

# **Quality of Service for Gas Distribution Networks**

## **Initial Consultation**

August 2004

## Summary

The quality of service consumers receive from network companies is becoming increasingly important in both gas and electricity. Ofgem has recognised this and has developed a number of mechanisms to provide incentives for network companies to deliver an appropriate quality of service to consumers, including Standards of Performance, output reporting and financial incentives through price controls.

This is the first consultation document which sets out initial thoughts on the issues associated with quality of service for Transco's eight Distribution Networks. It builds on work undertaken as part of the last Transco price control review as well as work undertaken since that time. It provides an opportunity to stand back and assess the areas of quality of service that are important to consumers and then look at whether they are appropriately incentivised through the regulatory framework.

Ofgem considers this to be an open consultation which invites respondents to comment on the appropriateness of the existing regulatory framework in respect of quality of service. The document describes the current regulatory framework in gas distribution, what Ofgem considers to be the key objectives for quality of service incentives and whether the existing framework delivers to these objectives. It asks respondents to identify any gaps or weaknesses in the regulatory framework and how these may be best addressed.

# Table of contents

<b>1. Introduction.....</b>	<b>1</b>
Purpose of this document .....	1
Background .....	1
Work to date .....	2
Structure of this document.....	2
Responding to this document .....	3
<b>2. Regulatory background.....</b>	<b>4</b>
Introduction .....	4
Regulatory framework .....	4
<b>3. Objectives for quality of service incentives .....</b>	<b>10</b>
Introduction .....	10
Objectives for quality of service incentives .....	11
Does the existing regulatory framework deliver against these objectives?.....	15
<b>4. Views invited .....</b>	<b>22</b>
<b>Appendix 1 Guaranteed Standards of Performance .....</b>	<b>1</b>
<b>Appendix 2 Overall Standards of Performance .....</b>	<b>3</b>
<b>Appendix 3 Summary of reported interruptions data.....</b>	<b>5</b>

# 1. Introduction

## *Purpose of this document*

- 1.1. Transco's current price control was introduced in April 2002. As part of the final proposals for the review, which were published in September 2001, Ofgem proposed to introduce incentives for improvements in quality of service on the Distribution Networks (DNs) from April 2004. This was subsequently revised to 2005.
- 1.2. This is the first consultation document which sets out Ofgem's initial thoughts on the issues associated with quality of service for Transco's eight DNs.<sup>1</sup> It provides an opportunity to stand back and assess which outputs are important in gas distribution and whether the existing regulatory framework provides adequate incentives for the DNs to deliver an appropriate quality of service to consumers over the short and longer term. The consultation considers how regulatory incentives on quality of service could be improved and where additional incentives should be most appropriately targeted.

## *Background*

- 1.3. Transco's current price control was introduced in April 2002. The price control was subsequently split in 2004 to reflect the eight regional DNs.<sup>2</sup> These DNs distribute gas from the National Transmission System (NTS) to end consumers. In order to preserve the incentives for efficiency and maintain regulatory stability, the total revenue provided by Transco's existing distribution price control revenue was allocated between the separate DN price controls.
- 1.4. The price controls on the DNs provide protection to consumers with respect to the charges that they pay for use of the local gas distribution network. Consumers should also be protected in terms of the quality of service that they receive from DNs. Regulation of quality of service has increasingly focussed on

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<sup>1</sup> At present, Transco owns and operates the assets of all eight Distribution Networks. It is currently going through a process of selling off up to four of these Networks, subject to regulatory approval

<sup>2</sup> See Ofgem publication 'Separation of Transco's distribution price control – final proposals', June 2003  
Quality of Service for Gas Distribution Networks 1

the outputs that really matter to consumers – for example interruptions to supply in electricity distribution.

- 1.5. It is important therefore to consider the areas of quality of service that do matter to gas consumers and then look at whether DNs have incentives to deliver an appropriate level of service in these areas. Incentives can take different forms; they can be financial or could rely on publishing information on performance, for example through league tables. They may focus on all or a subset of consumers, for example worse served consumers. Different types of incentives may be required for different areas of service. The first step however is to consider whether there are gaps or weaknesses in the regulatory framework for quality of service. The next step is to see how it should be developed to ensure that the interests of consumers are protected in this regard, consistent with Ofgem's principle objective and statutory duties.

### ***Work to date***

- 1.6. Since the introduction of the current price control, Ofgem has been assessing a number of key areas of the quality of service provided by Transco's DNs. This has included revising the Regulatory Instructions and Guidance (RIGs), developing a detailed understanding of non-contractual supply interruptions on DNs – including the main causes of these interruptions and issues regarding measurement in terms of the number and duration of interruptions – and appointing gas technical consultants to assess Transco's measurement systems for reporting interruptions and overall RIGs compliance. Ofgem's consultants are due to complete a report on this later this month and it will be available on Ofgem's website [www.ofgem.gov.uk](http://www.ofgem.gov.uk)

### ***Structure of this document***

- 1.7. Chapter 2 of this paper describes the regulatory framework under which Transco's DNs operate, with Chapter 3 considering the objectives for quality of service incentives and whether they are met under the existing framework. Chapter 4 asks for views on the issues raised in this document.

## ***Responding to this document***

- 1.8. Ofgem would like to hear the views of all those with an interest in this area including consumers and their representatives, Transco, other network operators and any other interested parties. Responses should be received by 17 September 2004 and sent to:

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- 1.9. Unless marked as confidential all responses will be published by placing them in Ofgem's library and on the website. It would be helpful if responses could be submitted both electronically and in hard form.
- 1.10. Questions on any aspect of this document should, in the first instance, be directed to Richard Clay.

