

December 2001

**Guaranteed and overall standards
for independent Gas Transporters**

Final proposals

Executive summary

In October 2001 Ofgem published a consultation paper on Guaranteed and Overall Standards for Independent Gas Transports (IGTs). This document summarises the responses to that paper and sets out final proposals in the light of comments that we received.

Each IGT is a local monopoly similar to the larger monopoly operated by Transco. Consumers on IGT networks are unlikely to have different service requirements or preferences to similar consumers on Transco's network. It is appropriate that consumers on IGT networks are afforded the same protection with regards to the standards of transportation service that they receive. Therefore the final proposals for Transco's guaranteed and overall standards of service set out in the September 2001 Transco Price Control Final Proposals paper will also apply to each IGT. Nevertheless, there are a number of issues specific to IGTs that need to be considered as part of the process of applying the proposed standards. This paper makes final proposals with respect to:

- ◆ compensation for large industrial and commercial consumers;
- ◆ standards for planned interruptions;
- ◆ interruptions on connected networks;
- ◆ measurements issues; and
- ◆ auditing.

The main differences with the arrangements for IGTs from those proposed for Transco is that there will be no standards of performance or incentive arrangements relating to planned interruptions, and performance against the standards will be measured on the basis of average performance over a three year period. The new standards should be in place by April 2002.

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1. Introduction

Purpose of this document

- 1.1 This document provides a summary of views on the application and measurement of guaranteed and overall standards of performance for IGTs and sets out final proposals for these standards. Additionally, it details the timetable and process for the introduction of guaranteed standards of performance by means of a Statutory Instrument and overall standards of performance by the issuing of Directions. Ofgem will also need to propose modifications to standard condition 6 and 20 of the Gas Transporters licence to avoid overlap between the existing standards of service and the new standards of performance for Transco and the IGTs.

Structure of the document

- 1.2 This chapter includes the timetable for introducing the new standards of performance for IGTs. Chapter 2 provides a summary of responses to the issues raised in the October 2001 consultation document and sets out the final proposals for IGT standards of performance. The appendices include tables detailing each guaranteed and overall standard and a list of respondents to the October consultation. The October consultation document presented the background to IGTs and standards and reported on the results of previous consultations. It is available on Ofgem's web site: www.ofgem.gov.uk

Timetable

- 1.3 The timetable for implementing the guaranteed and overall standards will be broadly as follows:
- ◆ there will be a formal consultation on the Statutory Instrument and Directions required to implement the standards in January 2002;
 - ◆ Ofgem will consult on the relevant licence modifications by February 2002;
 - ◆ the Statutory Instrument will be made and the relevant Directions will be issued in March 2002; and

- ◆ the guaranteed and overall standards of performance will be implemented in April 2002.

2. Summary of responses and final proposals

- 2.1 Each IGT is a local monopoly similar to the larger monopoly operated by Transco. Consumers on IGT networks are unlikely to have different service requirements or preferences to similar consumers on Transco's network. It is appropriate that consumers on IGT networks are afforded the same protection with regards to the standards of transportation service that they receive. Therefore, the final proposals for Transco's guaranteed and overall standards of performance for transportation services outlined in the September 2001 Transco price control paper will also apply to the IGTs. These are summarised in appendix one. Nevertheless, there are a number of issues specific to IGTs which were raised in the October 2001 consultation. A summary of responses to this consultation and final proposals are set out below.
- 2.2 In addition, there has been discussion of guaranteed and overall standards for Transco's metering services and Transco's connection services. In contrast to Transco, IGTs do not appear to have a dominant position in the provision of metering or connection services and there have been no complaints about IGTs' connection services. It is therefore not appropriate to introduce standards of performance for these services.

Summary of responses and final proposals

- 2.3 A total of eleven responses were received from GTs, Shippers and Suppliers and customer representatives. Eight of the respondents supported Ofgem's proposals to apply uniform standards of performance to all GTs, many recognising that GTs are natural monopolies. Overall, those who supported the proposals noted that a uniform set of standards would enable Suppliers to offer equivalent services across networks and allow accurate assessment of service quality between GT networks. However, other respondents were concerned that requiring uniform standards of IGTs would impose additional costs upon them which were not justified by the benefits to consumers, particularly given the relatively low level of complaints about these matters. Additionally, it was suggested that a uniform approach may constrain IGTs from offering better consumer service and developing a marketing advantage.

Compensation for large industrial consumers

- 2.4 Views were sought on whether all GTs should have the same standards as Transco for compensating large industrial and commercial consumers for interruptions. Transco's Network Code contains provisions to ensure that where gas supply interruptions last longer than 24 hours compensation is paid to consumers through the relevant Shipper and Supplier, with the amount of compensation depending upon capacity booked.
- 2.5 Four respondents made specific comments on this issue. Three respondents supported moves to align the IGTs Network Code provisions with Transco's Network Code. Another respondent thought that it was reasonable for IGTs to face the same requirements as Transco, however any necessary Network Code amendments should arise through commercial agreement between Shippers and Transporters, rather than through regulated standards.

