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Report

Review of Severe Weather Compensation Arrangements for Electricity Customers

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This report was prepared by consultants on behalf of Ofgem. The Ofgem Storm Arwen Report[1] included the following action (Action 19): "We will commission a review of the GSoP for Severe Weather to identify amendments that will better acknowledge the impact of extend-ed power cuts on customers". In response to this action, Ofgem commissioned the consult-ants to carry out a review of the Severe Weather Guaranteed Standards of Performance (GSoP). This document sets out the consultants' conclusions from the review.

Ofgem has overseen the review and this report and the recommendations it contains have been agreed with it.

[1] Storm Arwen Report: https://www.ofgem.gov.uk/publications/storm-arwen-report

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Glossary

Category 1: Storm causing between eight and twelve times the daily average number of faults in a 24-hour period, as defined in the Electricity (Standards of Performance) Regulations 2015.

Category 2: Storm causing more than twelve times the daily average number of faults in a 24-hour period, as defined in the Electricity (Standards of Performance) Regulations 2015.

Category 3: Storm where the length of time without supply before a payment may be due depends on the scale of the impact of the weather (this is determined by the number of customers interrupted relative to predefined thresholds), as defined in the Electricity (Standards of Performance) Regulations 2015.

Distribution Network Operator (DNO): The company that owns and operates the power lines and infrastructure that connect a premise to the transmission networks operated by National Grid, Scottish Power and Scottish and Southern Energy. There are fourteen electricity distribution networks , each of which covers a separate geographic region of Great Britain.

Gas Distribution Network (GDN): The company that operates gas pipelines and infrastructure that connect a premise to the transmission networks operated by National Grid. There are eight gas distribution networks (GDNs), each of which covers a separate geographical region of Great Britain.

Normal Weather: Weather conditions that cause electricity supply cuts for customers. The scale of supply cuts must be less than eight times the daily average number of faults in a 24-hour period. The average daily number of faults is defined in the Electricity Supply Regulations (2015) in Schedule 2, Part 3.

Ofgem Storm Arwen Report: Given the severity of Storm Arwen and the long period in which customers were without power, Ofgem conducted a review of the DNOs response to Storm Arwen. In February 2022, Ofgem published an interim report which provided an early indication of areas for further investigation, followed by a final report that set out clear recommendations for improvement.

RIIO: Regulatory framework to ensure that network companies provide a safe and reliable service, value for money, maximise performance, operate efficiently, innovate, and ensure the resilience of their networks for current and future customers. RIIO stands for **R**evenue = **I**ncentives + **I**nnovation + **O**utputs. For electricity distribution operators, RIIO-ED1 covers the period from April 2015 to March 2023 and RIIO-ED2 will cover the period from April 2023 to March 2028

Severe Weather: Weather conditions that cause electricity supply cuts for customers. The scale of supply cuts must be at least eight times the daily average number of faults in a 24-hour period. The average daily number of faults is defined in the Electricity Supply Regulations (2015) in Schedule 2, Part 3.

Severe Weather Guaranteed Standards of Performance (GSoP): The guaranteed standards of performance, relating to supply restoration specifically for Severe Weather events. The standards are defined in the Electricity (Standards of Performance) Regulations 2015.

Executive Summary

In November 2021, Storm Arwen brought widespread destruction to the UK, with wind speeds reaching up to 98mph in some areas. This resulted in over one million customers losing power, approximately 40,000 of which were off supply for more than 3 days. 4,000 customers were off for a week, with some off for longer than 10 days[2].

Following widespread disruption and long-lasting power cuts homes and businesses caused by Storm Arwen, separate reviews were undertaken by Ofgem and the Energy Emergencies Executive Committee (E3C)[3] into the Distribution Network Operators' readiness, reaction, and support after the incident.

Ofgem's report[4] contained several actions, one of which was to "commission a review of the Guaranteed Standards of Performance (GSoP) for Severe Weather, and to identify amendments that would better acknowledge the impact of extended power cuts on customers". The action suggested the review should include[5]:

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

This report adopts a similar approach to assess potential changes to the Severe Weather GSoP, as was used when it was last reviewed (following the 2013 storms)[6]. The approach covers customer impact, proportionality, the impact on Distribution Network Operators (DNO) incentives, ease of operation of the Severe Weather GSoP, and good practice and innovation. For customer data accuracy and payment efficiency, where options considered

[2]Storm Arwen Report: https://www.ofgem.gov.uk/publications/storm-arwen-report

[3] E3C is a partnership between government, and industry, which ensures a joined-up approach to emergency response and recovery

[4]https://www.ofgem.gov.uk/sites/default/files/202206/Final%20report%20on%20the%20review%20into%20the%20networks%27%20response%20to%20Storm%20Arwen.pdf

[5]https://www.ofgem.gov.uk/sites/default/files/202206/Final%20report%20on%20the%20review%20into%20the%20networks%27%20response%20to%20Storm%20Arwen.pdf

[6] https://www.ofgem.gov.uk/sites/default/files/docs/2014/03/final_december_2013_storms_review_1.pdf

are not always mutually exclusive, we have considered the balance of potential implementation effort and effectiveness to identify priority areas for further development.

Reviewing the structure of the Severe Weather GSoP

For the first three areas of the review (storm categories, payment structure and cap) we recommend:

- **Recommendation 1:** Remove the Category 3 threshold.

- **Recommendation 2:** Reduce the additional payment intervals from 12 to 6 hours[7], 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 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.

The recommendations contained in this report have been designed to better reflect customer inconvenience and evidence on restoration times. The recommendations also seek to limit DNOs' financial exposure in circumstances where Severe Weather conditions limit their ability to restore power to customers.

[7] 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.

Had these recommendations been in place during Storm Arwen, the total level of mandatory payments would have been 27% higher (£6m) than they were. However, it would have meant that customers were better protected, because protection would have been less reliant on DNOs' discretionary action[8], and it would have been easier for consumers to understand whether they were eligible and the levels of compensation they should expect to receive.

While DNOs should continue to take discretionary action, when appropriate, these recommendations will make the compensation arrangements more transparent and easier to understand.

Reviewing options to improve customer data accuracy and payment efficiency

DNOs require customer details such as their name and address in order to make the Severe Weather GSoP payments. DNOs will not hold these data for all customers, and will need to reach out to customers, suppliers or rely on customer self-reporting of power cuts to obtain them. However, the sharing and holding of potentially sensitive customer data, presents some practical and regulatory challenges which were raised during interviews. These include adhering to GDPR requirements. In terms of the fourth area of the Review, we therefore recommend the following:

- **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

[8] Discretionary payments enable DNOs to offer targeted support on a case-by-case basis, which would see them paying out compensation in excess of what is required by the GSoP regulations.

sharing protocol between suppliers and DNOs for Severe Weather GSoP payments.

The review has also identified potential improvements to the framework and to its operation that may require more time to assess and implement as appropriate. This includes options such as suppliers acting as a conduit for compensation payments. The practical considerations and customer impact of these would need to be explored further.

Wider Recommendations

In addition to the four specific areas of the review, Ofgem should also explore these and consider how they can be implemented to best ensure the overall framework is as fair and efficient as possible.

- **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.

Ofgem may need to further amend the Severe Weather GSoP in the future should circumstances change. For example, the Ofgem Storm Arwen Report identified the potential threat of increased Severe Weather as a result of climate change.

1. Introduction and scope of review

1.1. The Electricity Act 1989[9] allows the Gas and Electricity Markets Authority ("the Authority")[10], with the consent from the Secretary of State for Business, Energy and Industrial Strategy to make regulations for Guaranteed Standards of Performance (GSoPs) for Distribution Network Operators (DNOs).

1.2. In 2005, Ofgem introduced a new statutory instrument to replace the Electricity (Standards of Performance) Regulations 2001 No. 3265[11]. This introduced the distinction between normal and Severe Weather conditions in terms of supply restoration.

1.3. The initial framework for the Severe Weather GSoP established three categories of Severe Weather, depending on the severity of the weather-related impact on the distribution network. The length of time off supply after which affected customers became eligible for compensation was dependent on the Severe Weather category. Payment structure consisted of an initial payment of £25, with additional £25 payable for every successive 12-hour period in which a customer's power supply was not restored. Compensation was capped at £200 per customer, and both domestic and non-domestic customers were entitled to the same compensation.

1.4. In 2014, the Severe Weather GSoP was reviewed following the December 2013 Storms[12]. That review led to an increase in the initial payment to £70 and a compensation cap of £700. This was to ensure that customers were better compensated for the inconvenience they experienced when off supply. The amendments were considered to adequately balance the relevant considerations: customer impact, proportionality, incentives, ease of operation and good practice and innovation. The Severe Weather GSoP have not been updated since.

[9] https://www.legislation.gov.uk/ukpga/1989/29/contents
[10] The terms 'the Authority' and 'Ofgem' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.
[11] https://www.ofgem.gov.uk/sites/default/files/docs/2005/01/9300-0305.pdf
[12] https://www.ofgem.gov.uk/sites/default/files/docs/2014/03/guaranteedstandardsofperformanceconsultationletter31march2014.pdf

Table 1: Summary of Severe Weather GSoP over time

GSoP characteristic	2005, introduction of Severe Weather	2010, update for inflation	Post 2013 Storm Review
Payment value	£25 (domestic and non-domestic customers)	£27 (domestic and non-domestic customers),	£70 (domestic and non-domestic customers), de-linked from inflation
Cap	£200	£216	£700
Categories	Three categories of Severe Weather		

*Was not applied given the review following the December 2013 storms

1.5. In November 2021, Storm Arwen brought widespread destruction within the UK, with wind speeds reaching up to 98mph in some areas. This resulted in over one million customers losing power, approximately 40,000 of which were off supply for more than 3 days. 4,000 customers were off for a week, with some off for longer than 10 days[13]. The scale and duration of interruption to customers was significantly greater than previous Severe Weather events.

Scope of this review

[13] https://www.ofgem.gov.uk/sites/default/files/202206/Final%20report%20on%20the%20review%20into%20the%20networks%27%20response%20to%20Storm%20Arwen.pdf

1.6. As a result of the widespread and long-lasting disruption caused by Storm Arwen, Ofgem[14] and the Energy Emergency Executive Committee (E3C)[15] carried out separate reviews into DNOs' response to Storm Arwen and the Severe Weather GSoP regime among other areas. The reviews assigned several actions to industry, government and Ofgem. One of the actions (Action 19 from Ofgem's Storm Arwen Report) was to undertake a review of the Severe Weather GSoP to identify amendments that w better acknowledge the impact of extended power cuts on customers. The report identified four areas for review:

- Assessing whether the thresholds for different storm categories are fit for purpose in light of climate change,
- Consideration of the current payment structure and developing alternatives, e.g., inclining payments,
- Assessing if a compensation cap is still appropriate and, if so, what the right level is.
- Developing options to improve the accuracy of customer data and make the process for compensation payments more efficient.

1.7. As noted in Ofgem's Storm Arwen Report, the objective of this review is to *"identify amendments that will better acknowledge the impact of extended power cuts on customers"*[16]*.* This report reviews the current Severe Weather GSoP framework and presents recommendations to improve the framework.

[14] https://www.ofgem.gov.uk/sites/default/files/202206/Final%20report%20on%20the%20review%20into%20the%20networks%27%20response%20to%20Storm%20Arwen.pdf

[15] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1081116/storm-arwen-review-final-report.pdf

[16] Ofgem, Final report on the review into the networks response to Storm Arwen: https://www.ofgem.gov.uk/sites/default/files/2022-06/Final%20report%20on%20the%20review%20into%20the%20networks%27%20response%20to%20Storm%20Arwen.pdf

2. Overview of Severe Weather GSoP

2.1. There are three key components to the Severe Weather GSoP framework:

- **Storm Categories**: Determine how long a DNO has to restore customers' supply before an GSoP compensation payment must be made. The categories are assigned on a DNO region basis.
- **Payment structure**: Determines the amount of mandatory compensation customers impacted by Severe Weather events are entitled to. This is primarily a function of how long a customer has been without power and the storm category.
- **Cap:** Determines the maximum value of compensation an individual customer is entitled to receive for a single power cut.

Storm Categories

2.2. The Severe Weather GSoP consists of three storm categories which define storms based on their impacts on the network. For an event to be considered as Severe Weather, there must be at least 8 times the daily average of faults[17] in a 24-hour period. Once this threshold is reached, the event is considered Severe Weather. The criteria determining which of the three categories a Severe Weather event falls into are summarised below.