## 2. Regulatory background

### *Introduction*

- 2.1. In taking forward this project, Ofgem will be guided by its principle objective and general duties as set out in the Gas Act 1986 (“the Act”). Ofgem has a principal objective under the Act to protect the interests of consumers, wherever appropriate by promoting effective competition.

### *Regulatory framework*

- 2.2. The Act requires each person who conveys gas to hold a gas transportation licence, unless granted an exemption by the Secretary of State. Transco holds a gas transportation licence which sets out a range of licence obligations through which Ofgem regulates certain aspects of its behaviour.
- 2.3. The Act imposes a specific duty on gas transporters to develop and maintain an efficient and economical pipe line system for the conveyance of gas.<sup>3</sup> The Act also makes provision for Ofgem to regulate the quality of service delivered to end consumers by enabling Ofgem to prescribe Standards of Performance which ought to be achieved by gas transporters.<sup>4</sup>
- 2.4. The DNs are subject to a number of other quality of service incentives that arise from different parts of the regulatory framework. These are discussed in more detail below.

### **DN price controls**

- 2.5. Transco currently operates under separate price controls for each of its DNs. An overall price control came into effect in April 2002, which was subsequently separated by DN from April 2004. In order to preserve the incentives for efficiency and maintain regulatory stability, the total revenue provided by the existing total distribution price control revenue was allocated between the

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<sup>3</sup> See s.9(1)(a) of the Gas Act

<sup>4</sup> See s. 33AA and 33BA of the Act

separate DN price controls. Further detail on the separation of Transco's price controls can be found on Ofgem's website.

- 2.6. The separate DN price controls establish revenue caps designed to encourage overall cost efficiency and efficient investment. However, at present, there are no specific financial incentives in the price control mechanism on quality of service delivery.

### **Relevant licence conditions**

- 2.7. There are a number of licence conditions in Transco's Gas Transporters Licence in respect of quality of service.

#### *Output Reporting condition*

- 2.8. Special Condition 36 of Transco's licence requires it to report information on outputs such as the number and duration of interruptions, the resolution of shipper queries and performance in respect of the mains replacement programme. Ofgem introduced these requirements as part of the price control to require Transco to measure and report information on the specified outputs consistently across its DNs on a regular basis. The detailed definitions and guidance for reporting are set out in a supporting document, the RIGs.
- 2.9. Under Special Condition 36, Transco is required to begin collecting information and then reporting performance on an annual basis from April 2002, with the exception of data on interruptions. Compliance with this part of the Condition was delayed by a year to allow Transco sufficient time to develop its systems to report performance on these output measures. Transco is required to report performance on interruptions on a quarterly basis for three years from April 2003 to enable Ofgem to gain a better understanding of its performance in respect of these outputs and also changes in performance over time.
- 2.10. The original version of the RIGs came into effect in April 2002. A revised version was published in February 2004<sup>5</sup>, reflecting a modification to Transco's Network Code in respect of shipper queries.<sup>6</sup>

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<sup>5</sup> See Ofgem publication 41/04, 'Regulatory Instructions and Guidance for Reporting Outputs – version 2', February 2004  
Quality of Service for Gas Distribution Networks 5  
Office of Gas and Electricity Markets

- 2.11. Ofgem intends to publish the information reported under Special Condition 36 on an ongoing basis and has already done so for the first year's data. The 2002/03 data for all major DN outputs, except interruptions, was published in the Gas Distribution Quality of Supply Report in March 2004.<sup>7</sup>

*Code of Practice conditions*

- 2.12. Transco also has a number of other licence conditions setting out certain codes of practice. For example, Standard Licence Condition 18 requires Transco to prepare and operate to a Code of Practice with regard to domestic consumers that require special services by virtue of being blind or deaf. Standard Licence Condition 21 requires Transco to prepare and operate to a Code of Practice with regard to handling complaints from domestic consumers.

**Standards of performance**

- 2.13. The Standards of Performance framework includes both Guaranteed Standards of Performance (GSOP) and Overall Standards of Performance (OSOP) and came into effect in April 2002. GSOPs set service levels that must be met in each individual case and were introduced under section 33AA of the Gas Act with the consent of the Secretary of State for Trade and Industry, via a Statutory Instrument.<sup>8</sup> For example, there is a GSOP on reinstating a consumer's premises following the completion of works to relay service pipes within 10 working days. A failure to achieve this results in a compensation payment for the inconvenience caused.
- 2.14. OSOPs set minimum average levels of performance that Transco must deliver both overall and for each of its DNs. For example, there is an Overall Standard on Transco to answer telephone calls to the national emergency number within 30 seconds in 90 per cent of instances. These service levels were determined by the Authority under section 33BA of the Gas Act. The determination was made in March 2002 and is available on Ofgem's website.

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<sup>6</sup> Transco proposed a modification to its Network Code in 2003, which resulted in a change to the RIGs in relation to reporting on performance on resolving shipper queries.

<sup>7</sup> See Ofgem publication 71/04, 'Gas Distribution Quality of Supply Report', March 2004

<sup>8</sup> See Statutory Instrument 2002 no. 475, 'The Gas (Standards of Performance) Regulations 2002' and Statutory Instrument 2002 no. 741, 'The Gas (Standards of Performance) (Amendment) Regulations 2002'

- 2.15. Transco and the other gas transporters are required to report performance levels under the Standards of Performance on an annual basis to Ofgem. energywatch is responsible for making this information available more widely. Each gas transporter is required to publicise the rights afforded to consumers by the Standards of Performance in an annual Notice of Rights which consumers should receive from their supplier. Transco recently published the latest version of its Notice of Rights on its website.
- 2.16. Compensation is available to consumers under the GSOPs where Transco fails to meet the required standards of performance.

