. It is now run in partnership by Ofgem, Energy-UK, The Energy Networks Association, and the Energy Institute. There are now over 20 organisations represented in the TIDE Steering Group, and over 30 across the group.

TIDE has recently launched the Leaders' Commitment to encourage the most senior across the sector to lead by example, and drive change in their own organisations. We are also proud to have supported the launch of the company health check, a webinar series and an online Hub, which acts as a one-stop shop for Equity, Diversity, and Inclusion matters across the energy sector.

At Ofgem, we are capturing data from under-represented groups as part of our customer insight gathering programme, and using this to inform our work to support consumers and their diversity of needs, as well as other activities like making a POWERful Women pledge and taking part in the BBC's 50:50 project, this allows us to maintain a wider ranging awareness of EDI externally. This means we can better support the consumers we serve, and encourage others across the industry to do the same.

## Promoting health and safety at work

Ofgem supports and promotes a safe working environment in its office locations, home offices and when staff are on site visits. Ofgem's Health and Safety Policy was refreshed during 2023-24.

## Trade union relationships

The recognised Trade Unions within Ofgem are PCS and FDA. Joint Negotiation Committee (JNC) meetings are held monthly, with ad-hoc meetings added when necessary to discuss an urgent or specific topic. A HR policy sub-group has also been established reporting into the JNC, to agree new or significant changes to HR policies. We have positive and constructive relationships with both Trade Unions. All efforts are made to promote and maintain the best possible working relationship between Ofgem and the Trade Unions.

## Days lost because of absence

In 2023-24, we lost an average of 4.3 days a year per employee (2022-23: 4.2 days). This compares favourably with the public sector average of 8.1 days a year per employee.

## Staff turnover

In 2023-24, staff turnover was 16.3% (2022-23: 24%). This compares to a Civil Service average of 7.4%. Our high turnover is in part due to the competitive market for talent in the energy sector and also due to pay disparity when compared with other regulators. In 2024 we are launching our new Workforce Strategy and accompanying action plan which to address our turnover. Our aim is to reduce our turnover further in 2024-25 to 10% or lower.

**Jonathan Brearley**
Chief Executive
13 January 2025

# Parliamentary Accountability and Audit Report

Annual Report and Accounts | 2023-24

# Parliamentary Accountability and Audit report

## Statement of Outturn against Parliamentary Supply (SOPS)

### Summary of resource and capital outturn 2023-24

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 income 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.

Further information on the Public Spending Framework and the reasons why budgeting rules are different to IFRS can also be found in chapter 1 of the Consolidated Budgeting Guidance, available on gov.uk.

**Summary tables – mirrors part 1 of the Estimates**

## Summary table 2023-24, all figures presented in £000's

| Type of Spend | SOPS note | Outturn | | | Estimate | | | Outturn vs Estimate, saving | | Prior Year Outturn Total 2022-23 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Voted | Non-Voted | Total | Voted | Non-Voted | Total | Voted | Total | |
| **Departmental Expenditure Limit** | | | | | | | | | | |
| – Resource | 1.1 | 6,351 | - | 6,351 | 38,383 | - | 38,383 | 32,032 | 32,032 | (57,936) |
| – Capital | 1.2 | 1,176 | - | 1,176 | 2,760 | - | 2,760 | 1,584 | 1,584 | 2,163 |
| **Total Budget Expenditure** | | **7,527** | **-** | **7,527** | **41,143** | **-** | **41,143** | **33,616** | **33,616** | **(55,773)** |
| **Non-Budget Expenditure** | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total Budget and Non-Budget** | | **7,527** | **-** | **7,527** | **41,143** | **-** | **41,143** | **33,616** | **33,616** | **(55,773)** |

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

**Net cash requirement 2023-24, all figures presented in £000's**

| Type of spend | SOPS note | Outturn | Estimate | Outturn vs Estimate, saving | Prior Year Outturn Total 2022-23 |
|---|---|---|---|---|---|
| Net cash requirement | 3 | (15,161) | 29,372 | 44,533 | **(32,368)** |

**Administration costs 2023-24, all figures presented in £000's**

| Type of spend | SOPS note | Outturn | Estimate | Outturn vs Estimate, saving | Prior Year Outturn Total 2022-23 |
|---|---|---|---|---|---|
| Administration costs | 1.1 | 9,098 | 35,852 | 26,754 | **(8,203)** |

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

The Department has Prior Period Adjustments (PPAs) resulting from recognition of imputed tax and spend in relation to the Supplier of Last Resort (SoLR) levy.

It is proper for the department to seek Parliamentary authority for PPAs arising from the decision by the Office of National Statistics to change the classification of SoLR levy decisions. PPAs have been included in the 2022-23 SOPS as set out below, which have been included within voted Supply in Ofgem's Estimate.

SoLR levy decisions made by Ofgem were classified as a form of imputed tax and spend during 2022-23 by the Office for National Statistics. SoLR levy claims are classified as tax and spend for Ofgem in the year which the decision relates to.

Decisions for "true up" adjustments to previous SoLR levy claim decisions are treated as PPAs. A net of £16 million of "true up" claims were approved in December 2023 (these adjust the values of previous claims from 2021 and 2022). This consisted of £41 million of further claims allowed, and £25 million of previous claims requiring to be repaid.

The imputed tax and spend related to these "true up" claims have been included as a PPA to the 2022-23 budgets (with a net impact of nil, shown as a token £1,000 to enable Parliament to vote the PPA). This has no impact on the financial statements, it is purely a budgetary (Outturn) adjustment as described in SOPS 2.

## Resource Outturn 22-23 (restated)

| Type of Spend (Resource) | Administration Gross | Administration Income | Administration Net total | Programme Gross | Programme Income | Programme Net total | Total |
|---|---|---|---|---|---|---|---|
| **Spending in Departmental Expenditure Limits (DEL)** | | | | | | | |
| **Voted expenditure** | | | | | | | |
| A Gas and Electricity Markets Authority: administration | 101,304 | (111,107) | (9,803) | 110,072 | (110,072) | - | (9,803) |
| B Ofgem Delivery & Schemes: administration | 38,186 | (36,586) | 1,600 | - | - | - | 1,600 |
| C Ofgem Green Gas: administration | 2,618 | (2,618) | - | 302 | (50,035) | (49,733) | (49,733) |
| **Total resource** | **142,108** | **(150,311)** | **(8,203)** | **110,374** | **(160,107)** | **(49,733)** | **(57,936)** |

Before restatement, Programme Gross totalled £94,333,000 and Programme Income totalled £144,066,000. The table prior to restatement can be found in the 2022-23 published accounts: https://www.ofgem.gov.uk/publications/ofgem-annual-report-and-accounts-2022-2023.