2.3. **For a storm to be considered Category 1**, the total number of customers off supply should not exceed the Category 3 threshold value (see Formula 1 below) and the storm must meet one of the following two conditions:

- If the storm is caused by weather predominantly relating to lightning, it must cause 8 or more times the daily average number of faults in a 24-hour period; or
- If a storm is not caused by weather predominantly relating to lightning , it must cause between 8 and 12 times the daily average number of faults in a 24-hour period.

[17] The average daily number of faults is defined in the Electricity Supply Regulations (2015) in Schedule 2, Part 3. https://www.legislation.gov.uk/uksi/2015/699/pdfs/uksi_20150699_en.pdf

2.4. For a Category 1 storm, DNOs have 24 hours to restore electricity supply before affected customers become eligible for mandatory Severe Weather GSoP payments.

2.5. **For a storm to be considered Category 2**, it must cause more than 13 times the daily average number of faults in a 24-hour period, unless the total number of customers off supply exceeds the Category 3 threshold value (see Formula 1 below).

2.6. For a Category 2 storm, DNOs have 48 hours to restore electricity supply before affected customers become eligible for mandatory compensation payments.

2.7. **For a storm to be considered Category 3,** the number of customers off supply exceeds the DNO's Category 3 threshold value[18].

- The length of time without supply before affected customers become eligible for mandatory compensation payments is calculated in accordance with the formula below[19].

2.8. Formula 1:

$$Length\ of\ time\ before\ payment\ due\ (hrs)\ =\ 48\ \times(\frac{Total\ number\ of\ customers\ interrupted}{Category\ 3\ threshold\ number\ of\ customers})^2$$

Payment structure

2.9. After the 2013 storms review, the Severe Weather GSoP payments were raised to £70 initial payment, with an additional payment of £70 for every subsequent 12-hour period that a customer is off supply. This applies to all storm categories (see chapter below).

Severe Weather GSoP cap

[18] The Category 3 threshold value is specific to individual DNOs and set out in RIIO-ED1 regulatory instructions and guidance: Annex F, https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/annex_f_interruptions_0.pdf

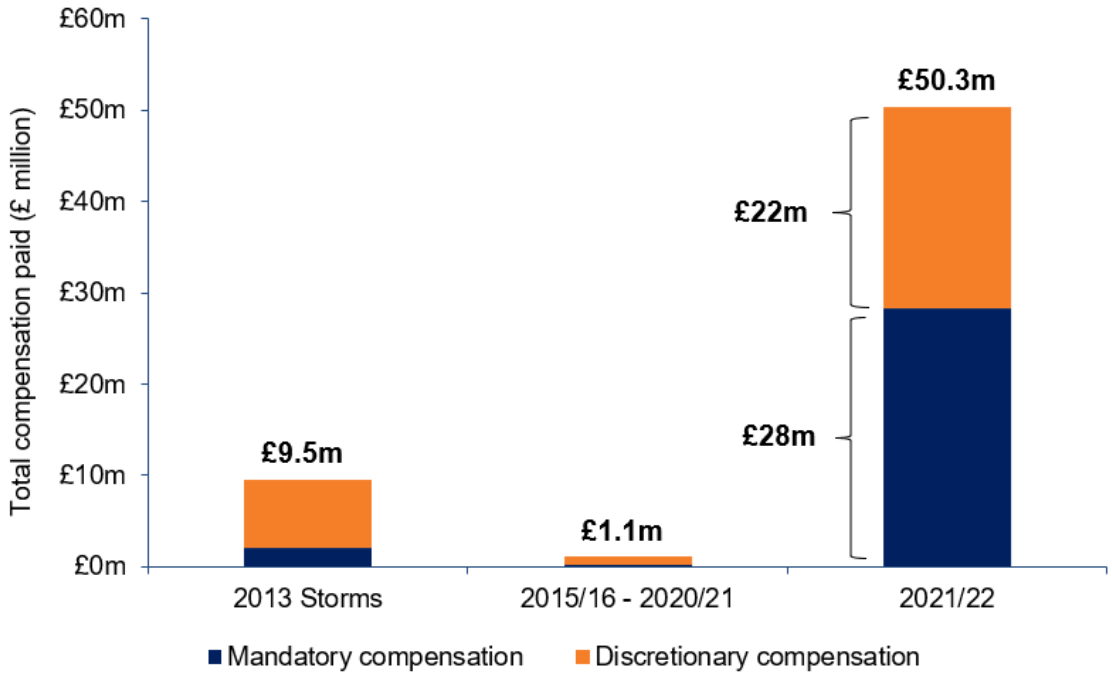
[19] Each DNO region will have a specified Category 3 threshold of number of customers. If that threshold is met, the formula applies. The formula will divide the total number of customers off power for that particular DNO region by the threshold (always resulting in a value equal to or greater than 1. This ensures the minimum restoration time before GSoP payments kick in is 48 hours. The higher the number of customers affected by a power cut the higher than initial threshold will be.

2.10. As described in chapter 1, the maximum amount of compensation a customer is entitled to receive for a single power cut is capped. Following the most recent revision of the Severe Weather GSoP described in chapter 1, the cap was revised to £700 per customer. This remains the cap value today. This value equates to 5.5 days off supply for a Category 1 storm and 6.5 days for a Category 2. For a Category 3 storm, the length of time off supply before a customer becomes eligible for compensation is dependent on the number of a given DNO's customers that were impacted (described in formula 1 above). Regardless of how long they are off supply in any one loss of supply event, customers are not entitled to mandatory compensation above the £700 cap value.

Payments made under the Severe Weather GSoP

2.11. Figure 1 below shows the compensation payments made under the Severe Weather GSoP since the 2013 storms. Payments in 2021/22 were particularly high as both Storms Arwen and Eunice occurred in that year.

Figure 1: Severe Weather GSoP payments



Source: Ofgem RIIO-ED1 reporting data

2.12. Figure 1 shows that during periods without large storm events the existing framework does not lead to significant levels of total compensation payments. However, when

there are large Severe Weather incidents, the amount of compensation, both mandatory and discretionary, increases substantially, with the existing cap being reached for some customers. On these occasions during the December 2013 Storms, Storm Arwen and Storm Eunice, DNOs decided not to apply the cap.).

3. Principles and approach to this review

Principles

3.1. The Severe Weather GSoP is an inconvenience-based compensation payment and applies equally to businesses and households. These principles recognise that, even for a DNO that has planned and responded appropriately, in some circumstances, extended periods of outage for some customers may be unavoidable. Severe Weather conditions can, for example, mean that it is not safe for a DNO to deploy staff needed to reconnect certain customers, or widespread storm damage might mean that a DNO needs to focus finite resources where they will restore the greatest number of customers. The compensation payments are therefore not intended to penalise DNOs that have planned and responded appropriately, nor are they intended to compensate customers for specific financial losses incurred, or damages caused by power cuts. This principle has underpinned the Severe Weather GSoP since its introduction in 2005. We consider it remains appropriate as the trade-offs and pressures described above continue to apply.

Approach

3.2. To develop and consider potential options for amending the Severe Weather GSoP and to inform our recommendations, we have:

1. Considered the key issues raised by the separate Ofgem and EC3 reviews on Storm Arwen
2. Gathered evidence around the Severe Weather GSoP as well as other compensation regimes through:
    a. historical GSoP data from RIIO-ED1 reporting covering number of premises affected and payments made over time by storm category,
    b. storm-specific data: Data on customers affected and restored, value and speed of payments made, and customer experiences during the storm. Data is available for Storm Arwen, Storm Eunice and the December 2013 Storms, although not all data points are available for each storm,
    c. stakeholder engagement: We met all DNOs, Energy Networks Association (ENA), Energy UK, Citizens Advice, Age UK and the Independent Park Homes Advisory Service (IPHAS) in order to hear their views on how well

the current compensation arrangement have worked and how they may be improved,

d. International and sector benchmarking.

3. Assessed potential changes using a set of criteria that accurately capture potential costs, benefits and trade-offs faced by customers and DNOs. These are:
   a. Customer impact
   b. Proportionality
   c. Incentives
   d. Ease of operation
   e. Good practice and innovation

Key issues raised by the Ofgem Storm Arwen report:

3.3. We focus primarily on the issues relating to the Severe Weather GSoP that the Ofgem Storm Arwen Report specifically raised. These are:

- The £700 cap may not have reflected the level of inconvenience faced by some customers who were off supply for an extended period of time(paragraph 7.10)
- While some customers were content with compensation received, others did not feel a £70 per 12-hour period off supply adequately reflected the inconvenience they experienced (paragraph 7.10)
- The need to improve the accuracy of customer data to which DNOs have access to make the process for compensation payments more efficient. Payments in many cases were slow, as DNOs did not have the necessary customer information to make payments. (Paragraphs 7.5-7.9).[20]

Evidence informing the recommendations

Historical GSoP data

3.4. Ofgem GSoP reporting data from DNOs: This is the historical data reported on GSoP payments by each DNO. This dataset contained information on the number of

[20] Ofgem, Storm Arwen Report: https://www.ofgem.gov.uk/publications/storm-arwen-report

customers which were off supply as a result of either a Category 1, 2 or 3 storm. The data also showed how many customers were eligible for compensation due to failure to be restored within the standard. Data also included the overall number of payments made to customers.

3.5. Ofgem-Storm specific data - For Storm Arwen, Storm Eunice, and the December 2013 Storms the following data was available:

- Customer restoration profile
- Number of customers off supply
- Number of customers restored each day

3.6. We have relied on Storm Arwen more heavily than for other storms because, for Storm Arwen only, the following data was also available:

- Weekly payment profile (number of customers paid), available for Arwen only
- Customer experience, available for Storm Arwen only. This was an Ofgem research project seeking to understand the experiences of customers who were affected by an extended power outage as a result of Storm Arwen. The research explored the impacts of the power outage as well as customers' experiences of communication and support received from DNOs during the incident[21].

3.7. Ofgem - Default Tariff Cap: We utilised data on the Default Tariff Cap which has a breakdown of the components that make up energy bills for customers. From this we were able to define the average compensation for distribution charges, which customers pay as part of their energy bill.

3.8. We have used this information to:

- test the impact of options considered on compensation payments if the option had been implemented for Storm Arwen. This enabled us to understand the impact on customers and DNOs, as well as the proportionality of the measures being proposed,
- understand the average payment made to customers in past Severe Weather incidents and the number of customers affected,

[21] Ofgem, 2022 Customer Experiences of Storm Arwen. https://www.ofgem.gov.uk/publications/customer-experiences-storm-arwen

- understand customer concerns and experience during Storm Arwen, including whether they considered payments received to be appropriate and their experience in receiving payments,
- contextualise average payments paid out relative to energy bills, including the portion of bills attributable to distribution charges.

Stakeholder engagement

Distribution Network Operators (DNOs)

3.9. We gathered insights from DNOs both through individual interviews as well as a roundtable, attended by all DNOs and the ENA. The engagement covered: the existing Severe Weather GSoP arrangements, their experience during Storm Arwen, options to improve customer data accuracy and payment efficiency, and the pros and cons of potential changes to the structure of the GSoP.

3.10. We also reviewed previous DNO responses to legislation changes surrounding the Severe Weather GSoP - for example the response to the 2013 Storms Review.

3.11. DNOs explained the experiences and GSoP shortcomings during Storm Arwen but expressed concern that the changes proposed would limit their ability to offer more targeted discretionary support and could expose them to a higher level of risk.

3.12. DNOs also pointed out challenges in obtaining customer data and the potential confusion for customers if payments were to be made by suppliers, as DNOs would fix the fault and be responsible for payments reaching customers, but suppliers would pay the compensation. In addition, they suggested that suppliers making the payments would introduce another layer of cost and process, as DNOs still need to credit them before they pay customers, adding a new step into the payment process.

Energy suppliers

3.13. Views from an energy suppliers' representative body: We engaged Energy UK to determine suppliers' views on how they would be impacted if they were to be more involved in the GSoP payment regime. They noted concerns around taking on additional responsibilities and costs for suppliers, particularly given the current dynamics of the energy market, and the complexities for suppliers in the delivery of payments to customers.

Consumer organisations and industry bodies

3.14. We engaged consumer organisations and charities. They expressed views around the treatment of - potential exclusion of vulnerable customers - including those served under a business contract and reseller arrangement.

