

# Consultation

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## Supplier GSOP Payments Inflation Uplift

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We are consulting on implementing an inflation-based uplift to the payments Suppliers are required to make to customers when failing to meet the Guaranteed Standards of Performance (GSOP). We particularly welcome responses from energy suppliers, consumer groups and charities. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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## 1. Introduction

### What are we consulting on?

- 1.1 We are consulting on updating the level of payments that suppliers are required to credit to a customer when a supplier fails to meet any of the minimum standards set out in *The Electricity and Gas (Standards of Performance) (Suppliers) Regulations 2015* (the “2015 regulations”).
- 1.2 The payment level is currently set at £30 for each breach of the Guaranteed Standards of Performance (GSOP), referred to in the 2015 regulations as a “standard payment”, which was last updated in 2015.
- 1.3 This consultation sets out our proposal to uplift this payment level in line with inflation since it was last set, and the options we are considering to achieve this aim. At this time we are not considering a wider or more fundamental review of the Guaranteed Standards of Performance (GSOP) framework.

### Section 1: Rationale and Scope for Change

- 1.4 In this section we set out our rationale for considering an inflation-based uplift to supplier GSOP payment levels. In light of the higher-than-normal inflation across the wider economy in recent years, and our recent adjustments to network GSOP payment levels, we consider that it is appropriate to review the payment amount. This will ensure we maintain, as intended when last reviewed in 2015, the level of incentive for suppliers to meet the standards and the level of compensation received by consumers where a supplier fails to do so.
- 1.5 This rationale sets out how our proposal is linked to our previous decision to set the current payment level and Ofgem’s recent decisions to increase network GSOP payment levels and the methodology to do so.
- 1.6 We also set out the key assumptions we have made to consider the options for uplifting payment levels for supplier GSOPs, including only considering an inflation adjustment to payment levels and maintaining alignment with recent adjustments to network GSOPs.
- 1.7 **Consultation Question 1: Do you agree with our rationale and assumptions for the supplier GSOP payment level uplift?**

### Section 2: Options for Uplifting Payments

- 1.8 In this section, we first set out our assessment of inflation that we have used to inform the policy options. We then explore the three policy options we have

considered in line with the three key assumptions of the policy set out in the previous section, describing our high-level assessment of these options and putting forward our preferred approach.

1.9 The three options we have considered are:

1. Uplifting the payment level based on historical inflation only.
2. Uplifting the payment level based on historical inflation and forecast inflation over the next three years.
3. Uplifting the payment level based on historical inflation only and introduce an automatic adjustment mechanism to review payment levels based on annual inflation changes.

1.10 **Consultation Question 2: Do you agree or disagree with our preferred option for uplifting payments?**

1.11 **Consultation Question 3: Are there any factors that we have not considered for each of the options under consideration?**

## **Context and related publications**

1.12 This consultation relates the supplier Guaranteed Standards of Performance (GSOP) that are set out in *The Electricity and Gas (Standards of Performance) (Suppliers) Regulations 2015*. In this document we refer to these as the “2015 regulations”.

1.13 The Electricity Act 1989 and Gas Act 1986<sup>1</sup> grant Ofgem the power to set minimum standards for supplier performance through regulation, which can include compensation payments to customers. Such standards were first introduced for suppliers by Ofgem in 2002. As part of Ofgem’s Simplification Plan 2012/13, we reviewed whether the existing, and separate, *Guaranteed Standards* and *Overall Standards of Performance* for gas and electricity remained fit for purpose.

1.14 Our review concluded that a performance standards mechanism would still play a valuable role to protect consumers’ interests and streamlined the standards into one Statutory Instrument (the 2015 regulations).

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<sup>1</sup> Sections 33A(1) and 47 of the Gas Act 1986 (the “Gas Act”) and sections 39(1) and 60 of the Electricity Act 1989 (the “Electricity Act”) provide Ofgem with powers to set guaranteed standards in relation to gas and electricity suppliers.

