

January 2002

**Development of multiple
interruption and other standards
for electricity distribution**

Introduction of standards

Summary

In November 2001, Ofgem published proposals for Multiple Interruption performance standards that will specify a maximum number of interruptions that consumers ought to experience. The proposed measures, which followed an earlier "Initial Thoughts" consultation, will focus attention on the quality of supply provided to the worst-served consumers. They comprise :

- An Overall Standard to measure a Distribution Company's overall performance in minimising the number of multiple interruptions on their network
- A Guaranteed Standard that will provide for compensation to consumers who experience more than three interruptions of more than 3 hours duration per year

Ofgem's proposals have been welcomed by consumer representatives and by electricity Supply businesses. While some would like to see more demanding standards introduced in due course, there is a broad acceptance that the proposals are sensible and realistic for the present time. Distribution companies generally support the introduction of Overall and Guaranteed Multiple Interruption Standards, though they have expressed concerns about some aspects of Ofgem's proposals regarding the Guaranteed Standard. All issues raised have been given careful attention and, where considered appropriate, the Initial Proposals have been modified before being incorporate in the Draft Regulations that are contained in this document (Appendix 1).

Distribution companies have welcomed Ofgem's proposals that their compensation and administration costs arising from the Guaranteed Standard, up to the level that an efficient company would incur, should be allowed costs for price control purposes. However, they considered it unreasonable that they should have to bear these costs during the current Price Control period. Ofgem has examined this argument and concluded that the potential compensation costs are in excess of what the companies could have reasonably anticipated when they accepted the last price control. Ofgem will, therefore, make an allowance at the next price control review that will provide

recovery of efficient compensation and administration costs incurred during the current price control period.

Distribution companies also argued that they should not be liable for compensation resulting from interruptions over which they have no control. Several responses to the consultation go on to advocate the introduction of a pass-through of any compensation costs arising from transmission and generation failures. The National Grid Company (NGC) view is that, if such a pass-through were to be introduced, there should be a suitable allowance in their price control. However, energywatch would be opposed to any company liabilities being underwritten in this way if they resulted from a failure on the part of the company concerned.

During the past ten years there have been two transmission incidents in England and Wales and eleven in Scotland that have interrupted supplies for more than 3 hours. The scale of these incidents has been quite small but companies are understandably reluctant to accept the open-ended risk of substantial compensation liabilities that could arise from a much larger incident. Ofgem is currently carrying out consultations on Transmission System Operator Incentives, Transmission Access and Embedded Generation. These have potential implications for the transmission/distribution interface and it therefore seems prudent to exclude all interruptions arising from transmission and generation failures from the Guaranteed Standard, until these projects have progressed further.

There is wide agreement that it is right to exclude interruptions arising from pre-arranged outages from the Guaranteed Standard. A general exclusion for interruptions arising from any event affecting supplies to more than 500,000 consumers within Great Britain for more than 3 hours has also been included in the draft Regulations. This is intended to eliminate the effects of any truly exception event, which, though unlikely, might have a significant impact on the operation of the standard. There is also an exclusion for the effects of terrorist action.

With a Multiple Interruption standard, the impact of a particular set of circumstances will be rather less than with other Guaranteed Standards as there have to be several other interruptions before compensation becomes payable. It is thought that this factor, together with the exclusions referred to above and the Price Control allowance for efficient costs, will produce a workable standard that is acceptable to all concerned.

There is general support for Ofgem's proposals to align the Overall Standard with the IIP arrangements and initially set only moderately demanding performance levels for each company. Once sufficient data on performance against the standard is available the required performance levels will be reviewed. Consideration will be given to whether it would be desirable progressively to raise the required level until a performance level of 99% is specified for all companies.

The Multiple Interruption consultation documents also sought views on two other related issues. These concerned :

- Whether there is a need for an Overall Standard on telephone response times?
- Whether Overall Standard 1a (% supplies restored within 3 hours) should be retained?

It is clear that there is a consensus that these aspects will receive adequate treatment through IIP and other measures. Consequently Ofgem will not introduce an Overall standard on telephone response and will amend the existing standards in order to remove Overall Standard 1a with effect from 1 April 2002. This is a small but useful step in simplifying regulation.

During February and March 2002, Ofgem will take the following steps to facilitate the introduction of the new regulations from 1 April 2002:

- Draw up revised Overall Standards for each company that incorporate these changes
- Progress implementation of the attached Draft Regulations
- Engage in discussion with interested parties to identify and promote best practice for the operation of the Multiple Interruption Guaranteed Standards.