3.15. We also engaged with a gas data provider to gather insights on how GSoP payments were paid in the gas sector and if there was anything the electricity sector could learn from the gas sector. They noted the gas sector structure is simpler than electricity, allowing for payments via gas suppliers.

3.16. We engaged a networks trade body to further understand barriers to obtaining customer data and making payments quickly and how these can be addressed. They highlighted challenges for DNOs to obtain data.

3.17. We have used this evidence to:

- understand the perspective and experience of the current Severe Weather GSoP and potential amendments across the sector and customers,
- understand challenges and develop options around customer data accuracy and payment efficiency.

Benchmarking

International benchmarking

3.18. We examined the equivalent guaranteed standards of performance mechanisms in a number of countries in Europe:

- France: Customers which are off supply for more than 5 hours will receive payment of 2 euros per kVA of power subscribed. They will receive an additional 2 euros per kVA of power subscribed, for each additional 5-hour period off supply, with a cap of 40 consecutive 5-hour periods[22].

[22] What support is there in an event of a power outage: https://www.enedis.fr/faq/coupure-de-courant/quelle-prise-en-charge-en-cas-de-coupure-de courant#:~:text=Dans%20le%20cas%20o%C3%B9%20vous,tranches%20cons%C3%A9cutives%20de%205%20heures

- Germany: The German regulator Bundesnetzagentur (BNetzA) sets standards of performance based on the value of lost load, equivalent to 0.25 EUR per customer, per minute, per year compared to a stated reference[23].
- Italy: Customers are entitled to 30 euros if off supply for 8 hours, for every additional 4 hours off supply they are entitled to 15 euros in compensation. This is capped at 240 hours[24].
- Spain: The compensation for power outage is based on a discount on the customer bill, which is set at a maximum of 10%[25].

Sectoral benchmarking

3.19. We examined other regulated sectors within the UK to determine similarities and differences between the guaranteed standards of Performance, these sectors included:

- Gas: Domestic customers get £60 every 24 hours, while non-domestic customers get £100 every 24 hours, there is no cap and there is no separation in the regulations for weather within the Supply restoration GSoP[26].
- Telecoms: After 48 hours of outage, customers are entitled to £8.40 a day. Suppliers have an option after 30 days to introduce a cap, which stops payments at 60 days[27].
- Water: Customers receive £20 when they are off supply for 12 hours which is followed by £10 every 24 hours. This is uncapped. Although, Ofwat has recommended this is updated to £30 for the first 12 hours, followed by £30 every 12 hours, which will remain uncapped[28].

3.20. We have used this evidence to:

[23] Report to determine the quality element of the regulations, https://www.bundesnetzagentur.de/SharedDocs/Downloads/DE/Sachgebiete/Energie/Unternehmen_Institutionen/Netzentgelte/Strom/Qualitaetselement/Bericht%20zur%20Bestimmung%20des%20Qualit%C3%A4tselements%202022.pdf?__blob=publicationFile&v=1

[24] Quality of Electricity distribution services regulation, https://www.areti.it/content/dam/acea-areti/documenti/area-servizi/allaccio-rete-elettrica/testo_integrato_qualita_servizio_elettrico_2016-2023.pdf

[25] How to claim damages resulting from power outage, https://linkener.com/blog/como-reclamar-los-danos-derivados-de-un-corte-en-el-suministro-electrico#:~:text=En%20este%20caso%20la%20indemnizaci%C3%B3n,un%20descuento%20m%C3%A1ximo%20del%2010%25

[26] Ofgem, Guidance on Guaranteed Standards of Performance and Standard Conditions, Special Licence Condition D10, https://www.ofgem.gov.uk/sites/default/files/docs/2009/09/guidance-on-gsop-regs-and-d10---new_0.pdf

[27] Ofcom, Automatic Compensation: What you need to know, https://www.ofcom.org.uk/phones-telecoms-and-internet/advice-for-consumers/costs-and-billing/automatic-compensation-need-know#:~:text=Compensation%20should%20be%20paid%20no,date%20of%20the%20missed%20appointment.

[28] Ofwat, Guaranteed Standards Scheme Recommended Changes, https://www.ofwat.gov.uk/wp-content/uploads/2018/08/Guaranteed-Standards-Scheme-Recommended-changes-to-the-UK-Government.pdf

- understand the standards set in other countries and sectors and compare the Severe Weather GSoP against these, to see if there are areas or practices that would help address problems raised in the Storm Arwen Report.

Framework for options assessment

3.21. For the first three areas of the review, potential options were considered against the criteria used in the 2013 Storms Review[29]. This framework has been used as an established way to consider the merits of potential amendments to the GSoP. We consider this assessment framework to still be fit for purpose. The framework considers the impact of potential changes to GSoP arrangements in the following areas.

- **Customer impact:** GSoP payments should continue to recognise the inconvenience to customers, rather than reflecting the full cost of a power cut to a customer. From a customer's perspective, extended periods without supply are particularly inconvenient. It may therefore be appropriate to structure payment levels so that interruptions of a longer duration trigger higher payments, or to have a higher maximum payment value in relation to a single event.

- **Proportionality:** Changes should strike a balance between the inconvenience faced by customers from power cuts and the financial impact on networks recognising legitimate constraints on DNOs ability to restore power, particularly in Severe Weather incidents.

- **Incentives:** Any changes should not adversely affect the incentives on DNOs to minimise the impact of power cuts on customers (both frequency and duration).

- **Ease of operation:** Proposed changes should be easy to implement and deliver over time. The regulations should be simplified where there is scope to do so a without compromising the other assessment criteria.

[29] Ofgem, Open letter consultation on potential changes to Severe Weather related Guaranteed standards of Performance (GSOP) following the December 2013 storms, https://www.ofgem.gov.uk/sites/default/files/docs/2014/03/guaranteedstandardsofperformanceconsultationletter31march2014.pdf

- **Good practice and innovation:** Changes proposed should not discourage good practice or innovation and should, where possible, build on these. Proposed changes should continue to leave scope for network businesses to go beyond the minimum approach when considering customer needs, in particular the needs of vulnerable customers, suggest that additional support is required.

3.22. We recognise not all criteria will be relevant or significantly impacted by all options considered. If an option has a limited impact against a specific criterion, we have not covered that criterion in the review area chapters below.

3.23. While not explicitly covered in the criteria, we also considered, in our rationale for proposing changes, that there are other elements of the price control that incentivise DNOs' restoring power to customers. To addresses the fourth area of the review (customer data accuracy and payment efficiency), we assessed options based on likely effort to implement and anticipated effectiveness in speeding up payments and generally improving customers' experiences of the GSoP regime. This allowed us to identify priorities for further development from a wide range of options, not all of which are mutually exclusive. The criteria are defined below.

- **Effort:** Resource burden placed on industry (including DNOs and suppliers) to pay/facilitate compensation and customer effort in receiving payment, particularly for vulnerable customers.

- **Effectiveness:** Speed of payment, i.e. how much each option facilitates or speeds up payments, incorporating any reduction in payment accuracy. In addition, other factors affecting customers' overall experience of the GSoP regime, such as the need for customer understanding or difficulties for certain customer groups are also considered as part of effectiveness

4. Recommendations

4.1. The recommendations from this review are set out below. Explanation of assessment results and the rationale for them are provided in Chapters 5 to 8.

4.2. Ofgem may need to further amend the Severe Weather GSoP in the future should circumstances change. For example, the Ofgem Storm Arwen Report identified the potential threat of increased Severe Weather as a result of climate change.

Review Area 1: Storm categories

4.3. **Recommendation 1:** Remove the Category 3 threshold. This will simplify the Severe Weather GSoP and ensure that customers who are off supply for long periods receive compensation payments (e.g., under the Category 3 threshold, during Storm Eunice some customers who were off supply for over 3 days would not have been eligible for payments under the existing GSoP). Retaining Categories 1 and 2, which reflects the need for additional time for DNOs to restore supplies in more Severe Weather supports the ongoing proportionality of the regime.

Review Area 2: Payment structure

4.4. **Recommendation 2:** Reduce the additional payment intervals from 12 to 6 hours[30], with the compensation payable halved for each individual payment interval. We consider that this is more likely to accurately represent customer inconvenience. Following a period of, for example, over 24 hours with no power[31], an additional 12 hours is a substantial amount of time not to be compensated for inconvenience. We believe that more regular, smaller payments would better represent customer inconvenience.

4.5. **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

[30] 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.
[31] Category 1 threshold for payment

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. The updating of the Severe Weather GSoP to reflect inflation at periodic intervals reflects the standard practice adopted since the GSoP was introduced. As such, this recommendation is not explored in detail in this report. In addition to updating to 2021/22 prices, the RIIO-ED2 draft determination proposes for GSoP payment values to be updated with inflation each year of the price control. In principle, we understand the arguments for yearly inflation updates to ensure payments remain appropriate. However, all price control decisions need to be taken in the round as part of that process.

4.6. **Recommendation 4**:Explore amending the electricity (Standards of Performance) Regulations 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. Further – more targeted – exploration of the issue is needed to ascertain the materiality of the issue and any potential remedies.

Review Area 3: Cap

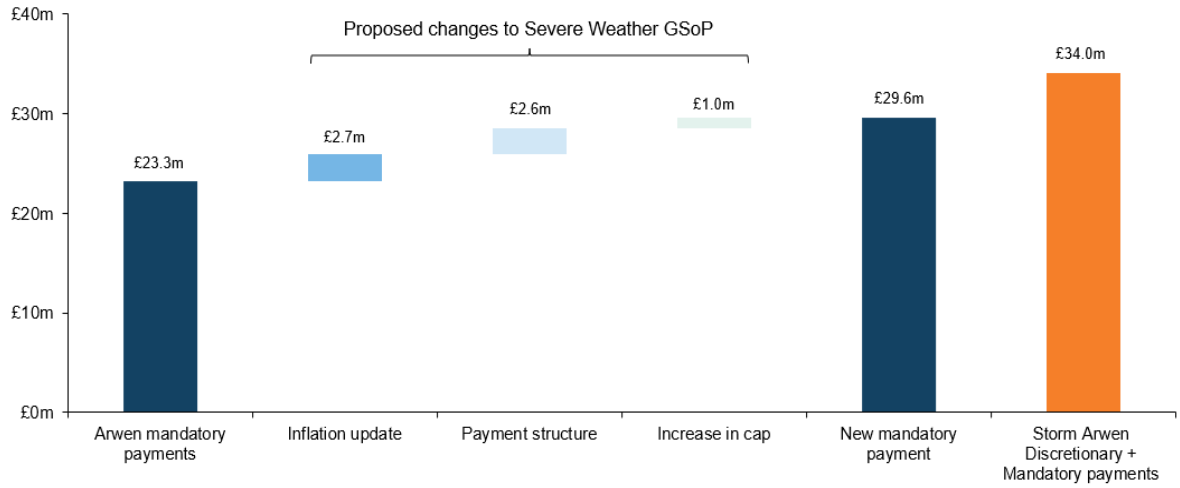
4.7. **Recommendation 5:** Increase the cap from the equivalent of 5.5 days off supply for a Category 1 storm and 6.5 for a Category 2 storm to the equivalent of 13 and 14 days respectively. This will increase the maximum compensation per loss of power supply from £700 to £2,000. The last customer in Storm Arwen was restored 13 days after they lost power. An increase to the cap to cover 13 days for a Category 1 incident and 14 days for a Category 2 therefore provides customer compensation payments for a Severe Weather event equivalent to Storm Arwen. This benefits customers who are off supply for longer periods of time, while also ensuring that financial risk of Severe Weather is capped for the DNOs for a potentially larger event than Storm Arwen. This increase captures both an extension in the number of days covered as well as the inflation update discussed above.

4.8. Had these recommendations been in place during Storm Arwen, mandatory compensation would have been around 27% higher (£29.6m); giving customers guaranteed protection to this higher amount. In addition, if it was in place for Eunice, we estimate an increase of 25% in mandatory compensation payments. As a comparison with the recommendation, in Storm Arwen DNOs made £10.8m of discretionary payments in addition to £23.2m of payments under the GSoP, resulting

in £34m of payments to customers. This suggests the Severe Weather GSoP would continue to be proportionate with the new cap. Based on observed behaviour, where the cap has been disapplied, following the recommendations made would not expose DNOs to significant new financial exposures. While DNOs should continue to consider discretionary action in addition to mandatory payments, these recommendations will make the GSoP easier to understand with greater standardisation for customers where they are off power for a significant period of time.