# Notes to the Statement of Outturn against Parliamentary Supply, 2023-24 (£000's)

## SOPS1. Outturn detail, by Estimate Line

### SOPS1.1 Analysis of resource outturn by Estimate Line

| | Resource Outturn | | | | | | | Estimate | | | | Prior Year Outturn Total 2022-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Administration | | | Programme | | | | | | | | |
| Type of Spend (Resource) | Gross | Income | Net total | Gross | Income | Net total | Total | Total | Virements | Total including virements | Outturn vs Estimate, saving | |
| **Spending in Departmental Expenditure Limits (DEL)** | | | | | | | | | | | | |
| **Voted expenditure** | | | | | | | | | | | | |
| A Gas and Electricity Markets Authority: administration | 132,259 | (125,754) | 6,505 | - | - | - | 6,505 | 31,350 | - | 31,350 | 24,845 | (9,803) |
| B Ofgem Delivery & Schemes: administration | 47,993 | (45,400) | 2,593 | - | - | - | 2,593 | 4,502 | - | 4,502 | 1,909 | 1,600 |
| C Ofgem Green Gas: administration | 3,590 | (3,590) | - | 6,037 | (8,784) | (2,747) | (2,747) | 2,531 | - | 2,531 | 5,278 | (49,733) |
| **Total resource** | **183,842** | **(174,744)** | **9,098** | **6,037** | **(8,784)** | **(2,747)** | **6,351** | **38,383** | **-** | **38,383** | **32,032** | **(57,936)** |

## SOPS1.2 Analysis of capital outturn by Estimate Line

| | Outturn | | | Estimate | | | | |
|---|---|---|---|---|---|---|---|---|
| **Type of Spend (Capital)** | **Gross** | **Income** | **Net total** | **Total** | **Virements** | **Total including virements** | **Outturn vs Estimate, saving** | **Prior Year Outturn Total 2022-23** |
| **Spending in Departmental Expenditure Limits (DEL)** | | | | | | | | |
| **Voted expenditure** | | | | | | | | |
| A Gas and Electricity Markets Authority: administration | 1,176 | - | 1,176 | 2,760 | - | 2,760 | 1,584 | 1,234 |
| B Ofgem Delivery & Schemes: administration | 9,163 | (9,163) | - | - | - | - | - | - |
| C Ofgem Green Gas: administration | - | - | - | - | - | - | - | 929 |
| **Total capital** | **10,339** | **(9,163)** | **1,176** | **2,760** | **-** | **2,760** | **1,584** | **2,163** |

## SOPS2 Reconciliation of outturn to net operating income

| Item | Reference | Outturn Total £000 | Prior Year Outturn Total, 2022-23 £000 |
|---|---|---|---|
| **Total Resource Outturn** | SOPS1.1 | **6,351** | **(57,936)** |
| Add: Capital income from DESNZ/BEIS | SOPS1.2 | (9,163) | (5,910) |
| Less: Lease interest expense | 7.3 | (531) | (177) |
| Add: Interest income | SoCNE | 1,159 | - |
| Other | | - | 1 |
| **Net Operating Income in Statement of Comprehensive Net Income** | SoCNE | **(2,184)** | **(64,022)** |

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.

Interest income is budgeted as resource DEL but is included as finance income on the face of the SoCNE and therefore is also a reconciling item between total resource outturn and net operating income.

The Supplier of Last Resort (SoLR) levy was classified as a form of imputed tax and spend during 2022-23 by the Office for National Statistics. SoLR levy claims approved by Ofgem after date of the classification decision are recognised in budgets. However, there are no economic inflows or outflows to Ofgem because of the SoLR levy. Under IFRS, the SoLR levy claims do not meet the recognition criteria to be income and expenditure for Ofgem and so the claims are not recognised in Ofgem's Statement of Comprehensive Net Income or the associated notes.

## SOPS3 Reconciliation of net resource outturn to net cash requirement

| Item | Reference | Outturn total £000 | Estimate £000 | Outturn vs Estimate, saving/ (excess) £000 |
|---|---|---|---|---|
| **Total Resource outturn** | SOPS1.1 | 6,351 | 38,383 | 32,032 |
| **Total Capital outturn** | SOPS1.2 | 1,176 | 2,760 | 1,584 |
| **Adjustments to remove non-cash items:** | | | | |
| ▪ Depreciation and amortisation | 3 | (5,700) | (9,300) | (3,600) |
| ▪ New provisions and adjustments to previous provisions | 3 | (8,130) | (28,000) | (19,870) |
| ▪ IFRS 16 additions and disposals | 7 | 645 | - | (645) |
| ▪ Other non-cash items | | (663) | (105) | 558 |
| **Adjustments to reflect movements in working balances:** | | | | |
| ▪ Decrease in receivables | 10 | (7,749) | 12,843 | 20,592 |
| ▪ Increase in payables | 11 | (6,249) | 7,993 | 14,242 |
| ▪ Use of provisions | 12 | 3,255 | 4,798 | 1,543 |
| ▪ Capital element of payments in respect of leases | 7.4 | 1,903 | - | (1,903) |
| **Net cash requirement** | | **(15,161)** | **29,372** | **44,533** |

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 2023-24.

## Parliamentary Accountability Disclosures (audited)

### Regularity of expenditure

Expenditure of Ofgem was applied for the purposes intended by Parliament.

| Special payments | 2023-24 | 2022-23 |
|---|---|---|
| Total number of special payments | 3 | 7 |
| Total value of special payments (£000) | 49 | 1,725 |

Ofgem has nothing to report in respect of the following:

- Losses;
- Fees and charges disclosures;
- Remote contingent liabilities; and
- Long term expenditure trends.

**Jonathan Brearley**
Chief Executive
13 January 2025

# 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 2024 under the Government Resources and Accounts Act 2000.

The financial statements comprise Ofgem's:

- Statement of Financial Position as at 31 March 2024;
- Statement of Comprehensive Net Income, 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 2024 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 2024 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 and Regularity of Public Sector Bodies in the United Kingdom (2022). 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 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 is 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 and my auditor's certificate and report thereon. 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.

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 issued 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 issued 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:

- 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
- I have not received all of the information and explanations I require for my audit; 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 Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within Ofgem from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;
- preparing financial statements which give a true and fair view, in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000;
- preparing the annual report, which includes the Remuneration and Staff Report, in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; 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 nature of the sector, control environment and operational performance including the design of Ofgem's accounting policies, key performance indicators and performance incentives.

- inquired 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 on:
    - identifying, evaluating and complying with laws and regulations;
    - detecting and responding to the risks of fraud; and
    - 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;
- inquired of management, Ofgem's head of internal audit and those charged with governance whether:
    - they were aware of any instances of non-compliance with laws and regulations;
    - they had knowledge of any actual, suspected, or alleged fraud,
- discussed with 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 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 required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of Ofgem's framework of authority and other legal and regulatory frameworks in which Ofgem operates. I focused 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, Supply and Appropriation (Main Estimates) Act 2023 and relevant employment law and tax legislation.

### Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed 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;
- I enquired of management, the Audit and Risk Assurance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board; and internal audit reports;
- I addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing whether the judgements on 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.

I communicated relevant identified laws and regulations and potential risks of fraud 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 required to obtain sufficient appropriate audit evidence 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 I identify during my audit.

## Report

I have no observations to make on these financial statements.

**Gareth Davies**
**Comptroller and Auditor General**

**16 January 2025**

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

# Resource Accounts

Annual Report and Accounts | 2023-24

# Statement of Comprehensive Net Income for the year ended 31 March 2024

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 | 2023-24 £000 | 2022-23 £000 |
|---|---|---|---|
| Operating income | 4 | (191,532) | (206,255) |
| **Total operating income** | | **(191,532)** | **(206,255)** |
| Staff costs | 3 | 130,470 | 104,815 |
| Other operating expenditure | 3 | 58,878 | 37,418 |
| **Total operating expenditure** | | **189,348** | **142,233** |
| **Net operating income** | 2 | **(2,184)** | **(64,022)** |
| Finance income | 4 | (1,159) | - |
| Finance expense | 7.3 | 531 | 177 |
| **Net income for the year** | | **(2,812)** | **(63,845)** |
| **Comprehensive net income for the year** | | **(2,812)** | **(63,845)** |