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1. Introduction

Background

- 1.1 The current price control on distribution companies calls for the introduction, from 1 April 2002, of Multiple Interruption performance standards that will specify a maximum number of interruptions that consumers ought to experience. Ofgem has published two consultation documents as part of the development of these standards. An "Initial Thoughts" document was published on 7 August 2001 and then, following further studies and consideration of responses, an "Initial Proposals" document was published on 6 November 2001.
- 1.2 Consultations have concerned:
- An Overall Standard to apply to companies' general performance in minimising the number of multiple interruptions on their networks.
 - A Guaranteed Standard that will provide for compensation payments to consumers who experience more than a specified number of interruptions in a year.
 - Whether there is a need for a new Overall Standard relating to telephone response times, as also proposed in the Distribution Price Control.
 - Whether the existing Overall Standard 1a (% of interruptions restored within 3 hours) should be retained, as there are concerns that it gives perverse incentives.
- 1.3 There has been a great deal of interest in these proposals from the distribution companies, from supply businesses, energywatch, consumer groups, individual consumers and other interested parties. Ofgem also commissioned consultants EA Technology to carry out studies and analysis of data provided by the distribution companies. As a result of the high level of participation in the consultation process there is a much better understanding now among all concerned, as to how Multiple Interruption standards might operate, than was the case at the start of the process.

Purpose of this document

1.4 This document:

- Sets out issues raised in response to the "Initial Proposals" document. Each point is considered in turn in Chapter 2 which considers whether changes are needed to the standards as previously proposed, and sets out the decisions that have been taken.
- Includes Regulations that are to be made by the Authority in order to introduce the new Multiple Interruption Guaranteed Standard. Publication of these draft regulations is the first step in the statutory consultation leading to implementation of the Standard from 1 April 2002 (Appendix 1).
- Outlines actions to be taken before the next Distribution Price Control in order to give effect to decisions that have been made regarding the new Multiple Interruption standards and allow further development of the standards as currently envisaged, or as necessary in the light of experience (Chapter 3).

Further steps

1.5 The proposed Regulations will specify the circumstances in which consumers are entitled to compensation payments due to having experienced multiple interruptions. It is widely recognised that it would be desirable for there to be a common national approach in the way that customers are made aware of their entitlement to make claims under the new Guaranteed Standard and the way that these claims are administered. This would be in the best interest of consumers, distribution companies, the supply businesses that serve as an interface between them, and the regulator, who will have to make judgements about relative efficiency based on each company's claims experience.

1.6 Several companies made this point in their consultation responses and have offered to assist in this detailed work. Preliminary discussions have identified possible ways forward and it is proposed to hold a workshop in February 2002 to which distribution company, supply company and consumer representatives

will be invited. The purpose of this workshop will be to identify the most appropriate methods. It is envisaged that this will then be incorporated in an updated version of the Guidance and Proposals on Best Practice, that was originally produced by Offer in 1996¹.

- 1.7 Prior to 1 April 2002 Ofgem will also modify the Overall Distribution Standards of Performance for each company in order to implement the new Multiple Interruption Overall Standards.
- 1.8 Formal responses to this consultation on the Draft Regulations should be sent to Ofgem, so that they are received by 20 February 2002. Unless marked as confidential all responses will be published, by placing them in the Ofgem library. Responses should be addressed to:

John Benson
Ofgem
9 Millbank
London SW1P 3GE
Email:john.benson@ofgem.gov.uk
Fax: 0207 901 7075
Tel: 0207 901 7361

Any informal enquires or comment concerning the introduction of should also be addressed to John Benson, who will be making arrangements for the workshop referred to in para 1.6 above.

¹ Performance Standards, Offer Guidance and Proposals on Best Practice, May 1996

2. Consultation Responses and Issues Determined

Level of response

2.1 Responses to the consultation have been received from:

- All 10 companies with Distribution Licences in Great Britain
- Two electricity supply companies (BGT and Innogy)
- The National Grid Company
- The Health and Safety Executive
- Energywatch
- A group of consumers in Northumberland
- The Energy Consortium, Birmingham University
- The Major Energy User's Council

General views and major concerns

2.2 Responses were generally supportive of the approach being taken in the development of the Multiple Interruption standards. While still registering major concerns, distribution companies variously saw this as an important development, commented favourably on the style of the consultation, and expressed satisfaction with the overall nature and structure of the proposals. The supply businesses also support the approach, recognise that previous comments have been taken into account, and have offered to assist with implementation work. Energywatch have endorsed the need for standards of performance relating to Multiple Interruptions, though the Northumberland group expressed concern about the level of input from consumers to the Initial Proposals.

2.3 All responses that commented on the proposals² to discontinue the existing Overall Standard 1a (% restored within 3 hours), and not to introduce a new

² Development of Multiple interruption and other standards for electricity distribution, Initial Proposals, Ofgem, November 2001, Chapter 5

Overall Standard on telephone response, were supportive. Several expressed the view that they were sensible in view of other developments, such as the measures that are being introduced under Ofgem's Information and Incentives Project³.

