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Wednesday 7th April 2010

Gas Metering Competition

Dear Steve,

I am writing to you in relation to your letter of 1 April, posted on the OFGEM website, entitled 'Review Of Current Metering Arrangements', and with reference 47/10. I have very deep concerns about the current lack of gas-metering competition within the industry.

Previously, I worked for some years at Gazprom Marketing & Trading Retail Ltd., a subsidiary of one of the world's largest gas companies. I first worked within the gas-supply contract-sales team, and later within the company's Energy Services team, offering gas connections to new and existing customers, a role I performed for nearly two years. This experience helped me understand the difficulties that customers encounter when requesting gas-pipe and/or meter installations, alterations and disconnections. Often the timescales are much longer than customers anticipate and can be very expensive in their implementation.

During my employment, as I reflected on the difficulties and expense of gas-connections work, I decided there should be opportunities for someone like myself to set up a gas-connections and metering consultancy/broker business. Thus I set up my own company, 1Gas T/A 1Gas Siteworks Ltd., on 16 February 2010. There were two principal reasons for this decision to set up the business. Firstly, I strongly believe that there are benefits to customers from using a company which is able to offer independent and unbiased advice on co-ordinating gas connections – 1Gas has no particular ties to any gas-pipe companies, gas-meter companies or gas-supply companies. Secondly, due to the small number of companies that offer gas connections (often referred to as siteworks), I believe that extra competition within the industry could only benefit customers by accessing better service and reduced costs.

Gas connections and metering can be very complex and tricky. Without due care, there can be errors, misunderstandings and technical difficulties that can result in long delays and hugely-expensive remedial action to resolve, not to mention frustrated customers. Having experience in this line of work, I believe 1Gas can help customers with their requirements, ensure things run smoothly, and that costs are kept to a minimum. In my experience, customers are often unsure to whom they should go when they need gas-connections works. Different pipe companies cover different regions, a pipe company is rarely able to organise gas-meter installation, and it can be difficult to get companies to talk to each other. Due to many customers' lack of knowledge, as a first port of call, they go to their regular gas supplier, which will often have a gas-connections team to manage the process. 1Gas' aim is to let customers liaise with just one company to manage the whole process, instead of potentially three, and thus make things run more smoothly and be more cost-effective.

Since 1Gas launched, I have been very pleasantly surprised by the volume of interest received from potential customers, and by the positive comments about the service that 1Gas aims to offer. Such comments include: 'this is exactly what the industry needs' and 'there is definitely a gap in the market [for a company like 1Gas]'. This clearly demonstrates the need for a company such as mine and the services it can



offer. It is also important to note that gas brokers play a crucial role in sourcing truly competitive gas-supply prices for businesses all over the UK. Gas-infrastructure brokering is, however, an area that very few companies operate within, so 1Gas aims to fill that gap and drive down costs whilst simultaneously delivering healthy competition to improve service in the market.

Unfortunately, I have come across a serious stumbling block, which was not anticipated and could not reasonably have been so. I am aware that it is possible to source gas-meter installation directly with a MAM (Meter Asset Manager), provided that a gas-supply contract has been put in place prior to installation. The serious difficulty I have come up against is the widespread unwillingness of almost all the major gas suppliers to offer a gas supply contract unless: (i) they fit the meter; or (ii) the meter is already installed. This creates a 'chicken and egg' situation where 1Gas should be able to facilitate the installation of a meter, using an approved MAM, but a meter cannot be installed unless a supply contract is in place first. Many gas suppliers refuse to offer a gas-supply contract unless they fit the meter or one is already in place. I do consider this to be very uncompetitive behaviour, by the gas suppliers, who seem to have a monopoly that allows only them to organise the fitting of meters. This means they can almost guarantee lucrative extra income from controlling the fitting of meters, thus effectively barring emerging companies from offering lower prices and better service; in other words, a cartel stifling the competition which is not in the interest of customers. This appears to contradict OFGEM's aims which are clear from your website: 'Promoting choice and value for all gas and electricity customers', and also a statement on your Metering Competition webpage: 'Securing effective competition in gas and electricity metering is one of Ofgem's key objectives. A competitive metering market can deliver significant benefits to consumers in the form of lower metering costs, better service and metering innovation'.

Gas suppliers are, in effect, preventing other companies or end consumers from working with MAMs to organise gas-meter installations, because they make very hard work of offering gas supply contracts prior to installation. This creates difficulties in shopping around to get the lowest prices possible. Any gas supplier fitting a meter will state that they can only put a supply contract in place if they fit a meter too. In an ideal world, an independent company like 1Gas would source gas-pipe quotes from companies, and source meter quotes from MAMs, allowing customers to shop around for the most competitive gas-supply contract before a meter is fitted.

This would create a situation where best-value prices could be sourced at each and every stage. This does not occur as things stand, so customers lose out, often dramatically so.

Due to the unwillingness of gas suppliers to quote for a supply contract, if they are not fitting the meter, it makes it near impossible to get the best possible deal for both the gas-supply contract and meter-installation cost.

The behaviour of suppliers is, in effect, to ring fence meter installations; the existence of a role that only a gas supplier can perform gives them an unfair competitive advantage over other companies wishing to innovate and improve service to gas customers. 1Gas aims to do just that, through services such as online quote requests and online quote/order tracking which are currently quite rare within the gas-connections industry.

The inability to source meters, unless via a gas supplier, substantially increases the difficulties in getting the best deal, and having to contact ten or more suppliers for meter costs is impractical; it would be taxing even for the most experienced of brokers, never mind a customer who has little or no knowledge of the gas-supply market.

Under present conditions, where gas suppliers will only offer a supply contract if they are organising the meter, it makes it impossible for other entrants to the metering industry to provide customers with the best deal possible. It makes services like those of 1Gas, which are both feasible for, and beneficial to, customers, inoperable in the current climate, and thus a disadvantage to MAMs, customers and companies like ourselves wishing to offer reduced costs and innovative service.



I am now having to seriously consider the viability of the service that 1Gas aims to offer, and what it is able to control, given gas suppliers' monopoly of being able to offer a gas-supply contract only on the principle that they organise meter installation. At best, we can source quotes from gas suppliers for meters, but true competition, i.e. getting best-value meter installation and gas-supply prices, is limited by gas suppliers' control over offering gas-supply contracts to customers. If meter installation can be sourced only from gas suppliers, the supply contract that is tied into that proposal is then, by its very nature, not having to compete with other suppliers; it is prohibiting true freedom for customers and brokers to obtain the cheapest options for gas-pipe, -meter and -supply contracts. There seem to be entrenched habits which work in favour of suppliers and to the disadvantage of customers.

I hope that this feedback may go some way to assisting the aims of OFGEM to ensure that the gas-metering industry is truly fair, competitive and a level playing field that will encourage new company entrants to the metering market, and deliver continuous improvements in service and drive down costs.

Given all of the above, I think it is vitally important to investigate and remedy this situation in the interests of consumers. Without such action, nothing will change, customers will continue to get a raw deal and I can see companies like 1Gas being unfairly squeezed out of the market. I look forward to your considered response. If I can be of further assistance, then please do not hesitate to contact me on 0161 793 7502 or 07708 745550.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'R Hearne'.

Richard Hearne.