Summary impact of recommendations on the Severe Weather GSoP structure

Figure 2: Effect that applying the recommendations would have had on levels of compensation payments



Source: Analysis of Ofgem data and Ofgem's Storm Arwen Report

Review Area 4: Customer data accuracy and payment efficiency

4.9. **Recommendation 6:** For Ofgem to update the overall GSoP arrangements to allow payment by bank transfer and other electronic means, such as secure link and bank transfer, in addition to the already established route by cheque. Giving customers more options for payments will help speed up payments for customers but also improve their experience as they are given more choice on how to receive their payments.

4.10. **Recommendation 7:** For industry to improve the information available on the GSoP and customers' rights and compensation entitlements. Specifically, for DNOs to consider including Severe Weather GSoP information on the "105" power emergency website and for suppliers to update their websites when a Severe Weather event occurs. Information provided should include an overview of compensation eligibility through the Severe Weather GSoP regime, guidance for customers to contact their DNO, and how they should contact DNOs.

4.11. **Recommendation 8:** For DNOs and suppliers to work together to establish a data sharing protocol between suppliers and DNOs for GSoP payments. Suppliers and DNOs should engage in best practice data sharing before, during and after a Severe Weather incident. This is particularly important in the case of a significant storm. The establishment of a protocol and clear responsibilities could ensure that, for example, if a large storm is forecast, DNOs can request suppliers for updated customer name or contact details for MPANs, where they are missing data, which can be held in compliance with GDPR requirements.

4.12. In the longer term, we have identified other potential benefits in options such as suppliers making compensation payments on behalf of DNOs. We consider that such options should be explored, jointly with industry in the future. These options and associated implications are explored in more detail in chapter 7 of the report.

Broader recommendations beyond the Severe Weather GSoP

4.13. **Recommendation 9:** Ofgem should, taking account of practical implications, consider whether and how to widen customer eligibility to groups currently missing out on compensation. Examples include domestic customers that are served under a business contract, such as residents of park homes, and other residential tenants whose electricity usage is an inclusive part of their rent. Currently, these customers are not covered by the Severe Weather GSoP framework and are not entitled to compensation payments from DNOs, if they experience a power cut.

4.14. **Recommendation 10:** Ofgem should consider the extent to which aligning the electricity GSoPs and gas GSoPs would be beneficial to customers, and whether any

existing differences between the two frameworks are justified. This review has identified a number of areas, where scope exists for alignment. For example, the gas GSoPs currently specify a maximum time period within which a Gas Distribution Network (GDN) should make payments to eligible customers. GDNs are penalised if they do not meet this standard. The electricity GSoPs do not contain similar provisions.

4.15. **Recommendation 11:** Ofgem should explore the advantages and disadvantages of aligning the Severe Weather and Normal Weather compensation frameworks. For example, the Normal Weather GSoP has different payment values for domestic and non-domestic customers (£75 and £150 respectively), as well as having no cap as long as the weather conditions affect fewer than 5,000 premises. Also, the changes proposed in this report may increase the misalignment between the two, as payments under the Severe Weather GSoP will accrue every 6 hours, whereas under the Normal Weather GSoP they accrue every 12 hours.

5. Review Area 1: Storm category assessment

Current Arrangements

5.1. In the Severe Weather GSoP, as outlined in chapter 2, there are three storm categories, which distinguish between Severe Weather events and are based on the level of damage caused to DNOs' network assets and scale of disruption customers experience. Each category has a different threshold outage duration after which a DNO is required to pay compensation to an affected customer. The categories exist to balance compensation paid to customers with DNOs' ability to restore customers' power during Severe Weather events, i.e. they recognise that for more severe events there are likely to be more outages and disruption, meaning it may be reasonable to expect a DNO to take longer to restore power to some customers. In addition, conditions for restoring power may not always be safe, therefore time may be needed before sending out a team to fix a fault. The minimum threshold for an event to be considered as Severe Weather is 8 times the daily average number of faults in a 24-hour period[32]. This threshold is aligned to the Interruption Incentives Scheme (IIS)[33], which also defines Severe Weather in a similar way.

Options considered

5.2. The options considered are:

a. **Remove Category 3**. Guaranteeing that 48 hours is the longest amount of time a power cut, due to Severe Weather could last before a customer being eligible for compensation.

b. **Remove Category 3 and shortening the allowed restoration time of Category 1 to 12 hours, and Category 2 to 24 hours**. Reducing the amount of time DNOs have to restore a power cut due to Severe Weather before compensation is due to the customer.

[32] Ofgem, Revised standards of performance arrangements for electricity distributor, https://www.ofgem.gov.uk/sites/default/files/docs/2005/01/9300-0305.pdflink

[33] The Incentives Interruption Scheme (IIS) incentivises DNOs to reduce the impact of supply interruptions by exposing them to rewards and penalties for their interruptions performance against set targets.

c. **Remove Categories 2 and 3**. As with option b, except that no matter the intensity or disruption created by a storm, DNOs will always have up to 24 hours to restore power to a customer before compensation is triggered.

d. **Change the lower threshold for Category 1, i.e. the 8 times the average number of daily faults in a 24-hour period threshold**. To change the threshold for defining Severe Weather compared to Normal Weather, as different compensation standards apply between the Severe Weather and Normal Weather GSoP.

5.3 Following an initial assessment, the final option (d) to change Category 1 threshold for a full assessment, was discounted for the following reasons:

- Customers will still be eligible for compensation if there is an interruption caused by Normal Weather, [34]
- The minimum threshold for Severe Weather was not raised as a concern by stakeholders following Storm Arwen or other large storms, such as the December 2013 storms,[35] [36]
- The existing threshold for Severe Weather is also used for the IIS, therefore changes to the Severe Weather GSoP in this respect would need to be reflected in the IIS in order to ensure both areas use the same definition of Severe Weather. Changing this threshold could affect DNO monitoring and performance. The consequential changes on the broader RIIO2 framework from changing the Category 1 threshold have not been considered as part of this review and would need to be explored further.

Evidence informing the recommendations

5.4 To assess options, we considered the following evidence:

- **Information from stakeholder interviews conducted.** We engaged stakeholder for their views on the removal of Category 3 and reviewed customer

[34] https://www.legislation.gov.uk/uksi/2015/699/body/made

[35] Ofgem, Minded to decision on changes to Severe Weather-related Guaranteed Standards of Performance (GSOP) following the December 2013 storms, https://www.ofgem.gov.uk/sites/default/files/docs/2014/07/gs_minded_to_decision.pdflink

[36] Ofgem, Storm Arwen Review, https://www.ofgem.gov.uk/sites/default/files/2022-06/Final%20report%20on%20the%20review%20into%20the%20networks%27%20response%20to%20Storm%20Arwen.pdflink

views from Storm Arwen. DNOs raised concerns around proportionality and mitigation of exposure for major Severe Weather events.

- **Historical data on GSoP payments and data**. We used historical data from previous storms (i.e. 2013 storms, Storm Arwen and Eunice) to develop analysis that explored the impact of applying the Category 3 arrangement on the levels of customer compensation paid out. For example, using Storm Eunice data, we were able to estimate what the compensation levels would have been if Category 3 arrangement applied. In addition had Category 3 applied, we estimated the number of customers that would have missed out on compensation. Results are presented in the customer impact and proportionality criteria in the assessment section below.

Assessment

5.4. In relation to both **incentives** and **good practice and innovation** we consider that the options presented below have minimal impact against these criteria, so do not explore these issues in further detail below.

5.5. Similarly, for **ease of operation**, all options considered help to simplify the GSoP. Some, such as removing Categories 2 and 3 simplify further than others. However, we do not consider the differences in ease of operation between options to be significant enough to be a key decision factor. All options remove Category 3, therefore DNOs will not have to wait for an accurate number of customer numbers off supply to calculate the initial threshold they have before compensation is due.

5.6. Therefore, as set out below the assessment of different options for storm categories is focussed on **customer impact** and **proportionality**.

Remove Category 3

Customer impact

5.7. Removing Category 3 would have two positive impacts with regards to better acknowledging the impact of extended power cuts on customers.

5.8. Firstly, it would increase the number of compensation payments for inconvenience, as it would reduce the time customers would need to be without power before they are eligible for payments. To assess impact of removing Category 3 on the total amount

of compensation received by customers, we analysed data from Storm Eunice, which is the only storm to date, that meets the threshold for Category 3. The analysis focused on the UK Power Networks and National Grid Electricity Distribution (formally Western Power Distribution) areas, where 71% of customers affected by a power cut were located. The DNOs voluntarily committed to paying compensation under Category 2 requirements, i.e. not applying the higher Category 3, but had the aforementioned two DNOs not done this, compensation payments would have been around 35% lower. This translates into approximately 7,000 customers who would have been off supply for 3 days and receiving no compensation.

5.9. Secondly, removing Category 3 would reduce the complexity of the GSoP, making it easier for customers to understand (and for suppliers to calculate which category applied in any given event). The criteria for calculating Category 3 are complex and, because there is no standard duration before payments must be paid, it is difficult for customers to understand whether they are eligible for compensation and the levels of their entitlement. The qualitative consumer research which Ofgem conducted identified the importance placed by customers on being able to understand the rationale for the GSoP payments they received[37].

Proportionality

5.10. We consider removing Category 3 will have a limited impact on the overall proportionality of the scheme and financial risks to DNOs.

5.11. While Storm Eunice is only one example of a Category 3 storm, the affected networks took the decision to disapply the category. One DNO explained this was in part due to the additional complexity involved in determining the restoration window and the associated potential delays to making payments (given there is not a standard restoration window as with Categories 1 and 2).

5.12. While it is likely to increase mandatory compensation paid out by DNOs for individual storm events, there is an overall financial liability cap on DNOs relating to Severe Weather in the distribution licence[38]. Therefore, we consider that even if an extreme

[37] Ofgem, Customer Experiences of Storm Arwen, https://www.ofgem.gov.uk/sites/default/files/202206/Customer%20Experiences%20of%20Storm%20Arwen.pdf
[38] Special Condition 2D (Part D)

scenario and/or scenario where severe incidents become more frequent because of climate change, additional DNO exposure is limited by this distribution licence cap. It is worth noting, however, that it would likely take multiple major Severe Weather events in a single year for the cap in the licence to be triggered. We estimate that it would take a Severe Weather event affecting over 8 times the number of customers Storm Arwen did to reach that cap for many of the DNOs[39]. Payments over and above that cap are socialised across all customers' bills. Exposure is also limited given our recommendation to keep the Severe Weather GSoP cap, albeit at a higher level, covered in Review Area 3.

5.13. Even though it is expected that Severe Weather events will become more common as a result of climate change, we consider the GSoP would continue to be proportionate. This view is supported by the compensation arrangements of other countries we have looked at, where restoration windows before compensation becomes payable are shorter than under the GSoP. We also note the investments networks are proposing to make during the RIIO2 period in sensor equipment that will help them improve identification of outages and to better plan their restoration activities. DNOs can also influence the impact of storms on their networks by investing in network health. Finally, currently, major Severe Weather events are rare, and, even during Storm Eunice, DNOs were able to restore 93% of customers within one day of losing power.

[39] Assuming the same restoration profile as Storm Arwen

Removing Categories 2 and 3

Customer impact

5.14. This option would have a positive impact on consumers by increasing customer compensation compared to the current arrangements, because it will be triggered sooner. For example, had Storm Arwen been subject to a 24-hour restoration standard, we estimate compensation payments would have been 96% higher.

Proportionality

5.15. We consider removing Category 2 and Category 3 would negatively affect the proportionality of the regime and exposes DNOs to additional financial risks for the following reasons.

5.16. Firstly, having one category, where payments are made after 24 hours, could significantly increase compensation payments made. For example, the Storm Arwen compensation payments would have doubled.

5.17. Secondly, this change does not appear proportionate when considering the impact of very Severe Weather conditions on DNOs' ability to commence work to restore customers. During Storm Arwen, red and yellow weather warnings lasted for nearly a day, with difficult conditions remaining throughout the weekend and following days[40]. This meant that manual repairs to faults were either difficult or not possible until conditions stabilised. Under the existing categorisation, many areas saw Storm Arwen classed as a Category 2, allowing the DNO 48 hours to restore power before compensation would be triggered. In some cases, 48 hours was not enough for the return of safe conditions to restore power, or for sufficient workforce to be available to curry out work.

