



**1993**  

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**ANNUAL  
REPORT**



OFFICE OF GAS SUPPLY  
REPORT OF THE DIRECTOR GENERAL OF GAS SUPPLY  
FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 1993

TO THE SECRETARY OF STATE FOR TRADE AND INDUSTRY

PRESENTED TO PARLIAMENT  
IN PURSUANCE OF SECTION 39 OF THE GAS ACT 1986  
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# Contents

<b>CHAPTER</b>	<b>Introduction by the Director General</b>	
<b>1</b>	MMC and its Outcomes	5
	President of the Board of Trade's Response to the MMC	7
	Divestment	7
	Introduction of Competition	8
	Major Tasks that Lie Ahead	9
<b>CHAPTER</b>	<b>Transportation, Storage and Competition</b>	
<b>2</b>	Regulation and Pricing of Transportation and Storage	11
	Network Code	12
	Transportation and Storage Standards of Service	13
	Pipeline Notifications	14
	The Growth of the Competitive Gas Market	14
	Separation	15
	Gas Release Programme	16
	Enquiries and Complaints in the Independent and British Gas Contract Sectors	16
	Authorisations Under Section 8 of the Gas Act 1986	17
<b>CHAPTER</b>	<b>Energy Efficiency</b>	
<b>3</b>	'E' Factor	18
	Energy Saving Trust	18
	House of Commons Environment Committee's Report on Energy Efficiency in Buildings	19
	Standards of Performance	19
<b>CHAPTER</b>	<b>Consumer Interests – Strategic Issues</b>	
<b>4</b>	Improved Standards of Service for Gas Consumers	22
	Review of British Gas' Complaint Handling Arrangements	23
	Tariff Formula	24
<b>CHAPTER</b>	<b>Consumer Interests – Current Projects</b>	
<b>5</b>	Debt and Disconnection	25
	Metering Issues	25
	Electronic Prepayment Meters (Quantum System)	26
	Meter Tampering	26
	Older or Disabled	27
	External Liaison	27
	Low Frequency Noise	27
	Definition of Premises	28
	Connection Charges	28

	Maximum Resale Price of Gas	29
	Interest on Security Deposits	29
	Consumer Complaints and Enquiries	29
	Case Studies	32
<u>CHAPTER</u>	<b>Public Affairs</b>	
<u>6</u>	Keeping up the Momentum	34
	Press Office	34
	TV and Radio	35
	Print	35
	Exhibitions	36
	Library Enquiries and Visitors	36
<u>CHAPTER</u>	<b>Administration</b>	
<u>7</u>	Resources, Accommodation and Information Technology	37
<u>APPENDIX</u>	Monopolies and Mergers Commission Investigation of	
<u>A</u>	the Gas Industry in Britain : Summary of the Gas Act	
	Conclusions	38
<u>APPENDIX</u>	Notifications of Proposed High Pressure Pipelines	
<u>B</u>	Received During 1993	41
<u>APPENDIX</u>	Determination of Standards of Performance, and Director	
<u>C</u>	General's Direction dated 1st December 1993	42
<u>APPENDIX</u>	Condition 13A Service Standards: Revised text	
<u>D</u>		44
<u>APPENDIX</u>	Press Notices Issued During 1993	
<u>E</u>		46
<u>APPENDIX</u>	Current Publications Available From OFGAS	
<u>F</u>		47
<u>APPENDIX</u>	1993 Exhibition Diary	
<u>G</u>		48

**REPORT OF THE DIRECTOR GENERAL OF GAS SUPPLY TO THE  
SECRETARY OF STATE FOR TRADE AND INDUSTRY**

**I** am required by section 39 of the Gas Act 1986 to make to you a report on my activities and the activities of the Monopolies and Mergers Commission, so far as relating to references made by me, in each calendar year.

This report covers the period beginning on 1 January and ending on 31 December 1993.

The first section contains comments on several matters of concern to the Office of Gas Supply (OFGAS) whilst the subsequent sections describe the range of activities in which OFGAS engaged during the year under review. They also refer to the activities of the Monopolies and Mergers Commission in relation to the references made to them during 1992.

No general direction has been given by you under the provisions of the Gas Act 1986, section 34(3).

**CLARE SPOTTISWOODE**

February 1994

# Introduction by the Director General

The year has been a busy and eventful one for OFGAS culminating just before Christmas with the announcement by the President of the Board of Trade on the future of the gas industry in Britain. The announcement followed the publication in August of the reports by the Monopolies and Mergers Commission (MMC) after its year-long investigation into the gas industry.

I became Director General of Gas Supply on November 1st 1993, taking over from Sir James McKinnon, who was in place for most of the year covered by this report. I would like to take this opportunity to thank Sir James for all he did for the gas industry in his time as Director General. Without his input I do not believe that we would be in the position we are today – within sight of competition being a reality, not only for industry, but also for the domestic consumer.

The robust relationship between OFGAS and British Gas during his tenure has been the catalyst for change. British Gas has decided to work with, rather than against the Regulator. Naturally there will, and should, be tensions between the two organisations, but the decision of the Board of British Gas to welcome competition, and to separate its own business into five business units means that on many fronts we both have the same strategic aims.

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Clearly the announcement made by the President of the Board of Trade in response to the MMC enquiry has major implications for the British gas industry, and for OFGAS. A new Gas Bill will need to be brought before Parliament which, once enacted, will set out the basic framework for the industry. For the first time for many years the gas industry should be able to plan its future more effectively as it knows where the goalposts are.

OFGAS is working on its own response to the MMC Gas Act references. We are now looking forward to implementing the recommendations.

## MMC AND ITS OUTCOMES

### MMC Reports

At the time of the last Annual Report the inquiry by the MMC into British Gas had reached its half way stage. The inquiry was in response to references by OFGAS under the Gas Act 1986, with parallel references by the President of the Board of Trade under the Fair Trading Act 1973, which were made in July and August 1992.

The main issues which the MMC were asked to address were, firstly, whether the joint ownership by British Gas of the monopoly transportation system and the dominant gas supply business were compatible with the development of a fully competitive gas

market, and secondly whether British Gas should retain its statutory monopoly to supply domestic customers.

Other significant issues addressed by the MMC included the tariff formula agreed by British Gas in December 1991, which by July 1992 the company wished to see restructured and relaxed, the appropriate rate of return to be used in setting transportation charges and the regulatory system, which British Gas believed operated unfairly against it.

The MMC inquiry developed into a comprehensive investigation not just into British Gas but also into the developing competitive gas market. Extensive evidence was submitted by British Gas, its competitors, other parts of the gas industry and customers. OFGAS submitted 12 volumes of written evidence as well as providing oral evidence and other contributions. Significant parts of the OFGAS evidence were published as consultation papers during the course of the inquiry. The full written and oral evidence from OFGAS, together with that from other major parties, was summarised by the MMC in its reports.

The MMC decided to report jointly on the two sets of references made by OFGAS and the President of the Board of Trade. The summary and conclusions of these two reports were published simultaneously on 17 August 1993. The key findings were that:

- British Gas is both a seller of gas and owner of the transportation system which its competitors have no alternative but to use. This dual role gives rise to an inherent conflict of interest. The lack of effective neutrality of the transportation system may be expected to reduce competition in the non-tariff market. The MMC recommended divestment of British Gas' trading activities by 31 March 1997;
- the threshold for the monopoly supply to tariff customers should be reduced from 2,500 to 1,500 therms on 31 March 1997. The eventual removal of the monopoly, which will be beneficial to consumers, should however depend on important safety and security of supply considerations and might be expected to follow three to five years later;
- the rate of return used in setting transportation charges should be between 6½ and 7½ per cent on new investment under current conditions. This is equivalent to between 4 and 4½ per cent on existing current cost assets;
- the tariff formula should be adjusted from RPI – 5 to RPI – 4 to take account of the reduction in the monopoly threshold from 25,000 therms to 2,500 therms;
- the regulatory system is fundamentally sound and the powers of OFGAS should be extended so as to provide concurrent jurisdiction with the Office of Fair Trading in the contract market.

A summary of conclusions and recommendations of the reports to OFGAS under the Gas Act are reproduced at Appendix A.

OFGAS welcomed the conclusions and recommendations reached by the MMC. In deciding upon the recommendations, the President of the Board of Trade had responsibility for deciding on the major issues of the future ownership of British Gas' trading and pipeline businesses and on the reduction/abolition of the monopoly. Following publication of the full set of reports on 6 September, the President announced that there would



be a period of public consultation and invited representations. This period came to an end at the beginning of November.

The MMC had concluded that in the key area of transportation and storage, British Gas was operating against the public interest. As a result, and independently of the President of the Board of Trade, OFGAS is required by the Gas Act to take action to safeguard the public interest. In such circumstances, the action which falls to OFGAS is to introduce such changes to British Gas' authorisation (its licence to operate under the Gas Act) as are necessary to put right the adverse effects identified by the MMC where British Gas has been operating contrary to the public interest.

The MMC report included a number of detailed recommendations to assist OFGAS in this task covering two main areas:

- securing the physical, financial and organisational separation of the gas trading business from the transportation and storage business of the company while under the same ownership and subsequently regulating relations between the separated businesses;
- setting new pricing terms and a new regulatory regime for the transportation and storage of gas.

Making progress in these areas was not dependent on decisions falling to the President so OFGAS pressed ahead with British Gas to determine a programme of work and timetable for achieving the internal separation of these two businesses and the establishment of the new transportation regime, as reported in Chapter Two of this report.

## **PRESIDENT OF THE BOARD OF TRADE'S RESPONSE TO THE MMC**

Following the conclusion of the period of public consultation, the President announced in December the Government's response to the MMC's recommendations on the future structure of British Gas and the ending of the statutory threshold. His main conclusions were that:

- **British Gas should separate fully the operation of its trading and transportation businesses, but will not be required to divest its trading arm;**
- **British Gas' tariff monopoly will end in April 1996, and competition will be phased in over the two years to April 1998. The non-domestic market will be opened to competition from April 1996.**

OFGAS supported the announcement by the President of the Board of Trade wholeheartedly.

## **DIVESTMENT**

Considerable disadvantages were perceived for divestment, but OFGAS is confident that it can work with British Gas to get a standard of separation which will be viewed by competitors as virtually equivalent to divestment.

For competition to work properly there has to be a network code by which all shippers abide. This in turn requires British Gas Transportation and Storage (BG T&S) to have

full access to commercially confidential information. As this information is of considerable value to other shippers, and in particular British Gas's own trading arm, it is clearly in the business interests of BG T&S to ensure that confidentiality is sacrosanct and that separation not only works but is seen to work as well.

One of the key priorities over the next few months is to get agreement with British Gas

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on the mechanisms which will ensure the security of this information. These mechanisms will have to be extremely strict not only to ensure that they will work in practice, but also to give confidence to shippers.

OFGAS is working co-operatively with British Gas to ensure that the five business units into which it is restructuring are separated in such a manner that they will be managed as if divestment had taken place between the trading arm and BG T&S.

OFGAS is fully aware that while British Gas's trading arm is jointly owned with Transportation and Storage it will have to police this separation very stringently. With these mechanisms in place, we believe the need for divestment is far less strong than originally thought.

We also agree with the President of the Board of Trade that competition and divestment could not realistically have been implemented together, and that introducing choice for consumers through early competition is the best guarantee that they will obtain value for money. OFGAS believes that competition will also bring substantial long term benefits to the UK economy as a whole.

## INTRODUCTION OF COMPETITION

Competition is to be introduced in phases, and although the full details of how this will work have not been finally worked through, it is useful to discuss here the reasoning underlying the decision.

Competition in the industrial market for gas took off far faster than expected. This caused considerable problems for BG T&S, which was initially unwilling and subsequently unable to cope with the administrative load. If such disruption were to occur in the domestic market as competition was introduced, there would be a grave danger that competition, gas consumers and the new competitors, would be badly affected. It is important to find a way to introduce competition so that BG T&S can realistically build systems to cope with anticipated numbers. Having taken advice from independent information technology companies who have the capability to do such work, a limit of 5%, or around one million customers, was seen as being feasible in the first year.

It is in BG T&S's interests to rise to this challenge, and we look forward with it to ensuring that all the necessary operational systems are in place in good time.

It is important that competition is introduced in a fair way, which does not disadvantage any particular group. OFGAS envisages that it will be working alongside the legislative timetable to produce a variety of draft licence conditions to underpin the new competitive market, including draft public gas supply licence conditions for those wishing to supply domestic customers.

