

To interested parties

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## **Outcomes from Ofgem’s review of the severe weather compensation arrangements for electricity customers**

### **1. Background**

As the regulator for the energy sectors, Ofgem’s<sup>1</sup> top priority is to support and protect current and future energy consumers, with particular concern for consumers in the most vulnerable situations. To ensure consumers are properly protected, it is vital that regulatory arrangements evolve to take account of latest information and changing circumstances.

In late November 2021, Storm Arwen saw the worst damage and disruption to the electricity system in over 15 years. Thousands of customers in Northern England and Scotland faced power disruptions, with more than 4,000 customers off supply for between one and two weeks. The prolonged outages made life incredibly difficult for those affected.

### **2. Storm Arwen Report**

In June of this year we published our Storm Arwen Report.<sup>2</sup> The Storm Arwen Report set out our conclusions on the Distribution Network Operators’ (DNOs’) responses to the storm, and on how well the DNOs met their obligations to pay compensation to impacted customers. It concluded that the current arrangements do not fully acknowledge the impact of extended power cuts on affected customers. As a result, it placed an action on Ofgem to

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<sup>1</sup> The terms ‘we’, ‘the Authority’ and ‘Ofgem’ are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> Storm Arwen Report: <https://www.ofgem.gov.uk/publications/storm-arwen-report>

commission a further review specifically focusing on the customer compensation arrangements for severe weather events, as well as the effectiveness of the DNOs' systems and processes for ensuring that eligible customers receive their compensation payments in a timely manner. Specifically, Action 19 of the Storm Arwen Report committed Ofgem to "commission a review of the GSoP<sup>3</sup> for Severe Weather to identify amendments that will better acknowledge the impact of extended power cuts on customers", and suggested that the review should include assessing:

1. whether the thresholds for different storm categories are fit for purpose,
2. the current payment structure and developing alternatives, e.g. inclining payments,
3. if a compensation cap is still appropriate and, if so, what the right level is, and
4. options to improve the accuracy of customer data and making the process for compensation payments more efficient.

### **3. Review of the severe weather compensation arrangements**

In response to this action, we commissioned a review of the GSoP which culminated in a report setting out recommendations for improving the compensation framework. The review was informed by:

- stakeholder engagement - stakeholder views were gathered through meetings with DNOs, consumer organisations, and with industry bodies,
- analysis of historical data - on major storms events that have occurred since 2013 as well as DNOs' regulatory submissions on compensation paid out, and performance against guaranteed standards and other incentive mechanisms,
- comparisons against compensation arrangement in other utility sectors and in other countries.

The report has been published alongside this letter. Ofgem oversaw the review and we agree in principle that, if implemented, the report's recommendations will better acknowledge the impact of extended power cuts on customers, and will make it easier for customers to receive the compensation to which they are entitled. However, some of the recommendations will require further work with stakeholders to ensure that any changes can be implemented (discussed further below). Any changes to the compensation arrangements will also be subject to further public consultation.

The report contained eleven recommendations, which are summarised below. Please see the report for the full recommendations and explanation of the rationale for them.

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<sup>3</sup> GSoP means to the Guaranteed Standard of Performance. These are contained within the regulations that set out levels of service that DNOs are expected to achieve for their customers, and include the requirements around compensation payments to customers in the event of unacceptably long outages cause by severe weather. The Electricity (Standards of Performance) Regulations 2015: <https://www.legislation.gov.uk/uksi/2015/699/body/made>

### **Recommendations relating to the structure of compensation framework**

- **Recommendation 1:** Remove the storm Category 3. Categories 1 and 2 should remain.
- **Recommendation 2:** Reduce the additional payment intervals from 12 to 6 hours<sup>4</sup>, with the compensation payable halved for each individual payment interval.
- **Recommendation 3:** Update payments in line with inflation to 2020/21 prices, to bring them in line with the price levels used to set RIIO-ED2 allowances and given payments values have not been updated since 2015. This will increase the initial payments from £70 to £80 and additional payments from £70 to £80 every 12 hours.
- **Recommendation 4:** Explore amending the Electricity (Standards of Performance) Regulations 2015 to ensure that customers who have been off supply for a sufficient length of time to be eligible for compensation, but experienced a short temporary restoration of supply, are adequately compensated.
- **Recommendation 5:** Increase the cap from the equivalent of 5.5 days off supply for a Category 1 storm and 6.5 for a Category 2 storm to the equivalent of 13 and 14 days respectively. This will increase the maximum compensation per loss of power supply from £700 to £2,000.

### **Recommendations relating to customer data accuracy and payment efficiency**

- **Recommendation 6:** For Ofgem to update the overall GSoP arrangements to allow payment by bank transfer and other electronic means, such as secure link, in addition to the already established route by cheque.
- **Recommendation 7:** For industry to improve the information available on the Severe Weather GSoP customers' rights and compensation entitlements.
- **Recommendation 8:** For DNOs and suppliers to work together to establish a data sharing protocol between suppliers and DNOs for Severe Weather GSoP payments.

### **Wider Recommendations**

- **Recommendation 9:** Ofgem should, taking account of practical implications, consider whether and how to widen customer eligibility to groups currently missing out on compensation.
- **Recommendation 10:** Ofgem should consider the extent to which aligning the electricity GSoP with gas GSoP would be beneficial to customers, and whether any existing differences between the two frameworks are justified.
- **Recommendation 11:** Ofgem should consider the extent to which aligning the Severe Weather with the normal weather compensation frameworks would be beneficial.

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<sup>4</sup> Compensation payable per payment interval should be halved to reflect this change. This will ensure that customers will receive the same levels of payments for each 12-hour period as they otherwise would have.

## **4. Implementation of the recommendations**

### **Recommendations 1 to 5**

We consider that these recommendations can be implemented through changes to the Electricity (Standards of Performance) Regulations 2015 (the "Regulations"). We have started the process of making the necessary amendments to the Regulations. Before these changes can come into effect we will seek and consider further stakeholder views through public consultation. The process also requires the amendments to gain consent from the Secretary of State for Business, Energy and Industrial Strategy. We expect that any amendments to the Regulations will not come into effect any earlier than spring of next year.

We acknowledge that the risk that consumers may be affected by outages caused by severe weather before the amendments to the Regulations can come into effect. To ensure that customers are adequately compensated in such cases, it is our expectation that Distribution Network Operators (DNOs) voluntarily implement these recommendations from now until such time as the amended Regulations come into to effect.

### **Recommendations 6 to 11**

While many of the recommendations contained within the report can be implemented through amendments to the Regulations (e.g. Recommendation 6: it may be possible to make provision for payment by alternative means through existing regulations), full implementation of these recommendations will take more work as they may also involve changes to primary legislation, changes to industry codes or service agreements, and/or development of IT systems. We will engage with stakeholders (including DNOs, end-consumers, representatives of relevant organisations and other bodies, electricity suppliers, and other government bodies) before we decide how best to implement the recommendations, as well as the timings of any necessary work.

## **5. Next step**

We intend to publish a consultation early in the new year on the initial round of modifications to the regulation. We will start contacting stakeholders to begin further work on implementation of the longer-term recommendations in the coming weeks.

Should you have any questions in relation to the review and recommendations please email [AssetRiskResilience@ofgem.gov.uk](mailto:AssetRiskResilience@ofgem.gov.uk) in the first instance.

Yours faithfully,

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