

**Emergency Service Arrangements provided  
by Distribution Networks to Independent  
Gas Transporters**

**Initial Proposals Document**

December 2005

## Summary

Following the hive down of four Gas Distribution Networks from National Grid Gas on 1 May 2005, the emergency service contract between National Grid and each Independent Gas Transporter (IGT) was novated to all Gas Distribution Networks (GDNs). When the contractual arrangements fall away on 31 March 2006, GDNs will only be obliged to provide emergency services in accordance with their licence obligations. In the absence of a licence requirement obliging GDNs to provide emergency services to IGTs, Ofgem is concerned to ensure the safety and protection of customers and that customers on IGT networks continue to receive an emergency service comparable to the emergency service that customers on GDNs receive. National Grid, GDNs and IGTs are all gas transporters, holding licences pursuant to section 7 of the Gas Act 1986.

Having considered the representations put forward by the industry and in light of discussions in Ofgem's July workshop, where GDNs and IGTs agreed to continue to review and update for 1 April 2006 the existing voluntary emergency services contracts. Ofgem proposes to put in place a fallback position that can be implemented quickly in the event that the contractual arrangements fall away and an IGT is unable to source alternative emergency services arrangements.

This document sets out for consultation Ofgem's initial proposals to introduce a new standard special licence condition that allows the Authority to issue a direction obliging a GDN to provide emergency services to a gas transporter within a GDN's specified area(s).

Ofgem considers that this approach allows the current voluntary contractual arrangements to continue between GDNs and IGTs, but provides additional certainty and protection for customers.

A draft standard special licence condition is contained in this document. Views on the draft licence condition are invited by 27 January 2006.

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# 1. Introduction

- 1.1 Independent Gas Transporters (IGTs) are required to provide an emergency service to their customers under standard condition 6 of their gas transporter licence. When IGTs began to operate, emergency services were sourced from National Grid Gas through contractual arrangements. The contracts covered emergency call handling, emergency services i.e attending, making safe and carrying out emergency repairs and emergency metering services. These contracts were novated to all Gas Distribution Networks (GDNs) from 1 May 2005 and will fall away on 31 March 2006.
- 1.2 When the contractual arrangements end GDNs will not be obliged to provide emergency services to IGT customers. IGTs would be required to provide a nationwide emergency service to customers connected to their networks.
- 1.3 Ofgem issued a consultation document in June 2005 on how the emergency services provided to IGT consumers could be continued post 31 March 2006.

## Ofgem's Consultation / Workshop

- 1.4 Ofgem's <sup>1</sup>consultation document invited views on the most appropriate means to protect the interests of customers when the contractual arrangements fall away on 31 March 2006. Ofgem's consultation sought views on:
- Whether a revised/new licence condition on GDNs is required or whether the existing contractual regime can be reviewed and continued; and
  - The scope of any licence condition required in respect of emergency services provision to IGTs by GDNs.
- 1.5 Ofgem chaired a workshop on 20 July 2005 to discuss further the issues set out in the consultation document. Over thirty stakeholders attended the

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<sup>1</sup> Ofgem is the office of the Gas and Electricity Markets Authority (the "Authority"). Ofgem and the Authority are used interchangeably in this document.

workshop including representatives from all GDNs, a number of IGTs and gas suppliers. During the workshop:

- All GDNs confirmed their intentions to continue to provide, post 31 March 2006, emergency services to IGTs through contractual arrangements. GDNs explained that they have no plans to reduce the scope of the service provided;
- GDNs did not support the introduction of a licence condition;
- IGTs supported the continuation of the emergency services contracts, but preferred, as a safeguard, a licence condition requiring GDNs to provide an emergency service to IGTs;
- IGTs and GDNs agreed that the scope of the existing contracts was adequate for providing the emergency services to IGT consumers and should be continued in the post 31 March 2006 contractual arrangements; and
- GDNs and IGTs identified a number of issues with the existing contracts that need to be resolved before new contracts are put in place.