Any applicant wishing to supply domestic customers would need to have confidence that a licence would be granted before committing the major resources needed to begin supplying domestic customers on a large scale. Preliminary discussions will need to take place to establish the detailed requirements expected of an applicant and the ability of the applicant to demonstrate that it can comply with all the licence conditions.

Licences themselves could then be awarded in advance of the market being opened up to allow competitors to make the necessary preparations. Once British Gas' monopoly has been abolished in April 1996, such licensees would then be able to compete for domestic customers but within certain market share limitations for an initial period of two years. BG T&S will have to have the ability accurately to record the transfer of business of any individual customer from one supplier to another – and suppliers properly to notify BG T&S of such changes – for the system to work successfully.

While at the time of writing many details remain to be settled, we envisage that at the end of every month BG T&S will publish the level which competition has reached – probably by number of customers, not volume. All competitors will therefore know how far aggregate competition has gone, and will make their own estimates of when the limit will be reached. No further conversions will be allowed in the month after competition surpasses the 5% limit. This means the final limit in 1996 could well be significantly greater than 5% depending on how many customers are converted in that final month.

*OFGAS believes that competition will also bring substantial long term benefits to the UK economy as a whole*

The same procedure will occur in the second year. From April 1998 BG T&S will be expected to have systems that can cope with full competition to enable the market to be fully opened from that date.

This method of introducing competition has a number of advantages:

- **There is no discrimination between supplier or customers – it is simply a first come, first served system.**
- **BG T&S has a realistic target which it should be able to meet to ensure that competition is introduced smoothly from an administrative standpoint.**
- **In order to enable competition to be introduced lawfully, a new Gas Act is required. This will give the gas industry a firm basis on which to plan for the future.**
- **The electricity industry is to be fully opened up to competition at the same time. Thus both key industries providing power to domestic consumers will be on a level playing field at least as far as timetables are concerned.**

## MAJOR TASKS THAT LIE AHEAD

A new Gas Act will lay the framework for the gas industry in the UK for years to come, and we have a central advisory role in this process.

OFGAS will be publishing a joint consultation document with the DTI on introducing competition, which looks at the many details that have to be examined before competi-

tion is introduced. Some of these are complex, some are controversial, and many are both. OFGAS intends to open up this debate to the industry and the public so that decisions, when they are taken, are well informed.

On a personal note, the first two months of my tenure as Director General have been eventful – the basic structure for the gas industry has now been defined for the next few years, and I have had a major input into this. However I see the next five years as being the really crucial ones. My task is to ensure that competition is introduced smoothly, and to the ultimate benefit of consumers – whether they be industrial, commercial or domestic consumers.

Although the broad picture, which has now been set, is important, ultimate success lies in the detail. I have no illusions that this will be an easy task – but I look forward to working with Government, British Gas, industry, and with the public and their representatives to bring this about.

# Transportation, Storage and Competition

## REGULATION AND PRICING OF TRANSPORTATION AND STORAGE

For competition to operate effectively, it is essential that all gas suppliers – including British Gas' trading arm – are able to make use of the British Gas network on equal terms. There must be equality of treatment both in terms of operations – discussed elsewhere in this report – and in terms of charging.

*There must be equality of treatment both in terms of operation and in terms of charging*

For many years, British Gas was the sole user of the national gas network. Because of this no system of internal cross charging had been developed and attempts to derive a fair system of pricing based on necessarily arbitrary cost allocations has proved to be a difficult and arduous task – as described in previous annual reports. As a result, the existing system of charging for the use of the network is not compatible with a competitive market. Problems with the present

arrangements include:

- no formal transfer price is charged to British Gas Trading for its use of the system, so it cannot be shown that British Gas Trading is being treated in the same way as other shippers;
- real costs attributable to transportation and storage cannot be readily identified for all parts of the system.
- no system exists to charge the costs of system balancing to shippers, so British Gas currently bears the entire cost of this service;
- the T&S business does not have the incentives for efficiency improvement provided by an RPI-X formula, except insofar as it serves the tariff market.

### Regulation

OFGAS and British Gas have been discussing the development of a formal price control formula for T&S for some time. In its report, the MMC said “we support ... progress towards adoption of an RPI-X system for transportation and storage”. Since the report was published, OFGAS and British Gas have made significant progress on agreeing the principles which should govern such a formula. The full implementation of such a formula needs to be co-ordinated with the introduction of other changes to the T&S business, such as the Network Code. It is hoped that the formula will be fully implemented by 1995.

*Access to the British Gas pipeline network at reasonable prices is the most important issue in allowing competition to develop*

### Pricing

Access to the British Gas pipeline network at reasonable prices is the most important issue in allowing competition to develop. British Gas' present pricing methodology, known as the “Orange Book Methodology”, is due to be replaced in October 1994 by a

more robust and economically sound methodology for pricing for use of the British Gas transportation and storage system. The present pricing methodology was developed when there was very little competition in the UK Gas Market. However, as competition developed it became apparent that a new pricing methodology was necessary.

The process of developing a new pricing methodology is difficult and time consuming and has so far resulted in the publication of no less than four consultation documents. During 1993 OFGAS published two documents which discussed proposals for a new pricing structure for gas transportation and storage. The first publication in February 1993 was the "Joint Consultation Document" (JCD) which was a joint effort by OFGAS and British Gas. This consultation document provoked considerable debate and a demand for more information.

It was because of this that OFGAS produced a further document which addressed some of the criticisms of the previous proposals, expanded on the detail contained in the JCD and invited further discussion and consultation on key issues. This second document titled "A Pricing Structure for Gas Transportation and Storage" was published in mid December. This document has been sent to all interested parties and comments are welcomed. Following the consultation period, OFGAS and British Gas will cooperate closely so that a new pricing methodology for transportation and storage can be introduced from 1 October 1994.

## NETWORK CODE

One of the most important undertakings made by British Gas to the Office of Fair Trading was to introduce non-discriminatory arrangements for gas conveyance and storage, system reinforcement and customer and site connection.

In May 1992 OFGAS put to British Gas a series of questions designed to establish in detailed terms the rules and procedures British Gas proposed to apply to those wishing to use its gas transportation and storage network and, in particular, how it intended to ensure that gas supply and demand were balanced.

Progress however was slow and it was not until February 1993 that British Gas produced detailed system balancing proposals, based on the Core/Non-Core concept and set out in a joint British Gas/OFGAS consultation document. The Core/Non-Core approach was not well received by independent gas shippers and, after considering the detailed comments received, OFGAS concluded that such a system would neither give British Gas the incentive to balance the gas supply system in the most cost-effective manner possible, nor enable the development of a properly competitive gas supply market based on customer choice.

OFGAS therefore spent a considerable part of the summer developing its own set of proposals for balancing the gas transportation and storage system. These start from the premise that it must continue to be operated in a safe and secure manner, but aiming also to allow gas shippers more freedom and choice and to enable BG T&S to develop suitable supply, and pricing, arrangements.

Prior to publication, the OFGAS proposals were the subject of extensive discussion with British Gas engineering and operational staff as OFGAS believed it to be essential that

those staff had confidence that the system proposed would be a safe and secure one. We believe that this proved to be time well spent as, when the proposals were published in early December, British Gas was happy to state that it believed the proposals could, “form the basis of a workable balancing and network operation regime”.

Shortly after publication OFGAS arranged a major presentation to explain the proposals to the independent gas shippers and to seek initial views. Nearly 50 people attended and a wide range of useful questions was asked which will help in the further refinement of OFGAS approach. Detailed presentations have also been made to the Health and Safety Executive and the Department of Trade and Industry.

The views of the independent shippers have yet to become firmly known and OFGAS hopes the response, taken as a whole, will be a positive one. Whether or not this proves to be the case there remains much more work to be done to develop a fully comprehensive Network Code governing the access to, and operation of, British Gas' transportation and storage system.

OFGAS is therefore working closely with British Gas and the independent gas shippers to identify the range of further issues which needs to be incorporated in the Network Code. Regular meetings are taking place between all three parties, both to identify the issues involved and to work out the detailed timetable and other arrangements for their implementation. It is hoped clear agreement will be reached between the parties involved but, if not, OFGAS will need to take its own view as to what is fair and reasonable. In any case, the detailed agreement of the terms of the full Network Code looks set to be a major task for OFGAS over the next 12 months.

## TRANSPORTATION & STORAGE STANDARDS OF SERVICE

As was reported in last year's annual report, the growth in the number of sites served by independent suppliers from September 1992 led to a large volume of complaints from suppliers over the service provided to them by British Gas. The complaints related to:

- slow acceptance and frequent rejection of site nominations;
- late, missing or inaccurate meter readings;
- similar problems with bills for transportation services;
- interruptions to supply when installing data loggers;
- difficulties with arranging or enlarging supply pipe connections;
- on-site servicing and appliance installation.

Following protracted discussion of these problems with the company, British Gas agreed in May 1993 to develop standards of service for gas transportation and storage. Since then, British Gas has been involved in a round of consultations with each of the suppliers to establish the areas of greatest concern and to discuss possible remedies. Also at the urging of OFGAS, the company introduced a set of transportation and storage performance monitoring measures from October 1993. These performance indicators should enable OFGAS and British Gas to set appropriate performance standards and monitor any improvements. They should also provide British Gas with their first accurate

management information on many of these issues, so enabling them in future to identify and rectify problems as they arise.

A provisional set of standards, together with planned performance levels, is being introduced by British Gas from 1 January on an interim basis. The setting of an agreed set of standards and the question of compensation for failures in service need to be further considered by OFGAS and BG T&S business in 1994.

### PIPELINE NOTIFICATIONS

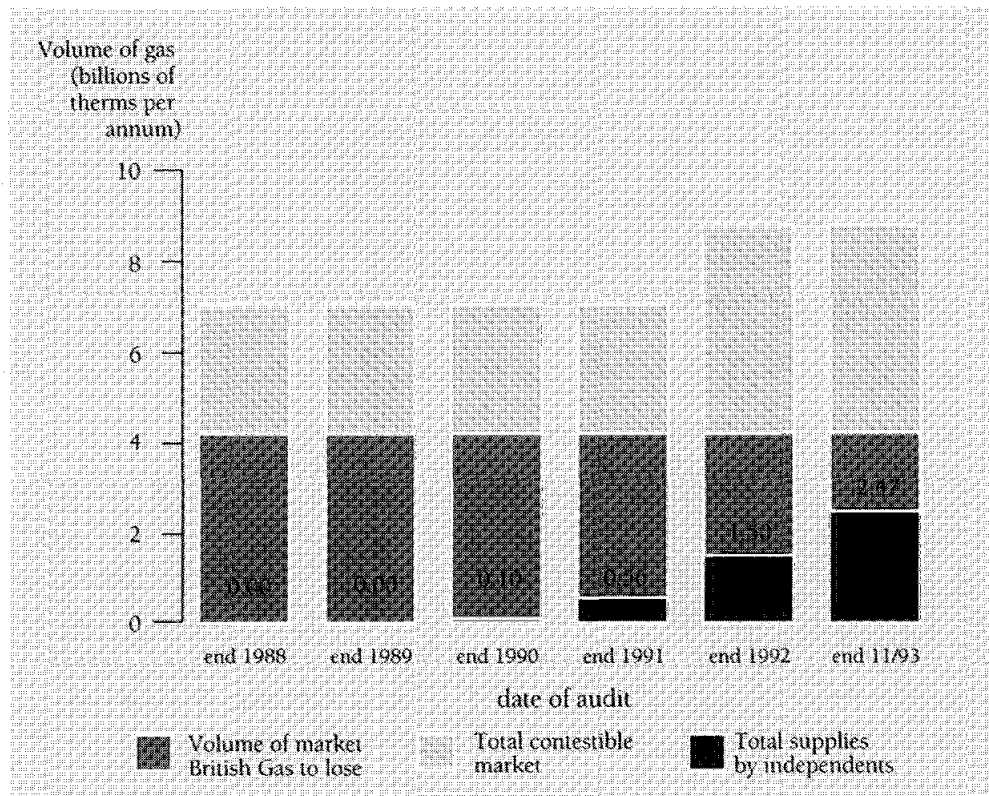
British Gas is required by section 20 of the Gas Act 1986 to notify the Director General of any plans to construct high pressure pipelines which will exceed two miles in length; these notifications are advertised in the London and Edinburgh Gazettes and are copied directly to those who may have an interest in the conveyance of gas over similar routes to those proposed by British Gas.

During the course of 1993, 23 such notifications were received – these are detailed at Appendix B. No substantive representations of interest arose from these.

### THE GROWTH OF THE COMPETITIVE GAS MARKET

At the end of 1992, 31 suppliers had been authorised to supply natural gas via common carriage arrangements in competition to British Gas; during the last year this total has grown to 51, although apparently only 35 of these are actively trading at present. Total independent sales volume is now approximately 2,500 million therms per annum, which represents a 28% share of an 8,900 million therm contestable market.