5.18. We note that during Storm Arwen, despite the challenging conditions, 84% of customers saw their power restored within a day, and 93% within two days. Given this rapid restoration profile, the increase in compensation that would arise if Categories 2 and 3 were removed does not appear proportionate.

[40] Met Office, https://www.metoffice.gov.uk/about-us/press-office/news/weather-and-climate/2021/rare-red-warning-issued-for-storm-arwenlink

Removing Category 3 and shortening the allowed restoration time of Category 1 to 12 hours and Category 2 to 24 hours

Customer impact

5.19. This option would have the most significant positive impact on customers as earlier triggering of compensation payments means it would increase customer payments more than any other option we have considered. As discussed above, if we were to remove Category 2, Severe Weather GSoP payments for Storm Arwen would have doubled. This option would lead to the same outcome, as the threshold for a Category 2 storm would be 24 hours rather than the current 48 hours. In addition, DNOs would have to make initial payments for Category 1 storms 12 hours rather than 24 hours following loss of supply, increasing payments to customers.

Proportionality

5.20. We consider this option would make the GSoP less proportionate than the removal of Categories 2 and 3, as it further shortens the initial restoration period of a Category 1 storm to 12 hours, and Category 2 becomes 24 hours. This approach would be subject to more significant proportionality issues described in the previous option as it would mean DNOs would pay out higher levels of compensation.

Assessment summary

Table 2: Storm categories assessment summary

Option	Assessment relative to the no change baseline				
	Customer Impact	Proportionality	Incentives	Ease of Operation	Good practice and innovation
Remove Category 3	Positive	Neutral / Minimal	Neutral / Minimal	Positive	Neutral / Minimal
Remove Category 3 and shortening the restoration standard of Category 1 to 12 hours and Category 2 to 24 hours	Positive	Negative	Neutral / Minimal	Positive	Neutral / Minimal
Remove Categories 2 and 3	Positive	Negative	Neutral / Minimal	Positive	Neutral / Minimal

5.21. Overall, we consider the 'Remove Category 3' option most appropriately balances the assessment criteria because it:

- has a positive impact on customers by increasing compensation payments,
- it further incentivises DNOs to fix faults as more payments may be due, but also recognises that weather conditions can have a varying degree of damage, which has been identified by leaving the initial threshold periods for Category 1 and 2 events,
- simplifies the standards by removing a dependence on customer numbers for calculating initial threshold given for repairs,
- There is still an overall cap on Severe Weather GSoP payments per customer, as well as a cap on the total amount of Severe Weather payments a DNO can make each year, after which costs can be recovered from customer bills. These two mitigate DNO exposure against an extreme scenario that would have been covered by Category 3.

Recommendation

5.22. **Recommendation 1:** Remove the Category 3 threshold. This will simplify the Severe Weather GSoP and ensure that customers who are off supply for long periods receive compensation payments (e.g., under the Category 3 threshold, during Storm Eunice some customers who were off supply for over 3 days would not have been eligible for payments under the existing GSoP). Retaining Categories 1 and 2, which reflects the need for additional time for DNOs to restore supplies in more Severe Weather supports the ongoing proportionality of the regime.

6. Review Area 2: Payment structure assessment

Current payment structure

6.4. Currently, the Severe Weather GSoP payments are structured as follows:

- an initial payment of £70 when a DNO fails to restore power to a customer within the stipulated time, with the stipulated time being dependent on the Category of the Severe Weather incident,
- subsequent payments of £70 for every additional 12 hours a customer's power is not restored (until the payment cap is reached - see chapter 8),
- the structure and amounts are the same for both domestic and non-domestic customers.

6.5. The current payment levels were set in 2015 for RIIO-ED1 and have not been updated for inflation since.

6.6. The current payment structure establishes that customers must be off supply for a specified continuous number of hours to be eligible for compensation. Under the current arrangements, that short periods of restoration of supply would reset the clock for calculating their time off supply and therefore their compensation entitlements.

Options considered

6.7. The options considered are:

a) **more frequent but lower additional payments**. Lowering the additional payment threshold to every 6 hours rather than 12 hours but halving each payment,

b) **inclining payments.** Keep the existing payment structure, but each additional payment, after the initial payment, will be higher than the previous, meaning payments will build up quicker,

c) **discount on customer bills based on the duration of the interruption.** This option reflects the arrangements we identified as part of the international benchmarking assessment we conducted. For example, in Spain customers

receive up to a 10% discount on their annual energy bill depending on the length or number of interruptions. This option would be a significant departure from the current system, without a clear justification in terms of solving some of the key problems highlighted by Storm Arwen such as the value or speed of payments. Also, the percentage discount would need to be significantly higher in the UK, as a 10% discount on average energy bills would be lower than £700, This approach would also disproportionately benefit customers with higher energy bills, who may be more likely to be higher earning.

6.8. We decided not to proceed further with the option (c) on applying a discount on customer bills for a full assessment. This option would not be compatible with the overarching principle for the GSoP. This is because it would move the GSoP away from reflecting the inconvenience of an extended power interruption by linking payments explicitly to the loss of service or any associated financial impacts. In addition, it is not clear it would deliver better outcomes across the assessment criteria, for example the value of the compensation payments in the current arrangements are already in excess of the 10% discount threshold we have seen elsewhere. Equally, we feel the impact on customers of the inconvenience of an extended power outage is not proportional to energy consumption (i.e. less affluent households, in smaller properties, with lower energy bills would receive lower payments than more affluent households with higher consumption, but the inconvenience would be the same between these groups).

Evidence informing the recommendations

6.9. To assess options, the following evidence has been considered:

- **Information from stakeholder interviews conducted.** Views collected on the complexity of changing the payment structure from DNOs as well as customer organisations' views on the current payment structure. DNOs expressed some concerns around the rationale for the options proposed, as they argued they will not result in DNOs restoring customers more quickly. This is because the constraints for quicker restoration tend to be operational and/or safety related during Severe Weather events. DNOs also pointed out that implementation of either of the options considered would carry a cost. Customer organisations noted that existing intervals between additional payments are substantial.

- **International and sector benchmarking and exploring how compensation payments are structured in other jurisdictions and utilities.** Other similar payment structures from other countries including Italy and France. For example, both France and Italy offer compensation to customers when they are off for consecutive periods of time, and they both state a cap for compensation levels.
- **Historical data on GSoP payments and data from the 2013 Storms, as well as Storm Arwen and Eunice.** Using data from Storm Arwen we estimated what the compensation levels would have been if different payment structure options were applied. Results are presented in the customer impact criterion in the assessment section below.

Assessment

Criteria for assessment

6.10. As set out below, the assessment of different payment structure options is focussed on **customer impact**, **proportionality**, and **incentives.**

6.11. In relation to ease of operation, we consider that both options (a) and (b) would carry some familiarisation and/or transition costs for DNOs to update their processes and systems but consider these to be minimal. This is because the options would change the payment value and/or hours used to calculate it, both of which are existing data points in DNOs' systems.

6.12. In relation to **good practice and innovation**, we consider that the options presented below have minimal impact within these criteria, so do not explore these issues in further detail below.

More frequent but lower additional payment

Customer impact

6.13. We consider introducing more frequent but lower additional payments would have a positive impact on customers.

6.14. It will increase the amount of compensation paid to customers: during Storm Arwen, mandatory compensation payments would have been around 6% higher under this option. This is because while the overall value of payments will continue to be the same for a 12-hour period, customers who were without power for over 6 hours, but fewer than 12 hours (in addition to the initial hours thresholds of each category) would become eligible for compensation.

6.15. We consider this option to better reflect customer inconvenience experienced: some of the customers impacted by Storm Arwen noted they just missed out on the 12-hour additional payment threshold, meaning they were not eligible to receive an extra

payment despite experiencing almost as much inconvenience as those who were eligible.[41]

Proportionality

6.16. We consider introducing more frequent but lower additional payments will have a limited impact on proportionality. It would still allow DNOs time to restore power before additional payments are triggered.

6.17. The increase in compensation associated with this option is small. As discussed in the customer impact criterion, this option would have led to an only around 6% increase in compensation for Storm Arwen. It also more closely matches time periods for compensation seen elsewhere. In comparable countries like Italy and France, payments accrue every 4 and 5 hours respectively.

Incentives

6.18. The impact of this option on DNO incentives to restore power to customers is limited. This is because DNOs typically restore customers by focusing on fixing the fault that will restore the highest number of customers first [42]. We do not consider changing payments from 12 hours to 6-hour intervals will significantly change or accelerate this process.

Inclining payments

Customer impact

6.19. We consider inclining payments will have some a positive impact on customers because compensation paid to them will increase. For example, we estimate inclining payments growing by £10 per additional payment would have resulted in a 17% increase in mandatory compensation paid during Storm Arwen.

[41] Ofgem, Storm Arwen customer experience interviews

[42] This is based on information we gathered through our stakeholder engagement activities with DNOs and our understanding is that there is no requirement on DNOs to take this approach.

6.20. However, it also has some negative impacts. When combined with an overall cap – as discussed below, inclining payments will mostly increase compensation payments for customers experiencing shorter power cut durations. This is because the cap may be hit within a few days of the power cut. As such, this option will not increase compensation for customers experiencing extended power cuts, as many will continue to receive the cap amount. Therefore, this option does not support the overall objective for this review (i.e. to focus on compensation arrangements for those off power for an extended period of time).

6.21. In an uncapped scenario, however, customers who have experienced extended power cuts would receive additional compensation.

Proportionality

6.22. We consider that inclining payments will negatively impact proportionality of the regime by increasing DNO exposure. This accelerated compensation may not be reflective of DNOs' ability to restore power to customers under difficult conditions and/or large incidents.

Incentives

6.23. Inclining payments may have negative unintended consequences on DNO incentives to restore customers' power. This is because the cap, if retained at its current level, will be reached quicker, and once it is hit, DNOs arguably would have a more limited incentive to restore those customers who remain off supply.

Assessment Summary

Table 3: Payment structure assessment summary

Option	Assessment relative to the no change baseline				
	Customer Impact	Proportionality	Incentives	Ease of Operation	Good practice and innovation
More frequent but lower additional payments (6 hours at 50% of baseline)	Positive	Neutral / Minimal	Neutral / Minimal	Neutral / Minimal	Neutral / Minimal

Option	Assessment relative to the no change baseline				
	Customer Impact	Proportionality	Incentives	Ease of Operation	Good practice and innovation
Inclining payments	Mixed	Negative	Negative (unintended consequences)	Neutral / Minimal	Neutral / Minimal

6.24. Overall, we consider the "more frequent payments" option best balances the assessment criteria because it:

- has a positive impact on customers by increasing compensation payments for those which before would have been just shy of the 12-hour threshold,
- there are international precedents of this type of payment structure, showing it is deliverable and practicable and the majority of DNOs did not raise practical issues with implementing such a scheme (although they did voice their opinion that this could make the GSoP more complicated).

Recommendations

6.25. **Recommendation 2**: Reduce the additional payment intervals from 12 to 6 hours[43], with the compensation payable halved for each individual payment interval. We consider that this is more likely to accurately represent customer inconvenience. This is because following a period of, for example, over 24 hours with no power[44], an additional 12 hours is a substantial amount of time not to be compensated for inconvenience.

6.26. **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

[43] 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.
[44] Category 1 threshold for payment

payments from £70 to £80 and additional payments from £70 to £80 every 12 hours. The updating of the GSoP to reflect inflation at periodic intervals reflects the standard practice adopted since the GSoP was introduced. In addition to updating to 2021/22 prices, the RIIO-ED2 draft determination proposes for GSoP payment values to be updated with inflation each year of the price control. That proposal and its implications are covered by the RIIO-ED2 price control setting process. In principle, we understand the arguments for yearly inflation updates to ensure payments remain appropriate. However, all price control decisions need to be taken in the round as part of that process.

6.27. **Recommendation 4**: Explore amending the electricity (Standards of Performance) Regulations 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. Further – more targeted – exploration of the issue is needed to ascertain the materiality of the issue and any potential remedies.

7. Review Area 3: Cap assessment

Current arrangements

7.1. A cap on Severe Weather GSoP payments exists to balance compensation paid out to customers with DNO exposure to Severe Weather events, which are out of their control.