## Way forward

1.6 The workshop concluded with IGTs and GDNs agreeing to the following way forward:

- IGTs and GDNs agreed to review and amend the emergency services contracts and agree a set of revised prices for 1 April 2006;
- In the event that contractual discussions take longer than expected, and it seems unlikely that revised contracts will be in place for 1 April 2006, all GDNs and IGTs gave a commitment to roll over the existing emergency services contracts until revised contracts are put in place.

1.7 Ofgem expressed its support for the continuation of the voluntary contractual arrangements, however, Ofgem explained that its principal objective in carrying out this consultation is the protection of consumers, therefore, Ofgem

would consider whether it is appropriate to put in place a licence condition on GDNs to provide emergency services.

## **Contractual negotiations – latest position**

- 1.8 IGTs have commenced contractual negotiations and have met with National Grid Gas (NGG), Wales and West Utilities (W&W) and Northern Gas Networks (NGN). IGTs are due to meet with Scotia Gas Networks (SGN) in January 06. Ofgem is attending the meetings as an observer.
- 1.9 Following agreement on the scope of the contracts, IGTs will meet with each GDN separately to discuss and agree appropriate charges for emergency services.
- 1.10 IGTs and GDNs are committed towards putting in place revised emergency services contracts for 1 April 06. However, if this timescale is not met, GDNs and IGTs have agreed to roll over the existing contractual regime, to ensure that emergency services continue to be provided until revised contracts are put in place.

## **Purpose of this document**

- 1.11 This document sets out Ofgem's initial proposals to introduce a new standard special licence condition on GDNs and includes for comment a draft new standard special licence condition, which provides for the Authority to direct a GDN to provide a emergency services to other gas transporters.
- 1.12 This document also includes Ofgem's views on a number of issues raised through the consultation including the continuation of the contractual arrangements and other issues raised by respondents.

## **Document Structure**

- 1.13 Chapter two of this document contains Ofgem's initial proposals to introduce a licence condition on GDNs.
- 1.14 Chapter three discusses a number of additional issues raised by respondents to Ofgem's June 2005 consultation document.

- 1.15 Appendix 1 contains for comment a draft standard special licence condition obliging GDNs, through a direction, to provide emergency services to other gas transporters within their specified area(s).

## **Impact assessment**

- 1.16 Ofgem considers that a full impact assessment is not required in connection with implementing Ofgem's initial proposals. It is Ofgem's view that if a direction was issued GDNs would not incur significant costs to support the introduction of a licence condition as the emergency services are currently provided to IGTs through contracts. These contracts in effect would become the baseline for emergency services provided to IGTs through a direction on GDNs. These contractual arrangements currently allow GDNs to recover their costs and a reasonable profit. The draft licence condition also allows GDNs to recover their costs and a reasonable profit. Ofgem suggests that GDNs might incur some minor administration costs to manage the processing of a direction.

## Responses

- 1.17 Comments on the issues raised in this document and the attached draft licence condition should be received by 27 January 2006 and sent by email to [roger.morgan@ofgem.gov.uk](mailto:roger.morgan@ofgem.gov.uk) or in writing to:

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- 1.18 All comments will be held electronically in Ofgem's Research and Information Centre. Responses that are not marked as confidential will be placed on the Ofgem website.
- 1.19 If you wish to discuss any aspect of this document, Roger Morgan (020 7901 7346) or Nicola Love (020 7901 7036) will be pleased to help.



## **2. Ofgem's initial proposals**

- 2.1 Outlined below is a summary of respondents' views on whether it is appropriate to place a licence condition on GDNs to underpin the contractual arrangements or whether the contractual arrangements alone should be continued. Also, set out are Ofgem's initial proposals with regard to the introduction a new licence condition on GDNs in respect of emergency services.

### **Introduction of a licence condition**

- 2.2 The consultation document sought views on the requirement for and the scope of a licence condition on GDNs to provide emergency services to IGTs. The consultation put forward a number of options for a possible licence condition. These were:

- Make premises safe only;
- Make safe and carry out limited repairs at or downstream of the meter enabling supply to be restored. This could include work completed within 30 minutes and costing no more than £4.65;
- Make safe and carry out limited simple repairs that can reasonably be completed by the engineer or distribution team on site at the time of the original make safe visit; and
- Make safe and complete a more extensive level of repairs (full service equivalent to current service and consistent with GDNs own directly connected consumers). This would sometimes require a separate engineering team or additional teams in major supply restoration cases to attend the site.