FIGURE 1 SHOWS THE PROGRESSIVE RISE IN SALES BY BRITISH GAS' COMPETITORS





While the development of the market to date meets the profile which must be satisfied if the overall 60 per cent loss of market share objective set by the Office of Fair Trading in 1992 is to be met, the independent marketers will find it progressively more difficult to continue to achieve major sales growth within the present limits of the competitive market. There are now fewer sales opportunities left in the firm contract market, and the inroads being made in the 2,500 – 25,000 therm sector, which have been substantial during the past year, cannot be sustained indefinitely.

Only by improved access to purchase contracts (to replace gas obtained through the Release Programme), interruptible transportation, and the further opening up of the market can the competitive impetus be maintained.

At present four suppliers have interruptible transportation contracts, which enable them to balance their gas supply/demand figures by offering interruptible supplies, and others are under negotiation. The need for interruptibility as a balancing tool in the industrial/commercial sector is limited, although it will be critical to any independent sales in the domestic sector.

As is made clear elsewhere in this report, a new public gas supply licensing regime will be necessary to protect the interest of consumers before the domestic market is opened to competition in 1996.

## SEPARATION

A key recommendation of the MMC reports was that British Gas should undertake a complete internal separation of its Trading and Transportation and Storage businesses.

A working group was set up with British Gas, and a programme of work put in place to identify the guiding principles needed to underlie the separation and the practical steps to be taken to ensure a separation which would not only be effective, but also one in which competitors would have confidence. A timetable was established under which key milestones were identified with the intention of achieving financial separation and allocation of employees to the separate businesses by 1 April 1994 and complete separation by 1 October 1994. Major areas of work included the development of Chinese Walls within the company, and the separation of buildings, staff, information systems, and the appropriate allocation of assets, liabilities and debts to the separate units.

In December British Gas announced that it intended to undertake a fundamental restructuring of the company which would result in five separate businesses – Public Gas Supply; Contract Trading; Transportation and Storage; Retailing; Servicing and Installation. OFGAS generally welcomed this approach though it noted that it raised a number of regulatory issues which would need to be considered. OFGAS was also concerned about the effect of this wider restructuring on the timetable for the separation of transportation and storage from the trading businesses.

*The company would also need to accept a high degree of regulation to ensure that the transportation and storage business no longer continues to be under the influence of the gas supply business in the way that it serves other competitive gas suppliers*

The announcement by the President of the Board of Trade in December concluded that it was more important to take early action to abolish the statutory monopoly than to

require British Gas to split itself up. OFGAS agreed with this approach which increases the importance of requiring British Gas to create two completely separate business units for transportation and storage and for gas supply. The company would also need to accept a high degree of regulation to ensure that the transportation and storage business no longer continues to be under the influence of the gas supply business in the way that it serves other competitive gas suppliers

## **GAS RELEASE PROGRAMME**

As reported in the 1992 Annual Report, British Gas reached agreement with the Office of Fair Trading in 1992 to operate a gas release programme, which offers gas for sale to independent suppliers in order to help them obtain sufficient quantities of gas to develop genuine self-sustaining competition in the contract market. The programme provides for suppliers to bid for shares of the gas in four annual rounds from 1992. Gas is offered to suppliers at a standard price based on WACOG (British Gas' weighted average cost of gas), plus wholesaling and administration fees.

Against expectations, the 1993 programme was over subscribed. The original 32 bidders from the 1992 programme were allowed a share of a further 500 million therms, while a separate tranche of 100 million therms was set aside for any new entrants to the industry. 70 applications were made for this tranche, resulting in each successful bidder receiving a share of only 1.43 million therms, well below the minimum quantity considered necessary to mount a viable marketing operation. However, many of these bids did not come from recognised suppliers, and it is suspected that many applications were made for the specific purpose of obtaining shares of release gas on behalf of, or for onward sale to, other suppliers.

Following publication of the MMC report, OFGAS assumed responsibility for the gas release programme from the Office of Fair Trading in September 1993. It was announced on 29 December that OFGAS had agreed with British Gas that a total of 500 million therms will be offered to independent suppliers in 1994/95. Of this total, 300 million therms are already contractually available to the 32 original entrants to the programme, provided they satisfy a review of eligibility.

Discussions are continuing with British Gas on the detailed arrangements for handling the remaining 200 million therms, including the eligibility criteria for those bidding for this gas. OFGAS intends, early in 1994, to circulate to interested parties a short consultation document setting out detailed options for operating the 1994/95 stage of the programme.

## **ENQUIRIES AND COMPLAINTS IN THE INDEPENDENT AND BRITISH GAS CONTRACT SECTORS**

During the course of the year the number of complaints by British Gas contract consumers has continued to diminish. In contrast the general growth of business in the independent sector led to an increase in complaints regarding the terms and conditions of transportation contracts and their effect upon customers, and enquiries from the

general public as to the operation of the market.

882 enquiries were resolved without the need for continued correspondence, either by telephone or by the issue of standard written information. 715 of these involved the independent market, 167 the interpretation or impact of British Gas contract provisions.

A further 133 representations resulted in continuing correspondence, and, where necessary, reference to British Gas.

In cases of dispute the Director General has the power, under section 19 of the Gas Act 1986, to give British Gas directions as to the terms of contracts for the use of the transportation system by independent suppliers. In 1993, four requests for directions were received (a further eight potential requests were resolved by discussion, rendering formal action unnecessary). None of the requests resulted in a directions, although at the end of the year one had yet to be fully evaluated.

### **AUTHORISATIONS UNDER SECTION 8 OF THE GAS ACT 1986**

The unauthorised supply of gas through pipes is an offence under section 5 of the Gas Act 1986. Authorisations under section 8 of the Act permit supplies to premises specified in the authorisation, and are used both for local distribution systems (e.g. supplies to caravan parks) and for the increasing number of supplies made via the BG system under common carriage arrangements.

In 1993, 66 authorisations were issued; of these, 37 related to the local supply of Liquefied Petroleum Gas (LPG), the remainder being awarded to distributors of natural gas via carriage contracts with British Gas.

Interim arrangements were developed to deal with any applications which were outstanding at the date of Royal Assent to the Gas (Exempt Supplies) Act 1993, or which will be received between that date and the anticipated Commencement Order. The backlog of LPG applications which had been accruing during the passage of the Act has now been cleared under those arrangements, and we are now beginning to deal with outstanding applications from local suppliers of natural gas.

#### **CASE HISTORY**

**Specialist distributors Hay Pollock moved into new premises in Basildon in May 1993. They believed that the premises enjoyed a gas supply; the supply had in fact been disconnected, but because of an administrative error at British Gas, neither they nor the outgoing tenants were aware of this. British Gas had offered to reconnect the supply, but at a cost of more than £1000.**

**Hay Pollock made representations to OFGAS. As a result British Gas apologised for the confusion and inconvenience which had arisen, and agreed to reconnect the supply without charge.**

# Energy Efficiency

Further progress was achieved during the year with initiatives to promote the more efficient use of gas.

## 'E' FACTOR

### Background

The 'E' Factor, incorporated into the revised tariff price formula, enables expenditure on energy efficiency schemes to be passed through to customers in the same way as gas costs, subject to the Director General's approval. OFGAS has established guidelines for considering approval to 'E' Factor schemes, a main criterion of which is to have regard to the Director General's general duties in section 4 of the Gas Act 1986, which are:

- to protect the interests of consumers of gas in respect of prices charged;
- to promote the efficient use of gas;
- to promote economy and efficiency on the part of British Gas;
- to take special account of the interests of those who are disabled or of pensionable age.

A further requirement of OFGAS' guidelines is the need for 'E' Factor schemes to be properly targeted and the results monitored and audited.

## ENERGY SAVING TRUST

The Energy Saving Trust has now become established, and has been undertaking work on behalf of British Gas. Using 'E' Factor funds, two pilot programmes were launched by the Trust midway through 1993. These are due to continue into 1994, when they are to be evaluated. The pilot schemes are:

- the owner-occupier Condensing Boiler Scheme which aims to encourage customers to obtain the running cost benefits of using a gas fired condensing boiler, through provision of a £200 grant. The objective is to increase the market penetration for this energy saving product.
- the Residential Combined Heat & Power Scheme for housing associations and local authorities which aims to encourage consumers and property holders to benefit from improved energy efficiency and reduced energy bills through use of combined heat and power. The objective is to secure wider penetration for a technology which has achieved only limited application in the residential market due to capital constraints. Grants are available to reduce the payback on projects to acceptable levels.

A third pilot scheme proposed by British Gas, the owner-occupier Affordable Heat Scheme, aimed at tackling the problems experienced by low income households who

live in poorly insulated dwellings with expensive-to-run heating systems, has yet to be put into operation. The Trust has concentrated on working up broader based residential programmes and in November circulated for comment proposals for two major schemes in the owner-occupier and social housing sectors.

Taking into account contributions to core funding of the Energy Saving Trust, OFGAS anticipates that expenditure through the 'E' Factor in 1993 will amount to approximately £2 million.

The goals of the Energy Saving Trust and OFGAS are not identical. The Trust's main task is to assist the Government to meet its Rio Summit target to reduce CO<sub>2</sub> emissions. Neither the Director General nor British Gas has any such duty in relation to the environment. Accordingly, funding cannot be automatic. OFGAS must view support for the Trust within the terms of the guidelines, in particular the general duties of the Director General under section 4 of the Gas Act 1986.

OFGAS sees the introduction of competition into the domestic market, together with structural changes within British Gas to facilitate this, as requiring a change of approach to investments in energy efficiency and in turn to the continuity of the 'E' Factor mechanism. OFGAS' role in these matters and the impact of the Government's environmental objectives for reducing CO<sub>2</sub> emissions were under discussion with the relevant departments at the end of the year.

*OFGAS sees the introduction of competition into the domestic market, together with structural changes within British Gas to facilitate this, as requiring a change of approach to investments in energy efficiency and in turn to the continuity of the 'E' Factor mechanism*

## HOUSE OF COMMONS ENVIRONMENT COMMITTEE'S REPORT ON ENERGY EFFICIENCY IN BUILDINGS

OFGAS gave evidence to the Committee, which reported in November, expressing concern that more needed to be done to secure the funding of the Energy Saving Trust. Specifically, the Committee recommended that the Government adopt an active role in identifying how the resource needs of the Trust can be met and in ensuring the regulators, major utilities, other fuel suppliers and agencies make substantially greater contributions. The Committee also recommended that the Government takes steps to place stronger environmental duties on OFGAS. Other recommendations relevant to OFGAS included strengthening the system for proposing and agreeing 'E' Factor schemes, and preparation of contingency plans for operation of an 'E' Factor in the event of a more competitive market.

At the end of the year OFGAS was considering these recommendations and a response to the Committee was being prepared.

## STANDARDS OF PERFORMANCE

Using powers inserted into the Gas Act by the Competition and Service (Utilities) Act 1992, the Director General made a Determination on standards of performance for the promotion of the efficient use of gas. A copy of the Determination, together with a copy of the associated Direction concerning steps to be taken by British Gas to notify

customers of the standards, are reproduced as Appendix C. Broadly, these are intended to ensure that information and advice is given by British Gas in the following ways:

- from staff and displays in showrooms;
- from Energy Efficiency Advice Desks which can be contacted via a linkline phone number;
- an annual leaflet enclosed with gas bills;
- GasCare News for customers on the GasCare register;
- information for customers who may be having difficulty in paying for gas.

A minimum of one staff member in showrooms, and all staff manning Energy Efficiency Advice Desks, are required to be trained to City & Guilds Energy Awareness standards.

In launching the package in December, British Gas announced that the Energy Efficiency Advice Desks will be running a free Energy Efficiency Audit service for all customers with central heating. OFGAS welcomed this initiative, particularly in view of criticisms of advice services operated by the utility companies by "Which?" magazine. Delivery and effectiveness of the package will be carefully monitored.

# Consumer Interests – Strategic Issues

1993 has not only seen the publication of the comprehensive and far reaching Monopolies and Mergers Commission Report and decisions on its Report, but has also proved to be a year of significant achievement by British Gas in developing and improving service to its tariff customers. This achievement was recognised with the award of a Chartermark and through a number of independent external surveys which consistently show that British Gas services to its tariff customers now ranks the company alongside the best customer service providers in this country and abroad.