- 2.4 Most consumer groups and one supply business (BGT) have advocated more demanding Multiple Interruption standards than those contained in Ofgem's Initial Proposal, though Innogy consider the proposals a "sensible first step". Energywatch consider it unacceptable that anyone should experience more than three losses of supply a year and they believe that £50 is the absolute minimum level at which compensation should be set. BGT agree that compensation should be set at £50 as do the Northumberland Group, though they and the Major Energy Users' Council point out that this will not represent adequate compensation in all circumstances.
- 2.5 It is widely accepted that, due to limitations of current information systems for identifying individual consumers, it will be necessary for consumers to initiate claims under the Multiple Interruption standard. Energywatch, while acknowledging this, believe that Distribution companies should continue to invest in improvements in network management systems, which will deliver accurate, meaningful and detailed performance information. There is also a widespread acceptance that, in the interest of simplicity, the standard should relate to the number of interruptions experienced by customers during a fixed, April – March, year. Issues raised relating to how claims are to be encouraged and processed are discussed in Chapter 3 of this document.
- 2.6 The distribution companies have welcomed Ofgem's proposal that companies' compensation and associated administration costs from operation of the Guaranteed Multiple Interruption standard, up to the level that an "efficient company" would incur, should be an allowed cost for price control purposes⁴. Energywatch do not, in general, support the idea that customers should underwrite companies' liabilities, but they have acknowledged that it is appropriate for the specific purpose of these standards for the generality of consumers to meet the cost of administering and making compensation

³ Information and Incentives Project Incentive Schemes: Final Proposals, Ofgem, December 2001

⁴ Initial Proposals, para 4.3

payments. While recognising that it is impossible for companies to eliminate all such events, they emphasise that this should be only up to an “efficient level” of shortfall against the standard.

- 2.7 Distribution companies have expressed concern at Ofgem’s view that it would be reasonable for them to carry these costs for the remainder of this price control⁵. Responses indicate that this is a major concern that underlies a number of their criticisms of the form of the proposed standard, the number of interruptions, and the levels of compensation payments. This issue is therefore considered in some detail in the following paragraphs of this report.

Treatment of Guaranteed Standard costs April 2002 – March 2005

- 2.8 Several distribution companies have expressed strong concerns about the proposal that they should carry all costs arising from the Guaranteed Standard payments for the remainder of the current price control period. They argue that a standard that allows a maximum of three 3-hour interruptions will result in compensation payments and administration costs in excess of what could they have reasonably expected when the price control was accepted. One company (LPN) has suggested that the only acceptable basis on which to introduce the proposed Guaranteed Standard would be to

- a) Re-open the current control and make an appropriate allowance, or
- b) Commit to a backdated (and NPV neutral) recovery of costs at the next price control, or
- c) Set the standard at an achievable level.

- 2.9 In accepting this element of the current price control, distribution companies have indicated that they had assumed that costs would be similar to those for other Guaranteed Standards. However, as a result of current work, it is now apparent that the nature of a Multiple Interruption Guaranteed Standard, and hence the resultant costs, is somewhat different in character and materiality to the other Guaranteed Standards. Payments against other Standards relate to events that companies can, to a large degree, control, e.g. supply restoration

⁵ Initial Proposals, para 4.5

taking more than 18 hours. By contrast a multiple interruption standard relates to a combination of events that do happen, though generally infrequently, and hence failures against the standard will occur.

- 2.10 If the distribution of network equipment failures, and hence the resulting interruptions, is random then the number of failures against the standard as proposed would be extremely small. However failures are often correlated due to factors relating to circuit design, operation and maintenance, age or environment. It is the degree of correlation of these failures that will determine a company's performance against a multiple interruption standard. Some failures will, for statistical reasons, be inevitable even for an efficient company. However, if a company has a large number of failures then that will suggest that they are neglecting the interests of their "worst served" consumers. These considerations lead to the conclusion that an efficient company will have some shortfall, unless the standard is set at such a relaxed level that it is close to being irrelevant as might be the case with the approach suggested in para 2.8 (c) above.
- 2.11 This understanding of the nature of Multiple Interruption standards has been developed during the course of the consultations. It reflects technical and economic considerations that have influenced the Industry's established network design standard. Ofgem accepts that distribution companies could not have anticipated the full cost implications of introducing a Multiple Interruption Guaranteed Standard from April 2002, at the time that they accepted the current price control. It is therefore appropriate for "efficient" company costs arising from operation of the Guaranteed Standard during the current price control to be remunerated to the companies.
- 2.12 As indicated above this could be done by either (a) re-opening the current price control, or (b) committing to a backdated cost recovery at the next price control. Option (a) has a number of disadvantages:
- The sums involved are relatively small in price control terms, so this would be a disproportionate response.