# Statement of Financial Position as at 31 March 2024

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 | 2023-24 £000 | | 2022-23 £000 | |
|---|---|---|---|---|---|
| **Non-current assets:** | | | | | |
| Property, plant and equipment | 5 | 3,074 | | 2,565 | |
| Right of use assets | 7.1 | 14,553 | | 17,022 | |
| Intangible assets | 6 | 16,798 | | 10,199 | |
| ***Total non-current assets*** | | | **34,425** | | **29,786** |
| **Current assets:** | | | | | |
| Trade and other receivables | 10 | 22,123 | | 29,872 | |
| Cash and cash equivalents | 9 | 37,161 | | 72,833 | |
| ***Total current assets*** | | | **59,284** | | **102,705** |
| ***Total assets*** | | | **93,709** | | **132,491** |
| **Current liabilities:** | | | | | |
| Trade and other payables | 11 | (65,375) | | (94,798) | |
| Lease liabilities | 7.2 | (1,909) | | (1,899) | |
| Provisions | 12 | (8,097) | | (2,871) | |
| ***Total current liabilities*** | | | **(75,381)** | | **(99,568)** |
| **Total assets less current liabilities** | | | **18,328** | | **32,923** |
| **Non-current liabilities:** | | | | | |
| Lease liabilities | 7.2 | (13,046) | | (15,170) | |
| Provisions | 12 | (1,608) | | (1,872) | |
| ***Total non-current liabilities*** | | | **(14,654)** | | **(17,042)** |
| **Total assets less total liabilities** | | | **3,674** | | **15,881** |
| **Taxpayers' equity:** | | | | | |
| General fund | | 3,674 | | 15,881 | |
| ***Total equity*** | | | **3,674** | | **15,881** |

**Jonathan Brearley**
Chief Executive
13 January 2025

# Statement of Changes in Taxpayers' Equity for the year ended 31 March 2024

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.

| | Note | General fund £000 |
|---|---|---|
| **Balance at 31 March 2022** | | **(15,179)** |
| Auditors' remuneration | 3 | 145 |
| Comprehensive net income for the year | SoCNE | 63,845 |
| Net Parliamentary Funding – deemed | | - |
| Net Parliamentary Funding – drawn down | | 40,466 |
| Supply payable adjustment | 11 | (72,833) |
| Deferred income released to the general fund | | (563) |
| **Balance at 31 March 2023** | | **15,881** |
| Auditors' remuneration | 3 | 149 |
| Comprehensive net income for the year | SoCNE | 2,812 |
| Net Parliamentary Funding – deemed | | - |
| Net Parliamentary Funding – drawn down | | 22,000 |
| Supply payable adjustment | 11 | (37,161) |
| Other reserve movements | | (7) |
| **Balance at 31 March 2024** | | **3,674** |

# Statement of Cash Flows for the year ended 31 March 2024

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 | 2023-24 £000 | 2022-23 £000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net operating income | SoCNE | 2,184 | 64,022 |
| Adjustments for non-cash transactions | SoPS3, SoCNE | 13,962 | (7,827) |
| Decrease/(increase) in trade and other receivables | 10 | 7,749 | (6,141) |
| (Decrease)/increase in trade and other payables | 11 | (29,423) | 50,941 |
| less movements in payables relating to items not passing through the SoCNE | 11 | 35,672 | (58,467) |
| Use of provisions | 12 | (3,255) | (325) |
| **Net cash inflow from operating activities** | | **26,889** | **42,203** |
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant and equipment | 5 | (1,821) | (1,234) |
| Purchase of intangible assets | 6 | (9,163) | (6,839) |
| Finance income | SoCNE | 1,159 | - |
| **Net cash outflow from investing activities** | | **(9,825)** | **(8,073)** |
| **Cash flows from financing activities:** | | | |
| From the Consolidated Fund (Supply) – current year | SoCiTE | 22,000 | 40,466 |
| Capital element of payments in respect of leases | 7.4 | (1,903) | (1,763) |
| Advances from the Contingencies Fund | | 30,000 | 30,000 |
| Payments to the Contingencies Fund | | (30,000) | (30,000) |
| **Net financing** | | **20,097** | **38,703** |
| **Net increase in cash and cash equivalents in the period before adjustment for payments to the Consolidated Fund** | | **37,161** | **72,833** |
| Payments of amounts due to the Consolidated Fund | SoCiTE | (72,833) | (14,366) |

| | Note | 2023-24 £000 | 2022-23 £000 |
|---|---|---|---|
| **Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund** | 9 | **(35,672)** | **58,467** |
| Cash and cash equivalents at the beginning of the period | 9 | 72,833 | 14,366 |
| **Cash and cash equivalents at the end of the period** | 9 | **37,161** | **72,833** |

# 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 79.

### 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 2024-25 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 DESNZ and Scheme funded recharges – Under service level agreements/ contracts with the Department for Energy Security and Net Zero 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 DESNZ, 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 Remuneration and 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 and CSOPS 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 Leases

IFRS 16 Leases was adopted from 1 April 2022 for FReM bodies and replaced 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". Ofgem has determined low value to be in line with the capitalisation threshold for property, plant and equipment of £2,000.

For both leases of 12 months or less duration and leases of low value assets, the lease payments are recognised as an expense on a straight line basis over the lease term.

IFRS 16 requires that assets and liabilities are recognised initially at the discounted value of the minimum lease payments over the applicable lease term. Ofgem applied HM Treasury's discount rate of 0.95% as the incremental borrowing rate when calculating the discounted value on initial application of IFRS 16. Where future lease payments are changed due to a change in an index or rate or rent review, the existing lease liabilities are remeasured using an unchanged discount rate. A revised discount rate is used for existing leases which are appropriately modified such as a partial termination. Where existing leases are modified it is determined whether the arrangement constitutes a separate lease. HM Treasury's discount rate is used for lease modifications and new leases (3.51% from 1 April 2023 to 31 December 2023 and 4.72% from 1 January 2024 to 31 March 2024).

Right of use assets are subsequently measured using the cost measurement model in IFRS 16 as an appropriate proxy for current value in existing use or fair value. This is because the leases have terms to update lease payments to market rates. Further, the right of use assets have shorter useful lives than their respective underlying assets.

After initial recognition, right of use assets are depreciated on a straight-line basis over the expected lease term and interest is recognised on the liabilities. Both costs are recognised in the Statement of Comprehensive Net Income. Lease payments are offset against the outstanding lease liabilities. Irrecoverable VAT is expensed in the period to which it relates and therefore not included in the measurement of the lease liabilities and consequently the value of the right of use assets.

Ofgem's material leases relate to property rentals for office space.

## 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 Statement of Cash Flows, 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 5.10% for post-employment benefit liabilities, a nominal rate of 4.26% for short term general provisions and a nominal rate of 4.03% for medium term general provisions). Each year the financing charges in the Statement of Comprehensive Net Income 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 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 17**

IFRS 17 Insurance Contracts will not come into effect for the public sector until 1 April 2025. 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 Notes 1.9 and 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.

- **Lease terms**

Under IFRS 16, Ofgem assesses the likelihood of exercising break clauses or extension options within lease terms. This estimate determines the length of the lease term impacting the lease liabilities and right of use assets. Such assessments are reviewed if there is a significant event or significant change of circumstances.

