INDUSTRY BRIEF

CRI
CENTRE FOR THE STUDY OF REGULATED INDUSTRIES

THE UK GAS INDUSTRY
2000/2001

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UNIVERSITY OF BATH
SCHOOL OF MANAGEMENT
THE UK GAS INDUSTRY
2000/2001

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Preface

The CRI is pleased to publish ‘The UK Gas Industry - 2000/2001’ in its Industry Brief Series. The author is Gillian Simmonds, a Research Officer at the CRI, and it supersedes the Gas Industry Brief prepared by Duncan O’Neill, published in 1996. There have been many changes in the Gas Industry since 1996, including the introduction of domestic gas supply competition, new gas trading arrangements, and culminating with the Utilities Act 2000, which, amongst other things, created the Gas and Electricity Markets Authority (GEMA) to take over the powers of the Director Generals of Gas and Electricity Supply and introduced a new electricity and gas consumer body to replace the Gas Consumers Council and the Electricity Consumers Committees. The Brief is, therefore, a substantially new document.

The CRI would welcome comments on the Brief, which can be taken into account as CRI Industry Briefs have to be updated from time to time in line with developments in the Industry, and will be published as a ‘revised’ or subsequent ‘edition’. Comments should be addressed to:

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The views of authors are their own, and do not necessarily represent those of the CRI.

Peter Vass
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August 2000
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HISTORICAL OVERVIEW

This section highlights the key regulatory aspects in the development of competition in the gas industry in Great Britain and Northern Ireland.

England, Scotland and Wales

Pre-privatisation

Prior to the Gas Act 1948, there were 1,046 private and municipal gas companies operating in the United Kingdom. The Gas Act 1948 led to the amalgamation and nationalisation of these companies, creating the Gas Council and 12 Area Boards in 1949. Each Regional Gas Board operated as a separate statutory body controlling all aspects of the supply of gas in its own region.

At this time, the production of gas largely involved the burning of coal. The award of exploration licences under the Continental Shelf Act 1964 resulted in the discovery of substantial reserves of gas in the UK portion of the North Sea. These reserves were more than sufficient to meet all existing demand present at the time. To utilise these reserves, gas appliances had to be converted throughout the UK to enable them to burn natural gas. It also necessitated the construction of gas terminals on the east coast and a high pressure transmission system, as a means of transporting supplies to the Regional Boards.

These developments led to amendments to the organisational structure of the gas industry. Under the Gas Act 1972, the Gas Council was renamed the British Gas Corporation and assumed control of the 12 Area Boards. The British Gas Corporation continued to enjoy monopoly rights over the sale of gas and was extended monopsony powers with respect to any gas reserves from the UK sector of the North Sea. This requirement that all gas be offered for sale to the British Gas Corporation was removed in 1982, under the Oil and Gas Enterprise Act.

The introduction of natural gas substantially increased the demand for gas. Gas demand in the commercial, industrial and domestic markets was further fuelled by the oil price increases in 1973 and more than doubled between the years of initial conversion operations in 1967, and the oil price shocks of 1979. In the interim, further gas deposits were discovered in the North Sea and the Irish Sea, and input terminals were added to the transmission network at Barrow and St Fergus.

Privatisation

The Gas Act 1986 made provisions for privatising the British Gas Corporation and established a framework to regulate the newly privatised industry. The first Director

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This section is drawn from O’ Neill (1996).

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General of Gas Supply (DGGS) was appointed in August 1986 and the Office of Gas Supply (Ofgas) was set up to support the DGGS in his role as industry watchdog. The Gas Act 1986 also provided for the setting up of the Gas Consumers’ Council to represent the interests of consumers.

Under the Gas Act 1986, the businesses of the British Gas Corporation were vested in British Gas plc and offered for public sale in December 1986. The Act did not make provisions for restructuring of the gas industry to facilitate the introduction of competition and British Gas was sold as a vertically integrated industry (O’Neill 1996).

The Gas Act 1986 did, however, open up the market for large industrial consumers (those consuming above 25,000 therms per annum) to competition and allowed for deregulation of this market segment as it was not deemed to be naturally monopolistic. British Gas retained a franchise monopoly over the remainder of the market (those consuming at or below 25,000 therms per annum).

While the large industrial consumer market was open to competition, competition was slow to develop. New entrants to the market faced major obstacles. At the time of privatisation, existing gas fields were already committed to British Gas under long-term contracts. New fields, on the other hand, tended to be smaller, higher-cost sources of supply and new entrants were also faced with competition from British Gas as the dominant incumbent firm for these new gas sources (Yarrow 1998). In addition, new entrants had to negotiate access to British Gas’ pipelines and storage facilities for targeted customers. It was argued that this gave British Gas a commercial advantage by allowing them information of the entrants’ intentions and thus giving them the opportunity to approach the target customers with discount offers (Yarrow 1998). As a consequence, in 1987, British Gas was referred to the Monopolies and Mergers Commission (MMC) by the Director General of Fair Trading (DGFT) on the charges of alleged discrimination in industrial prices and services (Ofgas 1989).

MMC 1988 report

The MMC report concluded that a number of British Gas’ practices were anti-competitive. In particular, British Gas was found to be guilty of price discrimination, charging higher prices to those customers who had limited abilities to switch to a substitute fuel and lower prices to those who were able to switch more easily (Yarrow 1998). The report argued that there needed to be transparency in British Gas industrial pricing policies, that gas needed to be made available for competitors, and that competitors needed to be fairly accommodated on the British Gas transmission and distribution systems (Ofgas 1989).

As a result of the MMC recommendations, British Gas was required to limit buying of gas from new UK continental shelf (UKCS) fields to 90%, set prices in the industrial market according to non-discriminatory, published schedules, and to publish more information about common carriage terms for use of its pipeline and storage facilities.

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2 One therm equals 29.3071 kilowatt hours.
OFT review

The Office of Fair Trading (OFT) took responsibility for monitoring compliance with, and assessing the effectiveness of, the measures introduced to stimulate competition as a result of the MMC report (Yarrow 1998). The OFT review was published in October 1991, concluding that:

- there was no real competition in the traditional contract gas market, despite the remedies introduced following the MMC Report;
- the fundamental constraint on the growth of competition was the lack of available supplies of gas not already contracted to British Gas and that under the 90/10 rule, supplies available to competitors would not be flowing in significant quantities until 1995;
- British Gas’ ownership of the entire on-shore transmission and storage system brought with it substantial market power and action was needed to improve access to the system for other gas suppliers;
- it was necessary to maintain the price schedules introduced by the MMC report until competition had been established but there needed to be improvements in the way that the schedules were operated (Ofgas 1991b).

Following its report, the OFT entered into negotiations with British Gas. In early 1992, British Gas agreed to:

- a market share target set by the OFT which aimed to reduce its share of the contract market (excluding power generation) to 40% by 1995;
- release gas to competitors in order to ensure that this target was achieved;
- set up a separate transportation unit, to operate at arms length from its competitive supply business by October 1993;
- develop a new system of transparent and non-discriminatory tariffs for the use of its pipelines and storage facilities – these new tariffs were to apply equally to the supply business of British Gas as to any other user of the pipeline system (Ofgas 1991b).

Competition and Services (Utilities) Act 1992

In 1992, the Government introduced new legislation to strengthen the powers of utility regulators. These included:

- the Secretary of State was given powers to lower the threshold volume of supply that divided the franchised monopoly (tariff) market from the competitive contract market;
- the Act allowed for the development of explicit, separate regulation of the transportation and storage and trading activities of British Gas (Yarrow 1998).

The Secretary of State used its new power to reduce the monopoly threshold of British Gas almost immediately, announcing a reduction in the threshold from 25,000 to 2,500 therms per annum in July 1992 (through the Gas (Modification of Therm Limits) Order 1992). This opened the smaller industrial and commercial market to competition. The domestic tariff market remained the franchise monopoly of British Gas.
MMC 1993 report

In 1992, the DGGS made a reference to the MMC on the question of the separation of British Gas’ transportation and storage activities from its supply arm. In the same year, the Secretary of State of Trade and Industry made more wide-ranging references on the functioning of the gas industry to the MMC. The MMC recommended that British Gas be required to divest its trading business by 31 March 1997 and that the remaining tariff monopoly, for supplies below 2,500 therms per annum, be ended some time between the years 2000 and 2002 (Yarrow 1998). The Secretary of State did not accept these priorities of the MMC preferring a more rapid introduction of competition to the market as a whole, on a phased basis, between 1996 and 1998, and only an internal separation of transportation and storage from supply (Yarrow 1998).

Gas Act 1995

The Gas Act 1995 amended the Gas Act 1986, making provision for the separate licensing of gas suppliers, gas shippers and public gas transporters (PGTs), thereby further opening up the gas industry to competition.

Notably, the Gas Act 1995 paved the way for the introduction of competition into the domestic market. In addition to the new licensing regime which allowed for the regulation of new entrants into the market for the domestic supply of gas, the Act provided the framework within which the DGGS could determine the timing of the introduction of domestic competition throughout Great Britain, subject to a backstop date of the end of 1998 for the whole market to be opened (Ofgas 1999a).

The Gas Act 1995 also opened up the connections and extensions market to competition. The Act provided for the licensing of independent PGTs to compete with Transco in extending the gas network, and for the operation of PGTs and unlicensed self-lay installers in the connections market.

The Act also widened the DGGS’ competition duties to include services ancillary to gas supply and shipping, such as metering, meter reading and gas storage.

Restructuring of the gas industry

At privatisation, British Gas inherited an industry split into 12 regional vertically integrated structures (see Figure 1). The restructuring of British Gas has resulted from a combination of regulatory intervention and industry initiative in response to changing regulatory and market environments.
In response to recommendations made in the MMC and OFT reports into the gas industry, British Gas’ operations were restructured in 1994. The requirement of British Gas to separate its trading operations from its transportation activities led to the provisional restructuring of British Gas’ UK Gas Business arm into five new trading operations (from the initial geographically based regional structure). Four of these operating units fell under the title of trading and the fifth was a separate transportation and storage arm, called TransCo (see Figure 2).

The new licensing framework introduced under the Gas Act 1995 required any transportation activities to be distinctly separate from those of supply. British Gas, therefore, proposed a transfer scheme in accordance with the Act. The transfer scheme involved the creation of a subsidiary company, British Gas Trading Ltd (BGT) to which the bulk of supply and trading assets and liabilities were transferred. The transfer scheme took effect on 1 March 1996.

On 17 February 1997, British Gas plc split into two separate companies – Centrica plc and BG plc. At the time of the demerger, Centrica plc was comprised of British Gas Trading, British Gas Services, Energy Centres and the North and South Morecambe gas fields (Ofgas 1998a). BG plc contained Transco, which owned and operated the onshore gas transportation and storage infrastructure, exploration and production, and other operations such as research and technology. With divestment of British Gas’ trading arm, the shipping and supply business was finally separated from the
transportation business, While this allowed other companies to compete with British Gas Trading Ltd on more equal terms, British Gas Trading Ltd continued to have huge advantages over its competitors. These were countered by special licence conditions.

In 1997, the regulator began to focus on ways to secure effective competition in the provision of storage services. The introduction of competition in storage required the separation of BG’s storage services from its transportation business. Ofgas argued that an effective separation would require full physical, financial and information separation and would require Transco to offer its transportation services to BG’s storage business on the same terms as it does to other storage companies outside of BG’s control (Ofgas 1998a). Such a separation would also ensure that BG’s storage business offered its own services on a non-discriminatory basis. On 1 October 1997, following agreement with Ofgas on the extent and timing of separation, BG established BG Storage as a separate business unit, with its own management reporting directly to the BG plc board rather than to BG’s transportation business.

In June 1999, BG plc announced its intention to undertake corporate restructuring and refinancing. This took place in December 1999, when BG plc was renamed BG Group plc, with two subsidiaries, BG Energy Holdings and BG Transco Holdings. BG Transco Holdings houses British Gas’ UK pipelines business, BG Transco plc, and other regulated assets in the UK, such as BG’s LNG storage facilities. BG Energy Holdings houses British Gas’ other major businesses, BG International and BG Storage. At this time, BG Storage became BG Storage Ltd, a subsidiary of BG Energy Holdings. BG Storage Ltd currently houses BG’s deregulated storage activities. The current structures of BG Group plc and Centrica plc are shown in Figures 3 and 4.

Figure 3: Structure of BG Group plc

![Diagram of BG Group plc structure](image)

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3 BG International was created in May 1999 with the combining of BG plc’s international exploration and production and international downstream activities into a single business unit.
Figure 4: Structure of energy business of Centrica plc

- **Centrica plc**
  - **Energy supply**
  - **Home services**
  - **Financial services**
  - **Gas supply**
  - **Electricity supply**

**Competition and liberalisation**

*Competition in supply*

The Gas Act 1986 segmented the market into three categories based on annual consumption – greater than 25,000 therms per annum (large industrial consumers), between 2,500 and 25,000 therms per annum (smaller industrial and commercial consumers), and at or below 2,500 therms per annum (domestic consumers). Since privatisation, competition has been slowly phased into these three market segments.

- **Commercial and industrial competition**

  For *large industrial consumers*, the market has been open to competition since privatisation. As discussed above, while the Gas Act 1986 opened this market to deregulated competition, competition was slow to develop as a result of the significant barriers faced by new entrants to the market. The subsequent MMC and OFT reports resulted in a series of regulatory interventions which addressed some of the barriers to competition, including the lack of open and equal access to British Gas’ pipeline network and the lack of access to gas reserves for competing suppliers. To prevent anti-competitive pricing, the 1988 MMC report introduced a requirement for British Gas, as the dominant supplier, to publish price schedules for industrial consumers (Ofgas 1999a).

  For *smaller industrial and commercial consumers*, the market was opened to competition in 1992 through the Competition and Services (Utilities) Act 1992 that reduced British Gas’ franchise market to those consuming at or below 2,500 therms per annum.

  Following the 1998 review of competition in the industrial and commercial market, British Gas was deemed to no longer be a dominant supplier in this market segment and its obligation to price according to published price schedules was removed by the regulator (Ofgas 1999a).

- **Domestic competition**

  While the Gas Act 1986 opened up the market for large industrial consumers to competition, the domestic tariff market remained the monopoly franchise of British Gas. The 1992 reference to the MMC had resulted in a MMC recommendation in
1993 to open up the domestic market to competition by 2000 or 2002. In response to this recommendation, the Secretary of State announced a timetable for the introduction of competition in the domestic market, to be completed by the end of 1998. In May 1994, Ofgas and DTI published their proposals for extending competition into the domestic market and in November 1995, the Gas Act 1995 came into effect, paving the way for the extension of regulated competition into the domestic market. Under the Gas Act 1995, the DGGS could determine the timing of the introduction of domestic market competition, in accordance with an Order made by the Secretary of State for Trade and Industry. The Secretary of State set out by Orders, in March 1996, January 1997 and April 1997, the detailed framework within which the DGGS could determine the dates when each of three phases of competition could be introduced. The Order provided for a first phase (Devon, Cornwall and Somerset) in 1996, a second phase (Avon, Dorset, Kent, Sussex) in 1997, with competition throughout Great Britain starting on a single date between 1 January 1998 and 31 December 1998.

The first phase of competition was introduced to more than 500,000 customers in the South West of England (Devon, Cornwall and Somerset) on 29 April 1996. The second phase of competition began in Dorset and the former county of Avon on 10 February 1997, involving around 600,000 customers, and was extended to approximately 900,000 households in East and West Sussex and Kent on 7 March 1997. The first tranche of the third phase of competition was introduced to about 1.5 million households in Scotland and one million households in the North East of England on 1 November 1997. Five subsequent tranches, covering between 2.8 million and 3.2 million customers per tranche, followed between 27 February 1998 and 23 May 1998, thereby completing the opening of the domestic gas supply market throughout Great Britain to competition (Ofgas 1999a).

**Competition in transportation and storage**

At privatisation, the wholly owned transmission and distribution system included all activities relating to the conveyance of gas through the network, the maintenance of the network, connections to and extensions of the network system, gas storage, and gas metering and meter reading. While gas transportation remains a naturally monopolistic activity, regulation has focused on introducing competition into those services, ancillary to transportation, which could potentially be competitive businesses. These services include connections and system extensions, storage, gas metering and meter reading. To-date, a number of independent public gas transporters have been licensed and have a significant portion of the new connections market, and market-based arrangements for the auctioning of capacity in BG Group plc’s storage facilities has been introduced.

**Northern Ireland**

The development of the gas industry in Northern Ireland has been markedly different to that in Great Britain. Belfast’s original gas network was established in 1823 and was taken over by the Belfast City Corporation in the 1870s. In the 1980s, however, owing to the increasing dependence of both public and private companies involved in
the production, distribution and supply of gas in towns throughout Northern Ireland on Government subsidies for their continued operation, a decision was taken to proceed with the closure of the town gas industry. The final customer was disconnected in 1988, leaving Belfast without a natural gas supply (OFREG 1997).

The road to rebuilding the natural gas infrastructure in Northern Ireland began in 1992, when British Gas purchased the 960 MW Ballylumford power station in Northern Ireland with a view to converting it from oil- to gas-firing. As there was no natural gas in Northern Ireland at that time, this objective could only be fulfilled through the construction of an undersea pipeline (OFREG 1997). To fulfil this demand, Premier Transco, built a pipeline from south west Scotland to the Premier Power Station at Ballylumford Northern Ireland. Although the main reason for constructing the Scotland-Northern Ireland pipeline (SNIP) was to provide fuel gas for Ballylumford Power Station, it acted as a catalyst for the development of a downstream natural gas market in Northern Ireland. The capacity of the pipeline allows for the servicing of the power station demand with sufficient additional capacity being available to service the most optimistic forecasts of gas demand in Northern Ireland (OFREG 1997). To facilitate the development of the downstream market, a high pressure transmission pipeline was constructed to transport gas from Ballylumford power station to Torytown, where the distribution network starts.

In 1996, Phoenix Natural Gas was awarded a licence to convey and supply gas in the Greater Belfast Area. As a requirement of its licence, Phoenix Natural Gas developed a plan for the phased introduction of natural gas into the 12 districts in its licensed area and a time-table for the roll-out of the distribution system in greater Belfast. By the end of 1998, approximately 13,000 premises had been connected to the expanding gas network. In March 1999, Phoenix announced that the development of the gas industry in the Greater Belfast area was to be accelerated beyond that required in their licence and that the distribution network would be in place by 2003, five years ahead of schedule (DTI 1999a).

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4 Both Premier Power and Premier Transco are jointly owned by British Gas and KeySpan (the second largest natural gas distribution utility in the USA).
THE GAS INDUSTRY

The gas industry is comprised of:

- production and processing
- transmission and distribution
- storage
- shipping
- supply.

The specific character of these functions in Great Britain is discussed below.

Exploration and production

Gas production in the UK includes the exploration and extraction of gas from primarily offshore wells in the North and Irish Seas. Natural gas was first discovered in the UKCS in 1965. Since then, substantial reserves have been discovered. As at March 1999, there were 79 offshore gas fields in production and 9 onshore fields. In 1998, these fields produced 95.6 billion cubic meters of gas. Remaining discovered recoverable gas reserves (including proven, probable and possible) were 1,795 billion cubic meters at the end of 1998. After gas extraction, gas producers transport the gas from the offshore fields to coastal processing terminals operated by delivery facility operators (DTI 1999a).