### **Scope of a licence condition**

#### **Respondents' views**

- 2.3 All responses from IGTs and suppliers stated a preference for the introduction of a new licence condition on GDNs, requiring them to provide emergency

services to IGT customers. In contrast all GDNs were opposed to the introduction of a new licence condition.

- 2.4 One respondent stated that a make safe licence condition was not a viable option as IGTs would be unable to undertake repairs in a timely manner and such a service would not protect the interests of vulnerable customers. A GDN suggested that if a licence condition was imposed, the scope should be no more than a make safe obligation. It was stated that it would be unreasonable for a GDN's contractual arrangements to cover the individual requirements of IGTs. Therefore IGTs should contract directly to ensure that their own requirements are met. It was further suggested by this respondent that the varying requirements of different IGTs would make a common licence condition difficult.
- 2.5 One respondent rejected the option of a make safe and limited repair licence condition as this could also result in customers waiting for a long period of time for necessary repairs to be completed and the supply of gas to their premises restored.
- 2.6 One respondent also rejected the make safe and reasonable repair option. This was because detailed guidance would be required on how the term "reasonable" would be defined. It was suggested that this could lead to a variation in standards across the different GDNs, and that this would be unacceptable.
- 2.7 One respondent stated that there would be a significant risk to the safety of customers if IGTs were required to provide an emergency service to their own customers. They also suggested that the same risks would arise if the GDNs were not required to provide the full make safe and restoration of supply service to IGT customers. Another respondent stated that the introduction of a licence condition would support the IGTs' obligations under their Health and Safety Executive (HSE) Safety Cases.

## **Continuation of the contractual arrangements**

- 2.8 The consultation document questioned whether it is appropriate for the existing IGT emergency services contracts to continue post 31 March 06. That

is, IGTs would continue to procure emergency services from GDNs through contractual arrangements and IGT customers would continue to receive an emergency service that is comparable to the emergency services that GDNs provide to customers connected to their systems.

### **Respondents' views**

- 2.9 All GDNs supported the continuation of the contractual arrangements and stated their intentions to continue to offer this service to all IGTs. In contrast, all other respondents preferred the introduction of a licence condition as a safeguard for consumers.
- 2.10 One GDN stated that the contractual arrangements have been successful in electricity and that therefore there is no reason to believe that a contractual arrangement would not be successful in the gas sector. In contrast one other respondent stated that the extension of the contractual arrangements alone would not provide a sufficiently robust framework to ensure that established levels of security for the UK gas industry are continued in the long term. Another respondent stated that the contractual arrangements fail to provide long-term certainty that the current emergency services will be maintained.

### **Ofgem's proposals**

- 2.11 Ofgem has taken into consideration the views put forward by respondents to the consultation document and the way forward agreed in Ofgem's July workshop. Ofgem's statutory principal objective is to protect the interests of consumers. It is Ofgem's view that the continuation of the contractual arrangements should be a viable way forward and ensures the protection and safety of customers. However, in the event that the voluntary emergency services arrangements fall away and a suitable alternative is not put in place, Ofgem is concerned for the safety and protection of customers. Regardless of which network they are connected to, customers should continue to receive emergency services.
- 2.12 It is Ofgem's view that it may be necessary to have in place a suitable obligation that allows for the scope of the existing emergency services to

continue and can be quickly enforced if it becomes clear that customers are disadvantaged in respect of emergency services.

- 2.13 Therefore, Ofgem's initial proposals are that it may be appropriate to introduce a new standard special licence condition on GDNs that allows the Authority, by direction, to oblige a GDN(s) to provide emergency services to gas transporters. It is important to note that the draft licence condition does not define the scope of emergency services. Ofgem would expect the emergency services provided through contracts to form the basis of any direction that is issued.
- 2.14 It is Ofgem's view that the introduction of a new licence condition on GDNs would provide customers with certainty in respect of emergency services.
- 2.15 Ofgem considers that the introduction of a licence condition should not detract IGTs and GDNs from continuing to work towards establishing revised emergency services contracts for 1 April 2006.
- 2.16 A draft of the proposed licence condition is in Appendix 1 of this document.