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

### 2023-24

| | Regulatory Activities £000 | Delivery & Schemes £000 | Corporate Services £000 | Total £000 |
|---|---|---|---|---|
| Gross expenditure | 71,491 | 58,561 | 59,296 | 189,348 |
| Income | (68,195) | (66,718) | (56,619) | (191,532) |
| **Net operating expenditure/(income)** | **3,296** | **(8,157)** | **2,677** | **(2,184)** |

### 2022-23

| | Regulatory Activities £000 | Delivery & Schemes £000 | Corporate Services £000 | Total £000 |
|---|---|---|---|---|
| Gross expenditure | 64,070 | 41,106 | 37,057 | 142,233 |
| Income | (61,880) | (95,148) | (49,227) | (206,255) |
| **Net operating expenditure/(income)** | **2,190** | **(54,042)** | **(12,170)** | **(64,022)** |

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

# 3. Expenditure

| | Note | 2023-24 £000 | 2022-23 £000 |
|---|---|---|---|
| **Staff costs*:** | | | |
| Wages and salaries** | | 96,631 | 79,070 |
| Social security costs | | 10,157 | 7,854 |
| Other pension costs | | 23,212 | 17,393 |
| Apprenticeship Levy | | 437 | 324 |
| Other staff costs | | 33 | 174 |
| | | **130,470** | **104,815** |
| **Rental under operating leases:** | | | |
| Operating leases (Buildings) | | 40 | 286 |
| | | **40** | **286** |
| **Scheme payments:** | | | |
| Green Gas Support Scheme | | 1,118 | 333 |
| | | **1,118** | **333** |
| **Non-cash items:** | | | |
| Auditors' remuneration and expenses*** | | 149 | 145 |
| Depreciation – property, plant and equipment | 5 | 1,312 | 1,668 |
| Depreciation – right of use assets | 7 | 1,824 | 1,964 |
| Amortisation – intangible assets | 6 | 2,564 | 1,291 |
| Holiday pay accrual adjustment | | 957 | 292 |
| | | **6,806** | **5,360** |
| **Other expenditure:** | | | |
| Consultancy | | 18,828 | 29,638 |
| Accommodation costs | | 2,687 | 2,417 |
| Recruitment and training | | 2,492 | 1,333 |
| Travel and subsistence | | 1,780 | 909 |
| Office supplies and equipment | | 8,126 | 6,804 |
| Professional services | | 7,418 | 1,462 |
| Staff related costs | | 424 | 333 |
| Other expenditure | | 1,029 | 544 |
| | | **42,784** | **43,440** |

| | Note | 2023-24 £000 | 2022-23 £000 |
|---|---|---|---|
| **Provisions:** | | | |
| Movement in provisions**** | 12 | 8,130 | (12,001) |
| | | **189,348** | **142,233** |

* Further analysis of staff costs is located in the Remuneration and Staff Report on page 61
** This is net of the £6.063 million (£3.630 million in 2022-23) capitalised as part of the total additions to intangible assets under construction in Note 6.
*** There was no auditor remuneration for non-audit work.
**** This figure excludes £87,000 provided in the year for dilapidations which has been capitalised in the right of use assets in Note 7, in line with IFRS 16

# 4. Income

| | 2023-24 | | | 2022-23 | | |
|---|---|---|---|---|---|---|
| | **Income £000** | **Full costs £000** | **Surplus £000** | **Income £000** | **Full costs £000** | **Surplus £000** |
| Licence fees | 114,668 | 114,668 | - | 103,875 | 103,875 | - |
| Other* | 76,864 | 74,680 | 2,184 | 102,380 | 38,358 | 64,022 |
| **Total Operating** | **191,532** | **189,348** | **2,184** | **206,255** | **142,233** | **64,022** |
| Finance income/ expense | 1,159 | 531 | 628 | - | 177 | (177) |
| **Total Net** | **192,691** | **189,879** | **2,812** | **206,255** | **142,410** | **63,845** |

| *** Other income includes:** | **Note** | **2023-24 £000** | **2022-23 £000** |
|---|---|---|---|
| Offshore Transmission Tender Recharge | | 3,163 | 2,487 |
| Department for Energy Security and Net Zero (previously Department for Business, Energy and Industrial Strategy) | 14 | 50,703 | 39,446 |
| Scheme-funded recharges | | 9,230 | 7,387 |
| Green Gas Levy | | 11,212 | 52,653 |
| Recovery of Regulatory programme costs | | 1,957 | - |
| Miscellaneous** | | 599 | 407 |
| | | **76,864** | **102,380** |

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

## 5. Property, plant and equipment

| | Furniture £000 | Office equipment £000 | IT £000 | Leasehold improvements £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 April 2023 | 231 | 270 | 4,967 | 3,288 | 8,756 |
| Additions | - | 13 | 1,786 | 22 | 1,821 |
| Disposals | - | - | (408) | - | (408) |
| **At 31 March 2024** | **231** | **283** | **6,345** | **3,310** | **10,169** |
| **Depreciation** | | | | | |
| At 1 April 2023 | 220 | 163 | 3,478 | 2,330 | 6,191 |
| Charged in year | 6 | 65 | 1,009 | 232 | 1,312 |
| On disposals | - | - | (408) | - | (408) |
| **At 31 March 2024** | **226** | **228** | **4,079** | **2,562** | **7,095** |
| **Carrying amount at 31 March 2024** | **5** | **55** | **2,266** | **748** | **3,074** |
| Carrying amount at 31 March 2023 | 11 | 107 | 1,489 | 958 | 2,565 |

| | Furniture £000 | Office equipment £000 | IT £000 | Leasehold improvements £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 April 2022 | 229 | 265 | 3,740 | 3,288 | 7,522 |
| Additions | 2 | 5 | 1,227 | - | 1,234 |
| **At 31 March 2023** | **231** | **270** | **4,967** | **3,288** | **8,756** |
| **Depreciation** | | | | | |
| At 1 April 2022 | 212 | 97 | 2,256 | 1,958 | 4,523 |
| Charged in year | 8 | 66 | 1,222 | 372 | 1,668 |
| **At 31 March 2023** | **220** | **163** | **3,478** | **2,330** | **6,191** |
| **Carrying amount at 31 March 2023** | **11** | **107** | **1,489** | **958** | **2,565** |
| Carrying amount at 31 March 2022 | 17 | 168 | 1,484 | 1,330 | 2,999 |

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 available for use.

| | Computer software £000 | Assets under construction £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2023 | 8,222 | 3,268 | 11,490 |
| Additions | - | 9,163 | 9,163 |
| Re-classifications | 4,113 | (4,113) | - |
| **At 31 March 2024** | **12,335** | **8,318** | **20,653** |
| **Amortisation** | | | |
| At 1 April 2023 | 1,291 | - | 1,291 |
| Charged in year | 2,564 | - | 2,564 |
| **At 31 March 2024** | **3,855** | **-** | **3,855** |
| **Carrying amount at 31 March 2024** | **8,480** | **8,318** | **16,798** |
| Carrying amount at 31 March 2023 | 6,931 | 3,268 | 10,199 |

| | Computer software £000 | Assets under construction £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2022 | - | 4,651 | 4,651 |
| Additions | - | 6,839 | 6,839 |
| Re-classifications | 8,222 | (8,222) | - |
| **At 31 March 2023** | **8,222** | **3,268** | **11,490** |
| **Amortisation** | | | |
| At 1 April 2022 | - | - | - |
| Charged in year | 1,291 | - | 1,291 |
| **At 31 March 2023** | **1,291** | **-** | **1,291** |
| **Carrying amount at 31 March 2023** | **6,931** | **3,268** | **10,199** |
| Carrying amount at 31 March 2022 | - | 4,651 | 4,651 |

# 7. Leases

## 7.1 Right of use assets

Ofgem's lease contracts comprise leases of operational buildings.

| | Buildings £000 |
|---|---|
| **Cost** | |
| At 1 April 2023 | 18,986 |
| Additions | 2,401 |
| Disposals | (3,055) |
| **At 31 March 2024** | **18,332** |
| **Depreciation** | |
| At 1 April 2023 | 1,964 |
| Charged in year | 1,824 |
| On disposals | (9) |
| **At 31 March 2024** | **3,779** |
| **Carrying amount at 31 March 2024** | **14,553** |
| Carrying amount at 31 March 2023 | 17,022 |

| | Buildings £000 |
|---|---|
| **Cost** | |
| At 1 April 2022 | - |
| Initial recognition on adoption of IFRS 16 | 18,986 |
| **At 31 March 2023** | **18,986** |
| **Depreciation** | |
| At 1 April 2022 | - |
| Charged in year | 1,964 |
| **At 31 March 2023** | **1,964** |
| **Carrying amount at 31 March 2023** | **17,022** |
| Carrying amount at 31 March 2022 | - |