Transmission and distribution

Transmission and distribution refers to the conveyance of gas from the terminals through the gas pipe network, operated by a public gas transporter, to the gas consumers. The National Transmission System (NTS) in the UK consists of gas reception terminals, a high pressure pipeline system, compressor stations, and off-takes to 13 Local Distribution Zones (LDZs) and large industrial and power station loads (Transco 1999b).

Gas is delivered to 7 reception terminals\(^5\) via 13 beach terminals from approximately 100 gas and oil fields in production on the UK continental shelf\(^6\). After treatment, which includes checking the quality and adjusting the calorific value of the gas, the gas is input at high pressure into the NTS, consisting of 6,300 kilometres of pipelines operating at pressures of up to 85 bar. The 23 compressor stations located along the length of the NTS function to boost pressure to increase transmission capacity and move gas through the pipeline network. Gas is transmitted from the NTS, via off-takes, to 13 LDZs, storage installations, large industrial gas consumers and interconnectors (Transco 1999b).

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\(^{5}\) Five of these gas reception terminals (entry points) – St Fergus, Easington, Theddlethorpe, Teeside and Bacton – are operated by Transco, while the remaining two – Barrow and Burton Point – are owned and operated by others (Transco 1999b).

\(^{6}\) Gas can also flow into and out of the Transco system via the Bacton-Zeebrugge Interconnector and the interconnector to the Northern Ireland and Eire gasworks from Moffat in Scotland.
The LDZs contain the local transmission system and the distribution system. The local transmission system consists of 12,000 kilometres of pipelines operating at pressures of up to 38 bar. While a number of large industrial gas users and power stations are supplied directly from the local transmission system, the system typically conveys gas from the high pressure NTS to the distribution system. Pressure reduction stations situated along the local transmission system reduce the pressure of gas from the transmission system to supply the distribution system (Transco 1999b).

The distribution system consists of three pressure tiers – intermediate (2 to 7 bar), medium (75 mbar to 2 bar) and low (below 75 mbar) pressure. The intermediate pressure mains are primarily used to distribute bulk supplies from the local transmission system to smaller towns and villages. Medium pressure mains carry gas to centres of population for low pressure distribution. Pressure reducing stations along the 35,000 kilometres of intermediate and medium pressure distribution mains reduce the pressure of gas for supply into the low pressure distribution system. Low pressure mains constitute the greatest length of pipeline, with a total of 221,000 kilometres in use. The low-pressure network is a complex structure and it is from these mains that the vast majority (98%) of service connections are taken (Transco 1999b).

Historically, gas transportation activities have also included:

- the provision of connections and system extensions to the gas transportation network to facilitate the transportation of gas to individual premises, to new multi-premise developments and in-fills not previously served by gas, to third party pipe-line systems and to gas processing and storage facilities;
- the provision, installation and maintenance of meters;
- the provision of meter reading services at daily and non-daily metered sites.

**Storage**

Demand for gas varies both seasonally and diurnally, following consumers’ patterns of usage – night-time demand is much lower than day-time demand, and demand on a winter’s day is greater than demand on a summer’s day. While there is variability in demand, offshore producers prefer to produce gas at a relatively constant rate. The gas supply system, therefore, contains a variety of diurnal and seasonal storage facilities to accommodate these fluctuations in demand.

**Diurnal storage**

The gas supply system is designed to provide diurnal storage to meet the variations in demand during a 24-hour period. The different types of diurnal storage are:

- *low-pressure gas holders* – there are 460 operational holders, which provide approximately 43% of storage available within the LDZ;
- *high-pressure storage* – include buried pipe arrays and storage vessels;

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7 No new holders have been constructed since 1975 and there is a policy to decommission holders where the cost of maintenance makes their continued operation uneconomical and the storage can be made available from elsewhere.
• **line-pack and storage mains** – this is generally the least-cost method of providing diurnal storage and is provided within the local transmission system through pressure cycling of the pipelines;

• **salt cavity storage** – two salt cavity installations provide diurnal storage, with withdrawal and injection taking place on a daily basis;

• **NTS** – the NTS can provide considerable line-pack storage by increasing the pressure above that required purely for transmission (Transco 1999b).

Diurnal demand variations are met in the first instance by use of storage available in the LDZ and subsequently, if required, by line-pack in the NTS (Transco 1999b).

**Seasonal storage**

Demand peaks that occur in the winter months are balanced primarily by extracting resources from stored supplies of liquefied natural gas (LNG) and gas stored in salt cavities. There are currently five LNG storage facilities located at strategic positions on the gas supply network. They are characterised by high rates of deliverability relative to space and by their locations, which were planned to be close to demand centres and relatively distant from NTS entry points (Ofgas 1999a). The LNG facilities also provide gas in the case of a disruption to supply due to plant failure or emergency, and have an additional use as transmission support, avoiding the use for pipe reinforcement.

The Hornsea storage facility in east Yorkshire consists of nine large underground salt cavities. Gas can be injected or withdrawn from Hornsea at relatively short notice and is, therefore, used for short-term balancing of supply and demand.

The Rough storage facility is a partially depleted gas field off the coast of Yorkshire, in the North Sea. Rough is the largest of the storage facilities and is mainly used as seasonal storage. At periods of low demand, gas is withdrawn from the NTS and compressed into the field. The gas is then used during winter to meet the demands that are in excess of the existing available supply.

The Hatfield Moor storage facility in Yorkshire is a layer of porous sandstone into which gas is injected under pressure for seasonal storage. Gas is imported into the storage facility during summer when gas prices are low and exported at times of maximum demand.

**Shipping**

Shipping involves buying gas from producers, arranging for it to be conveyed to supply points, and selling it on to suppliers. Shippers contract with a public gas transporter to transport their gas to consumers and may also store gas with a storage operator to help them manage the balance between their supplies and the consumers’ demand.

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8 These are Glenmavis in Strathclyde, Avonmouth in the former county of Avon, Dynevor Arms in South Wales, Partington in Lancashire, and Isle of Grain in the Thames Estuary (Ofgem 1999d).
Supply

The supply of gas involves the purchase of gas from shippers and its sale to consumers. Today, the consumer market supplied by gas is divided into three main market segments – very large industrial, industrial and commercial, and domestic. These market segments are defined by the Gas Act 1986 (as amended in 1995) and are based on the volume of gas demanded per annum – above 2 million therms, between 2,500 and 2 million therms, and at or below 2,500 therms respectively. Suppliers may supply gas to the entire market, or may supply to a particular market segment, for example industrial and commercial customers, only. Supply also involves the provision of customer services and billing facilities, and the collection of customer accounts.

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Note that the metric equivalents now applicable are: 2,500 therms is equivalent to 73,200 kilowatt hours, 75,000 therms is equivalent to 2,196,00 kilowatt hours, and 2 million therms is equivalent to 58 million kilowatt hours.
INDUSTRY STRUCTURE

Figure 5 below shows the current structure of the gas industry in Great Britain, demonstrating the relationships between the different players and the contractual arrangements governing those relationships.

Figure 5: Structure of the gas industry in Great Britain

Exploration and production

The functions of exploration and production are relatively separate from those of transmission, distribution and supply operations. Gas exploration and production is undertaken mainly by the large oil and gas companies, such as BP Amoco, Shell Expro and Statoil UK. However, both Centrica plc and BG Group plc undertake exploration and production activities. BG Group plc’s regulated transmission and distribution activities (housed in BG Transco Holdings) are separated from its exploration, storage and production activities (housed in BG Energy Holdings) for regulatory purposes. These activities will fall into separate companies once the proposed demerger of BG Group plc takes place (discussed below).

The natural gas reserves are offered for sale to the shippers. Gas producers enter into contracts – which may be either buyer or seller nominated contracts – with shippers. In the case of buyer nominated contracts, the gas purchaser (shipper) nominates the gas it requires for delivery. In the case of seller nominated contracts, the producer
nominates the amount of gas for delivery. The producer hence has more control over gas production in the latter contractual arrangement.

The regulation of exploration and production activities is also separate from that of transmission, distribution and supply operations. The Petroleum Act 1998\(^\text{10}\) provides the framework by which exploration and production of oil and gas resources is regulated. The Petroleum Act 1998 vests ownership of oil and gas within the UK and its territorial waters in the Crown and gives Government rights to grant licences to explore for and exploit those resources. Exploration and production is regulated primarily through a licensing system that is managed by the Exploration and Licensing Branch of the Oil and Gas Directorate of the Department of Trade and Industry.

**Transmission and distribution**

BG Transco plc, a subsidiary of BG Transco Holdings, is the natural monopoly owner and operator of the national transmission and regional distribution systems in Great Britain. BG Transco Holdings is currently a subsidiary of BG Group plc and is ringfenced for regulatory purposes. On 22 March 2000, BG Group plc announced plans for a further demerger. Under the proposed demerger, BG Transco Holdings will become a separate company, Transco Group. Transco Group will house BG Group plc’s current regulated activities, primarily its UK pipeline operations. BG Group will house BG Energy Holdings, the main activities of which are its international exploration and production interests (BG International) and its deregulated storage activities (BG Storage). The UK Government will retain a golden share in the Transco Group after the demerger, allowing it to block any take-over of the UK gas pipeline network it deems unsuitable, but will give up its golden share in the separated international business (Financial Times, 23 March 2000). The proposed structure of BG Group plc after the demerger is shown in Figure 6 below.

**Figure 6: Proposed demerger of BG Group plc**

While BG Transco plc is the national monopoly owner of the transmission and distribution systems, there is some competition in the transmission and distribution businesses in the area of system extensions and connections. Independent PGTs compete with Transco in extending the gas network and providing connections, and unlicensed ‘self-lay’ installers provide further competition in the area of connections. The business of PGTs in respect of connections and system extensions is of two types:

• supply point connections within a PGT’s licence area that would be made between individual premises and the PGT’s system and would generally not involve a system extension;\(^{11}\);

• new developments, in-fill projects and single premises for which a system extension is required (Ofgas 1999a).

When independent PGTs and self-lay installers make systems extensions, they need to connect their networks to Transco’s pipeline. Transco’s charges for connections to its gas transportation system for new or increased exit connections (that is, for the purpose of off-taking gas for eventual consumption) are laid out in their *Connections charging statement* (Transco 1999d; 2000b).

Transco was authorised, under its PGT licence, to operate on a country-wide basis, while all other PGTs were authorised to operate in a designated area. Independent PGTs, therefore, were required to apply for a new licence each time they undertook a new system extension. The Utilities Act 2000 abolishes the geographic exclusivity of these licences for gas transporters.

Each PGT is required, in terms of its licence, to set out the terms and conditions of connections to and transportation through its pipelines in a document called a network code. The network code is central to competition in the gas industry in so far as it ensures that the relevant PGTs network can be accessed in a in BG Group plc’s storage facilities transparent, non-discriminatory way. The network code must facilitate the achievement of the efficient and economic operation of the pipeline system, and subject to this:

• the efficient discharge of the licence holder’s obligations under the PGT licence;

• the securing of effective competition between relevant shippers and relevant suppliers;

• the provision of reasonable economic incentives for relevant suppliers to meet their domestic supply security standards.

Shippers are required to pay Transco, and other PGTs, transportation charges for the use of their pipeline systems. Transco’s transportation charges are laid out in its transportation methodology document.\(^{13}\) These charges are split into three elements – the NTS, the LDZs and customer-related activities.

NTS charges are split into capacity and commodity elements and include charges for:

• NTS monthly entry capacity – sold by auction, with unsold capacity being sold on a first come first served basis after the auctions have closed;

• daily firm entry and daily interruptible capacity services, offered on the day before the gas day – daily firm entry capacity services prices and allocation are determined through a tender process, subject to minimum floor prices;

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\(^{11}\) In these cases, competition will come from self-lay installers. Where a self-lay connection is made, the PGT is obliged to join it to the mains pipe if the connection pipe is ‘fit-for-purpose’. In cases where the premises consume less than 75,000 therms per annum, the service pipe then becomes the property of the PGT, which must maintain and operate the connection.

\(^{12}\) In these cases, competition will come from both self-lay installers and competing PGTs.

\(^{13}\) *Gas transportation charges from 1st May 2000*, Transco, 2000.
• NTS exit capacity charges – based on the calculated long-run marginal cost of developing the system to meet a substantial increase in demand;
• standard NTS commodity charges – uniform charges, independent of exit and entry points (Transco 2000a).

The LDZ charges are also split into capacity and commodity charges. The charging methodology used to calculate the LDZ charges is currently under regulatory review. Customer charges reflect customer-related costs, such as service pipes, meters, emergency work and meter reading.

In addition to its role of owner and operator of the national and regional transportation network, Transco also fulfils the role of residual gas balancer, ensuring that the pipeline system is adequately balanced to ensure the safety of the network.

**Metering and meter reading**

All gas consumers are obliged to take their supply through a meter. Gas consumers have statutory rights to make their own metering arrangements (that is, they can own their own meter and arrange for the reading and inspection of their meters). In recognition of the fact that customers may not be able, or willing, to provide a meter, Standard Condition 22 of the gas suppliers’ licence requires suppliers to make metering arrangements on behalf of domestic customers, unless the consumer has made his/her own arrangements and Standard Condition 23 of the PGT licences obliges PGTs to make meters available for this purpose. The majority of suppliers currently discharge this responsibility by arranging Transco to provide, install and maintain a meter. Most suppliers also obtain a meter reading service from Transco (Ofgem 1999e). As suppliers do not have direct contact with Transco, these services are arranged for them by the shippers.

- **Metering**

Transco is effectively the monopoly provider of meters to gas suppliers in Great Britain, providing, installing and maintaining virtually all the meters on its network. At the end of 1998, Transco owned nearly 20 million domestic meters. Of these, 1.2 million were prepayment gas meters. Transco also owned around 360,000 industrial and commercial meters. As of May 2000, non-Transco meters have been installed at two industrial and commercial sites. A number of sites connected directly to the NTS also use non-Transco metering equipment. For some one-off meter work jobs there is a degree of choice, with, for example, suppliers making alternative arrangements for the removal of meters. The volumes of such non-Transco meter work is small, however. Transco purchases its meters through competitive tender and uses its own service engineers and sub-contractors to install them (Ofgas 1999a). In 1999, Transco bought 720,000 domestic credit meters from a total of 3 manufacturers. Transco currently purchases prepayment meters from 2 manufacturers (Ofgem 2000n).

Transco is also the monopoly provider of the majority of meter work services, including installation, maintenance, repositioning and removal. Transco provides these work services to shippers on behalf of suppliers.

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14 Standard Condition 23 of the PGT licence obliges the licensee to provide and install a meter at the premises of a domestic customer at the request of a relevant shipper.
Metering charges are laid out separately in Transco’s transportation charging statement. Suppliers that provide, install and maintain their own customers’ meters can receive a rebate, through their shipper, equivalent to the Transco charge. For those consuming up to 2,500 therms per annum where the meter is supplied by a non-Transco meter provider there is a fixed rebate of £10 per annum per supply point (Transco 2000a). For those consuming at or above 2,500 therms per annum, the rebate is a function that varies with supply point capacity. Charges for ad hoc shipper requested meter work, such as repositioning and removal, are on a per transaction basis and are published in Transco’s Engineering Charges Statement.

- Meter reading

Transco is the monopoly supplier of meter reading services for daily metered sites. For these sites, Transco uses datalogging equipment which automatically records metered consumption and transmits readings to a central point. Dataloggers are purchased from 3 manufacturers and meter reading services are provided to shippers on behalf of suppliers and their customers (Ofgas 1999a).

Transco also provides a non-daily meter (NDM) reading service to suppliers, via shippers. Transco does not use its own staff to carry out the manual reading of the meters, but appoints meter reading agencies on a regional basis through a competitive tendering process. Those shippers who do not want to use Transco’s NDM reading service can de-appoint Transco and make alternative arrangements. As of May 2000, 7 shippers had de-appointed Transco for a significant proportion of NDM sites, with 2 of these shippers still in the process of de-appointing their portfolios (Ofgem 2000n). British Gas Trading goes out to tender for meter reading services.

Storage

BG Storage and Transco are the two major operators of storage facilities in the UK. Other companies are developing their own storage services to reduce their dependence on BG Storage and one on-shore facility (ScottishPower’s Hatfield Moor facility) is already operational. BG Storage owns and operates the Rough and Hornsea storage facilities, which form the greatest bulk of storage capacity in the UK. Since 1999, rights to capacity in the Rough and Hornsea storage facilities have been sold via an auction process. These market-based arrangements for the auction of capacity in BG’s Rough and Hornsea gas storage facilities also provide for a secondary market where owners of storage capacity rights are able to sell them to third parties. The auction arrangements aim to encourage efficient pricing and full utilisation of storage services. The key elements of the auction arrangements, agreed between Ofgem and BG Group plc, are as follows:

- BG plc would auction off all the firm storage services from BG Storage’s Hornsea and Rough facilities for the storage year commencing 1 May 1999 and for the four subsequent storage years, up to and including the 2003 storage year;
- for the 1999 storage year, at both Rough and Hornsea, 50% of the firm capacity rights would be auctioned for a term of 5 years and 50% for a term of 1 year;
- the 50% of firm capacity rights auctioned for a 1 year term would be re-auctioned on a 1 year term in each subsequent year up to and including the 2003 storage year;
any firm capacity rights offered for sale for 5 years but not sold would be included in the one year auction relating to that facility for that year and auctioned on a long-term basis in the following year, and any firm capacity rights unsold via the one year auctions would for the duration of the relevant storage year be offered for sale by BG at the reserve price relating to that facility;

no bidder or associated group of bidders would be allowed to buy more than 20% of the capacity rights sold in any auction;

bidders in the auction would pay the price they bid;

the auction agreements for the annual action in 1999 would set the terms and conditions for the annual actions in the subsequent four years, unless otherwise agreed between BG and Ofgas (BG Group plc 1999).

The Rough and Hornsea storage facilities, and other non-regulated storage facilities (such as, ScottishPower’s Hatfield Moor storage facility), are required to enter into an agreement with Transco with regard to the connection of their facilities to Transco’s pipeline system. The terms by which storage operators can connect their facilities to Transco’s pipeline system are laid down in a generic Storage Connection Agreement (SCA)\textsuperscript{15}. The SCA is an ancillary document to the network code, which consists of the network entry and the network exit agreements in respect of a storage facility.

Transco’s storage operations are associated with its portfolio of local gas holders, used for diurnal storage, and with line-pack, the ability to increase and decrease quantities of gas in the pipeline system by increasing or decreasing the pressure of gas in the system within certain tolerances. These local gas holders and line-pack storage services are not offered as unbundled storage services, but rather form part of Transco’s transportation system.

Transco owns and operates five LNG facilities\textsuperscript{16}. These facilities are used by shippers during periods of peak demand, and by Transco, as emergency supplies, to balance the pipeline system in the event of plant failure or the temporary loss of offshore supplies, and as transmission support. Previously, the price of capacity in the five LNG storage sites was subject to Ofgem price control. A recently completed review of Transco’s LNG facilities resulted in the following recommendations:

- increased transportation credits for LNG, recognising its role as a pipeline substitute;
- the auctioning of LNG capacity\textsuperscript{17}.

This decision to auction the LNG capacity means that most of the capacity will move away from a regulated regime into the competitive market.