1.15 The resulting 2015 regulations set out minimum standards that all suppliers must adhere to, and a supplier's failure to meet these standards within the specified timescale results in a compensation payment of £30 (referred to as a "standard payment") to be credited to the customer.

1.16 Currently, these minimum standards include:

- Making and keeping appointments for home/microbusiness visits.
- Investigating and fixing/replacing credit meter faults.
- Investigating and fixing/replacing prepayment meter faults.
- Reconnection following disconnection due to debt.
- Switching time to a new supplier.
- Reversing an erroneous transfer of supplier.
- Provision of a final bill following switch of supplier.
- Refund of customer credit following switch of supplier.

1.17 In addition, the regulations require an additional £30 payment to be made to the customer if the original £30 compensation payment is not provided within 10 working days, or where the supplier has failed to relay a compensation payment due to a customer from their gas transporter or electricity distributor. This is referred to as an "additional standard payment" within the 2015 regulations.

1.18 Suppliers self-assess their compliance against GSOPs and pay compensation as set out in the 2015 regulations, before reporting compliance performance to Ofgem quarterly in response to a permanent Request for Information. Supplier performance is monitored by Ofgem and we will take action where we identify systemic poor performance or consumer detriment. For example, in 2023 we concluded compliance engagement with three suppliers in relation to their application of the GSOPs and non-payment of compensation, resulting in £8m being paid in redress to consumers.<sup>2</sup>

1.19 Related publications:

- Ofgem's 2014 Statutory Consultation on Supplier Guaranteed and Overall Standards of Performance - [www.ofgem.gov.uk/publications/supplier-](http://www.ofgem.gov.uk/publications/supplier-)

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<sup>2</sup> [www.ofgem.gov.uk/publications/three-suppliers-pay-total-ps8-million-relation-guaranteed-standards-performance-final-billing-compensation-failures](http://www.ofgem.gov.uk/publications/three-suppliers-pay-total-ps8-million-relation-guaranteed-standards-performance-final-billing-compensation-failures)

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[guaranteed-and-overall-standards-performance-statutory-consultation-and-proposals](#)

- Ofgem’s 2015 Decision on *The Electricity and Gas (Standards of Performance) (Suppliers) Regulations 2015*: [www.ofgem.gov.uk/publications/supplier-guaranteed-and-overall-standards-performance-reforms-final-decision-and-statutory-instrument](http://www.ofgem.gov.uk/publications/supplier-guaranteed-and-overall-standards-performance-reforms-final-decision-and-statutory-instrument)
- The Electricity and Gas (Standards of Performance) (Suppliers) Regulations 2015: [www.legislation.gov.uk/ukxi/2015/1544/contents/made](http://www.legislation.gov.uk/ukxi/2015/1544/contents/made)
- Ofgem’s 2019 Decision to introduce first phase of Switching GSOPs: [www.ofgem.gov.uk/publications/supplier-guaranteed-standards-performance-switching-final-decision-and-statutory-instrument](http://www.ofgem.gov.uk/publications/supplier-guaranteed-standards-performance-switching-final-decision-and-statutory-instrument)
- Ofgem’s 2020 Decision to introduce second phase of Switching GSOPs: [www.ofgem.gov.uk/publications/supplier-guaranteed-standards-performance-switching-second-phase-final-decision-and-statutory-instrument](http://www.ofgem.gov.uk/publications/supplier-guaranteed-standards-performance-switching-second-phase-final-decision-and-statutory-instrument)
- Ofgem’s 2024 Decision to amend Switching GSOPs: [www.ofgem.gov.uk/publications/supplier-guaranteed-standard-performance-switch-speed-decision](http://www.ofgem.gov.uk/publications/supplier-guaranteed-standard-performance-switch-speed-decision)
- Ofgem’s 2021 Decision on changes to the gas distribution networks (GDN) GSOP payment levels: [www.ofgem.gov.uk/publications/decision-statutory-consultation-amendments-gas-guaranteed-standards-performance-statutory-instrument](http://www.ofgem.gov.uk/publications/decision-statutory-consultation-amendments-gas-guaranteed-standards-performance-statutory-instrument)
- Ofgem’s 2023 Decision on changes to the distribution network operator (DNO) GSOP payment levels: [www.ofgem.gov.uk/publications/final-decision-and-statutory-instrument-guaranteed-standards-performance-gsops-reliability-and-connections](http://www.ofgem.gov.uk/publications/final-decision-and-statutory-instrument-guaranteed-standards-performance-gsops-reliability-and-connections)