- Allowances would have to be based on estimates of each company's liability, if operating in an "efficient" way. There are doubts about the accuracy of some current estimates.
- Having been given a pre-determined allowance, companies might discourage claims. This would adversely affect the introduction of the new standard.

2.13 Option (b) appears to be a better approach. At the next price control review Ofgem will be in a stronger position to form a judgement of what each company's costs should be as, in addition to information currently available, there will be two years of data on actual claims. This will allow comparison between the performance of different companies. It will also be possible, in the intervening period, to give further consideration to the underlying technical and economic constraints and how they impact on Multiple Interruption performance.

2.14 With such an arrangement, the efficient costs for each company will be assessed at the time of the next price control and will be recovered, along with costs for the next control period, during that control period. i.e. if the next control covers a 5 year period then allowed costs for 8 years (2002 – 2010) will be recovered over 5 years (2005-2010). For example, if it should be considered that, for a particular company operating at an efficient level, each year 0.1% of consumers would receive compensation of £50, then allowed annual costs would be equivalent to 5p per customer. Recovering 8 years costs over a 5 year period would result in annual costs equivalent to 8p per customer (ignoring NPV adjustments that will be made). Judgements would also be made about efficient levels of administrative costs and allowed costs would be recovered in the same way.

2.15 For the next two years each company will have a balance of incentives to ensure that eligible consumers, and only eligible consumers, receive compensation payments. If they discourage claims the efficient level is likely to be set low for the next price control period. On the other hand if they are not diligent in checking claims and the level of compensation payments at the time of the price

control review appears to be exceptionally high, they are unlikely to receive recovery of much of these costs.

- 2.16 After careful consideration of these issues, Ogem has decided to include compensation and administration costs (up to efficient company levels) arising from the operation of the Multiple Interruption Guaranteed Standard during the period April 2002 to March 2005 in allowed costs for the next price control period. This will be in addition to a cost allowance for compensation and administration costs during that next period.**

Other issues concerning the Multiple Interruption Guaranteed Standard

Interpretation of Section 39A of the Electricity Act 1989

- 2.17 Some companies have again suggested that the phrase “ought to be achieved in individual circumstances” in Section 39A, (introduced by section 54 of the Utilities Act 2000) means that the standard should be set at a level that would enable a company to have no failures. As explained above, that would result in a totally ineffective standard. Ofgem’s view, based on legal advice, is that such a narrow view is not the only or proper interpretation and that the Authority can properly form its opinion on a broader interpretation taking account of reasonable expectations for individual consumers.

Guaranteed Standard to be based on a maximum of 3 x 3-hour interruptions

- 2.18 With the exception of LPN, all the distribution companies support the use of a standard based on 3 hour interruptions. Estimates of LPN’s performance in Tables 1 & 2 of the Initial Proposals document show that with a 3-hour Guaranteed Standard LPN are likely to have a similar performance to other companies. However, if a 3-minute standard should be used, as proposed for the Overall Standard, then they would have a significantly better performance than other companies. The Major Energy Users’ Council pointed out that for their members businesses even quite short interruptions are often very damaging.
- 2.19 The Northumberland group and BGT consider that, from a consumer perspective, the standard should be based on a maximum of two, rather than

three interruptions. Some distribution companies, on the other hand, consider three interruptions to be too onerous for a satisfactory standard, though it is possible that these views may be moderated as a result of Ofgem's treatment of April 2002 – March 2005 costs. Distribution companies generally advocate a less demanding standard, while many other responses favour setting it at a more demanding level. Ofgem's view is that a 3 x 3-hour standard will be a workable standard and represents a reasonable balance between conflicting considerations. Innogy and energywatch also share this view. **The 3 x 3-hour definition for the Guaranteed Standard, as contained in the Initial Proposals, has therefore been retained in the Draft Regulations. However, as with other features of the Regulations, the impact of this will be kept under close scrutiny during operation of the new standard.**

Compensation to be set at £50

- 2.20 Several companies link their comments on what would be an appropriate level of compensation with their comments on the number of interruptions at which the standard is to be set. In some cases there are concerns about the total cost while others focus on the negative value to customers of different numbers of interruptions. Scottish Power appear to accept the basis of Ofgem's calculations⁶ but consider that they should be set at £20 - £25 in order to reflect the minimum qualifying impact on consumers i.e. only 4 interruptions each of just over 3 hours for purely domestic consumers. Seeboard consider that compensation should be set at levels corresponding to liquidated damages in commercial contracts. They believe this would range from 1% up to a maximum 10 or 15 % of annual DUOS charges, which in their case average £47, i.e. compensation of 47p to £7.05.
- 2.21 Energywatch are quite emphatic that £50 is the "absolute minimum level" at which compensation should be set. Ofgem recognise that in practice there will be a range of impacts on consumers qualifying for compensation. Some of them may experience more than 4 interruptions in a full year, they may have interruptions of more than 3 hours duration, and they may have had their