\textsuperscript{15} The generic SCA requires the approval of the DGGS before it can be implemented. The DGGS can veto SCAs if they differ substantially from the generic SCA approved by the DGGS.

\textsuperscript{16} The management of the five LNG sites was transferred from BG Storage to Transco on 14 December 1999 (BG Storage 2000).

Shipping

Shippers can act as a shipper of gas for suppliers that have chosen not to hold a shipper’s licence or, as in the case of most shippers in the UK, they can be licensed as both a shipper and a gas supplier.

Gas shippers enter into contracts with producers to deliver a nominated amount of gas to a beach terminal. Gas shippers then contract with Transco and other independent PGTs for the gas to be transported through the PGTs system to a gas supplier’s customer. As a precondition of transporting gas through the PGTs pipeline system, the shipper must sign the relevant PGTs network code. The network code lays down the terms and conditions of operation of the PGT’s pipe network. For gas to be traded safely across Transco’s integrated pipeline system, shippers must be able to ship gas through an entry point and make arrangements for the exit of that gas elsewhere, and total gas inputs to the system and gas off-takes from the system must be in balance within certain pre-defined tolerances (Ofgas 1999a). Under the network code, shippers are responsible for balancing their inputs and off-takes to the gas system to ensure the safety of the system. As the residual system balancer, Transco is incentivised to balance the system through the Reform of Gas Trading Arrangements (RGTA) and is obliged to buy and sell through EnMO (the independent market operator) until September 2000. As mentioned above, shippers also pay PGTs transportation charges for the use of their pipes.

Shippers also act as an interface between suppliers and transporters. Suppliers, which are not also shippers, do not have direct contact with transporters and, therefore, services required by gas suppliers from PGTs, such as metering or meter reading, are arranged by shippers on behalf of suppliers.

Supply

Gas suppliers sell gas to customers and, if they are not themselves licensed as a gas shipper, require the services of a gas shipper to get the gas to the customer’s premises (Ofgas 1998e). Under their licences, gas suppliers are authorised to supply gas in a designated area. This area may be geographically specific – for example, the supplier may be issued a country-wide licence or a local area licence – or specific to a particular category of customer – for example, domestic versus industrial and commercial. Gas suppliers are required to supply every domestic customer in the areas covered by their licences who requests it and is already connected to a mains gas supply.

Between 1986 and 1998, competition was introduced to all segments of the gas supply market and since May 1998, all domestic and industrial and commercial consumers have been theoretically able to choose their gas supplier. With the earlier introduction of competition in the industrial and commercial market between 1986 and 1992, the dominance of British Gas Trading has been significantly eroded in this market segment. While British Gas Trading Ltd still have the largest share in the industrial and commercial market, Ofgem state that there are few complaints about barriers to

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18 The RGTA are discussed in more detail in the section that follows on Regulation.
entry in the market and no significant barriers to suppliers making, and customers obtaining, potentially competitive offers (Ofgem 2000p). British Gas Trading remains the incumbent supplier in the domestic gas market. Since the introduction of competition into the domestic market, the number of suppliers active in the market has increased substantially. There are currently 59 suppliers operating in the industrial and commercial market and 27 in the domestic and small business market (a list of suppliers is available in Appendix 1).
The statutory framework for gas utility regulation in England, Scotland and Wales is laid down principally by the Gas Act 1986 (as amended by the Competition and Services (Utilities) Act 1992, the Gas (Exempt Supplies) Act 1993, the Gas Act 1995 and the Competition Act 1998). The Utilities Act 2000 received Royal Assent on 27 July 2000. The Utilities Act 2000 transforms the framework of energy utility regulation through changes to the primary duties of the regulator, changes to customer representation and institutional changes. These provisions set out in the Utilities Act 2000 as regards gas are to be given effect, in the main, through amendments to the Gas Act 1986 and are expected to commence as soon as the necessary preparatory work has been completed. The current arrangements, as well as the anticipated changes, are outlined in the section that follows. In Northern Ireland, the regulatory framework for the gas industry is determined by the Gas (Northern Ireland) Order 1996 and the licences issued under it. The Competition Act 1998, which came into full effect on 1 March 2000, also provides for new powers in the regulation of the gas industry.

These competition powers, together with the regulatory functions under the Gas Act 1986 (as amended) and the Gas (Northern Ireland) Order 1996, are discussed below in three separate sections on institutional governance, regulatory instruments and the reform of gas trading arrangements.
Institutional governance of the gas industry

England, Scotland and Wales

The institutional framework for regulation of the gas industry in Great Britain is set out in Figure 7 and discussed in the text that follows.

Prior to the enactment of the Utilities Act 2000, the Secretary of State for Trade and Industry was required, under the Gas Act 1986 and the Electricity Act 1989, to appoint a Director General of Gas Supply (DGGS) and a Director General of Electricity Supply (DGES) as the regulators of the gas and electricity industries respectively. The DGGS and the DGES had the power to establish, as non-ministerial government departments, offices to assist in carrying out their duties and functions under the separate regulatory regimes. The Utilities Act 2000 aims to bring the gas and electricity sectors together under a single regulatory framework. To achieve this, the duties of the DGGS and DGES will be combined and a new regulatory authority, the Gas and Electricity Markets Authority (GEMA), comprised of a chairman and at least two other members, will be established. In anticipation of this, a single Director General, Callum McCarthy, was appointed for both Gas Supply and Electricity Supply with the brief to combine the regulatory bodies for gas and electricity.

* The text in parentheses indicates the modifications to institutional governance under the Utilities Act 2000.
electricity into a single organisation\textsuperscript{20}. On the 16 June 1999, the former regulatory offices, the Office of Gas Supply (Ofgas) and the Office of Electricity Regulation (Offer), were combined and renamed the Office of Gas and Electricity Markets (Ofgem). The Gas and Electricity Markets Authority is expected to be established before the end of 2000.

Under the Gas Act 1995\textsuperscript{21}, the primary duties of the Secretary of State and the Director General were to secure that all reasonable and economic demands for gas were met, that licence holders were able to finance their licensed activities, and to secure effective competition in gas shipping and supply. Subject to these primary duties, the Director General and the Secretary of State also had a duty to exercise their functions in the manner they considered was best calculated to protect the interests of gas customers in terms of price, service and continuity of supply, to promote efficiency and economy on the part of licence holders and to secure effective competition in new connections and the laying of gas pipes, and activities ancillary to the shipping and supply of gas (this includes gas metering, meter reading and storage services). In doing so, they were also required to take into account the interests of certain categories of disadvantaged consumers and the effect on the environment. The DGGS and the Secretary of State were also required to protect the public from the dangers of supplying gas.

The Utilities Act 2000 alters these general duties, placing customer interests at the centre of utility regulation. Under the Utilities Act 2000, the Secretary of State and the regulatory authority will have the principal objective of protecting the interests of consumers, wherever appropriate through effective competition. With regard to the duty to have regard to the interests of disadvantaged customers, the Utilities Act 2000 expands this definition from those who are chronically sick, disabled or of pensionable age to include low-income customers and those living in rural areas. The general duties of the Secretary of State and the Director General/regulatory authority under the Gas Act 1995 and the Utilities Act 2000 are detailed in \textbf{Appendix 2}.

Responsibilities of the regulator include licensing and general monitoring, supervision and enforcement of the licensing regime. The regulator has the right to obtain information from gas transportation, shipping and supply companies to fulfil his/her general duties and enforce the requirements of the licences (Ofgem 1999b). To secure compliance with a relevant condition or requirement, the DGGS had the power, under Section 28 of the Gas Act 1986 (as amended), to make final orders where a licence holder was contravening or was likely to contravene that condition or requirement, and could impose a monetary penalty on the licence holder in making the final order. The Utilities Act 2000 repeals Section 28 of the Gas Act 1986 (as amended), replacing it with Section 95 of the Utilities Act 2000. Section 95 of the Utilities Act allows GEMA to impose a financial penalty on a licence holder if it is satisfied that the licence holder has contravened or is contravening any relevant condition or requirement, or has failed or is failing to achieve any prescribed standard of

\textsuperscript{20} Callum McCarthy was appointed Director General of Gas Supply on 1 November 1998 and Director General of Electricity Supply on 1 January 1999.

\textsuperscript{21} The Gas Act 1995 amended the duties of the DGGS and the Secretary of State as laid out in Section 4 of the Gas Act 1986. These duties, laid out in Sections 4 and 4A of the Gas Act 1986 (as amended by the Gas Act 1995), have governed the way in which the gas sector has been regulated. The Utilities Act 2000 alters these general duties, replacing Sections 4 and 4A with Sections 4A, 4AA and 4AB.
performance. The financial penalty imposed must be ‘of such an amount as is reasonable in all the circumstance of the case’, but subject to a limit of 10% of the turnover of the licensee. GEMA may not, however, impose a penalty if it is satisfied that the most appropriate way of proceeding is under the Competition Act 1998. The Utilities Act 2000 expands the definition of relevant requirement to include overall standards of performance for gas transporters and help for disadvantaged groups of customers.

The Utilities Act 2000 also introduces new powers for the regulatory authority and the Secretary of State. For the regulatory authority, these include powers to adapt the licensing regime to changing market structures in future without primary legislation (DTI and DETR 2000). For the Secretary of State, these include powers to raise a cross-subsidy in favour of identifiable groups of disadvantaged customers in the energy sector, powers to make regulations to promote energy efficiency, and a responsibility to provide guidance on the social and environmental objectives of the sector (DTI 2000a). GEMA has a duty to have regard to this social and environmental guidance.

The DGGS/GEMA also has concurrent powers with the Director General of Fair Trading (DGFT) to apply the Competition Act 1998 and the Fair Trading Act 1973 to the gas sector in Great Britain. The Competition Act 1998 prohibits:

- certain agreements or concerted practices which have as their object or effect the prevention, restriction or distortion of competition within the United Kingdom (Chapter I prohibition);
- the abuse of a dominant position in a market if it may affect trade within the United Kingdom (Chapter II prohibition).

The new Competition Act powers of the DGFT and the gas industry regulator include the ability to give directions to bring an infringement to an end and to impose financial penalties of up to 10% of the turnover of the undertaking concerned. The DGFT alone is responsible for providing guidance as to the appropriate level of penalties under the Competition Act 1998 and a set of rules explaining the process that will be followed when applying the Competition Act. The DGFT has published Statutory Instrument 2000 No 293 in this regard.

The industry regulator will have responsibilities to assess market power, and in particular, dominance and joint dominance; whether an undertaking is engaging in predatory pricing; the effects of inter-company agreements on competition; and applications for exclusion from the Competition Act 1998 prohibitions for services of general economic interest and for compliance with legal requirements (Ofgem 1999b).

22 The turnover of the licence holder is to be determined in accordance with an order to be made by the Secretary of State.


The Competition Act 1998 amends the Gas Act 1986 in the way that the DGGS/GEMA may have regard to its duties under the Gas Act when applying the Competition Act. The DGGS/GEMA can only take account of these duties to the extent that they are duties that the DGFT could take account of when applying the Competition Act (Ofgem 1999b). For example, in the setting, enforcement and imposition of penalties, the DGGS/GEMA will not have the ability to have regard to its duty to take account of the ability of licensees to finance their activities as this is not a duty to which the DGFT could have regard when applying the Competition Act. However, the DGFT’s guidance on the appropriate level of penalty will allow the DGGS/GEMA, when setting a penalty, to consider the financial strength of an undertaking, and the extent to which the undertaking has taken reasonable steps to put programmes in place that ensure compliance with the requirements of the Act.

The Competition Commission is a public body established by the Competition Act 1998. It replaced the Monopolies and Mergers Commission (MMC) on 1 April 1999. The role of the Competition Commission in the gas sector is twofold – it conducts inquiries on licence modification proposals and its Appeals Tribunal hears appeals against decisions made under the prohibition provisions of the Competition Act 1998.

The Competition Commission took over the MMC’s role to investigate and report on matters referred to it relating to mergers, monopolies, anti-competitive practices and the regulation of utilities. It cannot initiate its own inquiries, but conducts investigations in the gas sector on referrals made to it by the Secretary of State, the DGFT and the DGGS/GEMA. In most cases, the Competition Commission will be asked to decide whether the matter referred to it is against the public interest. After a report has been made, if the Competition Commission makes no adverse public interest finding, no action is taken. If the Competition Commission makes an adverse public interest finding, then in the case of reports on monopoly, merger or anti-competitive practices inquiries, the Secretary of State will decide what, if any, action should be taken. In the case of utility licence modifications, the regulator will decide what modifications are required. The Utilities Act 2000 confers powers to the Competition Commission to veto licence modifications developed by a regulator following a reference if, in its opinion, they do not remedy or prevent the adverse effects identified by the Commission in its report on the reference (DTI and DETR 2000).

Under Sections 46 and 47 of the Competition Act, decisions taken under that Act by the DGFT or the DGGS/GEMA may be appealed to an appeal tribunal of the Competition Commission. The appeal tribunals may confirm, set aside, or vary the Director’s decision, remit the matter to the Director, or make any other decision that the Director could have made.

The Gas Consumers Council (GCC) was established by the Gas Act in 1986, replacing the National Gas Consumers’ Council and the Regional Gas Consumers’ Councils. The duties of the GCC, as laid down in the Gas Act 1986 and the Competition and Services (Utilities) Act 1992, were:

- to represent the interests of gas consumers with regard to the special requirements and circumstances of the different areas of Great Britain and of small businesses;

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• to investigate and, in some cases, settle representations which the Council receives;
• to notify the Director General of any representation which, on receipt and before full investigation, appears to the Council to be a potential enforcement or determination matter;
• to refer to the DGGS or the DGFT those matters relating to anti-competitive behaviour.

The Utilities Act 2000 will replace the Gas Consumers Council and the Electricity Consumer Committees (established under the Electricity Act 1989) with a single, independent Gas and Electricity Consumer Council (GECC). The Council will be a non-departmental public body. Moves have already been made to establish this combined consumer body with Ann Robinson and Stephen Reid being appointed as Chairman Designate and Chief Executive to the new Council respectively. It is expected that the GECC and GEMA will be established simultaneously before the end of 2000.

Under the Utilities Act 2000, the responsibilities of the GECC are to:
• obtain and keep under review information about consumer matters and the views of consumers on those matters;
• represent the interests of consumers and make proposals or provide advice and information about consumer matters to public authorities, licensees and other parties that may affect consumer interests;
• provide information about consumer matters to consumers of gas supplied by persons authorised to do so by a licence or exemption;
• investigate customer complaints which have not been resolved by the relevant licensees and where they are not a matter for any enforcement action by GEMA;
• investigate ‘other’ matters affecting customers.

Responsibility for health and safety in the gas industry rests primarily with the Health and Safety Commission (HSC) and its executive arm, the Health and Safety Executive (HSE). The HSE is responsible for both the management of the safe flow of gas through natural gas networks and for safeguarding of the public from the dangers arising from the use of gas. The Gas Safety (Management) Regulations 1996\textsuperscript{26} and the Gas Safety (Installations and Use) Regulations 1998 provide controls over these areas respectively. An Approved Code of Practice, providing practical guidance and advice on the legal responsibilities and action required for compliance in relation to the latter regulations is also published by the HSE. A special area of focus for the HSE is the requirements for the safe installation and use of gas appliances and fittings in a wide range of domestic and commercial premises, with the primary purpose of reducing gas-related CO poisoning. In addition, the HSE focuses on ensuring security of supply, especially to domestic consumers, and maintaining safety standards of emergency services provided by the gas industry.

Under the Utilities Act 2000, the regulatory authority is required to consult the HSC about all gas safety issues and take into account any advice given by the HSC about any gas safety issue.

\textsuperscript{26} The Gas Safety (Management) Regulations are currently under review. The proposed amendments include the clarification of the start and end of the network, the duties of new entrants in the gas industry under the Regulations, and clarification of duties following a gas supply emergency.
Northern Ireland

Regulation of the gas industry in Northern Ireland is the responsibility of the Director General of Gas for Northern Ireland (DGGNI). The Department of Enterprise, Trade and Investment (DETI)\(^ {27} \) is responsible for appointing the DGGNI under the Gas (Northern Ireland) Order 1996. This post is legally separate from the post of Director General of Gas Supply in Great Britain. The current DGGNI is Douglas McIldoon. He is also the Director General of Electricity Supply for Northern Ireland and is supported by the Office for the Regulation of Electricity and Gas (OFREG).

The DGGNI’s functions under the Gas (Northern Ireland) Order 1996 are to issue licences to gas suppliers, subject to the consent of the DETI; and to monitor, enforce, and where appropriate, modify all licences. The DGGNI is required to exercise these functions in a manner best calculated to:

- promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland;
- secure that licence holders are able to finance the carrying on of their licensed activities (OFREG 1997).

Subject to these primary duties, the DGGNI is required to:

- protect the interests of consumers of gas supplied by licensees;
- protect the interests of licence holders in respect of the prices at, and other terms on, which any services are supplied by one licence holder to another;
- promote the efficient use of gas supplied to consumers;
- protect the public from the dangers arising from the conveyance, storage, supply or use of gas;
- facilitate competition between persons whose activities consist of or include conveying, storage or supply of gas;
- take into account in exercising these functions the effect on the environment (OFREG 1997).

The difference in the primary duties of the DGGNI and the DGGS/GEMA reflect the differences in the stages of development in the gas industry in Northern Ireland and the gas industry in Great Britain. In Northern Ireland, the regulator is required to facilitate the development of a fledgling natural gas industry, which is competing against well-established alternative fuel supplies. Regulation, therefore, focuses on ways to provide incentives for companies to develop the necessary infrastructure for the emerging gas industry. This is achieved, for example, by granting a monopoly licence to transport and supply gas, creating a short-term incentive for the company to develop the gas network and allowing it to gain a return on its investment. In contrast, the more mature gas industry in Great Britain is subject to regulation that aims to increase consumer choice and drive inefficiencies out of the system in an already well-established gas market.

Under the Competition Act 1998, the DGGNI is conferred the same powers as those conferred to the DGGS/GEMA in Great Britain (OFREG 2000).

\(^ {27} \) Formerly the Department of Economic Development.
Consumer representation on gas matters falls on the General Consumer Council for Northern Ireland. The Gas (Northern Ireland) Order 1996 put in place the necessary legislation to enable the General Consumer Council for Northern Ireland to deal with certain gas matters, including:

- dealing with gas customer complaints;
- making representations to and consulting with licence holders about such matters as affect the interests of consumers of gas;
- keeping under review matters affecting the interests of consumers of gas;
- advising the DGGNI on any matter affecting the interests of gas consumers on which the General Consumer Council considers it should offer advice or which is referred to it by the DGGNI;
- referring to the DGGNI any matter which appears to the General Consumer Council to be an enforcement matter.
Regulatory instruments: Licences

England, Scotland and Wales

Section 5 of the Gas Act 1986 (as amended) requires that all companies operating in the gas market either seek licences under Section 7 or 7A of the Act or seek an exemption. Under the Gas Act 1995, gas transportation, shipping and supply activities are licensed separately. These licences are issued to operators on standard conditions. Although it is not possible for a company to hold a public gas transporters (PGT) licence and either a supply or shipping licence, it is permissible for a parent company to own separate subsidiaries which, individually, hold PGT and supplier or shippers licences (Ofgas 1998e). This enabled British Gas, in the past, to hold a licence as both a PGT and a shipper/supplier. As the incumbent operators, British Gas Trading Ltd’s and BG Transco plc’s licences contain special conditions in addition to the standard licence conditions. The standard conditions of licences are to be amended as a consequence of the Utilities Act. This section focuses on the current licensing arrangements, but does highlight certain proposed amendments to the licence conditions.