## **3. Additional Issues**

- 3.1 In light of responses received by Ofgem to the June 2005 consultation document, a number of additional issues were raised by respondents. This chapter outlines Ofgem's views on these issues.

### **Specialist emergency service requirements**

#### **Respondents' views**

- 3.2 One GDN suggested that problems could occur with larger diameter pipe work or with high pressure pipelines where a more specialised response and specific equipment would be required to attend an emergency, make safe and complete repairs.

#### **Ofgem's views**

- 3.3 The current contractual arrangements allow GDNs to provide a make safe only service if the necessary equipment or qualified staff are not available to make a permanent repair. Ofgem recognises that there will be circumstances when it is not possible to complete repairs during the initial visit. Ofgem understands that if specialist requirements were to prevent the completion of repairs by the GDN, then necessary repairs could be completed at a later time, by suitably trained personnel appointed by an IGT or by the GDN.

### **Development of competition in emergency services provision**

#### **Respondents' views**

- 3.4 One GDN suggested that the emergency service arrangements should reflect the continuing growth of IGT networks and allow the development of competition where appropriate. The respondent added that a licence condition would be a permanent fixture, or one that would be difficult to change in the future.
- 3.5 One GDN stated that IGTs are continuing to grow and that in the future the provision of an emergency service to IGT customers could have a significant

impact on the level of resources required to provide adequate emergency cover to all customers.

### **Ofgem's views**

- 3.6 As discussed in paragraph 2.13, Ofgem considers that a licence condition on GDNs to provide emergency services to IGTs may be appropriate to protect the interests of consumers, and that this would oblige GDNs to provide emergency services to IGTs if a direction was issued by the Authority. Such a direction would be issued in the event that the contractual arrangements between a DN and IGTs fell away and IGTs were unable to source emergency services for their consumers.
- 3.7 It is open to IGTs to source alternative emergency services providers. However, IGTs have consistently explained to Ofgem that currently there are no viable alternative emergency services providers other than GDNs. Also the resources and costs of establishing a nationwide emergency service response are considered by IGTs to be prohibitive.
- 3.8 In the event that an IGT(s) chooses to source alternative emergency services Ofgem believes that it is for the IGT(s) concerned to ensure that the emergency services are provided in accordance with the Health and Safety Executive's (HSE) requirements and that customers on IGT networks are not disadvantaged in respect of emergency services in comparison to GDN customers.

## **Call handling service**

### **Respondents' views**

- 3.9 One respondent stated that the call handling activity should remain a National Grid Gas activity, since any change to this arrangement would result in a significant increase in costs to customers.

### **Ofgem's views**

- 3.10 Ofgem understands that the call handling service will continue to be provided by National Grid on a national basis to IGTs and GDNs. The call handling contract is being considered by IGTs and National Grid with the aim of addressing existing operational / contract issues, agreeing a suitable price for

this service and making appropriate amendments before the contract is renewed.

## **Decoupling of call handling and dispatch activities**

### **Respondents' views**

- 3.11 Three respondents addressed the consultation issue of whether call handling and dispatch activities should be decoupled. One stated that they had no view on the impact that this would have in competition while another suggested that dispatch should continue to be bundled with either call handling or the make safe activity.

### **Ofgem's views**

- 3.12 Ofgem understands that call handling services will continue to be provided to all IGTs on a national basis by National Grid, with emergency dispatch being undertaken by the relevant GDN for the geographical area. At this present time Ofgem is not aware of any initiatives to decouple call handling and dispatch services, however, it is open for National Grid in conjunction with other GDNs to consider whether it is appropriate to initiate works to bring about transparency of call handling and dispatch activities.

## **Invoicing and data handling**

### **Respondents' views**

- 3.13 One GDN stated that they were aware of long standing problems with invoicing and disputes arising from the IGT emergency services contracts. Another respondent expressed support for introducing a uniform reporting and invoicing process to support the provision of emergency services, such a mechanism may avoid unnecessary disputes and make reporting more robust.