## **Consultation stages**

1.20 This policy consultation will be open for responses up until and including 7 June 2024. We will then review all responses received and take into account any additional engagement we have with stakeholders on this issue during the consultation stage.

1.21 Following the review of responses, if we deem it appropriate to continue, we will seek to publish a Statutory Consultation on our minded-to approach and Draft Statutory Instrument in Summer 2024.

1.22 If, following a Statutory Consultation, we decide to implement changes to the payment level for supplier GSOPs, we would aim to make our decision in Autumn 2024, with the new payment levels taking effect from **January 2025**. However, there may be external factors that may delay stages of the policy implementation and push back the go-live date of any uplifted payment level.

### **How to respond**

1.23 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

1.24 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

1.25 We will publish non-confidential responses on our website at [www.ofgem.gov.uk/consultations](http://www.ofgem.gov.uk/consultations).

### **Your response, data and confidentiality**

1.26 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.27 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.28 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 1.

1.29 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we



receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

## General Feedback

1.30 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

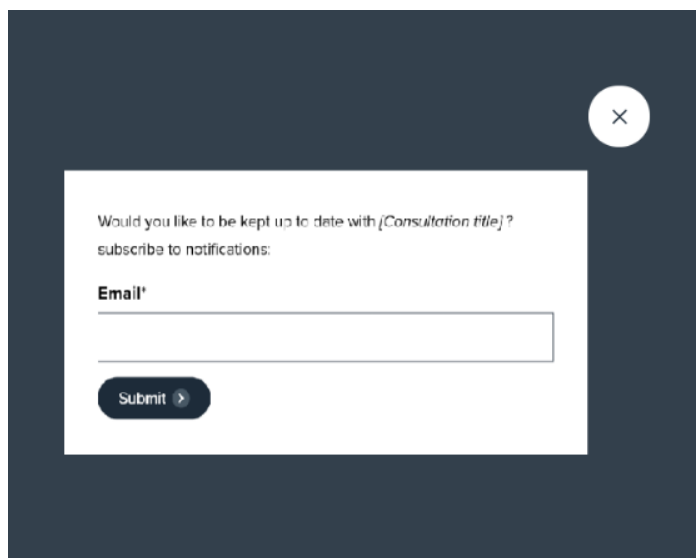
Please send any general feedback comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)

## How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

[Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)

Notify me +



The image shows a dark-themed modal window with a white background for the form. At the top right of the modal is a close button (an 'x' in a circle). The form text reads: "Would you like to be kept up to date with [Consultation title]?" followed by "subscribe to notifications:". Below this is a label "Email\*" and a text input field. At the bottom left of the form is a "Submit" button with a right-pointing arrow.

## **Consultation** - Supplier GSOP Payments Inflation Uplift

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Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

**Upcoming** > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

## 2. Rationale and Scope for Change

### Section summary

In light of the inflation experienced across the wider economy in recent years, and our recent adjustments to network GSOP payment levels, we consider that it is appropriate to review the supplier GSOP payment amount. We explain how our proposal is linked to our decision in 2015 to set the existing payment levels to £30, our recent decisions to increase network GSOP payment levels, and the key assumptions we have made to consider the options for uplifting payment levels.

### Questions

Q1. Do you agree with our rationale and assumptions for the supplier GSOP payment level uplift?