The regulator is responsible for issuing licences in accordance with regulations that require financial standing and technical competence to be considered. The DGGS is also responsible for monitoring compliance with the conditions of the licence, and where necessary, modifying the conditions, either in accordance with the terms of the licence, or in accordance with procedures in the Gas Act. Modifications to the standard conditions of the licence must be agreed by 90% of the operators. If a licence modification is not agreed with the licensee, a reference is made to the Competition Commission. The Utilities Act 2000 revises these arrangements for modifying the standard conditions of licences.

Gas supplier licences

Persons wishing to supply gas to premises, are required to hold a suppliers licence. The licence comprises a number of standard conditions that set out the obligations for the licensee. Gas suppliers may be licensed to supply certain categories of customer only. For example, they may be licensed to supply industrial and commercial customers only (those consuming above 2,500 therms per annum). The licence conditions for suppliers of domestic customers are distinct from the licence conditions for suppliers of industrial and commercial customers. Those suppliers licensed to

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28 The concept of standard conditions of licences was introduced under the Gas Act 1995, when the Secretary of States’ power to grant licences was shifted to the regulator. Under the Act, the Secretary of State was required to determine and publish the standard conditions to be included in each type of licence. After these standard conditions were in place in licences, the Secretary of State had no role in their subsequent modification, except power to veto modifications proposed by the regulator.

29 Once the provisions of the Utilities Act 2000 come into effect, PGTs will be known as gas transporters. References to PGTs in this text should, therefore, be read as gas transporters in the future.

30 Drafts of the new conditions were published for consultation on 7 February 2000. The new licences are expected to take effect in 2001.

31 This section is drawn primarily from Ofgem 1999a.
supply domestic customers are bound by significantly more conditions in the licence than those who do not supply domestic customers (Ofgas 1998e).

The key obligations for domestic suppliers include:

- suppliers must supply (and continue to supply) gas to every domestic customer in the areas covered by their licences who requests it and is already connected to a mains gas supply;
- suppliers must make their terms of supply available on request;
- suppliers must offer customers a variety of ways to pay for their gas, including cash, cheque and postal order;
- while suppliers are not bound to offer contracts to supply through a prepayment meter, they must offer a prepayment meter as an alternative to a cash deposit and as an option prior to disconnection;
- suppliers are required to establish and observe certain procedures prior to exercising their statutory power to enter customers’ premises;
- suppliers can object to a customer switching to another gas supplier if they are in debt, providing the debt has been outstanding for more than 28 days and the customer has been sent a bill for the outstanding amount;
- with respect to direct sales, suppliers must set up appropriate procedures for staff selection and training, ensure that sales agents are readily identifiable and that contact with customers takes place at reasonable times, conduct an audit of doorstep or telesales to ensure that the customer understands the position and is content to proceed, take reasonable steps to cancel the contract where the customer requests cancellation, maintain contact with the customer if there is a delay in processing his/her contract, and provide for payment of compensation to customers in appropriate cases;
- suppliers must provide safeguards for those domestic customers who have difficulty in paying their bills and special services to their older or disabled customers, and must not cut-off pensioners in winter (these social obligations are discussed in more detail in the section on social and environmental obligations);
- suppliers must provide general energy efficiency advice on request, and specific energy efficiency advice to vulnerable groups (this is discussed in more detail in the section on social and environmental obligations);
- from 1 April 2000, all gas suppliers with 50,000 customers or above, must achieve an energy saving target set by the regulator (this is discussed in more detail in the section on social and environmental obligations);
- dominant suppliers must avoid undue discrimination against or undue preference towards any person or class of persons.

In addition to these standard conditions, British Gas Trading Ltd’s supply licence contains certain special conditions which include a cap on its tariffs for certain categories of domestic customers (that is, those market segments where competition is not yet sufficiently developed) and an obligation to publish a service standards and compensation package and to achieve certain target levels of performance against these standards (these are discussed in more detail in the sections on price controls and quality controls).
Gas shippers licence

A shippers licence is required if a person wishes to arrange with any PGT for gas to be introduced into, conveyed by means of, or taken out of, a pipeline system operated by that PGT. The key obligations set out under the standard conditions in the shippers’ licence relate to their behaviour with respect to using a transporter’s pipeline system, and their behaviour in the case of emergencies. The standard conditions of the shippers’ licence also detail their obligations in terms of the provision of necessary information to PGTs, premises served and the Director General. Specifically, shippers are required, in terms of their licences, to:

- act in a reasonable and prudent manner in making use of the PGT’s pipeline for the conveyance of gas;
- not knowingly or recklessly pursue any course of conduct which is likely to prejudice the safe and efficient operation of a pipeline system by the relevant transporter, the efficient balancing of that transporter of its system, or the due functioning of arrangements provided for in its network code;
- not knowingly or recklessly act in a manner likely to give a false impression to a relevant transporter as to the amount of gas to be delivered by the licensee on a particular day to that transporter’s pipeline system;
- provide information to a relevant transporter to enable the transporter to make plans for the safe operation of its pipeline system.

In addition to obtaining a licence from the regulator, a shipper must enter into a framework agreement with a PGT before it is able to operate in the gas industry market. The framework agreement contractually binds the shipper and the PGT to the network code established by the PGT under its licence obligations.

Public gas transporter licences

Persons wishing to operate a gas pipeline are required to hold a PGT licence. The Gas Act requires that all PGTs develop and maintain an economical pipeline system and secure that all reasonable demands to convey gas to premises through pipes are met. The key obligations for PGTs are set out in the standard conditions of the PGT licence and include requirements to:

- set out and publish the charges to be made to gas shippers for transportation;
- set out and publish charges to be made for connections to premises in accordance with the terms laid out in the licence;
- set out the terms and conditions under which they operate in a network code to ensure that their pipe networks can be accessed on transparent, non-discriminatory terms and conditions;
- avoid any undue preference or undue discrimination in the conveyance of gas through, and connection to, their systems;

32 In the recent review of utility regulation, Government considered removing the requirement for the licensing of gas shipping activities, but decided that further investigation and consultation was required before a decision could be made (DTI 1999b).

33 This section is drawn primarily from Ofgas 1998d.

34 Pipeline operators may be exempted from holding a PGT licence if the pipelines were constructed under the Pipelines Act.
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- facilitate competition between shippers and suppliers on their networks;
- operate an emergency service in co-operation with other PGTs under the terms laid down in the licence;
- establish standards of performance in relation to the connection of premises, the implementation of arrangements under their emergency service obligations, and the prevention of gas escapes;
- take reasonable steps to achieve the established standards of performance, particularly in relation to visits and responses to complaints and enquiries and taking account the needs of those who are disabled, chronically sick or of pensionable age;
- establish a compensation scheme for failure to meet established performance standards.

As the incumbent, the Gas Act places certain obligations on BG Transco plc directly and via its PGT licence. As well as the standard conditions of its PGT licence, certain special conditions are included in Transco’s PGT licence. For example, Transco is the only PGT that is subject to an explicit price control on its revenue (this is discussed in more detail in the section on price controls).

- Transco’s Network Code

As the monopoly gas transporter in the UK, Transco’s network code is the most significant in terms of its impact on the operation of the gas industry. Transco’s network code was first introduced in March 1996 and set out the terms of access by shippers, on an open, non-discriminatory basis, to its regulated gas pipeline and storage system. While it was a regulatory requirement for Transco to develop the network code, its development was undertaken by Transco, in negotiation with the shippers, and Ofgas’ role was primarily one of facilitation.

With a contract as large and complex as the Network Code, then with the pricing statement and other documents, it is necessary that it be able to evolve to reflect new situations and to amend rules that have proved ineffective. The public gas transporters’ licence granted by Ofgas required Transco to define and operate a mechanism to control this process. These are set out in the Modification Rules. Under the Modification Rules, Transco and relevant shippers can make proposals for changes to the network code. All shippers and other interested parties are then able to make representations on the proposed changes, which are to be considered by Transco before approaching the DGGS with the proposed modifications (Transco nd). No modification to the network code can come into effect without the assent of Ofgem.

The gas trading arrangements laid out in Transco’s network code have been the subject of review since 1997. An ongoing consultation process on the reform of these gas trading arrangements resulted in the implementation of new gas trading arrangements in October 1999 (these are discussed in more detail in the section below on the Reform of gas trading arrangements).

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35 When the network code was first developed, operation of the Rough and Hornsea storage facilities was covered by the terms and conditions of the network code. These facilities have since been deregulated and separated from the Transco business and are, therefore, no longer covered by Transco’s network code or by its licence.
- Regulation of Transco’s charging structure for transportation services

Under Standard Condition 3 of the PGTs licence, Transco is required to publish gas transportation charges for use of its pipeline network (Transco 1999c). These transportation charges are derived in relation to the price control formula set by Ofgem for the transport of gas, which sets the maximum revenue Transco can earn for each unit of gas transported through its network (as discussed in the section on Price controls below).

Transco’s statement of transportation charges is calculated using a pricing methodology, which aims to ensure, subject to auctions for certain services, that prices for different services and to different shippers are set in a fair and cost reflective way (that is, transportation charges should reflect the relative costs of constructing, maintaining and operating the different parts of the gas transmission and distribution systems). Transco’s pricing structure or pricing methodology is subject to the approval of the Director General.

As discussed above, the transportation charging system is split into three elements – the NTS, the LDZs and customer-related activities (Transco 2000a). Ofgem is currently reviewing and consulting on the methodology used for setting of LDZ charges.

- Regulation of Transco’s connection charges

In terms of its PGT licence, Transco has a duty to not unduly discriminate against or show undue preference toward any party requesting connections and is required to publish and apply a connection charging statement setting out the methodology it uses for deriving all quotations for connections. Under the terms of an order made in 1999, Transco is required to publish standards of service for returning quotations for connections and is required to compensate persons given late or wrong quotations and to have its performance in providing quotations for connections independently audited (Ofgas 1999a).

Northern Ireland

As in the case of Great Britain, unless an exemption is available, any company operating in the gas market is required to obtain authorisation from the DGGNI. Three licences were granted by the Department of Economic Development (DED)\(^36\) – to BGT, Premier Transco and Phoenix Natural Gas – prior to the appointment of the DGGNI. Like the DGGS, the DGGNI is responsible for monitoring, enforcing and modifying these licences.

Under its licence, BGT is authorised to supply gas to Ballylumford power station and to any other person authorised to supply gas. However, BGT is only licensed to supply gas up to the boundary of the pressure reduction station at Ballylumford and hence BGT can only supply gas along the SNIP and not within Northern Ireland. Furthermore, BGT is required to maintain a reliable supply of gas to its existing

\(^36\) Following the devolution of power to Northern Ireland, the Department of Economic Development was renamed the Department of Enterprise, Trade and Investment.
customers, to not materially revise the terms of the contract for supply of gas to Ballylumford power station without receiving any prior written consent, and to consult with the General Consumer Council for Northern Ireland in the formulation and implementation of policies for the conduct of the company’s activities relating to the supply of gas insofar as they may affect consumers (OFREG 1997).

Under its licence, Premier Transco is authorised to convey gas from the low water mark at Castle Robin Bay to the Pressure Reduction Station within Ballylumford power station site. Premier Transco is required to calculate the charges to gas suppliers for conveying gas according to formulae laid down in the licence, and to submit a network code relating to the conveyance of gas through its network.

Phoenix Natural Gas was given a combined licence by the DED permitting it to convey gas within its licensed area and from other areas of Northern Ireland to the licensed area, and to supply gas to premises in its licensed area. The licence gives Phoenix Natural Gas exclusive rights to convey gas for a period of twenty years. The maintenance of these exclusive rights is conditional on Phoenix Natural Gas continuing to develop the network in accordance with the agreed development plan set out in its licence. This development plan stipulates that Phoenix Natural Gas will introduce natural gas on a phased basis to 12 districts within its licensed area. The licence prohibits Phoenix Natural Gas from showing any undue preference toward or undue discrimination against any gas supplier in the conveyance charges made (once competition is introduced). The conveyance charges are to be set according to the methodology laid out in the licence (a variant on the RPI-X system). In addition, its licence requires it to submit a network code relating to the conveyance of gas in the Ballylumford to Torytown pipeline, with the aim of facilitating effective competition between gas suppliers using the network (OFREG 1997).

Phoenix Natural Gas’ licence to supply gas was granted on time limited exclusive rights to supply gas to all customers. For those customers consuming more than 75,000 therms per annum, these exclusive rights last for three years on a district by district basis, with supply exclusivity for all customers expiring in 8 years. The continuance of these exclusive rights was subject to the company complying with various conditions in its licence, including those relating to the development of the market. In addition, if Phoenix Natural Gas refused to supply particular premises where the owner/occupier of the property was willing to pay the quoted charge for the supply, and to take the supply in accordance with the terms of supply, then it would lose its exclusive rights to supply gas to those premises. After 31 December 2001, the DGGNI may direct Phoenix Natural Gas to secure that for customers consuming less than 75,000 therms per annum, the average price per therm will not exceed a particular maximum price (OFREG 1997).

The supply licence granted to Phoenix Natural Gas also requires it to meet certain social obligations – to promote the efficient use of gas, to provide special services for pensioners, the sick, disabled, blind and deaf, to establish standards of performance – failure of which can result in revocation of the licence. The supply licence requires Phoenix Natural Gas to consult with the General Consumer Council for Northern Ireland in the formulation and implementation of policies for the conduct of its business activities relating to the conveyance and supply of gas insofar as they may affect consumers (OFREG 1997).
In early 1999, the DGGNI issued an invitation to interested parties to apply for licences to build gas infrastructure outside the Phoenix licence area. Five applications for gas conveyance licences were received by the regulator for consideration (DTI 1999a). In addition, to facilitate the opening up of competition within the Greater Belfast area, the DGGNI issued two further supply licences to Elf and Energia in December 1999 and May 2000 respectively.
Reform of gas trading arrangements

The Reform of Gas Trading Arrangements (RGTA) is an ongoing programme to consider potential improvements to the commercial regime in light of experience gained through the operation of Transco’s Network Code. In October 1999, following extensive consultation with all interested parties, the first phase of the RGTA was successfully introduced (BG Group plc 2000). Further developments in the gas trading arrangements are being debated with a view to implementation during and beyond 2000.

Gas trading arrangements (March 1996 – October 1999)

Formal arrangements for gas trading were first introduced in March 1996 and incorporated in Transco’s network code. Under these trading arrangements, shippers purchased entry and exit capacity from Transco. Entry bookings were not limited to the physical capacity of the pipelines and, therefore, shippers did not purchase firm entry rights (Ofgas 1999a).

Within the framework of the network code, Transco was responsible for maintaining an overall physical system balance. Individually, however, each shipper was responsible for controlling how much gas it inputted into the pipeline system and for monitoring its customer’s off-takes. Any difference or imbalance between shipper’s daily input and off-take was bought or sold by Transco through a process known as cash-out. If there was a difference in aggregate between the inputs and the off-takes made by shippers, Transco used the so-called flexibility mechanism to buy and sell gas to maintain overall system balance and to address locational transmission constraints. Under the network code, no net revenue or cost associated with system balancing was allowed for Transco. Any net difference in Transco’s daily balancing revenue and costs, from both the cash-out process and the flexibility mechanism, was fed back to shippers proportionately to their throughput. Alongside the network code arrangements, active forwards and futures gas markets, and a before-the-day spot market developed (Ofgas 1999a).

A number of concerns with the gas trading arrangements arose during their review. These were, for the gas balancing regime:

- the flexibility mechanism was criticised because the overall costs associated with Transco balancing the system were perceived to be higher than they needed to be;
- costs were not properly targeted to the out-of-balance shippers that caused them to be incurred and therefore the incentives on shippers to balance their own gas inputs and off-takes were reduced;
- the system created a financial indifference in Transco with regard to the level of balancing costs incurred (Ofgem 1999f).

Concerns were also raised about the Transco’s method of selling entry capacity to its national transmission system. These concerns were:

- Transco sold entry capacity at fixed prices and was obliged to meet all shippers requests, resulting in a potential to over-sell available capacity;
• Transco lacked commercial incentives to maximise the availability of capacity (Ofgem 1999f).

New gas trading arrangements

On the 1st October 1999, New Gas Trading Arrangements (NGTA) were implemented in Great Britain. The new arrangements were introduced after more than two years of debate and public consultation and consisted of changes to both the entry capacity and gas balancing regimes of BG Transco’s NTS (Ofgem 2000j).

The NGTA included the introduction of, for the gas balancing regime:
• an independently operated, screen-based, on-the-day commodity market (OCM), which shippers can use to fine-tune their own gas balance and which Transco can use in its role as residual gas balancer (the OCM replaced the flexibility mechanism and is run by an independent market operator, EnMO);
• improved incentives on shippers to balance their gas inputs and off-takes through a reduction in balancing tolerances;
• commercial incentives on Transco, as the residual gas balancer, to reduce the overall costs it incurs in balancing the system (Ofgem 1999f).

For the capacity regime:
• firm entry capacity rights sold on a monthly and daily basis;
• monthly capacity availability based on expected physical capacity for the month in question;
• daily capacity availability based on actual physical capacity on the day in question;
• interruptible capacity rights sold to mitigate capacity hoarding;
• all entry capacity sold by price auctions;
• appropriate commercial incentives for Transco to maximise flexibility of capacity (Whittaker 2000; Ofgem 1999f).

The NGTA introduced financial incentives, through rewards and penalties, for Transco to sell rights to introduce gas into its system and to buy and sell gas to balance the system at market average prices. Both incentive mechanisms have potential impact on Transco’s profitability. Licence modifications were implemented to allow Transco to retain any benefit received through those incentives.

37 This situation resulted in problems at St Fergus NTS entry point during the summer and autumn of 1998, when shippers wanted to flow more gas onto Transco’s NTS via the entry point at St Fergus than there was physical capacity available. As a result, Transco had to undertake major balancing actions, through the flexibility mechanism, that considerably increased balancing costs and which, in turn, increased day-ahead and month-ahead prices (Ofgem 1999f).

38 EnMO is a consortium made of ESIS (a wholly owned subsidiary of the National Grid Company which currently manages and operates the England Wales Pool systems) and Altra (a US energy trading company that runs a number of gas markets in North America) (Ofgem 1999f).
Further development of the gas trading regime

At the time of introduction of the NGTA, it was recognised that a number of issues remained outstanding. In September 1999, Ofgem set out its view on further development to the capacity and the gas balancing regimes to be implemented from 1 April 2000 and beyond.

These developments include, for the capacity regime:

- the introduction of a within-day mechanism for buying and selling NTS entry capacity in June 2000;
- an increase in the total amount of firm capacity available in the March 2000 auctions by 10%, to be spread across all NTS entry points;
- an adjustment to BG Transco’s capacity incentive parameters to take account of the sale of this additional 10% of capacity through the monthly auctions.

For the gas balancing regime, reforms to the gas trading arrangements include:

- the development of a tolerance service whereby shippers can value and trade imbalance tolerance quantities;
- minor revisions to the energy balancing incentive whereby the monthly cap and collar on Transco’s exposure is removed.