## 7.2 Lease liabilities

| Analysis of expected timing of discounted cash flows: | Buildings 2023-24 £000 | Buildings 2022-23 £000 |
|---|---|---|
| Not later than one year | 1,909 | 1,899 |
| Later than one year and not later than five years | 7,108 | 7,549 |
| Later than five years | 5,938 | 7,621 |
| **Balance at 31 March** | **14,955** | **17,069** |

## 7.3 Amounts recognised in the Statement of Comprehensive Net Income

| | 2023-24 £000 | 2022-23 £000 |
|---|---|---|
| Depreciation | 1,824 | 1,964 |
| Interest expense | 531 | 177 |
| Non-recoverable VAT | 32 | 45 |
| **Total charged to the Statement of Comprehensive Net Income** | **2,387** | **2,186** |

## 7.4 Amounts recognised in the Statement of Cash Flows

| | 2023-24 £000 | 2022-23 £000 |
|---|---|---|
| Repayment of principal on leases | 1,903 | 1,763 |
| **Total cash outflow for leases** | **1,903** | **1,763** |

# 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 14 are held to manage risk in the Offshore tender auction process and Green Gas Levy 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

| | 2023-24<br>£000 | 2022-23<br>£000 |
|---|---|---|
| Balance at 1 April | 72,833 | 14,366 |
| Net change in cash balances | (35,672) | 58,467 |
| **Balance at 31 March** | **37,161** | **72,833** |
| The following balances at 31 March are held at: | | |
| Government Banking Service | 37,161 | 72,833 |
| **Balance at 31 March** | **37,161** | **72,833** |

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, the Green Gas Support schemes and the Boiler Upgrade Scheme. These are described in Note 15.

# 10. Trade receivables and other current assets

| | 2023-24<br>£000 | 2022-23<br>£000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Accrued income | 15,342 | 22,940 |
| Trade receivables | 4,046 | 4,590 |
| Prepayments | 2,172 | 2,028 |
| VAT | 547 | 299 |
| Other receivables | 16 | 15 |
| **Balance at 31 March** | **22,123** | **29,872** |

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

# 11. Trade payables and other current liabilities

| | 2023-24 £000 | 2022-23 £000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Excess cash payable to the Consolidated Fund | 37,161 | 72,833 |
| Deferred licence fees | 4,319 | 3,993 |
| Other deferred income | 158 | 1,956 |
| Accruals | 13,729 | 9,006 |
| Other payables | 4,186 | 2,911 |
| Taxation and social security | 5,405 | 3,907 |
| Trade payables | 417 | 192 |
| **Balance at 31 March** | **65,375** | **94,798** |

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 31 March are accrued within "other payables".

# 12. Provisions for liabilities and charges

| | Early retirement £000 | Voluntary exit £000 | Dilapidations £000 | Legal £000 | Green Gas Support Scheme £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Balance at 31 March 2023 | 78 | - | 1,810 | 2,825 | - | 30 | 4,743 |
| Provided in the year | - | 336 | 87 | 3,406 | 4,917 | - | 8,746 |
| Provisions not required written back | - | - | (341) | (196) | - | - | (537) |
| Provisions utilised in the year | (20) | - | - | (3,235) | - | - | (3,255) |
| Impact of discounting | 4 | - | 4 | - | - | - | 8 |
| **Balance at 31 March 2024** | **62** | **336** | **1,560** | **2,800** | **4,917** | **30** | **9,705** |

| | Early retirement £000 | Voluntary exit £000 | Dilapidations £000 | Legal £000 | Green Gas Support Scheme £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 April 2022 | 103 | 208 | 1,705 | 14,798 | - | 255 | 17,069 |
| Provided in the year | - | - | 105 | - | - | - | 105 |
| Provisions not required written back | - | - | - | (11,973) | - | (127) | (12,100) |
| Provisions utilised in the year | (19) | (208) | - | - | - | (98) | (325) |
| Impact of discounting | (6) | - | - | - | - | - | (6) |
| **Balance at 31 March 2023** | **78** | **-** | **1,810** | **2,825** | **-** | **30** | **4,743** |

| Analysis of expected timing of discounted cash flows as at 31 March 2024 | Early retirement £000 | Voluntary exit £000 | Dilapidations £000 | Legal £000 | Green Gas Support Scheme £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Not later than one year | 14 | 336 | - | 2,800 | 4,917 | 30 | 8,097 |
| Later than one year and not later than five years | 38 | - | 338 | - | - | - | 376 |
| Later than five years | 10 | - | 1,222 | - | - | - | 1,232 |
| **Balance at 31 March 2024** | **62** | **336** | **1,560** | **2,800** | **4,917** | **30** | **9,705** |

| Analysis of expected timing of discounted cash flows as at 31 March 2023 | Early retirement £000 | Voluntary exit £000 | Dilapidations £000 | Legal £000 | Green Gas Support Scheme £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Not later than one year | 16 | - | - | 2,825 | - | 30 | 2,871 |
| Later than one year and not later than five years | 45 | - | 338 | - | - | - | 383 |
| Later than five years | 17 | - | 1,472 | - | - | - | 1,489 |
| **Balance at 31 March 2023** | **78** | **-** | **1,810** | **2,825** | **-** | **30** | **4,743** |

**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 2024 but are not expected to happen until 2024-25.

**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.

**Legal**

A number of our RIIO-2 price control decisions for the gas distribution and transmission and electricity transmission sectors were subject to appeal before the Competition and Markets Authority (CMA). Final determination and cost orders were published during the financial year and the RIIO-2 portion of the legal provision was fully utilised.

A number of legal risks arose as a result of Ofgem's decisions taken during 2023-24. 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, estimated resource involved in responding to a challenge and potential third party costs.

**Green Gas Support Scheme**

The Green Gas Support Scheme (GGSS) makes payments to registered participants. There is a three stage application process before participants can be registered. The provision recognises applicants who are at the final stages of the process, are likely to be registered onto the scheme in the future, and where it is probable that future payments would be backdated to cover 2023-24 data. The provision value is based on estimated outputs and estimated eligibility date.

**Other provisions**

Other provisions are 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 judgements 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 £17.079 million to the Department for Business & Trade (DBT). £16.081 million of this was for advocacy services. The remaining £0.998 million was transferred for metrology services. These funds are collected by Ofgem through the licence fee, on behalf of DBT. In 2022-23, £13.892 million was transferred to the then Department for Business, Energy and Industrial Strategy (BEIS) for advocacy services and £0.918 million for metrology services.

We administer environmental programmes on behalf of the Department for Energy Security and Net Zero (DESNZ), and second staff to DESNZ (previously BEIS). Total income from DESNZ recognised in year amounted to £50.703 million, of which £9.118 million was accrued at 31 March 2024 (£39.446 million income in 2022-23 from BEIS with £9.353 million accrued at 31 March 2023).

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 £1.800 million was recognised in year from NIAUR (£1.459 million in 2022-23), and £0.855 million of income from DfE (£0.923 million in 2022-23). 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.

During the year Ofgem entered into the following material transactions with board members:

- Tony Curzon Price was engaged through an agency for advisory work prior to his appointment as a Non-executive director in November 2023. The agency arrangement was in place from September 2022 to October 2023 and was at arm's length. During 2023-24, Ofgem paid £58,968 including VAT to the agency for Tony Curzon Price's advisory services (2022-23: £84,672 including VAT).
- Graham Mather is the President, and a director, of the European Policy Forum Limited. Ofgem belongs to the Infrastructure Forum, which is part of this organisation. During 2023-24, Ofgem paid a membership fee of £7,500 to the European Policy Forum Limited (2022-23: £7,500).

An Ofgem employee became a director of FIGURE Forum CIC in August 2023. Ofgem spent £15,260 in relation to FIGURE Forum CIC for 2023-24 between November 2023 and March 2024.