### Rationale for Uplift

#### Existing Supplier GSOP Payment Level

- 2.1 The current payment levels of £30 for a standard payment and £30 for an additional payment were set as part of the process in combining and simplifying the previously separate Guaranteed Standards (GS) and Operational Standards (OS) for gas and electricity, resulting in the 2015 regulations.
- 2.2 The original GS compensation payment levels had been set at £20 for electricity and gas in 2002. In 2010, a small increase to £22 for electricity compensation payments was made to account for inflation since 2002.
- 2.3 In principle, the payments made under the current and previous standards are not designed to provide compensation reflecting the levels of any financial loss suffered as a result of a failure. The customer can seek independent redress from the Ombudsman which can take into account any additional financial loss suffered by the customer when determining its compensation award.
- 2.4 As part of a workstream to review and simplify the standards, Ofgem updated the payment level from £22 to £30 in 2015 to account for inflation, utilising the same methodology that was used for the distribution network operators (DNOs) GSOP payment levels under the RII0-ED1 price control process which had recently been undertaken at that time.

- 2.5 This methodology resulted in Ofgem uplifting the payment level in line with the CPIH<sup>3</sup> inflation rate since 2002, in addition to forecast inflation to the mid-point of the RIIO-ED1 price control period, 2018-19.
- 2.6 In doing so, we also realigned the payment levels for electricity and gas, as well as domestic and non-domestic customers (which are only covered by the standard relating to suppliers making and keeping appointments).
- 2.7 We committed to keep the compensation payment level under review and consider updates in the future in line with fiscal and market developments, and any changes to the payment levels in networks' GSOPs.

### **Uplifts to Network GSOP Payment Levels**

- 2.8 Ofgem has increased the payment levels across the Gas and Electricity GSOPs for networks through the RIIO2 determination processes (RIIO-GD2 in 2021 and RIIO-ED2 in 2023).
- 2.9 For DNOs, the payments were increased in 2023 to account for CPIH inflation up to the start of the RIIO-ED2 price control. As noted above, it had been previously set in 2015 taking into account forecast inflation to the mid-point of that price control period, 2018-19. As a result, the payments were uplifted by CPIH inflation since 2019, rather than 2015.
- 2.10 For gas distribution networks (GDNs), the GSOP payment levels were doubled in 2021 from their existing amounts, having not been reviewed for over a decade at that time. This approach was due to several GDNs having already doubled payments voluntarily for all GSOPs and had proposed to continue to do so in RIIO-GD2. Doubling current payments for all companies ensured customers did not receive different levels of compensation depending on the GDN that serves them.
- 2.11 For both DNO and GDN GSOPs, a mechanism was consulted on and introduced to automatically index the payment levels to annual CPIH inflation. Once the index has moved sufficiently, either increasing or decreasing, the payment amounts will be adjusted.

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<sup>3</sup> The Consumer Prices Index including owner occupiers' housing costs (CPIH)

2.12 The payment amounts will be updated each April based on the 12-month CPIH index published by the Office for National Statistics (ONS) the previous January, rounded to the nearest £5 increment.<sup>4</sup>

### **Uplifting Supplier GSOP Payment Levels**

2.13 As set out in our decision on the GSOP payment levels in 2015, we committed to reviewing the existing £30 payment level at a future date in line with fiscal and market developments, as well as any change to the payment levels for DNOs and GDNs.

2.14 We consider that this workstream aligns with the *Quality & Standards* aspect of Ofgem's Consumer Interest Framework, as set out in our Forward Work Programme 2024/25.<sup>5</sup> It is in consumers' interests for Ofgem to ensure that the compensation payment levels are updated to take account of the fiscal and market developments since 2015.

2.15 In 2023 we consulted on and implemented reputational incentives for compliance within the new Consumer Standards.<sup>6</sup> In our consultations, we explained that the reputational incentive was an initial step towards introducing more developed incentives in the future, which could include financial incentives. While we are not proposing a wider review of financial incentives through this consultation, we remain convinced that financial incentives for suppliers can play a key role in driving better outcomes for consumers, and we want to ensure that existing incentives are working as intended.

