



To electricity distribution  
companies, customer groups and  
other interested parties

*Promoting choice and value for  
all gas and electricity customers*

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Date: 31 March 2014

Dear Colleague,

**Open letter consultation on potential changes to severe weather related  
Guaranteed Standards of Performance (GSOP) following the December 2013  
storms**

A longstanding regime exists to ensure that customers are protected on key aspects of network businesses' customer service, including payments made to customers when things go wrong. In March 2013, following consultation on policy for the next price control period, RIIO-ED1<sup>1</sup>, we made a decision on a number of key issues which customers and stakeholders felt were of significant importance. Our decision included changes to the Electricity (Standards of Performance) Regulations (known as the Guaranteed Standards of Performance - GSOP)<sup>2</sup>. These are in place to protect customers and provide for payments to individual customers if set levels of performance are not met. The changes included reducing the length of time customers were off supply before a payment was made by the DNO under normal weather conditions and making payments automatic for those customers on the Priority Service Register (PSR)<sup>3</sup>.

The severe storms in December 2013 have prompted further consideration of aspects of the Guaranteed Standards of Performance regime. We are now looking at how we might build on our earlier proposals in a way that would establish additional customer protection for exceptional weather events and would make the system work better for customers. We are inviting views on what additional changes could be made, with a view to putting them in place before RIIO-ED1 comes into effect on 1 April 2015. We would also welcome views on a number of potential changes that we flag in this letter.

The rationale behind our proposed approach is as follows:

- Customer impact, not loss: Guaranteed Standards of Performance remain recognition of "inconvenience" to customers, rather than being a reflection of 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, and to have a higher maximum amount for payments in relation to a single event.
- Proportionality: Any changes continue to strike a balance between the harm faced by customers from prolonged periods without power and the money each customer

<sup>1</sup> RIIO-ED1 will run from April 2015.

<sup>2</sup> [The Electricity \(Standards of Performance\) Regulations 2010.](#)

<sup>3</sup> Ofgem will be conducting a separate consultation on the Priority Service Register this summer.

pays to their local electricity distribution company each year (currently around £90<sup>4</sup> on average). If typical payments for loss of service were far in excess of the amount paid for the service, this would result in increased network charges and higher customer bills, which we wish to avoid.

- Incentives: Companies should be further incentivised to minimise the impact of power cuts on customers (both frequency and duration).
- Ease of operation: Payments to customers should be automatic as a default, with the onus being on companies to explain why they cannot make a payment to a customer, rather than the customer having to make a claim. This focus on simplicity also means that payment levels should continue to be generic and cannot reflect the circumstances of any individual case.
- Good practice and innovation: Existing good practice by DNOs should be reflected in any changes, but leave scope for network businesses to go beyond this minimum approach when their stakeholder engagement and other strategic considerations suggest this is merited.

We welcome views on any of the issues set out in this letter. Responses should be emailed to [QoS@ofgem.gov.uk](mailto:QoS@ofgem.gov.uk) by Friday 30 May 2014.

## Introduction

Following an initial review of company performance over the December 2013 period<sup>5</sup>, Ofgem committed to review and consult on the possible changes to Guaranteed Standards of Performance arrangements for RIIO-ED1.

During December 2013, the country was hit by a succession of severe storms. Strong winds and heavy rain caused extensive damage to the electricity distribution networks. In total over two million customers lost their power supply.

For most, the interruptions were momentary and supply was automatically restored within three minutes. However, nearly one million people experienced a longer interruption, ranging from three minutes to over five days. This caused considerable distress and disruption to many customers over an important holiday period.

In early January we launched a review into the DNOs' preparedness for, and response to, the December storms. Our phase 1 report, published on 6 March 2014, set out that we wanted to:

- understand whether everything that should have been done was done to minimise the impact on customers.
- use this incident to highlight best practice and assess whether changes are required to current arrangements.
- make sure that the impact on customers is kept to a minimum when events of this nature occur in the future.

In terms of Guaranteed Standards of Performance we stated that we would:

- review the levels of payments made to customers under Guaranteed Standards of Performance.
- consider whether we should increase payments to customers who are off-supply for an extended period of time.

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<sup>4</sup> [Updated Household Energy Bills Explained Factsheet Number 98 dated 16 January 2013](#)

<sup>5</sup> [December 2013 storms report](#)

- consult at the end of March 2014 on increasing payments for customers.