7.2. The Severe Weather GSoP framework sets a limit on the level of the payments that customers can receive if they are off supply for long periods of time. These payments are compensation and are currently capped at £700. This exists to ensure that DNOs are not overly exposed to financial risk. For example, if there was a very large storm which impacted the majority of customers and with a long duration which delayed their ability to reconnect supplies, the cap would limit liability for such events. The cap translates to the following lengths of time:

- for a customer impacted by a **Category 1** storm, the cap only covers the first 5.5 days, they are without supply,
- for a **Category 2** storm, the cap covers 6.5 days without supply. The difference in days covered, is because DNOs have an additional day to reconnect supplies before having to make payments,
- for a **Category 3** storm, customers will receive compensation for a number of days depending on the total number of customers impacted. However, this threshold can vary due to the nature of how a Category 3 storm is defined.

7.3. As highlighted in both the Storm Arwen reviews, the current cap is leading to some customers not receiving adequate compensation, as they are not receiving additional compensation past the 6.5-day threshold.

Options considered

7.4. The options considered are:

a) **Remove Cap**. Remove the cap so payments continue to grow for the entire duration a customer is off supply.

b) **Higher Cap**. Increase the cap so that customers receive compensation for longer periods without supply.

Evidence informing the recommendations

7.5. To assess options, the following evidence has been considered:

- **Information from stakeholder interviews.** The views on increasing the cap and how removing the cap would impact financing activities, as well as financial exposure. DNOs expressed concerns over removing the cap, arguing it would significantly increase financial exposure. Customer organisations pointed out that while they understand the rationale for a cap, in many cases the value of payments made to a customer was not appropriate.
- **International and sector benchmarking and exploring how compensation payments are structured in other jurisdictions and utilities.** Using this benchmark, we can see that France and Italy have a higher level of cap. Also, other utilities have a similar cap approach to compensation which we use as benchmarks for our analysis.
- **Historical data on GSoP payments and data from the 2013 Storms, as well as Storm Arwen and Eunice.** Using this data, we consider what would be the implications of increasing the cap on compensation levels paid. We also consider average compensation payments made both during notable storms but also business as usual circumstances. Results are presented in the customer impact and proportionality criteria in the assessment section below.

Assessment

7.6. In relation to **incentives**, **ease of operation** and **good practice and innovation** we consider that the options presented below have limited impact within these criteria, so do not explore these issues in further detail below.

7.7. Therefore, as set out below, the assessment of different options for the cap is focussed on **customer impact**, and **proportionality**.

Increase cap

Customer Impact

7.8. This option will have a positive impact on customers. It ensures that customers, who are off supply for longer periods are compensated accurately for their inconvenience.

7.9. For example, had the cap not been lifted for Storm Arwen and Storm Eunice, customers who were off for longer than 6.5 days would have received no compensation for inconvenience experienced over and above that length of time.

Proportionality

7.10. The current framework provides a cap on the compensation that DNOs are required to pay out, limiting DNO exposure. We acknowledge that increasing the cap will increase DNO exposure. However, we consider the GSoP would remain proportionate because:

- Using Storm Arwen restoration data, we estimate that lifting the cap for the whole duration of Storm Arwen could have increased compensation payments from DNOs by c.5%. This is because the increase affects only around 1% of customers affected. This increase in Storm Arwen mandatory payments were well below the level of mandatory plus discretionary compensation actually paid out by DNOs as a result of the disruption caused by Storm Arwen.
- Large storm events, where a significant number of customers would be without power over 5.5 or 6.5 days have been relatively rare[45]. In addition, investments in networks will continue to ensure that systems and processes are in place to quickly connect the majority of customers. In particular, we expect the planned continued roll out of smart meters and the DNOs' proposed expansion of other sensor technologies throughout the LV network during the RIIO2 period should help DNOs identify and manage disconnections.
- Although the cap level will be higher, exposure is still limited, as a cap is maintained.

7.11. DNOs have noted that the cap is currently several multiples higher than the Distribution Use of System (DUoS) charges (the cost of installing, maintaining, and operating the distribution network) costs of installing and maintaining distribution networks) paid by customers. A higher cap would further increase that multiple.

[45] We note that from our discussions with DNOs Storm Arwen and Eunice were a 1 in 10-year storm. In addition, from annual GSoP data it is evident that years which have significant numbers of customers impacted by Severe Weather are uncommon.

7.12. However, we do not believe that on its own, this is not a sufficient reason to suggest the existing or a higher cap is disproportionate. Between 2015/16 and 2021/22, around 0.5% of all GB customers were affected by a power cut and not restored within the GSoP timelines. Therefore, the number of customers impacted by extended power cuts is small and will not drive significantly large compensation payments, whether or not there is a cap. While the cap may be several multiples above average bills, average compensation payments made to customers are significantly lower than the cap. For example, between 2015/16-2021/22, the average Severe Weather GSoP payment was £201 (for those eligible) The impact of increasing the cap to capture the entire duration of Storm Arwen would have increased this figure to £208.

Remove cap

Customer Impact

7.13. This option will have a positive impact on customers. Under this option, compensation would be paid to cover the entire duration[46] they were off supply. This would ensure that payments reflect the inconvenience associated with longer duration power cuts, regardless of the scale of the Severe Weather event.

Proportionality

7.14. We consider that having no cap on the Severe Weather GSoP payments would have a negative impact on the proportionality of the regime.

7.15. Firstly, it would expose DNOs to higher levels of compensation payments (the financial exposure would extend to the Distribution Licence Cap). We consider the compensation cap has an important role in preventing exposure to very extreme weather events which could be described as a "black swan event". While we recognise that DNOs following Storm Arwen DNOs did not apply the cap following Storm Arwen, DNOs have been clear through our discussions that this should be viewed as a response to an event of the scale of Storm Arwen and that a cap was still an

[46] Entire duration means the total number of complete 12-hour periods on top of the initial payment threshold. The recommendation in the payment structure review area would change this to the number of complete 6-hour periods after the initial payment threshold.

important part of the framework in relation to more extreme and unpredictable events (with more widespread disruption than Storm Arwen). In Review Area 1 we pointed out that a cap on the total value of Severe Weather payments is in place through a DNO's distribution licence. However, we also noted that it is a high cap and, on its own, is unlikely to provide sufficient limit to DNO exposure on major Severe Weather events.

7.16. Secondly, not having a cap could result in payments being made where there was no or little inconvenience for customers. For example, were there no cap in a situation where the power is disrupted to an unoccupied property, and as such this was not reported to the network for an extended period of time. Once reconnected a potentially very significant compensation payment would be due that does not reflect the inconvenience experienced.

Assessment summary

Table 4: Cap assessment summary

Option	Assessment relative to the no change baseline				
	Customer Impact	Proportionality	Incentives	Ease of Operation	Good practice and innovation
Increase cap	Positive	Neutral / Limited	Neutral / Limited	Neutral / Limited	Neutral / Limited
Remove cap	Positive	Negative	Neutral / Limited	Neutral / Limited	Neutral / Limited

7.17. Overall, we consider the option to increase the cap, the best option as it balances the exposures for DNOs and customer compensation most effectively.

Recommendation

7.18. **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. The last customer in Storm Arwen was restored 13 days after they lost power. An increase to the cap to cover 13 days for a Category 1 incident and 14 days for a Category 2 therefore provides customer compensation payments for a Severe Weather event equivalent to Storm Arwen. This benefits customers who are off supply for longer periods of time, while also ensuring that financial risk of Severe Weather is capped for the DNOs for a potentially larger event than Storm Arwen. This increase captures both an extension in the number of days covered as well as the inflation update discussed above.

Proposed cap level

7.19. We have proposed a new cap level, based on the experience of Storm Arwen and the associated restoration times. To date, Storm Arwen is the best example of a Severe Weather event with widespread impacts, in particular to the low voltage network, which took networks longer to reconnect all customers. Noting that DNOs did not have a cap for any customers who experienced long periods without supply during this Storm, we have used the available evidence on restoration data and propose a cap level which considers the number of days it took DNOs to reconnect all customers.

7.20. The longest duration a customer was off supply due to Storm Arwen was 13 days. Increasing this cap to 14 days will safeguard the standard against future large storm events. We recognise that given the unpredictability of specific weather patterns in the future, there may be events in which customers may again, be off supply longer than allowed for in the cap. However, Storm Arwen was one of the largest storms in the last 10 years[47] so we believe the level we have set is appropriate and should ensure customer protection in the future while balancing DNO exposure for exceptional Severe Weather incidents.

[47] MetOffice,https://www.metoffice.gov.uk/binaries/content/assets/metofficegovuk/pdf/weather/learn-about/uk-past-events/interesting/2021/2021_07_storm_arwen.pdf link

8. Review Area 4: Options to improve customer data accuracy and payment efficiency

Current arrangements

8.1. Under the Severe Weather GSoP, DNOs are responsible for paying compensation to customers when they fail to restore power within the stipulated time. Payments are made by cheque and to issue these to customers, DNOs require customers' personal details such as their full name. As customers do not have accounts with DNOs, the DNO may not have the necessary details for a large proportion of compensation eligible customers.

8.2. As highlighted in the E3C review of Storm Arwen, some customers experience significant delays in receiving the compensation they were entitled to. For example, by 25 December 2021, more than four weeks after customers were affected by Storm Arwen, 27.5% of customers had not been issued compensation payments. It was noted that performance across DNOs varied following Storm Arwen, with some paying out the last customer as late as March 2022, whereas some others were able to make all payments by January 2022. While the number of customers affected varied between DNOs, Scottish Power Energy Networks (SPEN) were able to pay compensation out to all customers the quickest, despite not holding details for c.25%[48] of their customers that were eligible for compensation. This was the highest share of incomplete customer information of all the DNOs.

8.3. From the Storm Arwen reviews as well as stakeholder engagement, we have identified two key drivers of delays to compensation payments:

- **DNOs not holding the customer data needed to make payments:** As explained above, DNOs do not routinely hold customer names and bank account information. For these customers, DNOs had to contact customers to get them to share the necessary information for them to receive payments. Typically, those customers whose details were not held by the DNO were the last to receive payments. By week commencing 20 December, nearly four weeks after

[48] Energy Emergencies Executive Committee Storm Arwen Review, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1081116/storm-arwen-review-final-report.pdf

Storm Arwen, 97% of customers for whom the DNOs had customer records had been issued payments, whereas for those where they did not hold the data, only 31.6% of customers had been issued payments[49]. Energy suppliers already hold this information. However, there may be some actual or perceived barriers to suppliers sharing this data with DNOs, such as General Data Protection Regulations (GDPR). There are differences across the DNOs in the perception of risk related to the sharing of personal information between suppliers and networks linked to GDPR.

- **Payments by cheque (prescribed by the regulations):** DNOs and consumer representatives have raised concerns that consumer choice is being limited by requiring all payments to be made by cheque. They have expressed a view that payments could reach customers more quickly by enabling other forms of payment, e.g., bank transfer, while continuing to give customers a choice of how to receive payments. It is worth noting the Electricity (Standards of Performance) Regulations 2015 do allow for payments to be made via suppliers, which could be delivered via customer bills, but this option has so far not been applied by DNOs.[50]

Options considered

8.4. The options considered can be split into three broad categories:

- **Options to improve the payment process and provide choice to customers:**
    - *Change GSoP regulations to enable (but not require) bank transfer payment:* Enable DNOs to make bank transfers to customers allowing faster payments.
    - Change GSoP regulations to enable (but not require) *payment via electronic link to customers:* DNOs could send customers a link via text or email to fill in details and receive instant compensation. This should also

[49] Ofgem Storm Arwen data
[50] Electricity (Standards of Performance) Regulations 2015 https://www.legislation.gov.uk/uksi/2015/699/body/made/data.pdf

allow faster payments as customers receive electronic payments. For example, under Paym only a mobile number is required.[51]

- **Options to improve data sharing between suppliers and DNOs to allow faster payments:**
    - *Increased data flows from suppliers to DNOs including details required to issue cheques:* new obligations on suppliers to periodically (e.g., before every Winter) update customer information (names and bank details) and to pass these to DNOs allowing faster payments in the event of a Severe Weather event.
    - *Real-time customer data sharing between suppliers and DNOs:* new obligations on suppliers to provide on request or otherwise allow access for networks to access customer information (name, bank account details).

- **Other options relating to payment processes:**
    - *Improved industry signposting for Severe Weather GSoP compensation:* new obligations on better signposting for Severe Weather compensation across the industry.
    - *Suppliers act as conduit for payment to customers:* providing DNOs the options - as is the case for gas - of crediting suppliers directly, who then can make the payments to individual customers. This will allow faster payments as suppliers hold the relevant customer data.