None of the other 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 61.

# 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 2024 Ofgem held £8.25 million in letters of credit and £nil in cash (31 March 2023: £13.00 million in letters of 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 2024 was £40.48 million (31 March 2023: £53.17 million). Income of £6.58 million was recognised in 2023-24 in relation to RO schemes, of which £0.66 million was accrued at 31 March 2024 (£5.01 million income in 2022-23 with £0.47 million accrued at 31 March 2023). 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 Energy Security and Net Zero (DESNZ), 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.

Bank balances held in relation to FIT at 31 March 2024 totalled £0.92 million (31 March 2023: £0.94 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 DESNZ 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 2024 were: Domestic RHI: £3.787 million; Non-domestic RHI Great Britain: £0.106 million; Non-domestic RHI Northern Ireland: £0.114 million (31 March 2023: £5.113 million; £2.918 million; £0.023 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. As at 31 March 2024, Ofgem held £1.915 million in cash credit cover and £1.950 million in letters of credit (31 March 2023: £6.125 million in cash, £10.188 million in letters of credit).

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

## Boiler Upgrade Scheme

The Boiler Upgrade Scheme (BUS) is a government environmental scheme which supports the decarbonisation of heat in buildings. It provides upfront capital grants to support the installation of heat pumps and biomass boilers in homes and non-domestic buildings in England and Wales. The scheme opened in 2022, with £450 million of grant funding available until 2025. On 30 March 2023 the government announced that the scheme will be extended for three years until 2028. Ofgem is the scheme administrator, whilst DESNZ is responsible for the scheme policy and legislation set out in the Boiler Upgrade Scheme (England and Wales) Regulations 2022. The bank balance held in relation to the scheme at 31 March 2024 was £17.258 million (31 March 2023: £1.364 million).

## 16. 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.

| | 2023-24 £000 | 2022-23 £000 |
|---|---|---|
| Penalties imposed | 5,411 | 70 |
| | **5,411** | **70** |

Penalties imposed during 2023-24 amounted to £5,411,153.

In addition, £27,003 was received during 2023-24 in relation to a penalty imposed during 2019-20. The original penalty was for £200,000, but the organisation went into liquidation and only a portion of the penalty value was received. £27,003 was due to be paid to the Consolidated Fund at 31 March 2024.

## 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.

# Appendices

Annual Report and Accounts | 2023-24

# Appendix I

## Key Performance Indicators

### Industry Regulatory and Stakeholder Processes

| Metric (KPIs) | Details of what is being measured | Annual targets for 2023-24 | Actual |
|---|---|---|---|
| Offshore transmission processing | Licence granted from commencement of Section 8A5 consultations | 70 days | 64 days |
| Offshore transmission processing | Preferred Bidder selection of the 'Invitation to Tender' submission (excluding 'Best' and 'Final' Offers) | 120 days | 74 days |
| Licence applications | Decisions on licence applications made within the specific time period | 100% | 99.2% |
| Customer contacts | Time taken for first response to customer contacts | 80% within 10 working days | 99.23% |
| Whistle blowers | Time taken for first response to whistleblowers (external) | 100% – 1 working day to receive initial engagement | 97% |

### Environmental and Social Scheme KPIs

Scheme performance indicators are published regularly in the Environment and Social Schemes section of Ofgem's website. A summary of some of the metrics is provided below, listing the scheme, the metric and whether the target has been met or exceeded for 2023-24.

| Scheme | Responding to enquiries within 10 working days (target = 80%) | Maintaining system availability during business hours (target = 99%) | Making payments within agreed number of working days (target = 90% for NDRHI/95% for other schemes) |
|---|---|---|---|
| Domestic Renewable Heat Incentive (DRHI) | Yes | Below target in October 2023 (92.05%) | Yes |
| Non-domestic Renewable Heat Incentive (NDRHI) | Yes | Below target in January 2024 (97.98%) | Below target in May 2023 (93.53%) |
| Renewable Obligation (RO) | Yes | Yes | Below target in June 2023 (86.4%) and March 2024 (91.95%) |
| Feed in Tariffs (FIT) | Yes | Yes | Yes |

| Scheme | Responding to enquiries within 10 working days (target = 80%) | Maintaining system availability during business hours (target = 99%) | Making payments within agreed number of working days (target = 90% for NDRHI/95% for other schemes) |
|---|---|---|---|
| Energy Company Obligation (ECO) | Yes | Yes | n/a |
| Great British Insulation Scheme (GBIS) | Yes | Yes | n/a |
| Warm Home Discount (WHD) | Yes | n/a | n/a |
| Boiler Upgrade Scheme (BUS) | Yes | Below target in July 2023 (96.30%) and March 2024 (98.94%) | Yes |
| Green Gas Support Scheme | Yes | Below target in July 2023 (96.30%) | Yes |

## Fraud and error in schemes

Ofgem has a risk-based approach to countering fraud on the environmental and social schemes it administers. Ofgem has a dedicated Counter Fraud team to detect, prevent and deter fraud on the schemes and where fraud is found we take it seriously. The most effective way to reduce fraud on the schemes is prevention so Ofgem works closely with the policy writers to assess fraud risks and apply robust controls to make it even tougher for fraudsters to go undetected.

To detect fraud more effectively, the Counter Fraud team monitor risks and trends and use data analytics, allowing the team to target resource into high-risk areas, and to identify emerging areas of concern as early as possible. We supplement this with a rigorous sampling approach via our audit work to help identify wrongdoing at an early stage. This creates a strong deterrent for other fraudsters in the areas where we are seeing most fraud at that time, and to prevent emerging issues become future high-risk areas.

We monitor trends in non-compliance and the level of fraud and error in participant schemes through our audit programmes. The value of error stated here represents the estimated impact of both fraud and error. The value of payments made in error during 2023-24 under the Boiler Upgrade Scheme is estimated at £1.0 million (1.18% of total payments) within a 95% confidence interval of £0.1 to £2.0 million (2022-23 restated: 0.7 million (1.5% of total payments) within a 95% confidence interval of £0.2 million to £1.3 million). The value of payments made in error during 2023-24 under the GB Renewable Heat Incentive Schemes is estimated at £3.2 million (0.3% of total payments) within a 95% confidence interval of £2.1 million to £4.3 million (2022-23: £7.2 million (0.7% of total payments) within a 95% confidence interval of £5.1 million to £9.3 million).

# Appendix II

## Investigations and Enforcement Action 2023-24

Details of our cases are available on our website in accordance with our policy as set out in our Enforcement Guidelines. We will usually publish brief details of the facts and nature of the investigations on our website, although policy is different for cases relating to the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) and Network and Information Systems (NIS). Below you can find details of the investigations that we have completed this year. In investigations where we secured redress, the companies made payments either directly to consumers and/or to programmes and funds that would benefit them.