### **Network Code**

- 2.17. There are also a number of standards of service obligations in the Network Codes. These standards of service are mainly focussed on metering and Supply Point Administration activities, although there are some on quality of service. For example, Transco's Network Code standards cover supply restoration for non domestic consumers and resolving industrial and commercial consumers' queries.
- 2.18. Transco performance against Network Code standards of service is reported monthly to Ofgem and shippers. Where performance falls below planned performance, Transco is required to make liability payments to the affected parties.<sup>9</sup>

### **Financial penalties**

- 2.19. Ofgem can impose a financial penalty of up to 10 per cent of a licensee's turnover if the licensee has breached a condition of its licence. A financial penalty may also be imposed by Ofgem where a licensee has breached a relevant requirement of its licence (which includes the requirements of a GSOP) or a licensee has failed to achieve any standard of performance prescribed in an OSOP.

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<sup>9</sup> More detail on the Network Code standards of service can be found on Transco's website  
Quality of Service for Gas Distribution Networks 7  
Office of Gas and Electricity Markets

## **Safety obligations**

- 2.20. In addition to the quality of service incentives described above, Transco has certain safety obligations including a requirement to operate the gas networks safely in terms of security of supply and the prevention of incidents, injuries and fatalities. Transco is required to comply with the requirements of the Gas Safety (Management) Regulations<sup>10</sup> ("GSMR") which include the appointment of an independent Network Emergency Co-ordinator, the requirement to operate a National Gas Emergency Telephone system for reporting of all gas emergencies on all GT networks, and ensuring gas quality (in respect of Calorific Value, Wobbe Number, impurities etc) is maintained within strict limits.
- 2.21. Transco is also subject to other legislation such as the Health & Safety at Work Act 1974, the Gas Safety (Installation and Use) Regulations<sup>11</sup> and the Pipeline Safety Regulations.<sup>12</sup> Transco manages its key safety issues via the requirement in the GSMR for a gas transporter to operate a Safety Case which has been lodged and approved by the HSE.

## **Other legislation**

- 2.22. In addition to the framework as described above, DNs are subject to general competition law. However, the incentives and penalties created by the Competition Act 1998 are outside the scope of this paper.
- 2.23. In taking forward the work in this area, Ofgem will also take into account the duties and objectives introduced under the Energy Act 2004.

## **DN Sales**

- 2.24. In May 2003, Transco publicly announced that it is currently considering selling up to four of its DNs. Any such sale would require the consent of the Authority, the HSE and the Secretary of State. In July 2003 Ofgem issued a consultation document on the regulatory and operational changes required to facilitate the

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<sup>10</sup> See Statutory Instrument 1996 No. 551

<sup>11</sup> See Statutory Instrument 1998 No. 2451

<sup>12</sup> See Statutory Instrument 1996 No. 825

sale of one or more DNs.<sup>13</sup> Following this consultation, in December 2003, Ofgem issued its Next Steps document setting out responses to the July consultation, Ofgem's current views and a proposed way forward for considering Transco's proposals, including the establishment of workgroups to take forward the development of a commercial and regulatory framework.<sup>14</sup>

- 2.25. Since the release of the December document, Ofgem has established a number of these workgroups. The workgroups have been successful in providing industry participants with an opportunity to contribute to the commercial and regulatory framework that would apply in the event of a DN sale and Ofgem is now working towards reaching all significant policy decisions on this framework by early August 2004.
- 2.26. Ofgem has recently issued an indicative process and timetable for considering DN sales. This timetable was released on an informal basis and was not intended to bind or fetter the Authority's discretion in relation to DN sales. As part of this indicative process, Ofgem will shortly commence the development of new DN licences and consider the changes that would need to be made to Transco's existing licence. As part of this process Ofgem intends to issue an informal licence consultation document in early September 2004. In releasing this document, Ofgem will consider the potential impact of any DN sale on the existing licence conditions that are relevant to quality of service including Special Licence Condition 36 and Standard Licence Conditions 18 and 21. In addition, Ofgem will consider the impact of any DN sale on the Standards of Performance framework.

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<sup>13</sup> See Ofgem publication 77/03; 'National Grid Transco – Potential sale of a network distribution business', July 2003

<sup>14</sup> See Ofgem consultation 'National Grid Transco – Potential sale of network distribution businesses; Next Steps', December 2003

## 3. Objectives for quality of service incentives

### *Introduction*

- 3.1. This chapter considers the objectives for quality of service incentives that might be appropriate, and whether the current regulatory framework meets these and delivers an appropriate quality of service to consumers in both the short and longer term. Initially however the chapter assesses the balance of overall incentives for efficiency and quality provided through the price controls.

### **Balancing overall incentives for efficiency and quality**

- 3.2. It is important to provide an appropriate balance for regulated companies between incentives for efficiency and incentives for quality of service. In the past, price controls have tended to focus on efficiency savings.
- 3.3. Transco's DNs are subject to RPI-X price controls. RPI-X price controls provide regulated companies with a level of revenue that is sufficient to finance an efficient business. This is based on an estimate of the various allowances that cover companies' costs and comprises operating expenditure, capital expenditure and financing costs (including tax liabilities). Operating expenditure covers the day to day costs of running the network, such as repairs and maintenance. Capital expenditure includes spending on assets. Given that the benefits of these investments are expected to last over several years, companies recover the costs over the assumed life of the asset through an allowance for regulatory depreciation. Financing costs cover the costs that an efficient company may be expected to incur in providing a reasonable return to investors (both debt and equity).
- 3.4. RPI-X regulation allows regulated companies to retain efficiency savings for a number of years before they are passed through to consumers in the form of lower transportation charges. This form of regulation has proved effective in providing incentives for regulated companies to reduce costs which have led to significant price benefits for consumers.