⁶ Initial Proposals, para 2.39

business as well as their domestic activities adversely affected by the interruptions. A £50 compensation payment will reflected the spread of impacts and also the need for a significant level of compensation, so that it will be worthwhile for consumers to make a claim. **The draft regulations therefore provide for compensation payments of £50.**

Exclusions

- 2.22 Many responses to the Initial Proposals recognise that the Multiple Interruption Guaranteed Standard needs to be simple to understand and operate, as claims will have to be initiated by consumers. This means that there should be as few exclusions as possible. Ofgem's Initial Proposals were that only pre-arranged outages, widespread transmission failures and transmission connected generation should be excluded from the Standard. It was also proposed that there should be no exclusions for severe weather, though claims for which payments had been made under GS2 (>18 hours restoration) would be excluded. In addition it was envisaged that there would be some provision for exclusions for interruptions resulting from exceptional and unforeseen events of major proportions.
- 2.23 **There is a general acceptance that pre-arranged interruptions should be excluded**, but there is a much wider range of views on other possible exclusions. Several Distribution companies took the view that all the exemptions in Regulation 17 of the existing Regulations should apply to the Multiple Interruption Standard, while other companies consider that there should be few exclusions. Energywatch supported Ofgem's proposals regarding exclusions.
- 2.24 The impact of any one particular set of circumstances will be rather less, in the case of the Multiple Interruption Standard, than with other Guaranteed Standards as there has to be several other interruptions before compensation becomes payable. Some events, such as localised severe weather, will therefore have only a limited impact on a company's total liability for compensation payments. However, it is recognised that there need to be some arrangements to allow for widespread, and very exceptional events. These are, by their nature, difficult to define. It has been suggested that Ofgem should designate such events for exclusion from the standard, as they arise. However, such an approach would

present difficulties, as there would still be a need to set out objective criteria on which such a judgement would be based.

- 2.25 **In order to avoid such difficulties, it has been decided that there should be a general exclusion for any event that results in a total number of consumers within Great Britain in excess of 500,000 experiencing an interruption of more than 3 hours.** This may arise from a single network incident or from a more diffuse cause, such as a very exceptional environmental phenomenon (e.g. a solar storm) affecting the supplies to very large numbers of consumers. It is considered that this will provide a means of identifying truly exceptional events and effectively limit the liability of companies in such circumstances. No events of this magnitude have been experienced in the last ten years. This general exclusion should be taken into account when considering the treatment of other proposed exclusions in the draft Regulations.
- 2.26 In the Initial Proposals (page 16) it was suggested that it might be possible, in the longer term, not to exclude transmission outages but to devise a pass-through of the resulting compensation costs to the transmission companies. In the meantime, it was envisaged that interruptions of more than 3 hours resulting from loss of supply at a single transmission system exit-point would count as interruptions for the purpose of the Guaranteed Standard.
- 2.27 All distribution companies support the proposed exclusion of widespread transmission failures. Energywatch, BGT and the Northumberland group have no objection to this proposal, though BGT believe that all transmission outages should be included as soon as possible. However, most distribution companies have strong objections to the proposed inclusion of interruptions resulting from loss of supply at a single transmission system exit-point. Although recognising that consumers may have difficulties in differentiating between the causes of outages, they consider that it would be inappropriate for distribution companies to bear risks arising from outages over which they may have limited or no control.
- 2.28 In their response NGC comment that a pass-through of costs to them would constitute a new liability on National Grid. If a pass through were introduced in the future, they believe that a suitable allowance would need to be made in

National Grid's price control. Whether this would be acceptable to other parties would probably depend on the cause of the failure. Energywatch have indicated that, in general, they do not support the idea that consumers should underwrite companies' liabilities.

- 2.29 Historically, transmission system failures resulting in loss of supply to consumers for more than 3 hours are an extremely rare occurrence. From information provided by the Transmission companies, it appears that in the past 10 years there have only been 2 such incidents in England and Wales and 11 in Scotland. (The higher number in Scotland reflects the fact that in Scotland 132kV circuits are classified as part of the transmission system). The numbers of consumers affected by these incidents range from 42,500 down to 179, though in many cases a subset of consumers will have had their supplies restored within 3 hours (so the interruptions they experienced would not have been relevant to the operation of the proposed standard). It therefore appears that, had a proposed Multiple Interruption standard that included interruptions caused by transmission failures been operating during the past ten years, the effect of the transmission failures on total compensation payments would have been extremely small.
- 2.30 However, it is recognised that there is a matter of principle here and it is possible that a transmission failure could result in a large number of consumers experiencing an interruption of more than 3 hours duration. If all consumers across a wide area were affected for more than 3 hours by a transmission failure then the effect on the level of compensation payments across that area would be equivalent to setting the Standard at a maximum of two, rather than three, interruptions. From company estimates and work carried out by EA Technology it is estimated that the result might be a tenfold increase in the level of claims. Consequently, while for a group of 400,000 consumers there might typically be a level of claims (arising from distribution system failures) of 0.1% this could increase to around 1%. (i.e. compensation costs would increase from £20,000 to £200,000) in the event of a three hour transmission failure.
- 2.31 Liability for compensation in such situations might be limited by the general exclusion relating to events affecting supplies to more than 500,000 consumers for more than 3 hours. (para. 2.25 above). However, if a large group of