The energy charges will be introduced in October 2000, although Ofgem have indicated that they would prefer a fully developed line-pack service if possible at that time.

Review of gas trading arrangements

The second round of capacity auctions, held in March 2000, have resulted in controversy. Shippers experienced much higher capacity prices in this round of auctions than in the previous round held in September 1999. Shippers and large customers have argued that the capacity auction system is flawed and have called for entry auctions to be replaced with an alternative allocation methodology. Shippers have argued that the market is being manipulated because British Gas, as the biggest player, has to acquire capacity and could bid high in the first round of bidding, thereby over-inflating prices (Utility Week, 7 April 2000). Ofgem argue, in return, that there were no signs of untoward behaviour by bidders. They argue that the high prices were driven by underlying market conditions – that is, a high demand for gas due to colder than expected weather between April and May, exports of gas to continental Europe through the Bacton Interconnector, gas supply failures and capacity constraints on the NTS – rather than market manipulation or flaws in the new trading arrangements (Ofgem 2000q). They state that the auctions are fair and cost-effective and that they do not increase the total transportation charges paid by shippers to Transco, but may increase relative prices paid by certain shippers (Ofgem 2000k).

In light of concerns of the shippers, BG Transco plc has raised a number of Pricing Consultations and Proposals Modifications to its Network Code aimed at enhancing and developing the NTS entry capacity auction process. These changes include:

- more capacity being made available in the monthly auctions at all terminals;
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- a reduction in the monthly and daily reserve prices at all terminals;
- the introduction of an auction of monthly interruptible entry capacity;
- changes to the capacity overrun charges;
- a revised methodology for adjusting other charges to deal with any revenue under- or over-recovery arising from the auctions (Ofgem 2000q).

These changes will take effect for the next set of entry capacity auctions to be held in August 2000 for capacity rights for October 2000 to March 2001.

In the longer term, Ofgem believes that there is need for further reforms to both the gas balancing and the capacity regimes. For the gas balancing regime, Ofgem believes elements requiring reform include the cash-out regime, the use of tolerances and system linepack, and BG Transco plc’s balancing role and incentives (Ofgem 2000q). Ofgem will also look for proposals for enhancing the entry capacity regime and the auction design.
PRICE CONTROLS

British Gas Trading

Since privatisation in 1986, British Gas Trading’s tariff market has been regulated under the RPI-X price cap. These price caps allow British Gas Trading to increase its prices in line with the rate of inflation, measured by the RPI, while encouraging efficiency by the X factor. The price controls are applied to that part of the market over which British Gas Trading has a statutory (or since the legal barriers to competition have been removed, a de facto) monopoly. As competition has been introduced progressively to first the industrial and commercial and then the domestic gas market, the scope of the price controls has been reduced – from those with consumption levels at or below 25,000 therms, to those with consumption levels at or below 2,500 therms (the domestic gas market), to the current situation where price controls are restricted to particular tariff categories within British Gas Trading’ domestic gas market. Price controls are expected to be removed completely in March 2001, subject to effective competition being achieved throughout the domestic market.

As competition has been introduced into the gas market, the aims of the price controls have shifted. Initially, the primary aim of the price control was to secure a fair price for consumers and provide incentives for economic, and later energy, efficiency improvements within a monopoly environment. Later still, the primary aim of the price control was to secure competition, while protecting customers from the exercise of market power within a liberalised, but not yet effectively competitive, market.

The price controls are subject to periodic reviews. These price reviews theoretically allow for the progressive tightening of the price cap to provide continuing incentive for efficiency improvements and cost reductions, to achieve lower prices while maintaining or increasing returns. In practice, the price reviews aim more broadly to assess and revise the controls in light of the changing regulatory and competitive environment. Since the initial price control implemented between December 1986 and March 1992, there have been four price control reviews. These are discussed in further detail below.

December 1986 – March 1992

The first price control was implemented in the gas industry market for a duration of 5 years and covered all British Gas customers consuming at or below 25,000 therms per year (Ofgas 1995a). The price control formula applied to the gas tariff market made a distinction between gas and non-gas (that is, supply, transportation and storage) costs, with price increases being restricted in relation to non-gas costs only.

- **Non-gas costs**: capped at the annualised movement in the Retail Price Index (RPI) less the efficiency factor $X$ which was set at 2% (Ofgas 1987).
- **Gas costs**: an increase or decrease in gas purchase costs could be passed through directly to the consumer under the $Y$ element of the formula. These costs were calculated as the weighted average across all British Gas’ gas purchase contracts (Ofgas 1995a).
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A correction factor \((K)\) was also included in the price control formula, allowing for compensation in subsequent years for any under or over recovery from previous periods. The correction factor also acted as insurance against any forecast errors and contained explicit mechanisms to hinder persistent over recovery of revenue as a form of unauthorised borrowing from customers – a penalty rate was applied whereby the interest rate charged on over-recovered revenues exceeded the rate paid for under-recovered revenues, if prices continued to exceed the maximum average as determined by the price control (O’Neill 1996).

The price control formula for the period is outlined below.

\[
M_t = (1 + RPI_t - 2/100) P_{t-1} + K_t
\]

Where:
- \(M_t\) = maximum revenue per therm
- \(P_{t-1}\) = revenue per therm in previous year
- \(Y_t\) = allowable gas costs (cost pass through)
- \(K_t\) = correction factor

A separate price control was imposed on the standing charge. Increases in the standing charge were limited, on an annual basis, to the 1985 price level, adjusted for the annual rate of inflation. The revenue obtained from the standing charge was also included in the calculations for the overall level of the price cap (Ofgas 1987).

April 1992 – March 1994

In April 1992, the initial price control was replaced with a new price control which was intended to be in place for 5 years. The three main modifications to the initial gas tariff formula were:

- a tighter restriction on non-gas costs – the value of \(X\) was increased from 2% to 5%, so that the non-gas component of the price could only be increased at 5% less than the rate of inflation;
- a separate price cap for gas costs – the pass through of actual gas purchase costs was replaced by an index of gas costs (the Gas Cost Index (GCI)) minus an efficiency factor (\(Z\)) of 1%;
- an energy efficiency factor (\(E\)) – the E factor allowed British Gas to pass through certain project costs incurred in the pursuit of energy efficiency, subject to the approval of the Director General of Gas Supply (Ofgas 1991a, 1995a).

The GCI was designed to reflect the prices in a basket of gas purchasing contracts, and used to estimate the implied contractual sensitivity of the cost of purchasing gas on to the price escalators specified in British Gas’ contracts. In order to encourage efficient purchasing procedures, a cumulative annual reduction factor of 1% (\(Z\)) was incorporated in the cost pass through element (O’Neill 1996).

The price control formula for the period is outlined below.

\[
M_t = (1 + RPI_t - 5/100) P_{t-1} + (GCI - 1) + E - K_t
\]
The previous restriction on the rate of increase in the standing charge was removed for tariff supplies of over 5,000 therms per year (O’Neill 1996).

Standards of service were introduced into the price control, with the aim of enabling Ofgas to assess British Gas’ performance against certain key target levels of service in future review periods. The standards of service are discussed in more detail in the following section.

**April 1994 – April 1997**

The market conditions that had informed the scope and form of the price control in 1992 had altered substantially by 1994. In July 1992, the statutory monopoly threshold of British Gas had been reduced from at or below 25,000 to at or below 2,500 therms per annum. Resulting from referrals between July and August 1992, in 1993 the Monopolies and Mergers Commission (MMC) recommended the abolition of British Gas’ monopoly of supply to smaller customers and divestment of its trading arm. The Government followed with an announcement in response to the MMC, recommending a timetable for the introduction of competition in the domestic market and the separation of British Gas transportation and storage and trading arms by regulation. The price control was reviewed and reset in April 1994, in light of these developments. The revised control was to apply for 3 years until 31 March 1997, in line with the proposed ending of the previous 5 year control set in April 1992. The scope of the price control was narrowed to cover only British Gas’ statutory monopoly (that is, the supply market at or below 2,500 therms per annum). The price control formula was altered to reflect its narrower scope:

- the efficiency factor (X) was relaxed from 5% to 4% to reflect the change in the average volume of British Gas sales, as recommended by the MMC;
- a technical adjustment was made to the formula to take account of the fact that the average cost of supplying customers consuming at or below 2,500 therms per year was slightly greater than the average cost of supplying customers consuming between 2,500 and 25,000 therms per year; the maximum average price per therm was increased by 1.5% as recommended by the MMC;
- the correction factor (K) was scaled down by 10% in the year commencing 1 April 1994 to prevent under-recovered revenue from customers consuming between 2,500 and 25,000 therms per annum being recovered from customers consuming at or below 2,500 therms per annum;
- the treatment of gas and energy efficiency costs remained unchanged (Ofgas 1995a).

The price cap formula for the period was as follows:

\[ M_t = 1.015 \times ((1 + RPI_t - 4/100)P_{t-1} + (GCI - 1)) + E - 0.9K_t \]

**April 1997 – March 2000**

On 1 April 1997, a revised supply price control, covering all customers at or below 2,500 therms, was introduced for a period of 3 years. The price cap was based on the

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40 This section draws from Ofgas (1996, 1998a) and Shaw (1997).
RPI-X form of control for supply and meter reading costs; and a pass through component for transportation, storage, meter provision and gas costs, subject to an economic purchasing requirement where appropriate. A profit margin is applied to each of these elements and the correction factor (K) from the previous price control was carried forward into the first year of the new price control.

The key aspects of the April 1997 to March 2000 price control are listed below.

- **Individual tariff caps**: The average revenue control was replaced with individual caps on each of British Gas Trading’s existing regulated tariffs – Direct Pay, Option Pay, Standard and PrePayment 41 – as well as on any future sub-divisions of those tariffs. Tariff caps represent the maximum average standing charge and maximum price per kWh that can be charged by British Gas Trading in any formula year. The aim of the separate tariff caps was to prevent British Gas Trading from funding reductions in tariffs – in response to competition – by increasing tariffs where there was less competition.

- **Gas costs**: The pass-through of British Gas Trading’s gas purchase costs was reintroduced because future gas cost was considered to be unpredictable and because increased competition was seen to provide British Gas Trading with sufficient incentive to keep gas costs down. Allowable gas cost was calculated from the cost of all gas purchased by British Gas Trading and related persons, but excluded own use gas, gas identifiably purchased for short term wholesale trading and, where agreed by Ofgas in advance of the new licence coming into effect, contracts entered into by related persons before 1 October 1996. The degree to which British Gas Trading’s actual costs were consistent with the economic purchasing requirement was assessed by an independent assessor on an annual basis. Taking the assessors report into account, Ofgas retrospectively determined allowable gas costs.

- **Transportation, storage and metering costs**: Full pass through of transportation (including connections and system extensions), storage and meter provision costs was allowed. These cost elements were subject to an economic purchasing requirement.

- **Supply costs (billing, marketing, customer administration and meter reading activities)**: Allowed operating costs in the first year of the formula were assessed by Ofgas, taking into account forecasts of manpower and other costs. The cost base was reduced for later years to reflect forecast efficiency improvements resulting in a RPI - 4 control for revenue in respect of operating costs.

- **Allowed profit**: A margin of 1.5% on total turnover was allowed in the first year of the price control.

- **Tariff flexibility**: While the price control was not open to review until March 2000, a degree of flexibility was introduced by allowing British Gas Trading to rebalance tariffs by applying to sub-divide regulated tariffs, where replacement tariffs increase cost-reflectivity and are equivalent in overall revenue terms to the regulated tariffs they are replacing. British Gas Trading could also apply to re-open tariff caps and to introduce new tariffs.

- **Service standards**: The previous package of service standards was continued in the revised price control.

41 Direct Pay is similar to British Gas Trading’ current Direct Debit tariff and Option Pay is similar to its current PromptPay tariff.
A major rebalancing of British Gas Trading’s tariffs took place in March 1999.

April 2000 – March 2001

The revised price control for the British Gas Trading price control was announced by the newly combined Office of the Gas and Electricity Markets (Ofgem) in June 2000. The key elements of the revised price control are listed below.

- **Scope:** The revised tariff caps apply to British Gas Trading’s PromptPay, Standard and PrePayment tariff bills, but exclude customers paying by Direct Debit. The regulator believes that competition is sufficiently well established for Direct Debit customers to be removed from the scope of the revised price controls.

- **Duration:** The revised tariff caps are to apply for a period of one year, from 1 April 2000 to 31 March 2001, on the assumption that by March 2001, competition in the domestic gas supply market will be sufficiently developed to protect customer interests. The regulator is committed to removing the remaining barriers to entry that prevent all customers benefiting fully from the competitive market. If satisfactory progress is made in removing these barriers, Ofgem will remove the price controls in respect of British Gas Trading’s PromptPay, Standard and PrePayment customers from 1 April 2001.

- **Removal of the K factor:** The correction factor is removed from the revised price controls, owing to their limited duration.

- **Gas purchase and storage costs:** A fixed allowance replaces the previous pass-through regime for British Gas Trading’s gas purchase and storage costs. The allowance for gas purchase and storage costs is based on British Gas Trading’s single portfolio of gas and storage purchases (the Weighted Average Cost of Gas), including a premium to reflect the attributable costs of meeting its domestic peak requirements and an allowance for renegotiation costs.

- **Transportation and metering costs:** A fixed allowance replaces the previous pass-through regime for transportation and metering costs. The allowance is based on Transco’s average national domestic charge for those services, adjusted to reflect the regulators intention to split Transco’s price controls into transportation, metering provision and meter reading.

- **Level:** Tariff caps to be set at level that implies a cut in British Gas Trading’s revenue from price control customers in 2000/01 of about 4.5% or about £12 per customer.

- **Adjusting for no standing charge:** The price controls take into account British Gas Trading’s plans to replace its present tariff structure of a standing charge and a unit charge with a tariff structure with no standing charge and a two tier unit charge.

Transco

As part of its 1993 findings, the Monopolies and Mergers Commission recommended that the transportation and storage business of Transco should be regulated through a price control formula limiting its overall revenues (Ofgas 1995b). In response to this recommendation, the DGGS imposed the first price control on Transco in 1994, placing a constraint on the charges it could make for the use of its transportation

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42 This section is based on Ofgem (1999c), Ofgem (2000a) and Ofgem (2000m).
services and transmission networks. The first price control was from October 1994 to March 1997 and the second from April 1997 to March 2002.

**October 1994 – March 1997**

As with British Gas’ supply tariffs, the price cap for Transco’s transportation and storage business is based on the RPI-X form of control. In the first price control period, the formula covered the revenues of both transportation and storage services and had the following form:

\[ M_t = (P_{t-1})(1 + RPI - X/100) - K_t \]

Where:
- \( M_t \) = maximum price per therm in a given formula year \( t \)
- \( P_{t-1} \) = corresponding price in the previous formula year
- \( RPI \) = movement in the Retail Price Index between these two years
- \( X \) = efficiency factor set by the DGGS to encourage efficiency savings
- \( K_t \) = correction factor to account for any over- or under-recovery in the price per therm transported which may have occurred in the previous year

The formula limits the revenue (in pence) per therm transported through the system. In the normal operation of the formula, the value of \( P \) in each year is dependent on the previous year value. The initial price was set at 14.16 pence per therm, allowing Transco to earn a real rate of return of 4% to 4.5% on existing assets measured on a current cost basis. The value of \( X \) was set at 5, requiring average prices to be set at 5% below the prevailing rate of inflation as measured by the RPI.

**April 1997 – March 2002**

The revised price controls for the transportation and storage activities of Transco and BG Storage became the subject of controversy, resulting in a protracted three-year process of review. Ofgas began its review of the transportation and storage price control in early 1995, publishing its final proposals for the new price control in August 1996. The proposal from Ofgas was to cut \( X \) from -5% to -2.5%, with an effective reduction in allowed revenue of 20%. Disagreements over forecasting and methodology resulted in the rejection of the proposed price control by British Gas and a subsequent reference by the DGGS to the MMC (Vass 1997). In May 1997, the MMC published a report on Transco’s price control. Its findings were broadly similar to Ofgas’ August 1996 final proposals, recommending a slightly higher cut in Transco’s allowed revenue of -21% (subject to an adjustment for under-recovery of revenues from the previous period) and a slightly lower nominal rate of reduction of RPI-2 thereafter (Ofgas 1997a).

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43 This section is primarily drawn from Ofgas 1994 and Ofgas 1995b.
44 This section is drawn primarily from Ofgas 1997b and Ofgas 1998b.
In February 1998, Ofgas published a final decision document making the necessary changes to BG plc’s public gas transporter licence and formally putting in place the new price control\(^4\). The licence modifications provided for separate price controls for BG plc’s transportation (including metering) and storage activities.

The transportation price control is intended to allow Transco to recover £11,150 million at MMC volumes (in present value terms at 1996 prices) over the duration of the control (April 1997 to 31 March 2002) and includes the following elements:

- a reduction in average allowed revenue of 21% at MMC volumes although the reduction would increase with volumes so that it would be 23% with the volumes at the top of the deadband and even greater with further volumes (because of the large k from the previous price control, prices were cut by around 13% only);
- a continuation of the \( \text{RPI}-X \) form of control, with an efficiency factor (X) of -2%;
- the structure of the control was modified to distinguish between customers who consume large quantities of gas (large users) and all other customers (business and domestic users), and to allow 50% of revenue to vary in respect of volume, with the other 50% fixed (both being subject to \( \text{RPI}-X \));
- an adjustment to deal with under-recovery of allowed revenues in the previous price control;
- a correction factor, enabling Transco to collect or refund in subsequent years any revenue which it under- or over-recovered in a particular formula year;
- allowing Transco to collect all of its 1996/1997 under-recovery in the first year of the control;
- a cost pass-through component for meter reading services at sites which are open to competition (that is, sites other than those large sites for which Transco is required to take daily meter readings to operate its gas transmission system effectively), and an economic purchasing obligation for any pass-through meter reading costs;
- a provision for notional revenues, which allows Transco’s allowed revenue to be reduced to reflect the provision of services by competitors to Transco, was carried through from the previous price control;

A separate storage price control was introduced from 1 April 1997, lasting for a period of three years, whereupon, Transco could apply for disapplication of the control. The price control placed a cap on total revenue, as opposed to a restriction on unit revenues as applied to the transportation formula. The control placed an initial revenue limit of £160 million on Transco’s storage services, adjusted by \( \text{RPI}-2\% \) thereafter. The under-recovery of allowed revenue was to be allocated between the transportation and storage price controls, with £11 million of the correction factor being apportioned to the storage business.

- **Deregulation of storage prices**

This separation of regulatory control of BG’s storage and transportation activities was the first step taken by Ofgas toward the deregulation of gas storage. In April 1998, Ofgas began an investigation into the market for gas storage and related services with

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a view to establishing the potential for the removal of the storage price control. In September 1998, Ofgas proposed new arrangements for selling BG Storage’s Rough and Hornsea storage facilities. Central to these proposals was the removal of the existing system of price regulation by Ofgas to be replaced by the selling of rights to capacity in Rough and Hornsea storage facilities via an auction process. In December 1998, Ofgas published a consultation on detailed proposals for the auctioning of Rough and Hornsea storage capacity. Ofgas’ proposals required a modification to BG’s PGT licence to remove the Rough and Hornsea facilities from licence regulation, changes to Transco’s network code to open up access to third party storage operators, and changes to the network code outlining the new arrangements for selling capacity at Rough and Hornsea. The formal consultations on the proposed licence modification and the network code modifications were completed by the end of January 1999. The proposed licence modifications took effect on 18 February and the network code modification on 15 March 1999 (Ofgas 1999a).