- 3.5. However, regulated companies also need to provide a good quality of service to consumers, and consumers' interests may not be best served if improvements in efficiency are at the expense of quality of service. This was recognised during the last Transco price control review, with proposals to develop a quality of service incentive framework during the price control period.
- 3.6. Ofgem recognised this risk of perverse incentives as part of the last price control review of electricity distribution companies, which came into effect in April 2000. Following on from the review, Ofgem initiated a programme of work to develop a quality of service incentive framework that sat alongside the core price control. The Information and Incentives Project (IIP)<sup>15</sup> introduced a package of explicit incentives for electricity distribution network operators (DNOs) in April 2002 and are in effect until the end of the current price control period in March 2005. Incentives were introduced on three main outputs; the number and duration of interruptions and the quality of telephone response. Ofgem is currently reviewing the IIP incentive framework as part of the wider DNO price control review. Initial proposals for the review were published at the end of June 2004.<sup>16</sup>
- 3.7. There are a number of aspects of quality of service that may be incentivised outside or as part of the price control framework. These are discussed in more detail in the following sections.

### ***Objectives for quality of service incentives***

- 3.8. Work carried out as part of Transco's price control review suggested that it may be possible to categorise outputs into three different types of measures. Firstly, there are stewardship or longer term measures, which ensure that performance is maintained over time. Secondly, there are delivery outputs, which measure the levels of service consumers actually experience. Finally, there are responsiveness outputs, which measure how quickly Transco reacts when things go wrong.

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<sup>15</sup> See Ofgem publication 'Information and Incentives Project: incentive schemes – final proposals', December 2001

<sup>16</sup> See Ofgem publication 145/04, 'Electricity Distribution Price Control Review – initial proposals', June 2004

- 3.9. It is important to consider what behaviour quality of service incentives are trying to encourage within these broad categories. The following table lists a number of possible objectives and how they may broadly be categorised. Ofgem would welcome views on whether there are other objectives that may be appropriate and in particular whether there are any other aspects of quality of service that are not captured.

**Table 1: Objectives for quality of service incentives**

<b>Objective</b>	<b>Type of output</b>
Improving average levels of service	Delivery/responsiveness
Delivering improvements to worst served consumers	Delivery/responsiveness
Improving asset maintenance	Stewardship
Dealing with the effects of a major incident	Stewardship/responsiveness
Providing compensation to consumers	Responsiveness/delivery

*Improving average levels of service*

- 3.10. Quality of service incentives may be structured so as to achieve improvements in average service levels with respect to a number of outputs. This could include interruptions performance or performance on other outputs such as telephony, responding to queries and complaints or other general consumer facing activities.
- 3.11. The IIP incentive scheme can be considered an example of how incentives can be structured so as to deliver improvements in average levels of service – in that case regarding interruptions and telephone response.
- 3.12. Incentives could also focus on average improvements in performance in a range of other areas. DNs have a number of interfaces with different stakeholders at, not only with end consumers. Such interfaces include the relationships with shippers and suppliers and it may be appropriate for improved quality of service incentives to be refined in these areas.

*Delivering improvements to worst served consumers*

- 3.13. Ofgem has not defined worst served consumers in gas, but it is clear that they should be considered differently to worst served consumers in electricity. In the latter, worst served consumers are referred to as those consumers that are affected most often by supply interruptions. These consumers are often located

in rural areas and fed by low voltage overhead lines that may be prone to failure more frequently, for example because of severe weather.

- 3.14. It may not be appropriate to define worst served consumers in this way in gas for two main reasons. Firstly, most of the gas network is underground and therefore shielded from the effects of severe weather. Secondly, much of the older pipeline network, predominantly that constructed from cast or ductile iron which may be more prone to leaking, is steadily being replaced by polyethylene (PE) pipes as part of the ongoing mains replacement programme. Although more susceptible to third party interference, PE has an extremely long life and a very low susceptibility to in-service failure provided it is laid correctly. The mains replacement programme accounts for the majority of non-contractual interruptions to consumers.
- 3.15. In view of these differences, in particular the latter regarding mains replacement, it is unlikely that particular groups of consumers will be affected more often than others (as in electricity). In the light of this, Ofgem considers that it may be appropriate to consider worst served consumers in gas as consumers that are affected by prolonged supply interruptions. Transco's reported data for the first quarter of 2004/05<sup>17</sup> shows that the average duration of a non-contractual interruption is around 16 hours which compares to just over an hour in electricity. Using the same information, the average number of interruptions is around 1.5 per one hundred consumers compared to around 86 per one hundred consumers in electricity.<sup>18</sup>
- 3.16. In the light of this information, it would appear that the number of interruptions is less of an issue than the duration. As such, incentives to improve the quality of service to worst served consumers in gas could be targeted at improving the duration of supply interruptions. This is discussed in more detail below.

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<sup>17</sup> Transco considers that the reported information for 2003/04 (see appendix 3) is overstated and that the 2004/05 information is more reliable.

<sup>18</sup> Ofgem recognises that these are not like for like comparisons but serves to illustrate a key difference between electricity and gas interruptions

### *Improving asset maintenance*

- 3.17. Incentives may also be used to encourage regulated companies to improve asset maintenance over the longer term – often referred to as the stewardship of networks to preserve the intergenerational integrity of assets.
- 3.18. As such, in developing its thinking in terms of price controls and other policies, Ofgem may take into account the policies and practices used by regulated companies to maintain assets over the longer term by gathering information on regulated companies' asset risk management strategies. Alternatively, Ofgem could assess the historic performance of assets by collecting information on assets by type and then using this information to compare performance over time.