consumers were to experience a transmission failure twice in the same year then compensation costs could possibly escalate to several million pounds. From historical evidence this seems to be a very unlikely occurrence, though not impossible. Although the possibility of such liability for compensation arising appears to be extremely small, both Transmission and Distribution companies are understandably reluctant to accept such an open-ended risk.

2.32 In order to create a pass-through of compensation cost to transmission companies, it would be necessary to introduce other measures in addition to modification of the Electricity (Standards of Performance) Regulations 2001. Such a pass-through would require licence modifications and changes might also be required to industry documents such as the Balancing and Settlement Codes (BSC) and Connection and Use of System Code (CUSC). The NGC System Operator (SO) Incentives do not contain any mechanism which would facilitate a pass through of this nature. The SO incentives are reviewed annually and the review for the incentive regime to apply for 2002 – 3 is nearing its conclusion, with the new incentives intended to apply from 1 April 2002.⁷ As such, it is not possible to introduce a new parameter to address this issue at this time. However, Ofgem intends to examine this and other issues within the wider context of its review of Transmission Access arrangements.

2.33 “Worst served” consumers could be protected from the effects of interruptions arising from transmission failure adding to interruptions from distribution system failures by either

a) Extending the Multiple Interruption Guaranteed Standard to include all interruptions of more than 3 hours resulting from transmission system failures, but making arrangements for the additional compensation costs to be funded by the party responsible for the supply failure at the transmission system exit point,

or

b) Introducing some other means of compensating consumers in the event of transmission system failure.

⁷ NGC system Operator Incentive Scheme from April 2002 – initial Proposals, Ofgem, December 2001

- 2.34 With both these arrangements it would be desirable for compensation arrangements to be part of, or at least consistent with, the wider arrangements being considered as part of the current consultations on System Operator incentives and Transmission Access. This issue therefore needs to be taken forward in this wider arena, where it will be possible to consider in detail the effect of such a pass through on the SO incentives regime, and consequential changes which may be required to the BSC and CUSC in order to produce an enduring solution.
- 2.35 **Ofgem has therefore concluded that all transmission outages should be excluded from the Multiple Interruption Guaranteed Standard to be introduced from 1 April 2002.** However, Ofgem will continue to explore possible means to protect the interests of consumers, and especially worst-served consumers, who suffer from transmission outages. This will include possible mechanisms for pass through of multiple interruption compensation costs to transmission companies.
- 2.36 Distribution companies will therefore be asked to provide Ofgem with their best estimates of additional compensation costs that would have arisen each year had transmission events not been excluded. This will provide information that can be used in assessing the impact of transmission events and provide improved visibility of this aspect of worst-served consumer performance.
- 2.37 Ofgem's Initial Proposal to exclude any interruptions caused by the failure of transmission-connected generation appears to be acceptable to all respondents. It is also consistent with the approach to transmission system failure outlined above. Regarding interruptions caused by failure of embedded generation, one company (YE) agrees with their inclusion, subject to review at the next price control, but most (Seeboard, E Midlands, S Power, United Utilities, Scottish & Southern, TXU, GPU, WPD) are opposed to this proposal. They argue that they should not bear the risk for outages over which they have no control, and such a standard would only be acceptable if "back-to-back" arrangements were put in place to pass these costs to the operators of embedded generation plant. They point out that the relationship between distributed generation (i.e. embedded generation) and distribution companies is currently under review. They believe

that, for the present, all such failures should therefore be excluded from the standard.