The first auctions of Rough and Hornsea services took place for the 1999/2000 storage year between 22 March 1999 and 22 April 1999. Only 51% of Rough capacity was sold in the auctions and the prices paid by successful bidders were slightly above the reserve prices set by BG Storage. BG Storage made unsold capacity available throughout the rest of the year. At Hornsea, all capacity was sold at weighted average prices of more than double the reserve prices set by BG Storage. The auctions for the 2000/2001 storage year were completed in early March 2000 in time for the 1 May start. These involved the auction of 50% of the total storage capacity at both Hornsea and Rough for a period of five years, with the other 50% of capacity and any that was not sold on a five year basis being auctioned on a one year basis. The earlier section on industry structure details the process of the auctions.

BG plc’s LNG storage facilities continued to be price controlled. As part of the deregulation of BG Storage’s Rough and Hornsea facilities, the storage revenue cap for BG plc’s LNG facilities was replaced with a licence condition freezing LNG prices at the prices then being charged at each of the LNG facilities. The price control remained while Ofgem completed a review of BG plc’s LNG facilities. The review resulted in the implementation of interim arrangements for the auctioning of LNG capacity for the storage year 2000/2001, commencing on the 1st May 2000.

The first auctions of Transco’s LNG storage capacity took place in April 2000. Seventy-three percent (73%) of total site capacity was sold at the five LNG facilities.

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46 Resulting from this investigation, Ofgas published a consultation document entitled Review of the supply of gas storage and related services – the Director General’s initial proposals in July 1998.

47 Review of the supply of gas storage and related services: The Director General’s final proposals, Ofgas, September 1998.


50 Respondents to an Ofgem review of the Rough and Hornsea auctions stated that the reserve prices set by BG Storage for Rough capacity were too high and should either be reduced or removed (Ofgem 2000).

51 Permanent arrangements will be put in place following a further review by Ofgem of BG Transco’s transportation, exit capacity and interruption regime (Ofgem 2000n).
Unsold capacity from the auction is to be made available to shippers on a first come, first served basis at late booking prices (BG Transco, 5 May 2000). The late booking price for a unit of bundled capacity at a facility is the weighted average price of the top 50% by volume of accepted bids in the auction for the facility plus 0.1 pence.

**- Separating gas metering and meter reading from the transportation price control**

In May 2000, Ofgem proposed to disaggregate the transportation price control, creating separate price controls for transportation, gas metering and meter reading. Ofgem’s stated objective in creating separate price controls is to prevent the possibility of Transco subsidising its metering businesses from its transportation business and facilitate competition in these services.

The Director General’s final proposals published in May 2000 set out the timeframe for the implementation of the disaggregated price control. Ofgem proposed that:

- the modifications to Transco’s price control should apply from 1 April 2000, but that owing to the need for Transco to restructure its charges, the modifications would, in practice, only come into effect on the 1st July 2000;
- Transco should prepare and submit separate accounts for its metering and meter reading businesses;
- Transco should publish statements of charges for its metering and meter reading services on an annual basis in a form approved by the Director General.

Under the new separate price controls, the transportation price control will cover:

- the activities required to transport gas along Transco’s pipelines;
- other shipper services (for example, administering allocation agreements);
- the provision of a national emergency service (including emergency work on end-user meters where required);
- the provision, installation and maintenance of meters within Transco’s transmission system from which data is required for balancing the flows of gas within the pipeline network;
- installation, maintenance, repair and repositioning of dataloggers at non-daily read sites or anywhere else within the transportation network;
- connections and extensions to Transco’s pipeline network;
- services provided on behalf of meter providers, meter workers, meter readers; shippers and suppliers to facilitate competition in the provision of metering, meter reading, shipping and supply services (for example the Supply Point Administration services);
- the supply point database;
- procurement of ‘must reads’ as defined in Transco’s network code;

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52 The development of the proposals for the separation of the transportation, metering and meter reading price controls are set out in the following Ofgas/Ofgem publications: Securing effective competition in gas metering and meter reading services: The Director General’s initial proposals, October 1998, Securing effective competition in gas metering and meter reading services: A report on progress and the way forward, July 1999, and Securing effective competition in gas metering and meter reading services: The Director General’s proposals, May 2000.

53 It is relevant to note that this is not a new price control, but rather a proposed split of the existing price control.
• processing of meter asset queries;
• validation of meter readings required under the Transco network code (Ofgem 2000n).

The *metering* price control will cover the provision, installation, maintenance, repair and repositioning of meters and dataloggers; the provision and maintenance of meter boxes; removal of meters on request of shippers; and the meter works database (Ofgem 2000n).

The *meter reading* price control will include the procurement and management of meter reading agencies to provide monthly and non-monthly reads as requested by shippers for their customers, and opening reads at sites consuming more than 2,500 therms per annum when a customer changes supplier. It will also include the processing of reads provided by such agencies and daily reads obtained from dataloggers (Ofgem 2000n).

Other features of the separate price controls include:

• **Duration:** The control will be until 31 March 2002 (that is, for the final 2 years of the existing price control).
• **Form:** The RPI-X form of control, with an efficiency factor of –2%, will be continued for the three unbundled price controls of transportation, metering and meter reading. The pass-through component previously applied to non-daily meter readings will be replaced with an RPI-X control and included in a single meter reading control covering both daily and non-daily meter readings.
• **Correction factor:** Separate *K-factors* should be maintained after 1 April 2000 for transportation, metering and meter reading and that the *K*-factor for one business should be recoverable by the business only. In addition, any *K*-factor for 1999/00 should be split between the unbundled businesses in proportion to the estimated allowed revenues for those businesses.
QUALITY CONTROLS

While the Director General of Gas Supply does have powers to prescribe regulations relating to service standards, these powers have not been used and it is through Special Condition 13A of British Gas Trading’s suppliers licence and Condition 19 of Transco’s public gas transporters’ licence that standards of service are set.

In 1990, British Gas published its ‘commitment to customers’ which set out voluntary standards covering areas such as customer contact, appointments, obtaining a gas supply, continuity of supply, customer accounting and emergency services. Ofgas argued that this published commitment was insufficient and called for a public declaration of the levels of service customers could expect from British Gas, the creation of adequate systems for handling complaints, and compensation for failure of service delivery. In addition, Ofgas called for the setting and publication of adequate, proper and measurable service delivery targets and the further publication of British Gas’ achievement in service delivery against these targets (Ofgas 1991b). Certain key standards were to be included in the revised price control, allowing Ofgas to review future price controls in terms of British Gas’ performance against these standards. After discussion and consultation, British Gas and Ofgas agreed to the introduction of condition 13A into British Gas’ Authorisation in April 1992. This has become Special Condition 13A of British Gas Trading’s licence, under which British Gas Trading is required to:

- establish and make efforts to achieve standards of performance in relation to the supply and continuation of supply of gas, the ascertainment of quantities of gas supplied, and the recovery of gas charges; in particular the standards of performance must govern visits to customer premises and responses to complaints and enquiries made in respect of gas supply services, and take into account the interests of those who are disabled or of pensionable age;
- record its performance against these established standards and the costs incurred by the company in such performance;
- operate a compensation scheme for service failures;
- publish the standards of service and the principles on which compensation will be made;
- publish an annual report on levels of performance achieved and compensation paid, as well as a statement on the levels of performance proposed to be achieved in the ensuing financial year in relation to the established standards (Ofgas 1998a, DTI 1995).

The first service standards and compensation package was published in March 1992 and included 30 established standards, including 10 key standards determined by Ofgas. The publish standards of service also included overall targets of performance in service delivery for British Gas covering the period March 1992 to December 1992. This provided the general framework by which British Gas’ performance of quality standards is currently monitored.

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54 These powers were introduced into the Gas Act 1986 through the Competition and Services (Utilities) Act 1992 and allow the Director General to impose overall company and individual service standards, performance targets and arrangements for paying compensation for service failures on utilities.
The standards for British Gas Trading are split between:

- **individual (guaranteed) standards**, which set service levels to be met for individual customers; failure to provide the level of service set, results in compensation for customers who have been affected;
- **overall company standards**, which cover areas where it would not be appropriate to give individual guarantees, but where customers should expect companies to meet a certain minimum planned level of service.

In 1994, further standards of service, relating to transportation and storage, were introduced, but it was not until the implementation of the Gas Act 1995 and the separate licensing regime in 1996, that separate standards were established for British Gas Trading and Transco. Standard condition 19 of Transco’s public transporter’s licence provides a similar framework for the establishment of standards of performance in relation to the connection of premises under 2,500 therms per annum and the prevention of escapes of gas in or into the premises of domestic customers (DTI 1995).

The regulator’s powers in relation to performance standards includes the requirement for regulatory consent before established standards can be altered and the power to settle disputes in relation to compensation.

Since the introduction of the service standards, performance levels have improved and in 1998, both British Gas Trading and Transco met or exceeded all their published performance standards. With a success rate of 100% in 1998, this represented an improvement on the overall success rate of 94% in the previous year (DTI 1999a). The 1998 standards of service targets and actual performance levels for Transco and British Gas Trading are set out in Appendix 3.
ENVIRONMENTAL AND SOCIAL OBLIGATIONS

All domestic gas suppliers have certain social obligations under the *standard conditions* (Conditions 15 to 21) of their domestic gas suppliers’ licences. These social obligations include:

- domestic gas suppliers must provide energy efficiency advice, given or prepared by suitably qualified persons, on request (Condition 16);
- suppliers must provide, on request, and without charge, a safety check on gas appliances and other gas fittings for pensioners, disabled and chronically sick persons at intervals of not less than 12 months (Condition 17);
- so far as is reasonably practical and appropriate, suppliers must provide pensioners, the disabled and chronically sick persons with special controls and adapters, advice on the use of gas appliances and fittings, special means for confirming the identity of their officers, as well as provide for the repositioning of meters, the sending of bills to nominated persons, and quarterly meter readings if required (Condition 17);
- suppliers must provide facilities for blind and deaf persons in relation to meter readings, charges, complaints and enquiries (Condition 18);
- suppliers must be sympathetic toward customers with genuine difficulty paying bills – these customers should be treated consistently, given adequate opportunities to make contact to discuss arrangements to pay, and provided advice on how future bills may be reduced through more efficient use of gas (Condition 19);
- suppliers may not disconnect pensioner households (identified through the gas care register) in winter (Condition 20);
- suppliers are required to submit their arrangements for satisfying their social obligations under standard conditions 16 to 19, and publish annual reports on their performance of these obligations (Condition 15 and Condition 21) (Ofgem 1999a).

In January 2000, Ofgem published a consultation document outlining proposals to add to and enhance the social obligations of domestic gas suppliers. This was followed by a decision document, published in May 2000. The modifications to the licence conditions aim to establish a common regime for electricity and gas companies on social obligations (Ofgem 2000f; Ofgem 2000o). These modifications to the gas suppliers’ licences mean that gas suppliers will, for the first time, be required to consult the Gas Consumers Council, and subsequently the Gas and Electricity Consumer Council, around their arrangements to satisfy their social obligations; and will be required to develop and submit codes of practice for standard conditions 16, 17, 18, 18A and 19 of the licence for the Director General’s approval. The modified licence conditions include additional requirements for the domestic gas suppliers to:

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55 Such facilities for blind or partially sighted customers include talking bills, Braille, large type or cassette; and for deaf customers, the minicom.

56 The proposed licence modifications to enhance social obligations of domestic gas suppliers is one of a series of initiatives under Ofgem’s Social Action Plan.

THE UK GAS INDUSTRY

- provide facilities for customers to pay bills by cash or cheque on a twice monthly, fortnightly or more frequent basis (Condition 10);
- publish information on services to prepayment meter customers, including such matters as access to charging facilities and timely fault rectification (Condition 18A);
- provide contractual terms on prepayment meters to all customers requesting this method of payment (Condition 10);
- revise arrangements for giving energy efficiency advice, including the maintenance of a telephone information service for energy efficiency (Condition 16);
- inform customers annually of the existence of the codes of practice (Condition 15);
- revise arrangements for security deposits to give gas customers an improved rate of interest on deposits and the right to determination of disputes by the Director General (Condition 3AA) (Ofgem 2000f).

As discussed above in the section on licences, modifications to the standard conditions of licences require agreement from the licence holders. Not less than 90% of licensed gas suppliers, both by number and volume of gas supplied, must consent to the modifications (Ofgem 2000f). This level of consent was achieved (Ofgem 2000o).

In addition to the standard conditions of the domestic gas suppliers’ licence which place an obligation on all domestic gas suppliers to provide general energy efficiency advice on request, as well as specific energy efficiency advice to vulnerable groups; the regulator has, in the past, promoted energy efficiency through the inclusion of the E factor in British Gas Trading’ price control and through the inclusion of specific performance standards (established under condition 13A of British Gas Trading’ licence, as discussed above) which relate to the provision of energy efficiency advice, particularly to vulnerable groups.

In March 2000, Ofgem announced an additional approach to regulating for energy efficiency in the gas supply sector. This involved revising the existing efficiency standards for the electricity supply sector and extending these to the gas sector. The new efficiency standards will require gas companies to offer domestic customers cut-price energy saving measures. As a component of Ofgem’s Social Action Plan, the new efficiency standards focus primarily on disadvantaged gas and electricity consumers (two-thirds of companies expenditure on standards is expected to be for disadvantaged customers). This new energy efficiency commitment for the gas industry is discussed in more detail below.

Energy efficiency standards\textsuperscript{58}

The Standards, which will operate from 1 April 2000 to 31 March 2002, create separate energy saving targets for the gas and electricity sectors. Companies are required to achieve overall gas savings of 6,200 GWh over the two-year period of the scheme. The scheme recognises the different costs for companies in implementing energy efficiency projects (for example, smaller suppliers face higher fixed costs per

\textsuperscript{58} This section is drawn from Ofgem 2000b.
customer served and higher average costs when procuring energy efficiency goods and services) by setting individual company targets linked to company size. Gas suppliers with less than 50,000 customers will have an energy saving target of zero. For gas suppliers with 50,000 customers or above, targets will be progressively tighter for companies of increasing size. Targets will be set through the following formula:

\[
\text{Gas Target} = C \times \frac{[17.05 \ln(C) + 162.5]}{1000}
\]

Where: \( C \) = a supplier’s domestic customer numbers expressed in thousands

\( \ln \) is the natural logarithm

The funding for the scheme will come from gas charges of £1.20 per customer per annum during each of the two years of the standards scheme; and funding from other parties, including social housing providers and appliance retailers.

In achieving their targets, companies will have discretion over the mix of measures that they carry out. Energy efficiency measures for gas companies may include loft and wall insulation, draught proofing, cylinder lagging, heating controls, condensing boilers and CHP. While there are separate targets for gas and electricity, flexibility will be available by allowing up to 25% of a company’s energy savings target to be met through fuel substitution and savings of fuels incidental to the main fuel savings (the latter subject to a specific limit of 10%).

From 2002, under the Utilities Act, responsibility for energy saving measures will pass to the Minister of Environment Transport and the Regions. The energy regulator will be consulted over the setting of these obligations and will be responsible for ensuring compliance by companies. Furthermore, the regulatory authority will be responsible for ensuring that in delivering their energy efficiency commitment, dominant suppliers do not act in ways which weaken competition supply.

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59 That is, households or businesses with annual gas consumption below 73,250 kWh.

60 The DETR have already published their proposals for energy efficiency standards which will run from 2002-2005.
REVIEW OF COMPETITION

Competition in supply

*Industrial and commercial competition*

The industrial and commercial market is traditionally sub-divided into three categories – the firm gas market above 25,000 therms, the firm gas market between 2,500 and 25,000 therms, and the interruptible gas market. In August 2000, Ofgem published a review of the development of competition in the industrial and commercial gas supply market\(^{61}\) that concluded that competition is relatively well developed in these three market segments. Ofgem concluded that of the shippers and suppliers licensed to operate in the industrial and commercial market (see Appendix 1), an estimated 24 shippers and 34 suppliers are currently active competitors. BGT’s overall market share in the first quarter of 1999/2000 was approximately 12% of gas shipped to the industrial and commercial market, excluding gas for power generation, natural gas vehicles and feedstocks\(^{62}\). For the market as a whole, BGT’s market share is approximately 20%. There are 4 companies with a market share of more than 10% of gas shipped, with 2 companies with a greater market share than BGT. In terms of market share by number of sites shipped to, no company apart from British Gas Trading Ltd has a share of more than 10%. BGT’s market share is lower for sites consuming higher volumes, suggesting that customers with higher bills have switched supplier in greater numbers.

BGT retains a market share of greater than 60% in the interruptible power generation sector, mainly due to its long-term supply contracts.

Problems and complaints relating to market entry and factors affecting development of competition have decreased and no longer relate to the dominant position of BGT. In light of this development in competition, Ofgem proposes to remove two licence conditions – standard condition 13 and Special Condition 5A – which currently restrict BGT’s operation in the industrial and commercial gas supply market.

Standard condition 13 of the gas supplier’s licence prevent dominant gas suppliers from exercising undue discrimination, showing undue preference, or engaging in predatory or unduly onerous pricing. In July 2000, Ofgem published a consultation proposing to remove the supply ‘non-discrimination’ licence conditions from both gas and electricity supply licences and to use only the Competition Act 1998 to address anti-competitive behaviour in the gas supply market\(^{63}\).

Special condition 5A of BGT’s gas suppliers licence restricts the terms that BGT can require in its contracts with industrial and commercial customers. This condition was

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\(^{61}\) *A review of the development of competition in the industrial and commercial gas supply market*, Ofgem, August 2000.

\(^{62}\) There are approximately 11 suppliers who are not also shippers, and one shipper that is not also a supplier. These suppliers accounted for a relatively small proportion of gas supplied.

\(^{63}\) *Gas and electricity supply licences: Proposals for standard non-discrimination licence conditions*, Ofgem, July 2000.
introduced following concerns that BGT was discriminating in the prices and terms it offered to some industrial and commercial gas customers. Ofgem proposes to remove Special Condition 5A from BGT’s gas suppliers licence from the end of October 2000 as a result of the continued development of competition in the industrial and commercial gas supply market and the lack of complaints about BGT’s market position and behaviour.

Two key barriers to competition in the industrial and commercial market have recently been reviewed by the DTI and Ofgem. These issues of information disclosure and prevention of customer transfer are discussed in more detail below.

- **Information disclosure**

One of the factors inhibiting supply competition in the industrial and commercial sector is the difficulties that consumers face in gaining access to information held by Transco on the supply of gas to their sites. In order to facilitate the transfer of their sites from one gas supplier to another, industrial and commercial customers need consistency between their site data and that held by Transco. Suppliers, shippers and consumers have complained that inaccuracies in Transco data has had serious repercussions on their businesses. Errors in data can lead to billing errors and errors in site charges. In addition, data errors can inhibit competition by resulting in consumers experiencing difficulties in obtaining quotations from potential new suppliers. Many industrial and commercial consumers have, therefore, expressed a desire to have access to this information held by Transco about their sites.