### *Dealing with the effects of a major incident*

- 3.19. A "major incident" is defined in the RIGs as being any unplanned activity that results in a non-contractual supply interruption to more than 250 consumers. Events of this size are relatively infrequent with around 14 incidents recorded per annum between 1986 and 1999.<sup>19</sup>
- 3.20. These types of events have typically been caused by third party damage, water ingress following the failure of a water main or other causes such as a governor failure. However, a major incident may also be caused by a loss of upstream supply (i.e. on the NTS) or from the catastrophic failure of network assets. Specific incentives may be designed to incentivise appropriate behaviour by DNs where a major incident occurs.

### *Providing compensation to consumers where predetermined standards have not been met*

- 3.21. In general, Ofgem seeks to ensure that regulated companies deliver an appropriate quality of service to consumers. In some cases, where companies fail to deliver this, it is appropriate that consumers receive compensation for the inconvenience caused by the failure. This type of incentive framework encourages a regulated company to trade off between the investment necessary

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<sup>19</sup> Information provided to Ofgem during the last Transco Price Control Review  
Quality of Service for Gas Distribution Networks 14  
Office of Gas and Electricity Markets

to address to the underlying issue and the costs of compensating consumers. It results in a direct transfer of money from the regulated company to consumers where the required level of service is not achieved.

- 3.22. Such a mechanism is already in place for DNs with the GSOPs. However, it may be appropriate that these be extended or that alternative mechanisms are developed to sit alongside this framework.

### ***Does the existing regulatory framework deliver against these objectives?***

- 3.23. The objectives identified in the previous section are not meant to be exhaustive and Ofgem welcomes respondents' views on alternatives. This section considers whether the existing regulatory framework delivers appropriate incentives for Transco to meet these objectives.
- 3.24. In considering whether the existing regulatory framework achieves these objectives, it is important to recognise the areas of quality of service that are important to consumers and then look at whether DNs have incentives to deliver an appropriate level of service in these areas. Ofgem has undertaken work in this area previously as part of the last price control review through consumer research.<sup>20</sup> However, Ofgem recognises that opinion may change over time and therefore welcomes views, particularly from energywatch, on those aspects of quality of service that are important to consumers now.
- 3.25. It is important to recognise that quality of service incentives can take different forms. They can be financial or could rely on publishing information on performance, for example through league tables. They may focus on all or a subset of consumers, for example worst served consumers. These differences are reflected in the following assessment.

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<sup>20</sup> Ofgem employed IFF Research Ltd to undertake consumer research as part of the last Transco price control review. The results of this research were published in July 2001 and the report is available on Ofgem's website  
Quality of Service for Gas Distribution Networks 15  
Office of Gas and Electricity Markets

### *Improving average performance*

- 3.26. Licence obligations (including the obligation to report in accordance with the RIGs), publishing information on performance, and the Standards of Performance framework all provide incentives for improvements in average performance. These issues are expanded upon below.
- 3.27. Ofgem collects the information required by Special Licence Condition 36 annually and has made a commitment to publish this on a regular basis. Ofgem has published similar information on the electricity DNOs for the last two years, and this has received positive feedback, particularly given it provides stakeholders with comparable information on a range of quality of service indicators.
- 3.28. OSOPs set minimum average levels of performance that Transco must deliver both overall and in each of its DNs. These are described in more detail in Annex 2. Over the coming months, Ofgem will be consulting on technical changes to the OSOPs to reflect a number of changes across the industry. In particular, the proposed sale of one or more DNs, the implementation of competition in metering and the work on improving the incentive arrangements in the connections market<sup>21</sup> mean that some changes will be needed to the OSOPs.
- 3.29. Ofgem welcomes views on whether there are any particular weaknesses in the framework of OSOPs that Ofgem should take into consideration in addition to the technical changes necessary as a result of industry developments.
- 3.30. The discussion so far has concentrated on DN interfaces with end consumers. However, DNs also have interfaces with other stakeholders such as with shippers and suppliers. The Network Code governs much of this relationship, to which Ofgem's input is limited by its rules. Nevertheless, Ofgem is interested in the views of respondents on the adequateness of the quality of service that

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<sup>21</sup> At present, there is a separate ongoing consultation process on standards of service in connections which were introduced on Transco under the 1999 Gas Act Enforcement Order. The consultation is assessing the benefits of introducing new standards of service or incentives on Transco to improve its performance in the connections market. Respondents to the current consultation document should be aware of this other Ofgem workstream when responding.

DNs provide to shippers and suppliers, and in particular if there are any issues for quality of service that could arise out of the sale of one or more DNs.

*Delivering improvements to worst served consumers*

3.31. This section builds on the assumption that worst served consumers are those affected by prolonged supply interruptions. Transco's reported data for the first quarter of 2004/05 shows that the average duration of a non-contractual interruption to a consumer's gas supply is around 16 hours. The average number of interruptions is 1.5 per one hundred consumers. Ofgem introduced a GSOP on supply restoration in 2002 which requires Transco to make a payment of £30 to consumers if it does not restore supply within 24 hours. For each succeeding period of 24 hours that supply is not restored, Transco is required to make additional payments of £30 until supply is restored, up to a cap of £1,000 per consumer. Non-domestic consumers are remunerated through provisions in the Network Code, with payments proportionate to transportation charges.