- 2.38 It was pointed out in the Initial Proposals (page 17) that there is currently no obligation on distribution companies to give credit to embedded generators for any contribution to security of supply. It therefore seems unlikely that distribution companies will be heavily dependent on output from embedded generation. Consequently any failures of supply are unlikely to be directly attributable to failures of embedded generator. **In the interest of simplicity it has therefore been decided that all interruptions resulting from generation failures should be excluded from the standard.** However, this will be kept under review as the number of generators connected to distribution networks increases.
- 2.39 The Regulations need to be clear on a number of more detailed points that have been mentioned in the responses. It would be inappropriate if two categories of interruption, for which there are separate Guaranteed Standard provisions, were to also count towards entitlement for compensation payments under the Multiple Interruption standard. These are the standards relating to supply restoration within 18 hour (Regulation 4) and distributor fuse failures (Regulation 5). Consequently interruptions where these regulations apply have been excluded. Interruptions caused by the actions of a supply company (rather than a distribution company) will also be excluded.
- 2.40 Provision has also been made to exclude circumstances where there is prior agreement by the consumer that the standard should not apply, and to ignore temporary restoration of supply of less than one hours duration. These exclusions have been introduced in order to avoid perverse incentives during fault restoration. It has also been made clear that the Guaranteed Standard will provide compensation only where a consumer has experienced more than sufficient qualifying interruptions while at a single location. Claims for compensation must be made before three months have elapsed from the end of the year.

Responses to proposals on Multiple Interruption Overall Standards

- 2.40 Ofgem's proposals to align definitions and arrangements for the Overall Standard with those for IIP, and initially to set only moderately demanding performance levels for each company, have the broad support of all of the distribution companies. However, several companies have concerns about whether the performance levels that have been proposed are robust. One company (YE) is concerned about the treatment of severe weather, another (Seeboard) believes that the circumstances of each company need to be taken into account when these are reviewed, while another (E Midlands) believes that it is not valid to set any Overall standard in advance of data collection. East Midlands believe that there should not be different performance levels for different companies, while WPD have drawn attention to the fact that under IIP pre-arranged outages will be included and some allowance therefore needs to be made for this. Other companies believe that it is unrealistic for Ofgem to have an ultimate aim of specifying a performance of 99% for all companies, as this in their view would not be realistic or economic.
- 2.41 BGT and energywatch believe that the proposed Overall Standards should be introduced but the required performance levels should be reviewed and brought to a common level as soon as possible. Energywatch believe this should be done by aligning them at 99%. The Northumberland group are in agreement with Ofgem's proposals.
- 2.42 Ofgem's view is that there is a need for reliable performance data, based on IIP definitions, from which more demanding thresholds can be set. **The arrangements for the Multiple Interruption Overall Standard outlined in the Initial Proposals will therefore be implemented so that, in due course, a review of the required performance levels can be carried out using data from operation of the Standards.**

3. Next Steps

Statutory consultation on Draft Regulations

- 3.1 This document constitutes the notice, for the purpose of Section 40B of the Electricity Act 1989, of the standard the Authority proposes to prescribe by amendment to the Electricity (Standards of Performance) Regulations 2001, including the reasons for its proposals. Representations to the proposals may be made to Ofgem (at the address specified in paragraph 1.8) **on or before 20 February 2002.**

Determining Multiple Interruption Overall Standards

- 3.2 The detailed drafting of the proposed overall standards referred to in paragraphs 2.40 – 2.42 and the response period for those proposals will be published shortly.

Establishing Best Practice for Multiple Interruption Guaranteed Standards

- 3.3 Many respondents have emphasised that there is a need to identify how consumers might best be made aware of the new Multiple Interruption Guaranteed Standard and be encouraged to make claims when, and only when, they are entitled to compensation. It is important to ensure that there are effective and consistent arrangements in place so that

- administrative costs are minimised
- supply businesses, who may be at the interface between many consumers and most distribution businesses, do not have to deal with different arrangements
- the level of claims experienced by different companies can readily be compared at a price control review.

- 3.4 Several Distribution companies, Supply businesses and consumer groups have recognised these needs and have made suggestions on how these requirements might best be satisfied. These include:

- Initial publicity through press releases etc
- Advertising
- Recorded messages during telephone answering
- Bill stuffer leaflets
- Claim forms to be included with energy bills.
- Include a reminder to consumers of their entitlement with the annual notifications required for Overall Standards.

3.5 As indicated in Para 1.5 & 1.6, Ofgem intends to invite representatives of interested parties to a workshop meeting in late February, in order to consider possible approaches and identify the most appropriate measures. Following the workshop it is envisaged that an updated "Best Practice Guide" will then be produced by Ofgem.

Action prior to introduction of next Distribution Price Control

3.6 Prior to introduction of the next price control Ofgem will review the operation of these standards and give further consideration to the following issues:

- a) Identifying, for each Distribution company, the efficient levels of performance against the Multiple Interruption Standards.
- b) Consider, in the light of data from operation of the Multiple Interruption Overall Standard, what would be appropriate future levels of performance to be required in the Overall Standard for each company.
- c) With regard to multiple interruptions of which some are caused by transmission outages, whether incentives on companies and compensation for consumers might be introduced. This will be considered in conjunction with developments in System Operator incentives and Transmission Access arrangements.

