BEIS Select Committee

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Date: 14 May 2021

Dear Select Committee,

Proposal regarding Ofgem Trust Statement

Ofgem currently prepares a Trust Statement within its Annual Report and Accounts, to disclose information related to the transactions of the Fossil Fuel Levy scheme (FFL) and also some regulatory penalties collected by Ofgem on behalf of HM Treasury.

We believe that the Trust Statement no longer serves a useful purpose because the FFL scheme closed in 2019, and penalties collected on behalf of HM Treasury are infrequent and are passed directly to the Consolidated Fund. We don't consider that the work involved in preparing and auditing the Trust Statement still achieves good value for money. Therefore, we propose to stop preparing a Trust Statement after the 2020-21 accounts are published. HM Treasury and National Audit Office both agree with the proposal, subject to there being no objection from the Committee.

Some more information on the transactions which have previously been recorded on the Trust Statement is set out below:

i. *Fossil Fuel Levy*

The Fossil Fuel Levy (FFL) was paid by suppliers of electricity from non-renewable energy sources in the United Kingdom to fund an obligation to purchase renewable and nuclear energy. FFL closed on 31 March 2019 but large cash balances had built up over the life of the scheme. We have agreed with BEIS, HM Treasury and Scottish Government that the cash balances will be transferred to Consolidated Fund and Scottish Consolidated Fund once the liquidation of the entities set up to administer the FFL is complete (we expect this to happen in 2021-22).

The only transactions for FFL in the last year are small amounts of bank interest.

ii. *Penalties*

Ofgem may collect penalties from the industry we regulate. These penalties are collected on behalf of HM Treasury and are paid in full into Consolidated Fund on receipt by Ofgem.

It is unlikely that Ofgem would collect more than 4 or 5 penalties each year. Therefore preparing a separate set of financial statements for so few transactions does not deliver good value for money.

Alternative arrangements

Enforcement action would continue to be disclosed as an Appendix to the Annual Report and Accounts. The value of penalties collected would be disclosed in a note to the financial statements and audited.

Potential change in circumstances

We would monitor the number of penalties being issued each year. If there was to be a significant increase in volume then we would contact HM Treasury to discuss reinstating a Trust Statement.

Notifying Parliament

If there are no objections to our proposal, we will state the intention to stop preparing a Trust Statement in the 2020-21 Ofgem Annual Report and Accounts and explain that we will add a note to the resource accounts in future instead.

Request

We request that you consider our proposal and please note any objections by 11 June 2021 by emailing Elaine.hutcheson@ofgem.gov.uk. If you have any queries about the Trust Statement proposal then please contact me and I will be happy to respond.

Yours faithfully,

Elaine Hutcheson
Senior Financial Reporting and Accounts Manager