3.32. The following tables illustrate the number and value of payments each DN has made under the GSOP on supply restoration in 2002/03 and 2003/04:

**Table 2: Payments made under the supply restoration standard 2002/03**

Network	E of E <sup>22</sup>	N of E	NL	NW	SC	S of E	WM	W&W	Total
Payments made after 24 hours	£7,260	£7,020	£273,000	£5,610	£14,670	£21,300	£2,970	£4,980	£336,810
Payments made after 48 hours*	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
<b>Total payments</b>	<b>£7,260</b>	<b>£7,020</b>	<b>£273,000</b>	<b>£5,610</b>	<b>£14,670</b>	<b>£21,300</b>	<b>£2,970</b>	<b>£4,980</b>	<b>£336,810</b>

\*Transco was unable to disaggregate payments made after 48 hours from total payments made in 2002/03

**Table 3: Payments made under the supply restoration standard 2003/04**

Network	E of E	N of E	NL	NW	SC	S of E	WM	W&W	Total
Payments made after 24 hours	£128,400	£6,930	£38,010	£6,990	£15,960	£9,570	£4,230	£8,460	£218,550
Payments made after 48 hours	£18,030	£0.00	£236,160	£7,710	£9,360	£16,200	£1,410	£7,920	£296,790
<b>Total payments</b>	<b>£146,430</b>	<b>£6,930</b>	<b>£274,170</b>	<b>£14,700</b>	<b>£25,320</b>	<b>£25,770</b>	<b>£5,640</b>	<b>£16,380</b>	<b>£515,340</b>

- 3.33. Tables 2 and 3 show that payments under this GSOP have increased overall, and in most DNs, between 2002/03 and 2003/04. Transco has indicated that this reflects, to some extent, a number of prolonged major incidents during the year in some DNs.
- 3.34. However, given the increase in payments, it is not clear whether the supply restoration incentive under the GSOP is sufficiently strong. Ofgem welcomes views on this.
- 3.35. Although Transco's data shows that the average duration of non-contractual interruptions is 16 hours, there is no financial incentive on the DNs to restore consumers' supplies faster than 24 hours. This differs to the equivalent GSOP in place on electricity DNOs, with £50 compensation payable if supply is not restored within 18 hours with further payments of £25 for each succeeding period of 12 hours that supply is not restored.<sup>23</sup>
- 3.36. Ofgem welcomes views on the appropriateness of the existing compensation arrangements for the GSOP on supply restoration for DNs, in particular whether it provides sufficient incentives to DNs for supply restoration.
- 3.37. In recognition of the inconvenience caused to consumers by prolonged supply interruptions, Ofgem also introduced a GSOP in 2002 on Transco to provide alternative heating and cooking facilities to priority consumers following a gas emergency, a planned or unplanned supply interruption. This requires Transco to provide alternative appliances to priority consumers within 4 hours of an interruption, unless 250 or more consumers are affected where the requirement is within 8 hours. Ofgem welcomes views on the effectiveness of this GSOP.
- 3.38. Ofgem also welcomes more general views on the proposed definition of worst served consumers as set above and the adequacy of protection for this group of consumers.

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<sup>22</sup> E of E = East of England; N of E = North of England; NL = London; NW = North West; SC = Scotland; WM = West Midlands; and W&W = Wales and West

<sup>23</sup> See Statutory Instrument 2001 No. 3265, 'The Electricity (Standards of Performance) Regulations 2001 Quality of Service for Gas Distribution Networks 18

### *Improving asset maintenance*

- 3.39. Ofgem has recognised the importance of asset maintenance previously with initiatives such as undertaking Asset Risk Management (ARM) surveys and introducing Medium Term Performance (MTP) reporting.
- 3.40. Ofgem undertook ARM surveys during 2002 across all network companies, including Transco, the results of which were published in December 2002.<sup>24</sup> The surveys were undertaken to assess the policies and practices of regulated companies for managing assets over the longer term and broadly reflected three key areas – business strategy and direction, asset strategy and asset life cycle management. The results suggested that network companies' performance was strongest in respect of business strategy and direction and lessened progressively through asset strategy and asset life cycle management. Ofgem is considering re-running similar surveys later this year, building on this previous experience.
- 3.41. MTP reporting is predominantly used for assessing the absolute condition of different classes of assets, as well as assessing changes in the condition of assets over time. This is a backward looking assessment of asset performance.
- 3.42. At present, electricity DNOs are required to report performance under MTP measures under Standard Licence Condition 49 of the electricity distribution licence. Ofgem collects information in three main areas: fault rates and causes on lines and equipment, activity based information on the number of units replaced of an asset that has been identified as performing poorly and a supporting narrative. Collecting this information provides useful data on which Ofgem can compare the performance of similar assets across DNOs. Such disaggregated information is particularly useful during price control reviews when comparing performance across companies and across asset types.
- 3.43. Ofgem consulted on introducing MTP measures as part of the last Transco price control review but concluded that the introduction of such measures was not necessary at that time. In the light of the possible sale of one or more DNs and given that there are now separate DN price controls, Ofgem welcomes views on

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<sup>24</sup> See Ofgem publication 'Asset Risk Management Survey – composite industry report', December 2002. This is a report that was undertaken by a consortium of consultants Ofgem employed to assess asset risk management – Mott MacDonald/British Power International/ERA Technology  
Quality of Service for Gas Distribution Networks 19  
Office of Gas and Electricity Markets

whether further consideration should be given to introducing MTP reporting measures going forward on a DN basis.