2.16 The GSOP compensation payment is an existing financial incentive for suppliers that provides tangible consequences for suppliers that fail to meet prescribed service levels for individual consumers. Through updating this financial incentive, we aim improve outcomes experienced by consumers by maintaining the intended incentive level implemented in 2015.

2.17 We have seen increased inflationary pressure across the economy in recent years, and we consider that it is important to reflect these increases in the payment levels of supplier GSOPs as we intended in the 2015 decision.

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<sup>4</sup> In March 2024 Ofgem published updated payment levels for DNO GSOPs that will take effect from 1 April 2024: [www.ofgem.gov.uk/publications/adjustments-guaranteed-standards-performance-prescribed-sums-line-inflation](https://www.ofgem.gov.uk/publications/adjustments-guaranteed-standards-performance-prescribed-sums-line-inflation)

<sup>5</sup> Ofgem Decision For: Consultation of Ofgem's Forward Work Programme 2024/25, 28 March 2024, [www.ofgem.gov.uk/publications/decision-consultation-ofgems-forward-work-programme-202425](https://www.ofgem.gov.uk/publications/decision-consultation-ofgems-forward-work-programme-202425)

<sup>6</sup> Ofgem Consumer Standards Decision, 18 October 2023, [www.ofgem.gov.uk/publications/consumer-standards-decision](https://www.ofgem.gov.uk/publications/consumer-standards-decision)

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- 2.18 We are proposing to use CPIH as the measure of inflation in this workstream, the same as we used both in the 2015 update to the supplier GSOP payment level and the 2023 update to the DNO GSOP payment level. This is explored further in the next section.
- 2.19 For clarity, this proposed uplift will cover both the “standard payment” and the “additional standard payment” set out in the 2015 regulations.
- 2.20 Our Forward Work Programme 2024/25 sets out a strategic priority for Ofgem to shape a retail market that works for consumers. One objective as part of this strategic priority is to ensure that consumers experience a high quality of service.
- 2.21 The proposal to uplift the supplier GSOP payment level would deliver against the objective to continue driving up service standards for consumers across the retail market.
- 2.22 This proposed uplift will ensure that consumers receive an inflation-adjusted value of payment where a supplier does not meet the minimum standards, taking into account the economic and financial developments across the wider economy in recent years. It will also maintain the level of financial incentive intended in 2015 for suppliers to meet the minimum standards for all consumers.

### Scope of Supplier GSOP Uplift

- 2.23 The next section sets out the three options we have considered for implementing this inflation uplift to payment levels. The options under consideration, including our preferred option, have been determined by the following key assumptions we have made to strictly define the scope of the inflationary uplift to payments:
- 2.24 **Assumption 1** – The purpose of this uplift is only to reflect the significant increase in inflation across the wider economy since the payment levels were last set in 2015. This is in line with our commitment made in our previous decision to reflect the fiscal and market developments in the future. Currently, we do not intend to conduct a wider review of the standards, or the underlying purpose or rationale of the compensation payments themselves.
- 2.25 **Assumption 2** – As far as is appropriate, we will have regard to the approach undertaken in the 2023 update to the DNO GSOP payment levels. As the current £30 supplier GSOP payment level was set in line with the methodology and data used to set the DNO GSOP payment level in 2015, we consider it to be reasonable to uplift the payments from the same baseline and using the same measure of inflation (CPIH).

2.26 **Assumption 3** – In uplifting the payment levels in line with inflation, we will use the same rounding methodology as used for DNOs and GDNs and set the level to the nearest £5 increment. We consider that aligning with this decision would have benefits for consumers’ understanding of the compensation payments, but also for suppliers’ systems and clear communications of the standards to their customers.

### 3. Options for Uplifting Payments

#### Section summary

Based upon the key assumptions outlined in the previous section, we consider that there are three policy options we could pursue to implement an uplift to supplier GSOP payment levels. We explore these three policy options, describing our high-level assessment of each option and put forward our preferred approach for uplifting the payment to £40 in a one-off adjustment.

