



**Response to Quality of Service for Gas Distribution Networks
Initial Consultation**

Introduction

United Utilities welcomes the development of this initial consultation document on quality of service for Transco's eight Distribution Networks.

As a prospective purchaser of a DN we fully recognise the importance of quality of service to the consumers and our other stakeholders and are committed to ensuring that this is to the highest standard. We also appreciate that the regulatory framework has an important role to play in the context of standards of service. In order to be effective we believe that there are certain fundamental principles that the incentive mechanism adopted by any regulatory body should observe and these we discuss below.

Given our limited direct involvement to date in the operation of a DN we do not consider it appropriate at this stage to comment in detail on specific service standards or perceived gaps or weaknesses. However, it is our intention to play an increasingly active role in this consultation process as it moves forward.

Balance efficiency with quality

We agree with Ofgem that it is important to achieve a balance between incentives for efficiency and quality. Thus the price controls must provide clarity of the quality of service to be delivered. Failure to establish this clear understanding will either result in the perverse incentives identified by Ofgem where companies reduce quality of service in order to achieve an acceptable rate of return or alternatively companies will deliver the quality of service and fail to achieve a reasonable return for investors.

Improved quality of service carries a cost

It is essential to recognise that improved levels of service have a cost that those benefiting from such improvements should bear. In consulting on improvements to quality of service it is important that responders understand the cost implications of service improvements. Surveys should not simply ask if individuals would like an improved quality of service, but must identify how much they would be prepared to pay for the improvement so that an appropriate cost-benefit analysis can be undertaken. Whilst we appreciate that this is an initial consultation document we do have a concern that the relationship between improvements and cost is not made explicit.

Consumers/Stakeholders should have a choice

It follows that an improved quality of service should only be provided if consumers/stakeholders are willing to pay. A base level should be set which is acceptable to the vast majority. Improved or enhanced levels of service should then be available to those consumers/stakeholders who value such enhanced levels and are prepared to pay for them.

Incentive mechanisms should be clear, concise and consistent.

Ofgem has identified a range of potential incentive mechanisms including financial and reporting. Ofgem has also identified a wide diversity of routes for effecting these incentives including: Licence Conditions, Codes of Practice, Price Controls, OSOP, GSOP, Safety legislation and the Network Code.

We believe this wide diversity has the potential for a number of serious drawbacks including:

- It is difficult for consumers, consumer groups and other stakeholders to easily access the standards and read and comprehend them as a whole. This diminishes their effectiveness and usefulness.
- There is a potential for inconsistency between and duplication of the standards. It makes modifying and updating the standards complex and cumbersome.
- The overall complexity of dealing with different organisations, reporting routes, timescales and formats increases the bureaucracy and cost.

We believe therefore that as far as possible related standards should be grouped together and handled in a consistent manner. This will help to ensure that standards are clear and effective.

To take a specific example, Ofgem asks at paragraph 3.30 for comments on the adequateness of the quality of service that DNs provide to shippers and suppliers. Ofgem at the same time acknowledges that the Network Code governs much of this relationship to which Ofgem's input is limited.

We strongly believe that should any changes to the quality of service to shippers and suppliers be agreed this should be in the Network Code and addressed through the Network Code process. It is not in our opinion appropriate or desirable to have one set of standards contained and governed by the code and another set elsewhere controlled and governed in an entirely separate manner.

Incentives should not just mean penalties.

It is right that failure to meet a base case level of quality of service for which full allowance has been given in the price control should result in financial penalties. However there is sometimes a tendency to regard financial incentives simply as penalties for failure. They should also be there as financial rewards for success.

Timing of changes

Clearly the current price control was set on the basis of the existing levels of quality of service. It would be wholly inequitable to introduce an enhanced level of service prior to the next price control that imposes additional costs on a DN with no ability to

recover them. We would, however, give consideration to incentives and penalties introduced on a symmetrical basis.

Conclusion

As stated in the introduction United Utilities intends as co-owner of a DN to become increasingly involved in the detail of issues such as this and we are happy to work with Ofgem, consumers and other stakeholders to develop appropriate quality of service incentives. In particular, one of the benefits of diversity of ownership is that we will be able to use our experience of quality of supply issues in electricity.