The company's management and staff have worked hard to reach these goals and are now striving to do even better. As indicated in earlier Annual Reports it has always been an objective of OFGAS to work with the company to bring about the necessary cultural changes in personal attitudes, systems improvements and management drive such that British Gas would self-develop towards sustainable delivery of quality of service to its customers. That objective has now clearly been achieved – from top to bottom British Gas has adopted quality of service to its customers as a core activity.

The results from monitoring the delivery of service standards during 1992 were very encouraging, indicating that British Gas matched or bettered the planned performance levels in most areas of activity. This was recognised by the MMC in its Report which, while noting the need for further development of quality of service monitoring, complimented British Gas, and the part played by OFGAS and the Gas Consumer Council, in improving service to the customer.

*OFGAS believes that the company is committed at all levels to maintain and continue to develop the high level of service it now provides.*

While OFGAS and British Gas recognise that further work is needed, OFGAS believes that the company is committed at all levels to maintain and continue to develop the high level of service it now provides.

OFGAS recognises the commitment of British Gas' management and staff – most notably the staff of the company's front-line district offices – and what they have achieved in improving the service available to customers over the past twelve to eighteen months. The opening up of the gas markets to competition will also act as a powerful incentive on British Gas' new business units continually to refine and improve services in a cost effective manner. OFGAS will, of course, continue to be vigilant in monitoring British Gas' performance and ensuring such self-development will continue in areas of new business.

During 1993 OFGAS, the Gas Consumers Council and British Gas working together completed the review of the Standards of Service package published by British Gas in

*1993 proved to be a year of significant achievement by British Gas in developing and improving service to its tariff customers ... from top to bottom British Gas has adopted quality of service to its customers as a core activity*

1992 and referred to in the OFGAS Annual Report last year. OFGAS and British Gas also received the report of an independent international consultant on British Gas' complaint handling procedures and agreed an action plan for the company to implement the recommendations of that report. In addition a number of other policy matters were raised and settled with the company. These developments are more fully described in the following sections.

## IMPROVED STANDARDS OF SERVICE FOR GAS CONSUMERS

Last year's Annual Report discussed the start in August 1992 of a review of British Gas' package of service standards published by the company in March 1992, and described the stage reached with that review by the end of the year.

*OFGAS will continue to be vigilant in monitoring British Gas' performance and ensuring such self-development will continue in areas of new business*

The review was completed in May 1993 and on 3 June OFGAS published a formal consultation document which set out its proposals for modifying Condition 13A of the Authorisation and for a new package of service standards. A three month period of consultation was allowed and by the end of that period substantive comments were received from five agencies dealing with the problems of consumers. This formal consultation process followed earlier informal discussions with many of the agencies representing consumers, as indicated in the 1992 Annual Report, and included a further consultation with members of the Public Utilities Access Forum. OFGAS, British Gas and the Gas Consumer Council found the advice of these agencies and their representations helpful.

Accordingly a new package of service standards was agreed with British Gas incorporating a number of significant improvements on the original package, including new standards providing for:

- **submission of bills based on actual meter reads at least once each year in a minimum of 90% of cases;**
- **clear commitments as to the help British Gas will offer customers in payment difficulties. These are in line with the provisions of Condition 12A of the Authorisation;**
- **prior warning and steps to minimise disruption to customers and the travelling public when essential planned maintenance work is undertaken on public highways. This is consistent with the requirements of the New Roads and Streetworks Act 1991;**
- **the efficient delivery of GasCare Register services;**
- **the provision of energy efficiency advice.**

These new commitments expand the original package from 30 to 39 standards of service. Condition 13A of the Authorisation which governs the operation of the standards of service package by British Gas was revised, principally to provide OFGAS with powers to determine disputes between customers and British Gas including appropriate



compensation where customers are affected by service failures. The new package was announced on 2 December 1993, for introduction from 1 January 1994.

One significant area, not included in the new package but which is highlighted in the Government's Citizens' Charter principles, is the provision of timed appointments. British Gas will currently make appointments on an am(up to 1pm)/pm basis and, subject to a minimum of 24 hours notice, if an appointment cannot be kept, pay compensation for any failures. British Gas is committed to achieving quantifiable progress towards provision of timed appointments, and is conducting trials to test the operational and economic effectiveness of various systems. OFGAS expects to see progress made early in 1994.

A copy of the revised Condition 13A of the Authorisation is included at Appendix D.

## REVIEW OF BRITISH GAS' COMPLAINT HANDLING ARRANGEMENTS

The 1992 Annual Report noted the Director General's decision to issue a Direction under section 33E of the Gas Act 1986 requiring British Gas to appoint a professional international consultant experienced in the assessment of complaint handling schemes. The consultant's comprehensive review, completed on schedule in June 1993, concluded that British Gas' complaint handling systems compare favourably with those of other public and private sector organisations in the UK, Europe and the USA. However the review contained a number of recommendations for improvement.

The specific contents of the review must remain confidential to British Gas, but the recommendations fell into six broad categories.

- **Response guidelines and targets.** To determine the most economic and effective ways of handling queries and the optimum time for resolution.
- **Training of front line staff.** To improve contact handling and establish response guidelines.
- **Staff empowerment.** To give front line staff in direct contact with customers the authorities they need to resolve difficulties.
- **Classification system.** To develop a more uniform company-wide system to facilitate analysis of complaints.
- **Data system requirements.** To examine system solutions to capture and retrieve data.
- **Customer satisfaction monitoring.** To ensure arrangements meet customer needs.

British Gas is committed at the very highest level within the company to the early implementation of the proposals. This was demonstrated by its decision to appoint a steering group under the leadership of the Chairman of its Eastern Region and to prepare an action plan which has been agreed with OFGAS and on which work is now proceeding.

## TARIFF FORMULA

British Gas has a monopoly in the supply of small tariff customers (up to 2500 therms annual consumption), and an obligation to supply large tariff customers (consuming between 2500 and 25000 therms). Since British Gas has the monopoly right in supplying 18 million domestic customers, the company is subject to a tariff "price cap formula" which acts to limit the prices it can charge rather than limit its profits. The role of OFGAS is to monitor both British Gas' adherence to the price formula and any developments likely to affect the formula. The MMC recommended a revision of the formula to reduce the efficiency factor (RPI-X) from minus five to minus four below the level of inflation. This was to take account of the loss of market share to competitors. The MMC also recommended redefining the tariff market subject to price regulation to customers below 2,500 therms. OFGAS is considering both recommendations and is expected to consult on its proposals early in 1994.

### Prices frozen

In 1992, British Gas in adherence to the price formula, introduced two consecutive price reductions to tariff customers amounting to a 5 per cent reduction. Since then there have been no price changes. In fact while inflation has risen gas prices have remained frozen from October 1992.

### Impact of VAT

From April 1994 domestic gas will be subject to VAT at 8 per cent, and subsequently 17.5 per cent from April 1995. British Gas will pass the cost of VAT on to customers. As a result, the final price of gas to domestic customers will rise from April 1994. Clearly, the introduction of VAT will largely negate the benefits of lower gas prices which consumers have enjoyed since privatisation. There has been a lot of concern on behalf of low income households and pensioners on fixed incomes, in particular, about the impact that VAT on gas will have on the affordability of the fuel.

While the question of VAT on domestic gas falls outside OFGAS' remit, being entirely a matter for the Chancellor of the Exchequer, the Director General will ensure gas customers continue to get a good value for money deal as well as sympathetic treatment where hardship is involved.

### Gas Costs

A large portion of the tariff price is made up of gas costs. British Gas are allowed to pass through gas costs to the final customer. However, gas costs are indexed according to a basket of prices designed to reflect contract escalation terms. This index is subject to a cumulative (1991/92 to 1996/97) annual reduction, or efficiency factor, of 1 per cent.

Gas costs have continued to rise over the last year and it is anticipated that they will continue to do so into 1994/95. Nevertheless the impact on tariff prices of rising gas costs will be reduced by the associated efficiency factor.

# Consumer Interests – Current Projects

## DEBT AND DISCONNECTION

The rate of decline in the number of disconnections lessened slightly, with 16,367 disconnections for the year to the end of September 1993, compared to 16,991 in the corresponding previous year, a reduction of 3.7%. As in 1992 these figures represent 0.1% of all domestic credit gas customers.

OFGAS monitors the operation of the legally enforceable disconnection procedures which safeguard customers who have difficulty in paying their gas bills. A report by the Policy Studies Institute foreshadowed in last year's Annual Report and entitled "Gas Debt and Disconnections" was published in the Spring. The Institute reported on in-depth research into 45 customers' circumstances covering three British Gas regions. Among its findings were that British Gas' recording did not accurately reflect attempts by customers to make contact; that most people interviewed who were disconnected genuinely had difficulty in paying and were not "playing the system" to avoid payment; and that the company could be more flexible over repayment arrangements. The report stated that many customers were reluctant to pursue their difficulties because they believed that little help or sympathy would be available.

British Gas explained its proposals for improving the operation of debt and disconnection procedures to members of the Public Utilities Access Forum at a seminar in October. Among proposals being discussed with OFGAS are:

- better recording of telephone and letter contact;
- more encouragement for customers to discuss payment difficulties including more debt follow-up by telephone and out of hours contact;
- improved design and content of the company's Helpline Pack;
- greater flexibility when taking into account a customer's ability to pay, including matching frequency of repayments to the timing of the customer's income;
- accepting any payment offer equating to the Fuel Direct Scheme arrears repayment level (currently £2.20 a week);
- prompt gas payment plan arrangements to smooth the transition for customers in arrears leaving the Fuel Direct scheme;
- wider availability of electronic token meters;
- better advice to customers by letter of the proposed date of disconnection;
- the offer of energy efficiency advice.

## METERING ISSUES

Last year's report indicated that OFGAS would be undertaking a comprehensive review of metering. Discussions with British Gas during the year concentrated on the requirements of the competitive market and the potential for further technical development on remote metering.

British Gas is currently meeting the needs of the larger customers of third party suppliers through provision of data loggers, which store data and permit remote communication with existing meters via telephone lines to gain information for system balancing and customer billing purposes. However, although costs have come down data loggers are relatively expensive to purchase and operate and would not be a cost effective methodology for the domestic, nor the smaller industrial or commercial customer. Thus OFGAS believes adoption of other technologies merits careful examination.

As part of the discussions that have been taking place, British Gas has agreed to conduct a thorough examination of metering options for the mass market and produce proposals to meet the needs of the developing competitive market, consistent with operation of a separate transportation and storage regime. Further discussions will take place in 1994. British Gas has been investigating for some time full scale remote metering using

radio signals. At the end of the year the company was starting a trial of domestic remote metering in Edmonton, London, in which OFGAS will be taking a close interest.

OFGAS was advised by British Gas at the end of the year that following extensive development and testing the company was preparing to meet all future domestic metering needs with two new ultrasonic electronic meters. Developed jointly with Gill Electronics and Siemens, these sophisticated devices are a fraction of the size of the traditional gas meter and also operate to high standards of accuracy. These new meters are compatible with remote reading systems.

### **ELECTRONIC PREPAYMENT METERS (QUANTUM SYSTEM)**

Problems in achieving compatibility between national and regional computer systems delayed implementation of the Quantum meter for a time but British Gas has since made good progress, expanding its crediting infrastructure for the smart cards which operate the meter. At the end of November 78,775 Quantum meters and 2,330 charging units had been installed, although there was a wide regional variation in the numbers installed.

Further work is being undertaken on the costs associated with the development of the Quantum meter and how they should be reflected in tariffs. This study was nearing conclusion at the end of the year.

### **METER TAMPERING**

OFGAS commented in last year's Annual Report on the progress made with a review, conducted by OFGAS, British Gas and the Gas Consumers Council, into the crime prevention and investigation methods used by British Gas in the area of meter tampering.

The review came to a successful conclusion during the summer and resulted partly in the publication by British Gas of two new guidance documents – one for the information and use of caring agencies and the other for customers who have been accused of tampering. These documents were welcomed by the caring agencies, through the auspices of the Public Utilities Access Forum, and should provide clarification to customers alleged to have tampered with their meters.

In addition to the publication of these documents, the review examined the internal policy and procedures operated by British Gas in this area with a view to securing improvements where necessary. As a result, revised internal instructions were issued to all regions in September, incorporating improvements in the areas highlighted in last year's Annual Report.

British Gas provided a high degree of commitment to the project at all levels within the company. Together with the Gas Consumers Council, OFGAS will carefully monitor the operation of these new guidelines.

The independent examination of the arrangements which British Gas operates for the scientific testing of meters suspected of having been tampered with, referred to in the 1992 Report, is continuing. Further work remains to be done before formal validation of the company's arrangements can be given by the professional organisation concerned. However, current indications as to the acceptability of these arrangements are reassuring.