Final proposals

- 2.6 These are Network Code issues and therefore no specific guaranteed or overall standard will be introduced at present. Nevertheless, the industry will be encouraged to align IGT Network Codes with provisions in Transco's Network Code (section J3.5) which grants higher levels of compensation for interruptions to larger industrial and commercial consumers. Ofgem will continue to monitor developments in the market and, if Network Code provisions do not sufficiently protect consumers, consider if further regulatory intervention is necessary in the future.

Standards of performance to address the number of planned interruptions on IGT networks

- 2.7 The consultation noted that the majority of guaranteed and overall standards relate to unplanned interruptions. Views were invited on whether IGTs should have incentives to reduce all types of interruptions, in line with the proposals for Transco's output regime.
- 2.8 Three respondents directly addressed this issue. Two respondents supported a standard, although they noted the low frequency of interruptions on the IGTs' gas networks (which are relatively modern). Another respondent did not support

introduction of a standard without an assessment of the need for such a standard on IGT networks. It suggested that consumers would not see any benefit from a standard relating to planned interruptions.

Final proposals

- 2.9 At present it is not proposed to introduce an additional standard of performance on the number of planned interruptions. However, each IGT will be required to report annually on the number of planned interruptions on its network. These reports should allow Ofgem to determine whether consumers are receiving a satisfactory service. If there is evidence to suggest that this is not the case, then it will be important to consider introducing appropriate standards.

Interruptions on IGT networks which cause a failure on a downstream network

- 2.10 If Transco fails to make gas available to independent networks for longer than 24 hours it must pay compensation to the relevant gas Shipper, who then passes compensation to consumers via the relevant Supplier. The consultation asked whether similar arrangements should be applied to all GTs.
- 2.11 Six respondents supported the introduction of this standard. However, a number of respondents pointed out that clear responsibilities, processes and guidelines would need to be in place to allow this standard to function correctly.

Final proposals

- 2.12 These are Network Code issues and therefore no additional guaranteed or overall standard will be introduced at present. Nevertheless, the industry will be encouraged to adopt Network Code modifications in line with Transco's Network Code provisions on this issue. Ofgem will continue to monitor how consumers are affected by downstream interruptions and whether the evidence suggests that any further regulatory intervention is necessary, including the introduction of a standard.

Measurement issues

- 2.13 The standards of performance proposed for IGTs, particularly the overall standards, raised a number of questions over appropriate measurement of

performance given the small consumer base of IGTs. A number of solutions were suggested:

- ◆ measurement of performance against standards over a longer time period. For instance, achievement of a 90 per cent target over a three-year period rather than one year;
- ◆ a rolling average performance level – this would allow poor performance in one year to be off set by better performance in another; and
- ◆ the guaranteed and overall standards of performance could be applied only to IGTs above a certain size, for example 10,000 consumers.

2.14 Eight responses addressing this issue were received. All recognised the difficulty of properly measuring standards, particularly overall standards, with a small consumer base. However, views on how to address the issues varied widely. One respondent thought that all GTs should face the same standards regardless of the number of consumers. Another suggested a one year grace period to allow the new arrangements to bed-in. Several respondents suggested a mixture of solutions. These included using a minimum number of consumers to determine whether standards should apply, or using a longer period for measurement of performance until a suitable size threshold is reached. At this point standards could be measured in the same way as for Transco.

2.15 One respondent said that the costs of measuring the standards should be commensurate with the benefits received by consumers. Another respondent suggested that the way standards should be applied to IGTs needed to take into account those services contracted out by IGTs to Transco, for instance the gas emergency service. Another respondent raised concerns that any system of measurement could result in a high percentage failure rate despite low occurrences in absolute terms and create a barrier to network expansion if standards of performance were to be imposed once a particular threshold number of consumers were connected.

Final proposals

2.16 IGT performance will be measured using a three year average, with the same target levels as Transco. If average performance over the three year period fails

to meet the target level the GT will have breached its licence obligation to provide high levels of service to consumers and may face a financial penalty. A three year average will make allowance for IGTs with a small number of consumers, where annual fluctuations in service use may distort performance indicators if measured over a single year. Nevertheless, each IGT will be required to report annually on its performance under each standard.

Auditing of standards of performance

- 2.17 Ofgem has proposed to undertake an audit of Transco's performance under its standards of performance. The consultation asked for views on whether IGT standards should be audited, who should fund an audit and whether IGTs should only be audited if over a certain size.
- 2.18 Seven respondents offered views on whether the reported standards should be audited. One respondent stated that audits for IGT networks were not necessary. Two respondents were in favour of audits, with the remaining respondents emphasising the need to carefully balance the costs incurred against the benefits – with audits only applied to IGTs after they exceeded a particular size. One respondent commented that Ofgem should treat IGTs like Transco and, if an audit was required, meet the costs directly rather than requiring IGTs to fund the costs.

