

Rt Hon Darren Jones MP
Chair of the Business, Energy and Industrial Strategy Committee
House of Commons
London, SW1A 0AA

16 December 2021

Dear Mr Jones,

Thank you for your letter dated 9 December 2021 which sets out a series of questions on network resilience arrangements for electricity networks in GB.

Network resilience is a crucial area of our regulation. The networks operate under strict licence obligations and technical standards and we set funding levels and strong incentives for them to maintain a resilient energy network which the companies are held to account against. I briefly summarise the position in respect of these elements below before setting out some wider observations on previous reviews and future regulatory policy.

Funding and targets for network resilience

We have provided £29.5 billion of funding through the current RII0-ED1 price control for DNOs to operate, maintain and enhance the electricity networks. This includes around £3.9 billion to maintain asset health and £1.5 billion specifically for resilience, which includes areas such as overhead line and flood protection. I know you have written to the ENA for specific network investment data but if you need any further detail then we can provide that.

We set targets for DNOs to meet in return for this funding, including to reduce the likelihood of network failure under normal operating conditions as well as severe weather events. We monitor this performance and where targets are missed, company revenues are adjusted accordingly. Where appropriate, Ofgem also undertakes engineering inspections and audits to check that the companies are maintaining their assets properly. Over the first 6 years of the 8-year price control period (up to 31st March 2021), the DNOs have spent £2.6 billion on asset health. This covers asset replacement and refurbishment. In doing so they have met 87% of their risk reduction targets over the same period. In the final 2 years of the control to 31st March 2023 they are on track to utilise their remaining spending allowances to meet all the targets that have been set for them over the whole price control period. However, we will be reviewing overall network resilience as part of our review into Storm Arwen.

For the RII0-ED2 price control starting in April 2023 we required the DNOs to submit a climate resilience strategy and to establish related working groups to support the sharing of best practice. We received the spending plans for RII0-ED2 at the start of this month. We

will consider the case for investments in infrastructure from these strategies in our determinations next year, informed by the findings from our review into Storm Arwen.

Incentives and targets to minimise power outages

Our price controls also provide incentives for companies to respond in emergencies so that power is restored as quickly as possible. We set tough targets for companies to reduce the number and duration of power outages over time; companies earn rewards for beating these targets and are penalised for falling short of them. Since the start of RIIO-ED1 both the frequency and duration of power cuts has fallen by 18% on average across the sector.

We also set outcome-based resilience standards through the Guaranteed Standards of Performance (GSoP). These guarantee a level of service that is reasonable to expect companies to deliver in all cases to individual consumers, including supply restoration when there is a power cut. If DNOs fail to meet the level of service required, individual customers are compensated for any long outages. For severe storms such as Arwen, if the networks do not restore power to a consumer within 48 hours, they must pay £70 in compensation; and this ratchets up to £140 per day for each successive day. There is a cap of £700 on such compensation in the license, but in response to storm Arwen, we removed this cap to ensure customers were fully compensated for the outages they endured.

Obligations in respect of preparation and response to emergencies

DNOs are required to design and operate their networks in accordance with relevant legislation, codes and standards. Where network companies act in breach of their obligations under these regulations, we expect to take enforcement action to hold them to account.

DNOs also work closely with BEIS to ensure that they have robust emergency response plans in place to minimise impacts to consumers. Such activities include reviewing industry preparedness for severe storms ahead of each winter, regular testing and exercising of emergency response plans and communication processes, and reviews of international or national events to identify and implement lessons learned.

Storm Arwen and previous reviews

You asked whether Ofgem has undertaken any reviews of network resilience, and developments since any such reviews in the past.

As you will have seen last week, both Ofgem and BEIS have now launched reviews of the response to Storm Arwen. There are numerous lines of enquiry and where we find that any company has fallen short of the standards expected then we will not hesitate to use our enforcement powers. We expect the review to conclude by spring, with an update alongside BEIS's interim report in late January. The terms of reference for the Ofgem review are [here](#).

This will also look closely at the reviews of the winter storms in 2013 undertaken by DECC and Ofgem. All the outputs and recommendations from these were implemented, including the introduction of the single national 105 phone line for power cuts, but we will test the effectiveness of the response to ensure any new lessons are reflected.

Future regulatory policy

You asked about stress tests. As James Richardson mentioned in his evidence to your Committee, the NIC recommended in 2020 that Government build on the framework for network resilience set out above to strengthen it in three main aspects: updated resilience standards for critical national infrastructure in the context of climate change; Government and regulators using these resilience standards to run systematic stress tests across the industries that they regulate; and regulators taking into account the results when determining funding for resilience when setting future price controls.

The Government responded in September 2021 agreeing with the first two recommendations, but that it would consider the implementation of any measures in this area only in the context of a wider National Resilience Strategy that it expects to publish next year. We are also supportive of the NIC's recommendations on enhancing the resilience framework further and remain open to working with Government to contribute to the development of policy and standards, and to take any new policies into account in our future price control decisions.

I trust that this answers your questions. Please let me know if I can provide any further information or clarification.

Your Sincerely,

A handwritten signature in black ink, appearing to read 'JBearley', written in a cursive style.

Jonathan Brearley

CEO