## EXTERNAL LIAISON

OFGAS had continuing contacts with British Gas customers, national consumer bodies and caring agencies and attended meetings of the Public Utilities Access Forum and Winter Action on Cold Homes campaign.

Throughout 1993 OFGAS continued to liaise closely with Gas Consumers Council headquarters staff on policy issues, such as debt and disconnection, standards of service, meter tampering and service provision for older or disabled customers. In addition OFGAS attended three Regional Information Exchange Days organised by the Gas Consumers Council for caring agencies.

Caring agencies and customers raised concerns about issues such as debt and disconnection procedures, including lack of contact before disconnection and inflexibility of payment plans and repayment levels; the low profile British Gas gives to standards of service; problems arising from showroom closures; and lack of availability of tokens for meters.

However, the main message from these contacts during the year was that British Gas is continuing to make significant progress in improving service delivery to tariff customers. Caring agencies welcomed British Gas' agreement to an improved standards of service package, to take effect from 1 January 1994, and its initiatives to improve debt and disconnection procedures following publication of the Policy Studies Institute's report.

## LOW FREQUENCY NOISE

OFGAS advised in the 1992 Annual Report that it had put a number of proposals to British Gas for further action on the issue of low frequency noise. The main proposal was that British Gas should develop a Code of Practice, in conjunction with recognised experts, for investigating low frequency noise complaints.

This proposal was to play a key role in OFGAS' discussions throughout 1993 with British Gas, the Building Research Establishment (BRE) of the Department of the Environment, and other interested organisations such as Addenbrookes Hospital Trust and Sound Research Laboratories Ltd. The two latter bodies are working under contract to BRE in its two year study into problems associated with low frequency noise, the results of which will not be known until later in 1994.

These discussions led to agreement that a set of independent guidelines should be

### OLDER OR DISABLED

**British Gas now operates in accordance with two new standards of service which ensure that the company maintains a GasCare Register. The company will also ensure that requests by newly registered customers for a free gas safety check are met within 28 days.**

**By the end of November 1993 921,000 older or disabled customers had joined the GasCare Register and benefit from services such as a free safety check and a password scheme.**

**OFGAS was consulted on revisions to British Gas' commitment to older or disabled customers.**

drawn up and implemented for the investigation of low frequency noise complaints, covering investigatory procedures and methods of testing. BRE has confirmed that these guidelines will form an important part of their final report on its Study.

In the meantime, OFGAS is satisfied that British Gas is doing all that it reasonably can in the investigation of alleged complaints about its equipment and systems and, moreover, that these are unlikely to be a major source of the phenomenon. OFGAS is satisfied that the methods of investigation and testing employed by British Gas conform to recognised best practice.

British Gas has given an undertaking to OFGAS that in the event of any problems being shown to be attributable to its equipment and systems, appropriate action will be taken to rectify matters. As a consequence OFGAS' work on this matter has been concluded.

## DEFINITION OF PREMISES

The meaning of the expression 'premises' is important in cases involving the monopoly threshold and certain provisions of British Gas' published contractual terms. There is no definition in the Gas Act 1986 and the general law gives no precise guidance. Each case in which the question arises has to be considered on its individual merits. However, it is important that British Gas operates a fair and consistent approach without discrimination.

For this purpose, guidance notes for British Gas' operational staff have been discussed between OFGAS and the company and agreed on the following broad basis:

- (a) single premises means a building or collection of buildings which meets each of the following criteria:
  - ownership or occupation by one customer
  - close geographical proximity
  - common curtilage
  - related functions
- (b) the number of existing service pipes or meters in a building or collection of buildings will not determine whether it or they are considered to be single premises.

These working definitions are intended to assist British Gas' staff and its customers to understand the problem and reach commonsense decisions. However each case will need to be judged and decided individually.

## CONNECTION CHARGES

In the case of connections requiring new mains, British Gas bases its charges on recovering the costs of connection from all new customers joining the system within five years of laying the main, less a discount reflecting anticipated gas revenues, sometimes referred to as the marketing allowance. This is consistent with the Gas (Connection Charges) Regulations 1986 made under section 10(4) of the Gas Act 1986.

Discussions commenced with British Gas early in the year when it became clear that the company had reduced the marketing allowances it was prepared to make, reflecting tighter trading conditions following introduction of the revised tariff price formula and lowering of the tariff threshold. OFGAS had received complaints from a number of potential customers who had received quotations higher than anticipated, or found dif-

difficulty in obtaining a quotation. This situation led OFGAS to investigate whether British Gas was in breach of its duty to comply, so far as it is economical to do so, with any reasonable request to give a supply of gas to any premises (section 9 of the Gas Act 1986).

As a result OFGAS and British Gas decided the matter should be included in discussions on the handling of the MMC's proposals, given that connection charges would in any event need to be reviewed in the light of the arrangements to be made for reorganisation of British Gas into separate transportation and trading units. Accordingly, OFGAS' expectation is that revised connection charge arrangements will be introduced by British Gas, on an interim basis initially, subject to further refinement. The arrangements should provide for a more transparent basis than hitherto for defining company and customer contributions to the cost of new supplies. More efficient arrangements are also to be introduced for responding to requests for quotations.

### MAXIMUM RESALE PRICE OF GAS

Section 37 of the Gas Act 1986 empowers the Director General to set a maximum price at which gas bought from a Public Gas Supplier may be resold. In common with British Gas' tariff prices the maximum resale price remained constant during 1993. More than 300 enquiries were received during the year.

OFGAS intends to publish a revised explanatory booklet in the Spring of 1994 to take account of the forthcoming imposition of VAT on gas bills.

## CONSUMER COMPLAINTS AND ENQUIRIES

Contrary to the rising trend in the overall level of complaints and enquiries received by OFGAS in 1991 and 1992, this year has seen a levelling off. The experience of the Gas

Consumers Council, the findings of OFGAS' own outreach programme and recent independent surveys all clearly show the marked progress being made by British Gas through its sharply focused approach to customer care, its high commitment to delivering quality service at first contact with customers and the more effective use of its new internal complaint handling machinery.

***OFGAS looks to British Gas' new businesses to continue to aim for excellence in customer service.***

This is welcome news for gas customers, their representatives and, of course, for British Gas itself. OFGAS now looks to British Gas' new businesses to continue to aim for excellence in customer service. The company's Chartermark award and the decision to open up the whole gas market to competition should provide added stimulus in this regard.

During the year, OFGAS received a total of 1842 complaints and enquiries of which 1185 (64%) were referred directly to British Gas' Regional Customer Relations Managers or the Gas Consumers Council for resolution. Of the cases received, 398 (22%), including 21 referrals from the Gas Consumers Council, fell into categories covered by OFGAS' legal powers. These were investigated and resolved by OFGAS in liaison with British Gas Headquarters, without recourse to our enforcement powers.

### INTEREST ON SECURITY DEPOSITS

Under the terms of section 11(4) of the Gas Act 1986 British Gas is obliged to pay interest on the security deposits lodged with it by consumers. In 1993 the Director General approved the following changes to interest rates:

Quarter	Rate of interest
1 January - 31 March	5.5%
1 April - 30 June	4.0%
1 July - 30 September	4.0%
1 October - 31 December	4.0%

FIGURE 2: CASE BREAKDOWN FROM JANUARY TO DECEMBER 1993

CATEGORY	Total No of Complaints (C) & Enquiries (E) received by OFGAS		Cases dealt with by OFGAS		CASE REFERRED TO:								TOTAL
	C	E	C	E	British Gas Regional Customer Relations Manager		British Gas Headquarters		Gas Consumers Council		Other Organisations e.g. HSE,OFT		
METERS	165	18	17	10	119	6	25	1	4	1	0	0	183
DISTRIBUTION & PIPEWORK INSTALLATION	56	8	14	4	32	3	10	1	0	0	0	0	64
TARIFF & STANDING CHARGES	62	26	42	21	15	3	5	1	0	0	0	1	88
ACCOUNT DISPUTES	577	53	33	18	425	31	108	3	11	1	0	0	630
MISCELLANEOUS	16	13	9	12	5	0	2	0	0	1	0	0	29
METER TAMPERING	32	4	0	4	1	0	31	0	0	0	0	0	36
DEBT & DISCONNECTION	120	13	6	5	49	3	65	5	0	0	0	0	133
GAS SAFETY	34	5	1	1	21	3	5	0	3	1	4	0	39
PREMISES	1	0	0	0	0	0	1	0	0	0	0	0	1
DISCONNECTION & RIGHTS OF ENTRY	19	6	2	1	10	0	7	5	0	0	0	0	25
SERVICES & RELATED CHARGES	434	26	25	10	86	2	13	0	310	14	0	0	460
CONNECTION CHARGES	142	12	17	2	17	7	107	3	1	0	0	0	154
<b>TOTAL</b>	<b>1658</b>	<b>184</b>	<b>166</b>	<b>88</b>	<b>780</b>	<b>58</b>	<b>379</b>	<b>19</b>	<b>329</b>	<b>18</b>	<b>4</b>	<b>1</b>	<b>1842</b>

Figures 2 to 5 give more details of the categories, geographical and annual breakdown of the complaints and enquiries received by OFGAS during the year.



FIGURE 3: REGIONAL BREAKDOWN OF CASES 1993

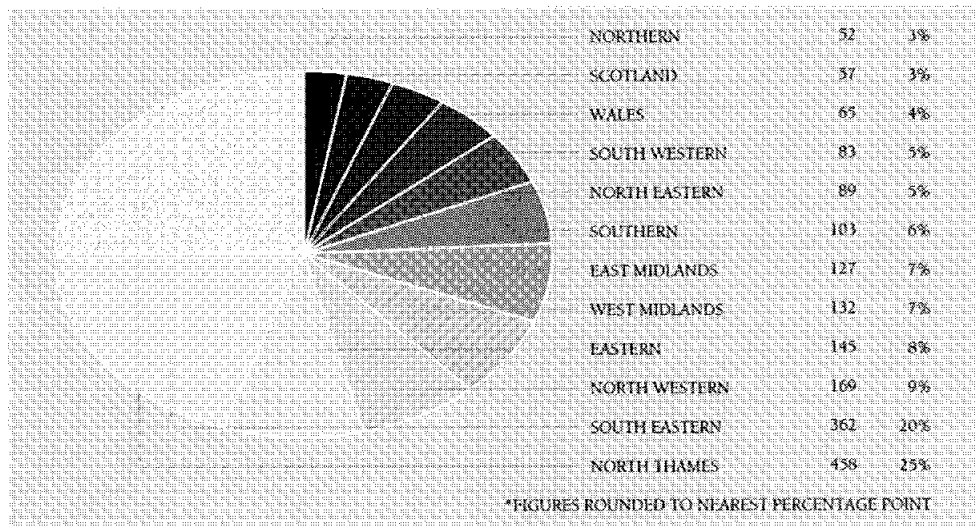


FIGURE 4: COMPLAINTS AND ENQUIRIES RECEIVED ON A MONTH TO MONTH BASIS DURING 1993

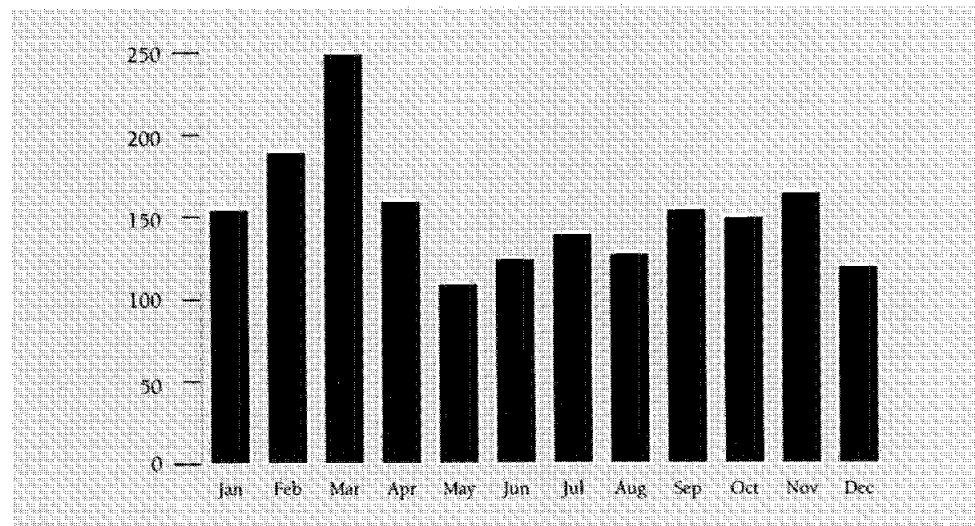
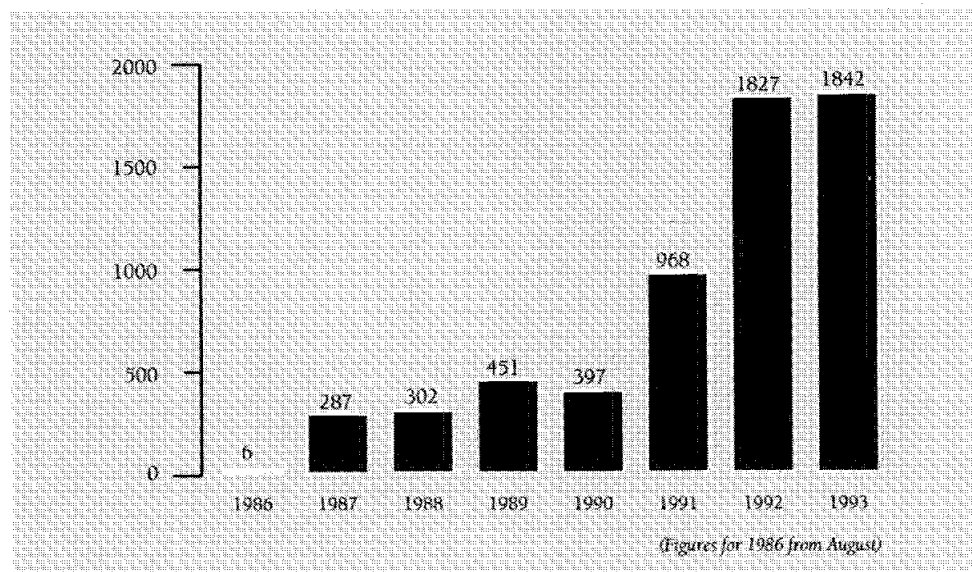