- 3.44. Ofgem also welcomes views on what measures could be included within such a framework. For example, MTP measures could relate to leaking services, fault rates or asset integrity (including pipes and other assets such as governors and pressure reduction stations).
- 3.45. Over recent years, there has been a general move across regulators to increase the level of transparency in the regulatory process. Ofgem is committed to this approach and considers that there are significant incentive properties in making information on performance more widely available. Publishing the results of the ARM surveys and MTP reporting builds on this approach, enabling stakeholders to assess performance across a range of similar (i.e. network) companies. Ofgem welcomes respondents' views on the appropriateness of this for DNs.
- 3.46. Ofgem welcomes the development of an asset management standard for physical infrastructure assets<sup>25</sup> and sees this as helpful both in promoting good practice and in better enabling comparison of strategy and performance across a wide range of network businesses.

#### *Dealing with the effects of a major incident*

- 3.47. Major incidents are defined in the RIGs as an unplanned interruption affecting more than 250 consumers. The majority of these types of incidents are caused by third parties or by water ingress incidents (which are often triggered by third parties).
- 3.48. As part of the price control settlement, Ofgem put in place arrangements to deal with this type of event so as to provide consumers with an appropriate degree of compensation for the inconvenience caused.<sup>26</sup> This arrangement mirrors the GSOP on supply restoration and provides compensation up to a cap of £1,000

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<sup>25</sup> Publicly Available Specification PAS 55-1 Asset Management – Part 1: specification for the optimised management of physical infrastructure assets – British Standard Institution – ISBN 0-580-42765 X

<sup>26</sup> Ofgem has put in place arrangements via a Letter of Understanding with Transco that third party and water ingress interruptions on DNs attract the same levels of compensation as other types of interruption which would cause payment to become due under the supply restoration GSOP.

per consumer. These arrangements do not apply if more than 50,000 consumers have been affected by the incident. However, to put this into some context, the largest incident that has occurred on a DN in recent years interrupted supplies to around 30,000 consumers in 1994.<sup>27</sup> Most water ingress incidents affect less than 10,000 consumers although many may be off supply for prolonged periods.

- 3.49. Where a major incident occurs, Ofgem may consider whether the licensee is in breach of any licence condition or relevant requirement of its licence. A financial penalty of up to 10 per cent of the turnover of the licence holder may be imposed where the Authority is satisfied that the licence holder has breached a licence condition or relevant requirement of its licence. The Authority may also make an enforcement order where it is satisfied that a licence holder is in breach or is likely to breach a licence condition or relevant requirement of its licence.
- 3.50. Ofgem welcomes views on whether the existing arrangements deal adequately with the effects of a major incident on the DNs. Further, views are welcome on the appropriateness of the RIGs definition of a major incident.

*Providing compensation to consumers*

- 3.51. A number of the GSOPs have already been discussed in this document. Annex 1 sets these out in more detail including the associated payments and the exemptions that Transco may invoke if certain conditions prevail.
- 3.52. Ofgem welcomes views on whether there may be some gaps or weaknesses in this framework, including whether any other changes are needed to further protect consumers by providing for compensation when a DN has failed to meet a pre-determined service level.

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<sup>27</sup> The largest incident in recent years occurred in Worthing and interrupted around 30,000 consumers' supplies

## 4. Views invited

- 4.1. This is an open consultation on the effectiveness of the existing regulatory framework in providing incentives to DNs to deliver an appropriate level of service.
- 4.2. Ofgem welcomes respondents' views on any issue raised in this consultation paper and in particular on:
- ◆ the appropriate quality of service objectives to be delivered by the DNs;
  - ◆ where there may be gaps or weaknesses in the existing framework of regulation for DNs to deliver the appropriate quality of service objectives;
  - ◆ how these gaps or weaknesses might be appropriately addressed – for example through:
    - the licence framework;
    - introducing new reporting requirements;
    - amending the existing Standards of Performance; or
    - introducing new incentive arrangements via the price control
  - ◆ if changes to the framework are deemed appropriate, the timing of such changes. Respondents are asked to consider whether changes are appropriate during the current price control period or as part of the next DN price control review; and
  - ◆ whether any of the existing arrangements could be removed
- 4.3. An important next step for this project is to assess the extent of any weaknesses identified in the existing regulatory framework identified by respondents, their relative importance and what further work Ofgem needs to consider undertaking to improve the regulatory framework.

# Appendix 1 Guaranteed Standards of Performance

1.1 The table below sets out the Guaranteed Standards of Performance, the associated payments for failure and the specific exemptions DNs can apply to each GSOP. The generic exemptions applicable to all GSOPs are set out in the Statutory Instrument.

No	Standard	Definition	Payment	Specific Exemptions
GS1	Restoring domestic customers' supplies after an unplanned interruption.	GTs should restore domestic customers' supplies within 24 hours following unplanned interruptions on their networks. If a GT fails to achieve this, a fixed compensation payment will be paid to the customer affected. Further compensation will be paid for each additional period of 24 hours until the customer's supply is restored.	£30  Cap per customer of £1000	<ul style="list-style-type: none"> <li>◆ If the event originated on another GTs network, caused more than 50,000 customers to be affected or was caused by an act or default of the customer who would otherwise be due payment</li> <li>◆ If the event was caused by severe weather or other exceptional circumstances beyond the control of the GT and it had taken all reasonable steps to prevent the circumstances from occurring and from causing the interruption</li> <li>◆ For customers connected to networks other than Transco, 3<sup>rd</sup> party and water ingress interruptions are excluded</li> </ul>
GS2	Reinstatement of customers' premises	On completion of GT initiated work to re-lay service pipes on a customer's premises, the premises will be reinstated within 10 working days. If the GT fails to achieve this, a fixed compensation payment will be made. Further compensation will be paid for each additional period of 5 working days until the premises are reinstated.	£50 (domestic)  £100 (non-domestic)	<ul style="list-style-type: none"> <li>◆ If the work is initiated by the customer</li> <li>◆ If the customer's own action led to the work being required</li> </ul>
GS3	Making and keeping appointments	GTs should arrange a morning or afternoon appointment for customer initiated work or a timed appointment if requested by the customer. A fixed compensation payment will be made where the GTs fails to arrange an appointment or fail to attend without adequate prior notification to the customer.	£20	<ul style="list-style-type: none"> <li>◆ Each of the generic exemptions provided that the GT gives one day's notice</li> <li>◆ If the purpose of the visit is responding to information received in respect of a meter dispute or a pre-payment meter</li> <li>◆ If the circumstances that caused the breach prevented the GT giving a notice</li> </ul>