#### Questions

- Q2. Do you agree or disagree with our preferred option for uplifting payments?
- Q3. Are there any factors that we have not considered for each of the options under consideration?

#### Assessment of Inflation Uplift

##### Historical and Forecast Inflation

- 3.1 In line with our assumptions set out in the previous section, we have sought to maintain alignment in methodology between the supplier and networks GSOP payment levels as far as possible.
- 3.2 In doing so, we have opted to use the same methodology as used in the 2023 DNO payment level uplift as we had also aligned with the DNO payment methodology when setting the supplier GSOP payment level as £30 from 2015.
- 3.3 As the 2015 payment levels were set with forecasted inflation to 2018-19, the inflation uplift will be calculated using the 12-month January CPIH index from 2019 onwards, rather than 2015, so as to not double-count inflation increases in the payment level. Using CPIH for historical inflation is in line with our approach to uplift payments from their 2002 level for the 2015 regulations.
- 3.4 The table below (*Table 1*) sets out the impact of CPIH inflation on the existing £30 payment level, and *Table 2* includes a forward look of inflation using forecasted CPI from 2025 onwards. This aligns with the methodology that Ofgem used to set the payment levels in 2015.
- 3.5 We are aware that there is a risk that the forecast CPI inflation will not match the actual CPIH inflation experienced in future years. As there is no official forecast of future CPIH inflation, we have used the Office of Budget Responsibility's (OBR) latest CPI forecast published in March 2024 to best illustrate the potential impact



of future inflation on the level of GSOP payments to inform our policy considerations.

Table 1: Impact of historical inflation on existing £30 supplier GSOP payment level (ONS CPIH Annual Rate at January each year<sup>7</sup>).

Year	Inflation (%)	Actual <sup>8</sup>	Nearest £5
Jan-20	1.8	£30.54	<b>£30</b>
Jan-21	0.9	£30.81	<b>£30</b>
Jan-22	4.9	£32.32	<b>£30</b>
Jan-23	8.8	£35.17	<b>£35</b>
Jan-24	4.2	£36.65	<b>£35</b>

Table 2: Additional impact of forecast inflation on the supplier GSOP payment level (OBR Forecast CPI<sup>9</sup>).

Year	Inflation (%)	Actual <sup>10</sup>	Nearest £5
2025	1.1	£37.05	<b>£35</b>
2026	1.6	£37.64	<b>£40</b>
2027	1.8	£38.32	<b>£40</b>
2028	2.0	£39.09	<b>£40</b>
2029	2.0	£39.87	<b>£40</b>

## Options for Uplift Methodology

### Option 1: Historical Inflation Only

3.6 In this approach, we would update the payment level based upon historical inflation only. This would mean the uplift would only take into account increases in the CPIH index up to and including January 2024.

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<sup>7</sup> CPIH annual rate, Office for National Statistics, [www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23](http://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23) accessed March 2024.

<sup>8</sup> Note that annual inflation rate to January 2020 assumes payment base level is January 2019.

<sup>9</sup> Office for Budget Responsibility detailed economy forecasts, Table 1.7, [obr.uk/download/march-2024-economic-and-fiscal-outlook-detailed-forecast-tables-zip-file/?tmstv=1711376200](http://obr.uk/download/march-2024-economic-and-fiscal-outlook-detailed-forecast-tables-zip-file/?tmstv=1711376200) accessed March 2024. Note that the Q1 figure for each year from 2025-2029 was used for the inflation figures outlined in the table above.

<sup>10</sup> Note that these calculations are a continuation from the figures used in Table 1 for historical inflation impacts on the payment level.