- d) Similarly, consider what incentives and compensation arrangements would be appropriate regarding interruptions resulting from the failure of generation connected to transmission systems and to distribution systems.
- e) Consider the introduction of a rolling year instead of a fixed, April to March, year for the Guaranteed Standard, as discussed in the Initial Proposals consultation document.⁸
- f) Review developments in new metering technology, network records, and information systems to see whether it might be possible to introduce automatic payment of Multiple Interruption compensation payments.

⁸ Initial Proposals, paras 2.46 – 2.48 & 4.10

Appendix 1

STATUTORY INSTRUMENTS

[2002 No.]

ELECTRICITY

The Electricity (Standards of Performance)(Amendment) Regulation 2002

Made - - - [2002]

Coming into force [1st April 2002]

The Gas and Electricity Markets Authority (**a**) in exercise of the powers conferred by sections 39A, 39B, 40B and 60 of the Electricity Act 1989 (**b**) and after consultation with the Gas and Electricity Consumer Council (**c**) electricity distributors and electricity suppliers and with persons and bodies appearing to be representative of persons likely to be affected by the Regulations, after considering the results of research to discover the views of a representative sample of persons likely to be affected, and with the consent of the Secretary of State in accordance with section 39A(1) of the Electricity Act 1989, makes the following Regulations –

Citation, commencement and interpretation

1. – (1) These Regulations may be cited as the Electricity (Standards of Performance) (Amendment) Regulation 2002 and shall come into force on 1st April 2002.

(a) The Gas and Electricity Markets Authority was established by section 1 of the Utilities Act 2000 (c.27)

(b) 1989 c.29. Sections 39A and 39B were inserted by section 54(2) of the Utilities Act 2000, section 40B was inserted by section 56 of the Utilities Act 2000.

(c) The Gas and Electricity Consumers Council was established by section 2 of the Utilities Act 2000.

- (2) In these regulations ‘the Principal Regulations’ means the Electricity (Standards of Performance) Regulations 2001 (d)

Amendment to the Principal Regulations

2. After regulation 5 of the Principal Regulations, the following new regulation shall be inserted –

“5A–(1) This regulation applies where the supply to a customer’s premises is interrupted for 4 periods each of not less than 3 hours during a relevant year.

(2) For the purposes of paragraph (1):

- (a) where successive interruptions are caused by or arise during actions taken by the relevant distributor to effect temporary or permanent restoration of the supply to the premises or to other premises affected by the event which caused the interruption of supply to the premises, any temporary restoration of supply for a period not exceeding one hour shall be ignored in calculating the period of the interruption; and
- (b) an interruption in any of the circumstances described in paragraph (3) shall not be treated as an interruption.

(3) The circumstances described in this paragraph are:

- (a) any of the circumstances described in paragraphs (2), (3) and subparagraph (e) of paragraph (6) of regulation 17 would have applied if, in relation to each of those paragraphs, “contravention time” meant three hours after that interruption began;
- (b) the relevant distributor had given to the customer not less than 2 days prior notice of its intention to interrupt the supply to the customer’s premises;
- (c) the interruption was a result of the failure of, fault in or damage to the transmission system to which the relevant distributor’s distribution system was connected or of a generating station connected to that transmission system;
- (d) the interruption was a result of the failure of a generating station connected to the relevant distributor’s distribution system;
- (e) the interruption was one where regulation 4 or 5 applies;
- (f) the interruption was a result of the act or default of the electricity supplier to the premises or of the customer;
- (g) the event causing the interruption resulted in the interruption for more than 3 hours of supply to more than 500,000 customers in Great Britain;
- (h) the interruption was a result of a civil emergency or act of terrorism;

(d) S.I. 2001/3265 as amended by S.I. 2001.

(4) Where this regulation applies, the relevant distributor shall, except in any of the circumstances described in paragraph (5) pay the prescribed sum to the customer.

(5) The circumstances described in this paragraph are:

(a) that the relevant distributor has not received a claim for compensation from the customer within a period of three months after the expiry of the relevant year in which this regulation applies;

(b) the supply to the premises was not interrupted by each of the interruptions as a result of which this regulation applies;

(c) the customer (or where more than one person is or has been the customer, at least one such person) was not the customer of the premises to which the supply was interrupted by each of the interruptions as a result of which this regulation applies.

(6) In this regulation “relevant year” means a period of 12 months commencing on 1 April.”

3. The Schedule to the Principal Regulations shall be amended by inserting, in the appropriate numerical position in the table set out in Part I of that Schedule, the following new row

5A(4)		£50.00	£50.00
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The seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of

.....
A member of the Authority
[2002]

I consent

.....
[2002]

.....
Minister of State for Trade and Industry
Department of Trade and Industry