Transco has been cautious about providing this information to consumers, as it is concerned that the desired information may be governed by Section 42 of the Gas Act 1986 (as amended). Section 42 imposes a general prohibition on the passing-on of information that relates to the affairs of any individual or particular business and is obtained under or by virtue of the provisions of Part 1 of the Gas Act. There are criminal sanctions attached to a breach of Section 42 and hence, Transco’s cautious approach.

In acknowledgement of industrial and commercial consumers’ aspirations to access information held on Transco’s Sites and Meters database, Transco conducted a trial in the second half of 1999 which enabled consumers to view an agreed data set (Whittaker 2000). In addition, the Supply Point Administration process does allow shippers to make supply point enquiries relating to a range of data attributes which the shippers can then discuss with their prospective customers and ultimately Transco.

The Department of Trade and Industry proposed to use its existing powers to make a change to the Gas Act which would clarify the type of information that Transco can pass on, thereby making it easier for industrial and commercial consumers to check

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64 This section is drawn from DTI 2000b.

65 Data includes locational data, such as the full address, the supply point numbers, meter serial numbers and contact details; and consumption data, such as the annual quantity, load factor, and whether the supply is firm or interruptible.
the accuracy of information held on them by Transco (Ofgem 2000h) 66. This has resulted in an order – *The Gas Act 1986 (General restrictions on disclosure of information) (Modification) Order 2000* – being made.

- **Prevention of customer transfers** 67

Customers can be supplied on either an *express* contract, where the gas supplier can make it a condition of the contract that the customer is required to give notice of his or her intention to terminate the contract 68, or a *deemed* contract, where the customer is not required to give their supplier notice that they are switching away to another supplier. Most industrial and commercial customers are supplied under an express contract. It is common for such contracts to require notice to be given between one and three months before the renewal date for the contract. If the supplier has not been given the appropriate notice, it is entitled to object to a proposed transfer and retain the customer until appropriate notice has been given.

Some industrial and commercial customers have argued that gas suppliers are exhibiting anti-competitive behaviour by using this condition to prevent them from switching to an alternative supplier at a time of their choosing. As a result, Ofgem has been monitoring industrial and commercial suppliers’ use of the objection facility. The results over the period July 1998 to June 1999 showed that around 8% of transfers were objected to for contractual reasons – representing around 10,578 occasions when customers could not transfer in the industrial and commercial gas market.

In March 2000, Ofgem published a consultation document entitled *Removing a supplier’s right to object to customer transfer on the grounds of insufficient termination notice*, which investigates the potential for anti-competitive behaviour arising out of this right of suppliers. Ofgem concluded that the right of suppliers to prevent customer transfers by raising objections for lack of termination notice is not necessary or desirable in the industrial and commercial gas market and that its existence and the way they are used is likely to be an impediment to the development of competition 69. Ofgem has proposed the removal of this right.

**Domestic competition** 70

Since the entire domestic market was offered a choice of gas supplier in May 1998, there has been substantial development in competition in the market. To guide its regulatory policy, Ofgem (and previously, Ofgas) undertake annual reviews of the

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67 This section is drawn from Ofgem 2000g.

68 In terms of Standard Condition 7(4) of the gas suppliers’ licence.

69 Industrial and commercial gas suppliers have argued, however, that this right is important as the price of gas quoted in the contract is based on the predicted average price expected to arise during the contract period and thus if a customer transfers to another supplier, the incumbent risks incurring a loss on the contract.

70 This section is drawn from Ofgem 1999a.
development of competition in the domestic market. In their most recent review, published in December 1999, Ofgem identified, amongst others, the following as indicators to assess the development of competition:

- customers’ awareness of the opportunity to choose an alternative supplier and the range of competing offers;
- suppliers’ behaviour, including entry and exit;
- suppliers’ performance, in particular suppliers’ market shares;
- the range of price and related offers available from new entrants, including dual fuel;
- the ability of entrants to enter the gas supply market, by considering their potential headroom.

The review found a high degree of awareness of competition amongst domestic customers. Ninety-six percent (96%) of those interviewed for the review expressed that they were aware that competition had been introduced into the domestic gas market and 69% of customers considered themselves to be fairly or very well informed about the introduction of competition. Customers that had remained with BGT stated that they had not changed supplier either because they were happy with BGT or were apathetic about switching.

At the time of the review, there were 26 suppliers (including British Gas Trading) operating in the domestic gas supply market. Nineteen of these were operating on a Great Britain-wide basis. Of those suppliers that did not have a Great Britain-wide licence, two were suppliers affiliated to non-Transco PGTs (who are mainly responsible for the transportation of gas on networks built for new residential and industrial developments). Of the 26 licensed domestic gas suppliers, 13 or their affiliates were also domestic electricity suppliers. These suppliers are, therefore, able to make dual fuel offers.

The review showed that competition was most established in the direct debit customer market. By the end of November 1999, BGT had lost around 27% of the domestic gas supply market to its competitors (as compared with a loss of 15% by the end of August 1998). However, the loss of market share was skewed toward direct debit customers, the market where competition is most active. For direct debit customers, BGT had lost 30% of its market share by the end of June 1999. In comparison, BGT had lost 20% of its market share for customers paying by other credit payment methods, and only 6% of customers paying by prepayment.

The main rivals to BGT amongst other gas suppliers, based on market share gained are the public electricity suppliers (PESs), who were supplying 18% of gas customers at the time of the review. When measuring market share by volume of gas supplied as opposed to by customer numbers, BGT share of the market was even lower. This indicates that BGT has lost relatively more customers consuming higher volumes of gas. In addition, the gas and electricity supply markets are being characterised by dual fuel offers, with almost half of electricity and gas switchers supplied on dual fuel contracts.

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There is a range of price and related offers available to direct debit customers from new entrants. Direct debit customers are thus able to make significant savings when transferring from BGT to any of its competitors. Quarterly credit customers (including PromptPay customers) also benefit from a range of offers, with discounts of up to 20% available. However, customers paying by a frequent paying method have a limited range of competitive offers to choose from, with some suppliers not offering a frequent payment method. Prepayment customers have limited choice, with BGT’s tariffs being the most competitive in the market.

The review concluded that there is still sufficient room for new entrants into the market, with the greatest headroom existing for dual fuel suppliers. While the headroom for entry into the prepayment market is less, the new price control introduced in April 2000 still allows for new dual fuel entrants to offer discounts of up to 8% to prepayment customers (Ofgem 2000a).

The conclusions of the review were that there is significant competition in the direct debit customer market, but the standard and prepayment customer markets still face barriers to development of competition. As a result, Ofgem proposed to remove the price control from BGT's direct debit tariff and work toward removing the remaining barriers to competition in the domestic market, with the aim of withdrawing price controls from all domestic tariffs in April 2001.

- Barriers to the development of competition
  - **Blocking transfer of customers in debt:** Under Standard Condition 7(4) of the gas suppliers’ licence, gas suppliers are able to prevent customers with outstanding debts from moving to a competitor. Ofgem argue that the suppliers’ right to block a customer’s transfer on the grounds of debt discriminates against low-income customers who are then unable to access the benefits of competition. At the time of the domestic competition review, it was estimated that approximately 70% of BGTs prepayment customers and 35% of their standard customers were currently in debt and could, therefore, have their transfer to an alternative supplier blocked by BGT (Ofgem 2000i). In December 1999, Ofgem published a consultation paper proposing the amendment of gas suppliers’ licences to remove a supplier’s ability to stop customers in debt from moving to another supplier. This is the subject of ongoing consultation.
  - **Higher prices of prepayment offered by non-BGT suppliers:** Prepayment customers presently encounter a limited range of competitive price offers. New entrant suppliers’ prepayment prices are relatively higher than those of BGT. The current prices offered by non-BGT suppliers anticipate the suggested increase in Transco’s prepayment charges. These suppliers argue that they cannot reduce their prices now to attract customers if they are required to increase them later when Transco’s prepayment charge increases. At present, it is possible for domestic prepayment customers who switch from BGT (and wish to retain their prepayment meter) to obtain a discount. However, at average prepayment consumption levels (that is, 480 therms), BGT’s prepayment offer is presently the most competitive in terms of price. In addition, some of the complementary products offered by suppliers are not available to prepayment customers. Ofgem considers approaches to increase competition for prepayment meter customers in its social action plan.

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72. Customers in debt and their access to the competitive market, Ofgem, December 1999.
• **Non-comparable pricing information:** Competition has resulted in the proliferation of new tariff structures in the domestic gas market. While this represents a positive increase in customer choice, Ofgem have expressed concern that pricing information used by suppliers is complex and does not facilitate ready comparison between different tariffs and different suppliers (Ofgem 2000i). They argue that this results in consumer uncertainty about the range of offers in the market and that the low income and the elderly, in particular, find it difficult to make meaningful comparisons between offers (Ofgem 2000e). This lack of comparable pricing information is thus seen to inhibit the development of competition by discouraging customers, particularly those from vulnerable customer groups, from switching between suppliers.

Although the regulator has no direct powers to prescribe how gas suppliers present price information to customers, in February 2000, Ofgem published a consultation document proposing improvements to the provision of pricing information in the market\(^{73}\). These proposals included the introduction of an energy cost index for use by domestic gas and electricity suppliers as a formal licence requirement, and the development of requirements for price comparison services. Ofgem believes that these will enable customers to make basic comparisons of the prices on offer, facilitating switching between suppliers.

**Competition in connections and system extensions**

Ofgas (and subsequently, Ofgem) has repeatedly advocated the full unbundling of Transco’s connections and system extensions activities from its main pipeline business, to better secure effective competition in these services. Ofgas/Ofgem considers that such unbundling is necessary to ensure that Transco’s connections and system extensions are properly costed and that the main transportation business treats BG’ own connections and system extensions business in exactly the same way as it treats other PGTs and self-lay installers. Ofgas’ proposals for Transco’s April 1997 – 2002 price control considered the unbundling of Transco’s connections and extensions business. This was, however, postponed after a referral to the MMC that recommended that unbundling of further activities at that stage would be distracting to other efforts to secure competition (Ofgas 1999c).

Competition in connections and systems extensions has, however, still developed considerably since it was first introduced in 1996. By June 2000, there were 7 non-Transco PGT’s\(^{74}\) and numerous self-lay providers competing with Transco to bring gas to new premises and to connect existing premises to the gas infrastructure. In addition, a further 3 companies – Sutton and East Surrey Water Company, Hyder and Energi Link – were being considered for licences as independent PGTs (Utility Week, 9 June 2000). The existing independent PGTs have been successful in taking market share from Transco in connections to new housing schemes and industrial estates. Competition is most established in the new-build housing market. Currently, independent PGTs have captured approximately 60% of the new-build housing


\(^{74}\) These were AGAS Developments Ltd (ADL), Gas Transportation Company Ltd (GTC), Eastern Natural Gas Ltd, Scottish Power Gas Ltd, Southern Electric Pipelines Ltd, and British Gas Connections Ltd (BGCL).
market and by the end of 1999, over 130,000 new built homes were on the independent transporters networks (Ofgem 2000). The self-lay installers mainly concentrate on large one-off connections to premises consuming over 2,500 therms per annum. Some self-lay installers also act as contractors to Transco and for other PGTs.

**Barriers to the development of competition**

One of the barriers to effective competition in the connections market relates to the disclosure of information. While potential gas users can elect to have their property connection to Transco’s pipeline system carried out by an independent (self-lay) contractor, the self-lay contractor cannot connect a property to Transco’s system effectively unless it has access to necessary information about the availability of pressure in the appropriate part of its network. Transco produces diagrams showing the layout of the local distribution mains that show the differences in pressure nodes in a particular area of its network. Disclosure of the information to self-lay contractors is considered by Transco to be in contravention of Section 42 of the Gas Act 1986 (as discussed above) and thus Transco is withholding this information from companies competing for their connections business. The non-disclosure of these diagrams provides PGTs with an unfair commercial advantage over self-lay contractors. An order – which amends the Gas Act and the PGT licence to enable future disclosure of such information – has been made\(^\text{75}\).

**Competition in ancillary services**

The Gas Act 1995 widened the DGGS’ competition duties to include services ancillary to gas supply and shipping, such as metering and gas storage.

**Competition in storage**

While BG Storage, with its Rough and Hornsea facilities, and BG Transco, with its LNG facilities, remain the dominant storage operators in the market, other companies are developing their own storage facilities and one such on-shore storage facility is already operational. In addition, there are also other means of matching supply of gas to demand and these storage substitutes provide a degree of competition in the storage market. Storage substitutes include line-pack and diurnal storage, beach swing, interruptible supply and the interconnectors. Evidence suggests that there is not a high degree of substitutability between beach swing, line-pack and diurnal storage, on the one hand, and the types of seasonal storage facilities that BG Storage provides, on the other. There is a degree of substitutability, however, between the interconnectors and seasonal storage facilities.

As discussed above, steps taken to introduce competition in storage include the separation of BG Storage from BG Transco plc, that resulted in the removal of BG Storage’ Rough and Hornsea storage facilities from Transco’s PGT licence and, hence, the price control, and the introduction of a generic storage connection agreement which standardised arrangements between Transco and each storage facility.

\(^{75}\) The Gas Act 1986 (General restrictions on disclosure of information) (Modification) Order 2000.
operator connecting to Transco’s pipeline network. The next steps taken by Ofgem in increasing competition in storage were to introduce interim arrangements for the auctioning of Transco’s LNG capacity to shippers.

**Competition in metering and meter reading**

At privatisation, Transco was the sole provider of gas metering and meter reading services. While the Gas Act 1995 allowed for the introduction of competition in the gas metering and meter reading businesses, there was little or no incentive for suppliers to seek alternative meter providers before April 1999. Suppliers were charged by Transco, through their shippers, for the provision, installation and maintenance of meters. This charge was bundled with Transco’s transportation charge and, therefore, shippers could not avoid the metering element of the charge by providing their own meters (Ofgas 1998d). From 1 April 1999, however, suppliers that provided, installed and maintained their own meters could receive a rebate, through their shipper, equivalent to Transco’s charge (Ofgas 1998d). Initially the rebate focused on domestic meters in 1 local distribution zone. The rebate was later extended to include all domestic and non-domestic meters in all 12 local distribution zones. However, while some competition has developed in the meter reading business, Transco remains the effective monopoly provider of metering services.

Owing to the slow development in competition, Ofgas published a consultation document in October 1998 aimed at securing effective competition in gas metering and meter reading services. Since then, Transco has worked together with Ofgas, and subsequently Ofgem, to develop proposals to promote competition in gas metering. This resulted in Transco putting forward a proposal for a programme of managed change in the metering and meter reading sectors, focusing on industry restructuring in the broader framework of establishing appropriate metering protocols and industry processes. These proposals are incorporated into the Director General’s final proposals published in May 2000. The final proposals focus on the removal of both price-related barriers and non-price barriers to competition, and include:

- amendments to Transco’s PGT licence to split its price control into three (as discussed in more detail in the earlier section on price controls);
- the physical separation of Transco’s metering and meter reading businesses from each other and from Transco’s transportation business (ensuring that Transco does not have an unfair commercial advantage over other competing service providers owing to superior information flows and reducing the risks of non-price discrimination by Transco).

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76 Securing effective competition in gas metering and meter reading services: The Director General’s initial proposals, Ofgas, October 1998. This document was updated by Ofgem in July 1999, incorporated responses to the initial proposals. The updated document is entitled Securing effective competition in gas metering and meter reading services: A report on progress and the way forward.

77 Securing effective competition in gas metering and meter reading services: The Director General’s final proposals, Ofgem, May 2000.

78 The implementation of the split price controls was originally proposed to occur on 1 April 1999, but was postponed to 1 April 2000 in response to concerns raised during the consultation process.

79 Transco initially opposed the physical separation of its metering and meter reading businesses, arguing that forced separation would result in large one-off and ongoing costs that would not be outweighed by potential benefits. As a result of this and other objections raised during the consultation process,
• the development and introduction of industry processes to support a competitive market in metering and meter reading services.

In January 2000, Ofgem established the Metering Competition Focus Group (MCFG) to facilitate the development of industry processes to allow consumers and suppliers to choose who provides their meter and meter reading services. The specific aims of the MCFG are to:

• facilitate the development and implementation of standard systems and processes to support the transition to a competitive market;
• define the primary services provided within a competitive market and the resultant roles, responsibilities and relationships;
• have regard to the impact on safety in the development of solutions;
• identify any necessary legislative changes and contractual requirements needed to support a competitive market;
• seek harmonisation with the electricity industry where appropriate;
• have regard to implications of the Competition Act (1998) in the development of solutions;
• manage and co-ordinate the decision-making framework needed to facilitate metering competition.

Transco’s proposal for a managed change programme to remove existing barriers to competition in metering and meter reading services involves substantial changes to its own internal organisation and systems and the development of industry processes in collaboration with the industry and other interested parties. Transco proposes that this change programme be jointly managed by means of Ofgem and Transco forming a project board. The managed change programme aims to build on the existing work of the MCFG and the Suppliers Metering Forum. The project board would be the decision-making body, whilst the MCFG would become an advisory group, informing the process.

A cornerstone of Transco’s proposal is the development of a metering protocol in collaboration with the industry. The protocol would be a document setting out the rights and obligations of all parties within a competitive environment and would include setting protocols in relation to obligations in respect of gas safety, data flows and the maintenance of data accuracy, and minimising the risks of theft of gas.
CURRENT AND FUTURE REGULATORY ISSUES

While the Utilities Act only gained Royal Assent on 27 July 2000, Ofgem’s priorities in 2000 have been largely dictated by proposals in the Utilities Bill. This section outlines those regulatory debates/issues. Where certain issues are controversial, the paper highlights these.

As competition has become more fully developed in the gas industry in Great Britain, the focus of regulation has begun to shift from one of promoting and securing effective competition in gas supply and shipping to one of advancing and promoting consumer interests, particularly those of vulnerable groups. This shift in focus is reflected in the new statutory framework for regulation of the gas industry. The Utilities Act 2000 will place consumer interests at the centre of industry regulation and make provision for government guidance on social and environmental issues, ensuring that the regulator’s activities reflect government priorities.

The Utilities Act requires the Secretary of State to issue guidance to Ofgem on any of the Government’s social or environmental policies in order that the Gas and Electricity Markets Authority can make an appropriate contribution to the attainment of these policies. The guidance will be provided by means of Statutory Instrument. In anticipation of the passage of the Utilities Bill, draft Statutory Social and Environmental Guidance was issued in February 2000 by the DTI. The guidance proposes to place vulnerable groups, defined as those on low income (in receipt of benefits) and the fuel poor, at the centre of Ofgem’s priorities. The social and environmental guidance will require Ofgem to recognise the Government’s commitment to tackle poverty and social exclusion, improve the health of the population overall, and the worst off in particular, and reduce the proportion of unfit housing stock (Ofgem 2000e). Specifically, in relation to the energy sector, Ofgem will be required to give regard to issues of payment for services, debt and disconnection, benefits of competition, security of supply, and contact with customers (Ofgem 2000e). The environmental guidance will require Ofgem to ensure that all gas customers have access to clear information about energy efficiency, and that energy efficiency measures are adequately targeted toward disadvantaged customers (Ofgem 2000e).