Final proposals

- 2.19 It will be important that the data collected by IGTs to measure standards of performance is audited. The timing and form of the audit, and responsibility for undertaking the audit, will be considered in due course.

Summary

- 2.20 The proposed standards will establish a similar regime across all GTs. This will allow consumers to compare service across networks and enable Suppliers to offer a uniform service to all consumers regardless of the network to which they are connected.

Appendix 1 Guaranteed and overall standards and their application to IGTs

1.1 The standards of performance that will apply to IGTs are set out in tables 1 and 2 below.

Table 1. Final Proposals for Guaranteed Standards of Performance

No	Standard	Definition	Payment
1	Restoring domestic consumers' supplies after an unplanned interruption.	Where domestic consumers are interrupted for a period of greater than 24 hours, a fixed compensation payment will be made for each subsequent period of 24 hours or part of such a period consumers are off supply. This applies regardless of the cause of the interruption. (It excludes interruptions where more than 50,000 consumers are affected. It also excludes cases where gas has been restored up to the emergency control valve, but the GT is unable to gain access to complete the reconnection.)	£30 Cap per consumer of £1000
2	Reinstatement of consumers' premises	On completion of GT initiated work to re-lay service pipes on a consumer's premises, the premises will be permanently reinstated within 10 working days. If the premises are not permanently reinstated within this time, a fixed compensation payment will be made for each subsequent period of 5 working days or part of such period until the premises are permanently reinstated.	£50 (domestic) £100 (non-domestic)
3	Making and keeping appointments	GTs should arrange a morning or afternoon appointment for consumer initiated work, or a timed appointment if requested by the consumer. A fixed compensation payment will be made where GTs fails to attend.	£20
4	Adequate heating and cooking facilities.	If it is necessary for safety reasons for A GT to disconnect the gas supply to premises occupied by a domestic consumer who: (a) Is disabled, chronically sick, or of pensionable age; (b) Does not live with any person who is not disabled, or chronically sick, not of pensionable age or a minor; and (c) Is included on a priority service register provided by a supplier, They will not be deprived of adequate heating and cooking facilities. A fixed compensation payment will be made where consumers are deprived of these facilities.	£24
5	Notifying consumers (or relevant shippers) of payments owed under the standards	GTs shall write to the consumer (or shipper) and make payment within 10 working days. Where GTs fails to inform the consumer (or shipper) and make payment within 20 working days a fixed payment will be made.	£0 £20

Table 2. Final Proposals for overall standards of performance

No	Standard	Definition	Target
1	Telephone calls	GTs' call centres will answer telephone calls within 30 seconds. Emergency calls will be given priority over other types of call.	90%
2	Notification of planned supply interruptions	For planned maintenance or replacement work, which involves interruption of the gas supply, a standard notification letter will be provided to consumers directly affected at least 5 working days in advance of starting the work.	95%
3	Informing consumers of when they are due to be reconnected	For unplanned supply interruptions which are expected to last over 24 hours and: (a) Less than 250 consumers are affected The GT will inform individual consumers that they have been interrupted and the expected programme for reconnection within 12 hours of it having knowledge of the interruption; and (b) More than 250 consumers are affected The GT will provide public announcements to inform consumers that they have been interrupted and the expected programme for reconnection within 12 hours of it having knowledge of the interruption (for example, using local public address broadcasts and local radio). Progress charts and the reconnection programme should be displayed locally and updated information should be provided to consumers every 24 hours. (The expected programme for reconnection should include the expected day of reconnection)	97% 97%
4	Acknowledging correspondence	All correspondence from gas consumers or members of the general public will receive an acknowledgement within 5 working days of receipt. This will indicate when a substantive response may be expected.	90%
5	Visits	Where a visit is appropriate following receipt of correspondence or a complaint: a) Contact will be made within 2 working days of receipt of the correspondence; and b) The visit will be made within 5 working days of contact with	93%
6	Substantive response to complaints	Consumer shall receive a substantive response to complaints from whatever source within 10 working days other than in exceptional circumstances. (This would include complaints relating to metering until this market becomes competitive and connections work where it has legal obligations).	90%
7	Gas emergencies	Where The GT receives a report of a gas emergency or gas escape, significant spillage of carbon monoxide or other hazardous situations, it will attend as quickly as possible within the following timescales: a) all uncontrolled escapes within 1 hour; and b) all controlled escapes within 2 hours	97% 97%

Appendix 2 List of respondent s

2.1 The following organisations responded to the October 2001 consultation

Innogy plc

TXU Energy

ScottishPower

ScottishPower Gas

Energywatch

East Midlands Pipelines

British Gas Connections Ltd

British Gas Trading

United Utilities

The Major Energy Users' Council

LE Group