8.5. These options are not necessarily mutually exclusive, for example it could be possible to introduce payment by electronic methods and introduce new data sharing as a package of options to improve the overall payment arrangements for customers.

8.6. These options have been identified following stakeholder interviews with network companies, Energy UK (on behalf of energy suppliers) and consumer representatives.

[51] https://paym.co.uk/#landing

To identify those options which are likely to provide the best value for the effort involved, we assessed these options based on the potential:

- **Effort -** i.e. the burden placed on DNOs, suppliers and/or customers in order to pay/facilitate/obtain compensation.
- **Effectiveness** - i.e. the speed of payment: how much potential each option may have to facilitate or speed payments up or otherwise improve the arrangements for consumers.

8.7. Separate to this review, there are further recommendations which were made following the Ofgem / E3C reviews, which are designed to improve the arrangements for payments under the Severe Weather GSoP. These recommendations are as follows:

- DNOs adopt lessons learned from 2021/2022 storms in their processes, to enable timely and accurate compensation payments to customers,
- DNOs to develop more robust mechanisms to enable the delivery of compensation payments at scale,
- ENA to lead on developing more publicity for compensation entitlements in the event of a power cut; to form part of winter preparedness.

8.8. Ofgem expects the conclusions from these initiatives will complement the options considered as part of this review, as part of a holistic approach at improving the payment arrangements for customers.

8.9. Even where payment times are accelerated, we recognise there will continue to be a lag between supplies being restored and payments being made. To calculate payments due, DNOs need to ensure they have the correct fault duration data. DNOs have highlighted the trade-offs they make between accuracy and speed. This trade-off becomes more important in large-scale events, where a storm may have caused widespread damage and/or continue to do so over several days, complicating fault detection and repair.

Evidence informing the recommendations

8.10. We consulted with DNOs, Energy UK and consumer groups to understand the effort and effectiveness of potential options. We also used the Storm Arwen Report and EC3 Storm Arwen review as well as benchmarking for other countries and sectors to

consider if there is best practice that could be implemented for the Severe Weather GSoP.

Assessment

8.11. The effort criterion covers the impact of the proposed option on DNOs, suppliers and customers. Where we consider an option has no material impact (positive or negative) on one of these groups, the relevant group is not covered in the assessment of effort for that particular option below. The effectiveness criterion assessment is focused on speed of payment rather than on the individual impact on a specific group.

Options to improve the payment process and provide choice to customers

1. Change GSoP regulations to enable (but not require) bank transfer payment

Effort

8.12. We consider this option is likely to be relatively simple to implement with limited effort required by industry (and no effort required by customers). This is because the option is enabling rather than requiring DNOs to put in place an additional payment channel.

DNOs

8.13. This option could impact DNOs, if they chose to provide this payment channel, because:

- they would need to obtain customers' n ames and bank details,
- they may need to implement or update systems to be able to make payments by bank transfer.

However, once the systems are set-up, bank transfer payments are expected to be easier and cheaper to issue than printed cheques sent via post (often sent as first-class post by DNOs).

Customers

8.14. This option will positively affect customers as they will be able to choose between cheque or bank transfer payments based on their preference or convenience. For those choosing bank transfer they would need to share additional information with DNOs, whereas those with concerns on sharing this information could still opt to receive payment by cheque.

Effectiveness

8.15. This option is expected to have a positive impact on effectiveness because:

- it will speed up payments as bank transfers, once made, are a much quicker payment method than a cheque, and
- DNOs also indicated that providing more than one payment channel could speed up the overall number of payments made across industry and counteract the constraints of using only one payment channel.

8.16. Overall, DNOs were supportive of this change to the Severe Weather GSoP.

2. Change GSoP regulations to enable (but not require) DNOs make payment via electronic link to customers

Effort

8.17. We consider this option is likely to be relatively simple to implement with a relatively low effort required by industry (and no effort required by customers).

DNOs

8.18. This option will impact DNOs because:

- they may need to obtain customers' names and information to make the payment. The exact information would depend on the specific type of electronic payment system introduced and some options require less information than others. For example, under Paym only a mobile number is required[52];
- they may need to implement or update systems to be able to make payments by bank transfer;
- they would need to consider what arrangements are needed to ensure any electronic payments were made to the correct individuals and to prevent error and fraud

[52] https://paym.co.uk/#landing

However, once the systems are set-up, electronic payments are expected to be easier and could be cheaper to issue than printed cheques sent via post (often sent as first-class post by DNOs).

8.19. This option would create additional burdens for DNOs, as it will require either setting up a new system or paying for a third-party provider for the payment link service. However, depending on customer engagement, it could save postage and cheque issuing costs.

Customers

8.20. This option will positively affect customers as they will be able to choose between cheque or electronic payments based on their preference or convenience. There will be some customers who would benefit more from the introduction of new payment methods such as Paym and "Pay by Link"[53], as not all customers would be able or willing to receive money via electronic payment. They may lack a mobile phone, have poor internet connection, or simply have an aversion to accepting payments online, for example through "Pay by Link". These customers would continue to have the choice of receiving payment by cheque.

Effectiveness

8.21. We consider this option would have a positive impact on effectiveness because:

- it will speed up payments due to the speed of settlement of electronic payments vs cheques; and
- it diversifies the number of payment channels available and reduces constraints faced by having a single means of payment.
- DNOs explained during the round table that providing more than one payment channel could speed up the overall number of payments being made across industry because of practical constraints in any one payment channel.

8.22. However, as with option 1, DNOs must still obtain relevant information from customers to make the payment and a failure of customers to respond to requests for such information could limit the effectiveness of this proposed recommendation.

[53] Payment methods where a payment link is sent to a device such as a mobile via text or email, and a customer can provide their payment details to receive a transfer

8.23. Although depending on the payment system used this could be less information than a standard bank transfer). This would limit the effectiveness in cases where customers do not respond to DNO attempts to contact them.

8.24. Another limitation is that customers may not engage with this method, as they may not trust legitimate links they receive and/or may not feel comfortable inputting their details into the payment sites provided. This might be more likely if customers are unaware that they are entitled to compensation. If this option is implemented, then it must be accompanied by suitable customer communications and appropriate safeguards to ensure that it does not open up opportunities for fraudulent activity.

8.25. Despite these challenges, Overall, our engagement with DNOs suggested some support for this change.

Options to improve data sharing to allow faster payments

3. Increased data flow from suppliers to DNOs including relevant details to write a cheque

Effort

8.26. We consider this option is likely to require a significant level of effort given the enhanced processes and increased data that falls on suppliers and DNOs, including developing new systems and processes. There is a potential need for new system requirements and ongoing data stewardship d to ensure compliance with the relevant legal requirements on data protection.

<u>DNOs</u>

8.27. This option will impact DNOs because:

- they will have to process and store additional data received. This is likely to require new systems and processes to be developed, implemented, and maintained
- they will need to ensure compliance with the relevant legislation when holding customer data, including GDPR which would involve ongoing compliance processes and costs. However,
- they may save time if the customer data is up to date

<u>Suppliers</u>

8.28. This option will impact suppliers because:

- they will have to regularly share information with DNOs (for example, quarterly), ensuring customer data is up to date,
- they may face more questions from DNOs if data is not up to date, as Severe Weather-related power outages can happen throughout the year. In practice, DNOs may ask for this information each time a Severe Weather event occurs to help ensure they are working with the most up-to-date customer information (for example to take account of customers moving homes).

Effectiveness

8.29. We consider the option is likely to have some positive impact as it will help DNOs deliver payments quicker as they would not be delayed by the need to source accurate customer data at the time of an event, including door knocking and writing letters, which takes considerable time.

The positive impact that this measure brings can be significantly reduced where DNOs hold outdated information. This could result from timing issues, as in cases where Severe Weather events occur in the middle of updates on customers from suppliers and there have been changes since the previous update. The challenge of keeping information updated can be seen from the fact that 1.6 million households moved homes in a12-month period between 2020/21. This highlights how quickly customer data can become out of date[54].

8.30. Overall, the effort involved may not be proportionate to share this information given that less than 1% of all customers affected by Storm Arwen were due compensation following the event, and DNOs already held records for most of them. Even SPEN, who held customer data for the least number of customers across all DNOs, had records for c.75% of customers.[55]

8.31. In addition, some DNOs expressed concerns on holding , sensitive data such as details on bank accounts, noting the GDPR issues and risks it involves. From our

[54] English Housing Survey, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1060141/2020-21_EHS_Headline_Report_revised.pdf

[55] Energy Emergencies Executive Committee Storm Arwen Review, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1081116/storm-arwen-review-final-report.pdf

conversations with DNOs, we note that GDPR would not necessarily block the implementation of this option, but the requirements present enhanced compliance requirements, and the implications of holding data would need to be considered more closely.

4. Real-time customer data sharing between suppliers and DNOs

Effort

8.32. We consider this option is likely to require a significant level of effort given the required continued data access and sharing between suppliers and DNOs. The effort involved in maintaining a near-real time or real-time database in all DNOs (or suppliers maintaining similar systems to which DNOs could access) would be significantly greater than the "one-off" sharing of data envisaged in the previous option. With more than 20 suppliers in the market, this could be a significant undertaking.[56]

DNOs

This option will impact DNOs because:

- a platform or other way to allow access would need to be developed, implemented and maintained together with suppliers, ensuring any GDPR concerns are appropriately addressed. Previous experience from industry change programmes such as Faster, More Reliable Switching and Market-wide Half Hourly Settlement suggest that such industry-wide arrangements and platforms take several years to develop and implement;
- they will need to process the additional data and input it into their systems.

Suppliers

8.33. This option will impact suppliers because:

- a platform or access would need to be developed together with DNOs, ensuring any GDPR concerns are appropriately addressed.
- As above, the burdens of developing and maintaining such a system would be significant.

[56] https://www.ofgem.gov.uk/energy-data-and-research/data-portal/retail-market-indicators

Effectiveness

8.34. We consider the option is likely to be effective as it addresses the data limitation barrier fully by enabling real-time information sharing, where DNOs can gather the data they need to make payments. Therefore, it would help speed up payments made to customers as it saves time on DNO activities to obtain accurate customer data undertaken in previous events. However, as discussed above this option would potentially create issues for DNOs holding additional information and the associated GDPR concerns.

8.35. However, overall, the effort involved may not be proportionate to share this information given less than 1% of all customers were due compensation following Storm Arwen; however, this option could be explored further to tailor the design to minimise the burdens. For example, given the small pool of customers that required compensation this option could be implemented on an "on-demand" basis, the DNOs request an updated set of customer information or real-time data sharing within a set timeframe, and suppliers cooperate to meet the demand under some form of regulatory obligation.

Other options relating to payment processes

5. Improved industry signposting for Severe Weather GSoP compensation

Effort

8.36. We consider this option is likely to require a low level of effort for both DNOs and suppliers based on our discussions with industry. Stakeholders saw this option as implementing relatively straightforward communications, such as updating websites, with information that directs customers to DNOs if they suffer a power outage. Many DNOs already do so when a significant Severe Weather event is forecasted or occurred. Suppliers, providing such communications may require additional effort, but working with DNOs this could be as simple as expanding information on the "105" emergency website to include information on compensation and providing a link to this as a banner on the landing page. The Electricity (Standards of Performance)

Regulations 2015 already include a provision where DNOs must inform customers of their rights and publish these on their websites.[57]

Customers

8.37. Customers may benefit from more clear signposting and indications on how to receive compensation and who to contact. For those customers who have engaged with suppliers and DNOs in relation to their Severe Weather GSoP compensation, providing better signposting could reduce the effort they experience following a Severe Weather event.

Effectiveness

8.38. We consider the option to have a positive impact, although it is unlikely on its own to significantly speed up the delivery of payments by DNOs. This is because:

- it may help to address the barriers DNOs face in not having customer data, if customers were to reach out to DNOs then DNOs are more likely to have the correct information for a larger proportion of their customers eligible for compensation However,
- it may not necessarily speed up payments as it is not guaranteed that those that are eligible for compensation are even aware compensation is offered, so may not check supplier or DNO communication channels.

8.39. Overall, we consider this option is likely to be "a quick win" which could improve the speed of payment with limited effort. We also considered an option around suppliers providing targeted comms to individual customers. However, based on concerns expressed by DNOs and suppliers about confusing customers on who was responsible for Severe Weather GSoP payments, we do not believe this would provide a better balance of advantages and costs compared to the generalised approach outlined above.