- 3.7 This would result in an adjusted payment figure of £36.65, as shown in *Table 1* above. By aligning with **Assumption 3** detailed in the previous chapter and setting it to the nearest £5 increment, we would set the final payment level at **£35**, an upwards adjustment of £5 from the current payment level.
- 3.8 We consider that this approach would successfully provide the basic increase in payments in line with historical inflation to benefit consumers. It would also require less ongoing resources for suppliers and Ofgem, compared to Option 3.
- 3.9 However, taking this approach could see the payment level fall behind the level of inflation within a year of being set (as seen in *Table 2*). This would mean that the consumer benefit we are seeking to implement is reduced within a short time period, and further work and systems changes would be required to rectify this in the close future. This approach is also not consistent with either the methodology used to set the £30 payment level in 2015 or the approach taken to set the networks' GSOP payments in recent years.
- 3.10 Overall, we consider that this approach would not be sufficient to address the issue of GSOP payments falling behind inflation in the medium-term and would be a sub-optimal solution that would require further resource-intensive action.

### Option 2: Historical Inflation and Forecast Future Inflation

- 3.11 Option 2 is currently our preferred approach. Through this approach, we would set the payment level in line with historical inflation (as in Option 1) but also take account of forecast inflation over the coming three years.
- 3.12 This would result in an actual payment figure of £38.62, based on forecast CPI inflation up to and including 2027, as set out in *Table 2*. Based upon our assumption of setting the payment level at the nearest £5 increment, we would set the supplier GSOP payment level at **£40**, a £10 upwards adjustment from the current level.
- 3.13 Taking a forward look of inflation when setting the payment level is aligned with the methodology used to set the £30 payment level from 2015. We consider that this will provide the desired consumer benefit of realigning payment levels with inflation since it was last set. In addition, it would future-proof the payment level for at least the medium-term based on current CPI inflation forecasts, minimising the implementation and customer communications resource requirements for suppliers.
- 3.14 However, we are aware that this option does not fully align with the approaches taken for network GSOPs in recent years and would implement a more significant

immediate rise to the payment level compared to either Option 1 or Option 3 (below). There is also a risk that larger movements in future CPIH index (either upwards or downwards) would leave the new payment level out of alignment with inflation across the wider economy.

- 3.15 Overall, we consider that this approach best meets the purpose of the inflation adjustment to GSOP payment levels and strikes the best balance between ensuring the consumer benefits and the supplier incentives are maintained at the level set in 2015, while minimising any future resource requirements to make further minor adjustments. Based on current forecasts, the £40 payment level will remain appropriate into the 2030s, negating the need for a further review and change implementation in the medium-term.
- 3.16 The exact impact this will have on suppliers or consumers is dependent upon suppliers' compliance with the minimum standards set out in the 2015 regulations in future years. However, based on the average annual number of breaches over 2022 and 2023 (including additional payments due to late or non-payment of the standard £30 payment), raising the payment level to £40 would increase the overall value of payments by around £10.2m annually. This estimated value assumes that the average number of breaches across 2022 and 2023 continues at a similar level in future years and does not account for changes we may observe in Supplier performance or customer service, or systemic market-wide issues such as further crises or system failures.
- 3.17 We recognise that, compared to Option 3 below, there is a risk that payment levels could again fall behind inflation if actual CPIH is significantly above the CPI forecasts detailed in *Table 2*. As in our 2015 decision, we do not propose to set out a specific date to reassess the payment levels but will keep the payment value and levels of inflation under review and consult if we consider that further action is required to maintain the consumer benefits and supplier incentives at the intended level.

### **Option 3: Historical Inflation and Automatic Adjustment Mechanism**

- 3.18 Under this option, the payment level would be adjusted based on historical inflation as set out under Option 1. This would mean an immediate adjustment of the payment to **£35**, a £5 increase from the current payment level.
- 3.19 In addition, we would introduce an automatic adjustment mechanism within the Statutory Instrument to fully align with the approach taken in the networks' GSOPs. This would require the payment level to be updated each April based on the 12-month CPIH index published by the Office for National Statistics (ONS) the

previous January, rounded to the nearest £5 increment. Based on current inflation forecasts, this could result in an increase in payment levels to £40 as early as April 2026.