### **Ofgem's views**

- 3.14 It is for IGTs and GDNs to put in place appropriate solutions to improve the data flows arising from attending emergencies on IGT networks as a means to reduce costs arising from managing disputes and improve the efficiency of the services provided.

## **Use of IGT premise level data**

### **Respondents' views**

- 3.15 One respondent stated that the provision of IGT premise level data (address data) had improved the information available to emergency engineers and improved identification of the relevant IGT. However, it was also stated that there is a much higher proportion of temporary addresses for IGT networks than for GDN networks. This results in GDNs needing to spend more time on data cleansing IGT data and that this has an effect on costs.

### **Ofgem's views**

- 3.16 Ofgem understands that there are existing issues with the provision of temporary addresses for emergencies on IGT sites. Ofgem expects GDNs and IGTs to co-operate to ensure that, in the event of an emergency, adequate data is at a GDN's disposal. Ofgem understands that this issue and its implications are being discussed during the contractual negotiations which are currently ongoing.

## **Charging**

### **Respondents' views**

- 3.17 One respondent stated that there was a need to ensure that the charges levied by GDNs for providing emergency services to IGTs are reviewed and amended on a regular basis. Another respondent stated that GDNs should be fairly compensated for the emergency services that they provide. Another respondent suggested that GDNs should be able to recover both their costs and a reasonable profit but that their charging methodology must be published.

### **Ofgem's views**

- 3.18 Ofgem expects GDNs to be able to recover both their costs and a reasonable profit from the provision of emergency services to IGTs. The charges for the emergency services are currently under review by each GDN and will be presented to each IGT as part of the contract negotiations. In general terms Ofgem expects the charges levied by GDNs to be cost reflective and efficiently



incurred. Also, Ofgem would expect GDNs and IGTs to review these charges on at least an annual basis.

- 3.19 Ofgem supports the development of charges through a charging methodology and considers it appropriate for GDNs to apply non-discriminatory charging policies in respect of emergency services.

## **Major emergencies**

### **Respondents' views**

- 3.20 Another respondent suggested that the Ofgem consultation document currently focuses on single customer or minor infrastructure incidents. It was suggested that more information is required on major gas emergencies.

### **Ofgem's views**

- 3.21 Ofgem's consultation document sought views on the emergency services provided by GDNs to IGTs. The majority of emergencies relevant to this are single customer or single premises incidents.
- 3.22 In the event of a major loss of gas supply GDNs are obliged subject to a direction under standard special licence condition A41, Emergency Services to or on Behalf of Another Gas Transporter, to offer to enter into an agreement with another Gas Transporter to provide emergency services where a major loss of supply has occurred. The licence condition allows GDNs to recover both their costs and a reasonable commercial profit arising from the provision of this service.

## **Views invited**

- 3.23 Views are invited on any aspect of this document. In particular:
- ◆ Ofgem's initial proposals to introduce on GDNs a new standard special licence condition that allows the Authority to issue a direction obliging a GND(s) to provide emergency services to a gas transporter(s) within a GDN(s) designated area; and
  - ◆ The proposed draft standard special licence condition (see appendix 1).

3.24 Responses to this document should be received by 27 January 2006.

## **Appendix 1 - Draft licence condition**

### **Emergency services to be provided on behalf of another Gas Transporter**

1. If so directed by the Authority, the licensee shall enter into an agreement with such other person for the time being holding a licence granted under section 7 of the Act as a gas transporter or any applicant for such a licence, as may be specified in the direction, relating to the provision of emergency services to or on behalf of that person.
2. For the purposes of paragraph 1, the terms of such an agreement shall be as such as reasonable in all circumstances, but may at the discretion of the licensee include terms for the recovery of all costs reasonably related to such emergency services provision, a reasonable commercial profit and appropriate indemnities against third party claims.
3. Any dispute over the terms of the agreement made pursuant to this condition may be referred to the Authority for determination at the request of the licensee named in the direction referred to in paragraph 1.