## **Issues**

### Guaranteed Standards of Performance

The Guaranteed Standards of Performance require DNOs, under certain circumstances, to make a payment to individual customers if their supply is interrupted.

Prior to the October 2002 storms there was a single standard for loss of supply, which applied after 18 hours without power. However, there was a clause for companies to claim exemption from making payments to customers, known as “force majeure”. Ultimately this led to a lack of clarity for customers as to their entitlement to any payment following major storms. Customers were faced with significant delay and uncertainty, which only added to the harm they had already experienced. Following the October 2002 storms review we made significant changes to the Guaranteed Standards of Performance arrangements for periods of severe weather.

Key changes introduced were:

- creation of separate standards for different categories of severe weather (Category 1, Category 2 and Category 3 events).
- removal of the “force majeure” exemption and alignment with arrangements under Ofgem’s interruptions incentive scheme.

At the time of the December 2013 storms, under the 2010 Guaranteed Standards of Performance, both domestic and non-domestic customers were entitled to £27 for an initial loss of supply of 24/48 hours (depending on the category of event) and subsequent payments of £27 for every successive 12-hour period without power. To be eligible a customer has to be continuously off supply for the set periods.

The December 2013 storms gave rise to a number of questions over whether the severe weather arrangements currently in place adequately reflect the harm experienced by customers following long periods without supply. Particular concerns were raised about the level of payments, the time without power before being eligible for a payment, and the onus placed on the customer to claim from the company.

A number of companies offered to make goodwill payments to the individual worst affected customers in excess of the required payments under the Guaranteed Standards of Performance (forecast to be in the region of £7.5m). Some companies also offered goodwill payments for shorter periods than those set out under Guaranteed Standards of Performance and proactively wrote to affected customers.

### **Key GSOP changes already decided for RIIO-ED1**

For RIIO-ED1 we had already decided to increase payment levels for all guaranteed standards to reflect inflation up to the mid-point of the RIIO-ED1 period (2018-19).

The most significant change we have already decided on for RIIO-ED1 is the tightening of the normal weather standard down to 12 hours, from the DPCR5 level of 18 hours.

Our customer research for DPCR5 indicated that customers accepted the rationale for a longer period of time off supply due to severe weather before being eligible for a payment. Although payments under the Guaranteed Standards of Performance come from the companies, the level of financial exposure we place on companies is a factor in the overall price paid by customers. Our research indicated that customers did not place a high value on higher payments if they ultimately led to higher customer bills. This has influenced our thinking to date.

## **Suggested areas to be amended for RIIO-ED1**

In addition to the above changes, we feel that customers could benefit from a more streamlined process and welcome suggestions for any further improvement of the Guaranteed Standards of Performance regime for RIIO-ED1. We are therefore now consulting on potential changes for RIIO-ED1, which would run from 1 April 2015. Our thoughts so far have highlighted the following changes that could be made:

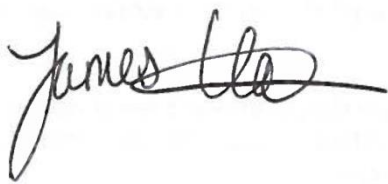
- amending the 2010 Guaranteed Standards of Performance by placing the onus on companies to make automatic payments to customers for all standards covering power loss. This would be in order to provide clarity and a speedy resolution for affected customers. Recent work by DECC and the industry clarifying the rules on how data can be shared between suppliers and distribution companies should make this feasible.
- increasing payments to customers for power loss following severe weather events. A doubling of the levels already indicated for RIIO-ED1, from £35 to £70 may strike an appropriate balance between reflecting the issues raised by the December 2013 storms and the underlying principle behind Guaranteed Standards of Performance being an "inconvenience" payment and not consequential loss. Such a doubling would apply to both the initial payment and subsequent payments. The cap per customer per event would also increase to £700<sup>6</sup>.

## **Views invited**

We recognise that there are alternative changes that could be made, for example tightening time frames and having increasing payments levels the longer customers are without power. We would welcome your views on these and other appropriate measures to address the issues identified following the December 2013 storms.

We welcome responses to this letter by 30 May 2014. Unless clearly marked as confidential, we will publish responses on our website. Please email responses to [QoS@ofgem.gov.uk](mailto:QoS@ofgem.gov.uk).

Yours faithfully,



James Hope  
**Head of Electricity Distribution, Costs and Outputs**

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<sup>6</sup> This equates to five and a half days off supply in a Category 1 event and six and a half days in a Category 2 event.