FIGURE 5: COMPLAINTS AND ENQUIRIES RECEIVED SINCE 1986



## CASE STUDIES

While British Gas' efforts to provide customers with the best possible service at first call are clearly paying off, there are still occasions when things go wrong and customers seek the help of OFGAS. The following selection of cases dealt with in 1993 is included in the report to illustrate how these matters were dealt with.

### CHARITABLE SUCCESS

A London church received a bill for £3,809.12 after getting estimated bills for two years. This was despite the fact that it had previously paid to have the meter located in a box on an external wall.

The church was offered £433.20 as compensation by British Gas, with the remaining debt to be repaid over five years. The church felt that, as a charity, it had been caused severe financial difficulty because of British Gas' errors, and was being unfairly penalised. British Gas was unwilling to reduce the amount further and passed the matter over to its solicitors, threatening the church with court action over the disputed amount.

Action by OFGAS and the Gas Consumers Council resulted in a meeting of all parties at which it was agreed the outstanding debt would be reduced to £1,750 and, once a certificate of exemption for VAT was received by British Gas, this amount would be further reduced to £850.86. In total the bill was reduced to £850.86, 22% of the original amount.

### LATE CONNECTION

A prospective customer in Surrey was quoted £2,311 for the connection of a gas supply to her home in late 1992. Unfortunately, she was unable to take up the offer at that time. Six months later she enquired once more about a one off connection and was quoted £4,182.

The customer was unhappy with the quote given by British Gas so contacted OFGAS. OFGAS referred the complaint to British Gas Headquarters for investigation. British Gas reported that errors had been made on both the original and the revised quotation. Having revised the quote, British Gas offered the customer a supply at a connection charge of £1,964.

### A SIZEABLE QUOTATION

Mr Mason of Hertfordshire received a promotional letter from British Gas in 1989 offering a connection for £288 as part of a proposed infill project. He confirmed his interest and awaited connection. The project was completed but Mr Mason remained unconnected. He made several enquiries but received unsatisfactory responses from British Gas. Finally, Mr Mason made a request for a supply and

was quoted £2,200, based on a new project to connect four properties not included on the original plan.

Mr Mason was unhappy with the size of the quote and complained to OFGAS. OFGAS referred the case to British Gas Headquarters for investigation. As a result, British Gas apologised and explained that the original letter had been sent to Mr Mason by mistake: his property and that of his three neighbours had been outside the scope of the original project. Ofgas argued that the customer had accepted British Gas' offer in good faith and that the company should honour it. British Gas reconsidered and agreed to connect Mr Mason and his three neighbours for £288, a saving of £1,912.

### LENGTHY REQUEST

A Mr McManus of Cumbernauld made repeated requests to British Gas for the mains supply to be extended to the remaining unconnected properties in his area. British Gas replied they would do nothing until there was evidence of more interest in a supply to the area.

Following OFGAS' intervention in October 1992, it was revealed that British Gas had first considered connecting the area in 1990 but other projects in Cumbernauld with a greater likelihood of success were progressed first. The project should have been reviewed in 1991 but due to an administrative error, this had not taken place on schedule. OFGAS was advised that the company would however be writing to the 292 households offering gas at a connection charge of £179 per property.

When it became evident that British Gas would fail to attract the minimum number of acceptances, the company agreed to extend the supply already serving properties to the rear of Mr McManus'. Mr McManus was connected free of charge.

### NO BILL FOR TWO YEARS

Mrs Wood did not receive a gas bill for two years. At the time of moving into her Swansea home in 1989 the gas supply was disconnected in the road. An outside meter was installed and the supply restored in December 1989. Despite the fact that Mrs Wood contacted British Gas several times and visits by company employees to the property appear to have been made, a gas bill was not issued until winter 1991/92 when Mrs Wood was visited by a British Gas employee and told she owed over £1,000.

Mrs Wood arranged to pay £15 per week covering arrears and current consumption, but this was subsequently revised to £30. Mrs Wood was very unhappy, but failed to obtain a sympathetic hearing from British Gas and so decided to approach OFGAS.

British Gas then looked into the matter and as a result Mrs Wood's account was reduced by £100 and she was awarded £50 as a gesture of goodwill. The £15 was reinstated and British Gas apologised to Mrs Wood.

# Public Affairs

## KEEPING UP THE MOMENTUM

In publicity terms, the new year started off at the same pace as the old one had finished. The call by OFGAS in December 1992 as part of its evidence to the MMC inquiry for the separation of the transmission system from the rest of the British Gas operation was followed a few weeks into 1993 by the regulator suggesting the company should be broken up on a regional basis.

The response to these ideas set the acrimonious tone for the majority of the year. Phrases such as 'megaphone diplomacy' started to appear in the media reflecting the fact that the company, not for the first time under the spotlight of an inquiry by the MMC, realised serious questions were being raised about its operations. It responded by mounting a sustained media campaign challenging the very essence of the regulatory regime as well as promoting itself as an international company which should remain inviolate.

The campaign questioning the powers of the regulator which had begun during the previous year stepped up a gear and people as diverse as academics and city analysts rallied to the aid of the company. OFGAS' evidence to the MMC inquiry was described as hysterical in tone and content. Millions of pounds were spent promoting the company as a global energy company capable of sustaining thousands of jobs in support industries in Britain as well as keeping the 'home fires burning'.

There was no denying that the MMC inquiry and subsequent report and decisions by Government which came at the end of the year held the media's interest level at a high pitch throughout the period.

However, like every other year in the relatively short existence of OFGAS, it served only to provide a prologue to the events yet to unfold in the new year. But the coming year, unlike previous years, will be different in one very important respect – the 'megaphone diplomacy' will no longer figure in press reports about the relationship between the regulator and regulatee. The barometer monitoring the pressure levels between the regulator and the regulatee is now set fair.

Lest people run away with the idea that a change of personnel is wholly responsible for the new climate, it should perhaps be pointed out that British Gas realised change was necessary even in advance of the Government's decision on the future structure of the industry.

## PRESS OFFICE

The policy of issuing press notices based on bona fide newsworthy comments or events was retained during the year. National media coverage reached an all time high and this prompted an increasing number of requests for signed articles from OFGAS management and requests for senior staff to be interviewed. In total some 130 interviews were

given during the year with the MMC report in August alone producing 18. A similar number of interviews were given when the Government made its announcement in December on the MMC report. The appointment of the new Director General in November also created considerable interest. A full list of press notices issued appears at Appendix E.

Regional coverage was slightly down on the previous year but this reflected in part a change in the outreach programme policy by OFGAS in the way it wants to be perceived by the gas-buying public.

*The high media exposure has been achieved with relatively few resources.*

It is, however, worth emphasising what was said in last year's Annual Report. The high media exposure has been achieved with relatively few resources.

In addition, senior staff have borne the brunt of the ever-increasing number of requests for briefings from visitors particularly those from abroad. Representatives from Japan, Australia, New Zealand, Malaysia, Korea, Poland, Lithuania, France, the Czech Republic, Holland, Australia, and the United States visited OFGAS in 1992. In addition senior staff visited Canada, the USA, Sweden and Argentina.

## TV AND RADIO

Compared with earlier years, much of the television and radio activity was concentrated around three major publicity events – the publication in February of the last Annual Report, the MMC report in August and the Government announcement in December. On each occasion, staff were called upon to respond to interview requests and the excellent coverage of each announcement reflected their efforts.

In between times, there was a lot of interest in 'calls' by the Director General :

- for people on service contracts to examine their increased charges carefully (January); for people to examine the realities of the gas industry before asserting the need for regulatory reform (June);
- for British Gas to rethink its planned increases in transportation charges (July);
- for British Gas to freeze prices for domestic users throughout the course of the year: the price of household gas last rose in the Autumn of 1991.

Specific programmes where staff were interviewed included : on radio – Jimmy Young, You and Yours, In Committee, GLR Drivetime and LBC Drivetime, over 30 local radio station current affairs programmes; and on television – Business Breakfast( twice), BBC TV News, ITN and Channel Four, BBC Look East. In addition extended features on the work of OFGAS were broadcast on Newsnight and Checkout (Channel 4).

## PRINT

During the year six consultation documents were published concerning further evidence to the MMC inquiry, updating standards of service and energy efficiency packages on offer to domestic users, the operations and pricing of the transportation system. A leaflet for consumers was produced which explained the complaints handling procedures and it has been distributed mainly through exhibitions.

The year's best sellers were again the updated version of the guide to charges landlords make to their tenants for gas they have previously purchased from British Gas and the list of independent gas suppliers which is regularly updated.

In addition, a new OFGAS newsletter was launched in the Autumn and this should be appearing regularly to be sent to our contacts updating them on developments as they occur. A list of current publications appears at Appendix F.

## **EXHIBITIONS**

A record 38 exhibitions were attended during the year – see Appendix G for the full list. OFGAS was represented at such diverse exhibitions as regional Ideal Home shows, special shows such as Fifty Plus and Female and Vintage Years as well as annual general meetings of organisations such as Neighbourhood Energy Action, Institute of Trading Standards Administration, the National Consumer Council and the National Association of Citizens Advice Bureaux.

Stands were also taken at the Offshore Europe 93, the national energy managers conference NEMEX 93 and a selection of Energy Systems Trade Association (ESTA) and Heating, Ventilating and Air Conditioning (HVAC) exhibitions.

## **LIBRARY ENQUIRIES AND VISITORS**

The library and reception handled on average more than one hundred enquiries per day. Apart from concerned customers, most requests were for the independent gas suppliers list and general information about OFGAS' role in securing the best possible deal for customers.

The consultation documents prepared on the basis of the evidence to the MMC inquiry proved very popular and several had to be reprinted to cope with the demand. There was a 60 per cent increase in the number of researchers visiting the library. These were drawn from academia, city analysts and other interested organisations.

There was also an increase in the number of pipeline notifications – see Appendix B - each of which is dealt with by the library staff.

One of the most important developments during 1993 has been the appointment of a new Director General, Clare Spottiswoode, to replace Sir James McKinnon at the beginning of November 1993. Sir James McKinnon was the first Director General of Gas Supply, taking up his post in 1986 following enactment of the Gas Act 1986 and privatisation of British Gas. He had indicated his intention in the early part of the year not to continue in the post of Director General once the MMC Report had been completed having taken the view that the outcome of the Report signalled an opportune time for a successor to take forward and develop the Report's recommendations.

On appointment, Clare Spottiswoode decided to make two early changes in senior management. She concluded that, given her desire for closer involvement than her predecessor in operational issues and in the development of various policies affecting the Office, the post of Deputy Director General was unnecessary. This post was therefore abolished with the executive functions previously carried out by the Deputy Director General being carried out by a newly appointed Director of Administration.