| Company | Issue | Decision | Date of decision |
|---|---|---|---|
| United Gas and Power Limited ("UGP") | Investigation into UGP's compliance with Standard Licence Conditions 0A, 7A, 7B and 21.B of its supply Licences. | Formal finding of breach. A statutory penalty of £1 was imposed. This was in addition to £2,111,798 (less £1) that UGP agreed to pay to Ofgem's Energy Industry Voluntary Redress Fund. The penalty is included in the total penalties imposed figure in Note 16 of the resource accounts. | April 2023 |
| SSE Generation Limited ("SSE") | Investigation into SSE's compliance with Standard Licence Condition 20A Transmission Constraint Licence Condition. | Formal finding of breach. A statutory penalty of £1 was imposed. This was in addition to £9,780,000 (less £1) that SSE agreed to pay to Ofgem's Energy Industry Voluntary Redress Fund. The penalty is included in the total penalties imposed figure in Note 16 of the resource accounts. | July 2023 |
| Morgan Stanley & Co. International plc ("MSIP") | Investigation into MSIP's compliance with Regulation 8(6) and Regulation 8(3) of the REMIT Enforcement Regulations. | Formal finding of breach. The Authority imposed a financial penalty of £5,411,149. The penalty is included in the total penalties imposed figure in Note 16 of the resource accounts. | August 2023 |

| Company | Issue | Decision | Date of decision |
|---|---|---|---|
| EP SHB Limited ("EPSHB") | Investigation into EPSHB's compliance with condition 20A of the Electricity Generation Standard Licence Conditions. | Formal finding of breach. A statutory penalty of £1 was imposed. This was in addition to £23,630,000 (less £1) that EPSHB agreed to pay to Ofgem's Energy Industry Voluntary Redress Fund. The penalty is included in the total penalties imposed figure in Note 16 of the resource accounts. | December 2023 |
| Hudson Energy Supply UK Limited ("HES") | Investigation into HES's compliance with SLCs 0A, 7A, 7B and 21.B of its Electricity Supply Licence. | Formal finding of breach. A statutory penalty of £1 was imposed. This was in addition to £1,668,426 (less £1) that HES agreed to pay to Ofgem's Energy Industry Voluntary Redress Fund. The penalty is included in the total penalties imposed figure in Note 16 of the resource accounts. | January 2024 |

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 |
|---|---|---|---|
| E.ON Next Energy Limited ("E.ON Next") | Ofgem compliance engagement with E.ON Next in relation to their application of the Guaranteed Standards of Performance regarding supplying a final bill timeously. | Alternative action, no formal finding of breach. E.ON Next agreed to pay £6,865,220 in redress. | May 2023 |
| Octopus Energy Limited | Ofgem compliance engagement with Octopus Energy Limited in relation to their application of the Guaranteed Standards of Performance regarding supplying a final bill timeously. | Alternative action, no formal finding of breach. Octopus Energy Limited agreed to pay £1,140,195 in redress. | May 2023 |

| Company | Issue | Decision | Date of decision |
|---|---|---|---|
| Good Energy Limited | Good Energy Limited self-reported that it had failed to adjust the tariff after a customer changed their payment method, resulting in an overcharge to 6,966 customers for varying periods between January 2019 and January 2023. Good Energy Limited also admitted to failing to comply with SLC 5 (failure to respond to Requests for Information appropriately). | Alternative action, no formal finding of breach. Good Energy Limited agreed to issue £391,650 in refunds and £368,404 in goodwill payments to affected customers and pay £1,250,000 to Ofgem's Energy Industry Voluntary Redress Fund. This equates to a total payment of £2,010,054. | May 2023 |
| Ovo Energy Limited | Ovo Energy Limited self-reported that due to operational errors with the implementation of the EPG discount to its tariffs approximately 11,000 customers were overcharged. | Alternative action, no formal finding of breach. Ovo Energy Limited agreed to issue £1,492,917 in refunds and £498,838 in goodwill payments to affected customers and pay £10,000 to Ofgem's Energy Industry Voluntary Redress Fund. This equates to a total payment of £2,001,755. | May 2023 |
| E.ON Next Energy Limited ("E.ON Next") | Ofgem's Market Compliance Review regarding the quality of all energy suppliers' customer service (October to December 2022) found significant failings in E.ON Next's customer service performance, which notably resulted in excessive call waiting times for its customers and high call abandonment rates. | Alternative action, no formal finding of breach. E.ON Next agreed to pay £4,000,000 to customers impacted by poor customer service and pay £1,000,000 to Ofgem's Energy Industry Voluntary Redress Fund. This equates to a total payment of £5,000,000. | June 2023 |

| Company | Issue | Decision | Date of decision |
|---|---|---|---|
| Bulb Energy Limited ("Bulb") | Prior to their acquisition by Octopus Energy Limited, Bulb self-reported non-compliance regarding final account balance exceptions. | Alternative action, no formal finding of breach. Bulb agreed to pay £231,861.58 to affected customers and pay £160,351.42 to Ofgem's Energy Industry Voluntary Redress Fund. This equates to a total payment of £392,213. | June 2023 |
| Bulb Energy Limited ("Bulb") | Prior to their acquisition by Octopus Energy Limited, Bulb self-reported non-compliance regarding restricted and related meters. | Alternative action, no formal finding of breach. Bulb Energy Ltd agreed to issue £106,231.65 in refunds and £78,311.29 in goodwill payments to affected customers and pay £27,950.60 to Ofgem's Energy Industry Voluntary Redress Fund. This equates to a total payment of £212,493.54. | June 2023 |
| Outfox the Market/ Foxglove Energy Supply Limited ("Foxglove") | Ofgem requires detailed information of suppliers' financial positions to ensure that companies are resilient. Foxglove repeatedly failed to report an appropriate level of detail within the timescale required. | Alternative action, no formal finding of breach. Foxglove agreed to pay £1,800,000 to Ofgem's Energy Industry Voluntary Redress Fund. | July 2023 |
| Bryt Energy Limited | Issue regarding the application of the Qualifying Financially Disadvantaged Customer discount to their deemed and out of contract rates, relating to the period January to March 2023. | Alternative action, no formal finding of breach. Bryt Energy Limited agreed to refund £136,677.46 to customers. | November 2023 |
| British Gas Trading Limited ("BG") | BG fell short of the smart meter installation targets set for 2022. | Alternative action, no formal finding of breach. BG agreed to pay £3,370,000 into Ofgem's Energy Industry Voluntary Redress Fund. | November 2023 |

| Company | Issue | Decision | Date of decision |
|---|---|---|---|
| Bulb Energy Limited ("Bulb") | Bulb fell short of the smart meter installation targets set for 2022. | Alternative action, no formal finding of breach. Bulb agreed to pay £1,830,000 into Ofgem's Energy Industry Voluntary Redress Fund. | November 2023 |
| E.ON Next Energy Limited ("E.ON Next") | E.ON Next fell short of the smart meter installation targets set for 2022. | Alternative action, no formal finding of breach. E.ON Next agreed to pay £1,720,000 into Ofgem's Energy Industry Voluntary Redress Fund. | November 2023 |
| Ovo Energy Limited ("Ovo") | Ovo fell short of the smart meter installation targets set for 2022. | Alternative action, no formal finding of breach. Ovo agreed to pay £2,390,000 into Ofgem's Energy Industry Voluntary Redress Fund. | November 2023 |
| Scottish Power Limited ("SP") | SP fell short of the smart meter installation targets set for 2022. | Alternative action, no formal finding of breach. SP agreed to pay £1,240,000 into Ofgem's Energy Industry Voluntary Redress Fund ("EIVRF"). In addition, SP agreed to pay £440,000 into the EIVRF in relation to its 2019 Annual Milestones smart metering obligations. This equates to a total payment of £1,680,000. | November 2023 |
| SSE plc | SSE plc fell short of the smart meter installation targets set for 2022. | Alternative action, no formal finding of breach. SSE plc agreed to pay £252,000 into Ofgem's Energy Industry Voluntary Redress Fund. | November 2023 |

| Company | Issue | Decision | Date of decision |
|---|---|---|---|
| Octopus Energy Limited | Octopus Energy Limited missed customers off the Priority Services Register after not receiving Meter Operating Point data. | Alternative action, no formal finding of breach. Octopus Energy Limited agreed to pay £622,060 to customers and pay £480 to Ofgem's Energy Industry Voluntary Redress Fund. This equates to a total payment of £622,540. | December 2023 |
| Dorenell Windfarm Limited | Dorenell Windfarm Limited accepted that it unintentionally failed to comply with Standard Licence Condition 20A (TCLC). | Alternative action, no formal finding of breach. Dorenell Windfarm Limited agreed to pay £5,530,000 to Ofgem's Energy Industry Voluntary Redress Fund. | March 2024 |