- 3.20 We consider that this approach would fully future-proof the GSOP payment levels, and provide suppliers and consumers with a level of clarity over the timing and process for adjustments being made to the payment level in the future to account for inflation. It would also ensure that the payment level remains aligned with financial developments across the wider economy and negate the need for manual updates to adjust for any periods of shock (either upwards or downwards). This approach would fully align supplier GSOP payments with the methodology used for both DNO and GDN GSOP payment levels.
- 3.21 However, this approach would require annual resource requirements from suppliers and Ofgem to assess the impacts of inflation on payment levels, as well as to monitor compliance when the payment level requires adjustment. As we do not currently envisage any further rises in the medium-term past 2026, this additional resource requirement to assess the impact of inflation on payment levels annually could be disproportionate to any potential consumer benefit, compared to our preferred Option 2.
- 3.22 In addition, and contrary to its implementation for networks, this mechanism could introduce unnecessary complexity for any new suppliers entering the market in future years as the correct level of payment would not be set out as part of the regulations themselves.
- 3.23 Overall, we consider that this approach is not best suited for use in relation to suppliers and has the potential to over-complicate the process with little to no consumer benefit in the medium to long term.

### Implementation of Payment Level Uplift

#### Potential Implementation Timeline

- 3.24 Implementing any of the options to uplift the supplier GSOP payment levels will require a new Statutory Instrument (SI) to amend the original 2015 regulations. In addition to approval by Ofgem's governing body, the Gas and Electricity Market Authority (GEMA), the SI will also need to be approved by the Secretary of State for Energy Security and Net Zero.
- 3.25 As set out in the introduction chapter of this policy consultation, we consider that we should be able to undertake all the necessary steps to implement an uplift to supplier GSOP payment levels from **January 2025**, if we decide to progress with

our proposals following consultation. This includes reviewing responses to this policy consultation and undertaking a Statutory Consultation on a minded-to position and associated Draft Statutory Instrument. However, there may be external factors that may delay stages of the policy implementation and push back the go-live date of any uplifted payment level.

### Impact Assessment

- 3.26 Section 5A of the Utilities Act 2000 (“the Act”) requires that before implementing a proposal that is important, we need to either carry out and publish an assessment of the likely impact of implementing the proposal (“a section 5A IA”) or publish a statement explaining why we consider such an assessment is not necessary.
- 3.27 Our guidance on impact assessments sets out the reasons why a proposal may be considered important for the purpose of section 5A. In line with that guidance, in order for a proposal to be considered important it needs to have a significant impact on suppliers. We consider that proposed inflation uplift to existing compensation payments does not meet the definition of ‘important’ as set out in section 5A or our guidance. We consider that it is not necessary to carry out a section 5A IA for this policy as it will only increase supplier payments to consumers in line with inflation across the wider economy since the payment levels were last set.

## Appendix 1 – Privacy notice on consultations

### Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

#### **1. The identity of the controller and contact details of our Data Protection Officer**

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at [dpo@ofgem.gov.uk](mailto:dpo@ofgem.gov.uk)

#### **2. Why we are collecting your personal data**

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

#### **3. Our legal basis for processing your personal data**

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

#### **4. With whom we will be sharing your personal data**

Unless you indicate otherwise, we will make your response, as provided, available online. If you indicated to us that your response is confidential, we will not publish it online and nor will we share your personal data with any other organisations.

#### **5. For how long we will keep your personal data, or criteria used to determine the retention period.**

Your personal data will be held for as long as an audit trail on decision-making relating to the questions discussed in this document should reasonably be available.

#### **6. Your rights**

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data

- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3<sup>rd</sup> parties
- tell us your preferred frequency, content and format of our communications with you.
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

**7. Your personal data will not be sent overseas.**

**8. Your personal data will not be used for any automated decision making.**

**9. Your personal data will be stored in a secure government IT system.**

**10. More information:** For more information on how Ofgem processes your data, click on the link to our "[Ofgem privacy promise](#)".