Previous sections of this Report describe the increasing workload that has been placed on the Office during 1993 as a result of the review carried out by the MMC. At the end of 1993 there were 45 staff in post, as predicted in last year's Annual Report. This is an increase of 10 over last year and staff numbers are expected to continue to rise to just over 60 staff by the middle of next year as a result of the increased workload placed on the Office following the announcement, on 21 December 1993, by the President of the Board of Trade to increase competition in the gas market and to introduce new gas legislation. As a result of these developments, OFGAS will also need to review its accommodation needs.

OFGAS continues to use the resources of the Office of Fair Trading for support in its personnel activities. Most OFGAS staff are on loan from other government departments but in line with similar organisations and changes to Civil Service procedures, OFGAS is beginning to increase the percentage of its permanent staff. In addition, the Office continues to make use of "sandwich course" students and currently has four students in post from the Universities of Teeside and Glamorgan.

As staff resources have increased over the year so inevitably has cost. Expenditure by OFGAS in the financial year 1993/94 was originally expected to be £3.006 million. However, as a result of the additional activity associated with the MMC review of the gas industry, an increased budget was sought from and agreed to by the Treasury bringing the revised total to £3.946 million. OFGAS expect to be able to maintain expenditure within this revised limit and will continue to seek ways of reducing costs and achieving enhanced value for money.

Information technology continues to play a major role in the work environment within OFGAS with most staff making use of IT facilities. The Office is currently developing its own IT strategy and is reviewing whether to introduce new consumer affairs and accounting software.

**Extract from the Summary Volume One  
Published on 17th August 1993.**

1.1. In a reference dated 31 July 1992 the Director General of Gas Supply (the Director) asked the MMC to investigate whether the operation by British Gas plc (BG) of its pipeline system and other facilities for the conveyance, generally referred to in this report as transportation, and storage of gas, operates or may be expected to operate against the public interest. On the same day we were sent two references by the Secretary of State, under the provisions of the Fair Trading Act 1973 (the Fair Trading Act), into the supply of gas to tariff customers and to non-tariff customers, and into the conveyance or storage of gas by public gas suppliers. On 10 August 1992 the Director sent us a further reference of the fixing of tariffs for the supply of gas. We are required to submit separate reports taking into account the different statutory provisions of the two Acts, in particular the more limited scope of the Gas Act references, but much of the material and of our reasoning applies to both reports, and we have summarized the evidence submitted to us in volumes common to the two reports.

1.2. Gas accounts for nearly one-half of final energy used excluding transport in the UK, a significant increase since the mid-1960s when it accounted for less than 10 per cent. In 1992 BG supplied over 90 per cent of all gas supplied in Great Britain to tariff and non-tariff customers. It is also the only public gas supplier with special rights and obligations including a statutory monopoly in supply to the tariff market (customers using below 2,500 therms a year). It controls almost all facilities for transportation and storage of gas in Great Britain.

1.3. When BG was privatized it retained the integrated structure under which it had operated as a nationalized industry. It was regulated under the terms of the Gas Act 1986 (the Gas Act), while remaining subject to the general provisions of competition legislation.

1.4. In supply to the non-tariff market (the larger industrial and commercial customers) competition with BG has recently increased. This follows the introduction of a number of measures recommended in a

1988 MMC report and recent undertakings given by BG to the Director General of Fair Trading (DGFT). These included an agreement to limit BG's share of this market to 40 per cent by 1995, to release gas to other shippers to enable them to supply the remaining share of this market, and to establish a separate gas transportation and storage unit. This unit would be subject to regulation and have a transparent pricing system to apply equally and even-handedly to BG and to other shippers. It would also provide transportation of gas and storage and other facilities on the basis of non-discrimination between BG and other shippers.

1.5. Competition in the non-tariff market, created by a number of regulatory measures, has been to the benefit of commercial and industrial users, increasing choice, reducing prices and stimulating BG to lower its costs, but is not evenly distributed. We are not aware of any sale by competitors of interruptible gas (which the supplier is entitled to stop supplying at times of peak demand). Competition is also weak for large-volume customers. The present situation is moreover artificial, being supported by temporary measures that restrict BG's own ability to compete. BG's competitors are almost completely dependent on BG's transportation and storage facilities, and vulnerable to the prices BG elects to charge and its other terms and conditions for use of the network.

1.6. BG is both a seller of gas, and owner of the transportation system which its competitors have no alternative but to use. In our view, this dual role gives rise to an inherent conflict of interest which makes it impossible to provide the necessary conditions for self-sustaining competition.

1.7. The lack of effective neutrality of the transportation and storage system as well as the perception by users of this absence, and of the required incentives to secure new shippers, may be expected to reduce the effectiveness of competition in supply of gas to the non-tariff market, inhibiting choice, restricting innovation and leading to higher levels of gas prices than would otherwise be the case. Recent problems with the service to independent



shippers, and concerns over BG's proposals for charging and future operation of the transportation and storage system, indicate the problems that will arise unless the neutrality of the network is assured. Similar considerations apply to the supply of gas to users of between 2,500 and 25,000 therms a year, where competition has been permitted only since August 1992.

**1.8.** BG has a monopoly of supply to users of less than 2,500 therms a year, who are mainly domestic users. The Government has announced that it is likely to abolish this monopoly. BG and a number of user bodies argued that the monopoly should be retained: a number of shippers argued for its abolition. We have noted that most tariff customers now have a perception that BG's quality of service is high following recent improvements. Nevertheless, we believe that eventual removal of the monopoly would be beneficial to users and that an interim reduction in the threshold should be made to 1,500 therms in 1997.

**1.9.** In our view, no decision should be taken as to the timing of the complete removal of the tariff monopoly except after a most careful assessment of the consequences. The date for its removal should depend on the progress of legislative change, so as to impose obligations for safety and security of supply and social obligations on all competitors to the domestic market, and on experience of the balancing of supply and demand by competing shippers in other sectors of the market, including developments of information and control systems such as metering. Some shippers argued that removal of the tariff monopoly was a priority, of more importance than any changes to the structure of transportation and storage. In our view, the removal of the monopoly should follow measures to ensure the neutrality of the transportation and storage system, which we regard as the principal condition for effective competition in all sectors of the market.

**1.10.** We have concluded that BG's conduct in undertaking its business as an integrated business, and its failure to provide for neutrality as between its trading and transportation interests, may be expected to reduce the effectiveness of competition and to operate against the public interest by inhibiting choice, restricting innovation, and leading to higher levels of gas prices than would otherwise be the case.

**1.11.** In reporting on the references under the Gas Act, it is only open to us to recommend remedies that can be brought about

by modification of BG's Authorisation. As long as BG retains ownership both of its trading and of its transportation and storage businesses, it should, in our view, be required by modification of its Authorisation, to establish these businesses as separate units, subject to a number of regulatory controls which we outline in our report. This would represent a further degree of separation than exists at present, and limit the extent to which BG can disadvantage its competitors.

**1.12.** Such measures would not, however, fully remedy the adverse effects we have identified. If such a limited remedy were introduced, we see a wide spectrum of decisions relating to transportation and storage that would still be influenced by the interests of BG's trading activities, requiring constant appeals to the regulator.

**1.13.** We have made it clear in our report under the Fair Trading Act that separation of ownership is necessary to remedy fully the adverse effects identified and is essential to ensure that transportation and storage can be made available to all shippers on an even handed basis and without undue discrimination. Such a measure would remove the existing conflicts of interest and provide the incentives necessary to ensure the neutrality of transportation and storage, and bring about the transparency necessary for the regulation of the system. In our report on the Fair Trading Act references, we have therefore recommended divestment of BG's trading activities.

**1.14.** In considering the fixing of tariffs, BG argued that the current tariff formula should be relaxed, to allow higher prices to tariff users, following the recent series of regulatory changes which would result in inadequate profits. It also argued, on a related issue, that the rate of return currently used in setting third party transportation charges was inadequate. In BG's view, a current cost rate of return of 10.8 per cent on new investment, and 6.7 per cent on existing assets, was necessary if it were to maintain its proposed investment in the system.

**1.15.** In considering these issues we have taken a number of factors into account: the interests of consumers, the need to ensure that BG's UK gas supply activities can attract capital to finance new investment, whether the cash flows are adequate to sustain the business, and the requirement that any system of regulation should continue to provide the incentive to improve performance. In our view a real rate of return of between 6.5 and 7.5 per cent on new

investment would be reasonable under current conditions to attract capital to the industry. After allowing for the difference between the amounts realized from the sale of BG in 1986 and the value of its current cost assets at the time, and for subsequent differentials between the ratio of the stock market valuation and its current cost assets, this would be equivalent to a return on current cost assets at the end of 1991 of between 4 and 4.5 per cent.

**1.16.** We accept that following the reduction in the monopoly threshold from 25,000 to 2,500 therms the current tariff formula is likely to produce inadequate profits and adversely affect the supply of capital to the industry, particularly for the financing of new investment. Taking into account the factors listed above, we have proposed a modification to the tariff formula from 1 April 1994, from the present RIP-5 to RIP-4, and that the formula be confined to supply to users of 2,500 therms a year and below. The additional income generated by such a modification of the formula would be similar to the loss of profit to BG from reducing the tariff threshold.

**1.17.** During the course of the inquiry, a range of technical issues relating to gas

supply was raised with us, including the structure of transportation charges and the operation of the network, which can in our view be better pursued by the Director. Resolution of these issues will be affected by the recommendations of our reports and the decision as to how they will be implemented. We also received a number of criticisms of the current regulatory system. In our view, the system itself is fundamentally sound. We suggest extending the powers of the Director to provide him with full concurrent jurisdiction with the DGFT, including the power to make references to the MMC under the Fair Trading Act relating to the supply of gas to the non-tariff market.

**1.18.** We have noted and accept the emphasis placed by many witnesses and BG itself on the need for stability and certainty. We believe that a time-scale for the adoption of our recommendations on both reports should be established and adhered to. Of our recommendations in this report, this would include the establishment of transportation and storage as a separate unit of BG no later than 31 March 1994, and the revision of the tariff formula as from 1 April 1994.

NOTIFICATIONS OF PROPOSED HIGH PRESSURE PIPELINES  
RECEIVED DURING 1993

Points between which the pipeline is to run	County	National Grid References	Remarks
1 Elworth	Cheshire	SJ 725 623	short notice dispensation
Mickle Trafford	Cheshire	SJ 452 700	
2 Peter's Green	Bedfordshire	TL 130 187	
South Mimms	Hertfordshire	TQ 222 994	
3 Pentir	Gwynedd	SH 567 674	short notice dispensation
Bontnewydd	Gwynedd	SH 482 592	
4 Bontnewydd	Gwynedd	SH 482 592	
Penygroes	Gwynedd	SH 478 532	
5 Friarton	Tayside	NO 123 214	
Perth	Tayside	NO 093 226	
6 Loch of Skene	Grampian	NJ 766 050	
Braeside	Grampian	NJ 705 226	
7 Plumley	Cheshire	SJ 725 740	
Cheadle	Cheshire	SJ 850 940	
8 Preesall	Lancashire	SD 360 470	
Samlesbury	Lancashire	SD 581 286	
9 Whittlesey	Cambridgeshire	TL 280 941	
Huntingdon	Cambridgeshire	TL 118 690	
10 Aylesbury	Buckinghamshire	SP 716 185	
Nuffield	Oxfordshire	SU 655 878	
11 Churchover	Warwickshire	SP 509 805	
Newbold Pacey	Warwickshire	SP 299 568	
12 Brocklesby	Humberside	TA 138 135	
Stallingborough	Humberside	TA 230 132	
13 Llanellian Mountain	Gwynedd	SH 796 743	
Llandudno Junction	Clwyd	SH 806 776	
14 Minety	Wiltshire	SU 037 895	short notice dispensation
Moredon	Wiltshire	SU 133 864	
15 Kingston St Mary	Somerset	ST 219 282	
Crowcombe	Somerset	ST 145 346	
16 Hanbury	Hereford	SO 945 630	short notice dispensation
South Bromsgrove	Worcestershire	SO 951 665	
17 Rodmarton	Gloucestershire	ST 940 996	short notice dispensation
Cirencester	Gloucestershire	SU 025 000	
18 Crockmore Farm	Buckinghamshire	SU 751 856	
Ipsden	Oxfordshire	SU 625 848	
19 Liskeard	Cornwall	SX 244 631	
Treburgie	Cornwall	SX 203 643	
20 Fobbing	Essex	TQ 722 864	short notice dispensation
Coryton	Essex	TQ 741 823	
21 Runcorn	Cheshire	SJ 523 799	short notice dispensation
Weston Point	Cheshire	SJ 499 817	
22 Trunch	Norfolk	TG 289 351	short notice dispensation
Hanworth	Norfolk	TG 210 359	
23 M1 Junction 11, Luton	Bedfordshire	TL 054 228	
Chalton Cross	Bedfordshire	TL 034 258	

**DETERMINATION OF STANDARDS OF PERFORMANCE IN CONNECTION WITH THE PROMOTION OF THE EFFICIENT USE OF GAS BY PUBLIC GAS SUPPLIERS**

The Director General of Gas Supply, in exercise of the powers conferred on her by section 15B(1) of the Gas Act 1986 (c.44) and after consultation with British Gas public limited company (hereafter referred to as "British Gas"), a public gas supplier, and persons and bodies appearing to her to be representative of persons likely to be affected, hereby determines the following standards of performance in connection with the promotion of the efficient use of gas by consumers which, in her opinion, ought to be achieved by British Gas as a public gas supplier:

1. (1) British Gas shall provide advice on the efficient use of gas by consumers supplied with gas for domestic use by means of adequate telephone services which are continuously attended during normal business hours by qualified persons and of which particulars are contained in every periodic demand for payment of charges in respect of the supply of gas.  
  