6. Suppliers act as conduit for payment to customers

Effort

[57] The Electricity (Standards of Performance) Regulations 2015 https://www.legislation.gov.uk/uksi/2015/699/body/made/data.pdf

8.40. Notwithstanding that the regulations allow DNOs to pass compensation via suppliers, in practice, this does not happen. We consider this option (which would require DNOs to work with suppliers to pass on compensation to customers) would require significant effort to implement because it would require new systems, processes and ways of working in place.

8.41. We discussed the fact that this option is already in place in the gas sector with industry. However, this option seems easier to operate in the gas sector given that there is as a central agent (Xoserve) whose role is to administer the process. The lack of this and complexities within the electricity sector would make costs greater.

DNOs

8.42. This option will impact DNOs. In our discussions with them they expressed the following views:

- That systems and processes for crediting suppliers will need updating,
- That DNOs are responsible for ensuring that customers receive compensation, and this option might make it difficult for them to check customers have been correctly compensated. in their view, this would require additional assurances - perhaps through new regulations on suppliers – to ensure that suppliers are discharging their regulatory obligations.
- Costs savings that arise from reducing the issuance and postage of cheques could be eroded by the payments that must be made to suppliers who undertake these activities on their behalf.

Suppliers

8.43. This option will impact suppliers. In our discussions with them they expressed the following views:

- That they will have to handle payments from DNOs,
- That they will have to issue the credit/payment to customers, which will require new processes to be developed, and
- That customers will be more likely to reach out to suppliers if they have complaints or queries on the amount received, which would increase their call centre volumes and distract their teams from handling other queries related to their core business of supply.

8.44. Energy UK, for example, noted that the scale and complexity of effort required to implement these changes should not be underestimated. They referenced the costs

and effort of delivering newly regulated schemes such as the Energy Bill Support Scheme as an example a scheme with similar arrangements.

Customers

8.45. Customers would benefit from automatic payments that come directly through their energy supplier, as that is the main energy company, they have sight of and with whom they are used to dealing.

8.46. DNOs outlined the risk of customer confusion over who was responsible for payments in the event of Severe Weather disruption (suppliers or DNOs) if payments were made by suppliers on behalf of DNOs and where they offered other compensations that customers were not aware of, and which were not provided by the suppliers. This included support such as hotels and compensation for wasted food which customers could miss out on.

Effectiveness

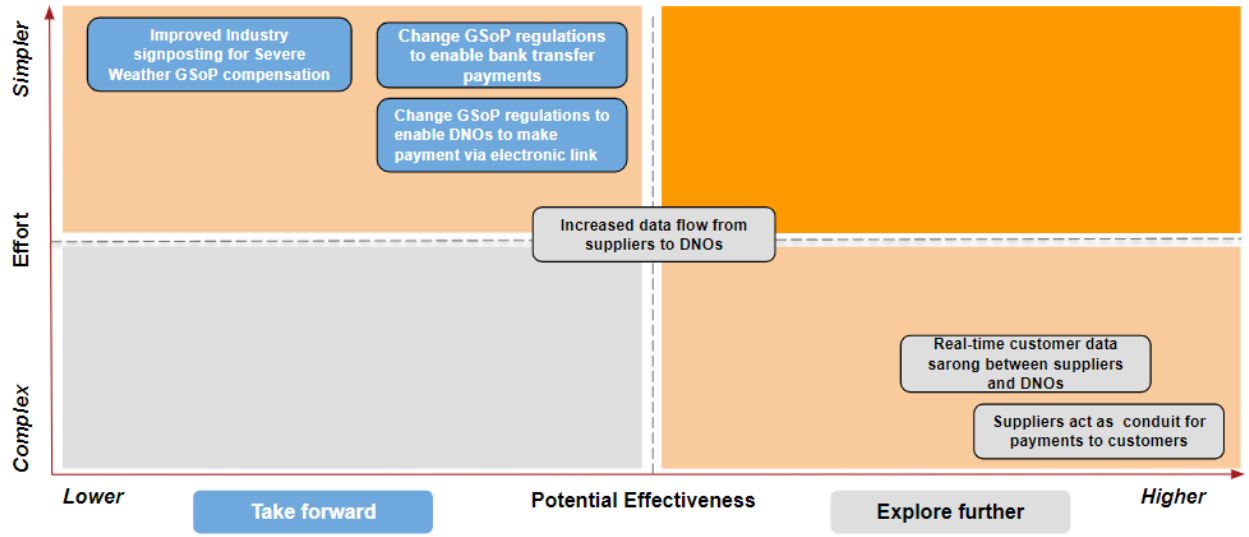
8.47. We consider the option to be effective at speeding up payments because it addresses the data limitation barrier as suppliers hold all the relevant data needed to make payments.

8.48. Overall, this option requires further exploration given: the scale of change, the effort required in implementation and DNOs view of the potential for customer confusion.

Assessment summary

8.49. We have mapped out the likely effort and effectiveness of the six options into a matrix to help us to consider which options are recommended for taking forward for further consideration.

Figure 3: Customer data accuracy and payment efficiency results



8.50. We consider that the options focussed on improving the payment process by providing choice to customers should be taken forward (options 1 and 2). Also, we consider that improved industry signposting (option 5) will help make steps to address the issue of DNOs not having accurate customer data, as customers may be more likely to reach out directly.

8.51. For options on data sharing (options 3 and 4) and the option for suppliers to make payments directly (option 6), we recommend further work be undertaken to explore the costs, benefits and feasibility of their implementation by both suppliers and DNOs.

8.52. However, from our review of the available evidence in relation to Storm Arwen and discussions with DNOs, we think there could be short-term improvements that could be made to data sharing practices between DNOs and suppliers, as DNOs noted they had different experiences in obtaining customer data when interacting with different suppliers.

8.53. Therefore, we recommend that in the short-term, DNOs and suppliers should work together to establish a data sharing protocol to facilitate and standardise data sharing arrangements.

Recommendations

8.54. **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. Giving customers more options for payments will help speed up payments for customers but also improve their experience as they are given more choice on how to receive their payments.

8.55. **Recommendation 7:** For industry to improve the information available on the GSoP and customers' rights and compensation entitlements. Specifically, for DNOs to consider including Severe Weather GSoP information on the "105" power emergency website and for suppliers to update their websites when a Severe Weather event occurs. Information provided should include an overview of eligibility for compensation through the Severe Weather GSoP regime, guidance for customers to contact their DNO, and how they should contact DNOs.

8.56. **Recommendation 8**: For DNOs and suppliers to work together to establish a data sharing protocol between suppliers and DNOs for GSoP payments: Suppliers and DNOs should engage in best practice data sharing before, during and after a Severe Weather incident. This is particularly important in the case of a large storm. The establishment of a protocol and clear responsibilities could ensure that, for example, if a large storm is forecast, DNOs can request suppliers for updated customer name or contact details for MPANs where they are missing data, which can be held in compliance with GDPR requirements.

9. Broader Recommendations

9.1. Through this targeted review of the Severe Weather GSoP and discussions with stakeholders, other areas that relate to the wider GSoP arrangements have been identified. While these don't relate specifically to the areas identified for review in the Storm Arwen Report, if implemented they might result in improved customer protection:

9.2. **Recommendation 9:** Ofgem should, taking account of practical implications, consider whether and how to widen customer eligibility to groups currently missing out on compensation. Examples include domestic customers that are served under a business contract, such as residents of park homes, and other residential tenants whose electricity usage is an inclusive part of their rent. Currently, these customers are not covered by the Severe Weather GSoP framework and are not entitled to compensation payments from DNOs if they experience a power cut.

9.3. This is a broader issue than the Severe Weather GSoP. However, there have been recent examples, such as with the Energy Bill Support Scheme where the Government has proposed actions to protect these customers. Following these examples further consideration could be given to how GSoPs could be applied in such circumstances, for example action to require landlords, who are responsible for energy bills, being required to pass on any payments to tenants.

9.4. **Recommendation 10:** Ofgem should consider the extent to which aligning the electricity GSoPs with gas GSoPs would be beneficial to customers, and whether any existing differences between the two frameworks are justified. This review has identified a number of areas where scope exists for alignment. For example, the gas GSoPs currently specify a maximum period within which a Gas Distribution Network (GDN) should make payments to eligible customers. GDNs are penalised if they do not meet this standard. The electricity GSoPs contain similar provisions for Normal Weather, but not for Severe Weather, where there is no specific timeframe for payments defined.

9.5. While there are some legitimate differences between gas and electricity - for example the existence of Xoserve as the central agent in gas reduces some of the complexities around suppliers making GSoP payments on behalf of DNOs. This review has

identified a number of differences between the arrangements which may be able to be simplified and aligned. For example, whether there is a rationale for:

- differentiated compensation payments in gas for domestic and non-domestic customers. In gas, domestic customers are entitled to £60 after the initial 24 hours with £60 every 24 hours following, the same applies for non-domestic customers but they are entitled to £100 for every 24 hours they are without supply[58], and;
- introduction of a maximum payment time limit for making payments to consumers, as is the case in the gas regime. Gas Distribution Networks (GDNs) must make payment which is due to any customer under any of the Guaranteed Standards, within 10 working days, or they are liable for a £40 one-off payment[59].

9.6. **Recommendation 11:** Ofgem should consider the extent to which aligning the Severe Weather with the Normal Weather compensation frameworks would be beneficial. Normal Weather has different payment values for domestic and non-domestic customers (£75 and £150 respectively), as well as having no cap as long as the weather conditions affect fewer than 5,000 premises. Normal Weather compensation payments must also be made within 10 working days, otherwise DNOs will have to pay customers £30. Also, the changes proposed in this report may increase the misalignment between the two, as payments under the Severe Weather GSoP will accrue every 6 hours, whereas under the Normal Weather GSoP they accrue every 12.

9.7. While there are differences in the magnitude of the incident that might cause a power cut(between normal and Severe Weather event) and in DNOs' ability to restore power, the inconvenience experienced by customers is the same. Therefore, it may be sensible to more closely align the GSoP for Normal and Severe Weather in the future.

[58] Ofgem, Guidance on Guaranteed Standards of Performance and Standard Conditions, Special Licence Condition D10, https://www.ofgem.gov.uk/sites/default/files/docs/2009/09/guidance-on-gsop-regs-and-d10---new_0.pdf
[59] Ofgem, Guidance on Guaranteed Standards of Performance and Standard Conditions, Special Licence Condition D10, https://www.ofgem.gov.uk/sites/default/files/docs/2009/09/guidance-on-gsop-regs-and-d10---new_0.pdf

Appendix 1 - Analysis assumptions

Given the available data, a small number of assumptions were needed to be able to assess the options. The restoration profile did not include the exact time each customer was off before they were restored, rather the data was based on 24-hour time periods, for example 48-72 hours, 96-120 hours etc therefore, the following assumptions were made:

- It has been assumed that restorations happen on a linear basis during each 24-hour period, i.e.
    - in each 24-hour period, 50% of customers were off for 12 hours and the other half were off for the full amount, within the period (half would get full amount of compensation the other half would not),
    - for assessing the 6-hour payment window 25% of customers were off in the first 6 hours, 25% for 12 hours etc, such that 25% were entitled to £35, 25% entitled to £70, 25% entitled to £105 and the final 25% were entitled to £140).

- Update the payments by inflation up to 2020/21 in line with RIIO-ED2 and round to the nearest £5 as defined in the draft determinations[60].

[60] Ofgem, RIIO-ED2 Draft Determinations- Core Methodology Document, https://www.ofgem.gov.uk/sites/default/files/2022-06/RIIO-ED2%20Draft%20Determinations%20Core%20Methodology.pdf

Appendix 2 - Stakeholder engagement

To produce recommendations network companies, consumer organisations, and industry trade bodies have been engaged.

Network companies:

- UK Power Networks (UKPN)
- Electricity North West (ENWL)
- National Grid Electricity Distribution (NGED)
- Northern Powergrid (NPG)
- SP Energy Networks (SPEN)
- Scottish and Southern Electricity Networks (SSEN)

Consumer organisations:

- Age UK
- Citizens Advice
- Independent Park Home Advisory Service (IPHAS)

Trade associations and other industry bodies:

- Energy Networks Association (ENA)
- Xoserve
- Energy UK