Ofgem’s new focus on the fuel poor does not imply that the regulator will not continue promoting and securing effective competition in the gas industry. The current status of competition in the gas industry, together with the full implementation of the Competition Act 1998 in March 2000, is likely to result, however, in a shift toward regulatory enforcement of competition in the gas supply sector. The regulator will continue to facilitate the development of competition in the gas industry through the removal of barriers to competition in those segments of the industry that it deems are not yet fully open to effective competition. Moreover, the new principle objective

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80 Draft statutory social and environmental guidance to the Gas and Electricity Markets Authority: A consultation document from the Department of Trade and Industry, February 2000.
of protecting the interests of customers is to be achieved “wherever appropriate by promoting effective competition”\textsuperscript{81}.

## Social and environmental action

In its April 2000 to March 2001 plan\textsuperscript{82}, Ofgem identifies a new commitment to addressing the problems of the fuel poor through a programme which aims, through a government-industry partnership, to focus on areas where specific measures to protect consumers, and development of competition, can work together to bring benefits to vulnerable customers and the fuel poor (Ofgem 2000f). This programme of work is set out in Ofgem’s social action plan, published in March 2000, and the new energy efficiency standards of performance for electricity and gas, also finalised in March. Ofgem has recently launched a consultation on its proposed environmental action plan in response to the environmental guidance to be provided by the government under the Utilities Act 2000.

The measures put forward in the social action plan include both broad structural changes to remove the barriers which impede the fuel poor from benefiting more fully from competition and specific changes effected through licence modifications (Ofgem 2000e). These measures are:

- enhance existing social obligations in the standard licence conditions through the development of codes of practice and additional social requirements (these are discussed in more detail in the earlier section on social and environmental obligations);
- improve access to the competitive market for customers in debt through agreeing proposals for a modified licence condition on customers in debt wishing to change supplier;
- encourage the provision of comparable pricing information to enable customers to make straightforward comparisons between suppliers;
- investigate the customer transfer process to new suppliers;
- extend the marketing licence condition and investigate suppliers whose performance is unsatisfactory\textsuperscript{83};
- consider Fuel Direct with other Government Departments and investigate measures to make its operation more effective;
- expand the energy efficiency standards of performance and its targeting toward disadvantaged customers (discussed in more detail in the earlier section on social and environmental objectives);

\textsuperscript{81} Utility Act, Clauses 9 and 13.


\textsuperscript{83} With the introduction of competition in gas supply, a concern arose around the marketing practices of suppliers, primarily through direct sales. In response, Ofgas introduced a licence condition relating to marketing practices in 1998. These marketing conditions were to cease to have effect on 31 March 2000, but on the 23 March 2000, the DGGS gave notice to all holders of gas suppliers’ licences in Great Britain that, as competition was not considered to be sufficiently developed, condition 14A relating to the marketing of gas to designated customers in the standard conditions of the gas suppliers’ licences would continue until 31 March 2002 (Ofgem 2000c and 2000g).
commission or undertake further research on the extent of rationing and self-disconnection, promotion of switching from prepayment meters to other payment methods, the scope for improving debt management and prevention of debt, investigation of different forms of budgeting using prepayment meters, access to financial services for disadvantaged consumers, improved provision of energy efficiency advice, and better identification and help to vulnerable customers;

issue new standard licences\textsuperscript{84} to take account of new customer protection requirements in the Utilities Bill (Ofgem 2000d).

The initial proposals for an Environmental Action Plan explore Ofgem’s involvement in:

- creating incentives to use energy efficiency in price controls for gas
- promoting energy efficiency standards of performance
- requiring new Codes of Practice covering energy efficiency advice.

**Competition\textsuperscript{85}**

In 1999/2000, Ofgem contributed to the introduction of new wholesale trading arrangements for gas, including an independently operated screen-based on-the-day commodity market (OCM), and the auctioning of entry capacity on the National Transmission System (NTS). Ofgem has expressed a continuing commitment to extend competition in wholesale gas markets. In July 2000, Ofgem published a review the OCM, the auctions of transmission entry capacity on Transco’s transmission system, and wholesale gas prices\textsuperscript{86}. It will conduct further work on Transco’s system operator incentive schemes and its long-term investment incentives and seek to introduce revised exit capacity arrangements. Ofgem also proposes to review the present governance arrangements of Transco’s network code.

Ofgem also aims to further promote competition in those parts of the industry that are not fully competitive. Ofgem will focus on the separation of potentially competitive businesses, including meter provision, meter operation, meter reading, and the gas connections business, from those monopoly transmission or distribution businesses with which they have been associated historically. In the emerging competitive market of connections, Ofgem will continue to regulate to remove both price and non-price barriers to the development of effective competition. In metering, in addition to introducing separate price controls for metering, meter reading and transportation, Ofgem will work toward removing non-price barriers to competition in the meter and meter reading business sectors.

With the recent introduction of auctions of liquefied natural gas (LNG) storage capacity, Ofgem will focus its efforts on monitoring the developments in this and other recently deregulated storage markets.

\textsuperscript{84} In February 2000, Ofgem published a consultation paper on the modifications to the standard licence conditions under the Utilities Bill. The paper focused primarily on modifying electricity licences to bring them in line with the gas licensing regime, but did also include key modifications to the gas licence.

\textsuperscript{85} This section is drawn from Ofgem 2000d.

\textsuperscript{86} Ofgem 2000 *The New Gas Trading Arrangements: A review of the new arrangements and further development of the regime. A review and decision document.*
In the supply sector, Ofgem will continue to monitor and review the effects of the dominance of British Gas Trading, as well as the effects of increased competition on different types of consumers.

Under the Competition Act 1998, Ofgem has new powers to conduct investigations and undertake enforcement action against anti-competitive behaviour. Ofgem will also focus on developing expertise on the impact of mergers and acquisitions to advise the OFT and the Secretary of State on merger proposals and to secure an environment in which competition can develop.

Price controls

The new supply price control came into effect on 1 April 2000 and expires on 31 March 2001. Ofgem has expressed an intention to remove the price control on gas supply at the end of the current price control period, subject to the development of effective competition in the present controlled market. A priority of Ofgem in the year ending 31 March 2001 will, therefore, be to remove barriers to competition in those areas which it has deemed do not currently have effective competition, and to review the progress in the development of competition in the tariff controlled market segments to determine whether price controls can be withdrawn in 2001.

Price controls will continue in the natural monopoly areas of gas transportation and distribution. Transco’s current price control expires on 31 March 2002 and the process of review of the price control started in mid-2000 with a view to completion in 2001 and implementation in April 2002.
APPENDICES
Appendix 1: Licensed gas suppliers

Domestic and small business gas suppliers

<table>
<thead>
<tr>
<th>Supplier</th>
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<tbody>
<tr>
<td>Amerada</td>
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<tr>
<td>Beacon Gas</td>
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<tr>
<td>British Gas Trading Ltd (trading as British Gas Home Energy)</td>
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<tr>
<td>Cambridge Gas Company Limited</td>
</tr>
<tr>
<td>CPL British Fuels</td>
</tr>
<tr>
<td>Crown Oil Ltd (trading as Crown Energy)</td>
</tr>
<tr>
<td>Eastern Natural Gas</td>
</tr>
<tr>
<td>Elf at home</td>
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<tr>
<td>Gas West Limited</td>
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<tr>
<td>Independent Energy UK</td>
</tr>
<tr>
<td>London Electricity</td>
</tr>
<tr>
<td>Midland Shires Farmers Limited</td>
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<tr>
<td>Midlands Gas Ltd</td>
</tr>
<tr>
<td>Northern Electric and Gas Ltd</td>
</tr>
<tr>
<td>Northern Energy (Energy Supplies UK Limited)</td>
</tr>
<tr>
<td>North Wales Gas Limited</td>
</tr>
<tr>
<td>Norweb Gas Limited (trading as Energi)</td>
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<tr>
<td>npower</td>
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<tr>
<td>Powergen Retail gas Ltd</td>
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<tr>
<td>Scottish Gas</td>
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<tr>
<td>Scottish Power</td>
</tr>
<tr>
<td>Southern Electric Gas Ltd (also trading as Scottish Hydro Electric Gas)</td>
</tr>
<tr>
<td>SWALEC Gas Limited</td>
</tr>
<tr>
<td>SWEB Gas</td>
</tr>
<tr>
<td>TELECOM PLUS plc</td>
</tr>
<tr>
<td>The Gas Supply Company Ltd</td>
</tr>
<tr>
<td>York Gas</td>
</tr>
<tr>
<td>Yorkshire Electricity Domestic Gas Division</td>
</tr>
</tbody>
</table>

Source: Ofgem, June 2000
## Business, industrial and commercial gas suppliers

| Agip (UK) Ltd | Alliance Gas Ltd |
| Amerada Hess Gas Ltd | Aquila Energy Ltd |
| Associated Contract Energy Ltd | Beacon Gas Ltd |
| BP Gas | Budget Gas Ltd |
| Business Gas (a British Gas business, British Gas Trading Ltd) | Butler Fuels |
| Contract Natural Gas Ltd | Crown Energy |
| Cumbria Energy Ltd | CPL British Fuels |
| Duke Energy International Trading and Marketing (UK) Ltd | Eastern Natural Gas |
| Economy Gas Ltd | Elf Business Energy |
| Energy Supplies UK Ltd | Enron Direct Ltd (formerly PanEnergy) |
| Gaz de France (trading name for Volunteer Energy Group of companies) | The Gas Light and Coke Company Ltd |
| Gas Marketing Services Ltd | Gas West Ltd |
| Heatsave Limited | HE Energy |
| Highlands Fuel Ltd | ICD Gas (Reepham Ltd) |
| Independent Energy UK | Larnaca Gas |
| Manweb Gas Ltd | Midland Shires Farmers Ltd |
| Mobil Gas Marketing (UK) Ltd | Monal Utilities Ltd |
| Northern Electric plc | Northern Gas Supplies Ltd |
| Norweb Gas Ltd | North Wales Gas Ltd |
| North Sea Gas | Norvic Natural Gas |
| npower (trading name of National power Direct Ltd) | Pennine Natural Gas Ltd |
| PowerGen plc | Powergen Gas (UK) Ltd |
| Quantum Gas Management Ltd | Regent Gas Ltd |
| Ruhrgas Aktiengesellschaft | Saturn Gas Limited |
| Scottish Power | Shell Gas Direct Ltd |
| Southern Counties Total Gas | Southern Electric Gas Ltd |
| Southern Gas Ltd | SWALEC Gas Ltd |
| SWEB Gas | The Gas Company |
| Total Gas Marketing Ltd | V-is-on (trading name for Vector Gas) |
| YE Gas Ltd | York Gas Ltd |
| Zebra Power (trading name for ECONnergy UK Ltd) | |

Source: Ofgem, June 2000
Appendix 2: Statutory duties of Secretary of State and DGGS/GEMA

Gas Act 1986 (as amended by Gas Act 1995)

Primary duties of Secretary of State and Director General in relation to gas supply
- to secure that all reasonable demands in Great Britain for gas conveyed through pipes are met
- to secure that licence holders are able to finance the carrying on of their licensed activities
- to secure effective competition in the carrying on of licensed activities

Secondary duties of Secretary of State and Director General in relation to gas supply
- to protect the interests of gas consumers in respect of prices charged and the other terms of supply, the continuity of supply, the quality of gas supply services provided and the exercise of rights to enter their premises
- to promote efficiency and economy by authorised shippers, suppliers and transporters and the efficient use of gas by consumers
- to secure effective competition – in the conveyance of gas to pipe-line systems and to areas to which it has not previously been so conveyed, the supplying and laying of service pipes, and the carrying on of activities ancillary to licensed activities – and a duty to take into account, in the exercising of those functions, the effect on the environment of activities connected with the conveyance of gas

In performing these secondary duties, the Secretary of State or, as the case may be, the Director General must take into account, in particular, the interests of those who are chronically sick, disabled or of pensionable age.

In addition, the Secretary of State and the Director General each have a duty to protect the public from dangers arising from the conveyance of gas or from the use of gas. In performing these duties, the Secretary of State or the Director General must consult with and take into account any advice offered by the Health and Safety Executive.
Utilities Act 2000

Principal objective of Secretary of State and Gas and Electricity Markets Authority in relation to gas supply

- to protect the interests of consumers in relation to gas conveyed through pipes, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas so conveyed

Secondary duties of Secretary of State and Gas and Electricity Markets Authority in relation to gas supply

- have regard to the need to secure that all reasonable demands in Great Britain for gas are met
- have regard to the need to secure that licence holders are able to finance the activities which are the subject of the licensed obligations

In performing their duty, the Secretary of State or the Gas and Electricity Markets Authority shall have regard to the interests of individuals who are disabled, chronically sick, of pensionable age, with low incomes, and reside in rural areas.

Subject to the need to secure that all reasonable demands for gas are satisfied and the need to secure that licence holders are able to finance the license obligations, the Secretary of State and the Gas and Electricity Markets Authority shall promote efficiency and economy on the part of the licence holder and the efficient use of gas; protect the public from dangers arising from the conveyance or use of piped gas; secure a diverse and long-term energy supply; and have regard to the effect on the environment of activities connected with the conveyance of gas through pipes.

With respect to health and safety in relation to gas, the Secretary of State and the Authority shall consult the Health and Safety Commission about all gas safety issues and take into account any advice given by the Health and Safety Commission about any gas safety issue.

Specific duty of Secretary of State

- the Secretary of State shall from time to time issue guidance to the Gas and Electricity Markets Authority about its contribution toward the attainment of social or environmental policies
### Appendix 3: Standards of Service

Transco’s standards of service and performance in 1998 (Transco 1999a)

<table>
<thead>
<tr>
<th>Standards of service</th>
<th>Target %</th>
<th>Actual %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Answering telephone calls</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All calls to Transco telephone call centres to be answered within 30 seconds</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td><strong>Replying to letters</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All correspondence from domestic consumers to receive a reply within five working days except where immediate action is required</td>
<td>90</td>
<td>97</td>
</tr>
<tr>
<td><strong>Recording complaints</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A record will be kept of all complaints from whatever source</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>Visits in response to correspondence</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Where a visit is to be made following a letter or complaint, contact will be made within 2 working days of receipt of the correspondence</td>
<td>93</td>
<td>96</td>
</tr>
<tr>
<td><strong>Notification of planned work</strong></td>
<td></td>
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<tr>
<td>For planned work which involves interruption of the gas supply, and where access is required to gas consumers’ premises, written notification will be provided</td>
<td>95</td>
<td>99</td>
</tr>
<tr>
<td><strong>Keeping appointments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appointments made with gas consumers or the general public will be kept</td>
<td>95</td>
<td>99</td>
</tr>
<tr>
<td><strong>Responding to gas emergencies</strong></td>
<td></td>
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</tr>
<tr>
<td>Transco will respond to gas emergencies as quickly as possible within the following time scales:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. All uncontrolled escapes and emergencies – within 1 hour</td>
<td>97</td>
<td>97</td>
</tr>
<tr>
<td>2. All controlled escapes and emergencies – within 2 hours</td>
<td>97</td>
<td>99</td>
</tr>
<tr>
<td><strong>Providing alternative heating and cooking facilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transco will provide alternative heating and cooking facilities where a gas supply has to be disconnected for safety reasons to certain categories of gas consumers</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
### British Gas Trading standards of service and performance 1998 (DTI 1999a)

<table>
<thead>
<tr>
<th>Standards of service</th>
<th>Target</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1. Customer telephone calls to be answered within 30 seconds</td>
<td>90</td>
<td>96</td>
</tr>
<tr>
<td>2. Replies to customer correspondence within 5 working days, other than where immediate action is required. Interim replies must indicate when a substantive reply is to be provided</td>
<td>90</td>
<td>100</td>
</tr>
<tr>
<td>3. Keep a record of all written customer complaints</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>4. For correspondence which requires a visit, contact will be made within 2 working days and the subsequent visit within 5 working days of that contact or later, as agreed with the customer</td>
<td>93</td>
<td>98</td>
</tr>
<tr>
<td>5. Requests for a gas supply will be passed on to the relevant gas transporter within 48 hours</td>
<td>99</td>
<td>100</td>
</tr>
<tr>
<td>6. Appointments will be made and kept, and will be provided on a morning or afternoon basis</td>
<td>95</td>
<td>100</td>
</tr>
<tr>
<td>7. Credit gas</td>
<td></td>
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</tr>
<tr>
<td>(a) Gas bills based on actual meter reads will be submitted at least once a year (may be customer or company read)</td>
<td>90</td>
<td>96</td>
</tr>
<tr>
<td>(b) Company read gas bills on actual meter reads will be submitted at least once every two years</td>
<td>99</td>
<td>99</td>
</tr>
<tr>
<td>8. Attempt meter reads within 6 months after the previous attempt or read, except where it has been agreed otherwise</td>
<td>98</td>
<td>100</td>
</tr>
<tr>
<td>9. Appointments will be agreed for a final meter reading or clearance where requested, with at least two days notice</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>10. Visits in response to special meter reads or special meter clearance will be made within 3 working days of receipt of the request</td>
<td>99</td>
<td>100</td>
</tr>
<tr>
<td>11. Differences between estimated and actual gas use should be within approximately 4%</td>
<td>90</td>
<td>100</td>
</tr>
<tr>
<td>12. Action to prevent debt build up will be taken within 3 months after an unpaid bill has been dispatched</td>
<td>99</td>
<td>100</td>
</tr>
<tr>
<td>13. Provide helpline packs for customers whose accounts are unpaid and with whom no contact is made</td>
<td>99</td>
<td>100</td>
</tr>
<tr>
<td>14. Customers whose accounts are unpaid will be visited within 13 weeks to discuss arrangements to pay</td>
<td>95</td>
<td>99</td>
</tr>
<tr>
<td>15. Unless standard 16 applies, a payment arrangement will be offered to customers who contact British Gas with payment difficulties</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>16. Where a payment arrangement is not suitable, a prepayment meter or fuel direct will be offered</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>17. Gas payment plan</td>
<td></td>
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<tr>
<td>(a) 6 month monitoring of payment levels will be undertaken for regular payment schemes</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>(b) Refunds of Regular Payment Scheme credit balances will be made on request</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>18. Refunds due to customers will be dispatched within 5 working days of either receipt of the request from the customer or the decision that a refund is appropriate</td>
<td>95</td>
<td>100</td>
</tr>
<tr>
<td>19. The company will visit customers within 4 hours of receiving requests, where there is no gas due to a prepayment full box, or a difficulty with a gascard for an electronic meter</td>
<td>95</td>
<td>99</td>
</tr>
<tr>
<td>20. A GasCare register will be maintained and older or disabled customers will be invited to register</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21. Requested free gas safety check will be made within 28 days of joining the GasCare register</td>
<td>95</td>
<td>99</td>
</tr>
<tr>
<td>22. Annual advice on energy efficiency services available and points of contact for information will be provided to customers. Customers on gas care register advised annually of options for improving energy efficiency</td>
<td></td>
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</tr>
<tr>
<td>23. By calling a published local rate telephone number, customers can get free energy efficiency advice from trained specialists</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24. Energy efficiency advice given to customers with debt problems when visited</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
REFERENCES


Office of Fair Trading (1999) Concurrent application to regulated industries


THE UK GAS INDUSTRY


GILLIAN SIMMONDS


THE UK GAS INDUSTRY


Transco (n.d.) *Network code – the summary*


Transco (1999c) *Gas transportation charges from 1 October 1999*. Transco.