(2) In this paragraph and paragraph 2 below a qualified person means a person who has
  - (a) been awarded a Certificate for Energy Awareness by the City & Guilds of London Institute in conjunction with Neighbourhood Energy Action; and
  - (b) since received, at intervals not exceeding 18 months, any refresher training for the time being approved by Neighbourhood Energy Action.
2. At each of the premises belonging to British Gas providing facilities for the payment by consumers of charges in respect of the supply of gas and at which gas appliances are displayed for sale, at least one qualified person shall be in attendance during normal business hours for the purpose of providing, when requested, advice on the efficient use of gas by consumers supplied with gas for domestic use.
3. At each of such premises there shall be conspicuously displayed in a prominent position information as to how consumers of gas supplied by British Gas may use gas most efficiently and as to the benefits to be gained from such use.
4. British Gas shall give, at intervals not exceeding 12 months, to each consumer of gas supplied by it whose name is entered in a register maintained by British Gas of such customers who are disabled or over 60 years old, information as to the more efficient use of gas by such consumers.
5. British Gas shall give to any consumer of gas supplied by British Gas who has been given notice by British Gas of its intention to cut off the supply of gas to the consumer's premises for failure to pay charges in respect of the supply of gas, information as to how the more efficient use of gas might in future reduce such charges.

1st December 1993

**Clare Spottiswoode**  
Director General of Gas Supply.

**DIRECTION AS TO THE STEPS TO BE TAKEN BY BRITISH GAS TO INFORM ITS CUSTOMERS OF THE STANDARDS DETERMINED UNDER SECTION 15B OF THE GAS ACT 1986 AND BRITISH GAS' LEVEL OF PERFORMANCE AS RESPECTS THOSE STANDARDS**

The Director General of Gas Supply (hereafter referred to as "the Director") in exercise of the powers conferred on her by section 15B(3) of the Gas Act 1986(c.44) (hereafter referred to as "the Act") hereby gives British Gas public limited company (hereafter referred to as "British Gas") the following direction:

1. British Gas shall –

(a) make available for inspection by any person at each of its premises providing facilities for the payment by consumers of charges in respect of gas supplied; and

(b) send on request to any consumer of gas supplied by it,

particulars of any standards from time to time determined by the Director under section 15B of the Act applicable to British Gas and British Gas' level of performance as respects those standards.

2. British Gas shall at intervals not exceeding 12 months inform each consumer of gas supplied by it in writing of a telephone service operated by British Gas for giving information about any such standards and the availability of particulars of such standards.

1st December 1993.

**Clare Spottiswoode**

Director General of Gas Supply.

**Condition 13A Service Standards Revised text with effect from 1st January 1994**

1. The Supplier shall establish, and shall diligently take all reasonable steps to achieve, standards of performance in relation to the provision by the Supplier of gas supply services to tariff customers and potential tariff customers including services relating to –
  - (a) the giving of, and the continuation of the giving of, supplies of gas;
  - (b) the ascertainment of quantities of gas supplied;
  - (c) the recovery of gas charges; and
  - (d) the prevention of escapes of gas.
2. The standards of performance so established (in this Condition referred to as “the established standards”) shall, in particular –
  - (a) govern the making of visits to customer’s premises and the response to complaints and enquiries made in person, by telephone, in writing or otherwise in respect of gas supply services; and
  - (b) take into account the interests of those who are disabled or of pensionable age.
3. The Supplier shall keep records of the levels of performance achieved by the Supplier (which in circumstances where the Director so directs shall extend to individual cases) in relation to the established standards and the costs incurred by the Supplier in such performance.
4. The Supplier shall not make any change in the established standards without the consent of the Director.
5. (1) The Supplier shall establish and shall operate a scheme for compensating persons affected by failures to meet the established standards.
  - (2) The scheme so established shall provide for the Supplier making to any such person by way of compensation a specific sum and any such further compensation as may be appropriate.
  - (3) Where a dispute arises between a person claiming compensation under the scheme so established and the Supplier as to whether compensation is payable under the scheme or whether the amount of such compensation is appropriate and that person has notified the Director of the dispute, the Supplier shall refer the question in dispute to the Director for determination and shall give effect to that determination.
  - (4) The scheme so established shall provide, in any case where such a dispute arises, for the Supplier to inform the person claiming compensation of the provisions of sub-paragraph (3) above.
6. The Supplier shall –
  - (a) furnish to the Director; and
  - (b) publish, in such form and in such manner as the Director may direct – the established standards and particulars of the scheme established under paragraph 5 above (in this Condition referred to as “the compensation scheme”) including an explanation of the principles on which compensation will be made.

7. The Supplier shall, as soon as practicable after the end of the financial year ending on 31st December 1993 and of each subsequent financial year, furnish to the Director and publish, in such form and in such manner as the Director may direct –

(a) a report on -

- (i) the levels of performance achieved by the Supplier in that year in relation to the established standards; and
- (ii) the operation of the compensation scheme during that year;
- (iii) such research as the Supplier has carried out with a view to discovering the views of representative samples of persons on the levels of performance so achieved and the operation of the compensation scheme in that year; and

(b) a statement of the levels of performance proposed to be achieved by the Supplier in the ensuing financial year in relation to the established standards.

8. (1) Any statement to be furnished and published under paragraph 7(1)(b) above shall include any proposals for modifying the established standards.

(2) In formulating any such proposals the Supplier shall take account of any representations with regard to standards of performance in relation to the provision by the Supplier of gas supply services made by the Director to the Supplier in the preceding financial year.

9. The Supplier shall furnish the Director with such information as to –

- (a) the achievement by the Supplier of levels of performance in relation to the established standards;
- (b) the records kept under paragraph 3 above; and
- (c) the operation of the compensation scheme,

as she may from time to time direct.

Number	Date	Title
01/93	07/01/93	Service charge increases offset gas price cuts
02/93	25/01/93	Gas regulator calls on British Gas to explain investment cuts
03/93	31/01/93	OFGAS response to British Gas' service performance results
04/93	05/02/93	Gas watchdog supports specialist regulation
05/93	05/02/93	Results prove watchdog's worth
06/93	25/02/93	New transportation and storage proposals published
07/93	01/03/93	Radical changes to Britain's gas market suggested
08/93	17/03/93	Gas troubleshooters hit Yorkshire
09/93	23/04/93	Gas watchdog comments on consumer council report
10/93	28/04/93	OFGAS calls for new era of constructive debate between British Gas and its competitors
11/93	07/05/93	Gas watchdog's undertaking to energy efficiency
12/93	03/06/93	Gas industry watchdog warns against complacency
13/93	17/06/93	Watchdog exposes gas industry myths
14/93	07/07/93	Gas watchdog welcomes British Gas' transportation price re-think
15/93	20/07/93	Watchdog says British Gas seems to misunderstand tariff formula
16/93	30/07/93	British industry to benefit from price freeze
17/93	17/08/93	OFGAS welcomes MMC reports
18/93	03/09/93	British Gas' unregulated businesses: the OFGAS view
19/93	15/09/93	Protection for tariff customers
20/93	06/10/93	Gas troubleshooters visit Cumbria
21/93	07/12/93	OFGAS clears way for greater competition
22/93	17/12/93	OFGAS suggests pricing proposals for gas transportation
23/93	21/12/93	Gas users to reap the rewards of competition says watchdog
24/93	29/12/93	OFGAS announces next phase of gas release programme



**Leaflets**

Keeping an eye on the gas (August 1993)

Maximum price for the resale of gas; a guide for landlords and tenants, industrial suppliers and their customers (April 1993)

OFGAS news

Independent gas suppliers list and factsheet

**Reports**

Home energy labels explained, published by MVM Starpoint Ltd with support from OFGAS and OFFER (February 1992)

How energy efficient is your home? published by National Home Energy Rating with assistance from OFGAS (1992)

Gas and energy efficiency: the 'E' factor by Greg McGregor, Director of Competition and Tariffs (June 1992)

Gas transportation and storage: a discussion document by Greg McGregor, Director of Competition and Tariffs (November 1992)

Estimating the rate of return for gas transportation, OFGAS proposals by Bill Hetherington, Assistant Director of Competition and Tariffs (December 1992)

Separation of British Gas' transportation and storage business, OFGAS proposals by Greg McGregor, Director of Competition and Tariffs (December 1992)

The gas industry in Britain: future structures – a discussion document, by Sir James McKinnon, Director General of Gas Supply (March 1993)

Improved service standards for gas consumers: a consultation document by Willie Macleod, Director of Consumer Affairs (June 1993)

Promoting the efficient use of gas: consultation document on standards of performance by Willie Macleod, Director of Consumer Affairs (June 1993)

Operation of the gas transportation and storage network: a market based approach (December 1993)

A pricing structure for gas transportation and storage: consultation document by OFGAS (December 1993)

The Gas Release Programme: 1994/95 Release – a consultation document (February 1994)

Proposed Changes to the Gas Tariff Formula: a consultation document (February 1994)

## G

4 February	ESTA (industrial) Oxford Town Hall	7–10 September	Offshore Europe '93 (industrial) Aberdeen Exhibition and Conference Centre
2 March	ESTA (industrial) London Metropole Hotel	13–15 September	Neighbourhood Energy Action Annual Conference (consumer) Manchester University
3 March	ESTA (industrial) Nottingham	15–16 September	Citizens Advice Scotland Annual Conf & Exhib (consumer) University of Strathclyde, Glasgow
3–4 March	Chase '93 (consumer) Wembley Conference & Exhib Centre	15–16 September	HVAC (industrial) Glasgow
8 March	Fifty Plus and Female (consumer) Earls Court Park Inn	21–25 September	Ideal Home (consumer) Cheltenham
23–25 March	ET '93 (Environmental Technology) (industrial) NEC, Birmingham	28 September	NW Region Energy Efficiency Exhibition (industrial) Blackpool
1 April	FIAC National Conference (consumer) Council House, Birmingham	29 September	ESTA (industrial) Leeds
2–4 April	Consumer Congress Conference (consumer) University of Dundee	29 Sept–1 October	NACAB AGM and Conference (consumer) York University
19–20 April	Warm Homes, Social Needs and Business Opportunities (consumer) Glasgow Royal Concert Hall	5 October	ESTA (industrial) Cardiff
30 April– 3 May	Daily Telegraph Individual Homes Exhibition (consumer) NEC Birmingham	5–6 October	In Power '93 (industrial) Kempton Park
5–9 May	Ideal Home Exhibition (consumer) Blackpool	8 October	ENVEC '93 (industrial) Torquay
18 May	ESTA (industrial) Blackpool	12 October	Y & H Region Energy Efficiency Exhibition (industrial) Wakefield
25 May	Vintage Years (consumer) London Bridge	12 October	ESTA (industrial) Newcastle
9–10 June	HVAC (industrial) Croydon	2–4 November	HVAC (industrial) Olympia
22–24 June	Energy 1993 (industrial) Olympia	17 November	Institute of Energy Conference (industrial) QE2 Conference Centre
30 June–2 July	ITSA (consumer) Edinburgh	30 November	Energy Efficiency; Local Govt Environmental Solution (industrial) York
5–8 July	The Royal Show (consumer) Stoneleigh Park	2 December	Energy Efficiency; Local Govt Environmental Solution (industrial) Kensington Town Hall
19–22 July	Welsh Royal Show (consumer) Builth Wells	7–8 December	NEMEX (industrial) Birmingham Metropole Hotel
21 July	Age Concern (consumer) Kensington		
3–5 September	Ideal Home Show (consumer) Torquay Riviera Centre		



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