GS4	Alternative heating and cooking facilities.	<p>If a priority customer's gas supply is discontinued because of a planned interruption the GT shall provide alternative heating and cooking facilities within 4 hours.</p> <p>If the supply to customer's premises or gas fittings at those premises is discontinued because any other event (e.g. a gas emergency or unplanned interruption) where fewer than 250 customers are affected, the GT shall provide alternative heating and cooking facilities within 4 hours of it becoming aware that the customer has been affected. Where 250 or more customers are affected, the GT shall provide alternative heating and cooking facilities within 8 hours of it becoming aware that the customer has been affected.</p>	£24	<ul style="list-style-type: none"> <li>◆ If the customer already has equivalent alternative heating or cooking facilities</li> </ul>
GS5	Notifying customers and making payments owed under the standards	GTs shall write to the relevant customer (or shipper) and make payment within 20 working days. Where a GT fails to achieve this level of service, a fixed compensation payment will be made.	£20	<ul style="list-style-type: none"> <li>◆ If there is a genuine dispute between the relevant customer and the GT</li> </ul>

## Appendix 2 Overall Standards of Performance

2.1 The following table sets out the Overall Standards of Performance and the associated planned levels of performance (PPL)

No.	Standard	Definition	PPL
OS1	Telephone calls (Transco only)	Telephone calls to the national emergency number (which operates 24 hours a day), the dedicated meter enquiry line and meter point reference number helpline (during the hours, which they operate) will be answered by an individual within 30 seconds of the call being connected.	90%
OS2	Notification of planned supply interruptions	For planned maintenance or replacement work, which involves interruption of the gas supply, the GT will provide written notification of the need for the interruption at least 5 working days in advance of starting the work. The notice need not specify the date and time of the interruption. Its purpose is that it informs customers that an interruption may be required as a result of planned activities.	95%
OS3	Informing customers of when they are due to be reconnected	For unplanned supply interruptions or gas emergencies which are expected to last over 24 hours the GT or its contractor shall: (a) Where up to 250 customers are affected, notify individual customers that they have been interrupted and the expected programme for reconnection (including the expected date of reconnection) within 12 hours of it having knowledge of the interruption; (b) Where 250 or more customers are affected, provide public announcements (for example, using local public address broadcasts and local radio) throughout the area affected describing the expected programme for reconnection (including the expected date of reconnection) within 12 hours of it having knowledge of the interruption; and (c) Provide a progress report and revised information on the expected date of reconnection after each succeeding period of 24 hours from the original announcement or notification	97%  97%  97%
OS4	Acknowledging correspondence	GTs shall issue a written or verbal response to: (a) Correspondence relating to a provision of a connection to its system within 5 working days of receipt (b) Written complaints relating to its licensable activities within 5 working days of receipt (Where this is not a substantive response it will indicate when a substantive response may be expected)	90% 90%

OS5	Visits	Where a visit is appropriate following receipt of written correspondence or a complaint under standard 4 the GT will: a) Make contact within 2 working days of receipt of the correspondence or complaint; and b) Make the visit within 5 working days (unless the customer agrees a later date) of making an appointment where the customer needs to be present, and in any other case of making contact	93% 93%
OS6	Substantive response to complaints	The GT shall dispatch a substantive response to any oral or written complaint relating to its licensable activities within 10 working days other than in exceptional circumstances. (This will include an indication of any further work the GT considers to be required, if appropriate)	90%
OS7	Gas emergencies (Transco only)	Where the GT receives a report of a gas escape or other gas emergency, including a significant spillage of carbon monoxide or other hazardous situations, it will attend as quickly as possible within the following timescales: a) All uncontrolled gas escapes or uncontrolled gas emergencies within 1 hour; and b) All controlled gas escapes or other controlled gas emergencies within 2 hours	97% 97%

## Appendix 3 Summary of reported interruptions data

- 3.1 The following table sets out reported performance by DN on the number and duration of interruptions for 2003/04 as reported under Special Licence Condition 36. It is important to note that these numbers differ to those used in the main document. Transco considers that the 2003/04 reported numbers are overstated and that the information reported for quarter 1 of 2004/05 is more reliable in respect of the average number and duration of non-contractual interruptions.
- 3.2 Ofgem has employed Wilcock Consulting to assess the accuracy of both the data and the measurement systems used by Transco to collect and report the information for 2003/04. Wilcock's report will be published later this month on Ofgem's website.

Distribution Network	Number of Interruptions per 100 Consumers in each Network	Average Duration of each Interruption in each Network (minutes)
E of E	0.68	839
N of E	0.69	904
NL	1.09	2,996
NW	1.54	1,065
SC	0.79	457
S of E	0.74	1,724
WM	1.51	832
W&W	0.64	1,596
<b>Transco Total</b>	<b>0.92</b>	<b>1,326</b>