In addition to this, other compliance engagements resulted in the following.

| Type of impact | Value |
|---|---:|
| Refunds paid to customers | £76,804.06 |
| Compensation payments to consumers | £4,374.97 |
| Redress payments to the Voluntary Redress Fund | £108,882.36 |
| **Total** | **£190,061.39** |

## Open cases

Below are the open investigations as at the end of March 2024. 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 or NIS Regulations. 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 | March 2022 | Investigation into whether National Grid Electricity Transmission plc breached statutory obligations and licence conditions relating to the condition of their assets at Harker and delays to the connection of generation at the site. |
| British Gas Trading Limited ("BG") | February 2023 | Investigation into BG's compliance with Standard Licence Conditions 0, 13.1 (a) and (d), 27, 28 and 28B.1 of the Gas and Electricity Supply Licences. |

| Company | Date Opened | Issue |
|---|---|---|
| Ovo Energy Limited ("Ovo") | May 2023 | Investigation into four Ovo licensed supply entities which sit within the parent company of Ovo Energy Limited, and their compliance with Standard Licence Conditions ("SLC") SLC0.3(c)(d), 26.4, 26.5(d)(f), 27A and 28.1A, B of the Gas and Electricity Supply Licences. These SLCs relate to treating domestic customers fairly, obligations to customers on the Priority Services Register and ensuring customers' Prepayment Meters are safe and reasonably practicable in all circumstances. |
| Scottish and Southern Electricity Networks | May 2023 | Investigation into whether Scottish and Southern Electricity Networks is in compliance with rules around treating customers fairly, maintaining a Priority Services Register and ensuring sufficient resources are in place to comply with their obligations. |
| Drax Power Limited | May 2023 | Investigation into whether Drax Power Limited is in breach of annual profiling reporting requirements relating to the Renewables Obligations scheme and other related matters. |
| BES Commercial Electricity Ltd and Business Energy Solutions Ltd | September 2023 | Investigation into whether BES Commercial Electricity Ltd and Business Energy Solutions Ltd are in compliance with rules around ensuring deemed rates are not unduly onerous for customers. |
| Community Energy Scheme UK Ltd and Community Energy Scheme Stoke Ltd | October 2023 | Investigation into whether Community Energy Scheme UK Ltd has contravened consumer protection legislation through its sales and customer service practices. In December 2022, the scope of the investigation was widened to include Community Energy Scheme Stoke Limited, another legal entity contracting with consumers. |
| Maxen Power Supply Limited | November 2023 | Investigation into whether Maxen Power Supply Limited is in compliance with Standard Licence Conditions ("SLC") SLC0A, 4A, 7A, 7.3, 14 and 14A of the Gas and Electricity Supply Licences. These SLCs relate to treating microbusinesses fairly, operational capability, deemed rate pricing, terms of contracts, supply to microbusiness customers and customer transfer and transfer blocking. |
| Tomato Energy Limited | December 2023 | Investigation into whether Tomato Energy Limited is in compliance with Standard Licence Condition's (SLCs) 4A and 5 of the Electricity Supply Licence. This is as a result of concerns over the provision of data under the Energy Price Guarantee. These SLC's relate to Operational Capability (SLC 4A) and the Provision of Information to Authority and Data Retention (SLC 5). |

| Company | Date Opened | Issue |
|---|---|---|
| Utilita Energy Limited | February 2024 | Investigation into whether Utilita Energy Limited is in compliance with Standard Licence Conditions (SLCs) 4A, 11B, 12 and 12A of its Electricity Supply Licence. These SLCs relate to Operational Capability (SLC 4A), the Retail Energy Code (SLC 11B), Matters relating to Electricity Meters (SLC 12), and Matters relating to Theft of Electricity (SLC 12A). |
| Undisclosed | March 2024 | Investigation opened in relation to suspected breaches of competition law under Chapter II of the Competition Act 1998. The investigation concerns a suspected abuse of a dominant position. |

## Final Orders (FO)

Details of the notices of consultation for a FO where we did not proceed to issue a FO are listed below.

| Date consultation raised | Company | Concern | Outcome |
|---|---|---|---|
| June 2023 | Foxglove Energy Supply Limited ("Foxglove") | On 9 June 2023 the Authority issued a Notice of Proposal to issue a Final Order ("FO") on Foxglove under section 26(1) and (2) of the Electricity Act 1989 and section 29(1) and (2) of the Gas Act 1986. The behaviour of concern giving rise to the proposal was that Foxglove was contravening or was likely to contravene the operational principle (Standard Licence Condition 4A). | The Authority concluded that Foxglove had improved its operational capability such that it was able to respond accurately and on time to any Requests for Information from the Authority. Therefore, on 21 July 2023, the Authority made a decision not to make a FO. |

## Provisional Orders (PO)

We have also detailed the outcomes of the POs ended during this period. There were POs which were imposed in the previous reporting year that concluded this year.

| Provisional Order (PO) ended | Company | Outcome from PO |
|---|---|---|
| May 2023 | British Gas Trading Limited ("BG") | On 2 February 2023, the Authority issued a PO to BG in accordance with section 25(2) of the Electricity Act 1989 and 28(2) of the Gas Act 1986. It appeared to the Authority that BG was contravening or was likely to contravene Standard Licence Conditions 0, 13.1 (a) and (d), 27.11A, 28.1A, 28.1B and 28B.1.<br>The behaviours that gave rise to these concerns (and resulted in the issuing of PO) related to BG's procedures for installing of Prepayment Meters under a Relevant Warrant.<br>The Authority engaged with BG throughout the period of the PO being in place. The Authority accepted formal and legally enforceable undertakings from British Gas. In light of the formal undertaking given by BG the Authority decided not to confirm the PO. The PO lapsed and ceased to have effect on 2 May 2023. |
| May 2023 | E.ON Next Energy Limited ("E.ON Next") | On 2 February 2023, the Authority issued a PO with respect to contraventions by E.ON Next, in accordance with section 25(2) of the Electricity Act 1989 and 28(2) of the Gas Act 1986.<br>It appeared to the Authority that E.ON Next was contravening or was likely to contravene Standard Licence Conditions ("SLCs") 0.3(c)(i) and (iii) of its Gas and Electricity Supply Licences.<br>The Authority engaged with E.ON Next throughout the period of the PO being in place. Having assessed the information received, the Authority was satisfied that E.ON Next had taken steps which we considered to be appropriate to secure compliance with SLC 0.3(c)(i) and SLC 0.3(c)(iii) (in respect of E.ON Next's customer service provision). Therefore, the Authority decided not to confirm the PO. The PO lapsed and ceased to have effect on 2 May 2023. |

| Provisional Order (PO) ended | Company | Outcome from PO |
|---|---|---|
| July 2023 | Foxglove Energy Supply Limited ("Foxglove") | On 5 July 2022, the Authority issued a PO to Foxglove in accordance with Section 25(2) of the Electricity Act 1989 and Section 28(2) of the Gas Act 1986. The Authority considered that Foxglove was contravening or was likely to contravene the financial responsibility principle (Standard Licence Condition 4B).<br>On 21 July 2023, the Authority made a Revocation Order in accordance with section 25(7)(c) of the Electricity Act 1989 and Section 28(7)(c) of the Gas Act 1986. The Authority is now satisfied that the provisions made by the confirmed PO are no longer requisite for the purpose of securing Foxglove's compliance with SLC 4B. As such, the provisional order is no longer in place. |

Notes:

- The fact that we have opened an investigation does not imply that the companies involved have breached licence conditions or other obligations.
- We use the term investigations here to describe investigations where we have used our formal powers.

# 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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